

REZCO

South African Macro Trends:

**Continued deterioration or reform?
Allocating between SA Inc and global assets**

August 2023

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Simon Sylvester CEO, Portfolio Manager

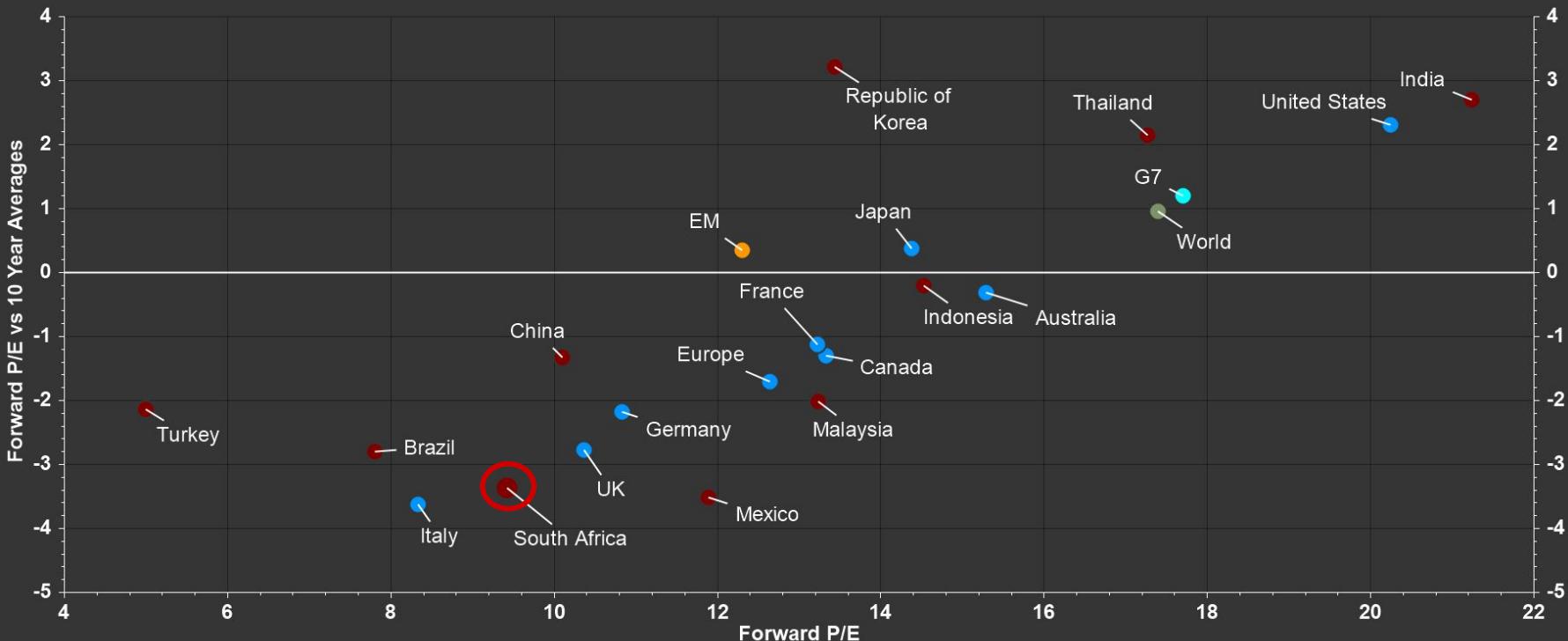




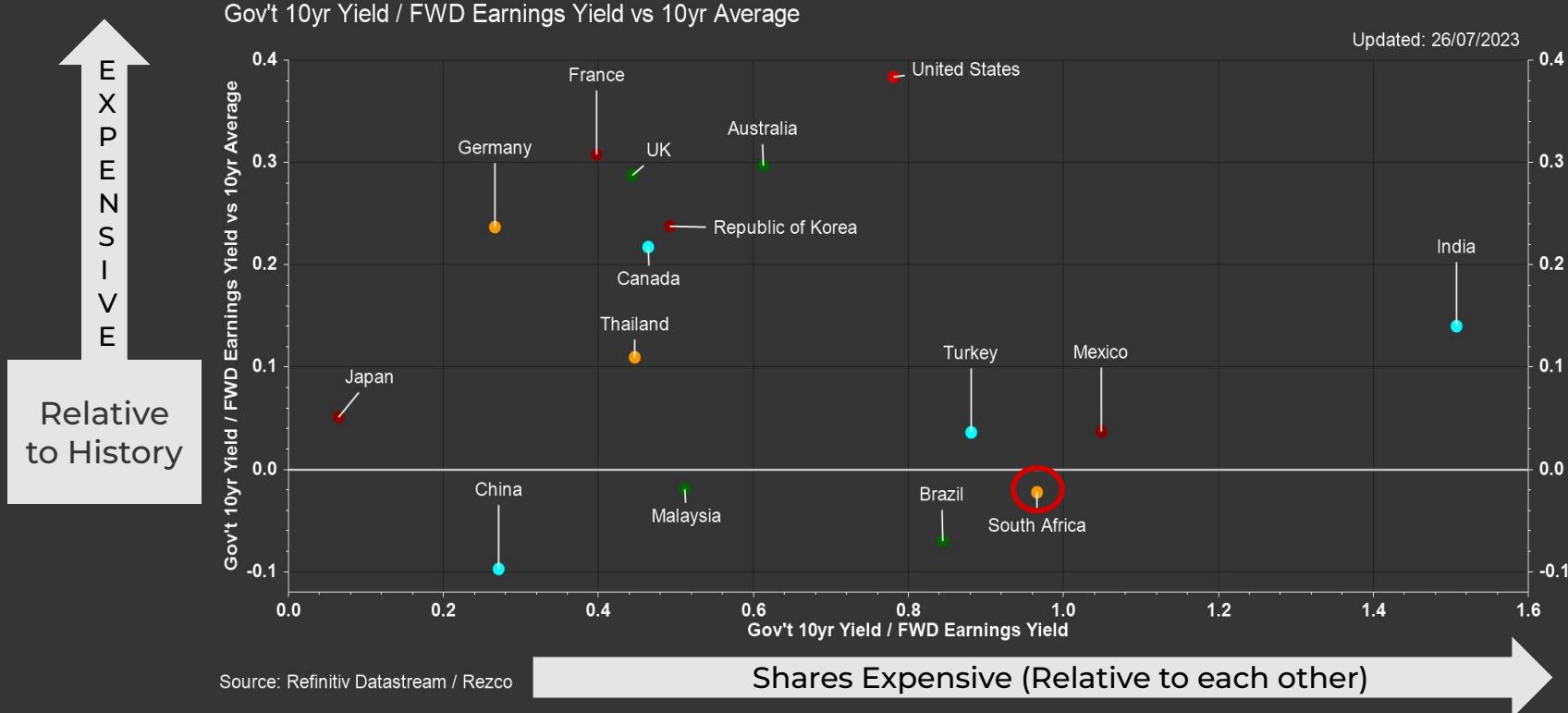
South Africa

SA Shares are Cheap vs Average P/E

Forward P/E ratio & Forward P/E 10 Year Averages

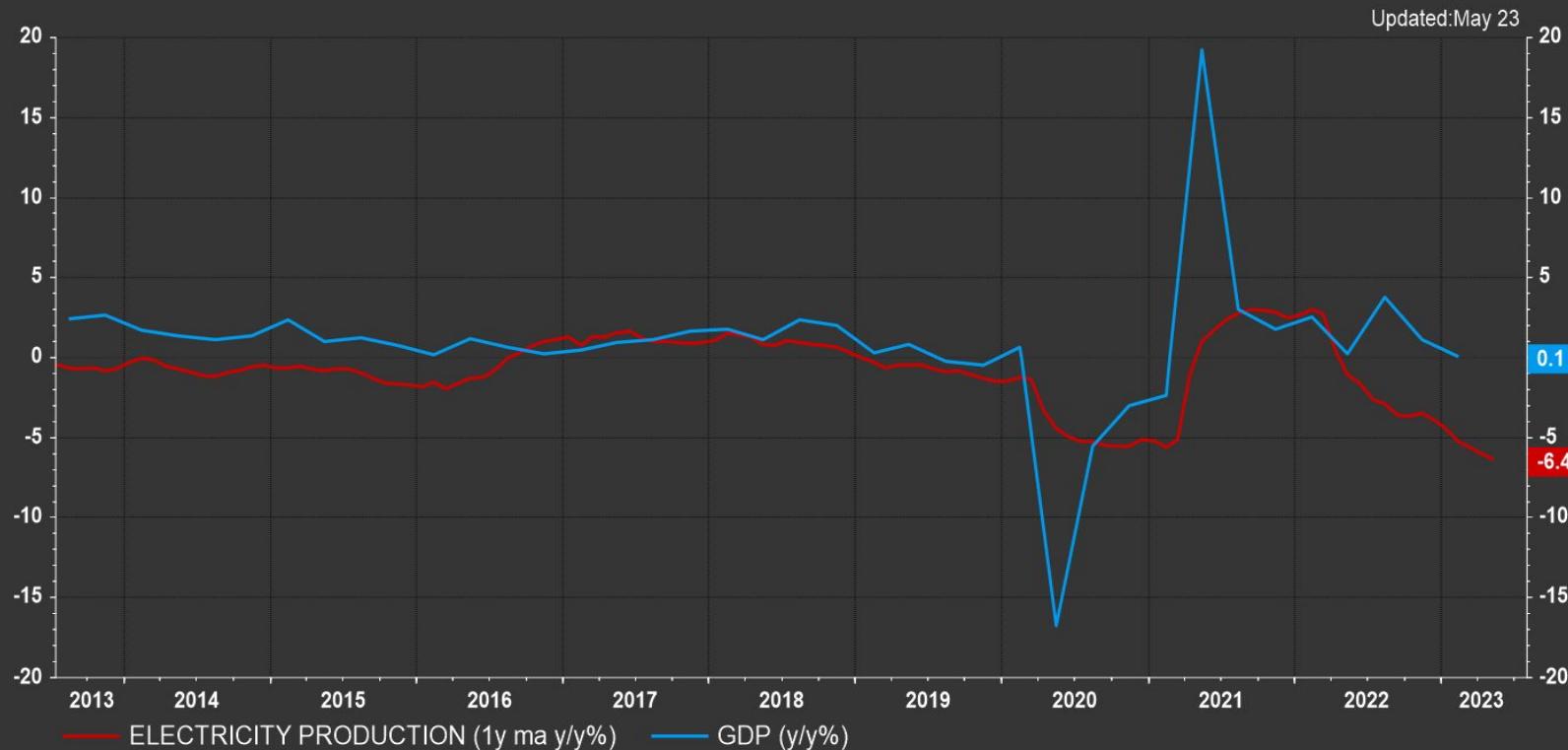


Shares vs 10 Year Government Bonds: RSA is Expensive



Eskom - A Symptom or the Cause?

SOUTH AFRICA GDP AND ELECTRICITY



Source: Refinitiv Datastream / Rezco



RSA Income Statement

RSA's Income Statement

Income

Short term sharp decline
Med-term flat to low growth

Expenditure

Two biggest items:
 Government wages & grants growing strongly
 Interest payments increasing fast
SOE funding is also growing

Bottom Line

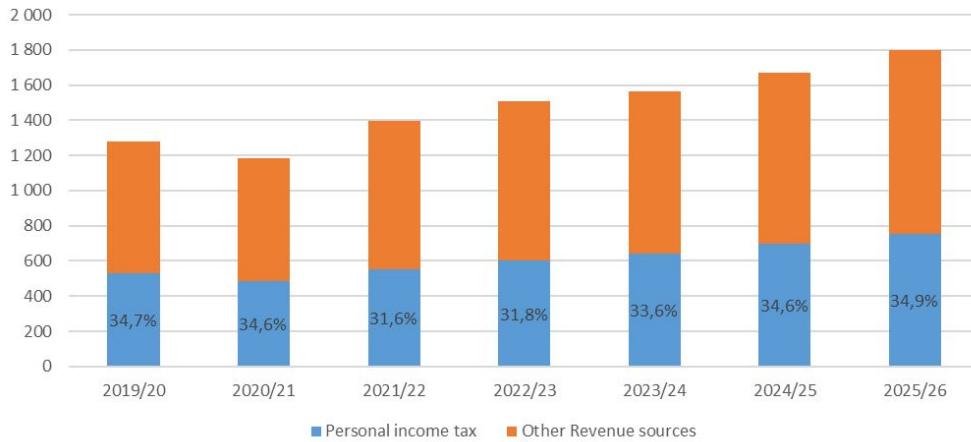
Deficits (Losses) are growing

Income Tax: Narrow Base & Emigration

Table 4.6 Estimates of individuals and taxable income, 2023/24

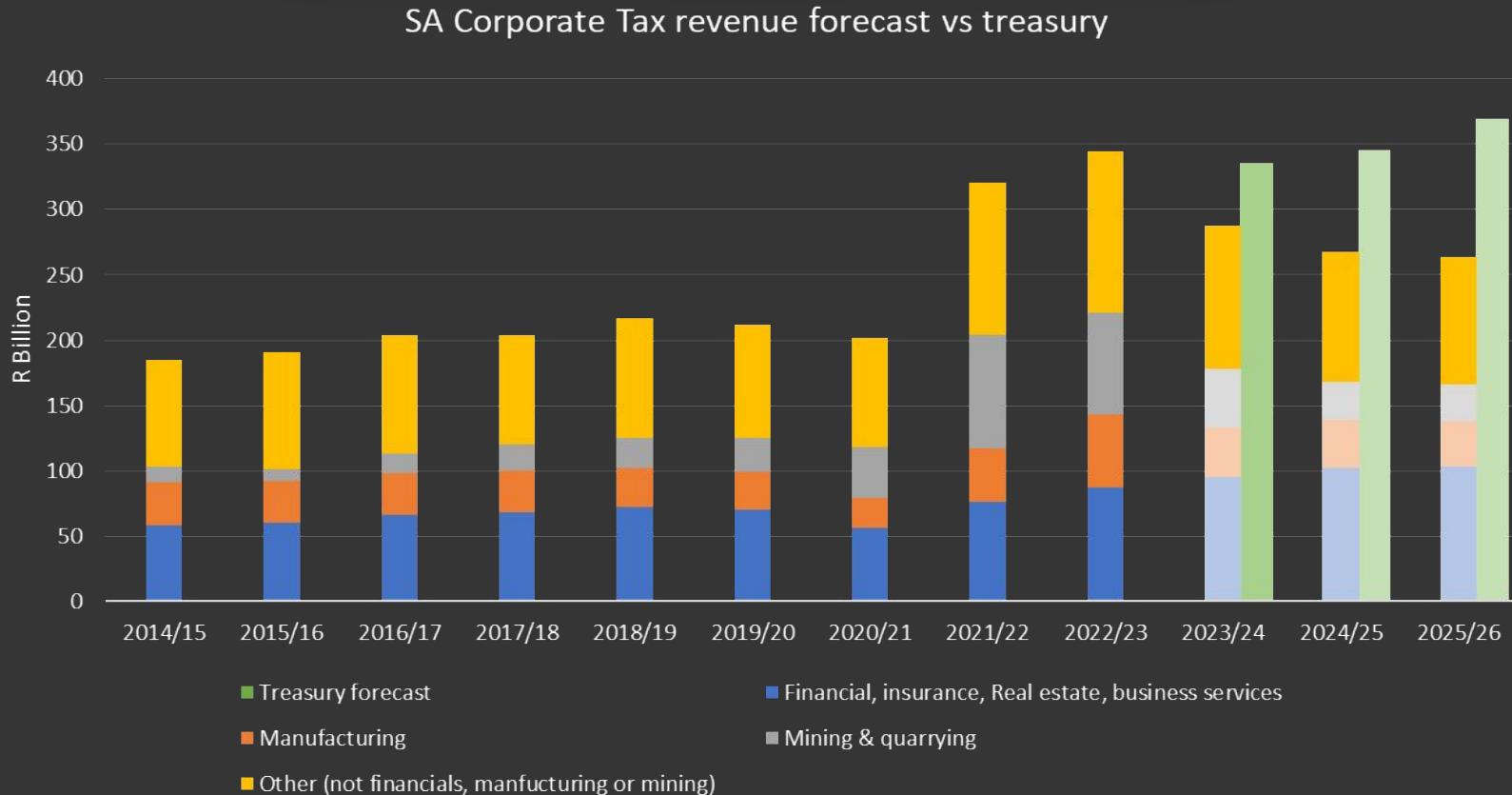
| Taxable bracket | Registered individuals | | Income tax payable after proposals | | |
|-----------------------|------------------------|--------------|------------------------------------|--------------|--------------|
| | R thousand | Number | % | R billion | % |
| R0 - R96 ¹ | 7 545 020 | — | | | |
| R96 - R150 | 1 528 990 | 21.5 | | 13.8 | 2.2 |
| R150 - R250 | 1 505 950 | 21.1 | | 20.6 | 3.2 |
| R250 - R350 | 1 248 123 | 17.5 | | 46.3 | 7.2 |
| R350 - R500 | 1 233 846 | 17.3 | | 86.2 | 13.5 |
| R500 - R750 | 842 653 | 11.8 | | 110.3 | 17.2 |
| R750 - R1 000 | 354 263 | 5.0 | | 82.1 | 12.8 |
| R1 000 - R1 500 | 244 586 | 3.4 | | 90.3 | 14.1 |
| R1 500 + | 163 702 | 2.3 | | 190.6 | 29.8 |
| Total | 7 122 113 | 100.0 | | 640.3 | 100.0 |
| Grand total | 14 667 133 | | | 640.3 | |

Still heavily reliant on personal income tax from narrow tax base



South African Revenue Service (Sars) data shows that over 40 000 taxpayers have ended their tax residency in the last five years.

