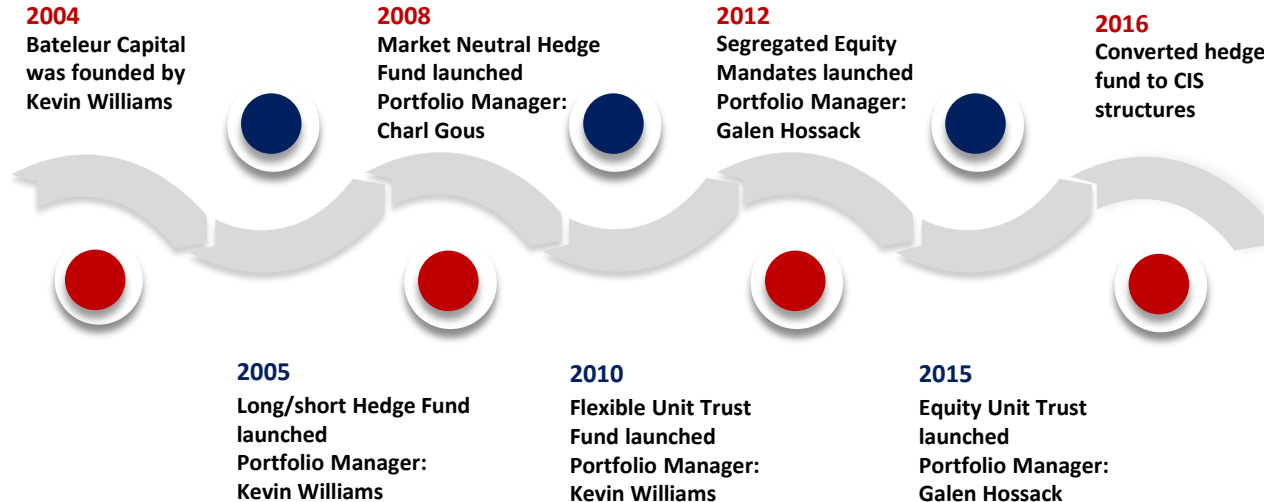


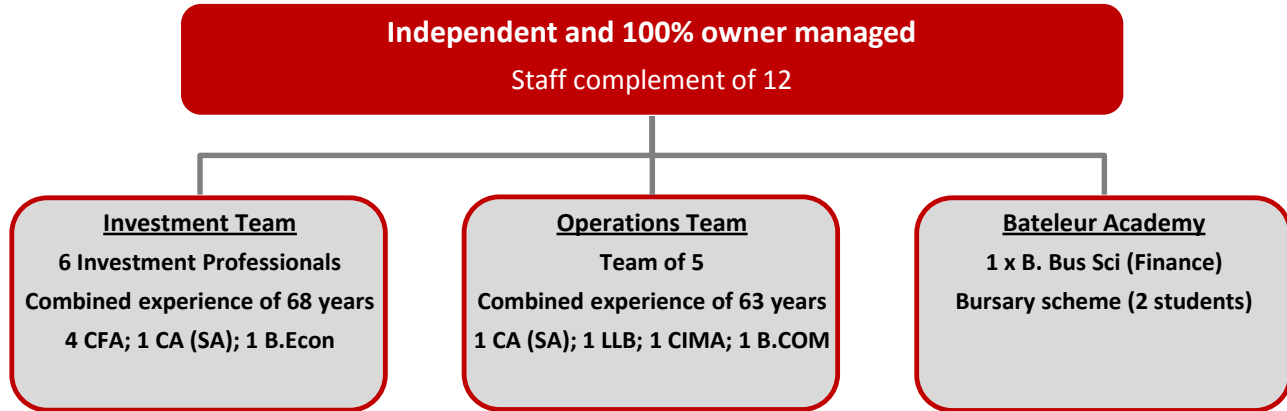


Bateleur Capital  
Presentation to the Senate Group  
March 2017





- Company founded as a hedge fund management company
- Strong focus on capital preservation
- Apply a consistent investment process across all funds

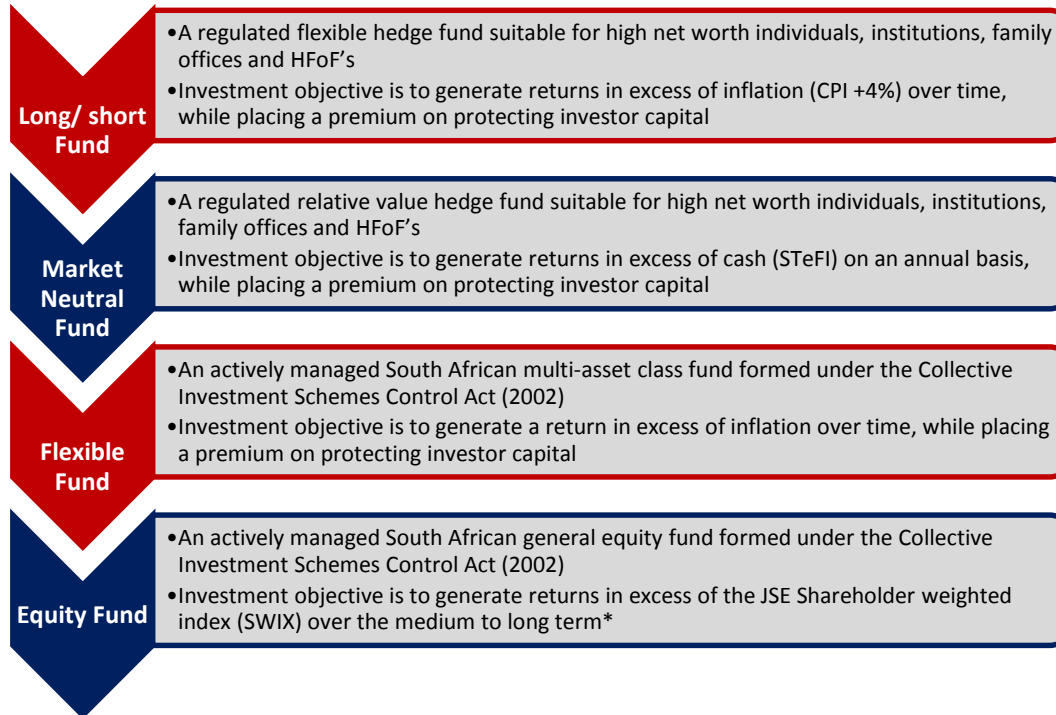


## Key differentiators

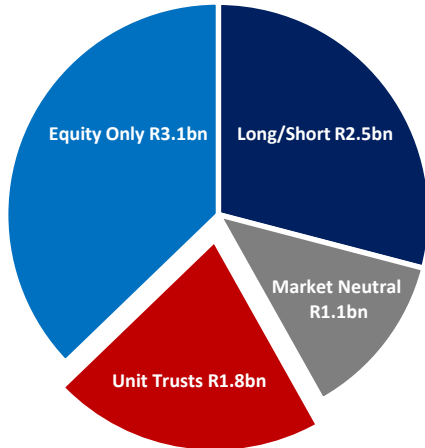
**Focused:** Limited range of equity centric funds

