Annual Partners Report

Providing a concise summary of 2020 is not easy, particularly as the challenges of COVID 19 are far from over. It is not my place to opine on how we have dealt with the pandemic, I will leave that to the experts, but the devastating effects of the global lockdowns will be felt for years to come.

Looking back to the start of 2020, this was how I ended our 2019 Annual Partners Report:

"*Whatever happens in 2020 and beyond, I remain confident that human nature will lead to incidents of excessive greed and fear, creating opportunity for those who have the temperament to take advantage of investor sentiment.*"

Since then, we have seen an extreme bout of fear and panic, followed by a very sharp upward reversal in both sentiment and asset prices. The fear of missing out grew as the year progressed, attracting hordes of new retail "investors", pushing valuations in some areas to extreme levels as they hop from one speculative trade to another. Whilst much of the world is in a state of near depression, in many areas global stock markets are as exuberant as any time in history. On most measures, US equities as an example, are now more expensive than they have ever been. Fear has quickly been replaced by greed.

Source: Strategas Securities – LLC

As expensive as US equities are, there are parts of the market that are much more extreme. The real hype is in new listings (IPO's), Special Purpose Acquisition Companies (SPAC's), work from home beneficiaries, cryptocurrencies and anything electric vehicle related. Despite the pandemic 2020 was the best year for IPO's in 21 years and margin debt used to buy equities is at an all-time high.

Against a backdrop of poor fundamentals, but very high asset prices that often do not make sense, what is a prudent investor to do?

At Baobab we continue to do what we always do. We patiently look for good investments at prices that do make sense and avoid areas where speculation is high. In a world where the misallocation of capital is at extremes, we continue to seek to partner with company owners of talent and integrity who we are confident will make sensible allocation decisions on our behalf.

We did not shoot the lights out during 2020, but we produced solid returns without taking on excessive risk. More importantly, our investment process and discipline held up well amidst an exceptionally challenging environment. Going into the year our global accounts held a reasonable amount of cash and portfolio hedges as we viewed markets as expensive. By February when the market peaked we had increased both our cash weighting and hedges, providing the dry powder to take advantage of the ensuing sell-off. While others were panicking in March, we were well prepared and able to put our cash to work at very attractive prices. We may not have bought some of the obvious COVID beneficiaries that others did, but we are very happy with the purchases we made during the depth of the crisis. We have written about many of these during the course of 2020, but have included a brief overview of some of our key purchases below.

Global Portfolio Purchases

Bollore

There is a detailed note on Bollore which can be accessed via the following link - (https://www.baobabim.com/wp-content/uploads/2020/03/The-Friday-Filter-A-free-ticket-to-the-Grammys-14.02.2020.pdf

While the share price has rallied from the lows of March, in our view it remains significantly undervalued and continues to show strong operational momentum. Having sold 10% of their crown jewel, Universal Music Group, to a Tencent-led consortium during 2020, they recently announced that the consortium would be exercising their option to purchase another 10%. While this provides a healthy cash injection for Vivendi (26% owned by Bollore), it reaffirms the value of UMG ahead of its proposed listing in 2022. The value within Bollore is partly hidden by a complicated ownership structure, but we think there is a very strong value underpin provided by some resilient businesses. Given the alignment and track record of management, we expect this value to be unlocked in the years ahead.

Exor

Fiat Chrysler Automobiles has been a very profitable investment for established portfolios, having first purchased it in 2015 prior to the unbundling of Ferrari. Given its gearing to the economy we sold our shares in February when we thought investors were underestimating the potential risks of the pandemic. Barely weeks later we started buying shares in Exor, the holding company of Fiat, Ferrari, Partner RE and a number of other portfolio companies. We view Exor as something of a European Berkshire Hathaway that we expect to be a core portfolio holding for many years to come. We rate Chairman John Elkann very highly and are excited to partner with him going forward. As I write this the merger between Fiat Chrysler and the PSA Group (Peugeot) has just been completed and the combined entity, Stellantis, will be listed in New York, Milan and Paris. With excellent management overseeing a strong portfolio of brands (Jeep, Ram, Peugeot, Citroen, Opel, Fiat, Alfa Romeo, Maserati, Chrysler), we think the new, combined entity is well placed to tackle a very challenging environment for automobile manufacturers. The merger will release some excess cash to Fiat shareholders which should enable Exor to continue to buy back their own shares at a healthy discount.

IAC Holdings/Interactive Corporation

Another key new purchase in 2020 was IAC Holdings which we discussed in a detailed note that can be accessed here - https://www.baobabim.com/wp-content/uploads/2021/01/The-Friday-Filter-Skin-in-the-Game-30.10.2020.pdf

Again, we are partnering with an excellent management team that are significant co-owners alongside us, this time in higher growth internet assets with long growth runways ahead of them. Late in the year management announced that they would be taking advantage of market enthusiasm to separately list Vimeo, the world's leading video software company. Vimeo has a growing community of over 200 million users and is currently showing year over year revenue growth of over 50%. Given the current growth trajectory of Vimeo, we think the timing is opportune. The market unsurprisingly welcomed this news.

