Bateleur Flexible Prescient Fund

2Q25 Report Back

bateleur capital

Bateleur Flexible Prescient Fund – 2Q25 Report Back

The Bateleur Flexible Prescient Fund gained 7.2% over the second quarter of 2025 to close the half year up 4.3% net of fees.[i]

A breakdown of the fund's return by asset class is shown in **Table 1**. In summary, JSE listed equites contributed 3.2% to returns, foreign listed equities contributed 1.2% (when measured in ZAR) and fixed income assets contributed 0.7%.

Table 1: Fund Attribution by Strategy 1H 2025

Return by Strategy	Q1 2025	Q2 2025	1H 2025
JSE listed equities	-1.8%	5.1%	**3.2%**
Foreign listed equities	-0.8%	2.0%	**1.2%**
Government bonds	0.2%	0.2%	**0.4%**
Cash	0.1%	0.3%	**0.3%**
Costs (and other)	-0.4%	-0.4%	**-0.8%**
Total	-2.7%	7.2%	**4.3%**

Source: Bateleur. 30 June 2025

Notwithstanding an improved second quarter performance, the fund has lagged the JSE All Share Index year-to-date ("YTD") due to the large relative underweight position in gold and platinum group metal ("PGM") shares. The precious metal constituents have risen sharply YTD and currently comprise a meaningful 17.6% weighting in the JSE All-Share Index.

The reasons behind the underweight positions were previously covered in the fund's first quarter 2025 report back and include: 1) the absolute (as opposed to relative) return objective of the fund, 2) the cyclicality and lack of predictability in forecasting precious metal prices, and 3) through the cycle, gold and PGM companies are poor allocators of capital and generate low returns on invested capital and limited free cash flow.

The top individual fund contributors and detractors over the first half of 2025 are shown in **Table 2**. Contributors include Naspers/Prosus, Reinet and African Rainbow Minerals, with detractors comprising Italtile, Adcock Ingram and Alphabet. Brief commentary follows on each of these companies, all of which remained fund holdings at the end of June.

Table 2: Top Individual Contributors and Detractors (1H 2025)

Top Contributors	%	Top Detractors	%
Naspers/Prosus	2.6%	Italtile	-0.6%
Reinet	1.2%	Adcock Ingram	-0.4%
African Rainbow Minerals	0.7%	Alphabet	-0.3%

Source: Bloomberg, Bateleur; % refers to percentage contribution/detraction to/from overall fund return. 30 June 2025

Prosus recently released their 2025 financial results that exhibited strong momentum from both 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 recently attended the Prosus capital markets day in London where the company (led by CEO Fabricio Bloisi) 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 private equity and hedge funds.

Reinet currently trades at a 30% discount to its underlying NAV and a 14% discount to its estimated 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.

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. After a multi-year slump, platinum prices have rallied with improving jewellery and investment demand occurring against a constrained supply backlog.

However, the fund's holding in ARI is not premised on its PGM interests, but rather on its diversified commodity exposure that includes iron ore, manganese and coal (all trading near cyclical low's) as well as its 12% holding in Harmony Gold.

Excluding the Harmony stake and net cash balances of c.R9bn at the centre, the core operational businesses of ARI trades on a spot P/E multiple of approximately 5.0 times, providing an attractive risk/reward profile.

Following a strong performance in 2024, which included the payment of a special dividend, Italtile's share price has underperformed YTD on the back of a challenging home improvements market in SA and increasing competition from imported tiles.

Despite the tough macro backdrop, Italtile remains a well-managed company that has adapted quickly to changing market conditions by adjusting its cost base (temporarily shutting certain tile manufacturing plants) to match demand levels.

In the current subdued trading environment, the company remains highly cash generative, and we anticipate the payment of a further special dividend in calendar 2025. On a P/E multiple of 8.0 times, Italtile is attractively priced for any potential upturn in the home improvements market.

Adcock Ingram's ("Adcock") interim results to December 2024 were below expectations, impacted by declining consumer spend in the lower income market (which negatively impacted Panado sales in particular), de-stocking in the pharmaceutical wholesale channel (a temporary timing issue), and material under-recoveries in the group's Wadeville factory.

