ROBERT COWEN INVESTMENTS

NEWSLETTER – END MAY 2021

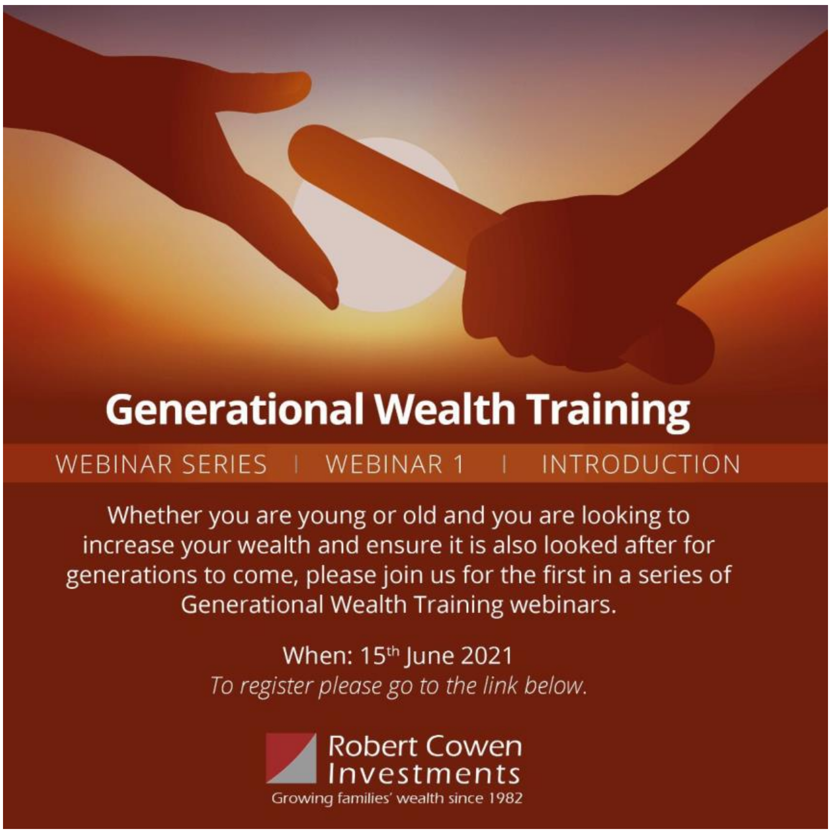
12 June 2021

“The consumer is not a moron; she is your wife” – David Ogilvy

HIGHLIGHTS OF THIS NEWSLETTER ARE:

- RCI – ‘The Family Wealth Office’ – What we offer
- A Month in Markets – May 2021
- Protection of Personal Information (and the effects on you)
- Why is the Rand so strong? – By Eric Lappeman
- Naspers/Prosus: Another difficult decision for shareholders – By Mike Gresty
- Charts/Memes of the Month
- RCI Unit Trusts

WE ARE LAUNCHING OUR FIRST EVER WEBINAR SERIES!



The aim of these webinars is to assist clients and their friends and families understand many of the principles we work with on a daily basis to manage your affairs. In our first webinar, we will explain who RCI is, what services we offer, the types of structures we use and what we focus on – tax, emigration, estates, wills, pensions, marital contracts, investments, etc. We will also give a high-level overview on how we invest for clients and what vehicles we use.

The series will run for six months, starting on Tuesday 15 June. A recording of the first webinar will be made available to everyone who could not attend the session.

Note: If any of our clients wish to be added to the Anchor research and news mailing list, kindly let us know and we will gladly add you.

*If you know of anybody who would like their financial affairs looked at, please do not hesitate to send them our contact details and we will ensure we get back to them with a proposal plan. They can contact us at eric@rcinv.co.za or 082 561 3124.

RCI – "THE FAMILY WEALTH OFFICE"

WHAT WE OFFER:

FINANCIAL NEEDS ANALYSIS OF YOUR FAMILY'S ENTIRE ASSET BASE

- Evaluate existing asset base and asset allocation
- Evaluation of current investment structures (retirement, endowment, company, trust etc.)
- Establishment of future goals/objectives/risk appetite

RECOMMENDATION OF CHANGES TO EXISTING ASSET BASE AND ASSET ALLOCATION

- Suggested restructuring (per proposal)
  - Local/Offshore split
  - Trusts; local and offshore
  - Companies
  - Insurance
- Estate Planning
  - Calculating existing estate duty and capital gains tax
  - Assisting in reducing estate duty and capital gains tax
  - Reviewing trust deeds
  - Reviewing existing wills

INVESTING CLIENT FUNDS

- Bespoke local/offshore share portfolios
- Retirement funds
- Unit trusts (local/offshore)

ONGOING FULL CASH MANAGEMENT SYSTEM

- Fully managed transactional banking accounts for clients
- Third party payment functionality – debit orders and ad-hoc payments
- Transferring of funds offshore

FIDUCIARY SERVICES

- Trustees on more than 80 trusts
- Trust administration
- Trust accounting
- Tax compliance
- Assisting in applying for foreign tax clearance
- Legal compliance; drafting of resolutions, contracts and assisting with legal opinions

A MONTH IN MARKETS

MAY 2021

By Eric Lappeman

The Family Office

In May, we continued to see signs of economic strength everywhere. Investors continue to focus on the impact of higher inflation and are increasingly concerned about stretched valuations. All eyes remain tightly fixed on the Fed's messaging, which has held steady so far. Low interest rates for both consumers and businesses should keep the strong recovery going, and corporate earnings increasing.

