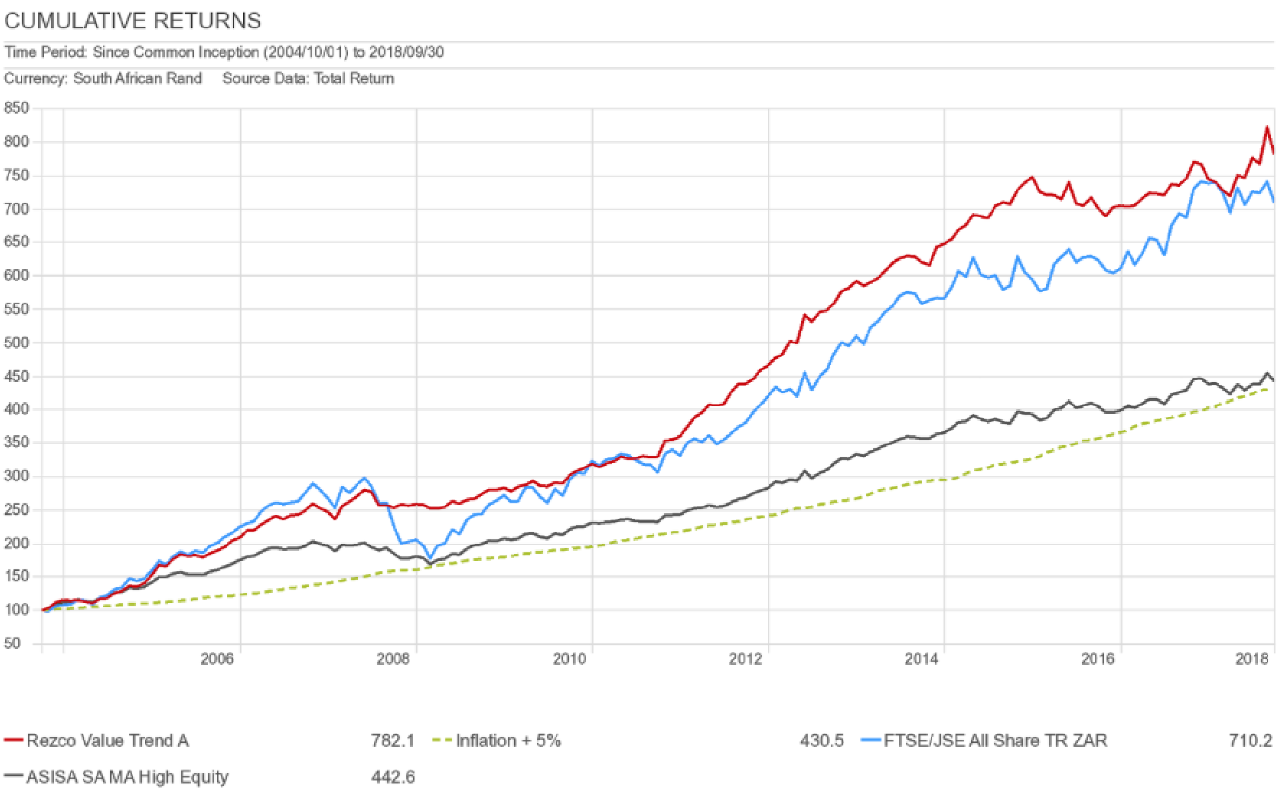
QUARTERLY INVESTOR COMMENTARY SEPTEMBER 2018

PERFORMANCE REVIEW

We are pleased to report that the strong fund performance that started in the second quarter continued through the third quarter this year. Underpinning this performance, is the funds' positioning towards a few key themes that have continued playing out:

- Structurally weak SA economy
- Weak Rand due to Emerging Market (EM) sentiment despite improved politics
- Strong global economy led by the US
- Rising US interest rates, unwind of Quantitative Easing and EM outflows

REZCO VALUE TREND FUND



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Post the February SONA speech, consensus has moved towards our macro views, and South African stock valuations have broadly lined up to what we would view as reasonable prices. Some downside risk remains, due to EM sentiment and US/China geopolitics. Many stock picking decisions generated incremental out-performance as valuations shifted towards our positioning.

