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PARTNERS

Rozendal Partners Investor Letter 31 December 2022

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

Period	Fund*	Benchmark**
Since inception***	4.2%	3.8%
Year to 31 December 2022	0.6%	(17.9%)

*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: -18.8%. 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***	11.4%	8.1%
Year to 31 December 2022	12.0%	3.6%

*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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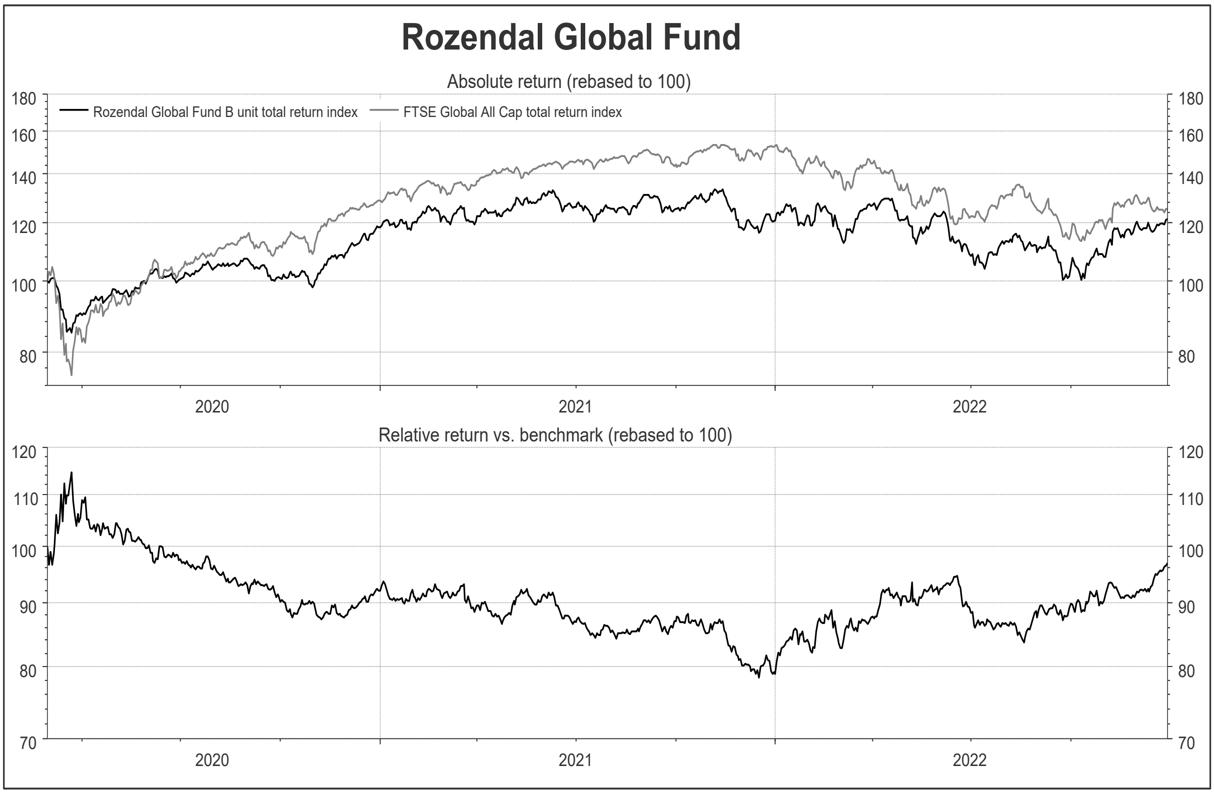
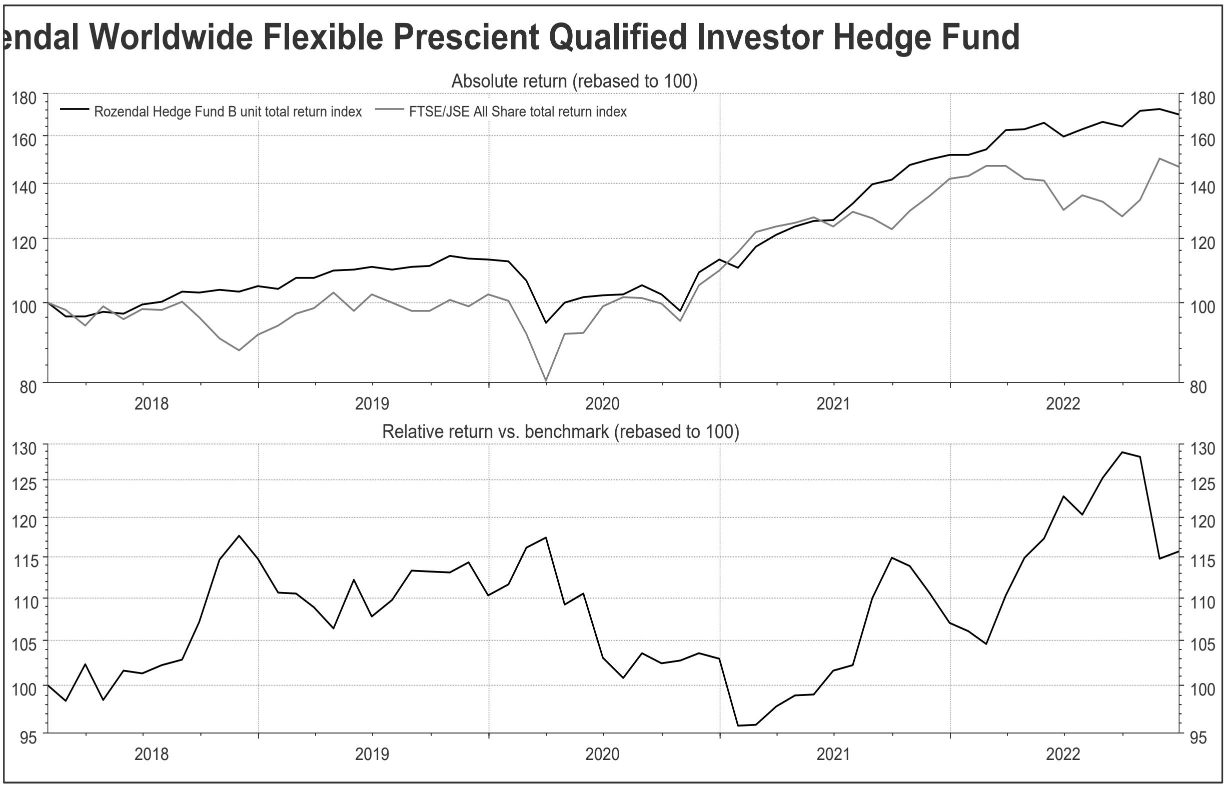


Source: Rozendal Partners, Refinitiv Datastream 19 January 2023



Source: Rozendal Partners, Refinitiv Datastream 19 January 2023

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Dear friends and fellow investors,

A. Introduction

In markets, the tone for 2022 was set in the first half of the year. The tables below are directionally similar to the ones published in our previous letter (of June 2022). Energy and Value continued the outperformance which had already started in the first half of 2021. Europe, however, recovered somewhat during the latter parts of the year, whereas Frontier Markets struggled as the year progressed. Higher interest rates in the US appeared to act as a magnet for global investor cash, draining money out of other jurisdictions – especially those countries with fragile finances.

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	One-year return to December 2022
MSCI All Country World	12.4%	15.0%	-18.0%
Energy	1.0%	1.2%	34.5%
Materials	7.2%	13.2%	-11.1%
Industrials	11.6%	12.4%	-12.6%
Consumer Discretionary	15.5%	17.3%	-31.5%
Consumer Staples	9.7%	9.7%	-6.0%
Health Care	14.8%	15.7%	-5.7%
Financials	10.9%	9.7%	-9.2%
Information Technology	22.1%	29.9%	-30.9%
Communication	8.9%	10.9%	-35.3%
Utilities	8.1%	10.7%	-3.9%

Source: Refinitiv Datastream, 9 January 2023

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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	One-year return to December 2022
MSCI All Country World	12.4%	15.0%	-18.0%
Value	9.6%	9.5%	-6.9%
Momentum	15.0%	18.7%	-18.7%
Size	9.1%	10.6%	-16.9%
Quality	15.5%	20.1%	-23.4%
Volatility	10.7%	11.1%	-9.8%
Dividend Yield	9.4%	10.7%	-6.7%
Growth	15.1%	20.3%	-28.4%

Source: Refinitiv Datastream, 9 January 2023

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	One-year return to December 2022
MSCI All Country World	12.4%	15.0%	-18.0%
MSCI World	13.3%	15.6%	-17.7%
MSCI Emerging Markets	5.9%	10.3%	-19.7%
MSCI Frontier Markets	7.7%	9.9%	-26.1%
S&P 500	16.5%	18.5%	-18.1%
Stoxx Europe 600	9.3%	11.2%	-15.7%
MSCI Asia Pacific Ex-Japan	8.0%	11.1%	-17.2%
Tokyo Stock Price Index	8.5%	8.3%	-14.9%

Source: Refinitiv Datastream, 9 January 2023

The most notable feature of markets during 2022 was, however, the dire returns delivered by fixed income markets, as the era of ultra-loose monetary policy finally ended. 2022 has been the worst year on record for US bonds[1], and on a combined basis, it has been the worst year for US equity and bond markets in 150 years.

