ROBERT COWEN INVESTMENTS

NEWSLETTER – END OCTOBER 2022

18 November 2022

HIGHLIGHTS OF THIS NEWSLETTER ARE:

- Update on RCI & Announcements
- What we are doing in client portfolios right now
- Should you use your excess savings to pay down your mortgage or invest in the stock market? – *by Ross McConnochie*
- Making Sense of China: The risks, potential reward and investability – *by Keiran Witthuhn & Mike Gresty*
- What have we been doing in the offshore funds – *by the RCI Investment Team*
    - October relief rally
- What have we been doing in the local fund – *by the Anchor SA Equity Investment Team*
    - Dislocation to Chinese sentiment as SA equities advance in October
- Please see attached the link for our latest webinar on Emigration, Residency and Double Tax webinar held on the 4th November 2022: https://www.youtube.com/watch?v=Z9M5eQbmNFI
- Latest Research from Anchor Capital
    - THE NAVIGATOR – ANCHOR'S STRATEGY AND ASSET ALLOCATION, 4Q22
    - A VETERAN ANALYST'S THOUGHTS ON INVESTING IN THE DIVERSIFIED MINERS

Due to the current economic environment, 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% USD 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 more 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.

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.

***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.

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

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UPDATE ON RCI & ANNOUNCEMENTS

The Family Office

Dear Clients,

- If any clients have any **payment requests** or needing additional funds over the festive season, we urge you to submit these before the close of business on the **9th of December 2022**.
- Please note that we will **be closed for business** from Friday, the 27th of December 2022 and will reopen again on the 3rd of January 2023, after the public holiday on the 2nd of January 2023.
- We would like to ask you to please ensure that you get hold of your portfolio manager prior to this period for any matters that need to be dealt with. However, In the case of any urgent matters that arise, please do feel free to reach out to us during this period.
- With Black Friday approaching, we urge you to protect yourself against scams and to keep your card information safe. Most card fraud scams are online scams where the fraudsters have either already got your card information or are trying to get it from you to use your card details online. Often fraudsters use stolen card information to shop online and they use various techniques to get your card information, and your one-time pin (OTP), to authorise these transactions. Be cautious about clicking on links via email, SMS and WhatsApp. Also watch out for fraudsters pretending to be your bank and asking for information!

WHAT ARE WE DOING IN CLIENT PORTFOLIOS RIGHT NOW?

Adequate cash positions for clients – Depending on drawing requirements
–
Happy to start deploying some cash at these levels if new money

Identifying new opportunities
–
Upgrading the quality of our counters for the next 5 years!

Focus on quality portfolios coming out of the downturn
-
Not buying into poorer sectors because they appear optically cheap

Considering structured products and hedging as insurance

It has been a disheartening year to be invested in the markets, but our approach remains consistent with the principles above. It is important to not get caught fighting yesterday's battles, or becoming obsessed with strategically trying to time the market. Such an obsession inevitably consumes time that could be much more profitably applied ensuring we take advantage of excellent new investment opportunities that inevitably appear when others panic or become excessively pessimistic about the future.

The recent rebound in global equity markets that began in mid-October was given a boost by the latest US inflation data that, at last, began to moderate. The debate is now raging as to whether this recovery will be sustained. The bears argue that, while the valuation of equities is now much more reasonable after the selloff this year, earnings forecasts may still be too optimistic if we face a recession next year. We may still face some market bumps over the next few months, but keep in mind that equity markets have almost always historically hit their low and begun to recover **before** a recession. With this in mind, and this bear market already having been with us for a lengthy period by historic standards, we think one should be approaching any future pullbacks as opportunities to add quality shares to portfolios.

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SHOULD YOU USE YOUR EXCESS SAVINGS TO PAY DOWN YOUR MORTGAGE OR INVEST IN THE STOCK MARKET?

BY ROSS McCONNOCHIE, CFA

Every month a minimum debit order comes off your bank account to slowly whittle down your mortgage and if you are diligent and don't access the bond you should typically pay it off after 20 years. The question many ask is what to do with excess savings available after all expenses have been met? Should you be investing these savings into the stock market, or should you try to pay down your debt quicker? This article explores how your wealth would have changed over the last 20 years had you implemented various strategies.

It is June 2002, and you decide to buy a house for R1.1 million, you put down a deposit of R100,000 and get a bond for R1 million from your favourite bank at a rate of prime less 1%. The average prime rate was 15.75% for your first year, thus your rate was 14.75% and your starting Net Asset Value (Assets less liabilities) would have been R100,000. Your first-year payment to the bank would have been R157,000 or R13,000 per month. Of that amount almost all of it would have gone to servicing interest and thus very little capital would have been paid back. You have also been particularly disciplined that year and you were able to save R1,000 per month or R12,000 for the year, you now have a choice to either pay back your loan or invest it in the stock market. In this analysis your choices are either the JSE All Share Index or the US S&P 500 Index. Let's also assume that you were able to increase that saving each year by inflation therefore R12,000 in the first year and R12,144 in the second year and so on.
So, let's take a look at various scenarios and how they would have impacted your wealth 20 years later:

Scenario A: Pay off your bond as quickly as possible and after paying down debt you invest in a fixed deposit.

This is really the most conservative approach as you initially put all your savings into your bond and subsequently avoid the potential volatility in equity markets. Remember you aren't investing into anything; you are simply paying down your debt a little bit more each year. But you also save all the future interest on that amount paid back and that compounds in your favour. In your first year you were charged a whopping R147,000 in interest. The outstanding balance on your loan at the end of the first year would be R990,000 - measly R10,000 less than where you began. You now take your hard earned R12,000 savings to reduce your debt to R978,000. So you are chipping away at your debt as fast as your savings allow. Fortunately, your property has increased in value to R1.17m and thus your Net Asset Value is now R192,000.

If you continue putting your savings (growing by inflation each year) into the loan, you will pay off your loan in 15.5 years instead of 20, which sounds fantastic. Now that you have paid off your debt you decide, being very conservative, that you will save all the funds that you would have put into the bond (monthly bond payments + extra savings) into a fixed deposit. Thus, 4.5 years later, after 20 years you would have a house worth R5.5m; a fixed deposit of R866,000; no debt and a Net Asset Value of **R6.4 million**. Pretty good going but could you have done better?

Scenario B: Don't pay down your bond faster than required, but rather invest in the JSE.

Instead of paying off your bond as soon as possible you decide to put your savings into the JSE All Share Index and all the dividends are reinvested in that portfolio over time. Therefore, your bond will last the full 20-year term and you will the pay the maximum possible interest on this debt. However, after 20 years you will have an equity portfolio worth R1.1 million to your name as well as a paid off house. Thus, your ending wealth would be **R6.7 million**.