We expect a sequential improvement in second half results as the regulated selling price increase (SEP) of 5.3% takes effect, smaller more affordable pack sizes are introduced into the lower LSM market, and the pharmaceutical wholesale channel begins to re-stock. However, the sub-optimal capacity utilisation at the Wadeville factory is more of a structural concern. Manufacturing will ultimately need to be outsourced to a third party and the facility shuttered.

With its enviable portfolio of brands (Panado, Bioplus, Corenza, Allergex, Citro Soda, ProbiFlora) and strong cash generative qualities – Adcock offers sound value on 8.5 times forecast earnings.

Alphabet ("Google") has recently underperformed on investor uncertainty over: 1) the durability of its dominance in global search (currently 90%) with a notable increase by internet users of competing AI large language models ("LLM") such as Open AI and its Chat GPT tool; and 2) the remedies it will be forced to make after being ruled by the US Department of Justice ("DOJ") as a search engine and ad software monopolist.

While it is inevitable that Google's market share in search will decline over time, this is not yet apparent, with the search business continuing to show healthy revenue and earnings growth. Competing AI LLM's have not yet been able to fully monetize their increased usage through scalable advertising or subscription revenues – though this is expected to change over the medium term. In addition, Google has its own AI LLM – Gemini, that may yet prove to be a long-term winner in the AI race.

With reference to the DOJ ruling, Google is expected to appeal against any 'enforced' remedies ultimately dragging out the process over several years before any forced disposal or break-up occurs.

With strong growth in its non-search businesses (You Tube, Cloud, Subscriptions and Platforms), and solid balance sheet with $84bn in net cash, Google trades on a low PE multiple (18 times estimated 2025 earnings) offering a reasonable margin of safety. We believe that on an enforced break-up, Google is worth more than its current market value.

<u>Reporting Period Highlights</u>

JSE Listed Equities:

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 1)**, reflecting low business and consumer confidence **(Chart 2)**, 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 1: SA GDP Expectations

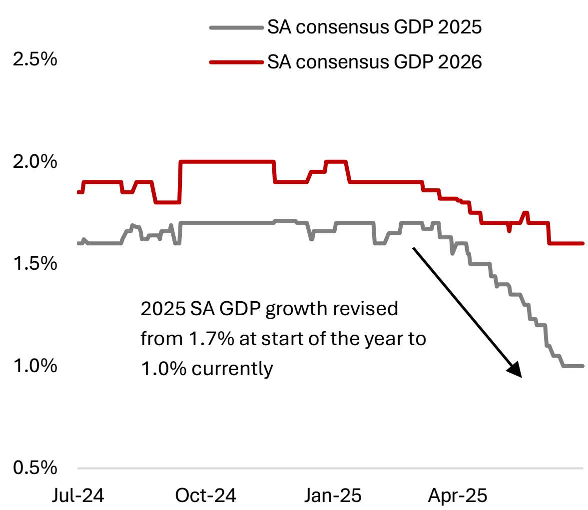
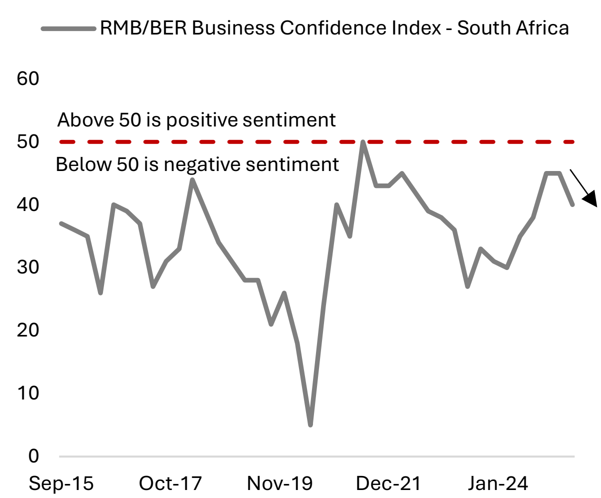


Chart 2: RMB/BER Business Confidence



Source: Bloomberg. 30 June 2025

SA real interest rates are at their highest in 15 years **(Chart 3)** and amongst the highest globally **(Chart 4)**, 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 3: SA 10-Year Yield Spread vs CPI