US equities closed the month mixed. The S&P500 rose 0.7% for the month, now up 12.62% for the year, while the tech-heavy Nasdaq closed down 1.17% (up 6.52% for the year). Locally, the JSE All Share jumped a further 1.6% in ZAR, as we witnessed big flows into emerging markets. The JSE All Share is now up 16% for the year in ZAR, and a whopping 22.1% in USD, as the Rand continues to strengthen. The Rand strengthened a further 5.5% against the US Dollar, to close at R13.74, following a strong month in April. The RCI Worldwide Flexible Fund closed the month down 4.5%, while the RCI Growth Fund closed down 5% for the month, as both funds are heavily invested in dollar assets. These funds are now ranked 5th and 2nd respectively in their categories over the last two and three years. The RCI BCI Flexible Fund was up a further 2% for the month and is now up a whopping 46.33% over the last year and ranked 5th in its category.

It was a mixed bag for commodities, as some metals benefitted from a weaker dollar and strong data out of China, while others took a breather. Platinum and Palladium were both down 1.1% and 5.5% respectively, for the month, but still up double digits for the year. Copper and Iron Ore came to the party though, up 4.3% and 7.6% respectively. Both up north of 30% in USD for the year! Gold rallied nicely on the back of a weaker dollar and mounting concerns over rising inflation. Brent advanced a further 3.1%, now up 34% for the year.

Among shares that made large moves, retail had a great month, with Dischem, Mr Price, and Pepkor all having a very strong showing, all up north of 20% for the month. Distell also jumped significantly on news of a bid from Heineken. Amongst the notable laggards were mainly rand hedge industrials and platinum counters, as the Rand strengthened substantially, and the PGM prices pulled back. Prosus, Amplats, Sasol and Implats all dropped more than 5% for the month, while Vukile Property Fund fell 10.1%.

We continue to remain cautious going into what is usually a quieter period for stocks. The Fed's position regarding inflation remains a concern. However, no changes have been made to its monetary stance as yet. We are also keeping a close eye on where interest rates are headed, as well as the COVID vaccine rollout programmes and any further spikes in infection rates. As it stands, the US Fed has committed to a dovish stance for longer. The world continues to reopen, and inflation appears transient – which is good for equities.

MONTHLY MARKET MATRIX

Indicator	Closing level	Monthly Move	Y-T-D	Indicator	Closing level	Monthly Move	Y-T-D
Equities				**Currency**			
MSCI World Index (USD)	**2976**	**1.5%**	**11.6%**	USD/ZAR	13.74	5.5%	6.9%
S&P500 (USD)	4204	0.7%	12.6%	GBP/ZAR	19.53	2.6%	2.8%
FTSE 100 (GBP)	7023	1.1%	10.4%	EUR/ZAR	16.78	3.8%	7.0%
Nikkei (JPY)	28860	0.2%	5.9%				
MSCI Emerging Markets Index (USD)	**1376**	**2.3%**	**7.4%**	**Commodities**			
JSE All Share Index (ZAR)	50483	1.6%	16.0%	Gold Spot (US$/oz)	1 907	7.8%	0.4%
JSE All Share Index (USD)	50483	6.7%	22.1%	Palladium PM-fix (US$/oz)	2 817	-5.5%	20.3%
JSE Capped Swix All Share Index (ZAR)	19246	2.9%	16.8%	Platinum Spot (US$/oz)	1 190	-1.1%	11.0%
RCI BCI Worldwide Flexible Fund (ZAR)	1.61	-4.5%	2.5%	Copper Cash LME (US$/ton)	10 248	4.3%	32.3%
RCI BCI Flexible Fund (ZAR)	4.33	2.0%	16.7%	Iron Ore (US$/ton)	189	7.6%	35.0%
RCI BCI Growth Fund (ZAR)	1.76	-5.0%	-4.7%	Brent Crude ($/Barrel)	69	3.1%	33.8%
Bonds							
US 10 Year Treasury yield	1.59	0.6%	-4.3%				
SA 10 Year Govt Bond yield	9.29	3.7%	-8.8%				

