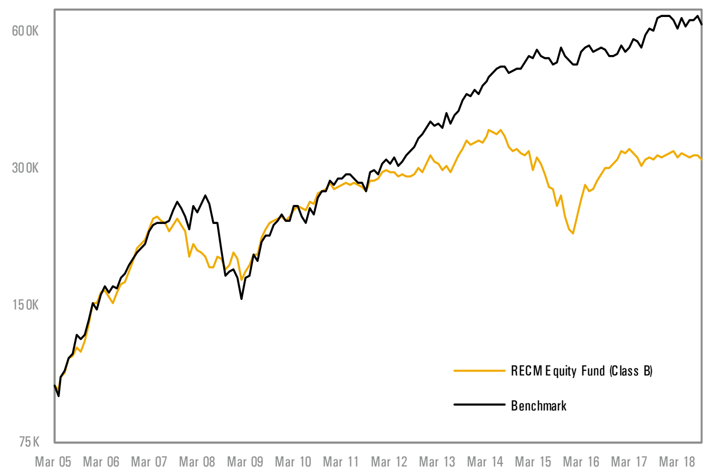
# QUARTERLY REPORT

RECM EQUITY FUND - SEPTEMBER 2018

## PERFORMANCE TABLE

| Net Returns | RECM Equity B | Benchmark ALSI |
|---|---|---|
| 3 Months | -1.1% | -2.2% |
| 1 Year p.a. | 0.9% | 3.3% |
| 3 Years p.a. | 8.2% | 6.7% |
| 5 Years p.a. | -1.1% | 8.0% |
| 10 Years p.a. | 5.2% | 12.1% |
| Since inception (1 March 2005) | 8.8% | 14.5% |

## 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 producer Impala Platinum
- Packaging company Bowler Metcalf
- Local bank Firstrand

Positions which detracted from returns in the last quarter:

- Telecommunications company MTN
- Insurance company Clientele
- Investment holding company HCI

## PERFORMANCE SUMMARY

The Fund returned -1.1% during the quarter outperforming its benchmark, the FTSE/JSE All Share Index, which returned -2.2% for the quarter. With Naspers down 12% during the quarter, this was a significant detractor from the SA market's returns, and for all benchmark-oriented portfolios that hold Naspers. In contrast, the RECM Equity Fund, which is positioned very differently from the market, held its ground well during the market decline, as one would expect from a value-oriented portfolio.

The rand continued to weaken in the third quarter, with the reality of tough economic conditions in South Africa became the market's prime focus. As such, domestically-focused businesses such as Clientele and Hosken Consolidated Investments (HCI) detracted from returns.

Platinum producer Implats saw its share price up with the market appearing to anticipate a potential turnaround after the company announced further job cuts and restructuring plans in August.

Domestic bank Firstrand saw its share price rise after releasing a fairly resilient set of results despite the operating and economic headwinds. Bowler Metcalf also bucked the trend, with its share price rising sharply after it finalised the disposal of its national beverages business SoftBev and announced it would be paying a special dividend with some of the proceeds.

Oil prices ended the quarter at $84 amid concerns about global oil supply shortages. This, coupled with the rand's weakness, saw Sasol's share price up strongly yet again, also adding to the Fund's returns.

Telecoms company MTN saw its share price fall sharply after the Nigerian government accused the company of illegally repatriating $8.1bn of funds from Nigeria and alleged that it owes a further $2bn in back taxes.

## MARKET COMMENTARY

Emerging markets underperformed during the third quarter, with most currencies depreciating relative to the US dollar as rising US interest rates and heightened US-China trade tensions further compounded emerging market woes. The MSCI Emerging Markets Index was down 1.1% in US dollars.

Unfortunately South Africa was no exception, with both the equity market and local currency under pressure. The rand reached 15.44 to the dollar before retracing somewhat thereafter, and the equity market was down 2.2%, bringing the year-to-date returns for the FTSE/JSE All Share Index to -3.8%.

Investor confidence in South Africa remained low, compounded by confirmation that South African second quarter GDP contracted 0.7% after contracting by 2.6% in the first quarter, thus confirming a technical recession. This was largely driven by weaker consumption, declines in agriculture and a lack of fixed investment.

## MANAGEMENT ACTIONS

The Fund introduced a position in Old Mutual Limited, which listed on the JSE in June after it was unbundled from UK-domiciled Old Mutual Plc. Old Mutual Limited now houses the core emerging-market businesses, including the insurance and asset management businesses, which are predominantly based in Africa. We believe the unbundling will ultimately be value accretive for shareholders, and were able to buy shares at prices which represented significant upside in absolute terms.

We added a small position in troubled construction and engineering group Aveng, which embarked on a process of debt restructuring and the sale of non-core assets to salvage the company and focus on returning it to profitability. With the share price at such extremely low levels, Aveng presents an asymmetrical payoff profile with substantial potential upside if the business stabilises, but limited downside due to the very small position size.

During the quarter, we trimmed exposure to Sasol, which was up strongly during the quarter and took advantage of price weakness to add to our position in HCI.

