ROBERT COWEN INVESTMENTS

NEWSLETTER – END FEBRUARY 2023

27 March 2023

The Family Office

HIGHLIGHTS OF THIS NEWSLETTER ARE:

- South Africa greylisted – *by Douw Lotter & RCI*
- What have we been doing in the offshore funds – *by the RCI Investment Team*
- What have we been doing in the local fund – *by the Anchor SA Equity Investment Team*
- Banking crisis explained – *by Keiran Witthuhn*
- Bonds are a viable alternative again – *by Keiran Witthuhn*
- South Africa's opportunity to be a centre of global excellence in renewable energy
- Latest research from Anchor Capital
    - COFFEE TABLE ECONOMICS WITH ANCHOR

We are proud to congratulate Anchor Fund Manager Nick Dennis on the Anchor Global Equity Fund winning the Raging Bull Silver Trophy for Best Financial Sector Conduct Authority (FSCA)-approved Offshore Global Equity Fund (best straight performance over three years) at the 2023 Raging Bull Awards. We do hold this fund across a few client accounts, but it is not suitable for all for clients due to its higher risk profile and specific mandate and strategy. The event was held on 28 February. Since 1997, the Raging Bull Awards have been an important annual event honouring South Africa's leaders in the collective investment schemes (CIS) industry. The event celebrates top performers across various sectors and acknowledges investment managers as the best outright performers, risk-adjusted performers, and unit trust management companies. A link to the article is below.

- ANCHOR GLOBAL EQUITY FUND WINS AT THE 2023 RAGING BULL AWARDS

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 keiran@rcinv.co.za or 011 591 0666

*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.

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.

Di, Mike & The RCI Team

Robert Cowen Investments
Growing families' wealth since 1982

SOUTH AFRICA GREYLISTED

BY DOUW LOTTER (HEAD GROUP FORENSIC SERVICES, MOMENTUM METROPOLITAN)

On Friday 24 February 2023, the Financial Action Task Force (FATF) confirmed that South Africa has been placed on the grey list. This is an independent, international body that develops and promotes policies to protect the global financial system. The FATF now has 37 member countries, including South Africa who joined in 2003.

The FATF implements the requirements of the United Nations against illicit traffic in narcotic drugs and criminalises money laundering, allowing the confiscation of proceeds of money laundering and the prevention of money laundering to finance terrorism and the development of weapons of mass destruction. Being greylisted means that South Africa will be placed on a global watchlist of countries that are deemed to have deficiencies in their anti-money laundering and counter-terrorism financing frameworks. Even though the list does not lead to any legal consequences this can lead to increased scrutiny by international financial institutions.

At present there are 23 countries on the greylist, including the United Arab Emirates, Panama and the Cayman Islands. Nicaragua, Pakistan and Mauritius were recently removed from the greylist, with Mauritius being able to get off the list within 18 months. The FATF conducts regular peer reviews of each member to assess implementation of its recommendations. South Africa was found to be very low in the effectiveness of its implementation of certain measures, despite supposedly having resolved a number of these measures through the introduction of increased regulation. This demonstrates that, while South Africa has a strong legal framework, it has not done well in enforcing them.

It is possible for countries to be removed from the greylist, which takes approximately three years, or sooner if the country is able to show a marked improvement. It is, however, notable that, to date, no country or regulator has prohibited trade or investment dealings with greylisted countries. South Africa will continue to work actively with the FATF to address strategic deficiencies in their processes and has committed to swiftly resolving the identified strategic deficiencies within agreed timeframes.

What this means for clients

There is less of a direct impact on entities and clients who do business within the borders of South Africa. South Africans will still be able to invest offshore and open bank accounts, but this will come with enhanced due diligence requirements that are more vigorous than the usual FICA checks. There will also be an indirect impact on the South African economy due to further loss of credibility as an investment destination, in addition to already challenging economic conditions.

In any event, we remain steadfast in our view that a well-diversified investment portfolio provides the best possible protection against local, global or idiosyncratic market events that may cause short-term instability. History has shown that staying invested throughout any market turbulence has been the superior strategy for long-term returns.

Momentum is RCI's preferred platform for our clients' retirement funds. We are serious about ensuring sufficient compliance measures and due diligence is in place, as with the rest of the third-party platforms of which we make use. Momentum has robust anti-money laundering and counter-terrorist financing processes and systems in place. These include conducting enhanced customer due diligence measures to ensure proper identification and verification and addressing the risks associated with money laundering and terrorist financing. We also work with the Financial Intelligence Centre and the Prudential Authority for purposes of reporting any suspicious transactions and work with authorities where necessary.

