CORONATION
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Performance

The Fund returned 11.3% for the quarter and 14.9% for the last 12 months. The long-term performance of the Fund remains pleasing against both the peer group and the benchmark.

Our underweight position in Goldfields and overweight positions in African Rainbow Minerals and Afrimat contributed to performance, while our underweight position in Anglo American and overweight positions in global oil stocks detracted.

Fund positioning

We have written in the past about the increased difficulty in bringing on new mine supply. This has come about due to increased regulatory scrutiny, increased community engagement requirements, increased ESG pressures, and ore bodies becoming harder, further and deeper, to name a few. This places miners of existing tier one assets in a strong position. It also leads to management teams buying competitor assets rather than building their own. During the quarter, we saw BHP Billiton (BHP) announce a takeover bid for Anglo American. The key driver behind the attempt was to secure Anglo American's portfolio of copper assets and copper growth projects.

We reduced our Anglo American holding during and after the bid process. With the bid gone (for now), the focus has shifted to Anglo American's own "break up plan". This sees it shedding PGMs, diamonds, metallurgical coal, nickel and likely manganese too. Their goal is to end up with the bulk of the value in "Remainco" to be in copper and receive the commensurate rating uplift. Our view is that there is high execution risk and high friction costs attached to the process that are not adequately being discounted.

While we think BHP could have been more aggressive in its pursuit (via a cleaner deal structure), we are comforted by the timing of the business' initial approach and discipline in walking away. BHP shares have been relatively weak over the last two quarters and now offer compelling relative value in our view. BHP possesses a very low cost, cash generative iron ore business and high quality copper business. We have been buyers of BHP over the quarter.

Sticking with the diversified miners, two of our mid-cap SA "diversifieds" performed very well. African Rainbow Minerals (ARM) benefited from a spike in the manganese price as the world's largest manganese mine (Australia's GEMCO) announced it will be offline for more than a year after extensive storm damage to the mine and port.

Afrimat continued its strong run after the approval of its acquisition of Lafarge and the ramp-up of its Nkomati anthracite asset.

We continue to see good value in both of these names, as well as in Exxaro. Along with many SA Inc. assets, the market ascribes very low ratings to these businesses. In the case of Exxaro and ARM, both trade on compelling dividend yields.

We have moderated our bullish stance on oil. Previously, our bull stance was anchored off the US limiting production growth and strains on Russian supply. In both cases, we now expect higher volumes than our previous assumptions. Russian volumes are broadly in line with pre-invasion levels, with product moving to the East as trade flows readjust. OPEC producers are producing 3m barrels per day below their peak, suggesting ample spare capacity. The oil price has held up comparatively well, considering deteriorating fundamentals. This has driven reductions in our offshore oil holdings and Sasol.

Outlook

We are happy with the current valuation levels and portfolio positioning. We believe prospective returns from this base will prove attractive.

Portfolio managers
Nicholas Stein and Nicholas Hops
as at 30 June 2024