



Rozendal Partners Investor Letter 31 December 2024

Rozendal Global Fund ('Global Fund'): performance vs. benchmark

Period	Fund*	Benchmark**
Since inception***	5.9%	9.8%
Year to 31 December 2024	-3.0%	16.8%

*US dollar returns shown for the B unit class, which is the earliest unit class in existence that is open for investors. Return numbers for other unit classes may differ slightly. Returns shown net of fees assuming income is reinvested gross of tax.

**FTSE Global All Cap Total Return Index in US dollars.

***Compounded annual total rate of return since 22 January 2020. Annualised performance shows longer term performance rescaled to a one-year period. Annualised performance is the average return per year over the period. Actual annual figures are available on request. Fund highest rolling one-year return: 17.7%. Fund lowest rolling one-year return: -3.0%. These represent the highest and lowest return for any trailing twelve-month period over the past year.

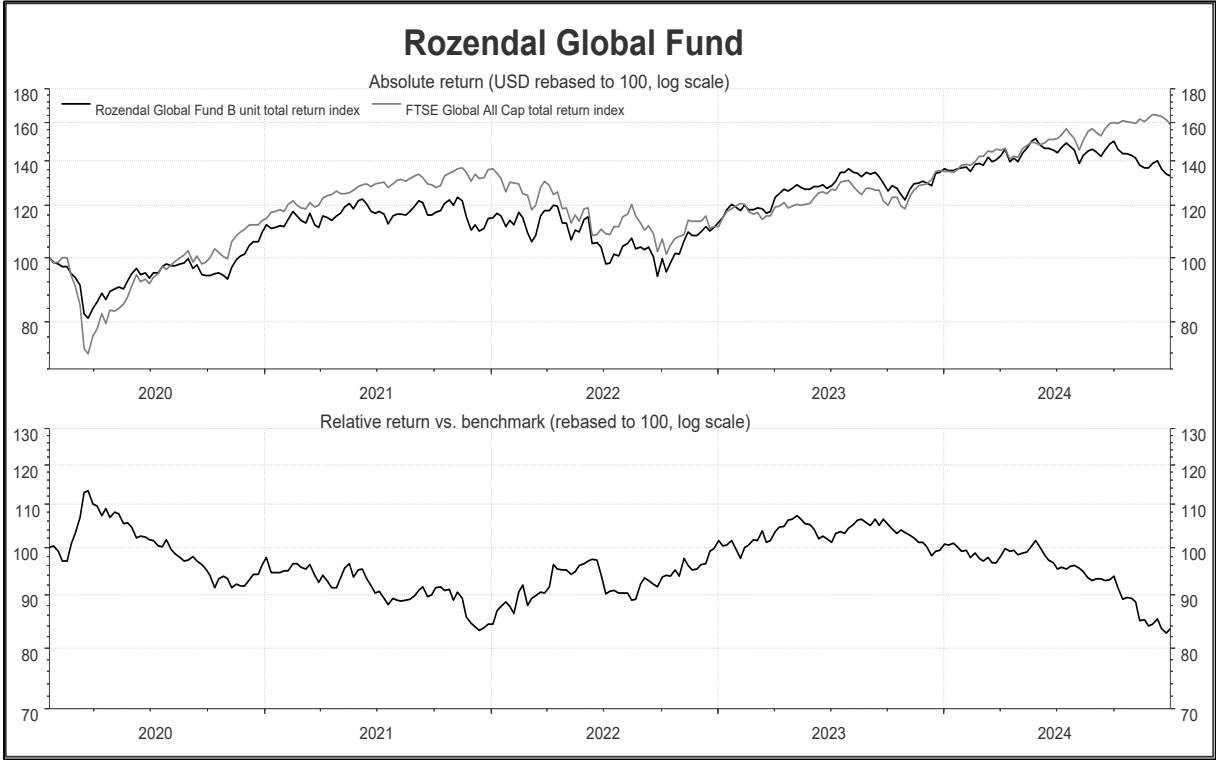
Rozendal Worldwide Flexible Prescient Qualified Investor Hedge Fund ('Hedge Fund'): performance vs. benchmark

Period	Fund*	Benchmark**
Since inception***	11.0%	9.0%
Year to 31 December 2024	5.0%	13.4%

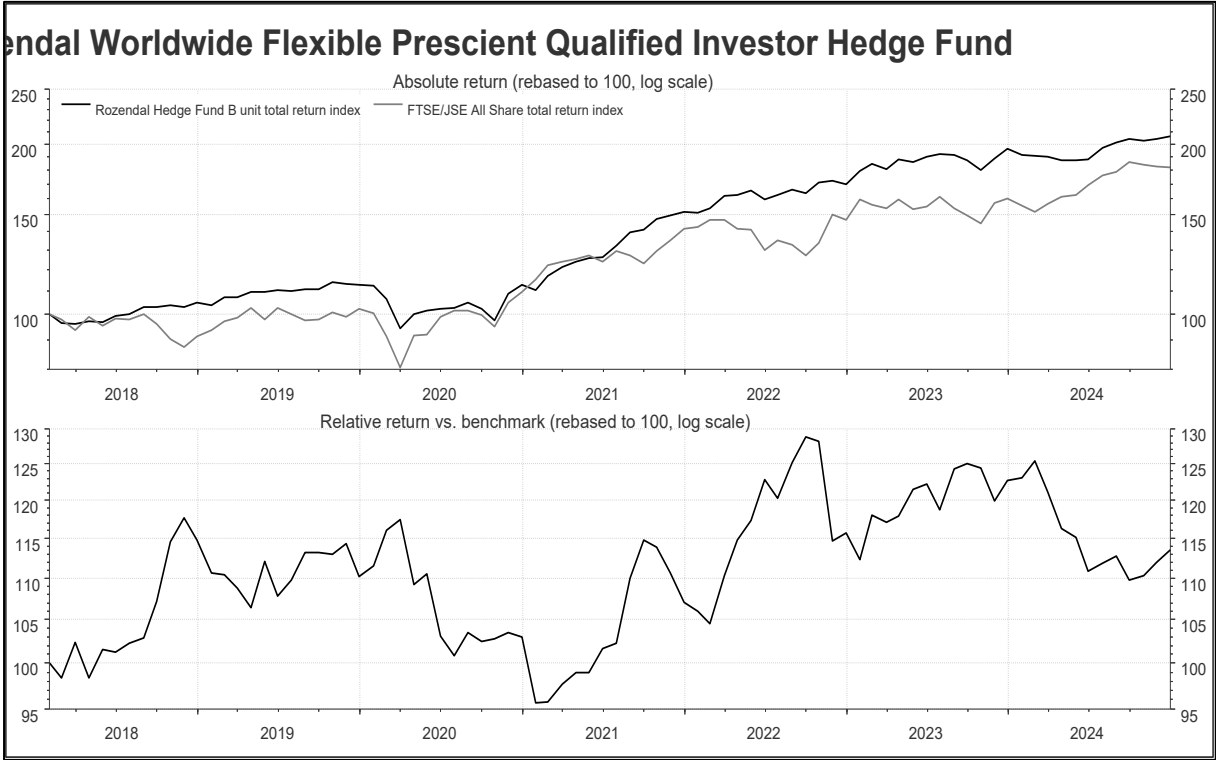
*Returns shown for the B unit class, which is the earliest unit class in existence. Return numbers for other unit classes may differ slightly. Returns shown net of fees assuming income is reinvested gross of tax.

**FTSE/JSE All Share Total Return Index

***Compounded annual total rate of return since 1 February 2018. Annualised performance shows longer term performance rescaled to a one-year period. Annualised performance is the average return per year over the period. Actual annual figures are available on request. Fund highest rolling one-year return: 12.7%. Fund lowest rolling one-year return: -1.0%. These represent the highest and lowest return for any trailing twelve-month period over the past year.



Source: Rozendal Partners, LSEG Datastream 17 January 2025



Source: Rozendal Partners, LSEG Datastream, 17 January 2025

Dear friends and fellow investors,

A. Introduction

As usual, we start by giving some more granular context to the strong return delivered by global stocks during 2024.

Table 1: Historical industry sector returns in USD

MSCI Industry Sector	Compounded annual total return: 10 years to December 2023	Compounded annual total return: 5 years to December 2023	One year return to December 2024
MSCI All Country World	8.5%	12.3%	18.0%
Energy	2.9%	10.0%	2.9%
Materials	6.1%	11.1%	-7.7%
Industrials	7.8%	12.1%	12.8%
Consumer Discretionary	8.2%	11.2%	20.7%
Consumer Staples	5.9%	7.6%	4.7%
Health Care	9.2%	10.5%	1.5%
Financials	6.5%	9.7%	25.1%
Information Technology	18.0%	23.6%	31.9%
Communication Services	4.5%	9.0%	31.9%
Utilities	6.2%	6.7%	12.7%

Source: LSEG Datastream, 17 January 2025

Table 2: Historical factor returns

MSCI All Country World Factor Index	Compounded annual total return: 10 years to December 2023	Compounded annual total return: 5 years to December 2023	One year return to December 2024
MSCI All Country World	8.5%	12.3%	18.0%
Value	6.2%	9.0%	11.6%
Momentum	9.3%	10.8%	32.3%
Size	4.7%	6.5%	5.9%
Quality	11.6%	16.2%	19.5%
Volatility	7.5%	7.1%	12.0%
Dividend Yield	6.3%	8.8%	8.3%
Growth	10.4%	14.9%	24.5%

Source: LSEG Datastream, 17 January 2025

Table 3: Global geographical equity index returns

Regional equity index	Compounded annual total return: 10 years to December 2023	Compounded annual total return: 5 years to December 2023	One year return to December 2024
MSCI All Country World	8.5%	12.3%	18.0%
MSCI World	9.2%	13.4%	19.2%
MSCI Emerging Markets	3.0%	4.1%	8.1%
MSCI Frontier Markets	2.4%	3.7%	9.9%
S&P 500	12.0%	15.7%	25.0%
Stoxx Europe 600	4.9%	9.8%	2.6%
MSCI Asia Pacific Ex-Japan	4.2%	4.9%	10.6%
Tokyo Stock Price Index	5.4%	6.8%	8.1%

Source: LSEG Datastream, 17 January 2025

It feels like we have been living in a binary world for much of the past decade: either large capitalisation, high quality, technology (or related) shares listed in the US do well, or small capitalisation, value shares outside of the US do well. 2024 has once again been a year of the former. What stands out during 2024 though was the strong performance of Financials.

The banking sector has been a perennial underperformer since the onset of the global financial crisis in 2007. There have only been a few brief periods where the sector has delivered better returns than the world market. 2024 proved to be a good year for the shares of banks: it seems that the prospect of lighter touch regulation under a Trump administration has changed the mood in the sector – at least as far as the mega capitalisation US banks are concerned. It will be interesting to see if less regulation does indeed translate into greater profitability for the industry, or whether it unleashes more intense competition – to the detriment of the large incumbents.

B. Investment Returns

1. Rozendal Global Fund ('Global Fund')

The Rozendal Global Fund delivered very disappointing returns for the year. The fund (with reference to the B unit class) was ahead of its benchmark since inception for much of 2023. By mid-2024, it was still neck and neck. But the last six months of 2024 proved to be a torrid period for the fund. The fund's overall limited exposure to the US again hampered returns, but there were a variety of stock specific

reasons for the poor performance. We call out the most notable of these below – after a few words on some of the positive contributors for the year.

