Bateleur Flexible Prescient Fund

First quarter 2025 commentary

bateleur capital

Bateleur Flexible Prescient Fund – 2025 first quarter report back to unitholders

The fund declined 2.7% net of fees over the first quarter of 2025[i]. A breakdown of the return by asset class is shown in **Table 1** below.

JSE listed equities averaged 49% of fund NAV over the review period and detracted 1.8%, foreign listed equities averaged 26% of fund NAV and detracted 0.8% (when measured in ZAR) and SA government bonds averaged 14% of fund NAV over the period and contributed 0.2%.

Table 1: First quarter 2025 - Fund attribution by strategy

Return by Strategy	YTD 2025	Ave. exposure (%)
JSE listed equities	-1.8%	49%
Foreign listed equities	-0.8%	26%
Government bonds	0.2%	14%
Cash	0.1%	11%
Costs (and other)	-0.4%	
Total	-2.7%	100%

Source: Bateleur, March 2025

The first three months of calendar 2025 is considered too short a period to meaningfully assess fund performance.

For example, it does not yet incorporate the global capital market dislocations that occurred in April after the US ‘reciprocal’ tariff announcements (and subsequent retractions and modifications).

Domestically, it also pre-dates an increasingly fragile GNU following the budget impasse between the ANC and DA that has elevated SA’s country risk premium.

Nevertheless, we would highlight the following relevant points by asset class covering the reporting period.

JSE Listed Equities:

The fund holds no direct investments in JSE listed gold shares or platinum group metals (‘PGM’) shares. During the first quarter, these shares accounted for more than 100% of the JSE All Share Index return of 5.9% - as shown in **Table 2** overleaf.

Table 2: Contribution to JSE All Share return Q1 2025

Name	Q1 2025 return (%)	Contribution to index return (%)
Gold Fields	67.3%	2.4%
AngloGold	66.8%	1.4%
Harmony Gold	76.9%	1.1%
		4.9%
Implats	43.5%	0.5%
Sibanye	39.1%	0.3%
Amplats	29.1%	0.2%
Northam	34.6%	0.2%
		1.2%
Total		**6.1%**

Source: Bateleur, March 2025

Since inception in 2010, the fund has never held gold equities and is unlikely to do so moving forward. Gold companies are cyclical and historically have generated poor returns on invested capital. In addition, they have declining production profiles and need to incur significant capex or undertake acquisitions in order to grow production.

Admittedly, with the gold price at a record high above $3,400/ounce, the SA listed gold miners are currently generating record profits and sizable free cash flow.

However, our assessment is that these 'super profits' are unsustainable and will lead to imprudent capital deployment by the gold companies – either through increased M&A activity (buying other gold companies at the peak of the cycle) or by expanding into adjacent 'new age' commodities (such as copper). We view the risk of permanent capital loss from the current elevated share prices as high.

Harmony, until recently, was viewed as a marginal SA gold producer with a patchy financial track record. The company's underlying gold mines are ageing and have a limited blended lifespan of less than 10 years. Yet, the market capitalisation of Harmony has recently soared to R224bn on the back of the higher gold price, valuing the group at one third of Anglo American's market capitalisation (R669bn) and almost thirty percent of Glencore's (R769bn).

The recent move higher in the PGM share prices (almost all of which occurred in March) is also perplexing - considering that most of the companies are only marginally free cash flow positive at the current PGM basket price (6E at R26,000/ounce).

The long-term demand outlook for the underlying PGM metals remains challenging given the continued secular move away from combustible to hybrid and electric vehicles.

For PGM prices to move sustainably higher from current levels – requires capital discipline from the PGM miners in the form of supply curtailment (by shutting or mothballing mines). Historically, the PGM companies have displayed poor capital discipline – highlighted by Impala Platinum and Northam's 2022 bidding war for Royal Bafokeng Platinum at the peak of the PGM price cycle. Ultimately, Impala grossly overpaid and is unlikely to ever generate an acceptable return on this investment.

The fund continues to hold a meaningful weighting in JSE listed companies that are (at least partially) linked to the health of the SA economy (currently 27% of fund NAV).

Following the conclusion of the recent reporting season (for the period to December 2024) as well as ongoing engagements with listed corporates, it is evident that 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.

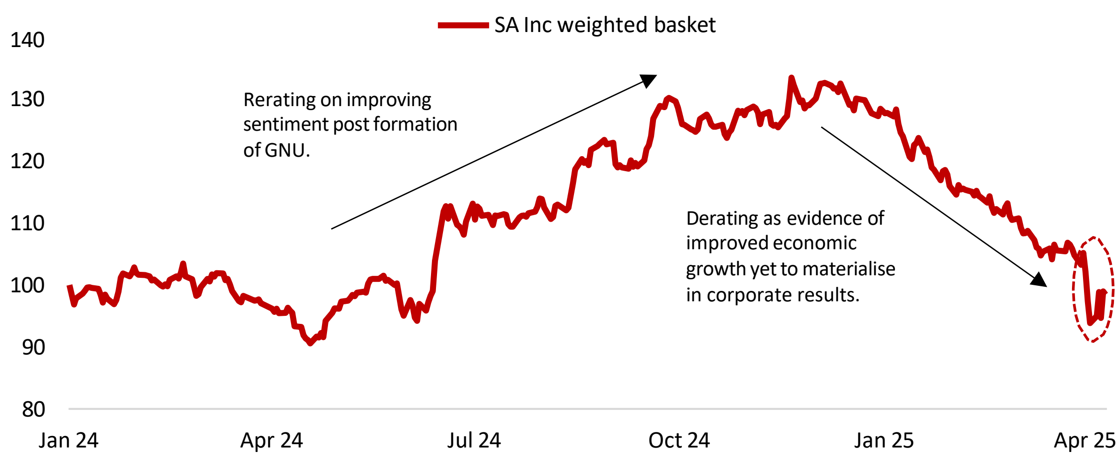
At the same time, the glide path lower for interest rates in SA is shallower than previously envisaged as the Reserve Bank adopts an ultra-hawkish stance and remains unduly fixated on inflation pegging as opposed to growth enhancing policies. With inflation appearing anchored around the 3.0% to 3.5% band, maintaining the repo rate at the current 7.5% is overly restrictive - especially in a country that desperately needs to kickstart growth.

