

**LIVE WEBINAR**

# **South Africa's Political Shift**

Opportunities for Investors in 2025



# Event Logistics

-  You will receive a **link to the recording** of the webinar after the event on Monday morning.
-  **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

# February Webinar : Agenda

01. Is the GNU imploding?
02. Impact of Trump Local and Global
03. The SA Inc Story
04. How is it playing out!
05. How are the green shoots doing?
06. Real companies - Real opportunities
07. Offshore vs local: the next three years
08. How Rezco is positioning portfolios for growth
09. Q&A

# Is the GNU Imploding?



# The GNU is Robust: Works for All Parties

**BBC**

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## Trump threatens to cut funding for South Africa over land policy

17 hours ago

Basillioh Rukanga in Nairobi & Khanyisile Ngcobo in Johannesburg  
BBC News

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**EXCLUSIVE** 3h ago

## NHI breakthrough: ANC agrees with DA not to 'collapse' medical aids

Share    



**POLITICS**

## 'It's not true': Steenhuisen clarifies Trump's 'misconception' about Expropriation Act after threats

# Julius Desperately Wants in

The DA know this



**POLITICS**

## **LISTEN | EFF on 'doorstep' of GNU, says Malema as he accuses DA of influencing Trump**

EFF leader Julius Malema says the party is on the verge of entering the government of national unity should the ANC boot out the DA, which he claims played a ...

**More MKP money woes: Shivambu orders Mpumalanga to halt staff appointments**

05 Feb



# Mostly Noise on The Expropriation Act

**City Press**

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08 Feb

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**AfriForum, Solidarity reject Trump's refugee offer - 'We want to build South Africa'**

Sthembiso Lebuso

**City Press**

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**'No thanks': White South Africans turn down Trump's immigration offer**

By Olivia Kumwenda-Mtambo and Catherine Schenck

February 9, 2025 3:45 PM GMT+2 · Updated an hour ago



# Trump and ANC Leftists

***“Talking Left but Walking Right” is dangerous***

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## *South Africa Needs the Trump Treatment*

The ANC has been too cozy for too long with the West's enemies.

### **BUT RISK IS MANAGEABLE**

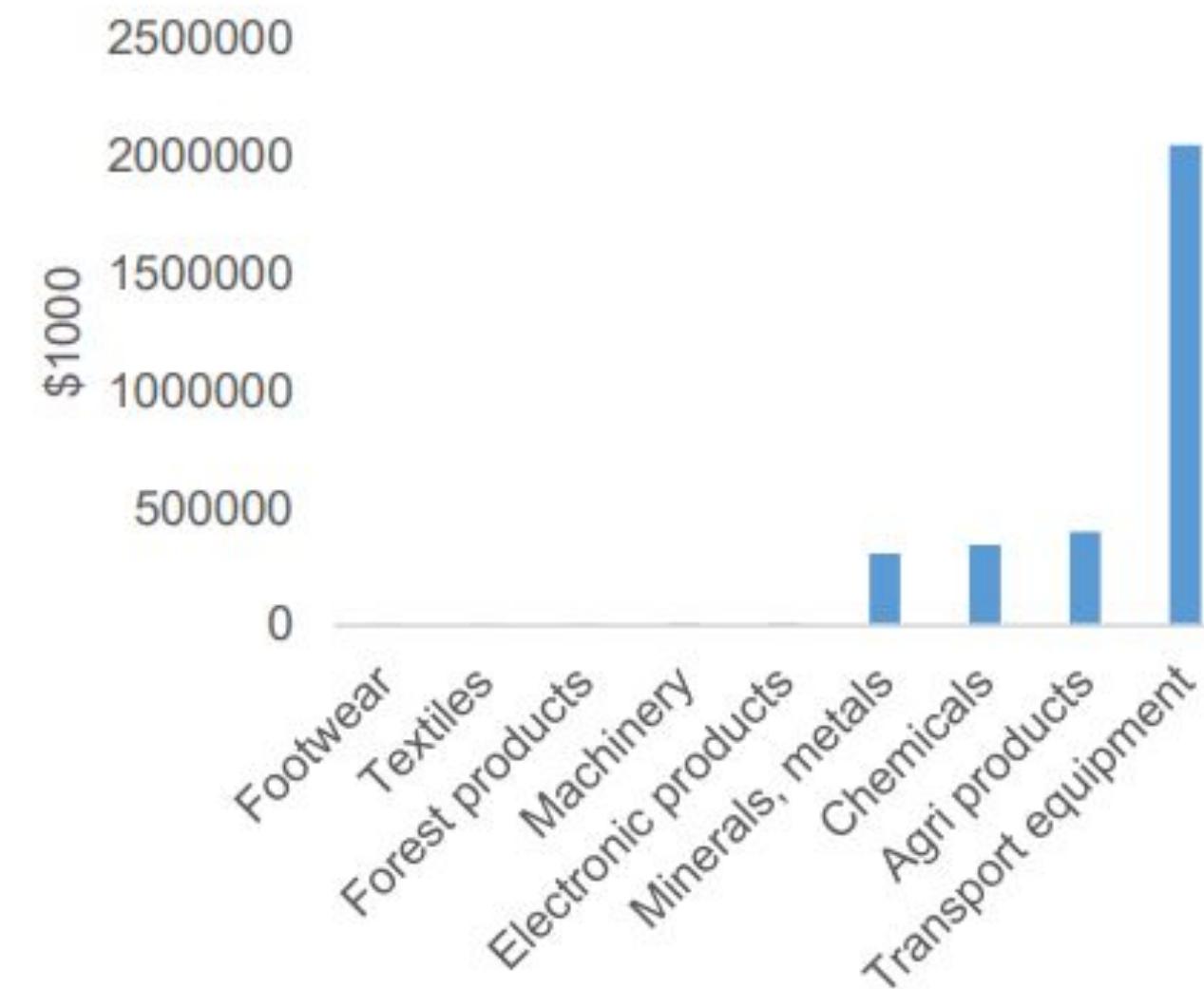
- RSA isn't Mexico
- Non-mineral exports are small (vehicles)
- AGOA probably expires anyway

# AGOA: Impact on RSA to USA Exports

Vehicles are 0.5% of our total exports

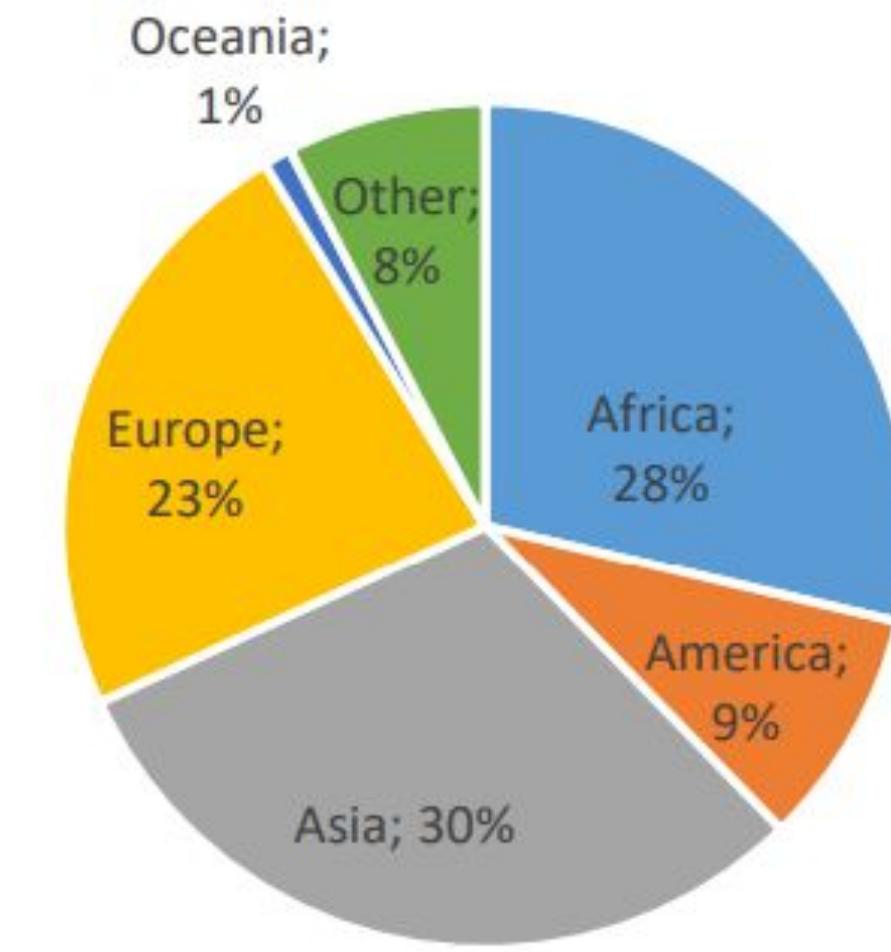
Duty goes from 0% to 2.5%

**Figure 4: SA exports to the US benefitting from AGOA**



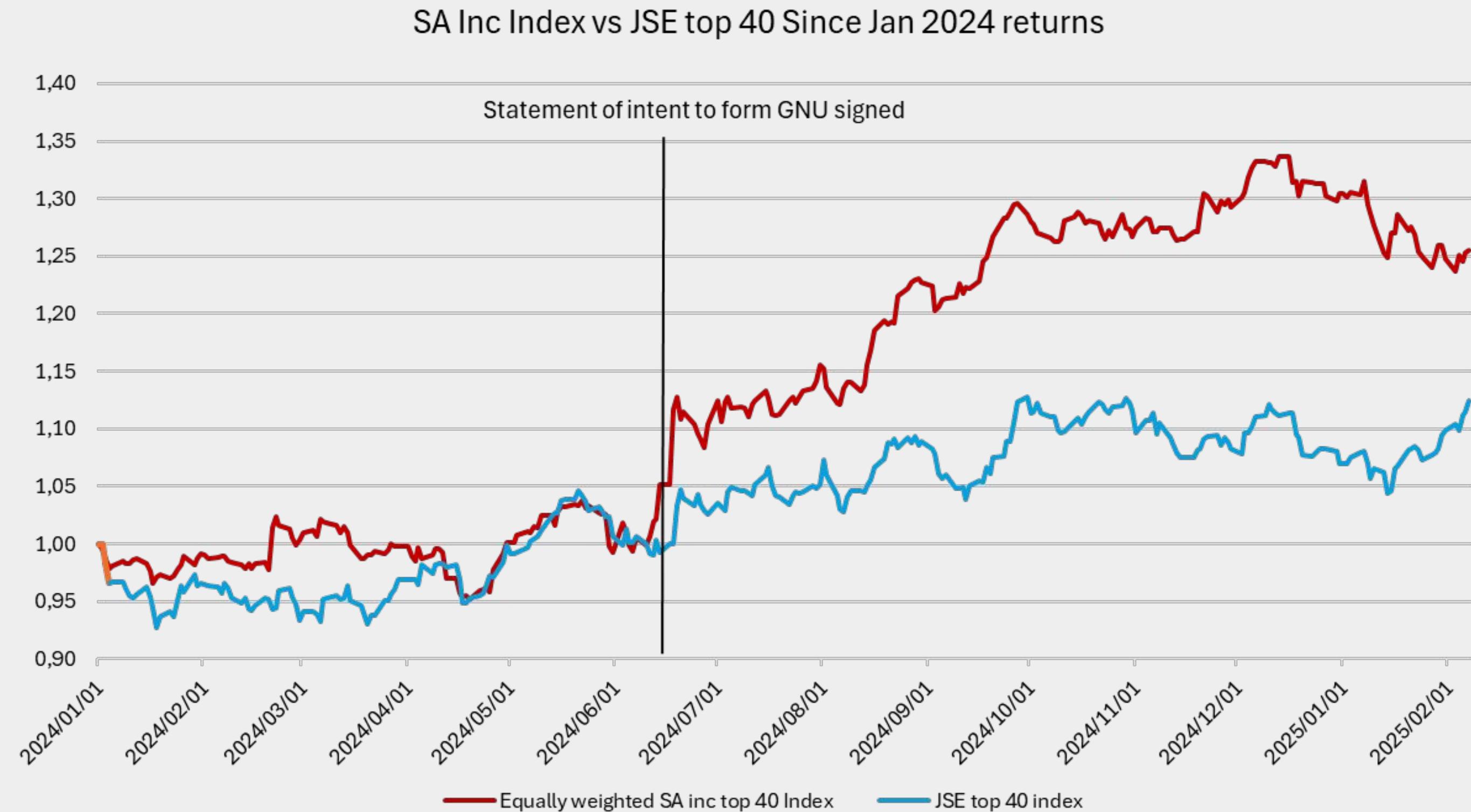
Source: AGOA, Standard Bank Research

**Figure 5: SA export destinations**

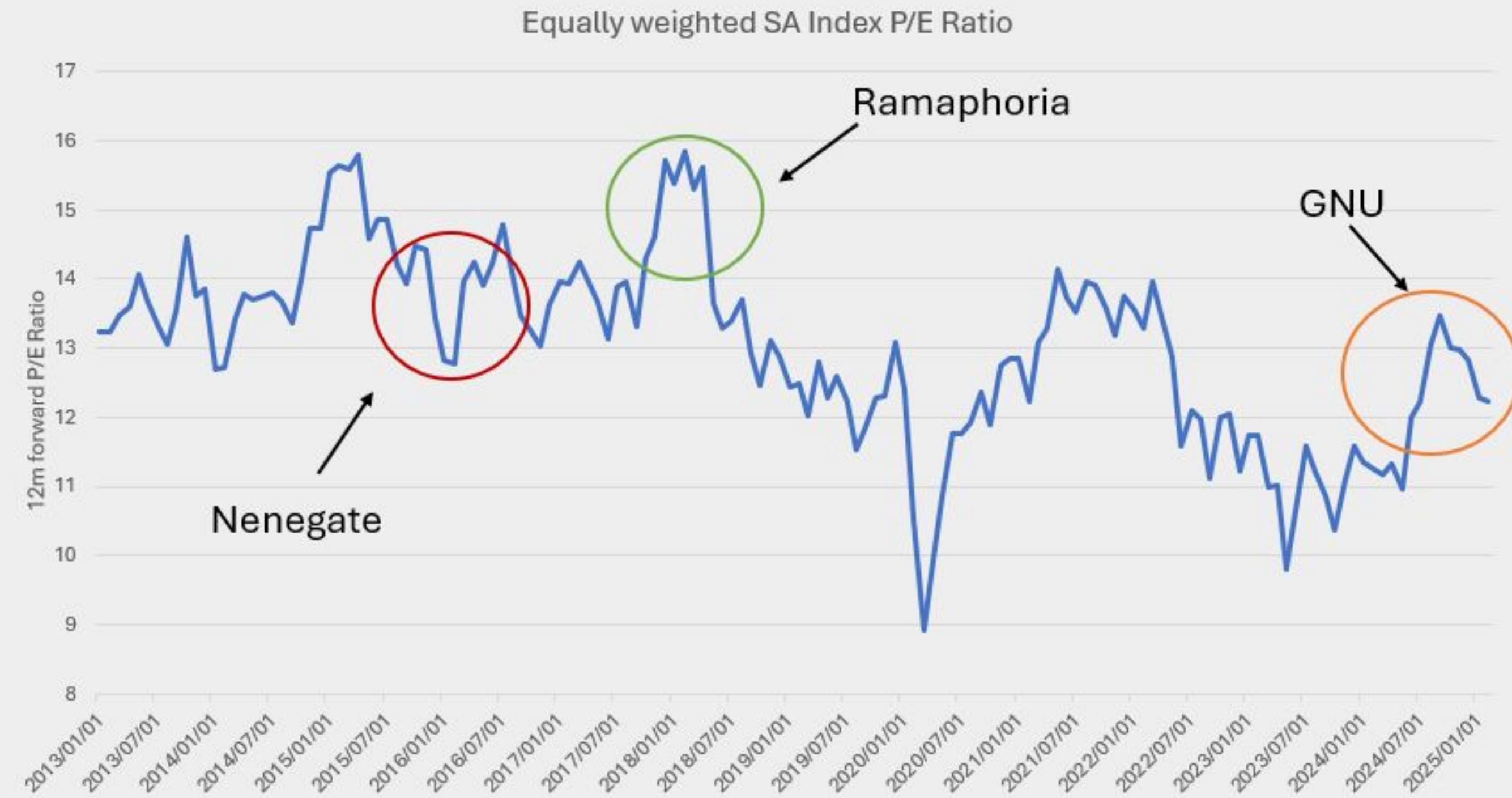


Source: SARS, Standard Bank Research

# Market Noise? Significant Pull Back in SA Inc!



# But is it Worse Than Nenegate and the Following Years of High Risk?



# **It is Not About The GNU**

It is about the ANC swinging to (back to) pragmatism from Zuma Era

Longer Term: Strong centre forming around the ANC/DA/IFP

## **PRAGMATISM**

Identify the most important problems and find the best solution.

