The Navigator

Strategy and Asset Allocation Report
1st Quarter 2020

ANCHOR | NAVIGATING CHANGE

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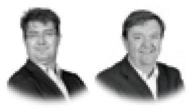
Introduction



Written By:

NOLAN WAPENAAR AND PETER ARMITAGE
Chief Investment Officers

We start the new decade cautiously optimistic on the outlook for our future. The global economic expansion has surpassed what many expected and fears of a recession have receded. It seems that the steady global onward and upward will continue to foster a gradual melting up of financial assets and global economic fortunes. However, not all countries are benefitting equally and it appears that this year will see greater gains in emerging markets (EMs) than in developed nations. A continued supportive global environment is clearly what South Africa (SA) needs at the moment.

Domestically, things are better than they were a few years ago, although they are far from good. We see some green shoots of recovery with changes afoot at SAA, Eskom and other state-owned enterprises (SOEs). We see developments at the National Prosecuting Authority (NPA) with prosecutions for corruption likely to start this year. These developments are two important puzzle pieces in fixing SA. Clearly the puzzle consists of a multitude of pieces that haven't been addressed yet, but the process of rebuilding has started. Risks will remain at the forefront of investor's minds and more corrective action is required both on the policy front and on the political messaging of economic priorities.

A year ago, forecasters were predicting a recession in the US. They were wrong. A year before these forecasters were also predicting global interest rates normalising at 5%. They were wrong. Investment forecasting is an imperfect science. Therefore, we advocate a focus on your investment objectives and a diversified strategy in achieving this. SA equities have underperformed for a number of years now, yet some global investment houses see some JSE-listed companies as being highly attractive at the moment. We are cautiously optimistic, and advocate for a balanced and diversified approach across both domestic and global assets and different asset classes.

There will always be storm clouds on the horizon. Middle East tensions are clearly a storm cloud, as are the riots in Hong Kong. Domestic politics and credit rating agency risks are significant storm clouds that may engulf us. Over time almost all storm clouds have passed causing nothing more than a fleeting wobble in investment returns. If we reacted to every storm cloud, then portfolios would sit in cash and the great gains of the past would never have materialised. A diversified, patient and sensible approach towards investing has paid off over time and will do so again in the future.

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You will see that we remain concerned about SA-focused equities and we maintain our underweight stance on these, instead preferring global exposures. Nevertheless, possible upside remains, and we advocate some exposure, albeit less than in the past. We are working for you to find opportunities in every asset class and in every environment. You will see in this document that these opportunities do exist. We see most asset classes as delivering returns that are in-line with their historic norms and we are therefore taking a balanced and diversified approach towards investing your money.

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 12m Fwd (ZAR) (%)
	Negative	Neutral	Positive	
LOCAL				
Equity		●		10.1
Bonds			●	9.0
Property		●		10.1
Cash			●	6.0
GLOBAL				
Equity		●		7.7
Government Bonds	●			1.7
Corporate Credit	●			1.0
Property		●		6.5
Cash		●		1.3

Strategy and Asset Allocation

GLOBAL BACKDROP

Global economic growth slowed from 3.6% in 2018 to a more pedestrian 3.0% last year. This is expected to increase towards 3.1% in 2020. Underlying this, is a divergence between developed markets ([DMs]; which are expected to slow a little further) and EMs (ex-China), which should accelerate slightly. One does feel that the US economy is past its peak and that as US President Donald Trump's tax cuts for individuals are grandfathered out, consumer spending will slow a little. This will act as a bit of a handbrake on the US economy for a while. Meanwhile, US inflation is likely to hover around the Federal Reserve's (Fed's) 2% target. The combination of these factors will likely usher in an extension of accommodation from central banks. The Fed is likely to continue to support risk assets. With global equity prices looking quite full currently, we think that the beneficiary of the looser Fed policies will likely be EMs. This will probably support both the rand and domestic bonds even in the face of domestic deterioration.

Domestically, we expect that the local economy will continue to splutter and bumble along. Eskom and a lack of confidence are taking their toll. We recently saw that the government heard comments from the private sector and lightened visa restrictions for tourists. It would be wonderful if Parliament took it upon themselves to see what they can do to foster growth this year. What an outcome if they spent their time identifying just three regulations that they could lighten or repeal in order to give the economy space to grow. We can think of several possibilities offhand. Without some space from government our economy will continue to splutter along. Consensus is quite strong that SA will suffer a downgrade to complete junk when Moody's announces its decision on 27 March. With the current economic framework this is inevitable. That said, we do think that a sensible plan for Eskom and its debt (what we have seen so far is not enough) and a sensible budget from the finance minister with below-inflation increases for a number of government departments would be enough for a stay of execution from Moody's, buying time to 20 November. The economy remains in dire straits and it will take a few bold changes in direction to significantly improve the outlook.

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While the Fed will continue to support global risk assets, geopolitics will remain a risk factor. As we have seen with the recent actions by the US in Iran, many of these events are unpredictable and both shock and scare investors. We expect volatility will remain high, though opportunities are to be found in most asset classes at the moment.

SOUTH AFRICAN EQUITIES

Investors on the JSE experienced a relatively disappointing 2019, with the local index being the only major stock market globally to not record double-digit US dollar returns. With the help of a 3.1% positive move in December the JSE/FTSE Capped Swix ([Capped SWIX], our benchmark for measuring local equity performance) ended the year up 6.7%, with the currency another 3% stronger. As has been the case throughout much of its history the JSE's four-largest components (domestic cyclicals, materials companies, Naspers/tech and rand hedges) experienced very differing fortunes:

Figure 1: The performances of the JSE's four-largest components, YoY 2019

Source: Bloomberg, Anchor

	Contribution to return (%)
SA cyclical (SA Inc.)	-2.66
Materials	5.67
Rand hedge (Ex NPN)	2.19
Naspers/Prosus	1.77
TOTAL RETURN	**6.97**

Throughout the year, swings in sentiment, whether it be domestic influences (politics, Eskom etc.) or global forces, kept investors nervous as to where SA sits in its own growth cycle. Towards the end of the year the "phase-1" trade deal between China and the US helped catalyse a rally in EM stocks and currencies, dragging the rand (+4.7% in December) and the local bourse (FTSE/JSE Capped SWIX Index +3.1% in December) higher. Platinum shares were again leading the way, up another 20% to cap a year in which their share prices tripled! Gold shares continued the rollercoaster bouncing back from a double digit sell-off in November to post a double-digit gain in December, leaving gold stocks up 120% for the year. Gold and platinum shares accounted for 80% of the Capped SWIX performance in 2019 and almost half of December's performance.

SOUTH AFRICAN EQUITIES
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SA CYCLICAL (SA INC.) SHARES

Many pundits, Anchor included, expected the economy to start showing some signs of life after a decade of mismanagement as the new administration led by President Cyril Ramaphosa took the reins. However, continued loadshedding by Eskom, a restrictive policy framework and poor overall confidence levels resulted in 2019 being yet another missed opportunity for the SA economy.

Domestically focussed equities were unable to defy gravity and their earnings growth slumped, with a few notable exceptions. These declines in earnings growth and the continued spectre of a potential Moody's downgrade caused foreign investors to lose patience with domestic companies selling c. R128bn worth of SA equities over the year. The continued foreign selling caused SA companies to de-rate significantly and, for the first time since 2009, local listed firms now trade at a discount to their EM peers.

These three factors - disappointing earnings growth (often times negative growth), de-ratings in valuation and offshore selling - caused annual investment returns from local companies to range from, at best, low single-digits to a more than 50% YoY decline.

However, fortunately, there were a few exceptions to this dire storyline. SA companies that continued to meet investors' growth expectations, such as Capitec and Clicks, were handsomely rewarded. Investors piled into these businesses, resulting in them reaching eye-watering valuations. It is important to reflect for a moment on these companies, especially since their impressive performances highlight that investors are indeed still craving growth stories in the SA context. This means that, should SA companies start to show signs of earnings growth returning or at least earnings growth not disappointing investors' expectations, we would see SA firms return to their previous multiples which will, in turn, lead to strong investment returns.

The question to ask is will this happen in 2020? Our expectations for SA GDP growth and consequently earnings growth for SA companies have been pulled back markedly from 12 or even 6 months ago. And, judging from the valuation levels of most SA companies, this is also true for the rest of the market participants. The combination of these two factors, much lower expectations (making a positive surprise easier to achieve) and slight incremental improvements, could provide a catalyst for investor confidence to return. The lack of confidence from investors, businesses and consumers has been the reason for the subdued performance of the SA economy.

So, will SA companies be able to meet these low expectations and show slight and incremental improvements in earnings growth? Eskom remains the key swing factor as the economy will struggle to grow if it continues to be constrained by a lack of electricity supply - there is nothing that can impact confidence levels like sitting in the dark. However, should Eskom be able to keep the lights on, we believe, that the ingredients are there for SA corporates to deliver on current low expectations.

The unpredictability of the range of potential outcomes has resulted in a fairly cautious approach to portfolio construction. We are currently c. 15% underweight domestic cyclicals (which make up c. 50% of the JSE/FTSE Capped SWIX), with a skew towards the more defensive subsectors such as banks, property and quality industrials. The JSE Banks Index continues to trade at an undemanding 9x forward PE multiple, a 6% dividend yield and expected 1-year forward earnings growth of 7%, valuations we find appealing in the context of the low-growth environment.

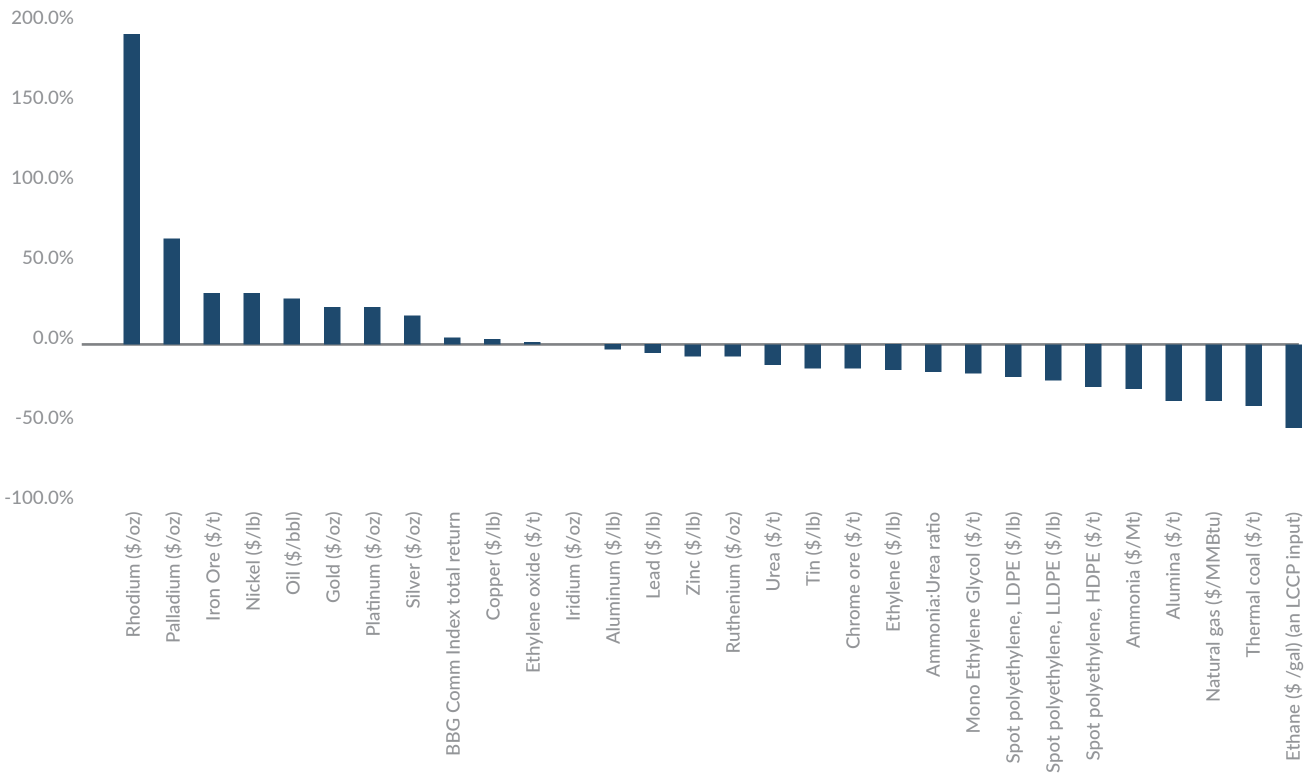
MATERIALS SHARES

The dominant theme in 4Q19 was the continued rally in the platinum group metals (PGM) sector. The underlying metals enjoyed another strong quarter in US dollar terms, with the prices of platinum, palladium and rhodium, the three major metals in the PGM basket, increasing by 10%, 16% and 14% during the quarter, respectively. PGM company shares soared as a result, with the four major PGM miners (Amplats, Implats, Northam Platinum and Sibanye-Stillwater) rallying between 43% and 71% for the quarter.

Given the strong commodity price performance of precious metals (PGMs, gold) and iron ore in 2019, we believe that precious metals and iron ore miners should continue to deliver attractive earnings growth if spot prices hold. There is less homogeneity in the diversified mining sector than in the PGM space. We prefer iron ore exposed diversified miners to those with no exposure such as South32 or Glencore. However, Glencore, is unfavoured due to investigations by several entities including the US Department of Justice (DOJ) over Glencore's compliance with the US Foreign Corrupt Practices Act. The recent rally in the Brent crude oil price and a relaxation of covenants have alleviated some of the concern around Sasol's requirement for an equity raise. However, weak chemicals prices will pressure Sasol's earnings as Lake Charles ramps up. Within the paper and pulp sector, we prefer Mondi over Sappi due to the former's superior return on capital and capital allocation history.