[1] https://www.cnbc.com/2023/01/07/2022-was-the-worst-ever-year-for-us-bonds-how-to-position-for-2023.html

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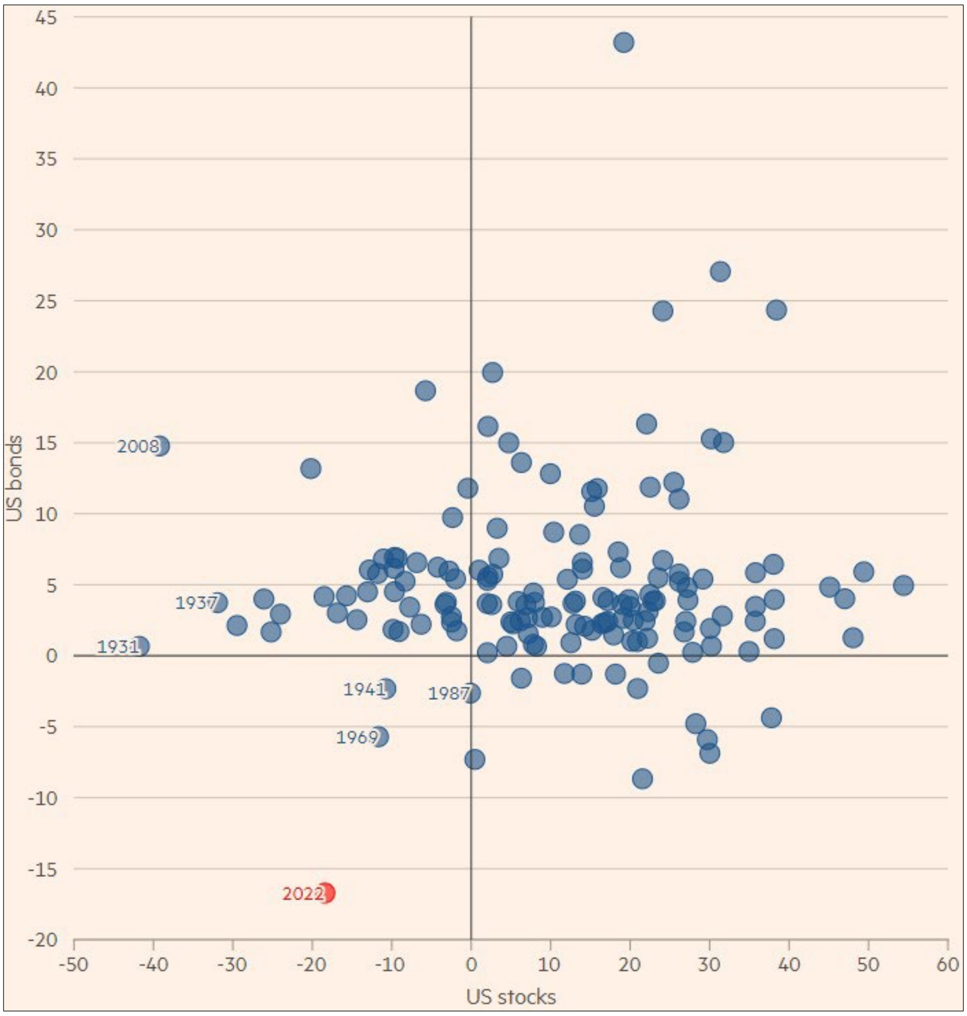
Chart 1: US calendar year stock and bond market returns 1871 - 2022



Source: Financial Times, Robert Shiller, TS Lombard 9 January 2023

In that context, we are pleased with the outcome for Rozendal investors. Let us add some colour to this performance.

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B. Investment Returns

1. Rozendal Global Fund ('Global Fund')

The Global Fund was relatively insulated from the major declines experienced in most markets. This was a function of having relatively little exposure to the technology sector. Being invested very differently from major benchmarks has not been pleasant in the two years leading up to 2022, but in 2022 it certainly paid off. In addition, the Global Fund had no fixed income investments.

Contributors

a. Quinenco

Quinenco was the star performer of the year. The stock featured as a top performer in the Global Fund in the first half of the year (as discussed in our last investor letter), and continued its strong performance in the second half, despite the share price of major investee company Hapag Lloyd declining notably.

Interestingly, Quinenco sold a Latin American port services business which they had built through acquisitions to Hapag Lloyd for a very good price, which represented a nice uplift to shareholders.

Despite well publicised political challenges in the country, Banco de Chile, the other major asset in the Quinenco portfolio, delivered superb results during 2022. This helped the Banco share price upwards in welcome fashion– in both local currency and US dollars.

b. Turkish stocks

After suffering painful declines during 2021, the Turkish holdings of the Global Fund increased sharply in price during the latter half of 2022 – even when measured in US dollars. Continued loose monetary policy and stimulative fiscal measures have supported consumption in the country. A weak currency has boosted exports. Both factors have driven strong economic growth. We view this situation with some apprehension though, as it may well be a temporary pull forward of consumer demand as people spend 'ahead of inflation'. It seems that the current government policy stance is squarely aimed at currying favour with voters in this year's general election, which does not bode well for the country's fiscus.

As much as macro-economic policy in Turkey has been concerning, resulting in astronomical levels of inflation, it is worth keeping in mind that the impact of different inflation regimes on asset prices in a country is not entirely clear. In a 2021 IMF Working Paper[2], the author notes that most of the popular

[2] https://www.imf.org/en/Publications/WP/Issues/2021/08/20/Stock-Returns-and-Inflation-Redux-An-Explanation-from-Monetary-Policy-in-Advanced-and-463391

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impression that high inflation is detrimental to stock prices has been formed with reference to the experience in a small group of developed markets or countries that have experienced true hyperinflation. When the impact of inflation on equity prices is studied over a broader and deeper sample, the picture that emerges is somewhat different. It seems that stock markets have reacted more unfavourably to high inflation in developed markets than in emerging markets. And in markets where central banks act countercyclically (i.e. raise interest rates when inflation increases), equity markets react far more negatively to increasing inflation than in markets where the central bank acts less countercyclically. Turkey is an emerging market where the central bank has acted pro-cyclically – very different from how central banks in developed markets typically act. It should perhaps then not be too surprising that Turkish stock prices have not suffered the same fate as their developed market counterparts in recent times.

c. Maersk Drilling/Noble Corporation

Slowly but surely, it seems that the global oil industry has gained enough confidence that oil prices will be closer to the $80 per barrel level in the foreseeable future rather than in the $50 per barrel range (as it was from 2015 to 2020), that development spending is returning to the industry. Offshore drilling rigs are being contracted in increasing numbers, whilst supply of new rigs is still constrained, resulting in far stronger rates for the operators. Maersk Drilling merged with Noble Corporation during October (the merged entity trades under the Noble name) at a time when gaining increased exposure to the floating drill rig market seems opportune. The share price has reflected these favourable developments over recent months.

Detractors

a. Meta Platforms

Meta Platforms was a leading detractor in the first half of 2022 and continued its downward path in the second half (despite a strong recovery during November and December). The announcement of higher expected capital expenditure and lower expected free cash flow generation for the next two years during the company's third quarter 2022 results call caught the market by surprise. The share price fell almost 25% on the day, echoing the experience of the February 2022 announcement of its full year 2021 results.

The company has subsequently announced major cost cuts (chiefly by way of headcount reductions). This sign that management would not keep building at all costs has been taken positively by the market, sparking the recent recovery in the share price. But there remains much work to be done before the market will regain full confidence in the future of the business.

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b. JDC Group

German insurance administration platform business JDC Group seems to have been caught up in the global tech sector sell-off of 2022: its share price movement for the year has correlated almost perfectly with that of the NASDAQ composite. We find this odd, as the business is still growing strongly, is solidly profitable and has achieved notable new client wins. No doubt the underlying performance of the business will become apparent in the share price in time.

c. Burford Capital

Burford Capital is the world's leading litigation funder. Despite an uptick in business volumes following two years of Covid-19 induced delays in the legal system, Burford's share price declined during the year – particularly in the latter half. The fact that the company reported a loss for the first half of the year probably did not endear it to investors. The company has also incurred a not inconsiderable amount of debt in recent times – not something which has been popular with the market lately, given the rising interest rate environment.

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

The Hedge Fund delivered reasonable absolute and very strong relative returns in the past year. Relative returns were poor in the second half of the year, as stocks exposed to the re-opening of China after the country's severe Covid lockdowns (companies like Prosus, Richemont and global miners) picked up sharply in price. The Hedge Fund has very limited direct exposure to these.

Contributors

a. Grand Parade Investments

We cover this investment in full in the next section of this letter, as we sold the Hedge Fund's holding of Grand Parade shares during the period. The bidding war for the company (more details below) drove the share price up sharply late in the year, which aided the Hedge Fund's returns meaningfully.

b. Tiger Brands

Market darling of years gone by, but market dog of recent years, Tiger Brands is a fairly recent addition to the Hedge Fund. After grinding inexorably lower for the better part of five years due to numerous management missteps, market sentiment towards the company finally turned late in 2022. As a producer of branded consumer goods, the company has been facing a tough environment, with input cost inflation and consumers under strain causing the market to expect the worst from the company in 2022. When it appeared that the company had done better than expected on the cost containment front and was managing to pass input cost inflation on to consumers, the share price reacted strongly.