Scenario C: Don't pay down your bond faster than required but rather invest in the US S&P 500 Index.

This is similar to scenario B, where you don't pay off your bond but rather you decide to invest in the stock market. But this time you invest in the US S&P 500 as you believe better returns will be generated offshore. In rand terms you would have had a very similar investment path until about year 15 where you would have begun to pull ahead as the South African market underperformed the US equity market. At the end of 20 years, you would have an offshore equity portfolio worth R1.9 million giving you a total NAV of about **R7.5 million**.

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SHOULD YOU USE YOUR EXCESS SAVINGS TO PAY DOWN YOUR MORTGAGE OR INVEST IN THE STOCK MARKET?

BY ROSS McCONNOCHIE, CFA (CONTINUED)

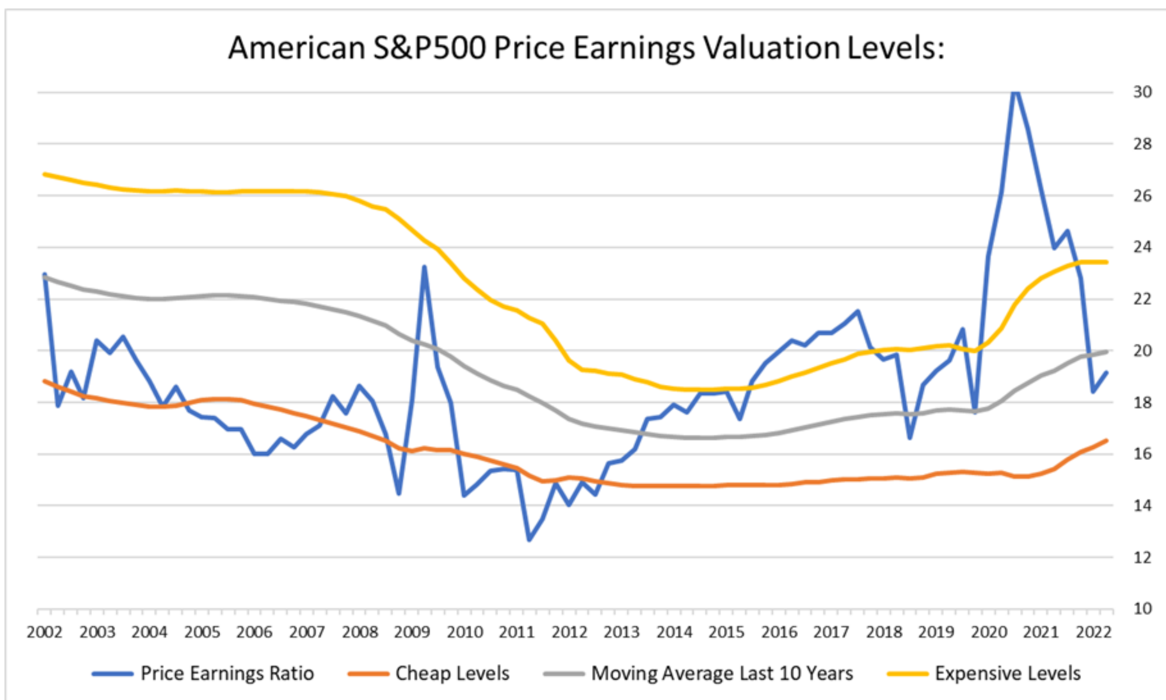
So far we can clearly see that investing in the stock market was a better decision than paying off your debt. But let's explore two more variations to the above.

Scenario D: Pay down your debt as soon as possible and then invest offshore in the US S&P 500.

This is similar to scenario A where you try and pay off your debt as soon as possible but instead of investing into a fixed deposit after you have paid off your bond, you invest in the S&P 500. In this scenario you will also pay off your debt after 15.5 years, but you would only have invested in the stock market for the last 4.5 years and thus you haven't received the benefit of time and compounding in the stock market but you would have at least beaten Scenario A and ended with a NAV of **R6.53 million**.

Scenario E: Invest in the US S&P 500 when the market's valuation is cheap or pay off debt when it is expensive.

This is the most interesting scenario where you put a little more thought into what you do. In this scenario you invest in the market when it is cheap, or you pay back your loan when it is expensive. If the market is about average, then you split your excess savings between investing in the market and paying off your debt.



(Market is expensive above the yellow line or cheap under the orange line)

In this scenario you would have invested your savings into the market 6 years of the 20 years. You would have paid off your bond 4 of the 20 years. And you would have split your savings the rest of the time. In this scenario you would have paid back your loan after 17.5 years and after it is paid off you then put all your proceeds into the S&P 500. After 20 years you would have an equity portfolio of R1.6 million giving you a closing NAV of about **R7.2 million** or second place after Scenario C.

Conclusion:

	Scenarios					
	A	B	C	D	E	F
Life of Bond in years	**15.5**	20	20	**15.5**	17.5	19.5
Interest Paid over life of bond	**1,049,019**	1,379,784	1,379,784	**1,049,019**	1,251,102	1,350,075
Value of Fixed Deposit at 30 Jun 2022	**866,282**					
Value of Equity at 30 June 2022		1,187,350	**1,974,072**	1,003,964	1,673,117	1,940,067
Value of Property at 30 June 2022	5,533,771	5,533,771	5,533,771	5,533,771	5,533,771	5,533,771
Net Asset Value at 30 June 2022	6,400,053	6,721,122	**7,507,843**	6,537,735	7,206,888	7,473,838

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SHOULD YOU USE YOUR EXCESS SAVINGS TO PAY DOWN YOUR MORTGAGE OR INVEST IN THE STOCK MARKET?

BY ROSS McCONNOCHIE, CFA (CONTINUED)

The best scenario is C, investing in the S&P 500 as much as possible and allow for compound growth over the long term. Scenario A had the worst outcome, as the interest saved on paying off your bond and the interest earned afterwards simply isn't as good as being invested in the market. And if we deducted income tax on that interest you earned then the final Net Asset Value would be even worse.

Net Asset Value (NAV) After 20 Years

8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
-

7,507,843
7,206,888
6,721,122
6,537,735
6,400,053

Scenario A: Payback bond as soon as possible and then save in a Fixed Deposit
Scenario B: Invest All Savings into the JSE All Share with reinvested dividends
Scenario C: Invest All Savings into the US S&P500 with reinvested dividends
Scenario D: Payoff bond as quick as possible then invest in S&P500
Scenario E: Invest in Market when cheap, or half if average. When expensive payoff bond

2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

Intuitively you would think that Scenario E should be the best strategy as it is using a lot more brain power but the reason it doesn't beat scenario C is because of the times you split your savings between bond payments and the market. This is because the market can be averagely valued but because earnings of the underlying companies continue to rise, it ends up beating the interest rate on your bond over time.

