

Welcome!

The webinar will start soon



Event Logistics

-  You will receive a **link to the recording** of the webinar after the event.
-  **CPD points will be allocated** to those that registered with their ID No.
-  **Submit questions anytime** using the questions tab and we will answer through the session or on the question board.

Speakers



Rob Spanjaard

Chief Investment Officer



Simon Sylvester

CEO, Portfolio Manager

Agenda

01. What's in the base?
02. What's in the forecast?
03. Growth ahead!
04. What are market data showing us?
05. Positioning portfolios for growth
06. Q&A



The SA Inc Story

- SA Inc equities could deliver 20% p/a for the next 3 years
- The base is very low
- RSA shares and currency were pricing in “no hope”
 - and zero economic growth
- The ANC has swung pragmatist
 - and there is a lot of low hanging fruit
- There are early signs of improvement
- The Rand could strengthen 15% over the next year
- Mid caps have been neglected

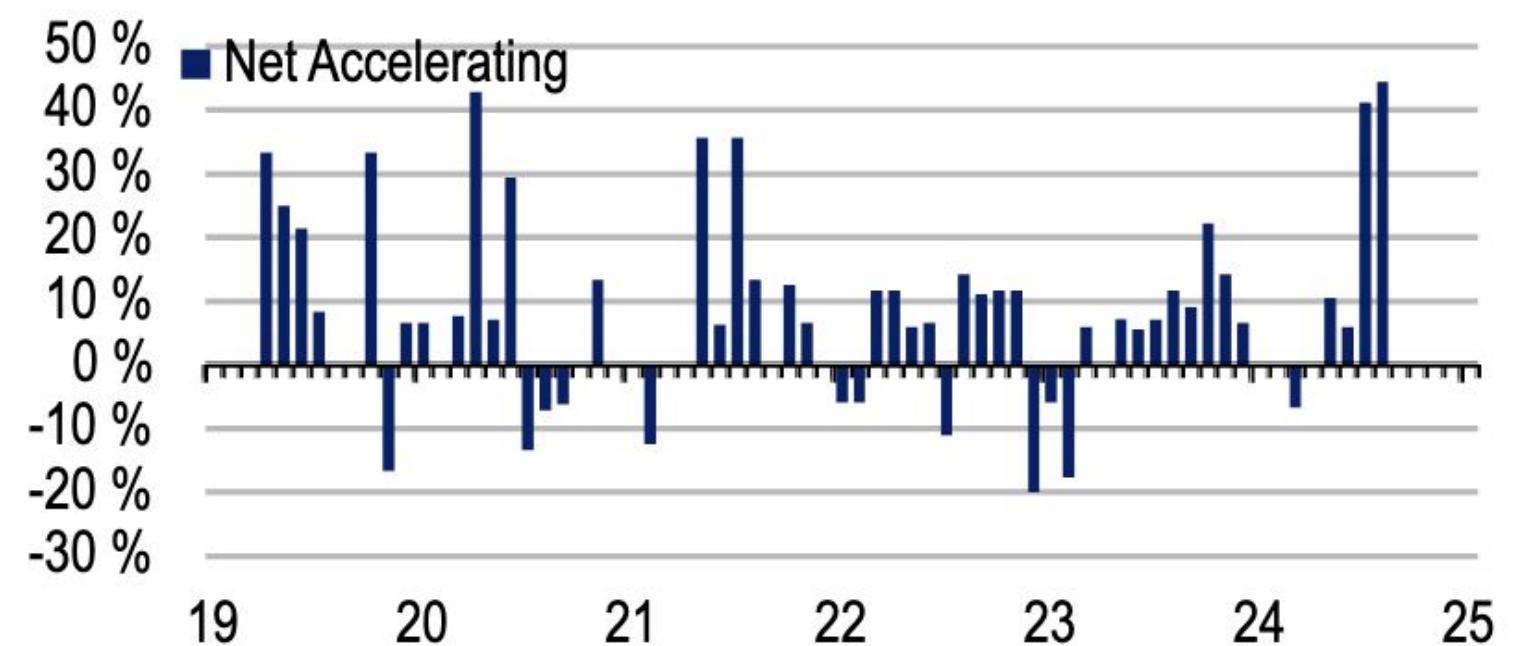
RSA reform is tangible

Have portfolios adjusted to the new reality?

Bofa RSA Fund Manager Survey

Exhibit 9: Do you see government reform?

Reform hopes jump



Source: BofA Global Research, South Africa Fund Manager Survey

BofA GLOBAL RESEARCH

What's in the Base?

Special report | Corruption

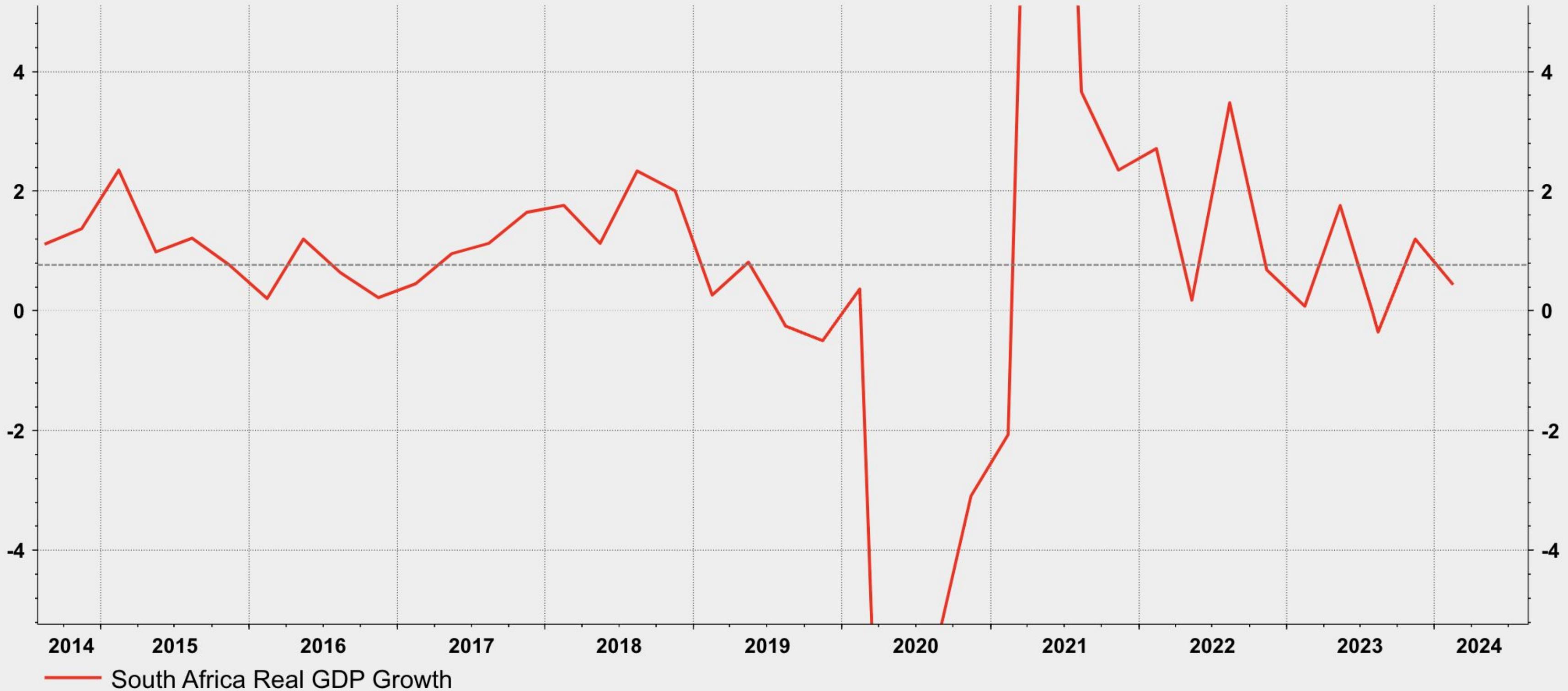
A decade of “state
capture” has damaged
South Africa’s institutions

Cyril Ramaphosa must reverse much of what Jacob Zuma did



Reuters

South Africa: The Lost Decade

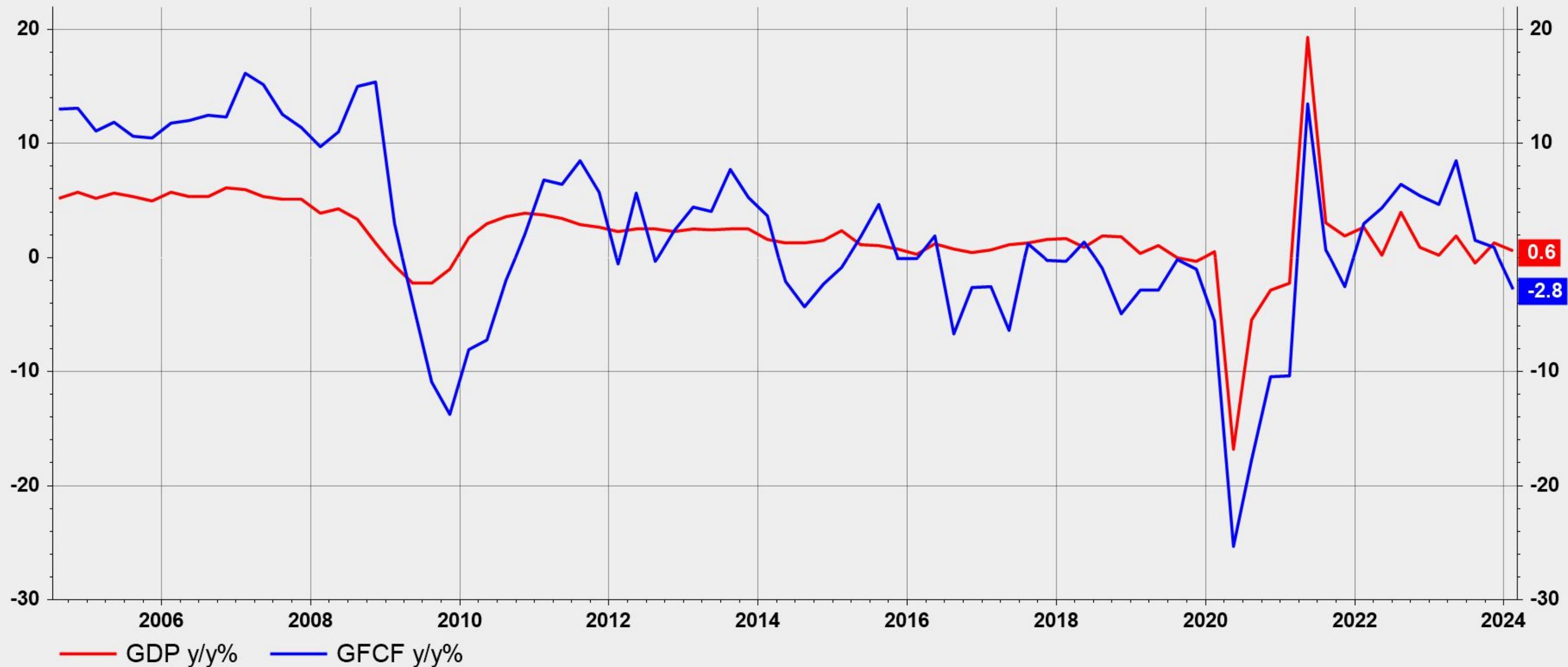


Source: LSEG Datastream / Rezco

Declining Confidence, Investment and Growth Rates

No such thing as *ceteris paribus*

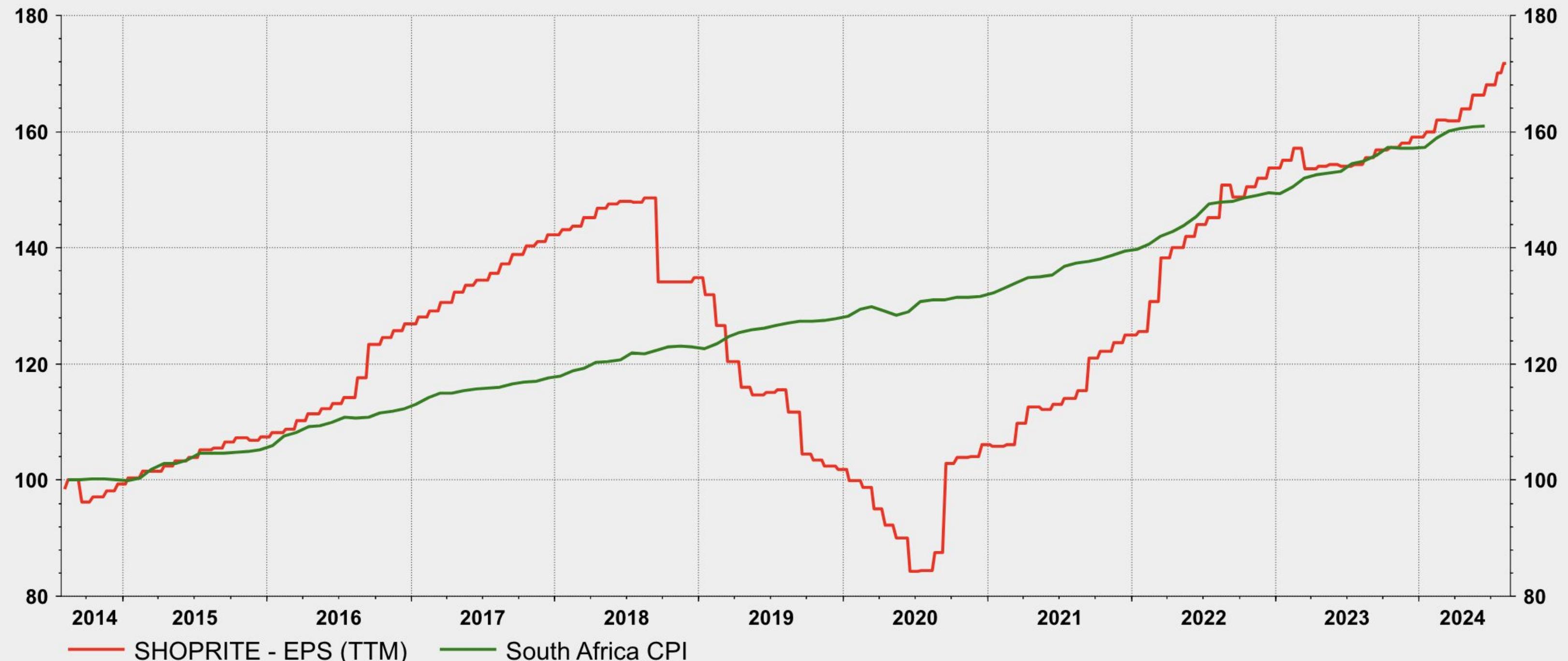
Updated: Q1 24



Source: LSEG Datastream / Rezco

A Great South African Inc. Success Story (Hardly Beat Inflation)

