ROBERT COWEN INVESTMENTS

March 2024 NEWSLETTER

25 March 2024

HIGHLIGHTS OF THIS NEWSLETTER ARE:

- 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*
- Uncovering the Hidden Costs: The Role of Emotional Biases in Investment Decisions – *by Steph Erasmus*

The US is still the best place to invest

"So the situation worldwide is getting more and more difficult. As you know, about all the geopolitical uncertainties. China's economy is going down. Deficits are rising everywhere. But still, the U.S. market keeps climbing to new highs…the U.S., in spite of it being in some sense, a deteriorating situation politically, financially, and even culturally is still relatively the strongest place in the world to bring your money. So that's what people are doing, and that's what we see in our rising account numbers. People from all over the world want to have their money in the United States. So they invest in the U.S." - **Interactive Brokers Group (IBKR) Chairman Thomas Pechy Peterffy**

China is changing in some significant ways

"Importantly, we fundamentally believe that it's unlikely for China to go back to the old growth model, which relies excessively on borrowing and channelling excess savings to unproductive investments to boost GDP. That's not going to come back. Now the shift in landscape from a policy perspective, it's not a change of that new growth model that China wants. But it's a reality check on the timeline and execution of the new growth model, right? So that will have implications that require everybody, all participants in the economy, the government, the corporates, financial institutions, and investors to adjust our expectations to adapt to this new normal. In the past, our approach, like in China, leaned towards strategies where taking risks on lower-quality assets could lead to outperformance. However, the current landscape demands a return to basics. It's crucial to focus on fundamental factors, especially vendor credit selection, to generate alpha, particularly amidst ongoing market growth." - **Allianz Global Asia Fixed Income CIO Jenny Zeng**

Why we invest in innovative companies

"If you give people tools and they use their natural abilities and their curiosity, they will develop things in ways that will surprise you very much beyond what you might have expected" – **Bill Gates**

The danger of overpaying for companies

"Investors making purchases in an overheated market need to recognize that it may often take an extended period for the value of even an outstanding company to catch up with the price they paid" – **Warren Buffett**

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

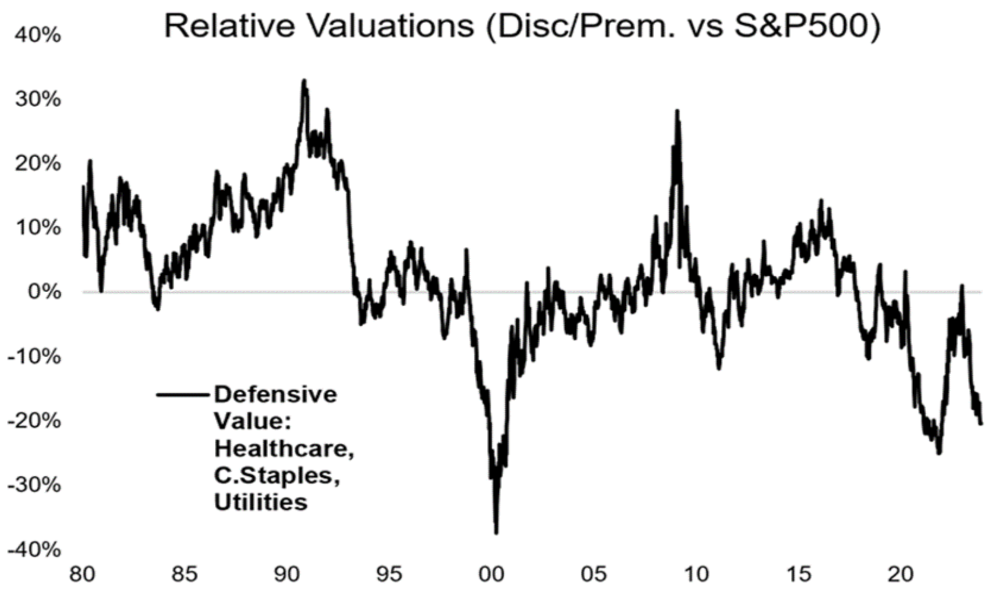
Robert Cowen Investments
Growing families' wealth since 1982

WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

RCI BCI WORLDWIDE FLEXIBLE FUND

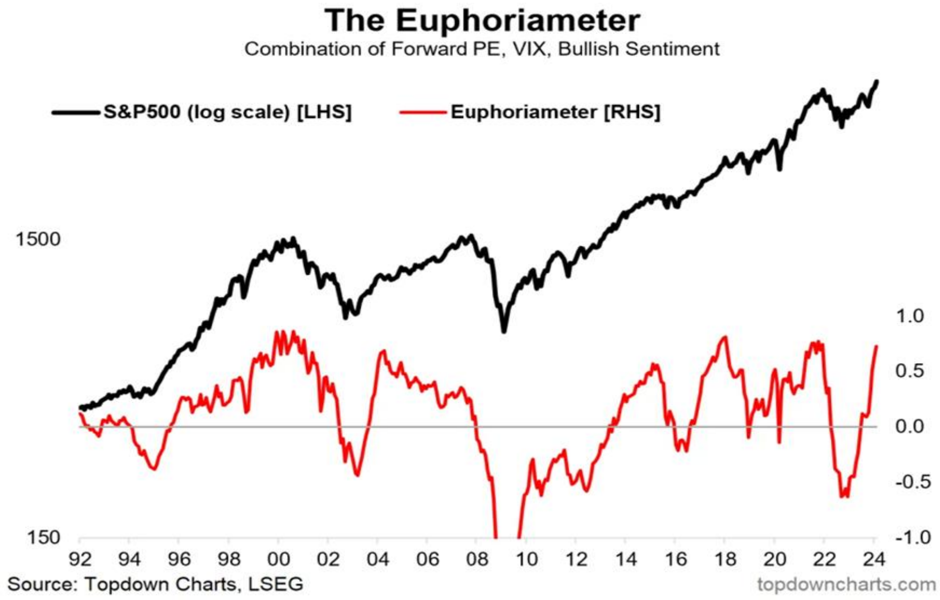
Global markets have been extremely strong this year with the MSCI World up 2.6% in February (in USD). This takes the year-to-date performance to 4.6% on the back of rising 22% in 2023. This performance was mostly driven by huge flows into a handful of US sectors, with major share price moves in companies involved in Artificial Intelligence or weight loss drugs.

If we examine the relative valuation of defensive stocks vs the S&P500 we can clearly see the market has favoured tech and growth this last year over defensives. The previous times this occurred was during the Dot-Com bubble and COVID-19 stimulus euphoria. This implies that the market is currently extremely optimistic towards businesses with long dated earnings which can sometimes be considered riskier businesses.



(Source: Bloomberg, Anchor Capital) Graph showing the relative valuation between defensive/value shares like healthcare, Consumer Staples and Utilities vs the overall S&P 500. The only times the discount was greater was during the dotcom bubble and the 2021 COVID-19 stimulus euphoria.

Top Down Charts has a great graph called the "Euphoriameter" that is currently indicating elevated market optimism. The graph uses a combination of P/E ratios - high valuations at present indicate high confidence in future earnings; VIX readings - low volatility is seen as a period of complacency; and surveys of market participants – people feel bullish when markets go up. A high level doesn't necessarily infer that one should sell as we have seen several times in the past where the market was right to be optimistic as the shares continued to push higher.



The Euphoriameter is showing elevated levels of bullishness at present.

WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONT.)

It definitely feels euphoric when we examine the extremely large share price increases of late, many of which were on top of already outstanding performance last year:

	Year to Date		
ARM HOLDINGS PLC-ADR	88%	ARISTA NETWORKS INC	18%
NVIDIA CORP	60%	CHIPOTLE MEXICAN GRILL IN	18%
META PLATFORMS INC-CLASS	38%	NOVO NORDISK A/S-B	17%
SPOTIFY	36%	SALESFORCE.COM INC	17%
AMD	31%	STRYKER CORP	17%
ELI LILLY & CO	29%	BROADCOM INC	17%
ASML	28%	TAIWAN SEMICONDUCTOR MA	16%
NETFLIX	24%	AMAZON.COM INC	16%
DISNEY	24%	AIRBNB	16%
CIE FINANCIERE RICHEMONT	21%	CONSTELLATION SOFTWARE	15%
HERMES INTERNATIONAL	21%	LVMH MOET HENNESSY LOUIS	15%
MONCLER SPA	20%	BOSTON SCIENTIFIC CORP	15%
THE TRADE DESK	19%	BERKSHIRE	14%
FORTINET	18%		

In last month's commentary we examined how expensive the S&P 500 valuation has become and from the above, it is clear that the bit is between the teeth currently. In order to justify current valuations, the stock market needs a strong economy this year that should filter into earnings. Many people are betting that AI will be the answer to increased productivity and cost efficiencies and we would agree with that notion, but we believe it will likely take a lot longer to filter into the general economy than people expect.

"We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run" (Roy Amara, Scientist and Futurist)

Portfolio Strategy

The focus of the portfolio continues to be direct investment in high quality offshore equities that are world leaders in their industries, with emphasis on businesses with high Return on Capital Employed combined with excellent free cash flow generation. We tend to ignore whether or not a company pays a dividend as we usually prefer those businesses that reinvest earnings in their internal operations. We also tend not to chase short-term investment narratives and themes that could be trending in the market, as we would not want to reduce the quality of the portfolio for the sake of following the flavour of the month.

