

THE STRAIGHT TALKING

# CURVED THINKING

QUARTERLY



TANTALUM  
CAPITAL

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## SUNSET TIMES?

Dinner table conversations have, over recent years, frequently highlighted changing reading habits and praised or lamented the rise and use of iPads, tablets, Kindles and general online content. By common consensus, developed world reading habits are shifting inexorably away from the printed page and "traditional" media is in decline. Making the news is often more fun than owning the news. In the case of the US newspaper industry, advertising revenue has indeed plummeted post the global financial crisis, exacerbated by a continued shift online. Interestingly, US circulation revenue has held up over the years, but the greater than 50% decline in adspend, which makes up the

bulk of a newspaper publisher's revenue, has left the industry reeling. As a result, newsroom workforce has fallen by 30% since 2000. Recently, however, we have seen a few high-profile deals including Warren Buffett's purchase of dozens of local newspapers, John Henry's (owner of Boston Red Sox, Liverpool FC) acquisition of the Boston Globe and Jeff Bezos's purchase of the Washington Post for \$250m. The fact that Bezos, who's Kindle has curtailed book printing and who also owns a news website, has invested in a physical newspaper company speaks volumes for the sustainability of print.

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One can't deny that the outlook for printed newspapers in developed markets is not particularly rosy, despite circulation revenue in the US increasing in 2013, and some calling the end of the declines.

However, closer to home, with insufficient broadband capacity and a growing middle class, the outlook for paid titles is not nearly as dire. With newspaper readership correlated to age, education, urbanisation and income levels, one can clearly infer that the outlook for newspapers, including paid titles, is far rosier for a developing economy and a younger population like ours. A recent study on media trends by PWC found that the majority of South Africa's newspaper readers still prefer print over digital content.

Of greater interest to us is the fact that free community newspapers have continued to show strong growth in circulation and adspend.

## SO WHAT HAS HAPPENED IN SOUTH AFRICA?

The graph below shows the average daily circulation (number of papers) in each year of reference. Please bear in mind that community paid, community free and weekend paid titles are generally published once per week, while dailies are published five times per week.

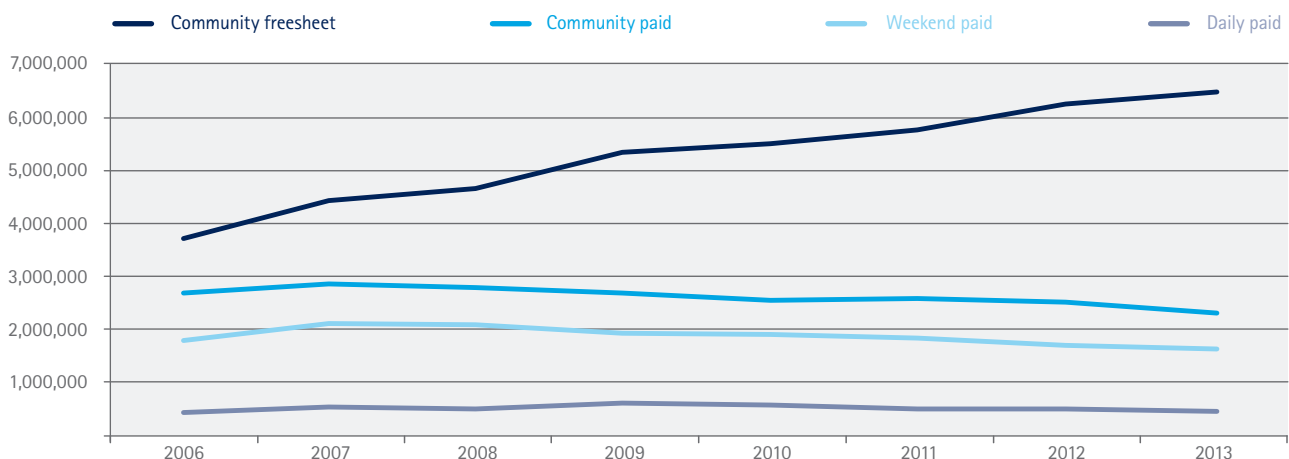
The rapid growth in free community newspapers is clearly evident, with circulation numbers increasing at 8% per year since 2006. This compares favourably to paid community titles (flat), and paid weekend and dailies, the volumes of which have decreased by 3% and 2% per year respectively. In Warren Buffett's annual letter to shareholders released in 2013, he explains how newspapers have lost their "primacy" in the delivery of national and international news to other mediums such as television and the internet. He goes on to explain that newspapers however, reign supreme in the delivery of local news: "Wherever there is a pervasive sense of community, a paper that serves the special informational needs of that community will remain indispensable to a significant portion of its residents." In South Africa, the data clearly indicates that local communities continue to value the power of a free local paper as the primary

source of news relating to local service delivery, entertainment, sports events, transport updates, celebrity gossip and other headlines specific to a particular community. For both paid and free titles advertising revenue is the key profit driver. In paid titles, around a fifth of revenue is earned from the selling price, with the balance sourced from advertisers. Clearly a free paper relies exclusively on adspend.