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c. Oceana

In a very similar pattern to Tiger Brands, Oceana is a fishing business (best known for its Lucky Star pilchards) that has come off a multi-year period of missteps by management and the board. The appointment of an experienced industry executive as new CEO combined with the best results in years from the group's large US operations helped to change the market's view of the company sharply in the latter half of the year, resulting in strong rerating of the share.

Detractors

a. Blue Label Telecoms

Ever since taking a substantial loss on its investment in mobile network operator Cell C, the market has viewed Blue Label with suspicion. Despite other businesses in the group growing strongly, it seems that the market has been waiting for clarity on events at Cell C before being willing to give the Blue Label share price any credit for the value of the underlying businesses.

Restructuring Cell C (effectively taking it through bankruptcy proceedings) took an inordinate amount of time, but was finally concluded late last year. Blue Label took on debt to provide further funding to Cell C, which seems to be a source of discomfort for some investors. In addition, the fact that competitor Telkom seems to have been unable to consummate a transaction with either of the two suitors with whom it was in talks seems to have left the market questioning the value of a second-tier network operator (like Telkom and Cell C). All of this appears to have depressed Blue Label's share price in recent months.

b. York Timbers

Forestry and sawmilling business York suffered some operational setbacks during the year on account of bad weather and strike action by workers. As the Covid-induced 'do-it-yourself'/home renovation boom has come to a rapid halt, demand for timber (mainly used in roof trusses) has also softened, resulting in lower prices for York's product in the latter months of the year.

Late in the year the company also announced a somewhat surprising rights issue at a low share price, ostensibly to fund a lengthening of its lumber harvesting cycle and to invest in its key sawmill to ensure greater reliability in the operations. These issues all served to depress the share price. The excitement that gripped the share price late in 2021 (and made York a top contributor to the Hedge Fund for that year) as activist investors A2 Capital became involved in the company seems to have completely worn off.

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C. Investment Cycles Completed

The latter half of 2022 saw us sell out of two investments: UK aviation services business John Menzies, and South African gaming and hospitality business Grand Parade Investments. Menzies was a top contributor to the Global Fund's returns in the first half of 2022 (as mentioned in our last investor letter), and the buy-out transaction which drove this strong performance was concluded during August. Incidentally, both investments featured some kind of involvement of activist shareholders. In one, we were passive bystanders. In the other, we were one of the parties instigating change. Here are the back stories.

1. John Menzies

Menzies came to our attention some years ago because of our interactions with a like-minded UK investor who we had come to know over time. Some activist investors (which counted our friend amongst their ranks) had been involved in Menzies for several years, with limited initial success. But by late 2019 there were signs that matters were progressing in a positive direction. This prompted us to take a closer look.

At the time, the aviation services industry had been through a long period of consolidation. Through various acquisitions over many years, Menzies had established itself as one of the top three businesses in what was still a fragmented industry. The long-term growth trend of the aviation industry in general, combined with ample opportunities to make bolt on acquisitions, had attracted private equity money to the industry. Both industry leaders (Swissport and World Freight Services – WFS) were owned by private equity (or private equity-like) investors and were highly indebted.

Menzies was trading at valuation levels far below where private equity deals in the industry had taken place. The activist investors saw this as an opportunity. They had been pushing for a sale of the company since 2015 but had been stymied by the founding Menzies and Thomson families, who controlled 30% of votes in the company.

By 2019, the founding families had reduced their stakes in the business, paving the way for the appointment of one of the activist shareholders to the board. In addition, respected industry veteran Philipp Joeinig was appointed executive chairman. Mr Joeinig was explicitly incentivised based on the share price – not something which we are always supportive of, but which clearly illustrated the intent to extract maximum value for shareholders in the foreseeable future. It seemed that the years of work by the activist shareholders was finally about to pay off.

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Despite these positive developments, the business had faced some short-term headwinds which depressed the share price.

i. Global aviation cargo volumes had been weak, and the grounding of the global Boeing 737 Max fleet due to safety concerns had taken its toll on revenues. In addition, Menzies had recently lost two contracts in Latin America where it used to be an exclusive ground services provider.

ii. Leverage had crept up to 2.8 x EV/EBITDA. This was notably low in comparison to its private equity owned peers, but noticeably high compared to many other run of the mill listed companies.

iii. The business had not generated particularly good returns on capital in preceding years, partly due to its history of acquisitions.

We were comfortable that these issues were mainly cyclical and/or temporary and did not present existential threats to the company. The overall risk–reward balance appealed to us.

But then Covid-19 hit the world. The aviation industry was decimated. Share prices plummeted as businesses in the industry now faced a very real existential threat. Ironically, the historically more cyclical cargo business proved a lifeline for the airline industry, as it was mainly the historically more stable passenger volumes which disappeared, whereas cargo shipments were far less impacted by global Covid containment measures. Unfortunately, cargo was a relatively smaller part of Menzies' business than for some of its peers.

Menzies' revenue imploded from £1.3 billion in 2019, to £824 million in 2020, and the group swung into an operating loss. The prospects of selling the company had evaporated as quickly as the company's cash flows.

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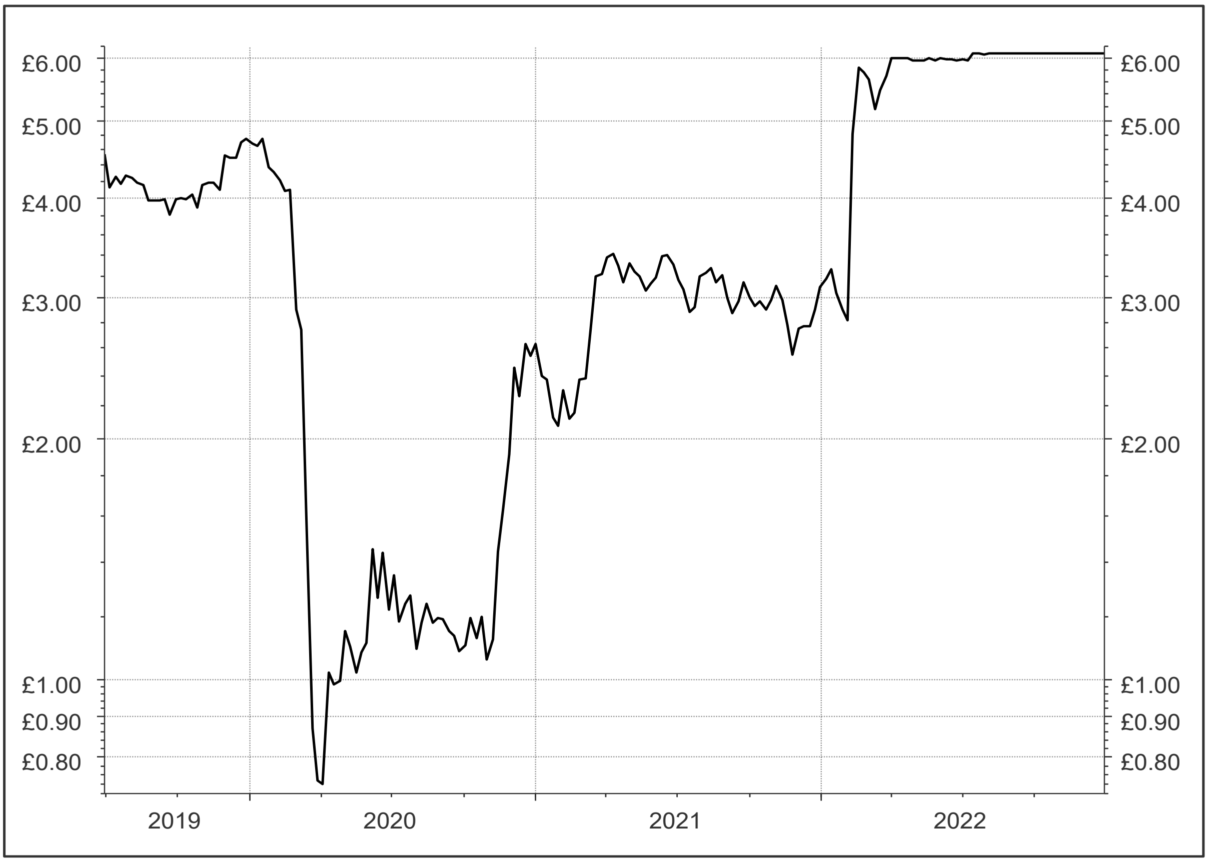
Chart 2: John Menzies share price (log scale)



Source: Refinitiv Datastream 19 January 2023

All was not lost though. Western governments introduced substantial aid packages to the industry, which allowed Menzies to slash its workforce and remain EBITDA positive. Creditors were also accommodative, providing the company with breathing room on its debt covenants during the worst of the industry crisis. Despite its business mix, Menzies was in a relatively stronger position in the industry than many of its competitors and managed to grow its market share as some smaller operators went out of business. The company even acquired some businesses (notably in Pakistan) early in 2021. These acquisitions were financed from a modest issue of shares at a low (but fortunately not distressed) share price though.

These actions all contributed to Menzies emerging from the Covid pandemic in relatively strong shape. By early 2022, potential investors in the industry had seemingly regained confidence in the future. In January of the year, Kuwaiti logistics business Agility made a cash offer for the company. The initial offers (starting at £4.60 per share) were (rightly, in our view) rebuffed by the board as being too low – it represented a multiple of only about six times 2019 EBITDA. Only after the fourth offer of £6.08 per share had been tabled did the board finally agree to the transaction. This represented a reasonable price to us, and we were happy to support the transaction. The deal closed in August 2022.

