UP

Camissa Asset Management

First Quarter Edition

2023

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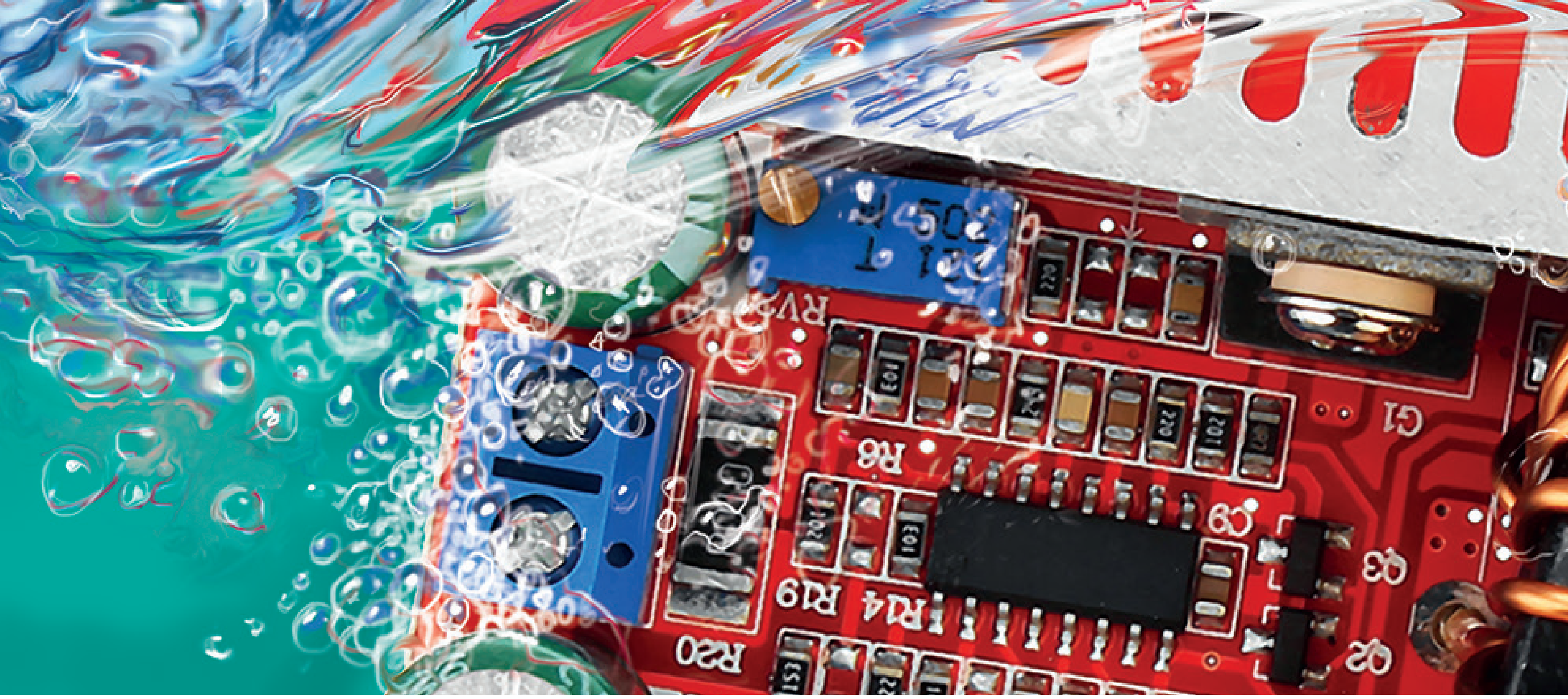
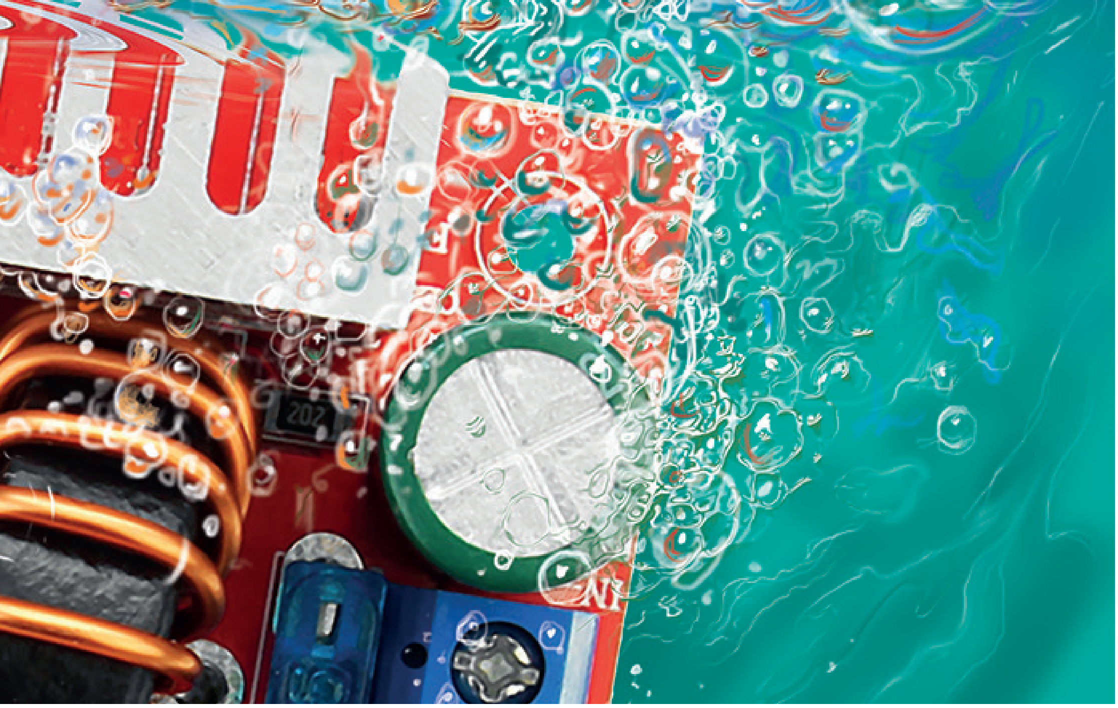




The changing face of DuPont

Abdul Davids - Portfolio Manager

The DuPont business dates back to 1801, when French chemist Eleuthère Irénée du Pont de Nemours started his first gunpowder mill in Wilmington, Delaware. E.I. du Pont de Nemours and Co was incorporated in April of the same year, with an initial capital base of $36 000.

Through its history of scientific and technological breakthroughs since the 1800s, DuPont is now best known for its Kevlar bulletproof vests that are more than capable of protecting the wearer against the gunpowder produced by its founder in 1804.

The changing face of DuPont

We investigate DuPont's 200-year business journey, shaped by reinvention through a plethora of acquisitions and disposals, while remaining rooted in innovation.

Significant transformation

DuPont embarked on its most significant transformative phase in 2017, announcing a merger with Dow Chemicals. Both companies had similar market values at the time and the 'merger of equals' created a diversified industrial and chemicals business with a $120 billion market capitalisation - DowDuPont. The intention was to amalgamate Dow Chemicals' crop protection business with DuPont's seed business to create a massive-scale, specialist agriculture-focused business. This was later renamed Corteva Agriscience and subsequently demerged into a separate company that listed on the New York Stock Exchange in May 2019.

