CLUCASGRAY AM
ASSET MANAGEMENT
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# ClucasGray Asset Management

## Fact Sheets & Commentary

November 2020

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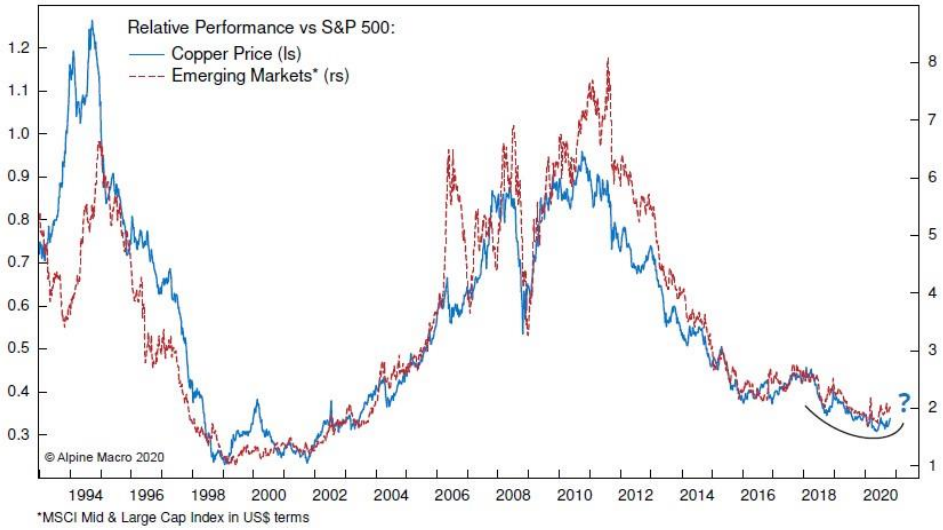
*"The real test, in golf as in life, is not in keeping out of the rough, but in getting out of it after you are in." Zig Ziglar, American author.*

It is customary in early December for one to reflect on the year just passed. We, like most, have plenty on which to reflect in 2020 – whilst some good has come out of the year, it would be wrong to sugar coat the bad. In keeping with the golfing quotes earlier, the most appropriate way to describe the year for many investors, is simply that the back nine has been a whole lot better than a very tough front nine!

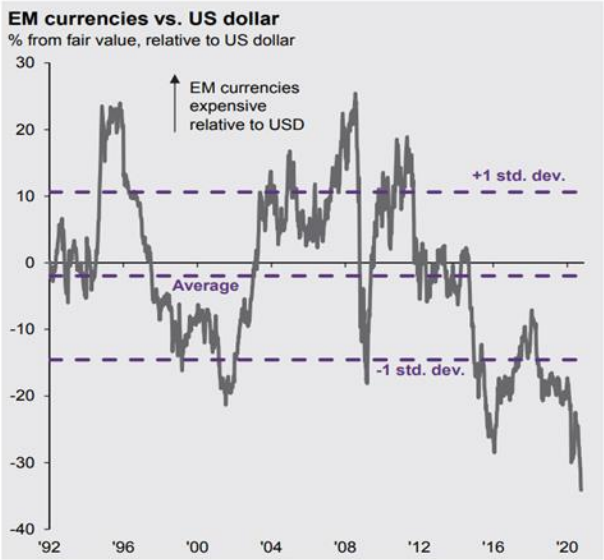
As 2020 has steadily marched on, we have become increasingly immune to surprises. Perhaps the most surprising development of our careers has to be the concept of a national (global) lockdown – as left field events go, this was surely right up there! The post lockdown markets have seemingly not followed the lockdown narrative. In the aftermath of the crisis, South African investment debates have been dominated by a desire to de-risk domestic portfolios away from companies impacted by short term local lockdown rules, invest more offshore to hedge against a weakening Rand, buy gold as a hedge against everything, focus on quality companies, which have proven to be the winners of the last decade, and shy away from emerging markets, less liquid companies and those with strong valuation support. Whilst there may have been comfort in making these decisions in the weeks and months following the March sell-off, history may well judge many of them as poor decisions.

As anyone who has met with ClucasGray Asset Management over the last few years will attest, we have been of the view for some time that the decade long period of emerging market underperformance has been a significant headwind for South African investors. The Alpine Macro chart below is instructive, showing just how sustained the cycle of underperformance of both Emerging Markets & Commodities (Copper) has been relative to the S&P500 index. US Equities, and the US Dollar, have been the stand out performers over the last decade.

