Bateleur BCI SA Equity Fund

first quarter 2025 commentary

bateleur capital

bateleur capital

Bateleur Capital (Pty) Ltd
Block H | The Terraces
1 Silverwood Close | Steenberg Office Park | Westlake 7945
Postnet Suite 130 | Private Bag X1005 | Claremont 7735
t 021 681 5060 | f 021 681 5066
www.bateleurcapital.com
Company Reg no. 2003/029676/07
Authorised Financial Services Provider | FSP No. 18123

24 April 2025

Dear Investor

Bateleur BCI SA Equity Fund ("The fund") – 2025 first quarter report back to investors

The fund returned negative 2.0% for the first quarter of 2025[i]. As additional comparisons, the JSE capped shareholder weighted total return index (Capped SWIX) returned 5.9% inclusive of dividends re-invested, the value of a basket of domestic bonds (All Bond Index) increased by 0.7% and cash (STeFI) produced a return of 1.8%.

In the period under review, domestic equity returns were driven by a narrow pack of large-cap stocks – the gold sector gained 67%, Platinum Group Metal (PGM) miners increased by 37% and telecommunication companies rose 28%, while Naspers and Prosus returned 8% and 12% respectively. This grouping of 10 stocks gained by a weighted average of 37% while the balance of the market delivered a negative return of 5.3%.

Table 1 – Contributors to Capped SWIX Index returns – Q1 2025

Name	Contribution to index return (%)	Q1 2025 return (%)
Gold Fields	2.4%	67%
AngloGold	1.5%	67%
Naspers/Prosus	1.1%	8%
Harmony Gold	1.1%	77%
MTN	0.9%	34%
Impala Platinum	0.5%	44%
Sibanye Stillwater	0.3%	39%
Anglo American Platinum	0.2%	29%
Vodacom	0.2%	24%
Northam	0.2%	35%
Total	**8.4%**	**37%**
Balance of Capped SWIX YTD return (%)	**-2.5%**	-5.3%
Capped SWIX YTD return (%)	5.9%	

Source: Bateleur Capital, Bloomberg , March 2025

The fund is currently not directly invested in gold and PGM equities or domestic listed telecommunication providers which detracted a combined 7.3% in relative performance and explains the majority of underperformance year-to-date.

The fund's return for the quarter was disappointing and below expectations, albeit measured over a short period.

Table 2 below illustrates the fund’s largest relative contributors and detractors over the period.

Table 2 – Top relative contributors and detractors Q1 2025

Top contributors	UW/OW	YTD 2025	Top detractors	UW/OW	YTD 2025
Naspers/Prosus	OW	0.5%	Gold Fields	UW	-2.4%
AB Inbev	OW	0.4%	AngloGold	UW	-1.5%
Standard Bank	OW	0.3%	Harmony Gold	UW	-1.1%
Anglo American	UW	0.2%	MTN	UW	-0.9%
Foschini	UW	0.2%	Glencore	OW	-0.6%
AECI	OW	0.2%	Italtile	OW	-0.6%
Absa	UW	0.2%	Impala Platinum	UW	-0.5%
Richemont	OW/UW	0.2%	Adcock Ingram	OW	-0.4%

Source: Bateleur Capital, Bloomberg , March 2025

Since inception in 2012, the Fund and the SA long only strategy has not held material exposure to gold equities and is likely to remain the case in the near future. Gold companies are cyclical and generate poor shareholder returns on invested capital through the cycle. In addition, they have declining production profiles and need to continually incur significant capital expenditure or undertake acquisitions merely to maintain production levels.

While we acknowledge that gold is at a record high above $3,300 an ounce and the SA listed gold miners are generating sizable free cash flow at the current price, our assessment is that these companies are currently earning ‘super profits’ that are unsustainable. Consequently, the risk of permanent capital loss from current elevated share price levels is high.

The fund maintains indirect gold exposure through its c.4% position in African Rainbow Minerals (ARM), which holds an 11.8% stake in Harmony Gold. Currently, this Harmony Gold stake represents approximately 67% of ARM’s market capitalisation or 90% of its enterprise value when accounting for the substantial net cash position. The market is assigning minimal value to the company's operating assets and this presents significant upside potential should management take steps to unlock value. We are actively engaged in ongoing discussions with management regarding these opportunities.

