



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



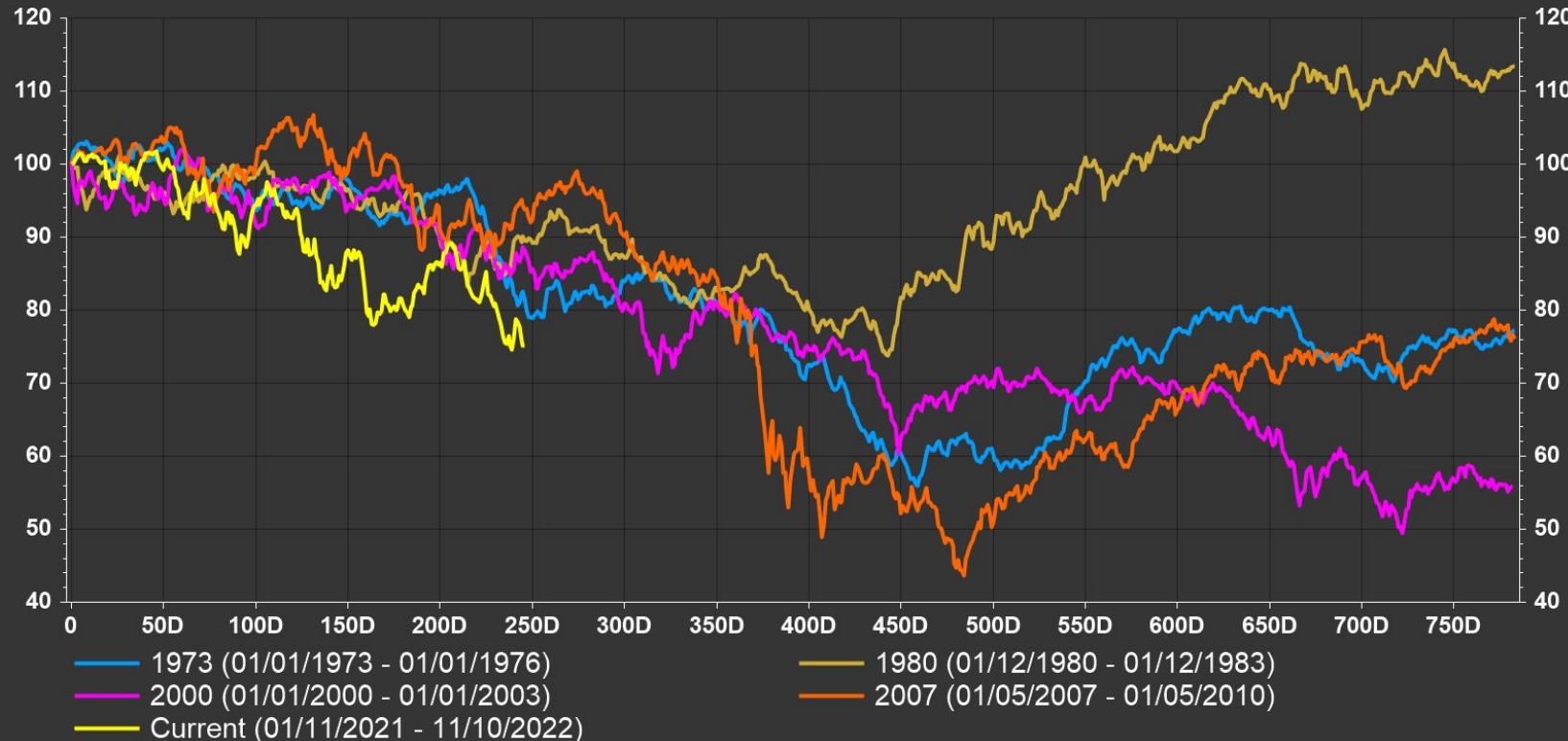
EQUITY BEAR MARKET



BOND BEAR MARKET

MSCI WORLD - GLOBAL BEAR MARKET

MSCI WORLD THROUGH RECESSIONS (REBASED)

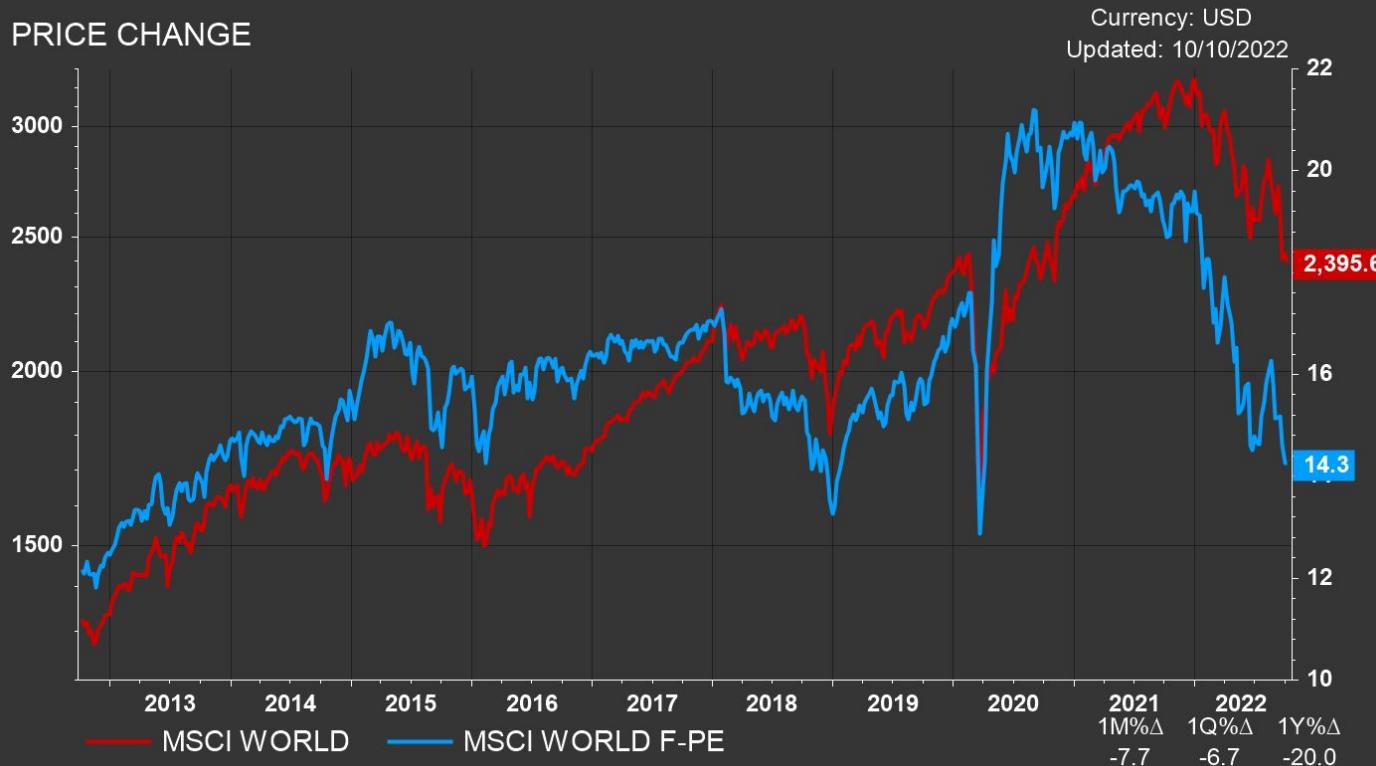


Source: Refinitiv Datastream / Rezco

GLOBAL EQUITY BEAR MARKET

MSCI WORLD

PRICE CHANGE

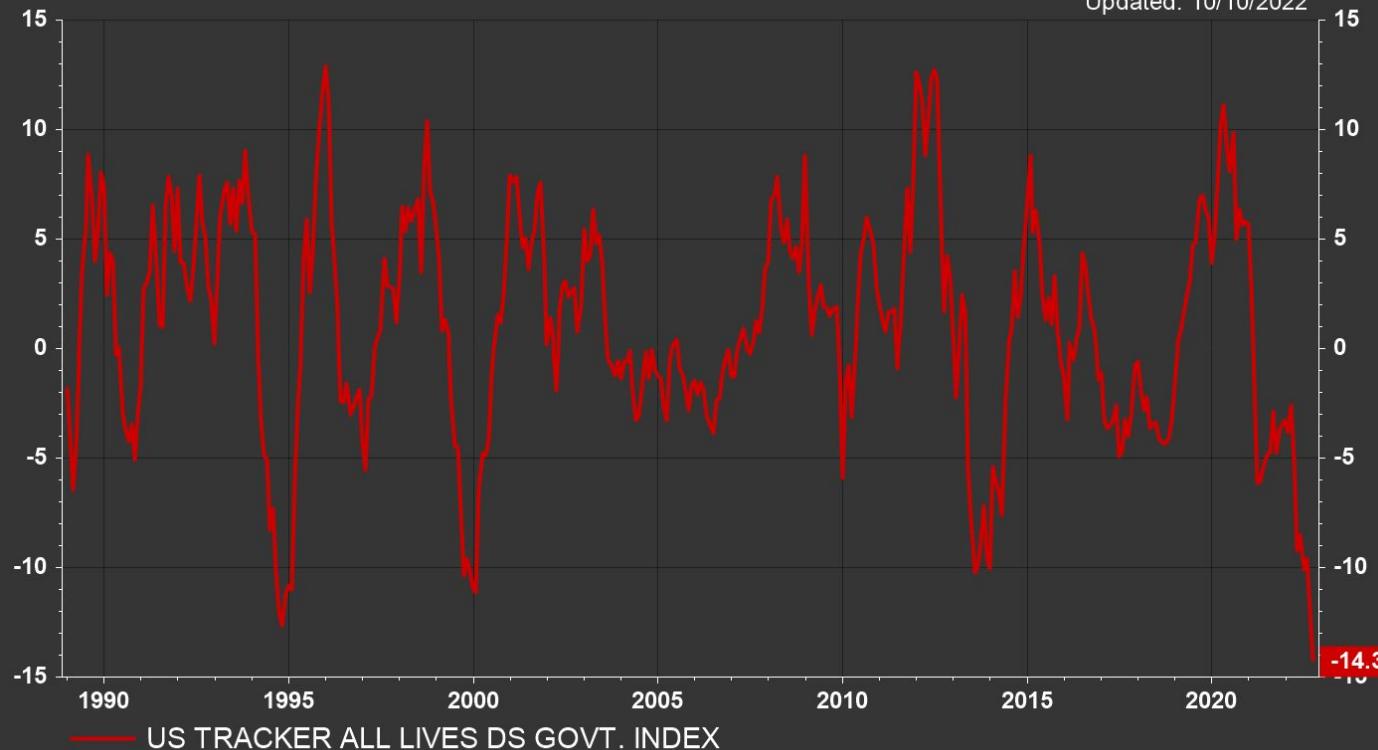


Source: Refinitiv Datastream / Rezco

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

US Bond Market (YoY% Change)

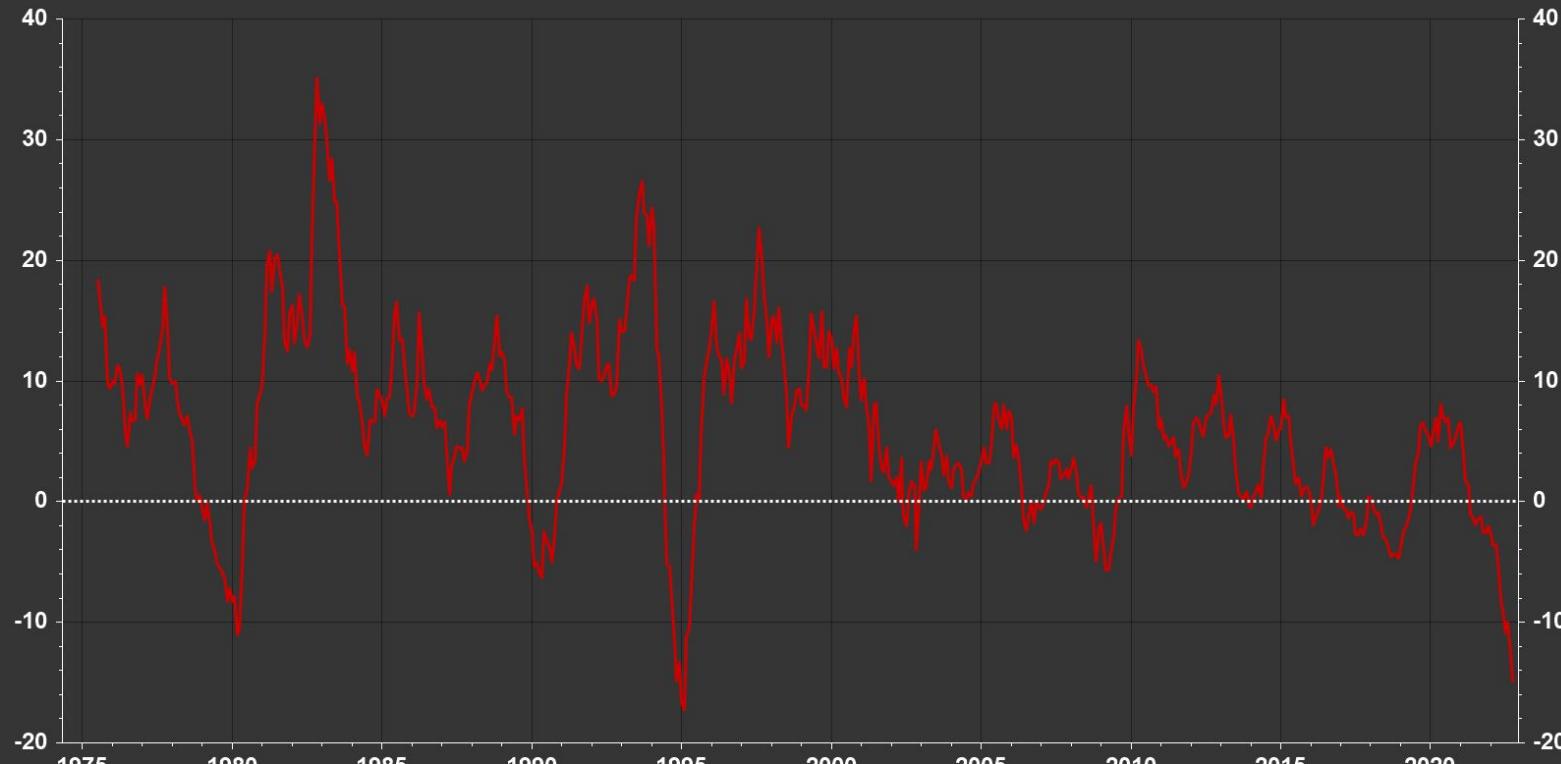
Updated: 10/10/2022



Source: Refinitiv Datastream / Rezco

GLOBAL BOND BEAR MARKET

Large Global Return Bond Fund (YoY% change)