Robert Cowen Investments
Growing families' wealth since 1982

MAJOR MOVES IN SHARES

GAINERS		LAGGARDS	
DISTELL GROUP HOLDINGS LTD	34.5%	VUKILE PROPERTY FUND LTD	-10.1%
DIS-CHEM PHARMACIES PTY LTD	29.7%	PROSUS NV	-9.7%
MR PRICE GROUP LTD	28.3%	QUILTER PLC	-9.5%
GOLD FIELDS LTD	26.5%	ANGLO AMERICAN PLATINUM LTD	-8.4%
PEPKOR HOLDINGS LTD	24.0%	SASOL LTD	-8.2%
BARLOWORLD LTD	23.8%	NASPERS LTD-N SHS	-7.9%
TELKOM SA SOC LTD	21.3%	IMPALA PLATINUM HOLDINGS LTD	-7.7%
MASSMART HOLDINGS LTD	21.1%	CAPITAL & COUNTIES PROPERTIE	-7.6%
TSOGO SUN GAMING LTD	20.0%	ROYAL BAFOKENG PLATINUM LTD	-7.4%
DRDGOLD LTD	19.7%	NORTHAM PLATINUM LTD	-6.8%

PROTECTION OF PERSONAL INFORMATION

IMPORTANT NOTICE about PROTECTION of your PERSONAL INFORMATION

In terms of the Protection of Personal Information Act (POPI), which comes into effect on the 1st of July 2021, we as Robert Cowen Investments would like to inform you as our clients that we will continue to take the utmost care when processing, storing, or sharing the personal information we have obtained from you and will only use and process the information obtained for the particular purpose for which it was intended - namely, to provide you with the services as agreed upon with your portfolio manager and per your mandate.

Robert Cowen Investments further undertakes that the information we have obtained will only be shared with third parties such as regulators, our licensed software providers, and the Institutions or Supplier Companies to which we refer you as part of the services we offer.

Some of this information may be transferred internationally as well. For example, where we use cloud services to store data, or if one of the service providers that we use to provide services to you is located overseas. We will not send you unnecessary communications that you did not agree to from these service providers.

Robert Cowen Investments has strict regulatory obligations imposed upon it in respect of client confidentiality and timeframes for storing client information. Please be assured that we are not going to spam you with junk emails, adverts, or calls, and we are not going to be selling your contact details to any unrelated parties.

As an existing client, you would already be aware of the kind of information that can be requested/collected from our clients.

From time to time, we may collect additional personal information which includes, but is not limited to:

- information relating to the education or the medical, financial, criminal, or employment history of a person;
- any identifying number, symbol, email address, physical address, telephone number, location information, online identifier, or other particular assignment to a person;
- the biometric information of a person;
- the personal experiences, opinions, views, or preferences of the person pertaining to the services Robert Cowen Investments may need to provide you with;
- correspondence sent by a person that is implicitly or explicitly of a private or confidential nature;
- the name of a person if it appears with other personal information relating to the person, or if the disclosure of the name itself would reveal information about the person;
- information relating to the race, gender, sex, pregnancy, marital status, national-, ethnic- or social origin, colour, sexual orientation, age, physical or mental health, well-being, disability, religion, conscience, belief, culture, language, and birth of a person.
- personal information concerning minors.

How will we obtain and process this information?

- We will usually obtain information from you directly via different means but may from time to time also obtain publicly available information.
- Your information may be processed by third parties, such as regulators, our software providers, or other suppliers to ensure you get great service and may be transferred internationally in instances where we use cloud services to store data or if one of our own service providers is situated overseas.

Your rights

Kindly note that you have the right to contact Robert Cowen Investments to enquire about your information that we hold on record, and you further have the right to correct the information as stored by us or alternatively request Robert Cowen Investments to delete the information. Robert Cowen Investments will delete the information except if it is prohibited in terms of legislation or regulation.

You further have the right to revoke consent. However, if you do, then we will no longer be able to offer you our services. Should you have any queries please feel free to contact us for clarity.

All of our existing clients have received the above, with their month end statement. It is important that existing clients accept the above and acknowledge receipt of your rights. For more info, please feel to contact your portfolio manager, or visit our website www.rcinv.co.za .

WHAT IS HAPPENING TO THE CURRENCY?

BY ERIC LAPPEMAN

One of the most talked about topics right now, when seeing clients, is the strength of the Rand. Given how topical it is, we thought it best to pen a few thoughts in this month's newsletter.

Before going into detail, it is worth mentioning that calling any asset price/level over the short term is a fool's errand. There are simply too many factors at play that could cause movement in the short term - some known factors, and many more unknown factors... We prefer to deal on a "balance of probabilities" basis when dealing with currency, in particular over the medium to long term. On this basis, we believe that there is a greater probability than not, that the currency will trade at weaker levels in 3-5 years' time, than it is trading at today. That is most of what we need to know.

So why then is it so strong at present? For a number of reasons:

1. It is not just Rand strength, but also Dollar weakness – When measured against the Pound and the Euro, the Dollar is 11% and 6.8% weaker respectively over the last 12 months, at time of writing. The Dollar is 20.5% weaker against the Rand over the same period. So why has the Dollar been so weak?

    - Stimulus – Last year alone, the US printed roughly 25% of all Dollars in circulation. Need we say more? To give further context; the US COVID-19 stimulus package amounted to $6 trillion. Whereas the World War II spend amounted to $4.7trillion, and World War I amounted to $0.35trillion (both adjusted for inflation).

