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

The Fund returned -1.7% for the quarter and 14.5% for the last 12 months. The Fund's long-term performance remains pleasing against both the peer group and the benchmark.

Our overweight energy positions (Sasol and Exxaro) and underweight gold positions contributed to relative quarterly performance, while overweight positions in MTN and Naspers/Prosus detracted.

The quarter was characterised by global bond yields (and the US dollar) continuing their upward march as interest rate expectations shifted to a "higher for longer" basis. While developed market growth rates have been slowing, they remain relatively resilient given the interest rate backdrop. Chinese economic stimulus has not had the desired effect, with Chinese growth being below expectations. This has impacted (non-energy) commodity prices/equities and luxury equities, resulting in a weak quarter overall for SA equities (FTSE/JSE Capped SWIX: -3.8%).

Despite the fall in PGM prices, we believe that the range of outcomes for the metal prices in the next five years is very wide but with a strongly negative skew as battery electric vehicles continue to take massive share from internal combustion engines worldwide. South African PGM producers with high-cost mines face hard decisions which will require them to rationalise their asset bases at a significant social cost. Ultimately, the industry needs to be smaller and more cost-effective if it is to earn an economic return for shareholders. Unfortunately, capital allocation from much of the sector during the boom years does not give one confidence in the sector's ability to navigate the coming environment. During the quarter, we sold out of our remaining Impala Platinum position. Our only PGM exposure is indirect via our holding in Anglo American.

Energy prices (oil and thermal coal) have been strong during the quarter. The oil price has been aided by resilient global demand, OPEC supply discipline and peaking US shale oil well productivity. Strong Chinese import demand, higher gas prices, and constrained supply supported thermal coal prices. These factors led to good share price performances in Sasol and Exxaro, two of the Fund's holdings.

We have been building up our Mondi position over the last two quarters. Mondi continued to languish in the wake of the "loss" of its Russian business and a downturn in the markets for its end products. Mondi is a low-cost integrated producer of paper and packing with predominantly European and American exposure. When Russia invaded Ukraine last year, the group effectively lost its key Syktyvkar asset, which comprised approximately 20% of group earnings. It has taken 18 months for them to dispose of it, and surprisingly, they have managed to salvage €775mn in cash for the asset, where many Russian subsidiaries of other companies have gone for minimal values. After the invasion, the market effectively marked the Russian asset to zero, as evidenced by a >20% decline in the share price in the following weeks. In buying Mondi, we felt we were paying a reasonable multiple for a high-quality business at the bottom of its commodity cycle and any Russian proceeds represented an upside to our valuation. Mondi has a long-term track record of consistently investing through downcycles, which they have continued to apply in the last 18 months with brownfield expansions across their operations as well as an acquisition in the US.

Global luxury stocks have come under pressure amidst concerns of a demand slowdown as consumer spending comes under pressure from higher interest rates and inflation in the US, as well as a weak Chinese recovery after easing their Covid restrictions. The resultant sell-off drove a significant correction in price-to-earnings (PE) multiples from the peaks reached in 2021 of 34 times for the sector (excluding Hermès) to the current 19 times, in line with the long-term sector average. Richemont declined some 25% during the quarter and trades on an attractive 15.7 times PE ratio (or 12 times excluding surplus cash on the balance sheet). We have used this weakness to add to the Fund's holding.

On the domestic front, while long-term structural challenges remain, the consumer is likely to benefit from lower stages of loadshedding seen in recent months. The Fund has added two domestic names this quarter – Spar and Motus. Spar's share price reached levels last seen over a decade ago. We have been encouraged by the Spar Chairman's hard work in injecting new leadership into the Group and announcing plans to exit loss-making Poland. Recent trading in South Africa has also been more buoyant than expected. Spar has a significant margin of safety, trading on a single-digit PE to next year's expected earnings.

While vehicle import and distribution can be regarded as "unexciting", Motus has performed well over the last few years. Investment ahead of peers and exposure to brands at keener price points (Hyundai, Kia, Renault), contributed to this. We expect this trend to keep driving earnings growth and the increased contribution from their offshore parts division. The Motus valuation is undemanding, trading on less than five times next year's expected earnings, and an 8% dividend yield.

These buys have been funded from selling our life insurance holdings (Sanlam and Momentum-Metropolitan Holdings). Both of these holdings performed strongly over the quarter. Recent results aided by strong market returns and the first trading period where Covid was no longer a meaningful factor.

Looking at the PE ratio, dividend yield and upside for the Fund, we remain optimistic about its future return prospects off this base.

Portfolio managers
Neville Chester and Nicholas Stein
as at 30 September 2023