FLAGSHIP
ASSET MANAGEMENT

Quarterly Telescope Q2 2025

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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 Equity | Global Flexible | Global Fund of Funds

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.

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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

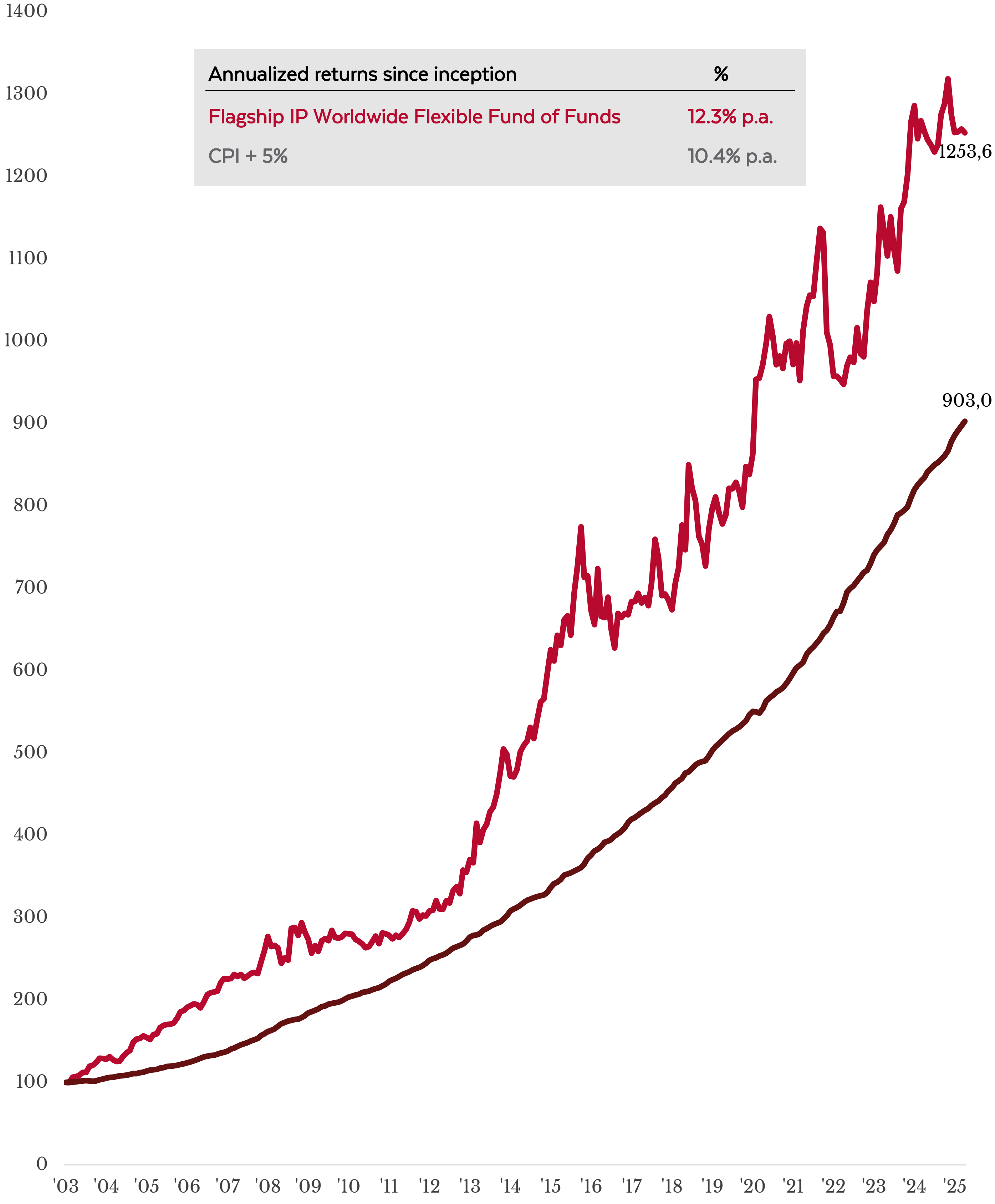
Paul is a fund manager of the global flexible strategies at Flagship, as well as portfolio manager of the Flagship IP Balanced Fund. He qualified as a chartered accountant in 1995 with Deloitte and Touche and gained international investment experience with JP Morgan and Merrill Lynch. He became a portfolio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