## **IDEOLOGY DRIVEN**

See everything through the lens of your ideology.

## **ZUMA ERA**

Put compliant incompetents in place.

The state is very weak and for looting.

# The Anti-Cyril Part of The ANC is Getting Reconfigured

SABC NEWS

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ANC NEC opts to reconfigure Gauteng and KZN PECs



ANC Secretary-General Fikile Mbalula

# SONA 2.0

Credible plan to get economic growth



## SA sets bold growth target, strips NHI from draft planning document

Ministers race to sign off development plan ahead of the budget and the state of the nation address

■ NATIONAL

4 hours ago  BL PREMIUM

# Volatile USA policy - Trump



# Impact of Trump



# A Lot of Volatility and Headlines

Monday



Reuters

World ▾ Business ▾ Markets ▾ Sustainability ▾ Legal ▾ Breakingviews ▾ Technology ▾ Investigations

**Trump launches trade war with tariffs on Mexico, Canada and China**

By Andrea Shalal, Jarrett Renshaw and David Lawder

February 2, 2025 4:45 AM GMT+1 · Updated 2 days ago

Q Aa Share

Tuesday



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**U.S. tariffs on Mexico paused for a month after border deal, Trump says**

By Daphne Psaledakis, David Lawder and Bart H. Meijer

February 3, 2025 5:26 PM GMT+1 · Updated 4 min ago

Q Aa Share

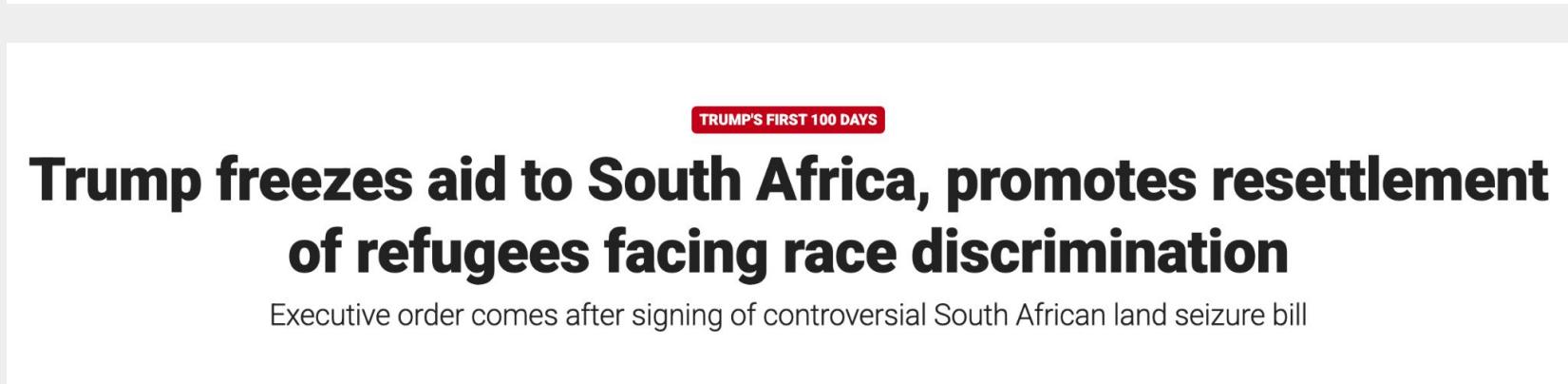
Wednesday



World ▾ Business ▾ Markets ▾ Sustainability ▾ Legal ▾ Breakingviews ▾ Technology ▾ Investigations

**Trump says US 'will take over' Gaza**

Friday



TRUMP'S FIRST 100 DAYS

**Trump freezes aid to South Africa, promotes resettlement of refugees facing race discrimination**

Executive order comes after signing of controversial South African land seizure bill

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# The Impact of Trump 2.0

Expect the unexpected

**RSA:** *Not really much impact*

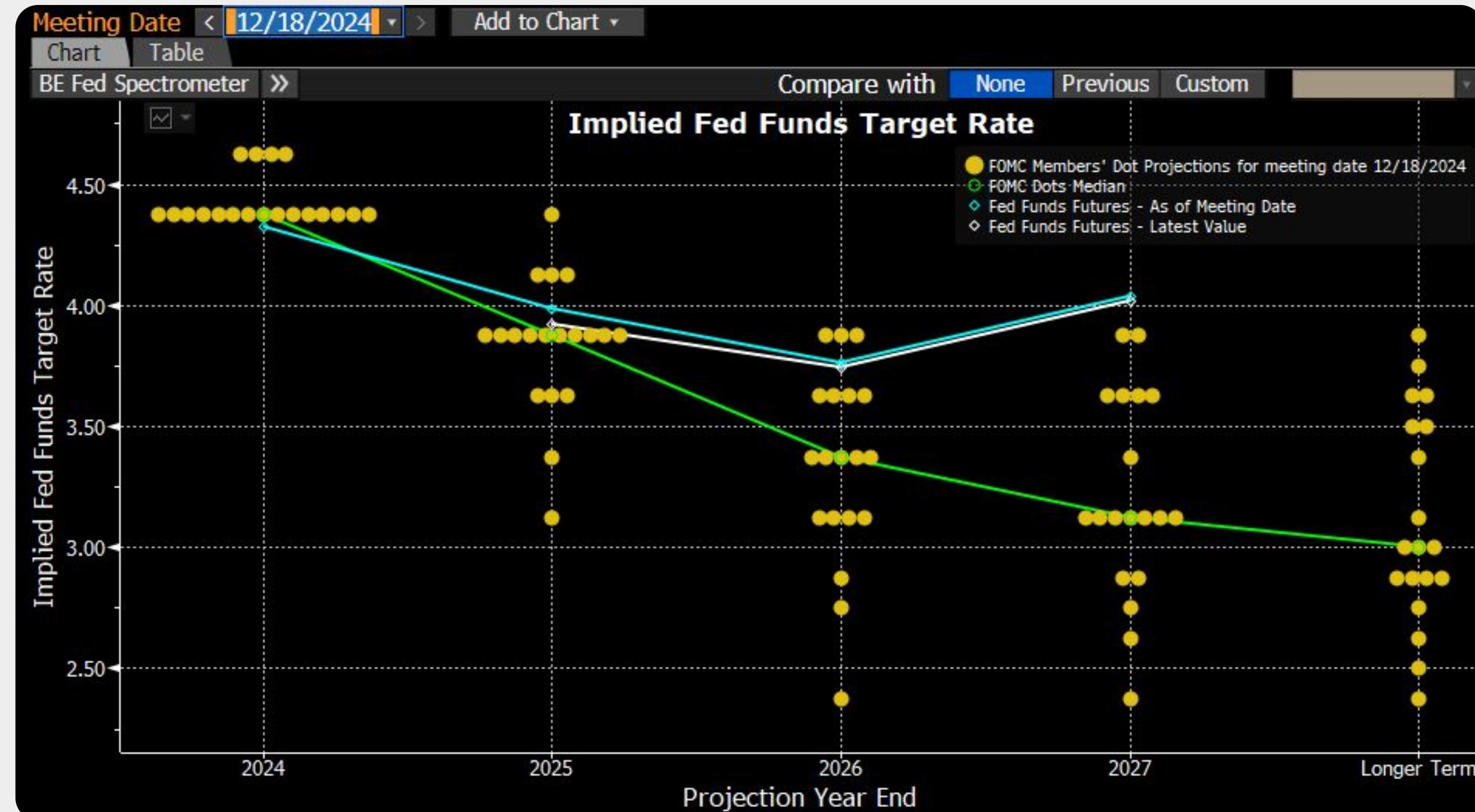
## THE REAL STUFF - USA and Global Economy

- Lower taxes and fiscal stimulus are good for profits: ***can't have both***
- Realise have an unsustainable fiscal stimulus -
  - Smaller is a drag on the economy
  - Bigger is inflationary
- ***Inflation is not dead yet***
- Therefore interest rates don't drop as much
- ***Tariffs are inflationary / Trade Wars are bad***

Bond interest rates could go a lot higher if irresponsible policy  
Eventually interest rates impact equity markets

# The FED & Interest Rates

Is the next move up?



# Definite Inflationary Pressures

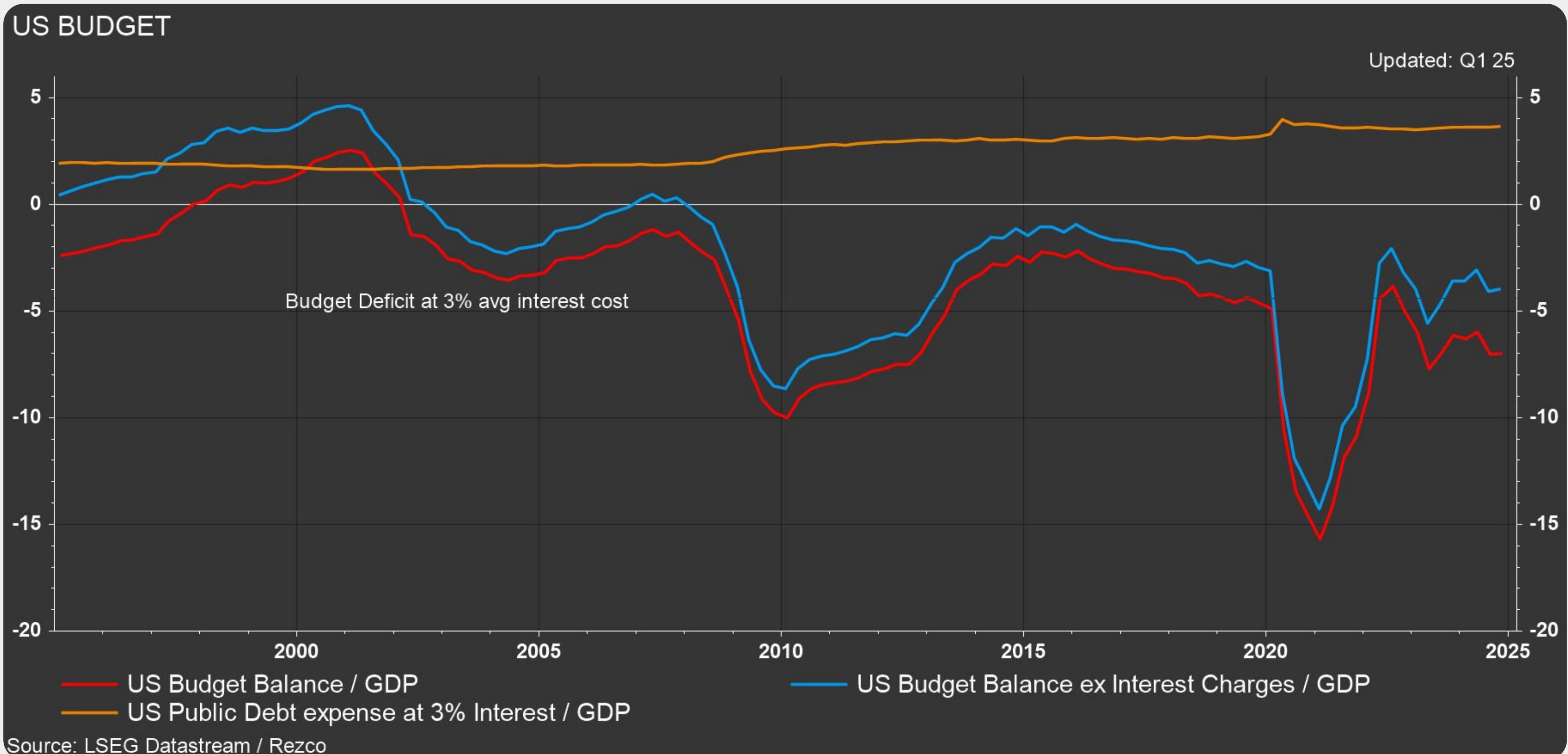
US 2yr Breakeven Inflation Rate



Source: LSEG Datastream / Rezco

# USA Budget Deficit: USA Knows Their Need to Fix This

Cutting it will be a headwind for the economy



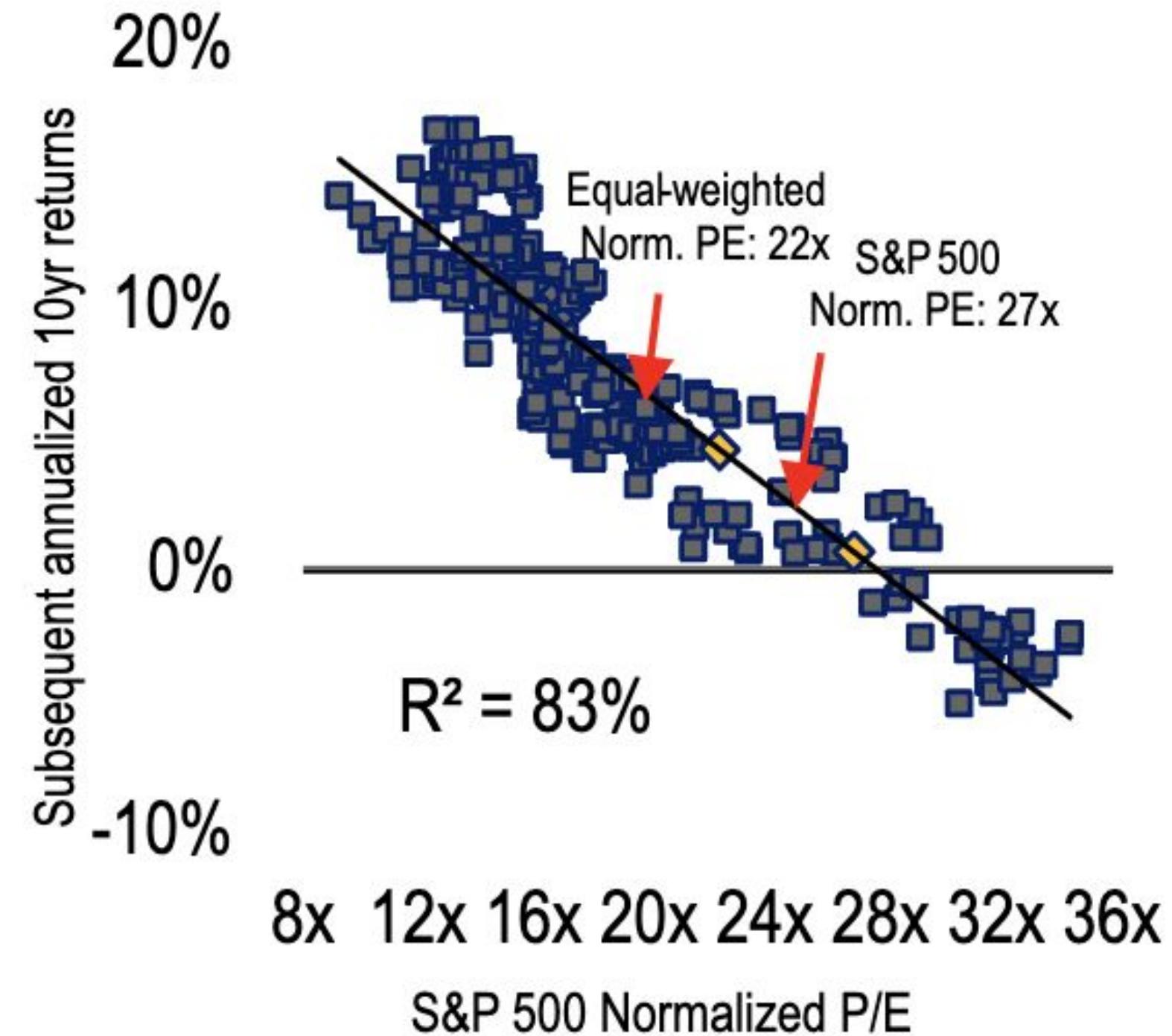
# Equity Markets are Expensive Relative to Interest Rates

