

REZCO

Investment Forum 2024

# Sometimes Risk is an Opportunity

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“Successful investing is about  
*managing* risk, not avoiding it.”

- Benjamin Graham

# Global Risk vs Reward

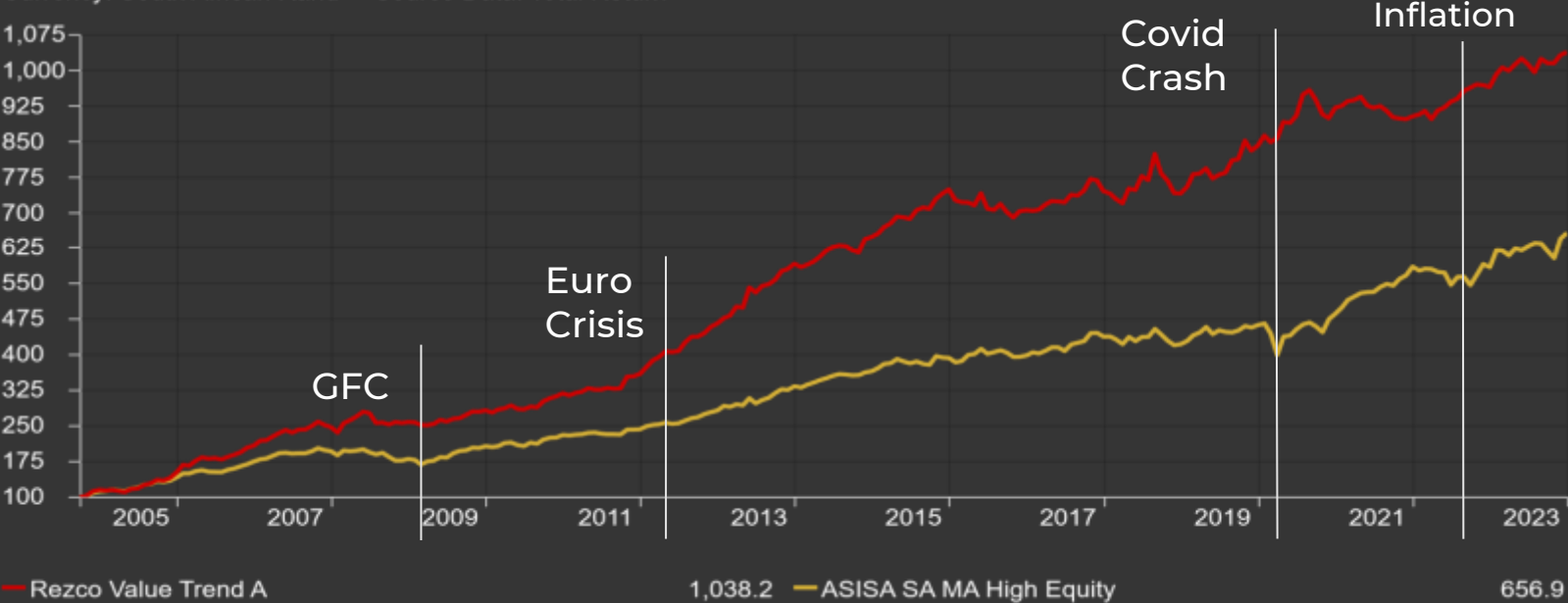
Current Risk vs Reward Scenario	
Equities	Positive
Bond Duration	Negative

**Risk of Something Big Going Wrong: High**  
1970's volatility scenario is possible

# Rezco Value Trend: 20 Years of Risk Control

Time Period: Since Common Inception (01/10/2004) to 31/12/2023

Currency: South African Rand Source Data: Total Return



Source: Morningstar Direct

# What is Rezco Positioned for?

Scenario	No Landing	Soft Landing	Normal Recession	Fat Tails
				<i>Something Breaks</i>
<b>Probability</b>	<b>45%</b>	<b>15%</b>	<b>15%</b>	<b>25%</b>
<b>Earnings Impact</b>	<b>5% to 30%</b>	<b>0% to 10%</b>	<b>-10% to -20%</b>	<b>-25% to -45%</b>
<b>Description</b>	Fed did a major pivot and threw out everything that they have been saying about not repeating the 1970's	Inflation falls to target while wages decelerate, corporates tighten up but profits are stable and balance sheets strengthened.	<b>This is now deferred to 2025</b> The Fed/ CB's needs a recession to break inflation, unemployment rises to curb wage increases, services super-core inflation is stickier and requires a recession to cool demand.	<b>Inflation comes back 1970's style in 2025</b> Something breaks due to: 1) <b>Hot Inflation</b> 2) impact of rapidly increased interest rates; or 3) geopolitical shock eg Taiwan/Ukraine/Israel/Iran and nuclear tensions.

# The Danger in the no Landing Scenario

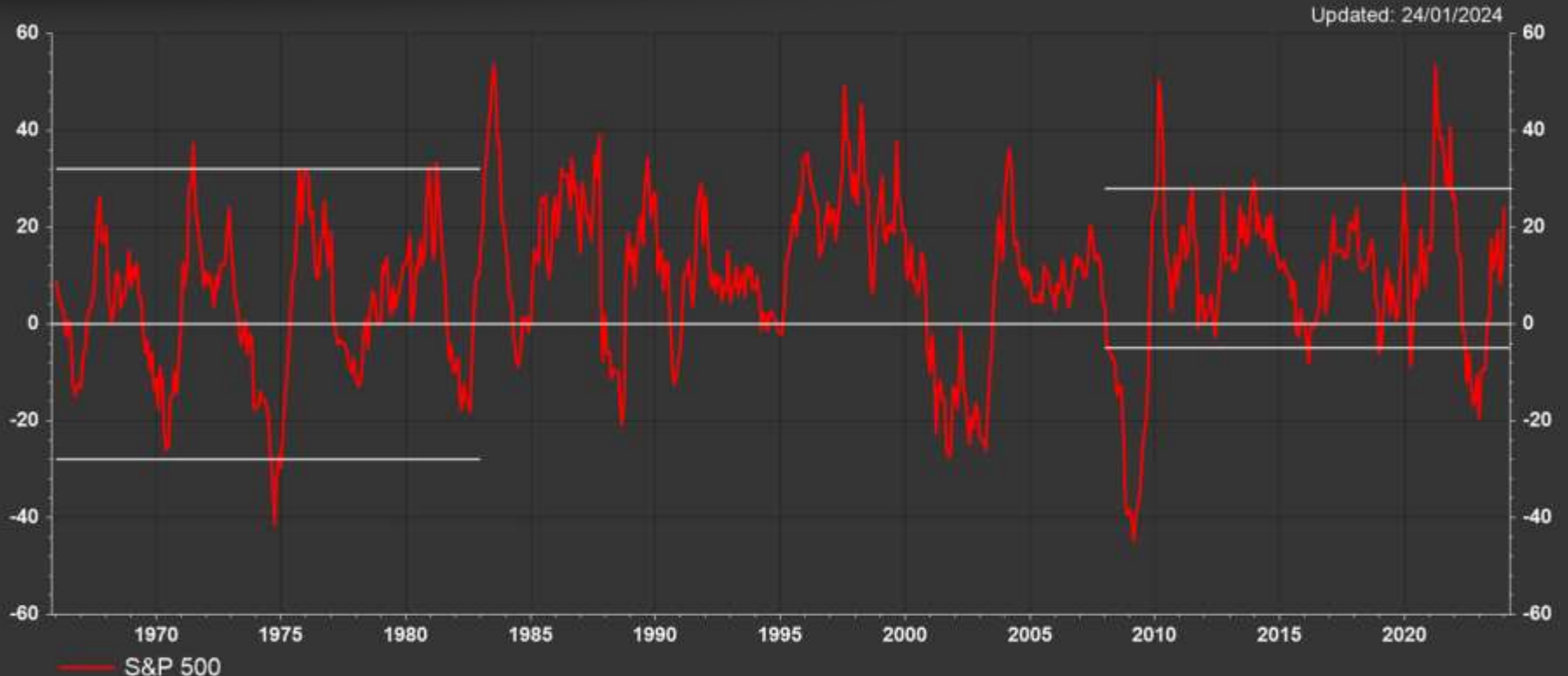
Sticky-Price CPI [1970s vs Present]



Source: LSEG Datastream / Rezco

# Inflation Could Cause 1970s Volatility

Rolling 12 month returns



# South Africa Risk vs Reward

Current Risk vs Reward Scenario	
SA Inc Equities	<b>Negative</b>
China Beneficiaries	<b>Negative</b>
Cash: ST Bonds	<b>Positive</b>

