ROBERT COWEN INVESTMENTS

JUNE 2024 NEWSLETTER

HIGHLIGHTS OF THIS NEWSLETTER ARE:

- **Elections 2024: A new era in South African politics** – *by Casey Sprake & Marco de Matos*
- **Is the US stock market expensive?** – *by Keiran Witthuhn*
- **Update on what we have been doing in the offshore funds** – *by Ross McConnochie*
  - Corporate expenditure towards AI is leading to 'creative destruction' in the software industry
- **Update on what we have been doing in the local fund** – *by Mike Gresty*
- **The relationship between new technologies, economic growth and stock market returns** – *by Keiran Witthuhn*

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 and thank you for being our clients.

Di, Mike, Andrew & The RCI Team

SARS 2024 Income tax return filing dates

The dates for the 2024 Filing Season are:

- **Individual taxpayers (non-provisional)**: 15 July 2024 to 21 October 2024
  - Auto-assessment notices: 1 – 14 July 2024
- **Provisional taxpayers**: 15 July 2024 to 20 January 2025
- **Trusts**: 16 September 2024 to 20 January 2025

What to prepare before filing starts?

Make sure that you have received your IRP5/IT3(a) and other tax certificates like medical aid, retirement annuity funds, and any other third-party data relevant to determining your tax obligations.

29 February 2024 Tax Certificates

We are in the process of receiving, checking, and collating the tax certificates for the year ended 29 February 2024. These will be sent out via email as soon as possible but at this stage, we cannot confirm the date.

We will have provided you with these tax certificates by 15 July 2024, at the latest.

ELECTIONS 2024: A NEW ERA IN SOUTH AFRICAN POLITICS

BY CASEY SPRAKE & MARCO DE MATOS

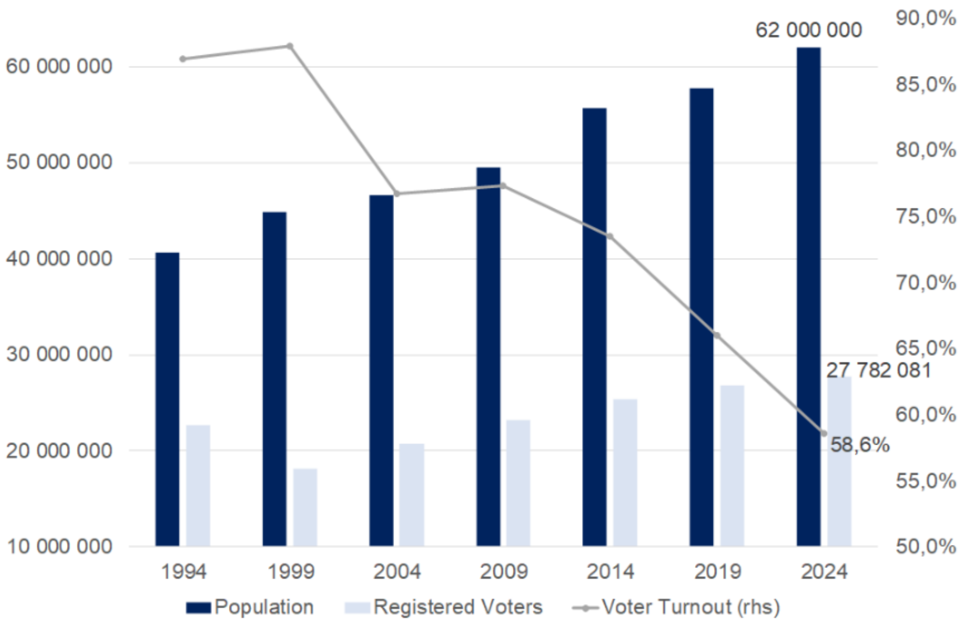
WRITTEN ON 6 JUNE 2024

In this note, we delve into the seismic impact of the ANC losing its Parliamentary majority for the first time since the dawn of democracy in 1994. We refrain from delving into the potential performance of any other political party, given the sheer size of the ANC and its stranglehold on South Africa's (SA) political landscape over the past 30 years. It is crucial to note that this report does not endorse the ANC or any other political party. In what follows, we review the past three decades of ANC dominance, highlight the results provided by the Independent Electoral Commission (IEC), give an overview of the various ANC presidents' tenures since 1994, discuss the state of the ruling party since Cyril Ramaphosa's ascendancy to the presidency and briefly look at the way forward.

Without running the risk of using hyperbole, it is safe to say that the 2024 National and Provincial Elections (NPEs) have ushered in a new era in South African politics – the era of coalitions. The election on 29 May 2024 was a watershed moment for the country as it was the first time in democratic history that the ANC lost its majority in government – going from 57.6% in 2019 to 40.2% in 2024. The emergence of ex-president Jacob Zuma's new M.K. party cut severely into the ANC's traditional voter base in KwaZulu-Natal (KZN) and eroded support for the former ruling party in Gauteng and Mpumalanga. As a result, there is a need to form complex, multi-faceted national coalitions to govern SA for the next five years.

The significant drop in voter participation (at 58.64% of the total 27.8mn registered voters vs 65.99% in 2019 – see *Figure 1*) reflects the general disillusion and greater disengagement of the South African populace with the country's electoral process and greater political leadership. The ANC has attained 159 seats in the National Assembly – down 31% from its previous 230 seats.

Figure 1: Voter turnout, 1994-2024



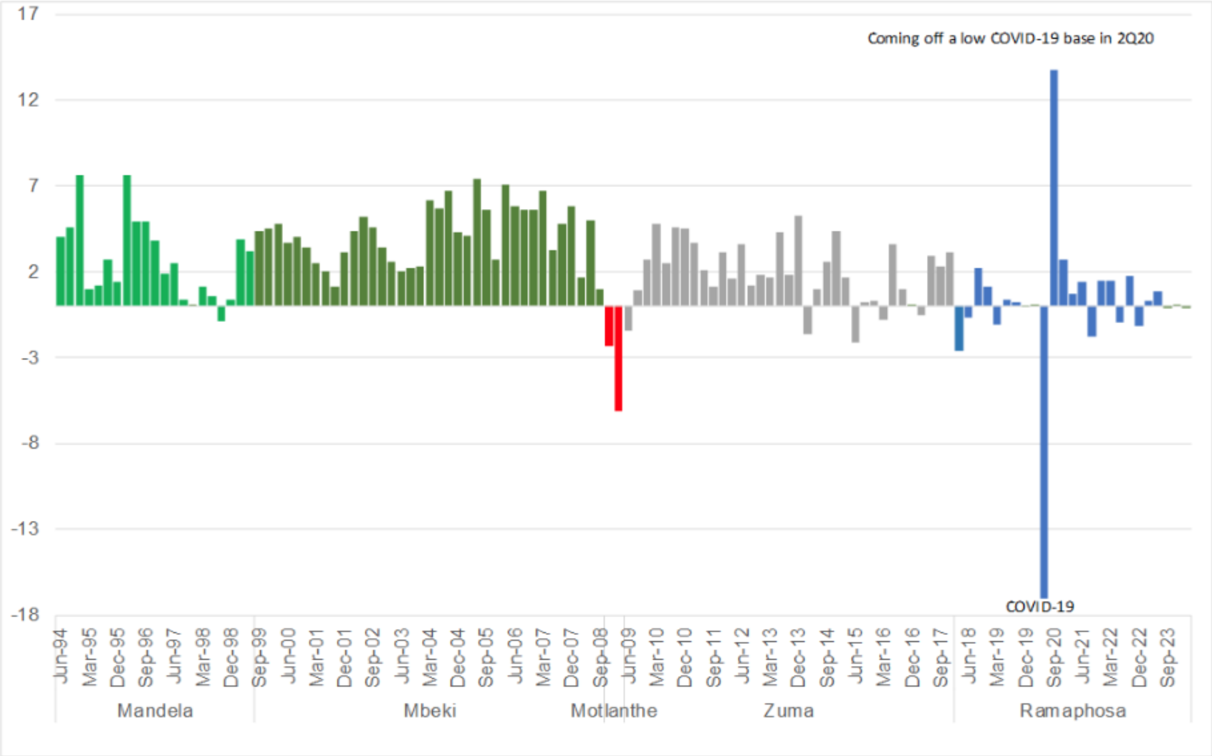
Source: IEC, Stats SA, Anchor

How did the SA economy fare under various ANC presidents?

