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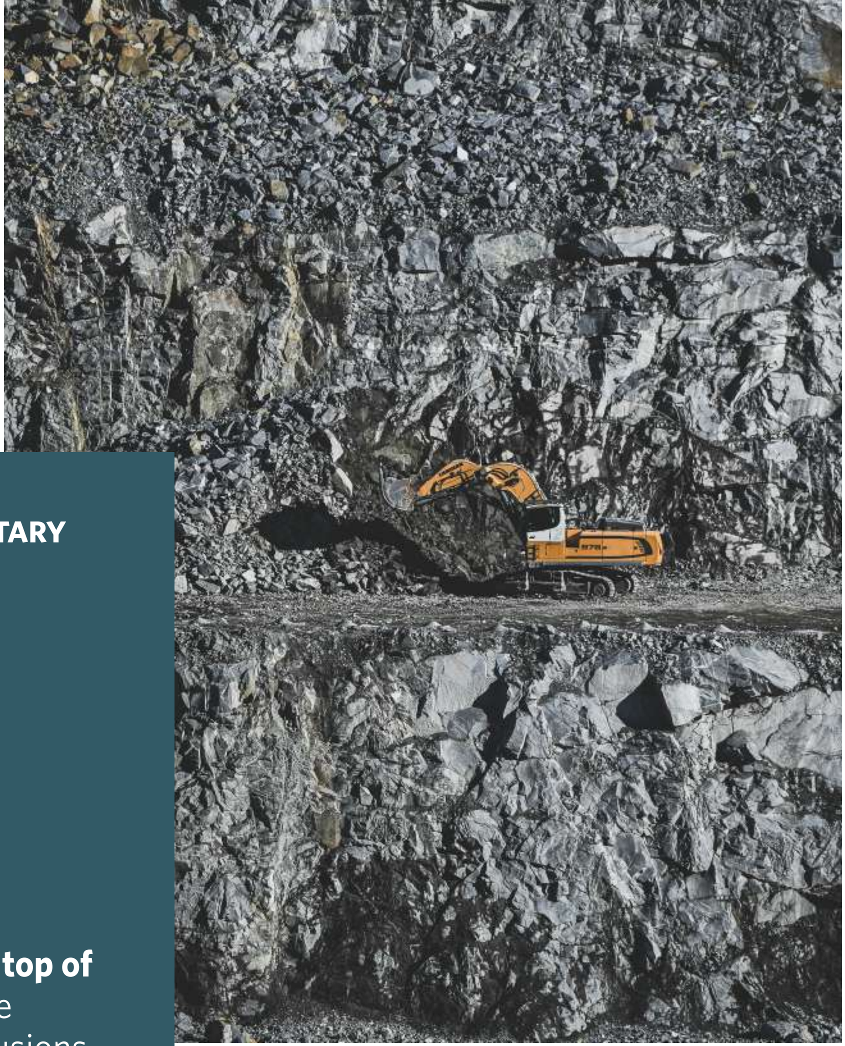

MULTI ASSET QUARTERLY COMMENTARY
December 2025

Challenging lazy brains

In our 2021 piece **Climbing to the top of Mount Stupid**, we wrote about the importance of revisiting old conclusions when facts change – thinking again. As we said at the time, *"In the world of investing, being stubborn and unwilling to accept that we may be wrong can lead to horrible outcomes for our clients."*

Revisiting blind spots

Human brains evolved to use energy as efficiently as possible. This makes us naturally lazy thinkers, open to falling foul of traps and fallacies. We make judgements based on the first things that come to mind (recency and availability bias), fall in love with our own ideas (not-invested-here syndrome), and quickly interpret new information so that it becomes compatible with our theories (confirmation bias). The only way to guard against this is to force ourselves to challenge our pre-conceptions, both as individuals and as a team.

Revisiting our blind spots in a time of short-term relative underperformance was the theme of our last quarterly commentary. We mentioned that the rally in gold, platinum group metal (PGM) miners and Naspers/Prosus had sparked a revisit of our prior conclusions on gold, the PGM cycle, variable interest entities (VIEs) and the Naspers capital allocation track record. Our rethinking on these topics has led to the addition of three new names to our portfolios over the past quarter.

PGMs

Why are commodities cyclical?

In a rational world, supply and demand would be in balance at a level where miners make returns above their cost of capital. However, this is rarely the case for sustained periods due to the nature of the capital cycle. As commodity prices rise, profits increase and returns on capital improve, attracting new investment. Miners (and investors) hope high prices will endure, and therefore commit to new projects. When prices are very high, even expensive mines seem viable. New supply is lumpy, though, and can quickly tip the market into oversupply. Multi-year project commitments are hard to halt midway and new supply can keep entering the market for some time. It is also practically challenging to undertake mass retrenchments and to mothball operations, which means that unprofitable mines take time to exit the market. This keeps the market in surplus and prices depressed.

When prices stay low for long enough, supply eventually exits, often with bankruptcies and consolidation. The market eventually swings into a deficit and prices start to rise. With recent pain fresh in their minds, and balance sheets still stretched, companies are cautious to start investing again. Prices keep going up until eventually the allure of very attractive returns on capital is too hard to resist and the cycle starts all over again.

If these companies are listed, their share prices swing dramatically from euphoria to panic, then despair, and eventually back to euphoria. This can create lucrative opportunities.

What does this mean for an investor?

