CORONATION TRUST IS EARNED™

Performance and fund positioning

The Fund returned 2.1% for the quarter and -0.6% for the last 12 months.

While the long-term performance of the Fund remains pleasing against both the peer group and the benchmark, the short-term performance has been disappointing. This can be largely attributed to the Fund's large underweight position in gold equities, which we discuss in more detail below.

The gold price has had a number of tailwinds. These include high government debt levels and increased money supply; active wars and heightened geopolitical uncertainty; central bank buying in the face of Russian assets being frozen; and Chinese domestic buying in the face of tepid performances from alternative asset classes (housing, equities). The recent imposition of higher-than-expected US tariffs has added even more fuel to the fire.

So why then the cautious view? While spot multiples for the gold equities appear reasonable, we see reason for caution. The speed at which the gold price rose has meant gold miner margins have opened up. We view these current margins as unsustainable, drawing on past gold upcycles as evidence. Higher margins invite upward pressure on employee wages, contractor rates and government royalties. Cash returns to shareholders rarely materialise (especially for short-lived SA-listed gold miners) as they are forced to use these high margins to invest in new projects. A final factor is that the high price/margin environment invites M&A, which more often than not ends poorly (for the acquirers at least). A recent case in point here is Goldfield's attempt to buy Gold Road for a material premium to its traded price.

So what to do now? While we maintain our overall cautious stance on gold equities, we acknowledge the favourable gold price environment and wide range of future outcomes here. As a result, we have reduced the extent of our underweight by buying a meaningful position in AngloGold (funded from a broad-based basket of the other fund shares). AngloGold is our preferred SA-listed gold exposure. It has reasonable geographic exposure and impressive new management who are doing good work in reducing AngloGold's cost profile, improving production stability and outlook.

The other big addition to the Fund was Glencore, where we had an existing position but added meaningfully to it. The Glencore share price has almost halved from its early 2023 peak. Coal prices went sky-high due to trade dislocations post Russia's invasion of Ukraine, which benefited Glencore's coal profits, as well as profits earned in their marketing division (which tends to do well in times of trade dislocations). At that point, the share price implied profits in both these divisions would remain elevated well into the future. Fast forward to today, and coal prices are now trading well into the cost curve (anywhere between 20-50% of producers are losing money at current coal prices). This is not a position that can be held indefinitely, and at some point, coal prices will rebound (we have already seen some mines announce closure). Yet at R60 per share, the Glencore share price bakes in an overly pessimistic assessment here. On more normal prices, Glencore is back to free cash flow multiples in the teens range, which we view as attractive.

Post the current tariff-induced sell-off, we see many compelling opportunities in the resources space. Commodities appear to have generally avoided direct tariffs (with some exceptions). While overall growth rates will slow, this is more than baked into equity prices. This bodes well for prospective returns.

Portfolio managers
Nicholas Hops and Nicholas Stein
as at 31 March 2025