The fund has had a tough year, returning 1.3% over the 12-month period. This is not a bad result relative to a -4.6% return from the average competitor small cap fund.

Perhaps the most notable feature of the market in the past quarter has been the material share price gains experienced by companies which are perceived to be beneficiaries of the Ramaphosa 'new dawn'. These would include the three apparel retailers (see table), Mr Price, Foschini and Truworths, which are not owned by the fund (we sold out of Truworths in the quarter). Yes, the outlook for our country is certainly much improved under the new political dispensation, but does this justify the share price gains we have seen in some shares? We don't think so. The fortunes of the average South African consumer will not change materially for the better in the short term. They remain heavily indebted and jobs are still very difficult to come by. Yes, inflation remains low and we are likely to see some easing of interest rates and perhaps some growth in credit extension, but this is unlikely to result in the kind of growth in company profits as suggested by the recent share price gains.

There are a few shares whose prospects are also improved, but whose share prices have not responded much, if at all. Steinhoff Africa Retail (STAR) and Long 4 Life (whose primary asset is sports retailer, Holdsport) are examples – both are held by the fund. STAR has not basked in the 'new dawn' due to its link to Steinhoff, its largest shareholder. The market is understandably worried about the share overhang – Steinhoff owns 77% of STAR and there is a good chance that Steinhoff will eventually sell part, or all, of its stake in STAR, like it has done with its shareholdings in PSG and KAP. STAR had also provided guarantees on some of Steinhoff's South African debt which has been a concern. However, Steinhoff recently settled close to R8 billion of this debt, thereby releasing STAR from any guarantees on that debt. This is likely to lead to STAR being able to refinance its borrowings directly with South African banks, as opposed to from its parent, Steinhoff. As such, STAR will in all likelihood be free of all guarantees on Steinhoff debt in the near future.

STAR is the owner of Pep and Ackermans – two of the most successful apparel retail businesses in South Africa. The uncertainties around Steinhoff has given us an opportunity to buy these businesses below our assessment of fair value, and at more attractive multiples than other apparel retailers whose long-term prospects we would consider inferior to that of STAR's.

Share price moves:	1Nov 17 to 27Mar 18	Fwd PE
Mr Price	63.3%	23.6
Foschini	64.1%	18.3
Truworths	43.7%	15.3
Star	-8.7%	16.4
Long 4 Life	13.8%	

Over the past year, the two largest contributors to the fund's performance were its holdings in Spar and Cartrack. This is gratifying in that we built a large position in Spar in the middle of 2017 after disappointing results caused a slump in its share price. As we have mentioned before, these short-term disappointments in companies that have delivered consistently for decades often prove to be good buying opportunities. This was the case here.

Cartrack has also been a great story, with the share price up around 100% over the past year. The business is one of the few companies in South Africa that is experiencing rapid growth. It is still majority owned by its founder and CEO, which is comforting in that our interests are totally aligned to his.

The biggest detractor to fund performance over the past year has been the holding in Brait. We did not own Brait when the share reached heady levels of over R160 per share in mid-2016. Back then it traded at a significant premium to the underlying value of its investments, while today it trades at a significant discount. This is probably justified after the company was forced to write off the value of its investment in New Look, a business Brait bought for some R14 billion in 2015. We think the Brait risk/reward profile is now skewed in favour of the upside, with New Look valued at zero and a strong rand relative to the pound. As such, we will continue to hold our small position in the counter.

Portfolio managers
Alistair Lea and Siphamandla Shozi
as at 31 March 2018