

REZCO

IS EVERYTHING A RISK ASSET?

ROB SPANJAARD
SIMON SYLVESTER
BRIAN DU PLESSIS

| CIO
| CO-PM & CEO
| HEAD OF DISTRIBUTION

REZCO WEBINAR: OCTOBER 2022



REZCO

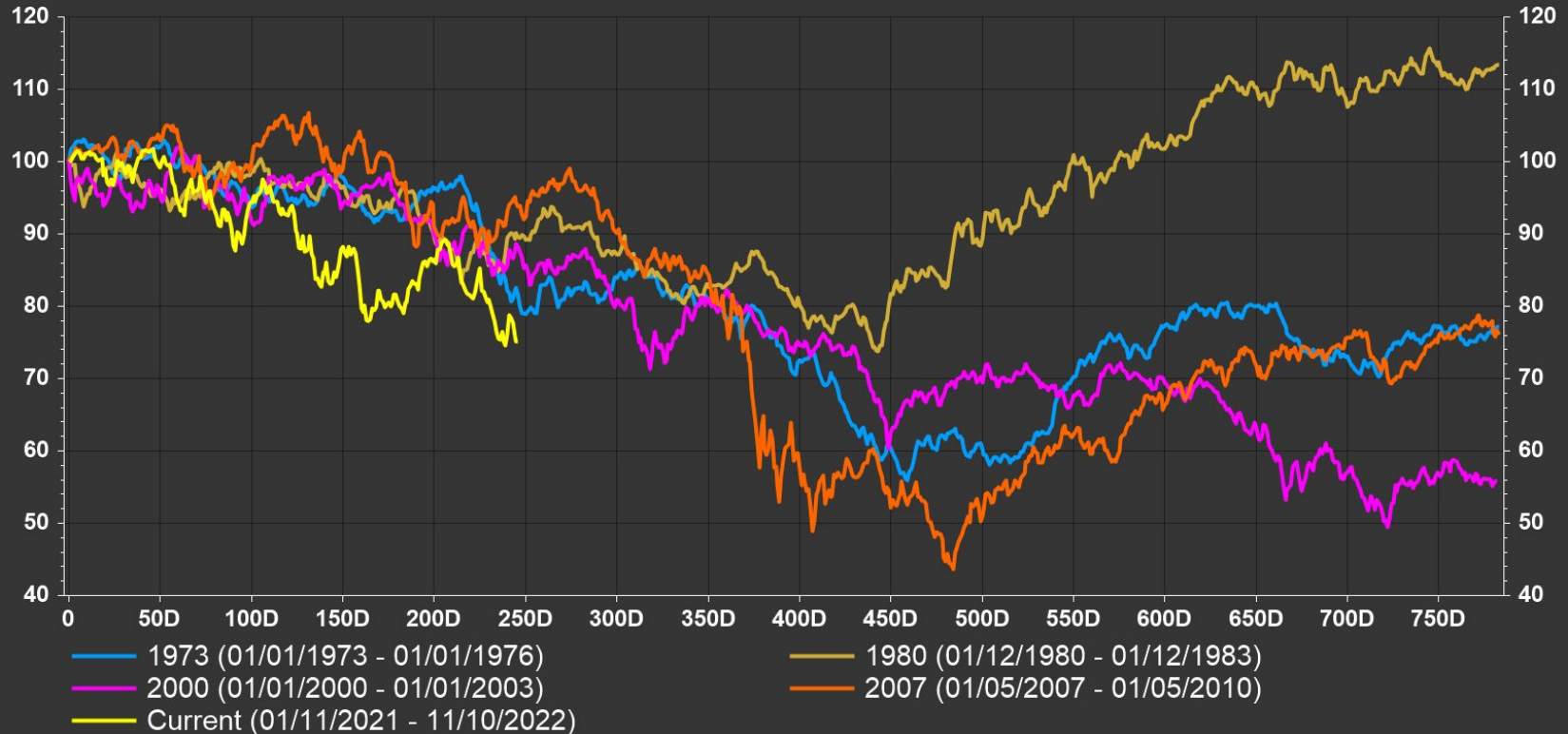
EQUITY BEAR MARKET

BOND BEAR MARKET



MSCI WORLD - GLOBAL BEAR MARKET

MSCI WORLD THROUGH RECESSIONS (REBASED)



Source: Refinitiv Datastream / Rezco

GLOBAL EQUITY BEAR MARKET

MSCI WORLD

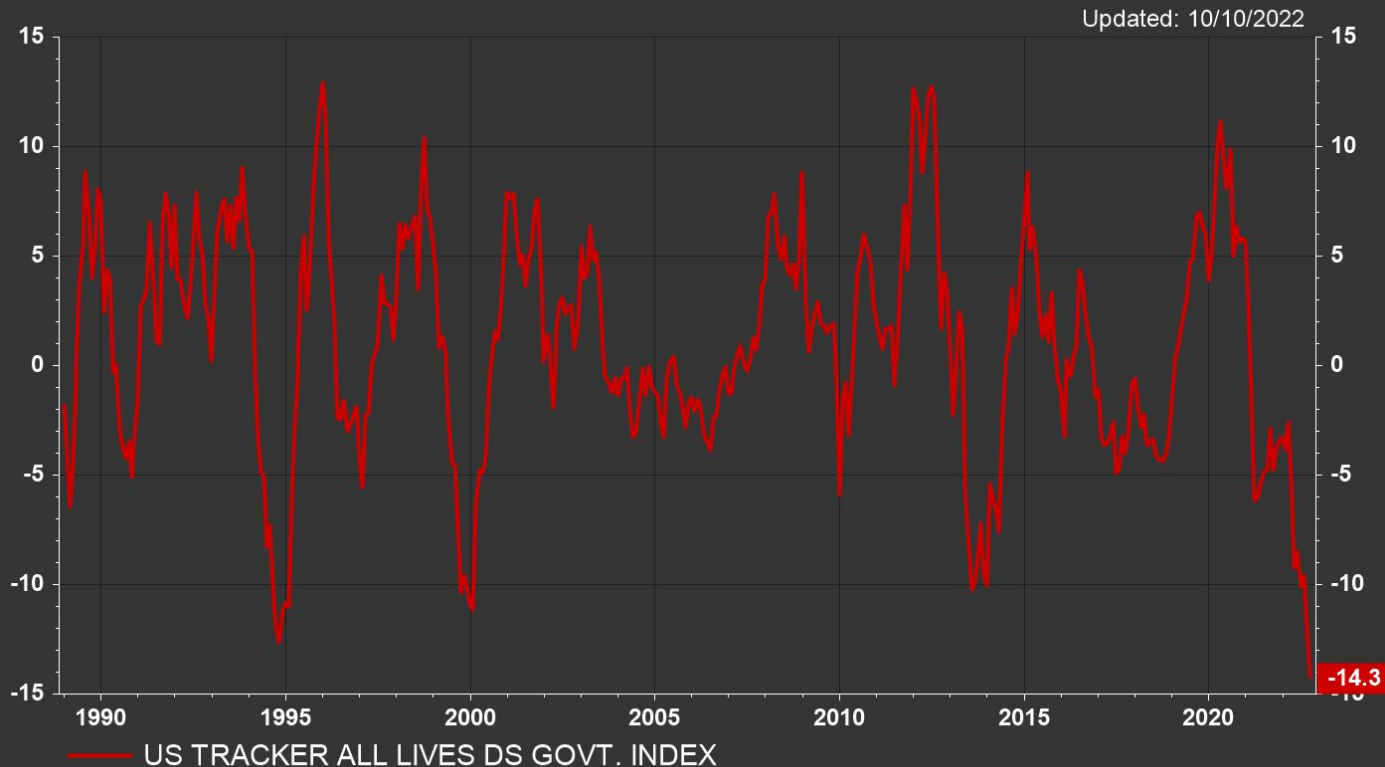
PRICE CHANGE



Source: Refinitiv Datastream / Rezco

PROBABLY NEAR THE END OF THE BOND BEAR MARKET (FOR TOP QUALITY GOVT DEBT)

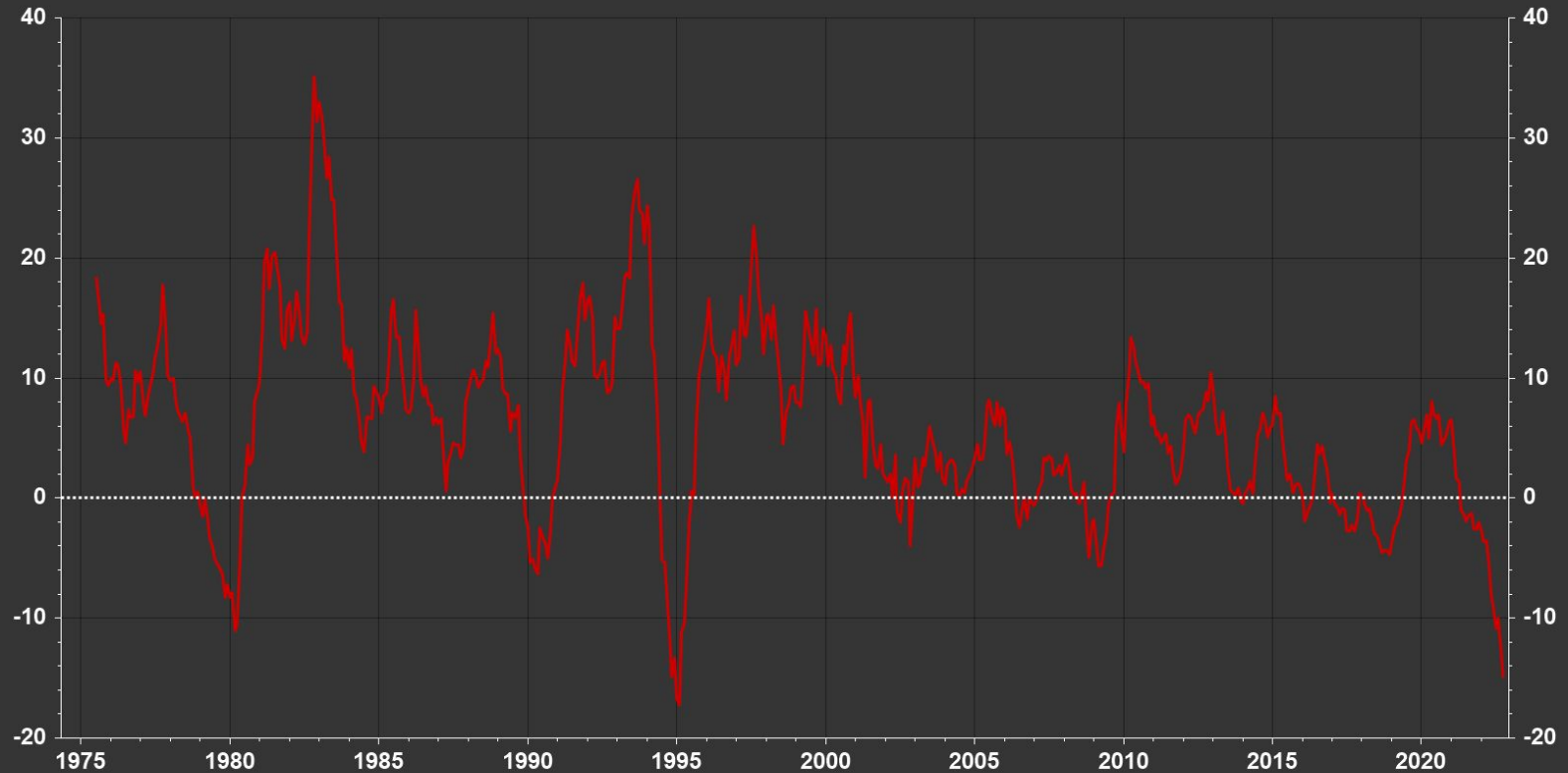
US Bond Market (YoY% Change)



Source: Refinitiv Datastream / Rezco

GLOBAL BOND BEAR MARKET

Large Global Return Bond Fund (YoY% change)



Source: Refinitiv Datastream / Rezco

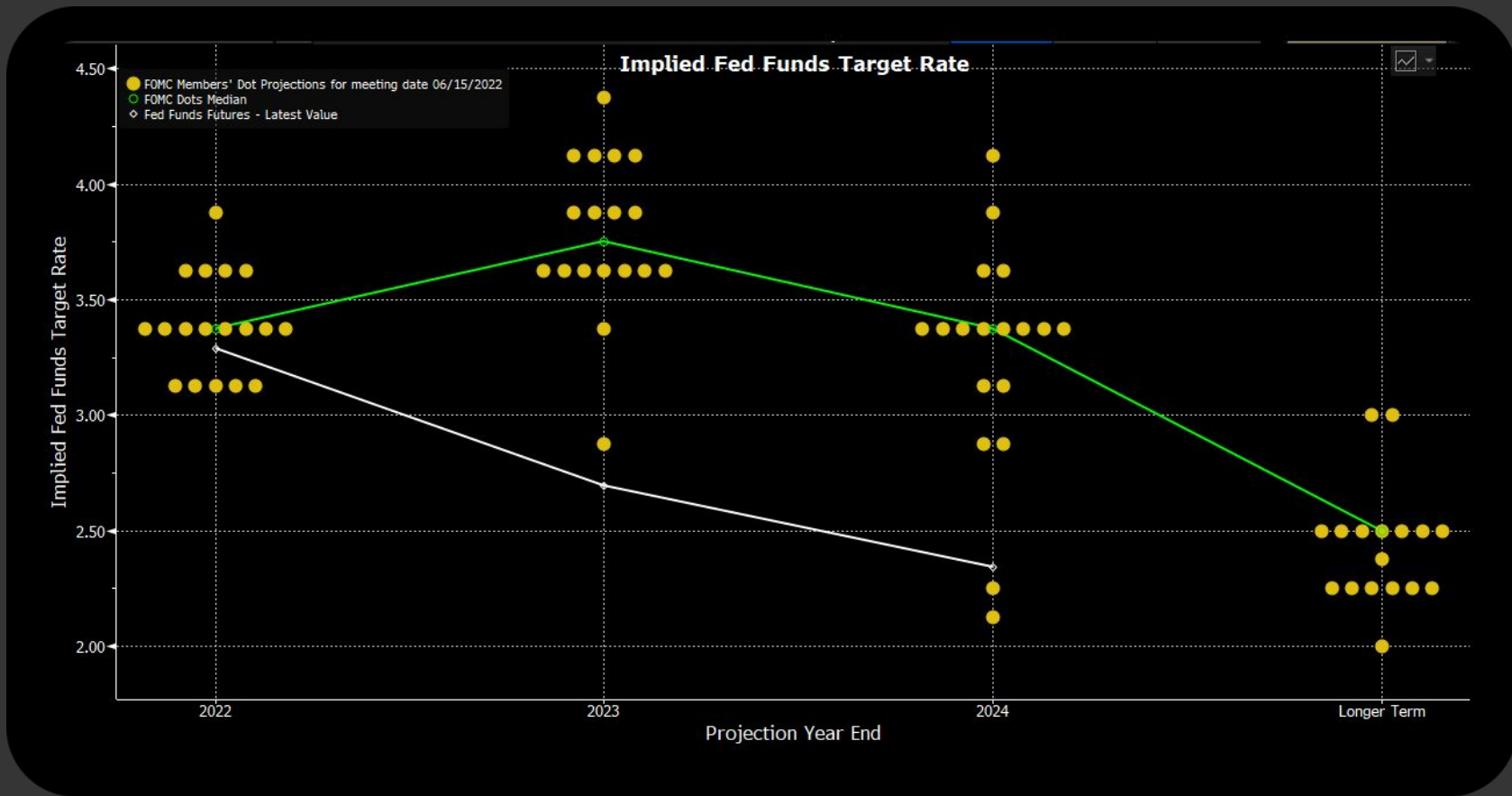
Updated: 10/10/2022

REZCO

ZOOMING OUT

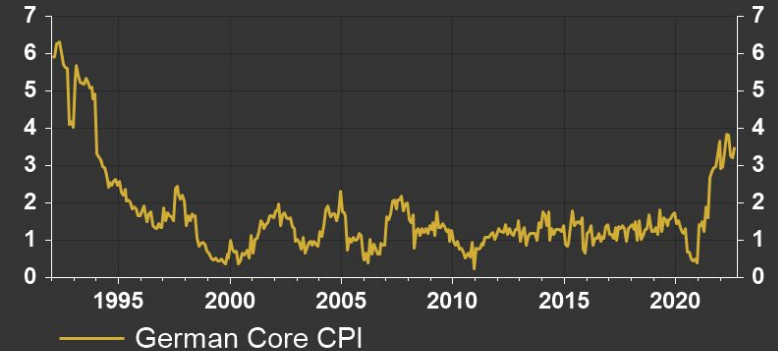
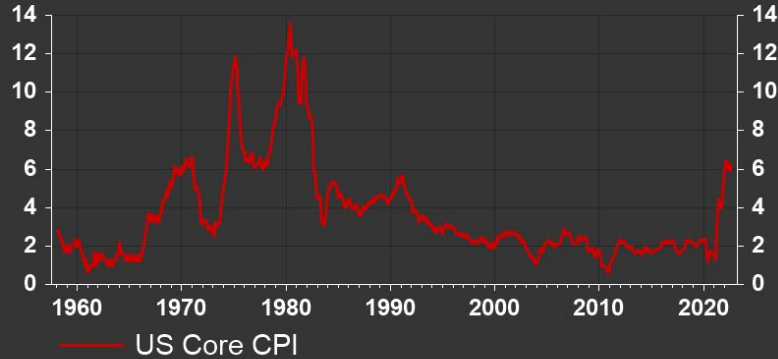


