



June 2024 | Commentary and MDDs

The 2nd quarter of 2024 proved to be an eventful one. In May, ClucasGray Asset Management (CGAM) presented at the annual Meet the Managers conferences in Cape Town and Johannesburg. We titled our presentation:

“Following a lost decade, why Tolstoy’s warriors, Patience & Time, could handsomely reward South African investors.”

History has demonstrated countless times how starting valuations and yields matter – periods of strong real returns invariably had their origins in low valuations in the case of equities, or elevated yields in the case of bonds. The relevance to South Africa in 2024 seemed appropriate - fear and angst in the build up to the national elections at the end of May resulted in the valuations of numerous companies reaching previously unfathomable levels.

The key developments post the South African elections have been well documented – we have been encouraged by the maturity shown by most parties in coming together to form the Government of National Unity (GNU). Allied to a more constructive political backdrop, we believe there are some important tailwinds, structural and cyclical, that could result in a more favorable environment for individuals and companies alike. A more stable electricity backdrop, positive developments to resolve the logistical challenges, and a seeming willingness by the State to partner with private enterprise are encouraging developments. Cyclically, we remain of the view that the inflationary pressures in the economy are

alleviating, and expect interest rates declines off the current elevated levels to prove stimulatory to the broader consumer economy.

As it transpired, the 2nd quarter of 2024 proved to be a good one for the ClucasGray Funds. A number of holdings contributed positively to performance, with the most notable being Nampak which gained over 80%, African Rainbow Minerals , Spar and Foschini all being up around 30%; Anglo American, FirstRand, The KAL Group and the JSE all rising around 20%, and a number of other holdings delivering double digit returns.

In both the **ClucasGray Equity Prescient Fund** and **ClucasGray Equilibrium Prescient Fund** we set ourselves the objective of delivering industry leading real returns over time. As illustrated in the two slides below, the funds have, to date, managed to deliver on these objective.

ClucasGray Equilibrium Fund Performance – 30 June 2024

Delivering on our objective of Industry leading Real Returns over sustained periods



<u>Net Returns</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>Since Inception – Jan 2015</u>
ClucasGray Equilibrium Fund	13.1%	11.8%	10.2%	9.7%	9.3%
SA Multi Asset High Equity	10.1%	9.0%	8.9%	7.7%	6.8%
Inflation	5.4%	6.1%	5.0%	4.9%	4.9%
Real Returns	7.7%	5.7%	5.2%	4.8%	4.4%
WTW Global Balanced Survey – June 2024	1 st Quartile	1 st Quartile	2 nd Quartile	1 st Quartile	

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Performance of ClucasGray Equity Fund to 30 June 2024

Net of fees returns against JSE Capped Swix & Inflation



<u>ClucasGray Equity Fund Net Returns</u>	<u>1 Year Return</u>	<u>3 Year Return</u>	<u>5 Year Return</u>	<u>7 Year Return</u>	<u>10 Year Return</u>	<u>Since Inception</u>
ClucasGray Equity Prescient Fund	11,9%	13,5%	10,4%	9,7%	8,1%	11,4%
Capped Swix, TR	10,0%	10,1%	8,7%	7,5%	6,5%	10,4%
Vs Capped Swix	1,9%	3,4%	1,7%	2,2%	1,6%	1,0%
Inflation	5,4%	6,1%	5,0%	4,9%	5,0%	5,2%
Real Returns	6,5%	7,4%	5,4%	4,8%	3,1%	6,2%