Contributors

a. Meta Platforms

As the sole representative of the Magnificent Seven in the Global Fund, Meta has been a great boon to fund returns over the past several years. The business has overcome challenges like Apple's app tracking transparency measures, bloated cost structures and new challengers to its social media dominance in fine style. Long may it continue.

b. Tesco

Tesco has been a meaningful holding for the Global Fund for a long time. The business went through an existential crisis in the mid-2010's. In the ensuing years, management focused on getting the basics of price and range right, selling off non-core assets, managing costs tightly and being prudent in capital allocation. The process has been slow, and change has been incremental, but it has paid off. In recent times, Tesco has on occasion grown its sales faster than the hard discounters which has been taking so much market share in the UK over the past two decades. This would have been unthinkable a few years ago. It has not gone unnoticed by the market.

c. JD.com

China has been a well-publicised disaster for most equity investors since 2021. It is a battleground market: some view China as the economy of the future, with world-beating companies listed on its stock market. Others consider the market uninvestable on account of outsized political risk. We steer clear of taking a strong stand on this: the truth is usually somewhere in the middle. But when a company we have followed for a long time becomes hated by the market, we typically become more interested. Such was the case with JD.com – a relatively recent addition to the fund. When the Chinese government announced some strong policy support for consumption and capital markets during 2024, share prices moved up smartly. JD.com joined the move.

Detractors

a. Noble

Noble is one of the leading global oil drillship owner and operators. The fortunes of these companies depend on the capital expenditure of the major oil companies. This depends on confidence in the

long-term oil price. With weak economies (notably that of China), this has been lacking. The oil price has been fluctuating around levels where the investment case for new oil exploration is not necessarily compelling. This has weighed on the share prices of oil drillers like Noble.

b. M Dias Branco

The Brazilian stock market has been weak in recent years, reflective of an economy beset with challenges. But in 2024 the share price of M Dias Branco declined far more severely than the Brazilian market overall. A weak economy and exchange rate put pressure on sales volumes of the branded food products the company manufactures. A weak currency drove up the local price of wheat, a key imported ingredient in the company's biscuits and pasta. Operating costs have grown faster than sales partly due to a growth strategy which has failed to materialise as envisaged. This resulted in a material decline in earnings in 2024 compared to 2023. The share price was punished for this.

c. SES

Satellite business SES has been reporting positive results and acquired a rival at an attractive price – one of the transactions that has contributed to greater consolidation in the industry. However, the launch of SES's Medium Earth Orbit satellites was poorly executed, and there is ever increasing competition from Low Earth Orbit satellites like Starlink. These missteps and concerns drove down the SES share price sharply in 2024.

2. Rozendal Worldwide Flexible Prescient Qualified Investor Hedge Fund ('Hedge Fund')

The Hedge Fund delivered a pedestrian performance during 2024. Its meaningful exposure to the Global Fund contributed to this. In addition, limited exposure to the sectors which delivered some of the strongest returns in the South African market during the past year (banks, life insurance, retailers) also had a hand in this unimpressive return.

Contributors

a. Tiger Brands

Since the appointment of new CEO Tjaart Kruger in the second half of 2023, Tiger Brands' share price has been on a tear. As Kruger's restructuring efforts has started to bear fruit, the share price took another leg up in the latter half of 2024.

b. PPC

The conclusion of the sale of its Rwandan business, a subsequent special dividend and some general positivity about the prospects for South Africa post implementation of the Government of National Unity all supported PPC's share price. Operationally the business is still finding it tough, but with a strong balance sheet and a major plant upgrade in the Western Cape recently announced, the business is in a better situation than it has been for some time.

c. Blue Label Telecoms

As the assimilation of Cell C into Blue Label has progressed and some greater clarity about the finances of Cell C has become evident, the Blue Label share price has picked up from extraordinarily cheap levels.

Detractors

a. HCI

HCI has been a large holding in the Hedge Fund for some years now. The most important assets in the group are Tsogo Sun Gaming and Impact Oil and Gas. Traditional gaming businesses like Tsogo have been having a tough time in the constrained South African consumer environment, where online gaming has been gaining substantial market share. In the time immediately after Covid, traditional casinos benefitted from sharp cost cuts enacted during Covid. However, costs have started creeping up again, which has pressured profitability given the weak revenue environment.

There have been no new positive announcements relating to Impact's oil exploration interests in recent months. Some negative announcements by operators active in broadly the same areas as Impact have dampened the excitement around HCI's oil and gas interests somewhat. The share price has reflected this.

b. AECI

AECI is also a company undergoing a restructuring driven by a new C-suite management team. This restructuring is complicated. Capital expenditure has increased as it seems that this was neglected in recent years by previous management. Debt levels are somewhat high, and assets up for sale look like they won't fetch top dollar. All in all, not a picture that has endeared AECI to investors recently.

c. Goldrush Holdings

In much the same way as Tsogo Sun, Goldrush Holdings (formerly known as RECM & Calibre) has struggled with profitability in its core bingo operations. Load shedding was blamed for much of the challenges in the bingo business. But the anticipated recovery in the market after the cessation of load shedding has not materialised – which has rightly caused the market to ask some hard questions about the business.

C. Investment Cycles Completed

We completed four investment cycles in the past six months. In the Global Fund, we bade farewell to Burford Capital, Migros Ticaret and Sabanci Holding. In the Hedge Fund, we closed out all the wheat futures contracts that the fund had exposure to. We will provide a full postmortem of our investments in Migros and Sabanci when we have also completed our journey with Coca Cola İçecek, the last of the Turkish businesses still held in the fund. The macro-economic environment in Turkey became a substantial common driver of returns for these three shares during the period that we held them, so we feel it makes sense to write about them together when the time comes.

1. Burford Capital

Burford Capital first came to our attention in discussions about investment ideas with a like-minded investor some years ago. It sounded like an interesting company: Burford's business of litigation funding appeared to be a market with attractive long term growth prospects and very favourable economics. At the time, our superficial impression was that these attractions were well recognised by the market and reflected in Burford's share price, so we left it at that.

A few years later, Burford attracted some more of our attention – but this time for very different reasons. In August 2019 leading short selling firm Muddy Waters issued a scathing report about Burford. This triggered an implosion in the Burford share price: within the space of two days, the share price fell from about \$17.00 to about \$7.00. \$2 billion of market value evaporated overnight. Panic was embedded in the share price. We did not immediately take any investment action, but Burford was now much more interesting to us as a potential investment, and we started to follow the company more closely.

The shutdown of the legal industry during Covid, and the slow re-opening of the industry thereafter, did the business no favours. Despite taking several measures to address the issues raised by Muddy Waters, and navigating the Covid period without too much drama, by early 2021 the Burford share price was still only at the levels it had fallen to in the months after the Muddy Waters report. The

investment opportunity now seemed compelling to us, and in April 2021 we made the first investment in Burford Capital shares.

Litigation funding is an appealing asset class:

- a. It is a part of capital markets that only became accessible to institutional capital relatively recently. The practice of funding plaintiffs' legal expenses in return for some share of the proceeds arising from the claim was historically prohibited in many countries. This prevented the flood of capital into the market that one has for instance seen in private equity in recent decades.
- b. The obvious solution for impecunious plaintiffs with strong cases and large claims is for the legal team representing them to work on contingency. However, by their nature law firms are disinclined to take such risk – the ingrained culture is one of regular billing and being paid for work as it is performed. And large law firms (the ones most able to take on clients on contingency) are often conflicted in representing small plaintiffs: large claims are often against large companies or governments, and large law firms do not want to alienate such potentially lucrative future clients. In many markets contingency fee arrangements are also regulated, with caps on the amount legal professionals can earn. This limits the appeal. A lower prevalence of contingency fee arrangements leaves greater scope for attractive funding terms for outside providers of capital.
- c. Litigation funding is inherently volatile: returns are often either a complete loss of capital invested, or a large multiple of capital invested. This volatility can of course be offset by being invested in a diversified portfolio of cases, which requires some degree of scale. But importantly, investment returns from litigation funding are largely uncorrelated with investment returns from other financial markets. Judgements and settlements are the key determinants of investment outcomes. Market prices, macro-economic variables and the state of the economy usually have negligible influence on these.

Burford was (and remains) the global leader in the field of litigation funding. It was a first mover which had built substantial scale by the early 2020's. There are benefits to scale: a larger more diversified portfolio offers the high returns available in the asset class at lower levels of volatility than a smaller less diversified portfolio. The business does not scale quite as well as traditional investment management or private equity though. There is a limit to the number of cases an employee can monitor, and given the smaller size per investment compared to private equity, litigation funding is by nature more human capital intensive than traditional investment management. Despite the high returns on offer in the asset class (typically around 30% internal rates of return on portfolios of assets), some of Burford's smaller peers have struggled to keep costs at a level which allows the business to earn a decent return for shareholders after the expensive workforce has been paid.



By early 2021, Burford had made concerted efforts to address the criticisms levelled at it by Muddy Waters 18 months prior. Much of the criticism – notably around questionable corporate governance arrangements – was valid. But we appreciated the fact that active steps to rectify these had been taken, and that management had bought a meaningful amount of shares in the aftermath of the share price implosion. The CEO and chief investment officer of the company owned about 4% of the company each. Our only real question mark about the company was its practice of applying fair value accounting to its litigation funding investments.

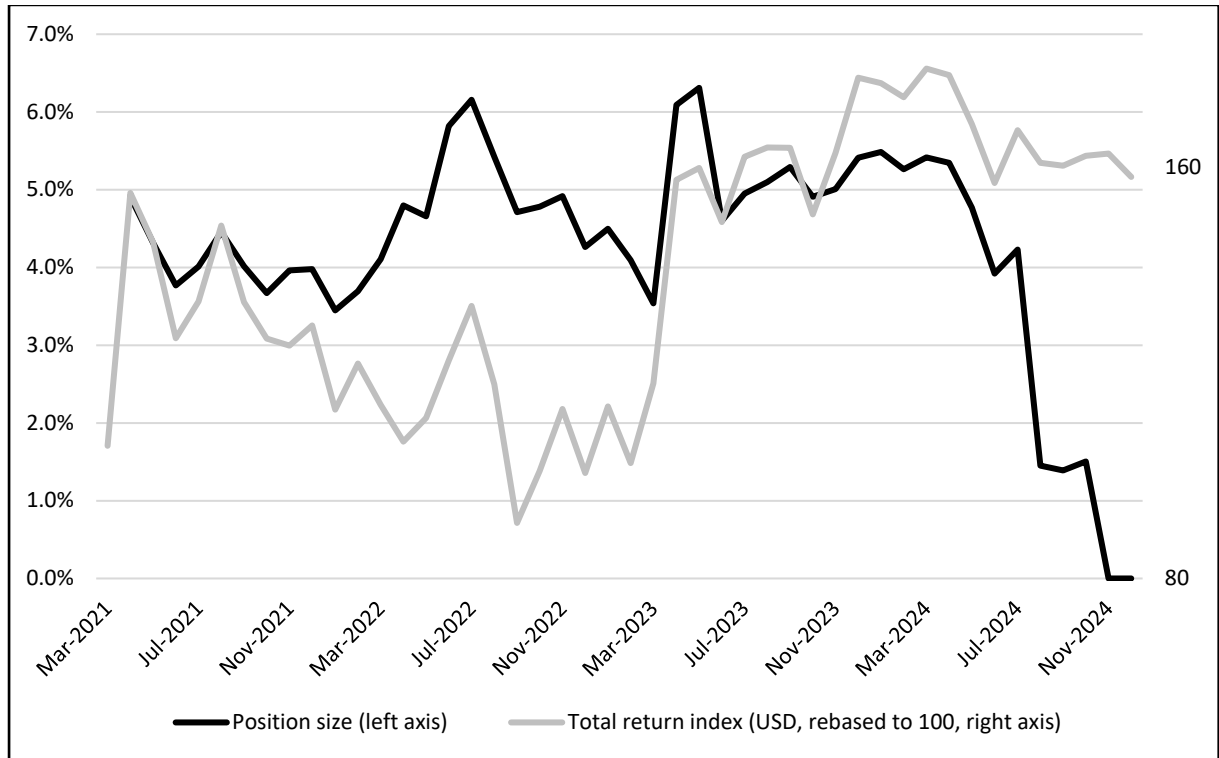
Despite all the listed litigation funders reporting under IFRS, not all were applying fair value accounting. Whilst fair value accounting is correct in principle, in practice it leaves the door wide open for management to massage financial statements in a way that suits them. This is especially so where the assets that are carried at fair value are as opaque and complex to value as litigation funding investments. In mitigation of this, Burford’s management incentives were only ever calculated and paid out based on cash returns achieved, so the incentive to overstate the fair value of assets was at least somewhat attenuated.