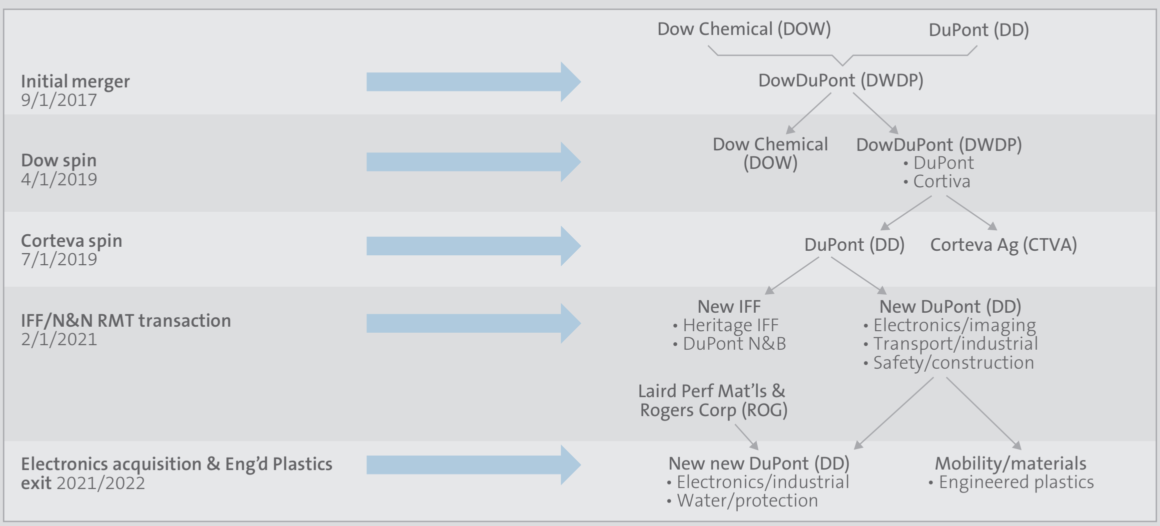
The *chart below* timelines DuPont's recent mergers, acquisitions and disposals, including the demerger of Dow Chemicals and Corteva on 1 July 2019. Thereafter, DuPont transferred its commodity chemicals businesses to Dow, divested its agricultural chemicals and seed businesses to Corteva and sold its nutrition and bioscience products business to International Flavours and Fragrances (IFF). The portfolio transformation was largely concluded with the cash sale of its mobility and materials business to Celanese Corporation for $11 billion in November 2022.

During this time, an intended acquisition of Rogers Corporation (specialist manufacturer of materials such as elastomers, high frequency circuit materials and components for applications in the communications and transportation markets) was terminated after Du Pont failed to obtain Chinese regulatory approval for the $5.2 billion transaction. Given that China is Rogers Corporation's biggest sales market, this was a significant blow. DuPont then announced a substantial share buy-back program as a means of returning value to shareholders.

The combined market value of the Dow, DuPont and Corteva businesses since May 2019 is evident in the *left chart on the next page* - ending in line with the initial market value. There has, however, been substantial underperformance of DuPont relative to its sister companies, Dow and Corteva, since the demerger in June 2019 (*right chart next page*). DuPont has devalued by more than 50% over the period, which is in stark contrast to Corteva, that has more than doubled in market value over the same period.

Dow Chemicals remained largely flat, with a 4% loss in value, outperforming Du Pont by almost 50%.

DuPont portfolio actions



Source: UBS

DuPont's earnings and market value were severely impacted by the pandemic and concomitant global lockdowns in 2020 and 2021. The legacy mobility and materials division suffered disproportionately, with steep revenue declines as global car manufacturing ground to a halt. The negative earnings impact on DuPont resulted in a substantial loss in market value and is the main cause of the underperformance. Extensive recovery in the mobility and material division's profitability in 2021 - albeit to lower levels than the pre-pandemic era - enabled DuPont to sell the business at a substantial premium to our assessment of its intrinsic value.

Finding value through greater agility and clear focus

DuPont is currently focussed on two key segments: 'Electronics and Industrial' and 'Water and Protection'. Within this, there are five underlying divisions (*tabled on following page*) that include a range of businesses, such as producers of smart semiconductors and advanced safety systems for electric vehicles, and water desalination and purification businesses. DuPont believes that these divisions are uniquely positioned to show strong organic growth as demand for their products and services are expected to accelerate with climate change mitigation efforts gathering pace worldwide.

The business has a long history of involvement in sustainability practices and social responsibility, implementing several initiatives to reduce its environmental impact and contribute to the wellbeing of communities around the world. These initiatives include: the divestment of businesses that produce harmful chemicals like PFAS[1] (also known as forever chemicals), an increasing use of renewable energy sources, the development of sustainable products and technologies and the implementation of programs that support local communities.

Key drivers for organic growth

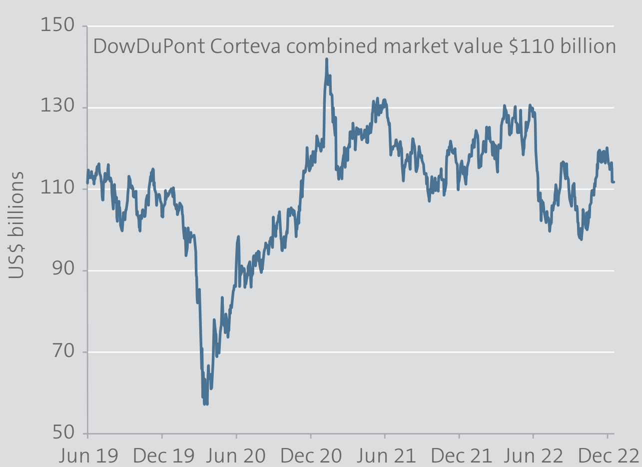
Electronics focuses on the pursuit of new technologies and performance materials. Dupont is considered a technology leader in this field, producing semiconductors, conductive polymers and other materials used in electronic devices.

Industrial Technologies provides specialised materials for protective use in harsh and environmentally demanding environments. Du Pont's thermal management materials offer superior temperature stability compared to competitor products and are widely used in the healthcare and aerospace industries.

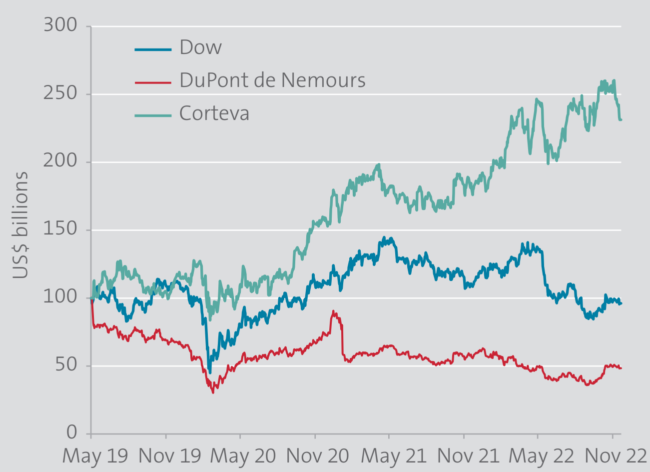
Water is a sustainability-driven segment that develops solutions aimed at addressing water scarcity. The water

[1] Per- and Polyfluorinated substances are a group of chemicals used to make coatings and products that are heat, oil, stain, grease and water resistant.

Combined Dow, DuPont and Corteva market cap



Value of $100 invested on 1 June 2019



Source: Bloomberg

The changing face of DuPont

business supplies many critical components and systems needed for the technologies employed in generating clean water (eg reverse osmosis, ion exchange and ultrafiltration). DuPont operates two world class manufacturing facilities - one in Minnesota in the US and the other in Jubail, Saudi Arabia. The Jubail plant manufactures membranes and components for reverse osmosis desalination plants in the Middle East, Africa and Asia. This division also works closely with large manufacturing plants, like semiconductor producers in China and the rest of Asia, to reuse wastewater - typically achieving over 90% reusability. The cost savings and substantially reduced environmental impact is immense, making the water solutions business an automatic choice for many industrial customers in Asia and the Middle East.

The **Protection** business spans both shelter solutions, with products like Styrofoam™ used in construction, and highly engineered materials used in protective wear garments and accessories that are critical to the protection of life, like Kevlar™.

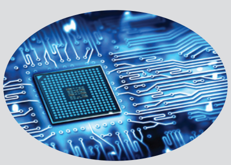
Through their **Next Generation Automotive** business, Du Pont produces a range of materials used in vehicle and aircraft manufacturing, such as those used to coat and protect against corrosion and wear (eg in tyres). Additionally, this segment develops new technologies related to transportation, for example: for electric vehicle batteries, improving fuel efficiency and driver safety and comfort (eg autonomous driving and safety systems).

Poised for growth

After a frenetic four-year period of corporate activity that included a global pandemic, DuPont has emerged with a strong, cash-flush balance sheet. It has renewed focus on its core businesses that have enduring competitive advantages and are exposed to fast-growing end markets such as water scarcity solutions and next generation mobility.

