

## Steyn Capital SNN QI Hedge Fund

General investor report

Quarter end 31 March 2022

### Portfolio Profile

The Steyn Capital SNN QI Hedge Fund is a value orientated long/short portfolio investing in South African equities. The portfolio follows a bottom-up stock selection approach. The portfolio is currently open to new subscriptions.

The following investment restrictions are applied in the portfolio:

- Gross exposure is limited to 200% of net assets
- Net exposure is limited to between 25% and 100% of net assets
- Individual long positions are limited to 20% of net assets
- Individual short positions are limited to 7.5% of net assets
- Net industry concentration (as measured by sub-sector) is limited to 25% of net assets

### Objectives & Strategy

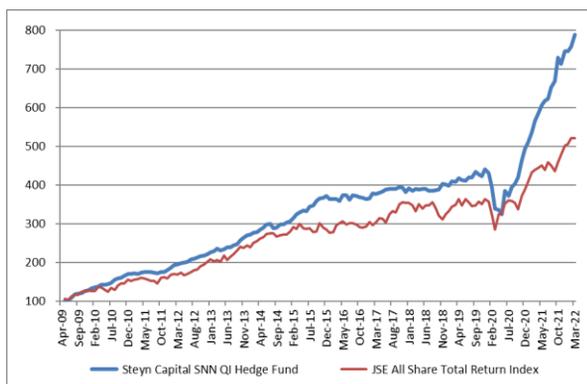
The fund's primary objective is achieving high absolute rates of return over the long term, while minimizing the risk of capital impairment. The investment strategy is to maximize investor capital by buying securities with trading values materially lower than their intrinsic values, and by selling short securities with trading values materially higher than their intrinsic values.

### Portfolio Details

<b>Investment Manager</b>	Steyn Capital Management (Pty) Ltd	
<b>Portfolio Manager</b>	André Steyn	
<b>Portfolio Classification</b>	Qualified Investor Hedge Fund - South African - Long/Short Equity - Long Bias	
<b>Launch Date</b>	1 June 2016 (transitioned to new regulations under Cisca) 7 May 2009 (original launch date)	
<b>Distributions</b>	Annually on 31 December	
<b>Last distribution per unit</b>	Dec 2021: Rnil (class 1)	
<b>Subscriptions and redemptions</b>	Monthly, subject to 2 calendar months' notice for redemptions	
<b>Transaction cut-off time</b>	10am on the last business day of the previous calendar month	
<b>Minimum investment</b>	R1 million	
<b>Portfolio Valuation</b>	Monthly	
<b>Risk-reward profile</b>	Medium	
<b>Portfolio Size</b>	R695 million	
<b>Participatory interests</b>	955 914	
<b>NAV unit price</b>	R664.96 (Class 1)	
<b>Annual Management Fee (excl. VAT)</b>	Performance fee of 15% (no base fee)	
<b>Benchmark / hurdle</b>	Not applicable	
<b>High water mark</b>	Yes (perpetual)	
<b>Performance fee crystallisation</b>	Calendar quarterly	
<b>Total Expense Ratio (incl. VAT)</b>	Base Fee	0.00%
	Performance Fee	6.77%
	Other Costs	0.30%
	<b>Total Expense Ratio</b>	<b>7.07%</b>
	Transaction Costs	0.27%
	<b>Total Investment Charge</b>	<b>7.34%</b>

### Portfolio Performance

#### Investment growth of R100 since inception of the portfolio



Source: Portfolio performance obtained from monthly valuation reports prepared by independent administrator

#### Annualised performance

	Portfolio	JSE All Share Total Return Index
1 year	39.58%	18.61%
3 years	24.52%	14.22%
5 years	15.91%	11.39%
7 years	13.49%	8.88%
10 years	14.94%	11.94%
12 years	15.65%	11.83%
Since original launch date	17.35%	13.65%
Lowest 12m rolling return	-21.63%	-5.96%
Highest 12m rolling return	87.04%	38.11%

Please note that performance figures above and on the next page include returns earned during the relevant periods prior to the portfolio being regulated under Cisca (regulated since 1 June 2016).

