Robert Cowen Investments

Growing families' wealth since 1982

December 2024

RCI BCI Worldwide Flexible Fund

World markets ended the year on a softer note with the S&P500 falling 2.7% for the month. However, for the full year, developed markets managed strong growth of 17%, driven mainly by the USA with the S&P500 up 23%. Looking more closely at US sector performance we see that only the Communications Services, Information Technology and Consumer Discretionary sectors had a positive December. This was driven by big moves from Tesla (17%), Alphabet (12%), Amazon (6%) and Apple (6%).

Name	Dec-24	2024
NASDAQ 100 IDX	0.4%	24.9%
S&P 500	-2.7%	23.3%
DOW JONES INDUST IDX	-5.3%	12.9%
S&P 500 COMMUN SERVICES	3.5%	38.9%
S&P 500 INFO TECH IDX	1.1%	35.7%
S&P 500 CONS DISCRET IDX	2.3%	29.1%
S&P 500 FINANCIALS IDX	-5.6%	28.4%
S&P 500 UTILITIES IDX	-8.1%	19.6%
S&P 500 INDUSTRIALS IDX	-8.1%	15.6%
S&P 500 CONS STAPLES IDX	-5.2%	12.0%
S&P 500 ENERGY IDX	-9.6%	2.3%
S&P 500 REAL ESTATE IDX	-9.1%	1.7%
S&P 500 HEALTH CARE IDX	-6.4%	0.9%
S&P 500 MATERIALS IDX	-10.9%	-1.8%
HANG SENG IDX (USD)	3.4%	18.3%
MSCI WORLD IDX	-2.7%	17.0%
DAX IDX (USD)	-0.2%	11.7%
NIKKEI IDX (USD)	-0.6%	6.8%
MSCI EMERGING MARKETS IDX (USD)	-0.3%	5.1%
FTSE 100 IDX (USD)	-3.0%	3.7%

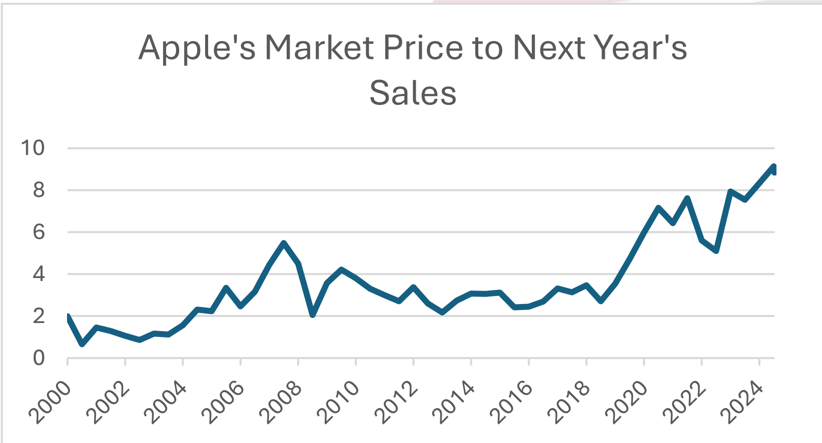
(*Source: Bloomberg, Anchor Capital*)

The Tech sectors and the underlying AI euphoria were also the largest contributors to the overall market performance for the year. Of the major non-US markets, The Hong Kong's Hang Seng was the best performer growing 18% and the German DAX grew 11% but most others were poor performers compared to the United States. The UK's FTSE 100 grew only 3.7% (USD) and Emerging markets grew only 5% for the year.

