

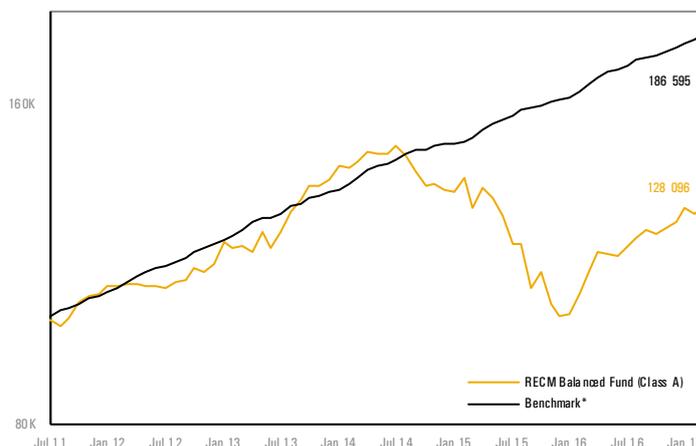
# QUARTERLY REPORT

RECM BALANCED FUND - MARCH 2017

## PERFORMANCE TABLE

Net Returns	RECM Balanced A	Benchmark CPI + 5%p.a.
3 Months	3.4%	3.3%
1 Year p.a.	14.8%	11.6%
3 Years p.a.	-3.1%	11.0%
5 Years p.a.	3.4%	11.4%
Since inception (5 July 2011)	4.4%	11.5%

## PERFORMANCE NET OF FEES AND EXPENSES



## PERFORMANCE REVIEW

The Fund outperformed its benchmark for the quarter.

Positions which benefited returns in the last quarter:

- Platinum producers Implats and Amplats
- Mining services company Sentula Mining Ltd
- Russian internet business Mail.ru

Positions which detracted from returns in the last quarter:

- Local bank Standard Bank Group Ltd
- UK retailer Tesco Plc
- Energy producers Inpex, BP and Gazprom

## PERFORMANCE SUMMARY

The Fund returned 3.4% during the quarter outperforming its benchmark of CPI + 5% which returned 3.3%. Global equities, as measured by the MSCI All Countries World Index (ACWI), returned a buoyant 6.9% in USD and 4.6% in ZAR, with the rand still having strengthened overall during the quarter despite the sell-off following minister Gordhan's dismissal. South African equities, as measured by the FTSE/JSE All Share Index, returned 3.8% for the quarter.

Continued optimism regarding growth expectations and surging business confidence saw the information technology sector being the top performer in most markets during the quarter. With stocks like Amazon and Facebook up strongly, Russian internet business Mail.ru bucked the trend in Russia where most stocks were down, and instead, performed in line with its global IT peers, returning over 20% in USD.

Most industrial metal prices rose during the quarter on the back of renewed optimism regarding global growth, boosting the share prices of industrial metal miners in particular. Local miner Sentula saw its share price up more than 30%.

Precious metals also rose during the quarter. Platinum stocks, with their dual precious metal and industrial metal status also rose with Implats and Amplats contributing to returns in the portfolio.

In contrast to most other commodities, Brent crude oil prices fell 7% during the quarter as oil inventories and production in the US increased at a faster rate than expected. This saw the entire sector under pressure during the quarter, and weighed on energy shares in the portfolio such as Inpex, BP and Gazprom.

Most banking stocks in South Africa such as Standard Bank saw their share prices come under pressure during the quarter following the dismissal of the finance minister and in anticipation of downgrades to the country's credit ratings.

Tesco shares continued to remain under pressure in the first quarter despite the business already showing tentative signs of a turnaround. The market appears concerned regarding the merits of Tesco's proposed acquisition of UK wholesaler Booker.

## MARKET COMMENTARY

Most stocks rallied during the first quarter amid signs of an improving outlook for the global economy, and despite increased political uncertainty in the UK and Europe. US equities rose to fresh highs – most notably driven by a handful of technology stocks - with the S&P500 returning 6.1% supported by positive economic data and Trump's plans to cut taxes and regulations. The Federal Reserve raised rates by a further 0.25%. Despite this, the US dollar weakened against most currencies including the euro, British pound and Japanese yen.

