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WEEKLY REPORT

OVERBERG MARKET REPORT

Tuesday 11 July 2023

Global Report

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OAM's Big Five

The top five holdings in OAM's Global Growth portfolios comprise 24% of the portfolio model but the actual weighting is 30% due to substantial rallies in their share prices. This report provides a brief overview of these five winning shares and motivation for their continued inclusion in the portfolio.

3i Group: The biggest holding with a current portfolio weighting of 7.26%. 3i Group, a constituent of the FTSE 100 index, has been a star performer during these uncertain times. The share price is up 40% since the start of the year, 58% over the past 12 months and 99% over the last 3 years. 3i is a leading international private equity investment company, specialising in investments in Europe, UK, and North America. Its market capitalisation of £19.1 billion makes it one of the world's largest listed private equity companies. The group's private equity investments are made from permanent capital, which means it has no need to raise additional funds. It has a strong balance sheet, and all running costs are covered by cash income, which puts the group in a strong position and allows it to take a long-term approach when selecting its private equity investments. The jewel in 3i's crown is Action, a European based non-food value-for-money retailer. Action used to comprise 25% of 3i's portfolio net asset value (NAV) as recently as December 2016. The strength and resilience of Action's franchise, the rapid rollout of new stores and margin expansion have steadily compounded its value so that it now makes up 66% of 3i's NAV. 3i's management refer to Action as a "compounder". It's easy to see why, posting an annual gross investment return of 57% over the 9-year investment period. However, the remainder of 3i's portfolio has also done well, posting an average annual gross return of 18% over the same time span. Portfolio investments are focused on the consumer value-for-money, private label healthcare and infrastructure sectors. In the financial year to 31st March 2023, 3i's NAV increased by 32% backed by strong underlying performance throughout the portfolio. Financial markets have been slightly sceptical of some private equity valuations especially in the current environment of rising interest rates and tightening credit markets. However, 3i has a long- and well-respected track record in its valuation approach, which is considered conservative. Recent investment disposals have been at consistent uplifts to reported value. Overberg Asset Management bought 3i for its private client global portfolios in January 2019. It was a bargain at £8.24 compared with £9.53 just 4 months prior but has since more than doubled in price and is around double model weighting and begs the question: Should we continue to "run the winner" or is it time to rebalance portfolios and trim back to model weighting. Action is experiencing a consistent increase in shoppers and sales across all countries and categories and believes it can continue increasing the number of its stores at an impressive pace of 300 per year for the next 10 years. There may also be other compounders in the future. The current share price premium to NAV is still cheap versus the long-term average so for the foreseeable future we will run the winner.

3i Infrastructure plc (3IN) has a portfolio weighting of 6.37%. It is a listed infrastructure investment company investing mainly in the UK and Europe with a focus on energy transition, utilities, transportation, and communication. The investments, which are stand-alone and also via public private partnerships, are intended to generate long-term yield and capital growth. 3IN targets a total annual return in sterling of 8-10% of which 4% is through the dividend. It is a defensive investment providing valuable diversification in any investment portfolio. The IMF and World Bank have repeatedly stated that a key driver for global GDP growth in coming years will be infrastructure spending, which should benefit the company. The share is attractive for its low volatility, hedge against inflation, and high dividend yield. Results have been impressive with a 13.1% annualised total shareholder return since the IPO in 2007. The company has a portfolio of 13 economic infrastructure businesses valued at £3.6 billion. Earnings have an explicit inflation linkage with several contracts index linked. Essential services have genuine pricing power. A 1% increase in long-term inflation assumptions would increase NAV by 8%. The company reported another solid result in the financial year ended December 2022 with EBITDA growth of 18%. In the twelve months to end March 2023, the company achieved a total NAV return of 14.7%, once again above the 8-10% annual target. Recent market transactions are supportive of 3IN's valuations, validated by syndications undertaken by the company and asset disposals. The discount rate of 11.3% used in valuing 3IN's assets is extremely conservative, around 6% above its actual funding costs. Net gearing is also conservative at around 16% of NAV. Given the strong performance of 3IN's portfolio, the high discount rate, its ability to self-fund opportunities and its sector leading diversification, the share remains a stalwart in OAM's portfolios. The share has historically traded at a premium to NAV but is currently priced at an attractive 11% discount.