Source: Refinitiv Datastream / Rezco

Updated: 10/10/2022

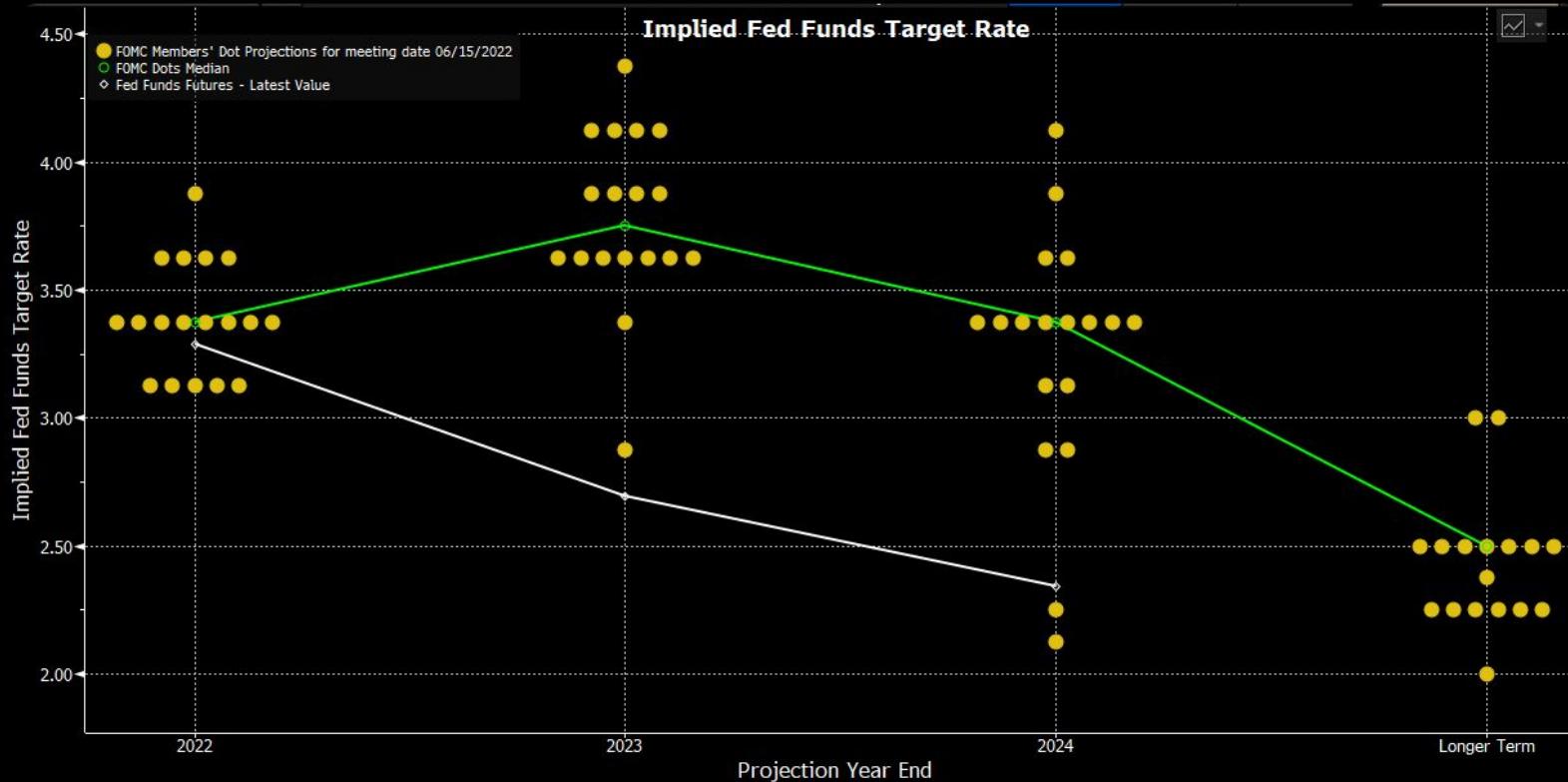


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ZOOMING OUT

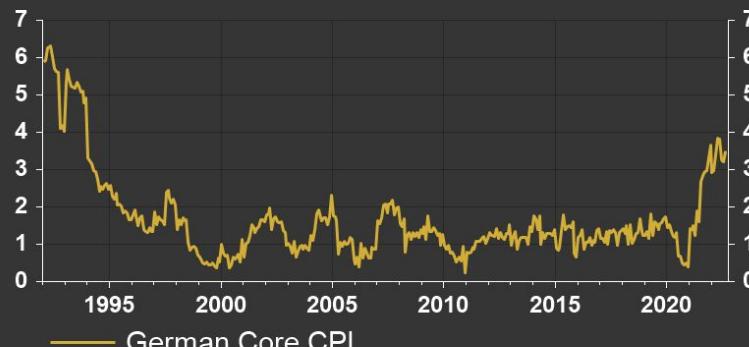


THE MARKET WAS BETTING AGAINST THE FED IN AUGUST 2022



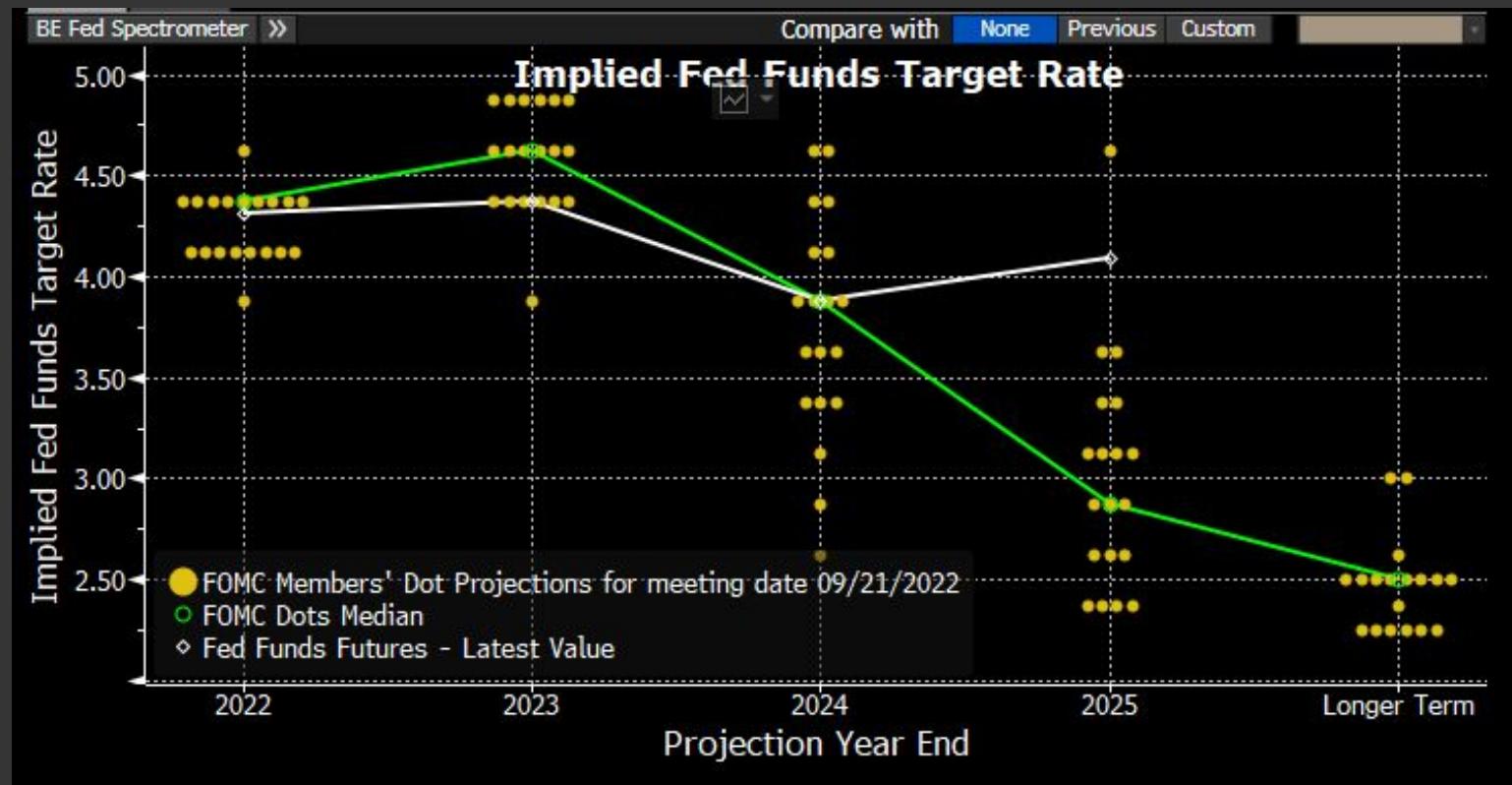
INFLATION IS STILL VERY HIGH

CORE CPI ACROSS DEVELOPED MARKETS (YoY%)



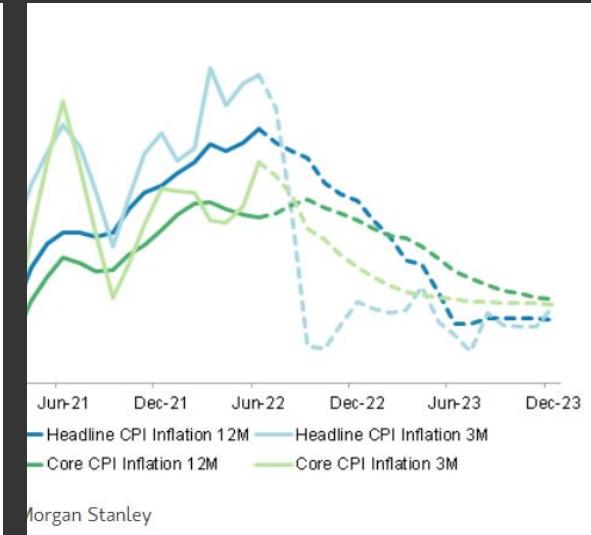
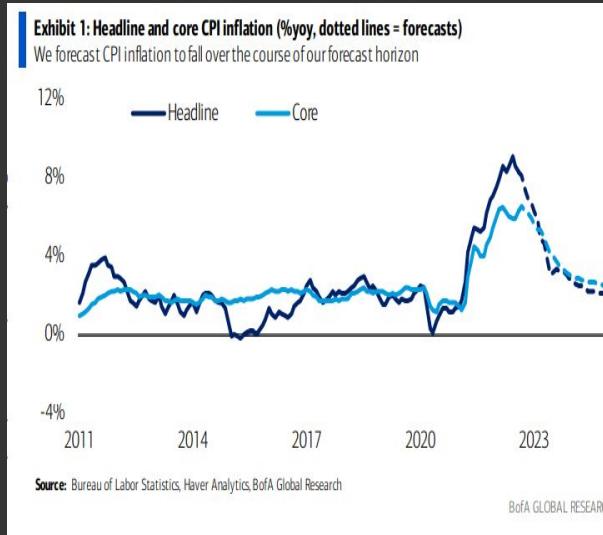
Source: Refinitiv Datastream / Rezco

