May 2024 NEWSLETTER

22 May 2024

HIGHLIGHTS OF THIS NEWSLETTER ARE:

- Global market insights: Perspectives from every corner
- Understanding situs and situs tax – *by Di Haiden & Kate Trollip*
- 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*

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.

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

Global Market Insights: Perspectives from every corner

Geopolitical Shifts Spark Gold Rush, Potential Boost for South African Economy

"A fractious global geopolitical environment has resulted in a pivot toward holding gold as a hedge. Authoritarian regimes have seen how Russia's US dollar reserves were seized in response to its invasion of Ukraine. The unexpected outcome is that these regimes have been down-weighting their US dollar reserves to hold gold reserves instead. Perhaps gold is regaining its lustre as it sets new record-high prices. Gold might be the tailwind that the South African economy needs." – **Anchor Capital: The Navigator**

Gold price – Source: Trading Economics

GLOBAL MARKET INSIGHTS: PERSPECTIVES FROM EVERY CORNER

Anglo-BHP Consolidation

“The fact that all the mining companies look at each other with a view towards consolidating shows you how hard it is to find a new mine” - **Robert Friedland, Chairman of Ivanhoe**

Domestic Shares Looking Attractive: Pro-Risk Portfolios Poised for Growth

“Anchor believes domestic shares are poised for a catch-up rally after lagging over the past quarter (1Q24). We think prices are overly depressed and that a modest upturn in the domestic outlook and a middle-of-the-road election outcome could spark a catch-up rally for JSE-listed counters. We maintain the view that we are in a global economic boom (centred around the US) and that while equities have run hard, they have more room to grow.

Anchor is a proponent of balanced portfolios and diversified risks. We believe investors should have a long-term plan for what they seek to achieve with their investments and that the year ahead will likely see them move towards their eventual desired outcome. In our view, this is an excellent time to take a pro-risk stance in your portfolio and structured products and alternatives are valuable tools for achieving your desired outcomes. We believe a healthy portion of your investment portfolio should be offshore to take advantage of different opportunities and return profiles while diversifying SA-specific risk. We expect the rand will continue to gravitate around current levels vs the US dollar. Therefore, this is an excellent time to externalise a portion of your portfolio if you have not already done so.” – **Anchor Capital: The Navigator**

Diversification is the Only Free Lunch in Investing

“Diversification is the only free lunch investing. It's been called the only free lunch investing because it offers this rare opportunity to reduce risk (measured by the variance in return) without reducing expected return.

Usually, investors have to accept more risk in pursuit of higher expected returns, but this is a case where that relationship does not exactly hold up. At the extreme, buying a single stock exposes you to a little bit of market risk, which has a positive expected return and a lot of company-specific risk.

Company-specific risk does not have a positive expected return. Now, the exact number of stocks needed to call it a diversified portfolio is kind of hard to pin down, but in general, more diversification is going to be better than less. There are some cases where you might want to have a more concentrated portfolio to get exposure to some specific thing, like a small cap value fund, for example.

In addition to reducing return variance, diversification also helps reduce the impact of skewness in individual stock returns on portfolio outcomes. Some stocks do really, really well. Most stocks don’t do so well. So you’re much more likely to miss out on winners by having an overly concentrated portfolio. And that skewness is probably another reason that most actively managed funds underperform. They tend to be a lot less diversified than an index fund. That probably contributes to their difficulties in beating the market. If you look at something like the S&P 500, most of the returns are driven by a very small subset of its constituents. Most stocks in the market have underperformed and a lot of stocks have negative absolute returns.” - **The Rational Reminder podcast: The Most Important Lessons in Investing**

Rich Valuations Aren't a Sell Signal: Lessons from the Late '90s

“Valuations are on the rich end of the spectrum, but as I always say, much like I say about sentiment, valuation is a terrible market timing tool. You could talk about it as a backdrop. Markets are still fairly rich, but that is not the same thing as it's sending a message that you need to sell stocks because of rich valuation. Valuations can get rich, sentiment can get frothy, and it could stay that way for quite some time as we all learned in the late 1990s” **– Liz Ann Sonders, Chief Investment Strategist at Charles Schwab**

GLOBAL MARKET INSIGHTS: PERSPECTIVES FROM EVERY CORNER

The Family Office

Fed Rate Cuts are just Noise, Focus on the Bigger Picture

"The way I think about it is that Powell (Fed Chairman) is a dove (prefers lower interest rates), he has always been a dove. Raising rates is really against his nature. He generally wants to cut rates. The data is not completely in his favour, so maybe they cut once this year. Do I think they should cut at all? I personally would wait, but trust me, no one consults me on this.