During the Nelson Mandela (1994-1999) and Thabo Mbeki (1999-2008) years, SA's economy thrived as the government adopted a mix of socio-economic, fiscal consolidation and more investor and pro-business friendly economic policies whereby the country moved from fiscal bankruptcy (under Apartheid, pre-1994) to a budget surplus. However, Zuma's disastrous tenure dragged SA back to pre-1994, while COVID-19 and indecision/inaction from President Cyril Ramaphosa to address the structural issues in the local economy saw his tenure to date disappoint. The average GDP growth rate was 4.2% for Mbeki's presidency, and SA recorded 37 consecutive quarters of positive economic growth (notably with Trevor Manual as his finance minister). After Mbeki resigned (effectively recalled in September 2008) and Kgalema Motlanthe took over as interim president, SA posted its first recession (4Q08 and 1Q09 recorded negative growth) since 1994. During the Zuma presidency (May 2009-February 2018), average GDP growth slowed to c. 1.8%. Some extraneous factors contributed to the slowdown in SA's growth under Zuma, including the petering out of the commodities super-cycle. The commodities boom, which started in 2000 (during Mbeki's tenure), was disrupted by the global financial crisis (GFC) in 2008 and started fading around

2012/2013. However, maladministration, policy uncertainty, corruption on an unprecedented scale (the Guptas, Bosasa, etc.), a revolving door of key ministerial positions (especially the finance portfolio), and uncertain economic and fiscal policy drove investment (both foreign and domestic) away.

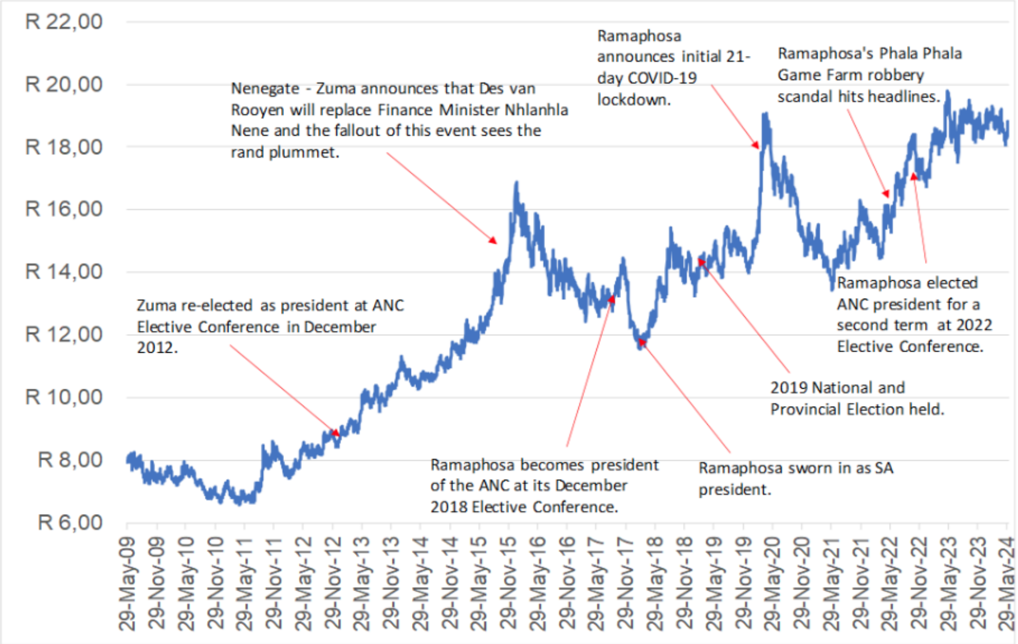
Figure 2: GDP (QoQ annualised growth) under each of the democratic presidents, 2Q94 to 1Q24



Source: Bloomberg, Anchor

When Zuma took office (9 May 2009), the rand vs US dollar exchange rate stood at c. R8.27/US$1. However, the average exchange rate for 2017 (the last year of Zuma's rule – he left office on 14 February 2018) was at R13.31/US$1 – a c. 61% depreciation throughout his presidency vs a c. 30% decline in the rand during Mbeki's presidency. After Ramaphosa was elected president of the ANC in 2017, the rand went from R14.47/US$1 to R11.55/US$1. However, during Ramaphosa's presidency (from February 2018 to 31 May 2024), the rand has plummeted by 62.7% against the greenback. When Mbeki took over from Mandela, the official unemployment rate stood at c. 22% – it is currently at 32.9% (1Q24), according to Stats SA's latest Quarterly Labour Force Survey (QLFS).

Figure 3: Rand vs US dollar exchange rate during Zuma and Ramaphosa tenures



Source: Bloomberg, Anchor

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The fragility of the SA economy (with opposing forces in the ANC making the right economic outcome challenging to achieve) is underscored by the fact that Moody's Investors Service (Moody's) downgraded SA's sovereign credit rating to junk (with a negative outlook) in March 2020, joining Fitch and S&P, which already had SA at sub-investment grade. Moody's was the only major rating agency with SA at 'investment grade' – one notch above junk (with a stable outlook). However, Moody's downgrade resulted in SA falling out of the FTSE World Government Bond Index (WGBI).

Structural issues facing the country

Gross debt (a combined c. R5.2trn or 73.9% of GDP in 2023/2024) and corruption at state-owned enterprises (SOEs), such as Eskom, SAA, Transnet, and the SABC (to name but a few) spiralled out of control during Zuma's tenure – now effectively referred to as the state capture period. Unfortunately, little has been done to abate this trend under Ramaphosa. Eskom's debt alone is now c. R442bn (c. 15% of all sovereign debt), and the situation became so dire that the entity had to borrow funds to pay interest on this debt to keep the lights on. For most of his presidency, Ramaphosa has been walking a tightrope – at ease with having the law take its course while being careful to "appease" the so-called Zuma faction of the ANC. Ramaphosa, it seems, has been trying to prevent a split in the party, similar to what happened when ex-president Mbeki resigned and the Congress of the People (COPE) was formed. By all accounts, he wanted to negotiate a path forward with a divided organisation – a strategy that resulted in the ANC's undoing in the 2024 election.

