# ROBERT COWEN INVESTMENTS

## NEWSLETTER – END MARCH 2023

14 April 2023

**HIGHLIGHTS OF THIS NEWSLETTER ARE:**

- Getting real about investing in South Africa – *by Mike Gresty w/ Keiran Witthuhn*
- The South African electric vehicle argument – *by James Bennett w/ Keiran Witthuhn*
- *James will present these and other fascinating insights into the world of electric vehicles in a webinar on Wed, 19 April. If you are interested, please register using this link*
- How much higher will interest rates go in South Africa – *by Keiran Witthuhn*
- 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*
- Latest research from Anchor Capital
  - COFFEE TABLE ECONOMICS WITH ANCHOR

We would like to congratulate Kate on the birth of her son, Zach Allen Trollip, born on 5 April at 22h00. We wish Kate all the best with her new addition and are sure you all do as well! Kate will be taking maternity leave from the 3rd of April 2023. She will be back at her desk on the 3rd of August 2023. Marieke de Kock will be assuming Kate's responsibilities whilst she is away. Please ensure that when you contact Marieke that Di is copied in on ALL correspondence as well.

Marieke's details are marieke@rcinv.co.za / 011 591 0575 and Di's details are di@rcinv.co.za / 083 308 7928

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We would like to ask **all of our retirement clients** to please check their Momentum statements to confirm that the stated beneficiaries are still relevant and current. It is very important that the correct beneficiary is named in your policy. If you would like to change the beneficiary, please contact your portfolio manager or Christine at christine@rcinv.co.za

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*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**

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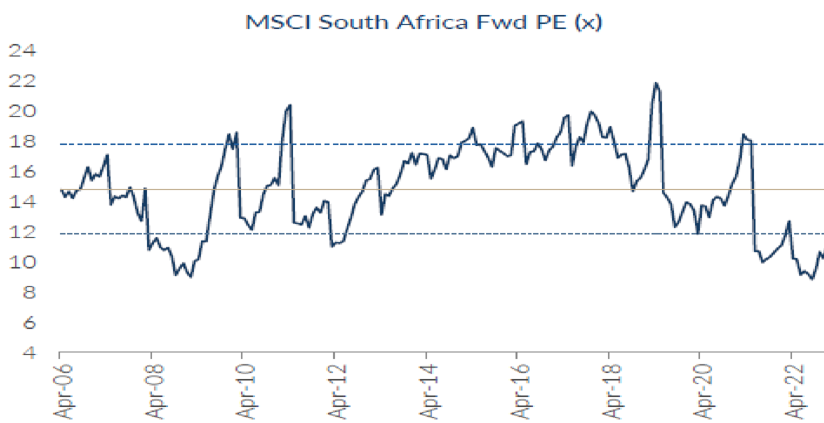
# GETTING REAL ABOUT INVESTING IN SOUTH AFRICA

BY MIKE GRESTY WITH COMMENTS FROM KEIRAN WITTHUHN

The attractive valuation argument for SA equities is undeniable. However, it is important to look beyond this one dimension and answer the all-important questions why are SA equities so cheap and what is likely to change this? As we explain below, do not allow undemanding valuation alone to lead to complacency about the likely challenges of generating inflation-beating returns from the SA equity market going forward.

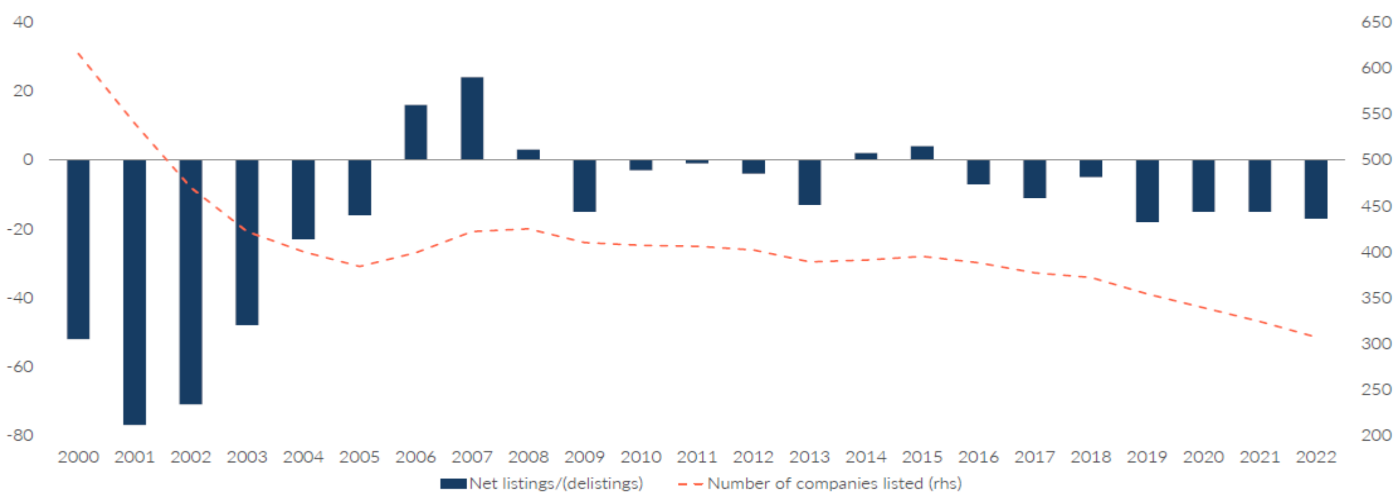
Firstly, addressing the undeniable fact that SA is cheap, we look at our market's P/E multiple over the past 16 years. This is the price investors are paying as a multiple of earnings the underlying companies are delivering. A high P/E indicates that a company's share is expensive and a low P/E indicates a share price that is cheaper. The graph below shows that SA equities are close to the cheapest they have been since 2006, trading at a P/E multiple of about 11.




SA equities are also cheap relative to developed market equities and are currently priced at the largest discount since 2006. Using data from this period, we see that SA equities are about 30% below their average P/E multiple relative to the P/E multiple of developed markets.

## A shrinking gene pool from which to select

The first of the caveats is that the number of listed companies on the JSE has halved in the last 20 years from around 600 to just over 300. The number of companies listed on the JSE this century is shown in the graph below in red. The dark blue bars show the number of net listings (or delistings) each year. In the early 2000's there were a large number of delistings which followed the boom in listings mid-to-late 1990's. Many of the companies that delisted during this period should likely have never listed in the first place. Concerning today, however, is the consistent trend of delistings we have been experiencing since 2015.




