ARYSTEQ

INVESTMENT

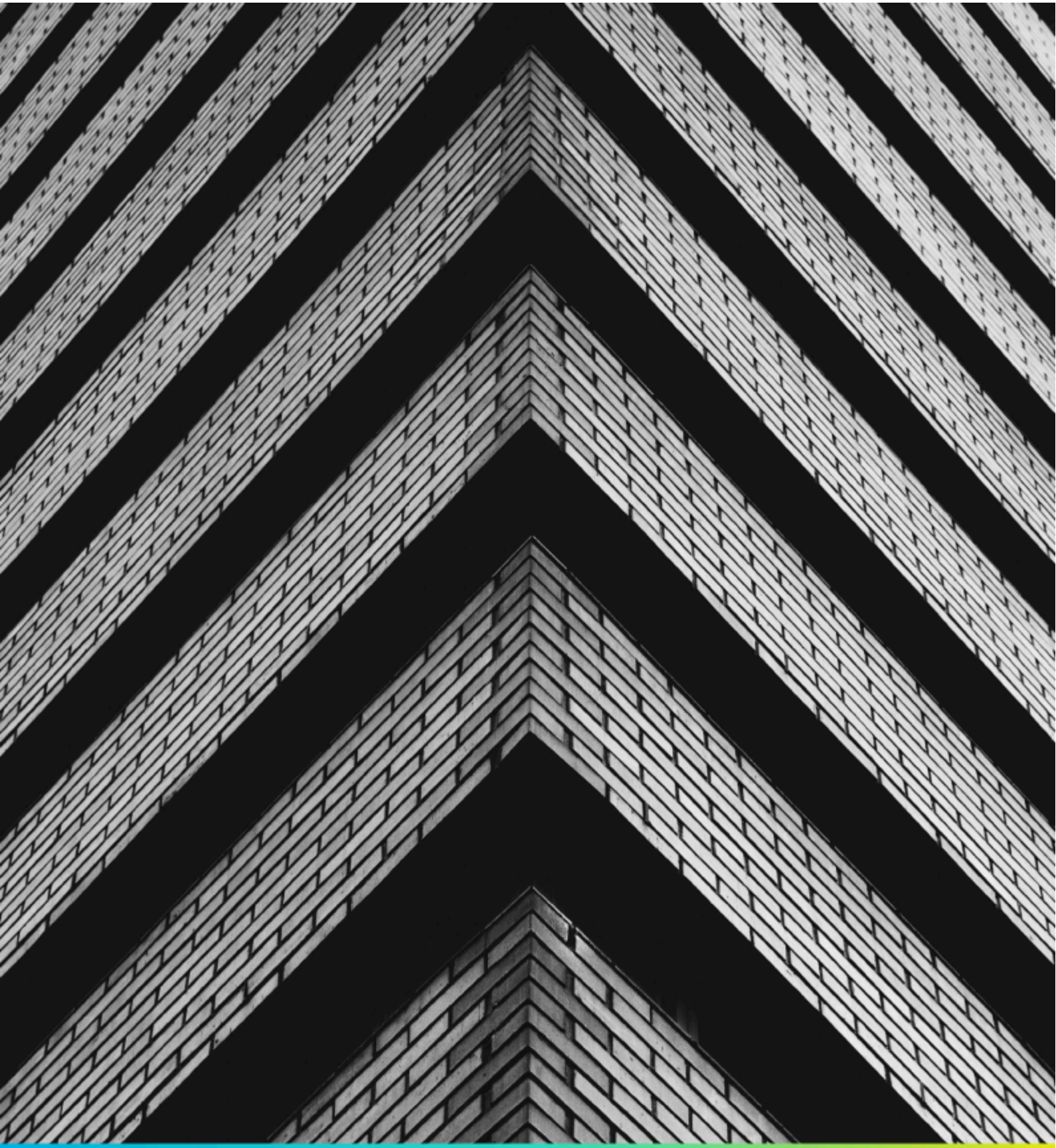


TABLE OF CONTENTS

INTRODUCTION 3

INVESTMENT PHILOSOPHY 4

THE LONG-TERM 5

INVESTING AS A TEAM 6

MARGIN OF SAFETY 7

INVESTMENT PROCESS 9

- Idea Generation 10
- Research 10
- Portfolio Construction 10

INTRODUCTION

Arysteq Asset Management (Proprietary) Limited ("Arysteq") is one of the largest independent wholly owned Namibian asset management company. We are registered with NAMFISA and our investment management license number is 25/12/86. Arysteq is a wholly owned subsidiary of Lexus Securities (Proprietary) Limited, a diversified financial services group that is entirely owned, managed and staffed by Namibians. Arysteq has one majority-owned subsidiary, Arysteq Unit Trust Management Limited in which its unit trust scheme is housed. Its unit trust scheme license number is 25/9/5/26.

The purpose of this investment manual is to give clients, both current and prospective, and our partners, valuable insight into the approach we take when making investment decisions and constructing portfolios.

As we start our collective journey towards meeting clients' financial goals, you will discover that we believe passionately in the power of spending time with people, for in understanding their needs, we can innovate and pioneer the exceptional. With our experienced team of suitably qualified investment professionals, we believe that we can provide a world-class service to you.



INVESTMENT PHILOSOPHY

Arysteq is an active, fundamentals-driven, boutique asset management company that aims to generate alpha through above-average risk adjusted returns in financial markets for our clients and partners. We believe that the spectrum between efficiency and inefficiency in markets is dynamic and therefore often provides opportunities.

While we do not believe developed markets are as inefficient as emerging markets, we nevertheless believe that we can still generate above average risk-adjusted returns for our clients in these markets. This is however easier said than done!

Public data suggests that a substantial number of funds globally underperform their respective benchmarks. This further emphasises the need for an investment philosophy – an understanding as to what to screen and include in one's watchlists, when to buy, when to sell and perhaps more importantly, what one's asset allocation should be. With this in mind, we believe we have identified our edge in investing, one that allows us to outperform the market over long periods of time whilst applying a risk first approach.

