ROBERT COWEN INVESTMENTS

OCTOBER 2023 NEWSLETTER

23 October 2023

The Family Office

HIGHLIGHTS OF THIS NEWSLETTER ARE:

- Lorna Aylward – 25 years and still going strong!
- Tribute to Alan McConnochie - *by Di Haiden*
- The practical implications of South Africa's greylisting for the country's residents – *by Di Haiden*
- Update on what we have been doing in the offshore funds – *by Ross McConnochie*
- Update on what we have been doing in the local fund – *by Mike Gresty*
- History tells us that economic growth is more important for equity market returns than the inflation regime
- The link between the South African and Chinese stock markets is the closest in the world – *by Keiran Witthuhn*
- The oil price and the Israeli-Palestinian conflict – *by Casey Delport*
- New national census – SA population rises 20% to 62 million

Important notice for clients with Nedbank Corporate Saver bank account at RCI

Very important notice for all clients who hold a Nedbank Corporate Saver bank account at RCI. The branch code for all Nedbank Corporate Saver accounts will change with immediate effect **from 720026 to 198765** (universal code) for all deposits and debit orders. Should the universal branch code not be used going forward, these transactions will be unsuccessful.

2023 income tax return filing dates

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**

Please note that we will be **closed for business** from Friday, the 22nd of December 2023 at 13:00 and will reopen again on the 2nd of January 2024, after the public holiday on the 1st of January 2024. We would like to ask you to please ensure that you get hold of your portfolio manager prior to this period for any matters that need to be dealt with. However, In the case of any urgent matters that arise, please do feel free to reach out to us during this period.

If any clients have any **payment requests** or needing additional funds over the festive season, we urge you to submit these before the close of business on the **8th of December 2023**.

LORNA AYLWARD – 25 YEARS AND STILL GOING STRONG!

This month is a landmark month – Lorna Aylward has been with RCI for 25 years!! BUT, that is only the length of time she has been working for us permanently; she has actually been working with Di since 1987 – how is that for a long innings? 36 years! Lorna assumed the role of our bookkeeper all those years ago and has had many additional roles and tasks since then, including ensuring all our investment data is clean and accurate. We know with Lorna in charge that she will be tenacious until the figures are correct; her attention to detail definitely needs special mention. She continues to make a valuable contribution to RCI and hope she will for more years to come. At some point we do know she will retire but it seems once an employee of RCI (on the law of averages), always an employee of RCI! Lorna, we will have you for as long as you want to be with us.

We would like to congratulate her for staying the course and for being part of our RCI team for so long – she has been an integral part in our growth and development and we salute you Lorna! Thank you for your valuable contribution over all the years.

TRIBUTE TO ALAN McCONNNOCHIE

The Family Office

BY DI HAIDEN

It was with immense sadness that we sent our clients a short note on 22 September 2023 to tell you that Al had passed away. We would like to pay tribute to Al and all that he achieved during his lifetime – he was certainly a legend during his sojourn with us.

A BRIEF HISTORY

Education

Al was schooled here in Joburg and matriculated in 1974 from Bryanston High School, having been Deputy Head Boy and achieved an excellent matric. After army service in 1975 he served accounting articles and studied for B. Compt. Hons and passed the board exam in 1980.

Career

Al's background was in investments, having been a stockbroker, share analyst and investment manager for the past 40 years.

During his working career from 1976-2004, Al worked for Nedbank (spent many hours analysing balance sheets) and Ed Hern, Rudolph Inc. (Al built up a 33.33% stake in this stockbroking business and was rated the country's top rated bank and insurance analyst for many years). He was also head of research at Ed Hern and left to list Pennystocks in 1999. Al spent two years as Chairman and CEO of Pennystocks and raised R199million and ran the company until it was bought by a large institution. He then moved to Citibank as an investment analyst in banking shares.

In July 2004 he decided (luckily for all of us) to join RCI. He became a shareholder and director and was instrumental in guiding the investment strategy of the business as well as growing the business into the entity it is today.

In 2015 the shareholders of RCI sold the business to Anchor Capital and Al continued to work until he retired in 2019 due to ill health.

The Man

The above does some justice to the man Al was, but not enough when we consider his life, his work and his family.

He was passionate about his work but even more passionate about his family. He loved Bev, Ross and Cuan more than life itself and spent all his time, when not working, with them. Al and I shared an office for over 13 years and I always remember the hours he would spend on the phone with Ross and Cuan counselling them through school, university and the beginning of their careers. He always had time no matter what the circumstances. Not only his immediate family, but also his extended family (his mother, his siblings and Bev's family and siblings) made up the rich tapestry of all his family connections and he enjoyed the interaction tremendously. Bev was very definitely the apple of Al's eye – he would have walked to the ends of the earth and back for her.

Al and Bev's friends were very important in his life; a number of whom became and still are our clients. Al and Bev have a wide circle of friends with whom they spent time and who were always the last to leave our client functions – that is a legacy to how much they enjoyed spending time with Al.

He loved his sport and spent hours running (particularly around the Zoo and Zoo Lake). Rugby was a game he had played and enjoyed watching and supporting the Bokke. Boating at the Vaal was also a thing and he used to compete in the round the island race regularly and we were regaled with how he had done.

Most of all what I will remember Al for is his passion for life, he lived it to the full, had a lot of fun and made wonderful memories. His fortitude throughout his illness never wavered. One day I said to him, 'Al, you have never complained about what has happened to you which is above incredible.' His response (always the pragmatist) was 'What was was and what is is.' He was so brave in adversity, and as I said in my last note, we all have the greatest respect for him. Rest in peace Al – we love you and will miss you!

THE PRACTICAL IMPLICATIONS OF SOUTH AFRICA'S GREYLISTING FOR THE COUNTRY'S RESIDENTS

BY DI HAIDEN

We start this article with an excerpt from the National Treasury (NT) fact sheet entitled *What does the Financial Action Task Force (FATF) greylisting mean for a country?*

"The FATF does not call for the application of enhanced due diligence measures to be applied to these jurisdictions. The FATF Standards do not envisage de-risking or cutting off entire classes of customers, but call for the application of a risk-based approach. Therefore, the FATF encourages its members and all jurisdictions to take into account the information presented below in their risk analysis."