Source: JSE data



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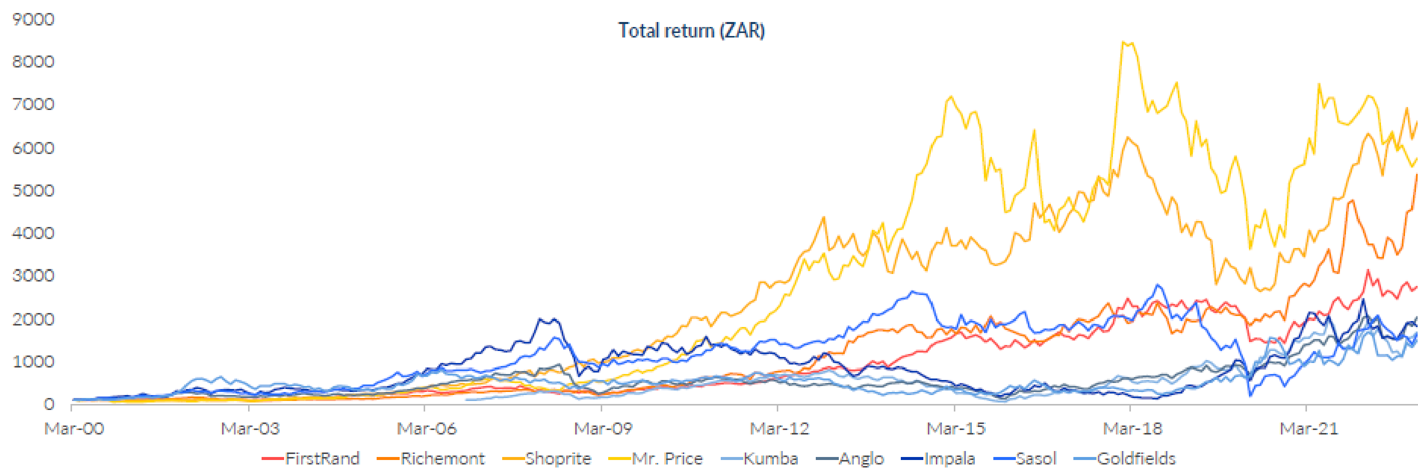
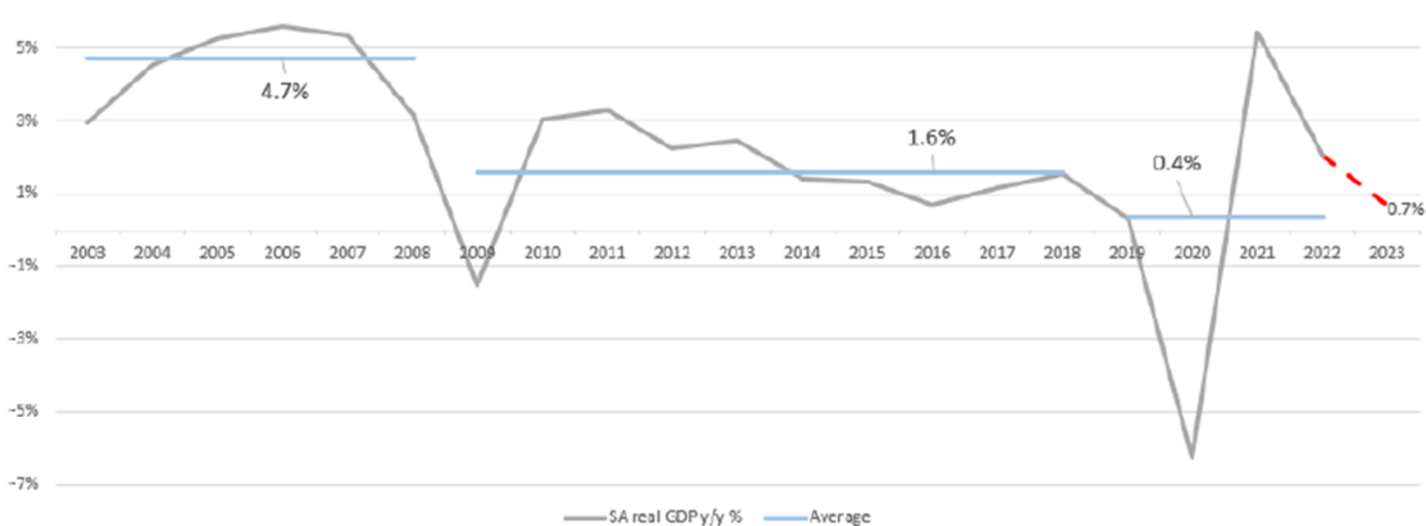
## The high cyclical bias of our market




*Source: Bloomberg*

Part of the reason why South African equities appear cheap at an overall market level is that cyclical mining shares make up a far larger proportion of our market (between 20-30%) than is the case for other global markets. The surge in commodity prices in the aftermath of Russia's invasion of Ukraine gave a significant short-term boost to mining companies' earnings. However, the highly cyclical nature of commodity prices means that investing in these companies for the long-term has not been a sound strategy. In the chart above we have shown the investment return of a selection of SA-listed mining shares (in shades of blue) compared with a range of other companies which we regard as more traditional "compounders" of returns over time. It is clear that, while investing in miners at the right times in the commodity cycle can deliver significant gains, their longer-term performance reveals that these are shares which one should "date" rather than "marry".

## The diminishing tailwind from domestic growth




*Source: Bloomberg*



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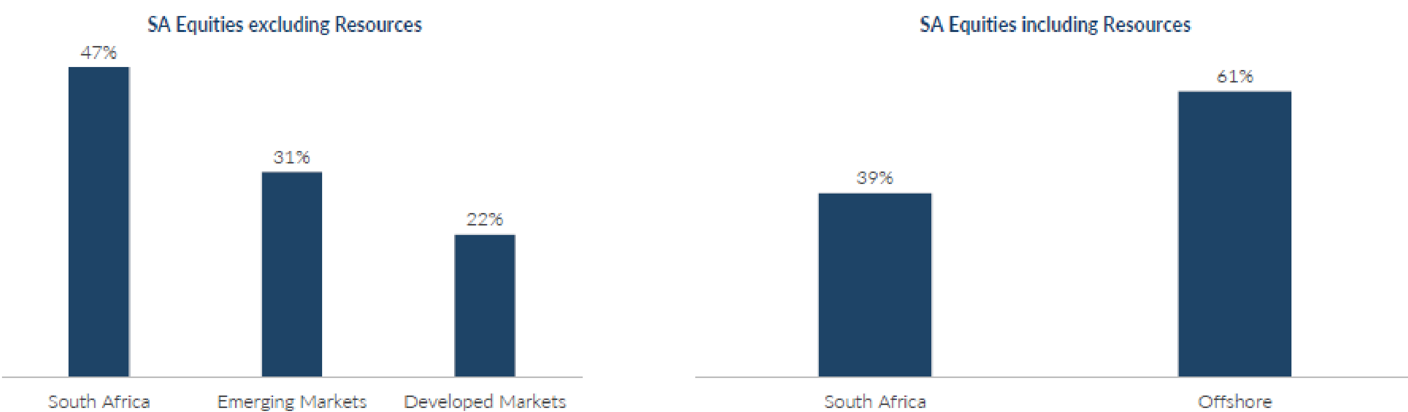
# GETTING REAL ABOUT INVESTING IN SOUTH AFRICA

BY MIKE GRESTY WITH COMMENTS FROM KEIRAN WITTHUHN (CONT.)

A further factor to take into consideration when assessing whether SA equities really are the bargain they appear relative to history is to consider this is context of SA's economic prospects. The chart above reveals how growth momentum has slowed from the relatively buoyant early 2000's. While SA equities are certainly cheap relative to their history, this may be entirely justified when their diminished growth prospects in the current economic environment are taken into account. Fortunately, there is a further peculiarity about the SA equity market which provides some insulation from the country's weak growth outlook – the unusually high proportion of earnings that our listed companies generate offshore. The analysis below shows, even without the hard currency earnings of SA's listed mining companies being taken into account, the proportion of earnings generated outside the country is high, albeit that one has to be mindful that a sizeable portion comes from other Emerging Markets. It is therefore possible to build a portfolio of local shares that has very little exposure to the local economy.