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



INFLATION IS EXPECTED TO FALL

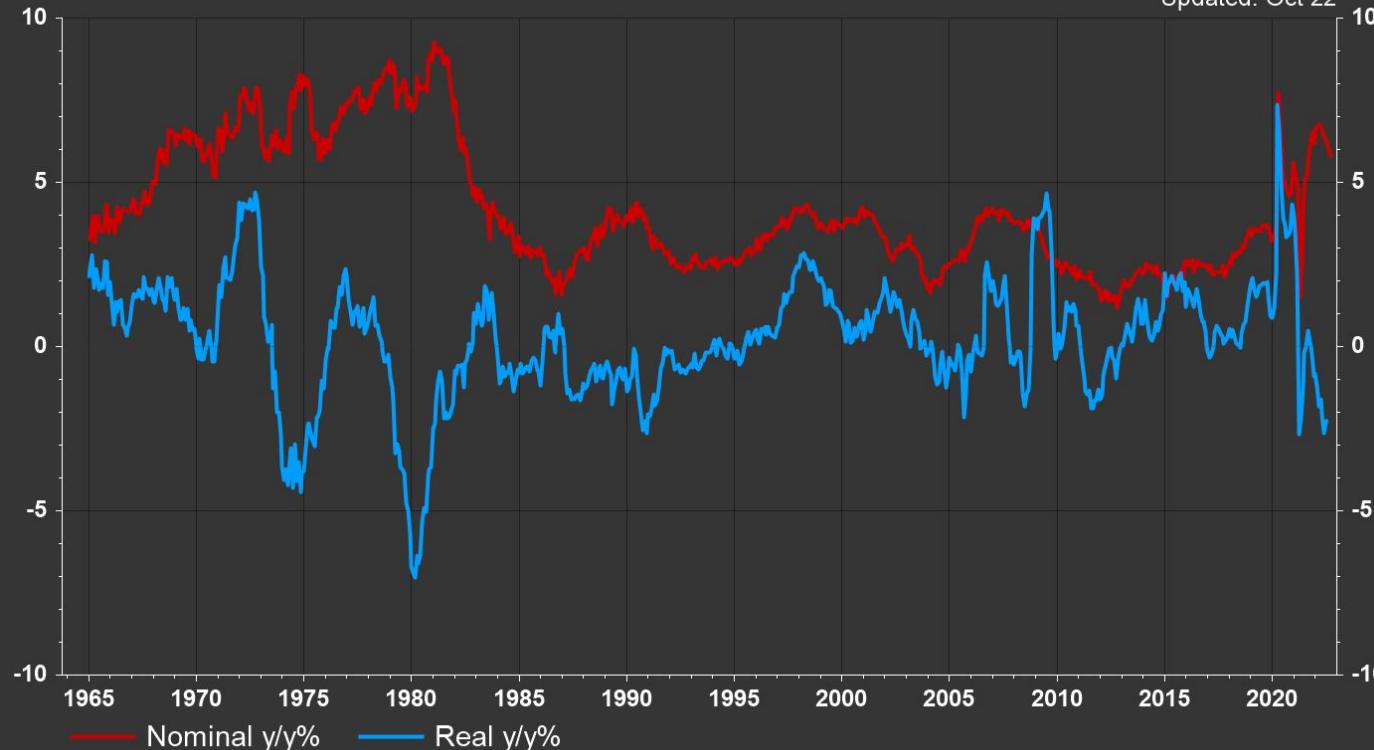
BY REZCO AND EVERYONE ELSE



OVERHEATED LABOUR MARKET: WHAT REALLY WORRIES THE FED

AVERAGE HOURLY EARNINGS (NON-FARM)

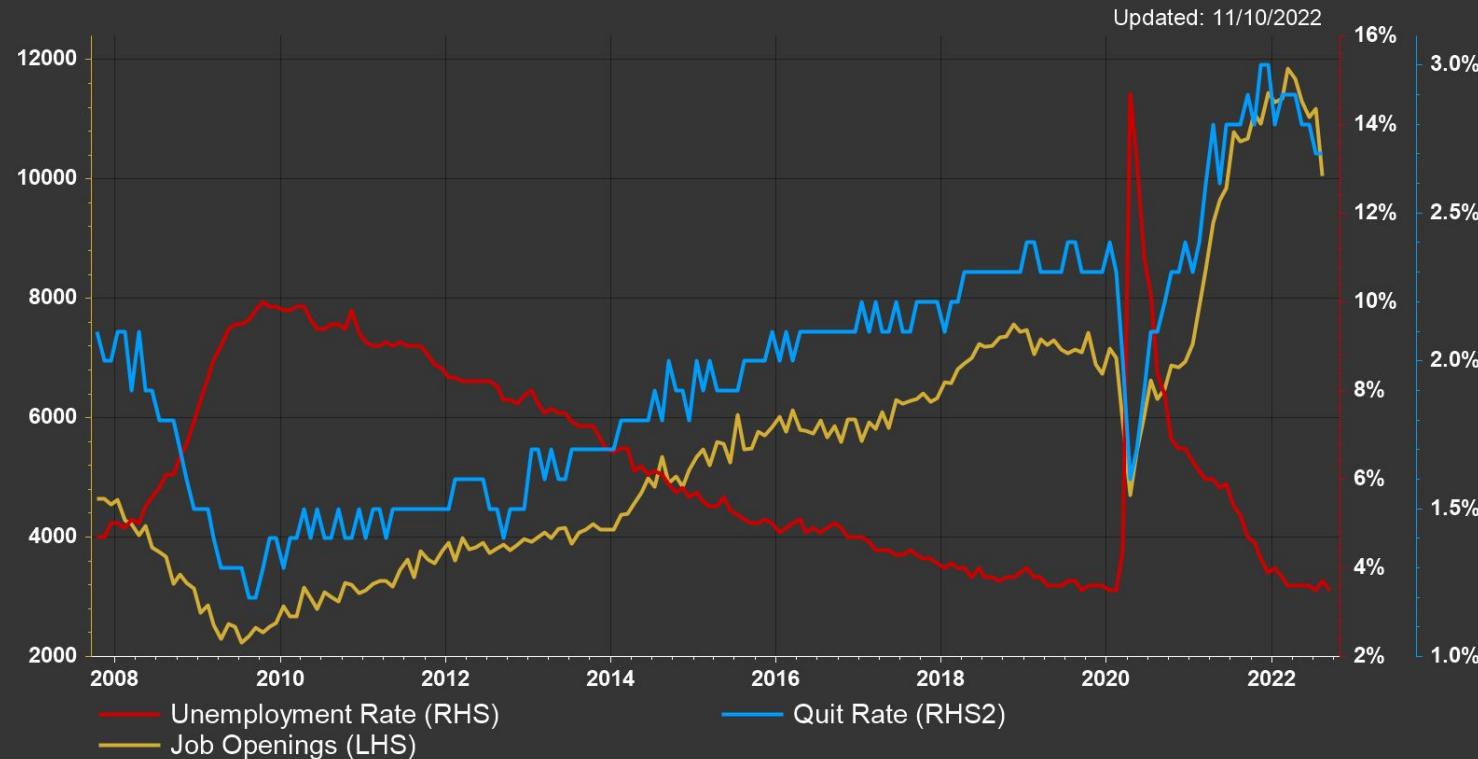
Updated: Oct 22



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



USA EQUITY: VALUATIONS HAVE NORMALISED

F-PE vs FWD EV/EBITDA

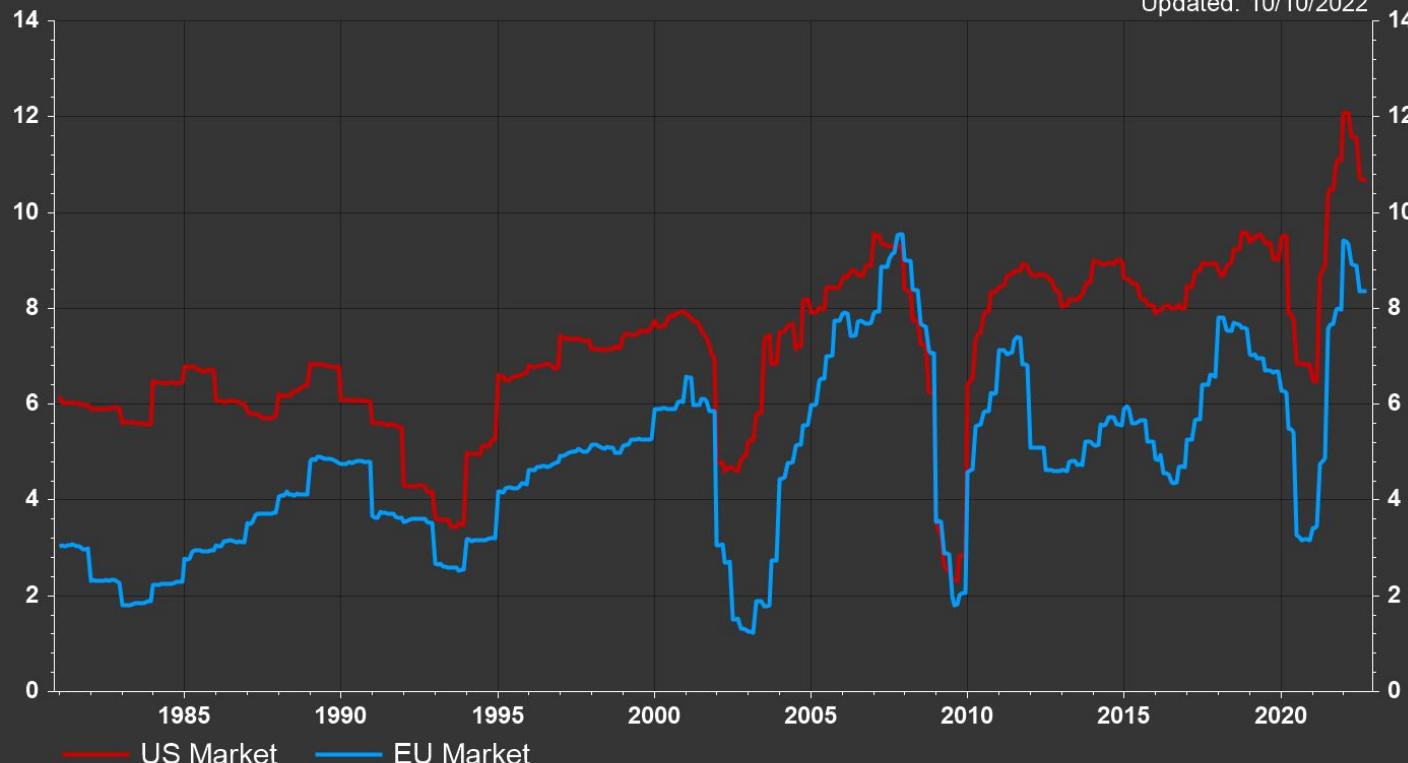
Updated: 10/10/2022



CORPORATE PROFIT MARGINS STILL NEED TO NORMALISE

US & EU Market Net Profit Margin (Long Term)

