ROZENDAL
PARTNERS

Rozendal Partners Investor Letter 30 June 2022

Rozendal Global Fund ('Global Fund'): performance vs. benchmark

Period	Fund*	Benchmark**
Since inception***	0.5%	3.4%
Six months to 30 June 2022	(9.8%)	(20.0%)

*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: -13.7%. These represent the highest and lowest returns for any one year over the period since inception.

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

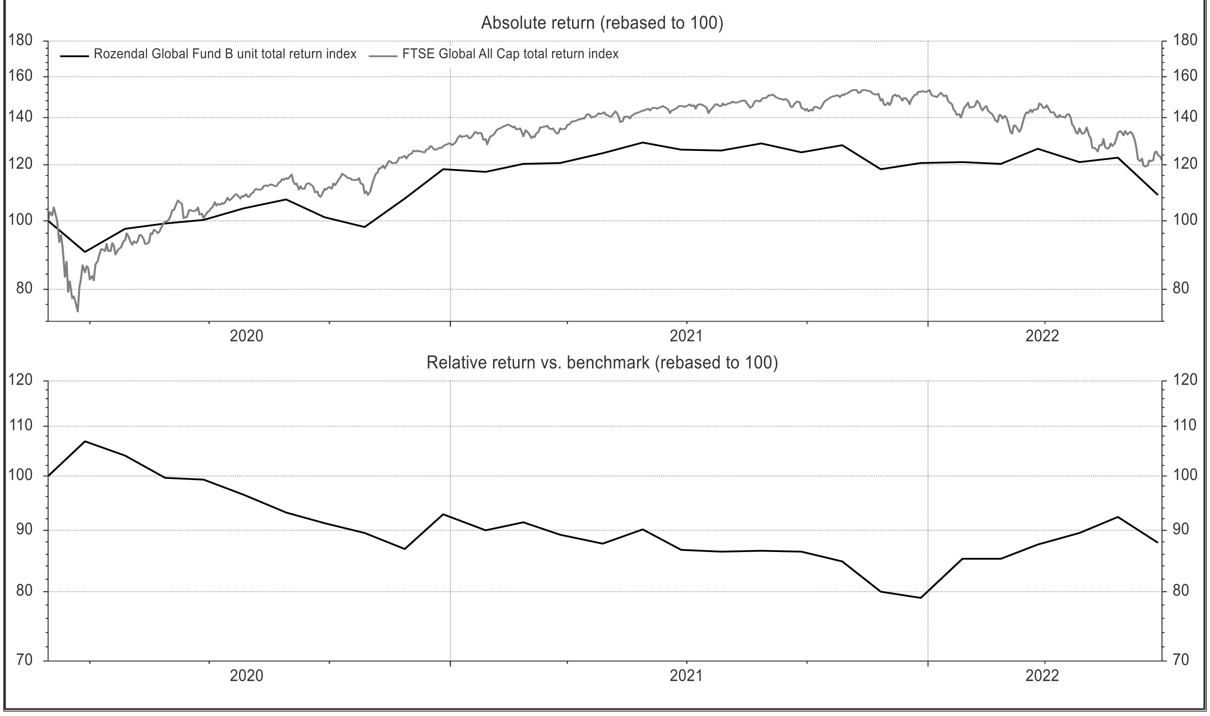
Period	Fund*	Benchmark**
Since inception***	11.2%	6.1%
Six months to 30 June 2022	5.3%	(8.3%)

*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

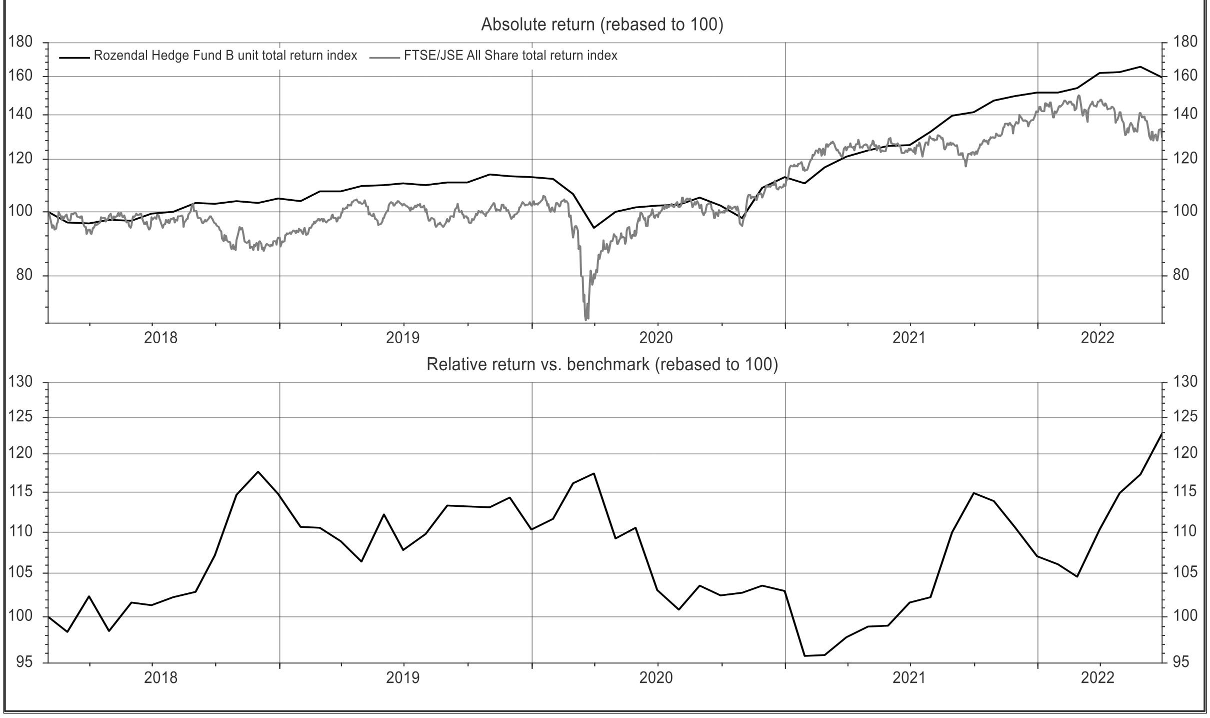
***Compounded annual total rate of return since 1 February 2018 Annualised performance shows longer term performance rescaled to a one year period. Annualised performance is the average return per year over the period. Actual annual figures are available on request. Fund highest rolling one year return: 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.

Rozendal Global Fund



Source: Rozendal Partners, Refinitiv Datastream (23 July 2022)

Rozendal Worldwide Flexible Prescient Qualified Investor Hedge Fund



Source: Rozendal Partners, Refinitiv Datastream (23 July 2022)

Dear friends and fellow investors,

A. Introduction

The first six months of 2022 have been tumultuous. When, at any point in time, investors are asked to describe their recent experience of markets, psychological phenomena like recency bias and loss aversion usually result in the experience being described as 'difficult', 'volatile' or, as we have, 'tumultous'. We do think we are objectively justified in calling this past six months tumultuous though. A world power (Russia) invading a neighbour, multi-decade high inflation levels, and bear markets[1] in many countries do not come around in just every six month period. This tumult is reflected in the return tables below.

Table 1: Historical industry sector returns in USD

MSCI Sector	Compounded annual total return: 10 years to December 2021	Compounded annual total return: 5 years to December 2021	Six month return to June 2022
MSCI All Country World	12.4%	15.0%	-20.0%
Energy	1.0%	1.2%	15.4%
Materials	7.2%	13.2%	-17.4%
Industrials	11.6%	12.4%	-21.0%
Consumer Discretionary	15.5%	17.3%	-29.2%
Consumer Staples	9.7%	9.7%	-9.7%
Health Care	14.8%	15.7%	-10.5%
Financials	10.9%	9.7%	-15.9%
Information Technology	22.1%	29.9%	-29.6%
Communication	8.9%	10.9%	-26.7%
Utilities	8.1%	10.7%	-5.7%

Source: Refinitiv Datastream (23 July 2022)

[1] Declines of 20% or more from the previous all-time high achieved.