Source of earnings for the top 100 listed South African companies




*Source: Company annual reports*

## SA's declining influence in emerging markets

*Source: Bloomberg, Standard Bank*



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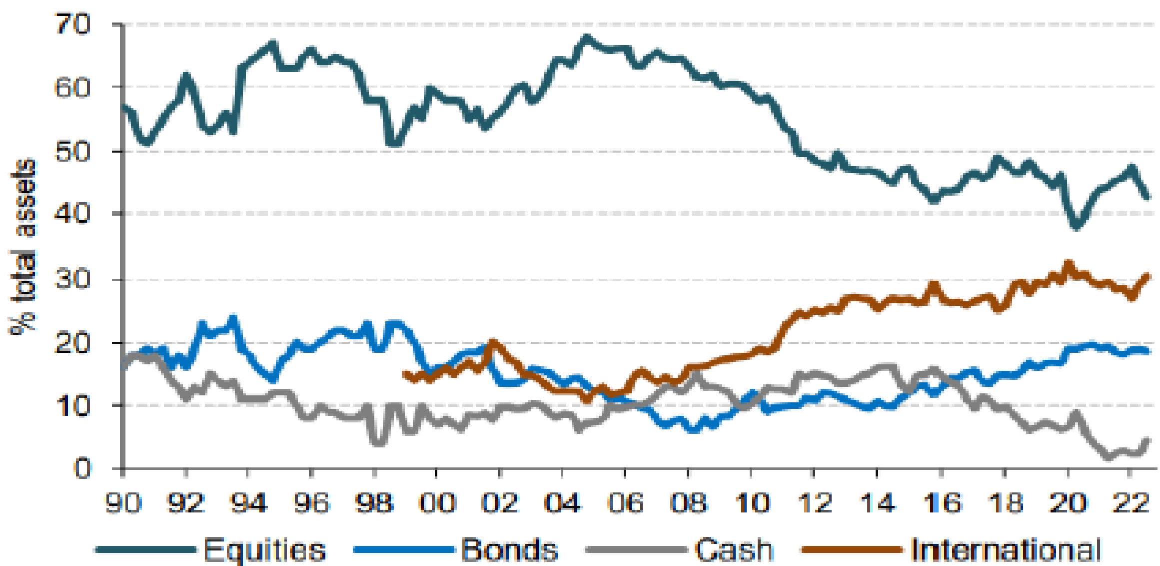
In answering the question what would be required to drive sustained upside for SA equities in future, one likely ingredient would be a source of demand from either foreign or domestic institutional investors. In the chart above, we show how the weighting of South African equities within the Emerging Markets benchmark has changed over time. Where SA was once one of the most significant components of the benchmark, with a weighting of c. 15%, this has diminished to 3 - 4% today (Asian countries now dominate this index). One could perhaps conclude that SA is no longer a "must have" for EM fund managers and would need a strong growth story to attract their attention – no surprise then that SA tends to be an underweight market for them. Domestic investors could be seen as more of a captive market for SA equities of course, but as the chart below shows, their allocation to domestic equities has also fallen in favour of international exposure. Undoubtedly, these trends can reverse, but it is difficult to see this happening without a significant improvement in SA's growth prospects.




Source: Alexander Forbes, Standard Bank

## How does all this shape our approach to investing in SA?

Historically, we believe investors in SA have tended to follow a value style of investing. As the economic backdrop in SA has deteriorated, we think the margin for error in such an approach has declined significantly - the frailties in lowly rated businesses which are the cause of low valuation are more likely to be exposed and lead to disappointment. We think it is more important than ever to hold a core portfolio of quality companies (strong track record of sustaining high return on capital, strong active management, clear growth opportunities and so on), and avoid the temptation to sell them should valuations become stretched from time to time. By following this approach and being vigilant for shorter-term opportunities (potential company restructurings, M&A opportunities or cyclical upturns, for example), our local flagship fund, the Anchor SA Equity Fund, has outperformed the Capped Swix benchmark since its inception. Since its inception in September 2021 to the end of February 2023, it has returned 24%, or 15.7% annualized. In comparison, the Capped Swix has achieved an annualized return of 11.5%.

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# THE SOUTH AFRICAN ELECTRIC VEHICLE ARGUMENT

BY JAMES BENNETT W/ KEIRAN WITTHUHN

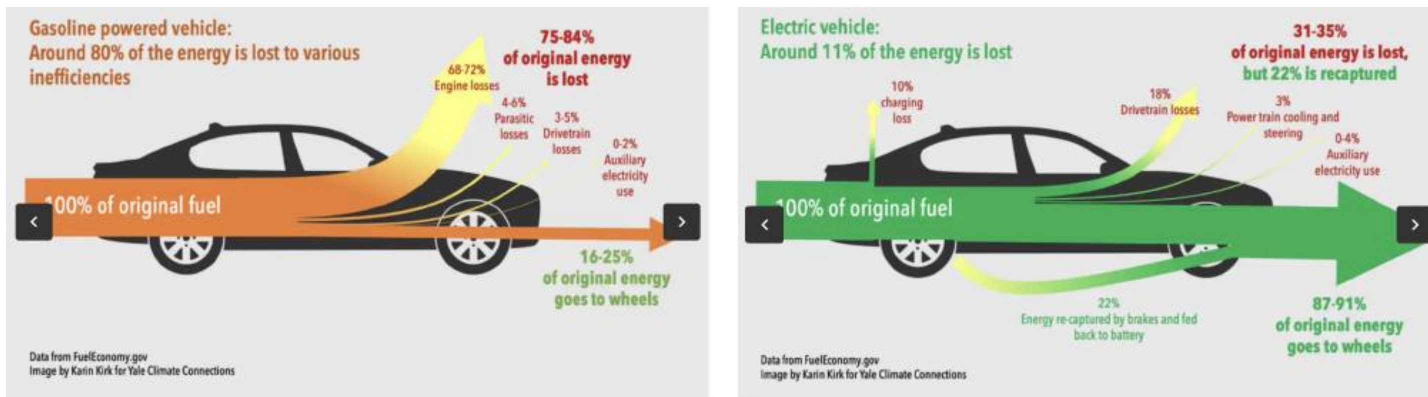
Electric vehicles (EV) are likely to be adopted at mass scale over the long-term. This is largely because EVs are significantly cheaper to run vs internal combustion engine vehicles (ICEs). However, the upfront costs of purchasing an EV are substantially higher than for ICEs. Tesla has recently cut the costs of new vehicles to lower this barrier to entry. This is likely a strategic move to increase EV adoption in the short to medium-term. Morgan Stanley recently released a statement saying, “we believe EV price cuts are not a fad, but a trend. While subject to volatility, investors should anticipate further price cuts in EVs with cost-leader Tesla setting the tone”. From an environmental perspective, EVs might not save the world, but they are definitely a step in the right direction. Tesla currently leads the way for EV manufacturers, and the company has grown to such a size that it can no longer be ignored. It has a market cap of $605bn, making it the 7th largest company on the S&P 500. It currently trades at a forward P/E ratio of 53x and a forward P/S ratio of 6x (both to December 2023).

## Lithium batteries

The key to EVs is the lithium batteries that they use. It remains critical to understand the best practice for charging, storing, and discharging lithium batteries to ensure safety, optimal performance and longevity. Never fast charge to 100%, as this can cause fires which are very difficult to contain. Do not store the battery at 100% for multiple days, as this causes the battery to lose capacity. Do not discharge the battery below 20%, as this also causes a loss in capacity. Lithium batteries lose 4% to 10% of capacity every year.

## The efficiency of EVs

EVs have significant advantages in energy efficiency compared to ICE vehicles. ICE vehicles lose about 80% of energy to inefficiencies such as engine losses, heat, auxiliary electricity uses, etc. According to Tesla, EVs are up to 4x more efficient than traditional ICE vehicles, largely due to regenerative braking.




## Cost of ownership

Due to the efficiencies described above, the total cost of ownership for EVs is lower than for ICE vehicles, although the higher upfront purchase price and uncertain resale value create barriers to adoption. Running and servicing costs are approximately 1/4 and 1/3 of that for an ICE, respectively. This makes EVs a more economical option in the long-term, particularly for those who drive a lot. The relative cheapness of EVs to ICE is less relevant for luxury vehicles, where the upfront premium for luxury EVs is much higher than for more modest EVs.

## EV charging

There are 3 ‘levels’ of EV chargers currently available in the market. Level 1 chargers are cheap mobile EV chargers and use 2KW. 2KW is equivalent to boiling a kettle continuously. Most walls plugs can only handle about 3KW of power. This is the cheapest charger of the 3, but Tesla no longer includes level 1 chargers with the vehicle as they found usage to be low. This low usage is due to chargers taking 30-40 hours to charge an EV, which is impractical for most uses.

