



Bateleur Flexible Prescient Fund

3Q25 Report Back





Bateleur Flexible Prescient Fund – 3Q25 Report Back

The Bateleur Flexible Prescient Fund registered a 2.8% gain over the third quarter bringing its September year-to-date (“YTD”) return to 7.1% net of fees.*

A breakdown of the fund’s YTD return by asset class is shown in **Table 1**. In summary, JSE listed equities contributed 6.5% to returns, foreign listed equities 0.6% (when measured in ZAR) and fixed income assets 1.0%.

The fund continued to lag the JSE All Share Index YTD primarily due to the large relative underweight position in gold and platinum group metal (“PGM”) shares. The JSE Precious Metals and Mining Index rose by a remarkable 182% over the nine-month period to end September, accounting for in excess of 60% of the total JSE All Share Index YTD gains.

Table 1: Fund attribution by strategy YTD and top contributors and detractors

Return by Strategy	YTD 2025	Top contributors	%	Top detractors	%
JSE listed equities	6.5%	Naspers/Prosus	4.2%	Accenture	-0.6%
Foreign listed equities	0.6%	Valterra	1.2%	Italtile	-0.5%
Fixed income	1.0%	African Rainbow Minerals	0.9%	Bidvest	-0.4%
Costs (and other)	-1.0%	Reinet	0.6%		
Total	7.1%				

Source: Bateleur, 30 September 2025

Revisiting gold and gold mining companies:

The narrative for owning gold is well known. It is viewed as a safe haven ‘hard’ asset and a hedge against the potential destabilisation of the US dollar (“USD”), the world’s reserve currency, as well as other Fiat currencies.

Gold can also be considered a hedge against inflation, quantitative easing, rising government deficits and geopolitical conflicts.

With reference to the last point, many non-Western central banks began accumulating gold following the Russian invasion of Ukraine in 2022. This, after Russia’s foreign USD reserves were frozen in several Western countries as a result of sanctions. Gold as a physical, non-counterparty asset is seen as less vulnerable.

The difficulty for investors is how to fundamentally value gold? Like most commodities, there is a cost curve for gold mining companies. Currently, the all in cash cost of producing gold for the SA listed gold miners, ranges between USD1,600 to USD1,800¹ per ounce.

¹ Source: Company results announcements from AngloGold, Goldfields and Harmony

So why then should gold trade at the current level of USD4,200 per ounce – more than six standard deviations above its long-term trend (**Chart 1**) - where the gold miners are enjoying record operating profit margins and generating “super profits” (**Chart 2**). Why not USD2,500 or even USD3,000 per ounce – where sound financial returns would still be achievable?

Chart 1: Gold price (USD per ounce)

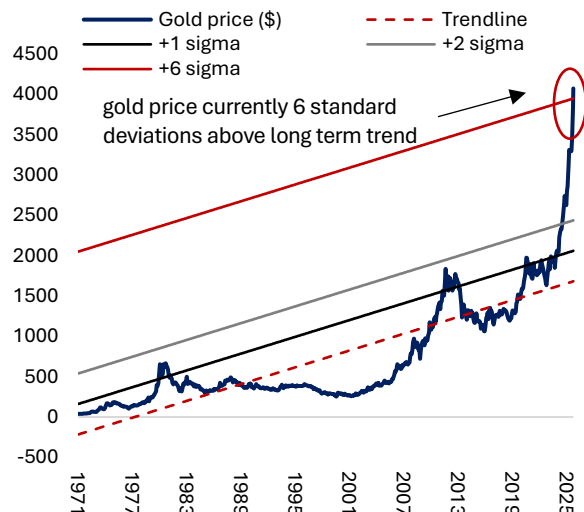
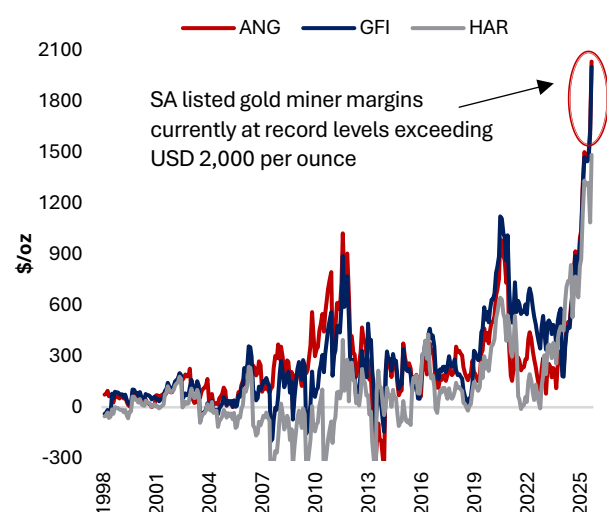


Chart 2: Gold miner profit margins (USD)



Source: Bateleur, Bloomberg, Morgan Stanley, Alpine Macro

The answer is that sentiment, momentum and the flow of funds are driving gold and gold equities to record levels – not fundamentals.