Risk of large positioning change: High





# Flexible Asset Allocation

Will Be Important

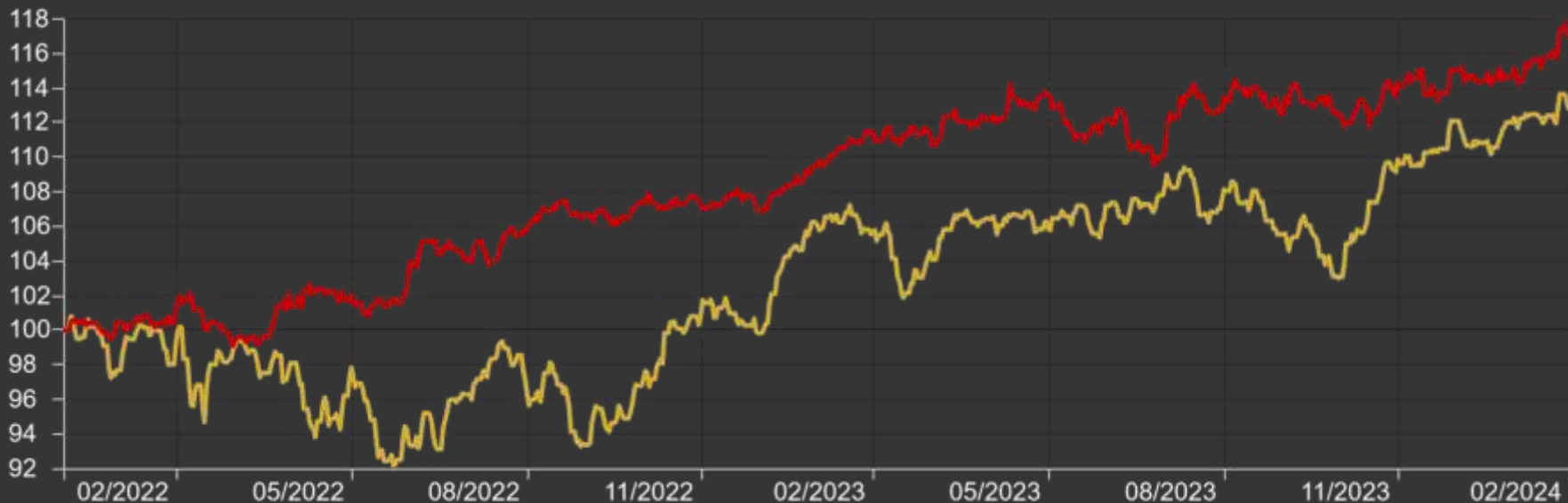


# Rezco Value Trend

Managing the regime change from global zero interest rates

Time Period: 01/01/2022 to 28/02/2024

Currency: South African Rand Source Data: Total Return



— Rezco Value Trend A

117.3 — ASISA SA MA High Equity

112.7

Source: Morningstar Direct



# The 55% That is in RSA Risk Management Critical

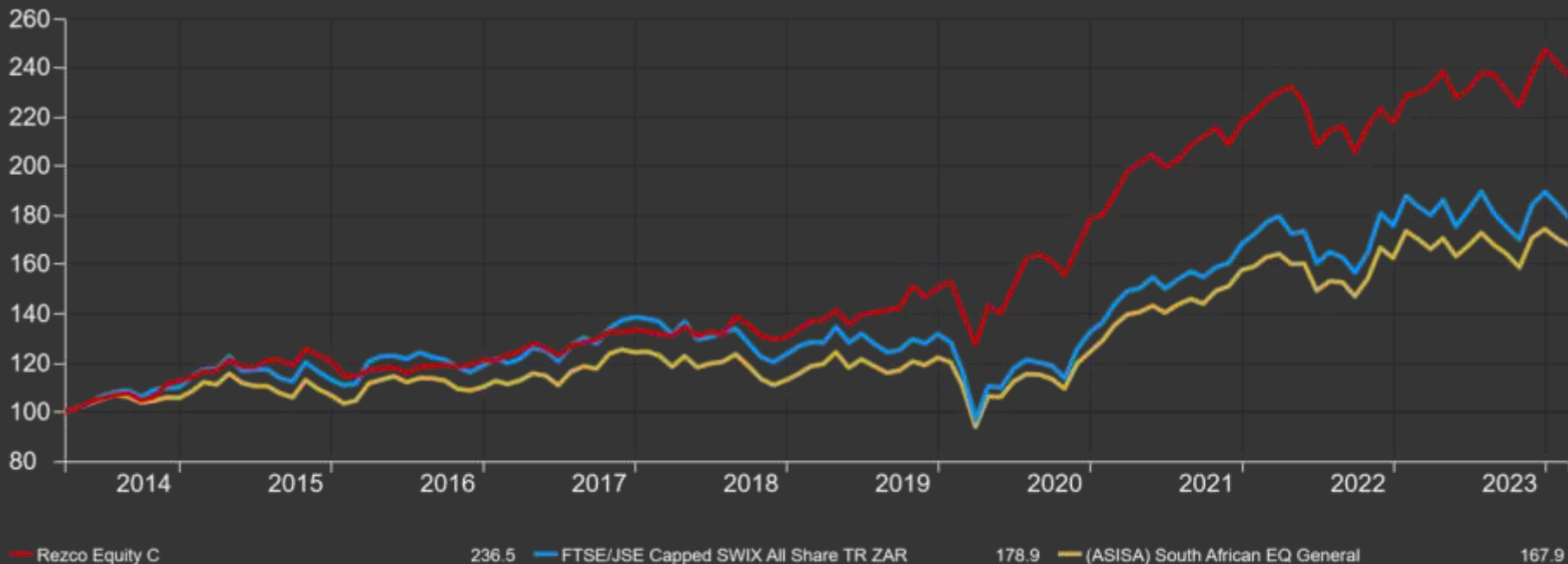
SA Equity Fund  
Managing Risk & Return



# Rezco (SA) Equity Fund

Time Period: Since Common Inception (01/04/2014) to 28/02/2024

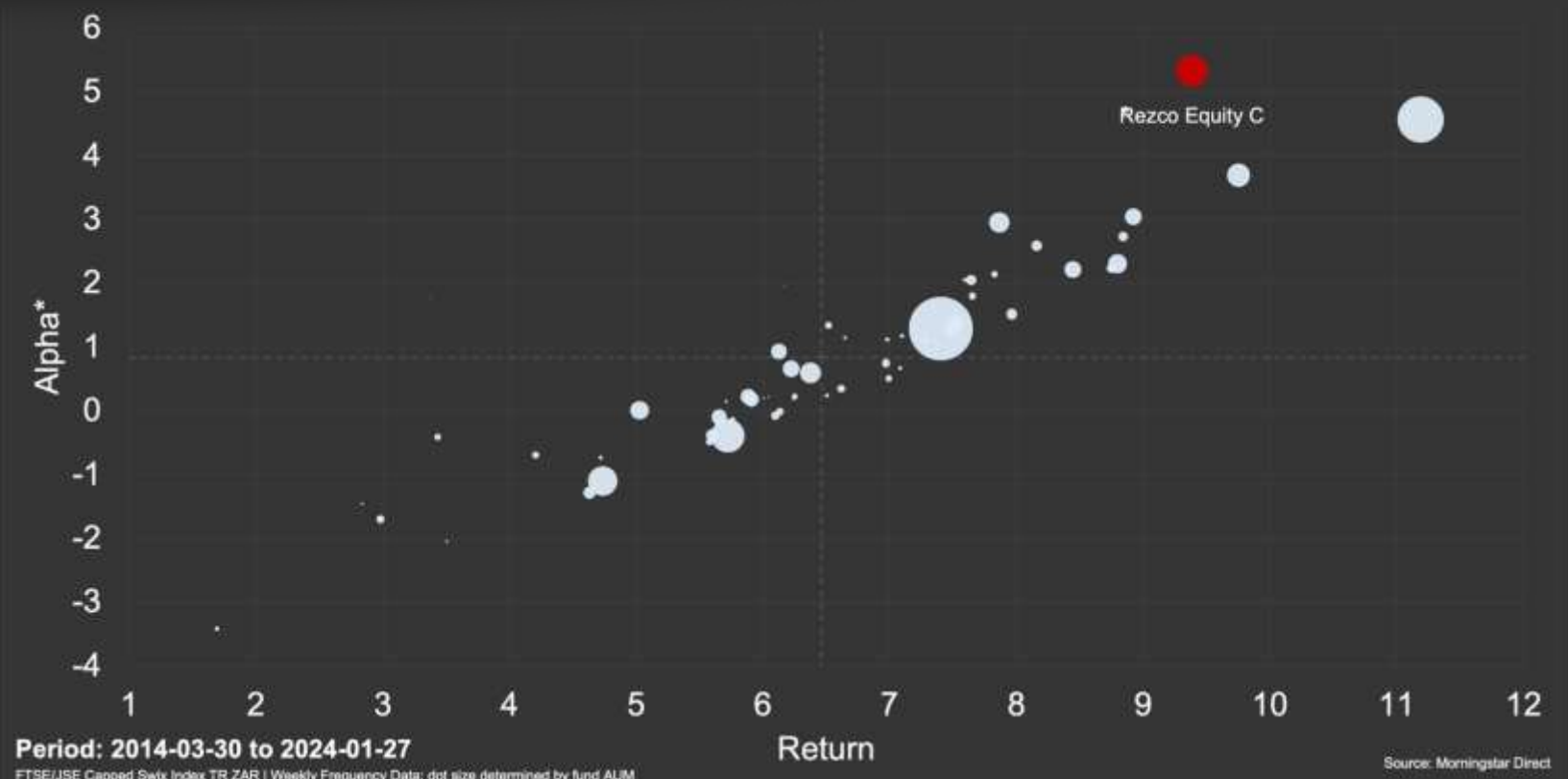
Currency: South African Rand Source Data: Total Return