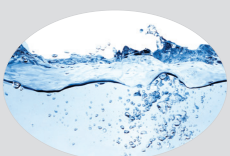
The electronics and industrial portfolio of businesses have demonstrable pricing power that proved their worth during the pandemic, with continued volume growth, while competitors saw large volume declines. The modern-day DuPont is an entirely different business to the one started by Eleuthère over two centuries ago and its products and services are in considerably greater demand today than the gunpowder produced back in 1801. UP

DuPont's five divisions



Electronics

33%
of net sales



Water

11%
of net sales

Protection

22%
of net sales

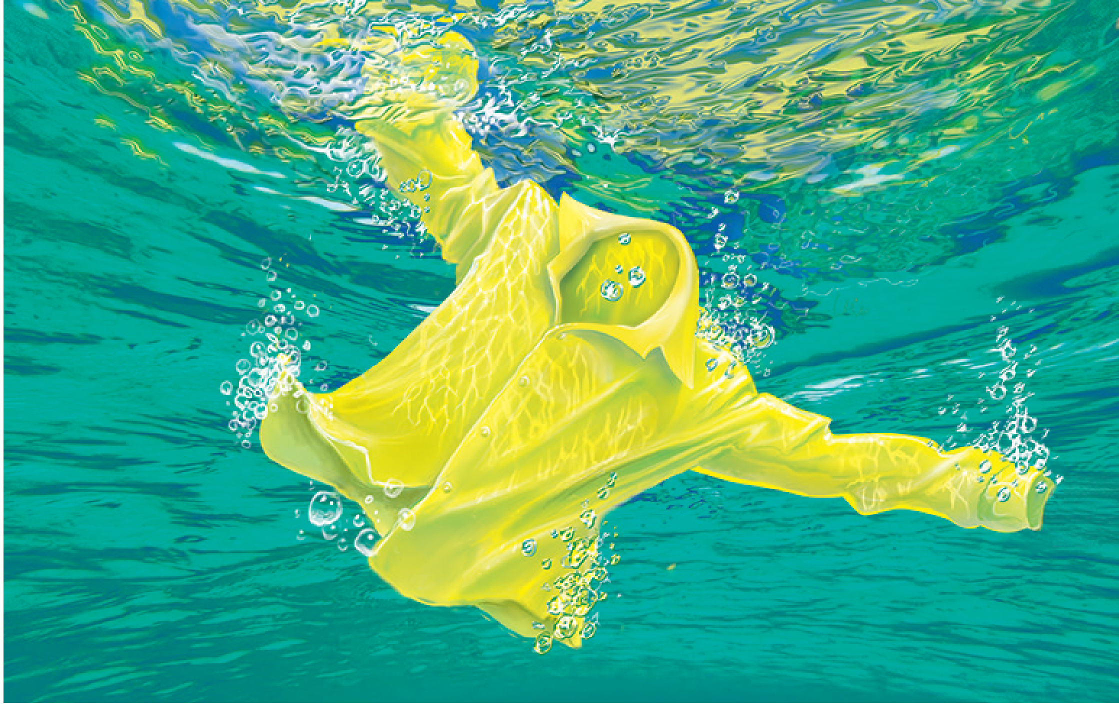
Industrial Technologies

22%
of net sales

Next Generation Automotive

12%
of net sales

Source: Du Pont results presentation



Mr Price - maxed out?

Mohamed Mitha - Investment Analyst

"For most South African retailers, the 20 years post democracy were regarded as the golden years. A growing economy, an expanding middle-class and the dramatic shedding of market share by largest competitor, Edcon (acquired by private equity and leveraged up), provided an ideal environment for retailers to prosper. Against this backdrop, Mr Price proved to be a remarkable success story, growing earnings at an impressive rate of 23% pa over the 20 years to 2015 and materially expanding its market price to earnings rating."

Mr Price - maxed out?

We unpack the company's historical successes and assess how a recent change in strategy may affect their prospects in a market that is now largely bereft of growth.

Reflecting on the good old days

Mr Price's offering of on-trend merchandise to a young, fashion-conscious demographic, at price points far more affordable than other retailers, was a winning formula. In 2000, the median age of the South African population was 22. Mr Price positioned themselves accordingly, within a target market that constituted more than 50% of the population, with few competitors adopting the same focus.

The business model, aimed at selling high volumes of fashionable items at low markups, proved enormously successful. They were able to deliver the fastest inventory turnover in the sector - ie their stock assortment mostly sold out and was replenished in a short time frame. With more than 80% of Mr Price's sales being cash-based, the business operated in a virtuous cycle of generating high levels of cash that continued to fund a runway of opportunities for opening new stores. This resulted in even higher levels of cash flow for the group and from 2012 to 2016, the business delivered a remarkable return on capital of more than 50% pa, and paid substantial dividends.

The group successfully extended their value-based fashion offering into new formats that included Mr Price Home (1998) and Mr Price Sport (2006) - adding further lucrative revenue streams (*below left*).

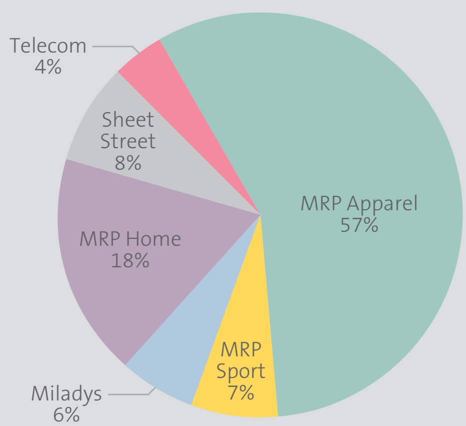
Rising competition

Between 2017 and 2022, Mr Price's sales growth slowed to a modest 6% pa, with earnings declining in 2017 for the first time since the group's inception. This change in trajectory seemingly resulted from the flagship Mr Price Apparel[1] chain reaching maturity following more than two decades of rapid growth (57% of 2021 revenue as shown in *left chart below*). The total number of apparel items sold had plateaued and began to decline from 149 million units in 2015 to 147 million by 2020, despite having increased their retail store footprint by 23% over this period.[2]

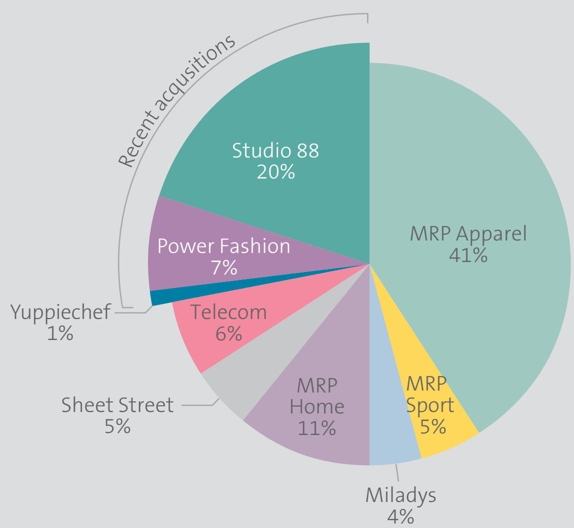
Mr Price Apparel achieved remarkable growth in the market niche they had identified, without major competition. Recent years have, however, seen this market become far more competitive, with the influx of strong global retailers such as Cotton On and H&M. These new foreign players have entered

[1] These stores are branded as "Mr Price".
[2] 2021 sales volumes for Mr Price Apparel declined to 136 million due to constraints caused by COVID lockdown restrictions. Volumes for 2022 were not disclosed. 2020 volumes appear not to have been materially affected by the restrictions.

Mr Price* group sales split 2021



Mr Price* group sales split 2024e



*MRP
Source: company data, Camissa Asset Management estimates

the country with effective merchandise propositions, global supply chains and substantial capital backing, and have expanded store footprints countrywide. Additionally, the impact of Pick n Pay Clothing has been significant due to the overlap in the key ladies moderate wear clothing category, which we estimate accounts for approximately 40-50% of the Mr Price Apparel range. Pick n Pay Clothing has grown its sales from approximately R1 billion to R5 billion between 2012 and 2022, rendering them a substantial competitor against Mr Price Apparel's R14 billion sales mark in 2022.

Edgars, one of the largest local retailers in 2007, is no longer shedding meaningful market share to Mr Price following their recent change in ownership and restructuring. An extended period of mismanagement saw Edgars' market share drop from 17% in 2007 to just 5% by 2022.

Blurred vision

Following the retirement of Mr Price's CEO, a new management team took over at the beginning of 2019, tasked with reinvigorating the brand and regaining a growth trajectory. The new team articulated a new vision for the group: "to become the biggest retailer in Africa by market capitalisation"[3].

