BAOBAB
INVESTMENT MANAGEMENT
AFRICAN ROOTS | GLOBAL PERSPECTIVE

Annual Partners Report

The purpose of this report is to provide greater insight into how we invest and why we own the things we do. While we provide ad-hoc commentaries and updates throughout the year, this is a formal review where we try to frame our views and expectations for the Baobab portfolios and companies that we own. It is important to stress that this is not an exercise to predict what will happen in 2025 but rather to elaborate on how we expect to produce above-average returns over a multi-year period.

Looking back at 2024 our investment results were mixed. Domestic returns were very good and offshore returns were poor.

The reason our domestic portfolios, unit trust and Equity AMC (Actively Managed Certificate) have done well is largely on the back of our taking advantage of bouts of fear in the South African equity market. When combined with our ability and willingness to invest in small, under-the-radar companies, the result has been a very good one. We bought solid companies that were severely mispriced, and our opportunism has been well rewarded. We were not taking a bet that South Africa would experience a miraculous recovery, just that the worst case was already priced into many domestic assets, creating a very asymmetric return profile. The investment thesis didn't require a detailed excel model or team of analysts, but a strong stomach together with a contrarian and balanced view of the potential outcomes.

A strong stomach and ability to take advantage of investor fear and panic is one of our key strengths and competitive advantages. This is well illustrated by the long-term track record of our flagship offering, the **Baobab SCI Flexible Fund**. The Fund represents a combination of our best local and global ideas and has delivered above average returns over all meaningful time periods.

Baobab SCI Flexible Fund – Link to latest factsheet

The **Baobab Equity AMC** is in the process of building a track record but has had a solid start. We are very excited about this offering that houses the best investment ideas of two boutique managers, Baobab and Andrew Vintcent of ClucasGray.

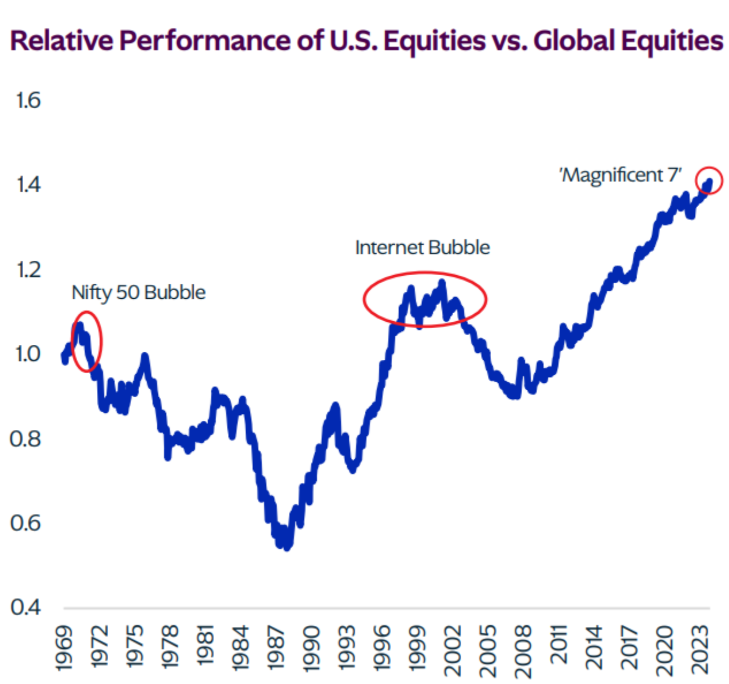
On the left is a picture of Andrew and I celebrating the first anniversary of the AMC, plus one of the two of us on Wall Street back in 1997. This unique offering has been a long time in the making!

Baobab Equity AMC – Link to latest factsheet

While our opportunism in the local market has been well rewarded, this has not been the case offshore. Despite numerous false starts, our global portfolio of companies has delivered very frustrating returns. In 2024 we started the year well, only to fade in the last few months. While we have made a few mistakes, particularly in respect of position sizing and timing, the most significant detractor from global returns has been the fact that there has been so much complacency and momentum chasing in international markets. This has provided us with less opportunity to take advantage of widespread investor fear.