Shoprite earnings vs inflation

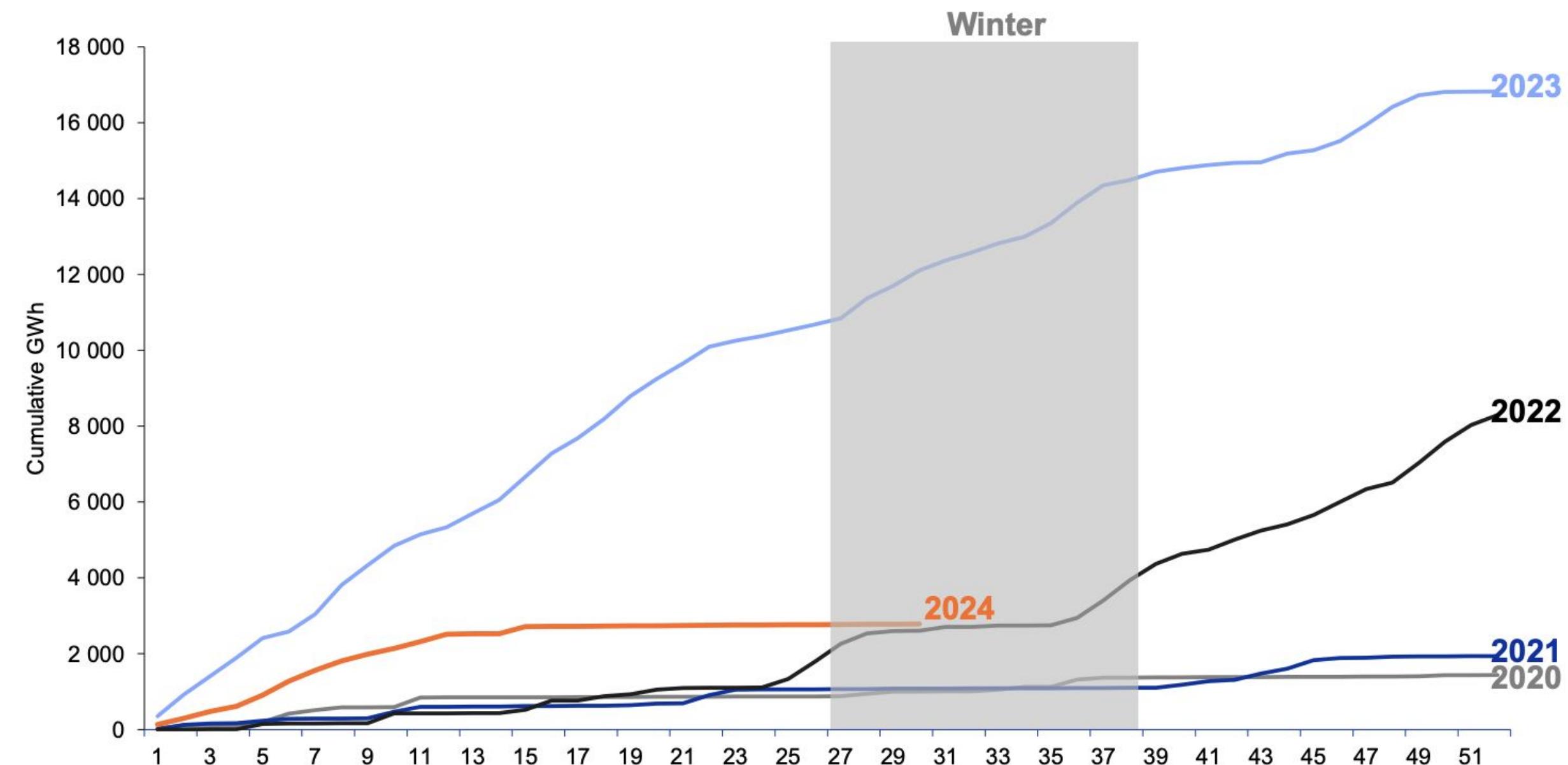


Source: LSEG Datastream / Rezco

Load Shedding is in the Base, Not the Forecast

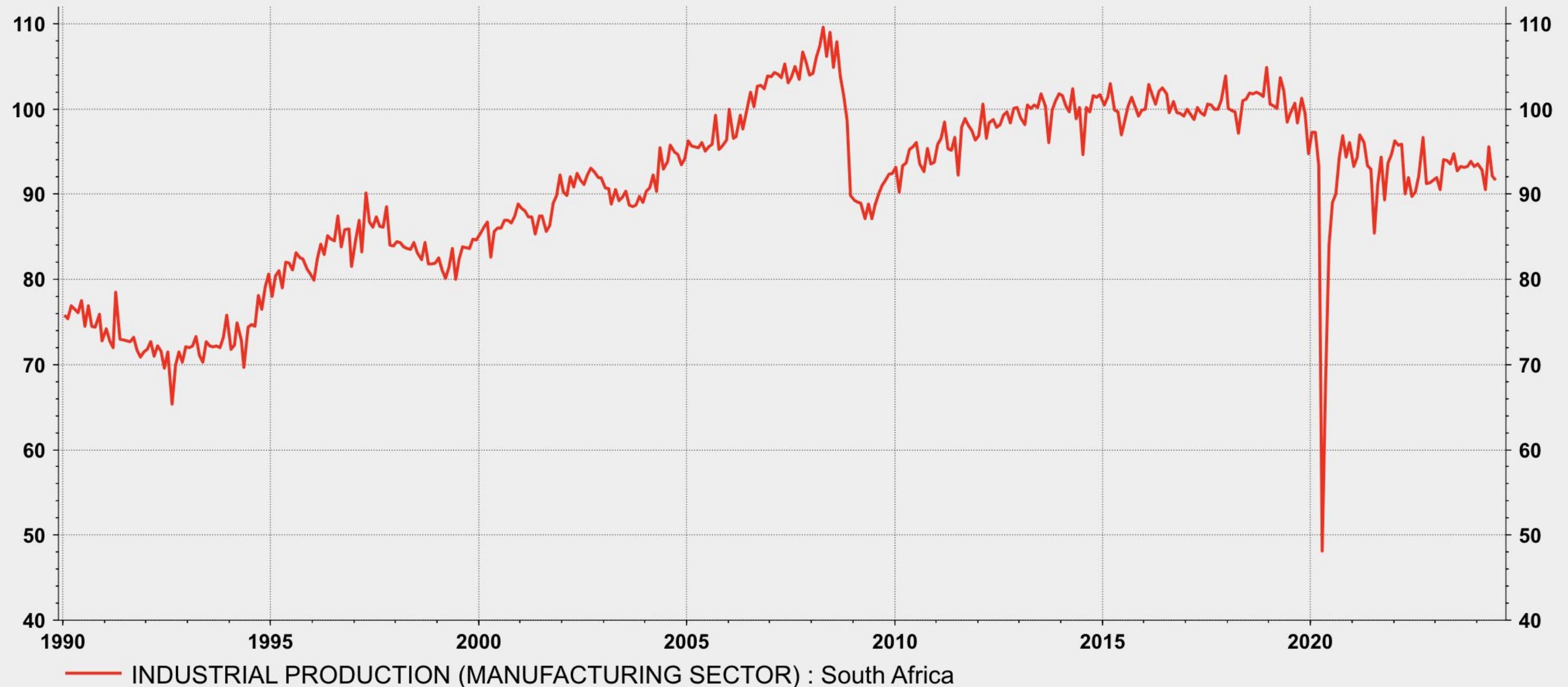
Cumulative loadshedding

- SA has experienced cumulative loadshedding of 2,786 GWh thus far in 2024.
- It was a cumulative 12,109 GWh in the comparable period in 2023.
- Loadshedding has been suspended since 26 March (135 consecutive days).



Source: Eskom, Standard Bank Research

Manufacturing has Been Decimated



Source: LSEG Datastream / Rezco

Base Effects are Within the Market Structure



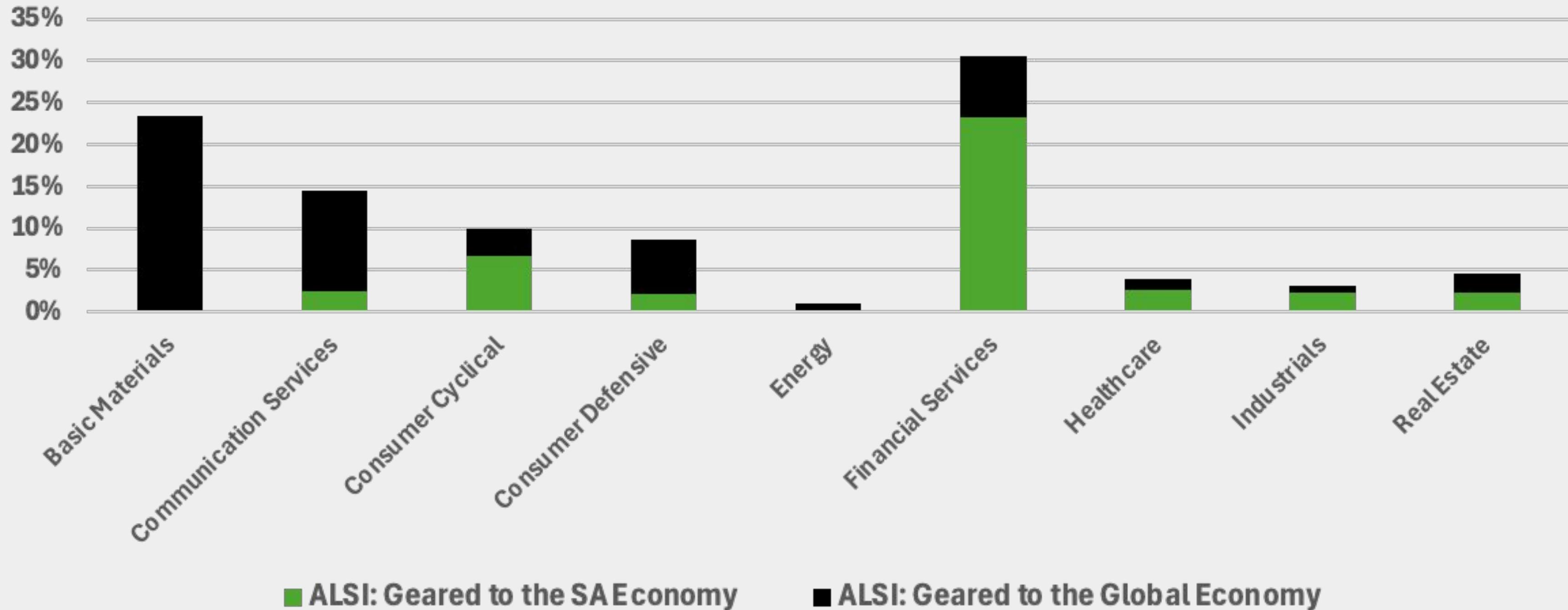
The Opportunity Set:

Both Groups Have Similar Capped SWIX ALSI Weights



The Capped SWIX ALSI Structure is Reflective of the Base Earnings & Valuations

Look-through exposure of the Capped Swix



What's in the Forecast?



GNU is a Major Political Shift... for the ANC



Too Many Examples of Pragmatism to Include in this Webinar

Motsoaledi opens door for new consultation on NHI with 'massive roadshow'

Carol Paton

news24

Comments Gift article Bookmark

Listen to this article

05:41



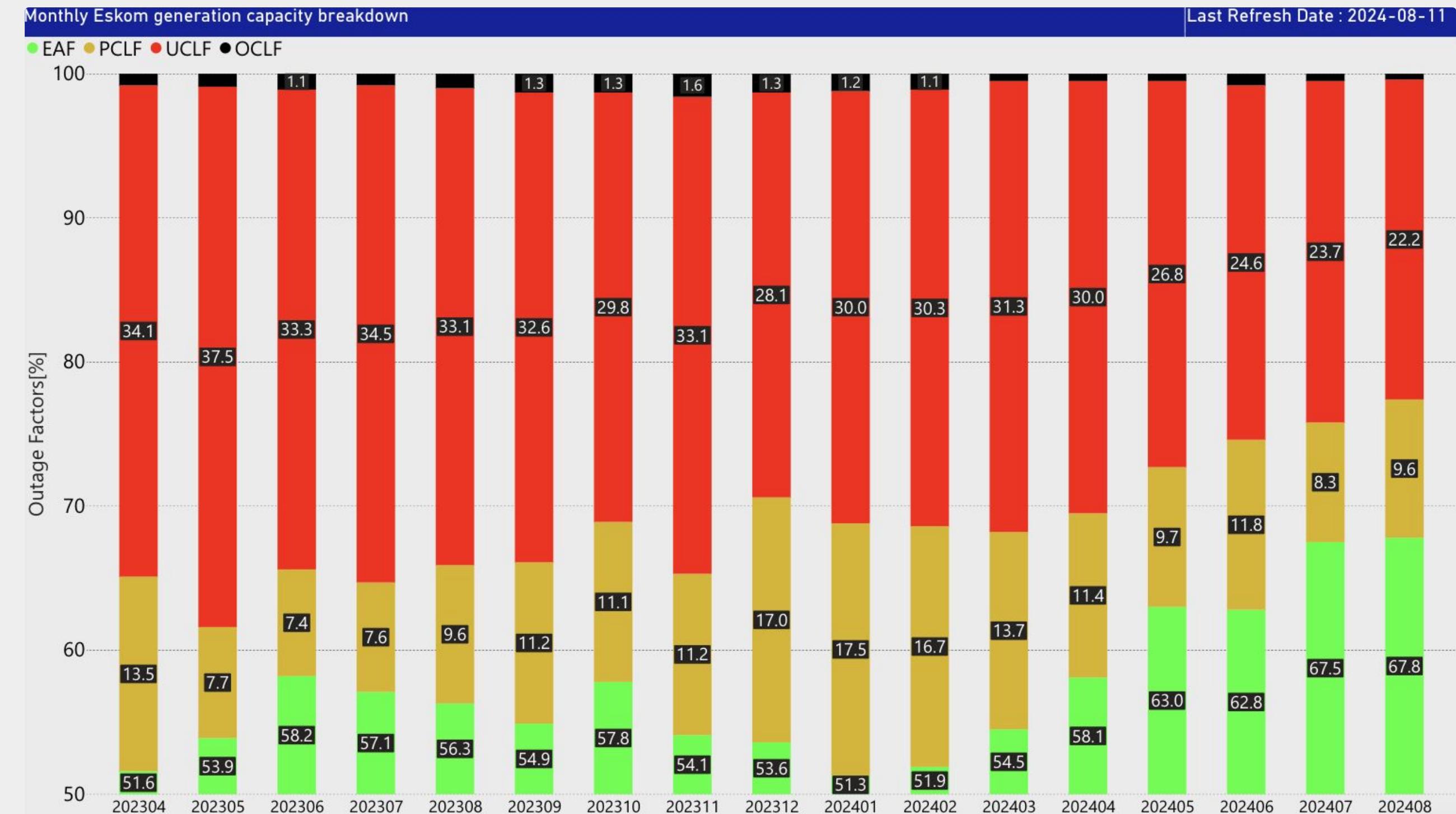
We are going to implement Section 57 but simultaneously we are intending to run massive roadshows and workshops to meet all the relevant stakeholders and hear their concerns.

