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Rozendal Partners Investor Letter 31 December 2021

Rozendal Global Fund: performance vs. benchmark

Period	**Fund***	**Benchmark****
Since inception***	6.1%	17.0%
Year to 31 December 2021	1.9%	18.5%

*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 performance shows longer term performance rescaled to a one year period. Annualised performance is the average return per year over the period. Actual annual figures are available on request. Fund highest rolling one year return: 33.5 Fund lowest rolling one year return: 1.9% These represent the highest and lowest returns for any one year over the period since inception.

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

Period	**Fund***	**Benchmark****
Since inception***	11.2%	9.3%
Year to 31 December 2021	34.3%	29.2%

*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 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 performance shows longer term performance rescaled to a one year period. Annualised performance is the average return per year over the period. Actual annual figures are available on request. Fund highest rolling one year return: 50.6%. Fund lowest rolling one year return: -14.3% These represent the highest and lowest returns for any one year over the period since inception.

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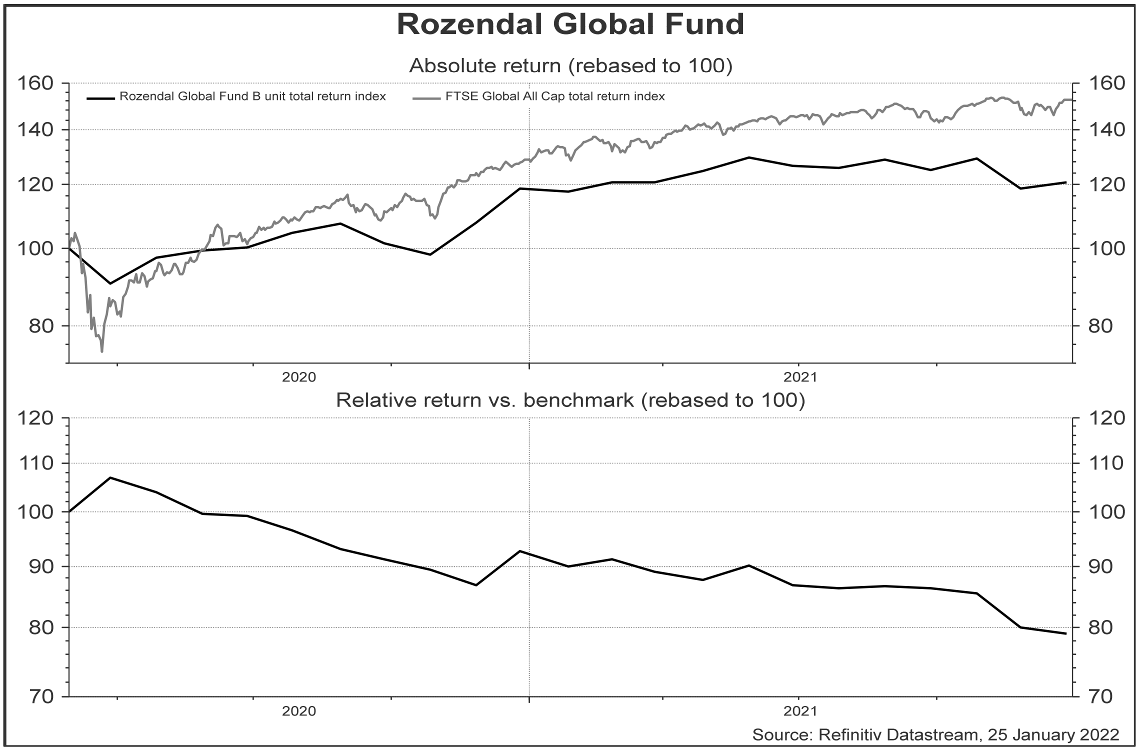

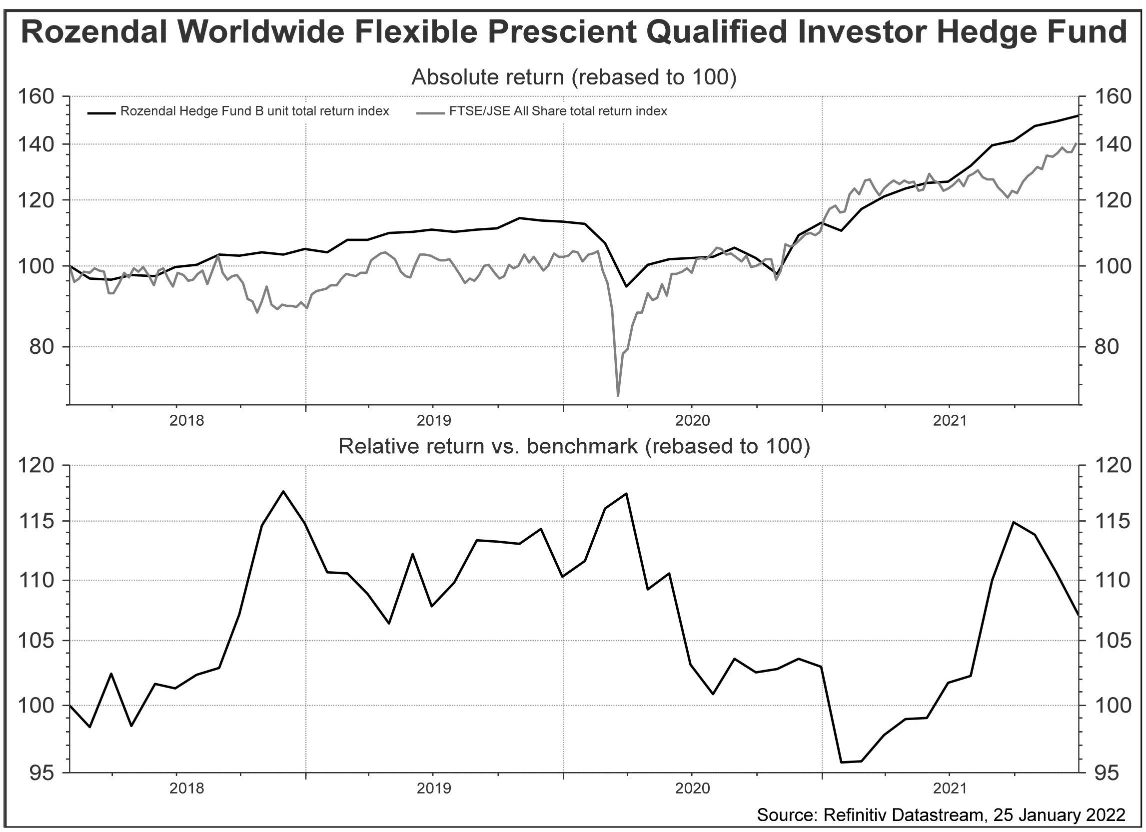

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Dear friends and fellow investors,

A. Introduction

We are happy to commence this letter in our usual fashion: by discussing investment returns and investment ideas. This represents a reversion to our typical format: our last letter (of June 2021) had some gut wrenching news to deliver in our opening comments. We will provide some more details in the 'Rozendal Partners Update' section below, but we have largely put that most unpleasant of episodes behind us.

To ensure that the largest number of readers are made aware of this, we will also mention right away that we will be hosting our second annual investor report back session on 10 February. If you are at all interested in participating in this, please refer to the 'Rozendal Partners Update' section of this letter for more information.

With that out of the way, we can move on to the topic that we all care about most: investment returns. First, some context:

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	One year return to December 2021
MSCI All Country World	9.7%	12.8%	19.0%
Energy	-2.5%	-0.1%	37.5%
Materials	3.2%	14.9%	15.3%
Industrials	8.8%	11.6%	16.6%
Consumer Discretionary	13.9%	16.0%	9.2%
Consumer Staples	9.3%	7.7%	11.7%
Health Care	14.0%	10.5%	18.0%
Financials	6.2%	7.5%	25.1%
Information Technology	18.6%	26.7%	27.7%
Communication	7.9%	9.9%	10.8%
Utilities	6.5%	9.8%	11.0%

Source: Refinitiv Datastream, 25 January 2022

The first six months of 2021 set the tone for sector returns for the full year – by and large sectors that did well in the first half did well for the full year. But interestingly Information Technology performed very well in the last six months of the year, after a mediocre first six months. This is interesting because there has been a sharp divergence in returns between the stocks of well-established large cap technology companies and those of unprofitable and more speculative technology companies. Chart 1 below illustrates the price change of the Goldman Sachs Non-Profitable Tech index (GSCBNPTC – black line) compared to that of the Nasdaq 100 index (grey line) during 2021.

Chart 1: GSCBNPTC vs. Nasdaq 100

Source: Refinitiv Eikon, 25 January 2022

While the Nasdaq 100 is up more than 25% for the year, the unprofitable tech index is down more than 20%. Most of this decline happened in the last few weeks of the year. Many have suggested this sharp reversal of fortunes portends the end of the speculative excess we have seen in markets in recent years. We have no explicit view on this but continue to steer clear of areas of the market where speculation seems rife.

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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	One year return to December 2021
MSCI All Country World	9.7%	12.8%	19.0%
Value	6.8%	8.2%	20.4%
Momentum	14.3%	17.9%	8.4%
Size	6.5%	10.4%	10.2%
Quality	13.4%	16.7%	22.5%
Volatility	9.8%	9.8%	14.5%
Dividend Yield	7.9%	9.9%	15.2%
Growth	12.4%	17.3%	17.3%

Source: Refinitiv Datastream, 25 January 2022

The factor returns show some evidence of the much talked about resurgence of Value, but interestingly, Quality has had an even better showing than Value, despite this receiving comparatively little media attention. This shift to quality is clear in developments in the technology sector as per Chart 1 above: unprofitable companies are usually excluded from any definition of quality!

As for regional indices, the US has continued to power ahead.