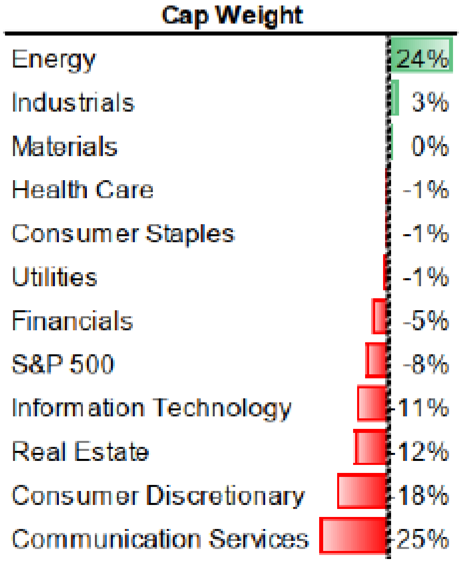
As a consequence of the greylisting, we (RCI) will further adapt our client onboarding and screening processes to ensure compliance and continue to train staff on the requirements. This additional screening may affect the speed of our processing. We have a strong focus on regulatory compliance with a zero tolerance for non-compliance.

WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

RCI BCI WORLDWIDE FLEXIBLE FUND

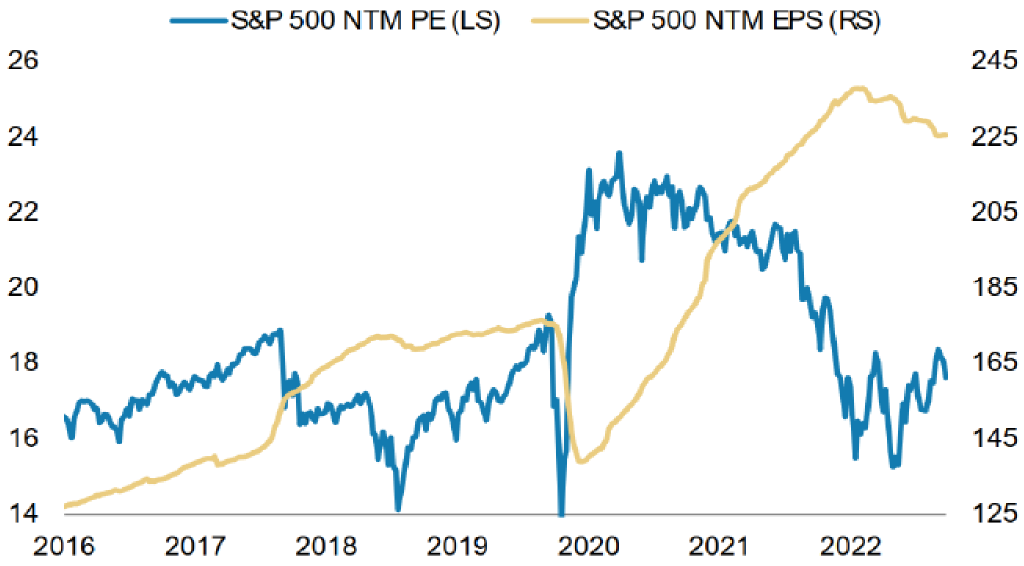
The extreme volatility continued in February as markets retraced from their big move in January. This was mostly caused by better-than-expected US employment and worse than expected inflation data that indicated the Fed's job is likely not over yet and interest rates are going to have to be hiked higher than previously expected. We have seen this story playout so many times over the last year, indicating how inaccurate economists can be at predicting these metrics. The number of jobs created was almost double the expectation and US inflation continues to be sticky. At present the Fed's peak interest rate is expected to be about 5.5% and no interest rate cuts are expected for 2023. This has also translated into a stronger dollar vs most major currencies.

Energy has been the only real performer over the last 12 months but oil prices have sold off significantly of late leading the lackluster expectations for the next 12 months.



Rolling 12-month sector returns

Over the last several weeks we have seen analysts downgrade the S&P 500 earnings expectations for 2023. Six weeks ago, the market expected earnings to grow about 8% for the year and now earnings are expected to be slightly negative. Usually this leads to poor market performance going forward and although we have seen a cooling off period in February, the market is now expensive relative to history and thus we could see further negative price action in the coming months. However, the contra argument to this is that management have been very conservative with their guidance and thus it is possible that companies will be able to outperform this low bar.



Morgan Stanley: Earnings Per Shares (EPS) expectations for the next twelve months have been coming down. The Price Earnings Graph (PE) has bounced to 18x as a result of the earnings decrease and thus is back in slightly expensive territory again.

WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONTINUED)

Our top 10 positions:

	PE in one years time	PEG Ratio (FWD PE/'22-24 Growth)	EPS Growth 2021-2022E Growth	EPS Growth 2022-2023E Growth	EPS Growth 2023-2024E Growth
ALPHABET INC-CL C	15.49	1.06	3%	10%	20%
AMAZON.COM INC	31.72	0.42	-61%	122%	38%
BOSTON SCIENTIFIC	23.98	2.12	6%	10%	13%
DISNEY	21.53	0.99	60%	11%	34%
INTUIT INC	27.41	1.80	43%	18%	13%
KWEB CHINA INTERNET ETF					
MICROSOFT CORP	24.27	3.76	19%	-2%	15%
MONCLER SPA	27.61	3.09	40%	5%	13%
MERCADOLIBRE INC	71.70	1.04	405%	84%	55%
VISA	24.51	1.74	26%	14%	14%
Median PE	**24.51**				
PEG Ratio (Forward PE/'22-24 Growth in EPS)		**1.74**			
Annual EPS Growth Rate (Median)			**26%**	**11%**	**15%**

Our top 10 positions are expected to grow earnings per share by about 12% per year for the next two years. Our companies are trading at higher valuations, 24x, versus the S&P500's 18x, but they deserve to do so as they are higher quality businesses growing earnings at a higher rate than the market. This is especially so when compared to expected returns on investments in bonds or cash.