The impressive US market performance was partly attributable to superior earnings growth but also because of a large re-rating in valuations. The US market forward PE multiple is particularly high compared to the rest of the rest of the world:

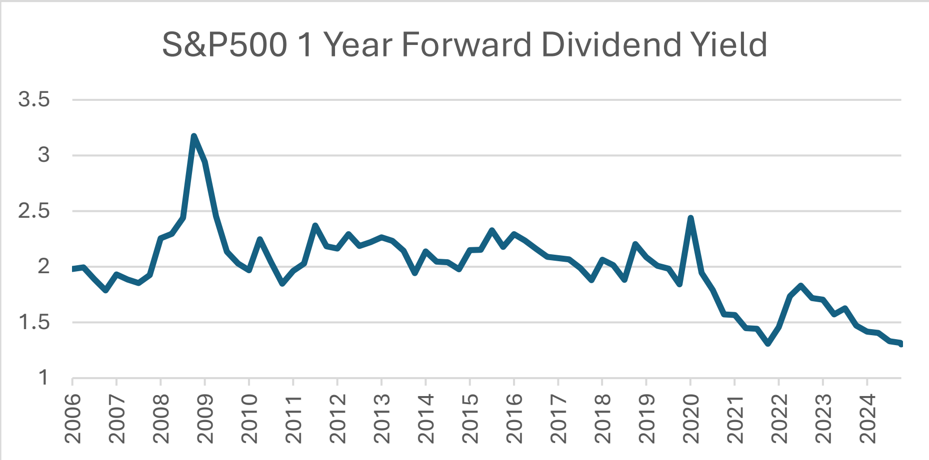
The US market Forward PE ratio is currently 22.5 - extreme levels compared to history. The rest of the world is below 15x and around the long-term average. (Source: LSEG)

If we look more closely at the valuation of Apple, the world's largest stock by market capitalisation, we see that its valuation is also very high at present. This simply means that markets are demanding perfection from Apple and the rest of the Magnificent 7 for the foreseeable future:



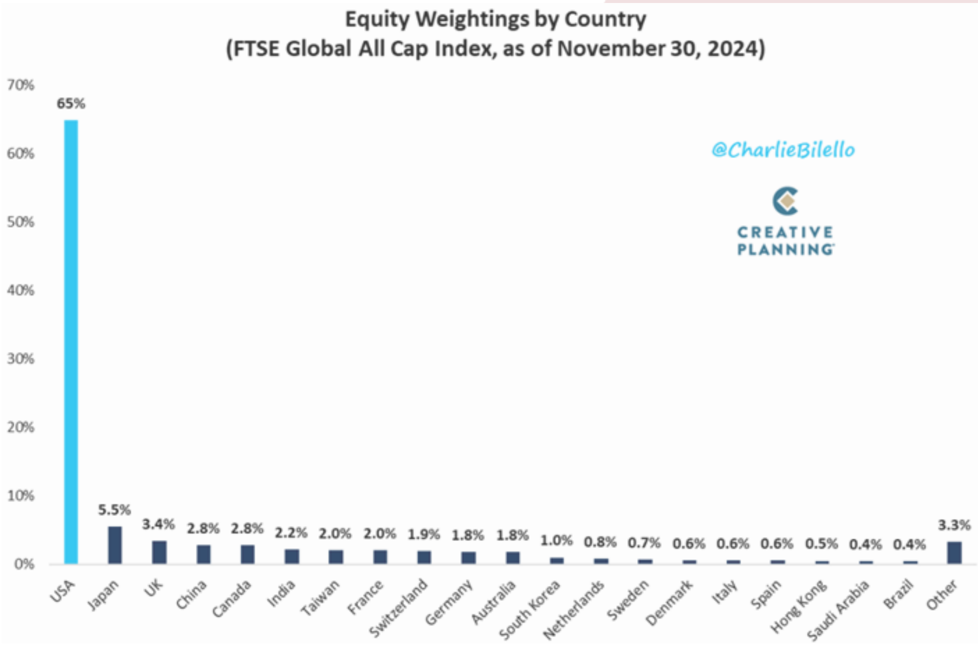
Apple's Price to Forward Sales Ratio, the most basic ratio one can examine of a company, is currently trading at an all-time high of 9x. (Source: Bloomberg, Anchor Capital)

Another metric to measure the valuation of the market is to examine the dividend yield over time. At present the S&P500's one year forward dividend yield is 1.3%. This is the lowest it has been in decades. This is particularly expensive compared to other investments like bonds or cash held in Money Market investments.



The US market Dividend Yield is currently 1.3%. The last time it was this low was during the COVID stimulus period of 2021. (Source: Bloomberg, Anchor Capital)

The US market performance has been so exceptional compared to other developed markets that its weighting in the MSCI World Developed Markets Index is now at 65%, over 10 times the size of the next largest market, Japan.