Finsbury Growth & Income (FGT) has a 5.74% portfolio weighting. Inflation winners are likely to share the following attributes. Good quality, cash generative companies with strong balance sheets and pricing power. Companies with high gross margins generated by strong competitive positions. Companies with low capital requirements. For instance, branded consumer goods. Many are represented in FGT, which has been held for several years in OAM's global portfolios. Its manager. Nick Train cites its portfolio brands Johnnie Walker whisky and Remy Martin cognac, which since 1933 have increased in price in the US 21x compared with US inflation that has increased 11x. Burberry is another of its holdings, making up 8% of the FGT portfolio. In 1916, a Burberry trench coat cost three guineas compared with the current price of £1,790, a price appreciation far exceeding UK inflation. Edison Research in a recent report on Finsbury Growth & Income dated 27th January 2023, summarises FGT's investment manager, Nick Train's outlook: "Over the 70 years of Queen Elizabeth 2's reign, he says, the value of UK equities increased by 2500x versus inflation at just 20x, which the manager finds deeply reassuring. Despite the current pessimism around the UK economy and stock market, Train believes that sound UK companies can continue to protect savers' capital against inflation and generate wealth for investors." Nick Train was appointed investment manager of FGT in 2000 since when the NAV has increased by two-and-a-half times the FTSE All Share index. The portfolio is highly concentrated with the top ten holdings representing two-thirds of net assets. About half the companies in the portfolio are family owned and their average age is over 100 years. The manager believes equities will benefit from rapidly changing technology, changes in demographics, the rise of the middle class and protection from rising inflation. He seeks companies with durability that can grow regardless of the economic cycle, a high return on equity, low capital intensity and high cash flow generation. The investment company has one of the strongest performance records in its peer group. Around 40% of the portfolio is in data, analytics, software, and platform service companies, all delivering growth and exceptional profitability, and beneficiaries of artificial intelligence. FGT also has considerable exposure to luxury brands, which remain a good proxy for participating in the

growth and new wealth created by technology worldwide. Portfolio turnover is low, reflecting the manager's belief that significant returns are achieved through investing in exceptional companies over the long-term. He cites Charlie Munger who said: "You don't make money when you buy, and you don't make money when you sell. You make money when you wait." Over 10 years, FGT has increased NAV by 9.6% per annum, compared with 6.5% for its UK Equity Income peer group and 5.6% for the FTSE All Share index. The share trades at an unusual discount to NAV, currently around 4%, offering excellent investment value.

BH Macro Ltd has a 5.34% portfolio weighting. BH Macro is the only way for investors to access the award-winning Brevan Howard master fund, one of the world's leading global macro absolute return investment vehicles. BH Macro provides protection against market disruption, rewarding investors in the event of rising volatility in financial markets and provides a solid counterbalance to any portfolio. The managers limit losses by buying rather than underwriting option structures, which tend to be far out of the money and therefore very cheap. BH Macro's track record is exceptional, producing an annualised net asset value return of 9.33% (GBP) since its listing in 2007. Since then, positive monthly returns have been produced in 17 of the 20 worst months for the S&P 500 index. During the Global Financial Crisis in 2008 and 2009, BH Macro returned 23.25% and 18.0%, and then 12.34% during the European sovereign debt crisis in 2011. As markets corrected in 2018 due to rising US interest rates and quantitative tightening, BH Macro gained by 12.43%, and when Covid struck in 2020, investors were rewarded with a 28.09% return. In 2022, BH Macro produced a 21.9% return as surging inflation combined with rapid interest rate hikes triggered high levels of volatility across a range of markets. Performance was driven by the spike in bond yields, in particular rising US interest rates. Year-to-date performance has been poor as stability has returned to financial markets. BH Macro thrives on volatility and so NAV has declined by around 5% YTD and the share, which had been trading at a healthy premium to NAV since early 2021 is now trading at an unusually wide discount to NAV of around 8%, an excellent entry point for this effective portfolio insurance and excellent long-term track record. Management notes that huge uncertainties remain over global central banks succeeding in containing inflation without triggering severe recessions. They believe that a "soft landing may turn into turbulence or worse." BH Macro has long been OAM's most effective portfolio risk diversifier.

JPMorgan American Investment Trust (JAM) has a 5.19% portfolio weighting. JAM aims to achieve capital growth from North American investments through outperformance of the S&P 500 index. The managers of JAM split their allocation to large-cap stocks equally between growth and value shares so that the balance does not deviate more than 60:40 in either direction. Performance was boosted in 2022 with exposure to material and energy stocks but its largest exposure currently is to information technology at 25%, financials at 16% and healthcare at 12%. The share has an excellent track record versus its benchmark and its investment company peers. The share is very liquid with a market capitalisation of close to £1.5 billion. The US market is admittedly expensive versus other world markets, but this is largely explained by the heavy weighting of technology and healthcare stocks, which tend to trade at higher multiples. The US private sector, after the decade of deleveraging that followed the Global Financial Crisis, is in rude health. Balance sheets are solid, banks are well capitalised, there are no structural imbalances in the economy. The US is energy self-sufficient and is far removed from the Ukraine war. The delayed impact of monetary and fiscal tightening will cause an economic slowdown, but the expected recession is likely to be shallow and short-lived. The managers expect inflation pressures to ease during 2023, with the labour market beginning to soften, supply chain pressures easing and commodity prices falling. The JAM portfolio enjoys significant exposure to the mega-cap technology shares being driven higher by investor enthusiasm for Artificial Intelligence. The current top four holdings are Microsoft, Apple, Nvidia and

Amazon. The share provides reliable exposure to an actively managed US portfolio and trades at an attractive 4% discount to NAV.

