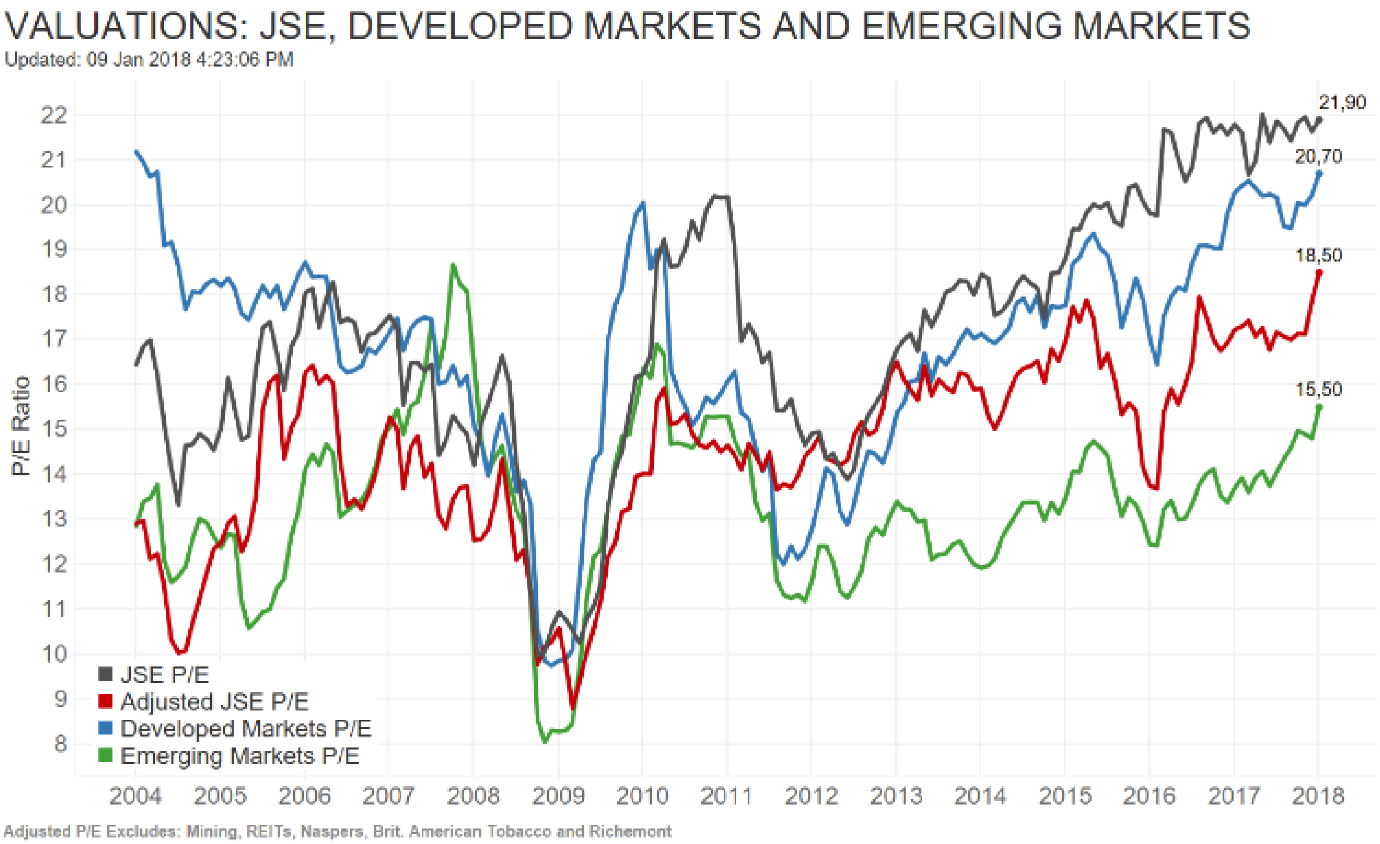
QUARTERLY INVESTOR COMMENTARY

DECEMBER 2017

The 2017 year saw South African financial markets dominated by the outcome of the ANC elective conference in December. In the end, what was expected to be a binary outcome resulted in a draw, which we view as a stalemate rather than a show of unity. It will take more time for the SA political and economic environment to find some direction – and a new economic revival is unlikely while Zuma remains state president. Structural impediments to SA GDP growth remain: high debt levels and pressure on the budget deficit alongside deteriorating institutions and infrastructure.