However, despite the FATF requirement, selected institutions are expected to undertake more enhanced monitoring for their own business reasons or as may be required by their own laws, e.g., the EU's Directive 4 (the EU's Directive on Anti-Money Laundering and Terrorist Financing), which is designed to strengthen its efforts to combat money laundering and terrorist financing. Hence, institutions based in a greylisted country engaging in cross-border trade and other activities may be subject to higher levels of customer due diligence by financial institutions outside of that country. In practice, this means being more thorough in processing and vetting clients and understanding the sources of their funds.'

What has happened?

SA's greylisting is now very definitely in place, and it has had more of an impact than we would like to believe! Relevant from the above NT excerpt is that suddenly, what was already an onerous process dealing with anything cross-border related has been made much more complicated and lengthier following the greylisting, and institutions have undertaken 'more enhanced monitoring'.

How do we know? Because it affects our daily tasks, such as;

- opening accounts,
- sending funds offshore for clients,
- what to invest in,
- the compliance required when redeeming investments, and
- documentation required to prove wealth.

In some instances, one has to delve into records going back 40-50 (and even more) years to:

- produce proof of all sorts of transactions,
- include death certificates of people who died many decades ago,
- provide the source of wealth,
- provide the source of funds,
- provide details on individuals who are settlors of trusts, protectors and beneficiaries.

It is, therefore, imperative to understand what one is being asked for so that the salient information can be provided timeously. Defining some of the basics is a good start, bearing in mind that the client needs to provide the information. The list below is not all-inclusive but attempts to cover the common requests from various administrators.

Definition 1 – Know your client (KYC)

As a financial advisor, one is subject to KYC legislation, which stands for **know your client**. Globally, there has been an exponential increase in money laundering and terrorist financing activities, and the COVID-19 pandemic did not improve the situation. The KYC legislation (the Financial Intelligence Centre Act of 2001) insists that financial institutions make their customer due diligence practices as robust as possible to ensure that they are not on the receiving end of any misdemeanours which have to be reported to the FATF and their watchdogs on the ground, e.g., SA's Financial Intelligence Centre (FIC). The challenge is to know and understand our clients and any changes in their circumstances, including residency, political exposure or links to political persons. When one lives in a greylisted country, its residents' status and circumstances change overnight. In many instances, the residents of greylisted countries are considered 'high-risk' individuals for money laundering and terrorist financing. More questions are being asked than ever before, and offshore administrators have become even more vigilant. Unfortunately, the impact on the client is that more questions and documentation are required for investing or cross-border transacting.

Definition 2 – the source of wealth (SOW) and the source of funds (SOF)

These two sources have come to the fore, and although they have always been around, they now have far more practical implications than before SA's greylisting.

What is the difference?

- SOF is the origin of the money per transaction, while SOW is the origin of all the money an individual has amassed during their lifetime.
- SOF and SOW checks are an essential element of KYC measures and part of the AML recommendations laid out by the FATF.

SOF: As mentioned above, SOF is the origin of the money used in a transaction. If a client makes a purchase, the information required includes:

- what account did their funds come from?
- whose account is it coming from? And
- what activity generated those funds in the first place?

Legitimate sources of funds include personal savings accounts, employment income, redemption/liquidation of investments, property sales, inheritances, gifts, legal settlements (including divorce settlements) and distributions from trusts. The fact that the source is legitimate does not mean these questions will not be asked.

SOW: This refers to the origin of all the money an individual has amassed during their lifetime. Essentially, it analyses the activities that have contributed to an individual's total wealth. SOW examples include family inheritances, investments, business ownership, and income from employment.

SOF/SOW impact since the greylisting

The best way to illustrate this is by an example:

- An SA resident has died (an elderly lady of 90). In terms of the will and distribution to her heirs, it was decided to redeem an offshore investment.
  - Before SA's greylisting, the following was required:
    - A death certificate,
    - ID,
    - a redemption form sent to the administrator; and
    - estate late bank account details.
  - After SA's greylisting, the following is required:
    - A death certificate,
    - ID,
    - redemption form,
    - estate late bank account details,
      - The source of wealth (this meant tracing the [now-deceased] client's original accumulation of capital),
      - The source of funds (this entails calling up archived records from storage from 2012 to prove the transactions of transfers into the fund).
    - A copious number of emails to ascertain what would be appropriate and
    - constant reminders that this client is now considered high-risk. T

The point here is that unless you know your client (and their history) exceptionally well, it is often difficult to produce the required information for anti-money laundering as per FATF regulations. This leads to time being wasted and frustration for the client when funds are not released timeously. Unfortunately, the environment is such that administrators are unrelenting on what is required so that they are not in the firing line. There are many more examples, such as fund managers not accepting direct SA investors unless it is done through a platform. Suffice it to say that the global environment is a lot more difficult to manage now that we are greylisted!

To assist in this laborious and time-consuming process, **please do NOT throw away ANY documents** (or delete any digital records) pertaining to financial transactions. It has been invaluable to have records readily available to answer the myriad of queries being thrown at us!

