



Acknowledging passive, embracing active - the quest for alpha.

Andrew Vintcent

June 2023

Introduction to ClucasGray Asset Management



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.

ClucasGray AuM	May 2023
Total AuM	<u>R14bn</u>
<u>ClucasGray Pvt Clients</u>	<u>R11bn</u>
CGAM	<u>R3bn</u>
ClucasGray Equity Fund Launched October 2011	= > <u>R1bn</u>
ClucasGray Equilibrium Fund Launched January 2015	= > <u>R1bn</u>
CGAM SA Balanced Fund Launching in Q3, 2023	

MEET THE MANAGERS

Andrew
Vintcent



Grant
Morris



EQUITY FUND – R1.050M

The ClucasGray Equity Prescient Fund is a high conviction, SA only, general equity fund.

INVESTMENT OBJECTIVE

The Fund aims to provide long-term capital growth ahead of its benchmark (SWIX) 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 INCEPTION DATE

1 October 2011

EQUILIBRIUM FUND – R1,200M

The ClucasGray Equilibrium Prescient Fund is a Regulation 28 compliant Fund in the Multi-Asset High Equity category.

INVESTMENT OBJECTIVE

Via 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 **Rand returns** over time in excess of **inflation plus 4%**.

FUND INCEPTION DATE

16 January 2015

Consistent application of an investment process helps navigate turbulent times

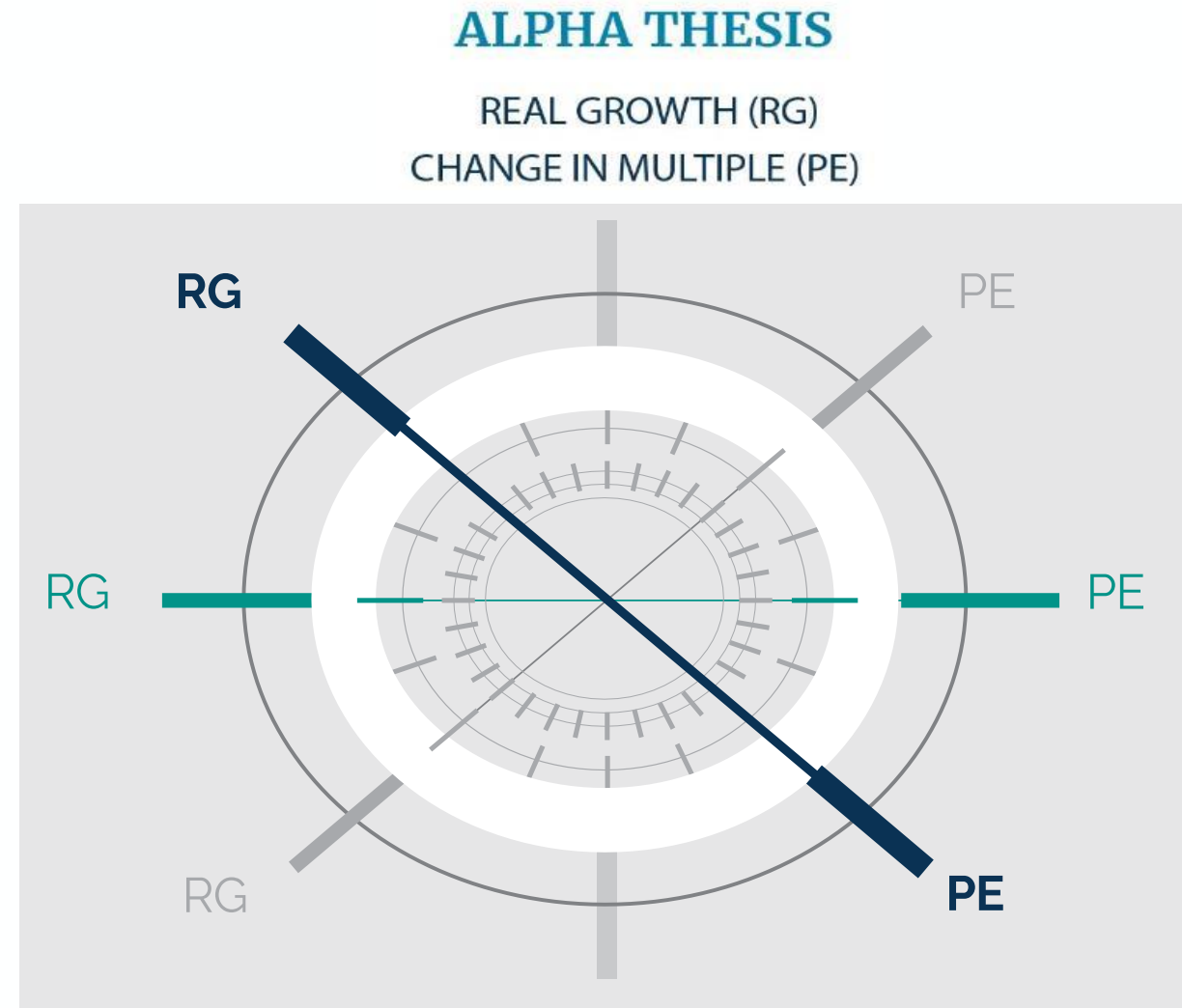
The key drivers of a share price:

1. Real growth in earnings, dividends and cash flows;
2. Change in the rating or PE multiple.

We are “Valuation obsessed”

Macro analysis is an important supplementary tool to our bottom-up driven research process.

The current environment is filled with attractive valuations, and many companies are expected to deliver reasonable earnings growth.



CLUCASGRAY

ASSET MANAGEMENT

CG
AM

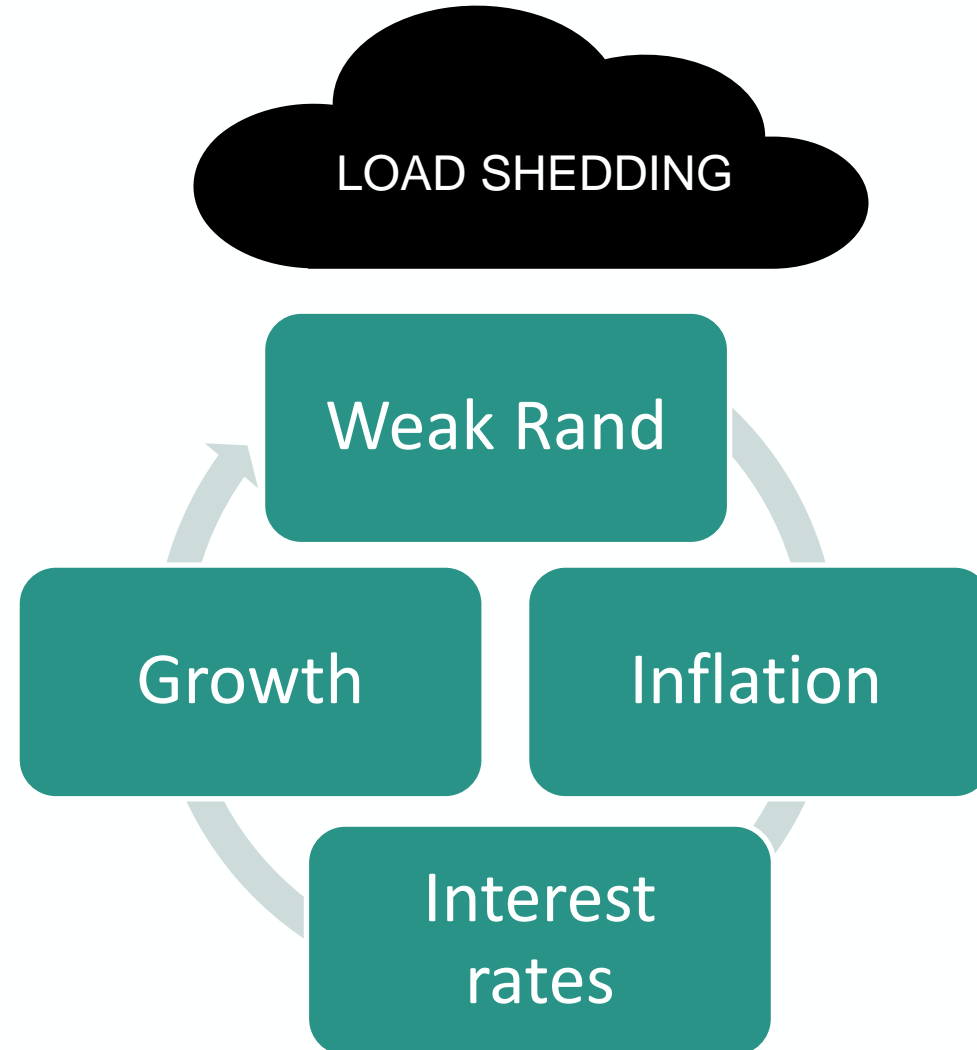
Portfolio Positioning



South Africa seems caught in a seemingly perpetual vortex

Likely catalysts to exit the cycle:

- A resolution to the power crisis – renewables & repair at key power stations
- Decline in soft commodity prices and more subdued inflation
- More constructive global backdrop
- Rand crisis abates.

