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

The second quarter of the year (Q2-22) has been a tough period, with the Fund declining by 7.9%. Over three years, the Fund has returned 15.6% per year, making it the best performing fund in its category.

The two largest additions to the Fund in the quarter were Bytes Technology Group and Astral Foods.

The tech-led market sell-off has not spared Bytes, with its share price falling some 30% year to date. This is despite the company reporting very strong results and confirming their very positive outlook going forward. Bytes continues to grow its earnings strongly, on the back of very strong growth in Microsoft's cloud service. Bytes also has enviable financial metrics – high returns on equity and cash flows which are likely to exceed reported earnings. This allows the company to pay healthy dividends as well as special dividends. It is unusual for a company growing strongly to also be able to pay strong dividends.

While Astral is a very different business to Bytes (it's a poultry business), it is similar in that it has very strong fundamentals – strong demand for its product, high returns on capital and healthy cash flows. It also has a strong balance sheet, which allows it to pay a good portion of its earnings as dividends. Global feed costs (maize and soya) are currently elevated due to the supply disruptions from the war in Ukraine. This is negative for Astral in that feed costs make up a material portion of their cost of sales and is the reason why the share price has been under pressure. However, it is encouraging that Astral has been able to pass on a good portion of these costs in price increases and maintain a level of profitability. This shows how important chicken is as a protein source in South Africa. What excites us is what Astral can do when feed costs normalise.

The two largest sells in the quarter were Pick n Pay and Discovery.

We did not hold Pick n Pay for long, having changed our mind on the investment merits of the business. The new CEO has recently come out with some very ambitious targets for the business, one of which is to grow revenues by a compound annual growth rate of 10% for the next four years. This is very strong growth, far stronger than what was achieved in the past five years, and it will require significant investment to have a chance of being achieved. It does however introduce far more risk into the investment proposition, and we are somewhat sceptical of whether such a change of fortunes for the business can be achieved.

We inherited the Discovery position after RMI Holdings unbundled these shares to its shareholders. Being a large cap company, our mandate does not allow us to hold Discovery, and we therefore sold our position.

SA mid and small caps have performed very well in the past few years, especially relative to many of the larger cap shares that are more exposed to global issues and volatility. This quarterly correction is not unexpected, and we suggested in our Q1-22 commentary that the performance of the past few years was unlikely to be matched going forward. We continue to hold a diversified portfolio of mostly high-quality businesses which we think are attractively valued. As such, we are optimistic on the Fund's prospects over the medium to long term while accepting that returns in the short term are unpredictable.

Portfolio manager
Alistair Lea
as at 30 June 2022