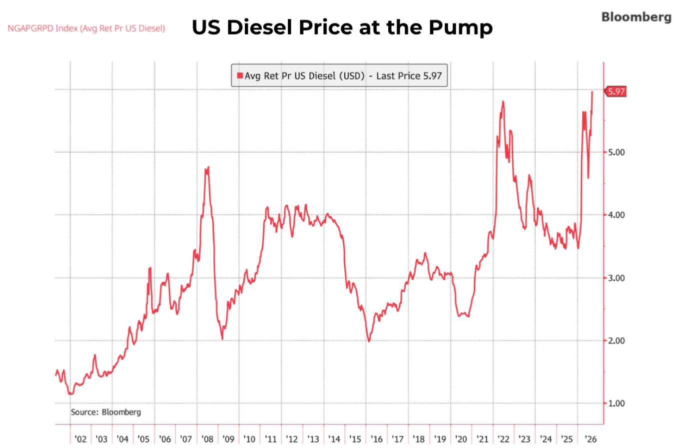
REZCO

Letter to investors

September 2026

2026 letter to investors

As I write this note mid September 2026, the S&P 500 is a little below all time highs, the Rand / Dollar remains strong at just above 16, and the ALSI, although down from its highs, has still returned a healthy 13% over 1 year.



Yet at the same time, with the Houthis having just taken control of the Bab al-Mandeb strait, and no clear off ramp to the US/Iran conflict in the Strait of Hormuz, Brent oil has pushed through $108. The escalating Ukraine/Russia conflict has pushed up refining margins throughout the oil complex substantially, critically with diesel prices rising exponentially.

Global ‘oddities’ in politics continue unabated, too many to list here - recently Trump announced a $5000 cash reward for all US citizens (over $1tn total cost) should Republicans win in the midterm elections! Decreasing confidence in government credibility continues in much of the developed world, but especially the US. It is thus not surprising that US 10 year yields have broken 5% - with pressure seen in other major countries too. This is playing out despite the powerful US Treasury announcing a tripling of long bond buybacks and signalling a general willingness to intervene in markets.

While bond and credit markets are panicky, equity and commodity markets are seen as safe havens!

> *The disconnects and volatility under the surface are worrying, and the best description of the current global environment is an unstable equilibrium.*
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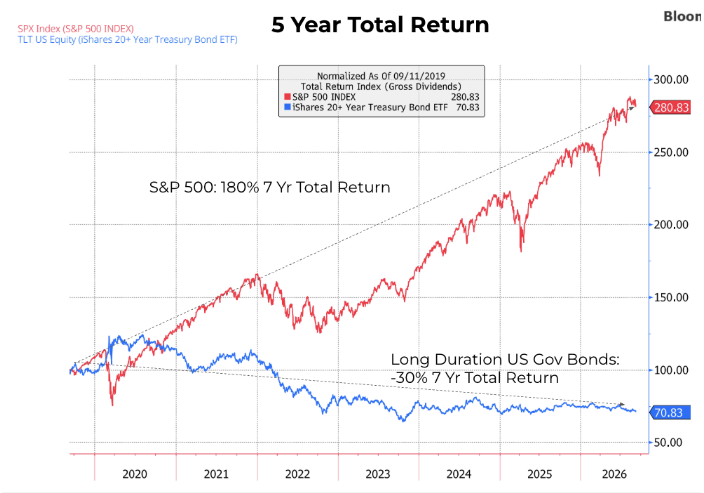
> *While the underlying signals suggest caution, megatrends around AI globally, and precious metals locally, are carrying the equity index levels and diminishing the perception of macro risk. Under the relatively calm surface of equity index levels there is a lot of volatility and risk.*



> *The concentration risk is well flagged, but momentum is a strong force that is difficult to break. For now market positioning is generally bullish, and many economies remain robust and growing albeit carried by unsustainable balance sheets and budget deficits; and interest rates that are too low in the face of significant inflationary risks.*

We have been positive on the SA Macro environment post the formation of the GNU, noting however that the likely risk to our view would come from negative global macro rather than domestic issues. This has played out through the conflict in the Middle East, pushing up local inflation and sending the interest rate trajectory into short term hiking instead of the cuts that were expected early in the year. We have made some adjustments in the portfolio accordingly which will be outlined later.

Rezco business update

With this global backdrop in mind, it is worth considering how investment markets are functioning and how best to manage client money through this time of great excitement and promise (with reference to the disruption of AI) but also concern and risk (with reference to geopolitics as well as fiscal and monetary policy).