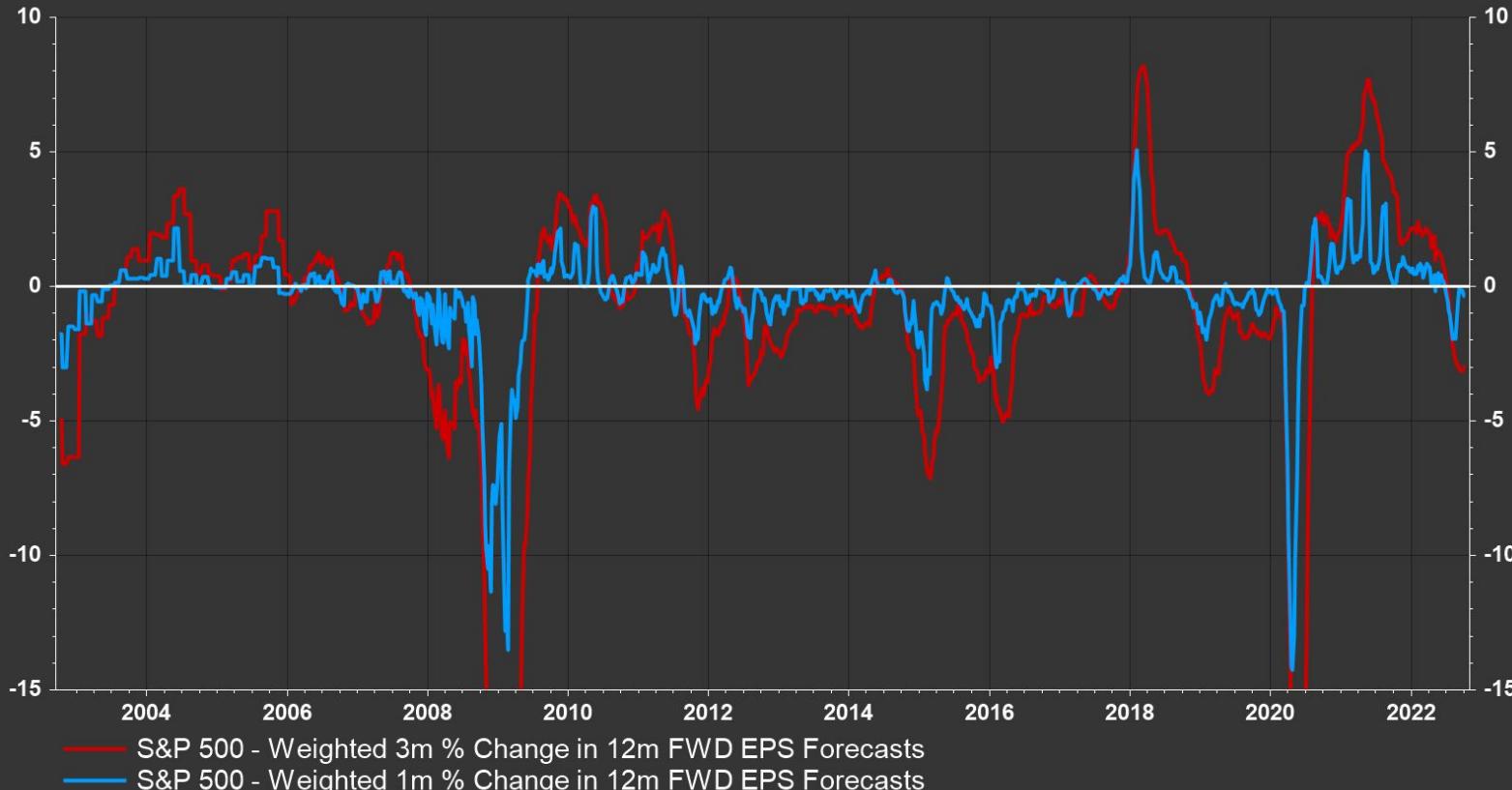
Updated: 10/10/2022



Source: Refinitiv Datastream / Rezco

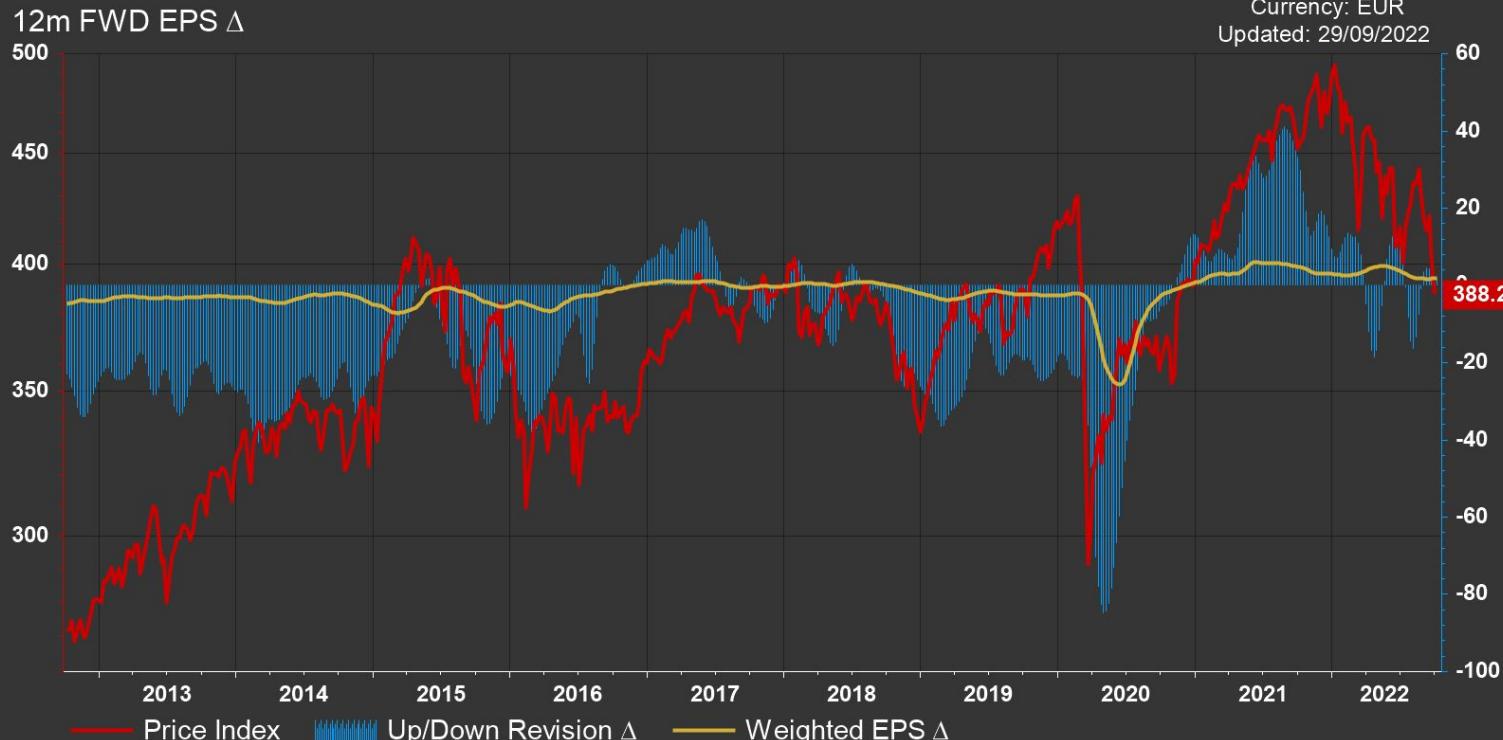
NEGATIVE EARNINGS REVISIONS

JUST GETTING STARTED



EUROPEAN EQUITY

IBES STOXX EUROPE 600



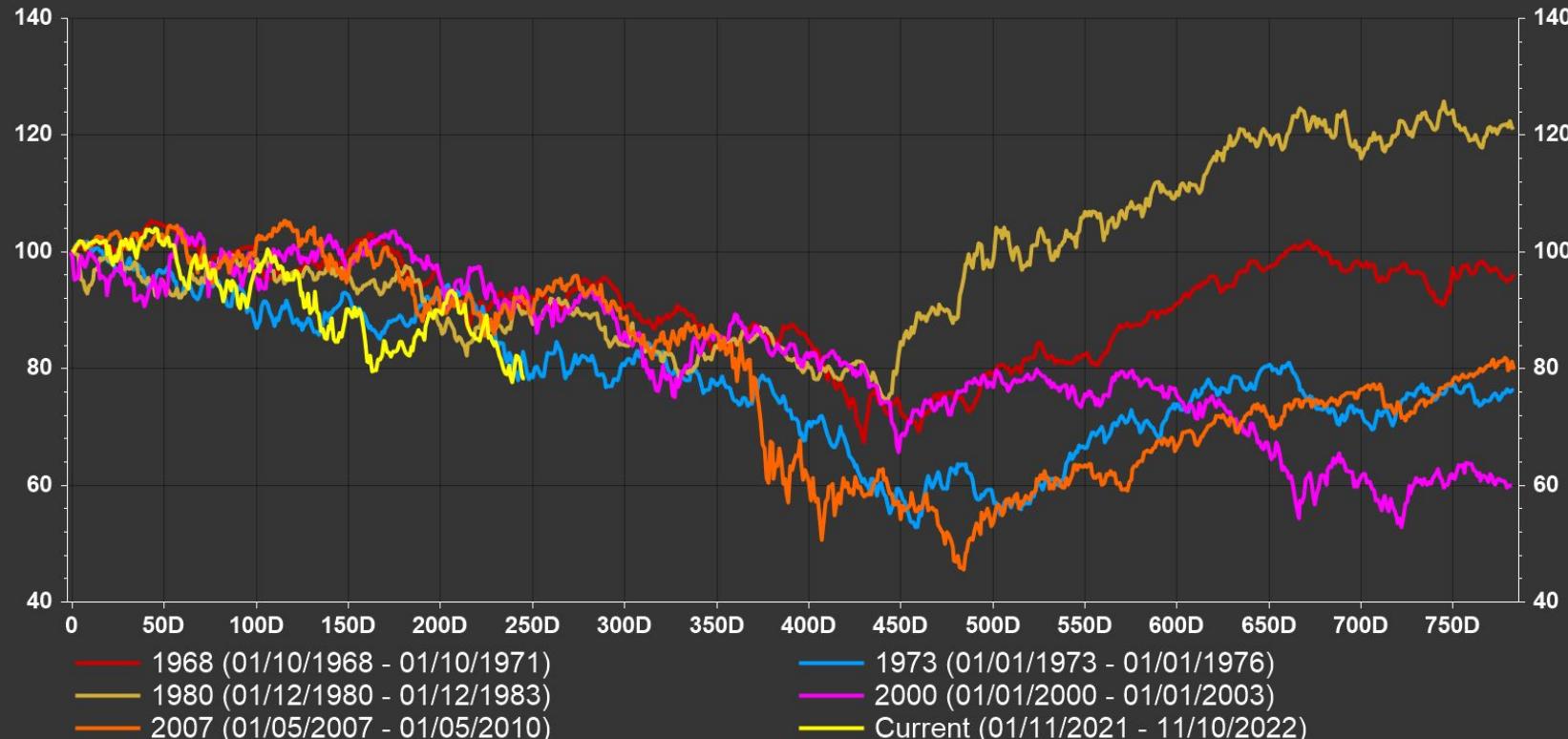
MARKET DOWNSIDE (S&P est): EARNINGS RISK STILL TO PLAY OUT

	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



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DOING THE RESEARCH:
FINDING EQUITY
OPPORTUNITIES AMIDST
THE NOISE

APPLE: EARNINGS EXPECTATIONS ARE UP YTD

APPLE EPS REVISIONS



BUT RISKS ARE ON THEIR WAY

Bloomberg

Africa Edition ▾

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CityL

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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

