Bateleur BCI SA Equity Fund

2Q25 Report Back

bateleur capital

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The Bateleur BCI SA Equity Fund gained 9.1% over the second quarter of 2025 to close the half year up 6.9% net of fees **(Chart 1)**.[i]

While the fund has underperformed year-to-date ("YTD"), it is encouraging to see relative performance improving over the second quarter with stock specific opportunities such as Reinet, African Rainbow Minerals, AECI, Premier Group and Sun International positively contributing to performance. In addition, the fund held decent exposure to dual listed/rand hedge equities including Naspers/Prosus, Anheuser-Busch, Bidcorp and British American Tobacco that performed well.

The drivers of benchmark returns YTD continue to be highly concentrated with the majority of gains attributable to precious metal miners, telecommunication companies and dual listed/rand hedge shares. Excluding precious metal miners and telecommunication companies, the JSE Capped SWIX gained 5.7% year to date **(Chart 2)**.

Chart 1: Fund Performance Q1 vs Q2

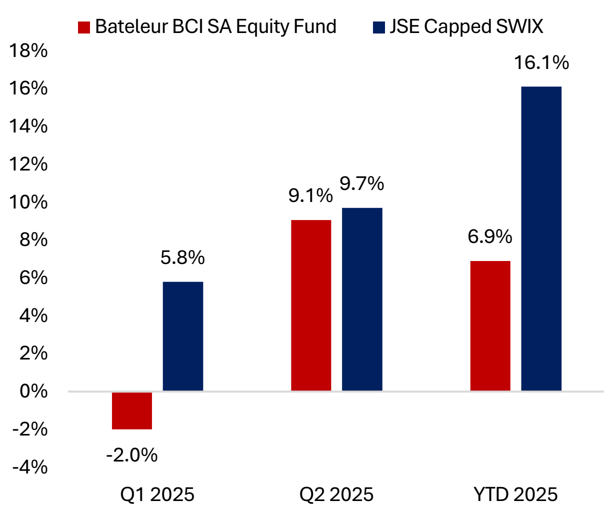
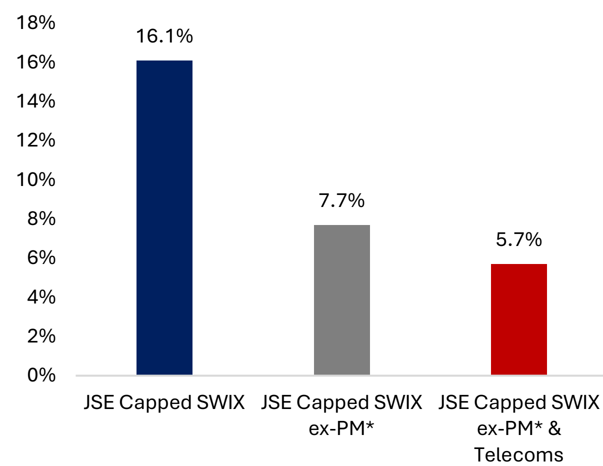


Chart 2: YTD Benchmark Return Attribution



Source: Bateleur; *PM = precious metals (Gold & Platinum Group Metal Miners)

The top individual contributors and detractors to returns YTD are shown in **Table 1** below.

Table 1: YTD – Top Individual Contributors and Detractors

Top Contributors	UW/OW	%	Top Detractors	UW/OW	%
Naspers/Prosus	OW	1.0%	Gold Fields	UW	-2.5%
Reinet	OW	0.7%	AngloGold	UW	-2.1%
Anheuser-Busch	OW	0.7%	MTN	UW	-1.6%

Source: Bateleur

Prosus recently released their 2025 financial results that exhibited strong momentum from Tencent and their core e-commerce business. E-commerce annual earnings (EBIT) increased to $433 million from $38 million in the prior year driven by robust growth from the food delivery and classified segments. Importantly, the group is now free cash flow positive (excluding the Tencent dividend), a trend which is expected to accelerate in the year ahead.

Our investment team attended the Prosus capital markets day in London where the company (led by CEO Fabricio Beloisi) provided a clearly articulated strategy and ambitious financial targets to 2028. Prosus trades on an estimated one year forward P/E multiple of 15.0 times which we view as compelling.

