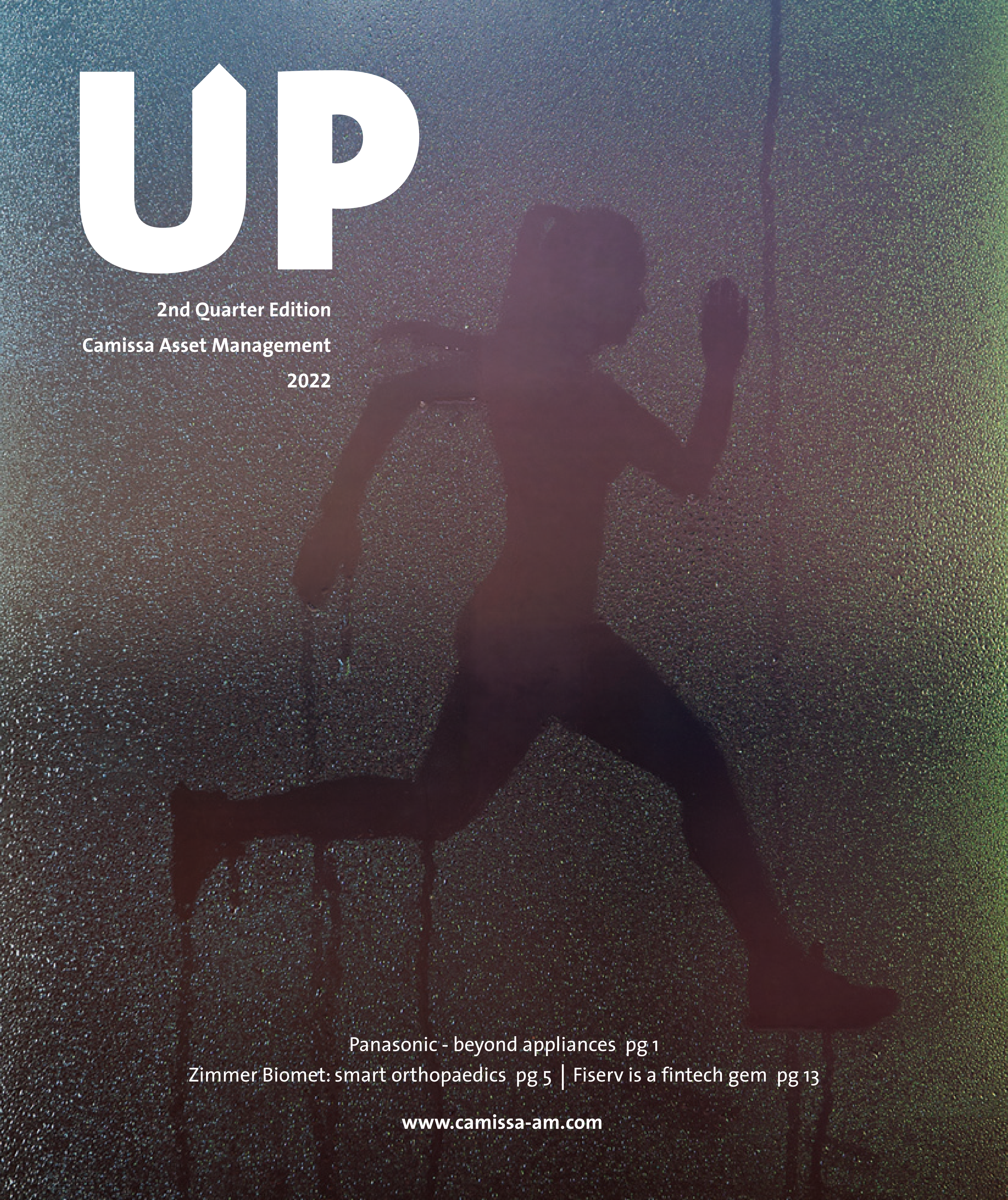

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2022

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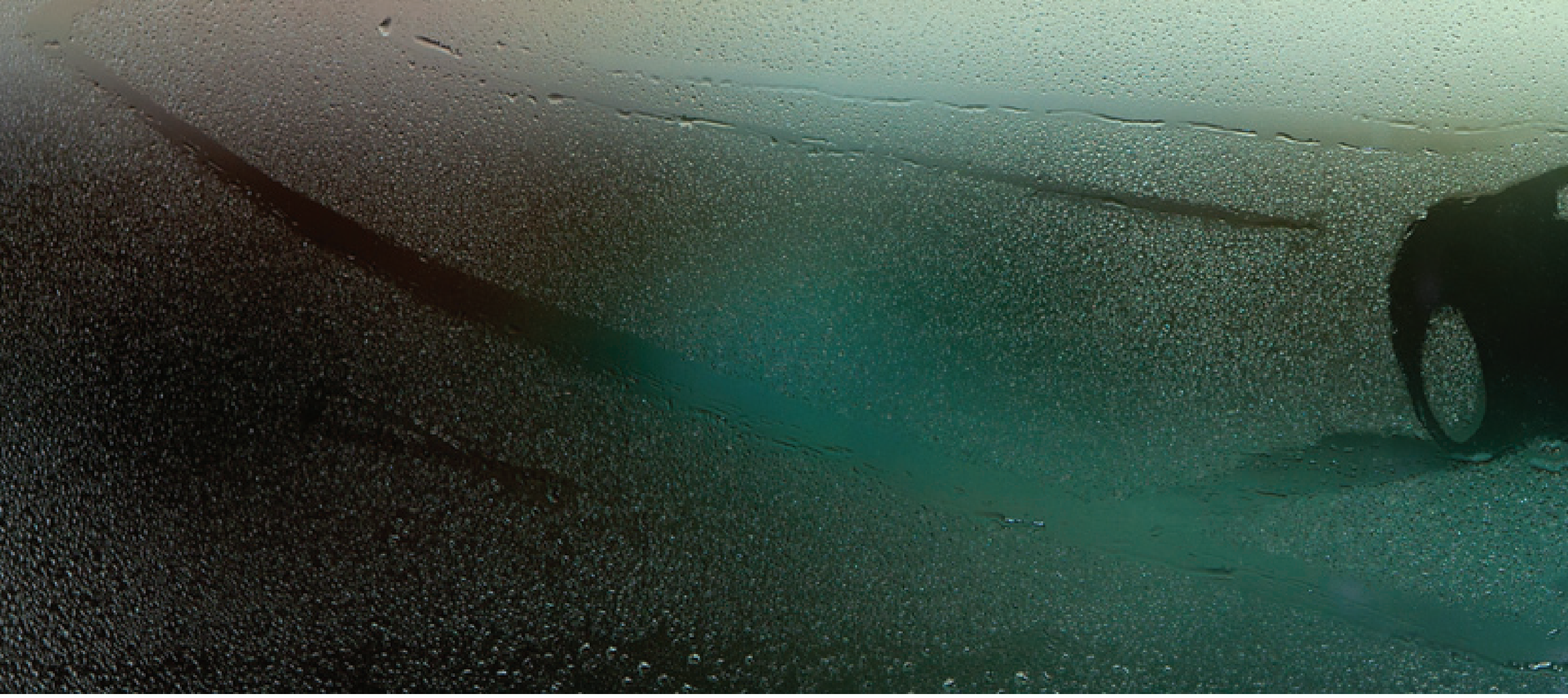


Panasonic - beyond appliances

Abdul Davids - Head of Research

In 1918, at the end of the First World War, Konosuke Matsushita founded the Matsushita Electric Housewares Manufacturing Works (Matsushita Corporation) - with a two-way socket and an attachment plug for light bulbs as its only inventions. Spawned from these humble beginnings, the business - now known as Panasonic - has grown considerably, generating US$66 billion per annum in revenue and employing 240 000 people across the world.

