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

Performance

The Fund returned 13.1% for the quarter and 9% for the last 12 months. The long-term performance of the Fund remains pleasing against both the peer group and its benchmark.

To quote Vladimir Lenin: "There are decades where nothing happens; and there are weeks where decades happen". While not a week, 2022 certainly felt like the quote! We lived through 1) inflation levels last seen decades ago; 2) which was aggravated by the deadliest war in Europe since World War 2, with Russia's invasion of Ukraine; 3) reworking supply chains given anti-Russia and Chinese sentiment; 4) strongly positive real interest rates as central banks started the fightback against inflation; 5) popping of speculative bubbles like Crypto and NFTs, largely related to point 4; 6) very muted Chinese economic activity, in part due to their zero-Covid policy; and 7) locally, ever deteriorating loadshedding and infrastructure decay, alongside tragic flooding in KwaZulu-Natal.

Given the above context, as well as a very high starting PE, it is perhaps unsurprising that the MSCI World Index sold off c.20% over 2022. SA fared better, with the FTSE/JSE Capped Shareholder Weighted Index only falling 2.2% in US dollars.

For the final quarter of the year (Q4-22), the Fund benefited from improved Chinese sentiment and reopening prospects, which drove good performance from the miners, Naspers and Richemont. Positions in Nedbank, Dis-Chem and Sasol detracted.

Fund positioning

The Fund retains a healthy exposure to commodities. Within the sector, we have reduced our weighting in Glencore as the share price performed well and the margin of safety reduced. With the proceeds, we have been buying Sasol. The oil price is currently around $80/barrel. It is worth noting that it is at this level when 1) consumer demand is under pressure owing to high electricity/gas bills; 2) the US has been releasing strategic oil stockpiles to help lower the price; 3) China demand is subdued due to its zero-Covid policy; and 4) Russian oil production has been surprisingly resilient since the start of the invasion. Over the medium term, we believe there is a good chance that all, or some, of these factors reverse, which would likely see the oil price move materially higher. While many people say that they are bullish energy (suggesting that this is a crowded trade), low multiples and high free cashflow yields suggest the opposite.

Naspers/Prosus bounced very nicely in Q4-22. While Prosus was "only" up 24% for the quarter, it is up 83% from its low in October to the time of writing. Extremely weak sentiment has been improving as Chinese President Xi Jinping spoke about the importance of a healthy Chinese tech sector. The Chinese government announcing the softening of their zero-Covid stance is also expected to buoy consumer demand and Chinese economic activity in general. Finally, Prosus/Naspers's aggressive share buyback campaign is starting to benefit intrinsic value per share, as they buy back their shares at a discount to its underlying value.

Having rebounded off its Covid lows, the South African (SA) economy continues to struggle with low growth. Ageing underinvested infrastructure and poorly run state entities hamstring the economy. High levels of power outages render Eskom unable to increase planned maintenance sufficiently to bring down the high levels of loadshedding experienced during the second half of 2022. The resignation of Eskom's CEO and COO during Q4-22 add further uncertainty. The Phala Phala fiasco was a reminder of just how fragile the political situation is. Fortunately, the outcomes of the December ANC elective conference favoured President Cyril Ramaphosa and his allies. This should enable ongoing, or even hastened, reform. We await the results of actual delivery before getting too excited.

Domestic stocks continue to offer attractive stock picking opportunities, with their low starting expectations and undemanding valuations. Many trade on high dividend yields too. Our emphasis within the portfolio has been on finding businesses that can prosper even in a low-growth economy. The banks feature here as their earnings have benefited from interest rate hikes, with higher interest earned on capital and lazy deposits. Strong capital positions leave them well placed to release provisions when the credit cycle turns. We added Absa to the Fund during the quarter. Absa has shown strong growth off its pre-Covid earnings base, driven by market share gains and good operating leverage. While the share price has risen, multiples remain low in absolute terms and versus the other banks. With board and management succession issues resolved, and the Barclays separation complete, we expect Absa to continue delivering against its long-term targets.

We sold out of Woolworths during the quarter. The share price has reacted favourably to new management's strong execution, notably in improving margins in the SA clothing business and setting plans in motion to dispose of their Australian department store business, David Jones. While we expect SA clothing margins to continue their upward trajectory, we are concerned that the SA food business will face increased pressure from Checkers, as well as from a shrinking pool of LSM 9-10 consumers.

Outlook

While the macroeconomic environment remains tough, starting valuations are a key determinant of future returns. As such, we are optimistic about the prospective return outlook for the Fund.

Portfolio managers
Neville Chester and Nicholas Stein
as at 31 December 2022