But what the Fed does this year is likely irrelevant in our overall portfolio construction. It does not change how we play the themes we like or the timing of our investments. Credit quality is generally still sound. The consumer is not over-levered. There is a shortage of housing, and the US financial system has never been this healthy in anyone's lifetime, period. All the things that existed prior to 2008 do not exist today. We have a very dynamic economy with some very powerful themes. The Fed cutting or not cutting rates makes headlines for a couple of weeks. But if you think about it, if the Fed cuts rates once, or twice or no times, at the end of the day, who cares. The Fed raising rates 500bps, that got my attention. The Fed cutting rates 25bps or 50bps and then stopping, like everybody get a life."– **Steve Eisman (famous for shorting the US housing market in 2008), Neuberger Berman Senior Portfolio Manager**

Clear Policies and Steady Rates Drive Market Confidence

“Markets love stability and certainty. Markets won’t mind if rates are higher for longer so long as policy guidance is clear and the economic environment is stable. Executives are not going to make big decisions that drive growth if they are uncertain about the future operating environment” - **Kate Moore, BlackRock Global Allocation Team Head of Thematic Strategy**

UNDERSTANDING SITUS AND SITUS TAX

BY DI HAIDEN & KATE TROLLIP

The concept of situs holds significant importance, especially when determining taxes associated with non-residents in a specific jurisdiction. *The word ‘situs’ is used in financial and legal jargon as if we all understand its meaning. But do we, and what are the implications for us as SA residents, or any global resident, for that matter? This article explains what situs means and why it is important to know what tax will apply to your offshore assets.*

Situs and situs tax: Understanding taxation on non-resident assets

The concept of situs holds significant importance, especially when determining taxes associated with non-residents in a specific jurisdiction. Currently, we have clients spread across the globe, but often, the UK and the US crop up as destinations where assets (listed assets, bonds, property) are held. This article aims to explain situs and situs tax, focusing on the US and the UK, including the tax rates applicable to non-residents in these countries. Obviously, other jurisdictions also have situs tax, and we are more than happy to discuss these with you.

Situs

Situs refers to the location or position where an asset is located for legal purposes. It determines the jurisdiction where the asset is considered to be located and the relevant laws regarding its taxation.

Situs tax

Situs tax (also known as source-based taxation) is a form of taxation imposed on assets based on their location rather than the taxpayer's residence. It is commonly applied to assets such as property, listed shares, and cash, BUT it depends on the laws governing the jurisdiction in which the asset is held.

Situs tax helps governments generate revenue from economic activities within their borders, so it is important to all jurisdictions!

In this article, we have only concentrated on how situs tax works in the abovementioned jurisdictions.

US situs tax rates for non-residents

In the US, non-residents are subject to specific tax rates on income derived from US sources, including certain types of assets in the country. The key considerations for US situs tax rates for non-residents include:

1. **Property**: Non-residents are subject to a flat tax rate of 30% on gross rental income derived from property located in the US.

2. **Dividends and interest**: Non-residents may be subject to a 30% withholding tax on certain types of investment income, including dividends and interest from US sources. However, tax treaties between the US and other countries may lower the applicable tax rate. The W-8 BEN form a client completes allows them to declare that they are not US citizens and alerts the US Internal Revenue Service (IRS) that a double tax agreement (DTA) should be applied to these US assets.

3. **Capital gains**: Non-residents are generally not subject to US capital gains tax on the sale of personal property. However, gains from the sale of US real estate interests by non-residents are subject to taxation under the Foreign Investment in Real Property Tax Act (FIRPTA). Persons purchasing US real property interests from non-residents must withhold a percentage of the amount realised on the disposition.