While central banks continue to accumulate gold at a record clip - seemingly immune to the price (**Chart 3 overleaf**) - institutional and retail investors have joined in on the momentum trade, with an unprecedented USD 34bn flowing into gold ETF's over the past 10 weeks.² According to the latest Bank of America investor survey – long gold is now the number one most crowded trade in global investments.³

In a recent publication, research house Alpine Macro concluded (and we concur) that **“the current price risk embedded in the gold market significantly outweighs the risks investors are attempting to hedge.”**⁴

² BofA global research – 17 October 2025

³ BofA global fund manager survey – October 2025

⁴ Alpine Macro – Global strategy – Three Macro Bets – September 8, 2025

History has repeatedly revealed that gold and especially gold equities (leveraged plays to the gold price) are highly cyclical and don't only go up. Since 2000 there have been five major JSE gold mining drawdowns (**Chart 4**), ranging from negative 56% (2002 to 2005) to negative 76% (2012 to 2015).

At current levels, following a mammoth 543% increase in the gold miner basket since September 2022, we view the risk of permanent capital loss from investing in JSE listed gold companies as high.

Chart 3: Central bank gold demand (tonnes)

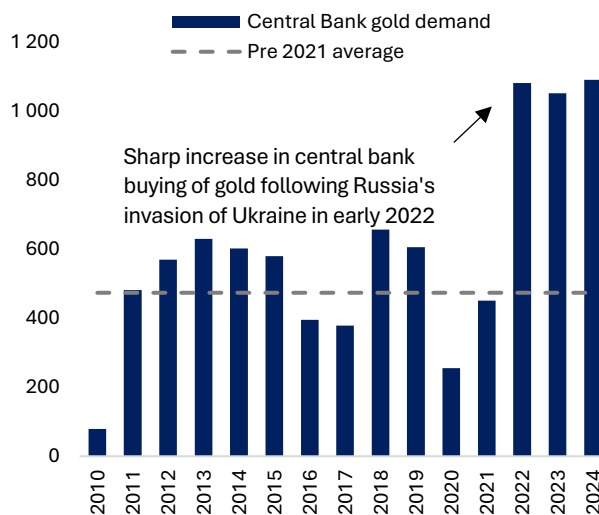
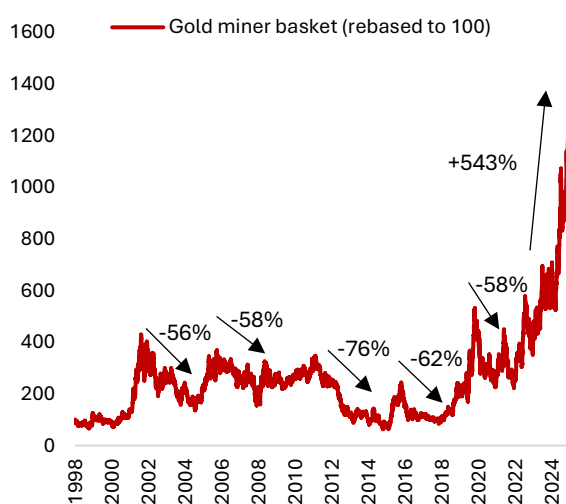


Chart 4: JSE gold miners (rebased to 100)



Source: Bateleur, Bloomberg, Gold Miners basket = AngloGold, Goldfields and Harmony.

Revisiting domestic banks:

While the gold and PGM weighting in the JSE All Share Index has risen from 10% at the start of the year to 24% currently, the JSE Bank's weighting has reduced from 20% to 15% over the same period – largely driven by sector rotation and foreign selling.

The reduced weighting is notwithstanding the banks delivering strong financial results. Capitec recently reported 2026 interim headline earnings per share ("HEPS") growth of 26%, while FirstRand (final 2025) and Standard Bank (interim 2025) both delivered a lower but still solid 10% growth in HEPS.

