Quarterly Telescope Q3 2024

Flagship Asset Management • Constantia, Cape Town • +27 (0)21 794 3140 • info@flagshipsa.com

01

We are a global specialist investment boutique

Flagship is a specialist global asset manager founded in 2001.

We are 100% independent and fully owned by staff and directors.

Our mission is to be the navigators and global authority of your complete investment future, wherever it may lead.

02

We manage global portfolios in three distinct strategies

Global Flexible | Global Fund of Funds | Global Equity

We believe in a focused approach to fund management

Our longest running Funds have track records spanning over two decades

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03

We are long term investors who manage diversified portfolios

We use a dynamic investment strategy and active risk management to build robust, diversified equity portfolios.

Our unconstrained approach allows us to navigate diverse market conditions and identify opportunities wherever they arise.

Contents

The Flagship Global Investment Team

Philip Short BSc (Maths), CFA

Philip is a fund manager of the global funds at Flagship and brings specialist macroeconomic expertise to the global team. Philip has gained 20 years' experience in the industry at JP Morgan, Fairtree Capital and Old Mutual as an analyst and portfolio manager. He completed his Bachelor of Science in Mathematics at the University of Pretoria and is a CFA charter holder.

James Hayward BEng (Civil), CFA

JD is a fund manager of the global funds at Flagship, having joined in 2021 as an equity analyst. At the completion of his degree, JD worked in the engineering and fintech start-up industries while pursuing further studies in investments. JD holds an Engineering degree from Stellenbosch University and is a CFA charter holder.

Paul Floquet CA (SA), CFA

Paul is a fund manager of the global flexible strategies at Flagship, as well as portfolio manager of the Flagship IP Balanced Fund. He qualified as a chartered accountant in 1995 with Deloitte and Touche and gained international investment experience with JP Morgan and Merrill Lynch. He became a portfolio manager and director at Flagship in 2004. Paul is a CFA charter holder.

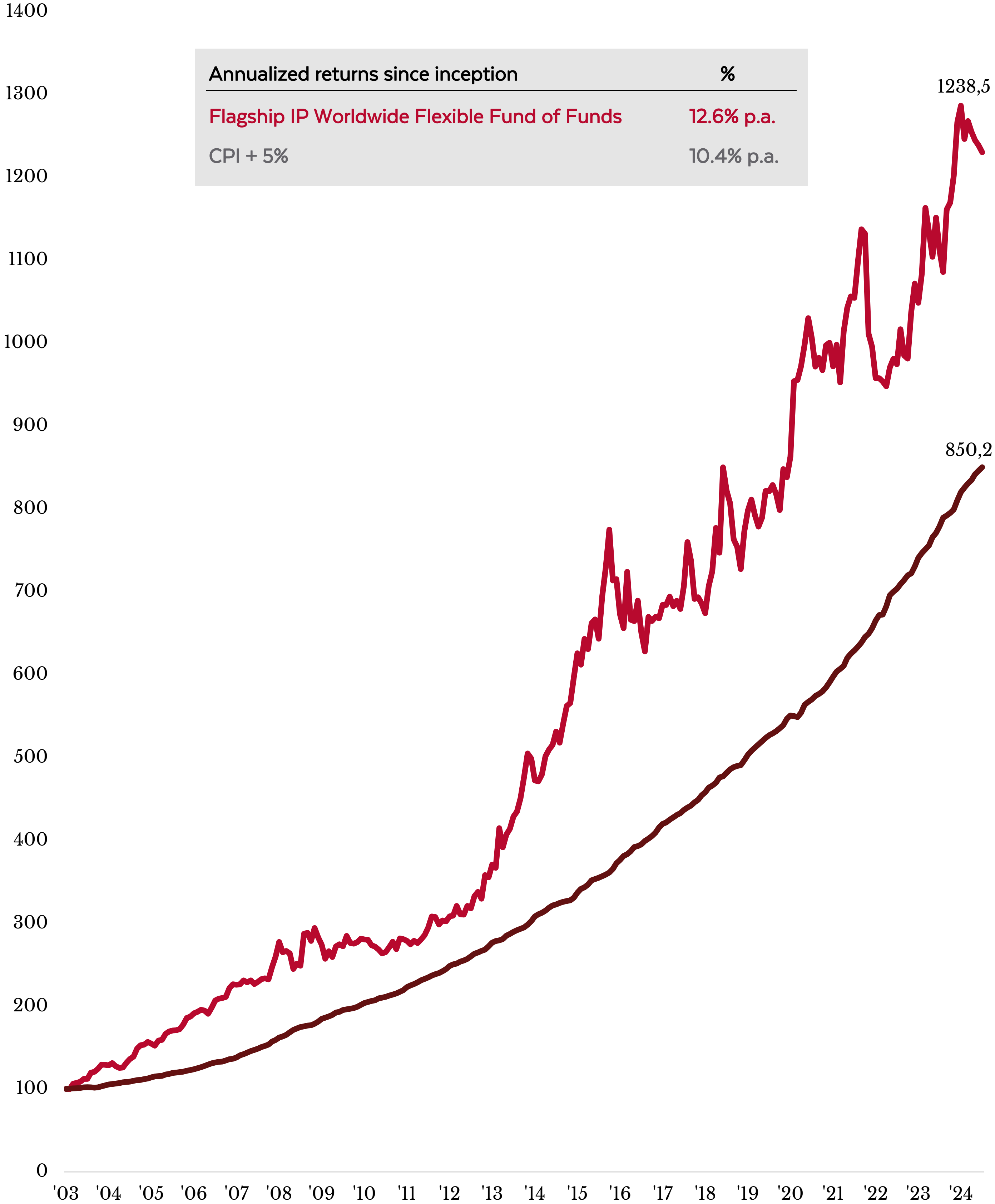
Gerhard Janse van Vuuren BCom (Hons)

Gerhard is an equity analyst for the global team at Flagship, having joined in 2022 via the internship program. Gerhard completed several investment internships while concluding his degree in Investment Management at Stellenbosch University. Gerhard has passed the CFA Level II exam and has completed his Honours degree in Finance at the University of Cape Town.

