August 2021

To our Investors,

Introducing our 2021 Annual Letter

A reinforced belief of ours, evidenced in the past 18 months, is the value, resilience, and adaptability of good people in the face of adversity. With a heavy heart we honour and hold in memoriam the good people we knew who passed away too early in life due to the coronavirus. We also celebrate, and are inspired by, all those good people rising to the occasion precisely when it mattered most.

Once a year we deliberately take a step back to reflect on the bigger investment picture. The result of our reflection is captured in our annual letters, and we share these with you in confidence as our only longer format investor communication.

A long-term investment approach only works if an investment firm *and* its investors stay the course. Therefore, key aspects of our job are to do what we said we would do while simultaneously building and maintaining your confidence.

Thank you so much for investing with us, and for staying the course alongside our families and friends. A warm welcome also to all our new investors. Perspective exists because of and for you - we will always remember this.

We trust you will enjoy our 2021 annual letter. Please send us your feedback and *any* questions you may have, or let us know to contact you directly if you prefer.

We enjoy interacting with and learning more from and with you.

Our work continues...

Daniel Malan

daniel@perspectiveim.co.za

Mikael Liefferink

mikael@perspectiveim.co.za

Perspective
Investment Management

Letter Segment Topics (*If reading digitally, just click on any segment topic to navigate to it*)

Perspective
Investment Management

Market Data - Table 1

	September 3rd, 2017	2020 Annual letter date - June 26th, 2020	*% Change September 2017 to June 2020*	2021 Annual letter date -August 24th, 2021	*% Change June 2020 to August 2021*	*% Change September 2017 to August 2021*
Currency Prices						
SA Rand to US Dollar	12,8	17,2	*34,6%*	15,0	*-12,7%*	*17,6%*
SA Rand to UK Pound	16,6	21,3	*28,0%*	20,6	*-3,4%*	*23,7%*
SA Rand to Euro	15,3	19,3	*25,7%*	17,6	*-8,6%*	*14,9%*
SA Rand to Canadian Dollar	10,5	12,6	*20,5%*	11,9	*-5,9%*	*13,3%*
Government Bond Yields						
SA 10-year (in Rands)	8,43%	9,03%	*7,1%*	8,86%	*-1,9%*	*5,1%*
US 10-year (in Dollars)	2,10%	0,67%	*-68,1%*	1,29%	*92,5%*	*-38,6%*
UK 10-year (in Pounds)	1,01%	0,17%	*-83,3%*	0,54%	*219,5%*	*-46,5%*
Commodity Prices						
Gold (in US Dollars per ounce)	1 333	1 761	*32,1%*	1 805	*2,5%*	*35,4%*
Silver (in US Dollars per ounce)	17,8	17,8	*-0,3%*	23,9	*34,4%*	*34,0%*
Platinum (in US Dollars per ounce)	1 006,0	799,5	*-20,5%*	1 012,6	*26,6%*	*0,7%*
Palladium (in US Dollars per ounce)	940,0	1 953,0	*107,8%*	2 452,6	*25,6%*	*160,9%*
Iron Ore (in US Dollars per ton)	78,0	103,1	*32,2%*	139,5	*35,3%*	*78,8%*
Copper (in US Dollars per pound)	3,09	2,66	*-13,9%*	4,25	*59,8%*	*37,5%*
Brent Oil (in US Dollars per barrel)	52,5	41,7	*-20,6%*	71,0	*70,5%*	*35,4%*
Property Indices - Market Cap Weighted Prices (*excluding* Dividends)						
SA JSE Property Index (in Rands)	653	269	*-58,8%*	327	*21,4%*	*-50,0%*
MSCI World Property Index (in US Dollars)	208	194	*-6,5%*	256	*31,9%*	*23,4%*
Equity Indices - Market Cap Weighted Prices (*excluding* Dividends)						
SA JSE All Share Index (in SA Rands)	56 312	54 097	*-3,9%*	67 452	*24,7%*	*19,8%*
SA JSE All Share Index (**in US Dollars**)	4 413	3 149	*-28,6%*	4 497	*42,8%*	*1,9%*
Global MSCI World Index (in US Dollars)	1 954	2 193	*12,2%*	3 113	*41,9%*	*59,3%*
SA Investment Universe - Equal Weighted Prices (*excluding* Dividends)						
SA Equities & Property: 296 Listed Companies (in SA Rands)			*-45,0%*		*28,4%*	*-29,4%*

Click here to return to Letter Segment Topics

<u>South Africa ("SA")</u>

Setting aside our emotions as passionate, vested SA citizens is hard, but it is vital if we are to remain objective in our views and actions as investment professionals with the responsibility to safeguard and grow your hard-earned life savings.

The truth is best served cold. **We find *zero* evidence with which to derive *any* level of confidence in *any* former or current political leadership and policies of SA.**

The SA scoreboard spells it out clearly - GDP per person, unadjusted for inflation, increased from US$4,750 in 1960 to US$6,750. The unemployment rate increased from 9% in 1980 to over 34%, now the highest in the world outside war-torn countries. Over the past 121 years SA experienced a succession of dominant political entities staffed with too many incompetent people in key positions of power, who were then allowed to make important decisions to the detriment of all its citizens. Each controlling political entity, or power grouping therein, successively implemented its own versions of blatant ethnic favouritism and discrimination.

It. Does. Not. Work. And. It. Never. Will.

Until we see recognition and acceptance at the highest level of this repeated long-term policy failure, accompanied with significant reform thereof, we acknowledge this is reality, and our response is to continue working hard to figure out and implement sensible solutions for you.

The first part of good news is that it is not difficult to see what works. Two of the best ways to run a complex organism like a country is to appoint *only* competent people in key management positions, or, if that is not possible, to get and stay out of the way of other competent people.

Here are concrete examples of these two successful, albeit different, approaches.

Starting in the mid to late 1960's with Prime Minister Lee Kuan Yew, **Singapore** followed an approach to appoint only competent people in government, and to pay them properly. The result has been extraordinary and sustainable economic growth and positive societal development, to the benefit of the country's citizens. GDP per person, unadjusted for inflation, increased from US$4,000 in 1960 to US$60,000. The unemployment rate has averaged below 3% since 1990, in comparison to the structurally much higher average annual rate of nearly 8% in the early 1960's. It must also be added that this approach involved dictatorial benevolent leadership, bundled together with the curtailment of many personal freedoms and rights.

