fund profile

Cuthman SDR on the money with double-digit returns since inception

Managers Tobie Lochner and Peter Wille are building an innovative global product that offers a well-judged way of investing retirement assets

Cuthman Capital has made significant progress with its global, best ideas hedge fund, managed by experienced duo Tobie Lochner and Peter Wille, building an institutional-grade asset manager with a high-calibre, aligned team.

The Cuthman SDR Prescient QI Hedge Fund launched in July 2021, generating double-digit gains since inception, including in last year's tough global markets.

The SA domiciled fund is an FSCA-regulated QIF, with a broad worldwide flexible mandate, investing in long/short equity with a long bias.

Lochner has over a decade's experience in financial markets and was previously a shareholder and managing director of Peregrine Capital until late 2017, one of South Africa's largest and longest running hedge funds. During his 11-year tenure, he worked as an investment analyst and portfolio manager and also had operational responsibilities. A CA(SA) and a CFA charterholder, he completed his articles at FirstRand Bank and holds a BAcc (Hons) degree from the University of Stellenbosch.

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> *Tobie Lochner*

Wille also brings a decade's experience as an analyst and portfolio manager, and was previously head of research at Nedbank Private Wealth. His career started in 2005 with BoE Private Clients (later Nedbank Private Wealth), where he managed the investment team and co-managed the Nedbank Private Wealth Equity Fund, which won the Raging Bull Award for Best SA Equity Fund during this period. In 2008, he launched the Nedgroup Investments Private Wealth Preference Share Fund, which he successfully managed for 11 years. He has a BCom (Actuarial Science) and BCom Financial Risk Management (Hons) from the University of Stellenbosch and is a CFA charterholder.

While the fund is denominated in rand, Cuthman has chosen a hard-currency benchmark, using SDR (special drawing rights) interest rates, in line with its investment objectives.

SDR is the IMF's international reserve 'currency' created in 1969, consisting of a weighted basket of global currencies (US dollar, euro, Chinese yuan, British pound and Japanese yen).

"The fund is not offshore domiciled but we expect a total return that is globally comparable. We compete with global funds," says Lochner.

"We started with a blank slate, looking to create a product for ourselves that offers a prudent manner to invest retirement assets," he adds. "SDR is the best way to gauge if you are richer or poorer in terms of global purchasing power. That is how we want to manage our own money – our frame of mind is about capital growth not just preservation. We want to grow assets in the medium term."

Cuthman's two fee classes have different fee structures – the first entailing a fixed fee class of 5%, while the second is a performance-only fee class with zero fixed fee and 50% participation rate in excess of the hurdle rate (SDR interest rates plus 3.5%). Performance fees are only charged on outperformance in global currency terms.

The fee structure can impact performance, with the Cuthman SDR Prescient QI Hedge Fund Class B adding a net 14.6% last year, while the Cuthman SDR Prescient QI Hedge Fund Class A gained 22.6%. The fund has added a respective annualised 20.3% and 27.5% since inception, depending on the fee class.

The Cuthman team includes Thandi Wille as chief operating officer and Justin

Tobie Lochner and Peter Wille

Klassen as chief financial officer.

A commercial attorney, Wille was previously group legal counsel at Updraft, a niche legal consulting and software company. Previously, she practised as a commercial attorney, at Werksmans Attorneys in Cape Town. She has a BCom (Law) and LLB from the University of Stellenbosch and an LLM in Commercial Law from the University of Pretoria.

A chartered accountant, Klassen was previously head of finance at Sanlam Collective Investments. Prior to that, he was the financial manager at Sygnia Asset Management. He completed his articles at KPMG and has a Bachelors of Business Science and PGDA from the University of Cape Town.

The team of financial analysts includes Tertius Pelser, Ivan Bason and Joshua Stevens.

Pelser is a chartered accountant and CFA charterholder, completing his articles with PwC. He holds a BAcc (Hons) degree from the University of Stellenbosch. Basson obtained his BSc(Hons) degree in Actuarial Science at the University of Pretoria and is a Fellow of the Actuarial Society of South Africa. He also holds the designation of Certified Enterprise Risk Actuary. Stevens is the most recent addition to the team, having joined in 2022 after completing an MCom in Investment Management at the University of Cape Town.