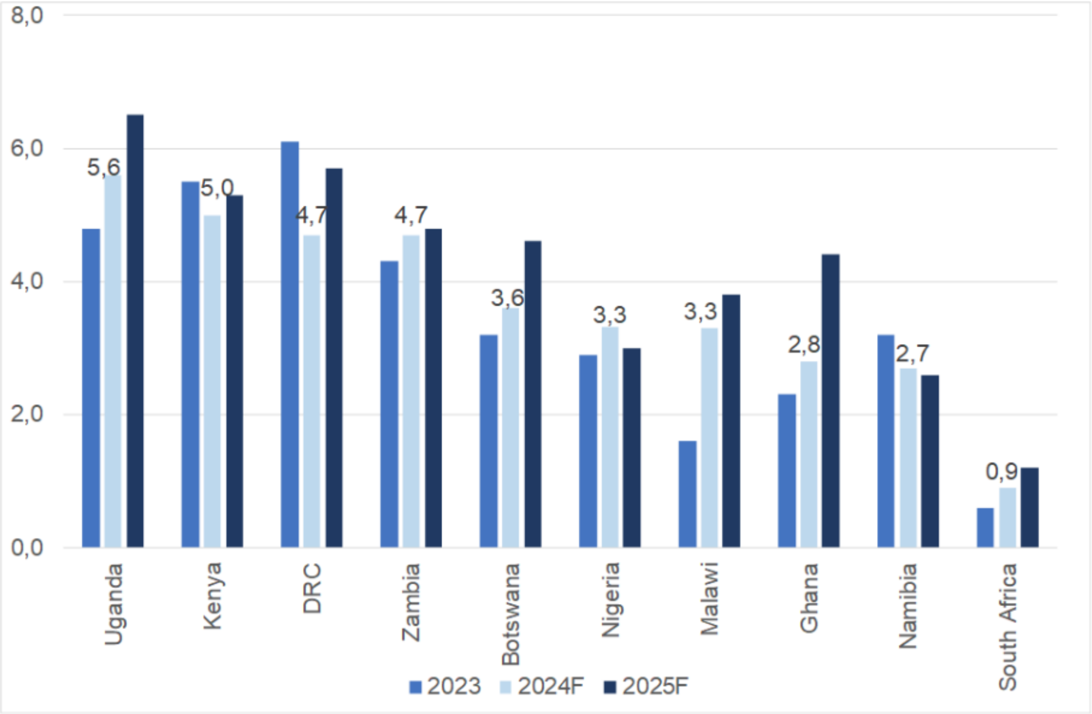
Ramaphosa's December 2017 Elective Conference victory as ANC president was clinched by a very slim margin (less than 200 votes out of the c. 5,000 cast by delegates), indicating a questionable command of the party's reins at that stage. However, his election as ANC president for a second term in December 2022 saw a more commanding victory over his challenger, disgraced former health minister Zweli Mkhize, with Ramaphosa garnering 2,436 votes ahead of Mkhize's 1,897. The composition of the 86-member National Executive Committee (NEC) was split virtually 50/50 in terms of Ramaphosa supporters and those in the Zuma camp in 2017. However, following the 2022 ANC Elective Conference, at least 65% of the 80 NEC members (excluding the top six) appeared on a list of preferred candidates drafted by the president's camp. Ramaphosa's backers secured four of the top-six positions.

Regardless, election outcomes are only one piece of SA's increasingly complex economic puzzle. SA has numerous long-term structural economic issues (some of which have already been mentioned), which Ramaphosa has not addressed, at least not to the degree South Africans would have hoped. Eskom loadshedding accelerated under his watch, and the country has only had an uninterrupted electricity supply for around five weeks now, the longest without loadshedding since 2022.

The healthcare system faces challenges, along with a concerningly high unemployment rate (32.1% as of 4Q23, with youth unemployment at a tragically high 59.4%). It is confronting a massive disease burden, while most school education quality is substandard. The legacy of corruption is not only undermining the legitimacy of the state but, tragically, impacting service delivery to voters, especially the most vulnerable.

In April 2024, the IMF said that SA has a GDP of US$373bn (R7trn-plus), making it the biggest economy in Africa (the IMF projects that SA will retain this position until 2027). According to the IMF, Nigeria's GDP is estimated at US$253bn, behind Algeria (US$267bn) and Egypt (US$348bn). Still, despite being Africa's biggest economy, it cannot seem to rid itself of the deep-rooted structural inequalities holding back growth and development due to the rampant corruption that has plagued the country over the past 15 years or so. SA's economic performance has been one of the weakest in sub-Saharan Africa (SSA), with the IMF lowering its 2024 forecast for real GDP growth to 0.9% (from 1.0% in January) in April. Moreover, the average SA consumer is becoming poorer – with the latest IMF data indicating that SA's GDP per capita is now below the average for emerging economies – and at about the same level as in 2005. According to IMF data, SA's GDP per capita dropped from US$6,680 in 2022 to US$6,190 in 2023 – far below the record-high of US$8,800 recorded in 2012. Additionally, the 2023 domestic GDP per capita is below the US$6,450 average for emerging markets (EMs). Notably, this is the same level of GDP per capita as in 2005. Simply put, SA's expanding population growth, the weakness of the rand and the minimal economic growth means that the country's population has been getting poorer in real terms. Moreover, in the domestic economy, material job creation has only occurred when GDP growth approaches 3% p.a. Thus, the economy is simply not growing at an adequate rate to sustainably boost long-term employment prospects for South Africans.

Figure 4: IMF GDP growth data (select African countries)



Source: IMF, Anchor

The IMF's recent downgrade of SA's growth to 0.9% means, in context, that our growth rate is far below the EM average (4.2%), the global average (3.1%) and is lower than that of SSA (+3.8%). According to the latest June data from RMB/BER, the Business Confidence Index (BCI) stood at 35% in 2Q24 – roughly just over one-third of the survey's respondents were satisfied with prevailing business conditions. Simply put, meaningful job creation and sustainable economic growth can only come to fruition with a more favourable investment environment- not policy misalignment, governance uncertainty and prevalent corruption. Collaboration between government, business, and labour is required to place the country on a renewed growth path – away from conflict and individual vested interests around growth that will, in turn, create jobs and a thriving economy where everyone benefits.

Figure 5: RMB/BER Business Confidence Index (BCI)

Source: BER (note that the shaded areas represent economic downswings)

What has Ramaphosa achieved thus far?

While Ramaphosa has made some commendable decisions and changes, many commentators have highlighted that it will take years for him to address the problems facing SA due to the state-capture era administration he inherited from Zuma. Moreover, he has had to carefully navigate his political survival due to the continued presence of Zuma allies within the ANC, who naturally do not want their patronage network/s dismantled. Despite the challenges (and

disappointments) of the Ramaphosa presidency, we view him as a far wilier politician than most expect (he did, after all, negotiate at CODESA, spent years in the National Union of Mineworkers [NUM], was elected ANC secretary-general and headed the ANC team that negotiated SA's transition to democracy). By allowing the law to take its course, he is not taking it upon himself to act against "comrades" and risking the ire of some in the ANC, but rather doing it 'by the book'. Unfortunately, as the saying goes, the wheels of justice turn slowly (but grind exceedingly fine). Every week, a punch-drunk SA public has been bombarded with more revelations about corruption and no arrests. However, unlike under Zuma's tenure, there seem to be consequences, albeit at a frustratingly glacial pace. Ramaphosa's attempts at a clean-up have, over the years, seen several commissions being set up by the president and several initiatives launched by Minister of Public Enterprises Pravin Gordhan, including new boards at SOEs, lifestyle audits and difficult questions being asked around the financial (mis)management of SOEs.

In terms of just some of his achievements in his c. six years in office, while critics have accused him of being slow to act and keeping corrupt Zuma-era cabinet members, Ramaphosa has, in addition to the above, strengthened SA's law-enforcement institutions that were decimated under Zuma and given attention to issues at SOEs. Unfortunately, Eskom power cuts have worsened and were part of daily life in SA until about two months ago. Some of the more cynical citizens have seen the improvement in generation capacity as an election ploy on the part of the ANC. Ramaphosa also signed the controversial National Health Insurance (NHI bill) in May, which many have seen as an electioneering ploy which has spectacularly failed in getting the ANC votes.

Where are we currently?

