# QUARTERLY REPORT

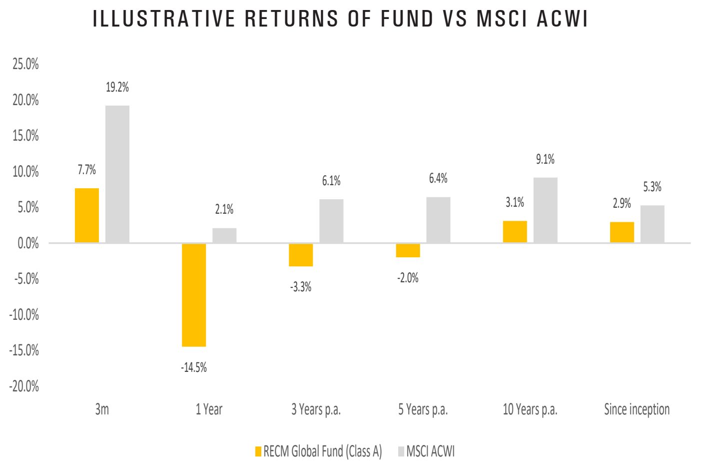
RECM GLOBAL FUND - JUNE 2020

## PERFORMANCE TABLE

| | Fund | MSCI ACWI* |
|---|---|---|
| 3 Months | 7.7% | 19.2% |
| 1 Year | -14.5% | 2.1% |
| 3 Years | -3.3% | 6.1% |
| 5 Years | -2.0% | 6.4% |
| 10 Years | 3.1% | 9.1% |
| Since Inception | 2.9% | 5.3% |

*The MSCI All Countries World Index (ACWI) is an index designed to provide a broad measure of equity-market performance throughout the world and thus serves as a relevant global equity index for the Fund to be compared against.

## PERFORMANCE NET OF FEES AND EXPENSES




## PERFORMANCE REVIEW

Positions which benefited returns in the last quarter:

- Wheaton Precious Metals
- Barrick Gold
- Fairfax India

Positions which detracted from returns in the last quarter:

- Brookfield Asset Management
- White Mountains Insurance Group
- CK Hutchison Holdings

## PERFORMANCE SUMMARY

The Fund had a positive quarter, with a 7.7% advance in USD, but this lagged the MSCI All Countries World Index return of 19.2%. Sector allocation explains most of the lag in performance. Cash and gold equities advanced and mitigated the downside volatility in the portfolio. Market leadership has been very narrow and sector specific. Our defensive positioning protected capital in the first quarter but detracted in the second quarter.

For the majority of the quarter, Technology and Consumer Cyclicals led the market higher. Narrow price leadership has been mirrored in terms of valuations with technology stocks expanding their significant premiums to the market. At the sector level, lower exposure to Technology was the single biggest detractor. On the other hand, our significant underweight position in Utilities and Non-Tobacco Consumer Staples contributed at the margin.

We have an intentional bias towards stocks with strong balance sheets and cheaper valuations. We anticipated an environment where excessive debt and high valuations would become significant headwinds for equities. In March 2020, the US Fed acted aggressively to thaw the credit market and as a consequence, excessive debt gradually became less of an issue. Equity market participants embraced the liquidity and willingly disregarded the high valuation of momentum stocks, particularly technology. Our defensive positioning lagged the broader advance.

The Fund is focused on stock-picking and accordingly, stock selection will always be the primary driver of returns. Over the quarter, gold stocks contributed. Financial holding companies and industrial conglomerates detracted significantly. The Fund has maintained above-average liquidity since mid-2017. In the second quarter, cash acted as a drag at the overall Fund level.

## MARKET COMMENTARY

The second quarter of 2020 dramatically reversed the trend of the previous quarter, with a strong recovery, despite the ongoing Covid-19 induced economic slowdown. The MSCI All Countries World Index rallied by 19.2% with the MSCI Emerging Market Index up 18.2%, accompanied by sustained strength in EM currencies relative to the US dollar.

