REZCO
ASSET MANAGEMENT

QUARTERLY INVESTOR COMMENTARY MARCH 2019

Financial markets were whipsawed through the calendar year-end and into the first quarter of 2019. The extremely negative sentiment going into the end of 2018 was caused by concerns around a recession and exacerbated by extreme net equity outflows. Markets rebounded strongly in the first quarter on a more dovish central bank. The funds traded well through this high volatility with small net buying in the dip and managing to avoid the sale of equities during the panic. This resulted in both pleasing risk and returns through the volatility.

The funds are positioned for global markets that are supported by dovish monetary policy but that struggle to make new highs as earnings growth momentum lags. We are concerned around the markets placing too much emphasis on dovish monetary policy for two key reasons:

1. Drivers to inflation remain, especially wage growth and output gaps, which have reduced significantly since the Global Financial Crisis. Should higher inflation surprise and monetary policy become more hawkish, a significant market correction may occur.
2. While a more dovish monetary policy stance supports equities and emerging market assets, notably South Africa, it does little to fundamentally support company earnings growth. Rather, the massive structural imbalances created through Quantitative Easing remain, with the unwind not appearing on investors' short-term radars. The risk is concentrated in the pricing of financial assets, which could see a significant de-rating should interest rates rise.

HOW WE SEE THE US / CHINA TRADE WAR

Core to our investment approach is to always look at big global macro events with two dimensions: how possible is the event, and how much has it been priced into markets? Furthermore, it is important not to round low probability events down to zero. To use the US / China trade war as a clear example of this approach, we would say that there is a very high chance (85%) that the deal goes ahead. We would therefore say that there is a 15% risk that it fails. Financial markets, however, are pricing in close to 100% chance that the deal goes ahead and rounding down the chance of failure to 0%. Another way of putting this is to say that President Trump is 100% predictable when we know part of his negotiating strategy is to be intentionally unpredictable. Given the above, we are cautiously positioned around the trade deal as there is a lot of downside in equity prices if the talks fail, but little upside given that success is already in the price.

