July 2021

Dear Investor,

SECOND QUARTER OF 2021

*“My mama said, ‘you can't hurry love*
*No, you'll just have to wait’*
*She said, ‘love don't come easy*
*Well it's a game of give and take’*
*You can't hurry love*
*No, you'll just have to wait*
*Just trust in the good time*
*No matter how long it takes”*
- You can’t hurry love, The Supremes (1966)

If your investment managed by Capensis in any given year is your best-performing investment, it is coincidental. Just plain luck. The best-performing portfolios are often heavily invested in specific themes or run very concentrated portfolios – which we don’t do. We don’t judge this approach. Our stomachs simply aren’t strong enough for such all-or nothing bets. We do build portfolios that are high in conviction, but they will still be diversified across different industries, companies and themes.

We are focused on batting averages rather than big swings. But, over the long term, we target high batting averages. We have big ambitions for your savings.

Why do we think our long-term batting average will be good? We have several reasons for this conviction. One of them is the order in which we arrange price and people. Many people follow share prices. But we believe share prices follow people. What does this mean? When people follow share prices, they look for upward trending prices to catch on to, or falling prices to buy on the cheap. This shorter-term focus can result in tremendous returns. However, we believe our competitive advantage is being on the opposite side of the transaction. Patience in markets is abnormal. Consistently buying from or selling to impatient people could therefore result in abnormal returns.

How do we decide which investments are worth the wait? Very smart people operate in healthy working cultures and run good business models, empowering them to make the right decisions. We believe that the share prices of businesses under this type of leadership will follow. Importantly, prices do not follow people like an obedient Labrador, but rather like a rescue Jack Russell. The little dog darts around all over the place but ultimately ends up alongside its owner. Therefore, we focus on the long term.

There is a rare exception where good companies don’t deliver good long-term returns. This happens when the share price has run to the point where it is completely detached from any realistic future. This risk can be managed by a few inversion calculations. If the current share price can only be justified by extremely optimistic assumptions, it is best to stay clear. An example would be when you need to assume that the supply of a commodity will not increase to bring industry returns down to a reasonable cost of capital. Free lunches are rare.

Your portfolio is currently performing well. But the day will come that we again ask you to remember about the random run of the Jack Russell, and to give the Supremes another listen.

**Portfolio Updates**

There were no new additions to the portfolio during the quarter.

We increased your investment in Twitter, Applied Materials and British American Tobacco while reducing Howden Joinery, CTT, First Republic Bank and Lam Research.

Applied Materials was introduced in our previous letter. We bought more Applied Materials and sold some Lam Research. Overall, your exposure to the semiconductor equipment makers increased slightly.

Howden Joinery, First Republic Bank and CTT have all been very successful investments in the portfolio. As the valuation increased, we reduced your position to reflect the reduced margin of safety implied by the share prices. You still retain smaller positions in all these businesses.

Twitter and British American Tobacco were the remaining significant increased investments. In both cases, we find the share prices attractive.

***Cash***

The net result of the trades in the quarter was that your cash holding increased.

As previously explained, cash is our default position, and we allocate from cash as and when we find investment opportunities matching our specific investment criteria. Your cash position will fluctuate with the purchase and sale of individual securities and not according to some predetermined target level.

Additionally, we expect the portfolio to have cash available most of the time. The account is managed according to a flexible mandate which means that we are not bound to being fully invested. Cash adds resilience during market downturns and the ability to act quickly when opportunities arise.

**Conclusion**

It continues to be a pleasure and a privilege to manage your investment. Please do not hesitate to contact us if you have any questions regarding your portfolio.

Your partners in long-term value,

Alex, Catherine, Henno and Paul

**Disclaimer**

This document is intended for the clients of Capensis Capital (Pty) Ltd. All data provided by Capensis, unless otherwise stated, is current as at 30 June 2021.

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More information about Capensis can be found at http://www.capensiscapital.com.

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