Source: Morningstar Direct

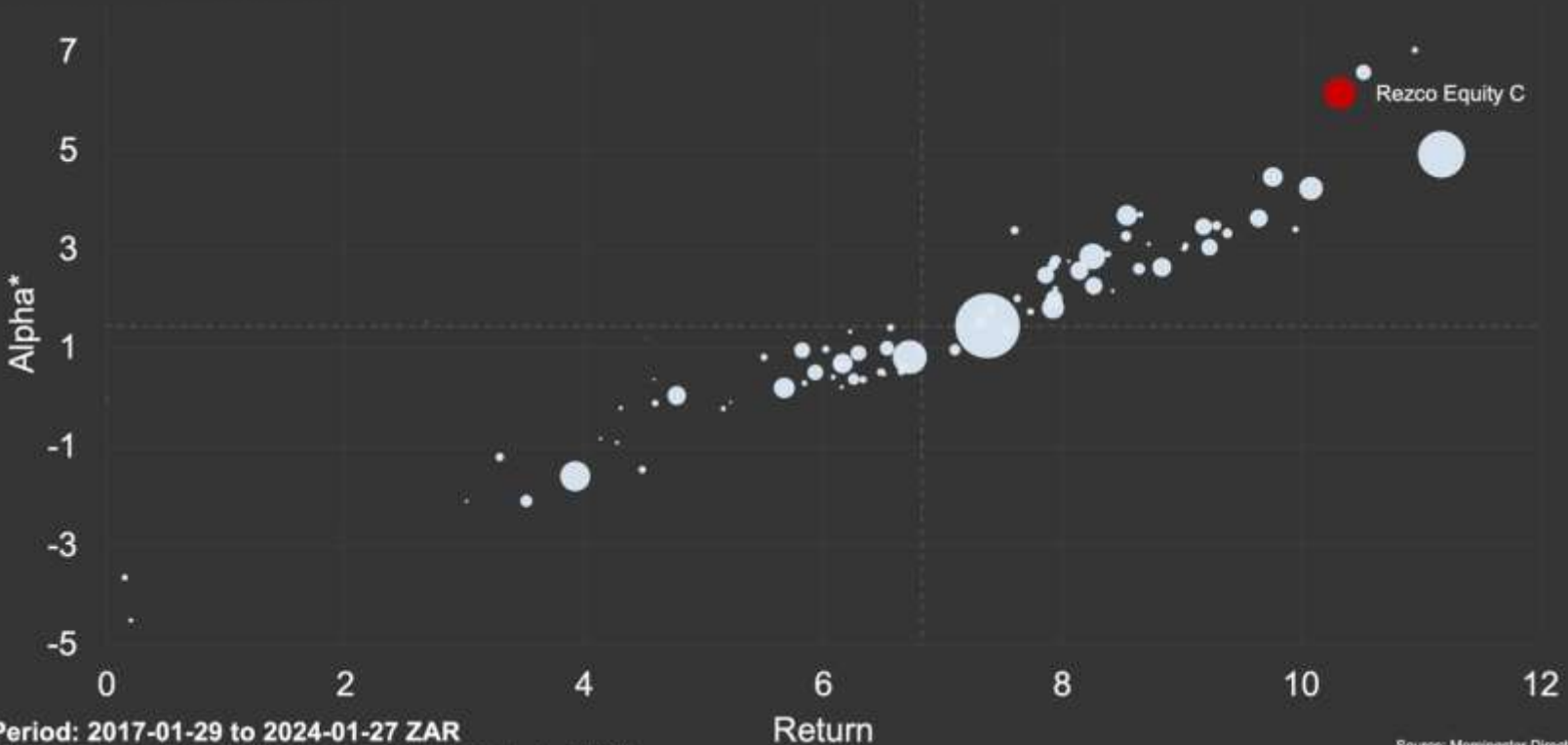
# Rezco Equity Fund Alpha (10 Year)

Funds in the ASISA SA Equity general SA only



# Rezco Equity Fund Alpha (7 Year)

Funds in the ASISA SA Equity general SA only



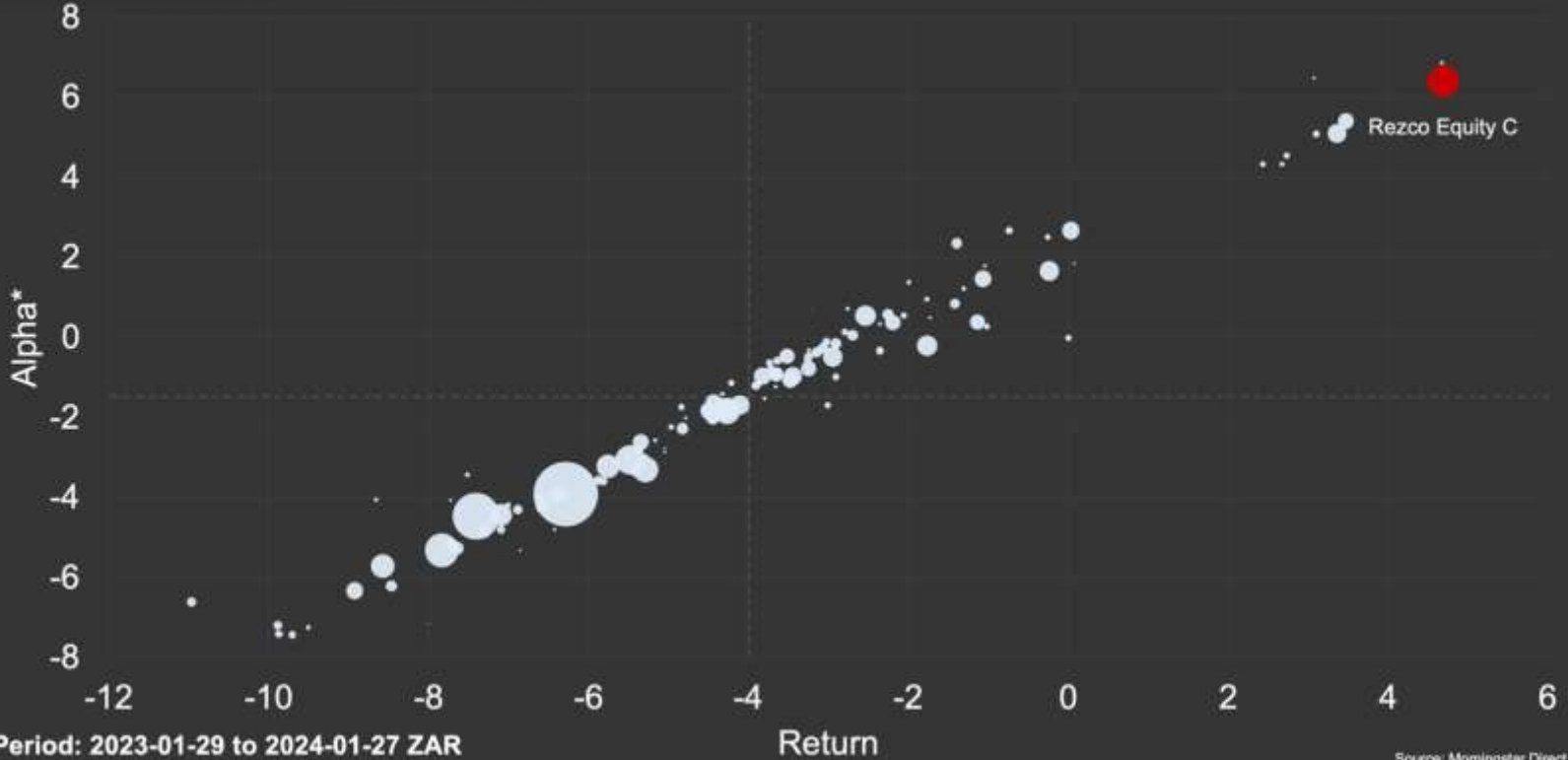
Period: 2017-01-29 to 2024-01-27 ZAR

FTSE/JSE Capped Swix Index TR ZAR | Weekly Frequency Data; dot size determined by fund AUM