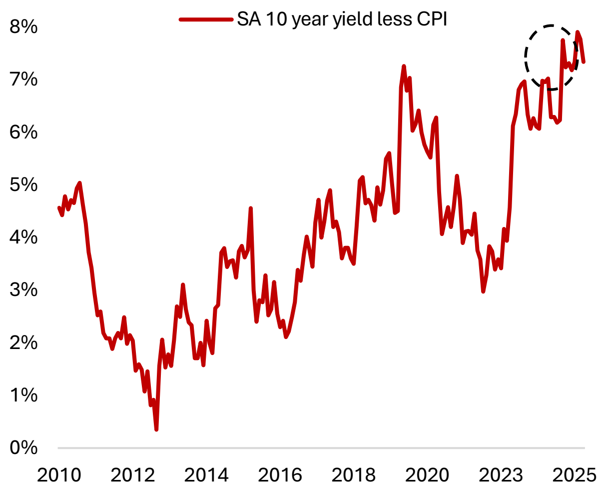
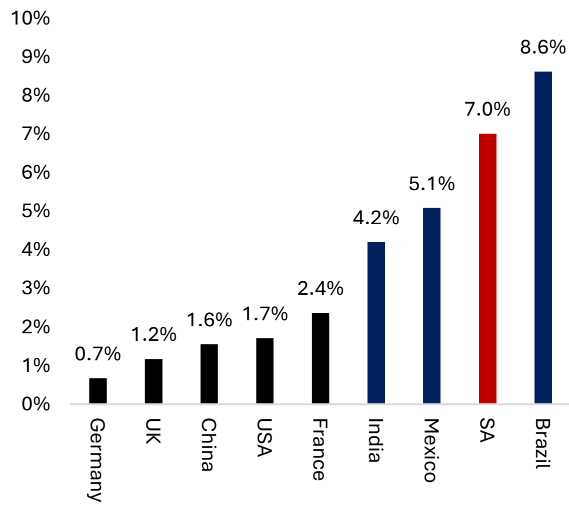


Chart 4: SA Real Govt. Bond Yields vs Row



Source: Bloomberg. 30 June 2025

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 5 overleaf),** to the extent where most of the gains made post the May 2024 election have been given back **(Chart 6 overleaf)**. The de-rating was further accentuated during the April US tariff announcement period.

The fund used the weakness in domestic equities during April to add exposure to select quality counters at attractive entry levels. Holdings were increased in AVI, Bidcorp, Bidvest, Reinet, Remgro and Prosus.

Chart 5: Foreigners Have Sold SA Inc.

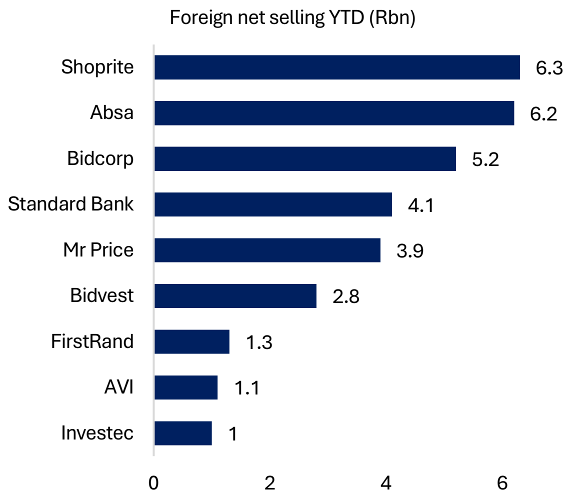
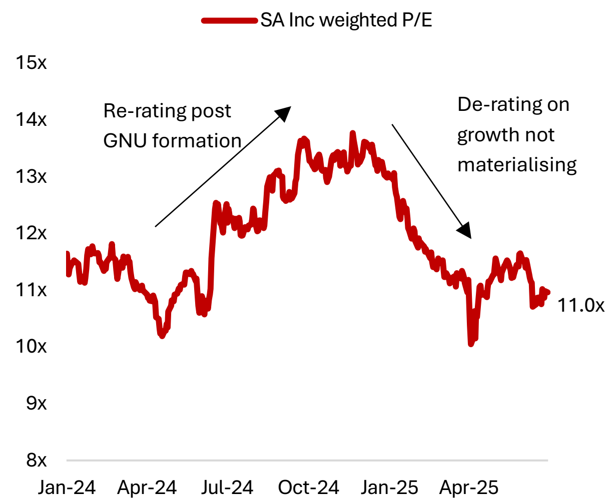


Chart 6: SA Inc. Basket Forward P/E



Source: Bloomberg. 30 June 2025

Global Equities:

The first half of the year was an eventful one for global equites. Following an initial sharp sell-off in early April around the US tariff announcements, global markets have continued to "climb the wall of worry" with a strong rebound in the latter part of the reporting period.

