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Event Logistics



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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

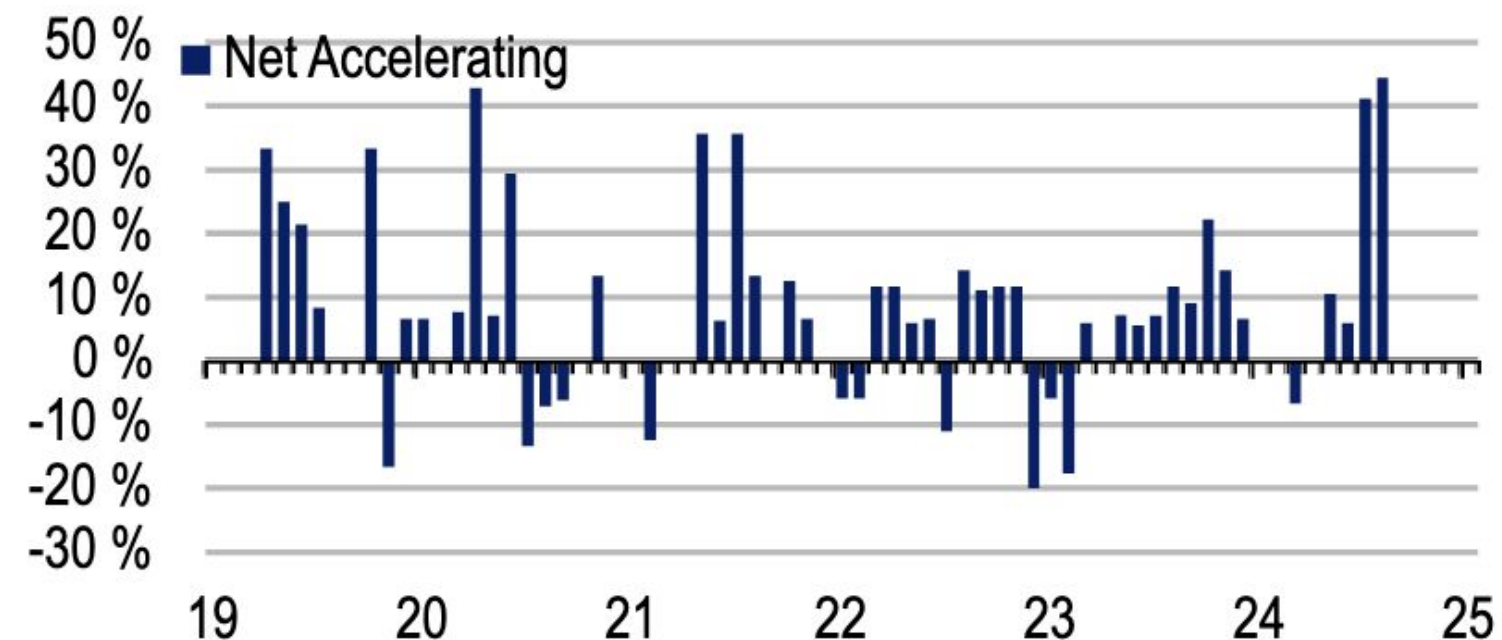
RSA reform is tangible

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?