Source: Morningstar Direct

# Rezco Equity Fund Alpha (1 Year)

Funds in the ASISA SA Equity general SA only



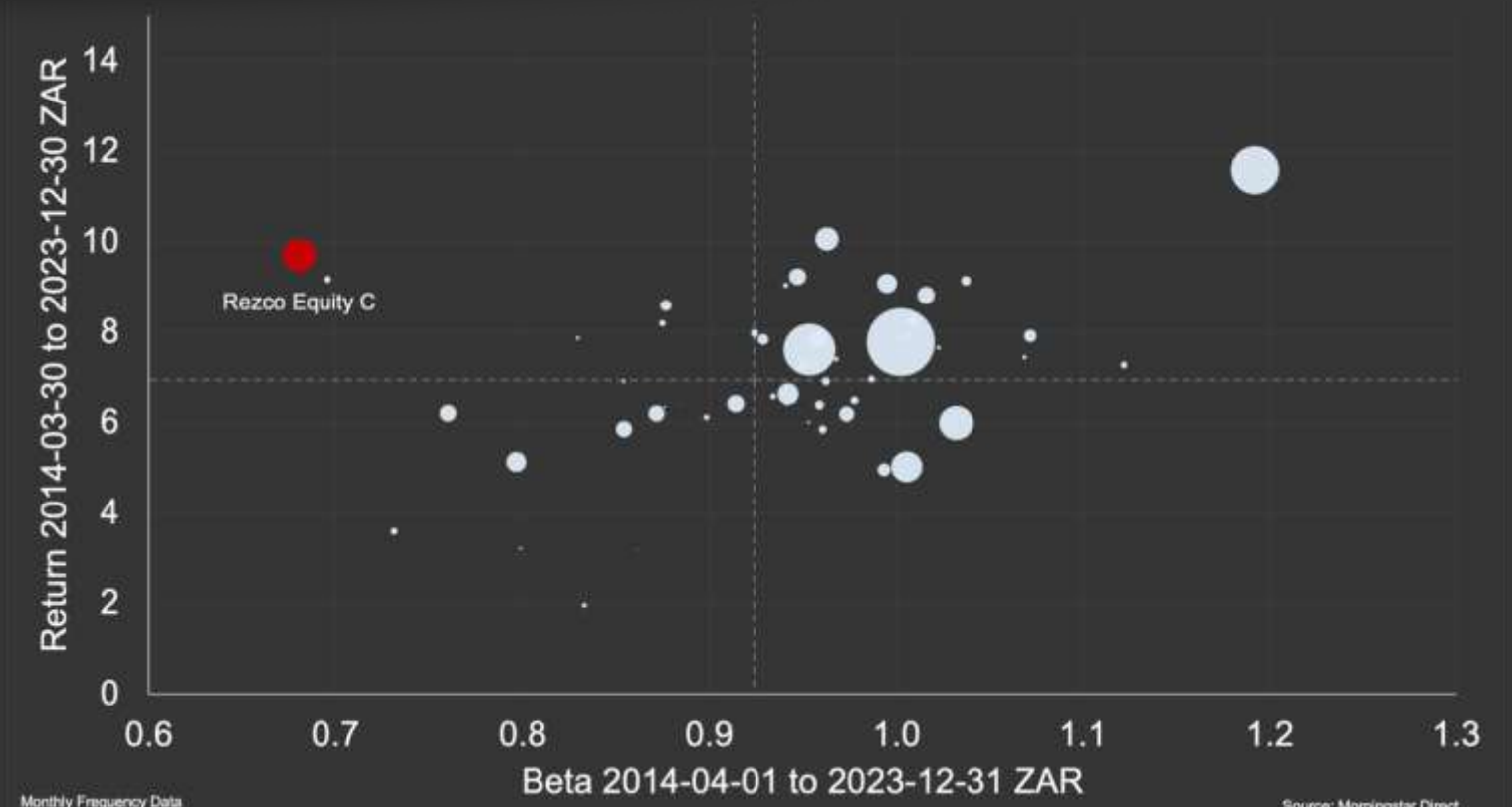
Period: 2023-01-29 to 2024-01-27 ZAR

FTSE/JSE Capped Swix Index TR ZAR | Weekly Frequency Data; dot size determined by fund AUM

Source: Morningstar Direct

# Rezco Equity Fund Beta vs Peers

Funds in the ASISA SA Equity general SA only



Monthly Frequency Data

Source: Morningstar Direct



# RSA Equity Fund

The keys to managing risk and return

## Diligent Research Process

- Get the alpha from a wide and diverse range of opportunities.

## Portfolio Construction

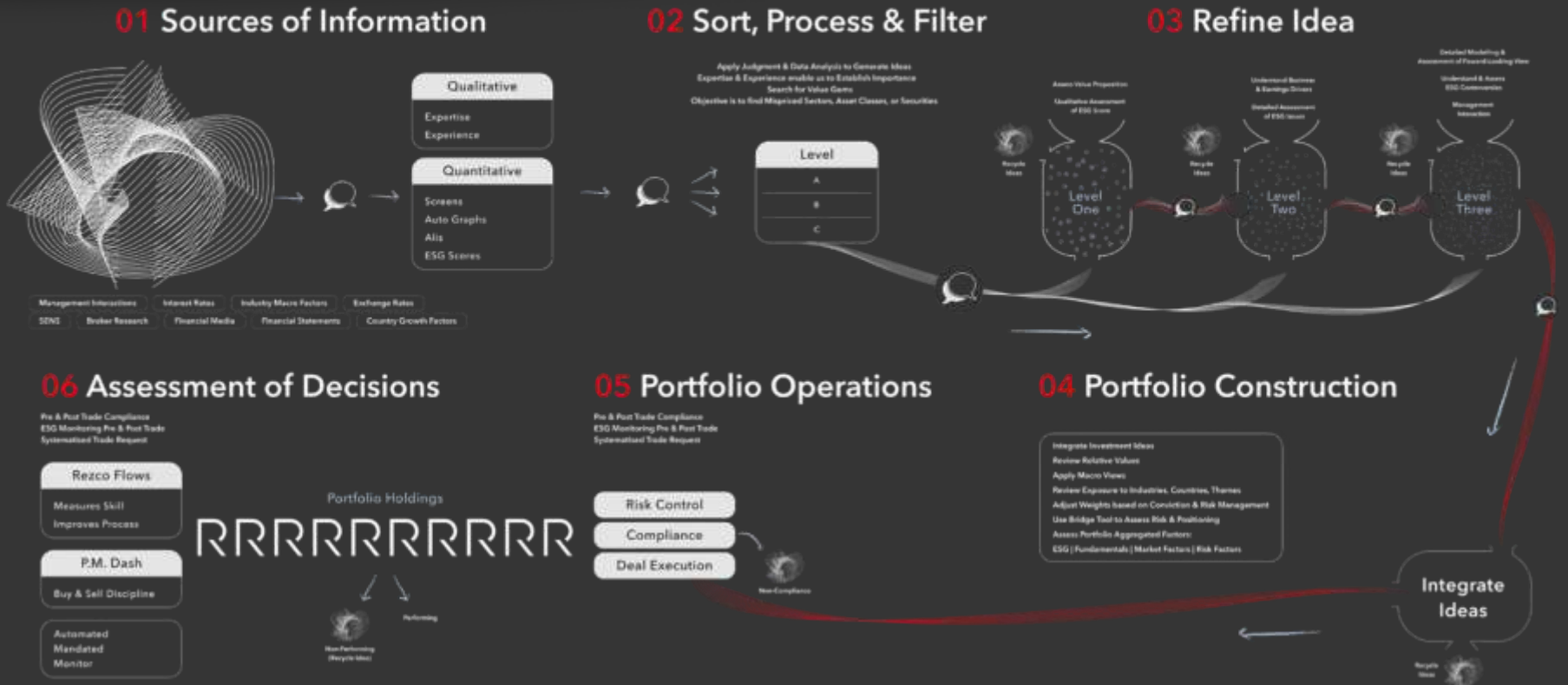
- Building a portfolio to get the best risk reward result.