The Power of Long-term Compounding

The **Flagship IP Worldwide Flexible Fund of Funds** (net of all fees) vs. SA CPI +5%

from 3 April 2003 to 30 September 2024 (21 years, 6 months)



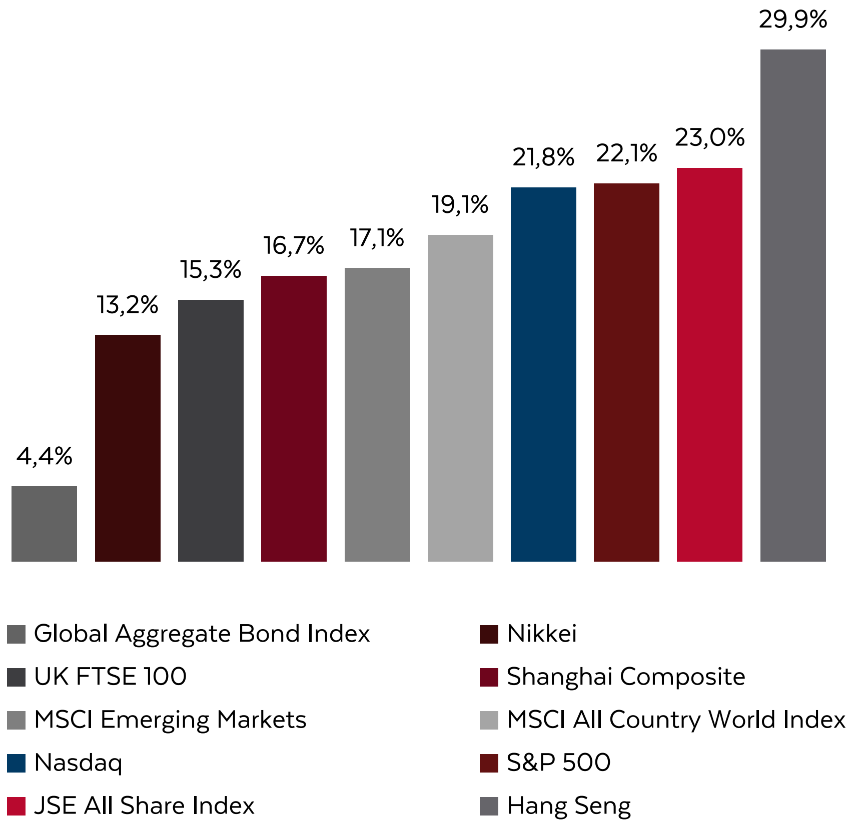
Annualized returns since inception	%
Flagship IP Worldwide Flexible Fund of Funds	12.6% p.a.
CPI + 5%	10.4% p.a.

Flirting with Recession

"You are hurt the moment you believe yourself to be."

- Epictetus

Chart 1: YTD Global Index returns in USD (December 31, 2023 to September 30, 2024)



Many global indices returned less when measured in their local currencies, but returns in USD are propped up by what was a very weak quarter for the dollar.

Most global equity markets delivered very strong results during the third quarter. Following on from healthy returns during the first half of the year, all the indices in the chart above have now reached double digit returns for the year-to-date (YTD), measured in US Dollars.

It is worth noting that many of the indices above returned less when measured in their local currencies, but returns in USD are propped up by what was a very weak quarter for the dollar, as it depreciated by 3.8%, 10.7% and 5.5% against the Euro, Japanese Yen and British Pound respectively.

There was a clear rotation in the US as the tech-heavy Nasdaq (up 2.8% during the quarter), was a relative underperformer compared to the small-cap Russell 2000 index which gained 9.3%. The S&P 500 gained 5.9% during the quarter, putting its YTD return at an incredible 22.1% - making it the index's best combined Q1-Q3 performance since 1997. Markets were certainly buoyed by the continued disinflation trend, and the Federal Reserve, somewhat surprisingly, responding by cutting the borrowing rate by 50 basis points rather than 25 (which weakened the USD). While there were initial jitters about whether the Fed's response was in reaction to fears of a rapidly deteriorating labour market, these fears were soon set aside as employment numbers, in fact, surprised on the upside.

Across the pond, European markets were slightly subdued during the quarter. The FTSE 100 returned 1.8% and the Euro Stoxx 50 2.2%, although both returns are substantially higher when measured in USD.

The real story for Q3 came out of China. Markets have been calling for monetary and fiscal intervention in the Chinese market for what feels like an eternity. This “stimulus bazooka”, as it has been dubbed by the market, arrived in September, leading to wild rallies in both China and Hong Kong. At one point, one trillion Chinese Yuan ($140 billion) worth of stocks changed hands within 35 minutes across the Shanghai, Shenzhen and Beijing stock markets – the shortest-ever timespan for this number to be reached. The last day of the quarter was, in fact, the best trading day for Chinese stocks since 2008, gaining more than 8% on the day, to cap a 5-day rally of 25%. When trading for the quarter came to a close, the CSI 300 had gained 15.6%, while Hong Kong’s Hang Seng index gained 21.7%, making it the top-performing index, in USD, on a YTD basis (as evidenced in the above chart).

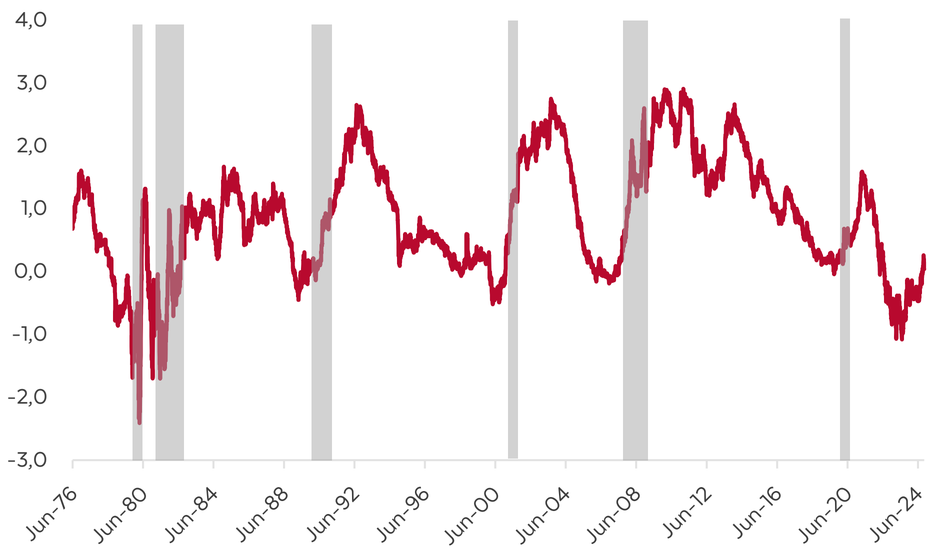
Gold rallied 13.2% during the quarter, outperforming most global equity indices.

