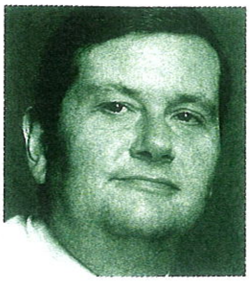
INVESTOR'S NOTEBOOK STEPHEN CRANSTON



Rezco was once fated to be a resource-focused investment company. Then its owner, Wally Gray, a veteran of Sage Asset Management, was persuaded to turn it into a unit trust business, of which he is now co-fund manager. This was set up in 2004 by ex-Sovereign Foods boss Rob Spanjaard, who had gone into the food industry after a spell at the original Momentum Asset Management.

The Rezco Value Trend fund is a past winner of the Morningstar award for the highly competitive high equity category. It is a good example of a genuine boutique manager. The team aims to build risk-adjusted returns rather than to get rich on large assets. And the risk-adjusted numbers are impressive.

Since inception in 2004 its return of 19,6% has outperformed the seven largest balanced funds. It has had the lowest drawdown (loss) and the highest Sortino ratio, which looks primarily at downside risk. Yet it took nine years for Value Trend to crack R1bn, in 2013: the team spent 80% of their time on investments and only recently appointed two full-time business development staff. But over the past two years it has built up relationships with 1 700 financial advisers and Value Trend now has R4bn under its belt.

It is certainly an advantage that Spanjaard has run a business in the real economy. He listed it in 1995 and it grew turnover by 25%/year over 15 years. He says few fund managers understand how tough it is to run a large business; not all the facts show up on a spreadsheet.

Over the past three years Spanjaard and co-fund manager Gray have backed some strong management teams, such as Mondi, Omnia, Discovery and Bidvest Group.

It doesn't have a perfect hit rate and Tongaat Hulett, AVI and Mr Price detracted from performance. The fund no longer owns Mr Price, which over the life of the fund has been a superb positive contributor.

Rezco believes in getting to know companies well but not in getting too close to management and "drinking the Koolaid". Spanjaard knows from his own experience how much management attention is devoted to spin.

Asset allocation is another way in which Rezco has added value. Spanjaard says active local managers should be changing their asset allocation as the market reacts to concerns over Chinese growth, weaker commodity prices and the potential rise in US interest rates.

He says that portfolio managers who do their job correctly manage to reduce the downside that their funds experience but at the same time profit from a significant portion of the upside.

He is not afraid to time markets to maximise returns. And going into cash is the only way to realistically diversify as there is a positive correlation between equities and bonds in SA and other emerging markets: those business school textbooks which talk about the negative correlation between the asset classes should be burnt, he says.

The acid test has been that the fund has outperformed the all share index, even though it is 65% invested in the market on average.

Why go for the imitation if you can get the real thing? Rand Merchant Insurance (RMI) has been investing in some top boutique managers such as Perpetua, Tantalum and Northstar. It has modelled its approach on the Affiliated Managers Group, which takes investments in leading boutique firms. Like RMI, it allows each affiliate's management team to own significant equity in their own firms and maintain operational autonomy. AMG is somewhat bigger than RMI, with US$618bn under management in aggregate. Abax Investments must have been on the RMI hit list as a leading independent manager, but with R75bn under management it was big enough to attract international attention. Its R14,5bn Rainmaker fund, which it runs for Nedbank, is one of the stalwarts of the general equity sector. This week Abax announced that AMG (and not its clone RMI) had taken a 25% stake in their business. It is the first investment by AMG into any emerging market, quite a feather in the Abax cap.

Not all the facts show up on a spreadsheet in the real economy