



CLUCASGRAY EQUILIBRIUM FUND

Small and beautiful

This fund currently only has around R240m under management, but it deserves attention given its track record of delivering market- and sector-beating returns at low cost.

One thing that has surprised me a lot since becoming a financial planner is just how much energy investors expend trying to identify which of the newer fund managers will be “the next big thing”.

Hardly a month goes by without investors or prospective investors wanting to know who we think will be the next big thing. I suppose there are bragging rights that come with having picked a winner before everyone else, in addition to the excess returns that a manager has to deliver to truly become “the next big thing”.

Recently we have fielded a few questions on Sygnia’s 4th Industrial Revolution Global Equity Fund in particular, but often we get asked for a general opinion on which fund we think could be a future titan.

We generally do not spend much time and effort specifically trying to identify tomorrow’s winners, but we do have an obligation to our clients to consider the merits of all funds in the market. However, given that we act in a fiduciary capacity for clients, our focus has to be on issues such as sustainability and risk management rather than the potential to win performance based awards.

One fund that has caught our attention recently is the ClucasGray Equilibrium Fund (CGEF). It is reasonably unexciting, but sufficiently different for us to be interested.

The CGEF is a balanced fund and complies with regulation 28 of the Pensions Fund Act. The fund was launched in January 2015 and is managed by Andrew Vintcent (previously of Stanlib and RMB), and Grant Morris (previously of Accenture and Standard Bank). **Balanced funds are unlikely to get anyone’s blood racing with excitement, which is possibly reason enough to invest.**

There are a number of factors that have resulted in us adding the CGEF to our shopping list for client portfolios: their attitude to risk, pricing, and the way they use their size advantage to benefit clients. In all our engagements with fund management, we noted a consistent awareness of risks to the portfolio, and a general conservatism against taking any big bets. The company did not list this as a strength, but it was clear to us that we were not talking to mavericks.

From a cost perspective, the fund is currently priced at 0.6% with no performance fees. This puts it at the cheap end of the active management pricing curve for balanced mandates. There

is an intention to raise this fee to 0.75% from January 2017. Perhaps they could be convinced to leave it at 0.6% if they get enough support from the market.

Finally, the fund has exposure to stocks such as ADBEE (share code: ADE), which is an asset-backed security listed on the JSE as part of Adcock’s BEE deal. ADE has a potentially attractive risk/return profile over the next three years. Larger funds are not able to take a meaningful exposure to such opportunities. There were numerous examples of such small- and mid-cap exposures in the portfolio.

The graph shows the fund’s performance since inception, versus the sector average and the JSE. It is clear that the fund came into existence in what has been a difficult period for markets.

The fund has managed to outperform both peers and the market in difficult market conditions, which is comforting for investors. I suspect that their attitude to risk and low cost structure have played a big part in this outcome.

The fund has around R240m assets under management, which makes it very small. However, I suspect that it will become a whole lot bigger if its managers continue to deliver market- and sector-beating returns at a low cost. Those are two important ingredients in the endeavour to become the next big thing! ■ editorial@finweek.co.za

Craig Gradidge is a co-founder of Gradidge-Mahura Investments.

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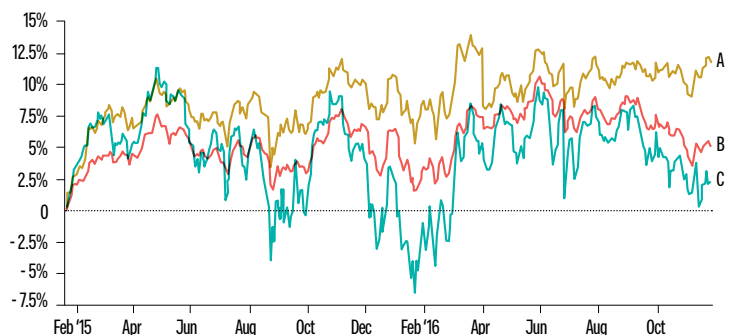


Andrew Vintcent
Manager of ClucasGray
Equilibrium Fund



Grant Morris
Manager of ClucasGray
Equilibrium Fund

HOW THE CLUCASGRAY EQUILIBRIUM FUND MEASURES UP



■ A - ClucasGray Equilibrium Fund Precsient A1 in ZAR (11.76%)
■ B - South African Multi Asset High Equity in ZAR (5.07%) ■ C - FTSE/JSE All Share in ZAR (2.23%)

SOURCE: FE