Fund out-performance was not solely reliant on Rand weakness as there were multiple contributors:

- Being in the winners (Sasol, Mondi), while avoiding some of the big losers (Aspen, MTN, Mediclinic, Tiger Brands, SA Inc.)
- Some of the SA listed under-performers that we have avoided are weak Rand beneficiaries, included are: Naspers, AB Inbev, Mediclinic, and British American Tobacco
- Avoiding bond duration and property in South Africa

We are independent thinkers; not contrarians*.* One of the best performing shares this year has been Sasol - a top performing Rezco pick; but many funds have also held Sasol. This helps to illustrate our investment style: we will invest in the best way to earn risk-adjusted returns for our clients, regardless of the benchmark and what peers are doing. Sometimes this will mean overlapping positions and other times completely different positions.

Stock picking within the global fund detracted from performance over the quarter. Two key themes in which we have invested are yet to play out – we have done thorough work and maintain our conviction:

1. Shares benefiting from rising yields have not performed well; this is largely due to yields not having moved significantly in the quarter. Post quarter-end, US yields have started to increase meaningfully.
2. Our semiconductor positioning performed poorly; we are of the view that the world is currently in a computer chip super cycle, but share prices suggest that global usage is now falling from peak demand due to oversupply. We see significant value as this mis-pricing resolves. We are closely monitoring the tension between the US and China as this is a key risk to these shares.

GIVEN RECENT VOLATILITY, HAS RISK INCREASED WITHIN THE FUNDS?

There has been a lot of volatility in 2018, from Ramaphoria to an EM selloff and a SA recession, but the funds' positioning has been broadly consistent through these events. Markets have been volatile and were caught wrong-footed. In the adjustment, you may notice some increased volatility as investors have grappled with reality being so different to the positive sentiment which peaked during our president's SONA speech.

HOW THE FUNDS ARE CURRENTLY POSITIONED

Our key views, reflected in the fund allocations, are as follows:

- The Rand maintains weakness, but we are through most of the big fall
- The weak SA economy is yet to be fully reflected in corporates' income statements – there is downside to consensus earnings expectations
- The US economy remains strong and yields rise
- Cyril Ramaphosa is building political strength which, over time, could lead to some pragmatic policy execution in South Africa; the fruit is low hanging
- Avoid SA bond duration: rising global yields; Rand weakness and the high oil price creates upside inflation risks; risk around tax collection and budget pressures

WHERE ARE THE DOWNSIDE RISKS?

Globally we see two key risks:

1. Trade wars: this risk appears to be increasing as pressure builds on the US / China relationship. This pressure is building due to an increasing global unity to push back against China, as well as increasing consensus from both political parties in the US that something needs to be done to correct the imbalance.
2. End of cycle: as economic growth strengthens and inflation builds, the market starts looking forward to when the next recession will appear. Avoiding value traps at this point in the cycle is important.

In South Africa, political risk continues to decline from the uncertainty of a tied ANC elective conference to a party increasingly under the control of our president – more progress is needed for high conviction though. As political risk has declined, however, the economy has regressed and now presents downside risk. Our team recently attended a conference where 65 South African management teams talked about their businesses and the SA economy, and the resounding theme from the meetings is that the SA economy and consumer are under pressure. We expect that, as companies report their annual results to the market through year end, expectations of SA corporate earnings will have to step down.

LOOKING FORWARD, WHERE ARE THE RETURNS GOING TO COME FROM?

We have high conviction around the key themes highlighted in this note and have invested in concentrated positions to benefit from them as they play out.

- Rising US yields: US banks and insurers
- Computer chip super-cycle: suppliers to the semiconductor industry (machinery, wafer and chemical suppliers with market leading tech and high global market share)
- South African companies that benefit from a weak Rand and growth in our mining, manufacturing, infrastructure and agricultural industries
- US manufacturers that benefit from a strong US consumer and US protectionism

We are optimistic about South Africa's potential; opportunities may materialise as reform and stimulus are implemented. We remain patient and focused, prepared to allocate to SA Inc. shares that will benefit as these opportunities arise.

APPRECIATION

Our clients are at the heart of our business, and it is with great appreciation that we have been able to provide good year-to-date performance. Thank you for your continued support.

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