
RECONNECT

DECEMBER 2017

Why RECM?

We have been consistent in our approach

RECM has invested with a value-based approach since it was founded 2003 by Piet Viljoen, who remains the primary architect and custodian of our investment process. Often the difficulty with evaluating funds is that they have not always been managed using the same identifiable approach, by the same people, which makes evaluating the outcome over time a challenge. How does one know what one will get going forwards? Are returns repeatable as a result? Will the funds continue to be managed with the same approach, or will this change/drift over time? RECM has been consistent in its value approach throughout its history, in spite of significant pressure to deviate, with our returns strongly correlated with the value cycle both locally and globally – which makes it very useful as a building block. While our philosophy and approach has remained consistent, our process – which proved very successful across multiple market environments prior to 2014 – has faced intense scrutiny more recently, both internally and externally, allowing us the opportunity to bolster the process and make it more robust than it was before, whilst remaining true to our value fundamentals.

We have been through bull and bear markets

Funds should always be assessed over a period of more than five years, and this period of time should include both bull and bear markets – the latter are game-changers and can take long periods of time to recover. Our drawdowns in 2014/15 were unintended and extreme, and we have learned from our mistakes during this time, but the relatively short time in which we have been able to recover from these drawdowns is some indication of the difference between drawdowns caused by price volatility, and drawdowns caused by permanent adjustments to overvalued situations. Our track record with regards to dealing with the latter is excellent – both locally and globally – and this strength is worth considering given valuations in both local and global markets currently.

RECM significantly outperformed the market and most peers both locally and globally during the financial crisis in 2008, due to our willingness and ability to step away from the most widely held, and over-valued stocks prior to such declines. By way of reminder, when the FTSE/JSE All Share Index was down 40% between May 2008 and Feb 2009, the RECM Equity Fund was down 10%. Our Global Fund followed exactly the same pattern, returning -33% during the market decline while the MSCI ACWI returned -55%, and recovering in just over 2 years, while the global index took more than 5 years to reach its prior peak. Today, once again, we are positioned away from the market for good reason.

We have very low correlations to peers

Adding a value manager is an effective way of diversifying a multi-fund portfolio. Relative even to value-oriented peers, our correlation to other managers is very low. This is useful in portfolio construction. We manage both market risk and business risk very proactively in terms of position sizing, and overlay this with a quality bias, which seeks to produce a more stable profile of returns over time. Regression to the mean, a strong tendency for the gap between a fund with exceptional past returns and its peers to narrow, is a fact of life. We believe strongly that returns over the next horizon will favour funds that invest with a value approach. This of course bodes particularly well for RECM investors.

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We are small relative to our opportunity set

The narrower the opportunity set (especially in South Africa) the more difficult it is to deliver the same degree of alpha as historically produced. RECM's smaller size relative to its opportunity set, along with regression to the mean being in its favour over the next market horizon, stacks the odds in RECM's favour relative to larger peers. We have both the willingness and ability to deviate from the market, which is to the ultimate advantage of our investors.

We are owner-managed with a long-term investment horizon

The fact that we are owner-managed is possibly the single most important competitive advantage for us as an active value manager. We do not report to an external body who is able to wield pressure on us to change our investment style or process for commercial reasons. Markets are necessarily inefficient because most managers do face this pressure, and consequently are unable and/or unwilling to deviate from the market with a longer-term investment horizon. This enables businesses like RECM to take advantage of such mispricing and position ourselves differently to others. We know that a longer-term investment horizon is a necessity to be able to capitalise on inefficient markets given the unpredictable nature of market prices in the short term. This swings the odds in RECM's favour in terms of capitalising on the opportunities for value managers. We also significantly co-invest with our clients, which is the ultimate alignment of interests for manager and investors alike.

In conclusion

We learned a difficult lesson in 2015, we have worked hard to turn around performance, and we are confident that we are firmly back on track to deliver the returns our investors both expect and deserve.

Thank you for your trust.

Contact

Regarding Capital Management (Pty) Ltd
PO Box 45040, Claremont, 7735, South Africa
T. +27 21 657 3440
www.recm.co.za

René Klinger

National Retail Business Development Manager
M. +27 82 784 1571
T. +27 21 657 3466
E. rene.klinger@rcm.co.za

Disclosure

Collective Investment Schemes are generally medium to long term investments. The value of participatory interests or investments may go down as well as up and fluctuations or movements in exchange rates may also cause the value of underlying international investments to go up or down. Returns are calculated on a lump sum investment, NAV-NAV, net of fees, with net distributions reinvested. Annualised returns are the weighted average compound growth rate earned each year over the given time period. Individual investor performance may differ as result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Past performance is not necessarily a guide to the future. The manager does not provide any guarantees either with respect to a funds' capital or investment returns. Collective investments 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. A schedule of fees and charges and maximum commissions is available on request from the manager. Commission and incentives may be paid and if so, would be included in the overall costs. The quantifiable deduction is the annual management fee (and performance fee where applicable), whilst non-quantifiable fees included in the net asset value price may comprise brokerage, auditor's fees, bank charges, taxes, trustee and custodian fees. Collective investment prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accrual and less any permissible deductions from the portfolio. Forward pricing is used. Where a fund is exposed to foreign securities, investors should consider the (a) potential constraints on liquidity and repatriations of funds, (b) global macro-economic risks, (c) political risks, (d) foreign exchange risks, (e) tax risks, (f) settlement risks and (g) potential limitations on the availability of market information. Funds may be closed. Prior to investing, please read the Minimum Disclosure Document for your chosen fund/s available at www.recm.co.za. This document contains objective factual information about our products; does not constitute advice and the reader should approach a financial adviser to determine suitability before investing. No warranty is given as to the accuracy or completeness of the information and no liability is accepted for reliance upon the information. The Manager of the RECM Funds is RECM Collective Investments (Pty) Ltd, Company Registration Number: 2004/027540/07, registered under the Collective Investment Schemes Control Act of 2002 and is a member of the Association for Savings and Investment SA (ASISA). The Investment Manager is Regarding Capital Management (Pty) Ltd, FSP No 18834 and the Trustees, the Standard Bank of SA Limited, PO Box 54, Cape Town, 8000. Domestic funds are valued daily at 15h00. Instructions must reach RECM before 14h00 to ensure same day value (11h00 for the RECM Money Market Fund and 13h00 for the Prescient RECM Global Feeder Fund).

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