ROBERT COWEN INVESTMENTS

NEWSLETTER – END MAY 2022

13 June 2022

The Family Office

“In the short run, the market is a voting machine, but in the long run it is a weighing machine.” – Benjamin Graham

HIGHLIGHTS OF THIS NEWSLETTER ARE:

- RCI – ‘The Family Wealth Office’ – What we offer
- On the lookout for new opportunities – by Ross McConnochie
- What have we been doing in the funds – by the RCI Investment Team
- Charts/Memes of the Month
- Interesting Information
- RCI Unit Trusts

Note: The last time the S&P500 started a quarter this badly was in 1932. History suggests that their should be decent returns over the next 3-5 years from these levels. At present, we remain cautious, and are slowly adding some of our favorite shares to portfolios and funds. Quality shares are very seldomly this cheap.

Please see below the link to the recording of our webinar, held on 6 May, regarding the global markets: https://www.youtube.com/watch?v=5S3sAZV1deg

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:

The Family Office

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

ON THE LOOKOUT FOR NEW OPPORTUNITIES

BY ROSS McCONNOCHIE

The Family Office

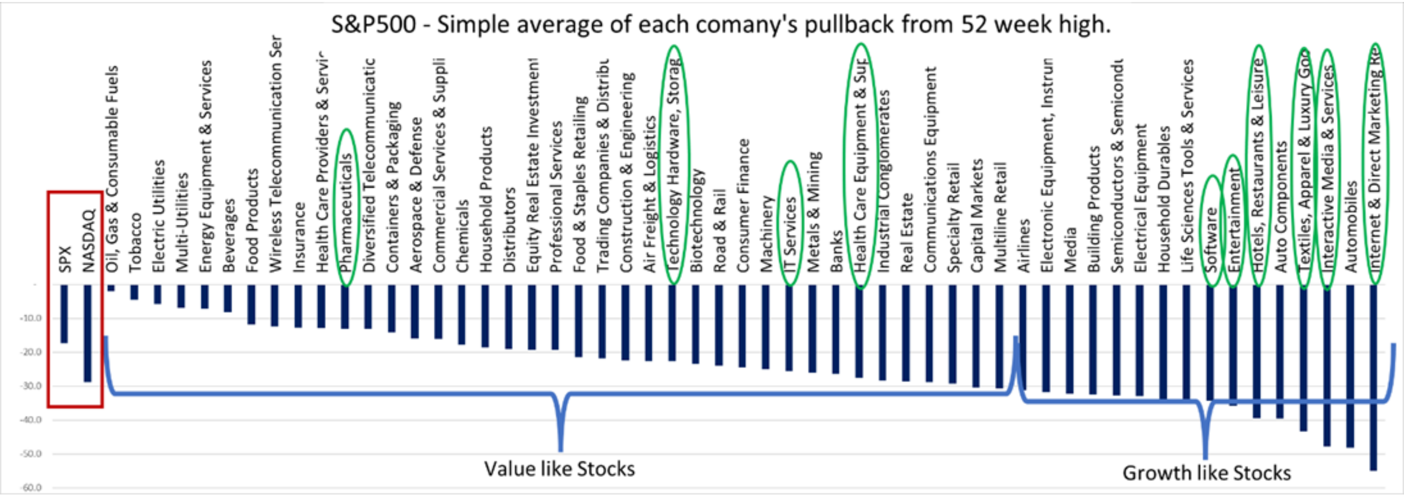
According to research conducted into the psychology of investors, we feel the pain of a loss twice as much as the joy of an equivalent gain – "loss aversion" is the name given to this phenomenon, where we hate losing money far more than we enjoy gaining money. No doubt, these emotions contribute greatly to investment mistakes that are often made during large market falls, such as the one we have been experiencing over the last few months. One potential investment mistake at times like this is to become obsessed with trying to predict the short-term direction of the equity market, or more specifically, how close to the bottom are we? We think this is a misallocation of time for two reasons: (1) predicting short-term movements in markets is often a mug's game, so the effort may not produce the right answer anyway; and (2) it causes one to miss individual share opportunities that arise during periods like this. Indeed, it is typical during sharp market falls that some investors become "forced sellers", maybe because they borrowed money to buy the shares in the first place and now that debt is being called in, or because they find that they don't have the emotional strength to cope with paper losses to the extent they thought they did, thus turning them into real losses! For patient investors, this is a great time to be looking for opportunities. Indeed, for long-term investment success, it is less important what you owned going into a market correction than it is what you own coming out the other side!

The recent sell off in "quality/growth" shares has given rise to an incredible investment opportunity that has allowed us to include several new shares in our offshore model portfolio. In this article we explore the current market environment and how our favourite quality growth shares have been impacted. We also take a look at several new companies that are being added to clients' offshore portfolios.

The American S&P500 index has fallen in excess of 20% from its all-time highs, while the Nasdaq, which is more biased towards technology and other growth shares, has sold off almost 30%. However, if one drills down further and looks at how sectors within the index have performed, the results are surprisingly divergent. Some have absolutely collapsed whilst others have thrived.

The following chart shows how much each of the sectors within the S&P500 have fallen from their 52-week highs. Oil and gas on the left-hand side has had a stellar few months with the oil price where it is and thus continues to make new highs. On the opposite side of the spectrum: Amazon, Ebay and Etzy (part of the Internet & Direct Marketing sector) have a had a torrid time, falling an average of 50% from their 52-week highs.

Most of the shares that have held up well in this sell-off could be categorised as "value" or "defensive" style companies, whereas those companies that have been extremely out of favour in this rising interest rate environment could be considered "growth" style in nature.



The green circled sectors are typically the pools where RCI seeks to find high quality growth compounders. They have clearly been under severe pressure over the last few months relative to value style shares. However, over a 5-year period, many of these sectors have far outperformed the index and we believe that quality growth should still outperform over the long-term. For example, the US Tobacco sector has been trading at 52-week highs of late and has risen 10% over the last year compared to the S&P500 falling 5%. If you had held this sector over 5 years you would have had a negative return compared to the index's 65% increase. This is also the same case for oil and energy investing. Therefore, in many ways the index is currently being held up by poorer quality sectors that are having their time in the sun at the moment but have proven to be poor long-term investments and thus do not have a place in a long-term quality growth portfolio.

