UP

Camissa Asset Management

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Aroundtown: repositioning real estate pg 1

Brighter prospects for Woolworths pg 9 | Polishing up Brait pg 13

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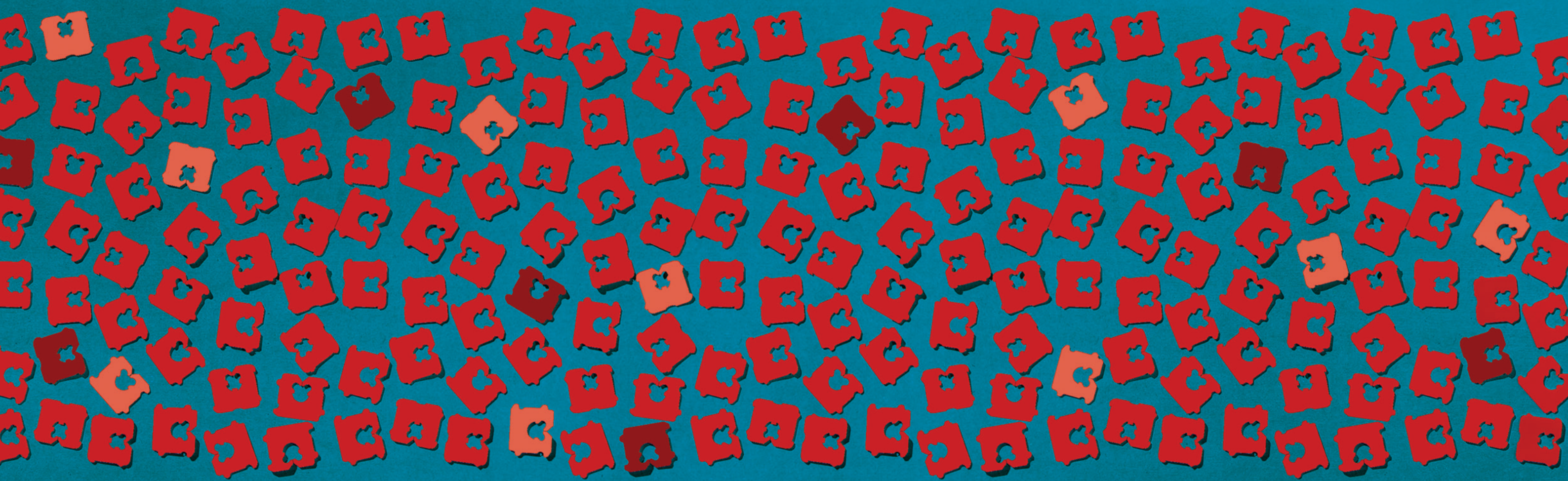


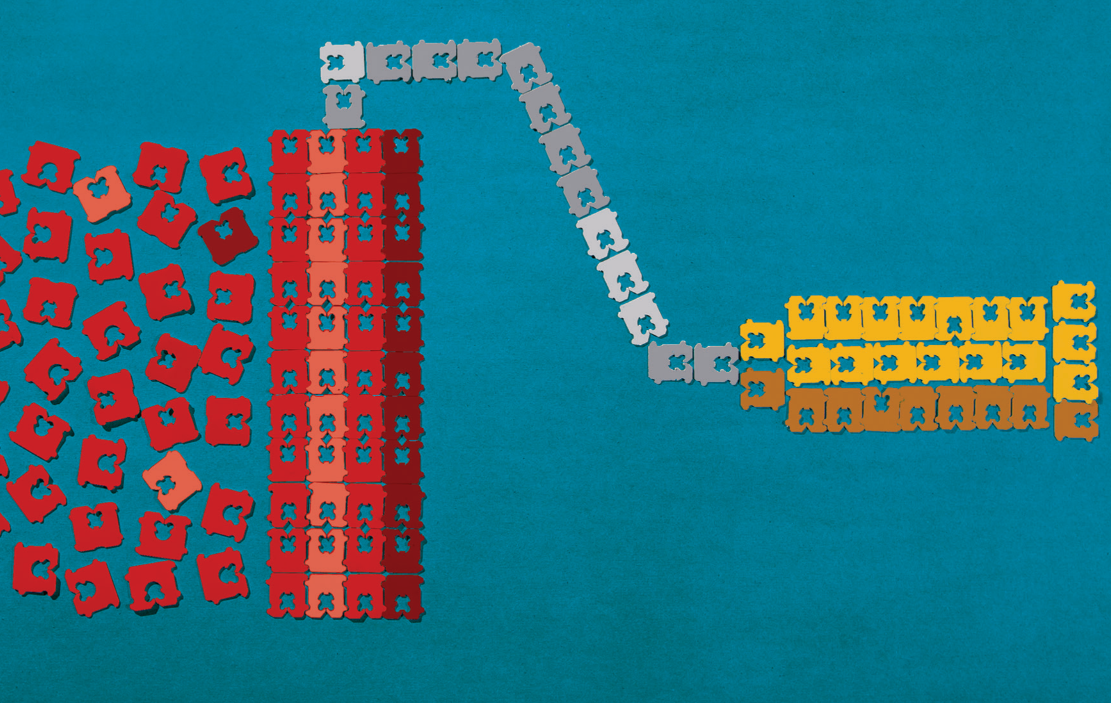
1 Aroundtown: repositioning real estate Meyrick Barker

5 Prudential nurtures healthy growth in Asia Jihad Jhaveri

9 Brighter prospects for Woolworths Mohamed Mitha

13 Polishing up Brait Dirk van Vlaanderen

17 Performance table



Aroundtown: repositioning real estate

Meyrick Barker - Investment Analyst

"Real estate markets have been severely affected by the COVID pandemic restrictions on the movement of people. Travel restrictions and a move to substitute business travel with online meetings have decreased the demand for hotel accommodation. An increased acceptance of flexible work-from-home arrangements has reduced the need for office space and raised uncertainty about future office demand."

Aroundtown: repositioning real estate

Retail stores have suffered from mobility restrictions and a greater move to online shopping, although shopping patterns are returning to normal.

Additionally, given that real estate companies are generally leveraged to enhance equity returns, tightening financial conditions squeeze distributable cash flows and refinancing debt has become more difficult, especially as property asset values have declined.

One of Europe's largest office, hotel and residential accommodation landlords, Aroundtown, has certainly not been spared the fight. We discuss why, despite these headwinds, it is a compelling investment proposition.

Growth ambitions ignite innovation

Established in 2004, Aroundtown initially focussed on growing a residential and hotel property portfolio in Germany. Being privately owned, with limited financial resources, the business model imperative was to buy properties with potential for value enhancement via asset management initiatives. Once improvements were achieved, the properties were sold to generate cash to fund further acquisitions. Capitalising on the distress in property markets post the 2008/2009 global financial crisis, Aroundtown acquired numerous valuable property assets.

In 2012, the group partially listed Grand City Properties (Grand City) - a subsidiary that houses its residential assets - retaining a strategic stake. Grand City obtained the first credit rating from S&P for a German real estate company, enabling lower-priced access to debt capital markets - a key advantage for a real estate company with growth ambitions. Access to larger, more permanent financing sources shifted the business model towards holding properties for longer, although they continued selling assets on a smaller scale and recycling the capital.

Aroundtown listed in 2015, with the intent to expand into German office property ownership - a sector viewed as undervalued at the time. Using capital market experience gained from the Grand City listing, the company promptly obtained an investment grade rating and through to 2020, successfully raised consecutive rounds of funding. Good relationships with brokers, a ready supply of capital and an established deal-sourcing network presented numerous attractive opportunities to grow the property portfolio.

Property deals are sourced from a large and diverse network including banks, loan funds, distressed owners, private and institutional investors, and court auctions. This culminated with the completion of a share merger with TLG Immobilien (a €4,5 billion German office-biased landlord) in February 2020. With close on €40 billion of assets today, Aroundtown ranks as the third largest listed European property landlord.