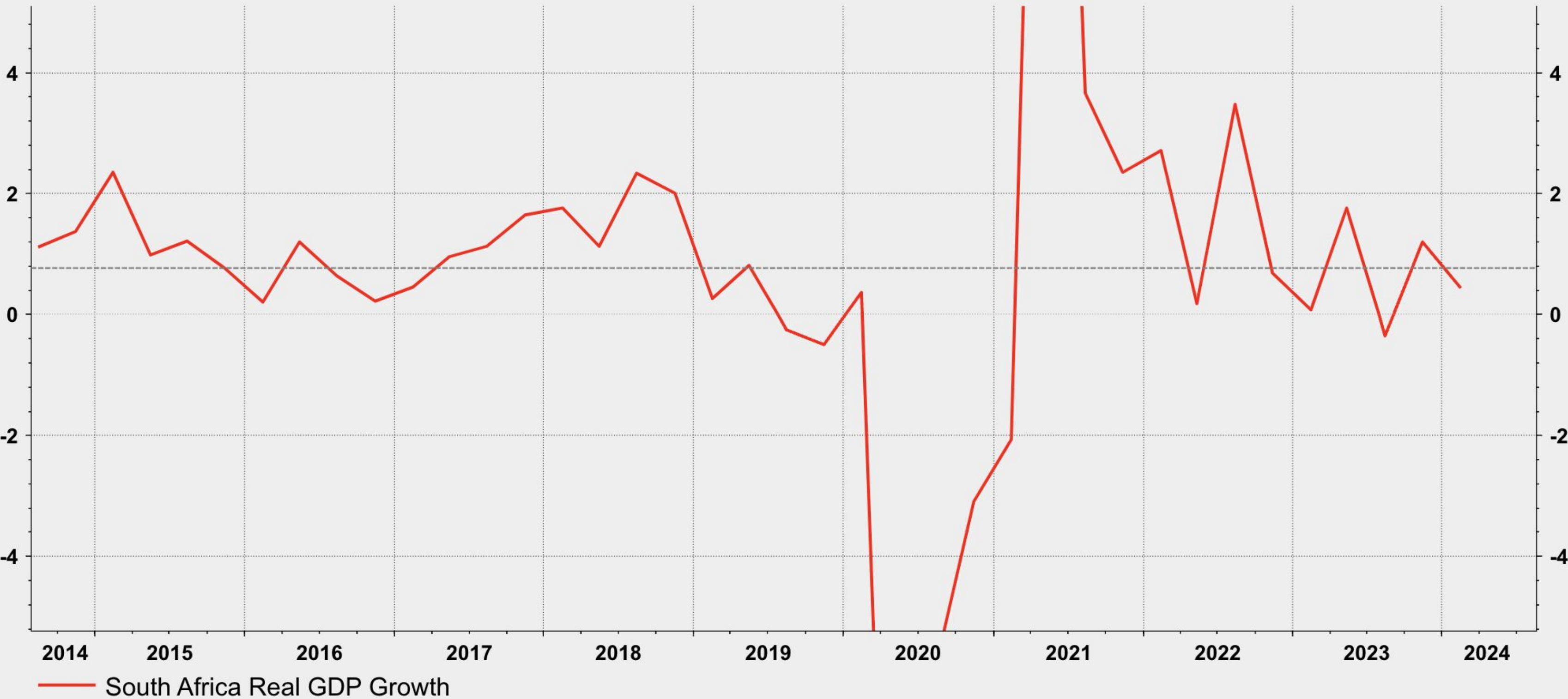
Special report | Corruption

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

Cyril Ramaphosa must reverse much of what Jacob Zuma did



South Africa: The Lost Decade

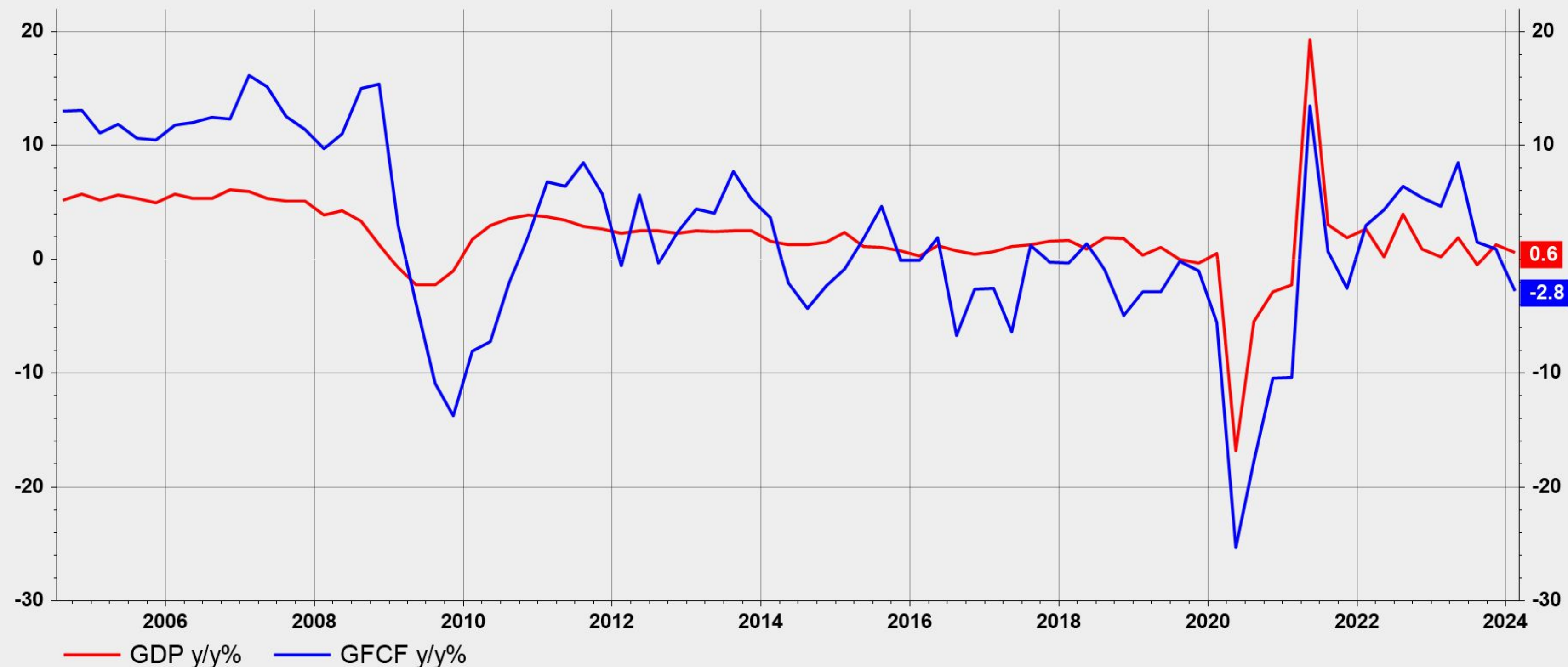


Source: LSEG Datastream / Rezco

Declining Confidence, Investment and Growth Rates

No such thing as *ceteris paribus*

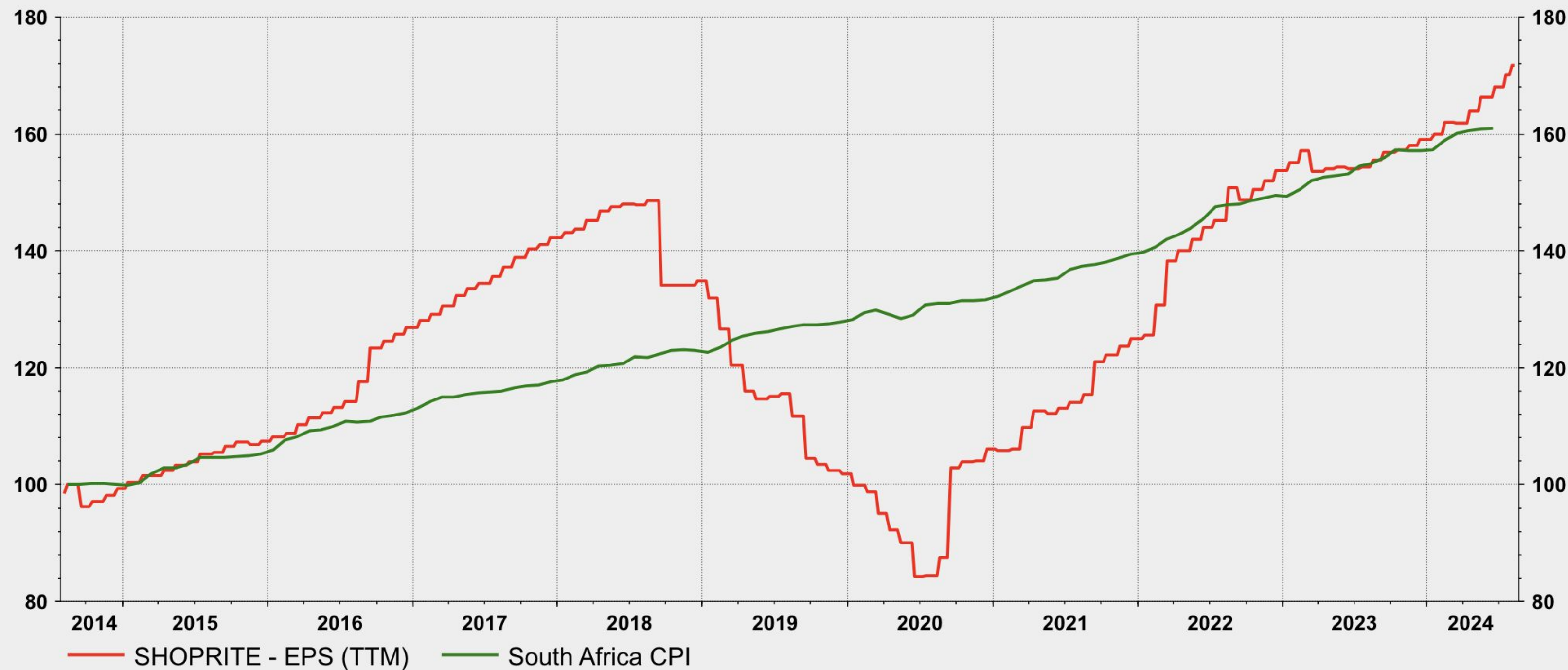
Updated: Q1 24



Source: LSEG Datastream / Rezco

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

Shoprite earnings vs inflation

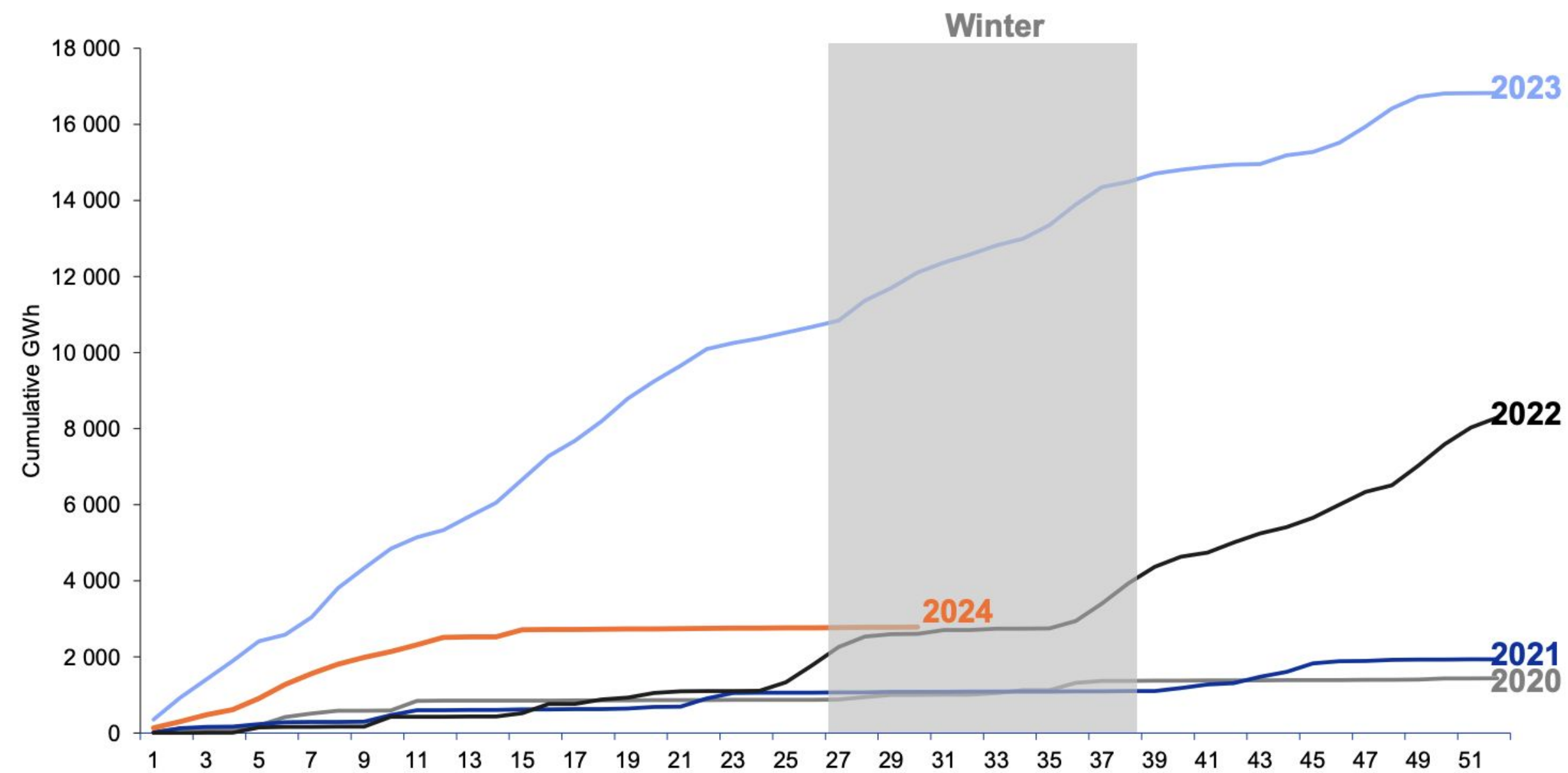


Source: LSEG Datastream / Rezco

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



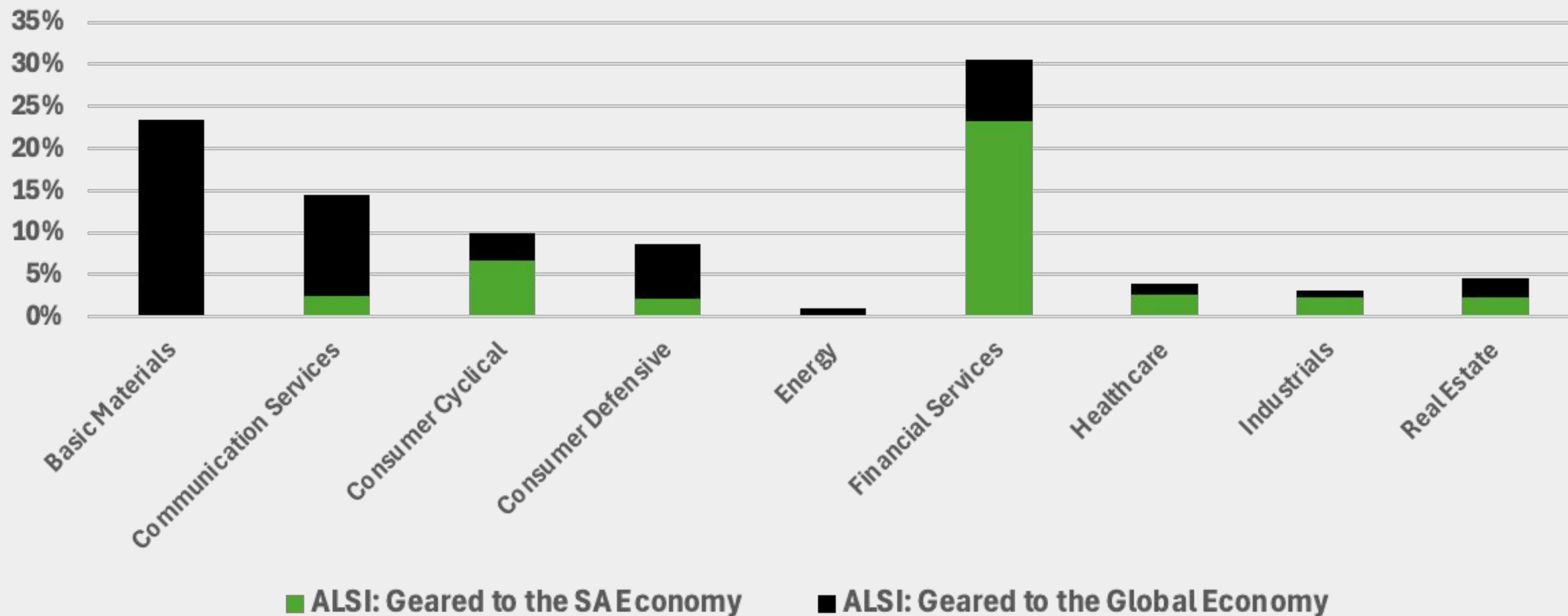
The Opportunity Set:

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



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05:41



Minister of Health Aaron Motsoaledi. (Gallo Images/ Jeffrey Abrahams)

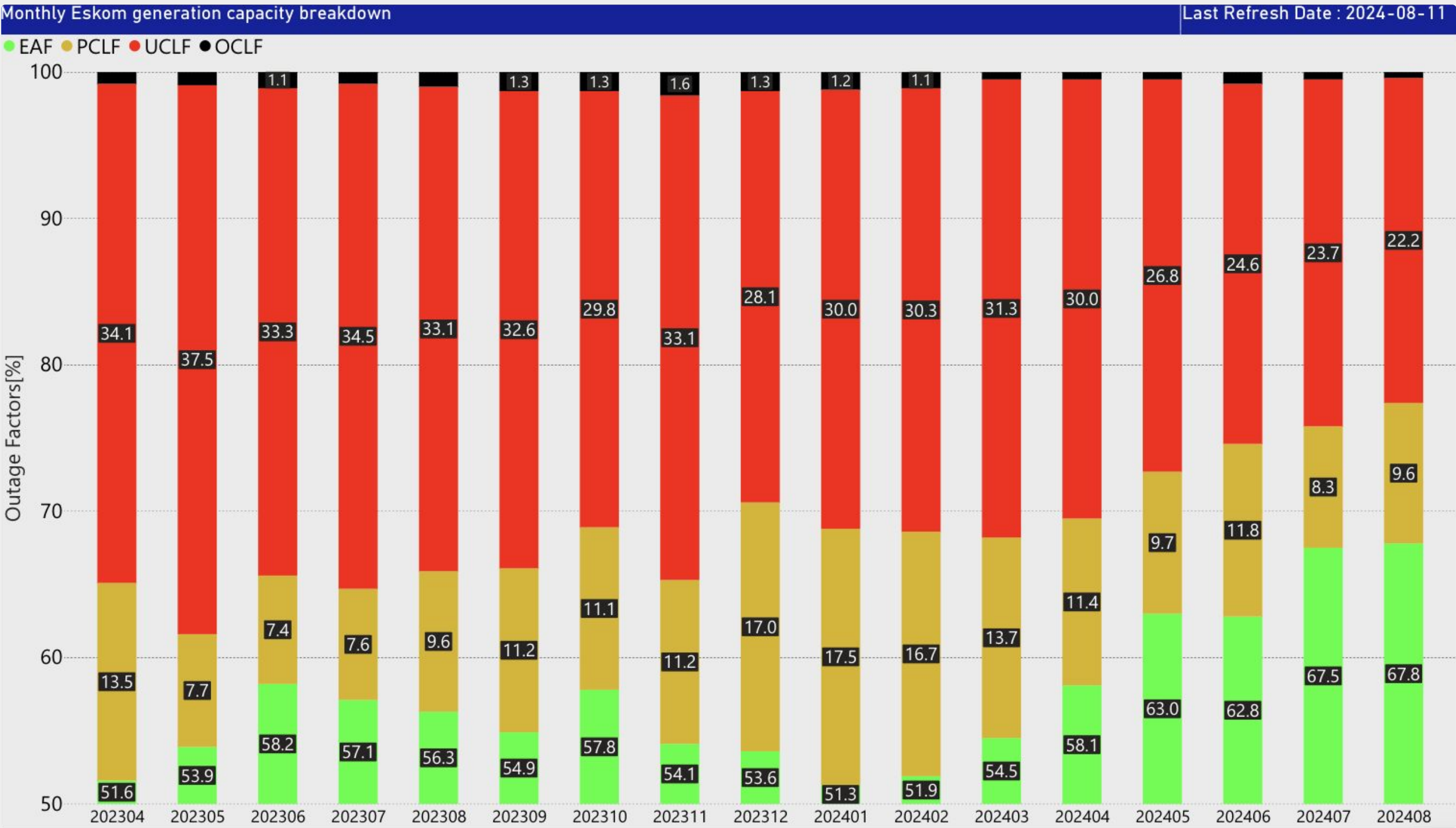
We are going to implement Section 57 but simultaneously we are intending to run massive roadshows and workshops to meet all the relevant stakeholders and hear their concerns.