The Income Part



RSA Tax Receipts

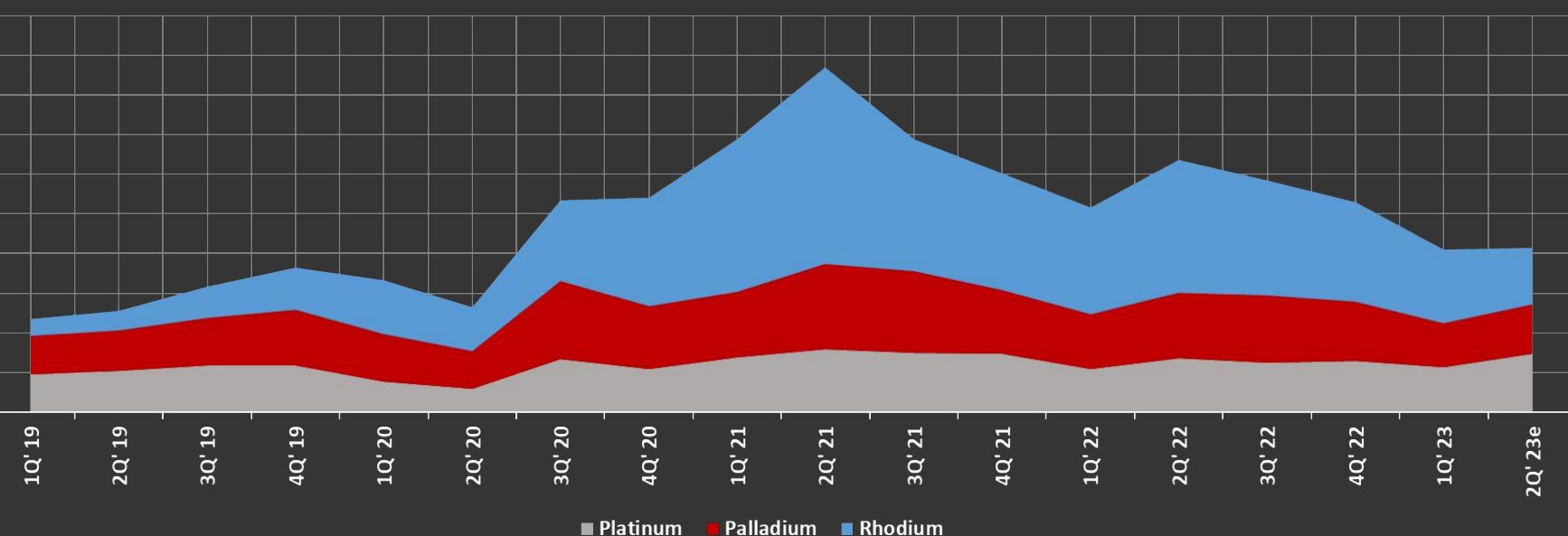
SA National Government Revenue Growth



Source: Refinitiv Datastream / Rezco

Super Profits From PGMs

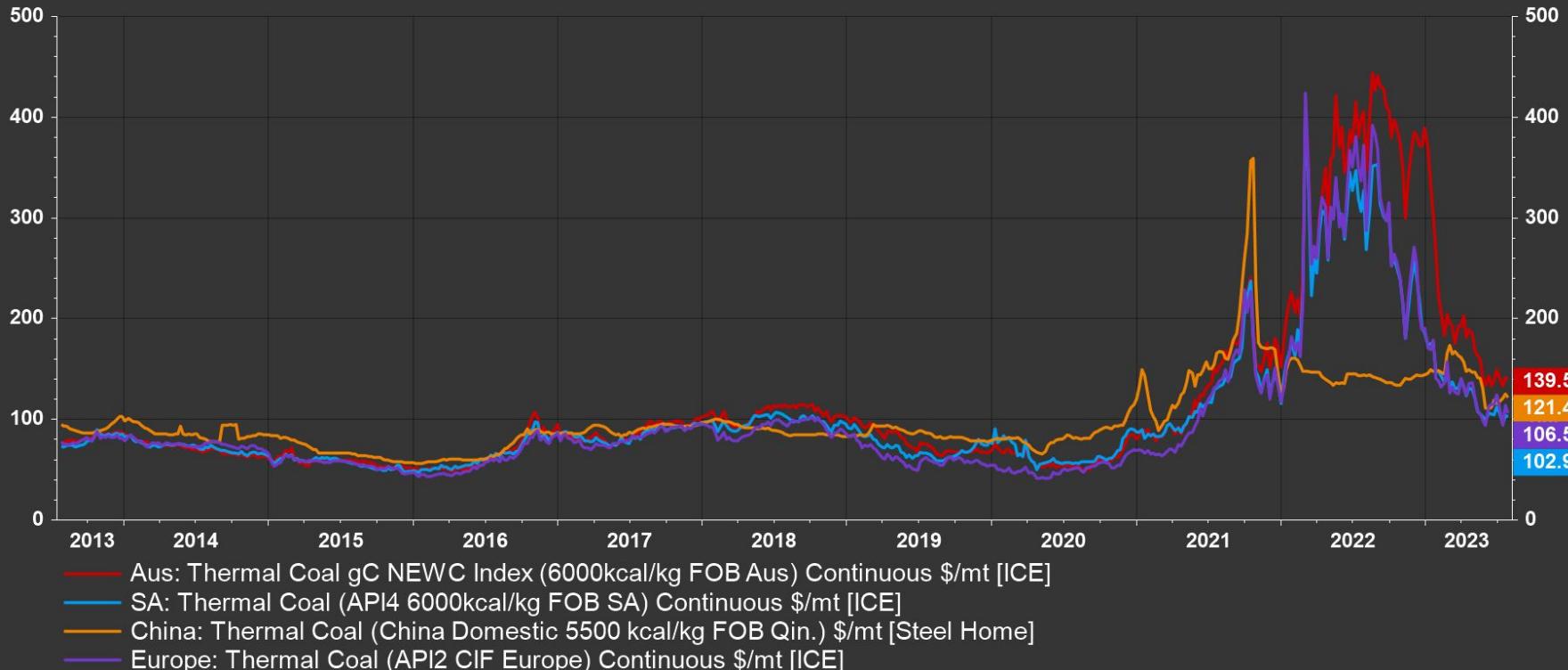
South Africa PGM Revenue, ZARbn (Quarterly Annualised)



Super Profits From Coal

Thermal Coal Continuous Prices 10Y (Full axis)

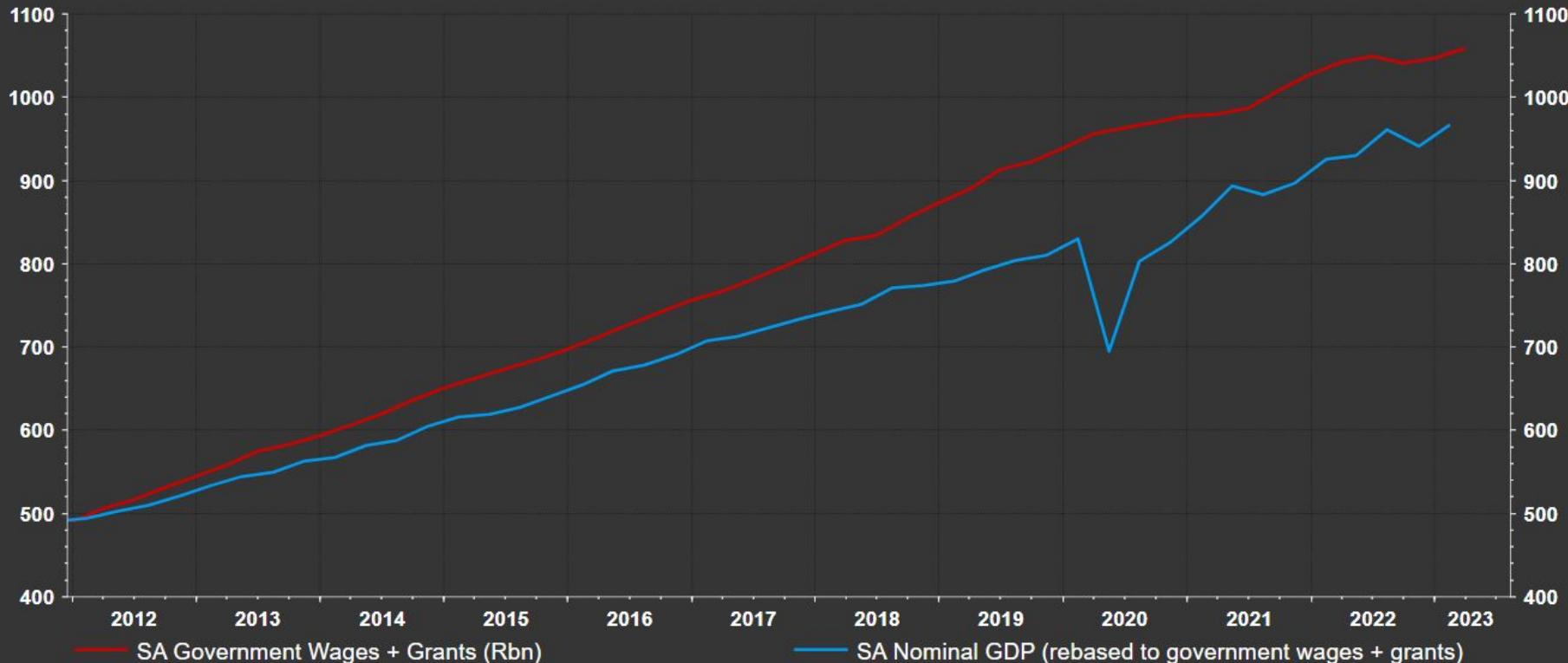
Last updated 28/07/2023





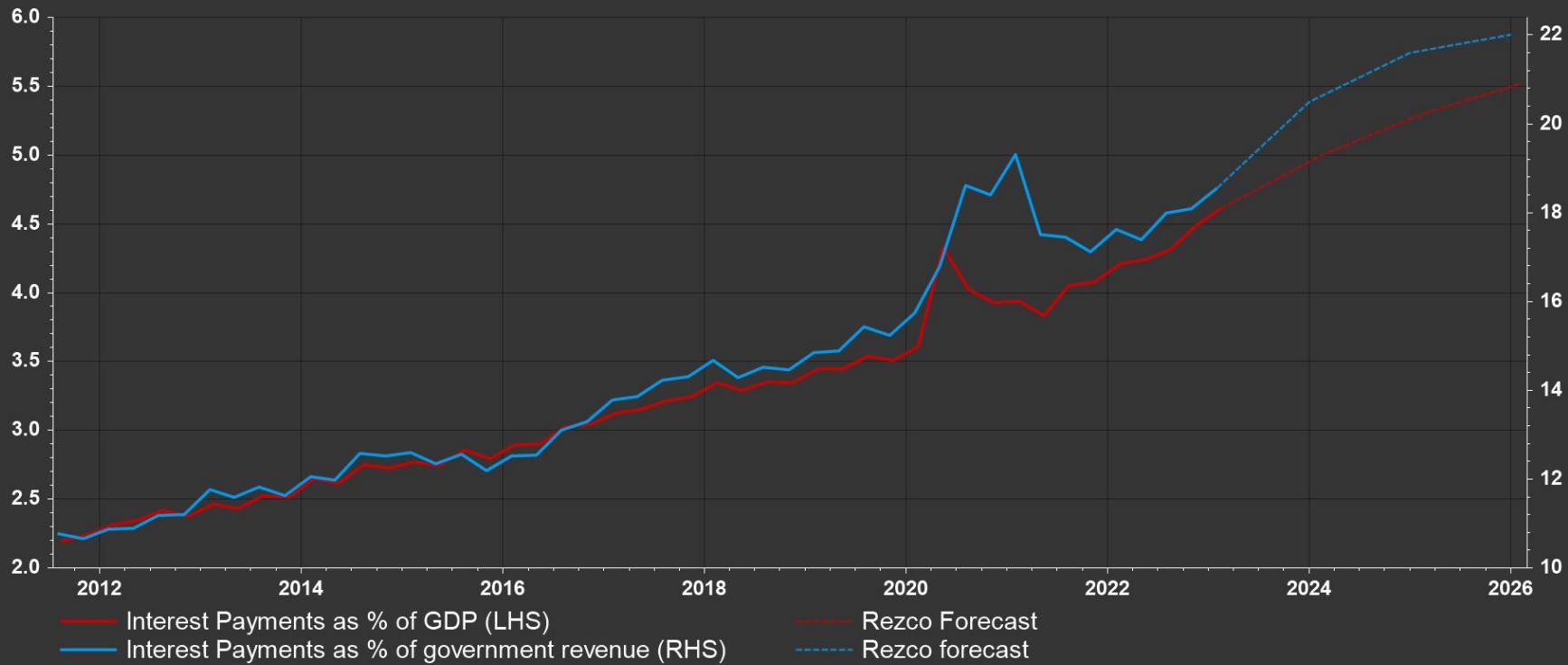
The Expenditure Part

Government Wages & Grants Keep Growing



Source: Refinitiv Datastream / Rezco

SA Interest Expenditure as % of GDP & Revenue

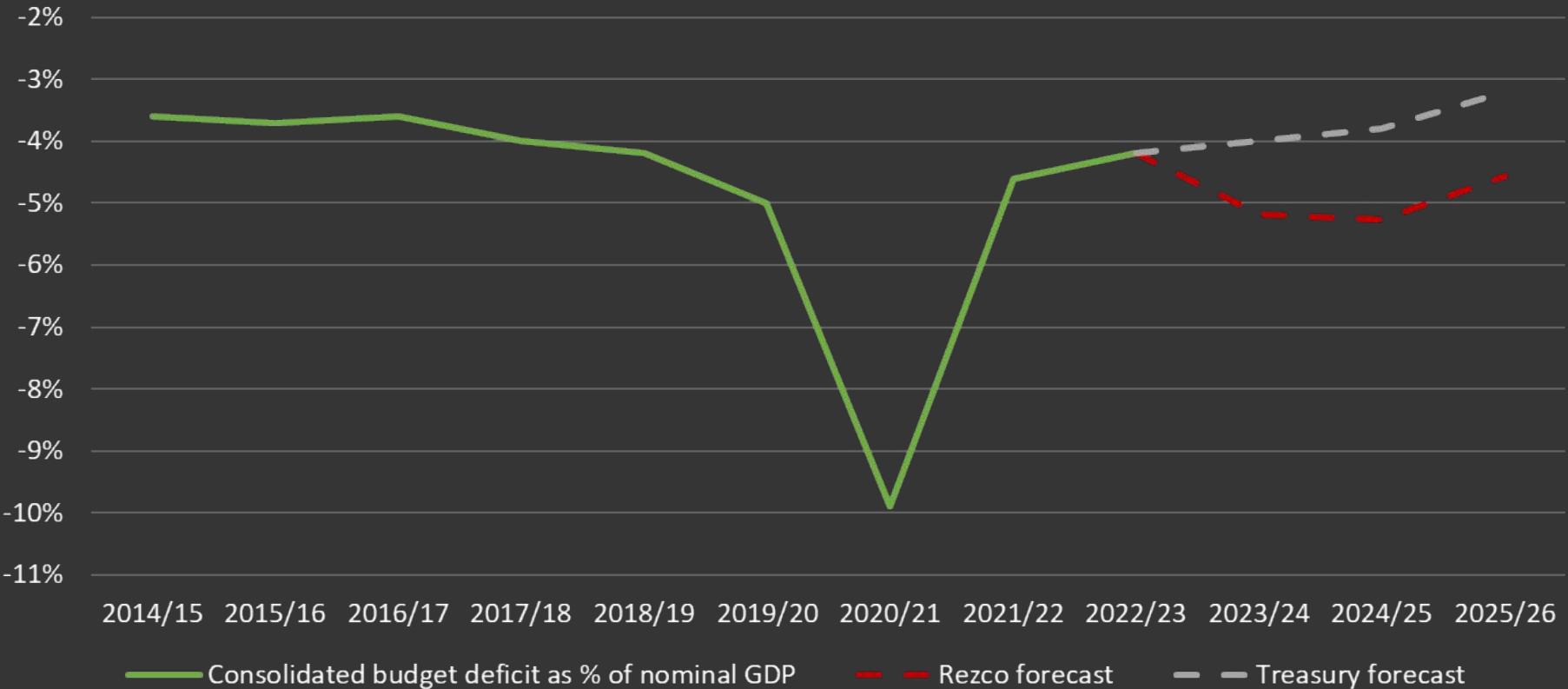


Source: Refinitiv Datastream / Rezco



The Bottom Line

SA's Budget Deficit as % of GDP



Balance Sheet

Debt to GDP is already high

Foreigners are sellers not buyers of RSA debt

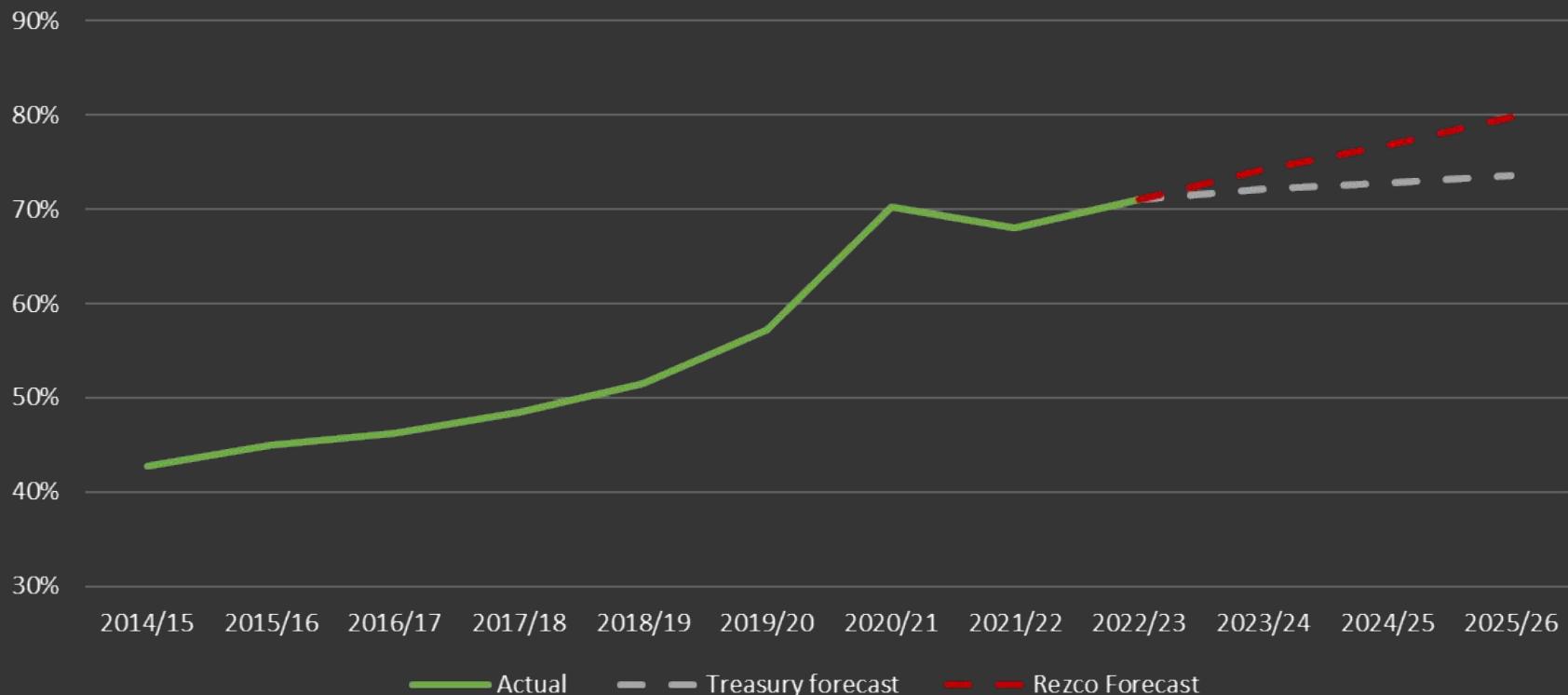
Current Account needs to funded

You need a good reputation to borrow more

Turkey and UK (Liz Truss):