Reinet announced in early July that it will sell its 49.5% holding in Pension Investment Corporation ("PIC") for cash proceeds of £2.9bn on closure (expected early 2026). Following the receipt of the PIC proceeds, c.80% of Reinet's NAV will reside in cash with the remaining 20% in a range of global investment vehicles including hedge funds.

Reinet currently trades at a 30% discount to its underlying NAV and a 14% discount to its expected cash holdings. It would appear that investors expect the company to deploy the cash holdings into new investment opportunities and that a holding company discount is therefore justified.

Given the recent disposal of its two major investments (British American Tobacco and PIC) and the magnitude of the cash holdings to be deployed (£4.6bn), we do not view it as "business as usual" at Reinet. Potential exists for further corporate restructuring (and value unlock) within the group, while a large margin of safety is available at the current share price.

Anheuser-Busch ("ABI") delivered strong first-quarter results and appears to have reached a key inflection point, with net debt/EBITDA now below 3.0 times and free cash flow generation markedly improving.

Management has guided to 4%-8% EBITDA growth for the upcoming year, supported by operational leverage and disciplined cost control. With a strengthened balance sheet and accelerating free cash flow generation, the company now has increased financial flexibility to pursue a broader range of capital allocation priorities – including the potential for increased share buybacks and reinvestment in organic growth opportunities. ABI remains attractively valued at 17.3 times forward earnings.

The fund maintained zero exposure to gold mining equities over the quarter, which has detracted 5.6% from the relative performance YTD. The reasons behind the underweight positions were previously covered in the fund's first quarter 2025 report back and remain unchanged.

While we recognise that additional demand drivers are currently supporting the gold price, we view the current level of industry profitability as "super profits" **(Chart 3)**.

This caution is further supported by the sector's growing prominence in the JSE, rising from a negligible weighting at the cyclical lows of 2016 **(Chart 4),** as well as a spate of late-cycle corporate activity with AngloGold, Gold Fields and Harmony announcing recent acquisitions. Historically, investing in gold miners during such periods of elevated profitability has led to weak subsequent shareholder returns.

Chart 3: Gold Production Cost vs Price ($/oz)

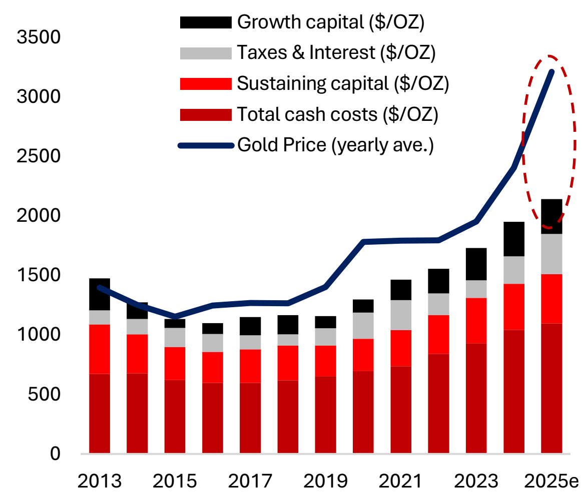
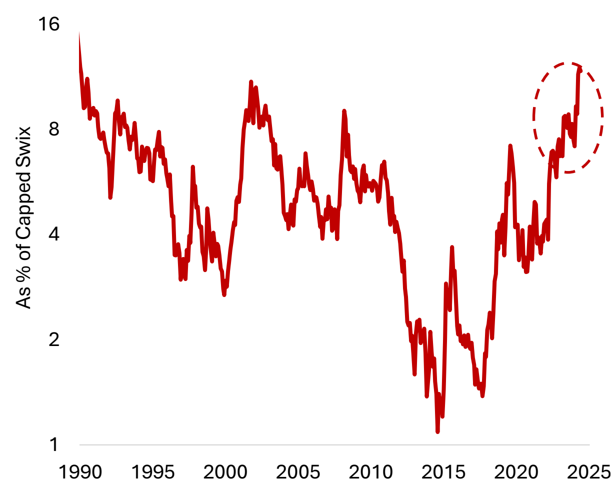


Chart 4: Gold Miner Index Weight (%)



Source: Bateleur, BMO Capital Markets, SBG Securities

The platinum group metal ("PGM") miners exhibit similar shareholder return characteristics to gold miners. However, in contrast to the gold mining sector, the PGM sector potentially finds itself at the bottom of the cycle rather than the top. After a multi-year slump, platinum prices have rallied on the prospect of improving jewellery and investment demand occurring against a constrained supply backdrop. This has been amplified by a weak start to the year in production and refined metal by the South African producers coupled with speculative demand from China.

