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

Performance

The first quarter of 2024 was characterised by heightened geopolitical risks alongside a strong performance from risk assets, as the market increasingly expects a soft economic landing in developed markets (moderate growth and inflation brought under control). The Fund had a pleasing start to the year, returning 2.7% for the quarter. The one-year return for the Fund is strong at 13.5%, well ahead of its quantitative benchmark and inflation.

Our holdings in foreign assets, both equities and credit, as well as SA property, contributed to performance over the period. Relative performance was principally driven by security selection in global credits and SA equity.

Fund positioning

Risk assets continued the strong run carried into the end of 2023. The key driver appears to be relatively buoyant GDP and unemployment figures in the US, both of which remain resilient despite the sharp rise in interest rates in 2023. The market appears comfortable that the US Federal Reserve Board (the Fed) will successfully navigate lowering interest rates while not letting the inflation genie back out of the bottle. The general rise in risk assets was boosted by specific moves in stocks exposed to the AI (artificial intelligence) theme. Nvidia, for example, nearly doubled and added $1 trillion in market capitalisation over the quarter!

China is struggling to restore growth to its prior pace in the face of high debt levels, a weak property market, and a demographic headwind.

Geopolitical tensions remain front and centre, with two wars and a fragmentation of the global economy into competing blocs. With many elections taking place this year, we expect continued volatility on the newsflow front. These issues, coupled with central banks in emerging markets attempting to diversify their US dollar holdings, drove gold to all-time highs around the $2 300/oz mark (at the time of writing).

The strong run in speculative assets such as Bitcoin (up 69% in Q1-24) and the volatility index (the VIX) at the lowest level in years suggest that the market may be a bit complacent about the abovementioned risks.

Foreign equities were the largest contribution to fund performance over the quarter, although stock selection detracted. This was due to high concentration (AI-themed names performed exceptionally well) and more muted performance from the broader market. The MSCI World Index was up 9% for the quarter. US, Japan, and EU markets were the strongest large markets, while UK equity returns were moribund. While we believe that some developed markets appear full at an index level, we are still finding many attractive individual investment opportunities.

Our overweight position in global credit performed very well this quarter, both from an absolute and relative perspective. We are finding very attractive global credit spreads at a time when we have concerns around government debt levels (in SA and globally), rendering the yield on sovereign debt insufficient. The Fund benefited from the higher absolute yields and credit spread contraction.

When we look across both foreign equities and credits, the Fund's overall foreign component is seen as "full". The Fund is thus susceptible to any rand strength in the short term. However, we are concerned by the long-term fate of the local economy and believe a full offshore allocation is the correct one in the long term.

The South African economy remains challenged by mismanagement and infrastructure decay. Lower loadshedding, aided by private sector generation, is pleasing but is overshadowed by emerging issues elsewhere – the most prominent being rail, ports and water.

SA equities had a poor quarter (-2% for the FTSE/JSE Capped SWIX Index), although the Fund benefited from stock selection alpha. In general, shares with international exposure (Prosus, Richemont, British American Tobacco) performed well. Performance from "SA Inc." shares as a basket was muted; however, there were a few bright spots. Dis-Chem and ADvTECH performed strongly and contributed positively to performance. Both of these names neatly fit the theme of "the strong getting stronger" and align with our portfolio construction, namely to own winning SA businesses that are able to grow earnings despite the tough economy. We added to our gold holdings and reduced our bank holdings early in the quarter.

Our view on domestic bonds remains cautious and unchanged. Our fixed income holdings are focused on ILBs. This stance benefited the Fund, with it delivering ahead of the -2% for the FTSE/JSE All Bond Index. We are concerned about fiscal debt levels (this comment applies to both SA and most developed markets), which informs our cautious stance on government bonds. Credit spreads on SA corporate bonds remain tight, informing our stance on that subsector. We continued rotating our bond holdings from fixed-rate bonds to ILBs. We bought a small position in Transnet bonds. With a government guarantee in place, our view is that the yield pickup over government bonds is attractive.

The Fund remains modestly overweight SA property. Our holdings performed strongly during the quarter. This was driven by NEPI and Attacq, with both companies reporting strong results. After the GEPF deal, Attacq's gearing levels are greatly reduced, freeing up capital for value-accretive spending. The key Waterfall node is also in high demand, leading to positive rental tension. We were small net sellers over the quarter as the property sectors ran reduced margins of safety.

Outlook

We see good value in our security selection across all the major building blocks. This gives us confidence that the Fund will continue to deliver attractive risk-adjusted returns over the long term.

Portfolio managers
Neville Chester, Nicholas Stein and Nicholas Hops
as at 31 March 2024