For those of you who have read this far and love the numbers, we have included a slight variation to Scenario C in Scenario F where we always invest in the stock market unless it is expensive. Now we are saying that we are long term investors all the time except when the market is expensive but what is crazy is we still don't beat scenario C! So, it is quite clear that trying to time the market, around cheap or expensive simply isn't a successful long-term strategy. You would be much better off putting a debit order in your bank account to invest in the market no matter what and allow for long term compounding over and above interest paid or earned.

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MAKING SENSE OF CHINA: THE RISKS, POTENTIAL REWARDS AND INVESTABILITY

BY KEIRAN WITTHUHN & MIKE GRESTY

The Chinese question

There is no escaping the fact that the South African equity market's prospects are significantly more closely linked to the China than most global equity markets. On the one hand there is the outsized influence that China has on the prices of almost all the commodities that South Africa's listed miners produce. On the other, there is our market's exposure to Chinese tech company, Tencent, which accounts for about 80% of the asset value of Naspers / Prosus. Therefore, what happens in China has serious implications for the long-term wealth of South Africans who have not paid much attention to diversifying their assets offshore. Over the last few years, an increasingly erratic policy shift domestically (harsh regulatory crackdowns on property developers, leading technology and private education, threats of changes to the legal status of structures via which international investors have gained access to China and its persistence with the Covid-zero policy), and growing aggression internationally (expansion into the South China Sea, threats directed towards Taiwan, and deterioration of relations with the US) have lead to a steady exodus by international investors. This exodus has seen China’s Hang Seng Index decline 44% from its past high in February 2021. It has also erased all the growth that Chinese equities had achieved all the way back to 2008!

After the battering investors had endured in China, hopes were high that the Chinese Communist Party’s (CCP) National Conference that was held from the 16th of October to the 22nd of October 2022 would mark a sea-change in policy direction for the better. This meeting takes place every five years and is ultimately about unveiling the Chinese Communist Party’s (CCP) Politburo Standing Committee (essentially the 7 most powerful men in China) for the next 5 years, as well as establishing the course for Chinese policy going forward. A further sharp sell-off in Chinese shares in the wake of the conference reflects the initial disappointment with outcomes of the conference and what this implies for China's investment prospects from here. Below, we summarise the main developments and share our thoughts on how we plan to approach China going forward.

The National Conference and the new Politburo Standing Committee

As was widely expected beforehand, President Xi Jinping was re-elected for a precedent-defying third five-year term, which ultimately makes him China’s most powerful leader since Mao Zedong. The big surprise was how aggressively he moved to force moderates out of the existing top leadership structures, replacing them with loyalists who observers judged to have been selected more for their alignment with his ideologies than relevant experience or technical competence for the job.

The most prominent change that took place in the Politburo Standing Committee was the ousting of two moderate members including Li Keqiang, the current Premier and second highest ranking CCP member behind Xi. Li was always happy to challenge some of Xi’s policies (including his Covid-zero policy) and he preferred a more consensus style of leadership. He was former president Hu Jintao’s favoured candidate to take over when Xi became president. Xi has now replaced him with Li Qiang, who is arguably fairly inexperienced for the position, but seems to have been rewarded for his loyalty to Xi’s Covid-zero policy when he oversaw the harsh lockdowns in Shanghai earlier this year that decimated economic activity and left Shanghai residents locked in their homes for weeks. Qiang also played a key role in the set-up of a massive Tesla factory in Shanghai and will now take on the role of managing China’s economy. Xi also brought in three other loyalists who favour the enforcement of a more disciplinary approach to governing. The CCP’s constitution had several significant amendments, including defining Xi as the “Core of the Party” and emphasizing the development of a “fighting spirit”. Xi Jinping has essentially paved the way to hold onto power until he dies. Taiwan was also in sharp focus during the Conference, where it was made clear that the CCP firmly opposes its independence. China seemingly intends to use their “one country, two systems” approach on Taiwan, which in the past was used to absorb Hong Kong into the Chinese political system.

While the prevailing investor sentiment in the immediate aftermath of the conference was one of disappointment, an interesting alternative perspective is that there had in fact been very little evidence that the supposed moderates/reformers in the Politburo Standing Committee had had much influence on policy anyway. Thus, how much practical difference the changes in personnel in the Politburo Standing Committee actually have on the likely direction of policy may be limited.

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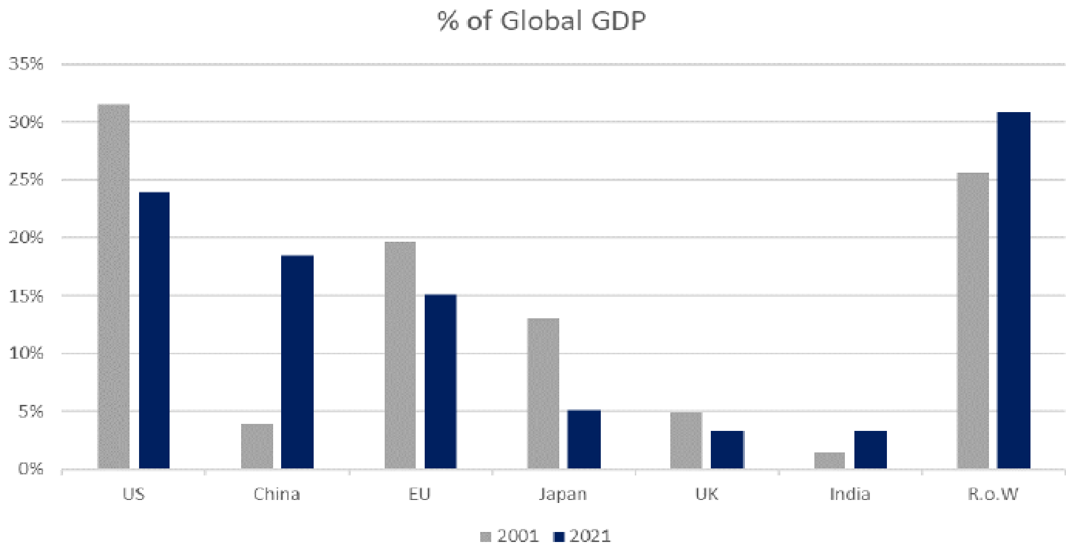
China's economic growth "miracle" has delivered scant returns for investors

On the first trading day after the Conference (24 October), many large foreign listed Chinese shares dropped between 10% and 20%, reflecting investors' disappointment with the outcome. Over the past year, the US Nasdaq-listed Chinese Golden Dragon Index has more than halved in value. On 24 October alone, it fell by more than 14%. At the moment, this is looking like a painful lesson for investors that it cannot be assumed that economic growth will inevitably translate into strong returns for investors.