Maximising shareholder returns

Since the onset of the pandemic and the resultant negative impact on hotel occupancies and weakness in demand for office space, Aroundtown's share price has been very weak - trading well below its book value. This is reflective of what independent experts assess is the realisable market price of their property holdings. To date, these values have been an accurate reflection of property transaction values on sales they have made.

Aroundtown have capitalised on this disconnect over the past couple of years by selling €6 billion of mostly mature properties at above book value. Importantly, this is 40% above what they originally paid for them. The proceeds have been used to buy

Recycling capital

Source: company results

back their own shares at a significant discount to book value and reduce debt levels, creating value for shareholders. The *chart on the previous page* indicates how each share's claim on the company's net assets has increased due to investment decisions undertaken by management and the extent to which this has been enhanced by share buybacks.

Reimagining potential

Offices comprise approximately 50% of Aroundtown's property portfolio, located predominantly in the top cities of Germany and the Netherlands (ie Berlin, Frankfurt and Amsterdam). The tenant base is diverse, covering a host of different industries and including multinationals such as Amazon, Siemens and Vodafone. The public sector, which has been less likely to adopt work-from-home practices or shrink its office space requirements, constitutes 30% of the tenant base.

The offices, which vary in size, are largely located within the city centres. Typically, Aroundtown buys buildings that have been sub-optimally managed (either under-rented, have elevated vacancies or high building management costs) and a dedicated team determines how spaces can be reconfigured and refurbished to extract value from existing underutilised potential. This might take the form of a new development on vacant land or converting or extending an existing property.

After obtaining the necessary building rights, Aroundtown either sells these rights to crystallise their value or will develop the project by contracting external construction partners.

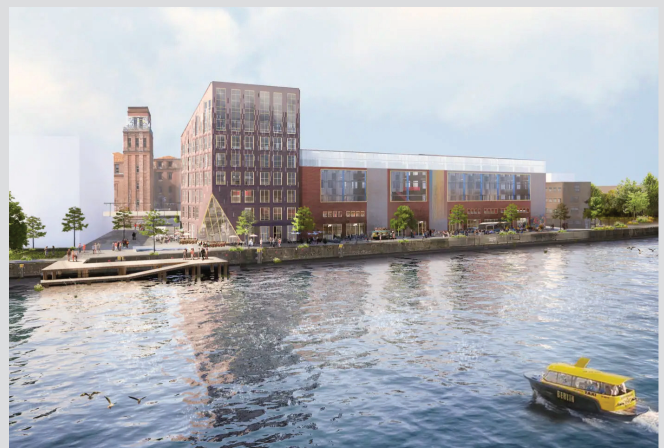
Below is an example of an old, vacant and dilapidated brewery purchased for less than €1 000 per m^2 in a good location in Berlin on the Spree River (between Berlin's prime commercial and tourist centre and the university district of Adlershof). Together with a development partner, the site is undergoing reconfiguration into a mixed-use office and residential development at a cost of approximately €2 000 per m^2. Retaining many of the distinctive features of the original building, the completed development is expected to attain sales prices of between €4-5 000 per m^2.

Bring back the travellers

Aroundtown owns 156 hotels, mainly located in Germany but also in popular cities across Europe. 85% are 4-star, catering for both leisure and business travel, thereby diversifying the exposure to different demand factors. While mainly city-based, several hotels and resorts exclusively focus on leisure activities in areas such as the Baltic Sea, the Alps and places offering natural attractions like thermal hot springs.

Aroundtown does not operate the hotels. Instead, they lease them on long, fixed-term contracts to strong hotel operators

Berlin brewery before and after



Source: Aroundtown, Barcode Architects

that trade under well-known brands such as Marriott, Sheraton and Hilton. Various hotel operators were offered significant discounts over the past two years as occupancy rates collapsed during the government-imposed travel restrictions. As travel gradually recovers, the cessation of these discounts is providing a meaningful boost to earnings.

The business has used this time to accelerate planned redevelopment work at a number of their hotels, executing refurbishments more quickly and with less disruption than is typically achievable when a hotel remains open for business and work is completed floor by floor. This included the successful €7 million refurbishment of an iconic water tower in Cologne, once the largest of its kind in Europe. Today, it forms part of Hilton's Curio Collection and offers a gym and a rooftop bar with 360-degree views of the old city, while retaining the building's original architecture and historical aesthetic.

No place like home

Aroundtown does not manage residential properties directly but rather owns a 50% stake in Grand City - translating into a 15% economic exposure to residential real estate for shareholders. Grand City targets the affordable rental housing market, with 80% of the portfolio located in Germany and the balance in London. A typical apartment is around 60 m^2 in size, costing in the region of €480 per month to rent. With the average tenancy length of the German portfolio being around 10 years, tenants are evidently happy. The typical apartment building is four stories, with 2-3 units on each floor, ranging from large residential 'towers' to single-unit housing. A call centre is continuously available to address tenant queries.

The German residential market is highly regulated, largely favouring tenants (by limiting rental increases) but offering a reasonable return for investors on existing rental stock. The main regulation impacting Grand City's business is that rental increases are limited to 11% over a three-year period (with some exceptions) - although if an apartment is vacated, higher rentals can be charged. Housing demand exceeds supply in cities serviced by Grand City, therefore tenant turnover can lead to stronger rental growth.

Grand City follows a similar acquisitive approach to Aroundtown, purchasing properties that have been sub-optimally managed and increasing returns through various improvement initiatives. Upgrading apartments, installing playgrounds or improving access with elevators are some of the value adding measures employed. Management have estimated that rental incomes can be increased by over 20% across the existing portfolio.

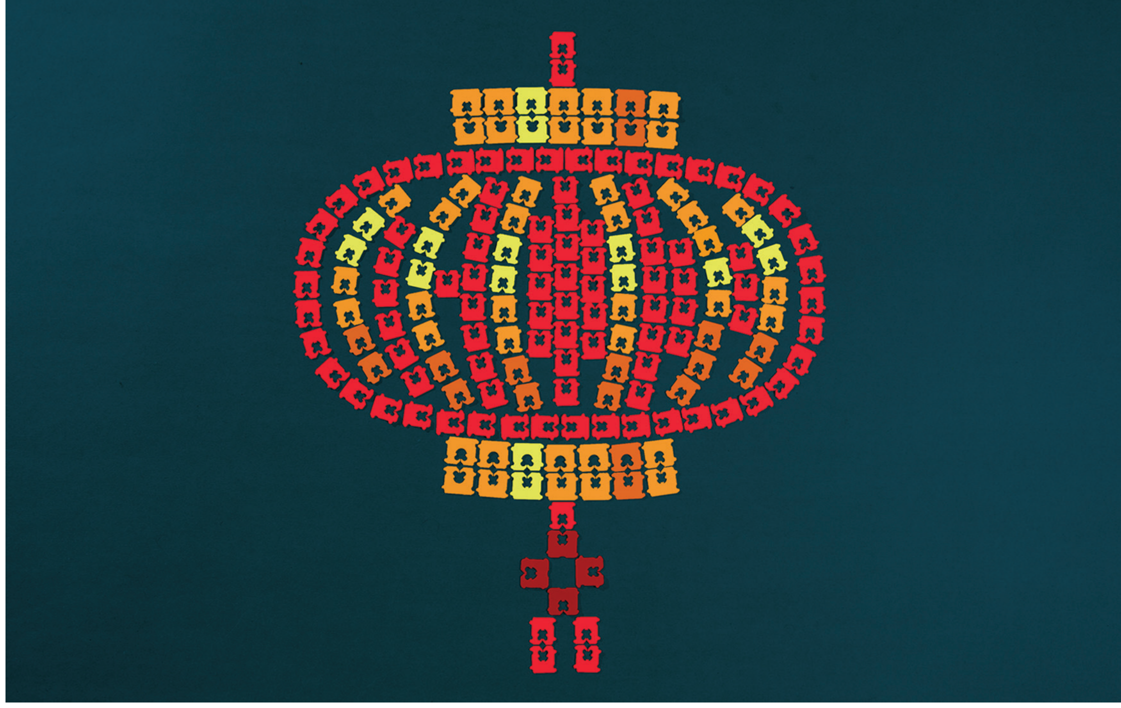
Testing the foundations

Developed country central banks have suppressed the cost of credit for the past decade. Like many asset classes, the resultant fall in required rates of return and easy access to financing, lead to rising property prices. However, as inflation has materially risen, interest rates are now rising rapidly. Property companies typically utilise a fair amount of debt financing. As a result of the impact of higher interest costs on distributable cash flows and lower property asset values (and fears of further markdowns), they have seen very weak share prices.