Our top 10 positions

	PE in one years time	PEG Ratio (FWD PE/'23-25 Growth)	EPS Growth		
			2022-2023A Growth	2023-2024E Growth	2024-2025E Growth
ALPHABET INC-CL C	18.94	1.22	33%	17%	14%
AMAZON.COM INC	33.68	1.20	431%	34%	23%
ASML	44.01	2.08	38%	-2%	50%
BOSTON SCIENTIFIC	28.98	2.23	17%	13%	13%
CONSTELLATION SOFTWARE	38.56	2.05	57%	23%	15%
FORTINET	40.90	3.60	31%	8%	15%
INTUIT INC	37.04	2.29	20%	15%	16%
MICROSOFT CORP	32.41	2.20	5%	21%	15%
MONCLER SPA	27.23	2.56	0%	10%	12%
VISA	27.07	2.18	16%	14%	12%
Harmonic Mean PE	**31.09**				
PEG Ratio (Forward PE/'23-25 Growth in EPS)		**1.96**			
Annual EPS Growth Rate (Median)			**25%**	**15%**	**15%**
S&P500 - FWD PE and EPS Growth	**20.94**		**0%**	**9%**	**12%**

WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONT.)

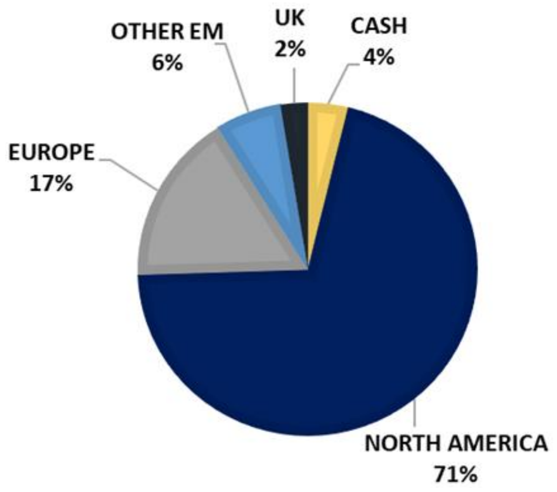
We expect strong performance out of our top 10 positions for the 2024 and 2025 years. Our portfolio is expected to grow earnings per share in the mid-teens which is far higher than the S&P500, where analysts expect 10% average growth over 2024 and 2025. Our companies are trading at higher valuations, 31x, versus the S&P500's 20.9x, 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.

At present there are no investments in South Africa, other than rand flows due to new subscriptions.

Changes made during the month

No changes made during the month.

Geographic Drivers



- We have exposure to Europe via global companies: ASML, Amadeus, LVMH, Novo Nordisk and Moncler.
- We have non-Chinese Emerging Markets exposure via Mercado Libre and Nu Holdings.
- We have UK exposure through the global pest control and hygiene company Rentokil Initial

Performance in Rand

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
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%**
2024	5.7%	4.6%											**10.6%**

<u>For the month</u>, the fund was up 4.6% in ZAR terms (+1.7% in USD) compared to the MSCI Developed Markets Index which was up 5.6% in ZAR (+2.6% in USD) for the month. The Rand weakened 2.9% for the month contributing to the performance in ZAR.

<u>For the 2023 year</u>, 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:

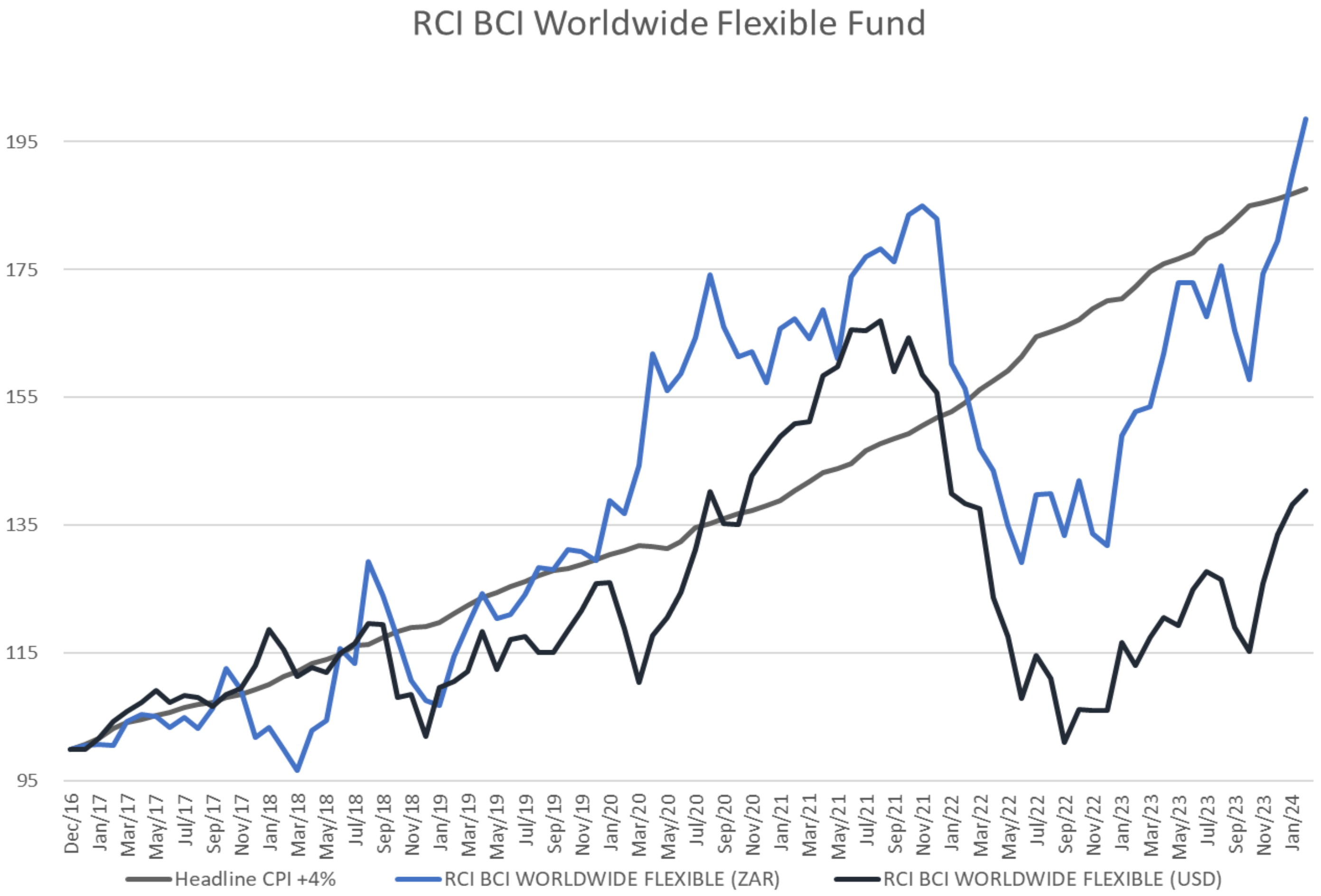
- **Mike Gresty**
- **Di Haiden**
- **Ross McConnochie**
- **Eric Lappeman**
- **Andrew Lawson**
- **Gontse Dikeledi**
- **Keiran Witthuhn**

RCI OFFSHORE UNIT TRUSTS

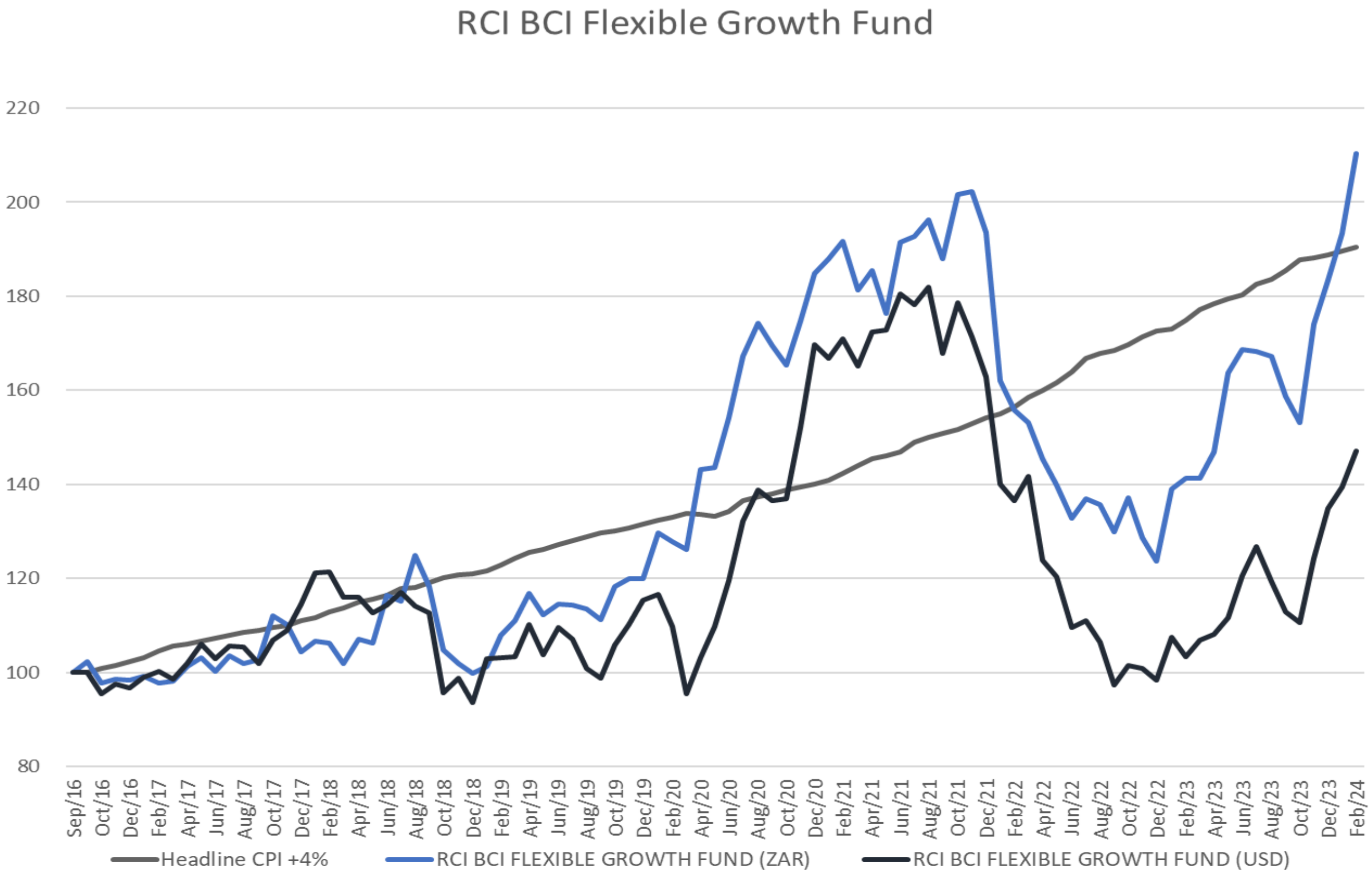
"In the short run, the market is a voting machine, but in the long run it is a weighing machine." – Benjamin Graham

