



Bateleur BCI SA Equity Fund

3Q25 Report Back





Bateleur BCI SA Equity Fund – 3Q25 Report Back

The fund returned 4.7% for the third quarter of 2025, while the Capped Shareholder Weighted Total Return Index (Capped SWIX Index) returned 12.8%.*

The fund continues to lag its benchmark primarily due to a large underweight position in gold and platinum group metal (PGM) shares.

Third quarter returns for the Capped SWIX Index were dominated by gold companies. The group of gold companies (Gold Fields, AngloGold, Harmony, DRD Gold, Sibanye and Pan African Resources) contributed 7.9% to the Index's quarterly return of 12.8%.

The balance of the Index's quarterly returns came from Naspers/Prosus (1.9% contribution) and PGM miners (2.3% contribution) where the fund participated through overweight holdings in Naspers/Prosus and Valterra (albeit underweight PGM miners on a combined basis).

Table 1 – Key Contributors and Detractors to returns – Q3 2025

Top relative contributors	UW/OW	3Q 25	Top relative detractors	UW/OW	3Q 25
Naspers/Prosus	OW	0.7%	Gold Fields	UW	-4.1%
AB Inbev	OW	0.5%	AngloGold	UW	-2.2%
Glencore	OW	0.4%	Impala Platinum	UW	-0.7%
African Rainbow Minerals	OW	0.3%	Sibanye Stillwater	UW	-0.7%
Premier Group	OW	0.3%	Harmony Gold	UW	-0.6%

Source: Bateleur Capital. 30 September 2025.

Revisiting gold and gold companies.

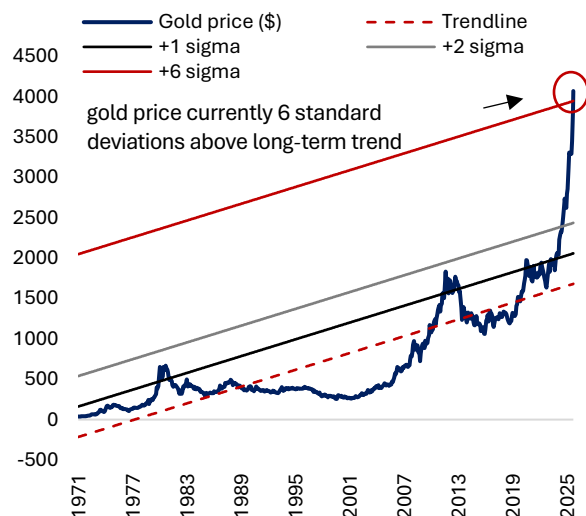
Shareholders realise returns through dividends, earnings growth and a change in valuation. While dividends are tangible and earnings are measurable over regular periods, changes in valuation are fundamentally subjective and driven by future expectations.

Variations in valuation multiples arise when the market either under or overestimates a company's sustainable long-term earnings and prospects, creating risks or opportunities for capital losses and gains.

For cyclical companies such as gold producers, valuation estimates require two key assessments: determining if current profitability is at a peak or trough relative to the historical earnings cycle, and considering whether the present market value adequately captures this position.

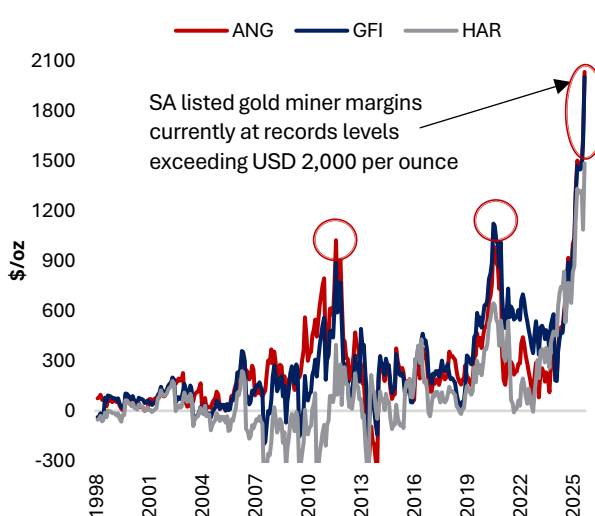
With gold at the current level of c. \$4,200 per ounce, six standard deviations above its long-term trend, gold miners are enjoying record margins and generating “super profits” (chart 1 overleaf). To support this view we evaluate the all-in cost (AIC) to produce an ounce of gold relative to the spot gold price over time on chart 2 overleaf.

