CORONATION
TRUST IS EARNED™

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

Performance

The Fund returned 1.1% for the quarter, resulting in a return of 2.4% over the last year. The Fund has performed pleasingly since its inception.

Fund positioning

The first quarter of 2023 (Q1-23), in keeping with the last few years, was full of surprises. Global markets responded to fluctuating sentiment, rising strongly through January before pulling back and then regaining much of what they had lost in the final days of the quarter. The MSCI All Country World Index (ACWI) ended the quarter up +7%. Central banks continued to raise rates, bringing some high-profile casualties. Rapid rate rises triggered an asset-liability mismatch at Silicon Valley Bank (SVB), America's 16th largest bank, which resulted in its failure. Mark-to-market losses on longer-dated Treasuries were realised as investors withdrew deposits. Regulatory rescues in the US seem to have subsequently calmed markets, but not before the contagion wrought by the failure of SVB (and Signature Bank) contributed to the demise of Credit Suisse (CS). CS has been wracked by scandal over the last few years. The Swiss government engineered its takeout by Swiss investment bank, UBS. Banking turmoil has increased the risk of recession, although the US consumer (and the economy) have remained resilient thus far. The relaxation of Covid restrictions in China buoyed consumer demand with strong sales reported by luxury goods companies and the like. Rebounding Chinese demand was insufficient to support oil prices (Brent -7% Q1-23), which languished on the back of a mild Northern hemisphere winter. A surprise cut by Opec announced in early April has lifted oil closer to its January levels (Brent $85).

The South African (SA) economy continues to struggle, hampered by heightened levels of loadshedding and failing infrastructure. These factors, combined with falling prices of key metals (coal and PGMs), will weigh on export revenues in 2023. Fiscal sustainability is further undermined by the recent high public sector wage settlement. A 50 basis points (bps) rate hike in the last few days of the quarter surprised the market as domestic inflationary pressures are not demand driven.

The FTSE/JSE Capped Shareholder Weighted Index (SWIX) returned 2% for the quarter. The pricing of SA equities remains attractive with broad value across resources, global stocks listed on the JSE, and domestics.

The Financials Index (ex-property) was flat for the quarter. The banks (Absa Group, FirstRand, Nedbank, Standard Bank) reported another set of strong earnings. Despite the headwinds facing the domestic economy, banks remain surprisingly constructive on their outlook. Credit losses are expected to remain within range and investment in self-generation projects should drive strong corporate advances growth. The Fund has a reasonable holding in the banks given their attractive dividend yields and ability to sustain and grow earnings. No contagion from global events is expected for the local banking sector.

We remain concerned about the earnings outlook for life insurers. Their mass businesses compete against cost-effective bank distribution, while the underwritten life franchises face stiff competition for market share as insurers try to find enough volume to feed their fixed cost bases in a market that is not growing. The Fund does not own the life insurers, preferring positions in the banks and other financials. Transaction Capital disappointed with the announcement that ongoing economic headwinds had forced a significant restructuring in SA Taxi. Whilst we attributed limited value to SA Taxi even prior to this announcement, the market reacted brutally, writing down not just SA Taxi but also taking a significant haircut to the overall value of the company. We believe that WeBuyCars and Nutun are worth significantly more than the current Transaction Capital share price and justify a holding in the company. The ongoing support of funders will be critical in achieving our assessment of fair value.

The resource sector was down -5% for the quarter. China's reopening was insufficient to meaningfully lift demand. Prices were generally weaker with the energy basket coming off the invasion highs of a year ago. Despite meaningfully cutting exposure to diversified miners in 2022, the Fund has retained a holding in Glencore and Anglo American. Both offer attractive free cash flow streams, even at more normal commodity prices. We expect energy markets to be tight over the medium term as demand remains robust during the transition to lower carbon energy sources and the lack of investment in new capacity over the last few years constrains supply. We have diversified our energy holdings across a basket of names to reduce company-specific risk. Resource holdings are the lowest in many years given the underweight positions in both PGMs and gold.

The Industrials Index performance (+14%) was buoyed by strong performances from many of the global stocks listed in SA. Aspen, Richemont, Bidcorp, Anheuser-Busch InBev and Naspers/Prosus are all meaningful holdings that contributed to performance. For various stock-specific reasons, we believe these businesses will continue to grow earnings and have retained our holdings. Domestic stocks offer good stock picking opportunities but avoiding value traps is critical. We favour businesses with strong business models that can grow and pass on inflationary pressures to customers. ADvTECH is one such business where careful cost management is enabling management to contain fee increases at inflationary levels, and as a consequence grow enrolments strongly.

Outlook

While headwinds exist in both global and domestic markets, we believe equities are well priced for the risks and offer attractive returns to stock pickers.

Portfolio managers
Karl Leinberger and Sarah-Jane Alexander
as at 31 March 2023