## Portfolio Technology

## The Philosophy to Manage Risk

# Robust Investment Process to Find Winners

Investment process: Application of our investment philosophy

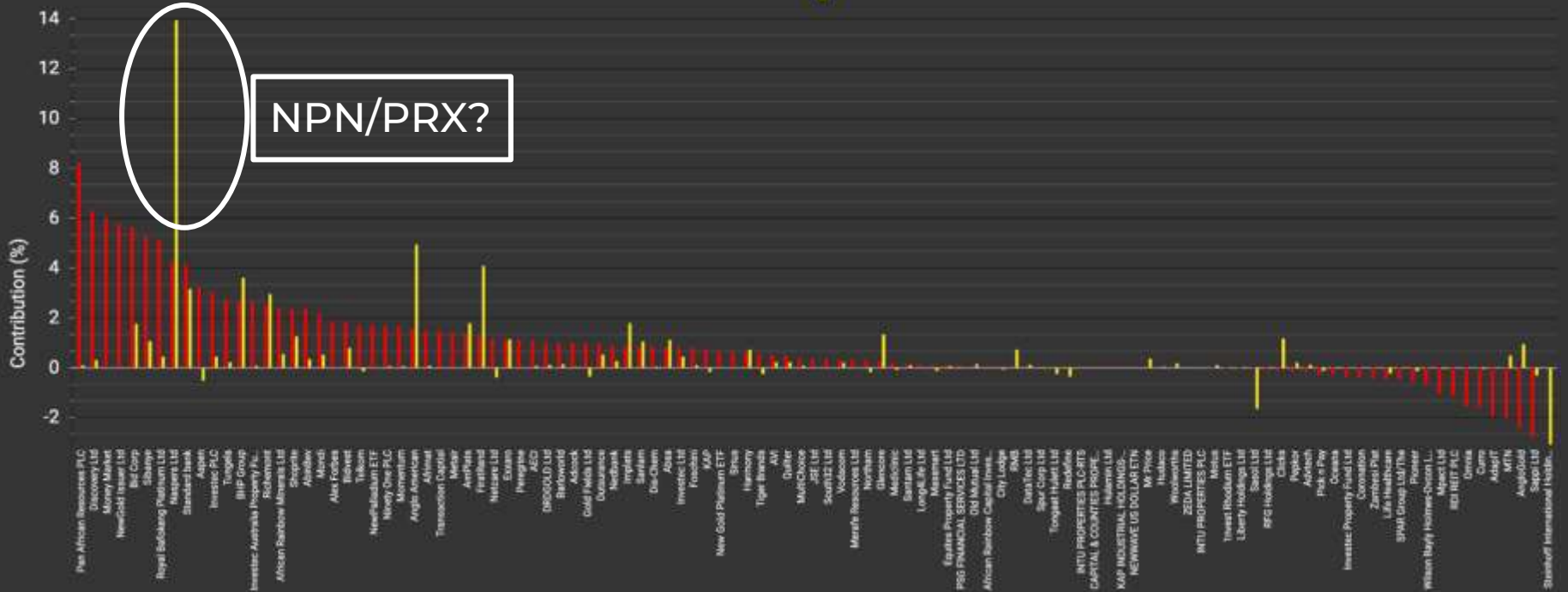


# Research: Find a Diverse Range of Winners

## Rezco Equity Fund (7 year): Contributors vs Capped SWIX

Contributions to Performance over 2017-01-31 to 2024-01-31

• Rezco • Cap SWIX



# 7 Year Contributors to Performance

## SWIX:

- 3 winners above 4%
- Overly dependent on NPN

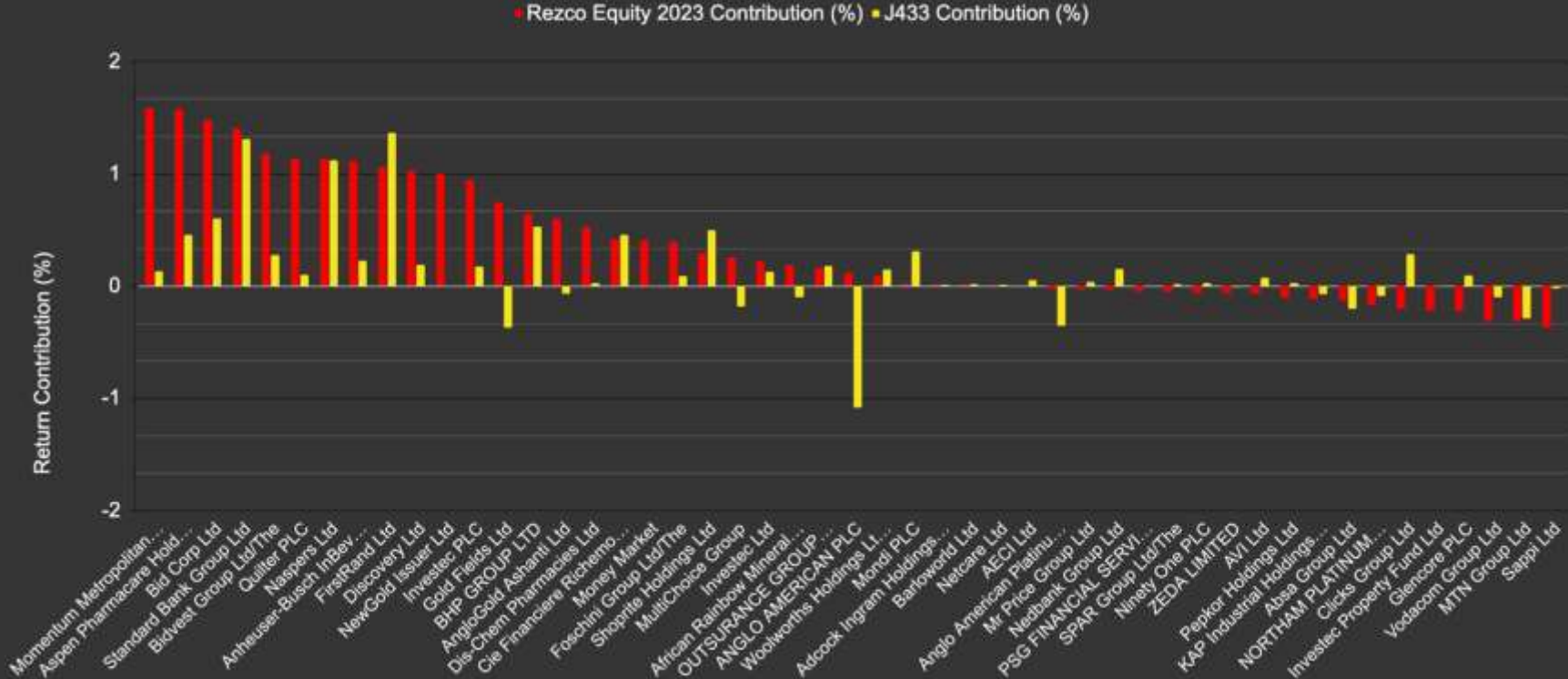
## Rezco:

- 8 winners above 4%

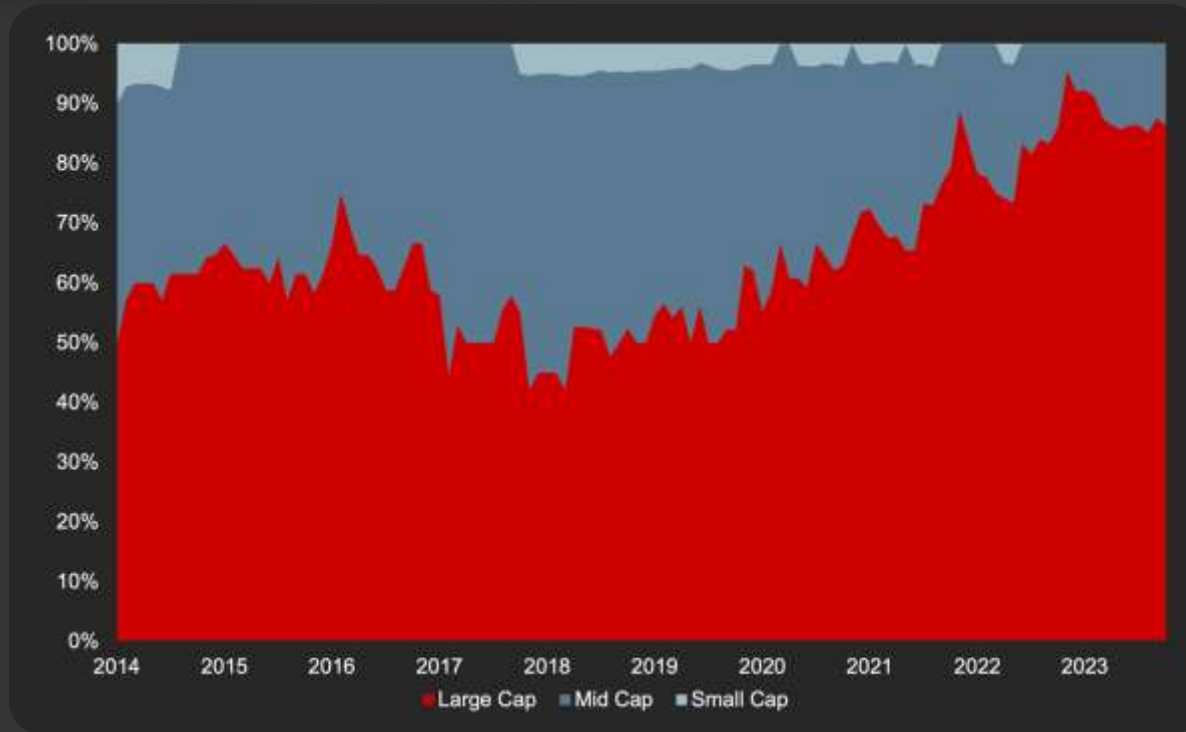
# Rezco Equity Fund (FY2023)

## Contributors Vs. Capped Swix

Contributions to Performance over 2023-01-01 to 2023-12-31



# Liquid & High Quality Shares Important for Risk Management

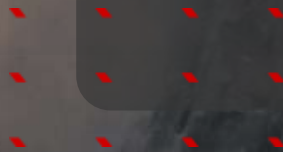


Source: JTC Group/Rezco

Based on Reg 28 bands of market capitalization  
(small cap: <R2bn, mid cap: R2bn -< R20 bn; large cap: >R20 bn  
Current market value determines historical cap



# The Technology to Manage Risk



# The Standard Sector Classifications Are Inflexible

Need to know where your risks are

The screenshot shows a software interface with a top navigation bar containing 'REEF', 'PM', and 'Set a ML Mandate'. Below this is a search bar with 'morningstar\_sector' entered. The main content is a table with columns for 'Display Name', 'Indicators', 'Proposed W...', 'Latest Proj...', and 'Staged Tra...'. The table lists various Morningstar sectors with their respective counts and proposed percentages.