Burford was more than just the value of the litigation funding investments it had made though. It had also started to raise and manage third party funds to invest in litigation funding. This was evidently the start of building an asset management business in the industry. We viewed this with some excitement. The industry was set to grow strongly for many years. If Burford could deploy the capital of others into this growth, but earn management and performance fees from doing so, it was poised to build a fantastically profitable business.

We conducted extensive research into the global litigation funding market, the growth prospects thereof and the likely future penetration rate of asset managers like Burford in the market. In this we referenced off the private equity industry. Global litigation funding experts we spoke to agreed that the litigation funding industry in the 2010’s was akin to the private equity industry in the 1980’s.

Our fair value for Burford amounted to about \$15 per share, consisting in almost equal parts of the fair value of its litigation funding investments, and the value of the asset management business it was building. At a share price around \$10, it offered attractive value, and Burford became a top ten investment for the Rozendal Global Fund in short order.

Chart 1: Burford Capital position size in the Rozendal Global Fund and total return index



Source: Rozendal Partners, LSEG Datastream 21 January 2025

For some years by far the largest asset on Burford’s balance sheet has been claims against the government of Argentina. These claims emanated from the nationalisation of oil and gas company YPF in 2012. At the time YPF was a publicly listed company with Spanish energy group Repsol as its controlling shareholder. Burford bought these claims in 2015 from large minority shareholders of YPF. Over the next few years, Burford in turn proceeded to sell parts of the claims it acquired to other investors. These sales took place at prices far higher than Burford’s purchase price. Burford based its estimate of the fair value of its YPF claims on these third-party sales and recorded very large fair value gains on the YPF assets as a result. Developments in the YPF matter were henceforth followed very closely by the market.

We cannot claim to have had any notable insights into the value of the YPF claims. But in the Muddy Waters short report, the large and ‘conveniently timed’ gains made on the YPF assets was one of the points of criticism levelled at Burford. The likelihood of Burford being overly aggressive in its valuation of the YPF claims after the spotlight put on them by Muddy Waters seemed small. Hence, we accepted Burford’s estimate of fair value for the YPF claims - as we did for the other assets on the company’s balance sheet.

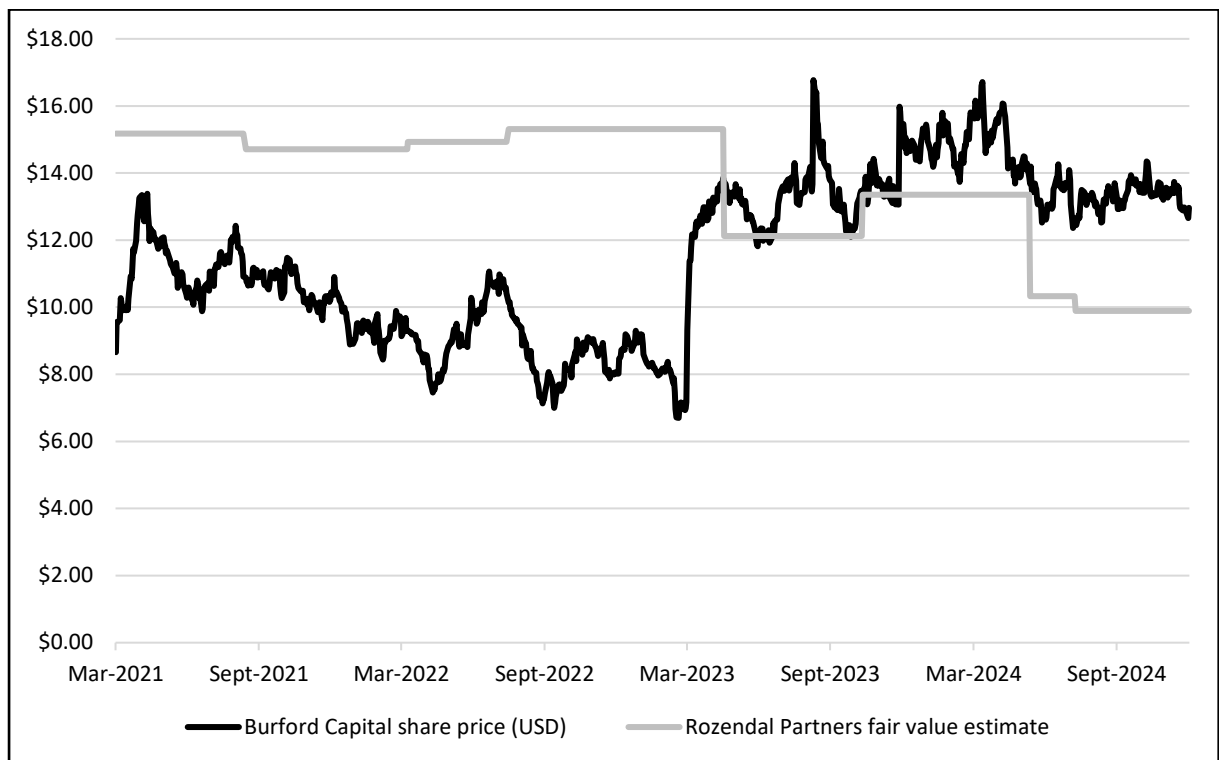
The legal industry generally does not strike one as particularly dynamic and fast paced. But the Covid pandemic and the associated government regulations served to slow down activity in the industry

even further. For some time after 2020, this weighed on Burford’s ability both to originate new investments and to consummate existing investments. But the dominant impact on the share price was developments in the YPF matter. And on balance these were very favourable.

In a series of judgements handed down during 2023 and 2024, Burford (or, technically, the plaintiffs whose claims Burford had bought) was awarded complete wins against Argentina on the merits of the claims and was then later awarded a quantum of damages at the top end of the range of estimates. The share price surged upwards on these announcements. From complete revulsion towards the company post the Muddy Waters report, the market was now again excited about the prospects for the company.

In contrast to the share price though, our estimate of the fair value of Burford was declining as time passed.

Chart 2: Burford Capital share price and fair value



Source: Rozendal Partners, LSEG Datastream 21 January 2025

There were two reasons for this:

- a. Burford was not maintaining the level of market share in the litigation funding industry that it had historically enjoyed. And furthermore, litigation funding was not penetrating the overall legal market at the rate that we had assumed in our valuation of the business.
- b. The company made a strategic decision to keep more of its litigation funding investments on its own balance sheet, rather than to grow the third-party asset management business. This struck us as an odd choice: the economics of an asset management business is far more attractive than that of an investment company deploying its own capital. It took quite a bit of prodding and probing by us to finally get to the bottom of the reason for this: despite Burford's scale, its cost structure (i.e. salaries) was so high that even at the very generous fee levels they were charging third party investors, there was not sufficient profit left for shareholders to make it a worthwhile endeavour. The quote below is from an email interchange we had with a company representative.

'The revenues from a 2+20 fund management model do not support the significant costs incurred in originating, underwriting and managing legal finance assets. If the market were much larger, let's say for the sake of argument 6-10x the present scale, it's possible throughput might be sufficient to sustain the operating expenses of our platform and generate an attractive shareholder return. However, at today's addressable market, it's simply not possible to generate sufficient revenues.'

The Burford CEO and CIO earned \$10m of compensation each in 2023. They earned \$1m in dividends from their Burford shareholding. Each owned Burford shares worth about \$130m. Despite the meaningful economic interest they have in Burford equity, it seems that ensuring they get paid their handsome salaries and incentives may be of greater importance to them than optimising economics for shareholders. Keeping litigation assets on Burford's balance sheet is far less capital efficient for shareholders than managing those same assets for third party investors - but it does make for a much larger revenue number in the income statement, which in turn makes it easier to pay lavish remuneration to management and employees. Such are the incentives that drive behaviour, unfortunately.

It became clear that our expectation of substantial value being created for shareholders by Burford building a leading third-party asset management business was misplaced. This prompted the downward revisions in our fair value. The net asset value of Burford had grown over time, but not as dramatically as one may at first blush have expected given the large numbers awarded in favour of Burford in the YPF matter. A good deal of these positive outcomes had already been captured in the company's assessment of the fair value of the YPF claims.

As the share price remained above our fair value during 2024, and in the absence of insider purchases or favourable new developments or share price movements, we proceeded to dispose of the Global Fund's entire Burford holding during the latter half of the year.

Burford was a satisfactory but not spectacular investment for the Global Fund. The investment generated an internal rate of return of 10.9%, compared to the benchmark's return of 7.4% per annum for the corresponding period.

Some ex-post observations about our investment in Burford Capital:

- a. Short sellers are often well-informed investors. Shares with a high short interest have historically delivered poor returns¹. It pays to approach such shares with caution. But it can take unduly long for the market to give shares subject to short selling campaigns a fair appraisal, even after legitimate concerns raised by short sellers have been addressed. This can lead to a protracted period of mispricing for a share. This mispricing gradually dissipates as time passes. Eventually the sins of the past are forgotten. The unwinding of this process can create a very favourable tailwind for investment returns, even if the underlying business does not live up to all the positive expectations one may have harboured for it.

