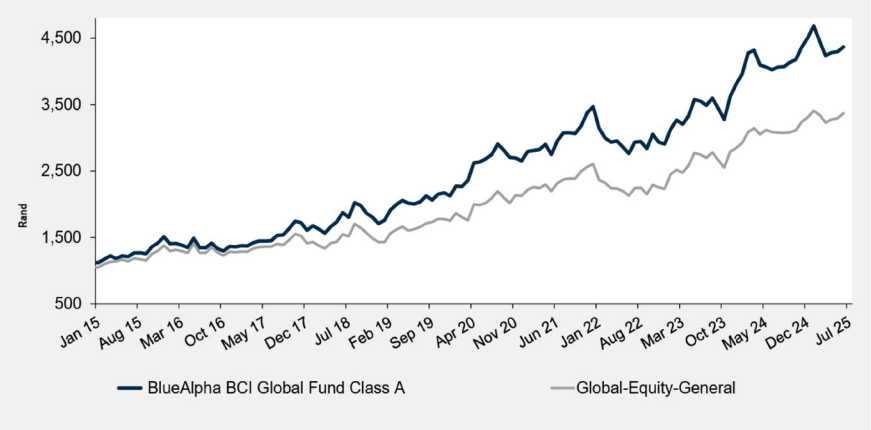
Investment Quarterly

July 2025 | Vol. 46

BLUEALPHA
INVESTMENT MANAGEMENT

BlueAlpha BCI Global Equity Fund

Our Global Equity Performance



**Benchmark: Global-Equity-General Category Average*
Inception: September 2014

Source: Fund Focus (Iress), Bloomberg

Investment Objective

The primary objective of the BlueAlpha BCI Global Equity Fund is to offer investors a high long term total return by investing across global equity markets.

Our Global Equity Track Record

Performance reported in ZAR	1 Year	3 Years (annualised)	5 Years (annualised)	Since Incept. (Sept 2014 - annualised)
BlueAlpha Return*	**9.3%**	**16.8%**	**10.4%**	**14.7%**
Sector Average	11.2%	17.6%	12.2%	11.9%
Out-Performance	**-1.9%**	**-0.8%**	**-1.8%**	**2.8%**

**BlueAlpha BCI Global Equity A Class net of fees*

Source: Fund Focus (Iress), Bloomberg

Fund fact sheets (MDDs) available on www.bluealphafunds.com

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In this issue

Looking back

Tiger Brands has evolved through a century of acquisitions, divestitures, and brand building. After setbacks like the 2017 listeriosis crisis, it adopted a leaner operating model in 2023. Focused on cost efficiency and automation, the strategy revived margins and lifted the share price by 143% from its 2023 low.

Chart Focus

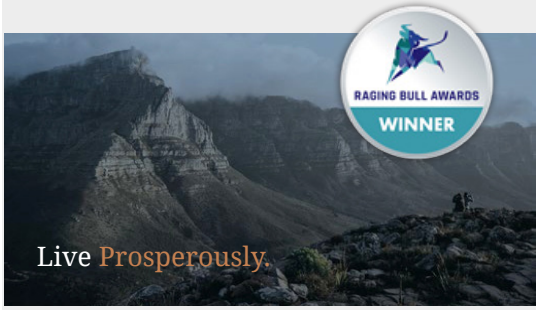
South African platinum stocks rose 85% YTD, hinting at recovery after years of weak earnings and excess supply. Demand from hybrids and supply cuts support prices, but unpredictable Chinese demand and low sector margins temper optimism. The sector remains cyclical and sentiment-driven despite signs of structural rightsizing.

Investment Focus

Bidvest's shift toward essential services boosted revenue growth and resilience. However, return metrics exclude goodwill, overstating performance. BlueAlpha supports economic profit as a fairer measure of shareholder value. Despite this, Bidvest remains a standout compounder, with smart capital deployment and recurring income supporting its long-term investment case.

Recommended Read

Thinking, Fast and Slow *by Daniel Kahneman* explores the dual systems of human thinking—automatic (System 1) and deliberate (System 2). It reveals how biases, overconfidence, and flawed intuition shape our decisions, from everyday choices to investment and policy. A sharp, research-backed guide to better thinking and decision-making.



Find out more about BlueAlpha
– who we are and how we invest
– visit our home on the web:
www.bluealphafunds.com

Looking Back: Tiger Brands

Tiger Brands is the leading Fast Moving Consumer Goods (FMCG) producer in Africa, having achieved this status through a complex trajectory that included numerous acquisitions, divestitures, rebranding initiatives, strategic realignments, and responses to various challenges. This article outlines several key milestones that demonstrate how the company continues to pursue innovation and strategic refinement to maintain its competitive edge within the industry.

Established in 1921 by Jacob Frankel with the support of Joffe Marks, the company was initially known as Tiger Oats Limited and operated as a family-owned business in Johannesburg, South Africa. In 1925, it introduced its first product—Jungle Oats, a breakfast oatmeal recognised for its distinctive "tiger-in-the-grass" logo. Today, Jungle Oats remains a prominent and trusted brand in South African households.