Aroundtown, however, has a few factors that aid it in navigating the current environment, including:

- not being a real estate investment trust allows them the option to retain earnings within the business if needed to bolster the balance sheet;
- holding significant amounts of cash relative to upcoming debt maturities;
- having the flexibility to pledge their property assets as security should they decide to source bank financing; and
- having a large portion of their debt bearing interest rates fixed at low rates for some time.

Despite the uncertainties confronting the sector, Aroundtown's astute capital allocation decisions, strong track record in repositioning properties to extract their full value, relative flexibility provided by their corporate structure and recovering revenue streams within the business - should ultimately reward shareholders over time. UP



Prudential nurtures healthy growth in Asia

Jihad Jhaveri - Head of Process

"Following recent corporate actions that separated out its UK and US businesses, Prudential plc (Prudential) is now primarily focussed on the fast-growing life insurance, health insurance and asset management markets in Asia and Africa (servicing over 18 million customers at present). We unpack the opportunities within their pan-Asian footprint, where the business has maintained a strong presence for almost a century - displaying clear competitive advantages that are allowing it to benefit from long-term structural market growth."

Prudential nurtures healthy growth in Asia

Competitive advantages decades in the making

Prudential's Asian insurance operations were first launched in 1923 in India - targeting the tea industry - before expanding into Malaysia (1924), Singapore (1931) and Hong Kong (1964). Together with a strong agency presence in China and the Philippines in the 1920s, this business grew rapidly. The ensuing competitive advantages established in scale and distribution are proving difficult for competitors to replicate. These include:

- a widely established pan-Asian footprint with significant scale, creating substantial cost advantages in relation to the servicing and development of new products and aiding considerably in the diversification of economic, political and regulatory risks per country.
- a massive tied agency force (660 000 people) that exclusively services Prudential and brought in 74% of new business profits in 2020. The recruitment, training and agent management capabilities developed over many years has led to excellent productivity outcomes by agents. Agency excellence is evident in the increasing number of Prudential MDRT[1] members who were responsible for a disproportionately high percentage (40%) of Prudential's 2021 premiums.
- long established bancassurance partnerships with banks in Asia (constituting 25% of new business profits in 2020) forming Prudential's second largest distribution channel and providing it with valuable access to 26 000 bank branches on the continent. The mutually value-adding partnerships established with large pan-Asian banking group, Standard Chartered, and Singapore-based United Overseas Bank (UOB), have recently been renewed for an extended period with increased geographic and product scope.

Symbiotic relationship between business lines

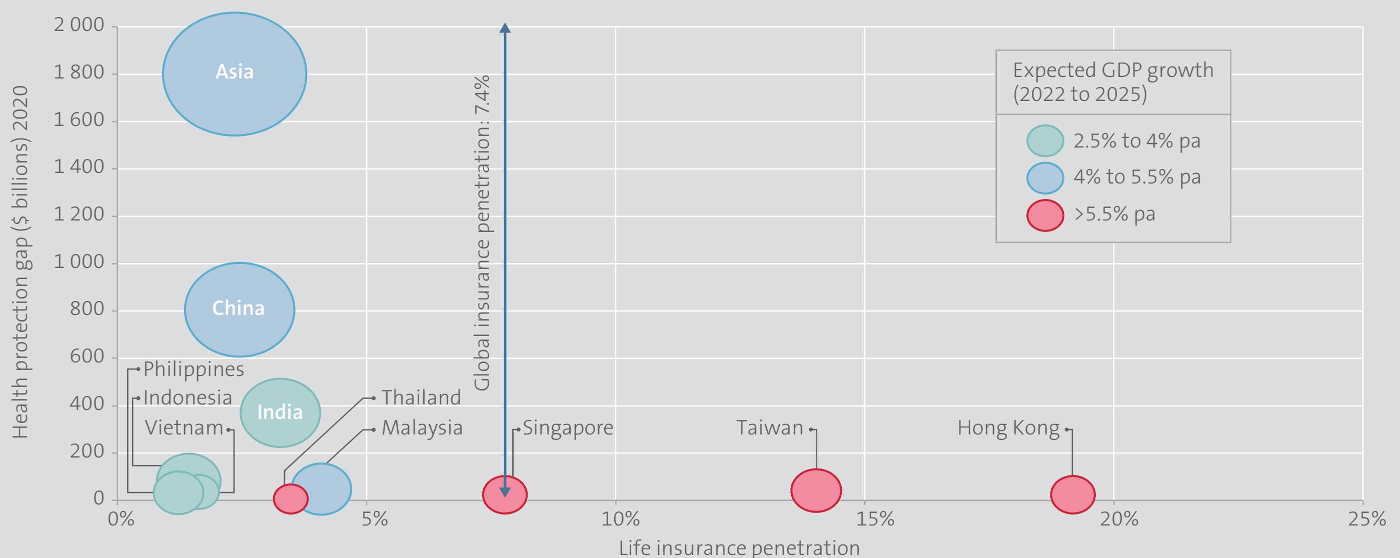
Health and Protection (H&P) insurance products are Prudential's largest business line, mostly underpinned by critical illness cover that pays defined and limited amounts for specific illnesses and may also have additional mortality and disability benefits. The major financial risks faced by the business relate to its claims experience relative to its assumptions for morbidity and medical claims inflation. However, over time Prudential has successfully mitigated medical claims inflation risk by retaining rights to reprice products and by managing the overall limits for claims. Consequently, H&P products have provided good shareholder returns over a long period of time.

Other insurance products include **unit-linked** savings products, where the value of the policy is linked to the value of an underlying unitised investment, and **participating** savings products - essentially "smoothed"[2] return investment products.

[1] The Million Dollar Round Table is an elite, independent international organisation of very high premium-gathering financial advisors. It is currently the second largest organisation of its kind, with 12 000 members.

[2] Products (currently unique in Asia) that use a process inherited from the long standing and successful UK Prudential fund architecture to protect investors from the extreme short-term ups and downs of direct stock market investment.

Large and growing health protection gap



Source: company financials, Swiss Re Sigma report, World Bank

These products are often packaged with H&P products and sold through the same distribution channels.

Prudential's large Pan-Asian asset management business, **Eastspring**, derives the majority of its assets from the management of internal insurance funds and has also benefited strongly from growth in the life insurance business.

Mind the gap

Prudential's strategic focus on H&P insurance is due to the immense opportunity presented by i) very large existing healthcare protection cover gaps, ii) favourable demographic trends and iii) high economic growth across all key markets. The healthcare protection gap is both the self-financing costs borne by people and the estimated non-treatment costs resulting from unaffordability. The gap is currently very large across key Asian countries (*chart on previous page*) because of low levels of state-sponsored healthcare and a low take-up of private health insurance products. 43% of total healthcare spend in Asia is therefore made up of out-of-pocket spend, versus 11% in the UK and 15% in the USA. As Asia is expected to have the largest global increase in its older population between now and 2050, it is anticipated that this gap will increase meaningfully.

Sizeable healthcare gaps in two of Prudential's largest markets, Indonesia and Malaysia (majority Muslim countries), are partially due to cultural aversion to conventional insurance products. Prudential has recently tailored and launched Shariah-compliant (Takaful) insurance products in these markets, which should result in growth.

Large parts of the healthcare gaps across Asia represent commercially viable insurance opportunities, with high levels of economic growth and urbanisation leading to a fast-growing Asian middle class. 54% of the four billion global middle class consumers reside in Asia, which will also comprise the vast majority of the expected 1.2 billion increase by 2030[3].

