CORONATION
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Performance and fund positioning

The Fund declined by 10.32% in the fourth quarter, which brought the full year return to -6.71% versus a decline of 8.65% for the benchmark. Over the last five years, the Fund has outperformed the benchmark by 10.55% per annum and has meaningfully beaten it since inception.

Meaningful additions to the Fund in the fourth quarter were Sasol, Impala and Mondi. These were funded by selling BHP Billiton and Anglo American. Over the quarter, top contributors were our underweight in Sasol as well as overweights in Ovintiv and Afrimat. Top detractors were our overweight positions in Copper 360, Mondi and Grindrod. For the full year, the top contributors were not owning Sasol, Sibanye-Stillwater or Anglo American Platinum, which all saw large share price declines. Top detractors were Harmony Gold, which we did not own, and Mondi.

A key feature of 2024 has been the continued weakness in the Chinese economy. Whilst its effects have been felt globally there are few sectors that have been impacted more than the commodity sector, given that China consumes roughly half of all the commodities produced worldwide annually. Most of the key commodities had average prices in 2024 that were lower than those in 2023. Key exceptions were gold, silver and copper. Bulk prices suffered due to their above-average exposure to China.

The Chinese real estate sector has been the key driver within the region and its slow-motion crash has shaken consumer confidence and spending economy-wide. Excess leverage at many developers has left a complicated mess for the authorities to untangle. It is important to remember that the Chinese Communist Party (CCP) identified these issues several years ago and has been trying to de-lever and stabilise the sector. Taking the pain in the medium term to deliver a more sustainable outcome in the long term. This goes a long way to explaining why there has been no “big bang” style stimulus which had historically been a key lever for the CCP to pull in times of economic malaise. China’s aim is to reduce its reliance on the heavy commodity-consuming sectors like infrastructure and real estate, while developing more sophisticated growth vectors and boosting household consumption. Again, whilst good for the Chinese economy, this readjustment will be a headwind for most commodity consumption. On a go-forward basis, we expect a stabilisation in aggregate Chinese commodity demand, with above trend growth in “green” commodities.

Continuing the Chinese theme and moving to the supply side it has been fascinating to watch how the insatiable Chinese appetite for commodities has upended traditional supply chains and production bases. China dominates demand for commodities, and, in many instances, it dominates their processing as well, particularly in the green commodities linked to electric vehicles and renewable energy. Due to their relative lack of geological endowment, they have been unable to dominate the mined supply side. Where commodities can be mined was decided millions if not billions of years ago. In order to overcome this geological hurdle, we have seen an outpouring of Chinese capital over time to set up mines where they are able to do so.

Chinese investors have dramatically amped up Indonesian nickel supply over the last few years, causing an oversupply in the market. A similar event has occurred in cobalt, albeit to a lesser extent. Where it gets interesting at present is the extent of the copper supply growth that has come out of the DRC, with a heavy Chinese influence. In addition to bringing on new supply, there is an additional element in that a lot of this supply is less price-sensitive when compared to incumbent producers. There is a heavy State-owned element and many of the mines are part of a vertical integration strategy for those who are consuming the commodities. DRC copper production in 2024 was 650kt (29%) higher than it was estimated to be just three years prior. There is a risk that continued supply growth from these players does enough to satisfy the copper market in the years to come, with a negative impact on prices. With Chinese-controlled iron ore production coming online in the short term through the Simandou project in Guinea, there is also the potential for the market structure of iron ore to change materially over time.

After not having owned Sasol for some time, we bought a starter position in the fourth quarter as the share price approached R90. Whilst there are a lot of uncertainties in Sasol’s investment case about its ability to consistently produce product and about its long-term future in a world that is attempting to decarbonise, we believe these risks are being more than sufficiently discounted in the spot price. Sasol is trading on 11x its free cash flow in one year’s time on a very depressed earnings base. As earnings and cash flows normalise in the years to come, we believe it is trading on 2.2x cash flows in four years’ time and has well over 100% upside.

Outlook

The Fund remains underweight the diversified miners, especially those with bulk commodity exposure. Where we believe we are finding value, is in the platinum group metal sector, Sasol, Mondi, Grindrod and some junior miners.

Portfolio managers
Nicholas Hops and Nicholas Stein
as at 31 December 2024