BAOBAB
INVESTMENT MANAGEMENT
AFRICAN ROOTS | GLOBAL PERSPECTIVE

Annual Partners Report

2021 was a good year for Baobab Portfolios as we saw continued gains from most of our portfolio companies. There is a more detailed performance overview at the end of the report which reflects an exceptional year for domestic portfolios and a solid year for global portfolios. Given that we apply the same investment process to domestic and global accounts, the gap between local and global returns in 2021 provides good insight as to the drivers of performance within the Baobab investment framework.

At the core of our investment framework and approach is a patient, business owner mentality. We think and invest like long-term business owners, seeking ownership stakes in great businesses run by honest and talented management teams who are large co-owners of the company. We look for resilient businesses that we understand, are difficult to replicate and have long growth runways ahead of them. When we find these businesses and are able to buy them at an attractive price, we think of them as long-term ownership stakes that we expect to hold for 5-7 years or more.

While long-term ownership of great businesses is our preferred route to superior returns, we are flexible in our approach, enabling us to take full advantage of our contrarian nature and the wild swings in investor sentiment. To this end we also invest in businesses of average to good quality, but where the mispricing is extreme and the return profile heavily skewed to the upside. We still look for businesses we understand and honest and capable management teams, but we think of these as investment stakes where our expected holding period is not as long and we would usually look to exit when the mispricing is removed.

Despite very stretched global markets we continue to find attractively priced, high-quality businesses and our global portfolios are heavily weighted towards long-term ownership stakes. Our local portfolios have a much larger weighting in mispriced investment stakes which experienced a much larger rerating in 2021, hence the large performance differential. Our local portfolios also have up to 30% invested offshore. While this was a drag on returns in 2021, we think it improves the quality and balance of portfolios and with it the long-term return profile.

Our global portfolios are more focused than they have been for some time with over 50% of the portfolio invested in six high conviction ownership stakes. Most of these are widely held across all Baobab portfolios and we have included a brief update and overview below.

Exor produced good returns during 2021 but in our view, remains underappreciated and undervalued. During 2021 the merger between Fiat Chrysler and Peugeot was completed and the strong portfolio of automobile brands now falls under Stellantis in which Exor is a pivotal shareholder. We believe the combined group under an outstanding management team is very well placed to manage a transforming automobile environment. A few weeks ago, Stellantis and Amazon announced that they will collaborate to develop cars and trucks with Amazon software in the dashboards, and deploy electric vans made by

Stellantis on Amazon's delivery network. This announcement went largely unnoticed by the market but is one of many smart partnerships that the company has entered into. The short clip below gives a brief look at some of the progress being made at Stellantis.

https://youtube.com/watch?v=Fn5zvfvTcIs&feature=share

Exor also agreed to the previously cancelled sale of reinsurer PartnerRe for $9 billion. The deal is expected to be completed in the middle of the year and will provide Exor with a significant cash pile to seek new acquisitions or buy back their own undervalued shares.

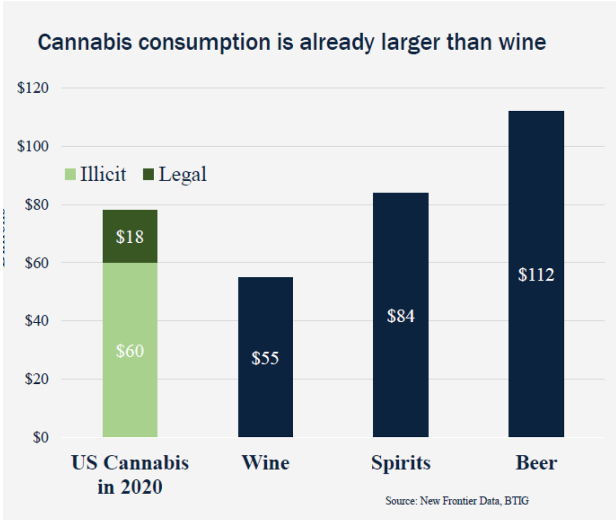
Bollore had a very good year and appreciated by just under 50%. It has become a very large position in portfolios, but our conviction is high, and the investment thesis continues to play out. The separate listing of Universal Music Group has been enormously value accretive and the Company recently received an offer for its African ports and logistics business at a very healthy valuation. The shares remain significantly undervalued and we think the UMG listing is just the first step towards value realization in the group.