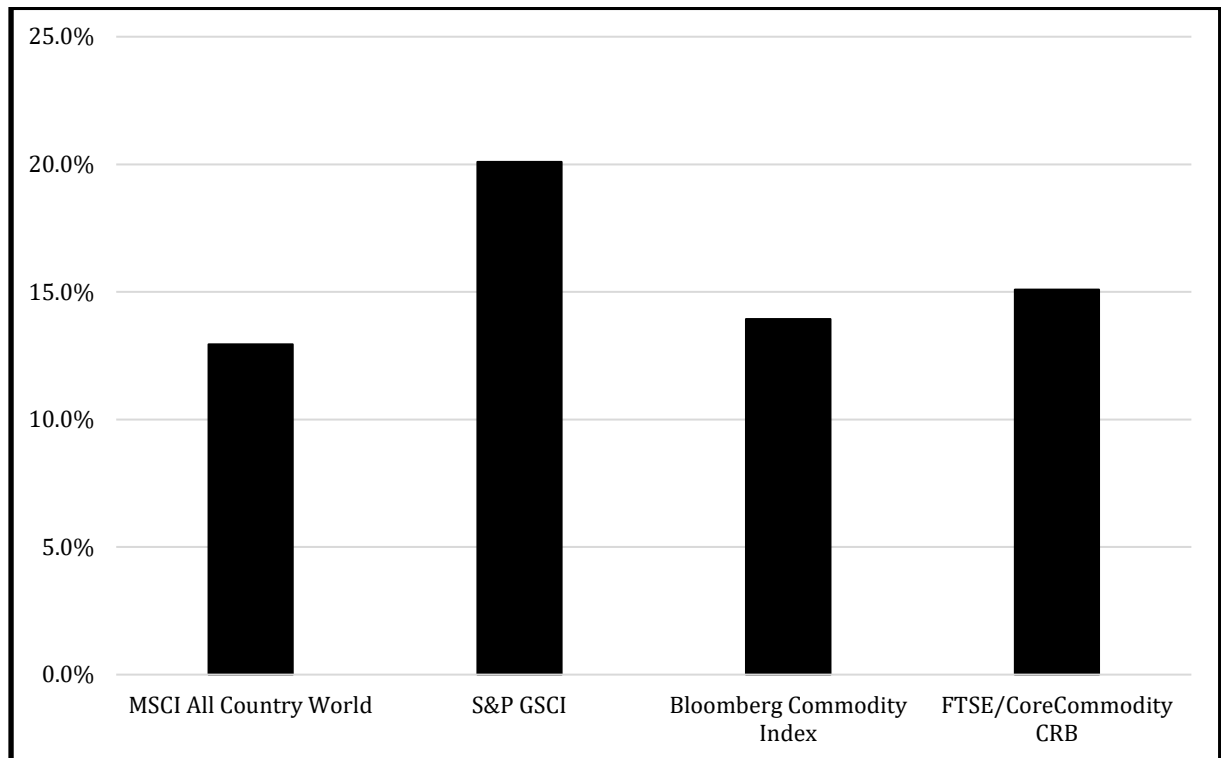
- b. It is a hackneyed phrase that is worth repeating: incentives drive behaviour. Even where on some measures management is well aligned with shareholders, other incentives may drive behaviour in a way that is not in shareholders' best interest. One ignores this at one's own peril.

¹ <https://alphaarchitect.com/2022/07/short-sellers-are-informed-investors/>

2. Wheat

Commodities – both agricultural and industrial – have a reputation for being high risk investments. And there is some merit to this: over the past 30 years, commodity indices have been more volatile than the global stock market.

Chart 3: Global stock market vs commodity indices average 30-day volatility: 1995 - 2024



Source: LSEG Datastream 21 January 2025

And besides the higher volatility, commodity indices have not come close to keeping pace with global stock markets when it comes to returns. The MSCI All Country World stock index has delivered between two and a half and six and half times the return of the major commodity indices since 1995.

Chart 4: MSCI All Country World total return vs major commodity indices (log scale, rebased to 100)



Source: LSEG Datastream 21 January 2025

In general then, an asset class best avoided – other than perhaps for its diversification benefits. But that does not mean that interesting opportunities will never arise in commodity markets. And that is exactly what we found in the first half of 2022 when Russia invaded Ukraine.

At the time, Russia was the world’s largest wheat exporter, and Ukraine ranked fifth globally on this measure. Russia was also a major gas and fertiliser exporter. Natural gas is the key feedstock for producing fertiliser. Russian wheat was not the target of sanctions, but the disruptions to the natural gas and fertiliser markets from the sanctions imposed on Russia by the West caused the prices of these commodities to jump upward dramatically. Wheat is a very nitrogen intensive crop. As a result, the nitrogen fertiliser price is of more importance for wheat farmers than for many other crops. This input cost pressure combined with concerns about Ukrainian farmers’ ability to plant their fields in the next planting season caused the price of wheat to explode upward. On an inflation adjusted basis, it reached levels seen only once before in the preceding forty years.

Chart 5: Inflation adjusted US wheat price, including average and standard deviation lines (rebased to 2024 US dollars)

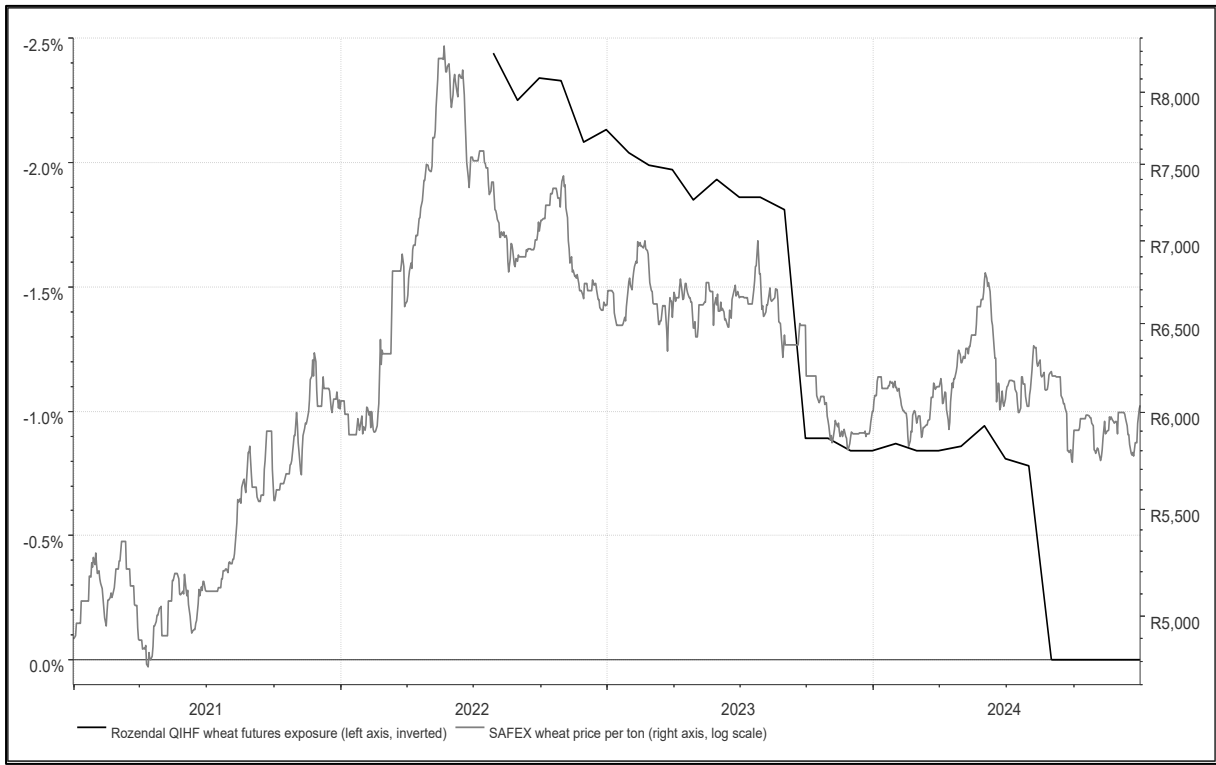


Source: Rozendal Partners, LSEG Datastream 23 January 2025

Such periods of brief supply disruptions are not uncommon in commodity markets. The resulting higher prices encourages new sources of production, and for consumers to limit consumption – often by means of substituting the now expensive commodity with a cheaper alternative. The duration of these cycles vary, but they are typically rather short (a year or two) in agricultural commodities with annual growing cycles like wheat and maize.

Our discussions with agricultural researchers and farmers post the Ukraine invasion led us to believe that this time would be no different. At prevailing wheat prices, wheat farming was very profitable (even in the face of much higher fertiliser prices), and in Europe, for instance, authorities were allowing farmers to cultivate land which had historically been designated for conservation. As the saying goes, the cure for the high price was the high price. We proceeded to sell wheat futures short in the Hedge Fund during the middle of 2022.

Chart 6: Hedge fund wheat futures exposure and SAFEX wheat price



Source: Rozendal Partners, LSEG Datastream 21 January 2025

As much as we were comfortable that this wheat price cycle would look like cycles of the past, we kept the Hedge Fund’s exposure modest – never more than 2.5%. Volatility in commodity prices at times of market disruptions can be severe, and we have no interest in becoming forced sellers of other attractive assets in a fund to meet margin calls.

Over the next two years, the wheat price cycle developed much as we expected. By late 2023, wheat prices in the United States (which is the global benchmark wheat price) had reverted to levels even lower than that seen before the Ukraine invasion. South African wheat prices remained higher than this, mainly because of the weakening of the Rand. South Africa is a net importer of wheat, so South African wheat typically trades at import parity prices. A weaker currency pushes up the import parity price.

With the investment thesis having largely played out, and the short position in wheat futures largely becoming a long position in the Rand, we proceeded to close out the Hedge Fund’s futures exposure during the latter half of 2023 and 2024.

The fund’s wheat exposure contributed usefully to returns. On exposure ranging between 2.5% and 1% of the fund’s assets (c.R35m – R15m), a profit of about R5.5m was earned. This translates to about



10% per annum of ungeared excess return (i.e. above the interest earned on the cash margin placed to maintain the futures position).

Some thoughts after our little sojourn in the commodity markets:

- a. As investors aiming to generate high real returns over long periods of time while taking limited risk, we have little interest in enduring long exposure to commodity markets directly. However, at times of dislocation, the volatility of commodity prices can present attractive opportunities. A commodity trading at an unusually high or low inflation adjusted price is often points to an unsustainable situation. This can present opportunity for investors. This is especially true in 'short cycle' agricultural commodities where supply and demand imbalances tend to resolve quickly.
- b. Financial investors in commodities who invest via futures markets have some subtleties related to futures to consider when deploying capital. The most notable of these is the shape of the forward price curve. At times of severe supply shortages and very high prices, forward prices are typically lower than spot prices. The converse usually applies at times of very low prices. As the shape of the curve changes over time, a financial investor in futures will typically capture less of the price movement in the underlying commodity than may be expected if looking purely at the spot price of the commodity. This means that profiting from a dislocation that seems obvious at the moment may not be so simple in practice.

D. Investment Observations

We limit our investment observations to one for this letter. It is a case study of the fortunes of two leading South African food retailers, and as bottom-up investors mainly focused on the underlying

economics of individual businesses, it is the type of study that we find particularly fascinating. It is a lengthy piece, and please forgive us for that – we couldn't help ourselves!

1. A tale of two grocers

'Employees are important stakeholders in any business and our goal is to provide the best working conditions together with the highest remuneration in the industry for all categories of staff.'

Raymond Ackerman and Hugh Herman, Pick n Pay Stores Limited Annual Report 1990

'Shoprite's satisfactory performance is directly attributable to staff commitment, a clearly defined target market and a marketing philosophy of providing customers with the lowest prices. Shoprite has effected its strategic plan of forfeiting a measure of profitability in a continued drive to gain market share.'

Whitey Basson, Shoprite Holdings Limited Annual Report 1990

a. Background

Pick n Pay is a company with a long and illustrious history in South Africa. It was one of the pioneers of modern grocery retail in the country. From a humble start of four stores in Cape Town in 1967, founder Raymond Ackerman built a group with a stellar reputation. The company went public in 1968. On the back of its operational success, the company's share price did exceptionally well in its first two decades on the stock market. It was undoubtedly the leading food retailer of South Africa in the last decades of the previous millennium.

From the mid-1980's to the late 2010's, the company's share price broadly tracked the South African market. Operationally, the company was delivering mixed results. In 2008, Pick n Pay was voted the world's best retailer by the US-based National Retail Federation - but by this time the company's best years were behind it. A fifteen-year period of inconsistent operating results followed, characterised by CEO changes and repeated turnaround efforts. These failed. In 2024, the share price imploded as it became evident that the company was facing real financial difficulties. These proved so severe that the company was forced to raise money from shareholders and sell off a piece of Boxer, the crown jewel in the group.

