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

The tough investment climate in the mid and small cap space has continued, which is reflected in the fund return of 1.1% over the past year. Albeit a poor return, it places the fund in the top of its sector over the 1-year period. The fund's five-year compound annual growth rate return of 1.6%, which is below inflation, also demonstrates how difficult it has been to produce decent returns in this environment. Only two funds in the mid/small cap space produced positive returns over this time period.

Over the past year, the largest contributors to the fund's performance have been the holdings in Northam Platinum (Northam) and Metair.

The platinum-group metals (PGMs) basket price has finally increased in line with our forecasts, driven by the looming material deficits on the horizon after years of underinvestment in the industry, as well as robust demand as automotive manufacturers face increasingly stringent emissions standards, driving demand for PGMs in catalytic converters. This has resulted in the Northam share price more than doubling in the past year.

Metair has also been a strong performer in the past year, which does not surprise us. The company is a rarity in South Africa right now – it operates in a flourishing industry! The automotive manufacturing sector in this country is a real success story, with the government able to introduce policy measures aimed at incentivising Original equipment manufacturers (OEMs) to manufacture vehicles in South Africa. This has resulted in many of the large OEMs committing substantial capital to expanding their presence in South Africa, which is benefiting Metair's automotive component businesses. In addition, Metair's battery business is also performing well due to its ability to respond quickly to the technology changes occurring in this industry. Despite performing well in the past year, Metair still trades on an approximate one- year forward price to earnings (P/E) ratio of 6 times, which we think is way too low for a business that should be able to grow its earnings ahead of the market in the foreseeable future.

The biggest detractors to fund performance in the past year have been the holdings in Invicta and RMI Holdings.

Invicta has been a dismal share to own in the past few years. Not only has the company been the victim of a brutally tough economy but was also the recipient of a R750 million fine from the South African Revenue Service for a tax structure that resulted in Invicta paying a very low tax rate for the past seven or eight years. The deluge of bad news has caused the share price to decline significantly and is now priced at approximately half of book value and on about six times P/E on what we consider to be low earnings. These earnings are unlikely to recover in the current economic environment but should do in time as things improve.

RMI Holdings has also been weak in the past year, mainly due to the decline in the Discovery share price, a business of which they own some 30%. RMI is one of the best quality counters in our universe, with stakes in what we consider to be two of South Africa's best businesses, Discovery and OUTsurance. As such, we have taken advantage of the weakness in RMI to increase our position size.

The largest additions to the fund in the quarter were the purchase of Reinet and Aspen. Both shares fell out of the Top 40 index in the quarter and therefore fell into our investable universe. Reinet is still dominated by its investment in British American Tobacco (BAT), which makes up some 70% of the value of Reinet. The combination of BAT on a single-digit multiple and the fact that Reinet trades at a historic high 38% discount to its underlying asset value, makes Reinet attractive in our view. In addition, our investable universe presents few opportunities for exposure to rand hedge global businesses, which we think add value to the fund from a diversification perspective.

It is hard to believe that Aspen has now fallen out the Top 40 Index. The market's distaste for high levels of debt and companies that seem to not have growth prospects has meant that Aspen's share price has fallen from over R400 in early 2015, to around R90 today. We think that the company is well on its way to getting its debt levels under control, and while there may not be much scope in the short term for strong earnings growth, we think that there is real opportunity for Aspen to drive more in-house manufacturing of product through its own facilities in the next two to five years. The company has invested significantly in these facilities and should be able to utilise them better in future, which should be accretive to earnings. On about a seven or eight times P/E, Aspen is attractive in our view.

The largest sales in the quarter was the sale of the positions in Pan African Resources (PAN) and Pioneer Foods. PAN, the gold miner, has been a strong performer for the fund and we sold as the share price neared our assessment of fair value. Pioneer Foods has been the target of a buyout offer by PepsiCo, and we sold out as the share moved towards the offer price. While the deal is likely to happen, there is still a small degree of risk until all conditions precedent are met. As such, we were prepared to sell out at a level slightly below the PepsiCo offer price.

Portfolio managers
Alistair Lea and Siphamandla Shozi
as at 30 September 2019