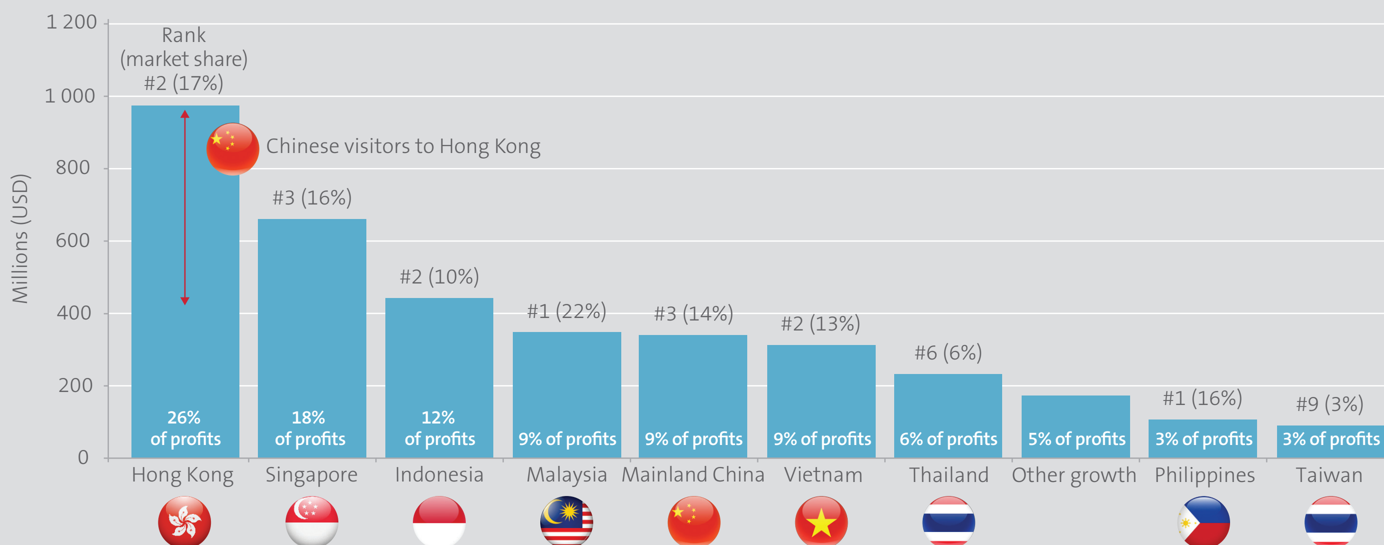
Prudential's target market is skewed towards the affluent consumer segments, where the demand for H&P products has been proven to be robust regardless of prevailing economic conditions. Although Asian governments are aligned with insurers in efforts to decrease the healthcare gap, the highly-regulated nature of this industry means that to successfully navigate complex regulatory risk across many different jurisdictions is an additional competitive advantage.

Attacking the Chinese opportunity on two fronts

China's low level of state-sponsored healthcare provision, coupled with its low insurance penetration rate (2.4%) and large, rapidly-ageing population, points to an enormous and fast-growing healthcare protection gap (currently $805 billion pa) available. This represents an insurance opportunity within the

[3] Brooking Institute: The rapid rise of the urban consumer class - December 2021.

Prudential profit split (2021)



Source: company financials

Prudential nurtures healthy growth in Asia

high-net-worth Chinese segment that Prudential targets through its Hong Kong business, and the mass affluent Chinese segment targeted through its domestic Chinese joint venture with the state-owned China International Trust Investment Corporation (CITIC) group.

The long-standing domestic Hong Kong business targets both the domestic market and mainland China visitors *(charted previously)*. It is the second largest insurer in Hong Kong (17% market share), anchored around a highly productive agency force (31% of the country's MDRT members) and a successful partnership with Standard Chartered Bank. With comparatively high incomes and greater existing insurance penetration, the Hong Kong domestic market for new business has a much higher weighting towards savings products (unit-linked and participating) and more complex, higher-benefit healthcare products. Importantly, the bulk of the Hong Kong business (60%) targets the substantial Chinese insurance growth opportunity.

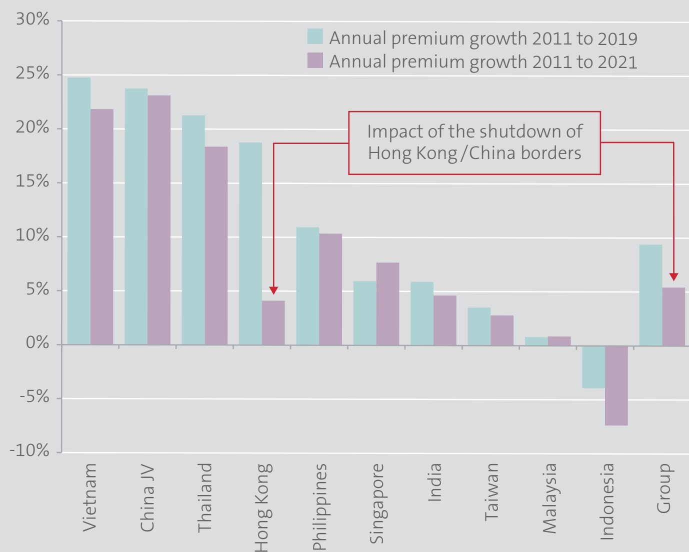
A combination of high-speed rail links, cross border highways and air flights enabled 51 million Chinese visitors to Hong Kong in 2019 and, subsequently, a very strong demand for Prudential's healthcare and investment products. The demand drivers include:

- the desire to diversify currency risk. Policies in Hong Kong can be denominated in hard currency while those in China are yuan-denominated.
- H&P policies sold in Hong Kong provide policy holders with access to high quality local and other overseas health services (superior to what is available in China itself).
- Hong Kong policies are more complex than those available within China and are appealing to high-net-worth individuals. The average case size of Prudential's Chinese clients in Hong Kong is approximately 10 times higher than that of their domestic Chinese business.

Prudentials' dedicated Hong Kong agency force has successfully navigated regulatory complexities related to selling products to Chinese clients. Physical presence is an onerous requirement as sales cannot be made virtually, therefore Prudential utilises video recording equipment for verification and overcoming marketing limitations (Hong Kong products cannot be marketed directly into mainland China). Since the onset of the COVID pandemic, the effective shutdown of borders between Hong Kong and mainland China has meant that this large, fast-growing, high-margin source of profits has temporarily evaporated. In addition to pent up demand boosting sales, a normalisation of activity should materially boost the current levels of profitability, given their high operational leverage.

Within mainland China itself, Prudential and CITIC have successfully operated an insurance joint venture since 2000, delivering strong growth (23% pa) to date. This is considered the third largest insurer in China, with a 14% market share and an extensive bancassurance distribution presence and large (17 800 member) tied agency force. Prudential CITIC has a comparatively wide geographical presence but is more concentrated in densely-populated cities targeting the mass affluent market.

