ROZENDAL
PARTNERS

Rozendal Partners Investor Letter 30 June 2021

Rozendal Global Fund: performance vs. benchmark

Period	Fund*	Benchmark**
Since inception***	11.7%	19.4%
Six months to 30 June 2021	6.6%	12.7%
Twelve months to 30 June 2021	25.9%	41.1%

*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 net of fees assuming income is reinvested gross of tax.

**FTSE Global All Cap Total Return Index

*** Compounded annual total rate of return since 22 January 2020 (annualised). Fund highest rolling one year return: 33.5%. Fund lowest rolling one year return: -11.1%.

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

Period	Fund*	Benchmark**
Since inception***	7.0%	6.5%
Six months to 30 June 2021	11.8%	13.2%
Twelve months to 30 June 2021	23.3%	25.1%

*Returns shown to 30 June 2021 for the B unit class, which is the earliest unit class in existence. Return numbers for other unit classes may differ slightly. Returns shown net of fees assuming income is reinvested gross of tax.

**FTSE/JSE All Share Total Return Index

***Compounded annual total rate of return since 1 February 2018 (annualised). Fund highest rolling one year return: 28.2%. Fund lowest rolling one year return: -14.3%.

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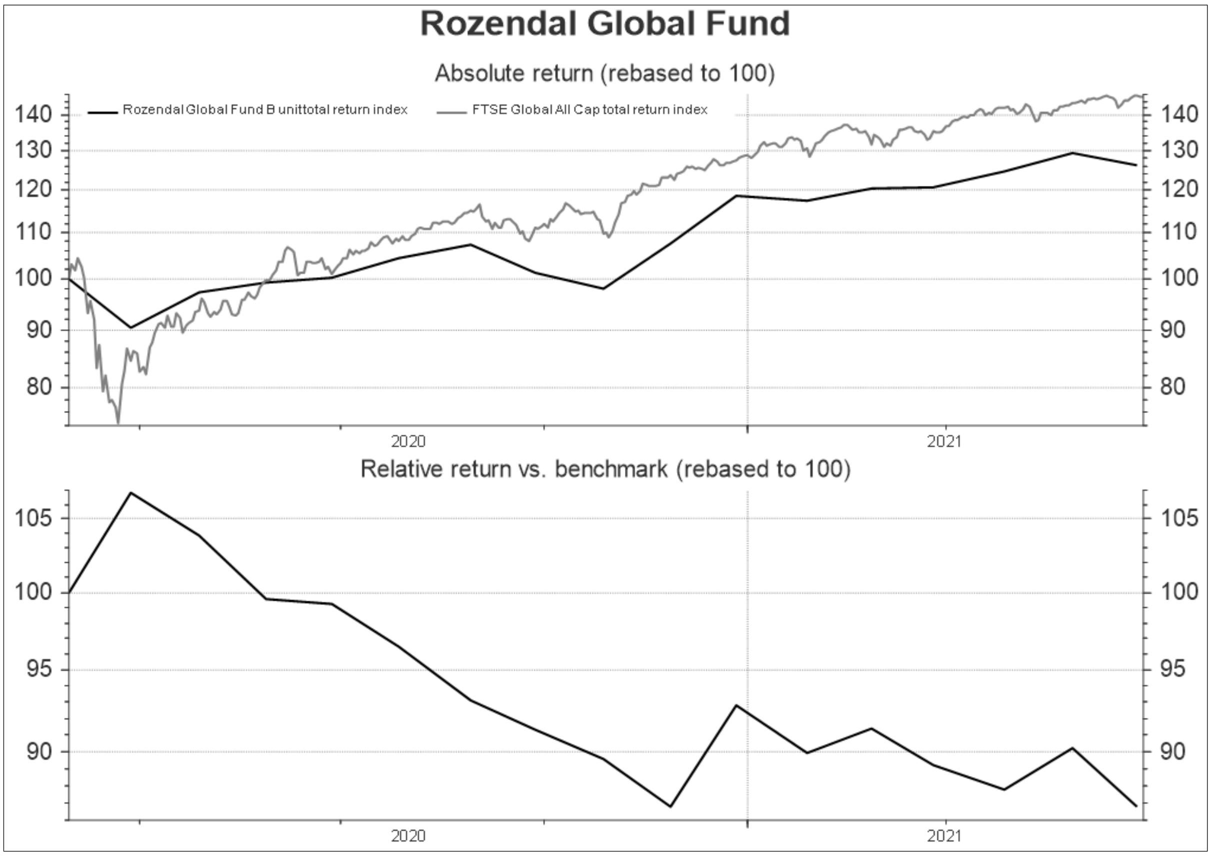

Source: Refinitiv Datastream (30 June 2021)

Disclosure: The investment performance is for illustrative purposes only. The investment performance is calculated by taking the actual initial fees and all ongoing fees into account for the amount shown and income is reinvested on the reinvestment date.

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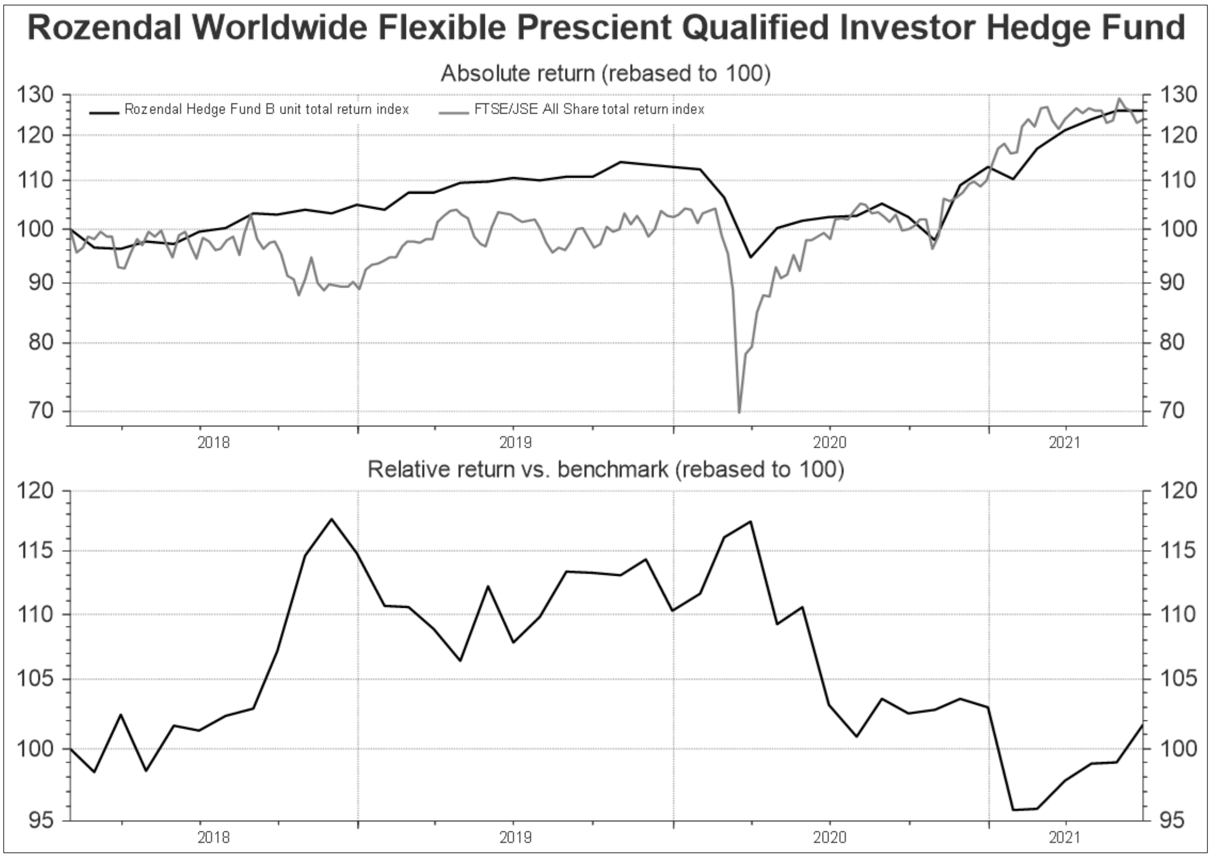

Source: Refinitiv Datastream (30 June 2021)

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Dear friends and fellow investors,

A. Rozendal Partners Update

We start this letter in a different way to what has become our custom. And we write this letter with a knot in our stomachs. Because on Thursday 15 July 2021 we discovered that a former friend, partner, and trusted colleague had committed fraud in Rozendal Partners.