Globally, both fiscal and monetary policies are being used to help counter balance the negative economic impact of various lockdown regulations. Short term interest rates continue to decline globally, as central banks respond to the deflationary impact of governmental responses to the virus. This has also caused long term bond yields to decline, even as fiscal stimulus measures prompt large scale increases in debt levels with South Africa being no exception.

Bond markets globally have performed very well over the past quarter, year and even decade. The reason for this has been a consistent decline in interest rates, driven by deflationary forces. Today most countries in the world are faced with historically low interest rates and historically high levels of debt to GDP. How this situation resolves itself will drive investment returns over the next decade or more.

## MANAGEMENT ACTIONS

The magnitude and speed of the recent rally has surprised us. We have continued to allocate funds to beneficiaries of future inflation – gold and other precious metals, resource companies and emerging markets. However, today's high level of market ebullience does not correspond with economic activity on the ground, which continues to warrant a high cash holding.

We are patient. Fund positioning has changed marginally in response to market conditions. The correction in the previous quarter enabled us to reposition our exposure, but the overall slant of the Fund remains intact.

During the quarter we also reduced listed property and bricks-and-mortar retailers.  We utilised the cash raised to increase exposure to gold equities, tobacco and a selection of owner-managed financial companies, with strong balance sheets. We increased exposure to existing holdings, most notably Berkshire Hathaway and Fairfax Financial.

We continue to hold high quality businesses with resilient earnings prospects, solid balance sheets and cheap valuations. We remain ready to recalibrate the portfolio, as market opportunities unfold.

### TOP TEN HOLDINGS (%)

| June 2020 | | March 2020 | |
|---|---|---|---|
| Berkshire Hathaway | 6.0 | Berkshire Hathaway | 4.9 |
| Tocqueville Bullion | 4.1 | Philip Morris International Inc | 4.0 |
| Fairax Financial Holdings Ltd | 4.1 | Brookfield Asset Management | 3.6 |
| Fairfax India | 3.9 | Tocqueville Bullion Reserve Fund | 3.2 |
| Gazprom | 2.6 | Vopak | 2.6 |
| Altria Group Inc | 2.5 | Boskalis Westminster | 2.0 |
| Philip Morris International Inc | 2.4 | Gazprom | 1.7 |
| Barrick Gold Crp | 2.3 | Barrick Gold | 1.4 |
| Wheaton Precious Metals Corp | 2.3 | Exor | 1.3 |
| Brookfield Asset Management | 2.1 | Newmont Mining | 1.3 |
| Total | 32.3 | Total | 26.0 |

### ASSET EXPOSURE (%)

| June 2020 | | March 2020 | |
|---|---|---|---|
| Global Equity | 67.2% | Global Equity | 48.4% |
| Global Cash | 32.8% | Global Cash | 51.6% |
| Total | 100.0 | Total | 100.0 |

## PORTFOLIO POSITIONING

The Fund's cash position is currently around 30%. Like Warren Buffett, we believe there is a lot to be said for having options. To have options, you need liquidity. Having liquidity today ensures that we can act tomorrow. Being a 'liquidity provider' in times of stress and distress is a certain way to survive and thrive as the dust settles. We are excited about the potential to deploy the cash in our Fund. Owning gold also helps us to hedge and manage risk.

The market has rallied from its lows of mid-March, but we remain cautious and disciplined in our buying. Ben Carlson of Ritholtz Wealth pointed out that many of history's great crashes had rallies before they eventually bottomed – giving investors false hope that proved to be fleeting. During the Great Depression there was a 47% rally from late-1929 until early 1930 - It didn't last. Before that rally stocks had fallen 45%. The 1973-1974 bear market that saw the market halve bounced 20% before it finally ended. The 2007-2009 market crash gave a gain of more than 25% before rescinding these returns. The bear market from 2000-2002 saw three separate rallies of around 20% before finally settling in at a bottom more than 50% lower than the peak. Things could well get worse before they get better. Or perhaps markets have already bottomed in anticipation of better times ahead. No one has any way of knowing for sure.

How do we protect, invest and grow your capital against this uncertain backdrop?

