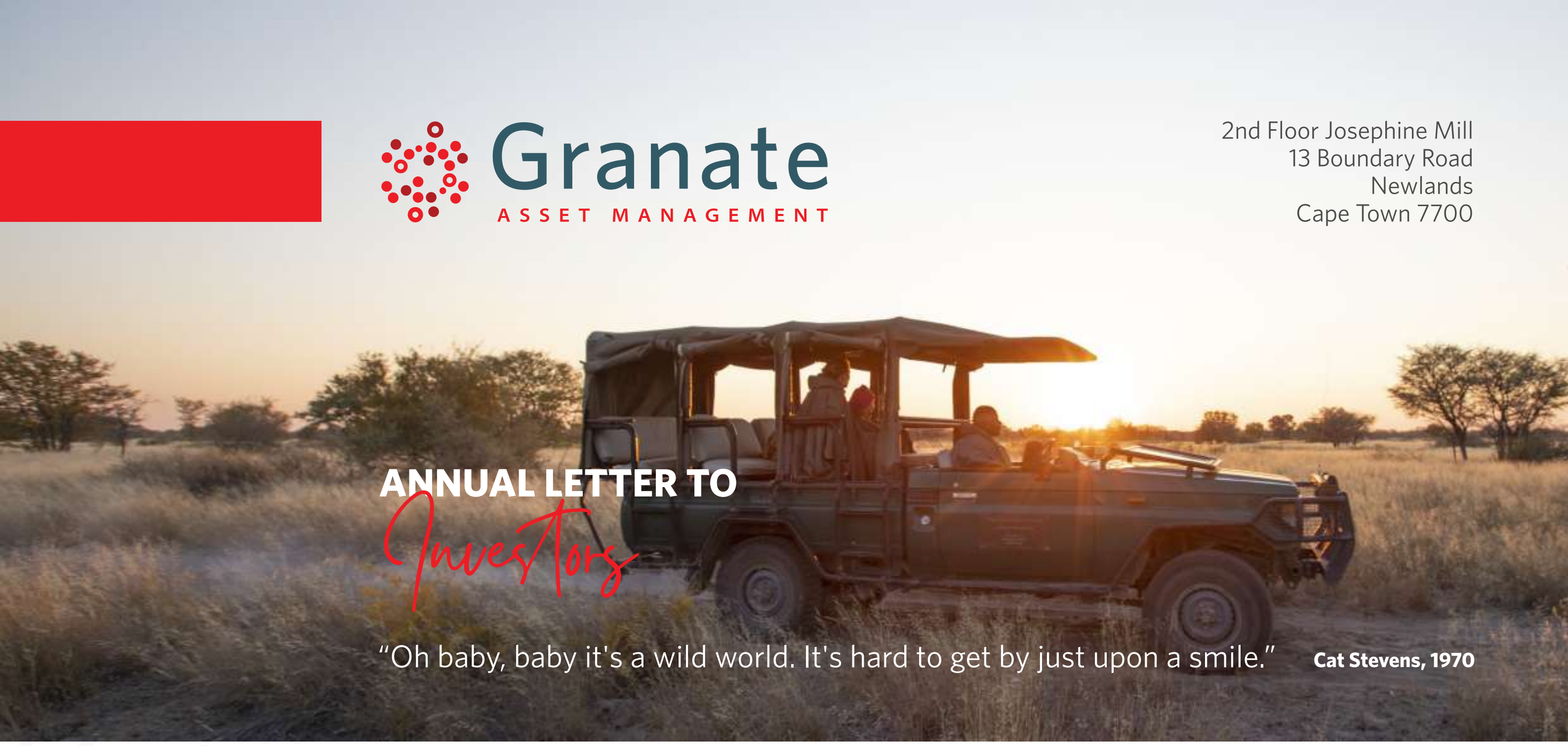

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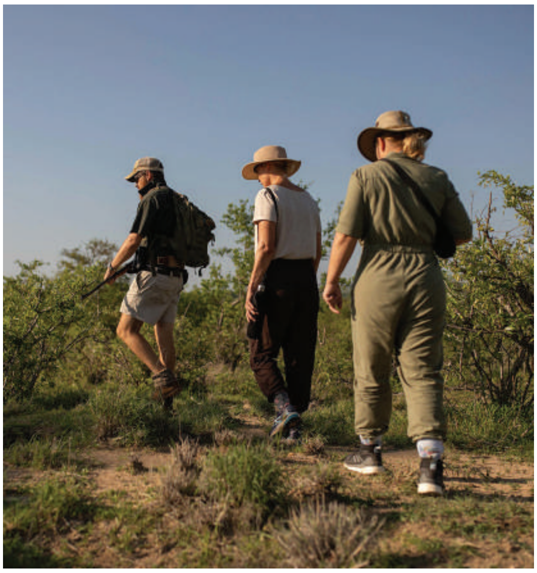
ANNUAL LETTER TO *Investors*

"Oh baby, baby it's a wild world. It's hard to get by just upon a smile." **Cat Stevens, 1970**

A walk on the wild side

Spending time being guided in the wilderness is an experience most of us would love to have. The most common way to do this is on the back of a game drive vehicle at dawn, wrapped in a blanket, bouncing along well-worn dirt roads while the ranger keeps a lookout and monitors chatter from other vehicles. When something exciting is spotted, there is a frantic call over the radio and all vehicles zoom towards the same spot, jostling to get their guests into the best position to see the sleeping lion. From the safety of your vehicle, you can snap away happily, trusting fully that your ranger can easily put foot in reverse should the lion wake up and take exception to your intrusion.



However, for an immersive experience of the wilderness, it's best done quietly on your own two feet. Without the safe confines of a vehicle, you become just another animal; connected to nature but also exposed to the risks of potentially dangerous encounters. Nearly every large animal you will share the space with is stronger, faster and toothier than you. Because of this, walking in these areas is not something you should do alone or with an inexperienced guide. You need to do your homework to make sure you are heading out with a qualified trails guide who has a deep relationship with this environment. You are putting your life in the hands of this human, so you must make sure they are someone you trust.

A trusted guide is equally as important when investing

This is not so different to the process of picking a fund manager. You have undoubtedly worked very hard to earn your salary and have had the discipline to forsake buying nice things to save towards your retirement, your children's education or other long-term life goals. So, choosing someone to protect and grow those savings is a big deal. You do your homework, study their experience and track record and ask your financial adviser what to do. Trusting someone to make sensible decisions with your life savings is not something to be taken lightly.

