ROBERT COWEN INVESTMENTS

JANUARY 2024 NEWSLETTER

22 January 2024

The Family Office

HIGHLIGHTS OF THIS NEWSLETTER ARE:

- 2024 2nd Provisional Tax & Requests for Provisional Tax Reports
- Retirement annuity contributions to maximise FY2024's tax benefits
- Update on what we have been doing in the offshore funds – *by Ross McConnochie*
- Why the tension over Taiwan? 70% of the world's chips are made there
- 2023 defied predictions and showcased the triumph of optimism – *by Keiran Witthuhn*
- For investors, it pays to be an optimist in the long-run – *by James Bennett*
- Update on what we have been doing in the local fund – *by Mike Gresty*
- What world leaders are saying about the key themes
    - *Mohamed El-Erian - SEC approval of the first bitcoin ETFs*
    - *Jerome Powell - The defiant strength of the US economy*
    - *James Gorman - Staying focused on the big things*

If you have not been receiving emails from RCI, please may you double check your Junk Mail/Spam folders for RCI emails, including your month-end statements.

To ensure that our messages get to you and don't go to your junk or bulk email folders, please add marieke@rcinv.co.za and lizette@rcinv.co.za to your address book.

As we bid farewell to a remarkable year for our client portfolios, we thank you as always for being our clients. We will continue to face all challenges, grow and share successes with each of you. As we step into a new year, filled with exciting possibilities, we hope that 2024 brings you prosperity, good health and joy. Thank you for entrusting us and we look forward to continuing the journey together. We wish you and your loved ones all the best for 2024.

Charlie Munger on what is important in life - "And so, all those old-fashioned values: family comes first, being in a position so you can help others when troubles come, prudent sense, a moral duty to be reasonable is more important than anything else. More important than being rich, more important than being important, an absolute moral duty because none of my intelligent relatives suffered terribly because they didn't advance higher."

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 info@rcinv.co.za or 011 591 0585.

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.

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

Thank you for being our clients.

Di, Mike, Andrew & The RCI Team

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2024 PROVISIONAL TAX INFORMATION & TAX EFFICIENT RETIREMENT ANNUITY CONTRIBUTIONS

2024 2nd Provisional Tax & Requests for Provisional Tax Reports

Robert Cowen Investments would like to remind you of the following:

Provisional Taxpayers & Trusts - 2023 Income Tax Returns

The deadline for submission to SARS is Wednesday 24th January 2024.

2024 2nd Provisional Tax is due in February 2024!

The deadline for submission to SARS is Thursday 29th February 2024.

Robert Cowen Investments will **not** automatically send out interim reports for provisional tax purposes, but we will provide reports to clients and/or tax practitioners upon receiving a request for these reports.

Requests for provisional tax reports can be sent to Aarthi Bikram on aarthi@rcinv.co.za
Please send through your request as soon as possible or before Wednesday 31st January 2024 – the information will then be compiled and provided timeously.

Retirement annuity contributions to maximise FY2024's tax benefits

Every year you are able to make a pre-tax contribution to your retirement savings (pension/provident fund or retirement annuity) of up to 27.5% of the higher of your taxable income or remuneration, capped at R350 000 per tax year. The benefit of this contribution, other than increasing your retirement savings, is that it also maximises the tax benefits associated with retirement fund contributions, in that they are fully tax deductible, and future growth is free from any dividend withholding tax or tax on interest and capital gains.

If you have not maximised this benefit, and would like to make an additional contribution to your retirement annuity (RA) in the form of a lump sum contribution, please contact christine@rcinv.co.za and we will get in touch with you to work out the value of the lump sum you can invest to maximise your tax benefit.

These contributions have to be submitted and paid before the end of February 2024. To ensure that all investments made are allocated prior to the end of February 2024, we would request that all additional contribution requirements are sent to us by the 14th of February 2024 in order to prepare and submit the relevant applications.

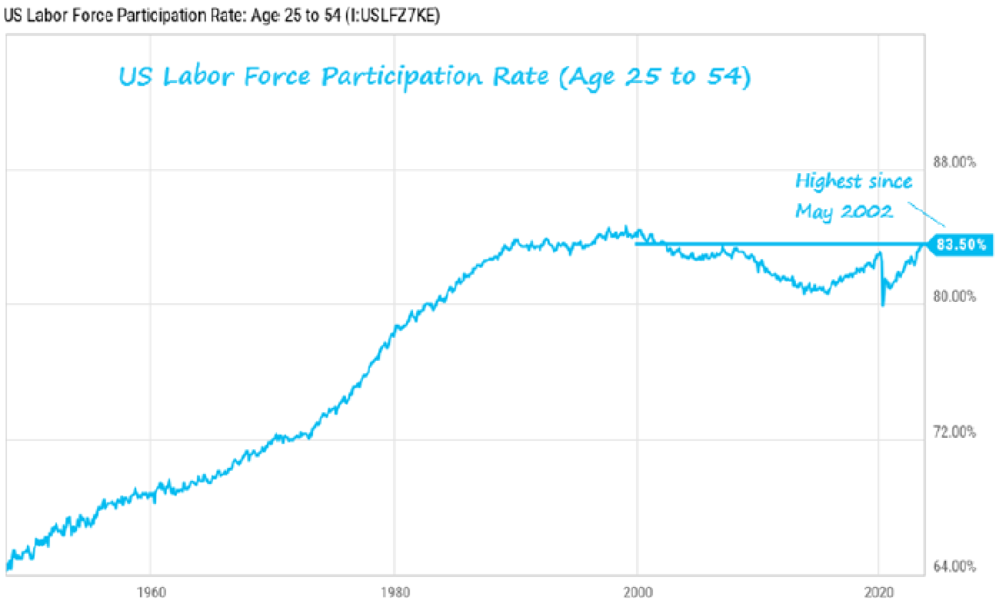
WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

RCI BCI WORLDWIDE FLEXIBLE FUND

The start of a new year always provides an opportune time to reflect briefly on the year that has passed, before leaving it in the rear-view mirror to focus on the year ahead. Heading into 2023 after what was an extremely tough year for investors (the fund was down 27.9% for 2022) fortunes indeed reversed, and 2023 ended with the fund being **up 36.1% for the year** – it's best year since the fund started in mid-2017, and ahead of the MSCI World Index of 32% (in ZAR terms). A much more pleasant mood to begin the new year on this year around! Markets in general, and specifically the S&P 500, performed materially ahead of even the most optimistic forecasts, again highlighting the resolve required from investors to remain invested over time for the best long-term investment outcome.

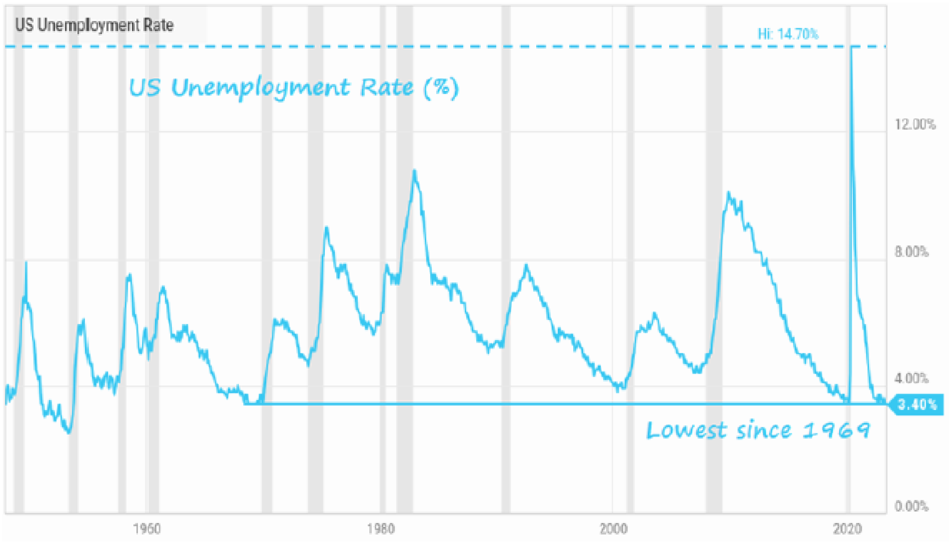
December was another strong month for markets with the MSCI developed markets index rising over 5% and closing up 22% for the 2023 year. The market has been increasingly confident that the US economy will avoid a harsh recession as economic data continues to be upbeat, particularly in the US labour market. Participants also believe there may be interest rate cuts as soon as March which boosted equity valuations and bond prices.

