REZCO

Live Webinar

Starting Shortly

Investment Regime Change

Now is the time for flexible asset allocation

Rob Spanjaard

Simon Sylvester

Brian du Plessis

REZCO

REGIME CHANGE

The future won’t look like the past, Why investors need to be flexible.

BASE MARKET ASSUMPTION FROM 2009 TO 2022

INFLATION IS DEAD, WORRY ABOUT DEFLATION

THEREFORE:

2008 to 2022: The great QE experiment
Pushed down interest rates. Print Money.

THEREFORE:

CASH IS TRASH

THEREFORE:

TINA There Is No Alternative To Equities (and Debt)
Fiscal policies such as: Modern Monetary Theory (Just print money)

BUT **The inflation zombie is alive**
Cash can get 5% - great alternative

THE COUNTER VIEW

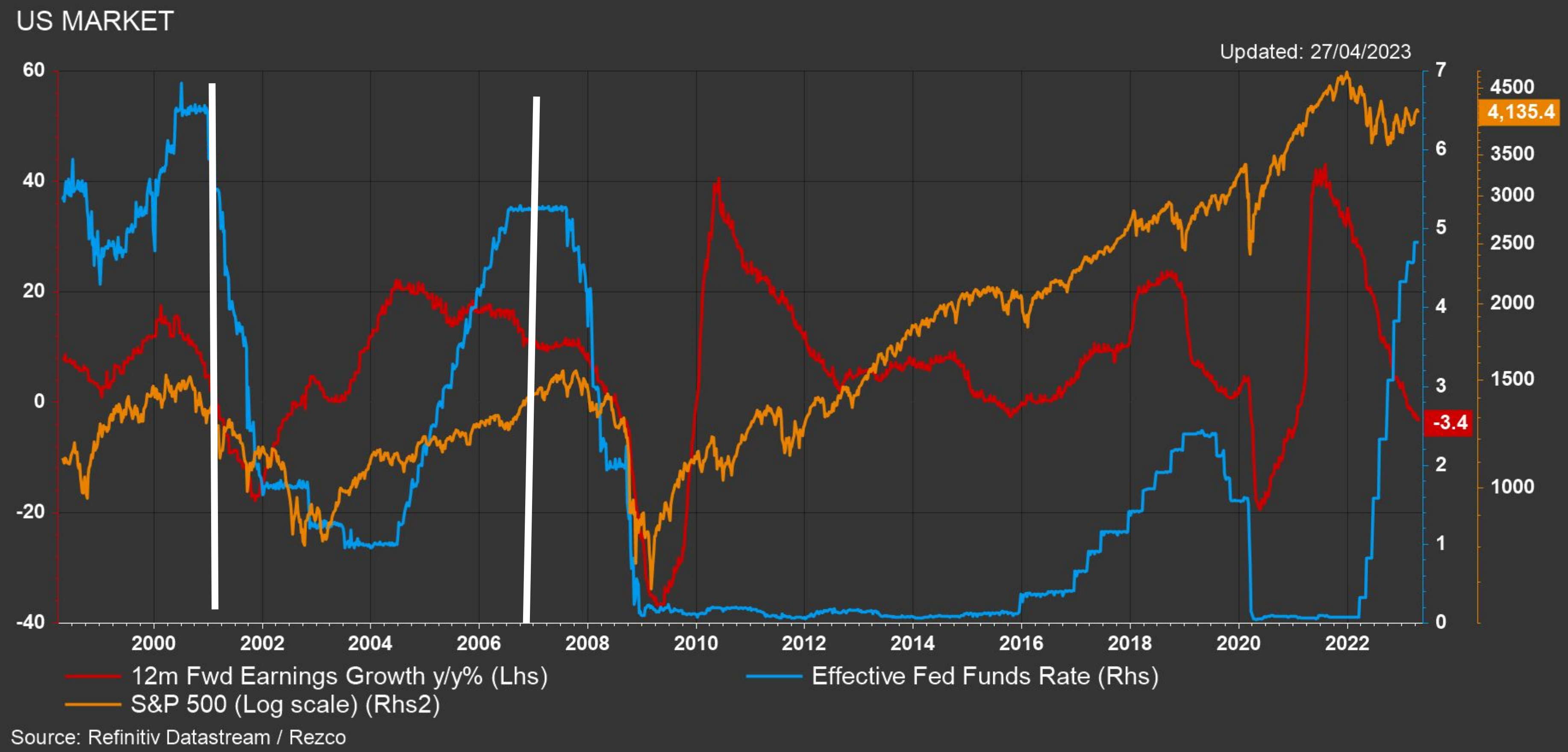
The extra cash in the system keeps the economy rolling along

Everyone is expecting a recession - but the economy is not really slowing and neither are company earnings.

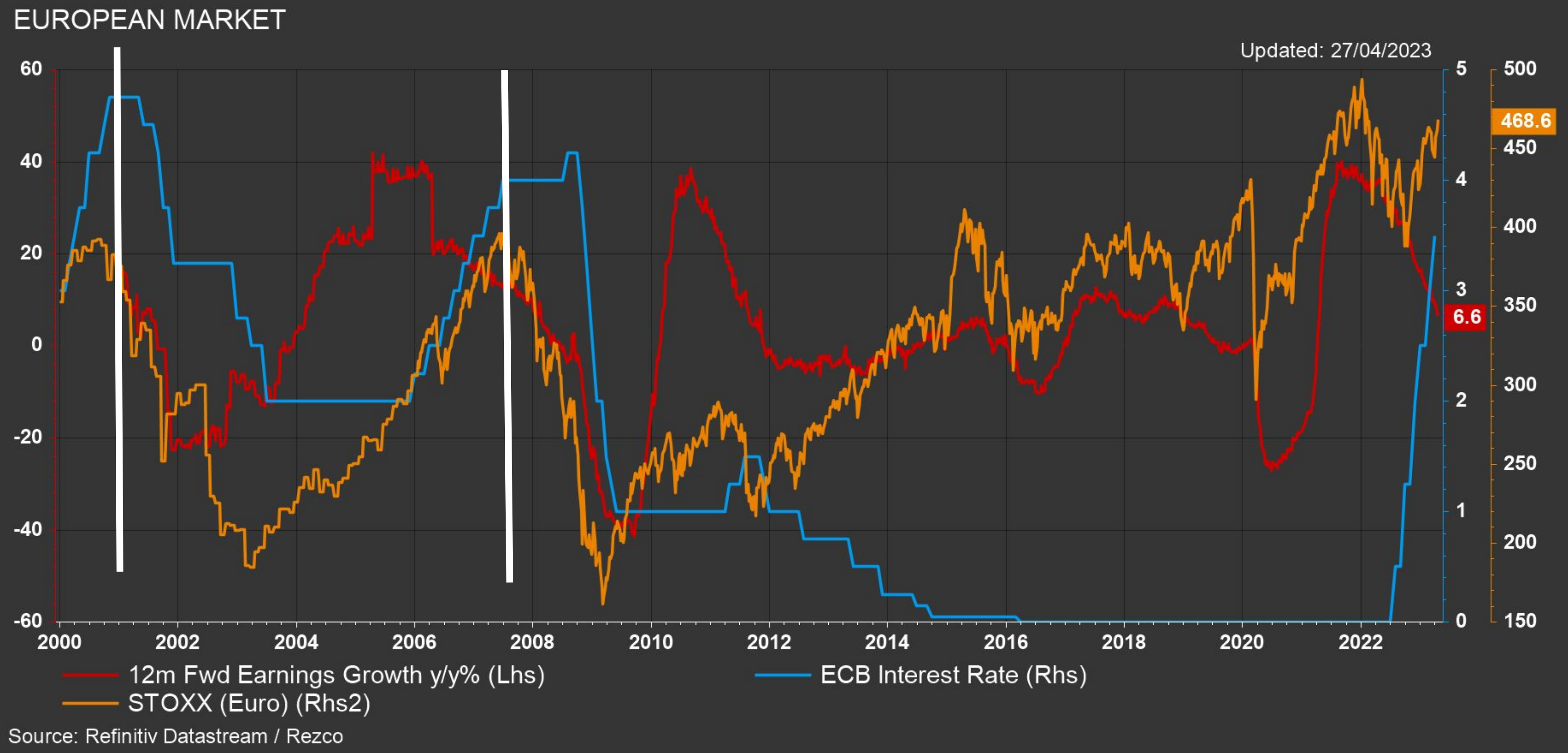
Does this mean soft landing or that the Fed and other Central Banks have to squeeze even harder.

INTEREST RATES AND MARKETS

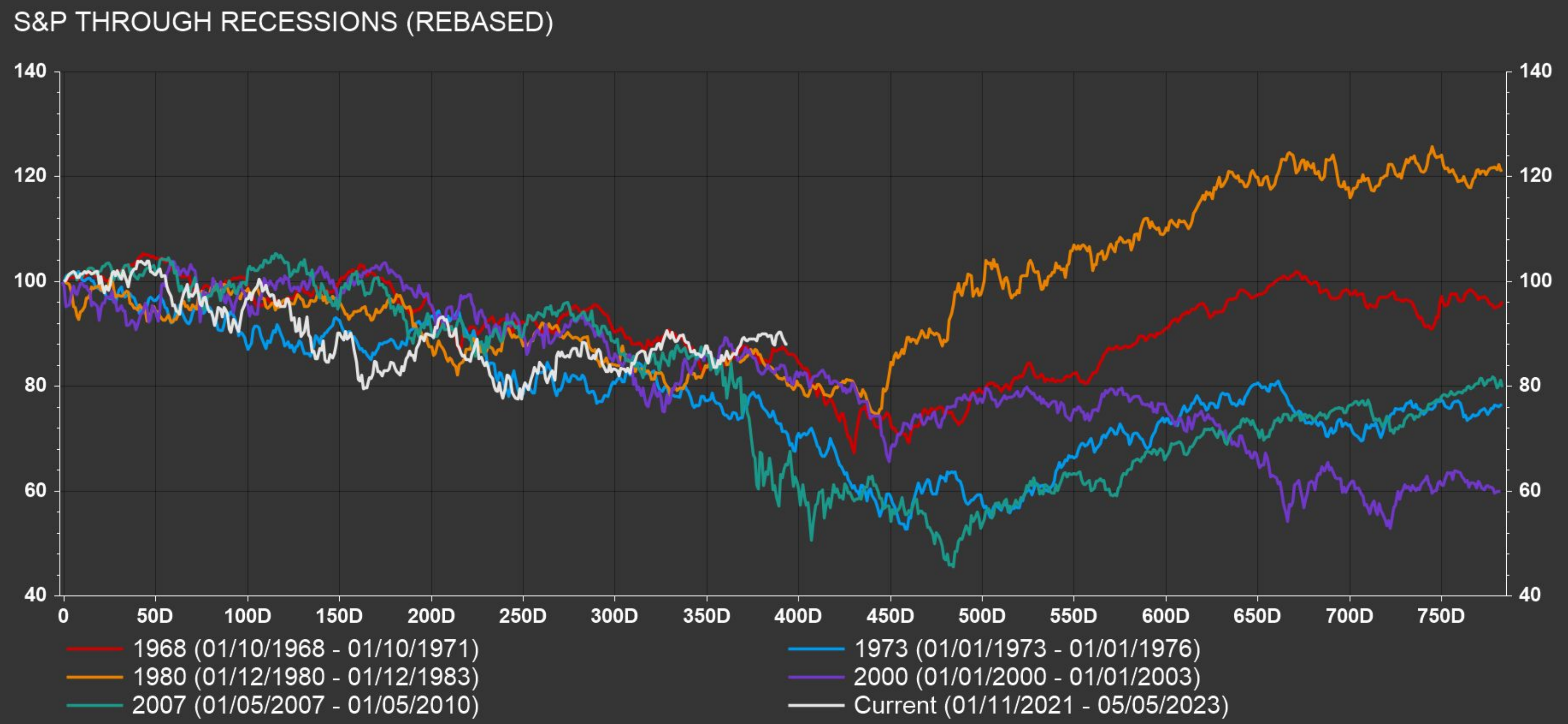
The bear/recession only starts after rates pause