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



Source: LSEG Datastream / Rezco

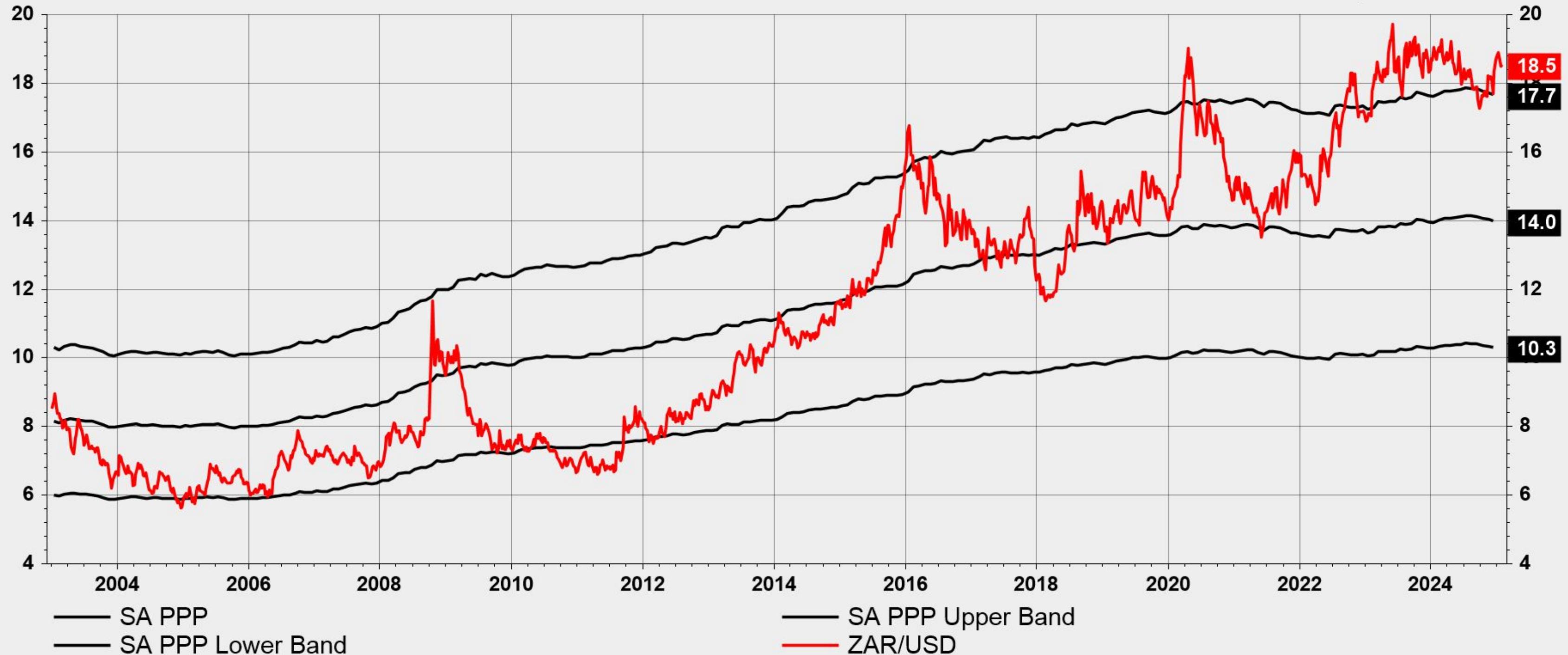
# S&P Expected 10 Year Return: 1-2%



Source: BofA US Equity & Quant Strategy, FactSet

# The ZAR Can Strengthen a Lot

ZAR/USD PPP using CPI (updated 4 Feb)



Source: LSEG Datastream / Rezco

# EM vs DM

These are multi-year cycles



Source: LSEG Datastream / Rezco

# The SA Inc Story



# 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 & 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

# Current Fund Positioning

	Managed Plus	Value Trend	Stable	Equity
<b>SA Equity</b>	<b>68%</b>	<b>57%</b>	<b>30%</b>	<b>98%</b>
SA Inc - Insurance and Other Financials	7%	5%	3%	9%
SA Inc - Industrials	7%	6%	4%	12%
SA Inc - Education	6%	5%	3%	8%
SA Inc - Consumer	29%	26%	12%	37%
SA Inc - Banks	15%	11%	7%	20%
Mining and Resources	5%	4%	3%	10%
Gold	1%	1%	1%	3%
<b>Global Equity</b>	<b>6%</b>	<b>5%</b>	<b>4%</b>	
Total Equity	<b>74%</b>	<b>62%</b>	<b>34%</b>	
SA Fixed Income	12%	22%	54%	
Global Fixed Income	15%	16%	12%	
<b>Direct Offshore</b>	<b>20%</b>	<b>21%</b>	<b>15%</b>	

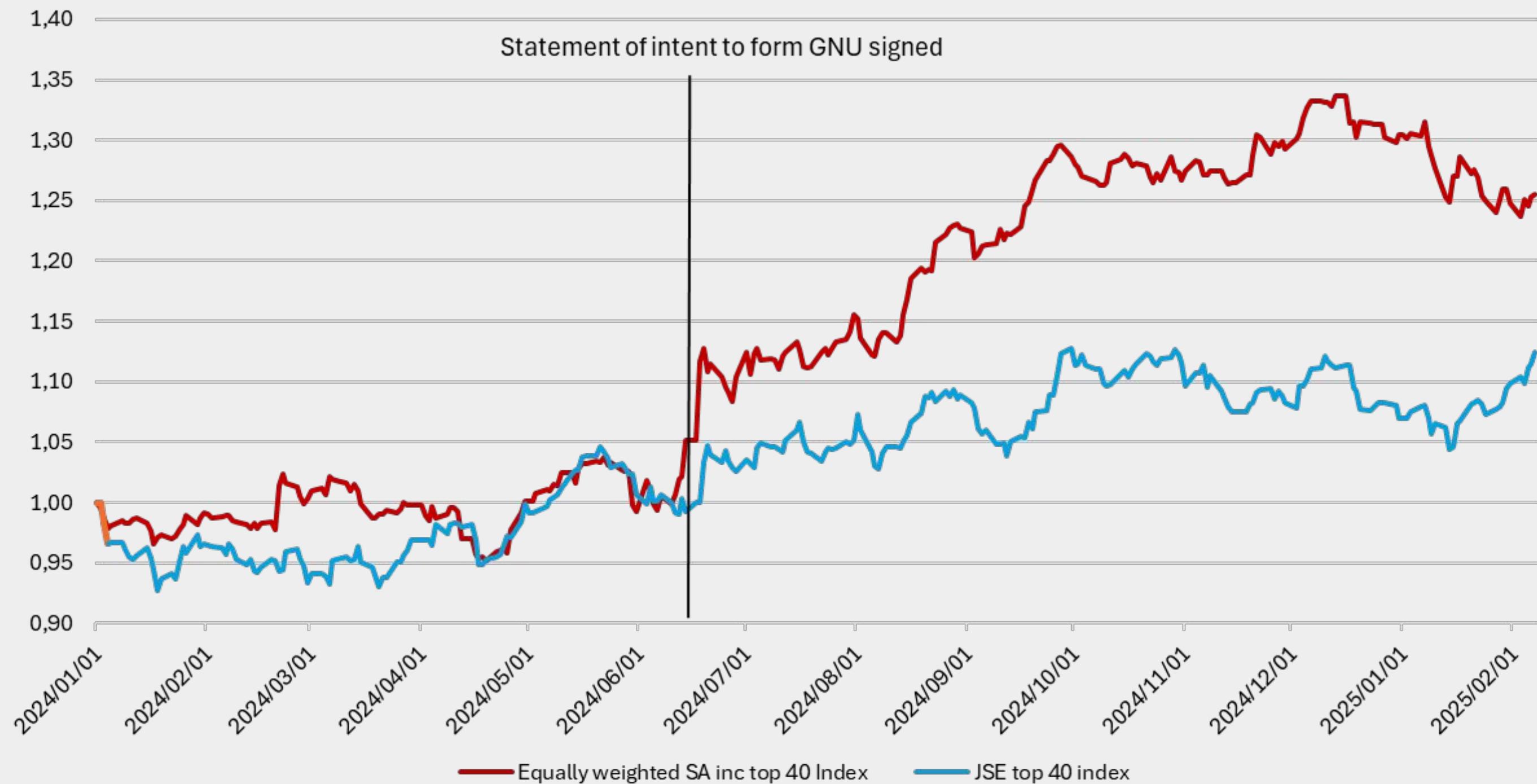
# The SA Inc Story

- The next three years heavily favours holding RSA Inc Equity over global equity.
- This is the big opportunity for our clients
- Rezco Multi Asset Funds equity portion look similar to the RSA Equity Fund.
- So some focus on RSA Equity fund

# How Has it Been Playing Out?

Note: This is a three year story for stage 1

SA Inc Index vs JSE top 40 Since Jan 2024 returns



Source: Refinitiv Datastream. Construction of the SA Inc index returns: Equally weighting the returns of the largest 40 largest JSE stocks, excluding miners, oil & paper producers or where a majority of the stocks earnings are derived from outside South Africa.

# Phases of the Economic Recovery

## Short Term: Cyclical Recovery off Low Base

**Period: Years 1-3 | SA Inc Earnings: 15% pa | GDP Growth ~2%**

- No Load Shedding
- Stronger Currency
- Lower Interest Rates
- Two Pot
- Lower Inflation
- Lower Fuel costs
- Improved Confidence
- Low Base of Economic Activity (eg Rail and Ports)
- Better Tourism & Visas
- More Sensible Foreign Policy

**Pragmatism + Low Hanging Fruit = many problems fixable**

## Long Term: Increased Confidence & Investment

**Period: Years 2-5 | SA Inc Earnings: 20% pa | GDP Growth ~3-4%**

- Structural reform emerges
- Confidence leads to real investment
- Country risk decreases and asset values re-rate (eg Grey List exit)

