# ClucasGray Equilibrium Prescient Fund

MINIMUM DISCLOSURE DOCUMENT 31 MAY 2024

## FUND OBJECTIVE & STRATEGY

The ClucasGray Equilibrium Prescient Fund is a Regulation 28 compliant, multi-asset high equity fund. The Fund aims to provide long term capital growth ahead of its peer group by delivering both income and capital growth in excess of inflation over time. The Fund aims to achieve these objectives through an active approach to asset allocation, and via superior stock selection. Fundamental analysis, a valuation discipline and a belief that inefficient markets create opportunities in mispriced assets underpin both our asset allocation and stock selection process.

## FUND INFORMATION

| | |
|---|---|
| Portfolio Managers: | Andrew Vintcent & Grant Morris |
| Inception Date: | 16 January 2015 |
| Fund Size: | R1077.1 million |
| Unit Price: | 151.47 cents |
| ASISA Category: | South African Multi-Asset High Equity |
| Benchmark: | Market value-weighted average return of ASISA category |
| Min Lump Sum: | R10 000 |
| Min Monthly Investment: | R1 000 |
| Issue Date: | 07 June 2024 |
| ISIN: | ZAE000243838 |

## WHO SHOULD INVEST

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

## RISK INDICATOR

Generally, these portfolios hold more equity exposure than lower risk profiled portfolios. These portfolios therefore tend to carry more volatility. Expected potential long-term returns could be higher than other risk profiles, in turn potential losses of capital could be higher.

| LOW | LOW - MED | MED | **MED - HIGH** | HIGH |
|---|---|---|---|---|

## NET PERFORMANCE (ANNUALISED) AT 31 MAY 2024

| | 3-Months | 6-Months | 1-Year |
|---|---|---|---|
| Fund* | 2.7% | 3.9% | 11.6% |
| Class B2*** | 2.7% | 3.9% | 11.5% |
| Class B1 | 2.6% | 3.8% | 11.3% |
| Class C** | 2.5% | 3.6% | 11.0% |
| Peer Group | 2.9% | 5.7% | 9.6% |

| | 3-Year | 5-Year | Since Inception |
|---|---|---|---|
| Fund* | 9.9% | 9.3% | 8.6% |
| Class B2*** | 9.9% | 9.2% | 8.3% |
| Class B1 | 9.7% | 9.1% | 8.4% |
| Class C** | 9.3% | 8.7% | 8.0% |
| Peer Group | 8.5% | 8.9% | 6.3% |

## CALENDAR YEAR PERFORMANCE

| | Fund | Class B2*** | Class B1 | Class C | Peer Group |
|---|---|---|---|---|---|
| 2015* | 12.5% | 0.0% | 12.2% | 11.8% | 7.9% |
| 2016 | 5.1% | 0.0% | 4.9% | 4.6% | 1.2% |
| 2017 | 11.9% | 7.8% | 11.6% | 11.3% | 9.1% |
| 2018 | 1.4% | 1.3% | 1.2% | 0.8% | -3.8% |
| 2019 | 8.8% | 8.7% | 8.6% | 8.2% | 9.7% |
| 2020 | -0.3% | -0.5% | -0.6% | -0.9% | 4.9% |
| 2021 | 28.4% | 28.4% | 28.2% | 27.7% | 20.0% |
| 2022 | 4.4% | 4.3% | 4.1% | 3.8% | -0.1% |
| 2023 | 11.5% | 11.4% | 11.2% | 10.8% | 12.3% |
| 2024** | 1.3% | 1.2% | 1.2% | 1.0% | 3.7% |

* Since inception 16 January 2015

** Year to date

*** Class B2 Inception 31 May 2017

## ROLLING 12 MONTH RETURN

| | Highest | Average | Lowest |
|---|---|---|---|
| Fund Class C | 34.2% | 8.0% | -17.6% |