Chart 1: Gold Price (\$ per oz)



Source: Bateleur, Bloomberg, Morgan Stanley.

Chart 2: Gold miner margins (\$ per oz – real)

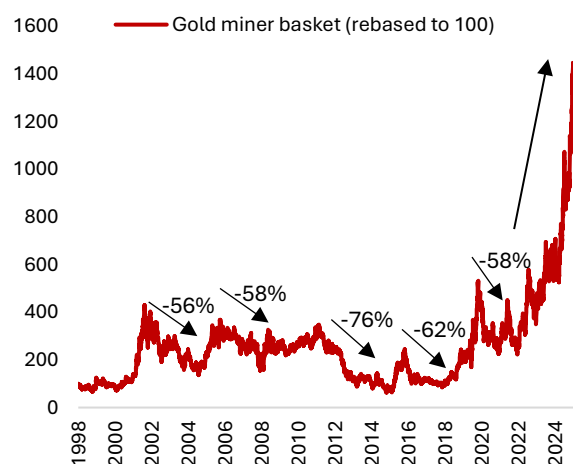


The current margin (gold price less AIC) that SA gold majors earn, of roughly \$2,000 per ounce, is more than double that of the preceding periods of “super profits” in 2010/11 and 2019/20. If past events are any indication of what is to be expected it is unlikely that current profitability will be maintained for an extended period.

Turning to valuations, SA gold majors AngloGold (+188%), Goldfields (+195%) and Harmony (+109%) have experienced tremendous year-to-date gains on the back of a 48% rally in the gold price (chart 3). The chart also indicate that this group of companies frequently experience large draw downs, often more than 50%.

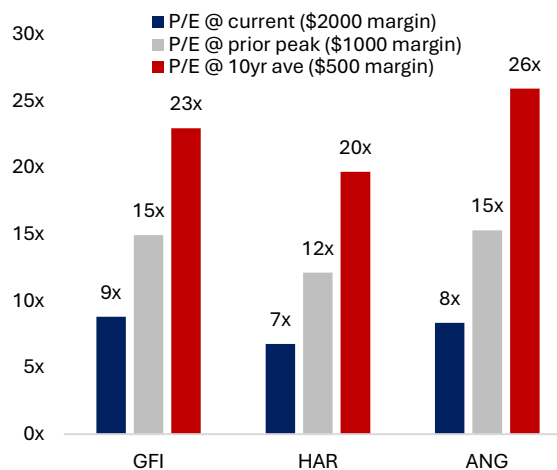
Although current earnings multiples are now optically low using spot gold prices (chart 4), it is common for commodity producers to be valued at mid-single digit P/E multiples when earnings are substantially above trend, as is the case today.

Chart 3: JSE gold miners (rebased to 100)



Source: Bateleur, Bloomberg, JSE gold miner basket includes AngloGold, Goldfields & Harmony.

Chart 4: Gold majors spot P/E vs norm. P/E



If gold miner profitability reverts to more normalised levels, current valuations appear elevated and P/E ratios less relevant due to the extended gains in the gold price and well above trend profitability of the sector.

To fundamentally value gold at this point is an exercise in futility as the price is well above the cost of production and largely driven by sentiment, momentum and the flow of funds.

For example, at mid-cycle margins (\$1000 per oz), we estimate valuation multiples expanding to mid-teens (12x to 15x earnings). However, if we consider long-term average margins (the 10-year average of \$500 per oz), these multiples would stretch into the twenties (20x to 26x earnings), indicating a significant downside risk to current share price levels.