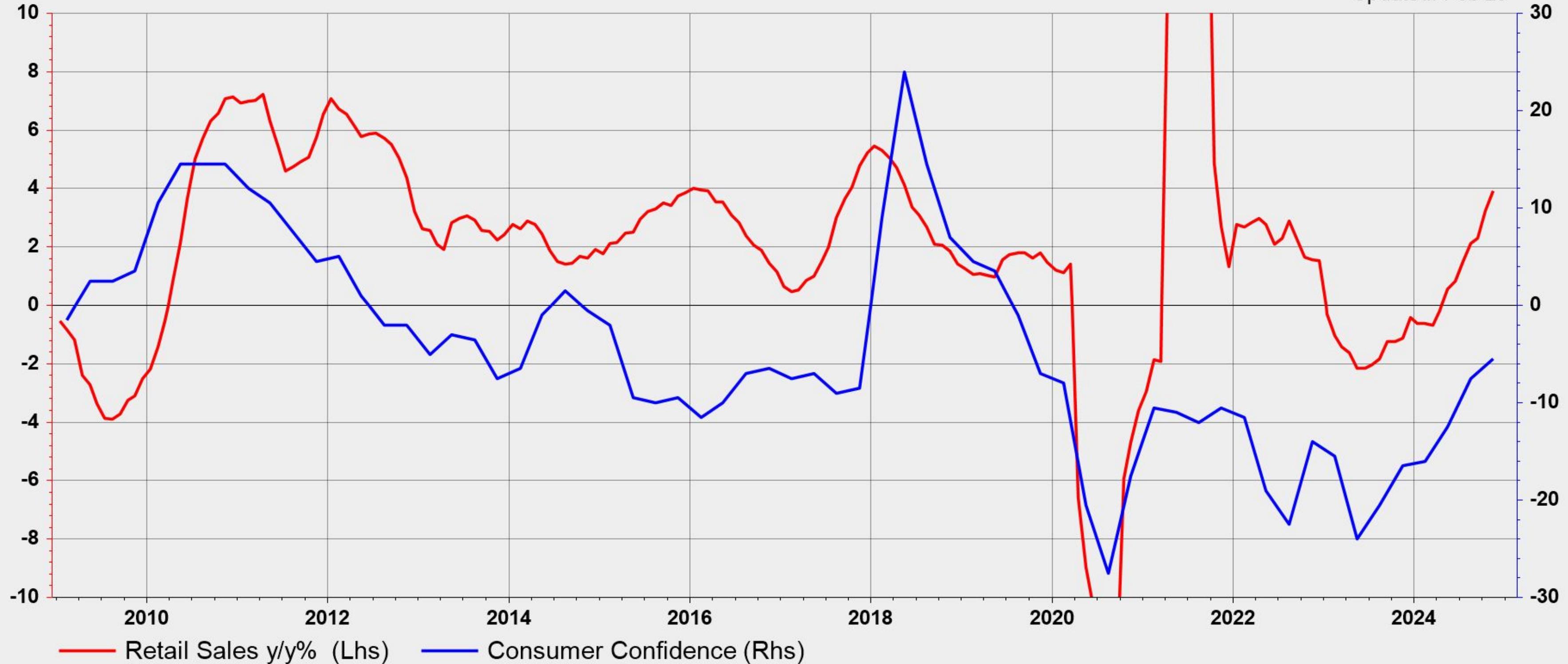
# The Green Shoots for Phase 1



# Retail Sales

SA RETAIL SALES & Consumer Confidence real

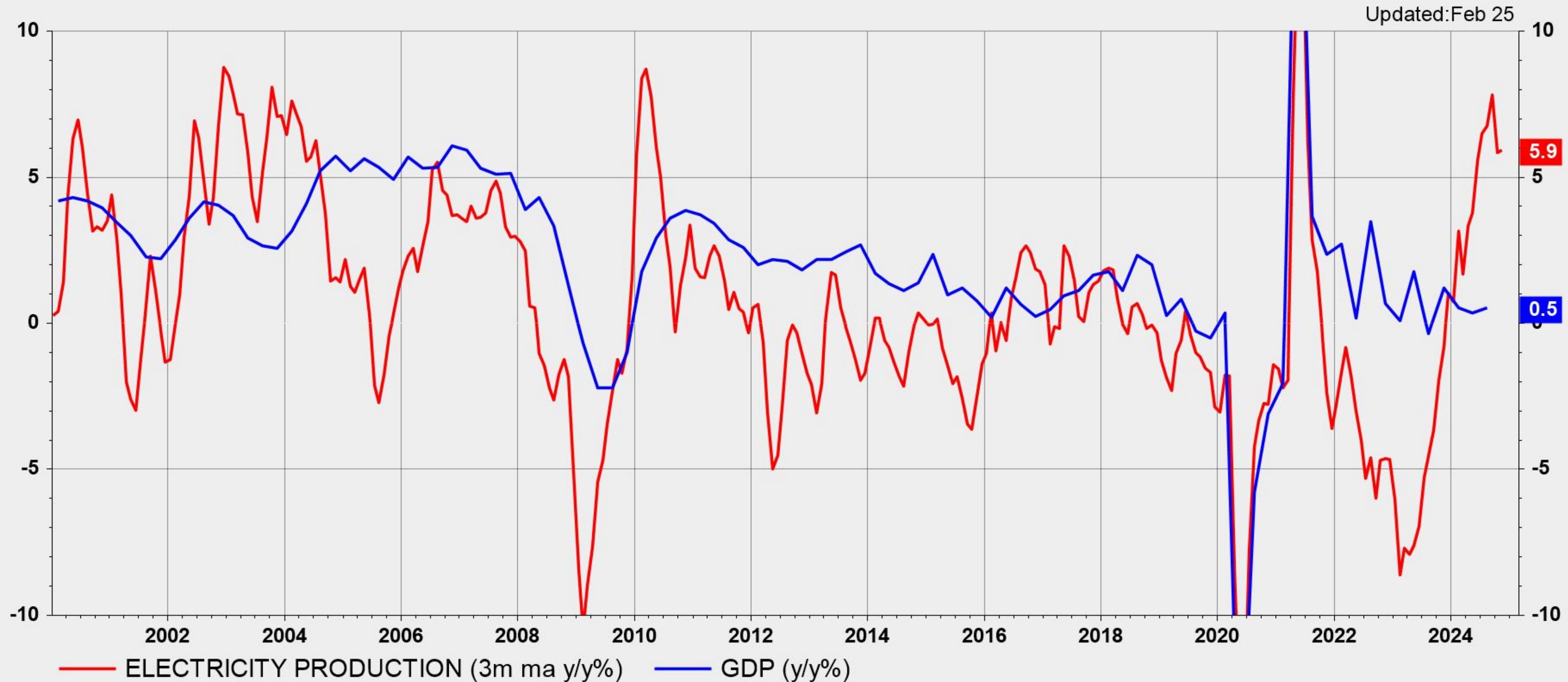
Updated: Feb 25



Source: LSEG Datastream / Rezco

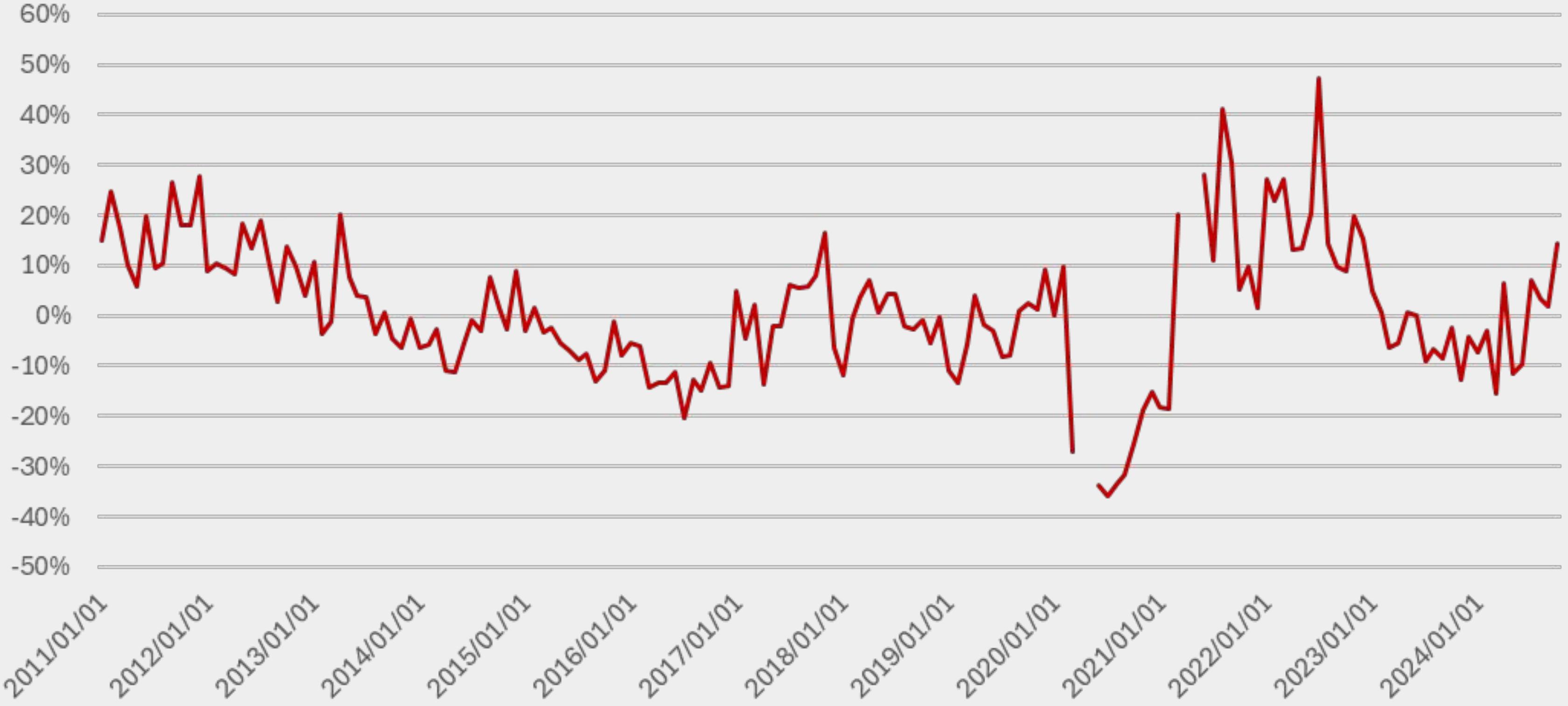
# Eskom & Power Generation

## SOUTH AFRICA GDP AND ELECTRICITY

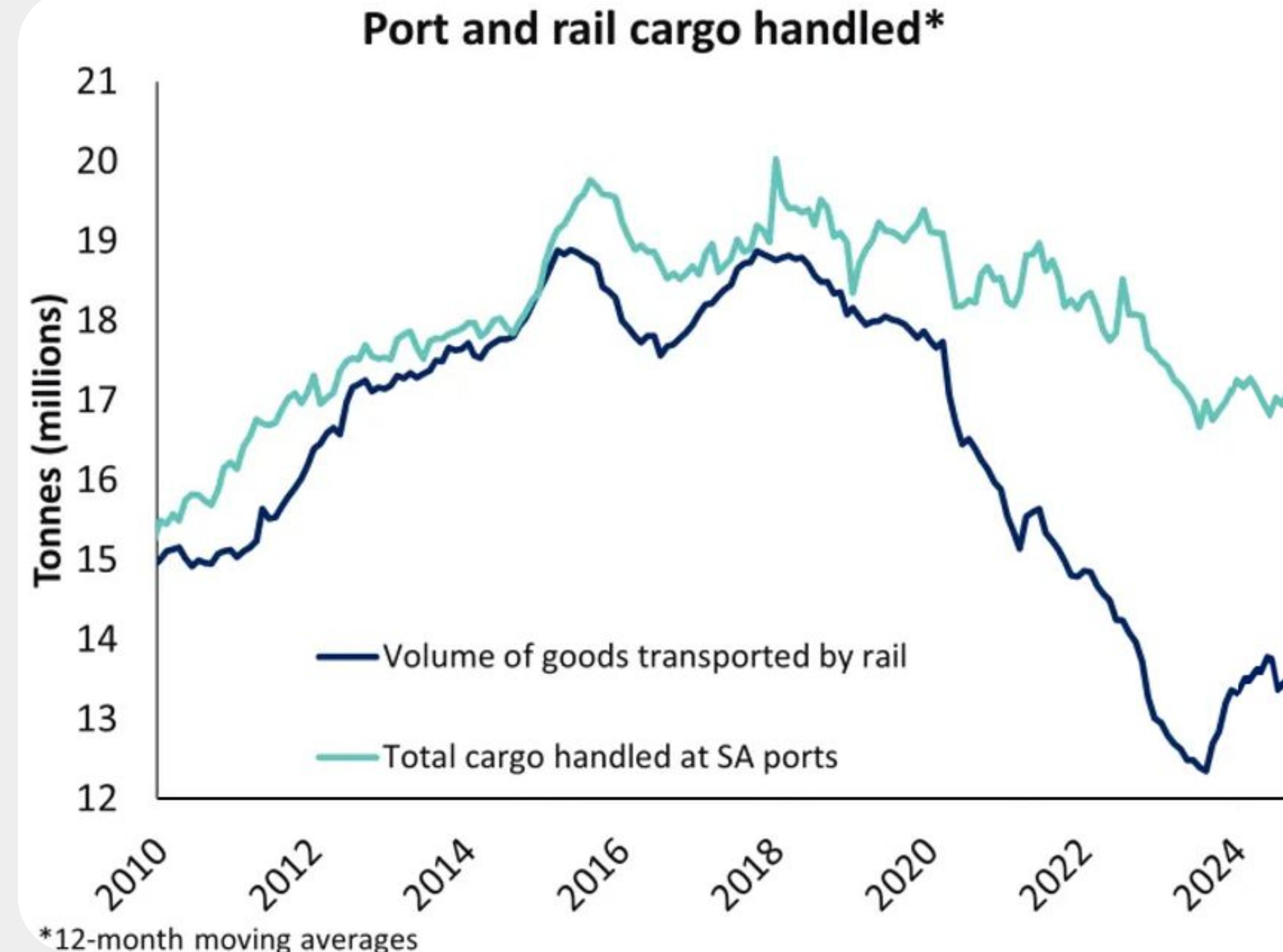


Source: LSEG Datastream / Rezco

# SA Passenger Vehicle Sales y/y Growth

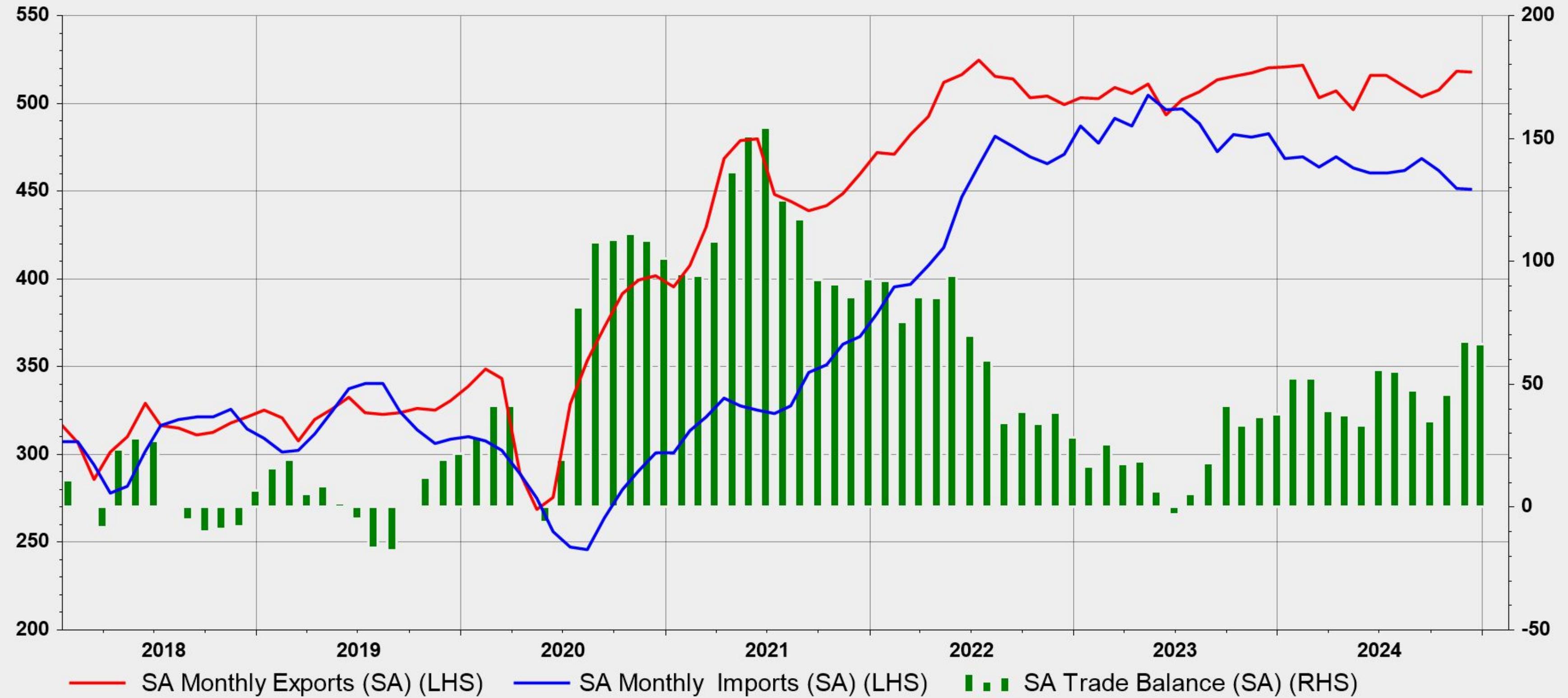


# Stabilising and Recovering Off Low Base



# Trade Surplus

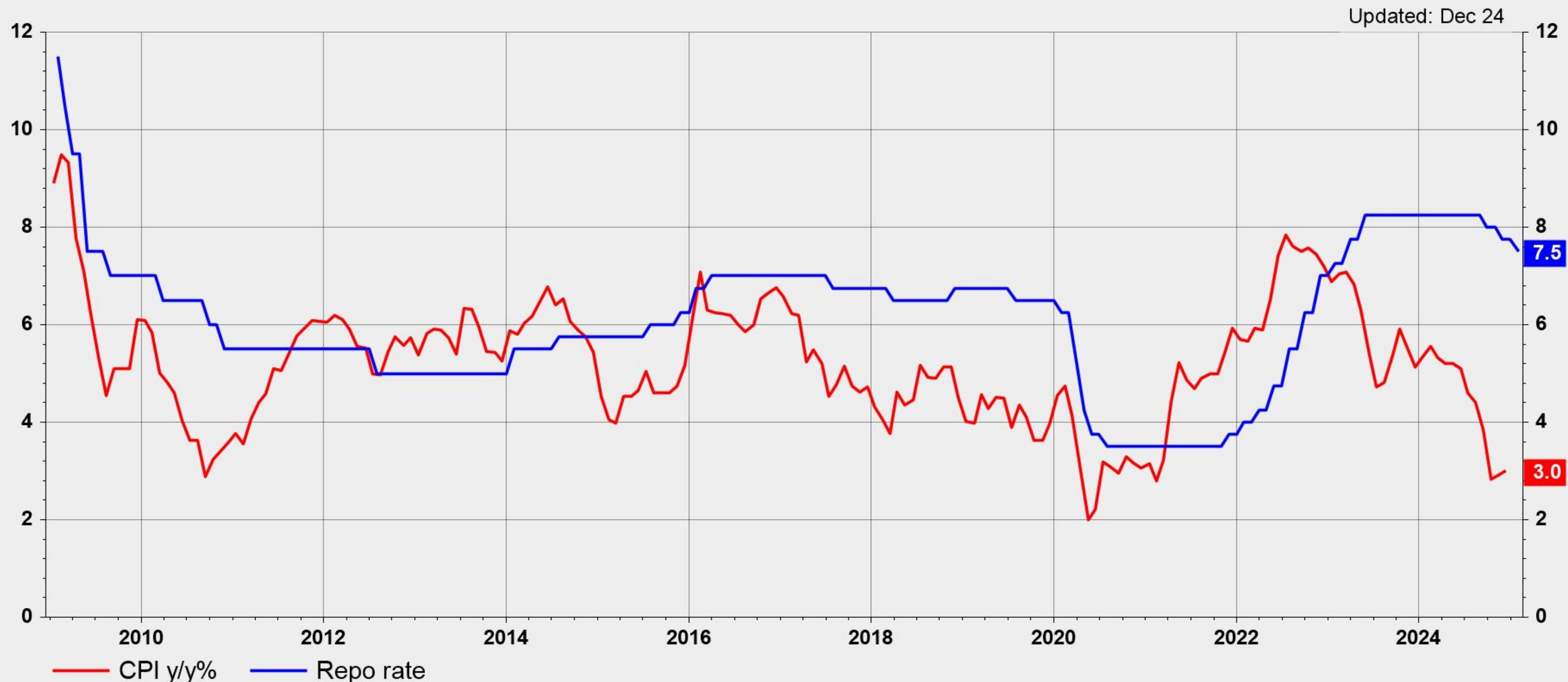
SA trade balance trends



# Inflation Allows for Lower Interest Rates

Responsible politics means SARB can be less hawkish

SOUTH AFRICA CPI & repo rate



Source: LSEG Datastream / Rezco

# **What We Love: Real Companies & Real Opportunities**



# We Are Looking For:

A good combination of valuation, growth & quality

## **Stable or improving macro environment:**

- country, industry & company specific factors

