INVESTMENT OFFERING

Institutional	Lead Fund Manager	Excess Return Target	Number Of Shares
Institutional Portfolio	Neil Brown and Richard Hasson	> 3% p.a.	±30
Nedgroup Investments Growth Fund (Retail Unit trust and Pooled Vehicle)	Neil Brown and Richard Hasson	> 3% p.a.	±30

INVESTMENT PROCESS

Step		Characteristic	Result
1	CREATE AN INVESTABLE UNIVERSE	• Begin with the investable universe, typically all JSE- listed shares • Restrict shares with insufficient liquidity	An investable universe of 110 shares in which we can confidently apply our information advantage
2	EVALUATE SECURITIES	Electus equity research analysts cover 110 shares Systematic evaluation of each share in the universe Using bottom-up valuation methodologies to determine: • Absolute and Relative Returns	An unbiased assessment of the absolute and relative attractiveness of each share in the investable universe
3	UNCONSTRAINED SHARE SELECTION BASED ON ELECTUS INVESTMENT PHILOSOPHY	• Screen the 110 shares based on our investment philosophy. • Rigorous debate within the team regarding quality shares • Stress-test analyst valuations	Creation of a more concentrated high quality share list within the investable universe
4	CONSTRUCT CONCENTRATED CLIENT PORTFOLIOS	• Select ±30 shares based on expected return, level of conviction, margin of safety and inter-relationship of shares • Integrate client mandates, share selection and risk management components	Electus client portfolio optimally positioned to capture excess return-generating opportunities within a risk-managed context.

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 and strong capital allocation skills
4. Forecast ability of long term business profitability
5. Strong cash flows post working capital and 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, from which we have a strong positive bias towards **high quality shares** as the base to select shares to be held in the fund.
2	Analyse and normalise 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, Dividend Yield, Price/Book and Sum of the Parts. Ensure "Checklists" for poor companies.
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 ±30 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 is 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, decomposition of risk and volatility characteristics of the fund holdings.
7	As a **final portfolio construction** measure, we ensure that the positions in the fund **reflect our views and incorporate an understanding of company sensitivity, liquidity and market leadership**. We also ensure that these positions meet our **portfolio diversification objectives, mandate requirements, excess return targets and risk controls.**