ROBERT COWEN INVESTMENTS

NEWSLETTER – END JUNE 2022

14 July 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
- Congratulations to Di Haiden & important information on 2022 tax certificates and the first 2023 provisional tax deadline
- The value of behaviourally-powered investment advice – by Paul Nixon
- What have we been doing in the funds – by the RCI Investment Team
- RCI Unit Trusts
- Charts/Memes of the Month
- Interesting Information

Note: The traditional 60/40 equity/bond portfolio has this year up until the end of June yielded -16.1%, based on the S&P 500 and the US 10-Year Treasury Yield. The last time this portfolio had a worse first half of the year was in 1932. History suggests that there 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 Navigator, Anchor's quarterly review of the major themes affecting markets, giving an overview of our current strategy and asset allocation:
https://anchorcapital.co.za/wp-content/uploads/2022/07/The-Navigator-3Q22-11072022.pdf

Our feature article this week is from Paul Nixon, who heads up behavioural finance for Momentum Investments. Paul holds an MBA (with distinction) from Edinburgh Business School and is currently completing a master's degree where he is researching risk behaviour at Stellenbosch University. Paul is a contributing author on neuroeconomics to "Theories and Practices in Financial Therapy" and is a registered member of the Swiss-based Global Association of Applied Behavioural Scientists (GAABS) where he co-leads the Middle East and Africa regions.

RCI will be having a webinar with Paul for all our clients, so keep an eye on your emails for the invite in the next couple of weeks.

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

RCI ACHIEVEMENTS & TAX INFORMATION

The Family Office

28 February 2022 Tax Certificates

The 2022 tax certificates have been sent to clients and tax practitioners via email on the 09th and 10th July 2022.

The email would be received from Kirsty Lucas (kirsty@rcinv.co.za) with the subject line ‘’ Tax Certificates 28 February 2022 ‘’.

Whilst care has been taken to check, on a sample basis, the contents of the reports, we do recommend that you check the detail that was provided.

If you have any queries or identify any missing reports, please don’t hesitate to contact us.

Please take note of the dates below relating to the submission of the 2022 income tax returns – these dates distinguish between non-provisional taxpayers and provisional taxpayers.

Filing Season 2022 for Individuals

Income tax return filing dates

- **1 July 2022 to 24 October 2022**
  - Taxpayers who file online
  - Taxpayers who cannot file online can do so at a SARS branch by appointment only.
- **1 July 2022 to 23 January 2023**
  - Provisional taxpayers including Trusts may file via eFiling or SARS MobiApp.

2023 1st Provisional Tax – due to SARS on or before 31 August 2022

A reminder to clients who are **provisional taxpayers** that the 2023 1st provisional tax is due next month, 31 August 2022.

If you or your tax practitioner require a report for purposes of calculating your provisional tax, please contact your portfolio manager to request this information or send an email request to Lizette Lotz (lizette@rcinv.co.za) and we will arrange to provide you with the detail.

This information will not be sent out automatically but will be provided upon request.

A big congratulations to **Di Haiden** who decided that it was important to upskill herself on international tax as our clients become more and more ‘global’. She wrote the exam in June just after her father died and the result was that she received the third highest mark overall! Well done, Di!

THE VALUE OF BEHAVIOURALLY-POWERED INVESTMENT ADVICE

BY PAUL NIXON
(HEAD OF BEHAVIOURAL FINANCE – MOMENTUM INVESTMENTS)

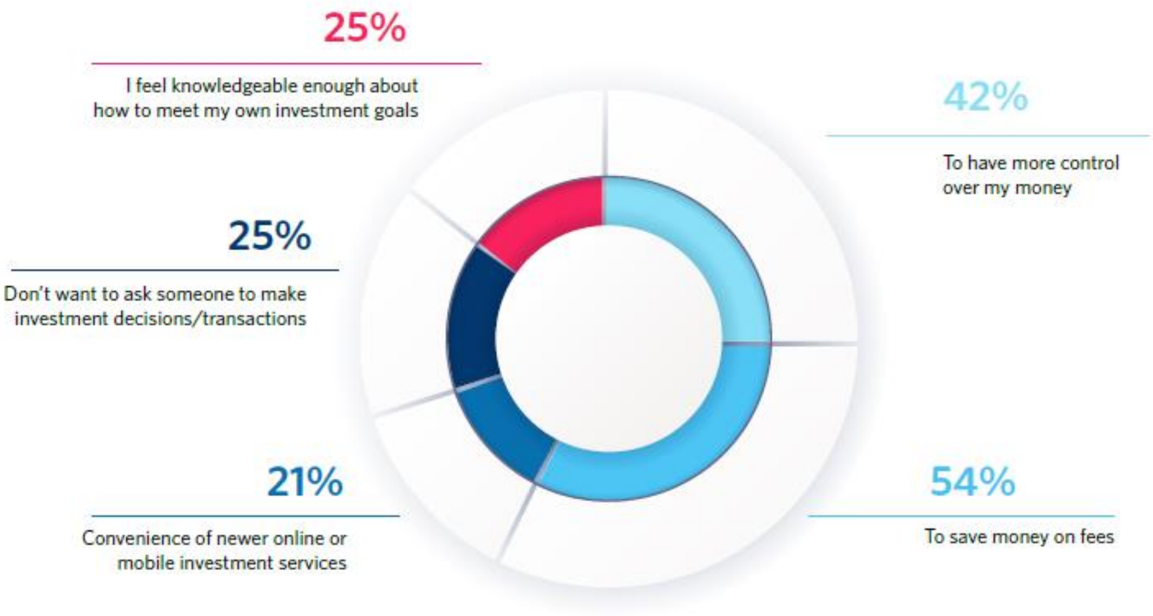
The Family Office

The COVID-19 pandemic shocked the world last year leaving many of us scrounging for hand sanitiser and toilet paper as shopping aisles stood empty. Similar havoc was wreaked on financial markets as investors abandoned their long-term goals for the immediate emotional comfort on offer by moving either out of financial markets completely or into comparatively 'safer' assets. Society and the economy were forcibly jolted into a new way of functioning and the ripple effects are becoming clearer as time passes.

One of the obvious and positive effects of the pandemic, in hindsight at any rate, has been the remarkable increase in savings rates around the globe. We are not stopping at a Starbucks for coffee en route to work anymore or grabbing lunch at the canteen. And, of course, our cars have spent more time in the garage than on the road. In Canada pre-COVID savings levels as a proportion of gross domestic product (GDP) were comfortably under 15% in 2019 and have escalated sharply to over 27% in 2021 (an 85% increase). South Africa's increase in savings has seen a similar trend though less dramatic. Our savings rate escalated by nearly 22% from levels of less than 15% of GDP in 2019 to more than 18% in June 2021.