Table 2: Historical factor returns

MSCI All Country World Factor Index	Compounded annual total return: 10 years to December 2021	Compounded annual total return: 5 years to December 2021	Six month return to June 2022
MSCI All Country World	12.4%	15.0%	-20.0%
Value	9.6%	9.5%	-12.0%
Momentum	15.0%	18.7%	-23.8%
Size	9.1%	10.6%	-17.3%
Quality	15.5%	20.1%	-24.2%
Volatility	10.7%	11.1%	-11.8%
Dividend Yield	9.4%	10.7%	-10.1%
Growth	15.1%	20.3%	-27.8%

Source: Refinitiv Datastream (23 July 2022)

Table 3: Global geographical equity index returns

Regional equity index	Compounded annual total return: 10 years to December 2021	Compounded annual total return: 5 years to December 2021	Six month return to June 2022
MSCI All Country World	12.4%	15.0%	-20.0%
MSCI World	13.3%	15.6%	-20.3%
MSCI Emerging Markets	5.9%	10.3%	-17.5%
MSCI Frontier Markets	7.7%	9.9%	-20.4%
S&P 500	16.5%	18.5%	-20.0%
Stoxx Europe 600	9.3%	11.2%	-21.5%
MSCI Asia Pacific Ex-Japan	8.0%	11.1%	-15.5%
Tokyo Stock Price Index	8.5%	8.3%	-19.3%

Source: Refinitiv Datastream (23 July 2022)

Most striking in these tables (besides the MSCI All Country World index falling nice and neatly exactly into bear market territory for the six months), is the huge relative reversal in fortunes between the Tech/Growth/Quality spectrum of the market, and the Value/Energy parts of the market. Whereas the Tech sell-off had been limited to the more speculative end of the market late in 2021 (refer to our comments in our previous Investor Letter), in 2022 not even the high quality blue chips in the sector have been spared. We felt some of that in the Rozendal Global Fund. On the other hand, with the supply of Russian oil and gas[2] becoming constrained, energy prices have skyrocketed, benefitting

[2] Russia is a major producer of both, but notably of gas exported to Europe.

companies in the Energy sector. Russian energy has also had a part to play in the Rozendal Global Fund recently – more on that later.

Geographically, Europe has performed somewhat worse than most other regions – perhaps because of a more severe impact from the Russia-Ukraine conflict than in other regions. But the difference has been slight, and most markets struggled for the past six months.

With that as backdrop, let us provide some colour to the returns delivered by the Rozendal funds over the past six months.

B. Investment Returns

1. Rozendal Global Fund ('Global Fund')

The Global Fund had a weak absolute performance, declining by close to 10%, but a satisfactory relative performance, as the benchmark declined by 20%. There really were few places to hide, but the fund's limited exposure to the Tech/Growth end of the market did help to protect capital. We hope to improve on the absolute return and build on the relative return the fund delivered during this period.

There is a common theme between both the leading contributors and the leading detractors for the Global Fund this past six months. Two of the main contributors were the subject of take-over offers – a welcome showing of a thread which has run through Hedge Fund returns more than Global Fund returns in the past. And the two main detractors are both technology or technology-driven businesses which benefitted from Covid lockdowns and whose share prices did very well in the time following the start of the pandemic, but which has recently experienced a moderation in business tailwinds and has fallen out of favour with the market.

Contributors

a. John Menzies

John Menzies is one of the leading global airport ground services businesses. All businesses tied to the aviation industry had a torrid time through the Covid pandemic, but surprisingly few had to close their doors – in no small part due to government support during this time. John Menzies has been an investment in the Global Fund since 2019, and it was one of the leading detractors to fund returns in the period around the commencement of the pandemic – we commented thereon in our letter of June 2020. Partly due to government support, the business made it through the pandemic, and it has benefitted from the post-pandemic recovery in the aviation industry. In February of this year, a long anticipated and rumoured take-over bid for the company finally materialised. The initial bid was later raised, taking Menzies' share price from around £3.00 to almost £6.00 in short order. This bid is likely to draw the curtain on the fund's investment in Menzies soon, and we'll cover the investment more fully at that point.

b. Quinenco

The shipping cycle which pushed Quinenco to being a top contributor to the Global Fund in the first six months of 2021 (as mentioned in our June 2021 Investor Letter) continued to power ahead in the early months of 2022. In addition, Quinenco's listed bank subsidiary, Banco de Chile, has had a very good post-Covid recovery, with excessive provisions being written back which has boosted profitability. Recent changes in the Chilean government also resulted in Chileans being able to access pension savings more readily than before, which has spurred on consumer spending which in turn benefitted banks' profitability.

c. Mediclinic International

Private hospital group Mediclinic is a relatively recent addition to the Global Fund. Fortuitously the company received a buy-out bid from its largest shareholder Remgro in partnership with MSC, the global shipping business[3], only a few months after the fund acquired Mediclinic shares. The initial bid was viewed as somewhat miserly, but shortly after the end of June, a more reasonable bid was brought by the offerors. Whilst the bid price is not so dramatically higher than the share price as what we saw with John Menzies, it added to the Global Fund's returns in very welcome fashion, nonetheless.

Detractors

a. Meta Platforms

Meta Platforms (formerly known as Facebook) was dragged down by the global Tech sell-off we have seen, but underperformed its blue chip peers (Apple, Microsoft, Amazon, Google) due to a c.25% fall in its share price on the day of its 2021 results release early in February. There were three main reasons for the market's disgust with the results:

i. The company has started to feel the impact of competition from TikTok, which has necessitated some change in monetisation strategy and is hurting profitability in the short term.

ii. Apple's changed stance towards in-app behaviour tracking of users has made it more difficult to show personalised ads to Apple users. This has lowered the return on investment of advertising spend for advertisers on Facebook platforms.

[3] So yes, one could say that we have double-dipped on the global shipping industry in this past six months: Quinenco's share price was driven by it, and the bid for Mediclinic probably as well. But when shipping companies have so much money that they start acquiring hospital businesses, it also tells one something about where we are in the industry cycle.

iii. Daily average users declined for the first time ever on a quarter-on quarter basis. It was only a 0.01% decline, but that is not what the market wanted to see.

To underline how sharply the market's attitude changed, Meta (and some other former high-flying shares like Netflix and PayPal) have been removed from the industry benchmark Russell 1000 Growth Index, and now find themselves included in the Russell 1000 Value Index – alongside the likes of Berkshire Hathaway, Exxon Mobil, and J.P. Morgan. We don't think Mark Zuckerberg for one is too perturbed by this, but we can well imagine that for many tech industry entrepreneurs to have their business mentioned in the same breath as such stodgy 'old economy' behemoths must be their worst nightmare come true. Such is the vagaries of the market.

The Global Fund still owns Meta Platforms shares, and we will, as always, elaborate on our thoughts and actions in this regard more fully if and when we go full circle with the business as an investment.

b. Naked Wines

Naked Wines is essentially an online subscription-based wine club, which distinguishes itself from many other similar businesses and wine retailers in how closely it works with winemakers. The business was started in the UK but has increasingly focused on the US market in recent years. The online-based, home delivery business model was uniquely well suited to the circumstances experienced during Covid lockdowns, and business boomed in 2020. Management guided for strong growth to continue, but this expectation turned around abruptly recently. Business slowed down far more than expected and coupled with continued investment in customer acquisition and inventory, this has placed unwelcome pressure on the balance sheet. This caused a great deal of angst in the market, and the share price has been decimated in recent months.

c. Lukoil

Lukoil had contributed strongly to Global Fund returns when we last wrote about this in our December 2021 investor letter – in our own words 'This positive development (*higher oil prices*) had a greater bearing on Lukoil's share price than any ongoing political concerns about Russia'. Famous last words indeed.

With the severe sanctions imposed on Russia by Western governments, owning Russian shares (even London-listed Global Depositary Receipts) has become problematic. For all intents and purposes, Lukoil shares are not currently tradable, and they have been marked to zero in the Global Fund. There are numerous variables at play that have a bearing on how this situation unfolds, but currently the Global Fund still owns the shares it has bought, and work is underway to best ensure value is preserved for the Fund.

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

The Hedge Fund had an unspectacular six months in absolute terms, but a very strong six months relative to its benchmark. There were a few standout contributors to this return.

Contributors

a. HCI

When asked about his formula for success in life, mid-twentieth century oil tycoon John Paul Getty

replied as follows: 'Rise early, work hard, strike oil.' We cannot vouch for the personal routines or work ethic of HCI management, but strike oil they did – and then some.

HCI has been a meaningful investment in the Hedge Fund for several years, and – whilst they have also had some missteps historically – overall we hold HCI's management and their capital allocation in high regard. We were somewhat sceptical when they first started investing in oil and gas exploration along the Southern African coastline (via investee company Impact Oil and Gas – 'IOG'). Greenfield oil exploration is not the type of activity which we intuitively associate with high risk-adjusted returns. But our scepticism was proven wrong this time, as IOG first had success in finding gas off the Southern Cape coast, and then had spectacular success in discovering the huge Venus oilfield off the coast of Namibia. Work is still underway to delineate and quantify the discovery more accurately, but by all accounts, it is one of the most significant discoveries in the global oil industry in many years. Such a discovery is of course hugely valuable, and news thereof caused HCI's share price to double over the past six months.

b. Naspers stub

As with HCI, the Naspers stub investment has been a longstanding constituent of the Hedge Fund. It has at times been a trying investment to persevere with, but it proved a notable contributor to fund returns in recent months.