The ANC performed dismally in the 2024 NPE, falling to a 40.2% vote, as Zuma's M.K. party devoured a large chunk of ANC voter support. The three-month-old party became the third biggest in the country, with a staggering 14.6% of the vote. The seats in Parliament that the top five political parties received in the 2019 NPE are shown in Figure 6 below and compared with the seats for the 2024 NPE. The ANC received 58% of the vote in 2019 vs 62% in 2014. According to the IEC, this year's voter roll contained 27.8mn registered voters, higher than in 2019, but nevertheless indicating that 13mn-plus citizens of voting age have chosen not to register for this election.

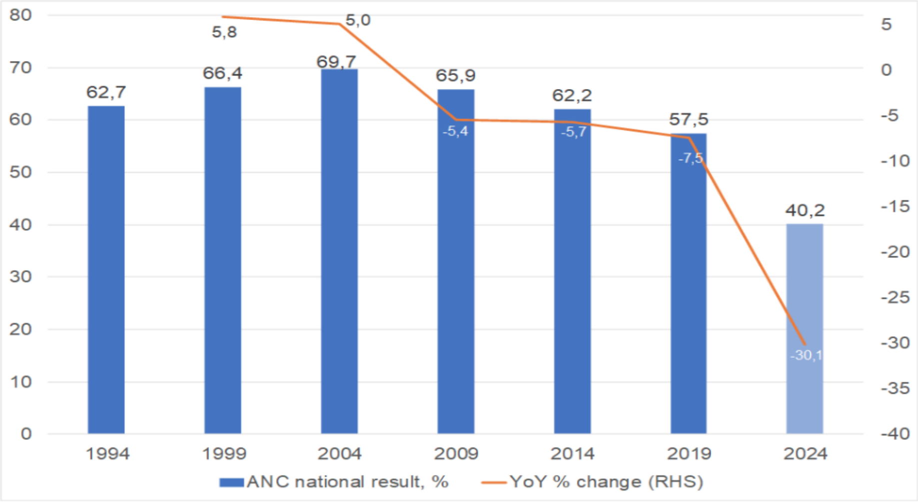
Figure 6: 2019 vs 2024 seats in Parliament the top-five parties

	Seats in Parliament (2019)	Seats in Parliament (2024)
ANC	228	159
DA	87	87
M.K.		58
EFF	40	39
IFP	11	17

Figure 7: 2024 NPE results – votes and for seats in Parliament for the top-five parties

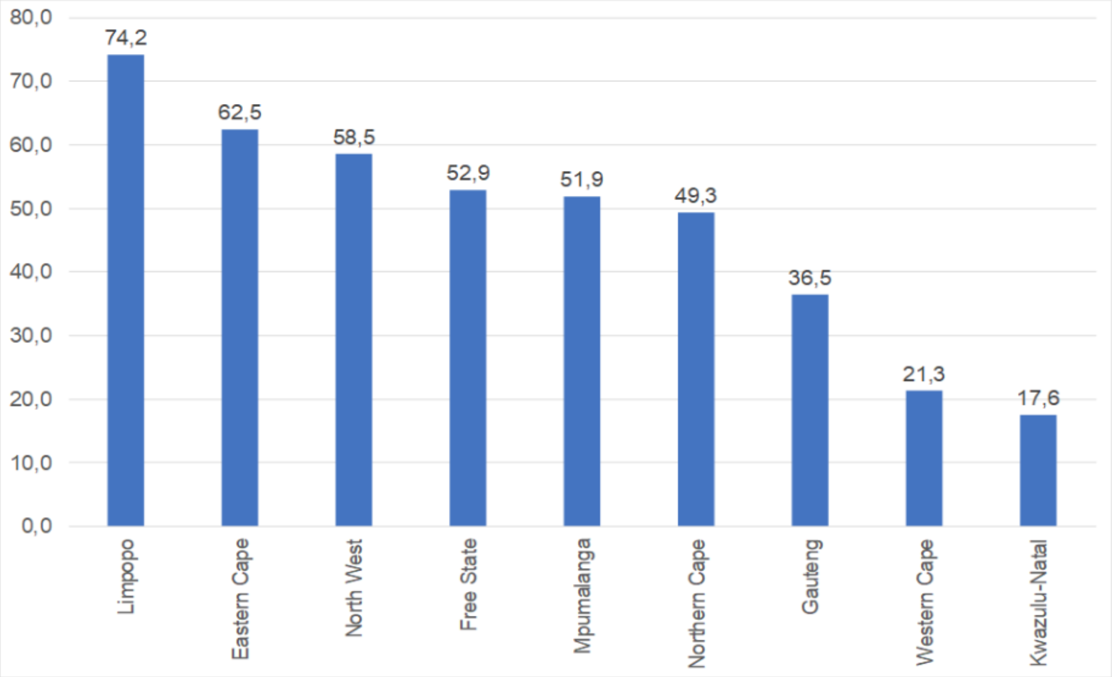
Party	Votes, %	Seats in Parliament
ANC	40.2	159
DA	21.8	87
M.K.	14.6	58
EFF	9.5	39
IFP	3.9	17

Figure 8: ANC 2024 NPE results and YoY % change, 1994-2024



Source: IEC, Anchor

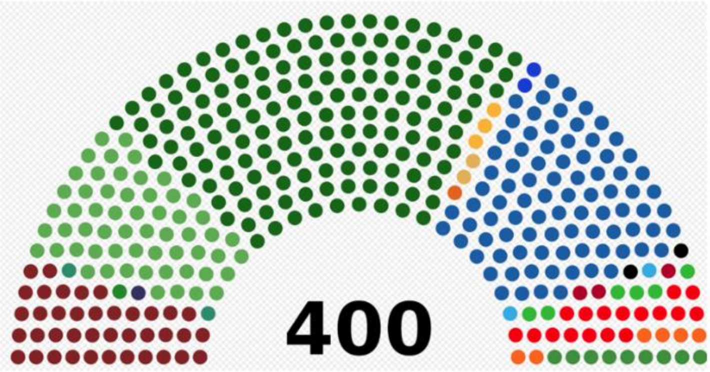
Figure 9: 2024 NPE results – ANC vote by province



Source: IEC, Anchor

Figure 10: Seats in Parliament by political party following the 2024 NPE results

Party	Seats
ANC	159
DA	87
MK	58
EFF	39
IFP	17
PA	9
VF+	6
ASA	6
Other	19



Source: Daily Maverick, Anchor

Looking ahead - where do we go from here?

Currently, the ANC appears set to form a GNU, where all parties above a certain threshold are invited to join the ANC in government. This agreement would allow Ramaphosa and his allies to accommodate opposing groups within the ANC and effectively 'unite' against the M.K. party. Whilst the DA would likely be reticent to work alongside the EFF in such a set-up, the party will be placed in an uncomfortable position due to its well-communicated promise to 'do everything in its power' to prevent the 'Doomsday' ANC/EFF coalition. Whilst this would likely be one of the more market-friendly outcomes, a GNU agreement would not be without uncertainty or immune to fractious in-fighting. Regardless, at this point, no one is sure what the outcome will be – not even the ANC. However, the clock is ticking, and the first sitting of the National Assembly, where members are sworn in and the speaker is elected will occur on Friday, 14 June. The Chief Justice of the Republic (Raymond Zondo) will determine and gazette the date for this sitting. During this first Parliamentary sitting or soon after that, the National Assembly will elect the president, who is responsible for appointing cabinet members and forming the government. The entire process is usually completed within a couple of weeks to ensure a smooth transition of power.

Despite the current uncertainty and very present, real challenges around the election outcome, it is important to note that the 2024 elections were credible and sufficiently 'free and fair'- something not to take for granted at this point in SA's democratic transition.

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Where to from here for investors?