In the spirit of complete transparency, we would like to provide you with a brief synopsis of events as we currently see them. However, first and foremost, we wish to give you, our investors, family and friends, our personal reassurance that we are taking every step to address this situation. Rozendal Partners stands behind the Rozendal funds and will ensure that no investor will have suffered a loss due to these events.

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We have engaged top forensic accountants and experienced professionals from a leading law firm to fully investigate the offense and to get to the bottom of the situation as an immediate priority. The perpetrator has been formally interviewed and subsequently suspended, pending further action once the forensic investigation has been completed.

Whilst this is now an ongoing investigation, to the best of our current knowledge the fraud was perpetrated in our management company, Rozendal Partners (Pty) Ltd, and in the Rozendal Worldwide Flexible Prescient Qualified Investor Hedge Fund ('the Hedge Fund'). And to the best of our knowledge, the amounts in question are not of such a magnitude as to imperil Rozendal Partners, or to have a material impact on the Hedge Fund. The misappropriation in the Hedge Fund seems to have occurred within the company we set up to invest in the funding of litigation, Rozendal Litigation Finance, ringfencing any damage and limiting the potential impact thereof.

Needless to say, this is an event so disappointing that words fail us. Our business is built on placing the interests of our investors in the Rozendal funds first. This is of the utmost importance to us, and we place an exceptionally high value on the trust investors have placed in us to look after their hard-earned capital. An event like this presents an egregious breach of this trust, and we will have full understanding if investors no longer feel that this trust is warranted. But please know that we are taking all steps within our power to address the situation and we remain absolutely committed to our clients and their capital.

We will continue to provide updates as the investigation unfolds. In the meantime, do not hesitate to contact any of us directly – we will endeavour to be as open, transparent, and forthright in our communications as regulatory and legal obligations allow.

With that out of the way, we will now cover the regular topics we address in our investor letters.

B. Introduction

Following the rollercoaster that was 2020, the first six months of 2021 has proven to be that most pleasant of market experiences: a steady upward march. And in keeping with the patterns of history, the sectors leading the markets higher during this year of global economic recovery have been the more economically sensitive ones: Energy and Financials, in particular. This is a sharp reversal from recent years.

Table 1: Historical industry sector returns in USD

MSCI Sector	Compounded annual total return: 10 years to December 2020	Compounded annual total return: 5 years to December 2020	Six month return to June 2021
MSCI All Country World	9.7%	12.8%	12.6%
Energy	-2.5%	-0.1%	29.3%
Materials	3.2%	14.9%	13.0%
Industrials	8.8%	11.6%	12.8%
Consumer Discretionary	13.9%	16.0%	8.4%
Consumer Staples	9.3%	7.7%	5.2%
Health Care	14.0%	10.5%	10.2%
Financials	6.2%	7.5%	18.7%
Information Technology	18.6%	26.7%	12.7%
Communication	7.9%	9.9%	15.3%
Utilities	6.5%	9.8%	0.6%

Source: Refinitiv Datastream (30 June 2021)

In the same vein of sharp return reversals, Value – typically associated with more economically sensitive investments – made a strong showing. Interestingly, Quality – typically associated with more defensive stocks that tend to lag the market during the early stages of an economic recovery – kept up its outperformance of the market. Several mega-capitalisation technology stocks (Apple, Microsoft, Alphabet, Facebook) are leading constituents of the MSCI World Quality index, and these have in the main outperformed the market so far this year. 'Low quality' technology stocks have had a more difficult time of it.

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Table 2: Historical factor returns

MSCI All Country World Factor Index	Compounded annual total return: 10 years to December 2020	Compounded annual total return: 5 years to December 2020	Six month return to June 2021
All Country World Index	9.7%	12.8%	12.6%
Value	6.8%	8.2%	14.5%
Momentum	14.3%	17.9%	5.0%
Size	6.5%	10.4%	10.4%
Quality	13.4%	16.7%	13.7%
Volatility	9.8%	9.8%	7.4%
Dividend Yield	7.9%	9.9%	10.6%
Growth	12.4%	17.3%	10.4%

Source: Refinitiv Datastream (30 June 2021)

Stock price movements have become much more correlated along industry and factor lines than along geographical lines over the past number of years. Geographical indices hence have more limited value to add nowadays when it comes to explaining equity fund returns than was historically the case. Nonetheless, it was interesting to note that, coming off a dismal decade, frontier markets delivered very good returns recently.

Table 3: Global geographical equity index returns

Geographical equity index	Compounded annual total return: 10 years to December 2020	Compounded annual total return: 5 years to December 2020	Six month return to June 2021
MSCI All Country World	9.7%	12.8%	12.6%
MSCI World	10.5%	12.8%	13.3%
MSCI Emerging Markets	4.0%	13.2%	7.6%
MSCI Frontier Markets	3.6%	6.6%	15.2%
S&P 500	13.9%	15.2%	15.3%
Stoxx Europe 600	6.3%	7.7%	12.0%
MSCI Asia Pacific Ex-Japan	6.5%	13.2%	6.9%
Tokyo Stock Price Index (Topix)	7.0%	8.8%	1.3%

Source: Refinitiv Datastream (30 June 2021)

With that as backdrop, we will delve into the returns delivered by the Rozendal funds over the past six months.

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C. Investment Returns

1. Global Fund

The Rozendal Global Fund ("the Global Fund") lagged its benchmark for the first six months of 2021. The main reason for this was a substantial allocation to Turkey – more on this below. In our usual fashion, we will deal with top contributors to the fund first.

Contributors

a. Cameco

Cameco featured as a top contributor to returns during 2020 and kept up its strong showing during 2021. Continued supply discipline by the major uranium producers, as well as strong commodity markets in general, have supported the share prices of mining companies like Cameco. The United States' re-entry into the Paris Climate Agreement has also been a boon to the uranium market: by all accounts, nuclear energy will have to become a greater part of the country's energy mix if it is to meet targets under the Agreement. Besides these market factors, a long running and substantial tax dispute with the Canadian tax authorities was resolved in Cameco's favour. These positive developments translated into a notably increased share price during the first half of the year.

b. Facebook

Facebook continued to report strong results during the last six months, notwithstanding some large US corporates engaging in 'virtue signalling' around privacy and hence purportedly moving advertising dollars away from Facebook. No Facebook customer constitutes more than one percent of group revenue, and this virtue signalling had very little impact on group revenues compared to the continuing tailwind of Covid-19 lockdowns and the increased shift to online advertising in every global economy.

An issue facing the company in recent months has been the new privacy policy of Apple, whereby Apple users now have to opt-in to the tracking that is extensively used by Facebook to deliver meaningful ads to users. Apple's new policy will impact the return on investment of online advertising, particularly for small businesses using targeted performance ads. This will be less the case for general brand awareness advertising, but it will be a net negative for Facebook.

In a positive development though, Facebook recently won its case against the Federal Trade Commission ('FTC' - the US competition authority) regarding its monopolistic power in Personal Social Networking Services. The courts found the FTC's assertion that Facebook has '60% plus market share' too vague and speculative to warrant pursuing Facebook for anti-competitive behaviour. Facebook certainly does have a high market share, and we expect more regulation over the medium term. But the positive outcome of this initial trial was welcomed by the market.