THE MARKET WAS BETTING AGAINST THE FED IN AUGUST 2022



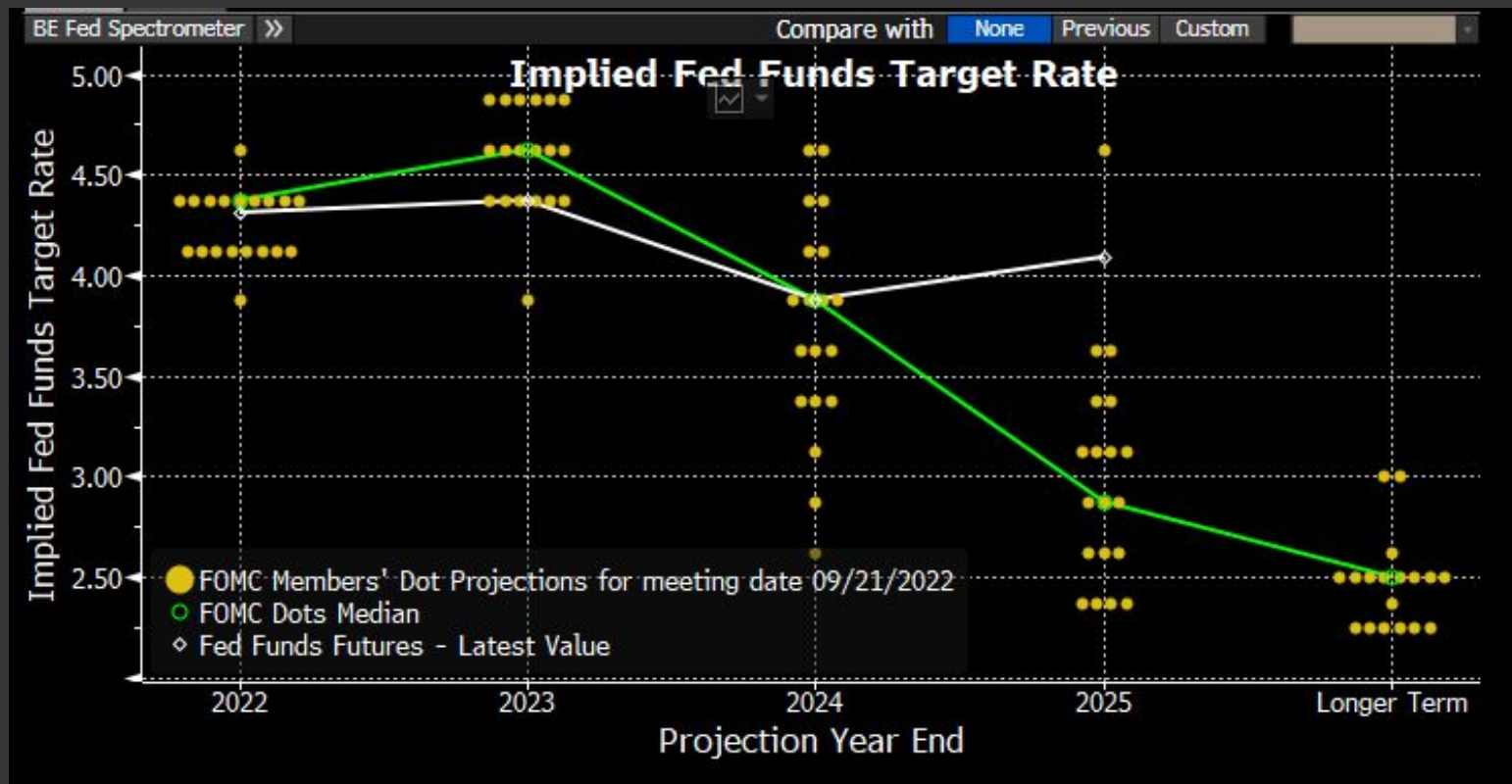
INFLATION IS STILL VERY HIGH

CORE CPI ACROSS DEVELOPED MARKETS (YoY%)



Source: Refinitiv Datastream / Rezco

IN SEPT THE FED GOT A WHOLE LOT MORE HAWKISH THE MARKET ARE NOW BELIEVERS



INFLATION IS EXPECTED TO FALL

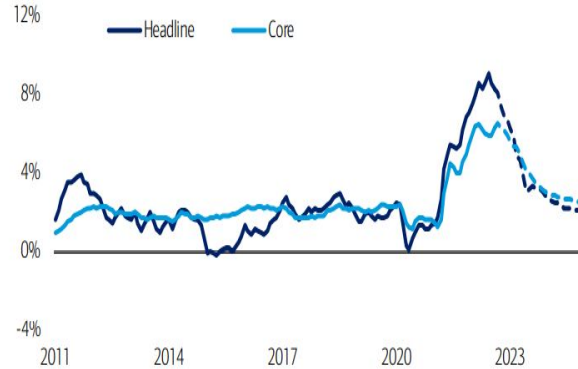
BY REZCO AND EVERYONE ELSE

Core CPI YoY



Exhibit 1: Headline and core CPI inflation (%yoy, dotted lines = forecasts)

We forecast CPI inflation to fall over the course of our forecast horizon



Source: Bureau of Labor Statistics, Haver Analytics, BoFA Global Research

BoFA GLOBAL RESEARCH

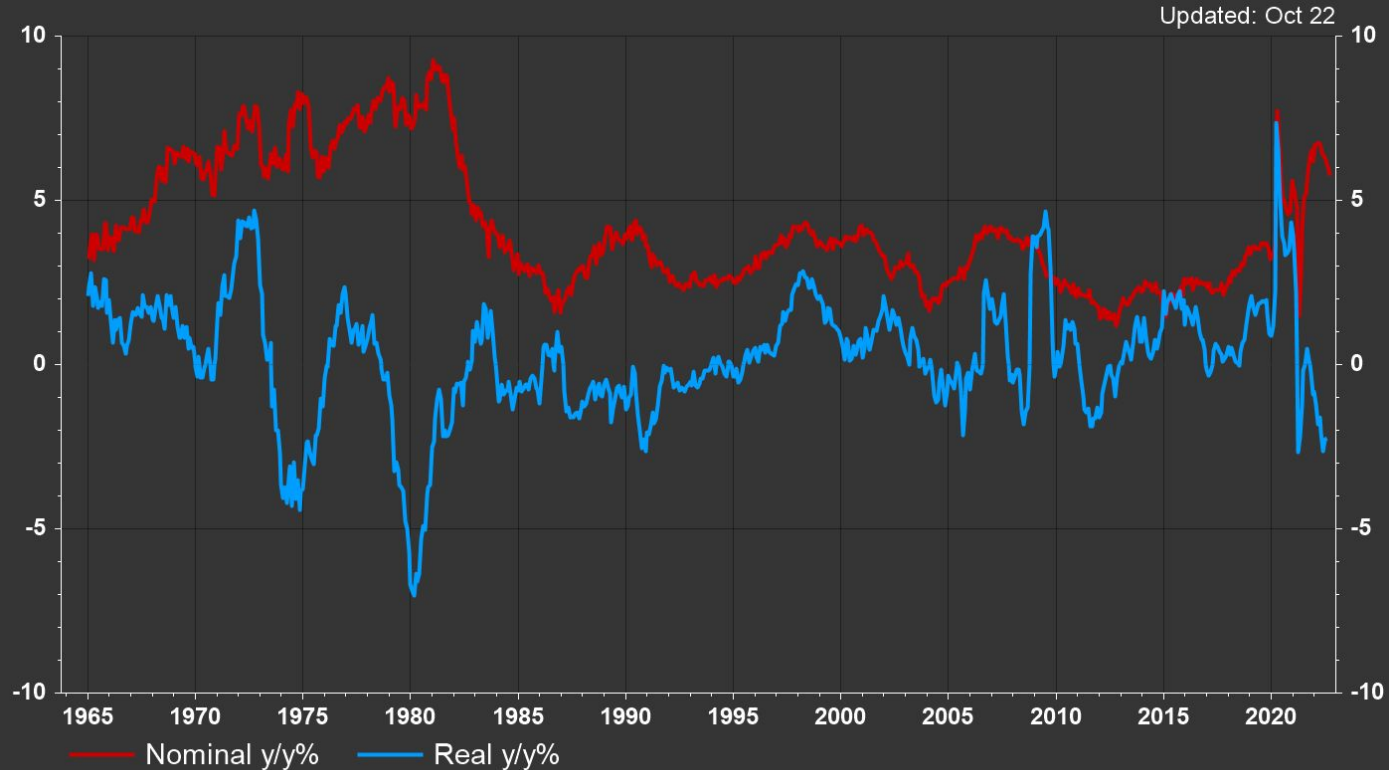
Jun-21 Dec-21 Jun-22 Dec-22 Jun-23 Dec-23

Headline CPI Inflation 12M Headline CPI Inflation 3M
Core CPI Inflation 12M Core CPI Inflation 3M

Morgan Stanley

OVERHEATED LABOUR MARKET: WHAT REALLY WORRIES THE FED

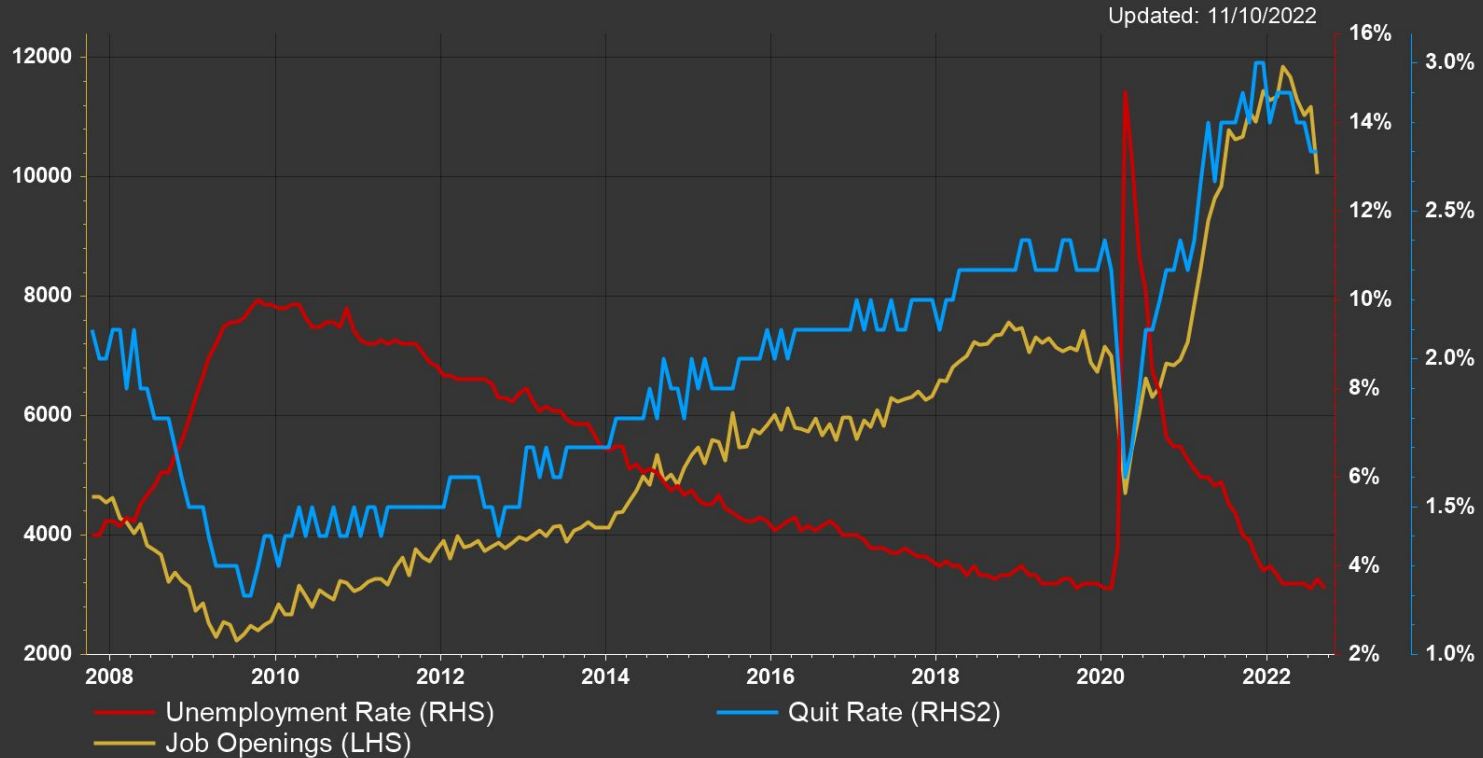
AVERAGE HOURLY EARNINGS (NON-FARM)



Source: Refinitiv Datastream / Rezco

THE FED HAVE MADE IT CLEAR THE IMBALANCE WORRIES THEM AND THEY WILL KEEP SQUEEZING UNTIL IT IS GONE

US Job Market



Source: Refinitiv Datastream / Rezco

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BOND OPPORTUNITIES ARE
BEING CREATED BY:
PANIC, OVERSOLD MARKETS,
FEAR, QT & LOW LIQUIDITY

BOND MARKETS MIGHT BE BOTTOMING HERE

YTD DEVELOPED MARKET 10 YEAR GOVERNMENT BOND RETURN (USD)

