

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

Performance

The Fund experienced a strong quarter (Q2-24), delivering a return of 11.1%. In the March commentary, we said that a benign SA election result could be positive for the Fund. While it is early days, our sense is that the election outcome is largely positive for our country and this is reflected in the strong share price performance of many businesses exposed to the SA economy as well as the relatively strong rand. The Fund has returned a compound annual growth rate of 15.0% for the past three years, making it the best fund in its category.

Fund positioning

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

Raubex is one of the largest construction companies in SA. Its recent results show that the company is in rude health, with an all-time high order book and good prospects to grow its earnings in the years ahead. Raubex, along with Wilson Bayly Holmes Ovcon (WBHO), are essentially the last men standing in the construction industry. Many listed competitors failed in the past decade as construction activity in SA all but dried up. We now have a situation where activity has picked up, and there are very few large contractors able to execute the work. This bodes well for Raubex and WBHO.

Metair is a manufacturer of automotive components and batteries. It has had a torrid few years, essentially the result of two issues. Firstly, one of its subsidiary businesses, Hesto, won a very large contract to supply wiring harnesses (these are the copper wires in a vehicle) to Ford which necessitated the building of a large new facility. This is the biggest single contract in Metair's history and has had several teething problems, which resulted in Hesto reporting a material loss in its first year of production for Ford. Secondly, Metair's largest battery manufacturing business is located in Turkey, which has been a tricky country to do business, to put it mildly. Inflation has been above 50%, and borrowing costs have also been in the region of 50%. These two factors have put significant strain on Metair's earnings and cash flow, resulting in uncomfortable levels of debt. A new management team has been introduced and we feel that they are starting to make progress on dealing with the issues. The market however is taking a wait-and-see attitude, with the share price remaining close to its multi-year lows. We are somewhat more hopeful that the negative issues of the past few years can be resolved, in which case Metair is worth materially more than its current depressed value.

The two biggest sells in the quarter were Nedbank and Mr Price.

We initially bought the position in Nedbank in the Covid panic months of 2020 when Nedbank fell below R100 per share and entered the universe of shares the Fund can invest in. At around R250 per share today, the easy money has largely been made, and Nedbank is more or less fairly valued and should now move in line with SA economic activity. As such, we sold out of Nedbank.

Our sell of Mr Price was valuation-driven. The share has been strong in the past year and, similar to Nedbank, is fairly valued. The outlook for the business is also muted, in our opinion, with the SA consumer under significant strain and an ever-evolving competitive landscape. The likes of Shein and Temu are now providing apparel consumers another shopping option at price points that Mr Price most likely cannot match.

Portfolio manager

Alistair Lea

as at 30 June 2024