

KEY INVESTMENT THEMES IDENTIFIED

- Cautious towards shares dependent on the South African economy (SA Inc.)
- Fundamentals indicated Rand weakness
- Avoided bonds due to rising interest rates
- Obtained growth asset exposure from company shares exposed to a strong global economy, benefiting from synchronised global growth

Towards the end of 2017, the Rezco Asset Management funds were defensively positioned to protect clients' capital. This was as a result of the December ANC elective conference, which was too close to call. While there were many commentators allocating a 50/50 probability to the outcome of the conference, where Rezco differed was our view that the South African economy was sluggish, and a potential Ramaphosa victory would take time to fix a very broken economy. Furthermore, we were concerned that the positive sentiment and flows to emerging markets (EM), which had increased South African share valuations and lowered bond yields, could reverse dramatically as quantitative easing unwound, and these foreign flows started to reverse. An overvalued South African stock and bond market is vulnerable to a reversal of these foreign flows.

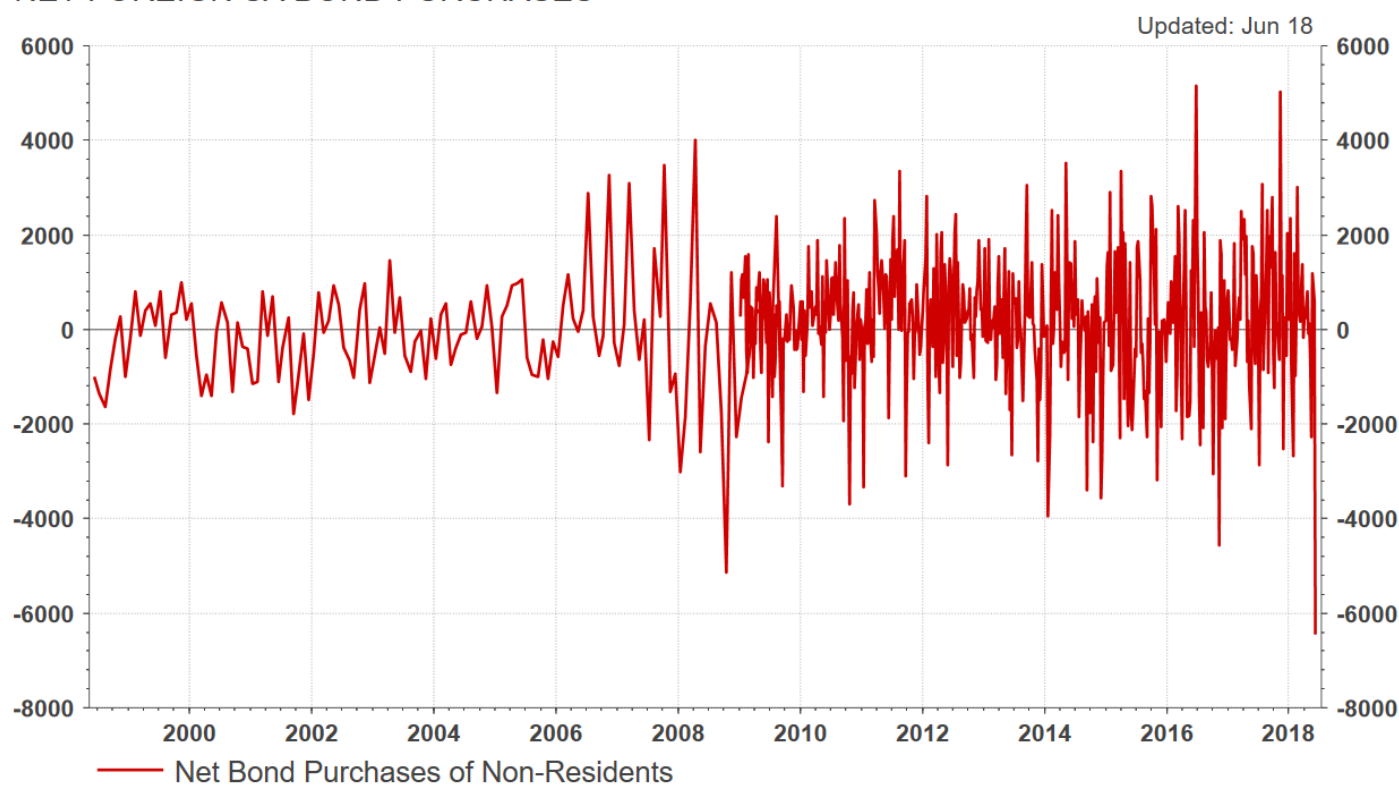
This resulted in our view that there was little South African share price upside to a Ramaphosa victory, but that the downside of a Zuma victory could result in a substantial, permanent loss of capital. Given our investment philosophy of preserving our clients' capital, we were not comfortable investing in SA Inc. shares or government bonds. While the outcome of the ANC elective conference was beneficial for South Africa, it had a short-term negative impact on our funds' performance.

Since the outcome of the ANC elective conference, the excitement of "Ramaphoria" has been overshadowed by negative EM sentiment. This sentiment started with Argentina and, although negligible in size, has spilled over to other EM countries. As sentiment turned, Brazil and Turkey followed Argentina. Broadly speaking, EM is currently in a sell-off – shares, bonds and currencies. South Africa's economic performance has been well below expectations, most notably the -2.2% Gross Domestic Product (GDP) growth reported for the first quarter of 2018. We think the next



meaningful economic indicator will be the release of the first quarter Current Account deficit on Thursday. This will focus foreign investors' sights right to the core of why the South African Rand is vulnerable: South Africa relies on foreign investors persistently buying Rands to balance this Current Account deficit. The conundrum is that foreign outflows from SA have hit a record high and, as a result, we expect the Rand to continue its depreciation.