(20 years ago the Chinese economy was smaller than the UK's – it is now bigger than the UK & Europe combined – It is simply too big to ignore)

China's economic growth has been astonishing. 20 years ago, the Chinese economy was smaller than that of the UK. Today, it is bigger than that of UK & Europe combined. Under Hu Jintao (2002-2012), China adopted a "growth at any cost" approach, where free market capitalism was promoted and China's GDP per capita (a rough measure of the local population's living standard) grew at 20% per annum. Since 2012, under Xi, GDP per capita slowed significantly, albeit still growing at a respectable average 8% per annum. No doubt the size of the base plays a part in this deceleration, but so has the policy shift from "growth at any cost" to one of "common prosperity", where the CCP steadily increased its role in managing all aspects of the economy. Nonetheless, over this 20-year period of astounding economic growth, GDP per capita growth has averaged 13.2% per annum. This however not been translated into stock market returns. From 2002, an investment in the broad **Chinese equity market** would have returned 2.3% a year in Hong Kong dollars, or **4.6% in rand**. This is a far cry from the **8.9% rand** return one could have achieved through an investment in the broad **US equity market**. This despite US GDP growth averaging 4.4% over the 20-year period, significantly below China's growth.

Why has Chinese economic growth not been translated into equity returns?

The contrasting fortunes for investors in Chinese equities relative to the US is not explained by a single factor. Furthermore, we need to keep in mind that the picture as it appears today is not assured to remain the same – we need to maintain an open mind as to whether the fundamentals to support the translation of economic growth into attractive investment returns in China change for the better. However, some of the main reasons why investment returns have lagged so badly behind economic growth include: (1) achieving an acceptable return on the capital required to drive this economic growth has never been prioritized; (2) in contrast to US companies, which have the freedom to expand internationally, Chinese companies have remained far more domestically orientated, which has led to them being more vulnerable to the final point…; (3) the increasingly interventionist and unpredictable policy environment that the more authoritarian instincts of the current CCP leadership has been imposing on the Chinese private sector. The increasingly apparent willingness to dramatically alter the business prospects for entire sectors as the policy priorities of the CCP shift, is not only making it very difficult for the management teams of these companies to plan with confidence, it has also led investors to see Chinese investments in an entirely different light from a risk perspective.

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What happens next?

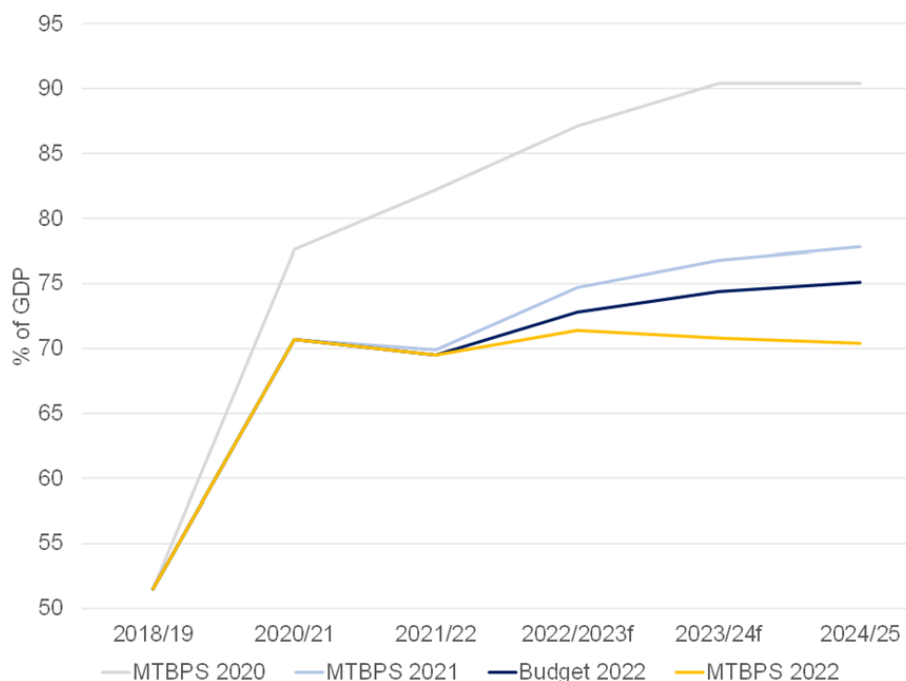
Investors are now looking to the Economic Work Conference in early December, where it is expected that clearer guidance on the path of policy will be provided. The new Politburo Standing Committee will begin their term in March 2023 and we will be watching closely for signs of any left-field events. As these and other announcements on the direction of policy are made, the question regarding the longer-term investability of China will become more apparent. In the short-term, the recent rally in Chinese equities has centred around various factors, including the positive talks between Biden and Xi. Any further developments in this domain will invoke a response in investor sentiment towards China and is worth keeping a close eye on. With this in mind, we will maintain flexibility and respond to any material changes that are likely to impact the prospects of those publicly-listed Chinese companies or multinational companies with significant Chinese exposure that we hold in our portfolios.

How is this shaping our thinking on investing in China currently?

Historically, we have tended to confine ourselves to investing directly in what could be described as “Chinese blue-chips” – larger businesses that had won in their market space, were cash generative and, unlike the broader market, were generating high returns on their capital. Unfortunately, even this relatively conservative approach did not insulate us from the shift in policy priorities and erratic regulatory environment. Today, direct exposure to Chinese equities is relatively small (typically <5%). As much as we have seen a pleasing recovery from the vicious sell-off in the immediate aftermath of the CCP Conference, we think for the time being the correct investment approach is to hold firm. Investor sentiment remains extremely negative towards China and valuations reflect that. Clarity in coming months that policy is changing significantly, gradual easing of zero-Covid policy and the prospect of greater economic stimulus to accelerate economic growth in 2023 (in stark contrast to the West which faces the challenge of tackling inflation), suggests we should remain patient for now. However, this unpredictability of policy leads us to believe that China is increasingly becoming a market that presents trading opportunities from time to time rather than being an automatic allocation of a portion of one’s wealth on a permanent basis. At the appropriate time, it is likely that our remaining direct Chinese exposure will be switched into Developed Market companies that provide exposure to China without the level of risk that has become all too apparent in recent years.

