Rozendal Partners Investor Letter 30 June 2020

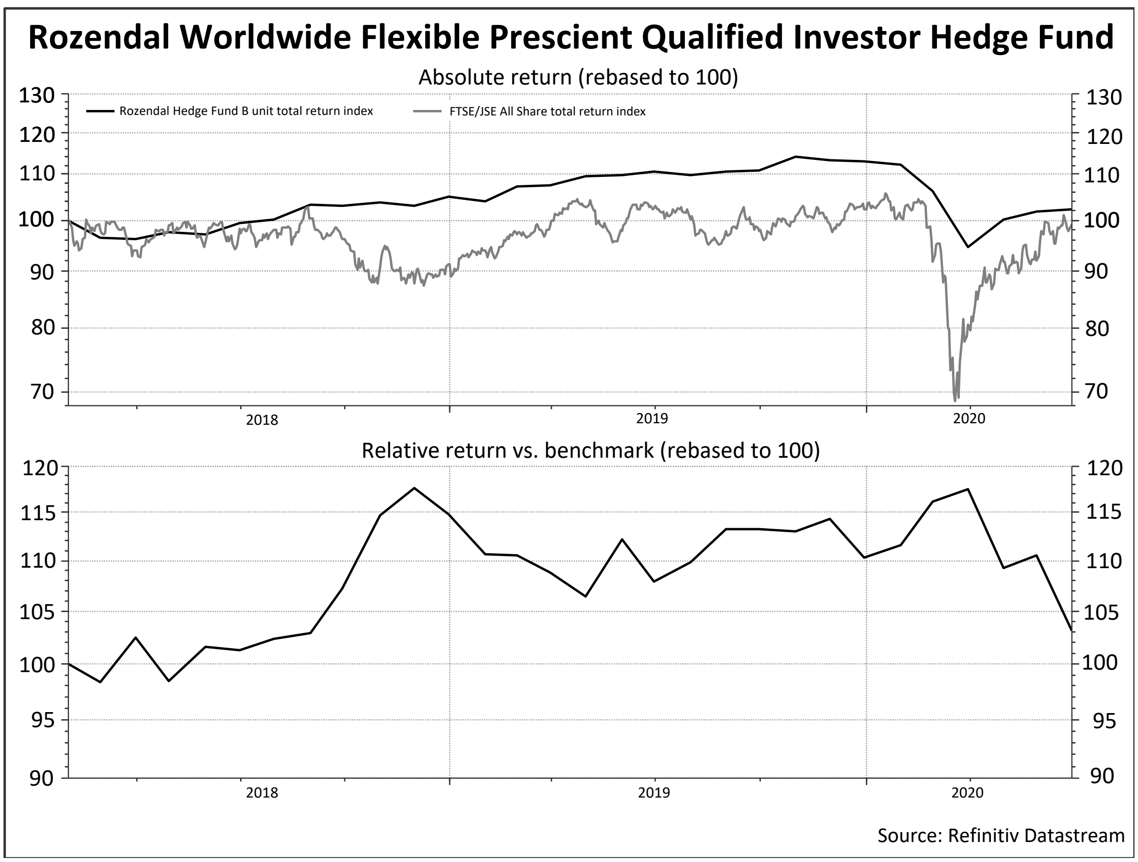
Rozendal Worldwide Flexible Prescient Qualified Investor Hedge Fund: performance vs. benchmark

Period	Fund*	Benchmark**
Since inception***	2.2%	-0.8%
Six months to 30 June 2020	-9.4%	-3.2%

*Returns shown for the B unit class, which is the earliest unit class in existence. Return numbers for other unit classes may differ slightly. Returns shown assume income is reinvested gross of tax.

**FTSE/JSE All Share Total Return Index

***1 February 2018



Rozendal Global Fund: performance vs. benchmark

Period	**Fund***	**Benchmark****
Since inception***	-6.9%	-6.7%

*Returns shown for the B unit class, which is the earliest unit class in existence that is open for investors. Return numbers for other unit classes may differ slightly. Returns shown assume income is reinvested gross of tax.

**FTSE Global All Cap Total Return Index

***22 January 2020

Dear friends and fellow investors,

A. Introduction

Observant readers of our letters may have noticed that we now include two tables of returns: one for the Rozendal Worldwide Flexible Prescient Qualified Investor Hedge Fund (that name again!)[1] and one for the Rozendal Global Fund. This is of course because the Rozendal Global Fund came into the world recently. We show only returns since inception for the Global Fund, as this overlaps with the past six months.

For the first time we also include a chart showing absolute and relative returns for the Hedge Fund. With the Hedge Fund in existence for more than two years now, we felt it starts making sense to show returns on a graph, as that really is the best way to get an accurate impression of how the Fund has performed over time. A few comments on fund returns and how they are communicated to investors are apposite in this letter – we share them in section D. 'Investment Observations'.

We will be discussing both funds in this letter. The Hedge Fund has substantial exposure to the Rozendal Global Fund by virtue of its investment therein (in a zero-fee unit class). Those readers interested solely in the Global Fund are welcome to ignore sections dealing with the Hedge Fund – though we do harbour the naïve hope that our writing makes for such compelling reading that this will be a bridge too far for anyone.

B. Investment Returns

We discuss the Global Fund first, as it is also a driver of returns for the Hedge Fund.

Global Fund

The Global Fund declined by 6.9% for the period, modestly lagging the benchmark which delivered a small loss of 6.7% for the period. We discuss the most meaningful contributors to returns below.

[1] Much like parents with children, we have an equal affinity for both the funds that we advise. However, much like a family name forced upon the child of a young couple by overbearing (grand)parents, the Hedge Fund bears the burden of a name not of our choosing. The Rozendal Global Fund – or more accurately, its name – has a far fonder place in our hearts.

We refrain from making pronouncements on our investment actions in respect of the companies mentioned below for the same reason that we refrain from publishing our full investment theses on shares that are held in the Rozendal funds while we still hold them. Firstly, we may be taking investment action in respect of these shares. Secondly, we want to avoid biasing our own investment decision making by virtue of publicly defending underperforming investments still held in the funds or basking in glory about recent winners. We realise that some readers may find this unsatisfactory, but please bear with us: we provide an in-depth post-mortem once we have completed a full investment cycle in any investment.

Contributors

1. Migros Ticaret

We shared some observations about the Turkish stock market in our letter of June 2019. Almost right on cue after our observations, the Turkish market started re-rating. We managed to deploy capital into the market at attractive prices, and the star performer in the Global Fund over the past six months has been Turkish food retailer Migros.

While the rising Turkish tide lifted all boats, Migros outperformed the Turkish market. Food retailers globally have been dramatically impacted by social distancing measures implemented to manage the Covid pandemic, but the impact has been far less negative financially than for many other industries. Covid impacted shopping habits in interesting ways. Initially, hypermarkets performed well, as fears about supply chain disruptions caused consumers to stock up in bulk on essential goods (recall the jokes about the scarcity value of toilet paper doing the rounds). Online shopping boomed, as people avoided leaving their houses. To the extent that people did leave their houses, they preferred (or were prohibited from) venturing too far. Hence convenience/proximity stores have done well.