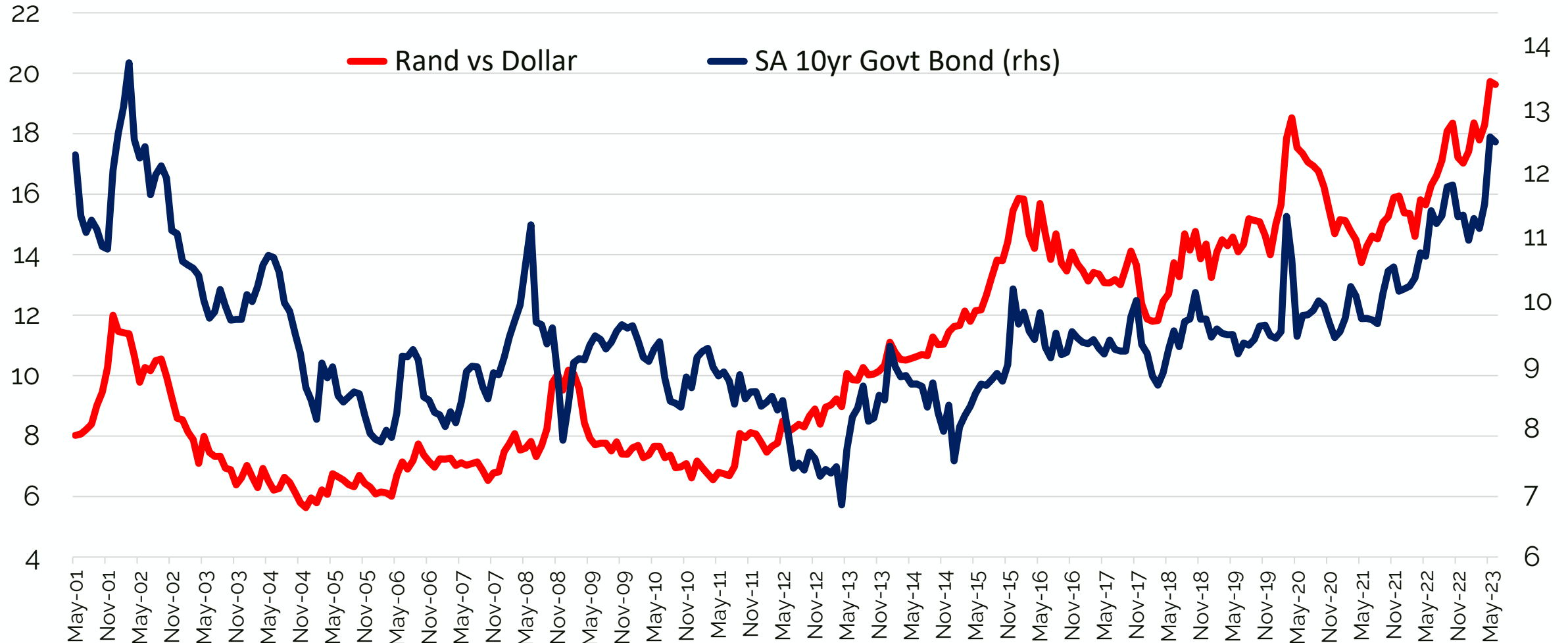


A sustained sell off in key South African markets

Currency & Bond Yields nearing previous crisis peaks



The Pressures have been Relentless

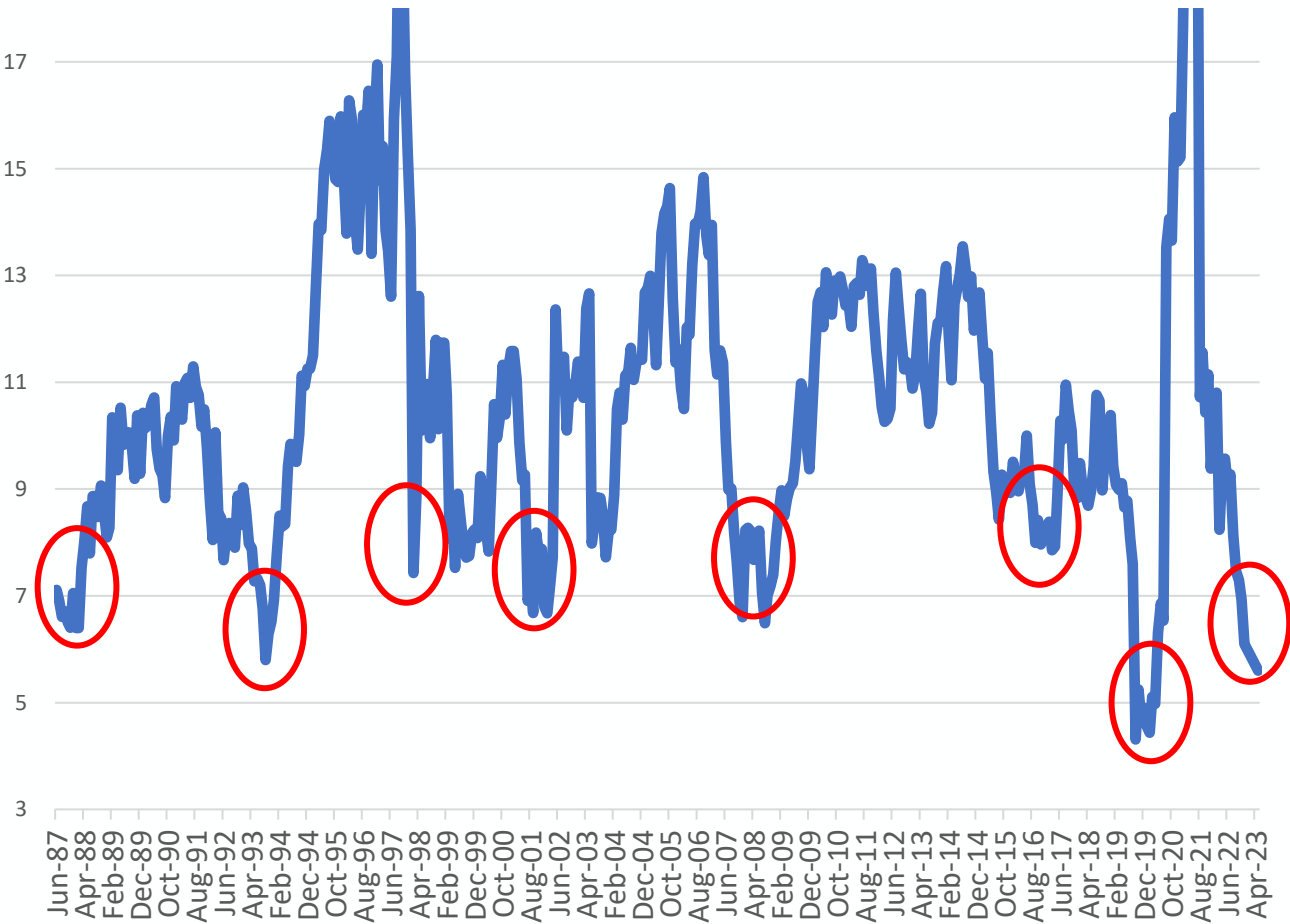


South African Banks as a proxy for the South African de-rating

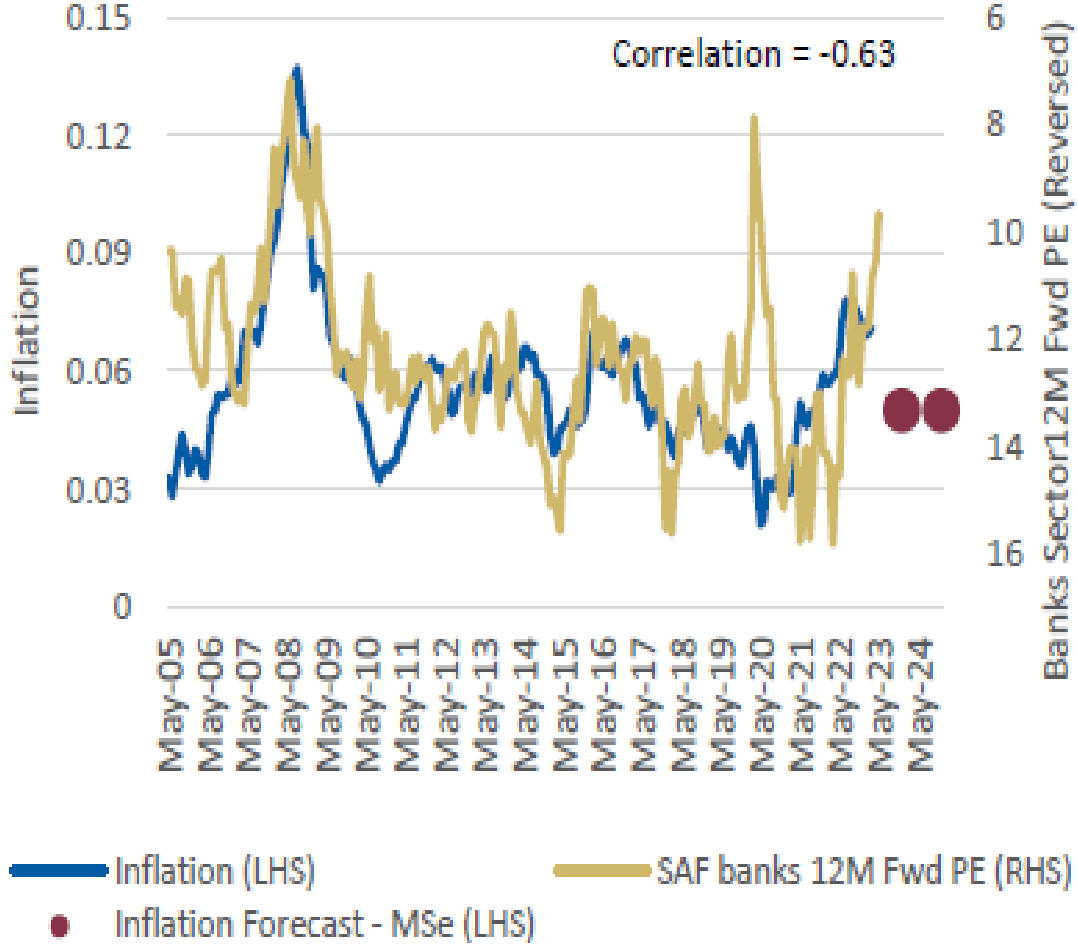


Current sell-off resulted in valuations nearing any previous trough

The Forward PE of a large South African Bank



Inflation outlook supportive of multiples



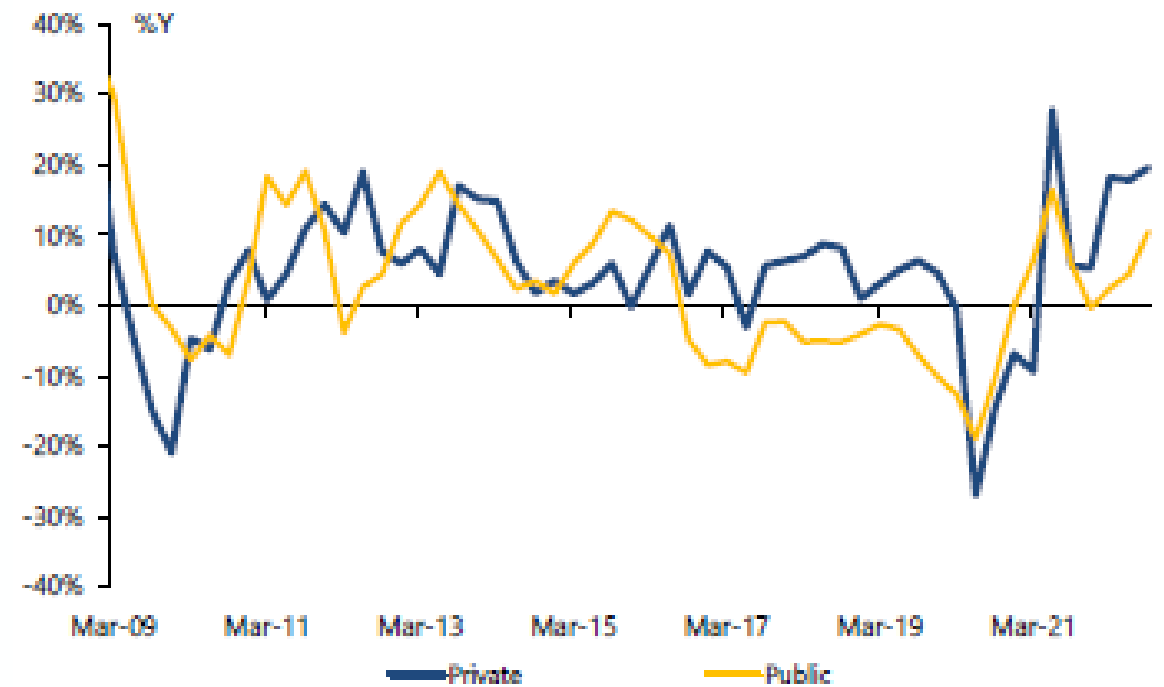
Source: Iress, CGAM, RMB Morgan Stanley

South African power issues

The curse of loadshedding could be catalyst for growth

- No way to “sugar-coat” the effects of loadshedding and the potential impact on growth and confidence in South Africa.
- Electricity is privatizing fast - private sector spend on alternative energy supply is a potential bright spot for fixed capital spending
- Renewables to ease Eskom’s issues in the next 12 to 18 months and some companies are well positioned to take advantage of the spend.