## **Company specific quality factors:**

- Good management (quality & integrity), Ability to innovate
- Durable competitive advantages
- Net tailwinds vs headwinds
- Capital lite, Cash generation
- Balance sheet structure & quality
- Understandable business model
- Return on equity,
- Liquidity of share
- Ability to handle tough times

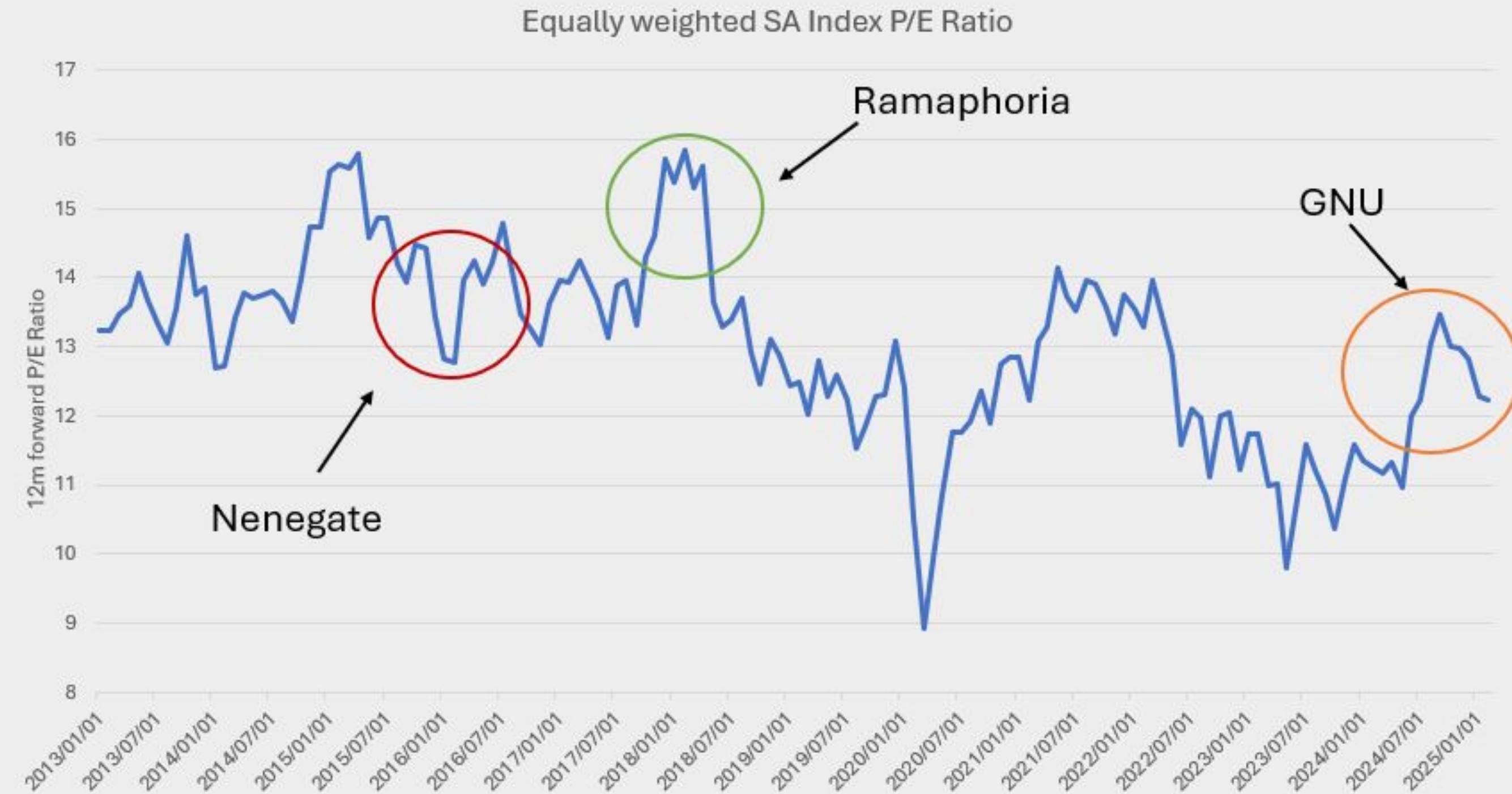
## **Not:**

- Index weight

# **RSA Inc: The 3x20% Story Doesn't Need a Rerating**



# Nenegate Lows for a Better Than Ramaphoria Opportunity

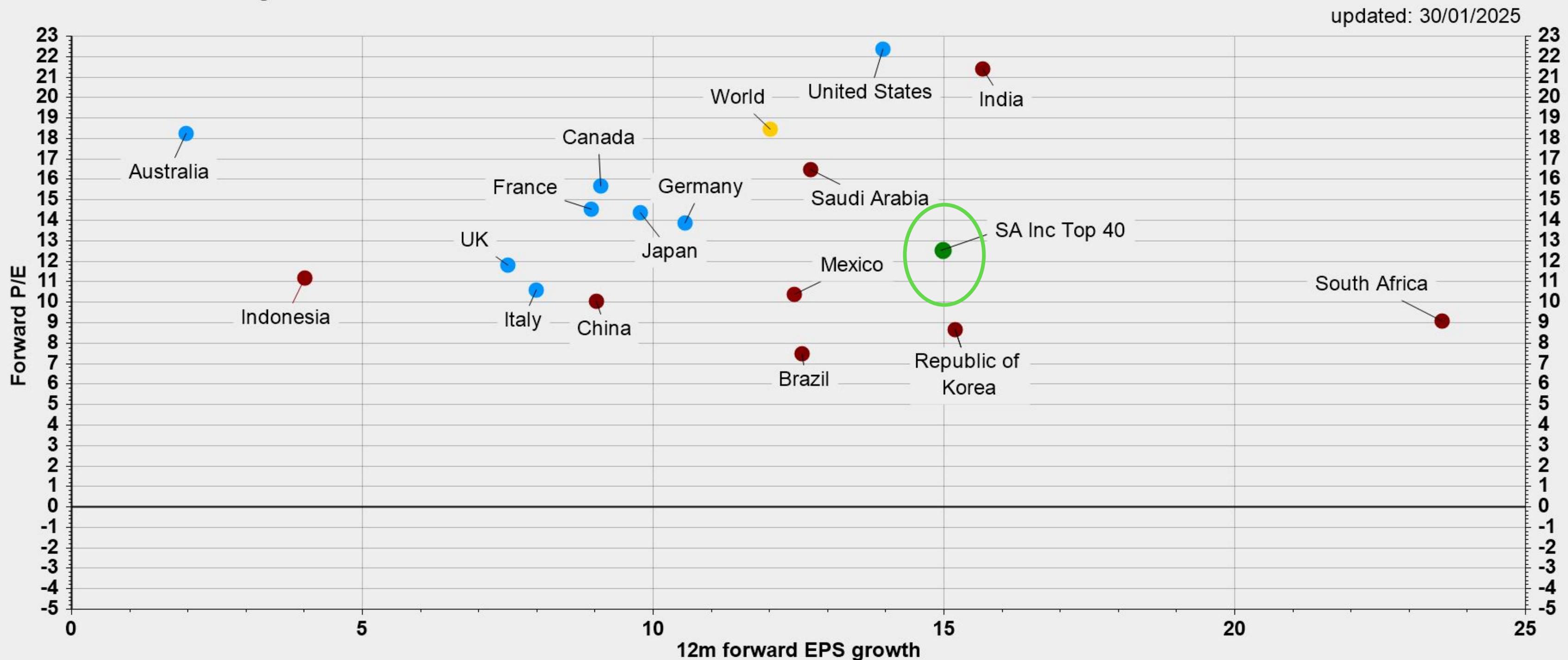


Source: Refinitiv Datastream. Construction: Equally weighted consensus forward P/Es of the largest 40 largest JSE stocks each month, excluding miners, oil & paper producers or where a majority of the stocks earnings are derived from outside South Africa.

# SA Inc: Not Expensive Yet

PE's & growth rates

Forward P/E ratio & growth ratios

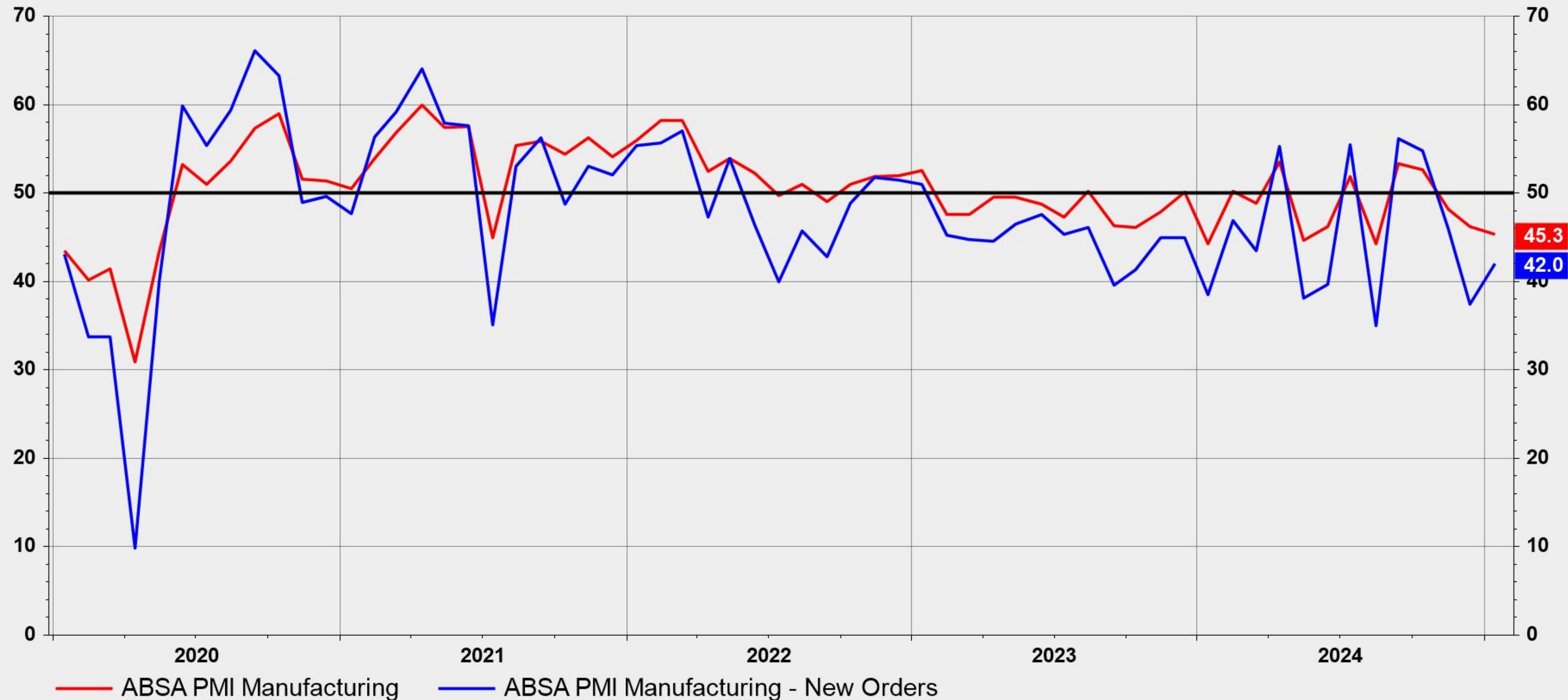


Source: LSEG Datastream / Rezco

# RSA Inc Phase 2: The 2-5 Year View



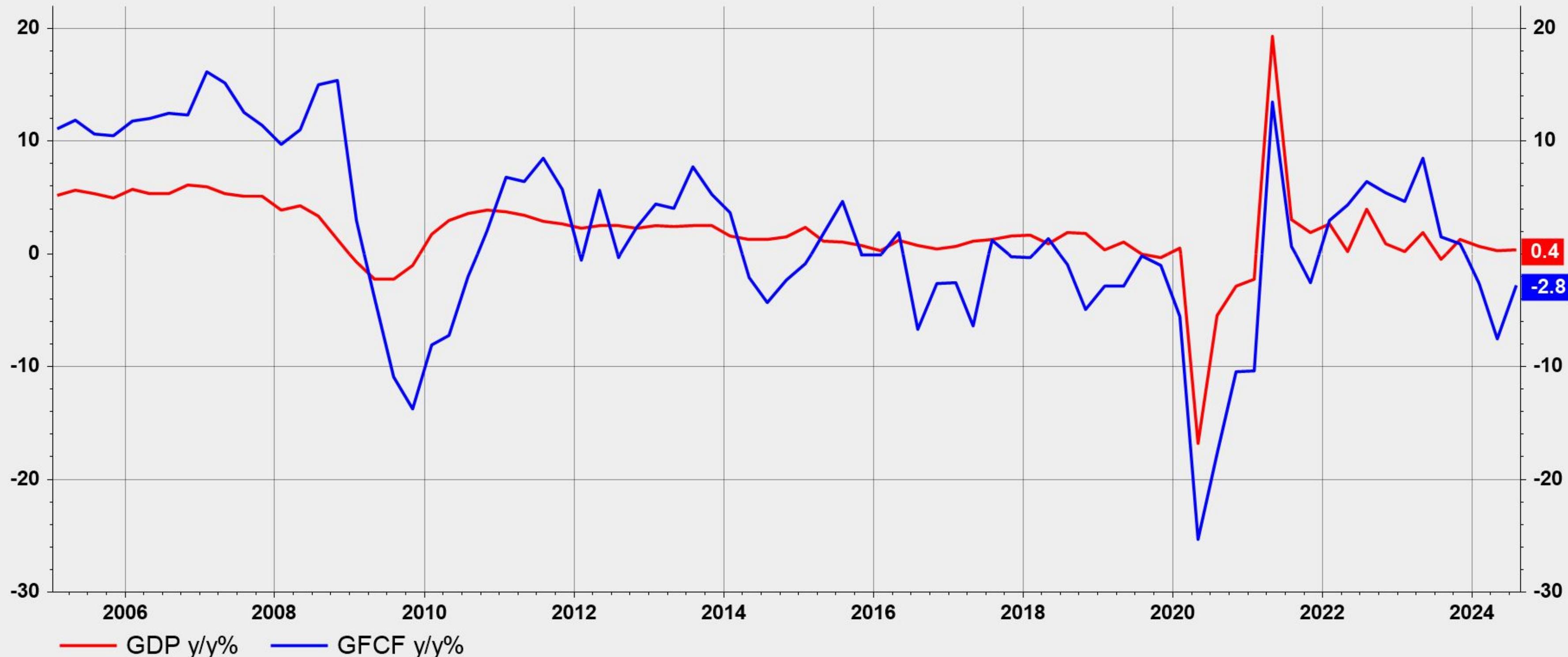
# PMI's: Manufacturing Not in The Numbers Yet