EUROPE: SAME PICTURE



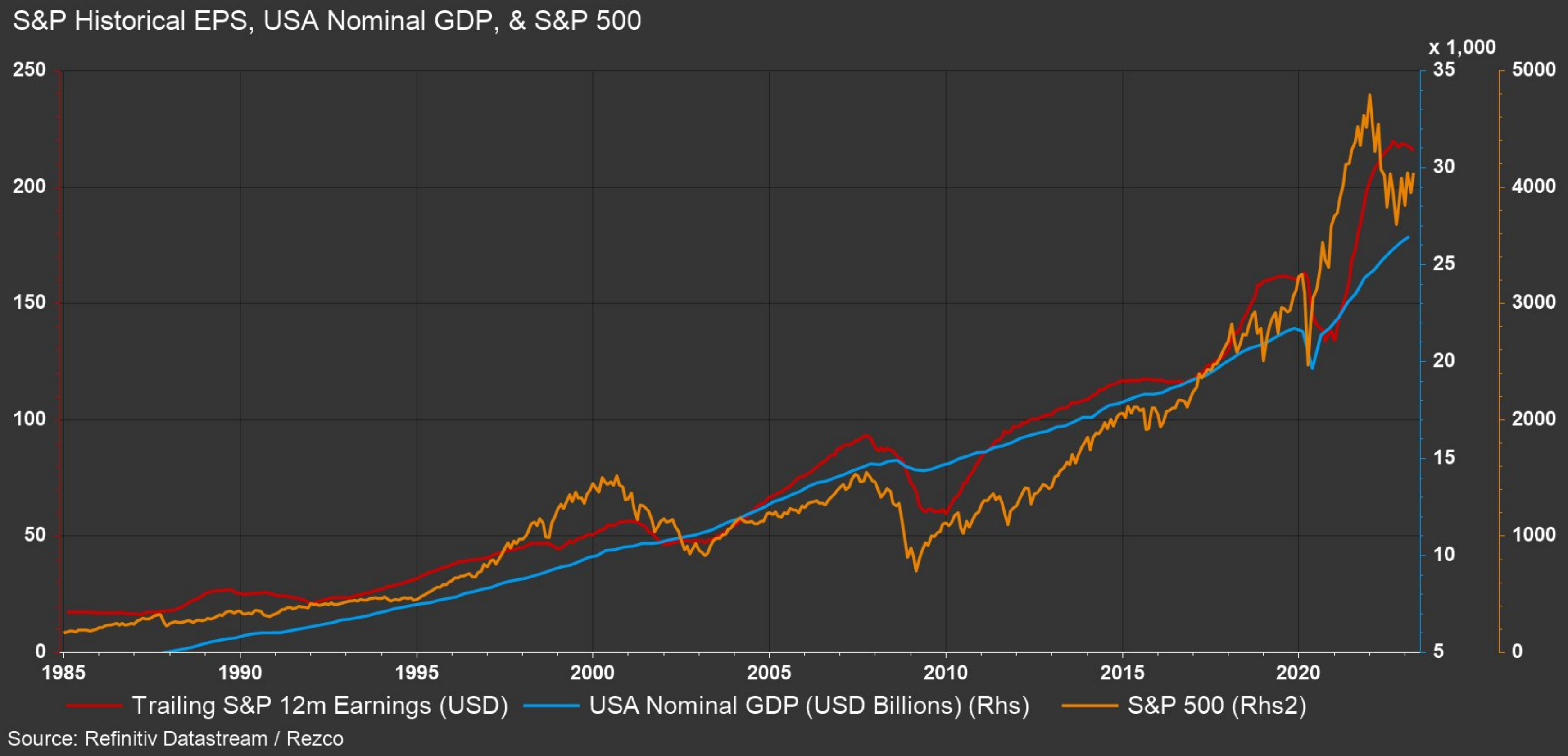
BEAR MARKETS HAVE AN EXPIRY DATE



Source: Refinitiv Datastream / Rezco

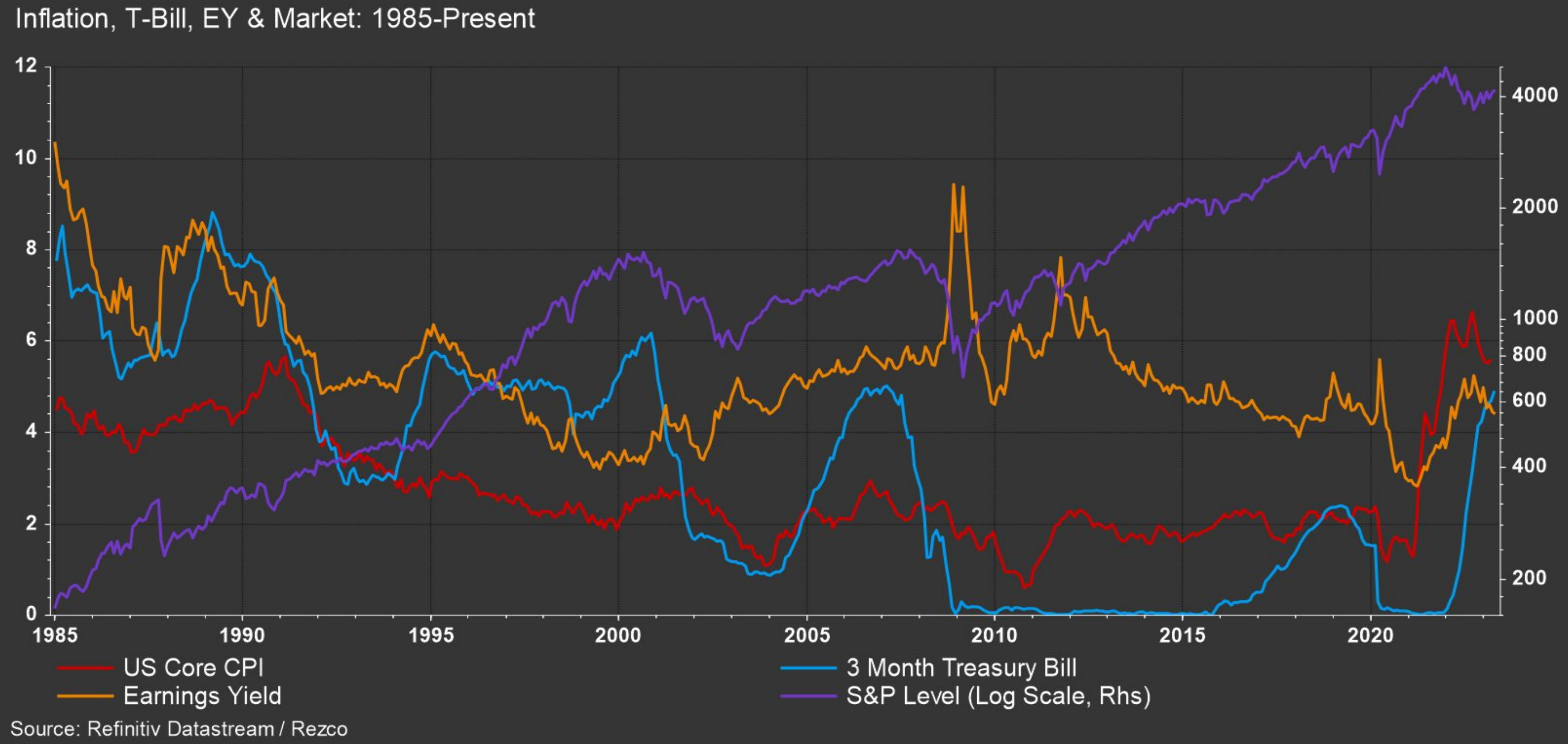
MAYBE 2022 WASN'T THE BEAR MARKET

Just correcting the 2021 over-earning



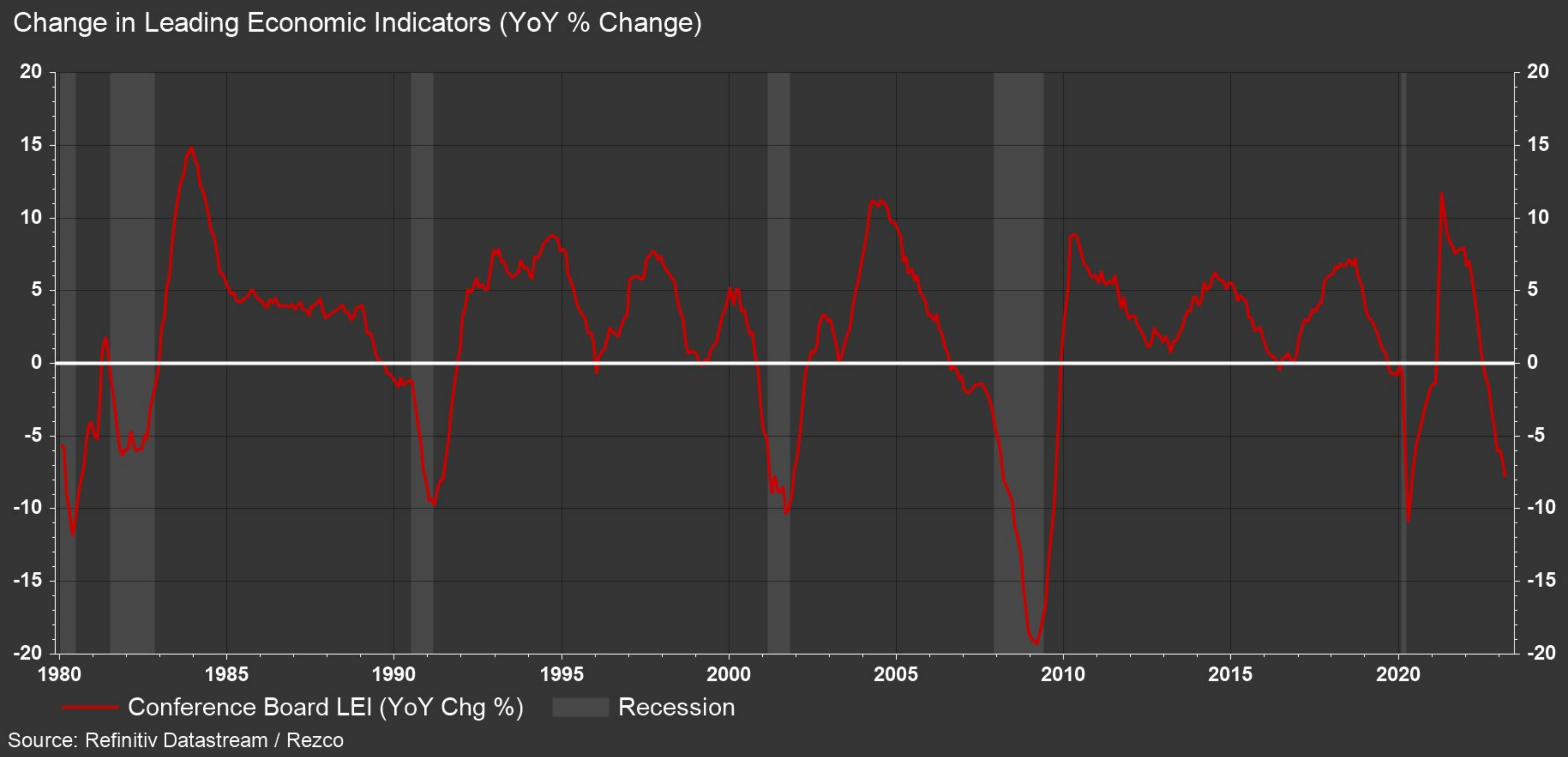
MARKET IS MOST EXPENSIVE SINCE 2002 -

Relative to interest rates.



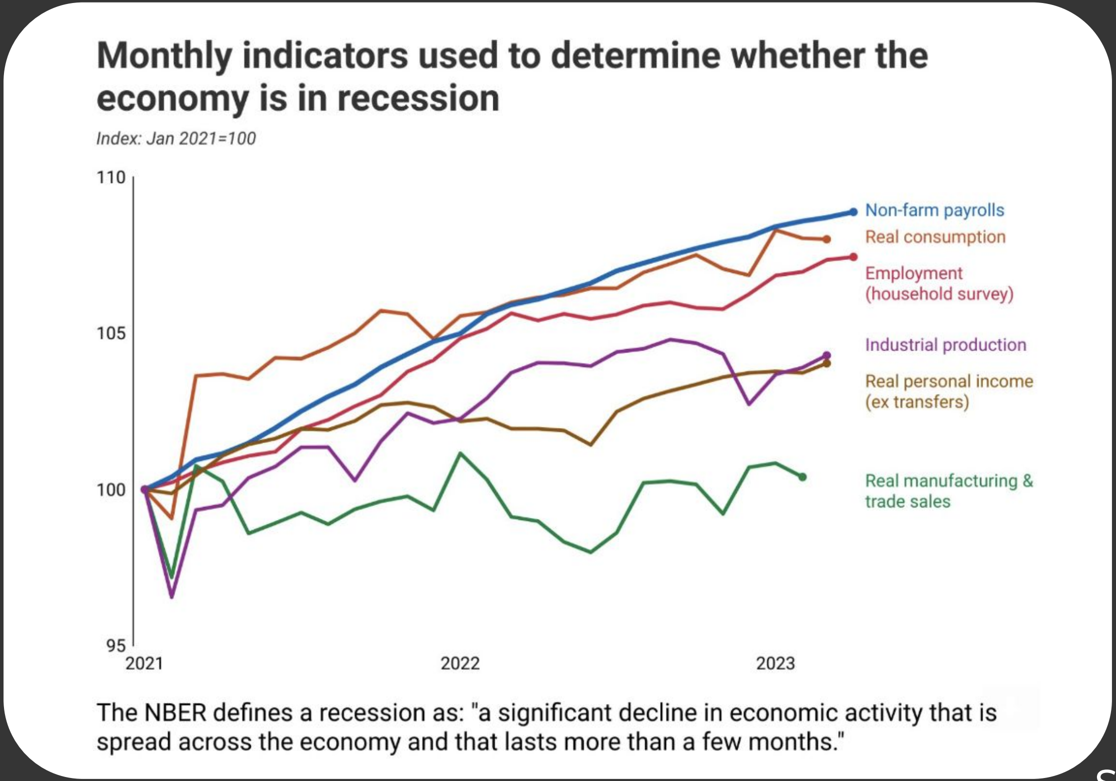
HOW ARE THINGS PLAYING OUT?

THE MOST CONSENSUS RECESSION……



.......THAT JUST ISN'T HAPPENING

Warning: Backward looking data



Source: University of Michigan

JANUARY 2023 PRESENTATION:

REZCO SCENARIOS FOR 2023

SCENARIO	OPTIMISTIC	BASE	FAT TAIL
	Soft Landing	**Normal Recession**	**Hard Recession or Shock**
PROBABILITY	**30%**	**60%**	**10%**
EARNINGS IMPACT	0% to 5%	-10% to -25%	-25% to -45%
DESCRIPTION	Inflation falls to target while wages decelerate, corporates tighten up but profits are stable and balance sheets strengthened	The Fed needs a recession to break inflation, unemployment rises to curb wage increases, services inflation is stickier and requires a recession to cool demand	Something breaks due to: 1) impact of rapidly increased interest rates; or 2) geopolitical shock eg Ukraine and nuclear tensions; or 3) inflation remains sticky

