

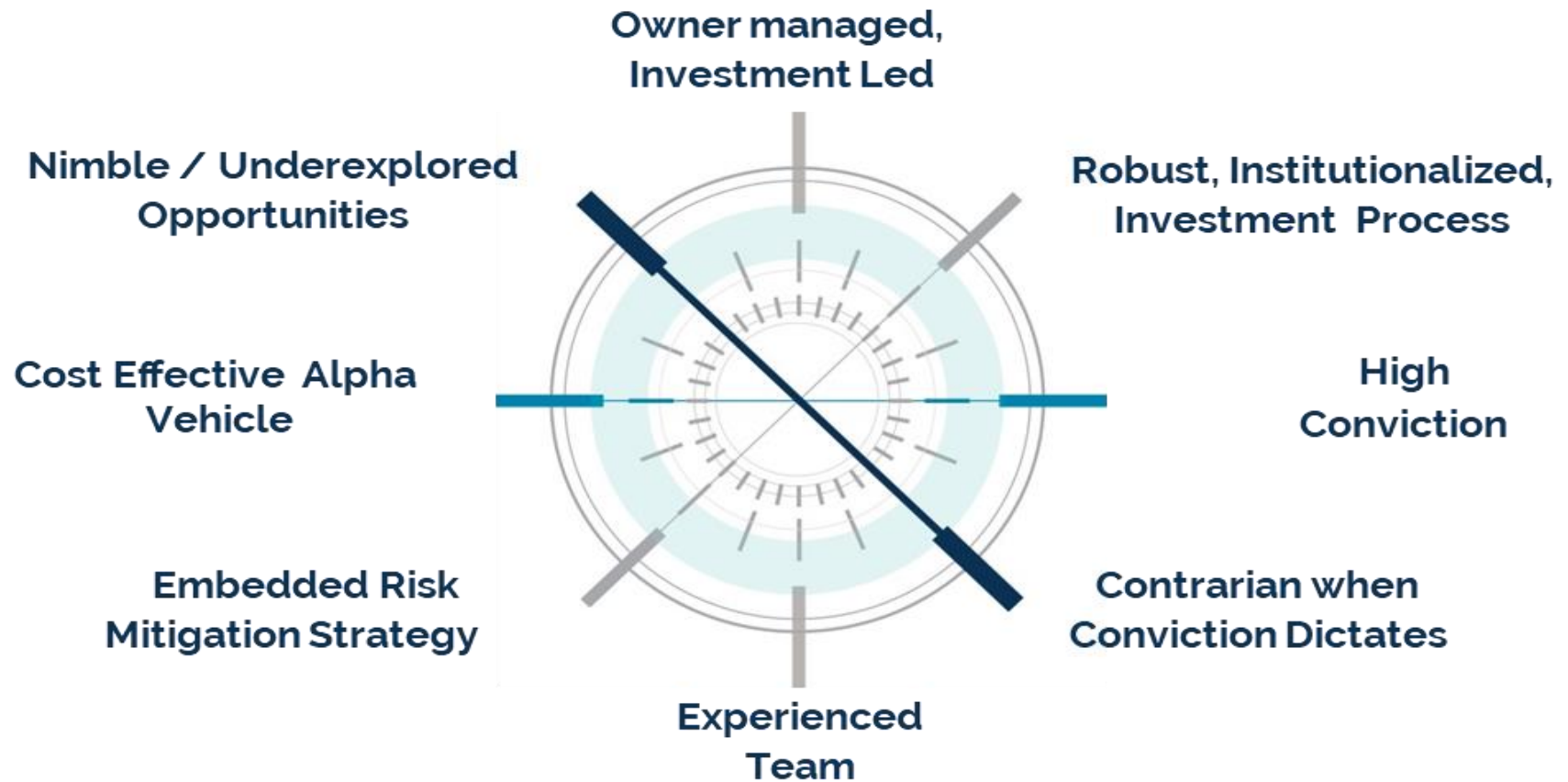


# ClucasGray Presentation

Andrew Vintcent & Grant Morris

August 2022

## WHO WE ARE & WHAT WE STAND FOR



Exploiting mispriced assets requires in depth fundamental analysis, a valuation discipline and a patient commitment to the investment case.

INVESTMENT STRUCTURE AND TEAM



COMMON RESEARCH AND INVESTMENT PLATFORM

We have an experienced and well-resourced research & investment team.

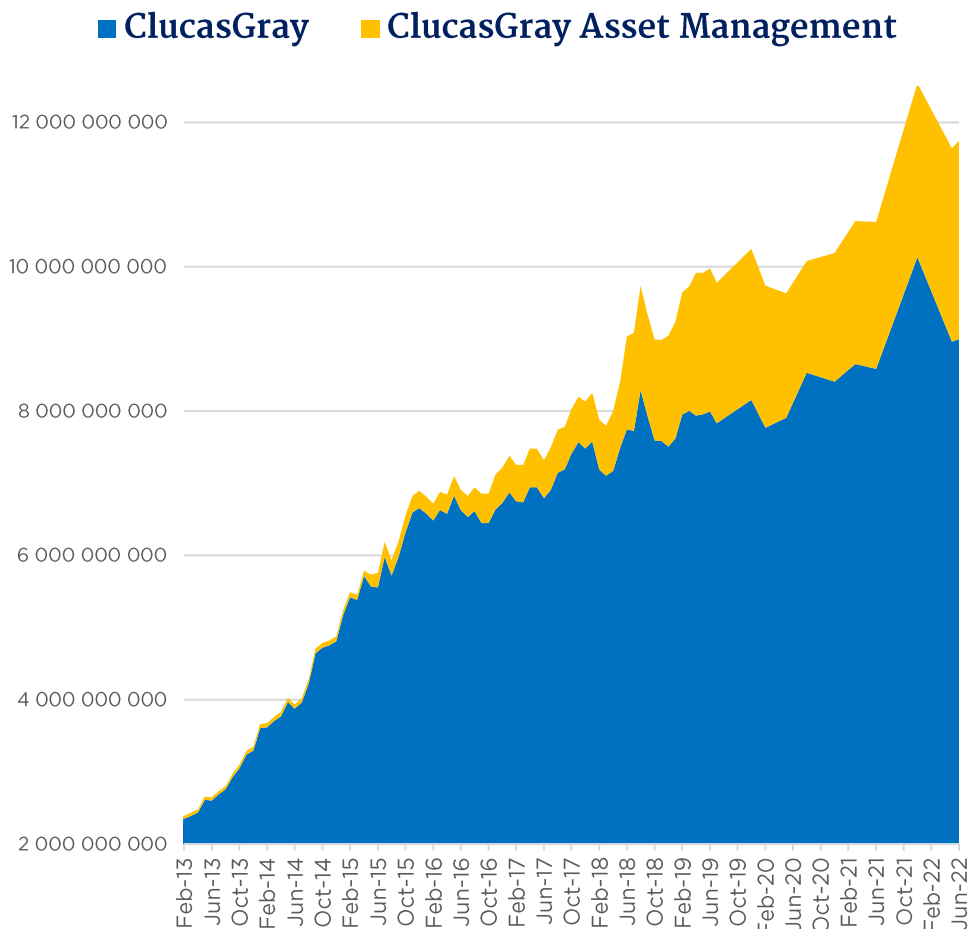
CGAM

Andrew Vincent Asset Allocation Financials, General 22 Years	Grant Morris Healthcare, Pharma Fixed Income 22 Years	Siphwe Ziqubu Research, Trading 3 Years	Lawrence Mosielo Fixed Income 2 Years

Research & Investment Team

James Clucas Gaming, Hotels, Beverages 26 Years	Paul Carter Resources 25 Years	Brendon Hubbard Small & Mid Caps 21 Years	Kirsty Savin Retail 11 Years	Danie Van Zyl Media, Food, Telecoms 4 Years
Guy MacRobert General 24 Years	Willem Pienaar Offshore 9 Years	JP Maritz Offshore 9 Years	George Slabbert Offshore 9 Years	Roshini Maharaj General 20 Years

## SUMMARY OF BUSINESS & ASSETS UNDER MANAGEMENT



### ClucasGray AuM

### AuM – June 2022 (approx)

Total AuM

**R12bn**

ClucasGray Pvt Clients

**R9bn**

CGAM

**R3bn**

- SA Equities

52%

- Multi Asset

48%

CGAM AuM evenly split between  
Institutional & Retail

Founded in 2005, ClucasGray is an established Asset Management business - large enough to invest in a well-resourced investment team, small enough to take advantage of a wide array of opportunities.

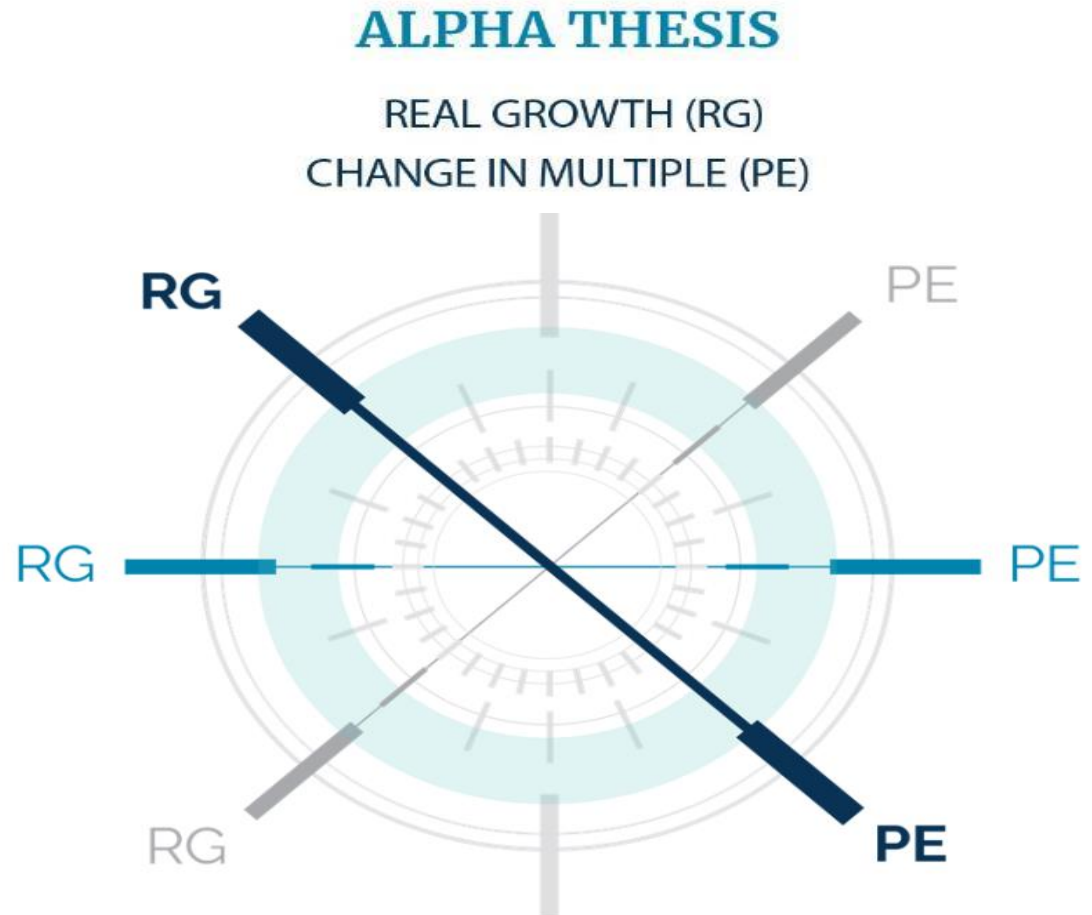
## ALPHA THESIS

Key drivers of a share price are:

1. Growth in earnings, dividends, NAV
2. Change in the rating or PE multiple

All investment decisions require comfort around Valuation.

