ROBERT COWEN INVESTMENTS

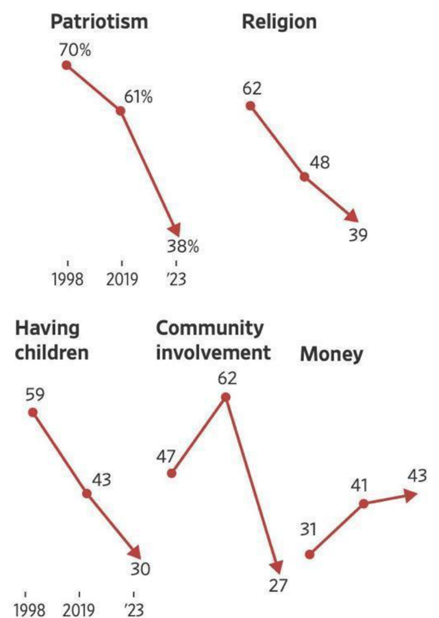
NEWSLETTER – END APRIL 2023

15 May 2023

HIGHLIGHTS OF THIS NEWSLETTER ARE:

- Summary of Anchor's quarterly 'The Navigator' document
- Update on what have we been doing in the offshore funds – *by Ross McConnochie*
- Update on what have we been doing in the local fund – *by Mike Gresty*
- We explore global birth rates and population trends in various pieces – *by Keiran Witthuhn*
    - African population growth
    - Economic impact of falling global birth rates
    - Comparing India and China's demographics
- How has the global housing market performed since 2010?
- Latest research from Anchor Capital
    - COFFEE TABLE ECONOMICS WITH ANCHOR
    - EVALUATING THE US DOLLAR'S DE FACTO STATUS AS THE WORLD'S RESERVE CURRENCY

A new Wall Street Journal-NORC (National Opinion Research Centre) poll found that American values have shifted in the past 30 years. Patriotic feelings, religious faith, having children, and community involvement are becoming less important to Americans. In 1998, 70% deemed patriotism to be very important, but now only 38% of respondents said it was essential. Similarly, only 39% said religion was very important, compared to 62% in 1998. The importance of hard work and having children has also decreased. Tolerance for others, once deemed very important by 80% of Americans, has fallen to 58% in recent years. The only priority that has grown in importance in the past quarter-century is money. The poll also found a sharp division between political parties on social trends such as the push for racial diversity in businesses and the use of gender-neutral pronouns. Younger Americans, in particular, place low importance on values that were central to their parents' lives, such as patriotism and having children.



Source: WSJ/NORC poll of 1,019 adults conducted March 1–13, 2023; margin of error +/–4.1 pct. pts. Prior data from WSJ/NBC News telephone polls, most recently of 1,000 adults conducted Aug. 10–14, 2019; margin of error +/–3.1 pct. pts.

"In every good marriage, it helps sometime to be a little deaf" – Ruth Bader Ginsburg

"A person either disciplines their finances or their finances disciplines them" Orron Woodward

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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.

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THE NAVIGATOR

STRATEGY AND ASSET ALLOCATION REPORT
2ND QUARTER 2023

The Navigator is Anchor's quarterly review of the major themes affecting markets and gives an overview of our current strategy and asset allocation. The purpose of The Navigator is to provide our clients with insight into Anchor's thoughts on various asset classes and our near-term market outlook. The below is a summary of the articles on each individual asset class, strategy and asset allocation, as well as four articles from the 'Anchor Insights' section.

If you would like to access the full document, please click here.

The global economy is showing fractures as higher interest rates reveal hidden fault lines, leading to three bank failures in the US and the forced sale of Credit Suisse. The journey to higher interest rates is ongoing, and inflation is expected to persist for much of the next year. The investment landscape will remain volatile as central banks debate how high rates should go, and animosity between groupings of nations stands in the way of globalisation benefits that have been prevalent for much of the last decade. Against this backdrop, we have seen asset prices that have risen to varying degrees while cash investments are attractive for the first time in a decade.

We continue to caution that now is not the time for wholesale changes to your portfolios. The risk of such changes resulting in permanent losses is too high. However, over time, if you need to adjust your risk tolerances, then a gradual and patient approach towards such changes is warranted. Therefore, we continue to advocate for asset class diversification domestically and abroad. In summary, we are cautiously optimistic as to what the next twelve months hold for investments.

Asset allocation summary

The 12 month expected returns for the six main asset classes are shown below along with Anchor's expected appreciation in the exchange rate over this period. We believe that domestic bonds have the most compelling risk/reward relationship.

Figure 2: Anchor expected returns by offshore asset class
Source: Anchor

	Global equity	Global bonds	Global property
Anchor expected return (in US dollar)	8%	4%	6%

Figure 4: Anchor expected return for domestic asset classes
Source: Anchor

	Domestic equity	Domestic bonds	Domestic property	US$/rand
Anchor expected return (in rand)	11%	10%	8%	4%

Strategy and asset allocation

Economics

There have been three notable factors that have affected the global economy through the first four months of the year. Of these three factors, two are tailwinds. Firstly, declining food and energy prices continue to contribute towards inflation's downward trend. Secondly, Chinese economic activity is rebounding due to the reversal of their zero-Covid policy. However, the largest headwind this year has been the recent banking sector turmoil in the US and Europe and the possibility of widespread contagion in the financial sector. Credit conditions have tightened significantly following the highest US interest rates since 2007. This has market participants waiting with bated breath to see if the widely anticipated 'global' recession (predominantly in Western countries) comes to fruition.

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The Family Office

On the local front, SA initially benefitted from the Chinese economic reopening from around October 2022. But more recently, heightened loadshedding has weighed on economic activity and on investor sentiment. Loadshedding and the sharp depreciation of the ZAR (largely due to loadshedding) has prevented much of the observed decline in world food prices from transferring to SA. The year-on-year increase in food price inflation was 15% in April. Domestic inflation has remained at around the 7% level which prompted the SARB to raise interest rates to the highest level since 2009. Without power, the cogs of our economy cannot turn. Nonetheless, whilst global and local economic growth prospects may appear muted for the foreseeable future, opportunities remain throughout most asset classes.

SA Equities

After the rising optimism in local equities around the likely stimulus out of China at the back end of 2022, investors have more recently been made aware of how difficult conditions on the ground have become in SA. Despite this, investors should not be overly negative on the outlook, given that the JSE is trading at multi-decade valuation lows. We believe that our 11% total return outlook and neutral rating on JSE-listed equities captures the balance between low valuations and low growth estimates.