In 1944, Tiger Oats Limited and the National Milling Company Limited, founded by Frederick John Collier, merged and were listed on the Johannesburg Stock Exchange (JSE), where the company continues to maintain its primary listing. Following the merger, the business focused on increasing market share through strategic acquisitions and investment in existing brands. In 1982, Barloworld, via CG Smith, acquired a majority stake in Tiger Oats. Six years later, Tiger Oats became the wholly owned parent of Spar South Africa. In 1993, CG Smith was unbundled from Barloworld.

During the late 1990s, the company adopted a more aggressive acquisition strategy, purchasing ICS Holdings Limited in 1998, followed by the R3.4 billion acquisition of pharmaceutical firm Adcock Ingram in 1999. Upon completion of this latter transaction, Tiger Oats rebranded as Tiger Brands to represent better its focus on branded consumer food and healthcare products.

To further refine its core business, management separately listed the animal feed and poultry operations as Astral Foods in 2001. Four years later, the company's stake in Spar was also unbundled, and Spar was listed independently as a retailer.

With a more streamlined and strategically aligned portfolio, the company continued its acquisition strategy by acquiring Nestlé's sugar confectionery businesses, including the well-known Jelly Tots brand, in 2006. Tiger Brands subsequently broadened its branded product range into beverages through the acquisition of Bromor Foods in 2007, incorporating prominent brands such as Oros, Energade, and Rose's. In 2009, Tiger Brands reinforced its notable expansion throughout the 2000s by acquiring Crosse & Blackwell mayonnaise from Nestlé, a brand that currently maintains a market share exceeding 30%.

Between approximately 1996, when the business initiated its aggressive expansion strategy, and 2016, Tiger

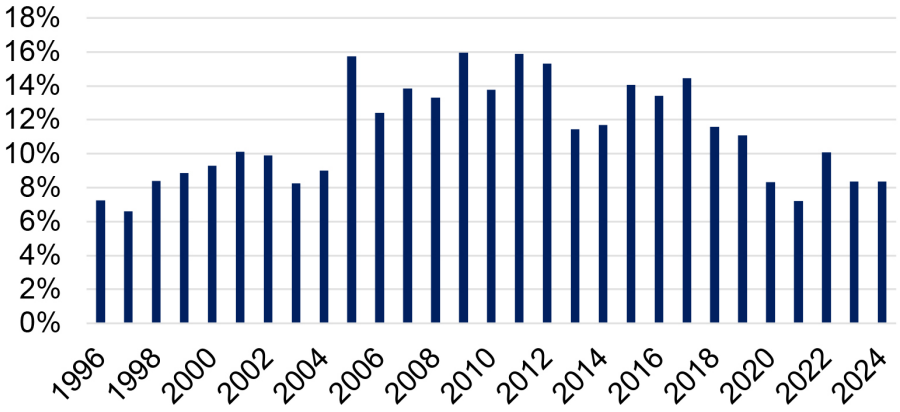
Brands' share price appreciated by nearly 1000%. By 2005, the company had achieved record operational performance, with operating margins surpassing 15%. This strong performance was sustained for over ten years, with average operating margins of 13.8% leading up to the 2016 financial year.

In March 2017, Tiger Brands experienced a significant event when listeriosis, a foodborne bacterial illness, was identified in polony produced by Enterprise Foods, a subsidiary located in Polokwane, Limpopo. By 24 February 2018, the outbreak had affected 872 individuals, with later reports estimating 180 deaths attributed to the illness. The South African National Institute for Communicable Diseases reported the outbreak, which was publicly announced by the then Minister of Health, Aron Motsoaledi. Subsequently, Tiger Brands' share price declined by 7%, resulting in a R5.7 billion decrease in market capitalisation, despite management stating they had not received sufficient evidence tying the outbreak directly to their facility.

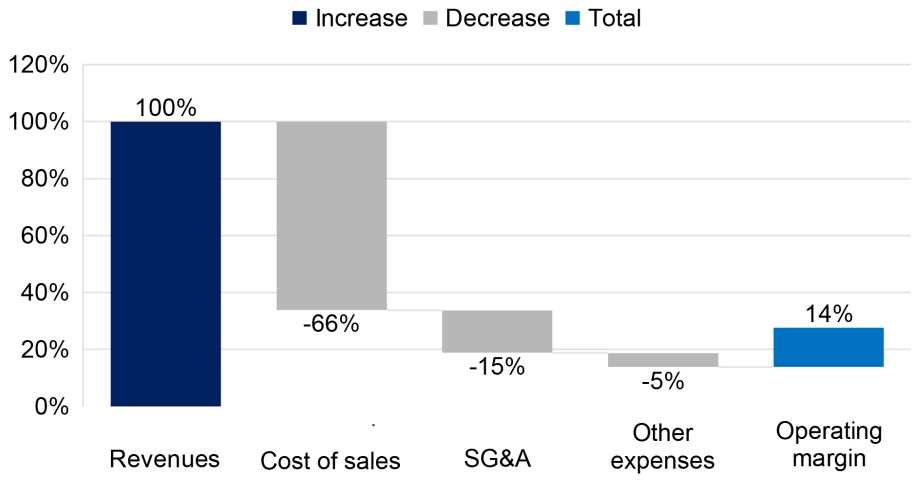
Additionally, supply chain inefficiencies and certain portfolio businesses not aligning with strategic objectives contributed to operational challenges. As a result, the company's operating margin conversion declined from an average of approximately 14% between 2005 and 2016 to an average of 10% from 2017 to 2024. The increase in the cost of producing goods from 66% to 70% over the recent eight-year period was cited as a contributing factor to these changes.

