ROBERT COWEN INVESTMENTS

NEWSLETTER – END JULY 2023

18 August 2023

HIGHLIGHTS OF THIS NEWSLETTER ARE:

- Summary of Anchor's quarterly 'The Navigator' document
  - *Really informative updates on how we are thinking about:*
    - *The 12-month outlook for major local and global asset classes*
    - *Chinese & US influence in Africa*
    - *The role of hedge funds in portfolio management*
    - *The ability of Structured products to improve long-term investment outcomes*
    - *How SA's greylisting will impact trusts and accountable institutions*

- 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*

- US tech heavyweights and long-term rand depreciation

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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28 February 2023 Tax Certificates

The 2023 tax certificates have been sent to clients and tax practitioners via email on the 18th and 19th July 2023. The email would be received from Kirsty Lucas (kirsty@rcinv.co.za) with the subject line "Tax Certificates 28 February 2023".
Whilst care has been taken to check, on a sample basis, the contents of the reports, we do ask that you check the detail that was provided.
If you have any queries or identify any missing reports, please don't hesitate to contact us.

Please take note of the dates below for filing the 2023 income tax returns - these dates distinguish between non-provisional taxpayers and provisional taxpayers.

Income tax return filing dates

Here are the dates and criteria for the 2023 Filing Season:

- Individual taxpayers (non-provisional): **7 July 2023 @ 20:00 to 23 October 2023**
- Provisional taxpayers: **7 July 2023 @ 20:00 to 24 January 2024**

2024 1st Provisional Tax – due to SARS on or before 31 August 2023
A reminder to clients who are provisional taxpayers that the 2024 1st provisional tax is due **before 31 August 2023**.
If you or your tax practitioner require a report for purposes of calculating your provisional tax, please contact your portfolio manager to request this information or send an email request to Aarthi Bikram (aarthi@rcinv.co.za) and we will arrange to provide you with the detail.
This information will not be sent out automatically but will be provided upon request.

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THE NAVIGATOR

STRATEGY AND ASSET ALLOCATION REPORT
3RD 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 the four articles from the 'Anchor Insights' section.

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

In the past two decades, there has always been a good reason not to invest. Looming risks that cause market discomfort often emerge. These potential threats, frequently discussed by both media and markets, seldom materialize. Recent concerns, including loadshedding risks, US debt default, China-Taiwan tensions, and a Chinese property bubble burst, did not manifest, emphasizing that apprehensions shouldn't deter investment. Experience has taught us that those who start investing earlier and have the confidence to stand by their investment strategy over time have better returns. While periodically measuring your progress against your investment plan and making asset allocation shifts are valuable, investing requires patience and strategic planning for long-term gains. Our asset allocation views have remained relatively stable from the second quarter, as we anticipate that we are near the end of the rate-hiking cycle. Typically, this would mean leaning slightly more into risk, although investors need to be careful as certain pockets of equity look rather fully priced. We think that bonds, both globally and domestically, have some appeal. Overall, we retain our view that a sensibly balanced investment portfolio is the way to go. As risk factors seem to be dissipating, we believe that now is the time to upweight your investments. We are however obviously keeping a close eye on the US and SA elections in 2024 but note that it is relatively unlikely that the outcome in each election will have a sustained impact on the markets.

Asset allocation summary

Our return expectations for the various asset classes have not shifted much. By and large, the changes reflect that asset prices have fluctuated a bit over the last quarter while our economic expectations have not. From a total return perspective, equity is the most attractive asset class though downside risks remain, and certain prices feel lofty. Global bonds and global cash have become increasingly compelling. Perhaps the most significant change since our previous edition is that the range of expectations for all asset classes continues to narrow, reflecting that confidence is returning as we progress through this part of the economic cycle.

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

	Global equity	Global bonds	Global property
Anchor expected return (in US dollar)	7%	6%	5%

Note that the 7% return in the USD/ZAR below is a forecasted **strengthening** of the rand against the dollar over the next 12 months.

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

	Domestic equity	Domestic bonds	Domestic property	US$/rand
Anchor expected return (in rand)	12%	11%	8%	7%

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STRATEGY AND ASSET ALLOCATION

Economics

In recent weeks, global financial markets have been preoccupied with a significant re-evaluation of expectations for 'terminal rates', which represent the anticipated peak level of interest rates before central banks start to lower them. Whilst headline inflation rates appear to be firmly on a downward path in most major economies, central banks across the globe remain as hawkish as ever.

The Bank of England (BoE) surprised the market by implementing larger-than-anticipated increases in its key lending rate, elevating it to 5.25%—a level last observed in April 2008. This was in response to an inflationary surge, which has since moderated from over 10% in January to 6% currently. Although the BoE did not explicitly hint at further rate hikes, it refrained from signalling an end to the current cycle.

June and July also witnessed a series of 25 bps rate hikes by developed market central banks, including the Swiss National Bank, the European Central Bank (ECB), the Reserve Bank of Australia, the Bank of Canada and the US Federal Reserve (Fed). Fed Chair Jerome Powell's testimony before Congress confirmed the Fed's intent to pursue additional rate hikes this year in order to bring inflation back to the 2% target. This suggests that the advanced economies' rate-hiking cycle is not yet concluded.

Interestingly, China's monetary policy diverges from the hawkish trend seen in the West. The People's Bank of China took an unprecedented step by reducing its primary benchmark lending rates after a ten-month hiatus, aiming to stimulate growth in the world's second-largest economy.

The attempted coup in Russia has raised questions about President Putin's grip on power, potentially paving the way for internal challenges to his administration. These developments placed heightened emphasis on SA's relationship with Russia ahead of the upcoming BRICS Summit in Johannesburg, particularly given the International Criminal Court's warrant against Putin.

Global interest rate trends continue to guide the SARB's decisions. The SARB raised rates in ten consecutive meetings from November 2021 to May 2023 and, despite keeping rates at 8.25% in July, their stance remains hawkish. While SA narrowly evaded a Q1 2023 recession, economic growth remains weak, constrained by loadshedding challenges, interest rate increases and political uncertainty. Short-term growth prospects appear lacklustre due to persistent electricity issues and strained household incomes from elevated interest rates, contributing to stagflation. But hopes rest on increased private-sector electricity generation and moderating inflation.