**Flexible:** Not constrained to any specific investment style

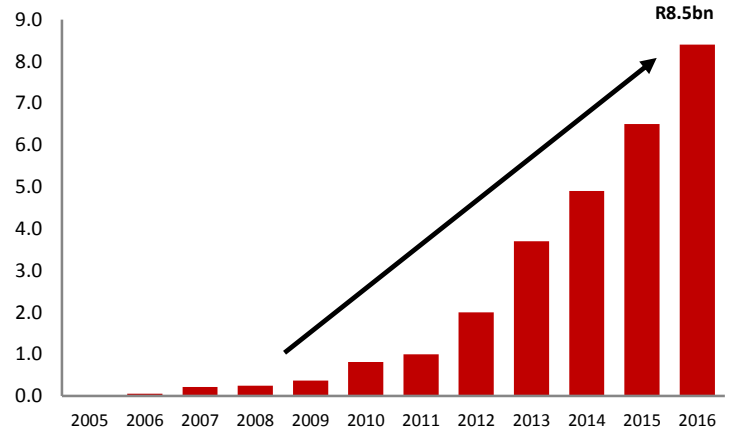
**Nimble:** Flat structure, enabling swift portfolio adjustments, if required



Assets by fund strategy (R8.5bn)



Consistent measured growth in AUM (Rbn)



## Philosophy

Fundamental, bottom up investing combined with a top down macro overlay

## Objective

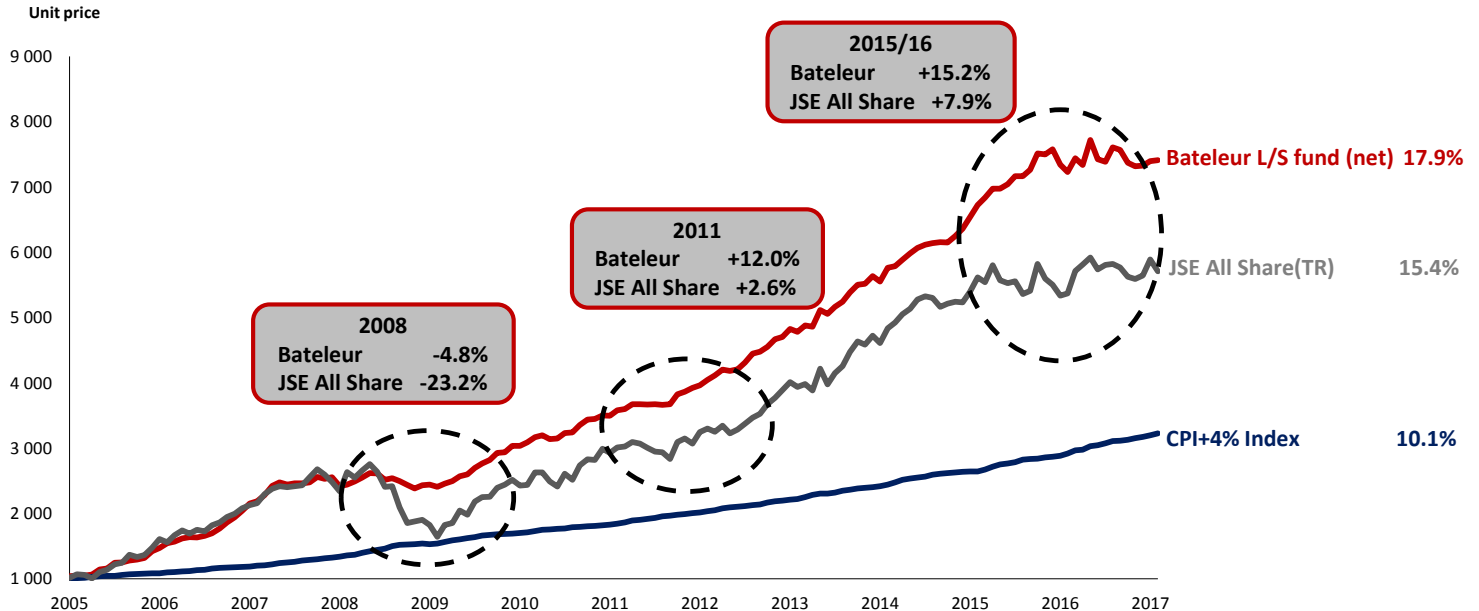
To generate returns in excess of inflation whilst placing a premium on protecting investor capital

## Practically

Keep pace with equity markets in good times and protect capital in periods of market stress

Achieving the investment objective will lead to **outperformance of equity markets over the medium to long term**

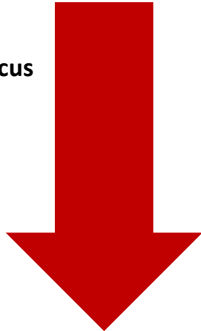
# Investment philosophy – Capital preservation a key objective



The Bateleur investment process has historically led to outperformance when markets are weak

# Investment process – bottom up stock picking dominates

Top down macro focus  
30%



## Process includes

- Fiscal and monetary policy analysis (interest rates, inflation, QE)
- Macro economic drivers & outlook (GDP growth)
- Long term capital market valuations vs. trend

## Impacts asset allocation decisions

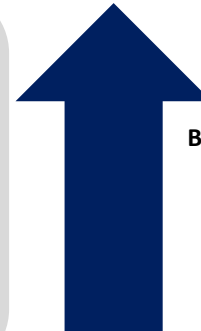
- Bonds/equities/cash/property/commodities/currencies

## Which equity sectors to focus on/avoid

- Defensive/cyclical/interest rate sensitive/high yield/Rand hedge/resources

## Process includes

- Identify securities that trade at a discount to underlying value
- Initial screen using **conventional valuation measures** (PE, DY, ROE and EPS growth)
- **Financial modelling incorporating through the cycle** and **long term margin analysis**
- Focus on **qualitative factors** (business sustainability, barriers to entry)
- **Emphasis placed on established management teams** with proven track record
- Focus on **earnings predictability and cashflow generation**

