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

Performance

The final quarter of 2023 was a good one for the Fund, which delivered a 11.2% return. This boosted the performance for the year to 16.4%. The Fund has returned a compound annual growth rate of 19.7% for the past three years, making it the second-best fund in its category. We are satisfied with these returns considering the very tough economic climate that exists in South Africa (SA) at present. Markets and share prices are generally forward looking and we suspect that much of the final quarter of 2023's performance was driven by the prospect of our economy entering into an interest rate cutting cycle in 2024, which is generally positive for both consumers and equities.

Fund positioning

The two biggest additions to the Fund in the quarter were Afrimat and KAP Limited.

Afrimat has been a remarkable success story since its listing on the JSE in 2006. Its shareholder returns are amongst the best of any listed company since listing, higher even than more commonly known success stories such as Naspers and Capitec. While this would often signal that the share is potentially expensive, it also indicates how well the company has been managed. Afrimat started out as a construction materials business, but has since evolved into a junior mining company. The company has displayed remarkable skill at buying small mining businesses, often in distress and turning them into profitable entities. While there is always an element of luck involved, especially in relation to commodity prices, Afrimat management seems to have developed a skill at doing this which has been very beneficial for its shareholders.

We topped up our existing position in KAP during the quarter. KAP is one of many small companies that are hostage to a weak domestic economy and whose rating reflects this. It is a well-managed business that we feel is just too cheap. It trades around 3.3 times its peak earnings and around 4.5 times what we would consider its normal earnings. We are careful not to hold too many of these types (lowly-rated value traps) of businesses in the Fund, but we are also cognisant of the fact that a company like KAP will do very well if the SA economy shows some life in the years ahead.

The two biggest sells in the quarter were Reinet and Famous Brands.

Reinet has been a fantastic performer for the Fund but has less upside following this strong performance. As such, a lower weighting in the portfolio is justified. We still hold a position in the counter, which brings diversification benefits thanks to the fact that it is not exposed to the SA economy.

The Fund has been a long-term holder of Famous Brands (owners of the Steers and Wimpy franchises, amongst others), which for many years we regarded as one of the best businesses we could invest in. However, the company has made some strategic errors in the past five years. These would include the purchase of Gourmet Burger in the UK (which was subsequently placed in administration) and investing in too many smaller brands, which contributed little but demanded time and attention. Loadshedding has also been brutal to a business that is a heavy user of power and recovering these extra costs from cash-strapped consumers has been difficult.

Portfolio manager
Alistair Lea
as at 31 December 2023