CORONATION
TRUST IS EARNED™

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

The Fund had another strong quarter, delivering an 11.6% return. It remains the best performing small and mid-cap fund over 1, 3 and 5 years, delivering a return of 16.5% per annum for the past three years. We are very happy with this performance relative to inflation and competitor funds.

Corporate actions by shares that are held in the Fund gave it a decent boost during the quarter. The Fund has already benefited from Distell's announcement of a potential deal with Heineken and has recently been on the right side of a few other corporate announcements.

AVI, the Fund's largest purchase in the quarter, issued a cautionary that we suspect could relate to international interest in some of its businesses. Likewise, Omnia issued a similar cautionary that again resulted in a positive share price reaction. We suspect that this could relate to interest in its international biological fertiliser business, which has become a fast-growing and attractive business because its biological product is considered more environmentally friendly than chemical fertilisers.

The third announcement came from RMI, a top-five holding in the Fund, announcing a string of corporate actions (including the unbundling of their holdings in Discovery and MMI and a rights issue to reduce centre debt), which we think is positive. Again, the share price reacted favourably to the announcement.

While we don't buy shares based on the potential for corporate activity, we are often well aware of this possibility. AVI has a portfolio of very dominant and attractive brands that would be desirable to a global FMCG company seeking exposure to South Africa and Africa (Much like PepsiCo's purchase of Pioneer Foods a few years ago). For a while now, Omnia management has been saying that their biological fertiliser business is experiencing rapid growth and would be attractive to a competitor wishing to gain exposure to this growing segment of the fertiliser market. Due to the large discount inherent in similar structures, RMI's holding company structure, with large stakes in two listed companies, has increasingly been questioned by investors.

The Fund owns a few other shares where value-enhancing corporate activity is a real possibility. Zeder has publicly announced its intention to realise possible value for some of its assets. Ethos Capital, a large shareholder (and manager) in Brait, has also made it clear that it wishes to sell assets held by Brait. Lastly, Metair announced a while ago that it had received expressions of interest in its energy storage businesses. While the Covid pandemic disrupted progress in exploring this further, we expect that this potential avenue of unlocking value may now be put back to the table.

The two largest disposals in the quarter were Exxaro and Mpact. Exxaro is the largest coal mining business in South Africa and is also a shareholder in Kumba Iron Ore. While coal still has a big role to play in the energy future of the world and South Africa, there is immense pressure to move to greener sources of energy. Exxaro sees these pressures and has announced an ambitious plan to diversify its business away from coal. While we can't argue with these plans, they do present risks to shareholders. Although we see coal remaining a dominant part of our country's energy mix for a while still, owners of coal mines face an uncertain future. As such, we chose to sell our share in Exxaro.

We reduced our position size in Mpact following its very strong performance in the past year (up more than three-fold from its lows). It remains a large holding in the Fund.

Portfolio managers
Alistair Lea
as at 30 September 2021