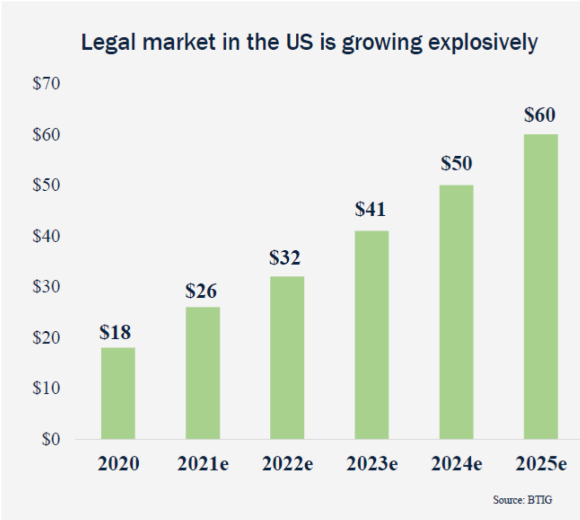
Fairfax India also had a good year and management continues to do sensible things, including the opportunistic repurchase of shares. While most investors continue to focus on China with numerous unquantifiable risks, we think the long-term opportunity in India is significant. Through Fairfax India we own a number of very good Indian assets at a healthy discount and in partnership with excellent management. Their largest investment is in the Bangalore International Airport, the fastest growing airport in the world. Fairfax India recently transferred their stake in the airport to a new entity, Anchorage Infrastructure Investment Holdings, that will house current and potential investments in the infrastructure sector in India. We would be surprised if this investment alone is not worth significantly more than the current share price in a couple of years' time.

IAC Holdings continued to execute under the leadership of Barry Diller and Joey Levin. Vimeo, the world's leading video software company, was listed during the year at a very healthy valuation. We thought the valuation was very generous and sold all of our shares in Vimeo with a view to reinvesting the proceeds back into IAC. Their digital media subsidiary, Dotdash, merged with Meredith to create the largest digital and print publisher in America. The combined entity has over 40 media brands, nearly 200 million monthly US visitors and reaches 95% of women in America. We do not ascribe much value to Turo, the world's largest car sharing marketplace in which IAC has a 25% stake. The Company recently filed to list during 2022, yet again highlighting the enormous optionality that exists within the IAC portfolio of media and internet assets.

Thunderbird Entertainment is a new position in an under the radar Canadian content provider. They develop and produce a diversified portfolio of animated, factual, and scripted content for all the major streaming platforms. It is a very similar thesis to our successful investment in 21st Century Fox where the value of the content was underappreciated until they were bought out by Disney. Netflix and Disney are great businesses, but this is well recognized. They, together with Amazon, Apple and many others continue to ramp up spend on content, a small amount of which goes to Thunderbird. We think of Thunderbird as a pick and shovel way to play the content boom. With a market capitalization of under $200 million and trading in Canada, it is uninvestable for most institutions, but right in the Baobab sweet spot. They have a very strong balance sheet, have a great product and excellent management who own 35% of the company. They have bold aspirations to become a major global studio, something that is certainly not reflected in the current share price.

Verano Holdings is a vertically integrated, multi-state cannabis operator in the USA. We think the opportunity in the US cannabis industry is unique and compelling and we have looked to build exposure to this fast-growing sector during the latter part of 2021. Demand for legal cannabis has grown rapidly and is expected to continue to do so.





Demand growth will come from new users and an ongoing shift from the illicit market to the legal market as more states open up in the years ahead. While legal in many states, cannabis is still illegal at a federal level. Because of this, large banks cannot do business with cannabis companies, they cannot list in the US and most custodians will not hold the shares. As a result, there is almost no institutional ownership and even we have found it difficult to buy shares and unfortunately some clients do not own Verano or any other Cannabis companies. Because of the restrictions the shares are owned by fickle retail investors who have become impatient with the regulatory progress, despite the very strong operational performance of the companies. Simply put, the shares are cheap because most investors can't own them. This is well illustrated by the fact that Canadian cannabis operators trade at much higher valuations, despite being of significantly lower quality than the US operators. A company like Verano is growing revenues at more than 50% per annum, generating very strong free cash flow and has outstanding owner-management, yet trades at a very low valuation. Like South African small capitalization stocks in 2020, we think this is a generational buying opportunity, but of much better quality and with a very long growth runway.

SA small capitalization shares

I have written extensively about this area of the market over the past few years as an area of opportunity and where Baobab is able to take advantage of its size and flexibility. This past year was a very good year for small caps and a key driver of local portfolio performance. Aveng and Grindrod Shipping produced spectacular returns during 2021, appreciating by a few hundred percent and growing into meaningful positions. While not as cheap as they were, both companies are well positioned to grow profitability and cash flows in the years ahead. Other companies that rerated significantly were Santova, Combined Motor Holdings, Hudaco and Master Drilling. Despite the rerating we expect this area to remain a meaningful portfolio differentiator going forward as valuations are still cheap and most of the companies have managed their way through Covid very well.

Atlas Mara is the most significant blemish on our 2021 scorecard. The African financial services business started the year at 30c, rallied to 60c but then fell sharply to end the year at 7c after the company announced its intention to delist the shares as it continued to pursue various strategic options. We added selectively to positions upon the delisting news as we do not think it alters the underlying investment thesis. The shares are now delisted, but we still think they offer significant optionality given the level of mispricing. Their major asset is a 48% stake in Union Bank of Nigeria who recently announced an agreement had been reached for the potential sale of the company. While the value of the transaction has not been disclosed yet, the quoted market capitalization of UBN is about $400 million. Comparing the value of Atlas Mara's stake to their own market capitalization of just $10 million gives some insight into the level of mispricing and optionality that still exists. We are happy to wait patiently as the company continues to divest from its portfolio of African financial services assets.