    - Inflation concerns – Leading on from the above, with significant amounts of money printing comes the risk of inflation and a weaker currency. Recently, the market has started fixating over the inflation print. In particular, because of the role it plays in what the US Federal Reserve does to interest rates. Higher inflation means higher interest rates, which can be negative for equities (if sustained for long periods of time). On the currency front though, higher inflation equals a weaker currency. The recent US inflation numbers, released at the time of writing, saw year-on-year CPI at 5.0%, well ahead of the 2% target of the US Federal Reserve, but also ahead of expectations of 4.6%. The good news is that most of the spike was due to normalising travel costs and rising used car prices. Neither of these inflation sources are seen as self-perpetuating and will come down as things return to normal – hence this spike in inflation is seen as more transitory in nature, but hurts the Dollar, nonetheless.

2. Back at home, we also see a few factors assisting the Rand (hence the dollar is much weaker against the Rand, when compared to the Euro and Pound):

    - Carry Trade (search for yield) – In a world with record low interest rates, it is no wonder that SA looks attractive from a yield perspective. A US investor can invest in a 10-year treasury bond yielding 1.46% at home, or alternatively buy into an SA 10-year government bond yielding 8.66% (albeit also assuming some currency risk). In fact, after adjusting for inflation, the scenario becomes even more attractive. The US 10-year real yield is, in fact, negative (-0.85%). So, after adjusting for inflation, you are paying the US government 0.85% per year to hold your money! In SA, if we adjust for inflation, we have one of the highest real yields in the world, at 5.3%.

    - Increasingly positive trade figures – At time of writing, SA just published its trade account figures, and they were substantially better than expected. Sustained strong commodity prices helped us post a current account surplus of R267billion for the first quarter. Loosely speaking, that means that foreigners have been buying nearly R90 billion a month of Rand in order to pay for our exports. If we cast our mind back a year, South Africa lost its investment grade rating and was dumped out of the World Government Bond Index. There was at that time immense fretting over the fact that foreigners would sell between R75 billion and R100 billion of South African securities due to the WIGBI exit. The size of the current account is such that we are effectively having a WIGBI equivalent every month, but this time around it is in South Africa's favour…

WHAT IS HAPPENING TO THE CURRENCY?

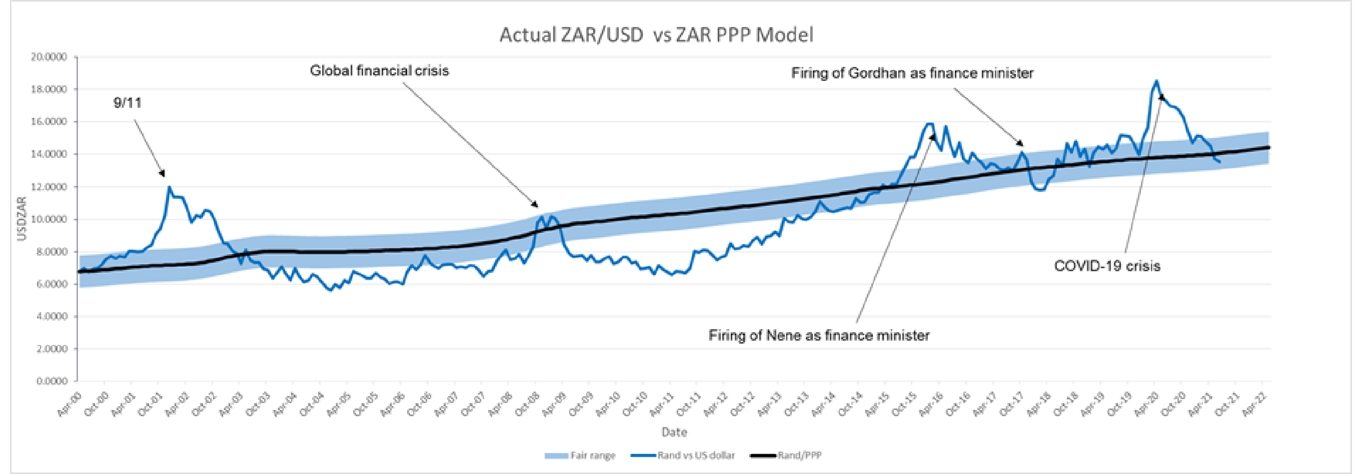
BY ERIC LAPPEMAN

CONTINUED...

With the above points in mind, it is easy to paint a picture for a stronger Rand, at least in the short term. It is easy for us, as South Africans, to become too pessimistic when we read all the negative news about the country – corrupt politicians, rolling black outs, lack of service delivery, etc. We fly a little too close to the sun for our own good.

Sometimes, we need to take a step back and give ourselves some context. Our colleague, Alan McConnochie, once said; "Don't underestimate the fact that Americans were put on this earth to give us money". From an American's perspective, we are another emerging market and, compared to peers, we have less problems and an attractive carry yield. Our currency is also one of the most liquid in the world. To this end, it is easy to see how money can flow in. The worry is that it can flow out just as quickly...

