BAOBAB
INVESTMENT MANAGEMENT
AFRICAN ROOTS | GLOBAL PERSPECTIVE

Annual Partners Report

2022 was a very challenging year for global financial markets, particularly international markets that experienced very large drawdowns. Amidst a challenging backdrop it was by and large a good year for the companies we own, most of whom made strong operational progress during the year. The market rewarded this progress in some cases, but not in others, producing mixed results for Baobab portfolios. Our thinking and approach have not changed during the course of the year, with most of the same core positions featuring across portfolios, together with a couple of new ideas uncovered amidst the ongoing market uncertainty.

We expect markets to have further ups and downs as they adjust to what is likely to remain a challenging macro environment, but we are excited about the expanding opportunity set that this is providing for value orientated investors such as ourselves.

Hidden value and optionality

We like to invest in situations where there are assets or companies whose value or quality is hidden within a holding company structure and as a result ascribed little or no value by the market. Hosken Consolidated Investments (HCI) is a good example of this. We purchased shares in HCI because we thought the market was undervaluing their hospitality and gaming assets (Tsogo and Southern Sun), whilst assigning no value to their significant non-core assets, one of which was a stake in a privately owned oil and gas exploration company, Impact Oil and Gas. Last year Impact Oil and Gas announced very positive drilling results from an oilfield off the coast of Namibia and the market was very quick to reprice the shares of HCI significantly higher. We did not know if or when HCI would realise any value from this investment, but because we were not paying anything for it, it provided us with free optionality and an enhanced return profile.

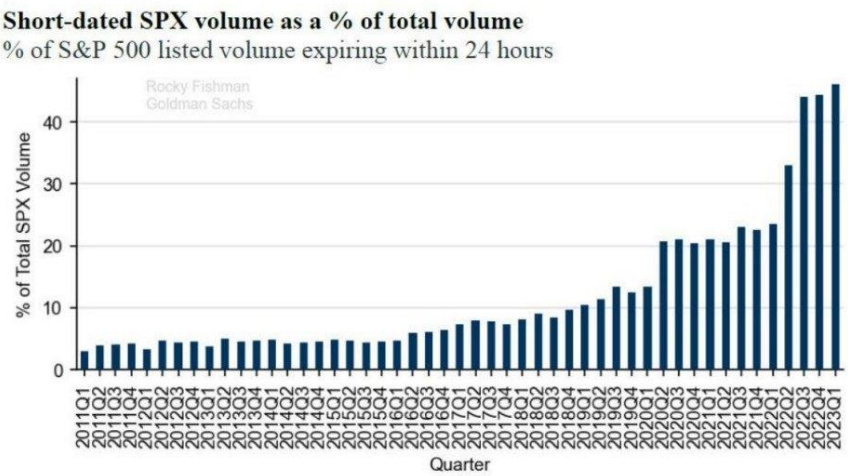
There is significant hidden value and optionality within our portfolios, particularly in offshore companies such as Bollore, Exor, Fairfax India, CTT Correios de Portugal, IAC and IDT Corporation. Bollore and Exor both sold significant assets during the year, providing their excellent, aligned management teams with sizeable cash balances to help create value for shareholders. In all of these companies, management are taking advantage of market conditions to repurchase their own shares at a significant discount, thereby increasing our ownership stake in them. Investing alongside aligned owner-operators with skin in the game helps us sleep at night knowing how hard they are working to unlock value for shareholders.

Scarcity

Easy money for an extended period has resulted in significant excess and misallocation of capital towards unproductive and in many cases, speculative areas of the "new economy". Unfortunately, there has not been as much investment in the old economy, creating scarcity and shortages in many things that are vital to keep the global economic engine moving forward. At Baobab we like to invest in areas where there is a scarcity factor, even if it is in a product or service that is cyclical and unsexy. Our recently completed investment journey in Grindrod Shipping is a good example that had a very favourable outcome. If Forbes had a list of the sexiest industries to invest in, shipping would not appear on the front page given its cyclical nature and boom/bust history. This history, plus ongoing regulatory uncertainty, has dramatically reduced the incentive or ability to build new ships to replace an aging global fleet. This created a potential supply and demand imbalance when things started to normalize after Covid and played into the hands of owners of modern ships such as Grindrod, significantly enhancing their balance sheets and cash flows. This was recognized by industry participants and Grindrod Shipping was subject to a corporate takeover late in the year at close to 10 times the last price we paid for our shares during the Covid lows.

While this may be an extreme example, there are similar setups of constrained supply in many cyclical areas today. The energy complex is one example where we think owners of the right assets may benefit in the years ahead as the supply of resources like oil and gas, copper and uranium may not be sufficient to meet the growing and changing energy demands of the world. We have been using periods of cyclical weakness in this area to build modest positions in several companies that we think are very mispriced given their earnings and cash flow profiles.

Something else that is extremely scarce today is patience and long-term thinking amongst investors. We live in a world dominated by short-term thinking which very often leads to poor decision making. Investment markets are dominated by short-term traders who spend most of their time waiting for Elon Musk to tweet something or guessing what the Federal Reserve may or may not do next. The chart below shows the level of "investing" in the US market based on what might happen to shares in the next 24 hours.