Following the recent rally, the majority of the PGM industry has returned to profitability – a significant turnaround from three months ago when approximately 35% of the sector operated below breakeven **(Chart 5 overleaf)**. Although multiple scenarios indicate growing market deficits, we remain measured in our outlook due to the volatile nature of investment and jewellery demand, as well as the availability of shovel-ready projects that could be readily deployed to market, potentially mitigating expected supply constraints **(Chart 6 overleaf)**.

Chart 5: PGM Basket Price vs Cost Curve

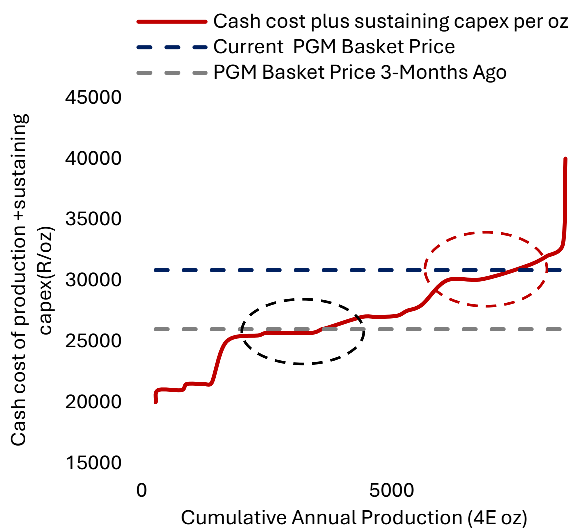
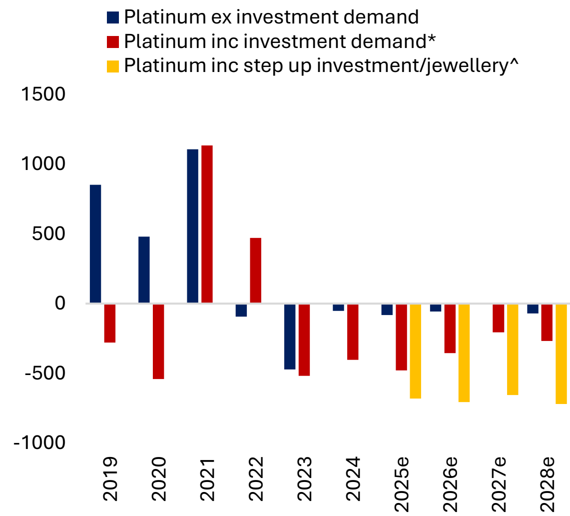


Chart 6: Platinum Surplus/(Deficit)



Source: Bateleur, BMO Capital Markets, SBG Securities, *assume investment demand at 400k oz in FY25 declining to 200k oz thereafter ^assume 200k oz further increase in investment and jewellery demand per annum

The fund held no direct exposure to PGM miners for most of the review period. However, new positions were initiated during May in Valterra, Northam and Implats (in addition to the existing holding in African Rainbow Minerals).

African Rainbow Minerals ("ARI") share price appreciated on the back of a rise in the PGM basket price (+24% YTD), most of which occurred in June. Excluding ARI's 12% holding in Harmony Gold and a net cash balance of R9bn, the core operational businesses of ARI (Iron ore, Manganese, Coal, PGM's) trade on an estimated spot P/E multiple of less than 5.0 times – providing an attractive risk/reward profile.

Finally, the fund has no exposure to telecommunication companies which have delivered strong YTD returns. However, these gains follow a period of weak share price performance: over the past three years, MTN returned 3.3% (1.08% annualised), while Vodacom produced 19.06% (5.98% annualised).

In both cases, the recent rally has been driven by a recovery in Rest of Africa operations – in the case of MTN, mobile tariffs hikes in Nigeria and a stronger Ghanaian Cedi exchange rate have resulted in improved earnings prospects and consensus upgrades while Vodacom has benefitted from currency stability in Egypt, supporting earnings from a low base.

We continue to view MTN and Vodacom's qualitative characteristics as below average and the expected earnings profile of these companies as ex-growth. These businesses operate in highly competitive and regulated markets, are capital-intensive and continue to be exposed to foreign exchange risk in their respective African markets.

