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

Performance

In a negative quarter for financial shares, the Fund returned -2.0%. The 12-month return remains strongly positive at 31.3%, ahead of its benchmark. Since inception, the Fund returns have compounded at 11.1% per annum, 1% ahead of the benchmark.

The first seven weeks of 2025 continued the trend of the year before: US exceptionalism propelling global equity markets further upwards, buoyed by expectations of a Trump administration creating a more business-friendly environment and driving a significant reset in the precarious US fiscal position. Some cracks began to emerge with the release of the Chinese open-source AI model DeepSeek-R1 in late January, and concerns escalated regarding the on-again off-again imposition of tariffs on Mexico, Canada and China during February. By the end of the quarter, the early gains had unwound, with the S&P 500 declining 4% and the ACWI down 1% despite European and emerging markets delivering positive returns. (This was, of course, simply a foretaste of what would come on Liberation Day – more of which in our Outlook.)

The domestic equity market delivered a positive return for Q1 with the SWIX All Share ending up 6%. This was primarily driven by the precious metal stocks responding to a gold price surging above $3 000/oz as well as gains in some of the JSE-listed global stocks, while the share prices of businesses exposed to the domestic economy declined, reflecting concerns over an increasingly strained GNU amid a failed budget. The Financial Index declined 2% with banks and life insurers both down 2%, while non-life insurers rose 3%.

Contributions to Fund performance relative to benchmark included the Fund's holding in St. James' Place, underweight positions in Absa and Old Mutual, and overweight positions in Standard Bank and OUTsurance. Detractors included underweight positions in Remgro and Momentum Metropolitan, and overweight positions in PSG Konsult and FirstRand.

Portfolio actions and fund positioning

March saw all the banks and the insurers reporting results. Bank results were largely in line with market expectations. Advances growth remains lacklustre in a low-growth economy and continues to be led by corporate lending, which is largely energy related. Some margin pressure is evident, reflecting competition on both the asset and liability side of the balance sheet, and costs were generally well controlled. The principal driver of results was a decline in credit loss ratios, reflecting the lower inflation and interest rate environment, a trend which is expected to continue.

Life insurance companies generally reported strong results, in line or ahead of expectations. Results were characterised by strong cash conversion, high levels of investment returns, generally positive experience variances and strong capital positions. P&C insurers have benefited from benign weather conditions and strong pricing, resulting in a recovery in underwriting margins.

We have not made extensive changes to the Fund positioning during the quarter. The holding in FirstRand was increased slightly, while small reductions were made to holdings in Discovery, Santam and OUTsurance, and the position in Reinet was exited. At quarter end, the Fund is overweight wealth managers and short-term insurers, on-weight banks and underweight life insurers.

Outlook

On 2 April, markets were delivered a double-blow: Trump's logic-defying tariff announcement, and the news that the ANC had collaborated with parties outside of the GNU to secure approval of the fiscal framework, thereby further jeopardising an increasingly strained relationship with the DA.

The Liberation Day tariffs are to our minds nonsensical, and the escalating risk of a trade war has the potential to undermine not just global trade but also threatens the monetary and geopolitical order. The crude calculations used to arrive at the draconian outputs demonstrate the haste and lack of foresight that has gone into policy formulation:

- There is no cognisance of one of the most fundamental principles of trade economics – comparative advantage.
- There appears to be no appreciation that a current account deficit is a function of a capital account surplus – i.e., the US is dependent on foreign nations' savings to augment their own low savings rate.
- The tariffs only take into account trade in goods and not services, where in many cases the US runs a surplus.

The immediate implication of all of this is clearly a rise in prices – i.e., higher inflation. But it is also very likely to lead to lower growth, and the risk of recession has undoubtedly risen. The policy will result in increased uncertainty amongst capital allocators. The likelihood of significant domestic re-industrialisation is low with only a four-year presidential window ahead. At an aggregate level, the US economy was in good shape with low levels of unemployment – this was not a problem in need of a solution. Whether or not this is intended as an extreme opening position in negotiations remains to be seen, but reciprocal tariffs have been announced by China, and an escalation seems likely.

Domestically, the GNU has been on unstable footing since February when the DA refused to back a budget containing a 2% VAT increase. There has clearly been an escalating level of distrust between the ANC and the DA since, and while at the time of writing it appears as if the coalition may just hold, the relationship between the two major parties has deteriorated to a level where they seem unable to row in the same direction. This bodes poorly for future policy formulation and execution, and our cautiously optimistic stance on SA expressed in December has moved more towards the cautious end of that view.

The confluence of these events sent equity markets tumbling, and domestic bonds and the rand have sold off heavily. At the time of writing, the S&P 500 is almost 20% lower than its 19 February highs (although still only slightly negative over 12 months) and the rand is hovering close to R20/$.

Events such as these always present challenges, but indiscriminate sell-offs most often provide an opportunity to buy assets at attractive prices, which in turn lays the foundation for superior long-term return generation. We have been active in the Fund in the days subsequent to these events. Despite what is shaping up to be a more challenging economic backdrop, we have been able to take advantage of what we consider to be pockets of compelling value on offer.

Portfolio managers
Neill Young and Godwill Chahwahwa
as at 31 March 2025