We continue to see the local banks as a critical pillar in constructing a JSE portfolio. A second theme worth noting is that the additional energy capacity coming online from the private sector could be a more promising development for SA than Ramaphosa becoming president. The privatisation of the grid seems to be happening much faster than we thought. If, in one year, the worst of loadshedding is in the rear-view mirror, we could be in a position where we are at peak rates, loadshedding and negative consumer sentiment but at trough valuations. This could provide attractive upside in the event of a reversal of any of the above negative factors. Nevertheless, our base case is that we still have not seen the worst of the bad news, with the half-year reporting season potentially a catalyst for finding the lows. Positioning within our local funds therefore remains defensive.

Domestic Bonds

South African government bonds had a strong performance in 1Q23, returning 3.42% at the All Bond Index level. The yields across the curve remain attractive, with most bonds having strengthened by 20-30 bps over 1Q23. The SARB has continued its rate hiking cycle, with expectations for future rate hikes increasing. Inflation has moderated downwards but remains above the SARB target band. Loadshedding is viewed as inflationary and has contributed to the SARB's projections for 2023 growth of a mere 0.2% YoY. Bond yields are expected to be somewhat volatile in the short term, with a portfolio-level yield expectation of 10.1% over the next year, which we view as attractive in the current environment.

The Rand

The rand weakened in 1Q23 due to a stronger dollar, risk aversion, and domestic economic challenges, but a surprise 0.5% interest rate hike helped it rebound by the end of March. Predicting the rand's value in a year's time is difficult because it is one of the most volatile currency pairs in the world. The indicators for the rand's fair value are negative, with a shallow deficit expected in 2023, and the boon from high commodity prices fading, highlighting SA's poor government finances. The rand is expected to be under pressure in 2Q23. Anchor's modelled value for the rand vs US dollar at the end of the next 12 months is R14.52, with a range of R13.52 to R15.52. However, the current global backdrop means the rand is starting meaningfully weaker than its fair-value range. The rand is expected to remain volatile, with surprises expected in the year ahead. We do not expect the currency to fully recover to its fair value, and we are projecting a rand in the R16.50 to R17.50 range against the dollar in one year.

Global Equities

Anchor's 1Q23 Navigator report predicted a recovery for global equities in 2023, which has been seen in the 7.9% return for the MSCI World Index in 1Q23. We maintain the expectation of an S&P 500 year-end level of 4,400 and project an 8% return (in USD) from global markets over the next 12 months. The US Fed's aggressive interest rate hikes have upended some business models, resulting in the collapse of some big global banks. However, the market has reacted positively to the Fed's actions. Anchor's outlook is positive for longer duration

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assets and emerging markets, and double-digit US dollar denominated earnings growth should resume in 2024 and beyond.

Global Bonds

Inflation in the US is still higher than what the Fed wants, but the reasons behind it have changed. The COVID-19-related supply chain issues and the Ukraine-Russia war-related food and energy inflation have given way to service price inflation, mostly due to rising shelter costs. The Fed has been raising interest rates aggressively to control inflation, which has led investors to focus on when the rate hikes will end and rate cuts will begin. The Fed is cautioning that it's too early to declare victory over inflation and cut rates, but investors are already pricing in rate cuts in the latter half of 2023.

US 10-year government bond yields have been oscillating between 3.3% and 4.3% as investors shift between the possibility of structurally higher and more volatile inflation and a return to a more benign inflation environment. The expectations are skewed towards a return to a more benign inflation environment with slightly more volatility and a more vigilant Fed. As such, the forecast is for US 10-year government bond yields to reach the bottom end of their recent trading range by the end of the twelve-month forecast horizon. This leads to an anticipated 3.5% total return for US 10-year government bond investors over the next 12 months, mostly in the form of income.

While US government yields are high, credit spreads are still at average levels for the past couple of decades and well below peak levels during a crisis. Financial conditions are tightening in response to recent banking strains and aggressive Fed tightening, which might lead to a slight uptick in defaults over the next twelve months. However, current credit spreads are already priced for this eventuality, and a 12-month total return of 5.3% is forecasted for US investment-grade corporate bond investors, all in the form of income.

ANCHOR INSIGHTS

Look for a bottom in individual stocks, not in markets *by James Bennett*

Many novice investors believe they can predict the future and make investment decisions based on this assumption. However, the truth is that investing without acknowledging the unpredictable nature of the future tends to lead to poor investment decisions. Focusing on stock-specific factors such as economic moats, balance sheet strength, and management quality can create a margin of safety around the value one is willing to pay for a business, which allows for a longer-term investment horizon. Although market views are important, they should not cloud an investor's judgment when it comes to stock picking. When a protracted sell-off occurs, investors may avoid individual stocks until there is an all-clear signal that the market has bottomed. The issue with this approach is that the market bottom is only identifiable with hindsight, and the market typically rallies significantly off its lows once it is identified. Therefore, investors should avoid timing the market and focus on stock picking. Market timing is a skill that very few investors consistently get right over time, and it may lead to knee-jerk reactions and poor investment decisions. When making a call on the S&P 500 Index, investors make an aggregate call on 500 companies, so the history around aggregate multiples and margins is not a perfect science. Instead, investors should incorporate factors such as economic moats, balance sheet strength, and management quality to make better investment decisions.

The actual cost of South Africa's failing electricity and rail infrastructure: Is there any lights at the end of the tunnel? *by Casey Delport*

South Africa's economy has only grown by an average of 1% over the last decade, much lower than its BRICS counterparts' average of 3.4%. In 2023, SA's economic growth is expected to be below 1%, as the country faces many domestic headwinds. Structural weaknesses in the economy, high levels of inequality, and persistent unemployment have resulted in declining investment, gross fixed capital formation (GFCF), and a historic low of 13% of GDP in 2021. Addressing challenges such as electricity supply, transportation, and ports is critical for the economy to attract significant new investment. Loadshedding, which is devastating for the economy, is difficult to quantify as its multiplier effect is far-reaching. South Africa's failing rail infrastructure poses unique challenges that are exacerbated by corruption in the state-owned enterprises. The inability to execute a

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turnaround in the SOEs has further impeded their commercial undertakings. Overcoming such challenges and reducing the cost of doing business will lead to investment and growth opportunities. However, the economic cost of SA's failing infrastructure, let alone addressing it sustainably, is no easy task. The true cost of chronic power failures, the loss of investor confidence, and emigration due to a lack of confidence can have long-term detrimental effects on entrepreneurship, job creation, and investment flows. SA must take action to address these challenges and restore confidence in government and institutional structures. Specifically, a transition to greener energy supplies represents the quickest path out of loadshedding and a once in-a-generation opportunity to place SA on a high (and green) growth and development pathway.

