

January 2025

RCI BCI Worldwide Flexible Fund

World markets closed 3.5% up for the month of January, with most of that performance coming from European stocks: UK's FTSE 100 up 6% and Germany's DAX up 9%. The S&P500 closed 2.7% up for the month, mostly driven by performance in sectors like Financials, Health Care, Industrials and Materials unlike the big tech drivers from 2024.

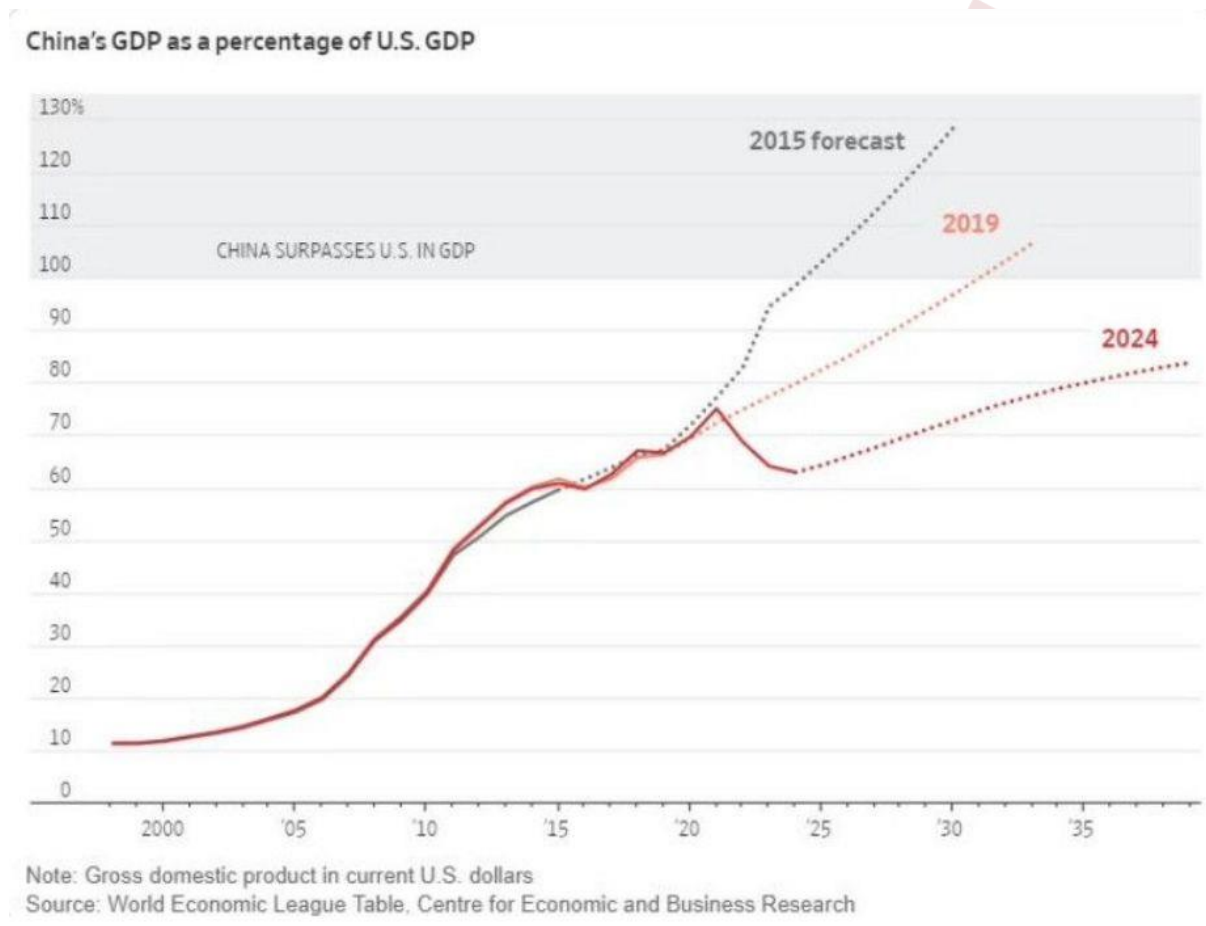
Name	2024	Jan-25
NASDAQ 100 IDX	24.9%	2.2%
S&P 500	23.3%	2.7%
DOW JONES INDUST IDX	12.9%	4.7%
S&P 500 COMMUN SERVICES	38.9%	9.0%
S&P 500 INFO TECH IDX	35.7%	-2.9%
S&P 500 CONS DISCRET IDX	29.1%	4.4%
S&P 500 FINANCIALS IDX	28.4%	6.4%
S&P 500 UTILITIES IDX	19.6%	2.9%
S&P 500 INDUSTRIALS IDX	15.6%	5.0%
S&P 500 CONS STAPLES IDX	12.0%	1.9%
S&P 500 ENERGY IDX	2.3%	2.0%
S&P 500 REAL ESTATE IDX	1.7%	1.7%
S&P 500 HEALTH CARE IDX	0.9%	6.6%
S&P 500 MATERIALS IDX	-1.8%	5.5%
HANG SENG IDX	17.7%	0.0%
MSCI WORLD IDX	17.0%	3.5%
DAX IDX	18.8%	9.2%
NIKKEI IDX	19.2%	-0.8%
MSCI EMERGING MARKETS IDX (USD)	5.1%	1.7%
FTSE 100 IDX	5.7%	6.1%