There are consequences for bad policies

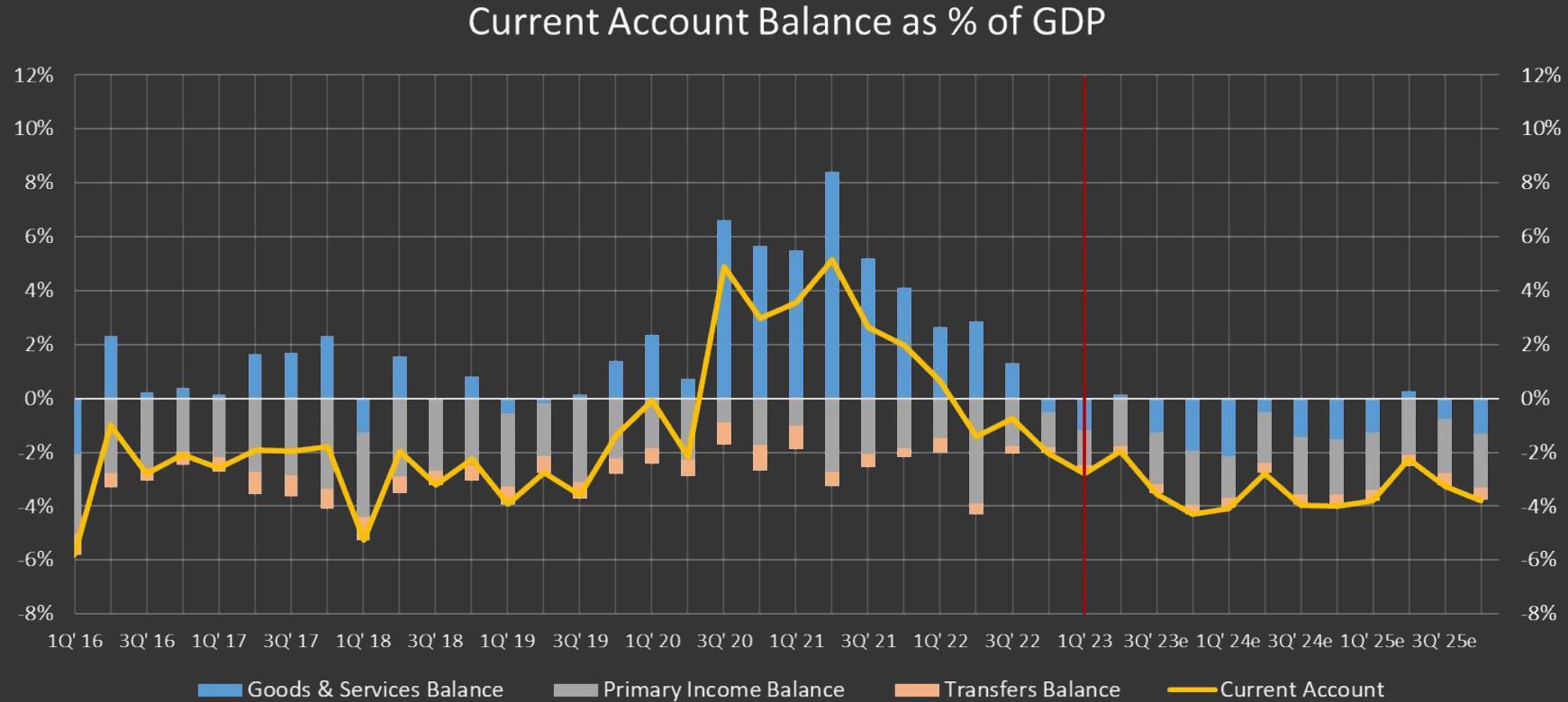
SA Debt to GDP Ratio



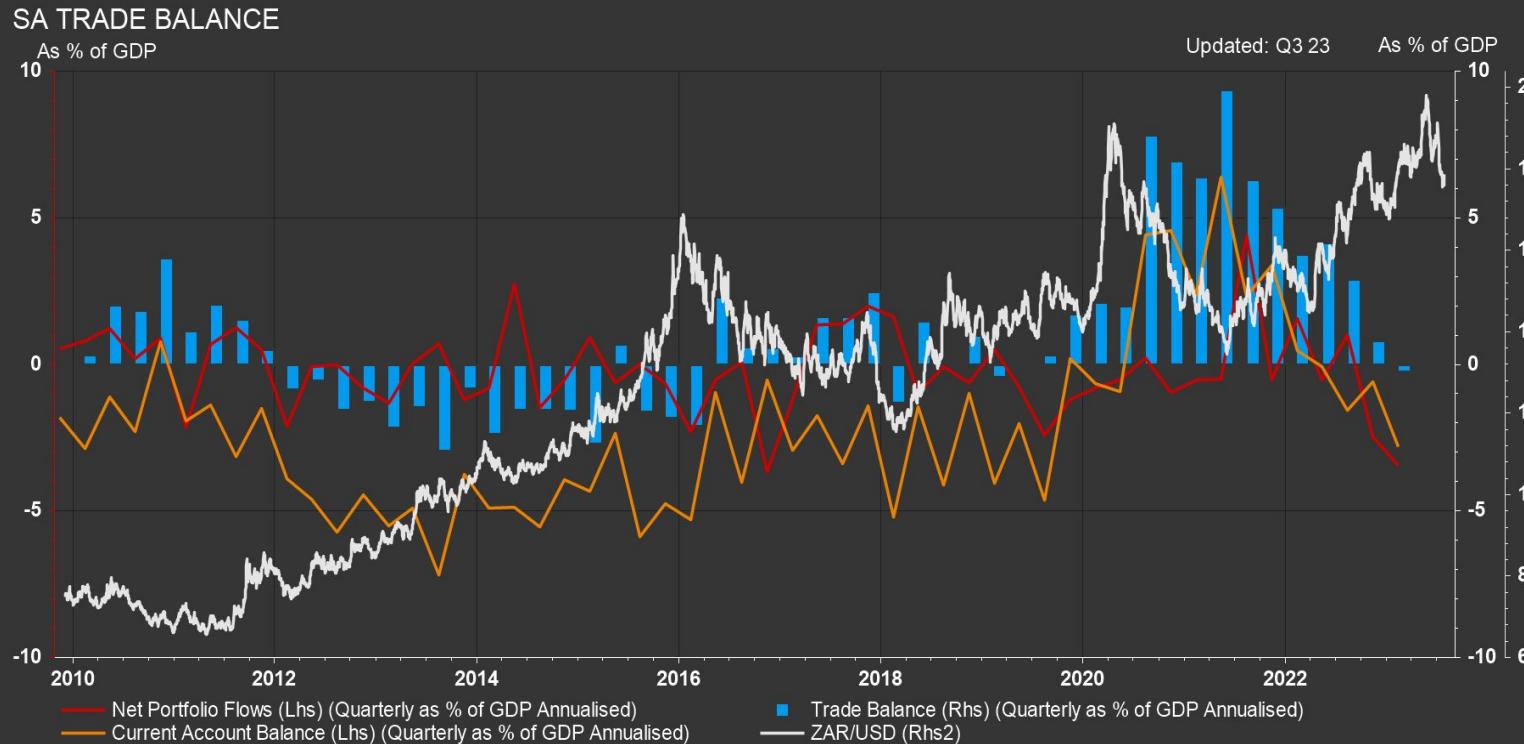


The Current Account: Where it is All Squared Up

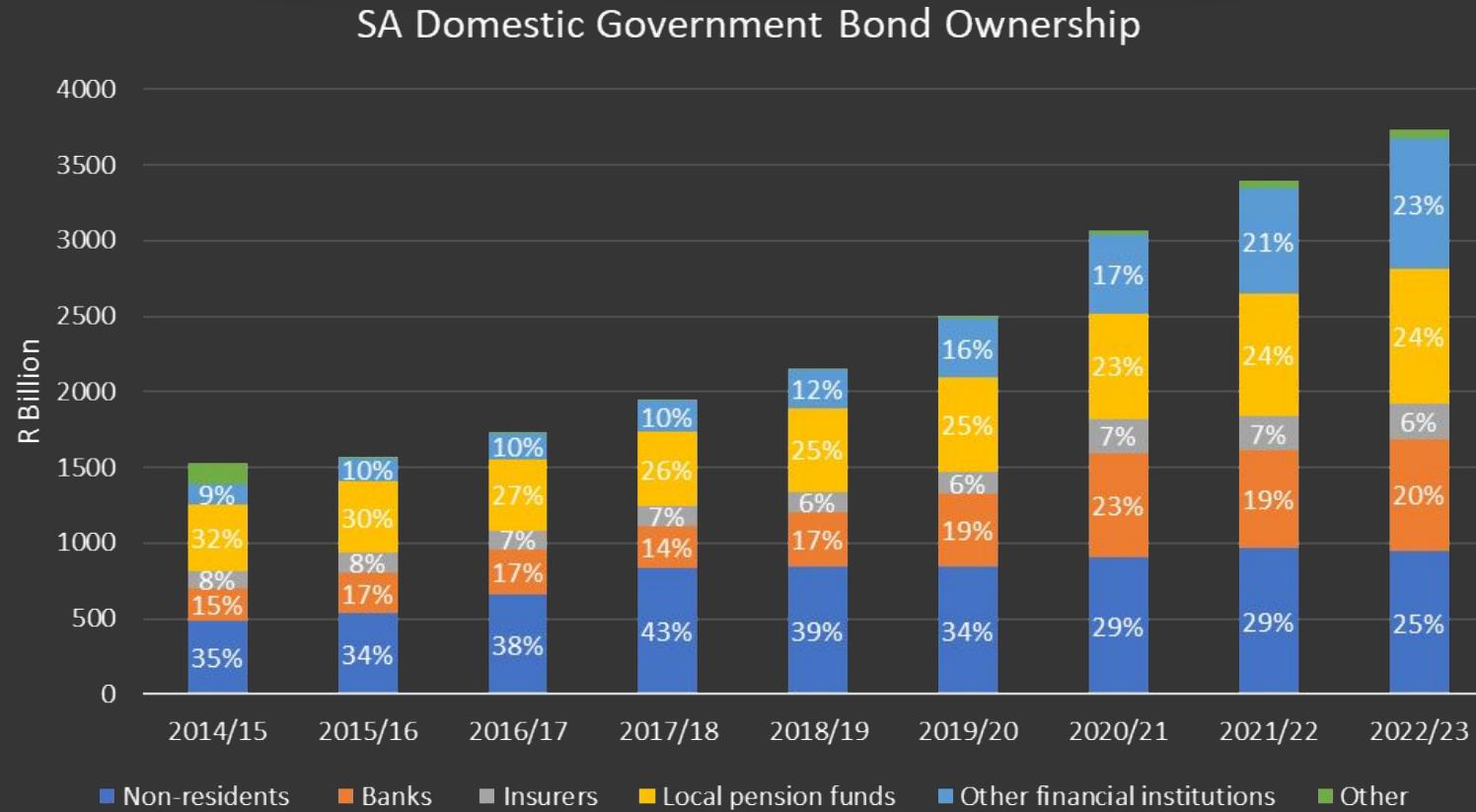
Current Account (Rezco Forecast)



A Current Account Deficit Needs Funding, Funding Needs Confidence



SA Govt Debt - Dependent on Local Savings



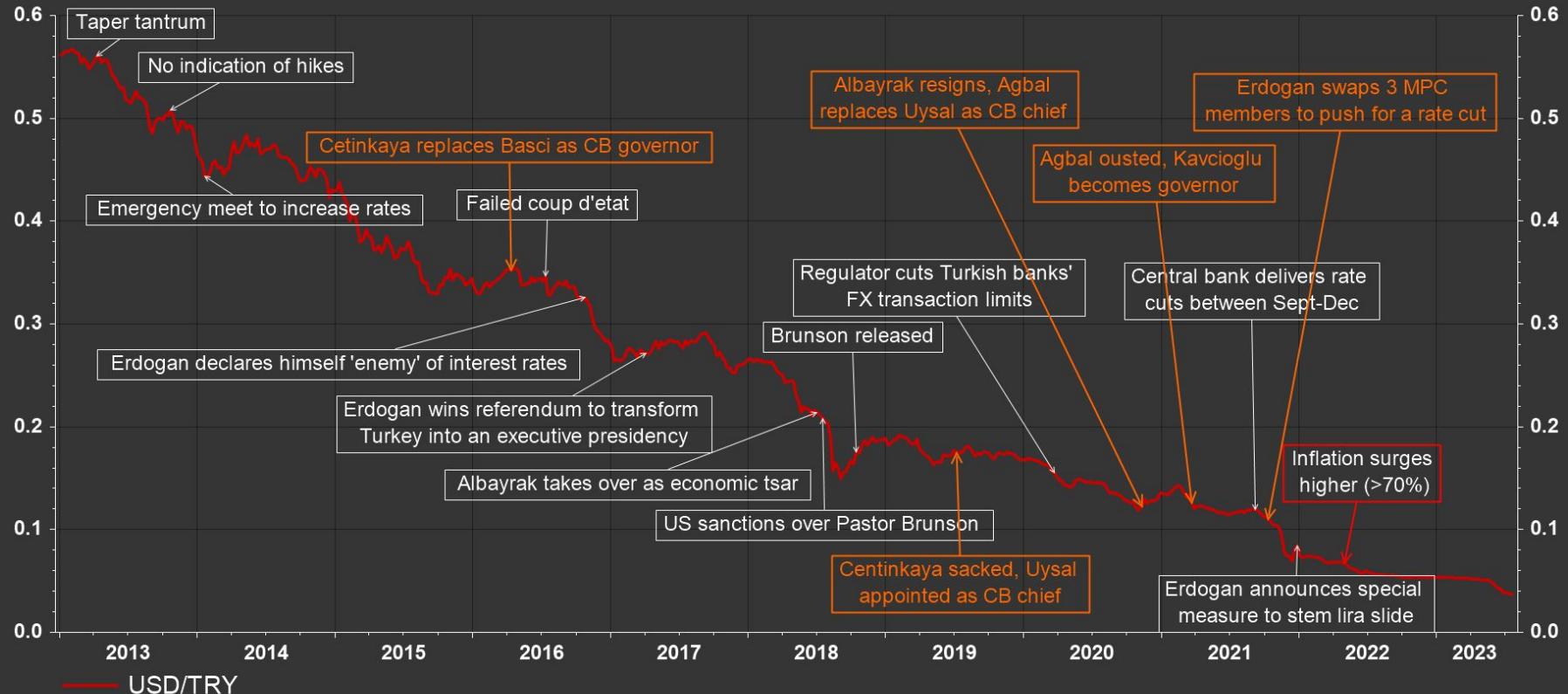
Source: ABSA, Treasury



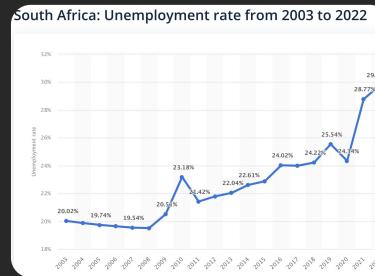
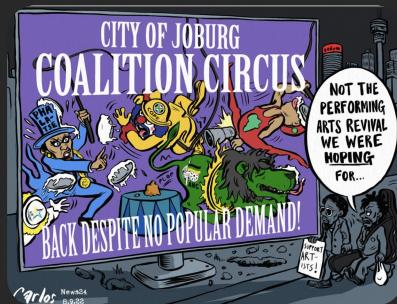
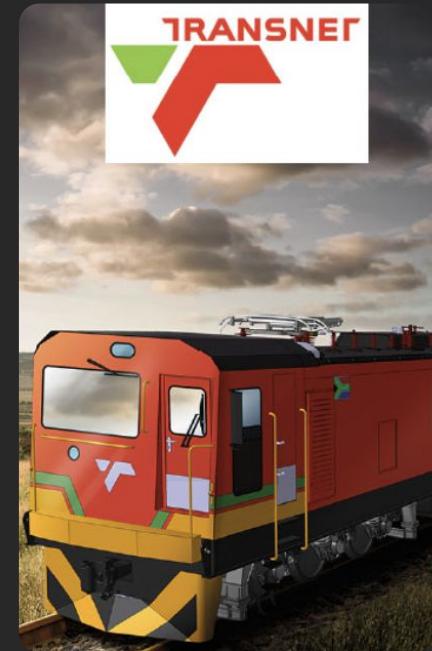
Countries With a Current Account Deficit Need to Care What Investors Think