The US labour force participation rate has improved dramatically over the last year following a collapse in the participation rate during COVID-19 when many workers took early retirement:



Source: Ycharts

The unemployment rate has fallen to pre-COVID levels, the lowest in many decades:

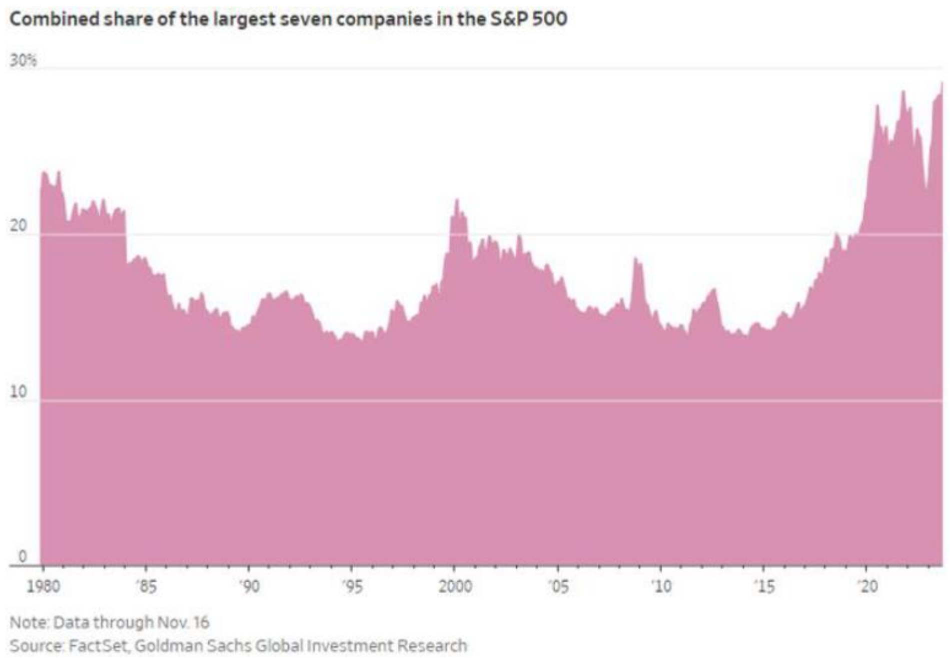


WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

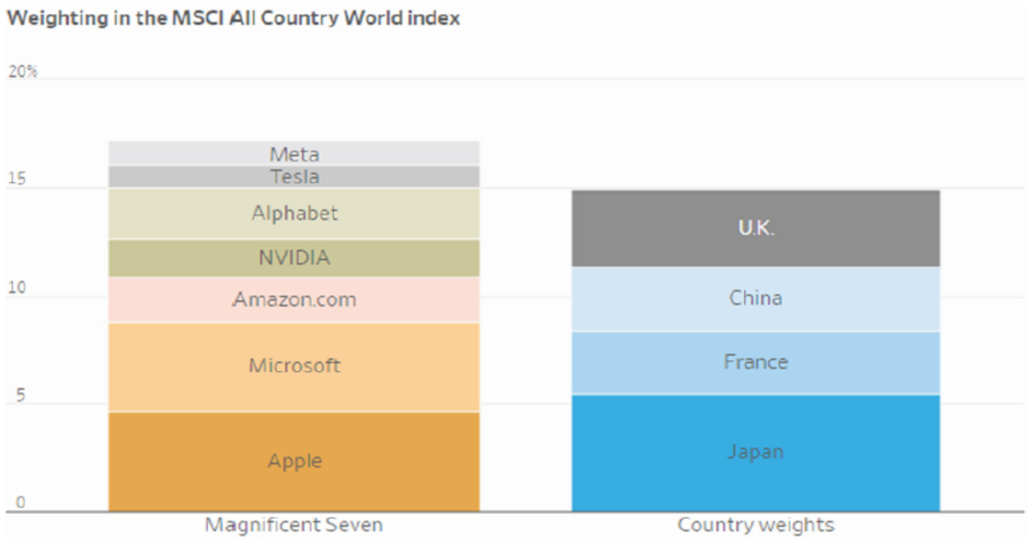
BY THE RCI INVESTMENT TEAM (CONT.)

At the beginning of the year market participants expected a single digit increase in the American stock market. The actual outcome has thus far exceeded expectations but has also led to elevated valuations on an index level with some sectors looking very expensive.

The Magnificent Seven in the USA (Apple, Microsoft, Amazon, Meta, Alphabet, Nvidia, Telsa) now account for close to 30% of the index and thus have a substantial impact on the outcome of the overall stock market. This is the highest total weighting for the seven largest companies in living memory. In prior months we have discussed the incredible performance of this group of shares and their influence on the overall market performance this year, but we believe there are still many investment opportunities in the rest of the market that have been overlooked by investors.



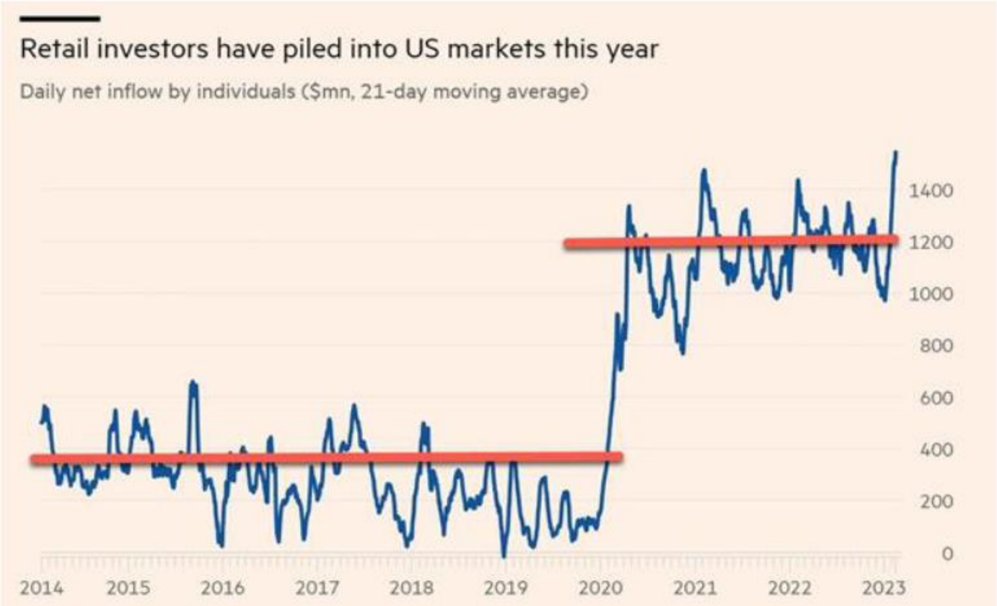
These seven companies now have a larger weighting in the MSCI All Country Index than the UK, China, France and Japan combined.



The incredible market performance of late has led to retail investors piling back into equities after a very tough 2022. We have seen high-risk assets like crypto and small caps moving up quickly as investors deploy cash. The following graph clearly shows that elevated retail investor participation is here to stay following COVID-19 when people received stimulus cheques, were bored at home, animal spirits abounded etc.

