QUARTERLY REPORT

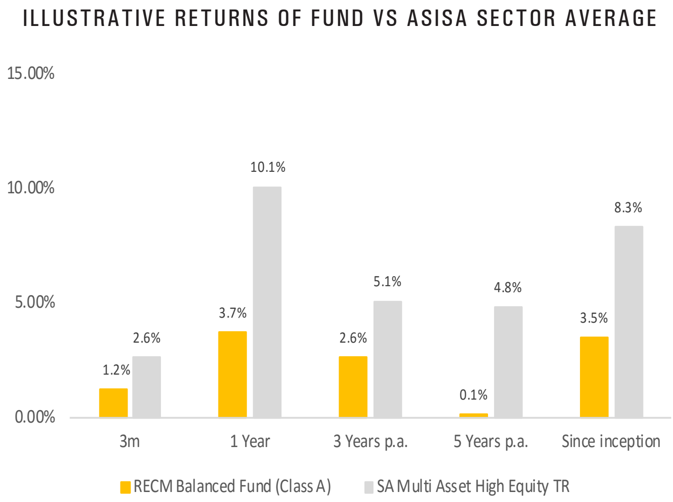
RECM BALANCED FUND - DECEMBER 2019

PERFORMANCE TABLE

Net Returns	RECM Balanced A	ASISA Avg	CPI +5%*
3 Months	1.2	2.6%	1.6%
1 Year p.a.	3.7%	10.1%	8.6%
3 Years p.a.	2.6%	5.1%	9.5%
5 Years p.a.	0.1%	4.8%	9.9%
Since inception (5 Jul '11)	3.5%	8.3%	10.2%

*The Fund's benchmark is SA Inflation + 5% p.a. Prior to 1 February 2014 the Fund's benchmark was SA Inflation + 6% p.a.

PERFORMANCE NET OF FEES AND EXPENSES



PERFORMANCE REVIEW

Positions which benefited returns in the last quarter:

- Gold producers Sibanye Gold and Goldfields
- Platinum producer Impala Platinum
- Record storage company Metrofile

Positions which detracted from returns in the last quarter:

- Telecoms company MTN Group
- Investment holding company HCI
- Technology company IBM

PERFORMANCE SUMMARY

The Fund returned 1.2% for the quarter and 3.7% for the year. Since the start of 2016, the RECM Balanced Fund has delivered 34% after fees on a cumulative basis, outperforming not only the average of its peer group the average of which was 17.5% over the same period, but also outperforming the JSE All Share Index, which generated 24% - despite the Fund being constrained in terms of only being able to hold a maximum of 75% in equities at any one time.

The gold price continued to rise supported by low US interest rates, a weaker dollar, and as a hedge against potential macro/geopolitical risk. This drove up the share prices of gold producers in the Fund such as Sibanye Gold and Goldfields.

Impala Platinum continued its rally and saw its share price up over 50% during the quarter, fuelled by the dramatic increase in palladium and rhodium prices over the past 2 years. The stock has in fact tripled during the course of the year, and is up an astounding 9 times from its lows in 2018.

Record storage and management company Metrofile saw its share price rise more than 30% after US-based consortium Housatonic made an offer to pay R3.30 per share to acquire 100% of the group. The share price ended the month at R2.82. We would not be surprised to see more of these offers given the attractive levels many local small cap companies are trading at currently.

It was another difficult quarter for domestically-focused businesses however, with Hosken Consolidated Investments, which has exposure to gaming and leisure through its 49% stake in Tsogo Sun continuing to languish. HCI - which also has investments in transport, media, property and mining - is now trading at a significant discount to even the listed market value of its investments.

Telecommunications firm MTN, along with many other communications firms around the world, came under pressure amid fierce competition to attract customers and concerns regarding economic growth prospects.

IBM's share price also remained under pressure as it continues to transition from a hardware company to one more focused on software and services. Trading at pessimistic levels on a PE of 10 however, with a dividend yield of 4.7%, growth doesn't need to be spectacular for the stock to be a winner over the next few years.