The MSCI Europe Index returned a robust 7.4% in USD with the euro's appreciation contributing 1% towards this. Economic data released during the period was largely positive with the flash composite purchasing managers' index reaching a near six-year high of 56.7 in March. The UK's FTSE All-Share Index also fared well rising 4% in USD with the UK domestic economy proving more resilient than expected and pound

sterling also gaining versus the US dollar.

Led by Asia and Latin America, emerging markets were the star performers for the quarter, with the MSCI Emerging Markets Index returning an impressive 11.7% in USD over the 3 months. The South African market followed suit, faring reasonably well considering political uncertainty during the quarter.

Despite the Federal Reserve raising interest rates by 0.25%, and expectations for at least two more rate hikes this year, bond returns for the quarter were fairly flat. The US 10-year Treasury bond yield ended the quarter at 2.4%, roughly where it began. The European central bank kept rates steady. However, signs of higher inflation and improving economic growth in Europe triggered a selloff in euro-zone government bonds. South African bonds initially performed well, but sold off after fears of a credit rating downgrade surfaced.

## MANAGEMENT ACTIONS

New investments during the quarter included a small allocation to Barclays Africa Group Ltd, which saw its share price fall along with most other banking stocks after minister Gordhan's dismissal, to a level which we believe warrants an initial allocation.

A small position in Grand Parade Investments Ltd was also added to the portfolio. The stock has been plagued for some time with management issues and concerns regarding their ability to deliver acceptable returns on their investments into brands such as Burger King, Dunkin' Donuts and Baskin-Robbins. We believe the market is being overly pessimistic and that current prices provide an opportunity with an appropriate margin of safety.

During the quarter we further trimmed exposure to resources companies such as Anglo American, Merafe Resources, Sentula and BHP Billiton where share prices were fuelled by rising commodity prices.

Similarly, we reduced our exposure to luxury goods company Richemont, which also saw its share price rise significantly during the quarter on the back of improved expectations for emerging markets.

We took advantage of price weakness to add to our positions in Tesco, Sasol and MTN, and continued to build our positions in UK bank Royal Bank of Scotland, as well as local technology group Altron.

## TOP TEN HOLDINGS (%)

March 2017		December 2016	
Hosken Cons Investments Ltd	5.0	Hosken Cons Investments Ltd	4.6
Impala Platinum Holdings Ltd	4.2	Impala Platinum Holdings Ltd	4.0
MTN Group Ltd	3.5	RECM & Calibre Ltd	3.3
Standard Bank Group Ltd	3.0	MTN Group Ltd	3.1
RECM & Calibre LTd	2.7	Standard Bank Group Ltd	2.8
Anglo Platinum Ltd	2.6	Anglo Platinum Ltd	2.0
Sasol Ltd	1.8	Bhp Billiton Plc	1.7
Allied Electronics Corporation Ltd	1.8	Sasol Ltd	1.5
Sonae	1.6	Compagnie Financiere Richemont	1.5
Compagnie Financiere Richemont	1.5	Allied Electronics Corp Ltd	1.4
<b>Total</b>	<b>27.7</b>	<b>Total</b>	<b>25.9</b>

## ASSET EXPOSURE (%)

March 2017		December 2016	
SA Cash	38.2	SA Cash	35.7
SA Equity	37.8	SA Equity	40.0
Global Equity	15.6	Global Equity	15.3
Global Cash	2.8	Global Cash	2.6
SA Pref Shares	2.7	SA Pref Shares	3.3
SA Bonds	2.6	SA Bonds	3.2
SA Commodity	0.3	SA Commodity	0.3
<b>Total</b>	<b>100.0</b>	<b>Total</b>	<b>100.0</b>

## PORTFOLIO POSITIONING

The Fund's allocation to South African equity decreased slightly from 43% to just over 40%, as a by-product of continuing to sell down many of the resource counters in the portfolio. This saw equity overall reducing from 59% to 56%, with global equity remaining around 16% of the total portfolio.

The RECM Balanced Fund currently has 18% exposure to offshore assets, with 2.8% of that in offshore cash. The remainder of the Fund includes local cash at 38% and local bonds at 3%.