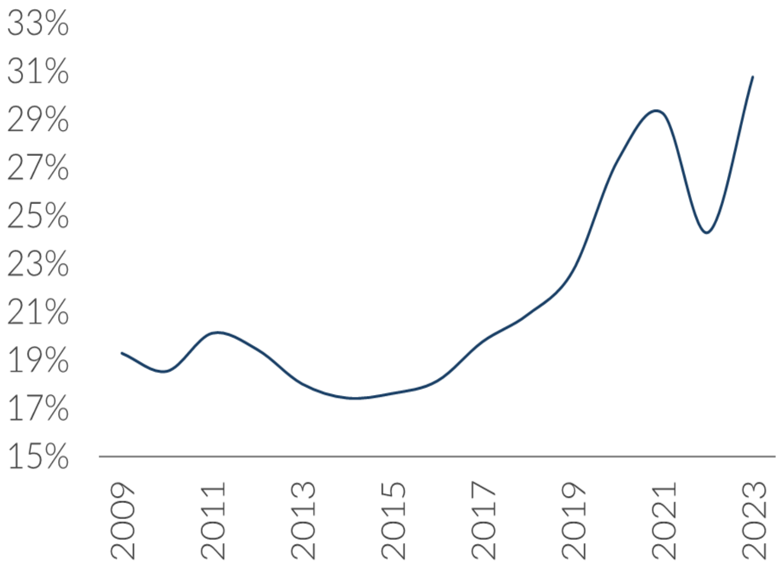
Diversification is key to reducing risk when investing. The thinking is that if an investor mixes a variety of investments in their portfolio, on average, it will yield higher long-term returns and lower the risk of any single holding. In this regard, we need to consider our specific situation as South Africans, with a rand that somewhat predictably depreciates at a rate of 4%-6% per annum. over the long term – implying a rand vs US dollar exchange rate of c. R25/US$1 by 2030. A high-quality global equity portfolio is a compelling proposition when investing in rands. JSE returns sometimes compensate for SA's higher inflation rate (over 15 years) but diversifying out of SA equities certainly makes sense. One also has to consider SA's political risk (which includes crucial global elections that are on the horizon, such as the highly contested US Presidential Election in November), and again, the answer is to diversify out of any one specific risk.

US Market – more concentrated now & more tech

TOP 10 2009
Exxon Mobil
Microsoft
Apple
Johnson & Johnson
Procer & Gamble
IBM
AT&T
JPMorgan Chase
General Electric
Chevron

TOP 10 TODAY
Apple
Microsoft
Amazon
Nvidia
Alphabet
Meta
Tesla
Berkshire Hathaway
JPMorgan Chase
Broadcom

The total weight of the top 10 companies in the S&P 500



Many who sit on the more bearish end of the spectrum when it comes to the US stock market, will often point to its 'expensive valuation' as a primary reason why one should look to invest elsewhere in the world.

The S&P 500 currently has a P/E multiple of around 21.8x, compared to its historical average over the past 10 years of 18x. Optically, the US market may appear overvalued, but we would bring attention to two points that detract from this argument.

Firstly, a significant proportion of the high valuation of the overall market is concentrated in a small cohort of shares. This small group of shares now comprises a larger portion of the US market than it has at any point over the past 15 years, as is shown in the graph on the left.

Secondly, the two lists (above and left) show that the type of companies that dominate the S&P 500 today in terms of market cap are very different to the type of company that dominated 15 years ago.

Two conclusions can be highlighted from the above points. Firstly, after excluding "The Magnificent Seven", the S&P has a P/E valuation of around 16x, and plenty of opportunity exists within this group of shares. Secondly, the technology companies at the top of the list today are able to grow their earnings much faster than the majority of the companies in 2009 and thus the higher valuation is largely justified.

WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

RCI BCI WORLDWIDE FLEXIBLE FUND

Following last month's market correction, May has been a stronger month with the MSCI World Index growing over 2%. One fifth of this performance came from a single stock - Nvidia and again the market was heavily influenced by the "Magnificent 7" and the underlying Artificial Intelligence (AI) theme.

If we examine the individual sectors within the S&P 500 we can see how the various themes have played out this year thus far:

S&P 500 Sector Performance

S&P 500 Sectors	May (USD)	YTD (USD)
S&P 500	5.0%	11.3%
IT	10.1%	17.3%
Utilities	9.0%	15.8%
Communication Services	6.6%	20.9%
Real Estate	5.1%	-4.4%
Materials	3.2%	7.3%
Financials	3.2%	11.1%
Consumer Staples	2.5%	9.2%
Healthcare	2.4%	5.8%
Industrials	1.7%	8.8%
Consumer Discretionary	0.3%	0.7%
Energy	-0.4%	12.4%

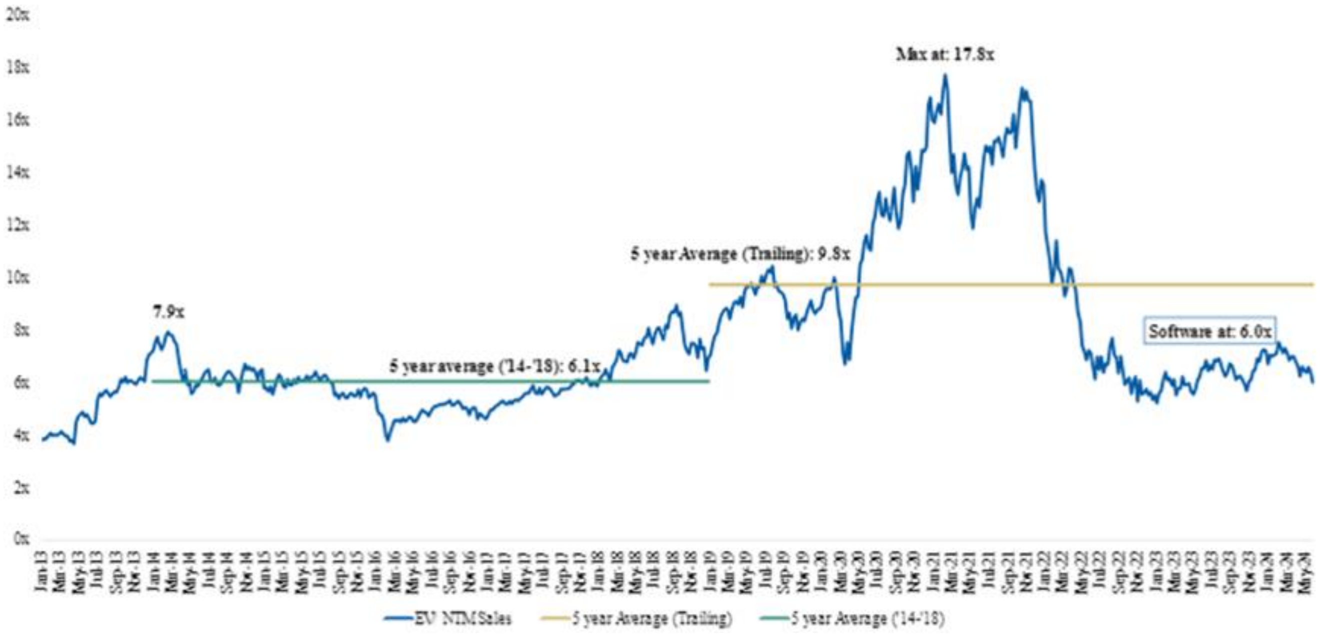
Source: Anchor Capital Asset Management

- The market as a whole has grown 11% this year to the end of May.
- The IT space is up 17% this year, mostly on the back of Nvidia and Microsoft which has hugely benefitted from increased spending in AI.
- Utilities have had a massive kick lately on the expectation that future data servers, that require massive amounts of electricity, will be built in close proximity to power stations and become key customers.
- Communication Services holds Alphabet (Google) and Meta (Facebook) which have also benefitted hugely from AI Infrastructure spend.
- Real estate has been a laggard as interest rates have not been cut as expected.
- Materials has seen great performance from the price of gold and copper.
- Financials has been a mixed bag. The large banks have benefited from interest rates being held higher for longer but the transactions companies like Visa have been under slight pressure from slowdown in consumer spending.
- Healthcare has been under pressure following strong COVID-19 performance and high interest rates.
- Consumer Staples has been under pressure from high bond yields. Value style investing has also been out of favour compared to growth style.
- Industrials has seen headwinds from high interest rates dampening economic activity and capex spend.
- Consumer Discretionary has struggled because high interest rates put pressure on consumers discretionary expenditure.