Main changes during the month

We sold out of Shopify and Spotify. The positions had a fantastic start to the year, and we believe they became over priced in the short term. We decided to take profits and sit on the side-line for the time being.

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%	-5.8%	-1.4%	**-27.9%**
2023	13.0%	2.5%											**15.9%**

The fund was up 2.5% in ZAR terms (-2.7% in USD) for the month compared to the MSCI Developed Markets Index which was up 4% in ZAR (-1.4% in USD) for the month. The Rand weakened 5% for the month contributing to the performance in ZAR.

<u>For the 2023 year thus far</u>, the fund is up 15.9% in Rands or 6.7% in USD terms, with the rand having weakened 8% against the dollar. The MSCI Developed Markets Index is up 13% in Rands or 4.2% in USD for the period.

<u>For the 2022 year</u>, the fund was down 27.9% in Rands or 32% in USD terms, with the rand having weakened 6% against the dollar. The MSCI Developed Markets Index has fallen 13% in USD for the same period.

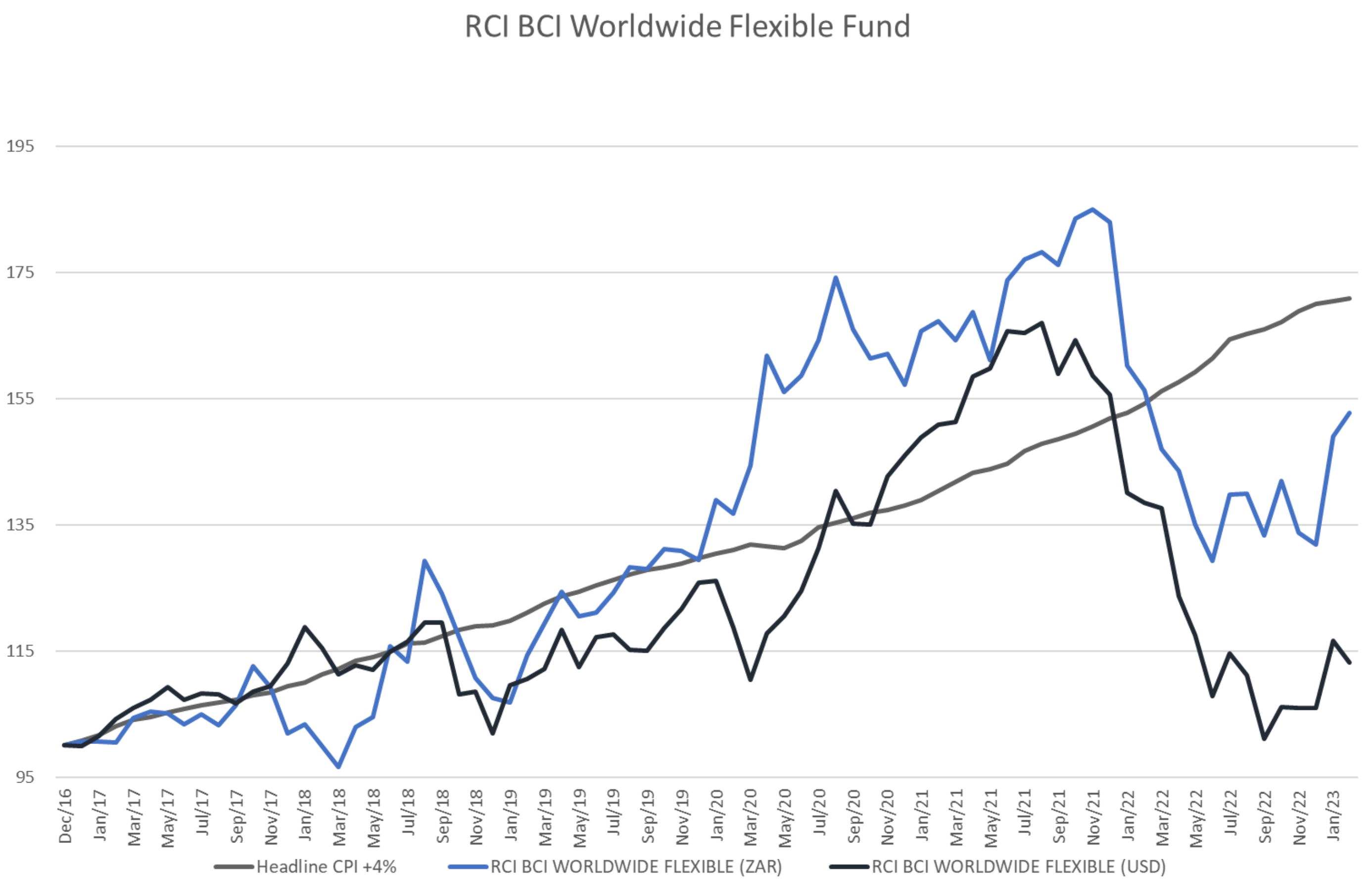
We hope you find these insights useful. If you require any further detail regarding the fund, please see our official BCI Fund Factsheet available on the BCI website, otherwise please feel free to contact us.