Despite the war raging about NHI, you will never hear anyone say they are against universal health coverage (UHC). They all say they accept UHC, but then there is a big but, and they will say they don't support it in the form of the NHI Act.

So, our job is to find out in what form they want it. What is it that if it was on the table, they will go for it?

ESKOM - Clear Improved Performance

Give credit where due - pre G.N.U.



Private Sector has a role to play in the GNU

NATIONAL

Trade minister Parks Tau wants to bring in private sector to transform economy

‘Our working relationship has started off quite well,’ Tau said in reference to his two deputies

09 JULY 2024 - 15:30

by LUYOLO MKENTANE

Rezco View through Ramaphoria:

Old Slide from H1 2018

Limit RSA Inc

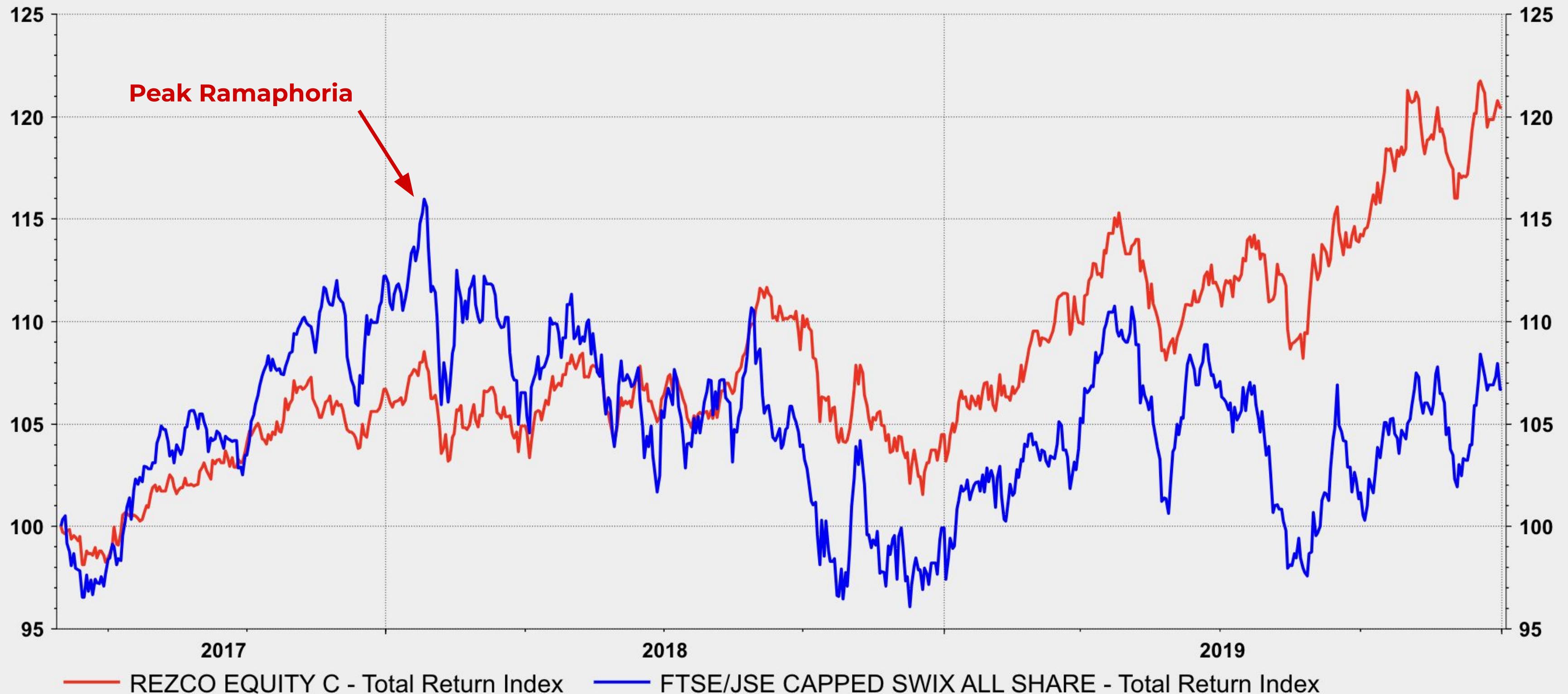
ECONOMY: NO QUICK FIX

Cyril first needs to fix the ANC before he can fix the country



16

