DESERT LION
— CAPITAL —

OVERVIEW

AUGUST 2022

Strategy – South African listed equities

Unlevered. Long-only.
Concentrated portfolio, 10 to 15 high conviction holdings.
Value-oriented.
Fundamental, research-driven process.
Bottom-up, with an awareness of macro factors.
Benchmark agnostic.

Portfolio Manager – Rudi van Niekerk

South African native with local, on the ground presence & knowledge.
Nearly a decade of same strategy experience investing in South African public equities.
Prior experience includes private equity & commodity trading.
Qualifications: Bcomm, MBA (Cum Laude), CFA.

Alignment

Meaningful investment from Portfolio Manager and Founders

Portfolio Manager reinvests majority of profits

Performance

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR TO DATE		
													Desert Lion [1]	FTSE/JSE ALSI [2]	Delta
2019				1.4%	- 1.2%	2.9%	- 0.9%	- 10.7%	0.8%	6.1%	3.3%	3.9%	4.8%	4.7%	0.1%
2020	- 7.7%	- 14.4%	- 25.8%	2.0%	3.5%	6.9%	3.4%	5.6%	10.3%	13.2%	9.6%	12.5%	11.2%	- 1.0%	12.2%
2021	10.9%	- 2.4%	6.9%	- 2.5%	2.7%	- 2.1%	- 1.2%	- 3.3%	- 5.7%	5.9%	- 4.6%	6.1%	9.6%	14.6%	- 5.0%
2022	0.4%	- 0.0%	2.0%	- 7.3%	- 6.0%	- 7.1%	1.6%	- 0.8%					- 16.4%	- 14.8%	- 1.6%
Cumulative – inception to date [3]													6.8%	1.3%	5.5%
Annualized – inception to date [3]													2.0%	0.4%	1.6%

Fund Terms

Min subscription	$250,000
Management fee	0.75%
Performance fee	25% of profits exceeding hard hurdle
Hurdle	6% hard, non-compounding
High water mark	Yes
Soft lock-up	3 years
Early withdrawal	5%
Fund expenses	Capped at 0.5%
Withdrawals	Quarterly, 90 days notice

Notes to Performance

1. Performance represents the Fund's Standard Class and is representative of an annual management fee of 0.75%; fund expenses of 0.5% p.a.; 6% non-compounding hurdle; performance fee of 25% of profits exceeding the 6% hard hurdle; high water mark applies.
2. FTSE/JSE All Share Index ("ALSH" or "J203") converted to USD returns.
3. Net results to a Limited Partner in the Standard Class as of April 1, 2019 inception. Individual returns will vary by class and date of investment.

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

Top 6 Holdings (alphabetically)

Argent Industrial	Sibanye Stillwater
Karooooo	Stadio
Naspers	Mustek

Top 6 concentration 70%

General Information

Fund Domicile	U.S. (Delaware)
Inception	April 2019
AUM	US$ 12m
Introducing Broker	BTIG, LLC
Clearing & Custodian	Pershing, LLC
Administrator	Opus Fund Services, LLC
Legal Counsel	Sadis & Goldberg LLP
Auditor	CohnReznick LLP

August 2022 Commentary

Dear partners and friends,

The Fund returned -0.8% for the month of August, compared to -5% by the JSE All Share Index (J203). Currency was a drag with the USD/ZAR detracting -3%. Emerging market currencies across the globe are weakening in unison as the USD strengthens. The ZAR was not spared and got swept downstream by the current. I have no idea what currencies will do in the future. But I have high conviction that the ZAR is fundamentally undervalued at current levels. Only about 11% of South Africa's government debt is USD denominated. The country is enjoying trade surpluses and the fiscus is benefitting from increased tax revenue. South Africa's inflation is lower than developed markets inflation, while interest rates are significantly higher than developed markets inflation. Media headlines are screaming weaker ZAR. Fundamentals point to a stronger ZAR.

Many of our companies reported results recently. In this month's letter we will review their progress and consider their current valuations.

