Bateleur BCI SA Equity Fund

Third quarter 2024 commentary

bateleur capital

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Dear Investor

Bateleur BCI SA Equity Fund ("the fund") – 2024 third quarter report back to unitholders

The fund returned 10.0% for the third quarter of 2024 and 14.4% year to date (YTD) – compared to the JSE Capped Shareholder Weighted Index (Capped SWIX) gain of 9.6% for the same quarter and 15.9% year to date. Improved investor confidence, post the formation of a business-friendly government of national unity (GNU), led to a rebound in domestic asset valuations over the period.[i]

Domestic facing companies performed strongly, with Standard Bank, Hudaco, AVI and Bidvest contributing a combined 2.8% in relative performance. Relative detractors were largely companies not owned by the fund including Capitec and Nedbank (2.4% combined), Anglo American (1.0%) and gold miners (1.1% combined).

A summary of the top contributors and detractors is illustrated in Table 1 below.

Table 1: Top individual contributors and detractors year to date

Contributors (relative)	UW/OW	YTD 2024	Detractors (relative)	UW/OW	YTD 2024
Standard Bank	OW	0.9%	Capitec	UW	-1.6%
Naspers/Prosus	OW	0.8%	Anglo American	UW	-1.0%
Hudaco	OW	0.7%	Nedbank	UW	-0.8%
AVI	OW	0.6%	Sasol	OW	-0.6%
Bidvest	OW	0.6%	AngloGold	UW	-0.6%

Source: Bateleur, September 2024

In the twelve-year period since inception (May 2012), the Bateleur SA Equity strategy^ has compounded at 12.5% net of all fees compared to 10.7% for its benchmark* (Chart 1).

The medium-term track record has been assisted by good returns over the past 5 years, with the fund delivering a 13.7% CAGR over the period, comparing favourably to its benchmark which has delivered 11.9% (Chart 2).

Chart 1: Bateleur LO SA Equity strategy

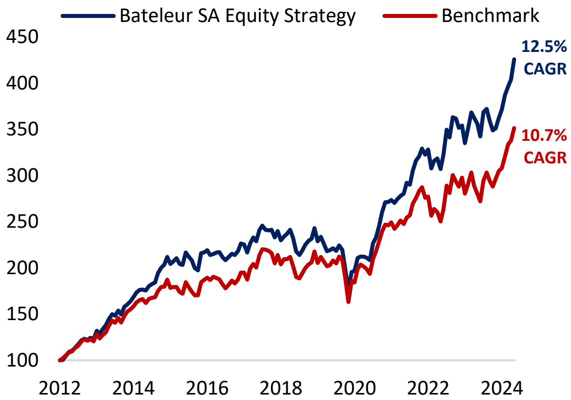
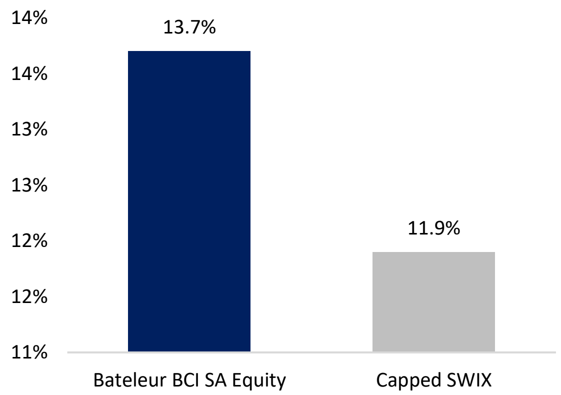


Chart 2: Medium-term track record (5yr CAGR)



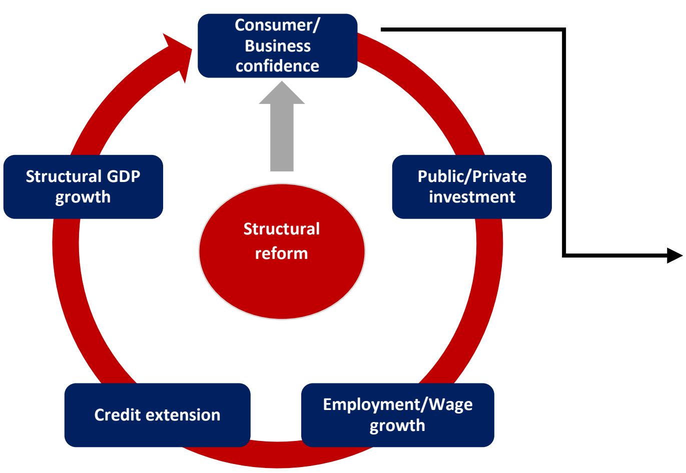
Source: Bateleur; Bloomberg September 2024; ^longest running SA Long Only equity strategy; *SWIX to July 2021 and Capped SWIX from August 2021 onwards

In our second quarter report back, we presented "Bateleur's hypothetical path to structural growth", with structural reform being a necessary precursor to improved business and consumer confidence.

This increased confidence will, in turn, lead to increased investment (both public and private), supporting employment, wage growth and demand for corporate and consumer credit. As these market forces gain momentum the flywheel effect kicks in, leading to improved economic activity.