Rezco Didn't Chase the Ramaphoria Trade



Source: LSEG Datastream / Rezco

The Plane is Now on the Runway, But a Lot of Work Ahead



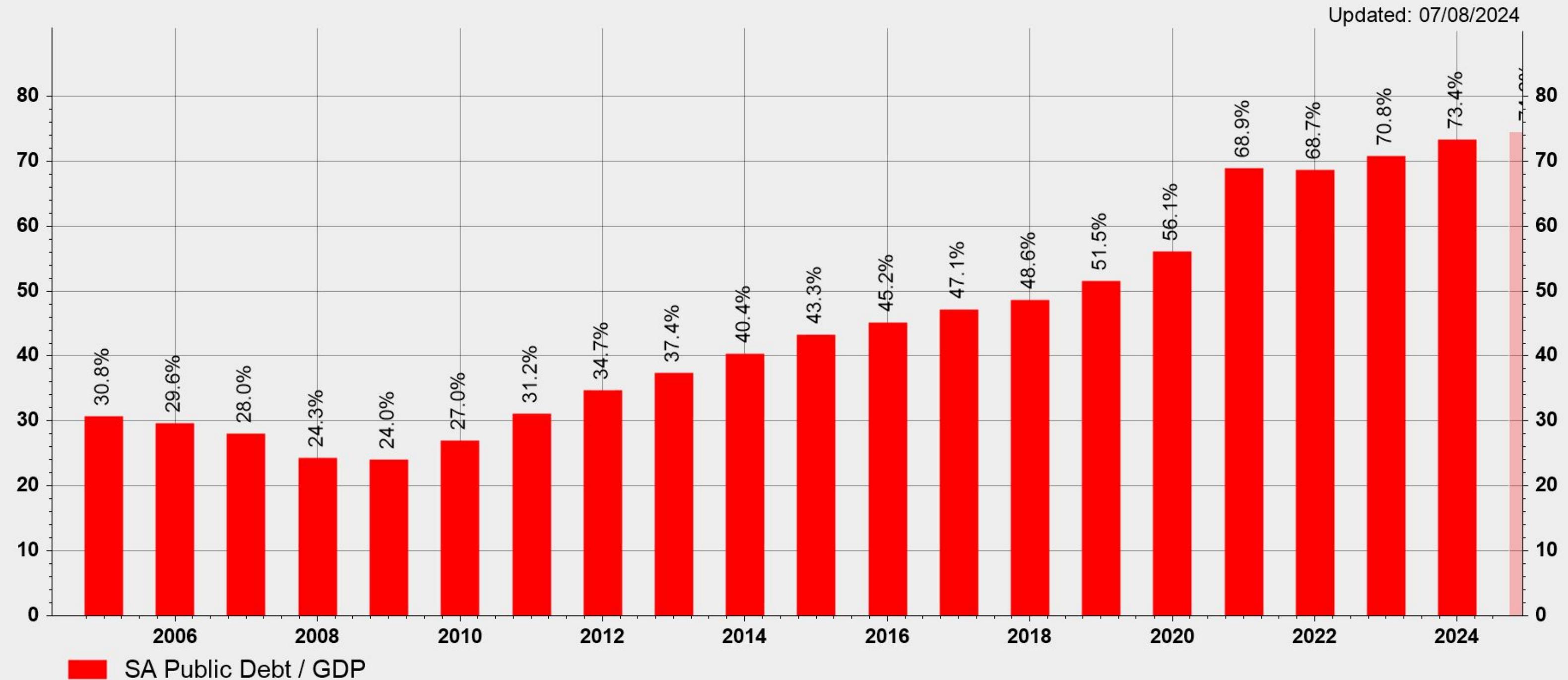
Growth Ahead



High Debt Means Private Sector Has to Get Involved

This is good - there is surplus private capital

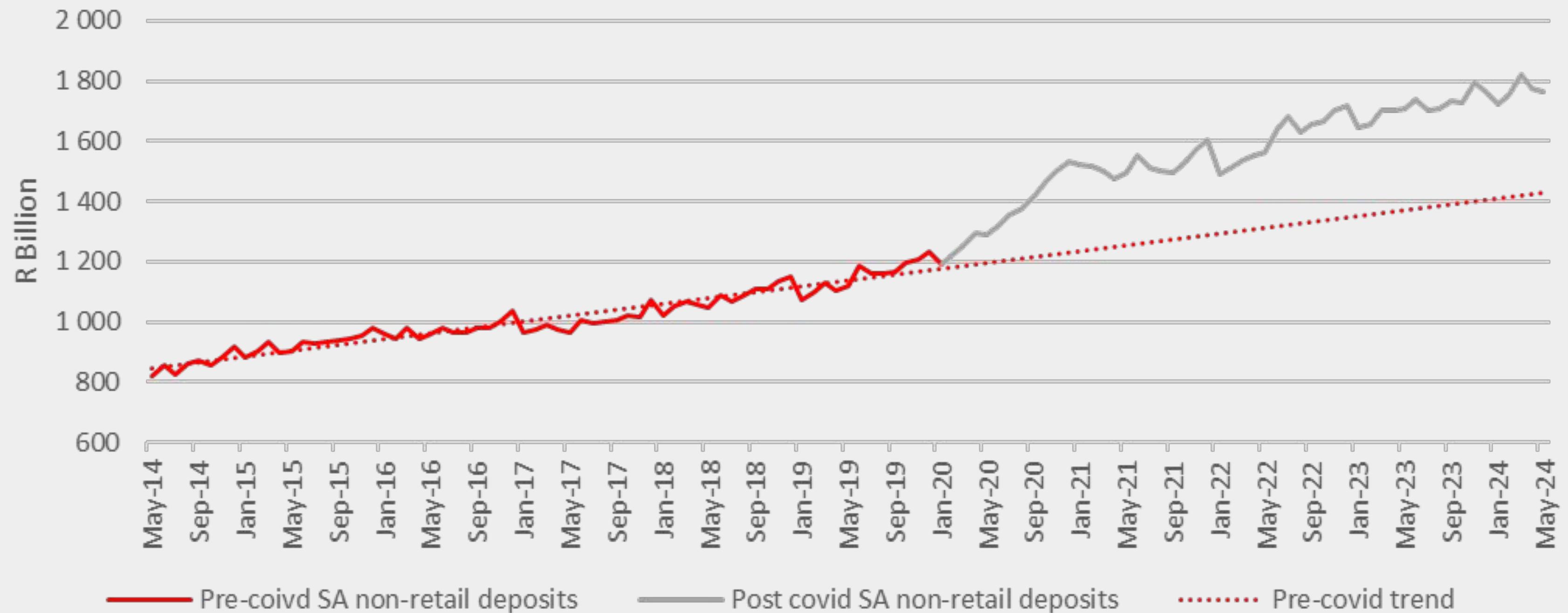
SA PUBLIC DEBT



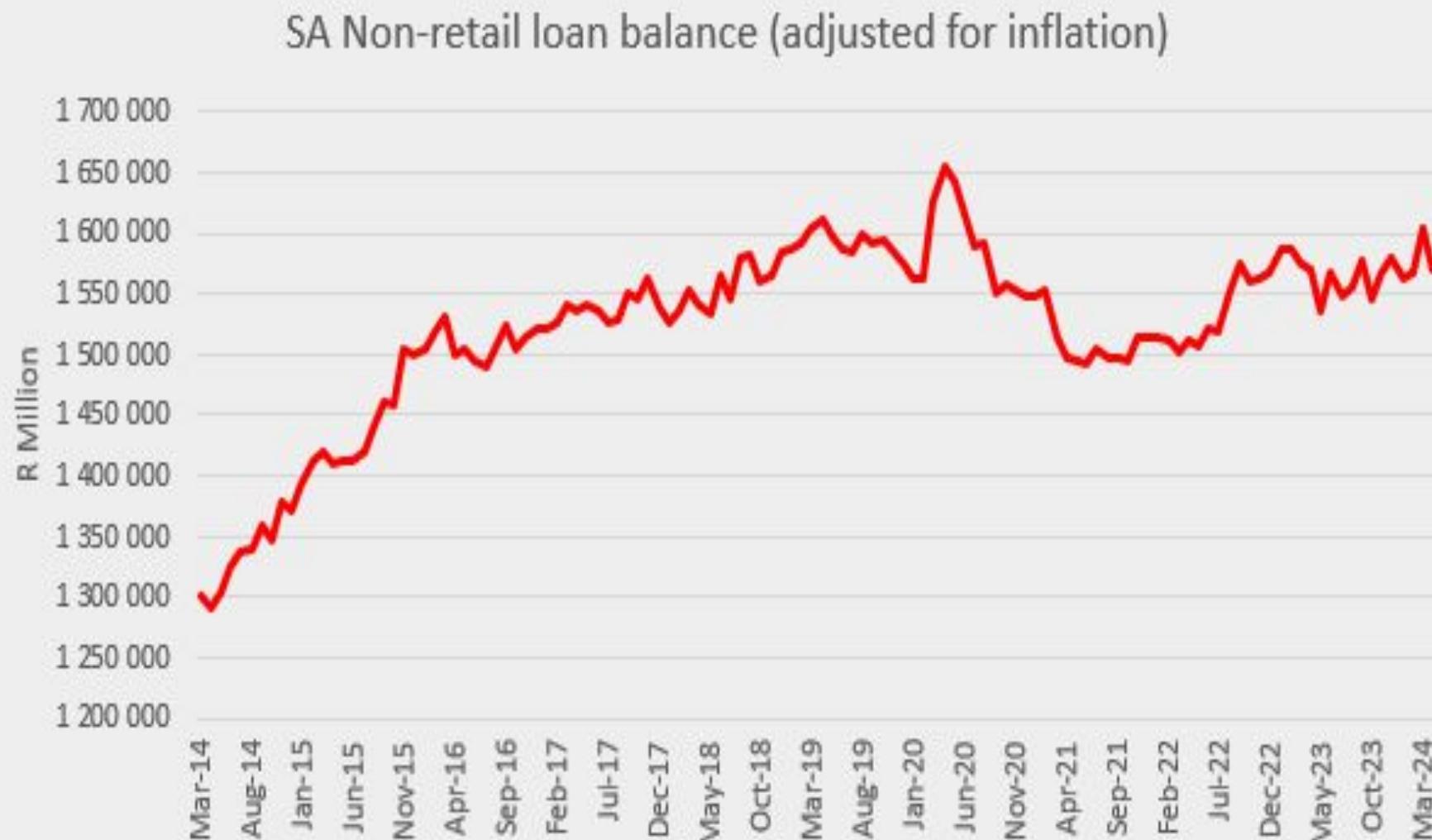
Source: LSEG Datastream / Rezco

Corporates Have Excess Cash & Banks Have Excess Capital to Deploy

SA Non-retail deposits



Plenty of Room to Accelerate



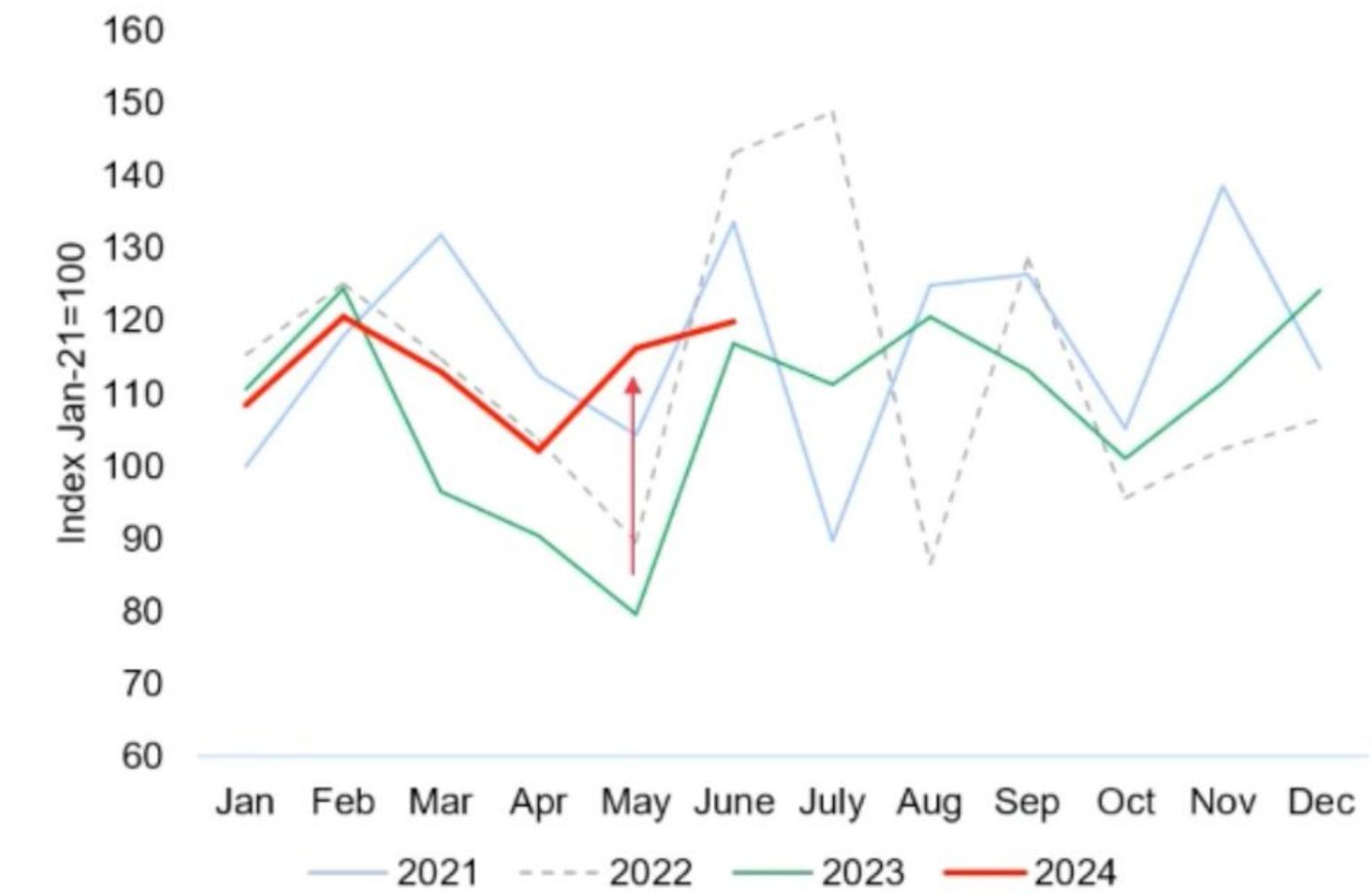
Some Improvements off a Low Base

Some port improvements from a very weak base

Containers

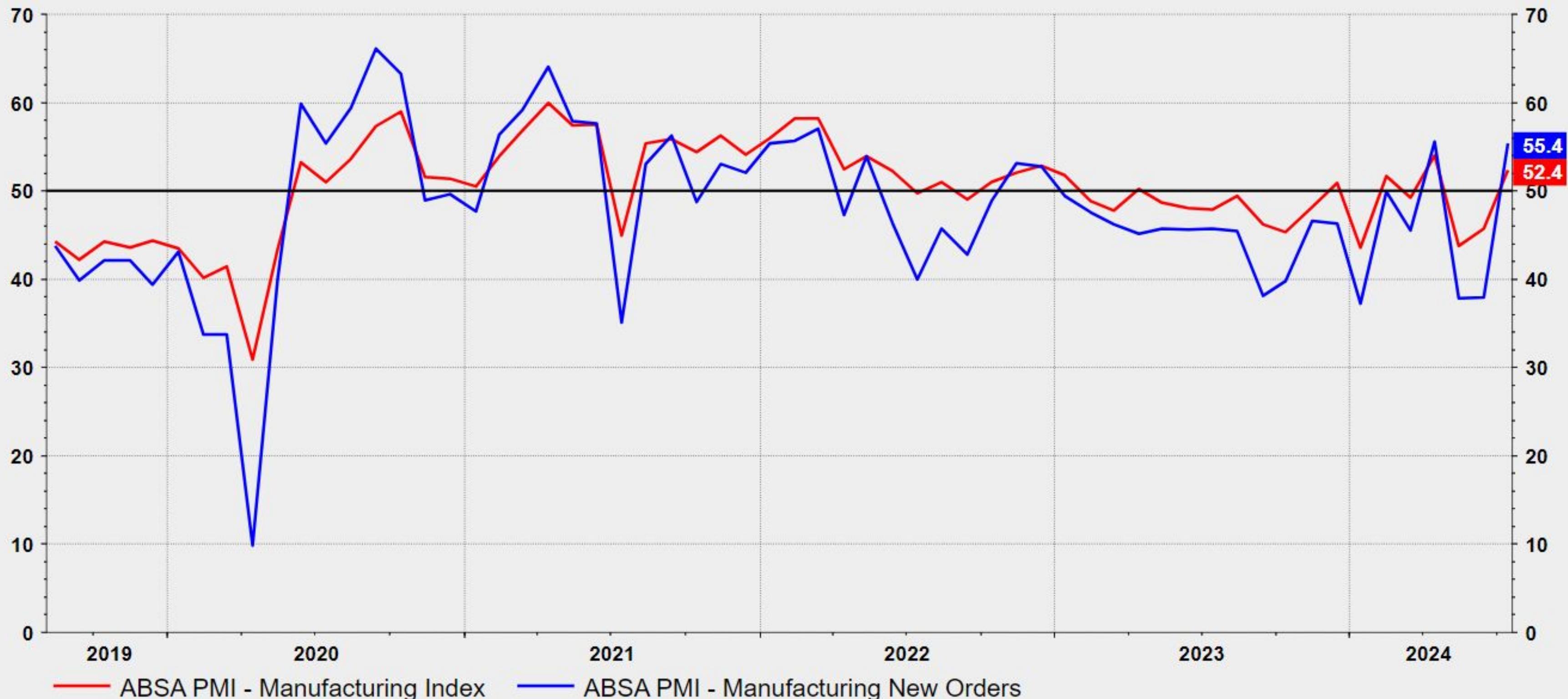


Dry bulk



Sources for all charts: SAAFF, Standard Bank Research

PMI's: Early Green Shoots

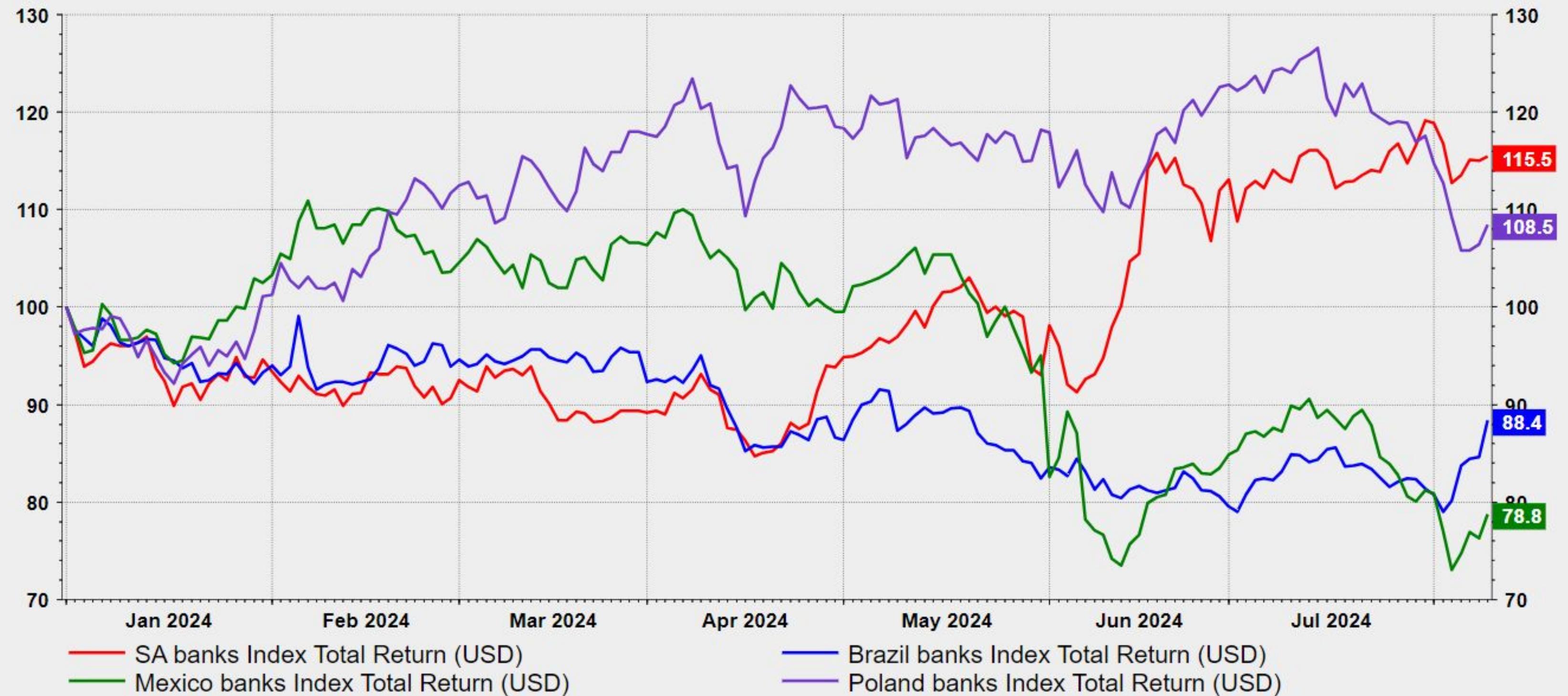


Source: LSEG Datastream / Rezco

What is Market Data Showing Us?