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c. Quinenco

Quinenco is a Chilean family-controlled investment holding company. The group's key assets are investments in Banco de Chile (the leading bank in Chile), CCU (the leading beverages business in Chile) and marine freight business CSAV. CSAV's largest asset in turn is a 30% interest in container shipping business Hapag Lloyd. All three of these businesses are also separately listed. The major disruptions to global trade resulting from the covid pandemic resulted in a large shortage of containers and container shipping capacity over the past year. This boosted freight rates dramatically, benefitting companies like CSAV, whose share price more than doubled during the first six months of 2021. CSAV was the main contributor to the strong performance of Quinenco for the year to date, although both Banco de Chile and CCU has delivered very good results over the past year as well.

Detractors

a. Migros & Sabanci

The Global Fund's investment in Turkish investment holding company Sabanci and food retailer Migros have delivered volatile returns since the investments were first acquired in 2019. Migros has delivered market beating returns (and has featured as a top contributor to the fund in the past), while Sabanci has lagged the market. Turkey's politics have been, shall we say, interesting in recent years - which goes some way to explaining the volatility in Turkish stock prices. We have historically often found good opportunities in emerging or smaller markets where political turmoil causes assets to sell off with scant regard for underlying business fundamentals. We expect the same to be true of the Global Fund's Turkish investments in time. However, with the Turkish president treating the country's finance ministry and central bank as his personal playthings currently, investors often take fright, resulting in sharp moves in the Turkish currency and domestic stock prices.

Recently, the revolving door that is the position of Turkish central bank governor has been the cause of most excitement. With the position of governor vacillating between being filled with either well respected or borderline reprobate individuals, there has hardly been a dull moment in the past six months. Most recently the Turkish president has again been engaged in shenanigans which attracted intense global dislike. The Turkish currency suffered, and stock prices of fine businesses like Sabanci and Migros were dragged along in its wake. The fund's other Turkish investment, Coca Cola Icecek, is a more international business than Sabanci and Migros, and hence did not bear the full brunt of the domestic macro-economic turmoil like Migros and Sabanci did.

b. SES

Global satellite business SES's historical core video distribution business has been under revenue pressure for some time due to the loss of market share of satellite television to streaming television. However, its Network and Mobility business – which supplies connectivity to e.g. aeroplanes and ships – has solid growth prospects. Unfortunately, the covid pandemic has resulted in a severe hit to revenues from the Network and Mobility business, which will only recover once global travel has normalised. Amidst these short-term pressures, the market appears to be ignoring the medium-term growth prospects from a capex program which is nearing completion, and a major income windfall that will accrue to the business as it clears spectrum that had historically been allocated to it for purposes of its video distribution business. We, as ever, remain focused on the longer term.

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2. Hedge Fund

The Hedge Fund also lagged its benchmark during the first six months of the year – but all this underperformance occurred in January, and subsequent returns have been pleasing. As an indication of this, the laggards highlighted below had share prices that were broadly flat – testament to the strong share price performance of 'SA Inc.' during the year to date.

The sharp underperformance in January was due to a confluence of mainly two events: the impact of a second lockdown during late December on domestic South African businesses (especially in the hospitality and leisure sector, to which the fund has meaningful exposure), and marked underperformance by Naspers compared to Tencent (the Naspers stub is still a large gross – but much smaller net – investment in the fund). Here is some more detail on the individual stock contributors and detractors.

Contributors

a. MTN

In keeping with the reversal of market fortunes that we pointed out in the introduction, MTN's share price enjoyed a dramatic rise of late. This was most welcome: MTN has been a repeat offender on the 'Top Detractors' list in the Hedge Fund in recent years. MTN's business is very closely tied to the Nigerian and South African economies, both of which enjoyed better prospects in the last six months than in the preceding year. Nigeria's economy is in turn very closely tied to the price of oil, which has also been recovering very strongly during this year.

b. Invicta

Invicta was also called out as a top contributor in our last investor letter. The operational and restructuring momentum in the business has continued. As a supplier to the mining industry in South Africa – which is booming – the near-term prospects for the business continue to look very favourable. And the market has never had a dislike of strong near-term prospects.

c. PPC

On the theme of rising from the ashes, PPC has had a dramatic about turn in its business recently. Having invested far too aggressively in Africa over the past decade, the business was saddled with substantial debt in its DRC business that had full recourse to the group balance sheet. The DRC business was incurring huge losses in recent years, and PPC was burdened with having provided not only full recourse, but also deficiency funding for the operations. This risked making the DRC a bottomless pit for the group. The company managed to negotiate a very good restructuring in the DRC during this past six months, which effectively drew a line under the potential losses PPC could suffer there. This, coupled with some positive signals from the construction industry in South Africa, boosted the share price of PPC tremendously.

Detractors

a. RECM & Calibre

RECM & Calibre ('RAC') completed the unbundling of all its assets other than gaming business Goldrush during this past six months. Whilst Goldrush is a very good business, it cannot escape the impact of covid-related restrictions like curfews and alcohol sales bans, which were again instituted shortly before the end of June. All of this has resulted in the market taking a very lukewarm approach to the shares of RAC, despite it now being a focused operating company (albeit with a contractual management fee layered over it) and no longer a diversified holding company. This recognition will probably only occur when Goldrush starts to report strong operating results (and dividends) in a post-covid world.

b. York Timbers

While York's share price has more than doubled over the past year, during the past six months the vast asset value in York Timbers has continued to be ignored by the market in favour of the generally disappointing operating performances and poor peripheral capital allocation by management. Global timber prices went parabolic in the early months of this year due to housing construction demand and logistical challenges in supply chains. In South Africa, timber prices have also recently increased at the strongest rate for many years, but it appears the market will only believe the value in York's timber assets when the company eventually follows through with rewarding shareholders with cash dividends from the realisation of those assets. Unfortunately, to date management have favoured questionable investment projects above cash returns to shareholders.[1]

D. Investment Cycles Completed

Pickings have been slim as far as completed investment cycles go in the past six months. The only investment idea which has come full circle has been the PSG stub investment in the Hedge Fund. Whilst the Hedge Fund still owns PSG shares, the nature of the investment has changed after the unwinding of the stub position. We will deal with the standalone PSG investment come the time when the Hedge Fund no longer owns PSG shares. We still have not notched up a completed investment cycle in the Rozendal Global Fund.

[1] It is with sadness that we noted the recent passing of York Timbers CEO Piet van Zyl. We have had many interactions with him over the past decade. While we may have had differences of opinion with respect to business matters, that does not detract from the tragedy of his passing so prematurely. We convey our deepest condolences to all affected.

