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

Performance and fund positioning

After the strong start to the year, the industrial sector moved sideways for most of the quarter, with it being down just under 1% in March. Against this backdrop, the Fund performed well in absolute terms, delivering a positive return of 10.8% for the quarter (Q1-23), albeit 2.8% behind the benchmark.

With a year passing since Russia's invasion of Ukraine in February 2022, the aftereffects on the global economy are still being felt. Inflation remains high (but mostly stabilised), and central banks have remained steadfast in raising interest rates to combat this (which has slowed down in most places). A different risk that emerged in March, was the prospect of banking sector contagion setting in. This was on the back of two mid-sized US banks collapsing, as well as Credit Suisse's history of financial stress and run-ins with the regulator catching up with it. While the episode resolved itself pretty quickly as regulators stepped in, there was risk-off selling that put pressure on markets during that time.

Locally, the South African Reserve Bank (SARB) surprised markets by raising rates by 0.5% at the end of Q1-23 – ahead of the 0.25% that most were expecting. Stickier food inflation, driving higher forecasted headline inflation, was the main driver. The latest initiative to combat loadshedding (hurting many of our domestic industrial businesses) was the President's appointment of a new Minister of Electricity. Only time will tell whether this meaningfully improves the situation.

Positive contributors during the quarter came from the Fund's underweight position in a sector we feel would be acutely impacted by the aforementioned loadshedding headwind, namely: SA retail. Clicks, Mr Price and Shoprite shares all did satisfactorily during the period but were well behind the strong performance coming out of the global rand hedge businesses (Richemont, Naspers/Prosus and Anheuser-Busch InBev [ABI]). Vodacom, in the telecoms space, is another SA-facing business where our underweight position benefited Fund performance. Taken together, this basket contributed more than 1.25% of performance.

Perversely, on the negative side, the Fund's largest, absolute position – Richemont – continued to hurt us during the period. The very strong share price (+27%), and the fact that we were underweight, resulted in 0.9% underperformance from this position. As we wrote last quarter, we remain constructive on the share, and continue to expect good sales and earnings growth delivery going forward – this is especially true of the near term, as the Chinese economy continues to open up post relaxation of the Covid restrictions, which should see a meaningful recovery in consumer spending, including luxury goods.

There wasn't one particularly large buy during Q1-23 that stands out, but rather a collection of opportunities we identified as we saw value in either the absolute upside to fair value on offer, or low multiples that some of these names were trading on. In this list, British American Tobacco, The Foschini Group (TFG), Barloworld (capital equipment business) and Altron (SA ICT) all feature.

Funding these purchases, we (mainly) sold the three rand-hedge stocks, highlighted earlier, that did so well during the period – Richemont, ABI and Prosus. The other notable sale was in defensive apparel retailer, Pepkor – mainly as a switch into TFG, which was on a much lower PE multiple.

Outlook

Entering the second quarter (Q2-23), the companies held by the Fund, as well as their prospects, continue to encourage us. We look forward to seeing them contributing positively in the future.

Portfolio managers
Tumisho Motlanthe and Nicholas Hops
as at 31 March 2023