Table 3: Global geographical equity index returns

Regional equity index	Compounded annual total return: 10 years to December 2020	Compounded annual total return: 5 years to December 2020	One year return to December 2021
MSCI All Country World	9.7%	12.8%	19.0%
MSCI World	10.5%	12.8%	22.3%
MSCI Emerging Markets	4.0%	13.2%	-2.2%
MSCI Frontier Markets	3.6%	6.6%	20.1%
S&P 500	13.9%	15.2%	28.7%
Stoxx Europe 600	6.3%	7.7%	16.7%
MSCI Asia Pacific Ex-Japan	6.5%	13.2%	-2.7%
Tokyo Stock Price Index (Topix)	7.0%	8.8%	1.1%

Source: Refinitiv Datastream, 25 January 2022

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

B. Investment Returns

1. Rozendal Global Fund ('Global Fund')

The Global Fund has had a disappointing year. A low single digit positive return was far less than that delivered by the fund's benchmark. In addition to the active detractors from returns highlighted below (i.e., investments held by the fund which performed poorly), a key reason for the underperformance has been a relative lack of allocation to the large capitalisation US technology shares which have been pulling world indices inexorably higher. Whilst we are not oblivious to the investment merits of those businesses (and have in fact owned the likes of Microsoft and Amazon in funds managed by us in the past – in addition to our current ownership of Meta Platforms), we have not been able to justify allocating capital to most of these shares in recent times. This has cost us.

On the positive side, there have been some notable contributors to returns over the past year. The top contributors have all been commodity producers – a reflection of a very strong price environment for these businesses.

Contributors

a. Cameco

Uranium miner Cameco already featured as a top contributor to the Global Fund in the first half of the year (and, for that matter, in 2020) – but that did not hold it back from continuing its upward trajectory in the second half. Tightness in almost all energy markets on the back of a recovering global economy and supply constraints – often arising from political interference in markets – have resulted in rising energy prices across the globe.

In the case of uranium, the establishment of the Sprott Physical Uranium Trust made investment into uranium far more accessible than it has historically been. This brought a strong new source of demand to the market, pushing the price up from $30 to $45 per pound. However, even this price is not sufficient to incentivise new production. Large assets that are currently mothballed (like Cameco's McArthur River mine) will likely only come back on stream at prices around $50 per pound, and many global exploration assets require prices of $65 or higher to be viable.

In addition to the strong demand, leading global producer Kazatomprom continues to curtail output by 20% from peak production levels as the company pursues a value over volume strategy. Kazakhstan accounts for 40% of global uranium supplies, and the recent unrest in the country has also raised concern about security of supply, supporting the uranium price. With nuclear increasingly being recognised for the clean baseload energy that it can provide, the global fleet of nuclear reactors is growing, which also bodes well for long term demand.

b. Alphamin

Tin miner Alphamin was a new addition to the Global Fund during the year. The company owns one of the premier tin deposits in the world. The deposit is in a remote area of the Democratic Republic of the Congo, which does add some political risk and logistical complications to the business. The high grade of the deposit more than compensates for this though.

The primary end market for tin is solder. Solder is a critical component of the circuit boards used in all consumer electronic devices. With booming demand for these products in recent times, demand for tin has been strong. Coupled with dwindling supply of readily accessible resources in traditional producers Myanmar and Indonesia, the tin price has soared (from very depressed levels). Adding to this, Alphamin has announced very strong drilling results in the orebody on which the company intends to develop a second mine. This mine will be substantial in size: about 80% of the size of the existing mine. All of this has worked wonders for the stock price since the Global Fund acquired shares in the company.

c. Lukoil

Lukoil has been a mid-sized holding in the Global Fund since the middle of 2020. It is one of Russia's leading oil producers. It is a low-cost producer by global standards, with ample reserves, but does carry the 'Russia political risk' burden. Over the past year the oil price has increased sharply (from c.$50 per barrel at the start of the year to c.$80 per barrel at the end), pulling share prices across the sector up in its wake. Strong demand from a global economy on the mend after the Covid pandemic and a muted supply response from oil producing countries were the prime drivers behind this price increase. This positive development had a greater bearing on Lukoil's share price than any ongoing political concerns about Russia.

Detractors

a. Migros & Sabanci

Migros and Sabanci featured as detractors from returns in the first half of 2021, and unfortunately continued the trend in the latter half of the year. Politics in Turkey have been chaotic. Flip-flopping on monetary policy has resulted in an unimaginably volatile exchange rate. Whilst local currency share price moves were modest (down for Migros, up for Sabanci), the Turkish lira depreciated by more than 40% during the year. This number was close to 60% during mid-December: but then the government announced some novel measures to protect domestic savers from lira depreciation, which resulted in the currency appreciating by 40% overnight. The central bank also intervened on large scale in the currency market, which supported the lira late in December. The country has a relatively low debt to GDP ratio which does mean that the country can afford these interventions for some time to come.

Turkish president Erdogan has been losing support in the country and may well lose power in the upcoming 2023 elections – which will probably be a net positive for the country. We remain invested in Turkey, and the companies we are invested in are doing well, but the environment is not for the faint of heart.

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b. Superdry

Superdry is a relatively recent and relatively small addition to the Global Fund. As a retailer for which physical stores are still an important source of revenue, Covid lockdowns in its key markets (notably the UK) has made life difficult for the business. After showing clear signs of an improvement in business conditions in the first half of the year – which the market loved, sending the share price sharply higher – enthusiasm for the business seemed to wane in the second half of the year (along with much of the rest of UK apparel industry stocks).

c. Silver

As the prospect of US interest rate increases have become more tangible, both the silver and gold price came under modest pressure during the past year. Silver has been a holding in the Global Fund since the middle of 2020. Its low double digit percentage decline for the year detracted from returns.

2. Rozendal Worldwide Flexible Prescient Qualified Investor Hedge Fund ('Hedge Fund')

The Hedge Fund had a very strong year. This was despite the weak performance of the Global Fund[1] - which the slight weakening of the Rand for the year could not offset. Broadly speaking, many of the South African industrial stocks which suffered badly during 2020 made a strong recovery during 2021, as business conditions improved, and economies normalised. We highlight the most relevant contributors to the Hedge Fund's returns below.

Contributors

a. MTN

After a number of years of being a grave detractor from fund returns, MTN contributed positively in spectacular fashion during 2021. After increasing by about 70% in the first half of the year (and featuring as a top contributor then), the stock leapt a further 65% in the second half of the year. From the beginning to the end of the year, the share price moved from about R60 to R170. All of this happened on the back of the (very oil dependent) Nigerian economy recovering as the oil price increased, and several regulatory and licensing challenges that held the company back in recent years were dealt with or progressed favourably. In addition, the company disposed of assets (and minority stakes in subsidiaries) which brought hidden value in the group to the fore, and which also finally put to bed concerns around the strength of the group's balance sheet – which concerns had hung over the business for the better part of the past five years. MTN has been a top ten holding in the Hedge Fund for some time. Its contribution to fund returns in 2021 was most gratifying.

[1] As a reminder, the Hedge Fund is invested in the Global Fund (in a zero-fee unit class). The size of this investment has historically varied between about 40% and 60% of the Hedge Fund. In the Hedge Fund's MDD we do not show the Global Fund investment as a separate holding, preferring to show top holdings on a 'look through' basis, so that underlying investment exposure is more apparent.

b. York Timbers

York Timbers featured in our June 2021 letter – as one of the leading detractors from returns. The share price reversal has been spectacular: after a modest decline for the first six months of the year, the price doubled during the last six months. This was triggered by activist investors A2 Capital acquiring a substantial interest in the business and commencing a major push for change in governance. As one of the larger shareholders of York Timbers, we have been in close contact with A2 Capital throughout, and believe they are driving change in the company which has been long overdue. A very strong domestic market for the timber that York produces also aided financial results, which no doubt helped the share price along as well.

c. PPC

Like MTN, PPC was a top contributor during the first half of 2021 – and then proceeded to add another 30% plus to its share price to the end of the year. In all, the share price increased from about R1.40 to about R5.00 during the year (but note that it was not held in the Hedge Fund in the early months of the year). A smooth execution of the restructuring of its DRC business, coupled with successful de-gearing and a notable improvement in business conditions has seemingly proven to the market that PPC is finally out of the woods. With cement sales volumes exceeding 2019 levels, cement prices increasing meaningfully in the latter part of its financial year, and the South African government designating locally produced cement as the only allowable cement to be used in government projects, near term prospects have taken a dramatic turn for the better compared to the last few years. The market has clearly taken note.

Detractors

It is probably fair to conclude that if even the bottom performers in a fund delivered a positive return, the fund has had a good year. Whilst the stocks we highlight below were relative laggards in the fund, they still delivered positive returns.

a. Impala Platinum

The spectacular recovery in platinum mining share prices following their plunge during the early stages of the Covid pandemic largely came to an end during the early part of 2021. Weak demand from automotive manufacturers due to computer chip shortages during the year played some part in moderating the high platinum group metals ('PGM') prices witnessed during the latter months of 2020 and the early months of 2021. In addition, a bidding war between Impala and rival PGM miner Northam for smaller miner Royal Bafokeng Platinum late in the year was also not necessarily viewed favourably by the market. This all served to limit the Impala share price's gains for the year, despite a very strong start to the year.

b. Blue Label Telecoms

Blue Label Telecoms was a notable contributor to fund returns during 2020, but these gains moderated somewhat during 2021. While the underlying businesses remain healthy, and Cell C is on a steady footing, there is still not clarity on the final recapitalisation of Cell C. This is likely dampening market sentiment towards an otherwise strongly performing business.

C. Investment Cycles Completed

It gives us great pleasure to report that we have completed an investment cycle in one of the holdings of the Global Fund: Booking Holdings, Inc. We will discuss this investment first, followed by the investment cycles completed in the Hedge Fund during the past six months.

1. Booking Holdings, Inc. ('Booking')

Booking was founded in 1998 as the business known as Priceline. Priceline was one of the early travel price-comparison websites in the US but historically played number two in the online travel agency ('OTA') market to market leader Expedia. Priceline acquired Active Hotels and Booking.com during 2004 and 2005. These two businesses were two leading European hotel booking services at the time and made Booking the OTA market leader in Europe.