[3] The equity value of a company as determined by the stock market. Shoprite is currently the largest retailer in Africa by market capitalisation (R140 billion), which compares with Mr Price's current market capitalisation of R40 billion.

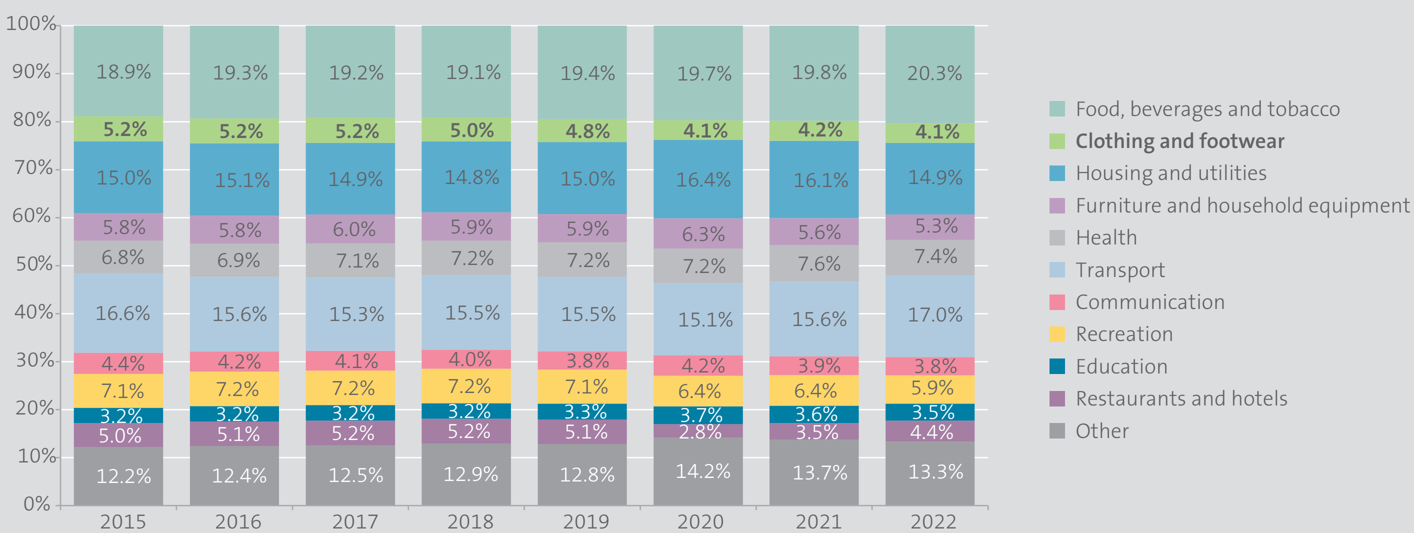
While pursuing growth and aiming to raise the valuation of a company is a normal business imperative, we believe that Mr Price's valuation-based vision is misguided and somewhat problematic. Pursuing size for its own sake leaves the door open to acquisitive growth that may erode shareholder value if too high a price is paid. It also may, in pursuit of size, encourage excessive risk-taking or changing course into areas beyond the company's core competencies.

A higher market capitalisation should be a consequence of delivering on product and operational excellence as well as meeting customer needs in an outstanding way. We fear that this vision may well be counterproductive to the group as investors could derate the share due to the increased risks of potential misallocation of capital.

Acquisitive growth is risky

In pursuit of their vision, Mr Price has used shareholder capital to acquire three unlisted companies in the past three years, aimed at growing the size of the company and bolstering the group's growth opportunities (*right chart previous page*). For R1.6 billion they purchased the Durban-based discount apparel retailer Power Fashion, for R500 million they bought Yuppiechef - the upmarket homeware retailer - and, most notably, for R3.6 billion they acquired 70% of Studio 88 - the largest independent retailer of athleisurewear in South Africa.

Reprioritisation of spend away from clothing and footwear



Source: Stats SA, RMB, Morgan Stanley

Mr Price - maxed out?

These transactions make the Mr Price group the third largest apparel retailer in South Africa by sales, behind Pepkor and The Foschini Group (TFG), with management indicating that further deals are likely.

An acquisitive strategy involving aggressively buying businesses is a marked departure from the group's historical strategy and is, in our view, inherently risky. The unexpected resignations of the two founders of Yuppiechef just nine months after it was acquired by Mr Price is an early example of this - especially as the original plan was for them to continue running the business. There are many common risks with acquisitive dealmaking, for example: overpaying (given that sellers have more information than buyers) and acquiror management overrating their ability to add value to businesses they acquire.

Cash-strapped consumers

South African consumer spending has been weak in recent years, with consumers having been pressured by the pandemic's impact on economic activity and employment, the rising cost of living (increases in the prices of food, fuel and electricity) and recently higher interest rates. These developments have reduced the amount of disposable income available for discretionary items like clothing and general merchandise (*charted on previous page*). With aggregate wage growth expected to be outweighed by a continued increase in the cost of living and with very low South African economic growth prospects, the outlook for consumer discretionary spend remains bleak. Typically, a fashion-value retailer like Mr Price should perform better in this type of environment as consumers shift their shopping to cheaper retailers.

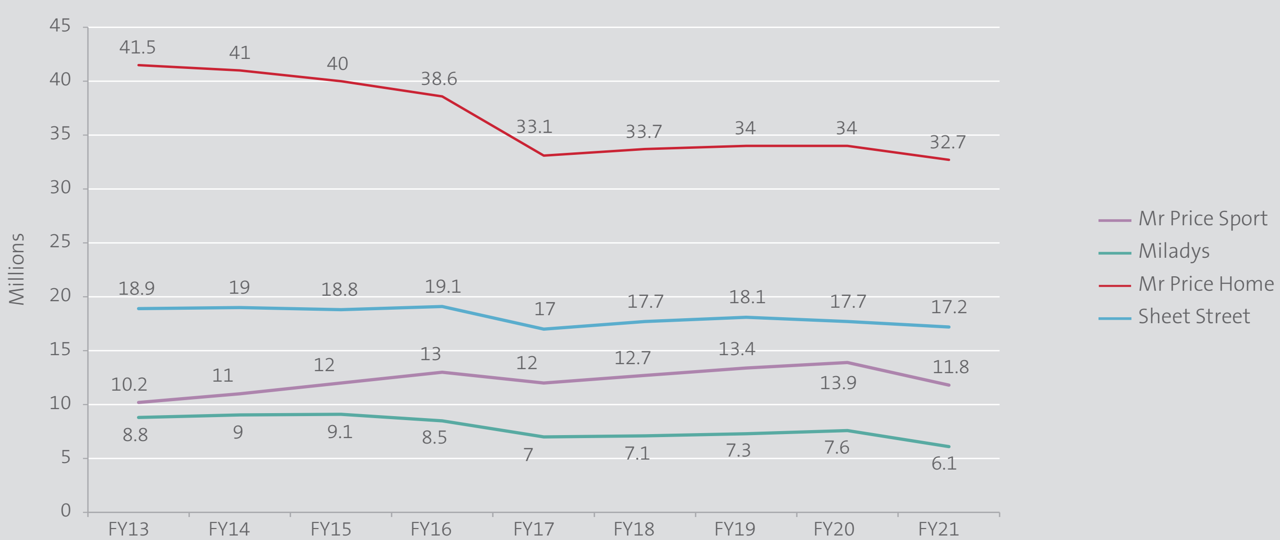
Mr Price's recent results don't appear to reflect much benefit from downtrading, with the total number of items sold decreasing in most divisions (*as shown below*).

Competition to intensify

We believe that competition will be intense in the coming period as many retailers are also chasing the more value-conscious shoppers. Pick n Pay Clothing is executing very well, TFG is aiming more for this market segment, a reinvigorated JET (under new ownership) will improve and Shoprite, a trusted value consumer brand, recently unveiled plans to enter the apparel market in 2023. Global online retailer, Shein, with their unparalleled range of on-trend fashion at extremely competitive prices, poses an additional threat to fashion-value retailers like Mr Price.

