

January 2025

Dear Investor

## 2024 ANNUAL LETTER

This is our eighth annual letter. We appreciate your decision to entrust your capital to Capensis Capital. In this letter we will discuss your portfolio and its performance, as well as our plans for the future of Capensis Capital. Managing your money is a privilege.

**Investment results**

	Capensis Capital (consolidated)	Benchmark (US inflation + 6%)	Average cash holding
2017 (9 months)	+11.0%	+5.6%	64%
2018	-13.5%	+7.9%	40%
2019	+22.3%	+8.3%	24%
2020	+23.5%	+7.4%	23%
2021	+15.2%	+13.0%	13%
2022	-22.8%	+12.5%	8%
2023	+27.0%	+9.4%	7%
2024	+14.0%	+8.9%	8%
<b>Total</b>	<b>+86.6%</b>	<b>+100.5%</b>	
<b>Total annualised</b>	<b>+8.4% p.a.</b>	<b>+9.4% p.a.</b>	

*Source: Interactive Brokers, CapitalIQ, Capensis Capital*

Please review the investment statement accompanying this letter. Your individual return might differ from the returns above, depending on your starting date and some minor differences in your portfolio compared to the consolidated account.

**The future for Capensis Capital**

Capensis Capital joined forces with Granate Asset Management in July 2019 and over the past five-and-a-half years, we have been working as one team. We are happy to share with you that the final steps in the integration of the two businesses are happening this year: Capensis Capital will be rebranded to Granate Portfolios and we are launching a global fund.

The idea of a global fund has been part of our planning from day one. In our [Introduction Letter](#) of April 2017, we explained a dream of starting with separately managed accounts, moving to an offshore fund and finally also a rand-denominated feeder fund into the global fund. This year we will fulfil that dream.

There are benefits to a global fund over individual portfolios. To our largely individual client base, the main benefits relate to tax, both ongoing taxes and taxes related to settling an estate in case of death. Converting your account into units in a fund solves for both these issues, but it does come at a cost as the conversion is a capital gains tax event that would crystallise your unrealized capital gains. It is our opinion that the benefits outweigh the cost and we expect to move our own and our families' accounts over to the fund in due time.

We are very happy to discuss the options with you, so please reach out to us if you have any questions. As always, remember that we are not tax advisors, so it might be valuable for you to get independent tax advice.

Importantly, we will not be forcing anyone to move their individual accounts to the fund. We are very happy to continue managing your portfolio on exactly the same basis as agreed on when you opened the account. The only change you'll see is the name on the account changing to Granite Portfolios.

This is a very exciting moment for us and for all of you that have been waiting for us to launch a fund. We are humbled by the support we received from you to this point and we look forward to delivering on that trust into the future. Capensis is growing up!

### **Investment review**

The largest contributors to performance were Taiwan Semiconductor Manufacturing (TSMC), Interactive Brokers and Berkshire Hathaway. The main detractors Exor, MEI Pharma and AIA Group.

During the year, we added Lowe's Company and ASML Holdings to your portfolio. We also increased your holdings of AIA Group, Derwent London, EOG Resources and New River REIT. This was funded from cash balances and proceeds from the reduction in Berkshire Hathaway and Micron Technology.

TSMC is performing very well. The competitive positioning of the business is improving with its main competitors (Intel and Samsung) seemingly unable to keep up with the technological progress. TSMC is an enabler of everything semiconductor related and in particular is becoming a monopoly of leading edge semiconductor manufacturing. These are the chips used in high end computers, mobile phones and, increasingly, high performance data centres that enable artificial intelligence. We've previously suggested that TSMC might be the most important company in the world. Recent performance reiterates that fact, similarly the scramble of nations around the world trying to entice TSMC to set up shop locally.

Interactive brokers finally arose from its slumber during 2024. As a reminder, Interactive Brokers is the platform through which we manage most of the Capensis accounts. We first wrote about the company in 2018 and have enjoyed seeing the business compound ever since. However, it seems that the market price waited until 2024 to catch up with the business growth. We expect continued growth in the future for Interactive Brokers. We think it is the type of business that deserves to win: offering a better product compared to the alternatives, a very profitable business model and an enormously large untapped market.

Berkshire Hathaway has been discussed in these letters over many years. The company has been part of your portfolio since day 1 and you have enjoyed the stable compounding of this business over your whole investment term. However, recently the business has been trading closer to values that we regard as fair and hence we did reduce your investment in Berkshire somewhat. The proceeds were invested into more attractive opportunities as discussed above.

AIA Group was discussed in the previous quarterly letter. We remain very excited about both the business quality and the depressed valuation of this pan-Asian insurance company. We cannot predict when the sentiment towards Chinese companies will change, but we think that the internal operating growth of the business makes for an attractive investment opportunity even without revaluation.

MEI Pharma was a completely disappointing investment. When we invested, we believe that success in any of the four compounds it was working on would lead to significant investment return. Unfortunately, the regulatory landscape changed and the company decided to discontinue all research and development. The business is currently being liquidated.

### **Conclusion**

It continues to be a pleasure to manage your capital. As always, we invite you to contact us if there is anything you would like to discuss. We find that there are valuable learnings for both clients and us in portfolio discussions, especially when clients take opposing views.

Your long-term partners

Everyone at Granate Asset Management

**Disclaimer**

This document is intended for the clients of Capensis Capital (Pty) Ltd. All data provided by Capensis Capital, unless otherwise stated, is current as at 31 December 2024.

Capensis Capital (Pty) Ltd is an Authorised Financial Services Provider, regulated by the South African Financial Services Board. Registered office: 1<sup>st</sup> floor, Josephine Mill, 13 Boundary Road, Newlands, 7700, South Africa

More information about Capensis can be found at <http://www.capensiscapital.com>.

The value of your investments and the income from them may go down as well as up. It is possible that you may receive less than you invested. Past performance is not indicative of future performance.