Stepping away from equities and into the commodity market, Q3 delivered vastly different, and somewhat surprising, outcomes for oil and gold. Amid escalating tensions in the Middle East, with a regional war as likely as it has been in the last decade, one could be forgiven for expecting the oil price to respond meaningfully. War, geopolitical tensions and oil embargos, after all, are stories the world has seen before. During Q3, however, the oil price inexplicably didn’t move higher. To the contrary, it decreased by 16.9%. What was the main beneficiary from this heightened period of uncertainty, combined with the USD weakness mentioned above? Gold. The precious metal rallied 13.2% during the quarter, outperforming most global equity indices.

If you missed his article, published in Business Day in early August, read Philip Short’s answer to ‘Will Gold continue to edge out treasuries as a safe-haven asset?’

Taking a deeper look at the US, the yield curve finally turned positive in Q3 after a record period of being inverted (approximately 800 days). The yield curve (the spread between the US 10-year and 2-year note) is often cited as a recession indicator as it un-inverts (i.e. becomes positive). This is because the market starts anticipating the Federal Reserve’s probable move to cut short term interest rates in order to stimulate the economy. But, alas, no recession. It is worth noting that since inversion, the curve has since dipped below the zero line once again.

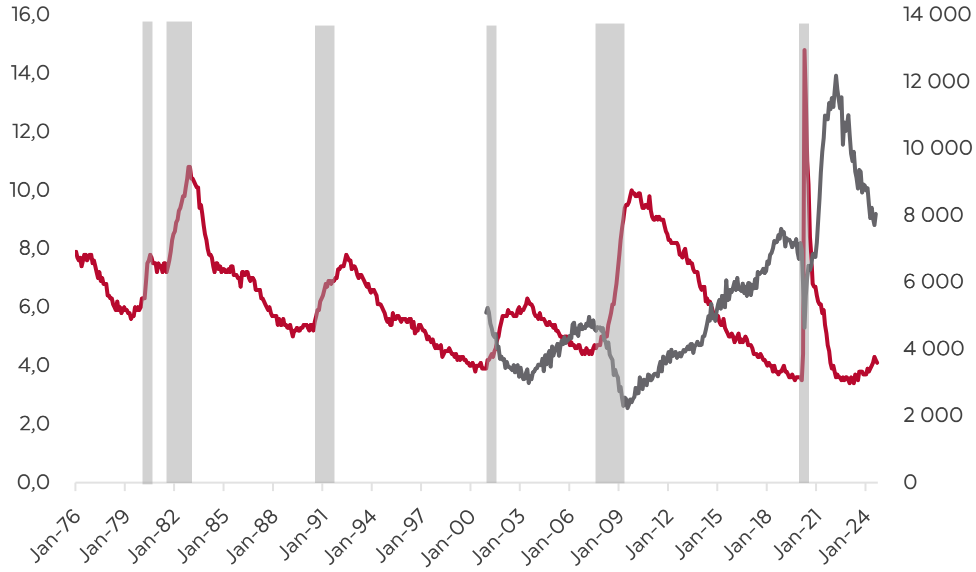
Chart 2: US Yield curve as % (June 1, 1976 to Oct 7, 2024), shaded bars show recession



US jobs data, which have varying measures and statistics to determine the health of the US labour market, also had a few twists and turns in Q3. The Bureau of Labor Statistics (BLS) release of non-farm payroll data estimated that the US added a commendable 142,000 workers to the economy for the month of August. Simultaneously, the BLS said it had overestimated job growth by 30% over the 12 months to March 2024, and the non-farm payroll data had to be revised down by 818,000 for the same period. The non-farm payroll number is very closely watched by market participants, politicians, and central bankers alike. As you'd imagine, adjusting important statistics in a material way does not inspire confidence in the BLS.

Looking at the US labour market another way, intuitively, you would think that as a recession materializes, unemployment would start to tick up and job openings would start to decline, which is what happened in the 2nd and 3rd quarter.

Chart 3: US unemployment rate as % (red) & job openings in '000 (grey) (Jan 1, 1976 to Sept 1, 2024), shaded bars show recession



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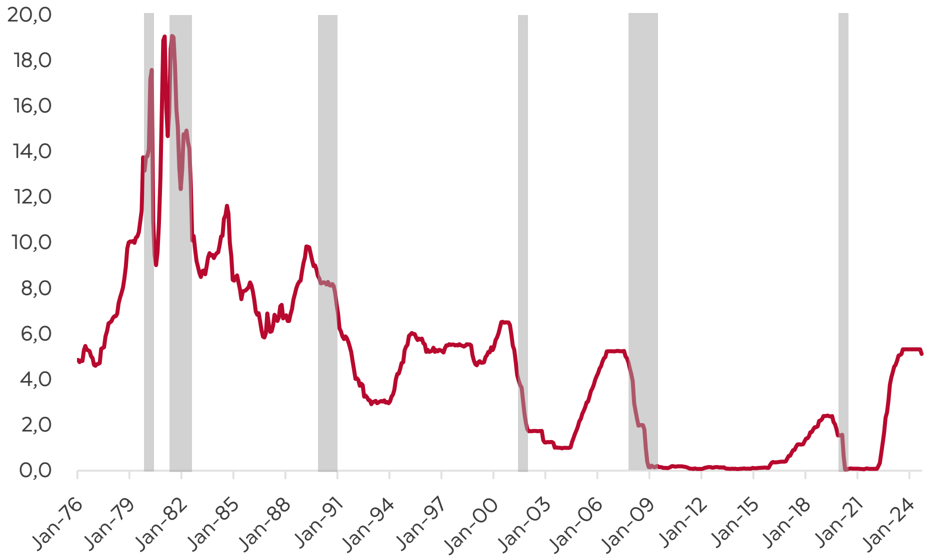
An interesting event that occurred during the end of July and early August was the (partial) unwind of the Yen carry trade which could be felt around the world. Due to very low borrowing rates in Japan, investors borrow the Japanese Yen (JPY) and invest elsewhere in higher earning financial instruments. In very simple terms, I can borrow JPY at 1% from a bank in Japan, switch it to USD and invest in a US bank account earning 4% in USD. Then, after a year, I close my US bank account, convert the USD back into JPY and pay back my loan which carried an interest cost of 1%. In this example, I net myself a useful 3% profit for doing very little. But what if the USD/JPY foreign exchange rate changed while I was earning my 4% in USD, detracting from my positive return? I could hedge the starting exchange rate, at a cost, but then I'd probably need to go up the risk spectrum looking for higher returns to pay for that hedge.

