CORONATION
TRUST IS EARNED™

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

The Fund returned 7.1% for the quarter and 24.1% for the last 12 months. The Fund's long-term performance remains pleasing against both the peer group and its benchmark.

Our commodity positions (including gold) contributed to performance for the fourth quarter of 2021 (Q4-21), while underweights in MTN and Richemont detracted.

The major commodity-related news of the last quarter was the ongoing potential takeout of RB Plat, with both Northam and Impala vying for control. Initially, Impala announced they were in talks to acquire RB Plat. Subsequently, Northam surprised the market by buying RB Plat's parent company's 34.9% stake in RB Plat for R180 per share. Impala subsequently bought stakes from other shareholders and now sits with circa 35% of RB Plat shares.

We are somewhat uncomfortable with Northam paying R180 per RB Plat share, with Impala paying closer to the R150 level for their stake. Impala has contiguous operations to RB Plat and can extract meaningful synergies. Northam's operations are far from RB Plat, and it has no such opportunities. As a result, Impala should be able to offer a higher price than Northam, and our concern is that Northam overpays for the remaining stake, should they pursue this avenue. We reduced the size of our Northam holding and increased Impala during the quarter.

The gold price and gold equities performed well over the quarter. Investors grew increasingly concerned that the high levels of inflation we have seen will prove to be persistent and not transitory. This, coupled with concerns that the Fed is behind the curve in hiking rates to curb inflation, provided a buoyant environment for gold. AngloGold advanced by circa 40% over the quarter.

The diversified miners performed strongly over December, as Chinese demand for commodities stabilised and the Chinese government eased monetary policy. We reduced the size of our Glencore holding.

Along with most other emerging market currencies, the rand weakened meaningfully over the quarter (8%). This was supportive of our overweight positions in the so-called 'global shares that happen to be listed here'. This includes Anheuser Busch, Naspers and British American Tobacco.

One global share we don't own is Richemont. The Richemont share price was very strong this quarter, rising 55% on the back of very good operating results. Goods consumption has outperformed services in the post-pandemic recovery, which has been felt particularly acutely in the luxury sector. Hard luxury goods have been resilient in the recovery from the pandemic as wealthy buyers, unable to spend on international holidays, have repurposed their spending towards the category. While the runway for Richemont to keep growing the jewellery business is clear, as branded jewellery grows from low levels, we believe this is more than discounted in the current share price and that there is no room for error in the Richemont valuation. We see better risk-adjusted returns in our current global holdings.

There was little to cheer about on the domestic news front. The emergence of the Omicron variant came at a terrible time for South Africa's (SA) hospitality industry. Despite the government's sanguine approach and level-headed lockdown measures, governments around the world blocked key travel into and out of SA. Fortunately, despite record Covid-19 case counts, Omicron's mortality rate appears to be far lower. This should benefit our local life insurers. Our insurers raised provisions that assumed the Omicron wave would experience worse mortality than appears to be playing out. We added slightly to our life insurers during the quarter.

While far less exposed to the direct impact of Covid-19, a number of misgivings around the Spar investment case came to the fore during the quarter. A weak sales update implies an uncharacteristic loss of market share; an impending SAP systems implementation (these rarely go smoothly); Spar lacking a credible omnichannel offering (no online and on-demand offering); and a deteriorating balance sheet. Spar's business model conveys excellent economics (high ROEs, FCF conversion and a strong moat). We hold the management team in high regard and believe they will overcome all these challenges. However, there are a number of balls in the air at the same time, and they are up against strong competition. While we still see Spar as attractive, we no longer view it as a Top 20 idea. We sold our Spar holding during Q4-21.

In its place, we added Woolworths, a stock that has featured in the Fund before. The share has derated meaningfully versus the market over the last quarter. Woolworths has an incredibly strong SA food business that has taken consistent market share over the last decade – a trend we expect to continue. The SA and Australian clothing businesses have been a disappointment. The upshot of this is that margins here are low, with good scope for margin expansion in the future. We are encouraged by the steps new management are taking, such as reducing management layers, simplifying the clothing range, etc. Australia should also be a beneficiary of the reopening trade as they emerge from acute lockdowns. Woolworths trades on less than nine times our assessment of normal earnings.

Portfolio managers
Neville Chester and Nicholas Stein
as at 31 December 2021