As the dominant online food retailer in Turkey, Migros benefitted from these Covid-induced shopping patterns. And while social distancing measures involved a huge increase in operating costs for many retailers, Migros expects this to be manageable, and expects only a modest decline in EBITDA margins for 2020 compared to 2019. All in all, Covid – and a restrained response thereto from the Turkish government – appears to have benefitted Migros. The share price has reflected this.

2. Facebook

The one sector of the market that has brushed off the Covid crisis as if it never happened is the technology software and services industry. As physical activity was restricted during lockdowns, so online activity increased as a means of interacting and entertainment. The Rozendal Global Fund has very limited exposure to this sector. While there is no denying the strength and dominance of many of the businesses in the industry, we have by and large found share prices to reflect all of this and more.

The one exception here has been Facebook. The negative sentiment around the news relating to the use of Facebook user data for nefarious ends late in 2018 resulted in the share price reaching levels where we felt it made sense to own the equity of the business. The share has performed very strongly since then – along with the rest of the large cap technology sector.

Detractors

1. John Menzies

John Menzies is one of the leading independent ground handling airport services companies in the world. Air travel is one of the sectors of the economy that has been most severely impacted by Covid-related lockdown measures globally. Air cargo transport has continued to a limited extent during lockdowns, but passenger travel has been decimated. And unfortunately, this is the greater part of Menzies' business.

Fortunately, two of Menzies' largest competitors (Swissport and WFS) are owned by private equity (or private equity-type) investors and have huge amounts of gearing. Crises tend to benefit the strong players in an industry, and Menzies certainly counts as one of the stronger in the industry.

The fortunes of Menzies are inextricably intertwined with that of air travel in general. While the recovery will no doubt be slow, we do envisage a return to something resembling pre-Covid normality in due course. Our assessment is that Menzies will live to see this day.

2. Micro Focus

Micro Focus is a software business but cut from a very different cloth than most software businesses. Whereas software businesses typically chase growth in the latest hottest segment of the market, Micro Focus historically specialised in buying entrenched but stagnant software businesses that operate in niche markets with sticky customers and high switching costs. While growth prospects for these businesses have always been limited (in fact, Micro Focus typically expected revenues from acquired companies to decline by 2% - 3% per annum), cash flows were abundant. By consolidating small acquired businesses into the Micro Focus infrastructure, they managed to cut costs and generate very attractive returns on acquisitions.

But in a repeat of the pattern we have seen often in the past, this successful acquisition track record resulted in management probably becoming overconfident and swinging for the fences on a very large acquisition: that of Hewlett Packard Enterprise ('HPE'). This stretched the Micro Focus balance sheet. When integration proved more problematic than anticipated and revenues failed to live up to expectations shortly after the acquisition was concluded, the share price more than halved in short order. This provided an attractive opportunity, in our assessment.

Unfortunately, HPE has proven to be the antithesis of the gift that keeps on giving. Its continued underperformance has kept dragging the group down, and this has been reflected in the Micro Focus share price over the past six months.

Hedge Fund

The Hedge Fund incurred a loss of 9.4% for the six-month period, lagging its benchmark which declined by 3.2%. By and large, meaningful exposure to industrial South Africa, and – on a net basis – very limited exposure to Naspers (a major component of the benchmark) hampered fund returns.

The Hedge Fund has a meaningful investment in the Naspers stub. We have commented on this investment before - readers may recall that this involves large long positions in Naspers and Prosus, and a correspondingly large short position in Tencent. Due to the size of these positions, fluctuations in the relative prices of these three counters have a material impact on the Hedge Fund's returns. Over time we expect to do well from this holding, but it is very volatile in the short term. We will be rehashing the same story in every investor letter if we write about the relative price moves of these three counters whenever they have a meaningful impact on fund returns. We feel this serves little purpose. Suffice to say that over the past six months, Tencent's share price outperformed that of Naspers and Prosus, which detracted notably from Hedge Fund returns. We comment on other top contributors and detractors to and from returns below.

Contributors

1. PSG stub

PSG and Capitec have shown up as top ten positions in the Hedge Fund Minimum Disclosure Documents in recent months. As with the Naspers stub, it has been possible to buy the PSG rump very cheaply in recent times if one shorted out PSG's effective exposure to Capitec. Stub trades often present this very appealing value proposition. The only problem with stub trades is that one is dependent on the market re-rating the relative value of the shares in one's favour over time, and in the mean-time irrational pricing may well move against you. The Naspers stub trade is not known as the 'widow maker' in the South African market for nothing.

Fortunately, in the case of PSG, management took the large discount PSG has been trading at to heart and proceeded to do something about it. The announcement made during May that PSG will unbundle most of its investment in Capitec (and sell the remaining small holding) was the type of value unlock that stub trade dreams are made of. It resulted in the expected relative re-rating of the PSG and Capitec share prices, benefitting the Hedge Fund in the process.

2. Reinet

Reinet also featured as a top contributor to Hedge Fund returns in our last investor letter. Reinet delivered modestly weaker returns than the world market over the past six months, but the sharp decline of the Rand against major world currencies resulted in the Rand returns delivered being strong – especially in relative terms.

Detractors

1. HCI

HCI unfortunately makes a repeat appearance as one of the largest detractors from fund returns – we also commented on HCI in this capacity in our letter of 30 June 2019. As an investment holding company with major investments in the hospitality and gaming industry, with some gearing at head office level (on top of gearing in the underlying investee companies), lockdown has been a disaster for the group. With its investee companies unable to pay dividends, there have been some heated discussions with banks in recent months. We have historically held HCI's management in high regard. But the fact that a company finds itself in a situation like HCI is in does raise some question marks around management – specifically relating to how the balance sheet has been managed. Until hotels and casinos are fully operating again, HCI's balance sheet position will remain finely balanced.

2. Grand Parade Investments

As a business also materially exposed to the gaming industry in South Africa, Grand Parade's share price has also suffered during this time of Covid. Grand Parade is another South African investment holding company where value is being unlocked – we have been quite closely involved in the process. Management have been doing the right things for shareholder value – in stark contrast to the situation when we first invested in the company. The very recent collapse of a deal to sell the company's interest in the LPM gaming business Sun Slots to partner Sun International – while of some concern to the market - is of no great concern to us. We view Sun Slots as an attractive asset that was being sold at a cheap price. Holding on to it is no second prize.

3. MTN

Another repeat offender (refer to our comments in our last investor letter), but this time less due to company specific issues, and more due to global macro events. The implosion of demand for oil as global transport ground to a halt during March and April of this year was dramatic. This, combined with a price war unleashed in the oil market between Saudi Arabia and Russia just before global travel bans were implemented, resulted in probably the most severe oil price dislocations the world has ever seen. For a moment during April, American oil prices even turned negative – something probably considered unfathomable until the day it happened.