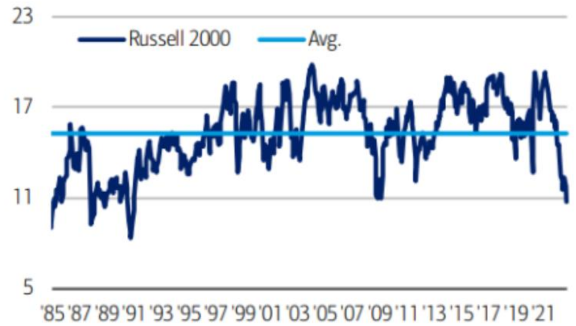
This gambling mentality is pervasive and worrying, but is likely to remain a source of opportunity and competitive advantage for those with a longer investment time horizon.

Small capitalization shares

Our sweet spot and investment edge lies in smaller, off the beaten path companies that larger institutions are unable to invest in. We continue to benefit from the exceptional opportunity within smaller South African companies, with strong recent contributions from HCI, Grindrod, Santova, Master Drilling and Grindrod Shipping. Despite the significant gains, we still think this area of the market offers exceptional value and we continue to find and add to new ideas.

What really excites us is the growing opportunity in this area internationally. Even in the USA, which remains an expensive market, smaller companies trade at a significant valuation discount, creating opportunity for those prepared to look outside of the widely held megacap companies. While broad markets remain historically expensive, there are plenty of cheap companies out there for those prepared to dig a little deeper.

Chart 1: Small cap forward P/E well below the long-term average
Russell 2000 Forward P/E, 1985-9/30/2022



Source: BofA US Equity & Quant Strategy, FactSet
BofA GLOBAL RESEARCH

Our investment in a basket of US cannabis shares/ETF had a terrible 2022 as frustrated retail investors gave up on a sector hamstrung by the slow pace of reform. This ended up being the difference between a good and an average relative year for global portfolios that hold the shares. I will be sending out a separate note to clients with exposure to the sector.

Summary and outlook

Our local portfolios have done very well and we remain excited about the opportunity set, particularly in smaller companies that fall outside of the investment universe of large institutions. Our global portfolios have not delivered the returns we would expect, despite our lack of exposure to the more speculative areas of the market that came unstuck in 2022. In our view this has only improved the long-term prospects for a number of global companies that we own or are busy researching. We are working hard to take advantage of this amidst the challenging macro backdrop.

As patient, value orientated investors we are excited about the long-term prospects for the collection of businesses we own.

Kind regards

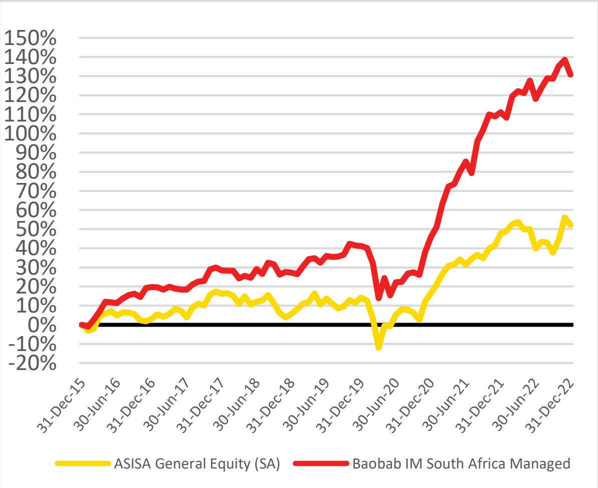
Sandy Le Roux

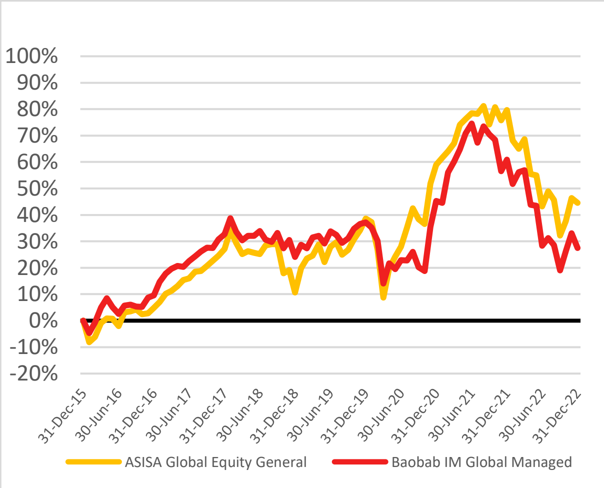
Performance overview and positioning 31 December 2022

Differentiated Portfolios – Top 10 Equity Holdings

Global Portfolios	Domestic Portfolios	Baobab SCI Flexible Fund
Bollore	Grindrod	Bollore
Exor	Bollore	Grindrod
Fairfax India Holdings	HCI	HCI
Thunderbird Entertainment	Master Drilling	Master Drilling
CTT – Correios De Portugal	RAC prefs	Thunderbird Entertainment
IDT Corp	AECI	Aveng
Barrick Gold	Exor	AECI
IAC Inc	Aveng	IDT Corp
Advisorshares Cannabis ETF	Fairfax India Holdings	Raubex
Teck Resources	Anglogold	Fairfax India 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	**9.33**	3.12	**-20.79**	-19.52
3 Years	**17.81**	10.02	**-2.42**	1.43
5 Years	**12.44**	5.53	**-0.80**	2.61
Since inception	**12.68**	6.18	**3.53**	5.41





The Baobab SCI Flexible Fund had a good year, appreciating by 6.96%. Click on the link below for the latest Minimum Disclosure Document.
https://www.baobabim.com/wp-content/uploads/2023/01/SI_Baobab-SCI-Flexible-Fund-31-December-2022.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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