> *One of the obvious and positive effects, in hindsight at any rate, of the pandemic has been the remarkable increase in savings rates around the globe.*

Somewhat concerningly, however, is that this increase in savings appears to be accompanied by an increased level of engagement with people's investments that appears to come at the expense of engagement with financial advisers. New research from Finder.com revealed that about 1 in 10, or 3 million Canadians, plan to manage their own investments and ditch their financial adviser in 2021. A further 4.7 million Canadians are seriously considering taking an active role in managing their future investments without the aid of a financial adviser. The survey results from a poll involving 1 143 Canadians, with the two primary concerns being related to fees and having more 'control' over their money, are shown on the next page. From a behaviour tax perspective more control is certainly less than ideal.



Source: McKnight (2021)
https://www.finder.com/ca/financial-advisor-report

Robert Cowen Investments
Growing families' wealth since 1982

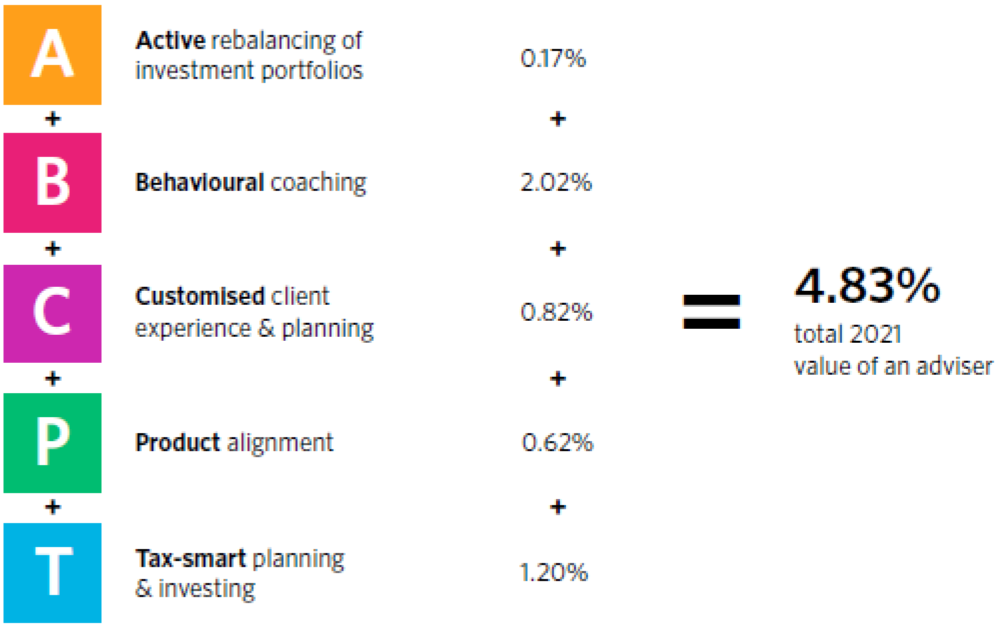
THE VALUE OF BEHAVIOURALLY-POWERED INVESTMENT ADVICE (cont.)

BY PAUL NIXON
(HEAD OF BEHAVIOURAL FINANCE – MOMENTUM INVESTMENTS)

The Family Office

In the United States a similar trend towards self-advice saw robo-giant Betterment increase their assets under management (AUM) from $18 billion to $29 billion in the first half of 2021. Encouraging is their strategy to use a ‘co-pilot’ system of involving a financial adviser, which appears to be a successful approach, but the step is certainly in the direction of greater client engagement and ownership. Instant access to portfolio values and the latest news of the latest crypto or meme stocks are what millennials and Gen Z are after and they appear to be taking the advice from peers more seriously than that of financial advisers (according to the survey mentioned earlier).

The value of financial advice is well documented. Montmarquette and Viennot-Briot (2019) showed that advised households accumulate 290% or nearly three times the amount of assets over a 15-year period compared to non-advised households (another study from Canada). Russell Investments in the United States recently released a study concluding that the behavioural coaching part of advice alone is worth 2.02% per year to investors. When including other dimensions such as rebalancing, product alignment and tax planning this value can be as much as 4.83% per year.



Source: Russell Investments (2021)

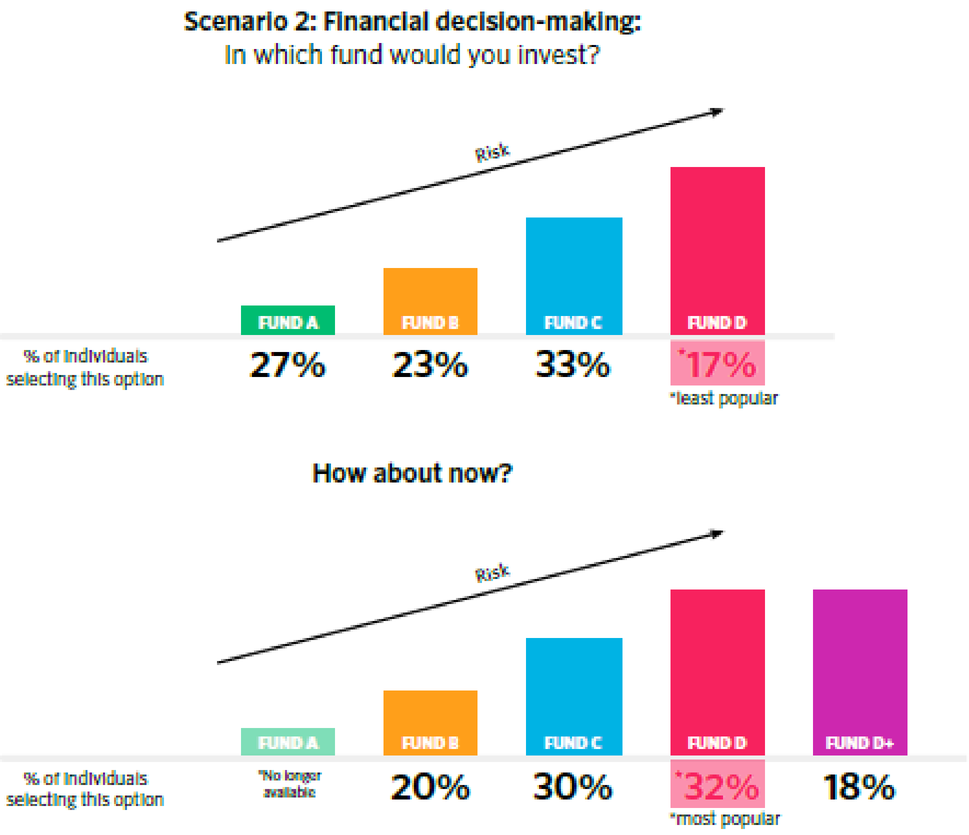
A good financial adviser seems to earn far more for their clients than their annual advice fees, so why isn’t everyone queueing for great financial advice? There are likely two primary behavioural biases at play that may impact on investors’ decisions to use a financial adviser. The first is undoubtedly overconfidence. With the amount of and access to information these days it creates the illusion of a more stable and predictable world. ‘Expert’ opinions are seemingly easy to come by and any view is easily supported by a number of sources online. When coupled with selectively attributing positive outcomes to skilful decision-making and poor outcomes simply to bad luck, it creates the illusion that investing decisions are much easier than they are in reality. At the opposite end of the spectrum is loss aversion. Statman (2019) refers to a global survey of the number one thing that people want from their investments. Unsurprisingly it is financial security. People are terrified of losses and being more engaged with our investments gives us a greater sense of control. This was also reflected in the initial Canadian survey. The question is: how can behavioural insights be leveraged in this case to get investors back to using financial advisers who utilised behavioural coaching for better client investment outcomes?