4. **Estate tax**: Non-residents are subject to US estate tax on certain assets with a US situs, such as real estate and listed shares. The exemption amount is US$60,000, and any amount above that is taxed on a sliding scale with rates ranging from 18% to 40%. For a South African resident, it is important to note that the differential between US estate duty (maximum 40%) and SA estate duty (maximum 25%) cannot be refunded. Should the executor of an estate not declare the assets to the IRS, the IRS holds the executor personally liable for a number of years after the deceased's death.

UK situs tax rates for non-residents

In the UK, non-residents may also be subject to taxation on certain assets with a UK situs. The tax rates and rules vary depending on the specific asset and the individual's residency status. The essential considerations for UK situs tax rates for non-residents include:

1. **Real estate**: Non-residents who own residential property in the UK are subject to Non-Resident Capital Gains Tax (NRCGT) on gains arising from the disposal of UK residential property. The tax rates for non-residents are aligned with those applicable to UK residents, currently set at 18% for basic-rate taxpayers and 28% for higher-rate taxpayers.

2. **Inheritance tax**: Non-residents may be liable for UK inheritance tax on assets with a UK situs, such as real estate, listed shares, and cash. The inheritance tax rates for non-residents are the same as those for UK residents, with a standard rate of 40% on the value of the taxable estate exceeding the estate duty exemption amount (currently GBP325,000). Bear in mind a similar tax applies to offshore trusts holding assets in the UK and is applied on a ten-year cycle.

3. **Income tax**: Non-residents are generally only liable for UK income tax on income derived from UK sources. The tax rates for non-residents vary depending on the type of income, with different rates applicable to dividends, interest, rental income, and other forms of income generated from UK sources.

Conclusion

In conclusion, situs and situs tax play a crucial role in determining the tax treatment of assets held by non-residents in a specific jurisdiction. Understanding the situs of an asset helps taxation authorities establish the taxable connection and apply relevant tax laws and rates accordingly. For example, in both the US and the UK, non-residents may be subject to taxation on certain types of assets with a local situs, including real estate, listed shares and investment income. The applicable tax rates and rules vary depending on the specific jurisdiction and the type of asset involved, highlighting the importance of seeking professional tax advice to ensure compliance with relevant tax laws and regulations. DTAs are important regarding situs tax, and it is necessary to understand the DTA in place for the specific jurisdiction in which assets are held.

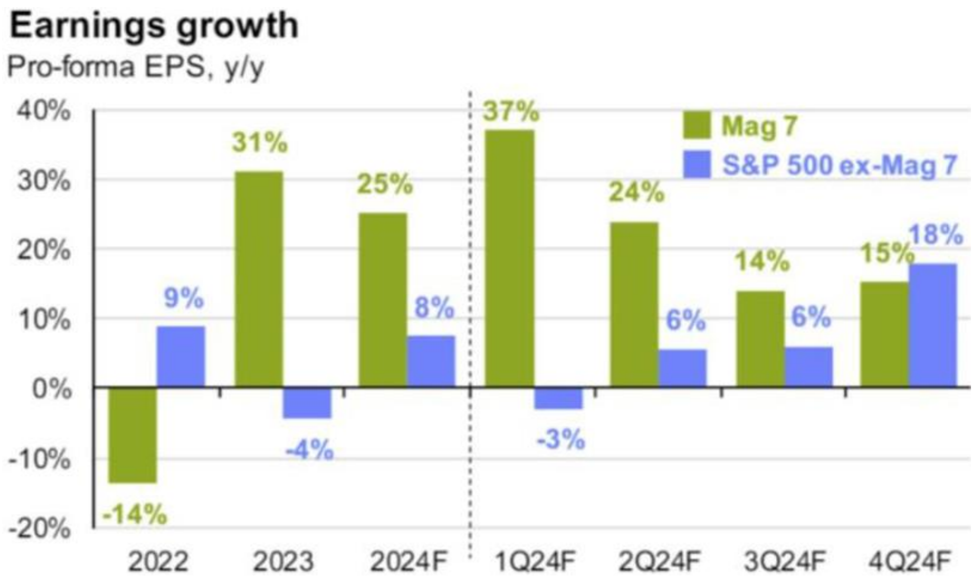
If you have any questions or need clarity on situs and its implications, please contact Di Haiden or Kate Trollip for assistance.

WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

RCI BCI WORLDWIDE FLEXIBLE FUND

After five consecutive positive months in the market, we have now seen a slight correction with MSCI World falling 3.5%. The majority of US businesses reported first quarter earnings this month and we saw enormous volatility on each companies' results day. Inflation continues to be a driving force on sentiment with the March core CPI coming in at 3.8%, which is still above the Fed's target rate of 2%. We have pointed out in prior letters that investors expected 6 rate cuts for 2024 but this has since come down to only one by the end of the year and some commentators expecting none. The market has also been reacting positively to any negative economic news that is released. Although this seems counterintuitive, the implication is that if the economy is weaker than expected, then the Fed might be forced to drop interest rates quicker than forecast, which of course is positive for asset price valuations.

We have spoken many times on the Magnificent 7 and how well they have done relative to the rest of the market. However, the following graph shows that analysts now expect the rest of the market to have earnings growth in excess of the Magnificent 7 in the fourth quarter of this year. This is a good reminder that trends and outperformance don't last forever.



(Source: JP Morgan Asset Management as of 31/3/2024). For the first time since 2022, in the fourth quarter of 2024, the magnificent 7 are expected to grow earnings at a slower rate than the rest of the market. However, for the full year 2024 the magnificent 7 will still beat the rest of the market with an expected growth rate of 25% year on year.

The below graph indicates how well Nvidia and Meta did within the magnificent 7 cohort. Tesla and Apple on the other hand have been poor performers relatively.

(Source: JP Morgan Asset Management)

Five of the Magnificent 7 shares are also the largest cash producers in the market. Apple made $116 billion in operating cash over the last year. Alphabet made over $100 billion and now has a meaningful interest income contribution on their income statement allowing them to pay a dividend for the first time.

(Source: S&P Global Market Intelligence). Berkshire Hathaway is currently sitting on a $189 billion stockpile of cash following recent sales and a lack of attractive investment opportunities. With high rates of return on risk investments it is not surprising they are being cautious at this time.

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	20.93	1.01	33%	25%	17%
AMAZON.COM INC	32.34	1.06	431%	41%	21%
ASML	36.72	1.49	36%	-1%	57%
BOSTON SCIENTIFIC	29.87	2.00	17%	16%	14%
FORTINET	32.17	2.68	31%	13%	11%
INTUIT INC	34.13	2.12	20%	15%	16%
MERCADOLIBRE INC	42.52	1.03	143%	47%	36%
MICROSOFT CORP	30.96	2.37	5%	23%	13%
MONCLER SPA	25.31	2.21	0%	11%	12%
VISA	25.11	2.00	16%	15%	13%
Harmonic Mean PE	**29.86**				
O (Forward PE/'23-25 Growth in EPS)		**1.59**			
Annual EPS Growth Rate (Median)			**25%**	**16%**	**15%**
S&P500 - FWD PE and EPS Growth	**20.25**		**0%**	**9%**	**12%**

Robert Cowen Investments
Growing families' wealth since 1982

WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONT.)

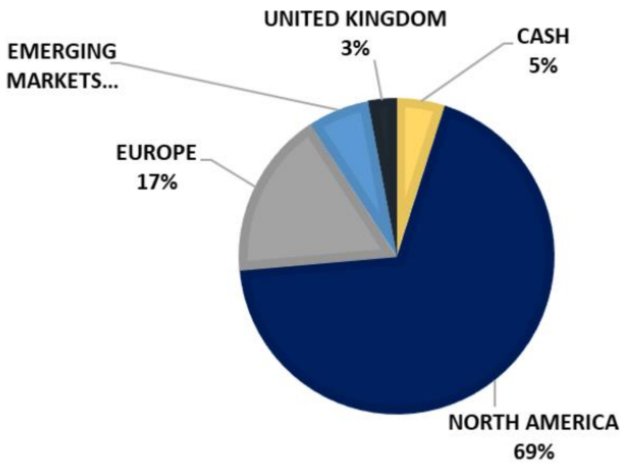
The Family Office

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, 30x, 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.