Exhibit 2: Unfolding recovery in real fixed capital formation



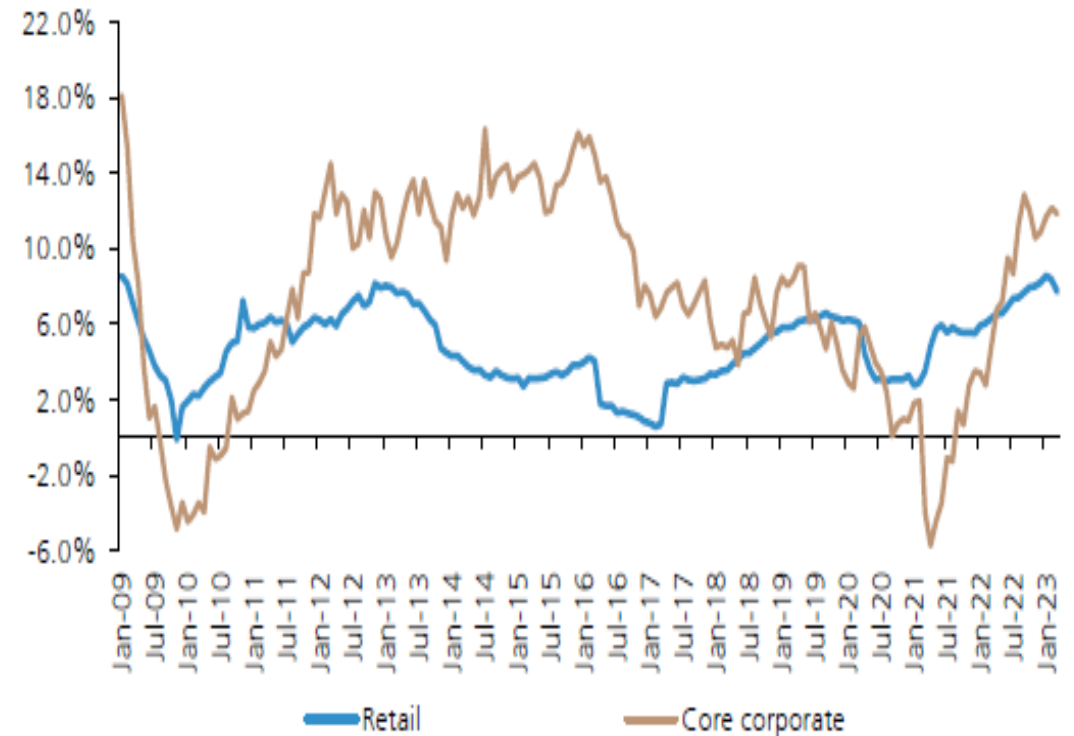
Source: SARB, RMB Morgan Stanley Research

Beneficiaries of the power solution

Private sector credit extension growing after sustained period of negative real growth

- Banks likely to experience strong credit demand
- Reunert has some unique verticals which should see them benefit. These include Cabling, Circuit Breakers, Battery storage, Solar installations, and increasingly a financing solution into extensive SMME client base
- Following a lost decade of stagnant GDFI, any pick up will likely to lead to employment growth
- All companies have had to endure material costs to keep going in current loadshedding. These costs should alleviate as alternative sources of energy are sourced.

Figure 1: Retail and core corporate credit growth (% y/y)



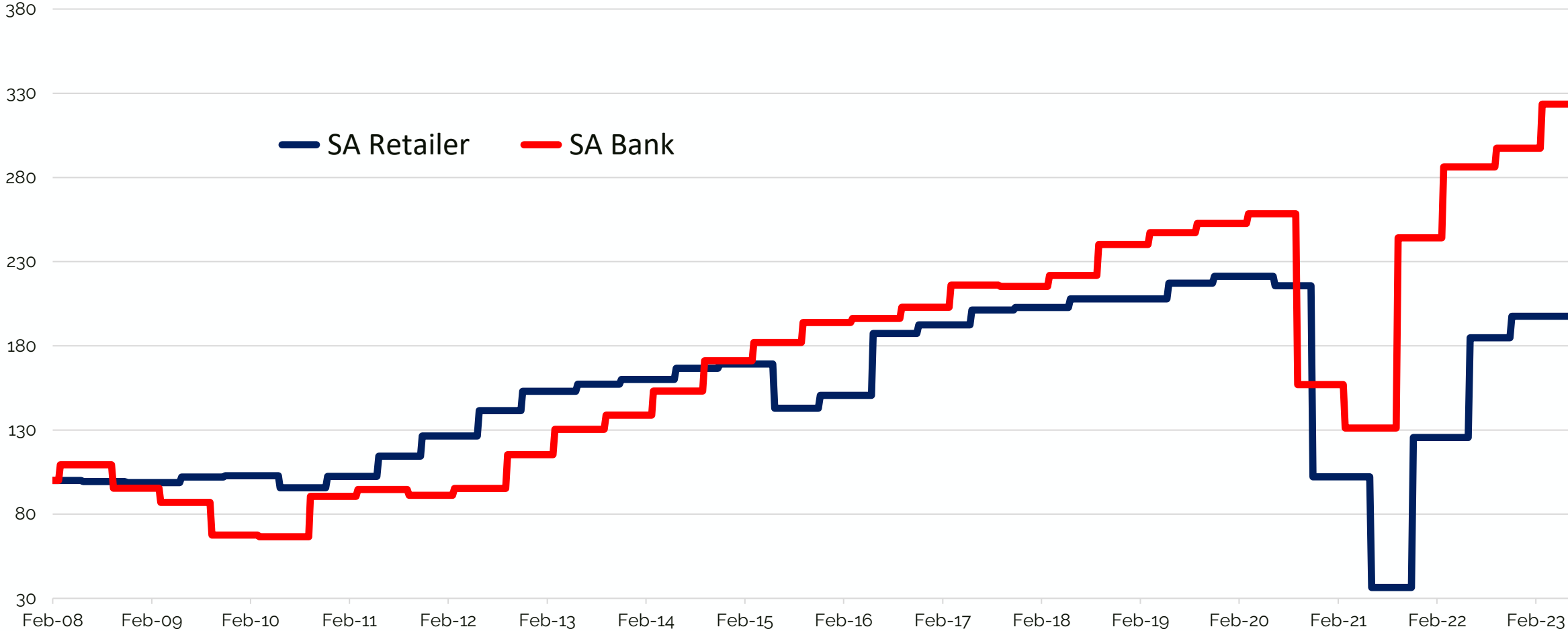
Source: SARB, BA900s, UBS

Does the Loadshedding impact on earnings resemble previous crises?