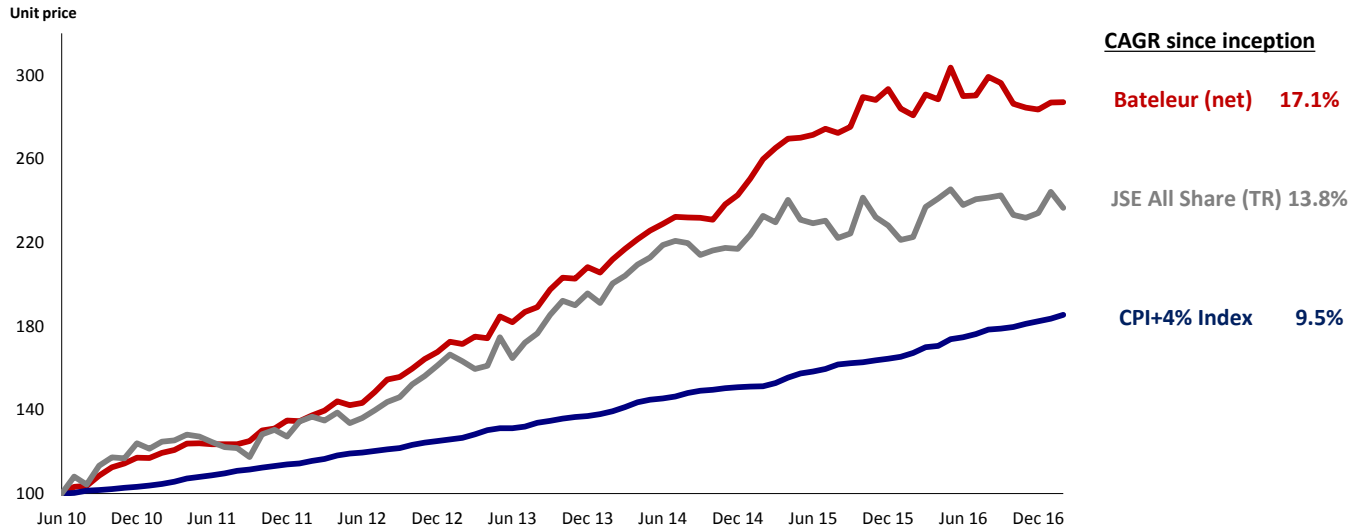


Bottom up stock picking  
70%



- Sell when prices exceed fair value
- Prudent cash weighting
- Wary of overleveraged, cyclical and highly capital intensive businesses
- Wary of acquisitive (roll-up) companies
- Analyse cash vs. accounting earnings
- Monitor portfolio liquidity risk closely

# Flexible Fund - historical performance

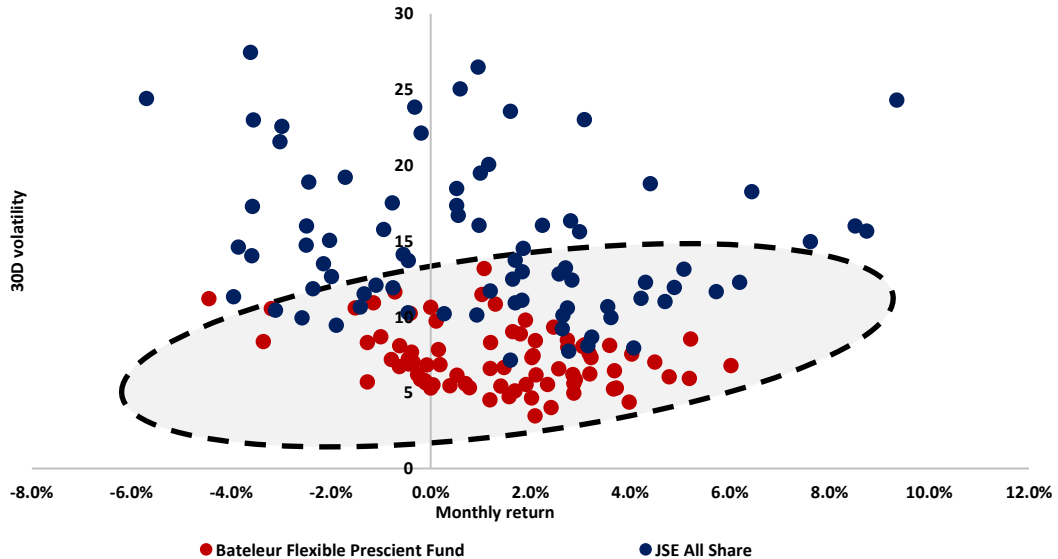


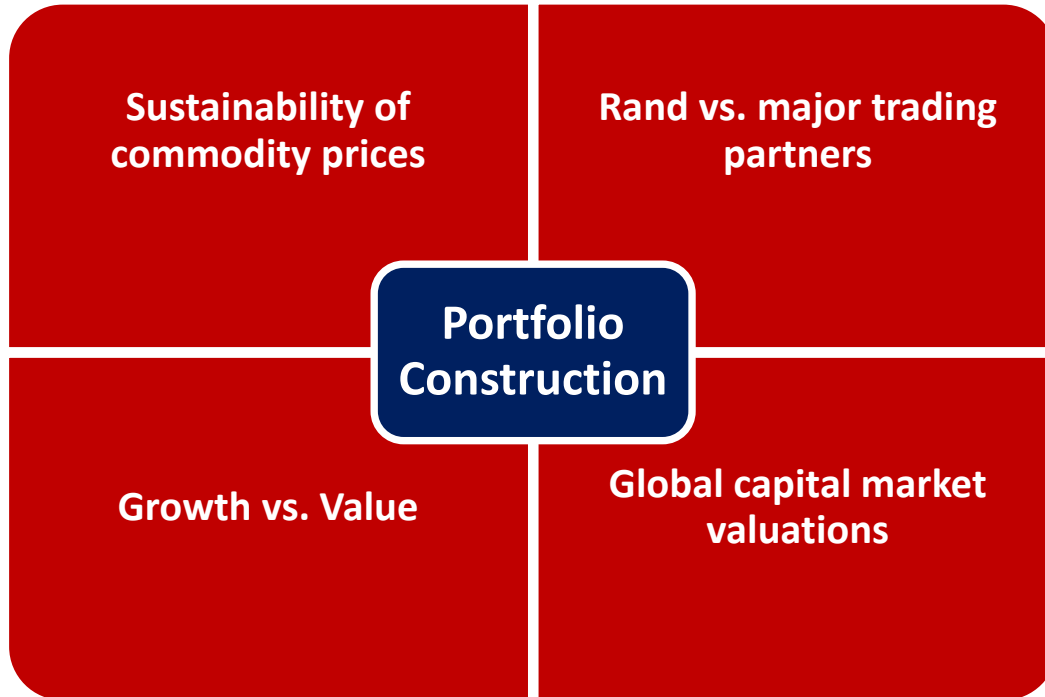
Returns	YTD	1 Year	3 Year	5 Year
Bateleur Flexible Fund	1.2%	2.2%	10.6%	15.9%
CPI+4% (benchmark)	1.7%	10.6%	9.7%	9.7%
JSE All Share (TR)	1.1%	6.3%	5.7%	11.6%