From an advertiser's perspective, community free papers have become an essential part of any strategy targeting a specific audience.

Television, broadcast at a national level, and even regional radio, fails to reach such an exact end market. As an example, the ability of a retailer to advertise targeted specials, which vary from community to community in the same way that demographics such as age, race and income levels do, is extremely important.

Newspaper circulation



Source: Audit Bureau of SA, Avior, Prescient Securities, March 2014

The data alongside shows the composition of South Africa's total adspend by medium at selected intervals between 1991 and 2013. The table shows how print's share of adspend has declined from 47% in 1991 to 27% in 2013, with the winners being TV, radio and the internet. However, the absolute value of print adspend has still grown each year, albeit at a slower rate than other mediums.

Within print, the clear winner has been community newspapers, the adspend of which has increased by an annual compound rate of 17%.

Although this is off a low base, advertisers are clearly seeing the benefit of targeted, community-specific adverts. In PWC's "South African entertainment and media outlook: 2013-2017", they found that the switch away from print advertising is not as pronounced as in other countries, and they forecast print advertising revenue to increase at an annual compound rate of 5.5% per annum to 2017, with circulation revenue flat.

South Africa's total adspend

Total Print	47%	44%	40%	32%	27%
TV	37%	36%	35%	48%	48%
Radio	11%	15%	16%	12%	16%
Cinema	1%	1%	3%	1%	1%
Outdoor	3%	4%	4%	4%	4%
Direct Mail	0%	1%	1%	0%	0%
Internet	0%	0%	1%	2%	3%
Total	100%	100%	100%	100%	100%
	1991	2000	2005	2010	2013

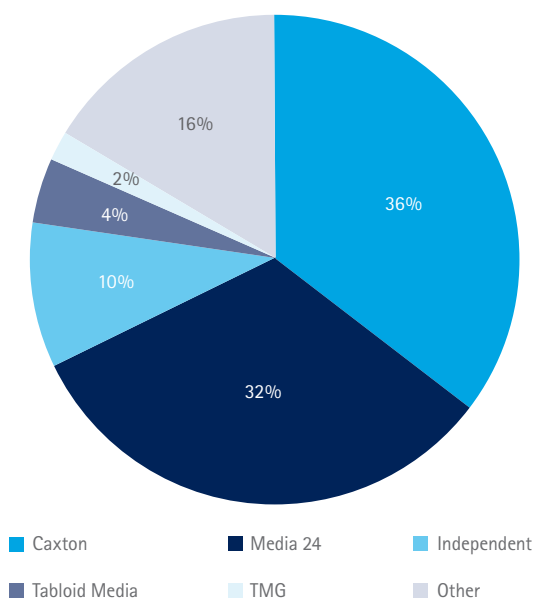
Source: Prescient Securities, March 2014

Within this segment, we expect free community papers to continue growing ahead of their paid rivals. It is striking to note, per the table above, just how small internet adspend still is as a percentage of total. In developed markets, print advertising losses continue to far exceed digital ad gains. Although an online strategy is important, we view the resilience of circulation and adspend of printed free community newspapers as of paramount importance.

## OUR PUBLISHING PLAY

Caxton, as the largest free community paper publisher and printer in South Africa, is attractively positioned to benefit from these trends. In the fourth quarter of 2013, Caxton distributed on average over 2.4m community free papers per week, followed closely by Media 24 and Independent. As can be seen below, Caxton held 36% of the market in the final quarter of 2013. Furthermore, Caxton has supplemented their physical free papers with a concentrated online offering, looklocal.co.za, which offers further advertising potential.

Free community paper market share



Source: Audit Bureau of SA, March 2014

Caxton has only one paid title, the Citizen, which has been relatively resilient in terms of circulation. Of more importance to us (and their printing presses) are the over 120 community newspaper titles that Caxton prints and distributes across South Africa and Sub-Saharan Africa. From the Barberton Times to the Zululand North Watch, growth in this segment of the market will drive increasing advertising revenue with Caxton able to offer wide and targeted coverage to retailers and other clients. An extract from Caxton's 2013 Annual Report highlights this trend, "Fortunately the areas within which the company's newspapers operate, remain the community and regional markets and, despite problems in the greater industry, these markets have in fact flourished and are experiencing growth."

As a publisher, printer and seller of advertising, the company is also poised to benefit if consumer sentiment improves, profiting not only from increased advertising revenue, but also via the printing of retail and other supplements inserted into local newspapers.

Although urbanisation and economic development will continue to support paid title circulation trends in South Africa, one cannot deny that free, up-to-date online news has been and will continue to be a threat to these titles. Quality journalism and differentiation will be key to maintaining circulation and ad revenue. Conversely, we expect free community newspapers to continue their growth in circulation and advertising revenue, and as such we remain excited about this segment of the market.