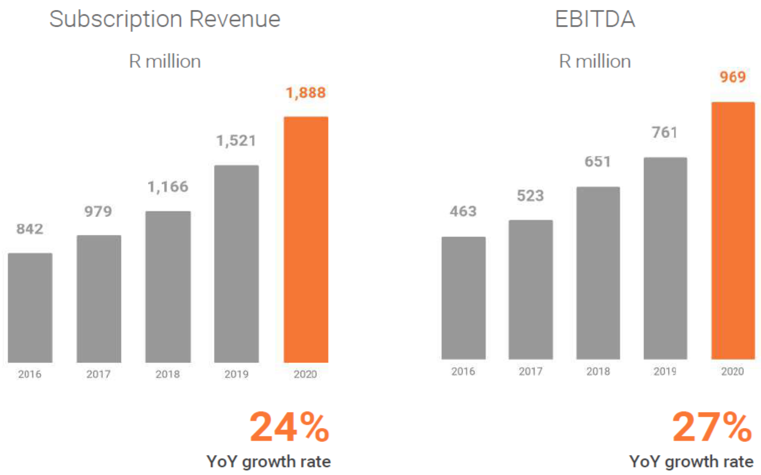
Rolls Royce

Rolls Royce started the year very well and before the onset of COVID their free cash flow generation was well on track and our investment thesis was starting to play out very nicely. By the time we realised just how badly their aerospace business would be affected by the pandemic, it was too late to sell the shares. Thankfully we were given an opportunity to recoup some of our losses via a heavily discounted rights offer where we were able to invest at 32c per share, a level we deemed very attractive. A few weeks later, with some good news on the vaccine front, the shares rallied to over 100c where we decided to take profit on some of the recently purchased shares and adjust our position size to the company's new reality.

Local Portfolio Purchases

Cartrack is a high quality South African company that we purchased where we could for domestic accounts in the middle of the year. While not that small a company, shares are difficult to buy given the very high level of insider ownership (nearly 80%). Cartrack is a global telematics company that provides fleet management solutions to owners of vehicles delivered as software-as-a-service. The company has shown very good subscriber growth which translates into strong growth in recurring revenue and free cash flow.

Cartrack – high quality recurring revenue growth and profitability



Source: Company website

The market has started to appreciate the quality of the business in recent months, especially after they announced their intention to move their main listing to the USA.

We also added to our positions in *Discovery* and *Hudaco* at exceptional prices and initiated new positions in *Remgro, Distell, Afrimat, AECI* and *Massmart.* We used our size advantage to continue to build positions in well run small-cap industrial companies that we think offer a generational buying opportunity for patient investors. Our holdings in this space include *Trellidor, RECM and Calibre, Bowler Metcalf, Grindrod, Grindrod Shipping, Master Drilling, Santova, Tongaat* and *Combined Motor Holdings*. The recent price action in many of these counters has been very encouraging, but in our view they all remain deeply undervalued.

2020 - A Year of Learning

While we are broadly pleased with the way our investment process held up during 2020, it was also a year of significant learning and opportunity to evolve and improve our investing framework.

PAR Technology was the best investment we made during the year, but it was also our biggest mistake. PAR has 3 businesses, a defense contracting business, a restaurant hardware business that supplies Point of Sale (POS) equipment to the likes of McDonalds, and a cloud-based restaurant software business called Brink. Of the 3 businesses, the restaurant software business is the best business and the focus of new management going forward. Our research concluded that at prices of $10-11 in March last year we were effectively getting the software business for free and we bought shares on that basis. Within a few weeks the price had rallied and between $20-30 our conviction in this new purchase was not as high and we started reducing our position. In local portfolios we exited completely. The shares continued to rally and were over $60 by the end of the year, where we sold a few more shares for global portfolios. Had we not sold any shares our 2020 returns would have been substantially higher. Given the bizarre year we have been through, we don't want to be too harsh on ourselves for taking profit too early, but selling early remains our biggest weakness and we have tweaked our process accordingly.

Our other key mistake in 2020 was not selling all of our portfolio hedges (inverse ETF's that go up when markets go down) on global accounts. While we did reduce them amidst the market sell-off, we were caught off-guard by the swift nature of the rebound given the prevailing risks and valuations. While we own these hedges for the right reasons (capital protection), we have reviewed how we deal with them within portfolios and have made some adjustments to our process to improve our management of these positions going forward.

In summary, we are very good at taking advantage of investor fear, but need to get better at making more from their greed!

Outlook for 2021 and Beyond

Our broad assumption is that the start of 2021 will remain extremely tough for most businesses, but are hopeful that if enough people are vaccinated, things may be a little more "normal" by the second half of the year. This should result in a reasonable recovery in earnings and cash flows during 2021 for many companies, and increasingly so as we head into 2022. The problem for investors is that most markets are already pricing in a "better than normal" outcome, leaving little room for error and no margin of safety.