(Source: Bloomberg, Anchor Capital)

The announcement of a Chinese AI competitor called DeepSeek, that was supposedly trained at a fraction of the cost of American AI, caused shockwaves through the American market. Especially the mega cap AI stocks like Nvidia (down 11% for the month) leading to the sector falling 3%. However, companies like Meta (in the communications sector) who use open-sourced AI saw their share prices rocket on the expectation that they would benefit from the implementation of cheaper AI models.

January also saw the start of Donald Trump's second term presidency and with it several aggressive policy introductions that were seen as either favourable or detrimental to the US economy. These announcements continue to whipsaw the market. In particular, the push for tariffs and their expected inflationary impacts.

The following is an interesting graph showing how disappointing the Chinese economy has been versus the US economy over the last ten years. The solid red line is the actual GDP vs the USA and as at 2024 China's GDP was about 62% of The United States. What is really interesting is how the forecasts (dotted lines) have changed over the years. In 2015, when the Chinese GDP growth was far higher than the United States, economists expected the Chinese economy to surpass the US in about 2024. However, by 2019 economists pushed this date out to about 2030 but as at 2024 economists do not expect the Chinese GDP to surpass the United States for the foreseeable future.



In 2015 economists expected China's economy to surpass the USA within 10 years. This relationship has actually gone backwards and there is now no expected date when this could occur. (Source: Centre for Economic and Business Research)

This is quite an about turn and there are several reasons that could explain why the Chinese economy stalled over the last several years:

- The economic and social differences between Communism and Capitalism.
- The different responses to COVID19. Especially the massive stimulus undertaken by the USA.
- The dollar as a reserve currency.
- Superior US technology and exceptional businesses that are far more globally orientated.
- The demographic headwinds of China.
- The property market collapse in China and its impact on consumers.
- China is far more manufacturing driven and Investment heavy. Whereas the USA is serviced based and innovation driven.
- The greater reliance of China on the US than the other way around and the impacts of tariffs on this relationship.

Portfolio Strategy

The focus of the portfolio continues to be direct investment in high quality offshore equities that are world leaders in their industries, with emphasis on businesses with high Return on Capital Employed combined with excellent free cash flow generation. We tend to ignore whether or not a company pays a dividend as we usually prefer those businesses that reinvest earnings in their internal operations. We also tend not to chase short-term investment narratives and themes that could be trending in the market, as we would not want to reduce the quality of the portfolio for the sake of following the flavour of the month.