Panasonic - beyond appliances

We unpack Matsushita's journey with Panasonic through its transformation from a household appliance manufacturer to supply chain management software services provider and key supplier of electric vehicle batteries to Tesla.

Founding father of corporate social responsibility

Matsushita shaped the company's culture and business practices by focusing on corporate social responsibility, well before businesses formally began paying attention to environmental social governance issues. He believed that companies should focus on developing products that make life easier for people. In 1965, he pioneered the five-day work week, with weekends set aside for a day of study and a day of rest.

Panasonic's motto of "a better life, a better world" encapsulates this philosophy and continues to embrace it by developing products that offer convenience, while generating healthy returns for shareholders.

Innovation sparks evolution

The company's relentless focus on new product development has seen the brand evolve its range over the years, from dynamo batteries that power bicycle lights to household appliances and, more recently, batteries for electric vehicles.

As *illustrated below*, Panasonic's introduction of home appliances such as washing machines, TVs and refrigerators in the 1950s, launched the idea of modern conveniences. This massively improved the quality of life for many households. In the same period, the company started manufacturing audio-visual products - branding audio speakers and lamps as "PanaSonic" (meaning "universal sound") for markets outside of Japan - marking the first time the new name was used.

Furthermore, Panasonic became the majority shareholder in the Japan Victor Company (JVC) in 1953. JVC pioneered the VHS front-loading cassette home recording system, which became the dominant video recording and playback system that launched the global video rental industry.

From appliances to lifestyle solutions

The business is set to undergo a restructuring (April 2022) aimed at shifting the focus to operations, including software services. This should strengthen Panasonic's competitive advantage across all five current segments (*charted on following page*). Panasonic Corporation will serve as a holding company to seven new operations businesses, one of which will be responsible for specialised functions and will fall under the umbrella of the holding company. In time, the seven businesses will be rationalised to five, with Panasonic Connect

Panasonic's timeline of evolution

1918

Matsushita Electric Housewares Manufacturing Works, today's Panasonic established.

1927

Square bicycle lamp launched under the name "National Lamp", popular throughout Japan as a safe light source.

1931

Sales of radios commenced, bringing news and culture into people's homes.

1932

First year of the founding mission. Trade department established and export business commenced.

1950s

Washing machines, black and white TVs, refrigerators and other products launched.

1961

First overseas manufacturing facility established, National Thai Manufacturing Company.

1965

Five-day work week introduced ahead of other companies.

1987

Joint venture to produce picture tubes for colour TVs established - first in China for Panasonic.

1988

Promoting world peace through sport. Has supported Olympic Winter Games for over 30 years.

2008

Name changed to Panasonic Corporation.

2010

Mass production of lithiom-ion batteries helping to popularise eco-cars.

2014

Fujisawa Sustainable Smart Town established.

2018

100th anniversary of its founding, introduced "Lifestyle Updates".

2021

Announcement of "contributing to solving global environment issues" and "taking up the challenge of constant improvement".

Source: Panasonic

housing the group's supply chain management (SCM) software businesses, including the recently acquired Blue Yonder business. The *charts below* indicate the new holding company structure and the five operating companies that form part of the group, unpacked as follows:

The **Lifestyle** division accounts for just less than 50% of group sales and profits. It is Panasonic's largest and most mature division, housing the group's legacy appliance businesses including home appliances, lighting, energy systems and heating, and ventilation and air conditioning (HVAC).

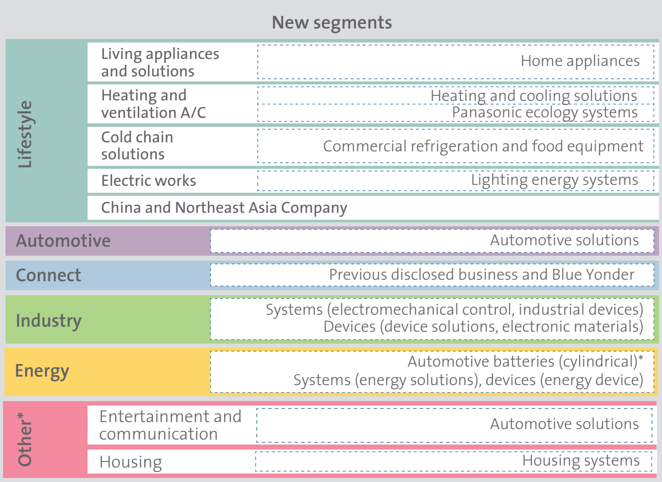
The **Automotive** division manufactures and supplies infotainment systems and related audio visual and electronic equipment to the automotive industry. Contributions to revenue are similar to that of the Industry division, although it generates substantially lower profits as most of the automotive divisions' customers are large original equipment manufacturers, such as Toyota and BMW. Panasonic is investing in new technologies and products that can enable autonomous drive capabilities in passenger cars, with a key focus area being electric vehicles. This should boost profits in this division.

Panasonic's **Industry** division produces electronic components and devices for manufacturing and industrial customers. Using a blend of polymers and high-end metals like aluminium, this business produces a range of niche products for various industrial applications.

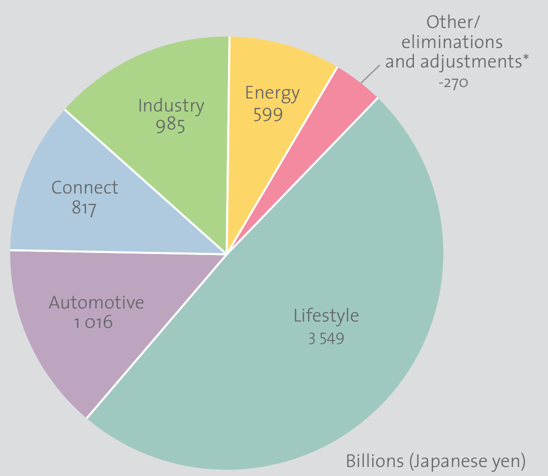
The **Energy** division develops and manufactures a range of batteries - from dry-cell to NMC (Nickel, Manganese and Cobalt) to lithium-ion batteries and energy storage systems. Panasonic has been associated with battery products for over a century, with its development of rechargeable batteries in 1935 that revolutionised battery and energy storage technology. Currently, Panasonic's lithium-ion batteries used in electric vehicles enjoy a dominant global market share and their joint venture arrangement with Tesla makes them the leading battery supplier to the company.

Panasonic **Connect** is a new division created to house the group's recently acquired Blue Yonder business. It is focussed on providing software and services for the aviation, manufacturing and logistics industries. Since inception, Panasonic has been an appliance/hardware manufacturer and distributor, but subsequently (in 2019) has taken the strategic decision to sell off non-core assets and focus on growing its software and services businesses. The Blue Yonder acquisition marks the beginning of the transition away from lower margin (and lower-rated) appliance/hardware manufacturing and supply to a software and solutions-based service offering for industrial customers.

New Panasonic holding company structure



Panasonic revenue split (2021)



*/eliminations and adjustments (includes the businesses shown)
Source: Panasonic annual report

Panasonic - beyond appliances

Overall, Panasonic is geographically diversified, with its home market, Japan, accounting for less than half the group's revenues in the 2022 financial year. The Americas and Asia (including China) contributed around 44% of Panasonic's sales in 2021.