Chart 7: Pick n Pay total return relative to SA market 1974 – 2024 (rebased to 100, log scale)

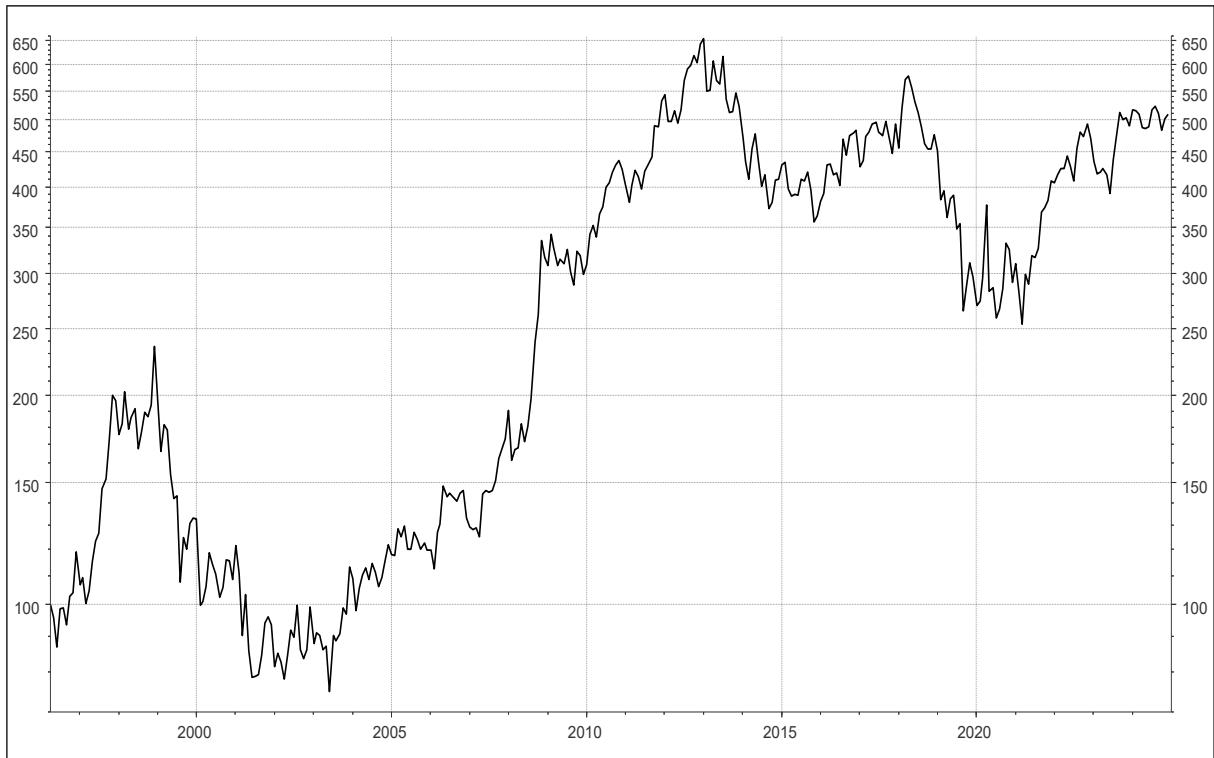


Source: LSEG Datastream 13 January 2025

Shoprite came to the South African grocery industry as an underdog. Incidentally also founded in 1967, the business was acquired by the Christo Wiese-controlled Pepkor group in 1979 and listed separately in 1987. Under the stewardship of Wiese and the executive leadership of Whitey Basson, Shoprite grew aggressively, both organically and acquisitively. As much as Pick n Pay had always focused on offering consumers low prices, the target market had been higher income customers. Shoprite focused squarely on the lower income consumer.

Like Pick n Pay, Shoprite’s share price performed very well in the first few years after listing, but then languished until the mid-2000’s. 2003 marked the start of a decade of spectacular share price outperformance for Shoprite. The company grew strongly on the back of an expanding middle class, increased government social welfare programs in South Africa, and growth in Africa. From being a scrappy upstart, the company became the largest food retailer in the country. The share price has tracked the SA market since the mid-2010’s, but relative to the rest of the industry, Shoprite has continued to go from strength to strength.

Chart 8: Shoprite total return relative to SA market 1997 – 2024 (rebased to 100, log scale)



Source: LSEG Datastream 13 January 2025

b. Pick n Pay vs Shoprite

Grocery retail at scale is an attractive business. The combination of bargaining power with suppliers and lower unit costs of distribution that come with market leading scale creates a business that can generate good economics for shareholders for very long periods of time. Both Pick n Pay and Shoprite have had such scale for decades. Yet for shareholders, Pick n Pay has been a disaster and Shoprite has been a success. Why? And, more importantly from an investor’s perspective, were there advance warnings that Pick n Pay as an investment was going to be the disappointment that it has been? We read through 35 years of annual reports and investment research on the two companies to find out.

A quick word of caution before we proceed. We are writing this with the benefit of hindsight. It is human nature to convince oneself that facts which appear significant in hindsight, would also have been considered significant at the time that they were first evident. There can of course be no such assurance. As much as we strive to evaluate past events in a clinically objective way, it is difficult to refrain from having one’s assessment coloured by subsequent outcomes. A supremely risky strategy that happens to succeed is in hindsight likely to be admired and considered an obvious path to success. Likewise, a sensible strategy that happens to fail is likely to be scoffed at. Yet in business, the range of potential outcomes for any strategy pursued and decision made is wide and cannot be judged solely

on the outcome thereof. Keeping all of this in mind, we found the following notable in our study of the success of Shoprite and the predicament of Pick n Pay.

i. Governance

Besides being founded in the same year, Pick n Pay and Shoprite have another peculiar aspect in common: control structures. In the case of Pick n Pay, the Ackerman family has controlled the group since inception, initially via a listed holding company, and later via a special class of high voting shares. The Ackerman family also retained the right to appoint the chair, chief executive officer and chief financial officer of the group. This control is being forfeited as part of the capital restructure Pick n Pay embarked on in 2024.

In Shoprite’s case, Wiese exercised outright (i.e. greater than 50%) voting control of the company via a special class of deferred shares for many decades. His voting rights have fallen below 50% in recent years, but still far exceeds his economic interest in the group.

Family control of a company is usually considered a positive attribute. Unsurprisingly, the Ackermans often espoused this view.

‘Our focus on the business as family controlled and run has been vindicated throughout the years. Shareholders will know that I have repeatedly stated why I believe this is the best possible way to sustain a business. Uppermost amongst these virtues is the focus on values and principles. The comfort of being able to withstand the pressure to perform financially while retaining the essence of solid values is not the exclusive preserve of family run businesses, but it does tend to represent a defining characteristic of them.’

Raymond Ackerman, Pick n Pay Stores Limited Annual Report 2003

‘The Ackerman family has directed and overseen significant change in the business since inception, but especially over the last five to six years. Only recently has the subject of competitive advantages of businesses controlled by family shareholder control groups become a topic in the corporate finance literature. Family-controlled firms are more inclined to have a long-term perspective, conservative financial management, and a strong corporate culture, all attractive attributes conducive to long-term share outperformance. This is a view strongly supported by Warren Buffett and others. Mark Zuckerberg follows the same strategy, stressing that being founder led has helped Facebook resist the short-term pressures that often hurt companies. As he points out, this also gives the company the freedom to prioritise and take decisions that don’t always pay off right away, but are in the long-term interests of both shareholders and communities. Importantly, a recent study in the US showed that of the top ten performing supermarkets in the US, eight out of ten were founder, family or employee-controlled companies. We believe that the continued involvement of the Ackerman family is in the long-term interests of Pick n Pay.’

Gareth Ackerman, Pick n Pay Stores Limited Annual Report 2016

The subject of family control receives essentially no attention in Shoprite’s shareholder reports. The only meaningful communication in this regard was in 2019 when Wiese – allegedly in an uncomfortable financial situation at the time – attempted to sell his deferred shares back to the company for more than R3 billion. Shareholders balked, and the proposal was cancelled.

The arguments proffered in favour of family control have merit. Research suggests that listed companies controlled by a family do tend to deliver above average financial results².

The evidence on what this implies for shareholder returns is somewhat mixed though. At least one study suggests that family controlled listed companies deliver superior – and lower risk – stock market returns than other companies³. Other studies conclude that family ownership is not a meaningful determinant of stock market returns⁴.

What was however (unsurprisingly) not pointed out in any Pick n Pay shareholder communication over the years is the evidence that suggests that the performance of family firms falter dramatically after the first generation⁵. This appears to be due to a pattern of much more conservative strategic decision making enacted by successor generations. Successor-led firms tend to invest less in research and development and pay out more dividends than founder-led firms. The entrepreneurial flair and risk appetite of the founder seems to be lost on the offspring – to the detriment of the business. This adverse impact goes so far as to turn the tables on the impact of family control: successor-led firms underperform non-family firms.

² Shleifer, A. and Vishny, R.W., 1997. A survey of corporate governance. *The journal of finance*, 52(2), pp.737-783; Boyd, B.K. and Solarino, A.M., 2016. Ownership of corporations: A review, synthesis, and research agenda. *Journal of Management*, 42(5), pp.1282-1314; Anderson, R.C. and Reeb, D.M., 2003. Founding-family ownership and firm performance: evidence from the S&P 500. *The journal of finance*, 58(3), pp.1301-1328; van Essen, M., Carney, M., Gedajlovic, E.R. and Heugens, P.P., 2015. How does family control influence firm strategy and performance? A meta-analysis of US publicly listed firms. *Corporate Governance: An International Review*, 23(1), pp.3-24.

³ Refer for instance to ‘UBS Q-Series: Why do Family-Controlled Public Companies Outperform? The Value of Disciplined Governance’, 13 April 2015.

⁴ Miralles-Marcelo, J.L., del Mar Miralles-Quirós, M. and Lisboa, I., 2014. The impact of family control on firm performance: Evidence from Portugal and Spain. *Journal of Family Business Strategy*, 5(2), pp.156-168.

⁵ van Essen, M., Carney, M., Gedajlovic, E.R. and Heugens, P.P., 2015. How does family control influence firm strategy and performance? A meta-analysis of US publicly listed firms. *Corporate Governance: An International Review*, 23(1), pp.3-24.

Interestingly, the benefits of family control appear greatest at relatively modest levels of shareholding.

‘As the ownership stake increases (25%–50%), such that owners can exert full control over the firm (usually with the help of pyramidal equity schemes), the effect on performance becomes negligible and insignificant. We conjecture that at these intermediate levels of concentrated ownership, the positive effects to firms of having a concentrated owner are offset by increased opportunities for self-dealing. At even higher levels of ownership (50%–100%) the effect on performance increases again but remains insignificant. In sum, performance is non-monotonically related to ownership.’

Heugens, P.P., Van Essen, M. and (Hans) van Oosterhout, J., 2009. Meta-analyzing ownership concentration and firm performance in Asia: Towards a more fine-grained understanding. *Asia Pacific Journal of Management*, 26, pp.481-512.

Companies where control is entrenched with dual class voting structures are viewed unfavourably by the market: such companies trade at a significant discount to companies without control structures⁶. Evidence on how this affects financial performance of such companies is scant. But the reason for this embedded market value discount is understandable: non-controlling shareholders fear self-dealing by the controlling shareholder at their expense. And here evidence suggests that the fear is justified in the case of family-controlled firms. Family controlled firms are more likely to engage in self-dealing than firms controlled by other types of investors (e.g. governments or large corporates)⁷.