The investment performance is for illustrative purposes only and is calculated by taking all ongoing fees into account as well as the reinvestment of income

**Steyn Capital SNN QI Hedge Fund**

General investor report

**Quarter end 31 March 2022**
**Monthly returns net of fees (%)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009	-	-	-	-	1.87	-0.57	8.54	8.2	0.56	2.14	3.63	1.26	28.21
2010	3.63	3.12	0.68	3.26	0.76	0.69	2.37	5.18	2.41	1.45	2.33	3.57	33.65
2011	-0.55	1.68	-1.7	2.17	0.87	-0.27	0.35	-1.11	-0.49	1.77	0.12	2.79	5.65
2012	3.69	2.84	1.66	0.86	1.25	1.12	2.79	1.04	1.23	1.66	0.67	1.31	22.02
2013	2.43	1.45	3.12	-2.52	1.88	1.77	-0.08	2.26	1.54	3.66	2.58	2.56	22.56
2014	0.37	1.94	0.58	2.79	1.24	3.12	0.44	-3.7	0.23	3.08	-0.1	1.84	12.28
2015	0.92	2.78	3.26	1.4	1.3	-0.23	3.26	1.01	3.46	1.52	0.62	1.27	22.53
2016	-2.04	-0.32	0.23	-1.5	4.04	0.08	-2.97	3.09	-0.21	-1.19	-0.10	-1.23	-2.31
2017	0.67	3.59	-0.55	0.69	0.87	1.41	0.46	0.23	-0.30	1.17	-0.32	-2.78	5.14
2018	2.45	-1.47	0.95	-0.44	0.82	-0.15	-1.24	-0.19	0.72	0.28	3.76	-0.23	5.26
2019	-0.96	3.07	-0.50	2.14	-0.85	-0.72	2.27	-0.27	3.85	-1.56	-1.25	4.39	9.74
2020	-2.29	-8.31	-14.26	-0.98	-3.43	18.90	-3.28	6.01	2.12	3.84	10.70	6.41	11.85
2021	3.33	5.13	5.34	3.34	3.87	1.82	0.78	4.84	2.49	9.12	-2.22	4.53	51.04
2022	-0.03	1.63	4.09										5.75

**Changes in Portfolio Asset Allocation**

Net Sector Allocation	Q1 '22	Q4 '21	Change	Equity Exposure	Q1 '22	Q4 '21	Change
Financials	13%	11%	+2%	Long	92%	101%	-9%
Resources	10%	6%	+4%	Short	-22%	-31%	+9%
Industrials	47%	53%	-6%	Gross	114%	132%	-18%
Total	70%	70%	-%	Net	70%	70%	-%
				Beta adjusted Net	29%	30%	-1%

**Performance contributors and detractors for Q1 2022<sup>1</sup>**

Top 5 contributors	% contribution	Top 5 detractors	% detraction
Thungela	+2.98%	Aveng	-1.86%
Merafe Resources	+1.76%	Prosus	-1.50%
Grindrod Shipping	+1.24%	Bank short	-0.47%
Grindrod	+1.05%	Richemont	-0.42%
EPE Capital	+0.78%	Indluplace Properties	-0.38%

**Long/short performance attribution (gross of exposure)<sup>2</sup>**

	Q1	Q2	Q3	Q4
Long book return (gross of exposure)	+8.02%			
Short book return (gross of exposure)	+0.08%			

### Commentary by Investment Manager

The portfolio returned 5.75% net in the quarter, outperforming the ALSI return of 3.84% while carrying an average net market exposure of 71% and an average beta adjusted net exposure of 31%. Both our long and short books contributed to alpha generation in the quarter with our long book returning 8.0% in the quarter and our short book ending the quarter up 0.1%, outperforming the index and the inverse of the index respectively.

#### Contributors

The biggest contributor to portfolio performance in the quarter was our long position in Thungela Resources, a thermal coal exporter spun-out from Anglo American last year. Coal markets have experienced a number of positive drivers in recent months where an already bullish fundamental supply and demand picture was further compounded by both supply constraints in major coal producing markets and higher demand. This was even before the significant disruptions caused to energy markets by the devastating Russian invasion of Ukraine, and the subsequent and developing sanctions. At the spot prices that have persisted for most of the first quarter, Thungela is on-track to generate its entire market cap in free cash flow *this year* and is likely to return most of that cash to shareholders. Even if the current coal prices prove to be short-lived, the windfall cash generation is accreting significant value for each day that it persists, while the stock remains exceptionally cheap even on conservative coal price assumptions. The company has also been actively hedging forward prices at highly attractive levels. At a portfolio level, the position also provides a hedge to any ongoing turmoil in global energy markets should the conflict continue or escalate.