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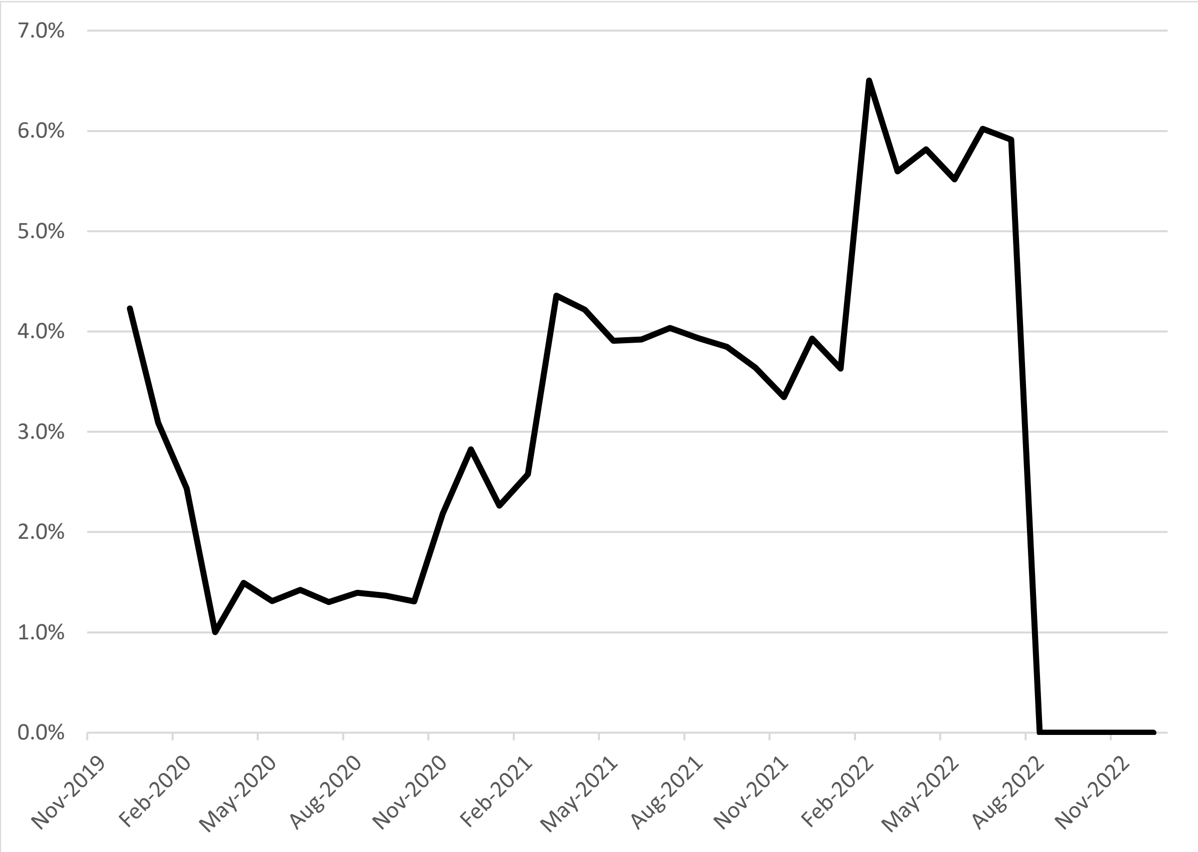
The chart below shows the Global Fund's weight in Menzies shares over time.

Chart 3: John Menzies position size in Rozendal Global Fund



Source: Rozendal Partners 19 January 2023

From the dramatically falling position size in the early months of 2020, it should be readily apparent that we also viewed the onset of Covid as a real threat to the future of the business. In our minds there was a real risk that Menzies would have to raise a substantial amount of equity at distressed prices to make it through the pandemic. That our fear turned out to be unfounded was fortunate. We almost doubled the number of shares the Global Fund owned of the business during February and March of 2020, and again acquired a substantial number of shares in March of 2021. These purchases were well timed, but the fact that they did not take us above our opening percentage holding shows the lingering concerns we harboured about the business.

In no small part due to these purchases during 2020 and 2021, Menzies turned out to be a fantastic investment for the Global Fund. The investment delivered an internal rate of return of 33% for the holding period, compared to the Global Fund's benchmark returning only 8.8% per annum compounded. The stomach-churning ride was worth it!

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Post-mortem thoughts about our journey with Menzies? The following comes to mind:

i. Building connections and maintaining relationships with like-minded investors can be a very useful source of investment ideas.

ii. Don’t underestimate the political imperative amongst governments to protect workers. It was mainly to protect workers that companies like Menzies were given subsidies with which to soften the blow of job losses to employees. These subsidies proved to be a lifeline for the companies concerned.

iii. Likewise, the influence of government pressure on banks to be lenient towards borrowers in times of national (or global) crisis can be material. We have little doubt that many lenders were more amenable to covenant waivers or renegotiations in the depths of the Covid pandemic due to the attention that harsh dealings with borrowers would have attracted from the public and governments.

iv. With the right incentives in place and a supportive shareholder base, it is a reasonably safe bet to back a management team to execute on what they were appointed for. In the case of Menzies, this was to sell the business at a good price, and this is exactly what they did.

2. Grand Parade Investments

Grand Parade Investments has been an investment in the Hedge Fund essentially since inception of the fund. But our history with the company pre-dates this by many years: at previous employers, our clients were at more than one time invested in the shares of the company. So by the time that the Hedge Fund launched, it was a company with which we were already thoroughly familiar.

Grand Parade is a uniquely South African creature. It owes its existence to the so-called black empowerment legislation which was implemented over time in various ways following South Africa’s transition to democratic rule in the mid-1990’s. This legislation required (and continues to require) that many South African businesses facilitate equity ownership of assets and companies by those who suffered under the injustices of the apartheid regime. Empowerment has often taken the form of investment or financing opportunities being made available to such parties on very favourable terms.

Grand Parade’s primary purpose was to serve as the empowerment partner for leading South African gaming company Sun International in the Western Cape. The founders of Grand Parade (led by the colourful and charismatic Hassen Adams) raised money from historically disadvantaged communities in the Western Cape in the late 1990’s. The company proceeded to invest in the Western Cape assets of Sun International (most notably the Grand West casino), and to build out a limited pay-out machine (‘LPM’) portfolio.

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These initial investments were very successful. But the institutional imperative drove management to diversify out of the gaming industry into the quick service restaurant industry during the 2010's. And here things came unstuck.

By the time that Grand Parade became relevant in the life of Rozendal Partners' clients, the company's key assets were:

i. A 15% interest in Sunwest (the holding company of the Grand West casino as well as the five-star Table Bay hotel);

ii. 30% of the historic LPM business (70% had been sold to Sun International for a good price);

iii. 18% of listed casual dining restaurant franchisor Spur Corporation;

iv. 91% of Burger King South Africa (introduced to the country by Grand Parade) which was growing strongly on account of substantial investments being made in the business, but which was still generating substantial losses;

v. various other smaller investments in businesses which were by and large struggling or losing money (Dunkin Donuts, Baskin Robbins, a meat plant, a catering equipment manufacturing business that was bought from Mr Adams, etc.);

vi. A swanky head office in Cape Town.

It was readily evident that these assets were worth far more than what Grand Parade was being priced at in the market. The company published its own calculation of intrinsic net asset value, amounting to almost R7 per share, compared to a market price of about R2 per share. Our assessment of intrinsic value was far more conservative than management's, but there was still a gaping chasm between our fair value and the share price. The problem, of course, was how to bridge this chasm.

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Table 4: Grand Parade intrinsic value and share price discount April 2018

	GPI interest	Revenue	EBITDA	EBIT	PAT	Net Debt	EV	EV/EBIT Multiple	GPI Value	100% Equity Value
Sunwest	15,0%							11	672	-
Grandwest		1650	625	450	324	578		11	656	4 372
Table Bay		181	89	70	70	290			17	
CTICC										
Golden Valley	25,1%	188	50	23	3	-11	162	7	43	0
LPM Business		1060	249	166	120	70	1992	12	598	598
WC - Grandslots	30,0%									
KZN - Kingdom Slots	30,0%									
Gauteng - Grand Gaming	30,0%									
Burger King	91%								444	488
Dunkin Donut	100%								(10)	-
Baskin Robbins	100%								(10)	-
SPUR	17.8%								544	
Mac Brothers	65%			13				6	78	
Telumat	51%								0	
Meat Plant									0	
Property									200	
Cash									212	
Debt									(179)	
Diluted siss	430									
Corporate Costs					(50)			10	(500)	
CGT Liability									(75)	
Value									2 018	1,1
Value/share									4,69	
Share Price									2,10	
Discount/Premium FV									55%	

Source: Rozendal Partners 19 January 2023

With a supremely dominant personality and 13% owner of the company (Adams) running the business as executive chairman, a constantly revolving door of senior management, a supine board filled with long serving friends of the chairman and some diabolical capital allocation in the preceding five years, the market was rightly sceptical that any improvement in the status quo for minority shareholders would ever come about. Management were paying themselves handsome salaries and bonuses, and Mr Adams had also in the past benefitted from related party transactions with the company. On all fronts, it was a corporate governance nightmare.