Over time, Booking managed to grow its market share in the US. Expedia followed mainly a 'merchant model' of effectively buying room nights in bulk from accommodation providers and on-selling these to customers at a profit. Booking, on the other hand, followed mainly the agency model of selling room nights on behalf of accommodation providers for a commission. The appeal of the merchant model for an OTA is that the customer pays for services upfront. The OTA gets to keep the cash, and only pays this over to the service provider (net of its commission or profit margin) at the time that the service is delivered. This provides the OTA with a substantial 'float' – money it gets to use without having to pay interest thereon. Expedia's fondness of float allowed Booking to grow its market share by being willing to give up float in exchange for more business from lodging providers under the agency model.

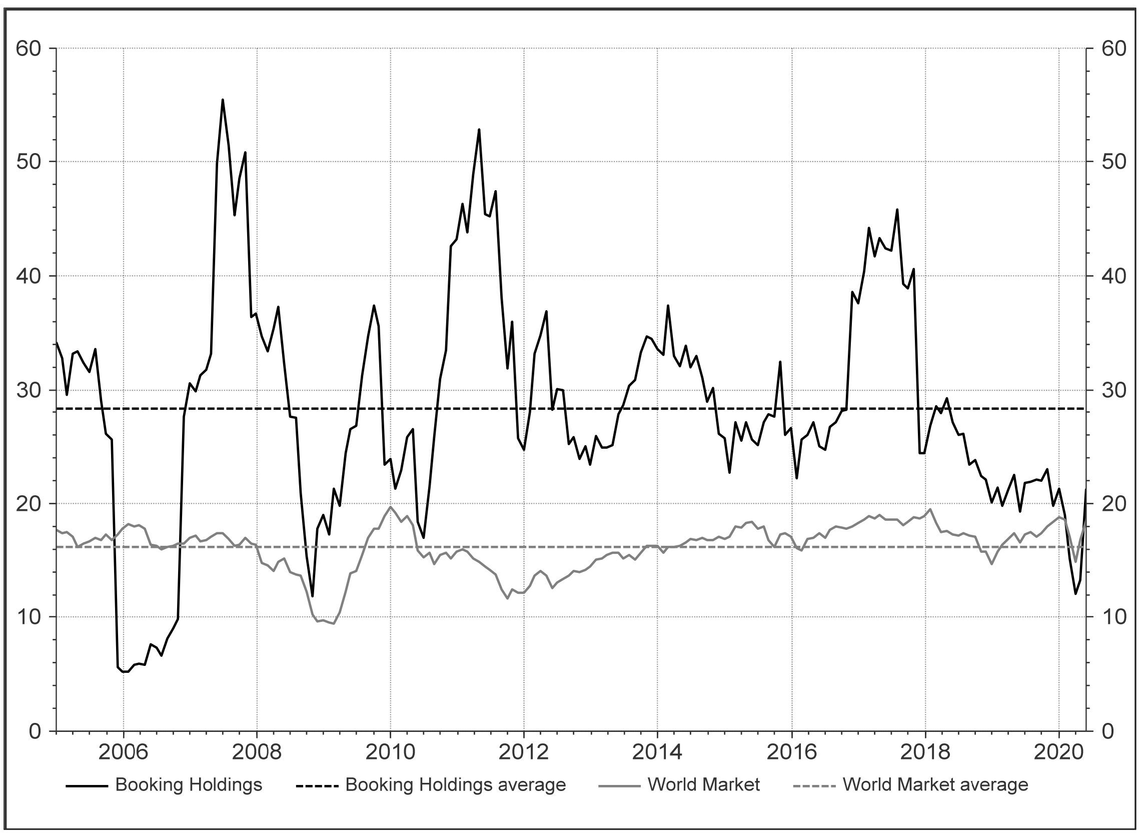
Booking also undercut Expedia on price. Where Expedia was charging service providers a c.25% commission, Booking charged 15% - in line with traditional travel agency take rates. Nonetheless, to this day Expedia remains a far larger business in the US than Booking.

Booking managed to build on its early advantage in Europe very successfully though. And in many ways the European market was (and still is) more attractive for an OTA than the US market. Whereas the US market has a limited number of very large hotel operators accounting for a large share of the market, the European market is much more fragmented. Large hotel groups have the necessary resources and reach to market their offering themselves. Operating a large network of hotels also makes a loyalty program much more appealing to customers. All of this makes large hotel groups far less reliant on the marketing services of OTA's than is the case for most independent lodging providers.

Large OTA businesses benefit from the same network effect that most marketplace business have: the more service providers the OTA offers access to, the more it appeals to customers. And the more customers the OTA has shopping for services on its website, the more appealing it becomes for service providers to offer their services to customers via the OTA. This dynamic typically makes it very difficult to dislodge market leaders from their position – as has been evident in Expedia and Booking maintaining their market leadership in the US and Europe, respectively.

Combining this attractive business model with a market that historically had substantial runway for growth (as OTA's continue to take market share from traditional travel agents that still have 50% of the market) made for a very enticing business proposition. The appeal of the OTA business model has been well understood by the market though. This is evident in the market ratings enjoyed by these businesses historically. Chart 2 below illustrates the point: Booking Holdings' price earnings ratio was historically close to 30 on average, compared to mid-teens for the world market

Chart 2: Booking Holdings vs World Market price earnings ratio

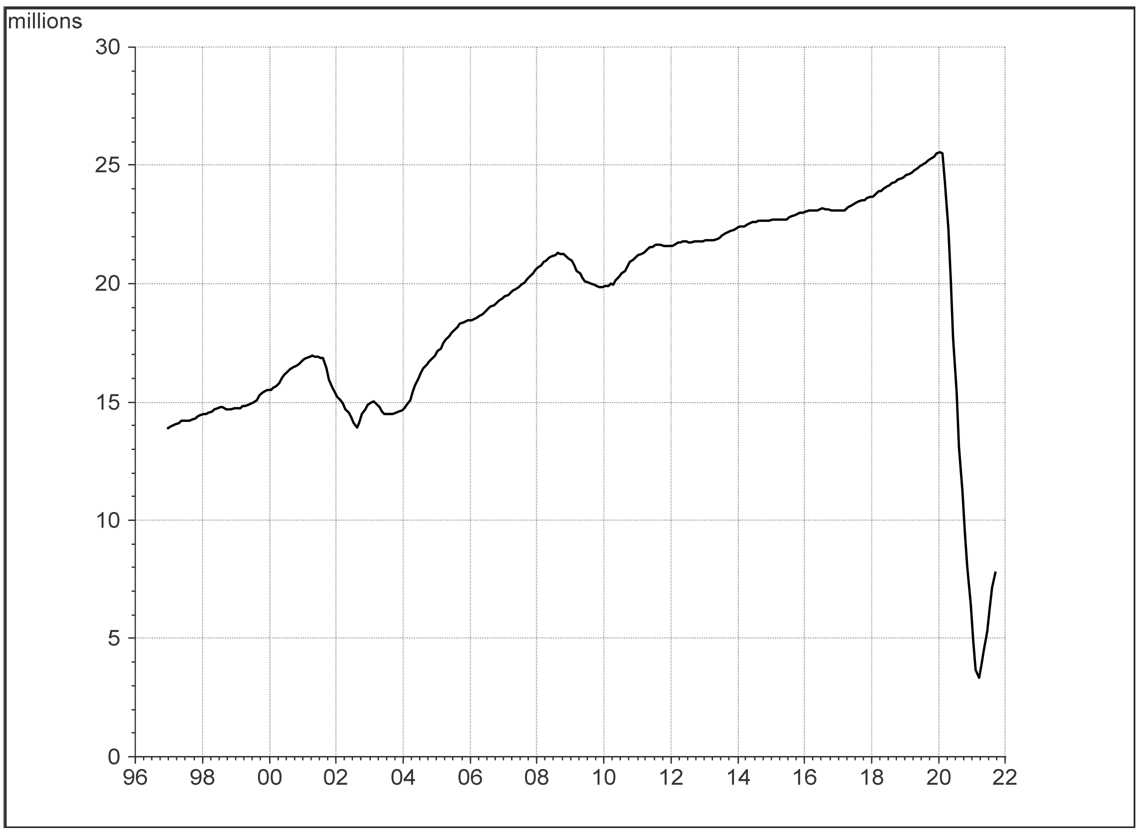


Source: Refinitiv Datastream, 31 May 2020

It often takes a major market disruption to create attractive investment opportunities in the shares of well-loved businesses like Booking. For the travel industry, Covid-19 was – to put it in the most euphemistic of terms - just such a disruption.

The scale of the havoc wreaked upon the travel industry by Covid-19 is difficult to verbalise. It has probably been the most severe disruption to the industry since the onset of modern aviation and intercontinental tourism. Chart 3 below shows this clearly.

Chart 3: 12 month moving average of US international revenue passenger miles flown: 1996 - 2022



Source: Refinitiv Datastream, 25 January 2022

The share prices of OTA's plummeted along with bookings and activity in the tourism industry: from its peak in January 2020 to its trough in March 2020, Booking's share price fell about 45%. This decline went so far as to present reasonably attractive long-term value in the share price by early/mid-2020. Our assumptions in arriving at this conclusion were broadly the following:

a) 2019 represented a normal year of revenue. Our expectation was that it would take about a year from mid-2020 for revenue to return to 2019 levels.
b) Longer term EBITDA margins will be slightly lower than that seen in the preceding five years, due to pressure from Google (which was building out its Flights and Hotels travel business), and from consolidation amongst hotel operators.
c) A 12 times EV/EBITDA multiple represents a reasonable fair value for the business. This was lower than the historical rating enjoyed by the stock but was a fair reflection of the greater maturity (and hence lower growth prospects) of the business and the market.