The Power of Long-term Compounding

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

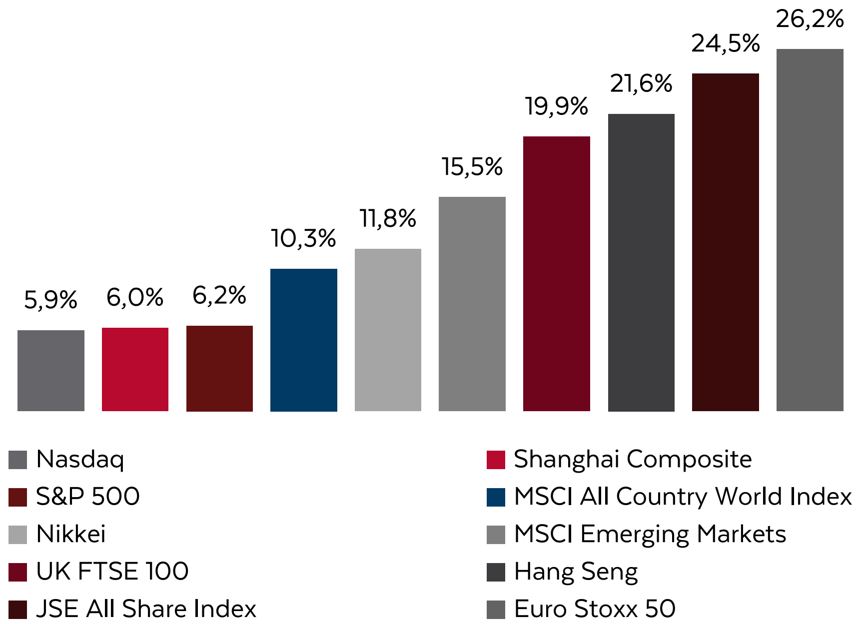
from 3 April 2003 to 30 June 2025 (22 years, 3 months)

Annualized returns since inception	%
Flagship IP Worldwide Flexible Fund of Funds	12.3% p.a.
CPI + 5%	10.4% p.a.



Global Market Commentary

Chart 1: YTD Global Index returns in USD (December 31, 2024 to June 30, 2025)



The benchmark S&P 500 had its best quarter since Q4 2023, gaining 10.9%. This rally marks the swiftest ever recovery back to all-time highs following a decline of at least 15%.

For investors who perhaps needed another reminder of the perils involved with trying to time equity markets, the second quarter delivered just that. After some indices, especially in the US, experienced sizeable pullbacks during Q1, and then started Q2 with one of the steepest two-day declines in market history (plunging 10%), they came roaring back in Q2 after the Trump administration announced a 90-day reprieve on tariff implementation, giving negotiators more time to iron out trade deals. The benchmark S&P 500 had its best quarter since Q4 2023, gaining 10.9%. This rally marks the swiftest ever recovery back to all-time highs following a decline of at least 15%. Year-to-date (YTD), this means the index is up 6.2%, which would put it roughly in line with long-term averages at this stage. The tech-heavy Nasdaq fared even better this quarter, and at 18% in the green, delivered its best quarter in 5 years. Following on from the steep Q1 decline, however, means the more volatile index is only up 5.9% for the year.

There would no doubt have been investors who decided they had enough of the carnage after the 1st quarter, leading them to get out of equity markets. This would have been a costly error, as losses would have been locked in, while not participating in the steep V-shape recovery.

Across the Atlantic, both London's FTSE 100 and the Euro Stoxx 50 marched on, gaining 9.6% and 12.2% respectively during the quarter, measured in USD. YTD, this puts the FTSE within touching distance of 20%, while the Stoxx is already north of 25%. Pulling on the short end of the straw in Q2 were the Chinese indices, as the Hang Seng gained only 4.9%, and the Shanghai Composite 5.6%. YTD, the Hang Seng still looks very healthy, currently 21.6% higher than it was 6 months ago. Locally, the JSE All Share Index enjoyed another strong quarter, rising 14.2%, placing its YTD gain at 24.5%.

(**Note**: the above non-US index returns are all measured in USD, solely for the purpose of comparison with US indices. During the quarter, however, the USD weakened considerably, greatly flattering the USD measured returns of the above indices over the period. Measured in their local currencies, returns were much more muted, while almost all of them trailing their US peers over the quarter. The FTSE 100 returned 3.2% for the quarter, the Euro Stoxx 50 gained 1.1%, the Hang Seng and Shanghai Composite gained 5.8% and 4.4% respectively, while the JSE gained 10.2%.)

The main reason for the weak USD performance, which hit multi-year lows, was concern around Trump's "Big Beautifull Bill" and the effect this could have on growing budget deficits. The US Congressional Budget Office projects the bill could add $3.3 trillion to the national debt over the next decade. The result was the USD weakening against major peers by:

- 8.2% against the Euro,
- 5.9% against the GBP,
- 3.9% against the Yen,
- 1.3% against the CNY,
- 3.3% against the ZAR.

We make special mention of these large moves, as glancing over headline numbers can mask some of these issues.