1. PSG stub

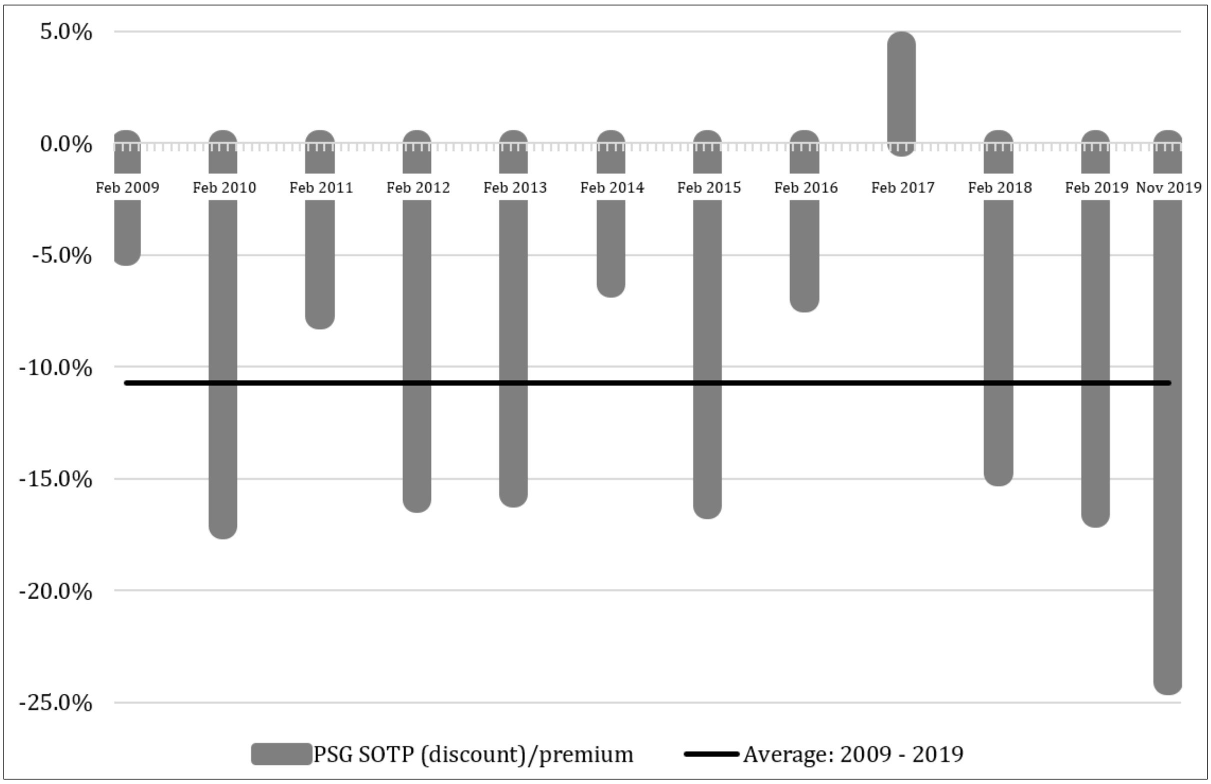
PSG has been one of the great entrepreneurial success stories in post-democracy South Africa. Founded in 1995 by Jannie Mouton, who was famously fired from the very successful stock broking firm that he had co-founded, Mouton and his colleagues proved themselves to be some of the best capital allocators ever to run an investment holding company. The company has always come across as being focused on doing the basics right in terms of generating shareholder value. And getting the basics of capital allocation and shareholder value right is something that is surprisingly rare in listed corporates.

Because of its track record of huge shareholder wealth creation, PSG at times became that most rare of beasts: an investment holding company trading at or above its 'sum-of-the-parts' ('SOTP') value. As befits shrewd capital allocators, management would issue equity at such times. But when PSG – and specifically the PSG stub – attracted our attention, we were in very different times to those.

By late 2019, the general apathy and dislike of South African investment holding companies had become so strong that even the best of them (i.e. PSG) was trading at a wide discount to its underlying value. Conveniently, PSG had always been a believer in listing its investee companies almost as soon as they had sufficient scale to be able to carry the additional overhead costs of a separate listing. The thinking behind this was that a management team (like a sports team) only delivers its best performance when playing in front of a crowd. Right or wrong, this made (and continues to make) it easy to calculate a fair SOTP price[2] for PSG. And as a further courtesy to investors, PSG has published its own SOTP price estimate on its website for many years, with a history stretching back to 2008. The chart below shows the history of the discount or premium of PSG's share price to its published SOTP price at each financial year end from 2009 up to 2019, as well as the status quo at the time that we wrote our internal report on the PSG stub (November 2019).

[2] We refer to 'price' when a number is determined by the market, and to 'value' when the number is the result of an estimate of fair value independent of the market price. Where a SOTP number is calculated based on the market prices of underlying investee companies, we refer to a SOTP price. Where a SOTP number is calculated based on an estimate of the fair value of the underlying investee companies, we refer to a SOTP value.

Figure 1: PSG historical SOTP (discount)/premium



Source: PSG, Rozendal Partners (30 June 2021)

In a further twist of convenience, PSG's single largest investment – Capitec Bank – had been so successful that it had come to absolutely dominate PSG's balance sheet. The chart below shows Capitec as a percentage of PSG's total assets over the same timeframe as shown in Figure 1 above.

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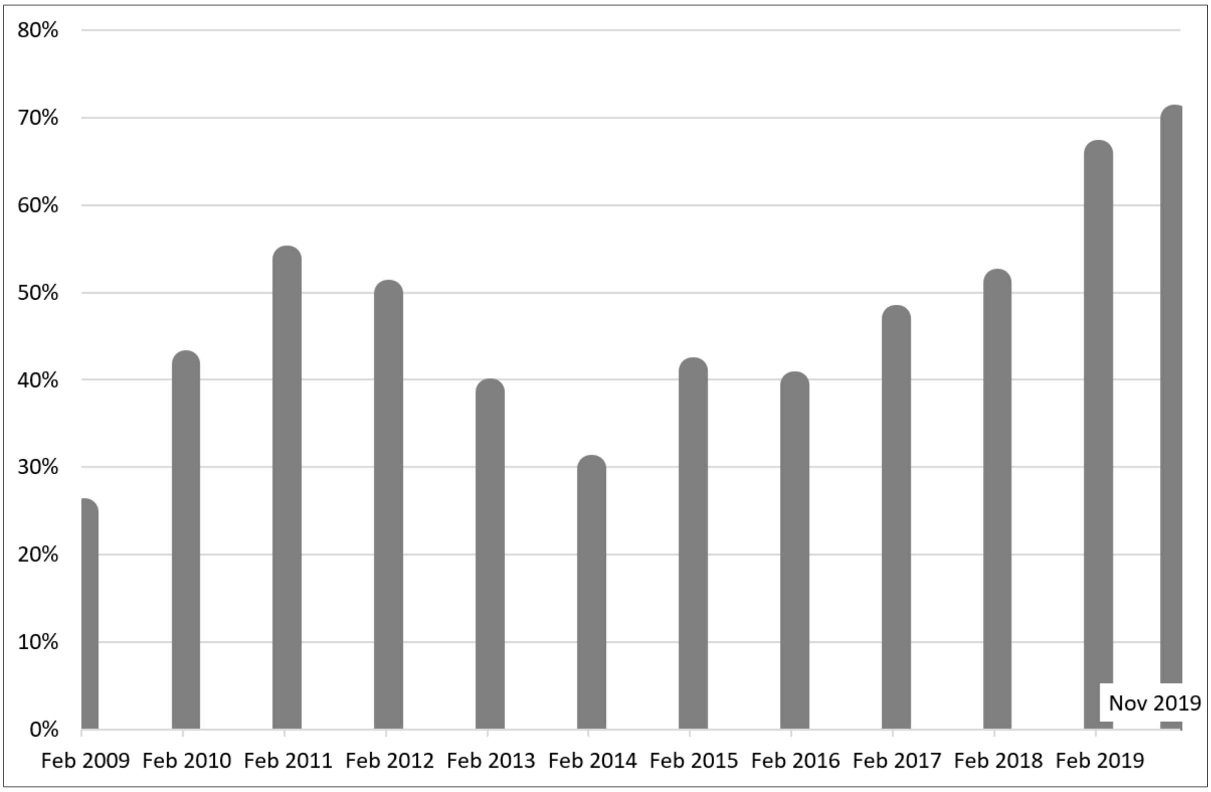
Figure 2: Capitec as percentage of total PSG assets



Source: PSG, Rozendal Partners (30 June 2021)

With Capitec having grown into a major component of South African market indices, liquidity in the stock had improved over the years, making it quite feasible to capitalise on the discount PSG was trading at by buying PSG and shorting Capitec. A stub trade like this makes it possible to magnify the entire discount that a business is trading at onto the remaining assets – the so-called 'rump' – of the business. This can translate into the opportunity to buy assets at very deep discounts. At the time of our report on PSG, the numbers stacked up as follows:

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Figure 3: PSG rump value and market price November 2019

	Per PSG share
Capitec	R235.47
Other assets	R99.99
Debt, capitalised head office costs, potential capital gains tax	-R24.80
SOTP value	**R310.66**
Deduct Capitec	-R235.47
Implied value of the PSG rump	**R75.19**
PSG share price	R243.56
Less per share value of Capitec	-R235.47
Market price of the PSG rump	**R8.09**

Source: Rozendal Partners (30 June 2021)

As the numbers show, in November 2019 it was possible to buy more than R75 worth of value for only slightly more than R8 – clearly compelling. But of course, not without risk:

- By shorting out all economic exposure to Capitec, and hence creating the very cheaply priced stub investment, one was also effectively investing in a much more highly geared business than one would be by buying PSG outright. Effectively one is synthetically creating the situation where PSG sells off its entire investment in Capitec and returns the proceeds to shareholders by way of a dividend, without using any of the sale proceeds to pay down debt. PSG fortunately had a limited amount of debt at the time, but the PSG stub was still a much more highly leveraged proposition than PSG as a standalone investment. It is of course possible to manage this risk by not shorting out the 'surplus' asset (Capitec, in this case) in full, but we have to date been comfortable shorting out the full exposure to such 'surplus' assets in stub trades.