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A trails guide will start the day with a very detailed briefing of how to minimise risk and what to do if you encounter potentially dangerous animals. He'll tell you to stick close, keep very quiet and carefully watch and listen for his signals. Most importantly, he will tell you to keep calm if faced with a lion, and whatever you do, don't run! You must fully trust in your trails guide's ability to handle any difficult situation and closely follow their instructions. It is their responsibility to keep you safe and your responsibility not to panic. This will all seem quite logical and agreeable when explained in the safe confines of your camp, and you'll most likely sign all the indemnity forms without worrying too much about the fine print. You'll trust that your trails guide will have your back.

There are no shortcuts if you're looking for real rewards

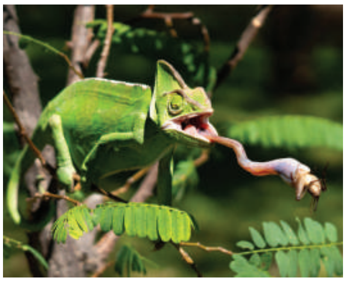
If you had little time to spare, you could do a quick game drive around a small private reserve where you're pretty much guaranteed to see the Big Five. Walking is a much slower game. It takes time and patience, but the richness of the experience can offer far greater rewards. Similarly, in investing, if you were concerned about gains made over a few days, you'd be trading. Instead, you have chosen to take the patient route and invest either for income, where your horizon might be a few years, or for growth, where it could be decades. Just like in the wilderness, there is a shared responsibility in investing. Your fund manager has a responsibility to diligently protect and grow your savings over your investment horizon. You have a responsibility to allow them the time and space to do that. Markets will go up and down, and there will be times when things get scary. To maximise the odds of a good outcome, you need to heed the advice of a trails guide not to panic and run. Don't pull your money when markets wobble.