In response to low consumer confidence, Tiger Brands implemented a new operating structure in 2023, known as the "Federated Operating Model." The primary goal of this model is to achieve cost leadership, focusing on improving both gross

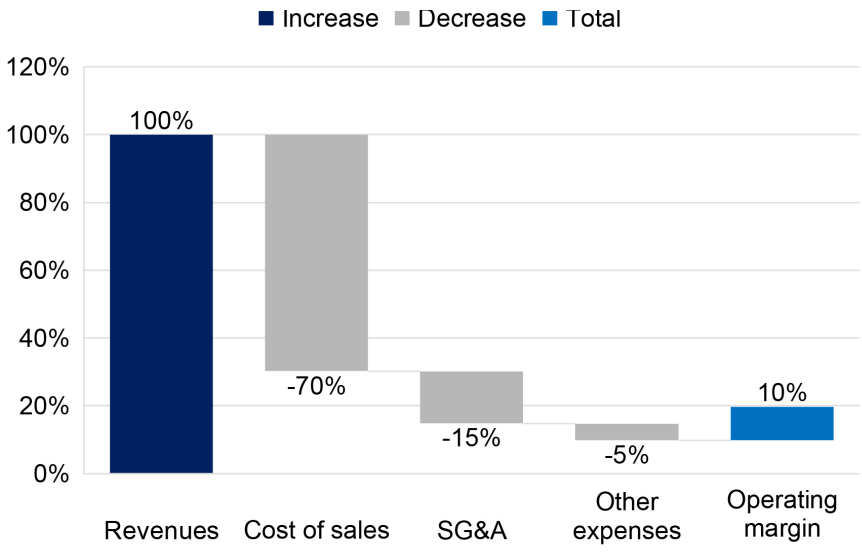
OPERATING MARGIN



MARGIN CONVERSION 2005 -2016



MARGIN CONVERSION 2017 -2024



BLUEALPHA INVESTMENT MANAGEMENT

and operating margins. The company employs six principal strategies; each is outlined below with practical examples that management has already introduced to improve cost efficiency.

The first strategy, value engineering, aims to increase margins by designing for value and reducing costs in various processes. For example, the Black Cat peanut butter product line now offers non-salted and no-sugar options, which reduces ingredient use and costs while expanding consumer choices.

Secondly, procurement optimisation targets reductions in spending on select raw materials and packaging. In the Black Cat range, some products have shifted from bottled to plastic packaging as a cost-saving measure.

The third approach, supply chain optimisation, seeks ways to reduce distribution expenses by digitising supply chain operations and streamlining route management. An example includes adopting real-time route monitoring technology to support delivery efficiency.

Fourth, SKU complexity reduction seeks to simplify recipes, production, and packaging. The company plans to reduce the number of SKUs by 20% over the next two years and is currently reporting a 23% reduction. Examples include separating the international businesses of Carozzi and Chococam, as well as selling the Baby Care division, resulting in a net profit of R84 billion from discontinued operations in 2024.

Fifth, process innovation and automation involve investments in targeted automation projects to lower production costs and waste. This also includes time motion analysis to enhance workforce productivity.

The final strategy, manufacturing footprint optimisation, intends to maximise asset use by increasing demand and production output, and, where possible, consolidating operational sites.

Following these activities, Tiger Brands' share price increased by 143% from its 2023 low, and margins have remained above 8% for the last two years. Ongoing evaluation of the business will track progress and potential developments associated with this strategy.

Chart Focus:
SA Platinum's Moving Quickly

Recent breakout could be signaling the end of depressed equity prices.

This year saw a rebound in SA Platinum stocks with the sector returning 33% in Q2 and 85% YTD (both to end June). The sector has however been struggling to make profits since 2022, with platinum equity prices lagging far behind gold prices.

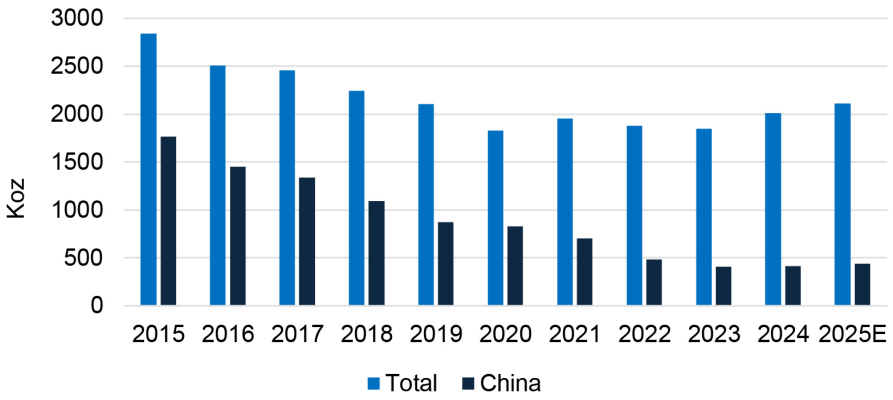
Up until '08, the automotive industry saw increased demand for vehicles. SA miners geared themselves up for this high demand and expanded platinum production. Unfortunately after the GFC, in addition to lax environmental standards, China didn't see demand for auto (and therefore autocatalysts), hence demand for platinum was lower. Later, electric vehicles (EVs) started stealing market share from combustion engines, which requires more platinum, further reducing demand for the metal. The industry planned for increased demand which never materialized.