Nigeria is a key (and very profitable) market for MTN. Unfortunately, the Nigerian economy is heavily dependent on oil production. With oil prices crashing the way they did during the past six months, major concerns started arising about the Nigerian economy, and as one of the bellwether businesses in the Nigerian economy, these concerns also spilled over into MTN's share price.

C. Investment Cycles Completed

Given the youth of the fund and our long-term investment style, it probably comes as little surprise that we have not completed any investment cycles in the Global Fund yet. The commentary below relates solely to investments formerly held in the Hedge Fund.

1. Rolfes Holdings

Rolfes is a small South African chemicals company that used to focus on paint colourants. The company listed on the JSE in 2007 during the last small cap listings boom in South Africa. The listing took place at what turned out to be historically high multiples of most measures of value, and at what turned out to be historically high profit margins. Textbook initial public offering stuff, in other words.

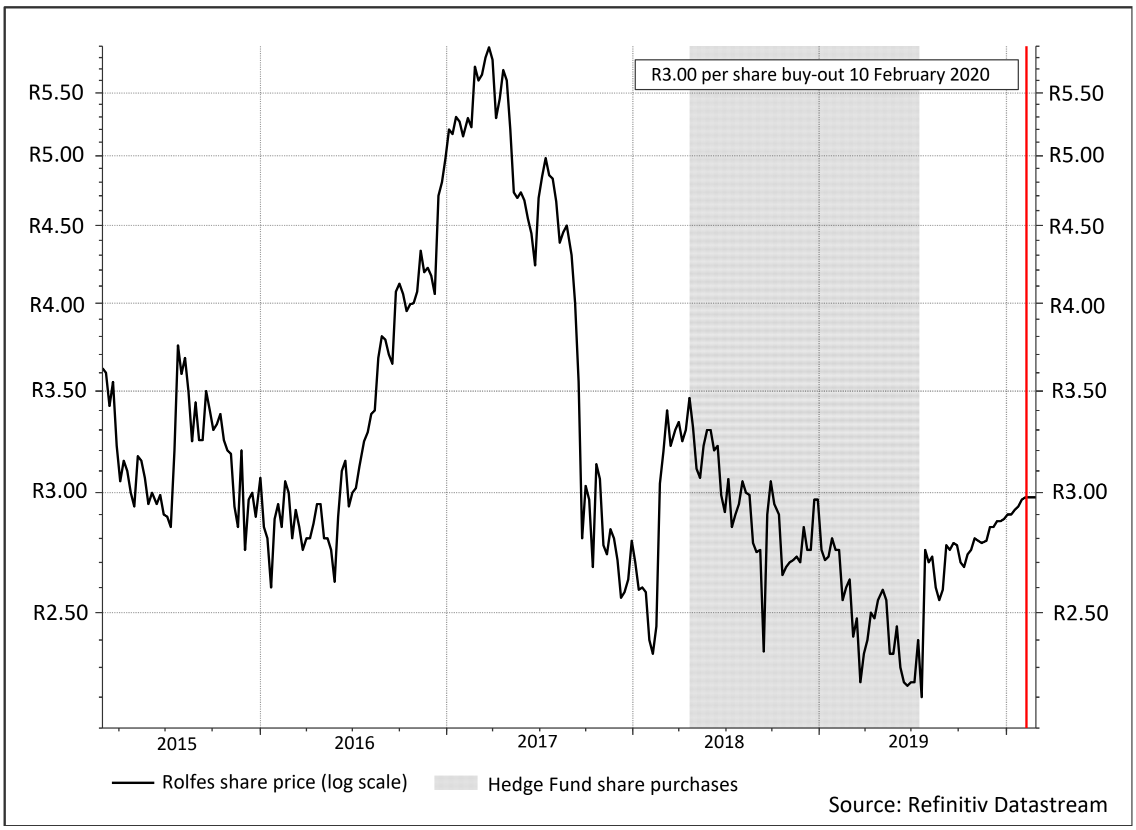
The business suffered during the 2009 Global Financial Crisis recession, but then recovered strongly to achieve record levels of earnings per share in its 2013 financial year. During those years, the company exited the historical core paints colourants business due to the long-term concerns around the environmental impact of lead-based colourants. But it acquired numerous other chemical and related businesses of varying quality, spanning industries like food, agriculture, general industry, and water.

No sooner had these acquisitions been concluded than it came to light that there had been irregularities in the accounts of the group. Predictably, this resulted in investors losing faith in the business. It also resulted in a change of leadership, with Richard Buttle (former CFO of another listed South African company, Metrofile) taking the reins. This change in management was instigated by one of the large shareholders in the business, investment holding company Sabvest. We had become familiar over time with Sabvest and its CEO Chris Seabrooke. Sabvest is a firm with a strong track record of shrewd capital allocation, and its involvement was certainly a positive in our view.

We had interacted with the new Rolfes CEO on various occasions in the past and had always rated him as competent and astute. His joining the company certainly gave us some comfort that the historical accounting irregularities were not indicative of a business built on fraud. In fact, on closer investigation, it appeared that the misstatements were – if anything – due to genuine negligence and ignorance. Hardly confidence inspiring, but not the type of issue which we felt could not be addressed by a new management team with a sharper focus on the accounts. In addition, management and directors (including Sabvest) were merrily buying Rolfes shares in the market – typically not what one does if there are genuine concerns about fraud in one's business.

Against the backdrop of these positive developments in the company, the negative overhang from the accounting irregularities, combined with the general investor apathy towards South African industrial small cap companies, created an attractive buying opportunity in Rolfes shares. We were able to buy shares at about 5.5 times EBIT, while the company was earning margins below our estimate of longer term normal margins due to losses being made in two business units for which there was a clear plan to return to at least break-even. Given the solid returns the business was capable of earning (returns on equity in the high teens to low 20% range), and the strong prospects of the food ingredients business acquired during the era of acquisitions, we considered a fair multiple for the group to be more in the region of seven times EBIT.

Figure 1: Rolfes share price and Rozendal investment activity



Initial reported results after our early share purchases were lacklustre. But by the second reporting period, there were signs of improved business performance. However, the share price kept drifting lower – very much in line with the small cap segment of the JSE. We kept buying small amounts of shares over the period indicated in the chart above.

It did not take too long for insiders to pounce on the value on offer in Rolfes at the prices reached by mid-2019. A buy-out offer was presented to shareholders by a group including existing large shareholders (such as Sabvest) and management. The offer price: R3.00 per share – substantially below our estimate of fair value. We voted against the offer, but because the offer was accepted by most shareholders, it was passed, and we were obliged to sell the Hedge Fund's shares at R3.00 per

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share. This was a smidgen more than the average price we paid for the shares, and, including dividends received, represented a disappointing internal rate of return of only about 1%. Not very gratifying, but better than a slap in the face.