The RCI BCI Worldwide Flexible Fund investment team

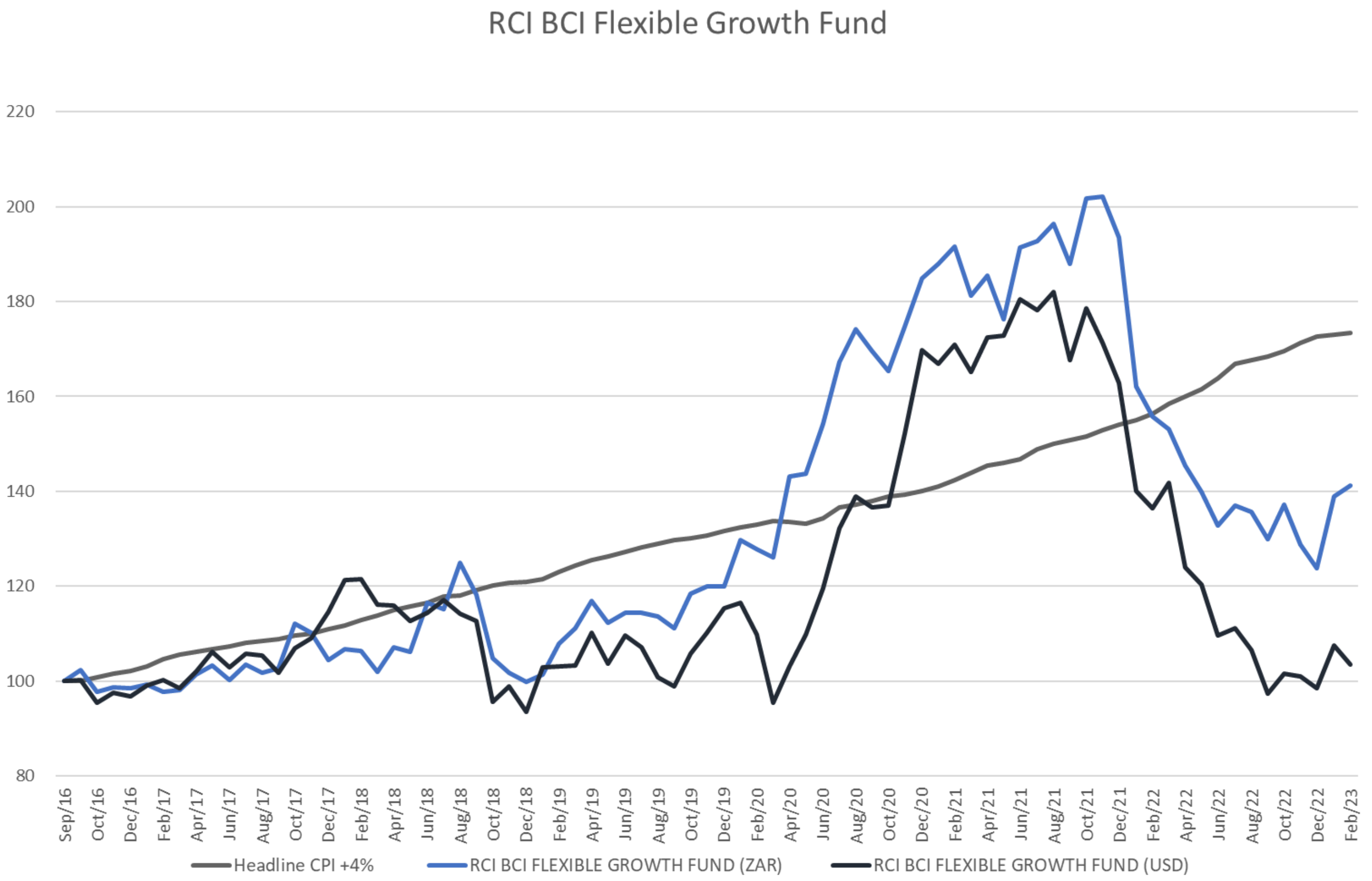
RCI OFFSHORE UNIT TRUSTS

"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 February at 152.76c, up 2.54%% for the month and down 2.28% for the last 12 months.



RCI BCI Flexible Growth Fund closed February at 141.26c, up 1.65% for the month and down 9.36% for the last 12 months.



WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

ANCHOR BCI SA EQUITY FUND

The Family Office

BY THE ANCHOR BCI SA EQUITY TEAM

After January's exuberant start to 2023 for Developed Market equities, gravity returned in February (MSCI World Index -2.4% MoM). The main driver of this reversal was economic data that forced investors to revise upwards their expectations of how high the Federal Reserve would push US interest rates and for how long they would remain elevated. Specifically, US jobs added in January (c. 0.5m) were more than double consensus expectation, while US inflation slowed less than anticipated. Time will tell whether these latest releases were distorted by seasonal factors, but in the short-term they took the wind out of the sails of equity bull's arguing that victory over inflation was imminent. The upward revision in US interest rate expectations was positive for the greenback, which reversed some of its prior weakness. This in turn was a headwind for Emerging Market equities, which underperformed their DM counterparts (MSCI EM -6.5% MoM). After their stellar recovery from recent lows in late October 2022, Chinese equities were again on the back foot – the Nasdaq Golden Dragon Index of US-listed Chinese corporates fell 11% MoM. Notwithstanding high frequency data supporting the case that China is emerging swiftly from its prolonged Covid lockdown malaise, renewed Sino/US tensions (Chinese spy balloon shot down; possible Chinese supply of weapons to Russia) continued to complicate the investment case for China during February.

South African equities also gave back some of January's strong gains in February (FTSE/JSE Capped SWIX -2.3% MoM). A raft of trading updates from companies led to relatively divergent investment performance for different sectors exposed to the domestic economy. On the one hand, banks and insurers responded positively to updates indicating their earnings momentum remained resilient. Retailers, on the other hand, underperformed as their latest updates began to give better insight into the costs they face of mitigating the higher intensity of loadshedding that has become the norm since late 2022. Miners were fighting for the wooden spoon in February (-12% MoM), weighed down by declining commodity prices. For other rand hedges, however, some support was provided by rand weakness – the rand fell 5.2% against the US$ in February.

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 February, the top 15 holdings in the fund, making up 70% of the equity exposure, were as follows:

- Naspers
- Prosus
- Investec
- Standard Bank
- Afrimat
- Bidcorp
- Richemont
- British American Tobacco
- Absa
- BHP Group
- Glencore
- FirstRand
- Advtech
- Discovery
- Bidvest

Main changes in the month

As we mentioned last month, changes made have been focused on shifting the profile of the fund towards more defensive areas of the South African equity market, as well as increasing exposure to companies whose prospects are not linked to the domestic economy. During February, this shift continued. We increased exposure to offshore-orientated stocks (Richemont and Anheuser-Busch), while reducing exposure to SA (Mr. Price and Pick 'n Pay). We

WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

BY THE ANCHOR BCI SA EQUITY INVESTMENT TEAM (CONTINUED)

also initiated a position in Royal Bafokeng Platinum, as a gap opened versus a potential final offer price from either Northam or Impala Platinum.