The Turkey Scenario

Doing Dumb Things Builds Over Time



RSA: Careless With Risk & Reputation



RSA vs. USA 10 Year Rate

RSA Yields SPREADS Not Reflecting the Increased Risks

YIELD DIFFERENTIAL

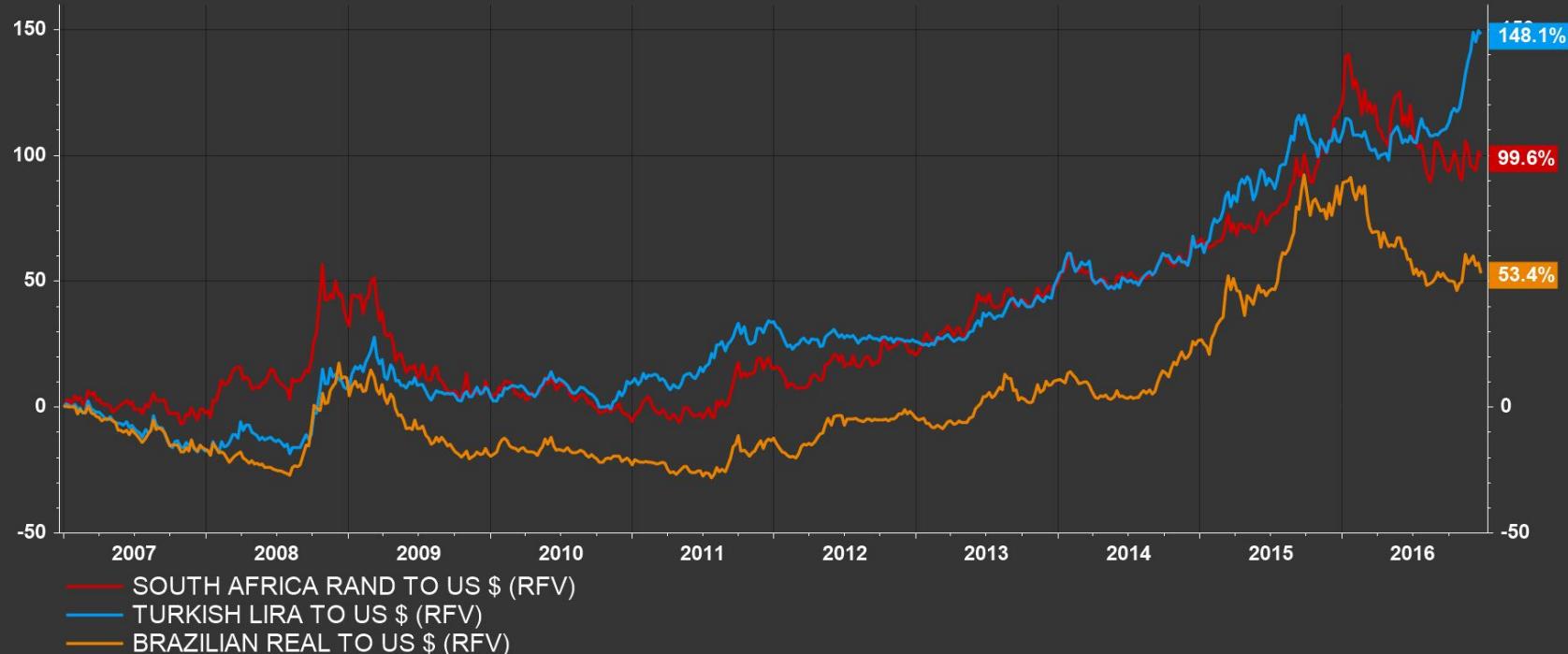
Updated: 01/08/2023



South Africa, Brazil & Turkey

Three Siblings EM's 2007-2017

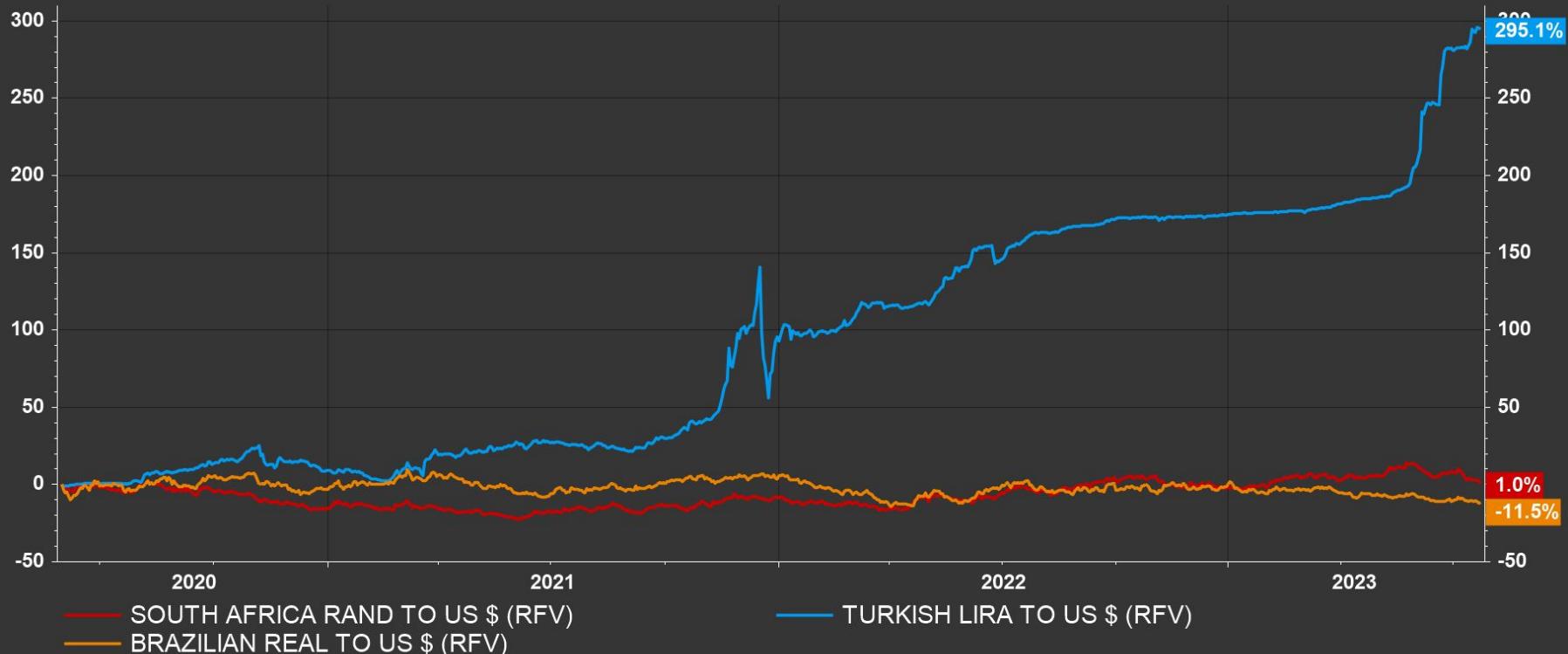
EM Currencies vs USD [2007 - 2017]



Source: Refinitiv Datastream / Rezco

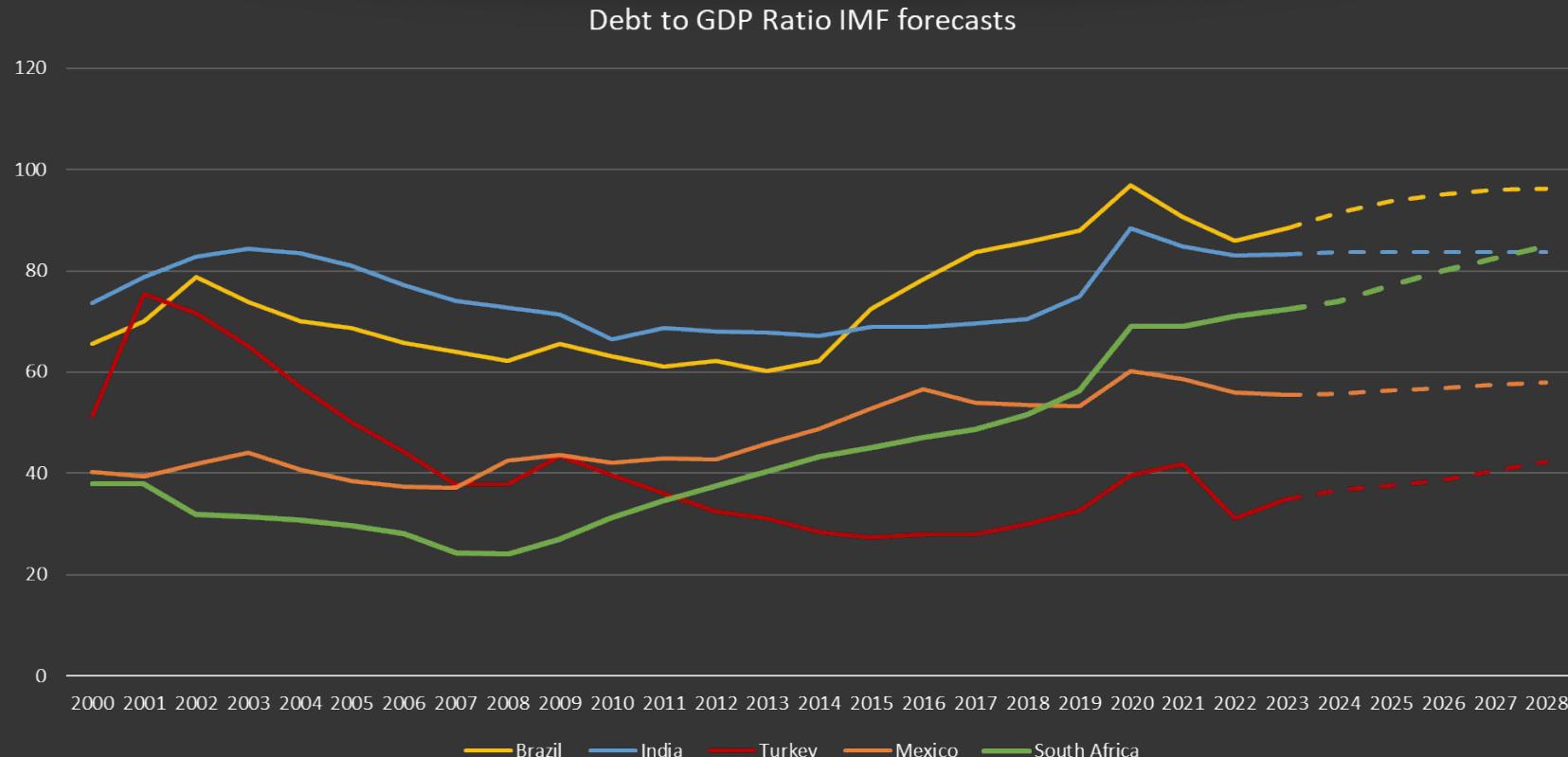
Turkey - Bad Policy has Consequences

EM Currencies vs USD (Short-term)



Source: Refinitiv Datastream / Rezco

This Relative Deterioration is Expected to Continue With a Fiscal Deficit & Weak Nominal GDP Growth



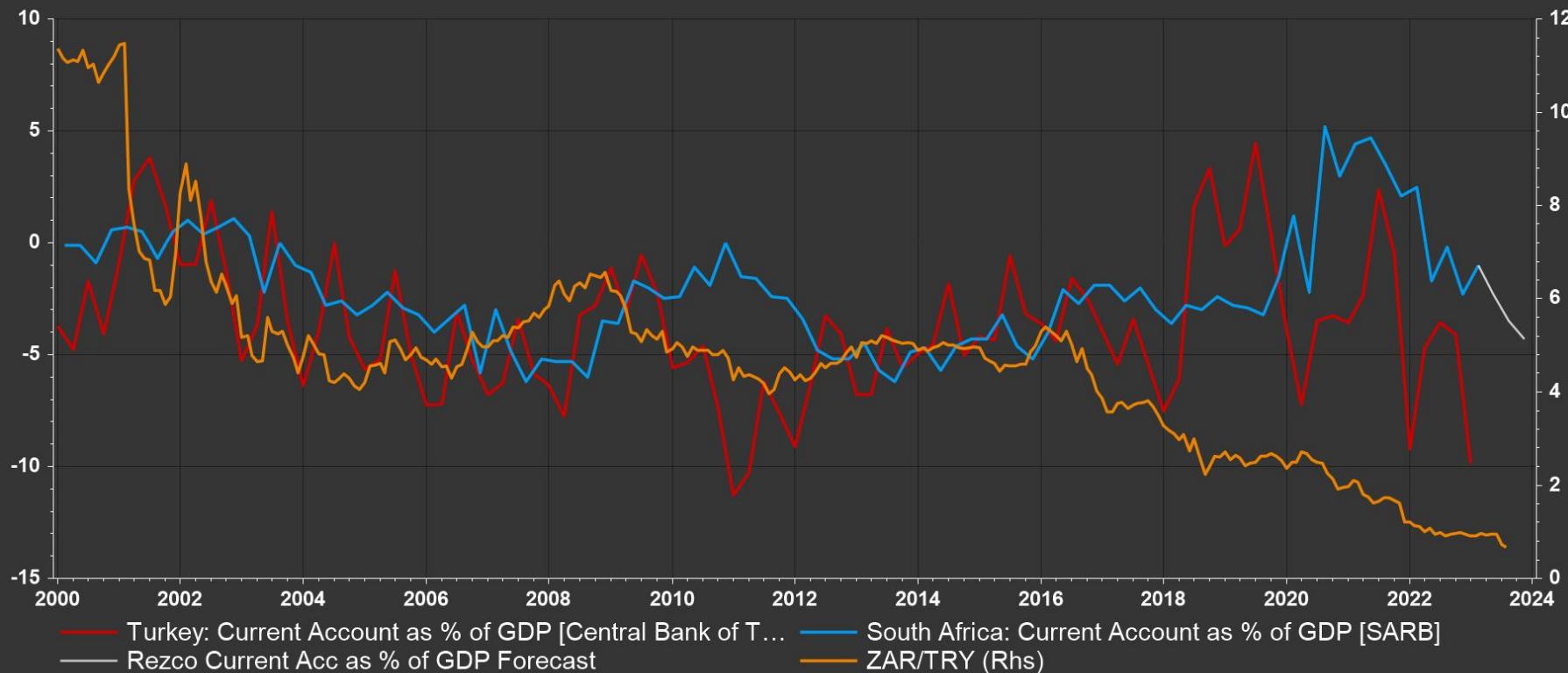
Foreign Currency Denominated Debt as % of GDP



Source: Refinitiv Datastream / Rezco

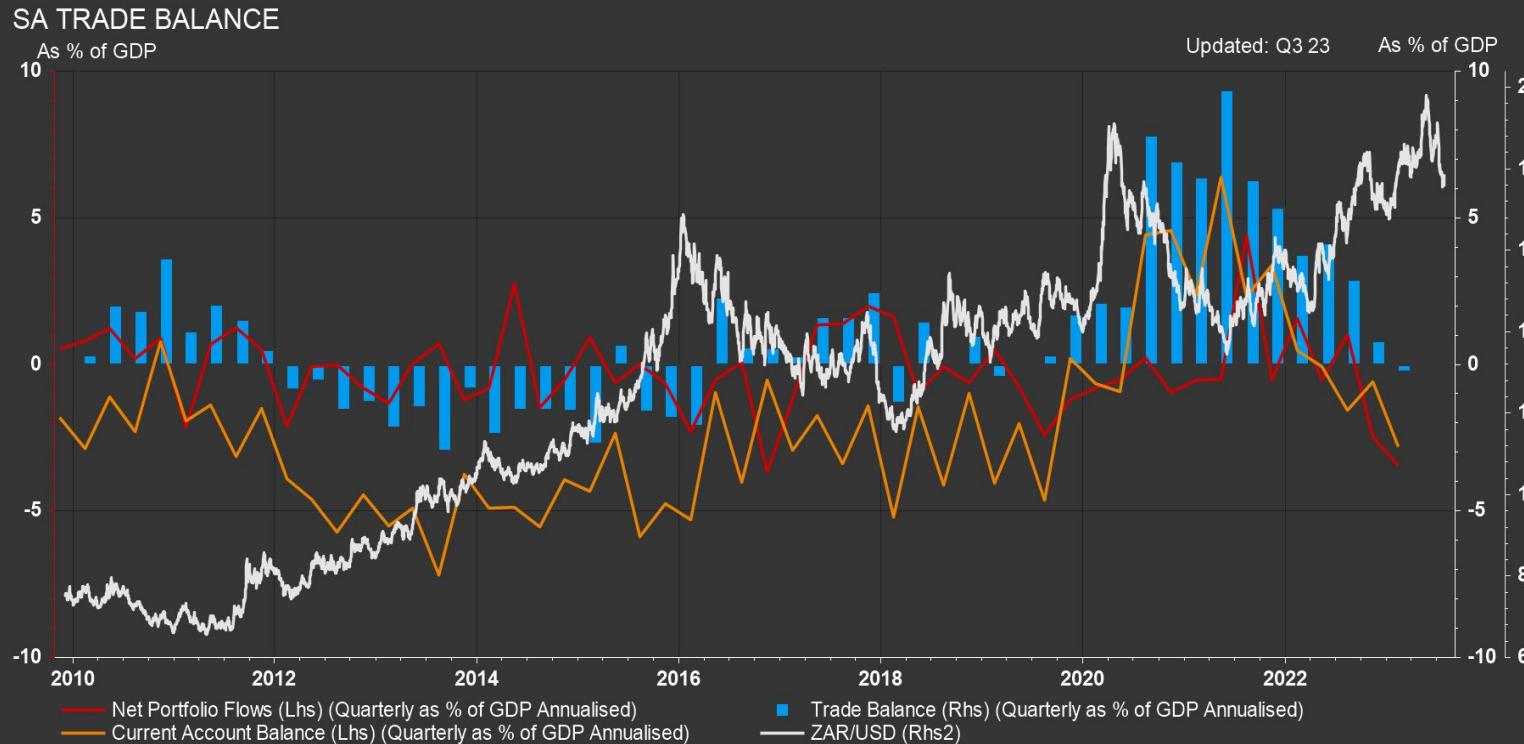
RSA & Turkey - Current Account

Current Account as % of GDP (Quarterly)