Key themes include a weak US dollar given the magnitude of the US government deficit, and scepticism that it will narrow under President Trump's trade and fiscal policies, a re-energized Europe (with specific reference to infrastructure and defence spending) and continued rapid growth and record capital investment in AI and cloud by the US technology hyper-scalers.

The fund was reasonably active in global stocks over the first half of the year as large frequent price moves provided attractive entry and exit levels. Holdings were profitably reduced in Aker BP, Philip Morris, Tencent Music and Visa. Airbus and Iqvia were new additions, while Amgen and Total Energies were reintroduced to the fund.

Overall, the fund's global exposure remains below allowable levels, due to above trend valuations **(Chart 7 overleaf)** and growth being revised lower **(Chart 8 overleaf)**.

Chart 7: US EPS Growth vs Forward P/E

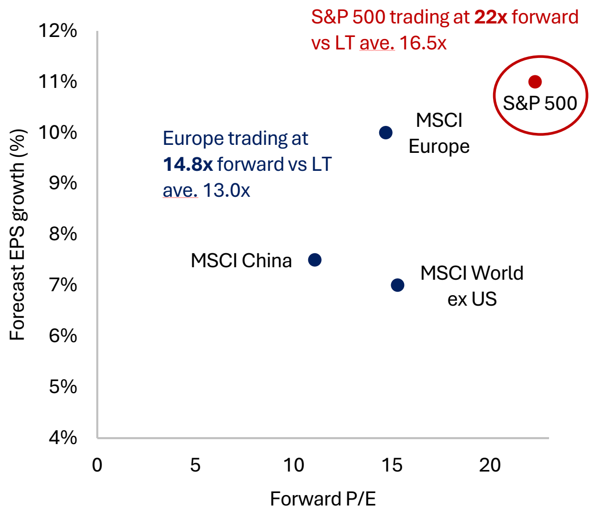


Chart 8: Consensus US GDP growth

Source: Bloomberg. 30 June 2025

The fund's foreign holdings display a suitable mix of growth and defensive qualities and are geographically diversified between the US, Europe and China – with European exposure increasing over the past six months.

Fixed Income:

Longer duration SA government bond holdings were sold during April 2025 on concerns over an increase in the SA country risk premium as a consequence of the budget impasse and potential disbanding of the GNU. These proceeds were recycled into lower risk shorter duration money market funds where a sound real return was still available.

At the end of June, the fund's fixed income exposure of 21% was split between cash/money market funds of 15% and SA government bonds maturing in 2030 of 6%.

Of the 15% in cash/money market funds, 11% was in SA and 4% offshore, evenly split between the USD and Euro.

The fund holds no foreign government bonds. This is premised on uncertainty over the direction and trajectory of developed market inflation, that is not being adequately compensated for in current yields.

Current Positioning

A summary of the fund's asset allocation at the end of June is shown in **Table 3.** For completeness the allocation at the end of March and start of the year is also shown. Within the JSE listed equity allocation (56%), the split is broadly equal between rand hedge and domestic focused shares.

Table 3: Fund Asset Allocation at 30 June 2025

Asset Allocation	31 December 2024	31 March 2025	30 June 25
JSE listed equities	48%	50%	56%
Foreign equities	27%	20%	23%
Domestic government bonds	15%	14%	6%
Foreign government bonds	0%	0%	0%
Domestic cash	7%	8%	11%
Foreign cash	3%	8%	4%
	100%	100%	100%
Total equities	75%	70%	79%
Total government bonds	15%	14%	6%
Total cash	10%	16%	15%

Source: Bloomberg, Bateleur. 30 June 2025

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

Sincerely,

Kevin Williams **Charl Gous** **Warren Riley**

Co-Fund Managers
25 July 2025

[i] A1 Class Performance:
1 Year: Fund 6.4% | Benchmark 6.6%
10 Year : Fund 9.1% | Benchmark 8.8%
Highest rolling 1 year return 39.0%, Lowest rolling 1 year return -7.2%

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