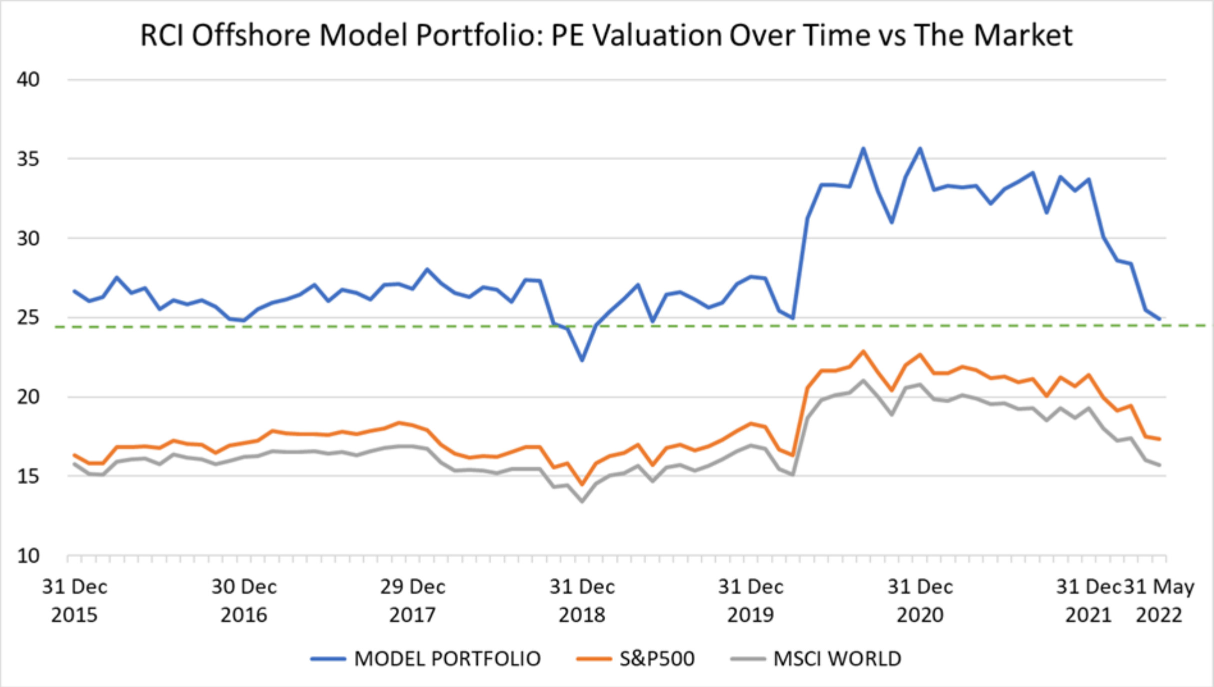
BY ROSS McCONNOCHIE

What is quality growth?

At RCI we seek to invest in companies with superior growth characteristics to the market, whilst also exhibiting superior quality characteristics.

	RETURN ON EQUITY (ROE)	RETURN ON INVESTED CAPITAL	DEBT TO EQUITY	GROSS PROFIT MARGIN
RCI MODEL PORTFOLIO	**31%**	**18%**	**0.57**	**64.11**
S&P500	30%	14%	1.14	35.07
	Higher the better	Higher the better	Lower the better	Higher the better

Our current offshore model portfolio is expected to grow earnings per share an average of 15% per year for the next three years which is greater than the S&P500's 12%. In addition to acquiring companies with above average growth characteristics, RCI also prefers businesses that have a competitive advantage over their peers, which often translates into an ability to generate a superior return on the capital they invest (the power of compound growth). We also wish to own companies with robust balance sheets (not too much debt in other words) that can weather economic downturns. It is entirely logical that companies that have these quality growth characteristics would attract a higher valuation from investors in the same way that one would expect to pay more for a BMW motor car than a VW Polo. In the chart below, we show that the valuation of the quality growth shares in our model portfolio has consistently been higher than the market over time (traded at a premium valuation in other words). A critical point though is that the recent sell off has reduced this premium dramatically, meaning that investors are having to pay up a lot less to own these quality shares than they have in the past.

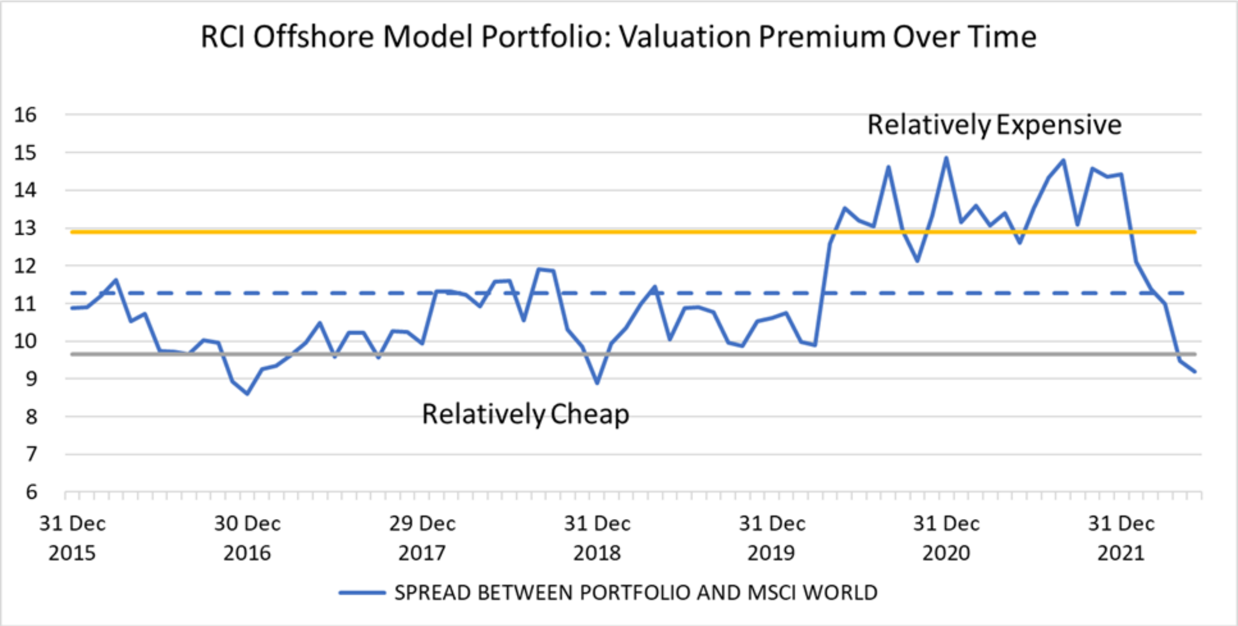


The blue line above is the weighted average price earnings (PE) ratio of the current portfolio of shares that are generating positive earnings. The valuation of the portfolio has always traded above the S&P500 (Orange) and MSCI World (grey) valuations over time. This is to be expected as quality characteristics superior to the index deserve to trade at a premium, otherwise the market would be extremely mispriced.