BeYond(er) appliances

In May 2021, Panasonic acquired a majority (80%) interest in Blue Yonder, a US-based SCM company (a cooperative joint venture was already in place, whereby Panasonic already owned 20%). Blue Yonder's SCM software supports client revenue growth by reducing costs and saving time on various business processes through enhanced product or service visibility via e-commerce platforms.

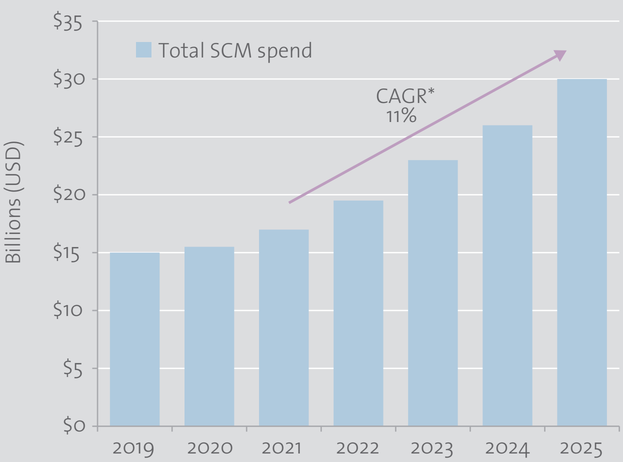
Founded in 1985 as JDA Software in Scottsdale, Arizona, Blue Yonder is presently the world's largest supply chain software company. Corporate customers include Microsoft and Intel (software and IT), Samsung and Sony (electronics), and Nike and 7-Eleven (retail). In addition to growing the Blue Yonder SCM business, Panasonic believes that it can save at least 100 billion yen in costs by applying Blue Yonder's software to its own businesses. The big opportunity for Blue Yonder is, however, the global supply chain management market. Research company Gartner estimates that the global total addressable market for SCM software will expand from US$17.4 billion in 2021 to US$30 billion in 2025, indicating a growth of 11% or more on an annual basis through to 2025 (*left chart below*).

Primed for better returns

The *right chart below* compares Panasonics performance to the TOPIX[1] Index in Japan over the last 10 years. A 100-yen investment in Panasonic 10 years ago would only be worth 175 yen today, versus a similar investment in the TOPIX being worth about 261 yen. Panasonic's conglomerate structure and high concentration of appliance sales in Japan (that has shown pedestrian growth over the last decade) are key reasons for the underperformance. It is trading at an almost 25% discount to the TOPIX, therefore is currently cheaper than most competitors, despite this and exposure to high growth sectors like EV batteries and the potential of substantial earnings growth from its Blue Yonder business. The company's transition from a sedate conglomerate to a focussed holding company of five exciting businesses supplying both products and software services to customers globally, should result in a notably improved market rating. In addition, it should deliver strong earnings growth over the next 10 years. UP

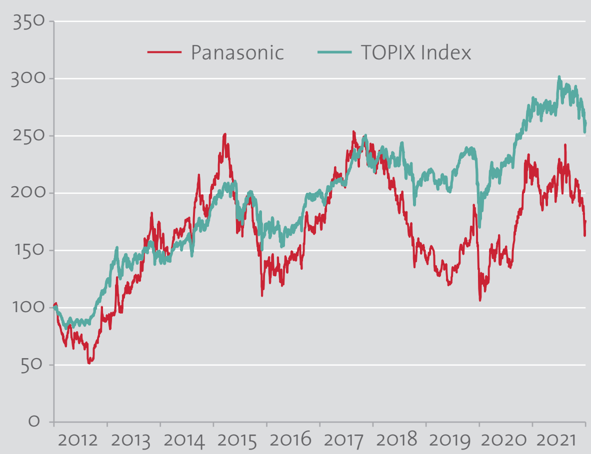
[1] Price earnings ratio - a measure of value.

SCM total addressable market



*Compound annual growth rate
Source: Gartner, Morgan Stanley research

Panasonic performance compared to TOPIX Index (yen)



Source: Bloomberg

Zimmer Biomet: smart orthopaedics

Edward Mtsweni - Associate Analyst

With populations rapidly ageing in developed economies and China, there is a growing need for orthopaedic medical treatments as bones and joints deteriorate in old age. Through significant investment in research, development and innovation, Zimmer Biomet (Zimmer) stands out as a global leader in the orthopaedic products field. We discuss the history of the company and, specifically, the burgeoning market opportunity in robotics that is a key differentiator for Zimmer relative to its competitors.

Zimmer Biomet: smart orthopaedics

Innovation underpins steady growth

Zimmer was founded in 1927 as a breakaway from DePuy Syntheses, a producer of fibre splints used to set bone fractures. At the time, Zimmer's aluminium splint product was more versatile (it could be shaped to suit specifications) and started outselling DePuy's after a year. During the Great Depression of the 1930s, Zimmer's approach remained defensive, with growth through product innovation. Fabricated braces were an important example of such and saw the business becoming a key market player during the polio epidemic (1949-52).

The first hip prosthesis was marketed by Zimmer in the 1950s, along with the release of their Harrington Instrumentation used to treat scoliosis[1]. In the following decades, and in line with the maturation of the baby boomer generation, the demand for Zimmer's products continued to grow - culminating in its listing on the New York Stock Exchange in 2001. At this time, products ranged from knee and hip implants to blood management systems.

Zimmer has built a strong reputation as a trusted brand over the years. For example, the term 'Zimmer frames' originated in the UK around the 1950s and is still used today as a genericised term for supportive walking frames, much the same as 'Hoover' did for vacuum cleaners in the 20th century or 'Aspirin' for pain medication.

Zimmer's markets

In 2014, Zimmer merged with rival orthopaedic firm, Biomet, but supply chain and regulatory issues (relating to large joint implants) initially impeded sales growth, resulting in market share losses in key knee and hip product segments. From 2018, new management again focused on innovation and growth as a larger, more diversified company.

The Americas currently constitute the bulk of Zimmer's operations, contributing 61% of sales in the 2021 financial year. Asia Pacific (including China) and EMEA (Europe, Middle East and Africa) combined, contributed 39% of sales.

The company focuses on three core categories within orthopaedics:

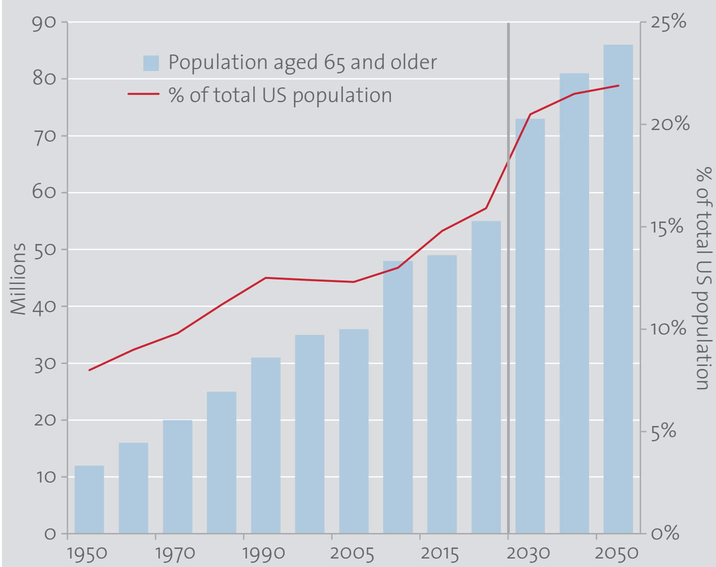
- The **knee** division manufactures partial and full knee replacement components and early intervention and joint preservation products. The use of robotics is an emerging trend in knee replacement surgeries, assisting surgeons with the accuracy of implant positioning. Zimmer aims to grow in this market through its Rosa and Persona knee systems.
- The **hip** division covers an assortment of products including total hip replacement and revision systems, hip preservation devices (that protect the natural integrity of the hip joint) and cementing materials used in implant installation.
- The **sports, extremities and trauma (SET)** division houses Zimmer's surgical (supporting various procedures) and sports medicine products used primarily for the repair of soft tissue injuries, commonly experienced in knees and shoulders.