Interestingly, Japan's inflation, after decades of being held stubbornly low, has started to creep up, to the point where the Bank of Japan has had to start increasing interest rates. This, while most other countries across the globe are seeing inflation cool, and their respective interest rates expected to move lower. If Japan increases interest rates while the US is decreasing their interest rates, you will see the JPY strengthen against the USD, which it did quite quickly from 161 to 144: a 12% appreciation in one month. This happened in August, as the market pre-empted the Fed to cut rates in September on the back of weaker August jobs data.

Bringing this all together: weaker US jobs numbers in August brought forward US rate cut expectations and shifted the yield curve, which in turn weakened the USD versus the JPY, causing selling pressure in US assets as the Yen carry unwound. Indeed, the Federal Reserve did cut rates by 0.5% in September. The market was expecting either a 0.25% or a 0.5% cut, with the former being more widely anticipated.

Chart 4: Fed funds rate as % (Jan 1, 1976 to Sept 1, 2024) shaded bars show recession



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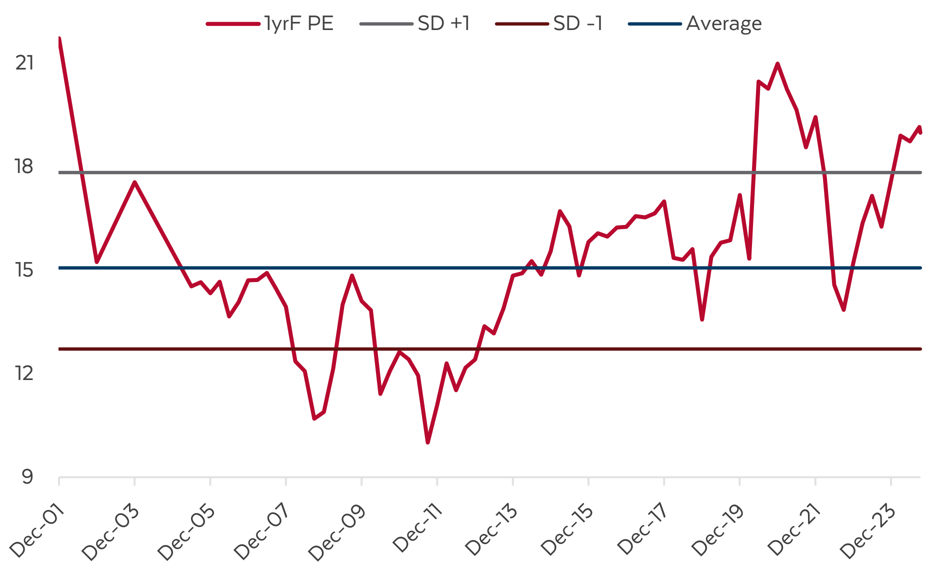
While we observe the yield curve is close to an inflection point, and US jobs data at/or close to turning negative, we continue to see strong US GDP growth and a resilient US Services sector. We recognize that US government debt continues to outgrow US GDP, suggesting the debt is being used unproductively as it is generating less than USD100 in GDP for every USD100 in debt printed. We are concerned that the US government is on an unsustainable fiscal path but at the same time we recognize that 1) this has been the case for 15+ years, and 2) there are still pockets of opportunities to generate returns for our clients.

Chart 5: MSCI World Index 12-mth forward PE (December 31, 2001 to October 9, 2024)



Recognizing that markets have since recovered, when something like the Yen carry trade causes a quick market shock, it does raise our awareness levels even further. This, especially when valuations are elevated. Looking at the chart above, the MSCI World Index is currently trading at a 12-month forward PE of 19.0x versus its long-term average of 15.1x. Of note is that it is also trading above its +1-standard deviation of 17.8x. Looking at the MSCI World Index is perhaps too simplistic, as there are many underlying indices and equities that make up the MSCI World Index, so some will be trading at lower, cheaper multiples. But a good view to have, nonetheless.

Identifying those indices and equities that could outperform in a market where most asset classes have correlated toward extreme peak valuation levels – in an environment wrought with geopolitical, election, monetary, and fiscal risk – creates an exciting and opportunistic challenge for Flagship's Global Equity team.

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Strategy Performance

The performance of the Flagship strategies over Q3 '24 and 1 year to 30 September 2024, net of fees, is shown below:

Fund of Funds Strategy	**Q3 '24**	**%Δ 1YR**
Flagship IP Worldwide Flexible Fund of Funds (USD)	3.8%	21.5%
Flagship IP Worldwide Flexible Fund of Funds (ZAR)	-2.0%	10.7%
Flexible Strategy	**Q3 '24**	**%Δ 1YR**
Flagship International Flexible Fund (USD)	3.3%	10.7%
Flagship IP Worldwide Flexible Fund (ZAR)	-1.7%	5.8%
Global Equity Strategy	**Q3 '24**	**%Δ 1YR**
Flagship Global Icon Fund (USD)	3.2%	14.7%
Flagship IP Global Icon Feeder Fund (ZAR)	-2.8%	4.2%

Flagship's strategies delivered mixed results during the quarter. While the performance of our dollar-based strategies was somewhat satisfactory, all our ZAR-based strategies were hurt by the continued strength of the Rand – which gained another 5.1% against the US Dollar during the quarter. This now puts the 1-year gain at 8.7% - detracting from the performance of our all ZAR-based funds.

The Rand gained another 5.1% against the US Dollar during the quarter, placing the 1-year gain at 8.7%.

Due to the large effect of this unusually volatile currency move, we are providing both the USD and ZAR returns for our local funds, to provide a more accurate picture of underlying performance. As a reminder, most of Flagship's local strategies hold the bulk of their assets offshore, as investors are specifically looking for non-SA exposure. Due to the funds reporting in ZAR, but primarily investing offshore, there is an inverse correlation between ZAR strength and fund performance. Over the long term, this has been, and should continue to be, a tailwind to performance. However, as is clear from the table above, it can be limiting to performance over shorter periods.