ON THE LOOKOUT FOR NEW OPPORTUNITIES (cont.)

BY ROSS McCONNOCHIE

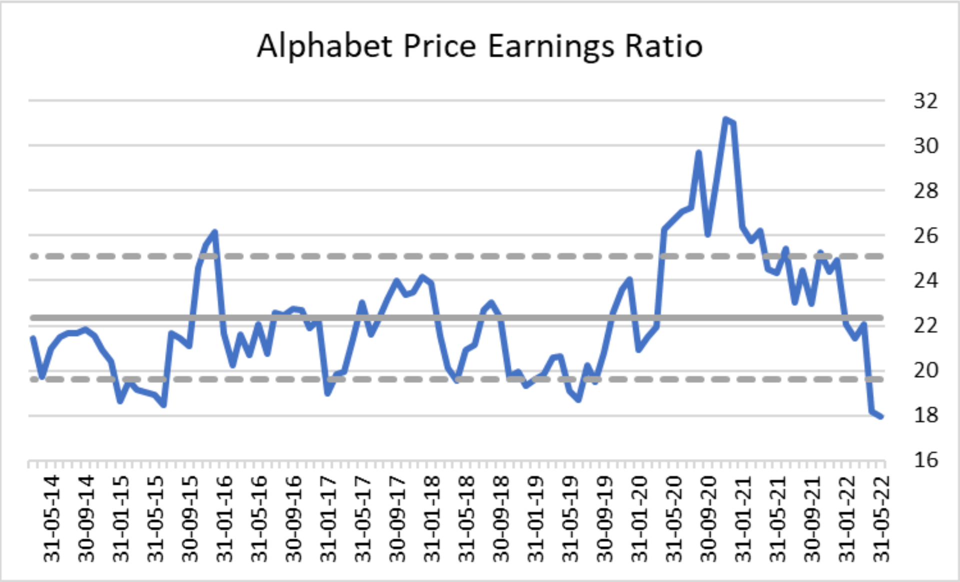
If we analyse how this premium has changed over time by graphing the difference between the valuation of the portfolio and the market, we can determine whether our portfolio of high-quality shares is relatively cheap or relatively expensive compared to world markets versus their history:



Graphing the portfolio's premium over the last 7 years, we can conclude that it has traded on average about 11 PE points above the MSCI World Index PE. When this gap narrowed to less than 10 points, we could infer that our portfolio is relatively cheap versus the market and when it trades above 12 points, we could say that it is relatively expensive to the market. With the benefit of hindsight, we can clearly see that our portfolio was relatively cheap before COVID-19 and then became relatively expensive during the COVID pandemic. What has happened since then is indiscriminate selling in quality growth that has caused this strategy to return to the cheapest levels relative to the market in many years. We see this as an opportunity not to be missed - long term outperformance from these levels is statistically in our favour.

If we assess some of the businesses within the portfolio we can come to the same conclusion:

Alphabet, the parent company of Google, is currently trading at the cheapest valuation in 8 years. Adobe, the software giant, is also trading at the bottom of its valuation range. Both these businesses' balance sheets are in a net cash position, are growing their earnings at a rate far greater than inflation and are thus presenting excellent long-term investment opportunities.



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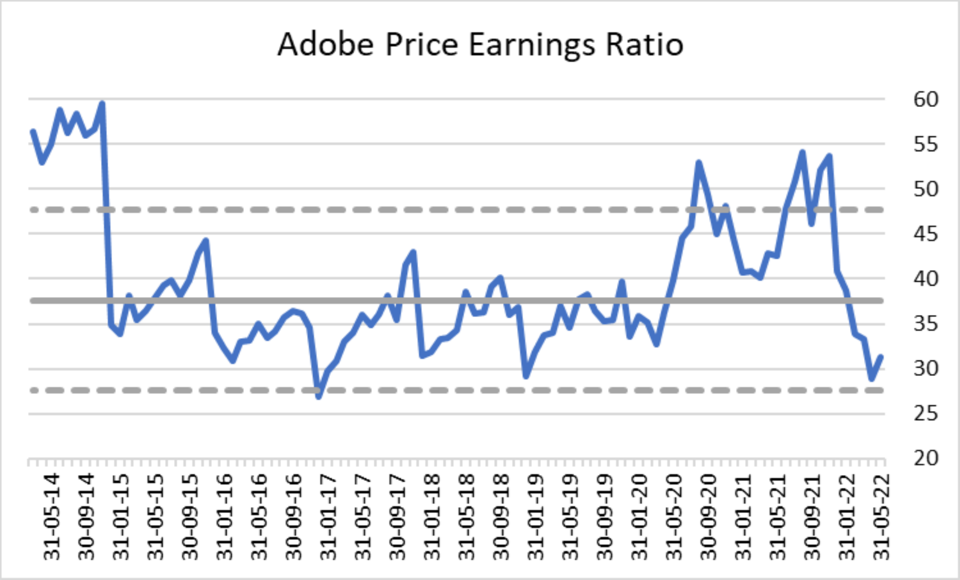
ON THE LOOKOUT FOR NEW OPPORTUNITIES (cont.)

BY ROSS McCONNOCHIE



Our New Offshore Model Portfolio:

Below is the list of shares that we are aiming to include in our client portfolios over the coming weeks. Many of the new names were previously too expensive but are now giving us an opportunity to own. It is important to distinguish the difference between shares and the companies themselves. Nvidia shares have fallen about 50% from their recent highs but the business is still the market leader in its field and growing earnings strongly. Not much has changed in the underlying operations and hence when the shares fall it often leads an incredibly attractive entry point for astute long-term investors.