SOUTH AFRICA’S GOVERNMENT DEBT ON A DOWNWARD PATH

Positive news on South Africa is few and far between, but here is some! A key theme from the medium-term budget policy statement (MTBPS) in October was the continued downward trend in government’s debt forecasts. The graph alongside shows that forecasted government debt as a percentage of GDP by 2025 has decreased from 90.4% in 2020 (grey line), to 70.4% currently (gold line). Overall, South Africa’s fiscal position remains relatively sound, largely thanks to the recent surge in global commodity prices and the higher export revenue generated. However, a key risk for the National Treasury going forward is the persistent and unresolved risks both locally and internationally.



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WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

RCI BCI WORLDWIDE FLEXIBLE FUND – OCTOBER RELIEF RALLY

October saw a huge jump in global markets with the MSCI World rising 6%, a welcome relief after an abysmal September. We again bring up the question of whether this is the beginning of the next bull marker or just another bear market rally, fooling us into thinking we are at the bottom?

With the Fed determined to bring inflation back to 2% by aggressively raising rates, it is very likely that we still have a few more down legs to go before we hit the bottom.

However, we must not be too greedy as many high-quality businesses have fallen substantially from their highs and more so than the market – for example Netflix -58.4%, Adobe -54.5%, Amazon -45.5% and Microsoft -33.5%. Many shares have experienced a complete reversal of the performance they gained since the Covid-19 crash. Where valuations were sky-high in December 2021, they are now ranging from reasonable to very cheap.

Bear markets are defined as pullbacks of over 20% from the high and they tend to be even worse during periods where the economy is also experiencing a recession. Here is a breakdown of all the bear markets experienced on the American S&P 500 and if there was a corresponding recession at the same time. You never get a recession without a bear market, but you can get a bear market without a recession. Of the last three quarters, the GDP growth has been negative for two, so there is still uncertainty as to whether or not we are already in a recession. But this bouncing up and down of the GDP is normal during uncertain economic times and could still lead to a recession into 2023. Time will tell.

S&P 500 Bear Markets (defined by 20% Peak to Trough Decline): 1929 - Present

Bear Market Period	Length of Bear Market (Months)	NBER Recession	Length of Recession (Months)	S&P Start	S&P End	% Change
Jan 2022 to Oct 2022	9	?		4819	3492	-28%
Feb 2020 to Mar 2020	1	Feb 2020 to Apr 2020	2	3394	2192	-35%
Sep 2018 to Dec 2018	3			2941	2347	-20%
May 2011 to Oct 2011	5			1371	1075	-22%
Oct 2007 to Mar 2009	17	Dec 2007 to Jun 2009	18	1576	667	-58%
Mar 2000 to Oct 2002	31	Mar 2001 to Nov 2001	8	1553	769	-51%
Jul 1998 to Oct 1998	3			1191	923	-22%
Jul 1990 to Oct 1990	3	Jul 1990 to Mar 1991	8	370	295	-20%
Aug 1987 to Oct 1987	2			338	216	-36%
Nov 1980 to Aug 1982	22	Jul 1981 to Nov 1982	16	142	102	-28%
Sep 1976 to Mar 1978	18			109	86	-20%
Jan 1973 to Oct 1974	21	Nov 1973 to Mar 1975	16	122	61	-50%
Dec 1968 to May 1970	17	Dec 1969 to Nov 1970	11	109	69	-37%
Feb 1966 to Oct 1966	8			95	72	-24%
Dec 1961 to Jun 1962	6			73	51	-29%
Aug 1956 to Oct 1957	14	Aug 1957 to Apr 1958	8	50	39	-21%
Jun 1948 to Jun 1949	12	Nov 1948 to Oct 1949	11	17	14	-21%
May 1946 to May 1947	12			19	14	-28%
Nov 1938 to Apr 1942	36			14	7	-46%
Mar 1937 to Mar 1938	12	May 1937 to Jun 1938	13	19	9	-54%
Jul 1933 to Mar 1935	20			12	8	-34%
Sep 1932 to Feb 1933	5	Aug 1929 to Mar 1933	43	9	6	-41%
Sep 1929 to Jun 1932	33	Aug 1929 to Mar 1933	43	32	4	-86%

Source: @charliebilello

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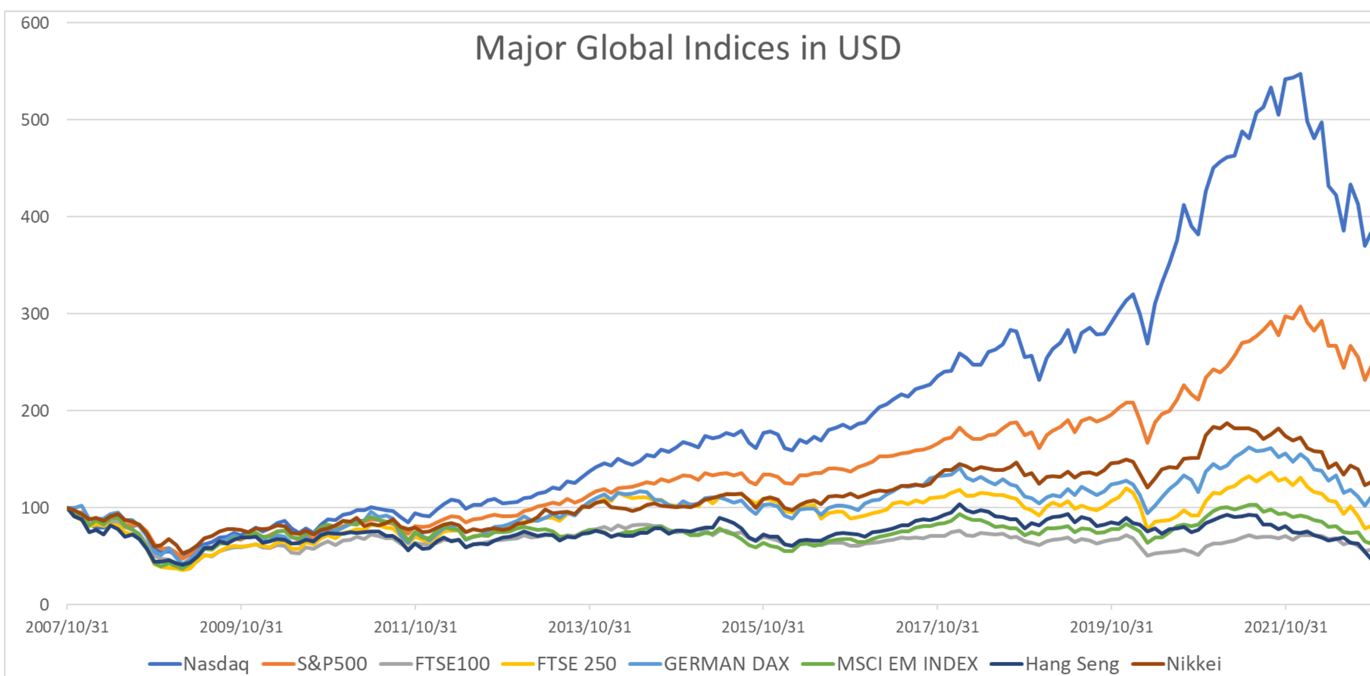
WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONTINUED)