**\* 2016 Morningstar and Raging Bull award winning fund – best flexible fund over 5 years on a risk adjusted basis.**

# Flexible Fund – returns vs. 30 day volatility

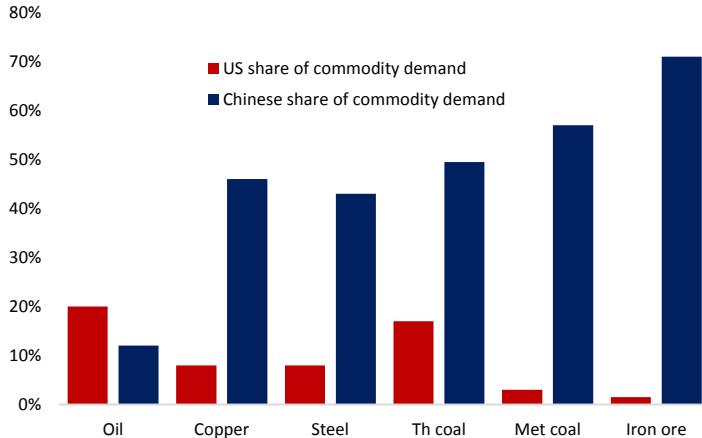
Bateleur Flexible Fund vs. JSE All Share: returns vs. 30 day volatility





# 2017 outlook – sustainability of commodity prices

### China and the US share of commodity demand (%)

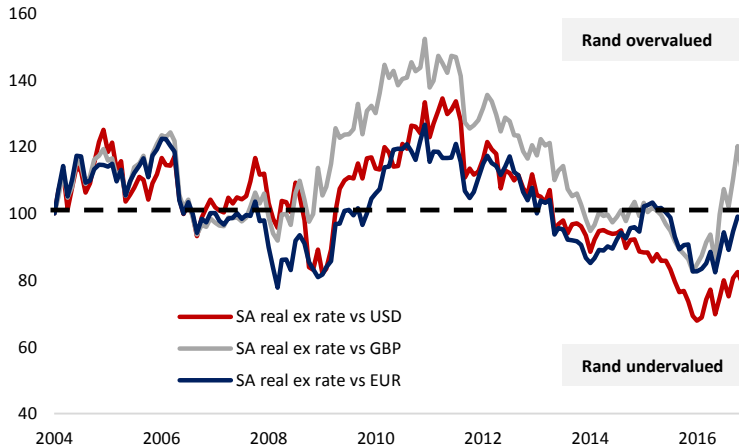


### China Money Supply vs. CRB Commodity Index

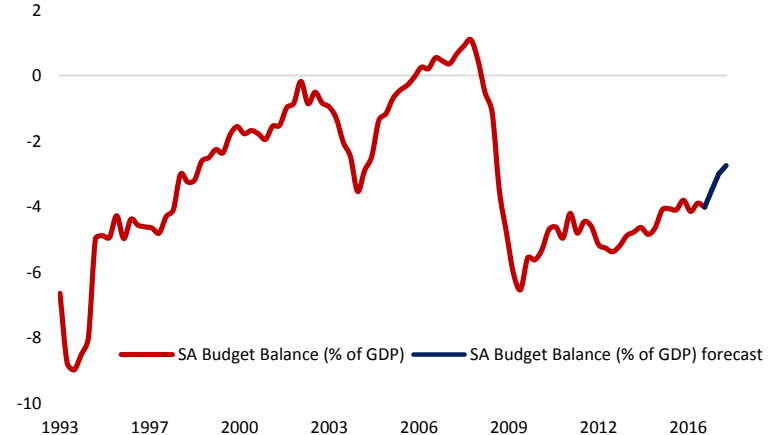


- Commodity prices rallied in 2016, driven by Chinese monetary & fiscal stimulus, which has peaked
- China remains a far more important driver of commodity prices than the US
- Should China prioritise structural reform ahead of growth, bulk commodity prices are at risk

### SA real exchange rates vs. major trading partners



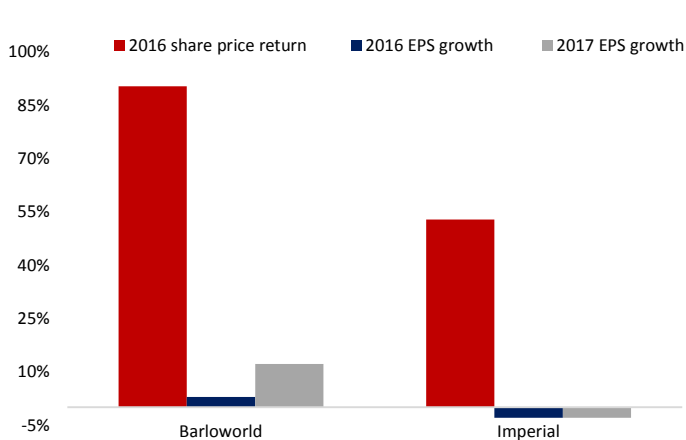
### SA budget balance as % of GDP



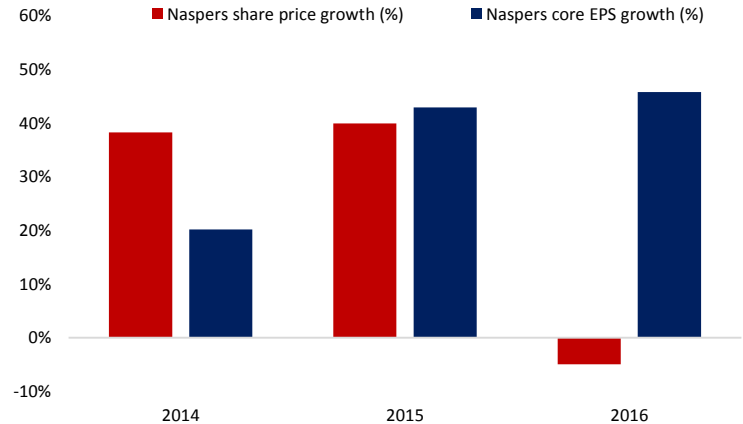
- Rand is marginally under-valued vs major trading partners, but a sharp appreciation in 2017 is unlikely
- An improving trade and fiscal deficit from increased commodity exports and taxes will be supportive of the Rand
- Risk of a sovereign downgrade, while dissipating, would be negative for the Rand

