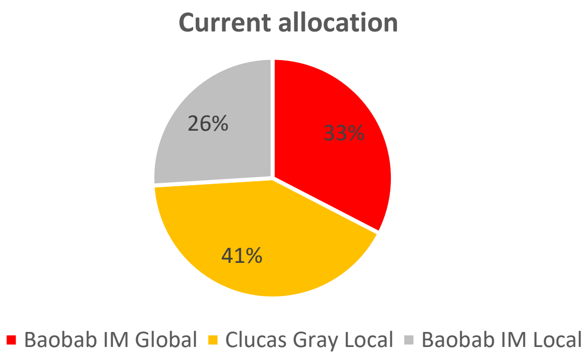
Baobab Equity AMC
31 March 2025

Investment structure and objective

The Baobab Equity Actively Managed Certificate is a locally listed structured equity note. The objective is to provide long-term capital growth ahead of the South African equity market by holding a focussed but differentiated portfolio of shares.

Investment strategy

The Baobab Equity AMC will represent the best equity ideas of two value-conscious boutique managers, Baobab Investment Management and ClucasGray Asset Management (CGAM). 60% of the portfolio will be invested by Baobab Investment Management in their best local and global investment ideas. The remaining 40% will be allocated to the CGAM Focussed Equity Note, a concentrated portfolio reflecting their 10-15 highest conviction local equity holdings. The combination provides a compelling, highly differentiated and complimentary proposition within a traditional equity portfolio.



Key Features

- Two boutique managers in one solution
- Unconstrained by size, index or peer group
- Exposure to under-owned areas of the market
- Ability to invest in small and mid-cap shares
- Differentiated local and global equity exposure

General Fund Information

Investment Managers	Sandy Le Roux (Baobab) Andrew Vintcent (CGAM)
Product Classification	Actively Managed Certificate
Issuer	Standard Bank
Risk Profile	High
Investment Time Horizon	5-7 Years
Benchmark	JSE Allshare Total Return
Annual management fee	0.7%
Isin	ZAE000326542
JSE Stock Code	AMC009
Inception date	15 September 2023

Performance

	Baobab Equity AMC	JSE Allshare Total Return
Since inception (Annualised)	7.7%	15.8%
1 Year	6.5%	22.9%

Top 10 Holdings (in alphabetical order)

Absa	Ishares MSCI Brazil ETF
AECI	HCI
African Rainbow Minerals	KAL Group
Airtel Africa	Old Mutual
Aveng	Seaport Entertainment Group

Quarterly Commentary (31 Mar 2025)

The first quarter of 2025 was a challenging one for global markets and the Baobab Equity AMC declined by 4.7% during the quarter. Both managers are focused on taking advantage of increased levels of volatility to buy or add to some extremely mispriced assets.

Baobab commentary

We entered this period with some exposure to gold, but our primary hedging tool is not to own expensive assets. Our portfolio is made up of a group of very undervalued companies that we know and understand. We have added to our stakes in a number of them in recent weeks and have also introduced a few new holdings.

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One new position already features in the Fund's Top 10 given what we believe is a very asymmetric return profile. Seaport Entertainment Group was spun out of Howard Hughes Corp during 2024 and beefed up its balance sheet via an oversubscribed rights issue. It is the owner of some very unique assets in lower Manhattan and Las Vegas that we think are conservatively worth more than double what we have been able to buy them for in a skittish market. We are normally very wary of investing in property at a discount but given the cash on the balance sheet and the unique nature of the assets, we think the odds are stacked heavily in our favour.

We are not making light of the challenges that may lie ahead and a cautious and sensible approach is warranted. In times like these it is critical to remain humble, intellectually honest and true to your investment approach. We accept that uncertainty and volatility will be with us for some time to come, but will continue to take advantage of our size, flexibility and temperament to sow the seeds for superior long-term returns.

CGAM commentary

There is a distinct lack of appetite for some of the lesser known, smaller companies – their limited (trading) liquidity makes them less appealing to larger institutions. We firmly believe that this lack of appetite has resulted in a meaningful pricing anomaly for many smaller companies – history has taught us time and again, when these anomalies correct, investors can earn outsized returns. An investment into the AMC today provides access to a portfolio of companies with an average estimated Dividend Yield of 6.9%, and an average estimated PE multiple of 6.3x. Even in the context of a South African equity market, which has experienced many crises over the years, these are simply astoundingly attractive valuation multiples. We are not oblivious to the risk that our estimates could prove to be incorrect, with forecasting being a notoriously inexact "science". It is an eclectic grouping of companies, with a commonality around the fact that we believe them all to be materially mispriced. Some are larger and well known, such as Absa, Old Mutual, Exxaro and MTN. Others are smaller, lesser known – Zeda, Caxton, Ethos, KAL Group, Metrofile and Nampak will not feature prominently in many investment portfolios, yet each have, in our opinion, their own unique and compelling investment case. Following on from what has been a difficult operating environment for many companies, the portfolio of companies in the AMC has, in our view, the ability to deliver steady, if unspectacular, real earnings growth. With the elevated dividend yield referred to earlier, and extremely suppressed PE multiples, we believe that the portfolio has an ability to deliver very attractive prospective returns to patient investors.

Glossary

"AMC" means actively managed certificates, being notes issued by an issuer which offer investors exposure to the performance of a single portfolio of underlying assets which are discretionarily managed by a third party in terms of a pre-determined strategy.