Our investment philosophy is centered around the following key principles:

- The long-term.
- Investing as a team; and
- Margin of safety.

These three principles in combination are where we achieve our edge in the market.





THE LONG TERM

Many investors talk about long-term, however very few realise how different their views of what long-term can be. Long-term could refer to a period that covers at least one business cycle which typically lasts between 7 – 9 years. A heuristic generally used for long-term in the market, especially when it comes to comparing asset managers, is 5 years.

We like to look at long-term as truly long-term, meaning that when we buy big, our preference is that we will never sell. Only negative information pertaining to quality and asset allocation decisions would ever affect that. There are numerous instruments in existing portfolios that we have been holding and never sold on behalf of clients. We can therefore apply a widely used term to define our long-term approach, "buy and hold", assuming the fundamentals remain in place.

Bonds in our portfolios are generally held to maturity. We continuously review the liquidity and quality of these bonds and a deterioration in these metrics would lead us to reconsider our position. Only in extremely adverse conditions will we consider selling bonds before maturity.

For us to follow this long-term strategy, we follow a rigorous, clearly structured, in- house developed investment process which aims to identify quality companies in which to invest and almost as crucially, the points at which to invest. Our process entails rating a company based on aspects such as management quality, business quality and financial quality. We then establish an overall value rating using our ratings scale. The final rating then drives the level of margin of safety required and therefore, the price at which we are comfortable purchasing this stock for our clients.

Every stock we hold in our portfolios is subjected to this process and then subsequently deliberated on at length amongst the entire investment team. The outcome is a decision taken by the team to either buy, hold or sell the stock.



INVESTING AS A TEAM

Decisions around which stocks to buy, sell or hold are discussed and concluded by the entire team during our weekly research meetings. Firstly, the research analyst assigned to a particular stock is tasked with conducting adequate due diligence on the said investment instrument in accordance with our investment process and with supervisory support from the relevant portfolio managers.