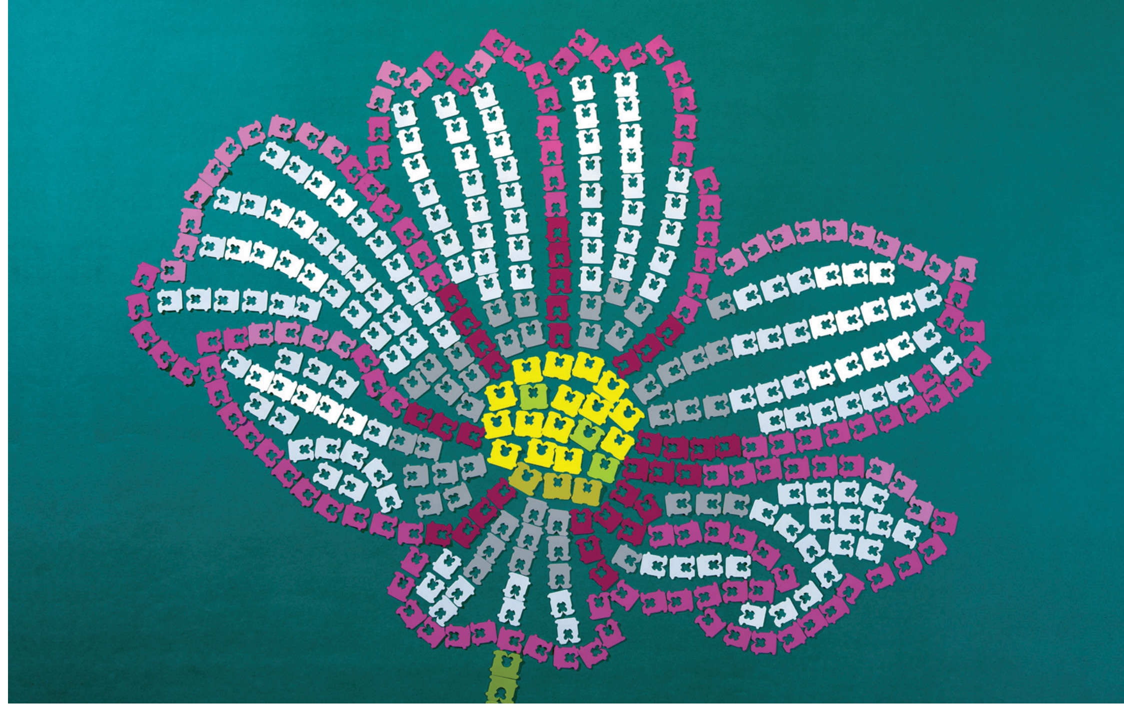
Premium growth for Prudential's Asian businesses



Source: company financials

Advantaged to grow for decades to come

As *shown left*, Prudential has successfully grown its Asian businesses over a long period, with strong competitive advantages in the diversification of its pan-Asian portfolio, the size and effectiveness of its distribution force and its long-standing partnerships. Amid long-term structural growth prospects for its products, Prudential should continue to grow profitably, delivering substantial value to investors in the long term. UP



Brighter prospects for Woolworths

Mohamed Mitha - Investment Analyst

"It has been an eventful decade for South Africa's iconic retailer, Woolworths. Their Foods business has grown into one of the most profitable in the world, while their Fashion, Beauty and Home (FBH) division has faltered and their Australian department store acquisition, David Jones (DJ), has been a disaster.

We explore the distinctive qualities of the Foods business that have contributed to its massive success and the value-unlocking opportunities for the underperforming FBH division."

Brighter prospects for Woolworths

Foods is a cut above the rest

For many years Woolworths Foods has been the primary source of growth for the group and is now the largest contributor to earnings (*charted below*). This business caters primarily to the higher-end customer, with quality private label products, fresh produce and prepared meal solutions as the big margin contributors.

Woolworths Foods' overall strategy execution has been outstanding. Revenue has grown at 10% pa from 2010 to 2022, with earnings rising by 16% pa over the same period. The business's return on capital is currently north of 70% - among the highest of all food retailers globally.

The long-standing commercial arrangement between Woolworths and UK retailer Marks & Spencer is a key strategic advantage. Woolworths Foods shares insights and learnings from experience, which improves their focus on customer engagement, innovation and product 'newness' in stores (they introduced over 2 000 new or upgraded product lines in the past year). The relationship has grown to become mutually beneficial in recent years as Woolworths Foods has refined their own product development capabilities.

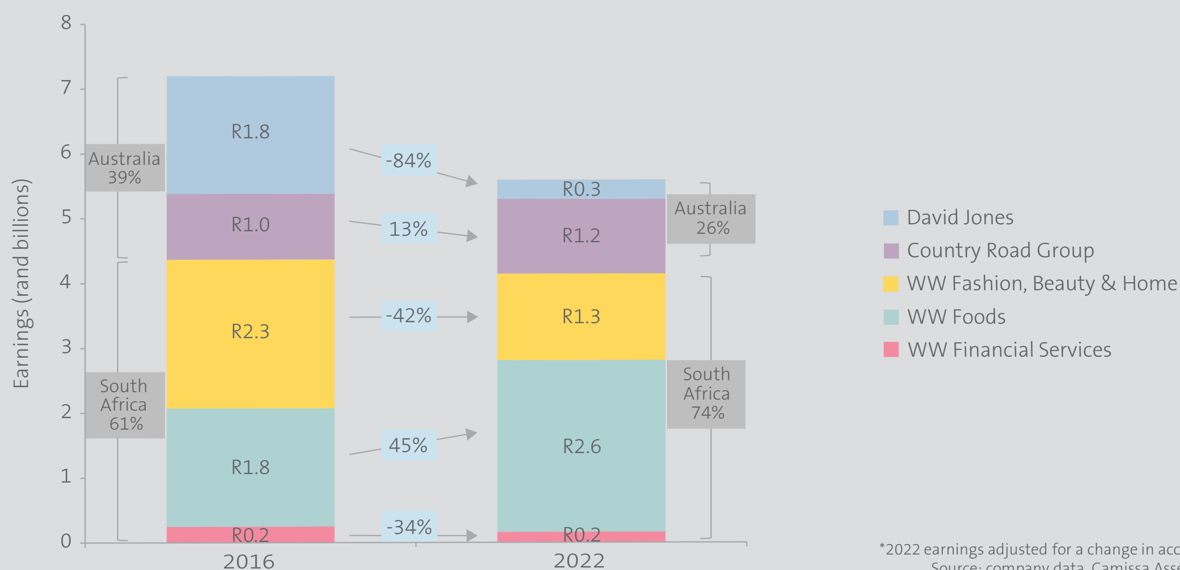
Private label

90% of Woolworths Foods' revenue is derived from their high-quality private label offering - developed in partnership with key suppliers. In contrast, competitors Checkers, Pick n Pay and Spar typically have 20-25% of sales generated from private label products, with the overall product quality and range far below that of Woolworths. Woolworths' top selling, bite-sized, private label Chuckles brand, that has expanded to include 35 different items across three categories (confectionary, dairy and bakery), is a prime example of private label product success.

Supplier relationships are of paramount importance to Woolworths Foods. Many have existed for more than 50 years, having transformed and grown from start-ups or small players to be industry leaders and, in some cases, listed companies through their Woolworths relationship. They typically enter into exclusive five-year partnerships with suppliers (most are renewed) to collectively grow intellectual property and to invest in the supply chain. As these relationships take time to build, they are not easily replicable.

With branded products accounting for a small proportion of revenue, Woolworths Foods is able to run aggressive promotions

2016 vs 2022* group earnings split by division



*2022 earnings adjusted for a change in accounting standard (IFRS 16)
Source: company data, Camissa Asset Management estimates

on certain branded lines (eg Jacobs Kronung coffee and Lindt chocolate) without denting overall profitability. They have also strategically lowered the price points of key product lines to attract customers. For example, the average price of their poultry products was reduced by 20%, which consequently increased sales volumes and foot traffic into stores. Rotisserie chicken is currently the top selling product line.

Keeping it fresh

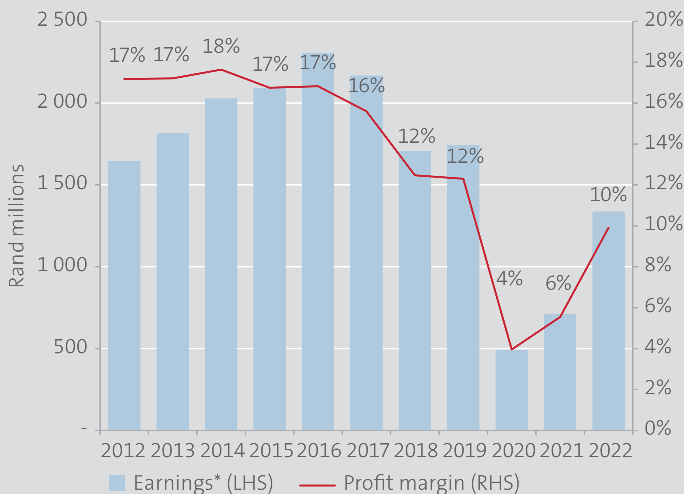
Woolworths Foods' fresh foods offering is viewed as the best quality in the market. This is underpinned by their cold chain process, the success of which is proving to be an enduring structural advantage. As with private label products, solid supplier partnerships have aided in improving crop quality and yield through collaborating on best practices and unique insights. This is encouraged by an uncompromising view of the importance of the entire cold chain process and the careful management thereof, focussing on temperature control from the time of harvest to transportation, storage and finally in-store display. Every effort is taken to ensure that the entire cold chain process is unbroken and while this exacerbates the levels of complexity involved and subsequently the costs, the difference in end-product quality versus competitors is hugely apparent.