NET FOREIGN SA BOND PURCHASES



Source: Thomson Reuters Datastream

HOW WE SEE THE GLOBAL ENVIRONMENT MOVING FORWARD

Our view has been that of global synchronised growth, and although vigilant of a market de-rating, the focus has been on companies with sustainable and above average earnings growth. As a result, we have been invested in industries which benefit from a tightening of capacity and, therefore, improved pricing power. The two key risks we have been flagging are escalating trade wars and a disorderly rise in interest rates (notably in the United States (US) as the US Federal Reserve begins quantitative tightening).

Although we are keeping a close eye on interest rates and inflation, the risks appear to be normal and the US Federal Reserve is managing the process well. However, global trade risks were elevated considerably when the US imposed tariffs on China, and China responded accordingly. Of greater concern is the threat of US sanctions against the major Chinese telecom equipment producer, ZTE, which is more disruptive and aggressive from a trade perspective.

Given these heightened risks, we have reduced our exposure to industries that may be negatively impacted by these risks.

HOW THE REZCO FUNDS HAVE PERFORMED THROUGH THE CURRENT UNCERTAINTY

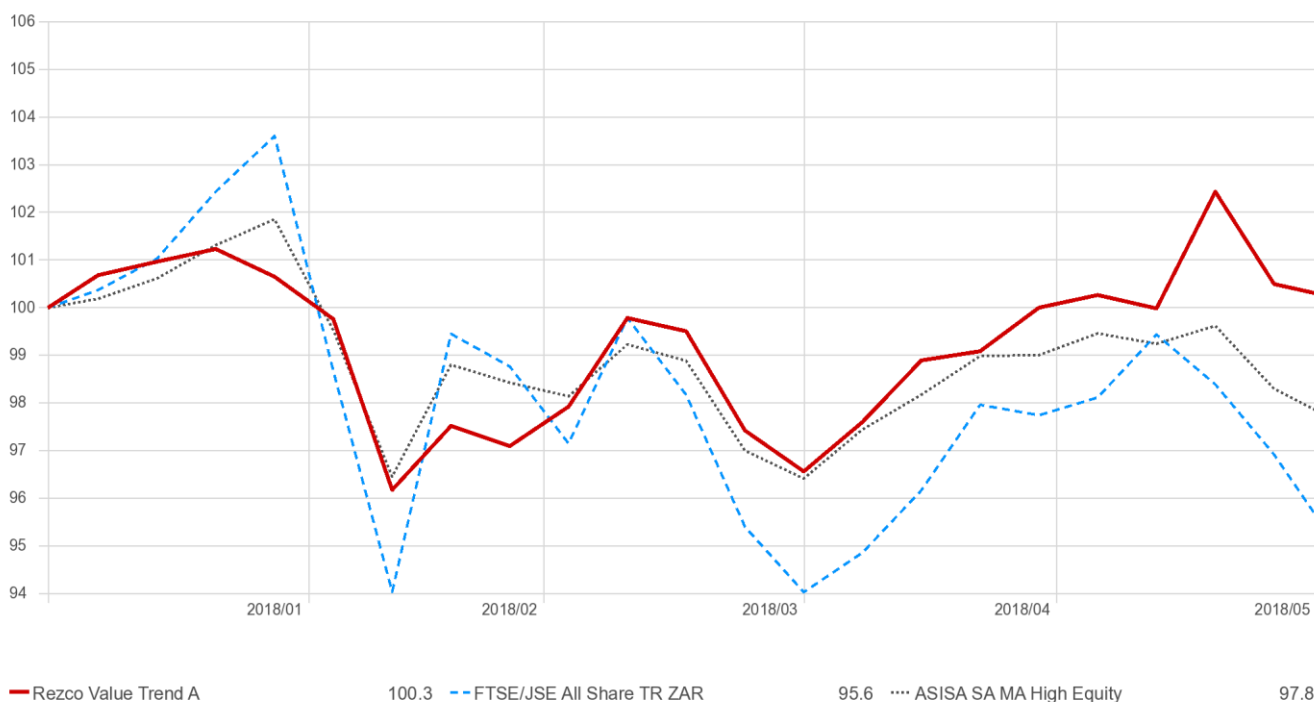
The sluggish South African economy and turning EM sentiment has resulted in a weakening South African Rand, and a marked pull back in SA Inc. shares and South African bond prices. The Rezco funds have been positioned for this and have benefited investors substantially since the beginning of the year.

REZCO VALUE TREND FUND

CUMULATIVE RETURNS

Time Period: 2018/01/01 to 2018/05/31

Currency: South African Rand Source Data: Total Return



Source: Morningstar



ROB SPANJAARD
Chief Investment Officer



WALLY GRAY
Co-Portfolio Manager



SIMON SYLVESTER
Co-Portfolio Manager

Rezco Collective Investments Ltd is an FSCA approved Manager of Collective Investment Schemes. Disclaimer: Unit trusts are medium to long term investments. The value of units may go down as well as up, and past performance is not necessarily indicative of future returns. Unit trusts are traded at ruling prices and may engage in borrowing. Unit trusts are not normally taxed as traders but this cannot be guaranteed. General information about the company and its products and services is provided by Rezco Collective Investments Ltd. No guarantees about the suitability or potential value of any information or particular investment source are given by Rezco Collective Investments Ltd. Any information in this newsletter is not intended to constitute financial, tax, legal, investment, or any other advice. It is in an investor's best interests to consult with a qualified financial advisor before making any decision or taking any action regarding their finances. Nothing contained in this newsletter constitutes a solicitation, recommendation, endorsement or offer by Rezco, but shall merely be deemed to be an invitation to do business. For more specific fund information, please refer to the fund fact sheets of each fund.