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Because of these concerns, we initially kept the investment small. However, shortly after our initial investment we started liaising with other institutional shareholders of the company. Whilst we had had good outcomes from our previous investment cycles in Grand Parade shares, some of these shareholders had experienced the pain of being passengers on the share price ride from R7 to R2 over the preceding four years.

Chart 4: Grand Parade share price (log scale)

Source: Refinitiv Datastream 19 January 2023

Irrational as it may be, this experience tends to influence the fervour with which investors want to effect change in a company. As a group, we spoke for a sufficiently large percentage of the company's shares in issue that we felt there was a reasonable prospect of driving meaningful change at board level. And on this there was consensus: Hassen Adams would have to be reined in if there was to be any prospect of real progress in the company.

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When it became clear that we would be rolling up our sleeves and become more involved in Grand Parade in an activist way, we decided to increase the position size. We did this for two reasons:

i. In the absence of a catalyst for change, a situation like Grand Parade can become a classic value trap. The involvement of activist shareholders can often serve to reduce this likelihood. In this case, we (and our like-minded fellow institutional investors) were going to become the catalyst to avoid Grand Parade sinking into value trap status. This effectively lowered the risk associated with investing in the company and made it a more appealing risk-reward proposition.

ii. Being involved as an activist shareholder takes time and money[3] – especially when a situation turns overtly hostile. Writing letters, obtaining legal advice, dealing with media, fending off (or ignoring) abuse from management takes physical and emotional effort. The time, money and energy required to pursue this are largely fixed costs, that do not vary with the size of the investment at stake. It makes little sense to expend all these resources on an investment which won't move the needle for clients if it is successful.

Grand Parade became a top ten holding in the Hedge Fund in the first half of 2018. It would stay there until late in 2022.

Our group of shareholders held enough shares to call a general meeting of the company. During August of 2018 we proceeded to do so, with a view to replacing all the non-executive directors on the board with a slate of four new, competent, and truly independent directors.

The acrimony with which this demand was met was not unexpected, but something to behold, nonetheless. Besides finding all manner of prima facie legitimate ways to delay the process, directors (notably Mr Adams – even though we did not call for his resignation) engaged in a smear campaign against our group. We were called greedy 'yuppie' asset strippers with no respect for where Grand Parade had come from and how much it had done for its base of historically disadvantaged 'community' shareholders. We were labelled 'hyenas', subjected to racial slurs in public (specifically at the company's October 2018 investor presentation), and it was even hinted that our physical safety

[3] This money (typically necessary to pay for legal advice and shareholder communications) has in the past been a notable deterrent for investment managers to drive change in companies in South Africa. Until recently, South African investment funds were not allowed to incur legal fees of the type necessary to effect activist change in a company. This meant that the investment manager would have to incur these fees on behalf of its clients. Human nature being what it is, the prospect of incurring substantial expenses in return for uncertain and diffuse reward is an equation which many investment managers have often solved by steering clear of activist involvement. We experienced some of this dynamic first-hand in our Grand Parade situation, where some investment managers with far deeper pockets than Rozendal Partners were loath to commit to funding their share of expenses involved in the process. Regulations have recently changed though, which makes it possible for such expenses to be recouped from investment funds. This should improve the prospects of South African investment managers being willing to engage in activist investments in future.

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may be at risk. Clearly hell hath no fury like a director realising that his gravy train is about to come to a screeching halt.

As a group we forged ahead though, and the general meeting we called for was set down for 31 October 2018. The venue for the meeting was to be the Samaj Centre in Athlone. The choice of venue was peculiar: in preceding years, general meetings of the company had been held in high profile locations, typically in expensive parts of Cape Town. Athlone was very different: it is not a commercial hub of Cape Town (to the best of our knowledge, no other publicly listed company has ever held a general meeting in Athlone) and is an area with a reputation for high levels of crime. It was, however, an area from which many of Grand Parade's original 'community' shareholders hailed. It was patently obvious that the venue had been chosen to intimidate us out of attending in person, which would then be used as a further arrow in the quiver of insults to be hurled at us, telling community shareholders that these fund managers don't care about the small shareholders and don't even take the trouble of showing up to the meetings they themselves call. All, of course, to dissuade these shareholders from voting in favour of our proposed directors. Given this dynamic, we considered it important to attend the meeting in person. We were not sure what to expect but did not want to take chances with our physical safety. In a first for all of us, we arranged for security personnel to accompany us to the meeting.

The meeting was a tense affair. But much to our surprise, it became apparent that many of the community shareholder attendees were also disillusioned with how Grand Parade had been managed. The share price decline and (especially) lack of dividends in recent years made the fact that management had nonetheless been earning substantial bonuses particularly galling to many shareholders. We found the audience to be much more open to our side of the story than we expected. One shareholder specifically requested that we be given an opportunity to present our case, which we proceeded to do. We were given a fair audience in front of a hall full of shareholders who we had expected to be strongly influenced by the rhetoric of Mr. Adams and company. The audience's receptiveness to our message was heartening.

Proceedings concluded disappointingly though. One disgruntled shareholder proclaimed that it was all too confusing for shareholders to make a well-informed decision, that shareholders needed to see each side's case in writing, and hence moved for the meeting to be adjourned. The chairman of the meeting (not Mr Adams, who could not attend on account of health issues) put the proposal to a vote. On a show of hands, the meeting was adjourned. We had some heated exchanges of words with the directors about the validity of having this motion decided by a show of hands rather than by a poll, but the decision stood.

Leading up to the adjourned meeting (scheduled for 5 December 2018), it became increasingly clear to us that we would have to canvass more widely for shareholder support if we were to ensure that voting went our way. In this we faced a problem pervasive to all situations where shareholders face hostility from management: management controls shareholder communications. It is not within the purview of shareholders to release information relating to the company via the official stock exchange announcement channels – that is the prerogative of management and the board. In addition, the cost

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of publishing statements widely in popular media can be prohibitive. If management chooses to do so, they use company funds. Shareholders are left to fund such expenses out of their own pockets. Ironically, management fights against shareholders using those very shareholders' money to pay for the fight. The asymmetry in this is stark. Fortunately (and to the credit of the exchange), we found a sympathetic ear at the Johannesburg Stock Exchange, which allowed us to publish a statement to all shareholders through the official channels laying out our case for renewal of the board.

Shortly before the adjourned meeting was to take place, the company announced the appointment of a new executive director, Mohsin Tajbhai. Mr Tajbhai was relatively young but had served as chief operating officer of Grand Parade for some time preceding his appointment as director. We viewed this appointment with suspicion, as it would only have been made with the blessing of Mr Adams. Mr Tajbhai had also spoken at the October general meeting in a way which came across as supportive of incumbent directors at the company – not an encouraging sign.

A further development shortly before the adjourned meeting was to take place was that noted South African activist investor Value Capital Partners ('VCP') acquired an 8% interest in the company. We welcomed this development, as we believed VCP shared our views and objectives.

Despite the positive movement in the shareholder base, everything was not to go our way at the adjourned general meeting in December. Entities controlled by renowned South African businessman GT Ferreira had owned a material stake in Grand Parade for many years. Mr Ferreira, it seemed, harboured some loyalty to Mr Adams, and split his (decisive) vote at the meeting, resulting in only two of our four proposed directors being elected to the board. We had achieved some success, but it was not quite the victory we had hoped for. It would soon become apparent that the tide in the company had turned though.

Shortly after the adjourned meeting, VCP acquired a further 8% stake in Grand Parade, placing them firmly in the driving seat on the side of shareholders. And soon thereafter, Mr Tajbhai was appointed CEO of the company. Combined with Mr Adams' failing health, it seemed that the strategic direction of the group would finally be in the hands of parties other than Mr Adams. The first sign of this was the announcement soon after Mr Tajbhai's appointment that the company would shut down Dunkin Donuts and Baskin Robbins. And in the results presentation for the period to the end of December 2018, emphasis was placed on the extent to which head office costs had been (and would continue to be) cut. The next sign of the sea change in strategy that was about to happen was Mr Adams selling a meaningful number of his Grand Parade shares to VCP, shortly followed by his moving from executive chairman to non-executive chairman, and one of the directors whom we had sought (but failed) to remove resigning from the board.

From that point on, events unfolded quickly. The company announced the intention to sell half of its investment in Spur, and its 30% interest in SunSlots. At the 2019 annual general meeting, Mr Adams announced that he would step down as a director of the company. And in December of that year, the company announced that it was in negotiations to sell Burger King. The Rubicon had been crossed.

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Far from being a lackey to Mr Adams, Mr Tajbhai had proven himself to be very open minded when it came to pursuing the strategic course that would be best for shareholders – even if this meant dismantling the group and in effect working himself out of employment in time. But even the ‘simple’ task of selling assets at favourable prices proved more challenging than anticipated. The Covid pandemic had a disastrous impact on both the quick service restaurant and gaming industries. This resulted in the initial terms of the Burger King deal (on which terms had since been agreed subsequent to the negotiations that were entered in 2019) being renegotiated and was partly the reason for the deal only being concluded in November 2021 – almost two years after negotiations commenced. In addition, a proposed sale of the company’s head office fell through when the buyer could not find tenants for the property due to the dire state that the office market was thrown into by the pandemic.

