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

**Performance and fund positioning**

The Fund returned 4.3% for 2022. While this may not be a particularly exciting outcome, it does come on the back of a very strong 2021 Fund return of 41.5%. The Fund was the second-best performing fund in its category for the one- and three-year periods, and the best performer over 10 years.

The table below shows the performance of the fund relative to other funds and indices, over various time periods to end December 2022.

| | Periods ending 31 Dec 2022 | | |
|---|---|---|---|
| | **1yr** | **3yr** | **10yr** |
| **Coronation Smaller Companies** | 4.3% | 15.8% | 9.2% |
| **Coronation Top 20** | 9.0% | 13.8% | 9.9% |
| **All Share Index Total Return** | 3.6% | 12.7% | 9.9% |
| **Mid-Cap Index Total Return** | 1.6% | 3.9% | 7.1% |
| **Small-Cap Index Total Return** | 7.6% | 19.5% | 9.8% |
| **Simple ave of Mid- and Small-Cap** | 4.6% | 11.7% | 8.5% |

Source: Morningstar

We are pleased with the performance of the Fund, especially relative to the FTSE All Share Index (ALSI), which is dominated by some large global businesses and big diversified mining companies. The Fund is not able to invest in the likes of Naspers, British American Tobacco, Anheuser-Busch Inbev (AB InBev), Richemont, Anglo American or BHP Billiton. Instead, the Fund can be viewed as a SA Inc. proxy given that approximately 70% of the benchmark is comprised of SA industrial companies and another 20% by SA financials, with the balance being smaller resource companies. As such, it is pleasing that the Fund was able to beat the ALSI over one and three years, and just about match it over 10 years. We think this illustrates a few things.

1) Despite an extremely difficult environment in which to run a business, many SA businesses have been very well run.
   a. Running a business in South Africa is not for the faint-hearted. In this year alone we have had to deal with unprecedented levels of loadshedding, terrible flooding, political upheaval, and sharply rising interest rates, driven by rampant inflation in key cost categories such as fuel and food. Despite this, there are many companies in SA that have risen to the challenge that SA provides. Companies like Dis-Chem have many years of growth ahead of them, while others like Mpact have added huge value to shareholders by aggressively buying back shares in the months after the Covid lows.

2) It is possible to eke out reasonable returns from investing in undervalued companies in a challenged environment.
   a. Just because SA is a difficult environment in which to operate a business, it doesn't mean one can't still make reasonable investments. In fact, the difficulty of the circumstances in SA often means that shares trade on very low multiples, and if the business is well run or the business environment improves marginally, the rating the market places on the business can improve. A re-rating from a PE of 5 to a PE of 7 is a 40% return.

3) Just because it's a big global business, it doesn't mean it has no risks attached.
   a. The vast majority of Naspers' value is its holding in Tencent, which is a Chinese business and subject to the risks of that country. This year, we have seen that investing in China comes with significant risk due to the concentration of power in the political leadership and Xi Jinping in particular.
   b. AB InBev has been a terrible investment for the past seven years. Its late 2016 listing price was above R1 800 per share. Today the share price is a touch over R1 000. In hindsight, the business was overvalued back then at around a mid-twenties PE multiple and is now far more sensibly valued.

**Outlook**

We don't always get it right but on balance we have been able to build a portfolio of smaller SA companies that have delivered reasonable investment return over time. Despite the numerous challenges that our country faces, we see no reason why we can't continue to do this.

**Portfolio manager**
**Alistair Lea**
as at 31 December 2022