Given potential downside should the gold price decline (as has been the case in previous periods of extended gains) - we view the risk of permanent capital loss from investing in gold companies at this point in the cycle as high.

Reporting highlights in the period.

As fundamental investors, we are focussed on valuations, and the qualitative characteristics of the earnings and dividend streams we invest behind.

We aim to identify undervalued companies (relative to their earnings power) that can compound profits and dividends over the medium-term to produce good shareholder returns.

In this regard we were encouraged by pleasing financial results and trading updates reported by core fund holdings during the quarter - notwithstanding muted share price moves in comparison to the Index.

These include AVI, Bidcorp, FirstRand, Netcare, Premier Foods, Remgro, Shoprite, Standard Bank and Sun International – all of which recently announced credible financial results and importantly, decent growth prospects for the period ahead.

These businesses can be acquired at attractive absolute valuation multiples and given their qualitative characteristics provide visibility in respect of their medium-term earnings trajectory.

This group of companies, apart from Bidcorp, largely operate in the domestic economy and make up a combined allocation of c. 36% of the fund's net asset value (NAV).

A summary of the most recent financial results and trading updates of this group of companies are illustrated in table 2 overleaf.

Table 2: Reporting highlights and valuations of select fund holdings

Name	Recently Reported		Bateleur Next 12 Month Estimate			Commentary
	HEPS growth	Dividend growth	HEPS growth	P/E	DY	
AVI	6.1%	6.1%	10.0%	12.2x	7.1%	A recovery in fashion/footwear, stronger catch rates at I&J and cost efficiencies from restructuring to drive earnings growth.
Bidcorp	6.5%	6.4%	8.0%	15.5x	2.9%	Target continued earnings growth, supported by UK margin gains, expanded European capacity and acquisition synergies.
FirstRand	10.0%	12.0%	15.0%	9.1x	6.8%	Management targeting mid-teen normalised earnings growth, with ROE expected to reach 22%.
Netcare	17.5%	17.5%	7.0%	10.1x	6.0%	Netcare issued a strong full-year trading update driven by share buybacks, operational efficiencies and margin expansion.
Premier Foods	25.0%	25.0%	20.0%	12.6x	2.4%	Premier released a strong first half trading update highlighting their continued sector leading performance in the bread segment.
Remgro	38.4%	30.3%	18.0%	10.2x	2.4%	Maziv/Vodacom transaction benefits expected to support earnings growth and dividends to the centre. Remgro trades at a large (c.40%) discount to NAV & net cash on the BS.
Shoprite	15.8%	9.7%	12.0%	17.8x	3.1%	Shoprite delivered a solid set of results led by Checkers and online food delivery segment, Sixty60.
Sun International	6.5%	6.8%	7.0%	7.6x	9.8%	Very attractive dividend yield. Strong growth in online gaming & balance sheet deleveraging to deliver good shareholder returns.
Standard Bank	9.8%	9.8%	11.0%	7.9x	7.2%	Standard Bank targets 10% HEPS growth p.a. (in line with past performance) coupled with a 7% DY should deliver good shareholder returns.

Source: Bateleur, Bloomberg.

Not all fund holdings announced positive results, but these holdings continue to trade at attractive valuation multiples and in many cases provide strong shareholder returns through dividends and special dividends (in some instances).

Bidvest reported a muted financial performance for the year ending June 2025 with normalised headline earning per share from continuing operations 1% higher year-on-year.

The company lapped tailwinds in their renewable energy and soft commodity handling businesses, yet the core services business (both domestic and international) showed double digit growth in the period. With base effects in the rearview mirror we expect solid financial growth in the period ahead.

Select retail fund holdings reported sub-optimal results. Italtile, for instance, has been a year-to-date underperformer, navigating a challenging environment characterised by constrained consumer spending and intensified competition in tile manufacturing. Despite these headwinds, the company has commendably sustained its profitability, a testament to effective management and cost control.