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

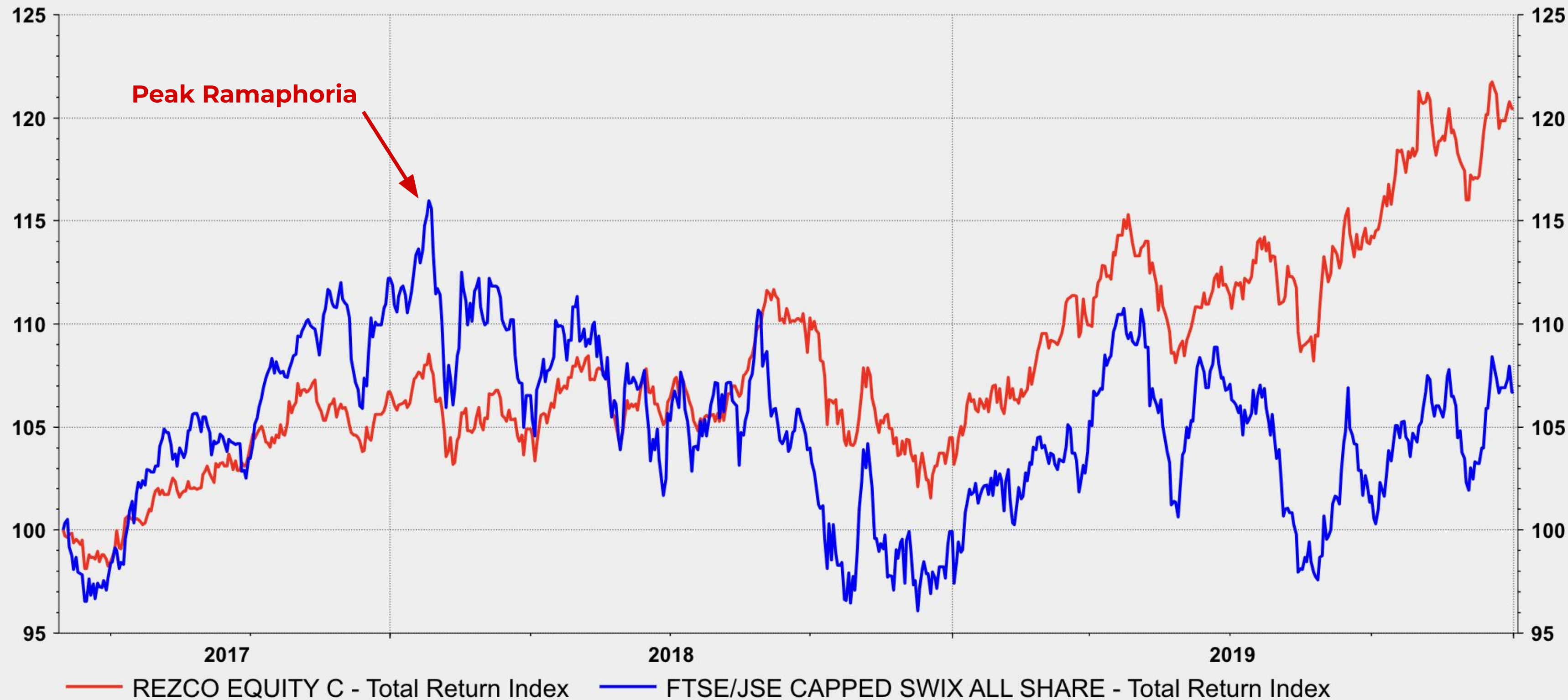
ECONOMY: NO QUICK FIX

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

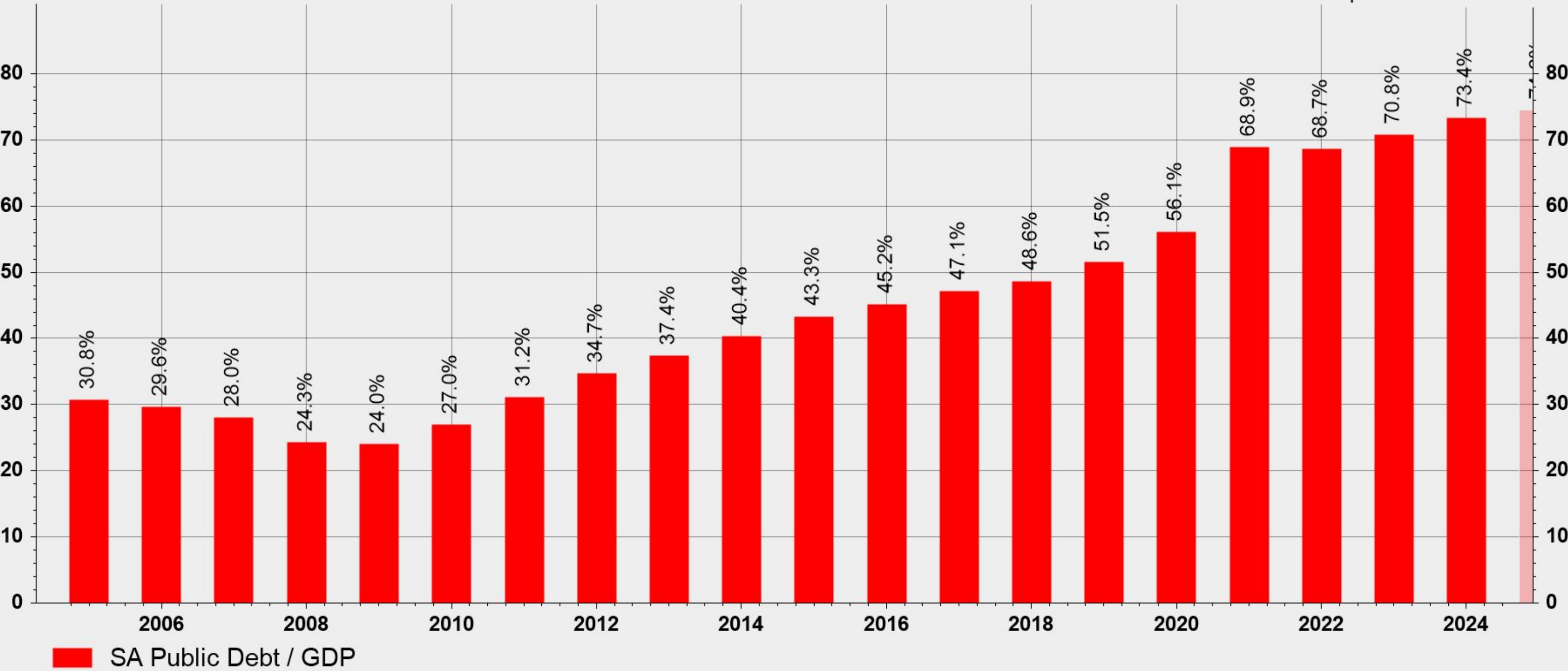


High Debt Means Private Sector Has to Get Involved

This is good - there is surplus private capital

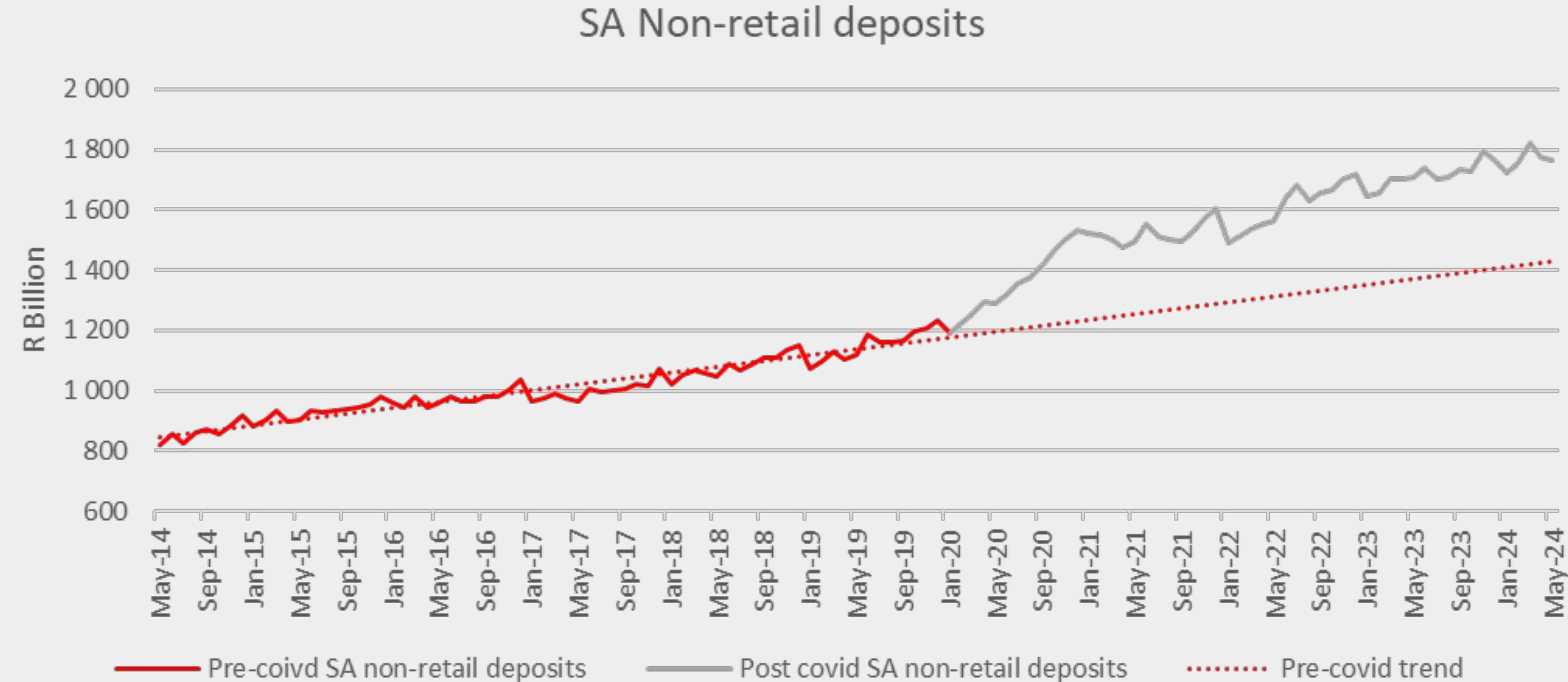
SA PUBLIC DEBT

Updated: 07/08/2024



Source: LSEG Datastream / Rezco

Corporates Have Excess Cash & Banks Have Excess Capital to Deploy

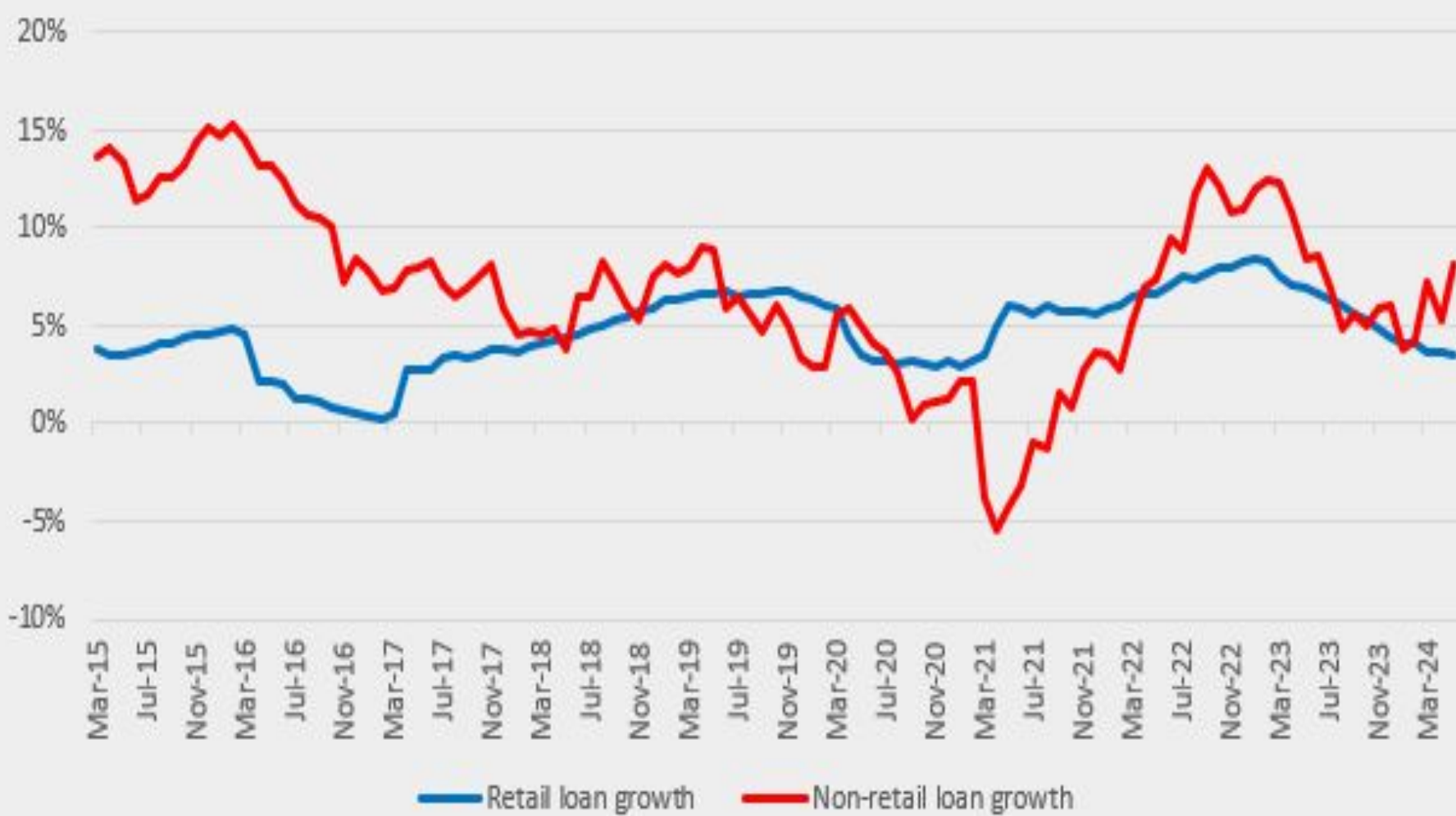


Plenty of Room to Accelerate

SA Non-retail loan balance (adjusted for inflation)