Display Name	Indicators	Proposed W...	Latest Proj...	Staged Tra...
morningstar_sector: Industrials			Count: 2	Proposed: 8.2%
morningstar_sector: Healthcare			Count: 3	Proposed: 7.0%
morningstar_sector: Financial Services			Count: 8	Proposed: 22.2%
morningstar_sector: Energy			Count: 1	Proposed: 2.5%
morningstar_sector: Consumer Defensive			Count: 2	Proposed: 12.0%
morningstar_sector: Consumer Cyclical			Count: 3	Proposed: 14.1%
morningstar_sector: Communication Services			Count: 2	Proposed: 8.4%
morningstar_sector: Basic Materials			Count: 6	Proposed: 13.5%
morningstar_sector:			Count: 31	Proposed: 12.1%



# Create Custom Themes

The screenshot shows a financial application interface. At the top, there is a navigation bar with the text "REEF" and a gear icon, a "PM" button with a gear icon, and a red button labeled "Set a ML Mandate". To the right are icons for currency (\$), star, lightbulb, globe, and a grid icon with "0". Further right is a "Holdings view settings" section with a currency icon, a dropdown arrow, and a download icon.

Below the navigation bar is a search bar containing the text "theme" with a dropdown arrow and a close icon. Below the search bar is a table with the following columns: "Display Name", "Indicators", "Proposed W...", "Latest Proj...", and "Staged Tra...". The table contains several rows of data, each representing a custom theme.

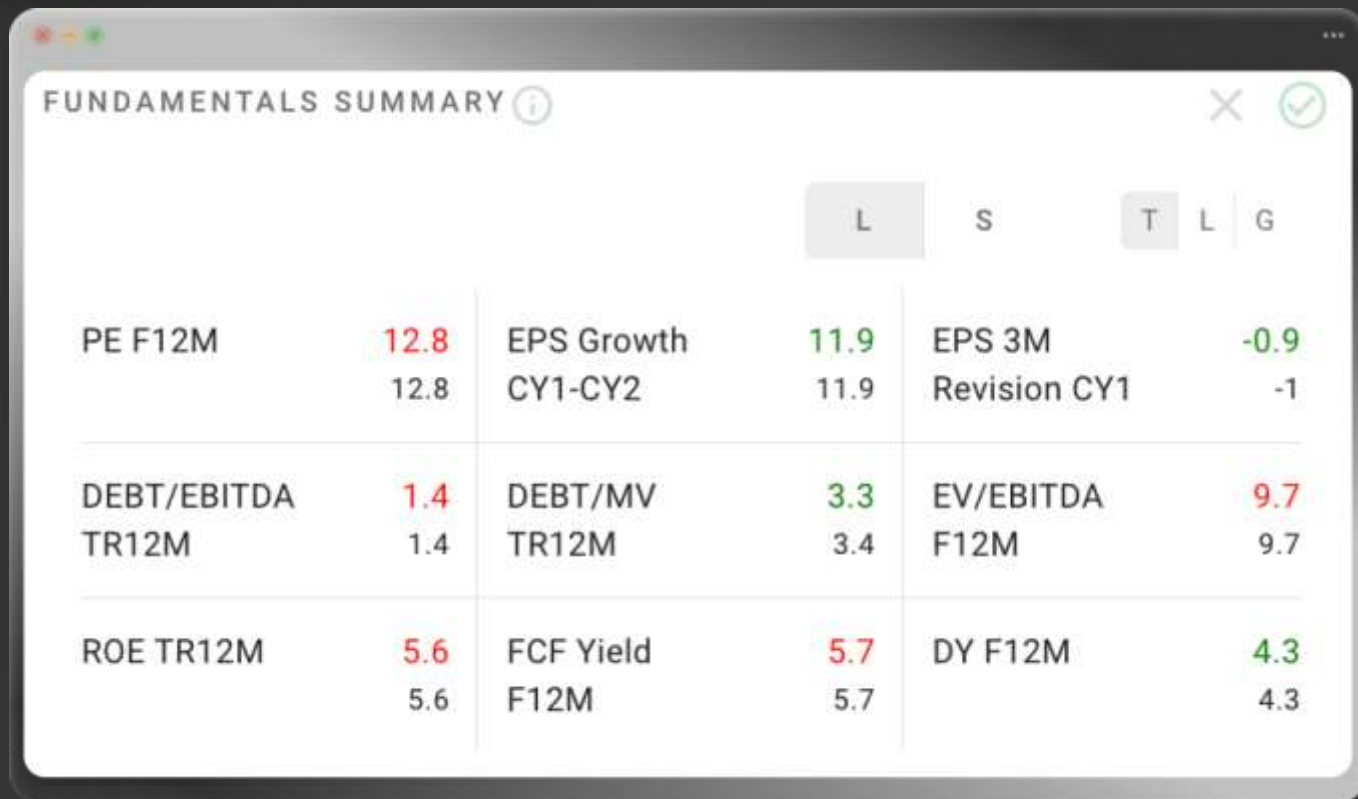
Display Name	Indicators	Proposed W...	Latest Proj...	Staged Tra...
theme: SA Inc - Pure Play			Count: 9	Proposed: 23.8%
theme: SA Inc - Global Ops			Count: 4	Proposed: 17.4%
theme: SA Inc - Africa			Count: 2	Proposed: 3.4%
theme: Rand Hedge - PGM			Count: 1	Proposed: 3.2%
theme: Rand Hedge - Gold			Count: 3	Proposed: 11.6%
theme: Rand Hedge - Global Consumer			Count: 5	Proposed: 27.3%
theme: Rand Hedge - Cyclical			Count: 5	Proposed: 11.0%
theme:			Count: 29	Proposed: 2.2%

# Create Custom Themes

Display Name	Indicators	Proposed Weight	Notes	Latest Proj...
▼ theme: SA Inc - Pure Play			Count: 9	Proposed: 23.2% Current: 23
▲ theme: SA Inc - Global Ops			Count: 4	Proposed: 17.4% Current: 17
<input type="checkbox"/> Bidvest Group Ltd/The	BUY -3 2024-02-27	- 7.33		7.21
<input type="checkbox"/> Remgro Ltd	2024-02-27	- 2		2.00
<input type="checkbox"/> Discovery Ltd	BUY -7 2024-02-20	- 7.07		7.12
<input type="checkbox"/> Investec PLC	BUY -4 2024-02-20	- 0.96		0.95
▲ theme: SA Inc - Atrica			Count: 2	Proposed: 3.4% Current: 3
<input type="checkbox"/> Vodacom Group Ltd	BUY -2 2024-02-20	- 2.40		2.47
<input type="checkbox"/> Barloworld Ltd	SELL -4 2024-02-20	- 0.91		0.91
▼ theme: Rand Hedge - PDM			Count: 1	Proposed: 3.2% Current: 3
▼ theme: Rand Hedge - Gold			Count: 3	Proposed: 11.6% Current: 11
▲ theme: Rand Hedge - Global Consumer			Count: 5	Proposed: 27.3% Current: 27
<input type="checkbox"/> Naspers Ltd	SELL -3 2024-02-20	- 5.9		5.82
<input type="checkbox"/> Bid Corp Ltd	BUY -3 2024-02-27	- 6.48		6.53
<input type="checkbox"/> Anheuser-Busch InBev SA/NY	BUY -5 2024-02-26	- 5.49		5.47
<input type="checkbox"/> Quilter PLC	BUY -1 2024-02-20	- 4.3		4.26
<input type="checkbox"/> CIE FINANCIERE RICHEMO-A REI	2024-02-20	- 5.15		5.16
▲ theme: Rand Hedge - Cyclical			Count: 5	Proposed: 11.0% Current: 10

# Start With Individual Shares

Then look at the combination



The screenshot shows a window titled "FUNDAMENTALS SUMMARY" with a close button (X) and a checkmark icon. Below the title bar, there are tabs labeled "L", "S", "T", "L", and "G". The main content is a table of financial metrics with values and change indicators.