RECM BALANCED FUND

Quarterly Commentary - Period ended 31 December 2019

RECM

MARKET COMMENTARY

Global stocks rallied strongly during the quarter, with US equities reaching all-time highs after trade uncertainty was reduced with the US and China "phase one" trade deal announcement. The S&P500 Index rose 9% during the quarter, bringing the return to an astounding 31% year-to-date – its largest annual increase since 2013. This rally was largely driven by a "risk-on" powerful rotation into growth-oriented stocks.

European stocks also rose, boosted not only by optimism surrounding the US and China trade deal, but also supported by improved economic data. The MSCI EMU Index was up 5.1% in local currency. UK equities rose and the British pound strengthened as uncertainty surrounding Brexit was reduced with a negotiated withdrawal from the EU looking more likely.

Easing trade tensions also saw emerging markets post strong gains, with the MSCI Emerging Markets Index returning 11.6% in US dollars for the quarter, and 18.4% for the year. A pick-up in oil prices was supportive of emerging markets such as Russia and Colombia. A number of emerging markets sensitive to US dollar strength outperformed, including South Africa.

The All Share Index rose by 4.6%, with large rand hedges (British American Tobacco, Richemont and Naspers) staging a comeback after a difficult 2018. Financials and industrials were mostly unchanged but a narrow set of precious metal miners (gold and platinum) drove the index higher. The rand strengthened on improved emerging market sentiment and attractive real yields.

MANAGEMENT ACTIONS

On the local side, the Fund increased introduced a small position in retailer Truworths and on the global side, the Fund introduced a new position in US grocer Kroger, and increased its exposure to Michelin, Brookfield Asset Management and Prudential Plc. The Fund also actively reduced its exposure to Aspen Pharmacare after the stock saw its share price advance by more than 50% during the quarter, as well as to Japanese firm Sawai Pharmaceutical, the world's leading independent tank storage company Vopak, UK retailer Tesco and Russian bank Sberbank – all of which also saw their share prices rise significantly.

Truworths, along with many other retailers, has seen its share price under immense pressure amidst tough trading conditions in both SA and the UK – where the group's Office Retail Group is largely based. The share's fall of over 40% in 2019 has seen it de-rate to attractive levels, presenting us with an opportunity to allocate a small position to the stock towards the end of the quarter.

Kroger is the US's largest grocery chain and the US's second-largest general retailer after Walmart. Of the traditional grocers, Kroger is uniquely position to defend its returns against the "Amazon Effect" through a combination of scale, vast customer data through a strong loyalty program, private-label strength and the advantage of its store locations. The firm is positioned well to capitalise on the digitalisation of grocery – with customers ultimately likely to move towards an omni-channel approach to shopping – namely a combination of delivery to home, click-and-collect and in-store sales. The click-and-collect model may well see increased prevalence in the US, where the convenience of online shopping remains, without the inconvenience of having to schedule time around the arrival of a delivery at home. However, a recent investment into European online grocery leader Ocado also strengthens its online delivery to home proposition.

TOP TEN HOLDINGS (%)

December 2019		September 2019	
Hosken Cons Investments Ltd	6.1	Hosken Cons Investments Ltd	6.7
Netcare Ltd	4.7	Firstrand Ltd	4.3
Shoprite Holdings Ltd	3.5	Standard Bank Group Ltd	3.8
Aspen Pharmacare	3.1	MTN Group Ltd	3.7
Assore Ltd	2.8	Richemont	3.4
Truworths International Ltd	2.6	The Spar Group Ltd	2.8
Richemont	2.4	Assore Ltd	2.5
Firstrand Ltd	2.4	Old Mutual Ltd	2.4
RECM and Calibre Ltd	2.3	Aspen Pharmacare	2.4
MTN Group Ltd	2.3	RECM and Calibre Ltd	2.2
Total	32.2	Total	34.2

ASSET EXPOSURE (%)

December 2019		September 2019	
SA Equity	54.5	SA Equity	53.5
Global Equity	21.5	Global Equity	18.4
SA Bonds	9.6	SA Cash	13.4
Global Cash	8.8	Global Cash	9.7
SA Cash	5.6	SA Bonds	5.0
Total	100.0	Total	100.0

PORTFOLIO POSITIONING

The Fund has 76% combined exposure to local and global equities and continues to hold a meaningful portion in cash (14%) while having slightly increased its allocation to local bonds (10%).