SA Equities

For the year to 15 August, the JSE has risen 3.5%. However, in US dollars, it's down 8.5% over this period, significantly lagging the MSCI World Index so far this year. For SA equity investors, the 1st half od 2023 was a tricky and frustrating period. A weak consumer, persistent loadshedding and continued policy uncertainty collectively cast a long shadow over domestically orientated companies, while China's underwhelming economic recovery from its COVID lockdowns, together with a broad consensus of recession ahead for developed markets, weighed on SA's listed miners. Our 12-month return projection for SA equities from current levels is a respectable 12%. This recognises the potential for domestically orientated companies' earnings to rebound off depressed levels as loadshedding becomes a less binding constraint and a more positive consumer environments as domestic interest rates begin to decline. Many SA listed companies would also benefit from any increased urgency regarding policy stimulus in China. Acknowledging that there remains a fair amount of risk surrounding whether these developments materialise, on a risk-adjusted basis, we think local fixed income screens more attractively for the time being.

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The Family Office

Domestic Bonds

In the second quarter, SA Government Bonds (SAGBs) returned negative 1.53%, following a positive 3.42% performance in 1Q23. Yields across the curve increased, making domestic bonds more appealing as we look forward. Globally and locally, controlling inflation remains a priority, prompting central banks to raise rates even with lower growth, as seen in SA. With two SARB meetings left this year, forward rate agreements (FRAs) predict one more rate hike for 2023, reaching a peak by year-end.

Interest rate hikes, coupled with persistent loadshedding and geo-political tensions, have led the SARB to lower its 2023 growth projection for SA to a mere 0.2%. We are optimistic that reduced loadshedding should exert deflationary pressure going forward.

We are cautiously optimistic about the outlook for SA fixed income from here, particularly with nominal bonds at several points along the curve yielding materially over 11%. However, these prospects are tempered by political risks, including the impending 2024 national election, likely to be a pivotal moment in SA's democratic history. This warrants some caution on duration, with a preference for the belly of the SAGB curve.

The Rand

In the first half of 2023, the rand weakened due to risk aversion, domestic economic and political challenges. Looking ahead, and against a US dollar with strengthened against most currencies. It is anticipated that the rand will likely trade between R18.25 and R19.00 against the US dollar for the next quarter.

Indicators for the rand's fair value are continuing to turn negative, as the boost from high commodity export prices diminishes, and concerns about South Africa's fiscal situation rise. While negative sentiment may persist in the short term, a recovery is projected for the rand in the coming year, influenced by a gradually more supportive global environment.

Given the global context, the rand begins weaker than its modelled fair-value range. As the US rate-hiking cycle is expected to peak toward the end of the year, the US dollar's strength could diminish, resulting in currency normalization. While a complete recovery isn't anticipated, the rand could potentially trade within the R17.00 to R18.00 range against the US dollar in a year, with a projection of R17.50 for this report. Volatility is expected to persist, making surprises likely in the upcoming year.

Global Equities

The first half of 2023 saw a surprisingly strong performance from global equities, with a 16% rise in the MSCI World Index in US dollar terms, surpassing even the most optimistic 12-month forecasts for the year. However, this progress follows the significant market decline of 2022, and the recent rise has merely returned the market to levels of two years ago. Despite the strong start to 2023, we expect a positive real return from global equities in the next year, projecting a 7% USD return. Some volatility is anticipated given that valuations are now at a level likely to be less forgiving of any bad news.

The dominant force behind the market has been the enthusiasm surrounding artificial intelligence (AI). Microsoft's unveiling of ChatGPT spurred rival companies to showcase their AI progress, leading to a surge in global IT capex towards AI. Nvidia's AI-processing H100 graphics processing unit (GPU) became highly sought-after, resulting in a surge of orders. The top 10 "AI stocks," including Nvidia, Microsoft, Meta, Apple, and Alphabet, collectively rose by 60%, driving much of the gains in the S&P 500.

While the index level appears strong, significant potential for catch-up remains for the rest of the market. Rising global bond yields and persistent inflation, along with the likelihood of more interest rate hikes by the US Fed, pose risks to the economy. Valuations at the index level in global developed markets appear high, with the MSCI World's forward P/E at 17x. However, the "AI cohort" is elevating this valuation, with the rest of the index showing a less pronounced increase. Earnings are a crucial determinant, and though some companies were negatively impacted by higher rates, those able to pass on inflation pressures have thrived. While 2023 US earnings growth is projected to decline by 2%, double-digit US dollar earnings growth is expected to resume in

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2024 and beyond.

Emerging markets have faced challenges in 2023 due to the underwhelming Chinese recovery. However, EM valuations are attractive, and a sentiment shift could lead to outperformance in the second half of the year. The potential in Chinese AI shares remains noteworthy, despite their differing reaction to the evolving AI landscape.

Global Bonds

Global bond yields, especially short-term ones, remain elevated due to efforts by major central banks to control heightened inflation in developed markets. The direction of rates hinges on two key questions: how quickly inflation will normalize and how much economic damage the Fed's fight against inflation will cause. Disagreements exist, with derivative markets suggesting rapid inflation reduction, while most Fed members believe it's premature to declare victory. The extent of caution by the Fed will influence economic consequences in the coming months. Long-term bond rates are tied to growth expectations, and a substantial economic downturn would be necessary for significant drops in long-term yields. Moderate inflation could alleviate concerns of a sustained higher inflation environment, reducing pressure on the Fed and leading to lower short-term and slightly lower long-term rates. This outlook could position US 10-year bond yields around 3.5%-4% within a year, resulting in a 5.5% total return for investors. As such, we have been increasing our exposure to US fixed income across suited client accounts.

US investment-grade corporate bonds initially rebounded after a mini-crisis but have resumed low default probability pricing. Despite this complacency, the potential for higher credit spreads seems likely due to increased interest burdens and corporate debt. Despite these challenges, slightly lower rates and above-average yields present the possibility of a 5.5% total return for investment-grade corporate bond investors over the next year.

ANCHOR INSIGHTS

A Clash of Titans: Unravelling Africa's Geopolitical Chessboard – the US vs China *by Casey Delport*

The global geopolitical landscape has experienced significant changes since the Cold War's end, shifting from a bipolar world order led by the US and the Soviet Union to a more multilateral approach. This transformation has led to the rise of multilateral institutions and frameworks such as the UN and WTO. The post-Cold War era has seen accelerated globalization marked by the free movement of goods, capital, and information across borders, driven by technological advancements. While the US remains a dominant economic force, the rise of emerging economies has led to a rebalancing of global economic influence. China, India, Brazil, and other EMs have emerged as significant players in the global economy, reshaping trade patterns and investments.

The rivalry between the US and China has led to debates about whether a new "Cold War" is emerging. This rivalry has implications beyond their bilateral relationship and affects global economic dynamics. Africa holds a crucial role in this rivalry, as both superpowers vie for influence and economic benefits. The continent's vast resources, growing markets, and strategic importance attract both countries' attention.

China's deepening ties with African countries involve extensive diplomatic visits, development aid, and military cooperation. The US is focusing on counterterrorism, governance, and security cooperation. Both powers view Africa as essential for economic and geopolitical reasons, given its rich resources and energy potential. China's demand for energy resources drives investments in African oil and gas sectors.

