SCM Steyn Capital Management

sanne Management Company

Steyn Capital SNN QI Hedge Fund

Minimum Disclosure Document and General Investor Report

Quarter end 30 June 2023

Portfolio Profile

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

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

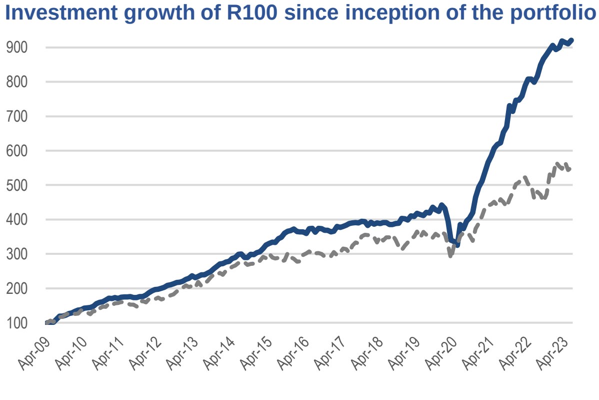
The fund's primary objective is achieving absolute rates of return over the long term, while minimizing the risk of capital impairment. The investment strategy is to maximize investor capital by buying securities with trading values materially lower than their intrinsic values, and by selling short securities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

Portfolio Details

Investment Manager	Steyn Capital Management (Pty) Ltd
Portfolio Manager	André Steyn
Portfolio Classification	Qualified Investor Hedge Fund - South African - Long/Short Equity - Long Bias
Launch Date	1 June 2016 (transitioned to new regulations under CISCA) 7 May 2009 (original launch date)
Distributions	Annually on 31 December
Last distributions per unit	Dec 2022: R15.96
Subscriptions and redemptions	Monthly, subject to 2 calendar months' notice for redemptions
Transaction cut-off time	10am on the last business day of the previous calendar month
Minimum investment	R1 million
Portfolio valuation	Monthly
Risk-reward profile	Medium
Portfolio Size	R805 million (Strategy: R2.3bn)
Participatory interests	975 346
NAV unit price	R759.42
ISIN	ZAE000240438
Fees (excl. VAT)	Service Fee Investment Manager Fee 0.00% Other Service Fees* 0.21% Total Service Fee 0.21% *Represents the current effective rate based on a sliding scale* Performance fee of 15%, subject to a since inception HWM
Benchmark / hurdle	Not applicable
High water mark	Yes (perpetual)
Performance fee crystallisation	Calendar quarterly
Cost Ratios (incl. VAT)	Service Fee (incl. base fee of 0%) 0.24% Performance Fee 2.94% Other Fees 0.03% Total Expense Ratio 3.21% Transaction Costs 0.29% Total Investment Charge 3.50%

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

1 year	15.36%
3 years	33.63%
5 years	18.71%
7 years	13.74%
10 years	14.43%
12 years	14.84%
Since original launch date	16.97%
Lowest 12 month rolling return	-21.63%
Highest 12 month rolling return	87.04%

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.

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Steyn Capital SNN QI Hedge Fund

Minimum Disclosure Document and General Investor Report

Quarter end 30 June 2023

sanne Management Company

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	2.34	0.02	-1.21	2.29	3.94	2.07	1.49	1.67	1.27	21.25
2023	-1.31	0.62	2.19	-0.53	-0.33	1.12							1.74

Changes in Portfolio Asset Allocation

Net Sector Allocation	Q2 '23	Q1 '23	Change
Financials	16%	23%	-7%
Resources	2%	3%	-1%
Industrials	55%	53%	+2%
Global EM	10%	8%	+2%
Total	**83%**	**87%**	**-4%**

Equity Exposure	Q2 '23	Q1 '23	Change
Long	137%	126%	+11%
Short	-54%	-39%	-15%
Gross	191%	165%	+26%
Net	83%	87%	-4%
Beta adjusted Net	**26%**	**34%**	**-8%**

Top performance contributors and detractors for Q2 2023[1]