South Africa is Outperforming in a Very Weak Emerging Market Backdrop



Source: LSEG Datastream / Rezco

Short Term: The Rand is Showing Relative Strength

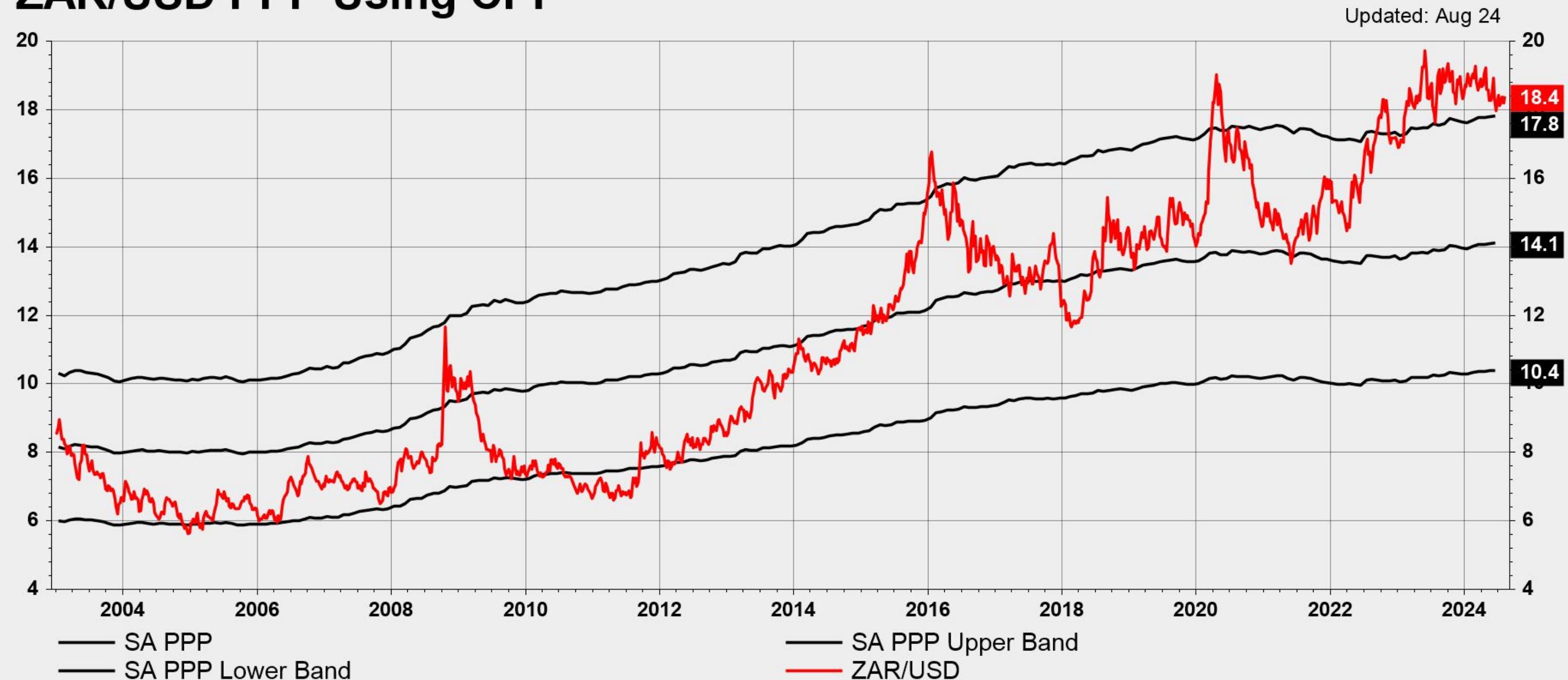


Source: LSEG Datastream / Rezco

Long Term: The Rand can Strengthen a lot from Here

ZAR/USD PPP using CPI - Updated Aug 24

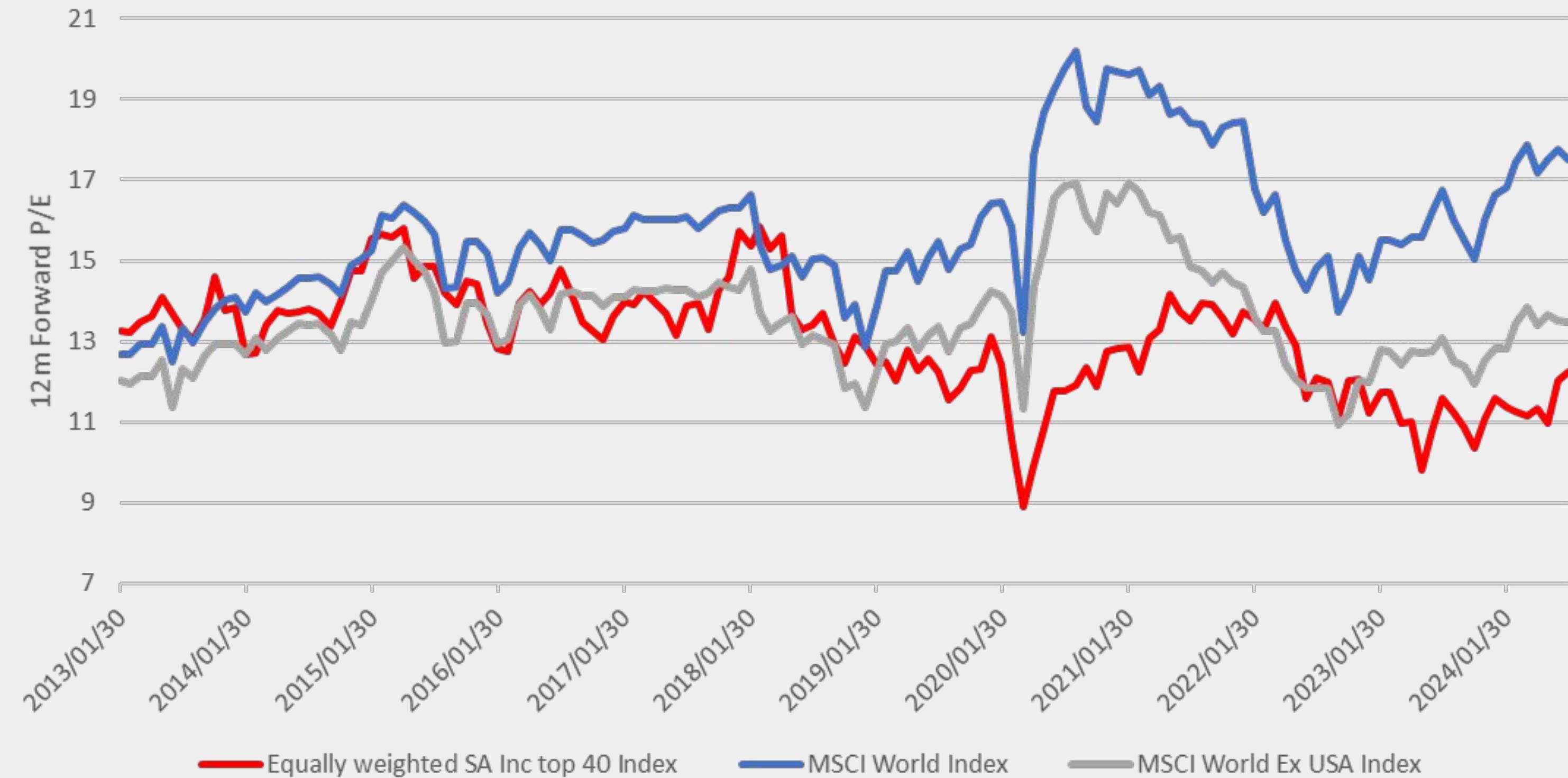
ZAR/USD PPP Using CPI



Source: LSEG Datastream / Rezco

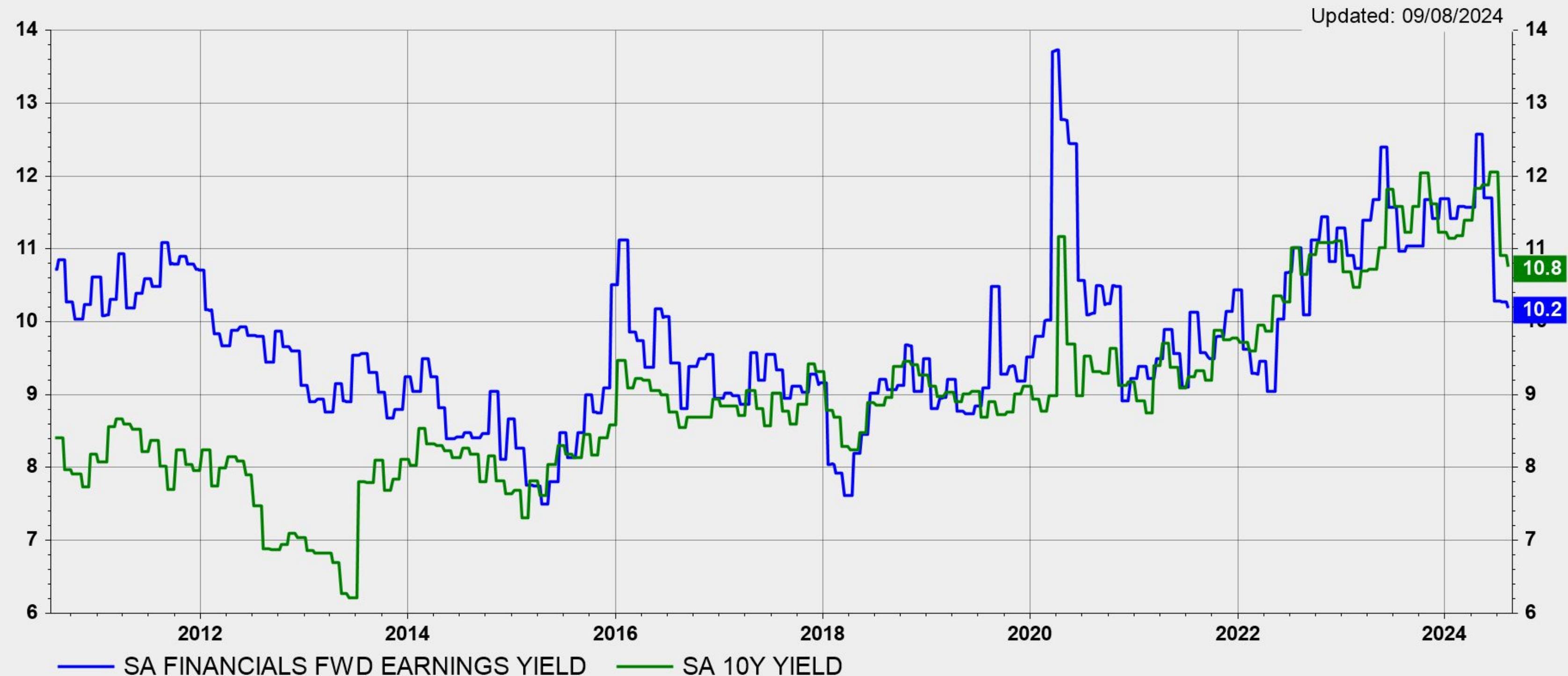
SA Inc PE's - Not Yet Pricing in Reform

SA Inc vs MSCI World 12m forward P/Es



Financial PE's and 10 Year Yield

SA market valuation



Source: LSEG Datastream / Rezco

Long Term Yield Spreads

Only Pricing the Avoidance of Disaster



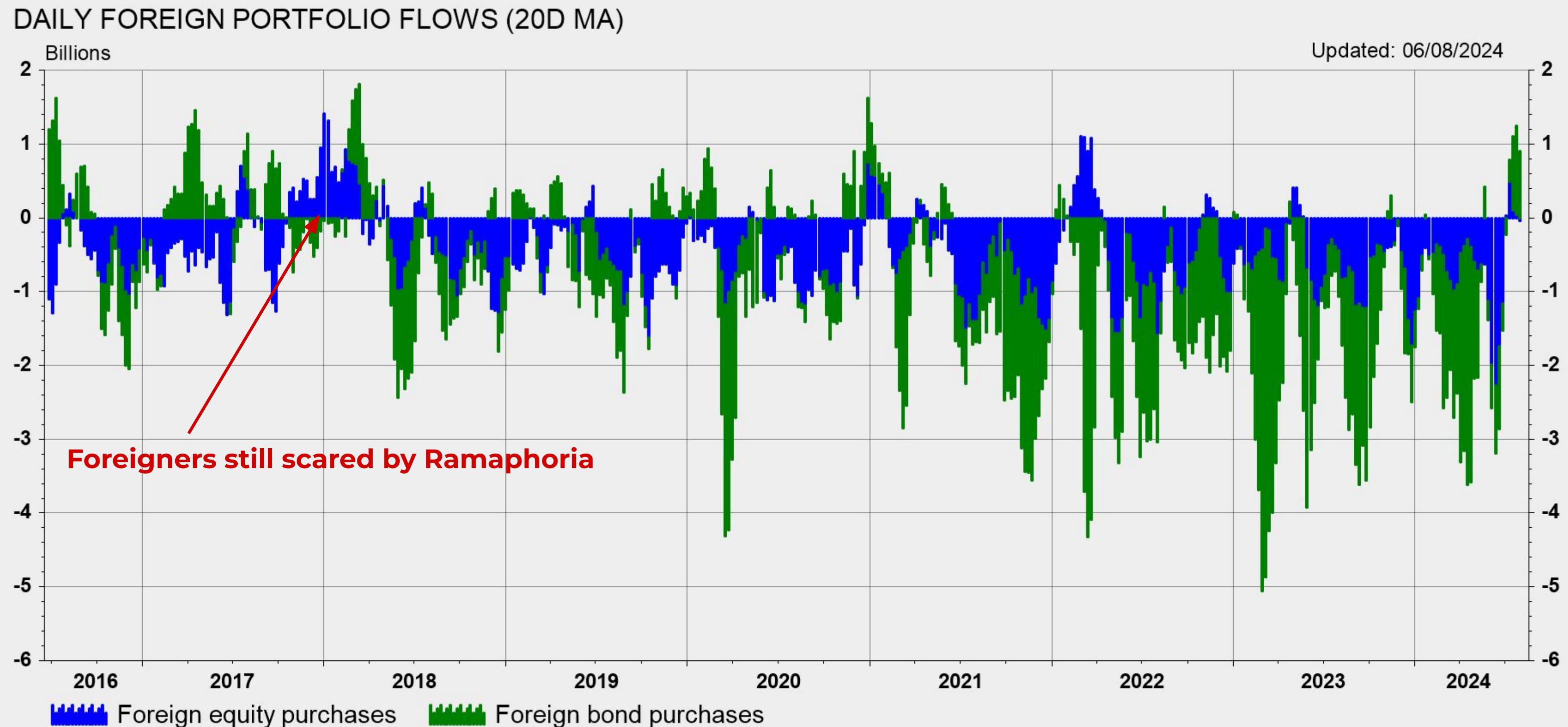
Source: Bloomberg

What was Priced in Prior to the Successful GNU:



Foreign Investors Have Started to Notice the Change

Buying RSA bonds again in a tough EM carry trade environment



Source: LSEG Datastream / Rezco

Recent Institutional Survey showing increased interest

Foreigners usually follow the South Africans

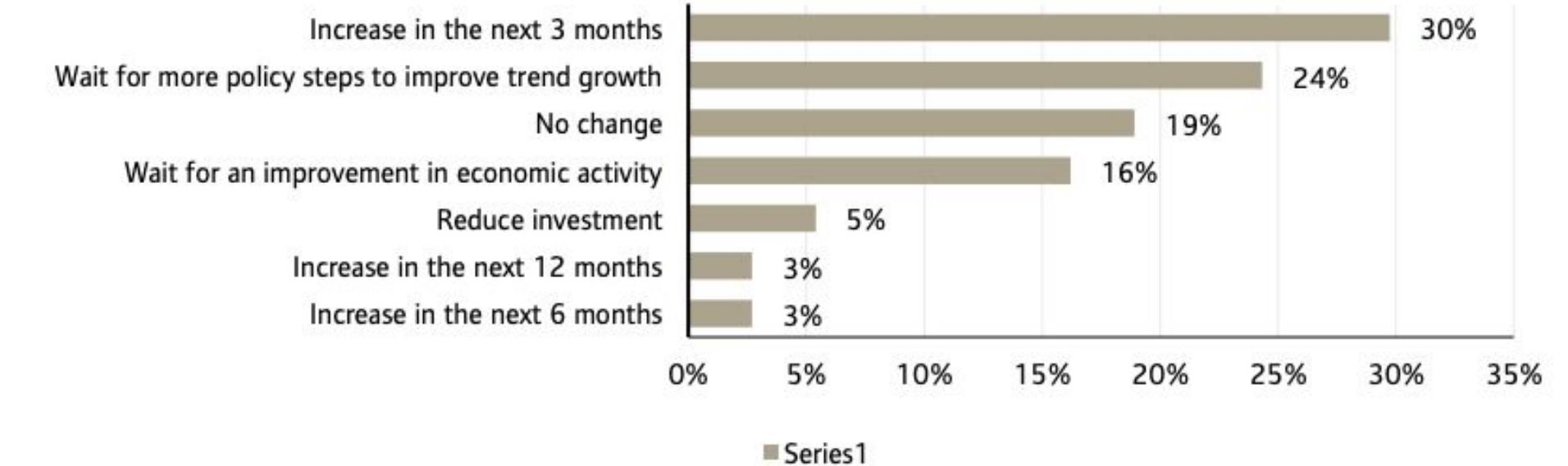


13 August 2024

Foreign investor perceptions of SA

Strongly positive views on SA, though concerns remain around growth and the durability of the GNU

Figure 4: Investor intentions regarding SA



Source: Standard Bank Research

Right Time to Be Active

Bottom Up Conviction Stock Picking



Now is a Good Time for Benchmark Agnostic High Conviction Stock Picking

But the trend is the other way

FUND ANALYSIS | 01 AUG, 2024

Satrix: SA equity managers' active share has fallen by over one-third since 2011

Despite the spate of delistings, Satrix's research suggests ample opportunities for active differentiation in the JSE equity market.

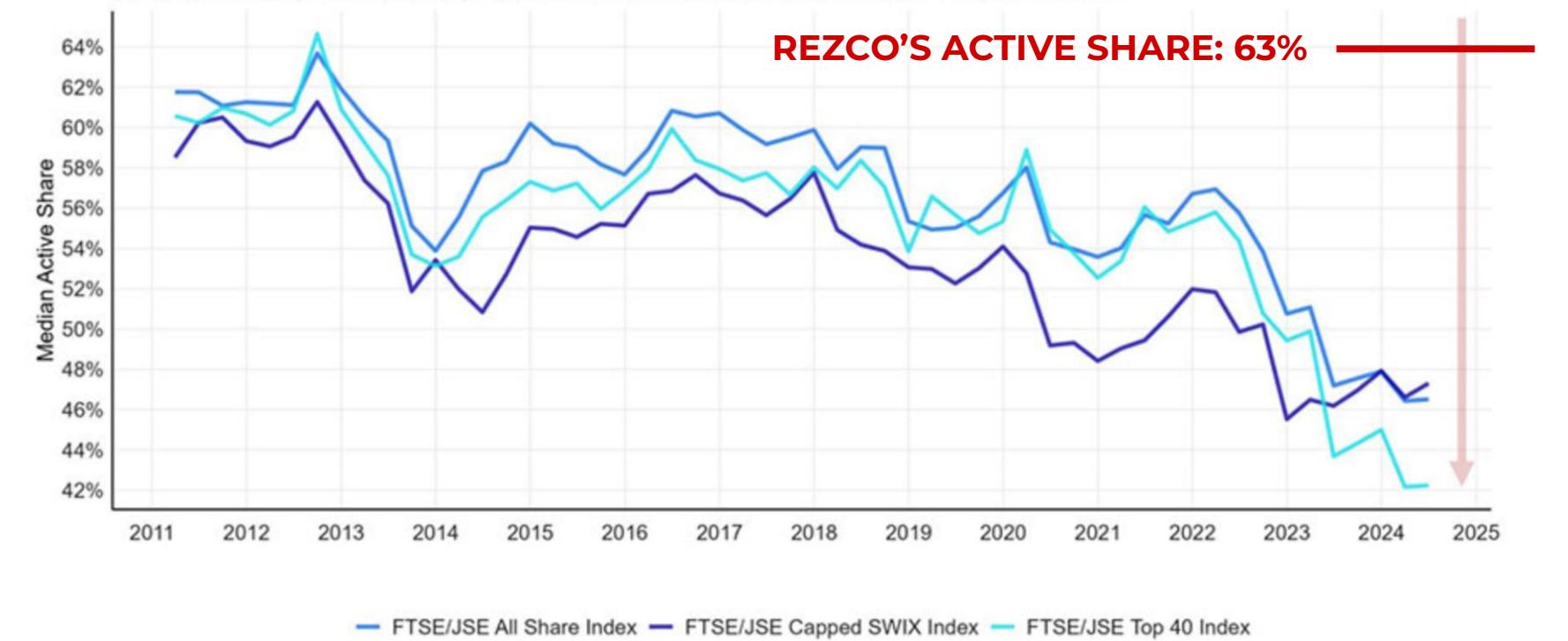


BY JUSTIN BROWN

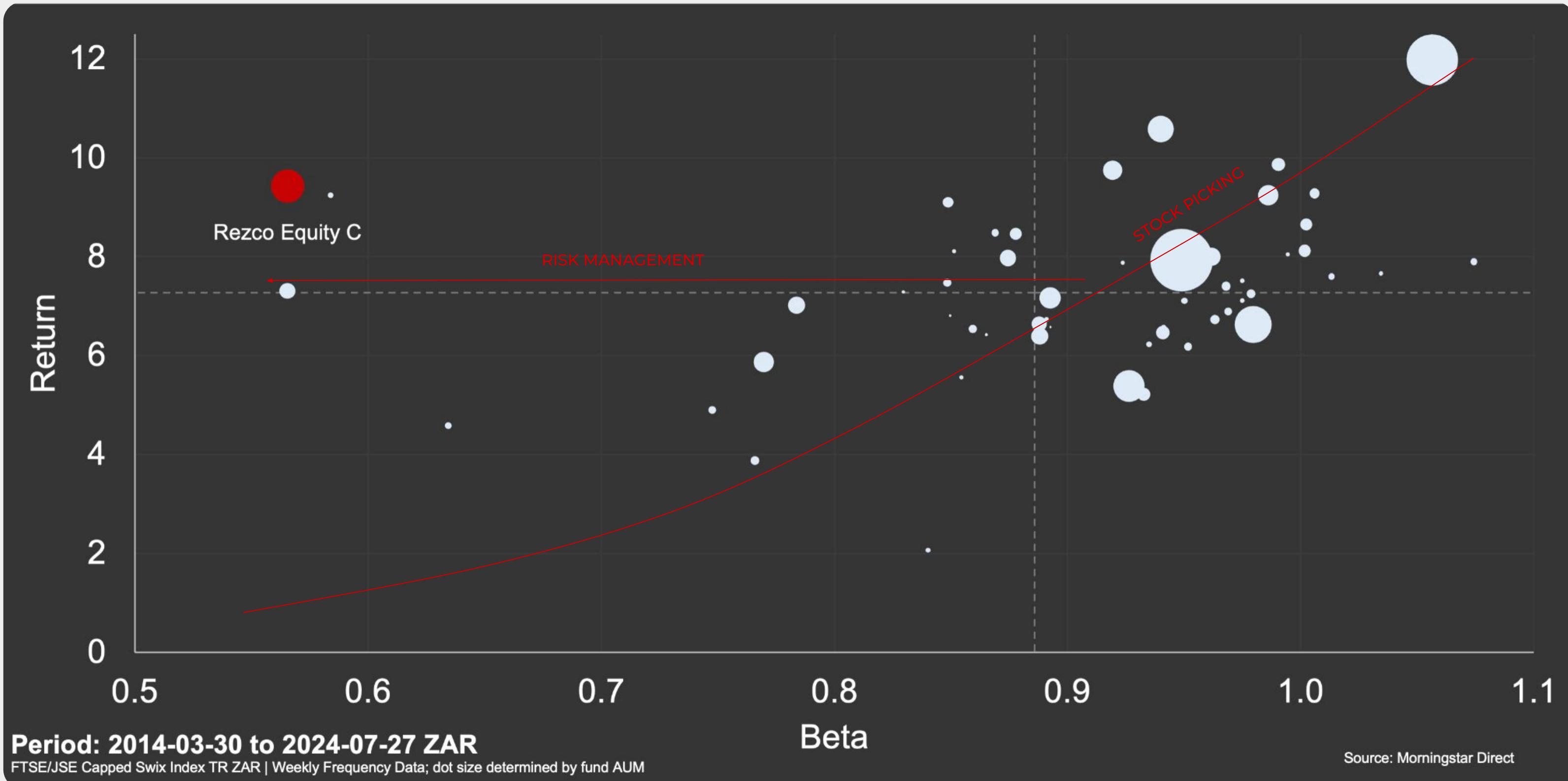
Have Active Managers Taken Advantage?

Strong decline in active manager active share

Median Active Manager Active Share
(ASISA) SA Equity General Category (consider active funds with atleast 15 stocks) | June 2024



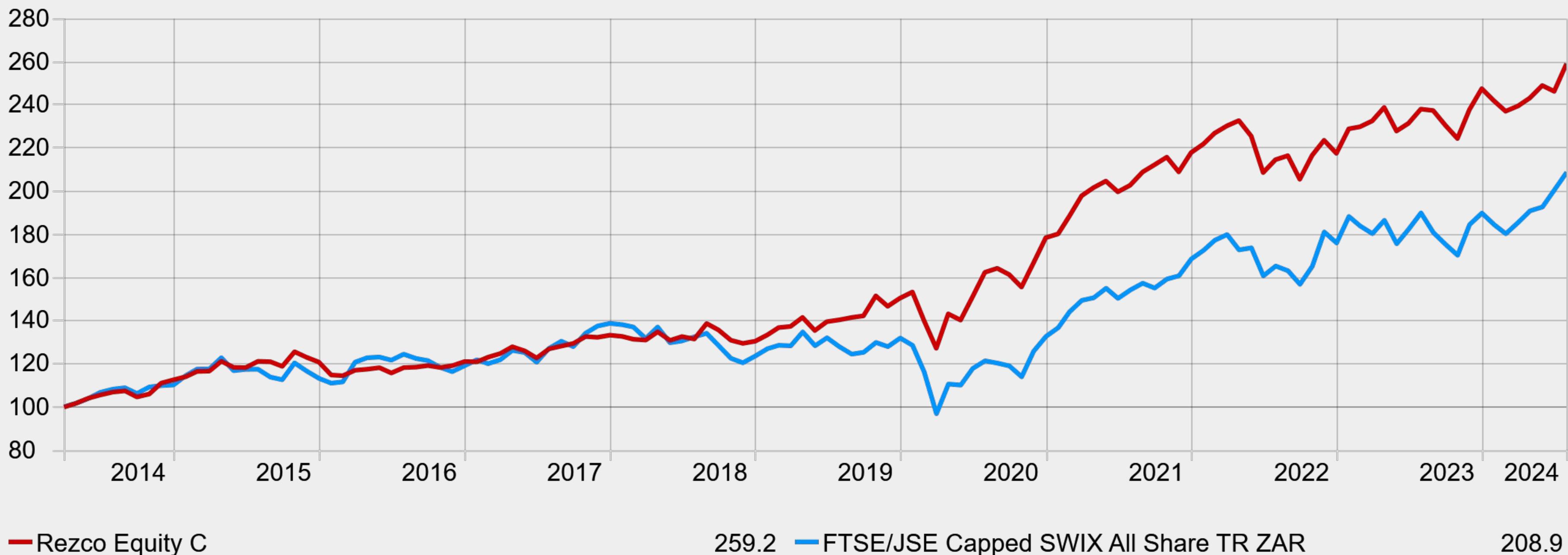
Our Goal is Always Risk Adjusted Returns



Long Term: Alpha Earned Through Multiple Regimes

Time Period: Since Common Inception (01/04/2014) to 31/07/2024

Currency: South African Rand Source Data: Total Return



— Rezco Equity C

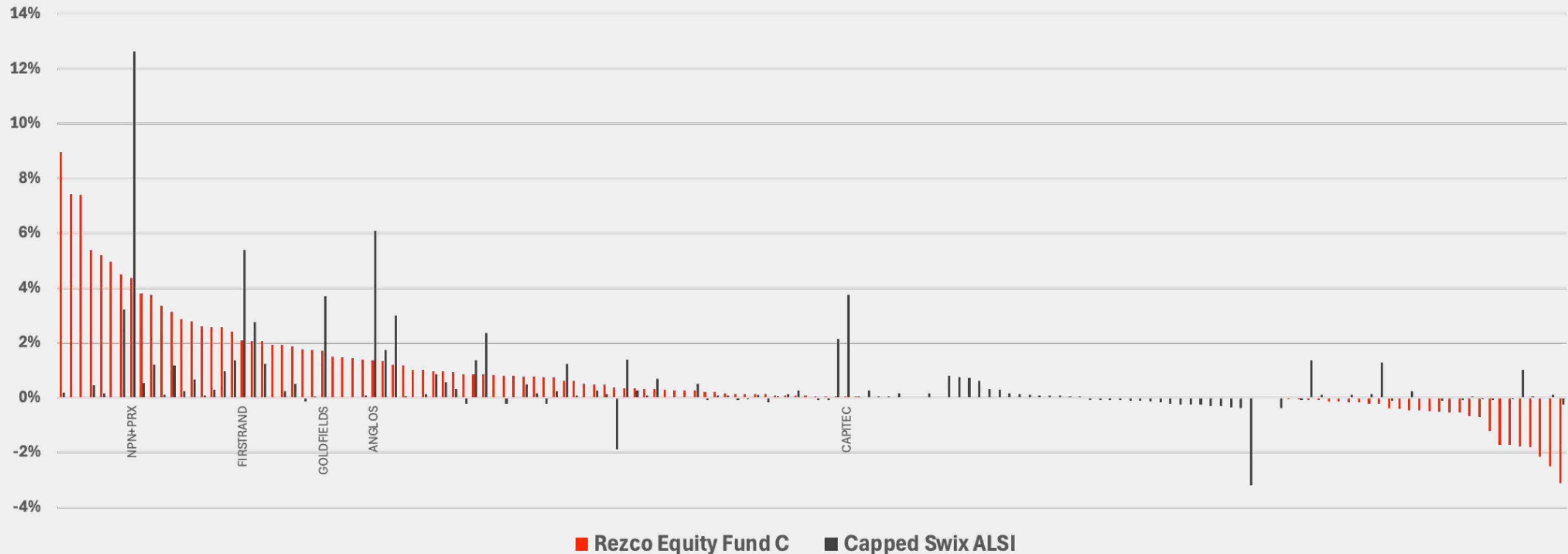
259.2 — FTSE/JSE Capped SWIX All Share TR ZAR

