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

The Fund returned -7.5% for the quarter and 7.3% for the last 12 months. The long-term performance of the Fund remains pleasing against both the peer group and the benchmark.

Our overweight position in Naspers/Prosus and underweight position in SA Inc contributed to relative quarterly performance, while overweight positions in Aspen and Quilter detracted.

It certainly was a wild quarter, both in terms of the geopolitical landscape as well as market returns. The combination of over 10 years of central bank loose monetary policy, supply side bottlenecks and the impact of Russia's invasion of Ukraine on energy prices saw developed world inflation print at levels not seen in decades.

Despite being behind the curve initially, central banks no longer regard inflation as transitory and have moved aggressively to bring it back under control. This saw sharp increases in global bond yields.

High energy prices (and inflation generally) as well as higher borrowing costs have led to meaningful downgrades to global growth expectations. Higher borrowing costs also mean that higher discount rates are being used to value businesses. This combination sent asset prices tumbling. For the second quarter, the S&P 500 Index was down 16.1%, the Nasdaq down 22.3% (so-called long duration assets fared worse than other stocks) and the JSE (FTSE/JSE Capped Shareholder Weighted Index) was down 10.6%. Reflecting the lack of hiding places, a 60/40 US stock/bond portfolio was down 11.7% for the quarter.

We sold out of AngloGold during the three-month period. With the US Federal Reserve's aggressive interest rates hikes (and very strong language regarding their expectations around future rate rises until inflation is brought back under control), real rates moved 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).

Energy prices remain very strong. Thermal coal prices are holding around $400/t, 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 effect on prices. 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 do not believe share prices suggest this is a crowded trade, with shares pricing in fairly conservative energy prices. We rotated some of our Anglo American position into Glencore and added to our Sasol holding.

In the quarter, the largest contributor to outperformance was our large position in Naspers/Prosus combined, as positive action from Naspers to address the large discount it trades at has been implemented. The share ended the quarter up 36%. At their March results (which were released mid-June), Naspers noted the desire to focus on profitability in the rump assets and the crystallization 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, funded by orderly selling down of their Tencent stake. This is a course of action we actively pushed at both the executive and board level. Given the vast discounts Naspers/Prosus trade at, the outcome of the above is that shareholders will increase their Tencent shareholding on a per Naspers/Prosus share basis. This is a very positive step and has been the primary driver of subsequent share price performance. We continue to believe that Naspers/Prosus are attractively valued versus their underlying assets and look forward to further developments in realising this value.

We added to our Richemont and MTN holdings during the quarter. In both cases, the investment case remains unchanged, but the margin of safety has increased as their respective share prices came under pressure. British American Tobacco, which has held up very well during this market turmoil, was used as a funding source.

While SA was relatively well placed within the emerging markets universe post Russia's invasion of Ukraine (largely given the commodity basket we produce), the rate of change has been negative: Non-energy prices are down meaningfully (second-quarter price changes saw platinum group metals down over 10%, iron ore down 19% and gold down 7%); Transnet's operational performance continues to deteriorate off an already low base, particularly on the coal line; loadshedding has kicked up materially, with sustained periods of stage 4-6. We remain concerned by the lack of urgency in tackling these issues. We were net sellers of SA Inc assets over the quarter.

An SA Inc asset we did add to the fund was Pepkor. A large, discounted share placement by an investor presented a good opportunity to acquire a stake in the business. Pepkor is a well-run, cash generative business. They have an almost unassailable position in the low-end fashion space, with price points other retailers struggle to achieve. In a tough economy, they stand to continue their market share gains as consumers trade down.

The weighted average upside for the Fund now sits at levels last seen during the 2008/2009 crisis. We track this upside over time and note that it correlates very well with prospective returns. As such, we remain very excited by the prospective returns we believe the Fund will generate.

Portfolio managers
Neville Chester and Nicholas Stein
as at 30 June 2022