The USA is 65% of the world's listed stock market value, Japan 5.5% and the UK 2.8%. China is only 2.8% but this is because a lot of their companies are excluded due to liquidity and free float rules (Source: Charlie Bilello at Creative Planning)

It is obvious that the US market is expensive at present, but not necessarily extreme, and its valuation could be justified when looking at the quality of businesses listed there compared to the rest of the world. The Magnificent 7, driving this performance, are highly cash generative companies, far superior to the bad actors of previous bubbles. Tech might be expensive, but the rest of the US market is not, and thus there is still room for broadening out in the valuation. If the US is able to avoid a recession this year and continues to grow earnings then they could grow into the current valuation, however, one would expect performance from these levels to be muted.

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.

	PE in one years time	PEG Ratio (FWD PE/'25-26 Growth)	EPS Growth			Pullback from high
			2023-2024E Growth	2024-2025E Growth	2025-2026E Growth	
ALPHABET INC-CL C	20.9	1.4	36%	12%	15%	-5%
AMAZON.COM INC	31.9	1.7	60%	15%	19%	-4%
ASML	27.7	1.2	2%	25%	24%	-33%
BOSTON SCIENTIFIC	32.3	2.3	22%	14%	14%	-1%
CONSTELLATION SOFTWARE	36.9	2.5	15%	15%	15%	-9%
FORTINET	39.9	2.9	44%	8%	14%	-3%
MERCADOLIBRE INC	40.2	1.1	44%	36%	38%	-15%
MICROSOFT CORP	29.9	1.9	23%	11%	16%	-10%
LVMH MOET HENNESSY LOUIS VUI	21.3	2.0	-13%	5%	10%	-31%
RHEINMETALL AG	20.4	0.5	60%	42%	38%	-7%
Top 10 - FWD PE Ratio* PEG ratio* and EPS Growth Rate^	**28.3**	**1.4**	**29%**	**14%**	**16%**	**-12%**
S&P500 - FWD PE and EPS Growth	**21.9**		**0%**	**9%**	**14%**	**-3%**

*Calculated using Harmonic Mean
^Calculated using Median

We expect strong performance out of our top 10 positions for the 2025 and 2026 years. Our portfolio is expected to grow earnings per share in the mid-teens which is greater than the S&P500, where analysts expect 12% average growth over 2025 and 2026. Our companies are trading at higher valuations, 28x, versus the S&P500's 22x, but we believe this is justified by the higher quality of our investments, growing earnings at a higher rate than the market. This is especially so when compared to expected returns on investments in bonds or cash.

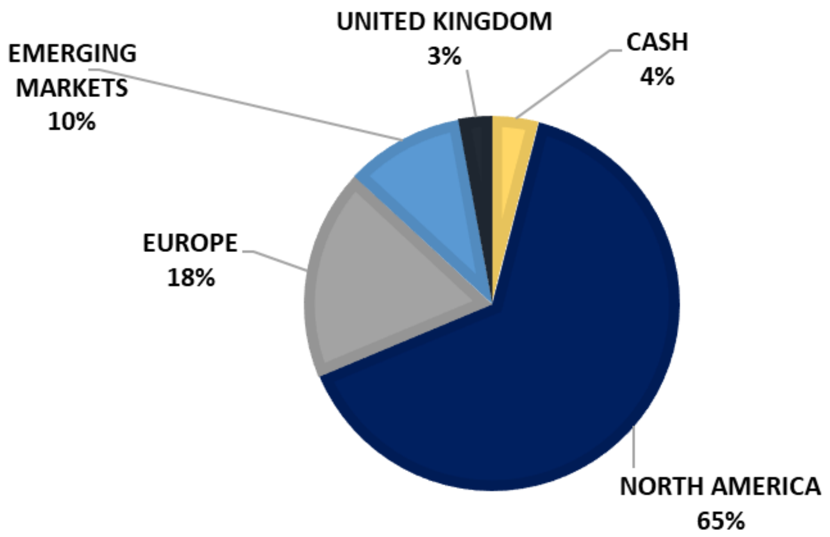
On average, our top 10 positions have corrected 12% from their recent high's whereas the US market has fallen 3% on average.