The following chart shows that the overall US Software sector is experiencing a derating in valuations. The Enterprise Value (EV) over Sales has rolled over the last 6 months and is now trading at the bottom of the valuation range compared to the overall market which is back to expensive territory. The Software sector has been a tale of two cities where some companies are thriving because of AI whilst others experiencing a drop in customer spend on their products.

The valuation metric EV/NTM Sales is similar to the metric, Market Price/Revenue per share (for the next 12 months). The metric measures how expensive the current share price is relative to sales. The Software Sector is now trading at the cheapest valuation since 2018.

Enterprise Value/Next-Twelve-Months Sales for Software Companies



Source: Morgan Stanley

The average US company has dramatically increased their AI expenditure over the last year, and this has often come at the expense of cutting back on consulting, software, digital security and other traditional capex. This AI spending has most often been in the form of installing glorified chat bots whose ultimate benefit to the company remains to be seen. Warren Buffett made a good point on AI spending where he likened investment in the technology to watching a football match. If the first row stands up to get a better view it causes the next row to do the same and so on backwards until eventually the entire stadium is standing up and no one is better off than they were in the beginning. Of course, the entire economy will likely benefit from improved operational efficiency through the use of AI but once everyone is using the technology then no one has an advantage over the others. Similar to when computers first started out in the workforce.

The Software sector is mostly driven by the capex spending of other corporates and even though companies like Intuit, Adobe, Fortinet, Salesforce have their own AI programs, their share prices have been under major pressure lately. There are two schools of thought on this change in the spending habits of corporates:

- Firstly, that this unusual amount of spending on AI, at the detriment of other essential spending, cannot continue forever and companies will need to return to spending on other essential software services like digital security or customer relationship management (CRM). Therefore, considering the cheap valuations at present, one would take this as an opportunity to invest.

- The second view envisions AI spending to continue indefinitely, and the invested AI will replace the other traditional software spending over time. The thinking here is that as the AI gets more sophisticated it takes on more responsibility in the company like security, CRM, data analysis etc. making other service providers less necessary. This would imply that the low valuations in the sector are justified as there is going to be huge disruption across the space.

The answer is probably somewhere in between, and we are likely going into an incredibly volatile period for all companies as they struggle to navigate this new paradigm shift. This technology is likely going to be extremely disruptive, and it is virtually impossible to pick the winners in the space and thus investors are unwilling to pay a premium when there is so much uncertainty.

WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

RCI BCI WORLDWIDE FLEXIBLE FUND (CONT.)

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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	Pullback from high
ALPHABET INC-CL C	21.32	1.06	33%	26%	15%	-4%
AMAZON.COM INC	29.89	0.96	431%	42%	21%	-8%
ASML	37.98	1.59	37%	-3%	59%	-8%
BOSTON SCIENTIFIC	30.70	2.08	17%	16%	14%	-1%
CONSTELLATION SOFTWARE	34.69	1.66	57%	27%	15%	-2%
FORTINET	31.96	2.60	31%	14%	10%	-27%
MERCADOLIBRE INC	43.50	1.03	143%	49%	36%	-5%
MICROSOFT CORP	31.43	2.45	5%	23%	13%	-4%
MONCLER SPA	24.11	2.10	0%	11%	12%	-12%
VISA	25.29	2.06	16%	15%	12%	-6%
Harmonic Mean PE	**29.83**					**-8%**
PEG Ratio (Forward PE/23-25 Growth in EPS)		**1.56**				
Annual EPS Growth Rate (Median)			**32%**	**19%**	**14%**	
S&P500 - FWD PE and EPS Growth	**20.63**		**0%**	**9%**	**12%**	

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 21x, 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.

On average, our top 10 positions have pulled back about 8% from their recent high's.

Changes made during the month

- **Shopify**: Started a position in Shopify the eCommerce facilitator following a large pullback in the share price similar to other software companies. Shopify helps merchants trade online and process transactions, cross border transfers, accounting and point-of-sale services. Shopify has also invested heavily in AI to service both the needs of merchants using their platform as well as the underlying customers shopping for goods.

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%	-0.3%								**6.0%**

For the month, the fund was down 0.3% in ZAR terms (+0.2% in USD) compared to the MSCI Developed Markets Index which was up 1.6% in ZAR (+2.2% in USD) for the month. The Rand strengthened 0.5% for the month detracting from the performance in ZAR.

In 2024, the fund is up 6% year-to-date in ZAR whilst the MSCI Developed Markets Index is up 9%.

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 US dollar. The MSCI Developed Markets Index closed 32% up in Rands or 22% in USD for the period.