If we take a step back and analyse global markets over the last 15 years you will be amazed to find that the only game in town has been the USA and even more so, US technology (as shown in the following graph). If you were invested in places like the UK, Europe or Asia you would not have made any return over the fifteen-year period. Which would have been quite shocking for people saving for retirement. The real question is what will the next 15 years look like? Will America continue to be at the forefront of global tech and innovation or will China, who is expected to become the largest economy by then, be the best place to invest your money. We think it very much depends on the political landscape in both countries. And if either country comes significantly to the fore with regards to artificial intelligence, they will likely accelerate into the lead. Currently it looks like USA is winning that race, and they are placing massive restrictions on semiconductor exports to China in order to hinder their process.



(Performance of various global indices in USD over the past 15 years)

We are currently in the middle of 3rd quarter earnings season with 170 of the S&P 500 companies having reported (as of 7 November). Revenue is up an average of 9.73% but earnings have fallen 1.4%. You will notice that energy has been the major stand out performer this quarter. Oil and gas supply continues to be constrained as a consequence to the geopolitical tensions, which is producing outsized returns for investors over the short-term.

China has had a horrific month with the Hang Seng Index falling 17% on the back of Xi Jinping demonstrating his power at the Chinese Communist party's 5-year conference where he managed to entrench strong allies in top politburo positions. The market is concerned his control and influence in the party will lead to further regulatory pressure on listed stocks as well as a reduced likelihood that China will reverse Covid-Zero restrictions and other economically detrimental policies. China continues to shoot itself in the foot and makes us apprehensive of further investment going forward, especially considering that one now has the option to invest in US companies that have fallen over 40%.

Our top 10 positions:

Our top 10 positions (next page) are expected to grow earnings per share by about 13-16% per year for the next two years. Our companies are trading at higher valuations (PE of 20) versus the S&P 500's 16, but they deserve to do so as they are higher quality and are growing earnings at a higher rate than the market. This is especially so when compared to expected returns on investments in bonds or cash.

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WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONTINUED)

	PE in one years time	PEG Ratio ('22 PE/'22-24 Growth)	EPS Growth		
			2021-2022E Growth	2022-2023E Growth	2023-2024E Growth
ADOBE SYSTEMS INC	20.88	1.53	36%	13%	14%
ALPHABET INC-CL C	15.44	0.96	8%	16%	16%
AMAZON.COM INC	36.64	0.42	-57%	122%	57%
BOSTON SCIENTIFIC	22.39	1.80	7%	13%	12%
DISNEY	20.37	0.68	57%	43%	18%
GLENCORE	5.39		120%	-31%	-21%
MICROSOFT CORP	22.62	2.48	19%	2%	16%
MONCLER SPA	20.67	2.29	39%	6%	12%
PAY PAL	17.95	0.89	-15%	22%	18%
VISA	24.55	1.73	26%	12%	16%
Median PE	**20.78**				
PEG Ratio (Forward PE/'22-24 Growth in EPS)		**1.53**			
Annual EPS Growth Rate (Median)			**22%**	**13%**	**16%**

Main changes during the month

- **Sold Taiwan Semiconductor and Nvidia –** We decided to consolidate our semiconductor positions into **ASML**. ASML is one of the worlds few true monopolies where they control the manufacturing of machinery used in the manufacture of high-tech semi-conductors. This is the equivalent of owning the company that makes shovels during a gold rush. It will prosper no matter which company is producing the best tech, they will need ASML to produce that tech.

- **Sold Netflix**: Netflix has been one of the top performing shares over the last quarter rising over 40% from its lows. Most of this performance has been influenced by increased optimism surrounding its ad supported subscription. We believe that although it could lead to a higher Average Revenue Per User (ARPU), it could also lead to cannibalism of the current subscriber base leading to lacklustre overall subscriber growth undershooting analyst projections. It is also likely to take a lot longer to get going than what the market is currently expecting. Hence, in our view, there is now greater downside risk, especially after this recent run in the share price.

  Other reasons to be concerned is that although Netflix continues to take market share from traditional media like TV, competition within the streaming sector continues to ramp up as Disney, Amazon Prime and other streaming providers vie for the attention of viewers. With the overall potential market appearing to be smaller than previously estimated, it makes it far tougher for streamers to succeed without undercutting each other on price. This will likely lead to a loss leader scenario as streamers struggle to differentiate themselves in a meaningful way.

  The next big push is into live streaming of sport and Netflix does not have a strong offering compared to Disney's ESPN and Amazon's NFL offering.

  Netflix is also very exposed to the strong dollar, further impacting earnings from outside the USA. In addition, their expenses remain primarily in USD and rising with steep inflation, both of which are detrimental to net income.

- **Sold Ross Stores**: We took profit on a small position in Ross Stores and although we believe the company should continue to do well with the Latin American market in the USA over the next several years, we believe there are more attractive options to deploy cash.

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%	8.2%	0.0%	-4.7%	6.4%			**-22.4%**