The Family Office

RCI BCI Worldwide Flexible Fund closed February at 198.55, up 4.643% for the month and up 29.97% for the last 12 months.



RCI BCI Flexible Growth Fund closed February at 210.44, up 8.80% for the month and up 48.97% for the last 12 months.



WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

ANCHOR BCI SA EQUITY FUND

BY THE ANCHOR BCI SA EQUITY TEAM

Global equities extended their positive start to the year with a strong February performance (MSCI World +4.3% MoM). Optimism among equity investors was in stark contrast with bond markets, where US 10-yr bond yields rose 0.35% to comfortably above 4%, as economic data saw optimism about the pace of US Federal Reserve rate cuts fade. As the US corporate earnings season wrapped up, this positive sentiment among equity investors likely emanates from better-than-expected results, as well as continued momentum in several of the large technology companies at the centre of the AI theme (Nvidia in particular). Thus, as we saw throughout much of 2023, it was a small grouping of shares that disproportionately drove February's stellar performance. Emerging Markets (EMs) finally broke a 4-month streak of underperformance vs. DM in February (MSCI EM 4.8%). Chinese equities, which have been a major drag on EM performance, rallied strongly in February, as stimulus measures and some positive macro data relating to consumer activity during Chinese New Year led investors to begin questioning whether the extremely negative sentiment towards this market had become overdone.

Sadly, South African equities failed to emulate the strong performance of their global peers, (FTSE/JSE Capped SWIX Index -2.3% MoM). A raft of trading updates and results delivered mainly disappointing news for investors, as the impact of SA's weak macro environment and crumbling infrastructure was evident in the results of many companies reliant on the South African market. Miners (-7% MoM) were the economic grouping responsible for the biggest drag, with Platinum miners (-12% MoM) taking particular punishment, as their latest updates revealed how much their financial performance has deteriorated as commodity prices have fallen. On the more positive side, a weakening rand (-2.7% MoM vs. the US dollar) put some wind in the sails of rand hedges – Richemont +9% MoM, for example. Another notable mover was MultiChoice (+39% MoM), which was buoyed by a buyout offer from Vivendi Canal+. Low levels of trading activity suggest SA investors are struggling for new ideas in the face of lack of appetite to commit new money to the SA market. Thus, there is a distinct sense of playing defence and avoiding areas of potential disappointment – Pick n Pay (-14% MoM) was a case in point, where investors thinking 2023's precipitous fall provided an attractive entry, were treated to a nasty surprise by the company's dreadful trading update, which included news of a pending R4bn equity raise.