Relatively stable earnings compounders became cyclical in Covid



The Covid Impact on Company Earnings

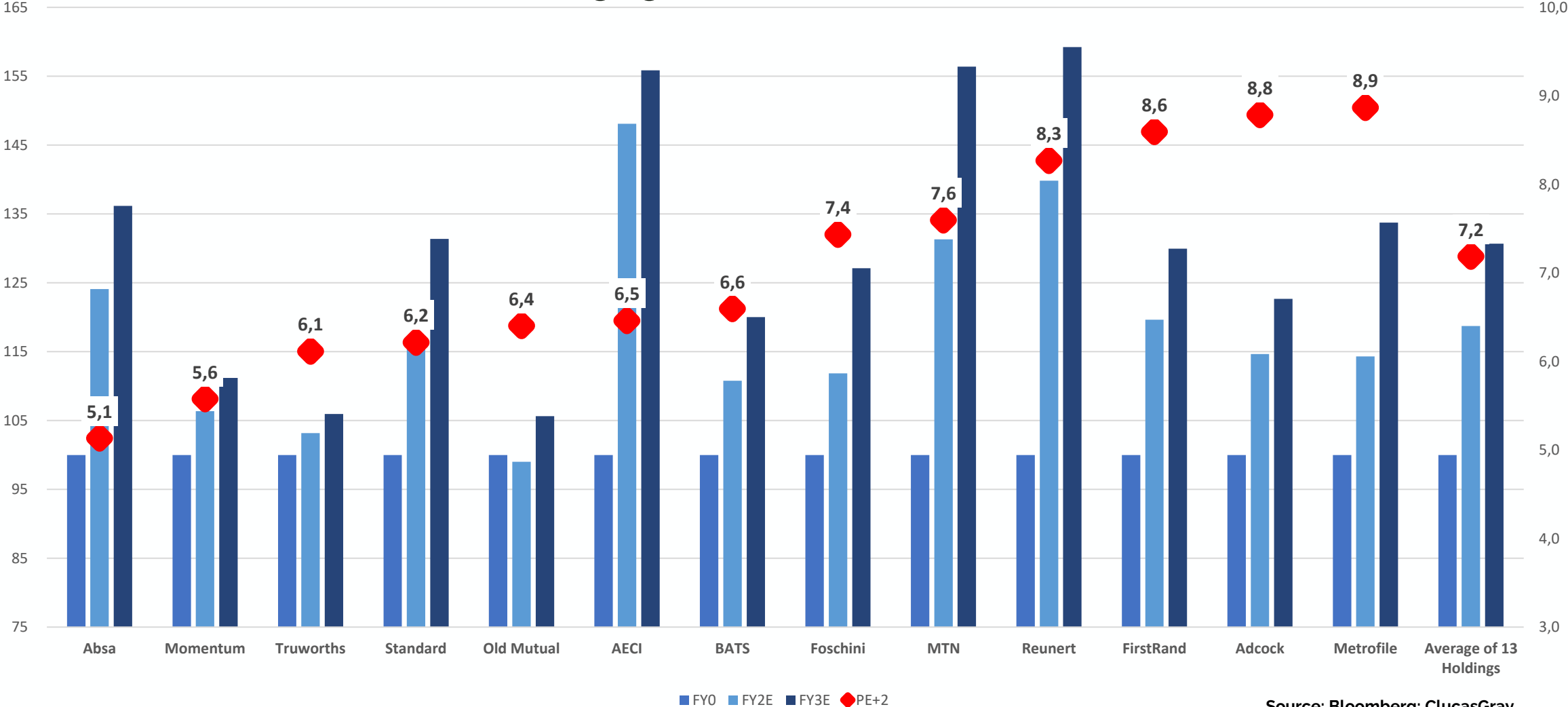


Looking past 2023, earnings growth is forecast for many

Alpha thesis of rising earnings and re-rating potential exists for numerous companies



Real earnings growth & Attractive valuations



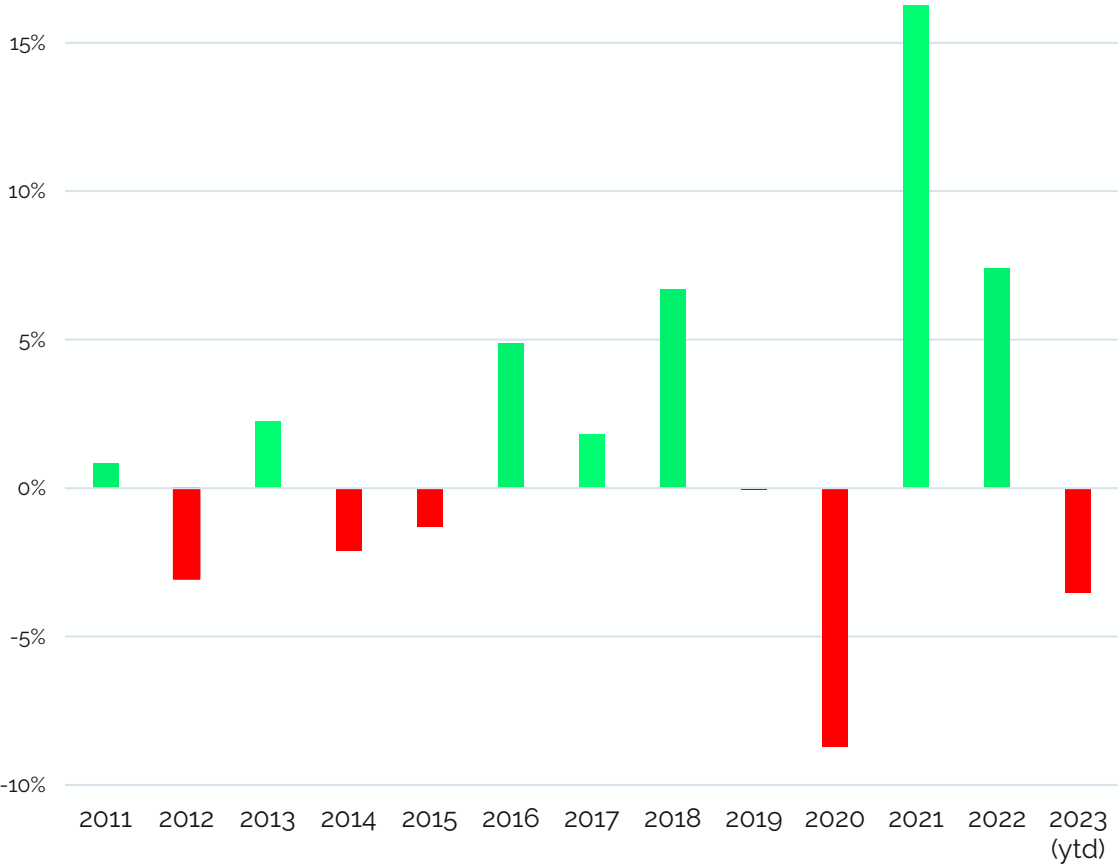
Source: Bloomberg; ClucasGray

Alpha Delivery objective – over time, not all the time

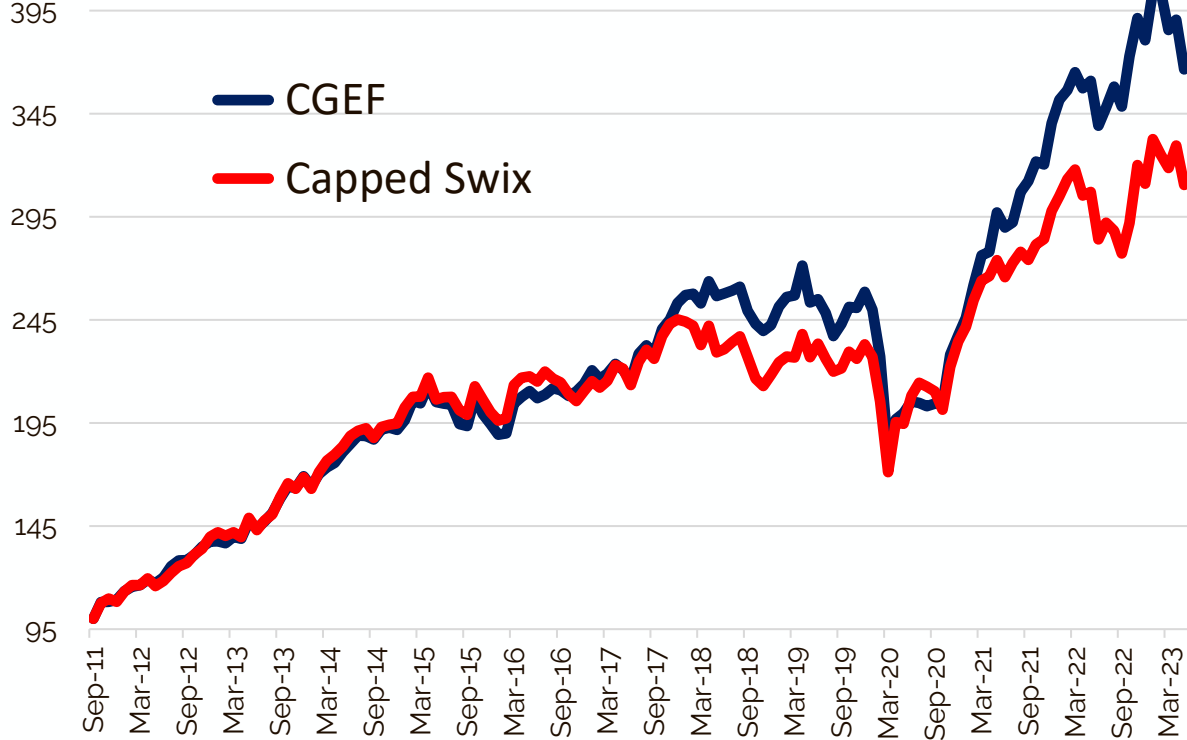
We have demonstrated an ability to take advantage of extreme dislocations