[1] Lateral curvature of the spine.

Servicing multiple sectors of the population

General increases in life expectancy and changing demographic profiles of patient populations, together with surgical advances, have led to steady growth in the orthopaedic products market. As *indicated below*, the US population aged 65 years and older is expected to reach 73 million by 2030 (up from 55 million in 2020) as the last of the baby boomer cohorts reach age 65. With an ageing population comes an increasing need for orthopaedic related healthcare as older populations tend to exhibit more chronic health problems, such as osteoarthritis.

US population aged 65 and over



Source: www.statista.com, Population Reference Bureau

In addition, sports medicine represents an important growth segment for orthopaedic companies. The global market for sports medicine is expected to expand by 4%[2] over the next four years, given an increasing prevalence of sports injuries within the sector of the population that participates in sports and regular physical activity. With implant technology now allowing for customisation to suit a patient's unique anatomical and lifestyle needs, the potential to improve mechanical alignment and implant fit has increased demand twofold - meeting the needs of the younger, active sector of the population. Younger patients are also opting for implants sooner to minimise physical restrictions on lifestyle - a positive for innovators such as Zimmer.

Robotics are a key differentiator

The employment of robotics in orthopaedics has many benefits. It allows for greater surgical precision than standard tools, which results in less invasive surgery and, consequently, shorter patient stays. Improved efficiency enables surgeons to treat greater volumes of cases and furthermore, studies have shown that robotic surgery can improve patients' pace of recovery.

Zimmer was the first to launch a robotic knee replacement system in 2012, however Stryker was the first to gain significant market presence in this segment through its 2017 acquisition of the Mako knee replacement system. Featuring robotic arm assisted surgery, Stryker's system enjoyed considerable early success and contributed to market share losses for Zimmer.

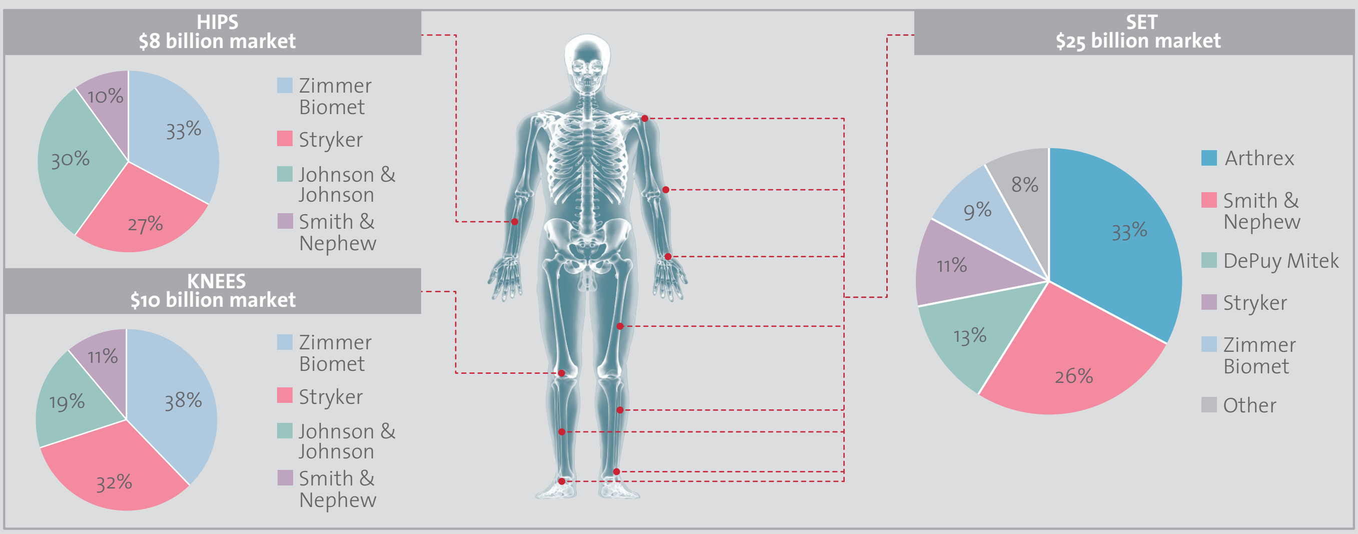
Zimmer then launched the Rosa Knee System in 2019, in direct competition to Stryker's Mako system, with the key differentiator being that it is less cumbersome. In addition, pre-operation CT scans are not required for the Rosa system, saving on cost and time.

As *illustrated below*, Zimmer is again commanding a strong market share - particularly in knee-related products (38% versus 32% for Stryker) - in a concentrated market dominated by four companies.

The training of surgeons is the most significant constraint to growth for Zimmer's Rosa system at present. However, the demand pull from patients is forcing surgeons to upskill (or risk losing patients to other skilled surgeons) and pressing hospitals and ambulatory centres to invest in the Zimmer machines. The improved outcomes for patients, lower costs and increasing surgeon education should grow adoption across the field.

[2] Compound annual growth rate.

Global orthopaedics market (2021)



Source: Zimmer Biomet results presentation, Goldman Sachs Peer Comparison, Stryker results presentation

Zimmer Biomet: smart orthopaedics

Persona IQ - a smart move

Zimmer Biomet will be the first orthopaedics company to launch a Smart Knee implant through its 2021 partnership with Canary Medical (medical devices data analytics operator). The Persona IQ implant *(pictured below)* is embedded with tiny sensors inside the patient's knee that measure step count, walking speed and other metrics. This data is more reliable and richer than that communicated via wearable devices (eg smart watches).

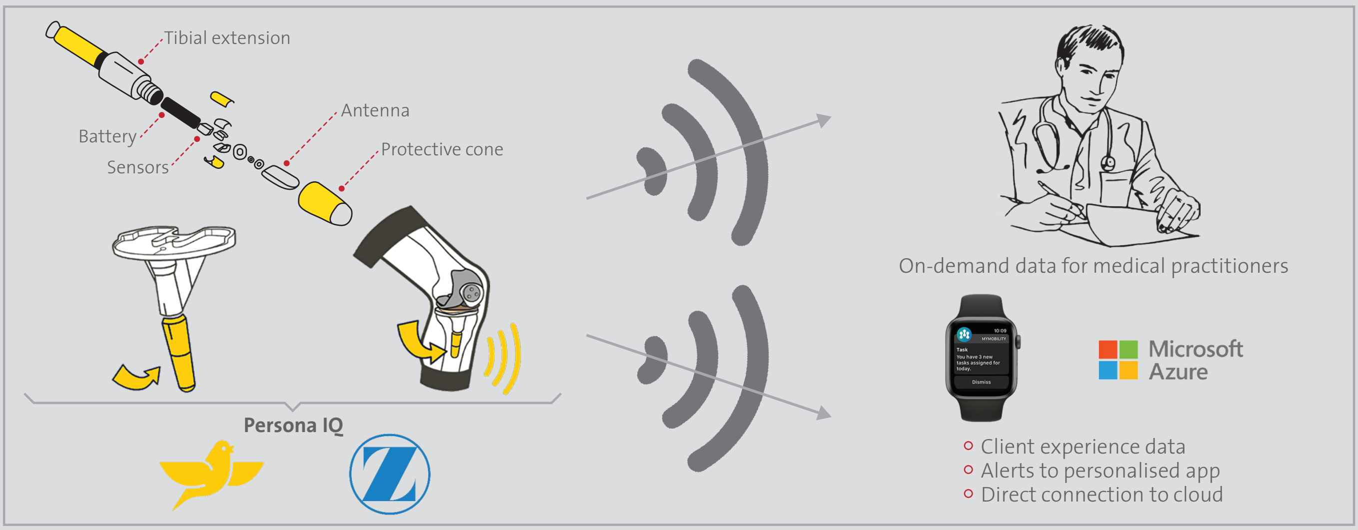
The availability of comprehensive data transmitted by implants can provide valuable insight on the status of the implant and act as a guide for potential treatment (ie regarding the negatives associated with implants such as pain, swelling and implant rejection). This leads to better outcomes and ultimately guides the development of future products, as well as representing a significant market opportunity for Zimmer.