- Depending on the specifics of the individual case – and specifically the size of the 'surplus' assets relative to the entire balance sheet of the investment holding entity - creating meaningful net exposure to a stub investment can involve some very large long and short position sizes. In cases where the surplus assets accounts for almost the entire balance sheet of the investment holding company (Naspers with its investment in Tencent has been a topical example of this), the share price of the holding company and that of the surplus assets should move very closely together. But of course, what should rationally happen in markets and what happens in practice in markets can have little bearing on each other in the short term. And due to the requirement to post collateral or margin when a short position moves against one, short term losses can escalate quickly if discounts widen rather than contract.

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At the time of our report, the value on offer in the PSG rump was so compelling (even on a very superficial assessment of the intrinsic value of PSG's underlying assets separate from their market price), that we concluded that an investment in the stub was justified. There was also some circumstantial evidence at the time that the PSG rump offered sound investment prospects:

- Capitec and/or PSG insiders had by and large been selling and/or hedging Capitec holdings and buying PSG shares (though not in large quantities, it must be added) in the preceding year.

- The discount to the SOTP price was clearly starting to irk management. PSG CEO Piet Mouton (son of founder Jannie) had made the following remarks during PSG's interim results presentation on 16 October 2019:

  'We do take notice that the discount is widened on our sum-of-the-parts. It is now the largest it's been since I've been involved with the company. Obviously, as a management team, this doesn't sit well with us, and we'll always explore opportunities to reduce the discount.'

  Source: Refinitiv Eikon transcript

  With the Mouton family being heavily invested in PSG ever since its founding, we figured there was at least some chance of these statements being more than just that of a disaffected CEO paying lip service to the market but with no real intention of shrinking his empire by selling off or unbundling assets to unlock value for shareholders.

We proceeded to allocate capital to the PSG rump in two tranches: initially in January 2020, and then a further tranche in March 2020. By March 2020 markets had been gripped by the corona virus panic, and – as typically happens in market sell-offs – holding company discounts (including that of PSG) had widened even further than the record levels they had reached in late 2019. At that stage, the market price of the PSG rump had turned slightly negative: effectively, the market was paying one to take the rump assets. Never ones to walk past a dollar bill lying in the street, we increased our position size.

Less than a month later, PSG released a cautionary announcement that it was considering a corporate action which could have a material impact on the company's share price. Market speculation was immediately that the company would either sell or unbundle a(n) asset(s) – with Capitec being the prime candidate – or that the company would potentially buy out one of its listed investee companies – as some of these had also experienced very sharp share price declines during the covid-induced market panic. Given that none of the listed investee companies had released a concomitant cautionary, the odds did appear to favour the former as a reason for PSG's cautionary though.

Little more than a further month later, market speculation was proved correct: PSG announced that it would unbundle the bulk of its shareholding in Capitec to its shareholders. This resulted in a further sharp repricing of the PSG rump by the market – something that had already commenced upon release of the first cautionary announcement. This repricing contributed pleasingly to returns for the Hedge Fund in the first half of 2020 (we commented thereon in our letter of June 2020).

The unbundling became effective in August 2020, but PSG held on to a small portion of its Capitec investment, which it indicated would be used to strengthen its own balance sheet with a view to either supporting its investee companies through the covid pandemic or for making further investments. This remaining interest in Capitec was sold off in steps, with the last bit sold during the latter parts of the first half of this year. The bulk of the Capitec short position in the Hedge Fund was closed out

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automatically when the Capitec shares were unbundled to PSG investors, and the remaining portion we closed out as PSG sold off the Capitec shares. We also sold some PSG shares after the 'easy' value unlock had concluded. As mentioned, the Hedge Fund continues to own PSG shares, but it is now a different investment proposition to when the stub position was entered, and we will treat it as a separate investment for deeper unpacking come the time that we have gone full circle with it.

So, what does the scoreboard say with respect to the PSG stub investment? Whilst it has been a very good investment for the Hedge Fund, it is a bit less straightforward to provide meaningful and sensible return numbers for the investment like we would for a regular investment in a company or asset. This is because of the vagaries of gearing and collateral/margin requirements that is introduced into the equation with short positions. But we will lay out the numbers as best we can.

On a gross basis, and without regard for timing of the cash flows, the tally is as follows:

Figure 4: PSG stub profit (ZAR millions)

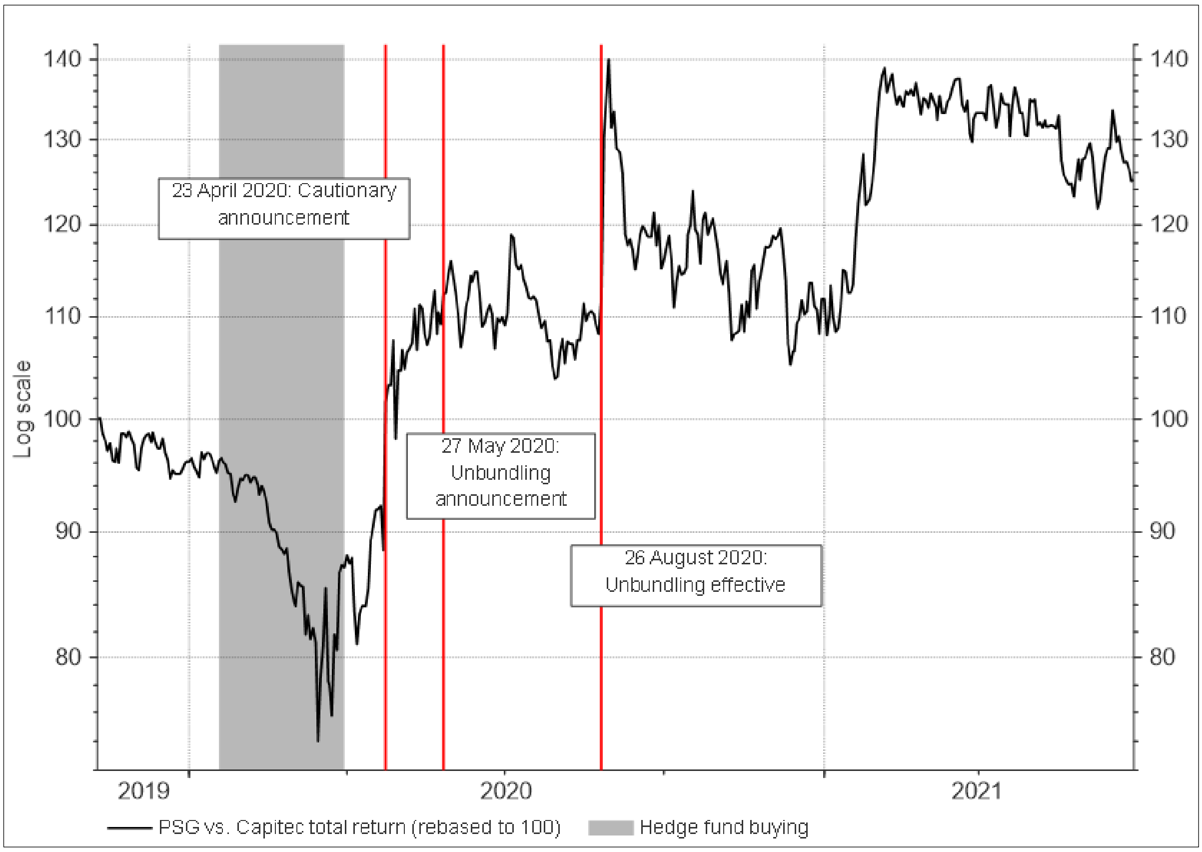
PSG investment	-R39.3
PSG dividends	R0.5
Proceeds from Capitec short	R40.2
Capitec dividends paid	-R0.03
Securities lending fees	-R0.4
Buying back Capitec shares	-R6.3
Sale of PSG shares	R4.6
PSG shares remaining	R11.0
Profit	**R10.2**