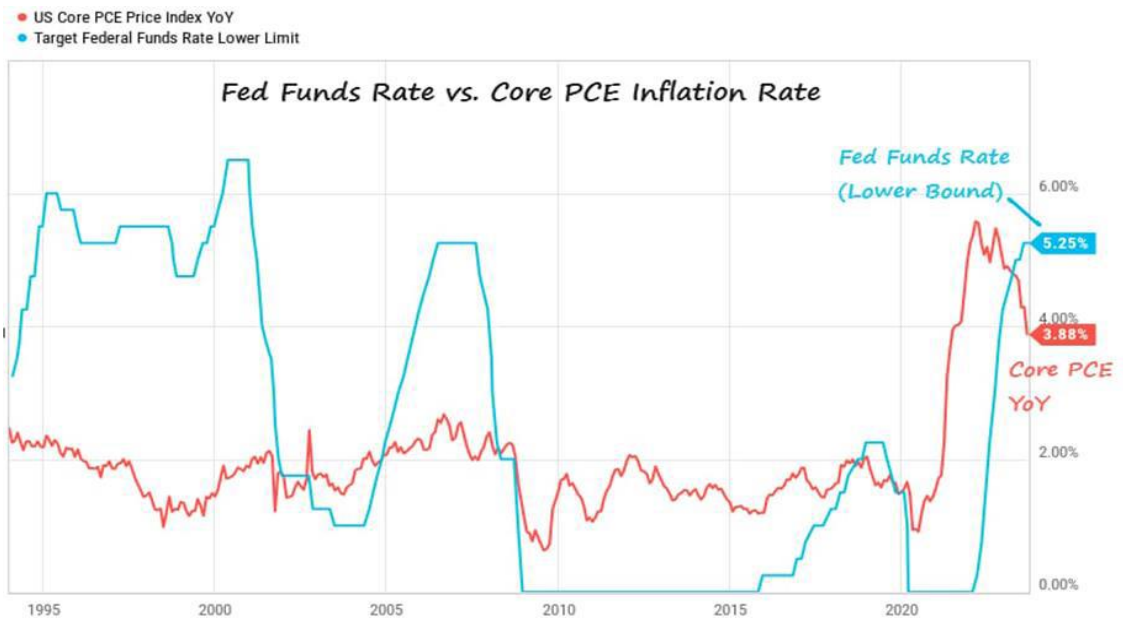
WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

The Family Office

RCI BCI WORLDWIDE FLEXIBLE FUND

September saw a large pullback in global markets with the MSCI falling over 4% in USD terms. Although this is the second monthly decline in a row, global markets are still up about 10% for the year thus far and are still far higher than what was expected for the full year back in January. The concerns back then around high inflation, high interest rates and a global slowdown remain top headlines today as the world is still uncertain how long interest rates will remain this high and what the implications will be for global growth. The Fed threw cold water on the market this month saying they are expecting to keep rates higher for longer which is very different to the market's expectation that rates are going to peak soon and that cutting takes place soon thereafter. We are of the opinion that rates will stay higher for longer, but that doesn't necessarily mean the market will sell off viciously. This is because this unknown is known by the market and participants are likely looking past it and hence panic selling is unlikely.

Rates have risen at the fastest pace in history to levels not seen in decades:



Source: Charlie Bilello

US Core Inflation has fallen below 4% but is still above the Fed's target of 2%. Hence the increased likelihood of keeping the Fed Funds Rate higher for longer.

It is interesting to note this rising interest rate environment has caused the longest and harshest pullback in the US bond market's history. To date the bear market is entering its 38th month:

Bloomberg US Aggregate Bond Index: Longest Drawdowns (Monthly Data, 1976 - 2023)

Start of Drawdown	End of Drawdown	# Months	Max Drawdown During Period (Monthly)
Aug-20	?	38	-17.2%
Jul-80	Oct-81	16	-9.0%
May-13	Apr-14	12	-3.7%
Aug-16	Jul-17	12	-3.3%
Feb-94	Jan-95	12	-5.1%
Mar-87	Nov-87	9	-4.9%
Aug-79	Apr-80	9	-12.7%
Apr-08	Nov-08	8	-3.8%
Feb-96	Sep-96	8	-3.2%
Jun-03	Nov-03	6	-3.6%
Feb-84	Jun-84	5	-4.9%
May-83	Aug-83	4	-3.5%

Source: Creative Planning and Charlie Planning

WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONT.)

In prior letters we have shown how much of the S&P 500 performance this year was attributable to only a small number of companies. These businesses were partly pumped up by the Artificial Intelligence euphoria but many of them now appear to be showing signs of weakness. In the following table we can see the first half of the year (1H23) was dominated by IT (Microsoft, Apple, Adobe etc) and communication services (Meta and Alphabet) growing over 30% but these same sectors had the largest falls in September.

S&P 500 Sectors	MTD ($)	2H23 ($)	1H23 ($)	YTD ($)
Energy	4,7%	14,5%	-5,6%	8,1%
Healthcare	-2,7%	-2,4%	-1,5%	-3,8%
Financials	-3,0%	-1,0%	-0,5%	-1,5%
Communication Services	-3,7%	2,6%	36,2%	39,8%
Utilities	-3,8%	-7,4%	-5,7%	-12,7%
Consumer Staples	-4,6%	-6,0%	1,3%	-4,8%
Materials	-5,6%	-5,6%	7,7%	1,7%
Industrials	-5,8%	-5,0%	10,2%	4,6%
Consumer Discretionary	-7,4%	-6,2%	33,0%	24,7%
IT	-7,9%	-6,7%	42,8%	33,3%
Real Estate	-8,5%	-10,1%	3,7%	-6,8%

Source: Anchor Capital

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	19.71	1.03	32%	16%	23%
AMAZON.COM INC	33.78	1.09	333%	29%	32%
BOSTON SCIENTIFIC	24.04	1.91	17%	12%	13%
CONSTELLATION SOFTWARE	32.10	1.57	92%	26%	15%
FORTINET	35.00	1.90	27%	16%	21%
INTUIT INC	30.57	2.10	20%	15%	14%
MERCADOLIBRE INC	47.45	1.09	108%	45%	41%
MICROSOFT CORP	27.89	1.96	5%	14%	14%
MONCLER SPA	21.68	1.83	4%	12%	12%
VISA	23.41	1.69	16%	13%	14%
Harmonic Mean PE	27.77				
PEG Ratio (Forward PE/'23-25 Growth in EPS)		1.51			
Annual EPS Growth Rate (Harmonic Mean)			14%	17%	17%
S&P500 - FWD PE and EPS Growth	18.00		-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, 28x, 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

- **Bought Starbucks**: Starbucks has had a decent pullback over the last several months on the back of negative Chinese sentiment. The shares are trading at the lower end of their valuation range and we believe this is a great opportunity to invest in a quality counter. Starbucks ticks all our quality boxes as it is well established global brand expected to increase earnings in the mid-teens for the next several years. In a period where consumers are under increased financial pressure, we believe that coffee expenditure should be resilient as people prioritise this small daily luxury.