Reporting Period Highlights and Current Positioning

SA GDP growth expectations for 2025 continue to be revised downward from 1.7% at the start of the year to 1.0% currently **(Chart 7)**, reflecting low business and consumer confidence **(Chart 8)**, a lack of fixed investment, delays over policy reform, concerns over the sustainability of the GNU, and the overly restrictive monetary policy adopted by the South African Reserve Bank ("SARB").

Chart 7: SA GDP Expectations

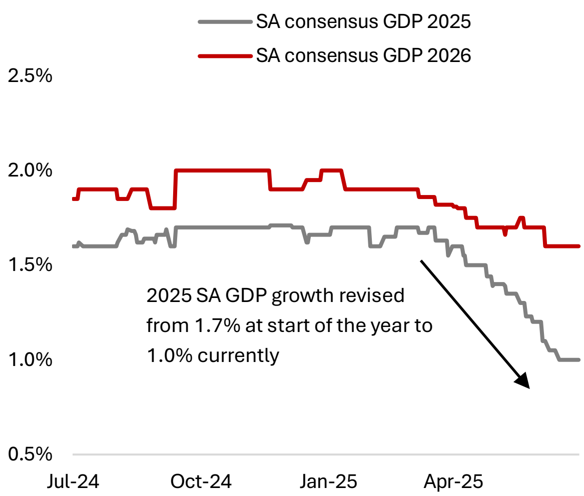
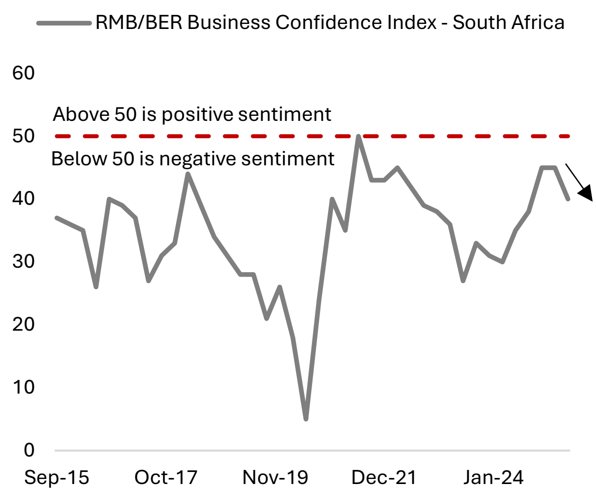


Chart 8: RMB/BER Business Confidence



Source: Bloomberg

SA real interest rates are at their highest in 15 years **(Chart 9)** and amongst the highest globally **(Chart 10)**, providing ample scope for significant rate cuts. However, the SARB persists with an undue fixation on a revised lower inflation target of 3%, needlessly suffocating the economy in the process.

Chart 9: SA 10-Year Real Bond Yield

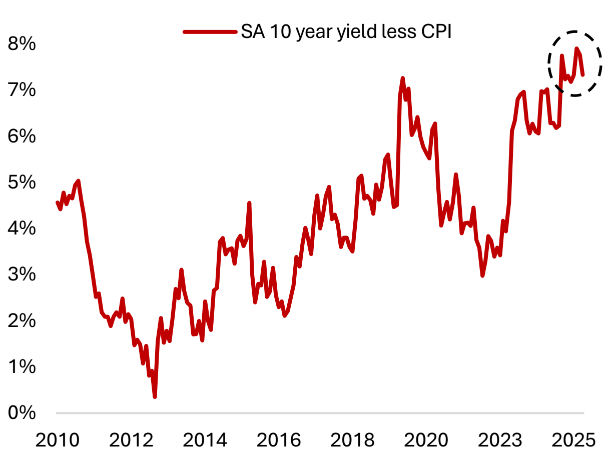
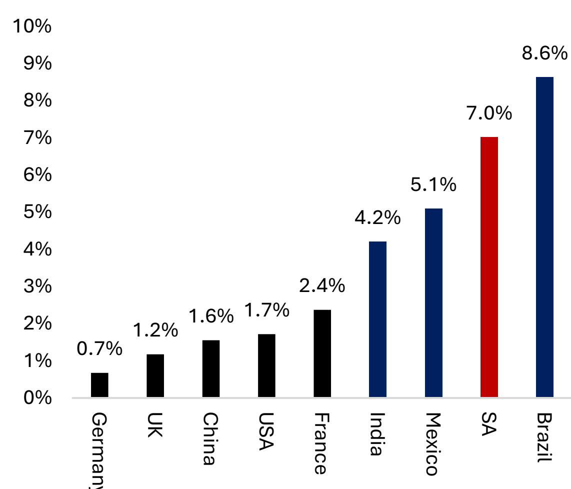


Chart 10: SA Real Govt. Bond Yields



Source: Bloomberg

The pedestrian (and reduced) GDP growth forecasts imply that there will be no major tailwind from the economy to assist corporate earnings growth in SA.