Thankfully we do not buy markets, we buy businesses and always insist on a large margin of safety.

Even though broad markets are expensive, there are still pockets of value to be found. We continue to find mispriced securities of sound quality, run by talented and aligned management teams. We appreciate the benefits of passive investing, but remain optimistic about the opportunity for those who are willing to take a long-term, differentiated approach. We do not set out to be different, but we recognize that you need to be to produce superior long-term returns. At times like these we are very happy to look very different to the market and average equity portfolio.

Differentiated Portfolios – Top 10 Equity Holdings

Global Portfolios	Domestic Portfolios	Baobab SCI Flexible Fund
Exor	Bollore	Cartrack
Bollore	Exor	Bollore
Fairfax India	Cartrack	Trellidor
IAC/InterActiveCorp	Trellidor	Fairfax India
Cameco	Discovery	IAC/InterActiveCorp
CTT Coreios de Portugal	Cameco	Anglogold
Fairfax Africa	Massmart	Grindrod
Affiliated Managers Group	Remgro	Massmart
Barrick Gold	Fairfax India	Afrimat
Grindrod Shipping	HCI	Master Drilling

Our bespoke share portfolio offering now has a five year track record which we review on the following page. We are pleased with the results to date, but are even more optimistic about the future as even fewer investors are prepared to invest independently of the growing herd.

Given the current levels of speculation and short-termism, the following age-old saying is particularly apt. Proverbs 13:11

"Wealth gained quickly will dwindle away, but the one who gathers it little by little will become rich."

Thank you for trusting us to build your wealth slowly and methodically, one investment at a time.

All the best for a healthy 2021.

Kind regards

Sandy Le Roux

Baobab Managed Share Portfolio Offering - Performance overview to December 2020

South African Managed Share Portfolio

Despite no exposure to market heavyweight Naspers, our established domestic portfolios have significantly outperformed the market and average general equity fund over the past five years. This validates our stock selection process where avoiding some of the key market failures like Steinhoff and Sasol has been a significant contributor to returns. During the second half of 2020 we have seen a strong rebound in many of the small and mid-cap industrial shares that we have been accumulating at generationally low valuations. Notable contributors include Cartrack, Grindrod, Massmart and Bowler Metcalf, with HCI, Trellidor and Tongaat showing strong rebounds from very depressed levels. Whilst still early days we think this will be a key return differentiator going forward as even after the strong recent rallies the shares remain deeply undervalued and have very strong management teams.

We are disappointed not to have achieved our core absolute target of Inflation Plus 5% during this period, but given the poor backdrop for the South African market we are by and large pleased with the returns we have delivered. Given current valuations and apathy towards domestic equities, we think the outlook for the next five years is much more favourable.

Annualised Returns (Rand)	Baobab Domestic Portfolio	CPI+5%	Average General Equity Fund	JSE Allshare Index (Price)
1 Year	**3.35%**	8.30%	2.1%	4.07%
5 Years	**7.84%**	9.65%	3.1%	3.22%

Global Managed Share Portfolio

Over the past five years our returns have trailed the market and average global equity fund, but have surpassed our core absolute return target of 6% in USD after fees. Given the challenging backdrop for value-conscious investors we are very pleased with the results to date. Our stock selection has been very sound, but our risk aversion and taking profits too early has cost us in recent years.

After languishing during the middle of the year, many of our holdings appreciated strongly towards the end of the year. Outside of our core holdings in Exor, Bollore, Fairfax India and IAC Holdings, strong recent contributors include Par Technology, Cameco, Affiliated Managers and Helios Fairfax Partners (formerly Fairfax Africa). Earlier in the year we took profit on Lindblad Expeditions and Liberty Broadband as they reached our estimate of fair value.

Our expectation is that given current valuations, the next five years may be challenging for global stock markets. Against this backdrop we are optimistic about the outlook for our differentiated portfolio of companies on both an absolute and relative basis. We maintain a few portfolio hedges in case of accidents and would be surprised if there are not more buying opportunities down the road.

Annualised Returns (USD)	Baobab Global Portfolio	6% USD	Average Global Equity Fund	MSCI World Index (USD Price)
1 Year	**5.90%**	6.00%	14.4%	14.06%
5 Years	**7.76%**	6.00%	9.7%	10.10%

Note: The performance figures quoted are for a fully discretionary managed client and are net of fees. For domestic portfolios, asset swap is used for the offshore holdings. Because we construct each portfolio individually based on the opportunities available in the market, there will be some variation in returns across our accounts, particularly for newer accounts and those where we have inherited positions. While this can make communication about our portfolio difficult in the short-term, we believe that building portfolios in a bespoke and considered manner is in the best interests of our clients and a key differentiator of our offering.

DISCLAIMER