The Navigator

STRATEGY AND ASSET ALLOCATION REPORT

2nd Quarter 2022

ANCHOR | NAVIGATING CHANGE

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Introduction

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It feels like we are emerging from a perfect storm for financial markets. Stimulus-induced inflation is being exacerbated by supply chains that remain clogged up. The trend of globalisation seems to be reversing towards national production again, fuelling inflation toward uncomfortable levels. These events are being compounded by the horrors of Russia's invasion of Ukraine and the inevitable inflationary impact on food and commodities. Central banks have no choice but to react with sharp reductions in their balance sheets and interest rate hikes, all of which create turmoil and volatility in global markets. The first quarter of 2022 has not been easy, and the returns of our investment portfolios have, by and large, been disappointing.

It is at times like these that we should reassess our long-term investment objectives. We should consider whether we remain on the path toward achieving and exceeding our objectives. Over time, a company that is compounding its earnings growth by 10% p.a. will deliver immense value to its investors. Sometimes the market will love the company (with lofty valuations) and sometimes the market will hate the company. Over time, however, the market will come to reflect the earnings growth that has been achieved. As the market has swung from infatuation to hate, we are seeing some opportunities to access growing companies at attractive prices. Sentiment might push prices lower still before recovering, however, this is certainly a good time to consider gradually topping up exposures to some companies and sectors.

Domestically, it seems that South Africa (SA) is improving, Moody's has joined other rating agencies in upgrading SA to a stable rating. National Treasury is likely to see R45bn of excess tax collections this fiscal year and the rand is strong as commodity exports support our trade balance. Good fortune is favouring SA with the current commodities boom. Commodities cycles can be protracted and this one might extend for a few years yet, however, commodity cycles do end. We think that the longer this cycle runs, the greater the opportunity to diversify your investments away from SA. You do not want to be the last one invested domestically when the cycle eventually ends. It is still early, and domestic assets remain attractive; therefore, we suggest a gradual plan to externalise your investments and to seek opportunities abroad.

Good fortune is favouring SA with the current commodities boom.

Most importantly, Anchor believes in a balanced approach toward investing and diversification. Everyone's circumstances are different, although for most being fully invested either domestically or abroad does not make sense. Consider your long-term objectives and construct a sensible portfolio diversified across asset classes and regions that will, in time, get you to your investment objective. In times of great adversity, there is also great opportunity. This is the opportunity to assess your long-term objectives and to ensure that you remain invested with those in mind.

Asset Allocation

The following table illustrates our house view on different asset classes. This view is based on our estimate of the risk and return properties of each asset class in question. As individual Anchor portfolios have specific strategies and distinct risk profiles, they may differ from the more generic house view illustrated here.

Asset class	Current stance			Expected returns (local currency) (%)
	Negative	Neutral	Positive	
LOCAL				
Equity		●	<	9.1
Bonds		>	●	10.0
Listed property			●	10.4
Cash	●			5.0
Alternatives*			●	10 to 15
Rand/US$ (rand marginally stronger)				0.1
GLOBAL				
Equity		●		6.0
Government bonds	>	●		2.2
Corporate credit	>	●		3.5
Listed property		●		5.9
Cash	●			0.6
Alternatives*			●	5 to 10

**Alternatives includes hedge funds, protected equity structured products, and physical property.*

Asset Allocation Summary

Inflation continues to worry markets and has been exacerbated by the Russian invasion of Ukraine. Central banks are responding to high inflation rates, and we expect significant policy tightening across the globe. Financial markets are forward-looking, and prices have moved accordingly. This is reflected in a more positive outlook for bonds, which are close to their long-run fair yields.

We have seen a significant outperformance by domestic equity in 1Q22, driven mostly by commodities and banks. Accordingly, we shift domestic equity from positive to neutral, reflecting our view that the easy returns have been made. This means that we move domestic bonds to overweight as we think that the current high yields are not reflective of improved domestic fundamentals.

In *Figure 1* below, we highlight the US dollar return outlook for the various global asset classes. The bar in *Figure 1*, represents the reasonable range of possible outcomes, with the dots representing our estimate of what the outcome will be in the various scenarios. From a global perspective, equity is the most attractive asset class though downside risks remain.

Figure 1: 12M return scenarios for various asset classes in US dollar terms
Source: Anchor

Globally, equity disappointed in 1Q22, thus providing investors with more appealing entry points currently. There is a risk that the negative momentum continues in equities, although we think that investors should begin a gradual process of investing in this asset class at these levels. We have shifted global bonds from negative toward neutral, reflecting our view that the yield is at a reasonable entry point to US dollar-denominated bonds.

Figure 2: Anchor expected return by offshore asset class
Source: Anchor

	Global equity	Global bonds	Global property
Anchor expected return (in US dollar)	6.0%	2.9%	5.9%

In *Figure* 3 below, we highlight the rand return outlook for several domestic asset classes. The bar represents the reasonable range of possible outcomes, with the dots representing our estimate of what the outcome will be under the various scenarios. From a domestic investor perspective, the local equity market remains compelling.

Figure 3: 12M return scenarios for various asset classes in rand terms
Source: Anchor

Domestically, we think that this is a positive investment environment, where the risks are skewed towards the upside. All asset classes are rather positive, although we think that domestic bonds will give the most attractive risk-adjusted return. We forecast a rand that is flat (vs the US dollar) over the next year, though it is likely to be volatile giving opportunities to externalise investments from time to time.

Figure 4: Anchor expected return for domestic asset classes
Source: Anchor

	Domestic equity	Domestic bonds	Domestic property	US$/rand
Anchor expected return (in US dollar)	9.1%	10.0%	10.4%	0.1%

Strategy and Asset Allocation

ECONOMICS

Russia's invasion of Ukraine represents the greatest shift in European security since WWII, and it has rattled global financial markets to levels of volatility and uncertainty few could have predicted at the start of 2022. Nonetheless, analysis of the situation on the ground suggests that Russia's advance has not gone according to plan amidst stiff resistance, logistical issues, and heavy losses. At this stage, the jury is out on how long the conflict will go on, with geopolitical analysts cautioning against optimism over what seems to be a de-escalation of the conflict. The situation remains fluid, making it increasingly difficult to predict the extent of the global economic fallout. Nonetheless, what is clear is that the impact on economic activity is set to spread beyond Ukraine and Russia's borders.

A key factor here is commodities, with Russia and Ukraine representing sizeable proportions of global trade in energy, wheat, and fertilisers, amongst others. Energy has been in sharp focus given Europe's dependence on Russian gas, with little in the way of sufficient and easily available substitutes. To date, pipeline gas flows to Europe have largely been unchanged, but a risk would be if Russia were to cut off supplies leading to shortages and rationing, although this seems unlikely at present. However, developments related to foodstuffs are also a key concern. Thus, further pressure is clearly being levelled on the cost of living given the surge in commodity prices. Whilst energy prices have been the central focus, food security is an important issue too and could have unforeseen consequences.

As a result of Russia's invasion of Ukraine, broadly the supply shock in commodities is set to prolong some of the supply chain issues that emerged from the pandemic and which we had consequently hoped would begin to ease. As such headwinds to global growth are rising, with global growth forecasts slowly being adjusted lower across the board. Whilst COVID-19 is no longer a predominant issue, it is worth noting that Covid cases have once again been rising across the globe, and China has implemented several citywide lockdowns recently, further compounding the increasingly complex global macroeconomic environment.

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The US Federal Reserve (Fed) kicked off its rate tightening cycle this month with a 25-bpt hike to the Fed funds target range to 0.25%-0.50%. Reflecting on the high inflation backdrop, Federal Open Market Committee (FOMC) members scaled up their rate expectations for the year ahead. This aggressive tightening path reflects the FOMC's unease about the high rates of inflation. The eurozone's geographic proximity to the conflict in Ukraine, and its greater trade ties with Russia and Ukraine, naturally leave it more exposed economically to the war than other parts of the world. A key worry is the region's energy dependency on Russia; reducing it will not be simple, nor cheap. Nevertheless, we expect the European Central Bank (ECB) to remain fairly cautious in moving towards rate hikes, certainly relative to market pricing.

Whilst the growth outlook is highly uncertain, we expect the direct impact of the Russia-Ukraine conflict on SA to be limited, given the minimal direct trade links. We believe the indirect impact is likely to be larger should the Russia-Ukraine conflict dampen the euro area and UK growth outlook as exports to the region account for 27.7% of SA's total exports. While a positive terms-of-trade shock could theoretically result in higher export volumes, in practice this is unlikely given ailing Transnet rail infrastructure, port bottlenecks, and electricity shortages, which combined is likely to put a cap on mining output and thereby exports. A potential key positive outcome for SA is that mining companies could use the windfall from higher export commodity prices to expediate their plans to invest in green energy and remove themselves from Eskom's electricity grid. This increase in investment would be positive for GDP growth. While SA is likely to miss out on the current commodities boom on the growth (real GDP growth) front, higher export commodity prices will be positive for the current account and fiscus.

The 2022 Budget, presented in February, reaffirmed government's commitment to fiscal consolidation, while continuing to support vulnerable households — a balance made possible by the commodities-induced tax revenue windfall. Despite the upward adjustment to expenditure, the spending outlook is clouded with risks, stemming from further state-owned enterprises (SOE) bailouts, continued extension of the Social Relief of Distress (SRD) grant or implementation of a basic income grant, and higher-than-budgeted public sector wages. Given the downside risks to the global growth outlook stemming from the Russia-Ukraine war, the SA Reserve Bank's (SARB's) Monetary Policy Committee (MPC) will be weary to hike rates aggressively as that would be negative for growth. Thus, the SARB will be cautious when considering the current path of interest rates, not wanting to raise rates too fast and thereby suppressing the current local economic recovery, but equally not wanting to raise rates too slowly and thus allowing inflation to rise rapidly, resulting in sharply higher inflation across all categories. Consequently, we believe the SARB will continue to follow a gradual rate-hiking path.

SA EQUITIES

The first quarter of 2022 saw the local equity market experiencing one of the strongest relative performances in recent memory, delivering a total return of 6.7% (FTSE/JSE Capped Swix) in rand and 16.2% in US dollar terms against the MSCI World, which delivered a negative total return of 5%. Its strong performance over the past three months (1Q22) puts the JSE ahead of global equity markets by 10.8% over the past 12 months – a showing that has surprised many analysts and strategists and, if anything, once again highlights how difficult the job of forecasting equity market returns really is. The recent strong performance of the JSE, largely fuelled by cheap relative valuations and a healthy weighting towards the basic materials sector as opposed to great secular growth prospects, has resulted in a reduction in our 12-month total return expectation for SA equities from 12%, at the beginning of the year, down to 9%. This is slightly below our total return scenario for domestic bonds and does not compensate for the additional risk inherent in the rand vs US dollar exchange rate relative to global equities and, as a result, we move from overweight local equities to neutral.

The JSE has, without a doubt, been a big beneficiary of the 'growth to value' regime shift in global markets that kicked off in late 2020 and really accelerated from mid-November last year. We have often written about the composition of the local market which, after years of stagnant economic growth and a commodities bull market, resulted in large index weightings in value-heavy sectors of the market such as basic materials and financials.

Figure 1: Capped Swix Index weightings by sector
Source: Anchor, Bloomberg

Industry	% of index
Basic materials	28
Consumer discretionary	7
Consumer staples	10
Energy	1
Financials	27
Health care	3
Industrials	3
Real estate	4
Technology	8
Telecommunications	8

Much has been written about supply chain disruptions brought about by government efforts to contain the spread of the COVID-19 pandemic, and additional demand created by government stimulus in response to receding economic growth with the overstimulating of demand resulting in elevated inflation levels. Up until a few months ago, the inflationary pressures were largely expected to moderate towards 2H22, as government stimulus moderated, and supply chains eased. However, Russia's invasion of Ukraine has resulted in new pressures on the inflationary backdrop as the supply of certain key basic materials have once again been disrupted. The net result has been an appreciation in SA's key exports – greatly benefitting the local economy and the domestic current account surplus.

Turning to the JSE, SA finds itself in the unique position that its own top-down investment case screens more attractively now than it did towards the back-end of last year, when the outbreak of Omicron (the so-called 'South Africa') variant was still dominating headlines and there was significant uncertainty around how much more the local economy could absorb in terms of lockdowns.

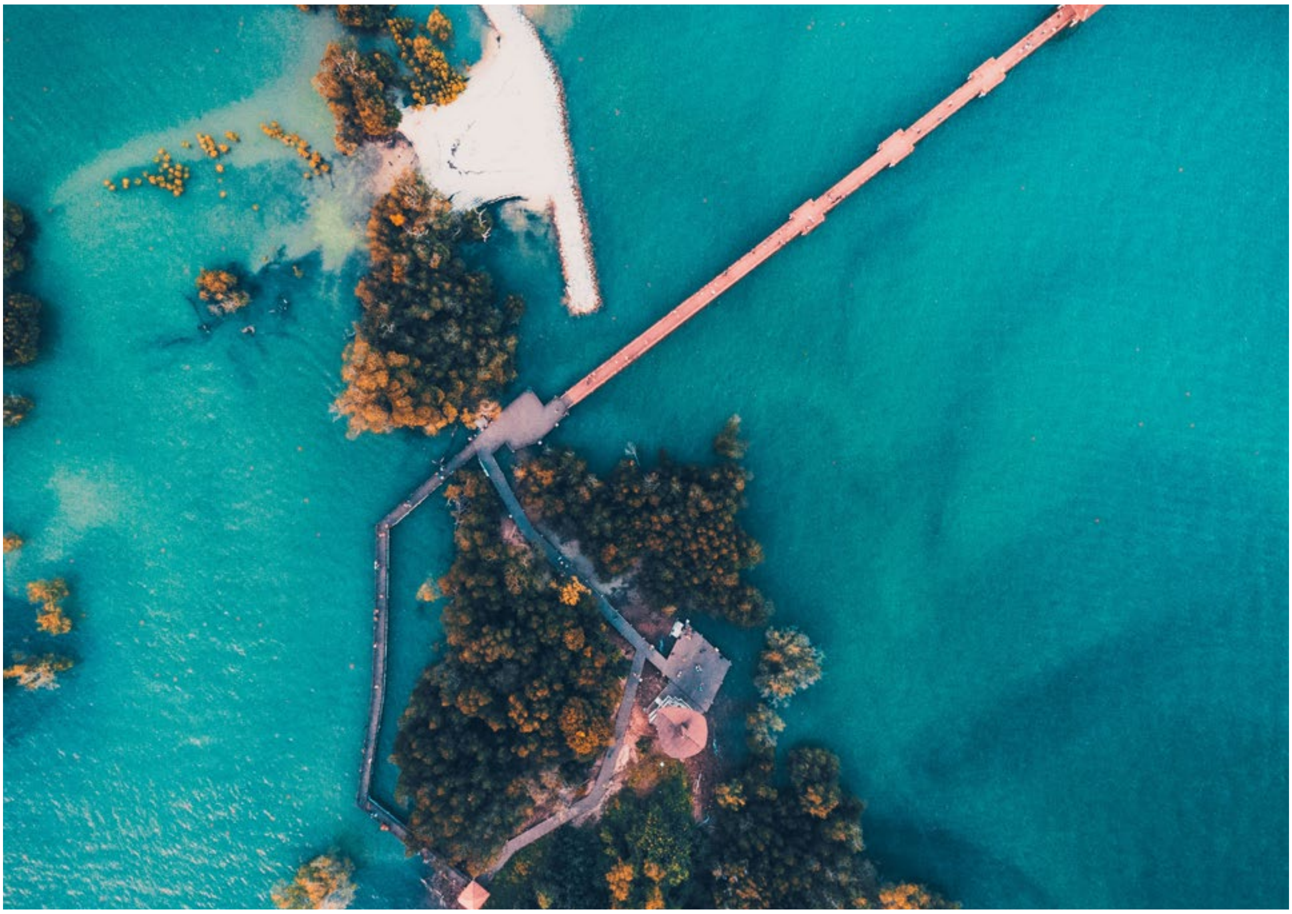
We remain neutral on the basic materials sector, outside of gold, where we continue to have no exposure.

Thankfully, the Omicron wave turned out to be far milder than experts initially expected, and attention was once again drawn to company fundamentals, with a fairly strong reporting season from domestic stocks in particular. Towards the middle of last year, we started turning bullish on the SA banks, with the investment cases largely being underpinned by undemanding multiples, and a far bigger earnings recovery out of COVID-19 than was initially anticipated. The call to be overweight banks turned out to be the right one, with the most recent earnings season well received by investors. With banks being one of the best-performing sub-sectors on the JSE YTD, and with a healthy 15% index weighting going into the year (now up to 17%), the contribution to the total 1Q22 return (+4%) was over half of the 6.7% delivered by the FTSE/JSE Capped Swix. The basic materials sector made up the balance (+2.7%) – with the rest of the JSE largely flat. Naspers and Prosus combined was the biggest detractor from the performance of the Capped Swix at close to a 3% negative drag and, for the quarter, was the only meaningfully negative contributor to returns.

Turning to our return expectations for the upcoming 12-month period, the recent strong performance of the banks, on the back of positive earnings revisions but also reratings, has resulted in our total return expectation for the sector moderating somewhat and resulting, in aggregate, in a lower total return for the Capped Swix to 9% (from 12%, previously). While the banks do not screen as expensive, the upside from here is not as obvious as it has been going into previous quarters. We see positioning around the Naspers/Prosus investment case, which has progressed from a consensus long for the past 10 years to being relegated into a camp that polarises the local investment community, as a key portfolio construction consideration for the next 12 months. On our numbers, we see Naspers/Prosus as the large-caps that offer the most upside in the local investment universe - record high discounts to NAV for Naspers, Prosus and on the underlying asset, Tencent, have presented investors with a great multi-year entry point, on our base-case scenario.

We remain neutral on the basic materials sector, outside of gold, where we continue to have no exposure. Our positioning within the sector remains biased towards wanting to own miners with exposure to the most attractive underlying commodities, which we see as coal, copper, aluminium, and other metals, which fare favourably in the longer-term energy transition theme. One sub-sector of basic materials we continue to view with caution would be the platinum group metals (PGM) complex, where the companies' latest set of operating results highlighted key vulnerabilities in their investment cases. These include rapidly rising costs and diminishing returns on marginal capital expenditure. In our view, the bull case for the PGMs now largely rests on whether the world's largest producer of palladium, Norilsk Nickel, is sanctioned and is unable to sell palladium into the market. We see this as a relatively low-probability event; however, we concede that, in recent times, we have seen many low-probability events happen and, as a result, we have kept some marginal exposure.

We continue to see reasonably good value across the local market, with no sectors screening as overheated from a valuation perspective. When making forecasts, we follow a bottom-up approach that represents about 90% of the index. However, the elevated levels of geopolitical risks and uncertainty around inflation in the US and Europe mean that the macro calls will likely continue to lead the direction of the market over the short- and medium-term.



SA LISTED PROPERTY

We remain moderately positive on good returns from JSE-listed property shares for 2022, as earnings levels and dividends become more predictable after the uncertainty brought about by the pandemic since the beginning of 2020.

In 1Q22, the total return for the FTSE/JSE SA Listed Property Index was a negative 1.3%. The SA component of the index produced a solid return, but those companies with exposure to Eastern Europe came under some pressure because of the war in Ukraine. The proximity of Romania and Poland to Ukraine caused jitters for the likes of Nepi Rockcastle, MAS, and Redefine.