Our view leading up to the ANC presidential announcement was a high conviction that the result was too close to call, but there was a significant disconnect between this view and SA Inc valuations. The result of the election was critical to the direction of SA Inc shares as a Zuma victory would have taken South Africa down a path resembling Venezuela, while a Ramaphosa victory would result in a functional state and economic growth. Markets had priced in a clean victory for Ramaphosa from mid-November (based on an incorrect interpretation of branch nominations) and overshot rational valuation levels through December 2017. The graph below shows SA shares (red line) at a record high Price / Earnings ratio (P/E); we expect these valuations to decrease to reflect the sluggish SA economy and current political stalemate.



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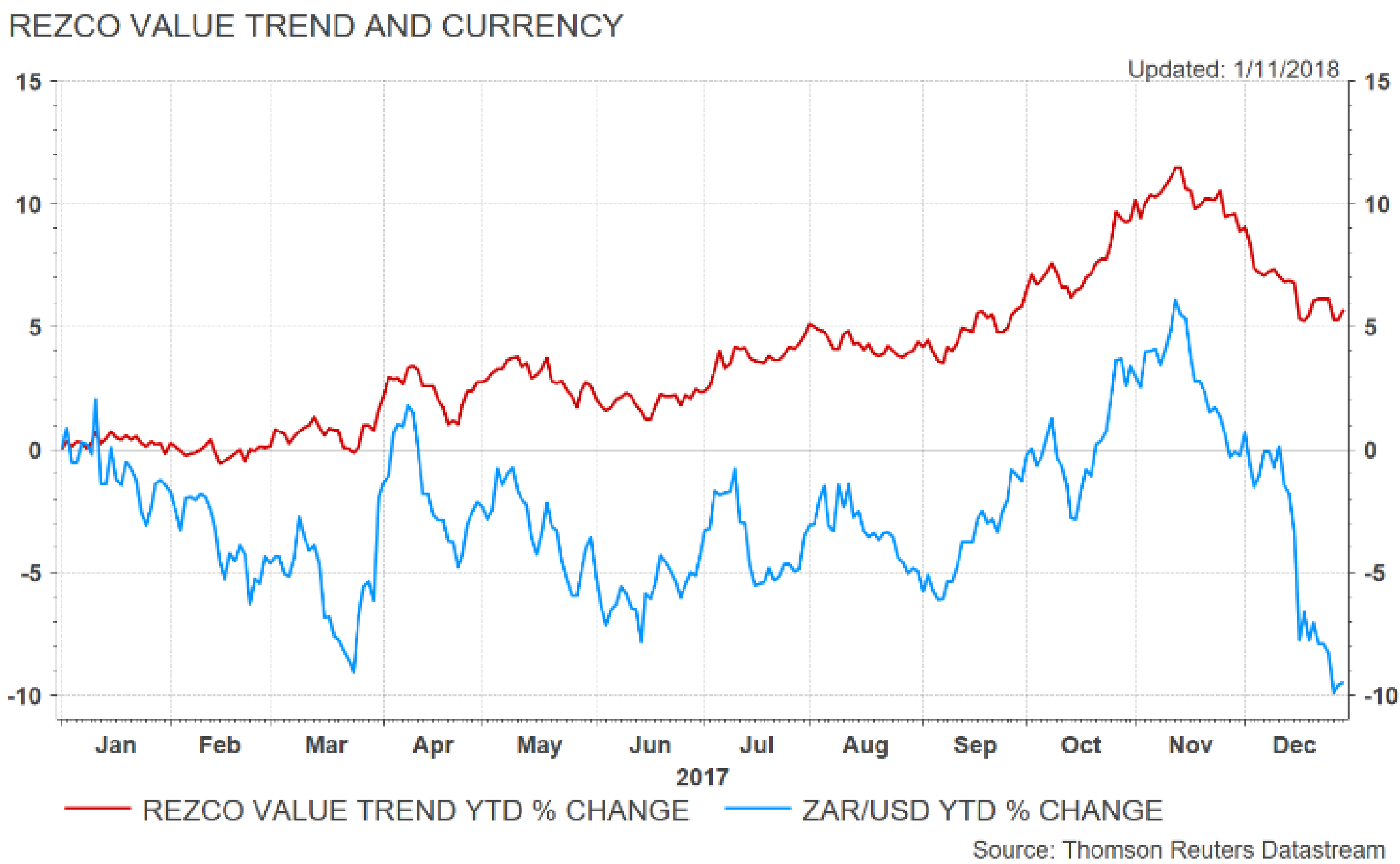
In response to the new ANC leadership, the portfolios have been slightly re-balanced as follows:

- Reduced Rand hedge exposure in the Rezco Value Trend Fund (RVTU) by 5%
- Shoprite has been added to all the funds as it remained on a reasonable valuation through December due to forced selling by a large shareholder – a more redistributive South African environment and high commodity prices supporting African countries should support earnings growth
- We have trimmed back on SA Inc shares within the funds that overshot; most notably Discovery Ltd has been reduced to 5% in RVTU based on a short-term valuation overshoot

WHAT CAUSED Q4 UNDER-PERFORMANCE

The graph below shows the YTD performance of RVTU compared to the Rand as the year progressed. Given 0% exposure to Naspers, the fund performed in-line with expectations leading up to mid-November, but the sharp Rand strengthening of about 15% cost the fund 6% of total return leading into the year end. This was similar to the Rezco Managed Plus Fund.



RVTU's 2017 return of 5.7% under-performed peers and the ALSI. The main detractors from performance were a high Rand hedge exposure and not holding Naspers or participating in the SA Inc rally towards the end of the year, while the main contributors were Discovery Ltd, Palladium and avoiding Steinhoff. Our global shares performed well in USD (16.7% for 2017), but Rand strength of 9.5% negatively impacted the translated return in the Rand denominated funds.

The Rezco Equity Fund's (REEF) 2017 return of 9.6% compares to the ALSI of 21% and peers at 12.8%.

The main detractors from performance were similar to RVTU. REEF benefited from a higher allocation to equities as well as higher SA Inc exposure compared to the balanced funds.

The Rezco Stable Fund (REST) ended the year with a 5.1% total return, with the ZAR strength costing the fund some performance. REST has invested in quality, high yielding developed market property and precious metals (gold and palladium) as defensive assets, while exposure to global shares is expected to deliver asset growth.

GLOBAL OUTLOOK

The global economy remains in a goldilocks environment – not too hot, not too cold, but just right. Low interest rates, stubbornly low inflation, synchronised global GDP growth and US reform should support equity prices in 2018. Within this positive global environment, we have identified key themes which our investors will benefit from:

- Tech hardware (chips) super cycle, especially in memory storage. We have invested in leading companies which build the machines for chip fabs, along with memory and analogue-to-digital chip makers
- Global life insurance supported by rising interest rates, wealth and demographic tailwinds in Asia, wellness trends and longevity, implementing tech to save costs and improve products and services
- US banks and financial services are expected to benefit from rising rates, potential deregulation and recent tax reform directly, but also through second round effects via their customers
- Smart logistics with increased volumes as e-commerce continues to grow globally

WHERE ARE THE RISKS, AND HOW ARE REZCO'S FUNDS POSITIONED AGAINST THESE RISKS?

MARKET CORRECTION	Long equity and momentum is a crowded / consensus trade Risk of rapidly increasing interest rates causes a market sell-off

- Include rising rate beneficiaries – banks and insurance companies
- Hold cash
- Maintain caution

CHINA	Trade disputes with the US; Increased central control Macro tightening: lower fixed investment, rising interest rates, regulation to reduce speculation

- Avoid excess Chinese exposure, notably expensive tech shares
- Avoid companies relying on inflated bulk commodity prices

END OF QE	Uncertainty around the end of QE (easy money) Implications for carry trade and EM sentiment

- Gold and palladium exposure
- Investment in defensive high yielding developed market property exposure

WHERE WE ARE DIFFERENT AND HOW WE WILL OUTPERFORM IN 2018

1. Within the global allocation, Rezco has concentrated positions exposed to key themes that are currently playing out well
2. Rezco is benchmark agnostic and hasn't invested in Naspers – we don't think having more than 3% of clients' money in a Chinese internet stock is prudent, and consider the risks around valuation and holding structure too high to justify investing. On a look-through basis, RVTU has invested just over 9% in a diversified basket of high quality global tech stocks with a better valuation and set up than Naspers
3. We have not invested in overvalued SA Inc shares, most notably avoiding SA property, discretionary retail or bank shares

4. Political tail risk remains as long as Zuma, Magashule or Mabuza maintain power, ratings downgrade overhang will be difficult to shake off, and Rand strength is once again relying on fickle positive EM sentiment for support. Rezco is maintaining a relatively high level of insurance against Rand weakness

As 2018 plays out we expect Rezco funds to outperform through a weakening Rand, falling SA Inc share prices, and a positive contribution from the global allocation. We remain confident that discipline around our investment process and style will produce outperformance, and we look forward to serving our investors well through 2018.

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