ClucasGray Equity Fund - Alpha vs Capped Swix per Calendar Year



ClucasGray Equity Fund Gross Returns Relative to Capped Swix

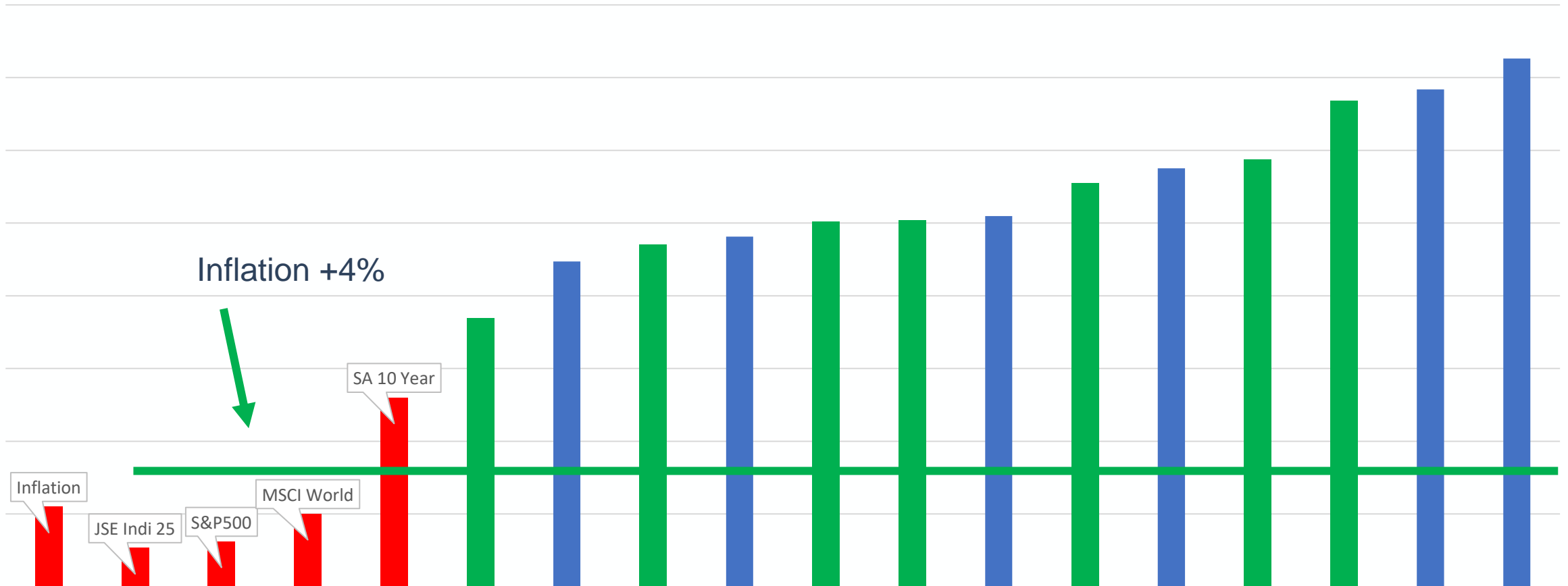


Prospective Returns from major indices & companies

Equilibrium Fund's ultimate objective is to deliver 4% Real Rand Returns over long periods.



3 year Prospective Return, estimates



Blue = top 40; Green = non-Top 40; Red = Indices

Cost of capital in SA remains elevated, impacting local equity valuations



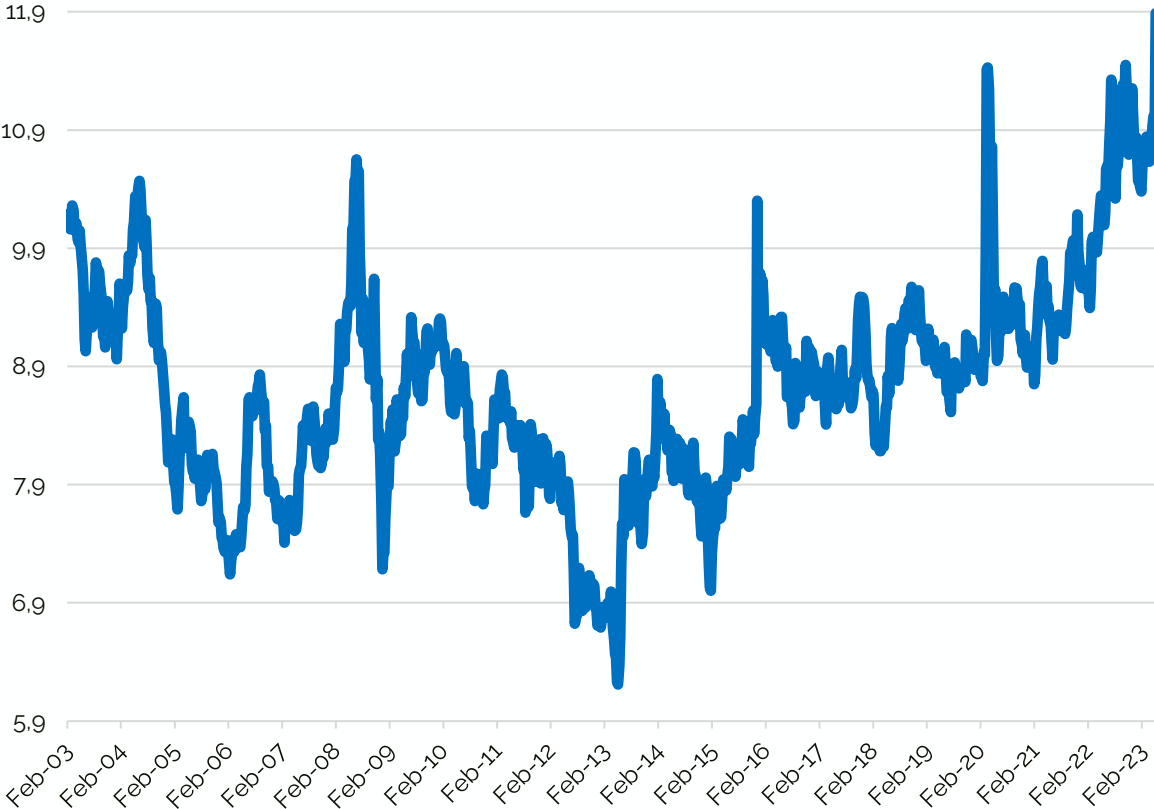
Domestic Bonds are attractive with the 10-year bond yield currently nearly 12%

SA Equity valuations are very attractive in absolute and relative terms – remain at GFC lows relative to the S&P500

Elevated Dividend Yields add substance to the investment case

COMPANY	12 m PE	12 m DY
ABSA	5.4	9.0%
STANDARD BANK	6.7	8,5%
OLD MUTUAL	6.8	7,2%
MOMENTUM	5.7	6,7%
BRIT AM TOBACCO	6,9	8,9%
MTN	7,8	3,0%
FOSCHINI	7,3	6,6%
TRUWORTHS	6,1	10,0%
REUNERT	8,7	5,9%
AECI	7,1	9,0%
JSE	10,6	8,0%

SA 10 year Govt Bond



Source: Iress, CGAM

The average South African investor has been shielded

Structural decline in exposure to SA companies has gathered momentum



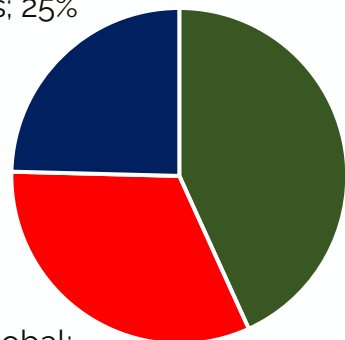
Structural increase in offshore since offshore at expense of local equity over last few decades. South African multi asset funds materially less exposed to South Africa than ever before.

SA balanced funds offshore allocation probably over 38%

Average	4Q 2019	4Q 2020	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q 2022	1Q 2023	Now Est
SA Equities	43.2%	42.3%	46.5%	45.9%	43.6%	41.5%	40.5%	37.3%	36.7%
Foreign Equities	26.0%	23.6%	23.5%	23.2%	24.7%	24.2%	29.5%	29.4%	31.1%
Total Equities	69.2%	65.9%	70.0%	69.1%	68.3%	65.7%	70.0%	66.8%	67.8%
SA Bonds	18.0%	19.4%	18.5%	18.5%	18.7%	18.6%	18.8%	18.2%	17.1%
Foreign Bonds	1.8%	2.1%	1.9%	2.1%	2.0%	3.2%	3.2%	3.7%	3.9%
Total Bonds	19.8%	21.5%	20.4%	20.6%	20.7%	21.8%	21.9%	22.0%	20.9%
SA Property	2.9%	2.1%	2.1%	2.0%	2.0%	1.6%	1.6%	1.6%	1.5%
Foreign Property	0.8%	0.9%	0.7%	0.7%	0.7%	0.9%	0.3%	0.2%	0.2%
Total Property	3.7%	3.0%	2.8%	2.6%	2.8%	2.5%	2.0%	1.8%	1.8%
SA Cash	6.0%	6.2%	4.4%	3.8%	4.1%	5.4%	3.8%	6.1%	6.0%
Foreign Cash	1.3%	3.5%	2.5%	3.8%	4.1%	4.6%	2.2%	3.3%	3.5%
Total Cash	7.3%	9.6%	6.8%	7.7%	8.2%	10.0%	6.0%	9.5%	9.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
SA Total	70.2%	70.0%	71.4%	70.2%	68.4%	67.1%	64.8%	63.3%	61.3%
Offshore Total	29.8%	30.0%	28.6%	29.8%	31.6%	32.9%	35.2%	36.7%	38.7%

Capped Swix segmentation

Resources; 25%



SA; 43%

Global; 32%

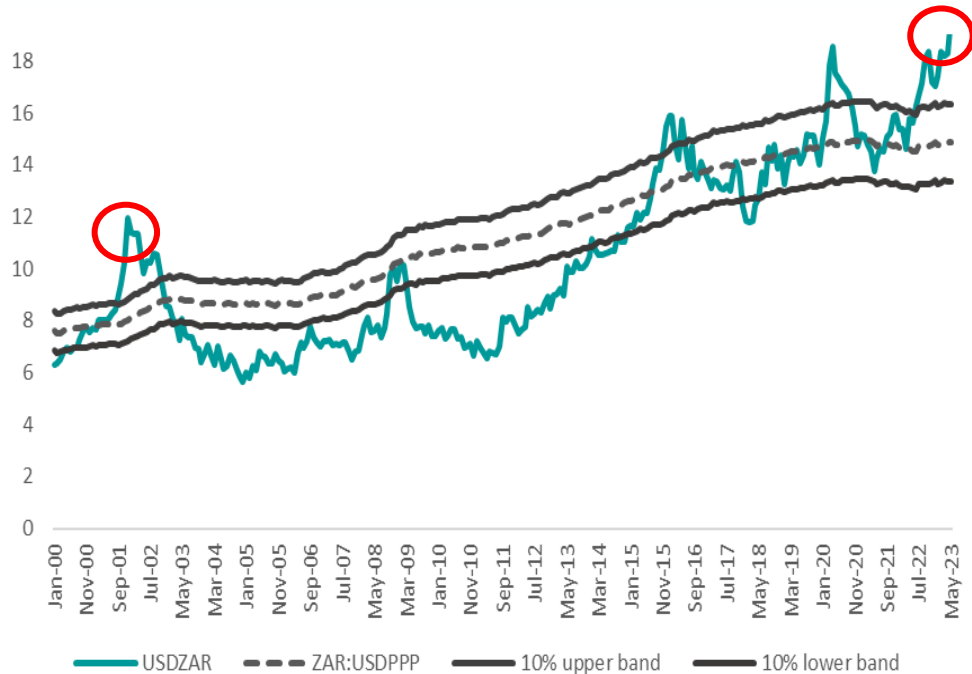
The relative de-rating of South African equities reminiscent of early 2000's