	Name	Dividend Yield	Price Earnings Ratio	PEG Ratio PE/(EPS growth 2022-'24)	Pullback from high	Sector	Style	
1	ADOBE SYSTEMS INC		27.1	1.6	-42%	SOFTWARE	GROWTH	
2	ALPHABET INC-CL C		15.9	0.9	-30%	INTERNET	GROWTH	
3	AMAZON.COM INC		39.4	0.6	-43%	ECOMMERCE	GROWTH	
4	APPLE	0.6	21.9	3.3	-23%	TECH HARDWARE	VALUE	
5	BERKSHIRE		25.0	1.2	-15%	INSURANCE	VALUE	
6	BOSTON SCIENTIFIC CORP		21.6	1.5	-16%	MEDICAL	VALUE	
7	DISNEY		20.6	0.7	-45%	MEDIA	VALUE	
8	FACEBOOK INC-A		12.8	0.8	-52%	INTERNET	GROWTH	
9	JOHNSON & JOHNSON	2.4	17.1	3.5	-4%	MEDICAL	VALUE	
10	JPMORGAN CHASE & CO	3.1	10.6	1.0	-26%	BANK	VALUE	
11	MERCADOLIBRE INC			1.1	-63%	ECOMMERCE	GROWTH	
12	MICROSOFT CORP	0.9	24.7	1.7	-25%	SOFTWARE	GROWTH	
13	MONCLER SPA	1.5	20.7	1.5	-42%	LUXURY	GROWTH	
14	NETFLIX		16.1	1.1	-73%	MEDIA	GROWTH	
15	PAY PAL		18.9	0.9	-74%	PAYMENTS	GROWTH	
16	PROCTER & GAMBLE CO/THE	2.4	23.4	3.2	-12%	CONSUMER STAPLES	VALUE	
17	SABRE CORP				-53%	TRAVEL	GROWTH	
18	STRYKER CORP	1.1	23.2	2.1	-16%	MEDICAL	VALUE	
19	VISA	0.7	25.6	1.5	-19%	PAYMENTS	GROWTH	
20	ACCENTURE PLC-CL A	1.4	23.8	2.1	-33%	CONSULTING	GROWTH	NEW ADDITION
21	AIRBNB		42.4	1.5	-48%	TRAVEL	GROWTH	NEW ADDITION
22	ASML	1.1	28.1	1.4	-35%	TECH HARDWARE	GROWTH	NEW ADDITION
23	CHIPOTLE MEXICAN GRILL INC		35.5	1.3	-34%	RESTAURANT	GROWTH	NEW ADDITION
24	ESTEE LAUDER	1.0	28.6	2.3	-38%	CONSUMER	GROWTH	NEW ADDITION
25	FORTINET		51.8	2.3	-23%	IT SECURITY	GROWTH	NEW ADDITION
26	GLENCORE				0%	RESOURCES	VALUE	NEW ADDITION
27	INTUIT INC	0.7	29.0	1.6	-46%	SOFTWARE	GROWTH	NEW ADDITION
28	LVMH MOET HENNESSY LOUIS	1.8	19.6	2.0	-27%	LUXURY	VALUE	NEW ADDITION
29	NVIDIA CORP	0.1	28.6	1.2	-51%	TECH HARDWARE	GROWTH	NEW ADDITION
30	ROSS STORES	1.4	16.6	3.0	-36%	CONSUMER	VALUE	NEW ADDITION
31	SHOPIFY		259.4	2.0	-81%	ECOMMERCE	GROWTH	NEW ADDITION
32	YUM! BRANDS INC	1.9	23.3	1.6	-17%	RESTAURANT	VALUE	NEW ADDITION
					-36%			

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ON THE LOOKOUT FOR NEW OPPORTUNITIES (cont.)

BY ROSS McCONNOCHIE

- You will notice there are no **Chinese companies** in the model portfolio. We have taken the decision to exit China and switch the proceeds into US companies that were previously too expensive. Although China is also extremely oversold of late, there are still major concerns around continued regulatory pressure as well as the impact of their zero COVID-19 policy on economic growth. There may very well be a bounce in China this year, but we think on a risk adjusted basis that the USA is a better investment for the long-term from current levels.
- **Accenture:** The global management consulting giant which has grown its free cash flow every year for the last 5 years.
- **Airbnb:** The asset-light bookings agent that is expanding to longer-term rentals as well as hotels and other booking traditionally managed by competition.
- **Chipotle Mexican Grill:** The high growth Mexican restaurant chain is mostly US-centric but expanding every year. Fast food restaurants are typically asset-light businesses that produce high return on capital once they reach optimal margins.
- **Estee Lauder:** The cosmetics giant that is set to profit from the increased use of make up by the youth, especially in the growing middle class and emerging markets. This business should also do well as more and more people return to a normal way of life as lock downs diminish.
- **Fortinet:** The IT security company operating in a sector that is benefitting from the increased frequency and severity of hacker attacks. The business is also asset-light and becoming more of an essential service for businesses around the world.
- **Glencore:** The continued transition towards green energy will be extremely commodity intensive to achieve, and specifically the commodities to which Glencore is exposed. At the moment it is also benefitting from high coal prices. Traditionally we don't typically invest in cyclical businesses in our offshore portfolios, but we like the structural tail winds that demand the resources that Glencore produces and hence we have decided to hold a small amount in our portfolios going forward.
- **Intuit:** Develops business and financial management solutions for small and medium-sized businesses. They are best known for their payroll processing and tax software offerings: TurboTax and QuickBooks
- **LVMH:** Louis Vuitton, Moet, Hennessy doesn't need an introduction.
- **Nvidia:** Specialises in microchips used in visual graphics, AI, driverless cars and cloud gaming servers; all expected to increase exponentially in the coming decade. The recent sell off in the share price gives an excellent opportunity to invest for the next several years.
- **Ross Stores:** The discount clothing store situated mostly in the USA that should continue to perform decently if there is a slowdown in the economy and people need to shop down. It doesn't have an online presence but rather offers a treasure hunt in-store experience as customers look for the latest bargains.
- **Shopify:** Specialises in helping businesses with their ecommerce and online presence. The company can assist all the way from website design and online store creation to facilitating the delivery of packages to customers. It prospered during COVID-19 but has since slowed as people return to physical stores as opposed to online shopping. However, the long-term growth trends in ecommerce are expected to continue from 2023 onwards.
- **Yum Brands:** The holding company for KFC and Taco Bell. It is a franchise business model and hence produces extraordinary returns on capital and high cash flow generation.

ON THE LOOKOUT FOR NEW OPPORTUNITIES (cont.)

