

# Manager thinking

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Visio Fund Management, FSP 49566  
The Curate Momentum Balanced Fund

## Leaving no stone unturned

The way we invest at Visio has been tested for more than 20 years. What is critical to us is gaining a deep understanding of the individual companies we look at. That means not just analysing what we can see in their financials, but understanding as much as we can about how the business is run – from how management makes decisions to how they deal with their suppliers and competitors, and how sustainable their cashflows are to support their strategic intentions. We also look for opportunities across sectors where changing industry or economic patterns may present unique opportunities.

In doing this, we don't limit ourselves to a certain style of investing. We want to be flexible in where we can look for investment ideas, and not be restricted to only certain companies. But we always want to make sure that we do not overpay for these opportunities.

We aim to buy shares in businesses for less than we believe they are worth, and then benefit from those prices going up over time. The key is to find those shares and then keep close to developments within the company and the industry in which it operates. We also want to watch for any economic factors that could impact their operating environment, like rising inflation or supply-chain dynamics.

Every company is different and is influenced by its own factors and how it responds to these factors. That is why we never compromise

on doing in-depth research and analysis, having regular meetings with management, going on site visits, and attending company presentations. We also look for any other sources of information that we can find to ensure that no stone is left unturned, such as speaking to customers, suppliers, or other businesses operating in the same industry.

We do this because we want to make sure we are not missing any potential risks. We aim to take care of the downside as much as possible, allowing the upside to take care of itself. We do all of this because we believe we get the best results for investors by finding companies with strong balance sheets and sustainable cash flows, as well as management teams that can steer the business through both good times and bad. We also insist on companies having good corporate governance, which is key to producing sustainable profits.

To give an example of how this all works in practice, we recently considered buying shares in Old Mutual. If you look at where the share price is trading, Old Mutual looks cheap. It also has stable cash flows and there is potential for the share price to increase as a result of improving operational performance.

Technically, if you look at the value of the various parts of the Old Mutual business, we believe that the share price does not even reflect the full value of its life insurance business. This means that it appears you can

not only get that portion of Old Mutual at a discount, but that the market is attributing zero value to its other businesses, which include non-life insurance, asset management and lending operations.

We identified Old Mutual as a potentially attractive investment, but ultimately decided against adding it to our Balanced Fund for a few reasons:

- There is a risk that Old Mutual might be a value trap. The share is cheap, and some low-quality operations could be generating returns below their funding costs, potentially leading to further share price pressure.
- The South African insurance market has become extremely competitive with limited growth. Banks, particularly Capitec, are taking market share in the mass market where Old Mutual has historically been dominant.

- After engagements with management, we remained unconvinced about the company's strategic direction. Given the low share price, we thought that management should focus on buying back their own shares to capitalise on the discount. Additionally, the company's strategy of building a bank carries risk. This will use up a material amount of excess capital and is likely to take several years to break even, and longer to earn a satisfactory return on the capital employed.

We also weighed the investment case against other local insurers. We have high conviction in Momentum Group, which is our preferred exposure in the sector, and therefore decided to stick with that position and not invest in Old Mutual.



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