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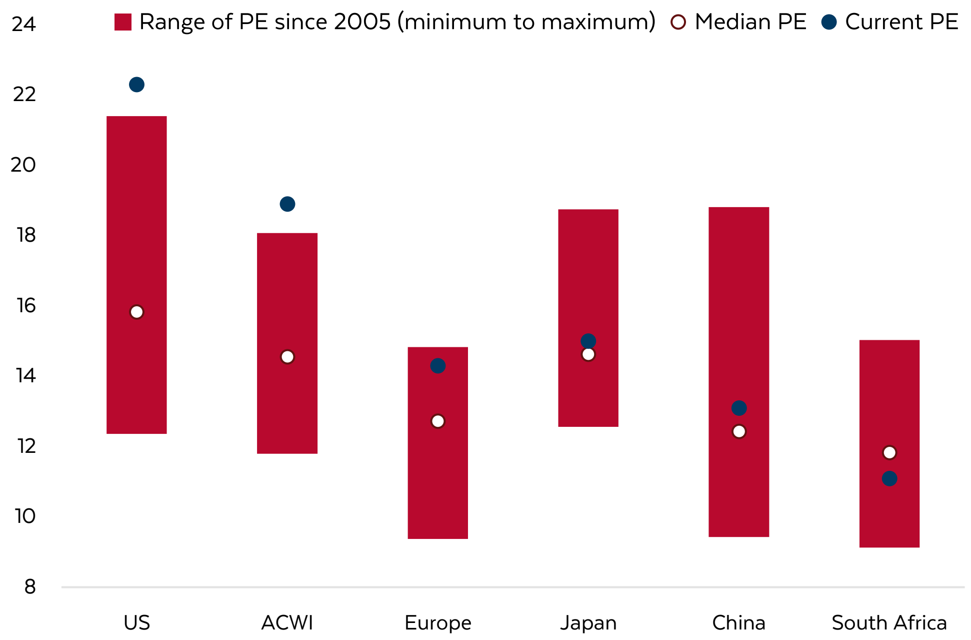
Turning to commodities, particularly oil, the 2nd quarter saw a high level of volatility in the face of escalating Middle East tensions. Israeli strikes against Iranian nuclear facilities, later joined by the USA, threatened to spill into an all-out regional war. In response, crude oil prices shot through the roof, with fears that Iran could effectively close the Strait of Hormuz. Disrupting 20% of global oil transportation would no doubt have resulted in a massive supply shock, potentially renewing upward inflationary pressures. By the end of the quarter, the situation had largely been de-escalated, and Brent Crude closed 9.5% lower than it was at the start of Q2. Gold, on the other hand, continued its upward trend, increasing by another 5.7%. Bullion has now increased by 42% over the last 12 months, easily outperforming most global equity indices.

Asset Allocation

Most equity markets are expensive when viewed versus their history. The US's S&P 500 as well as the broader All Country World Index (ACWI) are expensive, while the European STOXX Europe 600 index, which includes the UK, is somewhat expensive. This is viewed when looking at their respective forward PEs trading at the top end of their 20-year history, and significantly ahead of their median measured over the same period. China, Japan and South Africa look more attractive on a forward PE basis.

Chart 2: Global valuations, 1 year forward PE



Note: range of forward PEs is of the 10^{th} to 90^{th} percentile to exclude extreme outliers.

Interestingly, we added to our equities position in April in our Worldwide Flexible Strategy. Even in expensive markets, one can still find attractive investment opportunities from a bottom-up perspective. One of the main attributes we look for in a company is for it to demonstrate consistent earnings growth. We found this in several companies spanning Europe and China.

Even in expensive markets, one can still find attractive investment opportunities from a bottom-up perspective.

Even though markets are expensive, especially in the US, we exited Q2 anticipating markets to get even more expensive. This was based on the fiscally expansive "Big Beautiful Bill" expected to be passed in July, which will see increased US government spending. While this is negative for the US's growing debt burden, equities are usually a good place to be in this environment. Furthermore, if we do not see inflation coming through from tariffs, amongst other sources, then the Federal Reserve will have room to cut rates, which will add another kicker to equities.

Investing would be easy if, when making asset allocation decisions, one only had to look at forward PEs. In reality, markets can remain expensive or cheap for a protracted period. We look at various other metrics as well, such as earnings growth and interest rates, to add to our analytical toolbox. This has kept our equity allocation at above average levels, with the flexible strategies allocation at 82%.

We continue to hold a fair chunk in gold bullion. Our central thesis on gold remains unchanged, in that it has become the world's true risk-free asset, ahead of US bonds. Global bonds do not offer compelling value, yet, and as such we still have a zero holding across our global portfolios.

Strategy Performance

The performance of the Flagship strategies over Q2 '2025 and 1 year to 30 June 2025, net of fees, is shown below:

Global Equity Strategy	Q2 '25	%Δ 1YR
Flagship Global Equity Fund (USD)*	16,6%	
Flagship IP Global Icon Feeder Fund (ZAR)	12,5%	17,8%
Flexible Strategy	**Q2 '25**	**%Δ 1YR**
Flagship Worldwide Flexible Fund (USD)*	13,2%	
Flagship IP Worldwide Flexible Fund (ZAR)	10,3%	15,9%
Fund of Funds Strategy	**Q2 '25**	**%Δ 1YR**
Flagship IP Worldwide Flexible Fund of Funds (ZAR)	1,8%	1,7%

*Q2'25 performance is based on actual returns data of a live portfolio managed under current portfolio processes and philosophies, net of real trading costs and management fees, albeit official inception date of these funds is 23 April 2025.

In-line with our investment philosophy of letting our winners run for longer, Blue Label Telecoms and Rolls Royce were also the top contributors during Q1'25.