The three abovementioned banks are highly profitable, with the return on equity ("ROE") ranging from a respectable 19% for Standard Bank to an impressive 31% for Capitec – all well in excess of their respective cost of equity ("COE").

Despite encouraging earnings prospects, the banks continue to trade at material discounts to fair value – with both FirstRand and Standard Bank trading on a projected forward P/E

multiple of 9 times and offering a dividend yield of just under 7%. Capitec's forward multiple is somewhat higher given its faster growth prospects.

Interestingly, the historic correlation between domestic bank earnings yields (the inverse of the P/E ratio) and SA 10-year government bond yields has broken down (**Chart 5**).

SA government bond yields have fallen on benign inflation data and declining interest rates. Historically this environment has been favourable for bank share prices due to a reduction in bad debts, an increase in lending activity and a lower cost of capital.

However, in the current cycle, bank earnings yields have not compressed in tandem with bond yields, primarily due to the sector rotation referred to earlier.

For the historic relationship to resume, either bond yields need to increase (unlikely given the recent 3% inflation target proposal by the SA Reserve Bank) or bank share prices need to re-rate higher, which we view as a more plausible outcome (**Chart 6**).

The fund continues to hold a meaningful allocation to domestic banks through investments in Standard Bank, FirstRand and Capitec.

Chart 5: Standard Bank EY vs SA 10 yr bond (%)

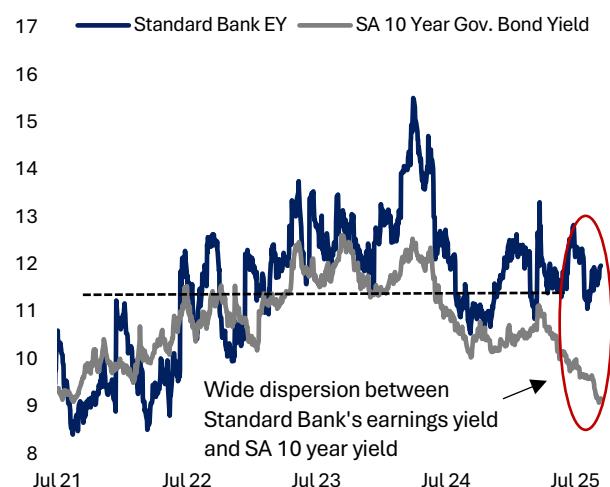
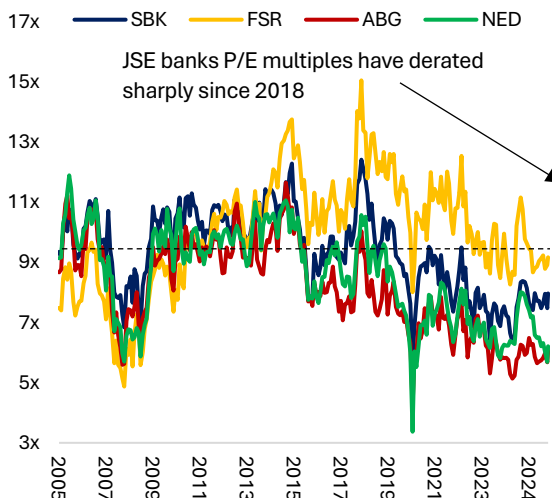


Chart 6: JSE banks P/E ratios over time



Source: Bateleur, Bloomberg.

An evolving AI investment landscape:

“You could come in and say you’d pay me a million for a purple elephant, but what the hell would that mean?” Sam Spade, The Maltese Falcon, 1941.⁵

⁵ Quote taken from a presentation by MacroStrategy Partnership 2nd October 2025

The boom in artificial intelligence (“AI”) infrastructure spend has been a key narrative driving US equity markets higher – especially over the second semester of 2025, where several innovative transactions between the major AI players have been announced.

The sheer scale of the current AI capex cycle is unprecedented, with investment bank Morgan Stanley projecting USD 2,9 trillion in global AI infrastructure spend between 2025 and 2028.

Whether this investment will generate an adequate return on capital remains to be seen. However, with commercialisation (revenue and profit generation) in its early innings, a more pressing issue is how will this spend be funded?

Until recently, AI capex has followed a simple “cash-for-compute” model funded primarily by free cash flow or debt - offering straightforward capital budgeting to firms and visibility to investors.

For example – each of Amazon, Alphabet (“Google”), and Microsoft generate operating cash flow in excess of USD120bn per year. To date, their annual capex, including AI, has been significantly lower. This implies that their AI investments have been comfortably funded from free cash flow and existing cash resources.

