CORONATION
TRUST IS EARNED™

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

Performance

The Fund returned 12.7% for the quarter relative to the benchmark return of 11.6%. Since inception, the Fund has generated an annualised return of 15.7%, some 2% ahead of the benchmark.

Key contributors to Fund performance in the quarter were our underweight in Aspen and positive contributions from Brait, Nampak and Naspers. Key detractors were underweight positions in Vodacom and Mr Price. What has been encouraging for the calendar year thus far is that Fund performance has been ahead of the benchmark despite having a meaningful SA economic underweight going into the positive election outcome of the second quarter.

Trades

In the quarter we reduced our Aspen position to zero and also sold down Richemont. We bought MTN, Vodacom and Foschini. On an aggregate basis, we reduced the SA economic underweight within the Fund.

Fund positioning

Naspers/Prosus, and all Chinese assets, benefited from what has been perceived as a coordinated policy response from the Chinese political leadership. Their actions catalysed a tremendous rally in Chinese assets from very depressed levels. From Naspers/Prosus' perspective, we continue to believe that the shares trade at a large discount to their intrinsic value and they remain a keystone position within the Fund. We continue to see very favourable capital allocation and financial performance from Tencent as well as Naspers/Prosus, with increased buybacks and dividends being a key feature of our investment case. Naspers and Prosus continue to trade at a discount to the spot value of their stake in Tencent alone, all the while they continue to demonstrate the value of their "rump" assets on which the market still place a discount.

Brait and Nampak both contributed to the Fund in the quarter, and whilst the timelines may differ, they share a common theme: excess debt, capital raises, and operational turnarounds. Phil Roux, the new Nampak CEO since April 2023, has led a dramatic operational improvement which, when combined with a rights issue and asset sales, has helped to set the company on a meaningfully better footing than it has been for some time. As Nampak is near to putting its financial leverage issues behind it, we believe the company will be able to compete more effectively within its key categories, driving shareholder value going forward. The Fund participated in the August rights issue for Brait, having bought a starter position in the previous quarter. Brait's key asset is its 67.4% stake in Virgin Active which has been under financial pressure since Covid. Debt build-up over that time frame necessitated the need for a rights issue which has combined with an improvement in the underlying financial performance of the Virgin Active business. Brait owns 34% of Premier Foods which has been performing well operationally and given its listed nature can be considered "near cash" from Brait's balance sheet perspective. Brait has recently been selling Premier shares in the market to shore up cash resources. Going forward, as Virgin Active continues to improve operationally, the business will be able to restructure its current debt package and there is the potential for a separate IPO of the Virgin Active business. We believe there is a lot of value remaining in both Brait and Nampak.

A new position for the Fund after having not owned the business for some time is Vodacom. With the share price having more than halved since its peak in 2017, and a compelling earnings growth and cash returns story, we built a small position in the quarter. An ill-timed acquisition of their new Egyptian business has been a key driver of capital loss in recent years, due to the devaluation of the Egyptian pound that came soon after. Operationally, the Egyptian business is on a solid footing and we believe it will continue to be a dominant local player going forward. Vodacom's key asset is its stake in Safaricom, the leading mobile network operator in Kenya with a dominant mobile money service called M-Pesa. Growth out of this business has been strong and continues to be so with blue sky potential from their startup Ethiopian business. Again, in South Africa Vodacom are dominant and the low growth market is a key source of dividends for shareholders. Vodacom is on an attractive 6.5% dividend yield, and we believe it could grow earnings at 10% over the next five years – an appealing return profile.

Outlook

We believe that the global stocks owned within the portfolio offer exceptional value on a risk-adjusted basis, operating in global markets with a strong growth runway. Within South Africa, we are cognisant of the potential for a better economic environment in the next five years if the new government can deliver on its potential. Primarily, we remain invested in South African economically exposed shares that have the potential to either grow their markets or grow their market share, to drive earnings. At the margin, we have been adding to specific stocks where there is still relative value. The hurdle for a stock to enter the portfolio is high and we are optimistic about our stock selection and the outlook for returns.

Portfolio managers
Nicholas Hops and Godwill Chahwahwa
as at 30 September 2024