Source: Refinitiv Datastream / Rezco

A Current Account Deficit Needs Funding, Funding Needs Confidence



RSA: Finding Opportunities

DSYJ.J

PRICE CHANGE

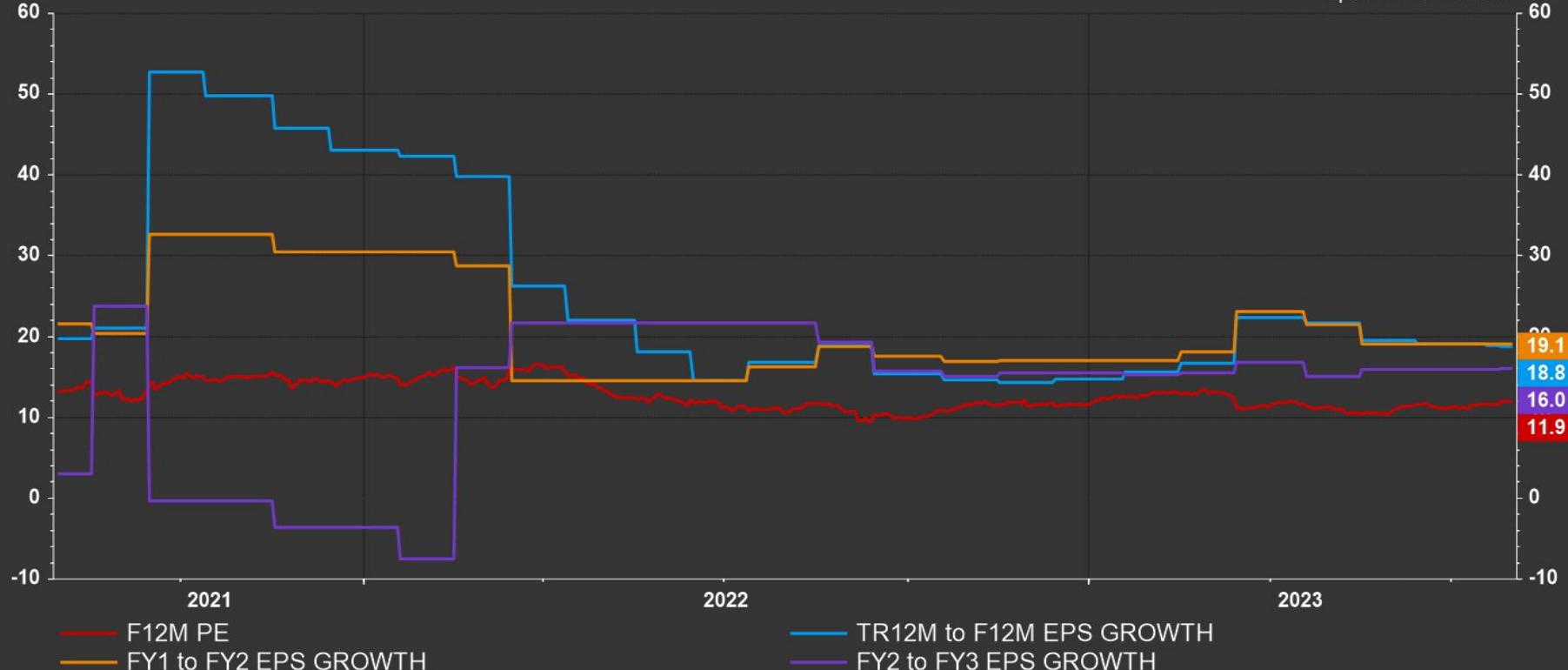


Source: Refinitiv Datastream / Rezco

Discovery F-PE vs. Growth

DISCOVERY F-PE vs GROWTH

Currency: ZAR
Updated: 01/08/2023

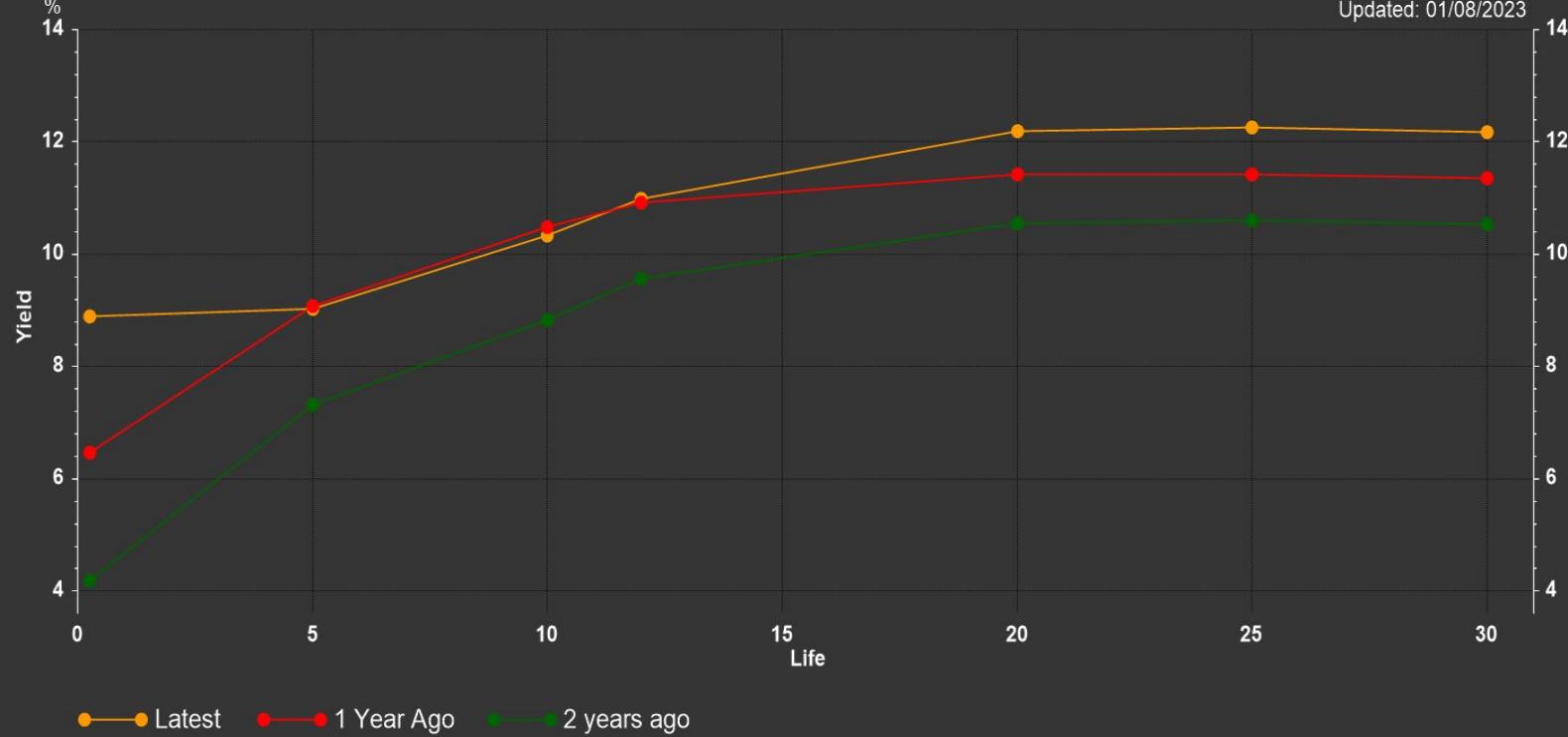


Source: Refinitiv Datastream / Rezco

RSA Yield Curve

South Africa Yield Curve

Updated: 01/08/2023



Source: Refinitiv Datastream / Rezco

FLOATERS ARE ATTRACTIVE

JIBAR RATES

Updated: 01/08/2023



Source: Refinitiv Datastream / Rezco



Global Investment Case Recap of Rezco View

Company Earnings Forecast

Top Down vs. Bottom Up

Exhibit 21: Our earnings model points to significantly more downside in 2023 earnings than consensus expects; it then shows signs of an earnings recovery in 2024

Morgan Stanley Non-PMI Leading Earnings Indicator (Leading 1-Yr.)
 Actual S&P 500 LTM EPS Growth Y/Y
 Consensus



Chart 7: BofA Global EPS model remains v negative...

BofA Global EPS Growth Model



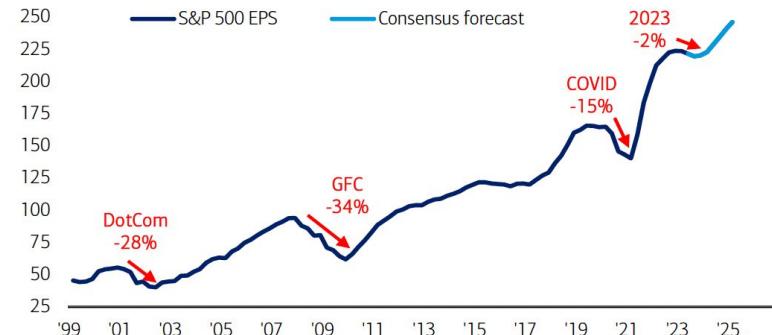
BofA GLOBAL RESEARCH

Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

Chart 8: Where did my EPS recession go?

S&P 500 EPS and consensus forecast



BofA GLOBAL RESEARCH

Rate Increase are Massive & Global: End of the QE Experiment

10 YEAR BOND YIELDS (LONG TERM)

Updated: 25/07/2023

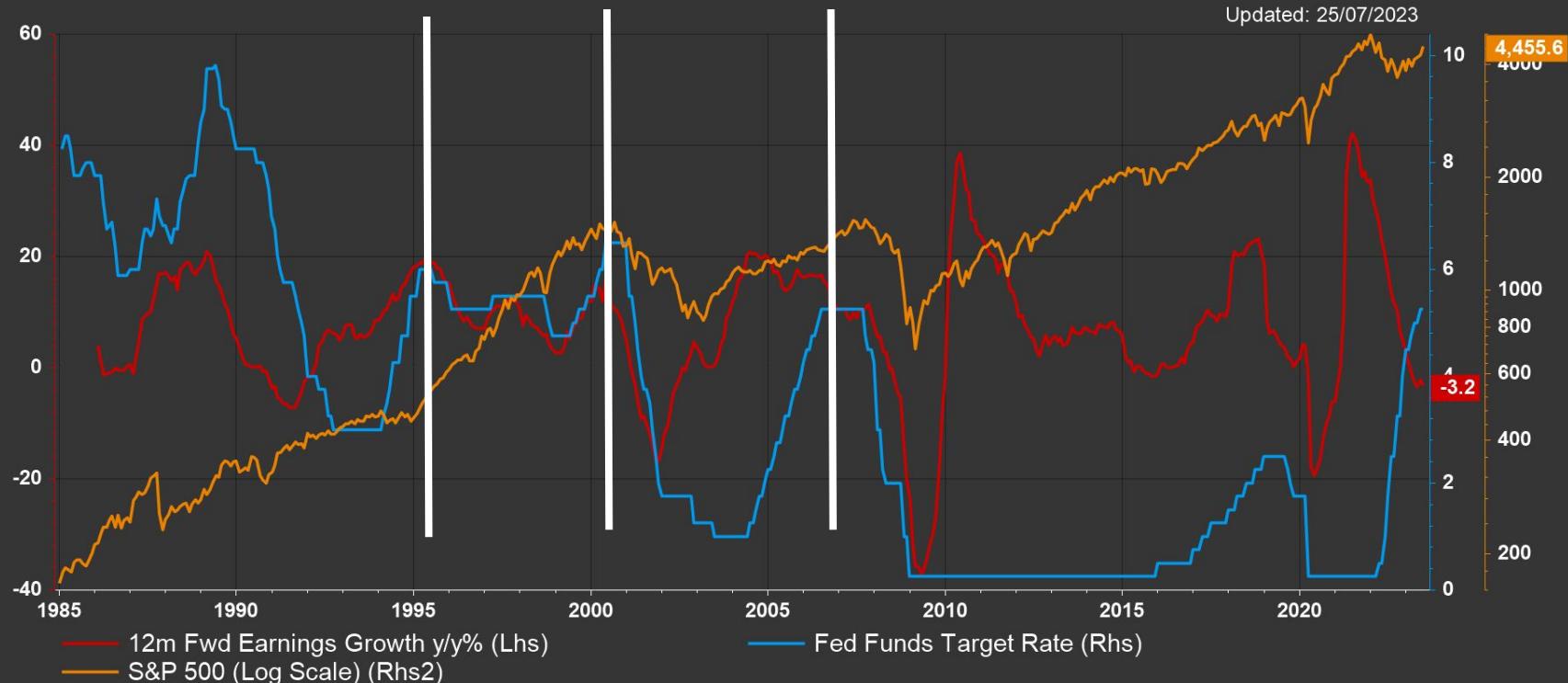


Source: Refinitiv Datastream / Rezco

Interest Rates & Markets

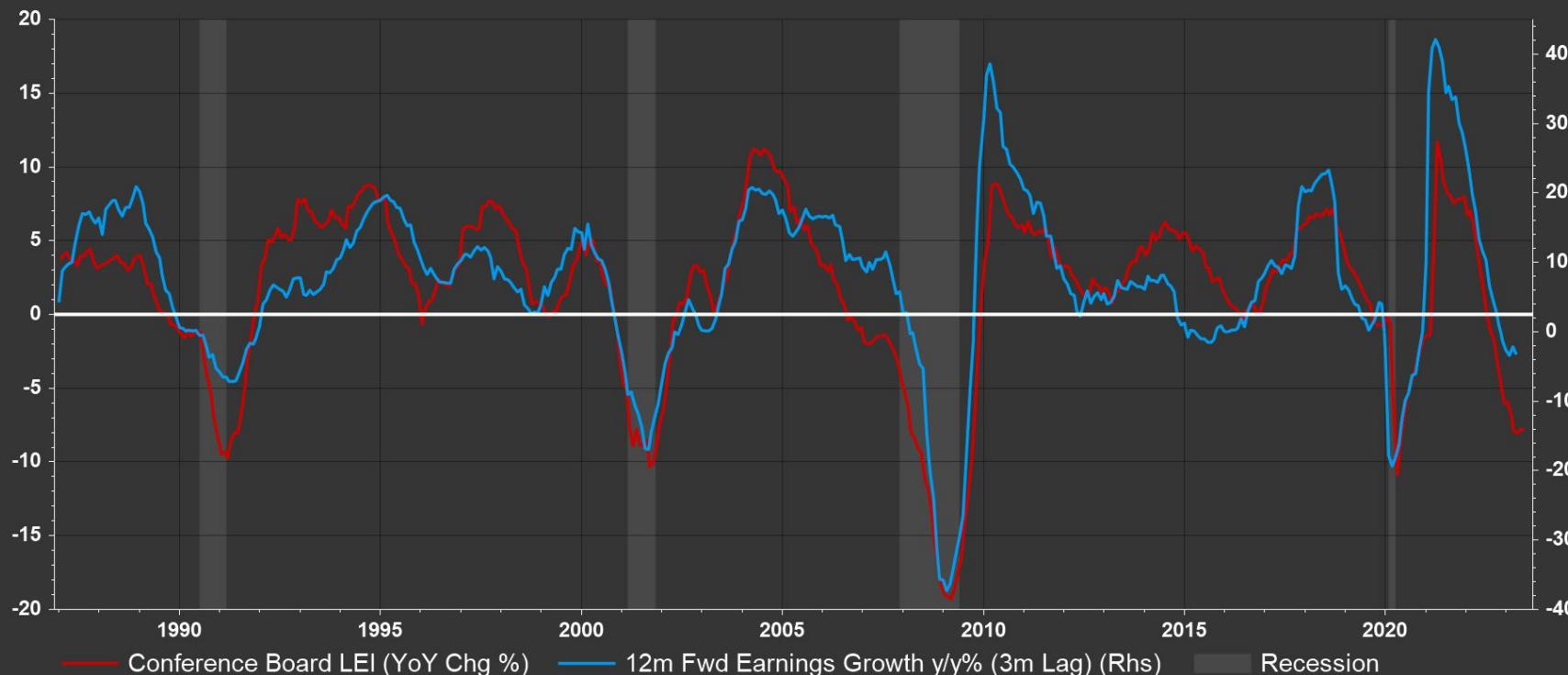
More Like 2000 & 2008: The Bear/Recession only Starts after FED Pauses