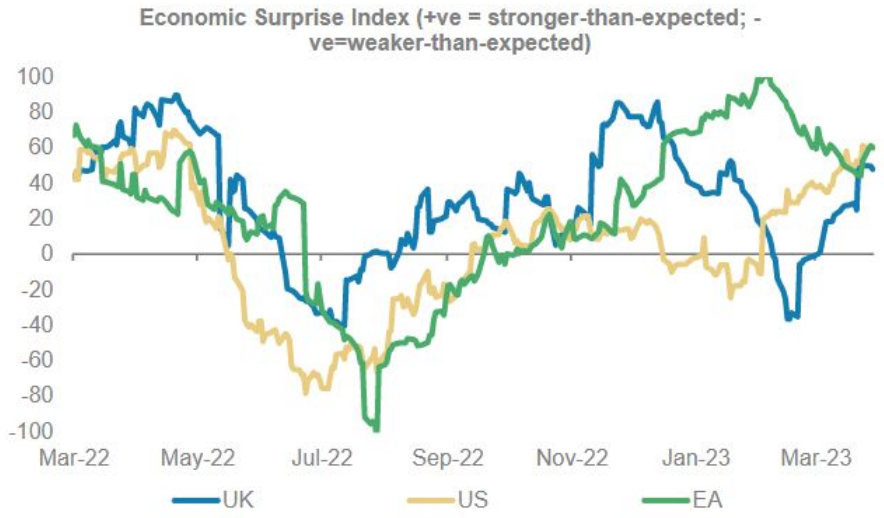
JAN 2023: EXPECTING A RECESSION

But hard data is coming out too strong

GDP Revisions have turned positive

EUROPE & UK ALSO MUCH STRONGER THAN EXPECTED

Exhibit 3: UK data outperforming (bleak) expectations from mid-1Q23

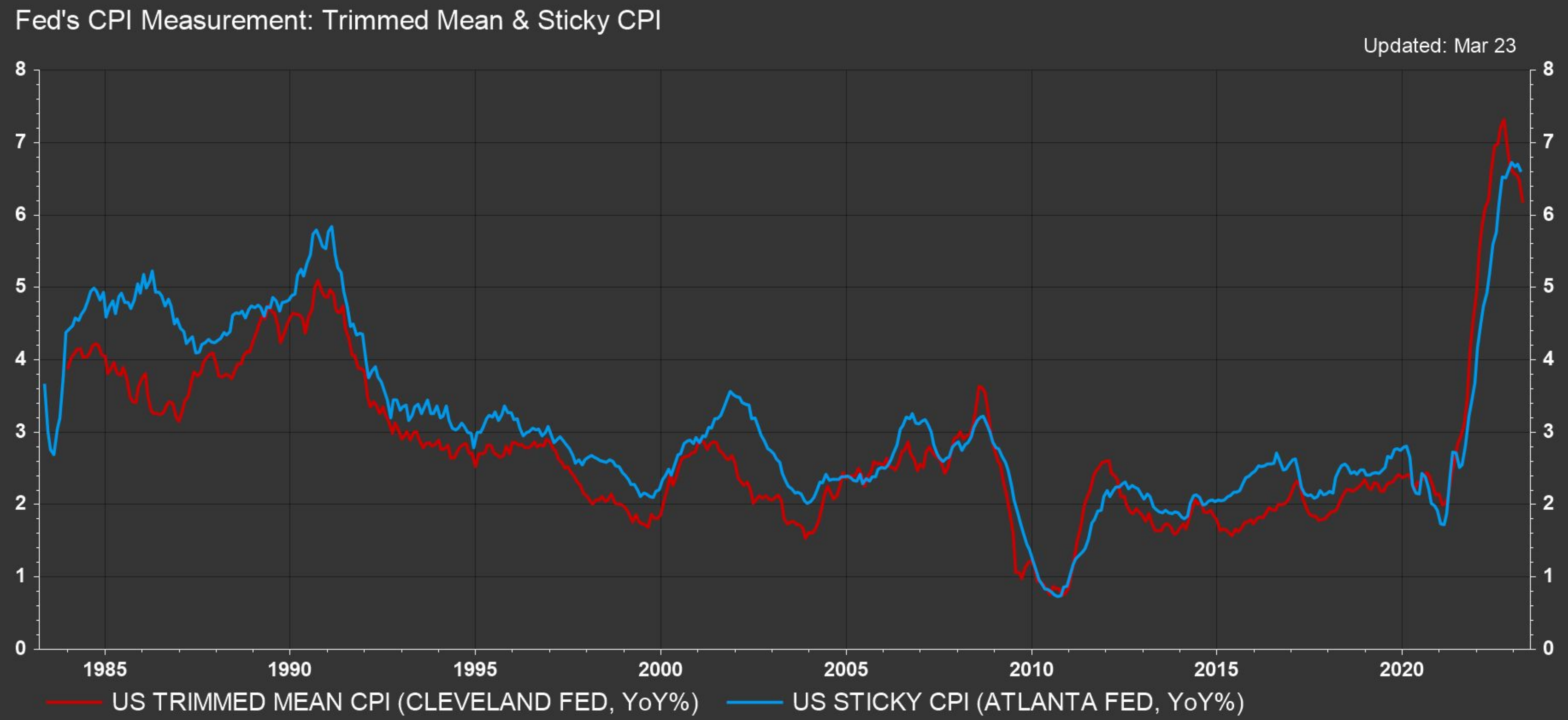


Source: Bloomberg, Morgan Stanley Research

AND INFLATION FORECASTS ARE RISING!

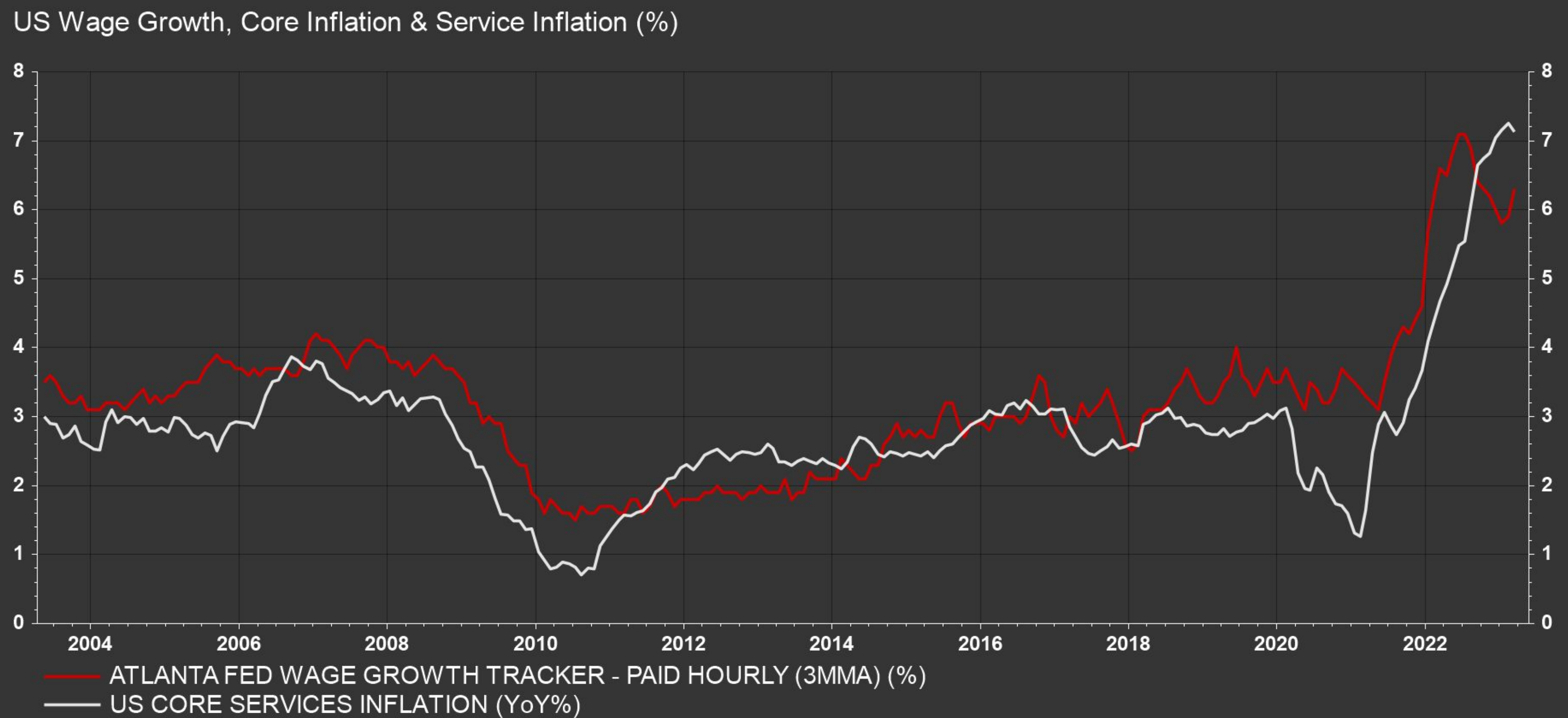
Professional forecasters 2023 Calendar Year Core CPI revisions through time for US