Master Drilling (JSE: MDI)

Who would have thought that a company founded by an Afrikaans team operating from an obscure little rural South African town called Fochville would grow to become the global leader in the raise bore drilling services industry…

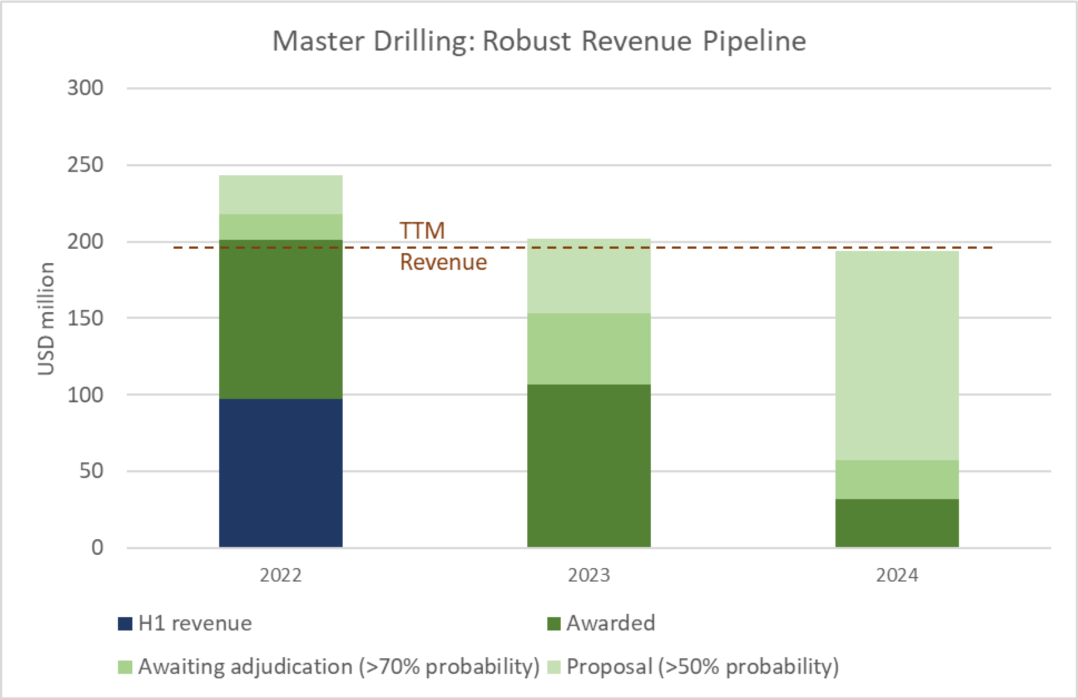
Master Drilling provides specialized drilling services to major- and mid-tier companies in the mining, civil engineering, infrastructure, and hydro-electric energy sector, across several commodities and many countries.

Master Drilling reported stellar results for H1 2022. Revenue (in USD) was up +34%, with operating leverage evident in earnings up +48%. The business generally generates USD revenues off an emerging currency cost base and therefore benefits from currency weakness in the various emerging economies it operates in. Africa is the largest contributor in terms of revenue and profits. Other countries where Master Drilling has meaningful operations that contribute to the revenue and profit makeup include South America, North America, Scandinavia and India.

The main revenue growth drivers are utilization of drill rigs and ARPOR (average monthly revenue per operating rig). The table below highlights Master Drilling's metrics before COVID (FY2019), and how these metrics have consistently improved since the negative COVID impact in FY2020.

	2022H1	2021FY	2020FY	2019FY
Total Raise bore rigs	**150**	150	145	143
Utilisation %	**73%**	70%	60%	64%
Fleet Mix ARPOR (USD)	**122 945**	120 111	105 715	111 135

As demand increase, utilization rates increase, and ARPOR typically follows. We expect that utilization rates for FY2022 will improve to 75% or higher. We believe there is upside potential for ARPOR, with a natural lag effect as current 2 to 3 year contracts must run off before renewing at higher rates. The revenue pipeline is the strongest it has ever been. As at H1 2022, the awarded contract revenues already surpassed prior records and H2 revenue has more than been secured. Management indicated that demand momentum is accelerating, so the outlook for revenue growth is promising.