Outlook for 2022 and beyond

As we enter 2022 financial markets have moved on from Omicron and are squarely focused on inflation and the potential for higher interest rates. I am not an economist and do not have a particularly strong view on inflation, but I do think we are at a potentially interesting inflection point for markets. Broad markets remain near all-time highs, but have been supported by just a handful of very large companies. Beneath the surface there has been carnage in recent weeks with many hyped up growth stocks experiencing significant declines of 50% or more. I have no idea if this is a precursor of what may lie ahead, but I think the odds are high that the investment environment that lies ahead will be somewhat different to the recent past. What I do know is that very few investors are positioned for this and continue to look and invest in the same places.

Given this backdrop I am confident that unconstrained managers such as Baobab will be able to add significant value in the years ahead. Our size and flexibility are a significant advantage, both domestically and abroad, allowing us to fish in ponds where there is less competition. It also allows us to partner with some great management teams and owners. As we state in our Partners Manifesto:

We seek humility and integrity in all of our partners, especially the management teams we invest in. Cultural alignment is as important as financial alignment.

Thank you for your partnership and all the best for the year ahead.

Kind regards

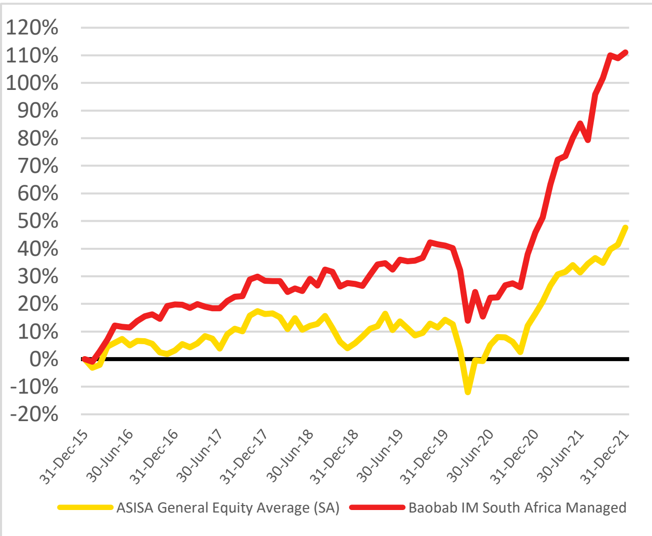
Sandy Le Roux

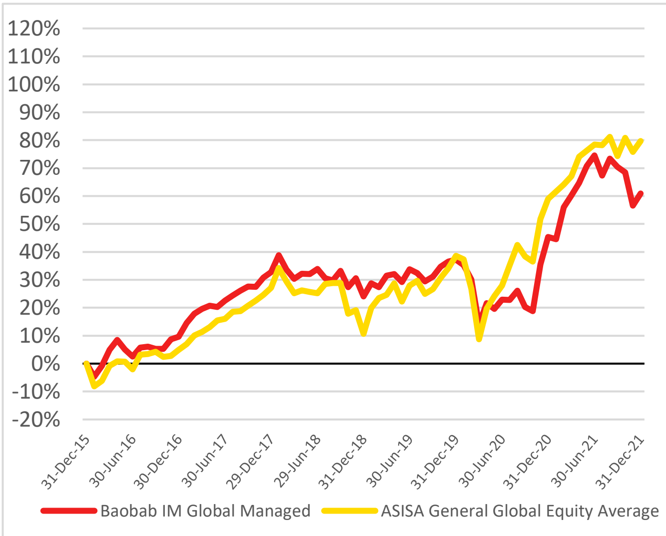
Performance overview and positioning 31 December 2021

Differentiated Portfolios – Top 10 Equity Holdings

Global Portfolios	**Domestic Portfolios**	**Baobab SCI Flexible Fund**
Bollore	Bollore	Aveng
Exor	Aveng	Bollore
Fairfax India	Grindrod Shipping	Master Drilling
Verano Holdings	Exor	Grindrod Shipping
CTT Correios de Portugal	Master Drilling	Grindrod
Grindrod Shipping	Fairfax India	Fairfax India
IAC Holdings	Grindrod	Anglogold
Advisorshares Pure US Cannabis	Anglogold	Verano Holdings
Thunderbird Entertainment	Trellidor Holdings	Trellidor Holdings
Brookfield Asset Management	HCI	IAC Holdings

	South African Managed Share Portfolio		**Global Managed Share Portfolio**	
	Annualised Returns in Rand (%)		**Annualised Returns in USD (%)**	
	Baobab Domestic Portfolio	**Average General Equity Fund**	**Baobab Global Portfolio**	**Average Global Equity Fund**
1 Year	**44.71**	26.71	**10.76**	13.09
5 Years	**11.98**	7.43	**7.98**	11.36
Since inception	**13.24**	6.70	**8.25**	10.25





The Baobab SCI Flexible Fund had a very good year, appreciating by 37.6%. Click on the link below for the latest Minimum Disclosure Document.
https://www.baobabim.com/wp-content/uploads/2022/01/SI_Baobab-SCI-Flexible-Fund-Dec21.pdf

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. All periods longer than a year are annualized. Inception 1 January 2016.

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