Updated: 10/10/2022

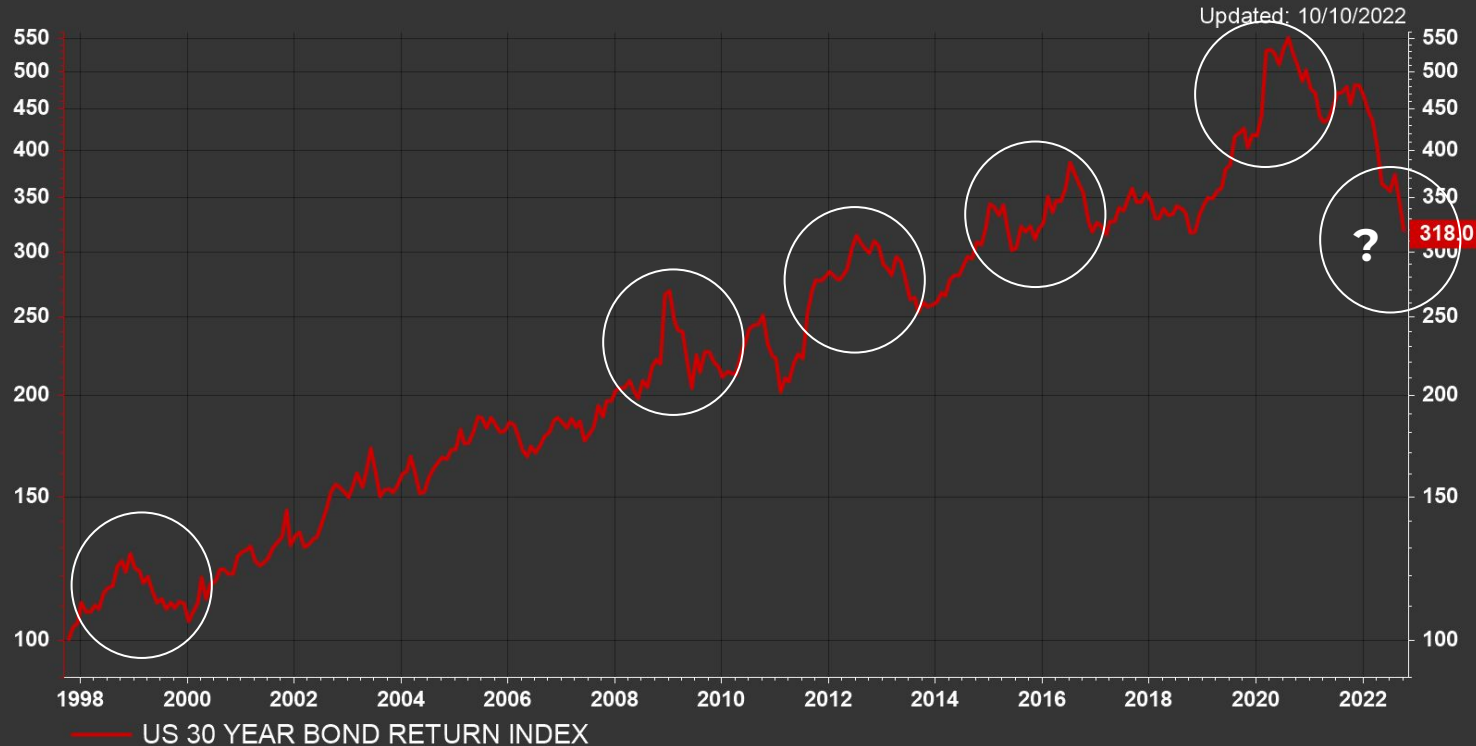


Source: Refinitiv Datastream / Rezco

TREASURIES USUALLY RALLY IN A CRISIS

CURRENT BEHAVIOUR IS A CONCERN

US 30 YEAR BOND RETURN INDEX



Source: Refinitiv Datastream / Rezco

US TREASURIES ARE A BETTER RISK THAN EQUITIES

Scenario 1: Soft Landing (mild recession)

- > Bonds rally, but equities outperform

Scenario 2: Hard landing (tough recession)

- > Equities fall due to falling profit, bonds rally due to falling inflation

Scenario 3: Something breaks

- > Equities crash, US Treasuries bailed out by Fed if needed

Scenario 4: Geopolitical escalation

- > Equities crash, flight to safety of US Treasuries

Scenario 5: Inflation is sticky

- > Equities bear market continues, Fed hawkishness keeps long bonds in check

**UNLESS TREASURIES ARE PART OF THE PROBLEM AT THE MOMENT
THEN SOMETHING REALLY BAD MAY HAPPEN IN MARKETS**

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GLOBAL EQUITY
VALUATIONS ARE BACK TO
NEUTRAL

WORLD EQUITY MARKETS

VALUATIONS HAVE NORMALISED

PE

Updated: 10/10/2022

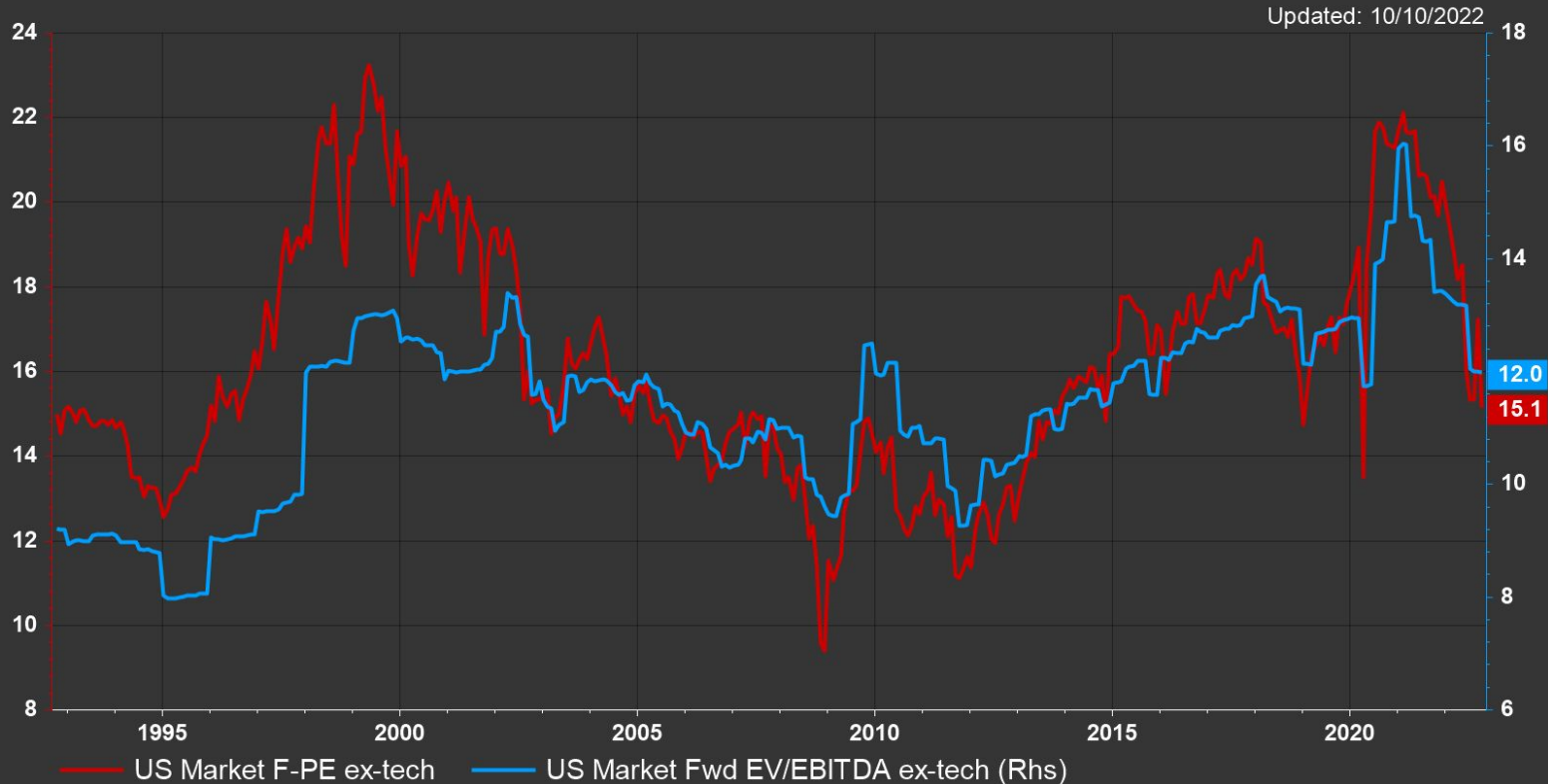


— MSCI World PE

Source: Refinitiv Datastream / Rezco

USA EQUITY: VALUATIONS HAVE NORMALISED

F-PE vs FWD EV/EBITDA

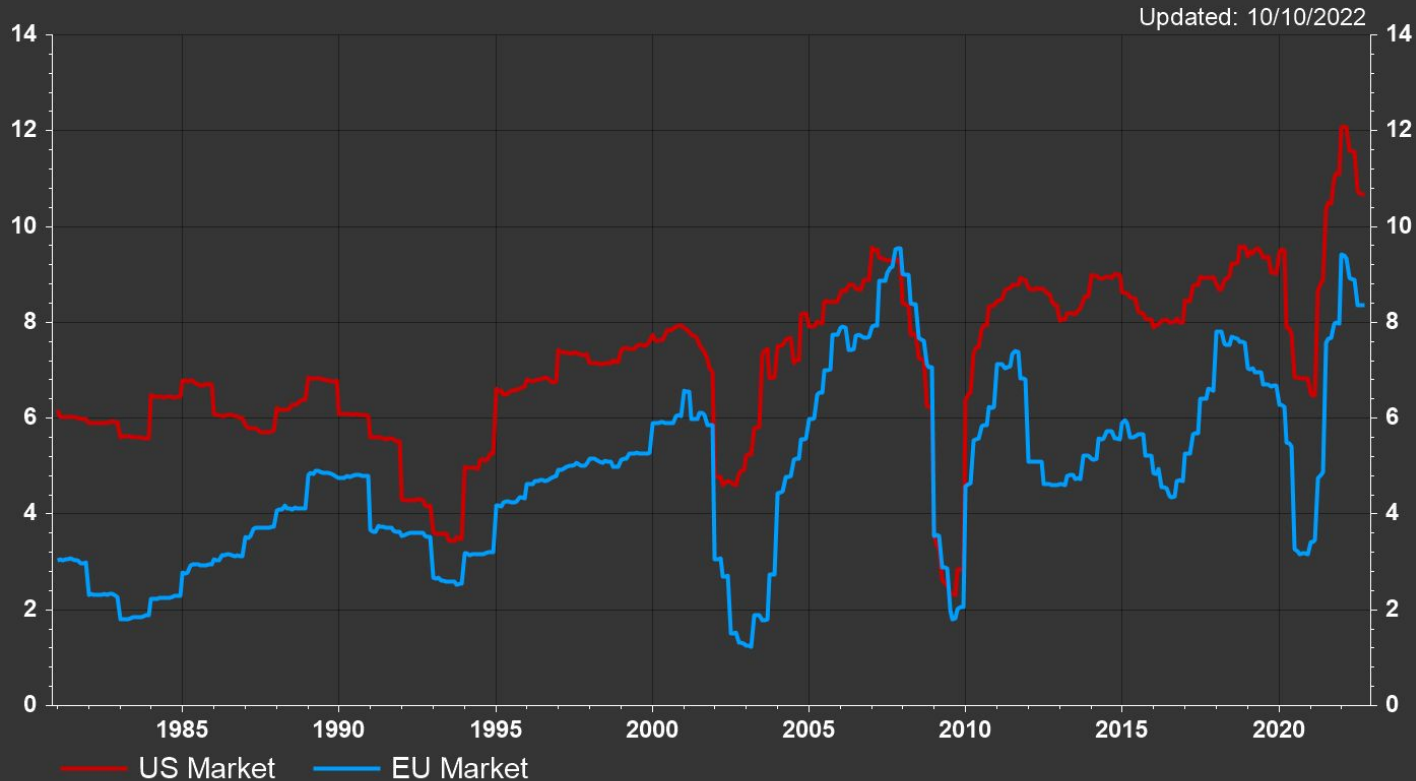


Source: Refinitiv Datastream / Rezco

CORPORATE PROFIT MARGINS

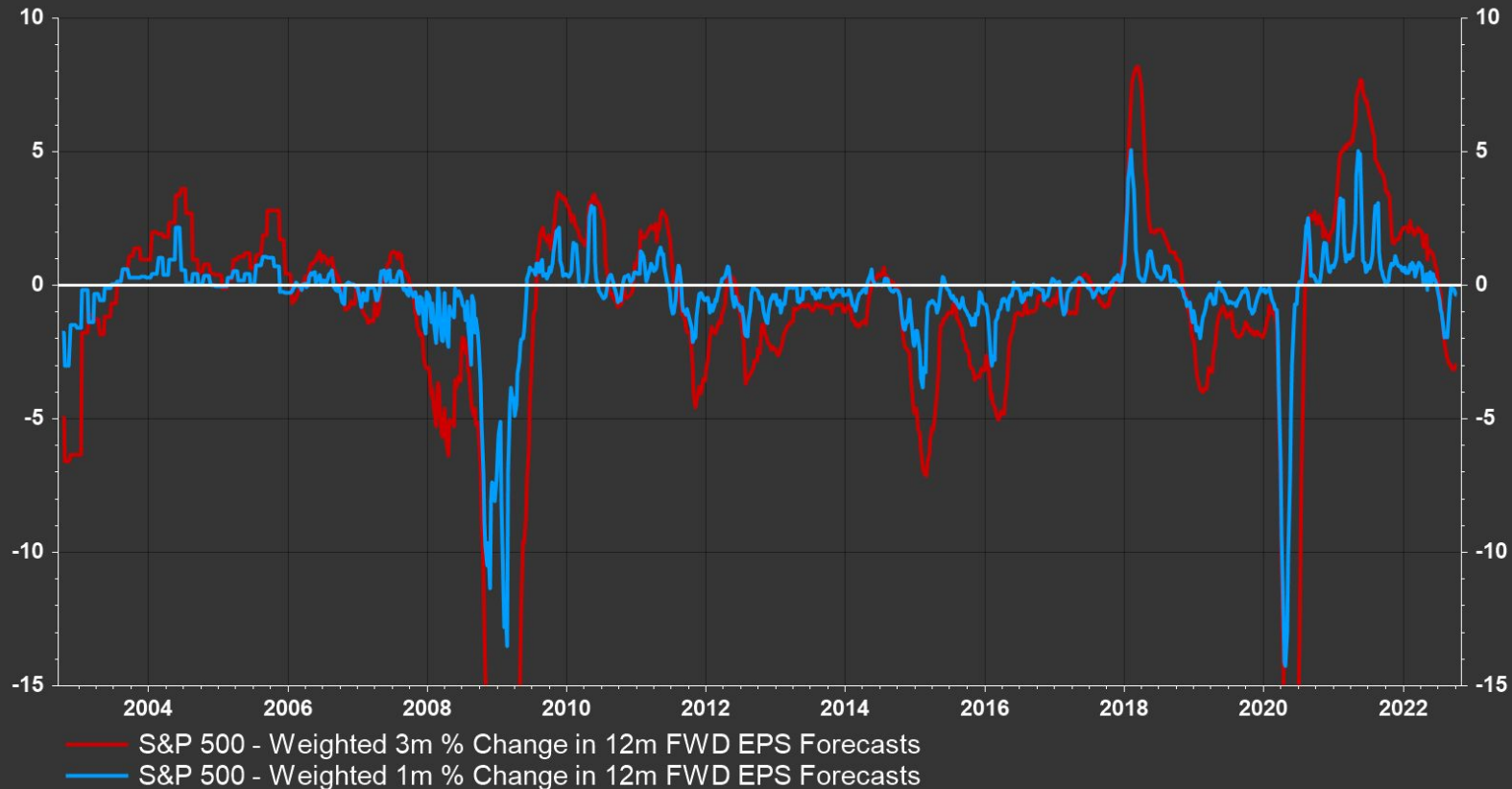
STILL NEED TO NORMALISE

US & EU Market Net Profit Margin (Long Term)