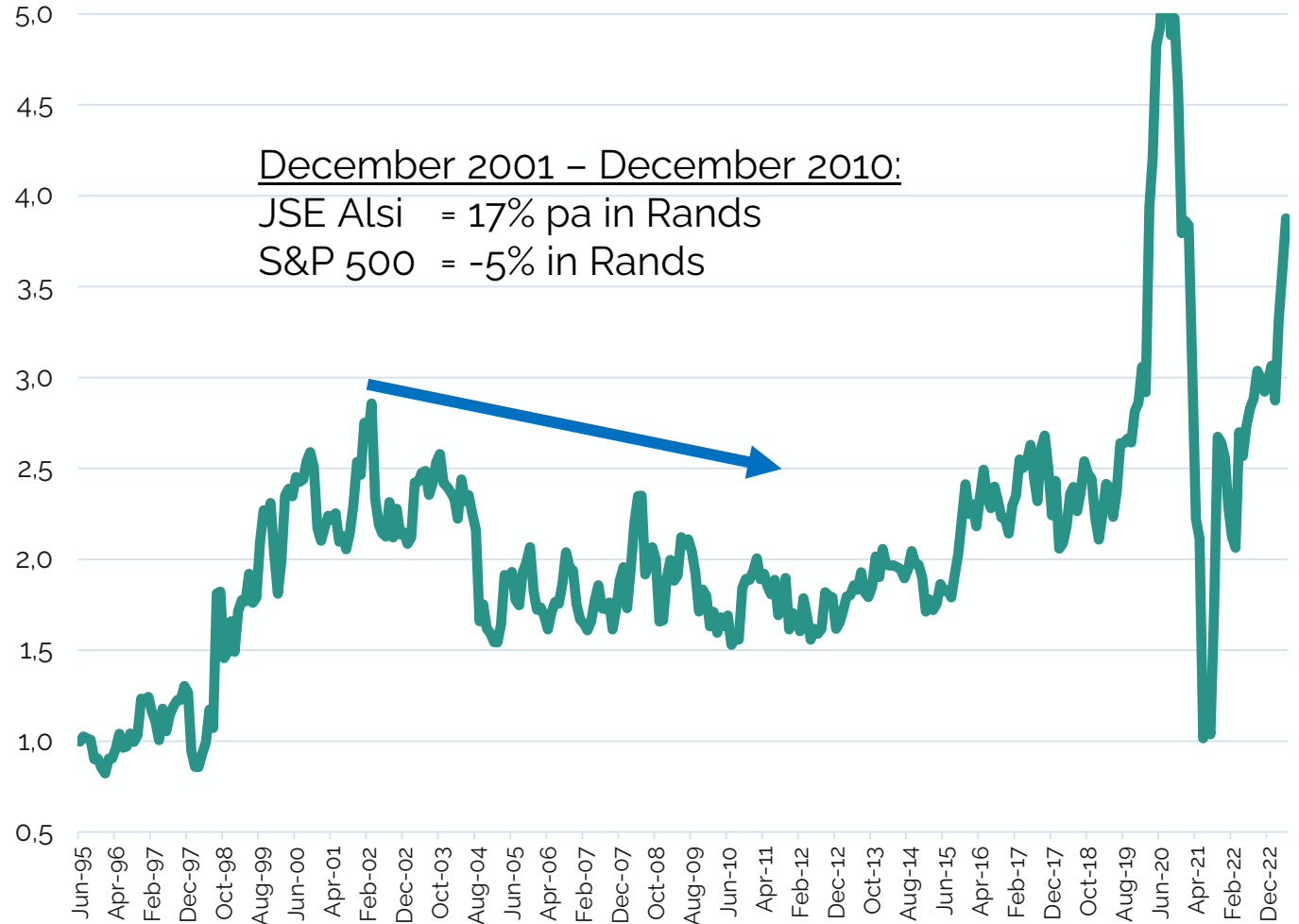
Relative valuations the most extreme we have seen in decades

Starting valuations as compelling as at any point since 2000

Relative returns after that period a function of sold off currency recovering, and relative valuations normalising.



SA Banks DY vs S&P 500 DY



Current positioning – SA equity | Top holdings



Good blend of opportunities across the market cap spectrum

Absa	7%	Differentiated Holdings	Portfolio Construction Guidelines		
Reunert / Standard Bank	6%			Reunert, Adcock, Metrofile	Minimum weight of 1.5%
Naspers	6%			Sabvest, Ethos, FFB	Maximum weight of 10%
Old Mutual	5%	AECI, Grindrod, KAL Group	25-30 holdings		
MTN / BTI	5%	Risk Metrics			
AECI / Sasol	4%			Leverage; Valuation	
Anglos / Glencore / Mondi	3%			Concentration; Liquidity	
Truworths / Life Healthcare	3%	<p>We believe the liquidity discount is currently extreme. We embrace Liquidity risk, only when we are comfortable with the Valuation, Financial & Operational Leverage & Portfolio Concentration.</p> <p>Portfolio holdings recently bought out: CLR; DGH; L4L; MSM; ZED (Pioneer)</p>			
Sabcap / Momentum	3%				
Impala / ARI / Exxaro	2%				
Premier / TFG	2%				
Metrofile / Ethos Capital	2%				
Adcock / Kaap Agri	2%				

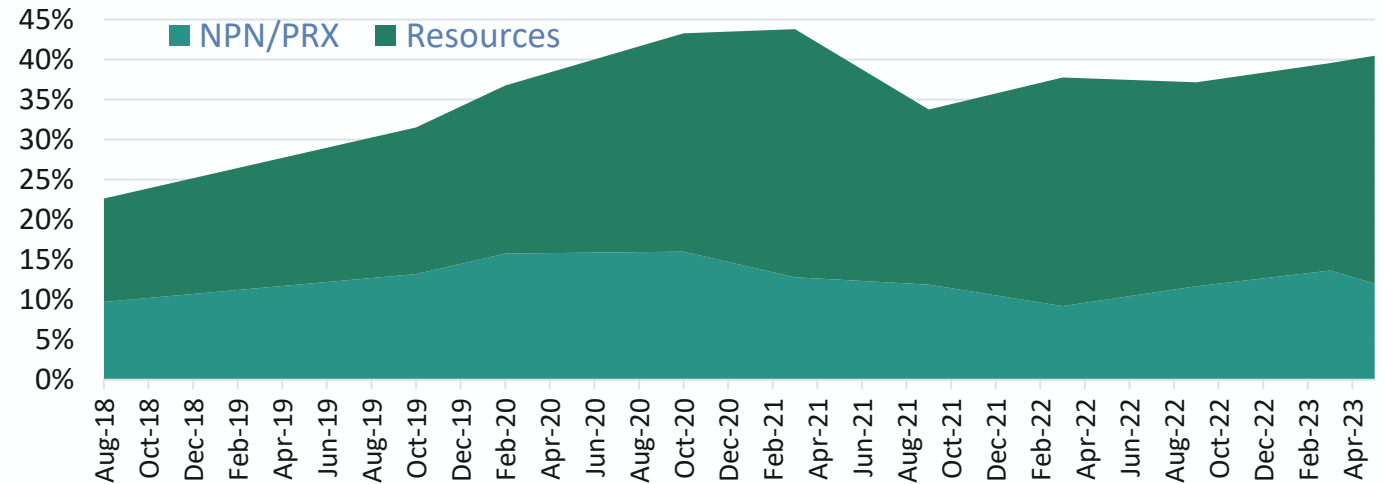
Index concentration vs breadth of the opportunity set



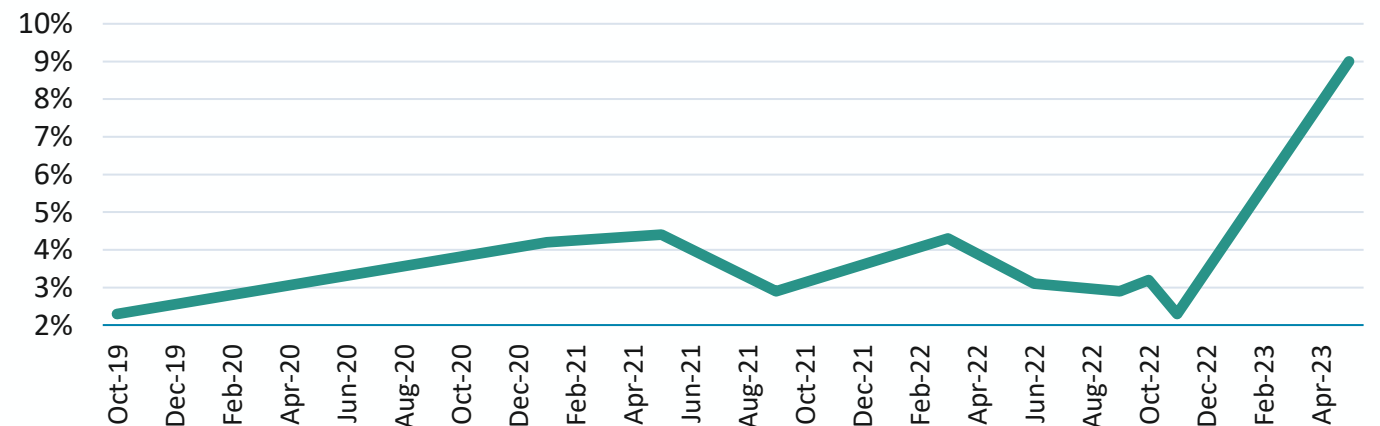
The ClucasGray Equity Fund illustrates how we rely on both **proprietary & external research** to identify and invest in **mispriced opportunities** across the market cap spectrum.