Importantly, our base case is for a cyclical uplift in domestic economic activity over the medium term, not a structural change at this point in time. However, we are encouraged by the recent improvement in sentiment (Chart 3) and the potential for accelerating GDP growth in South Africa and the expected positive impact on local asset prices.

Chart 3: Bateleur's hypothetical path to structural growth for South Africa



"Looking ahead we anticipate much needed relief for consumers as wage growth aligns more with inflation and interest rates decline in line with forecasts. This, together with the South African election and crippling electricity load-shedding behind us, ***the outlook for consumer and business confidence, in our view, has considerably improved****."* **Shoprite Annual results - 3rd September 2024**

"Following an incident free and successful national South African election, which resulted in the formation of a Government of National Unity (GNU), ***there are strong signs of a business friendlier environment in SA****."* **Bidvest Annual results – 2nd September 2024**

Source: Bateleur

During September, the Bateleur investment team attended the 15th annual RMB Morgan Stanley Big Five conference. The conference presented an opportunity to evaluate the pace and effectiveness of the much needed ongoing structural reform initiatives and a chance to interact with executives from sixty five JSE listed corporates.

Keynote speakers provided insights on macro topics relevant to the domestic economy and included Michelle Phillips (CEO of Transnet), Dr. David Masondo (Deputy Minister of Finance), Dr. Kgosientsho Ramokgopa (Minister of Electricity and Energy) and Dr. Leon Schreiber (Minister of Home Affairs).

The tone from the week long conference was <u>notably upbeat</u> compared to prior years and well attended by foreign investors that were largely absent the past five years.

Minster of Home Affairs, Dr. Leon Schreiber, painted a compelling outlook for the department and its role in accelerating economic growth. The minister aims to fully digitise his department by 2029 and has already kick-started visa reforms to attract foreign skilled workers and reduce bureaucracy that has hampered inbound tourist arrivals. On RMB's own estimates, these reforms alone could add between 0.5% and 1.0% to GDP growth, once fully implemented.

Michelle Phillips gave a cautiously optimistic talk on the outlook for key parastatal, Transnet. Volumes across its iron ore, coal and general freight lines have now stabilised and are expected to improve over the medium-term. Key to this turnaround is several focused interventions with the overriding feature of private sector participation, which will require ongoing execution and buy in from the private sector to succeed.

Our meetings with several mining corporates were positive in this regard, with all noting an openness to engage from the new Transnet executive. Going forward, they highlighted the direct involvement of the private sector not only in planning and procurement but also in future maintenance shutdowns. This collaborative approach is expected to enhance efficiency and improve operational performance at Transnet.

Finally, with Eskom's performance stabilised, the Minister of Electricity and Energy focused on the next leg of reform, being electricity transmission. Over the coming decade, South Africa will require an 8 fold ramp up in the pace of transmission investment, from 300km to 2300km of new build per year to transport an estimated 53GW in new electricity supply.

Similar to Transnet, there was a focus on private sector participation and the "crowding in" of private investment. To date, the energy sector reforms have been a success, with over 130 private projects in the pipeline and attracting over R300bn in new investment. Encouragingly, Standard Bank[1] estimates that a further R460bn will be invested in domestic power generation over the next 5 years while an additional R300bn will be required to build out the grid and its associated transmission infrastructure.

From an investment perspective, the key takeaway from the conference is that domestic corporates are more confident in the outlook for the SA economy and are firmly behind the GNU and its targeted pro-growth reforms.

Though this has not yet translated into improved business performance, most agreed that they expect accelerating GDP growth to materialise in the next 12 to 24 months as a combination of low inflation, lower interest rates and improved business and consumer confidence feed into the real economy.

In summary, the conference strengthened our positive outlook on the South Africa economy, the Rand and domestic equities & fixed income. Ongoing economic reforms, greater private sector participation, and rising business and consumer confidence are encouraging.

While these developments are promising, we are carefully monitoring leading economic indicators and maintaining regular communication with corporates[2] for signs that these positive factors are translating into tangible improvements in economic activity and corporate earnings.

Current positioning and portfolio changes

The portfolio is tilted towards a favourable domestic outcome while maintaining appropriate exposure to offshore earners. Rand hedge investments are stock specific opportunities expected to deliver good shareholder returns regardless of currency fluctuations, enhancing portfolio diversification.

The fund was active over the quarter – new positions were initiated in Nedbank, Kumba Iron Ore and Richemont while existing positions in Sun International, Premier, Italtile and Netcare were added to. The fund exited its positions in British American Tobacco and Life Healthcare following strong share price gains.

[1] Standard Bank Renewables presentation – Overview of the South African power sector.
[2] Over 20 one-on-one meetings scheduled with corporates over the next 4 weeks

Conclusion

We are positive on the outlook for the South African economy post the formation of the GNU and are encouraged by the recent stimulus measures announced in China which should be supportive for SA listed companies reliant on the Chinese economy (primarily via Naspers/Prosus, Richemont & diversified commodity producers).

South African equity valuations remain attractive both on an absolute and relative basis and are under owned by both local and foreign investors. The fund is in a fortunate position to access a wide and attractive opportunity set supported by our deep knowledge of domestic equities.

We remain confident of delivering on the fund's objectives going forward.

Kind regards

Charl Gous | Warren Riley | Bheki Mthethwa

Co-Fund managers

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[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%.

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