REZCO
ASSET MANAGEMENT

QUARTERLY INVESTOR COMMENTARY SEPTEMBER 2019

As per our last quarterly newsletter, markets have been choppy and moved sideways, and low interest rates have propped up global markets against the seemingly endless stream of geopolitical risks. Trade and Brexit risks and resolutions have dominated the headlines, and we expect US election risk to become increasingly front of mind. We have, however, been positioned for this type of market and thus our funds have performed relatively well in this difficult environment. Returns have been supported through active asset allocation and stock picking, and one of our core investment themes, Platinum Group Metals, performed well over the quarter.

We are pleased to report that, however volatile, the market has been performing in line with how we have expected it to, and so the funds are performing well. This environment has been good for relative returns, and we had an excellent quarter as per the table below, although it is important to note that this difficult market complicates the process of generating high positive returns on a rolling one-year basis.

3rd Quarter 2019 Performance		
Fund	**Fund Return**	**Peer Group Average**
Rezco Global Equity Feeder Fund	9.5%	7.5%
Rezco Equity Fund	1.8%	-4%
Rezco Managed Plus Fund	4.3%	0.2%
Rezco Value Trend Fund	4.3%	0.2%
Rezco Stable Fund	5.6%	1.3%

Please see the fund fact sheets for more detailed performance metrics.

HOW TO BEAT CASH

A big debate in markets is how to beat cash. Over the last few years, income funds have been the best place to hide, and the poor performance of SA equities has meant higher risk funds have been underperforming lower risk income funds over a protracted period.

We know this with hindsight, but looking forward is always more difficult, and the pitfalls of Rand-based cash or income funds being a replacement for equity should be considered:

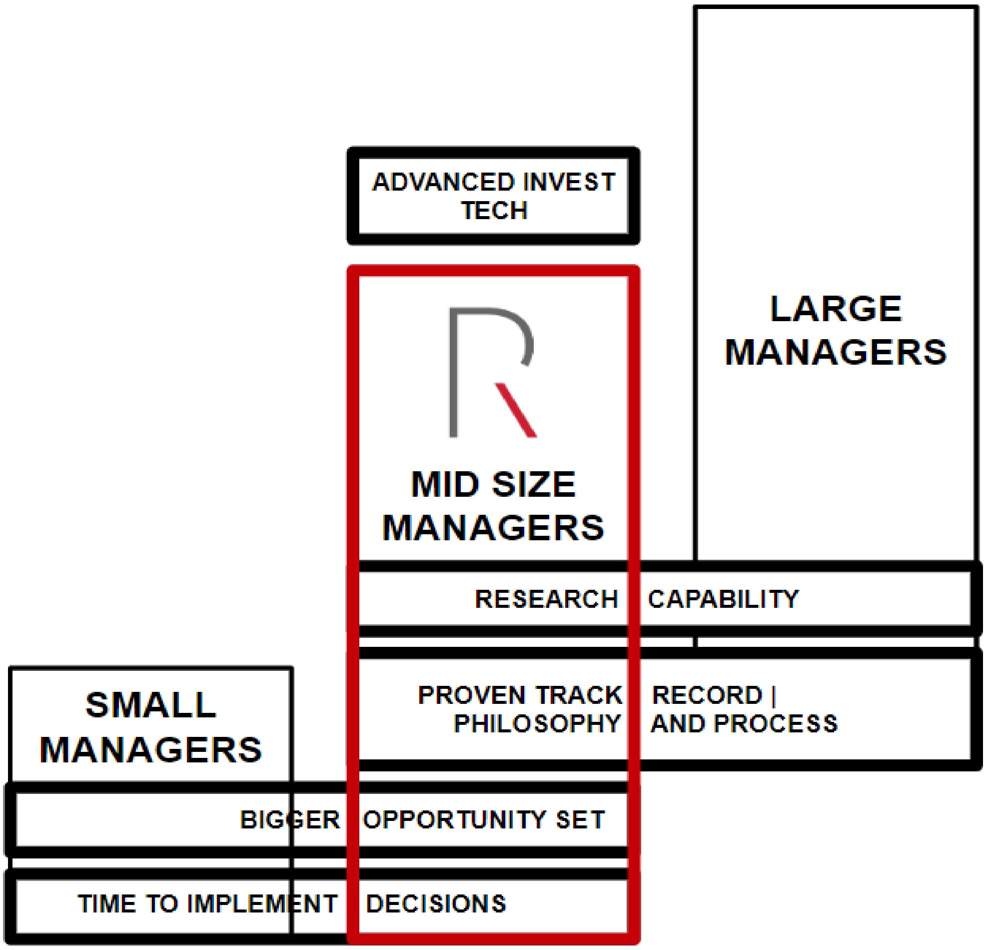
- They cannot protect against a sharp weakening in the Rand due to a risk event – lack of global diversification.

