SCM Steyn Capital Management

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Dear Investor

Our SA equity long only strategy returned 6.74% gross for the quarter and pleasingly continued to grow investor capital in a period where the JSE Capped SWIX declined by 3.81%.

The current opportunity-set remains exceptional for stock-pickers. The broad-based investor apathy towards South African stocks has continued to drive significant dislocations in the valuations of high-quality "SA Inc" companies. As we highlighted in our previous quarterly letter, the JSE ALSI is trading only marginally above its Global Financial Crisis ("GFC") level. Even more striking is that JSE Midcaps traded below their GFC valuations during the quarter. Within this cohort of companies, we have been able to deploy investor capital into some exceptional opportunities in high-quality "SA Inc" businesses - which are not only trading at trough valuations, but are strongly growing earnings and utilizing the high free-cash flow being generated to return capital to shareholders via dividends and share buybacks. Our collection of SA Inc "Quality Value" holdings trades at a median enterprise value to EBIT ("EV/EBIT") multiple of 6 times, while growing earnings at 25% and generating a median free cash flow yield of 13%. Importantly, much of this cash is being returned to us through either dividends or share buybacks. This is well-illustrated by Adcock Ingram and Southern Sun, with Adcock buying back 5% of its shares in its last financial year, and seeking to repurchase more in the coming year, and Southern Sun repurchasing over 6% of its shares in June alone.

Individual Contributors and Detractors for Q3 2023

Top 5 contributors	Contribution to performance	Top 5 detractors	Detraction from performance
Sun International	1.90%	MAS Real Estate	-0.56%
Outsurance	1.35%	Astral Foods	-0.38%
Grindrod	0.84%	Naspers	-0.34%
Southern Sun	0.71%	Lighthouse Properties	-0.26%
Fortress B	0.68%	Aveng	-0.22%

Contributors

The biggest contributor to performance in the quarter was our core holding in Sun International, which reported robust interim results ahead of consensus expectations as the company grew earnings by 10% year-on-year and guided for further improvements in the second half of the year. The strong results were driven by its rapidly scaling online platform, Sunbet, and robust recovery in its Resorts and Hotels division. This strong rebound in domestic and international tourism has also benefitted another portfolio holding in Southern Sun, which in addition to benefitting from the resurgent occupancy and room rates, is aggressively repurchasing its shares on-market. Outsurance, another core position, also released exceptionally strong results in the quarter, growing earnings per share by 61% as the business benefitted from strong premium growth in its Australian operations, and the investments in new initiatives over the past few years. Grindrod, our Ports and Terminals holding, which trades at under 3x EV/EBIT, also reported strong results, with its core headline earnings up 26% for its first six months.

Detractors

The biggest detractor to portfolio performance was our holding in MAS Real Estate, which withheld its dividend as it prioritizes debt reduction in response to tighter funding conditions in Europe. Operationally, the company's core Central and Eastern European retail portfolio continues to perform strongly, and it remains attractive on a 12% forward earnings yield in Euro. Other detractors included our holding in Astral Foods, which was negatively impacted by a combination of load-shedding and the Avian flu outbreak in a seasonally weak demand environment.

Strategy and Positioning

Notwithstanding our enthusiasm for the opportunity-set in selected "SA Inc." companies, the portfolio remains appropriately diversified with one third of the portfolio invested in companies with Rand-hedge characteristics. While each of these holdings is included in the portfolio based on their stand-alone attractiveness, they provide a hedge against future domestic economic or currency weakness. The current macro environment remains difficult to anticipate, but we believe the portfolio is well positioned for a variety of outcomes, and on a bottom-up basis, we have rarely been as excited.

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

Sincerely,

André Steyn, CFA
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Wallace Barnes, CA(SA)
Zintle Twala, CFA