Figure 2: 2019 Commodity price performance, YoY % change

Source: Bloomberg



SOUTH AFRICAN EQUITIES

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In our view, the largest risk factor for the commodity sector remains global growth, particularly Chinese growth. Continued weakness in global car sales pose a threat to PGM prices as 40% of platinum and 80% of palladium demand comes from the auto sector.

Car sales fell c. 4% YoY globally in 2019 - the largest decline since 2008. Intuitively the weak car sales number should have negatively impacted sentiment across the PGM basket of commodities, however changes to environmental legislation has resulted in increased demand for palladium as loadings (the amount of palladium used in catalytic convertors) were increased by regulators in the wake of all the carbon cheating by car manufacturers. In terms of iron ore, a faster-than-expected recovery in Vale's ore output in 2020 would also put pressure on iron ore prices (following the January 2019 mine tailing dam wall disaster iron ore prices soared and Vale hasn't recovered to full production yet). The largest upside risk to the resources sector remains greater-than-expected global economic growth. Chinese stimulus, in particular, has the potential to support base and ferrous metals.

NASPERS/ PROSUS

It was a memorable year for Naspers where management have been actively trying to address the elephant in the room, that being the large discount to net asset value the company continues to trade at. In February, the pay TV asset, Multichoice was successfully unbundled and separately listed which left Naspers as a pure play consumer internet business, with a primary focus on the high-growth EMs around the world.

Later in the year, Naspers announced its intention to carve out the ex-SA assets and list these in Amsterdam thereby opening up to a new set of shareholders previously unable to access the shares due to limitations on investing in the 'higher-risk' JSE.

The corporate actions saw Naspers deliver a total return of 21.55% for 2019, outperforming its largest underlying asset (Tencent) by 3%. It is highly likely that, over the short- to medium-term, the prospects of Naspers (and now Prosus) will remain largely dependent on the performance of Tencent which is expected to growth EPS by c. 20% YoY in 2020. Trading on a forward PE multiple of 28x, in line with its long-term average, we wouldn't expect much in the form of an additional rerating from Tencent. Our base case is that the rating will be unchanged giving us a total return expectation in line with its earnings growth of 20%. As a result, we have kept an overweight position in Naspers/ Prosus.

RAND-HEDGE SHARES

Making up the rest of the index is a list of shares referred to as rand hedges, which pertains to the fact that domestic factors such as GDP growth and political whipsawing have very little influence on the operations, earnings and future prospects of these companies.

Within this cluster, British American Tobacco (BATS), which ended 36% higher YoY in 2019, and Reinet (a BATS proxy) made the greatest contributions to the index's total return. BATS shares rebounded sharply in 2019, after a few years of underperformance as sentiment weighed on the future prospects of the global tobacco industry, which is plagued by increasing regulatory pressure, alternative products taking market share from traditional cigarettes and, in the case of BATS, a growing debt burden amassed after a series of acquisitions. The underperformance of the shares seems to be more sentiment driven rather than as a result of a significant decline in operating profit, which remains healthy.

With earnings expected to grow in the mid-single-digits this year and the share trading at 10x estimated forward earnings one year out (a large discount to the 10-year average of 14x), we continue to retain exposure to BATS via shares we own directly and a position in investment holding company, Reinet.

Luxury jewellery and watch maker, CFR Richemont had a disappointing year relative to global luxury peers. Nevertheless, the share price still ended up 20% for 2019, adding 0.3% to the index. Trading at a forward PE multiple of 21x (vs a long-term average of 19x) and with earnings expected to grow by 14% YoY in 2020, we see CFR as fairly valued, with no obvious opportunity being presented.

SA EQUITIES CONCLUSION

Not much has changed in terms of our views or positioning in SA- listed equities. We are underweight companies that are very reliant on domestic economic growth and sentiment, while retaining modest exposure to those companies we believe will continue to outperform in a tough environment and remain cognisant of some very appealing valuations. We are largely neutral on the materials sector, where earnings momentum screens as the most attractive and free cashflow yields remain healthy at spot commodity prices. Philosophically, we will always be nervous holders of materials companies, or any company with a largely commoditised top line. To complete the picture of our domestic positioning we are overweight rand-hedge shares. Naspers/ Prosus, Bidcorp, Reinet and Investec (50/50 between SA and UK), remain key calls for us as we position ourselves for another volatile period.

At an index level our total equity return expectation is in the region of 10.1% for the year, this implies 6.3% from earnings growth with no meaningful rerating.

SA BONDS

The local currency has shown major fortitude in 4Q19 – on 1 October 2019 the rand vs US dollar exchange rate stood at R14.82/$1, by the end of 2019, the rand had strengthened to R14.01/$1 - just below 6% worth of currency strength in the quarter. The benchmark R186 bond strength was more muted, moving from a yield of 8.32% to 8.245%. The curve has steepened slightly over the quarter reflecting concerns about the country's long-term outlook. 5-year credit default swaps (CDS) traded at 164bps to 192bps throughout the quarter, essentially ending the year where it began at ~160bps. The US 10-year bond yield traded in a band from 1.5% to 1.95%, ending the year at 1.9%.

The net result of the above has been an All Bond Index (ALBI) 4Q19 return of 1.73% - this compares favourably with the ALBI return of 1.36% in 3Q19. The ALBI closed 2019 with a net return of 10.5% - a strong year for local bond holders.

We also note that the R186 benchmark bond is now under 7 years to maturity and that the R2030 is a near exact 10-year bond. The spread between these two has increased by 10bps over 2H19, from 70bps to 80bps – further emphasizing the slight steepening of the SA bond curve.

SA BONDS

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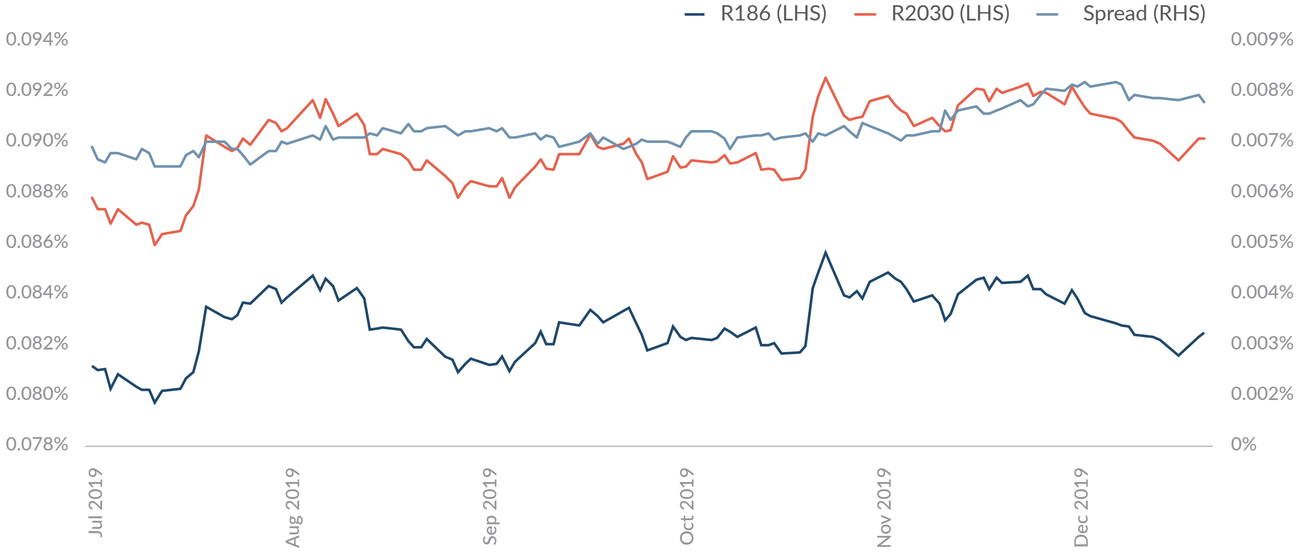
Figure 3: R186 vs R2030 performance over 2H19

Source: Thomson Reuters



Looking to 2020, the local political situation has survived some major flashpoints in 2019, most specifically the delivery of another budget indicating increased deficits – leading to a projected debt/GDP of above 70% in the medium term.

However, political indications (such as the unwillingness to give another full bailout to SAA during the strike action) as well as direct actions (as seen in prosecutions and deeper investigations into state capture actors) have allayed the downgrade fears in the short term.

Importantly, these risks will remain for as long as government runs large deficits and growth remains anemic, decreasing the former and increasing the latter remain the key fiscal objectives for government heading into this decade.

The global risks from 2019 carry into 2020, the Tory majority in the UK gives some support to British pound-denominated assets and drives clarity on Brexit, but final negotiations on the trade agreement are highly unlikely to see a resolution before the end 2020 deadline – meaning some level of uncertainty remains. Looking to the US, Trump's phase-1 trade deal with China was agreed on in December 2019, but risks remain heading into the 2020 US election cycle.

The Democratic presidential lead candidates are beginning to take shape and the risk to SA bonds remains a risk-off market sentiment in the lead-up to that event, which takes place on 3 November 2020.

Current bond yields thus remain tied to the above risks. We view long-run SA inflation at 4.5% and US inflation at 1.7%, a differential of 2.8%. The long run 10-year CDS spread of 270bps and a US fair yield of 1.9% results in a fair value of the 10-year benchmark at 7.4%.

Importantly, these risks will remain for as long as government runs large deficits and growth remains anemic.

Given the premium required to hold rand over US dollar and political uncertainty, this is modelled up to 8.2%. This compares with the band of 8.17% to 8.575% that the bond has traded in over 4Q19. This leaves some room for capital growth as well as a return of over 4% above inflation with a total return of about 9.3% on the benchmark R186 bond.

SA-LISTED PROPERTY

Even though decreasing share prices have led to higher dividend yields in the SA property sector, investors have not yet regained confidence in local property counters. In 4Q19, and for calendar 2019, the SA property sector underperformed cash, fixed income and equities, this even after the terrible 2018 the sector experienced.

The overall SA macro outlook for 2020 still has clouds on the horizon, including Eskom, SAA, the Government's inability to implement investment-friendly structural reforms, as well as global recession fears, and it seems unlikely that landlords will be able to wave a magic wand and have the local property sector return to its glory days. Tenants will remain under pressure, at least for the near term, and rental negotiation terms agreed will continue to reflect the reality of this situation. However, the capital depreciation experienced over the past two years does mean that many share prices in the sector have de-rated to the extent that large discounts are available in the listed property sector when compared to physical asset valuations. The truth, as it often does, probably lies somewhere in the middle of this anomaly, providing potential upside to share prices, although it will probably require some passage of time to find an "agreed" clearing price.

Share prices reacted poorly to dividend reductions in 2018 and 2019, but we believe that any sign of stabilisation of this trend – even for some stocks where dividend prospects are negative, but the trend is improving – could be a meaningful inflection point. Also, an important document came out on 13 November, which should add some backbone to future investor confidence. Historically, property company accounting standards were not closely scrutinised in SA. The woes of the past two years meant that this would no longer be acceptable and the JSE and the Association for Savings and Investment SA (ASISA) were involved in the construct of the Best Practice Recommendations for standardised accounting practices. This becomes effective for companies with financial year-ends commencing after 1 January 2020, although early adoption is being encouraged. The two main advantages for analysts and investors are:

1. SA REIT Funds From Operations (FFO) per share will replace distributable EPS as the primary supplemental performance measure.

2. Non-IFRS metrics can no longer be applied as broad principles but require step-by-step disclosure that can easily be reconciled back to the reported IFRS accounts.

Again, this may take time as some year-ends will only happen in late 2021 when this practice is compulsory, but it will lead to clean results and property income growth forecasts which are defined and transparent.

Overall, we believe that the sector will remain more volatile than it has in the past, and more in line with equity market and risk-on volatility than an income asset. Our 2020 forecast returns from the sector comprise a dividend yield of 9.8% and a capital gain of 0.3% (which in turn comprises income growth of 2%, but an exit yield of 10% - above forecast forward yield) resulting in a total return of 10.1%.

THE RAND

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.

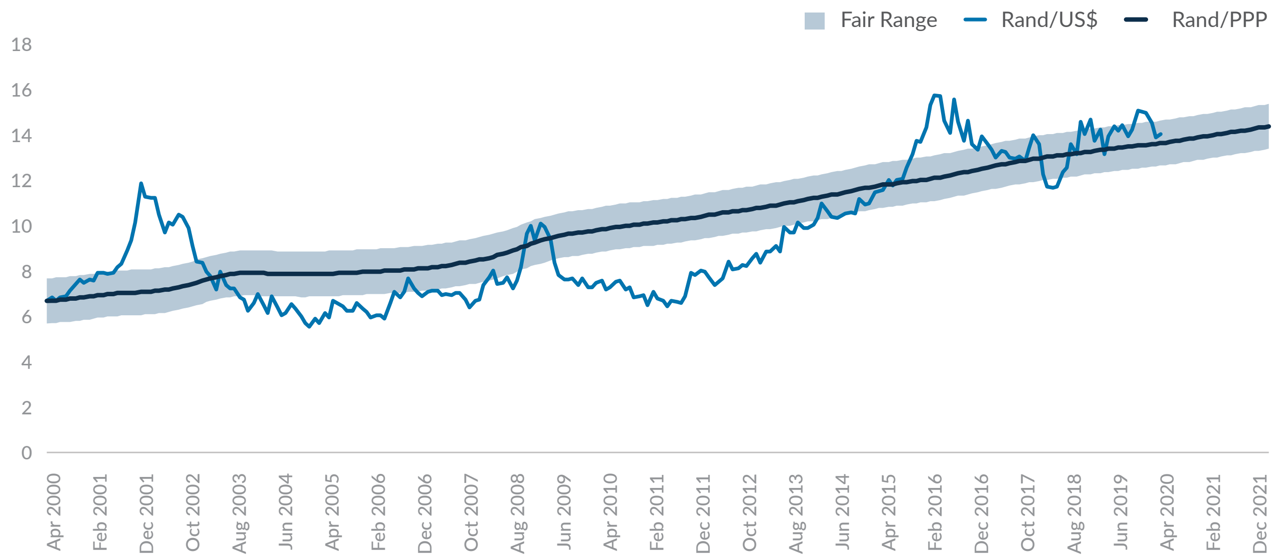
We retain our purchasing power parity (PPP) based model for estimating the fair value of the rand and we have extended this out by three months since our last Navigator's publication.