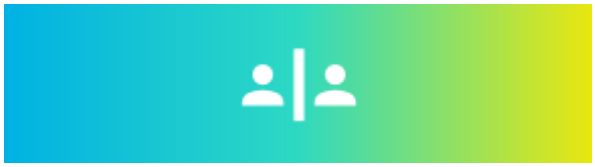
The research is then presented to the team in the meetings, during which each team member is offered the opportunity to scrutinise the analyst's assessment, including the ratings given to the company under review. Finally, a mutual consensus is reached over the investment decision, considering our margin of safety requirements and the team's comfort over the quality assessment. The involvement of the entire team in this process allows for greater variety of perspectives.

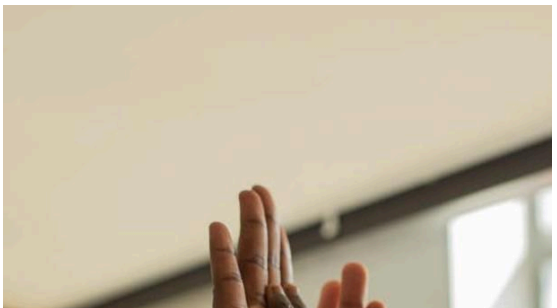
An additional meeting is held monthly, where we assess the market cycle and major economic variables on both a local and global perspective and take note of any markers that may suggest evolving market conditions.

Our investment process seeks to bridge the gap between psychology and investing. All too many investors are not cognisant to the mental pitfalls that await them and the typical biases that arise during the process of investing. The biases of course exist because of four main factors: 1) An abundance of information; 2) Not enough meaning to the information; 3) The need to constantly act fast and 4) Uncertainty around what information should be remembered.

We are aware of the typical biases and have in place a robust investment process that mitigates against these biases. Our cognisance of the risks of these biases allows us to remain level-headed during times of unparalleled optimism and calm during times of market- spread pessimism.

Part of our mitigation strategies related to behavioural biases is in us recognising that they exist and following an investment approach that is based on team consensus, a documented and methodical investment process and training strategies that attempt to be agnostic to market conditions.





MARGIN OF SAFETY

Margin of safety provides us with a safety buffer. We determine this buffer based on our level of conviction about a stock's quality, after we have put the stock through our quality test. The higher this stock ranks in terms of our rating scale, the narrower the margin of safety we require in terms of the price at which we purchase the stock.

This purchase point is established with the margin of safety in consideration, as well as the intrinsic value of the company, which we derive using fundamental analysis. The valuation models are built in-house and include assessment of key ratios such as Price to Earnings, Dividend Yield and Return on Equity amongst others. The outcome of this stage of the process is an idea of whether the company in question is under or overvalued.

We like to buy when an instrument is undervalued compared to its historical average or when that same instrument is cheaper than its comparatives or the market, or a combination of the above. The sweet spot is when an instrument is priced at lower than its own historical average, the peers in its sector and the market, without any notable negative changes in the quality of management or its competitive position. Under such a rare circumstance we hope that we have cash to start buying.

It must be said that we never try to time the market but rather focus on our time in the market. There are certainly periods when we experience extreme market volatility, but we prefer to remain painstakingly closely aligned to our investment philosophy. This will sometimes mean that we don't react by trading, but rather continue to monitor our portfolios and test them against our market views. This has helped us navigate through market turmoil in the past.

This will sometimes result in us underperforming the market and our peers as certain themes gather momentum, but over the duration of our long-term track record we have learned that sticking to our principles is more important in gaining an edge over the long-term, rather than following the crowd and herding! It is also worth noting that we are not necessarily bargain hunters. You will not find us at pawn shops and second-hand car dealerships! We are willing to pay for superior performance and returns if it remains within a reasonable margin of safety, because quality shields us from failure.

Our cash flow forecasts and costs of capital assumptions also incorporate a margin of safety.

When it comes to bonds, we are as concerned with the margin of safety as we would be for equities. Our view on the market's interest rate outlook plays a significant role in determining whether a specific bond's margin of safety is adequate. Additionally, we assess instrument duration vs the market and the yield curve positioning.

Our quality test is centered around three pillars, namely Management Quality, Business Quality and Financial Quality. We define quality as a business's ability to stand the test of time and continuously generate value for shareholders, through predictable and proven earnings and growth, whilst remaining ethical and a good corporate citizen. We maintain that a sustained record of value creation, market leadership, diversity of product and geographical footprint, brand pull and earnings power, backed by a robust and sufficiently liquid balance sheet, are the cornerstones of a quality business. The foundation to such a business is of course exemplary management, another fundamental of our analysis.