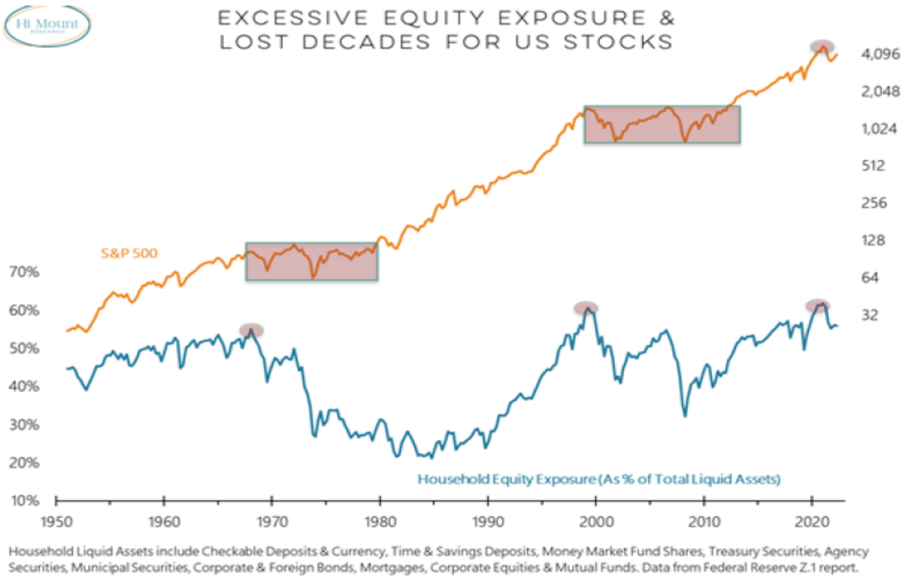
WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONT.)



Source: The Financial Times

The percentage of US household equity exposure has now risen to historically elevated levels, and this typically translates to lacklustre periods of performance in the stock market. One could argue that this percentage should increase over time as the financial complexity or maturity of a society increases. However, you would prefer there to be a lot more potential cash waiting in the wings and thus after such strong year there might not be enough available cash to keep the current trend going.



After such a strong 2023, far exceeding everyone's expectations, it is conceivable that we are due for a breather or at least a period of sideways movement. The market as a whole does appear to be quite expensive but there are still pockets where the valuations are attractive.

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	19.57	1.03	30%	20%	18%
AMAZON.COM INC	33.59	1.29	397%	27%	26%
ASML	34.65	1.90	38%	0%	39%
BOSTON SCIENTIFIC	25.75	2.12	18%	12%	13%
CONSTELLATION SOFTWARE	34.78	1.83	58%	23%	15%
FORTINET	34.67	2.85	31%	8%	16%
INTUIT INC	35.68	2.29	20%	15%	16%
MERCADOLIBRE INC	46.60	1.09	139%	48%	38%
MICROSOFT CORP	30.93	1.93	5%	18%	15%
VISA	25.46	1.90	16%	14%	13%

WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONT.)

The Family Office

	PE in one years time	PEG Ratio (FWD PE/'23-25 Growth)	EPS Growth		
			2022-2023E Growth	2023-2024E Growth	2024-2025E Growth
Harmonic Mean PE	30.56				
PEG Ratio (Forward PE/'23-25 Growth in EPS)		1.66			
Annual EPS Growth Rate (Harmonic Mean)			30%	16%	16%
S&P500 - FWD PE and EPS Growth	19.71		1%	9%	11%

We expect strong performance out of our top 10 positions for the 2024 and 2025 years. Our portfolio is expected to grow earnings per share in the mid-teens which is far higher than the S&P 500, where analysts expect 10% average growth over 2024 and 2025. Our companies are trading at higher valuations, 30.5x, versus the S&P 500's 20x, but we believe this is justified by the higher quality of our 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.

There were no significant changes during the month.

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%	-4.5%	10.5%	2.9%	36.1%

For the month, the fund was up 2.9% in ZAR terms (+5.2% in USD) compared to the MSCI Developed Markets Index which was up 3.2% in ZAR (+5.4% in USD) for the month. The Rand strengthened 2% for the month detracting from the performance in ZAR.

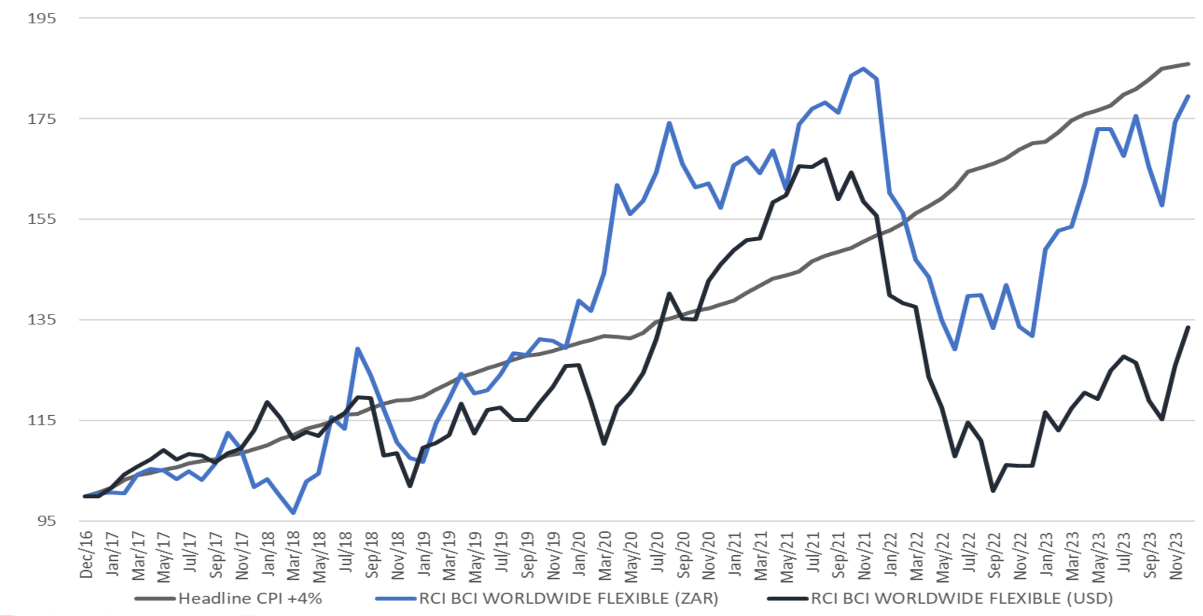
For the 2023 year, the fund closed 36% up in Rands or 25% up in USD terms, with the rand having weakened 8% against the dollar. The MSCI Developed Markets Index closed 32% up in Rands or 22% in USD for the period.

The RCI BCI Worldwide Flexible Fund investment team:

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

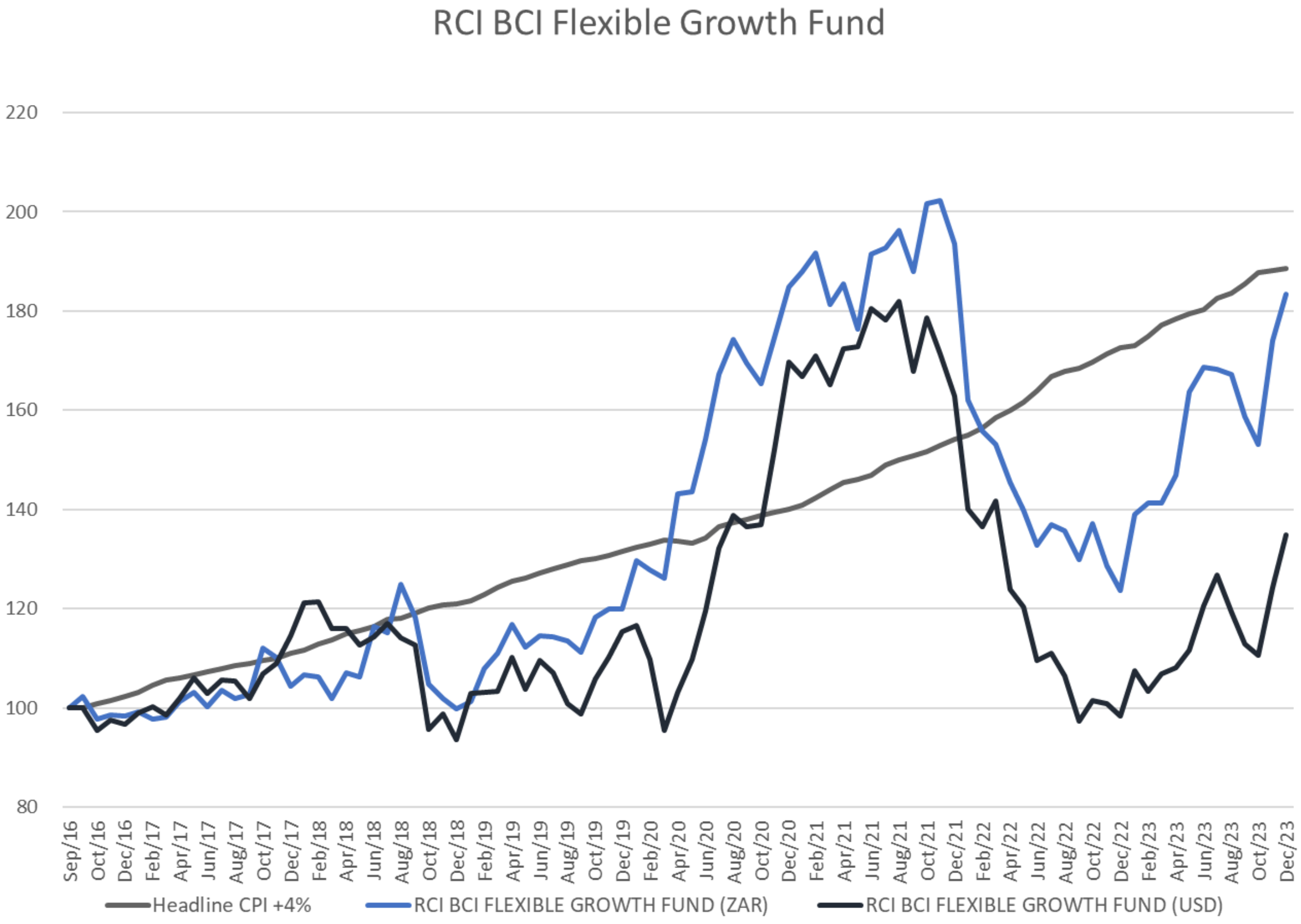
RCI BCI Worldwide Flexible Fund closed December at 179.47c, up 2.93% for the month and up 36.15% for the last 12 months.

RCI BCI Worldwide Flexible Fund



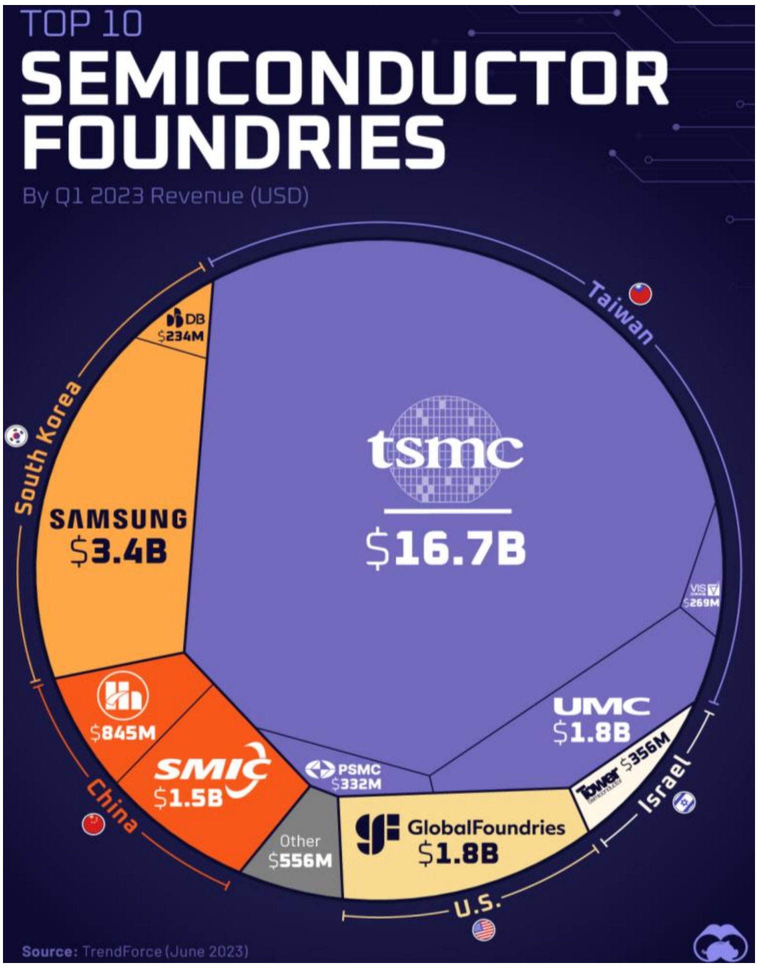
"In the short run, the market is a voting machine, but in the long run it is a weighing machine." – Benjamin Graham

RCI BCI Flexible Growth Fund closed December at 174.03c, up 5.33% for the month and up 48.13% for the last 12 months.



Our phones, cars, planes and fridges will not work without semiconductors, more commonly referred to as 'chips'. They are critical for the modern way of life. Taiwanese company, TSMC, accounts for 60% of the entire global industry's revenue (shown on the right). TSMC manufactures products for a host of clients including Apple, NVIDIA and AMD. The concentration within the semiconductor supply chain is apparent in that 70% of chips are manufactured in Taiwan. If you have ever wondered why the US and China seem obsessed with a country that has the 22nd largest GDP in the world, it is because of the strategic importance that Taiwan plays in the supply chains of key industries in each country. Without Taiwanese chips, the economies of the US and China would come grinding to a halt.

Taiwan recently hosted elections that were won by the pro-independence DDP. Xi Jinping had said that the Taiwanese population were voting for either "war or peace" and the clear DDP victory means the geopolitical tensions are likely to remain elevated.



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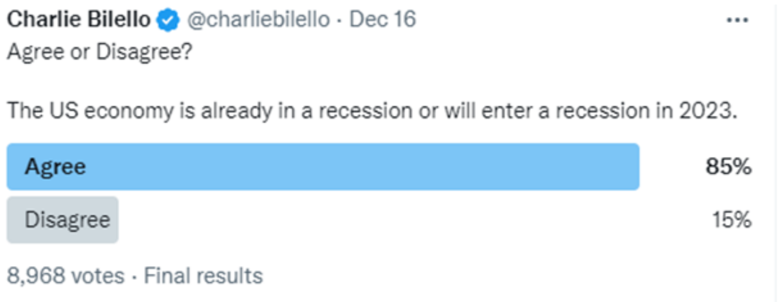
2023 DEFIED PREDICTIONS AND SHOWCASED THE TRIUMPH OF OPTIMISM

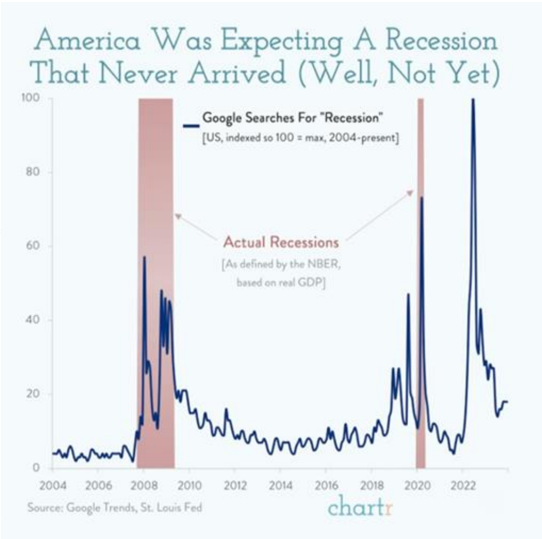
BY KEIRAN WITTHUHN

At the top of the list of fears leading into 2023 was that the Western world would enter a recession. The graph below (right) shows that, in 2022 and 2023, the word "recession" was searched on Google the most since the inception of the Internet. Nearly everyone was anticipating this. Below is a Twitter poll from well-known economist and market commentator, Charlie Bilello from 16 December 2022. It shows that 85% of respondents predicted a recession for the US economy in 2023.



Entering 2023, the myriad of investor concerns included an inflationary spiral, rapidly rising interest rates, the war in Ukraine and the Fed's ongoing tightening of monetary policy that was draining liquidity out of the financial system. Consensus was that oil and banks were the place to be, that technology's leadership over the previous decade had come to an end and that Chinese shares had bottomed. All of these predictions turned out to be wrong, as US tech accounted for the lion's share of the offshore markets' gains and China struggled to get its economy out of first gear.

