A contrarian view with long-term funding gives **Rozendal** its edge

Rozendal's eclectic approach to investing, based on bottom-up stock picking, takes several forms and uses a contrarian value style to act as a differentiator

With nearly four years of track record and two distinct but complementary propositions up and running, Cape-Town based Rozendal Partners is now in full swing with its differentiated hedge fund and global portfolios.

Rozendal Partners was formed in 2017, co-founded by experienced investors Paul Whitburn and Wilhelm Hertzog together with Jan Louw, head of operations.

Whitburn graduated from the University of Stellenbosch and finished an honours in Finance and Portfolio Management at UCT. He also attended an executive programme in value investing at Columbia University in the US, which has guided his investment philosophy since, along with roles at boutique houses RECM and BlueAlpha Investment Management.

Hertzog is a CFA charterholder and qualified as a chartered accountant at PriceWaterhouseCoopers, specialising in financial instruments and international financial reporting standards. He was previously a proprietary investment analyst at PSG Group and also held senior roles at RECM.

Louw adds a wealth of experience in both private equity and hedge fund operations, having worked for international firms including Deutsche Bank, UBS and BNY Mellon. He graduated from the University of Stellenbosch and has worked previously in the Cayman Islands, Luxembourg and Ireland. He was previously executive director at JTC Fund Solutions.

Wilhelm Hertzog, Paul Whitburn and Jan Louw

Rozendal has an eclectic approach to investing, perhaps best described as a multi-strategy value style – but even that doesn't fully capture its full investment proposition.

The team's bottom-up investment philosophy, combined with a contrarian value approach, sees it investing in unlikely value stocks like Facebook and Booking.com.

Hertzog and Whitburn have the flexibility to find investment opportunities wherever they may be and opened the qualified investor (QIF) hedge fund to give them this freedom. The fully invested hedge fund looks for opportunities in small, medium and large stocks locally and invests in the long-only global fund for global exposure. The team's philosophy of no personal account trading means all ideas are implemented within the two funds, which adequately cover the team's investment outlook. They invest alongside clients at the same fees and are unlikely to add further funds to their proposition.

With just over R1.2 billion in assets under management across the two funds and a few segregated portfolios, mainly from private individuals with ties to the team, Whitburn refers to the "time arbitrage" of their investment strategy.

"It's hard to find a manager that's not trying to buy a high-quality business at a cheap price. That is a standard playbook," he says. "Where we have an edge is that we have very stable long-term capital, which allows us to invest for the long term. When other managers are trying to earn returns on a quarterly basis, we can take a position and keep it for five to seven years. Our cli-

FUND FACTS

Rozendal Global Prescient Feeder Fund

Inception date: November 22, 2020
Portfolio managers: Paul Whitburn, Wilhelm Hertzog
Strategy: Feeder Fund into the Rozendal Global Fund
Structure: Collective Investment Scheme in Securities – Feeder Fund
Manco: Prescient Management Company
Administrator: Prescient Fund Services
Custodian: Nedbank
Open to investment: Yes
Minimum investment: R10,000 once-off or R500 monthly direct debit

FUND FACTS

Rozendal Worldwide Flexible Prescient Qualified Investor Hedge Fund

Inception date: February 1, 2018
Portfolio managers: Paul Whitburn, Wilhelm Hertzog
Strategy: Global multi-strategy
Structure: Qualified Investor Hedge Fund
Manco: Prescient Management Company
Administrator: Prescient Fund Services
Prime broker: RMB
Custodian: Nedbank
Open to investment: yes (to qualified investors)
Minimum investment: R1 million

FUND FACTS

Rozendal Global Fund

Inception date: January 22, 2020
Portfolio managers: Paul Whitburn, Wilhelm Hertzog
Strategy: Global long only
Structure: Section 65 approved, Guernsey B-Scheme
Administrator: Prescient Fund Services
Custodian: Northern Trust
Open to investment: yes
Minimum investment: US$10,000

ents are not impacted by large flows in and out of the fund."

Another advantage is Rozendal's contrarian view, with an approach and mindset that is, by definition, different to that of most other market participants. According to Whitburn, historical evidence and personal experience shows that there are situations in which the market misprices assets and that it's possible for sensible investment managers to exploit these mispricings.

"Part of our edge is behavioural. We are prepared to look at areas that others may disregard or don't want to look at," he adds.

One example is a position in Facebook, which was added to the global portfolio in early 2019. Whitburn notes that at the time, Facebook founder Mark Zuckerberg was testifying before the US Congress on privacy laws. The stock was trading at US$125 with a 15 times price-earnings multiple, excluding Whatsapp and cash holdings, and earnings growth of 20% to 30%.

"Here you had this great global business, which was very cheap as people were overly negative because of what was happening with politics and stock sentiment. It's not a value stock but it certainly showed great value and was an opportunity for us, which is why our investment approach is hard to put into a box," says Whitburn.

Having tracked global stocks for over a decade, Whitburn and Hertzog knew the stocks they wanted if the opportunity arose. They had longed for exposure to aerospace and airports for some time but believed that secular growth in air travel would continue pushing stocks higher.