BY ROSS McCONNOCHIE

PORTFOLIO EXPOSURE ANALYSIS:	
MEDICAL	10.0%
TECH HARDWARE	10.0%
ECOMMERCE	10.0%
SOFTWARE	9.0%
INTERNET	7.0%
MEDIA	7.0%
CONSUMER	7.0%
TRAVEL	6.0%
PAYMENTS	5.0%
RESTAURANT	5.0%
LUXURY	4.0%
INSURANCE	4.0%
IT SECURITY	4.0%
RESOURCES	4.0%
BANK	3.0%
CONSULTING	3.0%
CONSUMER STAPLES	2.0%

GROWTH	61.0%
VALUE	39.0%
TECH	40.0%

We have specifically increased the diversification across the portfolio via an increased number of shares as well as more sectors. We have also tilted the portfolio towards growth shares as they are displaying the best valuation entry points at this time. Portfolio construction is always fluid and evolving and we will continue to assess the current environment and what changes need to be made in the portfolio.

WHAT HAVE WE BEEN DOING IN THE FUNDS

BY THE RCI INVESTMENT TEAM

RCI BCI Flexible Fund

Thanks to a rally in the last few days of May, global equities managed to eke out the smallest of gains for the month (MSCI World +0.1% MoM). It was another poor month for technology stocks, however, with the Nasdaq 100 Index -1.5% MoM and all its six largest constituents falling in the month. Also notable in May were several US retailers (Walmart and Target in particular) announcing disappointing results and trimming guidance as inflationary pressures squeezed margins and they faced the prospect of mark-downs to clear excess inventory. Emerging markets (EM) performed slightly better than their DM peers in May (MSCI EM +0.5% MoM), with China leading the gains – Shanghai Composite +4.8% MoM). Although the Chinese economy continued to suffer the consequences of its strict zero-COVID lockdown measures, equities responded positively to promised economic support measures and growing conviction among investors that the regulatory crackdown on its large technology platforms was easing.

After a weak April, South African equities staged a modest rebound in May (FTSE/JSE Capped SWIX +0.5% MoM). As with global equities, this was largely thanks to a strong recovery in the final few days of the month. Local banks had a strong month (+6% MoM) but this did not extend to all domestically focussed sectors, with general retailers being notable underperformers (-6% MoM). Miners were a mixed bag, with diversified miners and energy-related stocks reacting positively to the prospect of Chinese re-opening and stimulus, while gold and PGM miners fell. The more positive sentiment toward Chinese technology shares fed through to Naspers & Prosus (+6% MoM), their first positive monthly return for the year.

The focus of the portfolio is on investing in domestically listed companies that have an investment case that insulates them from SA's difficult economic situation (strong multinational franchise, rand hedge, dominant local platform, or clear local expansion strategy for example); high confidence in improving Return on Capital Employed and excellent cash flow generation. Of those companies that pay a dividend we prefer businesses with a dependable and solid payment history.

At the end of May, the top 15 holdings in the fund, making up 64% of the equity exposure, were as follows:

- Naspers
- Investec
- Afrimat
- Bidcorp
- Advtech
- Glencor
- South 32
- Quilter
- AECI
- Absa
- Santam
- MAS
- MTN
- Prosus
- Richemont

Main changes in the month

In May, we took some profit on the fund's holding in **Thungela**, also seeking to control the size of this holding in the fund after its strong run. We switched part of the **Prosus** holding into **Naspers**, as well as added further to Naspers, as we believe Naspers carries better optionality in the event of possible corporate action aimed at unlocking value. We also added to positions in **Afrimat** and **Sasol**, both potential beneficiaries of China's reopening and economic stimulus in 2H22.

WHAT HAVE WE BEEN DOING IN THE FUNDS (cont.)

BY THE RCI INVESTMENT TEAM

The Family Office

Performance

The RCI BCI Flexible Fund was flat in May, taking the total return for the year-to-date to 1.03%

The RCI Flexible Fund investment team

Mike Gresty, Di Haiden, Eric Lappeman, Andrew Lawson, Ross McConnochie, Gontse Dikeledi

MONTHLY MARKET MATRIX

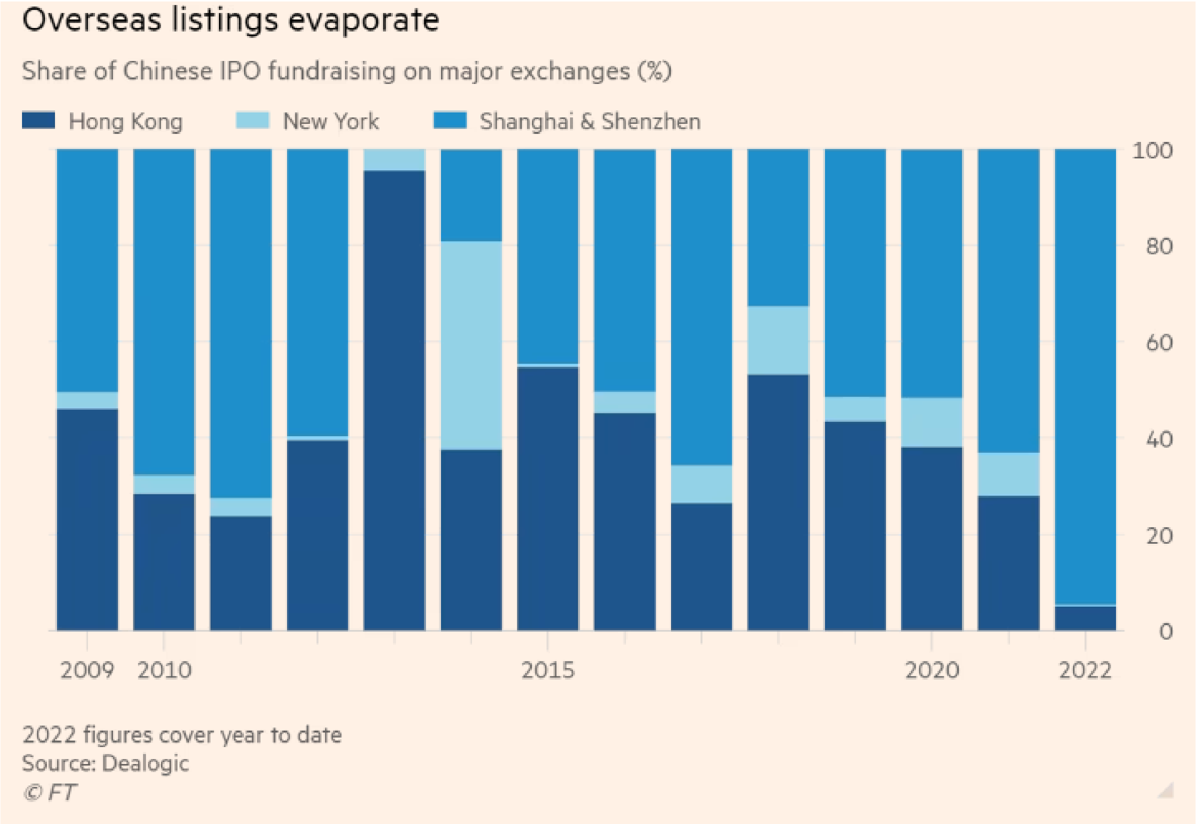
Indicator	Closing level	Monthly Move	Y-T-D
Equities			
MSCI World Index (USD)	**2791**	**0.2%**	**-12.8%**
S&P500 (USD)	4132	0.2%	-12.8%
FTSE 100 (GBP)	7608	1.1%	4.8%
Nikkei (JPY)	27280	1.6%	-4.3%
MSCI Emerging Markets Index (USD)	**1078**	**0.5%**	**-11.7%**
JSE All Share Index (ZAR)	50483	-0.4%	-0.1%
JSE All Share Index (USD)	50483	1.7%	4.3%
JSE Capped Swix All Share Index (ZAR)	19246	0.5%	3.1%
RCI BCI Worldwide Flexible Fund (ZAR)	135	-5.9%	-25.9%
RCI BCI Flexible Fund (ZAR)	489.58	0.0%	-0.2%
RCI BCI Growth Fund (ZAR)	139.8	-3.8%	-28.2%
Bonds			
US 10 Year Treasury yield	2.84	0.7%	-9.8%
SA 10 Year Govt Bond yield	10.27	1.0%	-8.8%