Bringing this back to Pick n Pay and Shoprite: family involvement in Pick n Pay has always been far more integral to the character of the business than for Shoprite. The Ackermans served in a wide variety of both executive and non-executive roles in the business for its entire history. Wiese, and in recent years his son, have always only served on the Shoprite board in a non-executive capacity. Shoprite has remained founder led. Raymond Ackerman retired from the Pick n Pay board in 2010. It then became a successor-led business and unfortunately appears to have followed the same path of financial underperformance that many successor-led firms have been down in the past.

ii. Management

Shoprite stands out as having only had two CEOs since Wiese acquired control of the business: Whitey Basson from inception until 2017, and internal appointee Pieter Engelbrecht subsequently. Basson is rightly revered for building Shoprite into the juggernaut that it is. Engelbrecht has done an admirable job of building on the foundation laid by Basson.

⁶ Claessens, S., Djankov, S., Fan, J.P. and Lang, L.H., 2002. Disentangling the incentive and entrenchment effects of large shareholdings. *The journal of finance*, 57(6), pp.2741-2771.

⁷ Solarino, A.M. and Boyd, B.K., 2020. Are all forms of ownership prone to tunneling? A meta-analysis. *Corporate Governance: An International Review*, 28(6), pp.488-501.

Pick n Pay, by contrast, has undergone five changes of CEO since its founding. Raymond Ackerman relinquished the CEO role to Sean Summers in 1999. Summers made way for Nick Badminton in 2007. Both Summers and Badminton were long-serving employees of the company when they were appointed CEO. The transition from Summers to Badminton was smooth. Both were praised in the company's annual report for the contribution they had made to the group during their tenures. Badminton was hailed for having played 'a critical role in transforming the business'⁸.

Despite these words of praise, the departures of both Summers and (especially) Badminton occurred under circumstances when the business had not been performing as well as it should have. Pick n Pay's subpar performance relative to Shoprite had already become evident by the mid-2000's. In his chairman's letter of 2007 (shortly after Summers' departure), Ackerman notes that '*...while we have delivered consistently on price, (our customers') perception is not necessarily aligned*'⁹.

The handover from Summers to Badminton happened amid a strategic rethink facilitated by the management consultancy Bain. When Badminton left the group, performance had deteriorated further, and there was no successor to step into the CEO role. Gareth Ackerman (founder Raymond's son) took over as acting CEO whilst the search for a permanent candidate was underway.

The two executives who came after Badminton were interesting choices. Both were external recruits from the European food retail industry. The first, Richard Brasher, came from Tesco. He had served in very senior positions in Tesco for a long time. His last role at Tesco was that of head of the UK business. When Brasher left Tesco, the UK business was in disarray. It had come off several profit warnings and had been losing market share for years. Brasher's successor, Peter Boone, came from Metro, where he had been responsible for the Russian business of the group. He left Metro after a period of very weak performance by the Russian business. Weak business performance is at times not only attributable to weak leadership. But the past performance of the businesses with which Brasher and Boone were most closely associated prior to joining Pick n Pay certainly were reason enough to raise an eyebrow or two at their appointment.

iii. Brand strategy and positioning

Shoprite's emphasis on low prices has always been clear. The 1987 annual report put this front and centre:

'The Shoprite chain of 31 supermarkets has, as its target market, the broad lower to middle income group. Its emphasis is on providing a range of food and non-food products at the lowest prices in the cleanest stores, on a cash and carry basis.'

Shoprite Holdings Limited Annual Report 1987

⁸ Pick n Pay Annual Report 2012

⁹ Pick n Pay Annual Report 2007

The acquisition of Checkers in the early 1990's precipitated a move into a higher income target market. But the group created a clear distinction between the Shoprite brand with its emphasis on low prices, and the Checkers brand, where quality was of greater significance.

'We believe the disparity between the highest and lowest LSM consumers in South Africa to be so large that their needs in terms of food retailing cannot be met through a single retail model. For this reason we operate three distinct formats in Shoprite, Checkers and Usave, and for each we have developed a different offering and supply chain to match the specific needs and aspirations of the target markets involved.'

Whitey Basson, Shoprite Holdings Limited Annual Report 2013

Pick n Pay adopted the concept of consumer sovereignty as the cornerstone of its business.¹⁰ This comes across as somewhat more nebulous than Shoprite's clear and simple low-price strategy. And Pick n Pay attempted to serve a very broad spectrum of customers with one brand. The quote below is from Richard Brasher's first report to shareholders after his appointment – incidentally, like the quote from Whitey Basson above, also published in 2013.

'Commentators on the retail sector often speculate on whether a business occupies the higher, middle or lower ground in their appeal to customers. This is a false debate. The key to success in retail – and the heart of any good business – is to appeal broadly, to exclude nobody, and to move hand-in-hand with customer needs and aspirations. I believe Pick n Pay, with its rich history of inclusiveness and its deep well of customer loyalty, is uniquely positioned to do this in South Africa.'

Richard Brasher, Pick n Pay Stores Limited Annual Report 2013

Whilst there certainly are examples of large retailers successfully serving customers across very broad income levels (Costco in the United States and Tesco in the United Kingdom come to mind), Shoprite's assessment of the right brand strategy for a food retailer in the South African context appears to have been more accurate than that of Pick n Pay.

iv. Cost structures

Food retail is a low margin business. The key to long term success is moving large volumes of goods from suppliers to customers as efficiently as possible. Keeping costs low is of existential importance. The three critical costs in the business are cost of goods, store costs, and employee costs. Historically

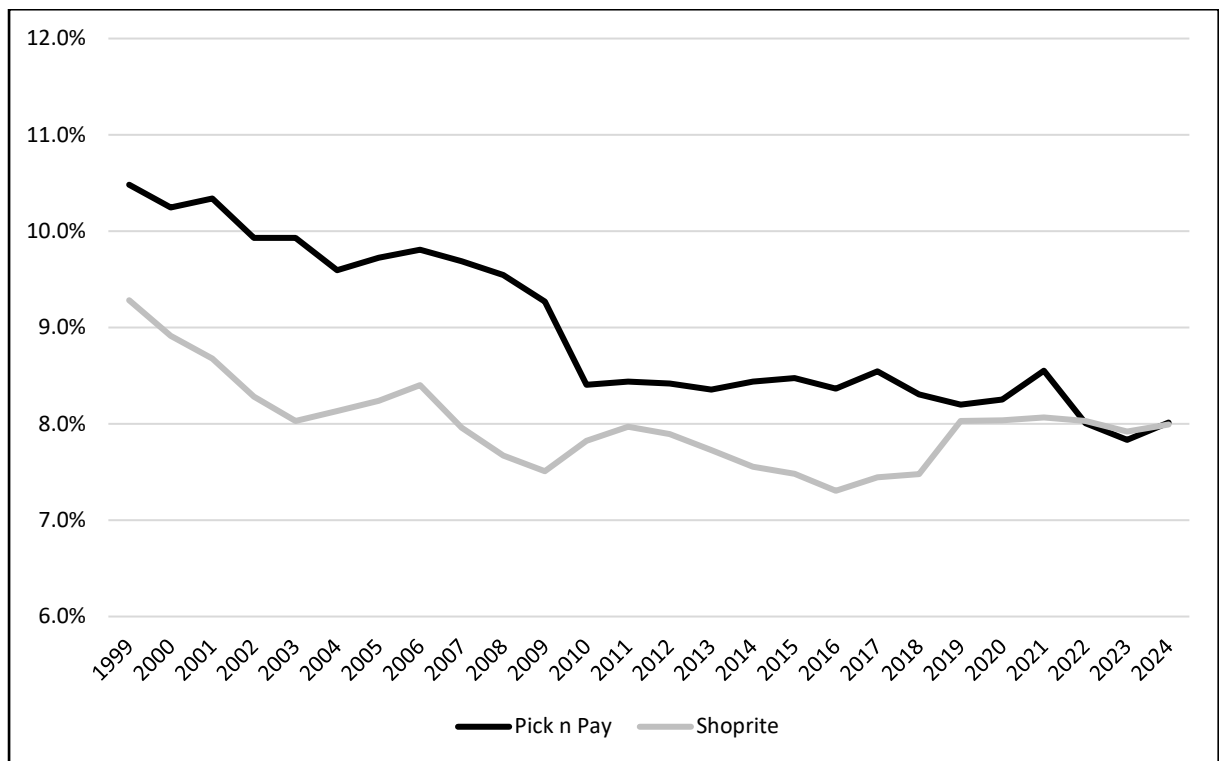
¹⁰ Pick n Pay Stores Limited Annual Report 1990

there appears to have been little distinction between Shoprite and Pick n Pay on the former two cost categories. But when it came to employees and employee costs, there has been a clear difference.

Pick n Pay always emphasised how well it looks after employees. This piece’s opening quote from the Pick n Pay Annual Report from 1990 illustrated the point. But the emphasis on paying and treating staff well did not have the expected outcome of exemplary labour relations for Pick n Pay. The company suffered as many (if not more) strike actions as Shoprite over time, including a particularly severe one in 1994.

Where Pick n Pay’s remuneration policy unfortunately did have the expected outcome was in its impact on the company’s cost structure. By 2011, average remuneration per employee for Pick n Pay was R120,000 per year, compared to R60,000 for Shoprite¹¹. During the 2000’s, employee costs as a percentage of revenue was about 1.5% higher for Pick n Pay than for Shoprite. In a business where operating profit margins hover between 2% and 5% for well run businesses, this difference is vast.

Chart 9: Employee cost as percentage of revenue



Source: LSEG, Rozendal Partners 17 January 2025

Whilst the chart above suggests that Pick n Pay has managed to address some of this employee cost discrepancy in recent years, it is worth keeping in mind that wholesaling to Pick n Pay franchisees is a far more material part of Pick n Pay’s business than it is for Shoprite. Wholesaling is far less labour

¹¹ Source: Avior Research November 2011

intensive than store-based retail. So even in recent years, when comparing Pick n Pay's corporate stores (i.e. excluding franchise operations) to Shoprite, Pick n Pay has still incurred a far higher employee cost ratio, and has generated far lower sales per employee, than Shoprite¹².

v. Capital allocation

When executed well, food retail is a famously capital light business. Customers pay in cash when a sale is made, and suppliers - with limited bargaining power against the behemoth of a customer that is a leading food retailer - extend generous payment terms. This means inventory is turned into cash before payment to suppliers is due. The result is fantastic cash generation. The matter of how to apply this cash then becomes of prime importance.

Shoprite historically chose to invest aggressively in expanding and improving its operations. It was an early mover into centralised distribution. It rolled out stores at pace and pursued aggressive growth in numerous African markets. These actions all required substantial investment – often in properties, when it wanted to expand in areas where there was not an established stock of rental properties from which it could operate its stores.

The push into Africa boosted growth in the 2010's but eventually ran into numerous macro-economic headwinds. This prompted a retreat from several of these markets. The objective stated in the 2003 Annual Report of achieving more than 50% of earnings outside of South Africa in the medium term was never close to being achieved.

The investment in centralised distribution and store expansion in South Africa paid off handsomely though. Greater efficiency in distribution allowed Shoprite to achieve exceptional profit margins while maintaining price leadership. Lower cost structures made more store locations viable which increased market share and scale, which in turn drove economies of scale even further. The lower returns on invested capital that came along with this capital-intensive growth strategy was a price well worth paying.

Pick n Pay on the other hand, was far less aggressive in its capital expenditure. Like Shoprite, the company ventured outside of its South African home market: after some early unsuccessful forays into the country, it acquired Franklins in Australia in 2001. As is so often the case, this was done when Pick n Pay was enjoying great success in its home market. It was also a time of great general negativity towards South Africa and emerging markets, and a dramatically weak Rand.