The US, however, has begun this competitive scramble for resources and political relevance on the back foot. After a period of relative diplomatic retreat since the 2008/2009 global financial crisis, the US has lost its sway in the African continent. The US's withdrawal from Africa in the last decade has, in turn, allowed China to expand its hold on Africa. In 2011, China overtook the US as a major African export partner, placing the US in the position to play a significant catch-up. Chinese foreign direct investment into Africa has significantly outpaced the US in the past 10 years. China's approach of cooperation and equal partnership resonates with

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African countries, which have a history of unequal engagement with Western powers. However, concerns about debt sustainability and dependency on Chinese financing have arisen due to the lack of transparency and potentially unfavourable conditions in Chinese loans.

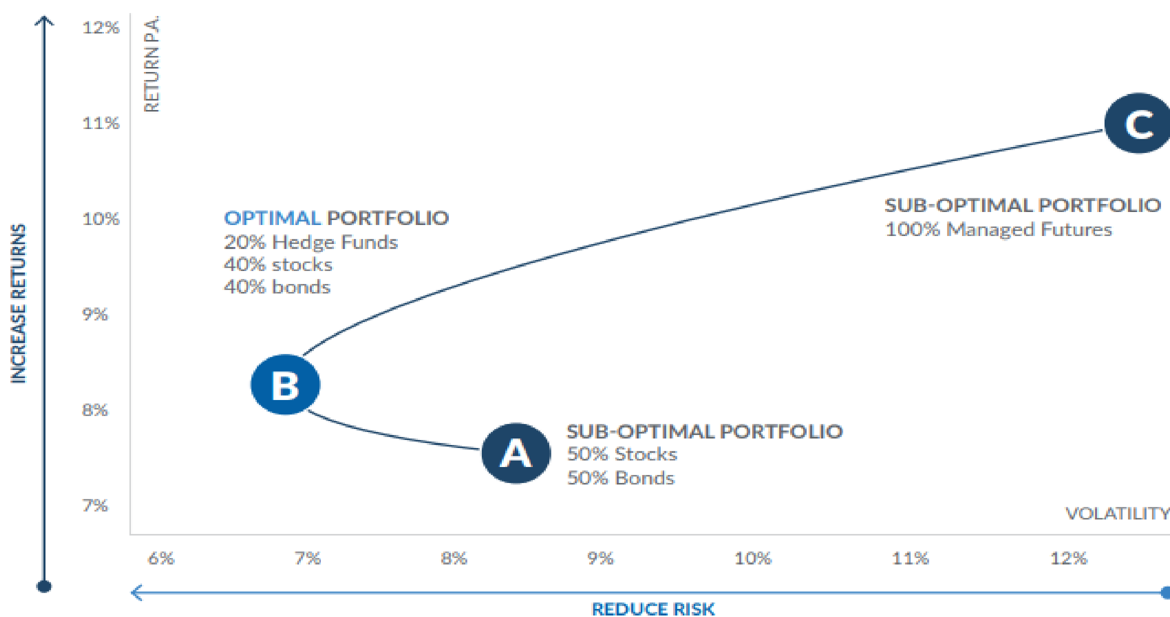
African nations possess agency in managing the US-China rivalry and should aim to maximize their interests by engaging with both powers. African countries represent the largest voting block of UN member states, with more than one-quarter of the world's voice. No geopolitical power can credibly claim the title of global leader without Africa as a 'friend'. While the superpowers compete for influence on the continent, African nations can leverage this rivalry to promote their economic growth and development. It is essential for African countries to balance infrastructure development with other social and economic priorities, diversify partnerships, and navigate the complexities of this intriguing geopolitical contest.

Optimising your portfolio with hedge funds *by Henry Biddlecombe*

To counter the effects of inflation and grow wealth effectively, one must be willing to undertake some level of risk. The appropriate amount of risk depends on individual investment goals, but finding the right balance can significantly impact long-term investment outcomes. After determining the suitable level of risk for a portfolio, the next crucial step is to maximize potential returns while staying within the defined "risk budget." It's emphasized that taking on additional risk should only be worthwhile if it leads to higher returns. Conversely, the aim should be to achieve a desired return while minimizing risk.

Modern investment theory is depicted using the concept of the "efficient frontier," which graphs portfolio returns against portfolio risk. The theory suggests that an optimal portfolio can be found by examining a graph such as the one below. The "optimum portfolio" (Portfolio B) is illustrated as earning the highest return per unit of risk when compared to a classic mix of stocks and bonds (Portfolio A).

Figure 1: Using hedge funds to construct the most risk-efficient portfolio
Source: Bloomberg



Hedge funds or similar alternative investments can be vital in portfolio construction, but they are often overlooked despite their potential to enhance risk-adjusted performance. Empirical studies over a 20-year period demonstrate that a modest allocation to hedge funds or alternative investments can significantly reduce portfolio volatility while yielding higher compound returns. The South African equity market's historical performance is used as an example, indicating that hedge funds can capitalize on market volatility to achieve real returns, even in less favourable market conditions.

Hedge funds have historically been underutilized due to perceived complexity and risk. However, hedge funds encompass a wide range of strategies, from low-risk to high-risk, and highlights their ability to both profit from

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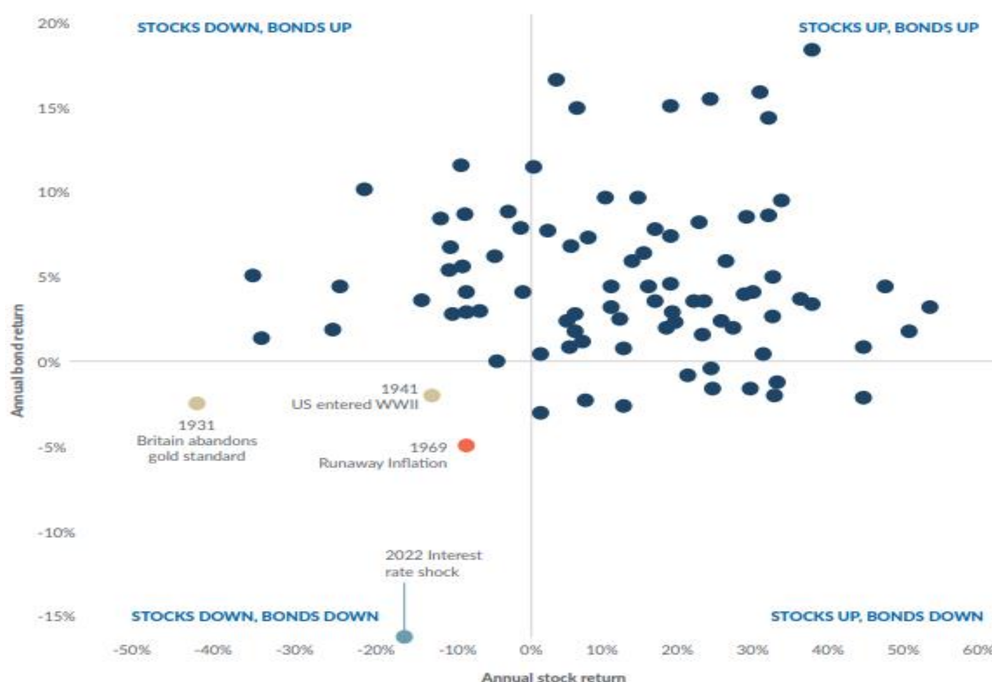
rising and falling markets. Hedge funds also offer a diverse range of instruments and strategies to enhance returns and protect against downside risk.