In a similar vein, ferrochrome prices reached a multi-decade high over the last few months. This has resulted in a strong contribution from our holding in domestic ferrochrome producer and chrome ore miner Merafe Resources, whose operations are mainly conducted through a joint venture with Glencore. A variety of factors, both temporary and structural, have played a part in driving these prices, including a reduction in Chinese smelting capacity due to environmental regulations and power shortages, a surge in sea freight rates and international power prices, and resilient stainless steel demand. Although ferrochrome price levels may moderate going forward, we gain comfort from the fact that Merafe is also currently generating close to its market cap in free cash flow, while prices for the second quarter of this year have been set at a level that is significantly higher than last year.

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. Former subsidiary Grindrod Shipping also contributed to performance in the period, as dry bulk shipping rates remained strong, and astonishing levels of cash generation were evidenced by results released in the quarter.

EPE Capital reported strong net asset value growth in its unlisted portfolio, mainly driven by its large holding in fintech business Channel VAS. As with many JSE-listed investment holding companies, the group continues to trade at a deep discount to the sum of its underlying holdings. We anticipate that further realisations at or above these recorded levels, and a resumption of NAV growth going forward, will drive a narrowing of the historically-wide discount.

#### Detractors

The biggest detractor to quarterly performance was our long position in Aveng, which traded down following a broadly misunderstood February trading update. While optically poor, the primary cause for the disappointment related to an accounting reclassification of a division previously held-for-sale. The underlying earnings potential remains in line with previous guidance and we used the subsequent weakness to add to the position. Another notable detractor was Prosus, which traded down alongside Tencent (and Chinese Tech more broadly) as investors worried about regulatory action, new Chinese lockdowns and geopolitical worries following the Russian invasion. Prosus continues to trade at a historically extreme discount to its sum-of-the-parts.

#### Strategy and Positioning

At quarter-end we held 92% of our capital in 36 long positions, and 22% of our capital in 22 short positions, for a gross exposure of 114% and a net exposure of 70%. The beta-adjusted net exposure of the fund remains low at 29%. 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. We have however continued to use the Rand strength to allocate capital to SA listed businesses with foreign earnings.

## Risk report<sup>3</sup>

Leverage and exposure limit	The fund chose the commitment approach of 2 times NAV as its exposure limit. The fund utilizes Investec as the prime broker and achieves leverage through short selling of physical stock.	<b>Highest exposure over quarter</b>	<b>Exposure at quarter end</b>
		The fund's highest exposure using the commitment approach was 1.39 times the NAV.	The fund's quarter end exposure using the commitment approach was 1.14 times the NAV.
Hypothecation of Assets	The prime broker is restricted from re-hypothecating <sup>7</sup> or any form of re-pledging of securities forming any part of collateral.		
Stress Testing Methodology	<p><b>Market stress-testing</b> is applied across various stressed historical periods by simulating the current portfolio's holdings over that particular stressed period.</p> <p><b>Liquidity stress-testing</b> is applied by stressing the portfolio for increased investor redemptions as well as reducing the market liquidity of securities in specified increments.</p> <p><b>Collateral stress-testing</b> identifies whether there is sufficient non-collateralized cash to service a loss event of a portfolio. This is stressed by increasing margin requirements in specified increments.</p> <p><b>Conclusion:</b> all stress-testing methodologies have been applied for the quarter end period and the results are deemed to be satisfactory.</p>		
Changes to the liquidity risk profile of the fund	The liquidity risk profile and redemption period of the fund is unchanged. The fund's liquidity at quarter end calculated on the average weighted days basis is 26.63 days.		
Counterparty Exposure	<b>Counterparty</b>	<b>Description of Exposure</b>	<b>Exposure (% NAV)</b>
	Investec Bank Limited	Net Cash and Securities Pledged as Collateral for Short Positions	2.28%
	JSE Trustees	Non-collateralized Cash and Securities	98.55%
	Firststrand Bank Limited	Section 105 Cash Account	0.01%
	Other	Income and Expense Accruals	-0.84%
	<b>TOTAL</b>		<b>100.0%</b>

---

## Definitions

---

**Leverage Risk:** Applies when a fund borrows additional funds, trades on margin or performs short sale trades to amplify investment decisions. This means that the volatility of a hedge fund can be many times that of the underlying investments. Our portfolio is exposed to leverage risk through short sale trades.