* Fund performance is the net weighted average fee return for the fund

** Highest Fee Class

*** Class B2 Inception 31 May 2017

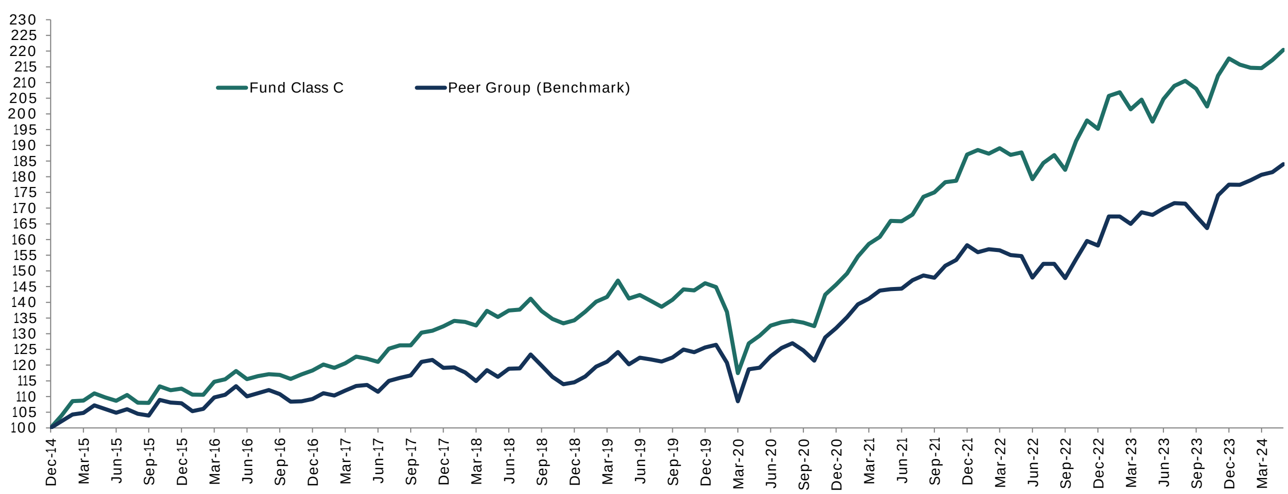
## RISK & FUND STATS (ANNUALISED SINCE INCEPTION)

| | |
|---|---|
| Max Drawdown* | -20.1% |
| Max Gain** | 8.1% |
| % Positive Months | 63.7% |

* The maximum peak to trough loss suffered by the Fund since inception.

** Largest increase in any single month.

## CUMULATIVE VALUE OF R100 INVESTED AT INCEPTION VS BENCHMARK (ILLUSTRATIVE PERFORMANCE)




Source: Prescient Fund Services 31 May 2024

The illustrative investment performance is shown for illustrative purposes only and is calculated by taking the actual initial fees and all ongoing fees into account for the amount shown. Income is reinvested on the reinvestment date.

CLUCASGRAY

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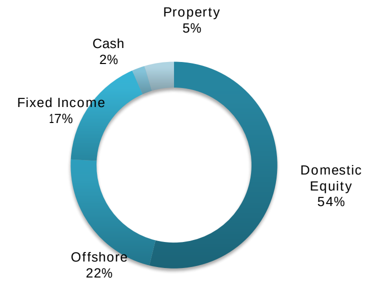
## TOP 15 SA EQUITY HOLDINGS

| | |
|---|---|
| ABSA | Naspers |
| AECI | Old Mutual |
| African Rainbow Minerals | Premier Group |
| Anglo American | Reunert |
| British American Tobacco | Sasol |
| Firstrand | Standard Bank |
| KAL Group | The Foshini Group |
| MTN | |

The Top 15 holdings make up 37% of the total fund.