An offer like the one made to Rolfes shareholders presents most long-term oriented shareholders with a real dilemma. Inevitably, the offer is pitched at a seemingly attractive premium to recent share price levels and accompanied by a fair and reasonable opinion from an independent expert. This supposedly fair and reasonable offer gives the offerors the ability to delist the company even if all shareholders do not accept the buy-out offer. This seems fair enough on the face of it. But there are material problems for minority/outside shareholders with this scenario.

Firstly, the premium to the share price offered by the offerors is often still far below a reasonable estimate of long-term value. But market anchoring on recent share price levels often entice shorter-term oriented shareholders to jump at the offer, leaving other shareholders in the lurch.

Secondly, obvious questions have to be asked about the true independence of service providers to a company (like experts issuing fair and reasonable opinions) who will be all too grateful for continuing business from the company under the leadership of the management team who will continue to run the business. We all know the proverb about the piper and the tune.

Thirdly, only the truly naïve will believe that parties closest to the company are likely to make the typically substantial investment in the company's shares that a delisting involves unless the transaction is on balance favourable to them. On balance, we expect to vote against such offers then. But the alternatives available to dissenting shareholders in such a buy-out situation are often not very appealing. It typically involves either remaining invested as a small minority shareholder in an unlisted company or taking court action to exercise appraisal rights.

The Hedge Fund does have the benefit of a fund structure that allows it to remain invested in the equity of a company after it has delisted, and we fully intend to utilise this flexibility where the opportunity calls for it. The prospect of remaining as a small minority shareholder in an unlisted business is not always appealing though. Besides the lack of liquidity for one's shares, and despite the relatively strong minority protections for shareholders in South Africa, there are numerous ways in which controlling shareholders in private companies can tilt the economics of a company in their own favour, to the detriment of minority shareholders. Minority shareholders who are viewed by the controlling shareholders as a source of irritation rather than as partners in the business are of course particularly at risk of this type of behaviour.

However, often the structure of a buy-out offer is such that remaining invested in the unlisted company is not an option: if the majority of shareholders approve, all shareholders have to sell, and the only remaining remedy to dissenting shareholders is to exercise appraisal rights. The only stumbling block here is that exercising appraisal rights can be a drawn out and expensive process. We are currently engaged in such a process in one of the Hedge Fund's investments, so we speak from experience. Footing substantial legal bills only makes sense if the investment being defended is substantial. And pursuing appraisal rights will likely only happen if the investor or management company exercising the rights have pockets of at least moderate depth (regulatory requirements restrict the payment of legal expenses from the fund whose interests is being defended in appraisal rights matters).

In the case of Rolfes, our assessment was that despite the bargain price being offered, it would be difficult to convince a judge of a higher price. Our assessment of fair value was based on a through the cycle view of earnings, and without objective evidence that the cycle has turned and that normal earnings is indeed higher than recently reported earnings, it would be a difficult case to prove to someone who probably holds a more conventional view of fair value and expert opinions than us. The conclusion of the fair and reasonable opinion from the independent expert was that fair value was only marginally above the offer price – in contrast to the appraisal rights case that we are currently engaged in, where the fair and reasonable opinion concluded that fair value was well above the transaction price. Furthermore, by the time that the Rolfes buy-out offer was made, the Hedge Fund was a shareholder of Sabvest as well. So, we resigned ourselves to selling cheaply, and picking up at least some of the upside indirectly via Sabvest.

2. Altron

At its height, Altron was a giant of the South African industrial landscape. Its founder – Bill Venter – was one of the wealthiest men in the country, and it was one of the largest technology-oriented businesses in South Africa. The Venter family controlled the group by means of their ownership of high voting shares, which gave them an outsize vote in the company, well beyond their economic interest.

During the 2000's and early 2010's, under the auspices of the second generation of Venters (Robbie and Craig), the group engaged in a litany of misguided capital allocation actions. This eventually weakened the group to such an extent that, by 2015, it was clear that dramatic change was needed. Under shareholder pressure, the Venters relinquished a substantial percentage of their voting interest in the group, and the younger Venters stepped down from executive responsibilities at group level. Activist investor Value Capital Partners came onboard as a large shareholder by injecting R400m of equity into the group and brought in former MTN South Africa CEO Mteto Nyati as CEO.

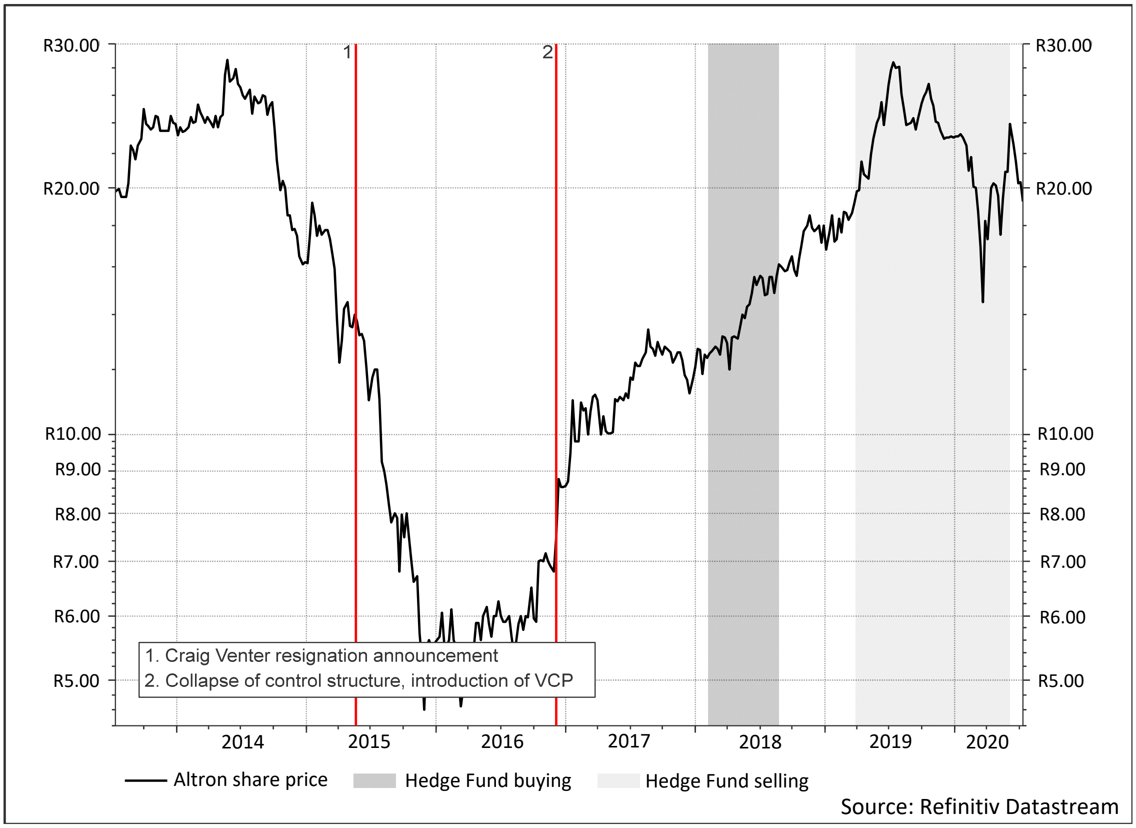
Then the hard – but sensible – work commenced. Cost cutting, disposing of non-core operations, cutting debt – all the usual actions associated with righting a ship with a buoyant core but sprawl that had grown beyond the control of management.