However, not all firms in the AI infrastructure supply chain have the same cash flow characteristics or balance sheet strength as these three hyper-scalers, and are turning to increasingly innovative (and complex) financing agreements to sustain their capex requirements.

This is best illustrated by the recent slew of announcements from unlisted OpenAI, widely regarded as a front runner in the generative AI development race.

In 2025 alone, OpenAI has announced nearly USD1 trillion in multi-year agreements with Nvidia, AMD, Oracle, Broadcom and others to secure sufficient computing power to run its AI models over a multi-year time horizon⁶.

While OpenAI is scaling rapidly, (having reached 800 million weekly active users in under three years) it currently has a high cash burn rate. The group is forecast to generate revenue of USD13 billion in 2025 and only turn cash flow positive in 2029⁷.

OpenAI clearly requires substantial external funding, but this is not supported by its balance sheet, forcing the company to find increasingly creative ways to secure it.

⁶ Financial Times 7 October 2025

⁷ Financial Times 6 October 2025

This has led to the recent 'partnership' transactions with various suppliers involving some form of 'circular arrangement' - meaning they go beyond conventional customer/supplier relationships and ultimately increase the inter-dependency of the firms involved.

In late September – OpenAI and Nvidia announced a strategic partnership where Nvidia will provide 10 gigawatts of AI systems (data centres) to OpenAI to support its next generation AI models. To put that in context, 10 gigawatts is roughly equivalent to 150 of the world's largest AI data centres running at full power or enough power to run 8 million US households.

As part of the announcement, Nvidia will invest up to USD 100bn progressively in OpenAI as each gigawatt of infrastructure is deployed. Simplistically, OpenAI will buy AI data systems from Nvidia that are funded, in part from Nvidia's investment in OpenAI.

The stock market appears to be rewarding the companies involved in such announcements with seemingly little regard for the fundamentals.

Cloud and database provider Oracle's market value increased by USD244bn (+36%) the day after it announced a 'partnership' deal with OpenAI – also in September. Similarly, semiconductor company AMD's market value rose by USD66bn (+24%) on the day its OpenAI deal was announced.

These circular deals increase the risk and dependency of firms now directly exposed to OpenAI's infrastructure buildout, leaving little room for operational or financial disappointment from OpenAI. This inter-dependency can be clearly observed in **Chart 7 overleaf**.