Platinum's are currently facing an ongoing structural deficit (demand greater than supply), with this year forecasted to be the third successive shortfall. Supply is predictable as miners report their estimates, however, demand is not as simple to assess and can change easily. The main drivers affecting the platinum supply/demand deficit are automotives. Automotives are the biggest segment of platinum demand (37%), with Jewellery second (24%), and both have been under pressure in the last 10 years.

Demand for EVs is not as high as once expected and the market is gravitating towards hybrid vehicles. Miners are now seeing increased demand in platinum for these vehicles adding to the supply deficit. Platinum recycling supply is platinum which is recovered and re-introduced into the market. 30 years ago, recycling supply contributed nothing to supply and has grown to around 22% of total supply. In the past we have seen when prices are high, it makes recycling more profitable and overall supply increases.

China was the biggest source of platinum jewellery demand but over the last decade we have seen it go backwards. China's demand is very sensitive to platinum prices and can easily change, making it hard to forecast. What we do know is that demand from China right now is half of what it was pre-Covid, even after some recent resurgence in demand. If demand returned to their peak levels, then the sector would move into a more positive pricing environment.

JEWLERY DEMAND



Source: WPIC

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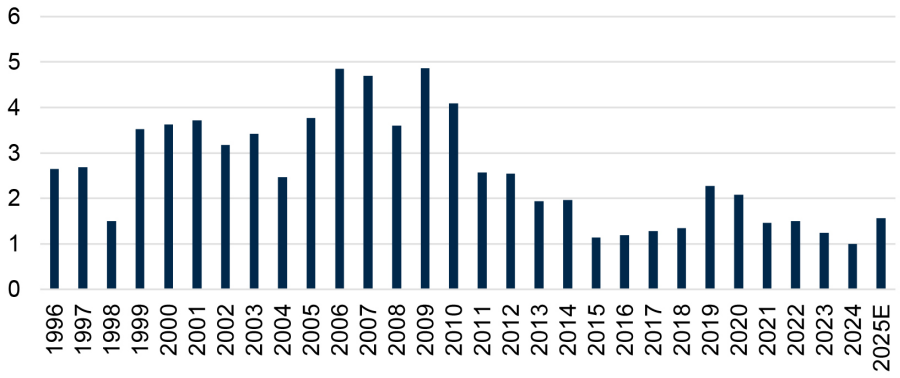
The platinum industry is cyclical in nature and are highly sensitive to economic cycles. The sectors' EV/Sales ratio is helpful in determining future expectations - especially when the sector is at the bottom of the cycle. Valuations have hovered around an EV/Sales ratio of 1 since 2021, implying an industry margin of 10% - which is very low for miners. Currently the ratio is sitting at 1.6 meaning the sector is priced in for some recovery, but not a lot.

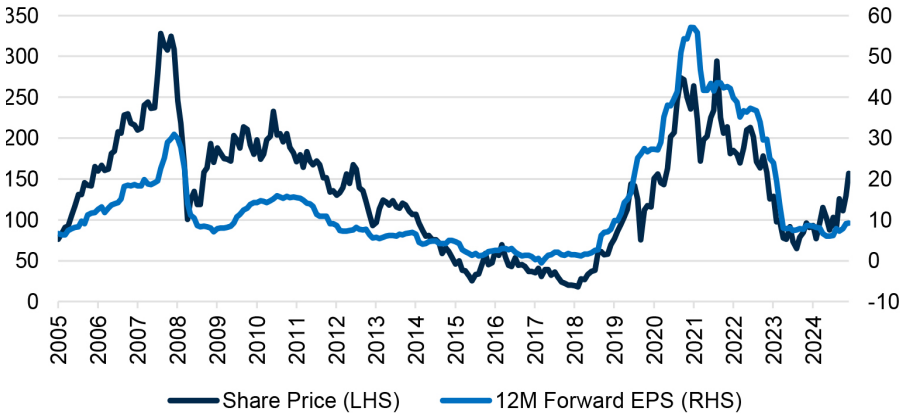
The last 10 years have been difficult for the platinum industry. For Impala Platinum, earnings haven't grown since 2010. Historically Implats share price has followed earnings, but there have been some periods of divergence. In '06 -'09, the EV/Sales ratio for the industry was just under 5, implying huge expectations were built into the share price and that these high platinum prices were here to stay. However, earnings didn't materialize, and both price and earnings subsequently dropped. '20 – '21 Was another period of high prices, but here the industry EV/Sales ratio was only around 1.8 – a completely different scenario. The market now believed metal prices were too high and a fall in prices would occur. Going forward, earnings shows that there are still fundamentals that can be improved on. The EV/Sales ratio for Implats is currently 1.8, indicating the market is pricing in a 15% margin for Implats.