The ZAR experienced another strong quarter (or, rather, the USD a weak one), strengthening by 3.3% against the greenback. This detracts from the performance of our ZAR denominated funds which invest primarily offshore. We believe our investors are specifically looking for offshore exposure, and in the long term, ZAR depreciation will be a tailwind to performance. Despite this headwind, Flagship's global strategies, especially the in-house managed pure equity and worldwide flexible strategies, delivered strong performance during the quarter.

The Flagship Global Equity Strategy returned 16.6% in USD during the quarter, outperforming its MSCI ACWI benchmark, which returned 11.5%. We are particularly pleased with the equity fund's relative consistent performance, having outperformed its benchmark during each month this quarter. The biggest contributors during the quarter were Blue Label Telecoms, discussed later in this Telescope, Rolls Royce Holdings, Netflix, and Howmet Aerospace. The main detractors during the quarter were United Health, Budweiser Asia, and Apple.

What is notable, and in-line with our investment philosophy and process of letting our winners run for longer, is that Blue Label Telecoms and Rolls Royce were also the top contributors during Q1'25, with Blue Label and Netflix being top contributors in Q3'24 and Q4'24 respectively.

The Flagship Worldwide Flexible Strategy returned 10.3% in ZAR for the quarter, outperforming its composite benchmark which returned 5.6%. Similarly, the top performers during the quarter were Blue Label Telecoms, Rolls Royce Holdings and Howmet Aerospace.

The performance of the Flagship Worldwide Flexible Funds of Funds strategy has been disappointing, given the recent strong performance of our in-house funds and the strong recovery of major equity indices. The fund returned 1.8% in ZAR (5.9% in USD) during the quarter. The top performing funds were the Guinness Global Innovators Fund and the New Capital US Small Cap Fund. Leading the detractors were the GQG Partners Global Equity Fund, as well as the fund's USD cash position. While the performance of some managers has been disappointing, the fund takes a long-term view, and we still believe these managers are some of the best-in-class.

The Evolution of our Investment Process

"Without continual growth and progress, such words as improvement, achievement, and success have no meaning."

- Benjamin Franklin

Our investors and readers who follow us closely would have noticed that there have been several changes at Flagship, both in terms of personnel and in terms of our investment process, over the last two and a half years.

Some of these changes were minor, while others represented a major overhaul in the philosophy and process implemented by the current global management team. This warranted, and indeed necessitated, the ballots that investors in certain funds would have received recently. The purpose of these ballots was to gain investor approval regarding the renaming of certain funds, as well as the restarting of performance track records. This is not a trivial task, and regulatory authorities had to agree that the changes were of such a nature and magnitude as to be fully warranted.

It is imperative that our investors understand and believe in the philosophy and process that underpin our investment style.

We recently shared some of these changes in a client webinar and would like to take this opportunity to share more information regarding these changes, as we believe it is important that our investors understand the philosophy and process that underpin our current investment style.

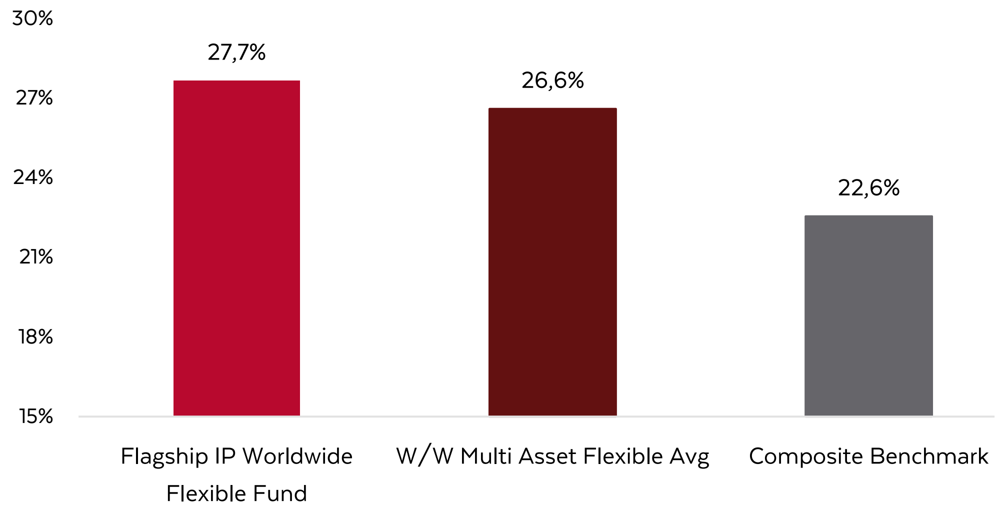
The two funds that have undergone changes and for which ballots were sent out are:

- **Flagship Global Icon Fund**, renamed the **Flagship Global Equity Fund**
- **Flagship International Flexible Fund**, renamed the **Flagship Worldwide Flexible Fund ($)**

By way of background, the current global management team first started managing the ZAR-denominated Flagship IP Worldwide Flexible Fund nearly 2 years ago (31 July 2023) and later took over management of the USD-denominated Flagship Global Icon Fund, and the ZAR-based feeder fund, on 1 March 2024.