OAM GLOBAL GROWTH PORTFOLIOS	
Top Five Holdings	**Weighting**
3i Group	7.26%
3i Infrastructure	6.37%
Finsbury Growth and Income	5.74%
BH Macro	5.34%
JP Morgan American	5.19%
Total	29.90%

Local Report

Gielie Fourie

Embracing renewable energy in mining

INTRODUCTION: The mining sector is amid an "adapt or die" energy transition, from "dirty" fossil energy to renewable "clean and green" energy. At an Africa Energy Forum (AEF) summit in Nairobi in June 2023, several experts from both the renewable energy sector and the mining sector explored ways to overcome challenges to accelerate the adoption of renewable energy in mining. Mining plays a vital role in Africa's economy contributing significantly to gross domestic product (GDP) and providing employment opportunities for millions. The sector is at a crossroads, however, caught between its economic significance and the pressing need for environmental responsibility. As the clamour for sustainability grows louder, mining companies face significant pressure to adopt renewable energy sources and reduce their carbon footprint. At the same time, rising electricity costs, a lack of grid availability and unreliable electricity supply (such as in South Africa) are driving mines to explore alternative and least-cost energy sources, such as renewables. The discussions were positive and revealed that the two sectors can indeed work together to fast-track the rollout of renewable energy in the mining sector. (As the AEF was held under Chatham House Rules, experts cannot be quoted.)

MINERS' PERCEPTIONS THAT RENEWABLE ENERGY IS UNRELIABLE: The first challenge is miners' prevailing perception that renewable energy systems lack reliability. However, the reality is quite different. Technological advancements have made renewable energy systems highly reliable. Panellists at the AEF unanimously agreed that reliability was no longer a concern. Renewable energy projects have proven their success in battery energy storage systems. Yet, the challenge for renewable energy suppliers lies in dispelling the perception of unreliability among stakeholders downstream. There is a need for greater product awareness and knowledge dissemination to bridge

this gap. At the same time, mines need to do their homework and ensure they engage competent and experienced engineering, procurement, and construction providers to construct their plants.

MINERS' RESISTANCE TO RENEWABLE ENERGY: Traditionally, miners have been hesitant to adopt new technologies, preferring to follow the lead of others. Mines like to be "first to be third" and generally don't take technology risks. In some instances, this "third mover" advantage saves miners the time and cost of conducting their own feasibility studies as they can replicate other successful projects. However, the tides are turning, and the industry is gradually becoming more receptive, and mines are now open to the idea of incorporating renewable energy solutions into their power supply.

MINERS DO NOT HAVE ACCURATE INFORMATION: Thirdly, a lack of updated information still poses challenges for miners. Many industry "professionals" have limited updated knowledge of renewable energy products and the performance of early adopters. Further complicating the issue is the mere availability of accurate and updated information which sees mines and consultants making decisions based on incorrect or old information supplied by authorities. On this subject Warren Buffett once remarked: "You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right." Fortunately, things are moving in the right direction. South Africa has now seen a sizable group of "first movers" mines such as Anglo American, Gold Fields, Harmony Gold, Pan African Resources, and Sibanye-Stillwater. As more successful renewable energy projects emerge, the economic value proposition has become stronger, and is encouraging others to replicate these initiatives.

MINERS' FINANCIAL CONCERNS: The fourth challenge is the reality that financial considerations have long posed a hurdle for renewable energy projects in mining. The high initial costs, with a 10 MW solar plant costing between $8 million and $12 million, potentially compete with capital allocation to accessing the orebody. Furthermore, the limited lifespan of mining operations does not align well with long term project financing or the expected useful life of renewable assets. The lifespan of a mine and its dedicated renewable energy project should match.

However, these challenges are mitigated by a number of developments. A number of leading independent power producers (IPPs) have stepped into the space offering funded solutions for mines, thereby removing the capital barrier and power purchase agreements (PPAs) with tenors of 15 to 20 years. To tackle the challenge of mismatched PPAs and mine life, IPPs are looking increasingly to aggregate demand from multiple energy consumers and/or wheeling excess electricity. Additionally, the introduction of re-deployable systems will revolutionise the landscape for many mines, as these systems can be relocated and repurposed once the mine reaches the end of its lifespan.

MINES HAVE LONG, COMPLEX, PROJECT TIMELINES: The fifth challenge is the complex project timelines, red tape, and negotiation challenges that often impede the progress of renewable energy projects in the mining sector. In South Africa, mining industry project timelines are subject to delays caused by Eskom's Cost Estimate Letter and Budget Quotation processes. Delays in these processes significantly affect a project's commercial operation date. The new Grid Queuing Rules just announced by Eskom will mitigate this significantly.

BOTTOM LINE: By addressing the above five challenges, mining companies can seize the economic and environmental benefits offered by renewable energy. Each mine's unique requirements should be considered to ensure optimal value and sustainability in the mining industry's energy transition. The opportunity is ripe, and it is up to the mining sector to seize it and create a cleaner and greener future. Overberg has invested in three prominent "green" mining companies namely, Anglo American, Anglo Platinum and Glencore. Anglo American uses 100% renewable energy in all its South American mines.

Please use this information as a reference, rather than as a basis for making investment decisions. To take the emotion out of equity analysis, you are welcome to contact one of our friendly consultants for a free consultation.

Sources: Africa Energy Forum (AEF) panel discussion. Richard Doyle, Juwi Renewable Energies, Cape Town.

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