EV / SALES



Source: Bloomberg

IMPLATS



Source: Bloomberg, UBS

SA platinum prices have been strained for quite some time. The rise of EV's disrupted the sector and China's demand has struggled. What has changed is industry supply. Platinum demand today is much lower compared to what we saw before '08 and the sector needed to shrink to match demand levels. Right now, industry production has fallen from 8,000 koz to 7,000 koz and is close to being right-sized.

Investment Focus: Bidvest Group

Bidvest is a diversified industrial conglomerate and a cornerstone of South Africa's economy. Since 2020, the Group has embarked on an aggressive offshore expansion strategy, particularly targeting essential services such as facilities management and hygiene solutions—industries characterized by recurring, non-discretionary demand.

Business Overview

Bidvest oversees a diverse range of asset-light, essential services businesses in two main segments: Business Services and Trading & Distribution. These include seven divisions, one being a 65% stake in Adcock Ingram. The Group's resilient model has achieved a 5-year revenue CAGR of 6.9%, outpacing South Africa's nominal GDP growth.

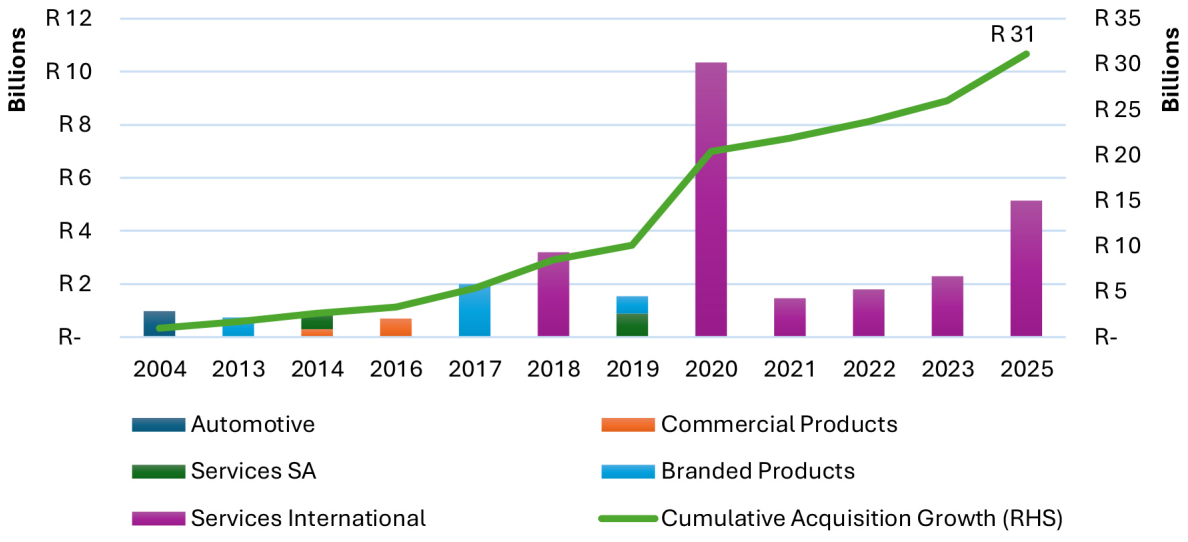
Article Focus

This article examines if the Group's management incentives align with shareholder value creation, and whether the current return metric used for awarding short-term cash bonuses is appropriate given Bidvest's evolving capital base.

Bidvest's Acquisitions Overtime

Prior to 2020, Bidvest's revenue was predominantly driven by goods, with product sales accounting for 62.1% of revenue in FY2019. By FY2024, this contribution had decreased to 54.4%, while services revenue increased from 36.0% to 44.9%. This shift is mainly attributed to offshore acquisitions made between 2020 and 2024, particularly within the Services International division.

BIDVEST ACQUISITIONS OVERTIME



Source: JP Morgan Equity Research, BVT SENS Releases, BlueAlpha Investment Management