Underappreciated scale determines future growth

Zimmer Biomet's dominant market shares in the concentrated orthopaedic devices market (particularly knee- and hip-related) is a competitive advantage that should enable fast future adoption of its robotics and Smart systems. With the ageing population dynamics outlined herein and the promise of innovations leading to improved patient outcomes, larger players that can innovate and invest at scale in product development and robotic surgery, should outperform.

With an underappreciated operational turnaround underway (that has stabilised market share and is leading to increased margins) coupled with temporary COVID-19 headwinds (delays in elective procedures that are expected to return), the company should be on track to generate solid future returns on capital and grow cash flows. Our global client portfolios have exposure to this unique long-term investment opportunity. UP

Zimmer Biomet's Persona IQ Smart Knee implant



Source: www.jaguaranalytics.com

The copper conundrum

Mandi Dungwa - Portfolio Manager

"The physical and chemical qualities of copper make it the material of choice for a variety of industrial applications. We rely heavily on copper across a multitude of industries including construction, power generation and transmission, electronics and industrial machinery manufacturing."

The copper conundrum

Through its use in electric vehicles (more than a mile of copper wiring is used in an EV battery) and related charging infrastructure, copper will be very widely used in the necessary global movement towards decarbonisation. This likely increased demand coupled with the past decade of low investment in new mining supply, should set the scene for a tight market for the metal and an elevated copper pricing environment. We explore the probable outlook.

Supply and origination

Over 80% of copper deposits are classified as either porphyry or sediment-hosted stratabound and, in both cases, the copper occurs with many other associated metals:

- **Porphyry deposits** make up over 70% of copper deposits and were formed by volcanic reactions deep in the earth. They tend to be large, comprising relatively low grades of copper, and are amenable to bulk mining methods such as open pit mining.
- **Sedimentary deposits** constitute 10% of current copper deposits and were formed in ocean basins millions of years ago. They are usually accessed via underground mining methods and yield the highest copper grades.

As *indicated below (right)*, South America is the largest copper producing region (37% of supply), with Chile being the world's largest copper producer (27% of 2021 production). Chilean miner, Codelco, is the world's largest, delivering over 1.7 million tonnes of copper in 2021.

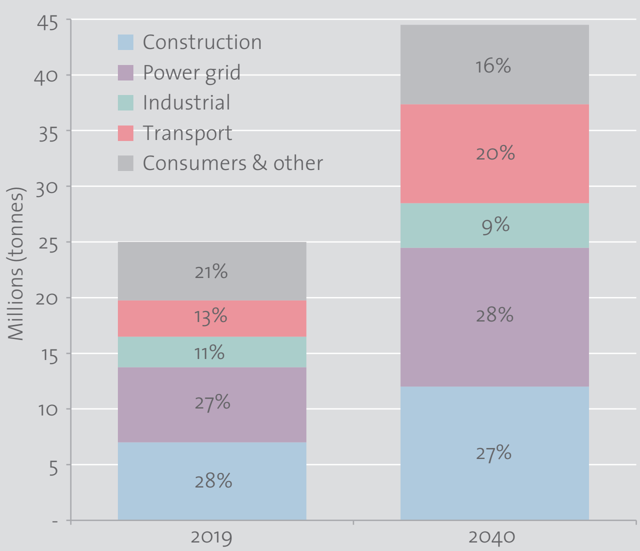
A varied market outlook

As the Chinese economy transitions from an infrastructure growth-led economy to a consumer demand-led economy (like more developed nations), the demand for copper has decreased relative to expectations at the start of the millennium. With China constituting over 50% of global copper demand, it has resulted in relatively low copper prices and consequently, cash flows for copper miners being negatively impacted. As such, lower levels of capital have been allocated to growing and sustaining copper production or to exploring for new copper deposits.

The outlook for growth in copper demand stems significantly from the transport sector as it moves to electrification. The electric power grid will also need to transition, with renewable energy playing a pivotal role, further boosting copper demand as new generation and transmission infrastructure is built.

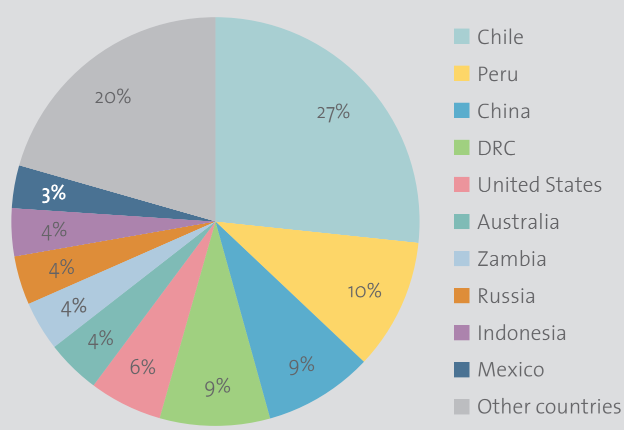
At current global production rates there are 42 years of copper reserves in the ground, however global decarbonisation trends are likely to mean copper demand will grow at 1 million tonnes

Copper consumption by industry



Source: Wood Mackenzie, Codelco

Regional copper production



Source: US Geological Survey, Camissa Asset Management research per annum (5% of current mine supply) between 2020 and 2050. This is double the rate of the annual demand growth over the last decade (even as China has developed its economy and infrastructure) and equates to the need for a new producer of the same size as Southern Copper - one of the top five global copper producers (*left chart below*) - to be added each year for the next 30 years.

To date, mainly copper deposits with the highest grades have been mined for the higher revenues yielded per tonne of ore (rock) mined. Copper projects that are currently under consideration are of a lower grade than copper from existing mines, thereby requiring more ore to be moved at higher costs per tonne (to produce just a single tonne of copper).

As *shown below (right)*, over the last 30 years copper grades have declined by more than 30% as mines are deepened and as the highest-grade sections become depleted. With over 70% of deposits being porphyry, most of the mines are open pit. As these mines mature, they require the removal of more waste product to access deeper, lower grade sections, thus significantly increasing the cost of production together with the complexity of the mining process.