When Spanish airport facilities and services company Aena came within reach post the Covid-19 crash in early 2020, the team snapped it up based on former experience of owning the stock and their most recent research into it.

Booking.com was also added to the global portfolio in 1Q 2020 after it fell almost 50% from $2,500 to $1,300. Having launched the global fund in January 2020, and entering an extremely expensive market at the time, with a lack of value opportunities, the team welcomed the surprise chance to buy into the market as it fell 30% in the early period of Covid-19.

Another addition to the global portfolio was exposure to Naked Wines, one of the largest direct-to-consumer wine distributors in the US, which emerged out of UK wholesale distributor Majestic, and was started by South African national Rowan Gormley.

Whitburn and Hertzog are bullish on the long-term prospects for oil stocks. This view is reflected in the global fund's exposure to a relatively esoteric and high-risk segment of the oil market – harsh environment offshore oil drilling. The fund has exposure to Maersk drilling, which unbundled from family-owned Maersk shipping and is a duopoly in its North Sea drilling sector. While it dropped 60% in 2020, it fared well compared to most other peers that went into bankruptcy.

"Offshore drilling businesses typically form two groups – those that have great assets but bad balance sheets, and those with great balance sheets but bad assets," says Whitburn. "Many of these businesses either had too much debt or they had old assets that needed to be scrapped. Maersk was unique in that it unbundled two years ago with not a lot of debt and with a fantastic asset base."

From 30% equity exposure in January last year, the global fund now has 70% in equities.

Within the hedge fund, the team was not highly exposed to the sectors most impacted in the March 2020 Covid-related market rout. It still has no retail or property exposure and has increased hospitality exposure through gaming stocks in holding companies such as Hosken Consolidated Investments (HCI), a black-empowerment investment holding company and majority shareholder of Tsogo Sun, and also Grande Parade Investments, an investment holding company that owns 30% of Sun Slots as well as 15% of Grand West. Other large stock positions include MTN and Blue Label Telecoms.

While Whitburn and Hertzog run fairly concentrated portfolios with between 20 and 25 stocks, the hedge fund has a high proportion of smaller stocks, which is another unique aspect in the team's approach.

Described as having 'a long tail', it has approximately 12 small and mid-cap stocks that the team believes offers value, many with market capitalisations of less than R1.5 billion.

"Investors looking at our fund will see a long tail of smaller positions but we see this as one trade that gives the fund diversification while tapping into the higher returns of some of South Africa's small and mid-cap stocks," says Whitburn.

"Smaller stocks are so cheap right now with a lot of businesses trading at low single-digit multiples, so they probably have a higher weighting overall in the fund than would be typical, at around 12%. These stocks are all linked to the SA Inc story and that ties into our view that South Africa offers a lot of value, and is appealing on a global basis, but is often distorted by daily negative news flows."

The basket of smaller stocks consists of 1% to 2% positions, while carefully avoiding sector concentration. Believing that there is substantial upside in each position, the fund expects to earn two times capital invested, which with an overall portfolio exposure of 12% can add considerable alpha against large-cap stocks.

On occasion, the team buys larger equity holdings in these smaller stocks. One example is an active role it took in Grande Parade Investments, whose management decisions and business acquisitions were negatively impacting shareholders. The team assisted in reconstituting the board, appointing a new CEO and refocusing the business to unlock value.

Several holding companies are currently trading at a discount to underlying investment companies and this provides a further unique arbitrage opportunity, Whitburn and Hertzog believe. HCI, Grande Parade, RECM and Caliber, Sabvest and Naspers are all trading at discounts, and if these correct as the team expects, will add outperformance to the fund.

True to the team's approach of being flexible to investment opportunities, a new part of the hedge fund includes litigation financing. Rozendal has stepped into this space, working with two experienced advocates to evaluate cases based on likely legal and financial success. It has 10 active cases that it's added in the past 14 months.

Since inception in January 2020, the global fund has returned a net annualised 12.1% in US dollars versus 20.4% for its benchmark the FTSE Global All Cap Total Return Index, without significant exposure to technology stocks.

Whitburn and Hertzog have been slightly disappointed with the hedge fund's short-term performance, which in the six months to 31 December 2020 was just lower than its benchmark the FTSE/JSE All Share Total Return Index, with a return of 10.4% for the fund versus 10.5% for the index. Since inception in February 2018, it has returned a net annualised 6.3% versus a benchmark return of 7%.

The fund's All Share Index benchmark is unusual for hedge funds, which usually have a cash benchmark, and Whitburn and Hertzog believe this to be an important distinction in their investment approach, maintaining that active managers should be measuring themselves against wider equity market returns.

Going forward, the team looks to continue their bottom-up stock picking approach. They are bullish on emerging markets globally with exposure to Turkey and Chile. They are especially upbeat on South Africa where opportunities in small and mid-caps abound.

To counter their concerns around rapidly expanding global monetary policy, they have increased their exposure to silver. General concern for US assets and the US dollar mean that they prefer currency exposure to the British pound, euro, yen and emerging markets.

The funds remain open for investment either directly into the hedge fund, global fund or through a rand-denominated feeder fund into the global fund.