As was the case in Q2 '24, the third quarter saw several contradicting datapoints emanating from the market. Softening inflation prints and strong GDP growth were the main drivers of our decision to increase the equity weighting across the funds, about halfway through the quarter. Markets have since powered forward with the S&P reaching several new all-time highs during the quarter.

Our Fund of Funds strategy declined by 2.0% during the quarter in ZAR but gained 3.8% in USD. This brings the 1-year return to 10.7% in ZAR, and 21.5% in USD. The top contributors to the Fund of Funds strategy for the quarter were the FNB Midcap ETF, the Satrix Financials ETF, and the fund's gold bullion holding. The biggest detractors were the fund's US Dollar position, along with the Emerging Markets and Global Equity funds managed by GQG Partners. It is worth mentioning, however, that both these funds have been some of the strategy's best performers over the 1, 3, and 5-year periods. The emerging market fund, specifically, has experienced a relatively weak quarter due to low exposure to China. Over meaningfully longer periods, its high exposure to the fast-growing Indian market has served it well. We continue to hold both positions.

Blue Label Telecoms, one of our global equity strategy's standouts, has performed well since adding it to the portfolios in September 2023 and is up just over 100% in a year.

The Worldwide Flexible strategy declined by 1.7% during the quarter in ZAR but was up 4.1% (3.3% for the International Flexible Fund) when measured in USD. Over a one-year period, ZAR performance was 5.8%, and 16.2% (10.7% for the International Flexible Fund) in USD terms. The top 3 contributors for the quarter were all SA based holdings – the JSE Midcap ETF, the Satrix Financials ETF, and Blue Label Telecoms. The main detractors for the quarter were Kaspi, the fund's US Dollar position, and the iShares ACWI ETF.

Blue Label Telecoms (Blu), also one of our global equity strategy's standouts, has performed well since adding it to the portfolios in September 2023 and is up just over 100% in a year. Though a much unloved share, the fundamentals of what will drive future growth are only now becoming apparent to the broader market. Blu has a 63% economic interest in Cell C. While many may regard Cell C as an inferior mobile network operator, the fact is that Cell C's new strategy allows them to roam off MTN and Vodacom's network, so Cell C offers the same network quality. Cell C's recent partnership with Capitec (as the latter's Mobile Virtual Network Operator [MVNO] partner) has been a pivotal and savvy strategic move. Capitec Connect, the MVNO, aims to move its substantial banking client base, the largest in the country at around 20 million, onto its MVNO network. Given that this MVNO network will run off Cell C, the growth trajectory is being set. The market is currently attributing a zero value to Cell C when looking at Blu's valuation, which allows us to be optimistic that the share price has further to run, as Capitec Connect, Cell C (as a company), and Blu (as a group) start growing profits and cash flow.

The Global Equity Strategy returned 3.2% during the quarter and 14.7% over the last year. The fund's top contributors during the quarter were Blue Label Telecoms, Sprout's Farmers Market, and the fund's gold bullion position, while the main detractors were Kaspi, Crowdstrike and Novo Nordisk. All three of these detracting positions have recently either been trimmed, or completely removed from the fund.

AI's hidden beneficiaries

By Gerhard Janse van Vuuren

- ⇒ Artificial Intelligence (AI) has the power to reshape the world in ways never thought possible. This will lead to beneficiaries that are not obvious at first glance.
- ⇒ The increased use of AI, and its evolving complexity, has led to highly elevated power demands. This is expected to increase, with companies such as Dominion Energy set to benefit.
- ⇒ Humans have created 9x more data in the last two years than in the entire history before that. AI is data-hungry and there is no slowing down anytime soon.
- ⇒ One of the most exciting benefits of AI is the possibility to find novel cures for illnesses that have puzzled scientists up until now.

The relentless media coverage of all things AI (artificial intelligence), ChatGPT and other developments, might make one feel that the hype is overblown. There is, however, more to it than meets the eye. Sure, some people might have found a new best friend in ChatGPT, some have even married AI characters, but there are several less obvious beneficiaries of the new hyperfocus on the AI industry. A few unexpected winners will emerge, and no doubt quite a few will fail - as is the case with all major booms - even if this technology ends up changing the world.

Artificial Intelligence has the power to reshape the world in ways never thought possible. This will lead to beneficiaries that are not obvious at first glance.

Unlike ChatGPT, which only launched in November 2022, the term AI has been around since the 1950's! In the 1997 historic rematch, an AI-configurated program beat World Chess Champion, Garry Kasparov, in a six-game match, marking the first victory by a computer under tournament conditions. We have already seen several beneficiaries directly attributable to AI, evident in industries such as logistics, healthcare and cybersecurity which have been using more basic versions of AI for years. But the new, spectacularly improved, versions of AI will lead to significantly enhanced productivity and efficiency gains.

While this clearly has elements of a gold rush, some are opting to sell shovels instead.

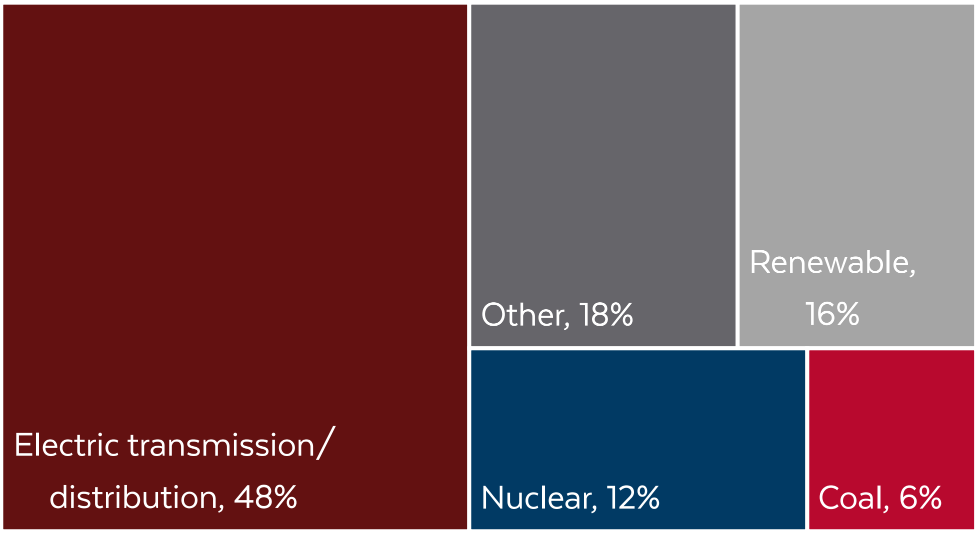
FactSet did a search of earnings calls and found that 199 of the 500 companies in the S&P500 mentioned the word "AI" in their most recent set of results. Out of these, 12 companies, including Meta, Nvidia and Microsoft, mentioned it at least 50 times. Technology companies are leading the pack with 91% of them mentioning AI. While this clearly has elements of a gold rush, some are opting to sell shovels instead. Companies like Nvidia, who sell the most advanced chips, are enabling other companies to train their own AI models. Others, like Amazon and Google, are providing cloud computing services to companies who need processing power to train their AI models.

