July 2019

Dear Investor,

SECOND QUARTER OF 2019

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

Business Update

We wrote to you earlier in the quarter to discuss the changes at Capensis Capital. (Please find the complete announcement included at the end of this letter.) Early indications are extremely positive and we remain excited about the future of the business with Paul and the Granate team on our side.

Investment Performance

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

There were no new holdings added to the portfolio during the quarter. We made some small adjustments to the holdings by switching some of your Howden Joinery investment into Burford Capital. Both of these companies are listed in the UK, but Burford earns mainly USD compared to Howden's GBP revenues.

1. Cash

Cash remains the largest 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.

2. Teekay Offshore

Teekay received a take-over offer during the quarter. Normally, this would be cause for celebration but in this case, there was very little to cheer about.

The takeover offer follows a subsidiary of Brookfield Asset Management (BAM) purchasing all LP units held by Teekay Corporation (TK) in Teekay Offshore (TOO). TK was the previous controlling partner of TOO. As discussed in our Q1 2018 letter, TOO was financially mismanaged by TK and BAM bought effective control in September 2017.

Fortunes at TK have not improved and during the quarter TK sold its remaining TOO interest to BAM at a distressed price of $1.05, or around 25% below the market price at the time. Using this transaction as justification, BAM proceeded to make an offer for all the remaining units at the same price maintaining that TK was an informed seller and that $1.05 is a fair price for the business.

We do not agree that $1.05 reflects anything close to fair value for the business. In fact, our estimate of intrinsic value is multiples of this offer price.

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Director: HP Vermaak

Unfortunately, TOO is a partnership with BAM being the general partner. The general partner has certain rights to purchase the units held by minority holders once they own more than 80% of all units. BAM controls 73.3% of the units following the transaction with TK. With this offer, BAM is hoping to purchase the entire company without buying an additional 6.7% in the open market (which should increase the cost of taking over the business).

You have exposure to both sides of the transaction. BAM is the largest holding in your portfolio, so on the one hand we have to applaud the attempt by BAM to purchase TOO on the cheap and before the underlying improvements in the business is reflected in the price. Ultimately, BAM exists to make money for its investors and is acting according to its mandate and incentives. However, we invested in TOO in anticipation of the improvement in cash flow and improvement in the balance sheet. Additionally, we increased your holding as the improvement was not reflected in the price. We think the business is worth significantly more than the offer price.

Presently, the fate of the offer lies with an independent committee of the TOO board of directors. They have appointed advisors to assist in evaluating the offer. A number of investors have written to the board and committee expressing their dismay at the offer and to explain why the offer is below anything regarded as fair value. We will keep you updated as to the outcome of this process.

3. Exor

Exor has been discussed in a number of our previous letters.

During the quarter, Fiat Chrysler Automobiles (FCA), proposed a deal to merge with Renault. However, the company ultimately decided that the “political conditions in France are not currently favourable for such a combination”.

The proposed deal would have led to a merger of equals with shareholders of FCA and Renault each holding 50% of the new business. FCA shareholders (like Exor) would have received a large special dividend. The combined business would create the third largest auto manufacturer and had the potential to deliver enormous cost savings and scale benefits.

This proposal signals that the grand plan of Sergio Marchionne is in play, but also that the team under John Elkann is able to call their own shots. “It’s as important to walk away from the table as it is to sit down”.

We expect FCA to continue to pursue a deal with another automobile manufacturer. Renault is a logical fit, but not the only potential partner.

Conclusion

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

Your partners in long-term value,

Henno and Paul

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June 2019

Dear Investor

I am pleased that I can finally confirm some changes at Capensis Capital. In my last number of letters, I referred to the planned expansion of the business. This has come to fruition and involves high-calibre people joining Capensis and Capensis joining forces with another highly regarded business.

But first, what won't change?