The wisdom of back pain *by Nick Dennis*

The notion that emotions are the enemy is not entirely true, as research in the field of neuroscience suggests emotions are critical components of all decision-making. In fact, we would struggle to make even the simplest decisions, such as choosing breakfast cereal, without emotions. Emotions help us make decisions based on a prediction of future emotions, and we buy or sell shares because we anticipate how we will feel after a certain outcome. Emotions are not only useful for decision-making, but intuition, a form of pattern recognition based on experience, can also manifest physically, acting as an early warning sign. However, it is essential to distinguish between the first emotion, intuition, and the second, panic, which is a function of urgency. Listening to the emotional warning signs far earlier in the process would prevent substantial pain.

Famous investors who talk dismissively about emotions may have lower emotional capacity than the average person. Trying to follow in their footsteps is almost impossible and counterproductive. Therefore, it is crucial to recognize, name, and write down our emotions (both present and anticipated) when making decisions. For example, when buying a stock, you might say, “I’m feeling FOMO, and I think I’ll feel relieved and happy after it rises.” Just writing that out may cause you to reflect on your decision-making and avoid the wrong lessons.

In conclusion, emotions are not the enemy, but recognizing and managing them is essential in decision-making. Therefore, it is crucial to acknowledge the power of emotions and distinguish between intuition and panic, which is a function of urgency. By doing so, we can avoid internal conflict, make better decisions, and learn from our past mistakes.

Asset allocation and diversification within asset classes *by David Bethell*

2022 was a year of learning how to surf, but with the realization that the markets can be unpredictable, and every wave has an unknown element - volatility. Investors had a difficult time navigating markets in 2022 and Q1 2023 due to high interest rates and earnings downsides for companies. The Fed and other countries’ central banks hiked interest rates higher and faster than expected, leading to company valuations declining substantially from their 2021 highs. Clients with offshore, long-only equity exposure had a challenging ride, going from all-time highs during the COVID-19 pandemic to all of their profits being wiped out in 2022. Wealth managers’ responsibility is to find diversification within asset classes to generate returns during volatile periods while still having the correct equity exposure. Anchor has identified hedge funds, alternatives in private equity/credit, and structured products that generate equity-type returns in a very volatile market environment with downside protection. Diversification within various asset classes is going to be very important when markets start to recover. Although the markets are going to be choppy over the next 12 months, wealth managers can de-risk clients where appropriate within the various asset classes and, by doing so, try to prevent their portfolios from being very volatile, instead only having portions of volatility within the various asset classes. Market cycles repeat themselves, and at Anchor/RCI we are constantly looking for opportunities to achieve better returns for clients or themes that can generate better returns in the future.

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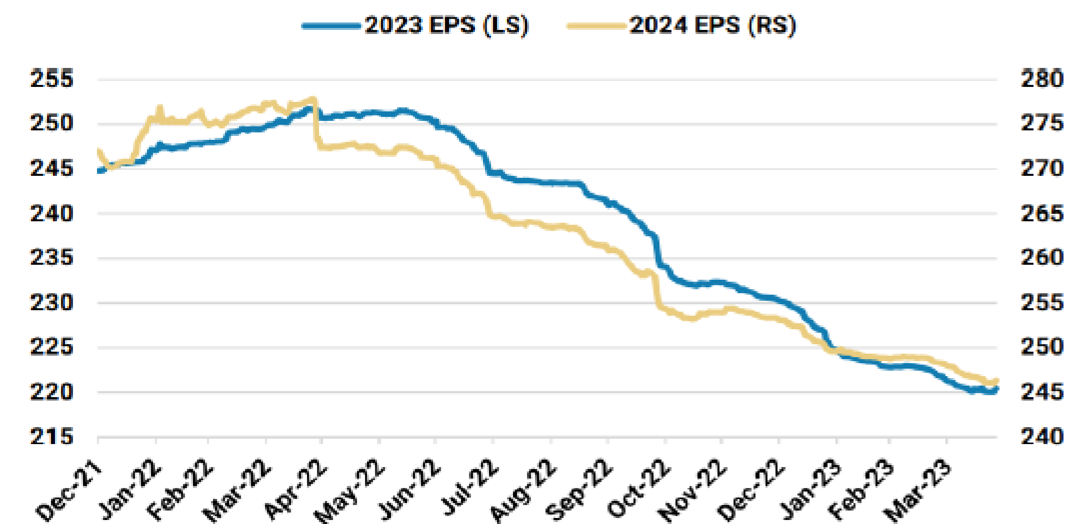
WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

RCI BCI WORLDWIDE FLEXIBLE FUND

April was another decent month in markets with the MSCI World Developed markets rising 2% and the S&P 500 doing about the same. This was on the back of strong returns in March. Year to date growth is now about 7%.

Recession fears have caused analysts to cut their earnings expectations for the S&P 500 for 2023 and 2024 but many expect this is reaching peak pessimism. In June 2022 the consensus expectation for the 2023 S&P 500 EPS was about 251c (left hand axis) and today that figure is expected to be closer to 220c. A decline in expectations of about 12% leading to a lower EPS than 2022 (224c). At present analysts expect the 2024 EPS to be about 245c or about 11% growth on 2023 expectations.

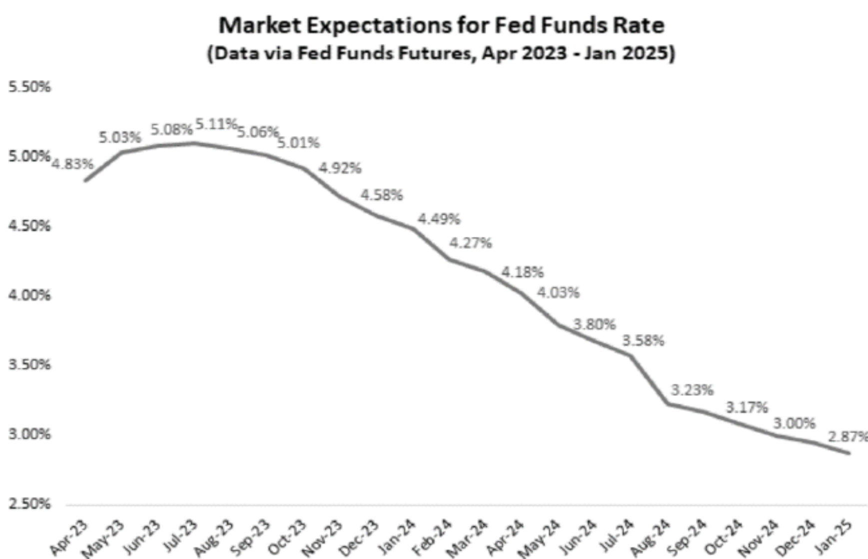


Morgan Stanley analysts continue to downgrade the expected earnings figure for 2023 and 2024 due to recession fears caused by rapid interest rate hikes used to quell elevated inflation.