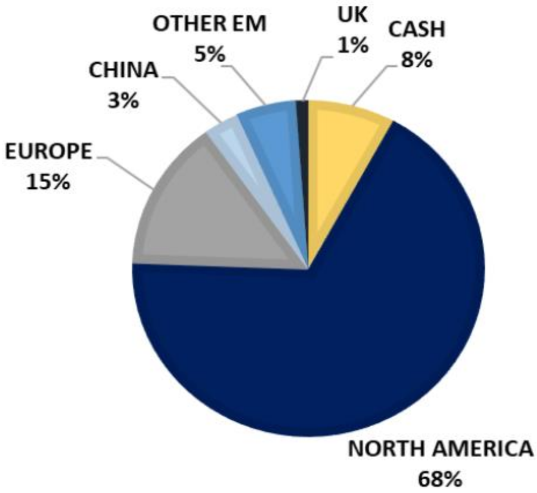
WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONT.)

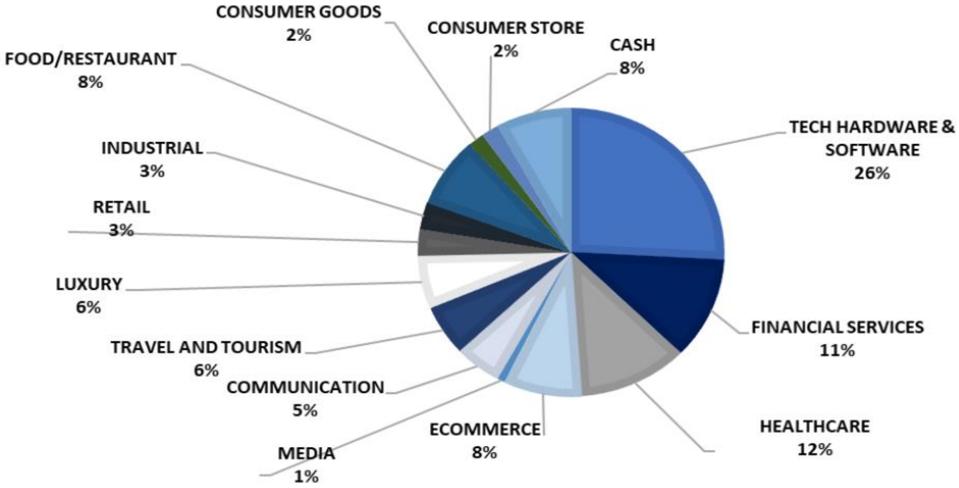
The Family Office

- **Bought Nu Holdings:** We slightly reduced our Chinese Tech exposure and switched the proceeds into another emerging markets company located in South America. Nu Bank was founded in 2013 as one of Brazil's first fully digital banks. It now has one of the largest client bases in the banking sector in Latin America and continues to grow at a fantastic pace. As South Africans, we can think of NU as the Capitec of South America with lower fees and excellent transactional processing that caters to the lower end of the market.

Geographic drivers



Sector Weightings



Performance in Rand

	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%	4.7%	-5.8%				25.5%

The RCI BCI Worldwide Flexible Fund investment team:

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

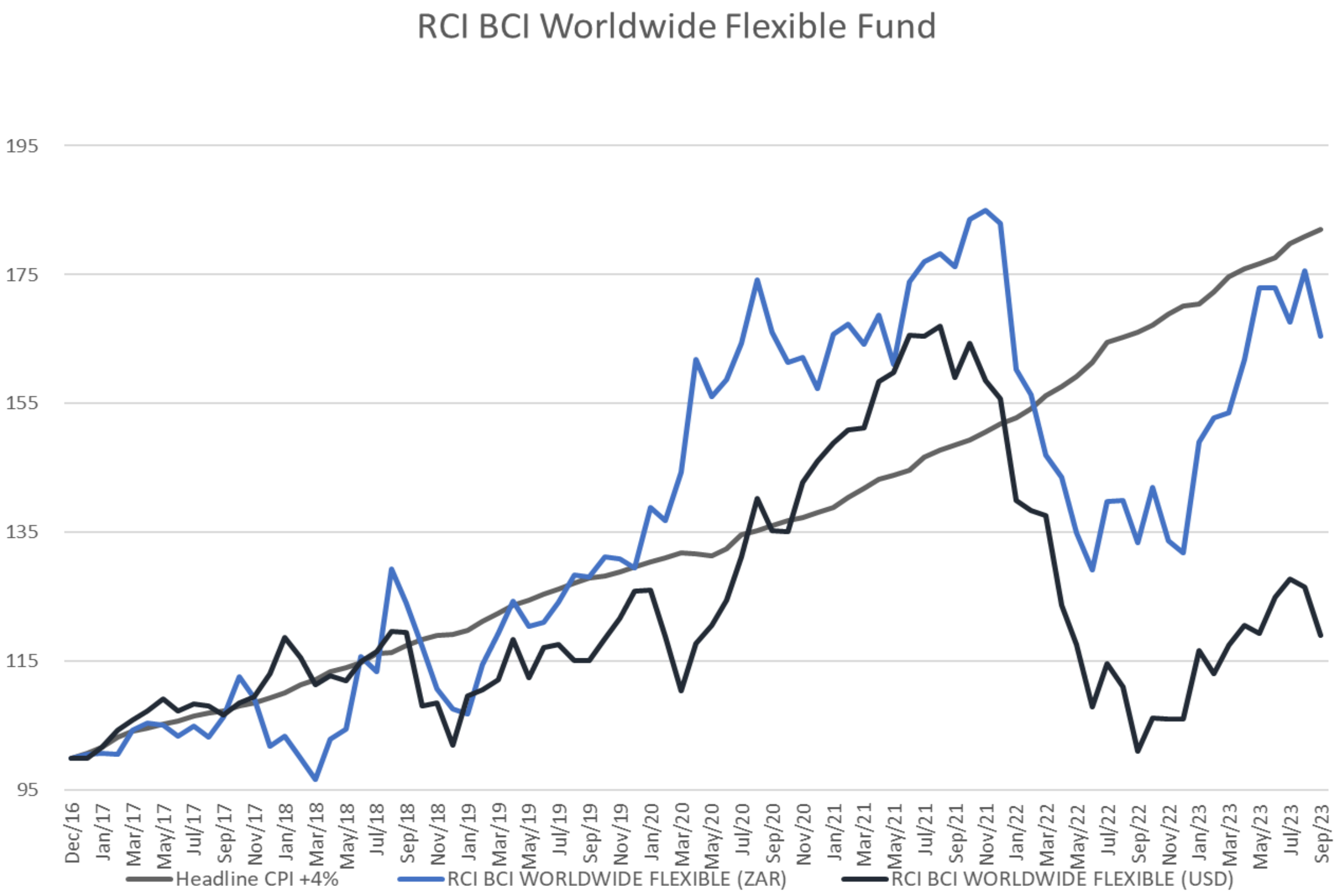
Robert Cowen Investments
Growing families' wealth since 1982