**Counterparty Credit Risk:** Counterparty risk is a type of credit risk and is the risk of default by the counterparty associated with trading derivative contracts. An example of counterparty credit risk is margin or collateral held with a prime broker. Our portfolio is exposed to counter party credit risk through net cash and securities pledged as collateral for short positions. Our prime broker is restricted from re-hypothecating or any form of re-pledging of securities forming any part of our collateral.

**Commitment approach (exposure):** A methodology for calculating exposure that considers the effective exposure of derivatives to, and takes an aggregate view of, securities with the same or similar underlying exposure, where the total commitment is considered to be the sum of the absolute value of the commitment of each individual position, including derivatives after taking into account netting and hedging.

**Re-hypothecation:** The practice by which prime brokers re-use the collateral posted by the investment manager.

**Counterparty exposure:** a value that best reflects the hedge fund's exposure to a relevant counterparty and accurately reflects the economic loss that the hedge fund is exposed to if the counterparty defaults on its obligations.

**Volatility Risk:** Volatility refers to uncertainty and risk related to size of change of an instrument or portfolio. It is a statistical measure of the dispersion of returns for a given security or market index. Volatility is proportional to the directional exposure of a portfolio and is measured by Value at risk (VaR) which is a statistical technique used to measure and quantify the level of volatility.

**Concentration and Sector Risk:** Applies when a fund has a large proportion of total assets invested in specific assets, sectors or regions. Concentrated positions or concentrated sectors in a fund will impact the returns of the fund more so than diversified funds.

**Correlation Risk:** A measure that determines how assets move in relation to each other. Correlation risk arises when the correlation between asset-classes change. Correlation risk also arises when the correlation within an asset-class changes. Examples of correlation within asset classes include equity pairs trading, fixed income curve trading and commodities pairs trading. Our portfolio does not make use of any of the aforementioned trading strategies.

**Equity Risk:** Applies to investment in shares or derivatives based on shares. The market price of shares varies depending on supply and demand of the shares. Equity risk is the risk of loss due to the drop in the market price of shares. Equity risk can either be systematic risk which is risk to the entire market based on political and economic indicators or unsystematic risk which is company specific and includes risk relating to company profits, future prospects and general consensus on the company or sector.

**Liquidity risk:** Liquidity risk consists of trading liquidity risk and funding liquidity risk. Trading liquidity risk is the risk that you cannot sell an asset within a reasonable amount of time at a fair price. Funding liquidity risk refers to the inability to service redemption requests according to the redemption terms of a fund.

**Net Asset Value (NAV):** is the total market value of all assets in the portfolio including any income accruals and less any deductible expenses such as audit fees, brokerage and service fees.

**Annualised Return:** is the weighted average compound growth rate over the performance period measured.

**Highest & Lowest Return:** The highest and lowest rolling twelve-month performance of the portfolio since inception.

**Total Expense Ratio (TER):** reflects the percentage of the average NAV of the portfolio that was incurred as charges, levies and fees related to the management of the portfolio. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TER's. The TER is reported inclusive of performance fees, if applicable

**Transaction Costs (TC):** is the percentage of the average NAV of the portfolio incurred as costs relating to the buying and selling of the portfolio's underlying assets. Transaction costs are a necessary cost in administering the portfolio and impacts portfolio returns.

**Total Investment Charges (TIC):** is the percentage of the average NAV of the portfolio incurred as costs relating to the investment in the portfolio. It should be noted that TIC is the sum of two calculated ratios (TER+TC). TIC should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund and investment decisions of the investment manager.

**Risk-reward profile:** is based on historical data and may not be a reliable indication of the future risk profile of the portfolio. The risk category shown is not guaranteed and may change over time. The lowest category does not mean the investment is risk free. There may be other special areas of risk relating to the investment including: market risk, liquidity risk and risks associated with the short selling of securities. Equity investments are volatile by nature and subject to potential capital loss. The manager and the investment manager do not render financial advice. Our risk indicator does not imply that the portfolio is suitable for all types of investors. You are advised to consult your financial adviser to determine the appropriateness of the product for your portfolio.