INFLATION: A STICKY ROLLOVER



Source: Refinitiv Datastream / Rezco

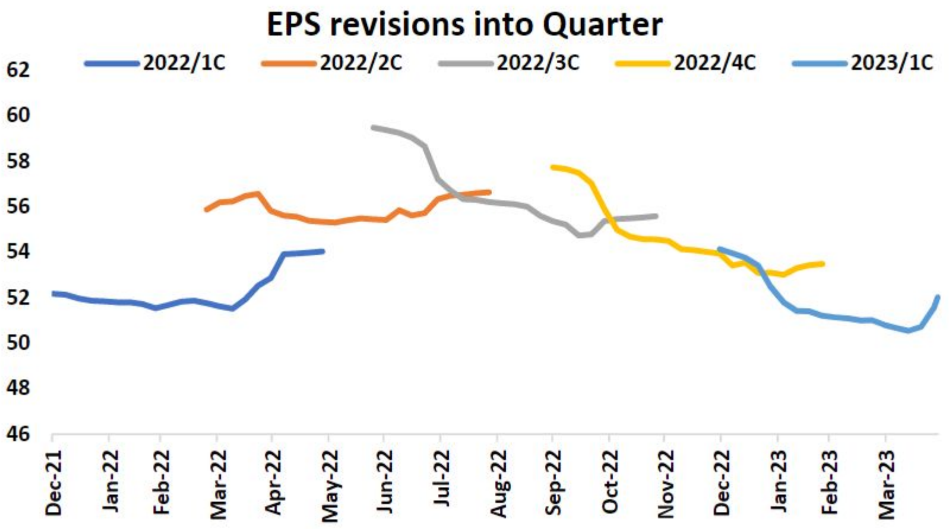
LABOUR IS STILL TIGHT



Source: Refinitiv Datastream / Rezco

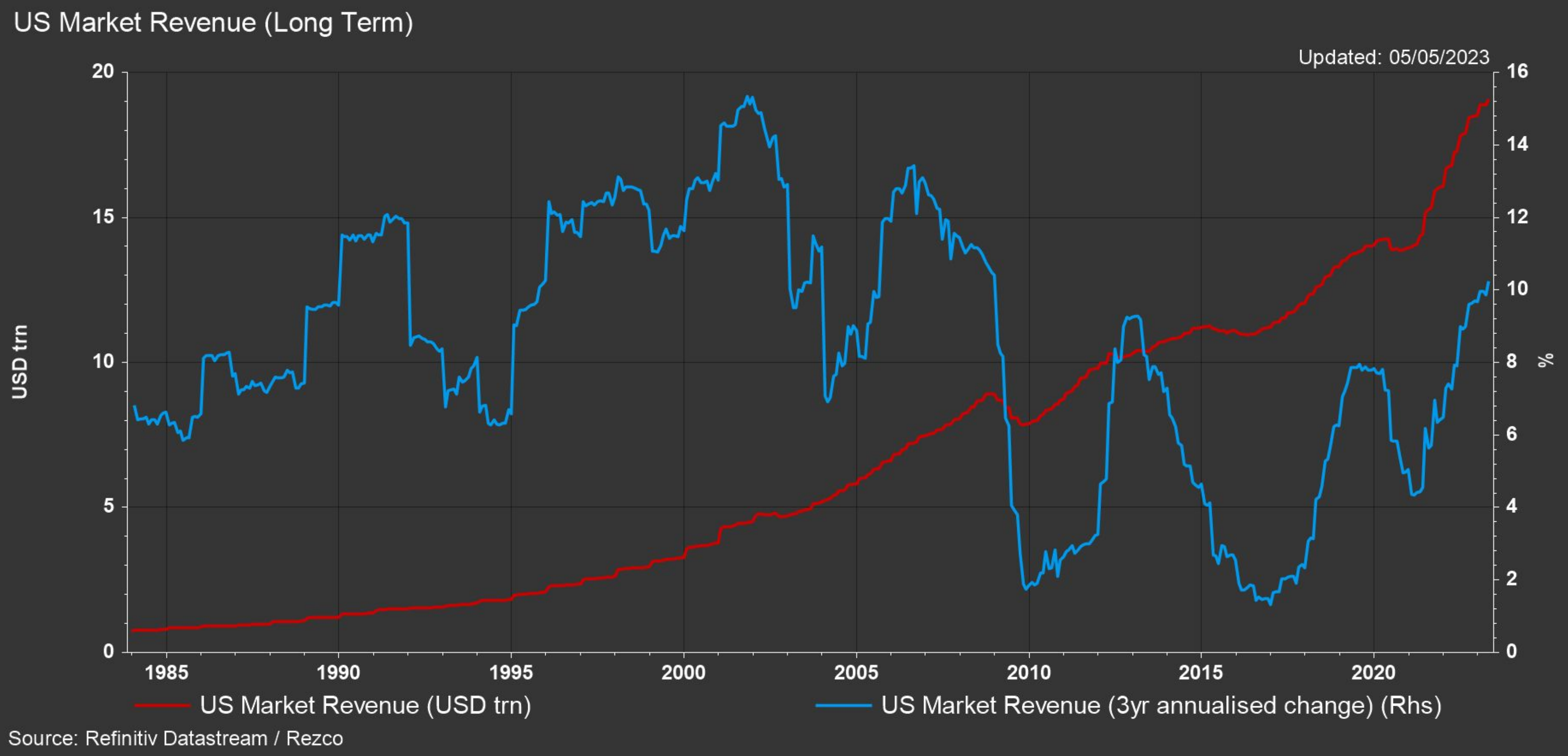
COMPANY EARNINGS HAVE BEEN MORE RESILIENT THAN EXPECTED

Exhibit 42: EPS Revisions Path into Quarter

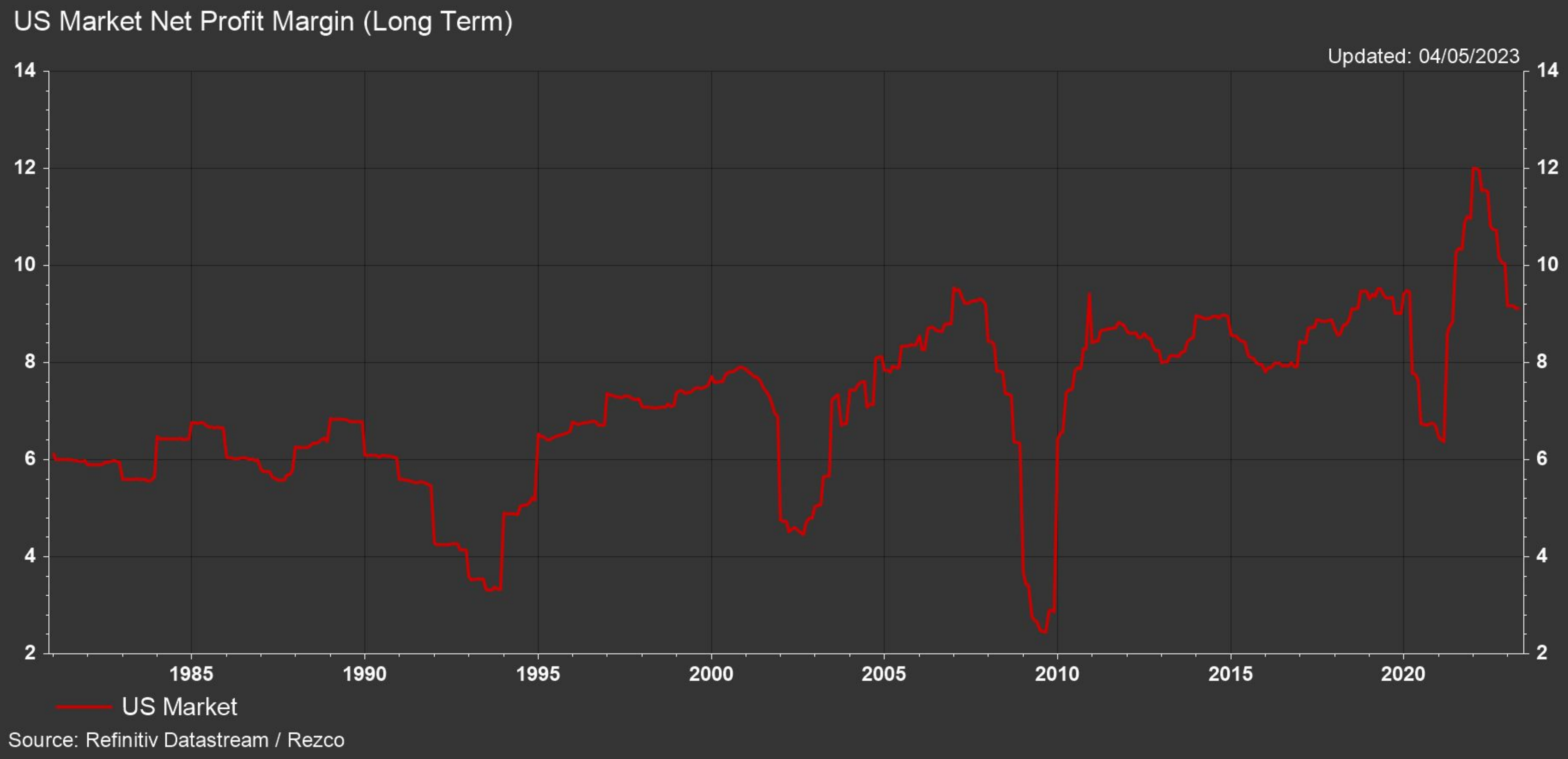


Source: Factset, Morgan Stanley Research

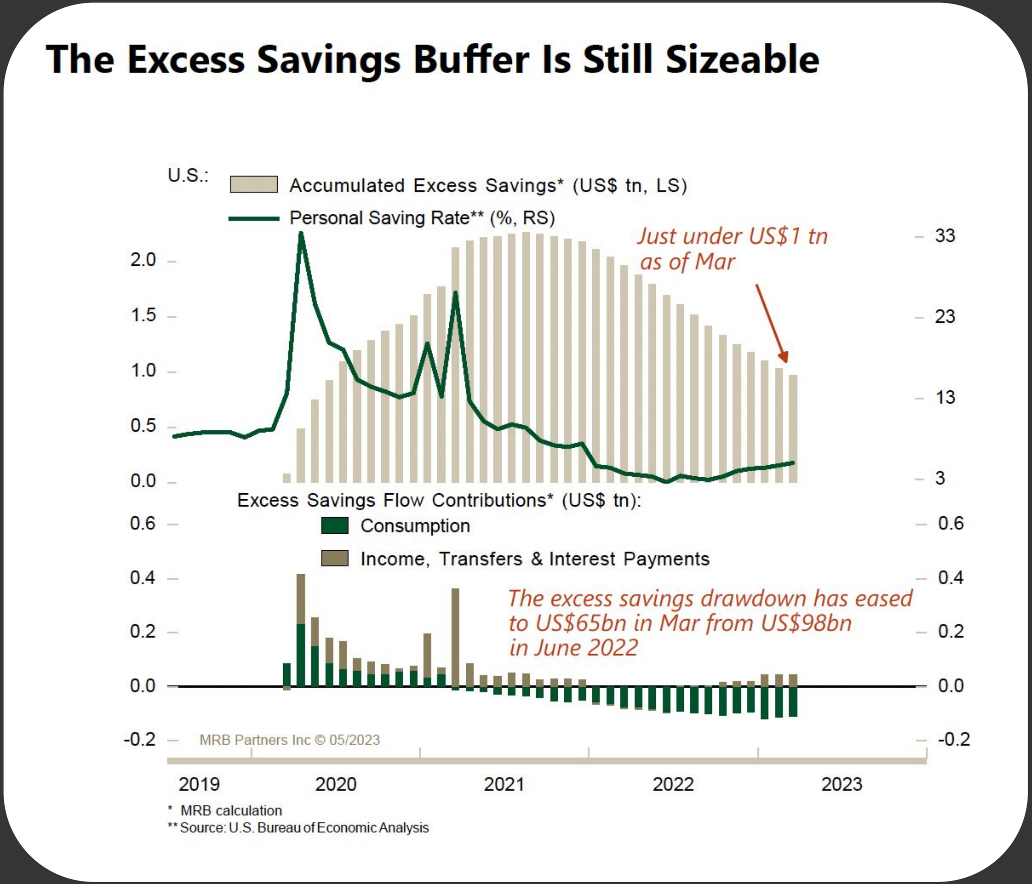
USA REVENUE GROWTH



USA CORPORATES HAVE MANAGED TO PASS ON PRICE INCREASES IN A STRONG ECONOMY - ALSO KNOWN AS INFLATION

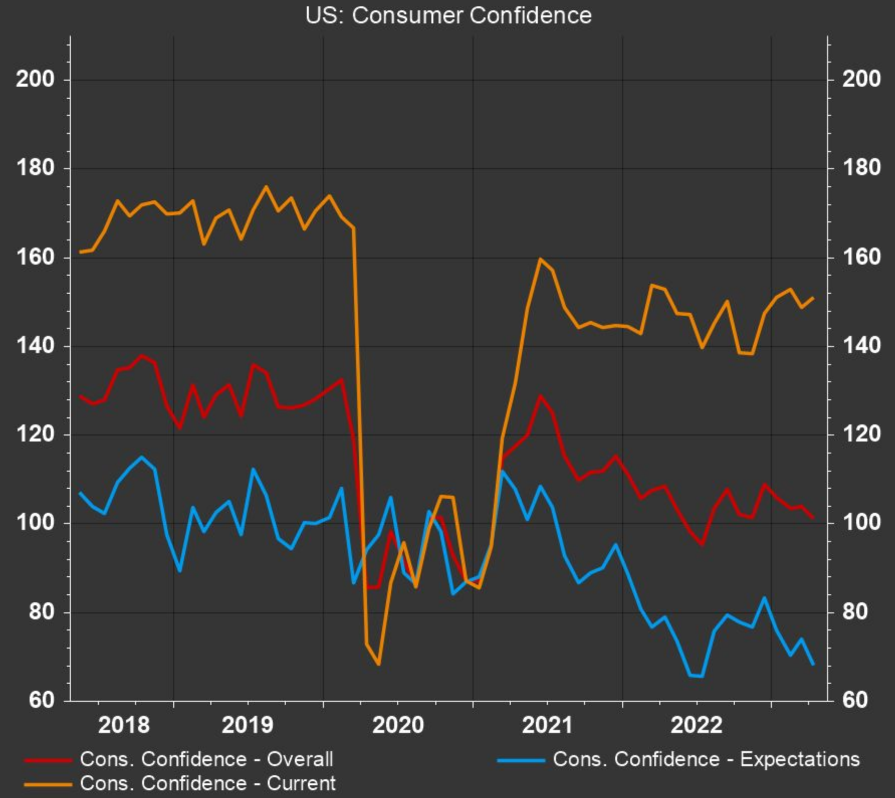


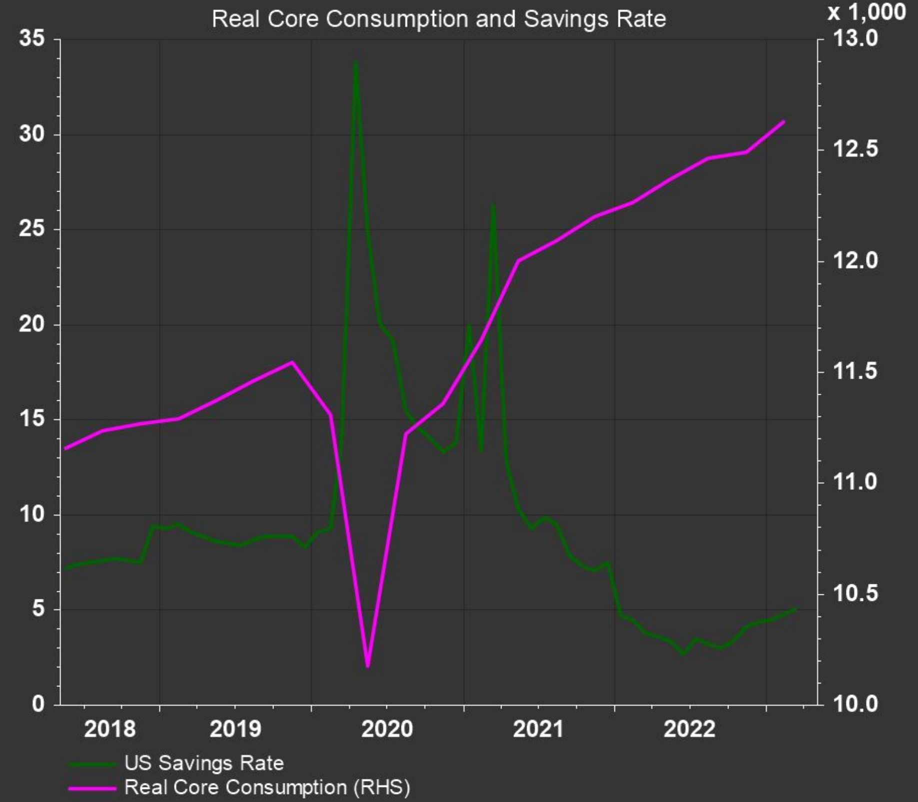
THERE IS STILL PLENTY CASH IN THE SYSTEM



Source: MRB

CONSUMER SPENDING INDICATORS

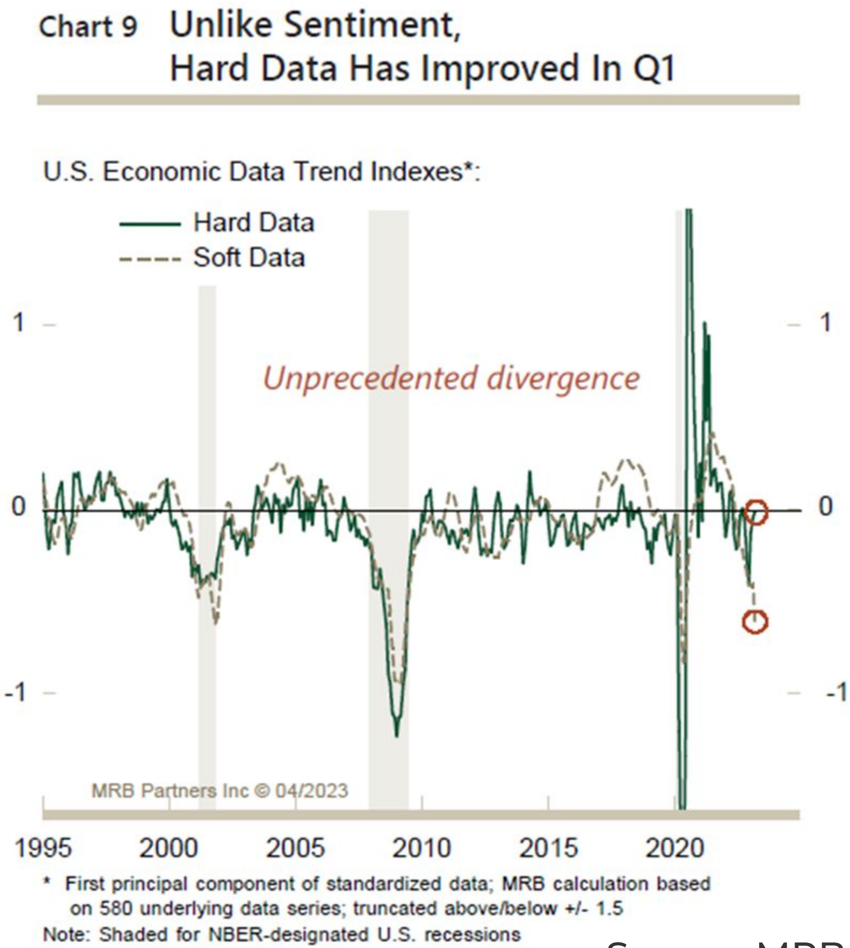




Source: Refinitiv Datastream / Rezco

THE CRUX OF THE ISSUE IS SENTIMENT VS HARD DATA:

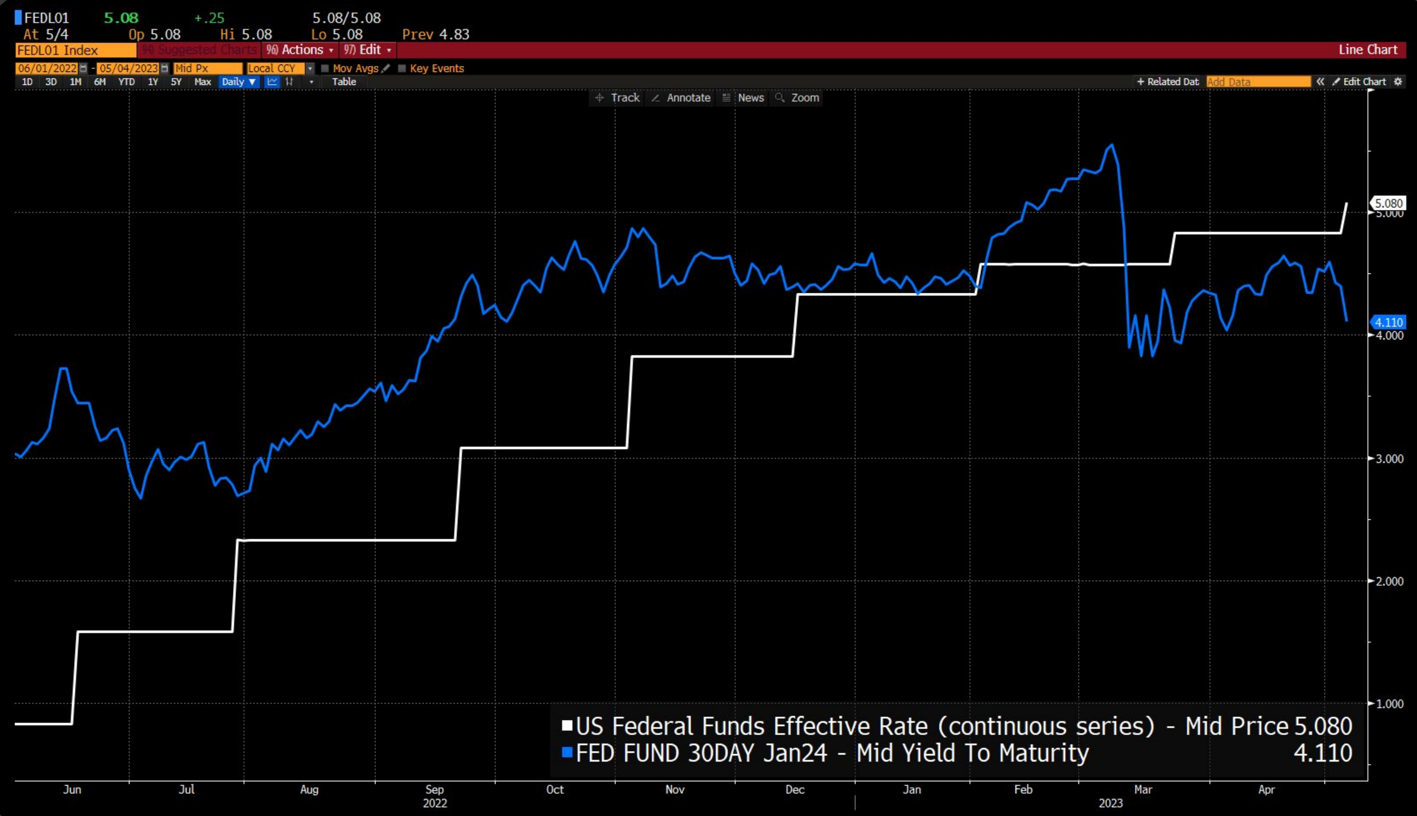
MRB NON CONSENSUS VIEW



Source: MRB

MARKET IS DISCONNECTED FROM THE FED

(STARTED WITH THE SVB COLLAPSE)



HOW WILL THIS IMPASSE RESOLVE?