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BUSINESS TECH

GADGETS

WEARABLE TECH

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

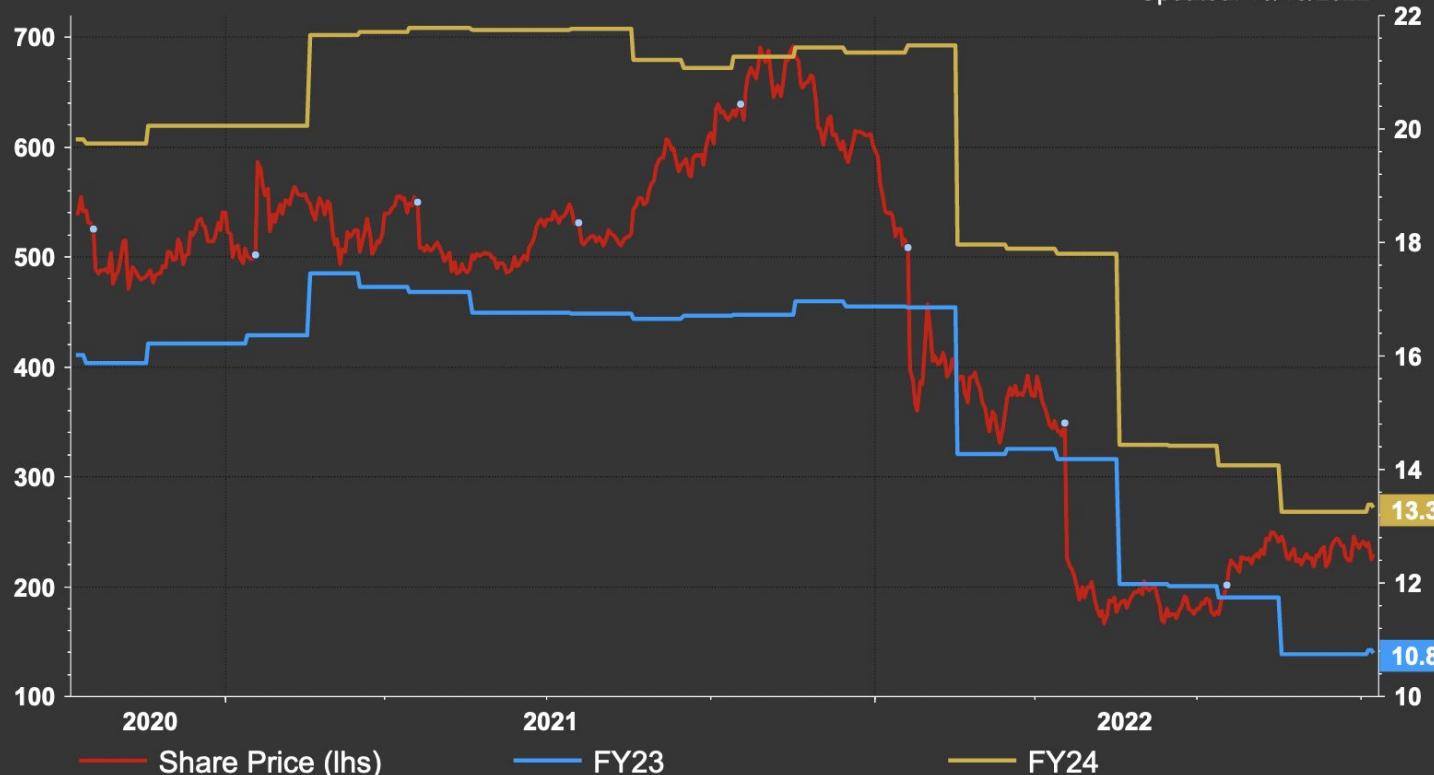


Source: Refinitiv Datastream / Rezco

COMPARED TO NETFLIX

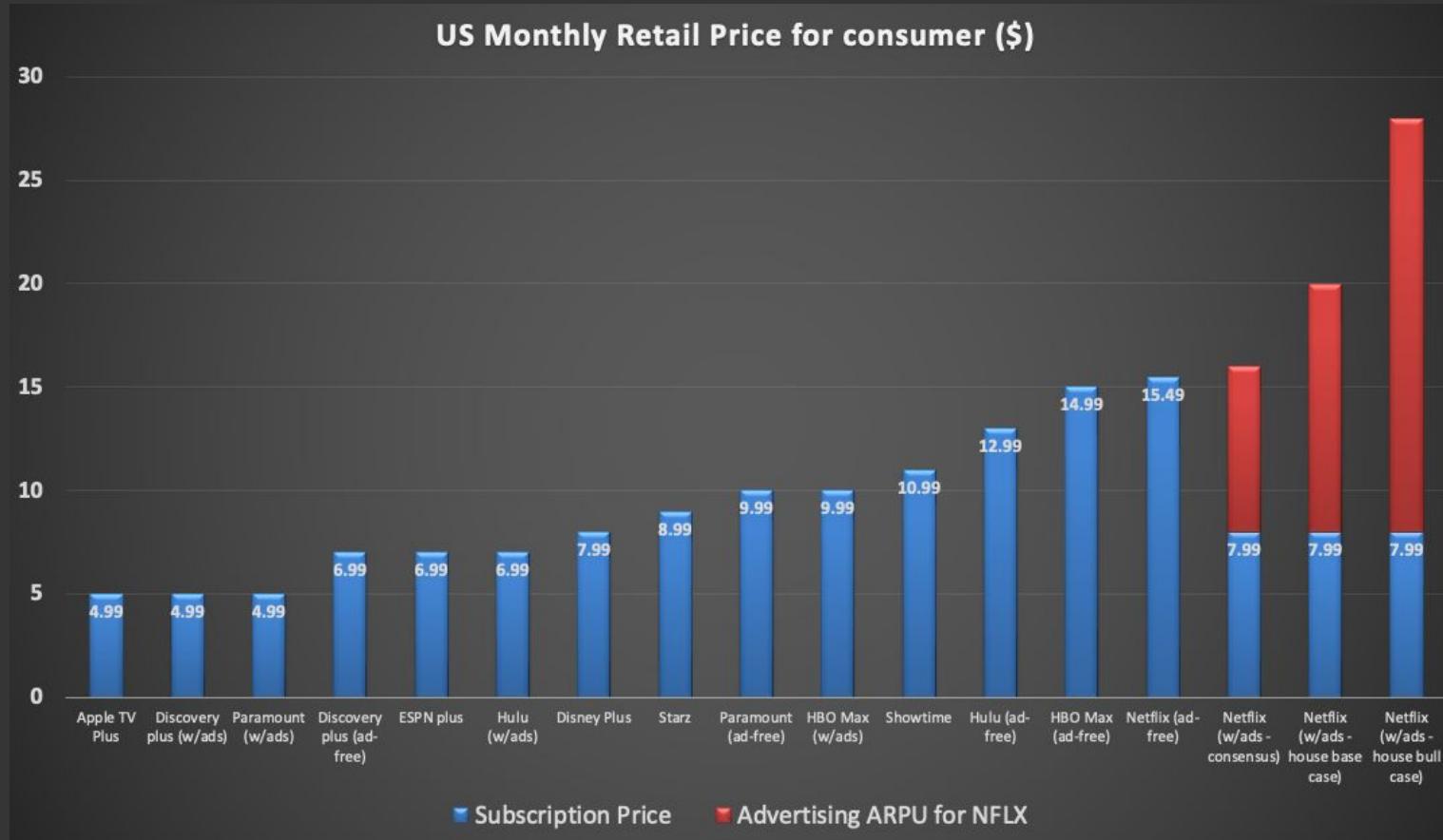
NETFLIX EPS REVISIONS

Updated: 10/10/2022



Source: Refinitiv Datastream / Rezco

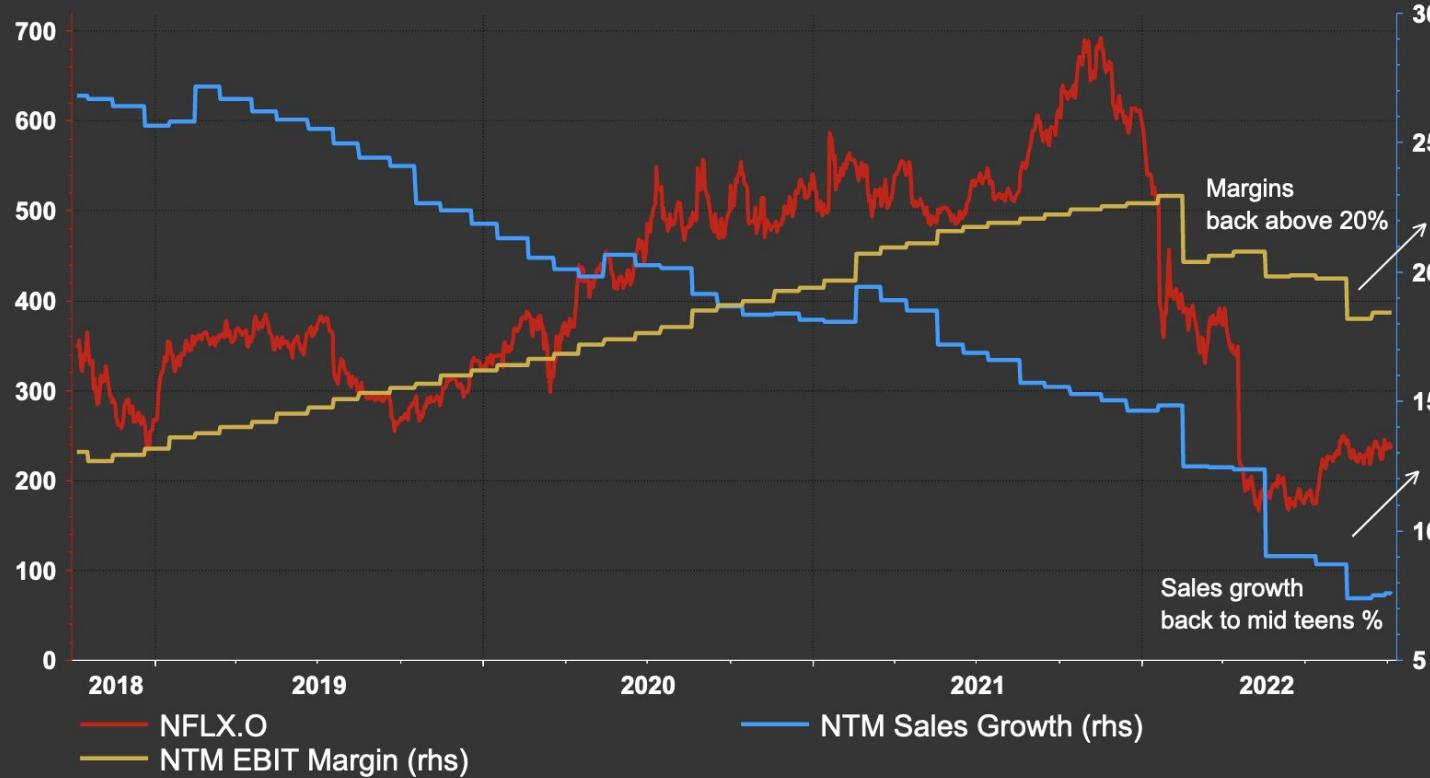
NETFLIX RECOVERY ON SOLID GROUND



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

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

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

 yahoo finance

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



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



Source: Morningstar Direct

107.8 MSCI World NR USD

74.6

OUR DEEP LEARNING MODELS ARE ALSO HELPING

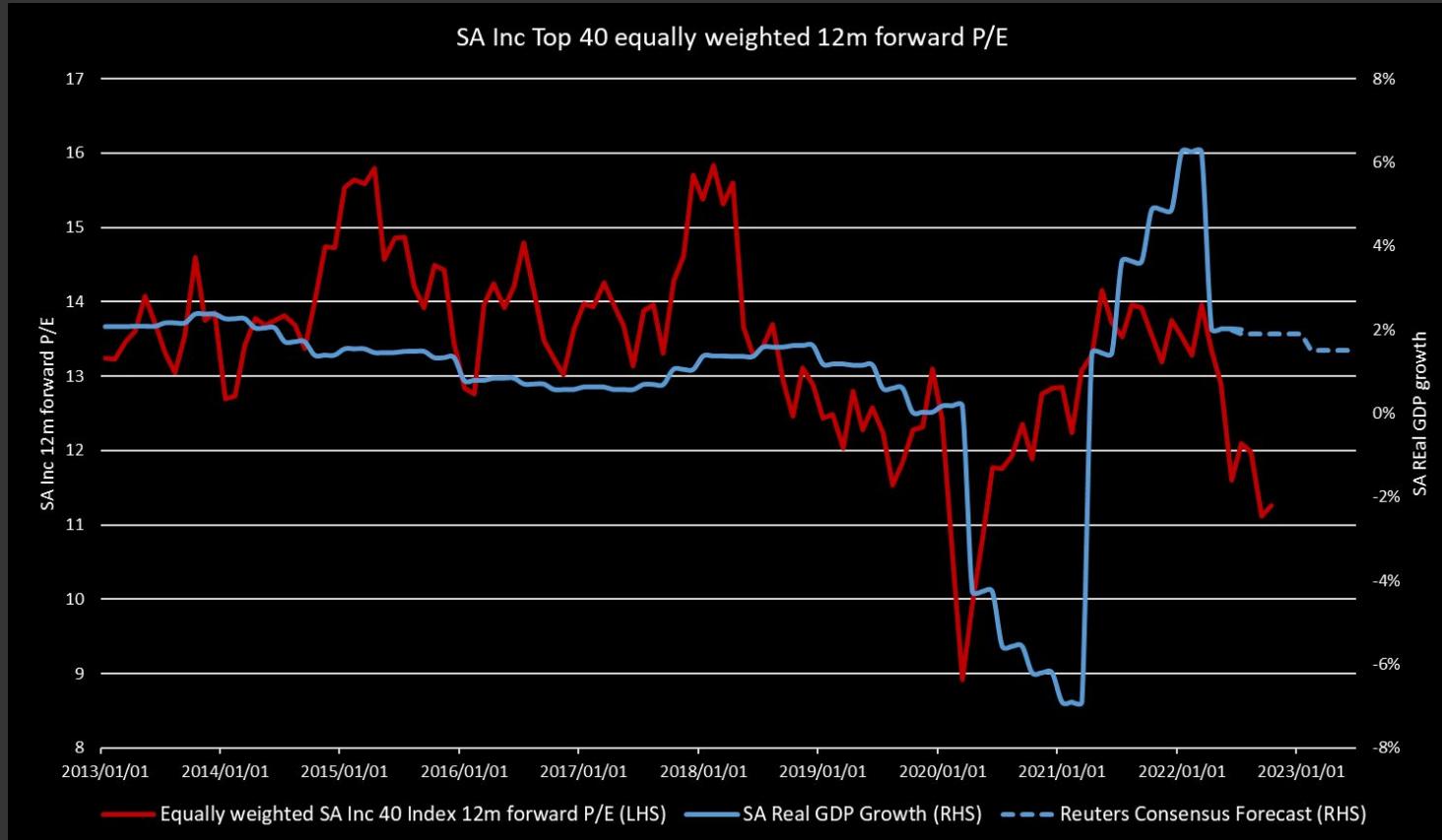




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BUT SOUTH AFRICAN
EQUITIES ARE CHEAP?