In the **USA** there exists a fine balance of power between two main political parties, with a monotonous changing of the guard. With rare exceptions, such as a truly global war, each incoming party and President largely operates in stalemate, focused more on competing with each other, undoing their predecessors' policies, marketing to win the next election, and rewarding their powerful business lobbying partners. This environment is perfect for businesses led by competent people to thrive in, ultimately to the benefit of the country's citizens. GDP per person, unadjusted for inflation, increased from US$12,000 in 1960 to US$55,000. The unemployment rate has averaged below 6% since 1950.

Some great news is that SA's operating reality has created an environment so inherently volatile that, outside politics, it has forged multiple generations of world-class businesspeople and businesses. In Africa and in SA, if businesspeople and businesses do not adapt quickly to their reality, they disappear. This has been true for hundreds of years. SA is not unique in this regard, as we observe these qualities in the businesspeople and businesses of countries around the world that have coped, or are coping, with similarly volatile environments.

Further great news is that we can and have invested in these terrific people and businesses.

The last bit of great news is that many businesses we own in our funds have *already* and successfully developed meaningful business exposure to more stable, higher growth global geographies.

So, in summary, the great news is that it remains possible for us to generate attractive long-term investment returns on your behalf.

We will continue monitoring the political landscape in SA, because it is important to detect a shift therein early, be it positive or negative. What matters even more is that we have a clearly defined plan of action in place with which to fully access the opportunities and manage the risks embedded in these pathways. Equally importantly, by our firm deliberately staying under the radar, we ensure our plan remains fully implementable.

Click here to return to Letter Segment Topics

SA Assets

The SA market provided us with a beautiful long-term investment opportunity set in the course of 2020 and 2021.

The best buying opportunities always present themselves amid chaos and consensus pessimism, because it results in the perfect environment for panicking or forced sellers to create oversupply, and thereby for prices to potentially decline to well below real-world business values. This is easy to see in hindsight after prices have increased somewhat from their lowest points. Far more difficult to see is the long list of casualties where the underlying businesses went under, were taken over, had to be recapitalised, the minorities forcibly squeezed out at bargain price levels, or the shares continue falling, languish, or be suspended.

It is tempting to acquire assets indiscriminately whenever a region, country, industry, or asset class offers many optically cheap-looking investment opportunities. One thing we have learnt is the value of being discerning in these circumstances.

We place an emphasis on investing only in quality, scale, robust, investable businesses, that have trustworthy owners and leadership. This emphasis matters in the long run, because if we can own businesses where credible, ambitious people pursue a credible long-term vision, we can more fully partake in its long-term business growth without needing to sell out prematurely and having to constantly recycle fund capital into new ideas.

Furthermore, a real cost that is largely hidden is the direct costs (brokerage commissions and taxes) and indirect costs (bid-offer spread, market impact and opportunity cost) of doing transactions frequently over short timeframes.

We remain of the informed opinion that our selection of businesses, and therefore our funds, offer extremely attractive prospective investment returns.

We have experienced strong positive share price movements in the past year in some of our fund holdings. Simultaneously we noticed how all our businesses adapted and grew stronger during the past two incredibly challenging years. Partly due to superb management, and partly due to the sheer existential necessity and opportunity provided by a proper global and local crisis, our businesses have been doing one or more of the following:

- cut costs,
- improved efficiencies,
- sold off non-core assets,
- grown industry market share,

- strengthened strategic leadership,
- significantly strengthened their balance sheets,
- acquired attractively valued long-term growth assets, or
- bought back their own deeply undervalued shares.

In comparison to mid 2020, we now own a more fully invested, better diversified, slightly less optically cheap-looking portfolio, but with far less risk, better quality, as well as greatly improved long-term growth prospects.

Several long-term oriented corporate businesses and insiders have not missed out. In the past year we have seen Linde acquiring the rest of **Afrox**, Standard Bank offering to acquire the rest of **Libhold**, DP World offering to acquire **Imperial**, Capitalworks acquiring **Peregrine**, the founders potentially acquiring the rest of **Bell Equipment**, the founders acquiring the rest of **Value Logistics**, the founders acquiring the rest of **Anchor Capital**, Afrimat acquiring **Unicorn**, Foschini acquiring **Jet** from Edcon, Cashbuild attempting to acquire **TBC** from Steinhoff, and Heineken is in discussions with Remgro to potentially acquire **Distell**. These are astute, experienced, informed buyers of quality long-term SA businesses.

We believe these acquisitions reflect intelligent actions by smart businesspeople and businesses deploying serious amounts of money that strongly underlines the long-term investment opportunity we identified and invested in on your behalf in SA.

In assessing the investment performance and risks of the SA markets, and in particular the stock market, it is important to see and understand that the benchmark JSE equity indices are *not* representative of SA or the underlying SA economy. This is *not* unusual - the indices of most emerging markets are dominated by a handful of extremely large global businesses. In SA, the key JSE indices are powered by **Naspers**, **Prosus**, **AB Inbev**, **Richemont**, **British American Tobacco**, **Anglo American**, **BHP Billiton**, and **Glencore**. While some of these may have originated in SA decades ago, today these 8 businesses have literally almost nothing to do with SA. Collectively they represent 60% of the entire ZAR16tn JSE stock market capitalisation, and 68% of the JSE Top 40.

Furthermore, in the rest of the JSE Top 40 we can identify another 16 businesses whose revenues and profits have almost nothing to do with SA or are largely driven by global dynamics such as commodity prices and export unit volume demand.

Combining the largest 8 with the other 16, this group of just 24 global businesses represents fully 76% of the JSE market capitalisation, and 86% of the Top 40.

From a savings, advice and investment industry point of view, there is also a high level of concentration in market participants. A handful of large government and private sector pension funds, consultants, advisors, and investment managers control most of the SA savings pool.

The high concentration levels of both the local stock market and its market participants have important practical implications for the way savings and its investment related risks are managed in SA. Combined with the continued rise of passive investing into indices, **most regulated savings flows in SA are basically certain to end up being invested mostly in a concentrated group of the largest investable listed companies.**

To the extent the highly concentrated SA indices have been driven on by a tailwind of global economic stimulus and exuberant global stock markets, it has served to deliver positive investment results to SA savers. It is in this superlative *past* performance that a key current and future investment risk lurks just beneath the surface.

A key risk for SA index and quasi-index investors therefore lies in owning a concentrated portfolio of overvalued *global* businesses, at a point in time when *global* stocks are at all-time highs and overvalued.