Management Quality

Our long-term investment horizon requires that we have full faith in the ability of management to deliver on their promises and successfully manage the companies that we are invested in. In doing so, we have a strong preference for businesses that have a strong track record in business operations and capital allocation, coupled with navigating the moral and legal obligations around Environmental, Social and Governance (ESG).

ESG considerations have become increasingly important. Investors are becoming more concerned with the impact of ESG, that businesses have in their respective industries. ESG considerations therefore form an integral part of our assessment of management quality. Management teams should be held responsible for delivering ESG measures and held accountable for it. We therefore place significant emphasis on Governance, as we believe that strong management teams are synonymous with strong Environmental and Social practices.

Business Quality

We look for companies that are set apart from the rest of the crowd. With an ever-changing way of doing business, companies need to be at the forefront of their respective industries. Technological developments have been the driving force in maintaining a competitive edge and companies have had to either adapt or risk being left behind. Being a market leader allows companies to have stronger pricing power which in the end, can lead to higher margins and

profitability.

Another key consideration is how easily a similar business can enter the market. High barriers to entry make an industry more attractive, with a visible impact on the ability of current market players to continue generating, and growing, sustainable profits. Maintaining a dominant market share and strong pricing power can only be achieved with minimal threats of new entrants. We look for companies that demonstrate cost leadership, differentiated products or services or economies of network.

These characteristics define the distinct advantages we look for in companies compared to their competitors.

Financial Quality

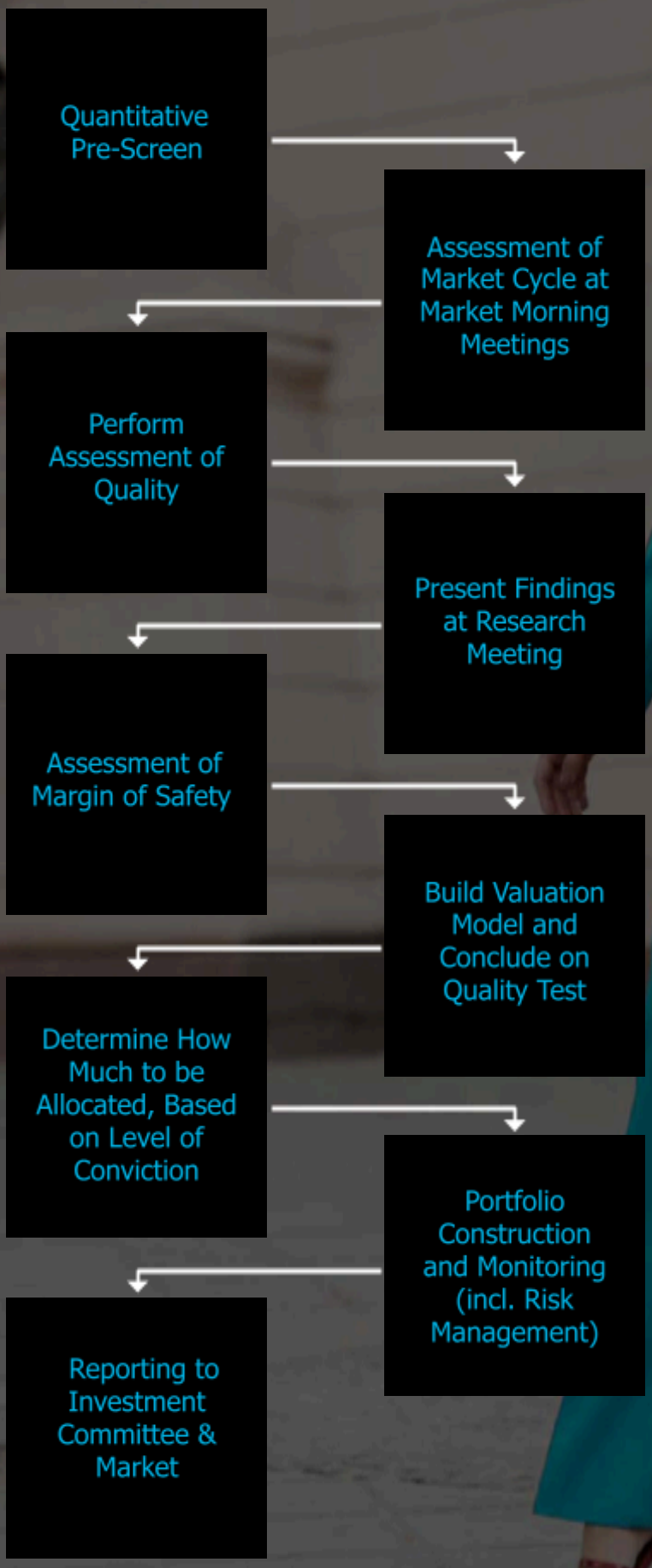
Consistent profit generation, healthy margins, high levels of cash and cash generation and sustainable leverage. These are only some of the metrics we look at when assessing financial strength. Ultimately, cash is king. We will always prefer positive cash generative companies as they are better placed to take advantage of value-enhancing opportunities and are better positioned to weather recessions, depressions and increased competition.

