CORONATION TOP 20 FUND

Quarterly Portfolio Manager Commentary

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

The fund had a good relative quarter, delivering a return of -1.9% relative to the benchmark return of -5.1%. This saw the year-to-date return move to 7.7%, which is 2.3% ahead of the fund's benchmark and, pleasingly, ahead of most of the fund's competitors. It has continued to be an exceptionally difficult market, and the ability to deliver a meaningful positive return this year is a gratifying outcome.

The big contributor to this quarter has been our exposure to platinum through Northam Platinum. The listed platinum miner delivered a return in excess of 40% as the price of the overall platinum group metals' (PGMs) basket rose, and the company showed improving results and strong cash generation. The progress on Booysendal - its new, low-cost, mechanised mine - continues to be in line with project and budget, and this is gaining further recognition in the market. The fundamentals driving the higher prices in the PGM markets are firmly in place, as continued demand from automobile manufacturers due to tightening emissions standards meets declining supply from an industry that has not invested in new mines for close on a decade.

Our holding in Distell, the African cider, wine and spirits producer, also delivered a positive return this quarter, as their results showcased a business that has managed to maintain market share and revenue growth in a tough environment and opened up operating margins through significant efficiency programmes. This should continue into the period ahead and will be further boosted from initiatives into Africa, where its products are gaining much traction and new routes to market take hold.

After a number of disappointing results periods, Woolworths came through with a much-improved performance as their South African (SA) clothing business showed signs of a turnaround. While the Australian operations remain weak, the improved results from SA clothing and continued strong performance from SA food saw the share price move up strongly as the market repriced expectations for the group going forward. With Australia likely to show much stronger earnings over the next few years as significant one-off's drop out of the base, the expectation now is for strong earnings growth from the group in the years ahead.

A big contributor to the fund's relative performance this quarter (and this year) was virtually no exposure to Sasol. After a series of disappointing updates about their giant Lake Charles Chemicals Project (LCCP) this year, the company managed to further disappoint the market with a weak trading update, followed a month later by a delay in the production of their results due to auditor concerns around controls at the LCCP. This delay was extended further and, as it stands, we have yet to see Sasol's June year-end results. These are all concerning issues; however, the market has now taken an extremely dim view on the group and its management, with the share price down over 40% since the beginning of the year. At these levels, despite the challenges the group faces, we think the share offers sufficient margin of safety to own a position and we have built a position in Sasol in the fund.

On the disappointing side, most exposure to SA-facing companies struggled in the quarter. The sentiment locally remains poor, and the brutally tough economic environment means there is very little revenue growth to be had for purely SA companies. Foreign investors have generally been sellers, putting more pressure on the share prices of most domestic stocks. While the banks we own all showed decent earnings numbers for the half year, they have all sold down further as concerns over the general outlook for SA, and worries over potential debt downgrades, has weighed on sentiment.

The much-hyped Naspers/Prosus unbundling occurred towards the end of the quarter and has proved to be a damp squib. The reduced discount that Prosus trades at relative to its underlying holdings has been replaced by a larger discount at the Naspers level and, on the whole, shareholders are no better off currently than where they started at. Tencent, the key driver of the group's performance, has also underperformed this quarter, putting additional pressure on the share price. Ultimately, it is likely that the discount will narrow, and we do expect management to take further actions to reduce the discount at which the overall group trades.

Global macro conditions remain fragile as trade wars and extreme political events remain prevalent. Locally, the gloom that has descended on the domestic economy looks unlikely to lighten and the Medium-Term Budget Policy Statement that will be delivered at the end of October is unlikely to bring any cheer. However, it is in this tough environment where active management can add significant value and we remain excited about the positions in the fund and the potential for great long-term returns from these levels.

Portfolio managers
Neville Chester and Nicholas Stein
as at 30 September 2019