Combination of Rating support & Earnings growth is a powerful one.



We believe that by investing in long term structural earnings outperformers at an appropriate multiple is the best way to generate compound returns



## CLUCASGRAY EQUILIBRIUM PRESCIENT FUND

### Meet the Managers



Andrew Vintcent

Grant Morris

#### SUMMARY:

The ClucasGray Equilibrium Prescient Fund is a Regulation 28 compliant Fund in the Multi-Asset High Equity category. The Fund is limited to a maximum net equity exposure of 75% and offshore limits aligned with Regulation 28 constraints.

#### INVESTMENT OBJECTIVE:

Via superior stock selection and an active asset allocation strategy the fund aims to provide long-term capital growth ahead of its peer group and has an internal target of delivering returns over time in excess of inflation plus 4%.

#### FUND INVESTOR PROFILE

The Fund is an ideal wealth creation vehicle for investors with a medium- to long-term investment horizon.

#### FUND INCEPTION DATE

16 January 2015

#### FUND RISK PROFILE

Medium - High

#### AUM

R 1 133 million

#### ADMINISTRATOR

Prescient Management Company

#### CUSTODIAN

Nedbank

#### AUDITOR

Ernst & Young

All information as of 31 July 2022

**The ClucasGray Equilibrium Prescient Fund is an actively managed fund across all asset classes utilising the full range of ClucasGray's investment skillset and experience**



## CLUCASGRAY EQUITY PRESCIENT FUND

### Meet the Managers



Andrew Vintcent

Grant Morris

#### SUMMARY:

The ClucasGray Equity Prescient Fund is a SA only, general equity fund. The Fund is a high conviction fund aiming to hold no more than 25 stocks at any one time.

#### INVESTMENT OBJECTIVE:

The Fund aims to provide long-term capital growth ahead of its benchmark and the competing unit trust category by investing in shares that are listed on the JSE. Fundamental analysis, a valuation discipline and a belief that inefficient markets create opportunities in mispriced assets underpin our process.

#### FUND INVESTOR PROFILE

The Fund is suitable for long-term investors seeking high levels of investment growth who can tolerate the associated levels of capital volatility.

#### FUND INCEPTION DATE

1 October 2011

#### FUND RISK PROFILE

High

#### AUM

R 881 million

#### ADMINISTRATOR

Prescient Management Company

#### CUSTODIAN

Nedbank

#### AUDITOR

Ernst & Young

All information as of 31 July 2022

The ClucasGray Equity Prescient Fund is a high conviction South Africa only equity fund with an outstanding track record of performance

# CLUCASGRAY

ASSET MANAGEMENT

AM

POSITIONING &  
PERFORMANCE



## CLUCASGRAY ASSET ALLOCATION PROCESS

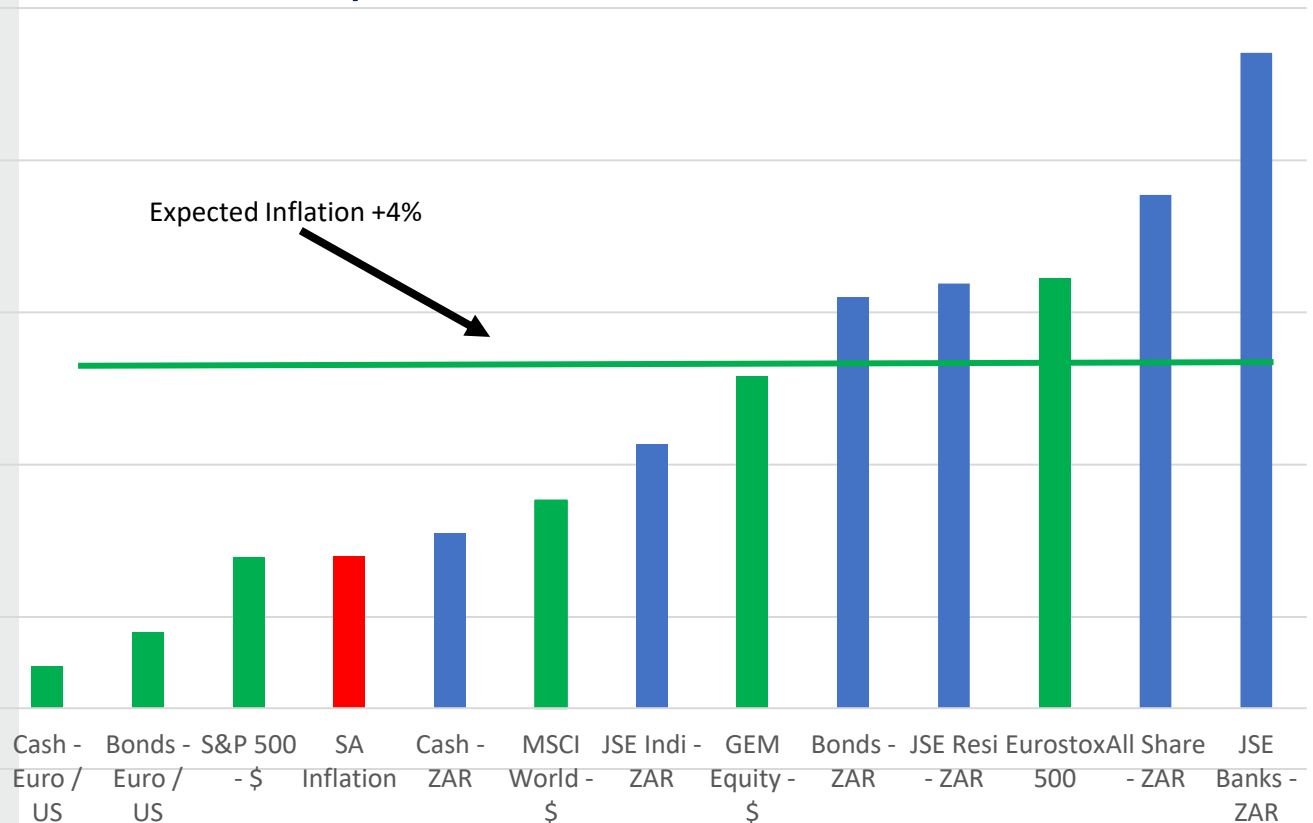
Measuring prospective returns against a **target of CPI+4%** is a key part of the asset allocation process

“Manhattan” templates are our Asset Allocation screens.

Asset Allocation Process:

- Idea Generation
- Assessment of Economic backdrop
- Relative valuation
- Portfolio Construction
- Portfolio Review

### Expected Annualised Return



We adopt a dynamic approach to Asset Allocation, leveraging proprietary and external analysis. We are guided by our ultimate objective of delivering Real Rand Returns over long periods.

## NON MATERIALS VALUATIONS COMPELLING & EARNINGS BASE REMAINS SUPPRESSED

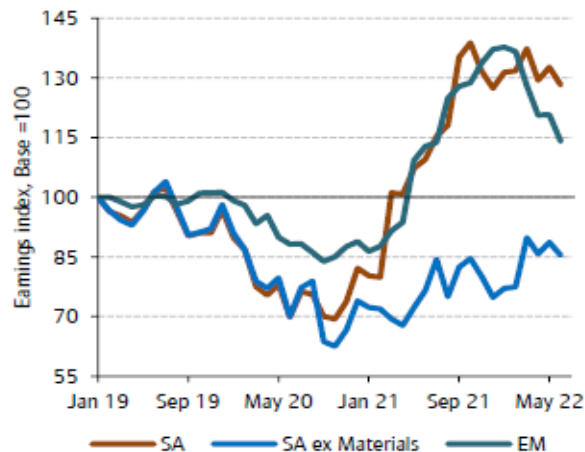
The JSE, ex Resources, trades at an undemanding rating

Financial & Industrial Index earnings have yet to recover to their pre Covid trend levels

Our forecast are for a steady recovery in earnings from current levels

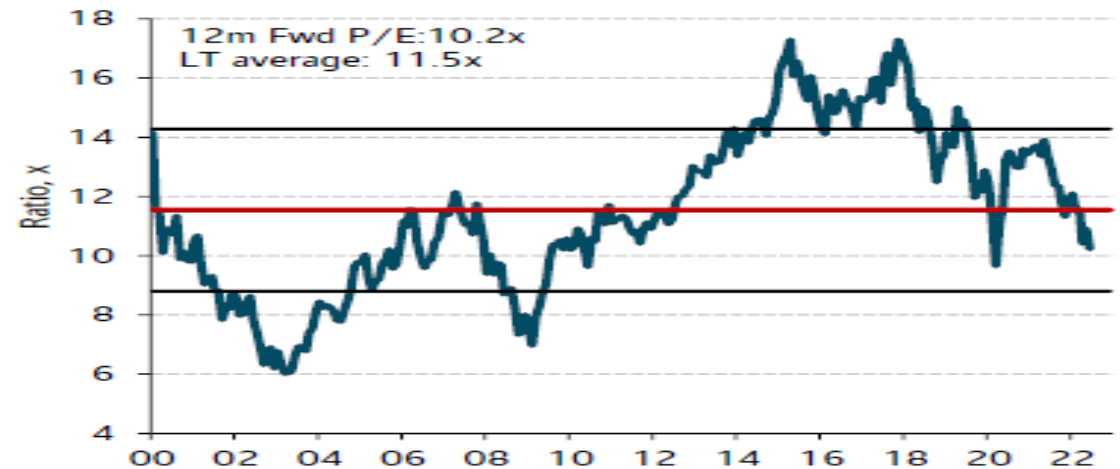
Coupled with low valuations, we expect good returns from numerous South African equities.