Despite increasing levels of speculation and greed, we are starting to find more pockets of opportunity offshore. The pervasive narrative of US exceptionalism has sucked in capital from everywhere else, providing an increasingly attractive entry point for opportunistic, contrarian investors who are prepared to venture into uncrowded areas.

Large cap US Equity – the only game in town

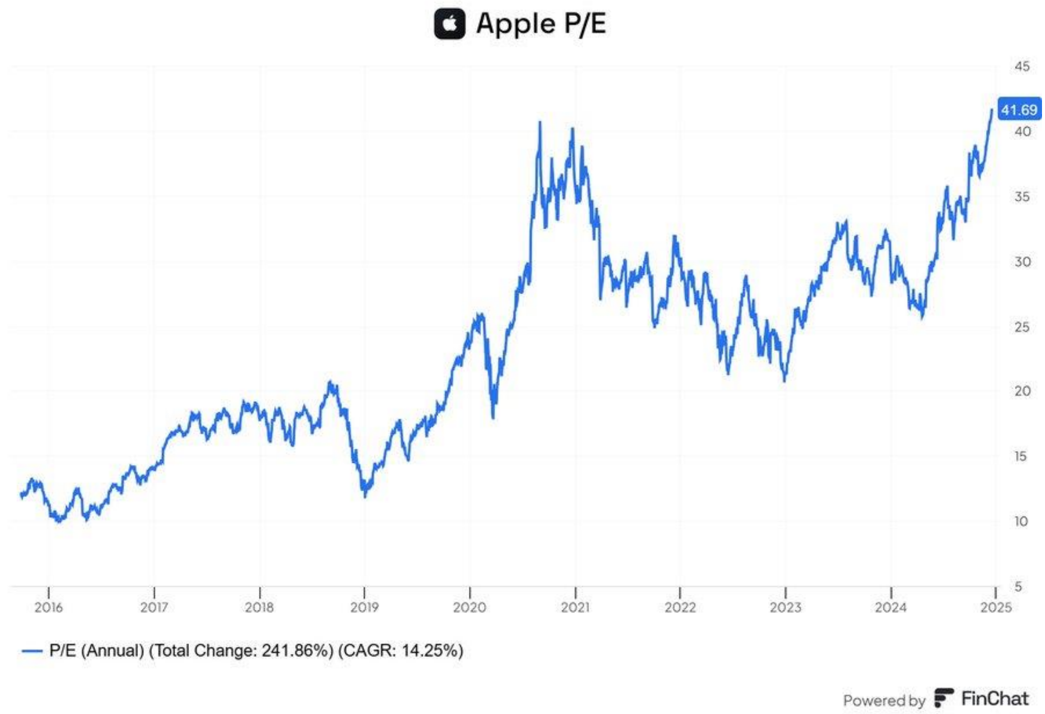


Data as at November 15, 2024. Source: MSCI, Bloomberg.

I alluded to the fact that a strong stomach is a key strength and competitive advantage of ours. At the moment it takes a strong stomach not to follow the crowd and buy very expensive large cap US shares. It takes an even stronger stomach to buy what they are selling and is deemed to be "uninvestable". This is exactly what we are doing and is not dissimilar to buying South African shares during 2024 when they were deemed "uninvestable" by so many.

We may be out of sync with the current international market environment, but our disciplined process insists on investing in undervalued securities and buying on our terms. Changing our approach and paying up for what are very overvalued companies is just not in our DNA. We accept that these are some of the best companies in history, but they are priced for perfection and trade at valuations we cannot justify.