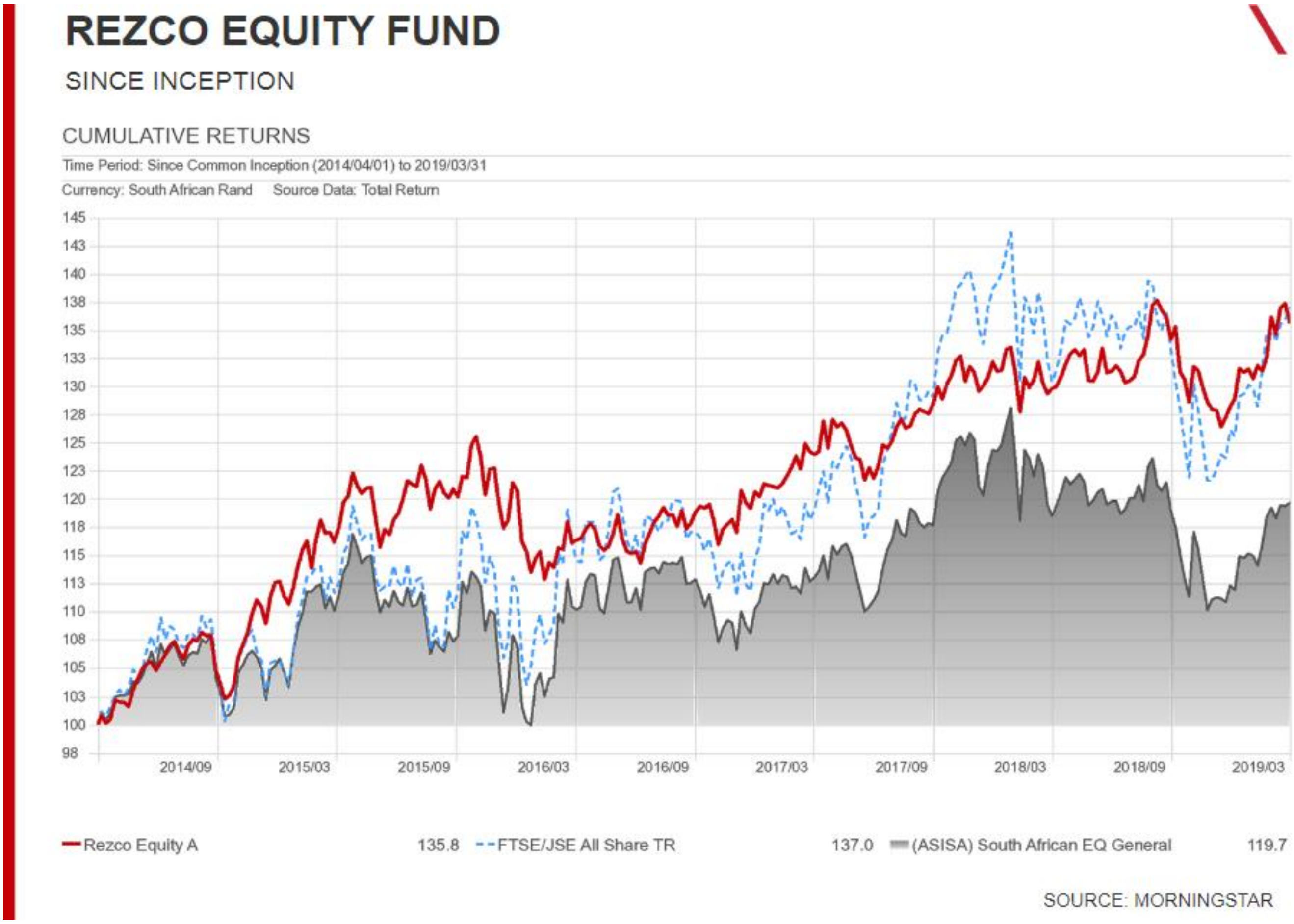
LOCAL OUTLOOK

While South Africa is in a vastly better position now than the period through the ANC elective conference and Ramaphoria, sentiment has become somewhat despondent. The lack of reform, Eskom, and the bombardment of negative news as the depth of corruption is uncovered is hurting the confidence of investors and management teams. This has meant a lack of investment that was hoped for in the excitement that built up during President Ramaphosa's SONA speech. On top of this, it has become clear that the SA consumer is under more pressure than what was anticipated, and SA corporates' earnings expectations have decreased significantly. We remain of the view that the growth potential from a better run country is significant and the fruit is low hanging. We have more confidence than many commentators that under President Ramaphosa we will see reform, but understand that it will take time and there are risks.

The expectation that President Ramaphosa could quickly fix South Africa was wrong, but while acknowledging the risks, the market's error was more in the time frame expected rather than the outcome. This creates opportunities. The exposure of Rezco's funds in South Africa is focused on: SA mining (largely PGMs), SA Financials where valuations are low, but earnings are more resilient than the retailers, and SA Industrials benefiting from infrastructure and mining investments.

REZCO EQUITY FUND

The Rezco Equity Fund recently reached five years since inception, and we are pleased with the performance provided to our investors. Performance has been in line with the ALSI after fees and well ahead of peers. Importantly, this has been achieved with lower risk and a low correlation to peers. This is the result of a well executed investment strategy of being benchmark agnostic and applying independent thinking to find SA listed companies that generate sustainable and high-quality growth while paying a reasonable price for that expected growth.



The table below shows the top 10 stock picking contribution by share of the Rezco Equity Fund compared to the ALSI – there is little overlap. By generating returns differently to the market, the Fund therefore also performs differently. This makes the Rezco Equity Fund a good fund to blend within a client's portfolio.

Top Contributors to Return	
Rezco Equity Fund	**FTSE / JSE All Share Index**
Discovery Ltd	Naspers Ltd
Mondi PLC	ABI SAB Group Holding Limited
Bidvest Group Ltd	BHP Group PLC
Afrimat Ltd	Anglo American PLC
Intu Properties PLC	Firstrand Ltd
RMB Holdings Ltd	Standard Bank Group Ltd
Transaction Capital Ltd	Cie Financiere Richemont SA
Tongaat Hulett Ltd	Mondi PLC
Firstrand Ltd	Bidvest Group Ltd
Datatec Ltd	Capitec Bank Holdings Ltd

Source: Morningstar | Since Common Inception (01/04/2014 - 31/03/2019) | ZAR | Total Return

Thinking independently is a key part of our style – when we analyse an economy or company we look at the data and come to a view without being too influenced by outside commentators. Our interest in other market participants' views is largely to see what is priced into the asset being analysed, and secondly as a check against our thinking. We know that to produce good risk-adjusted returns we must be different to the market and right more often than wrong. The outcome of a low correlation to peers and the ALSI, and lower beta (risk), is not a goal in itself but a function of our style. The following chart shows the ranked correlation of Rezco vs other major equity funds in South Africa, with the Fund consistently ranking very low compared to peers.