The impact was swift and spectacular. In no small part assisted by the booming Microsoft reselling business of subsidiary Bytes UK, revenue, margins and returns all recovered and even overshot our expectations in the space of two years. Where the business was in consolidation, cost-cutting, and retrenchment mode during 2017 and much of 2018, it is now considering separately listing Bytes UK. That only happens when a business is firing on all cylinders.

The share price led the turnaround story of Altron by about a year or two. The price bottomed early in 2016, and then quintupled over the next three-odd years. With the Hedge Fund launching early in 2018, the decision we faced was whether to invest in a stock that had more than doubled in price in the preceding year or accept that we had missed the boat and move on. Buying shares of companies that have doubled in price in the space of a year is not something that necessarily comes intuitively to contrarian value investors. But – besides the fact that past share price movements have zero bearing on the intrinsic value of a share – experience (and academic research) has shown us that the 'sweet spot' for investment returns are cheap assets that have turned the corner, but that is not fully appreciated by the market yet. Altron appeared to be just such an asset early in 2018.

The Altron share price kept increasing after our initial investments, to the point where, within a year of our initial purchases, we started selling some shares to fund more appealing investments. During 2019 and early 2020, we sold the Hedge Fund's full holding, generating an IRR of more than 30% in the process.

Figure 2: Altron share price and Rozendal investment activity



D. Investment Observations

1. A word on Covid-19…

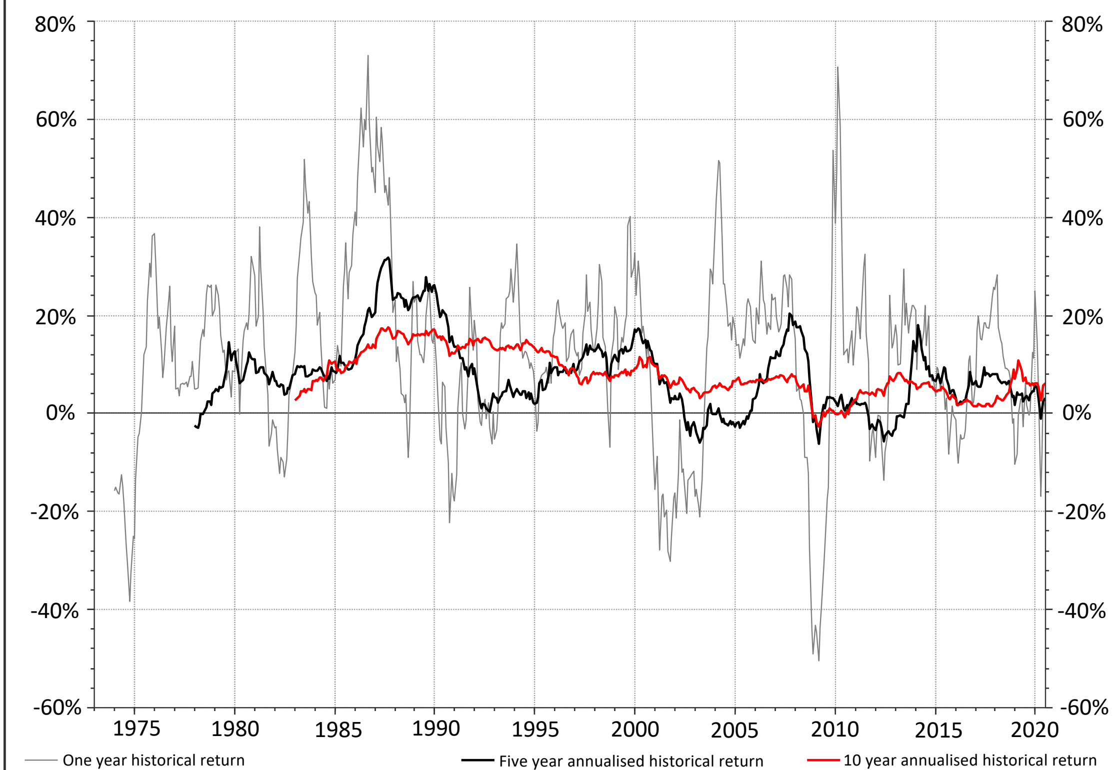
The return numbers we spoke to in section B pose an interesting dichotomy. On the one hand, not much to get excited about: the numbers were negative, but modestly so. But on the other hand, there was an almost unprecedented amount of stock market volatility during this period. We saw the fastest US bear market in history – and a recovery of similar rapidity. After reaching all-time highs in February, global markets imploded spectacularly during March when it became clear that the corona virus pandemic was going to have a dramatic impact on global economic activity. Massive government and central bank interventions in many countries appeared to do the trick of restoring investor confidence and supplying liquidity to markets, and equities soared during April and May.

As is our habit, we will not add much to the voluminous commentary widely available about the bear market of 2020. To us the more interesting aspect of this 'blink-and-you-missed-it' bear market is how graphically it highlighted the importance of keeping a longer-term perspective when investing in public equity markets.

Market declines like we saw in March this year invariably trigger concern and often fear amongst investors. We are not blind to this, and many messages of assurance and explanation were sent out from the investment industry to clients during this time. We were pondering the same. But we ultimately chose to carry on with our investment research, looking for opportunities and remaining on our six-monthly communication schedule. Panic is as panic does, and we endeavour not to.

It is hardly worth repeating, but it is very much worth remembering, how much more volatile annualised stock market returns are in the short term than in the long term. The chart below shows one, five and ten-year historical annualised returns for the Datastream World Market index. One need not be a statistician to be struck by the severe volatility of one-year returns, compared to the serene tranquillity of ten-year annualised returns.

Figure 3: One, five, and ten-year annualised historical world stock market returns



Source: Refinitiv Datastream

Actions speak louder than words, so here is what we did in the Rozendal funds through the Covid-crisis. From having only 34% of the Global Fund invested in equity at the end of February 2020, the fund was 52% invested in equity at the end of May. This speaks of us buying cheap assets, but not in a 'guns blazing' fashion. The Hedge Fund went into March more fully invested than the Global Fund, but here cash balances also declined as a percentage of the fund as we were buying assets.