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

[f](#) [t](#) [p](#) [e](#) [s](#)



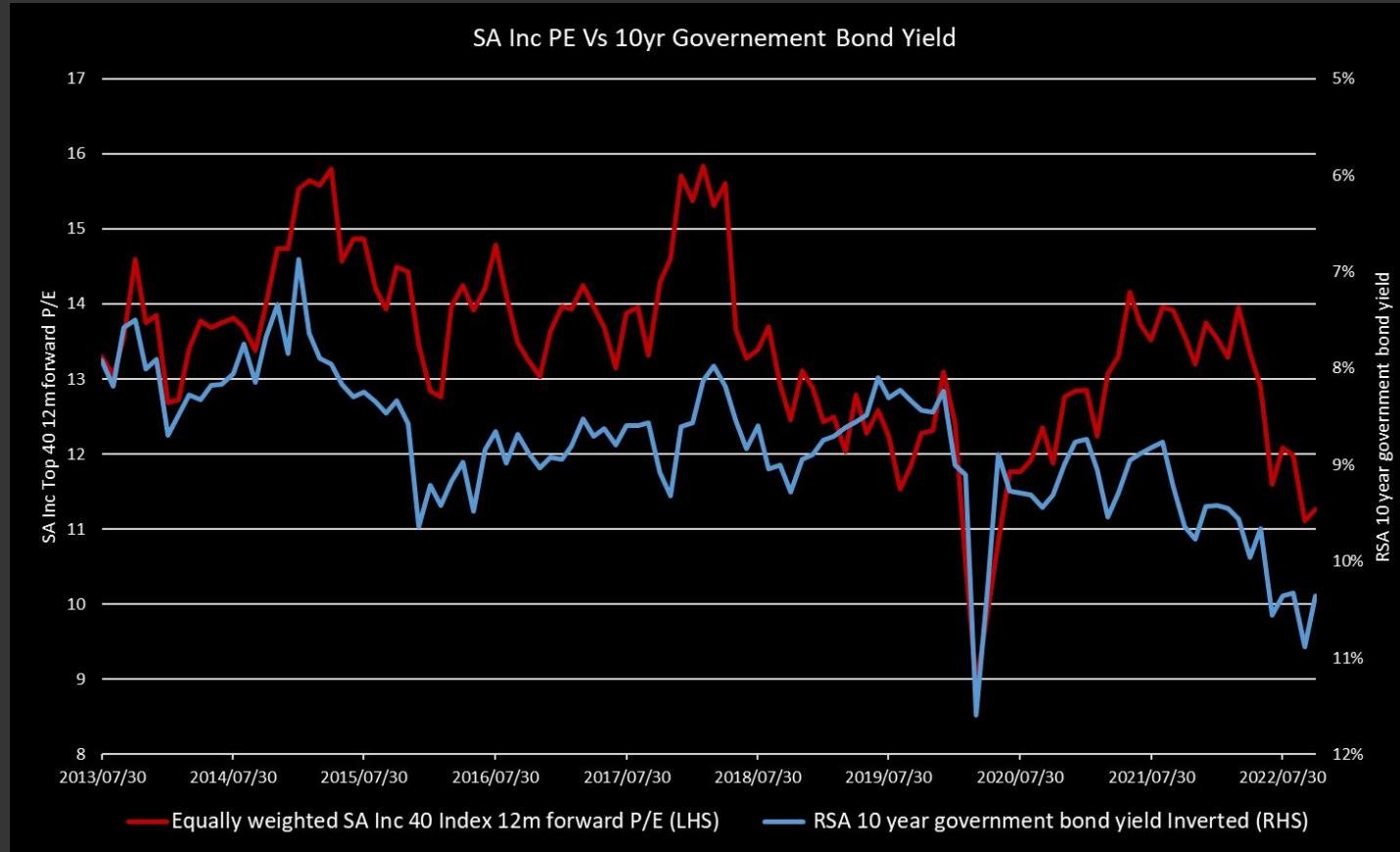
The ANC conference held in East London has been called into question.
Image: Michael Pinyana

RSA WILL FOLLOW THE WORLD

JSE USD VS ACWI EM (EX CHINA)



WE ARE SEEING BETTER VALUE IN SA BONDS





FirstRand

VS



national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

	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



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“The fed keeps tightening
until something breaks”

NOT OUR CORE VIEW BUT FAT TAILS
EXIST

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 be a recession 6-9 months from now

Going to have volatile markets

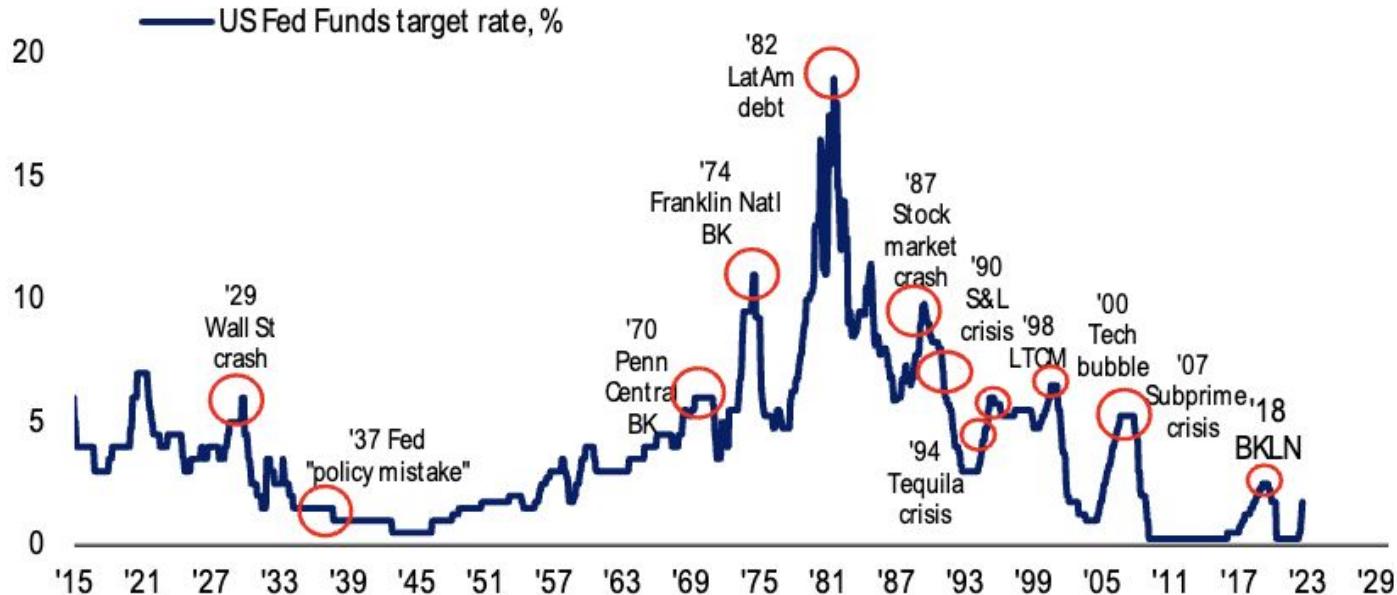
Possible that markets become disorderly sometime in the near future

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



BOJ HAVEN'T HELD THE LINE





REZCO

HOW IS REZCO ALLOCATED?

The logo for REZCO is located in the top right corner. It consists of the word "REZCO" in a bold, white, sans-serif font. To the left of the text, there is a large, white, stylized letter "R" that is partially cut off on the left side. Below the "R" and to the right of the text, there is a thick, red diagonal bar that tapers to a point.

REZCO

DEFENSIVELY POSITIONED
FOR A RECESSION BUT
OPPORTUNISTICALLY FOR
POSITIVE RETURNS

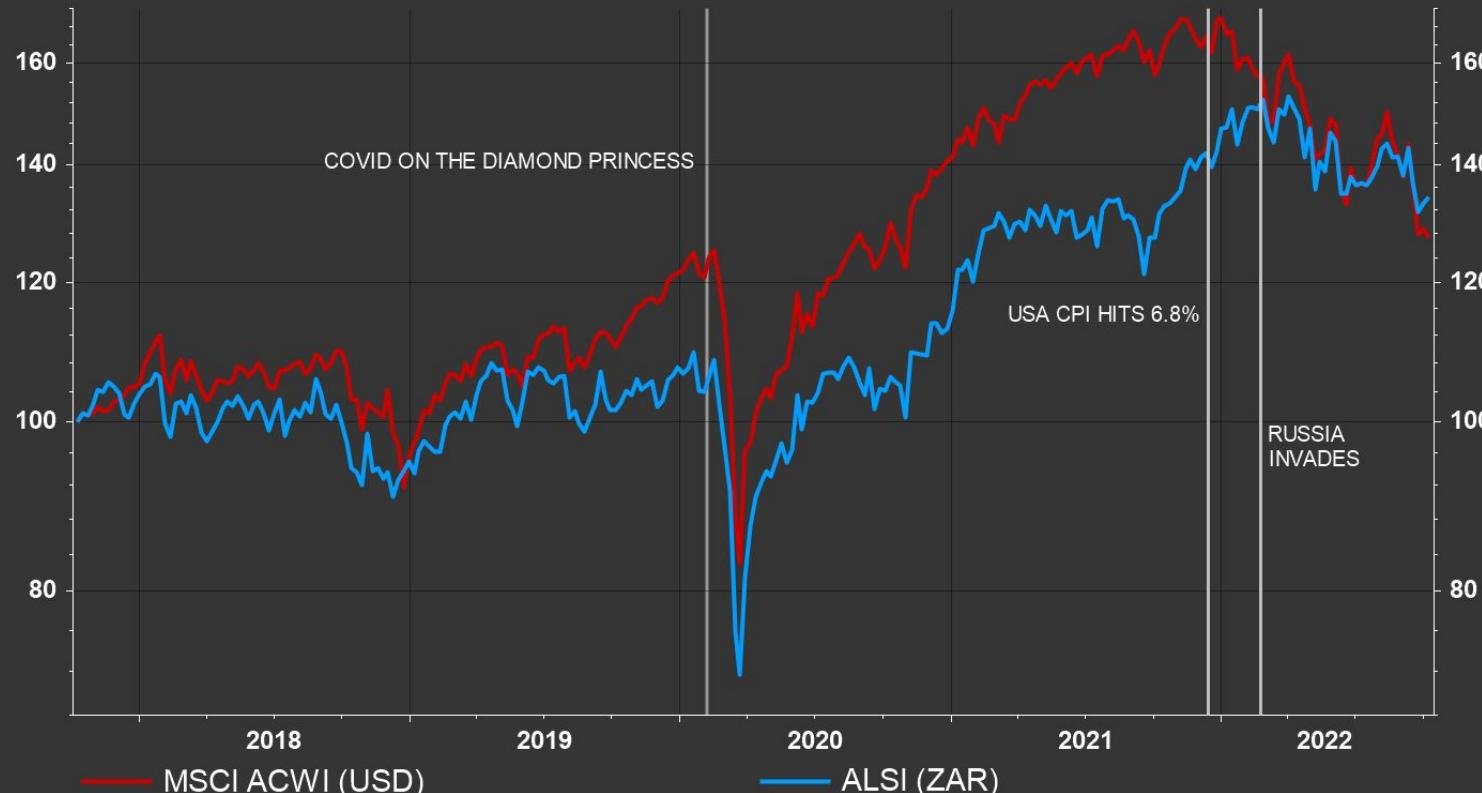
OUR CURRENT POSITIONING*

	SA EQUITY	SA GOV DURATION	US GOV BONDS DURATION (INCL HEDGE)	GLOBAL EQUITY	GLOBAL HEGED 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