Source: Rozendal Partners (30 June 2021)

As a percentage of the initial PSG investment of R39.3 million, a profit of R10.2 million represents a simple return of 26%. This is not a bad return for a period of about 18 months. But because of the timing of cash flows (with a large amount of cash being realised from the short sale of Capitec at the same time that the PSG investment was made), the maximum net investment that was ever made in the stub investment was only about R800,000. A profit of R10.2m on an investment of R800,000 is clearly a different proposition to the same amount of profit on an investment of R39.3 million. The internal rate of return on these cash flows is so high as to be meaningless. We could place the PSG shares we bought as collateral for the Capitec short position (rather than having to place cash collateral), so the opportunity cost of having to hold collateral on the Capitec short position was negligible. The true measure of how much value the PSG stub added to the Hedge Fund lies somewhere in between these extremes, but the bottom line is that it has been a good investment for the fund.

The chart below shows the share price development of PSG relative to Capitec (on a total return basis) as well as some key dates in the time frame during which the PSG stub was an investment in the Hedge Fund.

Figure 5: PSG stub development



Source: Refinitiv Datastream (30 June 2021)

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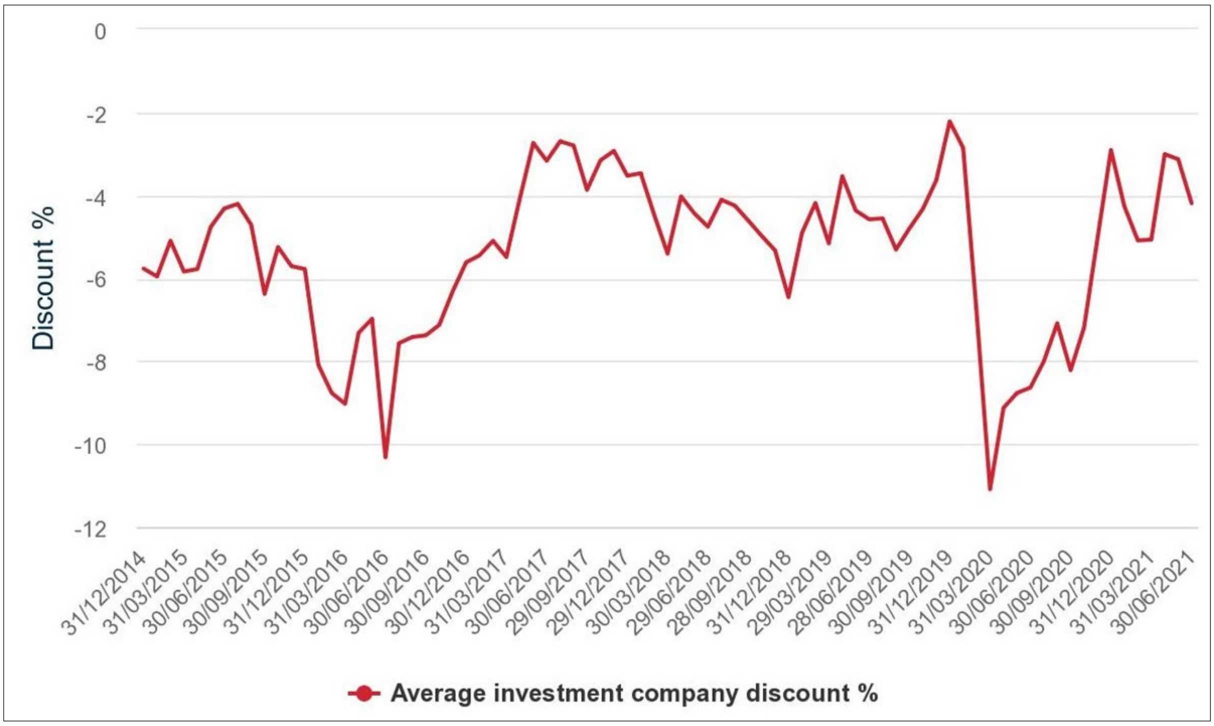
E. Investment Observations

1. Investment holding companies

Investment holding companies feature prominently as investments in Rozendal funds, mainly in the Hedge Fund, but also in the Global Fund. In an environment where there is general investor apathy towards such companies, it is probably not surprising that we are finding interesting long-term opportunities in the area. Whilst investment holding companies come in all shapes and sizes, our working assumption is that buying these companies at wider than average historical discounts to their net asset (or 'sum-of-the-parts') value is likely to yield good results in the long term. Academic research in the field supports this view. Whilst closed end funds are not necessarily fully comparable to the investment holding companies held by the Rozendal funds, they are the closest comparable statistically representative population worthy of study. And they have been studied: many researchers have historically found a meaningful relationship between closed end fund premiums and discounts to net asset value and future investment returns from these funds[3]. And (as we have alluded to elsewhere in this letter), discounts to net asset value typically increase at times of market panic. The graph below from the UK's Association of Investment Companies illustrates this point quite well. Notice how discounts increased around the time of the Brexit referendum vote in 2016, and also around the time of the 2020 corona virus market panic.

[3] Refer for example to the following: Boudreaux 1973; Lee, Shleifer, Thaler 1991; Dimson, Minio-Kozerski 1998; Cederberg, Schnitzer 2020.

Figure 6: UK closed end fund industry discount to NAV

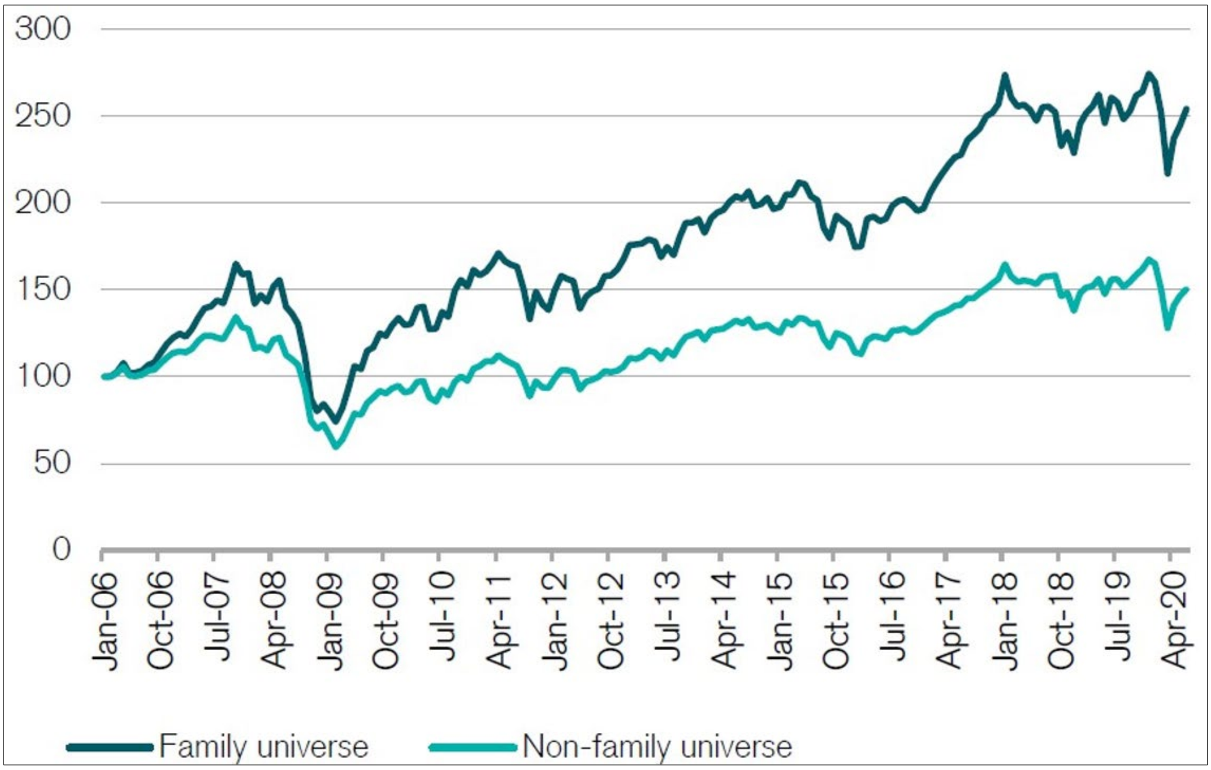


Source: The Association of Investment Companies (30 June 2021)

