CLUCASGRAY AM
ASSET MANAGEMENT

To paraphrase the famous philosophical quote by George Berkeley:

"If a stock falls in the market, and no one's around, does it really lose it's value?"

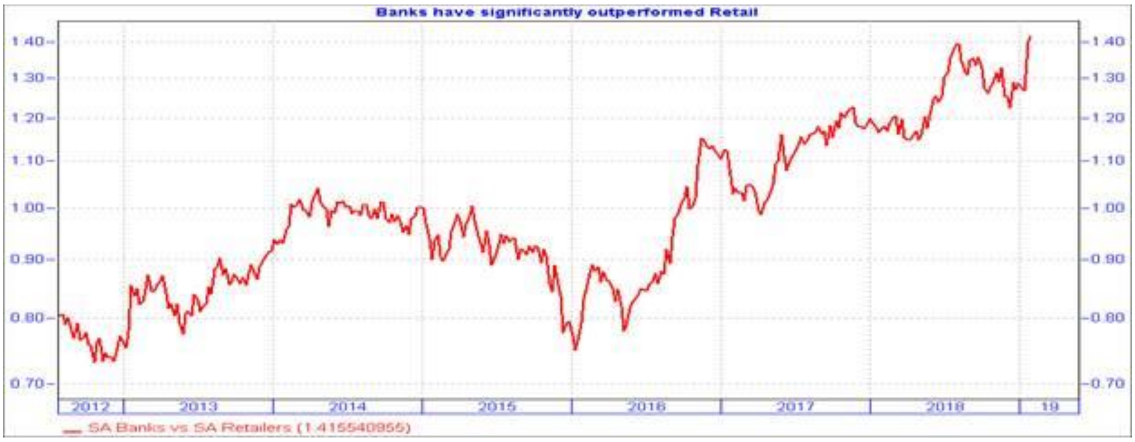
The above question feels apt, given the extent of the sell-off experienced in many companies over the last few years. Some, as outlined in previous commentaries, may have justifiably declined, others less so, providing opportunities for active managers like ourselves to take advantage of opportunities where appropriate.

January saw global markets rallying strongly off the lows reached in the final quarter of 2018, with South African equity markets rising around 3%. The ClucasGray Equity Fund gained 3.6% in the month, with the Equilibrium Fund gaining 2% - both benefited from good performances from numerous key portfolio holdings.

At ClucasGray Asset Management, we have for some time expressed the view that the relative cost of capital in South Africa appears elevated when compared to other investable markets. During January, the SA 10 year Government Bond fell around 40bp, proving a catalyst to interest rate sensitive sectors – listed property and banks rallied, with both sectors typically geared to declining bond yields.

The anomaly to this theory of falling yields being a catalyst for interest rate sensitive sectors was the performance of the retail sector. As is customary, most large retailers released trading updates in the month, and barring the robust performance of The Foschini Group (TFG), the updates pointed to an extremely difficult environment in both food and discretionary retailers.

Whilst we do own select retailers (including TFG), both the ClucasGray Equity & Equilibrium Funds have long held large positions in banks, which have performed remarkably well against the retailers for the last 5 years, as evidenced by the chart below.



We have historically been attracted to the compelling valuations of the banks, coupled with their prospects for delivering steady, if unspectacular, earnings and dividend growth - this thesis has to some extent played out.

The retailers are emerging from what has been a sustained difficult trading environment and it may be appropriate to reflect on the anomaly referred to earlier – the share prices of banks, listed property and retailers are sending mixed signals, and any hint of an improving domestic economy may well benefit the retailers more from current levels. As ever, valuations dynamics and earnings prospects will dictate, but we continue to strive to take advantage of opportunities as they present themselves.

Please find the link to our December 2018 quarterly, where we outline our views and portfolio positioning. In addition, please find the January 2019 fund fact sheets for the ClucasGray Equity and Equilibrium Funds.

If there is any interest to engage, please don't hesitate to get in touch.

Regards
Andrew, Grant and Nikki

Click here to view the January 2019 Equity Fund Factsheet

Click here to view the January 2019 Equilibrium Fund Factsheet

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December 2018 Quarterly

In our December 2018 quarterly, we have outlined our current view of market conditions, and how we have positioned the portfolios to take advantage of the opportunities we believe have been presented.

Click Here to view our December 2018 Quarterly

Our funds are available on the following platforms:

AIMS | Allan Gray | Glacier | Investec | Momentum
Multilect | Prescient | Prime | Stanlib

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

ClucasGray (Pty) Ltd is an independent investment management company registered in South Africa, company registration number 2005/12445/07 and authorised financial services provider under the Financial Services Board (FSB) registration number 21117. The main business of ClucasGray is the provision of investment management services to private and institutional clients.

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