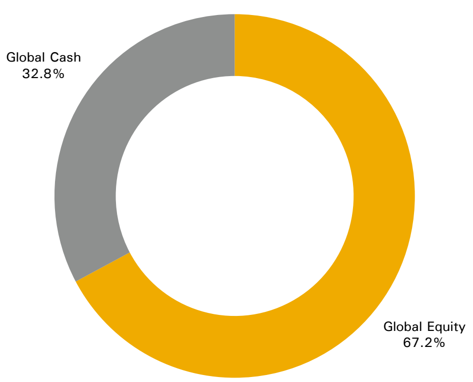
We have built an all-terrain portfolio. In addition to holding cash and gold, which provides us with liquidity and optionality, every stock in the Fund has the following attributes:

- A solid balance sheet
- The ability to survive the next 12 -18 months
- An attractive valuation (implying high prospective returns)
- Management teams with the track record and ability to adapt (many of whom are owner-managers)
- The ability to grow free cash flow and dividends on a sustainable basis

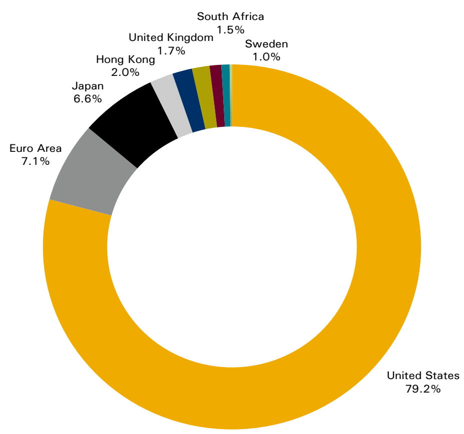
As investors, it's important to remember that market declines come with the territory. Since 1928, the S&P 500 has experienced 12 different declines of 30% or worse. These losses have occurred once every 7-8 years on average. Nonetheless, the world market has given investors 6% real returns above inflation per year since 1900. The US market even more than this. This time period includes the Great Depression, wars, recessions, rising interest rates, falling interest rates, bear markets, economic booms, economic busts, inflation, deflation and everything in-between.

Importantly, this is the kind of market environment value investors such as ourselves get really excited about - because it provides a compellingly attractive entry point for those with the ability and willingness to take advantage of inefficient markets – where prices are substantially lower than the underlying fundamentals imply they should be. There is no factor as important to subsequent investment returns as the price you pay at the outset of your investment. The RECM Global Fund offers investors the opportunity to capitalise on this enduring investment truth.

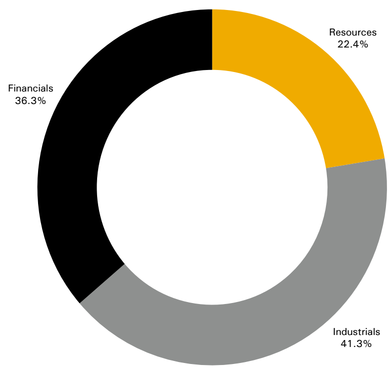
ASSET EXPOSURE (%OF FUND)




REGIONAL EXPOSURE (% OF FUND)




SECTOR EXPOSURE (% OF EQUITY)



# **RECM** GLOBAL FUND

Quarterly Commentary - Period ended 30 JUNE 2020

RECM | Becoming COUNTERPOINT™

## PORTFOLIO OVERVIEW

| | | | |
|---|---|---|---|
| Portfolio Manager | Piet Viljoen | Initial Fee | No initial fee |
| ASISA Sector | Global Multi Asset Flexible | Annual Fee* | 1.0% |
| Domicile | Guernsey | Intermediary Fee* | 0.0 % |
| Fund Currency | US dollars | Performance Fee* | None |
| Fund Launch Date | 31 January 2006 | Benchmark (Bmk)* | US CPI + 6% p.a. |
| Inception Date (Class A) | 31 March 2006 | Performance Hurdle | Not Applicable |
| Total Fund Size | US 59.0$ million | Total Expense Ratio | 1.4% for the 3 year period ending 31 March 2020 |
| Min. Investment | US $50,000 initial investment | | |

**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.

**Fees**

An annual management fee (determined by the investor's selected unit class above) is levied monthly on the market value of the Fund.

***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