The company declared its second consecutive special dividend and the sixth special dividend in the past eight years. Combined with regular dividends, Italtile has returned 76% of its current share price to shareholders since 2018.

Similarly, fund holdings in AVI and Truworths have been robust dividend payers over the years, reflecting their qualitative cash flow characteristics (table 3).

Table 3: Dividend and special dividend history of select fund holdings

Company	Cumulative ordinary & special dividends per share since 2018	Cumulative cash returned as % of current share price
Italtile	R7.1	76%
Truworths	R35.2	63%
AVI	R38.6	39%

Source: Bateleur Capital, Factset.

Adcock too reported muted earnings growth for the financial year ending June 2025, but importantly showed strong sequential growth in the second half of the financial year.

In addition, Adcock received an offer from Natco Pharma, an Indian listed pharmaceutical manufacturing business, to acquire the shares in Adcock not held by Bidvest and on completion delist Adcock from the JSE.

The take-out price of R75 is 50% above where it traded at the end of June. However, we are disappointed to lose yet another quality branded consumer business on the JSE.

SA Inc. equities remain out of favour.

Expectations for SA's economic recovery and accelerated reforms proved overly optimistic in late 2024. As a result, SA Inc. shares have derated to levels seen at the formation of the Government of National Unity (GNU), and again present excellent value (chart 5 overleaf).

Foreign investors remain disinterested in SA equities as the anticipated economic recovery has faded, and questions persist regarding the GNU's efficacy in resolving SA's deep-seated structural impediments. The continued foreign disinvestment from domestic facing names is highlighted in chart 6 overleaf.

Chart 5: SA Inc. basket forward P/E

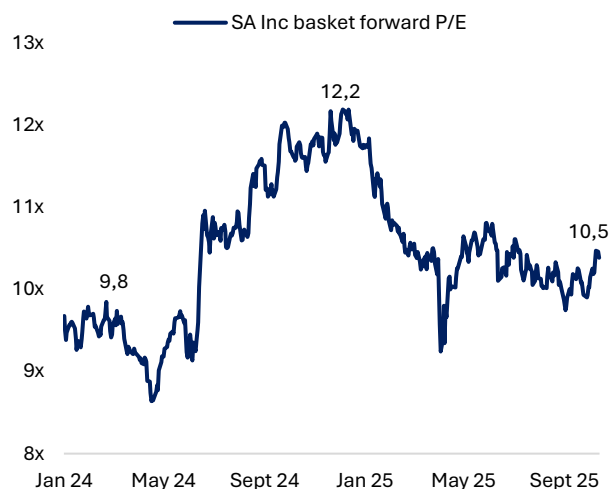
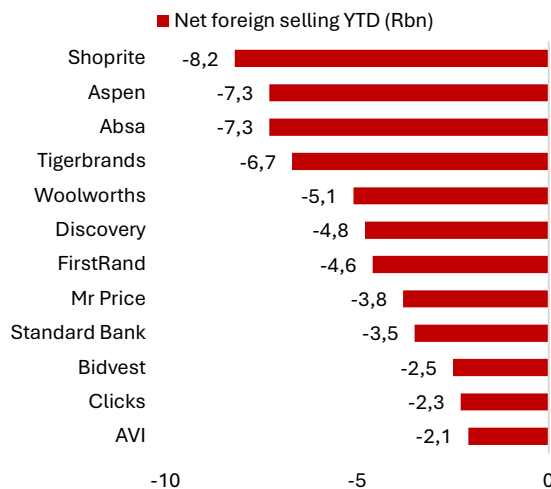


Chart 6: SA Inc. foreign selling YTD (Rbn)



Source: Bateleur, Bloomberg, SBG securities, SA Inc. basket incl. SHP,FSR,SBK,ABG,NED,NTC,MRP,TRU,AVI, BVT,TFG

Intriguingly, valuations of domestic focused equities, specifically banks, have not responded to lower SA Government bond yields (SA 10 year yield has declined from 10.3% to 9.0%). Furthermore, foreigners have been net buyers of SA bonds to the tune of R162 billion year to date, this is at odds with their lack of interest in domestic facing equities.