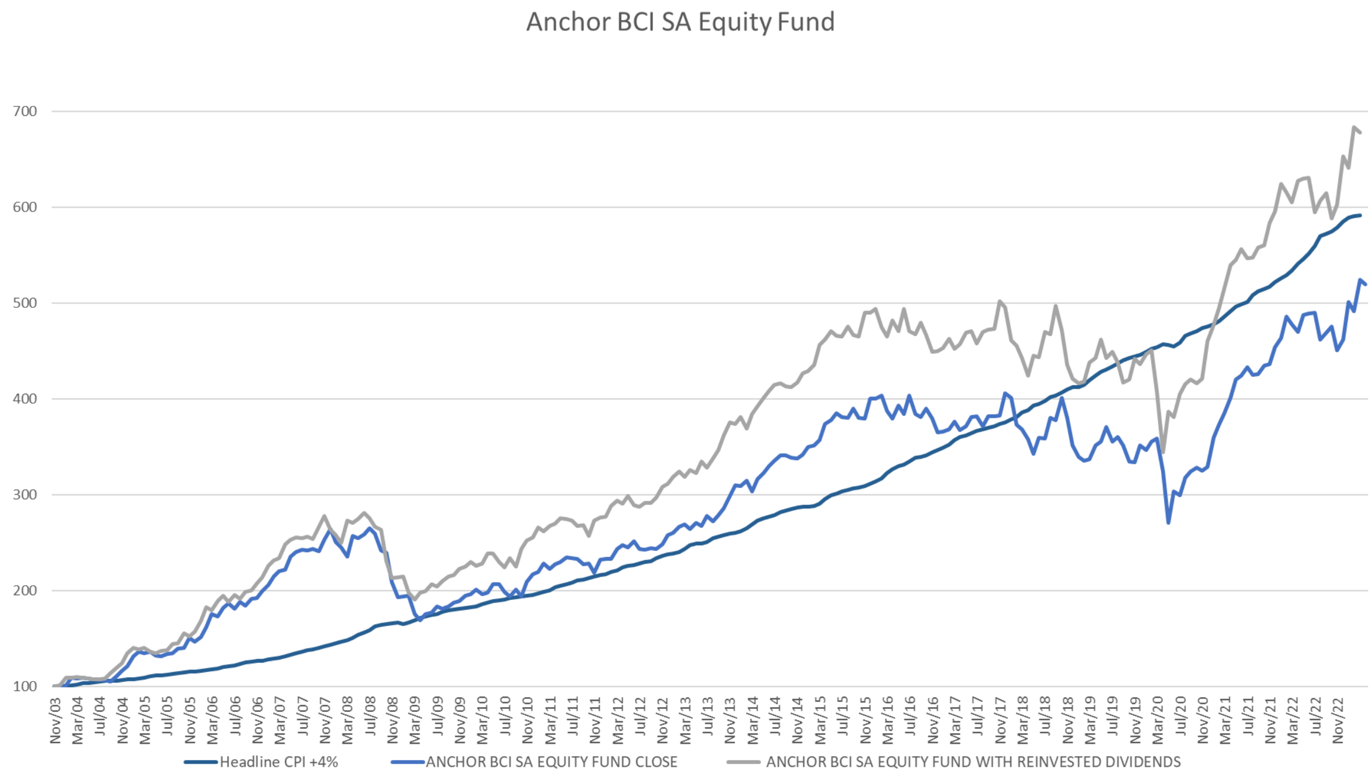
Performance

The Anchor BCI SA Equity Fund declined 0.7% in February. While it was a negative month, it was pleasing to see the degree of outperformance of the broader market in the month. Our more defensive shift (reduced exposure to cyclical mining stocks in particular) and caution around domestic sensitivity paid off in the month.

The Anchor BCI SA Equity team

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

The Anchor BCI SA Equity Fund closed February at 116.56c, down 0.82% for the month and up 10.64% for the last 12 months.



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

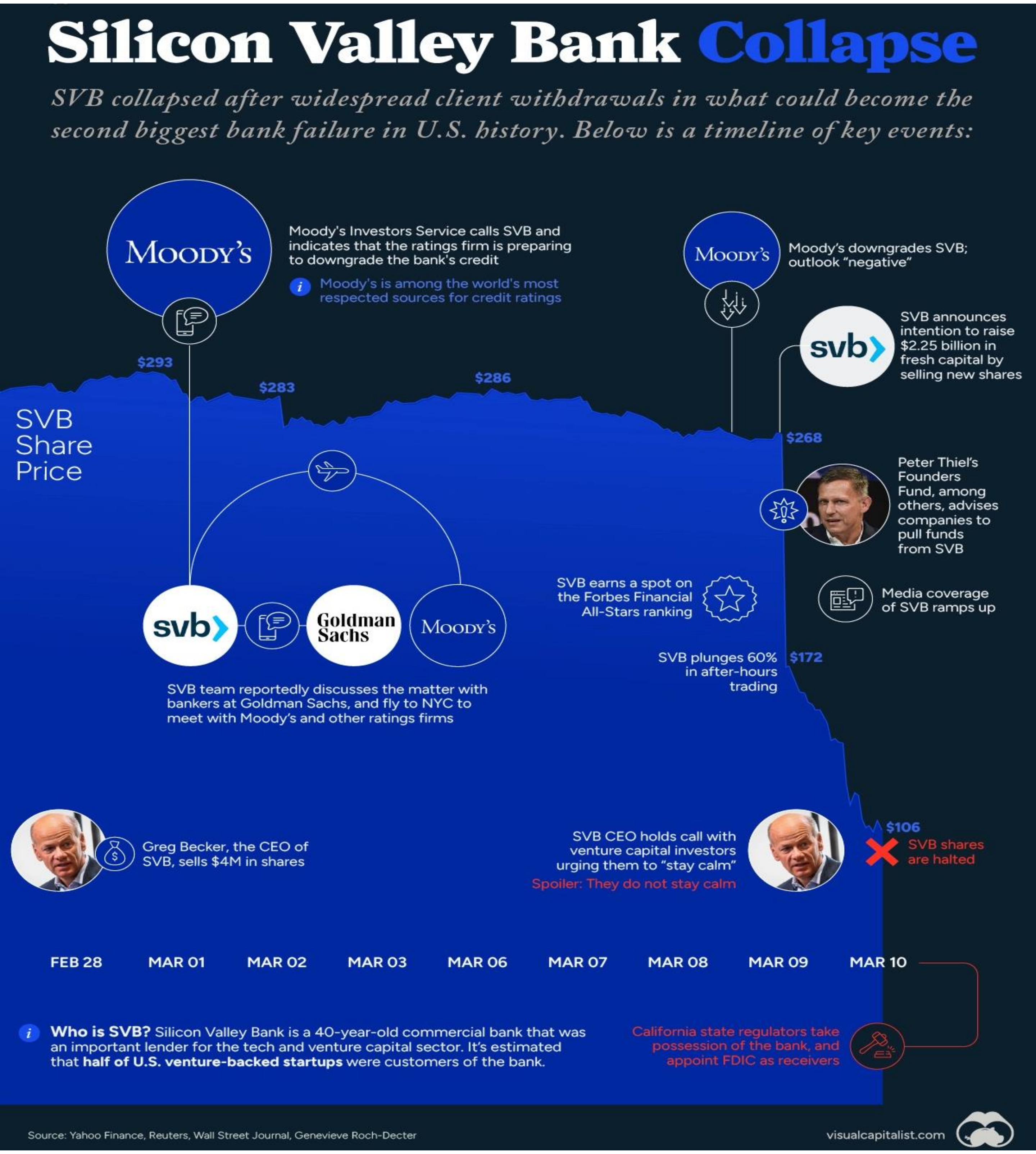
BANKING CRISIS EXPLAINED

BY KEIRAN WITTHUHN

There has been a lot of media attention and a strong market reaction on the events surrounding the recent demise of three banks in the US and the crisis of confidence in the Swiss bank Credit Suisse. The loss of confidence led to customers rapidly withdrawing deposits (i.e., a bank run), resulting in the rapid demise of two US regional banks. These events followed the closure, for similar reasons, of a smaller bank, Silvergate. Across the Atlantic, Credit Suisse has experienced a renewed loss of confidence due to a series of lapses in risk controls. The Swiss National Bank (SNB) has undertaken to provide copious liquidity to Credit Suisse to prevent a similar fate for the once venerable Swiss bank.