In summary, we remind ourselves to keep our eyes on the ball. This is a long term game, and we are only a few innings in. We maintain that this is a great opportunity for clients to continue externalising funds. The current account surplus will eventually dissipate (especially as rolling blackouts have a negative effect on our economy, and Chinese growth slows). The US will also eventually have to start easing off on its bond buying programme. At present, our PPP Model shows the currency at overbought levels (this has only happened 4 times in the last 21 years), and history shows every time that, from these overbought levels, it is very likely we will see the Rand weaken over coming years.



Over time, the Rand will weaken again, albeit that the factors that have driven its strengthening over the last few months are likely to continue to support it in the short term. Our offshore funds are invested in top quality international businesses that continue to grow nicely for us in Dollars!

NASPERS/PROSUS: ANOTHER DIFFICULT CHOICE AHEAD FOR NASPERS SHAREHOLDERS

BY MIKE GRESTY

As was widely expected by investors, Naspers/Prosus recently announced the next step in its plan to unlock value. The deal announced on 12 May, however, was probably not among the possibilities that investors had considered likely and, judging by the widening discount at which Naspers and Prosus have traded relative to their net asset values (NAVs) since this announcement, investors are distinctly underwhelmed by it. Considering the effort put into evaluating the various options available to unlock value by management, the fact that this was considered the best available option speaks volumes for the formidable tax and exchange control complications that confront the alternatives this Group has to unlock value. While this proposal does increase the NAV/share modestly (if it is accepted by shareholders), it comes at the expense of the creation of a large cross-holding structure, which adds complexity (investors hate complexity!), as well as removing the prospect for other corporate actions that would unlock value without significant tax consequences for the Group.

Furthermore, for private investors that hold Naspers shares in a tax-sensitive form, as was the case with the offer to take up Prosus shares when it listed, we think this latest proposal will create a difficult choice for them – accept the offer to exchange a portion of their Naspers shares for Prosus shares, thus securing a slightly enhanced uplift to the underlying NAV of their holding, but with the unwelcome consequence that it will trigger a deemed disposal of those Naspers shares and thus a tax event for those shareholders. What the correct choice is very much depends on each investor's personal situation and what their subsequent intentions are for their investment in this Group.

The proposal in a nutshell

The main terms of the announcement are as follows:

- *Prosus is making an offer to Naspers shareholders to exchange 45.4% of their Naspers shares for Prosus shares. The exchange ratio proposed is 2.27443 new Prosus shares for each Naspers share exchanged. The offer is voluntary, so Naspers investors are free to retain their shareholding in Naspers. It will take some time to get the necessary bureaucratic steps that precede this deal completed, so it is expected, at this stage, that the deal will only happen in 3Q21.*
- *A further US$5bn share buyback - the same size as the current share buyback program, which is nearing completion.*
- *Naspers will agree to a 12-month lock-up, meaning that it will not sell Prosus shares it owns for a period of 12 months post the implementation of this transaction.*

Concluding thoughts

We are underwhelmed by this deal, and we are also concerned about how the complexity introduced by the cross-holding structure might impact the discount over the longer term. Nevertheless, we think the deal will likely be supported by a significant majority of shareholders for two reasons:

- *the fact that it is the only option on the table (a bird in the hand … so to speak); and*
- *a very small proportion of Naspers shares are held directly by private investors who will face the difficult decision whether to trigger a capital gain in order to access the higher uplift to NAV (as explained in the detailed article – link below).*

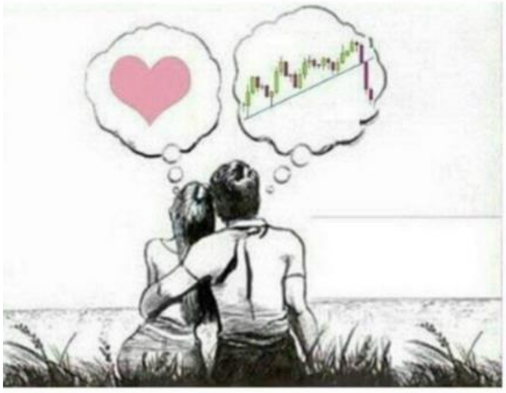
For those that do not trigger any tax consequences by doing so, mathematically it makes sense to take the Prosus offer and thus benefit from the greater uplift to NAV. For those that face the prospect of triggering CGT by taking the Prosus offer, the right choice will come down to personal circumstances. For long-term Naspers shareholders sitting on significant unrealised gains, it is very likely that the tax triggered will more than offset the additional NAV uplift available by accepting the Prosus offer. However, even for these shareholders, it may be worth considering whether it might be worth triggering the gain and at least benefitting from some additional NAV uplift to fund part of the CGT. If we are right that there is no obvious next step likely to unlock significant value that follows this deal, triggering the gain now would offer the opportunity to look at one's exposure to Naspers/Prosus afresh.

You can find the full article here.