The below graph (left) shows that the Wall Street strategists were in fact projecting a negative year for the S&P 500 for the first time in the 21st century. The fact that consensus was so incorrect about what would happen in 2023 signals to us that forecasting events in the short-term (a year out) is essentially a fool's errand.



In his memo (original version found here) from November 2022, 'What Really Matters?', acclaimed investor, Howard Marks, succinctly stated that investors should not focus too much of their attention on trying to predict short-term events such as – "How bad will inflation get? How much will the Fed raise interest rates to fight it? Will those increases in rates cause a recession? How bad and for how long will the recession be?"

His response to these sorts of concerns that investors often have is:

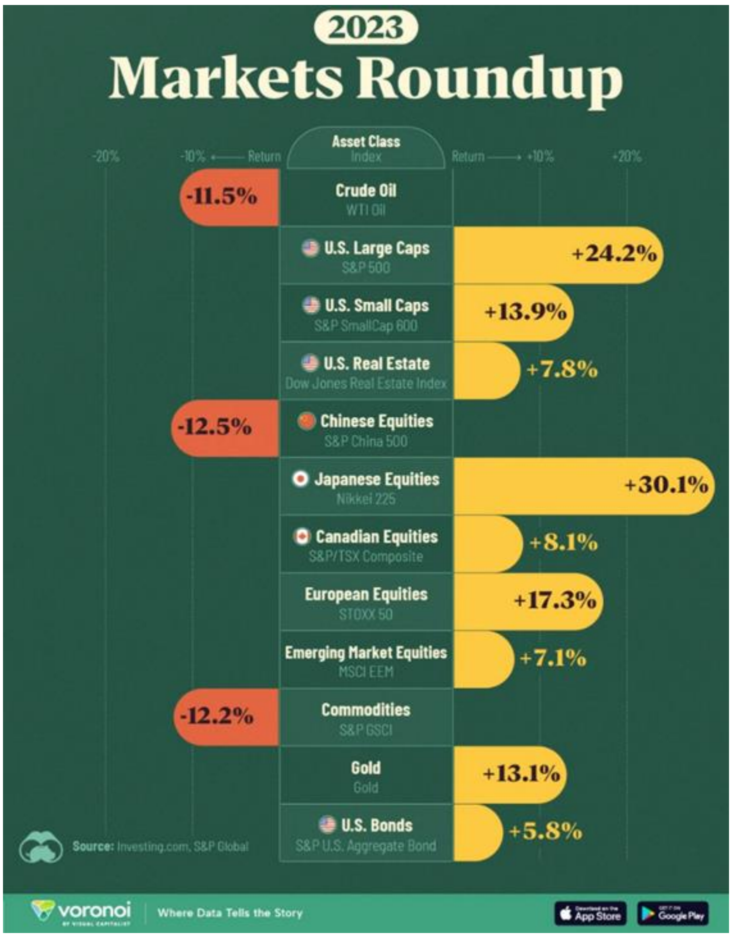
- Most investors can't do a superior job of predicting short-term phenomena like these
- Thus, they shouldn't put much stock in opinions on these subjects (theirs or those of others)
- They're unlikely to make major changes in their portfolios in response to these opinions
- Thus, these aren't the things that matter.

BY KEIRAN WITTHUHN (CONT.)

"The vast majority of investors can't know for sure what macro events lie just ahead or how the markets will react to the things that do happen. Unforeseen events make a hash of economic and market forecasts. In summary, most forecasts are extrapolations, and most of the time things don't change, so extrapolations are usually correct, but not particularly profitable. On the other hand, accurate forecasts of deviations from trend can be very profitable, but they're hard to make and harder to act on. These are some of the reasons why most people can't predict the future well enough to repeatedly produce superior performance."

Within the RCI and Anchor investment process, we concur with the above belief and aim to buy attractive companies and hold them for the long-term, irrespective of whatever short-term concerns the market is fixating on at any given point in time. Offshore companies that fit our investment criteria are those that that are world leaders in their industry, are quality earnings compounders, with a high return on capital employed and high cash flow generation.

Nonetheless, recapping 2023, this is how the major asset classes performed in 2023.



Our exposure to US growth companies across a number of our client accounts resulted in a strong year for clients with exposure here. After years (decades) of disappointment, Japanese equities performed very well due to some inflation and growth reappearing in its economy, a weak Japanese yen helping exporters and investors shifting their Asian allocation from China to Japan due to the materially negative sentiment around China.

2023 was, in almost every way, the polar opposite of 2022. **Growth** stocks **outperformed value** stocks in 2023 by **31%**, the 2nd biggest outperformance on record with data going back to 1979 (only 2020 was bigger). In 2022, **growth** stocks **underperformed value** stocks by **21.6%**, the most since 2000. The difference between the annual return of growth stocks minus value stocks going back to 1979 is shown below. The outperformance of growth stocks over value stocks (excluding 2022) since 2009 is apparent. After the bursting of the tech-bubble in the late 1990's and since the rapid rise of technologies influence in society, we believe that valuation-first methodologies fail to capture the effects of technologies ability to innovate and scale over time.

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2023 DEFIED PREDICTIONS AND SHOWCASED THE TRIUMPH OF OPTIMISM

BY KEIRAN WITTHUHN (CONT.)

Russell 1000 Growth vs. Russell 1000 Value (Total Returns, 1979 - 2023)

Year	Growth	Value	G-V	Year	Growth	Value	G-V	Year	Growth	Value	G-V
1979	23.9%	20.5%	3.4%	1994	2.6%	-2.0%	4.6%	2009	37.2%	19.7%	17.5%
1980	39.6%	24.4%	15.2%	1995	37.2%	38.4%	-1.2%	2010	16.7%	15.5%	1.2%
1981	-11.3%	1.3%	-12.6%	1996	23.1%	21.6%	1.5%	2011	2.6%	0.4%	2.3%
1982	20.5%	20.0%	0.4%	1997	30.5%	35.2%	-4.7%	2012	15.3%	17.5%	-2.3%
1983	16.0%	28.3%	-12.3%	1998	38.7%	15.6%	23.1%	2013	33.5%	32.5%	1.0%
1984	-1.0%	10.1%	-11.1%	1999	33.2%	7.3%	25.8%	2014	13.0%	13.5%	-0.4%
1985	32.9%	31.5%	1.3%	2000	-22.4%	7.0%	-29.4%	2015	5.7%	-3.8%	9.5%
1986	15.4%	20.0%	-4.6%	2001	-20.4%	-5.6%	-14.8%	2016	7.1%	17.3%	-10.3%
1987	5.3%	0.5%	4.8%	2002	-27.9%	-15.5%	-12.4%	2017	30.2%	13.7%	16.5%
1988	11.3%	23.2%	-11.9%	2003	29.7%	30.0%	-0.3%	2018	-1.5%	-8.3%	6.8%
1989	35.9%	25.2%	10.7%	2004	6.3%	16.5%	-10.2%	2019	36.4%	26.5%	9.8%
1990	-0.3%	-8.1%	7.8%	2005	5.3%	7.1%	-1.8%	2020	38.5%	2.8%	35.7%
1991	41.3%	24.6%	16.7%	2006	9.1%	22.2%	-13.2%	2021	27.6%	25.2%	2.4%
1992	5.0%	13.6%	-8.6%	2007	11.8%	-0.2%	12.0%	2022	-29.1%	-7.5%	-21.6%
1993	2.9%	18.1%	-15.2%	2008	-38.4%	-36.8%	-1.6%	2023	42.7%	11.5%	31.2%

CREATIVE PLANNING @CharlieBilello As of 12/31/23

Source: Charlie Bilello

US stocks (S&P 500) outperformed international stocks by 7.7% in 2023, after underperforming international stocks by 4.3% in 2022. The difference between the annual return of US stocks minus international stocks (ex-USA) going back to 1970 is shown below. US stocks have outperformed international stocks in recent years. We continue to believe that the best quality companies are in the US, but do not choose to buy a company based primarily on its location.