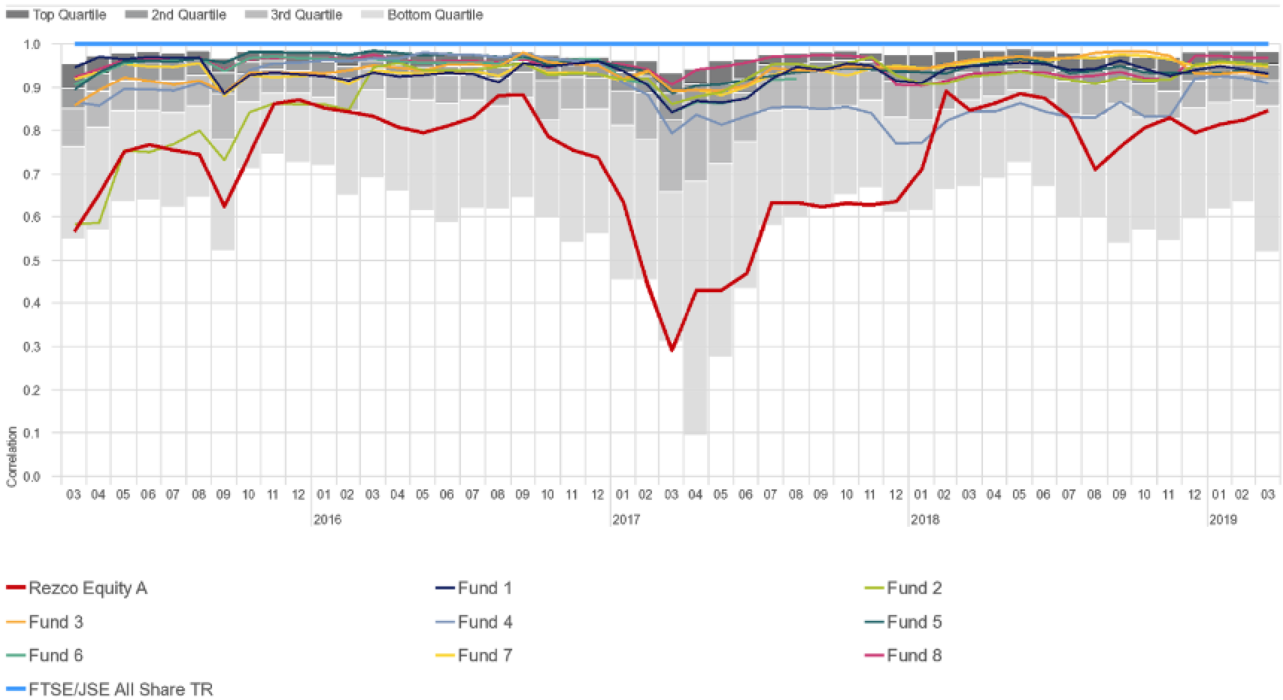
REZCO EQUITY FUND

SINCE INCEPTION

ROLLING 1 YEAR CORRELATIONS

Time Period: Since Common Inception (2014/04/01) to 2019/03/31

Peer Group (5-95%): Open End Funds - ASISA Sector (South Africa) - (ASISA) South African EQ General   Currency: South African Rand   Rolling Window: 1 Year 1 Month shift   Source Data: Total, Monthly Return   Calculation Benchmark: FTSE/JSE All Share TR ZAR



SOURCE: MORNINGSTAR

Fund	Beta
Rezco Equity Fund - Class A	0.51
Fund 1	0.94
Fund 2	0.92
Fund 3	0.81
Fund 4	0.85
Fund 5	0.87
Fund 6	0.84
Fund 7	0.93
Fund 8	0.76
Fund 9	0.83
Fund 10	1.00
Fund 11	1.00
Fund 12	1.07
FTSE/JSE All Share Index	1.00
ASISA South African Equity General Category	0.81

Source: Morningstar | Since Common Inception (01/04/2014 - 31/03/2019) | ZAR | Total Return

WHY THE REZCO EQUITY FUND IS A USEFUL BUILDING BLOCK IN A MULTI-ASSET PORTFOLIO

1. Low correlation
2. 0.5 beta with return matching the ALSI
3. Performance well above peer group average
4. Mandate to only invest in SA listed growth assets (no offshore equities)
5. Minimum 90% invested in equities; target of 95%
6. Low base cost

APPRECIATION

Investors have felt uneasy through the recent volatility of equity markets, with many investors turning to cash. We are thus sincerely grateful that you have entrusted us with managing your capital through this difficult market environment. We hope to continue providing risk-adjusted returns to help preserve your capital in difficult markets and grow your wealth as we find good opportunities.

ROB SPANJAARD
Chief Investment Officer

SIMON SYLVESTER
Co-Portfolio Manager