We do not believe these companies will earn less because of the conflict and their economies might get a spending boost from the millions that have fled Ukraine. A country like Poland was battling with qualified labour and its pool of potential employees has also increased. There is a risk, nevertheless, that funding appetite (and rates) could be impacted in these regions as they might be perceived to now be riskier. On balance, however, we do not believe the medium-term fundamentals for these companies have changed materially and there is the potential for a bounce-back over the next few months – although we also highlight that these shares have not fallen materially.

The property sector should pay out dividends of 7.2%, in aggregate, and sustain a two-year growth rate of 5%-10% as conditions normalise further. We project an 10.4% total return from JSE-listed property in 2022.

The SA-driven segment of the market has some recovery growth in 2022 (less rental concessions, etc.), but thereafter growth will be challenged as local interest rates rise and negative reversions continue. By contrast, we expect sustained c. 5% earnings growth in the offshore counters, largely driven by development profits and better underlying GDP growth, particularly in Central and Eastern Europe. The offshore exposure we have in our property fund is in aggregate trading at a 6.5%-7.5% euro yield with sustainable dividend growth, and all of this in hard currency. This should create a profile of sustained 10%-15% rand returns over the medium term, which we consider attractive in the context of global opportunities.

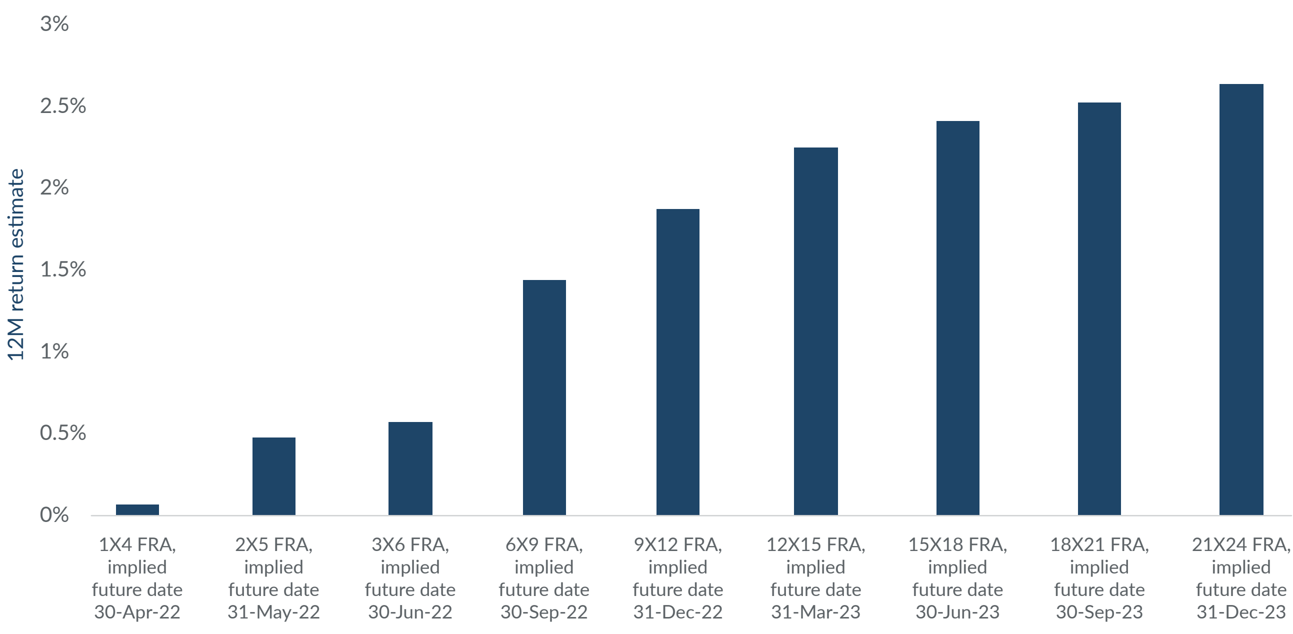
DOMESTIC BONDS

1Q22 has been a difficult quarter for fixed income in general and SA government bonds (SAGBs) have not been exempt from this sell-off. The benchmark R2030 yield moved from 9.35% to 9.60% and the All Bond Index (ALBI) returned 1.89% for the quarter (extrapolated over the year this would imply a net 2022 return of below 7.50%).

SAGBs have been sensitive to Russia's invasion of Ukraine, anticipation of central bank actions and global growth and inflation expectations. The February invasion of Ukraine resulted in an indiscriminate emerging market (EM) sell-off that drove SAGB yields up by over 100 bpts over the course of 3 weeks (on 18 February the R2030 yield was 9.075% and by 8 March it had reached 10.26%).

Central bank actions remain front and centre - the Fed began its rate-hiking cycle this past quarter and has signalled its willingness to hike by 50 bpts if it sees the need (US inflation has been elevated at over 7% YoY). Domestically, the SARB MPC has hiked local rates by 25 bpts at both its meetings this year (with the latter hike seeing 2 members voting for a 50-bpt hike). We maintain our view that derivative markets are pricing in too aggressive a rate-hiking cycle (current implied expectations are for 180 bpts worth of hikes by end-2022, with another 70 bpts of hikes by end-2023).

Figure 2: FRA strip comparison
Source: Anchor, Thomson Reuters



SA has a far less pressing need to rein in inflation than developed markets (DMs), with the most recent print (5.7% YoY in February) being below the top-end of the SARB's target band (3%-6%). The combination of local muted inflation (relative to global DMs) and the strength of the rand (currently at R14.58/US$1) should enable the SARB MPC to moderate its rate-hiking cycle. The risks to this view remain the elevated oil price (still at around US$100/bbl at the time of writing), an escalation of the war in Ukraine and potential further waves/variants of COVID-19.

Given the abovementioned rate-hiking cycle, our expectation is for further rate hikes of 75 bpts to the end of 2022, with a further 100-bpt rise in 2023. This implies a repo rate of 5% and 6% at the end of 2022 and 2023, respectively.

Considering the above, we maintain our view that SAGBs can tighten materially from their present yields, and our expectation is for a 12-month return of 10% for this asset class comprising interest yield of 9.3% and capital gains of 0.7%.

THE RAND

The SA rand is supposed to be a high-beta currency that moves significantly as investor appetite for EMs ebbs and flows. Astonishingly, it has done quite the opposite over the past quarter - strengthening by nearly 10% as investors have been adjusting to the war in Ukraine. In part, we think that the rand started 2022 a little too weak and in part the higher export prices for coal, PGMs and iron ore have supported the local unit. All things considered, it is a remarkable outcome for the currency.

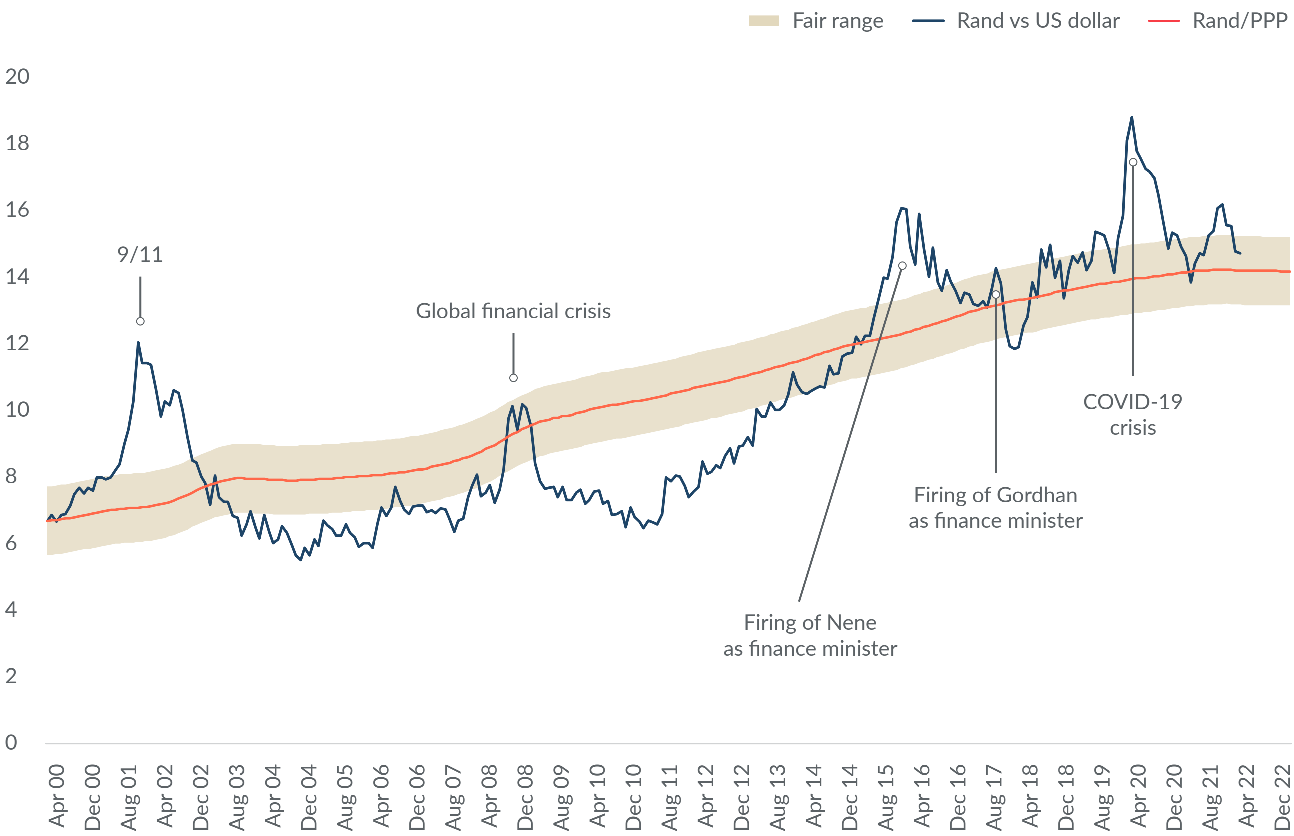
Looking forward, projecting the rand's value in a year's time is a fool's errand. The rand vs US dollar exchange rate is one of the world's most volatile currency pairs and trades well away from any modelled fair value for long periods. We note, however, that the rand trades within a R2.50 range to the dollar in most 12-month periods.

Some of the rand's strength has been from hedge funds taking significant positions. We expect that these hedge funds will at some stage take profit on these positions. It is entirely plausible that the rand may, in the next month or so, spike weaker as hedge funds sell their rand positions down. Thereafter, we expect that the fundamentals of a strong trade balance and improved fiscal outlook will support the currency to continue its grind stronger.

We retain our purchasing power parity (PPP) based model for estimating the fair value of the rand and we have extended this out by three months since the publication of *The Navigator – Anchor's Strategy and Asset Allocation, 1Q22* report on 16 January 2022. Our PPP-modelled value for the rand vs US dollar at the end of the next 12 months is R14.03/US$1 (See *Figure 3*). We apply a R2.00 range around this to get to a fair-value range of between R13.03 and R15.03/US$1.

We expect the rand to remain particularly volatile and we retain our view of a reasonable trading range being R14.50-R15.00 against the US dollar. For the purposes of modelling, we are working on a fair value of R14.60/ US$1. This would imply that we see the rand unchanged over the next year, although the path will be volatile.

Figure 3: Actual rand/US dollar exchange rate vs rand PPP model
Source: Thomson Reuters, Anchor



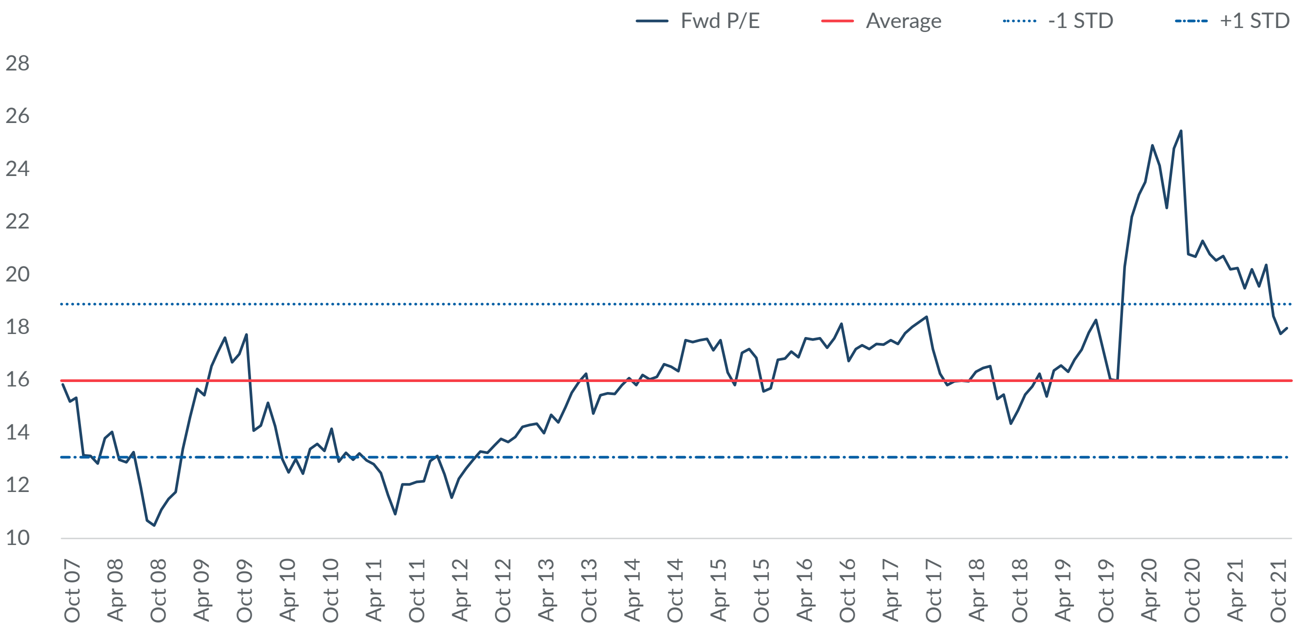
GLOBAL EQUITIES

Strong earnings growth and flattish markets have been nudging world stock markets back into reasonable valuation territory. Our caution on markets over the past 9 to 12 months has been warranted and we are now entering a new phase as the era of excessively loose monetary policy seems to be over.

At index levels, few commentators are expecting big returns over the next 12 months, but certain segments of the market and specific geographies are now offering value not seen for some time. We believe that the focus should be on specific shares and sectors rather than the market as a whole.

Figure 4 below shows the MSCI World Index forward P/E multiple, which is now at a more digestible 17x. With earnings growth of above 10% in the past six months and indices declining, the market is over 15% cheaper than six months ago and certain sectors are 20%-50% cheaper. The winners of 2020 became the villains of 2021.

Figure 4: MSCI World fwd P/E, x
Source: Anchor, Bloomberg



It is somewhat surprising that world indices are 'only' down in the region of 7% in 1Q22, considering the Russian invasion of Ukraine, the highest inflation in decades, and a sharp increase in US bond yields. We could well be experiencing a rally in a gradual bear market or at least a period of lower returns. The most common explanation for relative market strength (given current conditions) is that with inflation so high, real bond yields are very negative and equities are the only hope of inflation-beating returns.

US households and corporates started 2022 with very strong balance sheets and historically low debt levels. World GDP growth is projected to be strong this year and beyond (see *Figure 5* below) and this gives global central banks the comfort to increase rates without throttling the future. DM interest rates are also coming from close to zero and we do not expect them to be increased to unpalatable levels.

But the risk is real that the consumer-driven companies (that have benefited so materially from the cash waterfall that the average US consumer has experienced in the Covid-stimulus) could see a reversal of fortunes. Higher interest rates and more expensive goods (especially oil) will put pressure on consumer discretionary spend.

This is where secular growth companies become more attractive – companies that are growing on the back of a long-term trend and are not overly sensitive to economic cycles (for example, we expect e-commerce retail sales to increase from 16% to 30% of total retail sales in the US over the next five years). We have plenty of these in our portfolios and many of these companies have fallen with the crowd as growth companies have fallen out of favour. This sets them up to outperform the market as company fundamentals triumph. The combined earnings growth rate of our offshore model share portfolio is in the region of 10%-15% and this growth comes cheaper than it has for the past two years. The outperformers of the past 12 months (defensive, value, and energy shares) are likely to fade.

Figure 5: Global GDP growth
Source: Anchor, IMF

We also favour small exposure to EMs and particularly China, whose listed shares have crashed in recent months. In contrast to the US, China is stimulating to drive growth and the government has, for the first time in 12 months, made market-friendly statements. This has seen a sharp bounce in Chinese shares off extreme lows, but they still trade at record low valuations relative to their US counterparts. Geopolitical uncertainties are the highest they have been in decades, but the upside optionality and risk/reward equation favours some portfolio exposure.

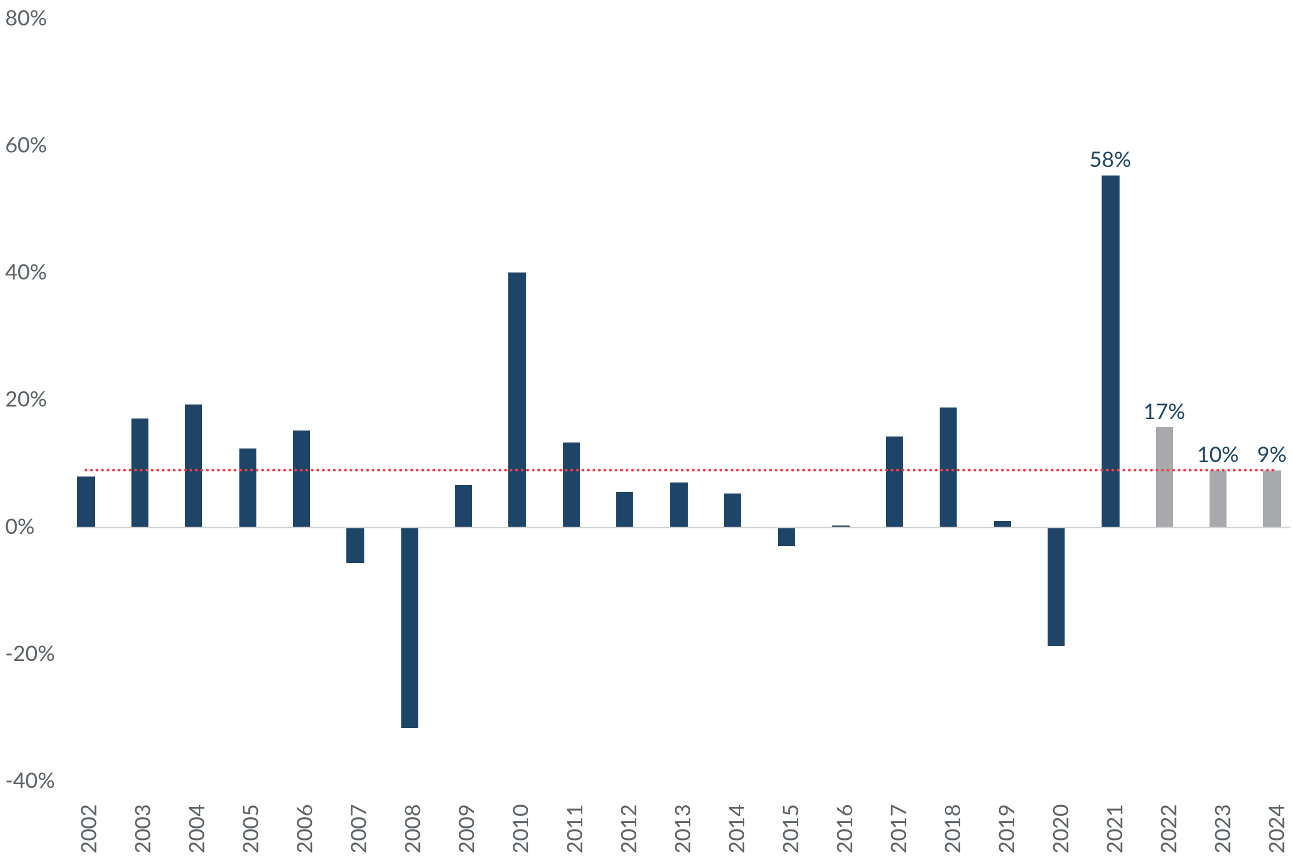
The table in *Figure 6* shows the relative value of EMs, where we expect growth to be the strongest in year-two.