Our PPP-modelled value for the rand vs US dollar at the end of the next 12 months is R14.10/$1 (*See Figure 4*). We apply a R2.00 range around this to get a fair value range of R13.10 to R15.10/$1.

We note that the rand ended 3Q19 at R14.01/$1, which would imply a 1% weakening to get to the mid-point of our fair range at the end of 2020. We expect that 2020 will be particularly volatile as the risks around rating actions, fiscal deficits and politics all play out domestically. Global factors are probably more aligned towards being supportive of the rand, but with elections and geopolitical risks keeping the currency markets volatile.

Figure 4: Actual rand/US dollar exchange rate vs rand PPP model

Source: Thomson Reuters, Anchor



GLOBAL EQUITY MARKETS

We enter 2020 with global equity markets reflecting a mirror image of the start of 2019. While the end of 2018 saw the market nosedive (a 9% drop in December 2018), global markets rallied into the 2019 year-end, giving the MSCI World Index (+27.7% YoY) its best year of the decade. We are currently experiencing a liquidity driven bull market and, while momentum might well take the market higher, the risks of a shorter-term correction are increasing. We are comfortable remaining long-term investors in the global equity market at current (relatively high) valuations but would be strategic with the deployment of new capital into the market.

An equity return in the mid-single-digits is our base-case scenario for the year. This will be highly reliant on earnings growth materialising as projected by the market, since the capacity for a further increase in multiples seems limited. Market consensus earnings growth is in the region of 20% for 2020, although this includes several once-off factors and underlying growth is projected to be around 10%. The less bullish market commentators believe this could be aggressive, which is the primary risk for the year.

The last quarter of 2019 saw the market dismiss virtually all risks and in early 2020 even missiles and drone attacks in the Middle East have not dampened market enthusiasm. The biggest drivers of the market have been monetary policy easing (which is likely to continue), a more positive outlook for trade tensions and a lack of alternatives in a low-yield world. There has been little earnings momentum for the past six months.

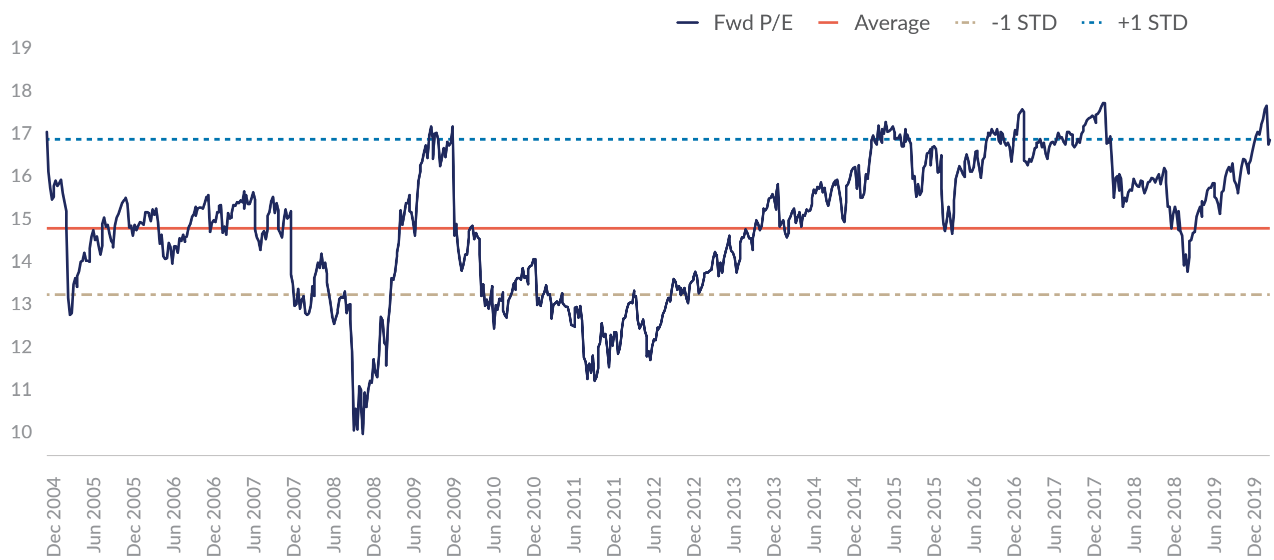
Growth shares in the US have been the winning category for an extended period, but after material sustained outperformance, it makes sense to be increasing exposure to Europe and EMs. A slight change in bias towards value shares also looks warranted, although our investment philosophy supports growth shares over time. The run-rate turnover growth rate of around 17% for the big global tech companies is massive and we remain positively disposed to this segment of the market. We remind readers that tech is now 25% of global markets and generating piles of cash.

Europe appears to have improving growth momentum, although we are hesitant to invest too heavily in companies whose longer-term growth potential is limited. We are upweighting the UK as December brought the prospect of some clarity to the UK's plans for exiting the European Union (EU) as UK voters delivered a strong mandate to Prime Minister Boris Johnson to proceed with his proposal of exiting by the end of January 2020. Johnson's Labour government saw its representation in Parliament lifted from 46% to 56% as a result of the December election, giving them the comfortable majority needed to execute Brexit. Brexit clarity helped the British pound continue a rally which saw it rise over 10% since its August lows when the UK faced a real possibility of leaving the EU without a deal.

Figure 5 below shows the MSCI World Index at PE multiple levels of 17.2x, which is one standard deviation above the 15-year average. This would warrant some caution, although markets can stay at relatively elevated valuation levels for extended periods if earnings growth is maintained. We will be assessing this carefully.

Figure 5: MSCI World fwd PE

Source: Bloomberg, Anchor



GLOBAL EQUITY MARKETS
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Figure 6 below shows the different market segments and valuations. EM earnings growth is projected to be strong for the next two years, which would probably result in strong market performances. The biggest risk to this outcome is geopolitical tensions rising, pushing up the oil price and stoking inflation.

Figure 6: Bloomberg consensus forecasts for global equity markets' earnings growth
Source: Bloomberg consensus

	Earnings Growth		FWD P/E		
Date	YR 1 (%)	YR 2 (%)	Current	YR 1	YR 2
MSCI WORLD INDEX	19.9	9.6	17.3	14.5	13.2
MSCI EM INDEX	17.5	13.8	13.3	11.3	10.0
MSCI ALL COUNTRY WORLD INDEX (10% EM)	19.6	10.2	16.7	14.0	12.7
S&P 500 INDEX	16.6	10.8	18.8	16.1	14.5

We are in the midst of a strong bull market and it is always difficult to call the top. The logical approach is to gradually reduce exposure and redeploy capital on pullbacks. However, for long-term investors, trying to time the market is often not a value-added approach and we are still able to identify attractively priced growth shares to construct an attractive portfolio. And remember … the unpredictable president of the US needs the market to be flying towards the end of the year to nudge voters to put an X in the Trump box when the November US election takes place.

GLOBAL BONDS

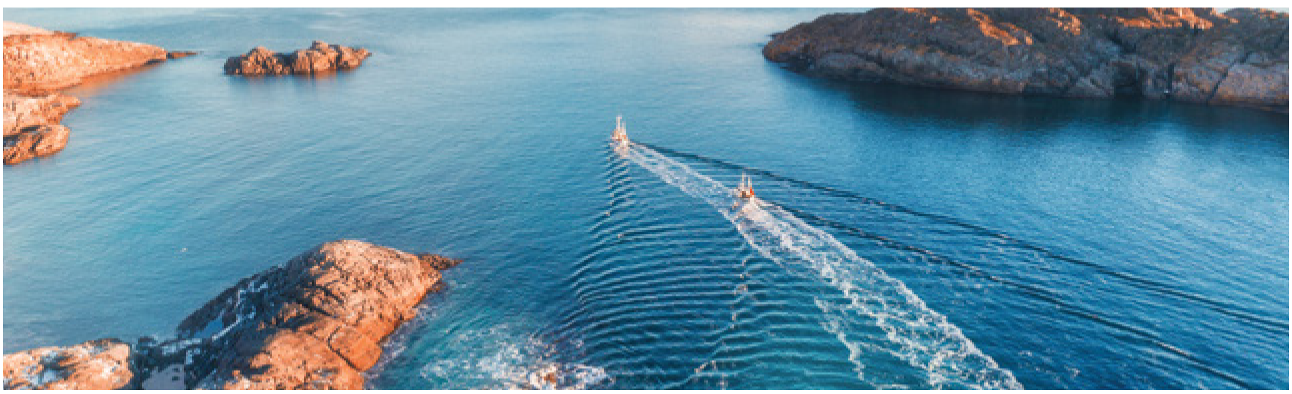
At the beginning of the previous quarter (3Q19) as we contemplated what could happen to US interest rates over the next twelve months, we were faced with that harbinger of doom, an inverted US yield curve, and a market expecting three rates cuts by the end of 2020. We got one of those rate cuts (in October) and financial markets have subsequently moderated expectations, with less than a 30% chance of getting both other cuts by year-end and only a 70% chance of getting at least one more cut in 2020. The US yield curve has since normalised with US 10-year government bond yields trading about 0.3% higher than US 6-month government bond yields (the widest that spread has been since 2018). Part of the calm in interest rate markets has come from the Fed action to alleviate short-term funding problems.

We see no reason to change our expectations from three months ago which are that we'll see one more rate cut from the Fed this year.

The Fed has started to increase the size of its balance sheet again, something it theoretically needs to do in the normal course of business to counteract the increasing supply of physical US dollar cash in the system – the cash supply typically grows in line with nominal GDP growth. The Fed is at pains to point out that this increase in the size of its balance sheet is not quantitative easing (QE) and, while in theory they are correct, in practise it's a case of "a rose by any other name would smell as sweet." This injection of additional liquidity has gone a long way towards easing financial market conditions.

So, with the major global central banks all back to providing regular liquidity to financial markets and relatively low expectations for changes in monetary policy, we think that geopolitics is the only issue that could occasionally derail the relative calm in markets. We see no reason to change our expectations from three months ago which are that we'll see one more rate cut from the Fed this year (probably mid-year as US politicking reaches a crescendo before the presidential election). We expect that with Christine Lagarde newly installed as the head of the European Central Bank (ECB) there will be few surprises as she errs on the side of caution in her first year in the job. So, with everything remaining relatively sanguine at global central banks, we see no reason to tinker with our 12-month US 10-year government bond yield forecast, leaving it at 1.9% and giving investors a total return of 1% in US dollar terms over the next 12-months.

In corporate bonds, we've seen a strong rally again in the latter half of 2019 and US investment grade credit spreads are back to below 1% for the first time since the euphoria of early 2018. We think this is unsustainable and we continue to expect a gradual, late-cycle deterioration in credit quality and spreads resulting in only a 0.4% total return in US dollar terms from US investment-grade bonds over the next twelve months.



GLOBAL PROPERTY

Real estate was one of the worst-performing asset classes in the final quarter of 2019. In fact, real estate was the only S&P 500 sector to end the decade with a negative quarter. US long-term interest rates climbed 0.25% during the quarter as the Fed delivered a liquidity injection to deal with short-term funding problems and the US and China took some baby steps towards a trade deal. Real estate stocks generally struggle when rates are rising and that explains a lot of what happened in 4Q19.

The US was the region hit hardest in 4Q19 and besides the headwind from rising rates, there were some sectors that continued to struggle. Earnings results from health care real estate investment trusts (REITs) showed that challenges resulting from low occupancy rates and costs growing faster than revenues remained a problem. The enactment of new legislation on rent controls for high-cost West Coast markets and New York City will also create a slight headwind to rental growth for some of the larger US residential REITs and a pick-up in store closings showed that the pain is far from over for US retail REITs. On the other end of the spectrum, UK REITs had a stellar quarter, up over 20% in US dollar terms as the UK moved towards the realistic prospect of an orderly Brexit.

The spread of dividend yields over bond yields is on the high-end of what's typical and so it's likely we'll see that gap close over time, although with at least part of that narrowing coming from higher bond yields. We think that it's unlikely we'll see a meaningful re-rating in developed market REITs over the next twelve months. That leaves us expecting a total return in US dollar terms from the asset class of about 5.9%, with 3.9% coming from yield and the rest from income growth.

Expected Returns on Underlying Assets

The table below summarises our return estimates for the major asset classes.

