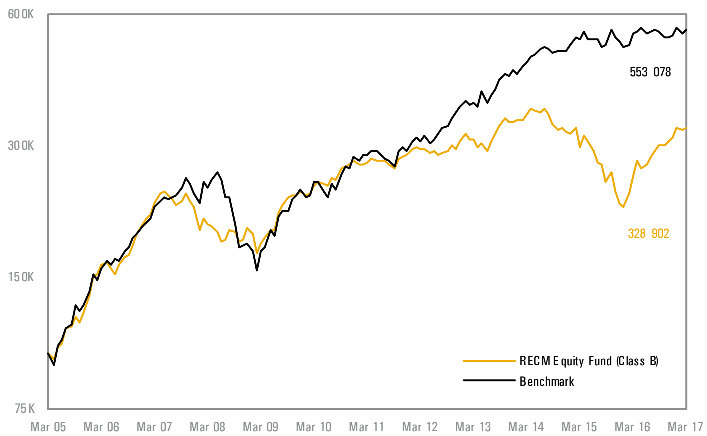
# QUARTERLY REPORT

RECM EQUITY FUND - MARCH 2017

## PERFORMANCE TABLE

| Net Returns | RECM Equity B | Benchmark ALSI |
|---|---|---|
| 3 Months | 5.3% | 3.8% |
| 1 Year p.a. | 29.1% | 2.5% |
| 3 Years p.a. | -2.2% | 6.0% |
| 5 Years p.a. | 2.3% | 12.5% |
| 10 Years p.a. | 4.1% | 9.8% |
| Since inception (1 March 2005) | 10.4% | 15.3% |

## PERFORMANCE NET OF FEES AND EXPENSES




## PERFORMANCE REVIEW

The Fund outperformed its benchmark for the quarter.

Positions which benefited returns in the last quarter:

- Mining services company Sentula
- Technology group Altron
- Platinum producers Implats and Amplats

Positions which detracted from returns in the last quarter:

- Local bank Standard Bank Group Ltd
- Chemicals business Omnia Holdings Ltd
- Diversified industrials group Invicta Holdings

## PERFORMANCE SUMMARY

The Fund returned 5.3% during the quarter outperforming its benchmark, the FTSE/JSE All Share Index which returned 3.8% for the quarter.

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 mining services supplier and coal miner Sentula saw its prices 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.

Most banking stocks such as Standard Bank in South Africa saw their share prices come under pressure during the quarter following the dismissal of the finance minister and in anticipation of a downgrade of the country's credit rating to "junk" status. This detracted from returns in the Fund.

Local "SA Inc." type businesses Invicta and Omnia both saw their share prices decline over the quarter on very little fundamental news outside of the fact that sentiment towards domestic businesses is not helped by local political uncertainty, and a stronger rand is a headwind for both of these businesses.

## MARKET COMMENTARY

Most global stock markets 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.

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.

As mentioned, financials came under the most pressure given the anticipated ratings downgrade, with South African banks, in particular, down 8% as a group. Resource stocks continued to perform well against a backdrop of rising commodity prices (outside of energy) whereas industrials were a mixed bag.

## 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 Impala Platinum, BHP Billiton, Merafe Resources, Glencore Xstrata Plc, and Anglo American where share prices were fuelled by rising commodity prices.

We pulled back exposure to stocks in other sectors such as Adcock Ingram and Murray & Roberts into share price strength.

We added to existing positions in MTN Group Ltd, Invicta and Remgro, all of which saw their share prices pull back during the quarter.