Having made significant investments in its fleet, technology, and geographical diversification over the past couple of years, Master Drilling is now positioned to capitalize on the commodity cycle without requiring major additional capital investment. We think a price of 5 times earnings and 0.8 price-to-book is cheap for a company that has negligible debt and is expected to expand margins, increase ROE, and grow earnings per share at an above average rate over the next couple of years.

Glencore (JSE: GLN)

Glencore is a global mining and marketing/trading business. Operations span energy (coal and oil) and metals & minerals (copper, cobalt, zinc, nickel). The H1 2022 results were exceptional, mostly driven by higher coal prices.

We believe energy is in short supply and the requisite investment and supply response is not happening due to one-dimensional ESG and renewable energy mandates advocated by myopic ideologues and enacted by way of institutional imperatives. The market signal of price is distorted by these perverse incentives and ideological market interference. We have not yet seen any significant capex allocated to supply expansion. The current energy crisis is of humankind's own making.

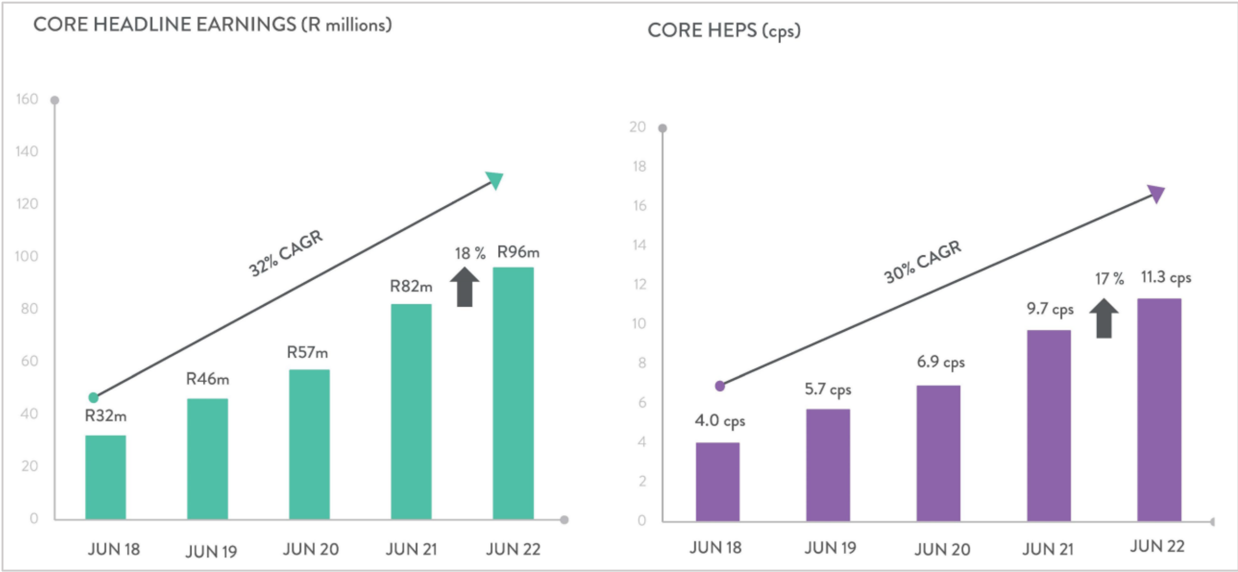
Glencore is a vital supplier of energy, especially coal. Simultaneously, it has embedded optionality in its exposure to energy transition metals & minerals like copper, cobalt and nickel. Big institutions don't want to touch Glencore because it is "dirty" and "corrupt", and it does not look good in their marketing material. That works for us. Their ESG is our alpha. At current prices, Glencore is trading at about 3 times earnings and more than 30% free cash flow yield. The balance sheet has surplus cash. Capital allocation is exemplary with free cash returned to shareholders by way of dividends and share buybacks.

