CORONATION
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The Fund returned -14.1% for the quarter and 30.1% for the last 12 months. Its long-term performance remains pleasing against both the peer group and benchmark.

Gold shares contributed to performance (the Fund is underweight Goldfields and overweight Pan African Resources), as did stocks with large energy exposure (the Fund has overweight exposures in Thungela, Glencore and Exxaro). The underweight position in BHP Billiton detracted.

The key themes playing out over the quarter were 1) the continued resilience of energy prices and energy shares; 2) the impact this is having on consumer inflation and the broader economy; and 3) the US Fed starting a series of aggressive interest rate hikes to quell said inflation.

Energy prices remain very strong. Thermal coal prices are holding around the $400/t level, while oil is holding above $100/bbl. This is a function of years of underinvestment in new supply. Environmental, Social and Governance challenges have throttled financing and appetite for new projects (trying to cancel supply), while the challenges of transitioning off hydrocarbons have been underestimated (struggling to cancel demand). Added to this, Russian supply looms large in all energy markets. Russia supplies c15% of seaborne coal and 11% of world oil production. As countries attempt to buy non-Russian energy, the impact on trade flows is having a marked impact on prices. We saw this with metallurgical coal when China banned the imports of it in 2020. We remain constructive on the outlook for energy prices over the medium term. We are not seeing material new investment in supply. Demand is also more inelastic than industrial commodities. As a result, any demand destruction from high prices should have a more muted impact on demand. Despite the positive outlook, we don't believe share prices suggest this is a crowded trade, with shares pricing in fairly conservative energy prices. The Fund has large exposures in Glencore (thermal coal 25% of fair value), Sasol, Exxaro and Woodside Petroleum (a new position). We sold Thungela, given its reduced margin of safety.

Rising consumer prices, deglobalisation and rate increases have resulted in a marked slowdown in GDP growth expectations. This is playing out in softening demand for industrial metals. This has been exacerbated by weak Chinese economic data (with China being the engine room for global commodity demand) as they doggedly stick to their zero-Covid policy, which has seen rolling lockdowns impact supply chains and demand. In response, the prices of industrial metals come under pressure. Copper, nickel and iron ore were all down some 20% to 30% over the quarter. We added to our Anglo American position. Textainer and Mondi, which held up relatively well, were used as funding sources.

For the better part of the last year, we have been of the view that global inflation was not transitory, as was posited by the Fed. While Covid supply chain issues played a role, strong demand and years of easy money were bigger factors. This has now led to inflation expectations becoming more entrenched. Under this scenario, the risk/return trade-off for gold was to the upside. During the quarter, the Fed appeared to have grasped the magnitude of the issue. They have responded with aggressive interest rates hikes, and very strong language around their expectations around future rate rises until inflation is brought back under control. This saw real rates move from negative territory to positive territory in rapid time. This has dimmed our enthusiasm for the yellow metal, given the inverse correlation between the price of gold and real rates (higher real rates increase the opportunity cost of holding gold, a metal with no yield). We sold down our gold holdings fairly aggressively during the quarter, with the Fund now being underweight gold.

Platinum Group Metals (PGM) shares came under pressure on the back of soft PGM prices (down between 9% and 28% depending on the metal). Vehicle sales remain subdued. While production slowly recovers from global chip shortages, this has been offset by soft Chinese sales given their ongoing lockdowns. We see production and sales recovering in time, and added to PGM shares over the quarter.

We are happy with current valuation levels and portfolio positioning. We believe prospective returns from this base will prove attractive.

Portfolio managers
Nicholas Stein and Nicholas Hops
as at 30 June 2022