Level 2 chargers are the most common and come in the form of typical EV home wall chargers. Level 2 chargers use 7KW which is equivalent to running a large oven continuously on high heat and requires a certified electrician to install. Installation costs of a level 2 charger are between R20,000 and R40,000. 80 to 90% of EV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charging in the USA is done at home with a level 2 charger. Some SA manufacturers have been including these chargers with the purchase of the vehicle. The use of a level 2 EV charger in reality would work as follows. An individual who uses his EV in the city throughout the week (no long-distance open road travel) would plug in his car to charge overnight, once a week. This is a very similar activity to charging a modern phone. One overnight charge per week should be sufficient to cover 350-400km of driving range.

Level 3 chargers are also known as DC fast chargers and are public charging stations that can charge an EV in about an hour. They use 50-100KW. For longer distance travelling, a level 3 public charging station is required. Level 3 chargers cost about double that of the level 2 chargers and are not always readily available.

EV charging times in hours (ignoring the “80% rule”) for the 3 levels of chargers and a typical small, medium, and large EV are shown below:

| | | Battery capacity - KW | | |
|---|---|---|---|---|
| | | 60 | 80 | 100 |
| Charger | Level 1 (2KW) | 30 | 40 | 50 |
| | Level 2 (7KW) | 9 | 11 | 14 |
| | Level 3 (75KW) | 1 | 1 | 1 |
| | | Nissan Leaf | BMW IX 40 | Tesla Model S |

Considering the Tesla Model S and using the table above, a battery with a capacity of 100KW and a level 3 charger would take 1.3 hours to fully charge. This is 100KW/75KW = 1.3 hours. The “80% rule” is that charge rates must taper off after 80% to reduce the risk of fire.

The question of whether domestic solar panels could be a viable solution for charging EVs is very relevant from not only an environmental point of view, but also, in a South African context, where solar panels are becoming increasingly popular. The trade-off in the use of solar panels to power EV chargers is as follows:

- A 2KW level 1 charger would require 5 solar panels.
- A 7KW level 2 charger would require 18 solar panels.
- It is not feasible to get to a level 3 charger with domestic solar panels as 125 solar panels would be required for every 50KW.

Under perfect sunlight conditions, an 18-panel domestic solar system (equivalent to a 7KW level 2 wall charger) could fully charge an EV in 11 hours assuming no other heavy-duty appliances are used in the house during that time. Typical household solar systems range between 1 and 10KWh (3 to 25 solar panels). 5KWh costs R110,000 and 10KWh costs R175,000. Therefore, using panels to charge EVs is only worth it for an EV if you already have solar installed as a sunk cost.

## Running costs of an EV vs an ICE

Electricity in SA costs about R2.56 per KWh and the average EV has an 80KW battery. Therefore, the cost of fully charging the battery from empty will cost about R204. There are over 350 GridCars charging stations in SA (shown on the following page) which cost R5.88 per KWh, almost double what households pay. Making use of these public chargers will cost about R470 to fully charge an EV. A medium-sized ICE costs about R2.20/km for city driving, compared to a Tesla 3 which costs about R0.40/km (for level 2 home charging). Based on Eskom’s current tariffs, the running costs of an EV are about a quarter that of an ICE. You are also almost guaranteed to save on maintenance costs.

Based on 1,600km of travel per month, the average family should achieve a R33,300 per annum reduction in their fuel bill by making use of EV home charging. Opposite to ICE, EVs are more efficient in city driving than on highways. This is due to the regenerative braking which puts energy back into the battery during stop/start



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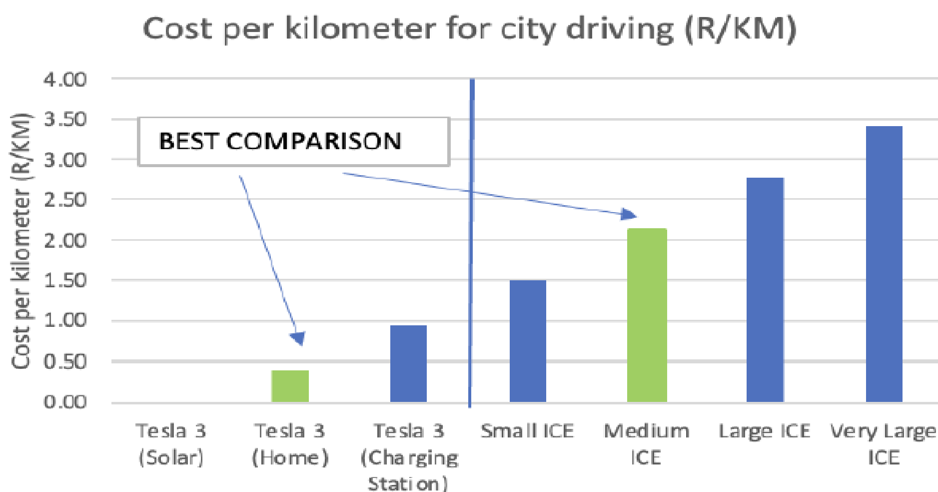
traffic. Tesla claim its cars can return 60KW to the batteries during regenerate braking. This is equivalent to level 3 charging for those few seconds when you are braking. By 2030, Tesla estimates that it will have 30,000 charging connector points in the US. This should generate $10 billion in revenue by then, which although not big enough to move their needle (FY23 earnings should be about $100 billion), is contributing to the network effect by accommodating drivers who undertake long distance travel.

The cost per kilometre for city driving of a Tesla 3 vs various sized ICE vehicles is shown below.




## Prices of EVs vs ICE

It is estimated that in SA, EVs are priced at around a 20 - 30% premium to an ICE equivalent. A new Tesla costs R1 million (Model 3 or Y) to R2million (Model S Plaid) in the USA. Tesla management understand that to increase the adoption of Tesla's, the price tag needs to come down. Only about 1,000 EVs have been sold in SA to date but once the lowest price tag falls below R1 million, adoption in SA is sure to increase. In January 2023 Tesla cut prices by 13% to 20% across its entire product range to improve affordability. Tesla's average selling price has halved over the last 5 years. This is an unprecedented move for an auto manufacturer since the launch of the Model T Ford over 100 years ago. The price cuts are putting significant pressure on Tesla's smaller, niche competitors. Comparisons are being drawn to 1907 where there were 255 auto manufacturers in the US. Price deflation transformed the automotive competitive landscape and drove out much of the industry. By 1929, there were only 44 surviving manufacturers in the US with 80% of sales accounted for by General Motors, Ford and Chrysler. Tesla's global vehicle market share is small at about 2%, whilst in the US, its market share is just less than 4%. Are we witnessing 1913 all over again? In 1913, the Model T Ford was 40% cheaper than it was in 1909 and by 1925, it was 70% cheaper.

The caveat to Tesla cutting its prices is that its operating margin that has steadily increased to 18% over the years, will inevitably come under pressure. Tesla is also currently holding excess inventory that it is keen to get rid of (at discounted prices). These factors will put downward pressure on Tesla's spectacular growth in profitability to date, at least in the short to medium-term. With perfect hindsight, early 2023 was a great buying opportunity for Tesla. But at the current share price of $187 (11 April), there may be too much risk embedded in Tesla to consider this to be an attractive buying opportunity for most investors.



