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

The Fund has had a very strong year, returning 30.7%, well ahead of its benchmark, which returned 18.1%. The Fund has returned a compound annual growth rate (CAGR) of 16.6% for the past three years, making it the best fund in its category. The main driver of this strong 2024 performance was the renewed market appetite for SA Inc. exposure. Mid and small cap funds typically have outsized exposure to this part of the market, much more so than general equity funds, which can invest in the large dual-listed shares. Calendar year 2024's performance was amongst the strongest the Fund has delivered in the past 20 years and comfortably exceeds the since inception CAGR of 12.6%. We would therefore expect a far more muted year in 2025.

The two biggest additions to the Fund in the quarter were Cashbuild and Transaction Capital (TCP).

Cashbuild is one of the largest building materials retailers in South Africa. The business and its share has had a torrid time since peaking at around R500 in 2018. In early 2024, the share bottomed at around R130. The principal reason for this poor performance has been the alarming decline in the company's profitability, driven essentially by an absence of revenue growth. Organic revenue has compounded by less than 2% since 2018. This is a problem for a business operating in a 5%-6% cost inflation environment as it gives rise to negative operating leverage. Cashbuild's earnings per share declined by a compounded 13.9% per year from 2018 to 2024. It is hard to get one's mind around why Cashbuild's revenue growth has been so weak for so many years, but it probably boils down to the fact that the average South African just doesn't have much disposable income to spend on building or maintaining a home. On the hierarchy of needs, you will always prioritise food, clothing and transport costs (to get to your place of work) over anything else. But this will possibly give rise to a pent-up demand for building materials, which might result in better revenue growth in the years ahead should the domestic economy grow closer to 2%, rather than the 1% we have gotten accustomed to.

TCP is an interesting opportunity. There has been a spate of corporate activity surrounding the company in the past few years, including the unbundling of WeBuyCars and the sell-down of the SA Taxi business following its near failure. This activity has muddied the water such that we presume many market participants have given up on the company. What remains is a business called Nutun, which is both a debtors book buying and collection business, and a call centre operator to international clients. Once the dust settles, we estimate that TCP can generate roughly R0.5bn of free cash flow per year against a market capitalisation today of R1.8bn. As such, it is possibly very undervalued if a few things go right.

The two biggest sells in the quarter were CA Sales and OUTsurance.

The motivation for both these trades was similar. These shares (and the underlying businesses) have performed fantastically well in the past few years. CA Sales was trading at R6.50 two years ago, and the Fund lightened its position at R16.05. Similarly, OUTsurance was trading at R34 two years ago and we trimmed at R66.81. We still maintain positions in both these companies mainly because of the growth we expect them to deliver in the years ahead. OUTsurance is also one of the highest quality businesses in South Africa in our opinion, having successfully disrupted what was once a stable short-term insurance industry to become a household brand.

Portfolio manager
Alistair Lea
as at 31 December 2024