SA loan growth



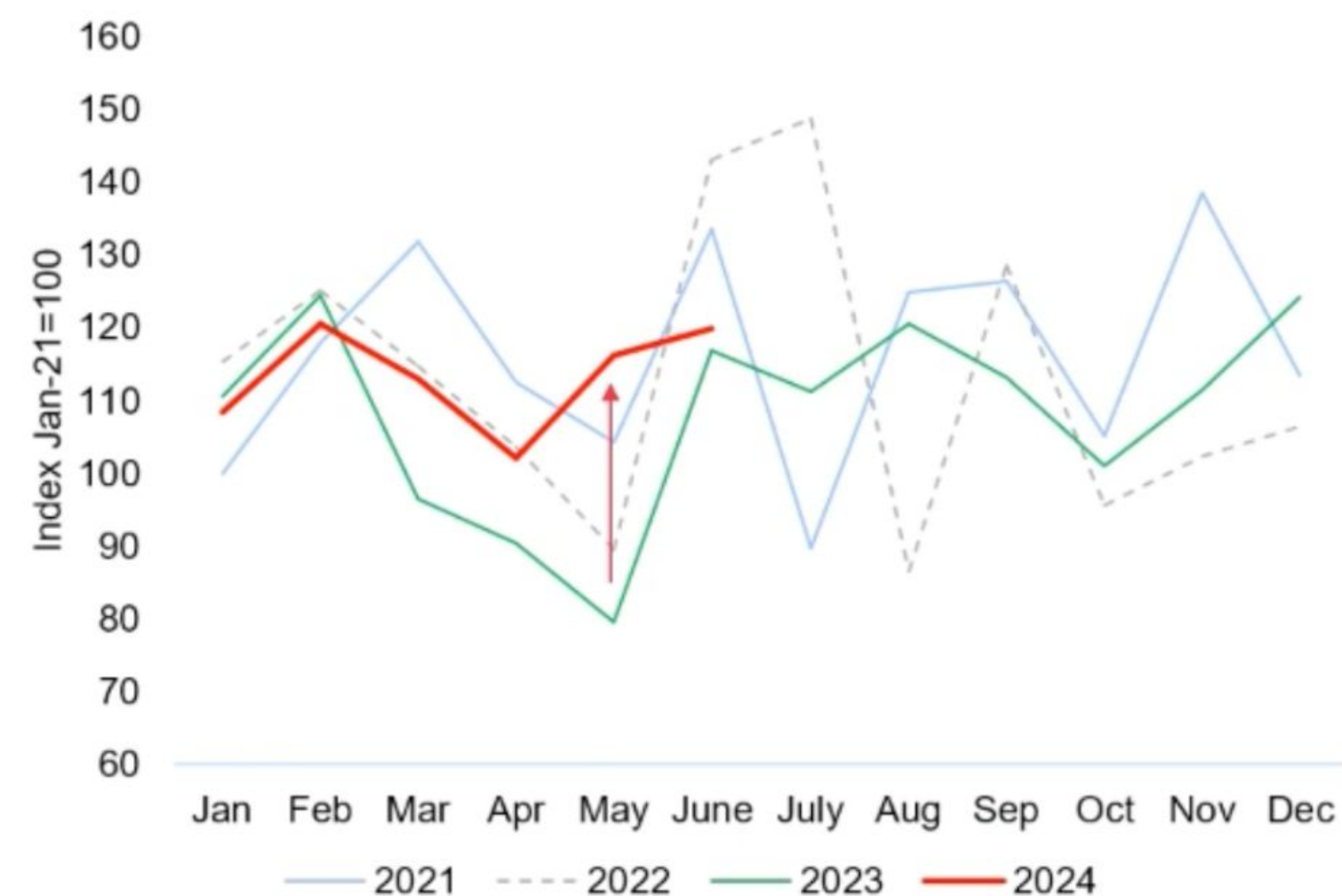
Some Improvements off a Low Base

Some port improvements from a very weak base

Containers

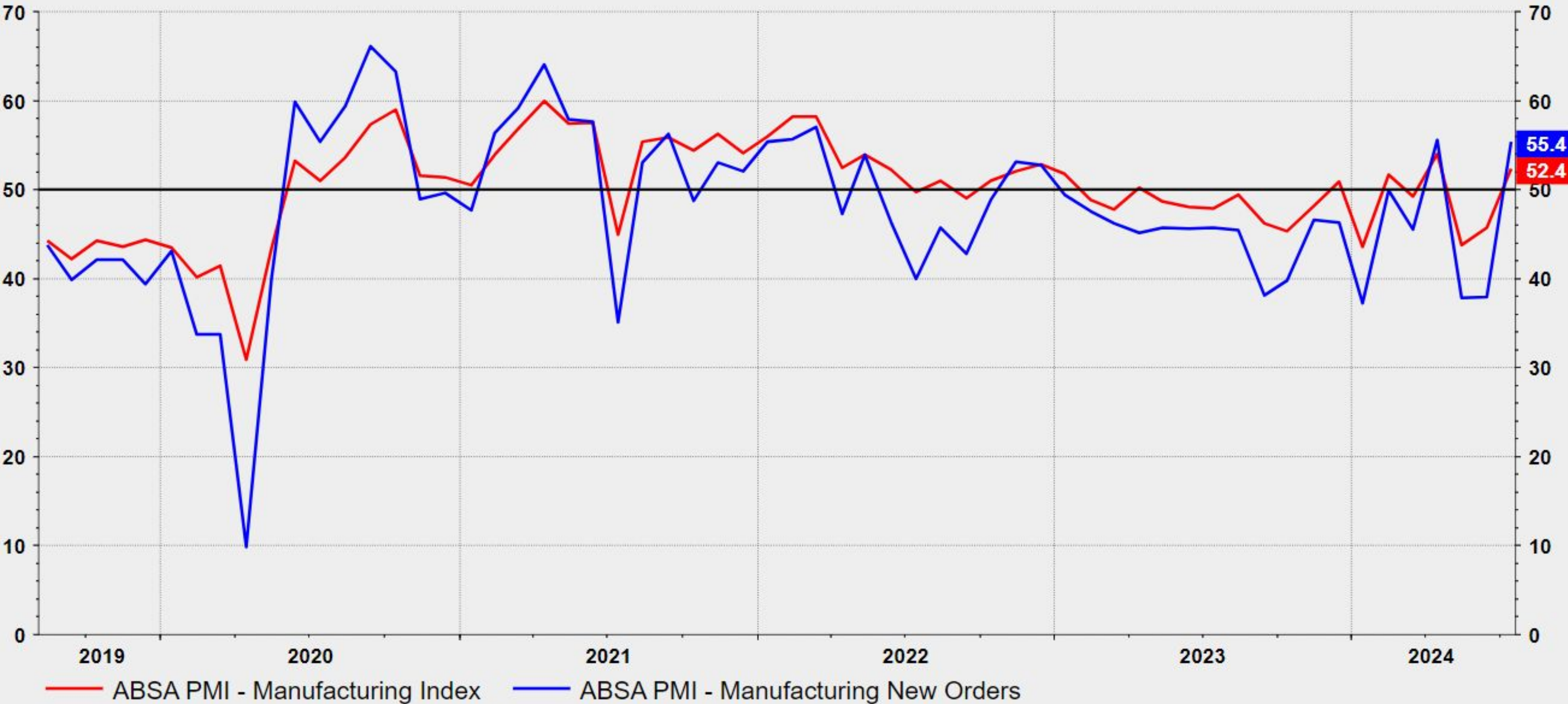


Dry bulk



Sources for all charts: SAAFF, Standard Bank Research

PMI's: Early Green Shoots

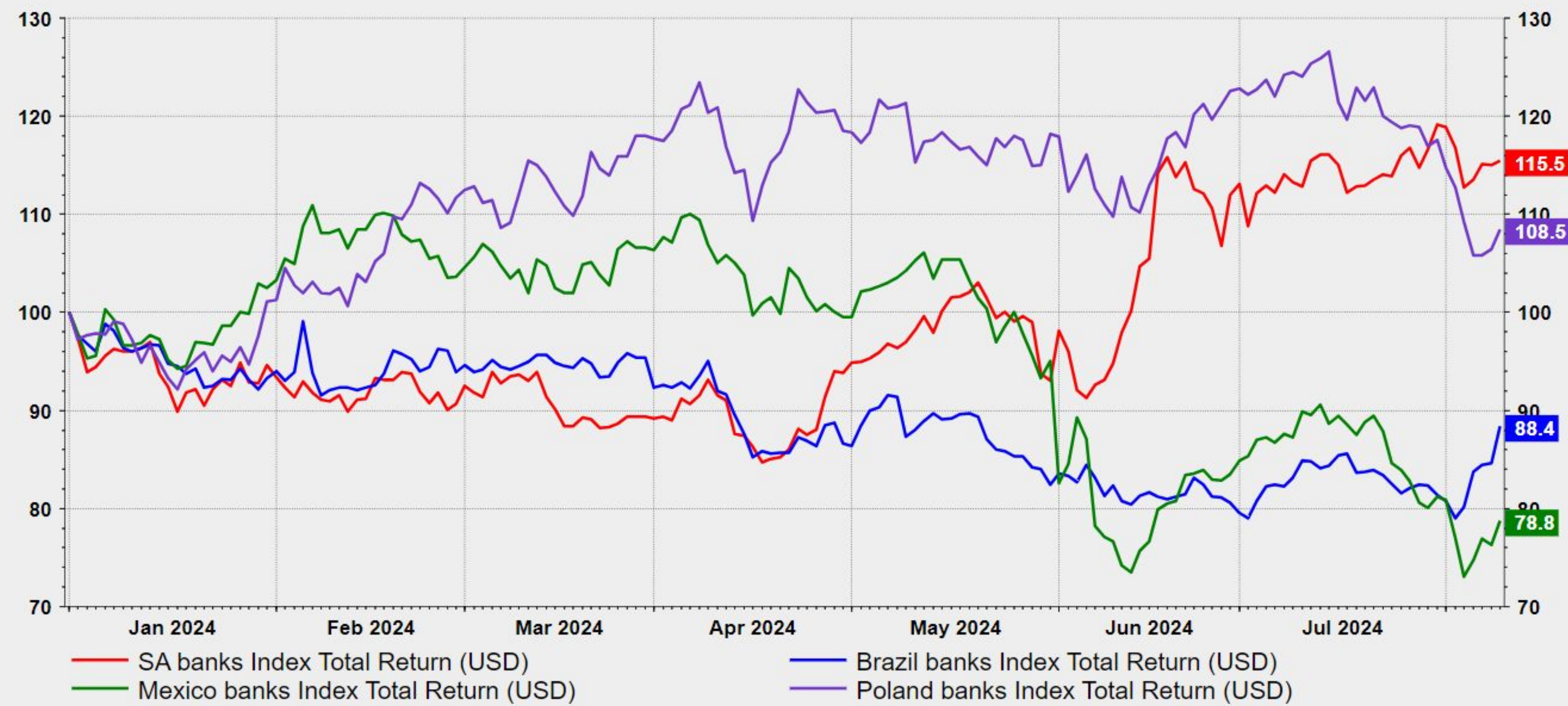


Source: LSEG Datastream / Rezco

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



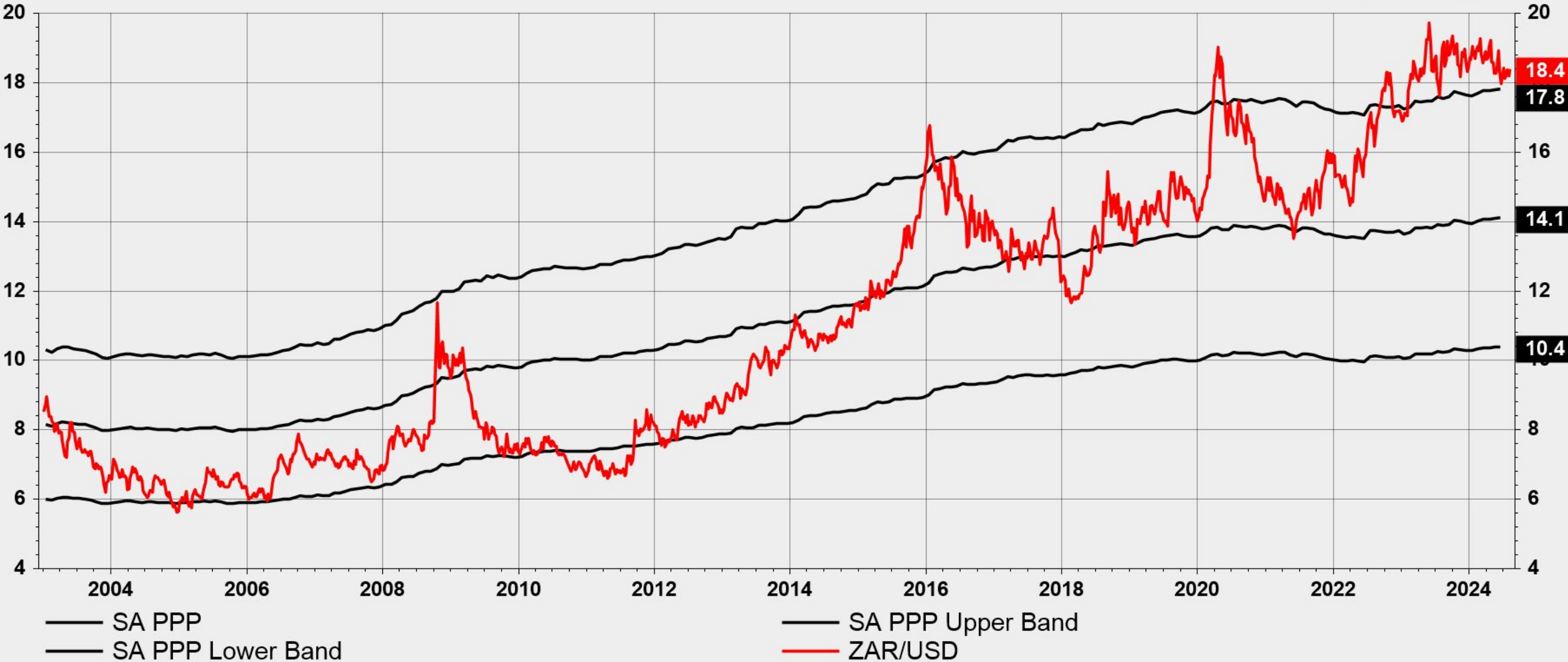
Source: LSEG Datastream / Rezco

Long Term: The Rand can Strengthen a lot from Here

