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

Performance and fund positioning

The Fund experienced a strong third quarter of 2024, delivering a return of 15.7%. Small cap funds being heavily exposed to the SA economy, have been beneficiaries of the very positive sentiment in the country post the elections. The Fund has returned a compound annual growth rate of 15.4% for the past three years, making it the best fund in its category.

The Fund has now delivered 41.3% performance over the past year. Our estimate is that 90% of this outcome has come from a re-rating of shares, and only 10% from earnings delivery. The market has high expectations for better times ahead, which we have yet to see in the results coming out of the companies we can invest in. The shares that have delivered this performance are those exposed to SA, while the rand hedges have not performed well due to the ~6% strengthening of the rand versus the US dollar over the past year. We began to take some profits on the SA Inc.-exposed shares during the quarter and rotated that into rand hedges.

The two biggest additions to the Fund in the quarter were Reinet and Northam Platinum.

Reinet is a valuable share in the small cap universe in that it is very different to most other shares we own (it has almost zero exposure to the SA economy), and therefore brings diversification benefits. Reinet trades at a healthy discount to its two main assets, British American Tobacco and Pension Corporation. Unlike many SA Inc. shares that have been very strong over the past year, Reinet is largely flat. As such, it has become relatively more attractive and has now found its way into the portfolio.

Northam Platinum is a very similar situation, with the share essentially flat over the past year, driven primarily by the PGM basket price, which is down 7% year to date. The weak PGM price has placed enormous pressure on the PGM companies, with many of them now loss-making. This means that sector investment in new projects and marginal mines is likely to dry up, placing pressure on PGM supply in the medium term. With demand fairly balanced, the laws of economics dictate then that PGM prices should ultimately rise. The opportunity to build a position in Northam at below its fair value is unlikely to be possible when PGM prices are on the rise, which is why we have acted now.

The two biggest sells in the quarter were Wilson Bayly and SPAR.

Wilson Bayly (WBO) has been a great investment for the Fund and we trimmed our position size during the quarter after its strong share price appreciation. The two main listed construction shares, WBO and Raubex, are both benefiting from a healthy construction industry and have delivered strong results. We still hold positions in both counters but after an approximate doubling in the share price of both counters, we have taken some profits.

SPAR has been a long-term (and disappointing) holding in the Fund. The share received a welcome SA Inc.-fuelled boost in the quarter and we used the opportunity to trim the position. While the share remains undervalued in our opinion, the performance of the business has been poor for many years now and our confidence has reduced. That said, we still believe that the owner-managed franchise model employed by SPAR remains relevant. We are encouraged by the new management team's focus and think that shareholders will do well if this team can achieve their stated goals for the business.

Portfolio manager
Alistair Lea
as at 30 September 2024