### TOP TEN HOLDINGS (%)

| March 2017 | | December 2016 | |
|---|---|---|---|
| Hosken Cons Investments Ltd | 7.7 | RECM & Calibre Ltd | 7.4 |
| RECM & Calibre Ltd | 6.8 | Hosken Cons Investments Ltd | 6.9 |
| Impala Platinum Holdings Ltd | 5.1 | Impala Platinum Holdings Ltd | 5.6 |
| MTN Group Ltd | 5.1 | Standard Bank Group Ltd | 4.7 |
| Standard Bank Group Ltd | 4.5 | MTN Group Ltd | 4.4 |
| Anglo Platinum Ltd | 3.6 | Sasol Ltd | 3.2 |
| Allied Electronics Corporation Ltd | 3.5 | Astrapak Ltd | 2.9 |
| Sasol Ltd | 3.4 | Anglo Platinum Ltd | 2.8 |
| Sentula Mining Ltd | 2.9 | Allied Electronics Corporation Ltd | 2.7 |
| Compagnie Financiere Richemont | 2.6 | Compagnie Financiere Richemont | 2.4 |
| Total | 45.2 | Total | 43.0 |

### SECTOR EXPOSURE (%)

| March 2017 | | December 2016 | |
|---|---|---|---|
| Industrials | 41.0 | Industrials | 42.2 |
| Resources | 30.6 | Resources | 31.4 |
| Financials | 28.4 | Financials | 26.4 |
| Total | 100.0 | Total | 100.0 |

## PORTFOLIO POSITIONING

The Fund's equity allocation fell slightly from 87% to 85% as a by-product of reducing resources further and not deploying all of the capital into other opportunities. The RECM Equity Fund therefore currently holds 15% in cash. Given our asset allocation is a reflection of bottom-up investment decision-making, this is a reflection of the scarcity of high quality businesses that are sufficiently cheap enough to justify a larger allocation. While we do allow a smaller allocation to lower quality companies trading at very attractive prices, we prefer the larger portion of equities in the RECM Equity Fund is invested in high quality, attractively priced businesses such that the portfolio always has a tilt towards the latter from a portfolio construction perspective.

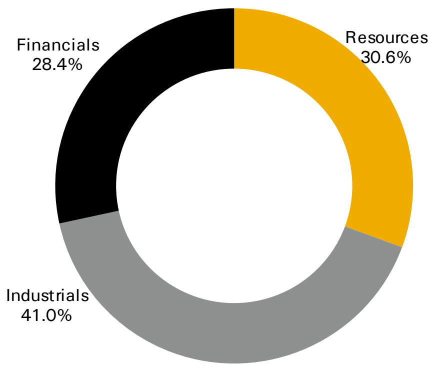
The continuing surge in most resource share prices has prompted us to further reduce our exposure to those companies where the corresponding margin of safety between the rising share price and fair value has been eroded. The Fund still holds 31% of equities in resource stocks, with the larger exposures being to companies such as Impala Platinum, Anglo Platinum and Sentula which still offer compelling value.

Importantly, the Fund has become increasingly diversified over the past two years. 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 most notably, often where the Fund had limited existing exposure beforehand. A more diversified portfolio 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.

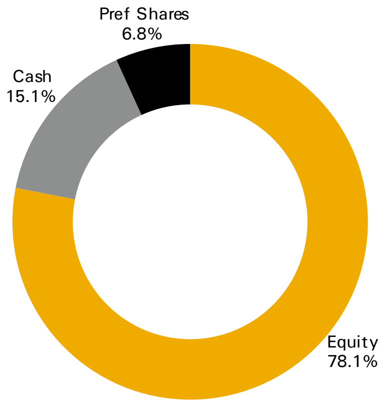
The RECM Equity Fund is a robust, diversified portfolio of unpopular and undervalued stocks, with the advantage of a cash component to put to use as opportunities arise. Markets strongly favoured value strategies during 2016, in stark contrast to the years prior to this, and with the value cycle still 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 Equity Fund offers investors the opportunity to capitalise on this enduring investment truth.

ASSET EXPOSURE (%OF FUND)




SECTOR EXPOSURE (% OF EQUITY)



# **RECM** EQUITY FUND

Quarterly Commentary - Period ended 31 March 2017

RECM

## PORTFOLIO OVERVIEW

| | | | |
|---|---|---|---|
| Portfolio Managers | Piet Viljoen & Paul Whitburn | Min. Investment | R150,000 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 | R75.5 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 | 1.3% for the 3 year period ending 31 December 2016 | | |

**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 overleaf; these costs all being VAT inclusive.

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