CHARTS/MEMES OF THE MONTH

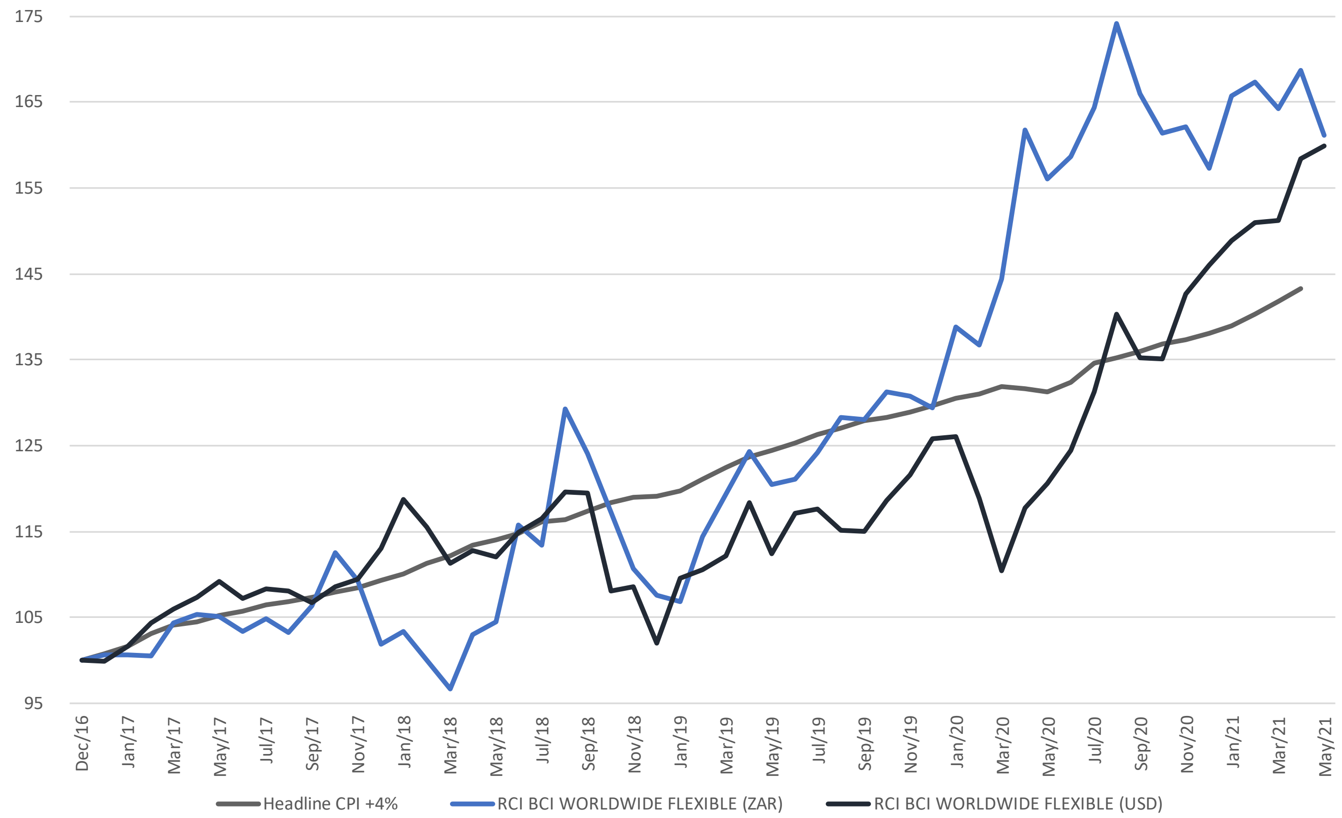
MAY 2021

The Family Office



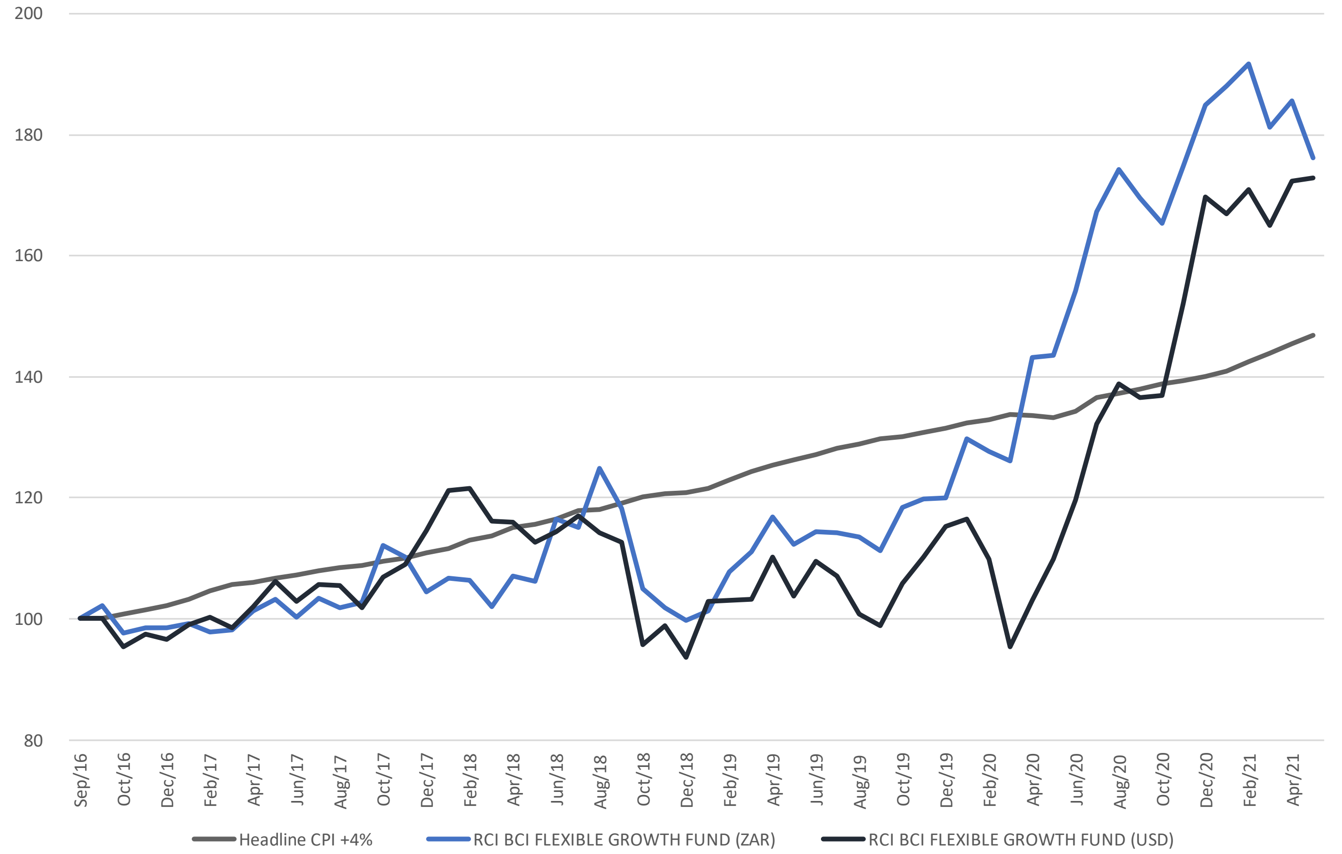
RCI BCI Worldwide Flex closed May at 161.13c, down 4.49% for the month and up 3.28% for the last 12 months. It is ranked 5th over a rolling three-year period.

RCI BCI Worldwide Flexible Fund



RCI BCI Growth Fund closed May at 176.26c, down 5.01% for the month and up 22.73% for the last 12 months. The fund is ranked 2nd in category over 2 years, 3 years and 4 years.