208.9

Source: Morningstar Direct

Track Record of Generating Returns From Many Diverse Ideas

CONTRIBUTION PER SHARE; 7 YEARS

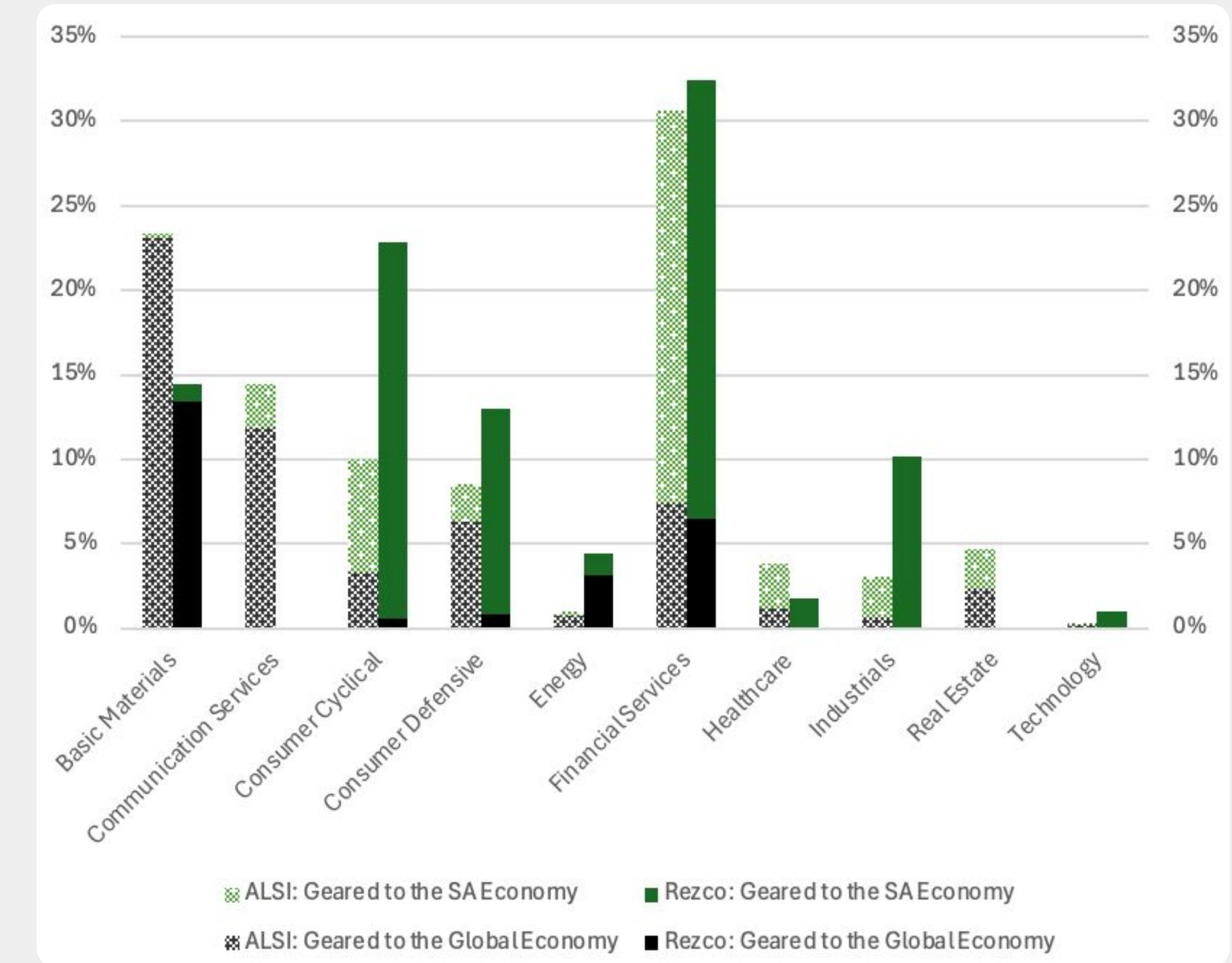


Positioning Portfolios for Growth



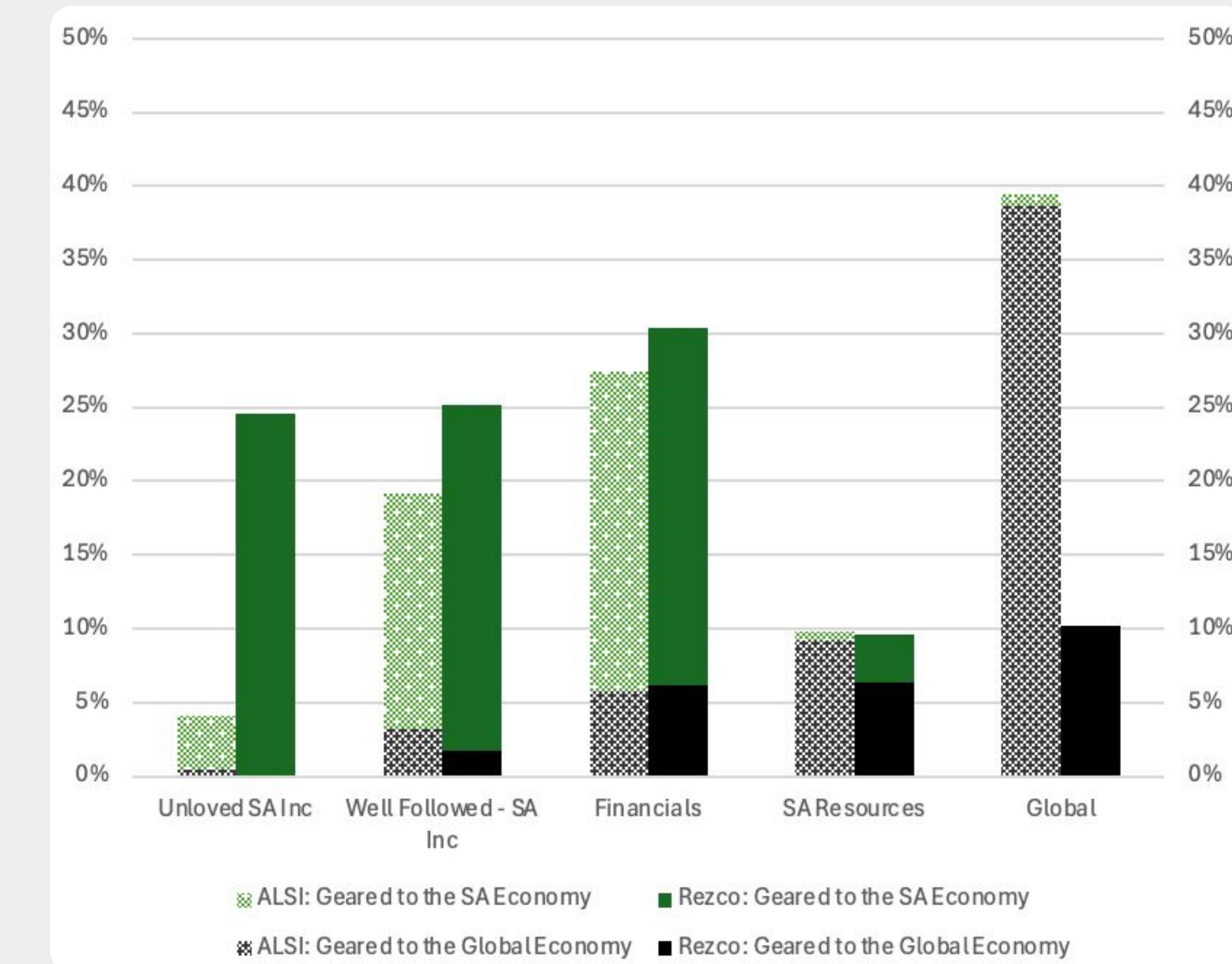
Rezco Equity Fund Positioning vs ALSI

Morningstar sectors



Rezco Equity Fund Positioning vs ALSI

SA market themes



Theme: Financials

SA banks and insurers: yield + growth

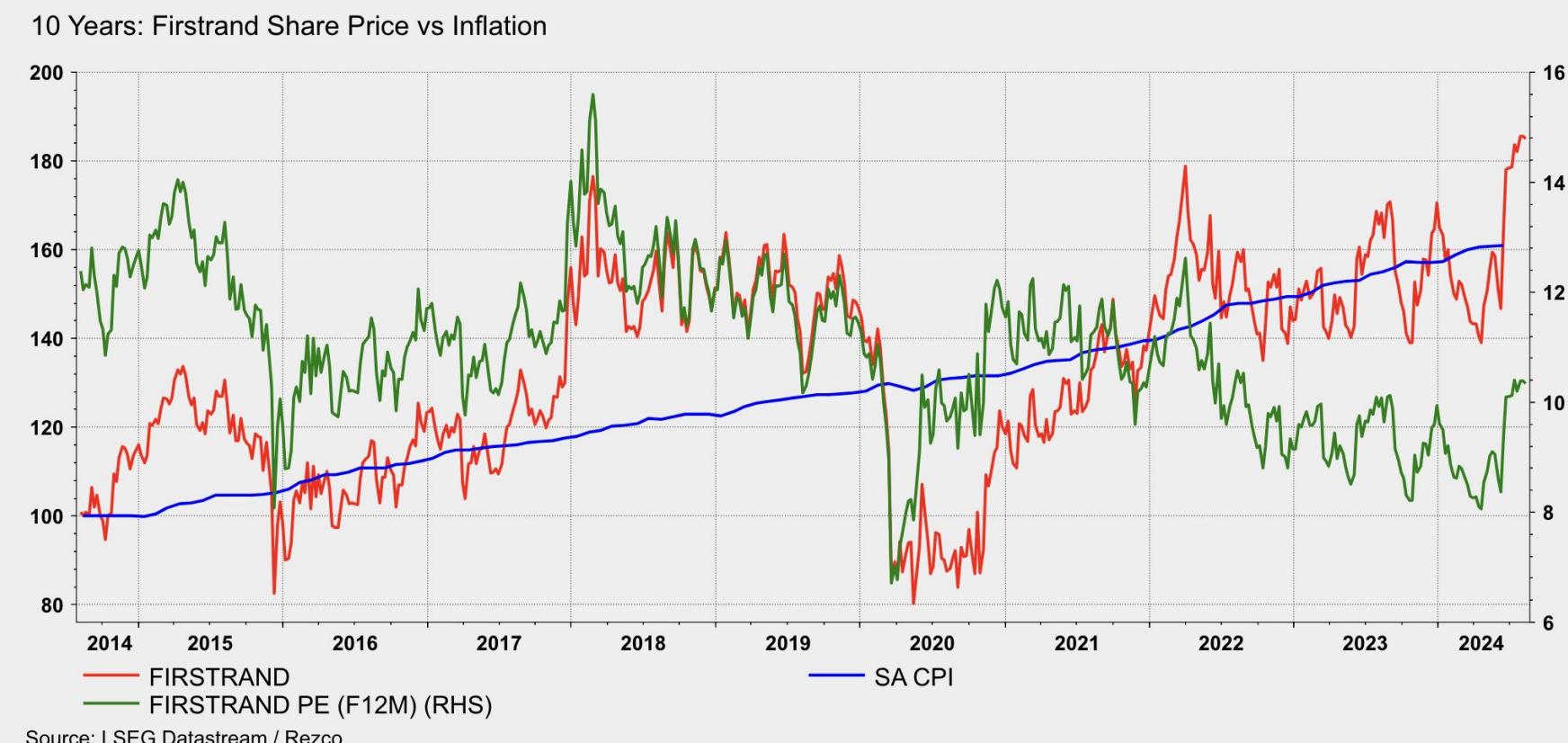
Geared to SA Economy

- Structural reform and higher business confidence leads to much stronger loan growth
- Growth leads to lower credit losses
- Lower bond yields drive up valuations

	ALSI	Rezco
Allocation	27.4%	30.4%
PE Ratio	11.7	12.3
Growth	11.7%	14.0%
Div Yield	5.7%	4.9%
Avg Mkt Cap		R248.3bn

Relative positioning

- Rezco is positioned with a slightly higher allocation to the SA economy within the banks exposure
- Growth and quality are preferred over valuation and yield
 - SA banking is highly competitive with new entrants and a scaling Capitec



Theme: Well Followed SA Inc

Quality and growth geared to SA GDP

Geared to SA economy

- Significant exposure to retail which benefits from better consumer confidence, employment growth, wage growth
- Strongly geared to lower interest rates
- Structural reform will support cost management

Relative positioning

- Rezco is positioned with a higher allocation to the SA economy within the retail exposure given some retailers have diversified more globally
- Growth and valuation are preferred, preference for quality but some stock specific self help stories (which become more achievable with the better SA macro)

	ALSI	Rezco
Allocation	19.2%	25.2%
PE Ratio	15.6	14.2
Growth	11.1%	15.6%
Div Yield	4.1%	3.0%
Avg Mkt Cap		R73.9bn