Manager selection is a key consideration, with the recommendation to diversify across complementary hedge fund managers to mitigate underperformance risks. Investors are encouraged to explore multi-strategy hedge fund solutions with their wealth managers to optimize risk-adjusted portfolio performance.

The Demise of the 60/40 Portfolio? *by Shaun de Villiers*

Similar to hedge funds, structured products can play an important role in managing market volatility and enhancing returns in investment portfolios. Wealth managers are entrusted with the task of achieving clients' investment goals, and while market growth isn't always linear, volatility is a factor that can evoke strong emotions in investors that result in actions being taken that diminish long-term returns. Structured products, while not meant to replace equity allocations, can be used to complement portfolios and stabilize returns.

To navigate the impact of market uncertainty and mitigate potential losses due to volatility, diversification should be aligned with long-term investment objectives. Traditional portfolios, like the 60/40 allocation of equities and bonds, aim for capital appreciation and risk reduction. However, conventional wisdom that bonds and equities always counterbalance each other isn't always accurate, as evidenced by the market turbulence of 2022. Just how much of an outlier last year was is shown below.



Alternative investments offer a solution to generate returns in unconventional economic environments. A report by the Goldman Sachs Family Office Initiative indicates that the 166 family offices interviewed are allocating an average of 44% to alternative assets. These encompass various forms, including private equity, venture capital, hedge funds, and structured products. Structured products, in particular, stand out as they offer predefined outcomes and capital protection, but this is not without some level of risk. It is worth noting that 72% of these family offices managed assets of over $1 billion. This indicates that the larger the pool of capital available, the higher the propensity to allocate to alternative assets.

Structured products are a hybrid between equity-linked deposits and fixed deposit savings accounts. They use traditional securities and replace typical payment features with non-traditional payoffs tied to underlying asset performance. These products can deliver predetermined returns even in flat or declining markets, offering a way to secure capital while benefiting from market-linked returns. The important factors to consider when selecting structured products include the reference asset, investment term, pre-defined returns, and level of capital protection.

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Capital protection features in structured products can be broken down into two main categories: hard capital protection and soft capital protection. The pre-defined return outcomes for structured products are split into fixed return outcomes and variable return outcomes.

The timing of structured product effectiveness is another key consideration, as most asset classes have an environment that is most conducive to their optimal performance. Structured products are generally attractive during times of high uncertainty (volatility) where fixed-returns can be generated in an environment of rising interest rates (an environment that is not good for bonds). That said, they can obviously be tailored to the prevailing market environment. The complexity and liquidity considerations of structured products have previously deterred investors, but they do introduce an innovative solution that can be instrumental in a bespoke actively managed portfolio.

In summary, the asset class aims to provide consistent and predictable returns through a diversified basket of structured products, appealing to investors seeking exposure to equity markets while managing volatility. The potential of structured products in modern portfolio management has led to their increased popularity. We aim to take advantage of the solutions and products now available to us and incorporate them into portfolios to ensure that our clients have the best chance of achieving optimal long-term outcomes.

The impact of SA’s greylisting on trusts *by Di Haiden*

SA’s greylisting by the Financial Action Task Force (FATF) has led to significant changes in the realm of trusts, affecting trustees, beneficiaries, settlors, and those involved in loop structures. The FATF, an international body combatting money laundering and terrorist financing, placed South Africa under increased scrutiny due to deficiencies in its anti-money laundering, counter-terrorism financing, and counter-proliferation financing regulations.

The FATF issued 38 recommendations, many of which directly or indirectly impact trusts. These recommendations involve preventing abuse in non-profit organization trusts, enhancing transparency regarding settlors, trustees, beneficiaries, and protectors, as well as imposing stringent obligations on service providers.

SA was given 18 months to become compliant with the FATF but failed to do so. As a result, new legislation called the General Laws Amendment Act 22 of 2022 was enacted to align the country's regulatory framework with FATF standards. These amendments took effect on 1 April 2023, and have significant implications for trust, company law, and accountable institutions.

For trustees, failure to comply with the new reporting obligations can result in heavy fines, imprisonment, and sanctions imposed by the Master of the High Court. Direct sanctions for a trustee who fails to comply with the new obligations include a fine up to R10 million, imprisonment for up to 5 years or both. Non-compliance also leads to withholding of the SARS Tax Compliance Status TCS PINs affecting personal tax affairs and the individual will not be able to utilize their foreign investment allowances.

To meet the increased rules and regulations set by FATF and the Financial Intelligence Centre (FIC), trustees must adhere to the new rules outlined in the Trust Property Control Act. These rules include disclosing beneficial ownership of trust assets and maintaining updated records. Trustees must lodge records electronically with the Master of the High Court and adhere to reporting requirements.

In conclusion, it is important for trustees and trust service providers to be aware of the challenges brought about by SA’s greylisting and we must know all work more collaboratively to meet the more rigorous obligations imposed by these developments.

If you do have any issues relating to loop structures, companies or trusts where you are either the settlor, trustee, beneficiary or all of the above and are not sure what is required, please contact us to clarify or assist you in any way by contacting Di Haiden at di@rcinv.co.za or Andrew Lawson at andrewl@rcinv.co.za.