The global portion of the Fund now makes up just over 30% of the portfolio. Just under a third of the offshore exposure is held in cash in a combination of Japanese yen and British sterling - both of which remain significantly undervalued.

The sizeable cash portion of the offshore allocation reflects a dearth of quality global companies trading at sufficiently low prices to constitute value by our measures. Today, looking back on one of the US market's most prolonged growth rallies ever, the spread between the valuations of the most expensive decile and cheapest decile of stocks is at the widest it's been since the run-up to the Great Depression and the dot-com bubble. This also explains why we have no exposure to "go-go" growth-oriented technology stocks, and very selective exposure to the US market in total – where valuations, by almost any measure, are back at extreme highs. Instead, we are finding better global value opportunities in areas that are less popular, such as the UK, Europe and various emerging markets.

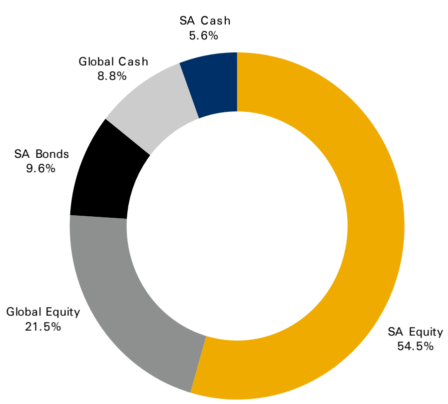
Within the local equity portion of the portfolio, the emphasis is on more domestically-oriented businesses, which have been out of favour for some time. As mentioned, half of our local equity exposure is in small and mid cap stocks, where we are able to meaningfully allocate capital to some of the best value opportunities in the market - available only to asset managers small enough to take advantage of them.

Being bottom-up value investors first and foremost, we make our allocations on a case-by-case basis depending on where quality and value collide within our wide opportunity set. From a portfolio construction perspective however, we ensure too that the resulting portfolio is as diversified as possible when viewed in totality. Ideally, we want as many investment ideas as possible, across as many geographies, sectors and industries, such that investment success is never overly reliant on any one particular investment thesis being proven correct within a particular frame of time. The end result is a portfolio of diversified assets with 15% of equity in resource stocks, 33% in financial stocks and investment holding vehicles, and 52% in a wide array of diverse, quality industrial businesses.

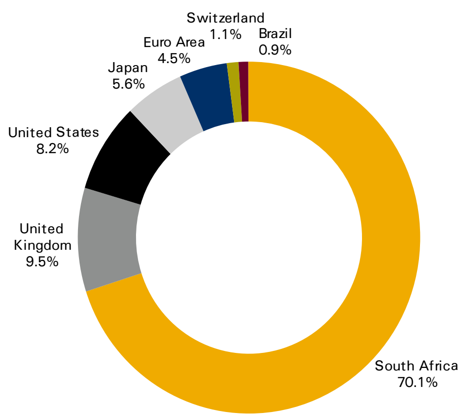
While we view developed market bond yields – and all asset prices closely associated therewith – with great caution, we view South African government bond yields in excess of 9.5% as worth allocating some additional capital to. As such, the allocation to local bonds increased from 5% to 10% of the total Fund during the quarter.

In the long run it has been proven that over multiple market cycles there is no factor as important to subsequent investment returns as starting valuations – or the price paid at the outset. Investment success over time favours those who have the ability and willingness to buy stocks at prices, for reasons that are often uncomfortable at the time, well below what the underlying companies are fundamentally worth. The RECM Balanced Fund offers investors the opportunity to capitalise on this enduring investment truth.