The team is supported by Dirk Visser, based in Melbourne Australia. He is a strategic advisor, contributing to the investment process.

Cuthman's global mandate means they are as flexible as they can be, and focused on a single fund. Around 40% of its R600 million in assets is invested in equities, 25% in real estate, as well as cash, fixed income, preference shares and forex derivatives.

By geography, the fund has a wide range of exposures in Africa, Asia, Europe, Australia and the Americas.

"We look for sensible things to do with our money," says Wille. "Our friends and family have entrusted us with their capital. We focus very much on listed global markets, primarily in equity and real estate with some fixed income, chiefly sovereign and high yield."

The fund's main holdings are fairly concentrated, with various surrounding positions linked to hedging and currency hedging. When investing in a new stock, the team typically starts with a smaller position to gain confidence in the company and thesis.

"Last year we took the view that interest rates were artificially low and would go up, believing that if the risk-free rate went from 1% to 4%, that would have a material impact on equity valuations," says Wille. "We were aware of the risks around unprofitable tech stocks, which had benefited from the easiest money in the world, and also developed market bonds, where our shorts were as high as 30% of the fund at one point."

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While many positions were range traded, they found opportunities to make money, including benefiting from pair trades.

Given their "home-ground" advantage, they held South African exposure and still do, investing in companies they understand well and those with an international focus.

With a firm "buy and hold" strategy for its core assets, the team can adjust position weightings regularly, as appropriate for risk management purposes.

"We are happy to play offence, we are not so opposed to drawdowns in the portfolio that we are just defensive," adds Lochner. "We look for the right place to own the exposure as events play out. Sometimes that might mean owning the debt as opposed to the equity in a company, even though we are still constructive on the same company five years out."

"We are not a quant fund with 200 positions, we expect our top 10 positions to change slowly over a three-year period. There will be a lot of familiar names over a period – it can take time for a thesis to play out."

While regulations limit gross exposure to 700%, the fund typically has gross exposure of just over 200%, with net exposure varying from 70-110% since inception. The fund aims to produce returns in excess of inflation over the medium to longer-term, whilst placing a high premium on protecting capital to secure long-term growth. It has no single position limits.

Last year, the team was not alone in being surprised at how bad sentiment became on China. Going into 2023, they are not short government bonds in the same way as they were last year, and have reduced their real estate exposure from 50% of the fund to less than 30%. They continue to research opportunities around energy transition, including solar, wind and electric vehicles and their downstream components.

"Anyone not looking at these is possibly behind the curve," says Lochner, "There are sometimes crowded investments and poor businesses, so you really need to do the work."

As the team's global investment knowledge has deepened, Cuthman is becoming more confident in their views on other countries, commodities and industries.

"We have had the opportunity to do a lot of work and we feel fairly confident that we have knowledge of the big variables going into 2023. We are out there and up to date," says Wille.

While being an early-stage business can have advantages for an investment team, allowing them to be nimble and flexible, there are often operational disadvantages for start-up firms, which Cuthman has worked hard to avoid.

"Experience has taught me that we need a single fund and a single mandate," adds Lochner. "We have very purposefully kept things simple, clean and focused, and are lucky to have no legacy issues. We want to play off the front foot. We have a few outside investors and spend the majority of our time looking across the world and focusing on our positions."

"We have no need for higher AUMs to make us sustainable," says Lochner. "Since we are the largest investors in the fund, percentage return has more economic value to us than AUM. Having said that, we are open for business for clients that will suit our fund. We are happy to engage in two-way conversations with the right investors."

"The South African hedge fund industry needs new players. No one wants a single dominant player. We need viable, credible alternatives to balance risk."

"If in five years from now we have provided good absolute and relative net returns to our existing clients, we would be very happy. We are actively focusing our research on liquid ideas so that larger AUM (organic or inorganic) would be less of a constraint. That said, we don't have any specific targets regarding AUM, our priority is simply to not get distracted."

FUND FACTS

Cuthman SDR Prescient QI Hedge Fund

Strategy: Worldwide long/short equity
Portfolio managers: Tobie Lochner and Peter Wille
Inception: July 2021
Prime broker: Peresec
Administrator: Prescient Fund Services
Risk manager: Prescient Analytics
Manco: Prescient
Auditors: Ernst & Young
Open to investment: Yes
Minimum investment: R20 million