Stadio (JSE: SDO)

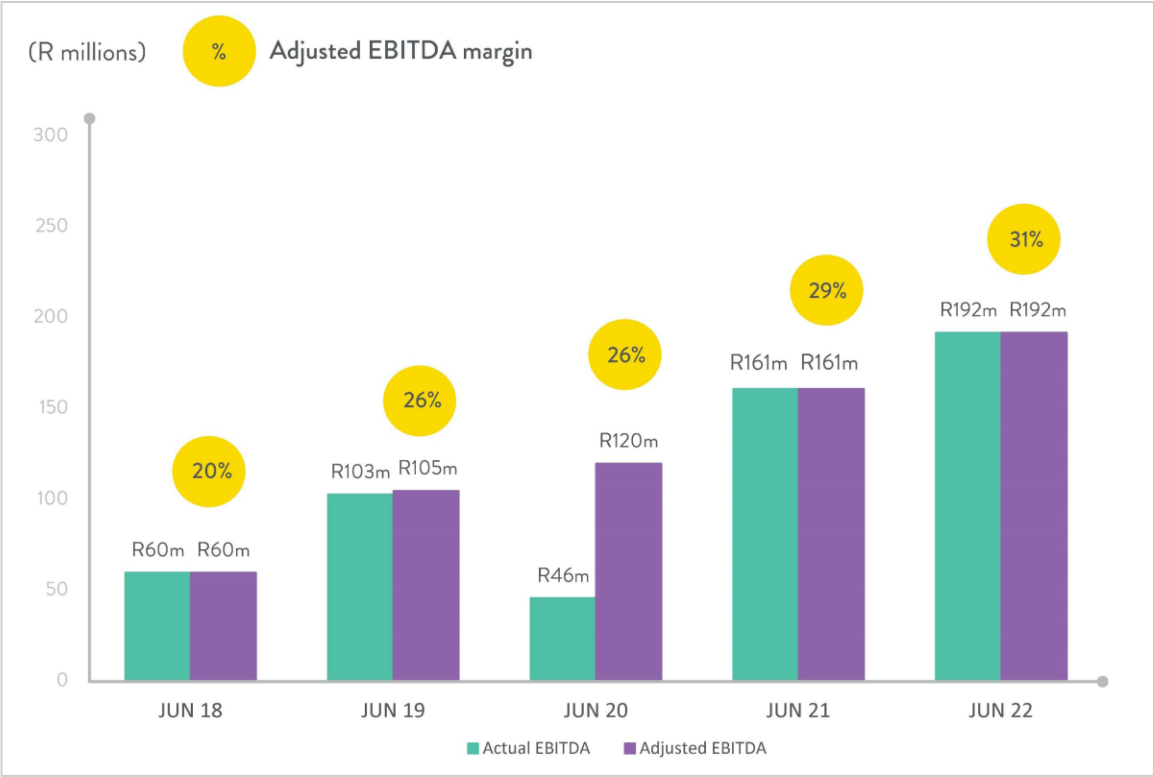
Stadio is one of the largest for-profit higher education (college/university) providers in South Africa. They are currently serving about 38,000 students with various accredited programs by way of 15%/85% contact/distance learning mode split. Stadio offers 87 qualifications across education, commerce, management & administration, policing, law, information technology, fashion, media, design and architecture. A further 31 programs are in various stages of the pipeline.

There is a huge supply/demand mismatch for higher education in South Africa. Only about 50% of school leavers that qualify for higher education admittance can be accommodated by current public and private institutions. The problem in the industry, and opportunity for Stadio, is aggravated by the decaying public and state-aligned institutions. Demand is growing while overall supply is stagnant, or even reducing. There is a long runway for organic growth as Stadio steps into the void to address the pressing need of students determined to qualify themselves for the world of work.

Stadio is a holding in our compounder/growth bucket. The company continues on its growth path and released another set of solid results for H1 2022. Student numbers were up +11%, revenue up +13%, and earnings up +18%.



The business is still early in its growth phase and we expect margins to continue to expand and ROIC to improve as it moves up the J-curve.