Taking flight has been well demonstrated in studies, as explained by Howard Marks in his excellent 2022 memo **Selling Out**: "The average mutual fund (unit trust) investor performs worse than the average mutual fund. How can that be? .... [Because] on average, mutual fund investors tend to sell the funds with the worst recent performance (missing out on their potential recoveries) in order to chase the funds that have done the best (and thus likely participate in their return to earth)."

Prepare, then trust the process

Once your trails guide has you thoroughly prepared, you are ready to head off into the wilderness with your hiking boots and khakis on, layered up in sunscreen and mozzie repellent. While you're sweating away in the heat, focusing on not tripping over anything, while desperately fighting the urge to jabber with your fellow trailers, your guide will be alert, scouting the terrain for signs of the animals you would so

desperately love to see. His or her job is to be tracking the signals left by interesting animals and remaining vigilant to threats, as these can come out of nowhere. What's so nice about being on a bush walk is that it's not just about finding the big things, but also spotting the tiny things that you wouldn't otherwise see: the ridiculously cool trapdoor spiders, the multitude of ecosystems that exist within a termite mound, pieces of pottery from early human settlers. As these little gems are pointed out, you really start to relax into the moment.



This is how we see our responsibility as your fund manager. When everyone is heading out on game drive vehicles with their chattering two-way radios, they are probably all going to end up at the same sighting. Likewise, assets become overpriced when everyone is interested in them, projecting an extrapolation of a future where good times keep going forever. We wrote to you about this in last year's letter discussing asset price bubbles. We prefer to stick to the wilderness, keeping ourselves open to opportunities big and small in the areas where others might fear to venture.

Throughout this year, we have continued to see enormous value in areas like South African government bonds, semiconductors, and both local and offshore property, where the market's negative extrapolation of the future seems overly pessimistic. We have also continued to find smaller, lesser-known gems in the local market like Kaap Agri and CA Sales. Just as a trails guide cautiously approaches an animal, we have gradually bought into price weakness, mindful of the danger of being over-exposed to risk. We imagine that if you were picking your own stocks, it would be pretty terrifying to keep buying as prices fall. That's why you trust us to be the trails guide who navigates this for you.

Whatever you do – don't panic

What happens when you do see a lion? This is what you have been waiting for! You follow your trails guide's lead in awe of this majestic creature. You have never felt so alive, or so vulnerable. The lion notices you approaching and stands up, walking a few steps in your direction. Now things are starting to feel scary. Your heart starts racing and your brain floods with adrenaline. Fight or flight kicks in and your brain starts screaming that running away from something that can eat you is the best thing you can do to survive. All the sensible things the trails guide told you in preparation seem like a distant memory. It now becomes incredibly hard to trust their calm guidance, but this is the moment when it matters most. You shouldn't suddenly ignore the advice just because danger has materialised – remember, you were warned that this exact thing could happen. In these highly-charged situations, your safest bet is to lean on the decisions you made in moments of emotional ease when you could think with a clear head. In other words, don't panic!