Equity	PE1	E2 g (%)	Exit PE	Div (%)	Return (%)	ZAR (%)	ZAR Return (%)
LOCAL EQUITY	11.1	6.3	11.1	3.8	10.1	-	10.1
GLOBAL EQUITY	16.0	10.6	15.1	2.8	7.0	0.6	7.7
Developed Markets	17.4	10.0	16.4	2.6	6.4	0.6	7.0
Emerging Markets	12.5	12.0	11.8	3.0	8.7	0.6	9.4

Bonds, Property & Cash	Yield (%)	Capital (%)	LC Return (%)	ZAR (%)	ZAR Return (%)
BONDS					
Local Government Bonds	8.3	0.8	9.0	-	9.0
Global Government Bonds	1.8	-0.8	1.0	0.6	2.7
Global Corporate Credit	2.9	-2.5	0.4	0.6	2.0
PROPERTY					
Local Property	9.8	0.3	10.1	-	10.2
Global Property	3.9	2.0	5.9	0.6	6.5
CASH					
Local	6.0	0.0	6.0	-	6.0
Global	0.7	0.0	0.7	0.6	1.3

Note: Sector weightings are by Market Capitalisation; Global Equity benchmark is MSCI World; "PE1" is 12 month forward PE; "E2 g%" is our estimate of earnings growth over the 12 month period, commencing in 12 months time; "exit PE" is our estimate of the PE multiple in 24 months time; "Div %" is our estimate of the dividend yield over the next 12 months; "Return" is our return estimate, over the next 12 months, implied in the tables assumptions about earnings growth, dividends and changes in PE multiples; global markets are estimated in USD, local markets in ZAR; "ZAR" is the currency effect of translating into ZAR; "ZAR Return" is our estimate of ZAR market returns over the next 12 months as implied in the other columns of this table. Benchmark SA bonds are the South African 10 year government bond; The Benchmark Offshore Bonds are the US 10 Year Government Bond, and the Bloomberg Global Investment Grade Corporate Bond Index; The Local Property benchmark is the JSAPY Index; Offshore Property is the S&P Global REIT Index. "Capital " is our estimate of the capital appreciation or depreciation of an instrument over the next 12 months; "LC Return " is our estimate of the total return, i.e. yield + capital, that the instrument will generate over the next 12 months in its local currency; "ZAR" is our estimate of the currency effect of translating non-ZAR yields into ZAR; "ZAR return" is our estimate of the "LC Return" in ZAR.

ANCHOR INSIGHTS

In this section, staff from across Anchor provide insights into our thinking, strategy and view of the world. This quarter, Peter Little asks whether SA has just experienced its "Lost Decade"; with technology and internet sectors having become a significant share of the total global equity market, David Gibb discusses investing in the tech industry; Seleho Tsatsi questions whether the video game industry is destined for a streaming revolution; Roy Hannington looks at how a nation's mindset can be changed from a generation that spends to one that saves; Lee Cairns explores long-term investing in a world of instant gratification; and, finally, James Bashall scrutinises our behavioural biases in a SA context.

ANCHOR INSIGHTS

Did South Africa just experience its "Lost Decade"?

Written by: **PETER LITTLE**
Fund Management

Peter manages the Anchor Global Stable Fund and co-manages the Anchor Managed Fund and has been with Anchor since November 2013. Prior to joining Anchor, Peter spent 16 years working for various global investment banks in New York and London, most recently as head of portfolio management for Credit Suisse's systematic hedge funds.

The term "Lost Decade" was originally coined to refer to Japan's economic downturn that lasted throughout the 1990s, when a Japanese stock market and real estate bubble burst resulting in a debt crisis and a decade of deflation and sub-par economic growth. The term was then recycled to describe the US stock market after the first decade of the 21st century saw the S&P 500 Index deliver a negative total return of 9.1% (-24.1% excluding dividends).

The trouble for the S&P 500 in its lost decade was mostly just random timing, with the decade bookended by two major earnings collapses, the "tech bubble" to start the decade (earnings down 21% in 2001) and the global financial crisis (GFC) to end the decade (earnings down 36% in 2008).

Although that decade still saw the S&P 500 Index grow earnings by an aggregate 1.6% p.a., the valuations leading into the decade were so elevated from the "tech bubble", that a de-rating in valuation was inevitable and ultimately the source of the negative returns for the decade.

It now seems perhaps appropriate that SA takes ownership of that moniker for the most recent decade.

After a dismal period for the local economy and domestically focussed stocks, it now seems perhaps appropriate that SA takes ownership of that moniker for the most recent decade.

The local bourse has historically been one of the best places to generate returns, with the most recent edition of the global investment returns yearbook published by Credit Suisse and the London Business School showing that in local currency SA's stock market is the best performing over the previous 118 years dating back to 1900.

Even in US dollar terms it's the third-best performing stock market over that period.

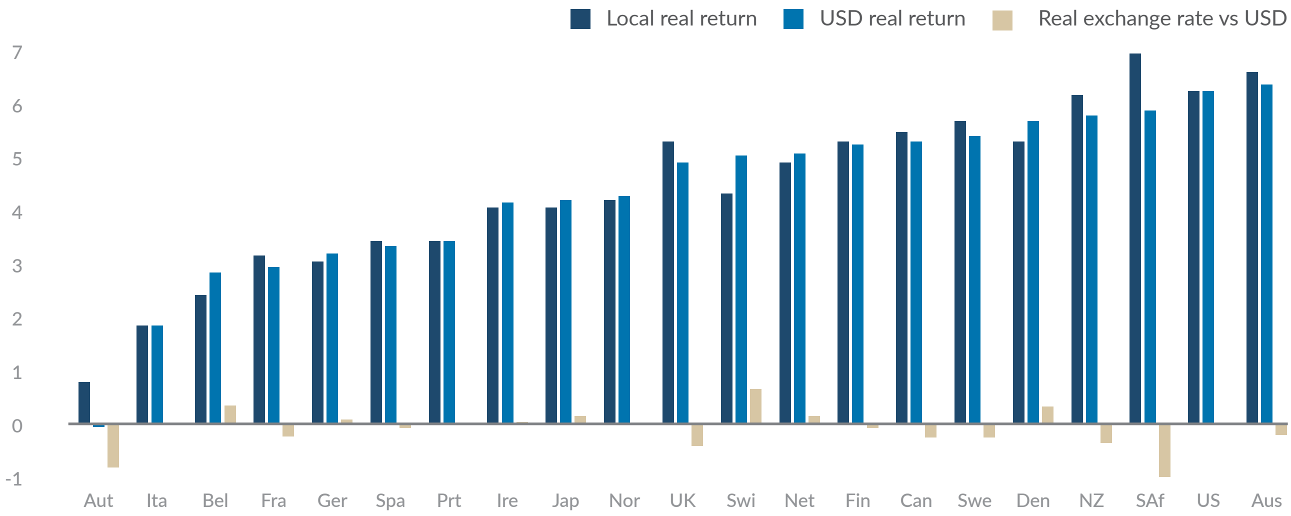
Figure 1: S&P 500 annualised performance

Source: Bloomberg, Anchor

Date	Earnings Growth (%)	Income (%)	Rating (%)	Total Return (%)
2000 - 2009 (CAGR)	1.6	1.9	-4.5	-0.9

Figure 2: Real annualised equity returns (%) in local currency and US dollar, 1900-2018

Source: Elroy Dimson, Paul Marsh and Mike Staunton, Triumph of the Optimists, Princeton University Press 2002 and Global Investment Returns Yearbook, Credit Suisse, 2019.



Certainly, more recently it hasn't felt like the best place to be invested, though over the last decade its kept pace with major global benchmarks (and significantly outperformed its EM peers). So, the issue it seems is not really a lost decade, but just a tough last few years.

Figure 3: Total return (annualised) for select global markets vs the Capped Swix, 2010-2019

Source: Bloomberg, Anchor

Date	MSCI World (%)	S&P 500 (%)	MSCI EM (%)	SWIX (%)	All Share (%)	Capped SWIX (%)
2010 - 2019 (CAGR)	10.1	13.6	4.0	11.2	10.9	10.8

Figure 4: Total return (annualised) for select global markets vs JSE, 2010-2014 and 2015-2019

Source: Bloomberg, Anchor

Date	MSCI World (%)	S&P 500 (%)	MSCI EM (%)	SWIX (%)	All Share (%)	Capped SWIX (%)
2010 - 2014 (CAGR)	10.9	15.4	2.1	17.8	15.8	17.8
2015 - 2019 (CAGR)	9.4	11.7	6.0	4.9	6.2	4.3

The composition of the local bourse has done a lot to mask the pain felt by domestic companies more directly exposed to the dire local economic growth malaise. In the first half of the decade, SA Inc. companies were up over 20% p.a. and small-cap stocks (also predominantly exposed to the local economy) were up 14% p.a. Commodity companies were the ones holding the local market back, particularly gold and platinum stocks. While Naspers was up about 40% p.a. in the first half of the decade it only averaged 6% exposure in the index, so it wasn't as meaningful a contributor as it has become since then.

Figure 5: FTSE JSE SWIX Index compound annual growth rate, 2011-2014

Source: Bloomberg, Anchor

Description	Avg Wgt (%)	Contribution (%)	Total Return (%)
SA Inc	45.9	11.0	22.6
Banks	11.2	1.8	18.8
Insurance	4.3	1.0	29.4
Other Financial	1.6	0.5	38.9
Retail	7.6	1.7	25.5
REIT	2.8	0.5	19.8
Other	18.4	3.6	21.6
Rand hedge	11.3	2.8	28.6
General	10.6	2.7	29.5
REIT	0.7	0.1	16.7
Small Cap	10.7	1.3	14.2
General	9.2	1.0	13.0
REIT	1.4	0.3	23.0
Materials	26.3	0.4	0.4
Gold	2.4	-0.2	-11.9
Platinum	4.1	-0.5	-15.3
Diversified	11.7	0.2	0.2
Forestry & Paper	1.2	0.3	25.6
Chemicals	0.7	0.1	18.5
Energy	5.9	0.6	11.9
Other	0.5	-0.1	-15.0
Naspers (incl. Prosus)	5.9	2.2	39.1
Total	100.0	17.8	17.8

The situation basically reversed in the second half of the decade. Commodity companies delivered a third of the index returns, with gold and platinum companies up over 20% p.a. Naspers was up 18% p.a. (less than half of what it did in the first half of the decade), but it constituted a fifth of the index exposure and 60% of the index return in the second half of the decade. Small-cap stocks were disastrous, including a few that imploded (e.g. Tongaat and EOH) and Steinhoff who's accounting scandal turned it into a small cap and wiped over 2% off the index return. SA Inc. shares were up just over 2% p.a. for the latter half of the decade, with the banks the only sector to deliver inflation-beating returns (the aggregate bank returns were slightly flattered by Capitec, which was up 36% p.a. over that period).

Figure 6: FTSE JSE SWIX Index compound annual growth rate, 2015-2019

Source: Bloomberg, Anchor

Description	Avg Wgt (%)	Contribution (%)	Total Return (%)
SA Inc	41.5	0.7	2.2
Banks	11.4	0.8	8.4
Insurance	4.9	0.2	4.1
Other Financial	2.0	0.1	3.9
Retail	6.9	0.1	2.1
REIT	2.3	0.1	4.2
Other	14.0	-0.5	-3.7
Rand hedge	13.7	-0.1	-1.3
General	11.6	0.1	-0.5
REIT	2.1	-0.1	-4.7
Small Cap	9.7	-0.8	-10.4
General	7.0	-0.8	-14.5
REIT	2.7	-0.0	-0.4
Materials	15.3	1.7	11.1
Gold	1.8	0.4	21.2
Platinum	1.4	0.5	21.5
Diversified	5.5	0.7	12.8
Forestry & Paper	2.0	0.2	11.4
Chemicals	0.4	-0.0	-5.3
Energy	4.2	-0.1	-3.8
Other	0.1	-0.0	-41.6
Naspers (incl. Prosus)	19.8	2.9	18.1
Total	100.0	4.8	4.8

As can be expected in a five-year period, which saw the SA economy average only 0.9% p.a. of economic growth, the lack of earnings growth was the biggest source of pain for SA Inc. shares. Notably, mid- and small-cap shares saw earnings go significantly backwards over the period and general retailers eked out some barely positive earnings growth.

Figure 7: SA mid-cap, small-cap and general retail performance (annualised)

Source: Bloomberg, Anchor

	MID CAP				SMALL CAP				GENERAL RETAIL			
Date	Earnings Growth	Income	Rating	Total Return	Earnings Growth	Income	Rating	Total Return	Earnings Growth	Income	Rating	Total Return
DECADE (CAGR)	1.4	4.0	6.9	12.3	N/A	4.2	N/A	9.3	8.5	4.3	-1.0	11.9
2010 - 2014 (CAGR)	12.0	4.2	3.0	19.2	4.5	4.1	11.2	19.8	14.3	4.9	7.6	26.8
2015 - 2019 (CAGR)	-8.2	3.7	10.3	5.9	-150.5	4.2	145.9	-0.3	3.0	3.7	-8.1	-1.3

We note though that, within the retail sector, there were diverging fortunes, with the likes of Mr Price and Shoprite struggling to maintain positive earnings growth in the latter half of the decade, while Clicks continued to deliver, despite the environment.

Figure 8: Select retail sector stocks performances (annualised)

Source: Bloomberg, Anchor

	MR PRICE				SHOPRITE				CLICKS			
Date	Earnings Growth	Income	Rating	Total Return	Earnings Growth	Income	Rating	Total Return	Earnings Growth	Income	Rating	Total Return
DECADE (CAGR)	15.6	4.3	2.1	22.0	7.4	2.6	-0.7	9.3	15.1	3.3	10.0	28.4
2010 - 2014 (CAGR)	26.9	5.0	19.3	51.3	12.3	2.9	8.5	23.6	15.3	3.7	8.9	28.0
2015 - 2019 (CAGR)	5.3	3.5	-10.4	-1.6	2.6	2.3	-8.4	-3.4	14.8	2.9	11.1	28.8

Banks did well to generate high single-digit earnings growth in the second half of the decade, not quite the mid-teens earnings growth from the first half of the decade, but decent under the circumstances. The fact that there has been a reasonable de-rating in the large bank shares in the last few years probably reflects investors' scepticism of their ability to maintain that level of growth without a decent economic recovery.