S&P 500 vs. MSCI World ex-USA (Total Returns in US $, 1970 - 2023)

Year	S&P	MSCIW	S&P - MSCIW	Year	S&P	MSCIW	S&P - MSCIW	Year	S&P	MSCIW	S&P - MSCIW
1970	3.6%	-16.8%	20.4%	1988	16.6%	25.8%	-9.2%	2006	15.8%	26.2%	-10.4%
1971	14.2%	28.2%	-14.0%	1989	31.7%	9.8%	21.9%	2007	5.5%	12.9%	-7.4%
1972	18.8%	35.9%	-17.2%	1990	-3.1%	-24.4%	21.3%	2008	-37.0%	-43.2%	6.2%
1973	-14.3%	-13.4%	-0.9%	1991	30.5%	10.1%	20.4%	2009	26.5%	34.4%	-7.9%
1974	-25.9%	-22.2%	-3.7%	1992	7.6%	-14.0%	21.6%	2010	15.1%	9.4%	5.6%
1975	37.0%	26.9%	10.1%	1993	10.1%	30.1%	-20.0%	2011	2.1%	-11.8%	13.9%
1976	23.8%	-0.6%	24.5%	1994	1.3%	5.8%	-4.5%	2012	16.0%	17.0%	-1.0%
1977	-7.0%	12.6%	-19.6%	1995	37.6%	11.8%	25.8%	2013	32.4%	21.6%	10.8%
1978	6.5%	27.6%	-21.1%	1996	23.0%	7.2%	15.8%	2014	13.7%	-3.9%	17.6%
1979	18.5%	6.3%	12.2%	1997	33.4%	2.6%	30.8%	2015	1.4%	-2.6%	4.0%
1980	31.7%	19.8%	11.9%	1998	28.6%	19.1%	9.5%	2016	12.0%	3.3%	8.7%
1981	-4.7%	-6.5%	1.8%	1999	21.0%	28.3%	-7.2%	2017	21.8%	24.8%	-3.0%
1982	20.4%	-4.2%	24.6%	2000	-9.1%	-13.2%	4.1%	2018	-4.4%	-13.6%	9.3%
1983	22.3%	21.0%	1.3%	2001	-11.9%	-21.2%	9.3%	2019	31.5%	23.2%	8.3%
1984	6.1%	0.6%	5.5%	2002	-22.1%	-15.5%	-6.6%	2020	18.4%	8.1%	10.3%
1985	31.2%	47.7%	-16.4%	2003	28.7%	40.0%	-11.3%	2021	28.7%	13.2%	15.5%
1986	18.5%	62.7%	-44.2%	2004	10.9%	20.8%	-10.0%	2022	-18.1%	-13.8%	-4.3%
1987	5.8%	22.8%	-16.9%	2005	4.9%	15.0%	-10.0%	2023	26.3%	18.6%	7.7%

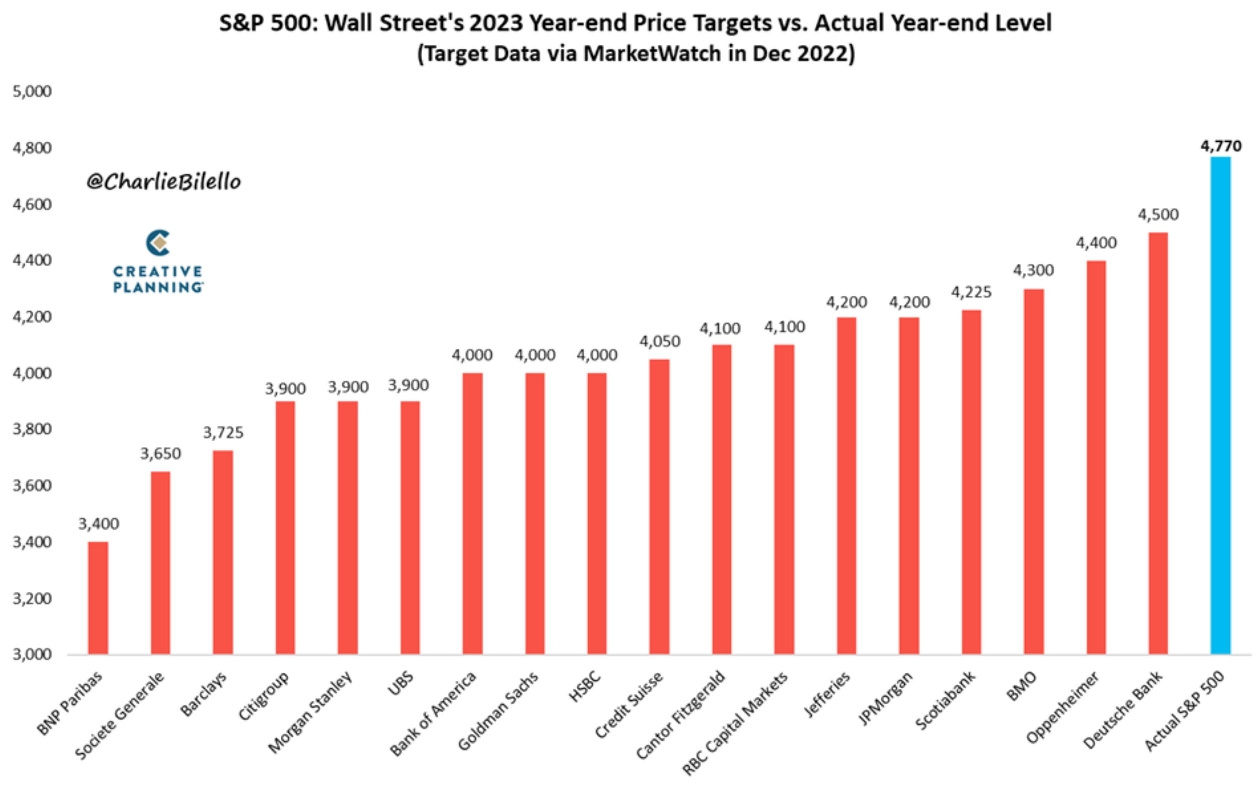
CREATIVE PLANNING @CharlieBilello As of 12/31/23

Source: Charlie Bilello

The S&P 500 would end the year at 4,770, besting every major Wall Street firm's price target by over 200 points. Every major Wall Street firm's predictions are shown on the following page. The S&P 500's actual price gain of 24% was over 18% higher than the average forecast. All in all, it was a triumph of the optimists once more. As Lao Tzu said, "those who have knowledge don't predict. Those who do predict don't have knowledge."

2023 DEFIED PREDICTIONS AND SHOWCASED THE TRIUMPH OF OPTIMISM

BY KEIRAN WITTHUHN (CONT.)



FOR INVESTORS, IT PAYS TO BE AN OPTIMIST IN THE LONG-RUN

BY JAMES BENNETT

When it comes to investing in shares, be a pessimist in the short-term, a realist in the medium-term, and an optimist in the long-term.

The financial media is constantly full of headlines imploring investors to sell some or all their shares to avoid an imminent market catastrophe. Bad news sells better than good news in the media. It is possible that one day, this impending doom view will come true. Theoretically, almost anything can go wrong with the world we live in.

The question is whether anyone can accurately forecast or predict when it will happen. Investors should not constantly react to this type of negative newsflow. If we did, we would seldom be invested in the market. One rarely sees an article headline suggesting we should hold our portfolios for “steady, compounding gains over the next 20 years”. After all, this makes for boring journalism. I believe being an optimist at heart makes for more successful investing over the long term.

Here is my philosophy regarding investing in shares:

Short-term

Be a pessimist. Be extremely careful what you invest in. Assume that whatever can go wrong in the short-term probably will. This is particularly helpful when trying to invest in turnaround situations. Often, things get worse before they get better. Keep your expectations very low about possible short-term outcomes. Markets always feel like they are climbing a wall of worry in the near-term.

FOR INVESTORS IT PAYS TO BE AN OPTIMIST IN THE LONG-RUN

BY JAMES BENNETT (CONT.)