Whilst we do not have in depth research on the topic to refer to, it does appear to us that there is a tendency for investment holding companies to be family-controlled. We would surmise that this may be the result of a founder of a successful business keeping family wealth tied up in the original business, which is then slowly diversified over time away from its roots. Being family controlled, these businesses are probably also less likely to be swayed by public market sentiment, which typically does not like unfocused conglomerates and eventually exerts pressure on the management of such businesses to sell or unbundle assets to become more focused. Several of the investment holding companies owned by the Rozendal funds are indeed family-controlled or influenced. And this appears to be a good thing.

In their annual 'Family 1000' publication, Credit Suisse tracks the performance (both operational and in the stock market) of family-controlled companies compared to the broader market. The evidence in favour of family-controlled companies since 2006 (when the Credit Suisse data starts) is compelling.

Figure 7: Stock market returns of family-controlled vs. non-family-controlled companies



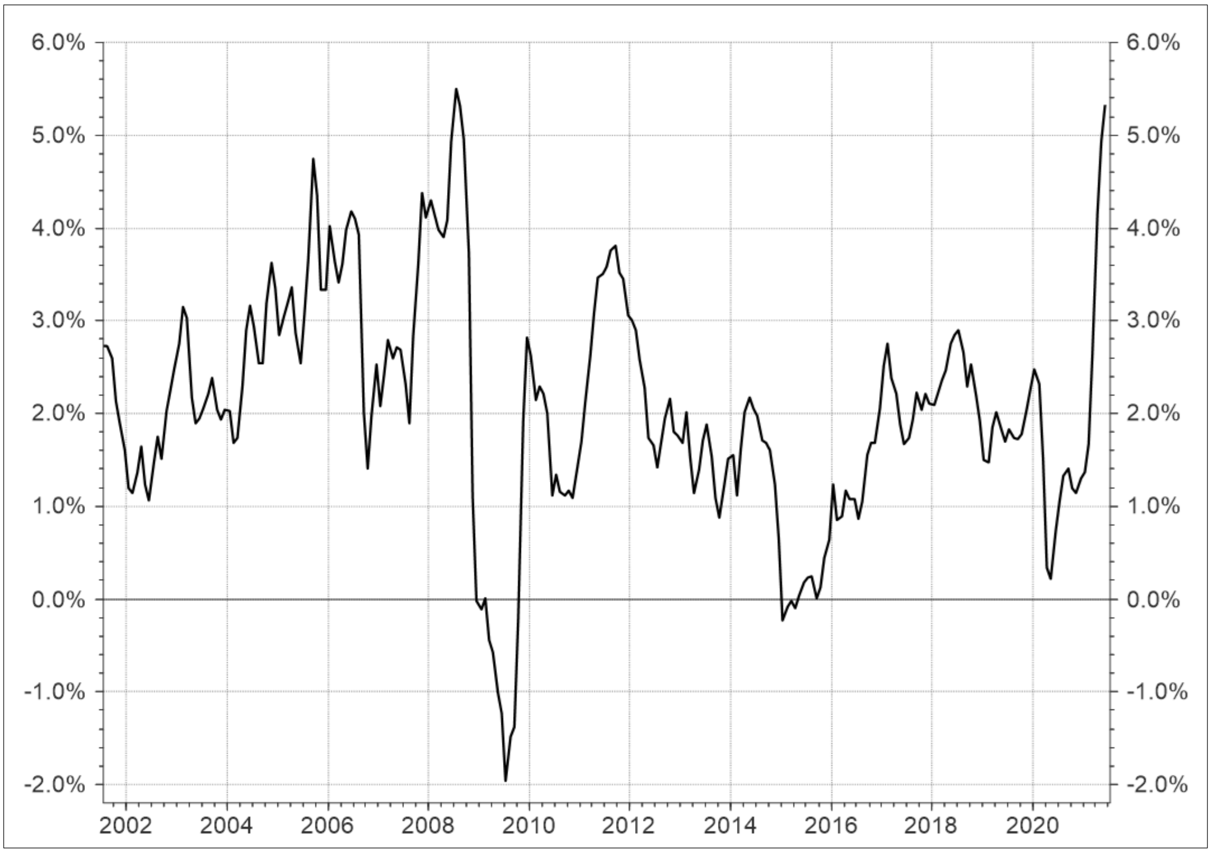
Source: Credit Suisse (30 June 2021)

While we most definitely do bottom-up fundamental research on the investment holding companies that we do consider for investment in the Rozendal funds, we quite like the 'top down' view of where the resulting research has led us: into the arms of family-controlled investment holding companies trading at substantial discounts to NAV. The investment odds seem to favour this result.

2. Inflation and commodities…or commodities and inflation

Inflation has been increasing sharply in global economies of late. With the annualising of the first wave of covid-induced lockdowns, and the effects of fiscal and monetary stimulus clearly being seen in many economies, prices of goods and services have been rising briskly in many countries. The United States is the leading case in point.