We attach two articles below from fund managers David Gibb and Peter Little for those that would like to find out more about what has happened and whether this crisis is something to worry about (as was the case during the global financial crisis [GFC]). The articles also explore what impact it will have on those large-diversified US banks we invest in. We have also provided an infographic of a timeline of the key events that led to the downfall of Silicon Valley Bank.

- THE EXCESS DEPOSITS BANKING MINI-CRISIS
- THE ARE MORE BANKS THAN BANKERS: A PERSPECTIVE ON THE US BANKING MINI-CRISIS



Source: Visual Capitalist

BANKING CRISIS EXPLAINED

BY KEIRAN WITTHUHN (CONT.)

A group of small and mid-cap US banks triggered the first banking crisis (albeit at time of writing – a mini-crisis) since the global financial crisis of 2008. At the start of March, Silicon Valley Bank (SVB) was still viewed as a highly-respected player in the tech space, with thousands of US venture capital-backed startups as its customers. Fast forward a week later and SVB was shuttered by regulators after a panic-induced bank run.

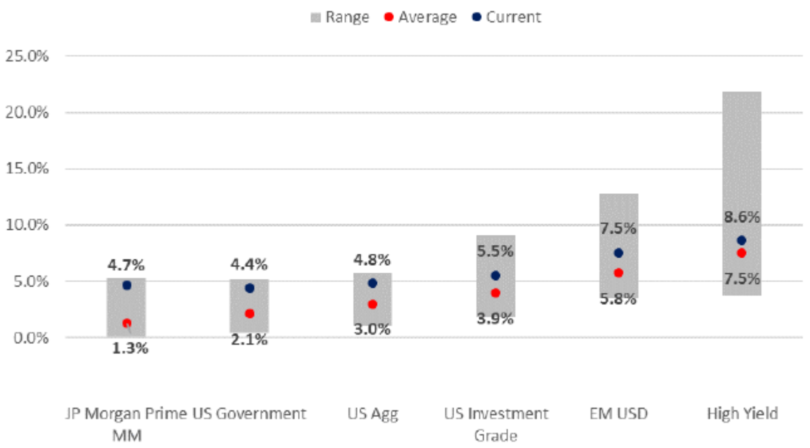
The image on the previous page shows the SVB share price in blue, the date at the bottom and a timeline of the events that transpired. When SVB announced the need to raise more than $2 billion to shore up its balance sheet, the reaction from prominent investors, including Peter Thiel, was not positive and a bank run ensued.

There are two main arguments for the cause of the collapse of SVB that will be briefly explored for those who are interested in the detail. The first is that SVB had inadequate risk management measures in place, had excessive duration risk on its balance sheet and that the regulators were not paying close enough attention. A second opposing conclusion provided by Anchor Global Equity Fund manager, Nick Dennis, is that the monetary conditions provided by Federal Reserve policy over the past few years was the primary culprit. A brief explanation for this thesis is as follows:

1. The Fed initially flooded the banking system with more deposits than the banking system wanted. Banks had to put these deposits to use somewhere at the prevailing rates at the time. A rough estimate of SVB's balance sheet is that they had $173 billion in deposits with $88 billion of their asset base invested in 10+ year mortgage backed securities with an average yield of 1.63%. These mortgage backed securities were purchased during the period when interest rates where held near zero for a number of years.
2. The Fed then jacked up the Fed funds rate by 4.5% in one year (after explicitly guiding towards leaving rates at zero for long) making it harder for banks to readjust their asset basses. Ultimately, SVB invested in bonds at the top of the market. As interest rates rose higher and bond prices subsequently declined, SVB started taking major losses on their long-term bond holdings.
3. Following the recent Fed rate hikes, deposits were then sucked out of the banks as these deposits could earn a higher rate in money market funds. This was not a problem for money centre banks like JP Morgan, but it is a problem for regional banks, which have to liquidate assets on their balance sheet at a significant loss to meet outflows. When word of this got out to depositors, they got nervous and rushed to cash in their deposits, resulting in a mini bank-run.

The majority of our bank holdings in client accounts are in South African banks. The regulation surrounding South African banks is very stringent (more so than for US regional banks – the regulatory focus in the US has been excessively placed on the large reputable banks) and we are confident that the banks we are invested in are well capitalized and that the credit risk is manageable at this stage.