> *“A good financial adviser seems to earn far in excess of their annual advice fees, so why isn’t everyone queueing for great financial advice?”*

THE VALUE OF BEHAVIOURALLY-POWERED INVESTMENT ADVICE (cont.)

BY PAUL NIXON
(HEAD OF BEHAVIOURAL FINANCE – MOMENTUM INVESTMENTS)

The BEworks Research Institute (BRI) recently published a noteworthy study on using behavioural science principles in a financial advice context and released some interesting results. The first is related to the 'Goldilocks effect' that shows people preferring to avoid extremes and choosing middle-of-the-road options instead. BRI also found that when offered the choice between a small (250ml) and large (350ml) coffee, people generally opted for the small coffee (see Scenario 1 on the next page). When another size (500ml) was added to the choice, there was, however, a preference reversal to most respondents opting for large instead (the middle option). Fascinatingly they found the exact same results when offering investors hypothetical fund choices. When asking potential investors to examine four funds (A, B, C and D) on a risk/return spectrum (see Scenario 2 to follow), the majority opted for fund C (33%) with fund D being the least popular attracting 17% of respondents. When removing fund A and adding even riskier fund D+ the same effect comes into play where fund D now becomes the most popular choice (32% opting for fund D).



BY PAUL NIXON
(HEAD OF BEHAVIOURAL FINANCE – MOMENTUM INVESTMENTS)

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In a first-of-a-kind study, 2 991 North American consumers aged between 25 and 75 with at least $50 000 in investable assets were asked to take part in an online simulated investment decision-making exercise. Respondents were asked to imagine inheriting $250 000 and to choose their investments from a list of mutual funds. They were asked to allocate all of their inheritance to these funds that would determine their investment return and were given risk and historical return information for all of the funds.

All participants were given exactly the same advice (60% allocation to equities, 30% to fixed income and 10% to money market). They were then randomly allocated to a range of experimental conditions with members of each condition receiving a different variant of advice to enable a scientific exploration of the behavioural effects of varying advice delivery. The investors were allocated to six groups and each group was targeted with a specific approach that was then compared to the control group:

Group 1 The **conventional advice** (control group) was given what may be deemed 'traditional' advice and vetted by a group of CFA® Charterholders. The focus here was on providing information and educating the groups.

Group 2 The **simply reactive** group received more limited information to combat information overload. Certain pieces of important information were also made more salient.

Group 3 The **leveraging expertise** group highlighted the advisers' experience and expertise to leverage off deference to authority.

Group 4 The **descriptive social norms** group framed recommendations as 'people like you'. This provides social proof from peers to potentially guide decision-making and off the belief system that complex decisions are made easier by deferring to peers.

Group 5 The **extremeness aversion** group was provided with investment choices that were framed as 'comfortable' or 'middle-of-the-road' between options that were safe and risky.

Group 6 The **integrated behavioural insights** were targeted with strategies to explicitly deal with overcoming the overconfidence and loss aversion biases, among others.

The results were extremely interesting and highlights how using behavioural insights in financial advice can be used to get better outcomes for investors. Some of the key findings of the study are:

1 Using behavioural economics (BE) in the advice provided increased the propensity of clients to seek out and follow advice. Financial advice is impacted by credence (Delleck et al., 2009). This means that because the value is only realised after the outcome (just like buying a new bottle of wine where you only know if you like it after drinking it) the advice must have a high perceived value. The downward pressure on fees is more likely a symptom of low perceived value than clients not being willing to pay for advice. Compared to the conventional advice group, participants who heard BE advice reported that they were 4.9% to 5.6% more likely to seek advice from an adviser for future financial decisions.

2 Behaviourally-informed or -powered advice groups (groups 2 to 6) were significantly more likely to actually follow the advice received compared to respondents who received conventional advice (group 1). Specifically, participants in the BE conditions were around two times more likely to follow the recommendations of the adviser exactly. Investors who received the conventional advice significantly deviated from the asset allocation advice — on average, 13% to 36% more than investors who received BE advice.

THE VALUE OF BEHAVIOURALLY-POWERED INVESTMENT ADVICE (cont.)

BY PAUL NIXON
(HEAD OF BEHAVIOURAL FINANCE – MOMENTUM INVESTMENTS)

3 Behaviourally-informed styles of delivering advice led the participants to select significantly more diverse portfolios compared to the conventional advice group. This diversification effect is reflected both in participants' tendency to choose a greater number of funds to invest in, as well as the selection of more diverse fund types.

4 Unsurprisingly it was found that behavioural biases influence financial decisions. On average, investors reported to saving around 2% less of their income than they set out to (intention-action gap). Individuals with higher levels of subjective knowledge (how they rated their knowledge versus actual qualifications) also all allocated far more to risky asset classes, confirming the overconfidence of this group.

In conclusion, the BEworks Research Institute study results are immensely encouraging from the perspective of driving clients towards investment advice that has been shown to add significant value over long periods of time. Their study revealed that incorporating behavioural economic tactics in a manner in which advisers interacted with their clients can indeed create tangibly superior outcomes. More clients are encouraged to seek and indeed follow advice, resulting in more normatively optimal investment decisions, such as selection of portfolios with increased diversification that ultimately results in higher Sharpe Ratios. Qualitative benefits were also apparent in clients' perception of increased value of advice and increased trust levels in the adviser.

"Their study revealed that incorporating behavioural economic tactics in a manner in which advisers interacted with their clients can indeed create tangibly superior outcomes."

WHAT HAVE WE BEEN DOING IN THE FUNDS

BY THE RCI INVESTMENT TEAM

RCI BCI Worldwide Flexible Fund

June was the worst month of an already tough year for global equity markets with the MSCI World index falling 8.6% for the month. The American S&P500 market fell far enough to push it into a bear market and giving this market the worst first-half performance since 1962.

S&P 500: Worst Performance through 124 Trading Days (1928 - 2022)

Rank	Year	Price Return: First 124 Trading Days	Price Return: Day 125 to Year-End	Price Return: Full Year
1	1932	-44.5%	53.4%	-14.8%
2	1962	-26.5%	20.0%	-11.8%
3	1940	-20.9%	7.4%	-15.1%
4	2022	-20.6%	?	?
5	1970	-20.2%	25.3%	0.0%
6	1939	-17.9%	15.5%	-5.2%
7	2002	-13.8%	-11.1%	-23.4%
8	2008	-12.9%	-30.3%	-39.3%
9	1974	-11.5%	-20.6%	-29.7%
10	1973	-11.3%	-6.8%	-17.4%
11	1937	-10.4%	-31.5%	-38.6%
12	1982	-10.1%	27.3%	14.5%
13	1953	-9.1%	2.8%	-6.6%
14	1984	-8.1%	9.6%	0.8%
15	1949	-7.9%	19.9%	10.5%

COMPOUND @CharlieBilello

In 1962, markets bounced in the second half of the year but more recent episodes of double-digit negative returns in the first half of the year (2001 and 2008) have been followed by more pain in the second half, though in both instances those periods coincided with US recessions.

