

17 October 2022

Dear Investor

Our SA equity long only strategy declined 0.72% gross for the quarter ended 30 September 2022, versus the 2.43% decline of the JSE Capped SWIX Total Return Index.

Individual Contributors and Detractors for Q3 2022

Top 5 contributors	Contribution to performance	Top 5 detractors	Detraction from performance
Tsogo Sun Gaming	0.99%	Murray & Roberts	-0.98%
Glencore	0.64%	MTN Group	-0.64%
Shoprite	0.44%	Capitec	-0.43%
PSG Group	0.32%	Pan African Resources	-0.27%
Southern Sun	0.30%	Sasol	-0.26%

Contributors

Tsogo Sun Gaming, a high conviction holding (described in detail in our previous letters) contributed meaningfully to performance in the period after remaining pandemic restrictions – capacity restrictions and mask mandates – were lifted in late June. The share price was further supported as the company announced its first dividend since the pandemic. The company remains valued at a discount to pre-pandemic levels, despite generating higher earnings and cash flow on still recovering revenue.

Glencore, a commodities trader and producer, also contributed to performance after it reported interim earnings ahead of consensus expectations and announced a significant return of shareholder capital. Glencore is currently benefitting from exceptional cash generation from its legacy thermal coal business, has an attractive basket of future facing commodities and is expected to return significant amounts of capital to shareholders.

Shoprite contributed to returns following its reporting of robust full-year earnings in-line with consensus expectations in the quarter. PSG Group completed the unbundling of its listed holdings and was delisted during the quarter, yielding a positive return and Southern Sun (previously Tsogo Sun Hotels) continues to benefit from improved hotel occupancies.

Detractors

The biggest detractor from performance in the quarter was our holding in Murray & Roberts, which reported earnings below consensus expectations owing to project delays. The company is benefitting from an up-tick in investment in the mining and energy sector and currently boasts a substantial order book. Our holding in MTN also detracted from performance. Share price weakness was driven by currency headwinds and market worries regarding near-term margins in several African subsidiaries, despite the company reporting solid operational performance, cash generation and better than expected cash repatriation in its interim results. The business has a number of levers to further unlock shareholder value, and remains attractively valued even after incorporating currency weakness.

Other detractors include Capitec, which provided a marginally weaker than expected trading update in the quarter, gold-producer Pan African Resources which traded down on weaker gold prices and Sasol, which declined alongside lower energy prices.

Strategy and Positioning

Since mid-2021 we have been wary of a correction in the overvalued US stock market impacting local markets. Starting from already cheap valuations, and having not benefitted from ultra-low rates like the US market, our core view is that many high-quality SA companies remain deeply undervalued. This is evident in the elevated corporate activity on the JSE as management teams and savvy trade buyers have been taking advantage of the current dislocation to delist companies at bargain prices. Our portfolio also has substantial exposure to companies with non-ZAR earnings streams, including selected attractive commodity exposure and SA-listed companies with significant offshore revenues.

Business Update

We are thrilled to announce that we welcomed Sibho Khumalo to the team during September as Head of Institutional Business, responsible for business development. Sibho was most recently a Client Services Fund Manager at Coronation and his experience spans Institutional Equity and Fixed Income Sales, Corporate Finance and Management Consulting. Sibho is an extremely accomplished individual and we look forward to introducing him to you in the weeks and months ahead.

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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