Much has been written about active fund performance, the dominance of passives, and how best to manage money. There are better commentators than myself on these topics, but I would like to flag a few issues we see impacting South African investors:

- We are seeing a much stronger emphasis on tracking performance closely to the benchmark, even within active managers - it is not a fee issue but a tracking error consideration
- Liquidity and market pricing efficiency in the small/mid caps has deteriorated, not just in South Africa but also in other country indices. This is most clearly seen in an inversion where private equity valuations often run at a premium over listed.
- Significant short term focus in the market around the next company data release - beat vs miss mentality is high with less emphasis on longer term views
- Significant single stock volatility around specific news / data events, and strong momentum based trends in-between data releases (that's positive or negative momentum until new information breaks the trend)

We remain convicted in our core philosophy of buying good businesses on fair value that are compounding their earnings, and actively managing total portfolio risk (not relative risk to peers or benchmarks). Given the above market observations, however, we note that by maintaining our investment philosophy, we are likely to see sustained periods of higher than normal tracking error and longer alpha cycles within the funds (that's both positive and negative cycles).

In order to protect the continuation of our investment philosophy, we have taken the view to ensure our business is structured robustly to allow the portfolio management team to maintain focus on the market through longer alpha cycles and more varied firm wide AUM. Simply, we want to stick to our knitting, but given how the market is currently operating and a general industry preference[1] for low tracking error and the perceived 'safety' of benchmarks, we need to build the business to sustain our core focus and deliver long term growth for our clients.

There are three key items to update you on, all centered around this idea of keeping our focus on managing the funds to the best of our ability.

Change of Manco and upcoming ballot

Rezco has been unique amongst the SA boutique asset managers in running its own CIS ManCo, Rezco Collective Investments, since 2004. As industry trends, regulations, scale benefits and technology have changed over time, it is no longer necessary for Rezco to utilize an internal ManCo and we are planning to move over to Prescient Management Company. Indeed we foresee our clients being better served by this

[1] We don't think this will be a permanent feature of allocators, but given the strength of index performance despite many risks passing by, alongside concentration and momentum, we see this as a temporary feature that will likely last until the next big bear market.

move, and encourage participation in the upcoming Ballot that will be distributed to all investors in October.

In alignment with our core values, Prescient is run to exceptionally high standards with the expected robustness of being a leader in the industry in Co-Named ManCo services. We have full confidence in the team and process at Prescient and see this move as allowing Rezco Asset Management to better focus on managing the portfolios while benefiting from the scale and costs of Prescient. We will remain with core operational and systems capabilities within our sister company Agulhas Fund Services, run by Johann Lourens, who is currently the Rezco ManCo Chief Executive and previously the Head of Operations at Rezco for many years.

Focused fund range

Included in the upcoming ballot will be a proposal to amalgamate Rezco Managed Plus Fund into the much larger Rezco Value Trend Fund (which will become the Rezco Value Trend Prescient Fund post amalgamation). These two funds have been managed in a similar manner, and the merging of these funds support the simplification and focus within Rezco on our core offering. It is also worth reminding clients that Rezco closed the Global Flexible and Global Equity Funds over the past year. This forms part of a strategy to focus closely on a core offering of the Rezco Value Trend Fund, Rezco Stable Fund and Rezco SA Equity Fund. This narrow fund range allows us to focus in on core capabilities we view as part of the Rezco DNA:

- Conviction stock picking
- Global & SA Macro and Portfolio Risk Management
- Active asset allocation within Reg 28

Within this more focused fund range, and noting where we see our core skill set, it is worth highlighting that the local multi-asset funds will increasingly utilise ETFs to express global equity views. Position sizing in global equity will be reduced, with even high conviction global stock picks receiving relatively small percentage fund allocations. To be clear, local stock picking will remain with high weights depending on conviction and risk, with the global equity portfolio through time reflecting a diversified portfolio of ETFs alongside small (but conviction) equity stock picks. The style remains 'Growth at a Reasonable Price' but reflected in a more diversified manner.

At the time of writing we remain highly cautious, and thus global equity levels are low, but this update serves as a general forward view based on how we see global equity markets playing out.

Team structure and the use of AI tooling

The final item to update our investors on is how we have restructured our investment team. Rezco has long held the view that the bottleneck in managing portfolios is the Portfolio Manager (PM) and not the analyst team. While many commentators on the industry support the idea of large stable analyst teams and investment processes which provide repeatable performance, and de-emphasise the role of the PM; our view is this is more aligned to large corporate brands with substantial AUM and very broad product offerings. The idea of 'Star Managers' is also not our view, as we think this breeds hubris and often poor risk management. A small focused team of PMs, humble and fascinated with markets, is in our view the best way to manage a portfolio such as the Rezco funds.