The catalyst for investor pessimism in June was the release of US May inflation data (+8.6% YoY), which came in not only higher than expectations (of 8.3% YoY) but also above the previous peak of this latest inflationary bout in March (8.5% YoY) in an ominous sign that we are not yet “past the peak” inflation in the US. Days later the US Federal Reserve (Fed) announced a 0.75% rate hike (the largest increment since 1994). Bond yields spiked as investors scrambled to price in a more aggressive path of monetary policy tightening for global central banks, with US 10-year government bond yields reaching 3.5% intra-month, the highest level since 2011 and enough to push the Bloomberg Global Bond Index down 3.2% for the month, leaving it 14% lower YTD, more than twice the previous worst first half of the year in 1999 (-6%).

If we analyse a typical balanced portfolio of 60% equities and 40% bonds, it has been the worst 6 months of all time. Bonds and equities usually move in opposite directions and bonds can often be a hedge in times of equity turmoil but because of the above factors causing large rate hikes the correlation has risen materially and both have fallen dramatically.

WHAT HAVE WE BEEN DOING IN THE FUNDS

BY THE RCI INVESTMENT TEAM (CONTINUED)

Worst US 60/40* Returns Through June (1976 - 2022)		
Rank	Year	Total Return
1	6/30/2022	-16.1%
2	6/30/2008	-6.7%
3	6/28/2002	-6.4%
4	6/29/1984	-3.6%
5	6/30/1994	-3.6%
6	6/29/2001	-2.6%
7	6/30/1982	-2.0%
8	6/30/2010	-1.9%
9	6/30/1977	-1.7%
10	6/30/1981	-0.5%

*60/40 = 60% S&P 500/40% Bloomberg US Agg

COMPOUND @CharlieBilello

Within developed markets, tech shares were still amongst the biggest losers, with the tech-heavy Nasdaq 100 Index down 9% MoM and 29% YTD, while the S&P 500 energy sector (the only sector in positive territory YTD), was comfortably the worst-performing sector in June (-17% MoM) as oil fell by 6.5% MoM. With oil supply still constrained by the conflict in Ukraine, the drop in the oil price was at least partially a function of investors factoring in the prospect of tightening monetary policy causing a recession that would dampen demand. The increasing possibility of a recession weighed on other commodity prices as well (Bloomberg Industrial Metals Index -16% MoM and the Bloomberg Agricultural Commodity Index -9% MoM).

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 but 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.

Other than a total global economic recession our portfolio is well positioned to handle any short-term pull backs in the stock market as we currently have approximately 15% in cash as well as several holdings that are defensive in nature.

Our top 10 positions

	PEG Ratio ('22 PE/'22-24 Growth)	PE in one years time	Earnings Per Share					
			FY2021	2020-2021 Growth	FY2022	2021-2022E Growth	FY2023	2022-2023E Growth
ADOBE SYSTEMS INC	1.57	25.61	13.52	35%	15.90	18%	18.29	15%
ALPHABET INC-CL C	0.91	16.71	124.93	25%	148.52	19%	174.81	18%
AMAZON.COM INC	0.62	41.65	1.85	-43%	3.58	94%	5.15	44%
BOSTON SCIENTIFIC	1.48	19.90	1.77	8%	2.01	14%	2.27	13%
DISNEY	0.63	19.01	3.83	67%	5.43	42%	6.51	20%
GLENCORE	-0.17	4.46	1.40	105%	0.98	-30%	0.76	-22%
KRANE SHARES CHINA INTERNET ETF								
MICROSOFT CORP	1.74	24.80	9.51	19%	10.70	13%	12.41	16%
META	0.80	11.99	13.11	-5%	15.15	16%	17.31	14%
VISA	1.45	24.81	7.16	21%	8.40	17%	9.82	17%
PEG Ratio (Forward PE/'23 Growth in EPS)	0.91							
Median PE		19.90						
Annual EPS Growth Rate (Median)			21%		17%		16%	

BY THE RCI INVESTMENT TEAM
(CONTINUED)

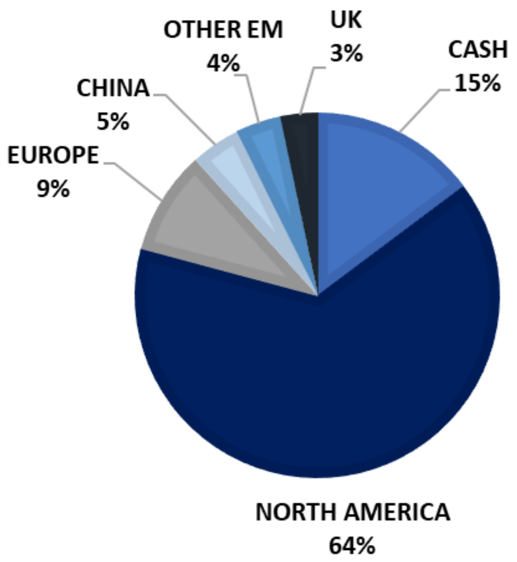
Our top 10 positions are expected to grow earnings per share by about 16% per year for the next two years. Companies are trading on relatively high valuations 20x (compared to the S&P500 at 16x), but their higher growth rates and superior quality should support these higher valuations. Especially when compared to expected returns on investments in bonds or cash.