# 2017 outlook – Growth vs. value

### Barloworld/ Imperial price vs. EPS growth



### Naspers price vs. EPS growth

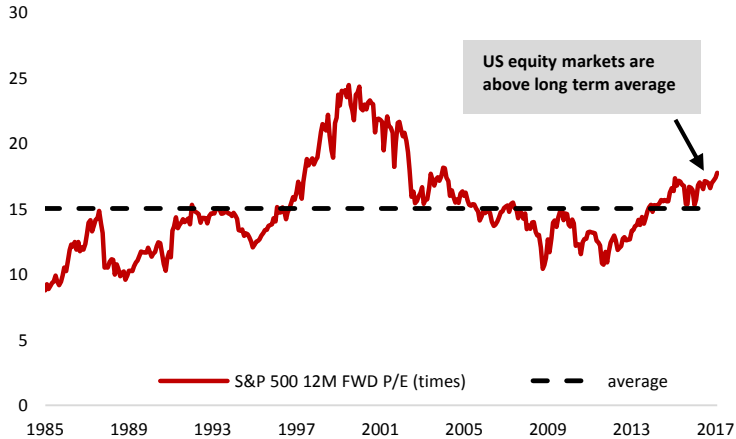


Note: Naspers core EPS growth is calculated on a calendar year basis.

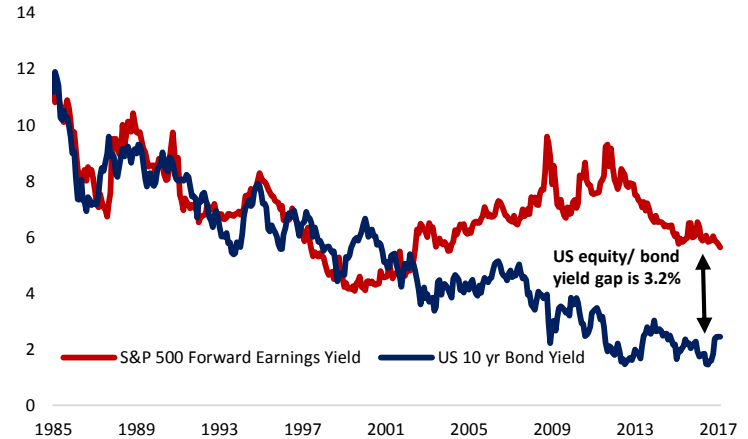
- In 2016 value outperformed growth, although not through earnings growth
- Value P/E multiples expanded (re-rated) while growth P/E multiples contracted (de-rated)
- Comfortable paying a fair multiple for a high quality company with good growth prospects & earnings visibility

# 2017 outlook – Global and domestic capital markets

### S&P 500 long run forward P/E multiple since 1985



### S&P 500 12M forward EY vs. US 10Y bond yield (%)



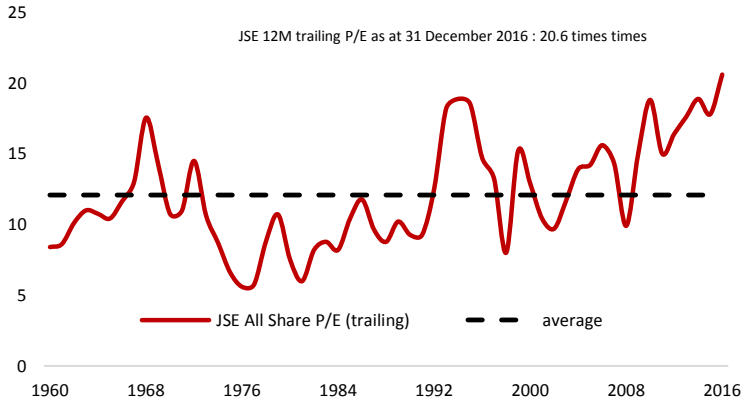
- Equity markets valuations are above trend, but unlike bonds not in bubble territory
- Strong preference for global equities vs. global bonds, given rising GDP, low interest rates and inflation trending higher



# 2017 outlook – Global and domestic capital markets

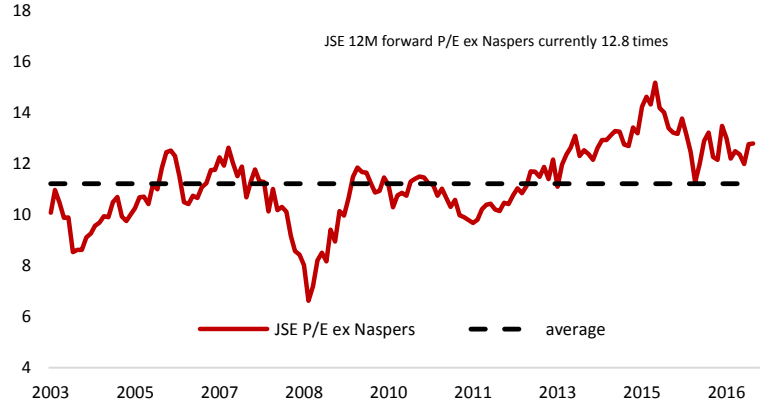
### JSE All Share P/E (trailing)

JSE 12M trailing P/E as at 31 December 2016 : 20.6 times times

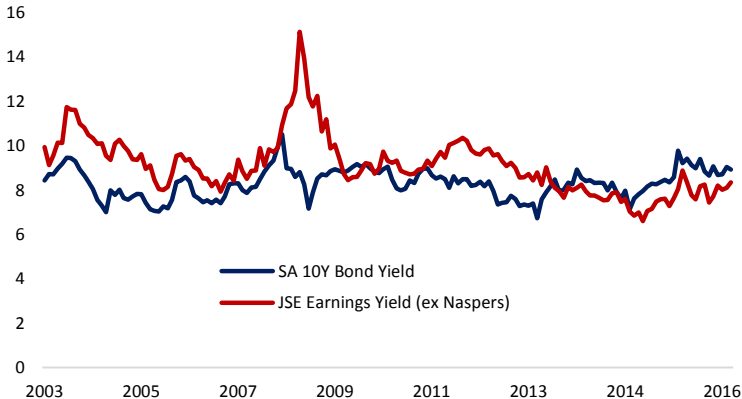


### JSE 12M forward P/E ex Naspers

JSE 12M forward P/E ex Naspers currently 12.8 times



### JSE 12M forward EY vs. SA 10Y bond yield (%)



- JSE appears expensive over the long term
  - Includes depressed resource earnings
  - Inflated by heavy weighting of Naspers
- On a forward P/E basis, appears more palatable
  - Includes expected resource earnings growth
  - Excludes Naspers