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 February, the top 15 holdings in the fund, making up 66% of the equity exposure, were as follows:

- Naspers
- Prosus
- Bidcorp
- Standard Bank
- Investec
- Absa
- Afrimat
- Transaction Capital
- Richemont
- British American Tobacco
- ADvTECH
- Dis-Chem
- Bidvest
- Shoprite
- Growthpoint Properties

Main changes in the month

We made several new investments in February. We continued to build exposure to the property sector by adding **Vukile**. A small position was started in **Pepkor** as we continue to reduce the fund's underexposure to the SA consumer. We also began to reduce our underweight exposure to the gold sector by adding a position in **AngloGold Ashanti**, noting the degree to which gold equities have underperformed the metal, which should benefit from anticipated declining interest rates ahead. In addition, we continued to add to our existing positions in **Bidvest** and **Dis-Chem**. These additions to the fund were partially funded by the disposal of **HCI**, where the corporate action announced concerning its oil exploration interests did not yield the immediate value unlock we had expected. We also sold out of the fund's position in **Sanlam**, believing that better return potential exists elsewhere after the share's strong performance over the past year and its resultant rerating.

WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

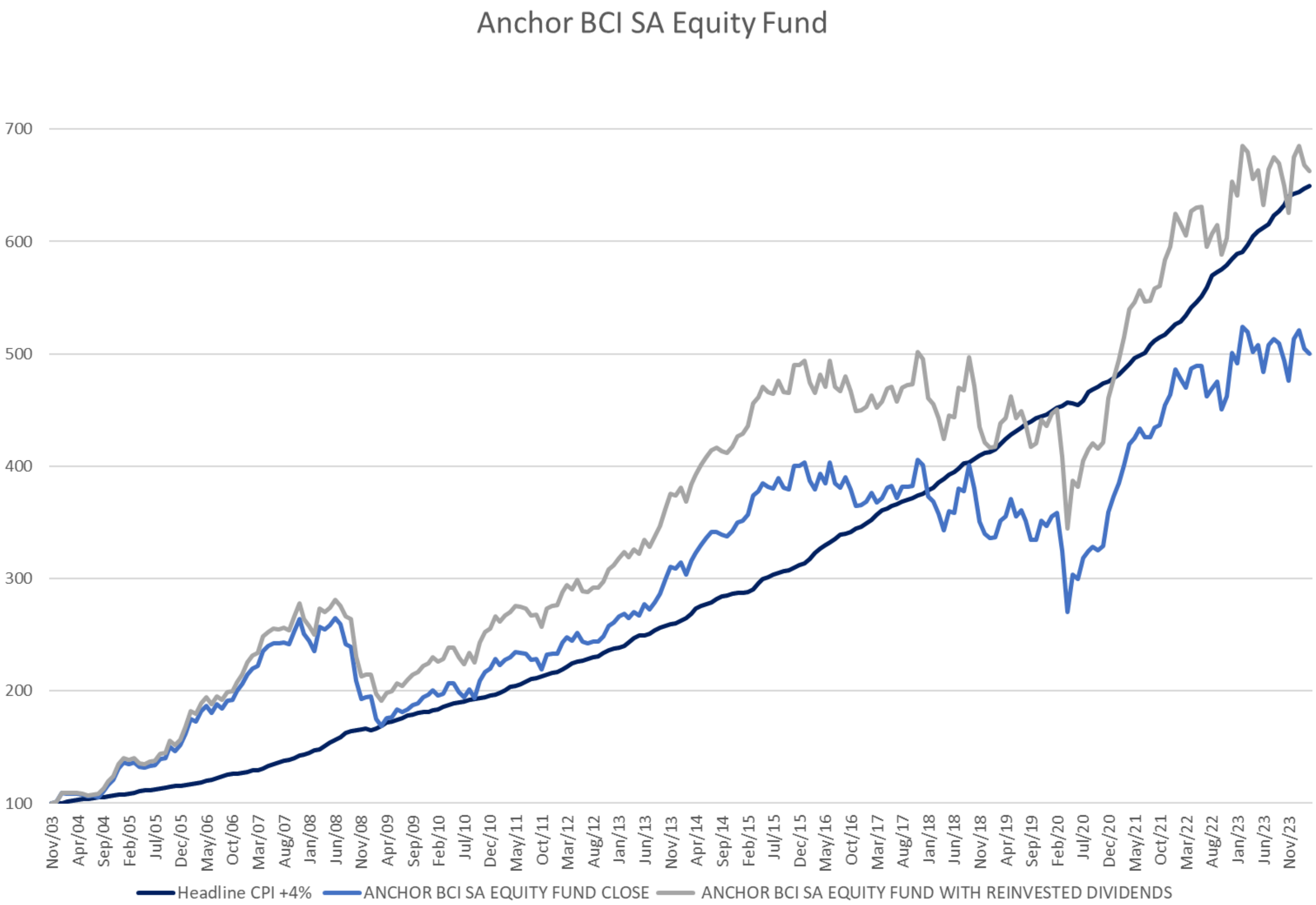
BY THE ANCHOR BCI SA EQUITY INVESTMENT TEAM (CONT.)