While market gyrations like that triggered by the corona pandemic do create opportunities to buy attractively priced assets, it is also true that the pandemic and its aftermath represent material risks to many businesses. It is often easy to make the assessment that the long-term economics of a business is intact despite a major short-term decline in revenues due to economic lockdowns. But that does not make it equally easy to conclude that the economics of the equity – or, for that matter, any given class of capital - of such a business is also intact.

Countless firms have already, or will soon, breach debt covenants due to short term collapses in profitability. Breaching covenants places the company – and its shareholders – at the mercy of the

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outcome of negotiations with lenders. If lenders are pliable, covenants may be waived for a period. If lenders are less accommodating, the company may be forced into distressed asset sales or dilutive equity issuance. While banks appear to have been fairly accommodating so far (partly, we surmise, due to political pressure), and many 'covenant-lite' bonds issued in recent years give borrowers substantial wiggle room around debt problems, it is not a given that conditions will remain this benign for equity holders.

2. …and thus, equity issuance/rights offers

Seeing that the matter is very relevant in this time of Covid, here are our thoughts on equity issuance or rights issues. One often hears the sentiment expressed that rights issues at prices well below market are not problematic for shareholders because if shareholders follow their rights, the impact is value neutral for all shareholders. True. But that is a very important 'if'. If shareholders cannot follow their rights, they stand to suffer losses due to dilution. So, calling on shareholders to contribute cash to the company to avoid this loss can place shareholders in a real predicament.

Our sense of the implicit expectation from shareholders of management is that management should manage the company in such a way that equity contributions from shareholders are only required for value accretive incremental investment opportunities that the company cannot fund out of existing resources. And such equity should be issued at fair to full prices, to avoid imposing dilution losses on shareholders who cannot follow their rights.

We consider it unrealistic to expect of shareholders – at least shareholders of publicly listed companies – to keep 'powder dry' to contribute equity every time a company hits a bump in the road. Such an expectation will make it well-nigh impossible to judge a suitable position size for an investment in a portfolio: the investment will always have to be seen as 'equity plus an unknown amount of cash on hand to fund the next rights issue'. Undoubtedly most company management teams share this goal of avoiding distressed rights issues. But to dismiss it as 'value neutral to shareholders who follow their rights' when it does arise is disingenuous, in our view.

Which serves as a perfect segue into a comment or two on recent sentiments expressed in South Africa that regulatory and stock exchange restrictions related to issuing equity are too severe, hampering companies' ability to move quickly when the need arises. We beg to differ. We consider it only right that companies should raise equity only with the utmost of caution, and when truly necessary. While there is obviously a balance to be struck, and company management cannot be expected to have to grovel before shareholders for just any triviality, issuing equity is far from a trivial matter. The impact on shareholder value can be material. Hence, we certainly favour higher rather than lower hurdles to be cleared before equity can be issued.

It is also interesting to note the quarters from which different opinions on the matter have come. Support for greater laxity in regulations relating to equity issuance have come from investment banks. Opposition to such an idea have come from the ranks of asset managers. The former stand to profit from equity issuance by companies by virtue of underwriting and advisory fees. The latter stand to suffer along with their clients if shareholders' equity is not treated with due respect. No surprise where our loyalties lie in this debate.

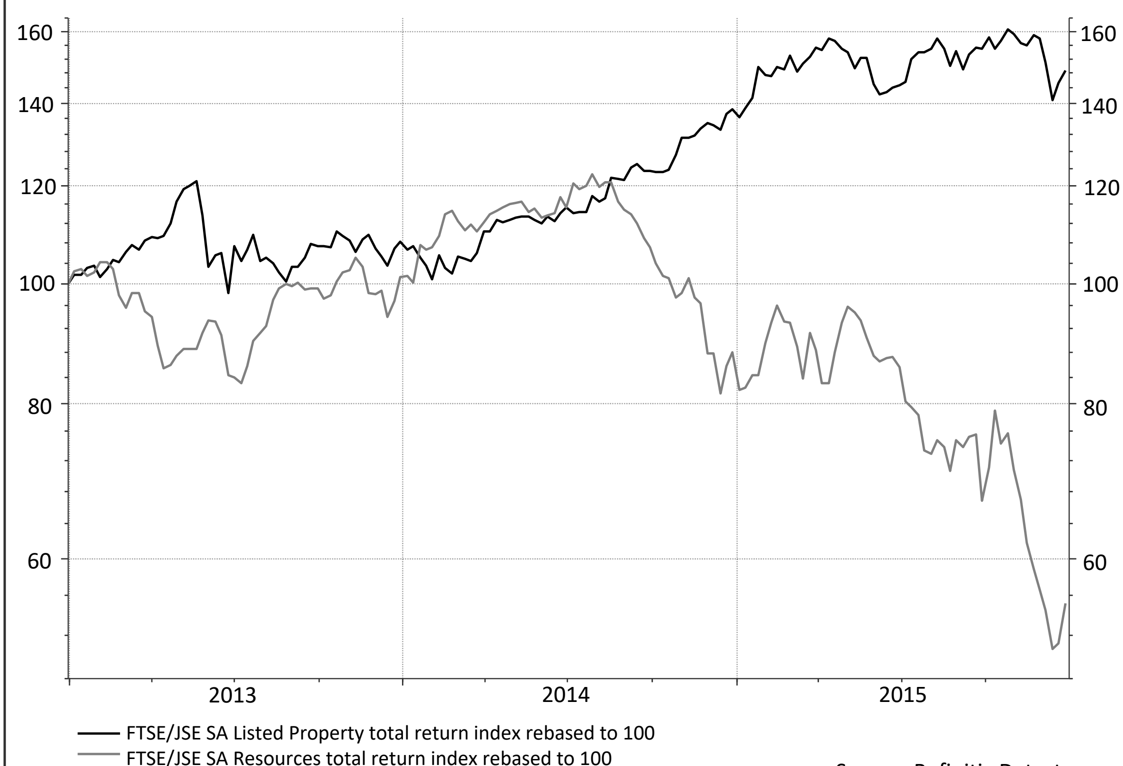
3. Industry cycles, and the market's perception thereof

We were dumbstruck to read the following commentary in a leading South African financial publication recently:

'The listed property sector is shrinking and management teams will battle to win back investor support. Many general asset managers are choosing to invest in other sectors on the JSE, including resources and mining stocks, which are seen as defensive assets during recessions.'[2]

It was barely five years ago that market perceptions of these two sectors were the diametric opposite. Property was considered a safe, income-generating asset class suitable for investors with a lower risk appetite and regular income needs. Mining was considered cyclical and risky, only suitable for the bravest (or most foolish?) of investors. As usual, these views were, and are, almost completely informed by recent market experience. The two graphs below illustrate the point.