ZAR/USD PPP using CPI - Updated Aug 24

ZAR/USD PPP Using CPI

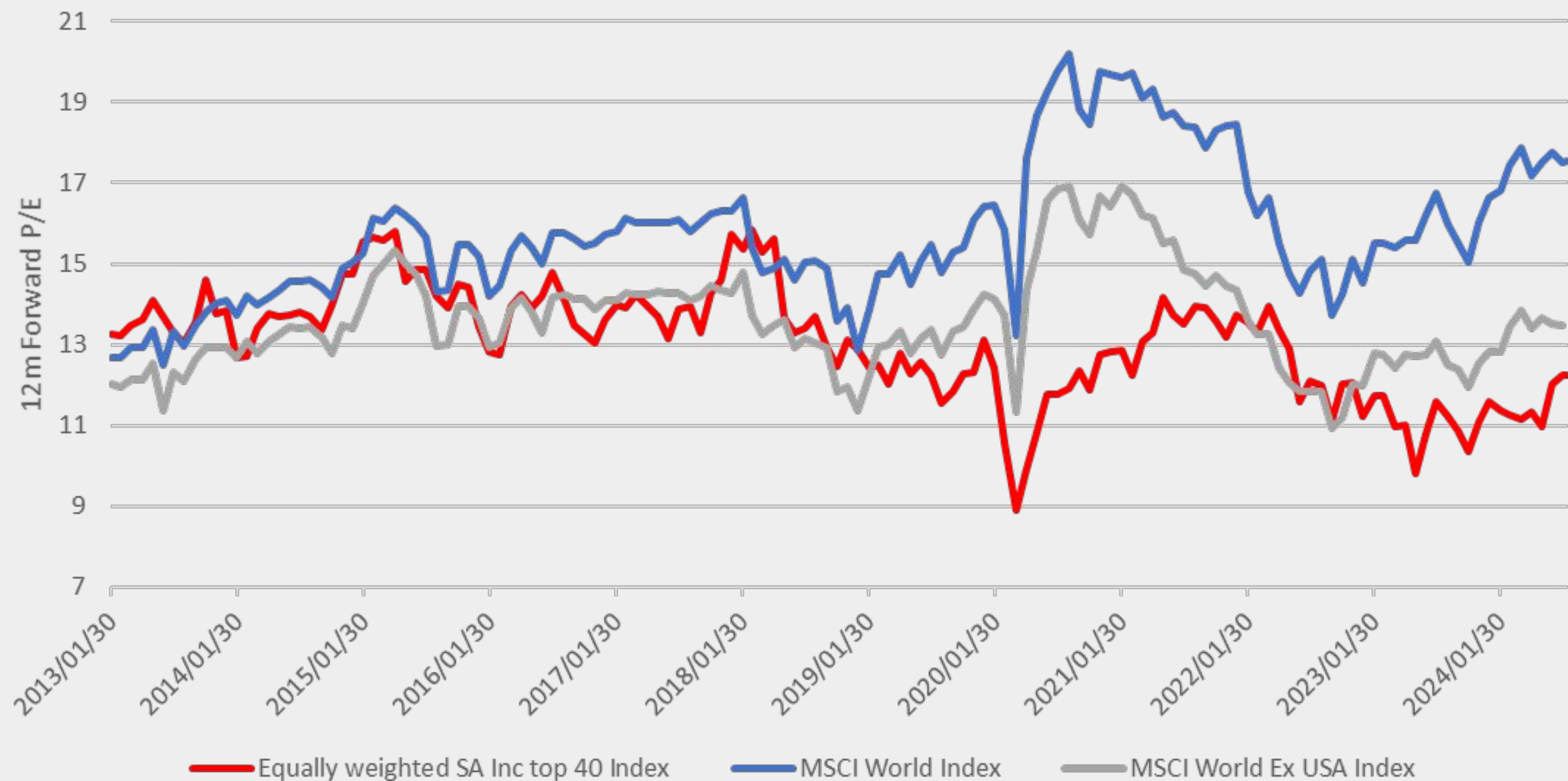
Updated: Aug 24



Source: LSEG Datastream / Rezco

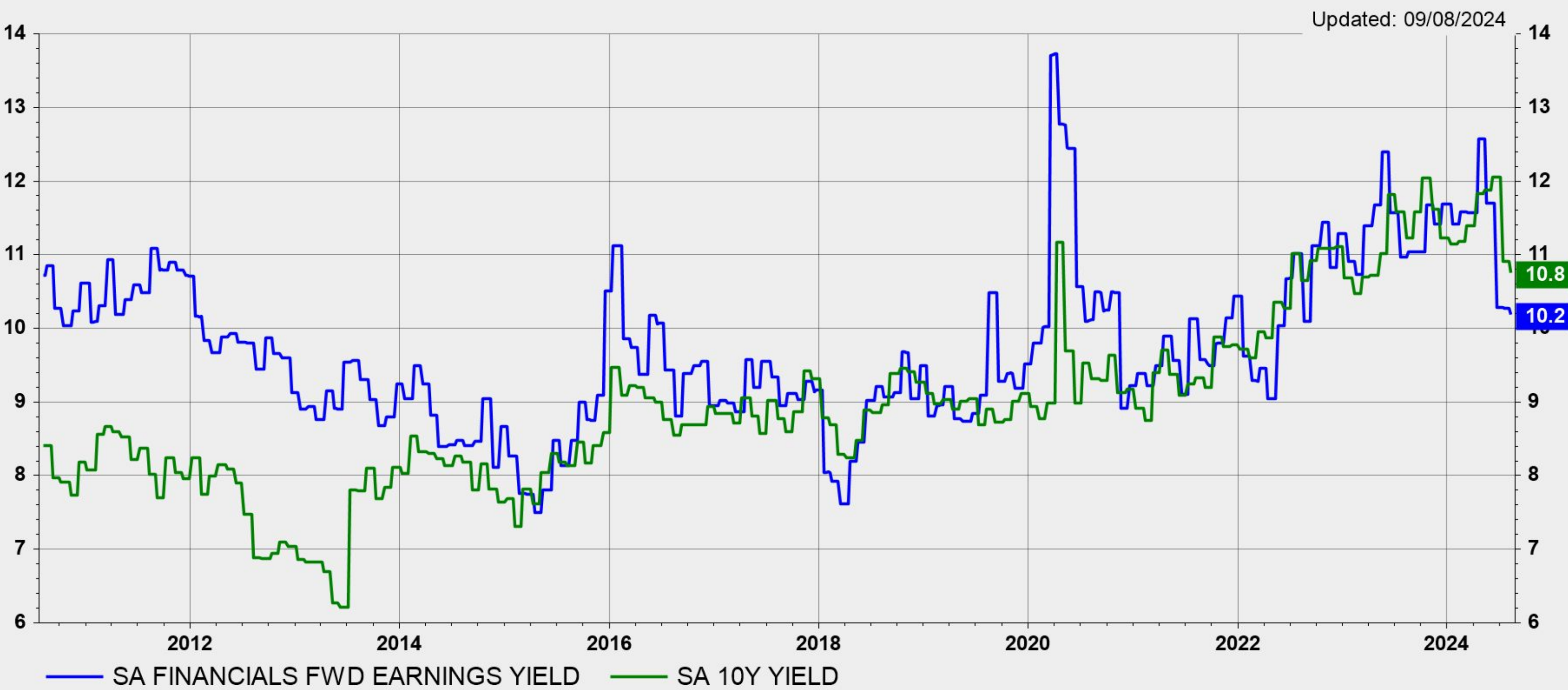
SA Inc PE's - Not Yet Pricing in Reform

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

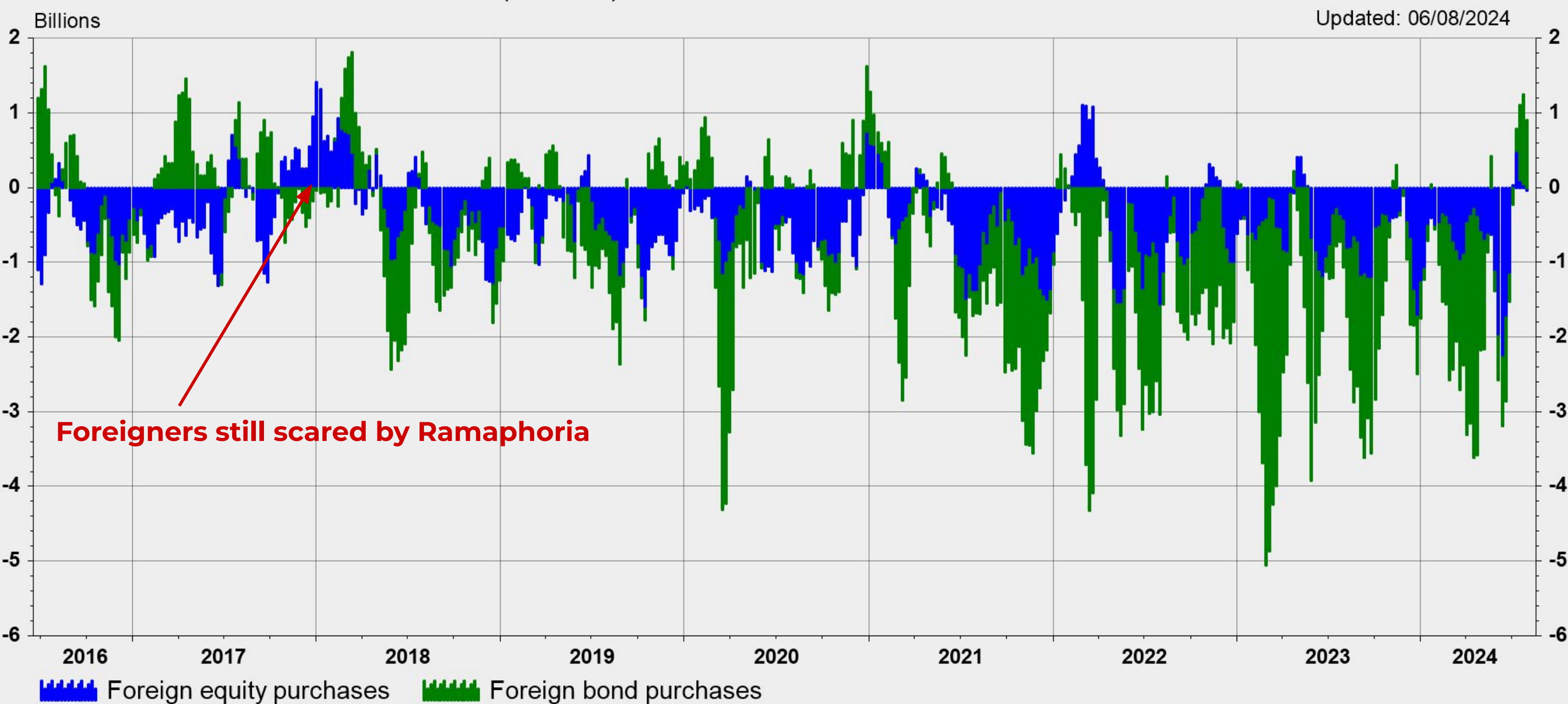
What was Priced in Prior to the Successful GNU:



Foreign Investors Have Started to Notice the Change

Buying RSA bonds again in a tough EM carry trade environment

DAILY FOREIGN PORTFOLIO FLOWS (20D MA)