Woolworths Food operates a demand-led inventory model, where required quantities are forecast at store level and refined over time (based on historical patterns and market insights) to minimise waste. Other retailers tend to follow a supply-led strategy for fresh produce, typically sourcing from fruit markets where the produce is sometimes frozen prior to distribution.

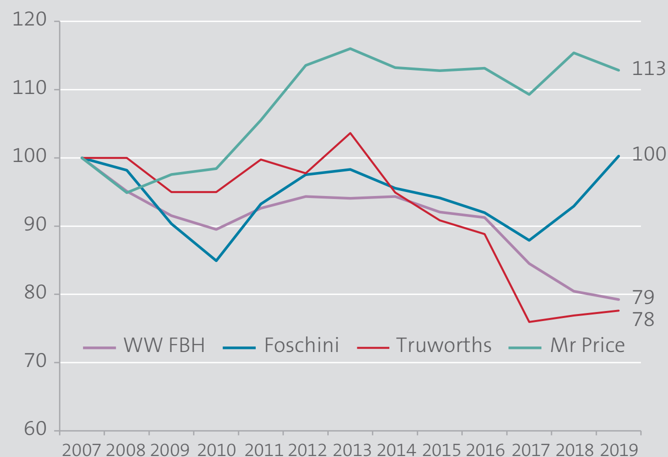
Is the competition closing in?

While Woolworths Foods has had the upper end of the market largely to themselves, competition has intensified in recent years. Shoprite in particular has made strides in the premium market under its Checkers banner. They are actively focussed on revamping their in-store experience, with the aim of repositioning it for the premium market. Checkers' sales growth has recently outpaced that of Woolworths Foods and Checkers has also begun trialling smaller format stores that resemble those of Woolworths Foods. Pick n Pay are also in the process of repositioning a substantial portion of their store portfolio to cater for the upmarket customer.

Woolworths FBH earnings tracking backwards



SA apparel retailers same-store volumes (based to 100)



* Earnings = earnings before interest and tax (EBIT), adjusted for change in accounting standard (IFRS 16)
Source: company data, Investec Securities, Camissa Asset Management estimates

Brighter prospects for Woolworths

Riches to rags

In sharp contrast to Woolworths Foods, the performance of the FBH division has been weak for the last decade, despite substantial market share losses from a very weak Edcon (the largest apparel retailer in SA a decade ago) over this period. Years of price increases have masked merchandising weaknesses, with divisional earnings trending backwards since 2017 (*previous page left*). Excluding contributions from new stores, the FBH division sold fewer products in 2019 than in 2007, significantly underperforming competitors The Foschini Group and Mr Price, over the same period (*previous page right*).

By repositioning the FBH offering to be more fashion oriented rather than focussing on 'great quality at a reasonable price' (original positioning) and expanding their range to cater to too broad a market, they lost sight of their core customer and became too expensive for what they were offering. Basic competencies like effective range planning (ie adequately stocking popular sizes and ranges) were poorly handled. In addition, initiatives such as the replacement of their in-house W-Collection range with the David Jones label, further alienated South African customers.

Woolworths' clothing supply chain has been slow to adopt global trends aimed at optimisation. Consequently, they have struggled to respond quickly to customer demand patterns, often resulting in having to commit to large order volumes for garments that may or may not resonate with customers. A less relevant product offering for a forgotten South African customer has caused consistently high levels of seasonal markdowns (to clear excess stock) and the ensuing plummet in earnings.

Following numerous ineffective attempts at turning the FBH business around, new management have identified the following key actions aimed at revival:

- a reduction in the number of colours selected in a range (from around 48 to 6);
- a 20% reduction in the overall range offered, with a focus on core categories including everyday wear and wardrobe essentials;
- a larger emphasis on quality basics;
- removal of the underperforming David Jones brand; and
- the removal of unproductive retail space to reduce costs.

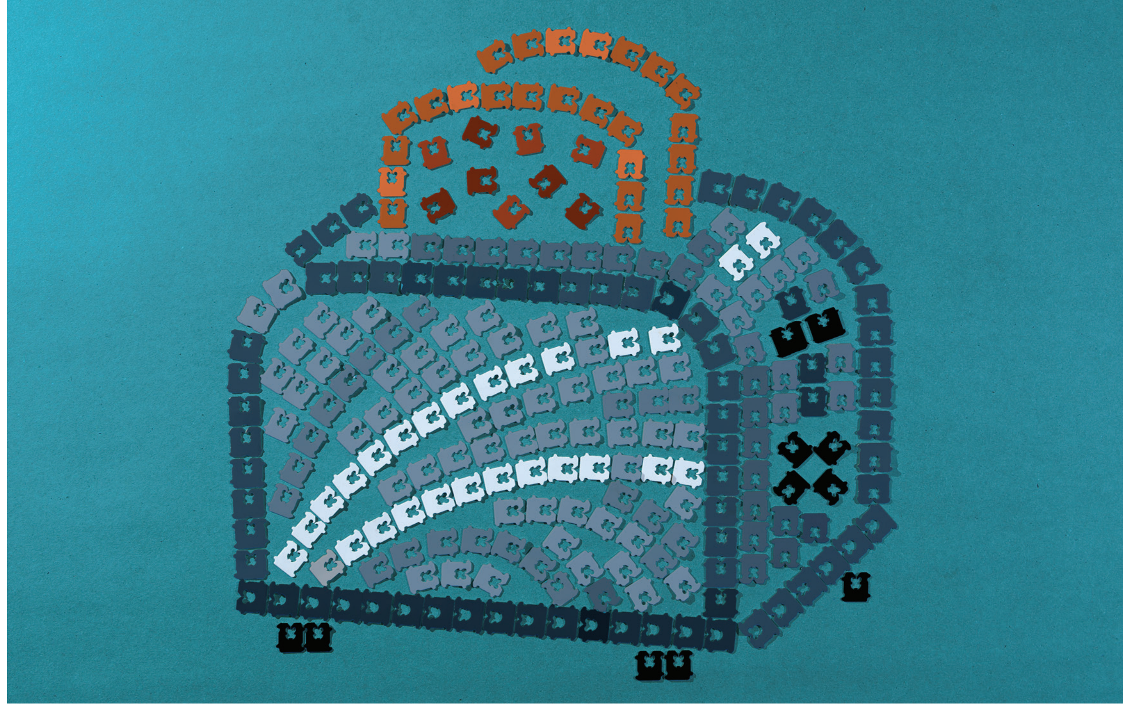
We view the de-emphasis on fashionwear and the return to good quality basics as a positive step towards rectifying the high levels of discounting and surplus stock. Narrower ranges should enable FBH to procure more volume of the same item, thereby encouraging lower prices within categories. While these changes will take time to implement and are not risk free, we see sufficient opportunity to make a meaningful difference to the overall profitability of the division.

Loosening the noose

David Jones, the Australian department store business owned by Woolworths, has destroyed substantial value since being acquired in 2014. However, following the selling of key properties, David Jones is now debt free and no longer dependent on financial support from the group. Loss-making projects (eg rolling out a foods offering in David Jones stores) have been discontinued and management is focussed on maximising shareholder value from the underperforming business.

Woolworth's other Australian subsidiary, the Country Road Group, has done well in transitioning a large part of its sales from physical stores to online, which now contributes 30% (13% in 2016). While we don't anticipate substantial growth from this division, the earnings outlook is stable, supported by a planned optimisation in the store footprint as more sales migrate to online.