Changes made during the month

No significant changes were made during the month.

Geographic Drivers



- Cash is almost entirely USD with a few percent in Rands due to subscriptions. Therefore, total North American + USD exposure is closer to 74%.
- 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 and listed funds Smithson and Scottish Mortgage Trust.

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%	-0.4%	-3.5%									**6.3%**

For the month, the fund was down 3.5% in ZAR terms (-2.5% in USD) compared to the MSCI Developed Markets Index which was down 3.6% in ZAR (-2.6% in USD) for the month. The Rand strengthened 1% for the month detracting from the performance in ZAR.

For the 2024 year to date the fund is up 6.3% in ZAR whilst the MSCI Developed Markets Index is up 7.3%.

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:

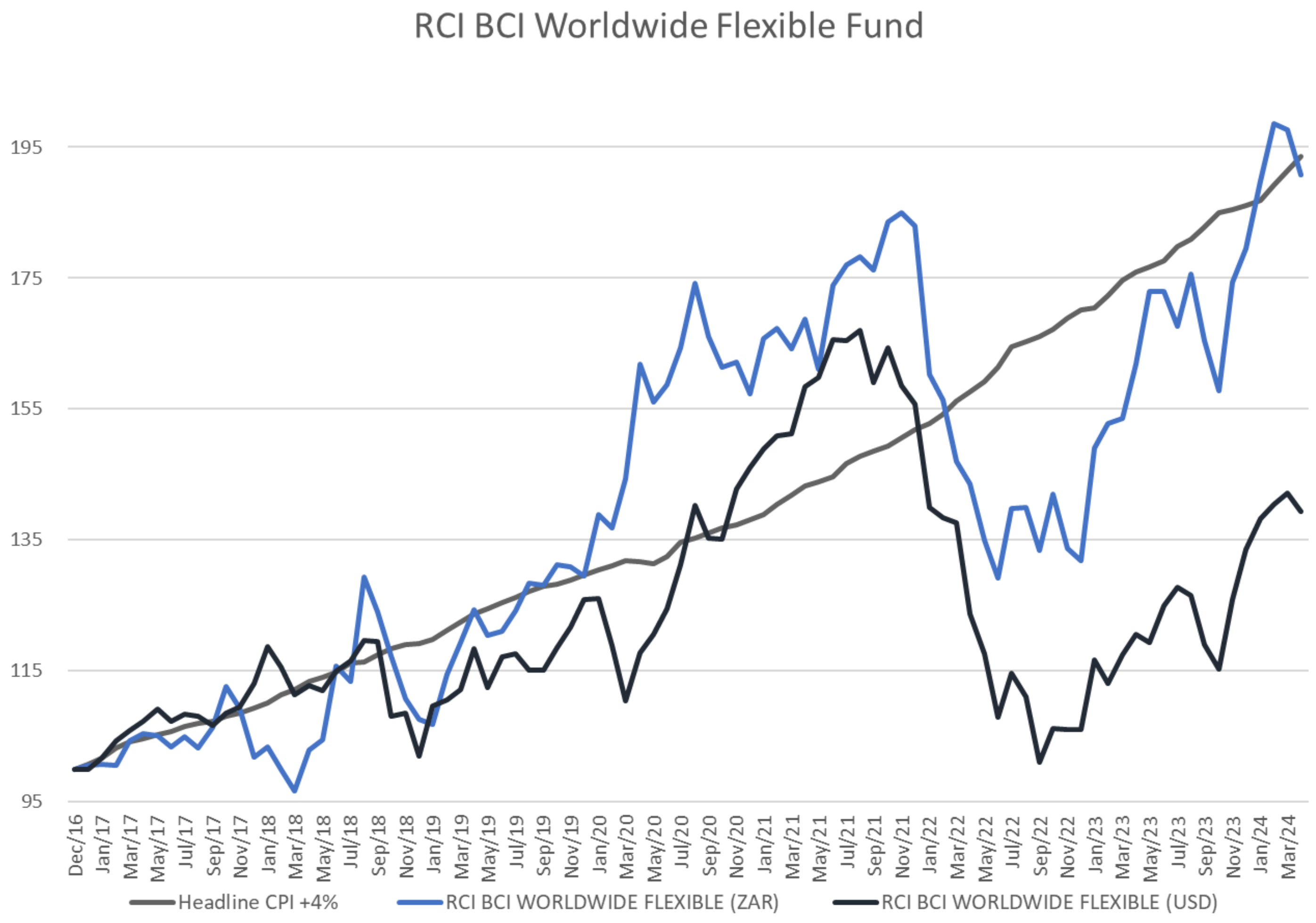
Mike Gresty, Di Haiden, Ross McConnochie, Eric Lappeman, Andrew Lawson, Gontse Dikeledi & Keiran Witthuhn