With Mr Price facing a constrained consumer, intensifying competition and pursuing a vision and strategy that we view as misguided, we see better investment opportunities elsewhere in the domestic market. UP

Mr Price Group - units sold per division



Source: company data, Camissa Asset Management estimates

Adidas will earn back its stripes

Dirk van Vlaanderen - Portfolio Manager

In 1919, German brothers Rudolf and Adolph ("Adi") Dassler founded a shoe manufacturing company, which pioneered early innovation and design in the nascent sports footwear market. Following a feud between the brothers in 1948, they separated and created two ubiquitous sports brands - Adidas by Adi and Puma by Rudolph. Today, Adidas is the second largest global sportswear brand after Nike. We discuss the global sportswear market and how Adidas is well placed to benefit as one of the leaders.

Adidas will earn back its stripes

The *chart below* maps the evolution of global athletic footwear market shares, dominated by Adidas and Nike since the 1990s. Adidas has evolved from its athletic footwear roots by utilising the brand to broaden its range beyond footwear (56% of revenue) to apparel products and other accessories (44% of revenue).

Adidas' sportswear (or performance) products are branded with the iconic three stripes logo, while its casual offering uses the "Adidas Originals" brand logo (*below bottom right*). Adidas has successfully collaborated with celebrities to create more fashion-focused products, such as its partnerships with Stella McCartney (ongoing since 2015) and US rapper, Ye, that was very successful until they parted ways in late 2022.

A fitter future

The global sportswear industry generated revenues of around $400 billion in 2022 and has shown stellar growth over the last decade, averaging 9% per annum. This is the result of healthy demand in developed markets, particularly North America (accounts for over 45% of the global market), and robust growth from emerging markets, predominantly China. The growth outlook for sportswear over the next decade remains strong, with growth rates expected to continue at similarly high levels supported by an increased focus on health and wellness as the world leaves the COVID pandemic behind.

China is a key growth market

With China making up 17% of the total market, their sportswear spend outlook is bright due to:

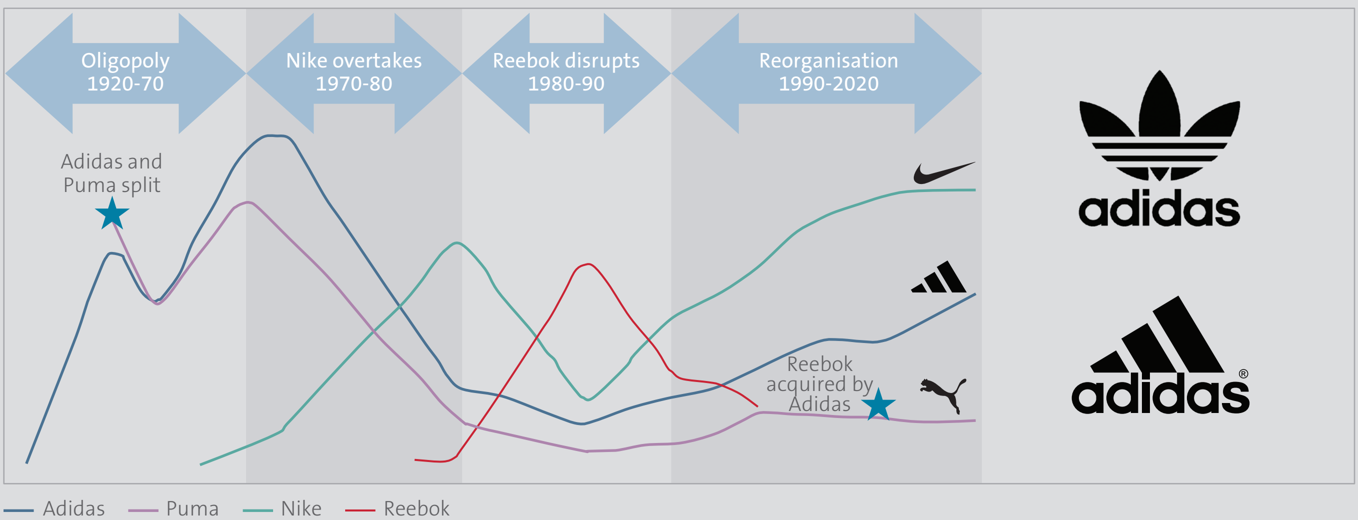
- **Government support**: The Chinese government launched an updated national fitness plan in 2021, which introduced a wide range of policies that are supportive of an increase in the general awareness of fitness, sporting events and sports participation. These include the provision of more fitness facilities, integration sports and the introduction of fitness training at schools.
- **Favourable demographics**: A significant increase in incomes in urban households means increased spending power and millions of new consumers for aspirational and premium brands, including sportswear.

Adidas and Nike are the two dominant international sportswear brands in China, with around 17% and 20% market shares respectively. They are therefore well placed to benefit from the high Chinese growth outlook.

Getting closer to the consumer

Traditionally, global sportswear manufacturers have relied on retailers to promote and distribute their brands and products to consumers. While this wholesale strategy allowed the brands to reach consumers without having to invest in their

Global market share evolution in athletic footwear since 1920



Source: Samsung's Economic Research Institute, Euromonitor, Morgan Stanley research estimates own store network - a low-capital, high-return expansion approach - the downside is that the brands do not own the consumer relationship and accept lower margins.

There is now a big trend shift from the major sportswear manufacturers to a “direct to consumer” (DTC) strategy. These companies are rolling out their own stores (particularly in key major cities) and investing significantly in their online retail platforms. This allows the manufacturers to capture the full retail margin and to have a direct line of sight into consumer data and buying trends. It also gives the brand owners a better understanding of consumer needs and the opportunity to communicate with consumers directly. Indicated *below* (*left*), Nike’s huge DTC focus in recent years has proved to be a successful strategy (42% of sales from DTC in 2022, up from 32% in 2019) closely followed by Adidas, at 39% of sales in DTC in 2022. Adidas targets this to increase to 50% by 2025.

Adidas excels

Adidas is a well-diversified global business with a long track record as a leader in the athleisure apparel industry. It has generated 8% revenue growth per annum over the past 20 years alongside good average operating profit margins of 8.5% (*charted on following page*).

The business generated 37% of sales from Europe, 22% from China and 24% from North America in 2021 (*below right*). Adidas’ very successful five years (since 2015) leading up to the COVID pandemic was mostly due to solid growth from China and the US. Historically, China has been a much larger profit generator relative to its sales (accounted for 34% of group profit in 2019) but profits have been disproportionately negatively impacted by the severe Chinese COVID lockdowns.

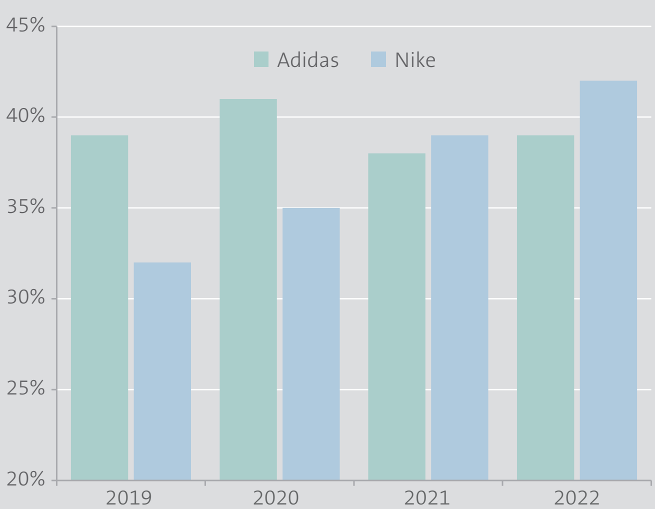
Despite the maturity of the US athleisure market, Adidas has a relatively low market share and was, since 2015, able to grow well ahead of the market and gain market share - doubling its US revenues.

Adidas supplemented their strong topline growth with excellent cost control, resulting in significant improvements in group profitability in this period to 2019 (operating profit margins reached 11%). Earnings per share tripled from 3.4 euros in 2015 to 9.7 euros in 2019.