Source: Refinitiv Datastream / Rezco

NEGATIVE EARNINGS REVISIONS JUST GETTING STARTED

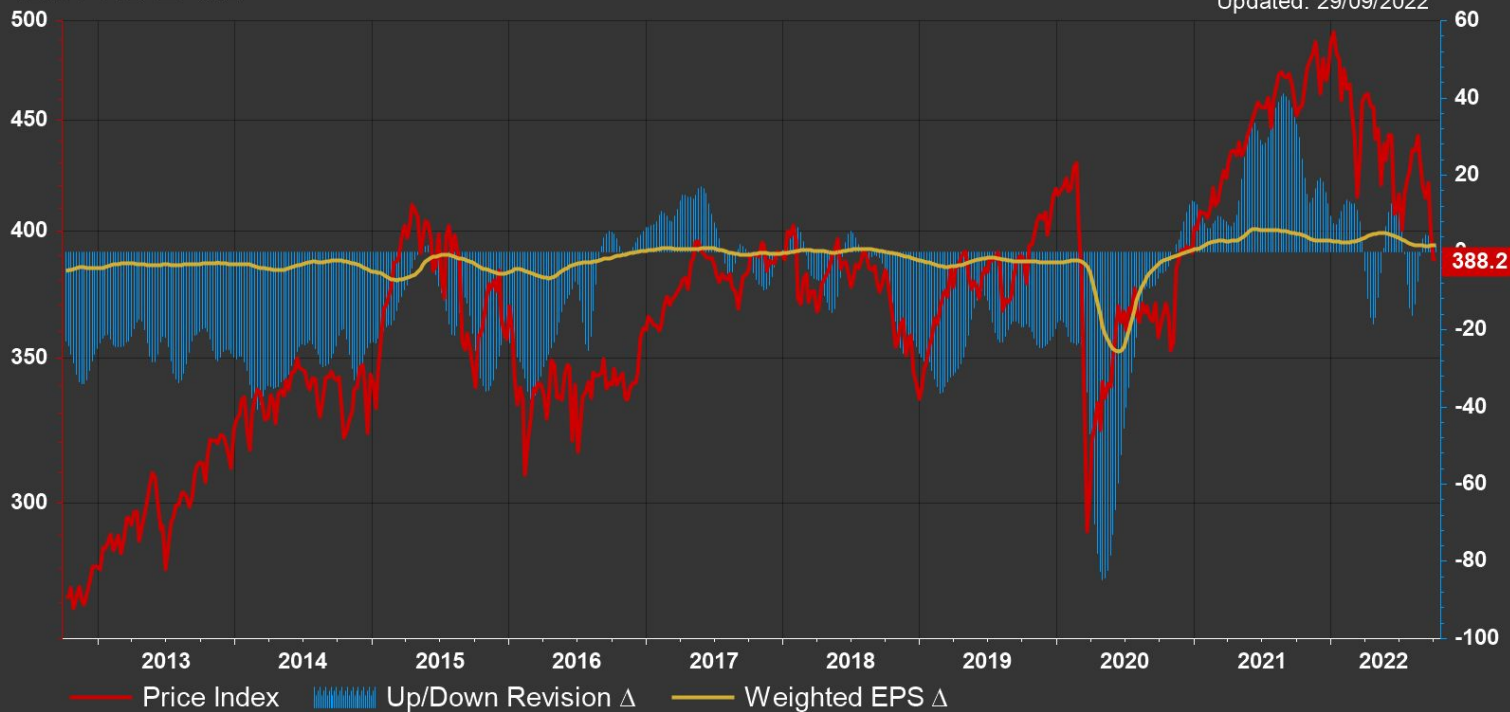


EUROPEAN EQUITY

IBES STOXX EUROPE 600

12m FWD EPS Δ

Currency: EUR
Updated: 29/09/2022



Source: Refinitiv Datastream / Rezco

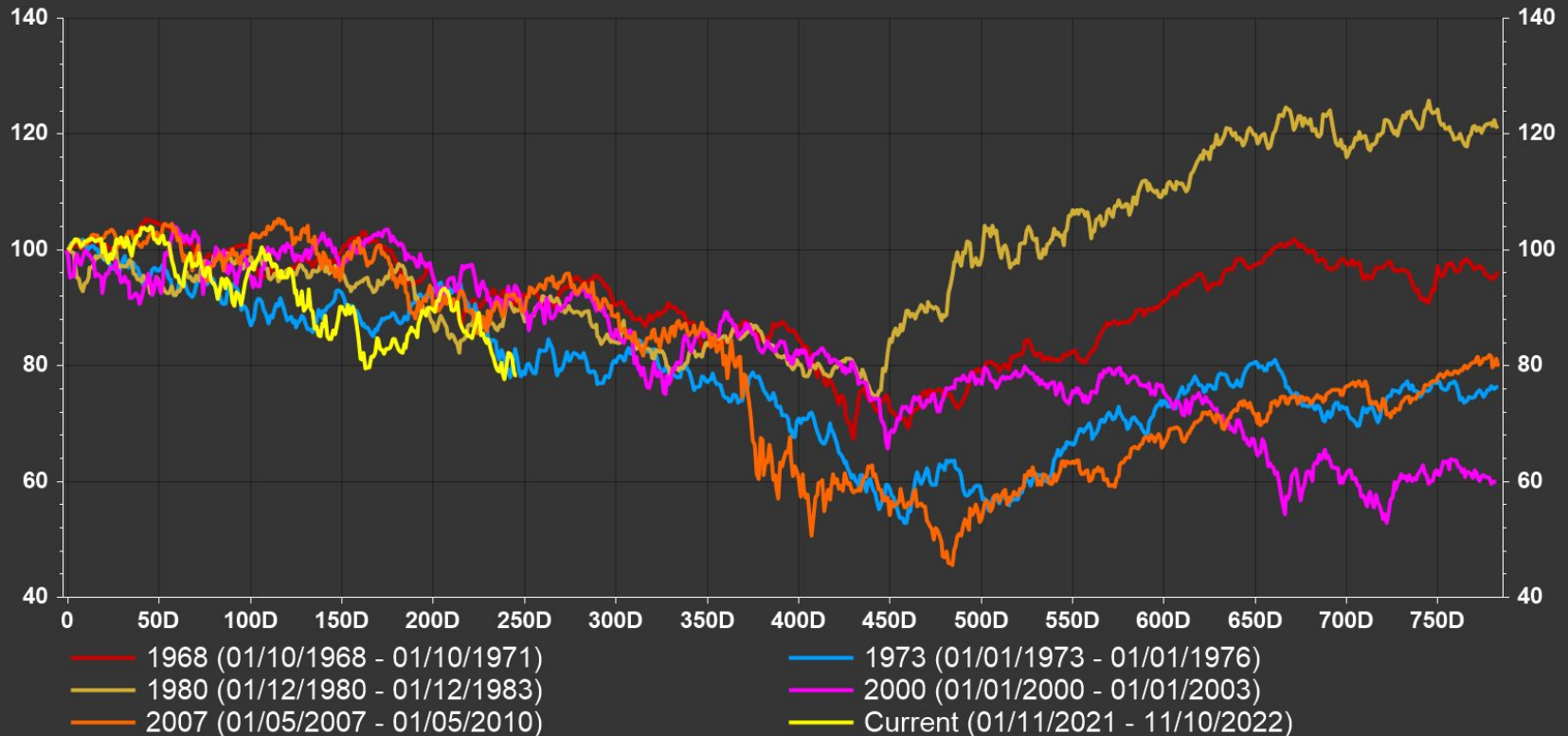
MARKET DOWNSIDE (S&P est): EARNINGS RISK STILL TO PLAY OUT

	Soft-ish Landing	Recession
MARKET PE	0%	-10%
PROFIT MARGIN (EARNINGS)	-10%	-20%
POTENTIAL MARKET MOVE	-10%	-30%

EQUITIES: PROBABLY NOT QUITE THERE YET

S&P - BEAR MARKETS WITH RECESSIONS

S&P THROUGH RECESSIONS (REBASED)



Source: Refinitiv Datastream / Rezco

REZCO

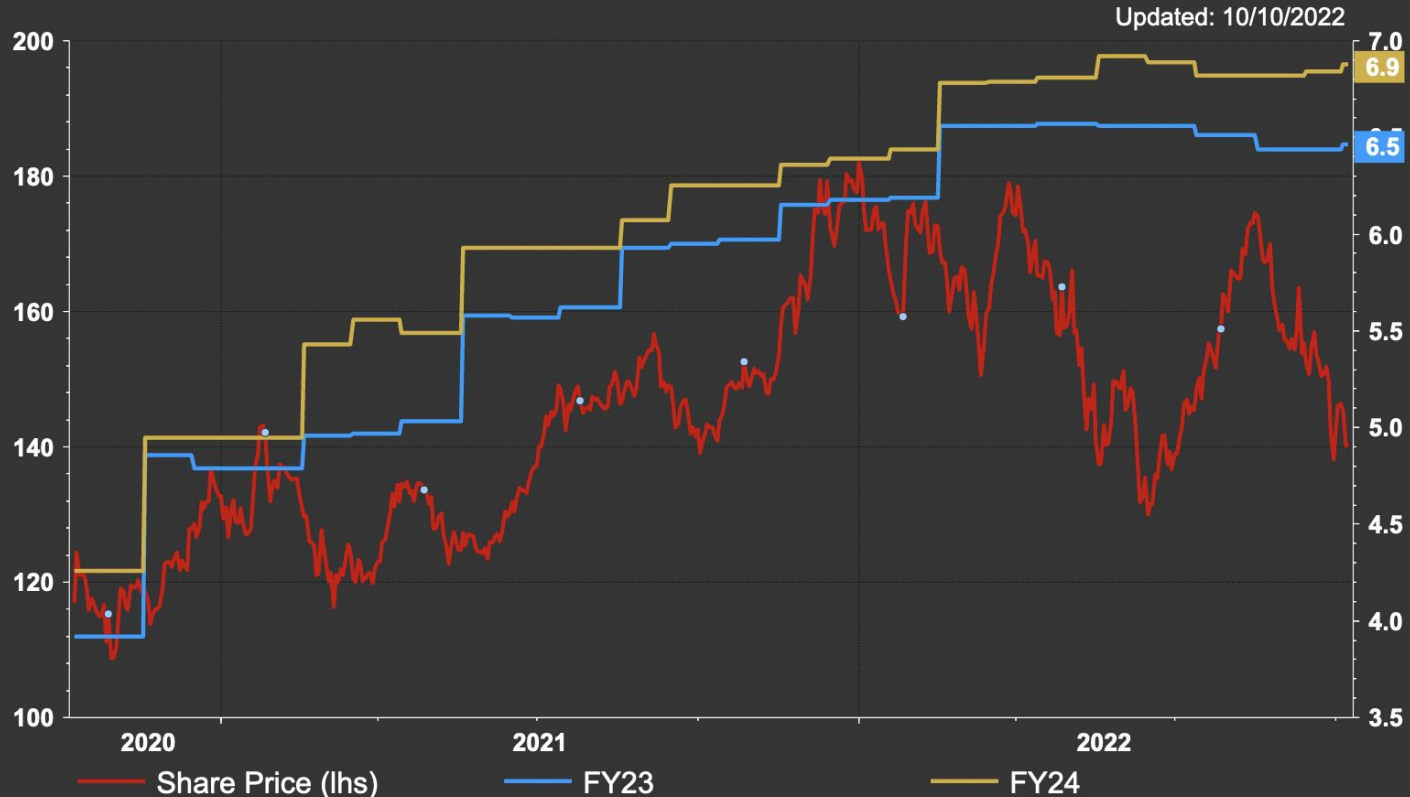


DOING THE RESEARCH:
FINDING EQUITY
OPPORTUNITIES AMIDST
THE NOISE



APPLE: EARNINGS EXPECTATIONS ARE UP YTD

APPLE EPS REVISIONS



Source: Refinitiv Datastream / Rezco

BUT RISKS ARE ON THEIR WAY

Bloomberg

Africa Edition ▾

● **Live Now** Markets Industries **Technology** Politics Wealth Pursuits Opinion Businessweek Equality Green CityL

Technology

Apple Ditches iPhone Production Increase After Demand Falters

- Company had hoped to see new devices trigger sales spurt
- iPhone 14 Pro models selling better than entry-level handsets

HOME > BUSINESS TECH

BUSINESS TECH APPS/SOFTWARE BUSINESS TECH GADGETS WEARABLETECH GOOGLE

Apple App Store Suffers 5% Drop in Revenue in September; Morgan Stanley Blames Economic Downturn

Apparently, the global economic crisis is the culprit behind this sudden revenue decline.

Joseph Henry, Tech Times | 04 October 2022, 07:10 am

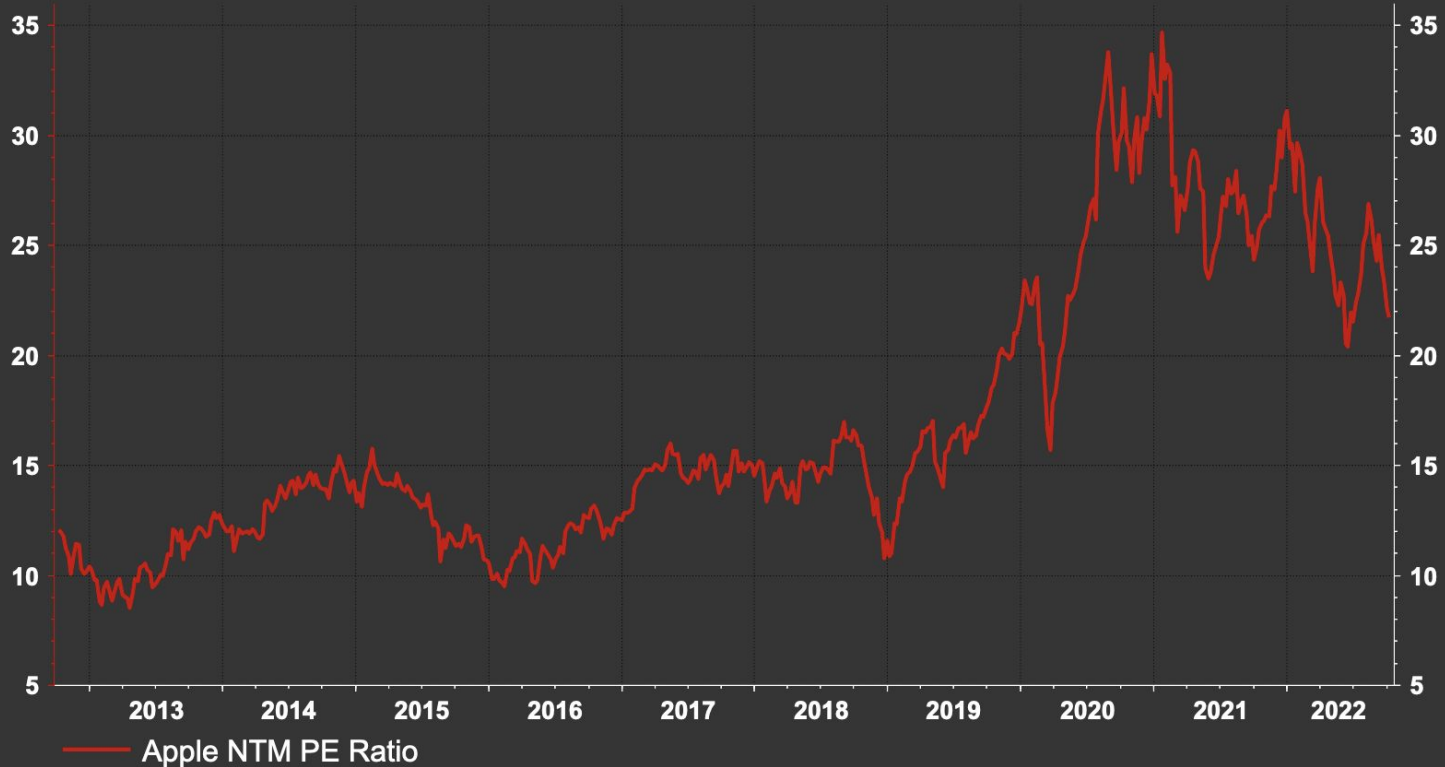
Apple's App Store had a 5% revenue drop last month. This is the lowest decline the app platform has experienced since the launch of the data tracking in 2015.