Figure 6: MSCI and S&P 500 annual EPS growth
Source: Anchor, IRESS

	Earnings growth		FWD P/E	
Name	**YR1**	**YR2**	**YR1**	**YR2**
MSCI World Index	16.0%	6.7%	17.3	16.2
MSCI EM Index	-8.6%	11.5%	13.0	11.6
MSCI All Country World Index (10% EM)	11.2%	6.7%	16.8	15.7
S&P 500 Index	16.8%	10.8%	19.4	17.6

The simplest and most compelling argument for equity ownership is *Figure 7* below, which illustrates the 8% US dollar-denominated annual earnings growth rate for the past 20 years. Market returns follow earnings growth (plus dividends) over time and any investor should be delighted with an annualised return of this magnitude. We expect this growth to be exceeded in 2023 and 2024 and the equity market remains the essential core of any long-term portfolio.

Figure 7: S&P 500 EPS growth, annualised
Source: Anchor, Bloomberg



GLOBAL BONDS

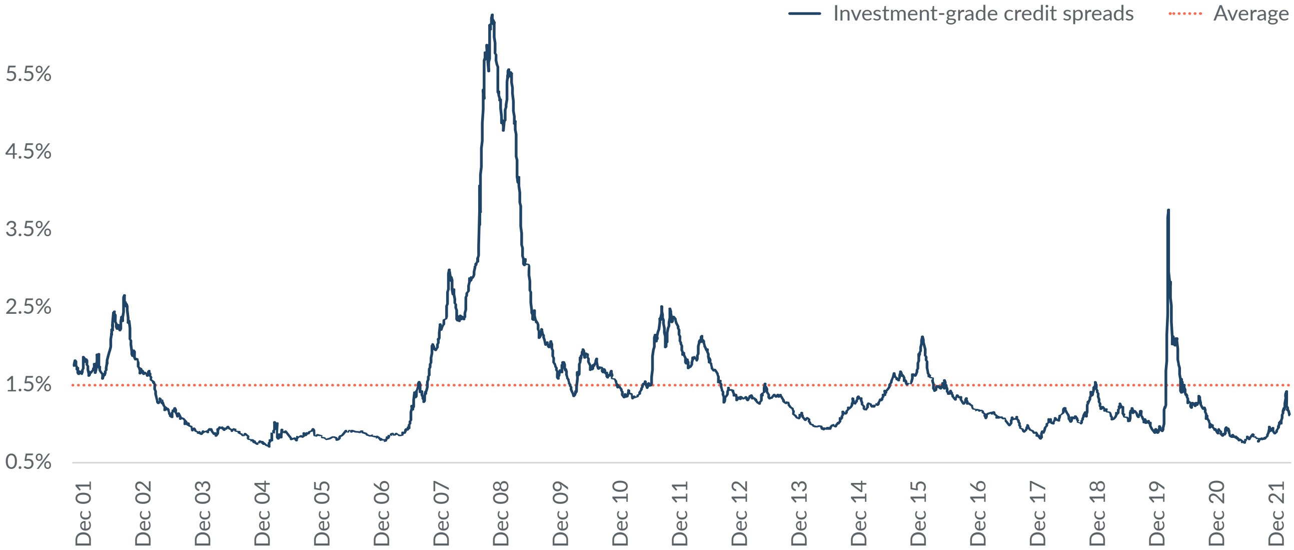
The first quarter of 2022 saw some outsized moves in yields, as expectations for the path of monetary policy in major DMs shifted dramatically. We started the year with consensus for three US rate hikes of 0.25% each in 2022 and no movement on European rates (which are still in negative territory). As US inflation reached 40-year highs at the start of the year, investors and central banks became incrementally more concerned about inflation and during 1Q22, the market moved to price in an extra six US rate hikes for 2022, driving US rates to c. 2.5% by year-end. Even Europe, which has had negative rates since 2014 and has not had a rate hike in over 10 years, is expected to see some rate hikes in 2H22. The ECB has guided that it will not hike rates until after it is done winding down its bond purchasing programme (QE). In December, it communicated that QE tapering would last into 2023 but investors now expect that timeframe to be brought forward significantly. The US Fed has even indicated that it may start shrinking its balance sheet as early as its next meeting in May - something which, at the start of the past quarter, seemed much more likely to happen in 2023. These rapidly shifting expectations caused US 10-year government bond yields to spike c. 1% in 1Q22. Three-month spikes of more than 0.75% have only happened about 4% of the time over the past 30 years.

Figure 8: US 10-year government bond yields experienced one of their biggest 3-month spikes over the course of the past decade
Source: Anchor, Bloomberg

US 10-year bond yields tend to be sensitive to medium-term growth expectations, and we think it will be tough for yields to climb significantly from these levels especially with central banks in aggressive tightening mode, as this notably increases the risk of policy errors driving the economy into a recession. We have written extensively about our views on global inflation elsewhere in this document, so we will not rehash those thoughts here but suffice to say that we think inflation will peak soon, start easing towards the end of 2Q22 and then drop fairly quickly into year-end, easing the pressure on central banks to act. This means that, as we reach the end of our forecast horizon towards the end of 1Q23, we are likely to be in an environment of neutral central bank policy and decent economic growth, driven by consumers with good employment prospects, bloated savings, and manageable debt burdens. This environment should support US 10-year rates at around 2.4%, leaving investors with a 2.2% total return in US dollar terms over the course of the next year.

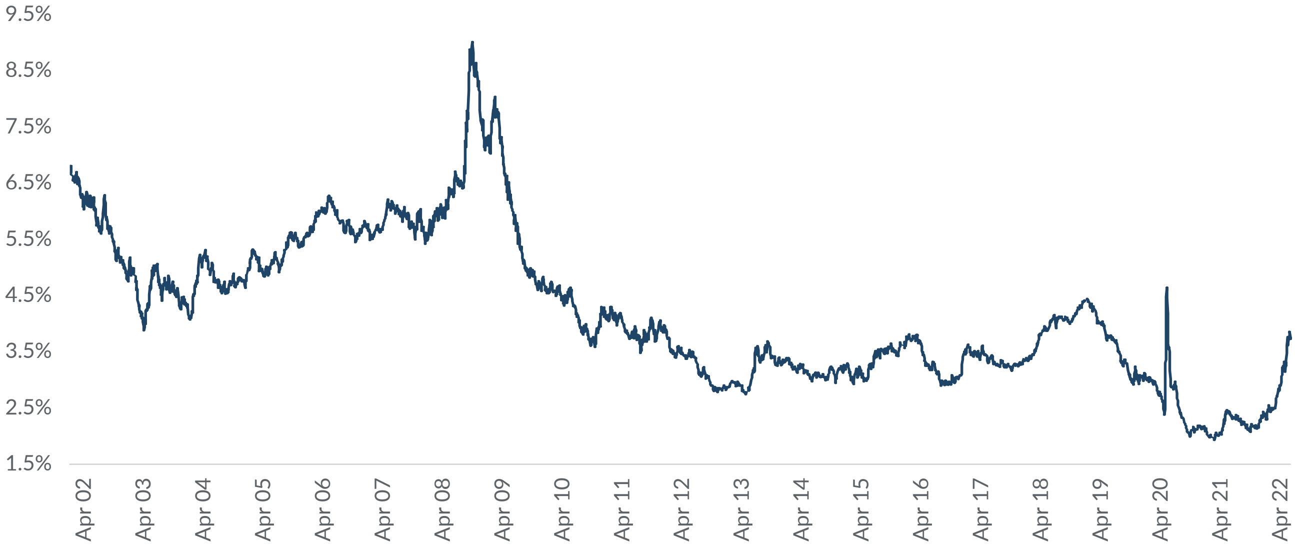
The corporate bond market also had a tough start to 2022 as investment-grade corporate credit spreads spiked off historically low levels, briefly touching the 1.5% level which they have only breached twice in the past decade. This, combined with the spike in interest rates, gave US corporate bonds their fourth-worst quarter in 50 years (-7.7% in 1Q22).

Figure 9: US investment-grade corporate bond spreads spiked in 1Q22 with the prospect of central banks stepping back from owning these instruments
Source: Bloomberg, Anchor



The sell-off in rates and credit spreads leaves investors with yields that are about as enticing as they have been at any point in the past decade, with the prospect of total returns exceeding long-term inflation.

Figure 10: Investment-grade corporate bond yields are now about as attractively priced as they have been at any point over the past decade
Source: Bloomberg, Anchor



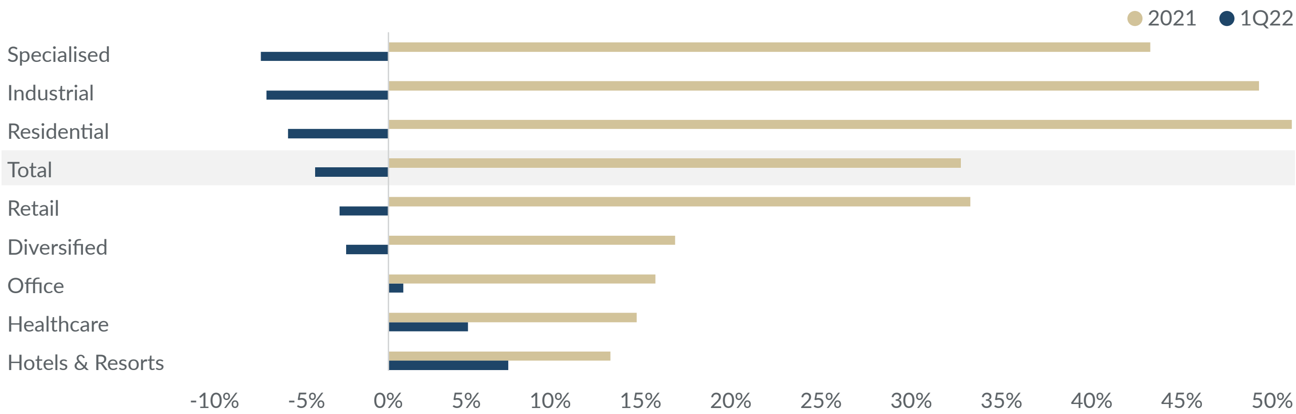
Investment-grade corporate credit spreads rallied slightly into the end of 1Q22 to 1.15% - a level which we think is sustainable in an environment that is likely to see reasonable economic growth over the next twelve months. Investors in investment-grade corporate credit should experience a 3.5% total return in US dollar terms over the next 12 months.

GLOBAL PROPERTY

Rising global rates were a headwind for DM real estate investment trusts (REITs) in 1Q22, leaving them as one of the worst-performing equity sectors (FTSE EPRA/NAREIT Global REIT Index -4.2% QoQ) after a stellar year for the asset class in 2021.

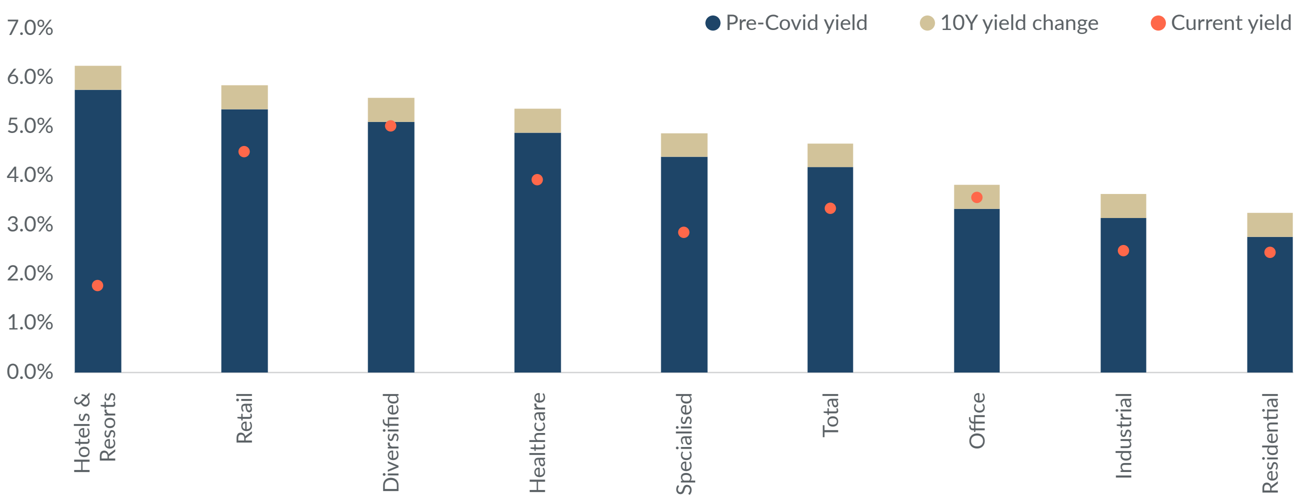
In a theme that has played out across asset classes, the winners of 2021 were the 1Q22/YTD losers. The pandemic beneficiaries, linked to the online economy, including logistics and data centre REITs struggled in 1Q22 as assumptions around growth trajectories were revisited and anaemic yields were shunned in the face of rising rates.

Figure 11: REIT sector momentum reversed in 2022, with last year's best-performing sectors underperforming in 1Q22/YTD
Source: Bloomberg, Anchor



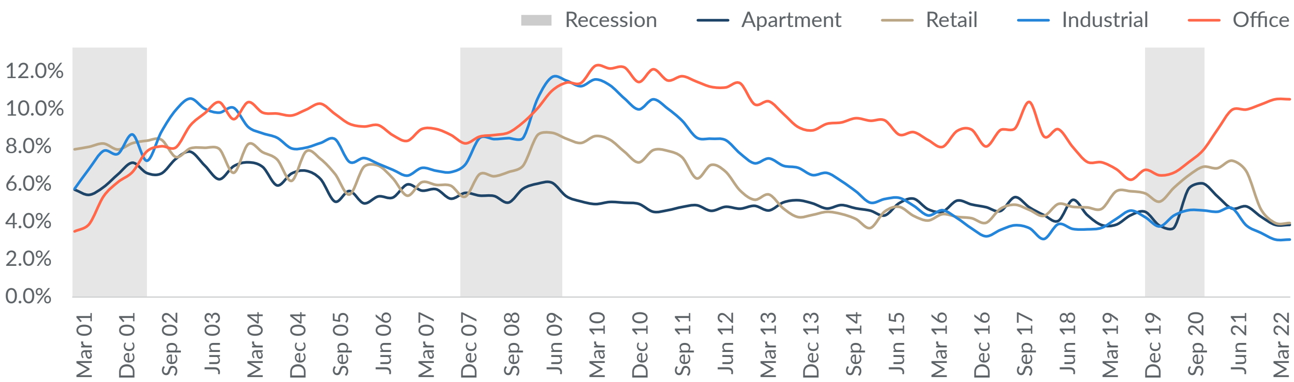
The 1Q22 performance has gone some way to correcting the valuation dispersion amongst the REIT sectors but, in general, valuations are still looking stretched, with forward dividend yields below their pre-pandemic levels, especially when factoring in a higher interest rate environment (US 10-year government bond yields are c. 0.5% higher than pre-COVID).

Figure 12: Despite the 1Q22 correction in prices, expected yields are still below pre-pandemic levels, particularly when adjusting for the higher rate environment
Source: Bloomberg, Anchor



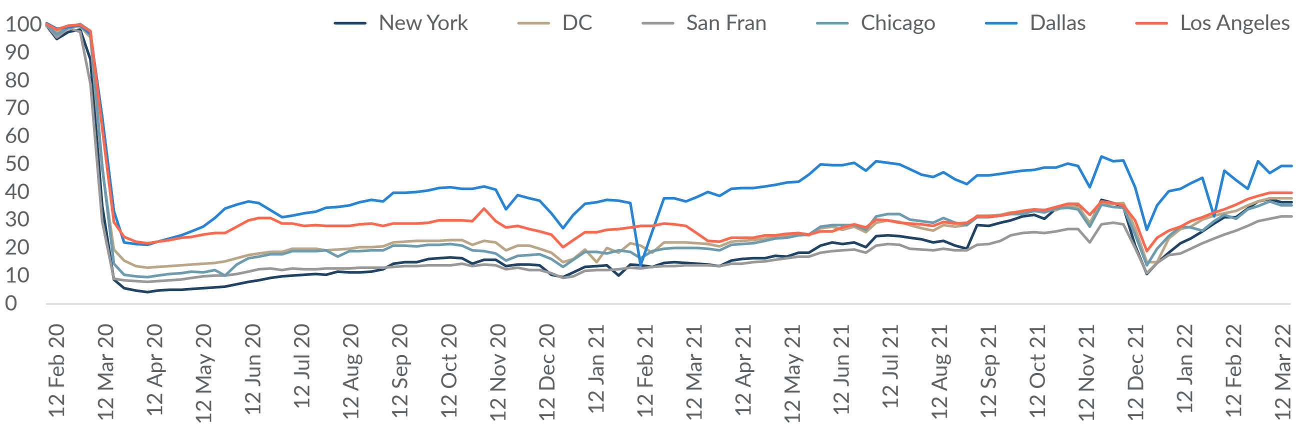
The office sector remains one of the most disrupted because of the pandemic, and vacancy rates in US metropolitan offices are only marginally below their all-time highs (experienced in the wake of the -global financial crisis [GFC]), but with some signs that they are stabilising.

Figure 13: US vacancy rates are generally back to pre-pandemic levels, except for offices where vacancies remain elevated
Source: Bloomberg, Anchor



The debate still rages on how much work-from-home (WFM) we will see as pandemic movement restrictions fade. Commercial real estate systems specialist, Kastle Systems, has aggregated data from office access systems of c. 2,600 buildings it services across the US and the data suggest that most major metros are still seeing offices operating well below their pre-pandemic levels. Should we see this trajectory continue to normalise, the office sector (where yields are still around pre-pandemic levels) could be one of the more interesting.

Figure 14: Offices in major US metros are still operating well below pre-pandemic capacity
Source: Bloomberg, Anchor



We expect global bond yields to settle around these levels (though likely with some volatility) even as central bank action lifts short-term rates. Stabilising bond yields should remove a major headwind for global REITs although, with valuations already elevated, we are not expecting much of a re-rating going forward. As such, we think investors should expect a low single-digit income growth to combine with the 3.4% dividend yield for a 6% total return in US dollar terms over the next twelve months, though likely with some significant volatility in the first half of that investment horizon.

ANCHOR INSIGHTS

In this section, staff from across Anchor provide insights into our thinking, strategy, and view of the world. This quarter, Peter Little unpacks global inflation, which is generally elevated but most acutely so in the US, Mike Gresty discusses Naspers and Prosus, Casey Delport looks at local rate hikes, Lee Cairns delves into experience, your gut feeling and sensible investing, and Tamzin Nel provides insights into how, when emotions take over, the result is often poor decision-making that could decrease the prospects of meeting future financial objectives.

Global inflation: Are we taking it more seriously?