Apple for example, is a great company and the largest constituent of the US market. It is widely held and every day passive investors are forced buyers, driving the price up even though it is showing little or no growth in revenue and earnings. Given that it is hardly growing (2% revenue growth over past 3 years), it is difficult to argue that it warrants a PE ratio of 40. Warren Buffett seems to agree and has been a significant seller whilst every passive, index conscious or momentum chasing investor continues to buy. In my view Apple could lose 50% of its value and still not be cheap and is a good illustration of the market's disconnect from fundamentals, providing investors with little margin of safety or downside protection.



At the same time there are so many good companies that are extremely cheap because they are being ignored, or sold, by the same pool of investors. In most cases the main reason for them being out of favour has little to do with their underlying quality or fundamentals, but rather the fact that they are not part of an index or are part of an index in the wrong jurisdiction.

This backdrop is no different to when I reported a year ago, it has just become more extreme. As frustrated as we are with the poor returns we have generated offshore, we are increasingly energized by the growing opportunity set and have become more active offshore in recent weeks.

Here is an overview of the global opportunity set as we see it.

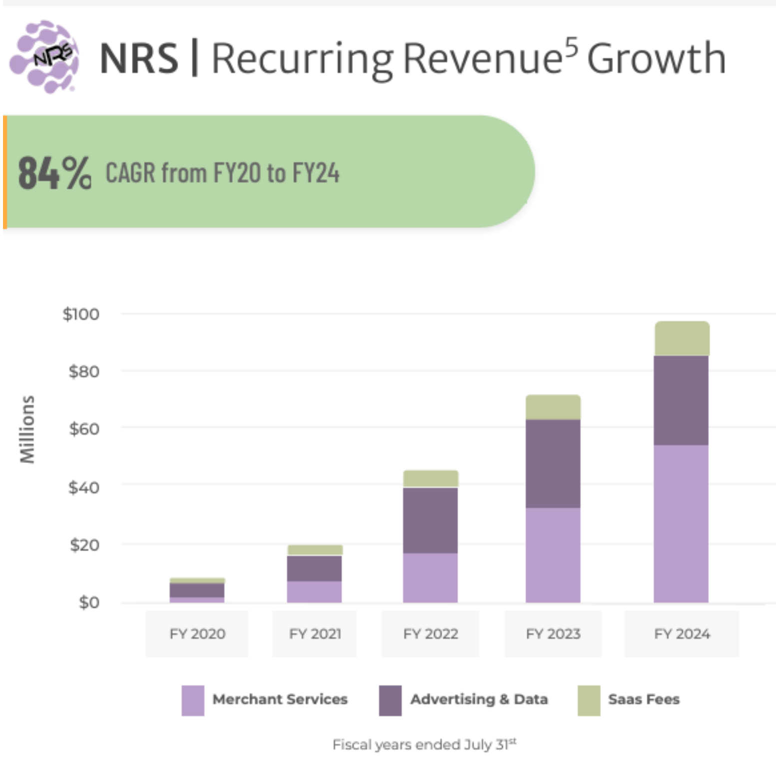
Europe

Europe remains heavily out of favour with investors and for good reason. Despite the lack of economic progress, we are able to invest in global companies that are punished for non-fundamental reasons. A very prominent US investor is busy pushing for Universal Music Group (UMG) to be listed in the US to attract a higher valuation. We own UMG via Bollore and Vivendi, both of which trade at a very large discount to the value of their underlying assets. Despite continued, smart capital allocation a company like Bollore produced little price appreciation over the past year. It now has cash on the balance sheet that equates to the current share price, a stake in UMG that also equates to the current share price, plus a number of other non-core assets. As the keyboard investors in London and New York sell French equities to buy US equities, we are comforted by the fact that management continue to buy back more discounted shares, thereby increasing our ownership stake in the company. Given the large discount, quality of assets and cash balance, an investment in Bollore has a large margin of safety and significant downside protection.