Market is pricing this resolves by the Fed cutting from Sept

Labour doesn’t want to take the hit (and it is political suicide to suggest they do)

Companies prices are not regulated, they are protecting margins

Politicians are well known to avoid short term pain at the expense of the long term good

Fiscal policy is leaning towards stimulus, monetary policy remains timid

DOES THE FED NEED A BANKING CRISIS OR JUST CREDIT TIGHTENING?

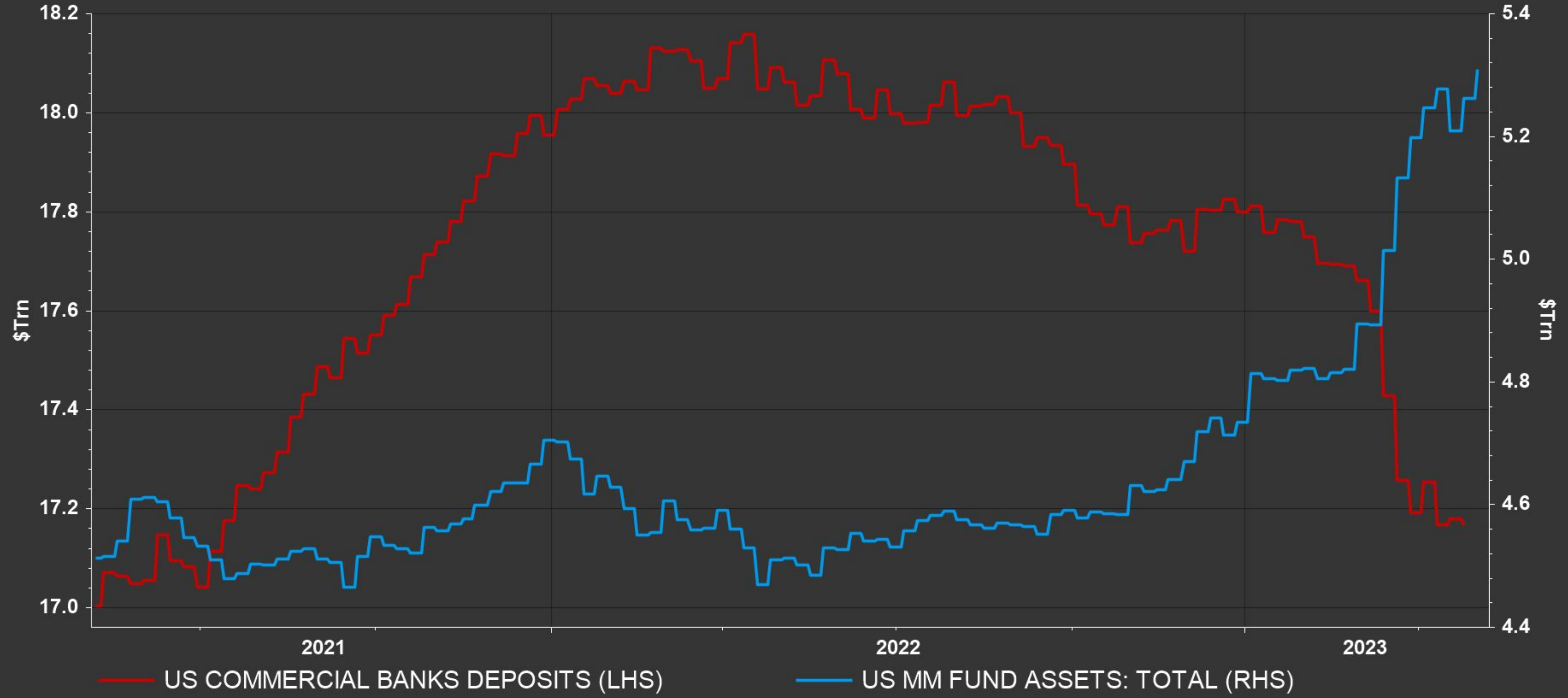
OR A RECESSION

Sentiment not enough to cool inflation

Source: Refinitiv Datastream / Rezco

A BANK WALK IS MORE LIKELY THAN A BANK RUN (CRISIS)

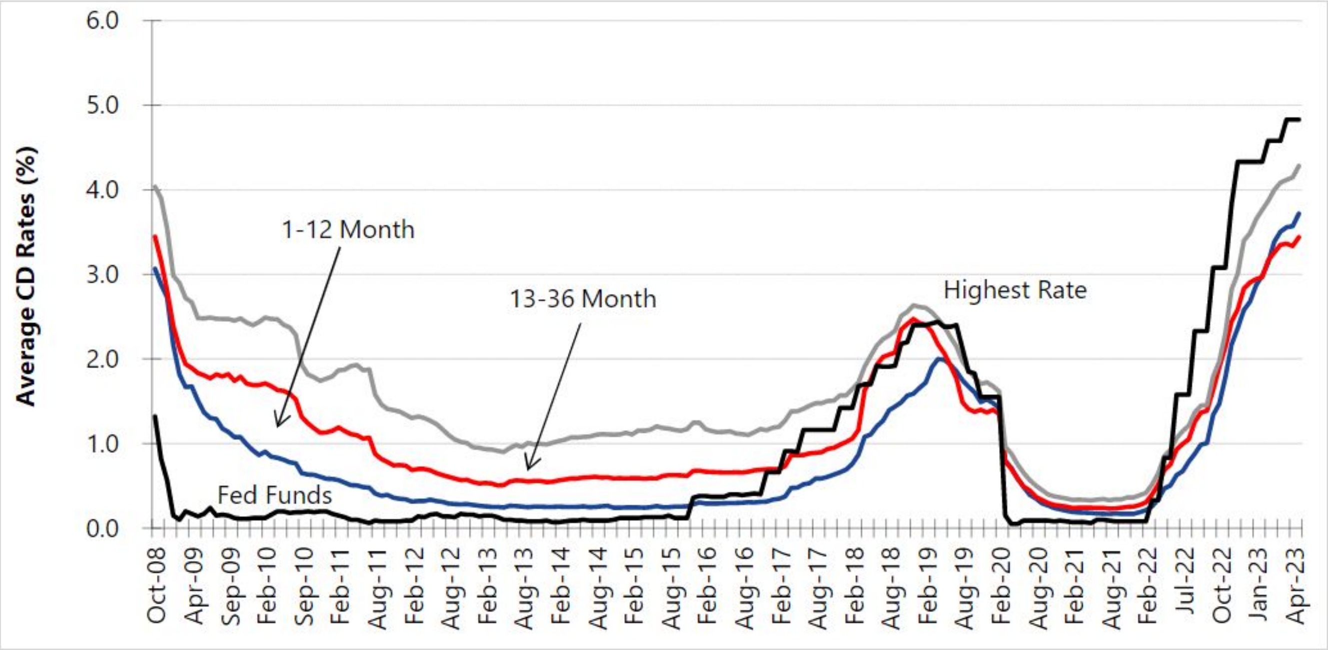
Which in turn is unlikely to tame inflation.



Source: Refinitiv Datastream / Rezco

UNSUSTAINABLE TO HAVE FED FUNDS RATE THE HIGHEST

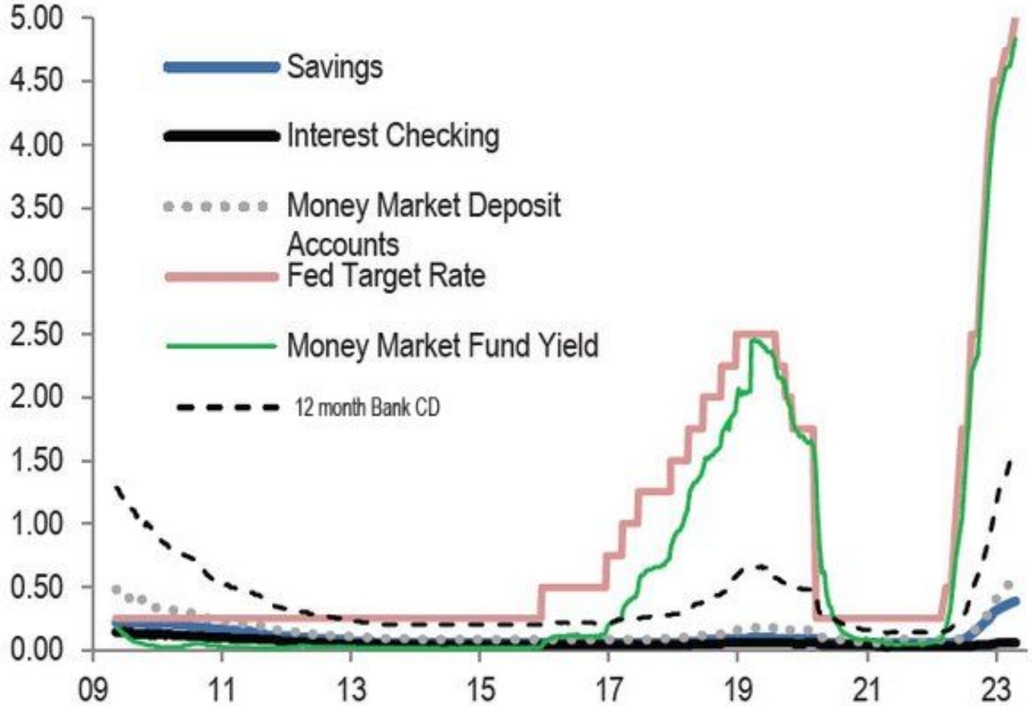
Historical CD Rates



Source: Company data, Federal Reserve, Morgan Stanley Research

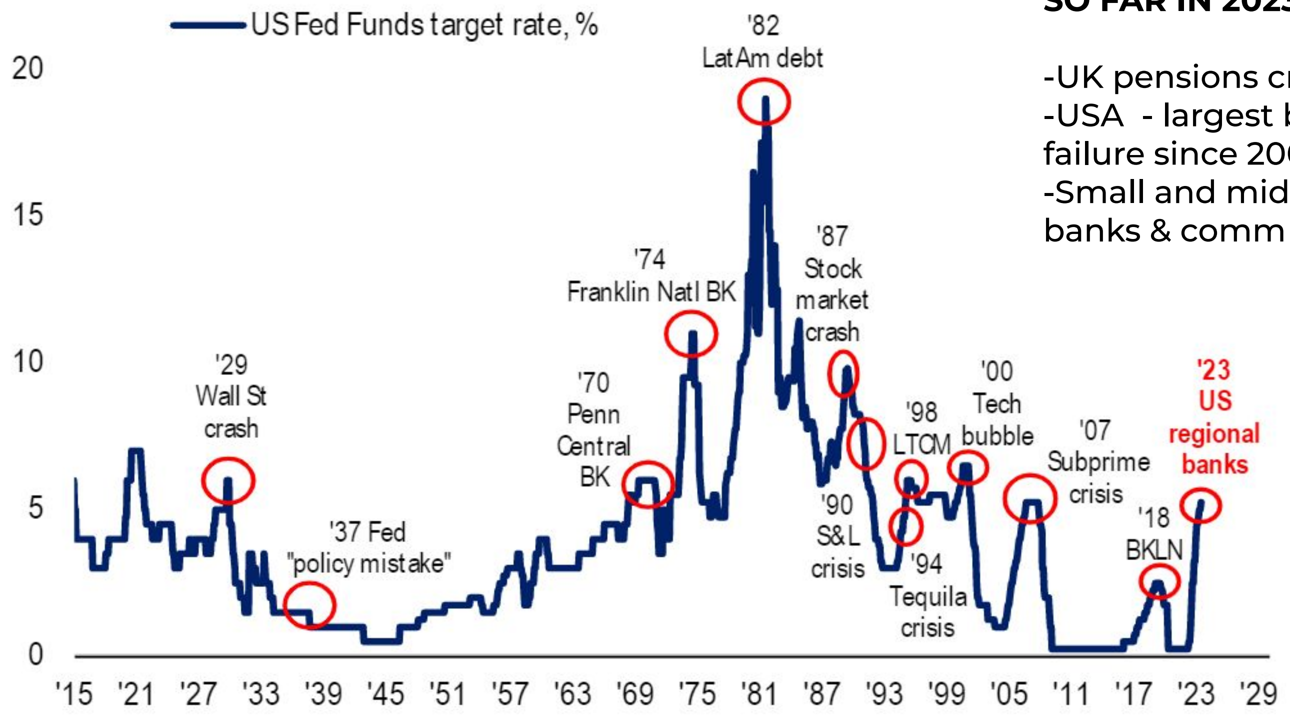
UNSUSTAINABLE SITUATION

Figure 11: US Money Market Fund yields vs US bank deposit rates



Source: FIDIC, J.P. Morgan.

FAST HIKING CYCLES: SOMETHING BREAKS



SO FAR IN 2023

-UK pensions crisis
-USA - largest bank failure since 2008
-Small and midsize banks & comm prop

REZCO SCENARIOS FOR 2023

SCENARIO	TRAJECTORY	OPTIMISTIC	BASE	FAT TAIL
	No Landing	**Soft Landing**	**Normal Recession**	**Hard Recession or Shock**
PROBABILITY	**15%**	**15%**	**45%**	**25%**
EARNINGS IMPACT	?	0% to 5%	-10% to -25%	-25% to -45%
DESCRIPTION	The Fed hasn't done enough to cool inflation, the market is pricing that the economy can operate with steep negative sloping yield curve, strong economic data, strong consumers and corporate earnings, high wage inflation, but declining CPI	Inflation falls to target while wages decelerate, corporates tighten up but profits are stable and balance sheets strengthened	The Fed needs a recession to break inflation, unemployment rises to curb wage increases, services inflation is stickier and requires a recession to cool demand	Something breaks due to: 1) impact of rapidly increased interest rates; or 2) geopolitical shock eg Taiwan/Ukraine and nuclear tensions; or 3) inflation remains sticky - Fed hasn't done enough

REZCO

HOW ARE THINGS PLAYING OUT IN SOUTH AFRICA?

CAUTION: LOAD SHEDDING CONVERSATION AHEAD!