The PGM miners exhibit similar shareholder return characteristics to gold miners. However, PGM miners potentially find themselves at the bottom of the cycle with depressed metal prices and limited free cash flow generation, arguably providing a cyclical opportunity should PGM supply reduce. Given the current supply and demand dynamics in the PGM sector, a significant supply response is required.

The majority of North American PGM supply (8% of global primary supply) is free cash flow negative but unlikely to come out of the market near term due to government support. In addition, the balance sheets of the local PGM miners (excluding Sibanye Stillwater) are not yet at the point of maximum pain that requires expedited shutdowns to loss-making mine shafts.

The demand side remains challenged. While electric vehicle (EV) penetration has slowed globally, it is still growing and taking share from internal combustion engines.

China’s emergence as a growing car exporter in markets with less stringent emission regulations is driving down overall PGM consumption and is a significant headwind that is under appreciated. In addition, the imposition of tariffs (by the US government) has negative implications on near term demand for motor vehicles.

The recent share price gains experienced in the PGM sector are not supported by increased demand and higher metal pricing, with the basket price remaining relatively stable around R26,000/6E ounce over the last 18-months. Given current valuations, PGM miners do not offer a sufficient margin of safety to warrant exposure at this point but is under constant review.

Tariffs.

"Just a couple of months ago, the US economy was performing well, the outlook was positive, the stock market was at an all-time high, and there was much talk about American exceptionalism. Now, if Trump's tariffs are put into effect, the US economy is likely to experience a recession sooner than otherwise would have been the case, higher inflation, and extensive dislocation."

Howard Marks – Nobody Knows (Yet Again).

Globalisation has been a powerful force behind increasing global prosperity - largely through reduced trade barriers and the outsourcing of production to countries with comparative cost advantages. This shift reduced production costs and helped moderate inflation in developed economies while boosting labour productivity - delivering widespread benefits to consumers, particularly in the United States[1]. Simultaneously, developing countries benefited from job creation and economic growth.

President Trump's sweeping tariff strategy marks a significant departure from the previously expected, more targeted measures aimed at protecting national security and critical supply chains. This shift in trade policy stance presents a substantial risk to the progress achieved over decades of globalisation by disrupting established supply networks, undermining longstanding trade relationships, and inviting potentially unfavourable retaliatory measures. These developments are likely to increase costs for businesses and consumers alike, discourage business investment, eliminate jobs, and increase the risk of recession.

Preliminary estimates indicate these tariffs, in its current form, could reduce US GDP growth by up to 1.1% while potentially increasing inflation by more than 1.7%[2] (Charts 1 and 2).

Chart 1 – US core goods PCE inflation

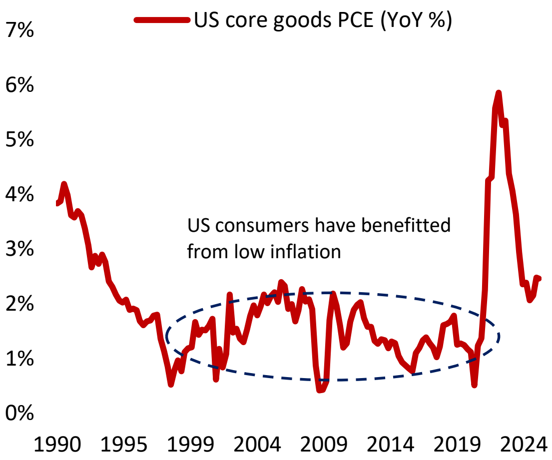
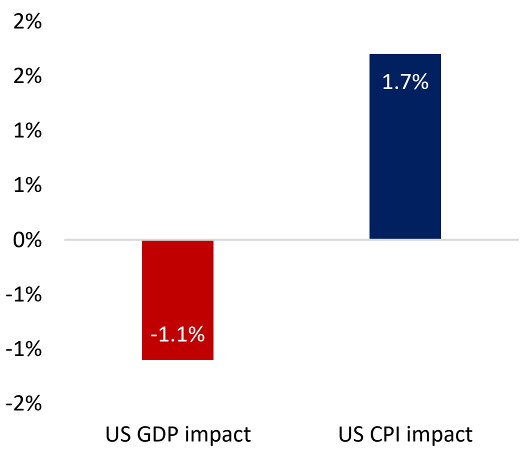


Chart 2 –Tariffs impact estimates



Source: Bateleur Capital , March 2025, Bloomberg, The budget lab at Yale

[1] Between 1995 to 2020, US prices of durable goods fell by c.40% - Howard Marks (The pendulum in International Affairs

[2] The budget lab at Yale.