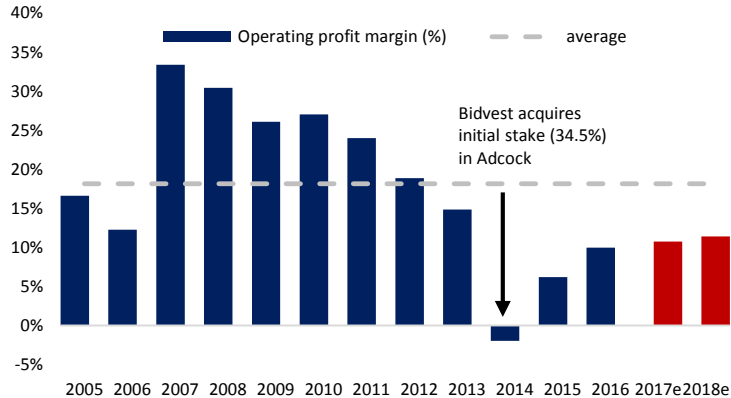
- Equity valuations are above trend globally and in SA, **return expectations need to be tempered**
- Equities offer **superior risk/return vs. bonds and cash** given inflation and US rate hikes
- SA GDP improving off a low base, could assist corporate earnings especially:
  - Agriculture and mining companies (as well as those providing services & product into these sectors)
  - GDP trend growth (3%) still some way off, requires broad corporate investment
- Rand close to fair value, **no obvious preference for local vs. offshore equities based on currency**
- **No specific theme in the portfolio** i.e. cyclicals, interest rate sensitive stocks
- **Fund holdings dominated by stock specific opportunities, as opposed to top down themes**
- Lack of “dripping roast” opportunities, leads to a **higher no. of individual stock positions**

## Flexible Fund – current fund positioning

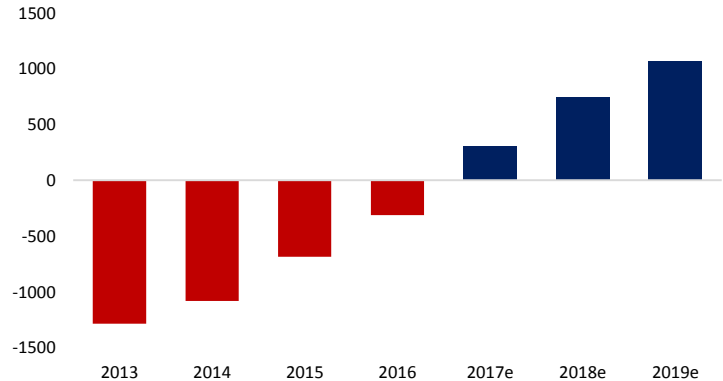
Sector	Select Holdings
SA Industrial	KAP, Mpact, AECI & Hudaco
Direct offshore	Google, PayPal, Wells Fargo & S&P 500
IT	Naspers & EOH
Rand hedge	Bidcorp, BTI & Reinet
Financials	Old Mutual & Barclays Group Africa
Retail and food producer	Shoprite, Oceana & Italtile
Resources	Sasol & Mondi
Healthcare	Adcock & Spire Healthcare
Offshore property	Capital & Regional, Stenprop & Sirius
Other small holdings	Various
Cash - Rand	

# Adcock – improving execution supports investment case

**Adcock operating margin improving and below trend**



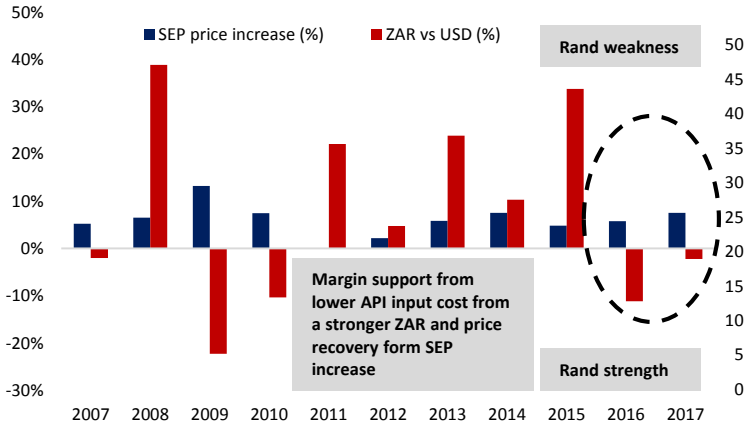
**Strong balance sheet – moving into a net cash position (Rm)**



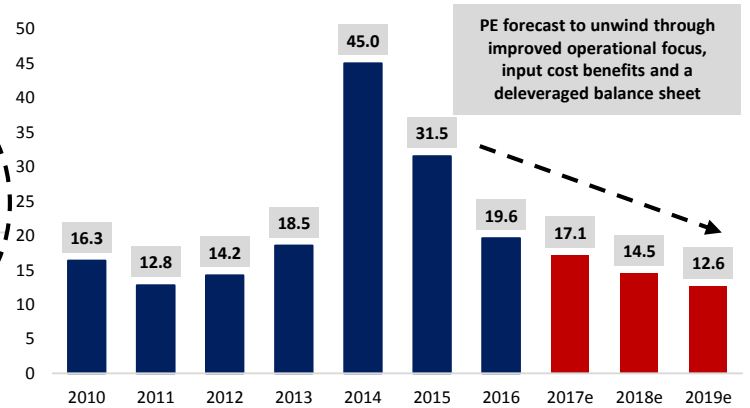
- Sharp turnaround evident over the past two years, following the Bidvest acquisition (currently own 38.4%)
- Strong balance sheet – moving to a net cash position
- Excellent portfolio of over the counter (OTC) brands - Corenza C, Panado, Citro-soda, Allergex, Bioplus