Small and mid cap shares

Small cap shares currently trade at a discount everywhere and we have taken advantage of our size to invest opportunistically in this area. We have had a lot of success in South African small caps and continue to see select value in companies that are too small for large institutions. In the US we have exposure to two high quality holding companies in IAC (largest owner of MGM Resorts) and IDT (owner of a number of fast growing Fintech businesses, of which NRS is the most valuable - see chart on next page).

NRS – a hidden gem within IDT Corporation



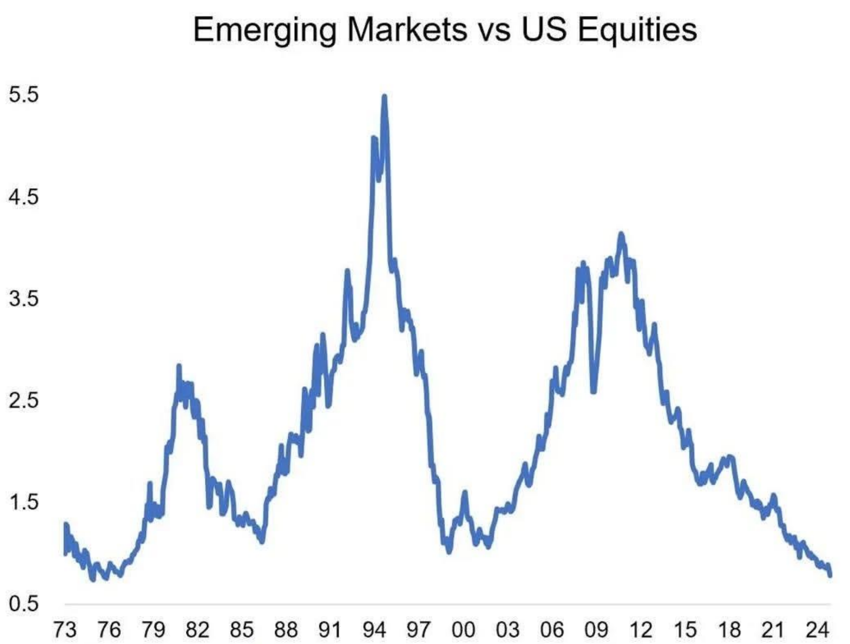
In Canada we own Fairfax India (discounted exposure to a portfolio of Indian assets including India's fastest growing airport in Bangalore), Aimia and a very well-run Californian cannabis operator in Glass House Brands. Portuguese small cap CTT performed very well in 2024 on the back of excellent operational progress as it continues to gain market share and grow in the fledgling Iberian e-commerce market.

These companies may not be on the radar of passive or institutional investors, but they house some exceptional, fast-growing companies that we are excited to be part owners of.

Emerging markets trade at an enormous discount to US equities and have suffered from ongoing outflows. (See chart on right.)

Within this space we still like South African equities but have started to take advantage of some extreme mispricing in Brazil and Hong Kong. We have also initiated a position in African telecoms and mobile money provider Airtel Africa at what we deem to be a very attractive price.

The company has a long growth runway ahead of it as data customer penetration is still low and mobile money is becoming the currency of