Figure 9: Banking sector and select banking stocks performances (annualised)

Source: Bloomberg, Anchor

	BANKS				STANDARD BANK				FIRSTRAND			
Date	Earnings Growth	Income	Rating	Total Return	Earnings Growth	Income	Rating	Total Return	Earnings Growth	Income	Rating	Total Return
DECADE (CAGR)	11.3	5.0	-2.3	14.0	8.9	4.9	-3.9	10.0	17.0	5.5	-2.3	20.2
2010 - 2014 (CAGR)	14.4	4.8	0.3	19.5	11.1	4.4	-4.0	11.4	27.6	6.1	-1.4	32.3
2015 - 2019 (CAGR)	8.3	5.3	-4.7	8.8	6.9	5.5	-3.8	8.5	7.2	5.0	-2.9	9.3

	NEDBANK				ABSA				CAPITEC			
Date	Earnings Growth	Income	Rating	Total Return	Earnings Growth	Income	Rating	Total Return	Earnings Growth	Income	Rating	Total Return
DECADE (CAGR)	11.0	5.0	-5.4	10.6	6.1	6.3	-4.6	7.8	27.6	2.9	6.8	37.3
2010 - 2014 (CAGR)	16.1	4.5	-1.1	19.4	7.9	5.9	-0.5	13.2	35.5	3.5	-0.2	38.8
2015 - 2019 (CAGR)	6.1	5.6	-9.2	2.5	4.4	6.7	-8.4	2.7	20.1	2.2	13.4	35.8

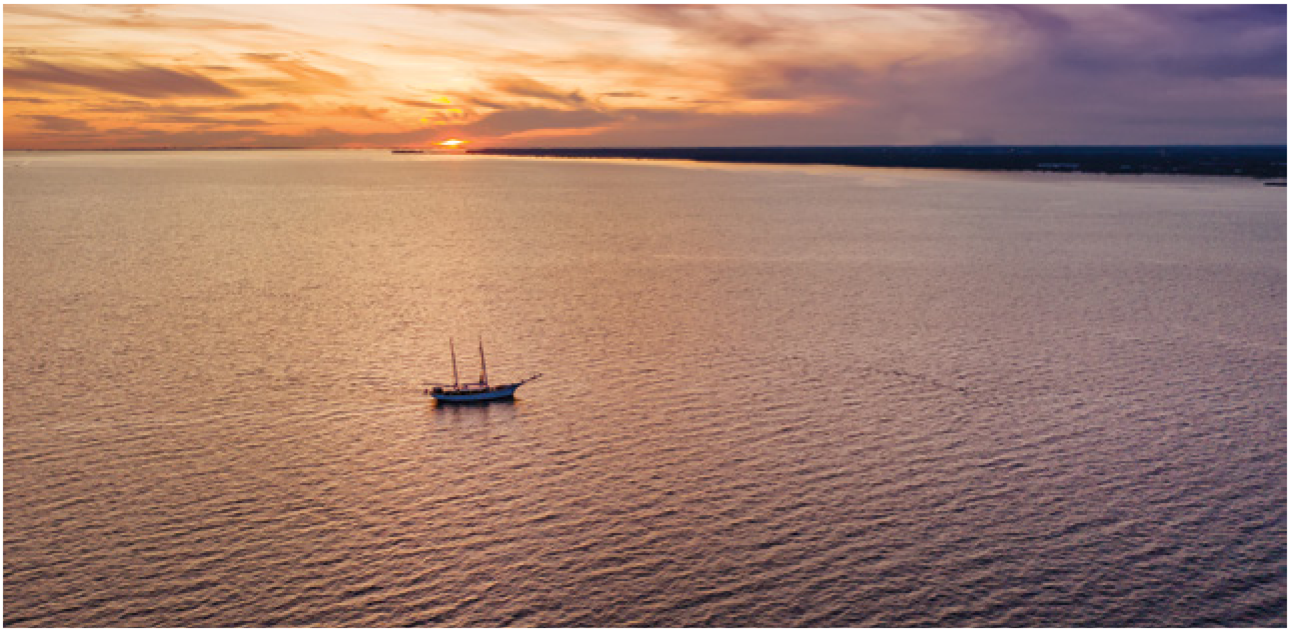
So, we've seen what a struggle it's been for domestically focussed SA companies in the latter half of the decade. It's not been a Lost Decade, but the last half of it has been tough. That's all in the past, the more important question is "where to from here?". We refer to renowned behavioural psychologist, Daniel Kahneman, often in our research. He's done some phenomenal empirical work on understanding the tricks our minds can play on us and, in finance, understanding those biases can help us make more rational decisions. He did some interesting experiments with patients going through colonoscopy procedures that helped him better understand "recency bias" – the propensity for our memories to place too much significance on recent painful experiences and ignore the entire experience. We certainly run the risk of making that mistake with local equities – the best-performing asset class going back to the turn of the previous century, but one of the most painful experiences for investors more recently.

Figure 10: S&P 500 returns (annualised)

Source: Bloomberg, Anchor

	S&P 500			
Date	Earnings Growth	Income	Rating	Total Return
1990 - 1999 (CAGR)	7.6	2.5	8.4	18.6
2000 - 2009 (CAGR)	1.6	1.9	-4.5	-0.9
2010 - 2019 (CAGR)	9.8	2.3	1.5	13.6

For a recent example of the opportunity cost of capitulating after an unusually tough period, we only need to look at the last candidate for "Lost Decade" - the S&P 500 Index. If you had given up on the S&P 500 after the Lost Decade, you would've missed out on a more "normal" decade thereafter with mid-teen annual returns.



ANCHOR INSIGHTS

Investing in tech

Written by: DAVID GIBB
Fund Management

David co-manages the Anchor Global Technology Fund (and is the manager of the Anchor Worldwide Flexible Fund) and has been with Anchor since July 2012. Prior to joining Anchor, David was at Stanlib.

Technology and internet sectors (tech) have become a significant share of the total global equity market capitalisation.

Tech is close to accounting for *30% of US stock market value and 20% of global stock markets' value*. SA is in line with the global average, with SA's sole major tech company – Prosus/Naspers – representing some 20% of our market.

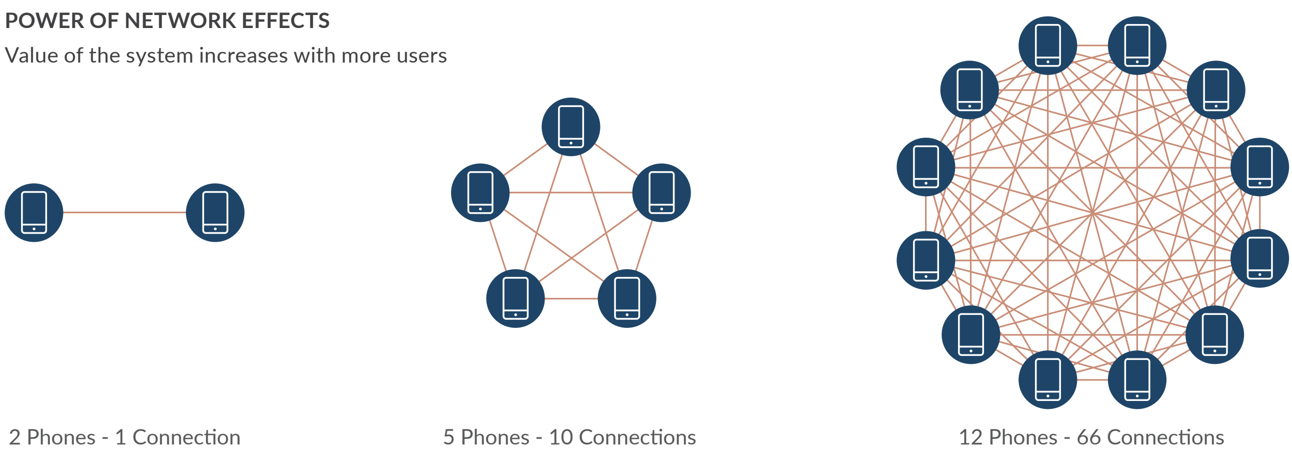
At Anchor, we believe that our clients should be offered the opportunity to invest directly in this exciting sector. The prevalence of network effects in the tech sector has made it an extremely lucrative area for investors – over the long term. Fortunately, Anchor has the appropriate in-house experience (Anchor's Global Tech unit) to offer this opportunity to our clients, hence the launch of the Anchor BCI Global Technology Fund in June 2019.

WHAT MAKES THE TECH SECTOR DIFFERENT?

Network effects are probably the most important attribute. As Brian Arthur described in his seminal piece in the *Harvard Business Review* in 1996 entitled '*Increasing Returns and the New World of Business*', knowledge-based industries such as tech work differently to traditional processing industries. He wrote, 'increasing returns are the tendency for that which is ahead to get further ahead, for that which loses advantage to lose further advantage.'

Figure 1: Increasing returns and the new world of business

Source: The Center for Global Enterprise

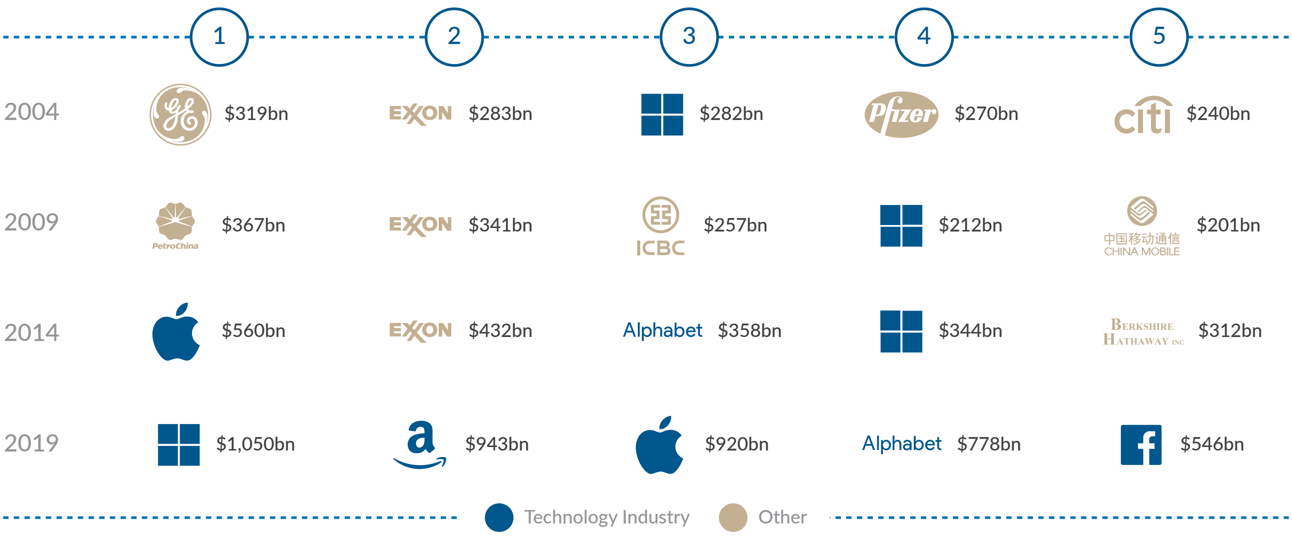


Think of the social media site Facebook in the 2000s as it strove to gain users. At first, the company targeted the university campuses before spreading its net wider – with the number of users soaring as the depth and breadth of the Facebook community became better and better. Who wanted to remain on MySpace and Friendster when everyone was shifting to Facebook? What happened over time was that users began to lock-in to Facebook and abandon other social media sites. If locking-in happens *en masse* (like Microsoft's dominance in PC software), then tech products tend to establish monopoly positions in their markets.

Network effects partly explain why the five largest companies in the world by market capitalisation are all in the tech sector (I am cheating by ignoring the recent listing of Saudi Aramco – the Saudi state oil business – which is now the largest company in the world).

Figure 2: The rise of tech platform companies – displacing oil and banking*

Source: Visual Capitalist



*Market cap in 2Q of each year.

FOR INVESTMENT ANALYSTS, RESEARCHING THE TECH SECTOR REQUIRES A DIFFERENT MINDSET

Most of us were schooled in the Benjamin Graham – *Intelligent Investor* – approach to understanding traditional processing companies.

Think of this as the East Coast (of the US) approach to investing, where company balance sheets are important and where income statements lend themselves to calculating price earnings (PE) ratios and returns on equity (ROE).

We spent less time on the somewhat racy approach on the West Coast (i.e. Silicon Valley) of user growth, lock-in and delayed monetisation of the fast-growing tech companies.

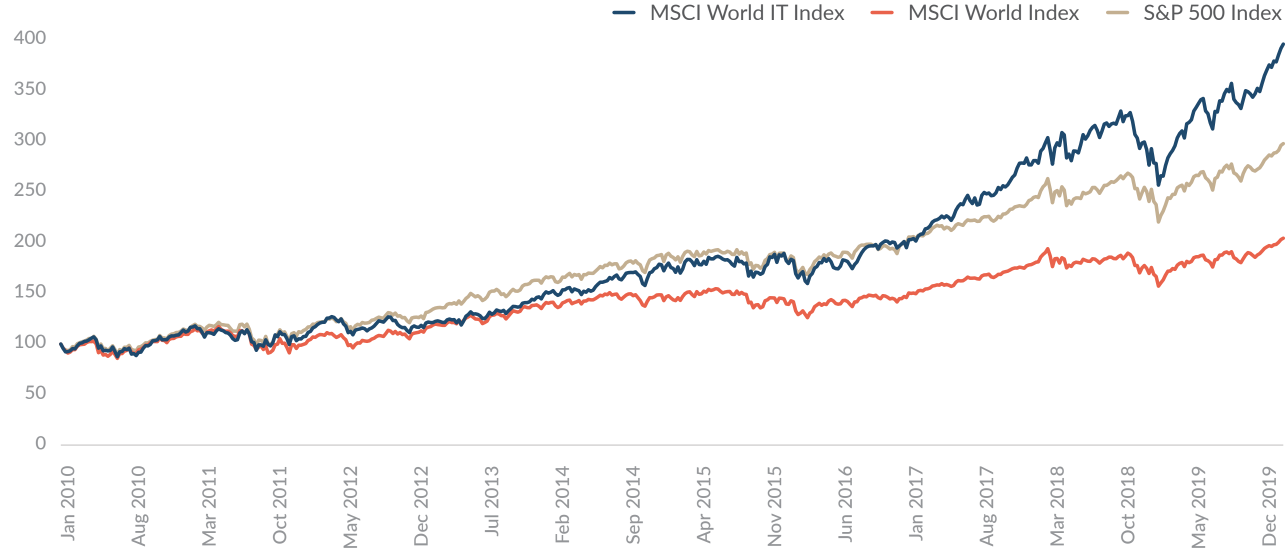
Here the balance sheets didn't seem to have many tangible assets and income statements were expensing vast amounts of money on research and development (R&D). Frankly, traditional financial statements don't provide a particularly insightful view on the world of a tech company.