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

Main changes during the month

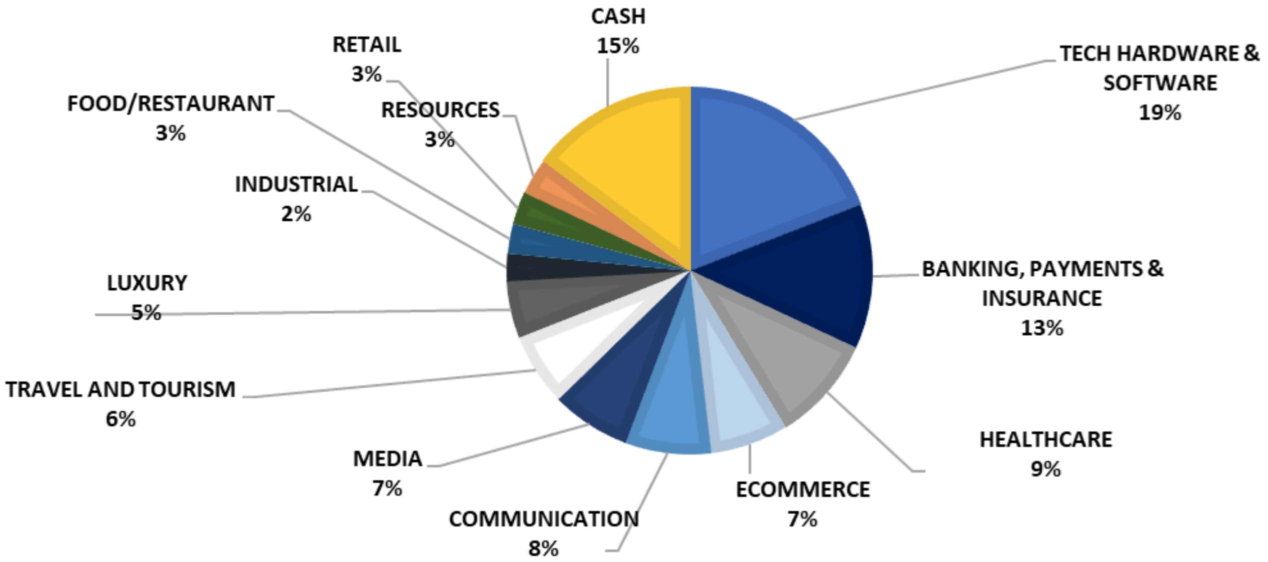
No outright purchases or sales were made during the month.

Geographic Drivers



- Cash is almost entirely USD with a few percent in Rands due to subscriptions. Therefore, total North American + USD exposure is closer to 79%.
- Chinese Equities include: KWEB China Internet ETF.
- We have a small weighting in Europe via ASML, Amadeus, LVMH and Moncler.
- We have non-Chinese Emerging Markets exposure via Mercado Libre and Taiwan Semiconductor.
- Our UK exposure is from Glencore

Sector Weightings



Robert Cowen Investments
Growing families' wealth since 1982

WHAT HAVE WE BEEN DOING IN THE FUNDS

BY THE RCI INVESTMENT TEAM (CONTINUED)

For the basis of this calculation Meta (Facebook) and Alphabet are classified as being in the communications sector. Amazon has been classified as eCommerce, although a large portion of their business is in cloud computing. Half of the companies we own have ultra-high Return on Capital Employed ROCE (over 20%). The portfolio has a 17% weight in companies that could be classified as defensive in nature and if you add the cash of 15% this would rise to a combined defensive weighting of about 32%.

Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017	-	-	-	-	5.1%	-1.6%	1.5%	-1.8%	3.2%	5.8%	-2.9%	-6.8%	**1.9%**
2018	1.4%	-3.2%	-3.6%	6.8%	1.4%	10.8%	-2.1%	14.1%	-4.1%	-7.3%	-3.8%	-2.8%	**5.6%**
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%							**-29.4%**

The fund returned -4.3% in ZAR terms (-8% in USD) for the month. The ZAR weakened 4% against the USD for the month which added to the ZAR performance.

For the 2022 year thus far, the fund is down 29% in Rands or 30.8% in USD terms, with the rand having weakened 2% against the dollar. The MSCI Developed Markets Index has fallen 21% in USD for the same period.

For the 2021 year, the fund closed up 16.3% in Rands or 7% in USD terms, with the rand having weakened 8.1% against the dollar. The MSCI Developed Markets Index has risen 20% in USD for the year.

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.

The RCI BCI Worldwide Flexible Fund investment team:

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

WHAT HAVE WE BEEN DOING IN THE FUNDS

BY THE RCI INVESTMENT TEAM

RCI BCI Flexible Fund

June was the worst month in what has already been a tough year so far for global equity markets (MSCI World -8.6% MoM). Taking YTD losses to 20.3%, this pushed developed market equities officially into "bear market" territory (defined as a drop of over 20% from their previous high). The main catalyst for June's fall appeared to be the announcement of May US inflation data, which, at +8.6% YoY, was not only higher than expected but also exceeded the previous peak, thus defying expectations that inflation had passed its peak. US bond yields moved higher, reaching an intra-month high of 3.5% (highest level since 2011) and the US Federal Reserve followed soon after with a 0.75% rate hike (largest increment since 1994). Tech shares, which have suffered in recent months as investors have marked down justifiable valuations in the face of rising interest rates, had a difficult month (tech-heavy Nasdaq-100 Index -9% MoM). Interestingly though, it was the energy sector, which had been a standout performer up to the beginning of June, that was comfortably the worst performer (S&P Energy sector -17% MoM), as investors began to worry about the implications of a future recession on demand. Although EM equities also endured their worst month of the year (MSCI EM equities -6.6% MoM, -17.6% YTD), they outperformed DM for the 3rd consecutive month. Within EM, commodity-sensitive markets, such as Brazil (-11.5% MoM), were the relative under-performers, while China (Shanghai Composite Index +7.5% MoM) continued to benefit from improved investor sentiment after months of severe underperformance.

SA did not escape the pain suffered by global equity markets in June – FTSE/JSE Capped SWIX -7.5% MoM. With mounting concern around a potential recession looming, commodity prices were broadly under pressure, leading to mining shares featuring prominently among the worst performers for the month. Companies geared to the domestic economy also fared poorly, no doubt impacted by the economic implications of Eskom's continued deterioration in electricity supply capability, as it was forced to take loadshedding to Stage 6. 3.9% depreciation in the Rand against the US dollar provided a level of support for rand hedge shares generally. However, it was Naspers/Prosus (+38% and +30% respectively) that finally provided some meaningful positive news for long-suffering shareholders, with the announcement they would be gradually selling down the Tencent stake to fund share buybacks.

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 June, the top 15 holdings in the fund, making up 69% of the equity exposure, were as follows:

- Prosus
- Naspers
- Investec
- Bidcorp
- Afrimat
- Advtech
- Glencore
- Sasol
- Multichoice
- AECI
- MAS Real Estate
- Absa
- South 32
- Richemont
- Transaction Capital

Main changes in the month

In June, we reduced the fund's exposure to equities whose earnings are geared to investment markets, exiting **Sanlam** and reducing **Quilter**. We also reduced exposure to the mining sector, selling the remaining holding in **Impala** and exiting **Billiton**. We took advantage of the pullback elsewhere to initiate or add to positions in quality shares that we expect to prove more resilient over time – we initiated a position in **Bidvest** and Mr. **Price**, while adding to **Bidcorp** and **Transaction Capital**. Having been heavily positioned in **Naspers** over **Prosus**, we moved to a more balanced holding between the two, as we feel the relative outperformance of Naspers so far this year has likely run its course.