- They risk losing to inflation-based return targets over the longer term.
- Many investors have a long-term mandate, but in the short term have decided to reduce equity exposure and replace with income funds. This has worked, but the trick is to switch back – this is hard to do and very often the switch comes too late.

In some cases, especially for longer term investors trying to time the market by sitting in cash, it is worth considering using a lower risk multi-asset fund (stable fund), and for more aggressive investors who are cautious in the short term, a higher risk multi-asset fund that employs a very active asset allocation approach. While volatility is higher, this does not mean that all risks are higher, and there are currency risks and the opportunity costs of not being in equity (inflation risk) that should also be considered. Cash is working, but it will eventually underperform. We think a good active manager is in the best position to time moving back into local equities.

THE BENEFITS OF BEING A MID-SIZED MANAGER

MANAGER SIZE SWEET SPOT



Rezco has some advantages in how it is structured and managed, and also unique advantages around our use of tech. We are big enough to have proper systems for operations, compliance, trading and research, a great team, are invested significantly in technology, and have a long-term track record.

We are also small enough to be able to implement our views in our funds, we can manage risk through active asset allocation, we are able to find good opportunities in high quality mid cap companies, and importantly, we can get out of a bad trade quickly.

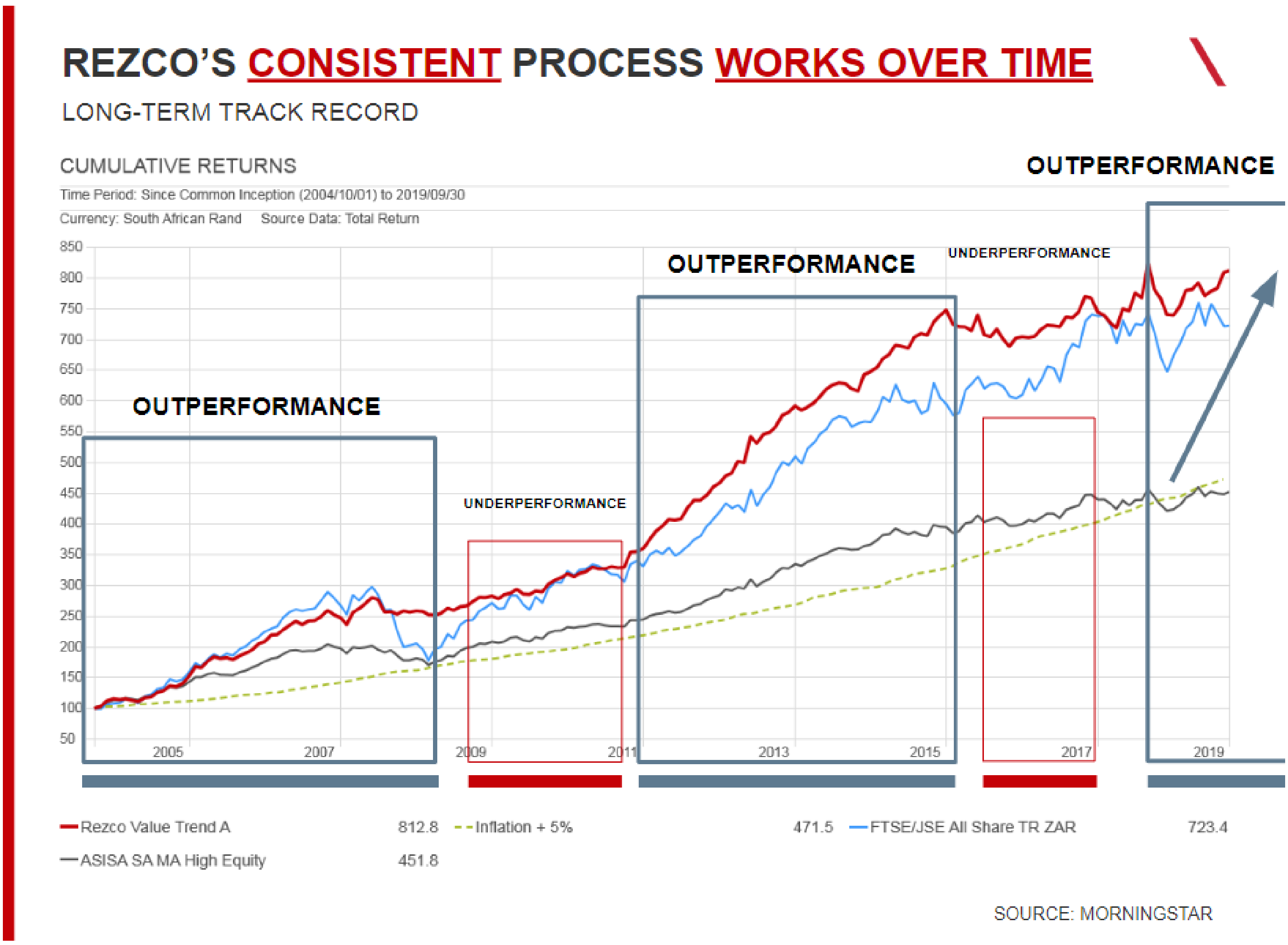
We see this as a sweet spot. Too small and we would not be able to invest as much as we do in the business; too large and our investment views may not necessarily reflect in our clients' portfolios.