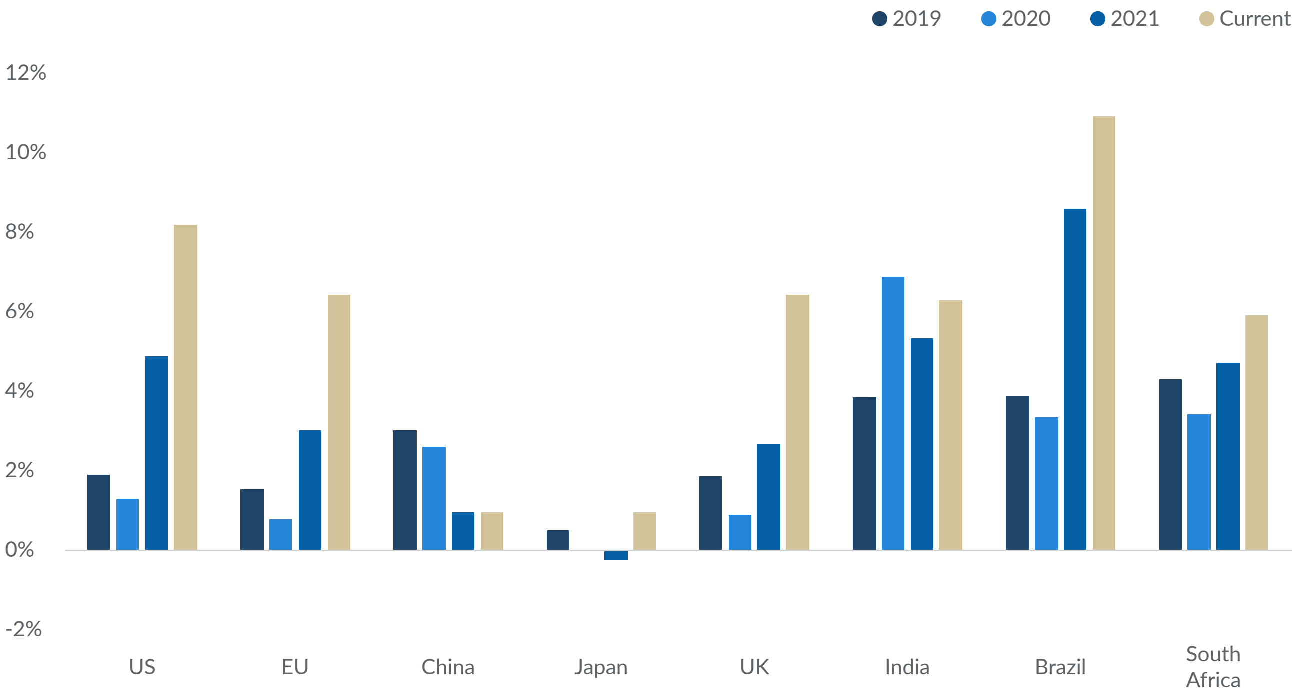
WRITTEN BY:
Peter Little
Fund Management

Peter manages the Anchor Global Stable Fund and the Anchor BCI Managed Fund and has been with Anchor since 2013. Prior to joining Anchor, Peter worked for several global investment banks in London and New York including JP Morgan, Barclays, and Royal Bank of Scotland. He was also head of fund management for Credit Suisse's liquid hedge fund business. Peter is a CFA charterholder.

Before Russia and Ukraine took us to the brink of World War III, investors were obsessing about inflation being the biggest threat to asset prices. As investors contemplate an investment world post-conflict, it appears that Russia's invasion of Ukraine has added oil to the inflation fire (pun intended) via spiking food and energy costs and inflation is back as a big red flashing light for investors.

As far as global inflation is concerned, it is generally elevated across the board, but most acutely in the US.

Figure 1: Inflationary pressures are evident globally but, amongst major economies, the US is feeling the most acute inflationary pressure (headline inflation, YoY % change)
Source: Anchor, Bloomberg



In this article, **we will focus on inflation dynamics in the US.** The US is not only the poster child of the current spike in inflation, but the US economy is also the largest source of economic activity globally and, most importantly, the guardian of **the world's funding currency, the US dollar, which is the cornerstone from which we build most asset valuation models.**

WHAT CAUSES INFLATION?

Inflation is a measure of how prices of goods and services change over time. Each country typically measures its inflation as the **aggregate price change in a basket of goods and services, weighted in proportion to the typical spending allocation of the relevant country's population.**

At its heart, **inflation is an indication that the demand for goods and services is expanding faster than the producers of these goods and services can supply them.**

Inflation also has a *psychological component* in that when people are anticipating inflation, their behaviour will often cause the inflation they are expecting. For example, if landlords are anticipating 6% inflation, then they will include 6%-plus escalation clauses into their lease contracts, which will ensure that rental inflation is at 6%. The business renting a premises will need to increase the selling price of its goods and services to maintain its profitability in the face of increasing costs. Employees will negotiate for salary increases to allow them to continue to be able to afford the goods and services they need to purchase, which are now more expensive, and so the cycle perpetuates. **It is this *psychological component of inflation* that makes it extremely tricky to forecast and which can cause higher inflation to become entrenched.**

IS INFLATION BAD?

A small, stable amount of inflation is generally considered desirable to the extent that it reflects an economy that is growing slightly quicker than the production of goods and services can keep up with. Over the years, **economists in developed economies have gravitated towards a number of 2% p.a. as being the optimal rate of inflation.**

Inflation is an indication that the demand for goods and services is expanding

Inflation running consistently below 2% is usually a sign of an economy operating below its potential. Inflation running meaningfully above 2% can act as a regressive tax, benefitting the rich (typically the owners of real assets which keep pace with inflation – they are also the most likely to have access to debt, which gets eroded by inflation) **at the expense of the poor.** Variable and ***unpredictable swings in inflation* can make budgeting challenging and cause businesses and individuals to delay projects and capital spending, which will act as a drag on productivity.**

Most **central banks are tasked with explicitly targeting inflation** at the desired level (2% for the US, EU, and Japan). **Central banks try to control inflation by controlling demand.** If inflation is too high or is expected to get too high, central banks will increase interest rates (thereby incentivising saving and disincentivising borrowing) to dampen demand and will decrease rates to stimulate demand. More recently, central banks have also started using their balance sheets to inject funds into the system (quantitative easing [QE] - printing money to buy bonds) to encourage spending and doing the opposite (quantitative tightening [QT] - selling bonds they own and withdrawing the cash proceeds from the system) to withdraw liquidity and discourage spending. **The fortunes of investors are disproportionately influenced by the actions of central banks (particularly in the short- to medium-term), with higher interest rates and QT often acting as a headwind for asset prices.**

THE CURRENT INFLATION ENVIRONMENT

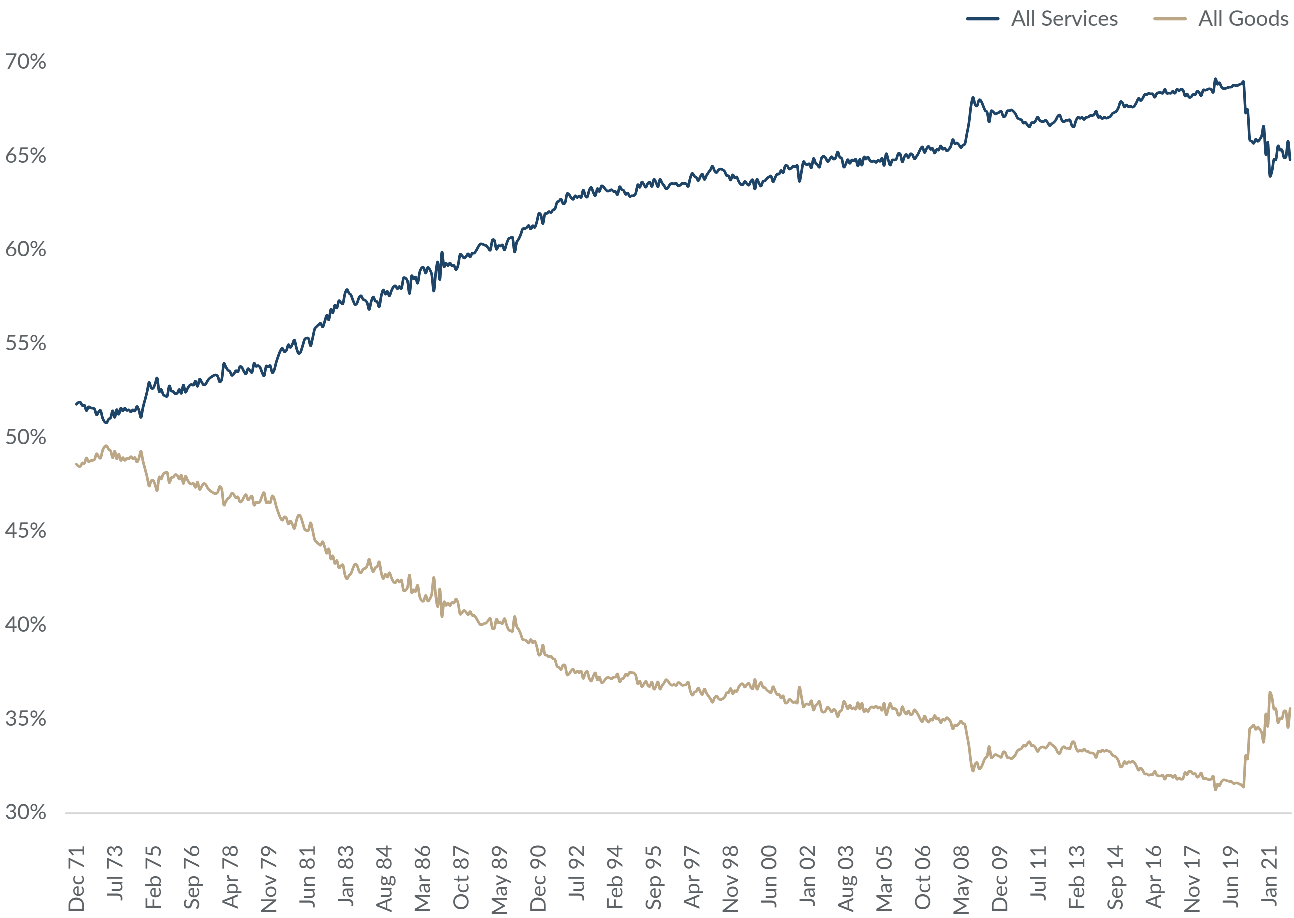
We will evaluate the current inflation environment from both a supply and demand side as both are contributing to the current elevated US inflation.

ELEVATED DEMAND:

The pandemic saw two big shifts in consumer behaviour, which created a significant surge in demand.

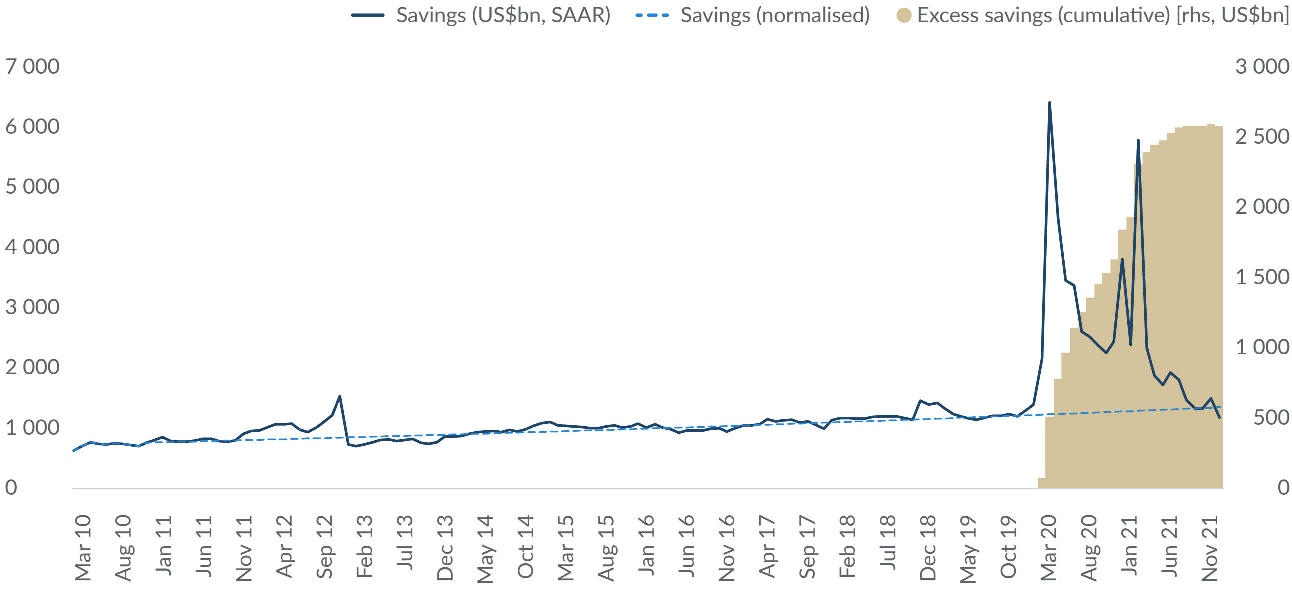
1. **A shift in spending from services to goods,** as pandemic-related movement restrictions curbed consumers' ability to spend on many services (including travel, restaurants, and recreational services) and with consumers spending significantly more time in their homes, they increased their spending on furniture and home accessories and, in many cases, bought vehicles as they shifted their commuting patterns.

Figure 2: The pandemic brought a large shift in spending away from services towards goods
Source: Anchor, Bloomberg



2. **Fiscal stimulus gave a significant boost to consumers' financial health,** as **the US government mailed checks directly to its populace and significantly boosted unemployment benefits** to avoid a humanitarian disaster for the c. 25mn people who had lost their jobs in the US at the start of the pandemic. As it turns out, jobs were recovered fairly quickly and, in its rush to act as fast as possible, the US government sent checks to many families who did not necessarily need them. **All of this has resulted in a huge boost to American savings**. Americans have saved at a rate of c. US$1bn p.a. over the course of the past decade, but the saving run-rate spiked dramatically during the pandemic. Our calculations suggest that **Americans saved c. US$2.5trn over and above their regular savings during the pandemic.**

Figure 3: Fiscal stimulus helped Americans to save c. US$2.5trn over and above their regular savings during the pandemic
Source: Anchor, Bloomberg

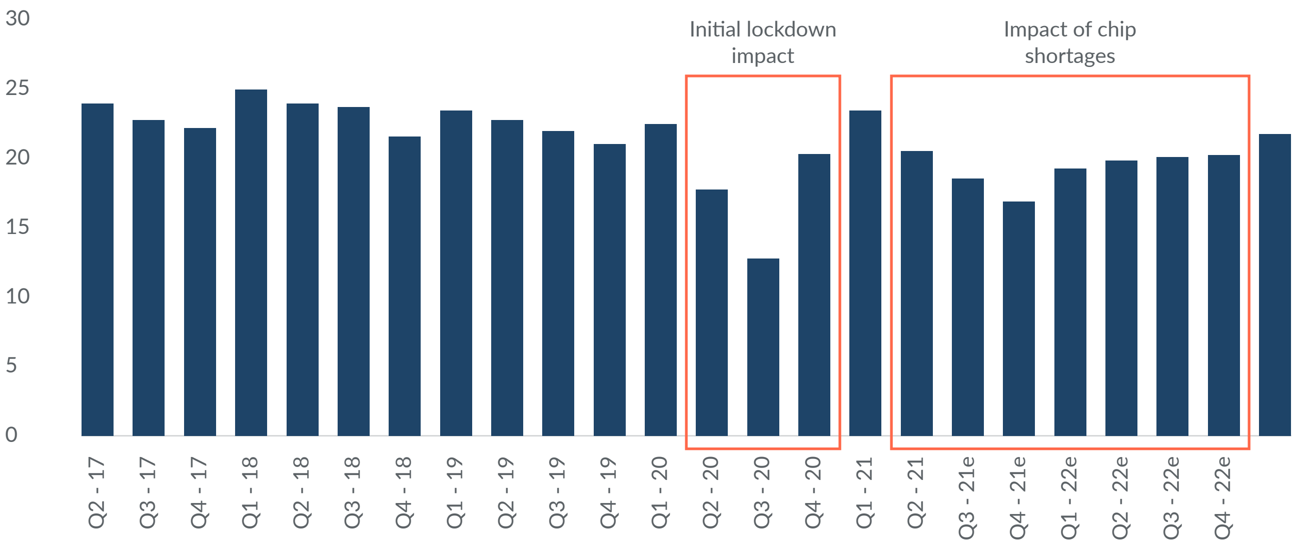


To put these savings into context, **Americans could spend 15% more than usual for a year with the excess savings.**

CONSTRAINED SUPPLY:

The pandemic introduced significant disruptions to manufacturing and logistics because of movement restrictions and worker illnesses. The bottlenecks caused by these disruptions have inhibited the supply of goods, with the vehicle market perhaps the biggest source of disruption. The growth in automation of vehicles has also increased the need for computer chips in the manufacture of vehicles, and this has been a key bottleneck in the supply of new vehicles.

Figure 4: Auto production was restricted by lockdowns at the start of the pandemic and from 2H21 chip shortages have hampered vehicle production (quarterly global passenger vehicle production, mn)
Source: Morgan Stanley, IHS Markit, Anchor

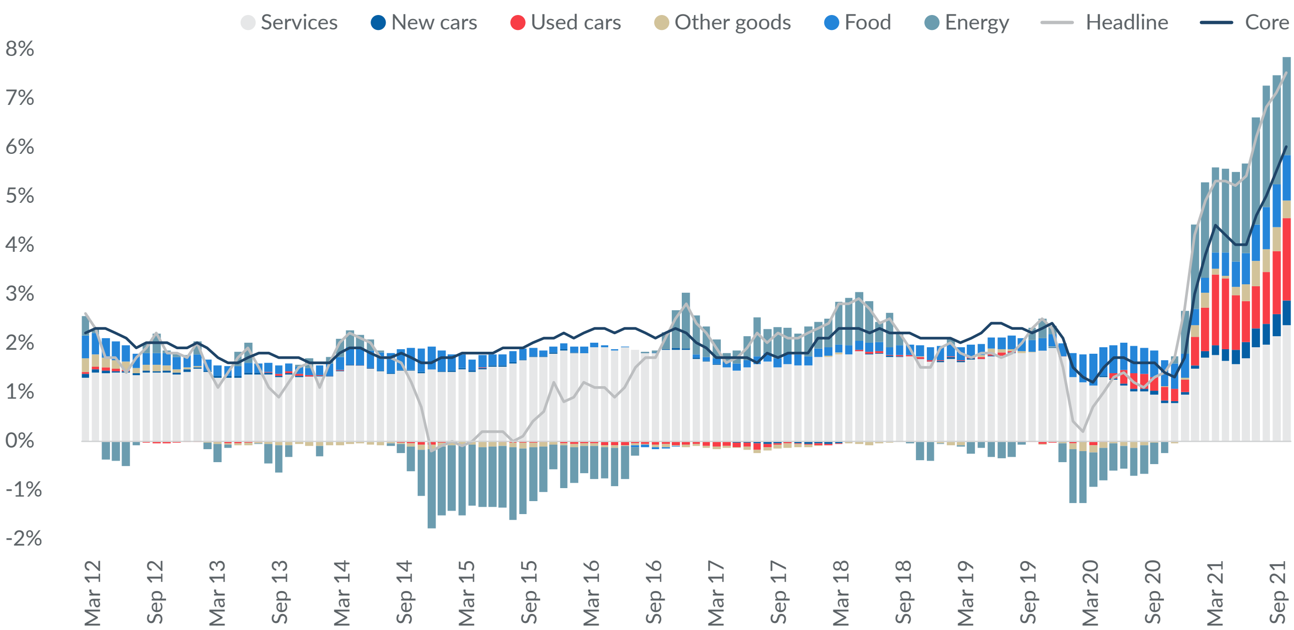


Global vehicle production for the three years from 2020–2022 is likely to end up being c. 25mn vehicles short of the pre-pandemic run rate, placing a huge burden on the second-hand passenger vehicle market. This demand shortfall has caused a significant spike in used car prices.

