

July 2020

Dear Investor,

SECOND QUARTER OF 2020

Although our primary communication is an annual letter, we share changes to your portfolio and developments at Capensis Capital on a quarterly basis.

Investment Performance

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

With markets having staged a strong recovery during the quarter, the portfolio performance is back where we started the year. However, it certainly does not feel like the same world we entered in January! The composition of your portfolio has changed to reflect some of this changed reality, and we are eager to see the investment ideas develop in the years ahead.

Portfolio Updates

Activity reduced to a more normal cadence during the quarter with some minor changes and one new additional company in the portfolio

- **Semiconductors**

We have previously written about the structural investment opportunity we see in the broad semiconductor market. The thesis boils down to an industry that has enviable growth prospects, together with some dynamics which makes it more “investible” in the way we perceive it.

The growth vectors are numerous and enormous. The world is becoming increasingly dependent on forms of data. Data is constantly generated. It is transmitted to where it can be stored. But it must be analysed and processed to ultimately have informational value. Semiconductors are what enable every step of this process and are becoming increasingly important to our everyday lives. The jargon is ever present: mobile, cloud, electric vehicles, augmented reality, autonomous driving, internet of things, artificial intelligence, data economy... every instance where these terms are used, the reliance on semiconductors grow. The growth potential is only limited by the ability to produce and improve the building blocks needed: semiconductors.

However, growth potential is only one part of the investment case. The industry structure is important. The value chain has seen significant diversification in its end-markets. The industry is no longer just the amplification of the personal computing cycle. Mobile phones, data centres, communication systems and the increasing use in transport and industrial applications have all contributed to reducing the historical cyclicality of the industry. Furthermore, the industry has consolidated and in many parts of the industry there are only a handful of competitors left. In certain cases, the years of cycles and brutal competition have given way to rational oligopolies.

Lastly, businesses have specialised and certain of these companies are individually and collectively vital to the success of the whole industry. We are particularly interested in this group of companies and we have started with your investment in Lam Research – one of the companies providing the crucial picks and shovels to the gold rush.

This whole ecosystem interacts in a way that is enabling new solutions to the real world. It also means that some of the historic winners may not be the winners of the future. As we deepen our research of the opportunity set, we are widening your exposure to this industry. This will be discussed in our next letter.

- **AIA Group**

The new business in your portfolio is AIA Group.

AIA is a life insurance company listed in Hong Kong. It offers insurance and related financial services across Hong Kong, Thailand, Singapore, Malaysia, China and 13 other countries across Asia. The company has been in operation for more than a century and was listed in 2010 when its previous owner, AIG, ran into difficulty during the Global Financial Crisis.

AIA is a technology leader with an enviable distribution force. It is very well positioned to benefit from the growth in insurance penetration across the many markets it operates in. Interestingly, AIA is one of the global insurance businesses in partnership with South Africa's Discovery, employing the Vitality platform which leads to higher engagement and innovation that improves persistence and improves health outcomes.

The company is well capitalised with a very long runway to reinvest profits internally. The largest growth opportunity lies in China where it is steadily receiving increased marketing permission.

The addition of AIA diversifies your investment into an opportunity set that is under-represented by the balance of the portfolio.

- **Cash**

Cash remains the largest single holding in the portfolio. 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,

Paul and Henno



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 2020.

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

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