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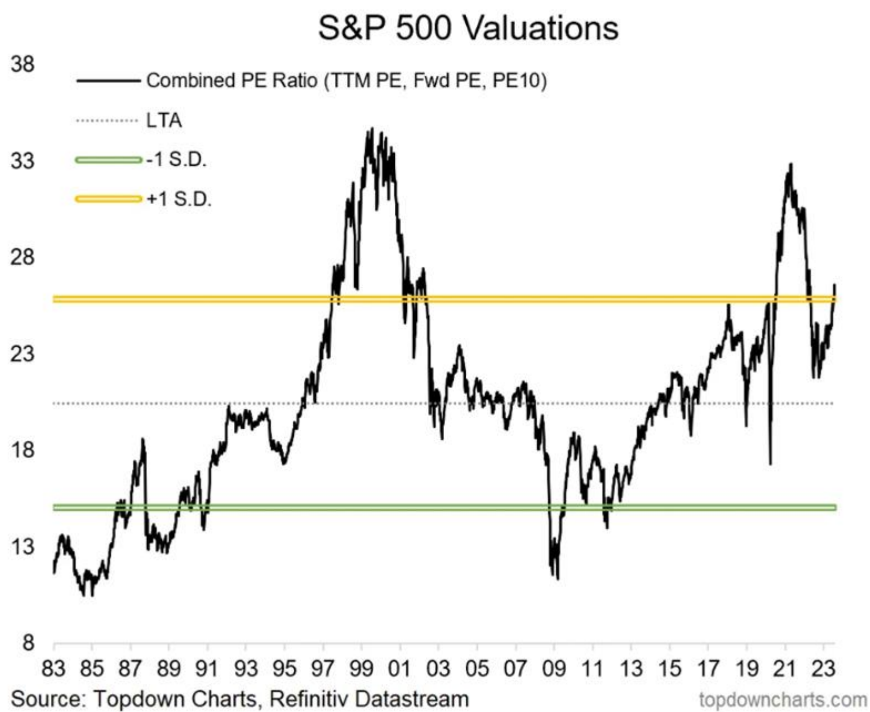
WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

RCI BCI WORLDWIDE FLEXIBLE FUND

July was another strong month for markets as investors become increasingly more confident that the US won't suffer a hard landing economic recession as a result of the Fed's aggressive interest rate hikes. Economically the US appears to be in a decent position with inflation now under control, jobs stable and economic growth remaining positive. Last month we discussed how the S&P 500 performance has been highly concentrated in only a few companies. As a result, these mega cap businesses have become very expensive and consequently caused the S&P 500 valuation to reach stretched territory. Below is the Price-to-Earnings Ratio of the S&P 500 over the last 40 years and only twice has the market been this expensive: During the tech bubble and post COVID19.



The S&P 500 is trading at over one standard deviation above the average which is traditionally expensive territory.

We have started to see this performance overflow into the rest of the S&P 500 and if the tech giants simply hold their valuations this would of course lead to the S&P 500 Index valuation rising even further. The market is a forward-looking mechanism and valuations at this level would imply very optimistic expectations over the next few years. There is now more downside risk if this doesn't come to pass. If we consider that interest rates in the US are the highest in 15 years, it makes the current equity market valuation even more worrying. During COVID 19 interest rates were at all-time lows and hence higher equity valuations could be justified as there were no reasonable alternatives to equities.

Now that interest rates have returned to levels last seen before the financial crisis, investors have more options for investment than equities and hence bond investments have become popular again. Despite this, equities have surprisingly rallied at the same time. Other than looking at the Price-to-Earnings Ratio, this can be measured by analysing the Equity Risk Premium (ERP) of the market. This is the excess return demanded above a risk-free investment like a US Treasury to justify taking on Equity risk. At present the ERP is about 1%, the lowest in decades, implying that investors are happy to accept a small premium for taking on equity like risk. The only reason they would accept this is because the market believes that rates are likely to come down relatively quickly in the coming years and that earnings will grow strongly to bring the valuation back to more reasonable levels. Again, this is likely far too optimistic and hence the S&P 500 is likely too expensive relative to more realistic forward expectations.

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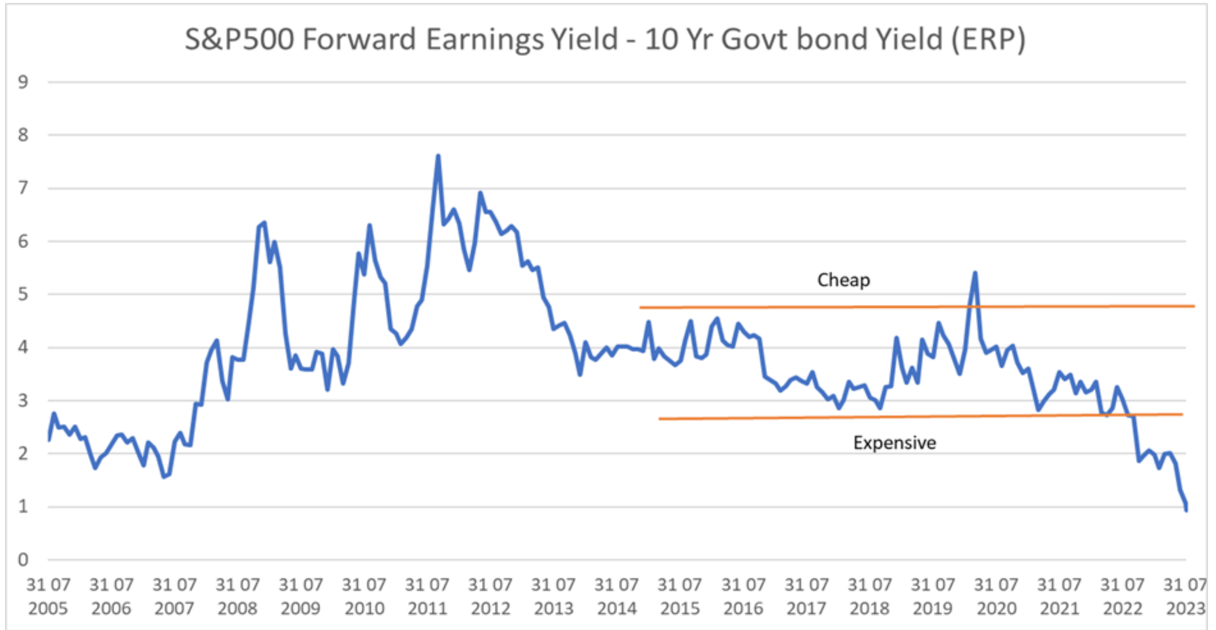
WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONT.)



Source: Anchor Capital and Bloomberg

The following chart shows you the number of times each year that the market closed at an all-time high. It is clear that we have had a fantastic decade up until now and the last time there was a run like this was just prior to the Dot.com bubble. It is likely that if prices rise higher in the short term this will setup another major market pullback on the first sign of any poor news. If anything, we could simply have several years of the market moving sideways as it digests the current high valuation as earnings grow.