The key question of course was whether the businesses could see through the pandemic. We took some comfort from the following:

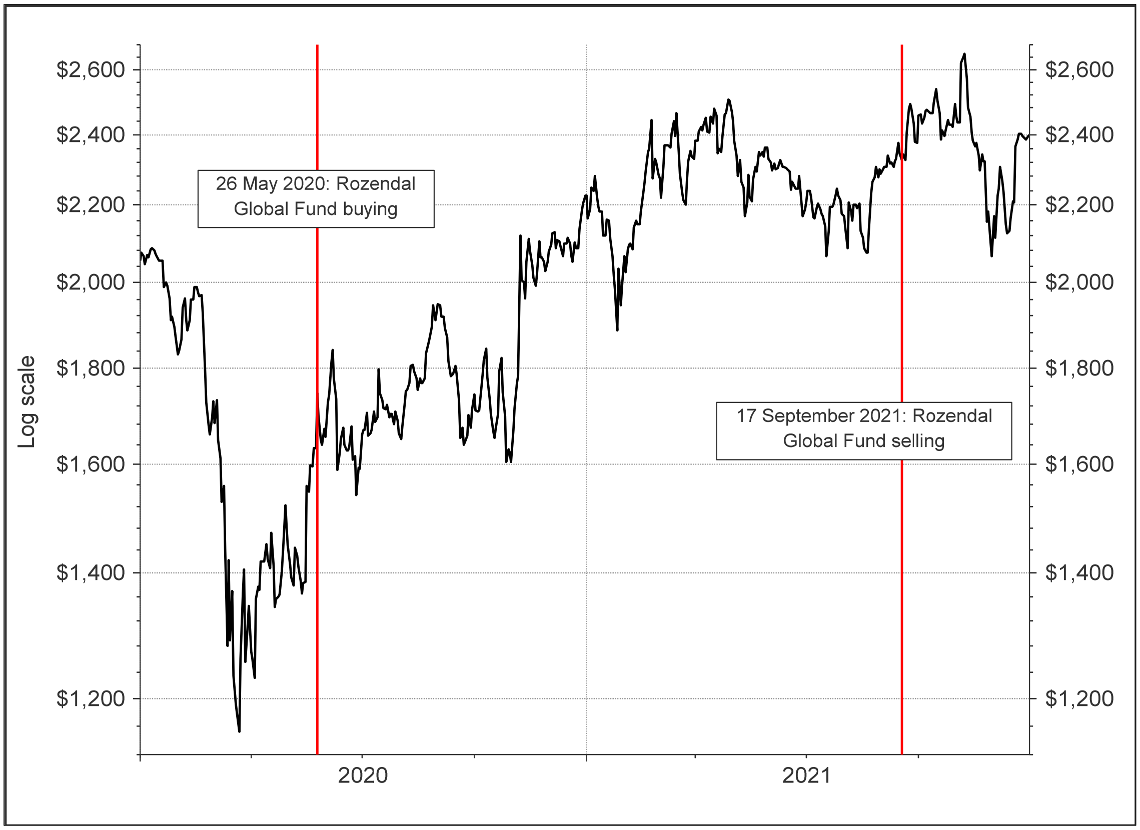
a) Booking had a strong balance sheet going into the pandemic, with only 0.2 x net debt to EBITDA. Whereas Expedia faced the financial risk of having to fund large refunds of prepayments made by customers (under its merchant model), this was far less significant for Booking.
b) Advertising spend (largely on Google) is by some distance the largest expense Booking incurs annually. This is a variable cost, that can easily be cut back aggressively for short periods of time.
c) Booking held meaningful stakes in three Chinese travel-related businesses (Trip.com, Meituan and Didi Global), which were readily saleable assets in case of a desperate need for cash.

We proceeded to allocate capital to Booking shares in May 2020. Despite the sharp share price decline, our assessment of fair value was not so far above the share price as to warrant a substantial investment: Booking never featured as a top ten holding in the Rozendal Global Fund.

Booking's business results followed travel industry conditions: revenue for the second quarter of 2020 was 84% lower than the comparable quarter in 2019, and the company suffered an EBITDA loss of $340 million, compared to a profit of more than $1.3 billion a year before. Covid-19 continued (and continues) to impact the travel industry for much longer than we initially anticipated. Nonetheless, Booking's share price followed a typical 'Covid re-opening/recovery' pattern: after recovering from the initial panic, there was a sharp move upwards when it was announced in November 2020 that vaccines had been developed successfully. Since then, it has been a slow drift upwards.

This slow drift upwards took the Booking share price past our estimate of fair value. After announcing their first EBITDA profitable quarter since the onset of the pandemic for their second quarter 2021 results, our assessment was that the market no longer had a meaningfully wrong view of the business, and hence we sold the Global Fund's holding of Booking shares.

Chart 4: Booking Holdings share price and investment actions taken



Source: Refinitiv Datastream, 25 January 2022

The Booking Holdings investment has been a good one for the Global Fund: it delivered an internal rate of return of 27.1%. In relative terms, the result has been weaker though: the FTSE Global All Cap index returned 36.3% for this period. But long term we will happily take a 27% compounded return from any investment we make in the Rozendal Funds.

Some key takeaways from the Booking investment:

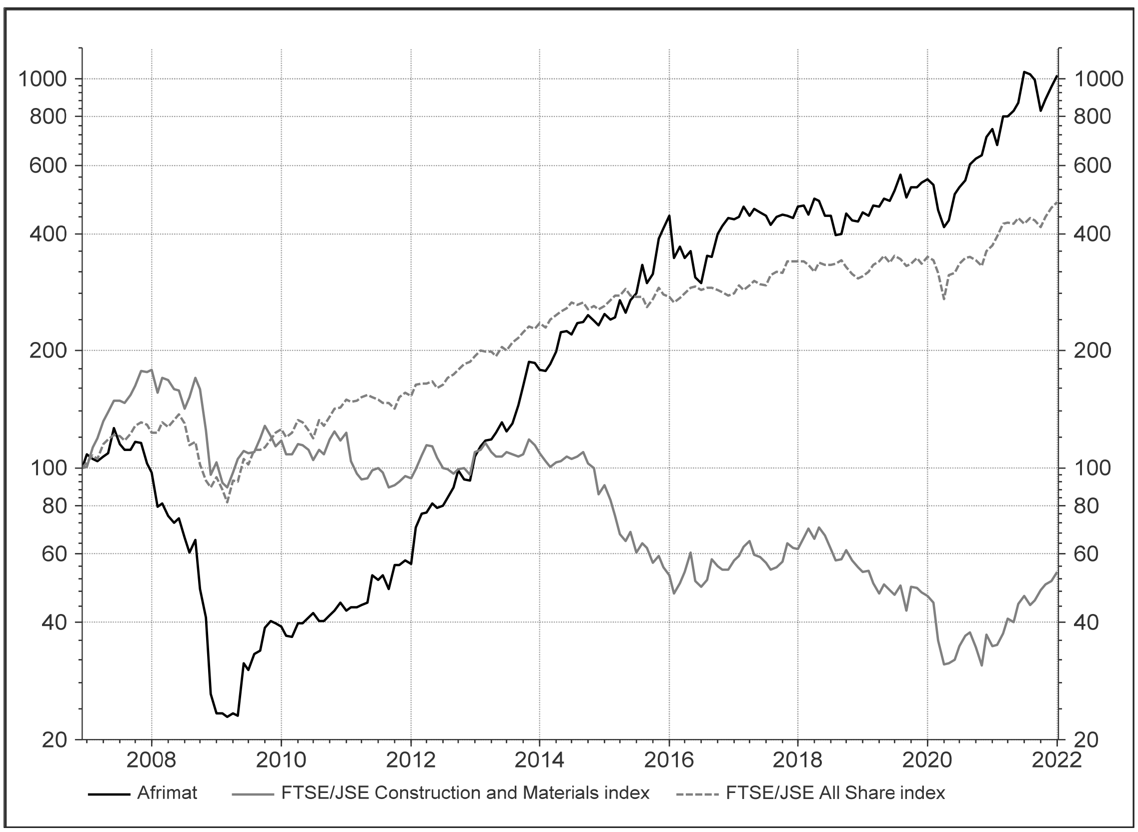
- A strong balance sheet and a variable cost structure is a great 'margin of safety' in unforeseeably difficult business conditions.
- Even great businesses that are perennially priced very highly by the market are at some point in their lives likely to face circumstances that scare the market and drive share prices to appealing levels from a long-term value perspective. Patience provides opportunity – eventually.
- Be wary of building investment cases on an explicit forecast of when a business or industry cycle is likely to turn. Had our Booking investment thesis been critically dependent on our initial expectation of industry conditions returning to the historical norm within a year of our initial investment, the investment outcome would have been materially different.

2. Afrimat

The Hedge Fund acquired an investment in Afrimat late in 2020 by virtue of tendering its shares in Unicorn Capital Partners to Afrimat in exchange for Afrimat shares in terms of the take-over offer made by Afrimat for Unicorn Capital Partners ('UCP'). We commented on this transaction in our letter of December 2020. In keeping with the size of the investment in UCP, and our assessment of the attractiveness of Afrimat as an investment, Afrimat never became a substantial investment in the Hedge Fund. Nonetheless, it warrants discussion.

Afrimat came to the listed market during the 2006 South African construction industry listings boom. Initially it was a quarrying business, and in sharp contrast to many other companies that came to market during that period, managed its cash and acquisition activity remarkably well. After the construction boom came to an end post the 2010 Soccer World Cup, the company started acquiring related businesses, typically paying very good prices for neglected assets which Afrimat's management then managed to run better than previous owners were doing. This created huge value for shareholders. Since listing, Afrimat has been a ten-bagger for shareholders, whereas the JSE's Construction and Materials index has declined by 45%.