Subsequently, both funds have delivered strong performances, with the Flagship IP Worldwide Flexible Fund returning almost 28% over the period, outperforming both the average of its ASISA category peer group, as well as its composite benchmark.

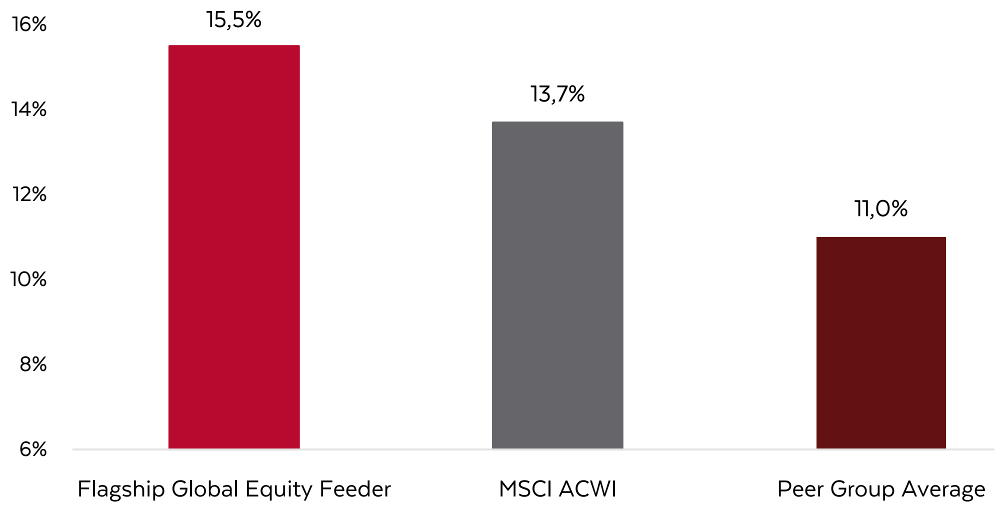
Chart 3: Flagship Flexible Strategy vs peers (ZAR)



This outperformance, along with the changes discussed below in this article, led to the decision to turn the Flagship International Flexible Fund into a USD-denominated version of the (ZAR denominated) Flagship IP Worldwide Flexible Fund, hence the name change to Flagship Worldwide Flexible Fund ($). The net result is that these two funds now mirror one another, with the only difference for investors being a ZAR or USD entry point. Soon, the ZAR fund will become a feeder fund into the USD fund. This will have no bearing on the investment process, and will, in fact, have benefits for local investors due to decreased trading costs.

With regards to the Global Equity Strategy, since the current team took over management, the ZAR-denominated feeder fund has returned 15.5%, outperforming both its MSCI ACWI benchmark (13.7%) and the average of its ASISA global equity peer group (11%).

Chart 4: Flagship Equity Strategy vs peers (ZAR)



The rationale behind the current team's implemented changes was primarily to provide a less volatile performance signature.

Note: For comparison to other global fund managers running USD-denominated funds, it is important to consider the ZAR strength over the period. The Flagship USD-denominated Global Equity Fund (the same fund as mentioned above, except that it has a USD entry point) has returned close to 26.0% over the period, compared to the MSCI ACWI which has returned 23.3%

The rationale behind the current team's implemented changes was primarily to provide a less volatile performance signature compared to what investors had previously experienced in these funds. Given the relative strong performance since implementation, and the prevailing market conditions over this period (the latter end of a long bull market, a sizeable downturn, and then a swift V-shaped recovery), we feel confident that these changes are having the desired outcome.

So, given the improvement in performance, and streamlining of Flagship's global product offering, what changes have been implemented?

Notable changes

Several notable changes have been incorporated into the management of your Global funds. Generally, all changes have been designed to achieve several important objectives. At a very high level, we want to ensure:

1. greatly reduce volatility
2. emotion and bias removed from the decision-making process
3. over-reliance on conviction removed
4. allowing winners to run for longer, while cutting detractors sooner

We combine fundamentals, quantitative tools, as well as technical analysis in our process, look for confirmation from all these approaches.

Below, we highlight some unique changes implemented to achieve these objectives.

Our tools

We combine fundamentals, quantitative tools, as well as technical analysis in our process. Often, managers focus on only one of these methods. Our view is that each of these tools bring something unique to our approach and enable us to cover as many blind spots as possible. Generally, we look for confirmation from all these approaches, so a stock typically needs to perform well on all three metrics to warrant inclusion in a Flagship portfolio.

Fundamental research and quantitative analysis typically tell us where to look, what makes a good company, and which stocks to buy, while technical analysis helps us to identify good entry and exit points, in other words, when to buy or sell.

Fundamental analysis in our process is roughly the same as in every other process: Do we like the story or theme behind the company? Do we see room for future growth? Is there a capable, well-regarded management team? Does the company have a strong or improving balance sheet?