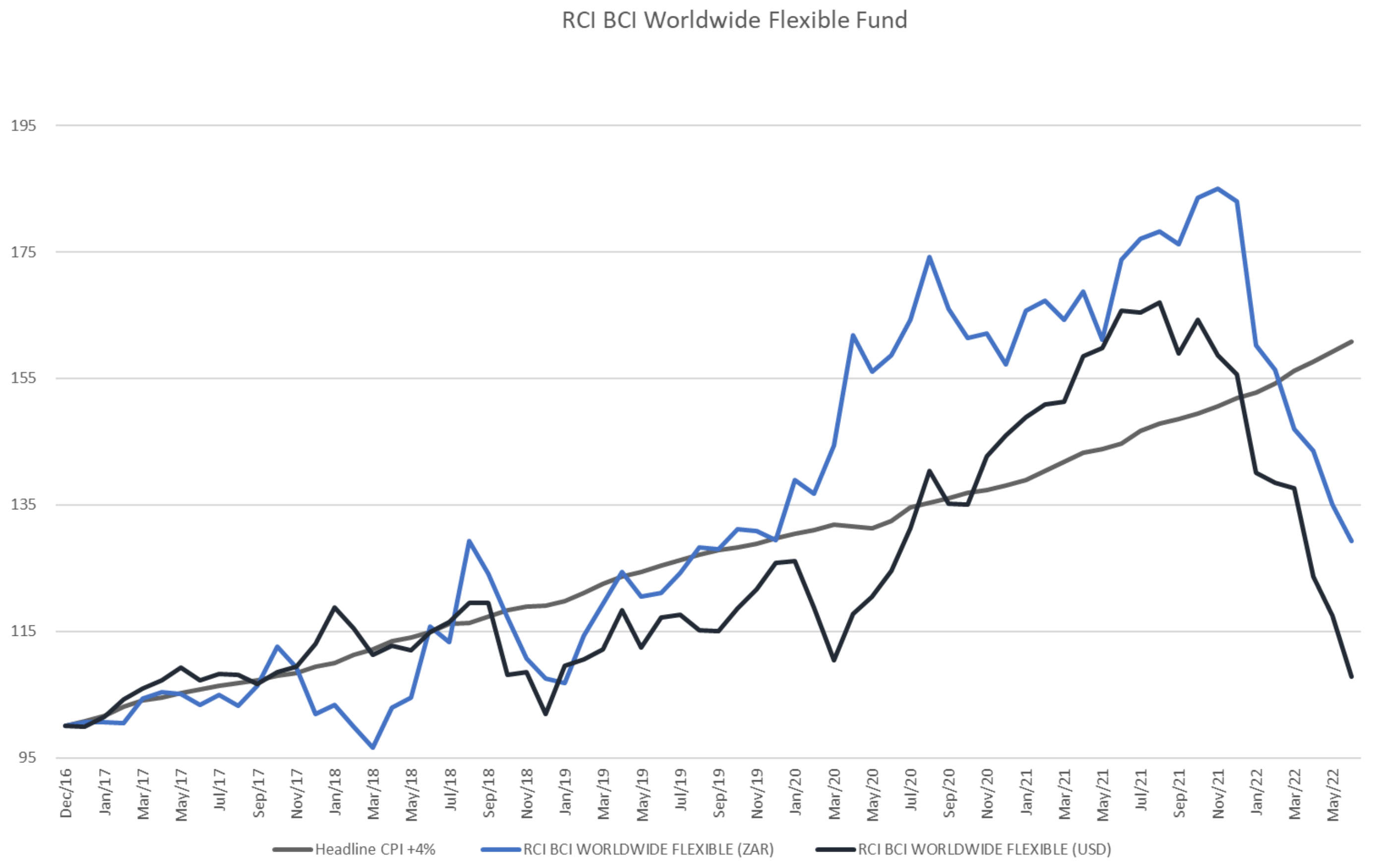
Performance

Although the RCI BCI Flexible Fund outperformed the SA equity market in June, it had a bruising month in absolute terms. The fund declining by 5.6%, taking the total return for the year-to-date to -4.7%.