FOOD24

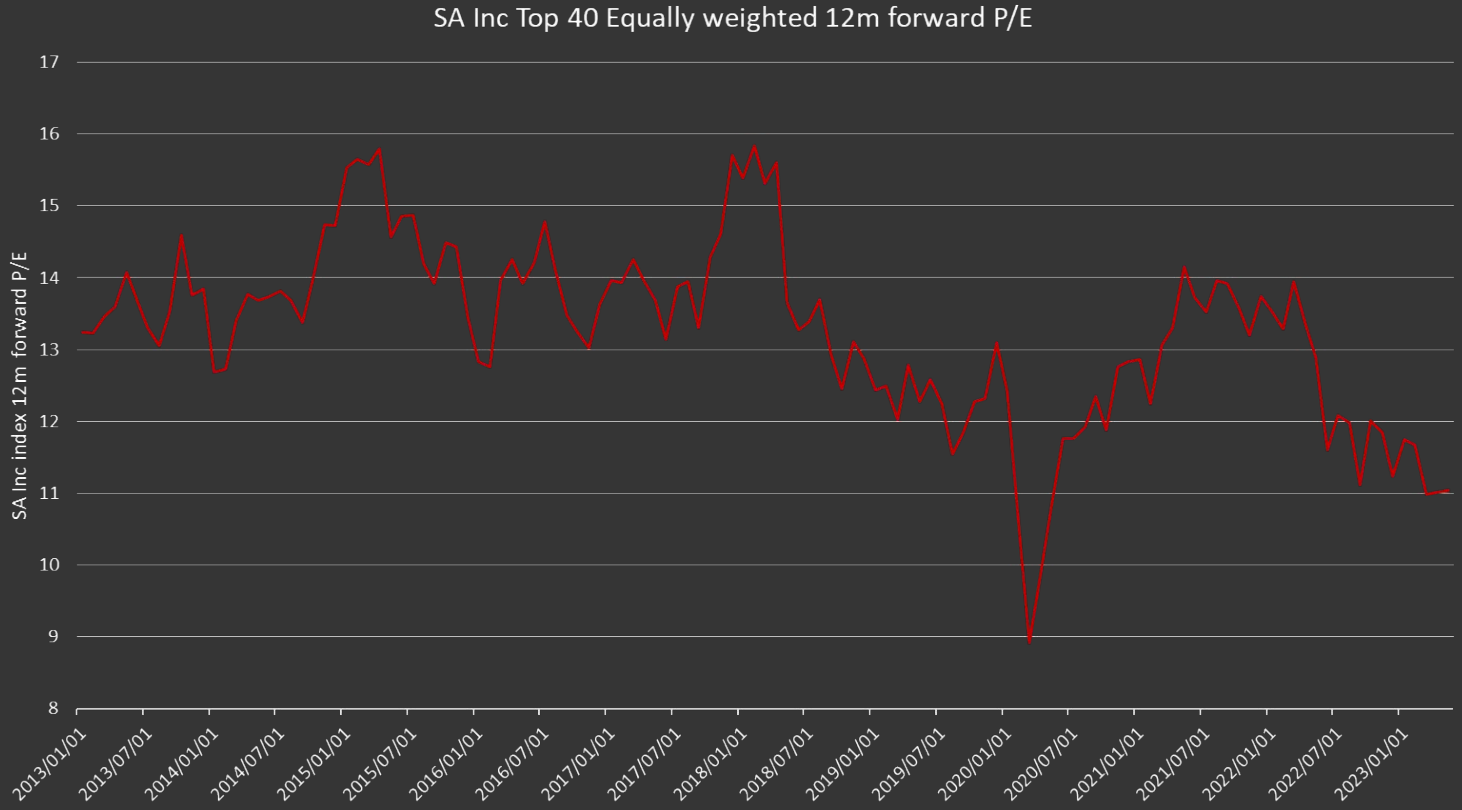
Don't be that guy at the braai – are you one of these 6 worst characters found around the fire?

by Katy Rose — October 12, 2018 in Features 0

"If we can just get through this winter then everything will be fine as solar rolls out" = wrong answer >>> NEED MORE DETAILED ANALYSIS

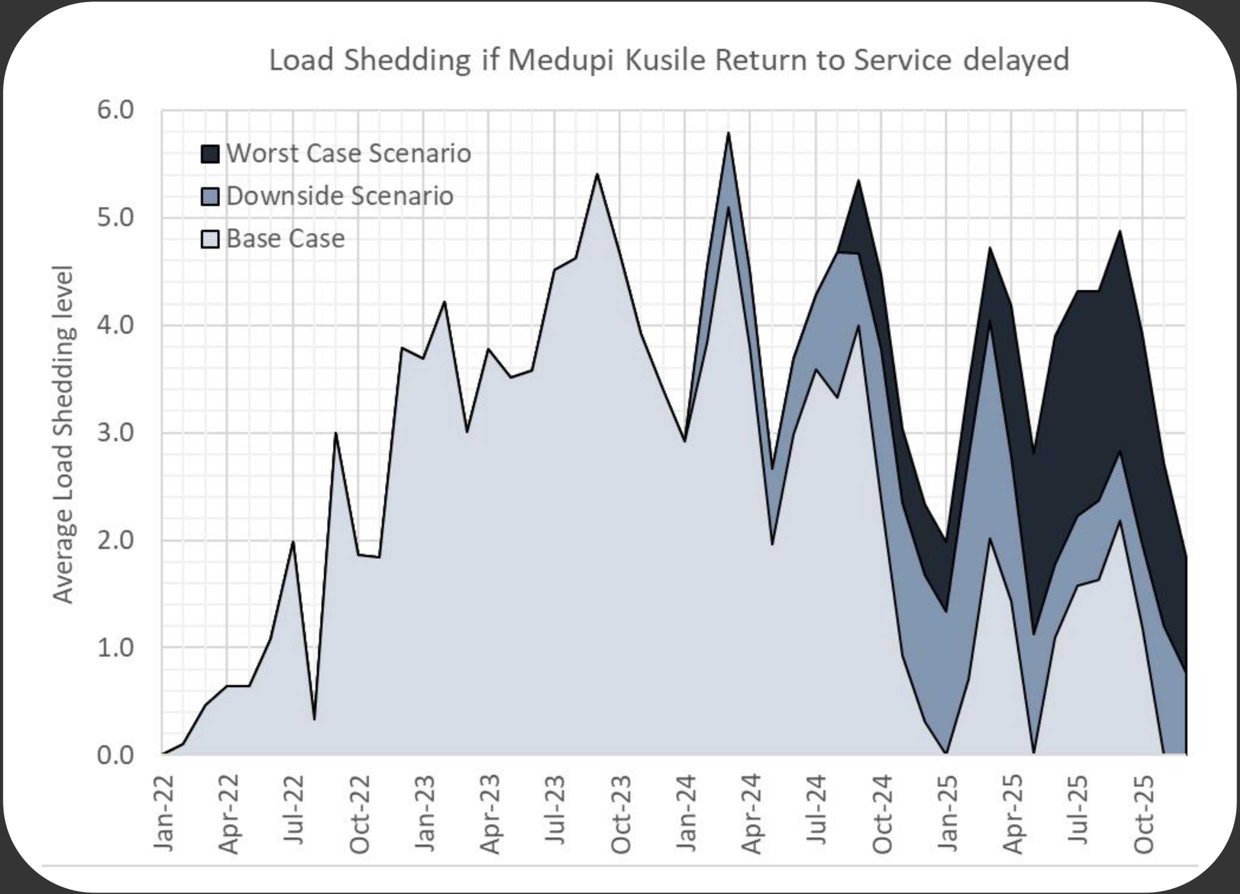
SA INC VALUE, OR VALUE TRAP

ENERGY SUPPLY IS KEY HERE



Source: Refinitiv Datastream. Construction: Equally weighted consensus forward P/Es of the largest 40 largest JSE stocks each month, excluding miners, oil, paper producers or where a majority of the stocks earnings are derived from outside South Africa.

CONSENSUS IS MAKING A BIG ASSUMPTION



Base Case:

- Medupi # 4 back
  - Oct 2024
- Kusile # 1-3 back
  - Feb 2024
  - Aug 2024
  - Feb 2025

Downside scenario:

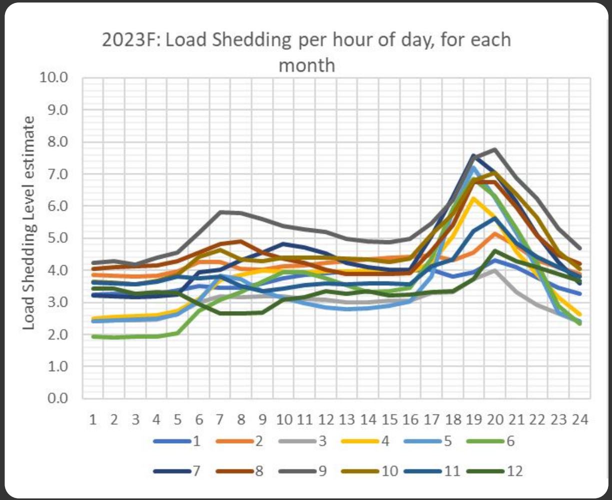
- Medupi # 4 back
  - Apr 2025
- Kusile # 1-3 back
  - Sept 2024
  - May 2025
  - Jan 2026

Worst Case:

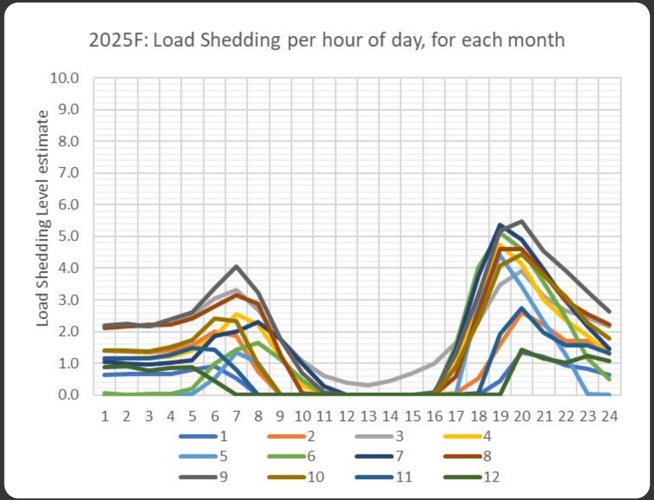
- No failed units back by Dec 2025
- (Kusile # 5,6 both on during 2024)

SOLAR WILL HELP PROTECT THE ECONOMY IN 2025

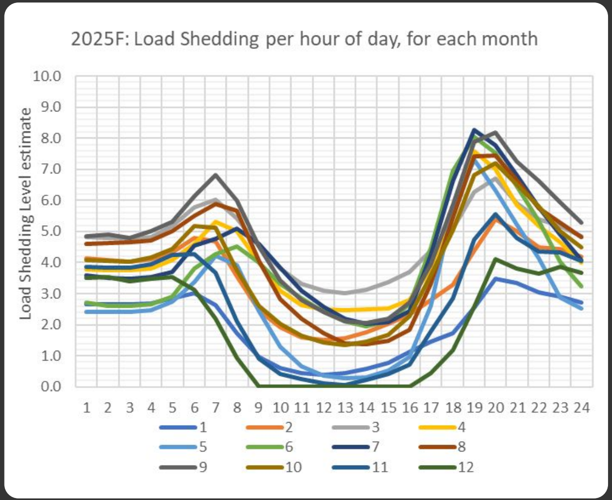
Base Case 2023



Base Case 2025



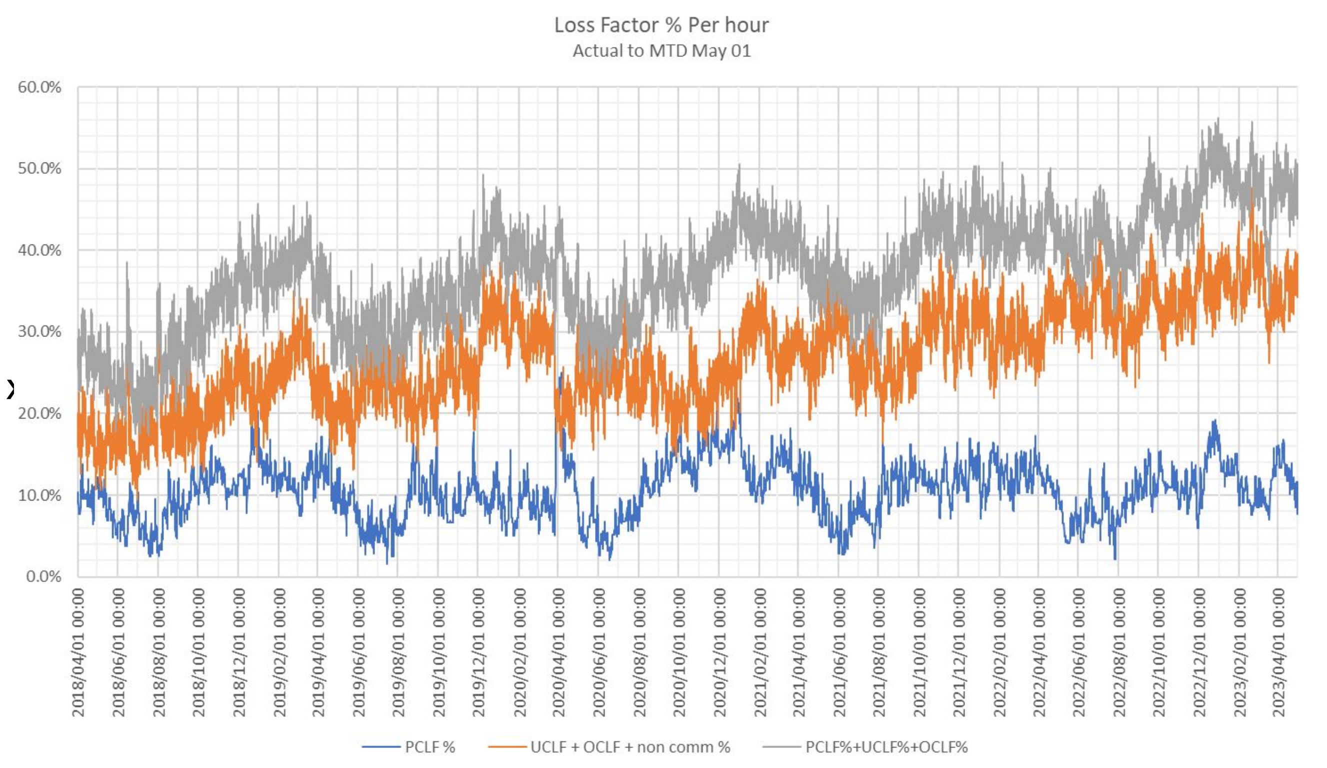
Worst Case 2025



The PV fallacy: PV does reduce load shedding **during daylight hours** (i.e, a good thing)