S&P 500: Number of All-Time Highs (1929 - 2023)

Year	# ATH	Year	# ATH	Year	# ATH	Year	# ATH	Year	# ATH
1929	45	1948	0	1967	14	1986	31	2005	0
1930	0	1949	0	1968	34	1987	47	2006	0
1931	0	1950	0	1969	0	1988	0	2007	9
1932	0	1951	0	1970	0	1989	13	2008	0
1933	0	1952	0	1971	0	1990	6	2009	0
1934	0	1953	0	1972	32	1991	22	2010	0
1935	0	1954	27	1973	3	1992	18	2011	0
1936	0	1955	49	1974	0	1993	16	2012	0
1937	0	1956	14	1975	0	1994	5	2013	45
1938	0	1957	0	1976	0	1995	77	2014	53
1939	0	1958	24	1977	0	1996	39	2015	10
1940	0	1959	27	1978	0	1997	45	2016	18
1941	0	1960	0	1979	0	1998	47	2017	62
1942	0	1961	53	1980	24	1999	35	2018	19
1943	0	1962	0	1981	0	2000	4	2019	36
1944	0	1963	12	1982	2	2001	0	2020	33
1945	0	1964	65	1983	30	2002	0	2021	70
1946	0	1965	37	1984	0	2003	0	2022	1
1947	0	1966	9	1985	43	2004	0	2023	0

Source: Charlie Bilello and Y Charts

It is clear that US equites on an index level do not appear very attractive and we would argue that passive investing is not attractive at this time. However, there are still many large and mid-sized businesses that are trading at fair valuations that are presenting opportunities for active investors such as ourselves. Hence, we have taken profits in several of our largest businesses and switched the proceeds into more interesting alternatives. The rest of the world is screening more attractively than the US but they tend to have their own issues. Europe has demographic headwinds. The UK has very few globally successful businesses that aren't in mining. China has issues around declining demographics and geopolitics surrounding Russia and Taiwan which is leading to clashes with Western

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economies. Emerging markets are typically exporters to the First World and thus would struggle if the above economies were under pressure. But within all these economies there are still high-quality individual investments that fit our investment criteria.

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	20.68	1.12	29%	16%	21%
AMADEUS IT GROUP SA	24.04	1.33	45%	23%	13%
AMAZON.COM INC	41.75	1.02	269%	36%	46%
BOSTON SCIENTIFIC	24.30	2.04	16%	12%	11%
CONSTELLATION SOFTWARE	34.40	1.85	48%	22%	15%
INTUIT INC	31.87	2.28	20%	13%	15%
KWEB CHINA INTERNET ETF					
MICROSOFT CORP	30.12	2.06	5%	14%	15%
MONCLER SPA	26.08	2.06	6%	13%	12%
VISA	24.65	1.75	16%	14%	15%
Median PE	**26.08**				
PEG Ratio (Forward PE/'23-25 Growth in EPS)		**1.85**			
Annual EPS Growth Rate (Median)			**20%**	**14%**	**15%**
S&P500 - FWD PE and EPS Growth	**19.89**		**-2%**	**10%**	**10%**

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&P 500, where analysts expect a slight decline for 2023. Our companies are trading at higher valuations, 26x, versus the S&P 500's 20x, 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 this month

- **Sold Accenture** – The share price performed well the last few months on the back of AI euphoria which we took as an opportunity to sell our position in light of weak growth metrics relative to valuation.

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%	6.9%	0.0%	-3.0%						**27.2%**

For the month, the fund was down 3% in ZAR terms (+3.2% in USD) compared to the MSCI Developed Markets Index which was down 2.1% in ZAR (+4.2% in USD) for the month. The Rand strengthened 6.1% for the month detracting from the performance in ZAR.

For the 2023 year thus far, the fund is up 27.2% in Rands or 21.7% in USD terms, with the rand having weakened 4.5% against the dollar. The MSCI Developed Markets Index is up 22% in Rands or 17% 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.

