

ELECTUS

FUND MANAGERS



“We always strive to buy into high quality businesses at prices that are low compared to their long-term investment valuation.”

Neil Brown & Richard Hasson | Co-Heads



GRANDMASTERS

We are fundamental valuation-based equity investors with an active approach to asset management. We seize every opportunity to invest in shares of high quality businesses that we believe will deliver superior performance over time. We have a strong track record of identifying these shares through our experience and advanced proprietary research process.

We believe that investing is similar to the game of chess. It requires skill gained from years of experience, a steadfast temperament and a proven strategy to reach the end goal. In chess that goal is to protect the king, in our game it's to grow the value of your money and to beat the market. That is why we invest in a consistently disciplined and focused manner, based on an unwavering investment philosophy of **always striving to buy into high quality businesses at prices that are low compared to their long-term investment valuation.**

We offer our clients access to a wealth of equity research and fund management experience across the entire South African equity market and a proven, awarding-winning track record of offering excess returns.

Our equity portfolios are managed with high conviction and with shares chosen in an unconstrained fashion, giving you the benefit of our proven stock-picking ability. We believe in quality over quantity as we construct concentrated, but still well-diversified portfolios containing around 35 shares.

We are absolutely committed to delivering on long-term performance and offering our clients top quality service. As a result, we have a restricted asset capacity, which enables Electus clients to potentially invest in about 110 companies, while our limited client base enables us to deliver unmatched levels of client service.



INVESTMENT STYLE

Our investment portfolios are all managed with shares chosen in an unconstrained investment style. Similar to the liberty afforded the queen on a chess board, our investment moves are not limited to specific stocks, sectors, styles or market-capitalisation ranges. This is broadly defined as being market-orientated (or style- and size-agnostic). We strive to achieve long-term superior performance through our fundamentally-based investment philosophy. We take an active approach to asset management and believe in seizing every opportunity to invest in high quality businesses that we believe will deliver superior performance over time, based on their fundamental valuations.

We have an extremely disciplined and consistent approach to constructing and managing our clients' portfolios. Our proprietary equity research is generated by our team of Electus analysts, who are industry and company specialists and provide systematic bottom-up fundamental valuations and sensitivities around those share valuations. Our analysts use various valuation methodologies such as discounted cash flow (DCF), internal rate of return (IRR), price/earnings (P/E), dividend yield (DY), price/book (P/B) versus return on equity (RoE), sum of parts and embedded values.

The funds we manage have a return objective of delivering relative outperformance of benchmarks in excess of 3% a year over rolling three-year periods. Having an unconstrained share selection investment style, benchmarks are less relevant in our portfolio construction and are mainly used as a final risk management tool.

“Like a chess piece, every company we analyse has both an absolute and a relative valuation. Our strength lies in determining how each company will perform over time – individually and relative to each other.”

Richard Hasson & Neil Brown (Co-Heads)



INVESTMENT OFFERING

Institutional	Lead Fund Manager	Excess Return Target	Number Of Shares
Multi-Cap (institutional)	Neil Brown and Richard Hasson	> 3% p.a.	30 – 35
Nedgroup Investments Growth Fund (Retail Unit trust & Pooled Vehicle)	Neil Brown and Richard Hasson	> 3% p.a.	30 – 35



INVESTMENT PROCESS

1	CREATE AN INVESTABLE UNIVERSE	<p>Characteristic</p> <ul style="list-style-type: none"> • Begin with the investable universe, typically all JSE- listed shares • Restrict shares with insufficient liquidity 	<p>Result</p> <p>An investable universe of 110 shares in which we can confidently apply our information advantage.</p>
2	EVALUATE SECURITIES	<p>Characteristic</p> <p>Electus equity research analysts cover 110 shares Systematic evaluation of each share in the universe Using bottom-up valuation methodologies to determine:</p> <ul style="list-style-type: none"> • Absolute & Relative Returns 	<p>Result</p> <p>An unbiased assessment of the absolute and relative attractiveness of each share in the investable universe.</p>
3	UNCONSTRAINED SHARE SELECTION BASED ON ELECTUS INVESTMENT PHILOSOPHY	<p>Characteristic</p> <ul style="list-style-type: none"> • Screen the 110 shares based on our investment philosophy. • Rigorous debate within the team regarding quality shares • Stress-test analyst valuations 	<p>Result</p> <p>Creation of a more concentrated preferred high quality share list within the investable universe.</p>
4	CONSTRUCT CONCENTRATED CLIENT PORTFOLIOS	<p>Characteristic</p> <ul style="list-style-type: none"> • Select 30 -35 shares based on expected return, level of conviction, margin of safety and inter-relationship of shares • Integrate client and benchmark guidelines, security selection and risk management components 	<p>Result</p> <p>Electus client portfolio optimally positioned to capture excess return-generating opportunities within a risk-managed context.</p>

