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

The Fund had a good quarter from a relative return perspective in the context of continued weakness across the industrials complex. Over the quarter, the absolute return of the Fund was -0.7% and over 12 months, the return has been -4.6%. The Fund has outperformed its benchmark year to date and performance since inception remains pleasing.

The largest contributor to outperformance over the quarter was our position in the Naspers/Prosus pair, as positive action from the company to address the large discount it trades on has been implemented. Despite having increased our Richemont position meaningfully, we remain underweight given its 27% weight in the benchmark, which means that this contributed to relative performance as well. Detractors from performance in the quarter were Aspen and MTN.

Naspers/Prosus has been a long-term core position for the Fund. From its peak (on 19 February 2021), the Prosus share price declined by more than 63% to its lows in May of this year. We have added to the position over the last 12 months as the valuation reached extreme levels. Since bottoming out below R700 in May, the Prosus share price rose 51.4% to the end of the quarter.

Tencent, which makes up 79% of Prosus' fair value, saw its share price peak in February 2021 before making a peak-to-trough decline of over 55%, driven primarily by regulatory action and economic uncertainty in China. From December 2020 to the end of 2021, there was a drip feed of regulation across several tech-related sectors which increased market uncertainty materially. We have taken a haircut to our Tencent valuation to account for regulatory and economic risks, but still see it as being meaningfully undervalued.

Naspers and Prosus sold off aggressively in recent months and the discount to their spot shareholding in Tencent alone blew out to ~50%. In recent weeks, we have seen a shift in consideration from the Prosus management team, such that focus on reducing the discount is paramount for the business. The company's March results, which were released late June, noted the desire to focus on profitability in the rump assets and the crystallisation of value here, on top of growing net asset value per share on a go forward basis. The kicker was the announcement of their intention to implement an open-ended buyback programme of the Prosus and Naspers share lines, funded by orderly selling down of their Tencent stake. Coronation had previously urged the board and management to consider these actions given the very beneficial impact on net asset value per share. Considering the material discounts Prosus and Naspers trade at, shareholders will end up increasing their Tencent shareholding on a per Prosus/Naspers share basis. This is a very positive step and has been the primary driver of subsequent share price performance. We continue to believe that Prosus and Naspers are attractively valued versus their underlying assets and look forward to further developments in realising this value.

In the quarter, we added meaningfully to our position in Richemont and it now represents the second largest position in the Fund on an absolute basis. The investment case has not changed but with the stock having sold off from close to R245 at the beginning of the year to lows of R150 during the second quarter, we used the increased margin of safety to increase the Fund's exposure. Richemont trades on 17.4 times next year's earnings, which we believe is incredibly attractive for a business of this quality.

A new position to the Fund was Mondi, where we initiated a position after the Russia-Ukraine induced sell off. One of the key assets within Mondi's portfolio is in Russia and the market has written the value of Mondi down by more than the value of this asset, even if one assumes it is irrecoverable and worth nothing. Mondi is a high-quality paper and packaging company that is very favourably positioned from a cost perspective compared to peers. The management team are measured and invest for incremental expansions at high returns. Trading on 9 times next year's earnings and with nearly 50% upside (valuing Russia at zero), we believe current levels represent an excellent starting point to build a position. Our buying of Richemont and Mondi was primarily funded by Bidcorp, British American Tobacco and Hosken Consolidated Investments, all stocks where relative outperformance allowed us the opportunity to rotate the capital into better ideas.

Portfolio managers
Tumisho Motlanthe and Nicholas Hops
as at 30 June 2022