<u># of Sell-side Analysts</u>	<u># of Holdings</u>
0	5
1 to 3	6
4 to 6	1
7 to 10	7
>10	10

Capped Swix Weightings of 2 Dominant JSE Themes



Gold sector weight in Capped Swix



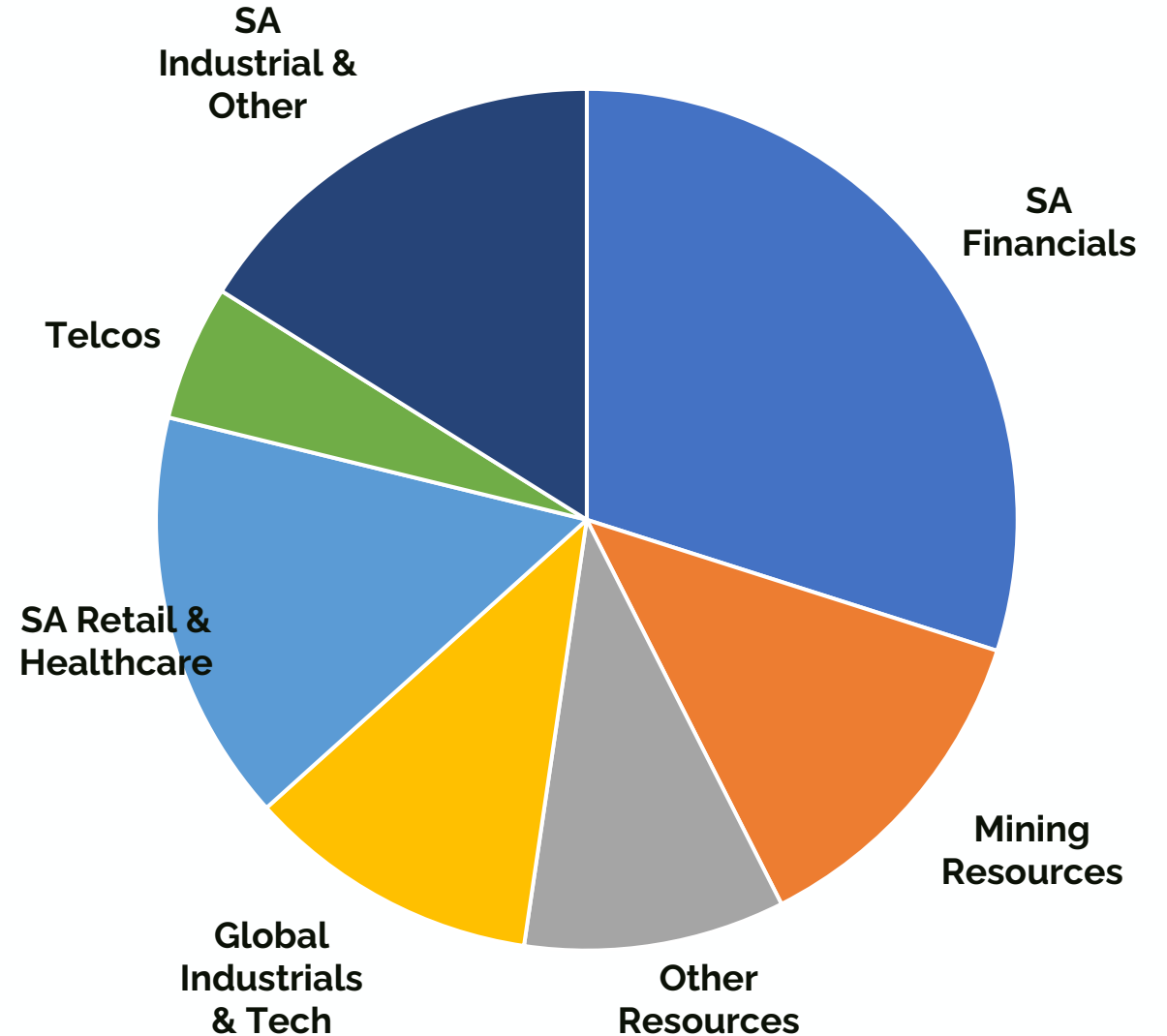
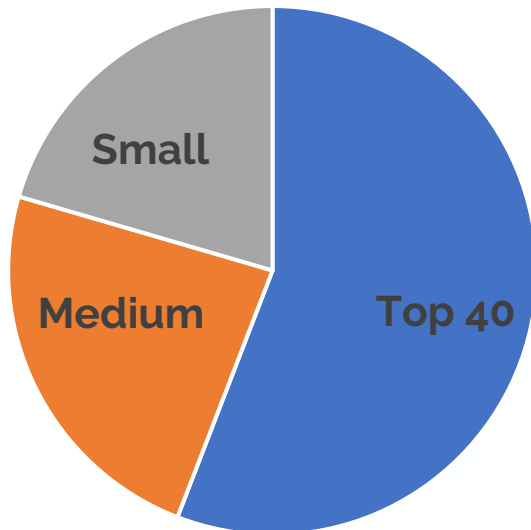
ClucasGray Equity Fund – Portfolio Analytics

Portfolio construction encourages conviction & diverse sources of Alpha



	<u>CGEF</u>	<u>J433</u>
Weighted PE multiple	8.0x	9,8x
Weighted Dividend Yield	6,3%	4,9%
Avg discount to CG Exit PE	27%	
% of Portfolio doing buy backs	50%	

Source: Bloomberg, CGAM, May 2023



Source: CGAM

Current asset allocation & portfolio construction

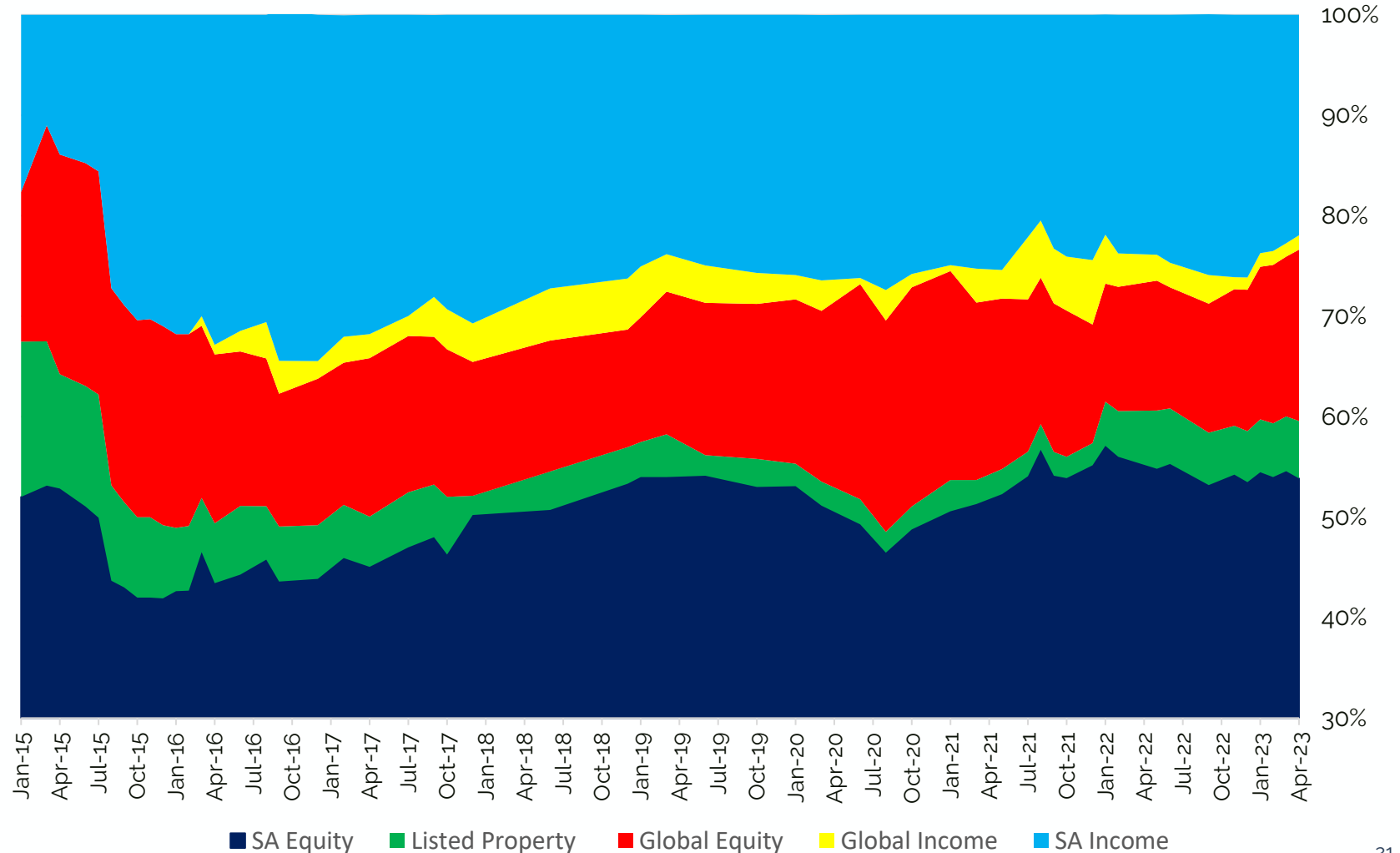


We have been active around both the asset allocation & security selection, adopting a dynamic asset allocation profile since inception.

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%	53%
Listed Property	5% - 10%	6%
Cash, Bonds & Prefs	10% - 30%	21%
Global	20% - 25%	20%

ClucasGray Equilibrium Fund Asset Allocation



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ASSET MANAGEMENT



Performance



Performance of ClucasGray Equity Fund vs JSE Indices

31 May 2023



<u>ClucasGray Equity Fund Gross Returns</u>	<u>1 Year Return</u>	<u>3 Year Return</u>	<u>5 Year Return</u>	<u>10 Year Return</u>	<u>Since inception</u>
ClucasGray Equity Prescient Fund	1.6%	22.4%	7.4%	9.6%	11.9%
Capped Swix, TR	1.1%	16.8%	6.2%	7.6%	10.2%
<i>Vs Capped Swix</i>	0.5%	5.6%	1.2%	2.0%	1.7%
SWIX, TR	1.4%	14.1%	6.0%	7.8%	10.4%
<i>Vs Swix</i>	0.2%	8.4%	1.4%	1.8%	1.5%

As a South African only equity fund, and the global weightings in many of the peer group funds, comparisons can fluctuate with the Rand performance of global equities.