Figure 5: The Manheim US Used Vehicle Value Index suggests that used car prices in the US have jumped c. 60% since the beginning of 2020 as Americans scramble to find cars
Source: Bloomberg, Anchor

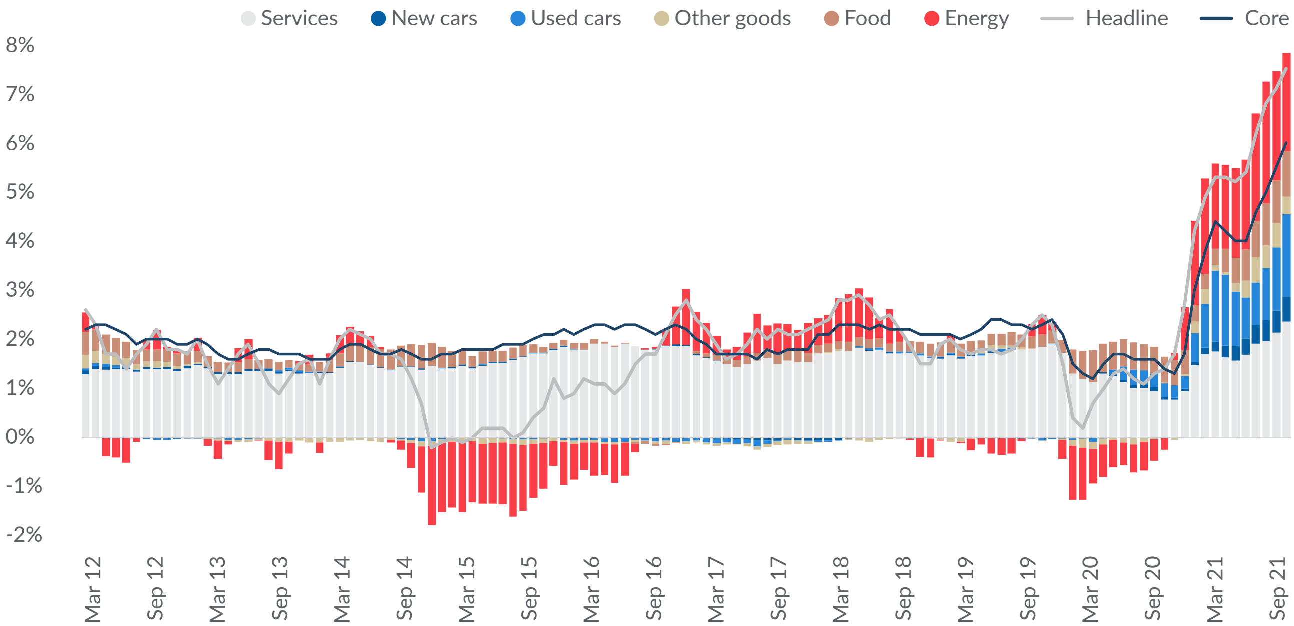
New and used vehicles account for c. 4% each of the US inflation basket. However, because of the extreme production shortages and resultant price inflation, they are currently contributing about one-third of US core inflation (e.g., in January, US core inflation would have been 3.8% YoY rather than 6.0% YoY if there had been no vehicle inflation).

Figure 6: Extreme US passenger vehicle shortages are responsible for c. one-third of recent US core inflation
Source: Bloomberg, Anchor



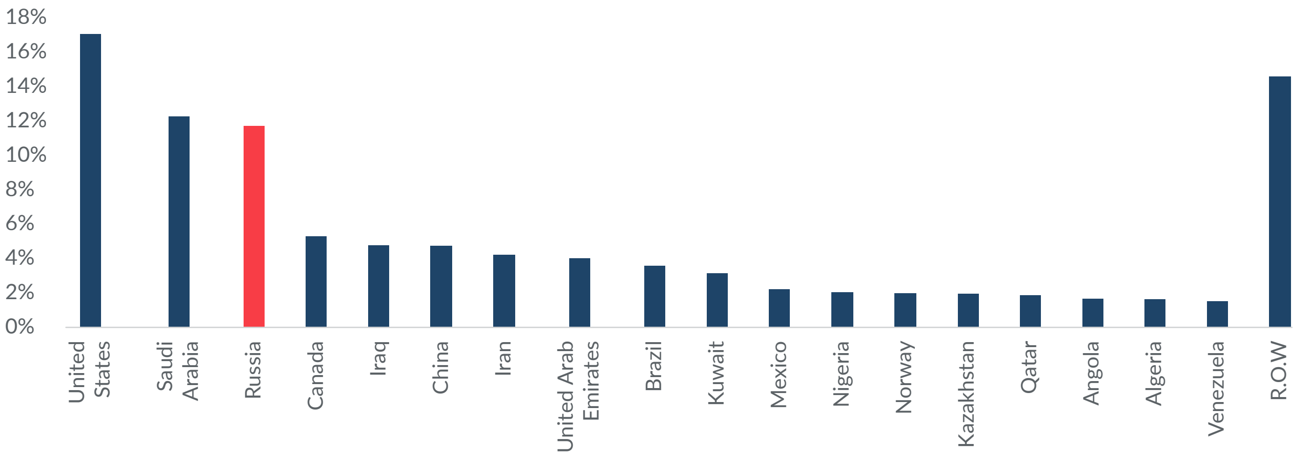
Food and energy prices are also contributing to the current elevated US inflation and **have contributed more than 2% YoY to US headline inflation since April 2021.**

Figure 7: The past year has seen a material contribution to US inflation from food and energy prices
Source: Bloomberg, Anchor



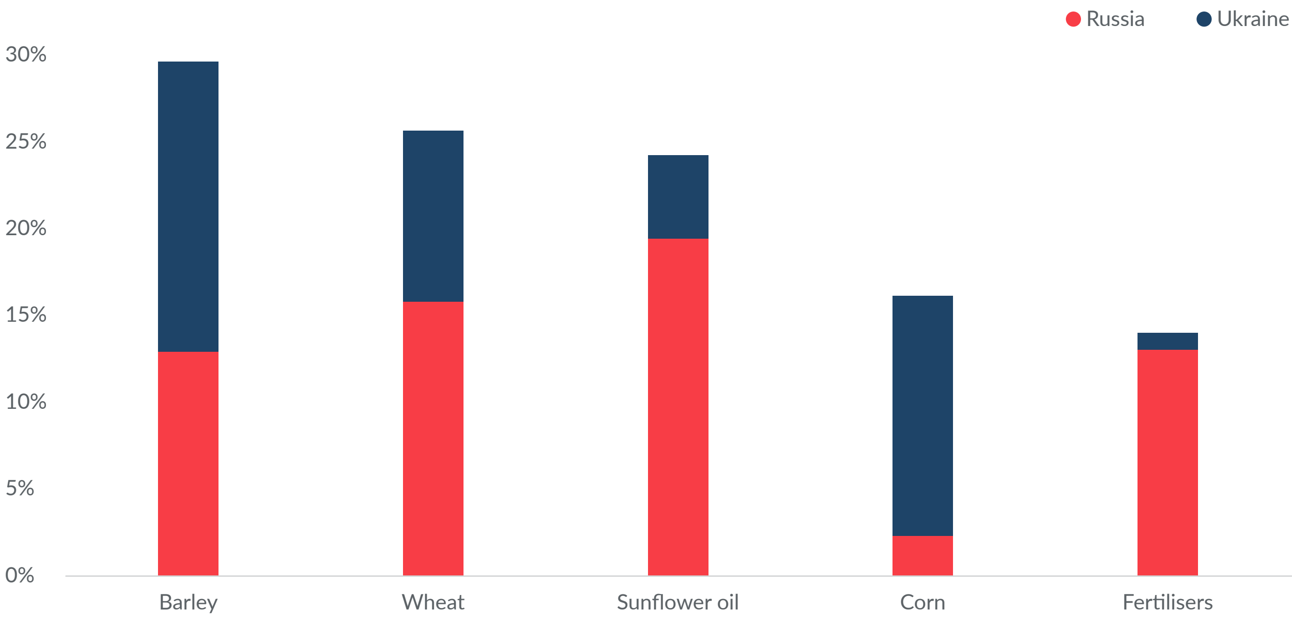
Energy prices have been inflated for the past year, at least partially because energy prices were recovering from extremely depressed levels during the start of the pandemic. While we were expecting this inflationary impulse to start normalising on a YoY basis going into 2Q22, the conflict in Ukraine has exacerbated the problem, at least in the short term. Russia is a significant source of oil and natural gas and the potential disruption to these supplies could have a material impact on energy prices.

Figure 8: Russia is the source of approximately 12% of global crude oil supplies
Source: BP, Anchor



Russia and Ukraine also represent a material portion of the global trade in agricultural commodities, which is adding to the inflationary pressure in the food category.

Figure 9: Exports from Russia and Ukraine represent a meaningful share of global trade in key agricultural commodities
Source: UBS, Anchor



THE OUTLOOK FOR INFLATION

We think the inflationary impulses will likely peak in early 2Q22, but YoY inflation may remain elevated for the remainder of 2022 before a deflationary impact is felt in 2023.

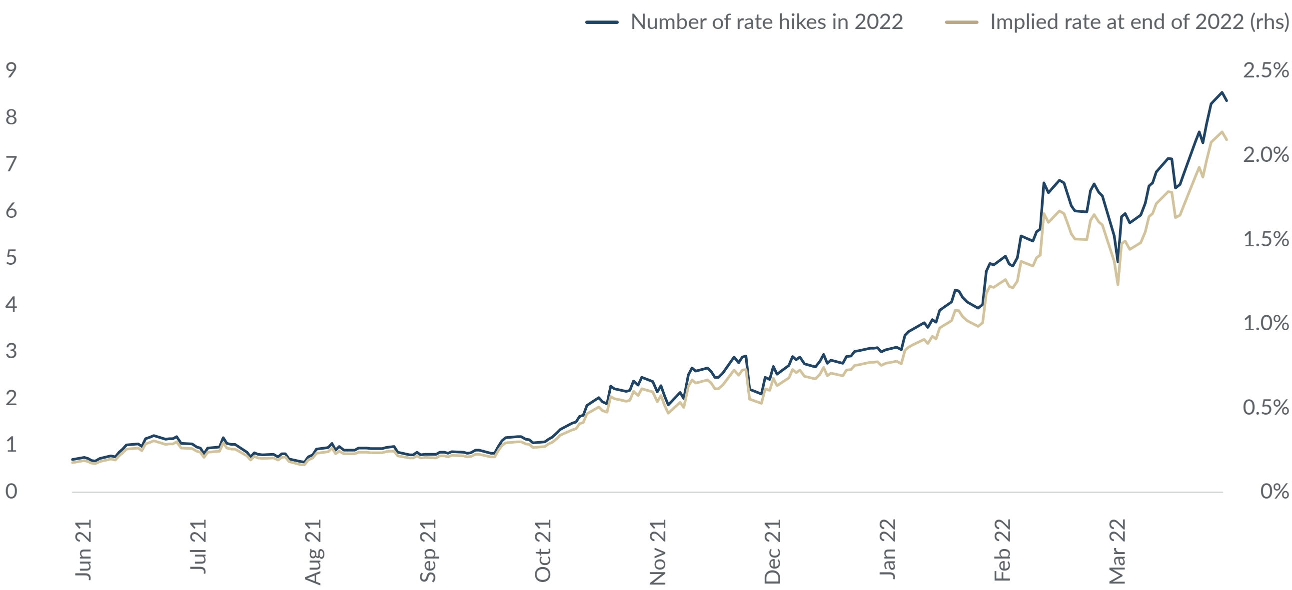
Figure 10: The most extreme factors contributing to current elevated YoY inflation are likely to peak soon and become deflationary into 2023
Source: Anchor

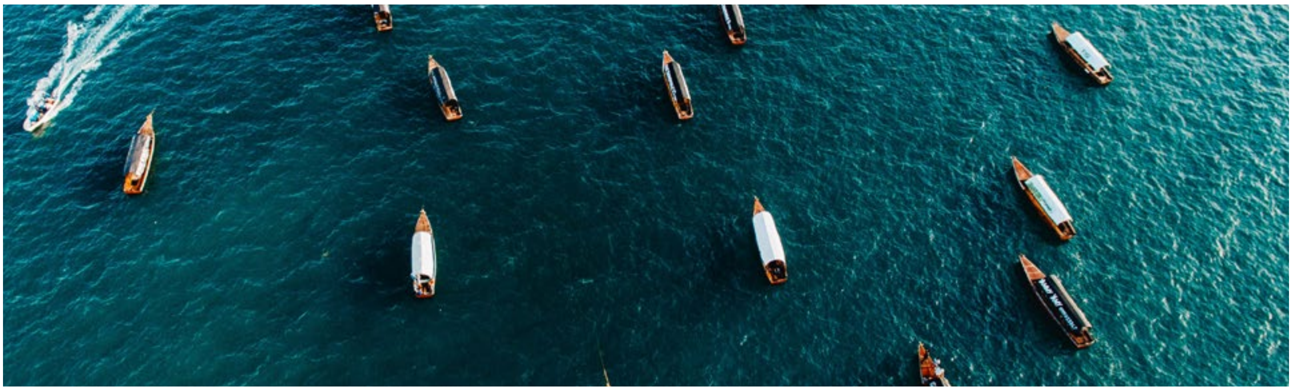
Elevated demand	When is this likely to fade/become deflationary?
EXCESS SAVINGS	Savings could well support excess spending for another year, but since the level of spending is already elevated, we expect the inflationary impulse to fade into 1Q23 and become deflationary for the remainder of 2023.
SWITCH FROM SERVICES CONSUMPTION TO GOODS CONSUMPTION	Assuming no new deadly COVID-19 variants emerge, we expect the shift in spending toward services will play out over the remainder of 2022, with the impact on goods inflation fading into 4Q22 and becoming deflationary in 2023.
CONSTRAINED VEHICLE PRODUCTION	We expect global passenger vehicle production to reach more normal levels in 2023, but meeting the backlog of demand is likely to last a couple of years. Used vehicle prices have already started to ease, and the inflationary impulse should fade into 1Q23 and become deflationary for the remainder of 2023.
DISRUPTED ENERGY SUPPLY	We expect the conflict to deescalate without material disruptions to supply, which we think are already factored into current prices, so we expect the inflationary impulse to fade in 2H22 and become a deflationary impulse in 1Q23.
DISRUPTED FOOD SUPPLY	We expect the conflict to deescalate without material disruptions to supply, which we think are already factored into current prices, so we expect the inflationary impulse to fade in 2H22 and become a deflationary impulse in 1Q23. Weather patterns have placed additional strain on food prices over the past couple of years and, should these ease, it is possible that the deflationary impulse kicks in from 2H22.

HOW WILL CENTRAL BANKS RESPOND?

As US inflation started climbing steadily above 4% in 4Q21, and as doubts started to creep in about how "transitory" the elevated inflation would be, investors have rapidly shifted their expectations on how the US Fed will respond. **Over the course of the past six months, interest rate derivative markets have gone from pricing for one US rate hike (of 0.25%) in 2022, to the current expectation for more than eight US rate hikes this year.** The Fed meets eight times a year. It did not hike rates at its first meeting of 2022 and hiked rates by 0.25% at its second meeting in March, so markets are expecting it to hike at every remaining meeting in 2022, including hiking rates by 0.5% in at least one meeting.

Figure 11: Investors' expectations for US rate hikes in 2022 have shifted rapidly over the course of the past six months
Source:Bloomberg, Anchor

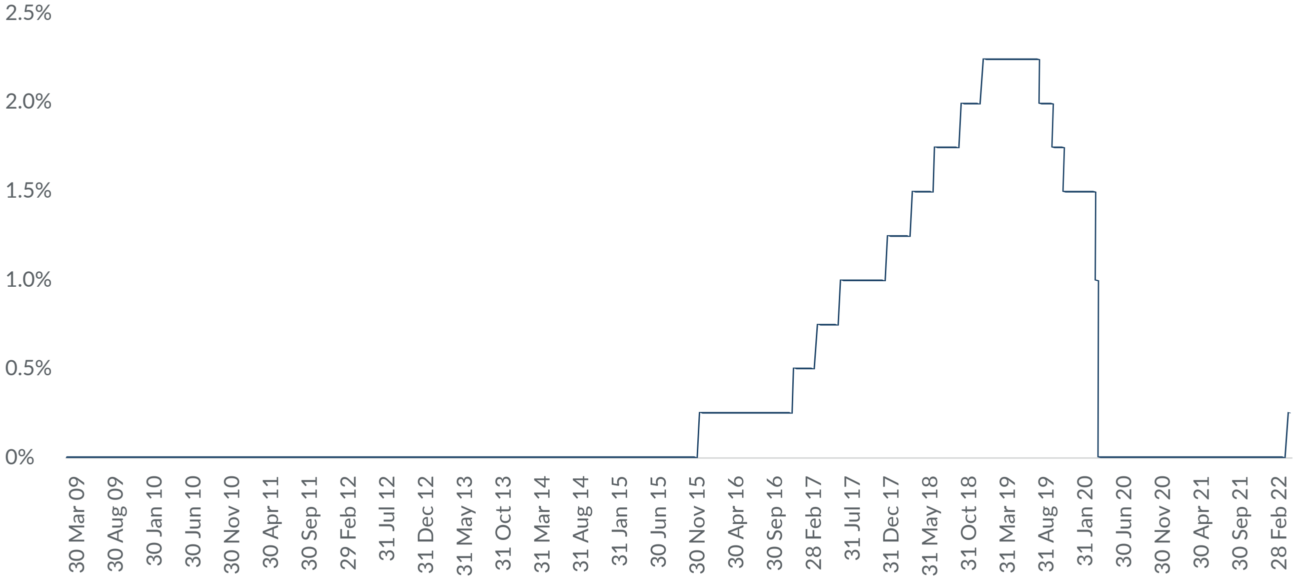




Investors then anticipate that the Fed will continue hiking in 2023, pushing rates towards 3% before needing to reverse course in 2024. **Our expectation is that the Fed will be under the most extreme pressure to act over the next three- to six months, after which the inflationary impulse will start to fade, and the Fed is likely able to ease off on tightening monetary policy.**

We are sceptical that the Fed can hike rates towards 3%, given that during its last tightening cycle it took 3 years (from 2016 to 2018) to hike rates to 2.25% and within seven months (by August 2019, even before the pandemic had kicked in) the Fed had to reverse course and start cutting rates again.

Figure 12: The US Fed's previous tightening cycle saw rates hiked to 2.25% over the course of 3 years before it was forced to reverse course seven months later (even before the pandemic)
Source:Bloomberg, Anchor



In conclusion, **we are definitely taking inflation more seriously** and, while we remain hopeful that the inflationary impulses will start to fade into year-end, we are cognisant that the longer elevated inflation lingers, the higher the risk that the psychological impact converts these pressures into longer-term structurally higher inflation. While this is not our base case, it remains a risk. **Our expectation is that for the next three- to six months, rapidly tightening monetary conditions and heightened inflation expectations will remain a source of uncertainty and asset price volatility, before these headwinds start to fade into year-end.**

Naspers/Prosus: A true test of our long-term investment temperament

WRITTEN BY:
Mike Gresty
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Mike holds a CFA designation. He joined stockbroker, Barnard Jacobs Mellet in 1999, where he covered the SA banks and specialty financials sectors. In 2003, he moved Deutsche Bank, where Mike continued to cover local banks and specialty financials, before moving on to cover telecoms and media, as well local investment strategy. He was appointed head of investment research at Deutsche in 2008. In 2015, Mike joined Citibank before moving to Robert Cowen Investments in 2018 as CIO. During his years in investment research, Mike was recognised in the Financial Mail and Institutional Investor investment research surveys for coverage of the various sectors for which he was responsible, and he led the Deutsche research team to the top of the rankings.