Because we have shorted out all economic exposure to Tencent[4], and because of the huge discount at which Naspers trades relative to its investment in Tencent, in market value terms the Hedge Fund is net short Tencent. What this means is that, whilst the fund will do well if the Naspers/Tencent discount closes in any which way, it will do particularly well if the discount closes by Tencent's share price declining more than that of Naspers. This is exactly what happened during the past six months.

Initially, during the global tech sell-off seen in the early months of this year, there was no unusual discrepancy in price movement between Naspers and Tencent: amidst the sharp sell-off, Naspers declined somewhat more than Tencent. Due to the net short position in Tencent, this was in fact a

[4] By which we mean that we are shorting as many Tencent shares as the fund effectively owns on a look-through basis via its Naspers investment. We are not shorting a Rand amount of Tencent shares equal to the Rand value of the fund's Naspers shareholding.

profitable situation for the Hedge Fund. But this further underperformance by the Naspers share served to drive the Naspers discount to all time high levels. Coupled with an implosion of market prices in many other of Naspers/Prosus' investee companies, the pressure on management to do something about the 'value trap' situation reached a crescendo. As a result, with their results release in June, management announced that they would commence selling Tencent shares and buying back Naspers and Prosus shares in an open-ended buyback program. This is the obvious action to take in the situation which Naspers/Prosus has found itself in in recent years, and it is a pity that it has taken management so long to come to this simple conclusion. But the market took delight in this announcement: Naspers' share price increased by almost 25% on the day of the announcement, and Tencent's share price declined modestly. Subsequently the share prices have continued to drift in the same direction, further benefitting the Hedge Fund.

Detractors

a. MTN

MTN was a star contributor to fund returns in 2021 but experienced a notable reversal of its share price this past six months. A moderation of recovery prospects for the African economies to which MTN is largely exposed, as well as further – if minor – regulatory constraints imposed on the company in Nigeria, have served to dampen the market's mood towards MTN's shares.

b. PPC

Like MTN, PPC was a stellar contributor to fund returns in 2021, but PPC suffered an even sharper share price reversal in 2022 than MTN. A large sale of shares by the CEO in January, and subdued comments around the recovery prospects for South African cement producers by management in recent investor interactions, caused market enthusiasm for PPC's shares to wane notably.

C. Investment Cycles Completed

We have had another quiet six months in terms of completed investment cycles on the global front, with nothing to report. However, on the South African side this past six months has been monumental in a way: we finally sold the last of the Hedge Fund's platinum holdings. This marks the conclusion of more than a decade during which clients in funds under our management have been invested in the industry. On a high level, it was a straightforward 'buy commodity producers when margins are depressed, wait some years, then sell when margins are excessive' story. But in the 'lived experience' of it, it was a brutal roller coaster ride, and a great example of why successful long term investing is simple but not easy. Let us delve into the details.

1. Platinum miners (Anglo American Platinum, Impala Platinum)

Whilst there are notable differences between Anglo American Platinum ('Amplats') and Impala Platinum ('Impala') as businesses, the common denominator of platinum group metals ('PGM') and their prices is so central to the fortunes of both companies that we will deal with both investments in this one discussion.

The first time we allocated capital to the PGM industry in this investment cycle was in 2011. At the time, commodity markets had staged a strong recovery following an implosion around the Global Financial Crisis. But the unfolding European sovereign debt crisis and credit downgrade of the United States threw many markets – PGM's included - into turmoil late in 2011. The comments of Cynthia Carroll (at the time chairperson of Amplats and chief executive officer of parent company Anglo American) in Amplats' 2011 annual report (published early in 2012) encapsulates the situation very well:

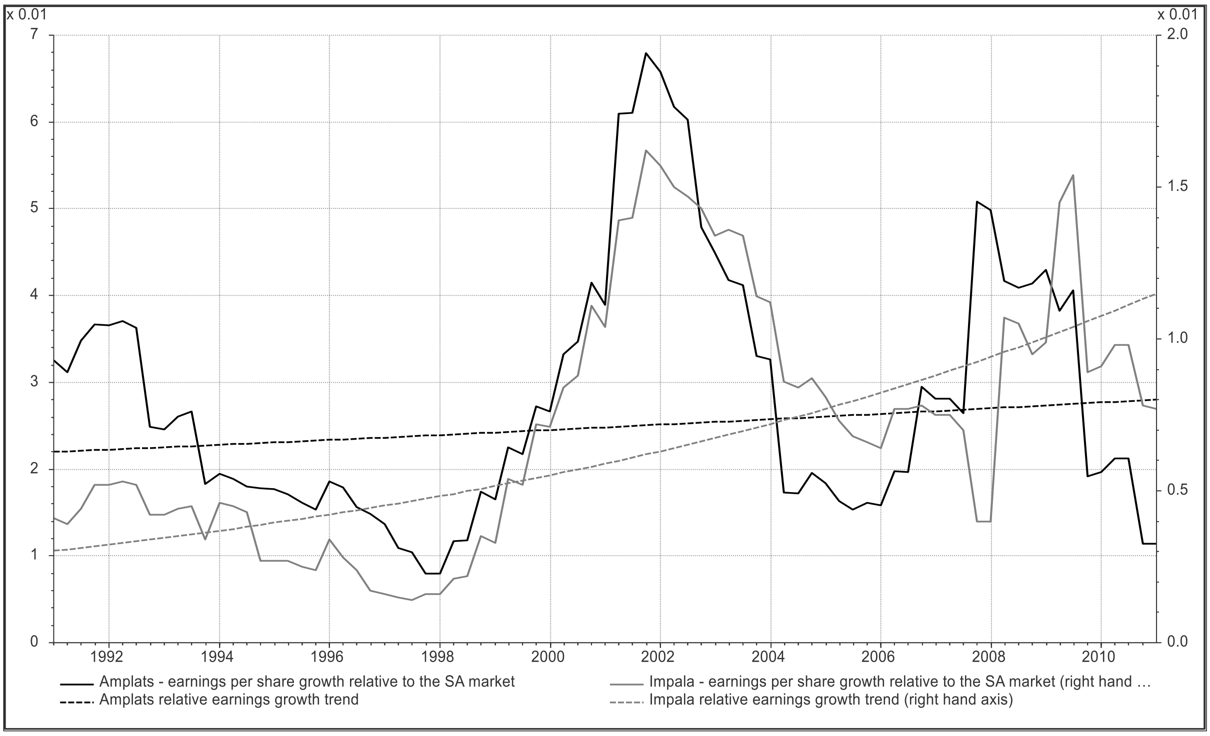
'The platinum price traded in a narrow range between US$1,753 and US$1,887 per ounce from the beginning of the year until late August 2011. As uncertainty in the financial markets escalated in the latter part of the year and fed negative investor sentiment, the platinum price declined steadily and ended the year trading at US$1,354 per ounce. We do not believe that such low price levels are sustainable, given that much of the industry's current production would be unprofitable at that level. Furthermore, we do not believe that price level would support the significant investment required to maintain or expand production in this highly capital-intensive industry.'

Source: Amplats Annual Report 2011

We shared Ms Carroll's sentiments around the sustainability of the platinum price. In addition, the large platinum miners had historically delivered excellent financial metrics. We had a pronounced quality bias in our investment style at the time[5], and Amplats and Implats ticked all our quality boxes. They were large, liquid, strongly capitalised companies that had delivered market-beating (albeit cyclical) earnings growth[6] and high returns on capital in the preceding twenty years.