RCI OFFSHORE UNIT TRUSTS

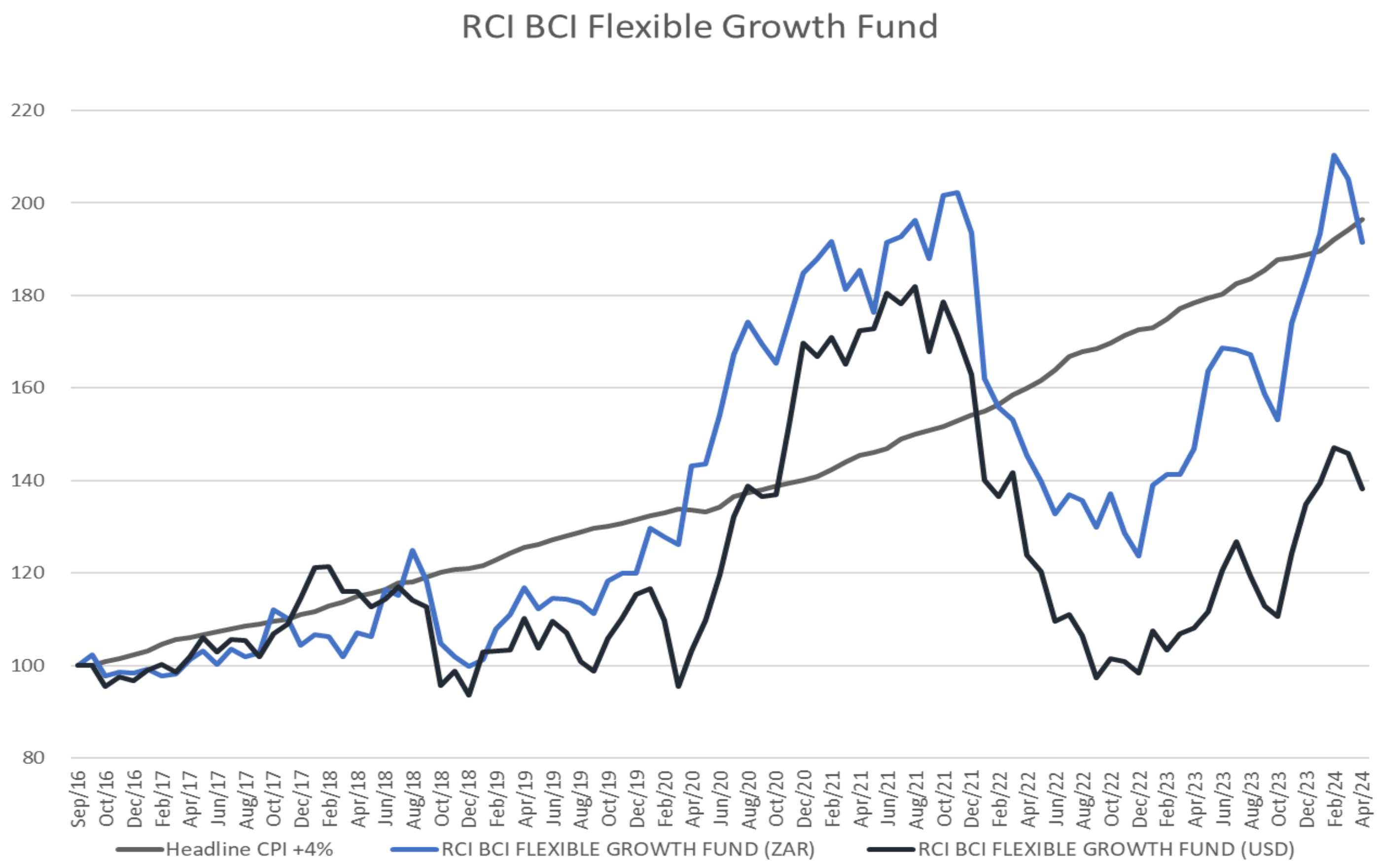
"In the short run, the market is a voting machine, but in the long run it is a weighing machine." – Benjamin Graham