Top 5 contributors	% contribution
Global EM exposure	+1.70%
Spar Group (short)	+0.70%
Tsogo Sun Gaming	+0.48%
Adcorp	+0.43%
Adcock Ingram	+0.31%

Top 5 detractors	% detraction
Sun International	-1.88%
Aveng	-1.03%
EPE Capital	-0.78%
RECM & Calibre Pref shares	-0.28%
KAP Industrials	-0.26%

Performance attribution (contribution to gross performance)

	Q1	Q2	Q3	Q4
SA long book contribution	0.33%	-2.07%		
SA short book contribution	0.57%	+0.63%		
Global Emerging Markets contribution	1.12%	+1.70%		

Steyn Capital SNN QI Hedge Fund

Quarter end 30 June 2023

Minimum Disclosure Document and General Investor Report

Commentary by Investment Manager

The portfolio returned +0.26% net for the quarter, with the SA long book detracting 2.07%, the SA short book contributing 0.63% and our Global Emerging Markets long/short exposure contributing +1.70% to performance. By contrast, the JSE All-Share returned 0.66%.

Our “SA Inc.” names were a headwind to performance this quarter. We have been selectively increasing exposure to these businesses given how attractive the current opportunity set is. The negative sentiment towards South Africa, exacerbated by the extent of load-shedding, has plumbed new lows this year. Valuations, incredibly, are back at Global Financial Crisis levels. While loadshedding is certainly a crisis, it is one that we believe will be largely resolved in the next 24 months by the wave of investment in private generation, and the return of large portions of Eskom’s fleet. We cannot believe that markets are making the same mistake, so shortly after Covid, by extrapolating the current crisis into perpetuity. We would argue that the situation this time around is far more certain, given the technology to privatise power production is already available, and the momentum is evident. This is in stark contrast with the situation during Covid, when it was impossible to know the long-term effects of the virus, and whether a vaccine would even be found.

While there are clearly other serious challenges facing South Africa, we believe the apathy of local and international investors, reflected in the going valuations of high-quality “SA Inc.” businesses, discounts a very dire outcome indeed. The risk/reward proposition given the balance of probabilities is thus incredibly attractive, and we believe (as we did in Covid) that it bodes exceptionally well for forward investment returns. Wallace Barnes recently wrote an insightful article entitled “A Failing State?” which puts the current crisis in a historical context, and discusses how the market’s discounting mechanism can result in the sometimes-counterintuitive relationship between depressing news headlines and excellent prospective investment returns. We think this is the situation we currently face. We’ve attached the article to this letter and encourage interested readers to visit our website to read other recent articles we’ve written (https://steyncapitalmanagement.com/news/).

The nervous investor sentiment this year has seen those stocks reporting bad or disappointing news being brutally punished (case studies include Spar Group, Pick ‘n Pay and Transaction Capital - all of which we were short). On the other hand, there are a number of stocks (particularly in the “SA Inc.” and small and mid-cap cohort) that have been performing admirably in the current environment, but which have received limited investor enthusiasm. As we did in Covid, we have further concentrated our portfolio into these best ideas, which balance resilience with attractive quality and value. We are very enthusiastic about the current portfolio and the opportunity set.

Contributors

The largest contributor to performance in the quarter was Global Emerging Markets long/short exposure, driven by strong performance from two Brazilian Port and Industrial longs and a Chilean Financial long.

Our SA short book also contributed meaningfully this quarter. The largest contributor here was our short in Spar Group, whose accounting showed signs of stress ahead of the large earnings miss in the quarter. Other quarterly contributors included our long position in Tsogo Sun Gaming, a high conviction position we’ve discussed previously, which notwithstanding the environment, recently reported earnings per share growth of 38% and exceptional cash generation, which we expect to continue. Glencore, a commodity producer and trading business, also traded up somewhat alongside its commodity basket at quarter-end. We used the strength to trim the position post quarter-end.