We are currently halfway through US earnings season, and we have seen huge volatility on the day of results. Most of the major upswings were simply a result of beating the low analyst expectations. Companies like Meta and Microsoft had fantastic earnings beats that led to big jumps on the day.

US Fed Funds Rate

At present the market expects interest rates to peak in August this year and then quickly to come down under the expectation that the Fed will need to stimulate an economy under pressure. We are more of the opinion that interest rates will stay higher for longer as the Fed makes sure that inflation is under control. Thus, markets could trade sideways for a lot longer than people expect.



(Source: Charlie Bilello and YCharts)

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WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONTINUED)

US Regional Banks

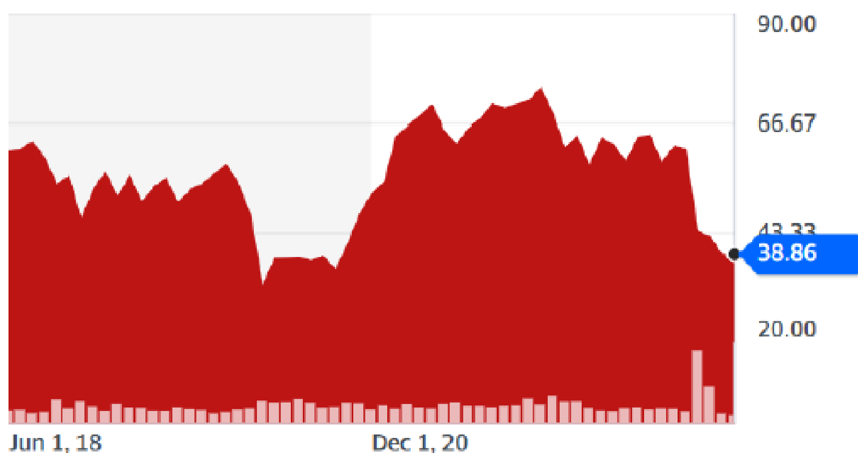
US regional banks continue to suffer from interest rate hikes impacting their liquidity and valuations on their balance sheets. Combine these with record deposit withdrawals, this has led to several bankruptcies. The most recent was First Republic bank, which scarily was also the second largest in US history:

Largest U.S. Bank Failures

Bank	City	State	Year	Assets at time of failure
Washington Mutual	Seattle	Washington	2008	$307 billion
First Republic Bank	**San Francisco**	**California**	**2023**	**$229.1 billion**
Silicon Valley Bank	Santa Clara	California	2023	$209 billion
Signature Bank	New York	New York	2023	$118 billion
Continental Illinois National Bank and Trust	Chicago	Illinois	1984	$40.0 billion
First Republic Bank Corporation	Dallas	Texas	1988	$32.5 billion
IndyMac	Pasadena	California	2008	$32 billion
American Savings and Loan	Stockton	California	1988	$30.2 billion
Colonial Bank	Montgomery	Alabama	2009	$25 billion
Bank of New England	Boston	Massachusetts	1991	$21.7 billion
MCorp	Dallas	Texas	1989	$18.5 billion
FBOP Corp banking subsidiaries	Oak Park	Illinois	2009	$18.4 billion
Gibraltar Savings and Loan	Simi Valley	California	1989	$15.1 billion
First City National Bank	Houston	Texas	1988	$13.0 billion
Guaranty Bank	Austin	Texas	2009	$13.0 billion
Downey Savings and Loan	Newport Beach	California	2008	$12.8 billion
BankUnited FSB	Coral Gables	Florida	2009	$12.8 billion
HomeFed Bank	San Diego	California	1992	$12.2 billion
AmTrust Bank	Cleveland	Ohio	2009	$12.0 billion
WesternBank	Mayaguez	Puerto Rico	2010	$11.9 billion
United Commercial Bank	San Francisco	California	2009	$11.2 billion
Southeast Bank	Miami	Florida	1991	$10.5 billion

(Source: Charlie Bilello and YCharts)

It is likely that stricter Basel III requirements are on the horizon in an attempt to reverse the damage done by the Trump administration several years ago when they relaxed capital requirements for small banks. This is too little too late to fix the current situation but coming out of this turmoil, these smaller banks should be far less risky. The below graph is the price of the SPDR S&P 500 US Regional Banking ETF, which continues to fall as panic selling of these small banks continues. It is now approaching levels last seen during COVID-19 and is trading at a very low P/E ratio of 6.6x:



(Source: Yahoo Finance - The SPDR US Regional Banking ETF has halved in the last year)

Although the valuations are looking very attractive, there are likely more bankruptcies on the horizon and thus the industry and index is likely to remain under further pressure. You definitely wouldn't want to buy any of these banks individually as the risk is too high of a complete loss but if you buy an ETF you are effectively buying one giant diversified bank in a sense. At RCI we are not interested in this kind of investment/trade as these banks are not high return on equity businesses and thus do not pass our high-quality requirements.

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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/'23-25 Growth)	EPS Growth		
			2022-2023E Growth	2023-2024E Growth	2024-2025E Growth
ALPHABET INC-CL C	17.11	0.84	27%	19%	22%
AMADEUS IT GROUP SA	24.79	1.33	42%	26%	12%
AMAZON.COM INC	35.25	0.92	263%	37%	40%
BOSTON SCIENTIFIC	25.97	2.04	14%	13%	12%
DISNEY	20.70	0.73	15%	34%	24%
KWEB CHINA INTERNET ETF					
MERCADOLIBRE INC	66.65	1.44	72%	44%	48%
MICROSOFT CORP	28.45	1.91	4%	15%	15%
MONCLER SPA	28.55	2.25	3%	13%	12%
VISA	24.54	1.73	14%	14%	15%
Median PE	**25.97**				
PEG Ratio (Forward PE/'23-25 Growth in EPS)		**1.44**			
Annual EPS Growth Rate (Median)			**15%**	**19%**	**15%**
S&P500 - FWD PE and EPS Growth	**18.17**		**-2%**	**10%**	**9%**

Our top 10 positions are expected to grow earnings per share in the mid-teens for the next three years which is far higher than the S&P500, where analysts expect a slight decline for 2023. Our companies are trading at higher valuations, 26x, 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

There were no outright changes made during the month.