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

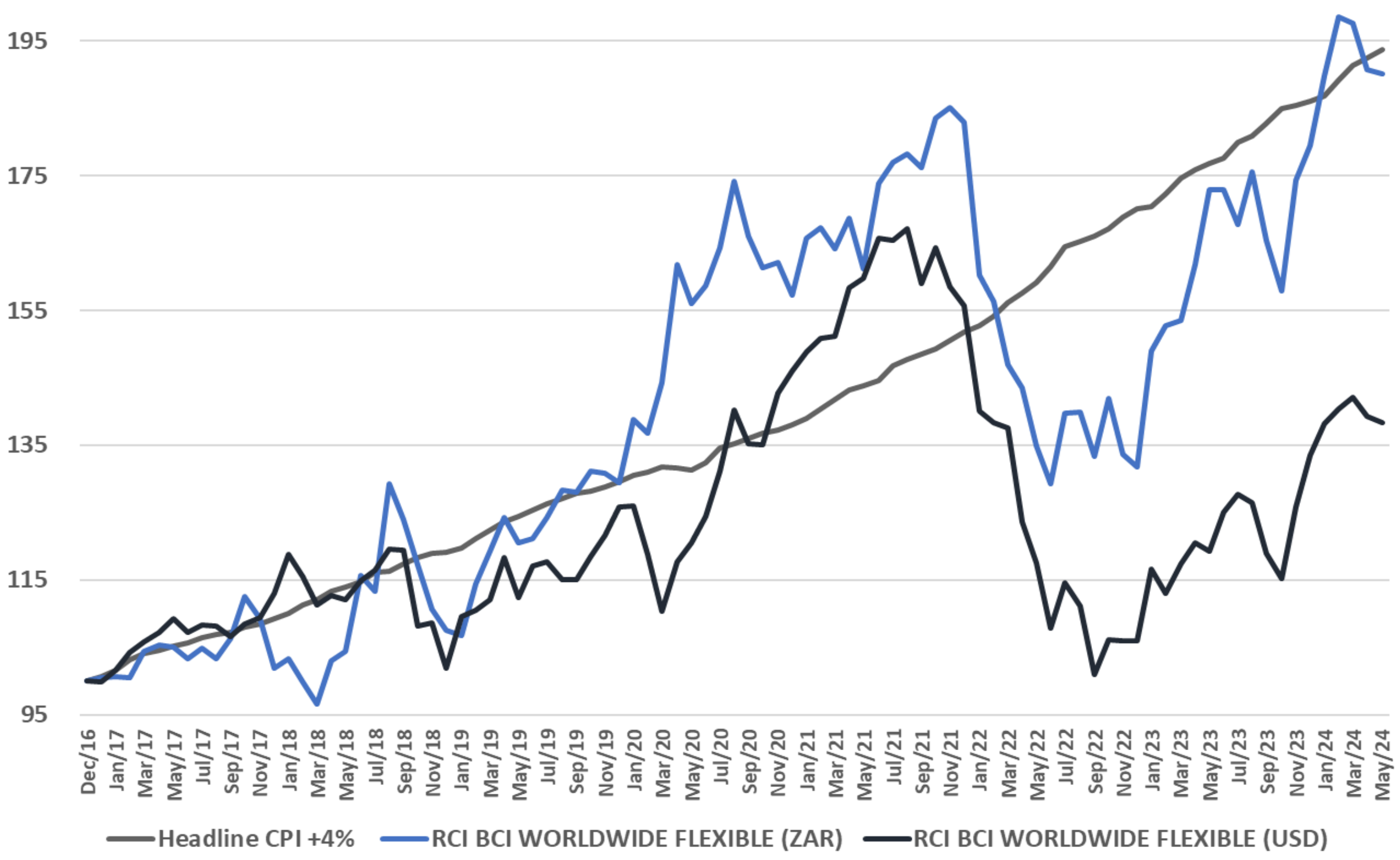
RCI OFFSHORE UNIT TRUSTS PERFORMANCE

"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

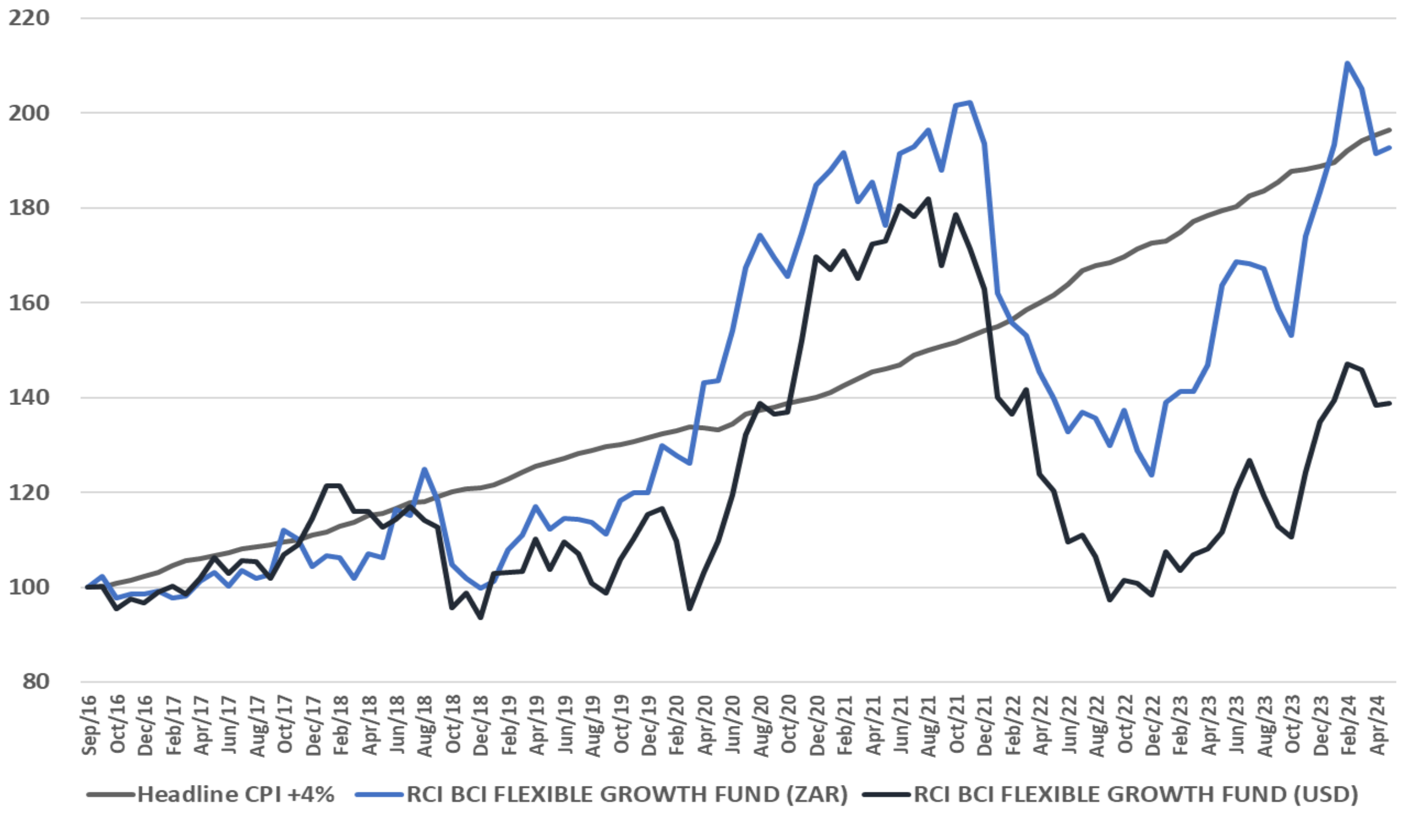
The **RCI BCI Worldwide Flexible Fund** closed May at 190.21, down 0.30% for the month and up 10.02% for the last 12 months.

RCI BCI Worldwide Flexible Fund



The **RCI BCI Flexible Growth Fund** closed May at 192.81, up 0.74% for the month and up 17.83% for the last 12 months.

RCI BCI Flexible Growth Fund



WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

ANCHOR BCI SA EQUITY FUND

After a disappointing April, global equity markets bounced back strongly in May (MSCI World Index 4.5% MoM). As we have observed frequently over the last 18 months, this performance was disproportionately driven by large moves in a handful of US mega-cap tech stocks, many of which continue to ride the wave of investor excitement surrounding AI – Nvidia (+27% MoM), Apple (13% MoM) and Microsoft (7% MoM). Away from AI, investor sentiment in May was buoyed by macro data which showed evidence of the US economy cooling and core inflation moderating, boosting once again the case for the Fed being able to cut interest rates later this year. Emerging Market (EM) equities continued their positive run in May (MSCI EM +2.5% MoM). Chinese equities, despite releasing data that shows the economy continuing to struggle, had a solid month as investors focused on stimulus measures announced, aimed at boosting the country's ailing property sector. Brazilian shares (Bovespa -3.0% MoM) took the wooden spoon among EMs in May, taking its YTD decline to 9%, in stark contrast to its star EM performance in 2023 (+22% YoY).

Despite a post-election wobble at month-end which shaved 2.4% off the month's performance, South African equities managed their third consecutive positive month (FTSE/JSE Capped SWIX Index +0.9% MoM). Shares geared to the domestic economy ended the month slightly weaker in aggregate, largely thanks to the post-election selloff, but there were some more notable moves on both sides. Discovery (-7% MoM) fell as the National Health Insurance Bill was signed into law, while Pick 'n Pay (+23% MoM) recovered as investors responded positively to its turnaround plan and news that the Ackerman Family would relinquish control. Among miners, platinum miners (+6.2% MoM) led the way, rallying in sympathy with a rising platinum price. Rand hedge shares also had a good month, likely thanks in part to a weakening rand. Among rand hedge shares, Richemont (+13% MoM) rallied strongly, as its results showed it is holding up better than feared in a more uncertain consumer environment, while Naspers/Prosus (+4% MoM) also had another solid month.

