CORONATION
TRUST IS EARNED™

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

The Fund had a good start to the year, returning 14.9% in the first quarter (Q1-21), which was a pleasing 1.9% ahead of the benchmark. The Fund has outperformed the benchmark by 2.5% per annum (p.a.) since inception. While the Fund remains behind the benchmark over five years, it is encouraging to see the 10-year number turn positive.

A key theme this quarter was the continuation of strong earnings results coming out of domestic businesses in what has been a very difficult trading period. Despite the battling economy, disruptive lockdowns and mishaps surrounding South Africa's (SA) vaccine procurement and rollout, companies have still managed to serve customers rather efficiently. This has benefited the Fund's overweight position in local shares, of which the share prices have moved upwards from low starting valuations that were anchored in low expectations.

Positive developments recently around government securing vaccine doses (with both J&J and Pfizer), along with some policy clarity coming out of the ANC's NEC meeting regarding members charged with corruption, will be good for business and investor confidence and could see domestic shares attract further investment.

The top contributor to outperformance within the Fund was education business ADvTech. With its share price up 39% in the quarter, adding 0.6% to outperformance, our decision to concentrate our education exposure in the company was vindicated. This was on the back of an excellent set of results, meaningfully ahead of our expectations, and a 2021 year that has started brightly too. Our thesis of good quality private education being well-placed to take share from a deteriorating public school system and under-resourced former model C schools seems to be playing out. Following a number of inconsistent years, ADvTECH has done good work restructuring its schools division, thereby strengthening the operation and improving affordability. The company's tertiary division (also restructured a couple of years back) performed strongly and is poised to benefit from similar dynamics experienced by the schools division. We continue to like the prospects for ADvTECH, supporting its position as a top-five overweight in the Fund.

Global container leasing company Textainer saw its share price rise 42% and add 0.4% to outperformance – the second-biggest contribution. The company is currently enjoying very favourable operating conditions, where international supply chain disruptions have resulted in a shortage of boxes, leading to very high box prices that drive lease revenues for Textainer. Coinciding with this is the presence of a more commercially astute management team at the helm over the last few years, making better strategic decisions and allocating capital in a more return-enhancing manner while also funding the operations more appropriately and at better rates. Even though the share is up significantly, our assessment of fair value has gone up as well, and we still see upside in the share. It remains a key overweight position in the Fund.

The main detractor from performance was our overweight position in brewer Anheuser-Busch Inbev (ABI) that took 0.5% from performance. As a supply chain-driven business and whose product has a large portion of volumes consumed on-premise, the Covid-19-related restrictions (in their various forms) across the world had a meaningful negative impact on the business. 2020 results were pressured as expected, which had a knock-on effect on the business's ability to reduce debt – still a concern for investors. Adding further to the negative sentiment is input cost pressures (soft commodities, aluminium) in the current year, which again delays earnings growth. For us, these are short-term developments that we expect will blow over in the next 12 to 24 months. Trading on 13.8x our assessment of normal earnings, we think this is attractive for the biggest beer company in the world, and we remain overweight the share.

Buys in the quarter were focused on cheap domestic stocks, geared to a reasonable recovery in the local economy and included AECI (chemicals player in the mining and industrial spaces), Wilson-Bayly (the best construction company in SA in our view) and ADvTECH. The Fund also made sizeable purchases in well-priced rand hedges, such as British American Tobacco and Bidcorp.

Sells were mainly in stocks that had done well in the last quarter or two, including Bytes Technology, Textainer, Shoprite and Cartrack.

As we look towards the second quarter of the year, we remain excited by the Fund's positioning. While equity markets have had a strong bounce off the lows of March last year, we still see good value in the stocks held in the Fund and are hopeful that they will deliver on their potential.

Portfolio manager changes

Joining Tumisho Motlanthe as co-manager of the Fund is Nicholas Hops. Nicholas has been a member of the Coronation equity team for the past seven years and has made a valuable contribution to the Resources Fund through both his analysis of the precious metal counters and as co-manager. We look forward to his contribution to this Fund too.

Portfolio managers
Tumisho Motlanthe and Nicholas Hops
as at 31 March 2021