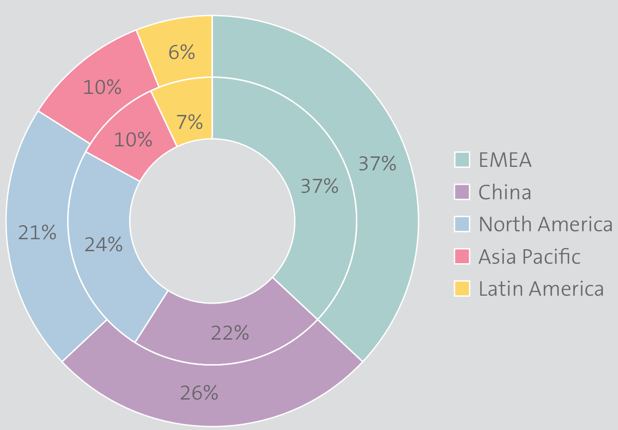
Recovering post-pandemic

The pandemic was a disruptive period for Adidas as retail outlets closed in most of their major markets. While many markets gradually reopened, the ongoing draconian zero-COVID policy adopted by China (Adidas’ largest profit

DTC revenue* Nike vs Adidas



Adidas revenue (in) and operating profit (out) per region



*As a percentage of total group revenue
Source: company data, Camissa Asset Management estimates

contributor) has had a significantly negative impact on the business over the past three years. The outlook for the industry and Adidas in this key market should improve materially with the easing of these restrictions.

Positively, the pandemic has fueled strong demand for athleisure apparel given the resultant increased focus on health and wellness. The disruption to global supply chains from the pandemic, particularly COVID-induced factory closures in their key manufacturing country, Vietnam, hampered sportswear companies from timeously restocking their stores.

More recently, the marked increase in freight costs and the strength of the US dollar has resulted in high input-cost inflation for athleisure companies. The meaningful price increases required at a time when consumer discretionary incomes in key markets are constrained cause weakness in the sales of merchandise. Athleisure companies therefore sit with excess inventory that will need to be cleared through discounting, which is impacting profits negatively in the short term.

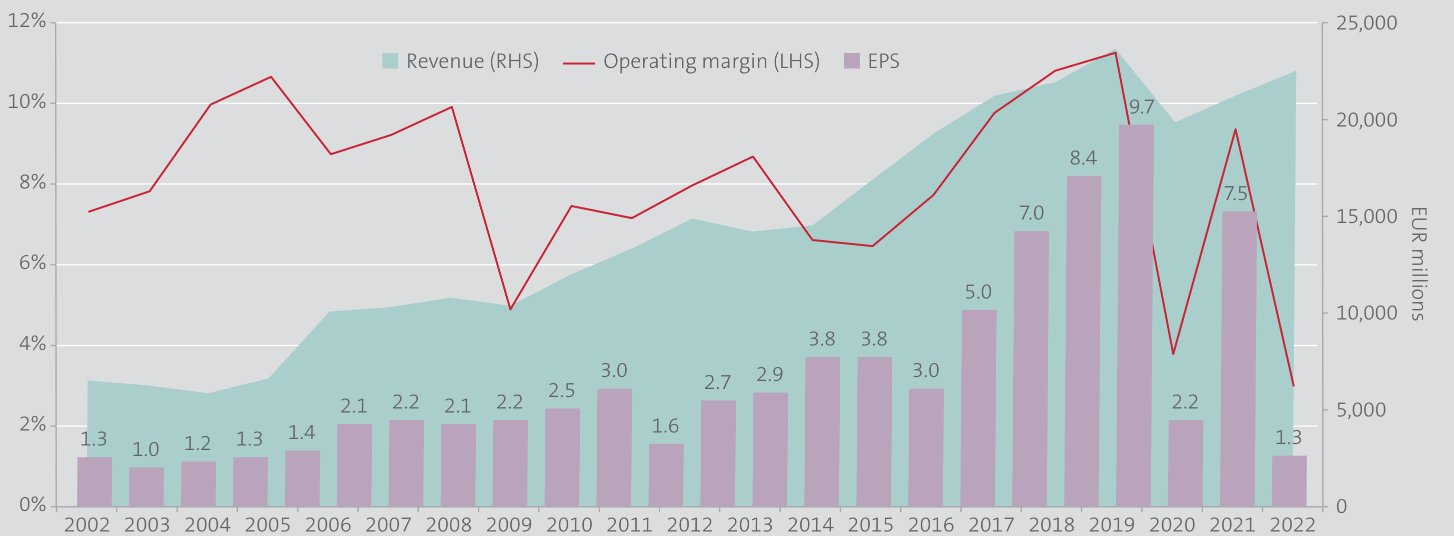
In addition, Adidas's recent decision (December 2022) to terminate their relationship with the well-known US rapper, Ye, will mean a large profit hit for the business. This partnership produced products under the "Yeezy" brand, amounting to 8% of group sales at higher-than-average margins.

As a consequence of all this, after a period of very strong growth pre-COVID, Adidas faces some tough industry and company-specific challenges that will result in 2023 being a record year for all the wrong reasons. This does, however, also present the opportunity to reset and rebuild the business. Newly appointed CEO, Bjørn Gulden, has done a fantastic job at reviving rival, Puma. We expect he will bring a fresh perspective to Adidas' business strategy to reinvigorate this iconic, global brand.

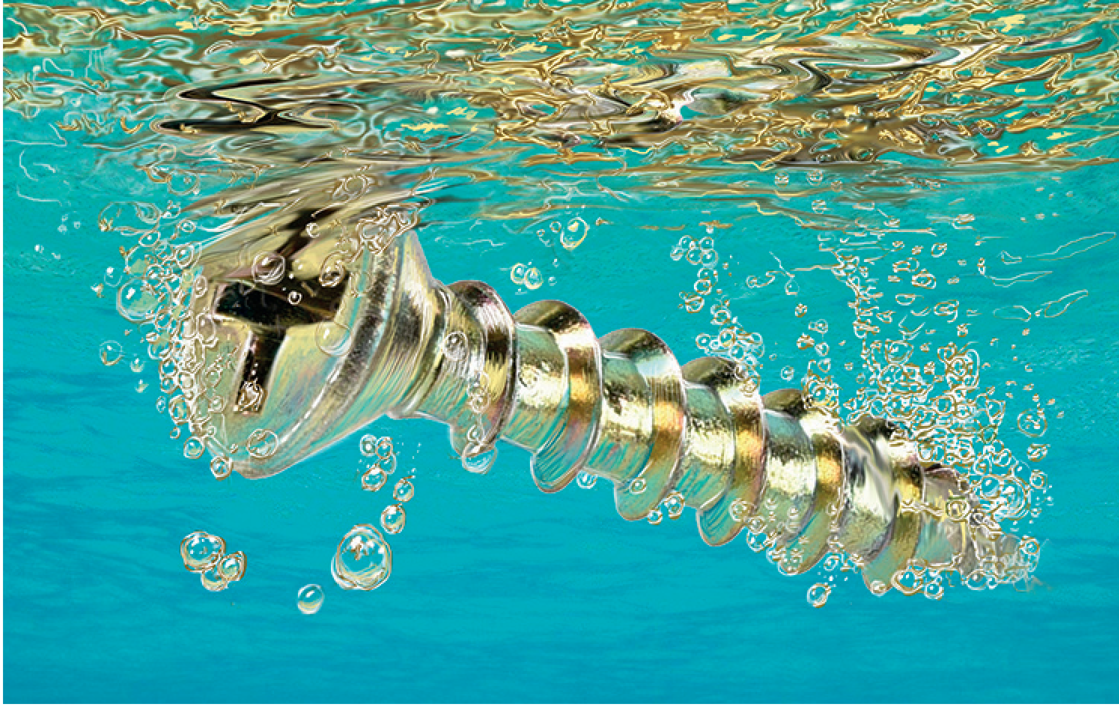
Refueled and ready for the marathon

We have long been admirers of Adidas given its solid positioning in the high-growth global athleisure market and its exceptional economic results, but the share has generally been too expensive. The recent earnings disappointments and subsequent derating of the share have given us an opportunity to add this great business to our global client portfolios at a very attractive price. UP

Adidas revenue, operating profit margin and EPS*



*Earnings per share (EUR)
Source: Adidas, Camissa Asset Management research



Cashbuild offers value

Meyrick Barker - Investment Analyst

> The building material retailers were one of the few beneficiaries of the COVID pandemic as people spent disproportionally on renovating their homes during the lockdown period and while working from home. This bumper period is over and consumers' home improvement spend has retracted.

Cashbuild offers value

We delve into one of South Africa's largest retailers in this sector, Cashbuild, discussing the challenges of operating in this segment of the retail industry and why we believe the business makes for a sound investment.