We designed and built Perspective to focus exclusively on investing in a fully active manner in assets across the entire market capitalisation spectrum. **We do not have, nor are we looking for, any investors or other stakeholders who pay, expect, measure, or force us to pay attention to and build our portfolios in relation to index constituents or the composition of other investment managers' funds.**

Deliberately managing a relatively smaller pool of investor assets is how we will protect and retain our ability to invest in the widest possible range of assets. As of our last count, there are 296 businesses listed on the JSE. Excluding 60 of these with market capitalisations below ZAR500mn still leaves us with a very wide investable SA universe of 236 businesses.

We are by no means focused small-cap investors, but occasionally we do uncover and invest in exceptional businesses with relatively small market capitalisations at a point in time when their share prices trade well below their real-world business values. Examples of such businesses we currently own are **Santova Logistics**, **Sasfin**, and **Bell Equipment**.

In late 2020 one of our larger SA competitors wrote publicly about the top fund holding in both of Perspective's SA unit trusts, **Distell**, being a 'small cap stock'. We also know from our global peer networking that listed businesses below US$1bn in market capitalisation is typically considered 'too small to be investable' and embargoed by their investment and compliance departments. This is remarkable because there are 218 JSE listed businesses currently *below* this cut-off line.

It is also worth mentioning that sell-side research coverage in SA shrunk significantly over the past 10 years. Not only are there far fewer stockbroking firms, but most of the remaining ones only cover the top 40 largest stocks, and in some cases only the top 15.

We prefer finding great businesses that are not as widely known, owned, or researched by buy-side or sell-side firms, analysts, and market commentators. These are far more likely to be misunderstood and potentially undervalued, while also offering additional upside should they eventually cross over the cut-off line to become 'investable' to larger investment firms and 'researchable' to stockbroking firms.

Special mention must be made of the latest investment industry buzzword labelled 'ESG'.

Many professional market participants in SA have been and remain invested up to their eyeballs in both **Naspers** and **Prosus**, as well as derivative products structured around them. These same firms tout excellence in their ESG practices, while meaninglessly voting against an impregnable Naspers N-share dual control structure. Meanwhile, the *apparent* value observed in the arbitrage gap between Naspers, Prosus and their underlying position in Tencent continues leaking heavily, year in and year out. This leakage is due to management compensation arrangements (the Naspers CEO on his own earned *ZAR250mn* in the latest single financial year), consulting and restructuring costs, and aggressive share buybacks of overvalued Holdco and Opco assets.

The audited historical financials and long-term share price gains provides evidence that the underlying driver of Naspers & Prosus' performance, Tencent, may to date have been a very good business. But, Tencent is well known and widely owned, while also trading at high valuation multiples in line with the rest of the popular global technology sector. As Tencent and other Chinese technology company shareholders are finding out painfully of late, it is also beholden to the vested interests and unpredictable whims of the Chinese government.

Furthermore, both Naspers and Prosus fail our trustworthiness criteria in several respects, including the fact that their stake in Tencent is not owned outright but in partnership with the Chinese government, who dictates their actions. Imagine waking up one day as a Naspers or Prosus shareholder to find out the Chinese government decided overnight to dilute or take away its stake in Tencent without warning or sufficient compensation. Sure, it has not happened to them, yet. But that does not mean that it cannot happen, or that it is any less risky now than before. It has happened in other countries, such as Russia, with a similar track record of aggressive government interference in the private sector. Putting this picture together 5 years ago is what resulted in us not owning a single share of Naspers or Prosus since inception of our firm. Everything we have observed to date has served to further reinforce our view.

Given its relevance in the context of the SA savings industry, Perspective recently co-signed, together with 35 other professional market participants representing over ZAR2.5tn in combined assets under management & advice, a letter of governance concerns directed to the Boards of both businesses. This is the first time such a level of interaction has been achieved by the SA investment industry. In this instance the immediate impact was to solicit a formal written response from the Boards, which is now a matter of public record.

Given the dismissive nature of their response and their dual voting control structure, it is unlikely to result in any further immediate impacts. At the very least it might result in a few more piercing questions and debates on the two Boards.

With regards our new idea generation in SA, we are in the fortunate position that our team has many more investment ideas than our funds have space for. This is a valuable and important 'problem' for us to have. Solving for it results in us constructing more robust portfolios for you.

Click here to return to Letter Segment Topics

Global Assets

Every risk indicator on our global dashboard is lit up red. This is a time to be disciplined about managing downside risks in relation to upside returns. Our view is reflected in the ultra-conservative positioning of all our funds in respect of global assets.

Every major bear market kicks off with a few events that are only recognised in hindsight, *years* later. Their recognition is typically accompanied with the question 'What on earth were they thinking?'

Typically, at the point in time these events occur they are roundly ignored while market indices continue pushing to new all-time highs. There is a pretty good chance 2021 may in years to come be remembered more for the spectacular failed IPO of **Didi**, the strange disappearance of the founder CEO of **Alibaba**, the **Tesla** founder CEO publicly claiming the company is 'worthless without him', the founder CEO of **Nikola** lying about his company's products, the spike in **inflation**, and the rampant speculative actions of millions of highly leveraged, non-professional, and inexperienced market participants in **meme stocks**, **NFT**'s (Non-Fungible Tokens), **SPAC's** (Special Purpose Acquisition Companies that raise capital for still-to-be-determined projects), and the **residential property** & **crypto-currency** markets. What on earth are they thinking, indeed.

We are sticking to our disciplines and continue constructing sufficiently diversified, highly liquid long-term portfolios of quality, listed assets at attractive prices. We do not employ the use of any leverage, naked derivatives, liquidity lockups, or any other speculative devices. Furthermore, we insist on investing only in robust businesses that we can clearly evidence are leading, respected, scale, and focused competitors in their respective industries, with strong balance sheets and credible leadership.

Fortunately, there are tens of thousands of listed assets globally, plus we are not influenced, pressured or constrained in any way by our size, process, or by any of our investors and other key stakeholders. We have the widest possible global investment universe from which to choose only the best opportunities that meet our core investment criteria, regardless of region, country, industry, liquidity, or size of market capitalisation.

With regards our new idea generation globally, despite high market *index* levels, our new idea pipeline is looking reasonably healthy. We are uncovering and deepening our work on new ideas in unliked, under owned, ignored areas of the markets.

We would like to provide you with some insights into our global investment idea filtering process.

One component of our idea generation process can be summarised as 'find out where the fires are burning and go scratch around in there'. There are always at least a few burning fires somewhere in the world, well worth looking into. For example, parts of the markets drawing our attention is in industries experiencing temporarily reduced profitability due to strongly rising basic materials or agricultural commodity prices. This comes from respecting basic business fundamentals - one listed or unlisted company's sales is often another listed company's key input costs. For example, high wood prices are great for timber plantation owners and sawmillers, but not so good for paper producers. High maize, wheat and sugar prices are great for farmers, fertiliser, and tractor manufacturers & dealers, but not so good for poultry producers and biscuit makers.