Source: LSEG Datastream / Rezco

Recent Institutional Survey showing increased interest

Foreigners usually follow the South Africans

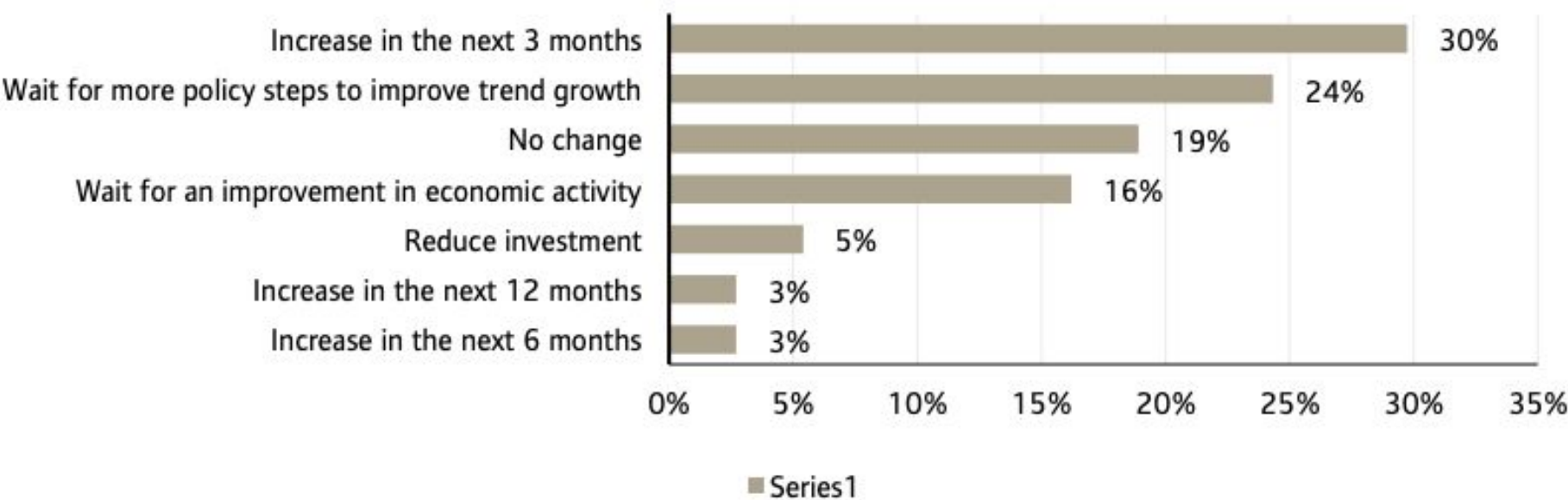


13 August 2024

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.

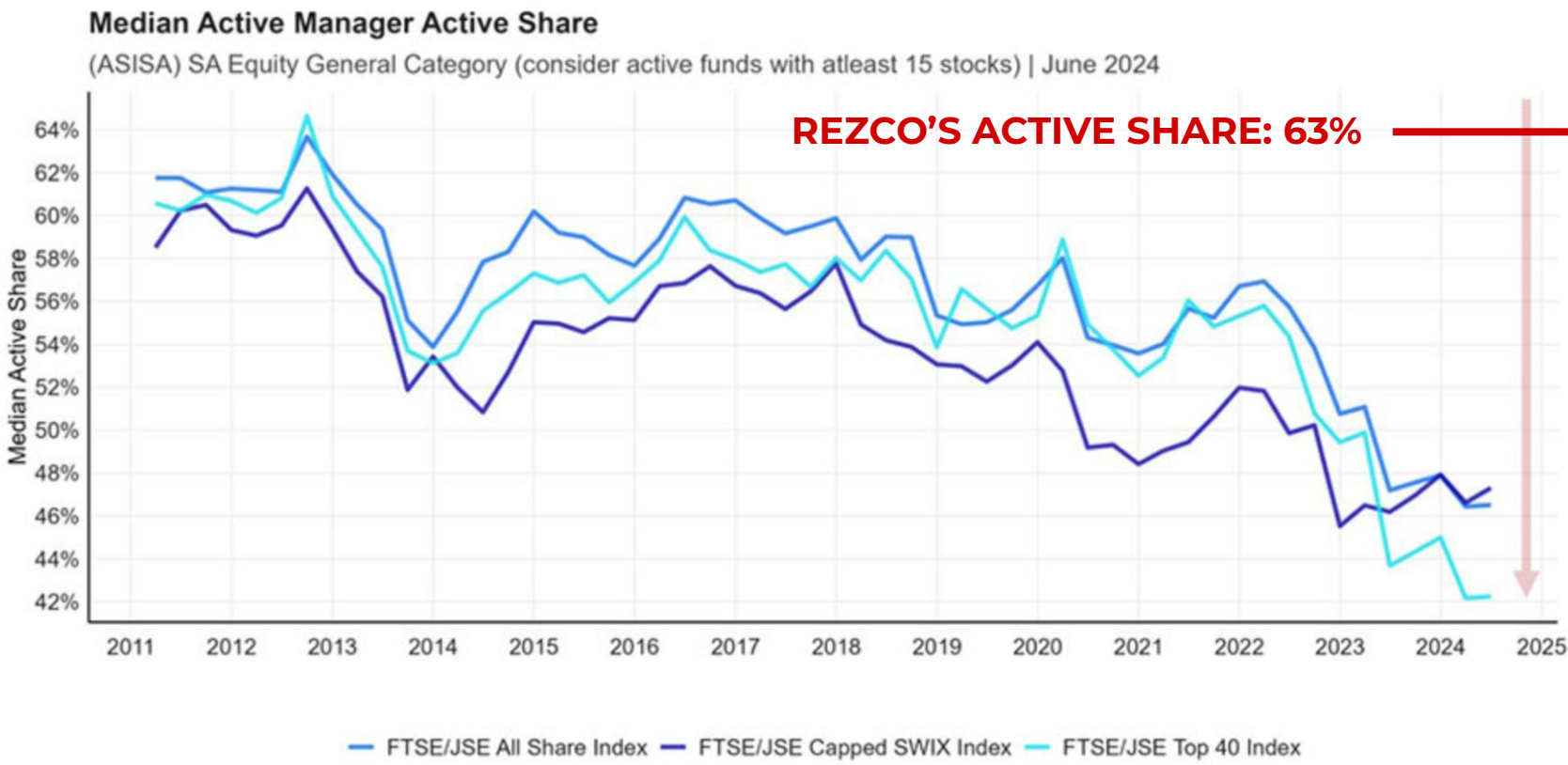


BY JUSTIN BROWN

Have Active Managers Taken Advantage?

Strong decline in active manager active share

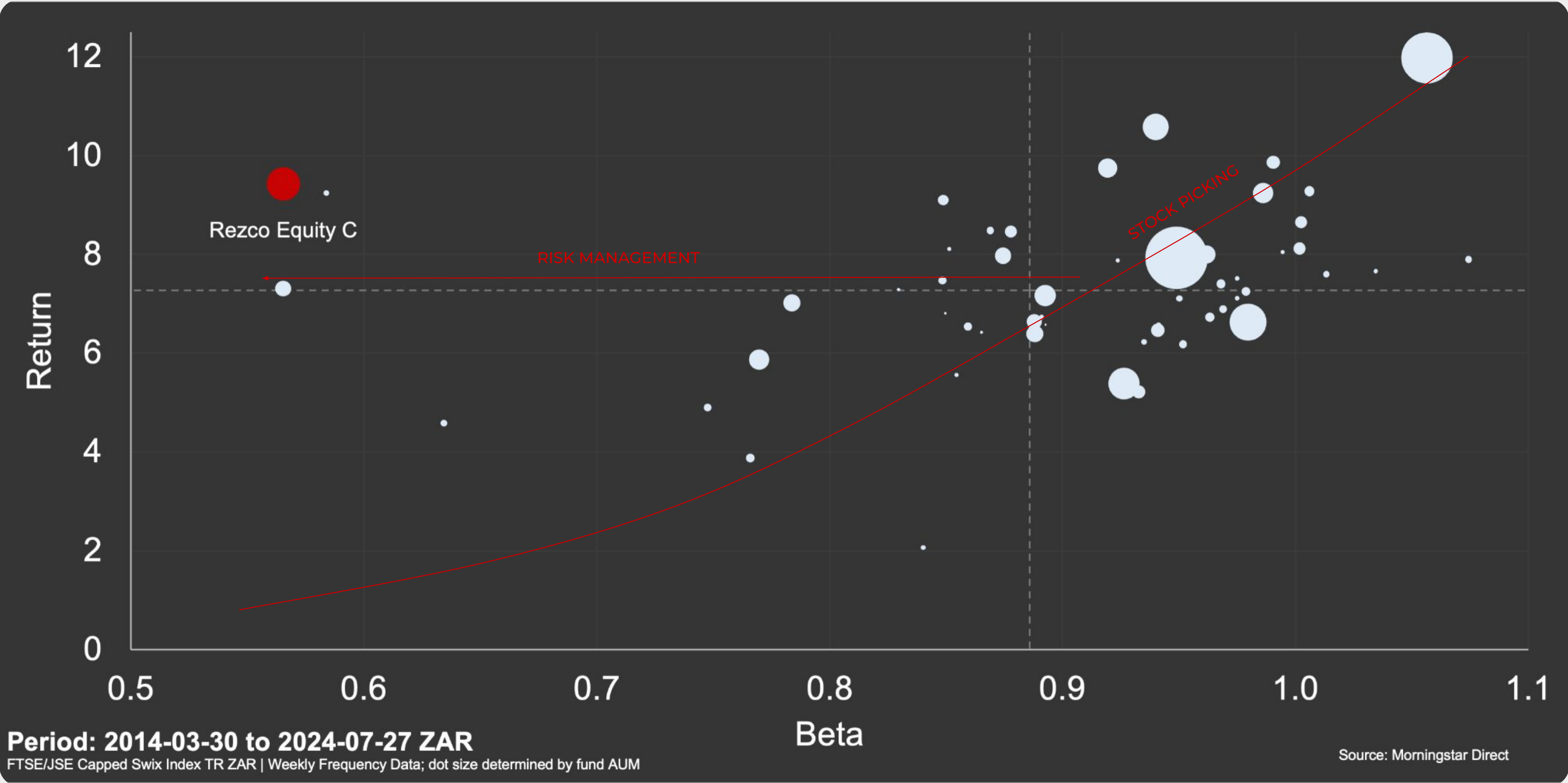
*Active Share:
 $\frac{1}{2} \times \sum |w_{fund,i} - w_{BM,i}|, \forall stocks i$



Source: Satrix. Data: Morningstar, FTSE/JSE.

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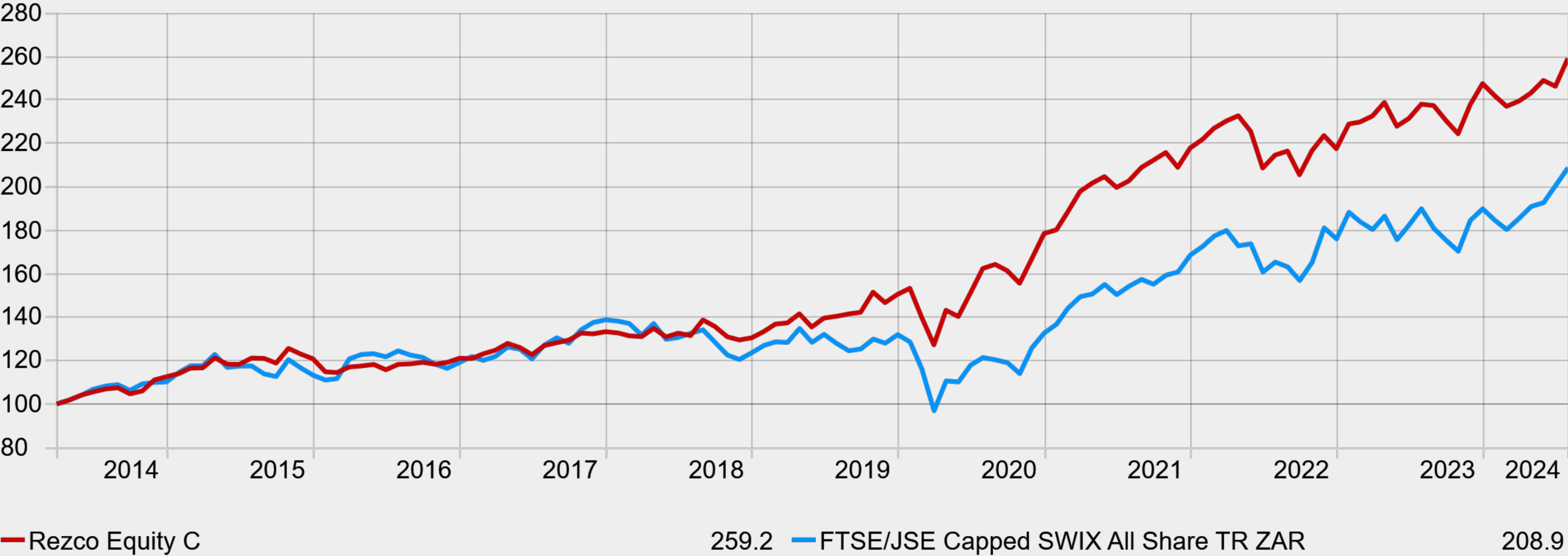
Our Goal is Always Risk Adjusted Returns