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%	5.3%									**22.7%**

The fund was up 5.3% in ZAR terms (+1.8% in USD) for the month compared to the MSCI Developed Markets Index which was up 5.5% in ZAR (+2% in USD) for the month. The Rand weakened 3% for the month contributing to the performance in ZAR.

<u>For the 2023 year thus far</u>, the fund is up 23% in Rands or 13.5% in USD terms, with the rand having weakened 7.5% against the dollar. The MSCI Developed Markets Index is up 16% in Rands or 7.8% 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.

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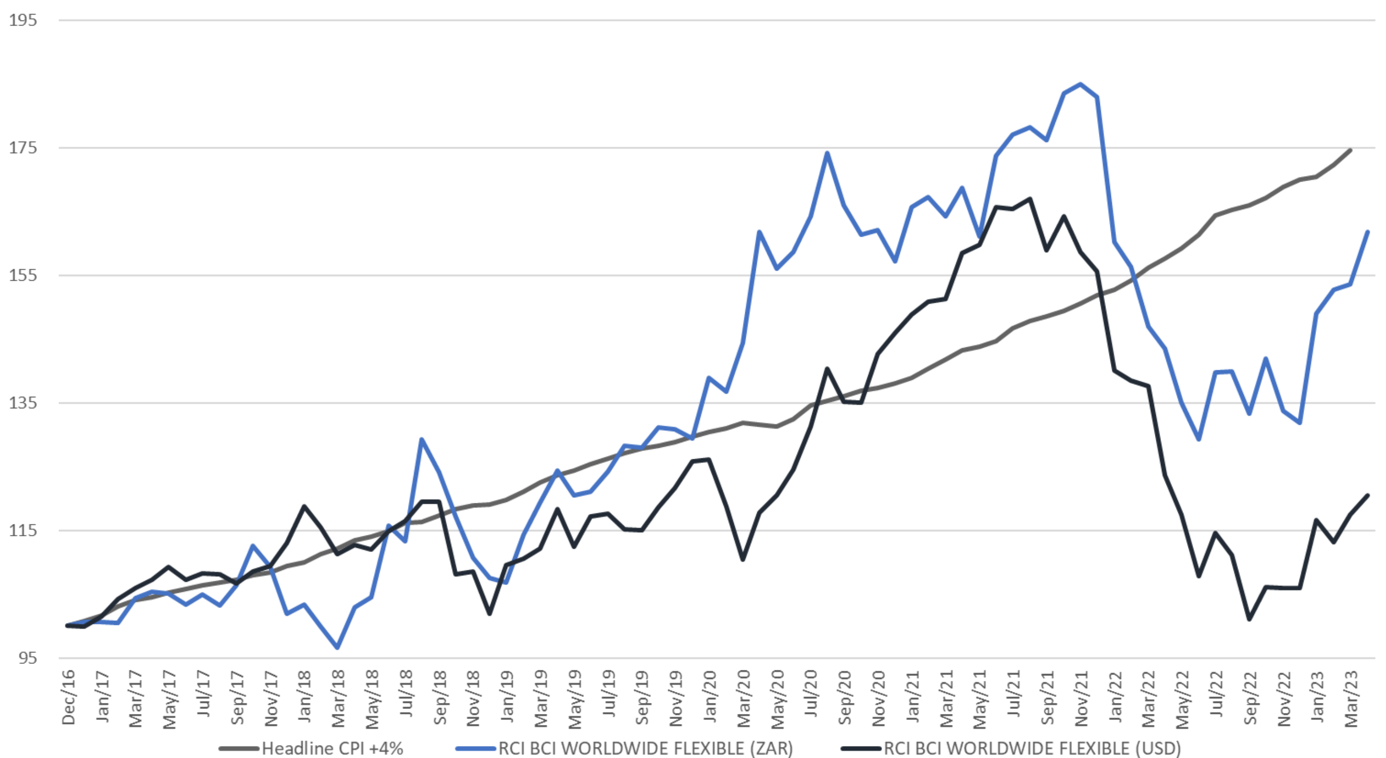
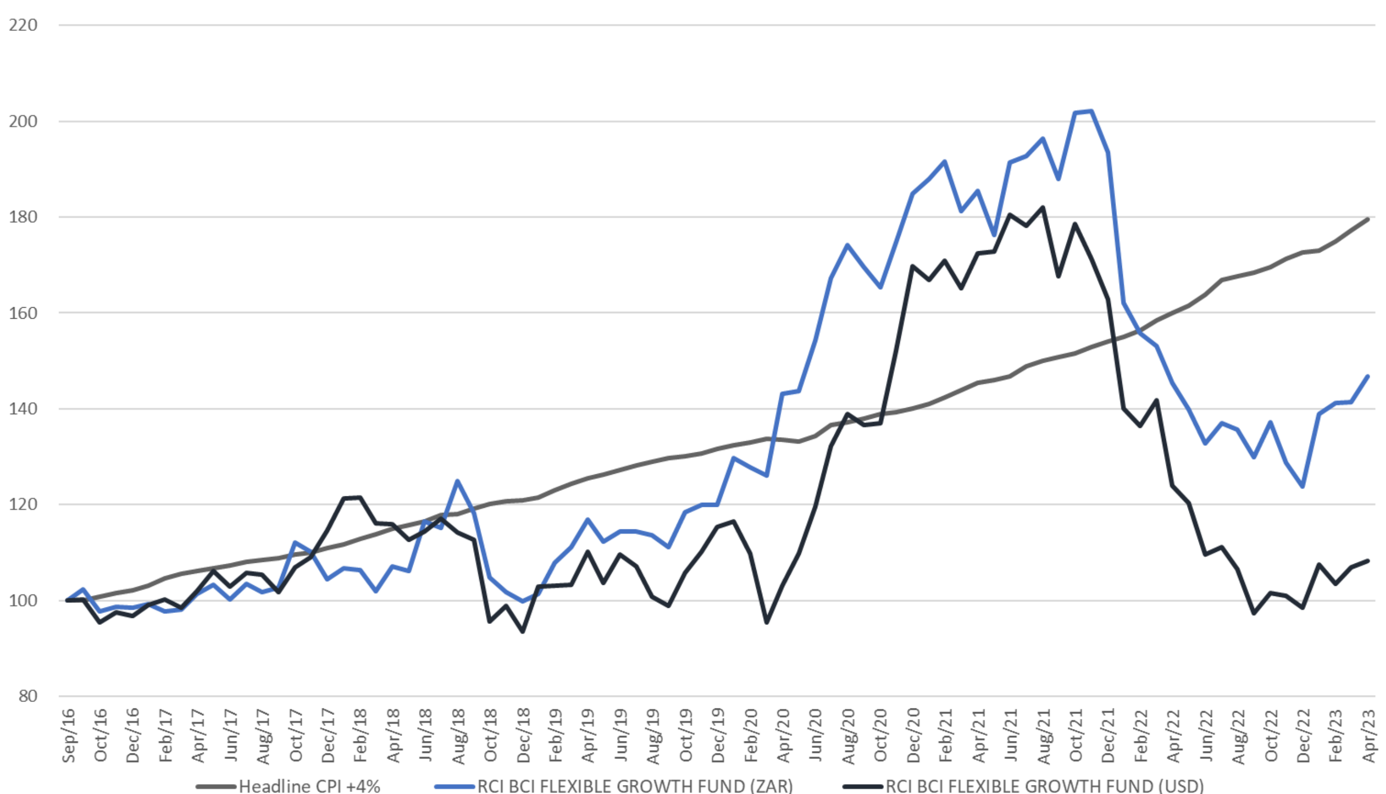
"In the short run, the market is a voting machine, but in the long run it is a weighing machine." – Benjamin Graham

