

RETURNS OVER THE PAST YEAR

We continue to believe that the best long-term opportunities for our clients currently lie within the global allocation of the funds. When SA Inc. rallied towards the end of last year, we did not participate in the rally to the extent that the rest of the market did, due to our low allocation towards SA Inc. This resulted in the funds underperforming over the past year. However, the growth coming through from the global allocation of the funds should start to pay off during 2018.

Even though South Africa avoided the extremely negative event of another five more years of Zuma's state capture politics, the economy will take time to achieve the growth rates needed to justify our SA Inc. equity valuations. We continue to have confidence in the fact that exposure to growing companies at attractive prices, be they local or international, will achieve the best long-term results for our clients.

WHERE RETURNS WILL COME FROM IN 2018

We believe that returns will be achieved primarily from the following:

1. Exposure to great international companies through our offshore allocation, as well as those international companies that are listed locally, for example Mondi. These companies should do well even if the Rand retains its current level of roughly R12 / US\$.
2. We expect the Rand to depreciate by 10-15% against the US\$, which will be beneficial for our clients as we have a high offshore earnings exposure in our funds.
3. Local floating rate notes that earn approximately 8% p.a.

We have a low exposure to the local economy, or what we refer to as SA Inc. companies. The South African companies that we do hold are positioned to prosper even if higher South African economic growth rates (GDP) take longer than expected to emerge.

EXPOSURE TO GREAT COMPANIES

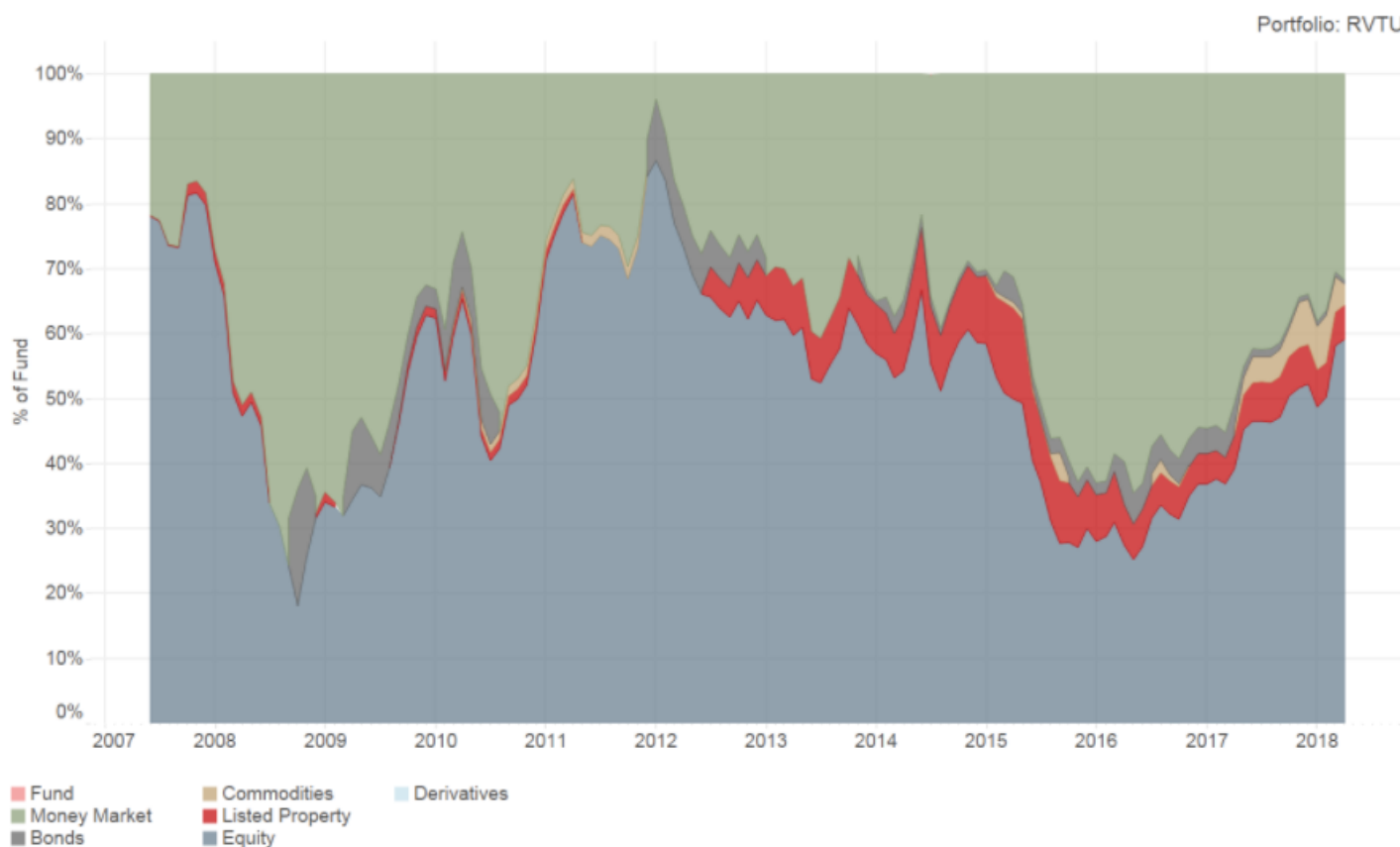
The Rezco investment research team is finding good opportunities to generate investment returns for our clients in 2018. Consequently, our clients' funds are invested in growth assets at levels slightly above the long-term averages of the funds.