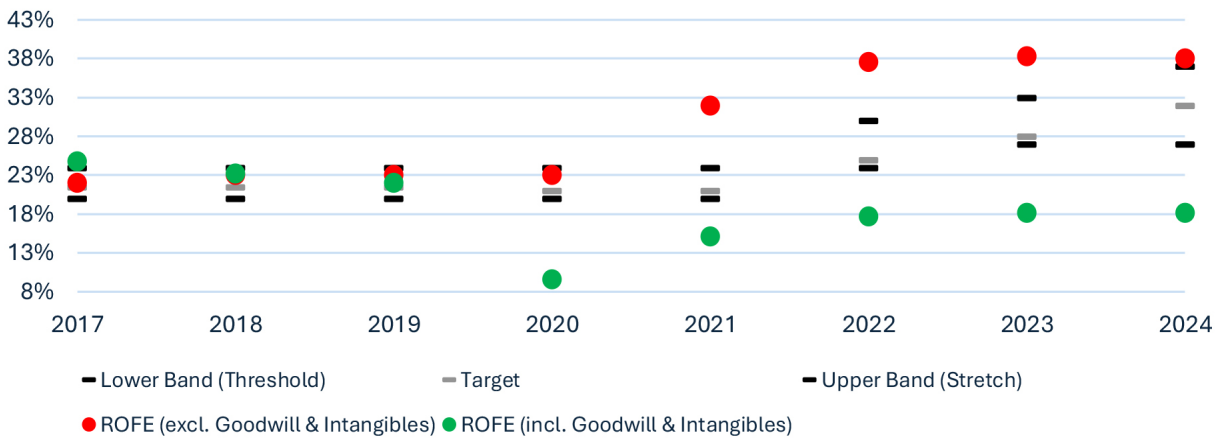
In the decade leading up to 2020, Bidvest completed acquisitions totaling around R10 billion, equal to approximately 15.3% of its market capitalization at the time. By FY2024, this figure had tripled to R31 billion, representing around 40% of its current market cap. Naturally, this acquisitive activity has led to a significant increase in goodwill and intangible assets, which now make up 61% of invested capital—up from 42% prior to 2020.

Return on Funds Employed (ROFE) and Incentive Alignment

Bidvest employs Return on Funds Employed (ROFE) as a crucial performance metric within its short-term incentive (STI) framework. ROFE is determined by dividing trading profit by tangible net operating assets, deliberately excluding goodwill and intangible assets from the calculation. This measure accounts for 30% of the overall STI score used to evaluate senior management, significantly influencing the determination of annual cash incentives.

The chart below compares Bidvest's reported ROFE (based on tangible assets) with BlueAlpha's adjusted calculation, which includes goodwill and intangibles. According to the company's methodology, management met their stretch ROFE targets between 2021 and 2024. However, when returns are calculated on total capital employed, including the assets acquired through strategic M&A, performance does not meet the minimum hurdle.

BIDVEST RETURN ON FUNDS EMPLOYED (ROFE)
[30% weighting in STI Scorecard]



Source: BVT Financial Statements, ESG Reports, BlueAlpha Investment Management

BLUEALPHA INVESTMENT MANAGEMENT

Economic Profit: A Shareholder-Aligned Alternative

Barloworld, another South African industrial conglomerate, includes Economic Profit (EP) in its Short-Term Incentive (STI) scorecard. EP accounts for 25% of the total score and assesses the value a business generates over and above its cost of capital.

Barloworld's remuneration report shows it missed its economic profit target in three of the last seven years. Conversely, Bidvest consistently met or exceeded its STI targets over all seven years, surpassing stretch targets for four consecutive years. Executives must be accountable for all capital allocated, including acquisitions. Calculating economic profit based on the operating asset base plus goodwill aligns executive incentives with shareholder value.

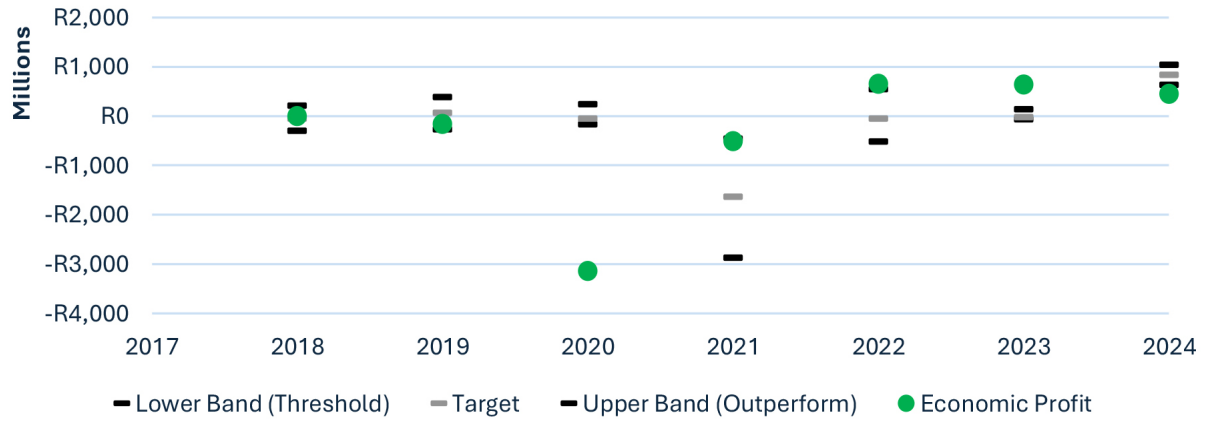
Conclusion

When evaluating executive performance at the Group level, return metrics should reflect the full capital base, including goodwill and intangibles. This is pertinent for the Group CEO and executive team, who are responsible for identifying, negotiating, and executing acquisitions. These strategic decisions result in the recognition of goodwill and intangibles on the balance sheet.

In comparison, divisional leaders generally have limited influence over M&A decisions and should be assessed differently. Excluding acquisition-related assets from Group-level return calculations may misalign incentives with shareholder interests.