RCI BCI Worldwide Flexible Fund closed April at 161.77c, up 5.3%% for the month and up 12.7% for the last 12 months.



RCI BCI Flexible Growth Fund closed April at 141.36c, up 3.9% for the month and up 1.0 % 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 got off to a positive start in 2Q23 (MSCI World +1.8% MoM in April). An important contributory factor to the continued positive momentum in equities was better-than-expected US corporate earnings from the c. 60% of S&P 500 companies that reported their 1Q23 earnings in April. While, in aggregate, reported earnings were slightly lower than 1Q22 (-1.5% YoY), this was still 7% ahead of expectation. At a stock level, it was notable that the rally continued to be led by the big tech counters, whose reliable cash generation now appears in demand from investors, in contrast to 2022 during which these stocks spent much of the time fighting for the wooden spoon. The degree to which this small group of large capitalisation tech stocks, that have a disproportionate influence on the overall index result, have driven performance is clearly evident when one compares the performance of the official S&P 500 Index (+1.5% MoM in April; +8.6% YTD in 2023) to the version of the index where each of the 500 companies that make up the index is weighted equally (+0.2% MoM in April; +2.7% YTD in 2023). Emerging Markets were dragged lower by Chinese stocks (MSCI EM -1.1% MoM), with larger Chinese tech shares notably weak (Tencent -11% MoM, for example). The rather underwhelming performance of Chinese equities in the last few months comes in stark contrast to what has been a consensus view that Chinese equities were set for a strong year, as China emerged from its COVID lockdown.

South African equities, at an index level, had a strong April (FTSE/JSE Capped SWIX +3.4%). Under the bonnet so-to-speak, it was clear that this was driven to a large extent by miners exposed to precious metals – a 2nd month of strong outperformance for gold mining shares (+17% MoM), as well as platinum miners (+12% MoM). Outside of these bright spots, SA equity performance was decidedly patchy. Defensive sectors (tobacco and healthcare) were favoured, while SA-focused shares remained on the back foot in the face of ongoing loadshedding concerns as the SA winter looms and lacklustre macro data released during the month.

At the end of April, the top 15 holdings in the fund, making up 65% of the equity exposure, were as follows:

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

Main changes in the month

In our view, SA equities appear to be in a tricky phase, with valuations in many areas appearing attractive but facing a potentially challenging operating environment ahead. Thus, we are sensitive to the risk of excessive trading in the absence of clear themes. During April, we added a small amount of gold exposure, spread across **Harmony**, **Goldfields** and **AngloGold**. We acknowledge that, while these companies do not conform to our quality criteria, the short-term set-up (developed market [DM] banking jitters, the prospect of US dollar weakness and declining interest rates) should continue to support gold for the time being. We remain defensively positioned with a bias towards rand hedge shares and companies less operationally exposed to SA.

Performance

The Anchor BCI SA Equity Fund rose 1.3% in April. While pleasing that it was a positive performance, it was a tough month for the fund relative to the SA equity market. Our avoidance of exposure to gold miners in particular on quality grounds means that this is to be expected during brief periods such as this when these shares move materially. There is no doubt a sense of FOMO at the moment, but our strategy, focusing on quality compounders for the long-term remains.

The Anchor BCI SA Equity team

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

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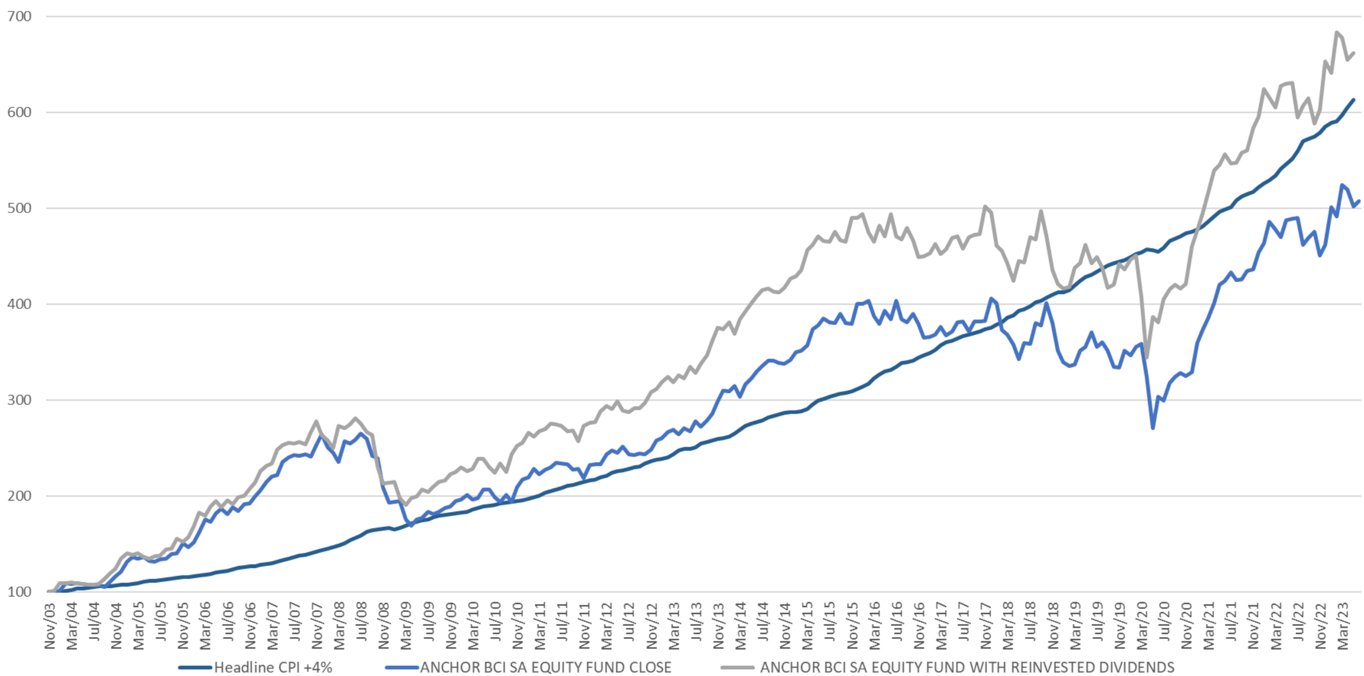
WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