REZCO

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

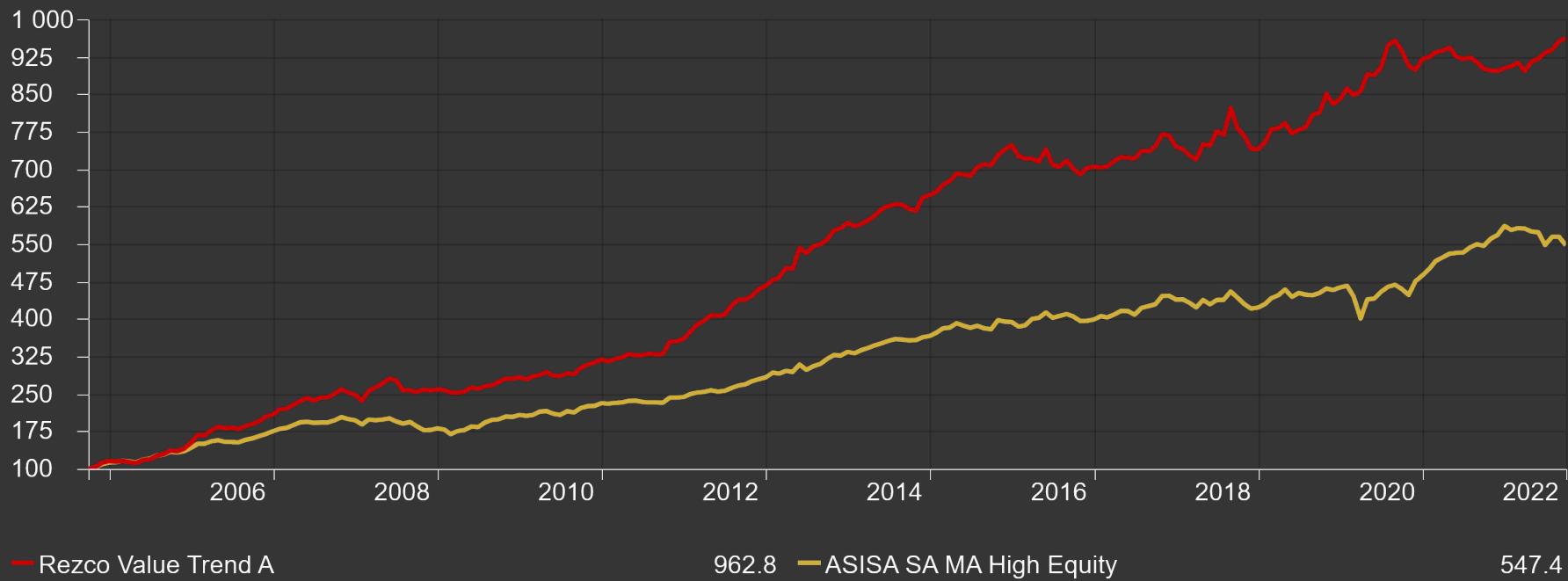


Source: Refinitiv Datastream / Rezco

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

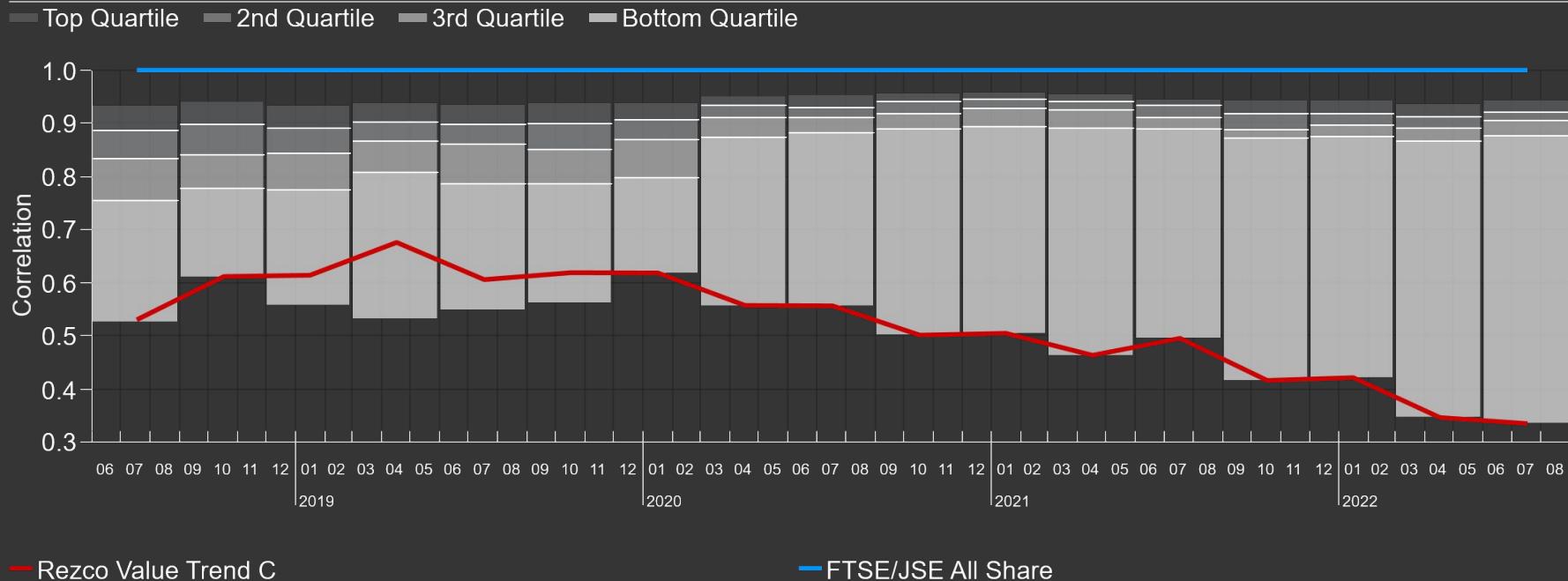


Source: Morningstar Direct

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

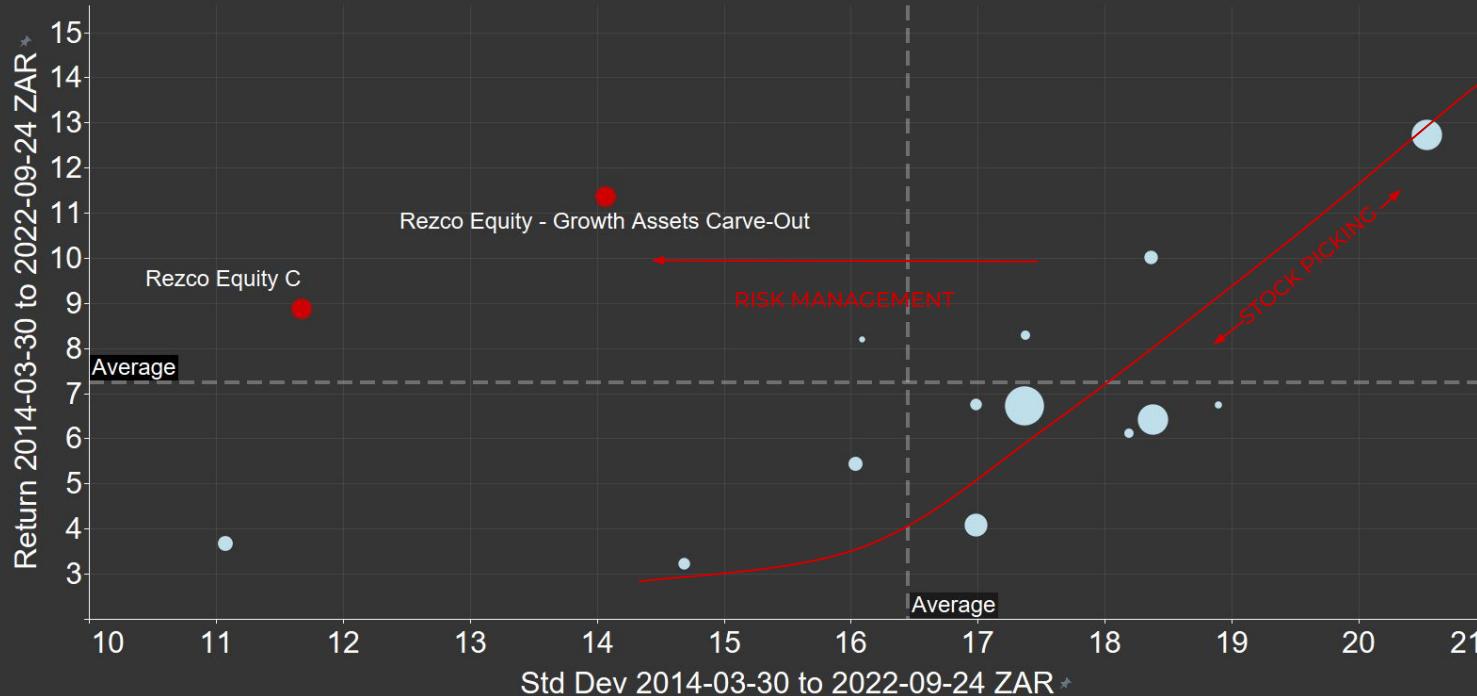


Source: Morningstar Direct

REZCO EQUITY FUND

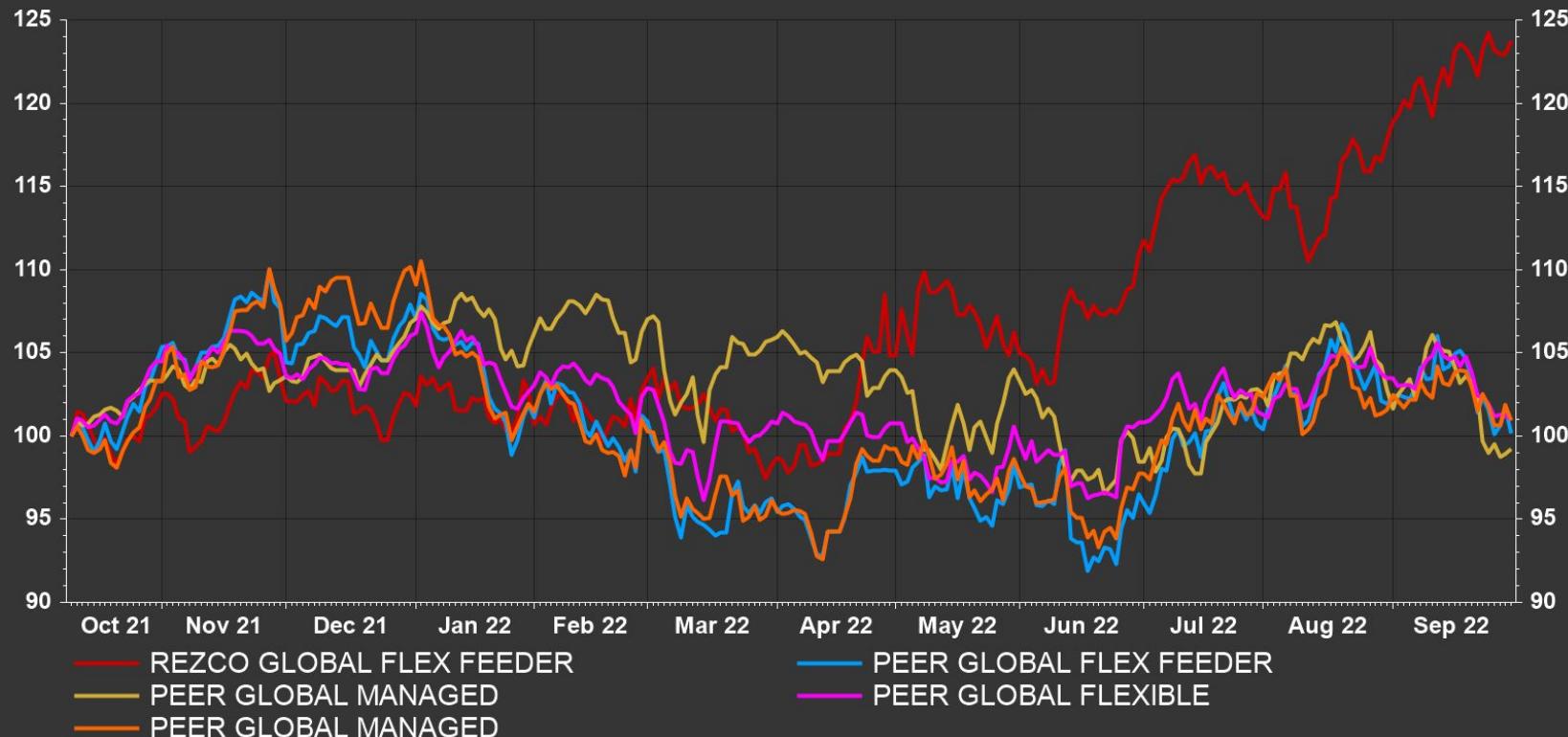
RISK VS RETURN

(RSA only Equity Funds above R500m)



REZCO IS VERY DIFFERENT TO PEERS

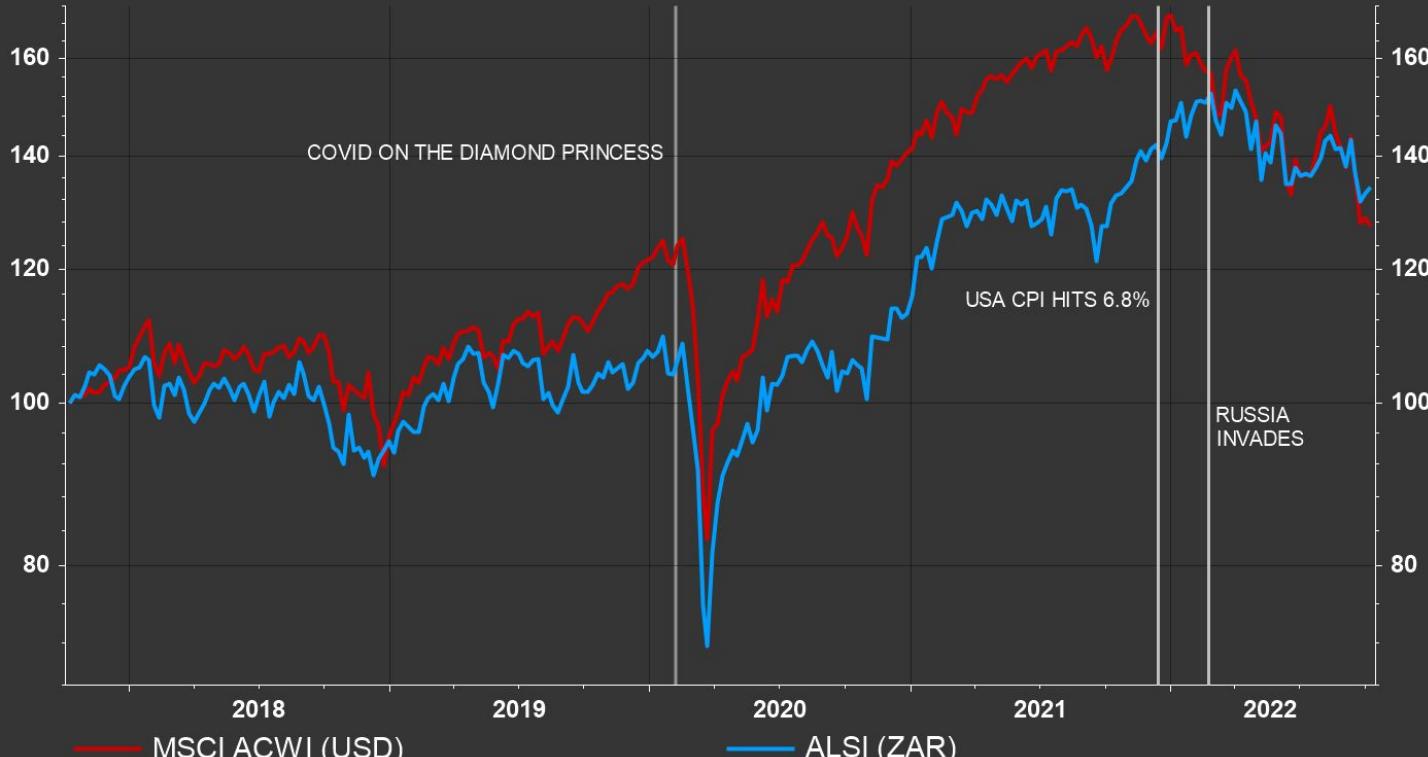
REZCO FLEXIBLE FEEDER 1 YEAR RETURN



WHY USE REZCO NOW?

