

April 2024

Dear Investor,

FIRST QUARTER OF 2024

This quarter marks the seventh birthday of the Capensis Capital portfolio. Seven years still places us firmly in the early years of our dream, so we remain grateful to all of you who decided to join us so early on the journey. We wrote our [introductory letter](#) that “our aim for Capensis is to build our corporate home for the next 40 years or more. We love what we do, and we hope to continue doing it for decades to come”.

Thank you for making this dream a reality.

Investment Performance

Over the past seven years, the portfolio has grown at 8.8% per annum. This compares to the benchmark of US inflation plus 6% with increased at 9.6% per annum.

Return	Capensis Capital		Benchmark (US inflation + 6%)	
	Total	Annualised	Total	Annualised
Since inception (7 years)	+80.8%	+8.8% p.a.	+90.0%	+9.6% p.a.
Last 5 years	+72.7%	+11.5% p.a.	+62.6%	+10.2% p.a.

Source: Interactive Brokers, US Bureau of Labour Statistics, Capensis Capital

This letter is designed to be read in conjunction with your quarterly investment statement, which contains all the financial information. As always, feel free to contact us if you would like to discuss your portfolio.

Portfolio Updates

The main contributors to performance this quarter was the semiconductor businesses you own, together with Berkshire Hathaway and Interactive Brokers. The main detractor was AIA Group.

At the end of the quarter we halved your exposure to Micron Technologies.

Why did we reduce Micron, the memory chip manufacturer?

During the quarter, your portfolio continued to benefit from the strong run that the semiconductor related companies have enjoyed. This is often ascribed to the frenzy around generative artificial intelligence, but we continue to see an attractive long-term investment case in these businesses.

Following the pandemic lockdowns, we were again reminded of the cyclical nature of semiconductors. This was most brutally seen in the memory manufacturers. As we previously discussed, the memory market is dominated by a handful of producers, most notably Samsung, SK Hynix and Micron.

From an operational perspective, these companies handled the pandemic chaos better than most other industries. They were able to produce memory chips without interruption, never suffering from the supply chain constraints that we saw in nearly every other industry globally. Unfortunately, memory chips are not used in a vacuum and the other chip shortages and disruptions generally meant that the sale of electronic slowed materially and reduced the demand for all memory chips.

As demand fell, the memory chip producers ultimately reduced their production, but not before a glut of memory chips had built up ensuring that we see a classic memory chip cycle. We were encouraged by the fact that all the main producers curtailed production confirming our belief that this oligopoly has turned more rational and cooperative compared to the past of bleeding for market share.

As the memory industry started to trough and the manufacturers' cash flows returned to positive, so too did the excitement around generative artificial intelligence grow. The large language models underlying generative AI is incredibly data intensive and has stated to make use of a new type of memory chips called High Bandwidth Memory (HBM). HBM is significantly more expensive to produce and commands much higher prices. As such, the large memory manufacturers have been able to deploy their idle production capacity into a profitable new income stream. This is quite exciting for a commodity industry that until very recently was loss-making with excess inventories.

HBM is a new technology and we find it difficult to confidently say how much of it will be sustainably produced in the future. The intense demand for HBM has helped to pull memory manufacturing back into an upcycle and the share price of Micron reflects this optimism. But the cyclical nature of memory remains and we think that the elevated share prices implies a fairly rosy expectation of the future.

We decided to reduce your exposure to Micron and will be deploying the proceeds into other ideas we have for the portfolio.

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, Paul, Phila and Simone



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 31 March 2024.

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

The value of your investments and the income from them may go down as well as up. It is possible that you may receive less than you invested. Past performance is not indicative of future performance.