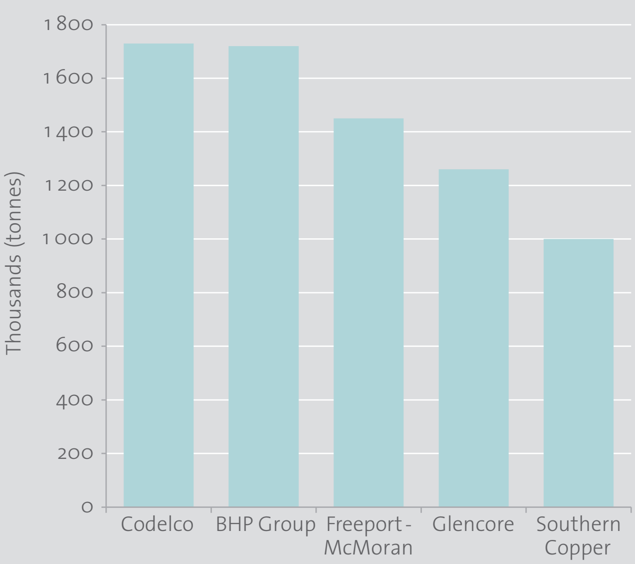
Mega-drought stifles supply

In Chile, where 27% of mined copper production currently occurs and where 23% of global reserves are located, water scarcity is a huge concern. The country is experiencing a decade long mega-drought, with the picture looking increasingly grim. Water is trucked into rural areas where it is no longer available, citizens live with restrictions, farmers have seen tens of thousands of animals die, beehives are being wiped out and reservoir levels are low. These major water shortages have necessitated significant increases in water prices and yet the mining industry in Chile consumes enough water to provide for 75% of the daily needs of the country's population.

The process of mining at deeper levels (for lower grades of copper) requires greater water consumption. Consequently, the availability of water supply will determine whether some of the 200 million tonnes of copper reserves will be mined in the future. Mining companies such as Glencore are considering creating desalination[1] plants for the expansion of their Colluhausi mine in Chile, adding a further cost to expand the production base. Existing operations in Chile have had to cut back on production due to a lack of water, which now presents the greatest risk for Chilean copper supply.

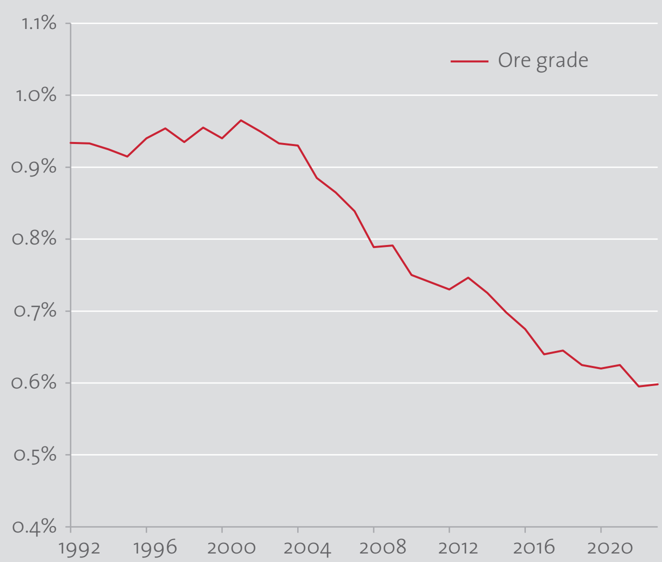
[1] The process of removing salt from seawater.

Top five global copper producers



Source: US Geological Survey, Camissa Asset Management research

Average copper mine ore grade



Source: Rio Tinto

The copper conundrum

Persistent humanitarian crises bodes poorly for African supply outlook

The Democratic Republic of Congo (DRC) makes up 9% of global copper mine supply and 4% of unmined reserves. However, child labour and relentless conflict remains a major concern for the mining industry in the DRC. While the country has decreed child labour as illegal (the minimum working age is 16 years), artisanal mining groups continue to recruit underage children as a form of cheap labour. Furthermore, ongoing conflict in eastern Congo is holding back the development of any large-scale industrial mining projects. This has led to the majority of the DRC's mining in that region being conducted by non-compliant artisanal mines, with very little governmental oversight or health and safety standards being upheld. Glencore's Kolwezi mine exposed these risks when 43 miners died after a closed section of the mine caved in while being illegally mined.

In 2018, the DRC revised its mining code, effectively rebalancing mining cash flows in favour of the state. This was done through increasing tax rates and reducing mining companies' ability to extract cash from the country. These changes have, however, been challenged by large foreign companies with operations in the DRC and negotiations are ongoing. This has resulted in lower shareholder returns and higher uncertainty, which in turn leads to lower capital allocated to growing copper production in the country.

The governments of Chile and Peru are also in the process of reviewing mining legislation, with a view to substantially increasing taxes from the current levels, which will also create uncertainty in these regions.

Since 2015, mining companies have generally favoured paying out capital to shareholders rather than reinvesting in future production. The legislative uncertainty and environmental and social instability in regions that account for 45% of copper mine production and 35% of reserves, has resulted in copper miners preferring to pay out cash to shareholders instead of investing further in these high-risk territories.

Are there alternatives to copper?

With so many copper supply concerns for the future, alternative options are being explored. Currently, the best substitution for transmission applications in the power grid, is aluminium. The biggest advantage for aluminium is its cost, as three parts aluminium are required for one part copper, implying above the 3:1 (aluminium: copper) price ratio. For this reason alone, we should see more substitution in favour of aluminium going forward. Additionally, being 30% less dense than copper, aluminium cables are almost half the weight of copper cables - an incremental positive for property developers.

Just over 1% of copper demand was lost due to an increase in aluminium usage in 2021, despite the currently elevated price ratio. However, copper continues to be regarded as a superior metal particularly because of its conductivity, better energy efficiency, high resistance to corrosion and fire-resistant properties.

Demand dynamic set to see prices firm

Over the next three decades, as decarbonisation drives a significant increase in copper demand, the supply challenges outlined herein may result in a deficit in the market. This will create a robust pricing environment, incentivising miners to build new mines or grow production with the expectation of good returns if they can overcome some of the current challenges. Using alternatives such as aluminium could alleviate some of the supply concerns, although copper continues to be the preference.

Our clients are exposed to copper through our investment in Anglo American, which is increasing its copper output from 647 000 tonnes in 2021 to over 1 million tonnes in 2023 (with the ramp up of their new Peruvian mine - Quellaveco). Anglo American invested in this mine at lower copper prices and will benefit from the current and future higher copper prices. UP

Fiserv is a fintech gem

Gracious Mashila - Associate Analyst

Founded in 1984 and listed on the Nasdaq in 1986, Fiserv has grown consistently to become one of the largest and most diversified US financial technology (fintech) companies. The company significantly increased its scale following the acquisition of First Data in July 2019 and is now seen as the world's largest merchant acquiring business (handling over 15% of global transaction volumes). We consider Fiserv's product offering - highlighting the best performing segments and exploring future opportunities.

Fiserv is a fintech gem

Dynamic payments landscape

The payments industry can be broadly broken down into global payment networks, merchant acquirers, digital banking, business-to-business related payments and money transfers - with the largest end markets being payment networks and merchant acquirers. The *chart below* highlights some of the major players.

The industry has changed meaningfully in the last five years, with a substantial number of business combinations, aimed at creating integrated and comprehensive product and service providers. Recent notable industry transactions have included (i) Square acquiring Afterpay to expand their 'buy now pay later' offering - made available to online merchants, and (ii) Visa acquiring Tink to obtain an open banking platform that enables financial institutions, fintech companies and merchants to build financial products and services. Fiserv's First Data acquisition in 2019 was transformative in that it enabled the business to materially scale its merchant acceptance and payments capabilities (lowering costs to serve clients) and created a leading portfolio of software to merchants through its highly successful Clover and Carat operating systems.

Intersecting commerce and banking

The digital payments process sees Fiserv intersecting commerce and banking through their merchant network, real time account processing and digital banking capabilities. The *chart on the following page* illustrates the different stages of a credit or debit card transaction and the participants involved. After its initiation, a payment moves through various channels involving authorisation, bank-end processing and settlement - achieved through communications by the large card associations (Visa, Mastercard or Fiserv in the US) who are the backbone of the electronic payment system.