Another important component of our idea generation process is our use of a set of proprietary analytic tools we developed inhouse, in combination with authorised access to a comprehensive global database maintained by Refinitiv, an external data provider.

These tools enable our investment team members to filter through tens of thousands of listed assets with efficiency and speed. Our methods include the evaluation of market (share prices & implied valuation multiples), quantitative (audited accounting numbers) and qualitative (people) factors over the past 40 years. We go back further than 40 years whenever we are confident the datasets are relevant and reliable.

One result of using our analytic tools is to populate what we term our 'global wish-list'. We only add listed assets to our global wish-list if we can evidence their meeting our 4 core investment criteria. These are (1) Understandability, (2) Trustworthiness, (3) Robustness, and (4) Valuation.

Our next step is to determine our initial and maximum exposure buying price levels for each global wish-list asset. From that point onwards we continually monitor their market prices in comparison to our buy levels. As and when prices move closer to our buy levels, we prioritise these for further focused analysis and investment consideration.

Another valuable use of our analytic tools is that it enables us to assess any existing portfolio of listed assets efficiently and quickly. We use this when onboarding new investor portfolios already invested in listed assets, and in evaluating other funds that contain listed assets. It enables us to formulate an informed view at fund level of the embedded return and risk potential therein.

Click here to return to Letter Segment Topics

Investment Results, Investment Strategy & Fund Positioning

Investment Results

Investment results matter. As long-term investors, we feel strongly that a sensible measurement time frame is over a full market cycle, which typically unfolds over rolling 5 to 7 year time periods.

As we have not yet completed a full market cycle in our mandates at Perspective, at this point we can only provide you with the since inception results in relation to our respective benchmarks, and comment briefly on how they stack up relative to our expectations.

The **Perspective Balanced Prescient Fund** launched on September 4th, 2017. **Through end July 2021 it delivered a total return in SA Rands, *including* dividends and interest, *net* of all costs, of 6,9% per annum.** SA inflation over this 4-year time frame was 4,2% per annum, so the funds' real (*after-inflation*) return to date was 2,7% per annum.

It is less than our fund benchmark of inflation + 5% per annum, but it is a respectable outcome within our expectations. As at this stage we are not yet through a fully completed market cycle, we are mindful not to get caught up in over-analysing this result. We have only seen our SA investment universe go from very expensive in 2017, to very cheap in mid to late 2020, to somewhere between very cheap and cheap today. Our first completed market cycle in this fund would be when our SA investment universe has rerated to very expensive.

The **Perspective Executive Equity Prescient Fund** launched on October 8th, 2020. **Through end July 2021 it delivered a total return in SA Rands, *including* dividends and interest, *net* of all costs, of 42,9%.** *Please note that as the time frame covers less than a year, this result has not been annualised.*

It compares favourably to our fund benchmark of inflation + 6% per annum, and we are pleased to have gotten off to a solid start. *An appropriate word of caution - investment returns generated by applying our long-term investment approach in a reasonably concentrated equity fund that is fully invested at all times can be lumpy over shorter time frames.*

Perspective's first **Bespoke Global Mandate** launched on August 19th, 2019. **Through end July 2021 it delivered a total return in US Dollars, *including* dividends and interest, *net* of all costs, of 10,5% per annum.**

This is *above* inflation, which is pleasing, especially in considering that we have maintained a low average equity exposure of approximately 35% over this 2-year time frame. It is also *below* our mandate benchmark MSCI World Index total return of 19,8% per annum. Given our convictions on global market valuations, we have maintained an ultra-conservative positioning in this mandate since inception. As a result, when the global markets collapsed by 35% in Q1 2020, this portfolio declined by less than 5%. We are satisfied with the positive portfolio returns combined with low downside market participation to date. *Please bear in mind that 2 years is a short time frame and less than a full market cycle.*

Perspective's first **Bespoke SA Mandate** launched on June 12th, 2020. **Through end July 2021 it delivered a total return in SA Rands, *including* dividends and interest, *net* of all costs, of 79%.** *Please note that as the time frame covers just over a year, this result has not been annualised.*

It compares favourably to our mandate benchmark of inflation + 6% per annum, and we are pleased to have gotten off to a solid start. *An appropriate word of caution - this rate of return is clearly not sustainable at this high of a level in the long run. Also, please note that investment returns generated by applying our long-term investment approach in a more highly concentrated bespoke equity fund mandate, that is fully invested at all times, can be lumpy over shorter time frames.*

Our two portfolio managers construct all our portfolios by drawing from the exact same investment approach, process, and investment idea pool generated by our investment team, of which the two of us also act as analysts primarily responsible for investment idea generation. While we generally remain largely inactive from a transactional point of view, our portfolio managers formally evaluate our positioning, new ideas and portfolio risk management at least weekly, in addition to our daily informal interactions. We care greatly about what we do, and because we spend a lot of time together we are grateful to be working with professional team members we admire and respect.

Investment Strategy

As the market cycle moves through the two phases from very expensive to expensive and on to fair value, our investment strategy is focused on the *preservation* of capital. To the extent our fund mandates and regulations allow, we will have low exposures to equities and real estate, with high exposures to cash and bonds. *[In the SA market, this was from 2017 to 2018]*

In the next two phases, as the market cycle moves from fair value to cheap and very cheap, our strategy tilts from capital preservation to capital *growth*. We will slowly but surely be increasing exposure to equities and real estate, while funding this by lowering exposure to cash and bonds. This is typically when we will be net buyers of assets offering us the highest future returns, building up fund exposures to many new investment ideas. If we ever get our timing perfect, the point at which we become fully invested in our funds will be at the lowest point in the market cycle, precisely when cheap, quality assets offer up their highest expected future investment returns. *[In the SA market, this was from 2019 to 2020]*

In the next two phases, as the market cycle moves from very cheap to cheap and on to fair value, our strategy remains focused on capital *growth*. We will continue being fully invested, with significantly lowered transactional activity - other than reinvesting dividends into the highest expected future return assets that we already own. There can also be the occasional partial or outright sale of assets we own where their prices may have run up so much that they no longer offer reliable upside. We interrogate these investment decisions carefully. If we do decide to go ahead with a full or partial sale, we make sure to remain fully invested in high return assets by acquiring more of what we already own in the rest of our funds, or by introducing a new investment idea. *[In the SA market, the first leg of this is unfolding in 2021]*

In the following two phases, as the market cycle moves from fair value to expensive and on to very expensive, our strategy tilts back from capital growth to capital *preservation*. In these phases, our transactional activity will slowly but surely increase, and we will become net sellers of equities and real estate. *[In the global ex SA markets and in SA large caps and the JSE Indices, the second leg of this is unfolding in 2020 & 2021]*

Fund Positioning

As context for our fund positioning, in table 2 we summarise our views on the SA and global ex SA investment landscapes in the form of a heatmap.