The recent pause in tariff implementation is a welcome development, offering a 90 day window for constructive negotiations that could lead to more balanced trade measures and a reduced economic impact.

However, uncertainty remains high as well as the risk of potential capital losses. Until a clear and durable resolution is reached, we expect continued capital market volatility as investors and businesses adjust to the evolving trade landscape.

<u>Domestic outlook.</u>

The increasing fragility of the Government of National Unity (GNU) following the budget framework disagreement between the DA and ANC, has again raised the country risk premium in SA. This is evidenced in the weakening of the Rand and the widening of domestic government bond spreads relative to developed markets (DM) interest rates which has not occurred to the same extent in other emerging markets (EM) – Charts 3 and 4.

Chart 3 – FX performance vs USD (rebased to 100)

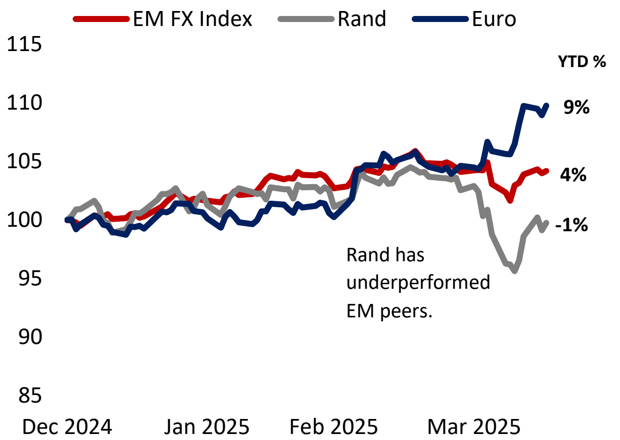
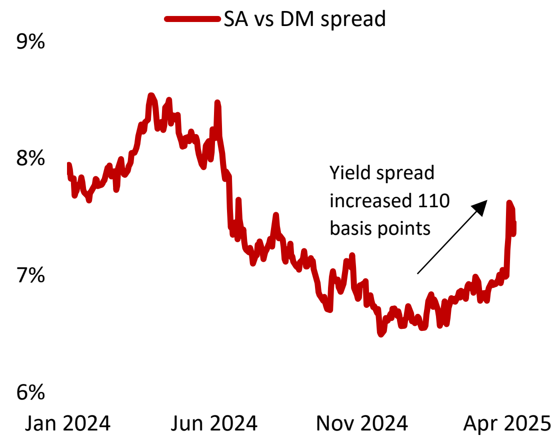


Chart 4 – SA 10 year yield spread vs *DM



Source: Bateleur Capital , March 2025, *DM= Bloomberg Developed Market Bond Index

Based on recently reported results as well as ongoing discussions with management teams of listed and unlisted corporates, the projected increase in consumer demand and private sector fixed investment in SA, following the broadly pro-business election outcome in May 2024, has not yet materialised.

Outlook statements remain predominantly cautious, reflecting persistent uncertainty in the broader economic environment.

At the same time the glide path lower for interest rates in SA is shallower than previously envisaged as the Reserve Bank adopts an ultra-hawkish stance and remains unduly fixated on inflation. We continue to view South African interest rates as too restrictive, curtailing economic activity.

Taken together, consensus GDP growth expectations for SA have moderated from c.2% at the start of the year to current levels of c.1.6% - which may be too optimistic given limited improvement in official economic data points to date.

The lower growth outlook has resulted in many domestic facing companies giving up their post-election share price gains during the first quarter of 2025, exacerbated by foreign selling (Charts 5 and 6). These companies once again offer compelling value.

