DESERT LION
— CAPITAL —

OVERVIEW

DECEMBER 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%	- 3.6%	- 3.5%	14.8%	0.4%	- 10.5%	- 7.3%	- 3.2%
Cumulative – inception to date [3]													14.3%	10.2%	4.1%
Annualized – inception to date [3]													3.6%	2.6%	1.0%

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	Mustek
Glencore	Sibanye Stillwater
Karooooo	Stadio

Top 6 concentration 65%

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

December 2022 Commentary

Dear partners and friends,

Desert Lion's Fund returned +0.4% for the month of December versus -2.4% returned by the JSE All Share (J203) Index. For the full year of 2022, the Fund returned -10.5% compared to the index's -7.3% return.

Developed markets – where most Desert Lion investors are based – had a particularly tough year:

Calendar Year 2022			
Desert Lion	S&P 500	NASDAQ	MSCI World
-10.5%	-19.4%	-33.1%	-17.7%

Unless you were exclusively allocated to energy or USD cash, there were very few places to hide in 2022. On a relative basis, the Fund's performance for the year was "OK-ish." However, Desert Lion is not playing the relative game. Our aim is to achieve attractive absolute returns over multi-year periods. Calendar 2022 marks the first year since the Fund's inception that we posted a negative return. It is unlikely that it will be our last. Some studies have found that successful active fund managers outperform an index about 60%-70% of the time. Underperforming an index 30%-40% of the time is a normal part of long-term outperformance. It is instructive to note that periods of underperformance usually were followed by periods of outperformance. Given that periods of poor performance seemingly present attractive entry points, we should contextualize the axiom by evaluating whether the Fund's current portfolio and valuation presents a sound base for probable outperformance, or whether it is the result of permanent capital impairment.

The biggest detractors to our returns for the year were Naspers (holding company invested in Prosus/Tencent; -34%) and Karooooo (global fleet telematics and smart mobility SaaS business; -43%). Karooooo has been a holding in the Fund since inception. The change in valuation this year was pure multiple contraction, but even after the recent move, it still generated a compound return of 24% since inception. The business fundamentals are excellent, and we see a long road of growth and value creation for Karooooo as they generate heaps of cash and reinvest to scale their customer base profitably in Southeast Asia, Europe and Africa. We believe the price contraction is temporary.

During the year, your portfolio manager did make a major mistake that ended in a realized loss. Actioning the decision to sell Naspers was driven by the extremely high levels of China uncertainty and concurrent egregious insider selling by management, but the timing was unfortunate because shortly thereafter China abandoned their zero-Covid policy and Tencent (and therefore Naspers) rallied strongly. We sell for three reasons: i) when the thesis changed; ii) when we realized that we were wrong in our analysis; or iii) if the price reaches such expensive levels that we can reasonably expect to generate better returns by allocating to other cheaper options within our pre-approved opportunity set. In the case of Naspers, the sale was predicated on a change of thesis. Firstly, new data and actions by the CCP in China led us change our mind on the protection of our ownership of economic rights in Tencent. Secondly, we became increasingly concerned about the true value of the substantial portfolios of private investments held by Tencent and

Prosus/Naspers. The bulk of these investments are technology related and early stage, many are lossmaking. We believe these private investments will face significant markdowns in the current environment. Many of these holdings will simply be written down to zero and disappear into the ether. Therefore, I believe the decision to sell Naspers was the correct one. But in hindsight, I could have executed better on the timing.

The biggest contributors for the year were Argent Industrial (diversified industrial conglomerate operating in SA and UK), Stadio (for-profit college/university operating in SA), and Glencore (global miner and commodities trader with meaningful exposure to copper, cobalt, nickel, coal, and oil). Although these were the biggest contributors, they are still trading at deep discounts and present major upside through earnings growth and multiple expansion towards fair value.

Our stocks have been chosen with a value-oriented mindset, selected from the bottom up within a universe of already depressed valuations amidst prolonged investor apathy and scarcity of capital. Hence, we are sitting on a portfolio of cheap stocks that simply became cheaper. These “stocks” represent partial ownership in businesses that are run by competent management and generate substantial cash flows, which are redeployed in such a manner that the value of the businesses grows over time. When things we want and need are marked down for sale, the natural response is to go on a shopping spree. In this case, the response is not just natural, it is also eminently rational. Apropos my earlier insinuation that temporary markdowns could just represent an attractive entry point. While Desert Lion Fund’s returns might be inherently more volatile than the market - volatility is not your master, it is there to serve you.

Zooming out to a macro perspective, indications are that we are still in the early stages of a longer-term cyclical rotation towards the sectors of the market that were unloved during the past 5 to 10 years: value stocks, emerging markets, commodities, precious metals, and physical economy businesses. Our investment universe and our portfolio house all of the above.

In Closing

I wish all our partners and readers a successful investing year for 2023. What has worked best in the post-GFC monetary easing and declining yield decade will not necessarily work best in the coming decade. There is a whole generation of fund managers who do not have experience operating in environments anything other than low inflation, easy liquidity, and constantly declining yields. Being a South African citizen, I am used to higher inflation, capital scarcity, and higher required returns. The current environment is not completely unfamiliar and may well just stand us in good stead.

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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