Table 2: Investment Opportunity Heatmap

Asset Class	SA	Global ex SA
Currency	*Neutral. SA Rand is somewhat undervalued, not sufficient to compensate for the counterparty risk.*	*Neutral.*
Commodities	*Generally high. Precious Metals offer attractive downside protection qualities.*	*Generally high. Precious Metals offer attractive downside protection qualities.*
Government Bonds	*High yield appears attractive, but not sufficient to compensate for the counterparty risk.*	*Record low to negative yields, with rising inflation, implies significant downside risks.*
Corporate Bonds	*High yield appears attractive, but not sufficient to compensate for the liquidity risk.*	*Record low base yields combined with low yield spreads, and rising inflation, implies significant downside risks.*
Real Estate	*A few attractive opportunities in discerningly selected, quality, diversified businesses.*	*Low yields with records in unaffordability in a number of important real estate markets spells trouble.*
Equity	*Many attractive opportunities in a wide range of discerningly selected, quality businesses.*	*Leading market indices at record highs with above normal valuation multiples spells trouble, but there are some discerningly selected opportunities.*

Table 3 reflects the current asset class exposures across our four fund mandates.

Table 3: Asset Class Exposure

	Positioning	Number of Holdings	SA Equities	SA Real Estate	SA Bonds	SA Cash	Global Equities	Global Real Estate	Global Bonds	Global Commodities	Global Cash
Balanced Fund	Fully invested	37	60,4%	10,6%	0,0%	5,6%	14,3%	0,0%	0,0%	5,1%	4,0%
Executive Equity Fund	Fully invested	25	91,0%	9,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Bespoke Global Mandate	Conservative	18	0,0%	0,0%	0,0%	0,0%	50,0%	0,0%	0,0%	3,0%	47,0%
Bespoke SA Mandate	Fully invested	11	100,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%

Comparing tables 2 & 3 shows that we have matched the positioning of our funds to be invested where our team found the best long-term investment opportunities, and to avoid areas of the markets that offer poor outcomes.

In considering table 3, and particularly given the current prevailing mood of negativity in SA, which is entirely justified, we would understand if investors in our three SA funds were to suspect that we may have bet the (i.e. *your*) farm on SA. **This is *not* the case.** While our SA investment universe is JSE listed, it contains many excellent businesses that have already established meaningful to even fully global operations generating revenues and profits outside of SA.

We assigned each of the assets held in our funds into (a) "Mostly to fully SA", (b) "SA with meaningful global", and (c) "Mostly to fully global". We then added up their combined exposures to these three categories in each of our funds - table 4 shows the results.

Table 4: Geographic Business Exposure Per Fund

	Mostly to fully SA	SA with meaningful Global	Mostly to fully Global
Balanced Fund	30,7%	42,7%	26,9%
Executive Equity Fund	39,2%	58,4%	2,4%
Bespoke Global Mandate	0,0%	0,0%	100,0%
Bespoke SA Mandate	25,6%	74,4%	0,0%

Table 4 clearly shows the globally diversified nature of our funds.

We know it is incredibly hard work to build and nurture a business in one's own country. However, we also know that pales in comparison to what it takes to build a business in another country, or on another continent.

Regardless of whether companies are building or buying, establishing a sustainable global operation outside their home country and continent is exceedingly complex, costly, and fraught with significant risks. Corporate graveyards have many tombstones of companies that have tried to globalise and failed miserably. Even the most well funded, smartest, innovative, and experienced companies and people in the world can come unstuck just by virtue of poor timing, bad luck, and regulatory or competitive backlash.

Complexities include, but are not limited to, vast differences in time zones, cultures, languages, societal norms, work ethic, risk attitudes, management styles, business practices, legal requirements, banking environments, licensing requirements, competitive landscapes, government interference in the private sector, changes in government and industry regulations, and supply chain logistics. The list is probably endless.

A respected, tough-as-nails, 74-year-old CEO leading one of the best SA businesses we own in our funds, at which their corporate head office is literally on the second floor of one of their operational outlets, is famed for regularly reminding their ambitious younger team members "*It is hard enough to manage our operations downstairs, let alone in the rest of SA. Forget about the rest of the world!*" From the looks of it, there are quite a few SA companies that could have benefited from this wisdom.

SA's persistent political and economic mismanagement (outlined in our letter segment topic on SA) may also have played an important role in forcing some of our best businesses and business executives to adapt to their reality by globalising. To be certain, a LOT of school fees have been paid by the SA private sector and their shareholders in this regard. Fortunately, it appears at least some of these valuable lessons have been learned, and, equally importantly, remembered and applied successfully.

The net result and great news is that, whether they globalise or remain focused on one country, today we can own more robust businesses, led by better informed executives.

Click here to return to Letter Segment Topics

Portfolio Management Actions

This segment covers our portfolio management actions in our unit trust funds over the 13-month period from July 2020 to August 2021.

Additions to existing fund holdings

We increase our individual position sizing when one or more of the following occurs:

- We follow our pre-planned buying program.
- Our conviction levels increase further following ongoing work into learning more about our portfolio businesses and their industries.
- We evidence positive fundamental progress in our investment thesis.
- All else being equal, either the share price had reduced significantly, or our estimate of its valuation had increased significantly.

- We have spare cash available in the portfolio, or we can raise cash by selling something else.

We increased position sizes in **CMH**, **Philip Morris**, **Spar**, **Bell Equipment**, **Afrox**, **Ninety1**, **Adcock Ingram**, **Astral Foods**, **AECI**, **Long4Life**, **WBHO**, **Remgro**, **Sasfin**, **Spur**, **Growthpoint**, **Emira**, and **Murray & Roberts**.

***New* fund holdings acquired**

We established new positions in **Nokian Renkaat**, **Afrimat**, **Reinet**, **Rhodes Foods**, **JSE Ltd**, **Hochtief**, **Hengan**, and **Miquel Y Costas**.