RCI OFFSHORE UNIT TRUSTS

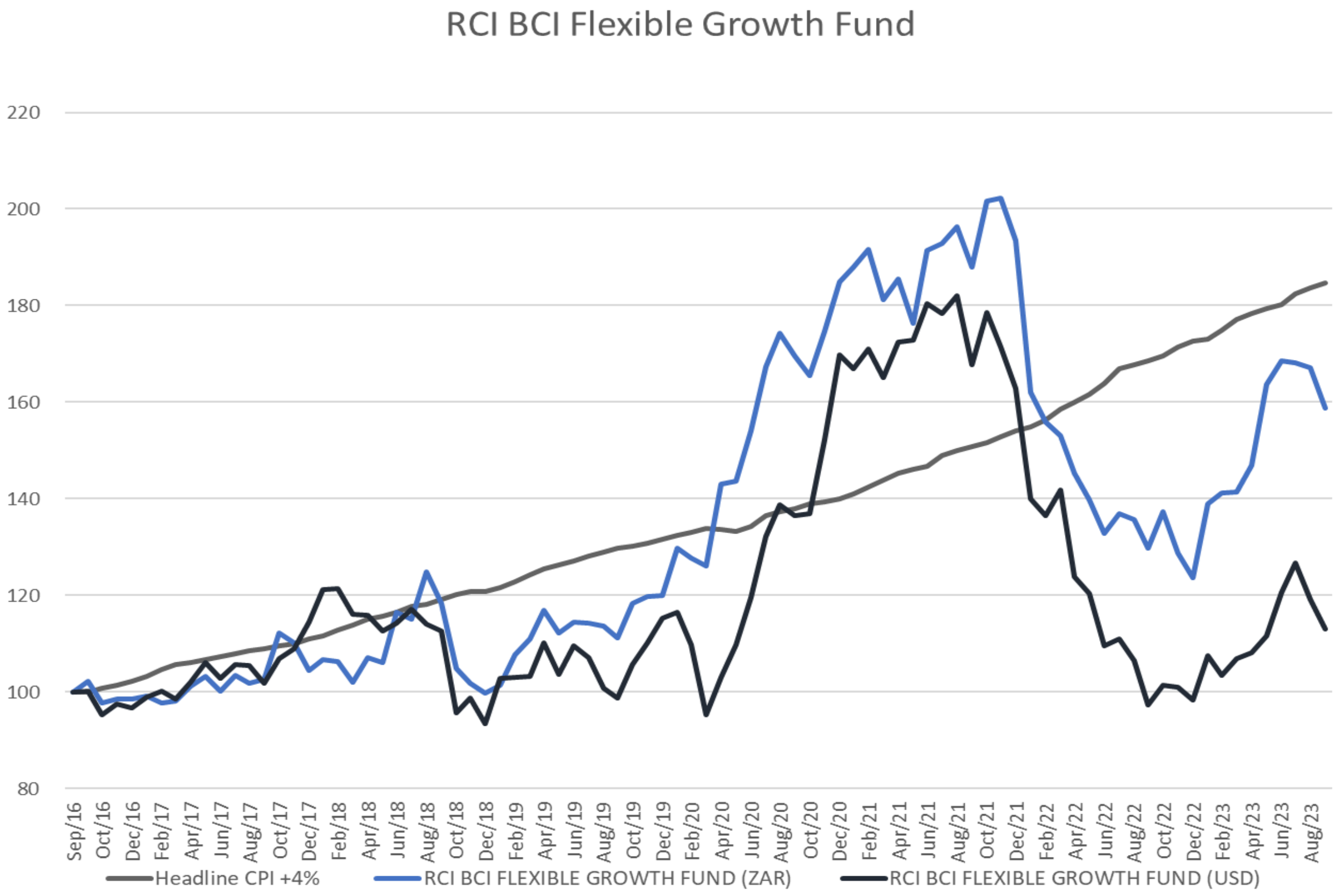
"In the short run, the market is a voting machine, but in the long run it is a weighing machine." – Benjamin Graham

The Family Office

RCI BCI Worldwide Flexible Fund closed September at 165.37c, down -5.80% for the month and up 23.97% for the last 12 months.



RCI BCI Flexible Growth Fund closed September at 158.79c, down -5.05% for the month and up 22.26% for the last 12 months.



Robert Cowen Investments
Growing families' wealth since 1982

WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

ANCHOR BCI SA EQUITY FUND

BY THE ANCHOR BCI SA EQUITY TEAM

Global equities fell for the 2nd consecutive month in September (MSCI World -4.3% MoM), ending a negative quarter for developed market (DM) equities (MSCI World -3.4% MoM). With not much news on the corporate earnings front, as we are between quarterly reporting periods in the US currently, it was interest rates on which investors were focused. As US 10-yr government bond yields rose towards 4.6% - their highest level since 2007 – and the Fed's message remained firmly in the "rates will remain higher for longer than the market is currently priced for" camp, it was a decidedly negative backdrop for risk assets. Emerging markets (EM) also experienced a negative month (MSCI EM -2.5% MoM), albeit managing to outperform DM. China remained the biggest drag on EM stocks, as worrying news from its beleaguered housing market continued to cast a shadow over the economy. India, which managed to eke out a small positive return for the month, is likely proving to be a beneficiary of investors switching from China.