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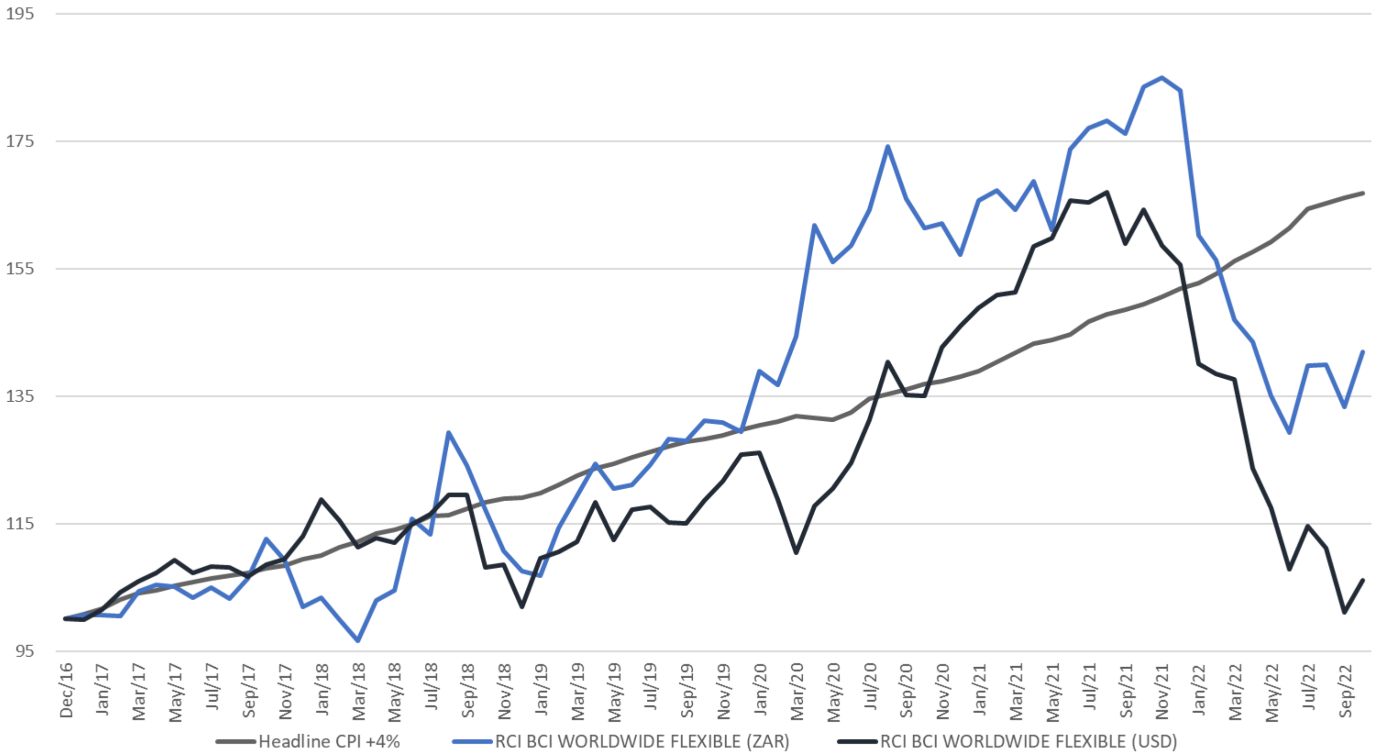
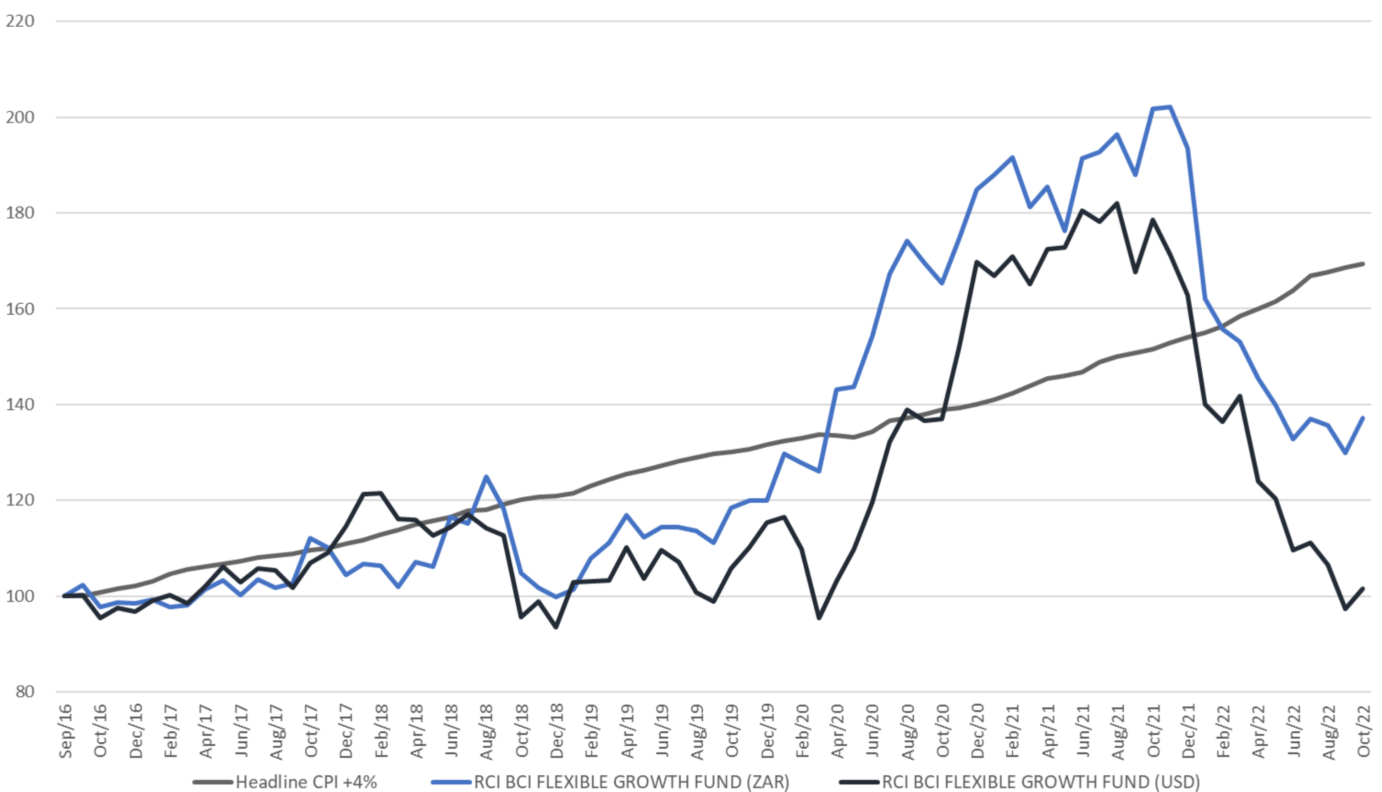
RCI OFFSHORE UNIT TRUSTS

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

RCI BCI Worldwide Flexible Fund closed October at 141.95, up 6.41% for the month and down 22.65% for the last 12 months.



RCI BCI Flexible Growth Fund closed October at 137.24c, up 5.67% for the month and down 31.95% for the last 12 months.



