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

Performance

The Fund returned 2.9% for the quarter and has returned 32.4% per annum over the past three years. It should be noted, however, that the start of this three-year period coincides with the start of Covid, where the starting point was particularly low. That said, we are happy with the three-year performance, which is the best in the small- and mid-cap sector.

Fund positioning

The two biggest additions to the Fund in the quarter were Raubex and Metair.

For the first time in a while we are feeling more hopeful about the prospects for the construction industry. This has been a sector to avoid for many years now, and the difficult environment has claimed many scalps (think Group Five and Basil Read). As such, in our opinion there are only two remaining credible listed construction shares, being Wilson Bayly and Raubex. The Fund now has positions in both. Raubex has a history in road building and surfacing, but has diversified into other areas of the construction industry. They are now one of the largest players in the construction that is necessary to support renewables projects, and they have also very successfully grown a business in Australia. But the biggest excitement is perhaps the fact that SANRAL (the national road building agency) has finally begun to award work, some of which is up to two years delayed. As the pre-eminent road builder in the country, this is very positive for Raubex.

During the quarter, we added to our position in Metair. Despite reporting a weak 2022 result, we think Metair's prospects are amongst the best of the companies we cover. This is primarily the result of them winning what will be their biggest contract in their history – the supply of automotive components to Ford. They have quantified this contract at around R60bn over its life (7-10 years). In 2022, much of the capex and cost associated with setting up this contract was incurred, and the real benefits will only now begin to flow. As such, we think Metair's future earnings will be materially higher than today.

The two biggest sells in the quarter were Telkom and HCI.

We sold Telkom due to the fact that the business seems to be under intense earnings and cash flow pressure. This is primarily because Telkom's legacy business is declining faster than they can grow their new businesses, such as Openserve. We acknowledged that on a break-up scenario, Telkom is worth more than its share price, and that the chances of an offer being made for the business or parts thereof, are good. But Telkom has material government ownership, and any offer is likely to take years to conclude. We have learnt in the past that holding a share in the hope of corporate activity is not a good strategy, and we therefore sold our shares.

HCI has been a fantastic share to own. Its performance has been fueled by its ownership of Impact Oil and Gas, an oil exploration company that has several interests in prospective oil and gas fields. This includes interests in Namibia (in offshore waters), where several successful oil finds have been made in the past year. Namibia is now being touted as the most exciting oil prospect in the world, and several oil majors have committed significant portions of their exploration budgets to drill additional deep-water wells. While it looks very promising, we are very aware that it remains uncertain as to what will be found. We therefore decided to take some profits on HCI and manage the risks involved by sizing the position correctly.

Portfolio manager
Alistair Lea
as at 31 March 2023