### TOP TEN HOLDINGS (%)

| September 2018 | | June 2018 | |
|---|---|---|---|
| Hosken Cons Investments Ltd | 6.1 | Firstrand Ltd | 6.3 |
| MTN Group Ltd | 6.1 | Standard Bank Group Ltd | 6.2 |
| Steinhoff Inv-Prefs | 5.6 | Hosken Cons Investments Ltd | 6.1 |
| Bowler Metcalf Ltd | 5.1 | MTN Group Ltd | 6.0 |
| Stefanutti Stocks Holdings Ltd | 5.1 | Steinhoff Inv-Pref | 5.1 |
| Clientele Limited | 5.0 | Stefanutti Stocks Holdings Ltd | 5.0 |
| The Spar Group Ltd | 4.4 | Clientele Limited | 4.4 |
| Mediclinic International PLC | 4.2 | Bowler Metcalf Ltd | 4.4 |
| RECM and Calibre Ltd | 3.8 | Reinet Investments SCA | 4.2 |
| Old Mutual Ltd | 3.1 | Mediclinic International PLC | 3.9 |
| Total | 48.5 | Total | 51.6 |

### SECTOR EXPOSURE (%)

| September 2018 | | June 2018 | |
|---|---|---|---|
| Industrials | 43.2 | Industrials | 40.5 |
| Resources | 25.5 | Resources | 24.5 |
| Financials | 31.3 | Financials | 35.0 |
| Total | 100.0 | Total | 100.0 |

## PORTFOLIO POSITIONING

The Fund is currently 87% invested in local equities with 13% of the Fund held in cash.

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 the Fund to comprise of as many investment ideas as possible, across as many sectors and industries as possible, such that investment success is never overly reliant on any one particular investment thesis being proven correct within a particular frame of time.

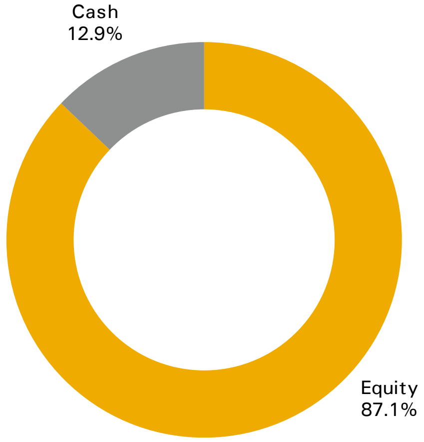
Fortunately, over the past few years, local markets have offered up a number of interesting and diverse opportunities to own decent businesses trading at attractive prices, often because they have simply been overlooked in favour of the bigger, headline-grabbing stocks of the moment. As this opportunity set has opened up, the Fund has been able to introduce many new and varied investment ideas, whilst at the same time reducing exposure to the resources sector, which has rebounded by close to 100% since the beginning of 2016.

The end result is a portfolio of assets which is more diversified than before, in higher quality companies than before. The Fund now holds 25% of equity in resource stocks, with 31% in financial stocks and 43% in a wide array of diverse industrial businesses.

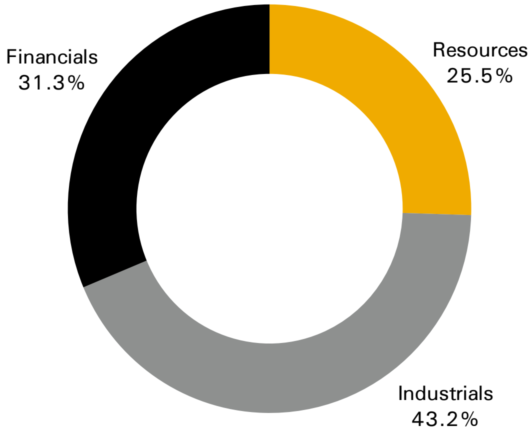
The RECM Equity Fund is a robust, diversified portfolio of unpopular and undervalued stocks which is positioned very differently to the overvalued market index. Markets have strongly favoured value strategies, in stark contrast to the years prior to this, and with the value cycle still in early stages, 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 Equity Fund offers investors the opportunity to capitalise on this enduring investment truth.

ASSET EXPOSURE (%OF FUND)




SECTOR EXPOSURE (% OF EQUITY)



## PORTFOLIO OVERVIEW

| | | | |
|---|---|---|---|
| Portfolio Manager | Piet Viljoen | Min. Investment | R10,000 initial investment |
| ASISA Sector | South Africa Equity General* | Initial Fee | No initial fee |
| Fund Launch Date | 2 March 2005 | Annual Fee** | 1.0% (excl. VAT) |
| Inception Date (Class B) | 2 March 2005 | Intermediary Fee** | 0.0% (excl. VAT) |
| Total Fund Size | R 101.1 million | Performance Hurdle | FTSE/JSE All Share Index + 2.5% p.a. |
| Benchmark (Bmk) | FTSE/JSE All Share Index | Performance Fee** | 20% of the outperformance of the hurdle over 5 year rolling periods |
| Total Expense Ratio | 1.4% for the 3 year period ending 31 December 2018 | | |

**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.

**Inflation Risk**
The Fund may hold investments 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.

**Fees**
An annual management fee (determined by the investor's selected unit class above) is levied monthly on the market value of the Fund. An annual performance fee of 20% is levied on returns (net of fees) in excess of the Performance Hurdle. Performance fees are calculated and accrued daily. While the performance fee accrual is calculated daily, for inclusion in the daily unit price, it will only be paid should the Manager outperform the performance fee hurdle over a 60-month rolling period. The performance fee is in addition to the annual management fee. No maximum is set for the performance fee. The Fund may invest in the Guernsey-domiciled RECM Global Fund, which is a associated collective investment scheme, however there will be no additional investor fees connected with thisw investment.

****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; 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