When we look at quantitative screening, it's important to keep in mind that the factors considered are still fundamental factors. We are simply using a quantitative model to compare a company based on these fundamental factors, versus 100's of other companies in its sector. The factors considered are: valuation, growth, profitability, earnings revisions, and price momentum. We place a special emphasis on earnings revisions as, over the long-term, the movement in a company's earnings and its share price are very closely correlated.

Technical analysis also forms part of our risk management-oriented approach. Generally, we will refrain from owning stocks that are in a clear downtrend, and we utilize dynamically adjusting levels to alert us to this. We would prefer to wait for evidence of a turnaround before revisiting the investment case. This ensures we steer clear of 'falling knives' and overcommitting capital to any one idea.

Style agnostic approach

We believe underperformance of certain styles in certain economic environments is inevitable. Being style agnostic allows us to focus on finding the best opportunities, regardless of investment style. During growth periods, we want to identify good growth opportunities and, similarly, during value periods.

Sector neutral portfolios

We manage sector neutral portfolios versus our benchmark, yet we still have a very high active share, and our funds typically bear little resemblance to their benchmarks.

We see ourselves as stock pickers, aiming to pick the best stocks in every sector. We do not run large sector over or under exposures, as we don't believe our area of expertise is ascribing the correct PE ratio (or any other valuation metric) to a specific sector, thereby saying, "the market is wrong, and my view is correct". We believe this is a very dangerous game to play. History has proved that sectors can remain over or undervalued for significant periods of time. Missing out on opportunities within what is perceived as an "overvalued" sector, or an over-allocation to what is perceived as an "undervalued" sector, can be costly mistakes.

The best stocks in underperforming sectors will often outperform mediocre stocks in thriving sectors. We believe the best chance of alpha generation is to find, and own, the best stocks across all sectors.

Risk management

One of the most important factors in our process is our approach to risk management. This is a two-part process.

1. **Diversification**

At 75 holdings (compared to approximately the previous 25), we have a well-diversified portfolio, steering clear of a concentrated approach that increases risk.

2. **Active Risk Management System**

We have developed an *active risk management system* that can be thought of as a 'selling discipline'. This system serves three distinct purposes:

We have developed an active risk management system that can essentially be thought of as a selling discipline.

- It eliminates emotion and bias from the decision-making process. We believe managers are often pressured to try and prove their original thesis correct, to show conviction. We believe this creates dangerous pitfalls.
- It allows us to 'water our flowers' and 'cut our weeds'. A common mistake that some managers make is cutting their winners too soon, while letting detractors run for too long. This is a classic example of behavioural bias impacting investment returns. We actively aim to avoid this.
- It allows us to run equity-centric portfolios. Over a sufficiently long timeframe, equities have proven to be the best performing asset class.

This risk management system stems from a healthy realization of the limitations of one's own predictive abilities, the vulnerabilities in economic forecasts, and the pitfalls of behavioural bias in investments. We realize that we will inevitably get calls wrong or that a thesis might not play out as expected. We believe humility will get you reasonably far in this business. Therefore, instead of trying to justify our original investment decisions, and doubling down as the stock becomes cheaper, we are very happy to take a step back and reassess.

We believe this is a key differentiator in our process. If we see a position moving against us beyond a certain level, we have no issues in getting out of that position and redeploying capital to more attractive opportunities. We are willing to re-enter that position at a later stage, once a more favourable trend is evident.

We realize that we are in the business of protecting and growing capital, not being proven correct on every call we make. We trust the rationale behind our approach will resonate with our investors, and we thank you for your continued support.

Investment case: Blue Label Telecoms

By Philip Short

- ⇒ We own one South African stock in our global funds, Blue Label Telecoms (BLT).
- ⇒ What started as a small position of 2.5% has grown organically to a 10% position in the global portfolios.
- ⇒ BLT's share price has appreciated over 400% since we added it to our portfolios two years ago, making it the top performer on the JSE over the period.
- ⇒ We believe BLT could still double from here over the next 12 months if the continued restructuring and listing of Cell C goes ahead.

Blue Label Telecoms (BLT) is a South African company that predominantly distributes digital tokens, such as prepaid airtime and electricity. The company has been around since the early days of the South African mobile network operators. In 2017, BLT made a move to acquire Cell C, a struggling mobile operator, in a move that would give Blue Label a serious hangover for several years post-acquisition, dragging the share price to a low of R2.60 in September 2023. This is when our funds invested in BLT, at a share price below R3.

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There are several interesting investor topics one can write on BLT. Most disliked the share as evidenced by social media and very low institutional ownership (contrarian). The company had made significant detrimental capital allocations in India, Mexico, and Cell C (poor asset allocation).

The company was heavily geared (debt), had ended up with a complex accounting structure after acquiring Cell C (red flag), but it was very cheap in some people's eyes (value).

We'll be focusing on two topics in this piece: theme and value.

