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

Performance and fund positioning

A quarter of a year is a long time in investment markets these days! At the time of writing this commentary for Q1, the market was being decimated by the Trump administration's tariff announcements (Trump tariffs). Today, all is but forgotten, with the US market having regained its all-time highs recently. Similarly, the Coronation Smaller Companies Fund ("the Fund") had a decent quarter, returning 7.6%. The three-year compound annual growth rate (CAGR) performance remains strong at 17.8%, still the top-performing fund in its category.

The three largest buys during the quarter were the JSE Limited (JSE), Raubex and Afrimat.

We have not owned the JSE for many years, but did buy a small position during the quarter. The equity market volatility that we have seen this year as a result of various factors such as the Trump tariffs and various geopolitical tensions, all play into the JSE's hands. The primary driver of its fortune is the value of equity traded on the market, which is up 26% year to date. The JSE is therefore a useful portfolio diversifier in that it benefits from events that are harmful to most other companies.

Raubex is one of the last remaining credible listed construction companies, alongside Wilson Bayly Holmes Ovcon. It is a superbly managed business, which began life as a road builder, but is now a multi-disciplinary construction company. Despite the general headlines suggesting a lack of infrastructure spend in SA, Raubex is thriving (its order book is up 23% CAGR since 2020). Construction companies are perhaps not the highest quality companies we can invest in, but Raubex generates above-average returns on capital, has grown its real earnings healthily over the past five and 10 years, and generates reasonable free cash flow. As such, Raubex is now a top 10 position in the Fund.

Afrimat is a junior mining company with a strong and entrepreneurial management team. It has a proven ability to identify troubled (and therefore cheap) businesses and ore bodies, and to manage them in a more efficient way to the benefit of its shareholders. They have done this for over a decade, but in its 2025 financial year, Afrimat experienced a perfect storm of negative events, which has caused the share price to lose significant ground. Having not owned the share before, we have used this period of weakness to accumulate a small position.

The three largest sells during the quarter were Impala Platinum, Spar and Northam Platinum (Northam).

The platinum group metals (PGM) shares we hold in the Fund have performed very well this year on the back of a 23% year-to-date move in the rand PGM basket price. Our selling of Impala Platinum and Northam was a small adjustment to our PGM weighting in the Fund after the strong run. Northam remains a top 10 position.

Spar has been a very disappointing holding for the Fund, and after years of believing things would improve, we finally exited the small position we still held. The business has had a myriad of problems in the past five years, many of which they will probably overcome. But the fundamental question we are grappling with is whether this is a winning business in the long term. While we think their franchise model and central buying function has advantages, such as Spar stores run by motivated owners as opposed to corporate managers – their model also has disadvantages. Firstly, they have two mouths to feed (the franchisor and franchisee). Secondly, they rely 100% on the loyalty of their independent store owners, who are free to buy goods elsewhere. They have also come up against a formidable competitor in the Shoprite Group (that also owns Checkers), who are 100% focused and executing flawlessly. Despite the valuation gap between Spar and Shoprite, we are more confident in owning the latter on a long-term view.

Portfolio manager
Alistair Lea
as at 30 June 2025