Finnish listed **Nokian Renkaat** is recognised as the leading global manufacturer of winter passenger car tyres, with over 4,700 employees, and selling products in over 60 countries. It was founded in 1898, named 'The Finnish Rubber Works'. Renkaat is the Finnish word for tyres.
Nokian Renkaat Website Link

SA listed **Afrimat** is a bulk commodities, industrial minerals, and construction materials business, focused on SA, with its foundational subsidiary started in 1963. Under the exemplary leadership of its CEO, Andries van Heerden, it has built a clearly defined culture and an enviable operational, strategic and acquisition track record.
Afrimat Website Link

SA listed **Reinet** is a global investment holding business that was formed in 2008 when global luxury goods business **Richemont** injected its stake in **British American Tobacco** into Reinet. Steered strategically by its major shareholder Johann Rupert, in the past 13 years it has slowly but surely been diversified into a collection of long-term growth assets, funded by the sale of its BATS shares and reinvested free cash flows.
Reinet Website Link

SA listed **Rhodes Foods** is a value-added food processing business, with its roots going back to the establishment of Rhodes Fruit Farms in 1896. It listed on the JSE in 2014. It only recently completed a significant multi-year and multi-billion Rand expansion phase in add-on business acquisitions and productive capacity expansions.
Rhodes Foods Website Link

SA listed **JSE Ltd** is none other than the JSE stock exchange business itself. This is not our first rodeo with investing in this business, as since its listing in 2005 we have completed several successful ownership cycles thereof. The JSE was formed in 1887 and listed in 2005. The relatively newly appointed CEO, Dr Leila Fourie, has an extensive global financial

services industry background, and appears well placed to understand and manage the modern opportunities and challenges of stock exchange business models.
JSE Ltd Website Link

German listed **Hochtief** is a leading and highly respected global construction & engineering business, specialising in complex infrastructure projects. It was founded in Frankfurt in 1873 by the two Helfmann brothers. Today it has 47,000 employees with significant operations across North America, Australia, and Europe. Hochtief's CEO, Marcelino Fernandez Verdes, has been pursuing a strategic transformation focused on sustainable cash-backed profit generation and improved risk management since his appointment in 2012.
Hochtief Website Link

Hong Kong listed **Hengan** is the leading Chinese national manufacturer of sanitary pads, baby diapers, and home use tissues. It was founded in 1985 and listed in 1998. Hengan has 25,000 employees and its products are also exported to 63 countries outside China.
Hengan Website Link

Spanish listed **Miquel Y Costas** is a leading global manufacturer of fine and specialty lightweight packaging papers, specifically for the tobacco industry's legacy as well as new age smokeless products. It has been control-owned by successive generations of the Miquel family since its founding nearly 300 years ago in 1725, when it produced paper products by hand. Considering its long existence, it only listed relatively recently, in 1996.
Miquel Y Costas Website Link

Existing fund holdings *reduced*

We reduced our exposures to **Exxon Mobil**, **American Eagle**, **Cashbuild**, and **Franklin Resources.** In each case their share prices had increased considerably, to the point where our future expected returns had meaningfully decreased.

Holdings *exited* completely

We sell out completely if (1) our investment thesis has run its full course and there is no more realistic upside left, (2) our ongoing work uncovers a mistake in our analysis, (3) new fundamental developments result in a significant erosion to our confidence levels, or (4) we can replace an existing investment idea with a clearly superior one.

We sold out of **Omnia**, **Sasol**, **Coronation**, **Maersk**, **RMB Holdings**, **Fairfax Holdings**, **Attacq**, **Firstrand**, **Denso**, **Magna**, **Nokian Renkaat**, **TotalEnergies**, and **Afrox**.

In most of these cases their share prices had increased considerably, to the point where they were fully valued. We were able to recycle all these proceeds into similar or better-quality assets offering you higher prospective investment returns.

We sold out of **Coronation** to further increase our position in **Ninety1**, which we consider a more globally competitive, ambitious, robust business, and with a superior long-term fundamental growth runway.

We sold out of a very small position in property business **RMB Holdings** that was left over from the holding company restructuring and unbundling of its underlying holding in **Firstrand.**

We sold out of **Fairfax Holdings** to fund the purchase of global investment ideas with similar upside, that at the time we understood better and had more conviction in.

The sale of **Afrox** was effectively forced upon us by its German controlling owner, **Linde**, who had made an aggressive offer to minorities that was not entirely unreasonable, but possibly on the low side. We carefully assessed the situation and engaged in confidence with the independent non-executives. It became clear there would no point in us fighting their offer, so we decided to exit to reinvest in other attractive opportunities.

In hindsight, our sale of property business **Attacq** was a mistake, albeit not a costly one. We were taken by surprise by the sudden resignation of its CEO, Melt Hamman, whom we rate highly and considered integral in managing the business through a tough period, and providing confidence to its financial lenders - which in the case of property businesses we know to matter a great deal. The explanations provided did not fully make sense to us, so we exited. Its share price has since recovered strongly, and our fears around their sustainability did not come to pass. So, this is one we just got totally wrong. Fortunately, we had recycled the proceeds to further increase our exposure to our other two existing property businesses, which have done well.

Click here to return to Letter Segment Topics

Annual Fund Turnover

Firstly, a definition and explanation - annual fund turnover is calculated by adding up all the sales of assets, expressed as a percentage of a fund, over a whole year.

If the resulting number is low (or high), it signifies a low (or high) level of transactional activity in a fund. So, for a first example, if annual fund turnover is as low as 20%, it means in that year a total of 20% of the fund was sold, and by implication transacted in. Mathematically inverting the 20% number results in a 5, which implies the fund manager can be expected to own fund assets for 5 years on average, which is what a long-term investor should be doing.

Persistently low levels of fund turnover significantly benefit all fund investors by keeping direct (trading commissions and taxes) and indirect (market impact and opportunity costs) transaction costs low.

For a second example, if annual fund turnover is as high as 120%, the inverted result is 0.83, which implies the fund manager can be expected to own fund assets for just 10 months (0,83 of a year) on average, which is what short-term investors and speculators do.

So, here is a nifty industry insider tip. If a fund manager or anyone else *claims* to be long-term investors, just ask us to give you our verifiable annual fund turnover numbers over the past 5 years. If our number averages below 20%, we are busy doing as we say. If the number is significantly higher, we are busy doing something other than long-term investing, which you can then consider asking us to explain and help you understand what else we are busy doing.