My time will remain focused on managing your investment. Over time, more people will add to the research function and reduce the one-person-risks I have previously discussed. The steps explained below will enable me to reduce the time spent on non-investment matters. Being a regulated entity comes with necessary admin and compliance matters that is a distraction from the part that I love: finding and managing a portfolio of attractive investment opportunities.

What will change?

Firstly, my friend and former colleague, Paul Bosman, will join Capensis Capital. I am terribly excited to add a person of his calibre to the business. While Paul has proven himself as a successful analyst and fund manager at our previous employer, I have an even higher regard for the contribution he can play in building out a positive culture in our business. Paul is one of the few individuals that naturally blends strong morals with the benefits of capitalism.

Secondly, Capensis will join forces with RMI Investment Managers (RMIIM), a subsidiary of JSE-listed Rand Merchant Investments. RMIIM invests and partners with investment firms as a long-term, supportive shareholder.

The final party to this announcement is Granate Investment Management. Granate is a fixed income investment manager, founded in 2015. Over the last three years, Granate has proven that their thorough research processes transpire into very consistent returns for clients. Even more importantly, the Granate team shares both my investment philosophy and my commitment to clients.

The conclusion of this deal is that Capensis will become a subsidiary of Granate. Granate will be controlled by the employees of the firm (which will include Paul and myself) with RMIIM as a strategic shareholder in the business. The combined business will get a capital injection that would fund the investment required for our business plan over the next number of years.

Why is this to your benefit?

The conclusion of these changes is that Capensis will be a more robust business. Over time, the research function will expand, and more investment ideas will be considered for your portfolios. We plan to add equity products to the Granate offering and the additional capital will accelerate the ultimate dream of launching a global fund. This will bring significant behavioural and tax benefits compared to the current situation.

Why is this to my benefit?

I look forward to working with colleagues whom I respect and admire. I missed the opportunity of regularly testing my thinking with people whose opinions I regard highly. Importantly, I will not receive any monetary gain from this deal. The capital injection that I referred to earlier is for the benefit of future expansion, not immediate distribution.

Conclusion

I am very excited about this development. I also attach the announcement that Granate sent to their clients today. Please feel free to contact me if you would like more information on the future of Capensis Capital.

Regards

Henno

The Evolution of Granate: 2020 and beyond

June 2019

The Granate Asset Management (Granate) team, together with its shareholders, are pleased to inform their clients and other stakeholders of imminent business developments that are set to drive and accelerate its growth as it enters the next important phase of its lifecycle.

On the 1st of April 2019, Granate reached their 3-year investment track record milestone, with the Granate Multi-Income Fund receiving a 1st quartile performance ranking in the ASISA Multi-Asset Income category over this time period.

Granate is also proud to announce that in June 2019, Paul Bosman and Henno Vermaak will be joining the Granate team. Paul will assume the overall leadership responsibility for Granate and together with Henno and the rest of the team, build out a multi-asset offering which will initially include the launch of two new Granate funds: A Domestic Balanced Fund and a Domestic Flexible Fund.

While excited by this new development, the team is also saddened to bid farewell to Jonathan Myerson. Jonathan has decided to join Visio Fund Management (Visio) on 1 July 2019. Visio is an affiliate of RMI Investment Manager's (RMI IM) associate company, Royal Investment Managers (RIM). RIM acquired a 30% equity stake in Visio in 2018.

The new Granate team structure will also see a shift in shareholding to align with RMI IM's business model of supporting owner-managed businesses. Granate staff will, going forward, own a direct equity stake of 70% in the business alongside RMI IM's minority stake of 30%. Simultaneously, the business will be recapitalised to ensure its long-term sustainability and positioning for future growth.

3-year track record

Granate celebrated its 3rd birthday on 1 April 2019 with all three of its offerings achieving 1st or 2nd quartile performance in their respective Association for Savings and Investments South Africa (ASISA) categories over this time period.