Indicator	Closing level	Monthly Move	Y-T-D
Currency			
USD/ZAR	15.64	1.1%	1.9%
GBP/ZAR	19.72	0.8%	9.3%
EUR/ZAR	16.78	-0.7%	8.0%
Commodities			
Gold Spot (US$/oz)	1 837	-3.1%	0.4%
Palladium PM-fix (US$/oz)	2 032	-12.1%	3.0%
Platinum Spot (US$/oz)	969	3.1%	0.0%
Copper Cash LME (US$/ton)	9 446	-3.3%	-3.0%
Iron Ore (US$/ton)	133	-9.3%	14.7%
Brent Crude ($/Barrel)	123	12.3%	57.9%

MAJOR MOVES IN SHARES

	Percentage Rise
ASTRAL FOODS LTD	25.8%
GRINDROD LTD	22.0%
TSOGO SUN GAMING LTD	15.3%
HOSKEN CONS INVESTMENTS LTD	15.3%
FORTRESS REIT LTD-B	13.7%
MONTAUK RENEWABLES INC	13.5%
TSOGO SUN HOTELS LTD	12.2%
SUPER GROUP LTD	10.9%
KUMBA IRON ORE LTD	10.4%
WILSON BAYLY HOLMES-OVCON	9.5%

	Percentage Drop
BARLOWORLD LTD	-13.9%
TRANSACTION CAPITAL	-14.1%
LIFE HEALTHCARE GROUP HOLDIN	-14.5%
NINETY ONE LTD	-14.9%
NINETY ONE PLC	-15.9%
DRDGOLD LTD	-16.4%
ANGLOGOLD ASHANTI LTD	-16.7%
HARMONY GOLD MINING CO LTD	-17.7%
KAROOOOO LTD	-18.7%
GOLD FIELDS LTD	-29.7%



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Source: The Center for Economics and Business Research
The World Bank and Trading Economics