It is a seldom occurrence where low-risk SA short-term money market funds that currently yield c.8.0% are providing a real return of almost 5.0%.

Taking the above into consideration, consensus GDP growth expectations for SA have moderated from c.2.0% at the start of the year for both 2025 and 2026 to current levels of c.1.6%.

The lower growth outlook has resulted in a representative basket of SA Inc shares giving up the majority of their post-election 2024 gains during the first quarter of 2025 (**Chart 1)**. This de-rating has accelerated into April following increased global (US tariffs) and domestic (GNU infighting) uncertainty.

Chart 1: Performance of equally weighted SA Inc basket



Source: Bateleur, Bloomberg, March 2025

The retracement lower of SA Inc shares has resulted in several of these companies again offering compelling value notwithstanding the lower SA GDP growth outlook and increased country risk premium.

Foreign Listed Equities:

When grossed up and measured in USD, the fund's foreign holdings were marginally positive for the first quarter of 2025 (+0.3%). This compares to negative 1.8% for the MSCI World Index and negative 4.3% for the S&P 500.

The fund's defensive holdings (Philip Morris, Visa, J&J) and European listed constituents (Vinci, Aker BP and Heineken) contributed positively to fund returns, while US technology holdings detracted from absolute performance.

The fund remains significantly underweight technology relative to both the MSCI World Index and the S&P 500 and holds zero exposure to Apple, Nvidia, Tesla and Broadcom.

The fund's US listed technology holdings comprise long standing investments in Amazon, Microsoft and Alphabet that cumulatively total less than 6% of fund NAV at quarter end.

A detailed summary of the top five individual contributors and detractors for the fund over the quarter are shown in **Table 3** below:

Table 3: Top contributors and detractors over the period

Top contributors	%	Top detractors	%
Naspers/Prosus	0.9%	Italtile	-0.6%
Philip Morris	0.3%	Glencore	-0.5%
Standard Bank	0.3%	Adcock Ingram	-0.4%
Vinci	0.3%	Amazon	-0.4%
AkerBP	0.3%	Alphabet	-0.4%

Source: Bateleur, March 2025

Portfolio changes and current positioning:

JSE Listed Equities:

JSE listed equity exposure increased by 2% over the first quarter of 2025 and totaled 50% of fund NAV at quarter end.

Of the 50% weighting, 23% comprised Rand hedge shares and 27% comprised domestically focused shares. Domestically focused holdings have a defensive or quality bias and include Shoprite, Remgro, Bidvest, FirstRand, Standard Bank, Netcare and Premier Foods amongst others.

During the quarter, a new holding was initiated in Reinet, while weightings were increased into several existing domestic holdings following share price weakness.

Foreign Listed Equities:

Over the first quarter of 2025, the fund's foreign listed holdings reduced from 27% to 20% of fund NAV. The reduced weighting was a result of both top down macroeconomic (increasing uncertainty over US and global growth) as well as bottom-up factors (valuations becoming less compelling or a change in the investment case).

After strong share price gains, holdings were reduced in Berkshire Hathaway, Visa, UMG, Expedia, Total Energies and J&J. Holdings were also exited in healthcare companies Merck and Novo Nordisk on increased competitor activity and the potential for future earnings disappointments. Technology holdings were marginally lightened, but at good levels in February.

Government Bonds and Cash:

Domestic government bonds remained broadly stable over the quarter at 14% of fund NAV.

The fund holds no foreign government bonds as there is real possibility of both slowing growth and rising inflation globally – that is not adequately reflected in current bond yields.

Cash increased from 10% at the start of the year to 16% at quarter end, largely boosted from the sale of foreign equities. 8% resides in domestic cash/money market funds and 8% in offshore cash/money market funds.

The cash holdings provide a safeguard in the current uncertain environment and importantly, are generating a healthy real return in both ZAR and USD. The cash is readily available to be deployed into riskier assets as and when opportunities arise.

A summary of the fund's asset allocation at quarter-end is shown in **Table 4** below**.** An up-to-date composition on 15 April 2025 is also displayed that incorporates post quarter-end changes. Cash weightings have further increased to 25% of fund NAV, largely funded from the sale of longer duration SA government bonds and select defensive foreign equities (such as Philip Morris) that were trading in excess of fair value.

Table 4: Fund asset allocation by month and at quarter end

Asset Allocation	31 December 2024	31 March 2025	15 April 2025
Domestic equities	48%	50%	51%
Foreign equities	27%	20%	18%
Domestic government bonds	15%	14%	6%
Foreign government bonds	0%	0%	0%
Domestic cash	7%	8%	15%
Foreign cash	3%	8%	10%
	100%	100%	100%
Total equities	75%	70%	69%
Total government bonds	15%	14%	6%
Total cash	10%	16%	25%

Source: Bateleur, March 2025

We remain confident in delivering on the fund's long term investment objective.

Sincerely,

Kevin Williams
23 April 2025

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[i] A1 Class Performance:
1 Year: Fund 5.5% |Benchmark 7.2%
10 Year : Fund 8.6% | Benchmark 9.0%
Highest rolling 1 year return 39.0%, Lowest rolling 1 year return -7.2%.

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