The Family Office

RCI BCI Worldwide Flexible Fund closed April at 190.79, down 3.48% for the month and up 17.93% for the last 12 months.



RCI BCI Flexible Growth Fund closed April at 205.19, down 6.72% for the month and up 30.35% for the last 12 months.



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WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

ANCHOR BCI SA EQUITY FUND

BY THE ANCHOR BCI SA EQUITY TEAM

The five-month run of positive returns finally broke in April (MSCI World Index -3.7% MoM). US core inflation was ahead of expectations for the fourth consecutive month, leading to investors further trimming their expectations for rate cuts to just one cut from the Fed this year from at least six at the start of the year. These changing rate expectations helped push the US 10-year bond yield 0.5% higher for the month, which was likely the cause of pressure seen on equities. Emerging Market (EM) outperformed their developed market peers in April (MSCI EM +0.4% MoM). After a dismal performance over the last 3 years, Chinese equities saw a notable improvement in momentum in April (Hang Seng China Enterprises Index +8% MoM), which was chiefly responsible for the outperformance of EM in the month.

South African equities continued their positive run from March into April (FTSE/JSE Capped SWIX Index +2.9% MoM), lifting year-to-date returns into positive territory (+0.6% YTD). Anglo American (+33% MoM) was responsible for almost 40% of April's index performance, following a bid announced by BHP Group. Naspers/Prosus (+7% MoM) was another positive driver, benefitting from their main underlying investment, Tencent's, strong rally alongside Chinese equities more broadly and following news of an earlier-than-expected release of an eagerly awaited mobile game. Shares geared towards the local economy fared relatively well in April (+2% MoM in aggregate), with pessimism surrounding the potential outcome of the SA elections appearing to recede somewhat. This shift in sentiment was also evident in the currency, with the rand strengthening 0.5% vs the US Dollar. With the exchange rate headwind and general market weakness offshore, shares with predominantly non-SA earnings (-4% MoM) were a drag on the local equity market in April.

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 April, the top 15 holdings in the fund, making up 64% of the equity exposure, were as follows:

- Naspers
- Prosus
- Bidcorp
- Investec
- Standard Bank
- FirstRand
- Absa
- Anglo American
- Dis-Chem
- Bidvest
- AngloGold
- Afrimat
- MAS Property
- We Buy Cars
- Shoprite

Main changes in the month

In April, we capitalised on the recent weakness in banking shares, adding to our **FirstRand** position and initiating positions in Nedbank and Capitec. We also added small positions in two interesting smaller-cap shares, **CA Sales Holdings** and **Murray & Roberts**. Finally, noting the recent firming in paper prices, signalling a potential turn in the cycle, we initiated a position in **Mondi**. These additions were partially funded by further profit-taking in our **ADvTECH** holding, a reduction in our exposure to the gold sector following its very strong rally recently and a lowering of our exposure to rand hedges (**Richemont** and **British American Tobacco**). We also exited the fund's position in **MultiChoice**, believing further upside to the Canal+ offer price did not warrant retaining the position in what may be a protracted regulatory approval process, with some risk as to the outcome.

Performance

The Anchor BCI SA Equity Fund rose by 3.0% MoM. In a month which did not suit our quality growth style particularly well, the fund's performance was pleasing. Aside from benefitting from the fund's overweight holding of Naspers/Prosus, Afrimat was another notable positive contributor in April on news of regulatory approval for its Lafarge acquisition.