Amidst the world's transition to renewables, data centres used to train AI models are turning small towns, where they are often located, into power hungry beasts. An example of companies who stand to benefit indirectly from the AI craze are the ones providing power to these centres, the data centre owners themselves, and the providers of data storage solutions. In fact, it is estimated that in the last two years, humans have created 9x more data than in the entire history before that. It is also estimated that 30 trillion gigabytes of data will be created between 2024 and 2025. During that time, only 2 trillion gigabytes of storage capacity will be manufactured. According to Goldman Sachs, data centre power demand will grow 160% by 2030. Currently, data centres consume 1-2% of global power, but this percentage will likely double to 3-4% by the end of the decade.

Power generation

One example of a company that is well placed to benefit from AI, but also from the effect of increased computing demand on power grids in general, is Dominion Energy. Dominion utilizes a wide range of energy sources to produce power, with renewables making up a bigger portion than coal and others.

Chart 6: Dominion's energy sources, December 2023



Whilst Dominion is set to benefit from increased power consumption, it should also be a bit more insulated if the AI merry-go-round slows down, given that they service 5 distinct groups of customers, including more than 3 million households. It has operations that are conveniently located near Ashburn, Virginia, an area dubbed as "Data Centre Alley." The company is starting to tilt increasingly towards renewable energy sources, which helps to future-proof the business model. Their asset portfolio includes 25 000+ megawatts of electricity, 9 700km of transmission lines and 87 000 km of distribution lines. Of this impressive asset base, data centres make up 18.7% of group net income.

Data storage

With the massive amount of data generated, storage will play a big role in the transition to this information-hungry world. Regarding storage, there are three main factors to consider: 1) cost 2) power-usage and 3) storage capacity. Over the next 5 years, Data centre storage capacity is expected to grow at 18.5% p.a. This is driven by a new need for data relating to AI but also by the pace of "on-premises" data shifting to the "cloud".

It is important to have a basic grasp of the different types of storage to identify potential beneficiaries of this trend. Almost all (90%) of the data centre industry uses HDD (hard disk drives) over SSD, (solid-state drives) with the latter being faster and more power efficient. The drawback of SSD's is that their Total Cost of Ownership (TCO) is currently 6x that of HDD's, which you will find in modern PCs. Over the next decade, HDD capacity is expected to offset any decline in SSD costs. The result being that the TCO of an HDD will still be around $1/6^{th}$ that of an SSD drive. This is mainly a function of the high cost of producing an SSD.

A beneficiary of this outlook will be Seagate Technology. This company manufactures storage products across multiple categories such as personal, gaming, video, and cloud storage. Seagate addresses all three of the previously mentioned factors simultaneously. They have products in multiple price categories, their products are optimized in terms of power usage, and they are continually improving how much data they can fit into the same product size as before.

Pharmaceutical industry

The pharmaceutical industry will be another beneficiary of the progress being made in AI. These companies will be able to use AI in several ways, including drug discovery, predicting the properties of a drug and predicting the efficacy and toxicity of drugs. Eli Lilly and Novo Nordisk have both recently announced their intentions to use AI for these purposes. In June, Eli Lilly announced a partnership with OpenAI to leverage their expertise to develop novel antimicrobials that can help treat drug-resistant pathogens. The company also revealed that it will be partnering with RNA specialist Genetic Leap, to further its AI-enabled drug discovery ambitions, in a deal worth up to $409 million in upfront and objective-based payments.

The AI revolution is just as much about the unseen players as it is about the tech giants, making it a pivotal force across the globe.

In May this year, Novo Nordisk announced it will be investing $200 million in quantum computing startups. Novo Nordisk has also revealed the results of its partnership with Microsoft in assessing cardio-vascular disease risks (such as a heart attack), leading to an 8% increased accuracy when compared to the best clinical standards. Scientists believe one of the biggest advantages of AI will be to help increase the speed with which cures can be found and developed. In some cases, an AI model might be able to develop its own hypothesis, test it, analyse the results, and then run an improved experiment.

Conclusion

As AI continues to reshape the world, its impact extends far beyond the tech sector. Industries once considered peripheral to the AI conversation are now reaping significant benefits. By embracing the innovative capabilities of AI, these industries are transforming their processes, enhancing productivity, and unlocking new avenues for growth. The AI revolution is just as much about the unseen players as it is about the tech giants, making it a pivotal force across the globe.

Investment case: Dominion Energy

By Gerhard Janse van Vuuren

- ⇒ Dominion Energy is strategically positioned to benefit from the growing energy demand driven by AI and data centres, with 18.7% of its net income derived from data centres.
- ⇒ The company's diversified energy portfolio, including significant investments in renewables, ensures long-term growth and resilience in the face of industry shifts.
- ⇒ Dominion's commitment to cleaner energy positions it as a leader in the transition to sustainable power solutions, especially for power-intensive industries like AI.

Dominion Energy is positioning itself as a key player in the evolving energy landscape, particularly as AI drives an unprecedented surge in demand for electricity.