The graph below shows the 10 year asset allocation for Rezco Value Trend Fund:

REZCO VALUE TREND FUND

HISTORICAL ASSET ALLOCATION



SOURCE: JTC GROUP

The majority of this increase in growth asset exposure comes from the really exciting opportunities that we are finding in locally and offshore listed international companies. On a top-down basis, most markets are expensive. However, our detailed bottom-up research is unearthing great value.

THEMES AND COMPANIES THAT EXCITE US

CAPACITY CONSTRAINTS, POLLUTION AND CAPITAL ALLOCATION

Most of the world economies are growing at the same time (synchronised world economic growth), leading to higher capacity utilization levels and higher profits. This is especially true for industries that take many years to commission new capacity due to the complexity of their machinery.

China is serious about reducing the levels of pollution that are prevalent in their cities, and at the same time are forcing more disciplined capital allocation through their economy.

Mondi, one of the best paper and packaging companies in the world and a large holding across our fund range, is a beneficiary of all of these themes. In their case, China has greatly reduced the amount of scrap cardboard allowed into the country, thereby benefiting Mondi's business as they make new board and have their own raw material sources.

Some of our other holdings like BASF, Chemours and Shin-Etsu Chemical, benefit from the same themes in their respective industries.

CLOUD COMPUTING, BIG DATA AND ARTIFICIAL INTELLIGENCE

Computing power costs continue to plummet, the amount of data continues to soar and the advent of artificial intelligence means all data is now valuable and should be stored. In our opinion, this translates into a super-cycle for memory chip makers, such as Western Digital. Furthermore, this also positively impacts companies, such as Lam Research and Applied Materials, who make the machines needed by the memory chip makers. These companies can deliver high earnings growth and can be bought at attractive prices.

U.S.A. FINANCIALS

The U.S. currently has a strong economy. Lower tax rates, bank deregulation and increasing interest rates are aspects that are all moving in the right direction for the first time in a decade. These aspects will lead to even further growth in their economy. This makes for an attractive multi-year earnings growth phase for shares, such as JPMorgan Chase & Co., which can be bought on a 2 year forward P/E of 10 times earnings, and 2 year compound growth in earnings of almost 20%.

VIEW ON THE RAND

Rezco increased the offshore exposure to the new limit of 30% for Regulation 28 funds. One of our core principles is that prudent investors should have diversification in their portfolios. Our belief going into the December ANC elective conference was that there was a 50 / 50 chance of a Ramaphosa vs Zuma outcome. The outcome of a Zuma victory would have resulted in the Rand going to R20 / US\$ or a 50% fall, whereas a Ramaphosa victory would only generate a 10-15% strengthening in the currency. This risk/reward demanded a heavy weighting to quality offshore companies.

We think that the Rand has overshot reasonable levels and will end the year closer to a level of R14 / US\$. Therefore, we have increased our non-Rand earning exposure (Rand-hedges) to about 65% for the Rezco Value Trend Fund and the Rezco Managed Plus Fund, and about 50% for our Rezco Stable Fund and Rezco Equity Fund.

The reasons for our Rand view are:

1. A R11.50 / US\$ and stronger is a significant headwind for our economy. Many of our mining companies will shed a significant amount of jobs at these levels.
2. The new government seems to want the Rand weaker, hence the immediate increase in the offshore investment limits in the last budget.
3. There are early signs that the massive flows into Emerging Markets (EMs) are starting to turn.
4. The unwinding of Quantitative Easing (QE) in major developed markets is driving up their interest rates, thereby reducing the relative attractiveness of EM interest rates.
5. We run an EM comparative exchange rate model, which indicates the R / US\$ exchange rate should be closer to R14 / US\$. It is unlikely to see the Rand strengthening, while other comparative EM currencies, such as the Brazilian Real, move in the opposite direction. There is a 10 year 95% weekly correlation between the Rand and the Brazilian Real.

LOCAL ECONOMY

President Cyril Ramaphosa is, in our opinion, going to be an effective president. However, he needs to put in significant effort in order to fix the ANC before his full attention can be directed towards fixing the economy. The damage from the Zuma administration is significant, and will realistically take years to fix. Therefore, we feel the lofty valuations of many SA Inc. shares will lead to disappointment.

REZCO GLOBAL FLEXIBLE FUND

We are excited to communicate the approval of the Rezco Global Flexible Fund by the Financial Services Board. The Fund, which was launched in 2015 and offers investment into a global universe of securities, is now available for direct investment for those investors seeking to diversify their investment portfolio.

CONCLUSION

We remain confident that discipline around our investment process and style will produce out-performance over the long term. Thank you for your continued support.



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