

For Immediate Release

Ashburton Equity Fund: a three-year good news story

16 October 2024, Cape Town - The Ashburton Equity Fund is celebrating three years of wins under the new team's management. While a three-year anniversary on 1 October 2024 is an important milestone, the team is focused on the long-term investment process and a positive culture that delivers results.

The team, led by Ashburton's head of Equities, Charl de Villiers and portfolio manager Daniel Masvosvere, managed to deliver 95bps per annum of positive alpha over the benchmark FTSE JSE Capped SWIX. In addition, they managed to improve the fund's relative three-year peer positioning from the fourth quartile to the first quartile since taking over the reins. What distinguishes the fund from others in the market is its repositioning to become a purely South African equity fund with a strong performance at a time when others are looking further offshore.

Q&A with Charl and Daniel:

Q: What were the first important changes you made?

Charl:

There are 2 aspects to this question.

The first was the complete overhaul of the Ashburton equity franchise's investment process (which started before we took over the actual management of the portfolio). Practically this meant documenting and implementing consistent ways of valuing equities and presenting research output into a proprietary data management system. One's investment process is always evolving, not something with a finite end date. As an example, we have seen the inclusion of ESG into our systems and processes over the last few years.

And secondly was a complete overhaul of the actual equity portfolio, reducing the number of equity holdings materially with a focus on only investing in companies we know and understood well. This meant a much greater focus on South African listed equities from day one.

Q: Can you tell us a bit about the overhaul of the investment process?

Charl: We are fixated on our team culture and investment process. Our investment process is the one aspect that we are a 100% in control of on a day-to-day basis and not subject to the short vagaries of the equity market. Our experience shows that if one delivers high quality consistent equity research work into an established and formal investment process and system, investment performance will follow.

Behind the scenes, we had been laying the groundwork for the transition to a new team, with our quants team developing a proprietary Ashburton database and information management system that allows us to capture and manage the data linked to the output of our bottom-up company research process. One of our aims is to develop a performance-based culture across the equity team and our systems play a dual role of managing the measurement of individual research value

add which is an input into team reward structures and well as management of research data so that we can use it effectively in the portfolio construction and risk management processes.

It is also important to point out that the investment process we implemented, was not based on untested principles. Its foundation is based on the investment process and system that we had used successfully in our previous roles, and which delivered top quartile long-term investment performance.

Q: How is the Ashburton Equity Fund, positioned differently to our peers?

Daniel: The Ashburton Equity fund is positioned as a SA only equity building block. Given our competence is focused on the local market, we took the decision to focus 100% on South African listed equities.

Importantly, we believe that our smaller size versus some of our peers is providing us with a unique opportunity to invest more meaningfully in the mid-cap end of the South African market where we feel there is a more attractive valuation arbitrage opportunity relative to many of the larger TOP 40 names.

Liquidity constraints on our larger peers means that they are not able to replicate our positioning in a meaningful way. Our edge in investing in this end of the South African market has been a key driver of the turnaround in the portfolio's performance over the past 3 years, showing that we have a competence in executing in this area of the market.

Q: This fund essentially has a new team managing it. What impact has the new team and on the success of the fund?

Daniel: Our process is reliant on detailed bottom-up company research, as such it is also very reliant on the input from all our team members. We use the entire teams' research effort in determining which are the best risk adjusted opportunities available in the market at a point in time. As such, the Ashburton team has been instrumental in the success of the portfolio over the last 3 years.

We also operate a very flat structure, and while Daniel and my name may be on the MDD, all team members are encouraged and expected to provide ongoing input into the portfolio construction process.

Q: We are aware that this 'isn't your first rodeo', can you tell us a bit about yours and the teams history?

Charl: Several of our team members have worked together for a decade or more at Sanlam. During this time, we gained valuable experience in what is required on a day-to-day basis in terms of research output and investment process to be able to deliver top quartile, benchmark beating long-term investment performance to clients. We left Sanlam with several of our portfolios in the top decile of peer long-term performance in their respective product categories.

