

14 April 2022

Dear Investor

Our portfolio returned 5.95% gross for the quarter ended 31 March 2022.

### **Individual Contributors and Detractors for Q1 2022**

<b>Top 5 contributors</b>	<b>Contribution to performance</b>	<b>Top 5 detractors</b>	<b>Detraction from performance</b>
FirstRand	1.83%	Prosus NV	-2.24%
MTN Group	1.22%	Richemont	-0.62%
Grindrod Limited	1.18%	Massmart Holdings	-0.42%
Anglo American	1.09%	Ninety One	-0.40%
Sibanye Stillwater	0.97%	Aveng	-0.34%

### **Contributors**

The biggest contributor to portfolio performance was our holding in FirstRand, in our view the highest quality domestic bank, which released strong interim results during the quarter. The interim earnings reflected a robust performance, with key metrics all moving in the right directions. Importantly, pre-provision operating profit exceeded pre-pandemic levels and credit costs decreased, while provision coverage remains prudent and ahead of pre-pandemic levels. Management has also raised guidance above the group's longer-term earnings target as the bank benefits from increased loan demand in the post-pandemic economic recovery.

MTN, a core position we discussed in our last quarterly letter, also delivered exceptional full-year results during the period with all regions delivering strong operational performance. Management has recently also enhanced its long-term targets to reflect the tailwinds the business is experiencing from structurally higher demand for data and its Fintech offering, both of which have continued on their sharp upward trajectory even after lockdowns were ended. With the business having invested significantly in its network in prior years, the balance sheet degenerated and asset realisations continuing, we anticipate the strong cash generation to be returned to shareholders. Furthermore, the future structural separation of its fast-growing Fintech unit remains a forthcoming catalyst to unlock further shareholder value.

Grindrod Limited released stellar results during the quarter, showing strong earnings growth in its core ports, terminals and logistics operations, and further progress in realising value from its substantial non-core operations. While results were bolstered by strong mineral and agricultural exports, in addition to the well-publicised inefficiencies at South African ports, we believe the quality of the group's core operations is underappreciated. Redeployment of capital to these higher quality businesses bodes well for the future.

Our positions in Anglo American and Sibanye Stillwater also contributed to quarterly performance as they benefitted from the strong metals and commodity price environment.

### **Detractors**

Detractors to portfolio performance in the quarter included our holding in Prosus, which traded down alongside Tencent (and Chinese Tech broadly) as investors worried about regulatory action, new Chinese lockdowns and geopolitical tensions following the Russian invasion. Prosus continues to trade at a historically extreme discount to its sum-of-the-parts. Richemont also traded down on negative sentiment toward China, despite delivering a

very strong third quarter trading update in which they reported sales in excess of 35% above pre-pandemic levels.

### **Strategy and Positioning**

In contrast to global markets which were dominated by macro and geopolitical news flow over the last quarter, South African equities and the Rand have performed relatively well, benefitting from improved sentiment and strong commodity prices. As we have previously commented, South African equities are still at very attractive valuations compared to global and other emerging markets and we continue to hold substantial exposure to a number of high-conviction “SA Inc.” companies. As we indicated in our December letter, we have continued to use the Rand strength to allocate capital to SA listed businesses with foreign earnings.

### **Business update**

After an exhaustive recruitment process over the last six months, we have added three Graduate Trainee Analysts, who have immediately made a very positive impact. Donovan Keet, Dean Tlotleng and Ross Arkert have a diverse set of backgrounds and skills, a wonderful work ethic, and are a real pleasure to work with. We look forward to their continued contributions.

As always, if anything is unclear, or if you wish to discuss our operations further, we welcome your questions.

Sincerely,

André Steyn, CFA  
James Corkin, CA(SA)

### **Mandatory Disclosures**

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