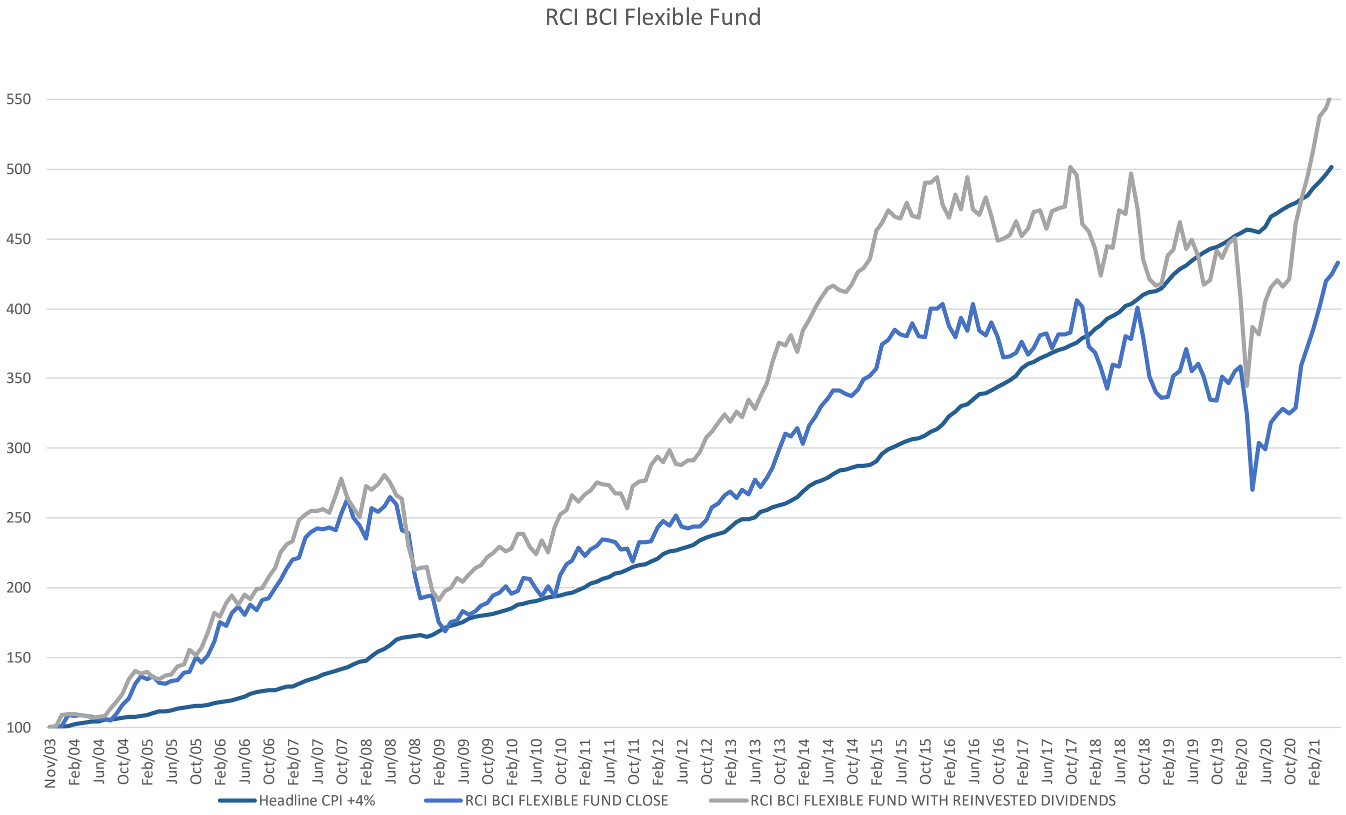
RCI BCI Flexible Growth Fund



RCI UNIT TRUSTS

'HAPPY TO TAKE SMALL AMOUNTS'

RCI BCI Flexible Fund closed May at 433.14c, up 2.00% for the month and up 46.33% for the last 12 months. The fund is now ranked 5th in its category over the last year, out of 62 funds.



Our unit trusts have the flexibility to buy and sell shares and to change weightings more frequently than in an individual portfolio. We are happy to take small amounts into the unit trust (from R1 000 per month, to lump sums of up to R25 000). As you will not pay commission to any agents, there is no cost to get in and out of our fund. When selling, the amount you receive back will depend on our performance.

Collective Investment Schemes in Securities (Unit trusts) are generally medium to long term investments. The value of participatory interests (units) may go down as well as up, and past performance is not necessarily a guide to the future. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. Commission and incentives may be paid and, if so, would be included in the overall costs. The portfolio is registered under the license of Boutique Collective Investments, a member of the Association for Savings & Investment SA. Forward pricing is used. More details are contained in a fact sheet that is available upon request.

TO CONCLUDE…

MAY 2021

May saw most developed markets close stronger, if not, then flattish. The global economic recovery appears to be well on track, with a lot of positive economic data coming out. Vaccine rates are increasing nicely, although new variants of the disease keep popping up. The market is starting to grapple with the possibility of inflation and higher interest rates. This is having an impact on the valuation of growth stocks in particular. Most of the businesses we are invested in for clients showed continued earnings growth during the quarter, so we continue to hold them regardless of short-term pullbacks. These are still very high-quality companies, albeit with above average valuations. If inflation comes through as transitory in nature, we expect a lot of the growth shares to roar back.

In this newsletter, we include a very necessary article on the Protection of Personal Information. This is becoming an increasingly big proponent of our compliance function. It is very important to ourselves and our clients, and we urge everybody to read up on it and understand your rights. We have prepared a short summary for you, but if you require more detail, please seek advice and call your portfolio manager where necessary. We have also included a detailed article on our website.

We also include an article on the currency, and why we think it has been so strong of late. There are a few short terms factors, including carry trade and better than expected trade account figures, that could see the Rand trend stronger over the coming months, but we urge investors to keep focused on the long term. Over time, we expect the currency to weaken from current levels. In the meantime, our offshore client portfolios continue to grow nicely in Dollars.

Mike Gresty has also drafted a neat summary of the newly announced Naspers/Prosus corporate action. This seems a pretty weak deal in our view, and we expect that, although the detail suggests the bigger value unlock sits in Naspers, investors need to weigh up being invested in either entity post this last ditched attempt to address the discount issue.

We are excited about what the future holds and continue to keep a close look out for companies on our watchlist that should be able to generate our clients' solid returns from current levels, over the medium to long term.

In 2021, we hope to continue assisting you, our clients, by being the best Family Office we can be.

Di, Mike & Eric

PS: Please feel free to pass this newsletter on to friends and family who may wish to learn more about investing. To be added to our mailing list, contact eric@rcinv.co.za

28 February 2021 Tax Certificates

We have not yet received all the tax certificates from 3rd parties and need to collate these once received.

We anticipate being able to circulate these certificates during the second week of July 2021.

Whilst care will be taken to check, on a sample basis, the contents of the reports received from 3rd parties, we do recommend that you check the detail that will be provided.

Filing Season 2021 for Individuals

Individual income tax return filing dates

- **1 July to 23 November 2021:**
  - Taxpayers who file online
  - Taxpayers who cannot file online can do so at a SARS branch by appointment only.
- **1 July to 31 January 2022:** Provisional taxpayers including Trusts may file via eFiling or SARS MobiApp.