Excluding cash and investments of R5 per share, Caxton is trading at just over 9x normalised earnings, a level we consider significantly too cheap.

Tantalum MNC Fund						
Strategy	Multi-strategy, hedge					
Fund Objective	The fund is targeting above average real returns (8% to 12%) over the medium term at lower volatility than the market. Returns come from equity alpha on the long and short side, with yield enhancement from fixed interest, preference shares, hybrid instruments and listed property.					
Launch date	Jun-05					
AUM	R608m					
Return data:	3-mth	YTD	12-mnth	3-yr (p.a.)	Incept (p.a)	Total Return
	0.31%	0.31%	8.35%	9.01%	12.25%	177.54%
Risk data:	12-mth Std Dev	3-yr Std Dev	Std Dev since incep			
	7.01%	4.55%	7.40%			
Tantalum Resources Fund (ZAR)						
Strategy	Resources, hedge					
Fund Objective	The fund is targeting 15%-25% over the medium term at lower volatility than the resources and commodity markets. The fund invests in a global portfolio of mining and energy equities, commodities and associated derivatives trading on the LSE, JSE, ASX, TSX and NYSE.					
Launch date	Mar-13					
AUM	R55m					
Return data:	3-mth	YTD	12-mnth	3-yr (p.a.)	Incept (p.a)	Total Return
	3.28%	3.28%	12.44%	N/A	10.27%	11.17%
Risk data:	12-mth Std Dev	3-yr Std Dev	Std Dev since incep			
	16.13%	N/A	15.64%			
Tantalum Global Resources Fund (USD)						
Strategy	Resources, hedge					
Fund Objective	The fund is targeting 10%-20% over the medium term at lower volatility than the resources and commodity markets. The fund invests in a global portfolio of mining and energy equities, commodities and associated derivatives trading on the LSE, JSE, ASX, TSX and NYSE.					
Launch date	May-12					
AUM	\$3.3m					
Return data:	3-mth	YTD	12-mnth	3-yr (p.a.)	Incept (p.a)	Total Return
	3.04%	3.04%	3.82%	N/A	1.35%	2.60%
Risk data:	12-mth Std Dev	3-yr Std Dev	Std Dev since incep			
	13.27%	N/A	10.73%			
Tantalum Fusion Fund						
Strategy	Fixed Income, hedge					
Fund Objective	The fund is targeting cash + 2% returns over the medium term at lower volatility than the market. Returns come from fixed income alpha on the long and short side, with yield enhancement from preference shares, hybrid instruments and listed property.					
Launch date	Mar-06					
AUM	R59m					
Return data:	3-mth	YTD	12-mnth	3-yr (p.a.)	Incept (p.a)	Total Return
	1.56%	1.56%	6.44%	7.64%	8.67%	95.87%
Risk data:	12-mth Std Dev	3-yr Std Dev	Std Dev since incep			
	1.84%	1.65%	3.22%			
Tantalum Enhanced Cash Fund						
Strategy	Fixed Income, long only					
Fund Objective	The fund is targeting cash plus returns over the medium term. Returns come from fixed income alpha, with yield enhancement from preference shares, hybrid instruments and listed property.					
Launch date	Aug-10					
AUM	R882m					
Return data:	3-mth	YTD	12-mnth	3-yr (p.a.)	Incept (p.a)	Total Return
	1.67%	1.67%	6.91%	7.89%	8.70%	35.79%
Risk data:	12-mth Std Dev	3-yr Std Dev	Std Dev since incep			
	1.86%	1.41%	1.63%			
Tantalum Balanced Fund						
Strategy	Multi-Asset, long only					
Fund Objective	A Reg 28 compliant fund which invests in a mix of domestic equities, bonds, property, commodities and cash where the asset allocation is tactically managed. Maximum net equity exposure is 75% and index derivatives may be used to reduce net equity exposure.					
Launch date	May-13					
AUM	R361m					
Return data:	3-mth	YTD	12-mnth	3-yr (p.a.)	Incept (p.a)	Total Return
	1.57%	1.57%	N/A	N/A	15.10%	13.76%
Risk data:	12-mth Std Dev	3-yr Std Dev	Std Dev since incep			
	8.74%	N/A	8.74%			
Tantalum Equity Fund						
Strategy	Equity, long only					
Fund Objective	An equity portfolio having the primary objective to generate sustainable long term capital growth. The portfolio's investment universe consists of equity securities, preference shares, money market instruments, property shares and property related securities listed on exchanges and assets in liquid form. The portfolio's equity exposure will always exceed 80% of its net asset value.					
Launch date	Feb-14					
AUM	R1m					
Return data:	3-mth	YTD	12-mnth	3-yr (p.a.)	Incept (p.a)	Total Return
	6.95%	6.95%	N/A	N/A	49.67%	6.95%
Risk data:	12-mth Std Dev	3-yr Std Dev	Std Dev since incep			
	2.46%	N/A	2.46%			