A further challenge management faced to realising value for shareholders was of a regulatory kind. Firstly, gaming board approvals could not be obtained by the 30 June 2020 deadline set in the SunSlots sale agreement. Given the crisis the buyer (Sun International) was facing in its own business at the time, it is no wonder there was little appetite to agree on revised terms and press on with the transaction.

Secondly, the South African Competition Commission (‘the Commission’) initially blocked the Burger King disposal. Despite acknowledging that the transaction raised no competition concerns (the buyer was a private equity firm with no competing interests), the Commission took the view that the transaction could not be justified on public interest grounds. In the Commission’s words, the transaction would ‘not promote the greater spread of ownership, in particular to increase the levels of ownership by historically disadvantaged persons and workers in firms in the market.’ The irony that this effectively deprived many historically disadvantaged persons (shareholders of Grand Parade) of the rewards due to them for having invested their savings in the company (and having forfeited dividends from the company in the years in which the company was investing heavily to expand the Burger King store network) was seemingly lost on the Commission. The Commission was apparently free to throw its weight around in the South African economy in whichever way it chose, if even the most threadbare of ‘public interest’ justifications could be found for its decision. Competition concerns appeared to be but a minor irritant to deal with in its decision-making.

This decision by the Commission caused an uproar in the South African market – and rightly so, in our view. The decision was taken on appeal by the company to the Competition Tribunal. The Tribunal saw the light (or gave in to the pressure of public opinion) and approved the deal, but with exceptionally severe conditions attached thereto. It came as a relief to all Grand Parade shareholders when the buyer agreed to the conditions, and the transaction eventually closed.

The company took little time to pay out a large part of the Burger King disposal proceeds as a special dividend to shareholders. Six months later, the company announced that it would unbundle its remaining shareholding in Spur to shareholders. And shortly thereafter, the company released a further announcement that it had entered a process of negotiation which could result in the sale of the entire company or some of its assets. The value unlock strategy was being executed at pace.

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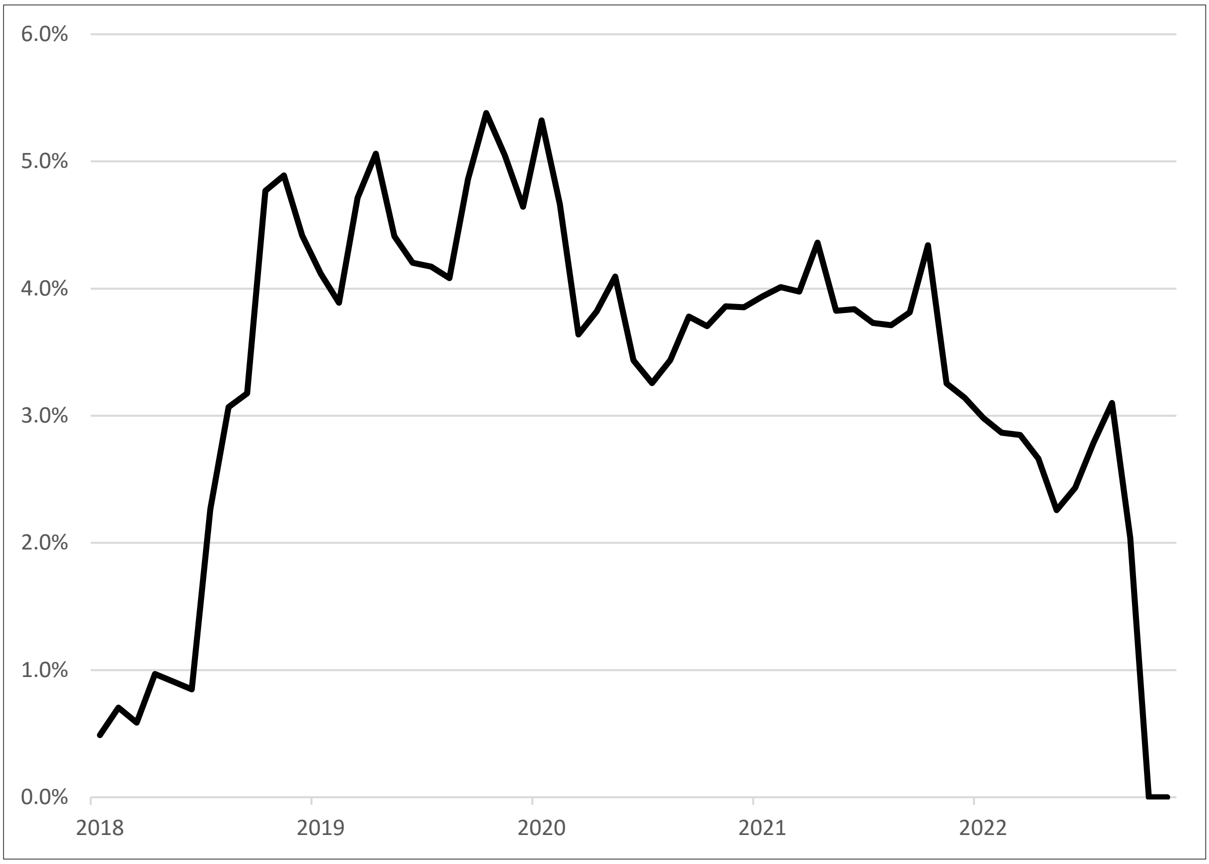
But in October 2022, the Grand Parade saga took another unexpected turn: financier and horse racing aficionado Greg Bortz started buying large chunks of Grand Parade shares from longstanding shareholders at prices not far from our estimate of fair value. This triggered something of a bidding war: Sun International was seemingly keen to prevent an unknown third party from exercising undue influence in some of its prize assets. Bortz crossed the 35% threshold (which triggers a mandatory offer to all shareholders) in short order. Sun International in turn started buying shares at an even higher price than what Bortz was paying, eventually building a stake of more than 20% in the company (at the time of writing).

The Hedge Fund had owned a single digit (but important) percentage of Grand Parade's shares in issue since 2018. The recent bidding war gave us an appealing opportunity to sell the entire holding at attractive prices – it provided us with liquidity in what is normally a rather illiquid stock. Given that the discount to fair value had closed, and that there was (and still is) no clarity around Bortz's plans for the business after taking control of the company, we decided to draw the curtain on what has been one of the more engaging and eventful investment cycles we have ever been through.

Chart 5: Grand Parade position size in Hedge Fund



Source: Rozendal Partners 19 January 2023

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Happily, all the blood sweat, and tears were not wasted: Grand Parade has been a stellar investment for the Hedge Fund. From the date of the Hedge Fund's first purchases of Grand Parade shares until the date of the last sales (a period of almost five years), the investment delivered an internal rate of return of 19.9%[4]. This compares to the South African market which delivered a compound annual total return of 9.6% over this period, and inflation that averaged 4.9%.

What did we take away from our Grand Parade adventure? Chiefly the following:

i. The concept of 'limits to arbitrage' is as relevant in long-term activist investing as it is in high frequency trading – the nature of the frictional costs associated with the activity is just different. It was patently obvious that Grand Parade's assets were being priced dramatically cheaply by the market in 2018. It was also clear that arbitraging away this mispricing would take time, money and effort. In the absence of this investment of time, money and effort, there was every possibility that Grand Parade could have turned into a value trap.

ii. Whilst this has changed somewhat of late in South Africa, incentives in the investment management industry are such that it often steers investment managers (specifically smaller managers with limited financial resources) away from getting involved in activist investments where there is hostility from management. Ironically, management is typically far better resourced to fight against shareholders than shareholders are to fight against management.

iii. In the end, economic rationality will usually trump personal loyalty. Many of Grand Parade's original shareholders held Hassen Adams in high esteem and had great loyalty to him. However, when it became clear that Grand Parade had been steered off course and shareholders started to feel this in their pockets, they were much more open than we anticipated to considering another point of view to the one held forth by Mr Adams.

iv. Buying at a discount to fair value is always of critical importance. We acquired most of the Hedge Fund's Grand Parade shares at prices way below our estimate of fair value at the time. As it became evident to the market during 2019 that real change was underway in the company, the share price rerated sharply. Had we not participated in bringing about this change and rather waited for change to become apparent, the returns from investing in Grand Parade would have been far more modest (though still satisfactory). There is, of course, an argument to be made that waiting for change to become apparent and only investing thereafter would have involved lower risk: at the inception of our activist involvement it was not clear that our efforts would be successful and actually bring about the change that it did. On a risk adjusted basis, returns from investing in Grand Parade pre-activist involvement compared to post-activist involvement may therefore not be as far apart as the raw return numbers may suggest. Weighing up this risk vs. return equation when evaluating investment

[4] This is not readily apparent from the share price chart shown earlier, as a meaningful part of this return came to shareholders in the form of special dividends and unbundled assets.

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opportunities is a matter of judgement and investor preference. We do not do this in a formulaic way: each opportunity will present its own set of facts which we have to consider before concluding on the optimal risk adjusted investment strategy to be pursued.

This then concludes our last investment cycle with Grand Parade. And who knows, depending on how the business develops under the control of Mr Bortz, and where market prices take us, perhaps there will be yet another Grand Parade investment cycle in store for us in the future.

D. Investment Observations

1. The crypto-currency implosion of 2022

The crypto-currency market suffered a dramatic decline during 2022. The price of bitcoin (the blue-chip crypto currency, if there is such a thing) more than halved. Some of the more speculative (and/or fraudulent) coins in the market experienced complete meltdowns, essentially becoming worthless. And as is typical of such an environment, some major financial malfeasance has come to light – the most notable of which has been that of Sam Bankman-Fried and his crypto exchange FTX.