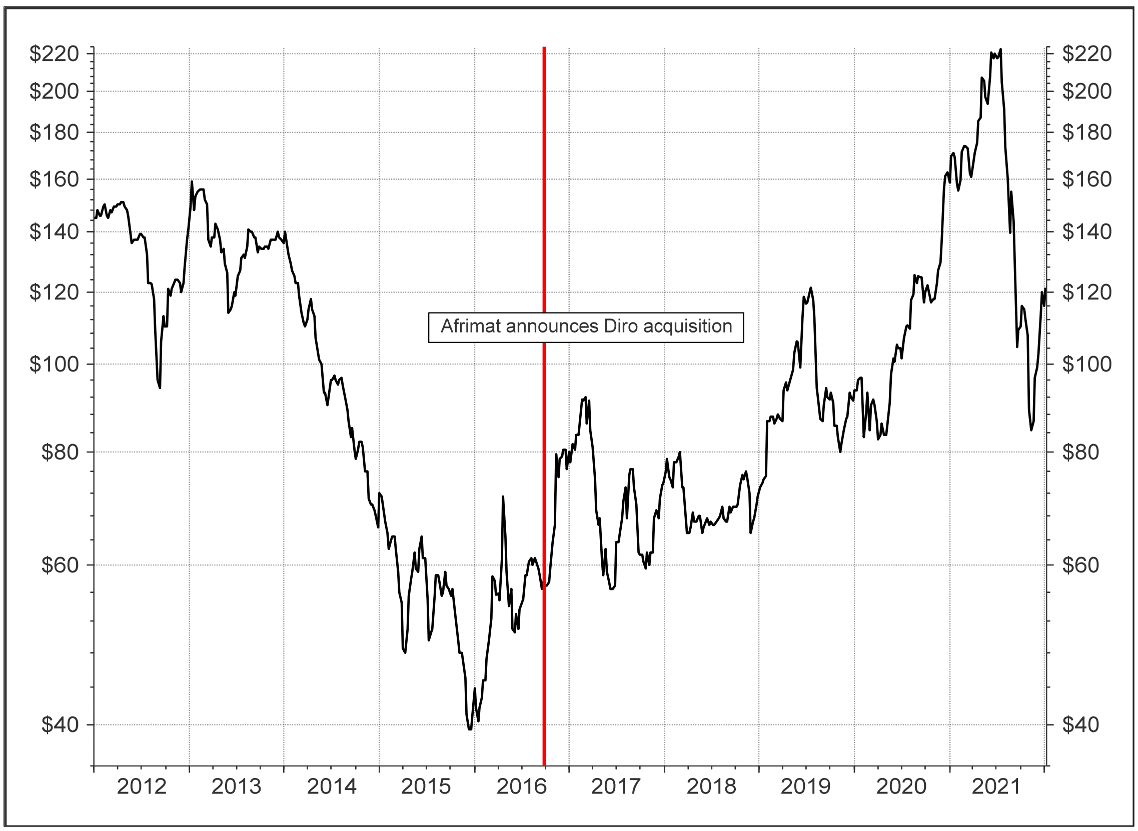
Chart 5: Afrimat vs. peer indices: total returns rebased to 100



Source: Refinitiv Datastream, 25 January 2022

In 2017, the company concluded probably the most significant acquisition in its history: that of Diro Iron Ore. This transaction was negotiated during 2016, on the back of an implosion in the iron ore market during 2014 and 2015 which had put Diro into business rescue. The timing could hardly have been better: the iron ore price shot up within months after the acquisition was announced, and then proceeded to increase, at first steadily, then dramatically, for the next four years.

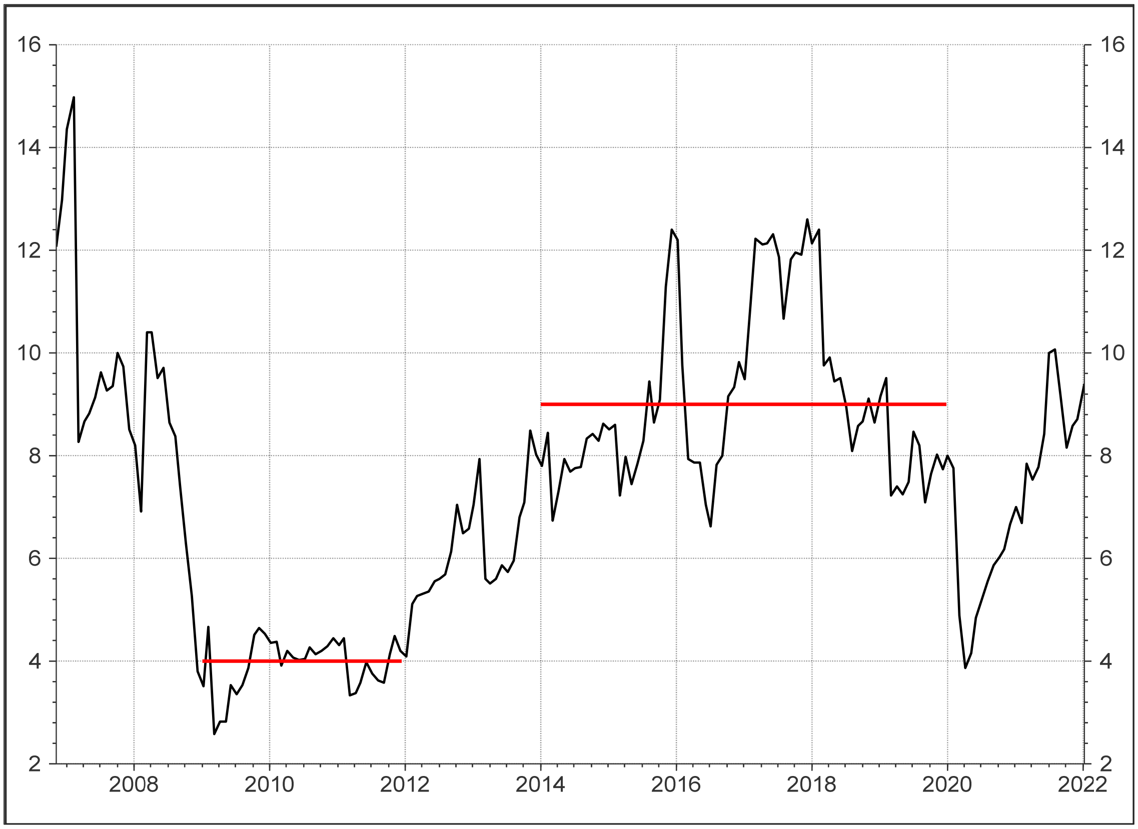
Chart 6: Iron ore price (US dollars)



Source: Refinitiv Datastream, 25 January 2022

At the time that we had to decide about UCP and the Afrimat shares the Hedge Fund was to receive, it was hardly a secret anymore that Afrimat's management team had historically been a cut above the rest of the market. This was reflected in the shares of the company having rerated from around four times EV/EBIT in the early 2010's, to around nine times EV/EBIT in the mid- to late-2010's.

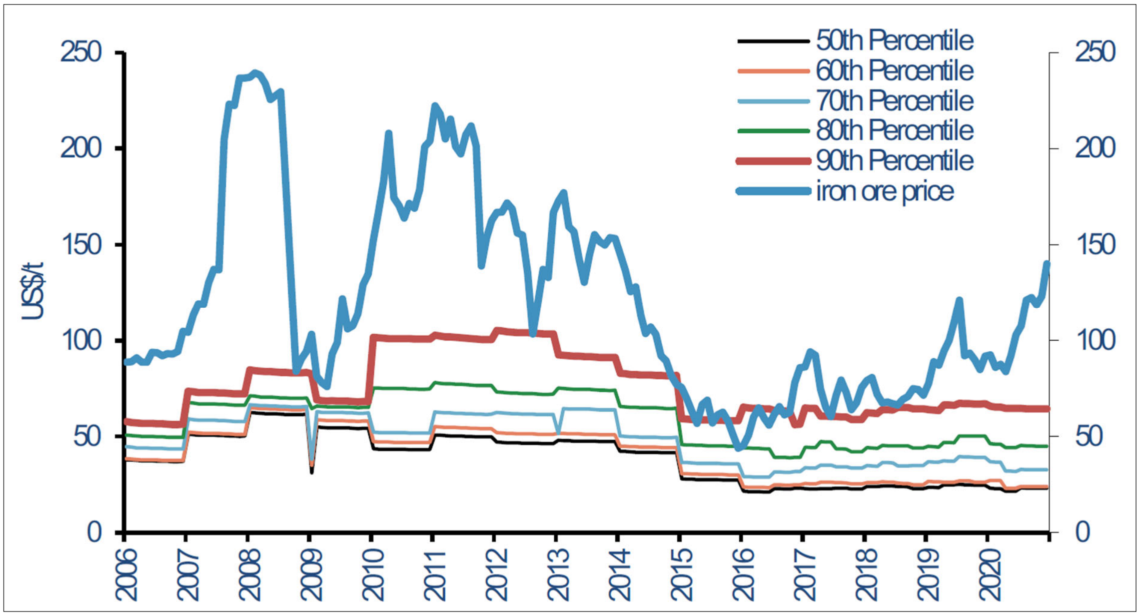
Chart 7: Afrimat EV/EBIT rating



Source: Refinitiv Datastream, 25 January 2022

And equally importantly, profits from Diro (subsequently renamed Demaneng) had exploded to such an extent that by the first half of the company's 2021 financial year (i.e. the six months to 31 August 2020), iron ore was delivering R326 million of the group's R353 million operating profit. Iron ore had become a major part of the investment equation in Afrimat. And there also lay some of the reason we were hesitant to invest more aggressively into Afrimat: our assessment at the time was that iron ore prices were unsustainably high. This assessment was based on the price being well above incentive levels of low- to mid-$50 per ton.