US MARKET



USA Leading Indicators Pointing to Recession

Change in Leading Economic Indicators & S&P 500 Earnings Growth (YoY % Change)



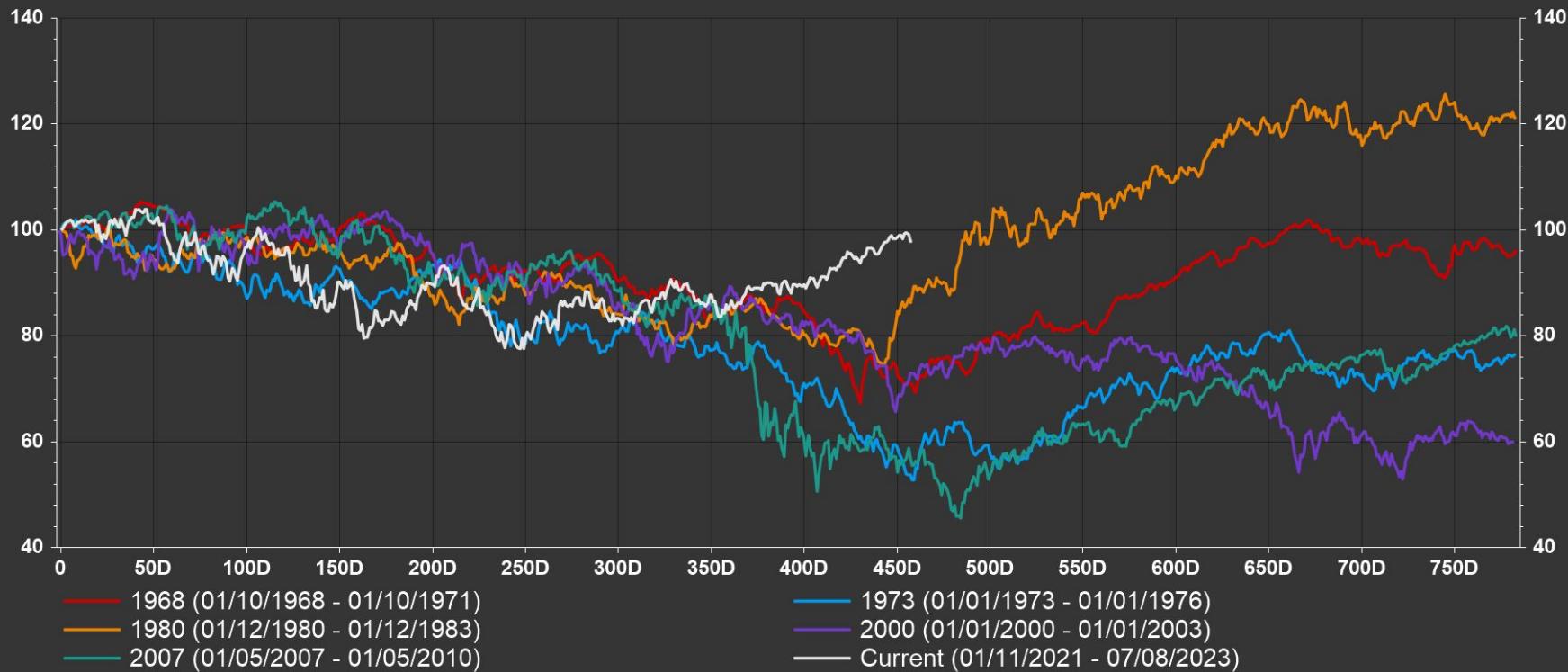
Europe: Same Picture, UK Worse

EUROPEAN MARKET



Was that the Bear Market?

S&P THROUGH RECESSIONS (REBASED)



Source: Refinitiv Datastream / Rezco

Maybe 2022 Wasn't the Bear Market

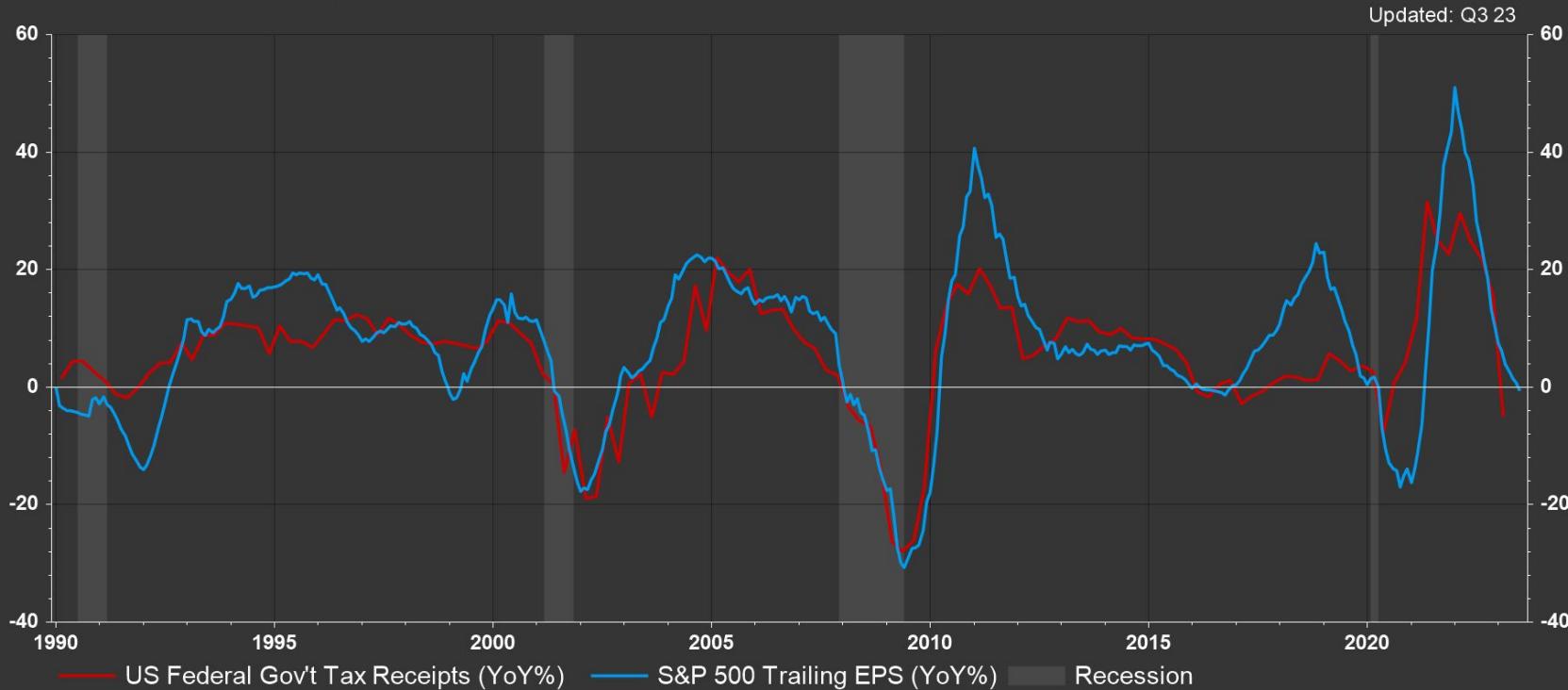
Just Correcting the 2021 Over-Earning



HIGH FREQUENCY DATA

USA Tax Receipts & Company Earnings

USA Tax Receipts & EPS (YoY%)



Source: Refinitiv Datastream / Rezco

Bank Lending & PMIs

Looks like Equities Have Jumped the Gun

Bank Tightening Standards, ISM, S&P % Change [30 years]



Source: Refinitiv Datastream / Rezco

Bull-Markets Don't Start From Here

Market Rating Too High Even With No Fall in Earnings

MSCI USA 12m fwd P/E vs. 5-year US real yield inverted

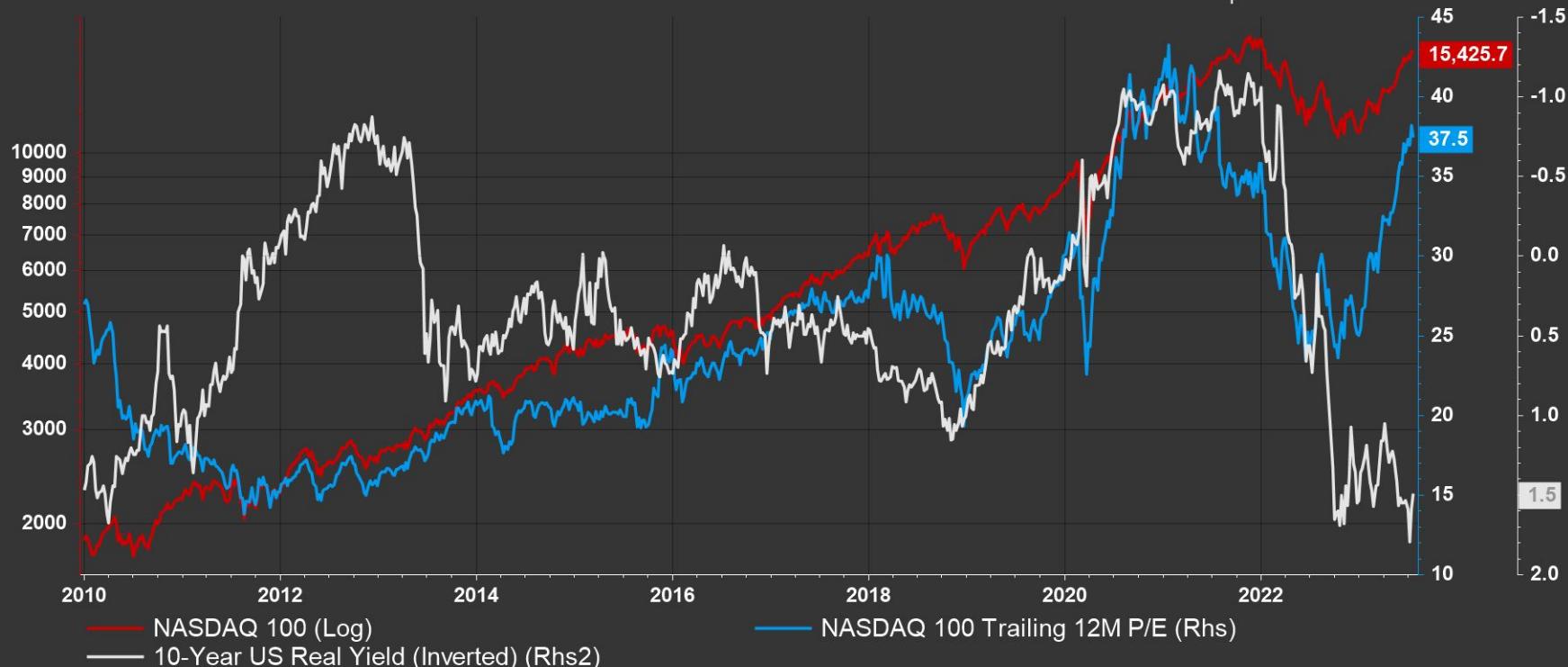


Source: Refinitiv Datastream / Rezco

Tech Shares - Very Expensive

NASDAQ 100 & 10-Yr Real Yield (2010 - Present)

Updated: 25/07/2023

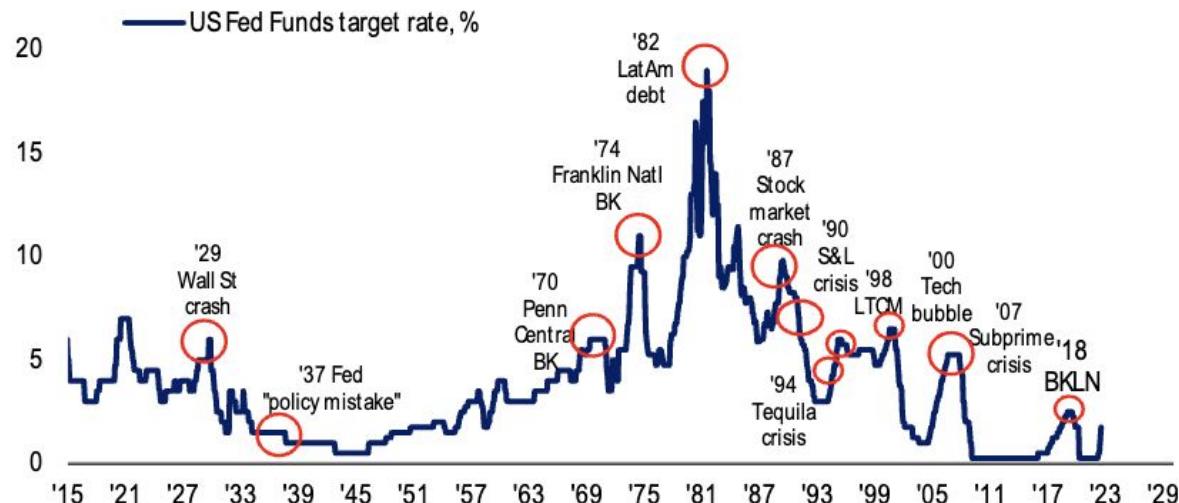


Source: Refinitiv Datastream / Rezco

Rapid Hiking Cycles Normally Break Something

Chart 2: Fed tightening always "breaks" something

US Fed Funds target rate



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

BofA GLOBAL RESEARCH



Fund Positioning

Rezco Scenarios for 2023

| Scenario | Trajectory | Optimistic | Base | Fat Tail |
|-----------------|---|--|---|--|
| | No Landing | Soft Landing | Normal Recession | Hard Recession or Shock |
| Probability | 15% | 25% | 45% | 15% |
| 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 |

Funds Positioned for High Risk Environment

| | Managed Plus | Value Trend | Stable | SA Equity | Global Flexible |
|-----------------------------|--------------|-------------|--------|-----------|-----------------|
| SA Equity | 24% | 14% | 16% | 95%-97% | |
| Global Equity | 22% | 11% | 8% | | 42% |
| Total Equity | 45% | 25% | 23% | | 42% |
| | | | | | |
| SA Gov Bonds (Duration) | 7% | 18% | 19% | | |
| SA Floating Rate Notes & MM | 23% | 25% | 32% | | |
| Global Short Duration | 24% | 33% | 26% | | 58% |
| | | | | | |
| | | | | | |
| Direct Offshore | 46% | 43% | 33% | | |



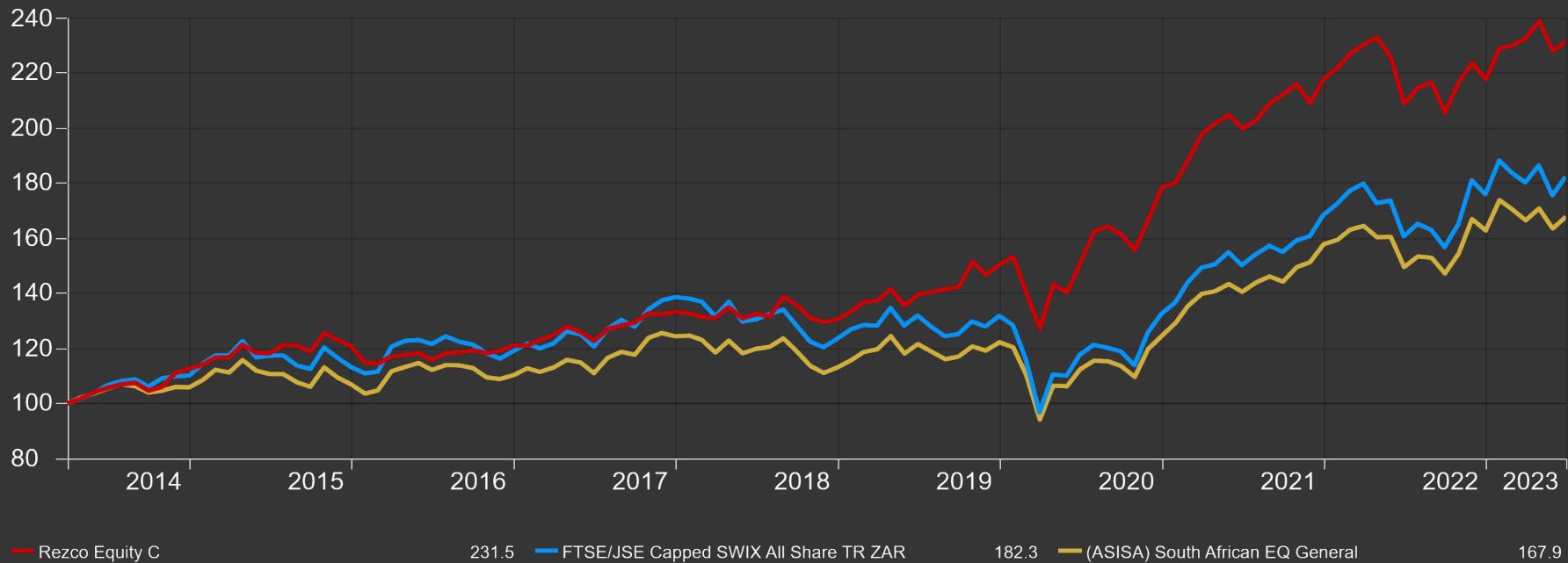
Managing Risk and Return: SA Equity Fund