	PE in one years time	PEG Ratio (FWD PE/'25-26 Growth)	EPS Growth			Pullback from high
			2023-2024E Growth	2024-2025E Growth	2025-2026E Growth	
ALPHABET INC-CL C	21.6	1.5	36%	12%	15%	-2%
AMAZON.COM INC	32.6	1.7	76%	7%	19%	-2%
BOSTON SCIENTIFIC	36.1	2.6	23%	14%	14%	-1%
CONSTELLATION SOFTWARE	39.4	2.6	15%	15%	15%	-1%
FORTINET	40.7	3.2	44%	9%	13%	-2%
LVMH MOET HENNESSY LOUIS VUI	24.1	2.2	-13%	4%	11%	-22%
MERCADOLIBRE INC	41.4	1.0	44%	33%	41%	-12%
MICROSOFT CORP	28.6	1.9	23%	12%	15%	-12%
RHEINMETALL AG	24.8	0.6	59%	42%	38%	-1%
TAIWAN SEMICONDUCTOR-SP ADR	21.8	1.3	41%	33%	17%	-12%
Top 10 - FWD PE Ratio* PEG ratio* and EPS Growth Rate^	29.3	1.5	39%	13%	15%	-7%

S&P500 - FWD PE and EPS Growth	21.9	9%	14%	9%	-2%
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*Calculated using Harmonic Mean

^Calculated using Median

We expect strong performance out of our top 10 positions for the 2025 and 2026 years. Our portfolio is expected to grow earnings per share in the mid-teens which is greater than the S&P500, where analysts expect 12% average growth over 2025 and 2026. Our companies are trading at higher valuations, 29x, versus the S&P500's 22x, but we believe this is justified by the higher quality of our investments, growing earnings at a higher rate than the market. This is especially so when compared to expected returns on investments in bonds or cash.

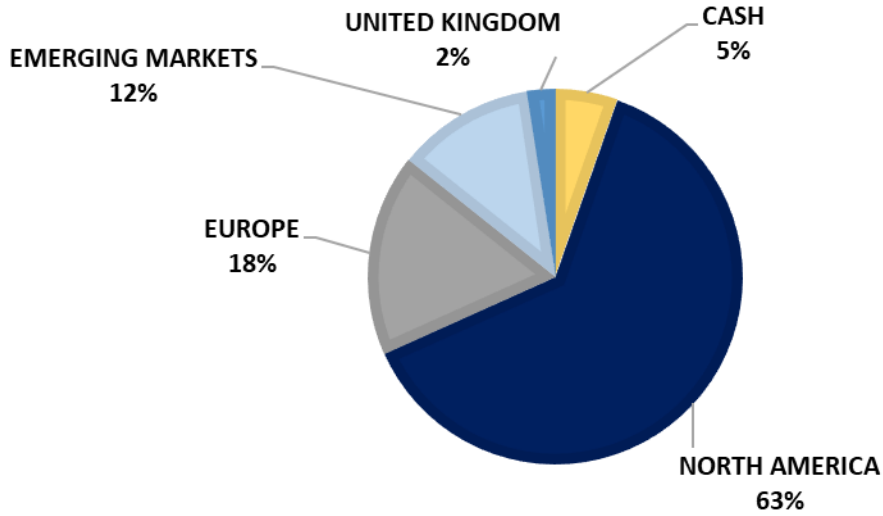
On average, our top 10 positions have corrected 7% from their recent high's whereas the US market has fallen 2% on average.

At present there are no investments in South Africa, other than rand flows due to new subscriptions.