PE F12M	12.8	EPS Growth CY1-CY2	11.9	EPS 3M Revision CY1	-0.9
	12.8		11.9		-1
DEBT/EBITDA TR12M	1.4	DEBT/MV TR12M	3.3	EV/EBITDA F12M	9.7
	1.4		3.4		9.7
ROE TR12M	5.6	FCF Yield F12M	5.7	DY F12M	4.3
	5.6		5.7		4.3

# Know How Much Risk You Are Taking

Live: Ex-Ante Beta & Vol. calculation

RISK SUMMARY ⓘ

L S T L G

	Proposed	Current(...	Benchm...	Reference
Ex-Ante Beta	0.75	0.75	1	0
Ex-Ante Vol	11.45	11.36	11.22	0

# Test on a Proprietary Risk Model





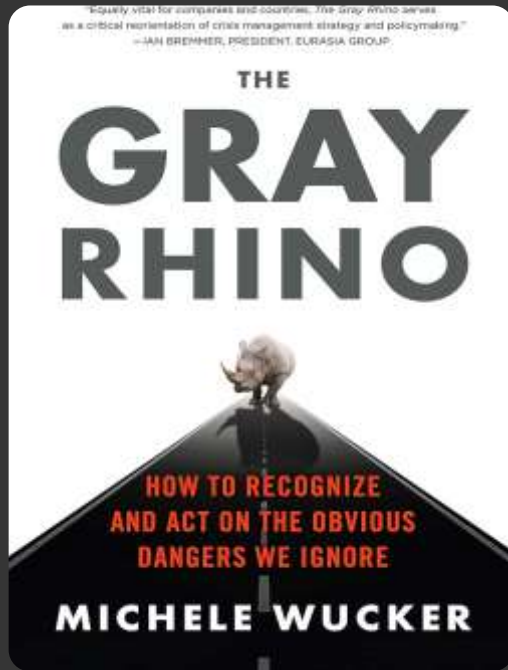
## The Philosophy to *Manage Risk*

“When the facts change, I change my mind. What do you do, sir?”

- John Maynard Keynes



# Gray Rhino's Methodology to Manage Risk



A **gray rhino** is a “highly probable, high impact yet neglected threat.

**Gray rhinos** are not random surprises, but occur after a series of warnings and visible evidence.”

# Global Gray Rhinos

Don't panic or ignore: React if they get closer

## Global Rhino to be Alert For

- Signs of USA inflation turning *hot*

## Action to Take

- Move Equity to cash and short duration



# Key Gray Rhinos

Don't panic or ignore: React if they get closer

## South Africa Rhino to be Alert For

- Messy election
- Monetary and fiscal policy becomes populist
- Negative consequences of foreign policy
- Economic growth deteriorates further
- Risks of the ZAR doing a Turkey become elevated