While we are mindful of the threats posed by a revitalised Checkers and Pick n Pay's plan for growth, we view Woolworths Foods' structural advantages as enduring for this high-quality business. This, together with the opportunities available to unlock value across other key areas of the group that are within their control, means that Woolworths faces a more promising next decade than the last. UP



Polishing up Brait

Dirk van Vlaanderen - Portfolio Manager

"A rough diamond is known as a brait and significant value is added through polishing and shaping it before it is sold. JSE-listed Brait is an investment holding company that plays an active role in improving and growing its portfolio of investment companies.
We evaluate the opportunity for Brait to polish and shape its two key portfolio companies, Premier Foods and Virgin Active, to unlock value for shareholders."

Polishing up Brait

Premier Foods

Premier Foods (Premier) started as a small bakery in 1824 and has since grown to be a leading branded and private label food manufacturer operating in South Africa, Eswatini, Mozambique, Lesotho and the UK.

The largest contributor to group revenue is the **bakeries** division, which bakes and delivers 1.7 million loaves of bread to 42 000 retail outlets each day. Its main bread label is *Blue Ribbon* and more than 60% of its bread sales occur through the informal retail channel. Premier has improved the quality of its bread through consistent investment into its bakeries over several years, thereby closing the price gap with, and gaining market share from, its largest competitor - *Albany* (manufactured by Tiger Brands).

Recent investment into the company's Pretoria-based bakery will see three bakeries consolidated into one, potentially resulting in significant cost savings. Premier's inland bakery should double profitability in line with the outcome of similar investments at its coastal bakeries.

Flour that is not used for internal baking purposes is sold under the *Snowflake* brand, which currently contributes around 18% to group revenue. Maize meal is a staple food in South Africa and Premier's *Iwisa* and other maize brands command a 17% market share locally, with Premier being the third largest producer.

In March 2015, Premier acquired Companhia Industrial da Matola SA (CIM), a leading manufacturer of biscuits, pastas, rice and animal feed products in Mozambique. CIM services the Mozambique market and exports into other SADC countries, currently generating 8% of Premier's revenue.

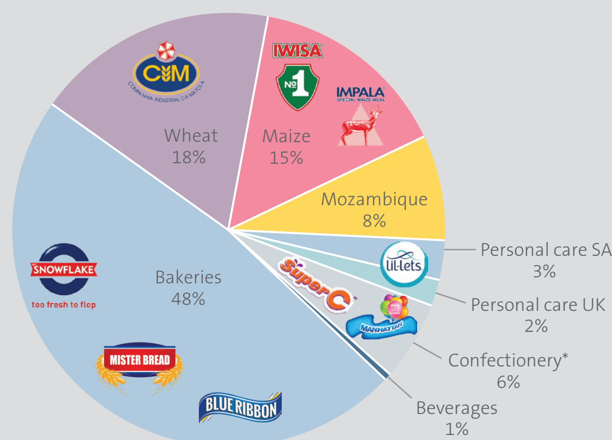
Major brands in the **confectionery** portfolio are *Manhattan* and *Super C*. The recent acquisition of *Mister Sweet* has resulted in Premier becoming the second largest sugar confectionary producer in South Africa, with a 16% market share.

Finally, feminine hygiene brand *Lilettes* contributes around 5% of Premier's revenue and has South African and UK operations.

Investment underpins growth

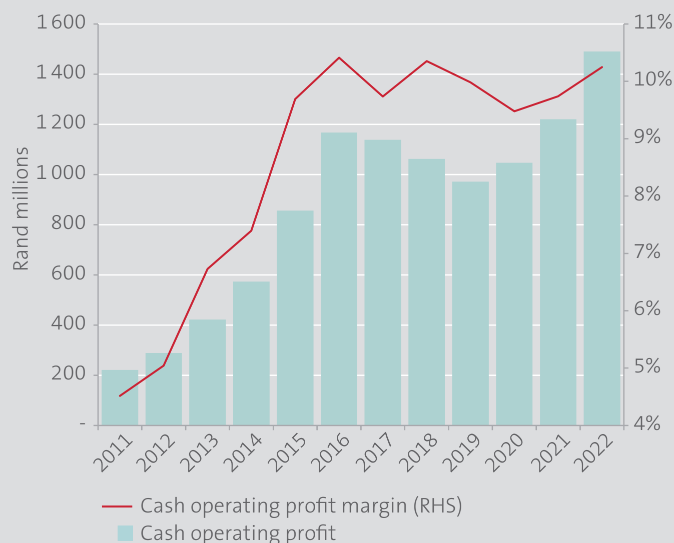
Under Brait's stewardship, Premier has cumulatively invested R5 billion into its operations on a consistent basis since 2011. This has resulted in a large and efficient manufacturing and distribution footprint and subsequent strong financial performance (*below left*), with cash operating profit growing at an average 24% per annum over the last decade (*below right*). The recent Pretoria bakery investment and the acquisition of *Mister Sweet* look set to deliver another leg of growth for Premier Foods.

Premier Foods revenue breakdown (2022)



*Assume a full 12 month contribution from Mister Sweet, year end 31 March
Source: company data, Camissa Asset Management estimates

Premier Foods profit over time



Source: company data

Virgin Active

Brait acquired a controlling stake in Virgin Active in July 2015. The group includes a portfolio of health and fitness clubs that operate in South Africa and internationally, across four continents. Southern Africa remains the largest contributor to group revenue (46%), with over 700 000 pre-COVID active members across 134 clubs. The international clubs are adapted to suit local needs and tastes in each region and are somewhat different to the well-known South African formula.

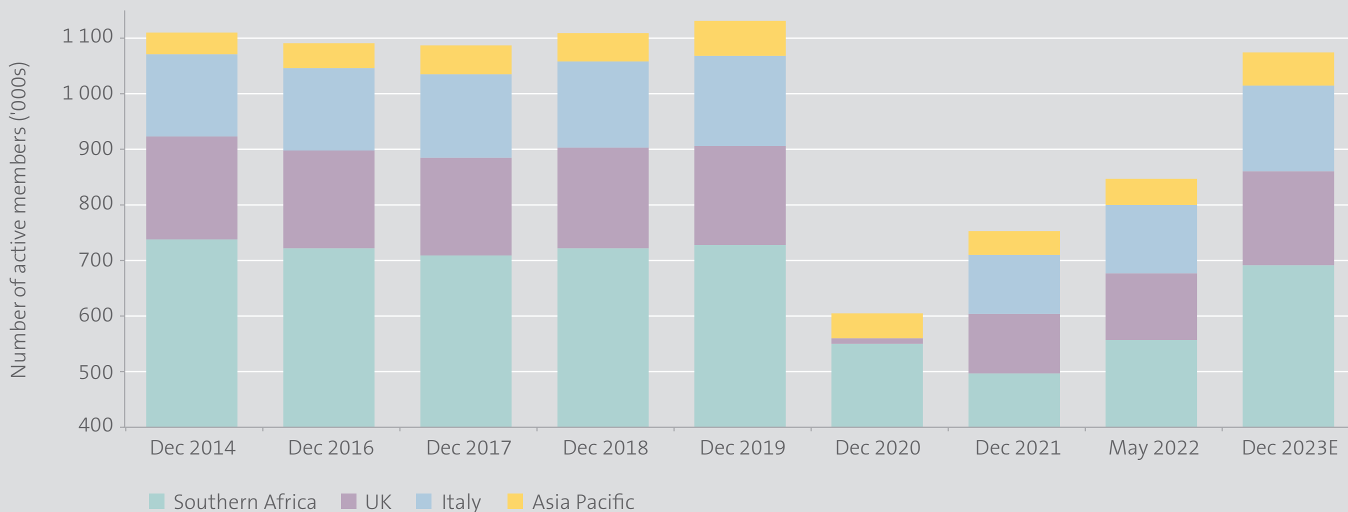
The UK Virgin Active portfolio (contributing around 23% of revenue) consists of premium city-centre clubs that cater to the needs of professional commuters, with larger clubs positioned in out-of-town residential areas. In Italy, where Virgin Active is the largest health and fitness club player, its 37 clubs cater for members who tend to exercise later in the day and who enjoy a lengthy post-workout relaxation session. Therefore, more attention is paid to providing large and well-equipped changing rooms complete with massage pools, sauna and spa facilities.