Performance

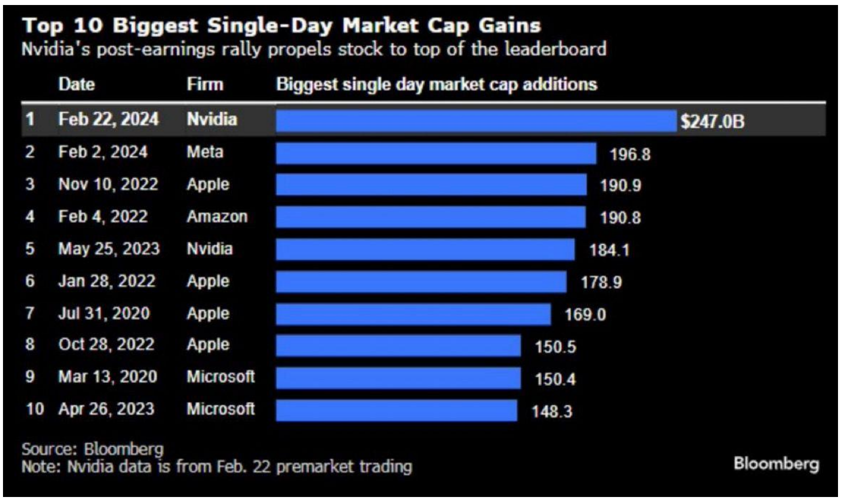
The Anchor BCI SA Equity Fund decreased by 0.7% MoM, with the quality orientation of the fund proving its worth. The notable positive contributors to the fund’s performance in February were **Transaction Capital** (following a favourable market response to the proposed WeBuyCars unbundling and separate listing), **Richemont**, as well as underweight exposure to miners and struggling platinum group metal (PGM) miners in particular. The fund’s February detractors included **Afrimat** (giving back some of January’s strong performance and weakness in iron ore prices), **Sasol** (disappointing results), and **MAS Plc**.

The Anchor BCI SA Equity team

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



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.



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UNCOVERING THE HIDDEN COSTS: THE ROLE OF EMOTIONAL BIASES IN INVESTMENT DECISIONS

The Family Office

BY STEPH ERASMUS (SENIOR ANCHOR INVESTMENT ANALYST)

It is common for individual investors to underperform the market when it comes to returns, but have you ever wondered why? A 2023 DALBAR Quantitative Analysis of Investor Behaviour (QAIB) study uncovers a startling truth: Over the past 20 years, the average equity investor has lagged the S&P 500 by almost 4% per year. Surprisingly, this gap is attributed more to investor behaviour than the performance of the funds they invest in. What is behind this significant gap between market benchmarks and the average returns of individual investors?

Similarly, a 2019 report by Barclays indicates that emotional biases influence about 75% of retail investors' decisions, leading to an average annual loss of nearly -3%. Despite the wealth of tools and information, why do many investors still make these costly errors?

The often-ignored answer lies in behavioural finance, which delves into the psychological aspects and biases influencing our investment choices. These biases can skew our judgement and lead us to make emotion-driven decisions.

This article will delve into the fascinating domain of behavioural finance and its impact on individual investors and broader financial markets. We will use three case studies to highlight the psychological pitfalls that can significantly sway market outcomes. More importantly, we will provide actionable insights to help you recognise and mitigate these biases in your investment strategy.

By the end of this article, you will have a comprehensive understanding of the psychological factors that influence financial decisions. You will also discover how to leverage this knowledge for your benefit. So, let us dive into the intricate psychological elements that shape our financial behaviour and its repercussions on investment outcomes.

Common Emotional Biases and their Implications

These biases often shape our financial decisions:

Groupthink and the influence of social media:

Nobel laureate Robert J. Shiller describes groupthink as a self-reinforcing cycle, emphasising that the sway of social influence has been around for a long time. In investment, groupthink can be particularly dangerous because it encourages conformity over critical thinking. Social media platforms amplify this effect by creating echo chambers where only similar opinions are voiced and validated. This can lead investors to decide based on popular sentiment rather than objective analysis. For example, when a particular stock trends on social media, the fear of missing out (FOMO) can drive investors to buy without adequate research. This herd mentality, fuelled by social media, can inflate asset bubbles and exacerbate market volatility. Groupthink and social media can cloud our judgement, making us susceptible to investment choices that may not align with our financial goals or risk tolerance.

Overconfidence:

This bias can make us overly optimistic about our skills and the potential returns on investment, leading us to ignore warning signs or expert advice. For example, many amateur day traders enter the stock market believing they can easily outperform seasoned professionals, only to face significant losses. As Warren Buffett once said, "Overconfidence is the enemy of the rational investor."