**Figure 3: MSCI SA ex Materials EPS recovery lags MSCI EM**



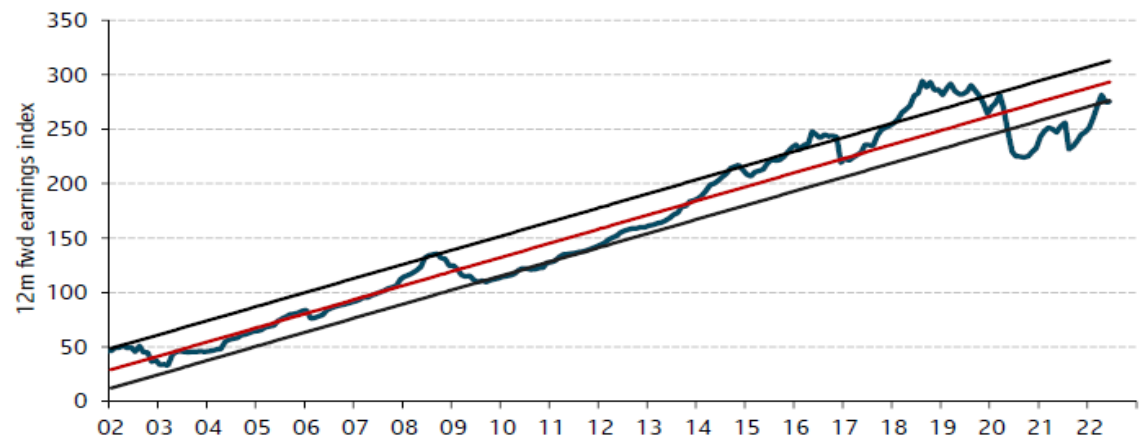
Source: MSCI, FactSet, SBG Securities analysis

**Figure 2: MSCI SA ex Materials: 12m Fwd P/E**



Source: MSCI, FactSet, SBG Securities analysis

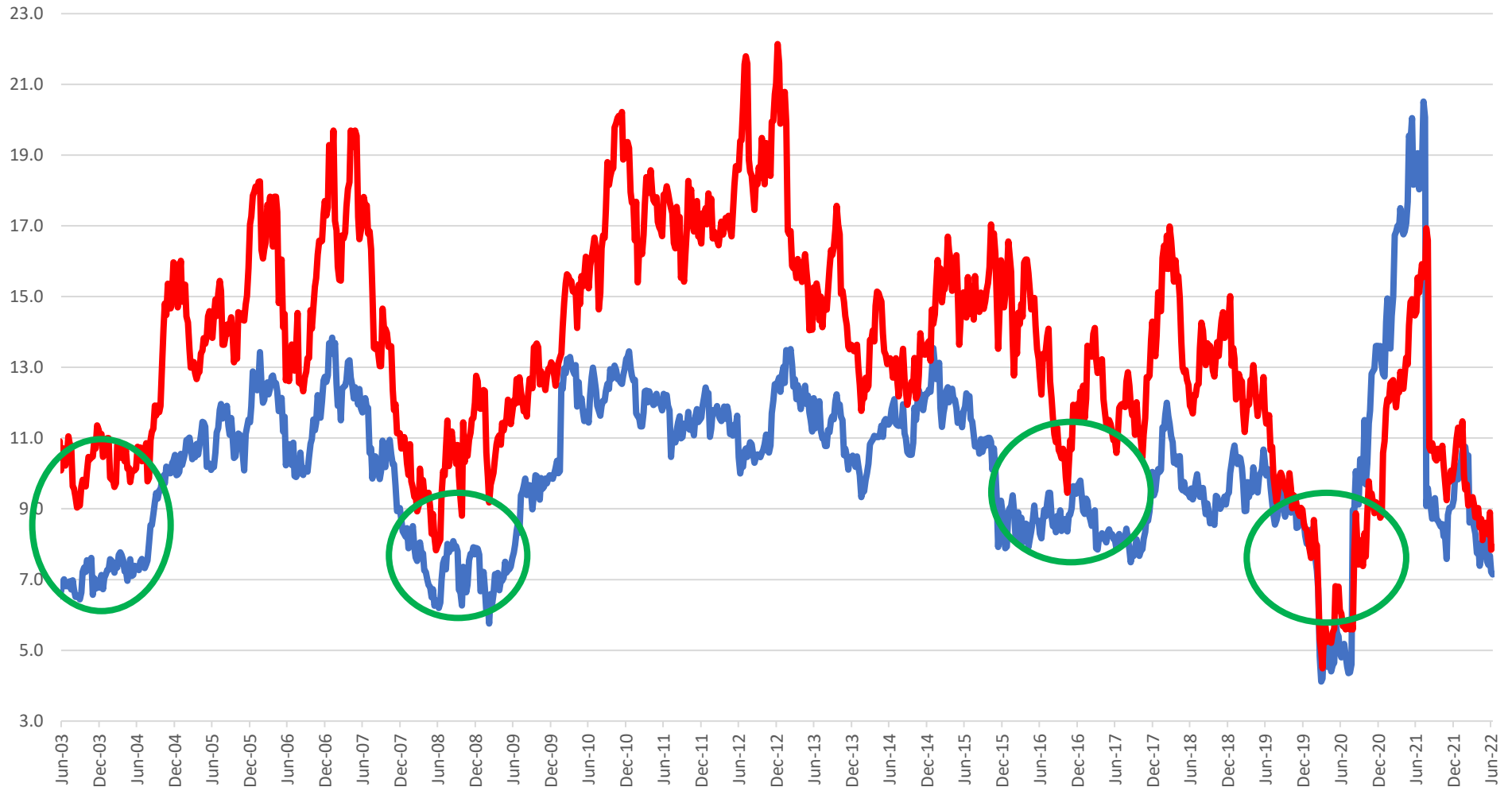
**Figure 68: MSCI South Africa ex Materials 12 month forward earnings index**



Source: MSCI, FactSet, SBG Securities analysis

## SA ASSETS AESTHETICALLY CHEAP – AS CHEAP AS AT ANY STAGE IN LAST 20 YEARS

PE of 2 Large South African Companies



## PROSPECTIVE IRR'S FOR SELECT COMPANIES

<u>Company</u>	<u>Fwd PE</u>	<u>Fwd DY</u>	<u>3yr IRR est</u>	<u>Exit PE</u>
Absa	6,75	7,8%	29%	9,00
AECI	8,30	6,3%	23%	10,00
Brit Am Tobacco	10,00	6,5%	20%	10,00
Metrofile	8,80	5,6%	27%	11,50
Momentum	6,50	7,4%	35%	8,00
Old Mutual	6,90	7,7%	26%	8,00
Reunert	7,80	8,0%	29%	10,00
Standard Bank	8,70	6,7%	23%	10,00
Truworths	8,00	8,4%	26%	11,00



## CURRENT POSITIONING – SA EQUITY | TOP HOLDINGS

Absa	8%
Standard Bank	7%
British Am Tobacco	6%
Old Mutual	5%
MTN	4%
Naspers	4%
<b>Reunert</b>	4%
<b>AECI</b>	3%
Anglos	3%
<b>Life Healthcare</b>	3%
<b>Massmart</b>	3%
<b>Metrofile</b>	3%
Glencore / Sasol	3%
<b>Spar / Adcock</b>	3%
<b>Sabcap / Ethos</b>	3%

### Differentiated Holdings

Reunert, Adcock, Astral, Momentum

Sabvest, Ethos, Metrofile

AECI, Grindrod, Massmart

### Portfolio Construction Guidelines

Minimum weight of **1.5%**

Maximum weight of **10%**

25-30 holdings

### Risk Metrics

Leverage

Valuation

Concentration

Liquidity

### Current Opportunities Presented

Absa, Old Mutual, Ng1, Momentum

Life Healthcare, AECI, Mondi

Massmart, Spar, Truworths

## COST OF CAPITAL IN SA REMAINS ELEVATED



Much like EM Equity and Currencies, South African bonds have been offering attractive real yields for some time.

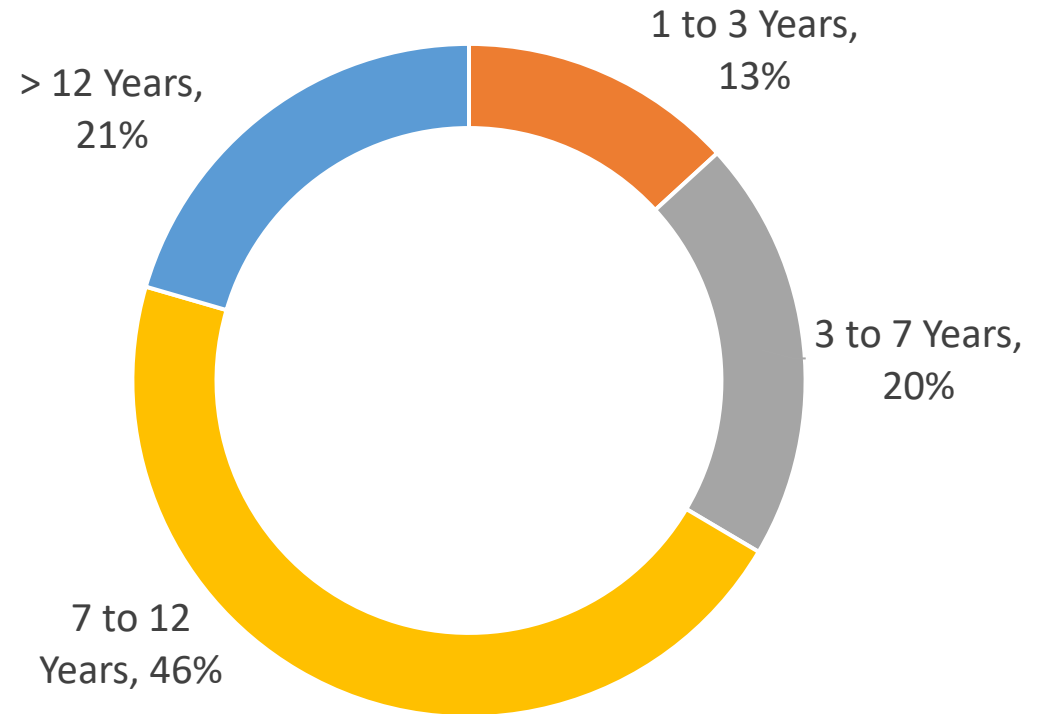
## SOUTH AFRICAN INCOME EXPOSURE

**Bonds as % of Fund**      **21%**  
**Income Fund**            **2%**  
**Pref Shares**             **1%**  
**Running yield of bonds**   **± 10,1%**

Composition	% of Fund
Corporate	34%
Government	66%
Fixed Coupon	80%
Float - Jibar Linked	20%

Top 5 Exposures	% of Fund
R213	6.2%
R209	4.2%
R2030	3.2%
Momentum	2.7%
FirstRand	2.3%

### Bond Duration Analysis



Have lengthened duration of the bond exposure to take advantage of elevated yields, primarily in the 7-12 year part of the curve at the expense of 3-7 year duration.