At BlueAlpha, a key aspect of the investment approach is to support quality businesses—those that consistently generate economic profit. These companies are capable of reinvesting capital at rates above their cost of capital, thus compounding shareholder value over time. Performance metrics should align with this long-term value creation perspective.

BARLOWORLD ECONOMIC PROFIT (EP)
[25% weighting in STI Scorecard]



Source: Barloworld Remuneration Reports, BlueAlpha Investment Management

BLUEALPHA INVESTMENT MANAGEMENT

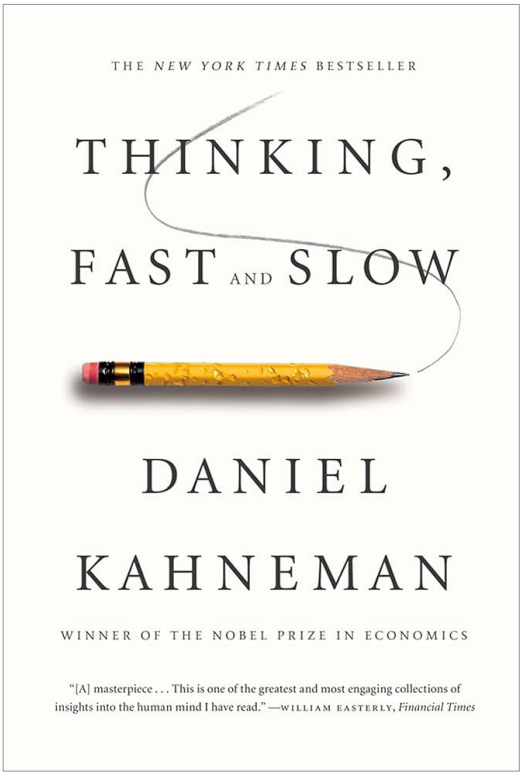
Recommended Read:

Thinking Fast and Slow *by Daniel Kahneman*

In this book, Daniel Kahneman and his collaborators undertook psychological experiments to demonstrate human thinking using 2 ways of thinking (System 1 and System 2) and provided a useful framework for understanding when, how and why people think quickly, slowly, well, or poorly. Explaining how people misjudge, inaccurately remember, and make flawed decisions, even when they think they are being rational. The implications of these decisions span from individual actions to fields such as investment management, medicine, law, and economic/public policy.

Part 1: Two systems

Kahneman guides us through an exploration of the quirks of human cognition in this book. The book begins by introducing 2 ways of thinking. System 1, automatic, with little or no effort but prone to systematic errors that are commonly referred to as cognitive biases and System 2, that requires deliberate thinking effort and concentration but is often lazy. System 1 is biased, drawing conclusions from available evidence, the *What You See Is All There Is (WYSIATI)* effect. It often unconsciously substitutes hard questions with easier, emotional ones without noticing. System 1 is 'fast' and jumps to conclusions, while System 2 is 'slow' and serves to monitor and control thoughts and actions suggested by System 1. *"Uncertainty and doubt are the domain of system 2".*



Part 2: Heuristics and Biases

In this section, Kahneman dives into the more deliberate System 2 and proves that it also has flaws. *Anchoring* is a flaw where the brain gets tricked by the starting position. For example, considering how much to pay for a house will be more likely influenced by the listing price compared to the property's true valuation. Similar to the halo effect which increases the weight of first impressions.

Another flaw is *availability heuristics*. In general, heuristics are quick and easy rules of thumb used to form judgements. Mass media amplifies *availability heuristics,* where a few cases of a negative event such as an oil spill produce a widespread misconception of the frequency of the event. Fear takes over, leading to additional reporting and the formation of the self-staining availability cascade. And then, the *representativeness heuristics* – though known to be unreliable, people trust stereotyped descriptions and tend to ignore base rates and statistical facts. *"A reliable way to make people believe in falsehoods is frequent repetition because familiarity is not easily distinguished from truth."*

People are eager to latch on to causal explanations even in instances where the correct explanation is purely statistical. When our attention is called to an event, associative memory automatically looks for any cause already stored in memory, from which we draw conclusions. *"We can be blind to the obvious, and we are also blind to our blindness."*

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Part 3: Overconfidence

This section of the book focuses on overconfidence. The book asserts that people tend to be overconfident about their judgements and predictions and are prone to place too much faith in their intuition, despite having been wrong many times before. System 1 minimises the role of luck in the success of a person or a business venture. For example, successful CEOs are thought to possess exceptional skills while equally skilled CEOs may have done less well because of unforeseeable or uncontrollable reasons, an *outcome bias*. System 1 also rewrites people's memories of the past, where they remember for example, predicting outcomes of an election or a murder trial when they in fact made no such prediction - *hindsight bias* is at play. In the same way, experts, such as doctors, baseball coaches and politicians are often blamed for failing to predict events that no one could have predicted except by a lucky guess. Financial analysts, for example, convince themselves that they have insight into the future even while their track record says otherwise. Social and commercial incentives play a role in reinforcing this illusion. No one wants to hear "who knows?" from an advisor. *"True experts know the limits of their knowledge".*