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

Changes made during the month

- Started a position in Meta and the cyber security company Sentinel One
- Sold Yum Brands

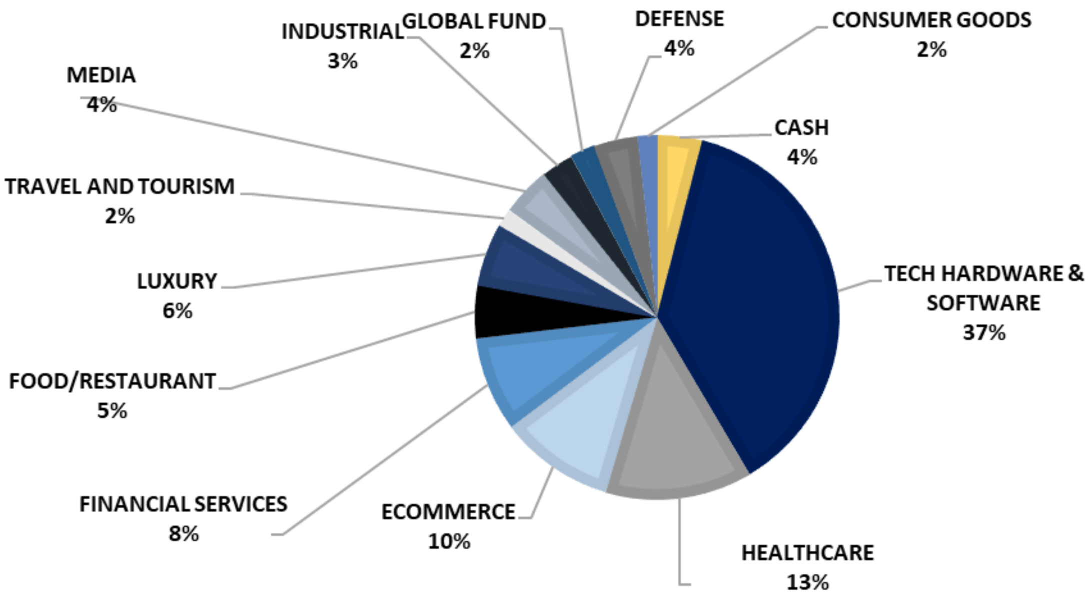
Geographic Drivers



- Cash is usually held as USD with a few percent in Rands due to subscriptions. Therefore, total North American + USD exposure is closer to 69%.
- We have exposure to Europe via global companies: ASML, LVMH, Novo Nordisk, Universal Music Group and Moncler.
- We have Emerging Markets exposure via Mercado Libre, Tencent, Taiwan Semiconductor and Nu Holdings.
- We have UK exposure through the global pest control and hygiene company Rentokil Initial and listed fund Scottish Mortgage Trust.

Sector Weightings

Communication sector shares such as Alphabet have been placed in the tech sector. Amazon has been classified as eCommerce, although a large portion of their business is in cloud computing. Over half of the companies we own have a Return on Capital Employed (ROCE) over 20%. About 28% of the portfolio has defensive characteristics and if you add the cash of 4% this would rise to a combined defensive weighting of 32%.



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%	0.0%	-4.7%	1.6%	-1.3%	1.8%	5.4%	3.6%	**12.6%**

For the month, the fund was up 3.6% in ZAR terms (-0.7% in USD) compared to the MSCI Developed Markets Index which was up 2.48% in ZAR (-1.8% in USD) for the month. The Rand weakened 4.4% for the month, adding to the performance in ZAR.

For the 2024 calendar year, the fund was up 12.6% in ZAR (+10% USD) whilst the MSCI Developed Markets Index closed up 19% in ZAR (+17% USD).

For the 2023 calendar 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.

We hope you find these insights useful. If you require any further detail regarding the fund, please see our official BCI Fund Factsheet available on the BCI website, otherwise please feel free to contact us.

The RCI BCI Worldwide Flexible Fund investment team

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