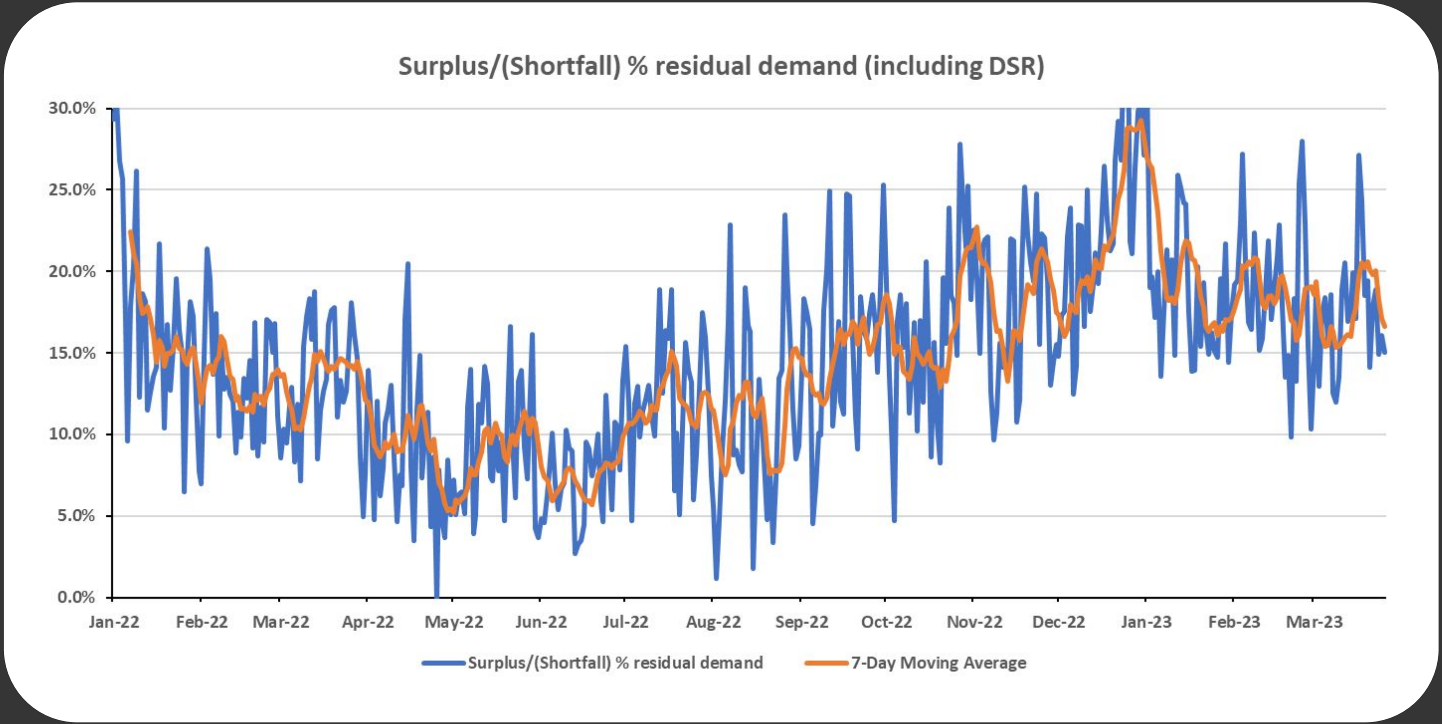
But at 8pm, load shedding in 2025 will be up to **level 5 (base case), or worst case level 8**

THE SYSTEM IS DETERIORATING NOT MEAN REVERTING



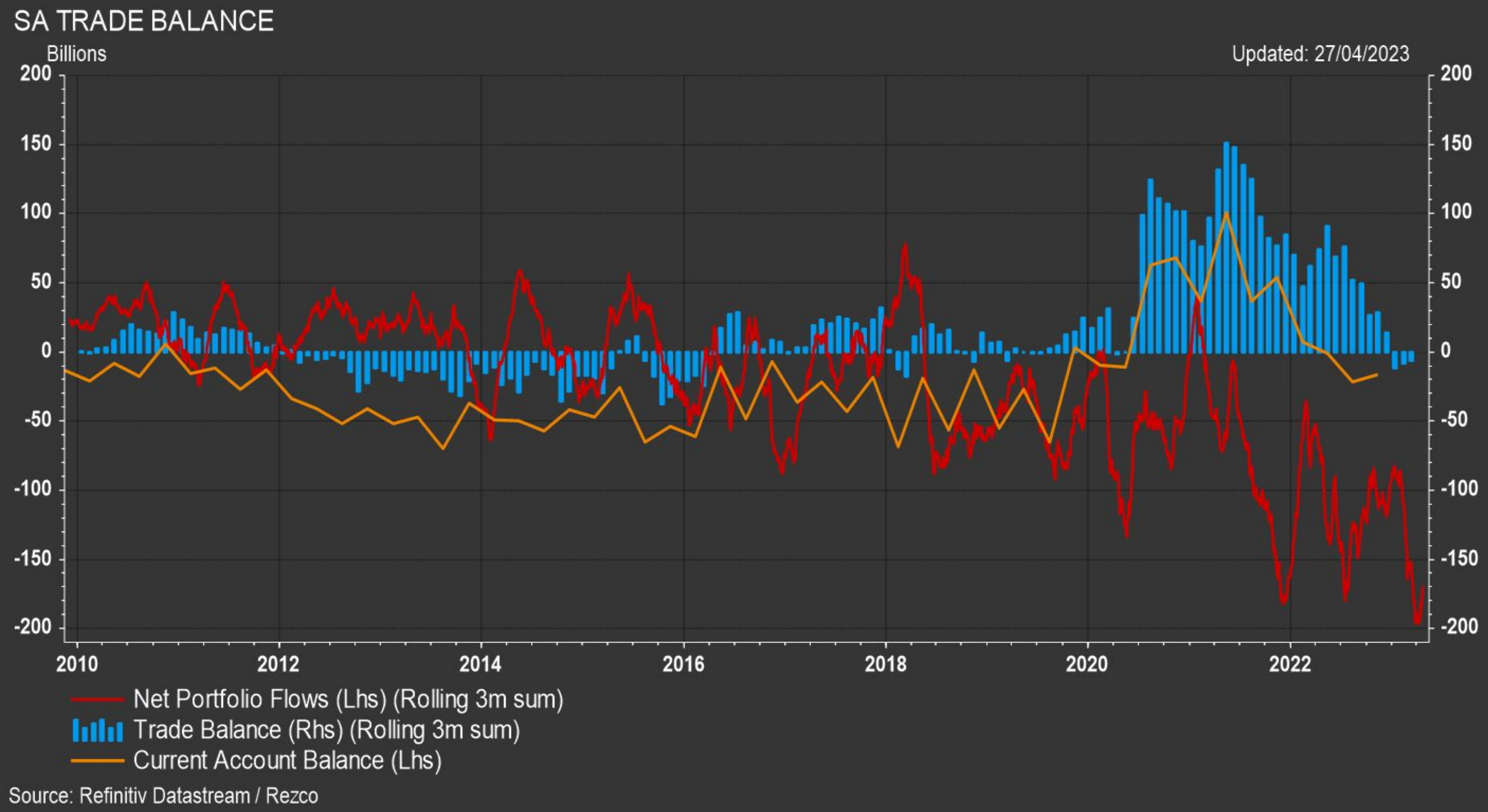
GRID RISK IS THE FAT TAIL

YTD 2023 TSO has maintained total reserve* of 15%



* note: Total Reserve = Operating Reserve + Emergency Reserve + Supplemental Reserve

THE BIG PICTURE ON THE ZAR



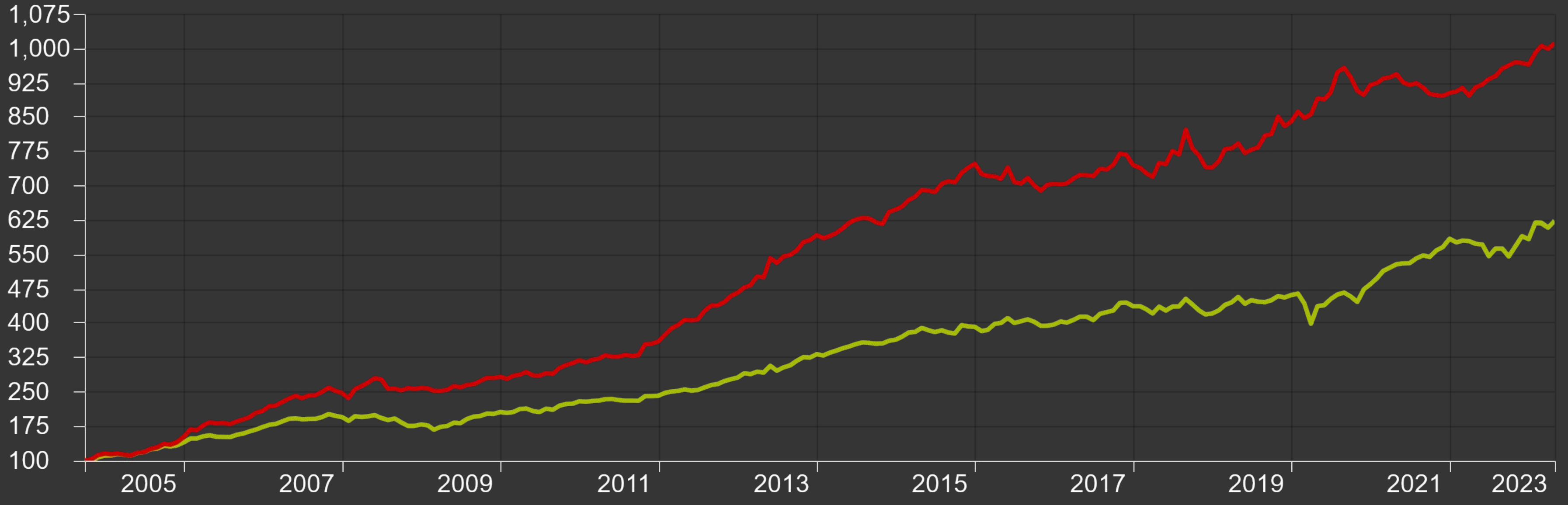
REZCO

WHY BE FLEXIBLE?

LONG TRACK RECORD OF MANAGING RISKS THROUGH DIVERGENT SCENARIOS

Time Period: Since Common Inception (10/1/2004) to 4/30/2023

Currency: South African Rand   Source Data: Total Return

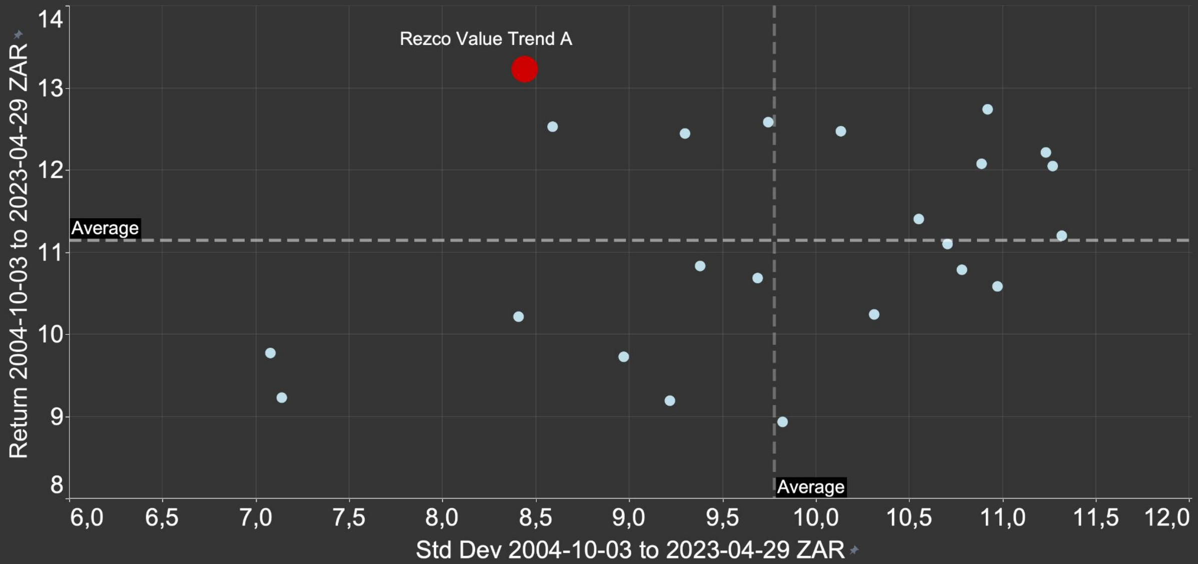


Rezco Value Trend A 1,011.9 ASISA SA MA High Equity 623.9

Source: Morningstar Direct

REZCO VALUE TREND FUND

SINCE COMMON INCEPTION VS PEER GROUP



Time Period: Since Common Inception (2004/10/01) to 2023/04/30 Source Data: Total, Monthly Return Peer Group: Funds - ASISA Sector (South Africa) - (ASISA) South African MA High Equity

	Total Return	Std Dev	Max Drawdown	Max Drawdown Months to Recovery	Down Capture Ratio	Up Capture Ratio	Sortino Ratio
Rezco Value Trend A	13.3	8.7	-10.1	10	19.3	53.9	1.3
FTSE/JSE All Share	14.2	15.4	-40.4	20	100.0	100.0	0.8
(ASISA) South African MA High Equity	10.4	8.2	-16.8	8	40.7	55.9	0.6

Source: Morningstar Direct

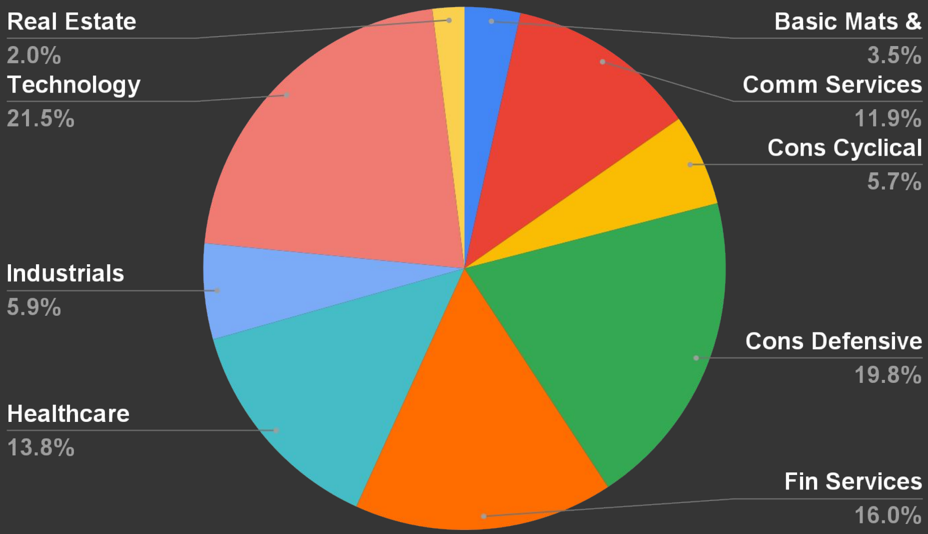
FUNDS POSITIONED FOR MANAGING RISK

	Managed Plus	Value Trend	Stable	SA Equity	Global Flexible
SA Equity	24%	16%	16%	95%-97%	
Global Equity	24%	11%	7%		43%
Total Equity	48%	26%	23%		43%
SA Gov Bonds (Duration)	22%	29%	31%		
SA Floating Rate Notes & Cash	9%	16%	27%		
Global Short Duration	17%	25%	15%		57%
alis AI Market Neutral Fund	4%	4%	4%		
Direct Offshore	45%	40%	27%		