Brick by brick

Cashbuild was originally founded in a small Eastern Cape town in the late 1970s, as a subsidiary of Metro Cash & Carry - part of Natie Kirsh's retail empire. At the time, lower income communities in rural areas and townships were largely unserved by the established building material retailers who viewed the limited individual buying power of the communities as too fragmented and high risk. Albert Koopman, Cashbuild's founder, felt differently. He believed that a retailer offering a better proposition could gain market share from the smaller regional firms and independents servicing the market. He subsequently founded a cash wholesaling business catering specifically to the smaller building contractors and traders, selling basic building products at the lowest prices.

Sanlam assumed ownership of Cashbuild in the 1980s (via Tradegro) prior to it being listed on the JSE Securities Exchange in 1986. Pepkor then took a material stake in the business during the 1990s before fully divesting in 2000, but not before shifting Cashbuild from its wholesale focus to the retail business that it is today. The business has been publicly owned since then and has maintained a particularly strong presence in township and peri-urban areas.

Considering multiple stakeholders before it became fashionable

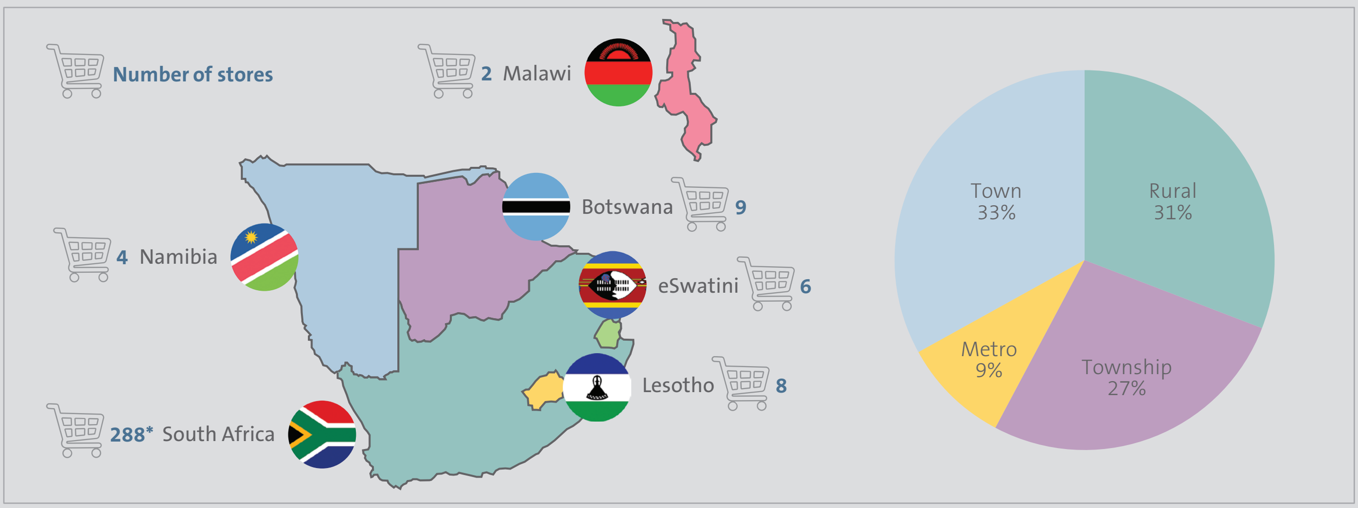
Around its fifth year of trading, Cashbuild ran into difficulties. Self-introspection led to a significant change in management style, pivoting from what was an autocratic environment to one that empowered its workforce. During the apartheid years in South Africa, Cashbuild was viewed as a politically radical private company when, as part of the changes implemented, it appointed black individuals to branch management positions and granted stock options to black employees.

The ethos of good corporate citizenship and caring for multiple stakeholders endures to the present. Cashbuild's corporate social investment spend of R180 million per annum is significant in the context of annual group earnings of approximately R440 million.

A quality retailer you can trust

Stock availability, low prices and excellent customer service are common goals for retail enterprises. During tough economic times for consumers, the demand for cheaper products is naturally higher. However, for building material retailers,

Geographical store location



*Includes P&L Hardware
Source: Cashbuild

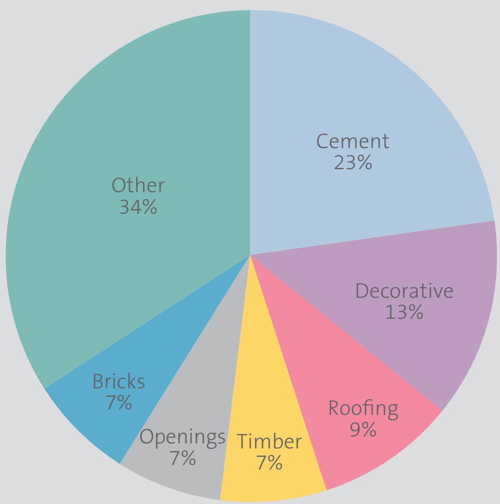
product integrity may be compromised when price is the primary consideration. For example, this is evident in the notable decrease in the thickness and commensurate reduction in product lifespan of steel roof sheeting that is widely used in low-cost housing. Cashbuild seeks to strike a balance between sourcing cheaper products and adhering to building regulations and SABS standards, where applicable. Upholding their long-term reputation as a quality product retailer can, in a tough economic environment, come at the short-term cost of lost sales to retailers that do not maintain the same standards.

Cashbuild makes a concerted effort to educate customers on the merits of different products. This is achieved through training staff to explain optimal solutions and the establishment of social media campaigns and a DIY YouTube channel to help customers make wiser choices.

Key product pricing considerations

While retailer brand awareness and established customer relationships are important, it is common practice for building contractors to source quotes from various building material retailers before negotiating a discount with their preferred store. In particular, cement pricing is a key determinant of where a customer will buy the rest of their basket. Cement is a product that generates very low margins unless volume rebates are met. The ancillary sales generate far higher margins for the retailer. In this competitive environment, the ability to optimally source stock at the best price provides an advantage.

Cashbuild primary product offering



Source: Cashbuild

Cashbuild's national footprint

Cashbuild is currently a chain of 317 corporate-owned stores that trades under two brands: Cashbuild (264 stores) and P&L Hardware (53 stores). Stores are predominantly located in South Africa although approximately 10% of sales occur across Namibia, Botswana, Lesotho, eSwatini and Malawi. The *chart on the previous page* demonstrates store layout by country and consumer segment serviced. Cashbuild uses their national bulk to procure volume rebates from suppliers who deliver directly to stores.

The competition

Large, listed competitors include Spar's Build It, Massmart's Builders Warehouse and Pick n Pay's Boxer Build. Although targeting slightly different end consumers (eg Builders Warehouse typically targets a more affluent consumer), the large corporate players collectively comprise around R50 billion in annual sales, or 60% of the total building retail market. For context, the South African grocery market's annual sales is estimated at about R1 trillion.

The tenacity of owner-managed franchises cannot be underappreciated and there are several formidable independent competitors such as Mica, Power Build and Essential Hardware. Importantly, many independent operators have aggregated within buying groups such as Elite Star Trading, allowing the entrepreneurial operator to retain their independence but benefit from centralised, large-volume procurement, therefore remaining competitive with the large corporate chains.

As there are few impediments to opening a building retail store, store openings tend to be cyclical. During upswings in building activity (as recently experienced), many entrepreneurs open building material stores. Although their stock holdings are often limited and prone to fail as cycles turn, they are quite disruptive over the short term from a pricing perspective, particularly when they don't comply with the same regulations as larger listed players.

Cashbuild offers value

Delivering what the customer wants, where they want it

Although less evident in a distressed environment, customers tend to stick to a brand they know and trust. These brand preferences differ across regions and having the right store manager that is empowered, supported and acutely aware of local dynamics is vital to the success of such a business. Promoting localised talent from within is a key focus for Cashbuild as this typically translates into stronger community support and buy-in from the catchment area. Cashbuild's ability to understand their customer base ensures they provide a focused range of products (primary sales mix *charted on the previous page*) and services suited to the needs of each market. The business model is one of retailing high volumes of building materials at discount prices through large-format stores, ensuring that stores can be a one-stop-shop for the client base. The ability to procure a full basket is important for the portion of the customer base who cannot afford to waste money on the transport costs of visiting multiple stores. Cashbuild's free local customer delivery service also serves as a positive differentiator as they get the product promptly to where it's needed.

