FUND UPDATE

Coronation Top 20 Fund

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THE FUND RETURNED 5.1% for the quarter and 14.1% for the last 12 months. The Fund's long-term performance remains pleasing against both the peer group and the benchmark.

For the quarter, our commodity and bank positions contributed to performance, while Naspers and Quilter detracted.

Newsflow for the quarter was dominated by Russia's invasion of Ukraine and the Federal Reserve Board (the Fed) entering a tightening cycle on the back of high inflation.

Russia's invasion caused material dislocations in a number of commodity markets. Russia produces 40% of the world's palladium and 10% to 20% of key energy commodities, such as coal, gas and oil. It is also a reasonably sized nickel, copper and iron ore producer. Price increases have been the most notable across the energy complex, which relies on massive transport and distribution infrastructure. This means that any disruptions to trade flows are very difficult to overcome. For example, Russia rails coal 5 000km west to the coast, where it gets exported (primarily to Europe). If buyers refuse Russian coal, it is difficult to reroute this coal to a new region.

South Africa (SA) finds itself in a fortunate position in that we produce similar commodities to those impacted (PGMs, thermal coal, iron ore). As such, SA-listed miners will be material beneficiaries from price increases in these commodities. The fiscus also stands to benefit from materially higher tax collection.

We added Sasol to the Fund early in the quarter. Before the invasion, we were of the view that oil markets were tight on the back of underinvestment in new supply. We were also encouraged by supply discipline from US shale producers. This should be supportive of oil prices in the medium term. The invasion is likely to tighten oil markets further, given that Russia produces over 10% of the world's oil, and we have seen several countries announce embargoes on Russian oil. Sasol's balance sheet is now in a much healthier position. We sold out of Northam during the quarter (please refer to our December 2021 commentary for more details).

We added MTN and Richemont to the Fund over the quarter. We sold out of MTN last year over concerns about MTN Nigeria, where MTN struggled to repatriate money out of the country and appeared to be a frequent target of the regulator. Over the last year, MTN has been able to repatriate money out of Nigeria and seems to have a far better working relationship with the regulator. The fact that a portion of their stake was sold to locals is likely to have contributed. MTN Nigeria has also just been awarded a Mobile Money licence. This is a potentially very lucrative profit pool in which MTN can now compete. The success of M-Pesa in Kenya highlights the value

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here if execution is sound. Lastly, Nigeria is an oil-exporting country, and thus the elevated oil price provides macroeconomic tailwinds to the Nigerian economy. MTN's Iran business also looks like it can have a value ascribed to it, as US-Iran relations improve under the Biden administration.

Richemont fell 25% over the quarter on the back of the Russia-Ukraine invasion, over fears of reduced consumer willingness and ability to spend money on luxury goods. While we don't know how this plays out in the medium term, we do know that previous selloffs post big global events like 9/11 and the Global Financial Crisis have proved to be good buying opportunities. The long-term trend of jewellery sales shifting from unbranded to branded should see Richemont (with its strong brands) deliver strong sales and earnings growth for a long period of time. As such, we think the 17 times forward multiple (excluding cash and YOOX Net-a-Porter losses) provides an attractive entry point. We sold out of Bidcorp, which has performed well on the back of the 're-opening trade', on the view that Richemont offers better risk-adjusted return prospects.

Domestically, SA finds itself in a (relatively) better position than three months ago. High inflation will be a headwind felt globally. As SA's commodity mix is similar to that of Russia, it causes us to benefit from higher prices of these commodities disproportionally. This gives the government some wiggle room to provide consumers relief and keep government debt to GDP in check, even if this isn't a permanent benefit. In addition, SA's relative standing within an emerging market context has risen as Russia has become persona non grata. This should benefit flows into SA assets.

Notably, the SA banks have performed very well this quarter. Loan growth has been improving post-Covid, while bad debts remain below mid-cycle and they remain very well provisioned. As we move into a rate rising cycle, bank earnings benefit materially from the endowment effect. This benefit accrues more to Nedbank and Standard Bank than to peers. Standard Bank's African business has performed well and is one of the rare successes of SA companies expanding internationally. We expect this to receive more attention, especially as a number of African countries benefit from the high commodity prices we have been experiencing. Despite the run in the banks, ratings are undemanding (c. 9 times forward price/earnings) and dividend yields are strong (c. 6%). +