UNPACKING THIS INVESTMENT PROCESS

1 CREATE AN INVESTABLE UNIVERSE

We begin with the investable universe of our market (the shares listed on the JSE) and exclude those with insufficient liquidity. What we are left with is about 110 shares that our team of analysts can research.

2 EVALUATE SECURITIES

As with the game of chess, all the information we need is before us. We use our experience and insights to analyse all the information and the data available on each company in order to determine the share valuations in absolute and relative terms, as well as their sensitivities, with long-term goals in mind.

3 UNCONSTRAINED SHARE SELECTION BASED ON THE ELECTUS INVESTMENT PHILOSOPHY

Using our qualitative investment and risk criteria, we narrow down the around 110 high quality shares actively researched by the team to a preferred share list of around 70 high quality shares. Our funds should both qualitatively and quantitatively reflect our strong positive bias to investing in quality companies and attractive valuations. We always strive to have Electus' client portfolios invested in high quality shares with the following characteristics:

1. Sustainable return on capital > Cost of capital
2. Quality business models, including Porter's Five Forces "moat"
3. Proven management teams with aligned incentives & strong capital allocation skills
4. Forecast ability of long term business profitability
5. Strong cash flows post working capital & maintenance capex
6. Appropriate margin of safety in their fundamental valuations

These characteristics define what we call 'high quality' companies and form the foundation of our investment philosophy. We always aim to buy shares at prices that are low compared to their long-term investment valuation; a key part of long-term equity returns lies in the price you pay when buying shares. At times when many quality shares are overpriced or exceptional valuations exist elsewhere, we will invest up to 20% of our portfolios in companies with attractive valuations that do not meet all of the defined criteria for high quality companies.

We engage in rigorous debates within Electus, in addition to stress-testing all our company valuations and sensitivities.

4 CONSTRUCT CONCENTRATED CLIENT PORTFOLIOS

HOW WE CONSTRUCT CLIENT PORTFOLIOS

1 Start with the universe of ±110 shares, which we have a strong positive bias towards the **high quality shares list** as the base to select shares to be held in the fund.

2 Analyse the **level of company earnings** and **stress-test the margin of safety in valuations** for all shares. Compare valuations using methodologies such as DCF, P/E, Yield, Price/Book and Sum of the parts. "Checklist" for shares not on preferred list.

3 Understand the **level of conviction** we have in our **various valuation methodologies** for all the shares we analyse. We do not buy any share if we do not have an above average level of conviction in the margin of safety of the share.

4 Analyse and understand the **diversification characteristics** of all the shares we analyse. We believe that ±35 shares in a fund is adequate, efficient and most appropriate for meeting fund diversification needs for SA equity funds.

5 Understand the **inter-relationship of shares** in the fund. For shares with similar earnings drivers, we prefer to own shares that are more cheaply priced relative to their valuations. Example: Banks vs Retailers, where SA interest rates are the key driver of profitability in both sectors.

6 Analyse the shares in the fund on research systems for a deeper and more **quantitative** understanding of the inter-relationship and volatility characteristics of the fund holdings.

7 As a **final portfolio construction** measure, we check the **benchmark weightings** of the shares to ensure that the positions in the fund **reflect our relative benchmark view**. We also ensure that these positions meet our **portfolio diversification objectives, mandate requirements, excess return targets and risk controls**.

A chess piece's valuation is determined by how it builds its strategic position (in a company it's their competitive advantage) and its inter-relationship with other pieces (portfolio diversification).

“We look for those companies that know, with the right moves, every pawn is able to become a queen. We don't only look at a company's face value: A small market-leading company in the right industry and with great leadership can be tomorrow's large cap.”

Richard Hasson & Neil Brown (Co-Heads)



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