On a company level, earnings growth will resultantly be dependent on specific management actions including market share growth, entering new revenue adjacencies, mergers and acquisitions, capital management initiatives and turnaround strategies. In this environment, bottom-up stock picking is especially relevant as is the need to invest in quality compounding businesses with a strong track record of delivering.

The unfavourable SA macro backdrop has led to renewed foreign selling of SA domestic shares YTD **(Chart 11),** to the extent where most of the gains made post the May 2024 election have been given back **(Chart 12)**. The de-rating was further accentuated during the April US tariff announcement period.

Chart 11: Foreigners Have Sold SA Inc.

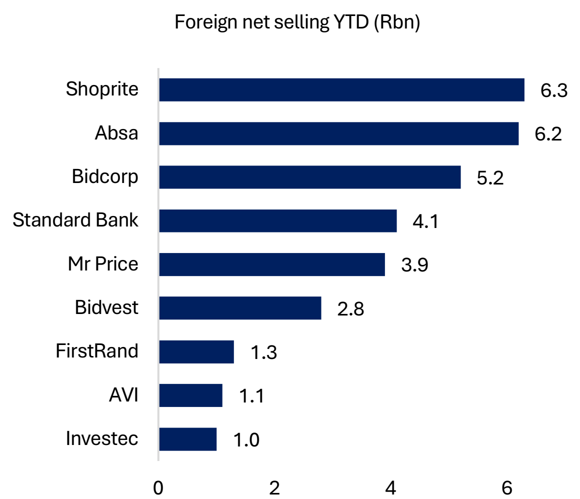
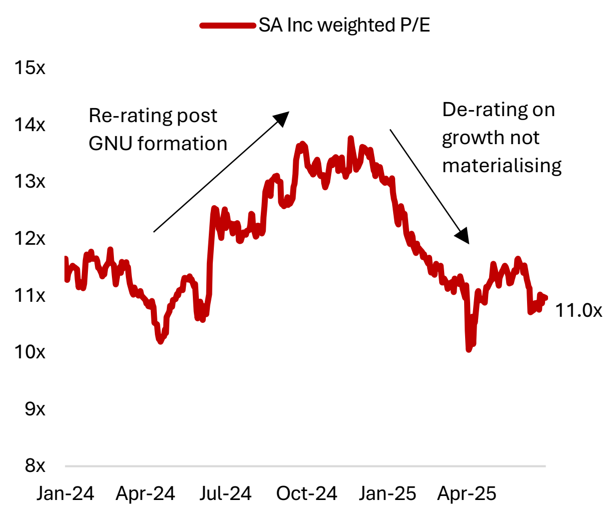


Chart 12: SA Inc. Basket Forward P/E



Source: Bloomberg

The fund used the weakness in equities to add exposure to long-standing quality counters at attractive entry levels. Holdings were increased in Remgro, Shoprite, AVI, Bidcorp, Bidvest and Reinet.

In addition, new positions were initiated in Investec, Kumba Iron Ore and Mondi. Impala and Northam, which were acquired over the quarter, were sold at a profit while an overweight position in Valterra Platinum was maintained.

Conclusion

Valuations of South African equities remain compelling on an absolute and relative basis. The fund is invested in quality companies, trading at low valuation metrics with solid earnings growth prospects that are expected to produce attractive returns.

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

Sincerely,

Charl Gous **Warren Riley** **Bheki Mthethwa**

Co-Fund Managers
25 July 2025

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[i] Performance:
1 Year: Fund 11.8% |Benchmark 24.6%
3 Year: Fund 12.0% |Benchmark 15.8%
5 Year: Fund 15.2% | Benchmark 16.2%
10 Year: Fund 7.2% |Benchmark 7.8%
Since inception (21 April 2015): Fund 6.8% | Benchmark 7.2%
Highest rolling 1 year return 54.4%, Lowest rolling 1 year return -25.5%.

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