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

The Fund has had a good start to 2022, returning 6.8% for the first quarter (Q1-22). Over three years, the Fund has returned 19.6% per year, making it the best performing Fund in its category.

The two largest additions to the Fund over the quarter were Pick n Pay and Motus (an automotive retailer). We currently hold a big position in Spar, which we like for its defensive and high-quality characteristics. Typically, food retailers attract some of the highest price earnings multiples (PE) in the market due to these characteristics. Spar trades on a 13 times forward multiple, which we think is attractive. This is the same multiple that we bought Pick n Pay on. As a comparison, Shoprite trades on a 20 times forward multiple. We acknowledge that Shoprite has been the standout winner in the sector, but we think the disparity in the market's ratings of these three businesses (Pick n Pay, Shoprite and Spar) is overdone. In an environment where the Fund (and mid and small caps in general) has delivered strong performance, we think it is appropriate to increase the defensive element of the Fund.

While we have been somewhat late to the party in Motus, we still think it is attractively valued on a 6.5 times forward PE. Motus is well represented in the parts of the car market that is growing, which means that the business continues to take market share – which now sits at a very healthy level of around 22%. On top of this, the business will also benefit from the normalisation of car sales volumes in South Africa (SA), which are still recovering post the Covid-19 period. The same applies to their car rental business. Management is also making good capital allocation decisions – they have bought back about 10% of their own shares in the past year.

The two largest sells in the quarter were Cashbuild and Nedbank.

While we really like Cashbuild as a business, we sold out based on valuation and the fact that we consider current earnings levels to be above normal. Cashbuild was one of the few businesses in SA that benefited from the pandemic, in that many people used lockdowns and the increased time spent at home to do home improvements/repairs. As such, Cashbuild's earnings grew around 140% in its 2021 financial year. This has set a high base for the years ahead and Cashbuild's earnings are very likely to fall in the year ahead.

Nedbank has been a fantastic performer for the fund. We bought it at a very good price as it fell out of the large cap index into our universe, and we have seen the share price appreciate well over 100% as all the banks have delivered a strong recovery in their earnings to levels close to pre-Covid-19 times. We have not sold out completely as we still think the share is reasonably attractive, but the easy gains have certainly been made.

SA mid and small caps are largely isolated from some of the big issues (namely China tech regulation and the Russian/Ukranian war) weighing negatively on portfolios that can invest across the entire market. This has been positive for fund returns. The three-year compound annual growth rate return of 19.6% strikes us as fairly remarkable, especially considering the fact that it includes the Covid-19 pandemic disruption. And while many businesses in the Fund continue to show strong earnings delivery, it looks like the returns going forward are unlikely to match those of the past few years.

Portfolio manager
Alistair Lea
as at 31 March 2022