CORONATION
TRUST IS EARNED™

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

The Fund declined -2% for quarter, slightly outperforming the benchmark. Since inception, it has averaged an annualised return of 15.7% relative to its benchmark's return of 13.3%, while it has underperformed its benchmark over the past five- and 10-year periods.

Notwithstanding the lingering Covid-19 uncertainty and distressed macro conditions around the world, equity markets continued to grind higher on the back of the post-Covid-19 anticipated economic recovery, aided by unprecedented fiscal stimulus and record low interest rates.

It should come as no surprise that the South Africa (SA) economic data released during the quarter was dire. While the South African Reserve Bank (SARB) has done what it can and cut policy rates aggressively, it is now up to government to urgently deliver on much-needed structural reform. The rand remained volatile but ended the quarter over 3% stronger against the US dollar on broad-based dollar weakness and a slight improvement in local sentiment on the back of a relaxation in lockdown restrictions and some long-anticipated arrests by our law enforcement authorities. More arrests and their successful prosecution are crucial in restoring investor confidence in our governance structures and economy.

Performance attributions over the past three years have been boosted by our holdings in Cartrack and Spar. These two stocks also contributed to performance during the quarter. Much of our outperformance during the quarter was from domestic-facing stocks that recovered from depressed share price levels. Although it has consistently been our largest absolute holding, Naspers has been a detractor to performance due to its outsized weighting in the benchmark. This dynamic has been elaborated on in previous commentaries.

The Shoprite share price appreciated 30% during the quarter and also contributed to performance. After a difficult two-year period in which much work was done internally, it was particularly pleasing to see the company deliver an excellent set of full-year results in which it started regaining market share, expanded operating margins, delivered a very good cashflow performance and announced decisive action to deal with its underperforming African portfolio. We continue to hold a position.

One of the Fund's large overweight positions - Textainer, - also had a very good quarter, with the share price appreciating 68%. Textainer was previously housed within Trencor (which was the controlling shareholder), but this stake was unbundled to shareholders and separately listed on the JSE in December 2019. Textainer is one of the largest container leasing businesses in the world. It also used to be one of the most profitable and earn very good returns. However, due to difficult market conditions and some poor capital allocation decisions under the previous management team, returns deteriorated significantly over the past five years. All this seems to now be changing. Management have since been replaced and we are very encouraged by what we are seeing, especially with respect to capital allocation. The company has been buying back shares at very attractive prices and have been incredibly disciplined around capital expenditure. We believe we are in the early days of the turnaround and returns should improve significantly going forward. Notwithstanding the strong share price run, the stock is still trading at a c40% discount to its net asset value. We still think the valuation is attractive and it remains a large overweight.

Aspen detracted from performance during the quarter. This was incredibly frustrating as our investment case was playing out as expected. Management were doing all the right things by focusing on deleveraging the balance sheet and undertaking some value-accretive mergers and acquisitions and refining the portfolio. The recent results were also good and ahead of our expectations. Unfortunately, the market seems to have ignored all of this this and remains concerned about the impact of Covid-19 on the demand for their key product lines, thus delaying a rerating in the stock. We are still comfortable holders. We think Aspen has an excellent management team that will continually find ways to create value and the stock is still only trading on an 7x forward price-to-earnings multiple – far too cheap in our view.

While the portfolio remains skewed to rand hedge stocks, which are attractive for stock-specific reasons, we have gradually been increasing our exposure to domestic-facing stocks, many of which are offering compelling value.

Notwithstanding the challenging economic environment, given current valuation levels and portfolio positioning, we remain very excited about future return opportunities.

Portfolio managers
Adrian Zetler and Tumisho Motlanthe
as at 30 September 2020