Theme

A cold war has been brewing between financial institutions (e.g. banks) and telecom companies for more than a decade. Telcos were moving into financial products, and banks, albeit behind the curve and with less effect, were moving into telco offerings. What made this war inevitable was the smartphone, which rendered traditional mobile phones super functional and grabbed the consumers' time and attention. With the advent of the smartphone, you were banking, shopping, reading, working, talking, texting, and more.

North of our border, telecom companies were making serious moves into the financial sector, as the latter was less developed than elsewhere. In Kenya, there is a mobile operator named Safaricom. Safaricom became known for pioneering M-PESA, a revolutionary mobile money transfer service, which allowed users to send money, pay bills, and access loans via mobile phones. Here is a mobile operator who is making significant profit from financial services. In fact, nearly 50% of Safaricom's revenue comes from financial services. MTN and Vodacom saw, and tried to replicate, this model in their respective African geographies, South Africa included.

Capitec, being the innovative enterprise that it is, quickly took note and decided that the best form of defence, is offense. Capitec was already in a fortunate position with regards to mobile offerings: through its ATMs and mobile digital app, by 2022 it was processing 30% of all prepaid airtime in South Africa as a third party. That is, 30% of all Vodacom, MTN, Telkom Mobile, and Cell subscriber prepaid airtime was bought via Capitec channels. The company that facilitates the prepaid engine in the background for Capitec is none other than BLT.

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This channel gave Capitec a platform, which they owned and could use to study and sway customer behaviour. Thus, Capitec launched Capitec Connect, a Mobile Virtual Network Operator (MVNO), which would roam off Cell C's radio access network. Why did Capitec choose Cell C and not Vodacom or MTN? Because Capitec was going on the offensive against Vodacom and MTN. Cell C was not a threat as they had such a small mobile market share. So Capitec Connect was launched in September 2022. By December 2024, Capitec Connect had gained 1.5 million unique subscribers; its current run rate is 180,000 subscribers per month. As a bank, Capitec has 22 million customers, 11 million of which are digital app customers. Cell C has 8m subscribers and any subscriber from Capitec Connect is a subscriber for Cell C. Hence, there is significant subscriber growth on offer for Cell C via the growth of Capitec Connect.

It is worth noting that there are many MVNOs in South Africa, including Standard Bank and FNB, but these two banks did not have the calculating and enterprising MVNO strategy that Capitec had. To put it into context, FNB launched their MVNO in 2015 and by 2024 had gained only 958,000 subscribers, 30% less than what Capitec Connect had achieved in its first two years.

Capitec doesn't necessarily have the intention of becoming a major mobile operator in South Africa, but what it can gain from learning customer behaviour from a banking point of view is worth much more in terms of its profitability. If Capitec Connect, using their data analytics, can study the behaviour of its mobile subscriber, who is also a Capitec banking client, they can make better lending decisions to that banking client. In short, having as many Capitec banking clients using Capitec Connect will make Capitec a better and more profitable bank.

MVNOs are good business for mobile network operators (MNOs), such as Cell C. For one, MVNOs do their own marketing and client acquisition. In Capitec Connect's case, they already have this large banking client base which they can target to convert to become their MVNO subscriber base. For Cell C, the operating profit margin of an MVNO is much higher than a traditional subscriber, as the customer acquisition cost (CAC) is much lower; the CAC is borne by the MVNO, so Capitec, and not Cell C, in this example.

What about network quality? Cell C roams off both MTN and Vodacom's networks, while having its own spectrum (which is like hen's teeth), so Capitec has access to the best networks. How the industry got to this point of network sharing is a story for another day but, suffice to say, it is driven by economics and return on investment for the incumbents.

What about management? Within the telco industry, Vodacom management are highly regarded. The fact that senior executives have left Vodacom for Cell C speaks volumes. In fact, 6 out of the 11 current C-suite at Cell C, including Cell C's CEO, have arrived from Vodacom in the last 20 months.

But isn't the telco sector a poor sector to invest in? Generally, yes, because the market is saturated, pricing power is low, and it requires constant infrastructure investment that is a drag on a company's cash flow. But, with Cell C, you have a company that is starting to take share in a flattish market. It is also roaming off other networks, so although it incurs a roaming operating cost, it doesn't have the capex-heavy model of other networks. This means greater free cash flow for Cell C.

Although Capitec is the main driver of MVNO growth, Cell C supports 13+ other company MVNOs, which include Shoprite, FNB, and Standard Bank.

BLT's core business may be distributing digital tokens, but it also now owns an effective 80% of Cell C, up from the initial 49% from its first investment in 2017. We believe that Cell C will surprise the market with its new asset-light strategy, which is set to grow share via a sharp MVNO growth vector, to be executed by a very respectable and experienced management team.