At the end of May, the top 15 holdings in the fund, making up 62% of the equity exposure, were as follows:

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

Main changes in the month

Last month, we took advantage of weakness in the telcos sector to add a new position in **Vodacom**. We also added to our **Mondi** and **Murray & Roberts** positions in the fund and increased our **Transaction Capital** holding, believing that its significant May share price decline in response to its poor results does not align with our belief in the prospects for a further value unlock in the business. Finally, we added to the fund's position in **Investec** ahead of its results, although the release of new financial targets has proven to be less of a catalyst than we had hoped. With cash levels in the fund relatively low, we funded the above additions through reductions in the fund's listed property exposure (**Growthpoint** and **Vukile**) as the timing of potential interest rate cuts continues to be pushed out. We also lowered the fund's holding in **Invicta**. While we continue to hold the company's management team in high regard, we expect a period of subdued operating performance as it navigates SA's weak economy and adjustments in its China supply chain to cope with newly imposed tariffs.

Performance

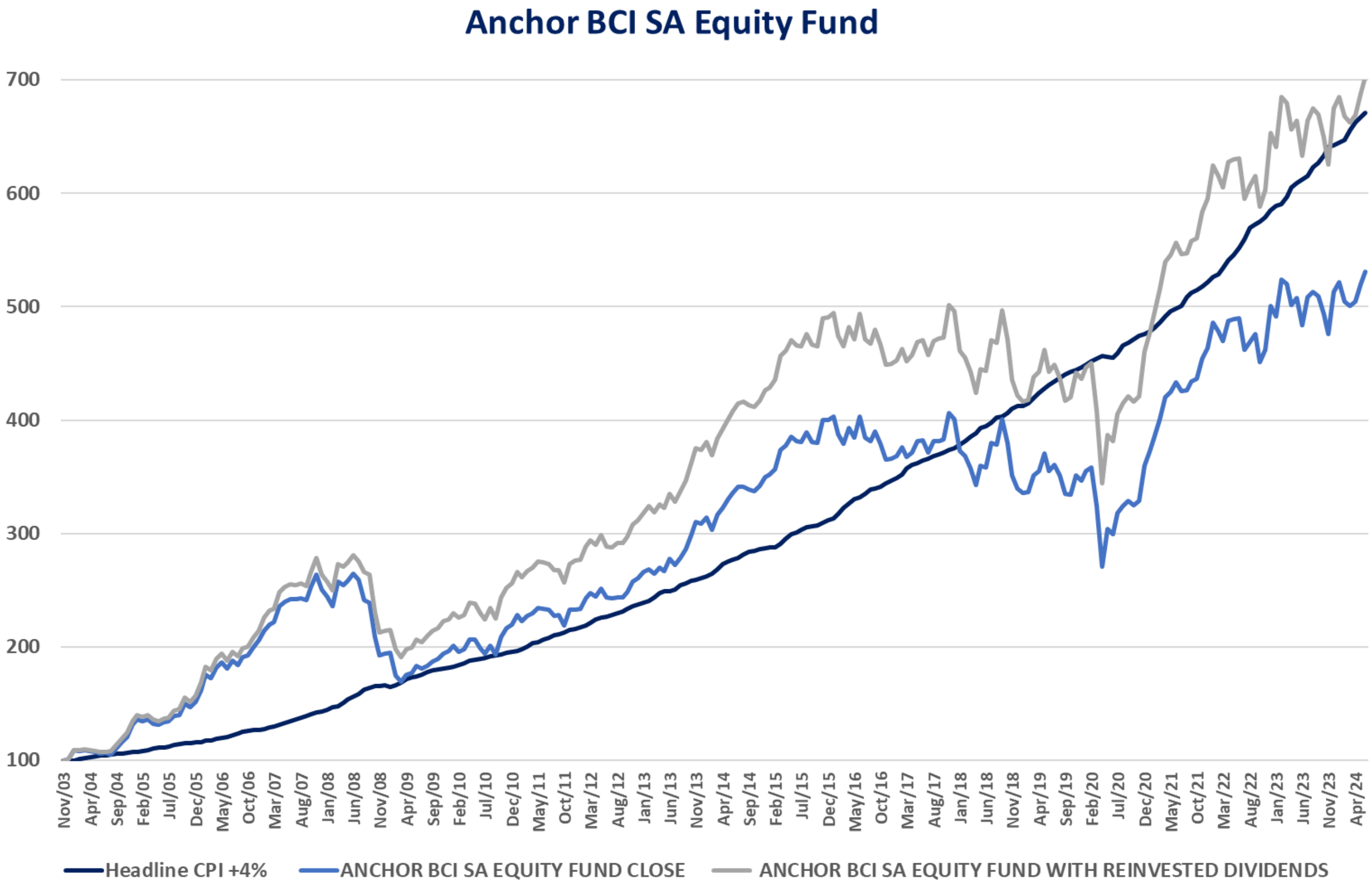
The Anchor BCI SA Equity Fund rose by 2.2% in May, delivering some pleasing outperformance relative to the broader SA market in the month. This outperformance came chiefly from the rand hedge component of the fund, while, at a stock level, the move in WeBuyCars, which is one of the fund's largest holdings, was a major boost to performance.

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

WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

ANCHOR BCI SA EQUITY FUND

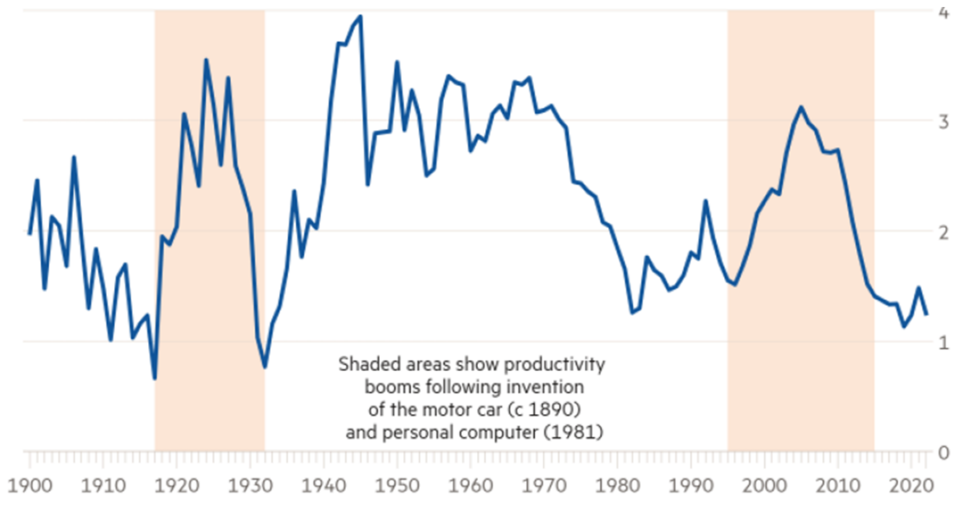
The **Anchor BCI SA Equity Fund** closed May at 530.74, up 2.12% for the month and up 9.68% for the last 12 months.



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.

AI → economic growth → stock market returns?

The adoption of new technologies accelerates productivity growth. AI could lead to a 4th period of information technology (IT) productivity growth. New AI-based technologies can drive incremental productivity. Historical periods of IT-driven productivity gains coincided with periods of strong market returns. But the AI productivity boost might take a while to improve economic growth. The below graph shows that boosts to productivity generally come well after important innovations. Even today, the stock market is largely driven by human emotion and the stock market usually 'gets ahead of itself' when it comes to new technologies showing improved earnings growth going forward. The real productivity gains following the invention of the car and computer only appeared 40 years and 20 years later respectively.



Source: FT, BLS, Goldman Sachs