ClucasGray Equilibrium Fund Performance

31 May 2023



	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Since Inception - Jan 2015</u>
ClucasGray Equilibrium Fund	5.2%	15.1%	7.9%	8.5%
SA Multi Asset High Equity	8.5%	12.1%	7.6%	6.4%
Inflation	6.8%	6,0%	5,0%	5.2%
Real Returns	-1,6%	9,1%	2,9%	3,3%

ClucasGray Equilibrium Fund WTW Survey – 30 April 2023

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>
Global Balanced Ranking	17/39	3/38	14/38	5/35
Quartile	2 nd	1 st	2 nd	1 st

Conclusion

“Alpha resides in the lonely canyons of despair & mockery.”

Hugh Hendry (Courtesy Merchant West Investments)

ClucasGray Asset Management

- JSE concentration lends itself to active management, over time
- Our differentiated portfolios:
 - invest in underexplored opportunities
 - blend well with Indices and larger industry peers
- We are an active, high conviction asset manager with a proven skillset in SA Equity & Asset Allocation
- Demonstrable track record of performance against Indices & Peers

Current Landscape

- Numerous opportunities to deliver elevated prospective returns
- Power issues a cause for concern & potential catalyst for growth
- Elevated Cost of SA Capital currently hampering Equity market re-rating
- Genuine active management well placed to take advantage of dislocated opportunity set

Hold the faith

South Africa has weathered many storms, yet valuations seldom more compelling. History has taught us that patience has been well rewarded.



Information contained herein is for information purposes only and is merely illustrative. It is not deemed as advice as defined in the Financial Advisory and Intermediary Services Act (FAIS Act). ClucasGray Asset Management and its employees shall not be held responsible for any losses sustained by any person acting based on the information. Past performance of any of our portfolios is not indicative of their future performance.

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.

ClucasGray Asset Management (Pty) Ltd is an independent investment management company registered in South Africa, company registration number 2019/060149/07 and an authorised financial services provider under the Financial Services Board (FSB) registration number 50733.

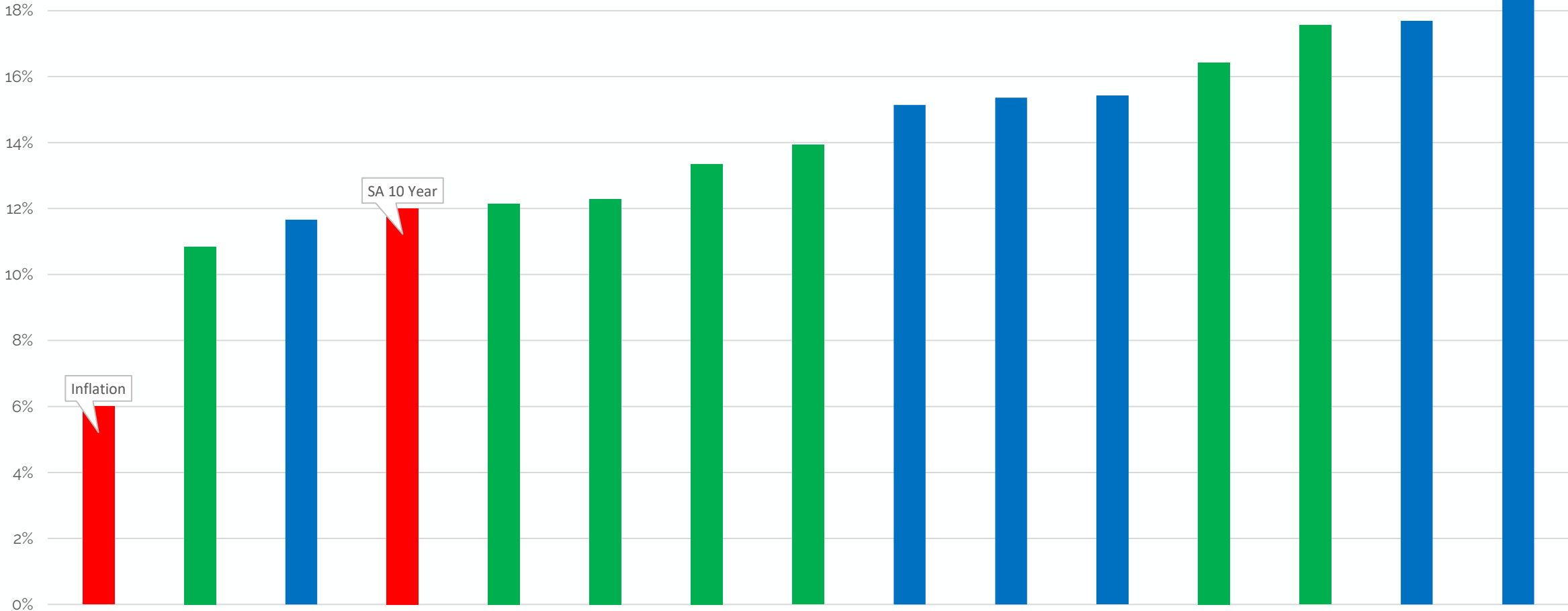
The main business of ClucasGray Asset Management is the provision of investment management services to private and institutional clients.

Current earnings yields and prospective returns extremely attractive

Selection excluding Resources & Tech



Earnings Yields compare favorably to Inflation & Bond yields



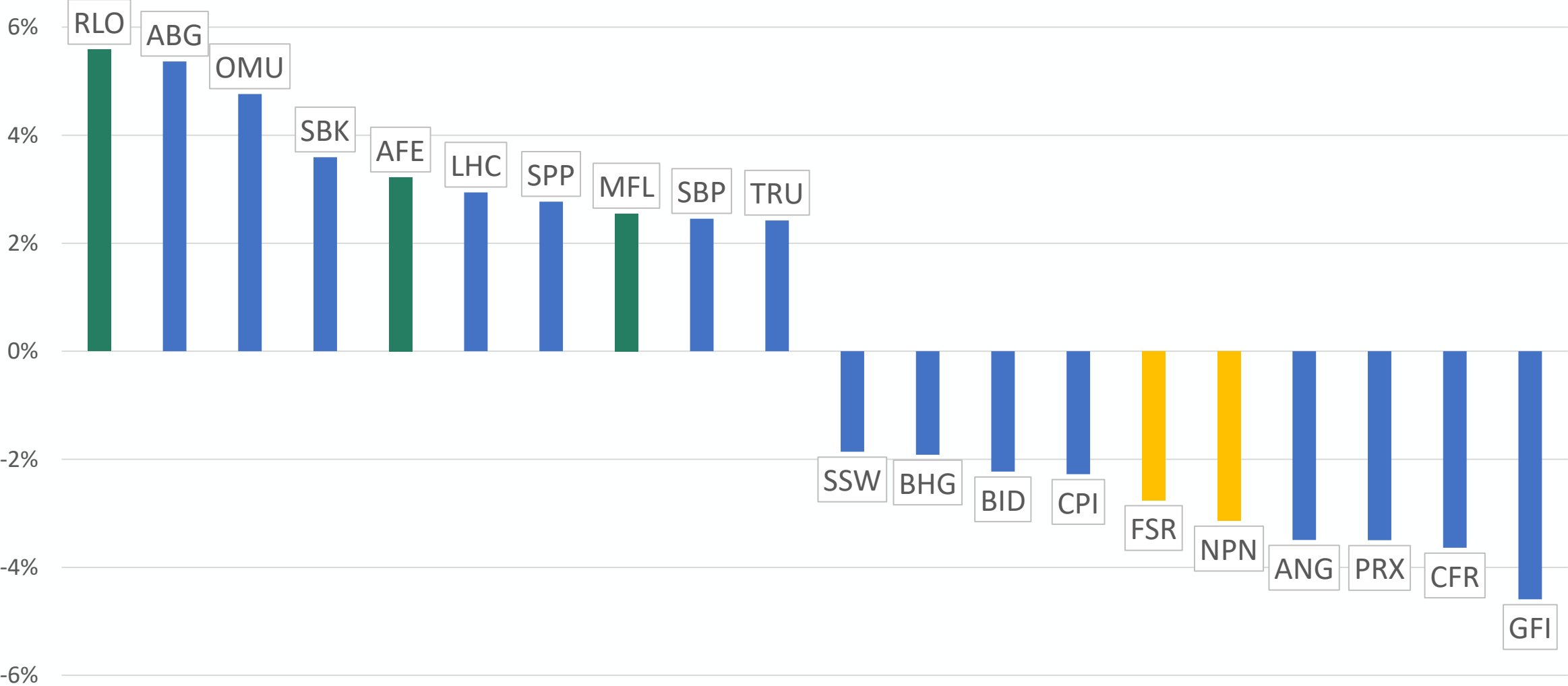
Source: Bloomberg, CGAM

The ClucasGray Equity Fund active weights



The fund is positioned differently to the Index – u/w all Zero, with exception of FSR & NPN. 2023 impacted by U/W in Golds, CFR, BID which have driven the performance of Capped Swix

Largest Positions relative to Capped Swix



Investment Team



COMMON RESEARCH AND INVESTMENT PLATFORM

We leverage a common research & investment platform.

Andrew Vintcent 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

James Clucas Gaming, Hotels, Beverages 26 Years	Guy MacRobert General 24 Years	Paul Carter Resources 25 Years	Brendon Hubbard Small & Mid Caps 21 Years	Kirsty Savin Retail 11 Years	Roshini Maharaj 20 Years
Danie van Zyl Media, Food, Telecoms 4 Years	Chris Sloan Offshore 17 Years	Willem Pienaar Offshore 9 Years	JP Maritz Offshore 9 Years	George Slabbert Offshore 9 Years	

ClucasGray asset allocation template



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.

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.