# Historical: Investment & Growth

SOUTH AFRICAN ECONOMY

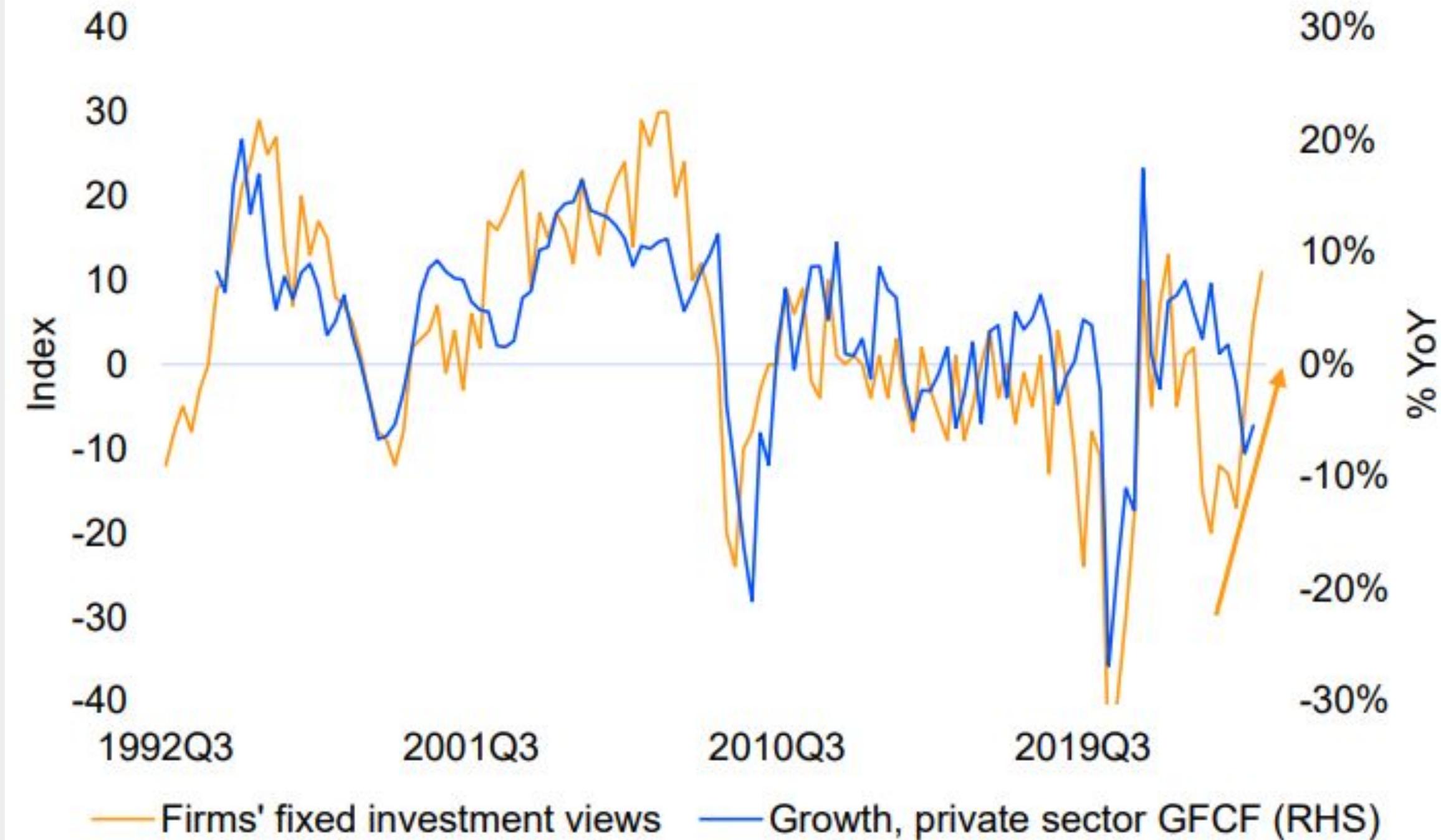
Updated: Q3 24



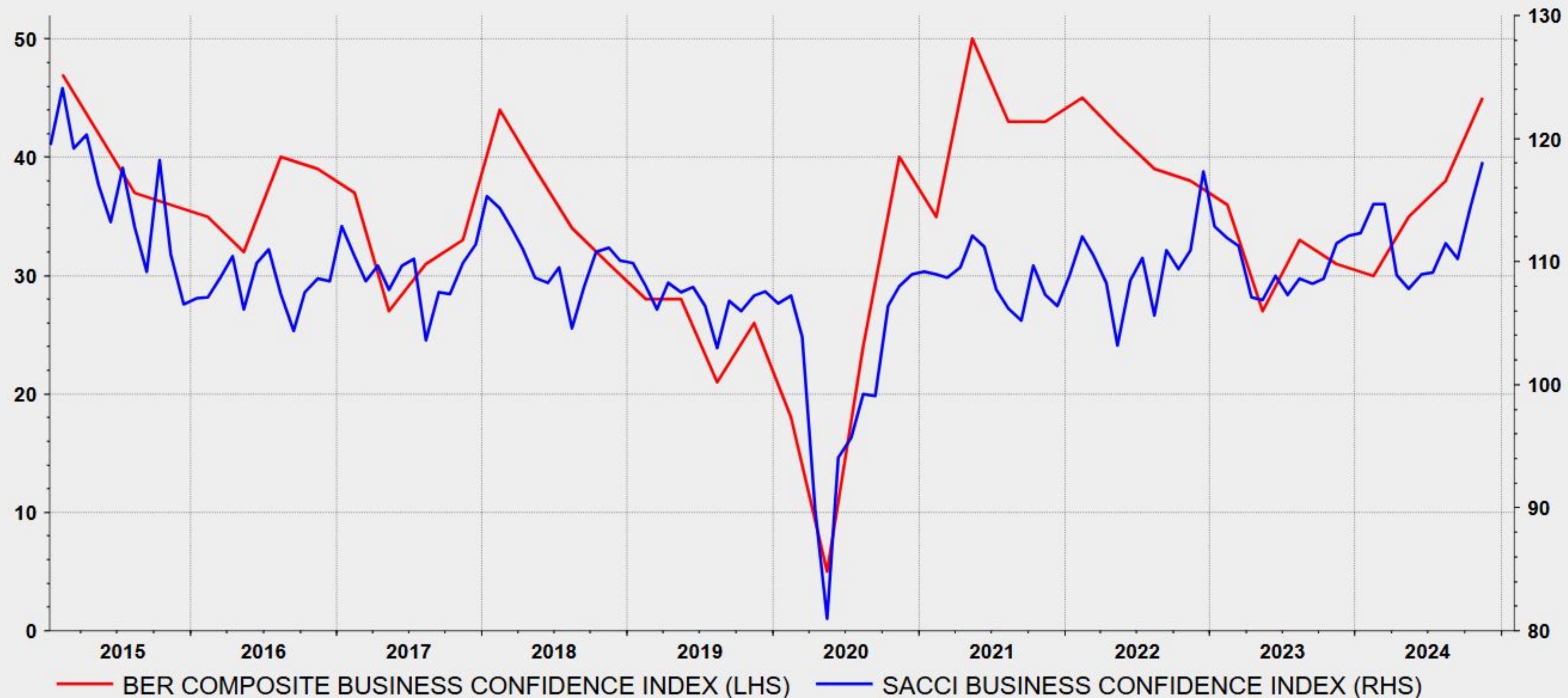
Source: LSEG Datastream / Rezco

# The Investment Cycle is Coming

Firms expect better fixed investment



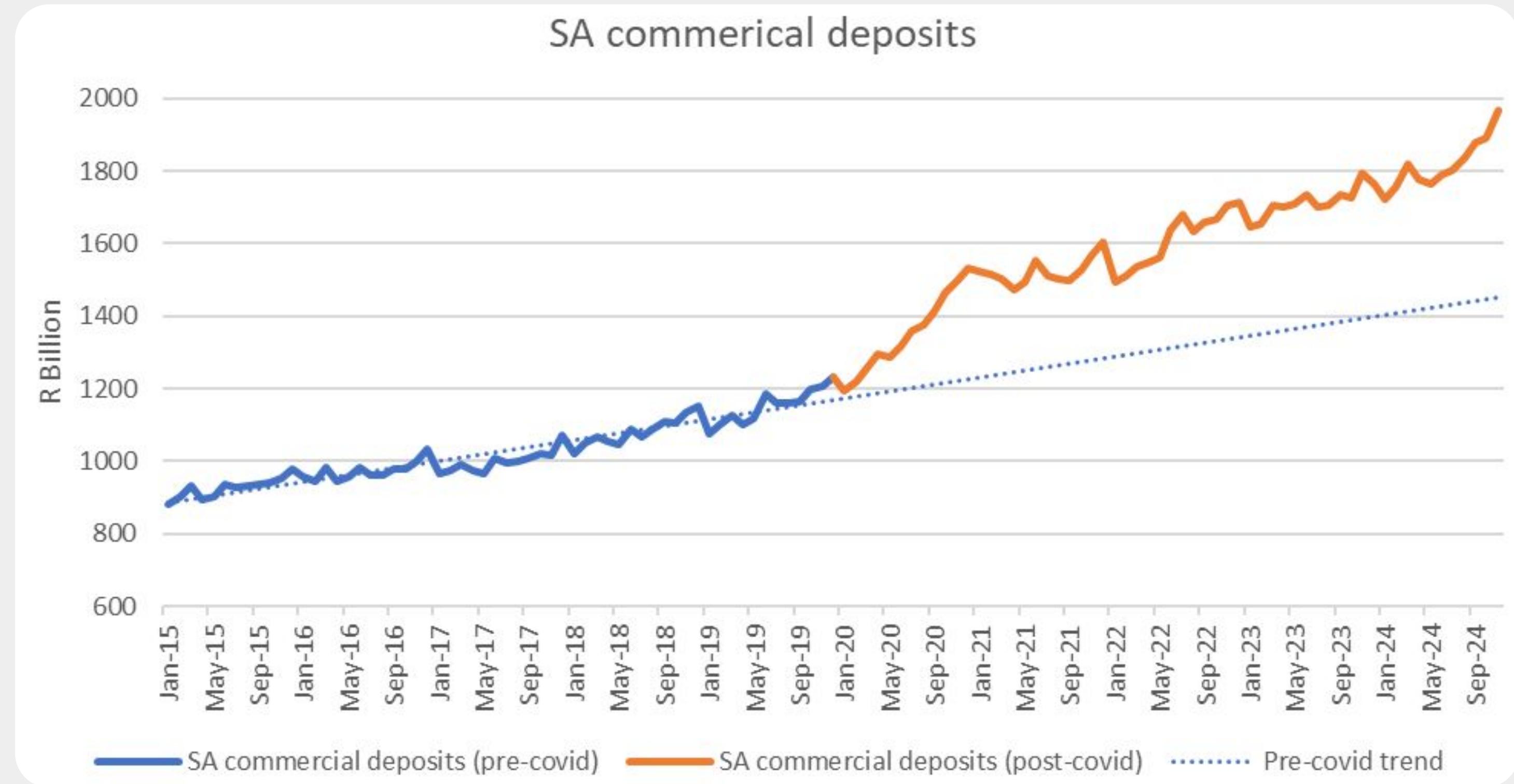
# Business Confidence is Improving



Source: LSEG Datastream / Rezco

# Cash is Plentiful: Need Investment Opportunities

Corporates, excess cash & banks, excess capital



# Positioning Portfolios



# Current Fund Positioning

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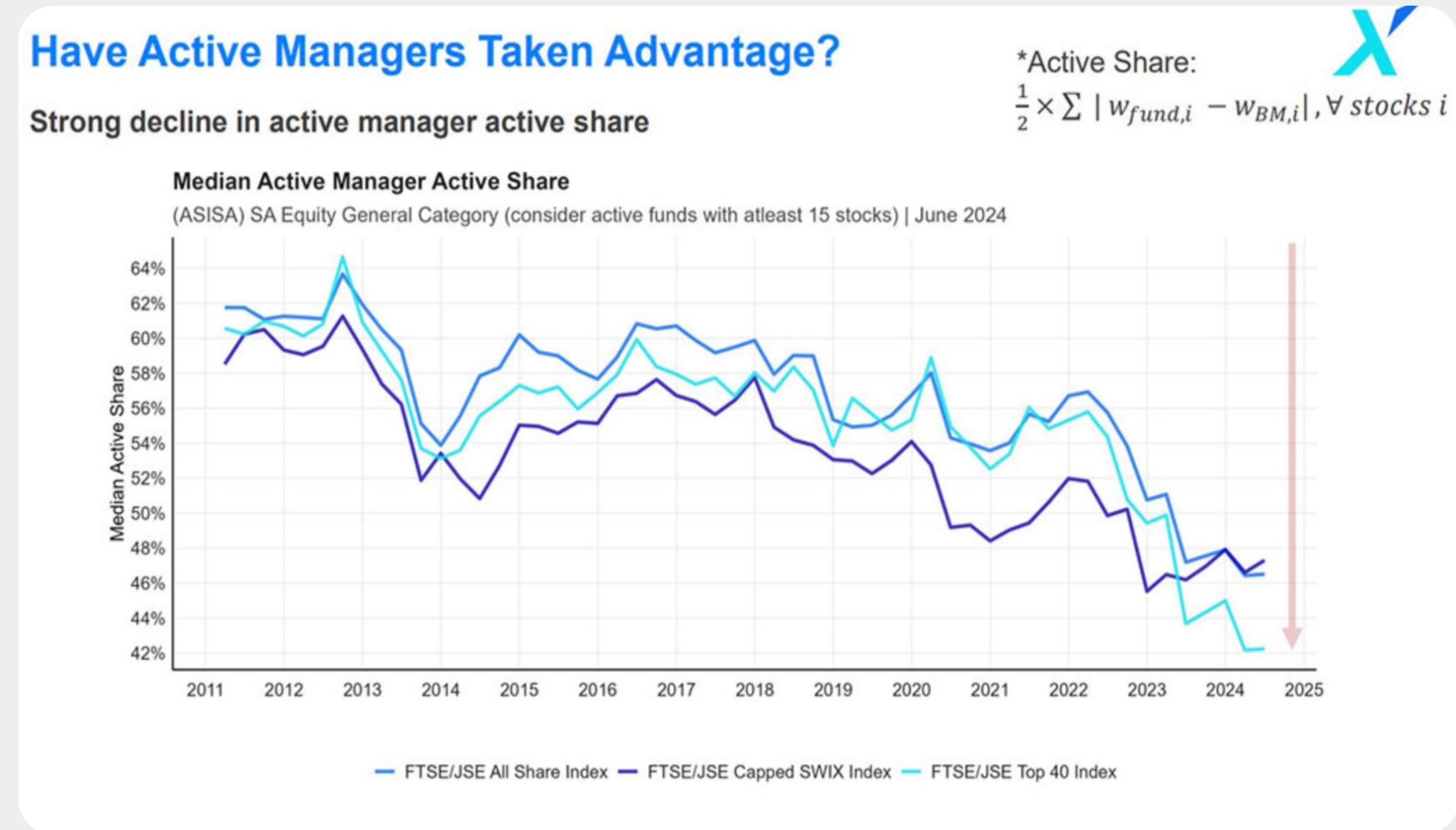
# The Opportunity Set:

Both groups have similar capped SWIX ALSI weights



# Now is a Good Time for Benchmark Agnostic

But the trend is the other way

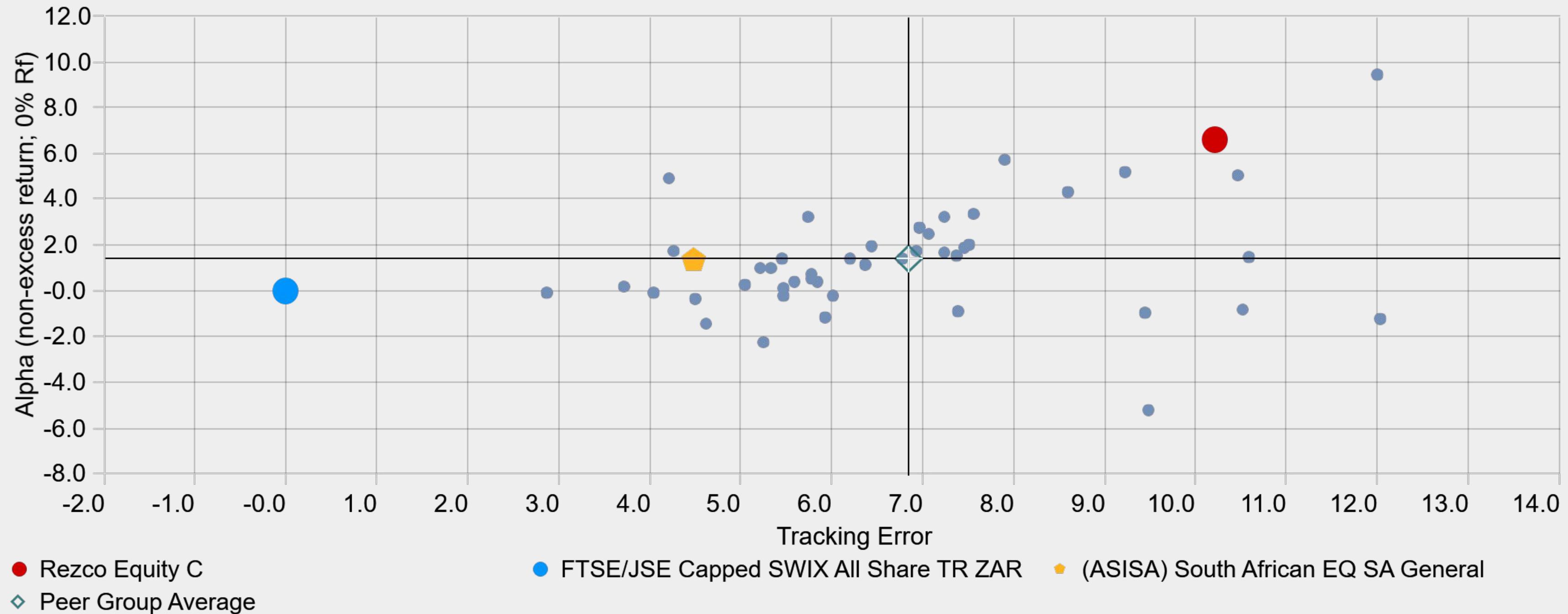


# JSE: Opportunity to Be Active

## ALPHA VS TRACKING ERROR

Time Period: 2018/01/07 to 2024/12/28

Peer Group (1-100%): Fund Comp - (ASISA) South African EQ SA General    Currency: Rand    Source Data: Total, Weekly Return    Calculation Benchmark: FTSE/JSE Capped SWIX All Share TR ZAR



Source: Morningstar Direct

# SA Macro Changed, Market Hasn't:

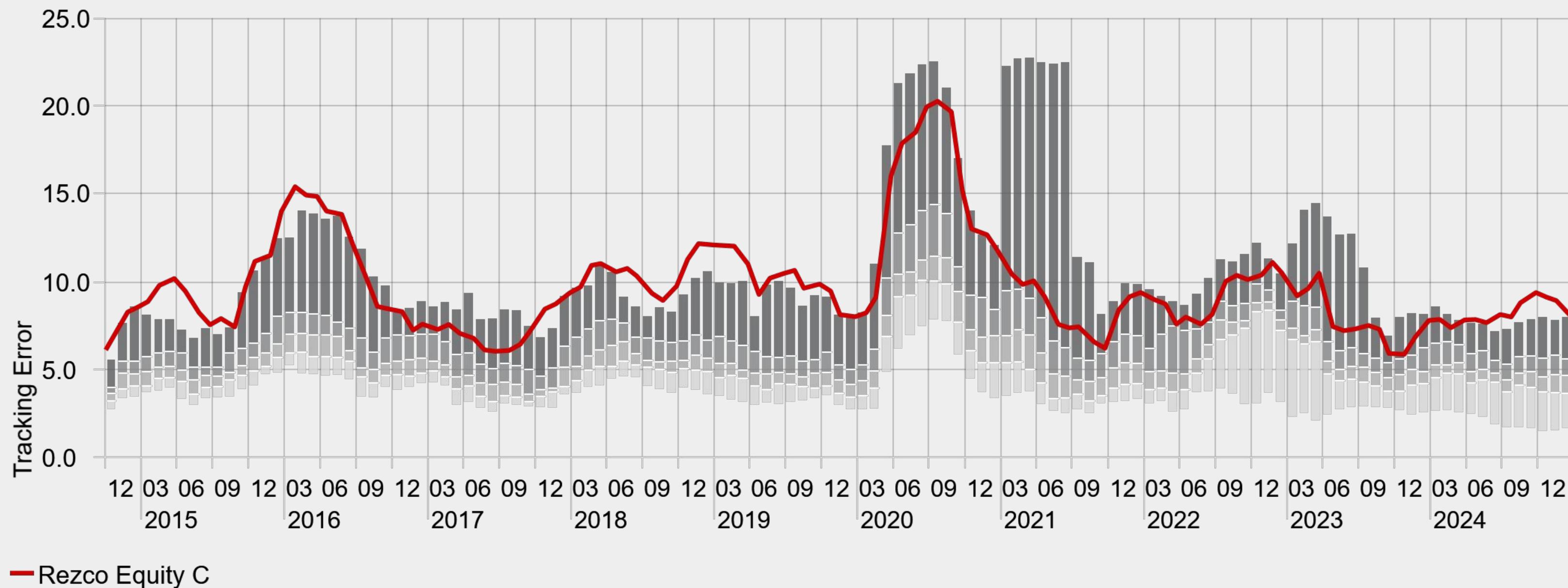
It is a good time to be active

## ROLLING 6 MONTH TRACKING ERROR

Time Period: Since Common Inception (2014/04/06) to 2024/12/28

Peer Group (5-95%): Fund Comp - (ASISA) South African EQ SA General    Currency: Rand    Rolling Window: 6 Months 1 Month shift    Source Data: Total, Weekly Return    Calculation Benchmark: FTSE/JSE Capped SWIX All Share TR ZAR

Top Quartile    2nd Quartile    3rd Quartile    Bottom Quartile



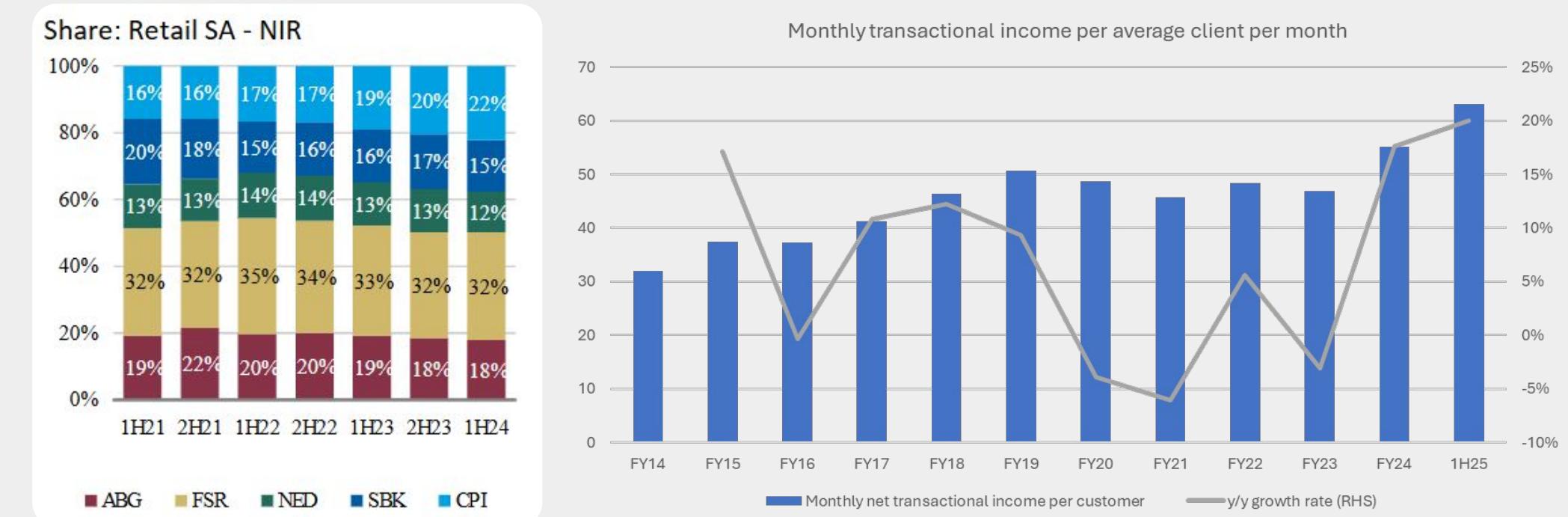
Source: Morningstar Direct

# The Opportunity Set

SA INC - INDUSTRIALS				
	Portfolio Weight	Share Count	PE (F12M)	EPS Growth (F12M-F24M)
<b>REZCO</b>	11.6%	5	8.1	18.2%
<b>CAPPED SWIX</b>	9.9%	21	11.0	10.8%
SA INC - CONSUMER				
	Portfolio Weight	Share Count	PE (F12M)	EPS Growth (F12M-F24M)
<b>REZCO</b>	37.0%	11	14.0	15.9%
<b>CAPPED SWIX</b>	10.6%	23	16.1	13.7%
SA INC - BANKS				
	Portfolio Weight	Share Count	PE (F12M)	EPS Growth (F12M-F24M)
<b>REZCO</b>	20.0%	3	13.8	15.3%
<b>CAPPED SWIX</b>	20.5%	6	10.9	14.4%