According to Erik Woodring, an analyst from Morgan Stanley, this turn of events is attributed to the worsening economic crisis currently hitting all parts of the world.

APPLE: THE PE IS STILL HIGH AND SO ARE EARNINGS EXPECTATIONS

APPLE FORWARD PE

Updated: 10/10/2022

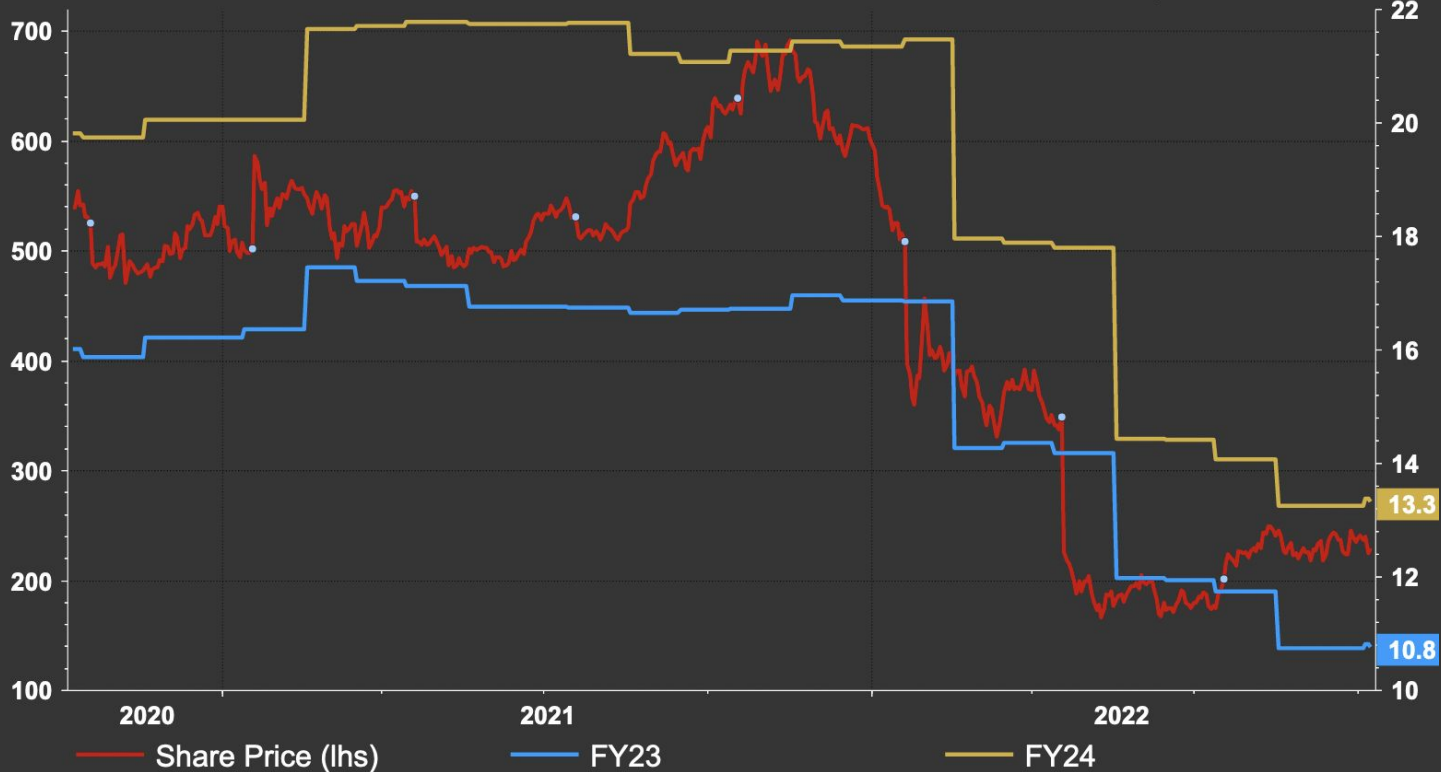


Source: Refinitiv Datastream / Rezco

COMPARED TO NETFLIX

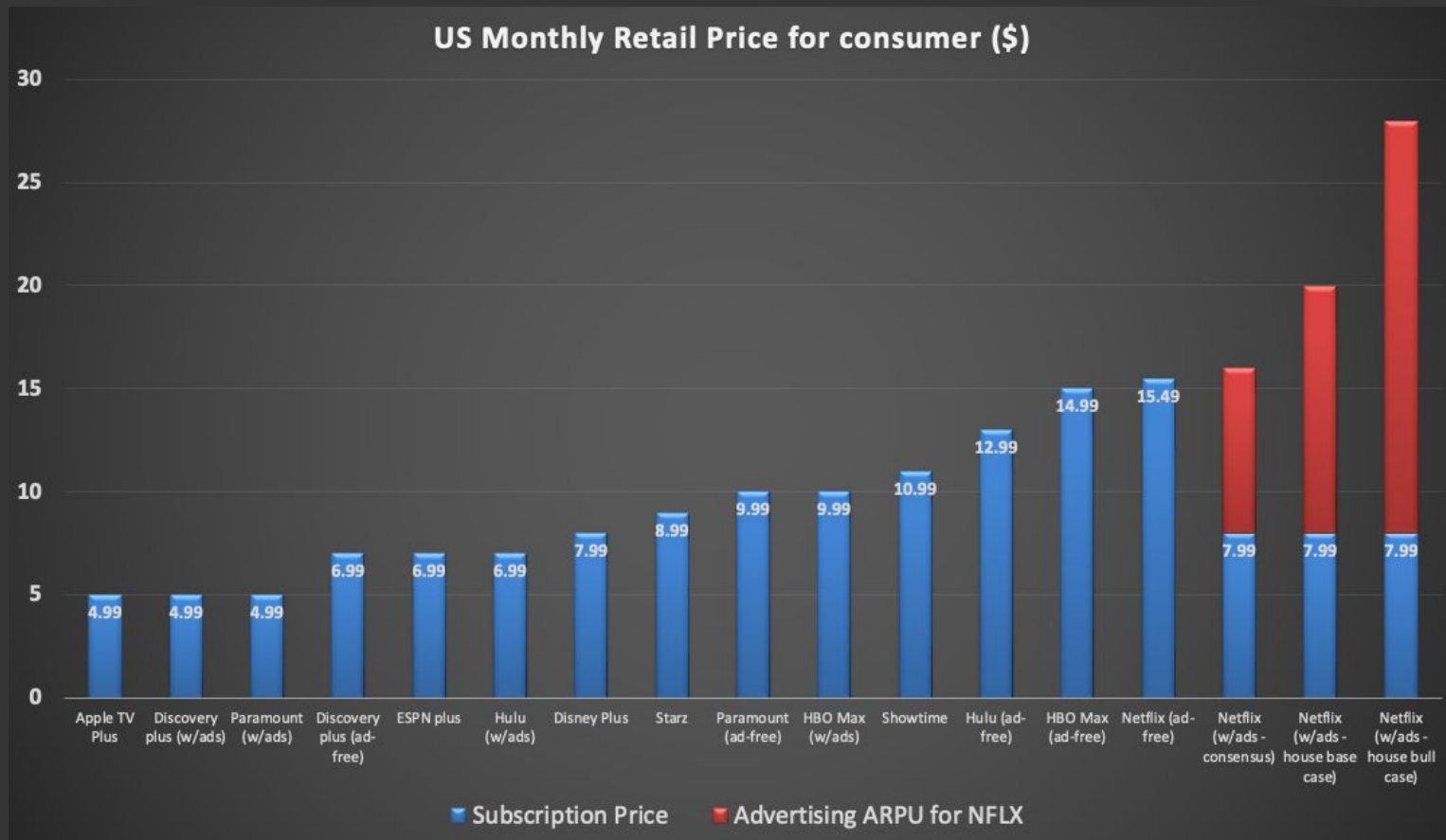
NETFLIX EPS REVISIONS

Updated: 10/10/2022



Source: Refinitiv Datastream / Rezco

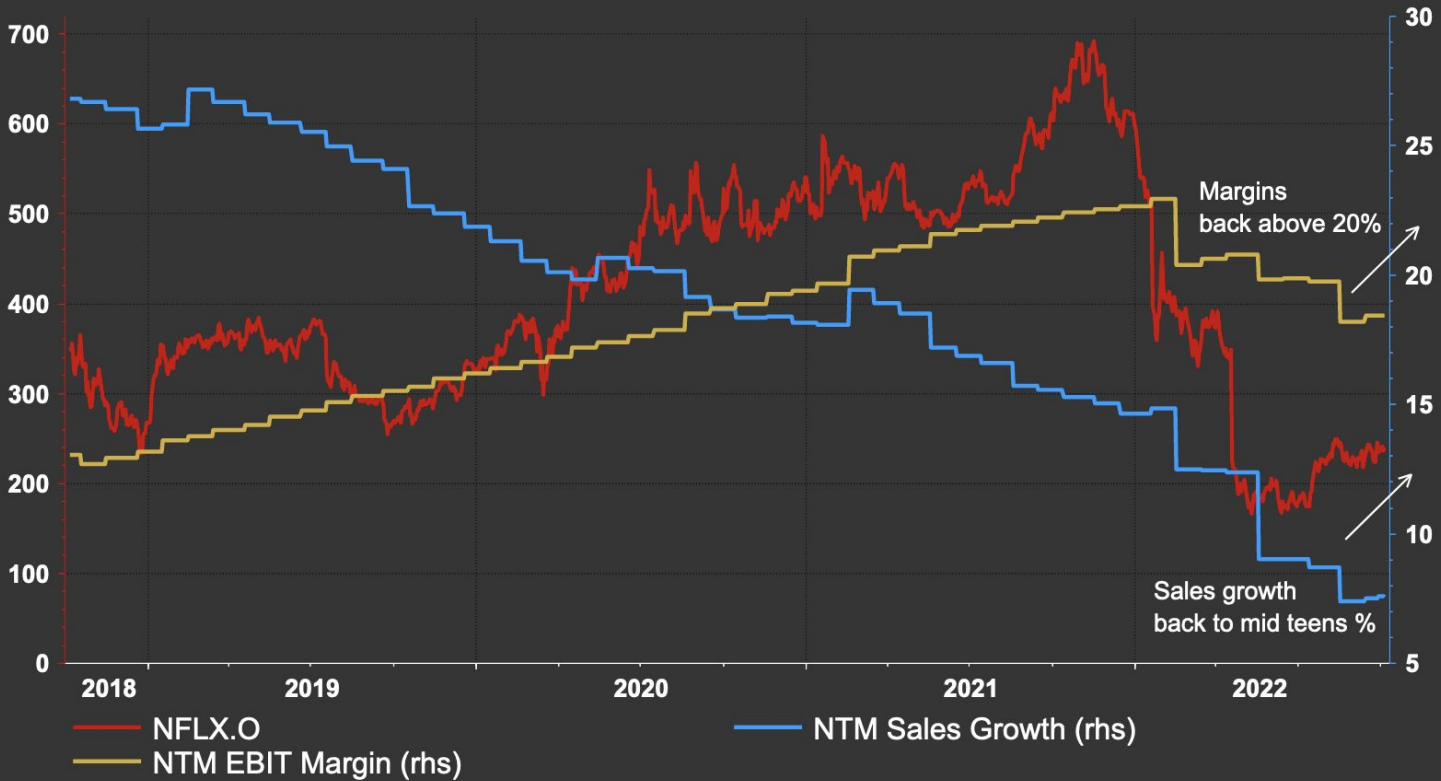
NETFLIX RECOVERY ON SOLID GROUND



SOME CORE REASONS TO LIKE NETFLIX

NETFLIX RECOVERY

Updated: 06/10/2022



Source: Refinitiv Datastream / Rezco

POSITIVE NEWSFLOW

◆ WSJ NEWS EXCLUSIVE | BUSINESS

Netflix Estimates Ad-Supported Tier Will Reach 40 Million Viewers by Late 2023

Streaming giant shared projections for 'unique viewers' across a dozen launch markets with ad buyers

Netflix Could Get 3x the Advertising ARPU of Hulu Says Atlantic A ~ Upgrades Shares

Investing.com | Stock Markets | Sep 28, 2022 08:54

Netflix Upgraded in Sign of Growing Optimism on Advertising

- The ad tier represents 'a clear catalyst,' Evercore says
- The stock is one of the year's weakest Nasdaq 100 performers

JPMorgan Expects \$600m in Ad-Supported Revenue for Netflix in 2023

yahoo!finance

Netflix stock surges on double upgrade as Wall Street cheers on ad tier

Investing.com | Stock Markets | 17 hours ago (Oct 10, 2022 10:13AM ET)

REZCO



USING AI WITH STOCK PICKING ADDS ALPHA

VOLATILITY OPENS UP HEDGED STOCK PICKING OPPORTUNITIES

Time Period: 2022/01/01 to 2022/09/30

Currency: US Dollar Source Data: Total Return



— Rezco Global Flexible Fund

107.8 — MSCI World NR USD

74.6

Source: Morningstar Direct

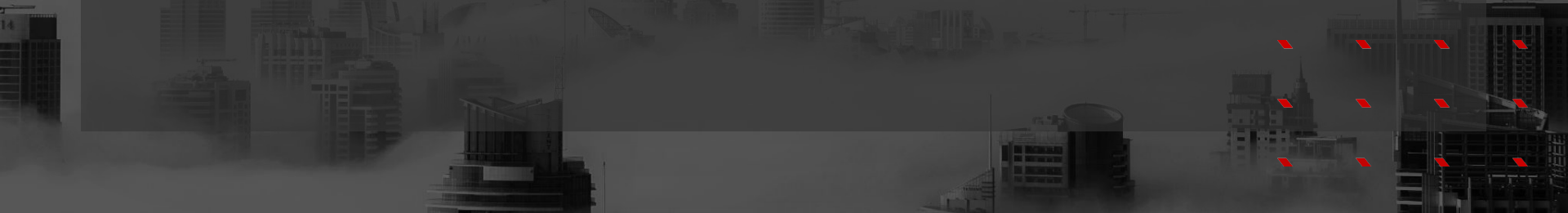
OUR DEEP LEARNING MODELS ARE ALSO HELPING