## FUND ASSET ALLOCATIONS

| Asset Class | % |
|---|---|
| Domestic Equity | 53.8% |
| Foreign Equity | 18.6% |
| SA Cash | 2.0% |




## DISTRIBUTIONS

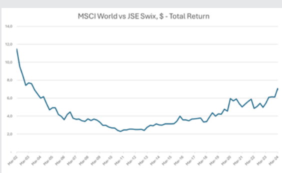
| | |
|---|---|
| Distribution Frequency | Annually |
| Distribution Date | 02 April |
| Last Distribution | 6.2 cents per unit |

## FEE STRUCTURE

| TER | Class B2 | Class B1 | Class C |
|---|---|---|---|
| Annual Management Fee (excl. VAT) | 0.75% | 0.90% | 1.20% |
| Other Cost | 0.14% | 0.14% | 0.14% |
| VAT | 0.11% | 0.13% | 0.17% |
| Total Expense Ratio (incl. VAT) | 1.00% | 1.17% | 1.51% |
| Transaction Costs (incl. VAT) | 0.13% | 0.13% | 0.13% |
| Total Investment Charge (incl. VAT) | 1.13% | 1.30% | 1.64% |

## QUARTERLY COMMENTARY | MARCH 2024

It has been a tough start to 2024 for South African focussed investors. In stark contrast to global equity markets, where the MSCI World Index gained nearly 9% in US Dollars (US$) in the quarter, the JSE Swix declined by over 2% in Rands, and nearly 6% in US$. As all readers are no doubt aware, it has now been a sustained period of outperformance by the MSCI World over the JSE Swix, in US$. The chart below shows that for over 13 years the MSCI World has materially outperformed the JSE. As an aside, and somewhat against the narrative of the day, over the last 20 years the JSE has still performed better than the MSCI World in US$ - cold comfort today, but we believe a fact worth reflecting on.

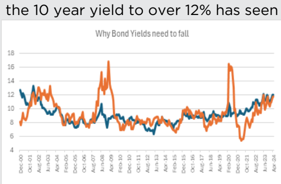



The ClucasGray Equilibrium Prescient Fund declined by 1.4% in the quarter, underperforming the peer group, which gained 1.8%. A number of core equity holdings have performed poorly, due to a combination of the tough South African macros environment alluded to above, and, in a few isolated cases, company specific issues. Good performances by Reunert, Multichoice, British American Tobacco and Grindrod contributed to fund performance. However, offsetting these, AECI, Sasol, African Rainbow Minerals, Exxaro and select Financials performed poorly. Away from Equities, South African Bonds, to which the fund is exposed, disappointed, with the All Bond Index declining by 1.8% in the quarter. The offshore component of the fund performed very well, given the performance of global equity alluded to earlier.
As illustrated on the fact sheets, the fund performance over the last 3 years, at 10.6% per annum, is ahead of peers (8.6%) and inflation (5.9%). Indeed it has outperformed over most periods since inception over 9 years ago. Since its launch in October 2011 the fund's 8.8% compound annual returns are ahead of the Peers (6.4%), and inflation (5.2%).

Our Alpha Thesis, the corner stone of the ClucasGray Asset Management investment process, assesses the interplay between earnings and valuation multiples for all companies and sectors that we analyse. A recent note by GMO alluded to very similar issues, namely that to outperform, companies need to:

- Grow faster
- Generate higher FCF yield
- See valuation multiples rise faster than the market.

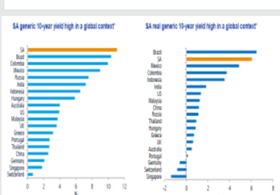
Over the last number of years its been well documented that South African companies have experienced challenging operating conditions, most notably infrastructure (electricity) and logistical (rail & ports) constraints, a weak currency, and elevated interest rates. The net effect has been sluggish earnings growth, coupled with a de-rating of valuation multiples – in short, the complete antithesis of what is required to outperform.
The relative underperformance of South African equities over the last decade in general, and the last year in particular, is a statement of historical fact. What happens from here is naturally of relevance and importance. We wrote extensively in 2023 about the anomalies that had befallen companies operating in the South African economy, and their potential once off nature. The 450bp increase in interest rates that begun in 2022 were starting to bite in 2023, hurting consumers and businesses alike. The sudden and sustained increase in Loadshedding to previously unfathomable levels similarly had an adverse impact on activity levels across the economy. So why would 2024 and 2025 be any different?
The direction of interest rates is notoriously difficult to call. We do hold the view that inflation continues to moderate resulting in the interest rate environment becoming more accommodative. Any reductions in interest rates will alleviate consumer stress – we believe we are through the point of maximum consumer pain.
Whilst it is hard to lend much credence to comments from Eskom that power generation is going to increase as more generating units come on line, these have been verified by independent industry experts. In addition, the significant increase in alternative sources of energy has meant that households and businesses are more resilient during loadshedding. The additional costs required to stay open for business in 2023 are not likely to recur to the same extent in 2024 & 2025. Similarly even modest interest rate declines will result in a more constructive environment within which to operate. Notwithstanding all the negativity that abounds, we believe the earnings bases of many South African facing companies are suppressed, and are expecting growth off the 2023 levels.
There is an obvious link between higher bond yields and the valuations at which companies trade. The chart below shows the South African 10 year Government Bond and the Earnings Yield of the South African Banks index over the last 24 years - higher bond yields generally equate to higher earnings yields (lower PE's). The steady and unfortunate rise in the 10 year yield to over 12% has seen a steady de-rating of many domestic oriented companies. We are not of the view that these yields are structurally higher.