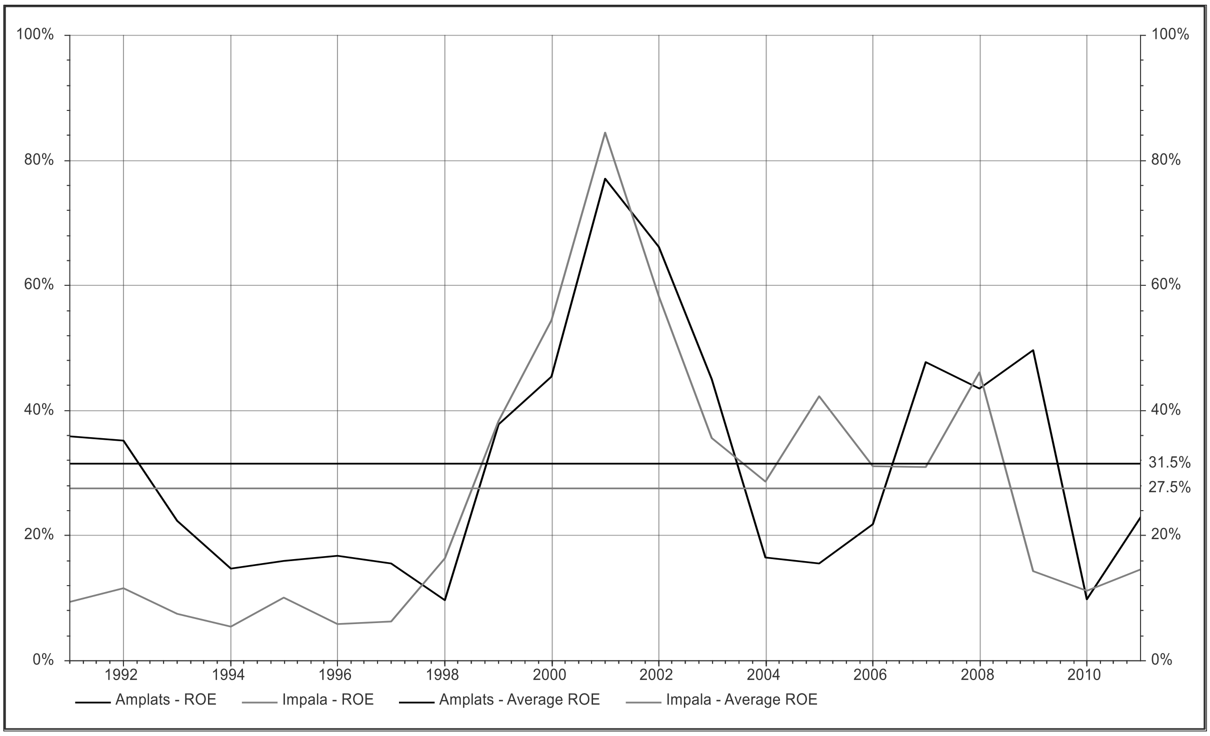
[5] We still have a liking for great/high quality businesses. Systematically investing in such businesses have yielded excess returns historically – the market appears to have perpetually under-priced the shares of such businesses. However, mispricing, rather than quality in and of itself, is more central to our portfolio construction nowadays than it was a decade ago.
[6] Whilst from the starting point twenty years prior to the ending point in 2011 earnings growth for Amplats lagged that of the market, the relative earnings growth trend was positive for both companies.

Chart 1: Amplats and Impala earnings per share growth relative to the SA market 1990 - 2010



Source: Refinitiv Datastream (23 July 2022)

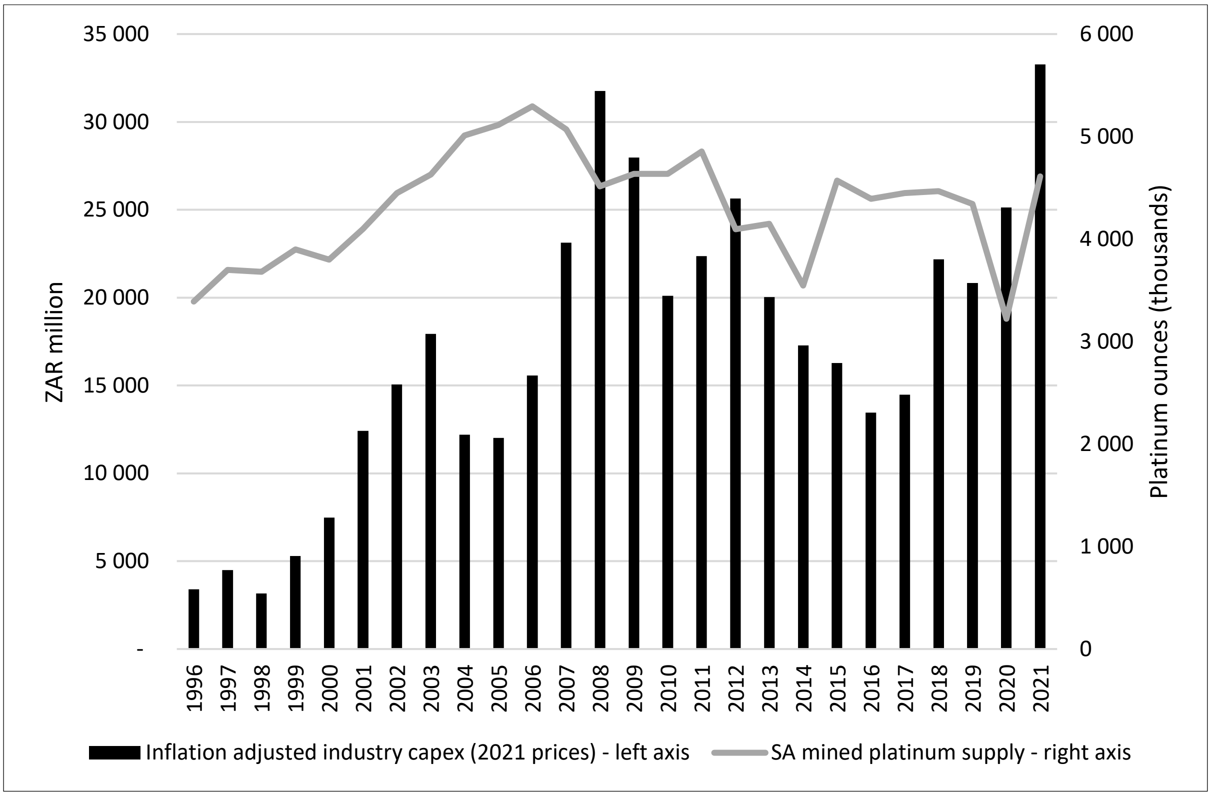
Chart 2: Amplats and Implats Return on Equity 1990 - 2010



Source: Refinitiv Datastream (23 July 2022)

The PGM industry is quite small relative to other metals, and South African mine production is so material in the context of the global PGM market, that tracking developments in the South African industry gives one a reasonable handle on the global market. By 2010, South African industry capex had fallen sharply from the levels in preceding years. It appeared to us that a classic capital cycle was starting to play out[7], which we felt supported our favourable view of the industry as a worthwhile investment opportunity for our clients.

Chart 3: SA PGM industry capex and platinum production



Source: Company reports, Rozendal Partners (23 July 2022)

Our investment thesis was sound, but our investment actions were painfully early. Despite the moderation in industry capex and post-Global Financial Crisis recovery in the global economy, several factors continued to weigh on the PGM industry for several years after our initial investments.

a) The production boom of the early to mid-2000's had resulted in a meaningful global inventory position, which kept the market well supplied of PGM's despite falling mine production.

[7] By which we mean a cycle where low(high) product prices incentivises producers to curtail(increase) capital investment in production capacity, which results in lower(higher) output in ensuing years which in turn drives up(down) product prices, thereby restoring(diminishing) producer profitability.

b) Recycling of catalytic converters became a more meaningful part of global platinum supply, with vehicles produced in the early 1990's (when adoption of catalytic converters globally became much more widespread) being scrapped in increasing numbers in the 2010's.

c) 'Barriers to exit', and the strong balance sheets from the years of super profits in the late 2000's (and rights issues on the part of Amplats), meant that, despite cutting capex, the South African producers were continuing to mine apace to generate cash (even at subeconomic product prices). All were hoping that 'the other guys' would blink first and cut back production or close shafts.

d) European diesel vehicles had historically been a key source of platinum demand. The realisation that diesel vehicles – whilst emitting less carbon dioxide than petrol vehicles – produce more harmful emissions than previously thought, resulted in a sea change in Europe's attitude towards diesel vehicles. This caused a move away from diesel towards petrol vehicles. With petrol vehicles using predominantly palladium as a catalyst, and palladium being a relatively less important component of the basket of metals mined by South African PGM producers, the resulting weak platinum demand (and hence price) hit South African miners hard.

e) Chinese demand for platinum jewellery had been strong in the years leading up to the early 2010's and was a material source of global demand for platinum at that point. But after peaking in 2013, Chinese platinum jewellery demand entered a long term decline, which has been continuing even to this day. It appears that gold has gained favour in the jewellery market at platinum's expense.

f) PGM's were also not spared the general mined commodity market implosion of 2015, when Chinese demand for metals suddenly slowed down in the face of increasing supply following years of strong capital investment by the general mining industry.

The result of all this was a relentless grind lower in share prices in the industry, culminating in a market capitulation of sorts late in 2015.

Chart 4: Refinitiv Datastream SA platinum mining index: total return and total return relative to FTSE/JSE All Share**

Source: Refinitiv Datastream (23 July 2022)

As prices declined after our initial investments, we saw increasingly good value in the platinum sector (and, it should be added, in the general mining industry). This resulted in platinum and mining stocks being very material investments for our clients in the few years leading up to the bottom in late 2015. This tested the patience of many of our clients to breaking point, and the firm we were employed with at the time started experiencing significant outflows of client funds. This caused all the typical stresses inside the firm that such times bring. Disappointingly (but understandably from a human psychology point of view) business decisions then also started to take precedence over investment decisions. This resulted in some divestments from the platinum (and general mining) sectors during 2015, but platinum (and general mining) was still a meaningful investment for our clients up to the time that we left our former employer and founded Rozendal Partners during 2017.