Long Term: Alpha Earned Through Multiple Regimes

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

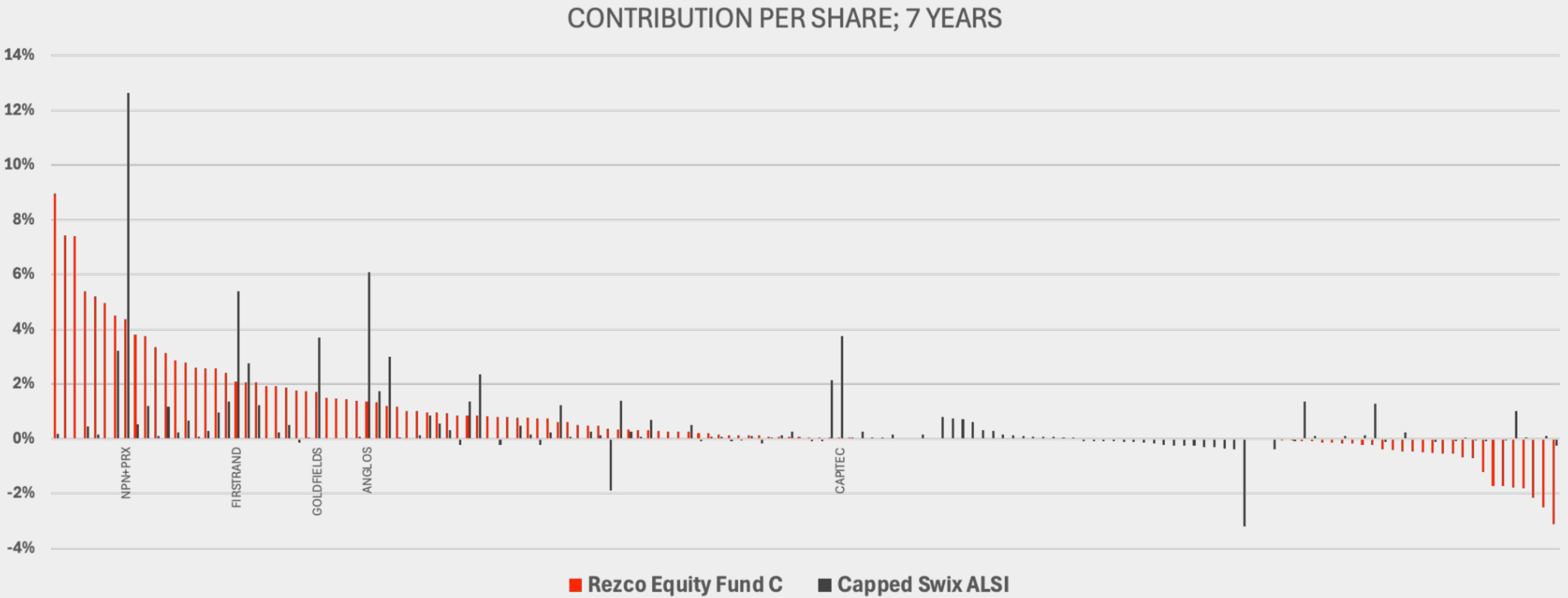
Currency: South African Rand Source Data: Total Return