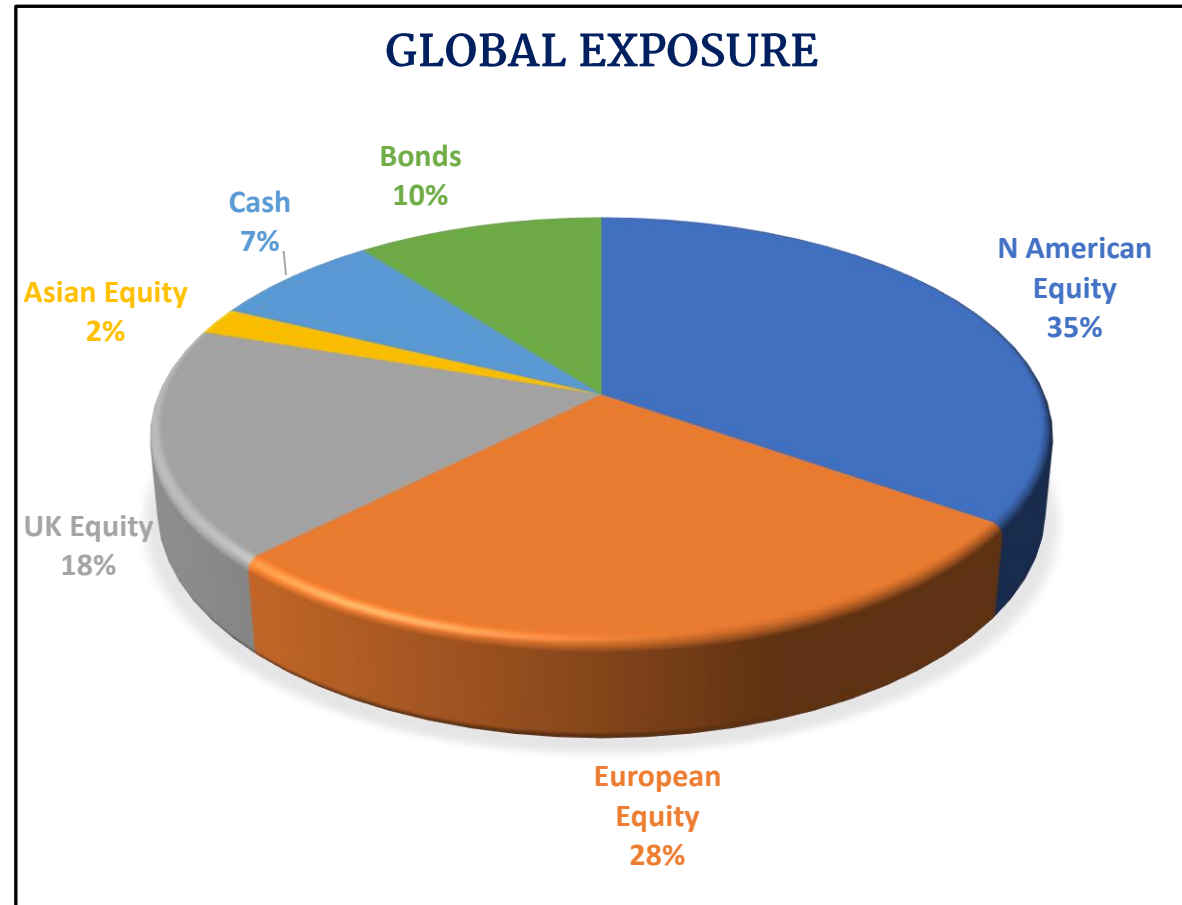
## CURRENT GLOBAL ALLOCATION – EQUITY / CASH / BONDS

We use a combination of Active (Veritas) & Passive (ETF) solutions for the global allocation

Currently favor more Active over Passive within the equity allocation

Have marginally increased allocation to the global equity positioning over recent weeks following global sell-off

Overweight Europe, UK where we see better valuation support.



Following a dramatic sell-off, our process is highlighting an increased number of global opportunities to deliver Real Rand returns.



## CURRENT ASSET ALLOCATION & PORTFOLIO CONSTRUCTION

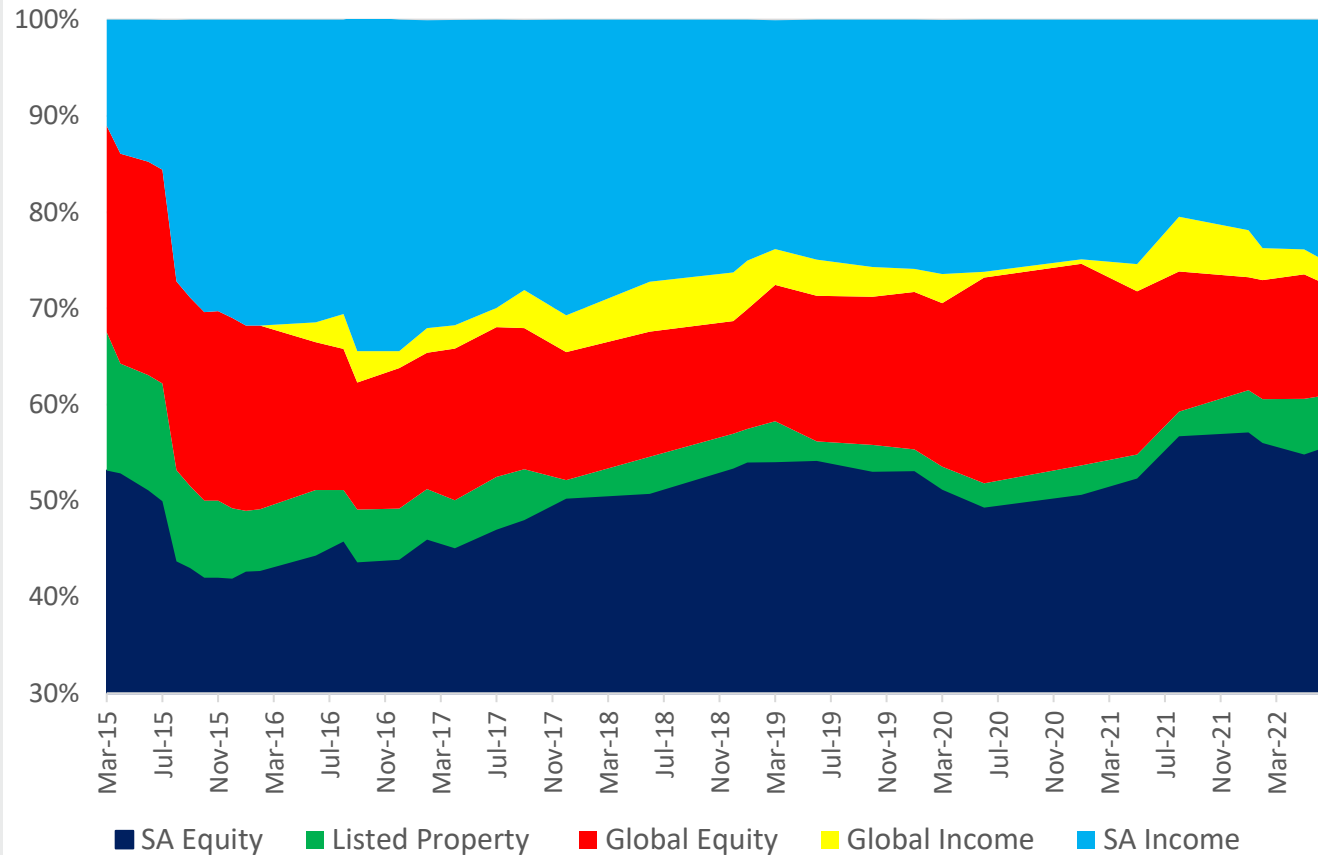
ClucasGray Equilibrium Fund has adopted a dynamic approach to Asset Allocation.

Using the below ranges would have generated a **real return of over 7% per annum** since December 1975

### Strategic Asset Allocation Ranges and Current

SA Equities	45% - 55%	<b>52%</b>
Listed Property	5% - 10%	<b>6%</b>
Cash, Bonds & Prefs	10% - 30%	<b>26%</b>
Global	20% - 25%	<b>16%</b>

### ClucasGray Equilibrium Fund Asset Allocation



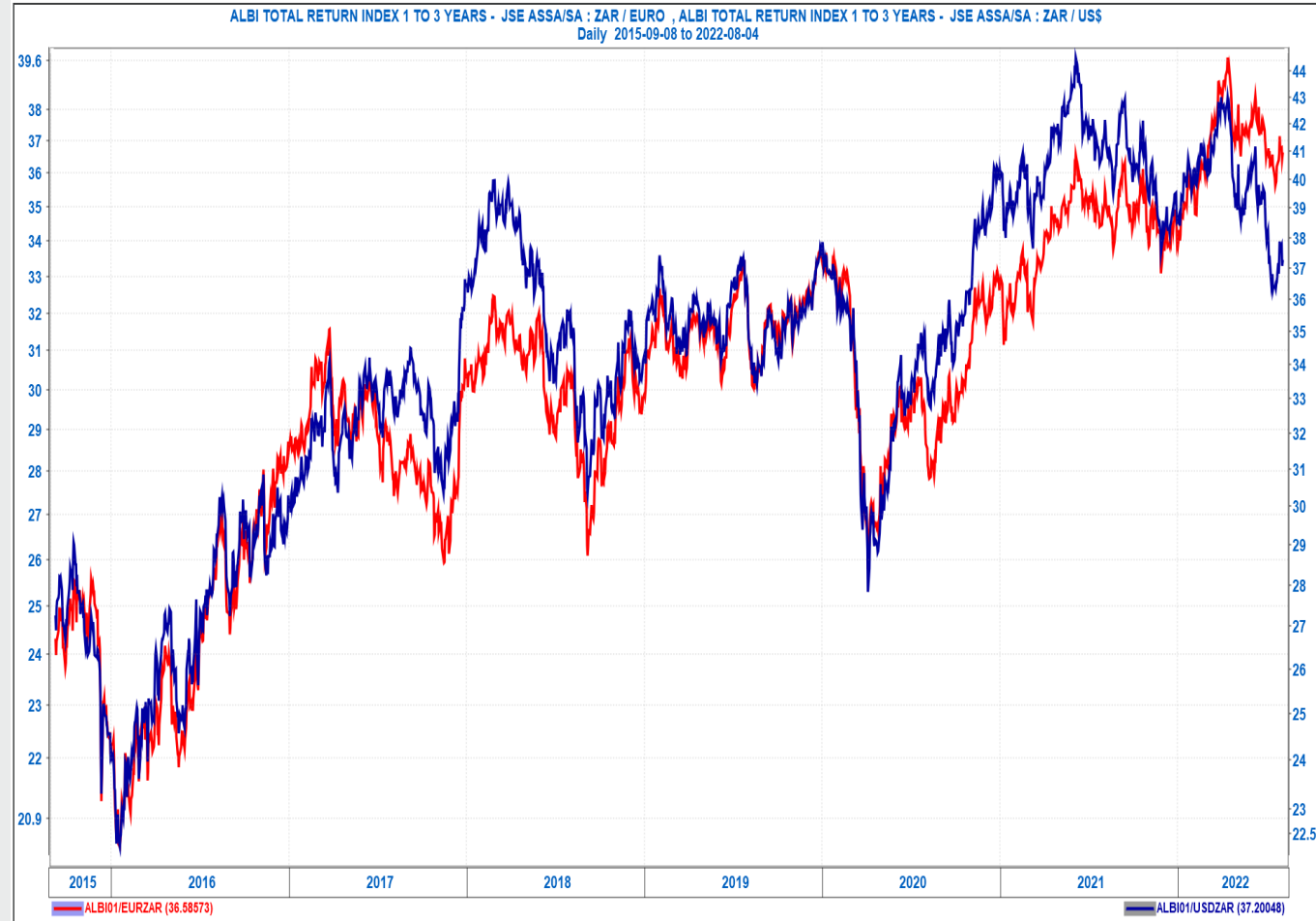
We have been active around both the asset allocation & security selection. The Fund has adopted a dynamic asset allocation profile since inception. SA Equity allocation includes some “cash proxies” and Rand hedge equities – both distort “look through” asset allocation.