Figure 4: SA listed property vs SA resources 2013 - 2015



Source: Refinitiv Datastream

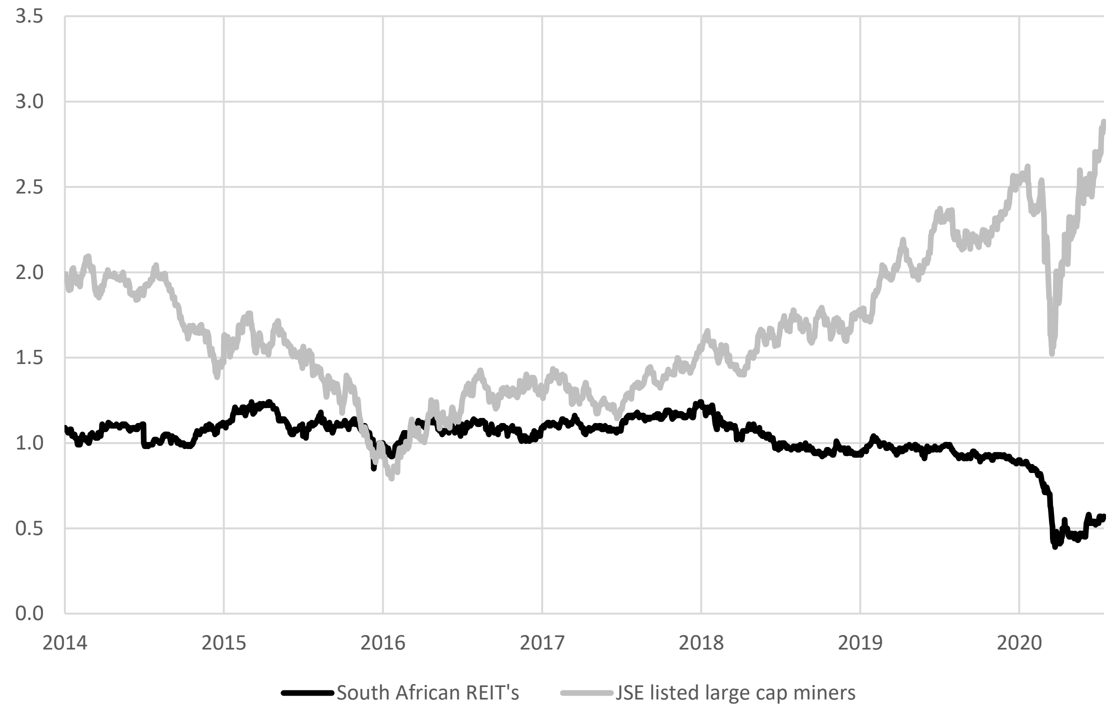
[2] https://www.businesslive.co.za/bd/companies/2020-07-07-no-end-in-sight-for-listed-property-sectors-woes/

Figure 5: SA listed property vs SA resources 2017 - 2020

We are not so arrogant as to believe that share price movements have no relation to underlying business risk. Indeed, in 2015 the mining industry was facing rapidly weakening demand for their production due to a weakening Chinese economy. Coupled with balance sheets that had been stretched from years of acquisitions as well as generous dividends and share buybacks, there certainly was risk in the sector (we can speak of personal experience here). But it was undoubtedly overblown in aggregate.

The same holds true for listed property today. Years of acquisitions and dividends funded by increasing leverage levels work beautifully while industry conditions are stable. But come the turn in the cycle, business and balance sheet structures optimised for benign conditions are typically found severely wanting. And again, we are not so arrogant or naïve as to believe that market concerns are wholly without merit. There have already been some bankruptcies in the property sector of companies which were considered the bluest of blue-chip property companies five years ago – Intu Properties being the most obvious case in point. But in aggregate, the property sector appears to us to be a far more fertile hunting ground for long term value currently than the 'defensive assets during recessions' that constitute the mining sector. The relative valuations of these sectors inform our view.

Figure 6: South African REIT's vs JSE listed large cap miners[3] price to book value



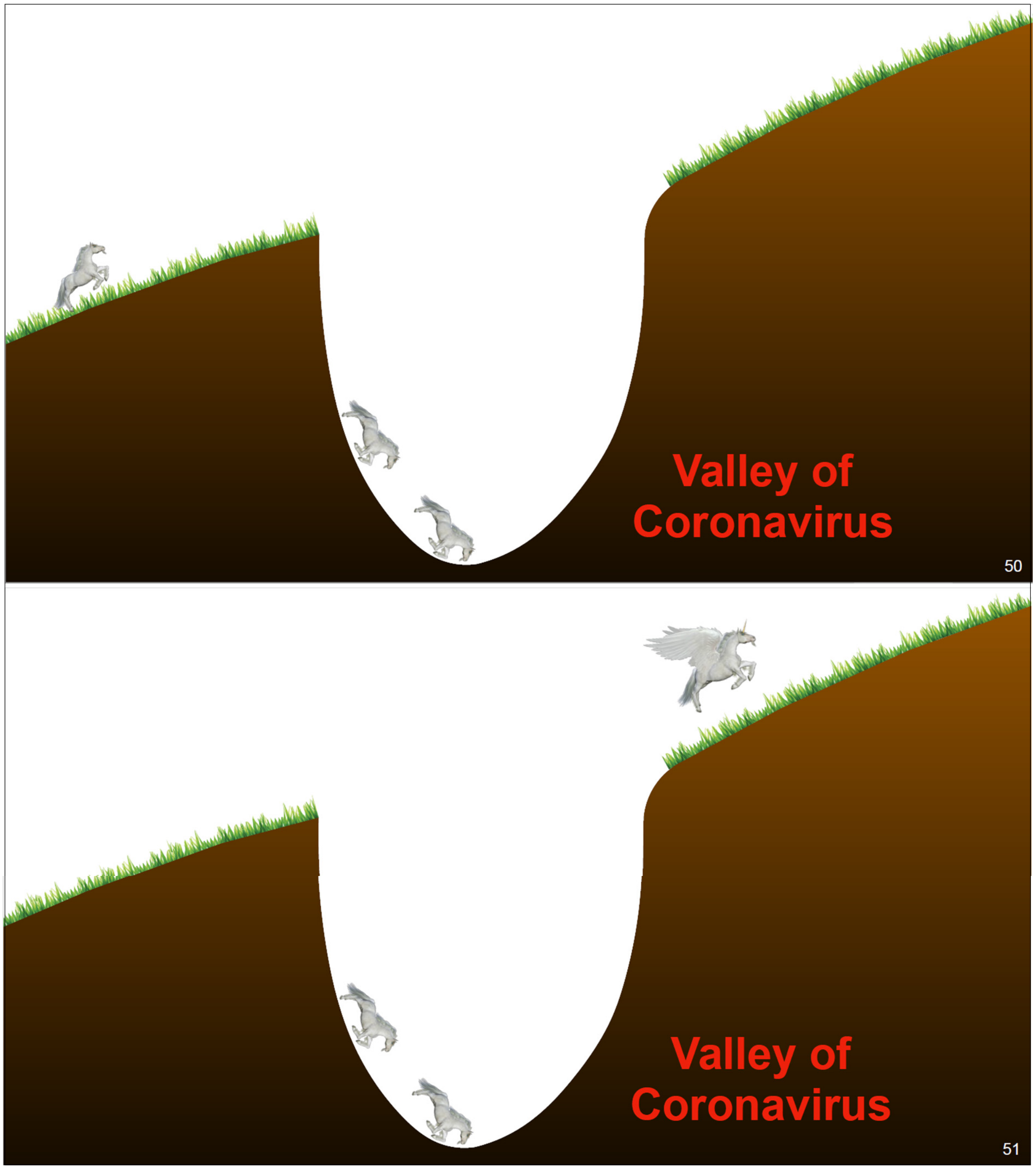
Source: Refinitiv Datastream, Rozendal Partners