South African equities followed the rest of the world lower (FTSE/JSE Capped SWIX Index -2.9% MoM), and with that fall, erased all the gains achieved in early 2023 (-0.2% YTD). Losses on the JSE were quite broad-based, although miners, which were the biggest drag on August's returns by some margin, managed a small positive contribution in September. Commodity prices held up surprisingly well considering the persistent concerns surrounding China's economic activity, while rising energy prices (Brent crude oil and coal both up 10% MoM) were supportive for Sasol (+11% MoM) and Thungela (+23% MoM). Gold miners were the other side of the coin, however, as rising global bond yields weighed on the gold price (-5% MoM).

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 September, the top 15 holdings in the fund, making up 67% of the equity exposure, were as follows:

- Naspers
- Absa
- Prosus
- Bidcorp
- British American Tobacco
- Investec
- Standard Bank
- Afrimat
- AECI
- Richemont
- Anglo American
- Sasol
- Advtech
- Shoprite
- Glencore

Main changes in the month

As far as changes to the fund during September are concerned, we took profits on **Stadio** after a strong rally led to its valuation becoming too demanding, in our view. Having avoided the property sector up to now, we initiated a position in **Growthpoint** after a material pullback in its share price presented an attractive buying opportunity. We also initiated a position in **Exxaro**, a likely beneficiary of renewed interest in energy-related commodities for which the market has tightened in recent months.

Performance

The fund ended September -3.0% MoM, roughly in line with the local equity market. 2023 has so far proved a challenging year for SA equities, with no clear investment theme proving particularly enduring. In such an environment, we are being particularly cautious about trading excessively. The fund's orientation towards quality compounders means that periods such as this in which cyclical miners outperform, the fund's performance lag that of the market benchmark slightly. We continue to believe, however, that seeking companies able to compound their growth consistently over the long-term will ultimately prevail from a performance perspective.

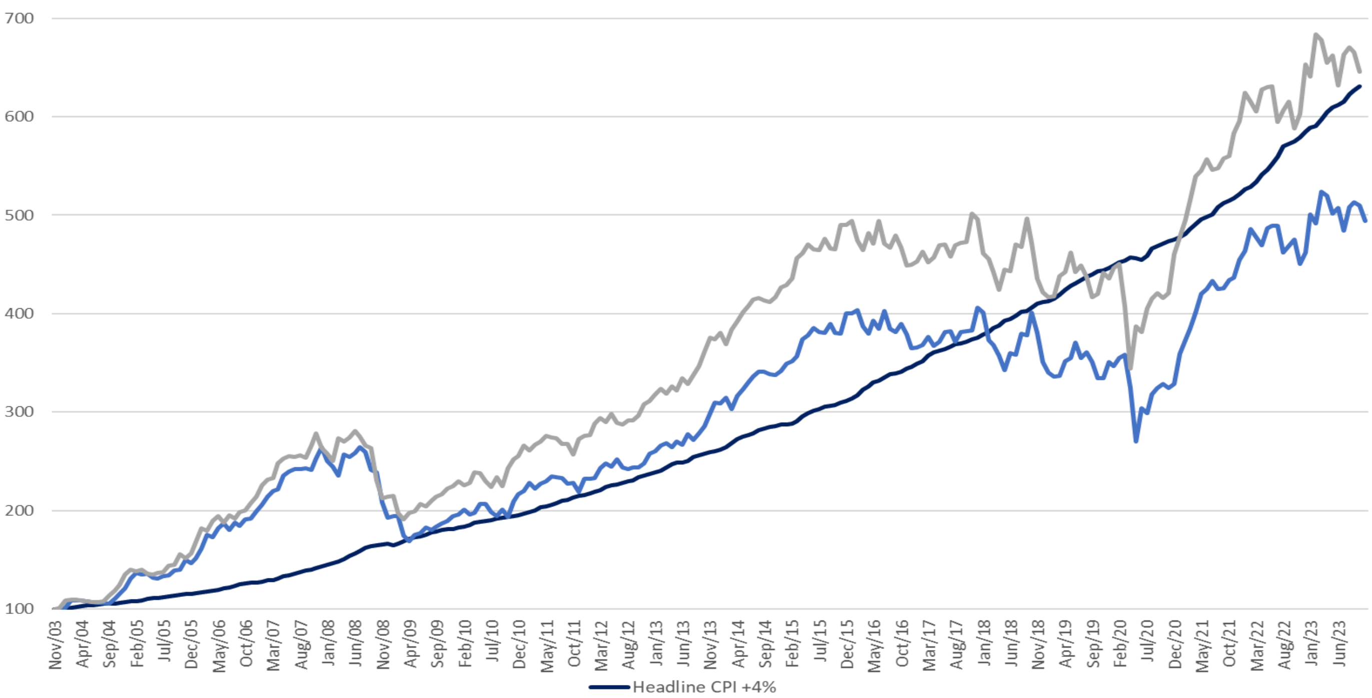
The Anchor BCI SA Equity team

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

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 September at 494.00, down -3.03% for the month and up 9.55% 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.

HISTORY TELLS US THAT ECONOMIC GROWTH IS MORE IMPORTANT FOR EQUITY MARKET RETURNS THAN THE INFLATION REGIME

S&P500 annualised performance during Inflation Regimes

Inflation	All data	Non-recessions	Recessions
< 0%	9.0%	30.3%	-17.9%
0% to 2%	8.2%	9.9%	-4.2%
2% to 5%	9.1%	12.6%	-18.4%
5% to 10%	2.1%	4.9%	-7.4%
> 10%	-0.6%	1.5%	-4.1%

Source: Investec Securities, Bloomberg

Note: Monthly data since 1928; CPI y/y % used for inflation regimes

The above research from Investec shows us that whether US inflation is at 2% or whether it is at 7% is not as important a factor to equity price returns than many may believe. A far more important factor is whether the overall economy is exhibiting positive growth. The middle column shows that when the US economy is **not** in a recession (which is when growth is negative), returns have historically been positive for the period of positive economic growth. The right column shows that returns whilst the economy **is in a recession** are generally negative.