Detractors

The biggest detractor to performance this quarter was our long position in Sun International, which along with Tsogo Sun Gaming (discussed above) dominates SA’s duopolistic gaming market. The stock traded down on no news this quarter, even as its peer reported exceptional earnings growth and cash generation. We believe both stocks are severely undervalued, and our proprietary revenue model shows both continue to trade at pre-Covid levels, but on significantly reduced cost bases. This is translating into significant free-cash generation, which we expect to be returned to shareholders over time. Other detractors in the quarter included our long position in Aveng, which traded down after providing an update on a problematic contract in South-East Asia. We expect the related provisioning will negatively impact near-term profitability, but continue to see the stock as an exceptional value opportunity, with net cash exceeding its market capitalization. The February earnings report also showed the core businesses are performing strongly, with a 15% increase in revenues, and a 73% rise in backlog.

Strategy and positioning

At quarter-end, we had 137% of capital in long positions and -54% in short positions, for a gross exposure of 191% and a net exposure of 83%. On a beta-adjusted basis, the portfolio net exposure is 26%. The portfolio positioning, with a higher gross exposure and a lower net exposure and beta-adjusted net exposure, reflects a balance between our enthusiasm for the long-book, and caution over the near-term global outlook which we believe warrants a larger than normal short book. We are also finding that the current relatively stressed environment is providing plenty of short ideas, given the incentive it creates to ‘stretch’ financial results. The current macro environment is very 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.

Business update

During the quarter we completed an extensive recruitment process for our 2023 Graduate Trainee Analyst Program, involving around 1400 applications, 100 case studies and 30 interviews, ultimately resulting in two very talented graduates joining our team. We are delighted to introduce Akhona Tyhaliti, B.Bus Sci (Finance) and Preneshen Naicker, BSc Applied Mathematics and Mathematics (Cum Laude).

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Steyn Capital SNN QI Hedge Fund

Quarter end 30 June 2023

Minimum Disclosure Document and General Investor Report

Risk report[2]

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.	**Highest exposure over quarter**	**Exposure at quarter end**
		The fund's highest exposure using the commitment approach was 1.91 times the NAV.	The fund's quarter end exposure using the commitment approach was 1.91 times the NAV.
Hypothecation of Assets	The prime broker is restricted from re-hypothecating[7] or any form of re-pledging of securities forming any part of collateral.		
Stress Testing Methodology	**Market stress-testing** is applied across various stressed historical periods by simulating the current portfolio's holdings over that particular stressed period. **Liquidity stress-testing** is applied by stressing the portfolio for increased investor redemptions as well as reducing the market liquidity of securities in specified increments. **Collateral stress-testing** 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. **Conclusion:** all stress-testing methodologies have been applied for the quarter end period and the results are deemed to be satisfactory.		
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 18.37 days.		
Counterparty Exposure	**Counterparty**	**Description of Exposure**	**Exposure (% NAV)**
	Investec Bank Limited	Net Cash and Securities Pledged as Collateral for Short Positions	6.71%
	JSE Trustees	Non-collateralized Cash and Securities	73.93%
	Morgan Stanley & Co. International plc	Global EM Exposure	19.45%
	Firstrand Bank Limited	Section 105 Cash Account	0.01%
	Other	Income and Expense Accruals	-0.10%
	TOTAL		**100.0%**

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sanne Management Company

Steyn Capital SNN QI Hedge Fund

Minimum Disclosure Document and General Investor Report

Quarter end 30 June 2023

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.

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Steyn Capital SNN QI Hedge Fund

Minimum Disclosure Document and General Investor Report

Quarter end 30 June 2023

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, minimum fees 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. 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.

Where foreign securities are included in a portfolio there may be potential constraints on liquidity and the repatriation of funds, macroeconomic risks, political risks, foreign exchange risks, tax risks, settlement risks; and potential limitations on the availability of market information. The investor acknowledges the inherent risk associated with the selected investments and that there are no guarantees.

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

Footnotes

[1] 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.

[2] 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

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