Well, so much for the theory that as we turned the page on 2021 – an *annus horribilis* for Chinese shares caught up in the crosshairs of a domestic regulatory crackdown and Sino/US power politics, compounded by the very poorly received attempt to unlock value via a Prosus shares for Naspers shares exchange – 2022 was set to be a year of recovery. By the end of 1Q22, Naspers and Prosus had declined by 33% and 39%, respectively, while Tencent (which accounts for c. 75% of the Naspers/Prosus NAV) had lost 16%. Note too that until early February, Prosus was still busy with its US$5bn share buyback, which makes its performance in the quarter all the more surprising.

Part of the disparity in performance between Naspers/Prosus and Tencent is explained by the exchange rate (the rand appreciated by c. 10% against the US dollar over 1Q22), but there was also a notable widening of the discount to net asset value (NAV) to historic extremes.

Figure 1: Naspers discount to NAV – currently c. 65%
Source: Anchor, Bloomberg

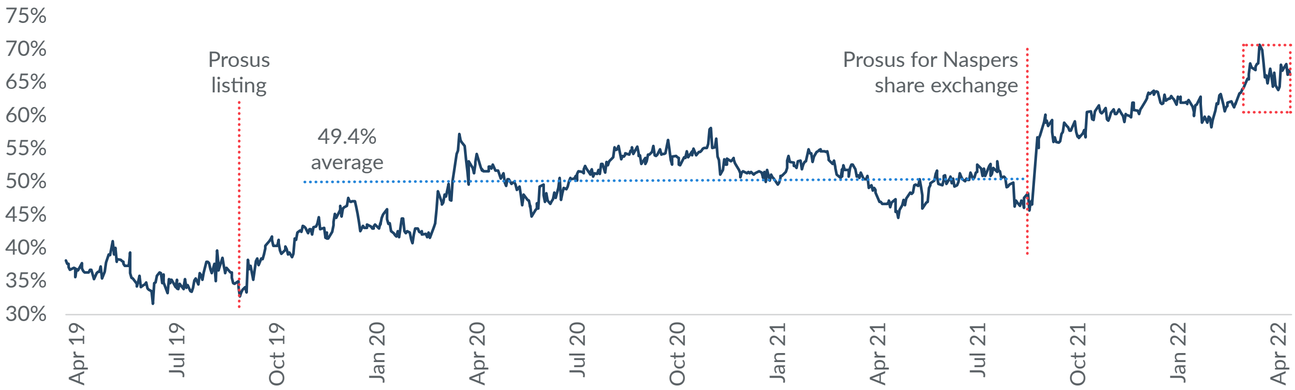
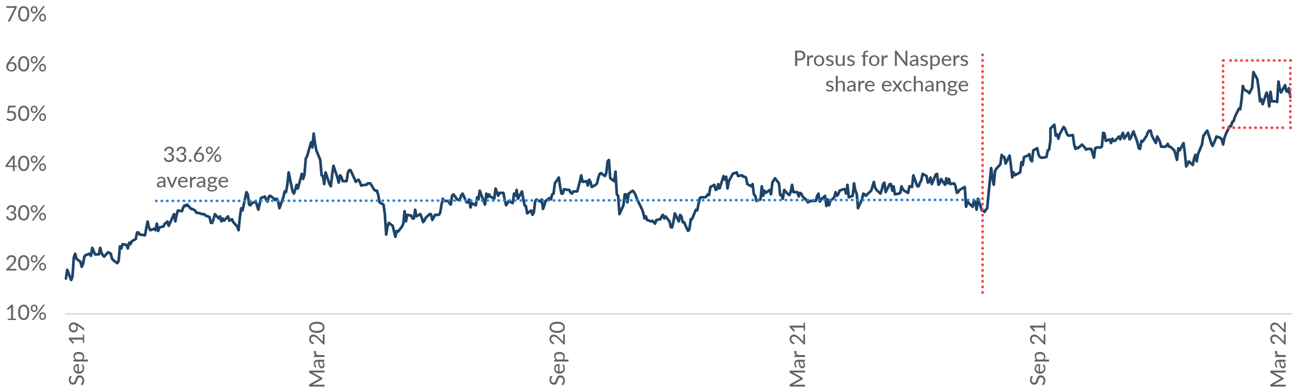


Figure 2: Prosus discount to NAV – currently c. 53%
Source: Anchor, Bloomberg

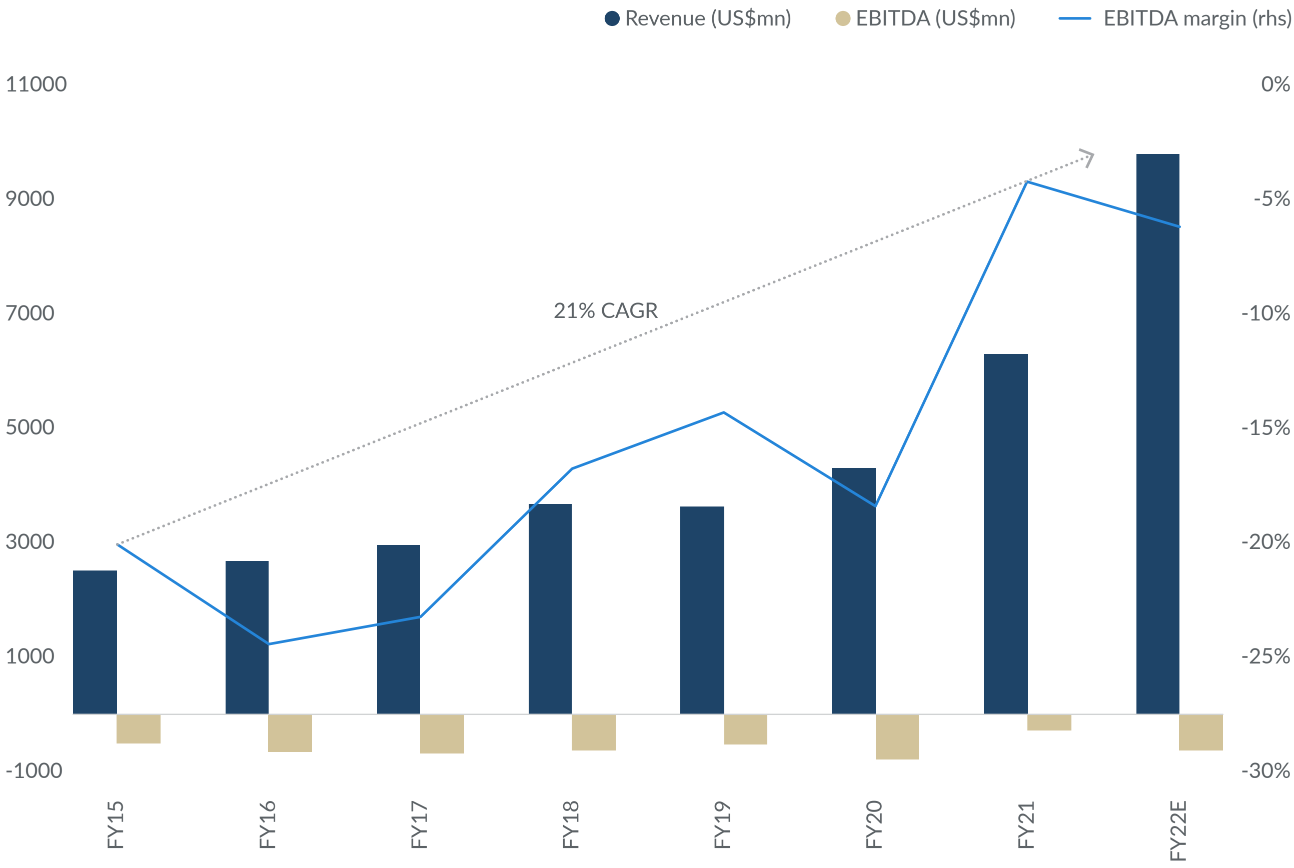


Until shortly before the Russian invasion of Ukraine in late February, Tencent's share price was in positive territory for the year. However, this tentative recovery was snuffed out as Chinese regulators pushed for further reductions in fees charged by food delivery platforms, leading to speculation that China's regulatory crackdown on its technology giants has further twists in store. This sell-off gathered momentum as investors considered the broader implications following China's close friend Russia's invasion of Ukraine.

While reasons for the continued share price weakness in Naspers/Prosus's key investment, Tencent, are clear, one may well ask what lay behind Naspers/Prosus's significant investment underperformance against even this low bar. Although the extent of the underperformance suggests there may have been some non-fundamental factors in play (a large shareholder repositioning its portfolio perhaps?), focusing on the non-Tencent part of the portfolio (accounting for c. 25% of NAV), some possible explanations include:

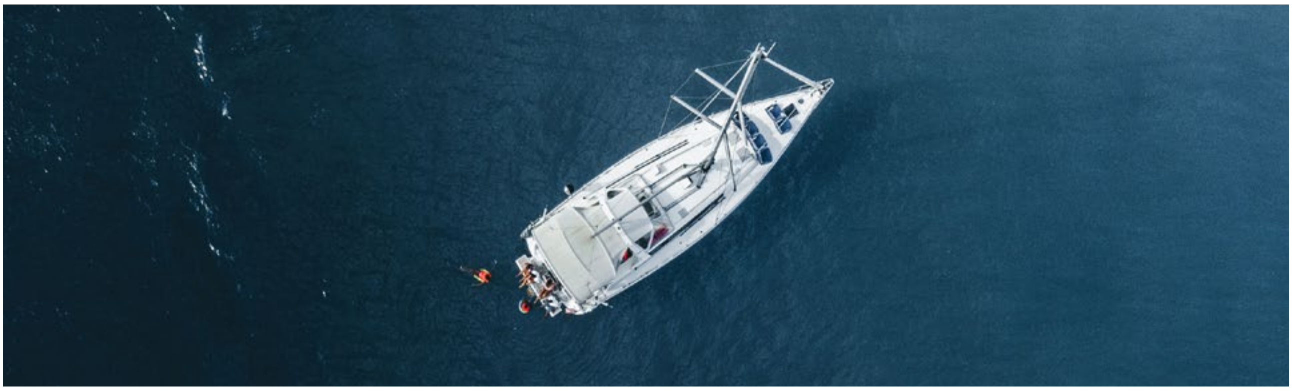
- **Non-Tencent assets fall into the currently unloved "loss-making tech" category.** Prosus has been increasingly active in building its technology portfolio outside of Tencent. Part of the funding of these investments in recent years has come from two placements of c. 2% each of its Tencent stake. The performance of this portfolio is collectively reported as its Ecommerce segment, with underlying investments in several chosen focus areas – Online Classifieds (the most mature), Food Delivery, Payments & Fintech, Etail, and, most recently, Edtech. While its strategy of investing in earlier stage technology opportunities and selling more mature holdings where it believes full value is being recognised in the market, means the track record of performance in *Figure 3* below is not an apples-with-apples comparison of the same underlying investments, the point to note is that, while revenue growth has been healthy (and, in fact, accelerating more recently), collectively this portfolio has continued to generate losses. As bond yields began to rise and investors started to worry about the implications of this for valuations that could be justified for equities going forward, loss-making technology companies have been most severely punished over the last year. As inflation fears intensified over the past quarter and, with them, investors' expectation of how high bond yields are likely to rise, it is probable that Prosus' Ecommerce segment's presence in this loss-making tech grouping will have caused any prospective new investors to conclude this share can be avoided until valuations on this currently unloved segment of the technology sector have sufficiently adjusted.

Figure 3: Trend in Naspers/Prosus Ecommerce revenue and profitability
Source: Anchor, Bloomberg



- **Some exposure to Russia/Ukraine does not help the investment case.** Although small in the context of Prosus' total investment portfolio, it has exposure to Russia through Avito (online classifieds), a 27% stake in VK (previously called Mail.Ru), and a less than 2% revenue exposure for its PayU fintech operation. It also has a small online classifieds presence in Ukraine via OLX. In aggregate, these exposures equate to less than 3% of the market value of Prosus's assets. However, Avito is a solidly profitable online classifieds platform in Russia, which had been responsible for delivering c. 20% of dividend income for the Group. Management has assured investors that funding was ample to cover Prosus's investment plans over the next 3 years without Avito dividends, and the value impact is relatively immaterial, but this was likely a further reason to avoid Naspers/Prosus shares.

While the above provides context behind the very poor investment performance of Naspers/Prosus in recent times, the critical question is what investors, many of whom had used these shares as a reliable central pillar around which they had built their local equity portfolios, should do now? In periods of strong investment returns from Naspers/Prosus, it is easy to imagine adding further to the position should a significant pullback occur, the problem is that the risks responsible for such a pullback loom large. Market commentators, reflecting the sentiment of the day, stress further downside risks, which means emotionally the easiest course of action at this point is not to add further but rather to cut the risk of further losses (capitulate?) and switch into other investments that are in favour. Political developments in China and signs that the authorities there are beginning to interfere more in the commercial decisions of its private sector cement even more strongly in our minds the view that the high individual company weighting that many SA investors were comfortable holding in Naspers/Prosus needs to be re-evaluated for the future, but this is not the time. Right now, as long-term investors, we believe it calls for us to show the strong temperament to do what makes us feel uncomfortable – that is hold the line with this investment and be patient.



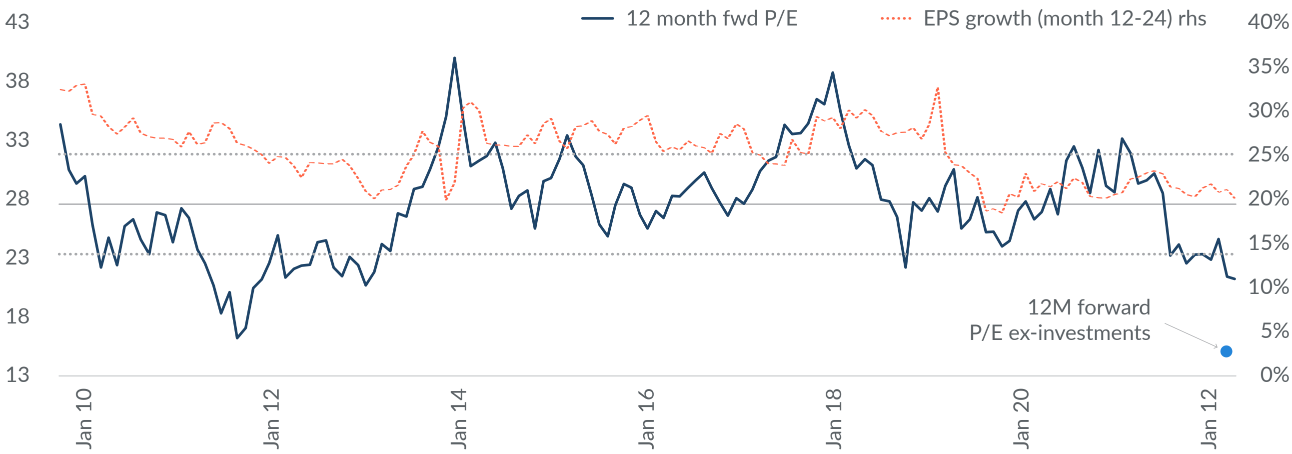
Yes of course there is the possibility that those looming risks that lie behind the sell-off to date intensify further, leading to additional downside for the shares. China using the current global focus on the Russia/Ukraine conflict as an opportunity to annex Taiwan, for example, would be an event, if it was to occur, that would undoubtedly lead to a further exodus from Chinese equities by international investors. However, there are some encouraging signs that the investment tide in China may be turning more positive too. These include:

- **A shift towards a decidedly more market-friendly policy backdrop in China.** There were times in the last year when the steady stream of negative regulatory news out of China led one to suspect the authorities there were deliberately trying to render the market "uninvertible" for foreign investors, and indeed, some now seem to see it in that light. However, we may well look back on several recent developments as being important signals of a decisive shift towards a more investor-friendly stance. In late March, Chinese authorities finally stepped in to restore market stability, committing, among other things, to complete their regulatory reset as soon as possible and in a more coordinated and transparent manner. Subsequently, apparent efforts by China to comply with US demands to provide access to sensitive audit information on US-listed Chinese companies and thus avert a threatened de-listing of these shares in the US, represents a significant shift towards resolution and de-escalation of tensions. Finally, there has been the introduction of a range of domestic economic policy stimulus measures, in contrast to its restrictive stance last year and policy tightening currently underway across most western DMs.

- **A healthier and more sustainable technology sector in China?** Tencent's 4Q21 results announced in late March set a very different tone about the outlook for Tencent and the broader technology industry in China. Characterising the past environment as one of aggressive zero-sum competition and focusing on short-term profitless revenue growth, Tencent envisages a shift to a new paradigm of enhanced focus on cost efficiency, innovation, and long-term sustainability. For Tencent's part, it stresses that this year will be about controlling costs and rationalising its non-core businesses. Coming on top of a set of results that fell short of already heavily reduced market expectations, we were concerned about how investors would interpret Tencent's repositioning of its outlook to one of "sustainable growth". The steady recovery in Tencent's share price since the results were released suggests investors may be warming to it.

- **A lot of bad news is already reflected in the price.** It is probably fair to expect that experience over the last year or so will mean that the risk premium attached to investing in China will remain considerably higher for the foreseeable future. This means it is unlikely we will see Tencent return to the sort of valuation it attained in the past any time soon. That said, with reference to *Figure 4* below, the current 12-month forward P/E of 21x is in line with historic low points of investor sentiment. Something to keep in mind, too, is that since around 2015, Tencent began deploying its considerable organic cash generated into building its own portfolio of technology investments. These currently contribute a small loss to operating earnings and thus actually detract slightly from the "E" used to calculate the P/E multiple in the chart. If one rather excludes the market value of these investments from Tencent's market value, it implies the forward P/E multiple is closer to 13.5x.

Figure 4: Tencent: 12-month forward P/E vs subsequent earnings growth expectations
Source: Anchor, Bloomberg



- **The growing influence of Prosus's Ecommerce segment over time.** In recent results, Prosus management has repeated its target of growing the NAV of the Ecommerce segment to US$100bn by FY25, which would imply it would need to roughly double in value over the next 3 years. To give some sense of materiality, this would equate to c. 43% of Tencent's value as it stands today. We have highlighted the growing investor fatigue related to the perpetual losses reported by this segment historically, but with reference to the chart showing the segment's profitability, it is on a steadily improving trend. It will be interesting to see if the loss of investment appetite for loss-making tech is reflected in a greater urgency to deliver the long-anticipated "J"-curve in Ecommerce segment earnings. Although there is no guarantee that the FY25 target will be achieved, it creates the possibility that the investment case of Naspers/Prosus has the potential to begin decoupling to some extent from that of Tencent.

- **Options to unlock value back on the table for Naspers and Prosus?** The widening of the Naspers and Prosus discounts to NAV over the past quarter likely implies investors attribute a very low probability of any material corporate action occurring. Based on how things stood after the Prosus shares for Naspers shares exchange last August, we acknowledge this is probably a reasonable assumption. However, considering how much prices have fallen subsequently, it may be dangerous to assume the status quo remains for corporate action. If paying capital gains tax (CGT) eventually is an unavoidable step in eliminating the discount and positioning this group correctly for the future, then the current set-up may be presenting an ideal opportunity to address this once and for all.