Medium-term

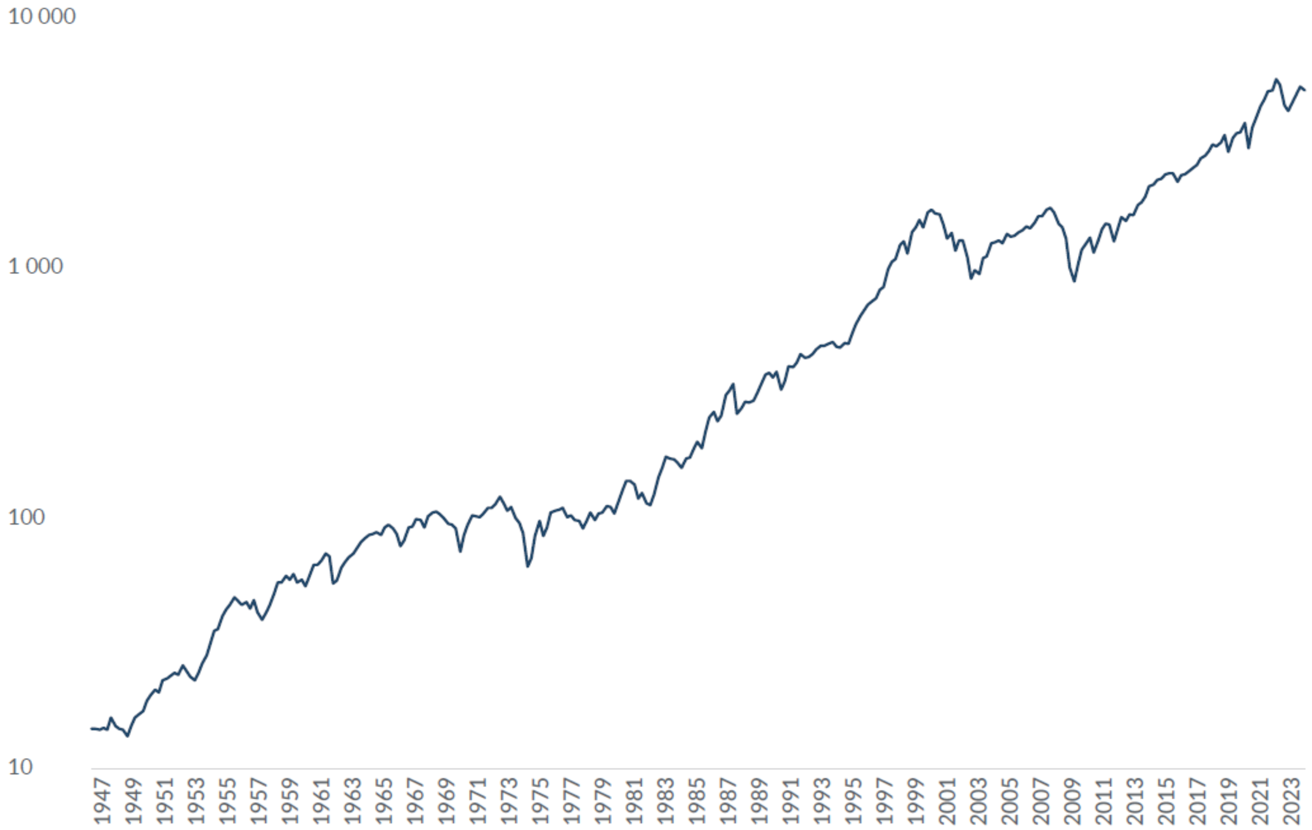
Be a realist. In the medium-term, a mixture of things will go right and wrong with the shares in your portfolio. Some things will end up worse than you expected, and other things will turn out better. Often, the shares you thought would be your winners disappoint you. Conversely, the shares you expected the least from sometimes end up positively surprising you the most.

Long-term

Be an optimist. Humanity is resourceful and has demonstrated an ability to successfully navigate change and find solutions to challenges. Many issues generally work out in the long-term. We can look back at investments we made years ago and realise how futile our worries were at the time. This is especially true for broad macro issues. Most importantly, we invested in a portfolio of high-quality companies over the long-term. Being an optimist also helps us grind through a few years where the market might have done nothing but move sideways or down.

Figure 1 below shows the performance of the S&P 500 Index since the 1940s. Consider all the things to worry about over these many decades. Being optimistic that concerns and issues generally work themselves out, in the long run, would have given us the best chance of capturing this superb market performance over the years.

Figure 1: The S&P 500 Index* … imagine all the things to worry about during this period
Source: Anchor, Bloomberg



**Note logarithmic scale and 2023 is the year to 6 October.*

An exercise I like to do periodically is to go back and watch a few clips of market commentators from years ago. So many of their concerns back then are the same issues we worry about today. I recall recently watching a panel of US market experts discussing their worries about the overall market. I was struck by their timely, relevant, and insightful concerns. Only halfway through the clip did I discover that I was watching an interview conducted several years ago. The issues and concerns never really seem to change. Yet here we are in 2023, and the market has found a way to work through our perennial concerns.

FOR INVESTORS IT PAYS TO BE AN OPTIMIST IN THE LONG-RUN

BY JAMES BENNETT (CONT.)

In the moment, market pullbacks feel severe when we experience them. However, years later, looking back at that same sell-off on a long-term chart, it appears to be nothing more than a blip. That is when we look back and think, "Why were we so worried at the time?". An optimist is best placed to use these periodic blips as long-term buying opportunities.

I would argue that the world's highly successful businesspeople achieved what they did partly by being optimists at heart. Being an optimist does not mean we blindly invest in every supposed hot idea that crosses our path. Instead, it means we believe that hard work and application, coupled with a small dose of good fortune and taking some risk, will lead to good outcomes over the long term. Provided we do our part, things will typically work out in the long run.

The impact of good fortune is an underappreciated element of success. No matter how hard we work, we must be in the right place at the right time. However, I would suggest that if you are an optimist, you increase the chances of some good fortune coming your way many times over.

Being a pessimist leads us to make poor, long-term investment choices. It makes us reactive to short-term, negative newsflow. It also makes us more likely to sell our shares at a market low. A pessimist leans towards putting their money under the mattress, thereby missing out on overall market returns over the years. Inflation is enemy number one for our assets in the long run. Few things in life are assured. However, cash under the mattress is almost guaranteed to suffer the ravages of inflation over time, leading to poor investment outcomes.

The following is often true of market commentators or financial analysts. Being bullish makes us sound unwise, inexperienced, and possibly even gullible. However, being bearish makes us sound knowledgeable and wise. Yet the entire underlying thesis of equity investing is that markets rise over time, beating inflation. Why else would we invest in the market?

I heard the following quote from Nick Train (a UK fund manager) in a TV interview a while ago, and it struck a chord with me. I am sure he meant this somewhat tongue-in-cheek, but he nevertheless made a powerful point.

"I would rather give my money to a foolish optimist than a wise pessimist, for the optimist has history on their side".

Here is a view I often express to friends who ask for financial guidance while voicing their concerns about the uncertain future; "You cannot financially plan for World War III". There is always a what-if scenario for which the best-laid plans cannot cater. Whether it is money under the mattress, a passive index fund, a value strategy or a property portfolio, there is always a scenario under which no investment strategy can come to our rescue. It is pointless dwelling on these types of extreme scenarios. Even if they happen, there will not be much we can do about it.

Instead, we must assume that the world as we know it will continue as a going concern for the foreseeable future. Furthermore, it helps to understand that humanity has an incredible ability to navigate and adapt to difficult circumstances. This gives us the best chance to succeed as a long-term investor. As a bonus, life is more enjoyable if we take an optimistic view.