Source: Morningstar Direct



Track Record of Generating Returns From Many Diverse Ideas

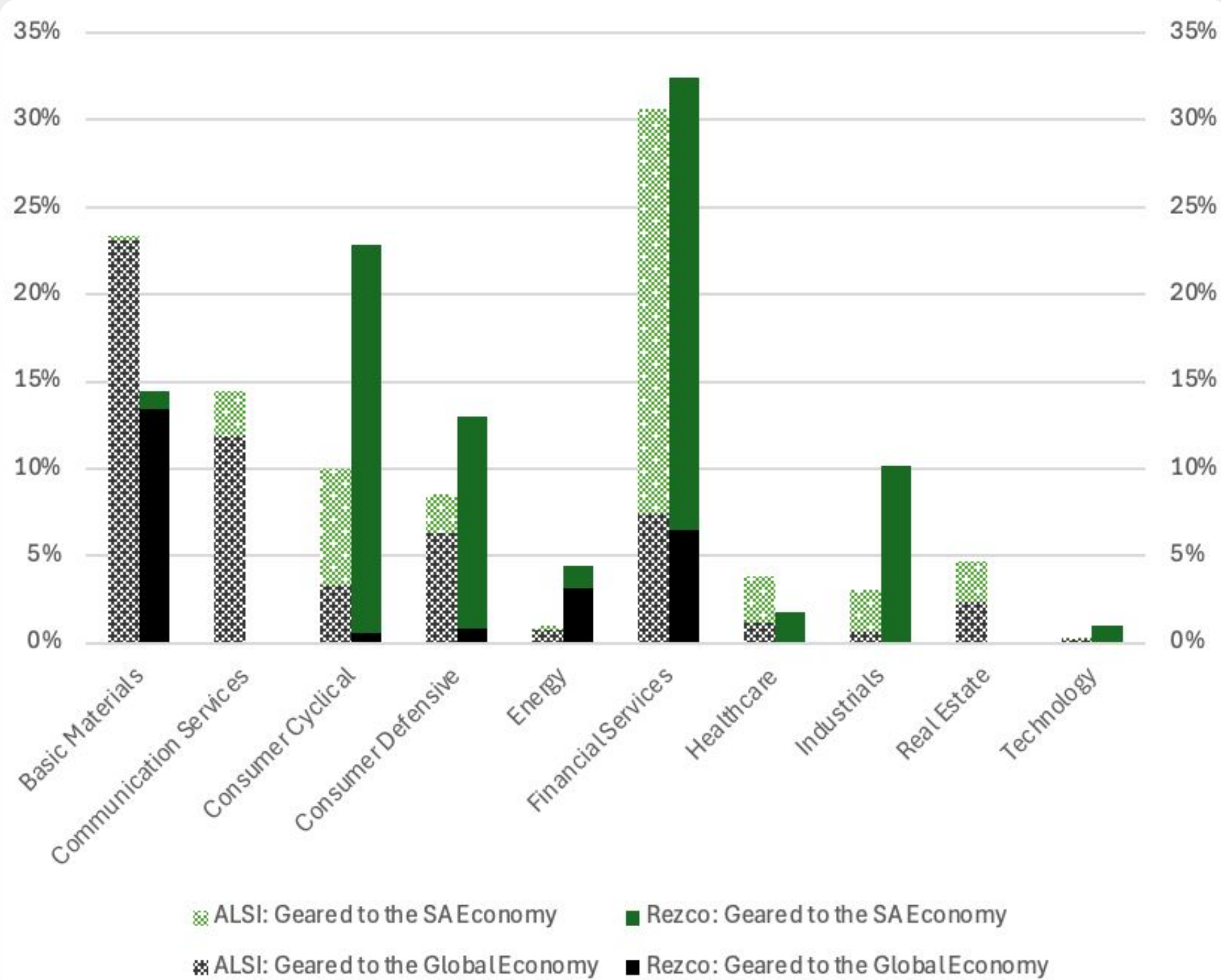


Positioning Portfolios for Growth



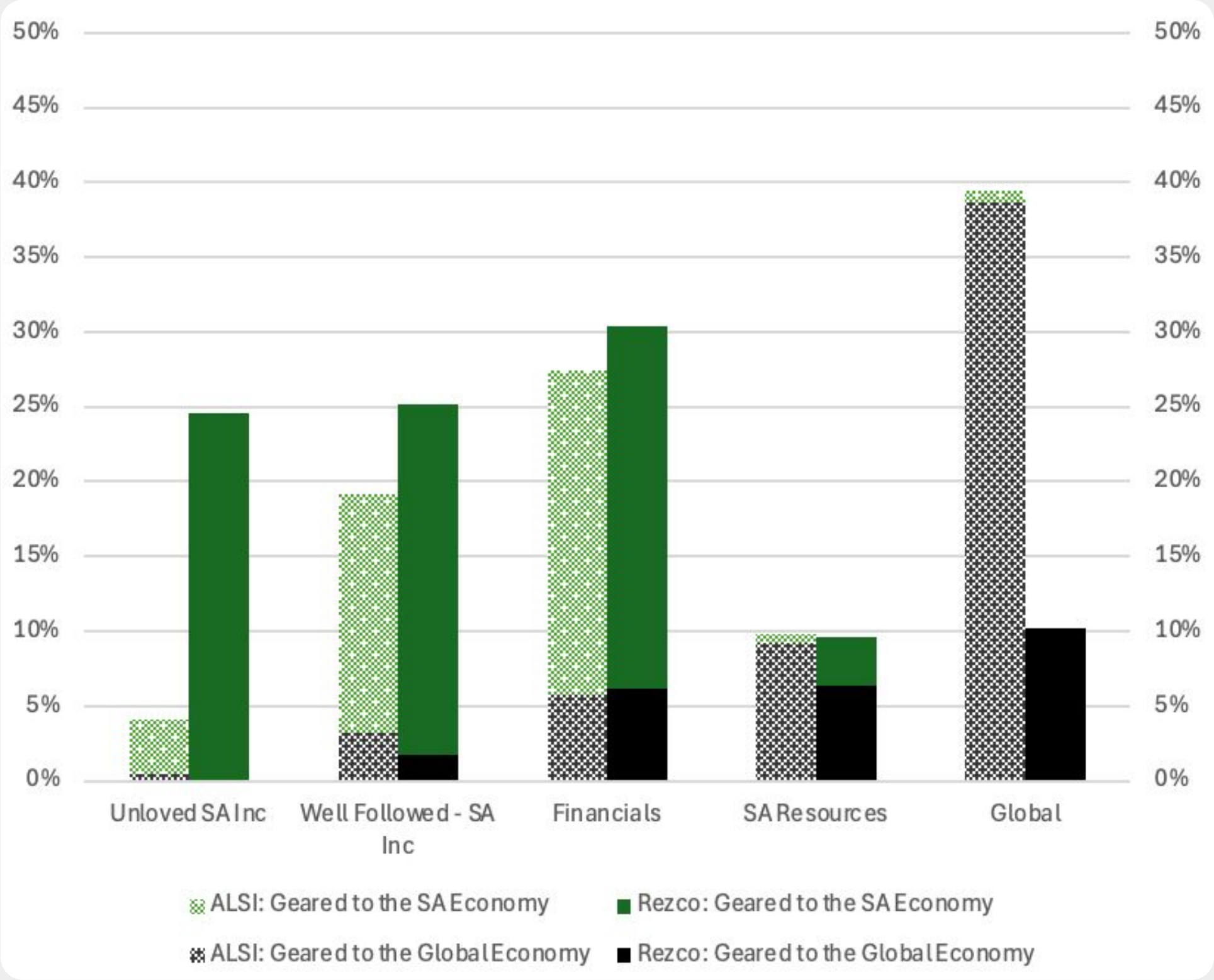
Rezco Equity Fund Positioning vs ALSI

Morningstar sectors



Rezco Equity Fund Positioning vs ALSI

SA market themes



Theme: Financials

SA banks and insurers: yield + growth

Geared to SA Economy

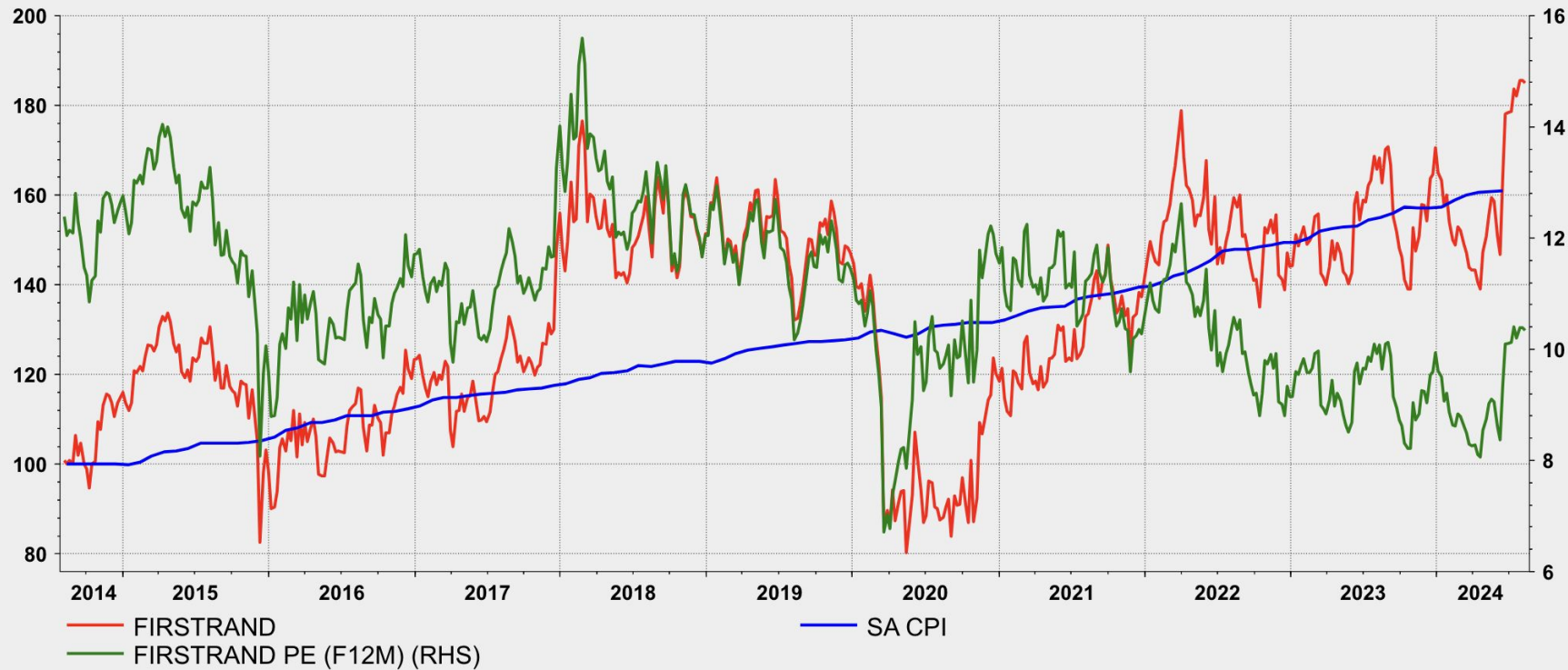
- Structural reform and higher business confidence leads to much stronger loan growth
- Growth leads to lower credit losses
- Lower bond yields drive up valuations

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

	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

10 Years: Firststrand Share Price vs Inflation



Source: LSEG Datastream / Rezco

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

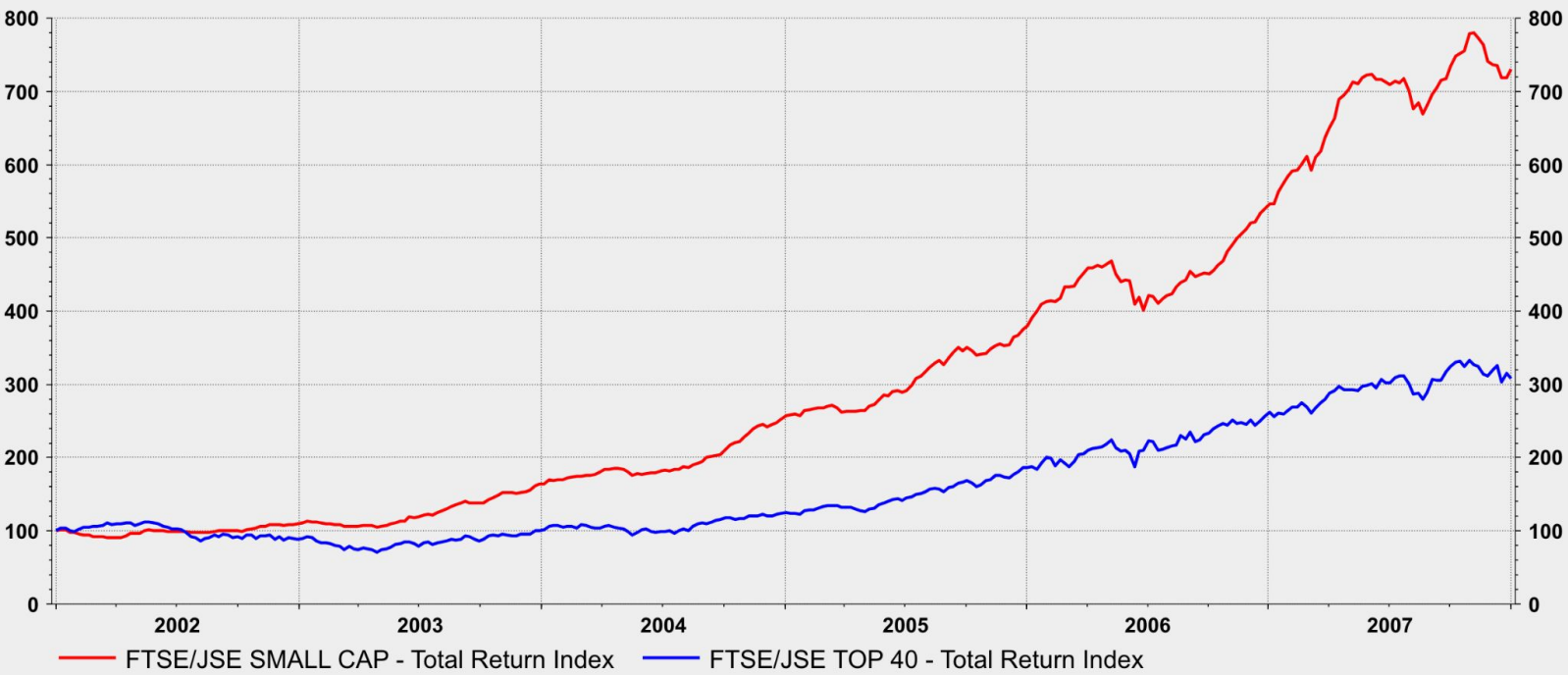
- Opportunity due to companies being on both depressed earnings and depressed valuations
- These businesses have been ‘building muscle’ and when growth emerges they are very well positioned

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, AECI, 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

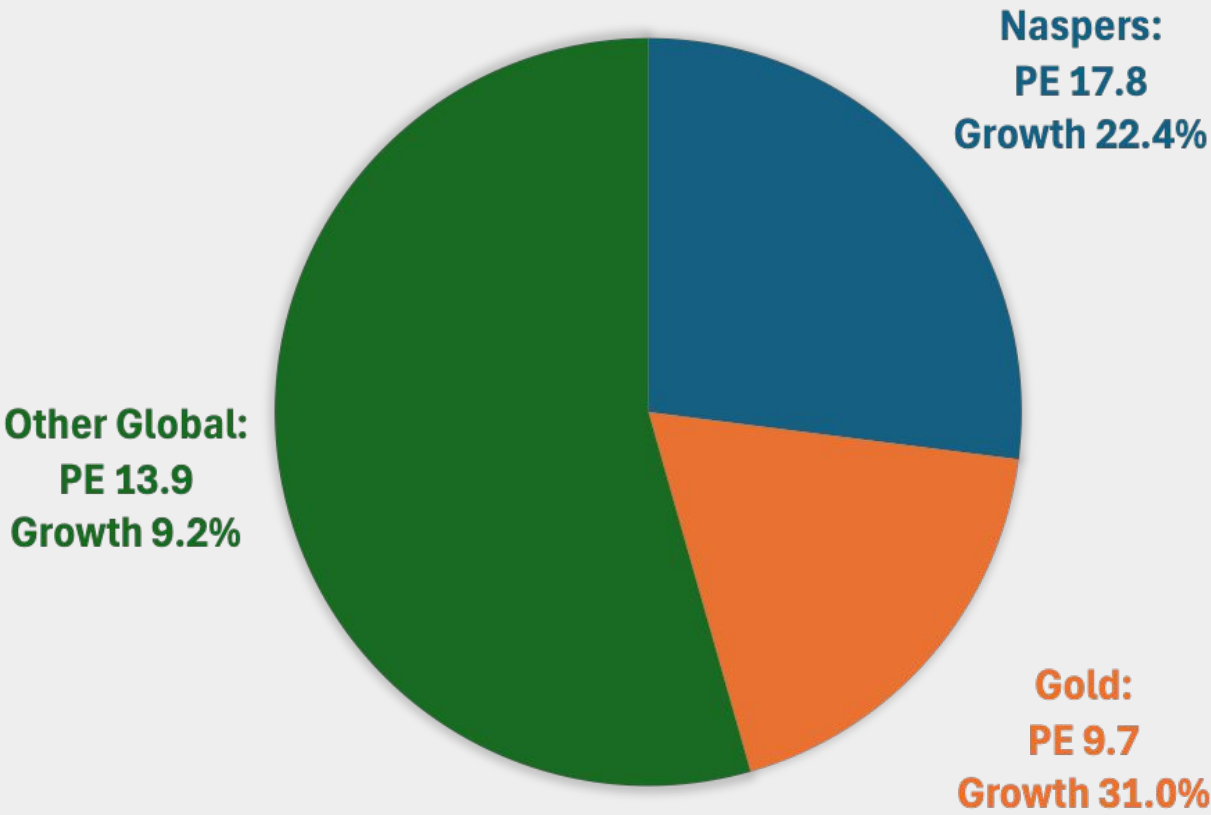
Gold

- 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%	

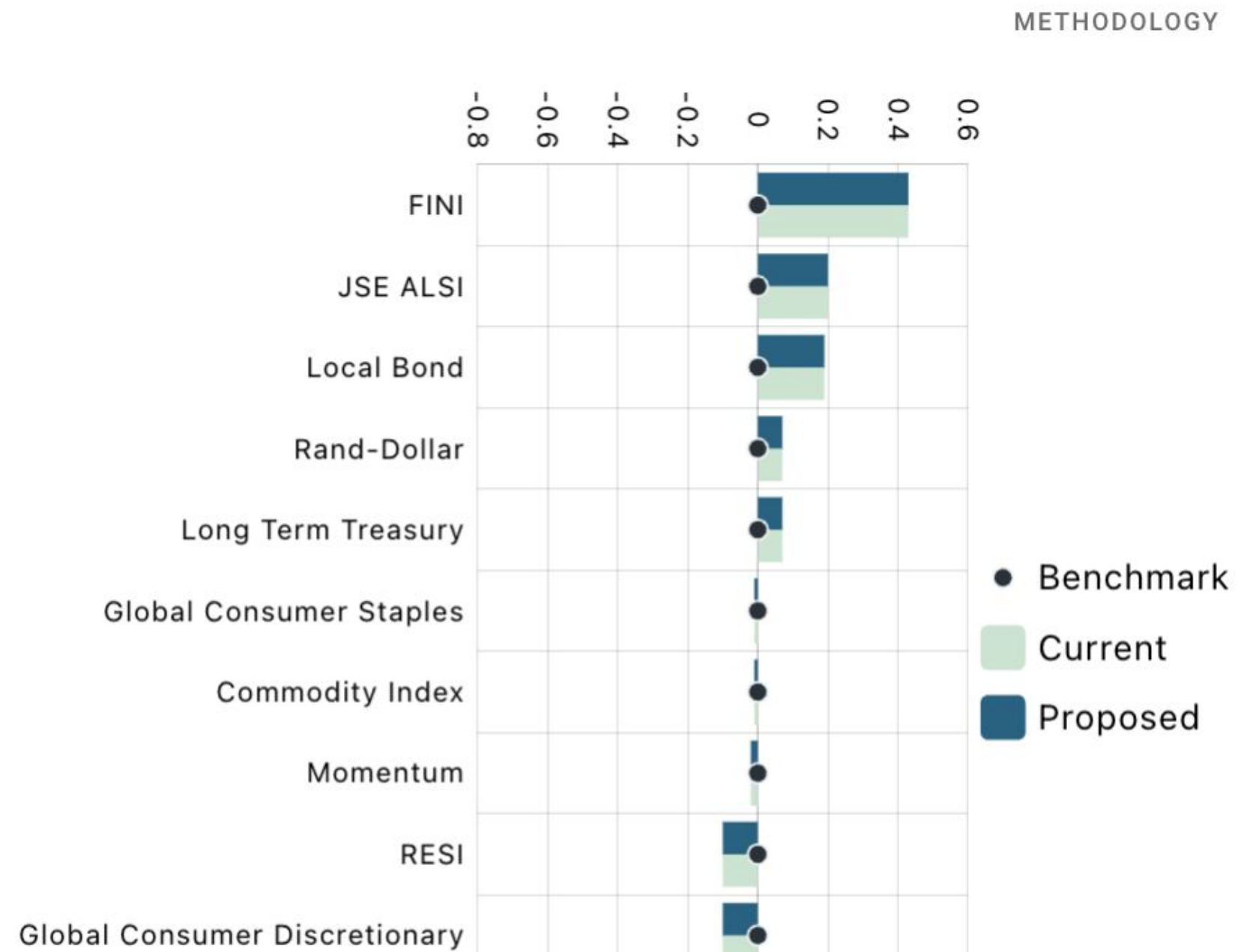
Rezco Equity Fund: Portfolio Positioning

FUNDAMENTALS SUMMARY ⓘ

		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					

RISK FACTOR EXPOSURE SUMMARY ⓘ



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.

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