Additionally, a firm Rand/\$ exchange rate and a cumulative 1.25% cut to interest rates have done little to support the financial sector. Historically such an environment has been favourable for bank share prices due to lower bad debts, increased lending activity and a lower cost of capital.

To illustrate the magnitude of this disconnect we compare the earnings yield (inverse of the P/E ratio) of Standard Bank relative to the 10-year SA Government bond yield (Chart 7 & 8).

Chart 7: SBK EY vs SA 10 yr Gov. bond yield (%)

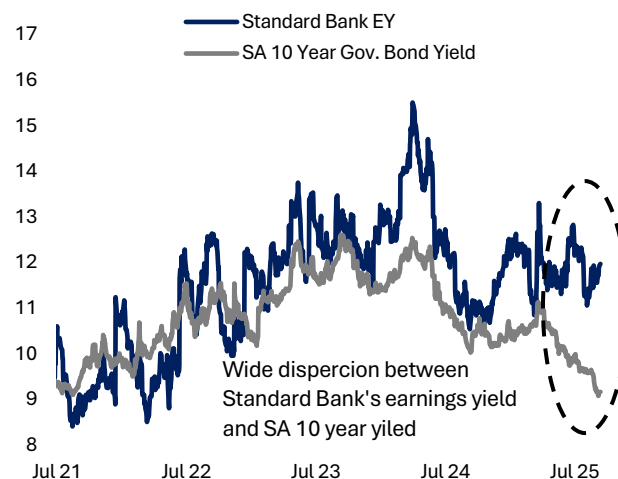
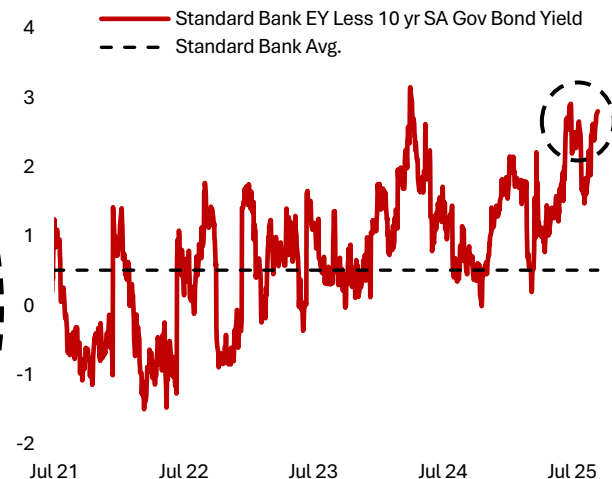


Chart 8: SBK relative yield spread over time (%)



Source: Bateleur Capital, Bloomberg.

Standard Bank trades on approximately 8 times forward earnings (12.5% earnings yield compared to the current SA long bond yield at 9.0%), offers a dividend yield of 7% and aims to grow earnings at 10% p.a. (in line with its 10 year average) over the next 3 years.

With an attractive valuation and solid growth prospects, we find an investment in Standard Bank appealing. Assuming valuation multiples remain constant (at current low levels), Standard Bank should deliver mid to high teens total shareholder returns (dividend income plus earnings growth) and offers upside should equity valuations normalise to long-term averages.

Lastly on interest rates, we continue to view the SARB's monetary policy as overly restrictive. There is ample opportunity to reduce interest rates further which should support the domestic consumer, business and infrastructure investment.

Increased corporate activity on the JSE.

A key consequence of the low valuations of SA Inc. listed businesses is the marked increased in corporate activity.

We have witnessed several transactions and expect the trend to continue.