This supports our view that focusing on the growth outlook is more important than whether inflation recedes or not. One cannot however deny the economic link between the two. Rising rates in response to inflation should theoretically cause economic growth to slow. But so long as the US does not slip into a recession, we remain optimistic that corporate earnings will remain resilient, which should help to drive equity returns.

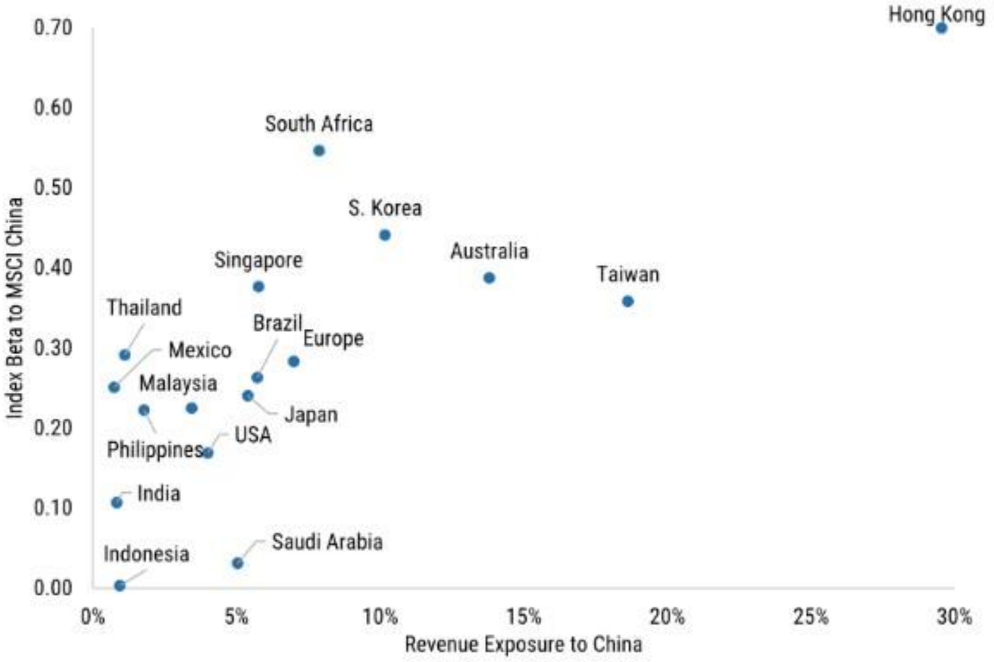
THE LINK BETWEEN THE SOUTH AFRICAN AND CHINESE STOCK MARKETS IS THE CLOSEST IN THE WORLD

BY KEIRAN WITTHUHN

It is widely known that the South African equity market's prospects are closely linked to that of China's. On the one hand there is the outsized influence that China has on the prices of almost all the commodities that SA's listed miners produce. On the other, there is our market's exposure to Chinese tech company, Tencent, which accounts for about 80% of the asset value of Naspers / Prosus. Therefore, what happens in China has serious implications for the long-term wealth of South Africans who have not paid much attention to diversifying their assets offshore. Over the last few years, an increasingly erratic policy shift domestically (harsh regulatory crackdowns on property developers, leading technology and private education, threats of changes to the legal status of structures via which international investors have gained access to China and more recently, its persistence with the Covid-zero policy), and growing aggression internationally (expansion into the South China Sea, threats directed towards Taiwan, and deterioration of relations with the US) have lead to a steady exodus by international investors. Prior to 2023, these were the factors that were causing Chinese equities to underperform globally. In 2023, the negative sentiment now includes the narrative of China's disappointing economic recovery after they abandoned their Covid-zero policy, which had previously subdued economic activity.

Research from Morgan Stanley (shown below) shows us just how correlated our two markets are. The horizontal axis represents the collective revenue percentage derived from Chinese operations by companies listed on the respective country's stock exchange. The vertical axis signifies the correlation that each country's stock market has to MSCI China (China's stock market). It is intuitive and obvious that the correlation between the returns of the Hong Kong and Chinese stock markets are the highest given that Hong Kong is a Special Administrative Region of China. What may come as a surprise to many is that after Hong Kong, it is SA that has the highest correlation to China, above countries like South Korea, which is often thought to be a canary in the coal mine for China's economy. This is a useful bit of insight that helps investors to understand why the returns on SA's equity market have been so poor this year. Despite all of our challenges at home, it is likely that the lack of positive sentiment around China's economic recovery is the primary driver of the poor returns year-to-date. Once some positive sentiment is reignited into China and investment flows return, it is almost a certainty that our market will rally in sympathy.

Market revenue exposure to China versus equity benchmark index beta to MSCI China