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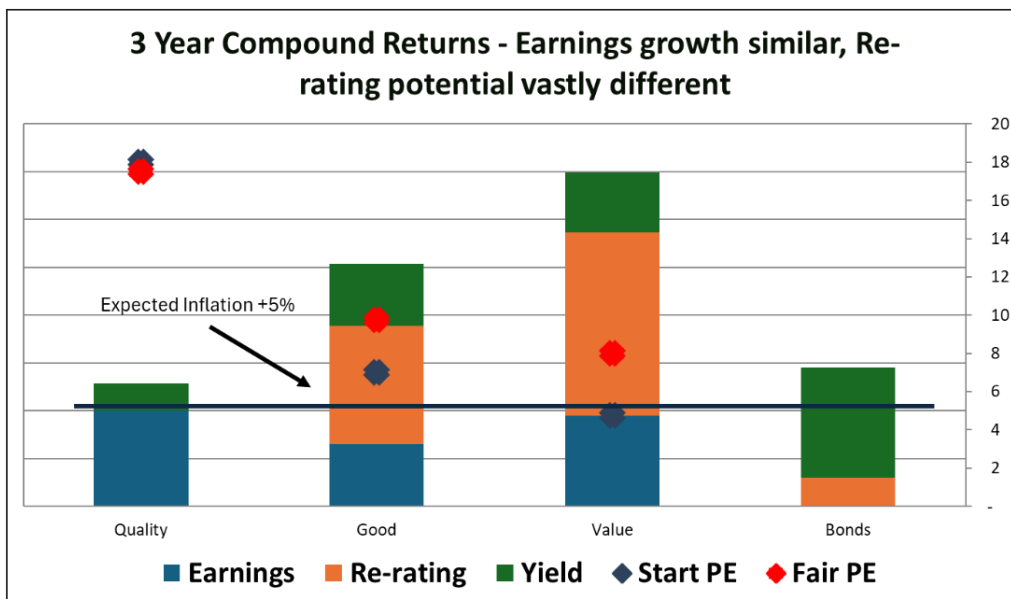
The **CGAM SA Balanced Prescient Fund** will celebrates its 1 year birthday in July 2024. Since inception to 30 June 2024, the fund has delivered a return of 14.3%. Given the opportunities in South African fixed income, select equities and properties, we believe the

fund remains well placed to deliver on its objective of producing real returns to its investors.

Earnings, Dividends & Rating

A key part of our Investment Process at CGAM (ClucasGray Asset Management) is to assess prospective equity returns by analyzing 3 key components - earnings growth, dividend yield and the change of valuation multiple. We performed an exercise during June where we took a sample of companies listed on the JSE in 3 subjectively defined categories – Quality, Good and Value.

All 3 categories show an ability to deliver real, albeit modest, earnings growth over the next 3 years, the bulk of the prospective returns in the Good and Value samples are derived from an elevated Dividend Yield, and a modest re-rating, off suppressed levels. Given the exceedingly low starting valuations, the impact of a modest re-rating is potentially significant.



Sample size of 4 companies per grouping – for illustrative purposes only

Source: Bloomberg, CGAM

Despite a strong recovery in select equity prices towards the end of the quarter, valuations remain low relative to history, dividend yields high, and the potential exists for a long awaited earnings recovery. We remain of the view that many domestic companies offer very attractive prospective returns.

If there is any interest in a meeting to discuss the funds, please don't hesitate to get in contact with Andrew on Andrew@ClucasGray.co.za.

Regards

Andrew, Grant and the CGAM team

ClucasGray Equity Prescient Fund | Net Annualised Performance Figures to 30 June 2024

	1 Year	3 Years	5 Years	10 Years	Since Inception* (Annualised)
Fund*	11.9%	13.5%	10.4%	8.1%	11.4%
Class A2**	11.1%	12.6%	9.5%	7.3%	9.6%
SWIX TR	9.8%	8.8%	8.0%	6.7%	10.6%
SA Equity General Peer Group	9.5%	9.3%	8.7%	5.8%	9.0%

* Inception 1 October 2011

Source: Prescient Fund Services June 2024

** Highest Fee Class

Highest Rolling 1 Year Return *

55.3%

Lowest Rolling 1 Year Return *

-30.7%

ClucasGray Equilibrium Prescient Fund | Net Annualised Performance Figures to 30 June 2024

	1 Year	3 Years	5 Years	Since Inception* (Annualised)
Fund*	13.1%	11.8%	10.2%	8.6%
Class C**	12.4%	11.1%	9.6%	8.0%
SA Multi Asset High Equity Peer Group	10.1%	9.0%	8.9%	6.3%

* Inception 16 January 2015

Source: Prescient Fund Services June 2024

** Highest Fee Class

Highest Rolling 1 Year Return *

34.2%

Lowest Rolling 1 Year Return *

-17.6%