Chart 8: Iron ore price vs. production cost: 2006 - 2020



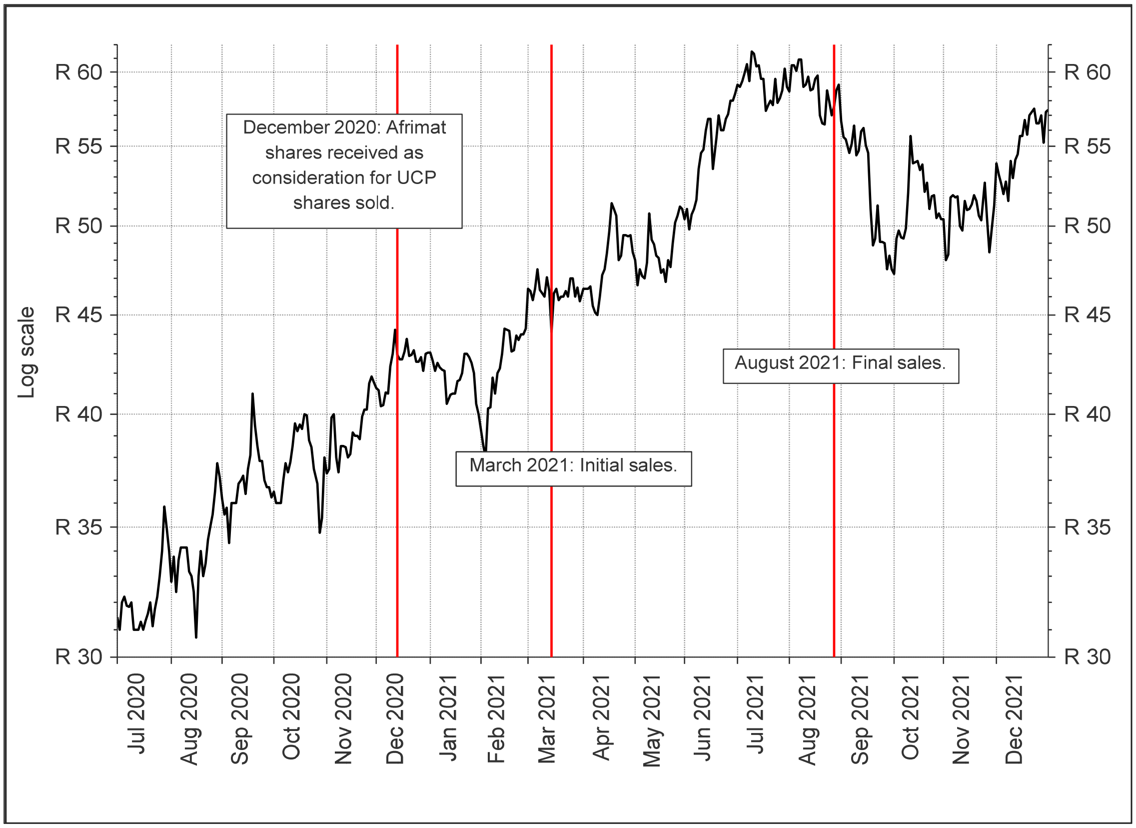
Source: Morgan Stanley, 9 December 2020

Due to various supply constraints in the iron ore market, the price continued to power higher during the first half of 2021. Afrimat's share price had by this stage become almost a pure proxy for the iron ore price and was pulled upwards in its wake. As this move took the Afrimat share price past our estimate of fair value[2], we sold about half of the Hedge Fund's holding in March of 2021. We sold the remaining shares late in August, on the back of:

a) directors selling substantial numbers of shares, and
b) the iron ore price having fallen dramatically after a crackdown on the Chinese property industry (the key consumer of the steel into which iron ore is processed), whilst the Afrimat share price had barely budged. In the space of a month (late July to late August), the iron ore price declined from about $220 per ton to $140 per ton. Afrimat's share price had merely moved from R60 to R55.

[2] Our assessment of fair value gave management full credit for their capital allocation skills, and also specifically imputed value to new projects (Nkomati anthracite, Jenkins iron ore) which had yet to prove their worth in contribution to the company's cash flows.

Chart 9: Afrimat share price and investment actions taken



Source: Refinitiv Datastream, 25 January 2022

A short holding period and a strong share price combined to deliver a very high internal rate of return from the Hedge Fund's investment in Afrimat: 54%, compared to the South African market's 23.8% return.

Key takeaways from our Afrimat investment:

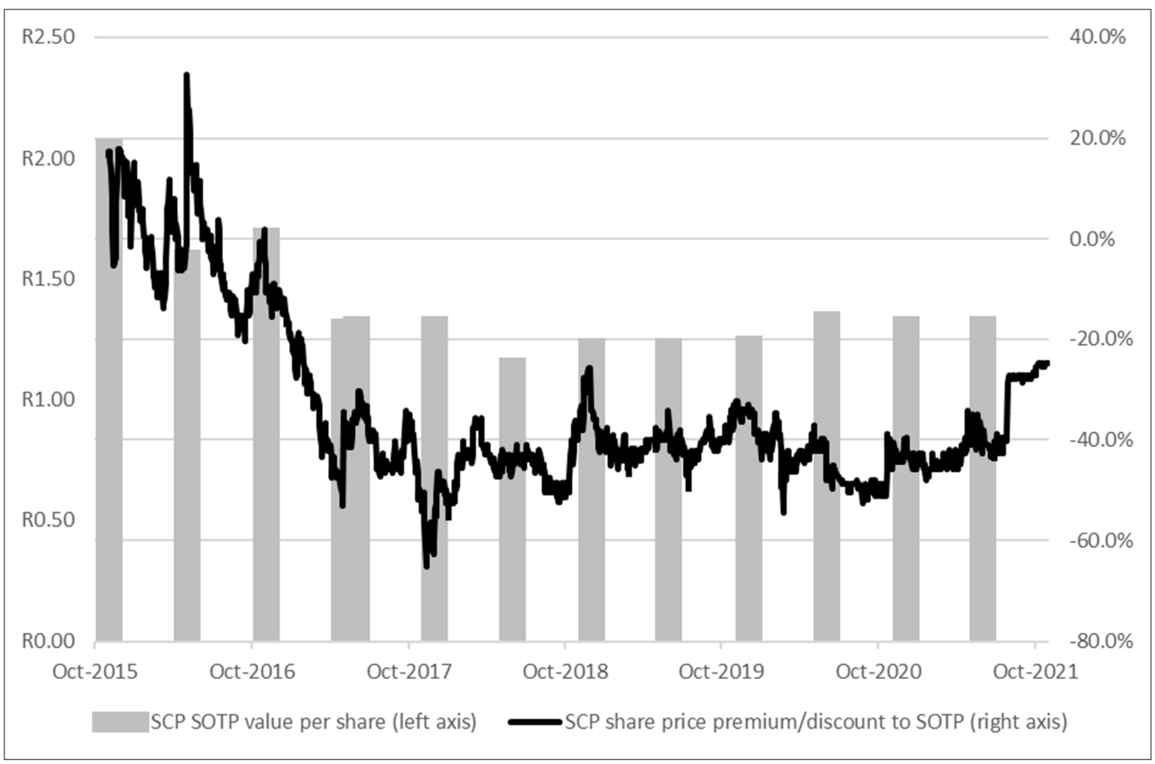
- Astute management can generate huge shareholder value – specifically through smart capital allocation – even in the face of strong industry headwinds.
- Market sentiment and price momentum can carry share prices well beyond fair value. We touched on our perspective on momentum within a value investing framework in our letter of December 2018. Afrimat has been a case in point of momentum working in our favour on the upside.
- At times investors in one market (e.g. the South African stock market) that are somewhat insulated from developments in other markets (e.g. global commodity markets) can pay insufficient attention to important developments in those other markets. This appears to us to have been the case with the Afrimat share price and the iron ore price in recent months. This can create attractive opportunities to take investment action at opportune times.

3. Stellar Capital Partners

Stellar Capital Partners ('SCP') was a JSE-listed investment holding company that came into being in late 2014/early 2015, when a group of investors (including prominent South African businessman Christo Wiese) injected a diverse number of assets into the listed company known as ConvergeNet. The company changed its name to Stellar Capital Partners, introduced a management company (and management fee structure) to manage the assets of the company, and raised a substantial amount of cash shortly thereafter. The cash was raised in the form of both ordinary and convertible redeemable preference shares This cash was subsequently deployed to buy controlling and/or material interests in a range of companies, including Torre Industries, Cadiz Holdings, Amecor, Tellumat and, notably, investment management business Prescient.

By late 2019, SCP's internally calculated sum-of-the-parts ('SOTP') value per share had been driven down to R1.21 - from R2.03 per share in November 2015. This was mainly due to the industrial assets acquired in the 2015 spending spree delivering very poor results. Needless to say, the market took a dim view of this development. Whereas the share traded at a premium to the SOTP value during 2015, this had fallen to a steep discount from 2017 onwards.

Chart 10: SCP SOTP value and share price premium/discount



Source: Rozendal Partners, Refinitiv Datastream, 1 December 2021

By early 2020, the share had been lumbering at a deep discount for some time. What triggered our interest at that time was that after the 2015 – 2017 period of frivolous deployment of capital, the company had disposed of several assets (some at good prices), which had allowed it to redeem the preference share liability that had hung over the company. The remaining assets (most importantly the stake in Prescient) was more appealing than the asset mix had been previously, and there was a substantial amount of net cash on the balance sheet. In addition, around this time management had engaged in a strategic review of the business, and it seemed there was the possibility of the company selling off assets to wind up the company and return capital to shareholders. Buying into a deep discount in this scenario is clearly more attractive than in a scenario where a similar discount is on offer in a company where management simply keeps digging to get themselves out of a hole – whilst quite possibly just digging the hole deeper in the process. And, as a further hint that there was perhaps an interesting investment opportunity, insiders were buying meaningful amounts of shares.

We proceeded to start acquiring shares in SCP early in 2020. This was followed by some more purchases early in 2021. But SCP never became a large position in the Hedge Fund – it was essentially part of our diversified group of small-cap 'South Africa Inc.' investments.