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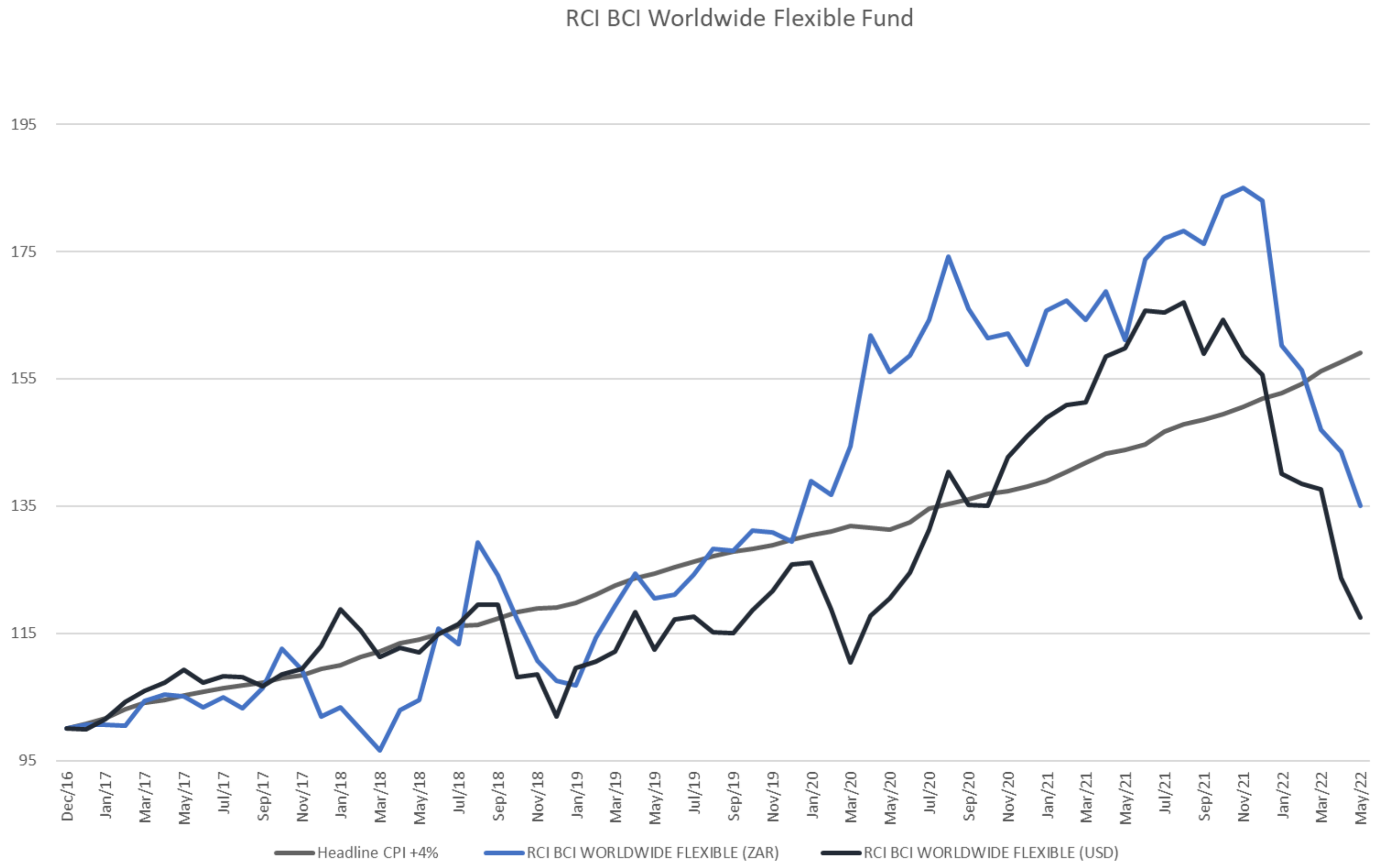
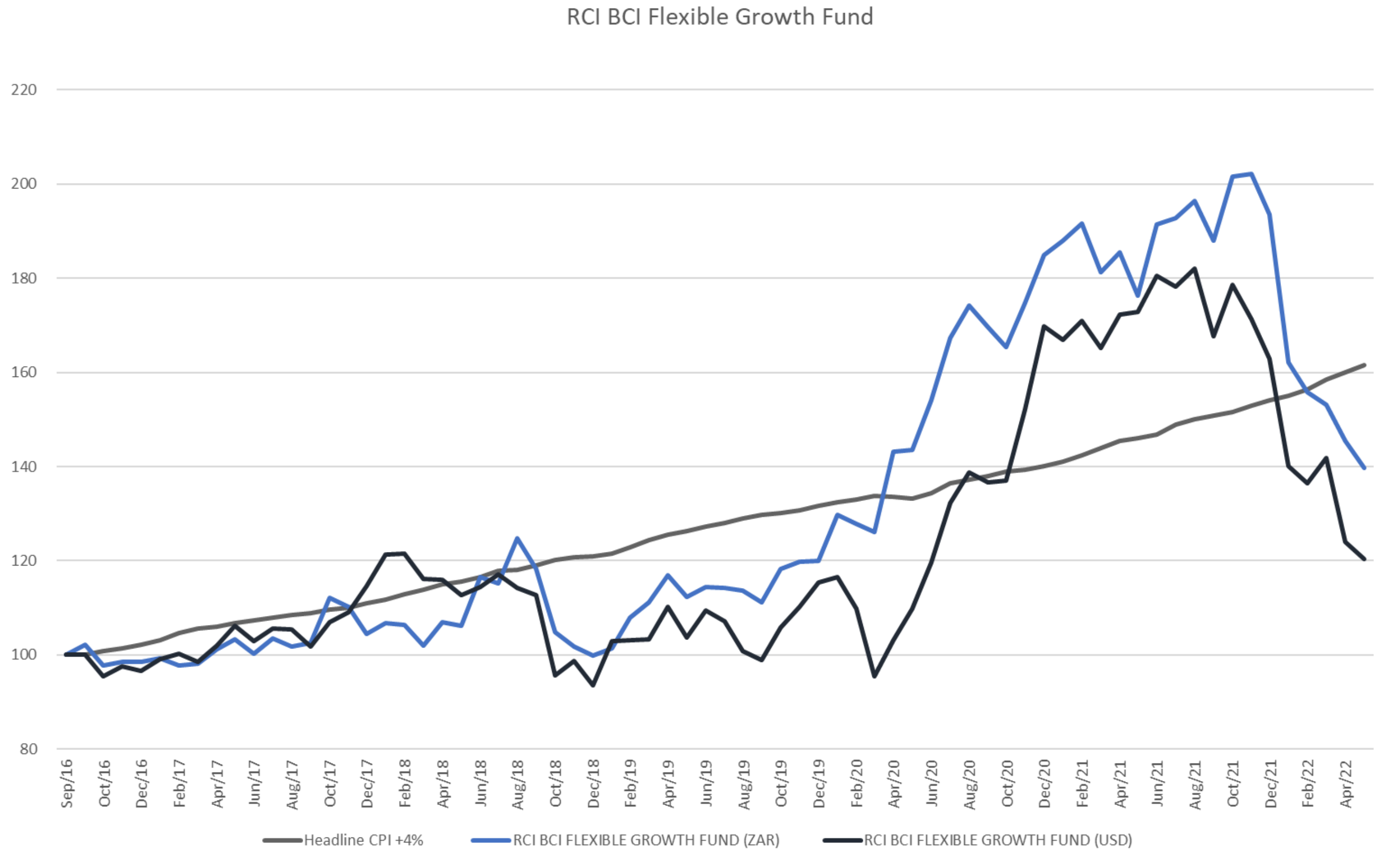
RCI BCI Worldwide Flexible Fund closed May at 135.00c, down 5.92% for the month and down 16.21% for the last 12 months.



RCI BCI Growth Fund closed May at 139.80c, down 3.83% for the month and down 20.68% for the last 12 months.