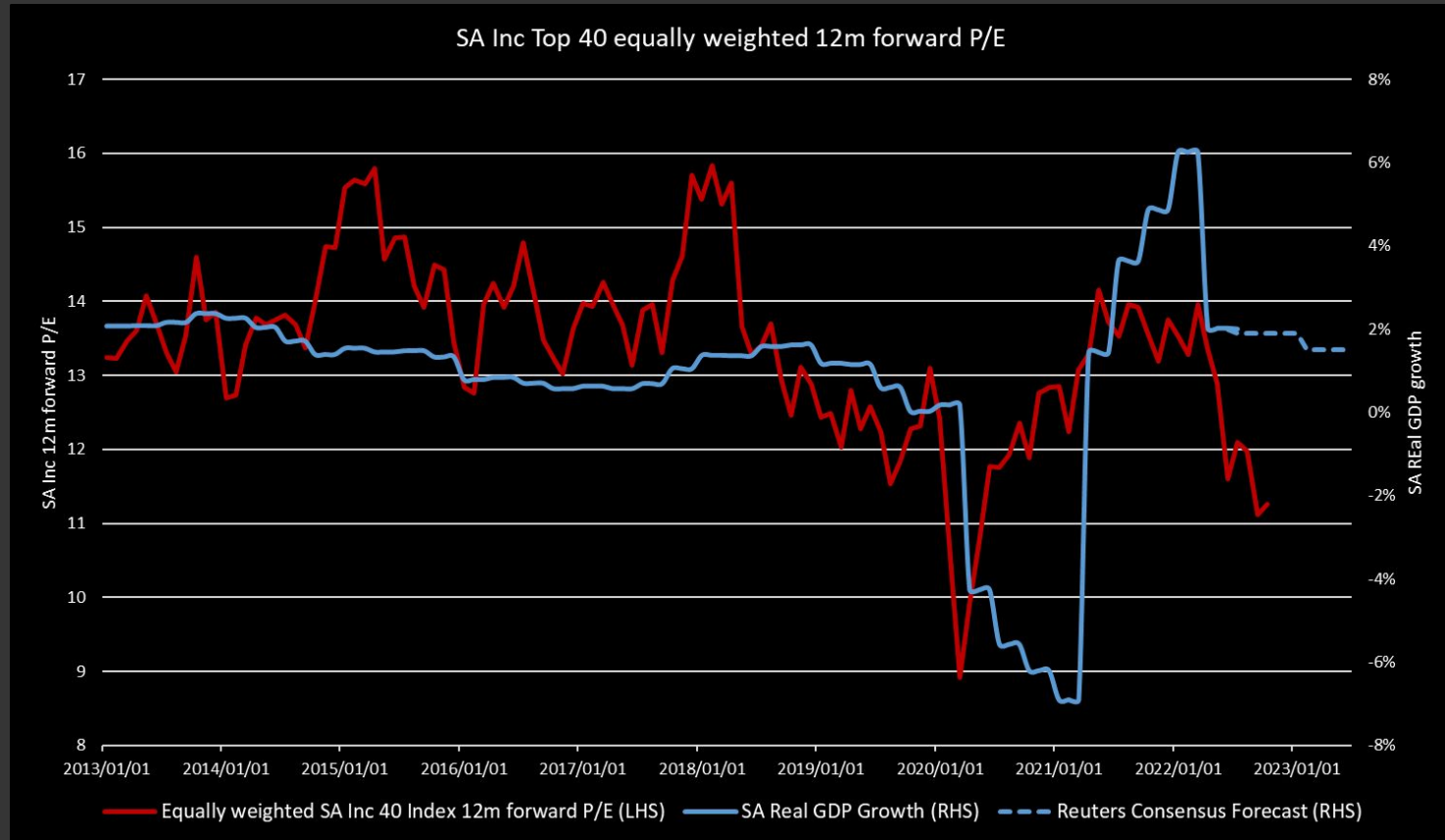
REZCO



BUT SOUTH AFRICAN
EQUITIES ARE CHEAP?



SA INC IS VERY CHEAP



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.

BUT NOT WITHOUT RISKS

SOUTH AFRICA

Court rules ANC East London branch meetings null and void

NEC seeks legal opinion before decision

BY THANDO MAEKO, ERIN BATES, HAJRA OMARJEE, MARY PAPAYYA AND LUYOLO MKENTANE - 06 October 2022 - 07:47



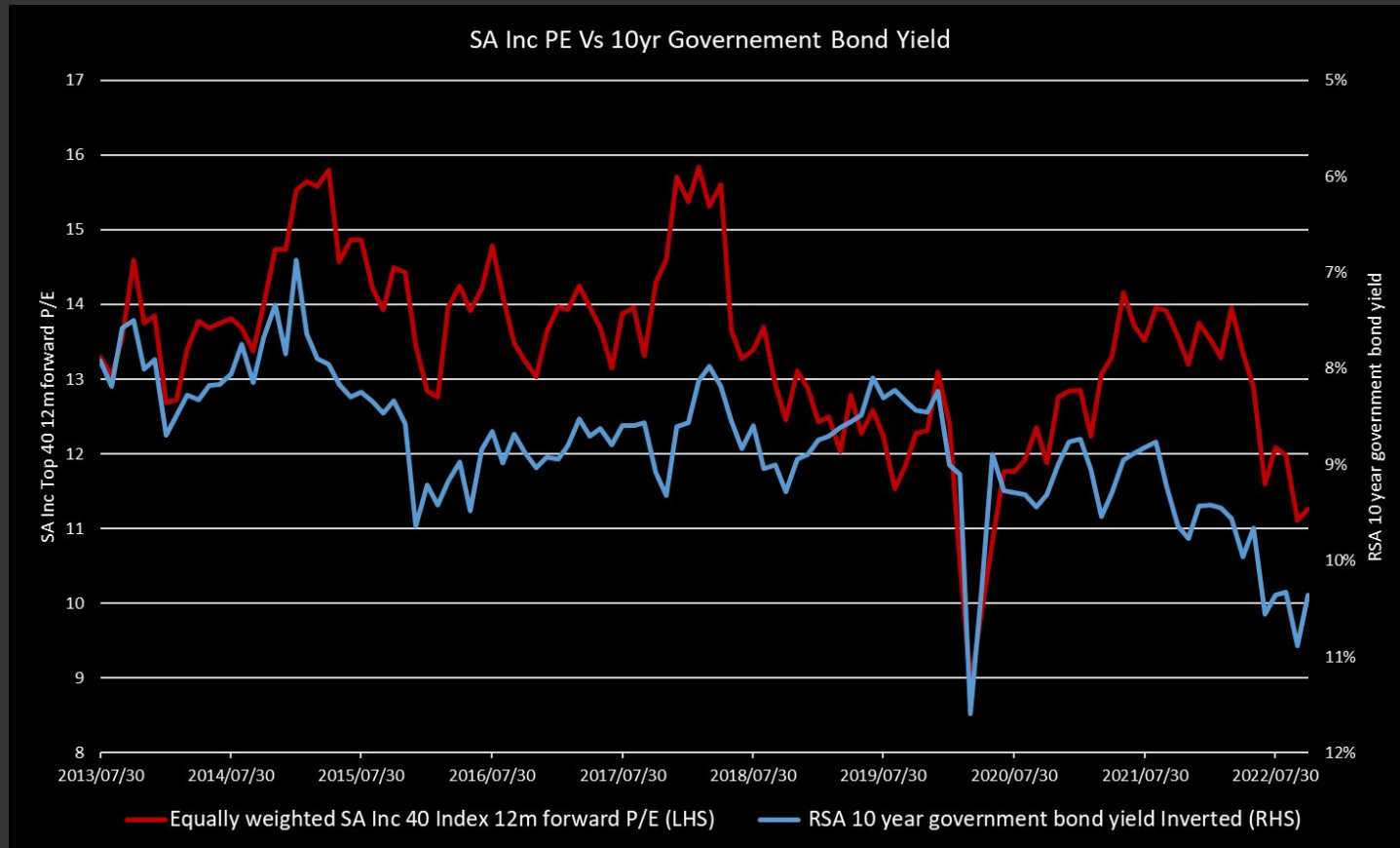
The ANC conference held in East London has been called into question.
Image: Michael Pinyana

RSA WILL FOLLOW THE WORLD

JSE USD VS ACWI EM (EX CHINA)



WE ARE SEEING BETTER VALUE IN SA BONDS



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



VS



	FirstRand (SA Inc Equity)	R2032 (SA 10yr Gov Bond)
5-Year Average Annual Total Return	8.2%	8.8%
Historical 1-year Return Standard Deviation	26%	9%
Annualized Forward Cash Yield	6.5%	10.8%
Upside Case- Yield curve shifts downward 50bps SA Real GDP Growth in 2023 of 1.5%	EPS Growth = 9% Dividend = 7% Rerating = 3% Total Return = 19%	YTM = 10.8% Yield curve move = 3% Total Return = 13.8%
Downside Case - Yield curve shifts upwards by 150bps SA Real GDP Growth in 2023 of -1%	EPS Growth = -10% Dividend = 5% Derating = -10% Total Return = -15%	YTM= 10.8% Yield curve move = -9% Total Return = 1.8%

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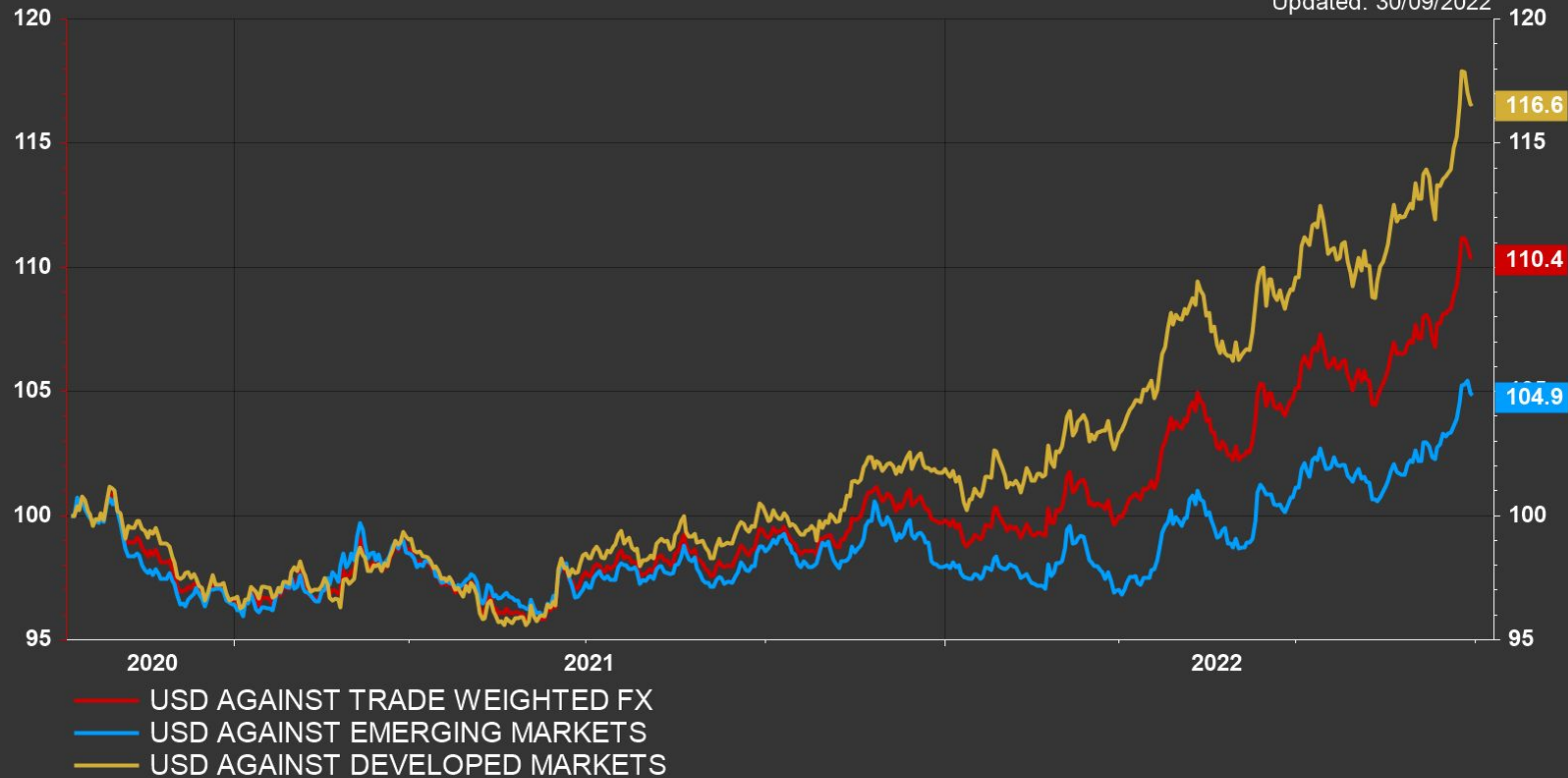


CURRENCY EXPOSURE IS A
RISK DECISION

IS THIS A DEVELOPED MARKET CRISIS?

USD vs TRADE WEIGHTED, EM & DM

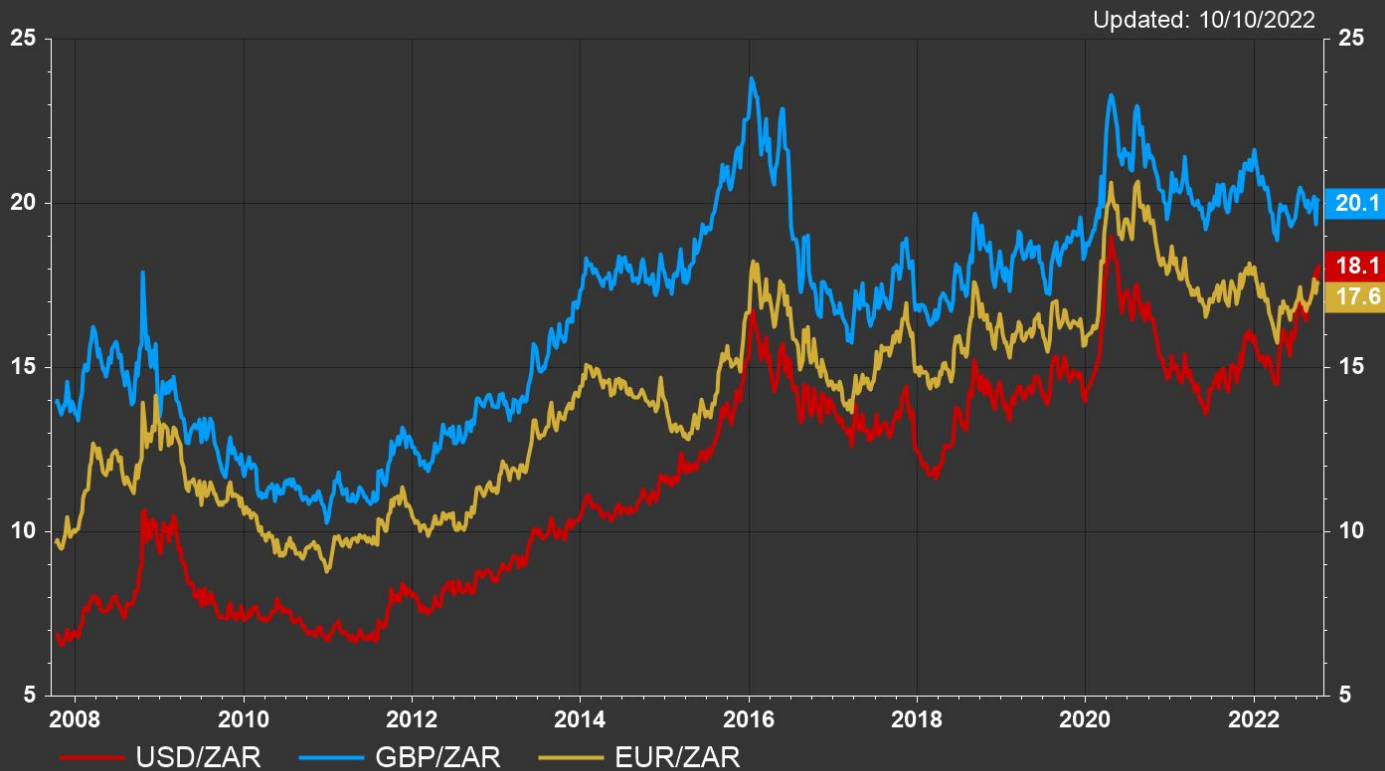
Updated: 30/09/2022



Source: Refinitiv Datastream / Rezco

ZAR: RELATIVELY STABLE AGAINST THE GBP & EUR

DM CURRENCIES vs ZAR (LONG TERM)



Source: Refinitiv Datastream / Rezco

The logo for REZCO, consisting of the letters 'REZCO' in a white, sans-serif font, positioned in the upper right corner of a dark grey rectangular area.

