

October 2024

Dear Investor,

THIRD QUARTER OF 2024

Thank you for trusting us with your investment.

We are pleased by your portfolio's performance but caution against strong conclusions.

The past 12 months have been particularly fruitful for your investment. Sometimes, many of the share prices in a portfolio happen to go up in lockstep, even when these are shares in companies operating in a wide variety of industries and many different geographies. This is what happened over the last year to the shares in your account.

The largest contributors to your returns over the last year were TSMC (a Taiwanese semiconductor manufacturer), Unibail-Rodamco-Westfield (a French listed property company), Micron (a US memory chip manufacturer), Berkshire Hathaway (a US insurance conglomerate), Applied Materials (a US-listed semiconductor tool manufacturer), Interactive Brokers (a US-listed global stock broker) and Exor (a Dutch family holding company). So, a truly diverse group of companies not responding to any one or two drivers.

Such synchronised share price moves in a diversified portfolio are unusual. We would caution you against expecting 12-month returns of this magnitude on a regular basis. We would, however, also caution against concluding that the shares held in your portfolio are now overpriced.

We cannot control share price movements, but can control where we invest your portfolio. We own many companies that are either clearly undervalued or that are such good companies that waiting for a discount before investing could be an expensive mistake. With the power of hindsight, we've learned that every time a person sold a true compounder because it was deemed to be too expensive, it was a mistake. This is true for truly great companies all over the world. We own a few of those. Naturally, we continuously monitor these companies to be sure that they remain great.

Then we own many good companies that are, in fact, offering value, where we don't think the share price nearly reflects the true value of the company. These would include some the insurance and property companies you own.

Finally, your portfolio is diversified across industries and geographies, implying that there are many different drivers of returns rather than relying on specific drivers that result in spurts of returns. Over longer periods, we target outperformance of US inflation plus 6%, meaningfully adding to your buying power over time. Our ultimate dream is that many people will be part of this long-term journey, which will put them in a much better financial position than they would have been otherwise.

### **Portfolio Updates**

Over the past quarter, we had the opportunity to add ASML to your portfolio. We also increased your position in AIA Group.

#### **ASML**

This is a new business in your portfolio and a position that we started to build during the quarter.

ASML is the world's premier supplier of lithography machines used in the production of semiconductors globally. It is listed in the Netherlands.

Lithography is one of the steps in the production of all semiconductors. It involves a light source and a mask that is used to print a pattern onto a silicon wafer similar to how film cameras take photos. These prints are developed on the wafer and form the pattern for the etch and deposition steps that the machines of Lam Research and Applied Materials follow.

However, unlike the other semiconductor capital equipment businesses, ASML is a monopoly in a very important technology called extreme ultraviolet (EUV) lithography.

EUV is an improvement on previous lithography processes in that it uses a very special light source to print patterns smaller than previously possible. The trick is that the wavelength of this EUV light is short enough to allow for much better definition than previous generations of lithography machines.

The engineering to create this light is close to magic. It involves a very small droplet of molten tin that is released in a vacuum. This droplet is then precisely shot by a laser beam to change it into a plasma that releases an EUV flash. However, the process needs to be repeated around 50,000 times per second to create enough light flashes that can be concentrated into a beam of light for lithography uses. The level of technology is truly astounding and no other company has succeeded in developing EUV lithography.

We regard ASML as a monopoly in the strong growth vector of semiconductor manufacturing, an area we have regularly discussed. During the quarter, the market offered us the opportunity to take an initial position in the company when concerns were raised about its near term order intake. We think this is a wonderful opportunity for long-term investors.

#### **AIA Group**

We have often discussed AIA in our previous letters. The company is one of the largest pan-Asian insurance companies and is listed in Hong Kong. It has operations across many countries in Asia with significant growth potential in China.

Hong Kong listed companies have fallen out of favour over the past number of years. However, companies like AIA are performing admirably and returning to strength following the disruption from lengthy pandemic effects. We don't think that the share price adequately reflects the underlying quality or the growth potential of this business and used the opportunity to increase your position.

We have also channelled more of our research effort to Hong Kong and Chinese companies, looking for more neglected jewels. We hope to tell you more about these in future letters.

#### **Conclusion**

This letter should be read in conjunction with your quarterly investment statement which contains all the financial information relevant to your account. As always, we invite you to contact us if there is anything you would like to discuss. We find that there are valuable learnings in portfolio discussions, especially when clients take opposing views.

Your partners in long-term value,

Alex, Catherine, Henno, Paul, Phyla, Simone and everyone at Granate Asset Management



## Disclaimer

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