To conclude, in better times, if one was to sum up what an ideal situation would be in which to build exposure to Naspers and Prosus shares it would likely be a combination of (1) a relatively strong rand exchange rate; (2) Tencent's valuation being attractive; and (3) the Naspers and Prosus discount to NAV being at an attractive level. The problem is, in these happier times, one seldom considers whether you will have the emotional fortitude to stare down the risks that have pushed the shares into what we might call "golden tri-factor" territory, when all three factors align at the same time, and invest. There remain issues that still hang over the investment case for Tencent and, by association, Naspers and Prosus. China's stubborn pursuit of a zero-COVID policy and its continued refusal to resume new online game approvals to name a few. Sadly, it is the nature of markets that you are unlikely ever to get the comfort of both certainty on risks and the golden tri-factor of value factors you wish for. We see some encouraging signs that the tide may finally be turning and, judging by the sizeable share buybacks being made by Tencent since the release of its latest results, maybe its management does too. For many SA investors, holdings in Naspers and Prosus are already sizeable exposures in their local portfolios and our advice is to hold fast. For the rest, the golden tri-factor being in place is a rare occurrence indeed and presents a great opportunity for long-term investors to be accumulating exposure.

Looking through the global volatility: The SA rate-hiking season is upon us

WRITTEN BY:
Casey Delport
Investment Analyst - Fixed Income

Casey holds a MCom in Economics and joined Anchor in 2019. She brings her passion for economics into the fixed income space, particularly with regards to global and Africa country analysis.

As we move into 2Q22, the global monetary environment faces levels of economic volatility and uncertainty that few of us could have ever imagined at the time of writing our 1Q22 Navigator article entitled *The outlook for SA interest rate hikes in 2022 - a shift to normalisation?,* **dated 15 January 2022.** As we write this latest article, more than a month has passed since Russia invaded Ukraine and the war shows little sign of ending anytime soon. Overall, the response by largely Western nations has been substantial, coordinated, and committed but Russia remains unwavering in its ambitions for Ukraine. While global hope for a more peaceful resolution remains, it will not be easy (or necessarily quick) to attain, and markets have now begun to reflect this. Aside from the terrible costs to human life which the war is taking, the key international question remains: What impact will the conflict have on the global economic outlook? Further pressure is clearly being levelled on the cost of living, especially given the surge in commodity prices. Energy prices have been the central focus, but food security is an important issue too and could have unforeseen consequences. For example, Egypt recently requested assistance from the International Monetary Fund (IMF) in response to spiking food prices and its dependence on Ukrainian wheat imports. Notably, Egypt is not alone in this regard.

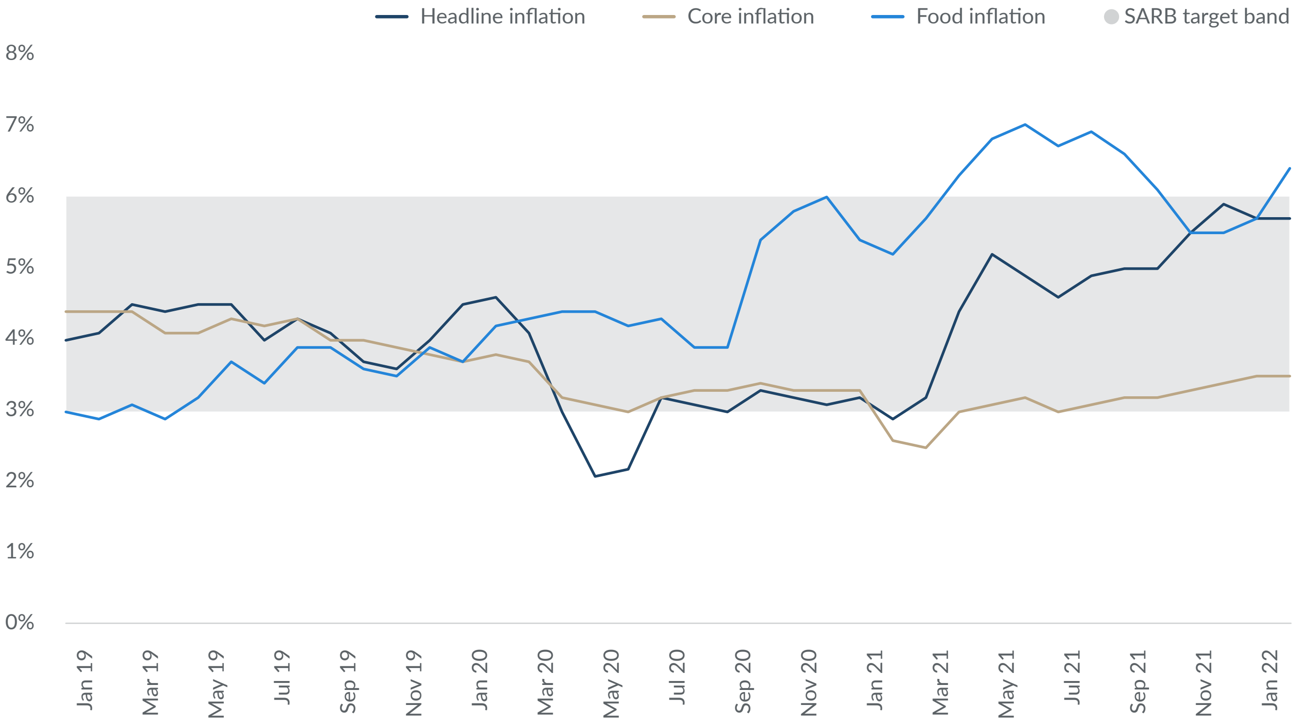
Consequently, the latest SARB MPC meeting (held on 24 March) took place against a backdrop of heightened uncertainty about the direction of the oil price, inflation, global growth, and the Fed's more aggressive frontloaded rate-hiking trajectory. The rand, however, has been resilient, supported by higher commodity prices. As expected, the SARB continued its gradual rate-hiking cycle and increased the repo rate by 25 bpts to 4.25%. However, the debate notably shifted from being between no hike (preferred by one MPC member) and a 25-bpt rate hike (preferred by four members) in January to being between a 25-bpt rate hike (preferred by three members) and a 50-bpt rate hike (preferred by two members) in March. This indicates a clear shift towards a generally more hawkish view by the MPC. Whilst a hawkish statement was widely anticipated, it was even more hawkish than expected. This can largely be attributed to a combination of factors: 1) the bank's elevated 5% average core inflation forecast in 2023; 2) the bank's expectation that the output gap will now close faster (in response to upward growth forecast revisions); and 3) the sizeable lift in surveyed inflation expectations even ahead of the war-induced food and fuel price spikes.

The rand has been resilient, supported by higher commodity prices.

Thus, the expected cumulative hikes this year will, to a large extent, depend on the evolution of the war in Ukraine. The shorter the war, the quicker the recent fuel and food price spikes should reverse (at least partly). The SARB seems to be leaning towards a reasonably protracted war that is largely inflationary.

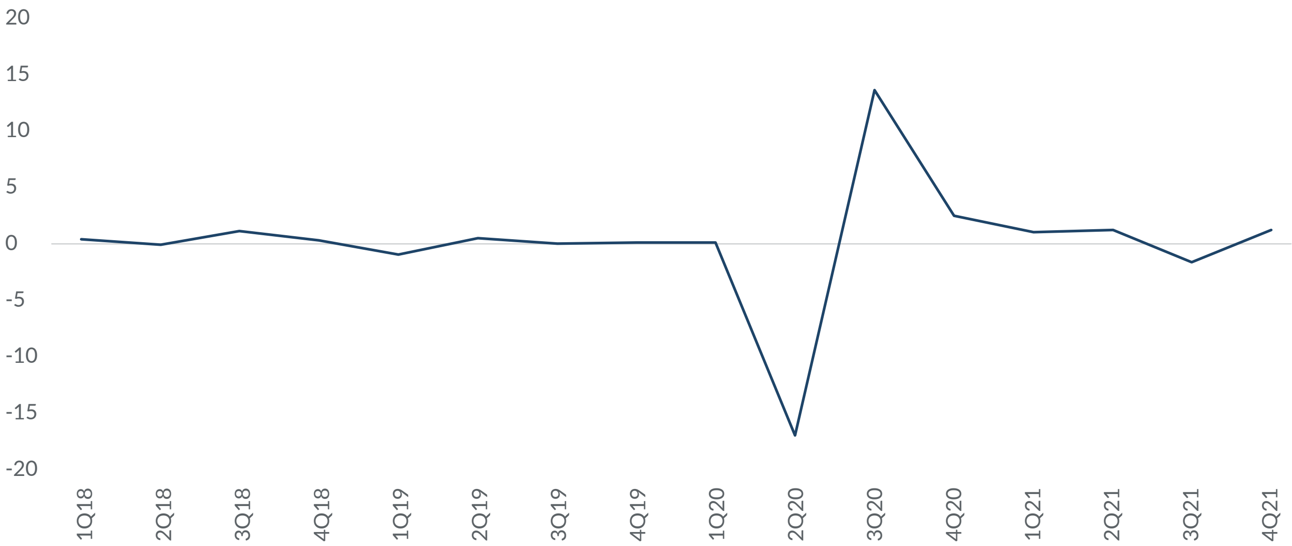
Based on the SARB's revised forecast, the bank's initial judgement is that the global stagflation shock brought about by Russia's invasion of Ukraine will have a much more pronounced impact on driving domestic inflation higher than curtailing local real GDP growth. In the media Q&A session following the repo rate decision, SARB Governor Lesetja Kganyago highlighted that, because of a 'multiplicity' of external price shocks (pandemic-related supply chain bottlenecks, as well as a persistence in rising global food and energy prices), the risk of broader (second round) price pressures have increased. The governor further stated that while the split MPC voting is to be expected, given a highly uncertain outlook, it also reflected the 'worry' amongst MPC members about the deteriorating inflation outlook. Not surprisingly, in terms of magnitude, the most significant upward revision in March was for an increase in headline CPI during 2022. The SARB's inflation forecast was revised higher because of the higher oil and food price assumptions, with headline inflation now expected to breach the upper end of the inflation target at an average of 6.2% in 2Q22, returning to around the midpoint of the target during 2023. The 2022 average for headline CPI inflation was revised higher to 5.8% from 4.9% before and was also revised marginally higher to 4.6% for 2023 and 2024. Considering the much higher oil price since the January MPC meeting, a notable upward revision was expected. On a balance of various probabilities, it is still reasonable to assume the possibility that the Russia/Ukraine war could be over in the next few months. This should at least partly reverse the inflationary fuel and food price spikes, and ultimately the inflation trajectory will benefit from the strong, favourable base effects that these spikes are now creating.

Figure 1: SA inflation, YoY % change
Source: SARB, Anchor



The SARB's revised real GDP growth forecast for 2022 was somewhat surprising. Despite lowering its global real GDP outlook meaningfully by 0.7 ppts to 3.7%, the bank raised its SA growth forecast to 2% in 2022 (from 1.7%). This is on account of the somewhat better-than-expected SA real GDP growth in 2021 (i.e., implying a slightly better starting point), an upward revision to quarterly growth in 1Q22, and the expected boost from much higher export commodity prices. At 1.9% for 2023 and 2024, the growth outlook beyond 2022 is similar to the SARB's January forecasts, with medium-term growth risks seen as being balanced.

Figure 2: SA GDP growth, QoQ % change
Source: Stats SA, Anchor

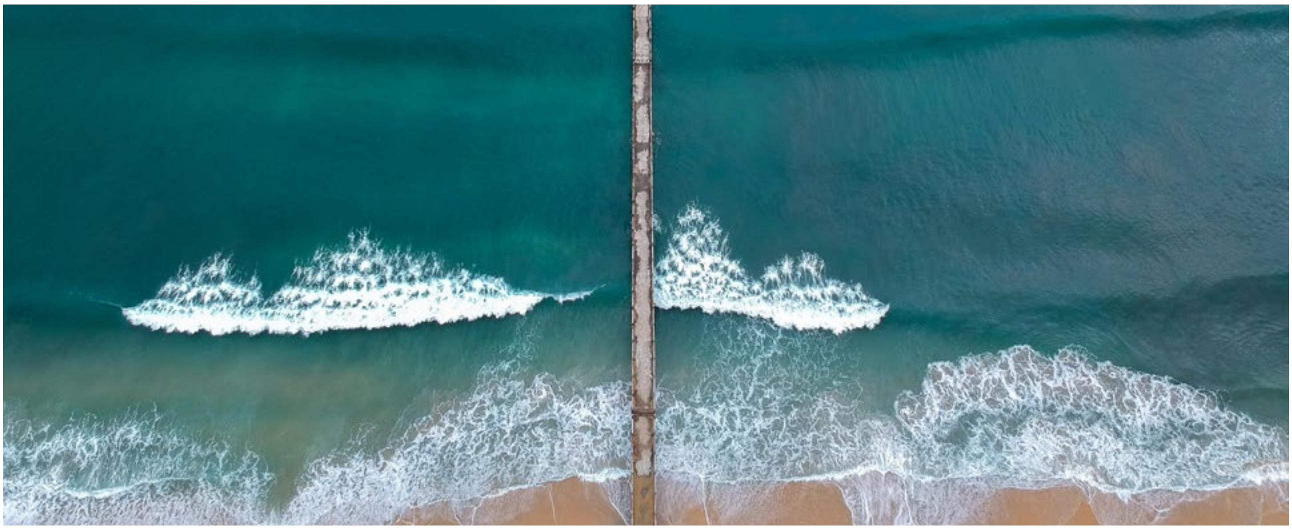


A sharp upward revision to the SARB's non-oil commodity price forecast for 2022 saw a major adjustment to the outlook for the current account balance. At a projected 3% of GDP, the current account is expected to remain in a healthy surplus after recording a 3.7% of GDP surplus in 2021. As the SARB reiterated, if it materialises, the sizeable surplus on the current account should continue to shield SA from likely volatile foreign capital flows amid accelerated global policy and long-term interest rate normalisation. Nonetheless, our interpretation and analysis of the SARB's latest forecasts, MPC statement and Q&A session are that there is a high level of uncertainty attached to the medium-term forecast. Risks to inflation remain to the upside. These include inflation expectations, which tend to be backward looking, and wage settlements, especially in the public sector. National Treasury has carried over the R20bn gratuity paid in 2021, with wage negotiations having commenced in 2Q22. The uncertain outlook and upside risks to the forecast imply that policy decisions will remain data dependent, as the SARB reiterated in the latest MPC statement.

Governor Kganyago warned against "inflation exceptionalism in SA" when inflation is accelerating in the rest of the world. The MPC remains focused on inflation expectations and second-round effects embedded in core CPI inflation. Unsurprisingly, the money market became even more hawkish after the MPC meeting, with the preference of nearly half the MPC members for a larger adjustment strengthening this market's conviction that steeper rate hikes are coming. The monetary policy statement was also positive for the rand and bonds. Whilst in this current volatile global environment uncertainty is indeed the only certainty there is, the unpredictability of the war, in our view, supports gradual rate hikes against the current economic backdrop and forecasts.

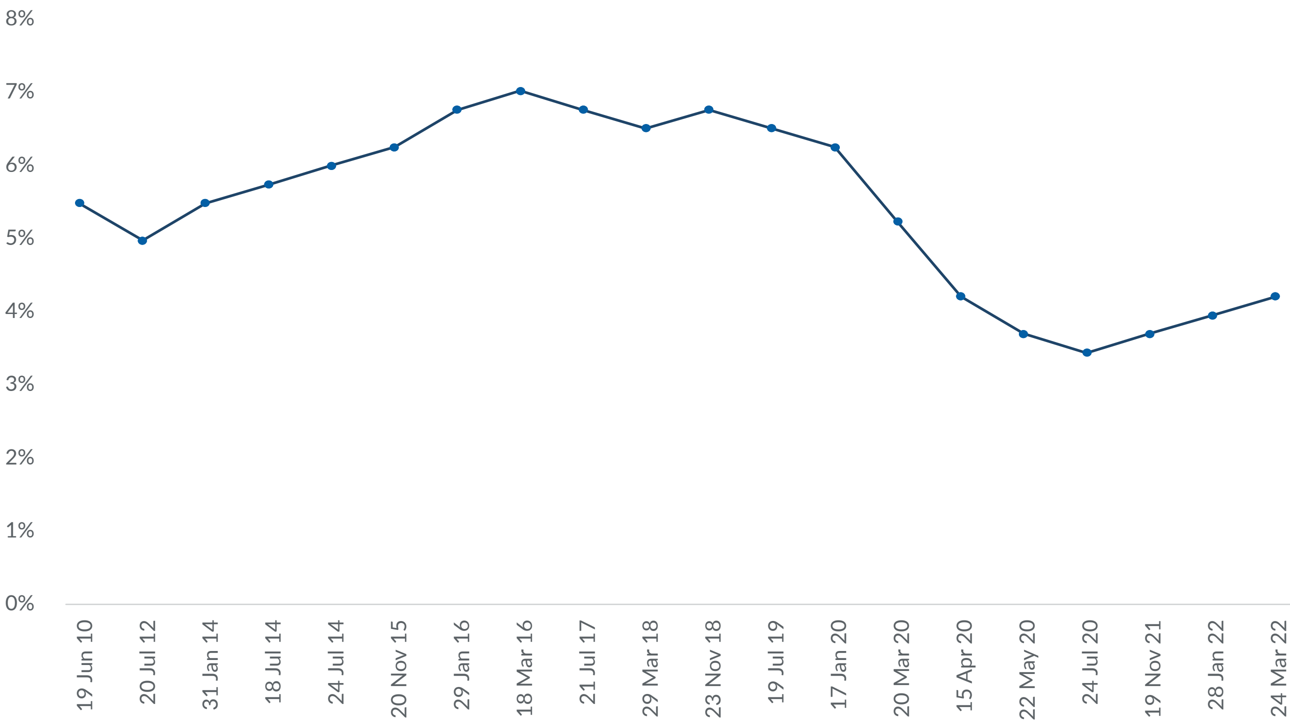
The unpredictability of the war supports gradual rate hikes against the current economic backdrop and forecasts.

We doubt that a 50-bpt rate hike will curb inflation or inflation expectations more than two 25-bpt rate hikes, while it may weigh on a still fragile growth recovery that could ultimately be curbed even further depending on how the war unfolds.



Therefore, considering the March rate increase, we forecast another 75 bpts of repo rate hikes (25 bpts each in May, July, and September 2022). This will bring the repo rate to 5% by the end of 2022. We also acknowledge the risk of a frontloaded 50-bpt rate hike in May should more concrete signs of second-round domestic price effects emerge. Conversely, while SA growth momentum appears to have been robust in early 2022, we remain concerned that growth could potentially soften materially from 2Q22 onwards as the combined impact of higher inflation and interest rates start to squeeze household income and non-commodity export volumes feel the drag of softer global growth. Nonetheless, we still expect the repo rate to rise to at least 6% over the next two years, although the unpredictability of the war in Ukraine makes it particularly hard to forecast the exact timing of each rate hike.

Figure 3: The history of the SARB's MPC repo rate changes, %
Source: SARB, Anchor



Experience, intuition, and wisdom in investing

WRITTEN BY:
Lee Cairns
Wealth Management

Lee majored in economics and English with a Postgraduate CFP Diploma and 20 years' financial markets experience. In his previous career, Lee was an English and Economics teacher to A-level students in the UK. His teaching skillset has been invaluable in conveying investment advice to clients in a clear and succinct manner.