"Play long-term games with long-term people. All returns in life, whether in wealth, relationships, or knowledge, come from compound interest" – Naval Ravikant

WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

ANCHOR BCI SA EQUITY FUND

BY THE ANCHOR BCI SA EQUITY TEAM

Global equities extended November's rally in December (MSCI World +4.9% MoM, taking the full year rise to a very strong 24.4%). The main catalyst for this year-end rally has been the increasing optimism among investors that the rising interest rate cycle is in the rearview mirror and rate cuts are in prospect in 2024, all while a recession is avoided – a relatively "high road" scenario indeed! A notable feature of the recent rally has been that, while performance in the early part of 2023 was highly concentrated among the Magnificent Seven (Apple, Amazon, Alphabet, Meta, Tesla, Nvidia and Microsoft), the closing months saw a broadening out in participation in the rally – growth stocks in particular, which had suffered significant valuation corrections when rates rose were among the outperformers as the prospect of rate cuts grew. Emerging Markets (EMs) (MSCI EM +3.9% MoM and +10.1% for the year) were once again held back by Chinese stocks, which struggled in December as regulators announced unanticipated regulatory interventions targeting online gaming, thus forcing a reassessment of investors' belief up to that point that the wide-ranging regulatory reset in China's tech sector was complete.

South African equities benefitted from the shift in investor sentiment discussed above, also rallying strongly in November (FTSE/JSE Capped SWIX Index +8.3% MoM). Naspers and Prosus (+19% MoM) were among the big winners as Tencent (+14% MoM in rand terms) bucked the generally sombre Chinese mood. All reported results that were well received by investors. Gold shares also had a good month in sympathy with a rallying gold price. Failing to join the party were energy counters (Sasol -11% MoM, Thungela -13% MoM) as energy prices weakened on global macro concerns. A subdued update from Bidvest (-11% MoM) was also a warning of the hostile conditions domestic companies have faced in the 2nd half of 2023, even as the incidence of loadshedding has appeared at times to have moderated.

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

- Naspers
- Prosus
- Standard Bank
- Investec
- Bidcorp
- Absa
- Afrimat
- British American Tobacco
- Transaction Capital
- ADvTECH
- Richemont
- Shoprite
- Anglo American
- BHP Group
- Growthpoint Properties

Main changes in the month

As for changes to the fund in November, we took advantage of what we saw as an over-reaction to **Bidvest's** rather subdued trading update to add to the position. We also continued to build exposure to **Clicks**, while starting a position in **Dischem** – areas of consumer exposure where we have confidence in the growth algorithm over the next few years. Conversely, we've decided to part ways with **MultiChoice** and **Discovery**. In the case of MultiChoice, this reflected our decision to increase further the fund's exposure to shares with superior returns on capital and a clearer growth outlook. In the case of Discovery, we have opted to move to the sidelines as it transitions to the new accounting standard, IFRS17, as well as while we monitor developments around the controversial NHI legislation ahead of elections.

Performance

We made relatively few changes to the fund in December. We continued to build the position in **Dis-Chem**, which we started in November. We also added to the fund's holding in **Invicta** – it was reassuring to see management also actively buying shares. Finally, we added slightly to the fund's holding in **Transaction Capital** following its results, which led us to conclude the management team is making headway with its turnaround plan after the group's disastrous year in 2023.

The Anchor BCI SA Equity team

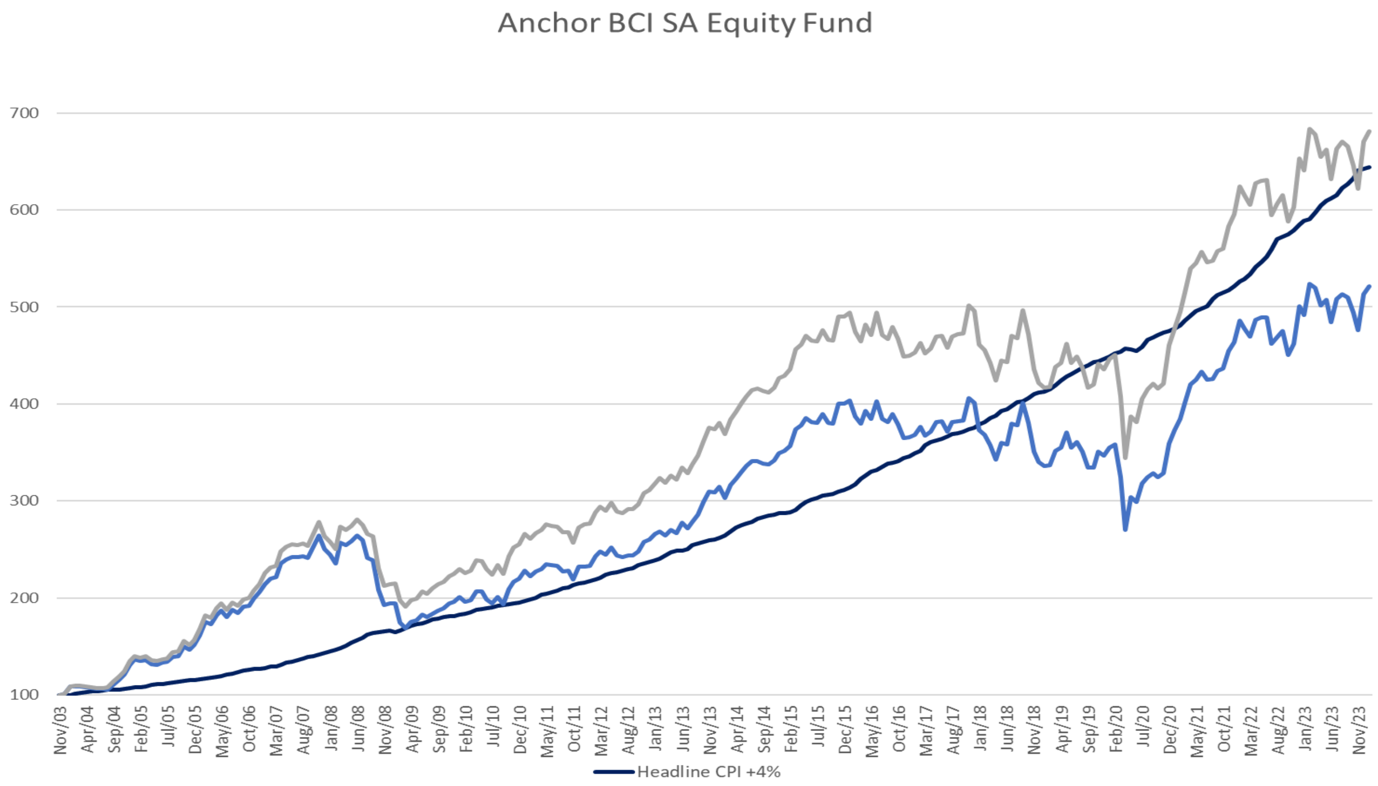
Mike Gresty, Liam Hechter, Steph Erasmus, Seleho Tsatsi, Peter Little

WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

The Family Office

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

The Anchor BCI SA Equity Fund closed December at 521.19c, up 1.51% for the month and up 6.05% 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.

What world leaders are saying about the key themes

Mohamed El-Erian on the SEC approving the first bitcoin ETFs – “Advocates are right in calling this a “game changer” for crypto as a financial asset/investment, though not as a potential global currency.

This SEC decision will do more than deepen and broaden participation in Bitcoin investing. It will also help in countering legitimacy concerns fuelled by the well-publicized scandals of the last few years, and it will provide comforting cover to some other regulators.

As notable as all these factors are for anchoring crypto in the investment world, they do not significantly propel its role as a potential global currency. The outlook here remains more constrained.”

Federal Reserve Chairman, Jerome Powell, on the strong US economy - "I think forecasters generally, if you go back a year, were very broadly forecasting a recession for this year, for 2023, and not only did that not happen, that includes fed forecasters and really essentially all forecasters, a very high proportion of forecasters predicted very weak growth or a recession. Not only did that not happen, we actually had a very strong year, and that was a combination of strong demand but also real gains on the supply side.“

Outgoing Morgan Stanley CEO, James Gorman, on staying focused on the big things - "I didn't write [a checklist] this year. I did that when I was CEO for 14 years, and it gave me a framework for focusing on a few big things that matter because, in these jobs, there are thousands—literally thousands—of issues that come at you. And you can easily lose sight of the stuff that actually matters, which is a few big things. One of them was always ‘no new mistakes,’ which I defined as things that cost us more than a half-billion of capital. Sometimes they were personal, like ‘stay fit’ or ‘get fit,’”

Robert Cowen Investments
Growing families’ wealth since 1982