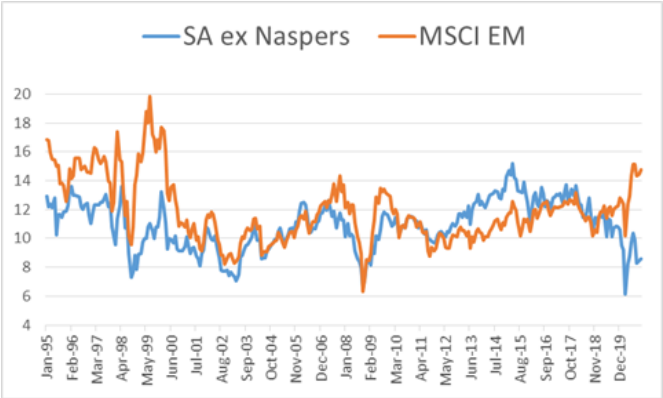



Source: Alpine Macro, December 2020

We believe there is growing evidence that the landscape could be shifting. As we have outlined in prior commentaries, a more constructive backdrop for global growth has typically been good for commodity demand, emerging market economies, emerging market currencies, and historically a head wind for the US Dollar. Coupled with the fact that the US Dollar has seldom been this expensive relative to emerging markets currencies (see chart below from unknown source), and the well documented valuation discrepancy of the S&P500 relative to the equities across the rest of the world, it would appear to us that the next decade could be different from the last one.




The narrative around South Africa has, for some time, been far from constructive, hence the global perspective is relevant – emerging economies like South Africa have endured a difficult decade. The net effect of this, as illustrated in the below chart from RMB Morgan Stanley which we have previously shown, is that after stripping out Naspers, the JSE remains as attractive as it has been at virtually any time in the last 25 years – in absolute terms, and relative to both developed markets and emerging market peers. Looking at indices can mask individual opportunities, but suffice to say that we believe the opportunity set in South African equities remains as compelling as at any period we can recall. As active managers, we have positioned the portfolios to benefit from this opportunity set.




Source: RMB Morgan Stanley, December 2020

2020 is the year that will never be forgotten – thankfully it is seemingly ending a whole lot better than it began. As more companies release results, it is evident that the environment has been extremely tough for most – no surprise in that, given the global lockdowns in the first 6 months of the year. What is proving to be of comfort to investors, is that most companies believe they are through the worst, and whilst remaining cautious, the evidence

suggests that the operating environment is returning to pre Covid levels quicker than many would have predicted.

The ClucasGray Equity Prescient Fund and the ClucasGray Equilibrium Prescient Fund gained 11.8% and 7.6% respectively in November. The Funds benefited from some large moves in key holdings, with Anglo American, Old Mutual, Absa, FirstRand and Bidvest all gaining over 20% in November. Motus was up a staggering 40% in the month, following a trading update which showed the resilience of the local vehicle industry, and an announcement that they reinstated their accretive share buyback program.

We continue to believe that the stand out opportunities for multi asset funds like the ClucasGray Equilibrium Prescient Fund, are domestic equities and domestic fixed income. Notwithstanding the rally in many holdings, we believe perspective is important. The extent of the selloff in the first quarter has been well documented, and whilst it is certainly encouraging to see some level of sanity returning to their market values, we believe many remain considerably mispriced, and that patience is likely to be well rewarded. In keeping with the golfing analogy, Ben Hogan famously said that “the most important shot in golf is always the next one.”

We would like to take this opportunity to wish you all the very best for the Festive Season. May you enjoy a well-deserved break, and we look forward to engaging with you again in the new year.

Kind regards
Andrew & Grant

## Meet the Manager Presentation

We presented our views on the prospects for the South African investment landscape at the Meet the Managers conference in August. While the video is a little dated, we believe the themes and views expressed remain as relevant today as they were in August. For those who have 30 minutes to spare, we would encourage you click the link below.

Our funds are available on the following platforms:

AIMS | Allan Gray | Glacier | Momentum
NinetyOne | Multilect | Old Mutual | Prescient | Prime | Stanlib

period. Annualised performance is the average return per year over the period. Actual annual figures are available to the investor on request



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