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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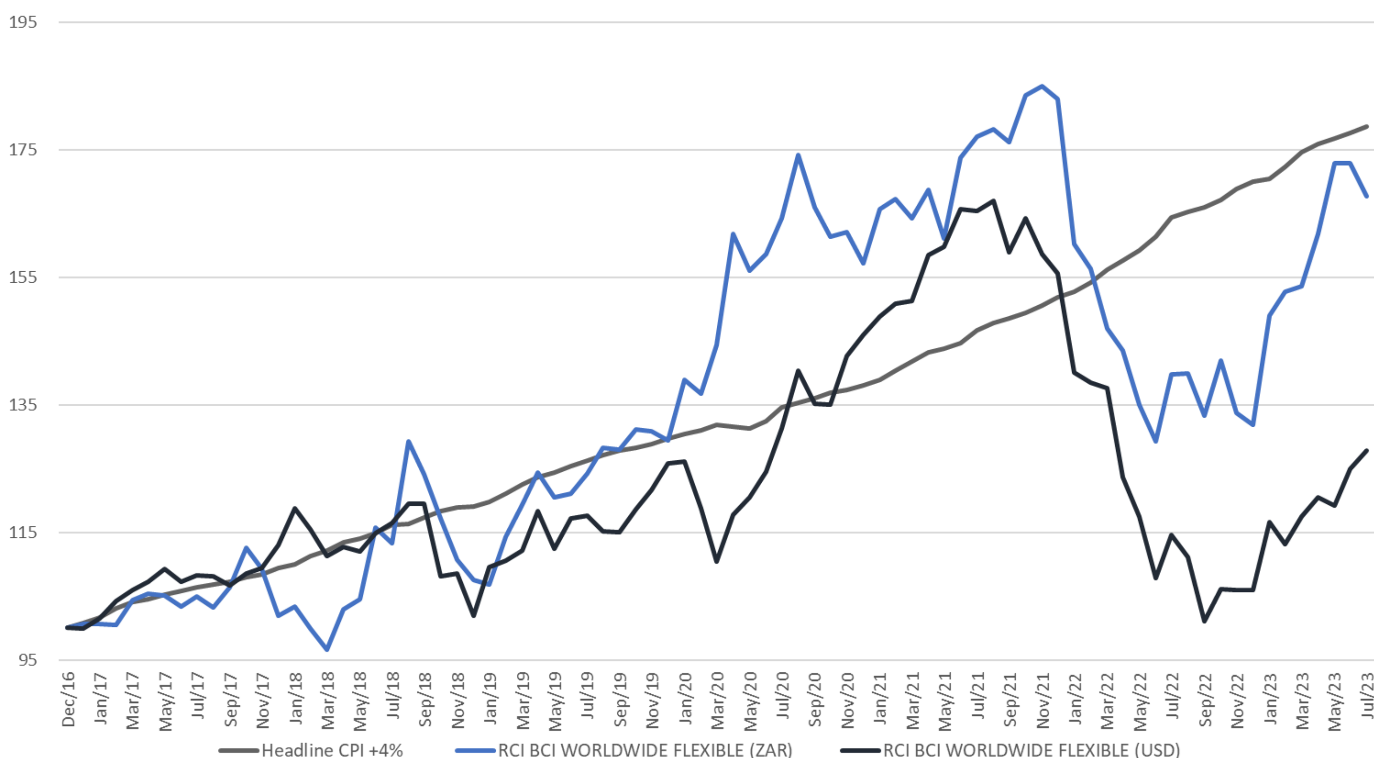
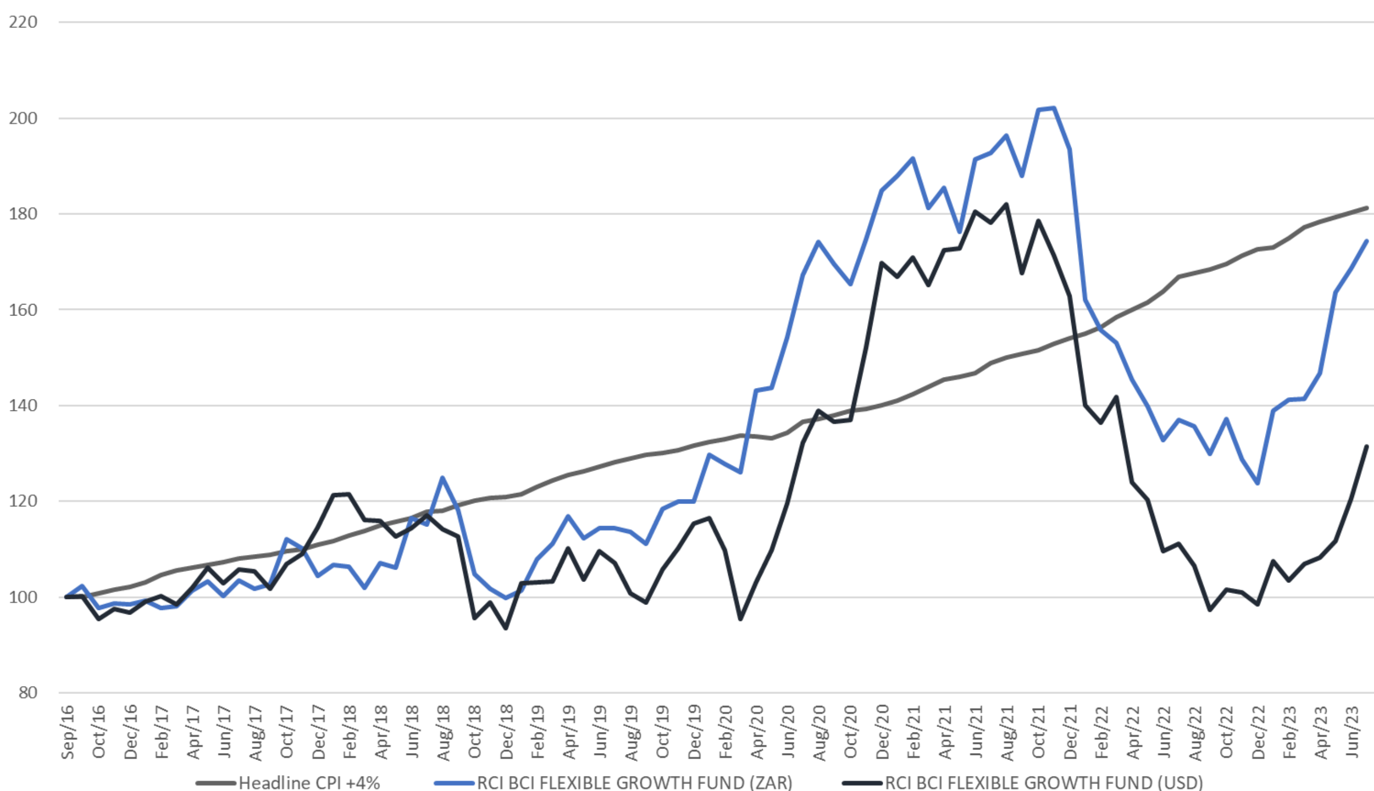
RCI OFFSHORE UNIT TRUSTS

"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 July at 167.70c, down 3.04% for the month and up 19.90% for the last 12 months.



RCI BCI Flexible Growth Fund closed July at 174.43c, up 3.46% for the month and up 27.30% 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 rallied strongly for the 2nd consecutive month in July (MSCI World +3.4% MoM and now 19.4% higher YTD). With over half of S&P 500 companies having reported their latest quarterly results, aggregate earnings were running 6% ahead of expectations, suggesting that the much-anticipated economic slowdown remains elusive. Where much of the strong equity performance of 1H23 has been concentrated in a small group of mega-cap tech companies, it was notable that the rally in July was far more broad-based. Aside from better than feared earnings, a further positive catalyst for markets in July was lower-than-expected inflation which, despite the Fed delivering a further 0.25% rate hike (as expected) during the month, strengthened conviction that the US is close to the end of its rate hiking cycle. Among emerging markets (EM), China was a standout in a generally strong month in which EMs outperformed their DM counterparts (MSCI EM +6.3% MoM). Chinese equities bounced strongly after Chinese Politburo members resolved to introduce a "counter-cyclical" policy and an "adjustment" of restrictions in the property sector as the government seeks to revive economic activity in 2H23. Following the recent softening in economic momentum after the initial post-COVID lock-down bounce, investors now await detail on the proposed policy measures, release of which will likely dictate whether China's recent rally will be sustained.

South African equities rallied in line with global markets in July (FTSE/JSE Capped SWIX +4.1% MoM), its best monthly performance since January. As was the case in June, shares geared to the domestic economy were in demand, discretionary retailers (+13% MoM) and general retailers (10% MoM) leading the way. Banks (+8% MoM) and insurers (+10% MoM) also had a strong month. Generally, higher commodities prices, reacting positively to the Chinese news discussed above, buoyed miners (+3.9% MoM), but a firming rand, which rallied 5.6% against the USD) took some of the shine off this sector as well as proving a headwind to other rand hedge shares.

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 July, the top 15 holdings in the fund, making up 68% of the equity exposure, were as follows:

- Naspers
- Prosus
- Absa
- Bidcorp
- British American Tobacco
- Afrimat
- Standard Bank
- Investec
- Richemont
- Advtech
- Anglo American
- AECI
- Coronation
- Shoprite
- BHP Billiton

Main changes in the month

During July, we made various changes to the fund with two objectives in mind. Firstly, we added to existing positions in **Naspers** and **Anglo American** to better position the fund for improved economic momentum and investor sentiment in China as the Chinese government looks to revive economic activity in 2H23. Secondly, we increased the fund's exposure to selected domestically orientated shares, adding to our **Shoprite** position (as a retail market leader), and initiated positions in **Sanlam** and **Spar**, for which the self-help narrative was buoyed by the announcement of a new CEO and CFO, respectively, in July.