# Steyn Capital SNN QI Hedge Fund

General investor report

Quarter end 31 March 2022

## Information and mandatory disclosures

Collective Investment Schemes are generally medium to long-term investments. The value of participatory interests (units) may go up as well as down. Past performance is not necessarily a guide to future performance. Collective investments are traded at ruling prices and can engage in scrip lending and borrowing. A schedule of fees, charges and maximum commissions is available on request from Sanne Management Company (RF) (Pty) Ltd ("the manager"), as well as a detailed description of how performance fees are calculated and applied. The manager does not provide any guarantee in respect to the capital or the return of the portfolio. Excessive withdrawals from the fund may place the fund under liquidity pressure and in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. Commission and incentives may be paid, and if so, are included in the overall costs. Portfolios may be closed to new investors in order to manage it more efficiently. Prices are published monthly on the manager's website and in local media. Additional information, including Key Investor Information Documents, Minimum Disclosure Documents, as well as other information relating to the portfolio is available, free of charge, on request from the manager. The manager retains full legal responsibility for any third-party-named portfolio

Portfolio performance is calculated on a NAV to NAV basis with income reinvested. The performance for each period shown reflects the return for investors who have been fully invested for that period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager on request. Investors should note that the value of an investment is dependent on numerous factors which may include, but are not limited to, share price fluctuations, interest and exchange rates and other economic factors. Past performance is not indicative of future performance.

The Investment Manager ensures fair treatment of investors by not offering preferential fee or liquidity terms to any investor within the same strategy.

This document is confidential and issued for the information of the addressee and clients of the manager. It is subject to copyright and may not be reproduced in whole or in part without the written permission of the manager. The information, opinions and recommendations contained herein are and must be construed solely as statements of opinion and not statements of fact. No warranty, expressed or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such recommendation or information is given or made by the manager in any form or manner whatsoever. Each recommendation or opinion must be weighed solely as one factor in any investment or other decision made by or on behalf of any user of the information contained herein and such user must accordingly make its own study and evaluation of each strategy/security that it may consider purchasing, holding or selling and should appoint its own investment or financial or other advisers to assist the user in reaching any decision. The manager will accept no responsibility of whatsoever nature in respect of the use of any statement, opinion, recommendation or information contained in this document. This document is for information purposes only and does not constitute advice or a solicitation for funds.

## Footnotes

<sup>1</sup> Performance contributors and detractors are expressed as gross return per security as a percentage of the opening market value of the fund. Opening market value for the quarter is calculated as the closing market value less the returns for the period, adjusted for investor subscriptions and/or redemptions if necessary.

<sup>2</sup> Long/short performance attribution is calculated as the cumulative gross return of the long and short positions respectively, expressed as a percentage of the opening market value of the long and short book respectively. Interest on cash is included in the short book returns. Opening market value for the quarter is calculated as the closing market value less the returns for the period, adjusted for investor subscriptions and/or redemptions if necessary.

<sup>3</sup> As part of the new regulated CISCA environment, regulated funds will have to comply with the CISCA Act of 2002 and the requisite board notices. Board Notice 52, which is specifically tailored to hedge funds, encompasses section 27.3 – disclosure and reporting to investors. This section necessitates the need for the manager (Sanne Management Company) to provide key risk information on a quarterly basis to investors of the fund.

## Contact Details

Management Company	Investment Manager
Sanne Management Company (RF) (Pty) Ltd	Steyn Capital Management (Pty) Ltd
Registered and approved by the Financial Sector Conduct Authority under the Collective Investment Schemes Control Act 45 of 2002	Authorised under the Financial Advisory and Intermediary Services Act 37 of 2002 to render investment management services, FSP No. 37550
Pier Place, Heerengracht Street, Foreshore, Cape Town, South Africa	Verdi House, Klein D'Aria Estate, 97 Jip de Jager Drive, Bellville, South Africa, 7530
Tel: +27 21 202 8282 Fax: +27 86 554 8237 Email: information@sannegroup.com	Tel. +27 21 001 4682 Email: info@steyncapitalmanagement.com
Website: www.snnmanco.com	Website: www.steyncapitalmanagement.com

## Trustee

FirstRand Bank Limited (acting through its RMB Custody and Trustee Services Division)  
3 Merchant Place, Ground Floor, Corner Fredman and Gwen Streets, Sandton, 2146; Tel: +27 87 736 1732