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

The Fund had a good start to the year, returning 14.3% for the quarter to end-March against the benchmark return of 12.8%. We always strive to manage the Fund with a long-term horizon in mind and ask to be judged over meaningful periods of time. Alpha since inception is 3.7% per annum, net of fees. The Fund's 12-month return is 56.7% - a very pleasing recovery off the low base that followed the impact of the calamitous lockdown in South Africa.

For the quarter, the Fund benefited from overweight positions in the diversified miners and platinum group metal (PGM) stocks, while domestic shares detracted.

Globally, markets have benefited from loose monetary policy, fiscal stimulus, and improved sentiment as Covid-19 vaccine rollouts gather pace.

Commodity prices (with the exception of gold) had a strong quarter. Iron ore was well supported as Chinese infrastructure spend remains strong, the rest of world steel demand rebounds and Vale's production continues to ramp up slowly. Increasing awareness is being brought to battery metals (primarily copper, nickel, lithium and cobalt) and their role in assisting the world in decarbonising. This theme has been enhanced by a Joe Biden presidency in the US. President Biden is likely to recommit the US as a global leader in transitioning economies away from fossil fuels. We expect persistent deficits in the latter half of the decade, particularly in copper and cobalt. Anglo American and Glencore are well-positioned for this scenario. We exited BHP Billiton after a strong run in its share price and concerns around the longer-term sustainability of iron ore prices.

We think Exxaro's capital allocation track record exceeds its reputation. This was further demonstrated by a well-timed sale of non-core Tronox, with most of the proceeds being returned to shareholders via buybacks and a special dividend. We expect further capital returns should the sale processes at ECC and Leeuwpan conclude successfully. Including ordinary dividends, Exxaro would then have returned circa 25% of its market cap to shareholders in a 12-month window.

PGMs performed well this quarter on the back of a strong PGM basket price, led by rhodium. A decade of underinvestment cannot be remedied quickly. Companies have started to announce expansion projects, but these will take time to land. Demand for the metals remains robust on increasing PGM loadings in the autocatalyst industry. The supply issues at Norilsk Nickel, the world's largest palladium producer, while temporary, will further tighten the market.

We think gold shares look increasingly attractive. Government balance sheets around the world are becoming more stressed as debt is piled on to support the global recovery from Covid-19-induced economic stress. The global printing presses are running hot. For example, 25% of dollars in circulation were issued in the last year. As a centuries-old store of value, gold should thrive in these conditions where fiat money is being debased. However, it seems all the action is taking place in new (untested) stores of value, such as cryptocurrencies. We see upside risk to the gold price, while most of the equities are pricing in a gold price well below spot. We initiated a new position in AngloGold.

Our domestic stance is little changed. After strong share price performance, we sold out of Woolworths as the market accepted the company would no longer put additional funding into their Australian operations. Our domestic holdings are centred around the food retailers (Shoprite and Spar), banks (Standard Bank and Nedbank) and the life insurers (Sanlam and Momentum Metropolitan). While we are encouraged by recent ANC NEC announcements that suggest continued progress by the President, our defensive stance is informed by the slow pace of delivery, poor electricity availability, lagging pace of vaccine rollout and worries that consumer stress will pick up rather than decrease this year. More importantly, we feel valuations of the Rand hedges that happen to be listed here are very compelling.

Both Aspen and Bidcorp (a new position) should be beneficiaries of global vaccine rollouts. Johnson & Johnson's likely approval for Aspen to fill and finish its Covid-19 vaccine at its Port Elizabeth facility highlights the quality of Aspen manufacturing facilities. It should aid Aspen's ambition to boost manufacturing EBITDA by R1.5 billion. Regarding Bidcorp, after each Covid-19 wave, we see how people are desperate to resume their normal lives by dining and socialising in public venues. With the vaccine rollout in developed markets going at a reasonable pace, we think Bidcorp's earnings will bounce back nicely. It is a very well managed business and should have M&A opportunities through which to pick up players hurt by the crisis. We expect it will be a strong compounder in hard currency.

We sold out of our MTN position. Management are doing a good job executing the business's operational turnaround and asset disposal programme to drive up ROEs. Unfortunately, it cannot escape the fact that 40% of its EBITDA comes from Nigeria. Covid-19 has exacerbated a tough macroeconomic backdrop going into the pandemic. A low oil price, difficulty repatriating foreign exchange and a regulator hellbent on shaking MTN down on a regular basis saw us conclude that there is better risk-adjusted opportunity in the new positions we have initiated.

We see good value in the asset management space. The UK wealth market should benefit from a secular shift away from defined benefit retirement solutions to defined contribution retirement solutions (which increases the need for financial advice). Quilter remains extremely well placed to capitalise on this shift. We ascribe three things to Quilter's low current rating:

1) a fairly recent spin-off that wasn't well covered by the market;
2) Brexit fears; and
3) Quilter replatforming their retail advised platform to a new technology provider.

All three of these factors are largely in the rear-view mirror, and we expect strong net flows to drive a rerating in its share price. We also initiated a position in Ninety One. Ninety One has built strong investment franchises in a number of territories over time. Despite good fund performance, which should aid future flows, the share trades on a compelling rating (10 times our assessment of normal earnings and a 7% dividend yield).

We remain encouraged by the risk-adjusted opportunities we see and the potential upside within the Fund. The current upside remains high relative to history and suggests compelling future returns from the Portfolio.

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