Although Cashbuild offers online sales, they remain negligible. Having struggled to implement a credit offering to customers in the 1990s, Cashbuild solely operates on a cash basis today. They do, however, partner with external credit providers who offer in-store credit.

Resilient foundations with scope for growth

Cashbuild has been a consistent operator through many cycles delivering good economic returns. It is a conservatively managed business that ekes out incremental gains in a competitive market. Most Cashbuild store layouts are very standardised - a roughly 1 200 square metre large box format often located at or near a mall. There are essentially two layouts to meet the local needs. This rigid operating model has served them well to date but makes it relatively costly to open a new store.

Cashbuild can respond to the competitor disruption now evident in the market and use their experience, spanning more than five decades, to evolve their retail offering. This can take several forms, whether it be smaller store formats to viably serve a broader section of the market or deploying the strength of the Cashbuild brand into a franchise model. This captures the entrepreneurial spirit of operators and empowers them to offer a more personalised offering to their respective communities.

Although the lower income consumer is currently in a weak position, as is reflected in recent contracting sales volumes, there is a degree of resilience within the cash flows that underpin store spend within this industry. People remain aspirational in wanting to create a home, formalise existing structures or improve on what they have. Furthermore, lower end consumption spend is reasonably resilient in South Africa. Social welfare payments are generally economically insensitive and increase with inflation, and public servants typically have very secure jobs that deliver real wage growth.

While Cashbuild is unlikely to see the recent boom in building retail spend manifest again in the near term, we believe its very weak current share price underestimates the positive longer-term prospects of the business. UP

Camissa Asset Management Funds

Performance to 31 December 2022	1 year	3 years[1]	5 years[1]	10 years[1]	15 years[1]	Since launch[1]	Launch	TER[2]	TC[3]
Unit trust funds[4]									
Equity Alpha Fund	1.3%	11.2%	10.1%	10.1%	9.9%	15.6%	Apr-04	1.90%	0.44%
SA Equity General funds mean	3.1%	10.2%	5.6%	7.3%	7.5%	11.9%			
Outperformance	-1.8%	1.0%	4.5%	2.8%	2.4%	3.7%			
Global Equity Feeder Fund	-13.3%	2.3%	-	-	-	2.3%	Nov-19	2.02%	0.23%
FTSE World Index[8]	-11.4%	11.8%				10.6%			
Outperformance	-1.9%	-9.5%				-8.3%			
Balanced Fund	-1.3%	7.2%	7.5%	8.6%	-	8.9%	May-11	1.52%	0.32%
SA Multi Asset High Equity funds mean	-0.5%	8.0%	5.8%	7.5%		8.1%			
Outperformance	-0.8%	-0.8%	1.7%	1.1%		0.8%			
Protector Fund	1.7%	7.7%	8.3%	8.0%	7.2%	9.6%	Dec-02	1.60%	0.29%
CPI + 4%	11.0%	9.3%	8.9%	9.7%	10.2%	10.2%			
Outperformance	-9.3%	-1.6%	-0.6%	-1.7%	-3.0%	-0.6%			
Stable Fund	6.7%	8.1%	8.9%	8.6%	-	8.6%	May-11	1.49%	0.38%
CPI + 2%	8.9%	7.3%	6.9%	6.3%		6.2%			
Outperformance	-2.2%	0.8%	2.0%	2.3%		2.4%			
Institutional funds[5]									
Managed Equity Fund	3.0%	11.7%	10.1%	9.9%	10.2%	11.7%	Sep-06		
FTSE/JSE Capped SWIX Index	4.4%	10.1%	5.1%	8.9%	9.5%	10.9%			
Outperformance	-1.4%	1.6%	5.0%	1.0%	0.7%	0.8%			
Domestic Balanced Fund[6]	4.8%	10.9%	10.2%	9.1%	9.5%	9.3%	May-07		
Peer median	6.2%	9.5%	6.2%	8.2%	9.2%	9.0%			
Outperformance	-1.4%	1.5%	4.0%	0.9%	0.3%	0.3%			
Global Balanced Fund[7]	0.1%	8.8%	9.2%	-	-	9.8%	Jul-13		
Peer median	1.5%	9.3%	7.3%			9.0%			
Outperformance	-1.4%	-0.5%	1.9%			0.8%			
Bond Fund	4.5%	8.0%	8.7%	7.5%	8.7%	8.4%	May-07		
BESA All Bond Index	4.3%	7.1%	7.9%	7.1%	8.3%	8.0%			
Outperformance	0.2%	0.9%	0.8%	0.4%	0.3%	0.4%			
Money Market Fund	7.1%	6.5%	7.3%	7.3%	7.5%	7.7%	Jan-04		
Alexander Forbes STeFI Composite Index	5.2%	4.8%	5.8%	6.1%	6.7%	7.0%			
Outperformance	1.9%	1.7%	1.5%	1.2%	0.8%	0.7%			
Sharia unit trust funds[4]									
Islamic Equity Fund	-3.8%	11.8%	9.5%	9.4%	-	11.1%	Jul-09	1.50%	0.21%
SA Equity General funds mean	3.1%	10.2%	5.6%	7.3%		10.1%			
Outperformance	-6.7%	1.6%	3.9%	2.1%		1.0%			
Islamic Global Equity Feeder Fund	-11.8%	4.6%	-	-	-	6.9%	Jan-19	1.88%	0.14%
Global Equity General funds mean	-14.5%	7.9%				11.4%			
Outperformance	2.7%	-3.3%				-4.5%			
Islamic Balanced Fund	-0.9%	10.9%	8.6%	8.5%	-	7.9%	May-11	1.50%	0.16%
SA Multi Asset High Equity funds mean	-0.5%	8.0%	5.8%	7.5%		8.1%			
Outperformance	-0.4%	2.9%	2.8%	1.0%		-0.2%			
Islamic High Yield Fund	5.8%	7.5%	-	-	-	7.3%	Mar-19	0.58%	0.05%
Short-term Fixed Interest Index (STeFI)	5.2%	4.8%				5.4%			
Outperformance	0.6%	2.7%				1.9%			

Highest and lowest monthly fund performance	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
Equity Alpha Fund	7.4%	-3.4%	12.6%	-21.6%	12.6%	-21.6%	12.6%	-21.6%	12.6%	-21.6%	12.6%	-21.6%
Global Equity Feeder Fund	5.6%	-8.2%	18.1%	-15.6%	-	-	-	-	-	-	18.1%	-15.6%
Balanced Fund	4.4%	-4.5%	9.1%	-15.7%	9.1%	-15.7%	9.1%	-15.7%	-	-	9.1%	-15.7%
Protector Fund	4.4%	-3.7%	7.4%	-13.9%	7.4%	-13.9%	7.4%	-13.9%	7.4%	-13.9%	7.9%	-13.9%
Stable Fund	4.0%	-2.2%	6.1%	-11.4%	6.1%	-11.4%	6.1%	-11.4%	-	-	6.1%	-11.4%
Islamic Equity Fund	5.3%	-8.9%	9.6%	-14.3%	9.6%	-14.3%	9.6%	-14.3%	-	-	9.6%	-14.3%
Islamic Global Equity Feeder Fund	4.4%	-7.4%	14.6%	-7.4%	-	-	-	-	-	-	14.6%	-8.4%
Islamic Balanced Fund	3.4%	-6.2%	8.0%	-9.3%	8.0%	-9.3%	8.2%	-9.3%	-	-	8.2%	-9.3%
Islamic High Yield Fund	1.3%	-1.2%	2.7%	-2.4%	-	-	-	-	-	-	2.7%	-2.4%

Footnotes and disclaimer follow overleaf.

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Footnote: [1] Annualised (ie the average annual return over the given time period); [2] TER (total expense ratio) = % of average NAV of portfolio incurred as charges, levies and fees in the management of the portfolio for the rolling three-year period to 31 December 2022; [3] Transaction costs (TC) are unavoidable costs incurred in administering the financial products offered by Camissa Collective Investments and impact financial product returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. This is also calculated on the rolling three-year period to 31 December 2022. [4] Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; [5] Source: Camissa Asset Management; gross of management fees; [6] Median return of Alexander Forbes SA Manager Watch: BIV Survey; [7] Median return of Alexander Forbes Global Large Manager Watch. [8] Benchmark changed with effect from1 January 2021 from "Average performance in Global Equity unit trust universe".