Loss aversion:

According to psychologist Amos Tversky, "The emotional impact of a loss is twice that of a gain." This psychological bias can have a profound effect on our investment decisions. The fear of losing money often outweighs the potential joy of making a profit, leading us to make choices that may not be in our best financial interest. For example, this loss aversion can cause investors to hold onto underperforming stocks far longer than they should, hoping that these stocks will rebound. This emotional attachment to avoiding loss can result in missed opportunities for higher returns in more promising investment avenues. Loss aversion can keep us in a financial rut, hindering our ability to make rational, forward-thinking decisions.

The Family Office

Case Studies: The Dot-Com Bubble, the 2008 Global Financial Crisis (GFC) and the GameStop Phenomenon

1. The dot-com bubble: A tale of overconfidence and herd behaviour

Timeline: Late 1990s to early 2000s

Overview: The dot-com bubble witnessed a meteoric rise and subsequent crash in tech and internet stocks. Investors, enticed by the allure of a "new economy," invested heavily without adequate research.

Behavioural biases: Overconfidence and herd behaviour were prevalent. Investors felt invincible in a booming market and often followed the masses into tech investments without grasping the fundamentals.

Quote: Alan Greenspan, the then Federal Reserve Chairperson, cautioned against "irrational exuberance," spotlighting the overconfidence permeating investor behaviour.

2. The 2008 GFC: Overconfidence meets loss aversion

Timeline: 2007-2008

Overview: The downfall of major financial institutions due to subprime mortgage exposure and government bailouts led to a significant decline in consumer wealth and market instability.

Behavioural biases: Overconfidence in the housing market and intricate financial products, coupled with loss aversion, were key players. Many investors clung to depreciating assets, hoping for a market recovery.

Quote: Ben Bernanke, the then Federal Reserve Chairperson, observed that "financial institutions' risk management systems were inadequate," highlighting systemic overconfidence in risk evaluation.

3. The GameStop saga: Individual investors challenge the financial elite

Timeline: January-February 2021

Overview: Online platforms like Reddit's WallStreetBets became a rallying point for individual investors to buy GameStop shares. Many joined the cause without thorough analysis.

Behavioural biases: Overconfidence and herd behaviour were again at play. Individual investors became increasingly self-assured, thinking they could outsmart financial professionals.

Quote: Daniel Kahneman, renowned for his research on decision-making psychology, warns that "overconfidence is a potent source of delusions."

UNCOVERING THE HIDDEN COSTS: THE ROLE OF EMOTIONAL BIASES IN INVESTMENT DECISIONS

BY STEPH ERASMUS
(CONT.)

Strategies to Counteract Biases

"Knowing is not enough; we must apply. Being willing is not enough; we must do," Leonardo da Vinci wisely stated. Acknowledging that emotional biases exist is the first step, but applying this knowledge to our financial decisions is the task. So, how can we effectively steer through this maze of biases?

Self-reflection: The first line of defence is self-awareness. As Charlie Munger, vice chairman of Berkshire Hathaway, suggests, "You don't have to be a genius; just avoid making foolish decisions consistently." Keeping an investment journal to document your thoughts, feelings, and the reasoning behind each investment can be invaluable.

Consulting experts: The adage "two heads are better than one" rings true in investment decisions. A trustworthy financial advisor can provide an impartial view and challenge your assumptions, helping you sidestep emotionally charged, rash decisions.

Portfolio diversification: As Warren Buffett advises, "Don't put all your eggs in one basket." Diversifying minimises your financial risk and dampens the emotional highs and lows of investing in a single stock.

Automated investment platforms: While not foolproof, algorithmic trading systems and robo-advisors can minimise the impact of emotional biases. These platforms make decisions based on set criteria, removing the emotional pitfalls that can cloud human judgement.

Conclusion

Behavioural economics is central to understanding market dynamics and why individual investors often commit predictable mistakes. Daniel Kahneman aptly says, "You're neither rational nor irrational; you're human." This captures the essence of behavioural economics: our financial choices are deeply rooted in our emotional and cognitive limitations.

So, what is the takeaway? First, understanding emotional biases is an intellectual exercise and a practical toolkit enabling us to make improved financial decisions. From the historical lessons of the dot-com bubble and the 2008 GFC to the recent GameStop trading phenomenon, these case studies serve as tangible examples of the influence of emotional biases.

Second, the journey to becoming a more rational investor is ongoing. Even as you become more mindful of your biases, the dynamic nature of financial markets means new biases can arise. Continuous self-evaluation and adaptation are not optional; they are essential for long-term investment success.

Lastly, the intricacy of human behaviour means there is no one-size-fits-all solution. What works for one person may not work for another. Therefore, the quest for financial wisdom is a profoundly individual journey that demands introspective practices, expert advice, and continuous refinement of investment strategies.

In summary, behavioural economics equips us with the frameworks to comprehend the 'why' behind our financial choices, adding depth to our investment strategies. With this knowledge, we are better prepared to navigate our economic future.