

# RECM EQUITY FUND (Class B)

Period ended 31 December 2014

# RECM

The RECM Equity Fund is a unit trust which invests exclusively in South African equities. The Fund's aim is to outperform the South African equity market over the long term by selecting shares based on a value philosophy. We consider risk as the possibility of losing money, not in terms of volatility. Our main risk management tool is our investment philosophy. As value investors, we aim to buy and hold good quality companies and do so with a margin of safety.

Portfolio Managers	Daniel Malan, Wilhelm Hertzog, Paul Whitburn
ASISA Sector	South Africa Equity General*
Inception Date (Class B)	2 March 2005
Total Fund Size	R429.0 million
Fund Size (Class B)	R91.9 million
Benchmark	FTSE/JSE All Share Index
Min. Investment	R150,000 initial investment

Initial Fee	No initial fee
Annual Fee	1.0% annual fee (excl. VAT)
Hurdle	FTSE/JSE All Share Index + 2.5% p.a.
Performance Fee	20% above hurdle subject to high watermark over rolling 5 years
Total Expense Ratio (1 Year)	1.19% for the period ending 31 December 2014
Total Expense Ratio (3 Years)	0.74% for the period ending 31 December 2014
Income Declarations	31 March & 30 September

## PORTFOLIO DETAIL

\*The RECM Equity Fund was classified as South Africa Equity General with effect from 28 February 2014. From inception in March 2005 to June 2009, the Fund was classified as South Africa Equity General and from June 2009 to February 2014 as South Africa Multi Asset Flexible.

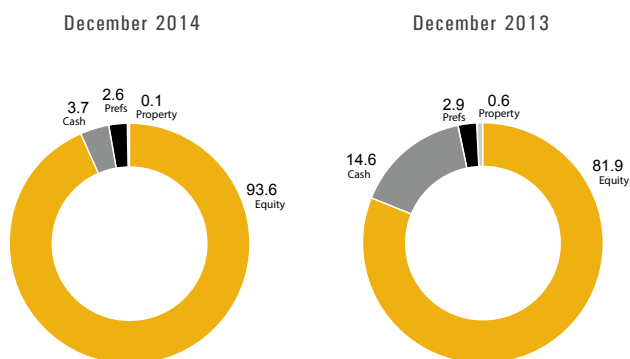
## FUND RISK PROFILE

LOW	LOW-MODERATE	MODERATE	MODERATE-HIGH	HIGH
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## TOP TEN HOLDINGS (%)

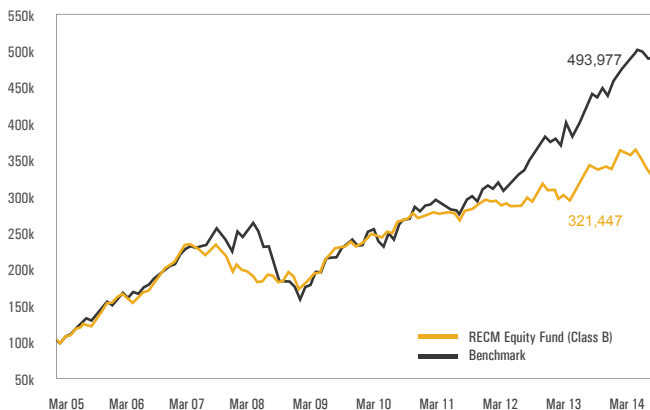
December 2014		December 2013	
Anglo Platinum Ltd	7.7	Anglo American Plc	7.3
Anglo American Plc	6.6	Anglo Platinum Ltd	6.6
Impala Platinum Holdings Ltd	6.1	Arcelormittal South Africa	5.2
Sun International Ltd	5.9	Impala Platinum Holdings Ltd	5.0
JD Group Ltd	5.1	Sun International Ltd	4.9
Lonmin Plc	4.6	Hosken Cons Investments Ltd	4.4
Arcelormittal South Africa Limited	4.0	Lonmin Plc	4.3
Standard Bank Group Ltd	3.5	Standard Bank Group Ltd	4.1
Aveng Ltd	3.4	JD Group Ltd	3.9
Hosken Cons Investments Ltd	3.1	Blue Label Telecoms Ltd	3.4
<b>Total</b>	<b>50.0</b>	<b>Total</b>	<b>49.1</b>

## ASSET ALLOCATION (%)



## PERFORMANCE NET OF ALL FEES AND EXPENSES

### VALUE OF R100,000 INVESTED AT INCEPTION WITH ALL DISTRIBUTIONS REINVESTED



## ANNUALISED RETURNS TO END DECEMBER 2014

	Fund	Benchmark
1 Year	-5.5%	10.9%
3 Years	4.1%	19.5%
5 Years	6.4%	15.8%
Since Inception	12.7%	17.8%
Maximum Drawdown (Life of Fund)	-27.1%	-40.4%

• Returns in ZAR net of fees with distributions reinvested. Source: RECM Analyst.

## INVESTMENT COMMENT

We currently calculate the overall weighted discount to fair value for the local equity stocks we hold to be approximately 30%. This means that the overall portfolio is trading at a price of 70 when it is worth 100. This implies more than 40% upside potential for the portfolio from the current prices if we are correct about this, and the market eventually re-prices these assets at fair value. The stocks in the South African market that we don't own we calculate to be 30% overvalued. This indicates that they are expensive – which implies the risk of permanent capital loss for investors holding these assets if the prices fall from current prices to fair value. The irony is that the market perceives the stocks we own to be risky, because they are going through difficult times, and the stocks we don't own to be safe because they have delivered good returns historically. However, as value investors we know that real risk is in the price you pay. The lower the price, the lower the expectations, the less the risk and the more upside from that point. The higher the price, the greater the expectations, the greater the risk and potential downside from that point. The only thing investors have any control over is the price they are willing to buy or sell an asset for. Fortunately it's the only thing that matters in the long run. We continue to buy assets trading at very low prices and avoid those that are expensive, even if that means going against the crowd and appearing foolish in the interim. We do this because we know this works to deliver real growth with protection against capital loss over time.

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**Disclaimer:** Collective Investment Schemes in Securities (Unit trusts) are generally medium to long term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to future performance. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The manager may borrow up to 10% of the market value of the portfolio where insufficient liquidity exists. A schedule of fees and charges and maximum commissions is available on request from the management company, RECM Collective Investments (Pty) Ltd (RECM). Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used. Funds are valued daily at 15h00. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Different classes of units apply to these portfolios and are subject to different fees and charges. Unit trust prices are calculated on a net asset value basis, defined as the total market value of all assets in the unit portfolio including any income accruals and less any permissible deductions (brokerage, uncertificated securities tax, VAT, auditors' fees, bank charges, custodian fees, trustee fees, annual management fee and performance fees) from the portfolio divided by the number of units in issue. These portfolios may be closed. The Fund's Total Expense Ratio (TER) reflects the percentage of the average Net Asset Value of the portfolio that was incurred as charges, levies and fees related to the management of the portfolio. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. RECM Collective Investments (Pty) Ltd, Company Registration Number: 2004/027540/07, is a member of the Association for Savings and Investment SA (ASISA). Trustees: The Standard Bank of SA Limited, PO Box 54, Cape Town, 8000.