Investors often struggle to be good at both the East Coast and West Coast approaches to investment partly because they don't realise that they require different mindsets.

With tech shares having performed so well over the past decade relative to the broader market – is it too late and too risky to invest now?

Figure 3: Tech is leading over 10 years

Source: Bloomberg



Unlike the tech bubble of 1999/2000, the valuation of technology companies in early 2020 is supported by strong underlying earnings. Although historic PE ratios are higher than the broader market, earnings expectations for the tech sector are higher than the broader market over the next three years.

Figure 4: Tech has higher growth

Source: Bloomberg

Date	Historic P/E	Expected earnings growth			
		2020 (%)	2021 (%)	2022 (%)	3yr CAGR (%)
MSCI WORLD IT INDEX	28.6	24.0	14.0	13.0	18.1
MSCI WORLD INDEX	20.6	20.0	10.0	8.0	13.8
S&P 500	21.7	17.0	11.0	8.0	16.2

There is no doubt that regulatory risks for the major tech platforms (Alphabet, Amazon, Apple and Facebook) have increased sharply in the past two years. With these tech firms having done more or less as they please in the past, the state is under pressure to reign them in. The question is how to do this. *The Economist* magazine expects a 'grinding war of attrition' over the next few years once regulators have established how to tackle the technology giants.

WHAT'S NEW IN TECH?

The Anchor BCI Global Technology Fund comprises core tech holdings (typically 70%-80% of the portfolio) and emerging tech holdings (20%-30% of the portfolio).

An area we are watching with great interest is quantum computing – the field of computing that will succeed classical computing.

Core holdings are companies that have established market dominance in their expanding fields. Examples include Alibaba, the e-commerce giant in China, and Alphabet, the search giant in the western world. Core holdings are, typically, profitable and highly innovative businesses – and, depending on how attractively they are priced on global stock markets, may represent large weightings in the portfolio.

Emerging holdings represent the newer areas in tech, like Delivery Hero – the online food delivery company. These businesses are far riskier investments and are weighted accordingly in the portfolio. But they offer enormous potential for value creation if they are later able to establish market dominance in a brand-new category.

An area we are watching with great interest is quantum computing – the field of computing that will succeed classical computing (i.e. the computers of today). Google recently claimed its experimental quantum chip had completed a specific calculation dealing with random numbers in 3 minutes and 20 seconds. The Google researchers estimated that it would have taken the world's most powerful supercomputer 10,000 years to reach the same result. Google, Microsoft, IBM and some smaller players are vying for an early lead in this new tech category. IBM is wanting to bring quantum computing into mainstream business use within the next ten years. It is possibly too early to pick a leader in this field, but we certainly will do so when, and if, this becomes apparent. Quantum computing will have profound implications for solving complex calculations about climate change, etc.

Since the 1970s we have seen three major trends in tech. These trends typically change every twenty years or so. The 1970s and 1980s was the time of *Integrated Circuits* – which facilitated computation at a level never seen before. This enabled the boom in personal computers. The 1990s and 2000s was the era of *Digital Networks* as computers and other devices became connected through various networks (fibre optic, wireless etc.). This facilitated offshoring and arguably boosted a strong period of globalisation. According to Brian Arthur, the 2010s and 2020s is the era of ubiquitous *Sensors*, providing enormous amounts of data that will fuel artificial intelligence. Computation, Connection and now Intelligence (AI) – and, arguably, the last of these major trends (i.e. AI) will have the greatest impact on the workplace.

CONCLUSION

The tech sector is a large component of global stocks markets. However, there are variations across the world with certain areas being heavily represented in tech, like the US (primarily Silicon Valley) and China (Beijing, Shanghai and Hangzhou), while other areas such as Europe and the UK are under-represented in tech. South Africa has one stellar platform company - the Naspers/Prosus group.

Network effects are prevalent in the tech world and this partly explains why the five largest companies in the US by market cap are all tech businesses.

Tech shares have performed better than the broader stock market over the past decade but, unlike the tech bubble of the late 1990s, this has largely been driven by strong earnings growth from the underlying companies. Market forecasts suggest this will continue in the years ahead. Alphabet, Amazon, Apple and Facebook are likely to face increased regulation in the future, which may curb certain of their activities.

Anchor is offering our clients direct exposure to this broad category through the Anchor BCI Global Technology Fund.

ANCHOR INSIGHTS

Is the video game industry destined for a streaming revolution?

Written by: SELEHO TSATSI
Investment Analysis

In 2013, Seleho completed his BCom in Economics and Finance at Wits University, where he received the SASFIN Securities Prize. The next year, he was awarded the Postgraduate Merit Award upon enrolment for Honours. Seleho joined Cannon Asset Managers in January 2015 and moved to Anchor in November 2015. He is a CFA charterholder.

The video game industry is unusual in that it remains the only major form of entertainment that has not fully transitioned to a streaming model. All other major forms of entertainment (TV, film and music) were disrupted in the 2010s by streaming services that offered access to, rather than ownership of, content. The music industry transitioned to streaming due in large part to Spotify and Apple Music. Home video, pay TV and cinemas were disrupted by streaming in the past decade by Netflix and Amazon Prime initially, with subsequent over-the-top (OTT) cinema and television content offerings coming from Apple and Disney towards the end of 2019. The video game industry, however, has not undergone a similar transition. While several video game streaming services exist, none have gained meaningful traction yet. In this note, we examine the viability of the video game industry moving towards a full streaming model. We find that the industry's large and growing addressable market, high proportion of revenue from digital channels, heavy sales concentration amongst major franchises and the emergence of free-to-play games makes a potential shift to streaming viable.

It appears likely to us that the c. $130bn global video game market is sizeable enough for the streaming opportunity in video games to be financially viable.

The video-game industry is big enough to make it attractive for large tech companies with the resources to offer streaming services to find it financially attractive to do so. Google launching its streaming service, Stadia, in November 2019, is the latest illustration of this. The gaming market is significant in size at over $130bn in annual revenue. The video game sector is also now the second-biggest subsector of the entertainment market, behind only pay TV. Indeed, the video game market is larger than the cinema box office and music industries combined and is also more than six times the size of the global music industry in terms of revenue. Given the fact that the $19bn worldwide music market was viewed as large enough for companies such as Spotify, Apple and Amazon to offer music streaming services, it appears likely to us that the c. $130bn global video game market is sizeable enough for the streaming opportunity in video games to be financially viable. Furthermore, not only is the videogame industry large, it is also growing quickly. The industry has grown by 12.6% p.a. from 2013 to 2018 (*see Figure 2*). This is a significantly faster rate than the music and film sectors, which grew by 5.2% and 0.3%, respectively, over the same period.

Figure 1: 2018 global entertainment spend by sector, $bn

Source: The Financial Times, Peel Hunt, GamesIndustryBiz, SuperData, IHS Markit

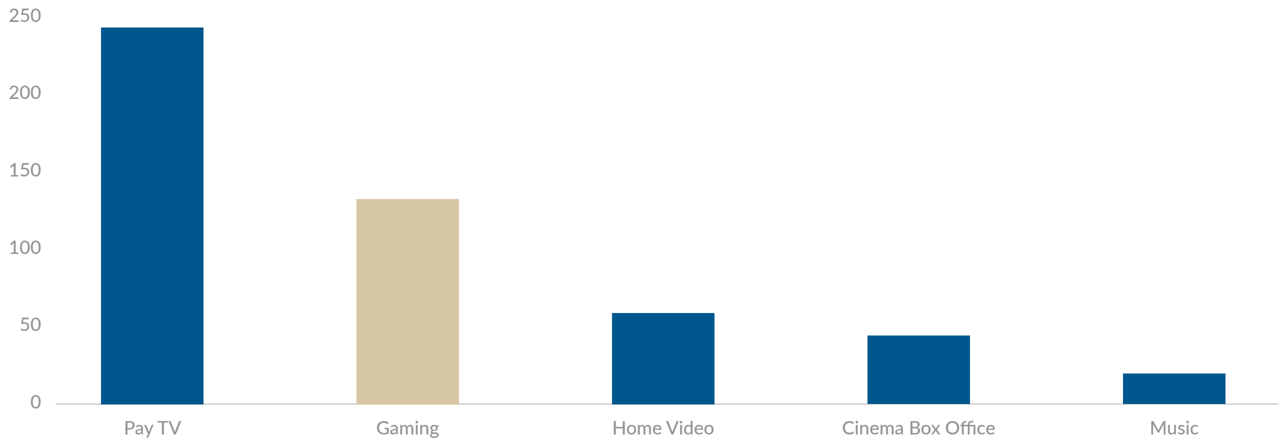
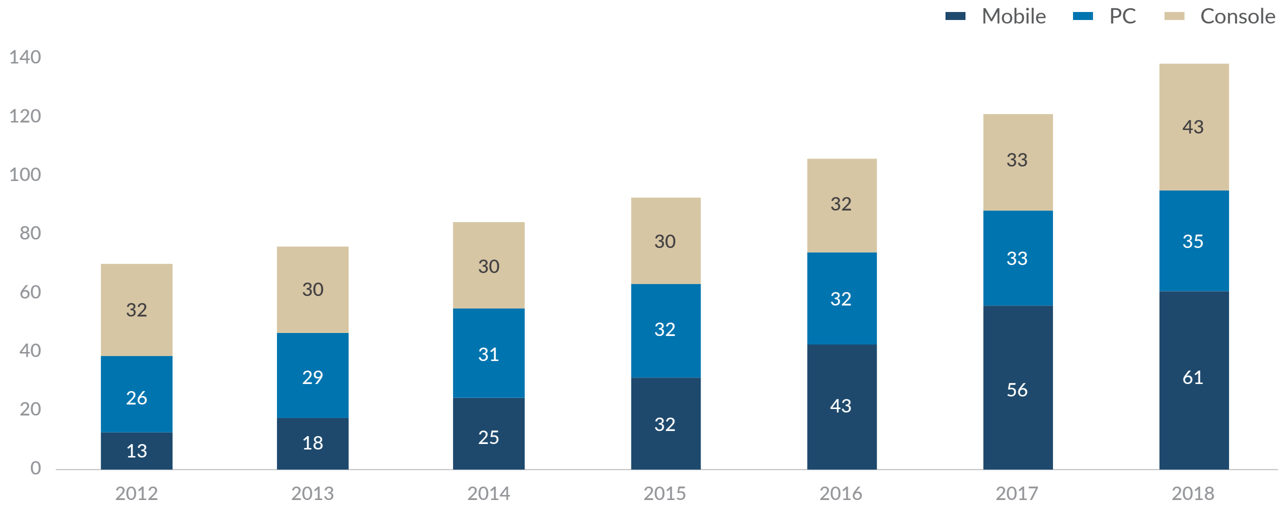


Figure 2: Global games market by segment, $bn

Source: NewZoo



The high proportion of video game industry revenue that is digital also makes a potential shift to streaming viable. *Figure 3* shows digital revenue as a percentage of total revenue for the three largest US video game publishers. From 2011 to 2019, digital revenue increased from less than 40% of revenue to between 60% and 80% of revenue. This trend increases the viability of video game streaming for two reasons: First, a high proportion of digital revenue indicates that consumers are already accustomed to engaging with video game content primarily via digital channels rather than through physical CDs; and second, this trend is positive for video game publishers' margins, which should increase the very same publishers' appetite to see the industry move towards streaming. *Figure 4* demonstrates the improvement in free cash flow margins for the three largest standalone US video game manufacturers from 2011 to 2019. We believe that the increasingly digital nature of revenue was an important contributor to this margin improvement.