Our company goal is to generate risk-adjusted returns and not directly to grow assets or profit, and we believe we are set up well to continue achieving this goal. Being nimble and focused, while using the best tech available globally, has enabled us to generate top-tier returns over this recent noisy and difficult period. We expect the market to continue being volatile and directionless and are well geared to continue, with careful risk management, to trade well through this environment.

A CONSISTENT PROCESS THAT WORKS OVER TIME

Asset managers go through periods of outperformance and underperformance, and the Rezco Value Trend Fund is summarised in the graph below. We have recently started a period of outperformance, and we hope to continue this trend and gain confidence from the following factors which will support our purpose in preserving capital and creating wealth:

- Our investment process, the use of tech and focused debate, and nimble, sharp decision making, all position us well in a choppy, sideways market.
- Being benchmark agnostic and employing active asset allocation with fairly wide moves between asset classes allows us to get out of high-risk asset classes or equity sectors and avoid some of the SA equity landmines.
- Our mid-size AUM means we can implement our views quickly in a market that can move on a single Tweet.



Looking forward, we cannot claim to have a perfect view of the world and the outcomes of the major risks (macro-economic, geopolitical and unknowns), and we also know that we will occasionally get things wrong. What we are confident in, however, is that we have the right team, process, philosophy and tools to operate in what is a very tough market for active managers. We are near the beginning of what we hope will be a good period of outperformance, and we are confident that our outperformance is not a function of chance but rather skill, use of better tech and processes – our long-term track record supports this.

In the graph above, our periods of underperformance remind us that we get things wrong, we need to keep working hard and improving, we need to be open to where we could be making a mistake, engage in detailed debate with intelligent people who have different views to us, that investing is often a function of probabilities and that we must manage the portfolios knowing we are never 100% sure.

The periods of outperformance give us confidence that we can generate alpha, reduce risk, that our process and style work, that the market does have inefficiencies that can be exploited, and that clients allocating a portion of Rezco to their portfolio can improve their risk-adjusted returns over time.

We remain grateful to our investors. Thank you for sticking with Rezco funds in what is a very trying market. We are glad that we have provided good returns this quarter, and are working hard to deliver on our purpose – protecting your capital and growing your wealth.

ROB SPANJAARD

Chief Investment Officer

SIMON SYLVESTER

Co-Portfolio Manager