# Adcock – improving execution supports investment case

Margin supported by stronger ZAR and pricing



Forward P/E (times) valuation attractive, result of organic growth



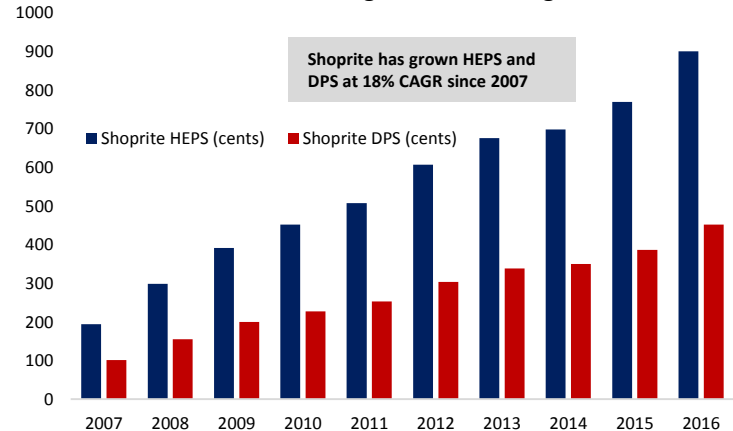
- Will benefit in 2017/18 from a stronger Rand and single exit pricing (SEP) increases
- High quality cash generation with low capex requirements – having already invested meaningfully in facilities
- Attractive valuation and potential acquisition target

# Shoprite – Africa becoming meaningful

## African operations expansion continues



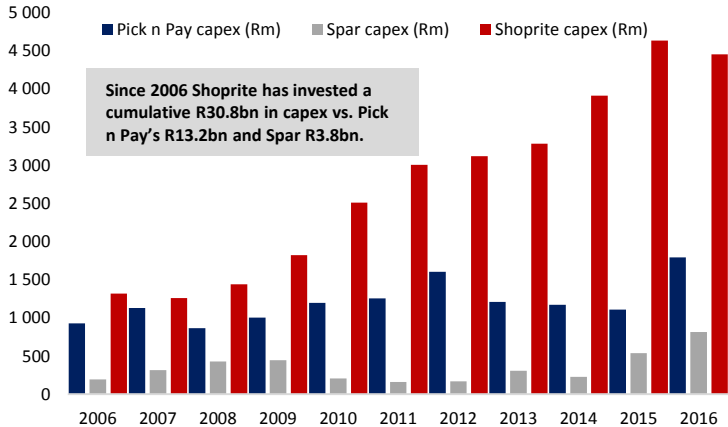
## Consistent earnings and dividend growth



- African operations contribution finally becoming meaningful
- Sustained investment despite macro backdrop created a strong leadership position
- Contributed 19% of group profits in 1H 2017 vs. 14% in 1H 2016
- Investment in operations (existing and expansion) a strong driver of earnings and dividend growth

# Shoprite – Africa becoming meaningful

## Shoprite has invested in growth ahead of its competition

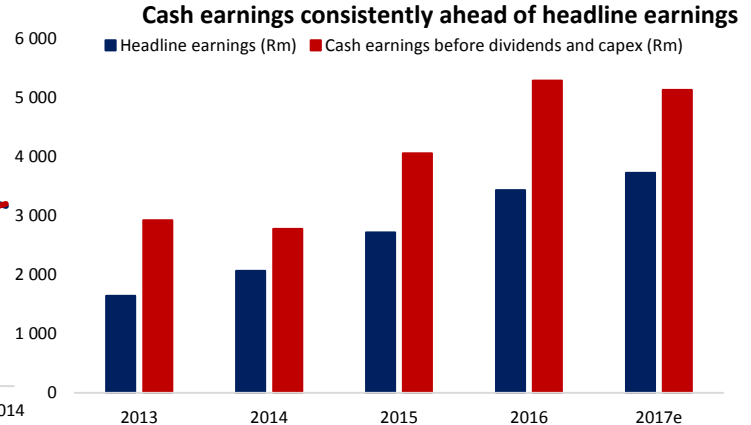
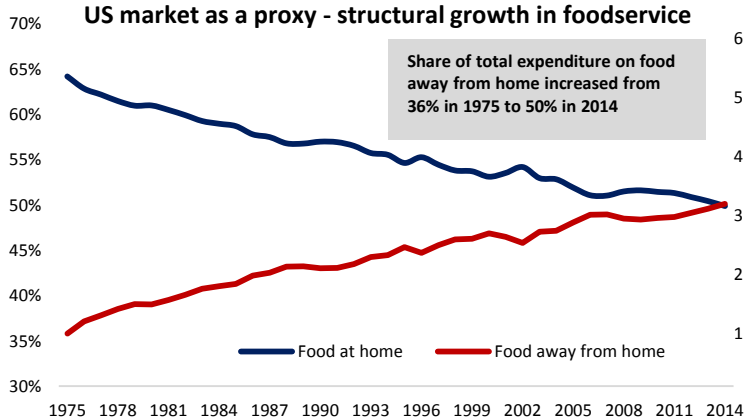


## Shoprite forward P/E (times) attractive relative to history



- Shoprite has invested significantly ahead of peers, positioning the group for future growth
- Business is strongly cash generative with a favourable working capital cycle
- Steinhoff transaction overhang lifted, management can focus on growth initiatives
- We were strongly opposed to the potential transaction

# Bidcorp – well positioned in an attractive growth industry

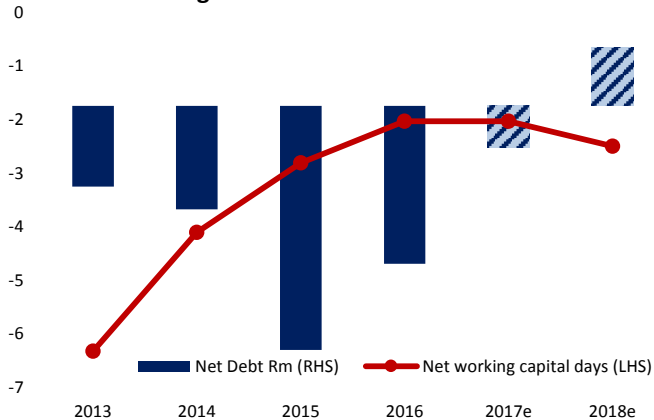


- Foodservice as an industry has attractive and growing dynamics
- Steadily growing consumption of food away from home drives growth in a fragmented market
- Translates into predictable and strong earnings growth prospects for Bidcorp
- Bidcorp operates in 20 countries, has 260 distribution centers and employs 24 500 people
- 2016 turnover reported at R140.5bn and trading profit of R5.2bn (trading margin of 3.7%)

