CORONATION
TRUST IS EARNED™

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

**Performance**

The Fund returned 0.1% for the fourth quarter of 2024, taking the return for the year to 24.6% relative to the benchmark return of 22.4%. Since inception, the Fund has returned 11.3% annualised return, 1% ahead of the benchmark.

Global markets delivered a second year of strong returns, with the MSCI All Country World Index returning 17% for the year in USD (-1% in Q4) after rising 22% in 2023. The S&P 500 Index rose 25% for the year (2% in Q4), backed by a resilient US economy which defied expectations. Emerging markets lagged behind their developed peers as the MSCI Emerging Markets Index rose 8% for the year in USD (-8% in Q4), with particular weakness in Brazil, Mexico, Egypt, and Korea. Broad-based US dollar strength was an additional headwind. Chinese economic growth remained lacklustre, but stimulus measures announced in September boosted market returns. The MSCI China Index ended the year up 20% in USD after recording double-digit declines in each of the two years prior.

The South African stock market also had a stellar year, benefiting from a post-election re-rating driven by the positive election outcome, which gave rise to a Government of National Unity (GNU), a centrist coalition committed to reform. This was reflected in buoyant returns from domestic assets with the FTSE/JSE Capped Shareholder Weighted Index (CSWIX) returning 13% for the year (-2% for the quarter), FTSE/JSE All Bond Index returning 17% for the year (flat for the quarter) and the SA Listed Property Index (SAPY) up 29% for the year (-1% for the quarter). Within domestic equities, financials outperformed the broader market, delivering 22% for the year (-1% in Q4) with the life insurance sector (27%) outperforming the banks (23%). However, for the rally to be sustained, this hope now needs to translate into higher economic growth. The much-improved power supply is a promising sign that economic conditions could indeed improve. Going forward, we need to see improvements in other infrastructure areas as well.

Key contributors to fund performance in the quarter include overweight holdings in WeBuyCars, OUTsurance, St James' Place, Discovery and PSG Konsult. Detractors include underweight positions in Absa, Capitec and Momentum Metropolitan Holdings as well as an overweight position in Standard Bank.

**Portfolio actions and positioning**

From a valuation perspective, the domestic market rallied from very cheap levels to a more normal but not yet expensive level. We continue to favour the higher quality companies with stronger management teams who we believe will best manage what we expect to be a continued bumpy ride for the local economy. Examples of such companies include OUTsurance, FirstRand and Discovery – all gaining share in their respective sectors.

OUTsurance has a strong emphasis on providing good value to consumers through disciplined, scientific underwriting, combined with a strong focus on cost efficiency. This has enabled OUTsurance to build sizeable and profitable businesses across SA and Australia. We expect OUTsurance to continue gaining share across these markets. FirstRand has market-leading positions in vehicle finance via WesBank, retail banking via First National Bank and corporate and investment banking via Rand Merchant Bank. The bank is conservatively run from a risk-taking and provisioning perspective, but at the same time is innovative in its growth initiatives. The share derated during 2024 given concerns around the possibility of a regulatory fine relating to the mis-selling of motor vehicle finance in their UK business MotoNovo. While this remains a risk for the FirstRand investment case, we believe that the extent of the derating is excessive and presents an opportunity to add to our holding. Discovery, a share we covered extensively in the prior commentary, is a high-quality business which we believe will now enter a new phase of strong earnings growth (targeting 15-20% annualised growth over the next five years) after many years of investing in new initiatives such as a bank in South Africa, the global Vitality Network partner business as well as the Chinese health insurance joint venture, Ping An.

During the quarter, Absa meaningfully outperformed its banking peers after releasing a pre-close statement updating the market on current performance which outpaced market expectations, particularly on the credit loss line and providing a positive outlook into 2025. The business has suffered from inconsistent strategy execution following the many changes within the senior leadership team over the last five years. (The bank has had six CEO's since 2019 and is currently under an interim CEO). It therefore remains to be seen whether the green shoots from the December trading update translate into a sustained improvement of the underlying operations over the long term, but there is a risk that a new CEO may shift strategy yet again when appointed. The risk-return profile for the group therefore remains unattractive in our view and we continue to prefer FirstRand, Standard Bank and Nedbank ahead of Absa, despite its cheaper valuation.

In December, Ninety One announced a transaction to acquire a 100% stake in Sanlam Investment Management, a subsidiary of the Sanlam group and an active investment manager. In addition, Sanlam appointed Ninety One as its primary active investment manager for single--managed local and global products. In exchange, Sanlam will receive a 12.3% equity stake in Ninety One. This transaction will consolidate two large players in the local asset management industry, creating a player of significant scale. The asset management industry locally and globally has suffered fee margin pressure and battled to generate sustained positive inflows. It is therefore not unusual to see consolidation deals such as this one to drive returns in the sector. Within the savings value chain, wealth management businesses have fared better, attracting positive net flows, and experiencing much less fee pressure. Wealth managers have therefore been better able to grow earnings. It is for this reason that we prefer greater exposure to the wealth management space in the Fund via holdings in Quilter, St James' Place and PSG Konsult.

During the quarter, we added to positions in Nedbank, FirstRand, Quilter, Capitec and Standard Bank, funded from reduced holdings in Reinet, Coronation Fund Managers, OUTsurance and Santam.

**Outlook**

Domestic assets have rerated in anticipation of a better outlook following the 2024 national election and formation of the GNU. We are cautiously optimistic that better days lie ahead, but the coalition is fragile, and we are still cognisant of the significance of the reforms needed to reverse decades of underinvestment in South Africa. It becomes even more important now to avoid weak businesses and focus on the strong franchises that we expect to demonstrate resilience on the bumpy ride that may well lie ahead but that are also likely to take market share, should the country move to a higher growth trajectory.

**Portfolio managers**
**Neill Young and Godwill Chahwahwa**
as at 31 December 2024