When we launched the Hedge Fund early in 2018, platinum shares (Amplats and Impala) were included in the portfolio from inception. Whilst there had been a rebound in platinum shares from the depths of late 2015/early 2016, PGM prices – notably that of platinum itself - had remained subdued and share prices had largely moved sideways for two years. But 2018 proved to be the year where the fortunes of the industry finally changed – and dramatically so.

By 2018 the seven lean years had come to take their toll on industry balance sheets, and producers had run out of road to mine themselves out of a hole. Industry consolidation had started to occur, the most notable of which was Amplats selling off lower quality assets to Sibanye, and Sibanye agreeing to acquire first Aquarius and then, more importantly, Lonmin. This type of corporate activity, where stronger players acquire weaker players, cut costs and 'right-size' operations, is often seen in the troughs of industry cycles, and made us increasingly optimistic that the bottom of the cycle was indeed in sight.

Of the major producers, Amplats was in the most comfortable position at the time. CEO Chris Griffiths had been appointed in 2012, just as industry conditions had become difficult. He had followed a strategy of 'managing for the current PGM price', ensuring that the business was solidly profitable at the prices that prevailed in the years after his appointment. When he first communicated that strategy to us in a meeting shortly after his appointment, we thought that he may be too conservative, given that Amplats had the assets and the balance sheet to survive a difficult cycle better than its peers[8]. By 2018, his strategy appeared remarkably prescient.

Impala was facing a more delicately balanced situation. Whereas it had been the low cost producer in the industry in years gone by, its core asset base had aged to the point where it was no longer at the lower end of the cost curve. It had been investing in new, lower cost shafts, but the low PGM prices had strained its capacity to keep investing. At the same time, it was making losses in some of its older shafts. Closing these shafts would come at some cost (notably in employee severance packages), and hence they had been kept open despite their loss-making status. However, in September 2018, when the company announced its full year results (it has a June year-end), management decided to take the plunge and announced that they would scale back operations dramatically to preserve profitability.

Impala's announcement was the producer capitulation the market had been looking for. In the week after this announcement, Impala's share price moved up more than 50%, and share prices of other industry players followed suit (though not as dramatically). Impala was a top contributor to the Rozendal Hedge Fund's returns for the last six months of 2018, and we commented thereon in our Investor Letter of December 2018. Whilst we did view Impala's decision as a positive indication of the bottom of the cycle potentially having been reached, we weren't bold enough to call the bottom of the platinum market at the time. With the benefit of hindsight, we should have.

The South African platinum mining share price index proceeded to more than quintuple over the next two and a half years. The production cuts from the likes of Impala were only a part of the equation that restored profitability in the industry. Of greater importance was continuing strong demand for palladium and rhodium, the two most important metals produced from the ore mined by the PGM

[8] Notably, Amplats owned (and still owns) the large, open cast, high grade Mogalakwena mine. Mogalakwena has the cost structure to generate cash through any trough in PGM price cycles, and still has significant expansion potential.

miners other than platinum. These were (and continue to be) mainly used in catalytic converters for petrol engines. With the European move away from diesel towards petrol, strong economic growth in China and the US (both mainly petrol passenger vehicle markets) and ever tightening environmental

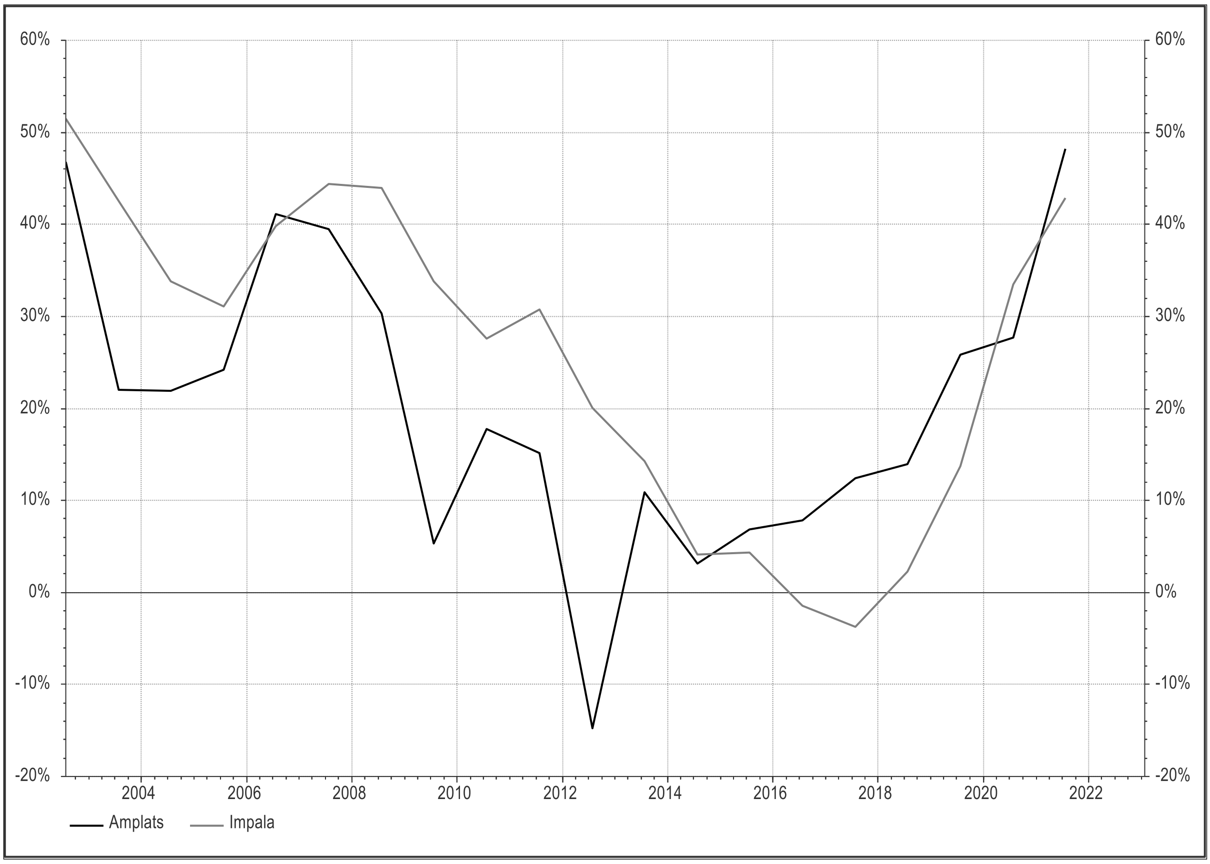
regulations, the prices of palladium and rhodium moved up exponentially during this time – even as platinum prices remained moribund.

Chart 5: PGM prices 2011 - 2022 (rebased to 100)

Source: Refinitiv Datastream (23 July 2022)

Covid's disruptions to the global economy did give some pause to the upward march of metals and share prices in the industry, but this was brief, and the recovery to peak industry profitability was swift.

Chart 6: Amplats and Impala operating profit margin



Source: Refinitiv Datastream (23 July 2022)

With profitability and cash flow as strong as it has been for the past three years[9], some classic 'top of cycle' indications (in addition to the exceptional profit margins) have been evident of late:

a) Costs have started to escalate more rapidly than inflation.

b) Capital expenditure has reverted to prior industry peaks (refer to Chart 3).

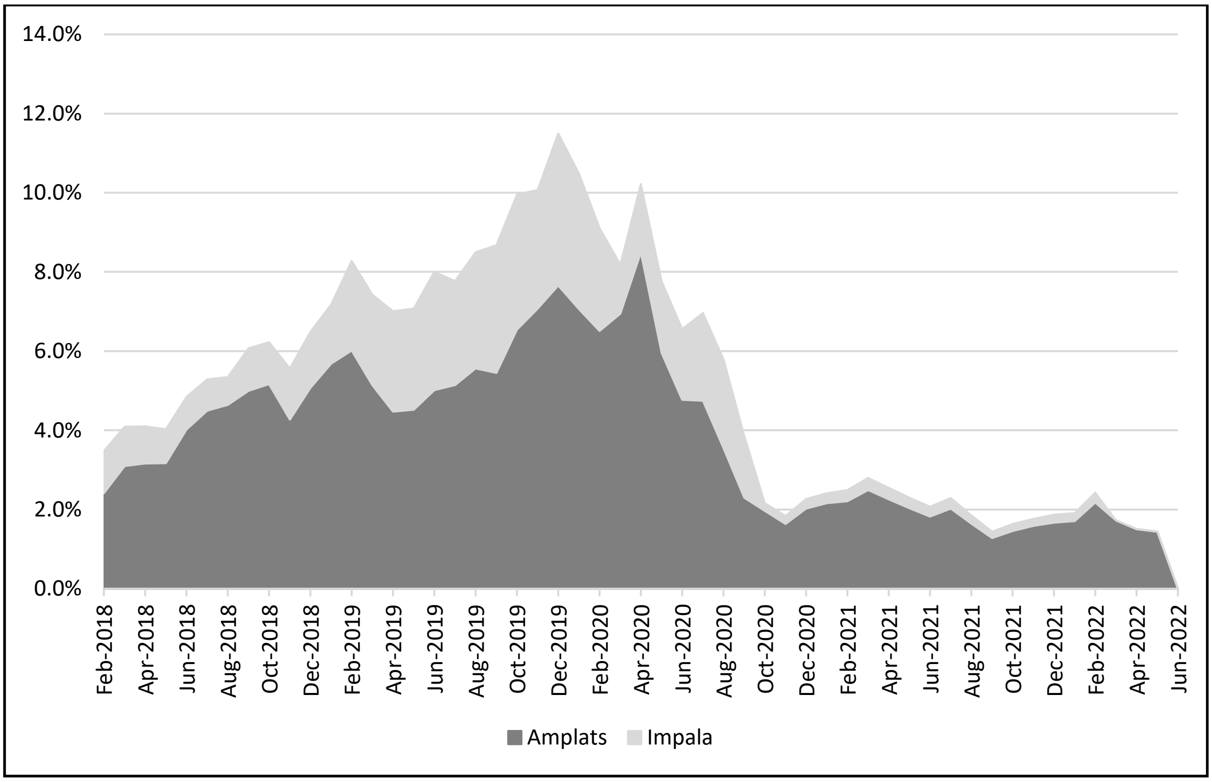
c) Long term production and production growth is back on the agenda, driving merger and acquisition ('M&A') activity – most evident in the bidding war between Impala and Northam for Royal Bafokeng Platinum. Note that this is not the consolidation/cost-cutting type of M&A engaged in by Sibanye at the bottom of the cycle: this is M&A to expand operations and grow into the future.