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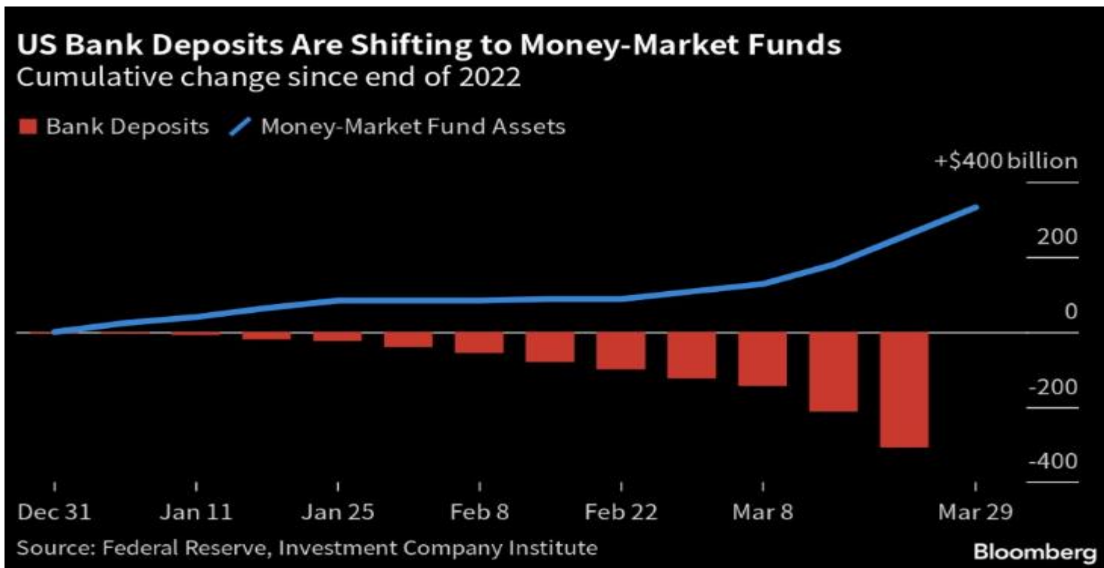
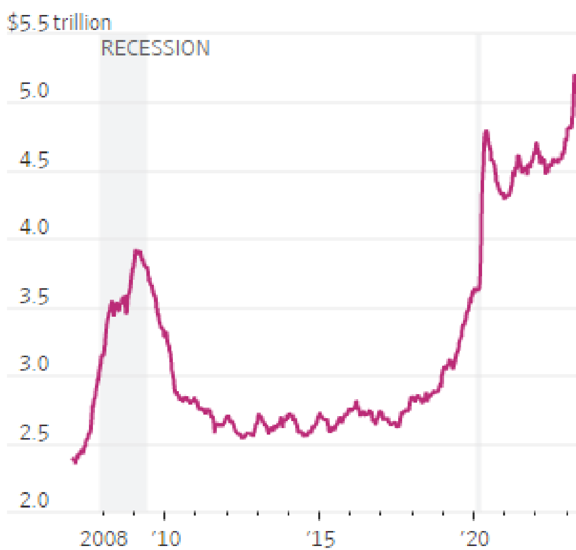
# HIGHER INTERESTRATES ARE INDUCING AMERICANS TO TAKE THEIR MONEY OUT OF THE US BANKING SYSTEM

BY KEIRAN WITTHUHN

Over the last few weeks, Americans have been changing where they park their cash. Hundreds of billions of dollars have been shifted out of personal bank accounts and into money market funds. At the week ended 7 April, US bank deposits had declined for the 10th straight week. This has been partly motivated by concerns about the stability of the banking sector, but part of it is also just the good, old-fashioned desire to make more money. Most banks have been slow to pass on the interest rate increases to customers and are still offering almost no interest on regular deposits. In contrast, money market funds are now offering more than 4% a year.




Money market funds invest in a variety of short-term cash-like instruments. These include debt securities such as short-term US Treasury bills, short-term municipal bonds, short-term commercial bonds and reverse repo agreements. This shift into money market funds reduces the supply of reserve balances in the US banking system. From 15 March, US money market funds have taken in about $300 billion, which is roughly equal to the amount of deposits that have left the US banking system. At the end of March, there was around $5.2 trillion in money market funds, up from around $3 trillion at the start of 2018. If small and midsize banks keep losing deposits to money markets and their bigger banking peers, there's a risk that they will dial back lending in a way that causes a larger economic slowdown than the central bank is trying to engineer.




When interest rates increase, banks are generally able to increase the rates on customers' loans (assets to the bank) in line with the rate increases set by the Fed. However, they do not generally increase the interest rates on our deposits (their liabilities) proportionally. This allows banks to earn a higher 'net interest income' and increases their net interest margin. This where the interest they receive is greater than the interest they pay. Simply put, in an environment of rising rates, bank profits have the potential to go through the roof! However, the tremendous withdrawal of deposits in search of higher returns is coming around to haunt these banks. All of the big US banks report Q1 earnings, starting on Friday, 14 April and through to the following week. We are interested to hear what the management teams have to say with regards to earnings, deposits, lending and guidance going forward.



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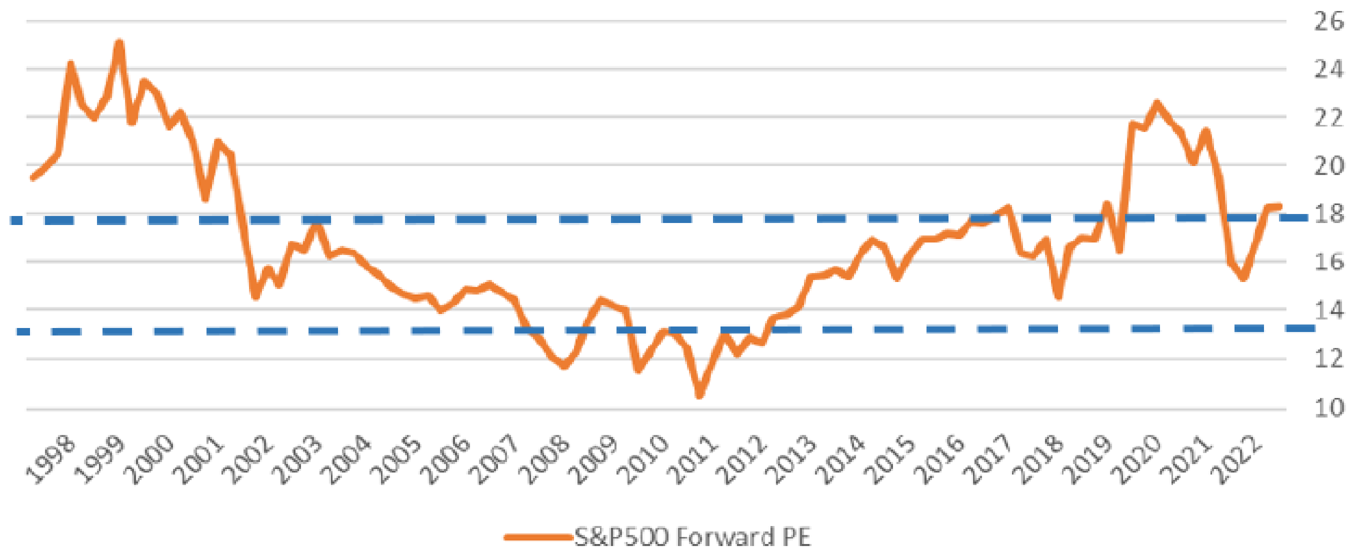
# WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