We have steered well clear of crypto currencies to date. And whilst this may look smart in the context of events of the past year, this has cost us: over the past ten years, bitcoin has been a dramatically better investment than global stock markets.

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Chart 6: Bitcoin vs FTSE Global All Cap total return index rebased to 100 (log scale)

Source: Refinitiv Datastream 19 January 2023

Unless one bought at the very peak of the previous price cycle late in 2017 or early 2018, Bitcoin has been a better investment than global equities on any horizon longer than about two years - despite the dramatic decline of 2022. So why have we been on the side-lines? There are several reasons[5]:

i. We are valuation-based investors. If we cannot get our arms around the fair value of an asset (even if the range of potential fair values is wide), we will be hard pressed to invest in that asset.

ii. We are not summarily dismissive of arguments that bitcoin[6] is the modern equivalent of gold. Gold has little intrinsic worth, is cumbersome to store, and is not widely accepted as a means of payment. Yet for thousands of years, societies have valued gold highly as a store of value. Inherently, there seems to be no argument why this cannot also become the case for bitcoin. However, the fact is that gold has the thousand-year track record, whilst bitcoin has a fifteen-

[5] Leaving aside regulatory and/or investability issues.
[6] Or any other well-established crypto currency with wide acceptance.

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year track record. To us, that is not enough to give us comfort that an asset with no intrinsic value otherwise will indeed serve as the store of value that gold historically has.

iii. For much of the past decade, most of the circumstantial evidence has pointed to the crypto currency market being one filled with speculative excitement, and hence grave risk for long-term investors. The media attention, capital raisings, dinner table conversations and interest amongst the public at large[7] pointed to an environment where the odds of long-term success appeared slim to us.

The above may change in time, and we do not categorically preclude investing in any asset over time. Our most important stumbling block is probably the first: assessing the fair value of bitcoin. To this end, we have come across at least one cogent argument for determining a fair price for bitcoin, namely that of its production cost.

The cost of mining bitcoin may serve as some guide to when bitcoin is cheap or expensive, and where a fair price may lie. We certainly pay attention to this when evaluating traditional mined commodities (including gold). Unfortunately, there is some circularity here: the higher the price of a commodity, the more expensive the mining that can be undertaken to mine that commodity profitably. This circularity appears particularly prevalent in the crypto currency market, where the 'production cost' (mainly the electricity required to power the computer equipment used to mine bitcoin) has fluctuated almost as dramatically as the bitcoin price itself, presenting difficulties in establishing a stable value to which the price can be expected to mean-revert.

[7] One of us was recently treated to a long exposition on how to trade bitcoin by a waiter at an upmarket restaurant. Much like the proverbial shoe shine boy or taxi driver handing out stock tips at the peak of a bull market, we did not interpret this as a sign that bitcoin is an asset that should be top of our list of priorities to pay attention to as a potential investment for our clients.

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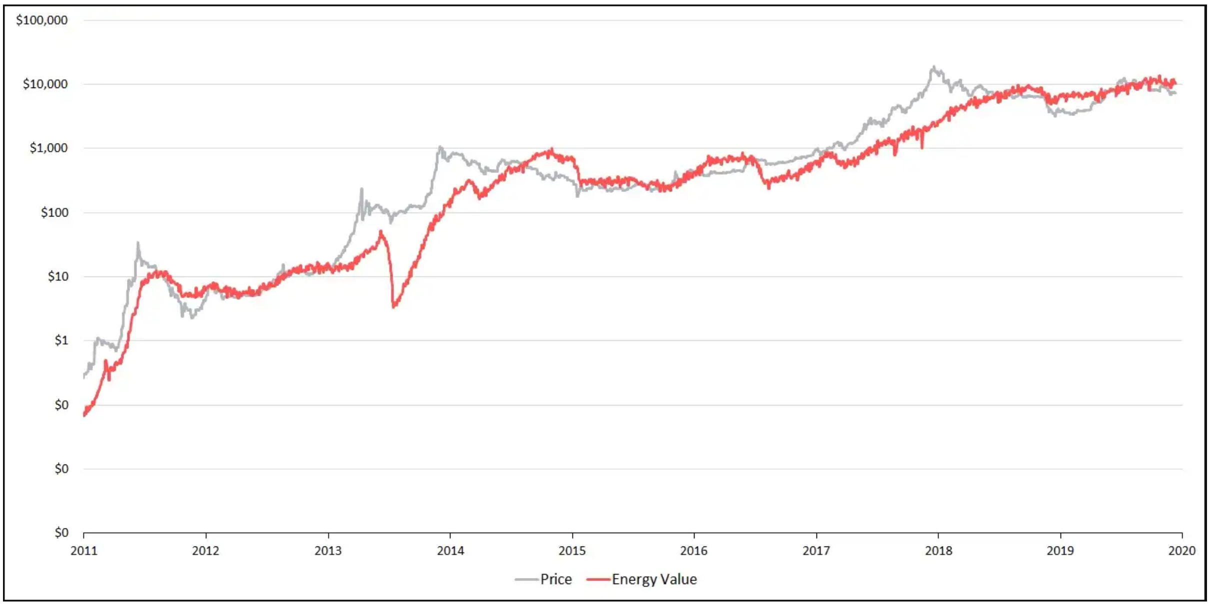
Chart 7: Bitcoin price vs energy value (log scale)



Source: https://medium.com/capriole/bitcoin-value-energy-equivalence-6d00d1baa34a 19 January 2023

In conclusion then: we have witnessed the dramatic rises and falls of the crypto currency market from afar. Until such time as we can hang our hat on some sound estimate of fair value, that is likely where we will stay. Yes, that may turn out to be an error of omission in the future. But we are comfortable that there are enough sensible investment opportunities out there for us that passing on something like crypto currencies is not an omission that will prejudice Rozendal investors in a meaningful way, all things considered.

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2. The mighty US equity market

For the past decade, the US market has been the only game in town when it comes to global equity markets.

Chart 8: Datastream US stock market index relative to Datastream World ex United States stock market index total return (log scale, rebased to 100)

Source: Refinitiv Datastream 19 January 2023

This aggregate outperformance of almost 100% over ten years translates to about 7% per annum compounded. The US has delivered the goods: it has not merely become more popular; it has delivered better earnings growth for investors over this decade. The 7% annual outperformance can

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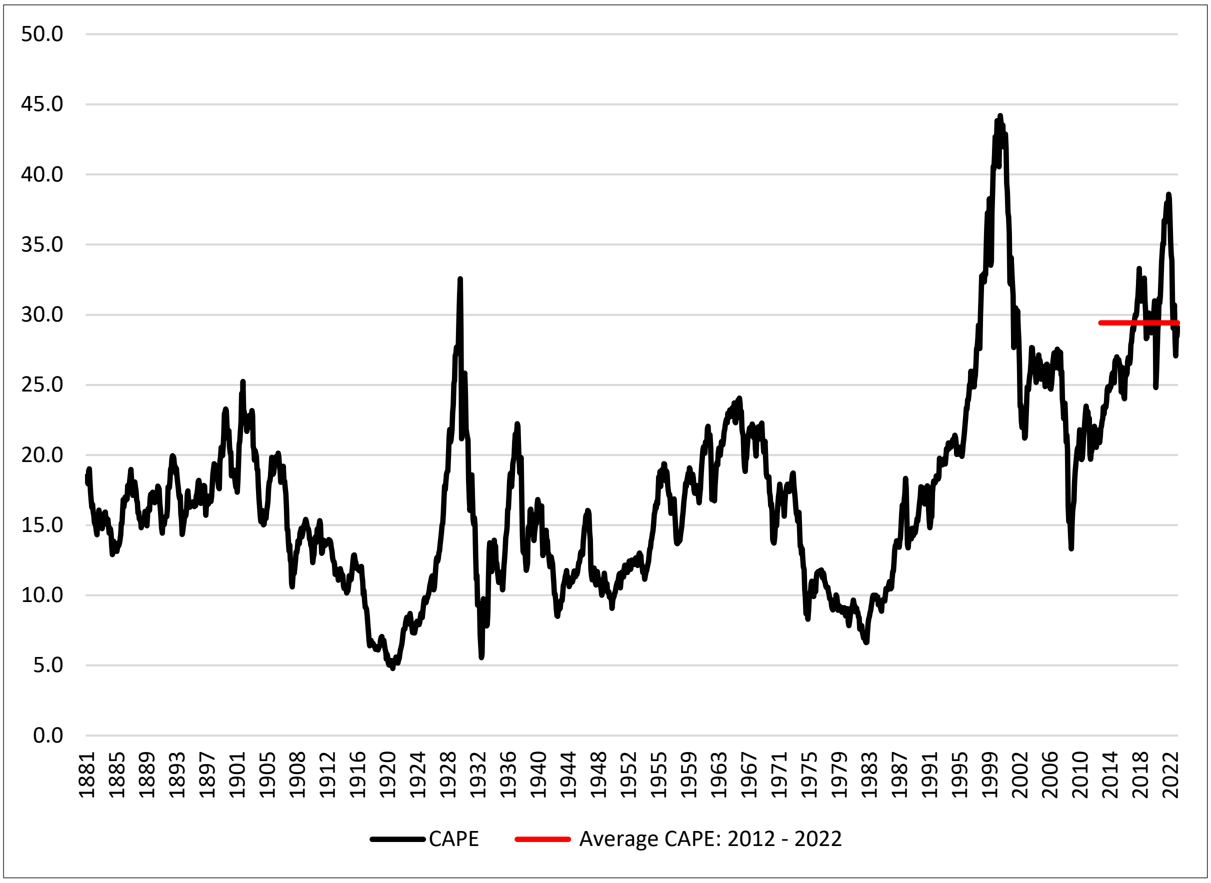
be disaggregated into about 5% per annum better earnings growth, and 2% per annum relative rerating[8].