REZCO

A large decorative graphic on the left side of the slide, featuring a white semi-circle at the top and a red diagonal bar extending downwards from its bottom edge.

“The fed keeps tightening
until something breaks”

NOT OUR CORE VIEW BUT FAT TAILS
EXIST

A grayscale background image of a city skyline, likely Los Angeles, with several skyscrapers. Small red diagonal bars are scattered across the lower right portion of the skyline image.

Jamie Dimon's predictions 10/10/22 CNBC

Rates going up more than people expected and likely to go up more

Quantitative Tightening, which we have never had before -we are seeing the impact in bond markets around the world.

USA likely to to be a recession 6-9 months from now

Going to have volatile markets

Possible that markets become disorderly sometime in the near future

Stock Market could do another 20% down from here

DOES SOMETHING BREAK HERE?

Chart 2: Fed tightening always "breaks" something

US Fed Funds target rate



Source: BofA Global Investment Strategy, Bloomberg, Global Financial Data

ARE LDI's THE NEW CDO's (2008)?



FINANCIAL TIMES

HOME WORLD US COMPANIES TECH MARKETS CLIMATE OPINION WORK & CAREERS LIFE & ARTS HTSI

Opinion **Inside Business**

Failure to learn lessons of 2008 caused LDI pension blow-up

There are clear parallels with many of the issues that led to the financial crisis

PATRICK JENKINS

+ Add to myFT



UK BONDS

30-Year UK Bond Yield

Updated: 10/10/2022



Source: Refinitiv Datastream / Rezco

BOE STRUGGLING TO DEFEND

GBGV 1.250 31-JUL-2051 UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (GOVERNMENT) GB / GBP RE-OPENING

Updated: 10-Oct-2022 22:41

Gov., Bmk, Fixed Coupon, Gilt Treasury Stock, IG, RegS

ISIN GB00BLH38158

B/A: 46.057/46.292 (-2.912) BYld/AYld: 4.679/4.654 (0.291) ASwap Sp: 28.83 Swap Sp: 35.43 G Sp: 0.152 10-Oct-2022 18:59 REFINITIV

Issue Rating: AA- (FTC 05-Oct-2022)

Overview All Quotes News Description REPS Valuation Schedules Charts Price History Documents & Notes Issuer Calculators Research

CHART

Generic Benchmark Update View

BID YIELD

Select chart type Yield Price Spread CDS Basis

[See data table](#)

Bid Yield Min.:3.396(13-Sep-2022) Avg.:3.925 Max.:5.084(27-Sep-2022) Latest:4.679(10-Oct-2022)



5D 1M 3M 6M YTD 1Y 2Y 5Y 10Y 20Y Max

Source: Bond RIC <GB30YT=RR>

Sep 12, 2022 Oct 10, 2022

Save as Preferred Range Restore Default

BOJ HAVEN'T HELD THE LINE

JPY= US DOLLAR/JAPANESE YEN FX SPOT RATE 145.70/145.72 +0.37 +0.25% 10-Oct-2022 22:46 ZUERCHER KB

Daily-Asia Open:145.35 High(bid):145.85 Low(ask):145.24 Prev. cl. 5PM NY:145.33

United States | Japan

Overview Price Chart Quotes Background Info Contributor/Broker Data FX Polls 360 Menu

Templates

4 hours

FOREX JPY= 145.70 -0.02 (-0.01%)



1D 5D 10D 1M 3M 6M YTD 1Y 2Y 3Y 5Y 10Y 20Y Max

10-Jul-2022 18:00 - 10-Oct-2022 21:00

REZCO



HOW IS REZCO ALLOCATED?

REZCO



DEFENSIVELY POSITIONED
FOR A RECESSION BUT
OPPORTUNISTICALLY FOR
POSITIVE RETURNS

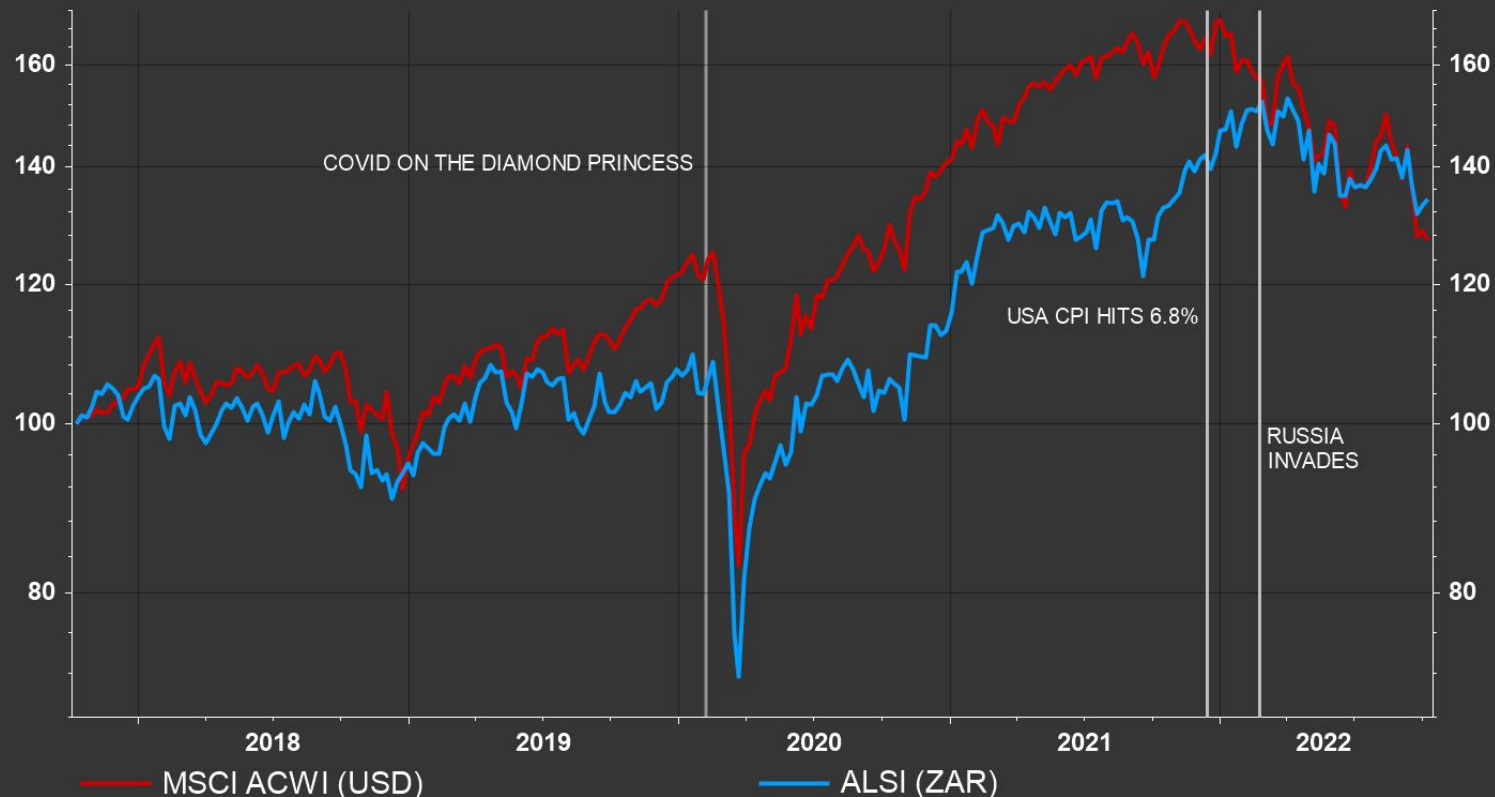
OUR CURRENT POSITIONING*

	SA EQUITY	SA GOV DURATION	US GOV BONDS DURATION (INCL HEDGE)	GLOBAL EQUITY	GLOBAL HEDGED EQUITY	RISK ASSETS INVESTED %
GLOBAL FUND	0%	0%	24%	2%	43%	69%
VALUE TREND	7%	25%	6%	0.5%	14.5%	53%
MANAGED PLUS	13%	35%	6%	0.5%	15.5%	70%
STABLE	7%	25%	4%	0.5%	13.5%	50%

*Allocations in the above table are rounded and subject to change. They are rough approximations of our current view and allocations.

WE WILL REMAIN AGILE AS RISKS PLAY OUT

MARKETS VS RISK EVENTS



Source: Refinitiv Datastream / Rezco

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HOW DOES REZCO
ENHANCE MY PORTFOLIO?

WHAT GOES INTO DECIDING ALLOCATIONS?

- Think about tail risk (Grey Rhinos)
- Macro and Geopolitical trends matter
- Detailed bottom up fundamental work
- Utilise deep learning models
- Take the best risks BETWEEN asset classes AND within asset classes

		RETURN YTD
GLOBAL FLEXIBLE GLOBAL FLEX FEEDER	Unconstrained portfolio, global flexible asset allocation	7.8% (USD) 20.8% (ZAR)
VALUE TREND	Reg 28; Equity 0-75%, offshore 0% - 45%	7.1%
MANAGED PLUS*	Reg 28; Equity 40%-75%; offshore 20% - 45%	6.3%
STABLE*	Reg 28; Equity 15%-40%; offshore 10% - 35%	7.8%
SA EQUITY FUND	Benchmark Agnostic; SA Listed Equity Only; Equity target 95%-97%	-5.7%

**INTENDED EQUITY ALLOCATION TARGET (TACTICAL) BAND BY YEAR END 2022*

THE PROCESS WORKS OVER TIME

REZCO VALUE TREND

Updated: 30/09/2022

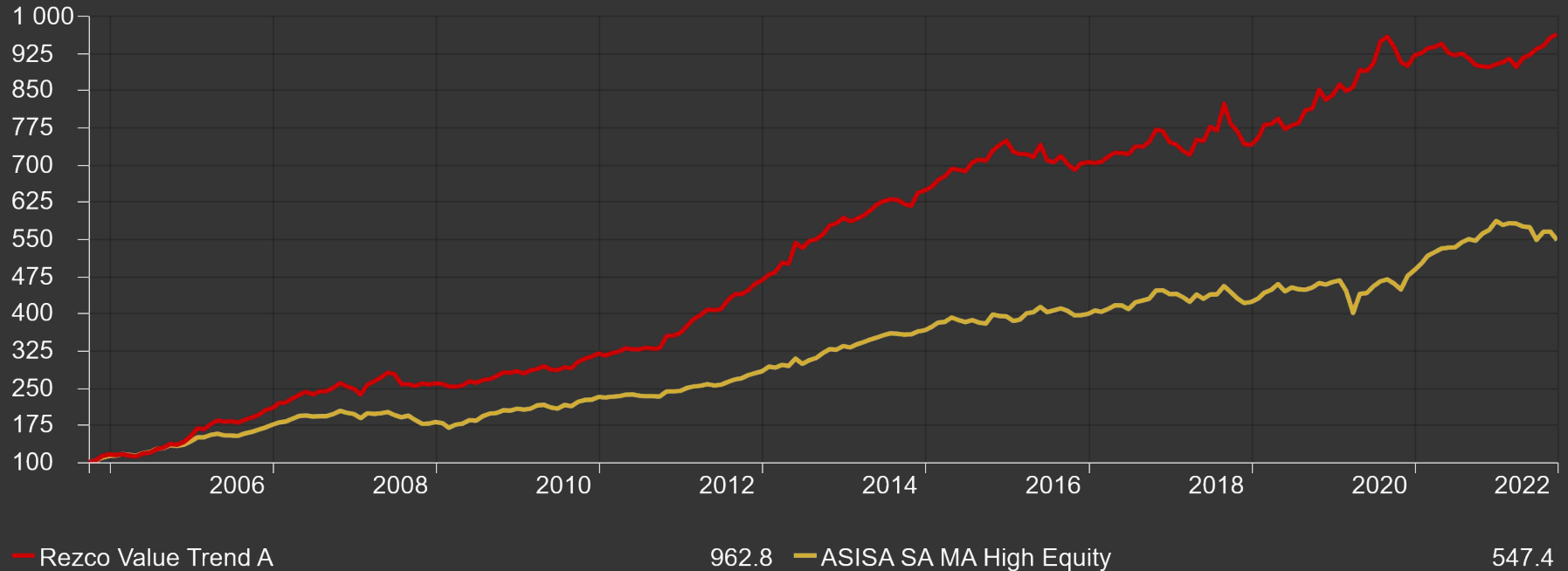


Source: Refinitiv Datastream / Rezco

THE PROCESS WORKS OVER TIME

Time Period: Since Common Inception (2004/10/01) to 2022/09/30

Currency: South African Rand Source Data: Total Return

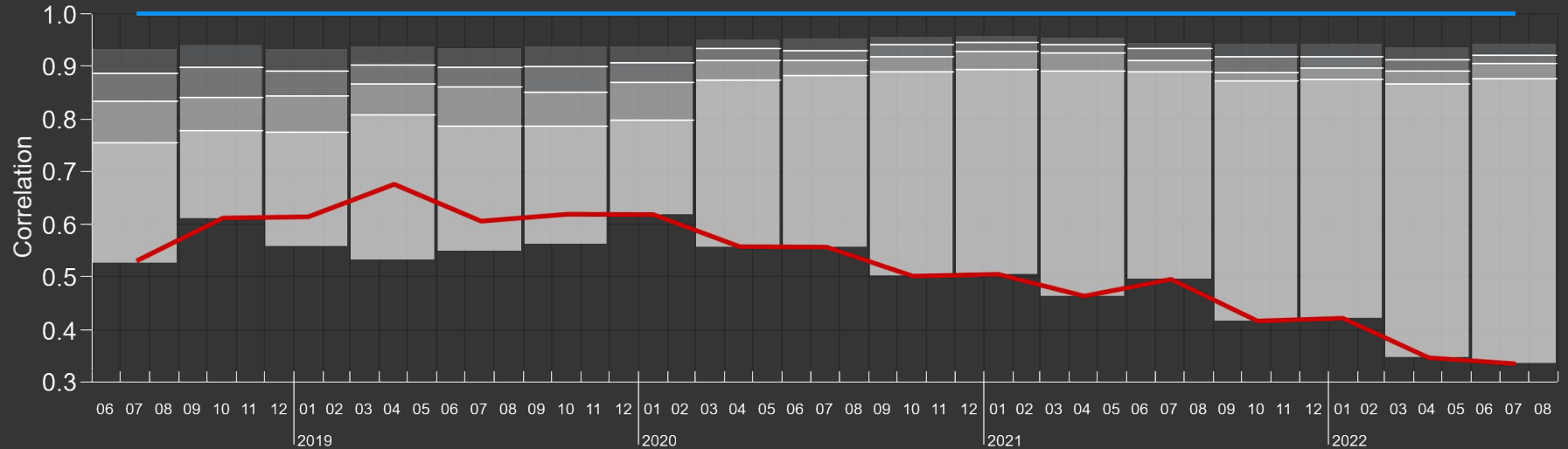


OUR FUNDS BLEND WELL

Time Period: 9/1/2015 to 8/31/2022

Peer Group (1-100%): ASISA SA Multi-Asset High Equity, >1Rbn, 3y+ track record Currency: South African Rand Rolling Window: 3 Years 3 Months shift Source Data: Total, Monthly Return Calculation Benchmark: FTSE/JSE All Share TR ZAR