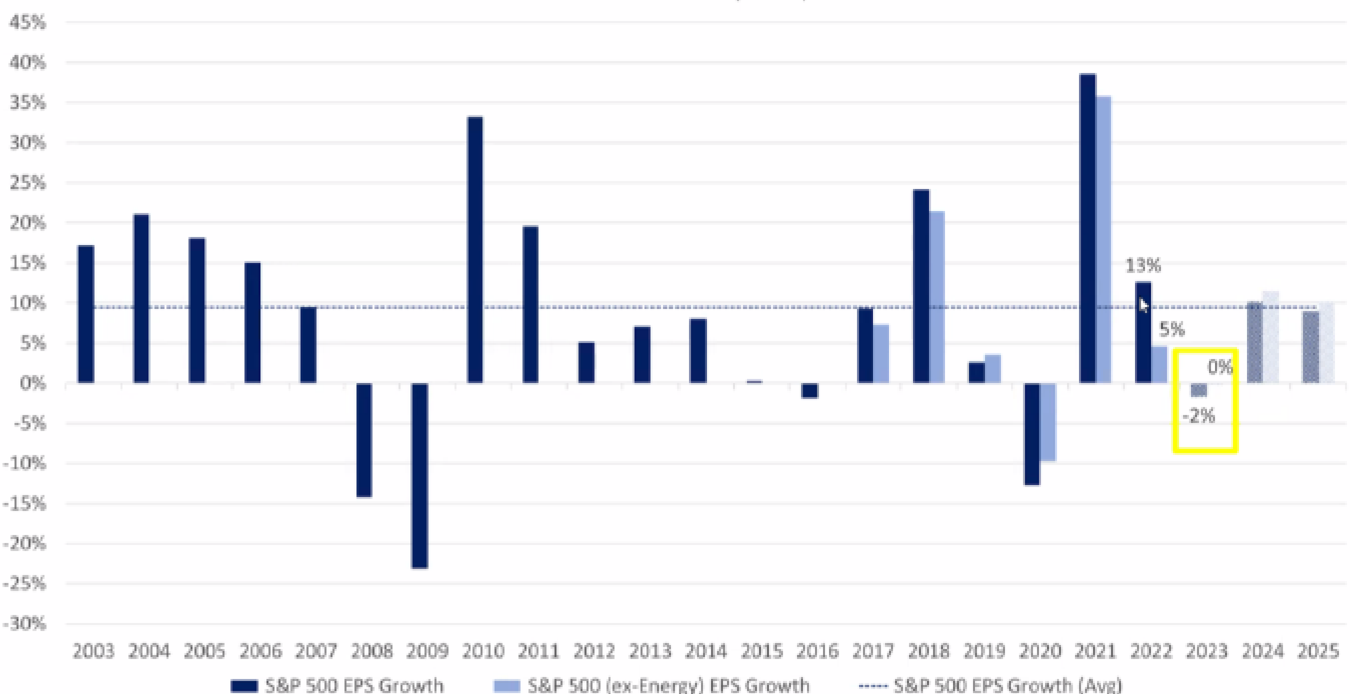
## RCI BCI WORLDWIDE FLEXIBLE FUND

We have now completed the first quarter for the year and global markets are up about 8% but it has been an extremely bumpy ride month to month. March was a great month for markets with the S&P 500 up 3.5% but valuations have risen back to quite expensive levels, especially when we consider that earnings are not expected to rise for the 2023 year.




*The S&P 500 forward PE ratio has now risen above 18x, which is expensive relative to history, especially considering interest rates have risen substantially of late.*

Analysts now expect US corporate earnings to fall in 2023. This is partially because of a high base in 2022 as a result of strong energy earnings that aren't coming through in 2023 but mostly because of an expected slowdown in the US economy:




*The dark blue bars represent growth in earnings in the S&P500 each year. For the 2023 calendar year earnings are expected to decrease 2%. If we examine the S&P 500 excluding the energy sector then earnings are expected to be flat year on year.*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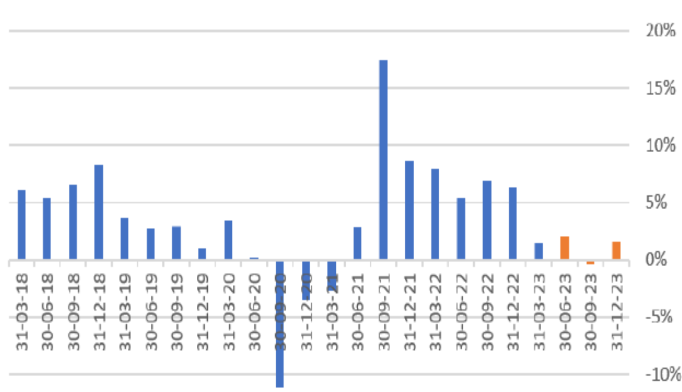
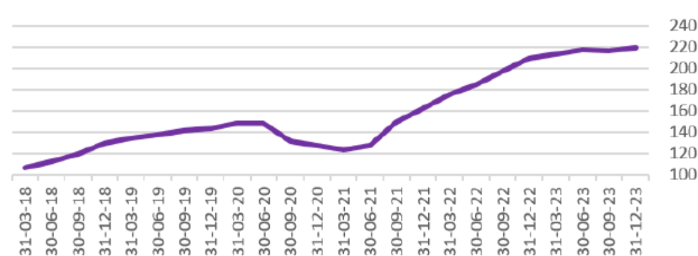
# WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

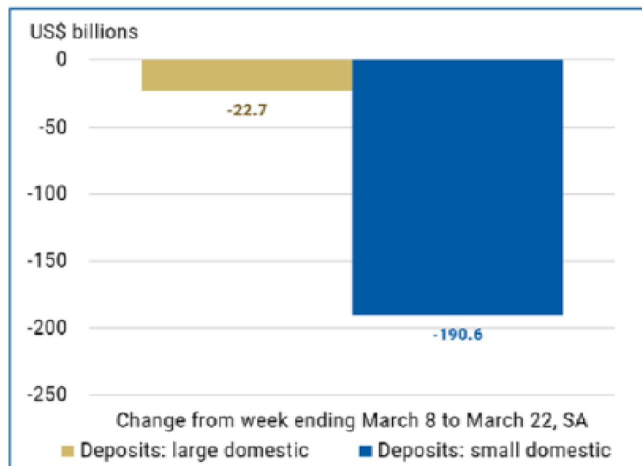
BY THE RCI INVESTMENT TEAM
(CONTINUED)

The S&P 500 real revenue growth (gross revenue less inflation) is expected to flatten significantly for the rest of the year but should end up positive in real terms for the full year:




Another major event that took place this month was the liquidity crisis amongst the smaller US banks. The collapse of Silicon Valley Bank revealed that many of the smaller banks have not been managing their liquidity in an upward rising rates environment. The drastic increases in rates combined with panic withdrawals caused a collapse in the bank and a subsequent loss of confidence in the regional US banking industry. The Fed managed to calm investors by backing deposits but we are still seeing huge outflows from smaller banks as investors place their funds elsewhere.




*Small US regional banks continue to see aggressive outflows in deposits.*

## Our top 10 positions:

| | PE in one years time | PEG Ratio (FWD PE/'22-24 Growth) | EPS Growth | | |
|---|---|---|---|---|---|
| | | | 2021-2022E Growth | 2022-2023E Growth | 2023-2024E Growth |
| ADOBE SYSTEMS INC | 23.45 | 1.73 | 36% | 14% | 13% |
| ALPHABET INC-CL C | 17.94 | 1.32 | 3% | 8% | 19% |
| AMAZON.COM INC | 35.55 | 0.50 | -61% | 107% | 40% |
| BOSTON SCIENTIFIC | 25.20 | 2.19 | 6% | 10% | 13% |
| INTUIT INC | 29.47 | 1.97 | 43% | 18% | 12% |
| KWEB CHINA INTERNET ETF | | | | | |
| MICROSOFT CORP | 27.58 | 4.26 | 19% | -2% | 15% |
| MONCLER SPA | 27.37 | 2.76 | 40% | 7% | 13% |
| MERCADOLIBRE INC | 72.72 | 1.09 | 405% | 91% | 46% |
| VISA | 25.18 | 1.78 | 26% | 14% | 14% |
| **Median PE** | **27.37** | | | | |
| **EG Ratio** (Forward PE/'22-24 Growth in EPS) | | **1.78** | | | |
| **Annual EPS Growth Rate (Median)** | | | **26%** | **14%** | **14%** |
| **S&P500** | | | **16%** | **-1%** | **10%** |