BY THE ANCHOR BCI SA EQUITY INVESTMENT TEAM (CONTINUED)

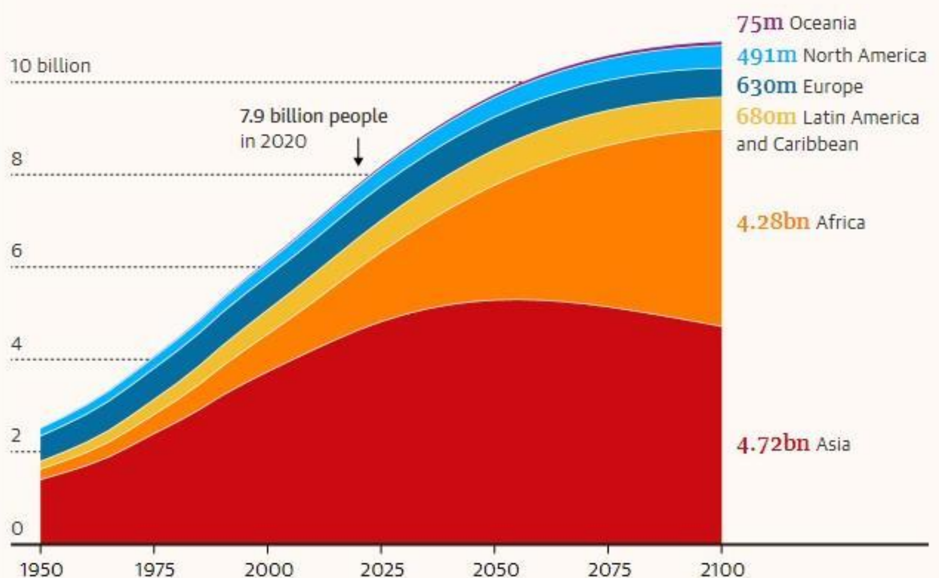
The Anchor BCI SA Equity Fund closed April at 113.85c, up 1.2% for the month and up 3.74% for the last 12 months.



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.

The populations of more than half of Africa's 54 nations will double – or more – by 2050, the product of sustained high fertility and improving mortality rates. The continent will then be home to at least 25% of the world's population, compared with less than 10% in 1950. Expansion on this scale is unprecedented: whereas the population of Asia will have multiplied by a factor of four in this timeframe, Africa's will have risen tenfold.



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THE GLOBAL BIRTH RATE CRISIS: FALLING BIRTH RATES AND THEIR ECONOMIC IMPACT

James Pomeray, Global Economist at HSBC recently posted some interesting thoughts on the declining global birth rates. It is interesting to note the stark contrast that Africa and much of Asia are experiencing/set to experience relative to the rest of the world.

Birth rates are a big deal in economics, even if they don't get as much attention as things like inflation or GDP. They help determine the size and shape of future populations. Unfortunately, birth rates are dropping across most of the world, and quickly at that.

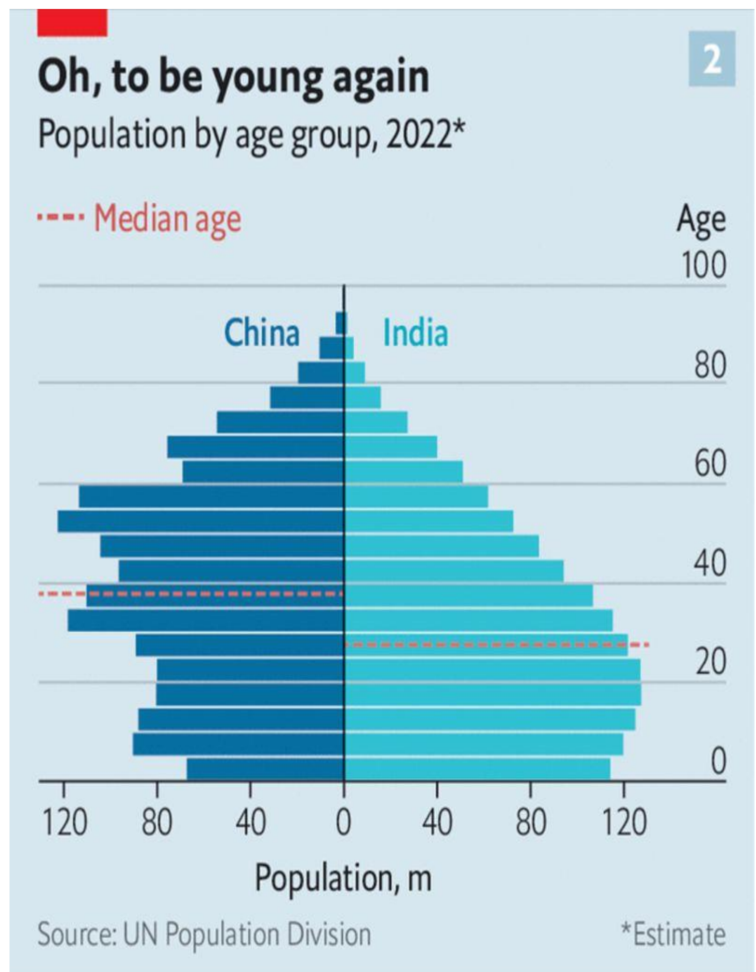
There are a few reasons for this. One of the big ones is that it's really expensive to live these days, especially for younger people. Homes are pricey, as is childcare, so there are major financial obstacles to starting a family. People are also getting married later and waiting longer to have children, in part because more women are working now and also because they want to enjoy life together before taking on the responsibilities of parenthood. Plus, climate change is a concern for many young people who worry about bringing kids into an uncertain world.

In 2022, there was hope that birth rates would bounce back a bit as some people who put off having kids during the pandemic started to conceive. But the numbers that have come in so far show that birth rates have actually fallen even further. In Korea, the fertility rate hit a record low of 0.78 children per woman in 2022. If things don't change, their population could drop by as much as 60-70% over this generation.