Indeed we have always hired and trained our analysts to think like PMs and not analysts, as in our view company analysis is more of a commodity than an alpha generator.

With this context as the background, the new development of AI has been profound. There is substantial commentary on the capacity and industrial trends around utilising AI as part of a business process. A trend we have been studying is how high individual performers enhanced with AI become 'super performers'. These 'super performers' require less support as their increased efficiency overtakes the net benefit of managing more junior team members.

Within Rezco we have moved in this direction. Our investment team is now a team of three PMs, Rob Spanjaard (CIO), Simon Sylvester (PM/CEO) and we have promoted Shaun King to Junior Portfolio Manager. We no longer have analysts internally, but we have enhanced our tech stack to utilise AI to support the PM team. We continue to utilise multiple sources of external research and data sources. The PM team is also supported by a full time trader, Alex Hardman, assisted by a junior Matthew Rodgers who recently joined our team.

Key in investing is filtering the signal out of the noise; PMs are best able to do this - but capacity is constrained. The business has been simplified, the fund range is focused, while the tech stack has become sufficient to create capacity for the PM team to cover the full aspect of the investment process.

We are confident that our new focused structure is better able to serve our clients going forward within the continued process and philosophy our track record is built on.

In concluding this business update, it is worth looping back to the start: we see the best way to build wealth in the long term is to invest in good businesses compounding over time, and manage portfolio risk. We don't think this has changed, it is tried and tested over many decades, market systems and disruptions. The hard part of investing is not the math, but the ability to stick to the foundational principles continuously over very long periods. The concentration and momentum in the market make it harder to stay true to these principles, but we think times like we are in require greater behavioural discipline. This is our view, and we have refocused Rezco Asset Management to support this in order to compound wealth over long periods of time.

Rezco webinar invitation

We will be hosting a webinar on Thursday 15 October 2026 at 9am in our usual format; but we can also take questions on our business update and the ballot discussed above. Alternatively feel free to reach out with any questions or clarifications - we are always happy to engage!

Register here for the upcoming webinar

Gold & AI

While we prefer to use our webinar format for a fuller macro and fund update, there are two dominant themes playing out in markets that I think are worth discussing in this letter:

- Gold and Precious Metals
- The AI Trade

On Gold (incl PGMs):

Simplistically I see two types of SA equity portfolio managers out there:

Portfolio Manager Type 1:

"I have no idea what the Gold Price is going to do, so to be safe I am <u>not</u> going to buy Gold miners"

Portfolio Manager Type 2:

"I have no idea what the Gold Price is going to do, so to be safe I am going to put 20% of my client's money into Gold miners"

We have a few issues with gold in the current market. The key issue is gold has been behaving as a risk asset - it rallies alongside high beta equity shares and general investor risk-on sentiment, and it falls with increased geopolitical and inflation risks. Rezco has held gold over many different periods, and Rob has a history of trading gold back to the late 80's. We do not mind owning gold or PGMs, and have done well for clients in prior cycles - but we prefer to invest with a margin of safety and a price framework we can track outside of the pure emotion of risk sentiment.

Another key issue is investing in Gold Miners is not the same as investing in Gold - gold miners have a 50 year track record of rising costs, value destructive M&A deals, poor returns on 'top of the cycle' capex, and geopolitical and tax risk. Gold miners are best used as trading instruments for short term profit. They generally do not compound. Put simply, when you invest into a good business, time is your friend - compounding does the work through cycles. When you invest in gold miners, time is against you - costs are inflating, and if the gold price rallies then risk of bad M&A and surprise taxes or asset ownership risks emerge. Take your profit, don't even wait for the dividends!

We prefer to invest in the commodity when the miners are too expensive: gold miners should trade at a steep discount to the spot price when the commodity is rallying - this cycle didn't feature this and miners remained expensive. The Rezco Equity Fund has added a position in NewGold (JSE listed physical gold ETF) as we see the Rand Gold Price as a good portfolio diversifier in the current environment. Rand gold can compound over time, and while we have not been invested in the miners, we have been sympathetic to the views around increased inflation and geopolitical risk, and major countries with ill-disciplined fiscal and monetary policies as supportive of gold.

On the AI Rally:

The second major investment narrative is the AI story. There is insufficient space to go through all the nuances. Simply, we missed the initial rally, but the extended rally we see as unjustified. Our concern is that it is an earnings bubble and quality (cash generation and return on investment) issue, even though simplistically PE ratios are not elevated.