## OUR APPROACH TO OFFSHORE CASH HAS ADDED VALUE – OVER TIME, NOT ALL THE TIME!

Despite numerous Rand crises, the return from short duration ALBI has outperformed the Rand Dollar & Rand Euro by over **4% and 6% pa respectively**.

We believe in the “**Bird in the Hand**” approach to generating real Rand returns for our Equilibrium Fund investors.

It is a strategy that at different points in time can come with significant angst.



Currency volatility is an occupational hazard in South African multi asset investing, yet yields available in South Africa enable us to generate Real Rand Returns at relatively low risk.

## PERFORMANCE OF CLUCASGRAY EQUITY FUND VS JSE INDICES SINCE INCEPTION

Equity Fund Gross Returns, to 31 July 2022	<u>1 Year Return</u>	<u>3 Year Return</u>	<u>5 Year Return</u>	<u>10 Year Return</u>	<u>Since Inception</u>
CG Equity Fund - Gross Returns	19.1%	11.9%	8.8%	10.8%	12.3%
<i><b>Vs Capped Swix</b></i>	11.9%	3.0%	3.4%	1.7%	1.9%
Capped Swix, TR	7.2%	8.9%	5.4%	9.1%	10.4%
<i><b>Vs Swix</b></i>	15.0%	4.5%	3.6%	2.8%	1.7%
SWIX, TR	4.1%	7.4%	5.2%	8.1%	10.6%

The Fund has delivered Alpha over both the Swix and Capped Swix over all periods since inception. The ClucasGray Equity Fund has nearly 11 year track record of delivering returns ahead of Indices and Peers.

## CLUCASGRAY EQUILIBRIUM FUND AGAINST BIG BRAND BALANCED FUNDS

As at 31 July 2022								
<u>Fund Name</u>	<u>1 Year</u>	<u>Rank</u>	<u>3 Year</u>	<u>Rank</u>	<u>5 Year</u>	<u>Rank</u>	<u>Since Inception - Jan 2015</u>	<u>Rank</u>
Manager 1	9.1%	2	9.4%	3	6.2%	5	7.6%	3
Manager 2	2.5%	5	9.7%	1	6.6%	4	6.8%	4
Manager 3	8.4%	3	8.9%	4	6.9%	3	7.2%	5
Manager 4	2.1%	6	6.4%	7	5.1%	7	5.4%	7
Manager 5	3.8%	4	8.8%	5	5.6%	6	5.8%	6
Manager 6	1.9%	7	8.4%	6	7.2%	2	8.1%	2
ClucasGray Equilibrium Fund	9.9%	1	9.6%	2	8.1%	1	8.6%	1
SA Multi Asset High Equity	3.7%		7.9%		6.0%		6.1%	
Inflation	6.2%		4.8%		4.7%		5.2%	
Real Returns	3.7%		4.8%		3.4%		3.4%	

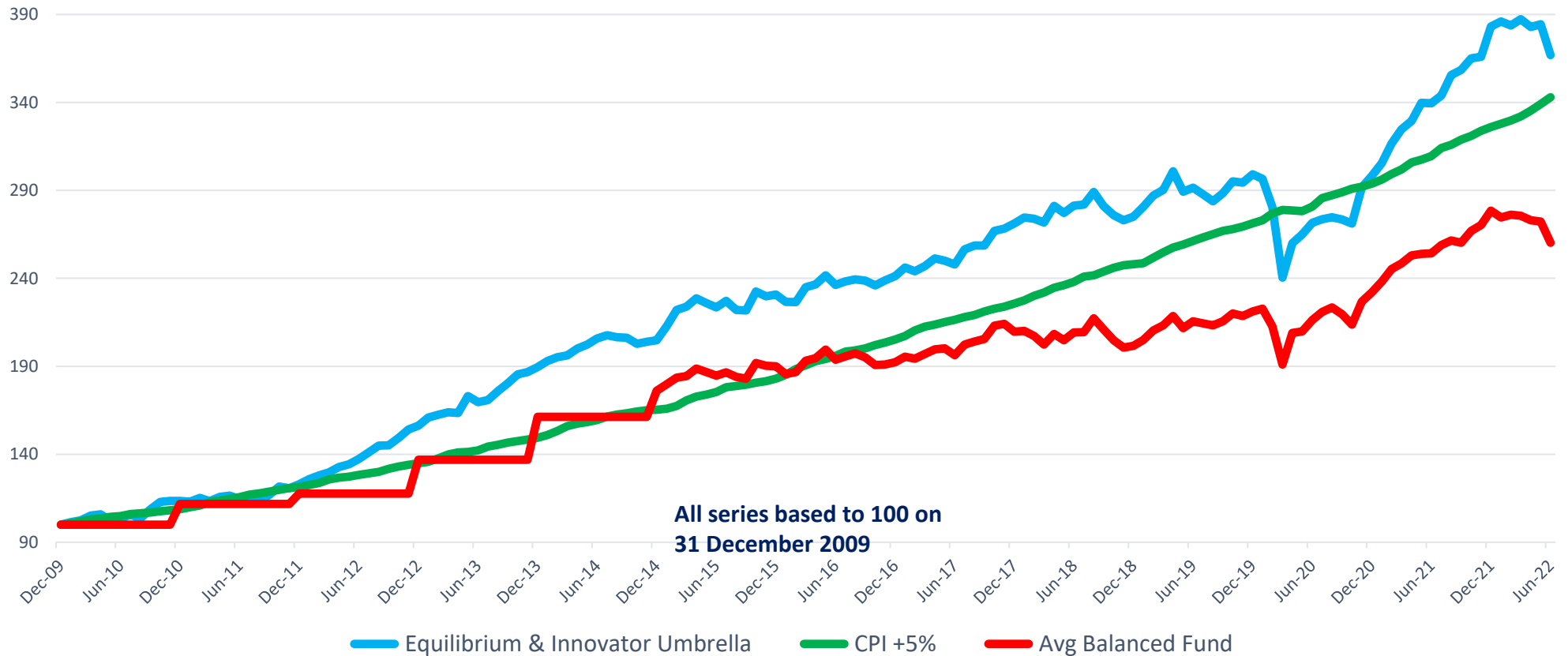
Source: FE Analytics, CGAM

The Equilibrium Fund has built a very respectable relative performance over most periods since inception – against larger peers and the industry as a whole. The Fund has delivered good real returns over all periods.



## LONG TERM RETURNS OF THE CLUCASGRAY MULTI ASSET CAPABILITY

### Long Term Returns from ClucasGray Multi Asset & Equilibrium Fund 31 Dec 2009 to 30 June 2022 (disclaimers)



Equilibrium Fund was launched in January 2015 from a seed fund (Innovator) which had been managed since 31 Dec 2009. Above shows 12 years of outperformance of the ClucasGray Multi Asset capability vs both Peer Group and Inflation +5% target (actual is CPI + 6%)