Theme: Unloved SA Inc

Growth, valuation and strongly geared to SA economy

Valuation

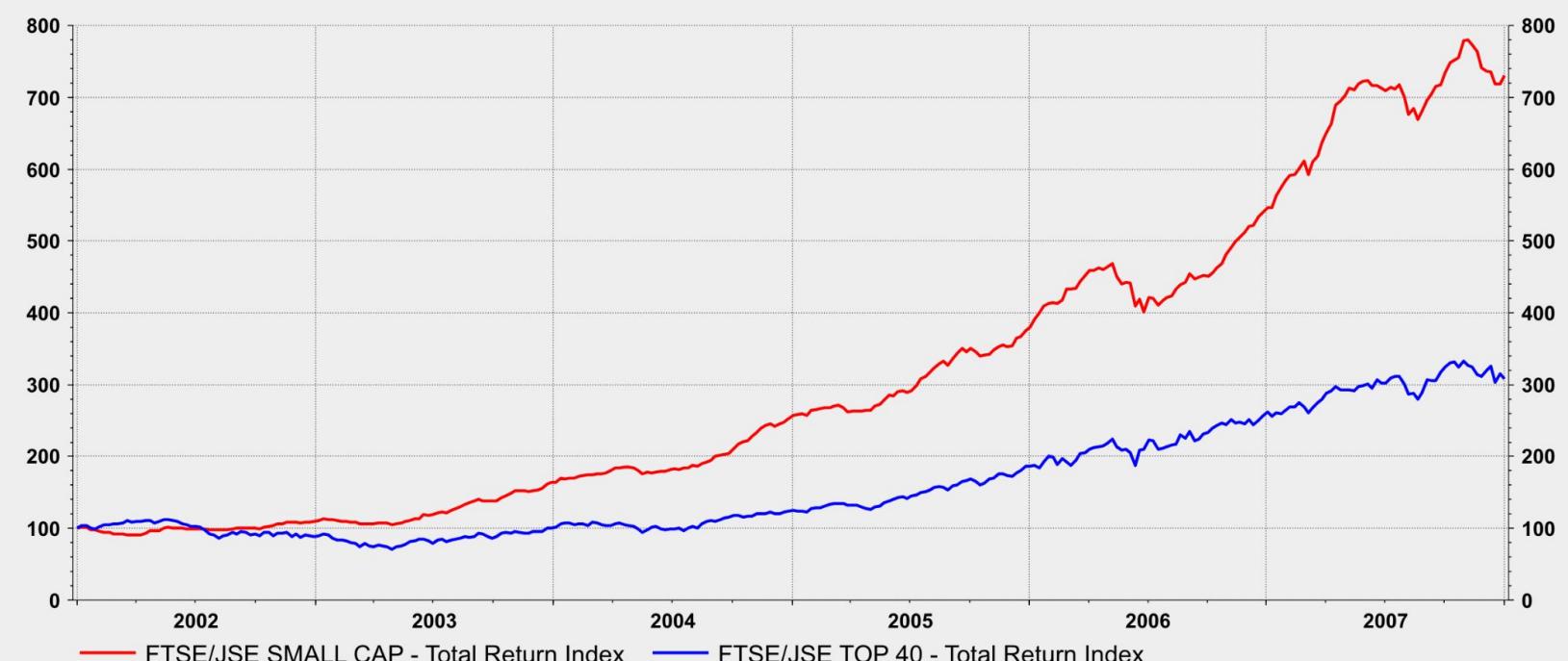
- Opportunity due to companies being on both depressed earnings and depressed valuations
- These businesses have been 'building muscle' and when growth emerges they are very well positioned

Relative Positioning

- Strong preference for Quality but some turnaround stories included given the tailwind support
- Liquidity is acceptable, and expected to increase. The time to buy a positive structural story is not at peak liquidity.

	ALSI	Rezco
Allocation	4.1%	24.6%
PE Ratio		9.0
Growth		16.8%
Div Yield		5.6%
Avg Mkt Cap		R7.7bn

A PRIOR BOOM FOR JSE MID/SMALL CAPS



SAMPLE OF CURRENT CONSTITUENTS OF FTSE/JSE SMALL CAP INDEX:

ADCOCK, ADVTECH, AEI, AFRIMAT, ALEXANDER FORBES, BARLOWORLD, CASHBUILD, CORONATION, CURRO, FAMOUS BRANDS, GRINDROD, HUDACO, HYPROP, ITALTILE, JSE, KAP, PICK N PAY, PPC, RAUBEX, REUNERT, SUN INTERNATIONAL, SUPER GROUP, TELKOM, TSOGO SUN, WILSON BAYLY

Theme: Global

JSE listed shares more geared to global GDP and macro

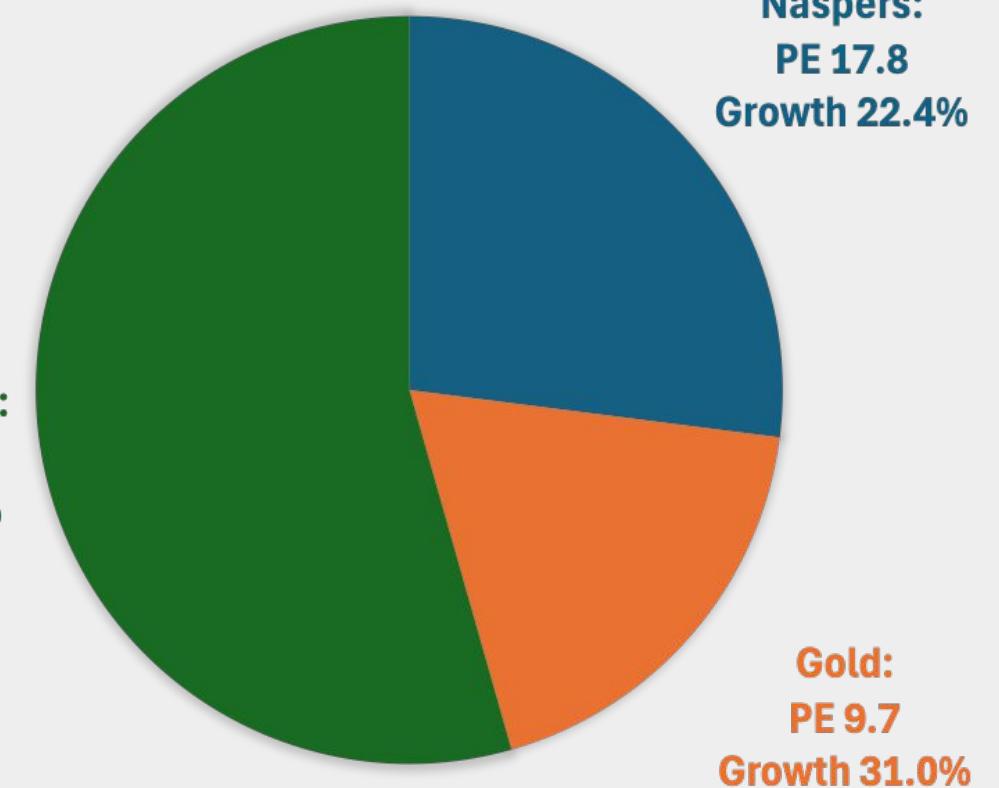
Gold

- We see global systemic risks around monetary policy, and hold gold as a position benefiting from the flow to this perceived safe haven.
- Gold is the only exposure Rezco has within this theme

Relative positioning

- Excluding Gold and Naspers, this theme offers poor growth to valuation metrics as it includes overpriced global assets
- Naspers valuation is compelling, but we expect Rand appreciation. The VIE structure keeps us cautious, so too does the risk of capital allocation
- The growth within this Global theme is largely 'USD growth', so we see risk that in Rands their performance will be much lower

	ALSI	Rezco
Allocation	39.5%	10.2%
PE Ratio	14.1	9.7
Growth	16.8%	30.7%
Div Yield	3.1%	3.9%
Avg Mkt Cap		R248.3bn



Fundamentals Summary: Growth at a Reasonable Price

	ALSI Weight	Rezco Weight	ALSI PE	Rezco PE	ALSI Growth	Rezco Growth	Rezco Div Yield	Rezco Avg Market Cap
Unloved SA Inc	4.1%	24.6%	nmf	9.0	nmf	16.8%	5.6%	R7.7bn
Well Followed SA Inc	19.2%	25.2%	15.6	14.2	11.1%	15.6%	3.0%	R73.9bn
Financials	27.4%	30.4%	11.7	12.3	11.7%	14%	4.9%	R243.7bn
SA Resources	9.9%	9.6%	17	5.6	5.1%	6.3%	11.1%	R47.6bn
Global (SA listed)	39.5%	10.2%	14.1	9.7	16.8%	30.7%	3.9%	R248.3bn
Portfolio	100%	100%	13.9	11.0	13.1%	16.1%	5.1%	

Rezco Equity Fund: Portfolio Positioning

FUNDAMENTALS SUMMARY (i)

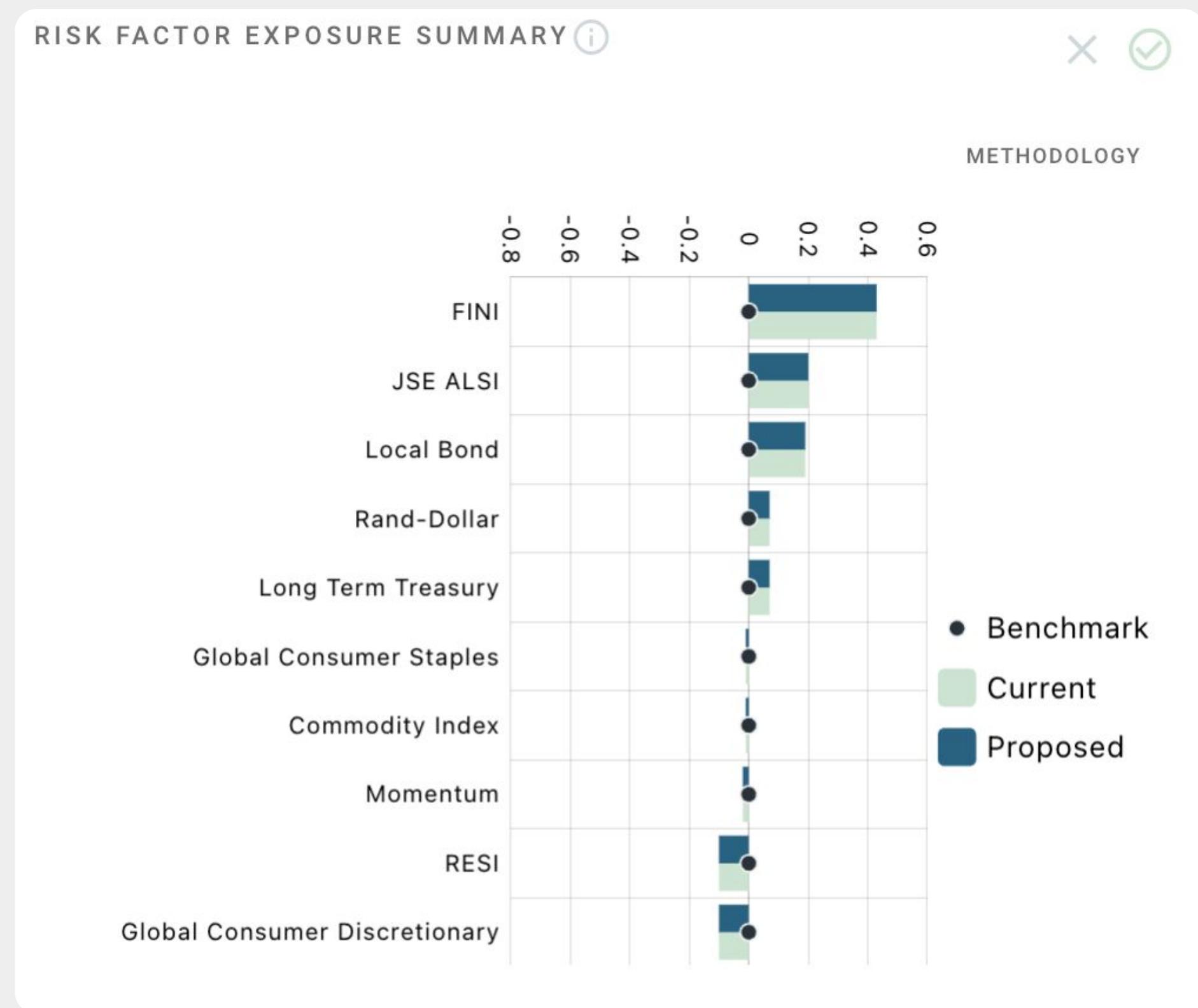
X ✓

	L	S	T	L	G
PE F12M	11.5 11.5	EPS Growth CY1-CY2	17.1 17.1	EPS 3M Revision CY1	1.2 1.2
DEBT/EBITDA TR12M	0.9 0.9	DEBT/MV TR12M	116.2 116.2	EV/EBITDA F12M	6.4 6.4
ROE TR12M	4.1 4.1	FCF Yield F12M	7.8 7.8	DY F12M	5.1 5.1

L S T L G

METHODOLOGY

	Proposed	Current(...)	Benchm...	Reference
Ex-Ante Beta	0.9	0.9	1	0
Ex-Ante Vol	14.01	14.01	13.95	0



Optimal Risk Reward Balance

Previously: Fast declining RSA economy

- Own maximum short duration : guaranteed 10%
- Minimal RSA Inc Equity : only going to get 5% with risk
- Maximum offshore exposure : ZAR was a one way bet

Current: Restructuring RSA economy off a low base

- Maximum RSA Inc Equity : Can get 20% p/a for 3 years
 - Mid cap : Significantly more?
 - Bonds : Will get 10-11%
 - Offshore : Equity markets expensive
- : ZAR could strengthen 15-20%



Current Fund Positioning

	Managed Plus	Value Trend	Stable	Equity
SA Equity	49%	38%	28%	98%
Unloved SA Inc	12%	4%	6%	24%
Well Followed SA Inc	13%	11%	7%	23%
Financials	15%	16%	10%	32%
SA Resources	4%	3%	2%	9%
Global (Gold)	5%	4%	2%	10%
Global Equity	18%	12%	4%	
Total Equity	66%	50%	32%	
SA Short Duration	5%	11%	21%	
SA Long Duration	21%	33%	41%	
Global Fixed Income	7%	6%	6%	
Direct Offshore	25%	18%	11%	

In Closing...

- **The Plane is On the Runway**
 - But liquidity means that the good seats (SA Inc) are going to run out
- **SA Inc offering attractive risk / return with a multi-year tailwind**
- **Global is overvalued and at risk of a stronger Rand**
- **Multi-Asset to benefit from both SA Inc and SA Duration**
 - But careful of anchoring to the high offshore allocations the funds have enjoyed in the past

Thank You



Live Q&A

Submit your questions by using the Questions tab

- **You'll receive a link to the recording** of the webinar after the event.
- **Please complete a short survey** after the webinar to help us improve future webinars for you.

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, 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.