To: Investors **Date: 1.Feb.2022**

Day 1

Today marks the first day of entrusting Knysna with the management of your capital. We are excited about the prospect of serving you by striving to generate meaningful returns in the long-run and thought it would be helpful to speak about the principles that will enable us to do a good job.

Many things will likely change in the years and decades to come and adapting to change is a necessary ingredient to lasting success. Adapting for the wrong reasons can, however, result in bad outcomes. Maximizing revenue alone for example can lead a business down a series of decisions that sow the seeds for its own destruction. This is because for each individual decision the short-term benefit is clearer than the long-term cost.

What are the principles that we would like to stick to?

There are three important drivers of long-term returns that we need to focus on.

1. Maintain a long-term investment horizon
2. A sufficient set of attractive investment opportunities
3. Avoiding the pitfalls of human psychology

1. Maintain a long-term investment horizon

We invest in companies that are undervalued on a 10-year investment horizon.

Judging by swings in stock prices that far exceed changes in business value most investors focus on prediction short-term changes in sentiment. It is indeed tempting to predict short-term movements of stocks and though some investors may be good at this we will aim all aspects of our firm to focus on our strength: Finding investments that will deliver attractive returns over 10 years.

In the short-run investment returns are dominated by changes in valuation multiples or sentiment whilst a good return over 10 years depends primarily on how the underlying business performs. This is easily observable by considering the formula for total investment return:

Total Return = Growth in Business p.a. + Dividend Yield + Change in Valuation Multiple p.a.

Let’s assume the sentiment towards a stock (as measured by the multiple the market is willing to pay) increases by 50% (The Price Earnings ratio goes from 10x to 15x or Price to Sales goes from 1x to 1.5x.) Over 1 year the contribution of this change in sentiment will be 50%. The annualized contribution over 5 years reduces to 8.4% p.a. whilst over 10 years the contribution is only 4.1% p.a. 4.1% p.a. is an important contribution that should be taken into account but the business still needs to do well to earn a satisfactory return over 10 years. Sustainable business growth and sustainable Dividends don’t dilute with time and hence we focus our efforts on understanding these components.

2. A sufficient set of attractive investment opportunities

To retain a sufficient set of investment opportunities requires us to avoid industry practice of committing to an investment style (such as Growth, Value, Quality), geography, or sector. Though these categories make it easier to sell a fund to clients it will compromise on our key focus of generating returns for our clients in the long run. There may be periods of time when all Growth stocks are unsustainable, all Value stocks are junk or all Quality stocks are overpriced.

We also need to ensure that asset size does not constrain our set of opportunities. To mitigate the temptation of taking on too much new capital we have agreed on an atypical governance process with an anchor investor to ensure 1) Knysna can't raise more than roughly $1.1 billion in paid-in capital and 2) Beyond this we need to prove an ability to add value to take on more assets. This is an unusual way to start a business, but we believe it is critical to compound capital for long periods of time.

Understanding the drivers of business value such as technology, culture, business models and people are key to ensure we retain a set of attractive investment opportunities. The specifics may, however, change significantly over time. For example: strong consumer brands presented investors with long-term, high-return income streams whilst national TV advertising campaigns were the only option to effectively speak with customers. Targeted advertising on social media makes it easy for new brands to disrupt larger ones by starting with a small budget. Your skill in finding dominant brands is worth less if it is harder for brands to remain dominant. We will strive to build our understanding by learning, challenging our own best ideas, making use of outsiders that are experts in fields we don't understand yet and adding staff selectively.

3. Avoiding the pitfalls of human psychology

Although we as humans prefer to see ourselves as rational creatures, evidence suggests otherwise.

To mitigate our biases Knysna employs an evidence-based investment philosophy. Replacing opinions by the requirement for a body of evidence to make conclusions strives to allow reasoning and evidence to guide our decisions rather than pre-existing assumptions or opinions.

During inevitable periods of negative returns, we need to make the best decisions under pressure whilst humbly evaluating the possibility of having made a mistake. Paradoxically these periods can allow a rational businessperson to add lots of value in a short period of time since other investors may be selling stocks for irrationally low prices. If our organization is too complex or we have clients that are not aligned to our goal of maximizing long-term returns regardless of short-term drawdowns this will detract from our ability to do so.

Finding clients that share our perspective is no easy task but one we intend on taking seriously. Even more reason why we are excited to have you as our initial partners!

Thank you for choosing Knysna, we intend on proving your support a wise decision

Ruan, on behalf of Knysna

Regulatory note: Knysna's license applications are still pending and we currently operate by making use of the license of our partners:

- Olduvai Capital Asset Management (FSP: 51131) in South Africa and
- Invictus Capital IC (2707713) in Guernsey