Unsurprisingly, comprehensive studies on this are incredibly hard to find, but it may interest you to learn that a credible independent source (*An article by Anne M. Tucker, Associate Professor of Law, Georgia State University, published in The Journal of Corporation Law Vol. 43:3, March 27th, 2018*) found the average annual fund turnover rate for the active US mutual fund (unit trust) industry at 'between 75% to 115%', and that 'NYSE stocks are held, on average, less than a year'. If this is our whole industry's average, then of course it means that large numbers of professional market participants are turning over their funds at far higher levels than that. As we have been in our own industry a long time, we already knew this to be the case, but it is still quite incredible to see the reality and reflect on its implications.

As our Balanced Fund launched on September 4th, 2017, as of this annual letter's publication we have just about completed 4 years in Perspective's first unit trust. We keep careful track of every investment decision and transaction, for several good reasons, one of which is that **we can precisely calculate and confidently state our average annual fund turnover in our Balanced Fund for the past 4 years was 18,8%.**

Pleasingly, we are below 20%, but it is a bit higher than we would have liked it to be. We ascribe this to the incredible speed and severity of the twin impact of the global coronavirus pandemic, coupled with SA's repeated and inexplicably harsh economic lockdowns. In our 2020 letter we explained the actions we took in Q1 2020 to exit our most vulnerable businesses to protect our funds from the risk of suffering deep permanent capital losses.

In our fully active investment process, fund turnover in individual years can be lumpy, so please note that as the rest of our funds & mandates have only existed for two years or less, their turnover numbers are less reliable indicators at this early stage. Nonetheless, here they are.

Our average annual fund turnover was 12,6% for our Executive Equity Fund (11 months since inception), **6% for our Global Bespoke Mandate** (2 years since inception), and **17,5% for our SA Bespoke Mandate** (15 months since inception).

Click here to return to Letter Segment Topics

Perspective Business Update

One of our stakeholders kindly shared the meaning of a new made-up word with us recently - "**Qualitrarian**". It is not in the dictionary, but it probably should be. It means making a conscious choice to go against the grain and to focus only on quality, which is applied to anything. From our point of view this complements our business philosophy 'to do things properly or not to bother'. This concept runs like a connected gold seam across everything we do for you.

Marketing is a vital component of any business, because no product or service sells itself, and without revenues, cash flows and profits no business can be sustainable. Right from the outset we chose to do our own version of 'qualitrarian' marketing. This meant we set out to establish top quality relationships with top quality investors, and provide you with a top-quality experience in being a key Perspective stakeholder.

A Perspective top quality relationship is personal, respectful, confidential, straightforward, mindful, honest, mutually beneficial, and long-term.

A Perspective top quality investor is discerning, supportive, engaged, sets high standards, and invests in a counter-cyclical manner.

A Perspective top quality experience delivers acceptable investment results over full market cycles, keeps you informed and empowered, continuously builds mutual trust, and improves your confidence to invest in a counter-cyclical manner.

The investment industry is notorious for being full of investors, investment professionals, and investment firms chasing the hottest short-term historic investment performance or the hottest current trends. Therefore, the marketing departments of many investment firms operate with a *pro-cyclical* marketing strategy - because it is so much easier to sell a recently top performing product or launch a new one capturing the latest fashion, and they are heavily incentivised to be doing so.

When we established our firm in 2016, we launched with a **Balanced Fund** mandate, because markets were just not cheap enough at the time to justify being more fully invested. We did the same with launching our **Global Bespoke Mandate** in 2019, ensuring its full flexibility. Starting Perspective without any fully invested equity funds was highly unorthodox as a business strategy in our industry, but it was the right thing to do from the perspective of our investors.

In 2020, as sufficient long-term investment opportunities unfolded, our Balanced Fund became fully invested and we were able to launch our **Executive Equity Fund** and **SA Bespoke Mandate**.

These two investment strategies are focused exclusively on being fully invested in SA listed assets. Launching these during a time of consensus extreme pessimism, uncertainty, and poor historic SA market returns was highly unorthodox as a business strategy, to say the least. But again, it was the right thing to do for our investors therein.

Simultaneously, in the course of 2020 we were regularly communicating directly with every investor in our Balanced Fund, to explain the opportunity and our rationale for becoming fully invested, and to motivate and encourage your counter-cyclical investment actions.

Our 2020 letter to investors, sent out in June 2020, provided extensive additional supporting evidence.

Perspective does not have a 'marketing department', and we will never have one. Our team's focus is on continuing to deliver quality experiences in quality relationships with quality investors.

Our first most powerful 'sales tactic' is the alignment of interest, due diligence and conviction that results from our shareholders, portfolio managers, team members and many of our family members being fully co-invested in our funds right alongside you.

We put all our own savings right where our mouths are, and we do not have or tolerate any side shows. We can never promise you that we will avoid making any mistakes, but we can promise you that we will feel every one of our mistakes right where it matters and hurts. Taking personal accountability, stepping into our mistakes to study them, learn from them, remember them, and then further improve our processes, are all vital components of our firm's continuous learning culture.

Our second most powerful 'sales tactic' occurs when our *existing* investors recommend new investors to us via word-of-mouth.

This should only ever happen on an independent, meritable basis - if we continue delivering quality experiences to you in quality relationships.

So, Perspective's marketing strategy is to double down on QUALITY. It works.

Click here to return to Letter Segment Topics

Q&A

Q1: What does it mean when you talk about looking for and investing in businesses with 'a great listed game'?

A1: We look, at the very least, for business executives with evidenced business credibility within an industry. We think of this as having 'a great business game'. However, we also found that a wise executive with a deep understanding of investing and stock market cycles can create immense additional long-term per share shareholder value. One way of doing so is by issuing new shares when the share price is very high relative to intrinsic business value, and by buying back existing issued shares when the share price is very low in relation to intrinsic business value. We term this as having 'a great listed game'.

For reasons we might not be destined to fully know or understand, finding business executives with a great listed game is a rarity. So, when and where we do identify it, it is a cause for tremendous excitement. We make sure to closely track where these people go, and what they do.

Our investment team members continually engage behind the scenes in confidence with current and former business executives of listed and unlisted businesses around the world. Our agenda would typically include gauging the existence and extent of their 'listed game'.

Interestingly, despite many attempts over the years, we cannot yet evidence any success in terms of coercing or convincing an executive to cultivate a great listed game. To date we have found they either have one or they apparently never will. We will keep modifying our approach and continue trying nonetheless, as any form of success in this regard will be impactful.

Q2: Are you considering investing in unlisted assets?

A2: As long-term business investors first and foremost, we have no in-principal issues with analysing or investing in unlisted assets. However, we know and respect that investing in unlisted assets is far more complex, costly, and risky than it may appear at first, or when marketed by its promoters.