There are few benefits to getting older. Now just one year away from a half-century, I cannot see what I am typing without a pair of spectacles. My lower back and hip joints take at least half an hour to get going every morning. My barber now takes all of 7 minutes to do what he used to need 25 minutes to do. Sadly, there is no discount for the 7-minute job.

The world of finance and investments is a sector where the weight of experience is valued more than in most other industries.

Thankfully, there is also an upshot to getting older and that is with age we gain experience. Ideally, if we are pragmatic with the cards which life deals us, wisdom also increases proportionately with age. Life is hard and has many bumps and bruises. Along the way, we all face the inevitable disappointments, letdowns, and heartaches, which are part and parcel of being a human in this world. When these experiences get the better of us, the glass-half-full scenario starts to look only half empty, and every opportunity seems surrounded by traps and snares.

The world of finance and investments is a sector where the weight of experience is valued more than in most other industries. In our industry, 25-year-old CA CFA charterholders abound, but what would each of these prodigious talents have done with a spreadsheet of company results when the world was melting down in 2008? What makes so many of these talented investment specialists assess the same spreadsheets, hear the same management stories, and arrive at completely different conclusions?

I recall a conversation with Anchor CEO Peter Armitage in October 2015. Back then, Anchor was a small enterprise, where the entire company sat together in a single room. Pete sat on my right, and he had just come back from a management meeting with Anglo. The resource companies were imploding, their balance sheets were fraught with the risk that their debt exceeded the value of their assets. Anglo's share price had plummeted from R377 in 2011, to R116 in 2015. Many were predicting that this number might go to zero. I asked Pete for his assessment of the meeting, to which he replied, "I think we are getting quite close to start buying." I asked what gave him that impression, when all everyone else could see was the dire story of a company imploding. His answer: "my gut." Of course, that answer was coupled with the fact that his 25 years in the market had given him the benefit of seeing cycles come and go. Every analyst in that meeting had access to the same spreadsheets, the same balance sheets, the same story from management. The differentiator came in what Pete's intuition told him to make of the story.

We live in an interesting era where social media has handed a megaphone to the masses. We are now at the point of information overload, where it is almost impossible to discern anything in the noise. Most of the noise tends to follow the trend of the moment. The rand and SA assets are falling "sell everything". Oil hits US$120/bbl, "buy oil companies as it could go to $200/bbl". The Chinese government is going to turn all listed Chinese assets into state-owned enterprises "sell everything China-related", and so it goes on. Sometimes, these commands appear to make a lot of sense but given the benefit of time, they rarely prove to be wise.

In the investment world, one can judge a fund manager by the performance of their fund/s. They might be very prolific on social media and sound intelligent from time to time, but a graphic line of their performance will quickly point to how wisely they have interpreted the information. Perhaps this is the reason why most fund managers tend to be more measured in how they take to social media.

The voices that dominate social media in the investment world tend to be those gregarious personalities who have an opinion on just about everything. Because they do not personally manage funds, it is easier to cover up an opinion that was wrong six months ago, with new noise about current affairs of the day. If there is a beauty to social media, it is that comments made remain in the digital archives forever, and a couple of scrolls into history paint a very telling story of how seldom most of these noisy characters were ever correct.

Back to Pete's story of trusting his intuition. This, and other experiences with revered investment people of our time, inspired me to trust a bit more in my own 20 years of experience. In 2017, Naspers had almost doubled in value and, due to Naspers' significant weighting on the JSE, all passive exchange-traded funds (ETFs) had significantly outperformed most active managers. The noise of the time was that it made no sense to pay an active manager a fee when you could get a better performance from an ETF at half the cost. I was concerned that many pensioners were going to switch to passive investments, and in so doing place 25% of their equity portfolios into one company (Naspers). This company was beholden to a Chinese government that, back then, was unclear about its motives. I wrote an article entitled *Active vs Passive Investing* in December 2017. Since December 2017, Naspers is down -37%, mostly due to Chinese regulations, while the JSE All Share is up +26% over the same period. There was no crystal ball. My 20 years of market experience suggested that jumping on this bus was not wise.

2020 was a year of huge market fluctuations, coupled with a significant move into clean energy and renewables. Global warming was finally front and centre, and there was significant global shareholder pressure on the dirty polluting companies. Clean energy heroes like Elon Musk grabbed all the social media headlines. Oil, coal, and energy companies became the enemy. The message screamed that it was time to sell everything you owned to buy Tesla and every other environmental, social, and governance (ESG) connected company. At the time, I wondered how realistic this was? Realising that SA could not turn off its coal requirements for at least a decade, I looked at the opportunity of considering Exxaro as a better investment opportunity than Tesla (see article on page 33 entitled, *It's the end of the world as we know it ...* dated 14 January 2021). Since December 2020 (when I wrote the article), Exxaro's share price has soared by c. 80% vs Tesla's c. 15% share price gain. There just did not seem to be enough investment wisdom being applied to the ESG story at the time, in my view.

I have made many unwise decisions in my life. No one can attest to that more than my wife and thankfully she is a lot more forgiving than social media. But that nearly half a century of life has taught me a few things. I am certainly grateful for the time I have had to gain those 25 years of experience which has, in turn, afforded me the confidence to trust my gut. Life's experiences carry with them the potential to learn and gain wisdom if we choose to be open to learning. Choose wisdom and choose to partner with the wise around you. In marriage, in business, in friendships. There is so much in life to be gained.

The wisdom in being more than mad, sad, or glad

WRITTEN BY:
Tamzin Nel, CFA
Portfolio Management

Tamzin completed a BCom (Investment Management) at the University of Pretoria and is a CFA charterholder. She has also completed a Social Entrepreneurship programme through the University of Oxford, has done a Masters in Coaching and is currently studying Industrial and Organisational Psychology. Tamzin has worked in financial markets since 2011, including working with clients as well as managing mining rehabilitation funds. She oversees people and leadership development for Anchor. With a keen interest in behavioural finance, social entrepreneurship, psychology, impact investing and financial literacy, she loves understanding and working with people to help them achieve their financial goals.

In my previous article for *The Navigator*, entitled *Do less to make more,* dated 15 January 2022, I wrote that the definition of patience is having the capacity to accept or tolerate delays, problems or suffering, without becoming annoyed or anxious. I had no idea at that time just how difficult things would become for investors on global markets and how much easier it would be to descend into this psychological pitfall.

In that article, I provided some practical insights and practices for understanding our inclinations to be impatient and how we can make a conscious effort to work around these emotions as investing is not about timing the markets, but **time in the markets.** I spoke to emotional regulation and the comfort I feel in knowing I can control my behaviours, but not those of others. However, it is impossible to control behaviour when we do not understand the underlying root cause of that behaviour – the emotion or the experience which led to it.

Unfortunately for impatient investors, when emotions take over, the result is often poor decision-making that could decrease the prospect of meeting future financial objectives. Practising patience means learning to overcome these instincts. Sacrificing in the short term for the longer-term benefit. As with all emotions, we do not want to suppress them but rather learn how to control these emotions. Understanding our emotions and what drives them takes us a long way toward controlling them.

Most people can only name three emotions: happy, sad, and angry.

MAD. SAD. GLAD.

In Brené Brown's latest book, *Atlas of the Heart: Mapping meaningful connection and the language of human experience*, she details eighty-seven emotions and experiences (experiences because not all of them are emotions, they are thoughts that lead to emotion).

WHY DOES SHE DO THIS, AND WHY AM I SHARING IT WITH YOU?

Because research shows that **the process of labelling emotions and experiences is related to greater emotional regulation and psychological well-being.** Without accurate language, we cannot regulate our emotions and experiences in a way that allows us to move through them productively, and our self-awareness is diminished. Emotional literacy is the ability to recognise the emotion we are feeling, name it and describe what is happening to us emotionally. We cannot fully move through an emotional experience without emotional literacy.

LITERACY

- *the ability to read or write.*
- *competence or knowledge in a specified area.*

Becoming literate in the language of emotion gives us the **"power of understanding and meaning."**

In any practice, there is discomfort for many, especially in the practice of patience.

Uncomfortable emotions, such as anxiety, worry, sadness, anger, annoyance, frustration, hopelessness, and despair are tough to tolerate. To tolerate is to allow the existence, occurrence, or practice of something that you dislike without interference. Whilst I reiterate that sometimes the best action to take is no action at all, the one thing that you can do is learn the language of those uncomfortable emotions that you are experiencing to take back the power.

Pema Chödrön, one of the most inspiring spiritual teachers of our time, offers simple, practical advice for living with less fear, less anxiety, and a more open heart in the book *The Places That Scare You - A Guide to Fearlessness in Difficult Times*. She also explains that **"wisdom is inherent in emotions."**

WISDOM

- *the quality of having experience, knowledge, and good judgement; the quality of being wise.*

At Anchor, the acronym that we use to describe our culture is WAPEN. The first letter is for **Wise.**

(Wise, Authentic, Personable, Entrepreneurial and Nimble).

The quality of being wise entails having experience. We all have lived experiences. Experiences lead to emotions.

We then need knowledge – the facts, information, and skills acquired through experience or education. Or becoming acquainted with or understanding science, art, or technique.

Let us acquire some understanding of our emotions so that we can practice good judgement. Impatient investors let anxiety and emotion rule their decision-making. Good judgement means understanding our emotions and using the information we have gathered to think things through. It means considering the consequences of one's decisions, thinking before acting and speaking and having the tools to make good decisions in a variety of situations. *A Harvard Business Review article* breaks down the elements of good judgement into six basic components and how to improve them. The author concludes that "leaders need many qualities but underlying them all is good judgement."

Judgement: the ability to combine personal qualities with relevant knowledge and experience to form opinions and make decisions.

All definitions and explanations below are borrowed from Brené Brown's research. Whilst completing her extensive research, she enlisted a group of experienced therapists who work in diverse mental health settings to help her identify these emotions and experiences. One of the criteria that the clinicians had to keep in mind was this question:

"In my experience working with clients, the ability to name this emotion or experience is essential to being able to process it in a productive and healing manner."

Anxiety: Escalating loss of control, worst-case scenario thinking and imagery, and total uncertainty. *The American Psychological Association* defines anxiety as "an emotion characterised by feelings of tension, worried thoughts and physical changes like increased blood pressure."

Elizabeth Gilbert wrote *"you are afraid of surrender because you do not want to lose control. But, you never had control; all you had was anxiety."*

Worry: Worry is the thinking part of anxiety; a chain of negative thoughts about bad things that might happen in the future.

Fear: Fear is a negative, short-lasting, high-alert emotion in response to a perceived threat. Dread.

Frustrated: We feel frustrated, discouraged or resigned when things are not going or did not go as desired. Frustration overlaps with anger as both result when a desired outcome is blocked. The main difference is that with frustration, we do not think we can fix the situation, while with anger, we feel there is something we can do.

The last definition of an emotion I want to leave you with is that of 'calm'.

Calm: creating perspective and mindfulness, while managing emotional reactivity.

Calm people bring perspective to complicated situations and experience their feelings without reacting to heightened situations.

When you feel fear, panic or anxiety rising, we encourage you to ask the two questions below:

1. Do I have enough information to panic? The answer is normally 'no'.

2. Will panicking help? The answer is always 'no'.

Franklin D. Roosevelt said, *"A smooth sea never made a good sailor."*

Our job is to be the sailor, let us help you navigate the stormy seas.

Performance Summary

	FUND PERFORMANCE									BENCHMARK PERFORMANCE							
	Start date	Annualised p.a.	Since inception	5 Year	3 Year	12-month	6-month	3-month	Mar-22	Since inception	5 Year	3 Year	12-month	6-month	3-month	Mar-22	Performance vs Benchmark
UNIT TRUSTS																	
Anchor BCI Equity Fund	Apr-13	9.8%	132.7%	4.8%	6.3%	6.5%	4.9%	-2.6%	1.0%	123.9%	8.1%	11.9%	20.4%	16.0%	6.7%	1.5%	8.8%
Anchor BCI SA Equity	Aug-21	N/A	N/A	N/A	N/A	N/A	N/A	2.0%	3.2%	N/A	N/A	N/A	N/A	N/A	6.7%	1.5%	N/A
Anchor BCI Flexible Income Fund	Jun-15	7.0%	59.2%	6.7%	6.1%	5.3%	1.9%	0.3%	0.2%	56.1%	6.4%	5.6%	4.6%	2.3%	1.2%	0.4%	3.1%
Anchor BCI Managed Fund	Jan-15	5.4%	45.5%	5.8%	7.4%	7.5%	2.3%	-3.6%	0.2%	55.6%	7.2%	9.0%	10.7%	6.0%	-1.2%	-0.5%	-10.1%
Anchor BCI Worldwide Flexible Fund	May-13	9.3%	120.0%	5.9%	5.1%	-6.1%	-8.3%	-12.1%	-6.4%	112.1%	8.2%	8.4%	9.7%	4.3%	2.3%	0.9%	7.9%
Anchor BCI Property Fund	Nov-15	-2.7%	-15.8%	-3.0%	-3.0%	22.9%	6.2%	-1.9%	4.4%	-18.6%	-4.9%	-3.8%	27.1%	7.0%	-1.3%	5.1%	2.8%
Anchor BCI Global Equity Feeder	Nov-15	14.2%	134.3%	17.7%	23.2%	-3.4%	-11.2%	-13.4%	-1.1%	106.2%	13.6%	14.3%	6.4%	-2.2%	-13.1%	-3.2%	28.1%
Anchor BCI Bond Fund	Feb-16	9.4%	73.5%	8.8%	8.1%	11.8%	4.2%	1.4%	0.0%	73.3%	8.9%	8.4%	12.4%	4.8%	1.9%	0.5%	0.2%
Anchor BCI Diversified Stable Fund	Feb-16	7.2%	53.4%	7.2%	7.6%	9.4%	4.4%	-0.5%	-0.3%	47.2%	6.7%	7.3%	8.7%	4.0%	-0.9%	-0.2%	6.2%
Anchor BCI Diversified Moderate Fund	Feb-16	6.7%	49.2%	7.1%	8.0%	10.7%	5.3%	-0.9%	-0.1%	48.4%	7.0%	8.3%	9.9%	5.4%	-1.2%	-0.3%	0.8%
Anchor BCI Diversified Growth Fund	Feb-16	6.2%	44.8%	7.0%	8.2%	11.9%	6.1%	-1.3%	0.2%	50.6%	7.2%	9.0%	10.7%	6.0%	-1.2%	-0.5%	-5.8%
Anchor BCI Africa Flexible Income	Mar-16	5.3%	37.2%	6.1%	4.0%	-3.1%	-7.2%	-7.5%	-2.6%	62.8%	8.1%	7.2%	5.9%	3.0%	1.5%	0.5%	-25.6%
Anchor BCI Global Technology Fund	Jun-19	9.0%	27.5%	N/A	N/A	-23.5%	-25.6%	-27.1%	-6.2%	100.5%	N/A	N/A	11.1%	-1.9%	-17.9%	-3.3%	-73.0%
Anchor BCI Flexible Fund	Jul-13	9.1%	115.0%	12.8%	12.0%	-2.4%	-14.5%	-19.0%	-2.6%	9.9%	9.2%	9.4%	10.7%	4.8%	2.6%	1.0%	105.0%
Anchor BCI Core Income Fund	Sep-20	5.4%	8.7%	N/A	N/A	5.3%	0.0%	1.6%	0.6%	6.3%	N/A	N/A	3.9%	2.0%	1.0%	0.4%	2.5%
Anchor BCI Global Flexible Income Fund	Sep-20	-8.1%	-12.2%	N/A	N/A	-3.5%	-7.1%	-11.8%	-6.7%	-12.1%	N/A	N/A	-0.8%	-2.7%	-8.3%	-5.4%	-0.1%
Anchor BCI Worldwide Opportunities Fund	Feb-21	-2.5%	-2.8%	N/A	N/A	-3.4%	-3.6%	-8.2%	-0.4%	6.7%	N/A	N/A	5.6%	2.4%	1.4%	0.6%	-9.5%
EQUITY NOTES & SEGREGATED MANDATES																	
Anchor Equity	Jul-13	9.6%	123.6%	6.6%	11.0%	24.1%	14.9%	6.4%	2.6%	122.3%	8.1%	11.9%	20.4%	16.0%	6.7%	1.5%	1.4%
HEDGE FUNDS																	
Anchor Accelerator	Feb-16	9.5%	74.1%	13.2%	10.7%	-5.7%	-2.8%	-3.8%	2.7%	61.2%	8.1%	11.9%	20.4%	16.0%	6.7%	1.5%	12.9%
OFFSHORE																	
High Street Equity - Dollars	Jun-12	11.2%	182.1%	9.8%	9.7%	-7.9%	-11.0%	-12.8%	0.1%	211.8%	13.0%	15.5%	10.6%	2.4%	-5.0%	2.8%	-29.8%
High Street Equity - Rands	Jun-12	18.0%	403.7%	11.8%	10.3%	-8.9%	-13.6%	-20.1%	-5.4%	457.4%	15.0%	16.1%	9.7%	-0.8%	-12.8%	-2.6%	-53.7%
Offshore Balanced - Dollars	Jun-12	8.8%	128.4%	7.0%	6.0%	-4.6%	-7.6%	-9.4%	0.5%	103.2%	8.3%	9.4%	3.4%	-1.4%	-5.5%	0.4%	25.2%
Offshore Balanced - Rands	Jun-12	15.3%	301.9%	8.6%	6.0%	-6.8%	-11.5%	-18.2%	-6.0%	262.9%	10.2%	9.8%	2.3%	-4.5%	-13.4%	-4.8%	39.1%
Global Dividend - Dollars	Jan-14	8.8%	99.0%	9.3%	10.6%	11.0%	5.2%	-2.4%	0.4%	131.8%	13.0%	15.5%	10.6%	2.4%	-5.0%	2.8%	-32.8%
Global Dividend - Rands	Jan-14	12.4%	160.6%	11.1%	10.9%	9.4%	1.8%	-10.6%	-5.1%	205.0%	15.0%	16.1%	9.7%	-0.8%	-12.8%	-2.6%	-44.5%
Anchor Global Stable Fund - Dollars	May-15	1.4%	10.0%	2.6%	2.7%	-3.8%	-6.6%	-7.5%	-2.3%	20.4%	2.8%	2.8%	3.2%	1.9%	1.0%	0.3%	-10.4%
Anchor Global Stable Fund - Rands	May-15	4.2%	32.4%	4.4%	3.2%	-4.6%	-9.5%	-15.0%	-7.4%	44.9%	4.5%	3.0%	2.1%	-1.2%	-7.4%	-4.7%	-12.5%
Anchor Global Equity - Dollars	May-15	14.4%	150.8%	17.8%	25.4%	-7.6%	-12.5%	-8.8%	3.4%	84.5%	11.6%	13.8%	7.3%	1.0%	-5.4%	2.2%	66.3%
Anchor Global Equity - Rands	May-15	17.5%	202.0%	19.9%	26.0%	-8.4%	-15.2%	-16.2%	-2.0%	122.2%	13.6%	14.3%	6.4%	-2.2%	-13.1%	-3.2%	79.8%
RCI UNIT TRUSTS																	
RCI BCI Flexible Growth Fund	Sep-16	8.4%	56.3%	N/A	11.5%	-15.6%	-18.6%	-20.9%	-1.8%	64.7%	N/A	9.4%	10.7%	4.8%	2.6%	1.0%	-8.4%
RCI BCI Worldwide Flexible Fund	Dec-16	7.4%	46.1%	N/A	7.2%	-10.5%	-16.5%	-19.6%	-6.0%	54.1%	N/A	8.4%	9.7%	4.3%	2.3%	0.9%	-8.0%

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