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

Performance

The first quarter of 2024 has been weak for domestic equity returns, with the Fund down 1.2%. The Fund has returned a compounding annual growth rate of 13.6% for the past three years, making it the best in its category. The muted quarterly performance was probably mainly the result of a paring back of expectations on interest rate cuts for the year and continued uncertainty on the prospects of the SA economy, especially considering the upcoming general election in May. A benign election result could be positive for the Fund due to the portfolio's large exposure to SA Inc.

Fund positioning

The two biggest additions to the Fund in the quarter were Hudaco and EPE Capital Partners.

Hudaco is a small engineering parts distributor that also has a consumer-facing business. It is, what we would consider, one of the best-managed businesses on the market. While the industry conditions for Hudaco have been very tough, management add a lot of value by focusing on what they can control – the day-to-day basics of margins, expenses and working capital. They are also excellent at capital allocation, probably the area where a management team can make the most difference. In the past few years, Hudaco has made several small acquisitions, has bought back its own shares and has paid healthy dividends. All these actions have benefited shareholders. Being a distributor, Hudaco has limited capital requirements outside of working capital. This allows the business to convert the bulk of its earnings into cash. It also generates a very healthy 20% return on equity. The Fund has owned Hudaco for many years and added to the position during the quarter.

EPE Capital Partners is a listed private equity investment vehicle. It has been a disappointing listing on the JSE, listing at R10 per share in 2016 versus a share price today of R4.20. There are many reasons for this poor performance, more related to the market's distaste for exposure to small South African businesses and investment holding companies. The business itself and the investment process have delivered decent outcomes. Management has decided to return the capital in the business to shareholders. We think this is the right decision and that this value unlock process could deliver reasonable returns from the current share price level. We have a high regard for management and back them to achieve this.

The two biggest sells in the quarter were Reinet and AVI.

Reinet has been a fantastic performer for the Fund but reached our assessment of fair value during the quarter. While we are loathe to sell a holding like this that brings diversification benefits since it is not exposed to the SA economy, this is counterbalanced by the significant challenges faced by British American Tobacco (one of the two main assets Reinet owns).

AVI was a similar situation, in that the share performed strongly and reached our assessment of fair value. While we are reluctant to sell quality companies, especially in this market where quality is hard to come by, we were careful not to go too far down the quality curve in the shares that we replaced AVI with.

Portfolio manager
Alistair Lea
as at 31 March 2024