Our Balanced Fund complies with Regulation 28 that governs SA pension funds, which specifically includes the mandated use of unlisted investments set to a maximum percentage of the fund. As a regulated SA unit trust it also complies with CISCA, which imposes a further set of specific and onerous rules & requirements with regards unlisted investments. In short, a complete lack of liquidity, lack of transparency, and the mark-to-market risk burden shifted directly to the investment manager makes it between difficult to impossible to effectively manage open-ended unit trust portfolios utilising direct unlisted investments.

Therefore, our preferred exposure to unlisted assets is indirectly through our ownership of credible, liquid stock exchange listed investment holding companies. Examples of such businesses currently held in our funds are **Remgro, Reinet,** and **Long4Life**.

Some of our portfolio businesses also have the rare proven ability to start new businesses, or to identify, acquire, and integrate established private businesses. Examples of such businesses currently held in our funds are **Growthpoint**, **Afrimat**, **Hudaco**, **Foschini**, **Santova Logistics**, **Hochtief**, **Ninety1**, **Distell**, **American Eagle**, and **Italtile**.

We have slowly been busy evaluating our potential investment participation in long-term private equity funds operated by credible independent entities. It is a complex, opaque industry, with many fine print restrictions, liquidity lockups, and hidden costs. The range of private equity industry role-players also seem to greatly vary in quality and trustworthiness.

Strategically, we will continue reviewing our competency and ability to invest directly in unlisted assets. If it can be done sensibly and in the best interest of all our stakeholders, we will be sure to consider doing so, and inform you accordingly.

Q3: What are your views on crypto currencies?

A3: There is nothing inherently wrong with a new encryption technology such as blockchain. There have been many other incredibly valuable and hugely disruptive technologies in history, such as ships with an ability to voyage across oceans, gunpowder, currencies, steel, oil, railroads, automobiles, the telegraph, household appliances, piped water, the internet, telephones, cell phones, smart phones, computers, fibre telecommunications, and social media.

In all their initial phases of development there were tremendous success and excitement that drew in unscrupulous operators and promoters, as well as many inexperienced professional and non-professional investment participants who believed there was 'easy money to be made' and 'prices always rise'. This is as old as time itself - it is not a new-age occurrence or the exclusive domain of pioneers, intellectuals, professional sports people, rockstar CEO's, millennials, and Gen Z.

By studying history and experiencing a number of these events first-hand, we have developed a risk checklist that we use to help us make sense of these situations. One thing we have learnt is to put our trust in using all 5 of our own senses - if it looks, sounds, smells, tastes, and feels like one, it is one.

Regarding crypto currencies, our risk checklist guides us to steer clear at this time.

Q4: How secure are my investments held with Perspective and its business partners?

A4: The short answer is 'Completely secure'.

Effective risk management is about identification, avoidance, mitigation, and management. We specifically designed and built Perspective to in the first instance avoid such serious security risks, and in the second instance to put in place and maintain a comprehensive, multi-layered governance environment. We devoted an entire section of our public website to this, which you can access here How Your Money is Kept Safe.

Click here to return to Letter Segment Topics

Myth Busters

Myth 1: "The JSE is shrinking, fast"

We readily admit that we too laboured under this illusion and concern for the past 4 years. However, when we made the time to gather and check the evidence, it turned out that from 2017 to 2021 the JSE lost 23 listings, of which only 4 were scale, quality businesses with medium to small sized market capitalisations and limited free float (**Afrox**, **Assore**, **Peregrine**, and **Pioneer Foods**), while gaining 38 new listings, of which 17 are scale, quality businesses with medium to large sized market capitalisations.

That said, SA's lack of economic long-term growth due to persistent government mismanagement, an anti-entrepreneurial business environment, and a lack of shareholder interest in funding ambitious new ventures may have conspired to limit both new business formation and new stock exchange listings. However, we do find there are plenty highly successful *privately* owned unlisted businesses across many industries in SA. So, what might be wrong then? Why are so few of them going public?

Massively increased regulatory and governance compliance burdens, and its associated higher costs surely plays a role. Furthermore, the risk of being profiled, targeted, or manipulated by aggressive short-term market participants, irresponsible media coverage, activists, governance junkies, incompetent government officials, SOE's or militant trade unionists is very real. Therefore, we can understand and respect why they would choose to stay under the radar, or if they must raise capital to prefer doing so from the private equity industry or private investors.

From a long-term perspective, this is clearly not an ideal situation, but it is the current reality. There is no point in us skirting around naming the issue.

Fortunately, given our relatively small size and related ability to invest across the whole SA market, the listed SA investment universe we enjoy access to remains more than sufficient for our long-term investment requirements.

Myth 2: "Rights issues are bad"

A rights issue occurs when a company awards the right to invest more money to all its existing shareholders, by issuing new shares on a bespoke or pro-rata basis to their existing shares at a pre-determined price level typically well below its recent stock market traded share price levels. Rights issues generally produce a negative perception, as they can be seen or associated with severe business distress and long-term shareholder dilution. There is even a saying in the professional investment industry *"The only thing worse than a rights issue, is a second one"*

Not all rights issues are made equal. To us it is a case of "It depends"

For example, a credible business executive might be raising capital with which to pursue attractive long-term strategic capital expansion projects or counter-cyclical business acquisitions. A wise executive with a strong 'listed game' might look to take advantage of a share price dislocation when it is trading well above its intrinsic business value.

Provided a business and its leadership retains credibility, and provided we can recognise financial distress, we can deliberately maintain a lower fund exposure in advance of partaking in a rights issue required to repay debt. This is a dangerous approach, as businesses and leadership lacking in credibility are far more unlikely to get bailed out by shareholders. Our evaluation of the shareholders register plays an important role.

In the past 18 months we participated in two significant pro-rata rights issues at our fund holdings in **Omnia** and **Foschini**. Our fund exposures to these two businesses prior to the rights issues were deliberately kept small, and we were able to fully take up all our rights to acquire new shares at extremely attractive price and expected return levels. Our fund holding **Growthpoint** did a small issue of new shares on a bespoke basis that we did not partake in.

All three of these businesses were contributors to our investment results following their issuance of new shares.

Click here to return to Letter Segment Topics

Thank you for reading our 2021 annual letter. You have reached its end.

** All market data drawn from Refinitiv.*
*** All calculations performed by Perspective team members.*
****Any errors are entirely our own.*
***** This document reflects the views of its authors as of the date indicated. The authors reserves their right to change their views whenever the facts change, without notice. This document is for information purposes only and should not be used for any other purpose. The information contained herein does not constitute an offering of advisory services or an offer to sell or solicitation to buy any securities or related financial instruments in any jurisdiction.*