Source: Jonathan Garner, Morgan Stanley

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THE OIL PRICE AND THE ISRAELI-PALESTINIAN CONFLICT

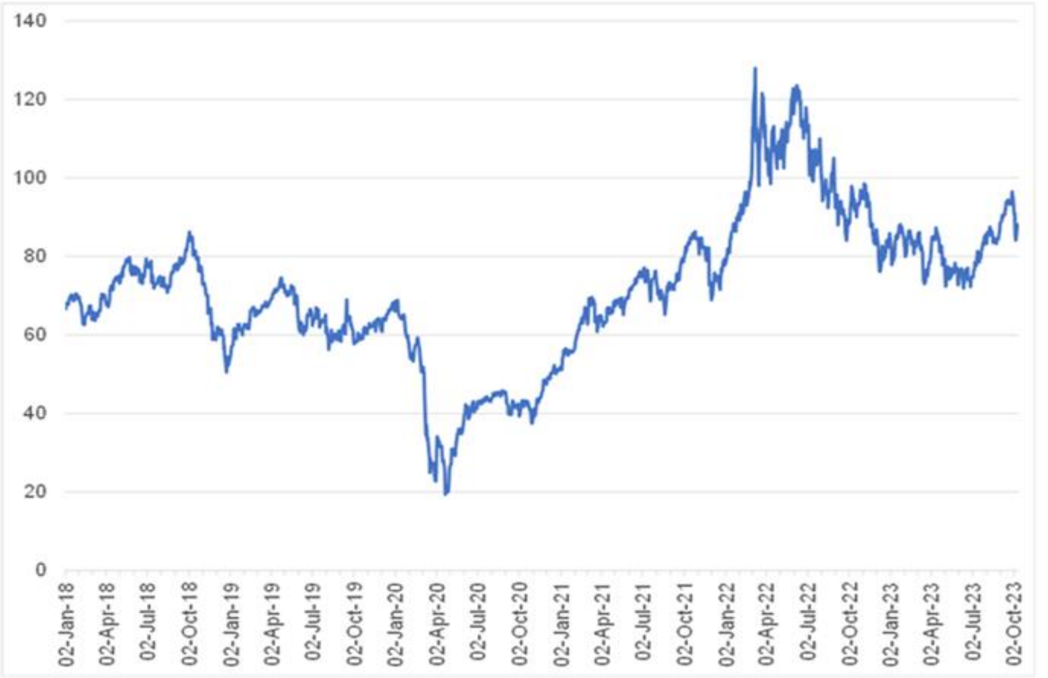
BY CASEY DELPORT

Over the past few weeks, a sustained upward trend in the oil price has raised concerns about SA's deteriorating near-term domestic inflation outlook. In a brief respite, the oil price plummeted by over 10% during the week of 2 October, falling below the US$85 a barrel mark, temporarily alleviating concerns surrounding the inflation outlook. Unfortunately, this relief proved to be short-lived.

On Saturday (7 October), the Palestinian militant group Hamas launched a surprise, multi-front coordinated assault and its largest attack on Israel in decades, resulting in hundreds of deaths and Hamas capturing over 100 hostages. In what some have likened to Israel's version of 9/11, the attack triggered a swift response from Israel. Considering the scale of casualties in relation to the population size of Israel, when compared proportionally to the United States, this attack's impact on Israel is akin to approximately ten incidents on the scale of 9/11. Israeli fighter jets responded by launching airstrikes on parts of the Gaza Strip, resulting in significant Palestinian casualties.

This renewed and severe escalation in the longstanding conflict between Israel and Hamas carries the ominous prospect of escalating into a broader regional Middle East conflict, potentially involving major oil-producing nations such as Saudi Arabia and Iran. The concerns around this potential of renewed conflict in the Middle East have naturally filtered through to financial markets, from soft commodities to energy and fixed income.

Crude oil prices were the first to spike higher. At the time of writing (10 October), crude oil prices were sitting at c. US$87/bbl. The spike still leaves Brent below its recent one-year high of US$97.69/bbl on 28 September.



At this point, we believe the surge in crude oil prices will likely be a temporary, reactionary response. To exert a prolonged influence on oil markets, there will need to be a sustained disruption in oil supply or transportation. Neither Israel nor the Palestinian territories play a significant role in global oil production. However, the proximity of the conflict to a crucial oil-producing and exporting region raises concerns. A major worry for the oil market lies in the potential involvement of oil-rich Iran. If Western nations officially establish a connection between Iranian intelligence and the Hamas attack, Iran's oil supply and exports may face immediate downward pressure due to stricter sanctions enforcement. Iran's oil exports were constrained following re-imposed sanctions after the US withdrew from a nuclear accord in 2018 under former President Donald Trump. However, with Iran seemingly evading sanctions and US President Joe Biden's administration discreetly enforcing them in the interest of better relations, Iran managed to significantly increase its oil production and exports between late 2022 and mid-2023.

The ongoing conflict may further complicate the Biden administration's efforts to facilitate a reconciliation between Saudi Arabia and Israel, potentially impacting the Saudi kingdom's willingness to increase its oil production. As the Israeli government pledges an unprecedented response, it becomes increasingly challenging to see how diplomatic talks aimed at normalising relations between Saudi Arabia and Israel can proceed concurrently with a vigorous

THE OIL PRICE AND THE ISRAELI-PALESTINIAN CONFLICT

BY CASEY DELPORT (CONT.)

military counteroffensive and the inevitable civilian casualties that will follow. Undoubtedly, elevated energy expenses will add further complexity to the already tricky global and local inflationary environment, intensifying the challenges central banks face worldwide.

The current concern revolves around the timeline for resolving the conflict. If the conflict were to escalate further, it is anticipated that the strain on oil markets would significantly escalate, potentially leading to even more pronounced market disruptions. Naturally, higher energy costs will complicate the picture when looking at global and local inflationary pressures, making the work of the world's central banks much more difficult. Should the conflict spread, the expectation is that the pressures on oil markets will increase substantially, causing further market dislocations. Given that the conflict is still in the very early stages, there is no certainty on how the current situation will unfold. However, uncertainty and heightened risks will likely drive crude oil prices higher.

"This in not Vegas, what happens in the Middle East, hardly ever stays in the Middle East" - Norman Roule, Center for Strategic & International Studies Senior Adviser for the Transnational Threats Project

"The first casualty of war is the truth"

NEW NATIONAL CENSUS: SA POPULATION RISES 20% TO 62 MILLION

According to the latest national census, SA's population reached 62 million last year, 20% higher than when the last count was undertaken in 2011. The average annual growth rate over the period was 1.8% and is the highest growth rate since the first post-apartheid census was taken in 1996. Of those counted, 81.4% were Black, 8.2% Mixed Race, 7.3% White and 2.7% Indian. The number of immigrants stood at more than 2.4 million and included just over 1 million Zimbabwean nationals and 416,564 Mozambicans. The population of Gauteng was 15 million, followed by KZN with 12.4 million and the Western Cape with 7.4 million. One third of people who moved internally went to Gauteng and 15% to the Western Cape.

There has been a steady decline in the proportion of the White population, from 11% in 1996, to 7.3% in 2022. Informal dwellings accounted for 8.1%, down from 13.6% in 2011. More than 80% of households had access to piped water and more than 90% had access to electricity for lighting. Click here for the full article.

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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Thank you for being our clients.

Di, Mike & The RCI Team

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