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

Performance

It has been another tough quarter for equity markets and, to a lesser extent, the Fund. The Fund returned 3.0% in the quarter and 17.3% per year for the past three years, making it the second-best performing fund in its category. The current macro environment is marked by high inflation, rising interest rates and global geopolitical uncertainty, all of which are negative for equities, with returns in the short term bearing witness to this. However, this is providing some very good opportunities to buy materially undervalued shares. As such, we remain positive on the medium- to longer-term prospects for the Fund.

Fund positioning

The two largest additions to the Fund in the quarter were CA Sales Holdings and Hudaco.

CA Sales offers route-to-market services (across BNLS* countries) to blue-chip brand owners of FMCG (fast-moving consumer goods) products. This includes distribution, warehousing and merchandising. The business was unbundled out of PSG Group as part of PSG's delisting from the JSE. CA Sales is a relatively small and unknown company, and it is our belief that many PSG shareholders who received CA Sales shares were sellers. As such, the share price has come under undue pressure in its first month as a listed company, which we think has been a good opportunity to acquire shares. We think it's a decent quality business for the following reasons:

- It has grown earnings per share by a compound annual growth rate of around 15% for the past seven years;
- It has generated good cash flows in this time;
- Its returns on equity are reasonable at about 15%; and
- It has good prospects to continue delivering strong growth.

At the current share price, it trades on between a 6 and 7 times forward multiple.

Hudaco is a distributor of engineering consumables and consumer products. It has been a very good business for decades, generating a lot of cash and decent returns on equity. It is one of the best managed small caps in South Africa, and has done an outstanding job of allocating capital between share buybacks, dividends and small value accretive acquisitions. It is currently trading on about a 7.2 times forward multiple, which is too low for a business of this quality.

The two largest sells in the quarter were Omnia and Pan African Resources (Pan).

Omnia has been a fantastic holding for the Fund. The business has performed well in the past few years, driven by very strong demand for its fertiliser and has also managed to sell its bio-fertiliser business, Oro Agri, for a great price. This enabled Omnia to pay a special dividend. Our decision to sell was based on the fact that Omnia no longer offers significant upside to our assessment of fair value.

We have held Pan, a gold miner, predominantly for the portfolio diversification benefits of gold. However, as shares have become increasingly cheap, the competition for a place in the portfolio has increased, and some shares had to give way. The company also seems keen to expand its exploration into Africa, which we think adds to the risk of holding the share.

Portfolio manager
Alistair Lea
as at 30 September 2022

** Botswana, Namibia, Lesotho and Swaziland*