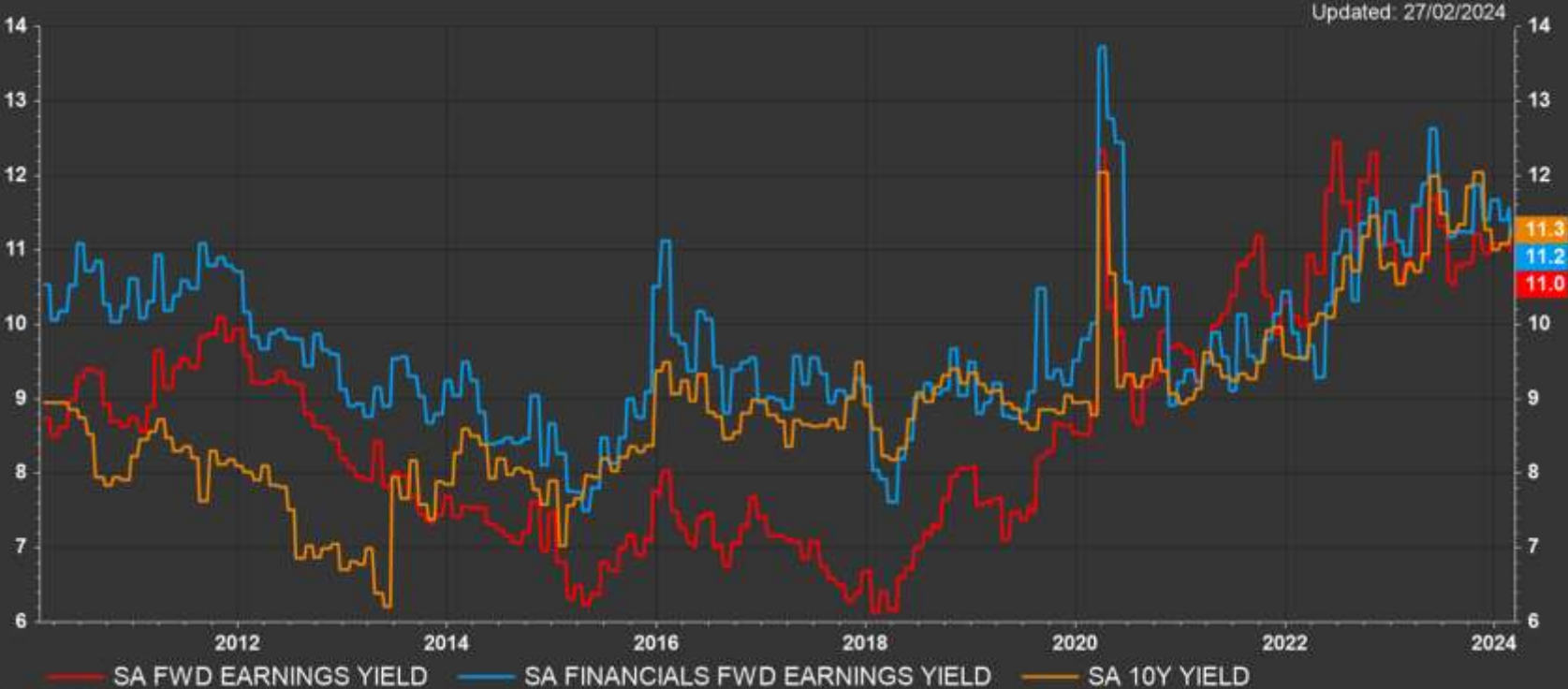
## Action to Take

- Max global & max rand hedges in local Equity

# RSA Not Cheap

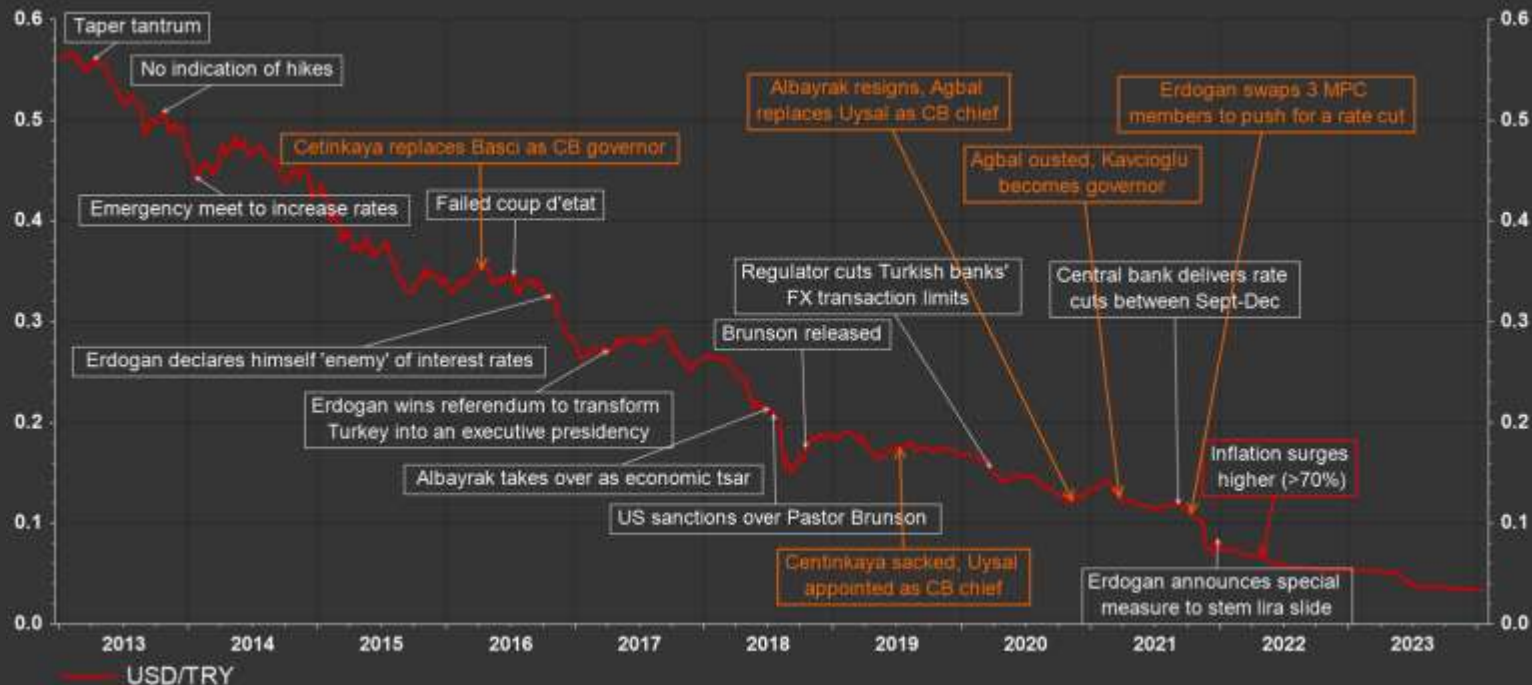
Given low growth alternative

SA MARKET VALUATION



Source: LSEG Datastream / Rezco

# Impact of Contentious Policy is Cumulative



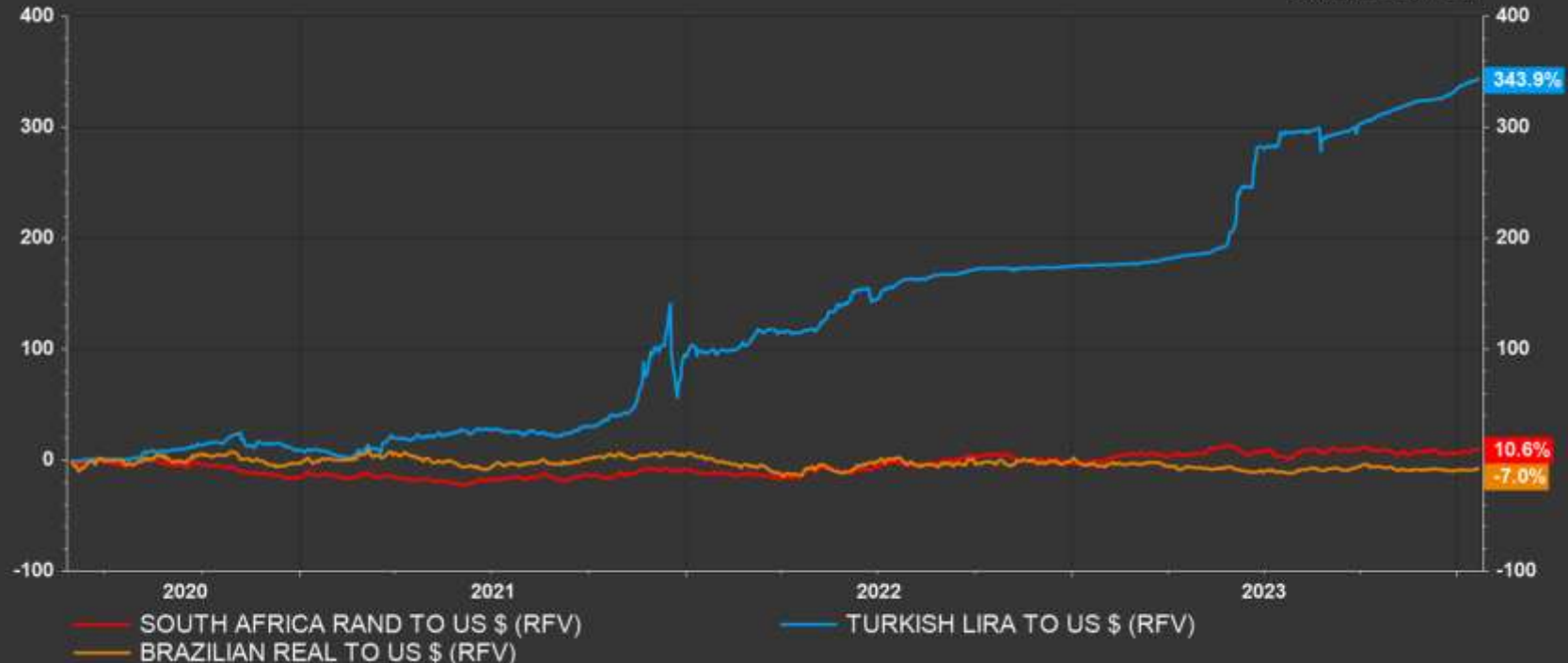
Source: LSEG Datastream / Rezco

# South Africa, Brazil & Turkey

## Currency & contentious policy

EM Currencies vs USD (Short-term)

Updated: 22/01/2024



Source: LSEG Datastream / Rezco

# Sentiment is Fragile

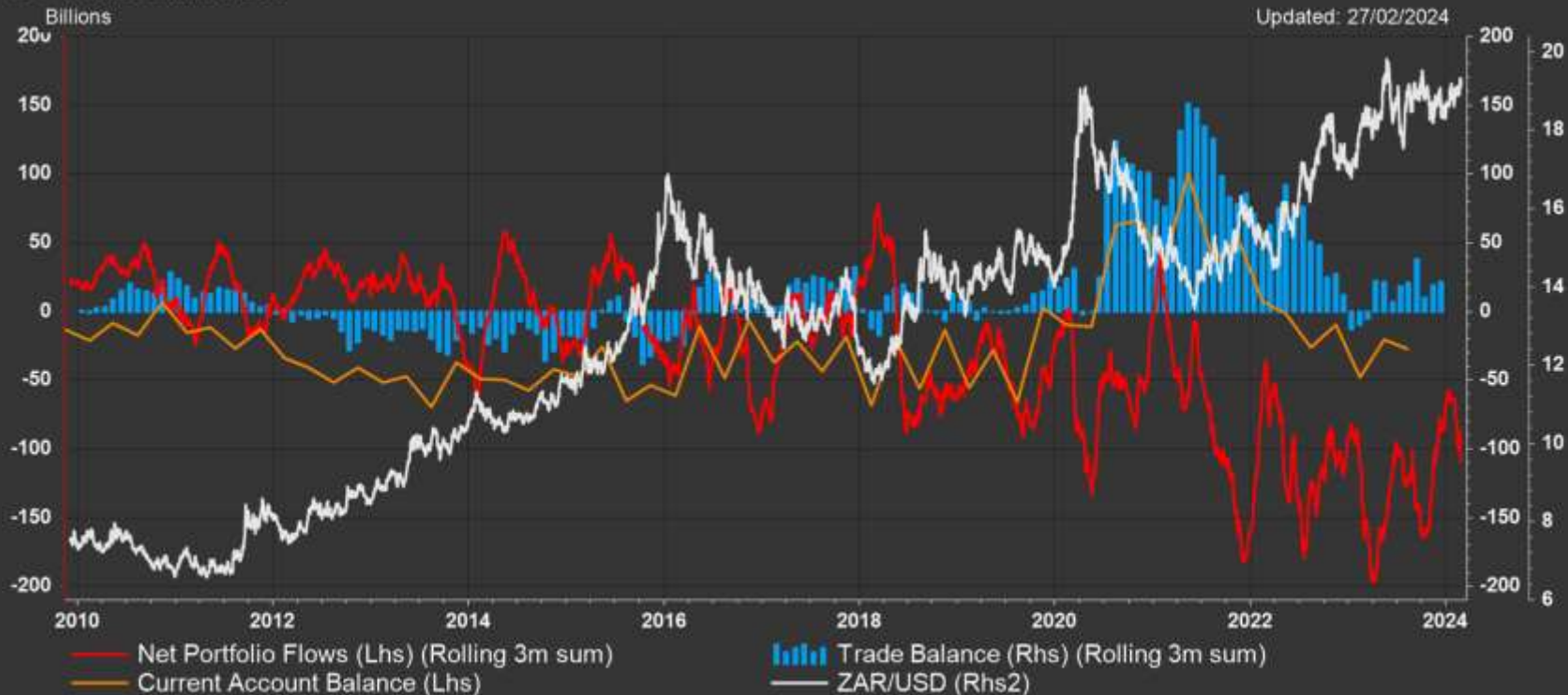
Even the strong must tread carefully



# RSA Fundamentals

Negative current account: Foreign opinions matter

SA TRADE BALANCE



Source: LSEG Datastream / Rezco

# Funds Positioning (28 Feb 2024)

	Managed Plus	Value Trend	Stable	SA Equity	Global Flexible
SA Equity	21%	8%	5%	95%-99%	
Global Equity	37%	32%	24%		59%
Total Equity	58%	40%	29%		59%
SA Gov Bonds (R186)	19%	23%	25%		
SA Floating Rate Notes & MM	9%	21%	27%		
Global Bonds & MM	14%	16%	19%		41%
Offshore	51%	48%	43%		100%

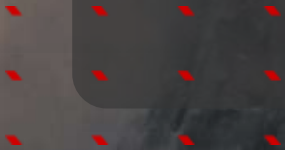




“When the facts change,  
I change my mind.

What do you do, sir?”

- John Maynard Keynes





REZCO

Thank You



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