Performance

The Anchor BCI SA Equity Fund delivered another positive month in July, ending 1.02% higher. While the fund benefitted from its exposure to domestically orientated financial shares, the strong recovery in the rand proved a headwind to the for its overweight positioning in companies with predominantly offshore earnings.

The Anchor BCI SA Equity team

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

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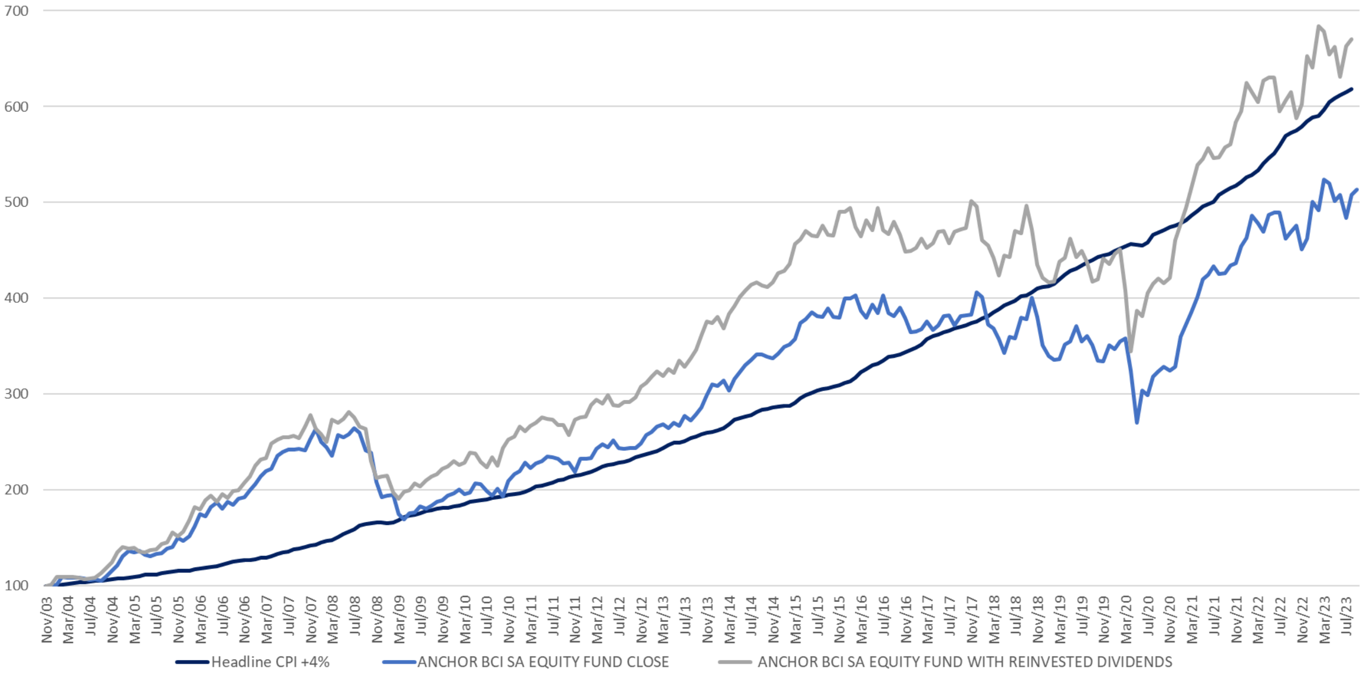
WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

BY THE ANCHOR BCI SA EQUITY INVESTMENT TEAM (CONT.)

The Anchor BCI SA Equity Fund closed July at 115.12, up 1.02% for the month and up 9.44% 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.

Source: Peter Nunes, Barclays

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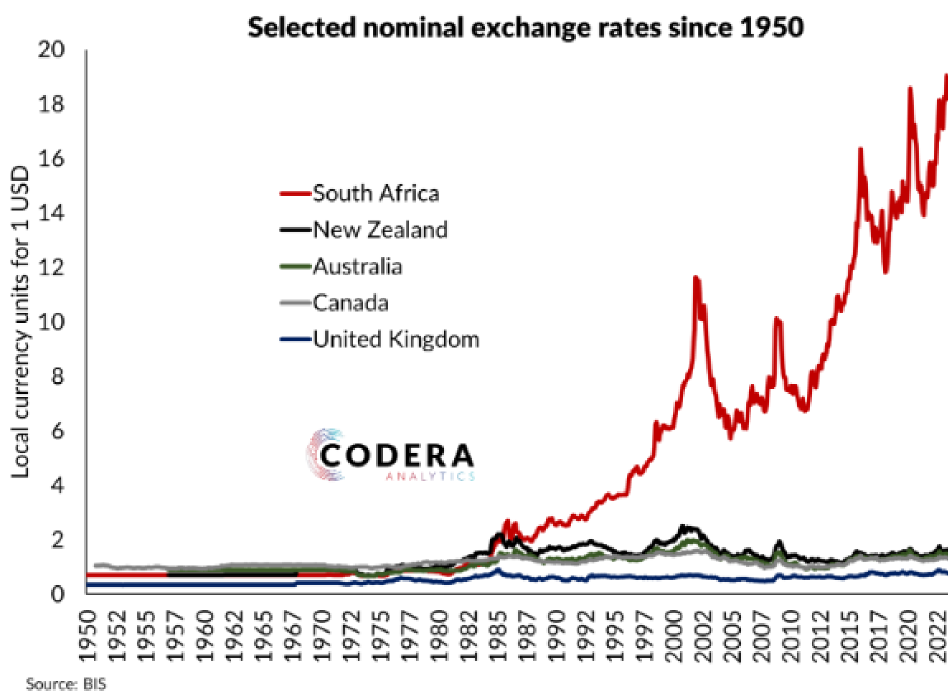
US TECH HEAVYWEGHTS & LONG-TERM RAND DEPRECIATION

Remarkably, the influence of just seven US companies has reached a point where their combined value in the MSCI All Country World Index surpasses the total market capitalizations of major economies such as Japan, France, China, and the UK combined. This concentration of power underscores the dominance of these tech giants and their outsized impact on global equity markets. It also highlights the challenges of market diversification in the face of the growing clout of a handful of mega-corporations.

Source: Refinitiv, Schroders

Before 1982, the rand was worth more than the US dollar. Since then, the rand has depreciated relative to the dollar at an average of over 8% per year. After being triggered by political pressure and sanctions, depreciation gained momentum as a result of a divergence in inflation in South Africa and major economies. The difference between South African and US inflation averaged around 5.5 percentage points since 1982.



Source: Codera Analytics, Daan Steenkap

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