[9] By way of illustration: Impala declared a total dividend of R22 per share for its June 2021 financial year. This was more than what the share price was for much of 2018.

d) Meaningful new supply of palladium is about to enter the market when Russian miner Norilsk's South Cluster project comes into production in the next year or two. High palladium prices have been a key source of the super profits enjoyed by the industry of late. The South Cluster is a material risk to the palladium price, though it remains to be seen if or how recent sanctions on Russian companies will impact the South Cluster.

With share prices having moved beyond our fair values, insiders engaging in sales of stock, and momentum in the sector waning, we sold out of the industry in a gradual way over the past two odd years. The chart below shows the month end weights of Amplats and Impala in the Hedge Fund since inception of the fund in February 2018.

Chart 7: Amplats and Impala portfolio weights



Source: Rozendal Partners (23 July 2022)

Overlaying
Chart 4 with Chart 7 shows that we did well to hold large positions in the sector up to mid-2020, then sold a bit too aggressively given the continued run-up in share prices until early 2021, and then held on a bit too long given the sideways to down movement in share prices since March 2021. To be honest though, much as we aim to optimise investment returns from every investment in the funds

we manage, we have no illusions that getting tops and bottoms exactly right will be largely a matter of luck for us, not skill.

All in all, Amplats and Impala have been spectacular investments for the Rozendal Hedge Fund, generating internal rates of return of more than 100% in both cases. We do not have the data to assess the investment outcomes for our clients at our previous employer prior to the establishment of the Hedge Fund. But if we may refer to Chart 4 again: any investment in the sector after mid-2012 will have delivered better returns than the FTSE/JSE All Share index to date. Given that we were substantially more heavily invested in the sector in the later years than in the early months following our initial investments in 2011, it is likely that the overall outcome for our clients will have been favourable – if volatile.

What are the key points we take out of our decade plus journey in the platinum industry? Probably the following:

a) Identifying attractive long term investment opportunities is often not particularly difficult. Staying the course through the short term vicissitudes of the market whilst benefitting from the long term opportunity is often (perhaps even usually) the far greater challenge.

b) We are by no means immune to the psychological pressures brought about by investment theses not playing out as envisaged in the short term. But we do strive to maintain a more even keel than most in such situations, and our experience in navigating the depths of the platinum (and resources) cycle in 2015 has played no small part in how we set up Rozendal Partners.

c) While share prices were for the most part well below our estimates of fair value throughout our period of ownership of platinum shares in the Hedge Fund, this did not prevent share prices from plunging dramatically even from already cheap levels. As much as a discount to fair value tilts the odds of a favourable long term outcome in one's favour, it is no guarantee that one won't experience meaningful drawdowns in the meantime.

d) With hindsight, we should have paid more attention to corporate behaviour as indicators of where we were in the industry cycle and used that to better effect in first investing. Whilst Cynthia Carroll's comments in 2011 were certainly factually true, corporate behaviour had not changed sufficiently to ensure that a cycle bottom was imminent. Waiting for cost/balance sheet driven industry consolidation to occur on meaningful scale in the 2015 – 2018 period (mainly by Sibanye), and, of course, for the substantial scaling back of operations by a major producer (Impala) to preserve its balance sheet in 2018 were really the right things to be looking at. We would like to think that we used such cycle indicators to better effect in divesting from the sector, but we certainly should have done better in first investing in the sector in the early 2010's.

In conclusion: our platinum journey has been a roller coaster experience, with unimaginable depths plumbed at the bottom in 2015, and spectacular highs reached in 2021. It has also been a galvanising experience for us as investors, and we have little doubt that we as a team, and Rozendal Partners as a firm, are the better off for it.

2. PSG

After concluding our investment in the PSG stub (discussed in our Investor Letter of June 2021), we maintained a modest holding of PSG shares in the Hedge Fund. The holding was modest because the discount to fair value was modest. Despite a substantial (and much lamented by management) discount to PSG's own published sum-of-the-parts ('SOTP') value, after incorporating our own estimates of fair value for the large investments in the group and bringing capital gains taxes and capitalised overhead costs into the equation, the discount on offer ranged between mid-teens to mid-twenty percent. This is typically not particularly compelling in our investment opportunity set.

True to form though, PSG's management did not merely sit by idly, complaining about the discount their share price was trading at: they acted. In March of this year, the company announced that they will be unbundling most of their publicly traded investments to shareholders (which constitutes the bulk of the value of the group), and the company will thereafter offer shareholders R23 per share to buy all PSG shares outstanding – other than those held by the so-called 'Remaining Shareholders'. The company will then delist. On the day of the announcement, this represented total value of about R114 per share.

The PSG share price on the day prior to the announcement was R81.83, a discount of about 33% to the last published SOTP value. On the day of the announcement the share closed at R97.15, narrowing the discount substantially – but remaining at a low double digit discount to the value of the offer to shareholders. This discount has persisted, and can probably be attributed to three factors:

a) To realise the value of the offer, shareholders will have to sell the unbundled shares received. In some cases, the shares received are of companies with relatively modest market capitalisations and (currently) low share trading liquidity[10]. Large scale sales by former PSG shareholders who are disinterested in the unbundled shares could place meaningful pressure on the prices of these shares following the unbundling, limiting the value a shareholder can readily realise from the shares received.

b) The R23 per share offer will be paid to shareholders by the company and will be considered a dividend for tax purposes. Due to dividend withholding taxes, this means that some shareholders will effectively receive less than R23 per share.

[10] Liquidity in these shares should improve following the unbundling, as these companies will then have a much larger free float of shares than what is currently the case.

c) PSG has reserved the right to abolish the entire transaction should any shareholder attempt to exercise appraisal rights. This does create some deal risk: if one shareholder decides that the offer is too low, and attempts to exercise appraisal rights, the transaction may fail, and the share price is then likely to fall back to the discounts seen prior to the announcement of the restructuring.

Be that as it may, taken as a whole, PSG's management has yet again unlocked meaningful value for shareholders, and all credit to them for that. But of course, there is no free lunch in this world, and PSG management and Remaining Shareholders are being paid well for their efforts:

a) The three C-suite executives employed by PSG will receive a combined R90m in retrenchment packages as their continued executive involvement in the restructured group will no longer be required. Some may view this as egregious: these gentlemen are already wealthy and will hardly face difficulty in fending for themselves after their retrenchment. But in principle we don't begrudge executives their retrenchment packages in circumstances like this. Executives who can unlock (or create) material shareholder value by winding up, downsizing, or selling a business naturally face a major disincentive to do so: the loss (or diminution) of their earnings stream from the business. We understand the need for countervailing incentives. But quantifying an appropriate level of such incentive is obviously very subjective.