Figure 8: US consumer price index: year-on-year percentage change

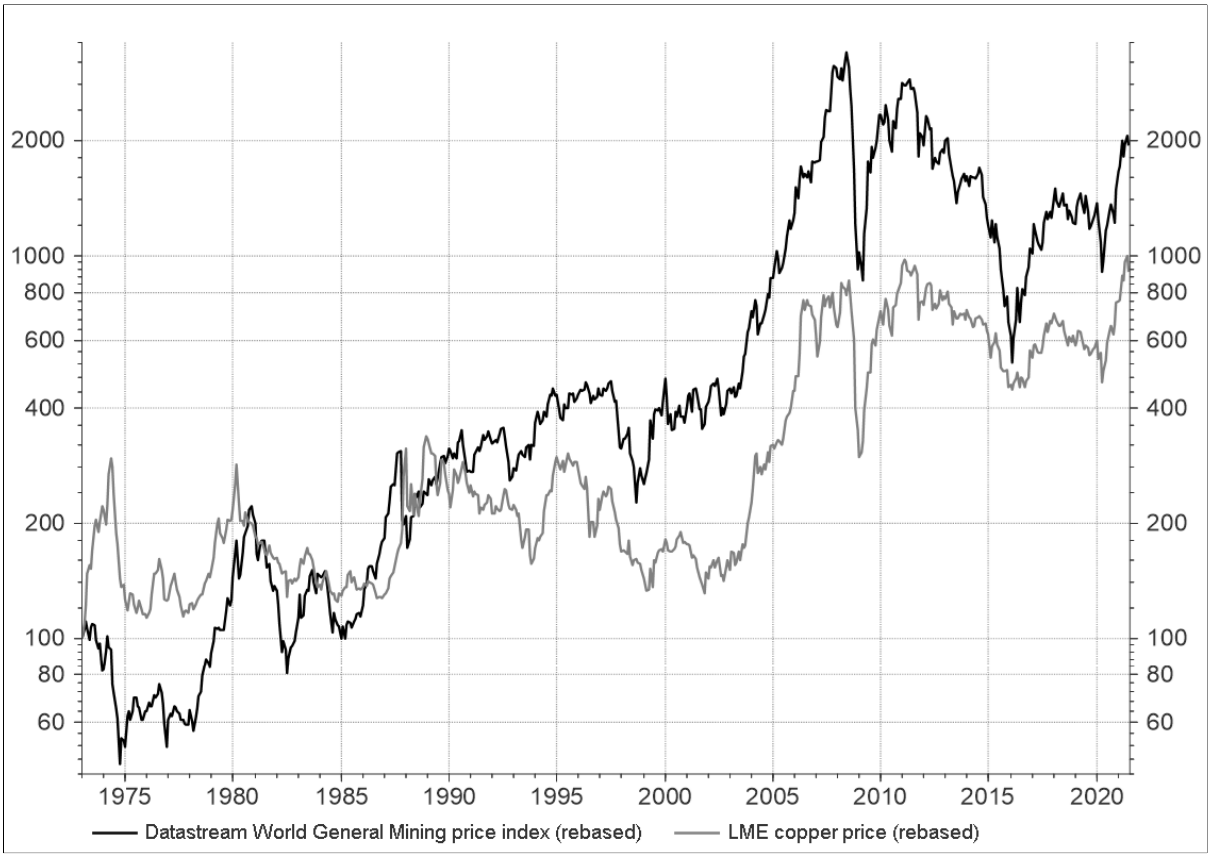


Source: Refinitiv Datastream (30 June 2021)

Historically, commodities (and hence mining stocks) have done well during periods of high inflation. Admittedly, this result is heavily influenced by the experience in the late 1970's, which does place the robustness of this finding into question. But nonetheless, markets are currently concerned with rapidly rising inflation (and we share some of that concern). At first glance, mining equities look like a top choice as a place to hide from pervasive inflation: historically there has been a very close correlation between the share prices of mining stocks and that of commodity prices[4].

[4] We use the copper price in the chart below, as it is the benchmark industrial metal, and most major commodity indices have historically been closely correlated with the copper price in terms of price movement.

Figure 9: Mining equity prices vs. copper price



Source: Refinitiv Datastream (30 June 2021)

What is more, mining stocks currently offer tantalisingly low forward earnings multiples.

Figure 10: Mining equities forward earnings multiples

Company Name	EV / EBITDA (SmartEstimate ®) – 1 year forward	Price / EPS (SmartEstimate ®) – 1 year forward
BHP Group PLC	4.5	6.9
Rio Tinto PLC	3.8	5.9
Vale SA	2.9	4.3
Glencore PLC	4.9	7.5
Anglo American PLC	3.4	6.1
South32 Ltd	4.3	7.9

Source: Refinitiv Eikon (30 June 2021)

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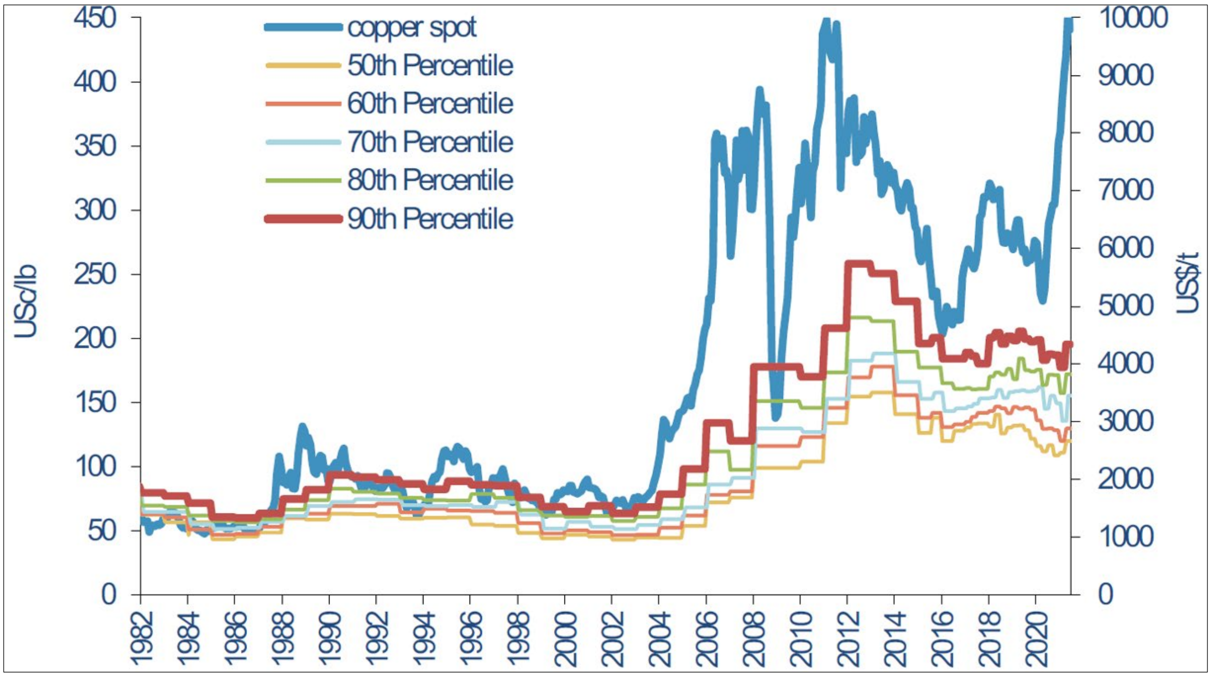
But looks – especially at first glance – can be deceiving. Historically (and perhaps in over-simplified terms), commodity prices have tended to fluctuate around marginal cost of production. The chart below illustrates this for copper – which incidentally has traded far higher above marginal cost of production in recent years than most other metals.

Figure 11: Copper price vs. marginal cost of production



Source: Wood Mackenzie, Morgan Stanley Research (30 June 2021)

Clearly, prices well above marginal cost of production have portended lower prices, and vice versa, in a fairly predictable pattern. And very clearly, currently copper prices (and many other mined commodity prices) are at almost record levels above marginal production costs. Which will make continuous increases in their prices a historical anomaly from this point on. And which does not bode well for the prices of mining equities.

Furthermore, different to many other equity sectors or indices, earnings multiples have historically had almost no predictive power for the longer term (five to ten year) returns delivered by mining equities. The table below illustrates this point.

Figure 12: Correlation between Datastream World General Mining index multiples and future five- and ten-year real US dollar investment returns

Multiple	**5-year real USD total return CAGR**	**10-year real USD total return CAGR**
Price Earnings	2%	13%
Price to Book	-24%	-32%
Dividend Yield	34%	30%
EV/Sales	-23%	-20%
EV/EBITDA	8%	4%
EV/EBIT	-8%	25%
CAPE	-26%	-54%

Source: Refinitiv Datastream, Rozendal Partners (30 June 2021)

Notice the negligible correlation between earnings multiples (Price Earnings, EV/EBITDA, EV/EBIT) and long term returns from the sector. Even the best predictors of long-term returns (Price to Book, Dividend Yield and Cyclically Adjusted Price Earnings – 'CAPE') show very weak correlations compared to many other mainstream equity sectors and indices. The message is simple: be very cautious of relying on popular earnings multiples when allocating capital in the mining sector. And be very cautious of the sector when commodity prices are well above marginal production costs.

The Rozendal funds do have exposure to the commodity sector. But this allocation is either in investments where we have been selling down positions (in the Hedge Fund), or where there are some company specific factors that we believe makes the investment case different to simply an allocation to mining equities in general (in both the Hedge Fund and the Global Fund). Or it is in commodities where current prices are below or close to marginal production cost – and far below prices required to incentivise new supply. We believe that is a more prudent stance towards the sector than allocating capital to the sector based on superficial fears about inflation and superficially attractive earnings multiples.

Yours sincerely,

____________________ ____________________

Wilhelm Paul

23 July 2021