CLUCASGRAY

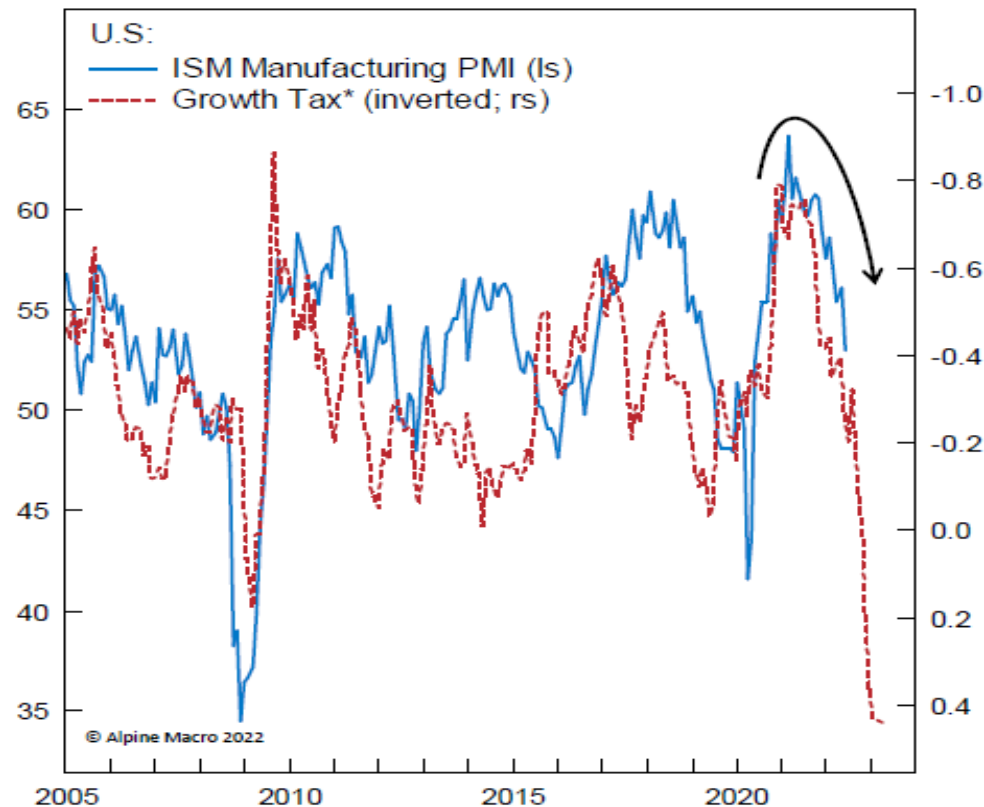
ASSET MANAGEMENT

AM

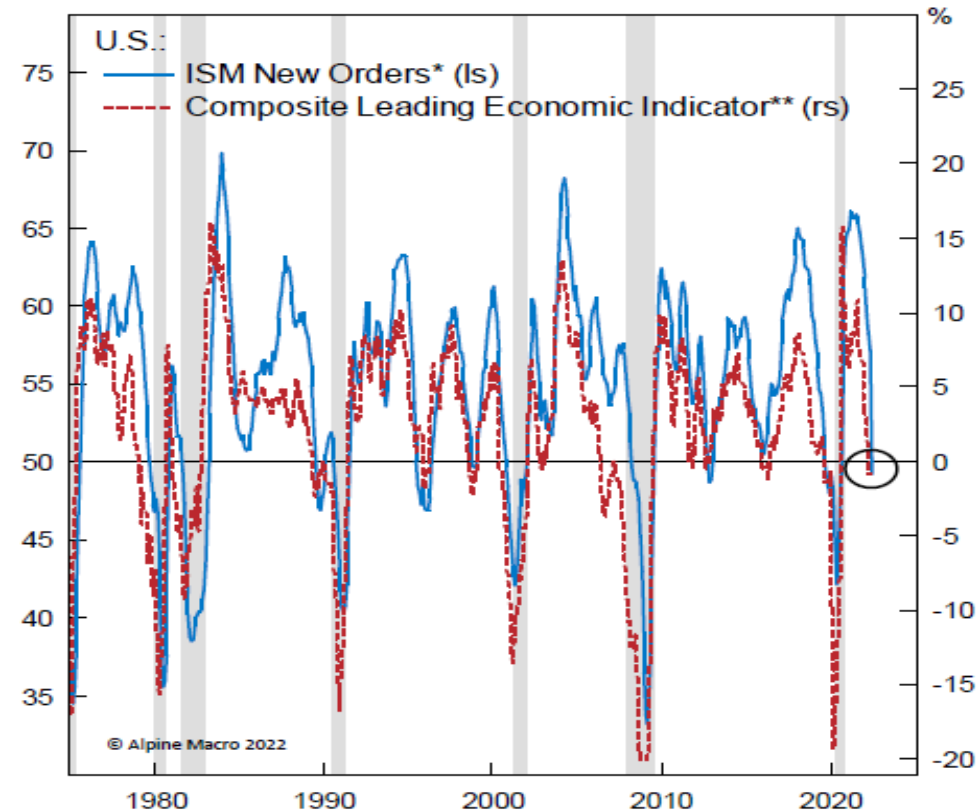
INVESTMENT  
OUTLOOK

## US ECONOMIC OUTLOOK DETERIORATING

### Signs Of Weaker Growth (1)



\*Combination of the dollar, oil price and interest rates, standardized and advanced by 9 months



\*Shown as a 6-month moving average except last data point

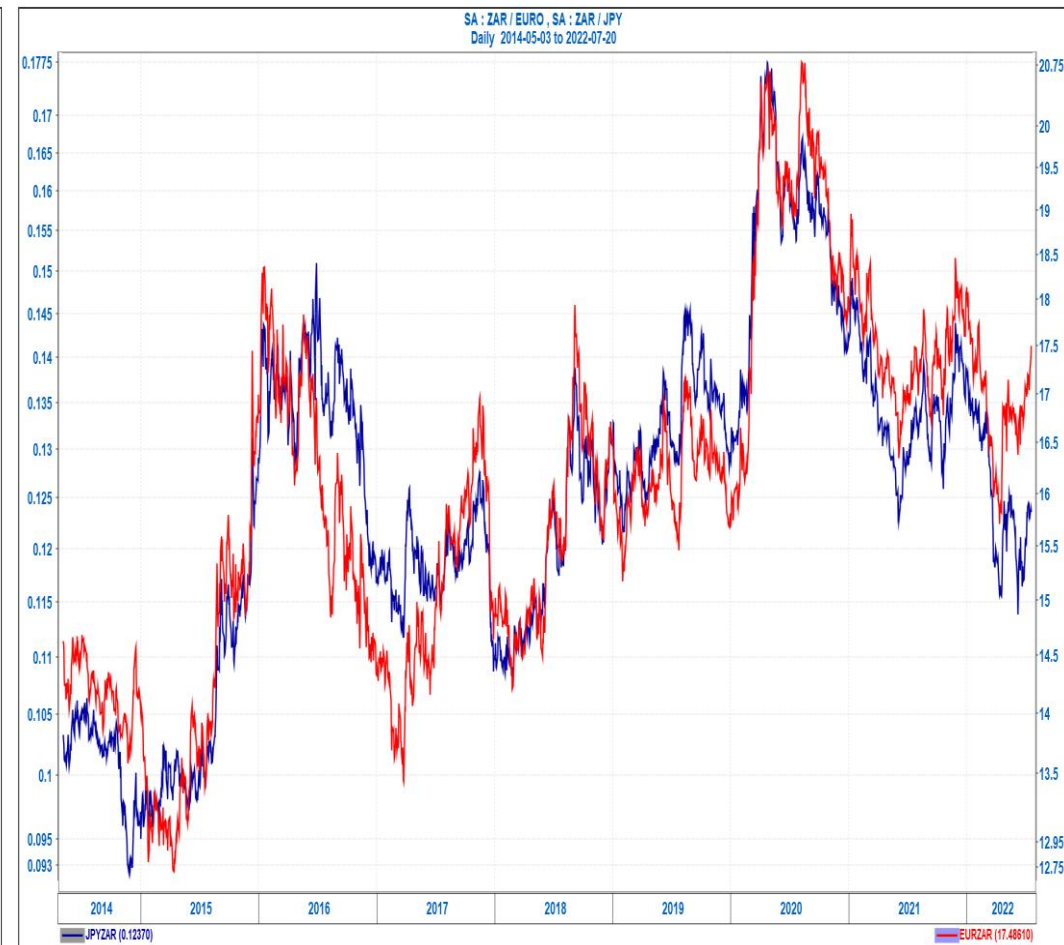
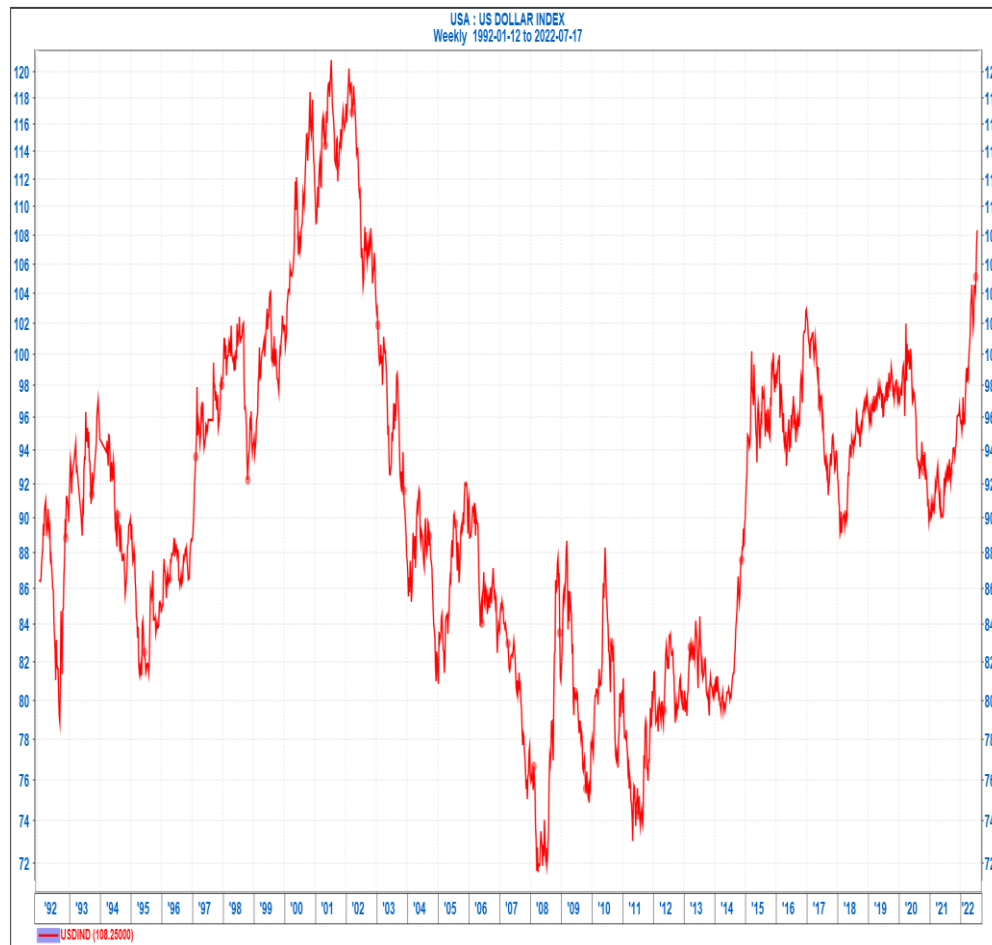
\*\*Shown as 6-month annualized % change; truncated at -20

Note: Shading denotes U.S. recessions

Leading indicators point to tough outlook for US economy.



## US DOLLAR HAS BEEN STRONG FOR SUSTAINED PERIOD



The Rand, remarkably, is largely flat against Euro & Yen for the last 5 years. Has been global dominance of the Dollar.