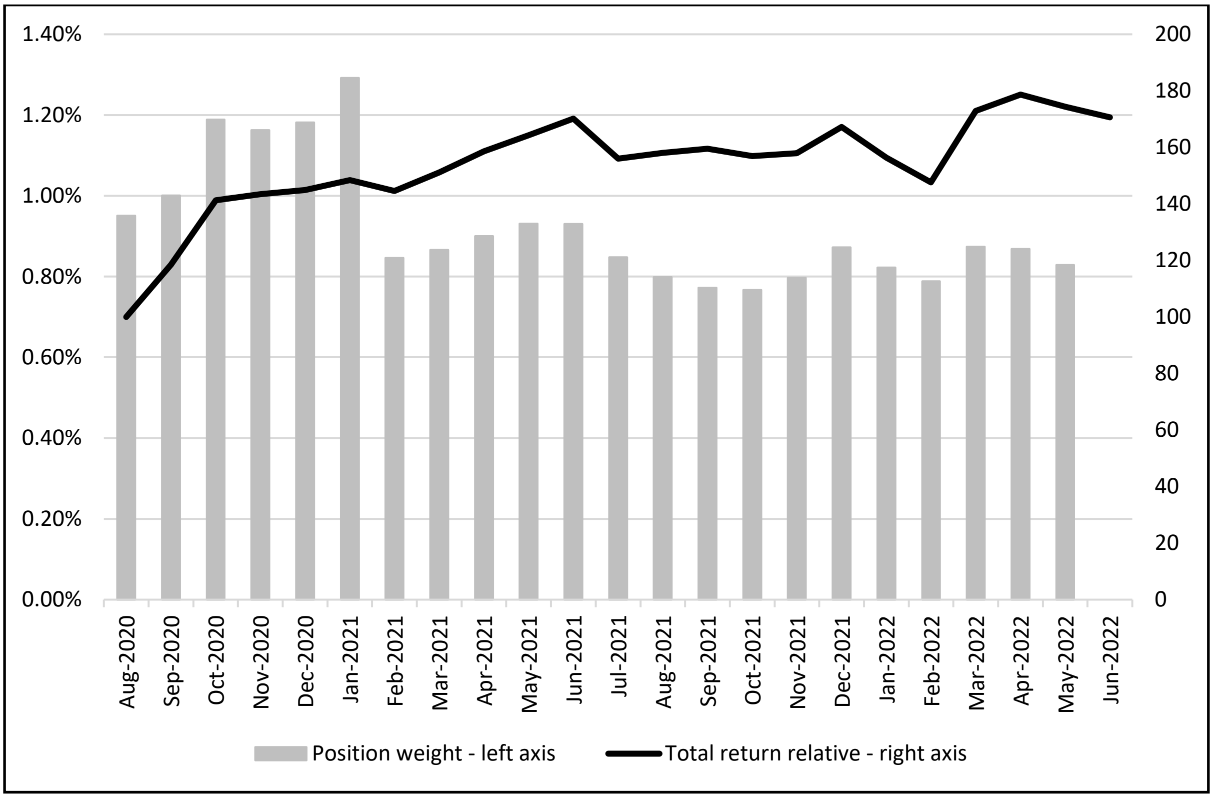
b) Secondly, the Remaining Shareholders are effectively buying what is left of PSG after the unbundling for the R23 per share offer price. The Remaining Shareholders are the founders and current directors and management of PSG – effectively the PSG insiders. On PSG's own SOTP numbers, the value of the assets being bought for R23 per share is about R35 per share. About half of this R35 per share is in the form of so-called 'Other net assets (cash, prefs, loans, provisions, etc.)'. So, a large part of the R23 per share purchase price can likely be financed from cash already in the company, limiting the requirement for external funding to be raised (or assets to be sold) to fund the buy-out[11]. If we simplistically assume that R10 per share of value (the difference between R35 and R23, with some allowance for capital gains taxes etc.) accrues to the Remaining Shareholders from buying the PSG assets, it means that more than R2 billion of value is being transferred from other shareholders to the Remaining Shareholders.

We decided to sell the Hedge Fund's remaining PSG shareholding during June of this year. In our view, the restructuring is likely to be approved by shareholders, and the c.10% discount to the transaction value that the stock has been trading at is not unreasonable, given that we will likely have been sellers of most of the unbundled shares had we held on to see the unbundling and buy-out being implemented. Holding on to PSG after the Capitec unbundling in August 2020 was profitable: the

[11] The need to hoard cash to finance the buy-out of non-Remaining Shareholders may well also at least partly explain the absence of cash dividends being paid by PSG for the two reporting periods immediately prior to the announcement of this unbundling and buy-out.

investment delivered an IRR north of 50% for the Hedge Fund, compared to about 15% for the benchmark. The chart below shows the portfolio weight of PSG in the Hedge Fund, and the total return relative to the benchmark for this period.

Chart 8: PSG position weight and total return relative to FTSE/JSE All Share index



Source: Rozendal Partners, Refinitiv Datastream (23 July 2022)

Some concluding thoughts on PSG and the Hedge Fund's investment in PSG shares:

- It is stating the obvious, but it bears repeating: management with meaningful share ownership in the business they manage are more likely to do the right thing for shareholders. PSG has been a prime example of this over time.

- Even the most shareholder-friendly of management teams are likely to require some nudging to get them over the line when it comes to unlocking shareholder value if their social status or employment situation is thereby imperilled. These nudges cost shareholders money. But a pragmatic approach to this irritation is probably best: accept that this is the reality of being invested in a listed company as an outside passive minority shareholder, and do not let quantitatively minor irritations prevent one from choosing and supporting a course of action that is, on balance, best for shareholders[12].

- Whilst the continued wave of delistings in the South African market is viewed as an indictment on the country and the South African stock market, it also seems to validate our view that there are attractive long term investment opportunities in the country: insiders are seizing them.

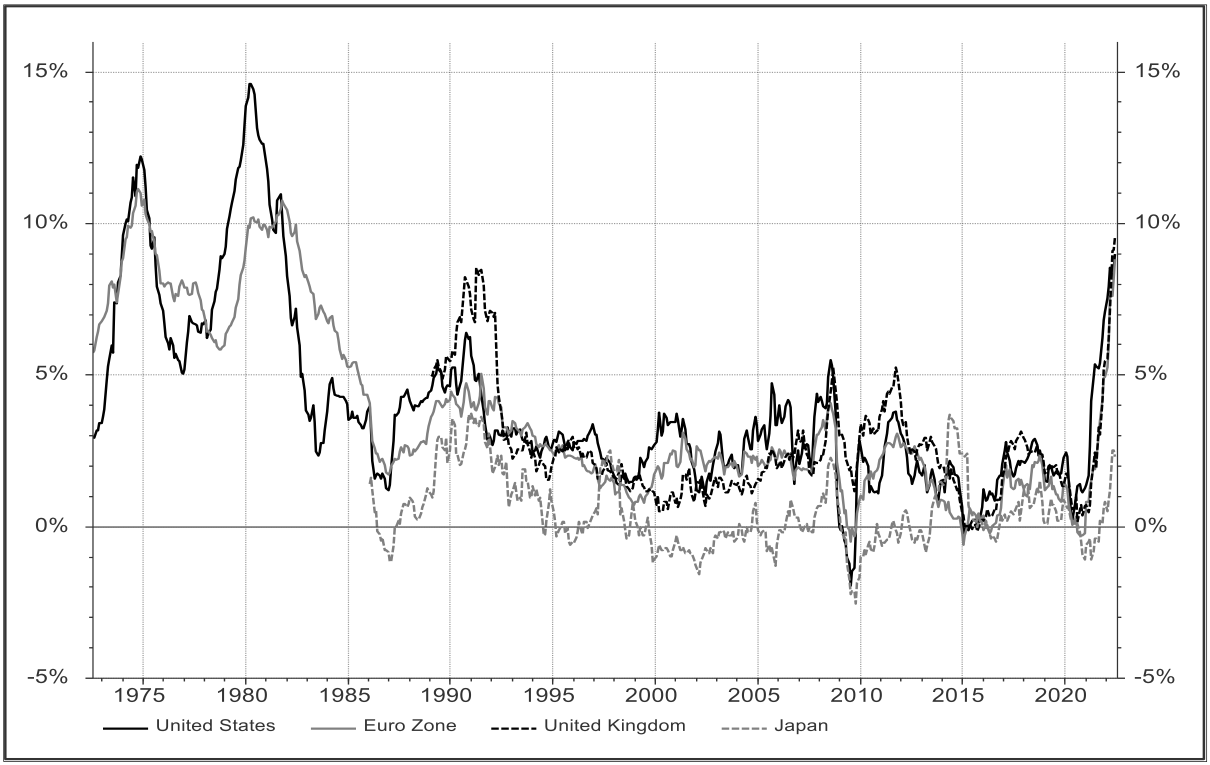
D. Investment Observations

1. Inflation – part II

We made some comments about inflation in our Investor Letter of June 2021. Since then, inflation has really taken off in most markets, lately spurred on by the dislocations wrought on global commodity markets by Russia's invasion of Ukraine. Many developed markets are experiencing the highest inflation rates in 40 years.

[12] We also touched on this topic in our Investor Letter of December 2021, where we wrote about Stellar Capital Partners being taken private at a low price.