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WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

ANCHOR BCI SA EQUITY FUND – DISLOCATION TO CHINESE SENTIMENT AS SA EQUITIES ADVANCE IN OCTOBER

BY THE ANCHOR BCI SA EQUITY TEAM

After two months of losses for Developed Market equities, they rebounded strongly in October (MSCI World Index +7.2% MoM). With US inflation and unemployment data released in the month doing nothing but strengthen the case for a more hawkish stance from the US Fed, this market rebound perhaps reflected just how negative sentiment had become over the preceding months. One source of support, however, may have been US corporate earnings for 3Q22, which, for the 60% of large US corporates that reported in the month, were slightly ahead of undemanding expectations (earnings +3% YoY reported vs. a small contraction of -1% expected). US large-cap technology companies were notable laggards after providing what the market saw as lacklustre guidance. At the other end of the spectrum, banks and energy companies dominated the list of top performers for the month. Turning to Emerging Markets (EM), despite a strong showing from Brazil and India (both up 5.5% MoM), China's market implosion, as foreign investors signalled their disapproval of what the new leadership emerging from the latest five-yearly Chinese Communist Party implied about the direction in which China appears to be heading, eclipsed these gains (MSCI Emerging Markets Index -3.1% MoM).

South African equities followed global equity markets higher in October (FTSE/JSE Capped SWIX +5.3% MoM). Most sectors in the market had a positive month. Naspers/Prosus were a major exception (both down 16%), dragged down by their main investment, Chinese tech company Tencent (-22% MoM). Thungela (-13% MoM), which has been the market's top performer for the year was another notable laggard as export coal prices declined after their meteoric rise early in 2022. Elsewhere among mining shares, despite lacklustre commodity prices (iron ore in particular), mining shares fared reasonably well. In common with their global peers, SA's banks also had a strong month, with valuations still relatively undemanding and interest rates appearing on track to peak at levels that are favourable for net interest margins, without causing excessive bad debts.

At the end of October, the top 15 holdings in the fund, making up 58% of the equity exposure, were as follows:

- Prosus
- Bidcorp
- Naspers
- Investec
- Absa
- Glencore
- MTN
- Afrimat
- Bidvest
- Transaction Capital
- Anglo American
- Sasol
- Capitec
- Coronation
- Shoprite

Main changes in the month

During October, we took advantage of market weakness early in the month to add to one of our core holdings – **Bidvest**, as well as to initiate a position in **Discovery** after the share fell heavily following its interim results. We increased our exposure to the PGM miners, noting the shares have significantly lagged the performance of the underlying commodities, initiating a position in **Impala Platinum**. We also initiated a position in **Stadio**, the provider on private tertiary education, which we believe has a long runway of superior compound growth ahead of it as it capitalises on lack of capacity in public universities.

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WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

BY THE ANCHOR BCI SA EQUITY INVESTMENT TEAM (CONTINUED)

Performance

The Anchor BCI SA Equity Fund rose 2.50% in October. While it was a solidly positive month for the fund, weakness in Naspers/Prosus, as well as a rather disappointing month for a number of the small and mid-sized companies in which the fund holds positions, led to the fund lagging the broader market. Pleasingly, a strong rebound in Naspers/Prosus early in November has so far vindicated our decision to hold the line on these positions.

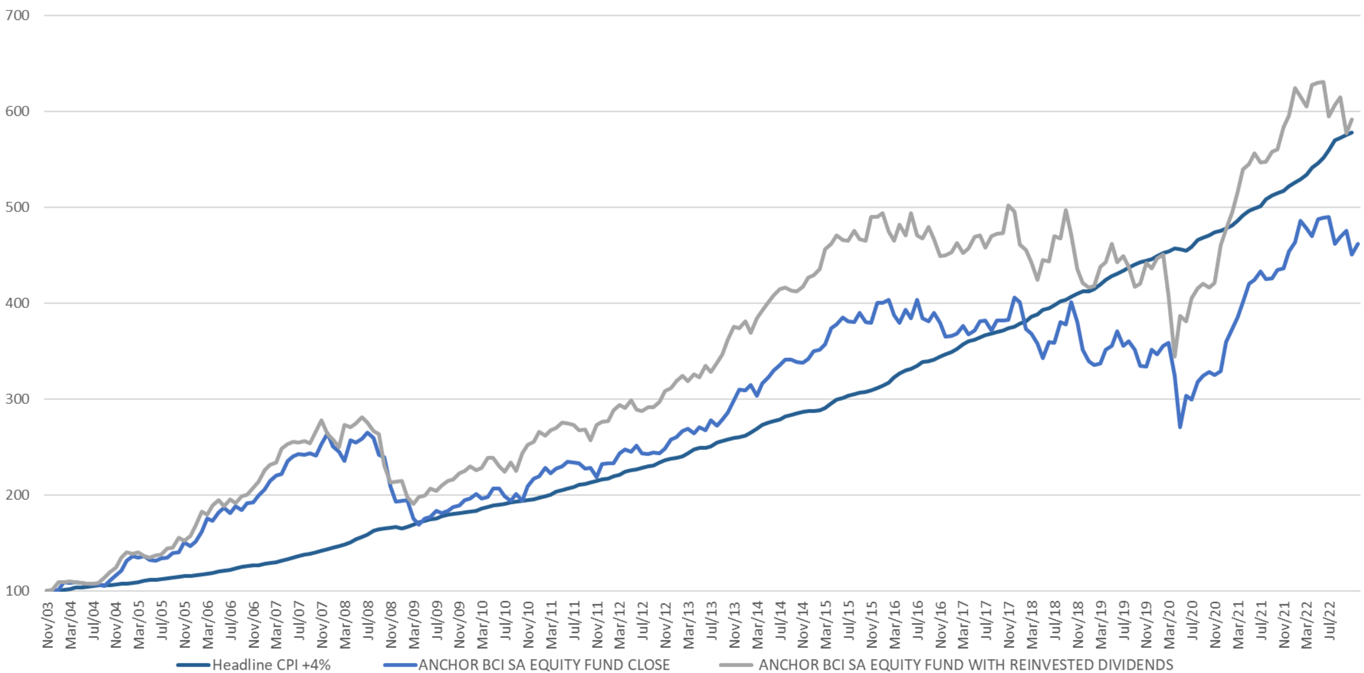
The Anchor BCI SA Equity team

Mike Gresty, Liam Hechter, Steph Erasmus, Seleho Tsatsi, Peter Little, Zinhle Mayekiso

Anchor BCI SA Equity Fund closed October at 103.65, up 2.50% for the month and up 1.75% for the last 12 months.

Note: The performance history below uses that of the RCI BCI Flexible Fund until 30 September 2022, the date of its amalgamation with the Anchor BCI SA Equity Fund.

Anchor BCI SA Equity Fund



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.

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