

Over the past year, the fund returned 9.58%, ahead of comparable indices and average competitor funds. The fund has delivered 6.55% and 10.55% over three and five years respectively.

The past year has been a tough one for the economy in general. The average local industrial business struggled to produce decent earnings growth. Confidence levels have remained low, significantly impacting general spend in the economy. During this time, we have stuck with our long-term view and valuation-driven process to pick out strong businesses with significant moats.

The largest contributors to performance over the past year were Cartrack and Trenchor. Cartrack listed a few years ago, at what was a high rating, which led us not to participate in the capital raising. The share subsequently fell to very low levels, from which we started adding to the fund. It is a business that plays in the very competitive telematics space (fleet management/stolen vehicle recovery). They have found an innovative business model that is a winner, which has resulted in significant growth in subscription numbers at very high margins. It is led by an entrepreneur with a large stake in the business and whom we rate very highly. Trenchor's main asset is a stake in one of the largest container businesses in the world i.e. Textainer. As global trade has started improving, they have benefited from the uptick in activity. It is a share that has generally been hard to value, due to the uniqueness of the asset and highly leveraged structure. We have however been big shareholders for a long time, as the work we have done had always indicated significant value.

The largest detractors were Dawn and Famous Brands. We have written extensively about Dawn previously. Famous Brands had been the market darling for a very long time, trading at very high ratings. However, the tough economy and a few own goals (including the poor performance of their acquisition in the UK), resulted in the market punishing the share. We started adding to it before it took another leg down. We still believe in the strength of the business model, and that it should recover with the economy.

Our two largest additions during the quarter were Pioneer Foods and Tradehold, while the two largest disposals were Metrofile and Truworths. Metrofile is a business that we have liked very much in the past. It has a dominant position in the records filing industry, which affords it pricing power and steady annuity type income. However, recently an international player entered the industry through buying a local competitor. They have since been disruptive in the market through discounting of services. In addition, Metrofile's international expansion strategy has not yielded desired results.

We continue to be cautious on the overall state of the domestic economy. As such, the bulk of the fund is invested in high-quality counters that should continue to generate reasonable returns even in a tough economic environment. It is in these times that our long-term focus allows us to pick deeply undervalued businesses that have been mispriced by the market, and which will contribute positively to subsequent performance of the fund.

Portfolio managers
Alistair Lea and Siphamandla Shoji
as at 31 December 2017