While we view AI as an economically positive disruptive force similar to other major technological breakthroughs in history, we do not view the long term winners as clear cut as the market is pricing in. There is a lot of risk around earnings sustainability of the semiconductor shares, while the cloud providers are clearly the platform off which AI operates, they are unlikely to achieve the required return on their massive investment. The life span and appropriateness of the data centre assets is also in question. The model builders we see as most at risk valuation wise, but this is not a major issue in the listed environment.

So simply, we prefer to wait to invest in companies that can use AI well to benefit their customers, and take fair share of profit along the way. In South Africa our investment in Discovery and Netcare are clear examples, whereas a global example of a share we own is Nubank. We think ‘sector winners’ better able to use the technology will widen the gap over peers. It’s not just AI but the full tech stack. Over time we expect to add to companies with superior tech stacks, but are likely to avoid investing directly in the infrastructure. For now our caution on global risk, especially yields and inflation, counterbalance our positivity on AI as a key profit growth enabler for many really good businesses.

SA Macro

A quick note on the SA Macro, which we will unpack further in the upcoming webinar.

Clearly the growth in South Africa has disappointed through 2026. The economy remains fragile and susceptible to negative global macro and sentiment shocks. Our positive view through to early 2026 was based on the probability of a virtuous cycle playing out in South Africa: lower inflation and a stronger Rand leading to lower interest rates and increased confidence, coupled with ongoing reform and reduced political risk would ultimately generate fixed capital investment, growth and job creation.

We think this scenario is delayed and at risk but not cancelled. The higher interest rates and fuel prices have squeezed a consumer still too fragile to absorb shocks, and hence we are seeing particularly poor growth in discretionary categories, especially clothing.

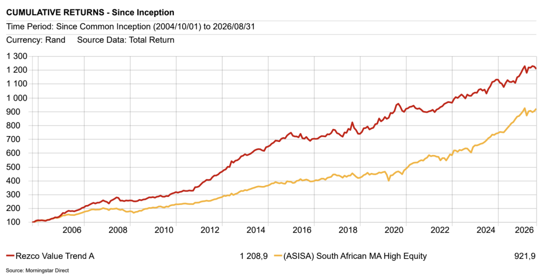
In this context there are two major considerations I want to highlight:

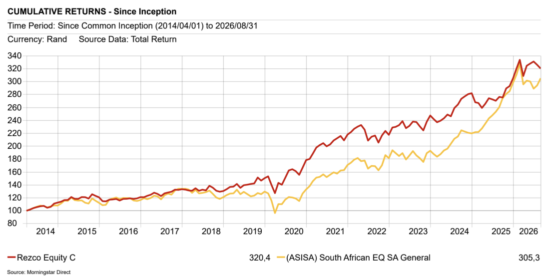
- What is the correct investment time horizon?
- How have risks shifted?

As mentioned the market has taken a very short term view - many SA Inc shares still have a good three to five year outlook, but it is clear 2026 will disappoint. Our preference is to take a longer term view, but this now needs to be considered more carefully against the risks that have developed. We will manage the portfolio to increase global diversification and reduce beta to SA GDP Growth and Duration, and carefully monitor the SA economy and global risks. That being said, the market operates in a dynamic environment - some share prices have fallen to levels where reward relative to risk has become compelling.

Conclusion and thanks

At Rezco we have always maintained a strong view that risk management is core to what we do - our goal is to generate good returns but we want to achieve this at a reasonable risk level. Simply, we want to take good risks at good times, and in risky times, if return expectations are insufficient, we lean heavily on protecting capital.





It is clear that the world post Covid has been more volatile and uncertain. It is not just the headline politics and news flow, but risks have been fundamental: monetary policy and inflation, budget deficits and growing debt levels, QE, tariffs, geopolitics and wars. Through all these events reducing risk as events become clear has generally been costly, buying dips or remaining fully invested has been a much better strategy.

Due to the above, since 2022 the funds have significantly lagged very strong markets; but we have also made some stock picking errors along the way, and missed some good opportunities too. That being said the long term track record shown in the charts above still shows good returns since inception, and this is with much lower risks taken. Risk management is a probability view, not exact predictions or market timing. The reality is avoiding a 20% probability negative tail risk still means an 80% chance of the risk not playing out. We are confident that long term, it is important to stick to the process. The lessons learned over the past years is not that risk doesn't matter and markets always go up, indeed we maintain that this remains a period to be careful with capital at risk.

In closing, I would like to thank our clients and investors for entrusting us with your hard-earned capital. We take this responsibility seriously.

I also want to end with our confidence that through risk there are always good opportunities, and it is our goal to generate excellent returns over time. The opportunities in South Africa remain compelling going into 2027, and we hope to navigate the risks well with the goal of taking good risks to generate healthy long term compounding returns.

Kind regards,

Simon Sylvester