The continuing surge in most resource share prices has prompted us to further reduce our exposure to those companies where the corresponding margin of safety between the rising share price and fair value has been eroded. The Fund now holds 29% of equities in resource stocks, with the larger exposures being to companies such as Impala Platinum which still offer compelling value.

Importantly, the Fund has become increasingly diversified. As a result of the opportunity set widening, new investments - while sharing the favourable characteristics of being quality businesses trading at attractive prices - are in more varied industries and sectors and often where the Fund had limited existing exposure beforehand. A more diversified portfolio, should the opportunity set allow, is always more desirable

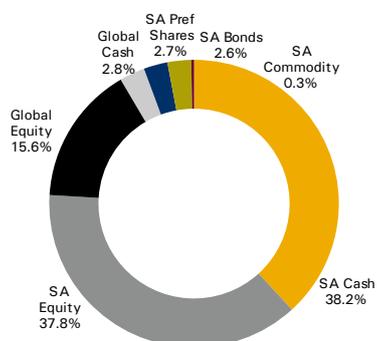
because investment success is then not overly reliant on any one particular investment thesis being proven correct within a particular frame of time.

The Fund's allocation to bonds remains modest despite a rise in yields during the fourth quarter. We would look for yields to rise meaningfully above 9% before allocating further capital to this asset class.

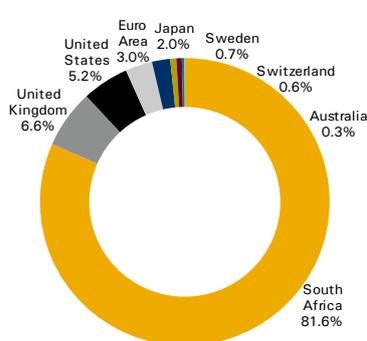
The RECM Balanced Fund is a robust, diversified portfolio of unpopular and undervalued stocks, with the advantage of a meaningful cash component to put to use as opportunities arise. Global and local markets strongly favoured value strategies during 2016, in stark contrast to the years prior to this, and with the value cycle still in early stages, there is further value to be unlocked by investors who stay the course.

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. Investment success over time favours those who have the patience and willingness to hold stocks trading at prices, for reasons that are often unpalatable to most investors, well below what the underlying companies are fundamentally worth. The RECM Balanced Fund offers investors the opportunity to capitalise on this enduring investment truth.

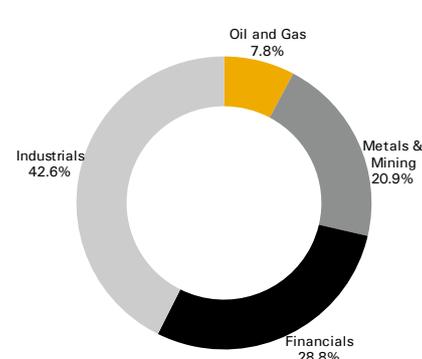
ASSET EXPOSURE (% OF FUND)



REGIONAL EXPOSURE (% OF FUND)



SECTOR EXPOSURE (% OF EQUITY)



# RECM BALANCED FUND

Quarterly Commentary - Period ended 31 March 2017

# RECM

## PORTFOLIO OVERVIEW

Portfolio Managers	Piet Viljoen & Paul Whitburn	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	3.3% for the 3 year period ending 31 December 2016
Total Fund Size	R64.0 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 the performance 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 overleaf; these costs all being VAT inclusive.

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**Disclosures:** Collective Investment Schemes in Securities (CIS) should be considered as medium-to long-term investments. The Manager does not provide any guarantee either with respect to the capital or the return of the Fund. The value of participatory interests (units) may go up as well as down and past performance is not necessarily a guide to future performance. CIS 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. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of any underlying international investments to go up and down. These portfolios may be closed. CIS prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions (Brokerage, STT, VAT, Auditor's fees, Bank Charges, Trustee and Custodian fees and the annual Management fee) from the portfolio divided by the number of participatory interests (units) in issue. A schedule of fees, charges and maximum commissions is available on request from the management company. Commission and incentives may be paid and if so, would be included in the overall costs. These portfolios may be closed. Different classes of units may apply in a portfolio and are subject to different fees and charges.