Figure 3: Digital revenue contribution

Source: Company reports

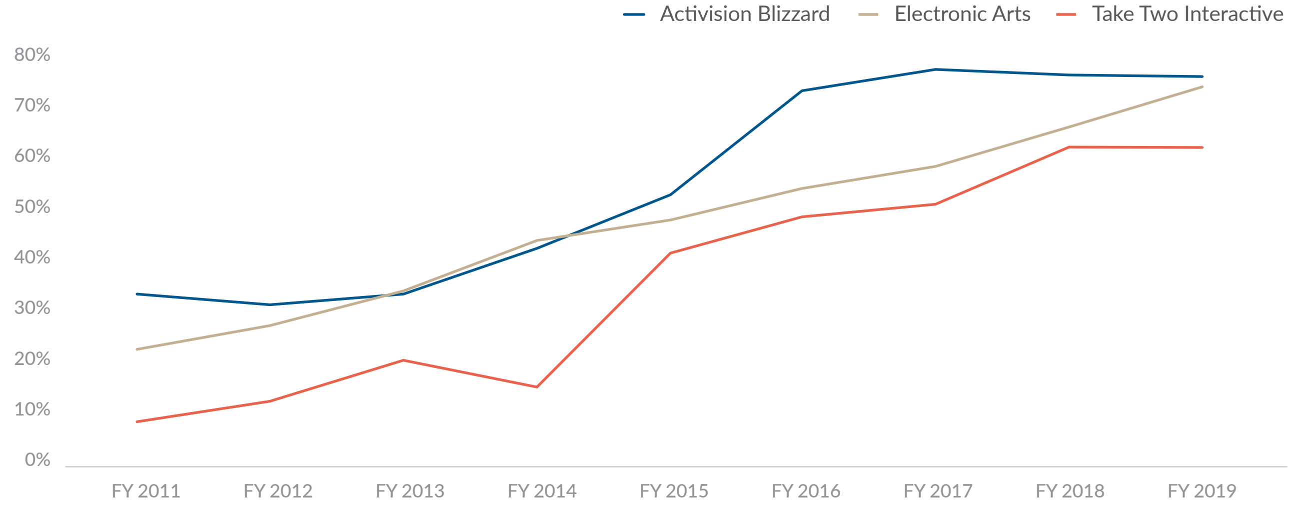
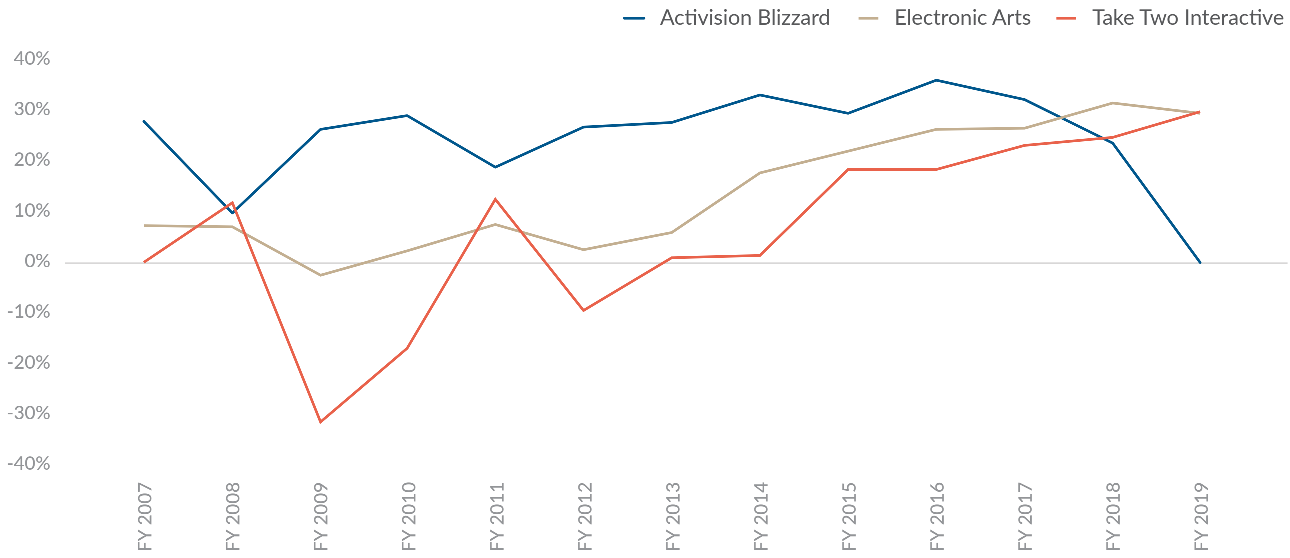


Figure 4: Free cash flow margin

Source: Company Reports



The heavy sales concentration among major franchises in the video game industry also makes the shift to streaming feasible. *Figure 5* illustrates the heavy sales concentration that characterises the industry. The top-ten titles accounted for 38% of US retail sales in 2018. This concentration of sales in major titles can also be seen in individual video game companies. As *Figure 6* shows, the large US video game publishers have a small handful of titles which contribute to between 40% and 60% of each's annual revenue. Traditionally, video game studios have had to focus on their biggest franchises because of the high degree of sales concentration amongst these titles. A streaming service would help to alleviate this issue by reducing the cost of distribution and allowing video game studios to devote more resources to niche audiences. As things currently stand, gamers are playing fewer games for longer periods of time as the industry becomes increasingly concentrated around major hit titles.

"Gamers are playing fewer games longer, creating and sustaining new franchises remains one of the most difficult tasks in the entertainment industry."

Bobby Kotick,
Activision Blizzard CEO
First quarter 2019 earnings call, Bloomberg

The incentive for gaming companies to risk financial and human capital to develop new games is low, especially given the industry's high sales concentration. Gamers are unlikely to divert portions of their gaming budgets for unknown, new titles if the business model remains one of ownership of, rather than access to, content.

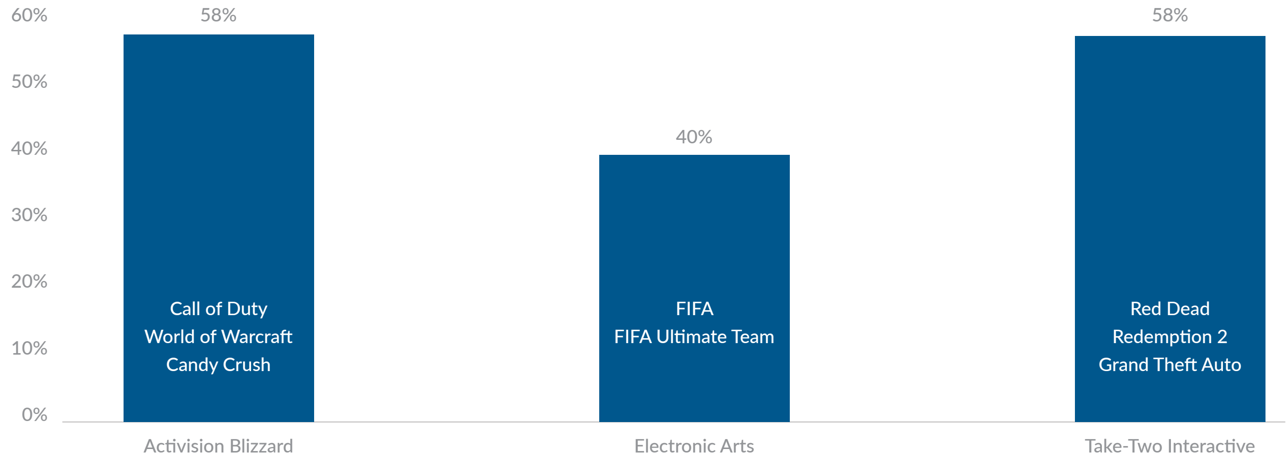
Streaming may potentially change this paradigm. Under a streaming model, gamers will be able to access a lesser known niche title without having to take on the risk of paying for it specifically and gaming companies can better serve these niche audiences.

Figure 5: 2018 US interactive entertainment sales

Source: Activision Blizzard, The NPD Group

Figure 6: 2018 US interactive entertainment sales

Source: Company reports



The emergence of free-to-play games makes a potential shift to streaming viable. In recent years, free-to-play titles such as *Fortnite* have disrupted the traditional business model of the industry.

"If I think about Battlefield 5... we were never truly able to catch-up...as our competitors continued to build momentum whether that was Fortnite or Red Dead Redemption 2 or Call of Duty"

Andrew Wilson, EA CEO
Third quarter 2019 earnings call, Bloomberg

Titles such as *Fortnite* can be played on multiple platforms (PC, console or mobile). Unlike traditional AAA titles such as *Call of Duty* (Activision Blizzard), *Battlefield* (Electronic Arts) or *Grand Theft Auto* (Take-Two Interactive), free-to-play games are not monetised by the gamer paying for the game upfront to access it. Instead, free-to-play games are monetised by gamers' in-game spending. Large publishers such as Activision Blizzard or Electronic Arts have worked to counteract the free-to-play phenomenon by offering free-to-play titles of their own. A shift to streaming would assist the major publishers in counteracting the free-to-play phenomenon. Publishers would no longer need to rely on consumers paying upfront for titles as they currently do. Instead, these companies could monetise their titles through subscription fees, giving consumers access to a wealth of content without requiring payment for individual titles.

Video games are unique in that they remain the only major form of entertainment to not have made a meaningful move towards streaming. In examining the viability of the video game industry moving towards a streaming model, we found that a potential shift to streaming is indeed viable due to the industry's large and growing addressable market, the high proportion of revenue from digital channels, heavy sales concentration amongst major franchises and the emergence of free-to-play games.

ANCHOR INSIGHTS

A generation that saves

Written by: **ROY HANNINGTON**
Portfolio Management

Roy is a portfolio manager at Anchor and has been with the business since 2014. Roy manages money on behalf of high-net-worth individuals and is a member of the portfolio management team.

How do we change a nation's mindset from one that spends to one that saves? It is something that will not happen overnight, but it can be done through education and discipline. Do you really need that new car or a bigger house?

We come across more and more middle-aged people with close to zero savings or investments, yet they have a big house in the "right" area, a luxury vehicle and went skiing in Europe over the festive season. Their home and car are both partially owned by the bank and the holiday was paid for with their credit card. The vast majority of the SA population are driven by a desire to have the latest, biggest and most expensive toys. We live in a world where everyone is chasing consumables and lifestyles that few can afford. Before the vehicle is upgraded or the deposit on the Easter break to Mauritius is paid, we should be considering "is this really necessary? … perhaps I should not incur the credit or better yet, simply save the money, as I may well need it in the future". Remember the power of compounding that Matthew Stroucken highlighted in his article entitled *The most difficult thing in investing – The power of compounding* in The Navigator - *Anchor's Strategy & Asset Allocation, 2nd quarter of 2019*? Well compounding works both ways, which means it works against you when you are paying high interest rates to service the debt.

Compounding really works against you if your credit used starts to increase or there is an increase in interest rates as the interest payment will increase month to month and start to compound negatively.

By having credit card or loan debt and accordingly being charged interest to service this debt, compounding is working in the wrong way for you. Most people are naive or simply ignore the interest rates being charged by banks. In fact, the information is not easily accessible, it is not your bank's selling point! Typically banks charge around 20% interest on a credit card if you use the credit granted to you. This rate skyrockets up to around 45% when micro/unsecured loans are issued. While credit cards can be extremely useful when one has an emergency or in certain circumstances, a necessary evil, far too many people are relying on their credit card for not only the splurge items mentioned above, but also for their day to day living expenses. According to the *National Credit Regulator* (*NCR*), there are currently 25mn active credit cards in SA, of those credit cards 10.23mn (40%) are behind in their payments. A Woolworths Gold credit card charges 21% interest pa. and a monthly fee of R50.43. By way of an example if you have used R40,000 of credit on a credit card and are charged 20% interest p.a., you will be paying R8,000 in interest p.a. Most people see this as only R666/ month, which is more than manageable. Compounding really works against you if your credit used starts to increase or there is an increase in interest rates as the interest payment will increase month to month and start to compound negatively.

So, how then do we become a nation that saves/invests instead of a nation that spends/consumes unnecessarily? Unfortunately, it is something that is not easily achieved and due to the tough economic climate in SA, more consumers are accessing personal loans and available credit card debt to support their day-to-day expenses. Far too many people in SA live beyond their means and are constantly trying to "keep up with the Joneses". This mindset needs to change especially for people who can't afford to "keep up with the Joneses". Debt is often referred to as a trap, since once you are stuck in it, it is really hard to get out of it.

An excellent practical example, we can all relate to is the following: If you purchased R3,600 worth of Apple shares in 2001 instead of using the R3,600 to purchase the original iPod, your R3,600 of Apple shares would be worth a staggering R868,000 today and I guarantee you that your iPod would have been trashed over a decade ago. This goes a long way to show the power of compounding.

The decision is always there to buy or to save/invest.

WHAT IS THE SOLUTION?

A member of the Anchor team could sit down with you to devise a strategic plan to reduce your debt, but this requires strict discipline and, while you may be compliant for a period without a complete change in mindset and approach to lifestyle, it is unlikely that the well thought out plan will result in a debt-free life. There is a desperate need for education at high school level or earlier about the advantages of living within your means, saving for the uncertain future that lies ahead and the wisdom of starting to build wealth early. Regrettably if we are no longer in high school, we have lost valuable time, as we get on in years, we have less time to accumulate wealth and less time for compounding to work for us, but it is not too late. I certainly wish someone had advised me to rather purchase Apple shares than the iPod which generated limited satisfaction.

ANCHOR INSIGHTS

Long-term investing in a world of instant gratification

Written by: **LEE CAIRNS**
Wealth Management

Lee is a wealth manager and has been with Anchor since June 2013. Prior to joining Anchor, Lee was a wealth manager at Investec for 9 years and worked for Credit Suisse and JP Morgan in London for 5 years.

2019 has been a year of the vague, the uncertain and even of fear. The SA political and economic context have done well to feed these emotions. We are also becoming increasingingly aware of the less-than-perfect world in which we live. US President Donald Trump continues to be, well, Trump and tariff wars against China serve only to add to our sense of uncertainty. And then we have the Brits. After their exhaustive and embarrassing zoo-like parliamentary drama, they finally reconfirmed that they want nothing to do with the EU. All of these factors have been an odd, albeit welcome, reminder that we are not alone in our struggles.

But politics and narcissistic world leaders aside, 2019 also brought with it one of the JSE's most significant events in over two decades: The transition of a portion of Naspers' assets onto the Rotterdam Stock Exchange. Considering that Naspers accounts for one-quarter of the total value of the JSE, this was indeed an event of enormous significance for almost every participant in and of the SA market.

At Anchor, research and analysis led us to believe that having shares in Prosus, the new Rotterdam (Naspers) listing, was going to be favourable for investors. It was therefore optimal for investors to opt for Prosus shares, rather than electing more Naspers shares. However, the former led to a capital gain trigger (in some cases of enormous proportions) to shareholders who had faithfully held Naspers shares for a long period of time.