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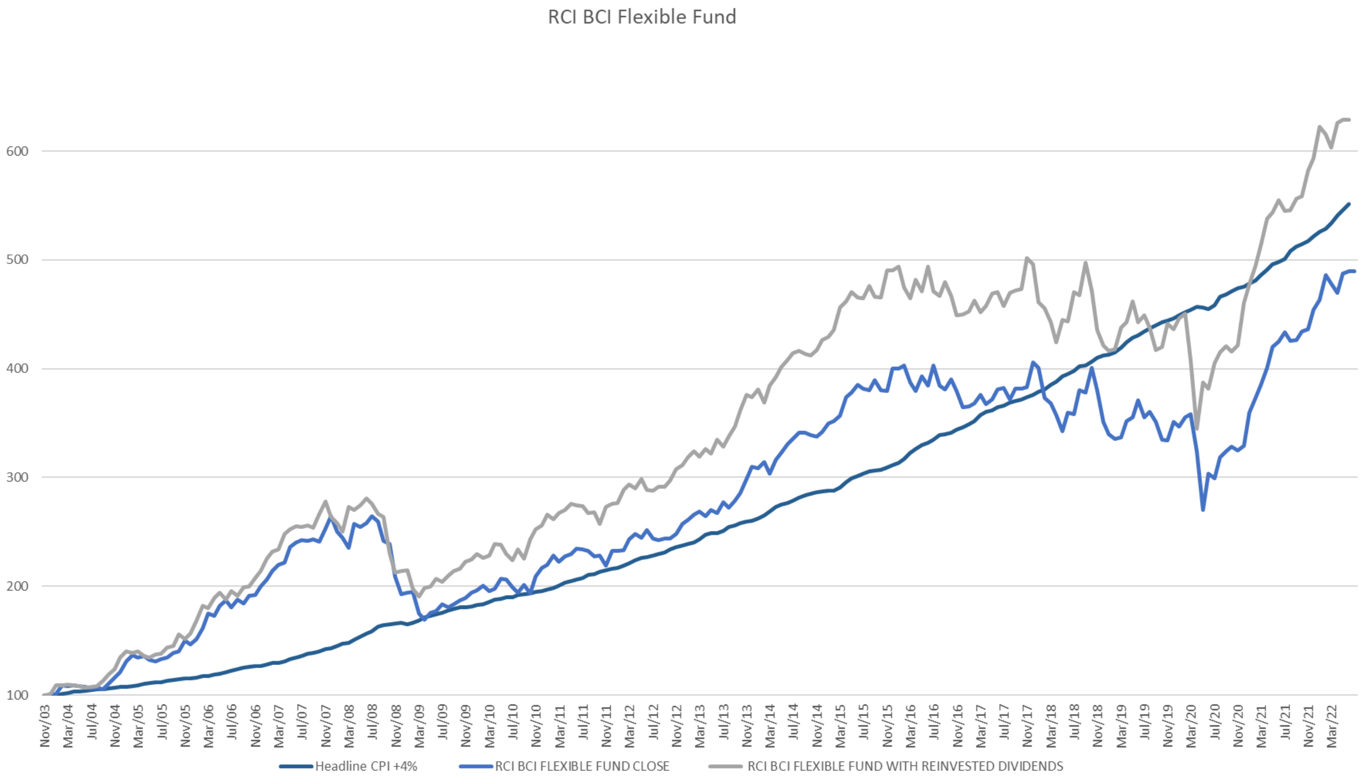
‘HAPPY TO TAKE SMALL AMOUNTS’

RCI BCI Flexible Fund closed May at 489.58c, up 0.04% for the month and up 13.03% for the last 12 months. The fund is now ranked 7th in its category over the last two years, out of 58 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 2022

The Family Office

May was yet another month of volatility as financial markets finished the month broadly flat thanks to a rally in the last few days of the month. However, the US tech-heavy Nasdaq 100 Index closed the month 1.5% lower, pushing it further into bear territory (-22% YTD). As US companies wrapped up 1Q22 earnings announcements in May, retailers Walmart (-16% MoM) and Target (-29% MoM) delivered the biggest shocks as they trimmed profit forecasts on rising cost pressures. US headline CPI came in at 8.3% YoY vs consensus economist expectations of 8.1% YoY, and the US Fed hiked interest rates 0.5% at its meeting in early May. Investors took a sigh of relief as there had been fears in the market of a 0.75% hike. Emerging markets have continued to fare slightly better, with both Chinese and Brazilian equities positive for the month. The Chinese economy (which South Africa's resources industry is largely dependent on) continued to suffer under severe lockdowns imposed under their zero-covid policy, but there were signs late in the month that restrictions were easing, along with strong rhetoric from the government that it would deliver economic support measures to help stimulate their slowing economy. This helped boost Chinese stock prices, which subsequently had a knock-on effect on a significant segment of South African equities. The SA rand rallied slightly against the US dollar in May as S&P Global Ratings unexpectedly upgraded the outlook from stable to positive as structural reforms, contained fiscal expenditure and favourable terms of trade may ease the country's fiscal and external pressures. Given these factors, and persistent heightened uncertainty, we have increased the cash positions inside our client accounts to provide sufficient liquidity to meet drawings over the next 12 months so that we are not forced sellers in a downturn. For investors concerned about equity exposure in the current environment, we suggest some context by considering the following aspects/questions:

- *Are you likely to want to withdraw money from your offshore portfolio in the next 3 years? Do you need the money? If you don't, it is almost always the right thing to stay invested.*
- *What are equities as a proportion of your net asset value? Don't generally consider down-weighting equities if it is less than 50%.*
- *Is a compound 8-10% US$ return for the risk portion of your portfolio a target you are comfortable with, and are you prepared to have up and down years in the pursuit of this long-term objective?*

In this newsletter, we also highlighted our refined approach in the context of offshore equities given the extreme sell-off and continued volatility experienced year to date. The market is presenting opportunities to invest in top quality companies at very reasonable valuations that do not come around often. RCI aims to take advantage of this as, on a 3 to 5 year view, there is potential for great returns for those who can stomach the current volatility in equity markets.

We also provide a review of how the RCI funds performed in May. The RCI Worldwide Flexible Fund closed down 5.92%, with the Rand strengthening 1.1% during the month and offshore tech continuing to fall. The RCI BCI Worldwide Flexible Growth Fund closed down 3.83%, and our local RCI BCI Flexible Fund closed up 0.04% as pessimistic market sentiment continues to dominate the overall narrative offshore.

In our charts and memes section, we show the extent that the risk-off sentiment has had on Bitcoin. Being higher up on the risk spectrum, it has been particularly vulnerable to the volatility seen in global financial markets. The chart showing which exchanges Chinese IPO's have been performed on post the 2008 crisis depicts a trend which suggests not only increasing Chinese protectionism but also deglobalisation. Interference in capital markets by the Chinese Communist Party with their "common prosperity" theme front and centre have made it increasingly difficult for new listings to take place on foreign exchanges like Hong Kong and New York. Lastly, we show trends in the GDP sizes of the 15 largest economies in the world. China is expected to be the world's largest economy by 2030 and by 2035, and the world's GDP is expected to double from its current levels as various developing countries continue on a period of sustained economic growth.

If you have any questions about your portfolios, please feel free to reach out to one of our team members. We are always happy to help.

In 2022, we hope to continue assisting you, our clients, by being the best Family Office we can be.

Di, Mike & The RCI Team

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