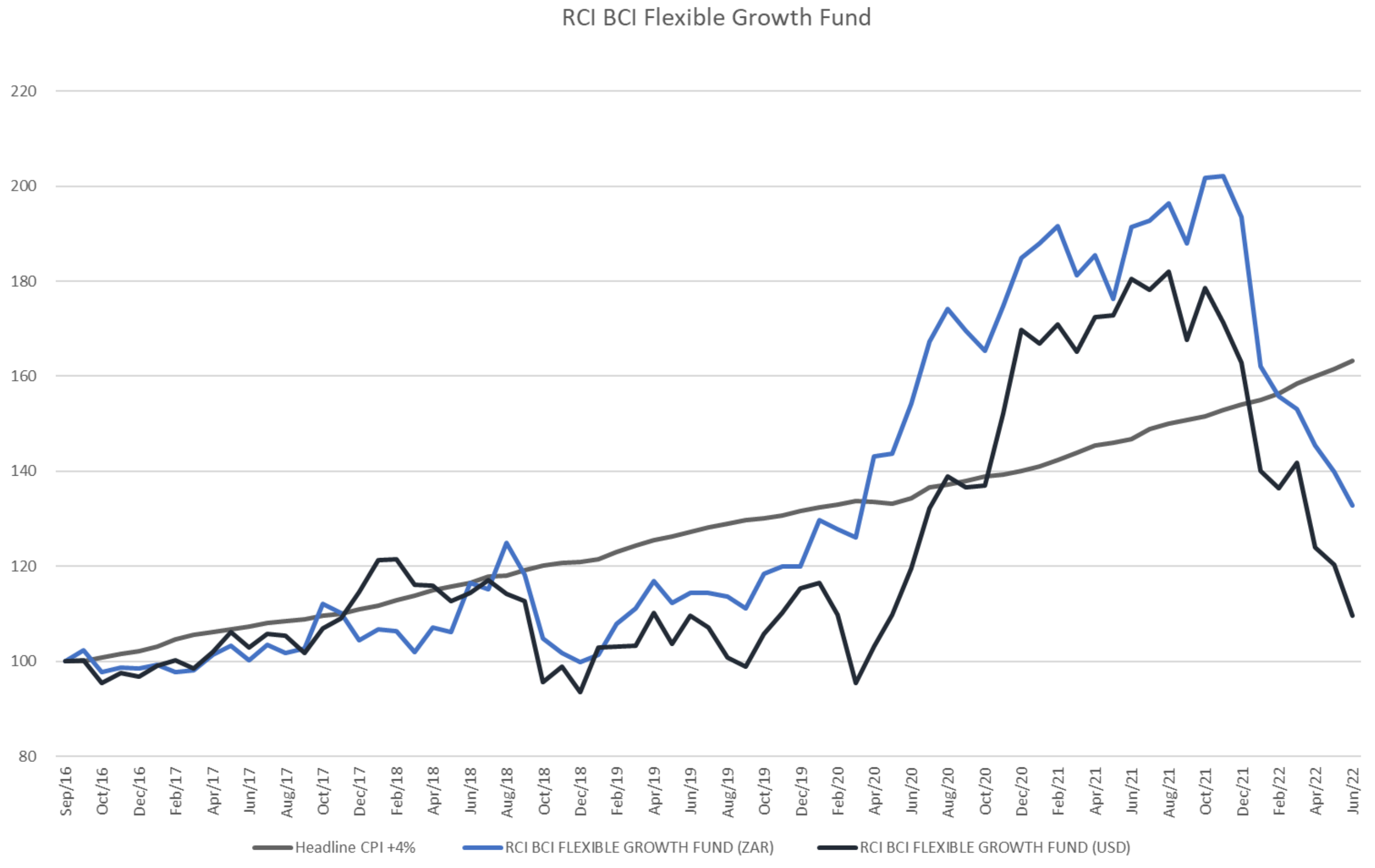
The RCI Flexible Fund investment team

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

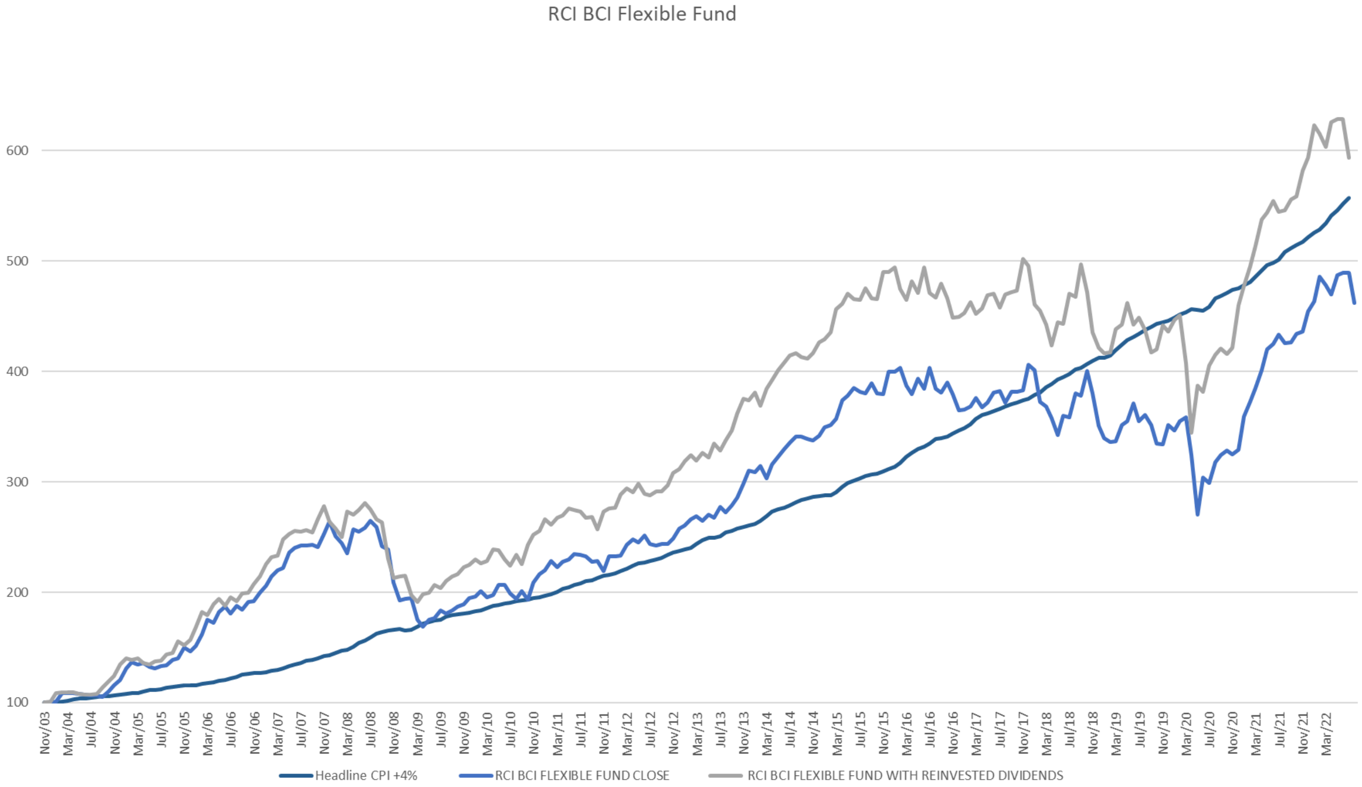
RCI BCI Worldwide Flexible Fund closed June at 129.24c, down 4.26% for the month and down 25.64% for the last 12 months.



RCI BCI Growth Fund closed May at 132.78c, down 5.02% for the month and down 30.64% for the last 12 months.

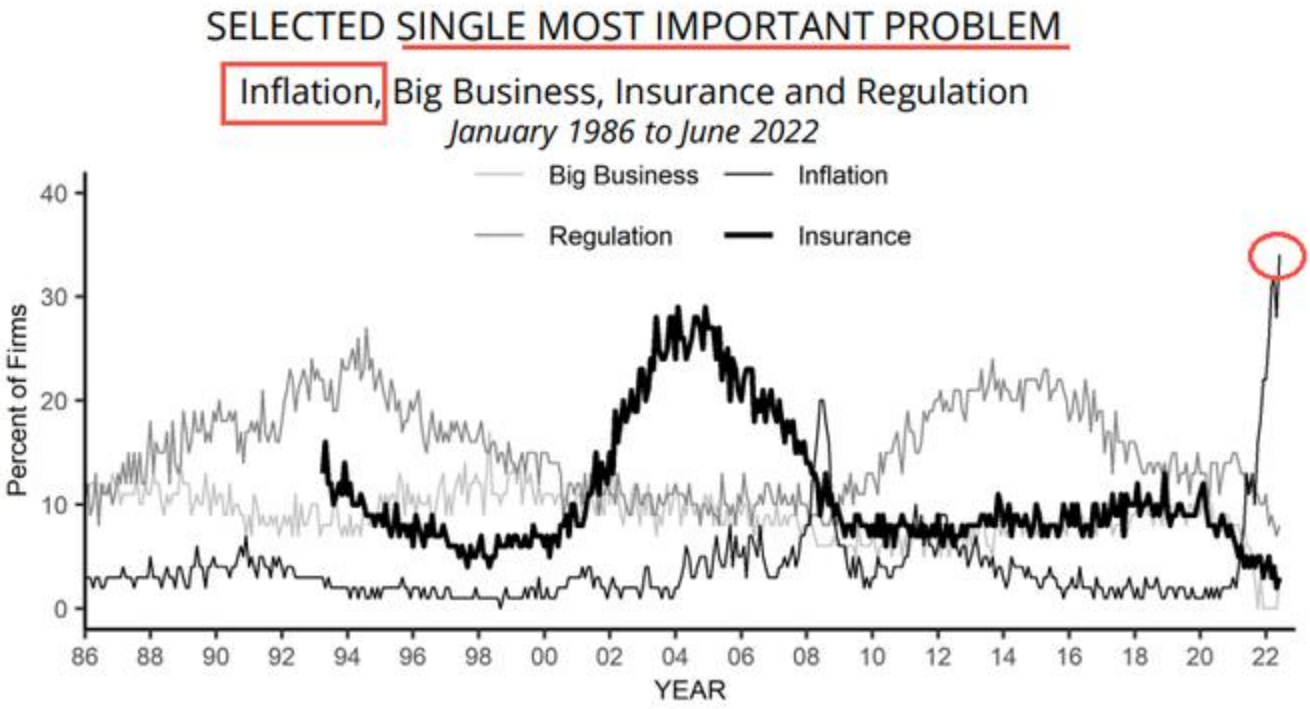


RCI BCI Flexible Fund closed June at 462.00c, down 5.63% for the month and up 8.97% for the last 12 months. The fund is now ranked 6th in its category over the last three years, out of 58 funds, with an annualized performance of 10.09%.