¹² Source: RMB Morgan Stanley 10 August 2021

'For many years, questions were asked of Pick 'n Pay's ability to grow strongly into the future, given our cash resources and no clear plans to utilise them for new business opportunities. Our philosophy always was that the time to make a significant local or overseas acquisition would be in one of strength and I certainly believe that our ability to absorb the start-up costs in Australia this year, and yet achieve the overall result for the year ended 28 February 2002, is a mark of enormous hard work and dedication from all parties concerned. We need to furthermore bear in mind that post our acquisition in Australia, the start-up costs that we have had to endure have increased in SA Rand terms by 50% purely on currency devaluation. This obviously counts strongly in our favour from an investment perspective and when we start to generate profits.

As is natural, our acquisition in Australia has raised many questions as to the prospects for success in the future. It is our considered opinion, that we have duly weighed up all of the risks and opportunities that present themselves in this new business venture. We are confident that the next 12 to 24 months will help us gain a working knowledge of the Australian market so that in the future there will be an ever-increasing portion of our earnings from offshore, through our Australian operation.'

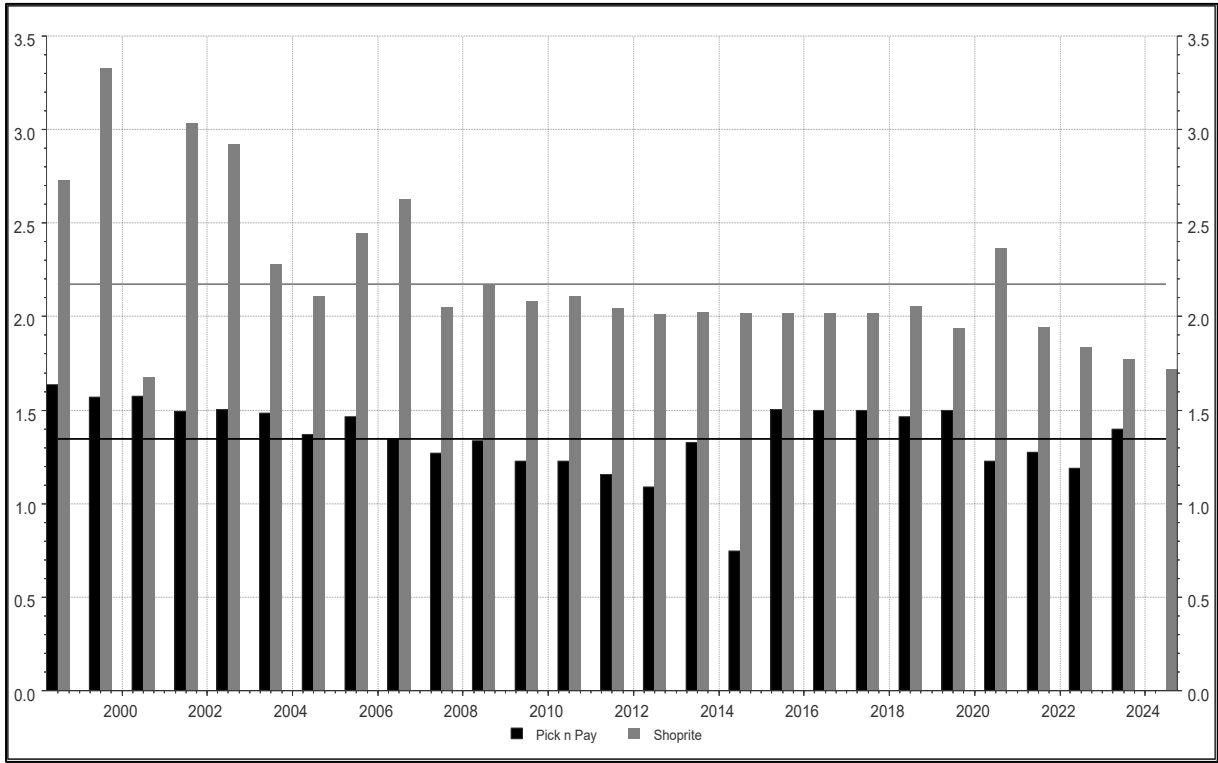
Sean Summers, Pick n Pay Stores Limited Annual Report 2002

Like Shoprite, Pick n Pay's offshore investments would prove a disappointment. The Australian business was sold for a modest amount of money in 2011.

However, shortly after the acquisition of Franklins, Pick n Pay had made a far smaller acquisition, this time in South Africa: Boxer. Boxer was a discounter focused on the lower income consumer. It would prove to be an inspired acquisition. Left to operate independently under a stable management team, Boxer delivered stellar results for the next twenty years. It grew into a hugely valuable asset for Pick n Pay. Without Boxer in its stable, it is questionable whether Pick n Pay would have been able to execute the capital restructure of 2024 or survive in its current form.

When it came to organic growth, instead of spending capital as aggressively as Shoprite, Pick n Pay chose to maintain a very generous dividend policy. From 1998 to 2024, Pick n Pay's average dividend cover was about 1.3 times. For Shoprite, it was more than two times.

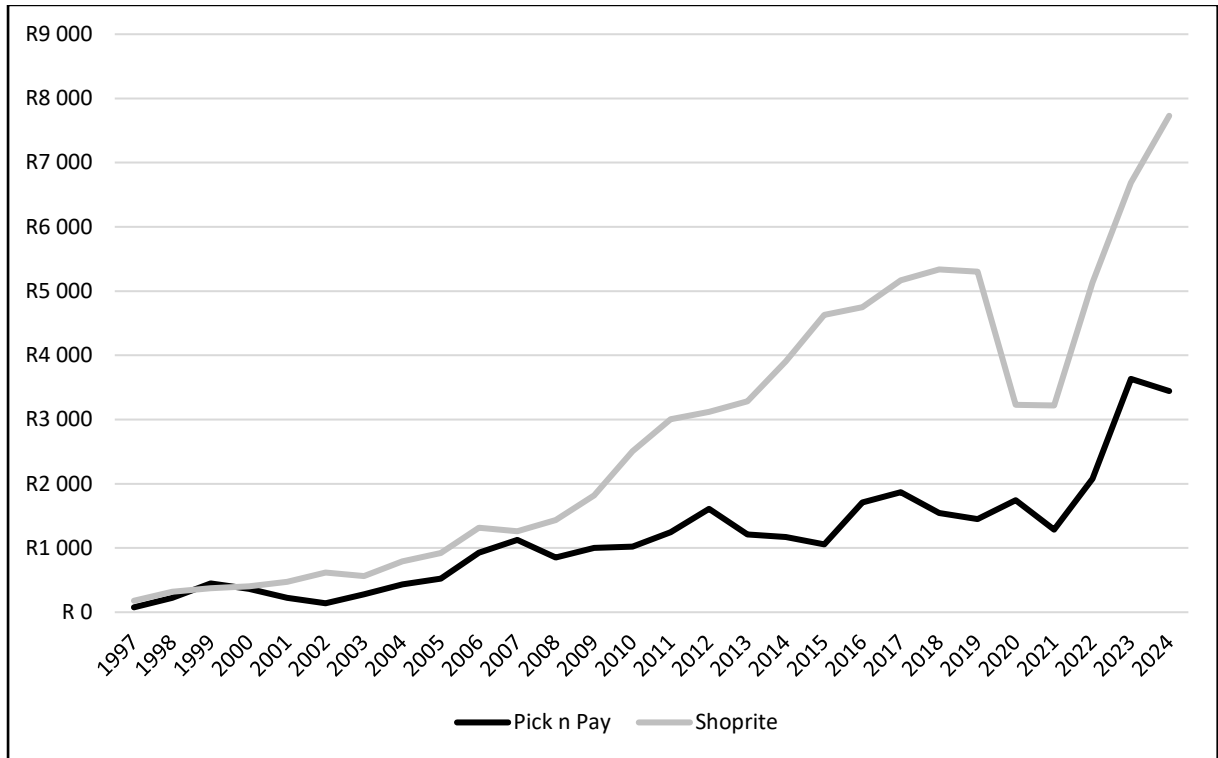
Chart 10: Pick n Pay vs Shoprite dividend cover 1998 - 2024



Source: LSEG Datastream 17 January 2025

Whereas the two companies incurred comparable amounts of capital expenditure per year in the late 1990's, Shoprite started to outspend Pick n Pay dramatically in the ensuing years – especially from the late 2000's onwards.

Chart 11: Capital expenditure (R'm)

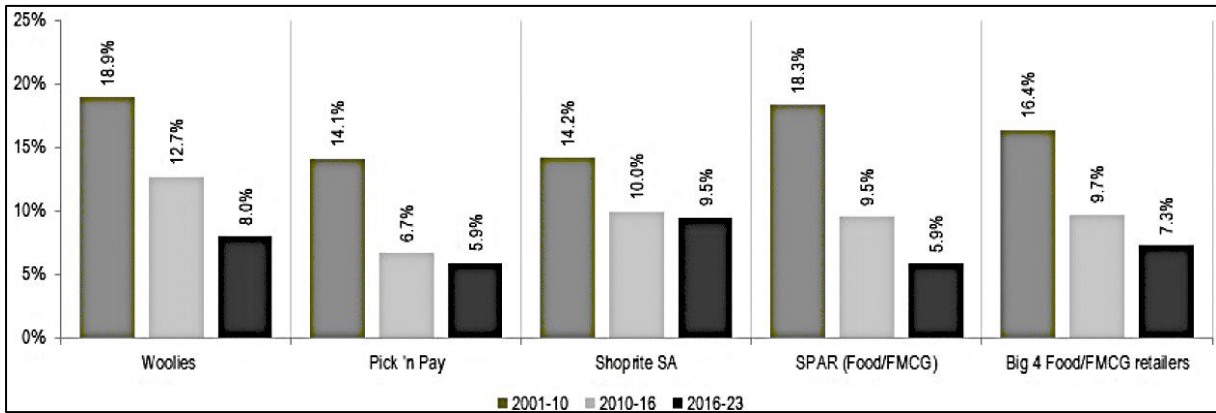


Source: LSEG Datastream 17 January 2025

vi. Sales growth and market share

For Pick n Pay, questionable governance and CEO appointments, a brand message lacking clarity, bloated cost structures which limited the company’s ability to compete on price, and insufficient investment in the core business all combined to create a group seemingly beset by sclerosis. Sales growth – both overall and on a same stores basis – lagged that of Shoprite.