Changes made during the month

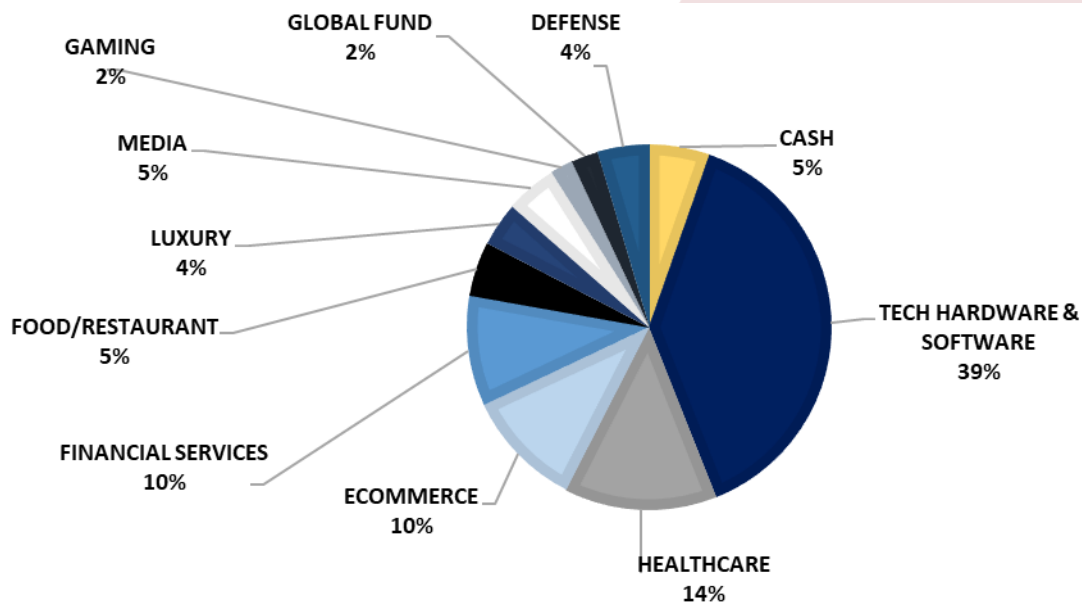
- Started a position in the sports betting stocks Flutter Entertainment and DraftKings who collectively make up over 75% of the US online betting market.
- Sold out of Rentokil Initial, Sabre and Moncler.

Geographic Drivers



- Cash is usually held as USD with a few percent in Rands due to subscriptions. Therefore, total North American + USD exposure is closer to 68%.
- We have exposure to Europe via global companies: ASML, LVMH, Novo Nordisk, Universal Music Group.
- We have Emerging Markets exposure via Mercado Libre, Tencent, Taiwan Semiconductor and Nu Holdings.
- We have UK exposure through the listed fund Scottish Mortgage Trust.

Sector Weightings



Communication sector shares such as Alphabet have been placed in the tech sector. Amazon has been classified as eCommerce, although a large portion of their business is in cloud computing. Over half of the companies we own have a Return on Capital Employed (ROCE) over 20%. About 26% of the portfolio has defensive characteristics and if you add the cash of 5% this would rise to a combined defensive weighting of 31%.

Performance in Rand

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2019	-0.7%	7.1%	4.3%	4.0%	-2.9%	0.5%	2.6%	3.3%	-0.3%	2.5%	-0.3%	-1.1%	20.3%
2020	7.3%	-1.5%	5.6%	10.2%	-1.9%	1.7%	3.5%	6.0%	-4.7%	-2.8%	0.4%	-3.0%	21.5%
2021	5.4%	1.0%	-1.9%	2.7%	-4.5%	7.9%	1.8%	0.7%	-1.2%	4.2%	0.8%	-1.2%	16.3%
2022	-12.4%	-2.5%	-6.0%	-2.4%	-5.9%	-4.3%	8.2%	0.0%	-4.7%	6.4%	-5.8%	-1.4%	-27.9%
2023	13.0%	2.5%	0.6%	5.3%	6.9%	0.0%	-3.0%	4.7%	-5.8%	-4.5%	10.5%	2.9%	36.1%
2024	5.7%	4.6%	-0.4%	-3.5%	-0.3%	0.0%	-4.7%	1.6%	-1.3%	1.8%	5.4%	3.6%	12.6%
2025	4.9%												4.9%

For the month, the fund was up 4.9% in ZAR terms (6% in USD) compared to the MSCI Developed Markets Index which was up 2.4% in ZAR (3.6% in USD) for the month. The Rand strengthened 1.1% for the month, detracting from the performance in ZAR.

For the 2024 calendar year, the fund was up 12.6% in ZAR (+10% USD) whilst the MSCI Developed Markets Index closed up 19% in ZAR (+17% USD).

We hope you find these insights useful. If you require any further detail regarding the fund, please see our official BCI Fund Factsheet available on the BCI website, otherwise please feel free to contact us.

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