Recent corporate announcements include Premier (acquisition of Rhodes Food), Adcock Ingram (minority buyout), Libstar (under cautionary), MAS Real Estate (takeover attempt), Metrofile (firm intention to acquire) and the offer by the Jannie Mouton Trust to delist private school group Curro. Several additional transactions are nearing completion, for example Barloworld and Multichoice that will be delisted soon.

When companies are acquired and delisted, often at a small premium to the current price, shareholders miss out on the future profits and growth of the business. Although not first prize, it does benefit shareholders in the short-term but reduces the investment universe.

By repurchasing shares, a company reduces the available shares in issue, increasing the allocation of the company's profits and net assets to the remaining shareholders. Well-timed share buy backs can create substantial shareholder value when executed at attractive levels.

Several companies have actively bought back their own shares in recent months, for example: African Rainbow Minerals, City Lodge, Glencore, Investec, Momentum, Nedbank, Netcare, Ninety One, Old Mutual, Standard Bank and Tiger Brands.

Together, these actions are a clear indication that corporate management teams, and in many instances foreign businesses, see substantial value in SA Inc. equities. We share this view.

Index concentration risk.

In table 4 we evaluate the composition of the Capped Swix Index at the start of the year and at the end of September.

Table 4: JSE Capped Shareholder Weighted Index – Sector allocation

31 December 2024		30 September 2025	
Banks	20%	Gold Miners	16% ↑
Technology	12%	Banks	15% ↓
Retailers	8%	Technology	13% ↑
Gold Miners	7%	PGM Miners	7% ↑
Diversified Miners	7%	Diversified Miners	6% ↓
Insurance	6%	Retailers	5% ↓
Property	5%	Telecoms	5% ↑
Tobacco and Luxury goods	5%	Insurance	5% ↓
Industrials	5%	Property	4% ↓
Telecoms	4%	Tobacco and Luxury goods	4% ↓
Food/Beverage producers	3%	Industrials	3% ↓
Pharma/Pharma retail	3%	Food/Beverage producers	2% ↓
PGM Miners	3%	Pharma/Pharma retail	2% ↓
Other	12%	Other	13% ↓

Source: Bateleur Capital, Factset.

The most notable concern is the increased Index concentration within the resources sector. Precious metal (gold and PGM) miners have seen their weighting more than double, from 10% to 23%, contributing to the entire resources sector (including diversified miners) now accounting for approximately 29% of the Index, up from 17%.

Except for the technology and telecoms sectors, precious metal equities have crowded out investment and capital flows from all other sectors in the market, as seen in the reduced weighting of the banking sector (down from 20% to 15%).

Given that resources are cyclical businesses with a history of earnings volatility, the Index's performance is now heavily reliant on global commodity prices (most notably gold and PGM prices). In the event of a large downturn in commodity prices, this will have a significant impact on JSE's overall performance.

Consistent with our clearly defined investment process, our focus remains on companies capable of compounding earnings and dividends over time, whilst building an adequately diversified portfolio. This long-term focus means our fund's composition is materially different from a benchmark that has grown increasingly concentrated in cyclical resource stocks. While that concentration has driven short-term returns, it also introduces significant risk should these market leaders reverse.

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.

The most material risk to short-term fund performance is share price movements in precious metal miners where the fund has no exposure to gold miners and an underweight position in PGM miners.

We view the current gold price rally as overly extended and although we cannot forecast the gold price, higher or lower, the probability of capital losses has increased.

Notwithstanding the fund's large year-to-date underperformance, we remain confident in delivering on the fund's long-term investment objective.

Sincerely,



Charl Gous



Warren Riley



Bheki Mthethwa

Co-Fund Managers
23 October 2025

*1 Year: Fund 6.4% | Benchmark 28.1%
3 Year : Fund 13.9% | Benchmark 21.6%
5 Year : Fund 16.3% | Benchmark 18.8%
Since inception (21 April 2015): Fund 7.1% | Benchmark 8.2%
Highest rolling 1 year return 54.4%, Lowest rolling 1 year return -25.5%.

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