July 2023

Dear Investor,

SECOND QUARTER OF 2023

"Perhaps the thoughts behind this chapter might be put into a single sentence: If the job has been correctly done when a common stock is purchased, the time to sell it is – almost never."

The words above were written by Phil Fisher in Common Stocks and Uncommon Profits, first published in 1958. It provides the final thoughts to Chapter 6, When to Sell. Before reaching his conclusion, Fisher discusses the situations in which selling is warranted.

The first reason to sell is when a mistake has been made and the value of the business is clearly less than initially understood. The second reason is when, over time, a reassessment of the business reaches the conclusion that the business no longer qualifies as an attractive investment according to your process. The final reason would be to sell in instances where significantly more attractive opportunities are found.

We have sold out of several businesses over the years for these three reasons. We have developed an investment process that reduces the risk of significant mistakes by focusing on attractive businesses before looking for attractive prices. Most of our work analysing companies follows the process of considering whether a company is of sufficient quality to invest in. This is our attempt to minimise reasons one and two to sell. Here we consider the company's governance, balance sheet strength, management track record and cash flow sustainability as the predominant criteria. Businesses that we regard as attractive potential investments are then taken through a second round of review, this time focusing on the price of the business relative to our assessment of what the fair or intrinsic value of this business could be. This valuation is generally a consideration of the cash flow that an investor could expect to receive over many years into the future. Sometimes this leads to selling for reason three, mostly it doesn't.

We cannot guarantee that we will sidestep every mistake out there, but we believe that we are fishing in better waters by sticking to this process and selectively backing management teams to act in your best interest. It does, however, mean that we might go through periods where there is little change to your portfolio. This quarter is one such a period.

It is often difficult for us to sit on our hand and do nothing, but we take comfort in the words of another of our heroes, Charlie Munger. He said that "*the big money is not in the buying and selling, but in the waiting*."

Portfolio Updates

There were no material sales during the quarter. We continue to allocate more to your investments in some of the property stocks discussed in previous letters.

The main contributors to your performance during the quarter included the semiconductor capital equipment companies (Lam Research and Applied Materials) and our diversified anchor investments (Berkshire Hathaway and Exor). Main detractors were Wix.com and your UK listed companies (BAT and Howden Joinery).

Semiconductor capital equipment (semicap) and the excitement around artificial intelligence

There is currently a lot of excitement in the market about artificial intelligence (AI). The launch of ChatGPT and the potential application of large language models have shone the light on another one of the future drivers of semiconductor demand that interests us. The share prices of your semicap investments (Lam Research and Applied Materials) have basically recovered to their previous high levels amidst this excitement.

We remain optimistic about the long-term investment case here. Semiconductor industry revenue could reach levels of $1 trillion around 2030, implying that the total revenue pool could grow at around 7% per annum from

2nd Floor, Josephine Mill, 13 Boundary Road, Newlands, 7700 | POBox 51868, Waterfront, 8002, South Africa
email: info@capensiscapital.com | www.capensiscapital.com
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2022 levels. Because of the increasingly complex nature of semiconductor manufacturing, we expect that the spending on wafer fab equipment (the machines Lam and Applied sell) might very well increase during this period. This means that the new equipment sold by these companies could grow faster than 7% per annum. Additionally, installed machines need parts, services and upgrades also provided by the semicap companies and every new tool installed creates a long-term revenue stream similar to the upfront price paid for the machine.

The combination of the top-line development together with the sensible capital allocation decisions and operational improvements made by the companies leads to some very attractive investment conclusions.

MEI Pharma

We think it is worth commenting on MEI Pharma. As a reminder, we invested in MEI Pharma based on our assessment that the pharmaceutical pipeline offered significant value compared to the price we were paying. The upside was many multiples of the share price and the clinical trials suggested that the odds were increasingly pointing to marketable new treatments, particularly its most developed candidate zandelisib. However, as discussed in our 2022 Annual Letter, the FDA changed the way it evaluated zandelisib's class of drugs and required changes to the phase 3 clinical trials that MEI Pharma had embarked on. The company decided to discontinue the trial and launched a strategic review of the business.

The review was concluded with a proposed merger with Infinity Pharmaceutical. We think this would be a value destructive merger for shareholders of MEI Pharma. Fortunately, other shareholders agreed and enough shareholders voted against the deal to block it. Currently, a number of activist investors have proposed options to unlock the value that we believe still exists in MEI Pharma.

Conclusion

This letter should be read in conjunction with your quarterly investment statement which contains all the financial information relevant to your account. It continues to be a pleasure and a privilege to manage your capital. As always, we invite you to contact us if there is anything you would like to discuss. We find that there are valuable learnings in portfolio discussions, especially when clients take opposing views.

Your partners in long-term value,

Alex, Catherine, Henno, Paul, Phila and Simone

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