The Rozendal Global Fund has had notably limited exposure to US listed stocks since its inception. This continues to be the case. We are bottom up investors and assess investment opportunities on a case by case basis, but we are not blind to the outside view and historical correlations. And in this context the US has been persistently expensive for the past decade. The chart below shows Robert Shiller's Cyclically Adjusted Price Earnings Ratio[9] ('CAPE') for the US market over its history, as well as the average for the past ten years.

Chart 9: US market CAPE



Source: Robert Shiller, Rozendal Partners 19 January 2023

[8] The US was rated at about 18 times earnings at the start of the decade, increasing to about 20 times by the end. The world market ex-US was rated at about 14 times earnings ten years ago, declining to about 13 by 2022.
[9] Widely regarded as the most robust indicator of expected long term stock market returns.

The average level of CAPE over the past decade has, in 140 years, only been exceeded during 1929 (immediately preceding the Great Crash of 1929) and during the period around the 2000 internet bubble. This has not come across to us as an environment indicative of good long-term prospects for equity investors. By and large, markets outside the US (where ratios like CAPE have been far lower) has appeared to us to offer more favourable prospects of long-term investment returns.

There are though, two valid arguments against looking at CAPE as an indicator of expected future returns from a market. Firstly, the very fact that CAPE enjoys far wider awareness in markets than it used to when it was first popularised by Robert Shiller in the late 1990's and early 2000's may mean that market participants may have changed their investment behaviour so as to price the level of CAPE into market prices, and hence CAPE will no longer be a good predictor of future returns. This is very difficult to test empirically, and hence we cannot categorically confirm or refute whether this is the case. However, our 'lived experience' of markets is certainly not that market participants have been taking greater cognisance of long-term measures of value like CAPE when making investment decisions. We consider it far more likely that human psychology and behaviour (and hence investment decision making) has not changed so much in the past 140 years as to render CAPE irrelevant as a predictor of future stock market returns.

The second argument against CAPE is that each unit of earnings that constitutes the denominator in the CAPE equation is no longer comparable to the units of earnings reported historically. This will be true if companies can convert more of their earnings today into true free cash flow (that can be paid out as dividends) compared to what they were able to historically. The result of this will be higher returns on capital: if companies are required to reinvest less of their earnings to maintain and grow profitability, returns on capital will increase.

Intuitively, many of the leading US listed companies today are far less capital-intensive business than in decades past. Software companies typically expense far more of their investment spend through the income statement immediately compared to market leaders of yore (think here of railway lines, steel companies, automotive manufacturers, mining and energy businesses, and capital equipment manufacturers). Traditional financial services businesses like banks and insurers (which were very large components of the US market during the 2000's) are also inherently capital intensive.

Appealing as this argument may be though, the evidence does not support it. The chart below shows inflation adjusted return on equity for the US market over the past forty years.

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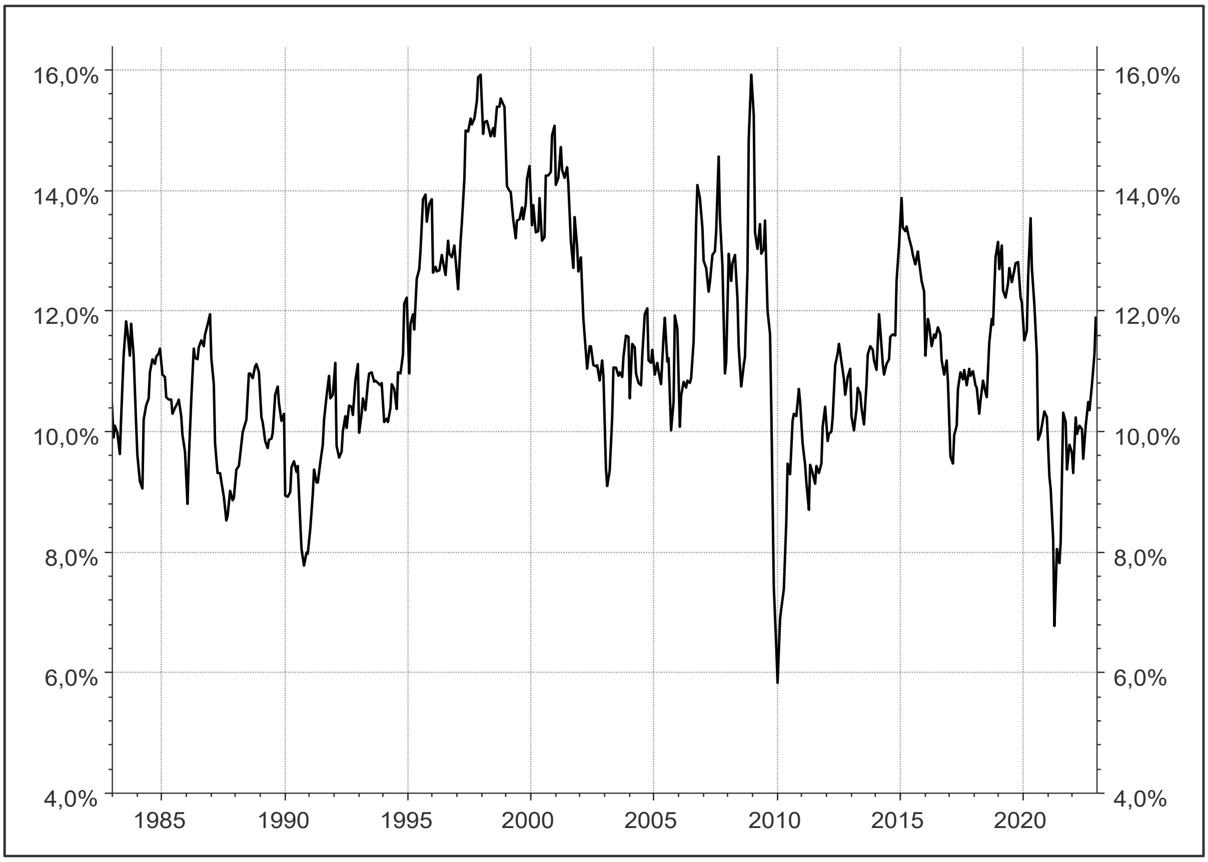
Chart 10: Inflation adjusted return on equity of the US stock market 1982 - 2022



Source: Refinitiv Datastream 19 January 2023

There is little to suggest that US companies are earning structurally higher returns on equity nowadays than in the past. Even if the underlying operating businesses are inherently higher return businesses than the market leaders of old, it seems that the higher cash generation is being applied in a way which does not result in higher returns being earned. We can only speculate as to why this may be, but huge investment in loss-making lines of business and heavy spending on mergers and acquisitions with the strong free cash flow that is being generated are certainly two potential culprits.

In conclusion about CAPE and the US market then: we continue to be comfortable with limited exposure to the US. It still seems to us that there are by and large more appealing ponds to fish in. And judging by history, once those other ponds start producing fish, it may carry on for some time.

The chart below shows the total return relative for the US market compared to the World ex-US market on a longer time scale than shown in Chart 8. It also shows the price to book relative of the US

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market and the World ex-US market[10]. Sustained periods of outperformance by the US is unshaded, whereas sustained periods of underperformance by the US is shaded in grey.

Chart 11: US market vs World market ex-US total return and price to book relative

Source: Refinitiv Datastream 19 January 2023

Two things stand out to us from this chart:

i. The total return relative and the price to book relative charts follow each other exceptionally closely. This implies that much of the periods of relative out- and underperformance of the two markets against each other has been driven by rerating, not by differences in underlying economics.

[10] Price to book ratio is widely maligned as an indicator of value. However, of the three widely referenced equity valuation indicators (price to earnings, dividend yield and price to book ratio) it has historically had the closest correlation to CAPE on the level of country indices, and has been a better predictor of five to ten year future index returns than price to earnings and dividend yield.

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ii. Over the past forty years, there have been four different regimes of relative return. These periods typically last for more than a decade. We have just witnessed such a period of exceptional outperformance by the US, and it has carried on for a long time by historical standards.

All things considered, it appears the odds of continued long-term US outperformance are not favourable. Whilst we do not summarily dismiss the US as a market with potentially appealing investment opportunities, we (still) find ourselves drawn to other ponds where the prospect of catching fish appears more favourable.

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E. Rozendal Partners Update

The past six months have been pleasingly quiet on the Rozendal Partners front. A frenzy of internal activity can easily become a distraction from our core focus of generating investment ideas and implementing them. Over the past six months, we had few such problems!

We look forward to interacting with as many as possible of our fellow investors, friends and interested parties at our upcoming investor report back in February. If you are in the least interested in participating and have not received an invitation yet, please do send us an email at info@rozendal.com. We look forward to seeing you there!

Yours sincerely,

Wilhelm Paul

27 January 2023

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