

Please note that the commentary is for the retail class of the Fund.

Performance

The Fund returned 9.1% for the quarter (Q4-23), resulting in a return of 13.3% over the last year. Over the year, the Fund benefited from its meaningful exposure to global equities built up during 2022. The Fund has performed well against its peer group over all meaningful time periods.

Fund positioning

After rapid rate rises throughout 2022 and the first half of 2023, inflation in developed markets receded swiftly in Q4-23. Prospects of rate cuts into 2024 fuelled global markets in the last quarter, with the MSCI All Country World Index returning 11% in Q4-23 (to end the year up 22% in USD). Fears of a US recession were allayed by resilient labour markets and a robust consumer. Several high-profile bank failures were well-contained, and they did not lead to any broader systemic issues.

After steadily building exposure to global equities during the market sell-off of 2022, the Fund entered the 2023 calendar year overweight global equities. This position has contributed meaningfully to performance. While markets have delivered a strong recovery during 2023 (and a particularly robust fourth quarter), the lack of breadth means we continue to see good stock picking opportunities. The basket of offshore stocks offers attractive upside to our estimates of fair value.

The offshore basket includes a meaningful allocation to long-duration growth stocks. Holdings include those we believe to have an attractive customer proposition, an enduring moat, good management, and a sound balance sheet. We were pleased by results coming out of Uber and Spotify, both of which are delivering meaningful improvements in profitability. Auto 1 has struggled to balance topline growth with profitability as it invested in the business during the year. Inhouse vehicle refurbishment capability comes with lower costs but proved a distraction from growth. The business proposition remains sound and we are optimistic that the restoration of topline in the year ahead will support further profitability. The Fund has a sizeable allocation to high-quality businesses which can compound profits ahead of their respective markets over the medium term. Holdings include Schwab Corp, Airbus and Interactive Brokers. All are priced at compelling valuations given the growth we expect these businesses to deliver.

The much-touted post-Covid Chinese recovery has disappointed with weaker-than-expected growth (MSCI China -4% in Q4-23 and -11% for the year in USD). Lower growth prospects and a weak real estate sector do, however, open the door to further stimulus in the year ahead. Notwithstanding the risks of investing in China, we believe a holding in the portfolio is warranted, given the very low prices at which many high-quality businesses trade.

Oil prices softened during 2023 (-10%) given weaker-than-expected demand, resilient supply out of Russia and stronger non-OPEC supply. The market is sceptical that OPEC can defend higher oil prices. To our surprise, the oil market comfortably absorbed a dramatic increase in tensions across the Middle East. Geopolitical uncertainty does, however, remain heightened, given the Middle East conflict, the ongoing Russia-Ukraine war and tensions between China and the US.

In SA, the economic outlook remains constrained by failing infrastructure, a thinning talent pool and the rising costs of doing business. We, therefore, expect domestic inflation to be stickier than many expect it to be. Although lower levels of loadshedding should bring some relief for businesses, we don't believe that it will be sufficient to materially change the muted growth prospects for the domestic economy. We remain concerned about the sustainability of SA's high sovereign debt level, given the poor fiscal outlook and the inability of the government to reign in expenditure. Rising debt service costs, wage increases, ongoing bailouts of failing municipalities and state-owned enterprises, as well as social support in the form of grants all place a heavy burden on the fiscus. The currency weakened by -7% against the USD for the year, undermining local returns.

The FTSE/JSE Capped Shareholder Weighted Index (ZAR) returned 8% for the quarter to also end the year +8%. Amongst the domestic asset classes, the Fund

favours SA equities. SA equities offer attractive return prospects and diversification away from a tough domestic economy given the high offshore exposure of many JSE-listed companies. Fund holdings include global stocks listed on the JSE and selected resources and domestic stocks. Domestic stocks offer good stock picking opportunities. But avoiding value traps is critical. A slew of weak domestic results throughout 2023 illustrated the pain that comes when costs grow faster than the top line. We favour strong businesses that can grow faster than the underlying economy and can pass cost pressures on to customers.

The financial sector returned 12% for the quarter (+21% over 12 months). The Fund held a sizeable position in the SA banks during 2023 given their low ratings, high dividend yields, and the prospect of strong revenue growth supported by interest rate rises. This enabled our holdings to deliver earnings growth despite higher credit losses. Credit losses are expected to subside as the rate cycle turns. Given the attractive valuation of banks, we believe they continue to merit a place in the portfolio.

The resource sector returned 3% for the quarter to end the year down 12%. The Fund holds an underweight position in resources, given early profit-taking across most of the sector (diversified miners, PGM miners and gold shares). The long-term PGM outlook is bleak as electric vehicle adoption accelerates and local producers battle rising production costs. The underweight position in PGMs has benefited the Fund, which continues to have no exposure to pure-play PGM producers. Gold prices rose (+13%) during the year, supported by central bank buying and heightened geopolitical uncertainty. The gold equities are discounting gold prices close to spot. Consequently, we do not believe they offer a sufficient margin of safety.

The Industrials Index rose +6% for the quarter (+17% for the year). The Fund's core holdings include many of the global stocks listed in SA: Naspers, Richemont, Aspen, Bidcorp, British American Tobacco and Anheuser-Busch InBev. The Fund has been a long-term shareholder of Textainer, indirectly through a holding in Tencor (of which Textainer was the major asset) and directly (post the 2020 unbundling). Coronation actively engaged with Tencor management over many years to achieve the Textainer unbundling. It was pleasing to see recognition of the value that had been trapped in the Tencor structure with the private equity offer for Textainer at a meaningful premium during Q4-23. The Fund exited its position on the back of this.

Outlook

We are optimistic about future returns for the Fund, given the many attractive stock picking opportunities available in both global and local equity markets.

Portfolio managers

Karl Leinberger and Sarah-Jane Alexander
as at 31 December 2023