Whilst key asset Prescient continued to deliver strong results for the group after our initial purchases, it also became apparent that there was some disunity amongst the key role players in the company about the strategic way forward. This was particularly important here, as these key role players controlled the management company of the group. In a worst-case scenario, there was a mechanism for shareholders to get rid of the management company, but of course, this would come at a cost: a dilutive issue of a not insubstantial number of shares.

A management company often exacerbates the principal-agent conflict between shareholders and management in a company. This becomes particularly relevant where it will be in the best interests of shareholders to wind up (or shrink) a business. Because fees earned by a management company is often calculated as a percentage of the assets (or equity) of the underlying company, management in a management company structure have a major vested interest to keep the company's asset base as large as possible.

Fortunately, in the case of SCP, the key management (and owners of the management company) were also material shareholders of SCP. This alleviated the conflict-of-interest somewhat. But nonetheless, executing on a value unlock proved simple in some respects and complicated in others. On the one hand, management commenced with a share buyback program. This is one of the most obvious and readily achievable ways to unlock value in a deeply discounted investment holding company with a strong balance sheet. But on the other hand, deciding on a longer-term strategic way forward took an inordinately long time, as various differing interests (between shareholders and management, but also within the management company structure) had to be managed and corralled into a given direction.

The conclusion of this period of introspection and negotiation was that SCP made an offer to all shareholders to buy their shares at a price of R0.97 per share. This was (as usual, in these situations) a modest premium to the prevailing share price, but (as usual) a discount to fair value. The SOTP value per share at this stage was R1.29 per share. As part of executing on the offer, SCP's shares would (as usual) be delisted, making it less attractive for outside minority shareholders to remain invested.

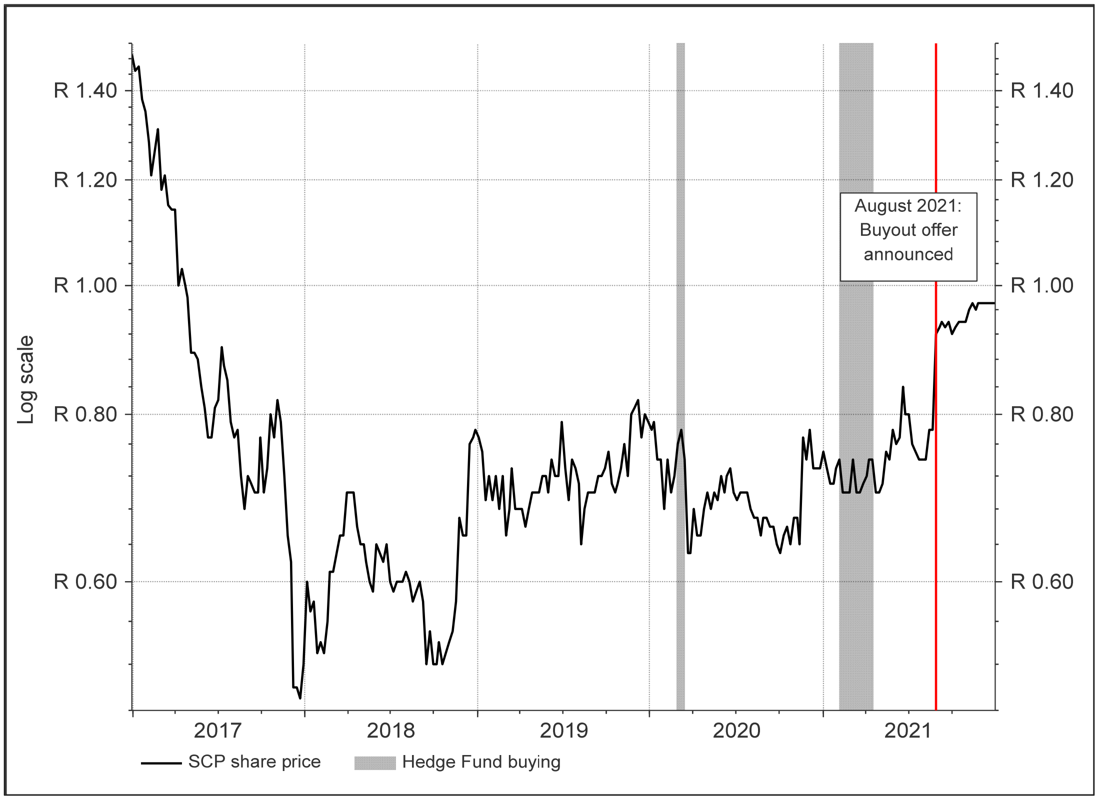
After evaluating all terms of the offer, we decided to sell the Hedge Fund's shares back to SCP at the R0.97 per share offer price. The key aspects guiding our thoughts in this decision were the following:

a) We ascribed a lower fair value to SCP shares than the company's own SOTP value per share. This was mainly to account for management fees[3]. The R0.97 offer represented a narrower discount to our fair value than the discount to the published SOTP value.
b) We could not get excited enough about the underlying assets or expected future capital allocation by management to entice us into remaining invested in an unwieldy minority interest in an unlisted investment holding company.
c) The modest discount to fair value made it a risky proposition to attempt to exercise appraisal rights. While there definitely was some upside if one could convince a court that SOTP value was fair value, the time and cost involved did not appear to make it worthwhile pursuing this avenue.

Despite the modest selling price, SCP has been a good investment: it delivered an IRR of 22.5% for the Hedge Fund - very good in absolute terms. It also beat the South African market over this time, which delivered a return of 19.7% for the time that SCP was held in the Hedge Fund. So, whilst the conclusion of the investment was mildly disappointing, that did not detract from the fact that SCP added most welcome value to the Hedge Fund.

[3] The other major source of value leakage in South African holding companies (capital gains and/or dividend tax) was not a material problem for SCP as the losses incurred on the sale of the industrial assets created a substantial tax shield on future profits from sale of assets.

Chart 11: SCP share price and Hedge Fund investment activity



Source: Refinitiv Datastream, 25 January 2022

Some thoughts on our SCP experience:

- The fact that insiders are likely to pitch buyout offers for listed companies at levels that are attractive to them (and not to other shareholders) can cause frustration but does not have to derail an investment outcome.
- There are some examples of insiders incentivised with a management agreement overcoming these incentives to buy back shares and/or return capital to shareholders. It probably helps to overcome these management contract incentives if the insiders are also meaningful shareholders.
- There can at times be a meaningful time lag between a company announcing a material change in strategy (which is likely to generate or unlock meaningful value) and share prices reacting commensurately. This can present attractive investment opportunities. In the case of SCP, management gave a few public indications that a value unlock may be in the offing prior to the buyout being announced:

- Annual Report for the year ended 30 June 2020: 'The Board is actively engaging its major stakeholders to secure a sustainable strategy for the Group going forward to ensure improved shareholder returns and the efficient allocation of capital.'
- Regulatory ('SENS') announcement 18 November 2020: '…the Board is considering various proposals…which include the following:
  - …evaluating Stellar Capital's continued listing;
  - …ultimately narrowing the discount between the reported NAV per share and the share price of the Company.'

The announcement of 18 November 2020 did result in a sharp increase in the share price on the day (from R0.64 to R0.80), but thereafter drifted lower, presenting ample time to purchase shares at a deep discount to SOTP value prior to the buyout offer being announced late in August 2021.

4. Acacia Volatility Arbitrage fund

Shortly after inception of the Hedge Fund, we were approached by a longstanding former colleague and friend to assist with seed capital for a hedge fund managed by him. In return for the Hedge Fund's seed investment, the Hedge Fund would also be entitled to a 20% stake in the management company of the fund. This we could pursue on account of the very broad mandate of the Hedge Fund, in terms of which it is allowed to own unlisted equity investments.

The Acacia fund (as it was known) had been managed by this individual for many years, but under the flag of more than one different fund management businesses. The fund had suffered some years of weak performance, which had made it difficult to attract clients. In addition, the South African hedge fund industry was under huge investor pressure at the time, making it very difficult to raise new money. This was the type of situation which appealed to us as long-term value investors with a contrarian inclination: allocate capital to areas of the market that are struggling to attract capital, despite a solid long term investment rationale. We proceeded to allocate about 2% of the Hedge Fund to the Acacia fund early in 2018.

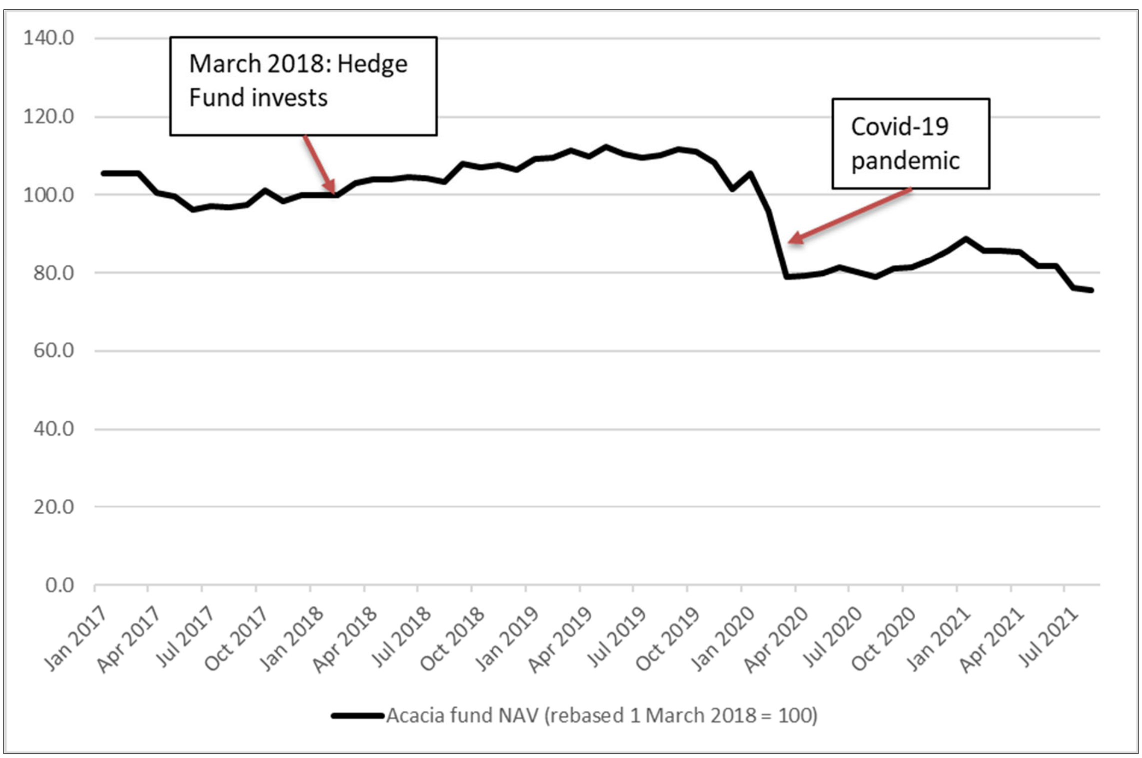
The core strategy of the Acacia fund was to engage in volatility arbitrage in commodity markets – specifically the coffee market. Volatility arbitrage is a simple concept that is complicated to execute. The central premise of the strategy is that options in commodity markets tend to be mispriced. Historically, the implied volatility that determines option prices have been persistently higher than realised volatility. The way to profit from this phenomenon is to sell options, and then hedge out the resulting exposure to the underlying commodity. Again: easy to say, laborious to implement.