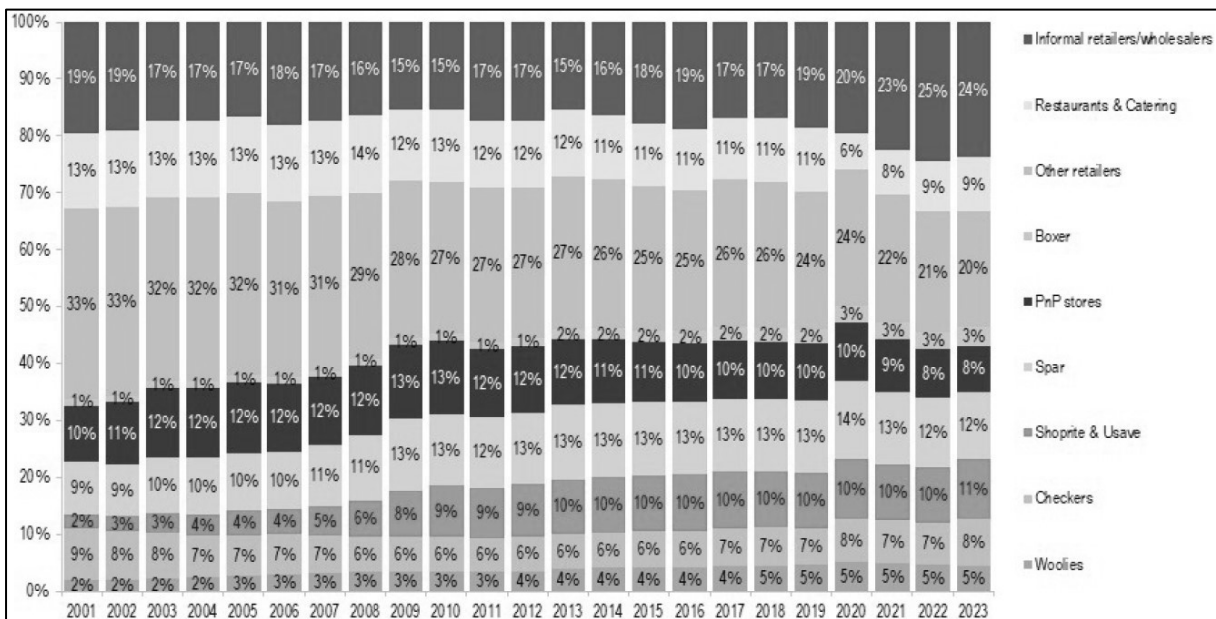
Chart 12: SA food retailers total sales growth 2001 - 2023



Source: RMB Morgan Stanley

Slow sales growth translates into a loss of market share – if not in absolute, then certainly in relative terms. From 2001 to 2023 market share of the group (Pick n Pay and Boxer combined) remained at 11% of the total South African food market, whereas the Shoprite group grew share from 11% to 19%. A loss of market share eventually diminishes the benefits of scale that a large food retailer depends on to generate the favourable economics associated with the business – though we don't think Pick n Pay ever reached a critical tipping point on this front.

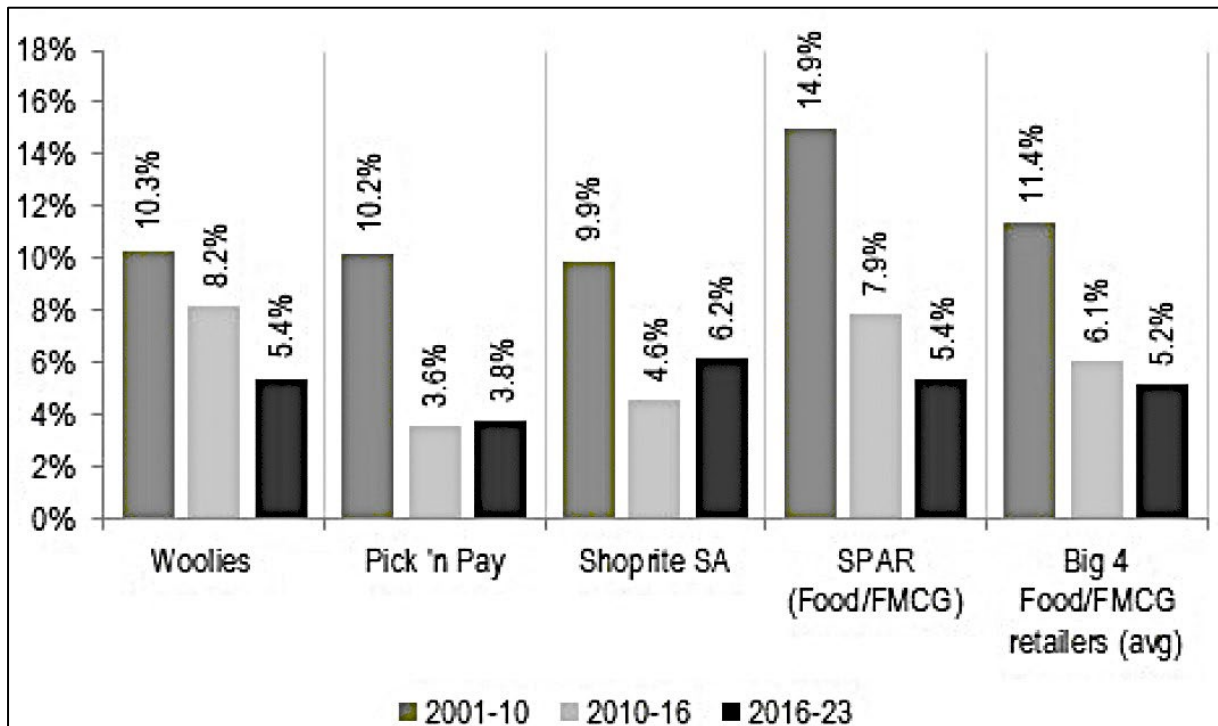
Chart 13: SA total food market share 2001 - 2023



Source: RMB Morgan Stanley

Weak same store sales growth can be particularly problematic in retail. A store’s costs (mainly rent and employee costs) typically increase at inflationary rates. If the store’s sales growth does not at least keep pace with inflation, profitability is increasingly under pressure. Inflation in South Africa averaged about 5% from 2010 to 2023. As Chart 14 shows, Pick n Pay’s same store sales lagged inflation for this period. The result was a corporate store base that eventually became loss-making.

Chart 14: SA food retailers same store sales growth 2001 - 2023

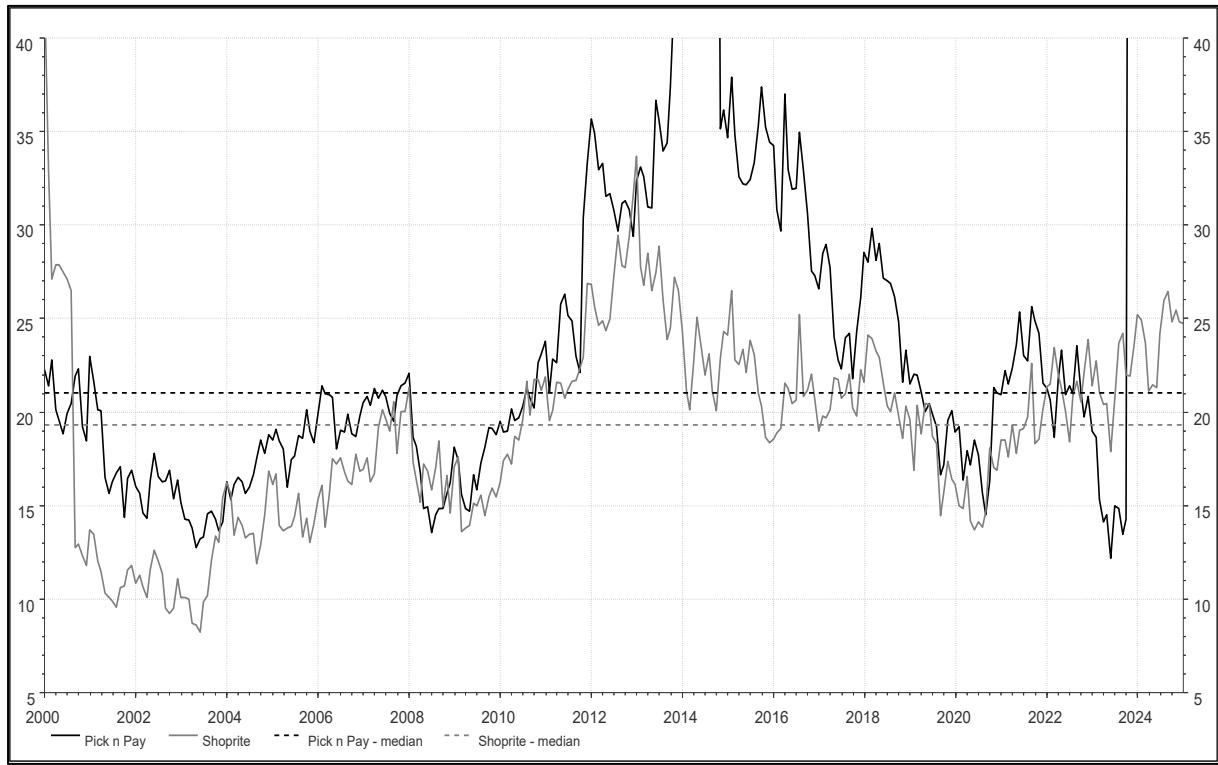


Source: RMB Morgan Stanley

c. Conclusion for investors

The characteristics of the two companies we discussed above were clear for all to see over the years. Shoprite was demonstrably delivering superior operational results than Pick n Pay. Ordinarily, this will be reflected in share prices. But surprisingly, this was not the case. Shoprite persistently traded at a modest price earnings ratio discount to Pick n Pay over the years.

Chart 15: Price earnings ratio history



Source: LSEG Datastream 17 January 2025

Why this apparent anomaly? In our opinion, the following are the most likely reasons for the market getting things so wrong.

- Pick n Pay was better at converting earnings into cash than Shoprite. This was mainly due to the less aggressive capital expenditure. All else being equal, better cash conversion does justify a higher earnings multiple for a share.
- The market liked the strong dividend payments from Pick n Pay. The adverse impact these were having on the long-term competitiveness of the business was only partially appreciated. In contrast to the price earnings ratio, Pick n Pay historically traded at a higher dividend yield than Shoprite – a reflection of the fact that the market did not consider the dividend streams from the two companies as having equal prospects of growing and/or being sustained.
- Shoprite reported very high operating profit margins from the mid-2000's onwards. There have been many examples of food retailers globally where such high profit margins proved unsustainable. There was likely some doubt in the minds of investors as to how sustainable these margins would be for Shoprite.



Rozendal funds have never had any exposure to either Shoprite or Pick n Pay. We have not been oblivious to the two companies over time, and in our investing careers there have been times when our clients did own shares of either Pick n Pay or Shoprite. As much as we appreciate the difficulty of business turnarounds (and Pick n Pay has been in perpetual turnaround for most of the past fifteen years), we were also hesitant to assume that Shoprite will manage to sustain its world leading profit margins. This limited the appeal of the company's shares. To Shoprite management's credit, those high profit margins have endured. We continue to follow both companies with interest and remain alert to investment opportunities that may arise in the shares of these two stalwarts of the South African economy.

E. Rozendal Partners Update

In a small firm like Rozendal Partners, it is a notable event when a new member joins the team. We had the pleasure of welcoming Jenna Bruton late last year. Jenna has a background in mathematics and joins us in a quantitative analysis/data science role. We are very excited to have her on board!

Our annual investor report backs will again take place in the first half of February. We have sent out communications in this regard separately, but if you are at all interested in joining either in person or online, do let us know by sending us an email at info@rozendal.com. We welcome all participants and look forward to engaging and informative sessions.

As always, if you have any questions, comments or concerns do reach out to us – we value every opportunity to interact with our fellow investors and those interested in what we do.

Yours sincerely,

Wilhelm

Paul

28 January 2025

Disclaimer: Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value may go up as well as down and past performance is not necessarily a guide to future performance. CISs are traded at the ruling price and can engage in scrip lending and borrowing. A schedule of fees, charges and maximum commissions is available on request from the Manager. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. There is no guarantee in respect of capital or returns in a portfolio. Performance has been calculated using net NAV to NAV numbers with income reinvested. The performance for each period shown reflects the return for investors who have been fully invested for that period. Individual investor



performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager on request. Annualised performance shows longer term performance rescaled to a 1-year period. Annualised performance is the average return per year over the period. Actual annual figures are available to the investor on request. Highest and lowest is returns for any 1 year over the period since inception have been shown. NAV is the net asset value represents the assets of a Fund less its liabilities. Prescient Management Company (RF) (Pty) Ltd is registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). For any additional information such as fund prices, fees, brochures, minimum disclosure documents and application forms please go to www.prescient.co.za.