Rezco Equity Fund

Time Period: Since Common Inception (4/1/2014) to 6/30/2023

Currency: South African Rand

Source Data: Total Return



Source: Morningstar Direct

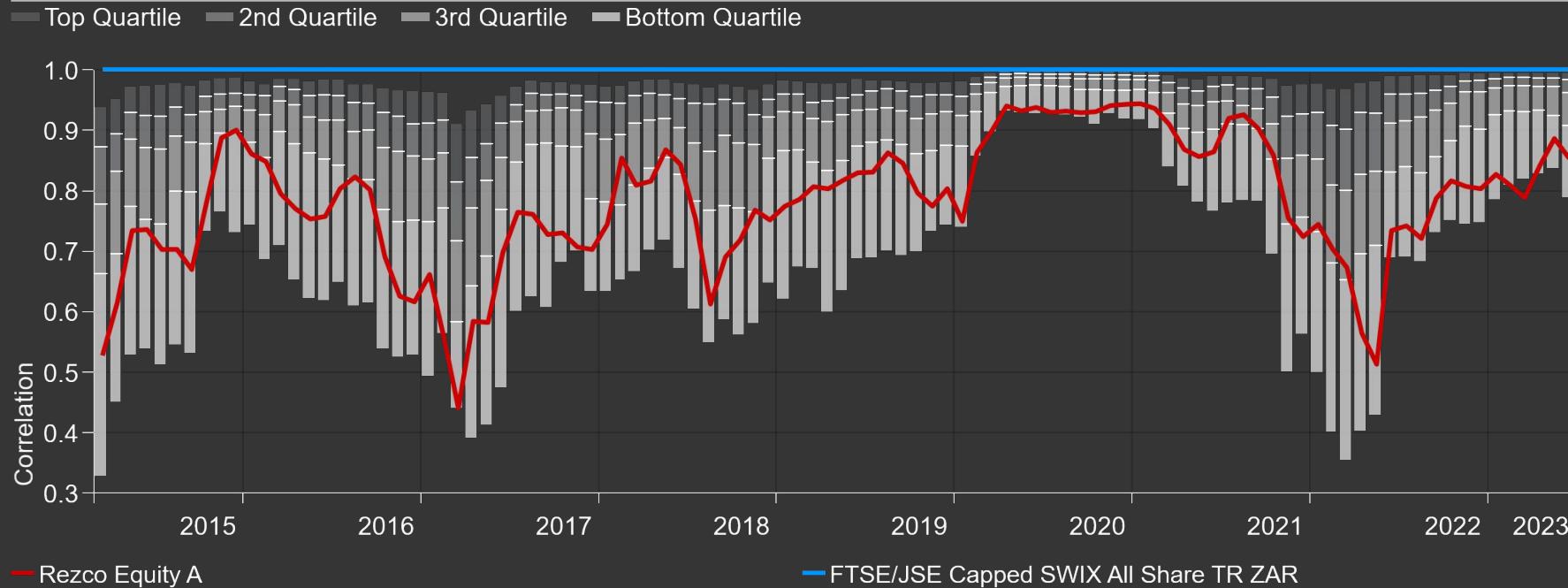
56

Performance with Low Correlation

Funds in the ASISA SA Equity General SA Only

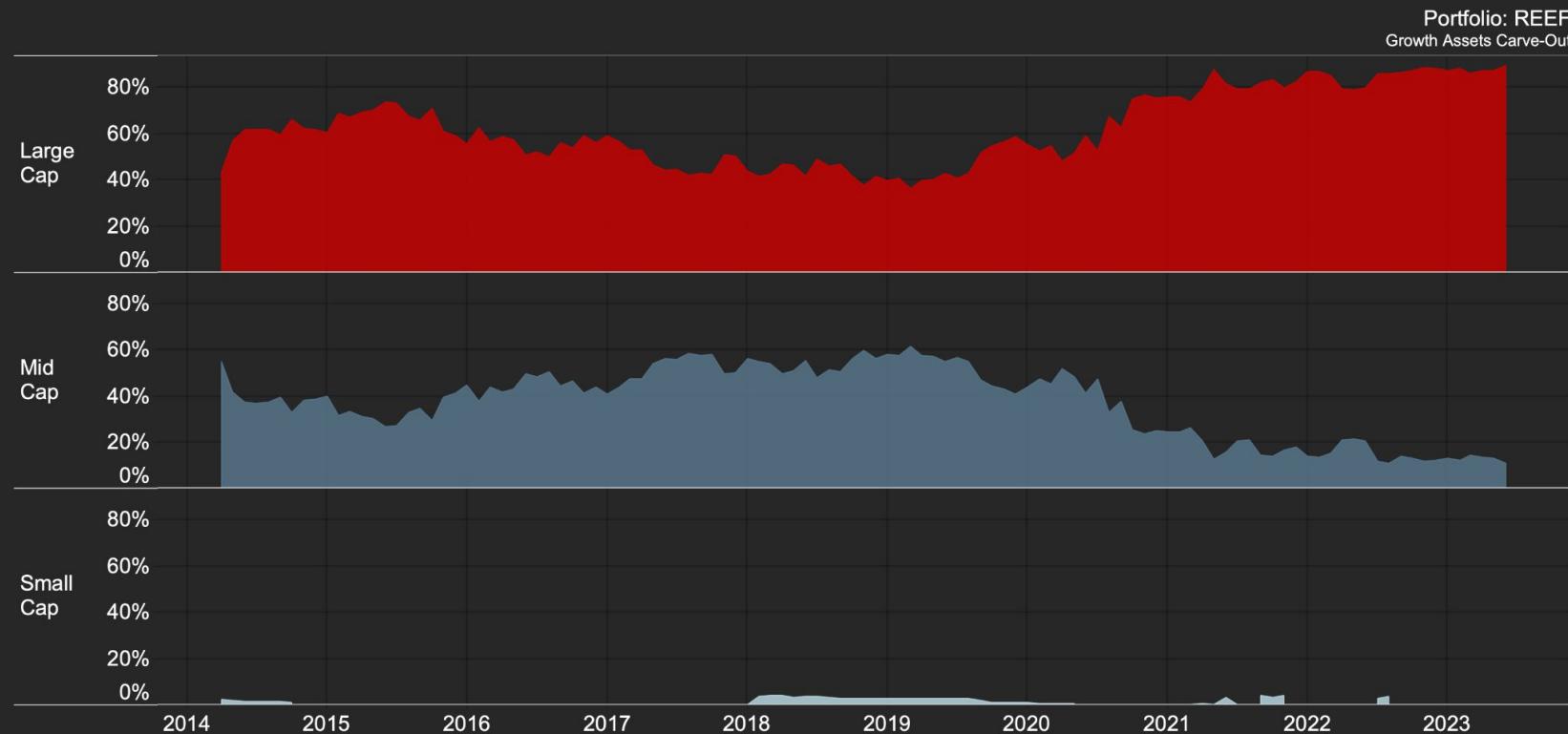
Time Period: Since Common Inception (4/1/2014) to 6/30/2023

Peer Group (5 95%): 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 Capped SWIX All Share TR ZAR



Source: Morningstar Direct

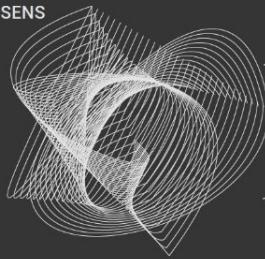
High Active Share Within Larger Market Caps



Based on Regulation 28 bands of market capitalisation (small cap: <R2 bn, mid cap: R2 bn - < R20 bn, large cap: >R20 bn); current market value determines historical cap.

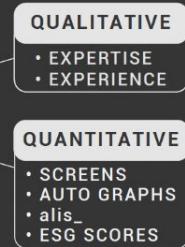
01 SOURCES OF INFORMATION

- Management interactions
- Country growth factors
- Industry Macro Factors
- Financial Statements
- Broker Research
- Exchange Rates
- Financial Media
- Interest Rates
- SENS



02 SORT, PROCESS & FILTER

- Apply judgment & data analysis to generate ideas
- Expertise and experience enable us to establish importance
- Search for value gems
- Objective is to find mispriced sectors, asset classes or securities



06 ASSESSMENT OF DECISIONS

- Continuous portfolio management
- Rebalance portfolio based on current environment
- Review ideas and test investment case



Portfolio Holdings
RRRRRRRRRRRR

Non-performing
(Recycle idea)

Performing

05 PORTFOLIO OPERATIONS

- Pre & post trade compliance
- ESG monitoring pre & post trade
- Systematised trade request



03 REFINE IDEA

- Assess value proposition

Qualitative assessment
of ESG score

Recycle ideas

LEVEL
ONE

- Understand business & earnings drivers

Detailed assessment
of ESG issues

Recycle ideas

LEVEL
TWO

Detailed modelling & assessment
of forward-looking view

Understand & assess ESG
controversies

Management
interaction



LEVEL
THREE

Recycle ideas

LEVEL
ONE

LEVEL
TWO

LEVEL
THREE

04 PORTFOLIO CONSTRUCTION

- Integrate investment ideas
- Review relative values
- Apply macro views
- Review exposure to industries, countries, themes
- Adjust weights based on conviction & risk management
- Use bridge tool to assess risk & positioning
- Assess portfolio aggregated factors:
ESG | Fundamentals | Market factors | Risk factors

INTEGRATE
IDEAS

Recycle
ideas

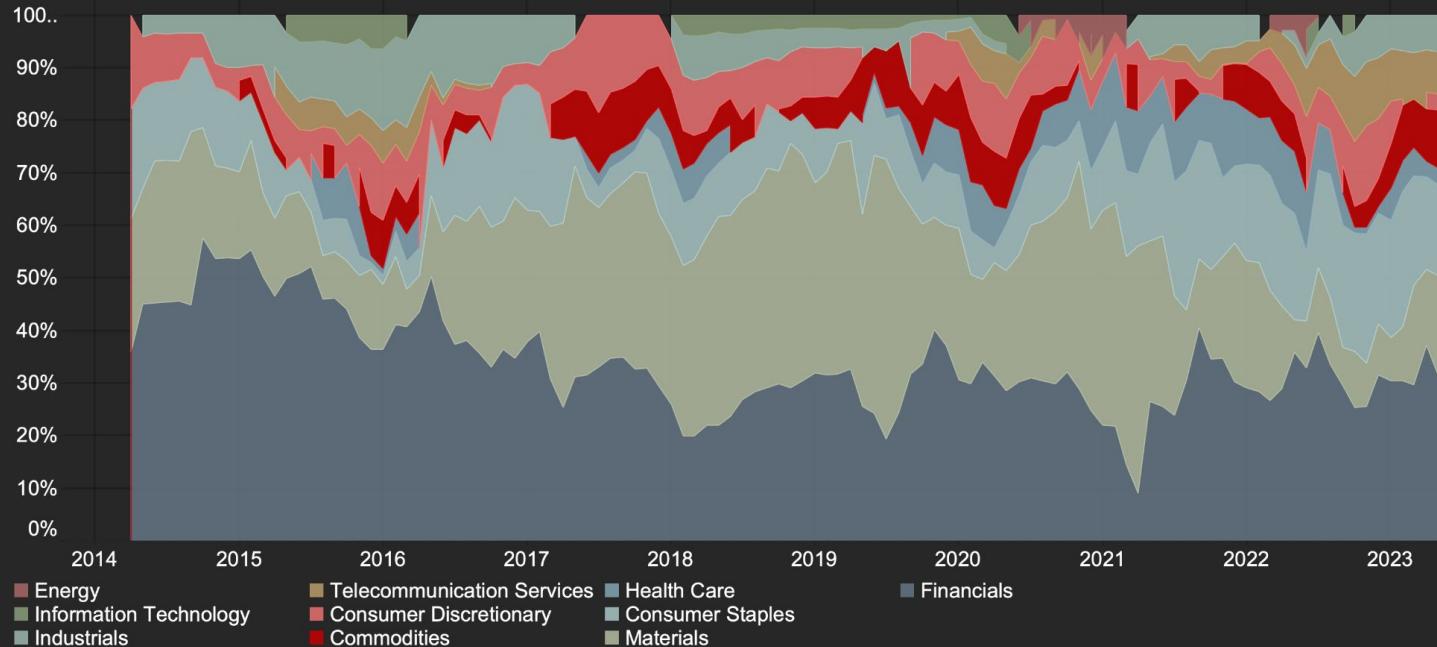
INVESTMENT PROCESS = APPLICATION OF OUR INVESTMENT PHILOSOPHY

Rezco Equity Fund - Active Management

GICs Sector Allocation

Growth Asset Carve-Out

Portfolio: REEF
*Listed Property is classified under Financials
Updated: 30/06/2023



Risk Management the Differentiator

Funds in the ASISA Equity Funds (SA Only)