■ Top Quartile ■ 2nd Quartile ■ 3rd Quartile ■ Bottom Quartile



— Rezco Value Trend C

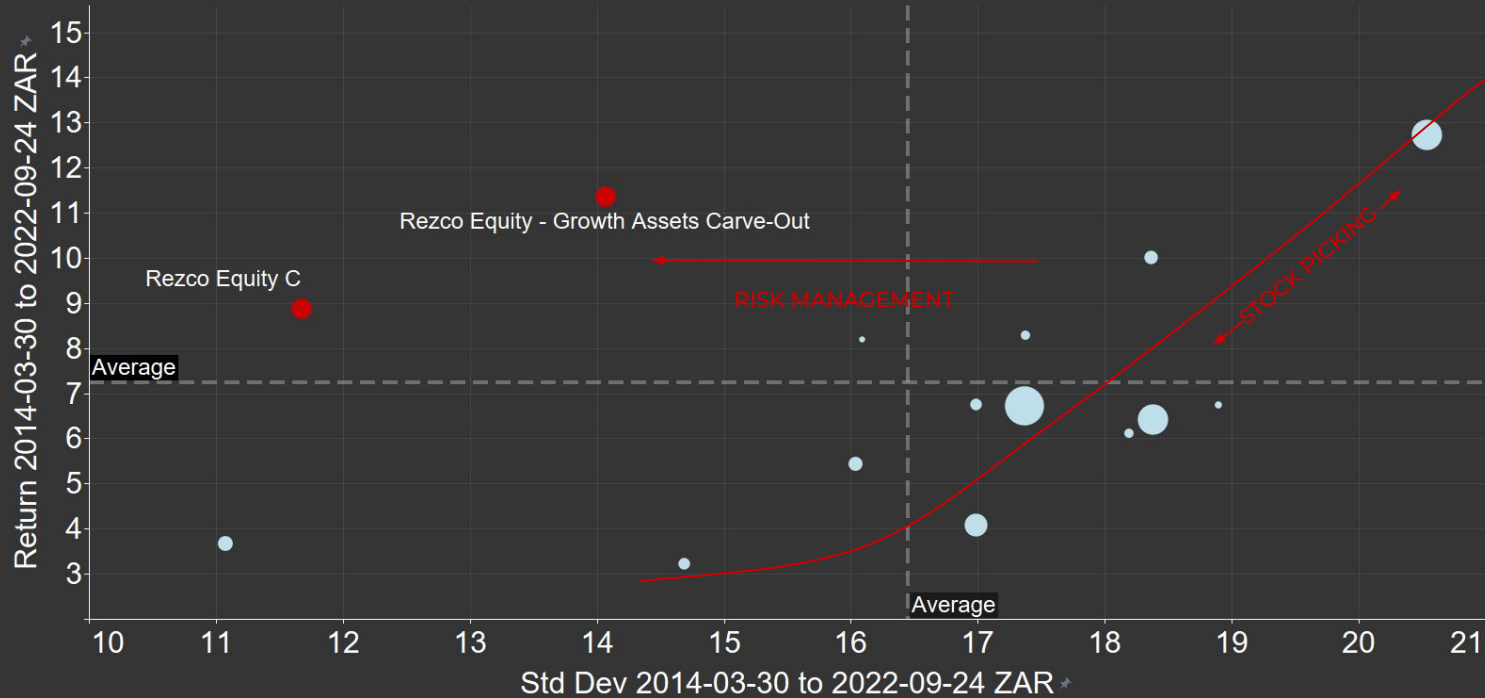
— FTSE/JSE All Share

Source: Morningstar Direct

REZCO EQUITY FUND

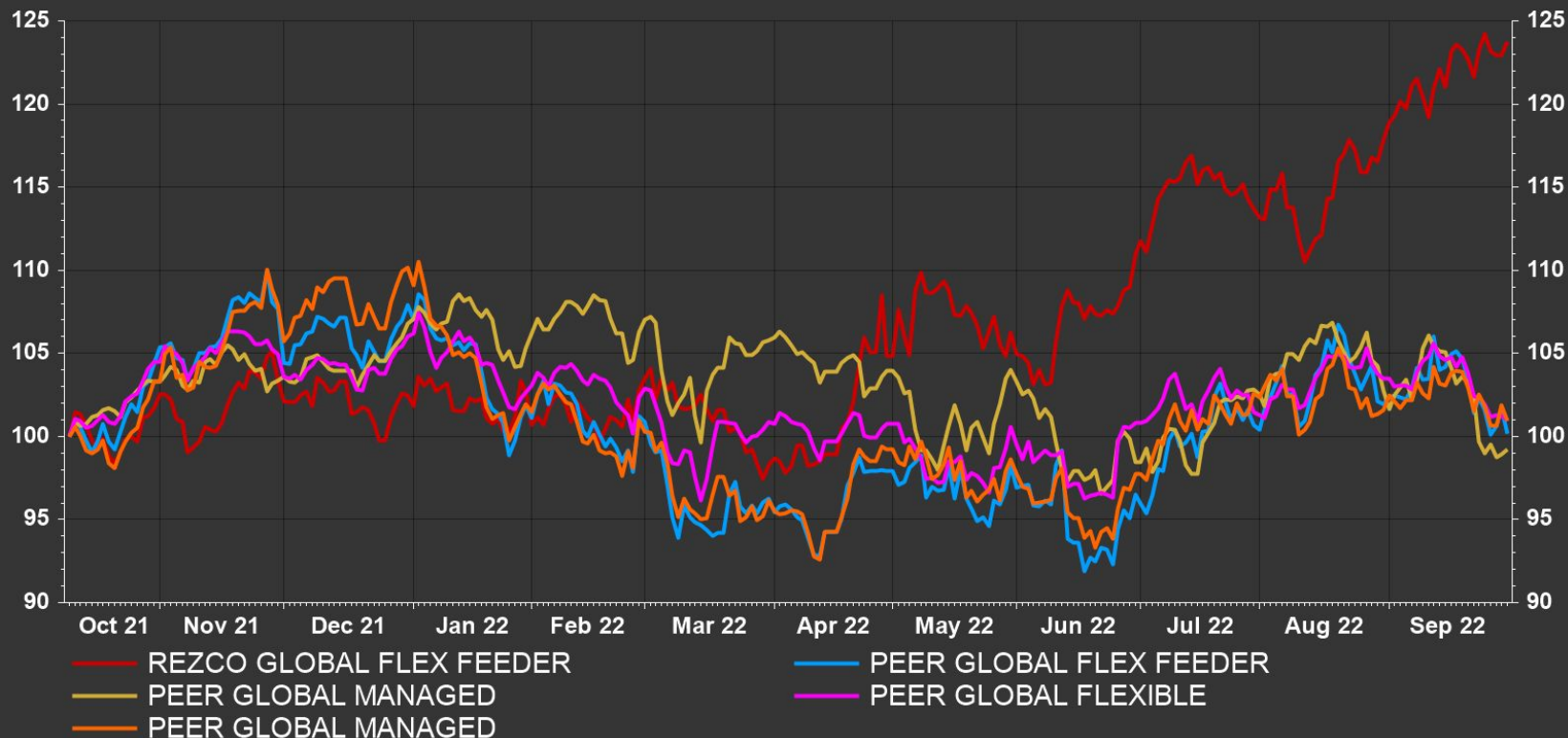
RISK VS RETURN

(RSA only Equity Funds above R500m)



REZCO IS VERY DIFFERENT TO PEERS

REZCO FLEXIBLE FEEDER 1 YEAR RETURN

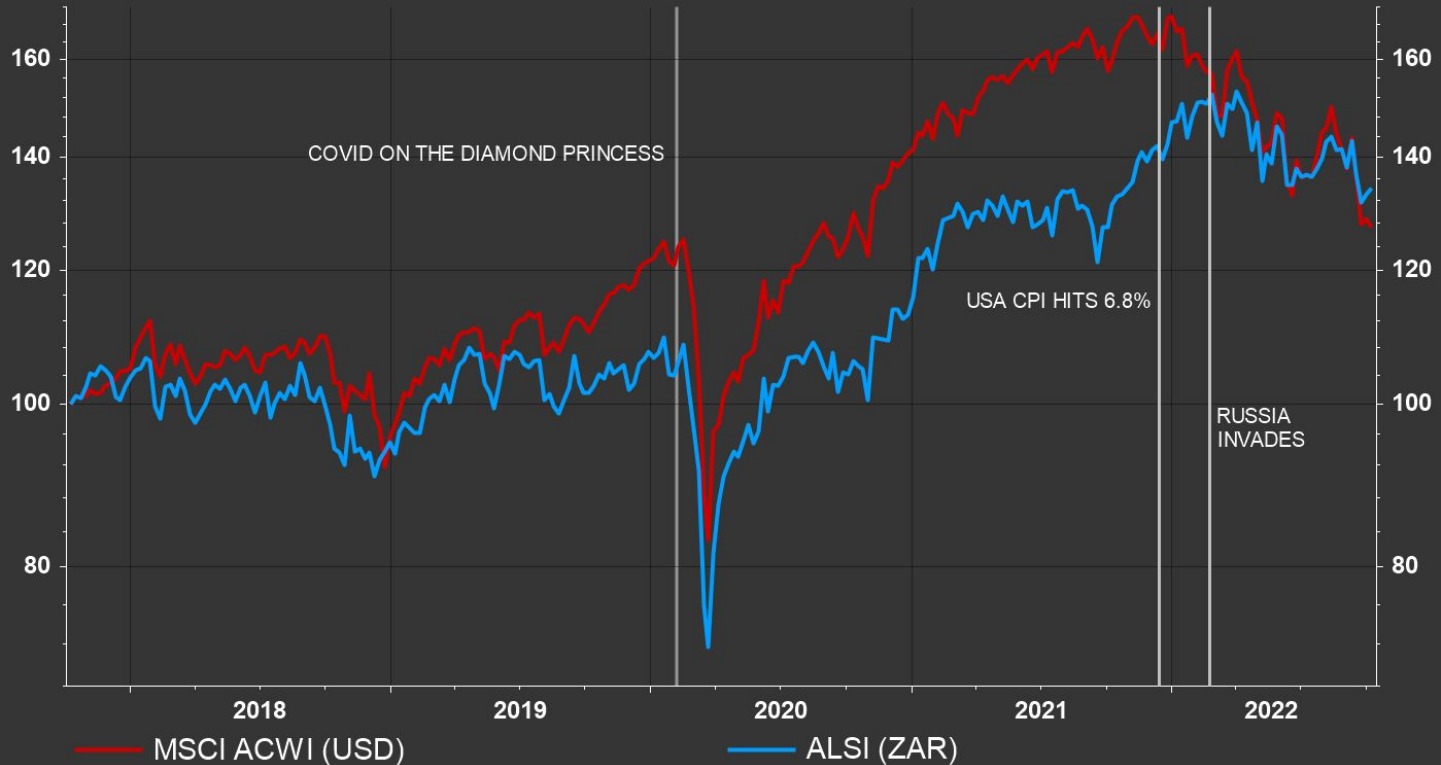


Source: Refinitiv Datastream / Rezco

WHY USE REZCO NOW?

RISKS ARE STILL PLAYING OUT

MARKETS VS RISK EVENTS



AGILITY WITH A TRACK RECORD OF MAKING TOUGH CALLS

Things are bad

Much is already in the price

Could be near the bottom....

...or only halfway down

Markets most likely remain uncertain and risky and tough to navigate

When there is a lot of risk around you need Rezco funds

KEEP AN EYE OUT FOR OUR VIDEO UPDATES

LinkedIn Profile: Brian du Plessis · 1st Director Client Relations and Distribution at Rezco Asset Management

Post Text: A quick video clip from Robert Spanjaard discussing the current market sentiment among fund managers internationally and locally. ...see more

Video Title: Rezco Insights: Recession Risk & Global vs Local Market Sentiment

Video Content: SOUTH AFRICAN FUND MANAGER SURVEY
 Exhibit 2: How likely do you think the S. Africa economy will experience a recession? A net 40% say 'unlikely'

Response	Percentage
Very likely	~10%
Fairly likely	~25%
Fairly unlikely	~40%
Very unlikely	~15%
Don't know	~10%

Source: BofA Global Research, S. Africa Fund Manager Survey, June 2022

Engagement: Insightful, Comment, Share, Send

Be the first to comment on this

Rezco Funds | Fund Fact Sheet Walkthrough 30 Jun 2022

REZCO EQUITY FUND | CLASS C1
 MINIMUM DISCLOSURE DOCUMENT As of 6/30/2022

ANNUALIZED PERFORMANCE

Year	1 Year	3 Years	5 Years	10 Years	Since Inception
The Fund*	4.4	14.7	11.3	8.3	6.3
Benchmark	4.7	9.2	8.7	10.5	8.1
Fund Group	8.4	7.1	8.1	7.7	9.2

RISK SECTOR ALLOCATION

Sector	Allocation (%)
Consumer Discretionary	~15%
Consumer Staples	~15%
Health Care	~15%
Information Technology	~15%
Financials	~15%
Industrials	~15%
Materials	~15%
Communication Services	~15%
Energy	~15%
Real Estate	~15%
Utilities	~15%
Other	~15%

ASSET ALLOCATION

Category	South African	Foreign	Total
Bonds	0.0	0.0	0.0
Limited Property	0.2	0.0	0.2
Commodities	0.2	0.0	0.2
Reserve	0.0	0.0	0.0
Money Market	2.8	0.0	2.8
CASH	100.0	0.0	100.0

CALENDAR YEAR PERFORMANCE

Year	Return (%)	Real Return	Real Return (Adj. Inflation)
17Q2	-4.1	0.1	-7.6
20Q1	22.3	5.9	3.2
20Q2	19.2	12.8	6.3
20Q3	15.2	6.5	4.4
20Q4	-2.2	5.9	5.4

MONTHLY RETURNS

Month	Return (%)	Real Return	Real Return (Adj. Inflation)
Jan 2022	1.8	1.4	1.1
Feb 2022	1.8	1.4	1.1
Mar 2022	1.8	1.4	1.1
Apr 2022	1.8	1.4	1.1
May 2022	1.8	1.4	1.1
Jun 2022	1.8	1.4	1.1
Jul 2022	1.8	1.4	1.1
Aug 2022	1.8	1.4	1.1
Sep 2022	1.8	1.4	1.1
Oct 2022	1.8	1.4	1.1
Nov 2022	1.8	1.4	1.1
Dec 2022	1.8	1.4	1.1

RISK MEASURES

Metric	Value
Std Dev	12.2
Std Error	0.4
Sharpe Ratio	0.2
Max Drawdown	14.6
Max Drawdown (Adj. Inflation)	0.2
Max Drawdown (Adj. Inflation)	21.7%

TOP 10 SHAREHOLDINGS

Company	% of Fund
Repsol Ltd	7.7
Standard ETP	6.2
Discovery Ltd	6.1
Capitec Bank Group Ltd	5.6
SPAR Group Ltd	5.1
Princess M Holdings (Pty) Ltd	5.0
Princess M Ordinary Shares - Class M	5.0
Standard Bank Group Ltd	4.8
Standard Bank Group Ltd	3.8

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Video Content: NASPERS DISCOUNT HISTORY

Figure 3: Naspers/Prosus discount to listed and unlisted SOTP

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REZCO

THANK YOU

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