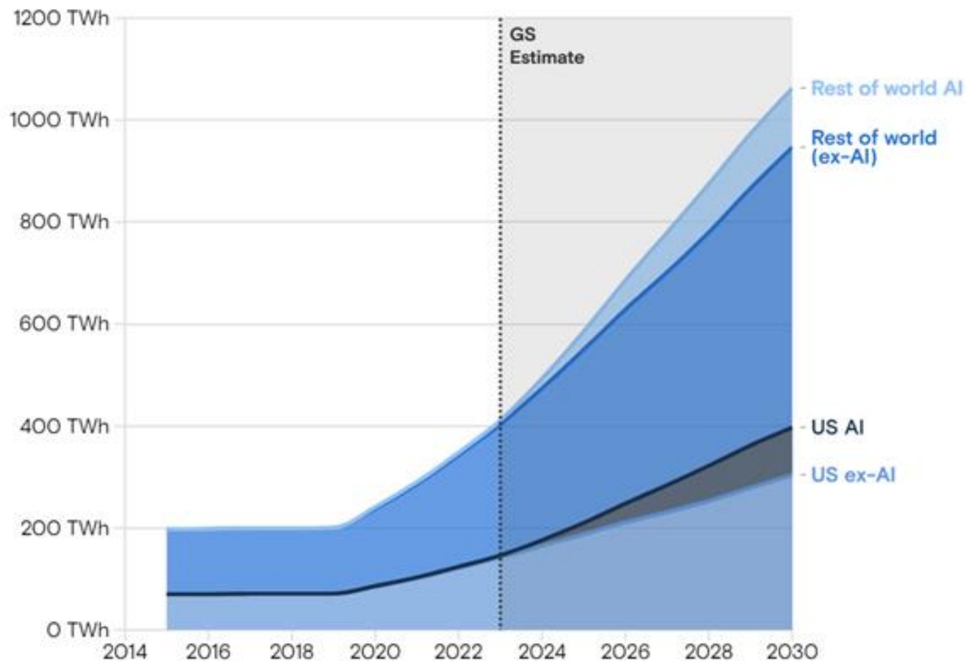
"US utilities will need to invest around $50 billion in new generation capacity just to support data centres alone."

Dominion Energy is positioning itself as a key player in the evolving energy landscape, particularly as AI drives an unprecedented surge in demand for electricity. With data centres becoming essential infrastructure for AI development, Dominion Energy's strategic investments and location make it a major beneficiary of this technological shift. But Dominion's potential goes beyond just AI. The company's diverse energy portfolio and growing commitment to renewable energy have solidified its role in shaping the future of power generation.

Meeting the Growing Demand from Data Centres

Data centres, the powerhouses behind AI models, require immense amounts of energy. These facilities are increasingly critical to AI training and operations, as well as to cloud services, which store and process vast amounts of data. In regions like Ashburn, Virginia, or "Data Centre Alley", Dominion Energy plays a crucial role as the primary energy provider. Ashburn is home to one of the highest concentrations of data centres in the world, and Dominion's proximity and infrastructure ensure that it is well-positioned to supply the growing electricity demands in this area.

Chart 7: Data centre power demand, actual & estimate, Goldman Sachs



According to Dominion's financials, 18.7% of its group net income is derived from data centres. This substantial portion of its earnings reflects how pivotal the data centre industry is to Dominion's growth strategy. As AI accelerates the demand for data storage and processing, Dominion's energy generation capacity, and its focus on high-density data centre regions, place it in a prime position to capture further growth.

Diversified Energy Portfolio

Dominion Energy's asset base is both vast and diverse. The company boasts over 25,000 megawatts of electric generation capacity, 9,700 kilometres of transmission lines, and an extensive 87,000 kilometres of distribution lines. Its power generation comes from a variety of sources, including natural gas, nuclear, hydroelectric, and, increasingly, renewables such as wind and solar. This variety not only ensures a stable energy supply but also allows Dominion to meet the rising demand for clean energy in an increasingly eco-conscious world.

Renewable energy is a growing part of Dominion's portfolio, a key factor in ensuring its long-term success.

Renewable energy is a growing part of Dominion's portfolio, a key factor in ensuring its long-term success. With the global shift towards reducing carbon emissions and promoting sustainability, Dominion's investments in clean energy initiatives provide a hedge against potential regulatory changes and shifts in consumer preferences. This strategy will help Dominion to stay relevant, even as the energy landscape evolves due to climate change concerns.

Dominion Energy's ongoing shift towards renewable energy is not just a move towards environmental responsibility but also a strategic decision that aligns with global trends. As the world transitions to greener energy sources, companies that produce cleaner power are better positioned to grow in the long term. Dominion has made significant investments in wind, solar, and battery storage technologies. Its renewable energy capacity continues to expand, allowing it to offer cleaner, more sustainable energy solutions to its customers, including power-hungry data centres.

The company's commitment to expanding its renewable portfolio is evident in its ambitious plans, such as the Coastal Virginia Offshore Wind (CVOW) project, which is set to be the largest offshore wind farm in the U.S. once completed.

This project alone is expected to generate 2,600 megawatts of electricity, enough to power 660,000 homes. Dominion's pursuit of renewable energy projects like CVOW will not only reduce its carbon emissions but also bolster its ability to meet the growing energy demands from AI and other industries.

AI as a Driver of Power Demand Growth

As AI adoption increases across industries, the demand for electricity, especially from data centres, will continue to surge. Goldman Sachs estimates that data centre power demand will grow by 160% by 2030, driven largely by the increased use of AI and other power-intensive applications. Currently, data centres consume between 1-2% of global electricity, but that figure is expected to double to 3-4% by the end of the decade. This makes energy providers like Dominion crucial to supporting the infrastructure of the digital age.

Moreover, the growth of AI is creating new opportunities for Dominion beyond just electricity supply. AI applications in power grid management, predictive maintenance, and energy optimization could enhance Dominion's operational efficiency and help reduce costs. By integrating AI into its own business operations, Dominion can improve grid reliability and anticipate energy needs more effectively, ensuring that it can scale its services as demand grows.