BONDS ARE A VIABLE ALTERNATIVE AGAIN



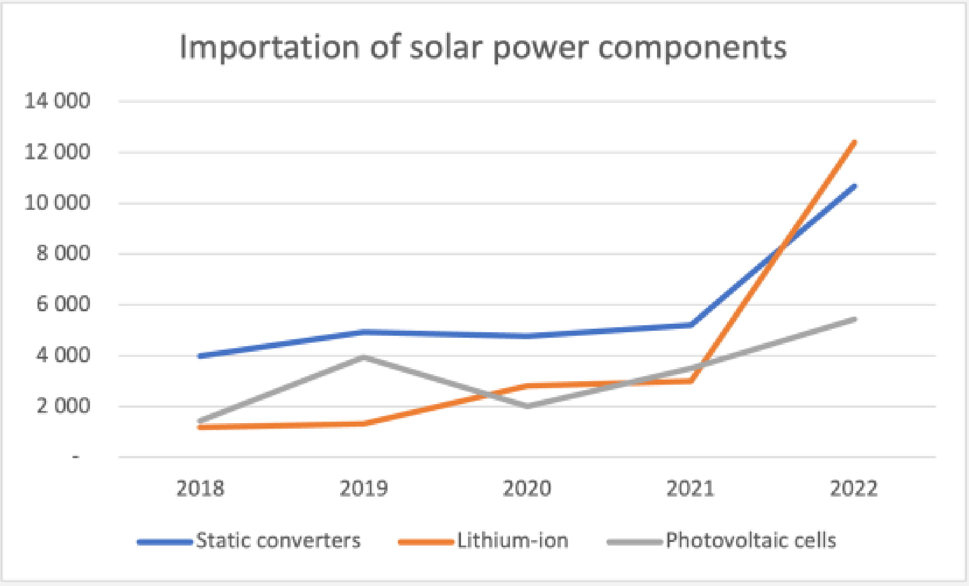
	31-Dec-21	28-Feb-23	Change	Correlation to Equities
JP Morgan Prime MM	0.0%	4.7%	4.6%	-9%
US Government	1.2%	4.4%	3.1%	-14%
US Investment Grade	1.8%	4.8%	3.1%	46%
EM USD	2.3%	5.5%	3.2%	60%
High Yield	4.3%	7.5%	3.2%	75%

The flip side of higher interest rates is that bonds as an asset class are once again offering a viable investment alternative to equities. As shown above in the table on the right, US government bonds, which have minimal credit risk attached, were yielding 1.2% at the end of 2021. As at the end of February this year, they were yielding 4.4%, almost four times as high. At the higher end of the risk spectrum, high yield bonds are now yielding 7.5%, compared to 4.3% at the end of

2021. These are decent US dollar returns that have not been available to investors since before the 2008 global financial crisis. A caveat to high yield bonds is that they have significantly more credit risk attached to them than US government bonds which are essentially free of default risk. The consequence of this is that when risk-off sentiment prevails in the market or when the economy experiences a downturn, equity prices decline. This equity market sell-off coincides with a higher risk of default for riskier bond issuers (high yield issuers). This increased probability of default causes credit spreads (a part of what makes up the total yield return on a bond) on these bonds to increase. Bond investing 101 states that when yields increase, bond prices decrease. Therefore, anyone invested in high yield bonds when credit spreads increase, will likely experience a loss on their bond investment. This explains the higher correlation that these bond investments traditionally have with equities. Thus, whilst you may achieve a higher return by investing in high yield bonds, you are not as diversified from equity market risk as you might think.

Conversely, as already stated, US government bonds do not have this credit risk attached to them. The US government is very unlikely to default on its debt and can just print more money (or increase its debt ceiling) to pay its bond holders. Along with the minimal credit risk attached, during times of economic stress, when equities and high yield bonds typically decrease in prices, there is usually a “flight to safety”. This is where investors seek to house their cash in the safest possible investment whilst still achieving the highest possible risk-adjusted return. US government bonds traditionally see large inflows during a “flight to safety” trade. This causes the yields to decline, which subsequently increases prices, thus generating positive returns for these bond holders. This explains the negative correlation that US government bonds have with equities. When equities decrease in price, US government bonds tend to increase, a useful diversifier for a portfolio consisting largely of equities! It must be noted that last year was a very unusual year and was an exception to this rule. Both equities and government bonds experienced negative returns due to the Fed hiking rates in the context of a slowing economy.

Although every client has their own unique circumstances and goals, we have been increasing allocations to bonds in many of our client portfolios. If you would like to explore how bond investments could help in achieving your investment goals then please contact your portfolio manager.



Source: Moneyweb, with Sars data

Some positivity! SARS data shows that in 2022 alone, the private sector imported about R30 billion of renewable infrastructure (chart above), capable of generating 4,550MW. This is equivalent to 2.5x Koeberg nuclear facilities! If current trends persist (huge tariff increases + elevated levels of loadshedding + affordable financing solutions for solar), this is only going to accelerate into 2023. South Africa has the opportunity to leverage and industrialize the learnings from this process amidst our current energy crisis to incubate new industries and export solutions to the rest of the world that is grappling with the issue of a transition to renewable sources of energy. This is the opportunity of a generation to position South Africa as a global centre of excellence.

Robert Cowen Investments
Growing families' wealth since 1982