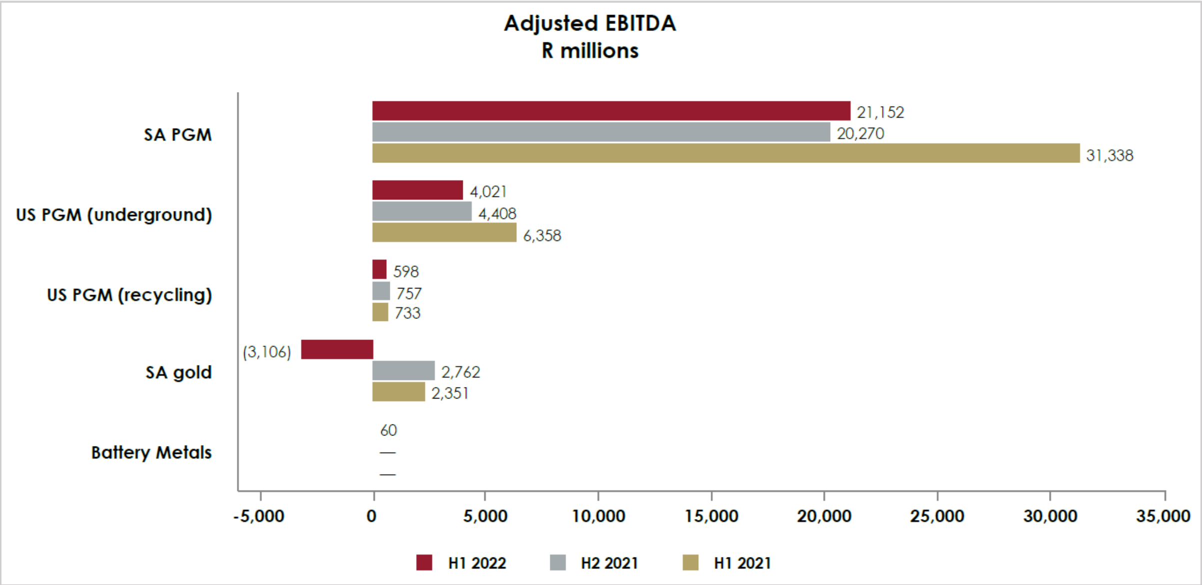


Stadio is well on its way to their stated target of 100,000 students and R500 million profit by 2026. The business is highly cash generative, has no debt, and under the stewardship of an excellent management team. We believe a 15 PE multiple is a fair price to pay for a high-quality business that is likely to compound at above average rates for many years to come.