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# WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONTINUED)

Our top 10 positions are expected to grow earnings per share by about 14% per year for the next two years which is far higher than the S&P 500, which is expected to decrease in EPS for 2023. Our companies are trading at higher valuations, 27x, versus the S&P 500'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

- Sold **Citigroup** – Sold just prior to recent banking crisis on poor results for the first quarter.
- Bought **Yum Brands** – We have wanted to own Yum Brands for some time now and have made a small start to begin with. Yum is the holding company for KFC and Taco Bell.
- Bought **Novo Nordisk** – Specialises in insulin production but recently released a drug that helps reduce obesity.
- Bought **Constellation Software** – This is a Canadian software company that specialises in niche software applications around the world. The business is highly acquisitive but does so using free cash flow and not share issuing which greatly compounds earnings without diluting shareholders.
- Sold **Sherwin Williams** – The home improvement industry has been weak the last few years following a spike during COVID lockdown. Thus, paint company's like Sherwin Williams have been under pressure and will likely continue to stagnate for the next year or two until the long term trends return.
- Bought **Rentokil Initial** – Global leaders in pest control and hygiene. With increased globalisation pushing people to cities and a fragmented pest control market, Rentokil has large opportunity for growth. It is a UK based business but makes most of it revenue from the rest of the world.

## 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% | 0.6% | | | | | | | | | | **16.5%** |

The fund was up 0.6% in ZAR terms (+4.5% in USD) for the month compared to the MSCI Developed Markets Index which was down 2.4% in ZAR (+1.4% in USD) for the month. The Rand strengthened 4% for the month detracting from the performance in ZAR.

For the 2023 year thus far, the fund is up 16.5% in Rands or 11.5% in USD terms, with the rand having weakened 4.3% against the dollar. The MSCI Developed Markets Index is up 10.4% in Rands or 5.66% in USD for the period.

For the 2022 year, 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:**

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



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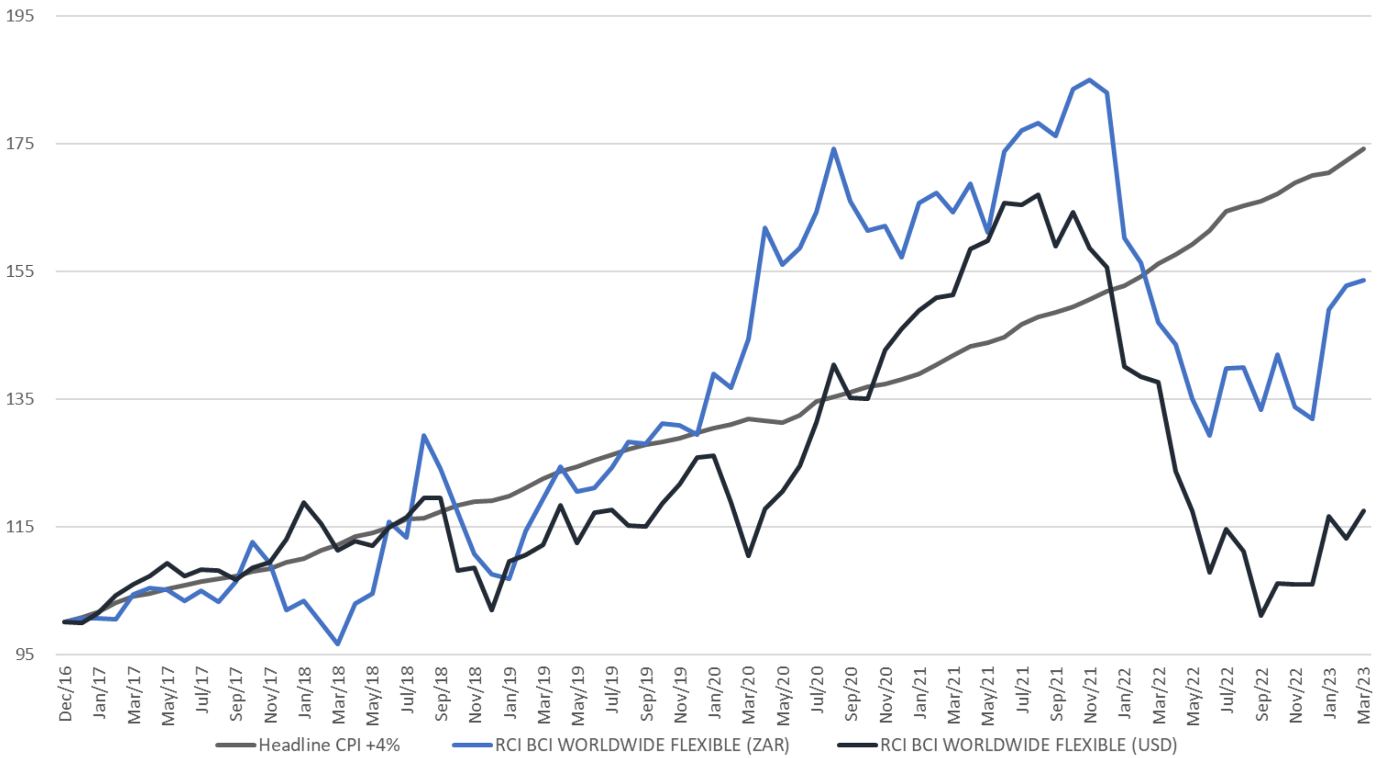
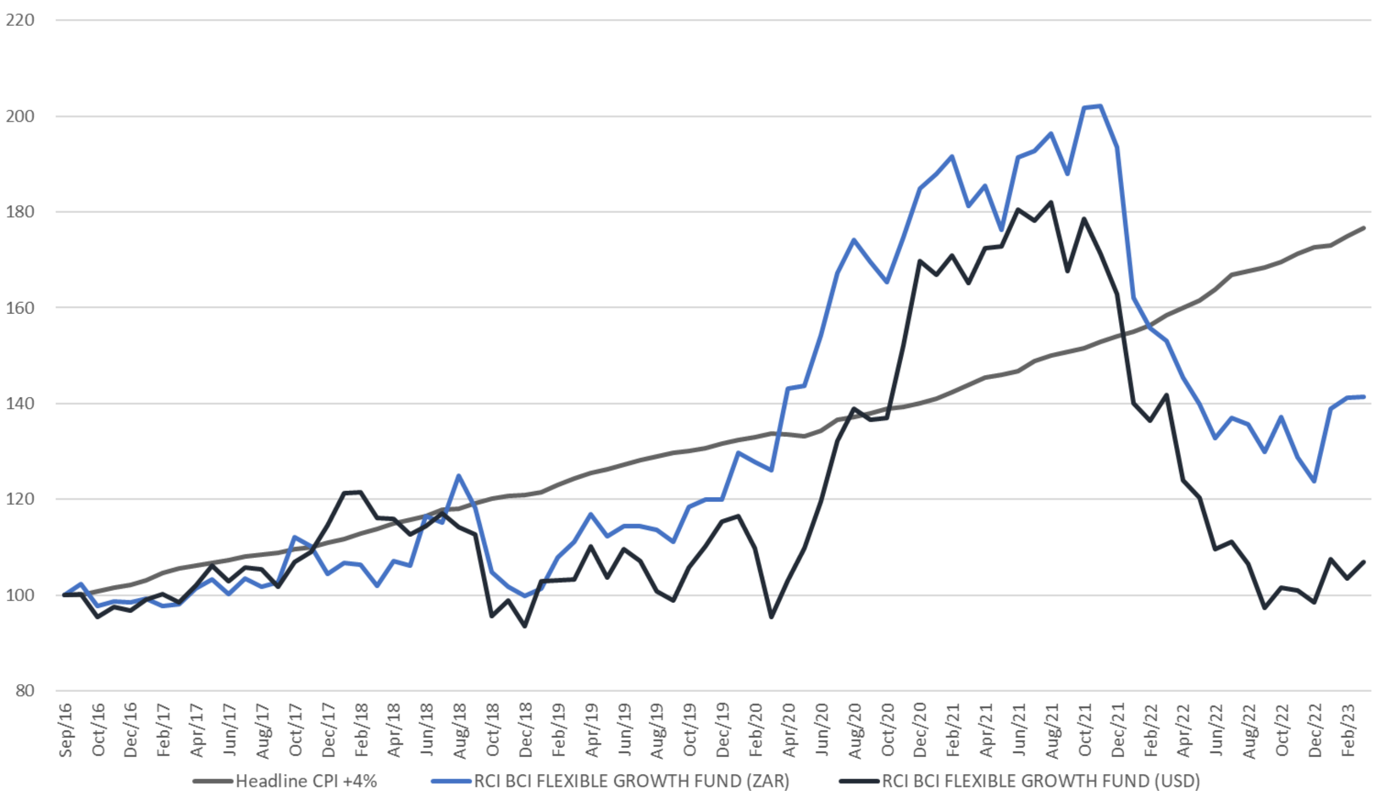
# RCI OFFSHORE UNIT TRUSTS