The newer members of the team have also been fantastic additions for Ashburton, slotting into the research culture seamlessly and importantly having a real passion for equity research which is crucial to doing our jobs well.

Q: The fund has performed well over the last 3 years – what can you attribute to this success?

Charl: Portfolio performance has been driven by several of our meaningful mid-cap positions that have been stellar performers over different periods over the last 3 years. Some of these have been special situation value unlock opportunities, such as Grindrod, AlexForbes and Massmart. While others have been helped by the cyclical recovery in the sectors which they operate (Raubex and WBHO).

Outside of mid-caps, we also called the cyclical commodity sector well coming out of COVID. Where we benefited from the tailwinds of higher commodity mainly due to supply chain constraints, and managed to reduce our commodity exposure before these gave back a lot of their gains.

More recently, we also did well from our material SA financials exposure (banks and insurers) into 2024 and particularly post the elections and the formation of the GNU as SA sentiment improved.

Another element which is often under stated in terms of importance, is that we did not have any major portfolio mistakes which resulted in a permanent loss of value during the past 3 years.

On the other side of the coin, the biggest detractors on our portfolio's performance would have come from not owning some of the high-quality growth names such as Capitec and Shoprite. While always disappointing, these are the type of errors of omission that we come to expect from our more value orientated investment philosophy.

Q: You have recently changed offshore exposure, and positioned as an equity only building block, why the change?

Daniel: While we officially positioned the fund into a local / SA only equity building block in 2024, we haven't materially changed the SA vs offshore asset allocation. Our fund has run a very low level of offshore allocation over the last 3 years period (less than 10% of the portfolio). Our investment process dictates that we focus our portfolio investments on businesses and companies that we feel we know and understand well. We back ourselves on our home turf, and hence we feel our clients' interests are best served by our team focusing our efforts investing in South African listed equities.

Q: How would clients get International Equity exposure?

Charl: Clients who are looking for offshore allocation can get ex-SA exposure via the Ashburton global equity fund offerings. We point to our recently announced partnership with Morgan Stanley, who will manage these many strategies and who have a long-term track record in managing global equities successfully.

Q: Why is now a good time to invest in the fund?

Daniel: Post the May elections and the formation of the GNU, sentiment towards SA assets has improved materially. A welcome shift after a decade of poor local equity performance, primarily due to weak local macro growth and poor policy execution. After a bloody nose at the recent polls, government seems to have realized that the only viable route to resolving many of the structural

impediments holding back the economy is partnering the private sector. This should open many new growth vectors for corporate South Africa. Our equity portfolio provides investors with unique 'needle moving' exposure to many smaller companies that fall outside the universe of many of our larger peers but are well positioned to benefit from the improvement in South African economic growth and more favorable economic conditions.

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About Ashburton Investments

Ashburton Investments is a full-service, standalone asset management business offering bespoke solutions to corporates, financial advisers and institutions.

While always being valuation-driven, and risk-aware, the company's investment style is pragmatic, spanning active and passive, local and offshore, traditional and alternative strategies. Although it is known for its solid fixed income and credit track record, Ashburton also specialises in multi-asset, equities and global capabilities.

The company has a strong team of investment professionals, whose collective mission is to meet its clients' unique needs with integrity. Ashburton also has one of the most diverse asset management teams in the country, with a significant number of women in their investment team and most of its executives are black.

CEO Duzi Ndlovu has been at the helm of the company since 2022 and CIO Patrice Rassou joined the business in 2020. For more information visit www.ashburtoninvestments.com

For additional information or high-res images please contact:

Issued by	Dialogue
On behalf of	Ashburton Investments
For further information please contact:	Cherná Lutta Dialogue PR chern@dialogue.co.za / (021) 461 5108
	Imtithaal Dawood Ashburton Investments Marketing Manager imtithaal.dawood@ashburton.co.za / 082 575 2820