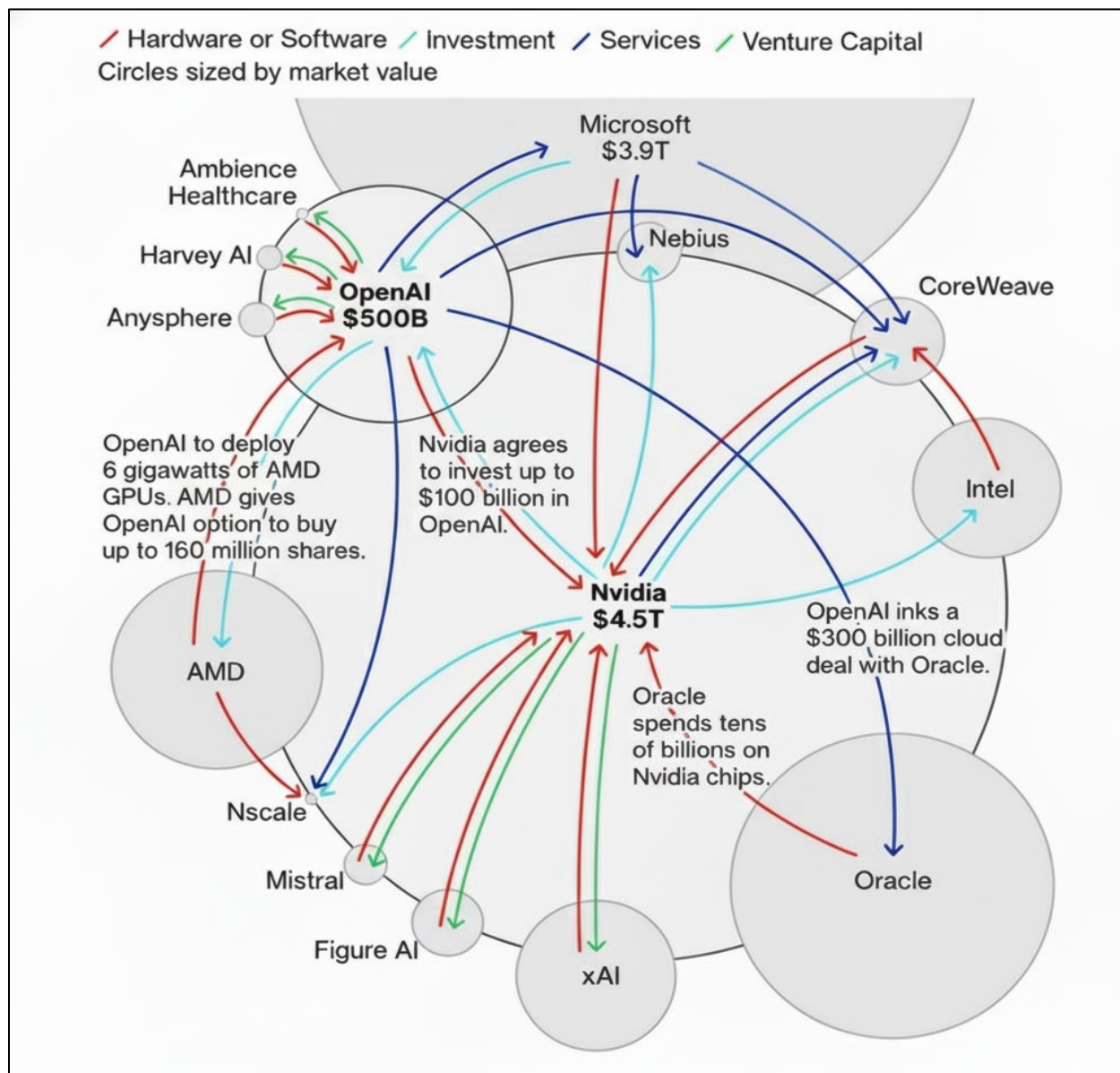
Taken together, these creative procurement arrangements and elevated valuation levels are indicative of a potential asset bubble emerging in the AI infrastructure space.

Fund positioning remains cognisant of this evolving landscape - with US technology holdings limited to long standing investments in Amazon, Microsoft and Google.

Each of these holdings generates robust free cash flows that are sufficient to fund their respective investment needs. Valuations are also far more palatable compared to the 'new age' listed AI companies.

These three fund holdings also benefit from entrenched, highly profitable existing operations spanning advertising, e-commerce, software and cloud - making them less reliant on the direct monetisation of AI infrastructure spend.

Chart 7: A graphic depiction of AI inter-dependency amongst major US AI corporates



Source: Bloomberg.

Portfolio changes and current positioning:

Although no material asset allocation changes were made, portfolio activity was elevated over the review period given significant price movements in several of the underlying securities.

JSE listed equity exposure increased to 61% of fund NAV from 56% at the end of June. New additions included Valterra Platinum, where the fund participated in the discounted sale by Anglo American of its stake in the PGM producer. Holdings were upweighted in Remgro, Bidvest, FirstRand, Standard Bank and Bidcorp at attractive valuation levels.

Foreign equity exposure reduced from 23% of fund NAV at the end of June to 21% at the end of September - in part driven by rand strength and the outperformance of JSE listed equities.

New holdings included global testing, inspection and certification company Bureau Veritas, while weightings were increased in AkerBP, Google, Iqvia and Visa. Holdings were reduced or exited in Heineken, Meta, and Tencent Music.

A summary of the fund's asset allocation at the end of September is shown in **Table 2**. For completeness the allocation at the end of June is also shown. Within the JSE listed equity allocation (61%), the split is broadly equal between rand hedge and domestic focused shares.

Table 2: Fund Asset Allocation on 30 September 2025

Asset Allocation	30 June 25	30 September 25
JSE listed equities	56%	61%
Foreign equities	23%	21%
Domestic government bonds	6%	5%
Domestic cash	11%	6%
Foreign cash	4%	7%
	100%	100%
 Total equities	 79%	 82%
Total government bonds	6%	5%
Total cash	15%	13%

Source: Bloomberg, Bateleur, 30 September 2025

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

Sincerely,



Kevin Williams
23 October 2025

* A1 Class Performance:

1 Year: Fund 7.3% | Benchmark 7.3%

10 Year : Fund 9.2% | Benchmark 8.8%

Highest rolling 1 year return 39.0%, Lowest rolling 1 year return -7.2%

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