# Conviction Calls

## Capitec



## Capitec 12m forward P/E

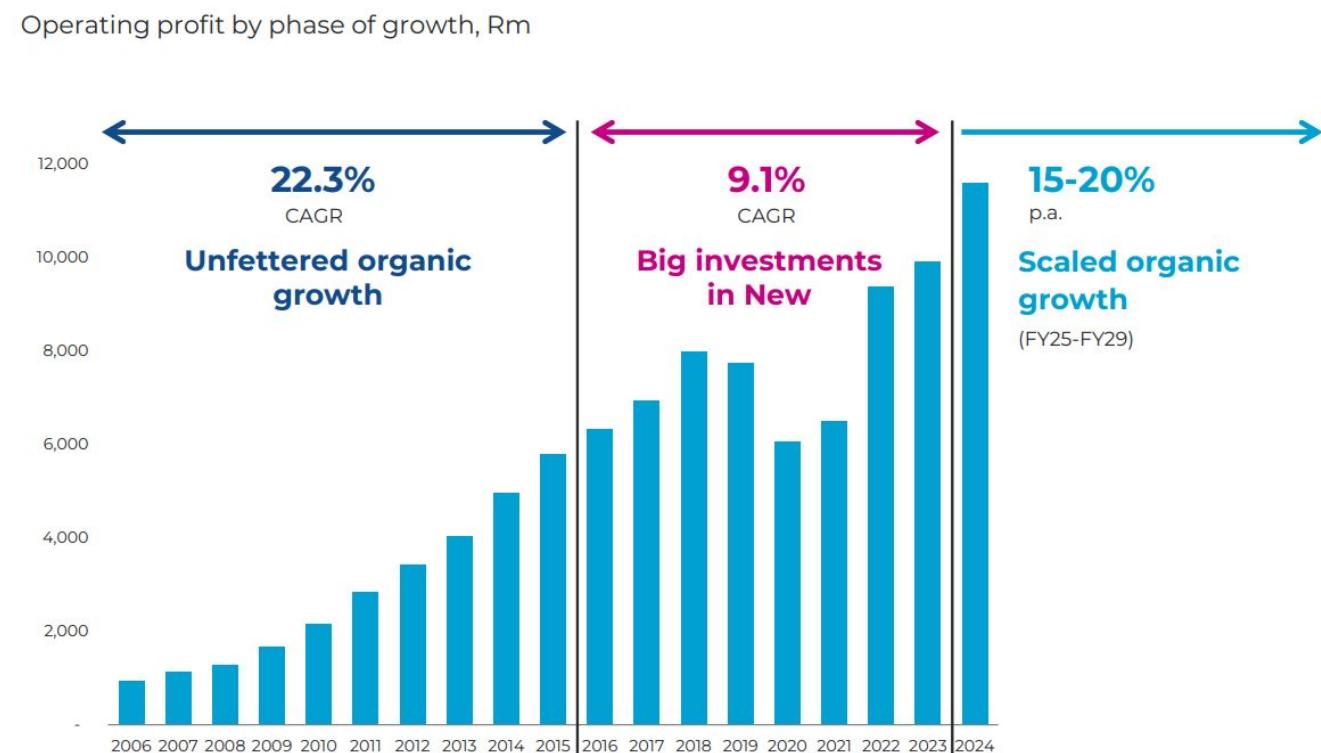


Source: LSEG Datastream / Rezco

# Conviction Calls

## Discovery

### Three distinct phases



### Discovery share price



# Conviction Calls

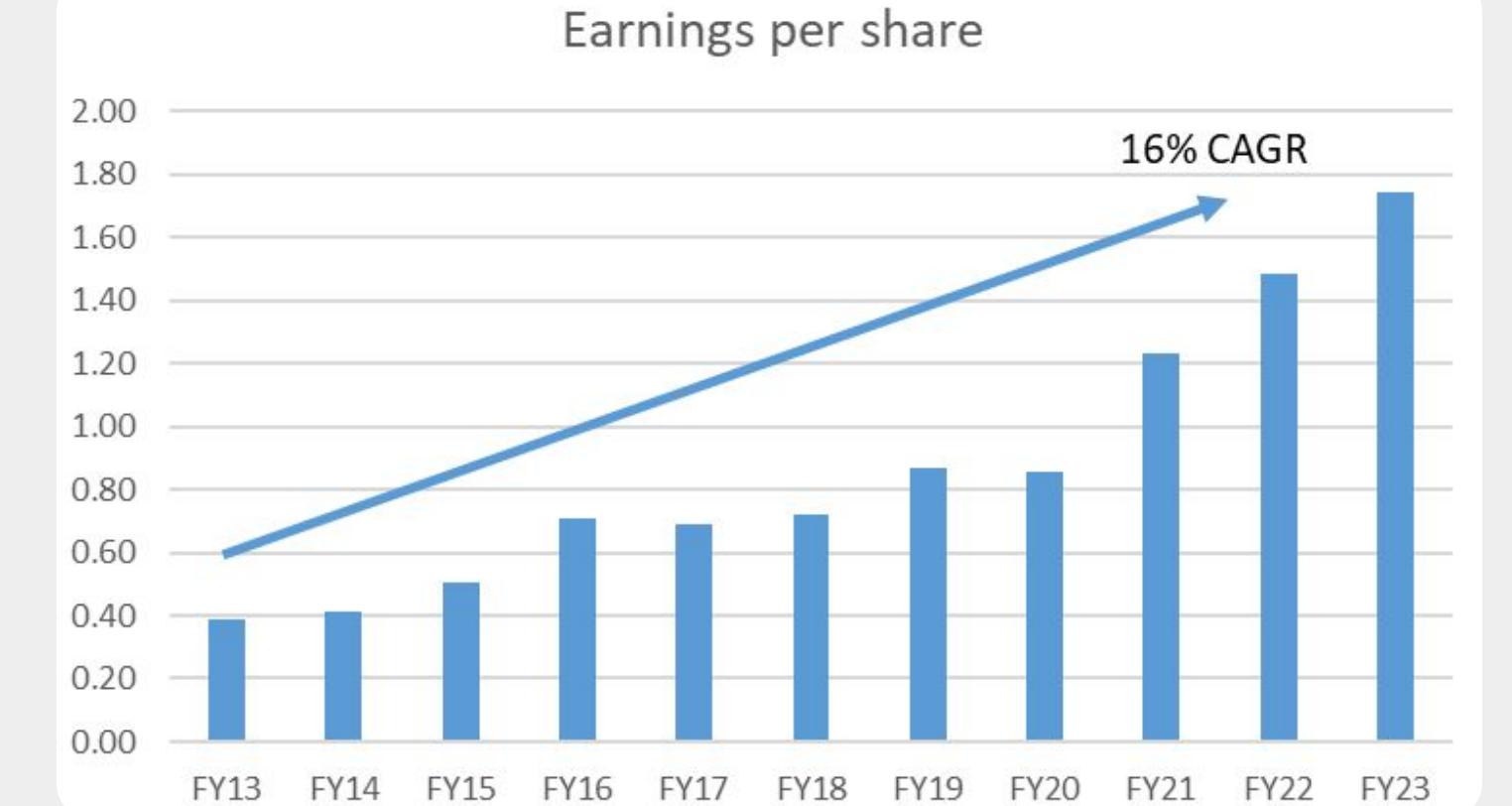
ADvTECH

## ADvTECH share price



Source: LSEG Datastream / Rezco

## Earnings per share



# Conviction Calls

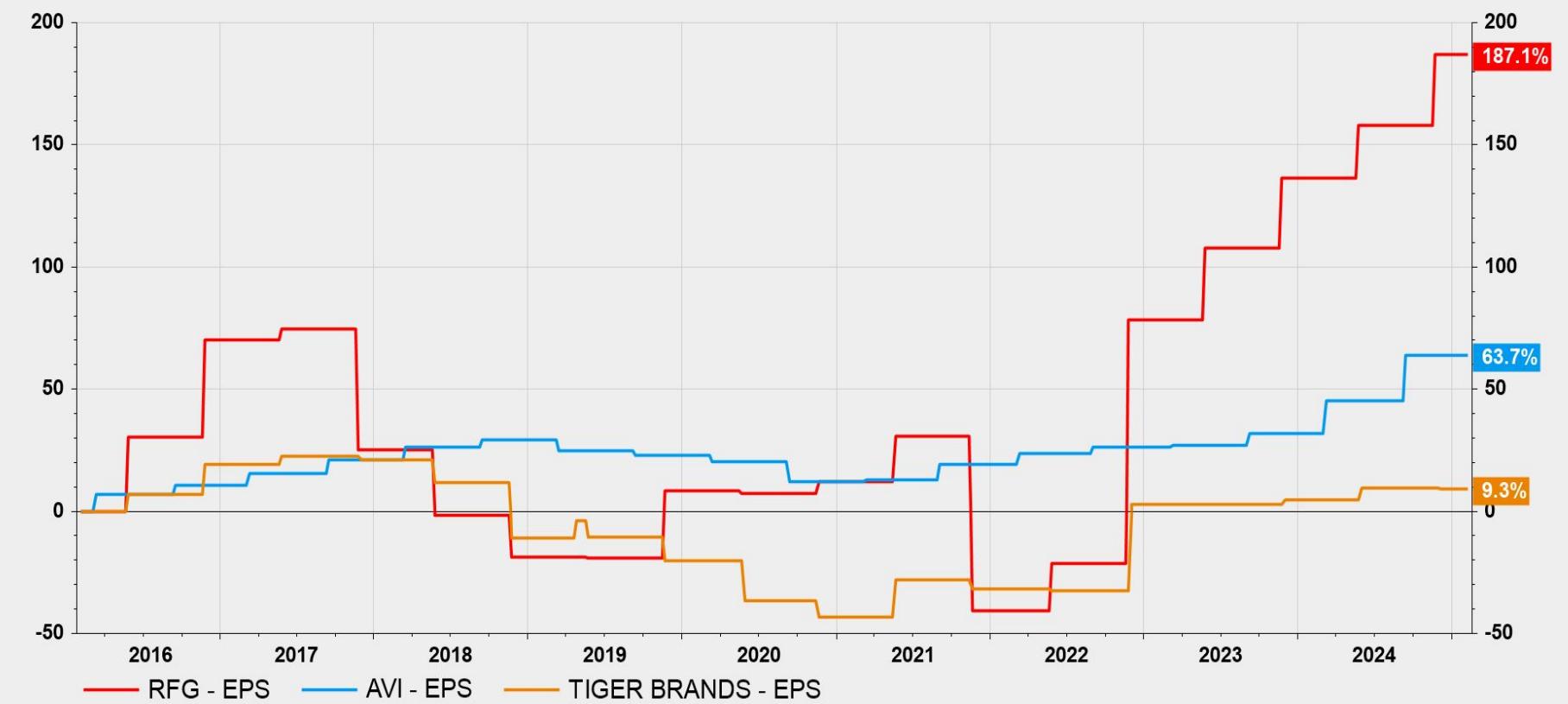
Rhodes Food Group

## Cheap Relative To History And Peers



Source: LSEG Datastream / Rezco

## Earnings Relative To 2016



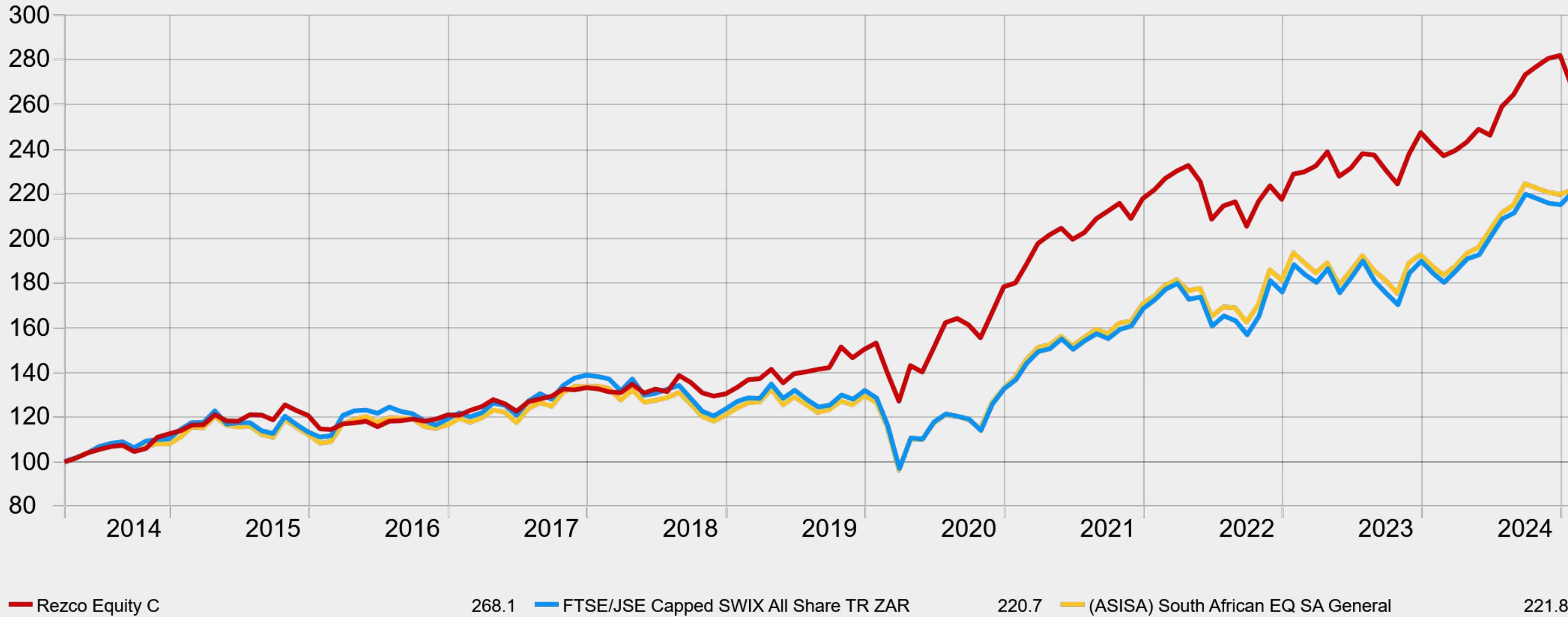
Source: LSEG Datastream / Rezco

# Rezco Equity Fund: Since Inception

## CUMULATIVE RETURNS - Since Inception

Time Period: Since Common Inception (2014/04/01) to 2025/01/31

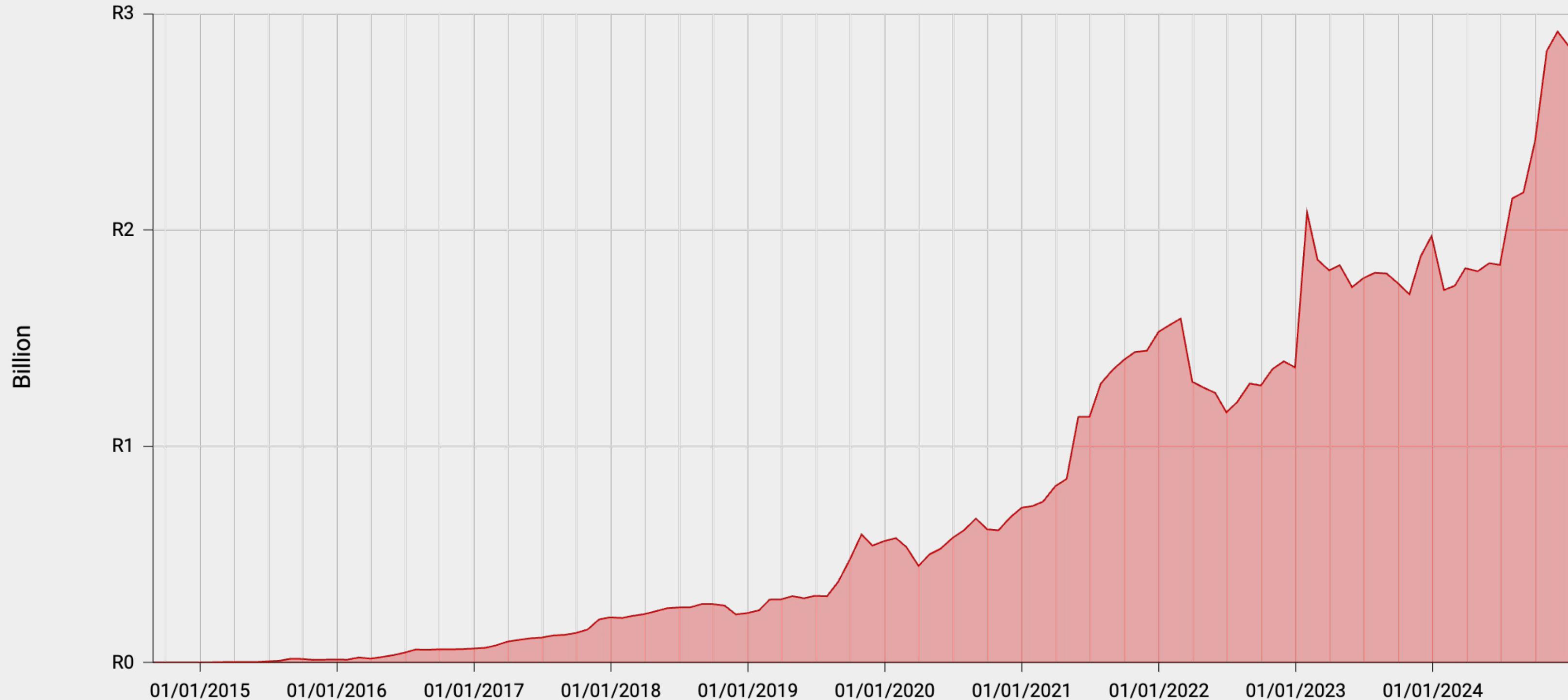
Currency: Rand    Source Data: Total Return



Source: Morningstar Direct

# SA Equity Mandate

AUM since inception of REEF



# **Local vs Global (3 Year View)**

Forecast returns if plays out as expected

**Rand** : Probably Strengthens

**Global Equity** : 1-5% per annum

**RSA Inc Equity** : 10-20% per annum

# 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 Equity 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

## 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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# Thank You