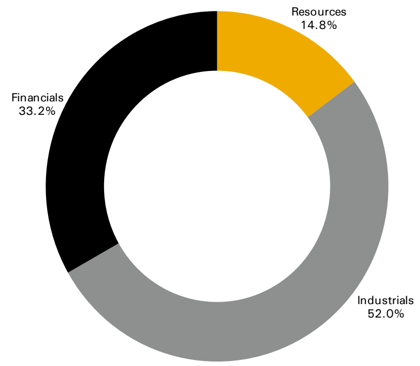
ASSET EXPOSURE (%OF FUND)



REGIONAL EXPOSURE (% OF FUND)



SECTOR EXPOSURE (% OF EQUITY)



PORTFOLIO OVERVIEW

Portfolio Manager	Piet Viljoen	Initial Fee	No initial fee
ASISA Sector	South African Multi Asset High Equity	Annual Fee	0.9% (excl. VAT)
Regulation 28	Complies	Performance Fee	Not Applicable
Fund Launch Date	15 February 2010	Total Expense Ratio	1.3% for the 3 year period ending 30 June 2019
Total Fund Size	R 114.1 million	Income Declarations	31 March, 30 June, 30 September, 31 December
Benchmark (Bmk)*	SA CPI + 5% p.a.		

Risks associated with investing in the Fund

All investments carry risk. Different investment strategies may carry different levels and kinds of risks depending on the assets held. You should consider the risks listed below in the context of your risk profile, which includes factors such as your investment timeframe, objectives and tolerance for performance volatility, income and age. We do not offer advice, nor does the Fund's investment strategy consider your individual circumstances and we cannot advise that the Fund is suitable for your circumstance.

The Manager does not guarantee the Fund's returns, its liquidity, and repayment of capital, interest nor a rate of return. Assets that are expected to provide the highest long-term returns often have the highest short-term risk. The Funds' investment strategy and the assets it invests in, will determine the Fund's sensitivity to these risk factors.

You should obtain financial advice to determine whether the Fund is suitable for your circumstances before investing in the Fund.

Sharemarket and Business Risk

The Fund may experience losses due to factors that affect the overall performance of the financial markets. The Fund holds securities issued by individual companies and are subject to the business risks specific to them, including sales volumes, profit margins, input costs, competition, economic climate and government regulations. The companies may also have exposure to specific financial risk, liquidity risk, market risk, exchange-rate risk and country-specific risks.

Interest Rate Risk

This is the possibility that fixed-rate debt instruments may decline in value as a result of a rise in interest rates.

Credit Risk

Refers to the possibility that a bond issuer may not be able to make expected interest payments and/or principal repayment.

Liquidity Risk

Refers to the possibility that an investor may not be able to invest or disinvest when they want to. This may occur during a period of adverse market trading conditions where the manager may not be able to buy or sell the Fund's investments because opportunities to do so are limited.

Social/Political/Legislative Risk

Risks associated with the possibility of nationalisation, unfavourable government action or social changes resulting in a loss of value is called social or political risk which may affect the Fund.

Currency/Exchange Rate Risk

Currency or exchange rate risk is a form of risk that arises from the change in price of one currency against another. The constant fluctuations in the foreign currency in which an investment is denominated relative to the currency in which the Fund is denominated may add risk to the value of a security.

International Risks

International investments or investments in foreign securities could be accompanied by additional risks such as potential constraints on liquidity and repatriation of funds, macroeconomic risk, political risk, foreign exchange risk, tax risk, settlement risk as well as potential limitations on the availability of market information.

Inflation Risk

The Fund may invest in cash and bonds, in South Africa or globally, that do not generate sufficient income and capital gains to outperform inflation.

Key Person Risk

The Fund depends on the expertise of RECM and its investment team. The Fund could be negatively impacted if RECM does not retain key staff.

Third Party Operational Risk

The Fund's operations depend on third parties. Investors in the Fund may suffer financial loss or disruption in the event of third party operational failure.

****Total Expense Ratio (TER) and Transaction Costs**

The TER reflects the percentage of this Fund's Net Asset Value that was incurred as expenses relating to the administration of this Fund, including the annual fee and intermediary fee if applicable. A Higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. Transaction costs are a necessary cost in administering this Fund and impacts this Fund's returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. The TER and Transaction costs are a measure of the actual expenses incurred by this Fund over a 3 year period (annualised). If this Fund is between 1 and 3 years old, the TER and Transaction Costs are calculated using the actual expenses incurred since the inception of this Fund. The sum of the TER and Transactions Costs is shown as the Total Investment Charge; these costs all being VAT inclusive.

Tel: +27 21 657 3440 **Fax:** +27 21 674 1088 **Email:** info@recm.co.za **Website:** www.recm.co.za