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

Performance and fund positioning

A commentary on the first quarter of 2025 (Q1) feels completely overshadowed by the market rout we are experiencing following US President Trump's tariff announcement. The share price moves we have seen in the days since have been significant. Add to the mix the current uncertainty around the Government of National Unity (GNU), and it's a perfect storm of negativity. Moments like these are never comfortable, but history tells us that they provide good opportunities to build on the Fund's strategy, which is to own a portfolio of high-quality companies trading below their true value.

Q1 was a tough quarter for the Fund, which delivered a negative 5.9% return. The three-year compound annual growth rate performance of 11.8% remains reasonable, keeping it the top-performing fund in its category.

During the quarter, the Association for Savings and Investment South Africa (ASISA) changed the mandate for mid and small cap funds. These funds are now allowed to invest up to 20% of their respective portfolios in large caps. This is somewhat of a conundrum for us, as many investors in the Fund would have chosen this Fund for its concentrated exposure to smaller companies. We, however, viewed this mandate change as an opportunity to add a few high-quality shares to the portfolio. It has also enabled the Fund to be better diversified as the shares we have bought are generally global businesses. The Fund will remain at least 80% invested in smaller companies, but we believe that the mandate change improves the quality and long-term prospects of the portfolio.

The first change made was to buy Prosus, Bidcorp and Mondi. All these companies have very different drivers to the existing holdings and are, for the most part, not exposed to South Africa. They are some of the most favoured investments held by our popular multi-asset portfolios, such as Coronation Balanced Plus. One of the core strategies of the Coronation Smaller Companies Fund is to hold the best businesses in their respective industries. The mandate change, therefore, allowed us the choice between holding Spar or Shoprite. As we know, Shoprite is significantly higher rated than Spar, but has much better fundamentals. Our learnings over the past two decades have taught us that, over the long term, it is better to invest in high-quality companies at a fair price than low-quality at a seemingly low price. As such, we began switching out of Spar into Shoprite.

In order to raise cash for the buying mentioned above, we needed to do a fair amount of selling. The three largest sells in the quarter were Reinet, Cashbuild and African Rainbow Minerals (ARM).

We had held Reinet predominantly for its rand hedge qualities in a portfolio where this is hard to come by. However, the fact that we could now choose from a broader basket of rand hedges meant that Reinet was sold.

Cashbuild had been an opportunistic purchase in 2024, in the hope that the SA economy would fare better on the back of the formation of the GNU. This has seemingly not transpired, and Cashbuild's recent results indicate that business conditions remain tough for SA-facing companies.

Under our old mandate, the investable universe for resource companies was fairly limited. We could not hold any of the big three diversified miners, BHP Billiton, Anglo American or Glencore. Now that we can hold these counters, which own better quality assets than ARM, we decided to sell out of ARM.

Portfolio manager
Alistair Lea
as at 31 March 2025