Kahneman offers a few ways to correct for overconfidence; to rely less on human judgement and use algorithms. One way is to ensure that expert opinion isn't ignored completely but be incorporated into the algorithm as an additional variable. And in professional settings, set up processes that facilitate quick decision-making and where feedback is provided to correct errors, while at the same time creating an environment that fosters the development of sound expert intuition. Another way to correct for overconfidence is to compare project projections (inside view) against past experiences gathered by others (outside view), to avoid the *planning fallacy* often fuelled by optimism. For planners who want a check on their optimistic outlook, a *premortem* is recommended – an exercise where you look back from a future date, assume the project failed and write up an account to identify overlooked risks. *"Confidence is a feeling, which reflects the coherence of the information and the cognitive ease of processing it. It is not a judgment of accuracy."*

Part 4: Choices

This section of the book discusses the relationship between the psychological value or desirability of money i.e. *utility* and the actual amount of money. A rational choice involves quantifying and calculating expected utility from every choice such that utility is not simply monetary value. For example, a $100 note would bring more happiness to a less fortunate person than a rich one. Utility should therefore be assigned to changes from a *reference state* instead of an outcome. People grow attached to the status quo and their choices become biased to it, because of being loss averse. This is why the subjective difference between a loss from $1000 to $900, matters less, psychologically than from $100 to 0. Loss aversion is similar to the *sunk-cost fallacy*, where resources continue to be invested in the hopes of recouping the original investment even though a loss is almost certain. *"Because defeat is so difficult to accept, the losing side in wars often fights long past the point at which the victory of the other side is certain, and only a matter of time."*

Part 5: Two selves

The last part of the book distinguishes between the *experiencing self* – what we feel in the moment and the *remembering self* – how we recall those experiences. Often it is our memories rather than our actual experiences that shape our decisions. The remembering self registers peaks of pleasure and pain rather than the summed up overall experience. Such that a vacation with one bad day may be remembered poorly, despite pleasant experiences on the other days. *"The remembering self is sometimes wrong, but it is the one that keeps score and governs what we learn from living, and it is the one that makes decisions."*

Overall, the book equips the readers with tools to recognise and counter biases. To avoid the sin of intellectual sloth, be more alert, less willing to be satisfied with superficially attractive answers, more sceptical about our intuitions. To recognise the role of randomness and chance which often shape outcomes; for failure or success.

BlueAlpha Investment Offering

Our long term track record demonstrates our ability to create wealth for our investors.

Our Domestic Equity Performance – BlueAlpha BCI Equity

	1 Year	3 Years (annualised)	5 Years (annualised)	Since Incept. (July 2014 annualised)
BlueAlpha Return	**16.6%**	**12.9%**	**10.5%**	**8.3%**
SA Equity – General Sector Average	18.9%	18.2%	19.7%	7.8%
Out-Performance	**-2.3%**	**-5.3%**	**-9.2%**	**0.5%**

** A Class, Net of Fees*
*** Fund Benchmark: Local section of the fund BM changed to 75% CAPPED SWIX (from SWIX) in March 2022.*

Source: Fund Focus (Iress), Bloomberg

With an experienced investment team which is recognised for outstanding investment performance in various fund classifications, we are able to offer both institutional and retail investors diverse products to meet their investment objectives.

For our **institutional investors** we currently manage South African focused equity and balanced mandates as well as a global equity product.

Our **retail** and **IFA investors** have the same access to the BlueAlpha investment process via our BlueAlpha managed unit trusts:

BlueAlpha BCI Equity Fund: is our general equity fund, managed with exposure locally and globally. Its benchmark is 75% JSE Capped Swix, 25% MSCI All Country World Index. The fund aims to provide long-run market out-performance. It has a high risk profile.

BlueAlpha BCI All Seasons Fund: our longest running unit trust, started in 2005 and managed with a high equity exposure in the SA Flexible Sector, aims to provide investors with consistent long term capital growth.

BlueAlpha BCI Global Equity Fund: our global equity fund provides investors with offshore equity exposure. The fund invests in developed markets with a focus on quality growth companies with a large market cap. For further details, see page 1.

BlueAlpha BCI Balanced Fund: this fund aims to achieve high capital growth through maximizing exposure to both local and global equity, as well as through sizable exposure to property. It is managed to comply with Regulation 28 and is therefore appropriate for retirement products. The fund has a medium risk profile.

BlueAlpha BCI SA Equity Fund: this is our newest fund that launched in February 2023. This fund is a domestic equity portfolio that aims to provide investors with high long term capital growth. The fund will invest only in South African equity securities and the equity exposure will exceed 80% of its net asset value. The funds benchmark is CAPPED SWIX

BLUEALPHA INVESTMENT MANAGEMENT

"Our investment approach is premised on the idea that in the long run investment returns are largely driven by the company's ability to grow their real cash earnings for sustained periods of time. To do this, they must be able to generate high rates of cash returns when measured against the capital required, and they must have a growth opportunity to reinvest this cash over time. Notwithstanding current shifts in global markets, we remain committed to this approach while still paying attention to the valuation risks."

Richard Pitt
Director, CEO, Portfolio Manager

BlueAlpha BCI Global Equity Fund
Inception - September 2014
Size - R1.1 billion

BLUEALPHA
INVESTMENT MANAGEMENT