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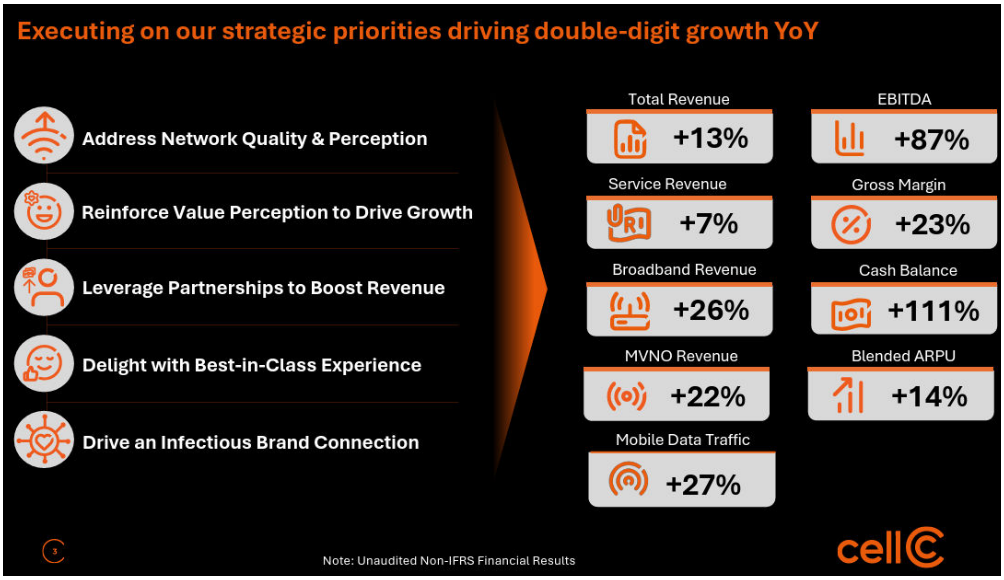
Value

BLT's core business, excluding Cell C, sells digital tokens. This core business generates R800m profit per annum and is cash generative.



When BLT first bought a minority share in Cell C in 2017 it structured the deal poorly, which ultimately led to Cell C going through a lengthy recapitalization process culminating in September 2022, and BLT writing down the asset to zero on its balance sheet. This recapitalization led to debt holders taking a significant haircut on their debt holding and BLT doubling down on their equity stake. Naturally, this spooked investors.

As mentioned earlier, the accounting of Cell C and how it relates to BLT takes effort and time to work through, due to the complicated recapitalization structure in 2022. This complex structure will become much clearer within 12 months. Most investors are put off by this but herein lies the opportunity: Cell C still has negative equity and therefore its profit cannot be recognized in BLT's financials. As Cell C continues its turnaround, its equity position will do so as well.

Through smart corporate finance activity, BLT now owns approximately 90% of the debt sitting on Cell C's balance sheet. And it owns 80% of the equity. For all intents and purposes, BLT owes that money to itself. In May 2025, BLT issued a cautionary announcement, stating that it's looking at doing a debt-for-equity swap in Cell C, meaning debt holders in Cell C will convert their debt into equity. In short, this means Cell C will have no debt, and BLT's equity ownership in Cell C will move closer to 90%. In the same announcement, it was said that Cell C plans an IPO (initial public offering). This, we expect, will release further significant value for BLT shareholders.

Most investors are put off by this but herein lies the opportunity. We believe BLT could still double from here in the next 12 months if the continued restructuring and listing of Cell C goes ahead.

Post the restructuring mentioned in the May announcement, we estimate Cell C to generate R2.5bn in EBITDA. Post the restructuring, there will be no long-term debt on Cell C's balance sheet, equating to very little interest expense on its income statement. Cell C also has an R28bn assessed tax loss, so will not pay tax for the next 5-10 years. This all means that Cell C, on a pro forma basis, should generate approximately R2bn in net profit. For a company with no debt, growing earnings at double-digits, an asset light business model and likely to commence paying a dividend, we think applying a PE multiple of 10x is conservative. This would result in Cell C trading at an equity value of R20bn. Core BLT (ex-Cell C and CEC*) generates R700m net profit. Applying a PE multiple of 10x on that gives us an equity value of R7bn. Combining the sum of the two parts gives a total equity value of R27bn. BLT is currently trading at R13.80 per share, or R12.6bn.

Even though BLT's share price has appreciated over 400% since we added it to our portfolios two years ago, making it the top performer on the JSE over the period, we believe it could still double from here in the next year if the restructuring and the listing of Cell C goes ahead.

Chart 5: Top 10 performers on the FTSE/JSE since September 2023

In conclusion

Flagship's global investment process is centered on a comprehensive, active risk management system that has been designed to let our winners run, while cutting our losses sooner. Our funds own a highly diversified selection of businesses across industry groups that we believe are favorably positioned compared to their peers from a multifactorial perspective.

We believe this combination of a proprietary risk management system, used in conjunction with our approach of considering several factors before a stock or manager can be included in our portfolios, will lead to superior risk-adjusted returns across our range of funds.

While we recognize and appreciate that investing is a long-term endeavour, we also realize that most investors do not want to endure prolonged periods of relative underperformance. We believe our approach strikes a middle ground whereby we can deliver alpha (or excess performance relative to one's benchmark) over the long-term, while shielding investors from protracted periods of negative alpha, compared to the benchmark.

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 emphasize how deeply committed we are to the responsibility that we hold.

With best regards,

The Flagship Global Team

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