RISKS ARE STILL PLAYING OUT

MARKETS VS RISK EVENTS



Source: Refinitiv Datastream / Rezco

AGILITY WITH A TRACK RECORD OF MAKING TOUGH CALLS

Things are bad

Much is already in the price

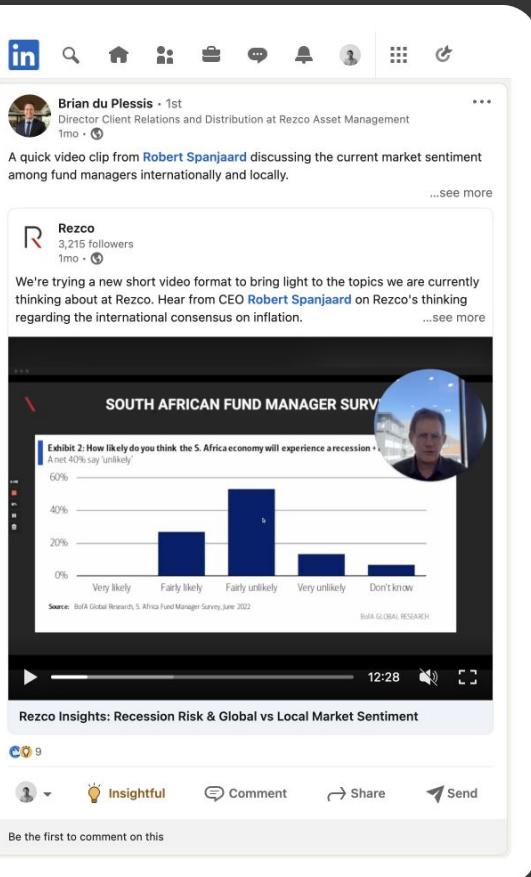
Could be near the bottom....

....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



Brian du Plessis - 1st
Director Client Relations and Distribution at Rezco Asset Management
1mo • 0

A quick video clip from [Robert Spanjaard](#) discussing the current market sentiment among fund managers internationally and locally.

...see more

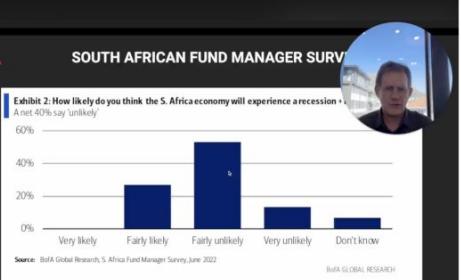
Rezco
3,215 followers
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We're trying a new short video format to bring light to the topics we are currently thinking about at Rezco. Hear from CEO [Robert Spanjaard](#) on Rezco's thinking regarding the international consensus on inflation.

...see more

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'



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

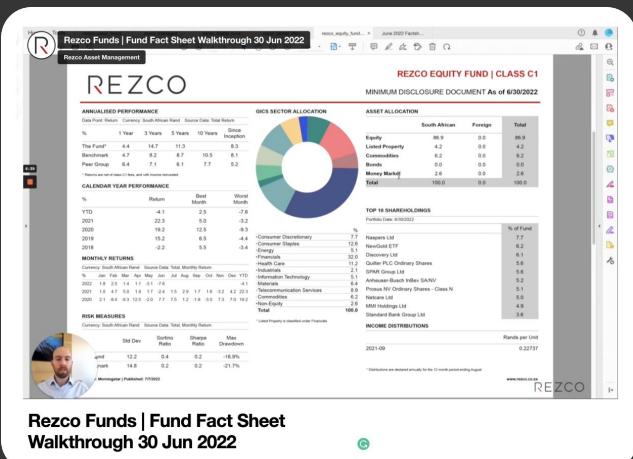
Rezco Insights: Recession Risk & Global vs Local Market Sentiment

12:28

9

Insightful Comment Share Send

Be the first to comment on this



Rezco Funds | Fund Fact Sheet Walkthrough 30 Jun 2022

REZCO

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	10.3
Standard Deviation	15.2	16.2	16.5	8.1	16.0
Peer Group	6.4	7.1	6.1	7.7	5.2

QICS SECTOR ALLOCATION



ASSET ALLOCATION

Category	South African	Foreign	Total
Equity	86.9	0.0	86.9
Listed Property	4.2	0.0	4.2
Bonds	4.2	0.0	4.2
Money Market	0.0	0.0	0.0
Total	100.0	0.0	100.0

CALENDAR YEAR PERFORMANCE

Year	Return	Best Month	Worst Month
2021	4.1	2.2	-3.2
2020	22.3	9.9	-3.2
2019	19.2	12.8	-9.3
2018	19.2	9.3	-4.4
2017	-2.2	5.5	-3.4

MONTHLY RETURNS

Month	Return	Best Month	Worst Month
Jan	2.2	2.2	-3.2
Feb	1.8	1.8	-3.1
Mar	1.4	1.4	-3.1
Apr	1.1	1.1	-3.1
May	1.1	1.1	-3.1
Jun	4.1	4.1	-3.1
Jul	1.2	1.2	-3.1
Aug	0.9	0.9	-3.1
Sep	0.6	0.6	-3.1
Oct	0.1	0.1	-3.1
Nov	-0.6	-0.6	-3.1
Dec	-0.7	-0.7	-3.1

RISK MEASURES

Category	South African Rand	Source Date	Total	Monthly Return
3rd Day	12.2	0.4	0.2	-16.8%
90 Day	14.8	0.2	0.2	-21.7%

INCOME DISTRIBUTIONS

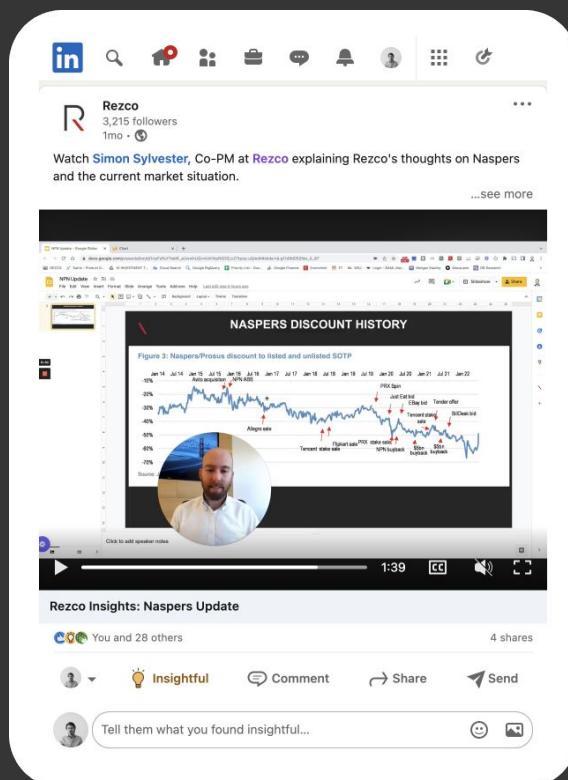
Period	Rands per Unit
2021-09	0.23737

Portfolios are rebalanced quarterly. Distributions are denominated annually for the 12-month period ending August.

TOP 10 SHAREHOLDERS

Shareholder	% of Fund
Naspers Ltd	7.7
NewGold ETF	6.2
Discovery Ltd	6.1
Standard Bank Group Ltd	5.6
SPAR Group Ltd	5.6
Protein Industries SA/NY	5.6
Materials	4.4
Telecommunications Services	4.4
Commodities	4.2
Property	4.2

REZCO



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Watch [Simon Sylvester](#), Co-PM at [Rezco](#) explaining Rezco's thoughts on Naspers and the current market situation.

...see more

NASPERS DISCOUNT HISTORY



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

Click to add speaker notes

1:39

CC

4 shares

Rezco Insights: Naspers Update

28 others

Insightful Comment Share Send

Tell them what you found insightful...

66

WE ARE ON THE MAJOR PLATFORMS

glacier
by Sanlam

ALLANGRAY

III
Ninety
One

momentum
investments

Discovery
Invest

OLD MUTUAL
WEALTH

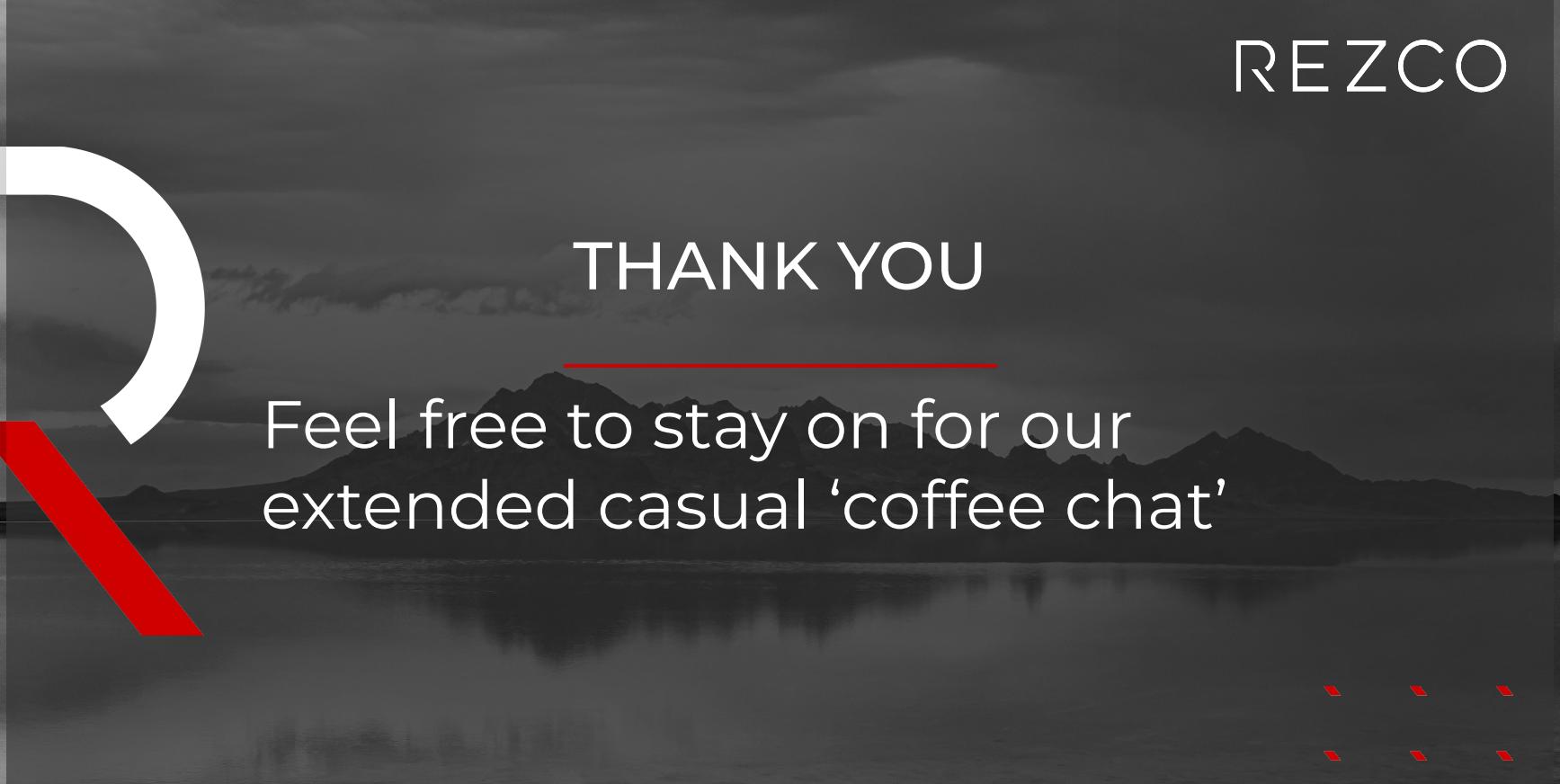
INN 8

PSG

absa

pps

INVESTMENTS



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THANK YOU

Feel free to stay on for our
extended casual 'coffee chat'

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.

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