Fiserv has built strong positions in very profitable segments and through the many services offered by its three divisions - merchant acceptance, payments and networks, and fintech - the business plays an integral role in this process.

A differentiated merchant offering

Merchant services constitute Fiserv's largest division accounting for over 40% of group revenue. The division supplies software and hardware to merchants globally, which is used to securely accept electronic payments. Key services include payment authorisations and settlement solutions that secure payment data from end to end. Payment transactions incorporate credit, debit and loyalty payments either through a physical point of sale (POS) device, a mobile payment device (smartphone or tablet) or an e-commerce internet transaction.

Fiserv's **merchant acceptance** division has delivered strong growth over the last three years (over 20% per annum since

Global payments, processors and fintech providers

Global payments networks

- mastercard
- VISA

Merchant acquirers and bank technology providers

- FIS
- fiserv.
- globalpayments
- jack henry & ASSOCIATES INC.
- Square
- PayPal
- adyen
- lightspeed
- nuvei Payment Technology Partner
- REPAY Realtime Electronic Payments
- Shift4 PAYMENTS

Digital lending

- ROCKET

B2B-related businesses and payments networks

- FLEETCOR
- VERRA MOBILITY
- wex

Money transfer (international remittances)

- intermex INTERNATIONAL MONEY EXPRESS
- WESTERN UNION

Source: Credit Suisse, Camissa Asset Management research

2019). The future of this division is even brighter as the company strategically shifts away from commodity POS hardware to hardware with a custom operating system. New software focused products include Clover (for small to medium-sized merchants) and Carat (for larger enterprises), both of which have shown sales growth of over 30% per annum since their launch in 2017.

This customised operating system approach is a unique differentiator for Fiserv, allowing them to develop and sell additional software to merchants (managing a wide range of functions such as appointment making, inventory checking and overseeing employees). Their open platform enables them to provide third party developers with the tools to create new software and resell it onto Fiserv's large global client base. The strategy has resulted in the creation of a valuable platform, now accounting for almost half of the division's revenue.

Furthermore, the shift to Clover and Carat has materially expanded Fiserv's addressable market and we expect an acceleration in future growth and profitability as a result. The organic growth opportunity is large as the company's industry-leading platform attracts more merchants, who then purchase more higher margin software services from the group. An analysis of past customer cohorts shows consistent growth in the number of software applications that each merchant purchases and we expect notably higher future profitability as average revenue per merchant grows, with little incremental cost to the business.

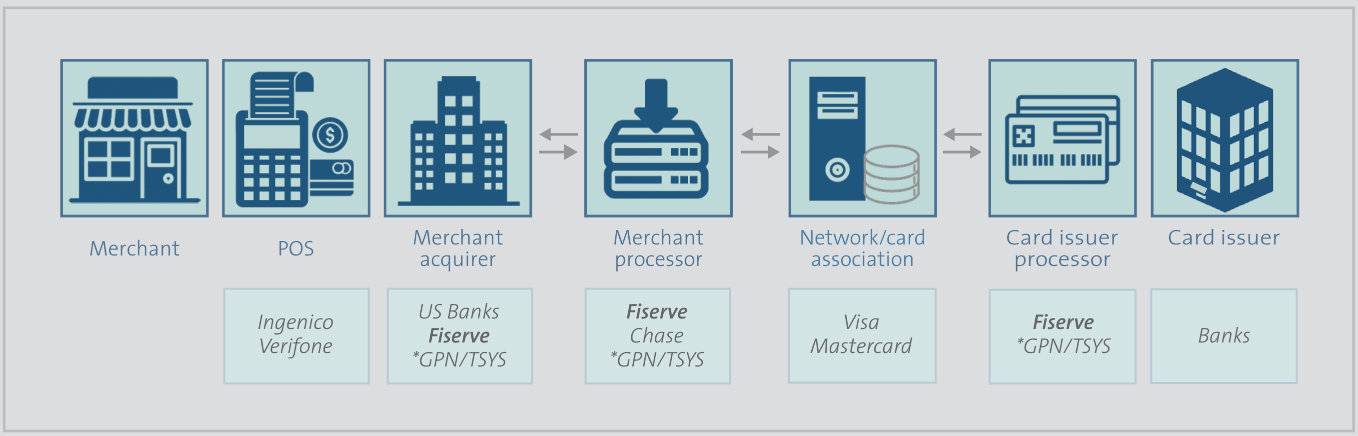
A well-positioned business in payments and payment networks

In addition to operating systems, small and medium-sized banks are also supplied with digital banking solutions. Fiserv's **payments and payment networks** division has exposure to fast growing international markets and includes services such as real-time processing of card transactions, and security and fraud protection products. Non-card digital payment software and products enabling bill payments, account-to-account transfers and person-to-person payments are also offered.

The company owns the world's third largest payments network behind Visa and Mastercard. Through its subsidiaries STAR, Accel and Money Pass, Fiserv connects US banks and US merchants (online and offline), allowing customers to purchase via debit or credit card and withdraw cash at any one of 300 000 ATMs across its network. The growth outlook for this division stems from increasing transaction activity and high profit margins from high barriers to entry.

Within the payments division, Fiserv also has exposure to legacy bank services that are threatened by the shift to online and to the medium-size banking segment in the US, where

Card transaction fund flow



*Global Payments Network/Total System Services
Source: Camissa Asset Management research

Fiserv is a fintech gem

consolidation has seen the number of independent banks fall from around 7 300 to 4 800 over the last decade. Fortunately, these headwinds have been more than offset by the growing IT spend across Fiserv's remaining banking customers as they focus on modernising their systems, bolstering cybersecurity, expanding the use of data and improving the overall customer experience. The non-discretionary nature of the demand for Fiserv's products and the expected increase in IT spend by banks should result in this division growing at a healthy mid-single digit rate over the medium term.

Through the **Fintech** division, Fiserv supplies global banks with back-office operating systems that allow them to process customer deposits, loan accounts and manage general ledgers and central information files. Though currently small in the mix, the division is expected to grow similarly to the payment networks division.