Perhaps equally importantly, a company unable to generate cash will also face difficulty in paying us as investors our required return on investment.

Summary

In summary, ultimately for any investment/ instrument to be added to our watchlist, it must pass the "quality test". A company/issuer passes the quality test if we are satisfied that the above matters discussed are to the satisfaction of the Arysteq investment team. An instrument reaching our watchlist does not necessarily result in us adding the instrument to our portfolios. We follow through with a buy only when we are comfortable that there is a reasonable margin of safety based on our valuation.

INVESTMENT PROCESS



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Idea Generation

For our share portfolios we place emphasis on the fact that we do not invest in hundreds of companies, but rather choose to focus on a small selection of stocks with high conviction that create value for our clients. We utilize multiple idea generation tools, the outcomes of which may result in stocks being added or removed from our watchlist.

Our idea generation process comprises of:

- Proprietary built screens.

  Our own proprietary-built screens, which are run with sufficient regularity to allow us to discover potential value-adding investment opportunities. Based on the outcome of these screens, stocks may be added or removed from our watchlist;

- Monitoring of markets; and
- Investor's network.

The ideas identified through these three channels, are added to our watchlist after debate and discussion and if an opportunity is identified it is then run through the rest of the investment process, as would any other stock in our portfolios.

Research

After a stock is added to our watchlist, the stock is then assigned to an analyst who then runs the stock through our quality test, with the assistance of the assigned portfolio manager.

Should the stock meet our threshold for quality, the analyst then determines the intrinsic value and purchase price point for the stock, accounting for the appropriate margin of safety. Refer to "Margin of Safety" for more detail.

The research done on each stock is presented to the entire investment team, after which consideration will be made for buy/hold/sell.

Portfolio Construction

Portfolio construction is determined by our investment process, client mandates and fund investor policy statements (IPS) and where applicable, regulatory requirements. This process involves rigorous discussions at our morning markets meetings and board meetings. Each fund has a detailed Investment Policy Statement ("IPS") that documents how we have applied our investment philosophy and approach. The specifics around the fund's strategic asset allocation, respective benchmarks, trading tactics and use of derivatives and hedges are all included in the IPS.

With regards to our sell discipline across different instruments, existing positions are reviewed if we identify a significant change in the fundamentals of the underlying, a better opportunity arises, or our position breaches a specific size threshold. This helps us manage risk and generate superior risk adjusted returns through well-diversified portfolios.

Diversification is key when it comes to investments. At Arysteq, we follow a risk-first approach and continuously position ourselves cautiously when investing. We not only diversify client portfolio risk, but also ensure diversification across underlying company geographies, currencies and asset classes. A well-diversified portfolio is better positioned to handle extreme market volatilities and be more defensive than the market, thereby resulting in better overall returns in the long run. We monitor and maintain diversification in our clients' portfolios through weekly reviews of client portfolios and trades. Our strategy involves a consistent rebalancing towards our strategic asset allocation whilst remaining cognizant of the market forces at play.



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