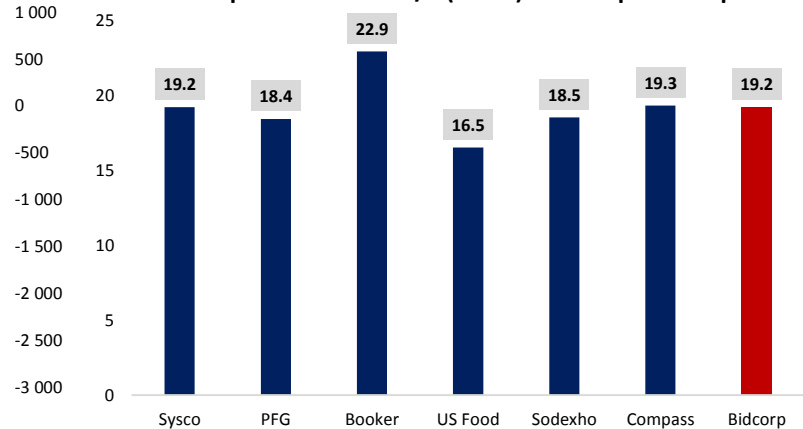


# Bidcorp – well positioned in an attractive growth industry

Cash generative business with little debt

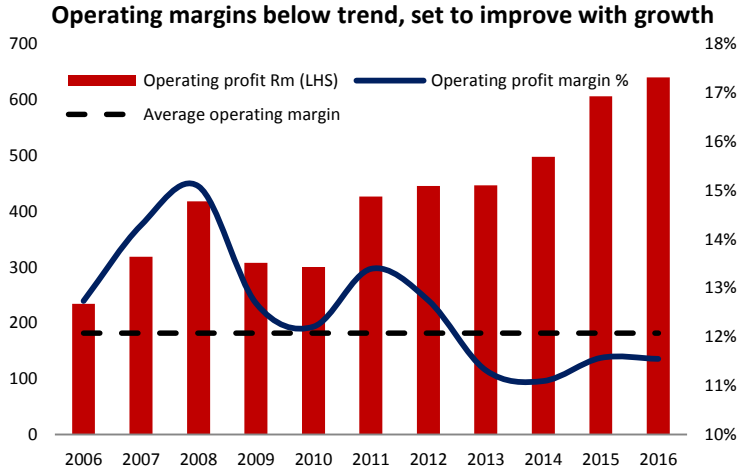
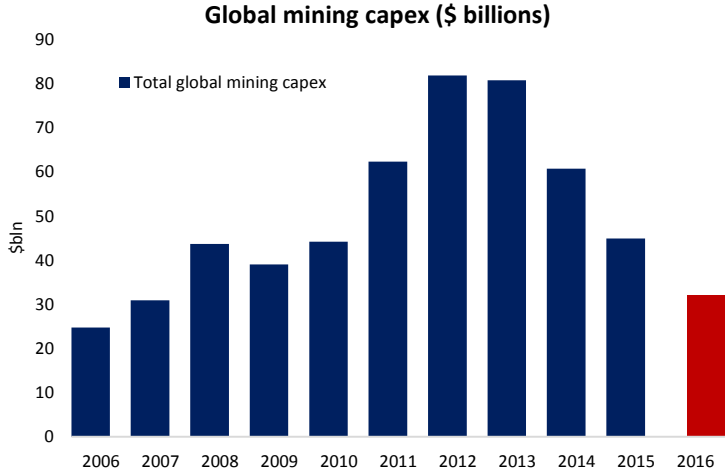


Bidcorp 12M forward P/E (times) stacks up well vs peers



- Bidcorp is highly cash generative (negative working capital cycle)
- Strong balance sheet (underutilised) with little debt
- Attractively valued vs. global peers at an estimated 19.2x 12M forward P/E
- Highly regarded management team in place led by Bernard Berson

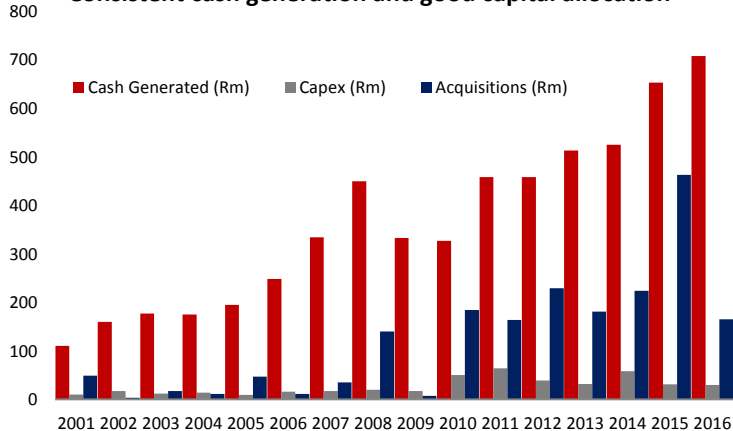
# Hudaco – improving fundamentals and low earnings base



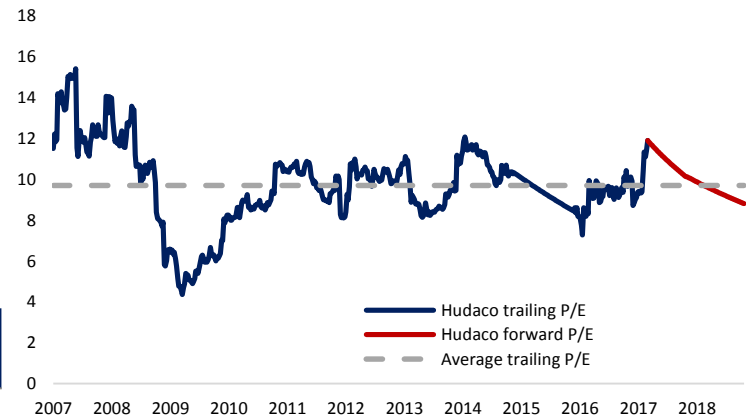
- Provides predominantly imported products into the SA manufacturing, mining and consumer industries
- Earnings base is low and margins are below trend
- Seeing signs of improvement in economy, from mining in particular

# Hudaco – improving fundamentals and low earnings base

Consistent cash generation and good capital allocation



P/E (times) is attractive given low earnings base and improving outlook



- Low capex distribution business, highly cash generative
- Experienced and respected management team led by Graham Dunford
- Attractively valued at an estimated 10x P/E to November 2017 and a potential acquisition target

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We remain confident in delivering on the investment objectives of the funds that we manage

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