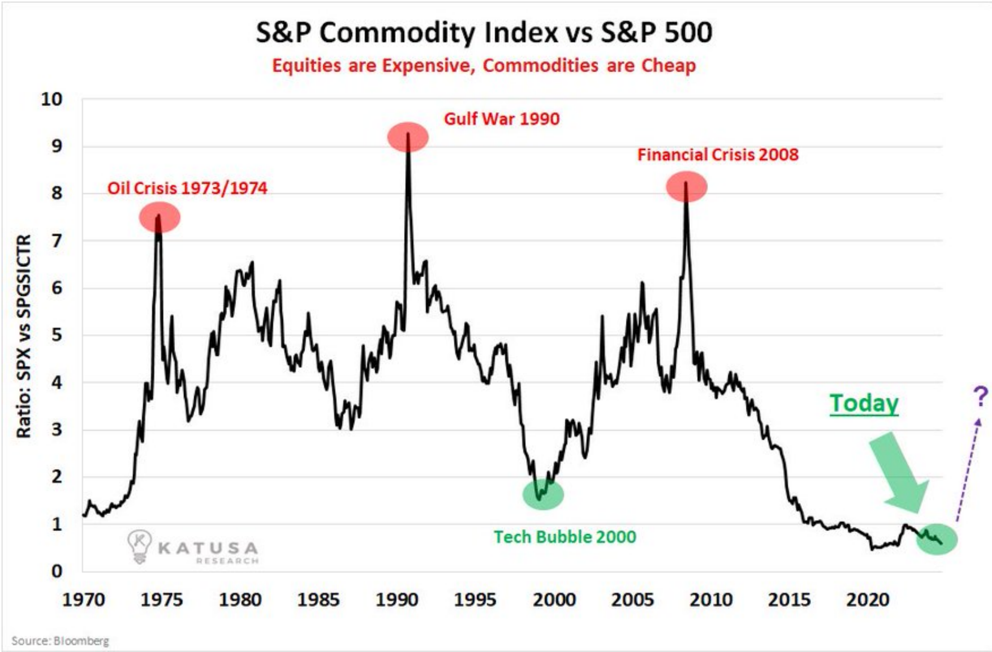
Source: Topdown Charts, LSEG

Emerging Markets in US$ terms: MSCI EM back to 1987, Topdown Charts workings prior.

choice in many African markets. The proposed listing of their fast-growing mobile money business provides both downside protection and upside optionality. Africa sits right near the top of the "uninvestable" leaderboard, but we are not sure this is permanent.

Mining and resource companies

It has been a tough period for most commodity companies that have had to face the combined headwinds of a strong dollar and weak Chinese growth. Like most asset classes they trade at all-time lows when compared to US equities.



The investment community is completely focused on anything AI related. An enormous amount of capital is being invested in this and other technologies, with little investment being made in the resources needed to provide the power and energy that they will require. If you add in the growing demand and energy needs of emerging countries, we think future supply of many basic resources could be constrained, providing a constructive long-term outlook for a very under owned sector of the market. We have been investing opportunistically in a basket of companies providing exposure to uranium, copper, coal and the oil and gas sector. Together with some gold exposure this basket provides cheap inflation protection and strong potential shareholder returns through ongoing buybacks and dividends. Commodity companies are not good businesses, but years of underinvestment and improved capital allocation could lead to vastly improved cash flow generation in the years ahead i.e. they may prove to be better businesses than most assume.

SA Equity

We have trimmed our exposure a little after a very strong run but remain very constructive about the long-term opportunity set for our local portfolio companies. There is definitely a renewed sense of optimism which should help drive investment and in turn lead to improved earnings growth. We continue to find small and mid-caps particularly attractive where there are plenty of well managed domestic businesses trading at discounted valuations. Some of the easy money has been made in local equities, but we think we are still early in the multi-year opportunity for this under owned asset class.

Summary and outlook

We live in a world where valuation plays no part in the decision-making process for the vast majority of global investors who simply buy at any price. As challenging as this is in the short-term it creates wonderful opportunity for the patient investor. Given some of the changes in the world it is very likely that we will experience increased levels of volatility at some stage in the future. This will scare many, but not those who have a real understanding of what they own and what it is worth. As fundamental, price-conscious investors we are cautiously optimistic about the investment landscape and growing opportunity set.

Baobab is a true investment partnership and we are aligned in our joint ownership of a very differentiated group of businesses.

As always, thank you for your ongoing trust and partnership. Our business could not exist without a wonderful group of like-minded, long-term investors who place their confidence in us. As we enter 2025 I am more passionate about the craft of investing than ever and committed to achieving our shared long-term return objectives.

Your investment partner

Sandy Le Roux

DISCLAIMER