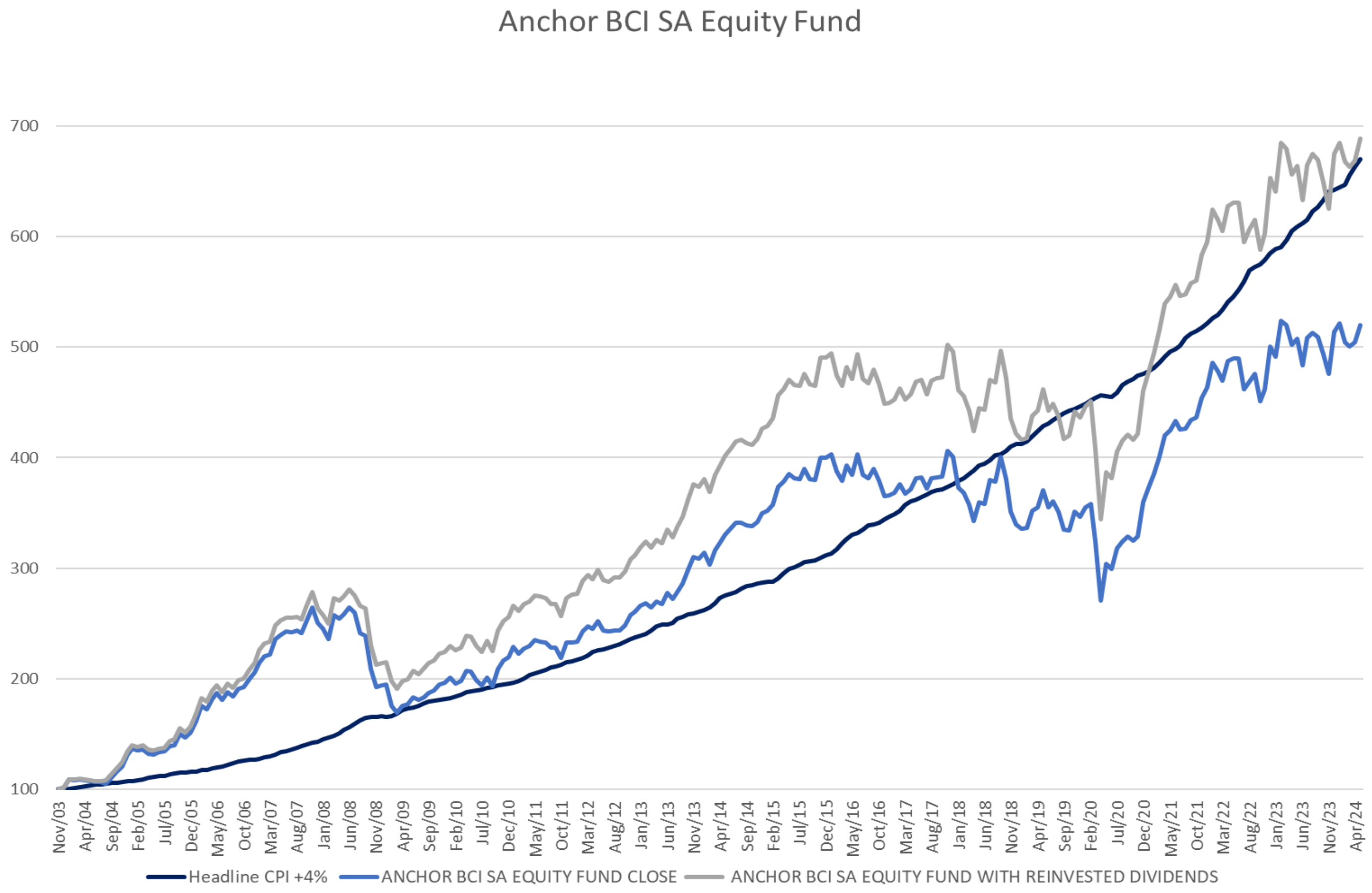
The Anchor BCI SA Equity team

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 April at 519.68, up 2.97% for the month and up 2.37% 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.

The graph on the right shows the share of world GDP from each of the largest economies in the world. Over the past 5-10 years, there was much made of China overtaking the USA as the world's largest economy. However, due to the strength of the US economy since 2020, it will account for 26.3% of the world's GDP, the highest level in almost 2 decades. The Chinese economic growth engine has since run out steam due to a myriad of factors.