Fund	Annualised Return	Benchmark	Relative	Rank	Quartile
Granate SCI Multi Income Fund	9.11%	8.42%[1]	+0.69%	12 of 64[5]	1st
Granate SCI Money Market Fund	7.75%	7.44%[2]	+0.31%	7 of 27[4]	1st
Granate SCI Unconstrained Fixed Interest Fund	8.53%	9.30%[3]	-0.73%	19 of 64[5]	2nd

Table 1. Granate Asset Management 3-Year Track Record

Source: Granate Asset Management as at [30 April 2019] 1. STeFI +1%; 2. STeFI (Short Term Fixed Interest Index); 3. 125% of STeFI; 4. ASISA South Africa IB Money Market; 5. ASISA South Africa MA Income

The Granate funds have a broad-based appeal across the fixed interest spectrum and are designed to take care of investors' capital growth and preservation objectives. Investors can access a wide range of fixed interest investments managed by a team that has a long and proven track record. Prior to joining Granate in 2015, the investment team managed R18bn of third-party investments across fixed interest, credit and money market asset classes at Cadiz Asset Management.

From the outset, Granate's business ambition was to diversify into other asset classes by attracting high calibre investment individuals and teams that were drawn to the affiliate model and aspired to an owner-managed culture.

A growing investment team

Paul Bosman and Henno Vermaak will join the Granate team in June 2019. Paul and Henno are highly regarded in the investment industry, and previously held senior positions at PSG Asset Management (PSG).

Paul started his investment career at PSG in 2004 and was the appointed lead manager of the PSG Stable Fund since 2011 and PSG Balanced Fund since 2013. He was also co-manager of the PSG Diversified Income Fund and over the past 7 years expanded his area of investment expertise to include fixed income markets.

Henno joined PSG in 2008 and was appointed the fund manager of the PSG Global Flexible Fund and the PSG Global Equity Fund in 2013. After leaving PSG, he founded Capensis Capital, an independent asset management business, in 2016.

Paul will assume the overall leadership responsibility for Granate and together with Henno and the rest of the team, build out a multi-asset offering which will initially include the launch of two new Granate funds: A Domestic Balanced Fund and a Domestic Flexible Fund.

Simplified product set

The vision for the next phase of the business is to build out a simplified product set across the risk spectrum for retail investors including multi-asset. Granate will continue with its tried and tested investment philosophy and process, focusing on quality investments for their fixed income clients in the near term, while introducing the new multi-asset funds in the coming months. Portfolio managers, Bronwyn Blood and Vaneshen Naidoo, will continue to replicate the excellent and consistent performance that investors have become used to in their respective fixed income products. Having previously co-managed the PSG Diversified Income Fund, Paul brings a wealth of expertise in the fixed income space, which will add significant value in credit investing which is a core focus of the Multi-Income Fund.

A new home for the Unconstrained Fixed Interest Fund

Jonathan Myerson will be leaving Granate to join Visio on the 1st of July 2019 where he will be responsible for developing their fixed interest capability. Jonathan felt this opportunity resonated with his personal and career growth objectives and through mutual engagement and agreement, the Granate Unconstrained Fixed Interest Fund will be transitioned to Visio under his management, subject to regulatory approval. RMI IM holds an equity stake in Visio through their associate company RIM and will continue to support Jonathan in his new role at Visio as part of their broader affiliate portfolio.

Continued partnership with RMI Investment Managers

RMI IM will dilute its shareholding in Granate to a minority stake of 30%, which aligns Granate with its business model of partnering owner-managed boutique investment businesses. RMI IM will continue to provide the Granate team with strategic, operational, funding and distribution support to assist their growth to scale.

As Granate moves sustainably into the next chapter of its life, the team and shareholders are confident that these developments are in the best interests of its clients and fervently believe that the business is poised to prosper and grow into an enduring and proudly South African investment management firm.

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 2019.

Capensis Capital (Pty) Ltd is an Authorised Financial Services Provider, regulated by the South African Financial Services Board. Registered office: Ground Floor, Liesbeek House, River Park, Gloucester Road, Mowbray, Cape Town, 7700

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.

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