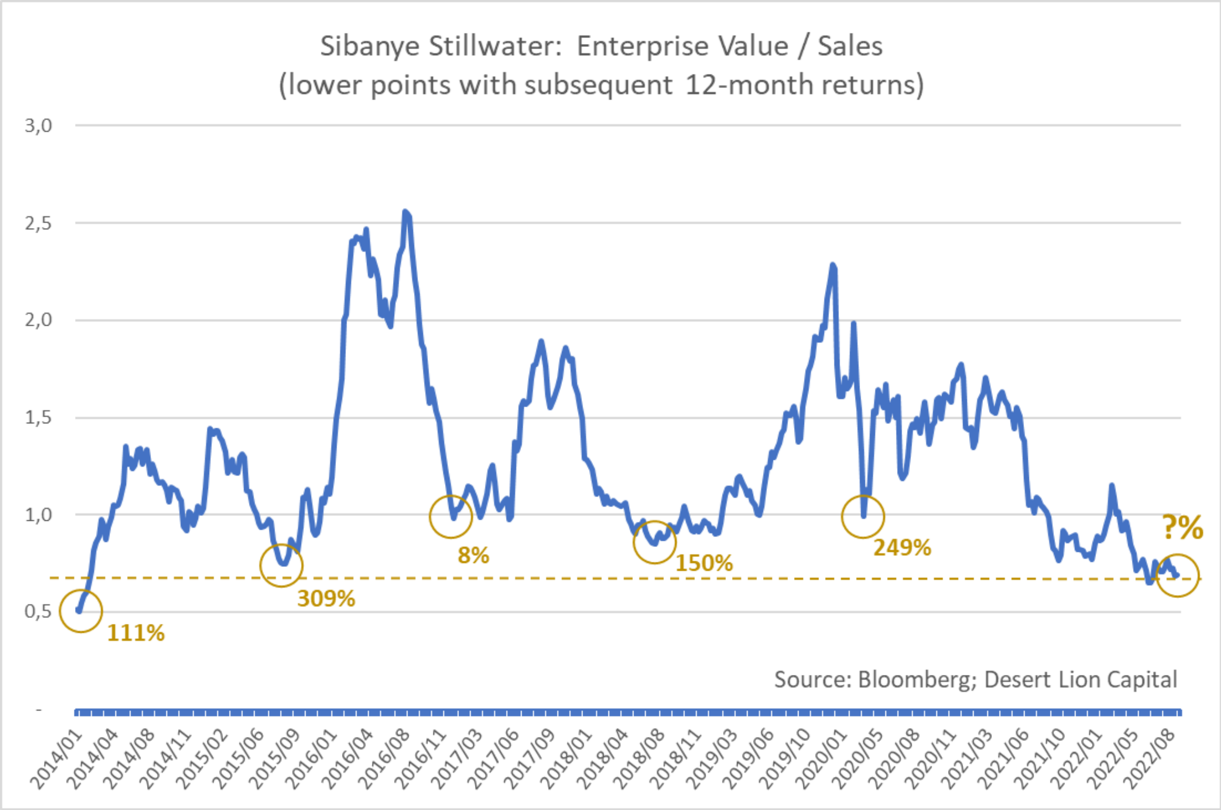
Sibanye Stillwater (JSE: SSW)

Sibanye Stillwater is one of the largest PGM (platinum group metal) producers in the world with major operations in South Africa and the U.S. On top of its additional gold mining operations in SA, the business has significant upside optionality in its growing lithium and nickel operations which are not yet contributing to earnings and remain unrecognized by the market in SSW's price.

PGM and gold prices are lower than a year ago and Sibanye Stillwater's earnings followed suit. Gold operations made a loss during the period due to a wage negotiation labor strike (see chart on next page). Notwithstanding all these headwinds, the company reported H1 2022 earnings per share of R4.23 which was in line with the six months ended December 2021 EPS.



The next chart illustrates Sibanye Stillwater's Enterprise Value divided by Sales ratio, with the historical low points and corresponding subsequent 12 months returns. We have no idea what the future holds, but if history is anything to go by, the current valuation seems promising.



A big part of our investment thesis involves what we believe to be a rational variant perception. The current consensus is that ICEs (internal combustion engines) will be phased out meaningfully over the next decade. Our analysis reveals that there is simply not enough raw material available for the projected ramp up in BEVs (battery electric vehicles). ICEs are going be around for longer, requiring more PGMs for autocatalytic converters. Additionally, as energy and electricity prices are on the rise, it pulls forward the development of the hydrogen economy, in which PGMs play a critical role as catalysts.

Sibanye Stillwater owns quality, long life of mine assets. It is highly cash generative and the balance sheet is debt free with surplus cash. Management follows a disciplined capital allocation approach. Recently, key management individuals bought meaningful amounts of shares. Directors sell for many reasons; they only buy for one. We are taking note.

We believe it is fair to estimate FY2022 EPS at around R8.50. That places Sibanye Stillwater on a rating of less than 5 times earnings, or earnings yield above 20%. In our view the current share price levels offer substantial margin of safety and much potential for upside.

In closing

We are fortunate to operate in an environment with high volatility and many price dislocations. Capitalizing on these conditions require perspective, poise and patience. We subscribe to the maxim that returns are made in the buying. We are seeing many opportunities in our universe to buy returns. While the ride will likely be choppy, we expect the destination to be satisfactory.

As always, I thank you for entrusting Desert Lion with your hard-earned capital. The majority of my wealth is invested in the Fund right alongside you.

All the best,

Rudi van Niekerk

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