CORONATION
TRUST IS EARNED™

For the first half of 2021, the Fund delivered a strong absolute and relative return. The Fund returned 21.1% against a benchmark return of 12.8%. We aim to deliver outperformance over longer-term time periods. To this end, the Fund's returns since inception are compelling, with alpha of 4.9% per annum, net of fees.

Our overweight Glencore and Exxaro holdings contributed to performance, while overweight platinum group metals (PGM) holdings, overweight Montauk Renewables and underweight BHP Billiton detracted.

Recent news flow has been dominated by the Chinese government's attempts to cool commodity prices. High iron ore, steel and coal prices benefit producers of those minerals but lead to inflation and other imbalances that China is attempting to manage. The two main levers they have used is to a) talk down commodity prices by cracking down on "excessive" financial speculation in commodity markets and b) sell strategic stockpiles of certain metals. Prices of most metals and minerals have corrected over the quarter, suggesting they have had some success. On point A, our views are that the financial speculation introduces price noise, with prices overshooting and undershooting "the real price", i.e. the one set by underlying supply and demand factors. To this end, demand has remained robust (if slowing a bit off a strong base), and supply discipline remains intact. As such, we expect China's attempts to show only moderate and short-term success. To truly cool prices, China would need to demand fewer metals and minerals. This requires lower growth, with growth being sacrosanct to the Chinese government. On point B, stockpile sales have been small. Ultimately, they would need to be replaced in future, resulting in "excess" demand then.

The other offshoot from the high commodity price environment is the return of resource nationalism. Peru has a new left-leaning president, while Chile faces upcoming presidential elections, a re-write of the constitution and a mining bill going through parliament (proposing materially higher copper royalties). In both countries, we would expect higher taxes and royalties to land, although not at extreme levels like those proposed in Chile. Chile and Peru make up 38% of mined supply. To the extent that the mining companies pause investment plans pending greater clarity, this will further tighten copper markets – which we already expect to be tight as the decade progresses. That said, mining companies will likely have to "share the rent" with governments unless this is offset by a higher normal price.

With this backdrop of high commodity prices, Chinese attempts to cool them, resource nationalism etc., we have been asked a lot in recent months if we are in a commodities super cycle. Here, our answer would be no (or we would say it is nuanced). In general, our expectations are for commodity prices to trend down. In the case of some commodities like iron ore, meaningfully so, especially if the market moves into a surplus in the coming years. Commodities exposed to decarbonisation are well placed to enjoy a prolonged period of above-average demand growth.

Despite the fact that we view commodity prices as high, we don't view the share prices as high. The market has taken quite a sceptical approach to this cycle, with share prices lagging commodity prices, resulting in shares trading on undemanding multiples. Put differently, the share prices are discounting commodity prices well south of spot (and in many cases below our base case for where they settle). Supply discipline and generous free cash flow yields add to the appeal of the investment cases.

Our Fund positioning remains largely similar. Our large positions in the diversified miners are anchored by Anglo American (good assets in good commodities, good cost position, good volume growth), Exxaro (extremely cheap, limited investment in thermal coal supply should support prices) and Glencore (improving ESG, good commodities exposed to decarbonisation and thermal coal). We think BHP Billiton is relatively expensive and over indexes to iron ore, where we are bearish.

We reintroduced Textainer during the quarter. Textainer is benefiting from new, more commercial management. Boxes are being placed at good rates and for longer durations, suggesting an enduring upcycle as old sub-economic boxes roll off their leases. It trades on an undemanding, single-digit multiple.

We continued adding to our gold position. We view gold as cheap insurance in a time of heightened risk and find valuations compelling. We had long seen gold equities trade at multiples of NPV. We now see them at discounts using spot prices and see upside risks to the gold price.

We remain overweight PGM shares. We switched some of our existing PGM holdings into Amplats, given the material underperformance of Amplats vs the others.

We are happy with the current valuation levels and portfolio positioning. We believe prospective returns from this base will prove attractive.

Portfolio managers
Nicholas Stein and Nicholas Hops
as at 30 June 2021