On the one hand, a lower population could be good news for the planet because it means less pressure on its resources. But on the other hand, it could mean fewer taxpayers in the future to support healthcare and pensions for an ageing population. Governments are trying to figure out what to do about it and are starting to implement policies to make it easier for people to start families. We'll have to wait and see what happens next.

"In many ways, India looks like China did 30 years ago."

Switching back to actual population growth, India has recently overtaken China as the world's most populous country, with a median age of 28 years old compared to China's 40. The shift is significant because India's expanding working-age population, with 610 million people under age 25, will fuel the country's economic growth, much like China's did 30 years ago. The younger population means there are relatively few older people to care for, which is a different scenario than China's aging population. India's demographics offer a unique opportunity for economic expansion, as there will be a large and productive workforce driving the country's growth. Demographics is considered to be destiny, and the United Nations projection that India is now the most populous country is a monumental shift in global demographics.



Source: The Economist

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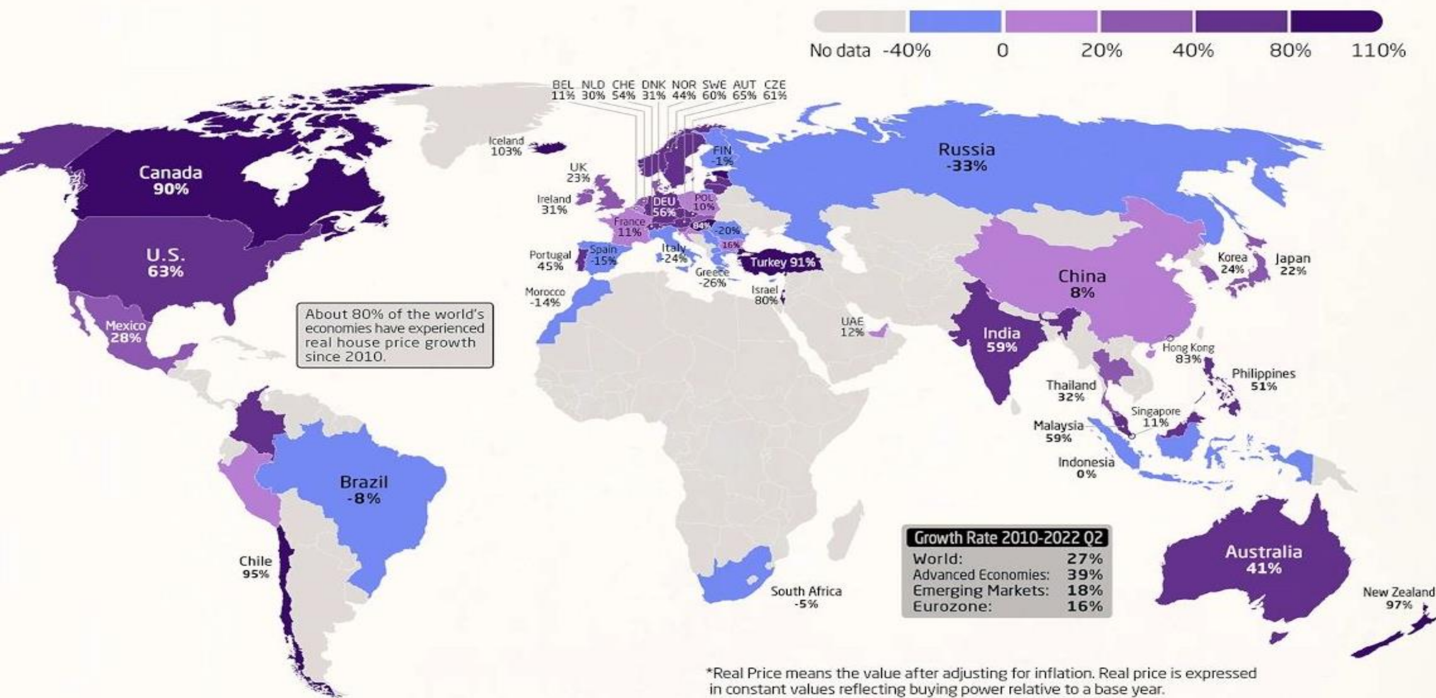
HOW GLOBAL HOUSING PRICES HAVE CHANGED SINCE 2010

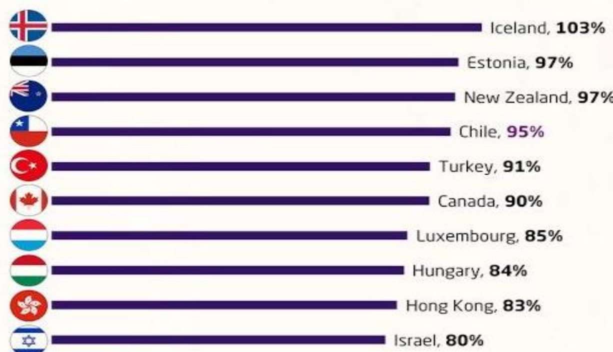
HOUSE PRICES

Growth around the world in the period from 2010 to 2022 Q2

Real Prices* Growth



Top 10 Countries with Highest Growth



House Prices Index (2010 = 100)

In many countries around the world, it seems as if house prices have been constantly climbing. Houses fulfil a rare mix of necessity, utility, sentimentality, and for many, also act as a primary investment to build wealth. And it’s that last angle, combined with increasing demand in many countries, that is driving housing prices skyward. Those countries in dark purple above have seen the largest increase in value over the last 12 years. In the dataset of 57 countries, 80% have seen increases in real housing prices. Leading the group is Iceland which has seen its local real housing prices more than double. Real prices assess the value of a good after adjusting for inflation.

Amongst Emerging Markets, Chile (95%), Turkey (91%), India (59%) and Malaysia (59%) have seen their real house prices increase by more than 50%. Markets recording a positive but more moderate (less than 20%) real rise in property values in this period include France, Belgium, Croatia, China and Singapore. Russia (-33%), Greece (-26%) and Italy (-24%) saw the largest contractions. The housing prices of Iceland, New Zealand, and Canada suggest potential housing bubbles, but bubbles are usually only identified after they have burst. There are various reasons for housing price growth, such as macroeconomic factors, demographic changes, credit conditions, and supply and demand imbalances. As much of the world exits a decade-plus of ultra-low interest rates and mortgage rates adjust (in some cases with a lag due to lower rates fixed for a period), the impact on affordability is likely to become a significant headwind to the real growth that many have perhaps begun to take for granted.

We aim to be the best family office in South Africa.

Thank you for being our clients.

Di, Mike & The RCI Team

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