Money is best made in commodities when prices have been low for some time, profits are depressed, projects have been cancelled, mines have closed and the market is expecting the dire situation to continue long into the future. When we consider investing into the commodity sector, we look both for signs of a turning cycle and for strong negative emotion in the market around that cycle. The key is to focus on the state of supply, which is reasonably easy to monitor, rather than relying on long-range demand forecasts that are prone to forecasting mistakes.

How are things looking in PGMs?

Total PGM mining supply peaked in 2021 in the past strong upcycle, resulting in a build-up of inventory that pushed the market into surplus and has weighed on prices over the past few years. We held off buying over this period, as we know that PGM supply is slow to reduce given the expenses and complexities around mothballing these mines. Mining supply has since declined meaningfully, and lower prices have limited the viability of recycling. At the same time, total demand has remained surprisingly resilient. This is partially explained by the transition to electric vehicles being more gradual than anticipated. (The main source of demand for PGMs is catalytic converters in combustion engines.)

The result is that the platinum market has been in a deficit for the past three years. However, we remain cautious even in deficit markets, as PGM market deficits and PGM share prices are not as correlated as one would expect. We waited for a sustained deficit combined with long-term reduction to mining supply. We now see limited sign of new projects on the cards and older mines are gradually depleting, meaning that supply is set to remain constrained for the foreseeable future. Although catalytic converters are recycled for their PGM content, we think it very unlikely that recycling will be able to balance the supply deficit in the medium term.

PGM investing is a bear in the backyard that South African fund managers wrestle. We have learned that when you step into the ring you need to have your punches planned. Haste can be fatal. This industry is very hard to time, and we decided to wait for certainty on supply dynamics rather than using the panic and despair share price signal. Cyclical investing is nailed when you build conviction in the industry at the same time as the share prices reflect deep despair. We did not nail the timing of this one, but we think our clients will make good returns nonetheless. We tip our hats to our industry colleagues who did indeed nail it; may their bear run like a bull.

Where have we invested?

Whatever the industry, we only invest in businesses that pass our investment hurdles. Of the PGM miners, both Valterra and Northam Platinum tick the box with capable management teams, solid ESG track records, strong balance sheets and some great mines that are generally low on the cost curve. We have been impressed with Northam's counter-cyclical investment approach and resulting improvement to it's overall cost profile. We like the optionality Valterra now has as an independent entity following the demerger from Anglo American. Both companies have now been included in the Granate BCI Balanced Fund and the Granate BCI Flexible Fund.

Tencent

Concluding on variable interest entities (VIEs)

As mentioned in our previous commentary, we have previously held the view that VIEs are not investable. After dedicating time to rethinking and debating our position, we concluded that there is very little incentive for the Chinese government to take actions against the VIE structure on a wholesale basis. This opened the door to reconsider Chinese companies that use these structures, with the caveat that we would look to mitigate risk by sticking to companies that seem aligned with the government's priorities and by tempering our exposure on an individual stock and/or sector basis. Tencent is one of the companies we historically excluded due to its VIE structure but which we have recently included in the portfolios.

Why Tencent?

With fresh eyes we see a phenomenal success story and long-term earnings compounder. It is the perfect platform business and an example of how powerful this can be in a growing and digitising economy. Tencent's apps are an entrenched part of the everyday lives of most Chinese citizens, connecting consumers and businesses across many different dimensions. These network effects create a wide moat. We have an engaged and highly capable founder at the helm (Pony Ma) who still owns a material stake in the business, creating alignment. There are few red flags from a governance perspective, and the balance sheet is healthy.

The company's capital allocation track record is admirable, with it redeploying profits from its highly cash-generative business model into a sizeable investment portfolio over the years. Its platform business model has helped identify investment opportunities by providing unique insights into businesses gaining traction within China. Furthermore, it has backed companies who can benefit from its distribution, creating a win-win for both parties. Tencent describes itself as an 'investment holding company' and has proven it can do this well. Our valuation suggests that at these levels, we are paying for a business that continues to compound and are getting the investment portfolio for free.

Why not buy Tencent at a discount in Naspers/Prosus?

In the spirit of thinking again, we undertook a full review of Naspers and Prosus, which offer an opportunity to buy Tencent at a discount. Naspers's investment in Tencent was a phenomenal one and has delivered excellent returns over the long term for shareholders. However, over the years, management has taken many expensive actions that undermined investor trust and weighed on the share price. The creation of Prosus, share swap transaction and resulting cross-shareholding made a lot of money for investment bankers and very little for shareholders. Furthermore, the founders still control the business, leaving shareholders with little influence. The new management team has succeeded in narrowing the discount, but actions taken over the past few years have mostly involved undoing the mistakes of the past. Excluding Tencent, their capital allocation track record is unconvincing, and they are continuing to invest into businesses we believe have questionable economics. We concluded that we would prefer not to have this board and management team between us and what we think is a great asset (Tencent) due to the risk of further value destruction. We have thus chosen to invest in Tencent directly.

Continually re-thinking, challenging and questioning

Returning to our 2021 article, we concluded, *"We will continue to make the best possible decisions for our clients if we can incorporate the principles of rethinking, challenging and questioning into all aspects of our organisational culture."* Revisiting old conclusions can be both challenging and humbling, but we will keep at it. Sometimes it will result in us buying shares that are falling, and sometimes in shares that are running. Neither is easy. This remains an important component of creating portfolios that maximise the odds of delivering benchmark-beating returns for our clients.

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