## PPP FUNDAMENTALLY SUPPORTIVE OF THE RAND (& EURO)

### Purchasing Power Parity Since 2000

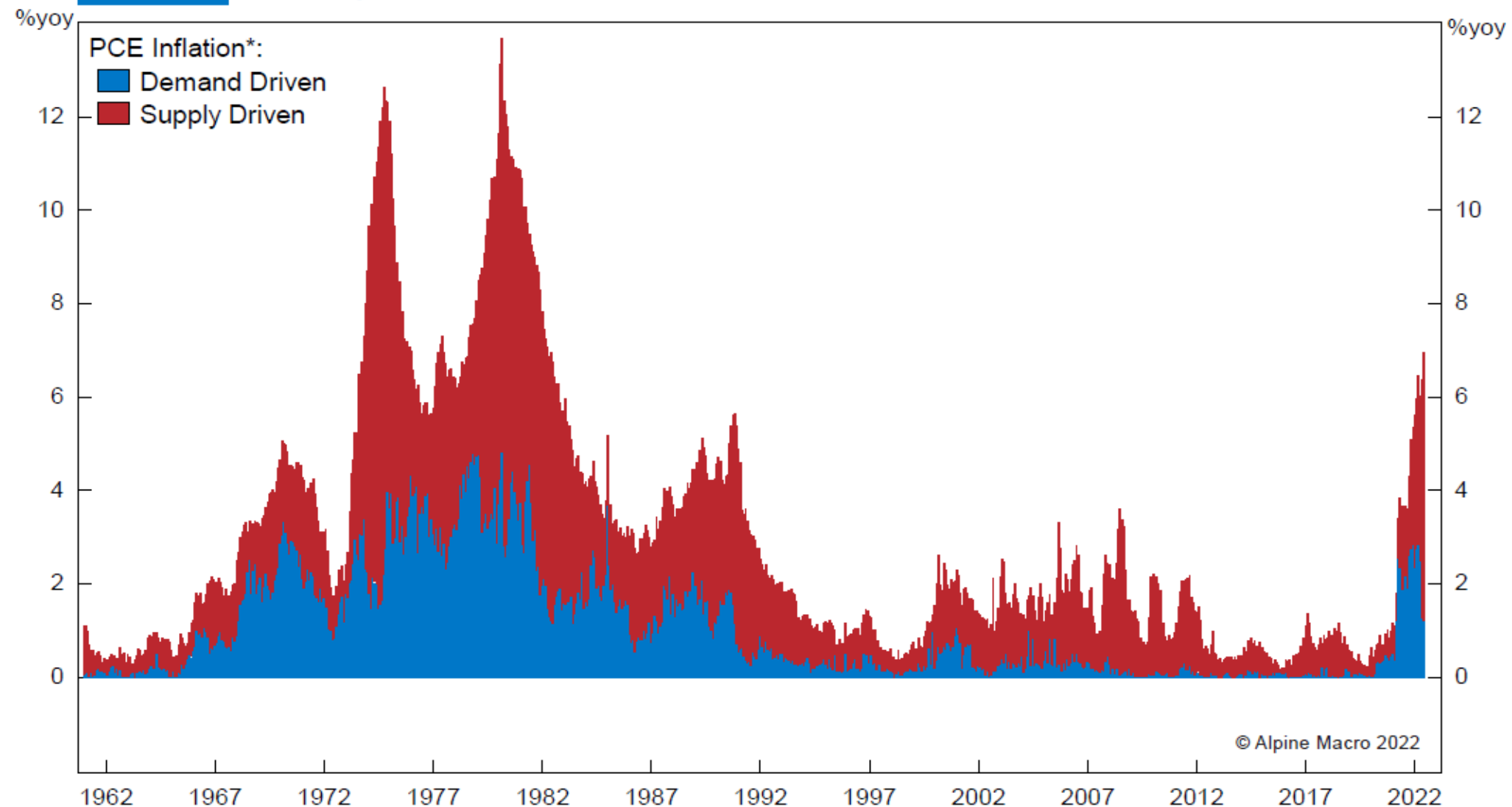


Source: Bloomberg | CG

The inflation differential has narrowed significantly the last few years. Currency spikes coincide with significant global economic events, yet structurally weak since 2015, and remains as weak as it was during Nenegate.

## SUPPLY SIDE INFLATION PRESSURES AT MULTI DECADE HIGHS

**Chart 2** A Decomposition Of Inflation Drivers



\*Alpine Macro proprietary calculation

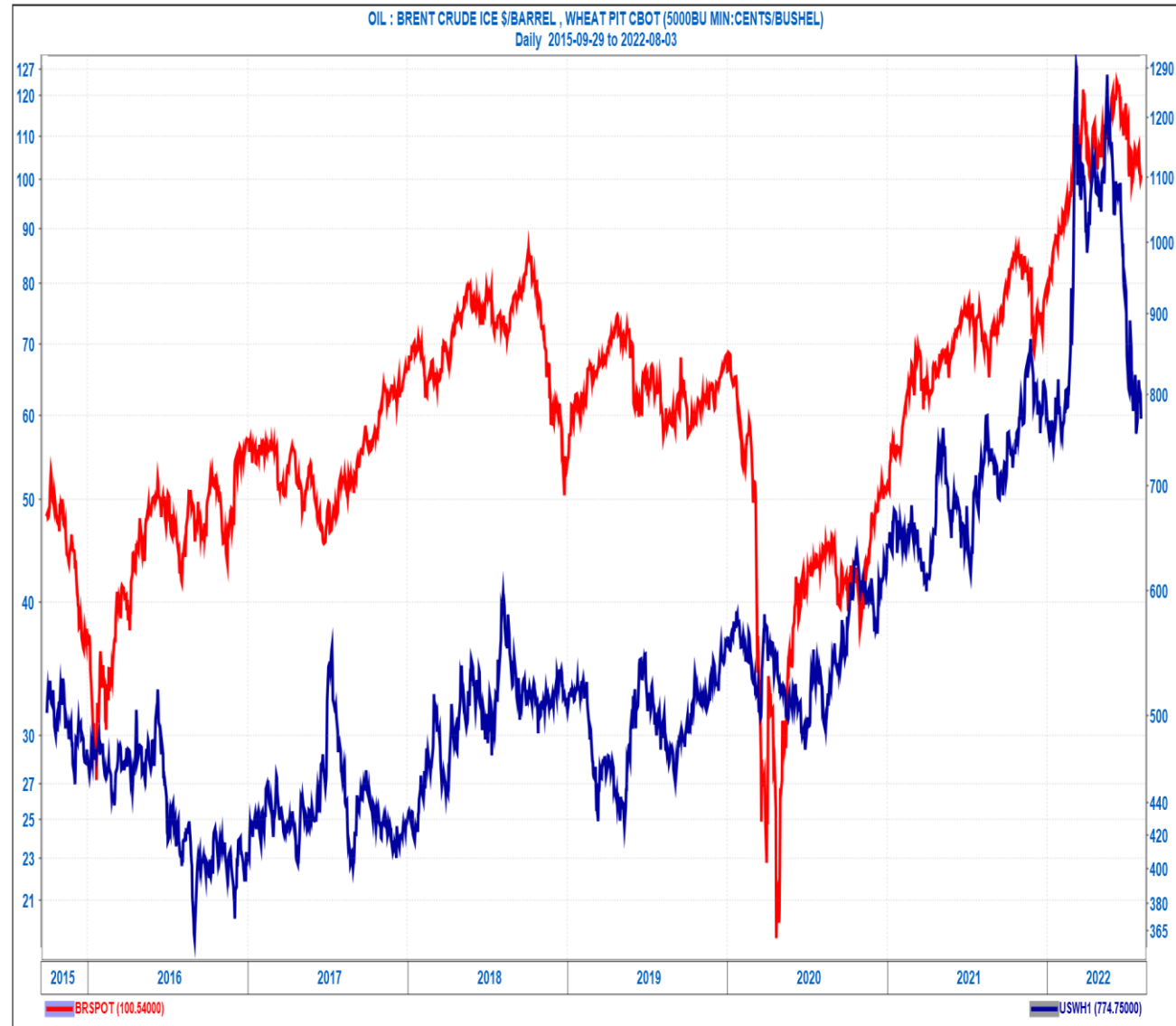
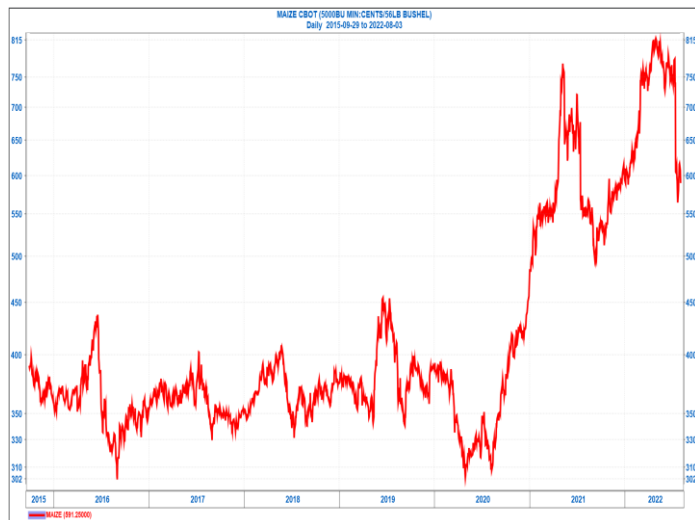


## SUPPLY SIDE INFLATION INPUTS ROLLING OVER?

Wheat, blue line on right, and Maize, red line below, are back at pre Ukrainian War levels

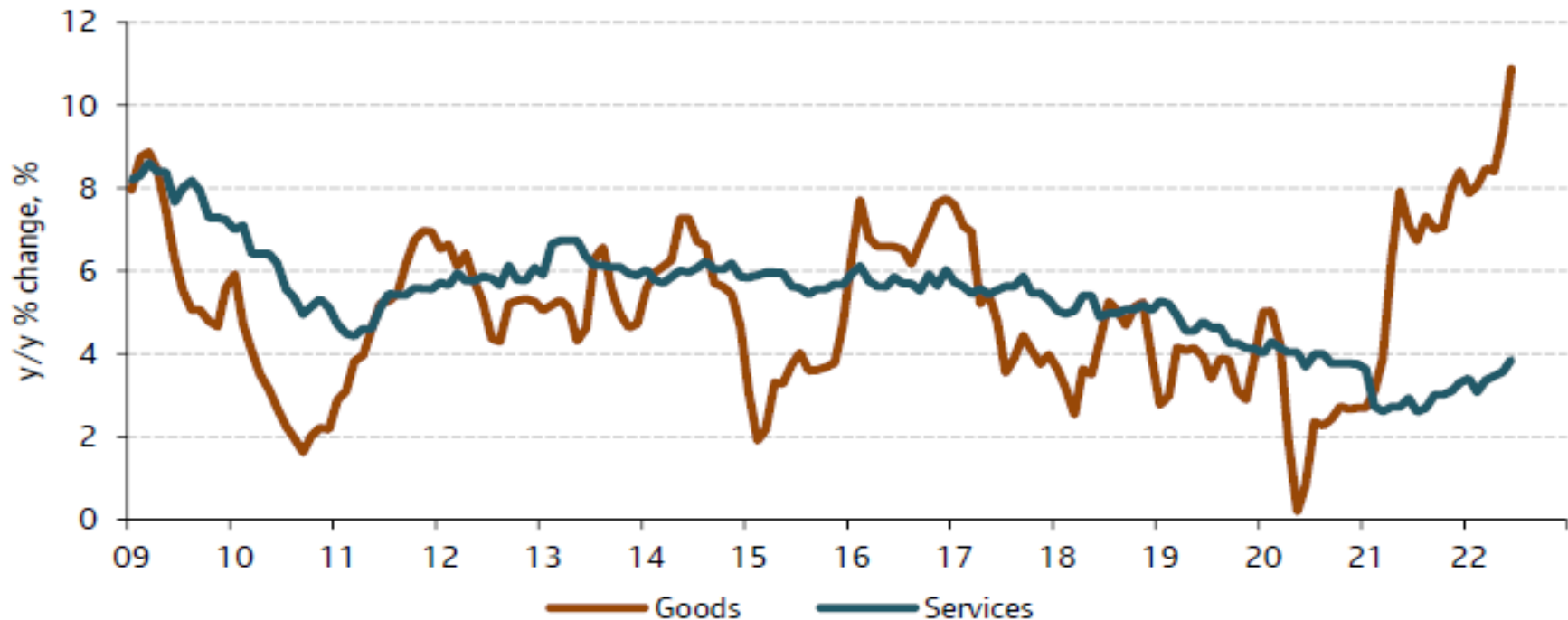
Oil has also subsided from the recent highs