For what it is worth, our macro view remains that South African inflation will subside, bond yields will fall from current elevated levels, and valuation multiples should rise. The valuation argument becomes even more compelling at an individual company level.

**Conclusion**

We have been disappointed at the recent relative performance of the ClucasGray Equilibrium Prescient Fund over the last few quarters. Yet when we assess the overall portfolio that we have been able to construct, and the prospective returns available to investors using modest exit multiples, we cannot help but be comforted.
We strive to deliver Rand returns of Inflation + 4% over long periods. With South African bond yields offering real yields of over 6% (Standard Bank table on bottom left), and the relative valuation appeal of South African focused equities (RMB Morgan Stanley chart below right), we believe investors have a unique opportunity to enjoy attractive real Rand returns over time.




South African yields have largely followed global bond yields higher. We still hold the view that there are more disinflationary trends than inflationary concerns within both a global and domestic context - central banks, however, remain very cautious. The Federal Reserve is nevertheless expected to reduce rates into the second half of the year. In South Africa, we remain optimistic that inflation trends will continue to subside and that we will see lower interest rates into the second half of the year. We believe this scenario will be constructive for bond investors.
As renowned investor Guy Spier of the Aquamarine Fund recently stated, "Over the last 25 years I have learnt again and again, that extreme patience is the name of the game". We have no real sense of what the catalyst will be to unlock value – it could well be an election outcome not as bad as feared, it could be a recovery in global commodity prices and the Rand, or lower interest rates. We continue to believe, as Guy Spier alluded to, that patience is going to be handsomely rewarded

Prescient

## DISCLAIMER

Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value may go up as well as down and past performance is not necessarily a guide to future performance. CIS's are traded at the ruling price and can engage in scrip lending and borrowing. The collective investment scheme may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. A schedule of fees, charges and maximum commissions is available on request from the Manager. There is no guarantee in respect of capital or returns in a portfolio. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. CIS prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions (brokerage, STT, VAT, auditor's fees, bank charges, trustee and custodian fees and the annual management fee) from the portfolio divided by the number of participatory interests (units) in issue. Forward pricing is used.

The Fund's Total Expense Ratio (TER) reflects the percentage of the average Net Asset Value (NAV) of the portfolio that was incurred as charges, levies and fees related to the management of the portfolio. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TER's. During the phase in period TER's do not include information gathered over a full year.

Transaction Costs(TC) is the percentage of the value of the Fund incurred as costs relating to the buying and selling of the Fund's underlying assets. Transaction costs are a necessary cost in administering the Fund and impacts Fund returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of Fund, investment decisions of the investment manager and the TER.

Where a current yield has been included for Funds that derive its income primarily from interest bearing income, the yield is a weighted average yield of all underlying interest bearing instruments as at the last day of the month. This yield is subject to change as market rates and underlying investments change.