Chart 5: Weighted basket of SA Inc Shares

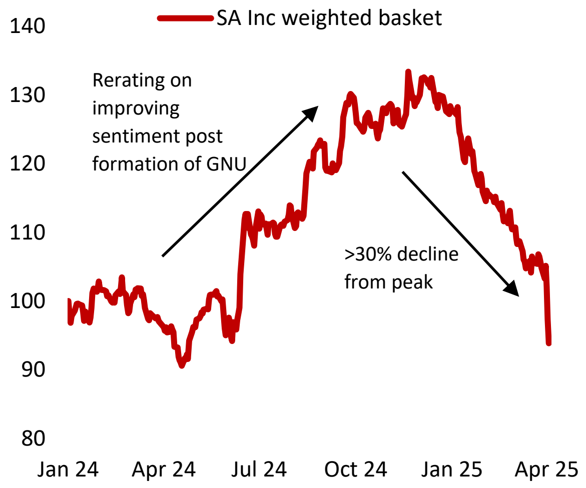
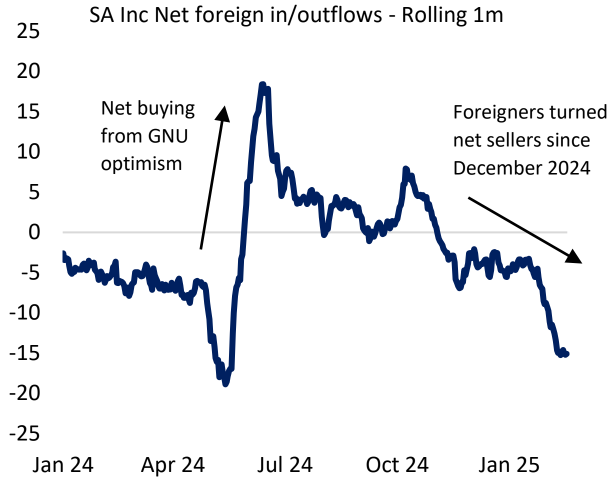


Chart 6: SA Inc Net foreign in/outflows (Rbn)



Source: Bateleur Capital , March 2025 RMB MS

<u>Portfolio changes.</u>

No significant changes have been made to fund composition over the quarter. The fund remains appropriately diversified, with 44% exposure to Rand Hedge shares and 52% domestically focused shares. Domestically focused holdings have a defensive or quality bias and include Shoprite, Remgro, Bidvest, FirstRand, Standard Bank, Netcare, Life Healthcare, AVI and Premier Foods amongst others.

During the period, new holdings were in initiated in Reinet (currently a 3% weighting) and Capitec (2% weighting), while holdings in British American Tobacco (3% weighting) and Bidcorp (4.5% weighting) were increased into share price weakness.

The fund exited Richemont and reduced Naspers into share price strength and decreased exposure to mid-capitalisation companies (Adcock Ingram, AECI and Hudaco).

Post quarter end, the fund has been selectively adding to domestic exposure given significant share price weakness, this includes AVI, Bidvest, Remgro and Standard Bank.

<u>Conclusion.</u>

At Bateleur, we seek to own good companies which generate above-average returns and are able to compound earnings into the future. The investment strategy is clearly defined, targeting businesses with qualitative characteristics enabling sustainable and predictable cash flows for shareholders.

The global macroeconomic backdrop is fast changing and uncertain, contributing to heightened market volatiltiy. We remain disciplined in our investment approach and view this environment as an opportunity to selectively invest in high-quality businesses with good long-term shareholder return potential.

Although performance has been disappointing in the short-term, we remain confident in the portfolio's composition and our ability to deliver on the fund’s investment objectives going forward.

Kind regards

Charl Gous Warren Riley Bheki Mthethwa

Co-Fund managers

[i] 1 Year: Fund 19.5% |Benchmark 25.4%
3 Year : Fund 15.0% |Benchmark 12.4%
5 Year : Fund 13.7% | Benchmark 11.9%
Since inception (21 April 2015): Fund 7.2% | Benchmark 6.3%
Highest rolling 1 year return 54.4%, Lowest rolling 1 year return -25.5%.

Bateleur Capital (Pty) Ltd

Authorised financial services provider
FSP no 18123
—
Block H, The Terraces
Steenberg Business Park
Westlake
7945
—
T +27 (0)21 681 5060
F +27 86 649 1794
—
E funds@bateleurcapital.com
W bateleurcapital.com