[3] Market cap weighted index of the following stocks: BHP, Anglo American, Glencore, Anglo American Platinum, Kumba Iron Ore, Exxaro, AngloGold Ashanti, Goldfields

4. Unicorns and Coronavirus

We recently came across the two pictures below, showing how unicorns (private companies with a valuation in excess of USD 1 billion) are navigating the corona pandemic. We quite liked the central message and the artistry, so we thought we would reproduce them here.

Figure 7: Unicorns and Coronavirus



But no, dear readers, these images are not the work of a particularly gifted pre-schooler. These are slides included in Softbank's full year results presentation to investors during May of this year[4]. We kid you not. Softbank is probably the single most influential investor in the world of technology start-

[4] https://group.softbank/system/files/pdf/ir/presentations/2019/earnings-presentation_q4fy2019_01_en.pdf

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ups today. It certainly controls the largest pool of capital in this market. If this is what passes for investor information in today's market, then, to quote Aerosmith: 'There's something wrong with the world today, I don't know what it is. Something's wrong with our eyes.'[5]

We stand stunned, pondering whether this does not also tell us something about where we are in market cycles.

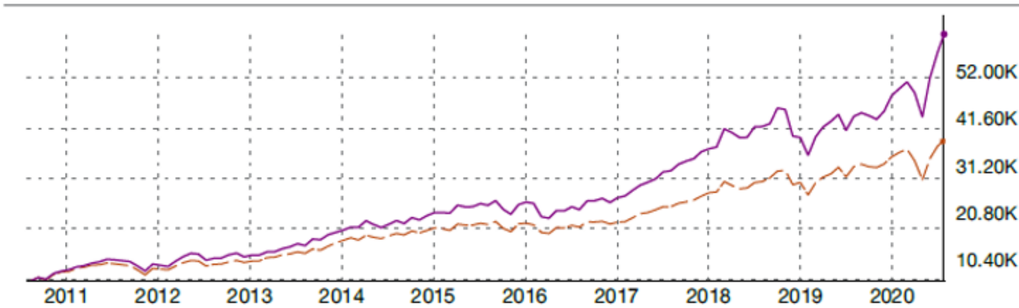
5. Disclosure of investment returns

To pick up on our earlier comments: while there is some measure of regulatory oversight when it comes to disclosing fund investment returns, the actual implementation thereof often leaves a great deal to be desired, in our humble opinion. The following is reasonably representative of standard industry practise when it comes to return disclosure.

Figure 8: Industry representative return disclosures

Hypothetical Growth of $10,000[2,3] (6/30/2010-6/30/2020)

■ Fidelity® Growth Company Fund $61,797 ■ Large Growth $39,354



The performance data featured represents past performance, which is no guarantee of future results. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your shares. Current performance may be higher or lower than the performance data quoted.

Performance[3,5,6]

		Average Annual Total Returns				
Monthly (AS OF 6/30/2020)	**YTD** (Monthly)	1 Yr	3 Yrs	5 Yrs	10 Yrs	Life
Fidelity® Growth Company Fund	23.92%	40.21%	23.49%	19.24%	19.98%	14.11%
Russell 3000 Growth	8.98%	21.94%	18.21%	15.23%	16.92%	10.86%
Large Growth	7.84%	17.34%	15.95%	12.84%	15.12%	--
Rank in Morningstar Category		3%	7%	4%	3%	--
# of Funds in Morningstar Category		1343	1237	1084	809	--
Quarter-End (AS OF 6/30/2020)						
Fidelity® Growth Company Fund		40.21%	23.49%	19.24%	19.98%	14.11%

Source: https://fundresearch.fidelity.com/mutual-funds/fundfactsheet/316200104

[5] Lyrics from the song 'Livin' on the Edge' released in 1993 by rock group Aerosmith

While there is nothing explicitly wrong about any of this (and this fund has a stellar ten year return track record), we believe a relative return graph depicted in log scale is far more informative (and less misleading) than the typical graphs showing fund returns and index returns as two separate lines, both on a linear scale chart.

Firstly, linear scale y-axes are wholly inappropriate for series that grow in a compound fashion (like funds and equity indices typically do). Investors are interested in percentage returns over time, which is far better shown on a logarithmic scale than a linear scale. Early numbers on a linear scale chart become illegibly small but can be very meaningful when it comes to assessing a fund's overall return profile.

Secondly, it is much easier to establish when a fund has been doing well relative to its benchmark by looking at a single relative return line than it is to decipher at what rate the gap between the two lines on a chart like the one above is growing or shrinking. And it often shows how important the end point of the period shown is for assessing the fund's overall return history.

Figure 9: Fidelity Growth Company Fund returns relative to the S&P500

Source: Refinitiv Datastream, Rozendal Partners

Needless to say, our intention is to show return charts which give the most complete, honest, and intelligible picture of the Rozendal funds' return histories. If ever this is not the case, please call us out on it!

And as to the return numbers shown in tabular format at the beginning of this letter: we show a limited amount of information. To our minds, the 'since inception' return percentages, coupled to an accurate and honest relative return chart, gives a good indication of how a fund has fared. Cluttering tables

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with short term numbers adds limited value in our opinion – and runs the risk of distracting investor attention from the numbers that really matter: the long-term ones.

E. Rozendal Partners update

We are happy to report that the past six months have been uneventful as far as the day to day business of Rozendal Partners is concerned. Whilst the bulk of our work was conducted from home since lockdowns were implemented in South Africa during March, this posed no great disruption to our productivity. The investment management industry lends itself to remote working *par excellence*. With a speedy internet connection, it is possible to work as productively from almost any quiet location as it is to work from office. Management meetings and conferences which would have happened face to face in the past shifted to online conferencing tools like Zoom, Microsoft Teams and Google Meet with seamless ease.

We are blessed with a supportive and sticky client (and seed funder) base, which greatly alleviates business stress in times when market turmoil can easily induce panic in investment management businesses. Being able to focus on the job at hand – rather than holding the hands of clients – is a great luxury in times like March of this year, and we are grateful for that.

Our team is stable, the business is on a solid footing, and the investment landscape presents many interesting opportunities. What more can an investment manager ask for?

Yours sincerely,

Wilhelm Paul Jan

24 July 2020

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