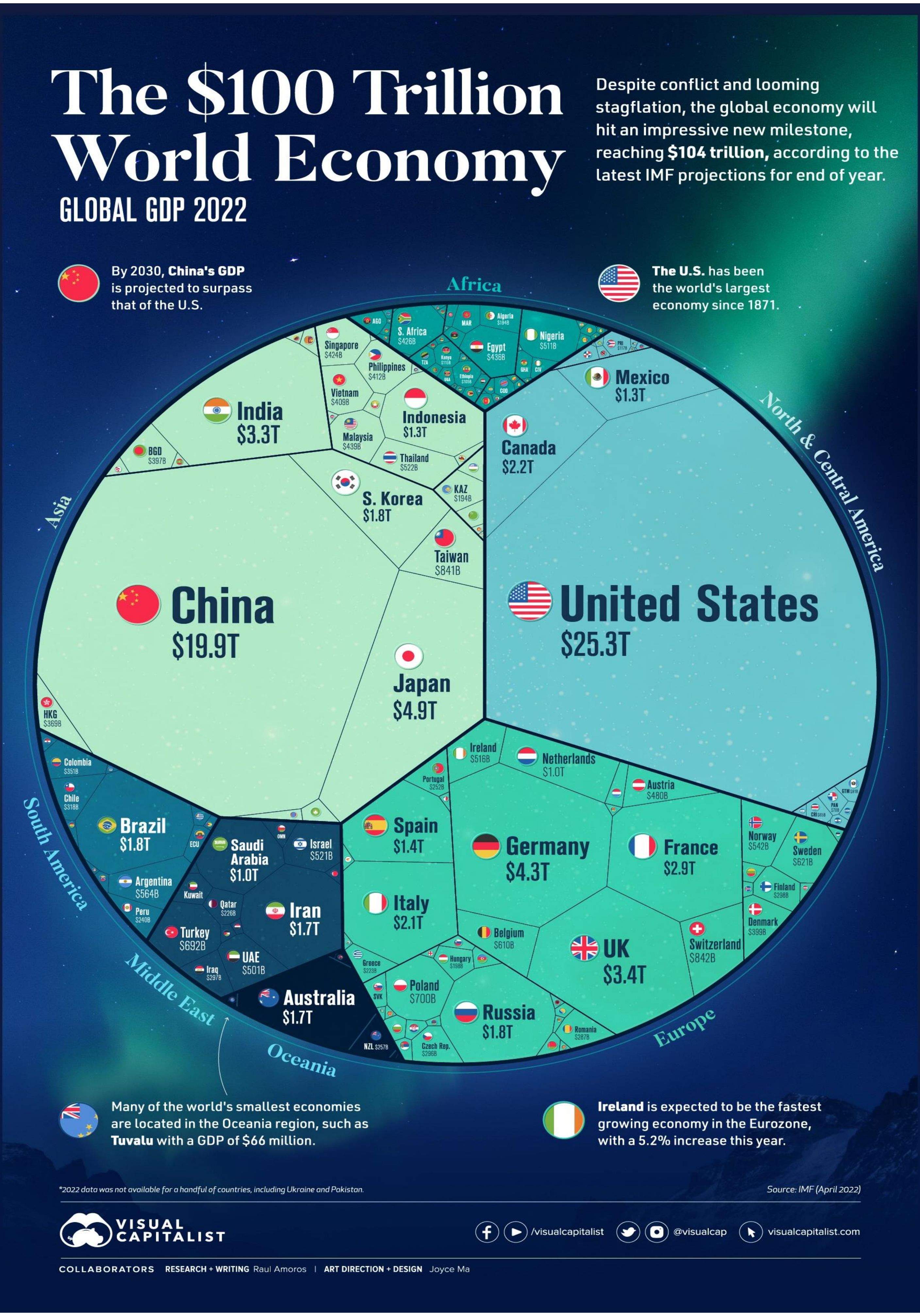
Our unit trusts have the flexibility to buy and sell shares and to change weightings more frequently than in an individual portfolio. We are happy to take small amounts into the unit trust (from R1 000 per month, to lump sums of up to R25 000). As you will not pay commission to any agents, there is no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



Source: National Federation of Independent Business

Source: Charlie Bilello



Source: Visual Capitalist

TO CONCLUDE…

JUNE 2022

This newsletter featured an article from Paul Nixon, highlighting the importance of financial advisors in determining a suitable investment approach for individuals. He highlights the value-add component of having a financial advisor, particularly during turbulent time in the market. Empirical evidence provided shows that our biases, emotions and urge to do something, are often our own worst enemies. Fund commentary on our local and offshore funds for the month of June highlight that it was another difficult month for both local and global equities. The FTSE/JSE Capped SWIX was down -7.5% for the month and the MSCI World Index was down -8.6% for the month. This made June the worst month of an already tough year for global equity markets. The pessimism was largely around the release of the US inflation data for May (+8.6% YoY), which was the highest inflation print since 1982. Days later the US Federal Reserve announced a 0.75% rate hike, the largest hike since 1994. This, along with fears of a looming global recession, fed through to developing markets. Commodities sold off significantly during the month which also saw the Rand weaken 3.9% against the US dollar for the month. 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?*

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 that according to the National Federation of Independent Business (a US association of small business owners that aims to advance the interests of small business owners), inflation continues to be a top problem for small businesses. 34% of owners report it was their single most important problem in operating their business, an increase of six percentage points from May and the highest level since the fourth quarter in 1980. We then show that the US dollar recently reached parity to the Euro. The last time the US dollar was this strong against the Euro was in 2002. From its peak in 2008, the US dollar has strengthened 38% against the Euro. Of the many consequences of a strong US dollar, there are primarily two negative ones. Firstly, it is negative for US exports, which in turn increases their trade and fiscal deficits. Countries that traditionally import US goods will purchase less due to decreased purchasing power in domestic currency terms. Secondly, it is negative for US multinational companies that earn revenue in a foreign currency, such as the Euro for example. In essence, they are receiving less US dollars (their reporting currency) for selling the same quantity of products. Lastly, we show an infographic depicting each country's contribution to the $100 trillion global economy. Interestingly, South Africa is now the third largest economy in Africa, behind Nigeria and Egypt.

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

Growing families' wealth since 1982