Chart 9: Consumer price inflation in major developed markets



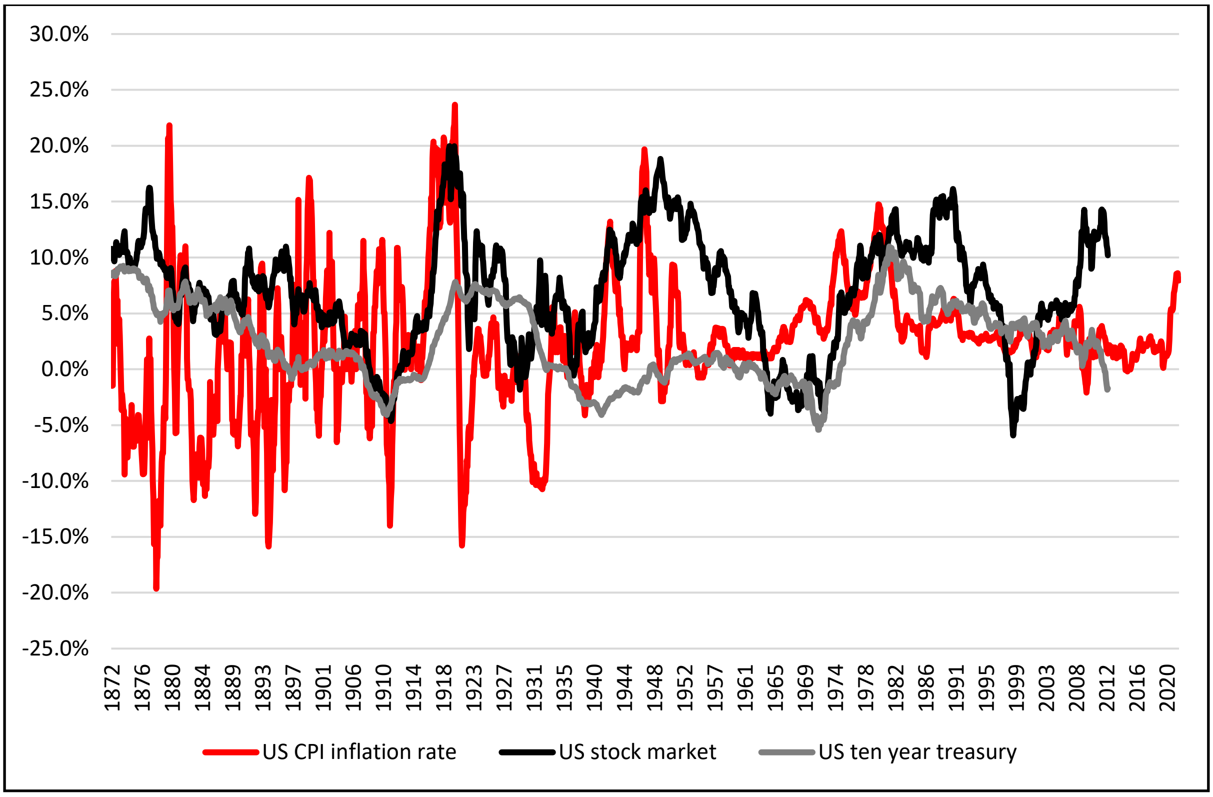
Source: Refinitiv Datastream (23 July 2022)

The adverse impact of high (and rising) inflation rates on equity and bond returns have been well documented[13]. We have seen evidence of this again of late, with both equity and bond markets declining as consumer price indices have pushed upwards. Commodities have historically protected one reasonably well against inflation[14]. But the more pertinent question now is how different asset classes have historically behaved from the points in the inflation cycle where we are right now.

Historical data for inflation, equity and bond returns are readily available for the US market stretching back about 150 years[15]. Overlaying prospective ten year compounded annual total real returns with historical inflation yields the chart below.

[13] Investment firm Verdad has published some highly informative work in this regard: www.verdadcap.com.
[14] This almost goes without saying, as many commodity prices are almost direct inputs into consumer price indices.
[15] http://www.econ.yale.edu/~shiller/data.htm

Chart 10: US inflation, stock market and long bond returns 1872 - 2022



Source: Robert Shiller, Rozendal Partners (23 July 2022)

Whilst the simultaneous peaks in inflation and prospective returns in the 1920's, 1940's and 1970's does catch one's eye, the reality is that the correlations between instantaneous inflation and long term prospective returns have been exceptionally low – slightly positive for equity returns, and slightly negative for bond returns. There is perhaps an argument to be made that the inflation and interest rate regime changed fundamentally after the US moved off the gold standard in 1971: the bouts of deflation one saw prior to this time certainly disappeared after 1971. If we ignore the first hundred years of data, the conclusion does not change dramatically: equity return correlations remain more or less the same, but bond return correlations do become weakly positive (from being weakly negative when looking at all the data).

It is also interesting to consider how asset classes and investment styles have performed in different inflationary and growth regimes historically. We do not construct portfolios based on any specific view as to which of these regimes are likely to prevail in the immediate future, but historical relationships do offer some useful context to understand how asset classes may behave if any of the different regimes again become evident.

A word of caution though. Most of the findings relating to asset prices and investment styles and their behaviour during different inflationary regimes is based on data from the US since about 1970. There has only really been one period of sustained high inflation during that entire period (the 1970's to early 1980's). Drawing firm conclusions from such a limited data set is statistically questionable, and we would caution against attaching too much weight to these findings as a guide to the future.

Having said that, the table below shows the returns delivered by different asset classes during different inflationary and macro-economic regimes seen in the US since 1971.

Table 4: Median monthly US asset class returns under various economic regimes: 1971 - 2021

Growth		Inflationary Growth		Recession		Stagflation	
Equity	0.91%	WTI	0.95%	Property	1.67%	WTI	0.94%
Bonds	0.42%	Commodities	0.78%	Equity	1.25%	Gold	0.87%
Cash	0.17%	Property	0.76%	Bonds	0.59%	Bonds	0.12%
Property	0.15%	Gold	0.22%	WTI	0.39%	Equity	0.02%
Commodities	-0.20%	Equity	0.08%	Commodities	0.39%	Cash	0.00%
WTI	-0.27%	Cash	-0.11%	Gold	0.36%	Commodities	-0.33%
Gold	-0.69%	Bonds	-0.19%	Cash	0.10%	Property	-0.58%

Source: CIP Asset Management[16] (23 July 2022)

It is likewise interesting to note how changes in some of the major macroeconomic variables (including inflation) have affected equity factor returns and investment styles historically. In the table below a '+' sign implies outperformance, and a '-' sign underperformance[17].

	Small vs. Big	Value	Profitability	Investment	Momentum
Inflation	+	+	-	+	+
Real Interest Rates	-	+	+	+	+
Real GDP Growth	+	+	-	+	+

Source: MFS (23 July 2022)

[16] https://www.cipam.com.au/asset-class-return-during-inflation-growth-periods/

[17] For those looking for a good description of the factors included in the table, the following web page is a useful reference: https://www.chicagobooth.edu/review/better-way-analyze-which-factors-drive-stock-returns.

What do we make of all of this? Probably the following:

- Whereas inflation rising from low to high levels have historically been bad for financial asset returns, high inflation at a point in time in itself does not imply anything meaningful for long term expected real returns from equities or bonds from that point forward. Attributes of assets like equity market valuation levels and long term interest rates have been far more useful as point in time predictors of long term returns.

- We try to steer clear of having to make accurate macro-economic forecasts for investments in Rozendal funds to be successful. But in deciding what a fair earnings multiple is to assign to a company, or what a suitable cost of capital is for an investment, one is implicitly making assumptions about macro-economic variables like inflation and interest rates. We are typically guided by long term history in this. If the long term future differs dramatically from the long term past, our assumptions may prove inaccurate.

- Whereas Rozendal funds have held (and still does hold) exposure to commodities and or commodity producers (the primary inflation hedges in markets historically), our view on the underlying commodities are largely driven by a view on matters like incentive prices, capital cycles and long term supply and demand. We have not – with one or two exceptions - taken an explicit view that monetary policy or very low interest rates will drive up commodity prices and hence benefit the share prices of commodity producers, for instance.

To the extent that current inflation levels are driven by macro-economic and geopolitical factors like the war in Ukraine, we would not be so brave as to make explicit forecasts as to short term inflation developments. But we believe history is on our side when we take the view that this is, fortunately, not necessary to make good long term investment decisions.

E. Rozendal Partners Update

Some exciting news to report on the Rozendal front: we have had a new team member join us in June. Roelandi Kruger will be working with Madeleine on the operational side of Rozendal Partners, and you may well get to know her in time. Other than that, it has by and large been 'business as usual', and we look forward to writing to you again in six months. Meanwhile, if you would like to pose questions to us or merely shoot the breeze with us, do not hesitate to reach out. We welcome interactions with our fellow investors and, for that matter, anyone who takes an interest in Rozendal Partners and what we do.

Yours sincerely,

Wilhelm Paul

28 July 2022