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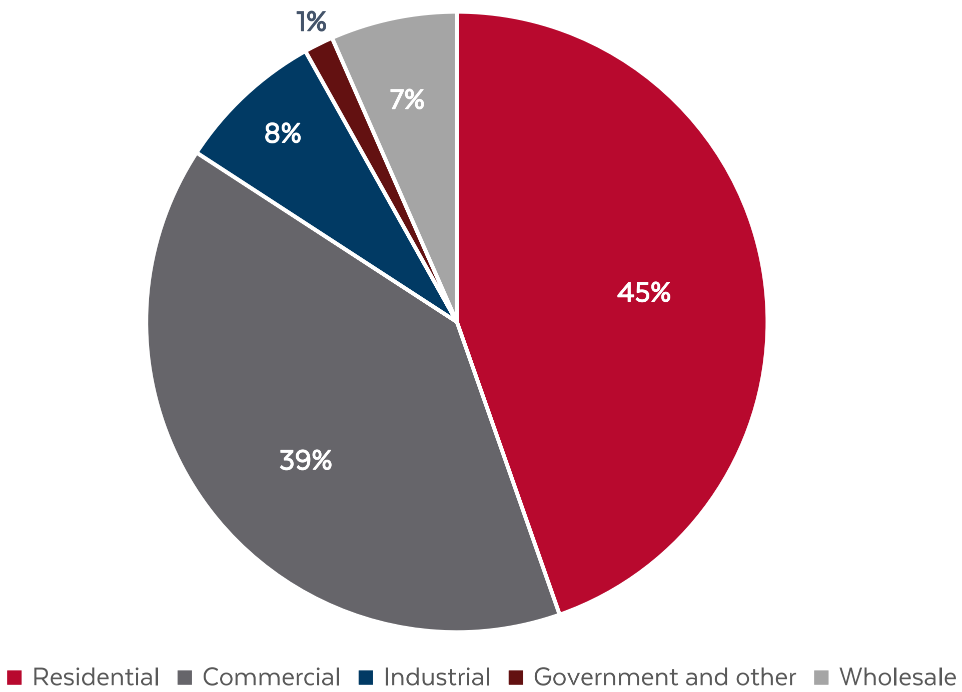
Diversified customer base

While many companies are heavily reliant on the continued growth of AI, Dominion Energy's diversified business model ensures that it is insulated from downturns in the technology sector. AI and data centres represent just one portion of Dominion's operations, which also include serving more than 3 million households and businesses across the United States. This broad customer base ensures that Dominion is not overly dependent on any single industry, allowing it to remain resilient even if the AI boom slows.

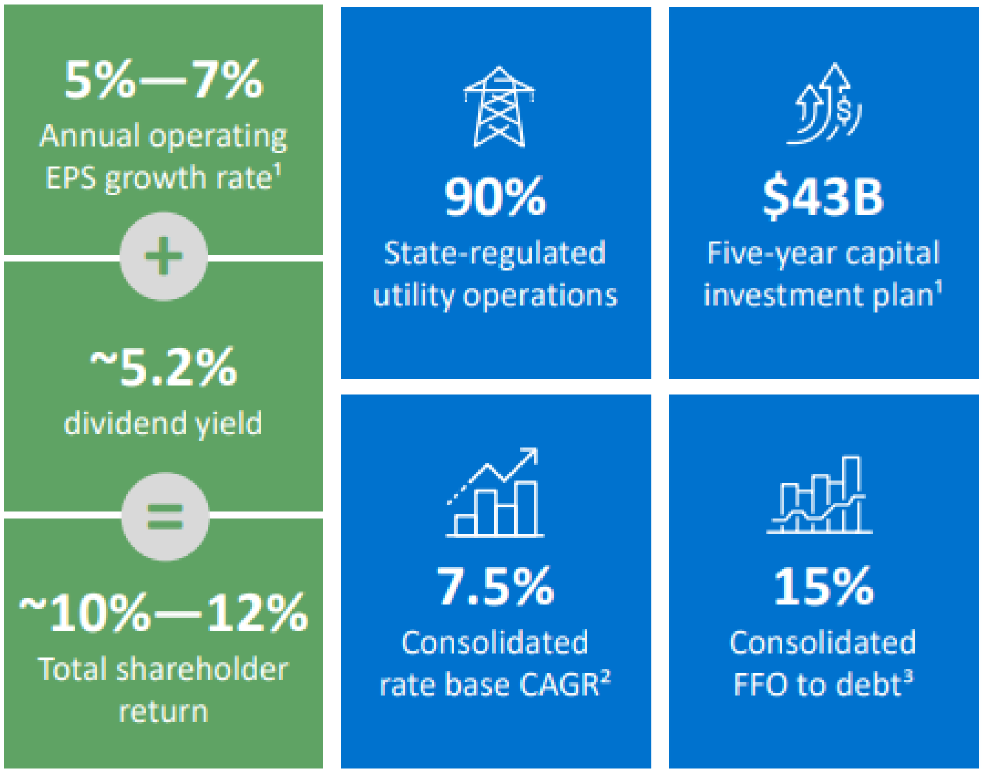
Chart 8: Dominion's revenue split by end market, December 2023



Valuation & Fundamentals

The company has a strong focus on shareholder returns, with a targeted annual return of 10-12%. Since being added to the fund in mid-July, the share price has returned 12% and outperformed the All-Country World Index (ACWI) by 9.2% over the same period.

Chart 9: Dominion's Strategic and financial metrics, March 2024



Dominion trades on a 17.9x price-to-earnings (PE) ratio which optically may appear expensive but, on a price-to-earnings-growth (PEG) ratio, it seems much more reasonable at 0.97x where anything below 1 is usually considered a relative bargain.

As AI continues to reshape industries and increase the demand for energy, Dominion Energy's diversified approach ensures it will not only keep up with these changes but thrive in the future energy landscape. Its ability to serve both traditional households and cutting-edge data centres positions Dominion at the intersection of technological progress and energy innovation, making it a vital player in the future of both AI and power generation.

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In conclusion

We write these Telescopes so that our investors know what it is we are doing, and why we are doing it. For many of you, we are the caretakers of your global investments, and we would like to use this opportunity to thank you for the trust you place in us and to emphasize how deeply committed we are to the responsibility you have placed in our hands.

We believe it is of the utmost importance that all clients feel a true sense of the word “Partnership” in how we are aligned. Our portfolio management team reflects this with significant personal investments in the Flagship strategies.

Flagship funds follow a flexible, unconstrained investment approach, which seeks to identify and take advantage of the best opportunities around the globe.

We use an active risk management process, designed to let our winners run for longer, cut our losses sooner and ultimately deliver through-the-cycle outperformance.

While we believe that Flagship funds will continue to outperform over longer-term periods, there will inevitably be shorter-term periods over which our funds will not outperform. This is the nature of markets – one’s alpha (or excess performance relative to one’s benchmark) is lumpy and doesn’t accrue in a straight line.

Warm Regards,

The Flagship Global Team

FLAGSHIP
ASSET MANAGEMENT

Navigate Safely Forward

T +27 21 794 3140
E info@flagshipsa.com
www.flagshipsa.com

Specialist Global Asset Management.

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