CORONATION
TRUST IS EARNED™

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

Performance

The Fund returned 2.6% for the quarter, resulting in a return of 13.0% over the last twelve months. The Fund benefited from its meaningful exposure to global equities and strong alpha in the SA building block. The Fund has performed well against its peer group over all meaningful time periods.

Fund positioning

Markets continue to hit record highs despite interest rate cuts being pushed further out. The MSCI All Country World Index returned 8% for Q1-24 after rising 22% (in USD) in 2023. US growth has remained resilient thus far, shrugging off concerns that rapid rate rises would induce a recession. Despite elevated market levels, there remains a big value dispersion, both regionally and even within markets. The 10 largest US stocks now comprise more than a third of the S&P 500 Index's total market capitalisation. Conditions remain ripe for good stock picking opportunities, given these divergences. We continue to make full use of the Fund's offshore capacity.

China is struggling to restore growth to its prior pace in the face of high debt levels, a weak property market, and a demographic headwind. Notwithstanding the risks of investing in China, we believe a holding in the portfolio is warranted, given the very low prices at which many high-quality businesses trade.

Geopolitical tensions remain heightened with the ongoing Russian shelling of Ukraine, a tenuous US-China relationship, and the risk of broader Middle East contagion. Half of the world's population goes to the polls in 2024 (including SA during Q2 and the US later in the year). The US outcome could have major ramifications for its allies. Nations such as Australia and Germany are already increasing their military spending. Against this backdrop, we have seen rising prices for a traditional safe haven like gold (+8%) and oil (+14%). (Both figures are for the quarter in USD.)

The Fund has a sizeable allocation to financial services businesses across the banking, brokerage, wealth, and payments spaces. These holdings are expected to compound profits ahead of their respective markets over the medium term yet trade on reasonable multiples. Within the brokerage space, the Fund holds Charles Schwab and Interactive Brokers. Their efficient platforms and scale benefits enable them to provide a compelling service to clients very profitably, creating a sizeable moat. Client accounts and trading activity continue to grow. We don't believe the market is fully pricing in the benefits of growing volumes and compounding profits these businesses can deliver in the years ahead.

The South African economic outlook remains constrained. The state of infrastructure continues to slide after decades of underinvestment and mismanagement. Growing water shortages warn of a pending crisis. The poor performance of port and rail assets is further undermining the competitiveness of important export sectors like mining. In short, the much-anticipated relief from lower levels of loadshedding in 2024 has been overshadowed by ongoing decay elsewhere. Elections in May 2024 bring further uncertainty as to the extent of support for the ruling party and what a potential coalition government could look like. Our base case remains a low-growth environment with ongoing infrastructure challenges. The currency weakened by -2% against the USD for the quarter (-5% over 12 months). This further erodes the relative returns of domestic equities.

The local market has been weak, with the FTSE/JSE Capped Shareholder Weighted Index returning -2% for the quarter and +3% for the year. Pleasingly, the Fund was able to supplement low market returns in this period with strong alpha over the quarter and year, respectively. Fund holdings include global stocks listed on the JSE (with their high offshore exposure) and selected resources and domestic stocks. Domestic stocks offer good opportunities for stock picking, but avoiding value traps is critical. The gap between winning and losing domestic businesses is widening. Winning businesses are investing in their franchises and can grow their top lines above costs. We have a strong preference for the winners and believe that perceived value in many of the weaker, low PE (price-to-earnings) businesses will prove to be illusory. This has been extremely stark in a sector like food retail.

Investor concerns about the SA outlook were reflected in the weak performance of the financial sector with its heavy domestic exposure. The Financials index declined -8% for the quarter (still +12% over 12 months) as banks and insurers came under pressure. For the banks, low economic growth is subduing advances growth across both the corporate and retail sectors while credit losses remain elevated. We believe the winning banks merit a position within the portfolio as their ability to grow real earnings over the medium term should deliver good returns. The Fund has a position in both FirstRand and Capitec.

The resource sector declined -2% for the quarter (and is down -9% over 12 months). The Fund holds an underweight position in resources, given early profit-taking across most of the sector (especially diversified and PGM miners). Performances within the sector varied widely, with the gold companies meaningfully outperforming PGM shares, diversified miners, and Sasol. The Fund has benefited from low holdings across the underperforming sectors. The gold price has strengthened in the face of heightened geopolitical uncertainty and ongoing polarisation. Gold equities rose to reflect the higher gold spot prices. The Fund's underweight position detracted from performance. We do not believe current gold equity valuations offer sufficient margin of safety to increase our holding.

The Industrials Index rose +1% for the quarter (+3% over 12 months). The Fund's core holdings include many of the global stocks listed in SA: Naspers, Richemont, Aspen, Bidcorp, British American Tobacco, and Anheuser-Busch InBev. We saw a step change in the number of domestic businesses delivering disappointing earnings as weaker revenue growth and ongoing brutal cost pressures eroded operating profits. We continue to reassess our domestic holdings and cull those that are not well-positioned to withstand the challenging domestic environment. We have been pleased to see the strong volume growth of a business like ADvTECH that has consistently invested in the value of its private education offering, constraining fee increases at or below inflation while managing costs appropriately. Dis-Chem, too, should continue to grow strongly, fuelled by store rollout and share gains from independents. In Transaction Capital, the collapse of SA Taxi and a sharp share price correction allowed Coronation to increase our holding, thereby increasing exposure to WeBuyCars (WBC). We believe WBC is a strong franchise with good medium-term growth prospects. It offers customers convenience, a trusted partner in buying/selling their vehicle, and fair prices. This should enable it to continue gaining market share from the fragmented independent dealers in the used car market.

Outlook

We are optimistic about future returns given the many attractive stock-picking opportunities available in both global and local equity markets.

Portfolio managers
Karl Leinberger and Sarah-Jane Alexander
as at 31 March 2024