Investment fund pioneer, the brilliant Sir John Templeton, provides a great example of a skilled professional who had the fortitude to withstand the urge to panic and consequently delivered phenomenal results. In 1939, amidst the Great Depression and on the cusp of World War II, he made the brave decision to invest in the 104 stocks listed on the New York Stock Exchange that were selling for less than $1 per share. As William Green explains in his insightful book **Richer, Wiser, Happier**: "What's remarkable to me is not just that Templeton had the courage to invest in 104 reviled stocks as the world went to war. It's that he had the courage to hold them for years even as the drumbeat of disastrous news grew more and more deafening. In December 1941, the Japanese attacked Pearl Harbour, spurring the United States to join the war. By 1942, Germany had seized control of most of Europe. Despair about the future ran so deep that the markets took a terrible pounding. In April 1942, the Dow slumped to a generational low of 92. ...[The] State of New York Insurance Commission actually banned stocks from the portfolios of insurance companies in 1942, deeming them an 'inappropriate investment'."

There have been many stressful encounters in the last three years. It started with the Covid crisis, which sent markets into a tailspin. Faced with deep uncertainty about how this unknown virus would unfold, people preferred the safety of cash. Then the US and other developed countries pumped cash into their economies to cushion the blow, causing a much faster rebound than anyone had expected. Those in cash scrambled to get back into the market, buying into the bubble created by easy money as everyone projected sunshine and roses forever. Meanwhile in South Africa, we lurched from one crisis to the next: Covid lockdowns and restrictions, international bans on travelling to SA (remember the Christmas of 2021?), dramatic floods in KZN, the destructive July 2021 riots, severe drought in the Eastern Cape and the worst loadshedding ever experienced.

As the world barrelled towards 2022, the chickens came home to roost: a rapid return in demand post Covid (stimulated by too much easy money) coupled with bottlenecked supply chains caused inflation to spike globally. And while everyone was still arguing about whether or not inflation was transitory, Putin invaded Ukraine, spiking prices for oil, gas and food around the world. Countries were forced to start hiking interest rates aggressively to try to bring inflation under control. This popped the market bubble and created an extremely volatile year, with markets hanging on the US Federal Reserve's every word. We still don't know if inflation has peaked, how quickly rates will keep rising or if high rates will drive the big economies into recession. Locally, the Phala Phala scandal, Stage 6 loadshedding and the resignation of André de Ruyter as CEO of Eskom, have added further fear and panic about the country's future.

Investing can feel scary but we're in it with you

These are uncertain times, and we can completely understand if you feel like you have been standing in front of an angry elephant or an agitated lion. When markets are falling, the emotions you experience are very real: panic, fear, worry, anxiety. But just like the trails guide who stands on the front line to protect you, all Granatians have some (and in many cases, all) of their life savings invested alongside you in the Granate funds. We can certainly empathise with your emotionaljourney. We feel the same urge to abandon reason and start selling in panic. In times of deep uncertainty, it is extremely hard to keep a cool head. But as your fund managers, we have worked hard on our collective ability to remove emotion from decisions because we take our responsibility to you very seriously.

Nobody in the team can do it alone and we look to each other in the scary times. We lean on the philosophy and process developed in calmer times when our brains were clearer. Last year's letter outlined some of these timeless principles. We carefully review the investment cases of the instruments we own, and if nothing has changed we try to view emotions in the market as opportunities. In times of panic, we prefer to be buyers. This is exactly what Templeton did when making his big bet. As William Green explains, it took 'tremendous willpower and strength of personality for Templeton to buy at the point of maximum pessimism ... [when] everybody else is running out of the burning building'." When Templeton liquidated his 104 positions, he was in a profit position on 100 of the investments and had made roughly five times his money. Our process also places a heavy weight on the quality and alignment of management. In the same way that a trusted fund manager can give you comfort in a crisis as a good steward of your savings, we look for management teams that we can trust to be good stewards of shareholder capital over the long term.

Just like after a market sell-off, the lion eventually settles back down and temporary calm returns to the wilderness. You took a calculated risk and had the experience of a lifetime because you trusted your trails guide. We would like to thank you for the trust you have continued to put in us. It is a responsibility that we all take very seriously. This won't be the last time that the world gets a bit scary, but we hope that over time it gets easier to remember that an important part of compounding your growth is keeping calm – many times over.

Regards,

The Granateam

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Philasande Ntshiba
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Simone Blanckenberg
Caroline Webber