Supply side inflation dynamics can become disinflationary if prices stabilize or fall.



## GOODS INFLATION HAS BEEN THE CONCERN GLOBALLY

Figure 34: SA goods vs services inflation



Source: Stats SA, IRESS, SBG Securities analysis

50% of SA inflation basket is Services – unusually high in global context. With excess capacity in many key areas, expect it to remain relatively benign. Good inflation should roll over as input prices pressures ease, and supply chains normalise.

## ENERGY INTENSITY SHIFTING

In wake of both a global Energy crisis and persistent Loadshedding in South Africa, the 2 charts illustrate how energy intensity of GDP has shifted over the decades

The Oil intensity of global economy has declined by 40% in last 40 years.

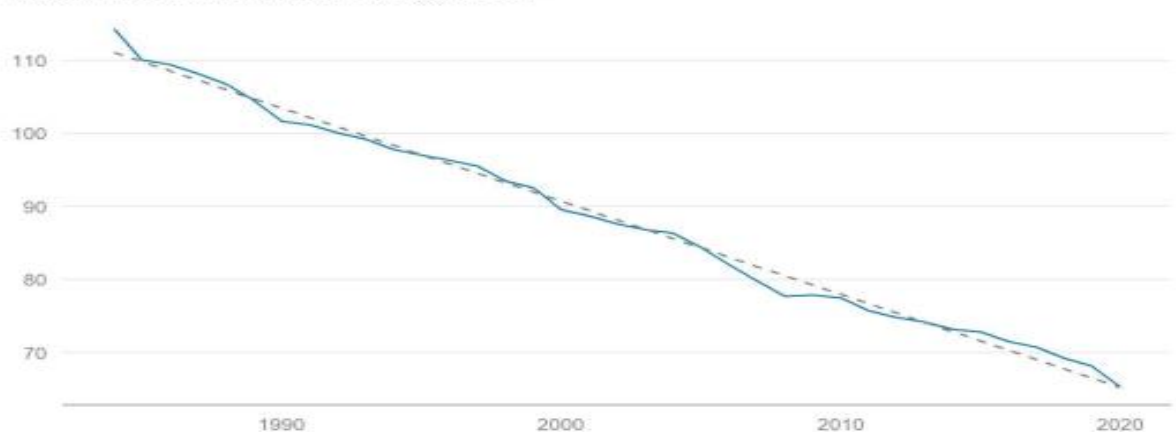
Similarly, South Africa's electricity usage to GDP has fallen 30% in two decades

This doesn't undermine the issues, just highlights their declining impact on Global & SA GDP.

Is there a silver lining to the dark Eskom cloud? Renewable investment drive to ignite GDFI spend?

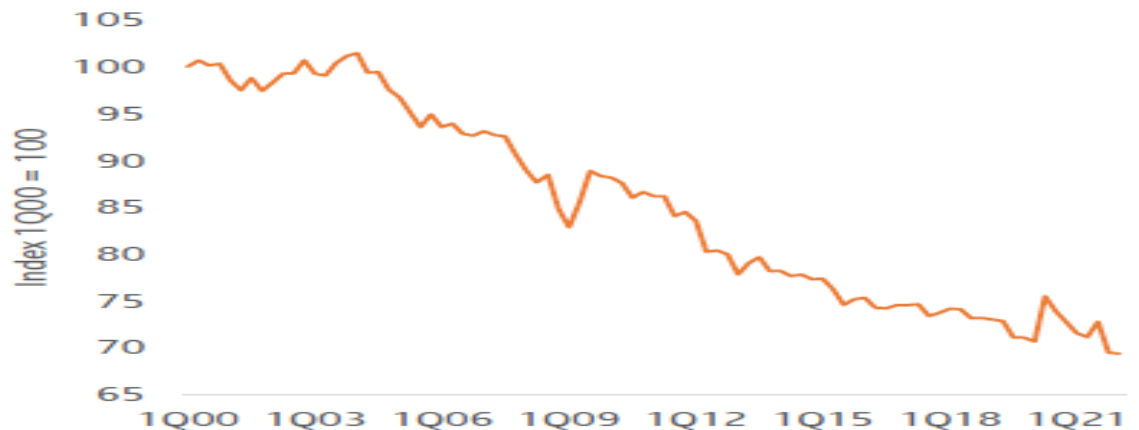
### Global oil intensity of GDP

Litres of oil consumed per \$1,000 of global GDP



Source: IEA, Worldbank, OECD, Morgan Stanley Research

**Figure 16: Ongoing decline in (Eskom) electricity use relative to real GDP implies that higher output is achievable with the same Eskom electricity distributed**



Source: Eskom, Stats SA, Standard Bank Research

## CURRENT ASSET ALLOCATION & PORTFOLIO CONSTRUCTION

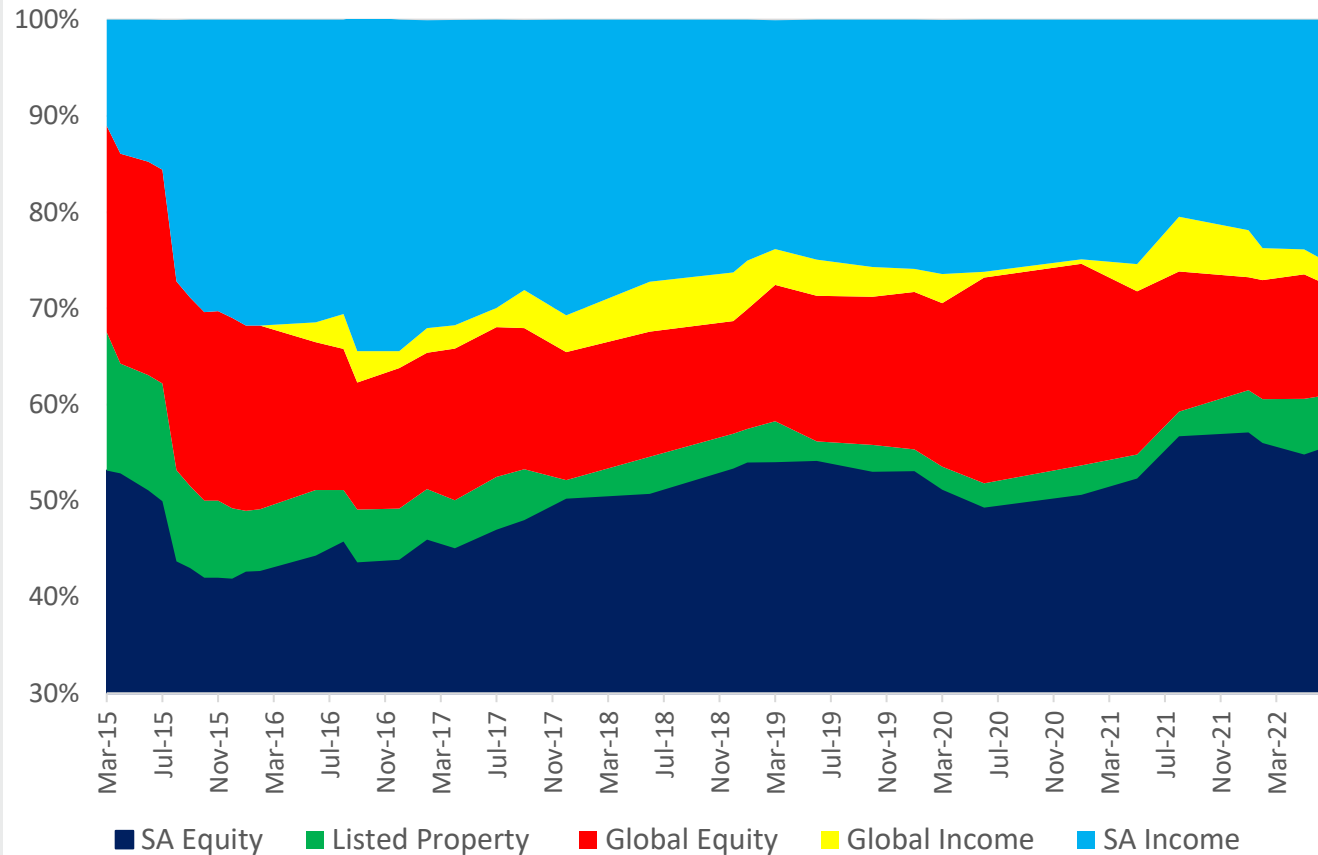
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## INVESTMENT CONCLUSIONS

- Numerous companies offer attractive prospective returns
- Recent corporate action highlights opportunity set
  - Unless re-rating, expect trend to continue
- Earnings backdrop uncertain
  - Yet following prolonged period of benign growth
- Patience required as ever
- Increasing opportunities to deliver Real Rand returns in select global assets
- South African real and relative yields seldom been higher
- Elevated Cost of SA Capital currently hampering Equity market re-rating

**Our continued constructive stance on South African risk assets is evident in Asset Allocation positioning – given the opportunity set, we believe the ability to generate real Rand returns requires a healthy exposure to South African assets.**

## DISCLAIMER

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Persons are advised to contact ClucasGray Asset Management directly should they wish for us to conduct an analysis with a view to facilitating investing in our investment portfolios.

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