Virgin Active has been investing in growing its Asian footprint in recent years and now has 24 clubs in the region (Australia, Thailand and Singapore). The South-East Asian opportunity remains compelling, with high population densities and an underdeveloped fitness market that should see good membership growth in the medium term. In these markets, group exercise classes are a huge feature of gym life and a visit to the gym is also a social outing.

Globally, the increasing focus on health and wellness (accelerated by the COVID pandemic) should provide a long-term structural tailwind to the health and fitness industry, with Virgin Active well positioned to benefit. The business model delivers cash-based annuity revenues from low capital investment and therefore consistent high returns to shareholders.

The government-imposed mobility restrictions during the pandemic had a significantly negative impact on the fitness club industry. Clubs were forced to close in several territories and then reopen with strict capacity constraints. This saw active memberships plummet, causing huge decreases in revenues and cash flows. Virgin Active management proactively engaged with lenders, landlords and Virgin itself to restructure debt servicing costs, rental arrangements and branding royalties to help limit the cash burn across the business. Since lockdown restrictions have been lifted, members have begun to return to clubs. As *charted below*, Southern African

Virgin Active membership per region



Source: company data, Camissa Asset Management estimates

membership is almost back to 80% of pre-COVID levels (May 2022). Europe and Asia are lagging the South African recovery but are following a similar trajectory, which bodes well for Virgin Active returning to much healthier levels of profitability in the near term.

New leadership, enhanced strategy

In March 2022, Dean Kowarski took the reins as the new global Virgin Active CEO following the retirement of founder and CEO, Mathew Bucknall. Dean is the founder of the Real Food Group (bought by Virgin Active), a collection of health-focussed casual restaurant chains incorporating the Kauai and Nu brands. He has grown this business successfully to 204 stores since acquiring Kauai in 2015. His strategy looks set to shift the focus of Virgin Active from a pure fitness offering to a broader, more holistic wellness and nutrition experience. The new strategy incorporates refreshing the club estate and enhancing its technology offering to clients.

Polishing and realising value

In January 2020, following a change of ownership and a capital injection, Brait set out on a value unlock strategy where new management was elected with the mandate to realise value from the existing portfolio in a reasonable timeframe. Since then, several assets have been sold for good value. This leaves the portfolio essentially comprising of Virgin Active and Premier Foods, with a small contribution from New Look, a fashion retailer in the UK. After Brait's central debt its self-assessed net asset value is around R9 billion.

Premier Foods is due to list on the JSE in the next 12 months and Brait shareholders should ultimately receive a direct holding in Premier shares. Virgin Active is on the path to a solid recovery, with a refreshed strategy, and could in time either be sold or unbundled to shareholders. With this in mind, we believe that the current share price is valuing Brait at a significant discount to its net asset value, which will likely be realised in the coming years. UP

Camissa Asset Management Funds

Performance to 30 June 2022	1 year	3 years[1]	5 years[1]	10 years[1]	Since launch[1]	Launch	TER[2]	TC[3]
Unit trust funds[4]								
Equity Alpha Fund	6.6%	12.0%	10.0%	10.3%	15.5%	Apr-04	2.03%	0.50%
SA Equity General funds mean	6.4%	7.3%	6.1%	7.8%	11.7%			
Outperformance	0.2%	4.7%	3.9%	2.5%	3.8%			
Global Equity Feeder Fund#	-15.7%	-	-	-	0.0%	Nov-19	1.95%	0.29%
FTSE World Index	-2.5%				9.5%			
Outperformance	-13.2%				-9.5%			
Balanced Fund	0.3%	7.5%	7.3%	8.6%	8.6%	May-11	1.52%	0.36%
SA Multi Asset High Equity funds mean	2.5%	6.5%	6.0%	7.9%	7.8%			
Outperformance	-2.2%	1.0%	1.3%	0.7%	0.8%			
Protector Fund	2.2%	7.5%	7.2%	7.9%	9.5%	Dec-02	1.61%	0.29%
CPI + 4%	11.2%	8.7%	8.8%	9.7%	10.2%			
Outperformance	-9.0%	-1.2%	-1.6%	-1.8%	-0.7%			
Stable Fund	8.1%	7.6%	7.9%	8.3%	8.2%	May-11	1.49%	0.40%
CPI + 2%	9.1%	6.7%	6.7%	6.2%	6.1%			
Outperformance	-1.0%	0.9%	1.2%	2.1%	2.1%			
Institutional funds[5]								
Managed Equity Fund	9.7%	12.2%	10.5%	10.2%	11.5%	Sep-06		
FTSE/JSE Capped SWIX Index	6.9%	6.8%	6.6%	9.7%	10.6%			
Outperformance	2.8%	5.4%	3.9%	0.5%	0.9%			
Domestic Balanced Fund[6]	9.2%	11.3%	10.1%	9.1%	9.0%	May-07		
Peer median	8.4%	7.7%	6.8%	8.6%	8.7%			
Outperformance	0.8%	3.6%	3.3%	0.5%	0.3%			
Global Balanced Fund[7]	1.9%	9.0%	8.9%	-	9.4%	Jul-13		
Peer median	4.6%	7.9%	7.3%		8.6%			
Outperformance	-2.7%	1.1%	1.6%		0.8%			
Bond Fund	2.7%	6.8%	8.8%	-	8.4%	Aug-15		
BESA All Bond Index	1.2%	5.8%	7.8%		7.4%			
Outperformance	1.5%	1.0%	1.0%		1.0%			
Money Market Fund	6.2%	6.5%	7.3%	7.1%	7.6%	Jan-04		
Alexander Forbes STeFI Composite Index	4.2%	5.0%	5.9%	6.1%	7.0%			
Outperformance	2.0%	1.5%	1.4%	1.0%	0.7%			
Sharia unit trust funds[4]								
Islamic Equity Fund	8.0%	11.3%	10.2%	9.9%	11.1%	Jul-09	1.49%	0.21%
SA Equity General funds mean	6.4%	7.3%	6.1%	7.8%	9.7%			
Outperformance	1.6%	4.0%	4.1%	2.1%	1.4%			
Islamic Global Equity Feeder Fund#	-5.6%	5.7%	-	-	6.8%	Jan-19	1.86%	0.17%
Global Equity General funds mean	-8.5%	8.8%			11.6%			
Outperformance	2.9%	-3.1%			-4.8%			
Islamic Balanced Fund	6.6%	10.7%	9.1%	8.8%	7.8%	May-11	1.49%	0.16%
SA Multi Asset High Equity funds mean	2.5%	6.5%	6.0%	7.9%	7.8%			
Outperformance	4.1%	4.2%	3.1%	0.9%	0.0%			
Islamic High Yield Fund#	6.0%	6.8%	-	-	6.9%	Mar-19	0.57%	0.05%
Short-term Fixed Interest Index (STeFI)	4.2%	5.0%			5.2%			
Outperformance	1.8%	1.8%			1.7%			

Highest and lowest monthly fund performance	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest
Equity Alpha Fund	7.4%	-3.4%	12.6%	-21.6%	12.6%	-21.6%	12.6%	-21.6%	12.6%	-21.6%
Global Equity Feeder Fund	3.8%	-8.2%	-	-	-	-	-	-	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	2.9%	-3.7%	7.4%	-13.9%	7.4%	-13.9%	7.4%	-13.9%	7.9%	-13.9%
Stable Fund	3.1%	-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%	-8.4%
Islamic Balanced Fund	3.9%	-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%

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 30 June 2022, #over 12 months to 30 June 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 30 June 2022; #over 12 months to 30 June 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 from 1 January 2021 from "Average performance in Global Equity unit trust universe".

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