The reason this apparent volatility mispricing has persisted over time in commodity markets is usually ascribed to the seasonal pattern of producer hedging. The riskiest period of a typical year for a farmer is when he/she has crops in the ground. Inclement weather or pests at this time can be devastating. As a result, soft commodity options markets typically exhibit seasonality, with implied volatility increasing during planting season (as producers hedge their expected production) and falling after harvest season. This seasonality has historically created good opportunities for arbitrageurs like the Acacia fund.

The return profile from this volatility arbitrage strategy is broadly like that of an insurance company selling crop insurance: in most normal years, one earns a steady profit. But there will be years where disaster strikes, and one loses a lot of money. Unfortunately, during the Hedge Fund's investment period in the Acacia fund, there were three months in which just such substantial losses were suffered (with greater than 5% losses in each of these months). Two of these months came in succession: February and March 2020. This was of course the onset of the Covid pandemic, which threw multiple markets into turmoil. The volatility market was not spared.

The impact of Covid on commodity markets wrong-footed the Acacia fund badly, leading to sharp declines in both of those two months. The prolonged impact of Covid on supply chains and global logistics infrastructure also upended the traditional steady recovery one would have expected after such episodes of heightened volatility. The knock-on effect of this lack of recovery was that the Acacia fund lost assets (due to a client redemption) to the extent that the running costs of the fund became prohibitive. During 2021 the manager decided to unwind the fund and return capital to investors. The Hedge Fund accordingly received the remainder of its investment in the Acacia fund back in August 2021. The 20% interest in the management company of the Acacia fund accordingly never came to represent any value for the Hedge Fund.

Chart 12: Acacia fund history



Source: Rozendal Partners, SANNE, 1 September 2022

The Acacia investment was disappointing, delivering a negative IRR of 7.7%. This compares to the JSE All Share Index that delivered a positive 7.9% annualised return over the period. Some thoughts after our Acacia investment:

- Arbitrage operations in large, liquid markets are probably best left to institutions with the information technology budgets, balance sheets and economies of scale to maximise the wafer-thin margins typically on offer. Fixed overheads spread over a smaller balance sheet (or asset pool) can be very detrimental to returns generated in arbitrage activities.
- As an investor in a fund, if your co-investors do not share your investment risk appetite and time horizon, you can be forced to redeem your investment at an inopportune time. Whilst we may have had the patience to wait for a return to profit in the Acacia fund as the volatility market normalised over time, other investors did not: they then effectively made the disinvestment decision for us.
- 'Sweeteners' in an investment (like the equity stake in the Acacia management company, or a high dividend yield on a risky stock) count for little if the central investment does not develop as expected!

D. Investment Observations

1. Growing intrinsic value: a panacea for overpaying?

In the market environment prevailing in recent years, the idea that great businesses (with 'great' typically meaning one with a long future of robust, profitable growth ahead of it) will protect investors from losses by growing their intrinsic value is something that one hears quite often. The thinking behind this is that if one buys a great business, then the price one pays upfront is not too important, because the business will grow its intrinsic value as it grows its earnings, and this growth in intrinsic value will 'bail you out' if you overpaid somewhat upfront. While intuitively appealing, this argument is unfortunately wrong. Let us illustrate.

Take Company A and Company B. A is a plodding cash cow that is going nowhere and does well to maintain its earnings over a ten-year period. Company B is a 'great' business that is growing its earnings rapidly for the foreseeable future (let's say ten years), after which growth moderates to GDP-type levels. We'll assume an investor requires a 10% rate of return from his/her equity investments.

Table 4: Company A vs Company B earnings and intrinsic value

	A	B
Year 1 - 10 growth rate	0.0%	25.0%
Perpetuity growth rate	0.0%	5.0%
Required rate of return	10.0%	10.0%
Year 1 - 10 earnings		
Year 1	10	10
Year 2	10	13
Year 3	10	16
Year 4	10	20
Year 5	10	24
Year 6	10	31
Year 7	10	38
Year 8	10	48
Year 9	10	60
Year 10	10	75
Terminal value	100	782
Intrinsic value (present value of cash flows plus terminal value)	**100**	**474**

Under the assumptions above, A is worth 100 today, and B is worth 474. As is clear from the terminal values, B will be worth 782 after ten years, whereas A will still be worth only 100. B has grown its intrinsic value very nicely. But (trick question) which has been the better investment (assuming the investor bought both at their intrinsic value)? Neither: both have delivered returns of 10% per annum. This is of course implicit in the calculations: discounting (known) cashflows at a given rate will deliver a buyer of that stream of cashflows exactly that given discount rate as a rate of return, assuming he/she buys and sells the stream of cash flows at intrinsic value.

Let us assume an investor now pays 20% more than fair value for both A and B: 120 for A, and 569 for B. What does that do to his/her realised return over the ten years? Does B's strong growth in intrinsic value protect the buyer from losses? Largely, no. For both A and B, the return has fallen below the required rate, to 7.1% and 7.7% respectively. Both have been subpar investments, despite B's rapid growth.

It is noteworthy though that, to the extent that the return from B when overpaying for it has declined less than the return from A, there has been some protection afforded by B's strong growth. This arises because the early year cash flows expressed as a yield decline more sharply for A than for B in the overpayment scenario. And reinvestment of early cashflows is a more important component of the overall return earned from A than from B.

Table 5: Purchase price impact on Year 1 yield

	A	B
Purchase price	100	474
Year 1 yield	10.0%	2.1%
Purchase price	120	569
Year 1 yield	8.3%	1.8%

This cuts both ways of course: paying less than intrinsic value ratchets up returns more sharply for A than for B. Paying a discount of 20% to intrinsic value increases an investor's return to 13.8% for A but only to 12.9% for B.

What are the important points we take to heart from the above? Mainly the following:

- Overpaying is overpaying, and will deliver disappointing returns, no matter what the nature of the underlying asset is. Strong growth is no panacea for this – though it can soften the impact ever so slightly.
- Paying a fixed percentage discount for an asset yielding strong near term cashflows is a better deal than paying that same discount for an asset that will only yield meaningful cashflows far in the future.
- If an investment delivers a good return despite being superficially expensive when it was purchased (i.e., trading at high multiples of earnings or the like), it was not expensive to begin with. Take Company B in our example. Its fair value at inception is 474. That is a forward price earnings multiple of more than 47 (given Year 1 earnings of 10). A price earnings ratio of 47 seems nosebleed expensive at first glance. But for B, it is entirely fair.
- The spread of fair earnings multiples for different assets can be very wide. Again, for A, a fair price earnings ratio is 10, but for B it is 47. This chasm can be difficult to bridge in one's mind. We have probably in the past tended to stay too close to market average multiples when valuing assets, without properly accounting for the vast difference in fair multiples for different types of assets. We try our best to guard against that mistake nowadays.

ROZENDAL PARTNERS

E. Rozendal Partners Update

As alluded to in the introduction to our letter, normality has largely returned to Rozendal Partners following the upheaval of July 2021. The conclusion of the work by the forensic accountants we engaged fortunately revealed no nasty surprises: a line has been drawn under the quantum of losses suffered. As we undertook to do, to the extent that funds were misappropriated from a Rozendal fund, we have reimbursed such funds. Legal and insurance processes are underway through which we expect to receive some recoveries, but the outcome of these processes will not have any impact on Rozendal clients: clients have been restored to the *status quo ante*.

After the departure of our former Chief Operating Officer, we engaged a very experienced financial services industry consultant on a part-time basis to give some input and guidance on the financial reporting and operational side of Rozendal Partners. But first and foremost, we have to give great credit to Madeleine Kymdell, our Operations Manager (who many of you may have interacted with). Under the most trying and demanding of circumstances, she ensured that the Rozendal ship remained steady in the weeks and months immediately following the revelations of the misappropriation of funds. Her ability to pick up matters where they had been left behind and tie up loose ends have been of inestimable value to Rozendal Partners. We shall be forever indebted to her.

And then to repeat our opening message: the second annual Rozendal Partners Investor Report Back will be happening on Thursday 10 February from 11:00 to 13:00. It will again be an online event, hosted on Microsoft Teams. Please do join us! The more participation and engagement we have the greater the value everyone will derive from the event. All are welcome: you do not need to be an investor in a Rozendal fund to participate. But of course, Rozendal fund investors are particularly welcome! We intend to record the session and post it on our website afterwards, for those who really cannot attend the event live.

If you do wish to participate in our investor report back, please let Madeleine know as much by emailing her at madeleine.kymdell@rozendal.com . We look forward to seeing you there!

Yours sincerely,

Wilhelm Paul

28 January 2022