The Manager retains full legal responsibility for any third-party-named portfolio. The investor acknowledges the inherent risk associated with the selected investments and that there are no guarantees. A list of fund specific risks is provided below. Please note that all documents, notifications of deposit, investment, redemption and switch applications must be received by Prescient by or before 13:00 (SA), to be transacted at the net asset value price for that day. Where all required documentation is not received before the stated cut off time Prescient shall not be obliged to transact at the net asset value price as agreed to. Funds are priced at either 3pm or 5pm depending on the nature of the Fund. Prices are published daily and are available on the Prescient website.

Performance has been calculated using net NAV to NAV numbers with income reinvested. The performance for each period shown reflects the return for investors who have been fully invested for that period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager on request.

Max Gain: Largest increase in any single month.

Max Drawdown: The maximum peak to trough loss suffered by the Fund since inception.

% Positive Months: The percentage of months since inception where the Fund has delivered positive returns.

Equity investment risk: Value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. bankruptcy), the owners of their equity rank last in terms of any financial payment from that company.

Foreign Investment risk: Foreign securities investments may be subject to risks pertaining to overseas jurisdictions and markets, including (but not limited to) local liquidity, macroeconomic, political, tax, settlement risks and currency fluctuations.

Interest rate risk: The value of fixed income investments (e.g. bonds) tends to be inversely related to interest and inflation rates. Hence their value decreases when interest rates and/or inflation rises.

Property risk: Investments in real estate securities can carry the same risks as investing directly in real estate itself. Real estate prices move in response to a variety of factors, including local, regional and national economic and political conditions, interest rates and tax considerations.

Currency exchange risk: Changes in the relative values of individual currencies may adversely affect the value of investments and any related income.

Liquidity risk: If there are insufficient buyers or sellers of particular investments, the result may lead to delays in trading and being able to make settlements, and/or large fluctuations in value. This may lead to larger financial losses than expected.

Default risk: The risk that the issuers of fixed income instruments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The issuers credit quality it vital. The worse the credit quality, the greater the risk of default and therefore investment loss.

Developing Market (excluding SA) risk: Some of the countries invested in may have less developed legal, political, economic and/or other systems. These markets carry a higher risk of financial loss than those in countries generally regarded as being more developed.

For any additional information such as fund prices, brochures and application forms please go to www.cgam.co.za

## GLOSSARY SUMMARY

**Annualised Performance:**
Annualised performance show longer term performance rescaled to a 1 year period. Annualised performance is the average return per year over the period. Actual annual figures are available to the investor on request.

**Highest & Lowest Returns:**
The highest and lowest returns for any 1 year over the period since inception have been shown.

**NAV:**
The net asset value represents the assets of a Fund less its liabilities.

**% Positive Months:**
The percentage of months since inception where the Fund has delivered positive return.

**Net Performance**
Unit trust performance is net (after) management fees have been deducted.

## CONTACT DETAILS

### Management Company:

Prescient Management Company (RF) (Pty) Ltd, Registration number: 2002/022560/07 Physical address: Prescient House, Westlake Business Park, Otto Close, Westlake, 7945 Postal address: PO Box 31142, Tokai, 7966. Telephone number: 0800 111 899. E-mail address: info@prescient.co.za Website: www.prescient.co.za

### Trustee:

Nedbank Investor Services Physical address: 2nd Floor, 16 Constantia Boulevard, Constantia Kloof, Roodepoort, 1709 Telephone number: +27 11 534 6557 Website: www.nedbank.co.za

The Management Company and Trustee are registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). Prescient is a member of the Association for Savings and Investments SA.

### Investment Manager:

ClucasGray (Pty) Ltd, Registration number: 2005/012445/07 is an authorised Financial Services Provider FSP21117 under the Financial Advisory and Intermediary Services Act (No.37 of 2002), to act in the capacity as investment manager. This information is not advice, as defined in the Financial Advisory and Intermediary Services Act (N0.37 of 2002). Please be advised that there may be representatives acting under supervision. Physical address: Dunkeld Place, 12 North Road, Dunkeld West, 2196 Postal address: PO Box 413037, Craighall, 2024 Telephone number: +27 11 771 1960 Website: www.cgam.co.za

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This portfolio operates as a white label fund under the Prescient Unit Trust Scheme, which is governed by the Collective Investment Schemes Control Act.