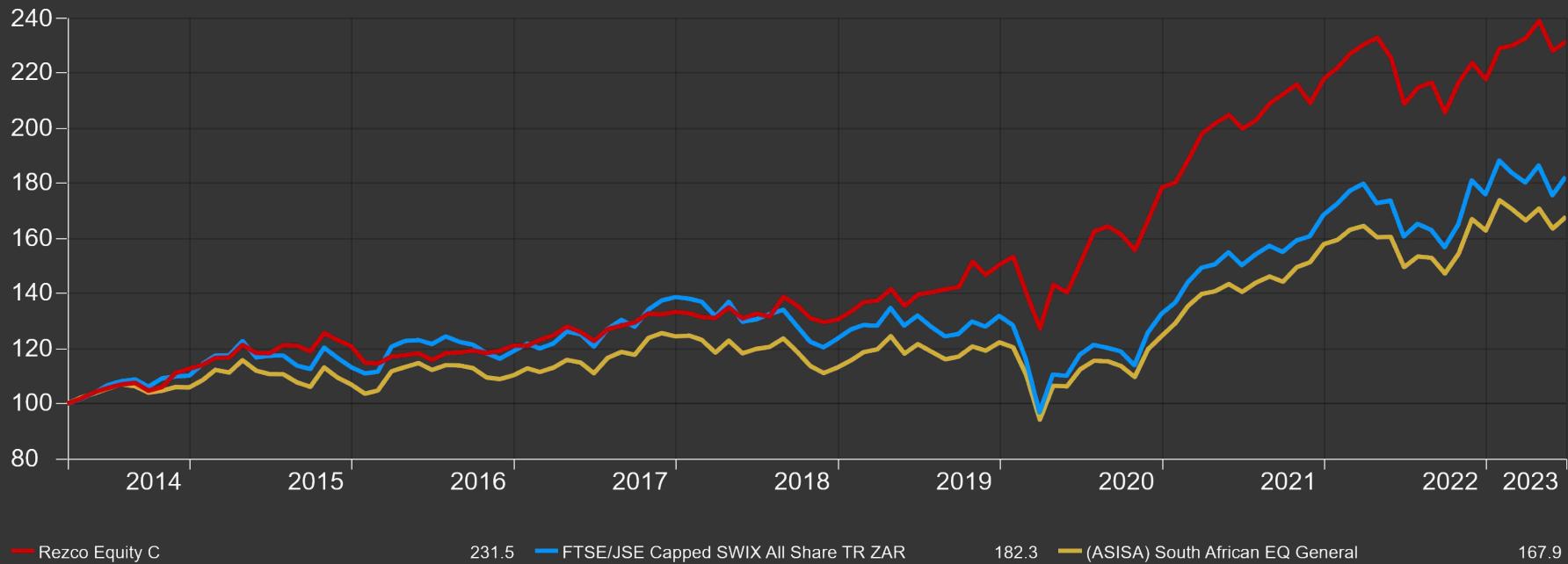
Source: Morningstar Direct

Rezco Equity Fund

Time Period: Since Common Inception (4/1/2014) to 6/30/2023

Currency: South African Rand

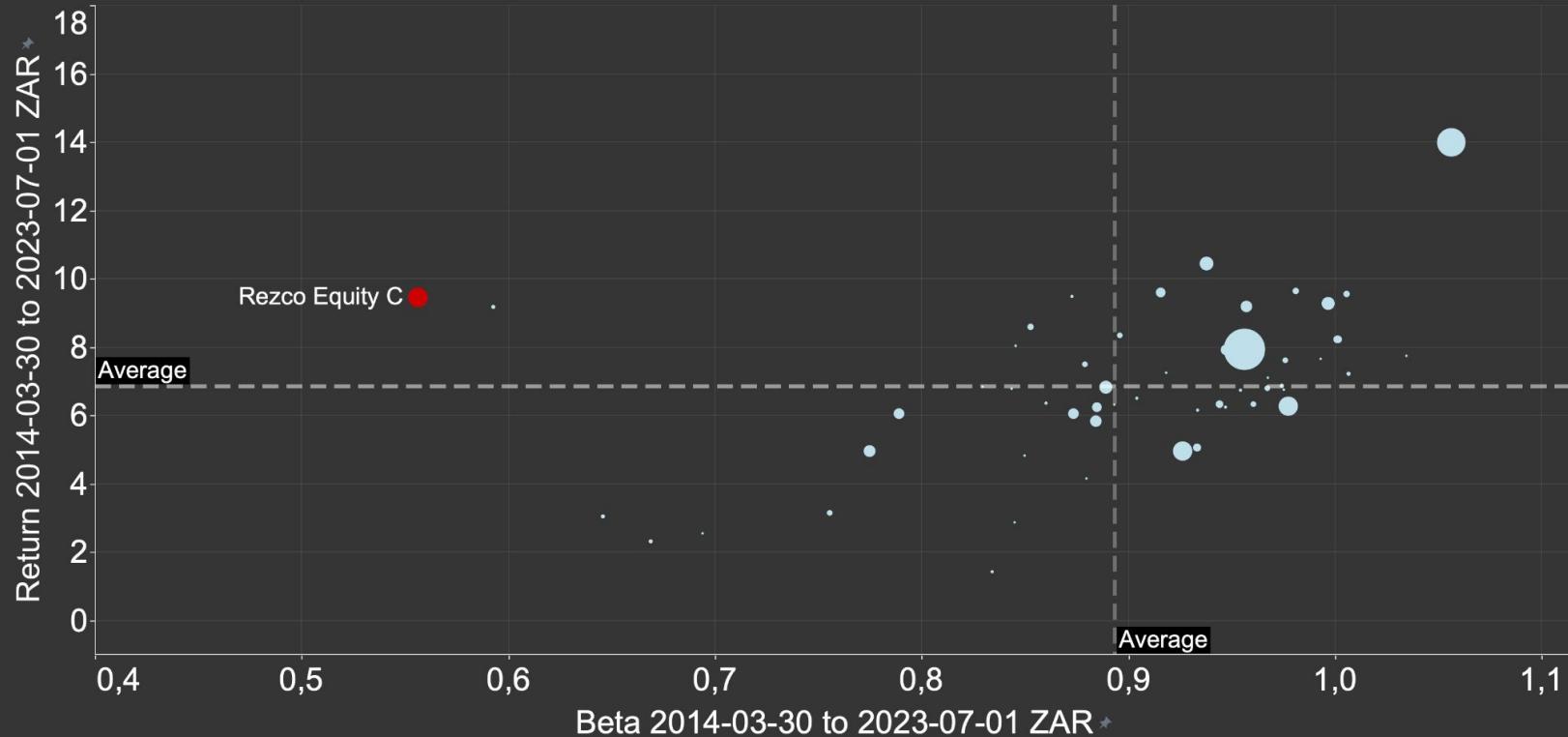
Source Data: Total Return



Source: Morningstar Direct

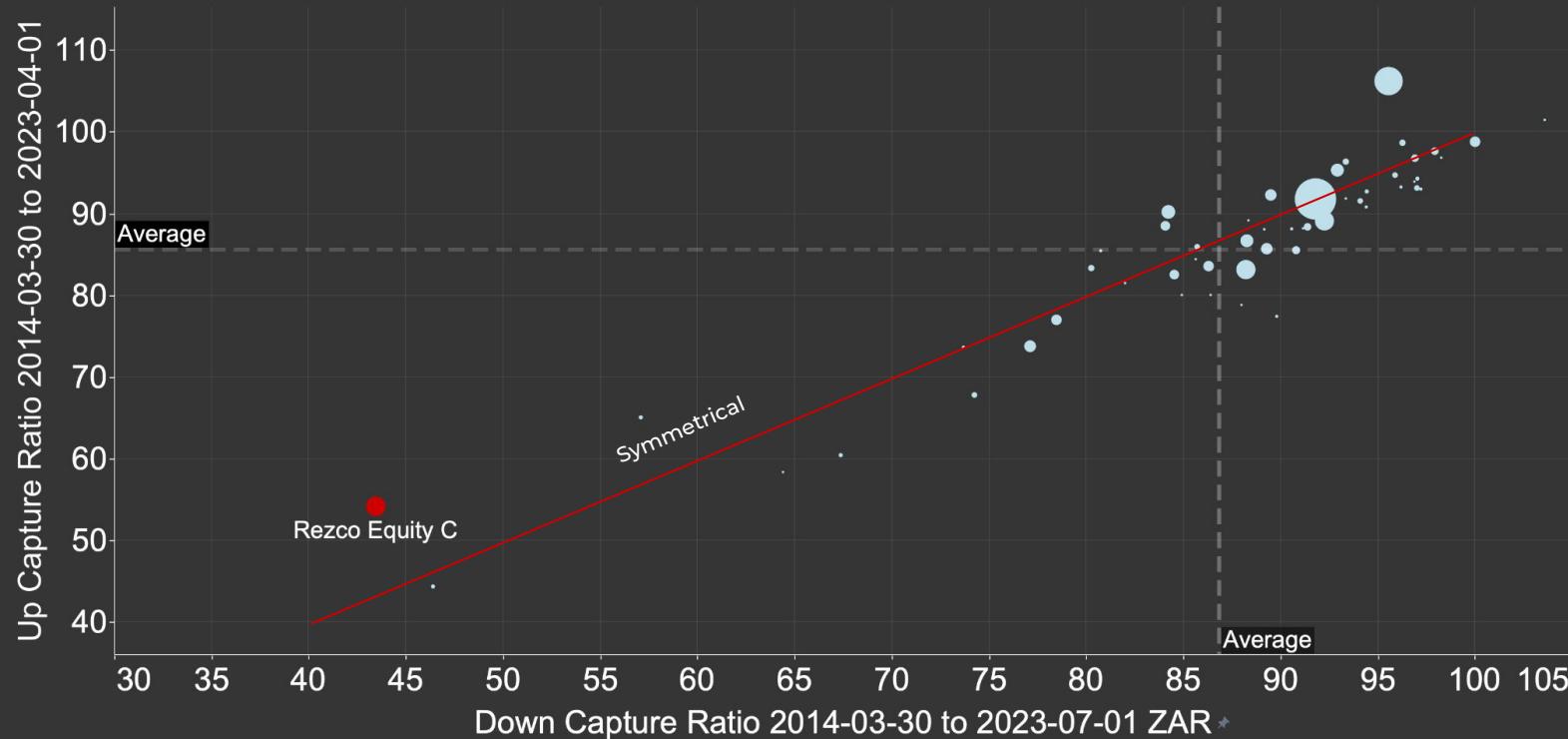
Performance with Lower Beta

Funds in the ASISA SA Equity General SA Only



Up & Down Capture Ratios

Funds in the ASISA SA Equity General SA Only



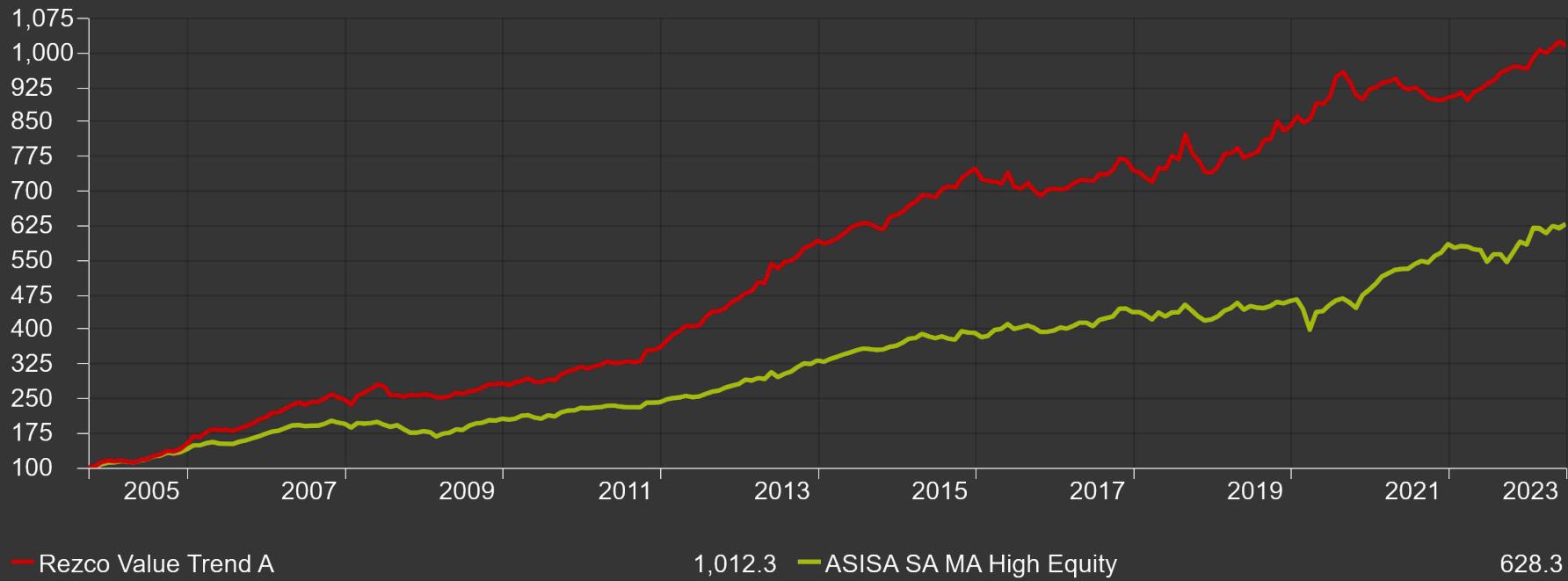


Managing Risk & Return: Multi-Asset Portfolios

Rezco Value Trend vs. Peers

Time Period: Since Common Inception (10/1/2004) to 6/30/2023

Currency: South African Rand Source Data: Total Return



Rezco Value Trend vs. Peers

Time Period: Since Common Inception (3/2/2013) to 6/30/2023

Currency: South African Rand Source Data: Total Return

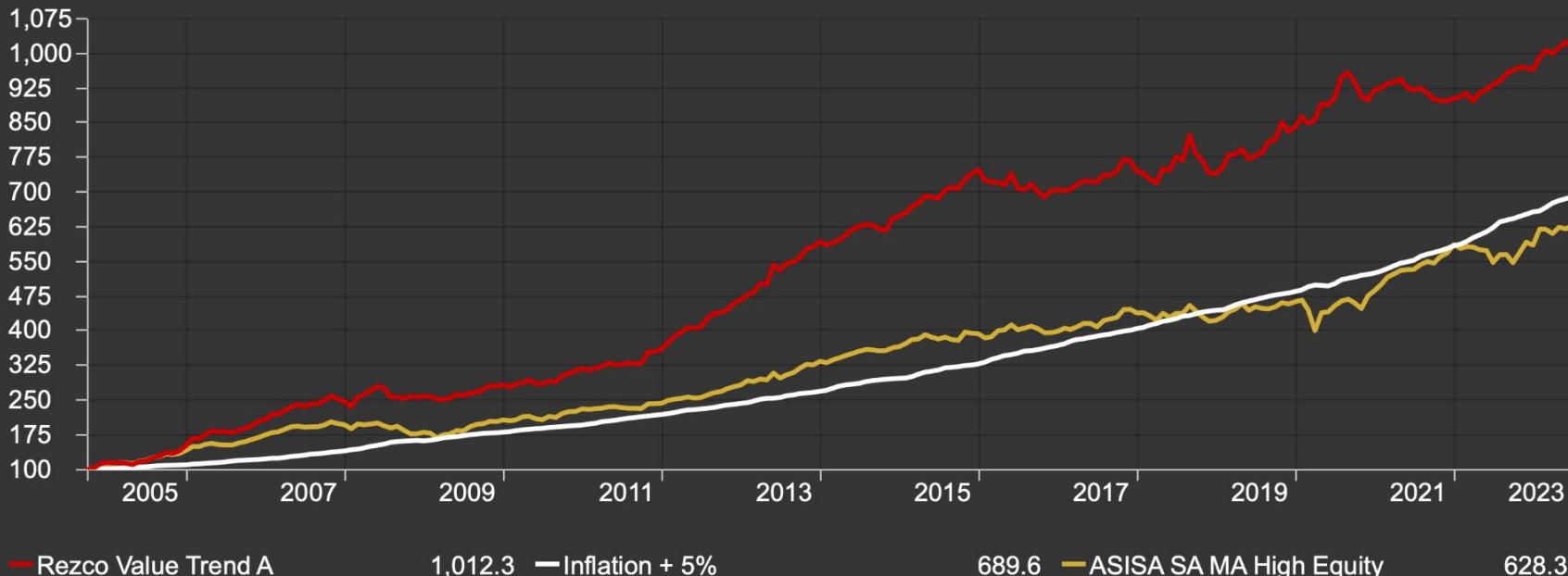


Rezco Value Trend Over Time

A Lower Risk Strategy that can Outperform Over Time

Time Period: Since Common Inception (10/1/2004) to 6/30/2023

Currency: South African Rand Source Data: Total Return



— Rezco Value Trend A

1,012.3 — Inflation + 5%

689.6 — ASISA SA MA High Equity

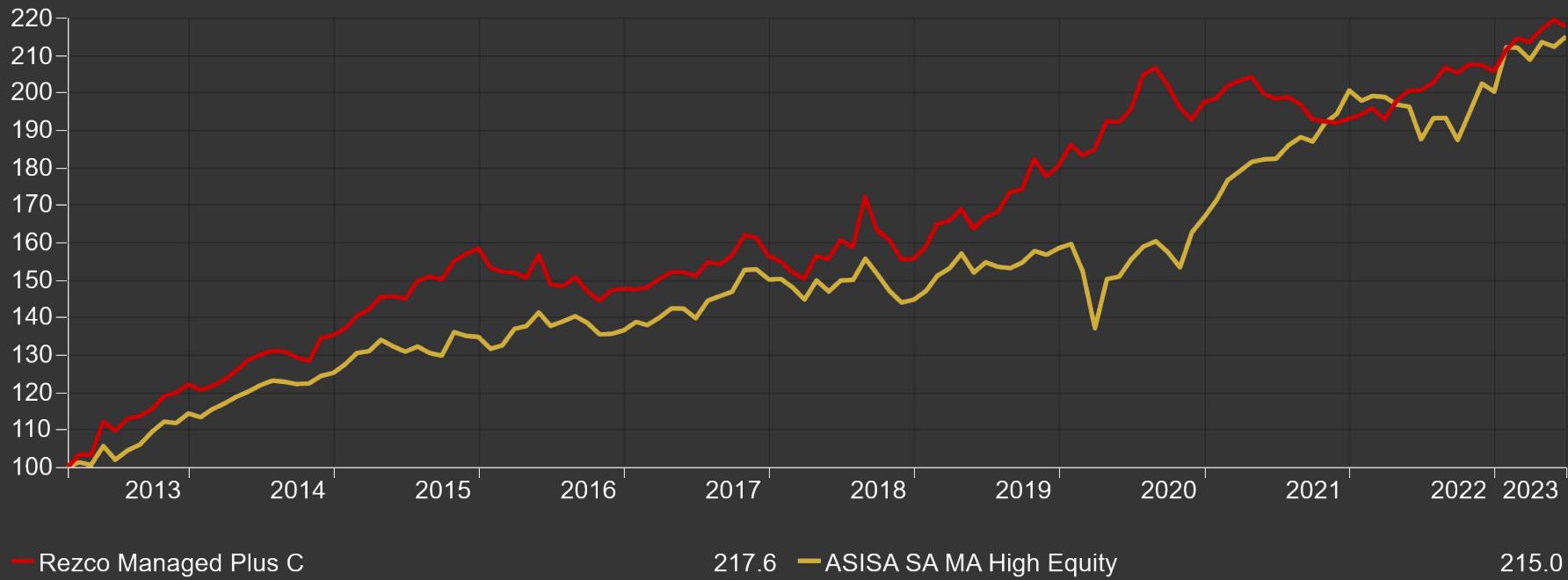
628.3

Source: Morningstar Direct

Rezco Managed Plus vs. Peers

Time Period: Since Common Inception (2013/03/02) to 2023/06/30

Currency: South African Rand Source Data: Total Return



Global Equity

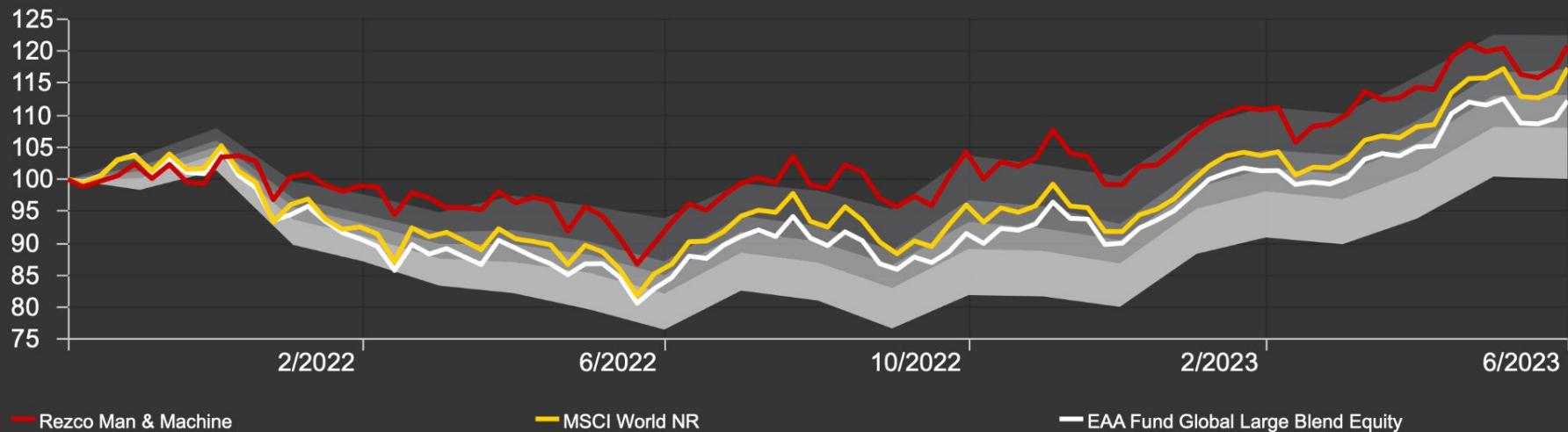
Man & Machine Strategy (R750m Seg Mandate)

Weekly Returns (ZAR)

Time Period: 11/1/2021 to 6/30/2023

Peer Group (5-95%): Open End Funds - Europe/Africa/Asia - Global Large-Cap Blend Equity

Top Quartile 2nd Quartile 3rd Quartile Bottom Quartile



Source: Bloomberg & Morningstar published at 7/31/2023

Funds Positioned for High Risk Environment

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REZCO

Thank You