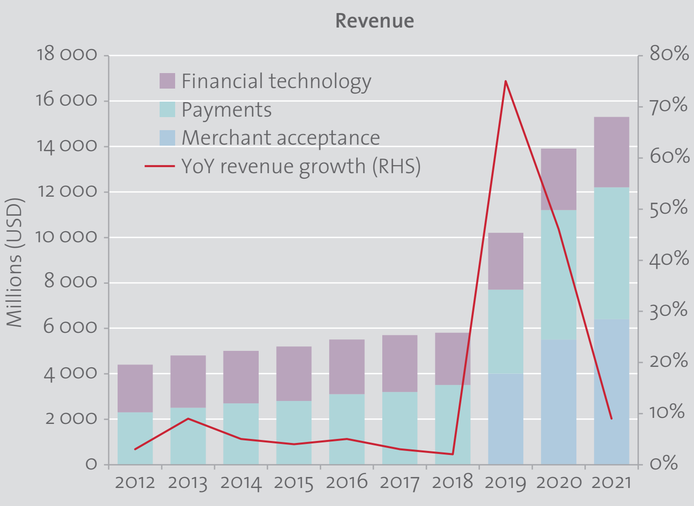
Strong growth at an appealing valuation

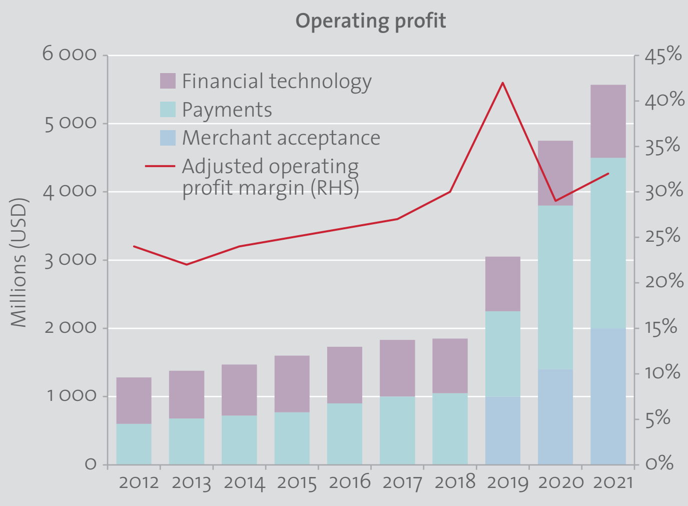
As *illustrated below*, Fiserv has an excellent track record, having grown sales and earnings consistently over the past two decades. The expansion brought about through Fiserv's First Data acquisition not only improved scale and lowered operating costs (over $1.2 billion synergy savings), but also improved the company's global footprint and combined geographic mix. The growth outlook is robust given Fiserv's unique positioning and strengths across key markets. This includes sizable opportunities outside the US as Fiserv looks to expand its world class service offering to previously lowly-penetrated markets such as Latin America and India. International revenue has grown to 13% of group sales compared to 6% in 2018.

At first glance, Fiserv looks expensive as earnings are distorted by the First Data acquisition that resulted in a large non-cash charge. Excluding these charges reveals a significantly more profitable company and we estimate that investors can purchase this world class business at a deep discount to competitors who deliver similar revenue growth rates. Although the company is currently highly geared, we expect strong cash generation to see to a reduction of debt to optimal levels.

Compared to "digital only" payment businesses (eg Ayden and Square), Fiserv's fast-growing Clover and Carat businesses stand out as equally strong and already at scale. Relative to Square for example, Fiserv's transaction volume is already larger and profitability higher. If we apply Square's rating to Clover and Carat (approximately 25% of group sales), these two businesses would account for over half of Fiserv's current market value. This provides optionality for future value unlock if management were to unbundle or sell those businesses. UP

Fiserv revenue and operating profit by division





Note: FY19, 20 and 21 adjusted for amortisation of acquisition related intangible assets, merger and integration costs
Source: Fiserv

Camissa Asset Management Funds

Performance to 31 March 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	11.7%	15.1%	11.4%	10.9%	16.2%	Apr-04	2.10%	0.52%
SA Equity General funds mean	17.7%	11.3%	7.8%	8.9%	12.5%			
Outperformance	-6.0%	3.8%	3.6%	2.0%	3.7%			
Global Equity Feeder Fund#	-7.3%	-	-	-	4.2%	Nov-19	2.19%	0.31%
FTSE World Index	9.2%				13.8%			
Outperformance	-16.5%				-9.6%			
Balanced Fund	8.1%	10.3%	8.9%	9.3%	9.4%	May-11	1.53%	0.38%
SA Multi Asset High Equity funds mean	10.7%	9.0%	7.2%	8.6%	8.6%			
Outperformance	-2.6%	1.3%	1.7%	0.7%	0.8%			
Protector Fund	10.7%	10.3%	8.8%	8.4%	9.9%	Dec-02	1.61%	0.30%
CPI + 4%	10.0%	8.4%	8.5%	9.6%	10.2%			
Outperformance	0.7%	1.9%	0.3%	-1.2%	-0.3%			
Stable Fund	17.4%	9.6%	8.7%	8.7%	8.8%	May-11	1.50%	0.41%
CPI + 2%	8.0%	6.4%	6.5%	6.0%	6.0%			
Outperformance	9.4%	3.2%	2.2%	2.7%	2.8%			
Institutional funds[5]								
Managed Equity Fund	15.1%	15.5%	11.6%	10.8%	12.2%	Sep-06		
FTSE/JSE Capped SWIX Index	20.4%	11.9%	9.0%	11.1%	11.6%			
Outperformance	-5.3%	3.6%	2.6%	-0.3%	0.6%			
Domestic Balanced Fund[6]	15.8%	13.9%	11.4%	9.6%	9.6%	May-07		
Peer median	17.1%	10.1%	8.0%	9.4%	9.3%			
Outperformance	-1.3%	3.8%	3.4%	0.2%	0.3%			
Global Balanced Fund[7]	9.9%	11.9%	10.6%	-	10.4%	Jul-13		
Peer median	12.8%	10.1%	8.6%		9.5%			
Outperformance	-2.9%	1.8%	2.0%		0.9%			
Bond Fund	17.0%	9.5%	10.1%	-	9.4%	Aug-15		
BESA All Bond Index	12.4%	8.4%	8.9%		8.3%			
Outperformance	4.6%	1.1%	1.2%		1.1%			
Money Market Fund	5.8%	6.6%	7.4%	7.1%	7.7%	Jan-04		
Alexander Forbes STeFI Composite Index	3.9%	5.2%	6.1%	6.1%	7.0%			
Outperformance	1.9%	1.4%	1.3%	1.0%	0.7%			
Sharia unit trust funds[4]								
Islamic Equity Fund	22.8%	16.0%	12.2%	11.0%	12.4%	Jul-09	1.49%	0.20%
SA Equity General funds mean	17.7%	11.3%	7.8%	8.9%	10.8%			
Outperformance	5.1%	4.7%	4.4%	2.1%	1.6%			
Islamic Global Equity Feeder Fund#	-2.8%	6.5%	-	-	9.0%	Jan-19	2.06%	0.17%
Global Equity General funds mean	-0.8%	10.7%			14.4%			
Outperformance	-2.0%	-4.2%			-5.4%			
Islamic Balanced Fund	15.3%	13.8%	10.5%	9.6%	8.8%	May-11	1.50%	0.15%
SA Multi Asset High Equity funds mean	10.7%	9.0%	7.2%	8.6%	8.6%			
Outperformance	4.6%	4.8%	3.3%	1.0%	0.2%			
Islamic High Yield Fund#	9.3%	8.0%	-	-	7.9%	Mar-19	0.58%	0.04%
Short-term Fixed Interest Index (STeFI)	3.9%	5.2%			5.3%			
Outperformance	5.4%	2.8%			2.6%			

Highest and lowest monthly fund performance	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest
Equity Alpha Fund	7.4%	-2.8%	12.6%	-21.6%	12.6%	-21.6%	12.6%	-21.6%	12.6%	-21.6%
Global Equity Feeder Fund	3.8%	-6.9%	-	-	-	-	-	-	18.1%	-15.6%
Balanced Fund	4.4%	-1.4%	9.1%	-15.7%	9.1%	-15.7%	9.1%	-15.7%	9.1%	-15.7%
Protector Fund	2.9%	-0.3%	7.4%	-13.9%	7.4%	-13.9%	7.4%	-13.9%	7.9%	-13.9%
Stable Fund	3.1%	-0.6%	6.1%	-11.4%	6.1%	-11.4%	6.1%	-11.4%	6.1%	-11.4%
Islamic Equity Fund	5.3%	-1.2%	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%	-	-	-	-	14.6%	-8.4%
Islamic Balanced Fund	3.9%	-1.0%	8.0%	-9.3%	8.0%	-9.3%	8.2%	-9.3%	8.2%	-9.3%
Islamic High Yield Fund	1.3%	0.2%	2.7%	-2.2%	-	-	-	-	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 31 March 2022; # over 12 months to 31 March 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 over a rolling three-year period to 31 March 2022; # over 12 months to 31 March 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.