*"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 March at 153.62c, up 0.56%% for the month and up 4.48% for the last 12 months.




RCI BCI Flexible Growth Fund closed March at 141.36c, up 0.07% for the month and down 7.67% for the last 12 months.

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# WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

## ANCHOR BCI SA EQUITY FUND

### BY THE ANCHOR BCI SA EQUITY TEAM

Global equities ended 1Q23 on a strong note (MSCI World +3.2% MoM and +7.9% 1Q23), the first time we have seen positive back-to-back quarters in two years and, so far at least, a notable contrary outcome to the overwhelming consensus from market strategists that equities would revisit their recent lows during 1H23. The solid March performance occurred despite a mini bank crisis, triggered by a run on several of the US regional banks, which saw the demise of Silicon Valley Bank and Signature Bank. Despite the S&P 500 Bank sub-index declining 19% in March, the positive overall performance was thanks in large part to the mega-cap tech stocks (Meta, Apple, Microsoft, Alphabet and Amazon all up double digits in March). Having been heavily out of favour for much of 2022, the recent stresses in the banking system have lent support to tech stocks on two fronts: (1) these highly cash generative businesses are seen as a safe haven in the event that bank funding becomes scarcer; and (2) bets that the Fed will be forced to reverse course on its restrictive monetary policy have strengthened. Despite investor anxiety stemming from the DM banking stresses in March, EM equities also had a decent month, (MSCI EM index +3.04% MoM).

South African equities were among a minority of major global markets that ended March lower (FTSE/JSE Capped SWIX Index -1.9% MoM), though they performed well enough to remain in positive territory for 1Q23 (+2.5%). Companies geared towards the domestic economy were among the worst-performing, with many flagging the impact of increasing costs related to operating under the country's severe loadshedding conditions. SA Banks felt the chill from jitters among global banks, although we see this as more short-term sentiment-driven than a cause for genuine concern. SA's equity performance in March would have been worse had it not been for gold equities which rallied 41% in March as save haven buying supported the gold price.

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

- Naspers
- Prosus
- Bidcorp
- Standard Bank
- Investec
- Richemont
- Afrimat
- FirstRand
- Advtech
- British American Tobacco
- Absa
- Glencore
- Transaction Capital
- Discovery

## Main changes in the month

As far as changes to holdings in the fund during March are concerned, having reduced our exposure to **Transaction Capital** (long seen as one of our quality core holdings) at higher levels in the past, we opted to use the significant sell-off in March to rebuild the position. We also used the weakness in the banking sector to add to the fund's **FirstRand** position. We started a position in **Invicta**, a smaller-cap industrial share where an attractive entry point presented itself – insider buying at around the same time suggested management agreed with our assessment. These purchases were partially funded by the profits taken in **Bidvest**.


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# WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

## BY THE ANCHOR BCI SA EQUITY INVESTMENT TEAM (CONTINUED)

## Performance

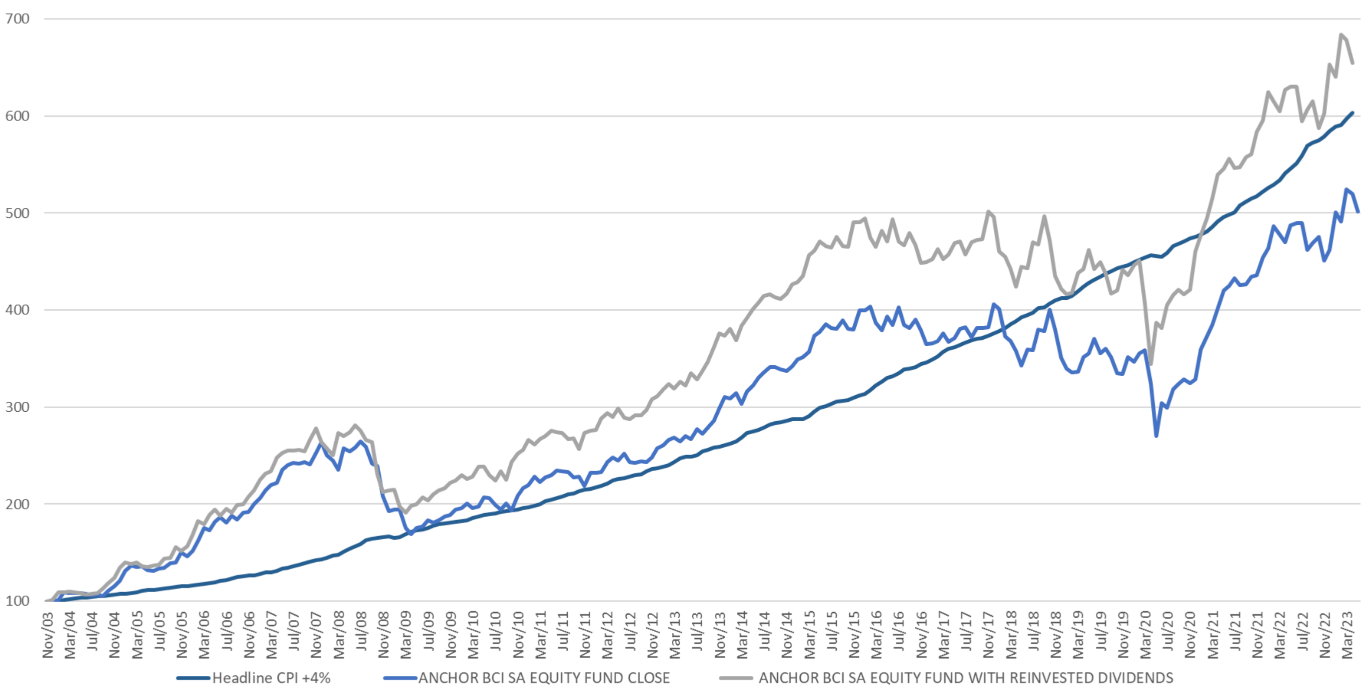
The Anchor BCI SA Equity Fund declined 3.4% in March. Our avoidance of gold shares on quality grounds meant that the fund did not benefit from this area of strength, while the sharp sell-off in Transaction Capital was another notable detractor from performance in the month. Notwithstanding a tough March, the fund ended the quarter 2.8% higher, slightly ahead of the market's 2.5% advance.

**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 March at 116.56c, down 3.46% for the month and up 3.00% for the last 12 months.

Anchor BCI SA Equity Fund




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.*



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