GLOBAL EQUITY EXPOSURE

100% BASIS

Sector Allocation

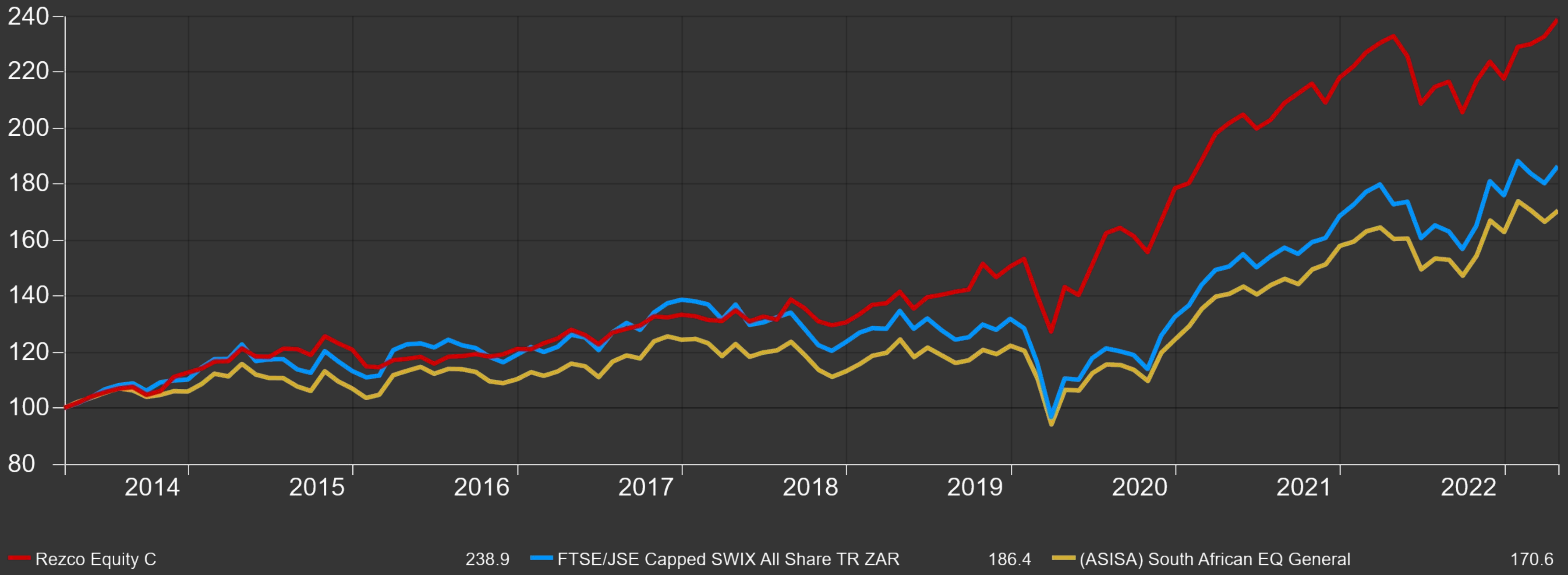


FACTOR	METRIC
12 Month Forward PE	19.7
EPS Growth FY1-FY2	13.7%
3 Month EPS Revisions FY1	9.6%
Debt / MV	20.7%
FCF Yield	6.6%
Ex Ante Beta	1.08
alis Machine Learning Score	75

REZCO EQUITY FUND SINCE INCEPTION

Time Period: Since Common Inception (4/1/2014) to 4/30/2023

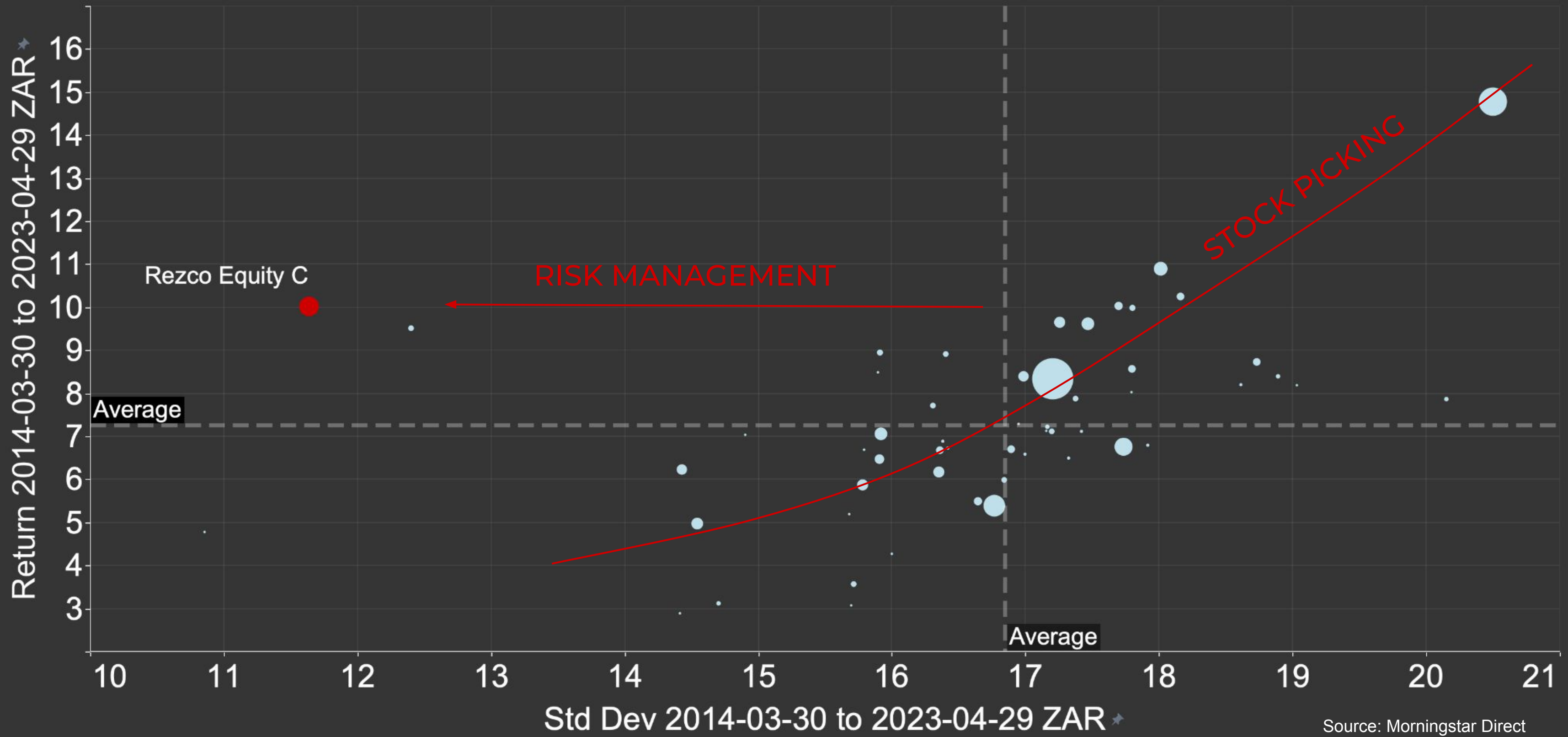
Currency: South African Rand   Source Data: Total Return



Source: Morningstar Direct

REZCO EQUITY FUND

Funds in the ASISA SA Equity General category (SA Only Mandates)



Source: Morningstar Direct

Weekly Frequency Data

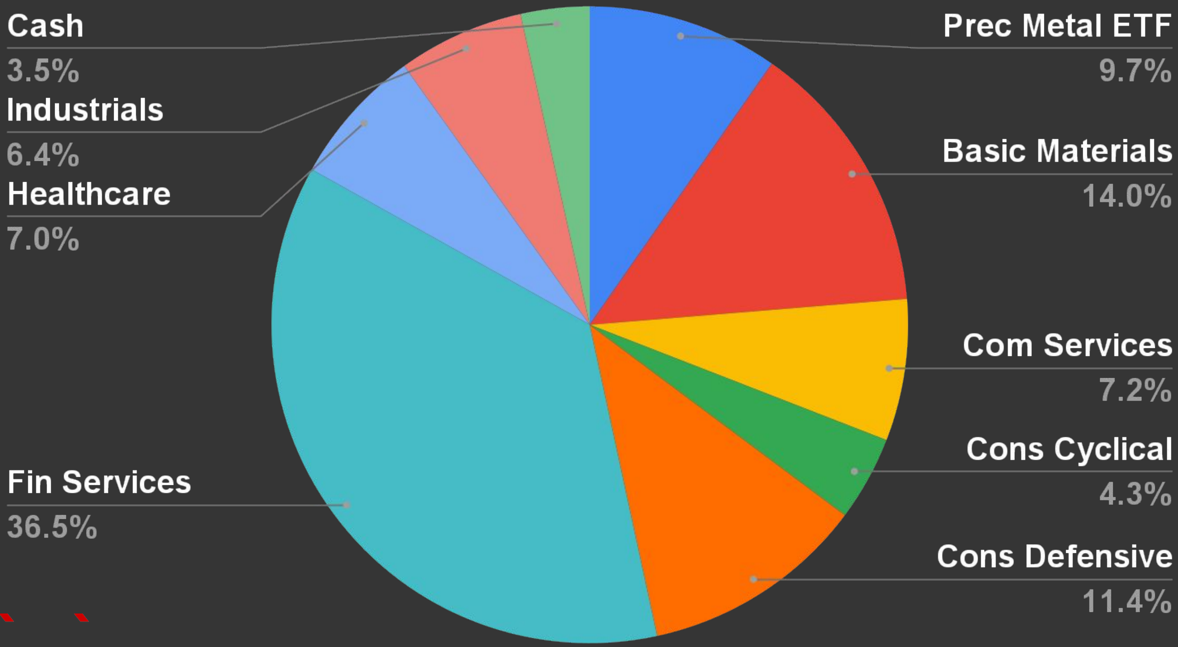
THE DANGERS OF THE CAPPED SWIX

ANG(USD) & GFI(USD) VS GLOBAL GOLD SHARES

SA EQUITY EXPOSURE

REZCO EQUITY FUND

SECTOR ALLOCATION



FACTOR	METRIC
12 Month Forward PE	11.1
EPS Growth FY1-FY2	10.8%
3 Month EPS Revisions FY1	1.40%
Debt / MV	27.1%
Ex Ante Beta	0.77

REZCO SCENARIOS FOR 2023

SCENARIO	TRAJECTORY	OPTIMISTIC	BASE	FAT TAIL
	No Landing	**Soft Landing**	**Normal Recession**	**Hard Recession or Shock**
PROBABILITY	**15%**	**15%**	**45%**	**25%**
EARNINGS IMPACT	?	0% to 5%	-10% to -25%	-25% to -45%
DESCRIPTION	The Fed hasn't done enough to cool inflation, the market is pricing that the economy can operate with steep negative sloping yield curve, strong economic data, strong consumers and corporate earnings, high wage inflation, but declining CPI	Inflation falls to target while wages decelerate, corporates tighten up but profits are stable and balance sheets strengthened	The Fed needs a recession to break inflation, unemployment rises to curb wage increases, services inflation is stickier and requires a recession to cool demand	Something breaks due to: 1) impact of rapidly increased interest rates; or 2) geopolitical shock eg Taiwan/Ukraine and nuclear tensions; or 3) inflation remains sticky - Fed hasn't done enough

FLEXIBILITY THROUGH VOLATILITY

Key points to wrap up

- **Decreasing** our probability of a recession this year
- **Increasing** the probability of a negative tail event
- **The market is over-discounting** a soft landing or a soft Fed
- We see the Fed taking action and hiking in H2 vs market pricing in rate cuts (absent a banking crisis)
- **Strong economic data and sticky inflation** will not be tolerated by the Fed
  - we see the disconnect between bond and equity markets resolving through higher yields, flatter yield curve and lower equity prices
- **It is important for investors to stay flexible**
  - **the high probability outcomes are divergent**, with no option for the average - must be able to handle all probable outcomes

REZCO

THANK YOU

Please stay for our usual ‘coffee chat’

REZCO

DISCLAIMER

PRESERVING CAPITAL* & CREATING WEALTH.

*While the portfolio manager will attempt to minimise risk, it is possible that the investor could incur losses, including the loss of principal invested.

This presentation does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it would be unlawful to make such offer or solicitation and is only intended for the use of the original recipient/addressee. If further distributed by the recipient, the recipient will be responsible for ensuring that such distribution does not breach any local investment legislation or regulation.

The information in this material may pertain to the C-Class of the funds available for investment to authorised financial institutions who invest in the funds on behalf of their clients at the fee rate applicable to C-Class. This material is intended only for financial institutions in order to provide them with appropriate information concerning the Fund as it is relevant for their clients. Information concerning the most expensive class of the Fund and its fee may, therefore, not be used in this material but is available from the Manager on request.

Opinions expressed are current opinions as of the date appearing in this material only. The information is confidential and intended solely for the use of Rezco Asset Management's clients and prospective clients, and other specific addressees. It is not to be reproduced or distributed to any other person except to the client's professional advisers.

All data, models and tests are sourced from Rezco Asset Management unless otherwise stated. While the information obtained is from sources we believe to be reliable, Rezco Asset Management does not guarantee the accuracy or completeness thereof. Same as may be provided under law, Rezco Asset Management does not accept any liability for inaccurate or incomplete information contained or for the correctness of any opinions expressed.

Prospective investors should inform themselves and take appropriate advice as to any applicable legal requirements and any applicable taxation and exchange control regulations in the countries of their citizenship, residence or domicile, which might be relevant to the subscription, purchase, holding, exchange, redemption or disposal of any investments.

While the portfolio manager will attempt to minimise risk, the value of investments in discretionary accounts and the income derived from those investments may fluctuate, and it is possible that the investor could incur losses, including the loss of principal invested. Past performance is not necessarily indicative of future performance. An investor whose reference currency differs from that in which the fund or segregated account is denominated may be subject to exchange rate movements, which may cause fluctuations in the value of their investments. In addition, investments involving exposure to a currency other than that in which the segregated account or Fund is denominated may also cause values to fluctuate.