It was in meeting many of these Naspers shareholders that gave birth to the idea for this article. Some of these shareholders are well known and well-heeled business people, but many are also obscure and unsophisticated investors.

Regardless of their individual profiles, all have amassed astonishing wealth through holding onto the shares of this remarkable company. How exactly did the Tannie Elsie de Vries (*not her real name*), living alone in a R800k flat in Boksburg, arrive at a point in time where she owns R50mn worth of Naspers?

THE STORY GOES AS FOLLOWS

Anchor advisor: *Hello Mrs de Vries, my name is Lee from Anchor Capital. Would now be a good time for you to chat?*

Tannie Elsie: *Hello Lee. What is the call regarding?*

Anchor advisor: *Mrs de Vries, some research has shown us that you are the owner of 15,000 Naspers shares. There is an important event approaching. Are you aware of this?*

Tannie Elsie: *Yes, I am aware of an event, but I did not think I had a choice.*

Anchor advisor: *Mrs de Vries, are you aware of what your Naspers shares are worth?*

Tannie Elsie: *When I last checked, around R27mn.*

Anchor advisor: *That must have been sometime ago Mrs de Vries. Your shares are now worth R50mn.*

Tannie Elsie: *That's been a good couple of years then! My late father bought me these shares in 1995 and all he said when he handed me the share certificate was "Never sell these shares."*

As it turns out, Tannie Elsie's late father passed away in 2003. The 15,000 shares, worth R180,000 in 1995, had never been dematerialised. They existed on the Naspers share register and in the form of a one-page share certificate, which sat in the fourth drawer of the desk in Tannie Elsie's study.

In years gone by, it was a bureaucratic and tedious process to dematerialise shares. Even if a beneficiary hadn't been left with an instruction to never sell the shares, the arduous nature of selling these shares meant that shares were often held for longer periods. If Tannie Elsie's shares were dematted into an electronic trading account in 2003, would the emotion of her father's passing have tempted her to sell her Naspers shares at that stage? Or perhaps she would have clicked the sell button in November 2008 when the share price collapsed during the global financial crisis (GFC).

Naspers is indeed a remarkable story, but there are many other stories of Tannie Elsies who have held onto shares such as Remgro, PSG, Richemont, Bidvest, to name a few, which have all, over time, delivered huge returns to faithful long-term shareholders. Many will argue that those days are gone, and stories like these will never be repeated in SA. I remember similar stories at the turn of the century when people were debating how much more Capitec could grow from its R89 share price (it is now at R1,550 [as at 4 January 2020]). I wonder how many regrets there are by those who clicked the electronic "sell shares" button at prices between R100 and R300/share?

I own an investment property in Kensington, Johannesburg. It's a modest old-style, small 3-bedroom home, which yielded a 10% rental yield in its first year. For the most part, it has been a great investment, although I do have to admit it has caused my wife and I some anxiety over the last few years. Property is the last asset class you want to own in a country in crisis. If I had access to sell this house by the click of an electronic "sell house" button would I have bailed in the last few years? The answer is most probably yes, and the question is yet to be answered as to whether I will be grateful or not in 20 years' time for having hung on. In the meantime, the current 13% rental yield is the short-term reward.

But perhaps some of you are right about SA. Perhaps it is all over and Capitec is the last of any such share price action we will see in our lifetime. What then of offshore stocks? A colleague sent this caption on Apple which gives food for thought: "If in 2001, you bought $399 of Apple stock instead of buying the original iPod, today that stock would be worth $62,000." Quite astonishing, but even if you had bought Apple stock in 2001, how many valid reasons would you have had to hit the electronic sell button over the past 18 years? The answer is most likely too many to not have reaped the most handsome of rewards of the past 5 years.

If in 2001, you bought $399 of Apple stock instead of buying the original iPod, today that stock would be worth $62,000.

We live in a fast-moving, fast-changing, no-time-like-the-present world Information flows across the globe electronically like wildfire. We are made aware of potential crisis more often and more regularly than ever before in history. And, eventually, after being battered relentlessly by the news, our quivering fingers hit the electronic "sell buttons".

Going into 2020, I am going to be spending a lot of time thinking about Tannie Elsie's story. And every time I invest in anything, I am going to be asking if this is an investment which Tannie Elsie's late father would have been prepared to invest in. I too want to be able to open a bottom drawer in 20 years' time to see that something I invested only a few rand in, has turned into a small fortune.

ANCHOR INSIGHTS

Bringing the theory home:

Our behavioural biases in a South African context

Written by: **JAMES BASHALL, CA(SA), MCOM (FINANCE)**
Corporate Development

James has five years' experience in professional services in South Africa and Europe, following which he joined Anchor in 2019. He completed his master's in finance in 2014, writing his thesis on behavioural finance in South African equity markets.

My grandmother and I are at war. Despite the abundance of academic-made-palatable behavioural finance findings regarding irrational investor behaviour, coupled with my persistent reminders of those findings to her, she still refuses to acknowledge that she may be at risk of irrational decision making. In her mind, her extensive successful investing experience proves her immunity to such fallibility, and her investments will eventually turn. Call me a pessimist, but the unsustainable bull run of the JSE's last 30 years coupled with increased complexity faced by investors as a result of globalisation and technological disruption means that the confidence she feels as a result of her past success may be false. For someone so passionate about our behavioural shortcomings as I, it is a frustrating debate.

To be fair, my grandmother is not alone in ignoring the findings of some of the world's finest minds who ply their trade in the field of behavioural economics; unfortunately, those same behavioural biases which lead to our downfall also prevent us from practically addressing them. Overcoming our flawed foundations is a battle that starts anew every day, first with cognisance and acceptance of our fallibilities, then with an understanding of the potential risks and consequences thereof, and finally with a plan to overcome them. Nobody is immune.

Although my primary aim in writing this article is a strategic play in winning the war against my grandmother, the message is useful, even if just as a reminder, to all investors, young and old. My hope is that showing why we don't take behavioural finance seriously, coupled with distilling relatable examples to SA investors, will be the message required to break through. My strategy to win this war begins with a brief outline of the rise of behavioural economics and finance. I'll then talk about four biases which we as SA, yet global, investors are particularly at risk of falling prey to. Finally, I'll provide some simple advice as to how to begin the process of overcoming them.

THE RISE OF BEHAVIOURAL FINANCE

Behavioural psychology has risen in popularity in the last decade beyond academic curiosity to pop-knowledge, primarily as a result of outstanding consumer publications by pioneering academics like Dan Ariely (*Predictably Irrational*) and Nobel laureates Daniel Kahneman (*Thinking, Fast and Slow*) and Richard Thaler (*Nudge: Improving Decisions about Health, Wealth, and Happiness*). Their work and theories are, however, often dismissed as fun thought experiments, exposing their test subjects' irrational decision making when faced with clearly logical, yet largely inconsequential, situations. Their work finds people to be systematically irrational as a result of a host of fundamental behavioural biases, people's comical mistakes not being once-off, but consistently repeated and, in Ariely's words, "predictable". When the fun, yet often benign, findings in behavioural psychology are applied to economics (behavioural economics) and our world of financial markets and financial decision making (behavioural finance), the implications of our irrational decision making become considerably more real and consequential.

At a macro level, our biases undermine a foundational assumption of academic economics. Traditional economic models exist in a vacuum underpinned by once considered reasonable assumptions, including that of rational economic participants; the finding that people don't just make occasional bad decisions, but systematically do so, creates a world of doubt in the applicability of those models. In light of this, it is not surprising that purely academic economics often fails to predict, or even adequately explain in hindsight, the true cause behind financial market volatility, both in irrational booms and crashes.

From the macro to the micro, behavioural finance brings the observations of behavioural psychology's shortcomings from broad economic reference to the investment world. Behavioural finance shows exactly where we go wrong, attaching names to our investment biases that have become common terms in investment speak. References to loss aversion, overconfidence, mental accounting, anchoring, familiarity and the disposition effect, to name a few, are frequent as if our shortcomings are readily taken seriously, but how much is actually done to limit the damage caused by these biases?

INHERENT BIASES THEMSELVES MAY MAKE YOU THINK YOU ARE IMMUNE TO BEHAVIOURAL SHORTCOMINGS

Despite the conclusive nature of the behavioural finance findings and the damage to investment returns they are directly responsible for causing, very few people can honestly say they have put in place and maintained controls to mitigate the risk of associated loss. To be fair, it is difficult to safeguard against flaws which are complex to quantify and observe in the moment, but this is not necessarily the reason for inaction. More likely the reason is our inherent optimism or overconfidence biases: much like my grandmother, we believe the robust academic findings simply don't apply to us in isolation.

Perhaps we think we are just above average? Our optimism and overconfidence often lead us to overestimate our personal abilities, best illustrated with the frequently repeated comical finding that more than 80% of people feel they are above average drivers. The vast sample sizes upon which behavioural biases have been tested are sufficient to rule out individual insusceptibility at a very high degree of confidence; you are almost guaranteed to be as endangered as any other investor.

Acknowledging the impact of our overconfidence in concluding whether or not we are personally susceptible to detrimental behavioural biases is the first step in successfully addressing the risk of losses. The next step is taking stock of the potential damage of our biases.

OUR BEHAVIOURAL BIASES IN AN SA CONTEXT

Provision of examples regarding the consequences of our behavioural biases in a local context serves to increase the relevance of the largely foreign academic findings to our SA selves. Although the following examples are not necessarily applicable to all SA investors, they bring home what is often seen as a foreign problem to a local context, indicating our need for deliberate management of our behavioural biases.

As Darryl Hannington referenced in his article entitled *Invest(ing) in the other 99%*, *The Navigator, Strategy and Asset Allocation Report 3rd Quarter 2019*, the JSE was the best-performing market in the world from 1900 to the end of 2016. Further, even over the period of the GFC, JSE investors were rewarded with a standout compound annual return of 18% over 10 years.

In short, our long-term memory is dominated by an incredible period to be an investor on the JSE. SA has historically been as good an investment destination as any country worldwide, reducing any downside, if not even creating upside, of being overweight in our local market relative to global potential.

The past five years have been significantly more difficult, however, with the JSE returning less than 2.5% compound annual growth with a large portion of that growth attributable to a small handful of stocks. Although it is not unusual for markets to go through periods of underperformance, SA is facing significant challenges; given the macroeconomic and political headwinds being experienced locally with no immediate-term indication of a turnaround, a belief that broad-based local growth will return to the historic mean of global overperformance is a long-shot. While some local companies will continue to thrive and it will without a doubt be possible to generate investment returns, it is going to become increasingly more difficult to achieve world-beating returns purely in our local market. Where the downside of investing with SA market concentration historically was low, the longer-term consequences may be significantly higher.

SA is facing significant challenges; given the macroeconomic and political headwinds being experienced locally with no immediate-term indication of a turnaround.

The logical move, as argued by Darryl, is international diversification. Yet our behavioural biases might persuade us otherwise; based on our historic view and understanding of the JSE, we may well remain disproportionately invested in it in expectation of a return to global outperformance. Four biases may be responsible, cognisance of which may be enough to begin the process of overcoming our personal investment shortcomings.

First, the anchoring bias describes investors' tendency to hold onto a belief, in this case the consistent outperformance of the JSE, and apply it as a reference point for evaluation of future decisions.

Second, the self-attribution bias describes investors' tendency to attribute successful outcomes to their own actions, resulting in them potentially attributing their outstanding performance historically in the JSE to their own skill ahead of macro-tailwinds. This in turn may give them an expectation that regardless of the depressed outlook, they as individual investors can still find returns locally.

Third, the gambler's fallacy occurs when investors see patterns where none exist, in this case the pattern that the JSE always goes up, giving them the expectation that it will revert to that mean in the future, making the JSE the superior international market for investment.

Finally, as mentioned by Darryl, the home bias describes our preference for investments we are familiar with, largely as a result of falling in our own country, further preventing us from investing adequately offshore.

Mere cognisance of the above four biases may be enough to make us adequately pursue an international diversification strategy. Yet even in that case one further behavioural observation potentially stands between us and rationally executing on the proposed strategy: the disposition effect.

The disposition effect describes our tendency, in the event of a liquidity constraint, to sell profit-making investments ahead of loss-making investments. This bias, specifically proven to be in effect among SA investors, may nudge investors to sell their profitable positions ahead of loss-making positions when creating the liquidity to diversify offshore. The disposition effect has been found to be incredibly costly worldwide as historically, profit-making investments have continued to outperform, and loss-making investments have continued to underperform. Taking away the JSE's historic performers and retaining the dogs will leave investors even more exposed to the downside risks of SA's economic future.

WHAT CAN BE DONE TO OVERCOME OUR BIASES?

The understanding of our biases and the potential cost they may have on our investment returns lays the foundation for protecting ourselves from the downsides thereof. But awareness is far from action; deliberate controls need to be put in place.

The number one, and likely easiest, mitigation control is the consultation of a trusted independent third-party or group thereof regarding your investment decisions. Such people may be a knowledgeable friend, an investment club or a professional investment advisor. Most of our decisions influenced by our behavioural biases are objectively irrational, making it possible for independent advisors to identify poor decision making and question the reason for it. Running the decision by someone trusted by you makes it significantly more likely that you will both be called out on your irrational decisions and that you will act appropriately on their advice.

We are all susceptible to behavioural biases, despite what our inherent overconfidence might tell us, and in a SA context, we are particularly exposed to significant downside risk. To my grandmother, in the absence of trust in her dear grandson, my plea is that she run her investment decisions by an independent investment professional. There is no denying that her historic returns are outstanding, but in an increasingly difficult environment to find returns, relying on the repetition of local past performance is dangerous. She is definitely not alone; we could all do with an independent opinion.

Performance Summary

	FUND PERFORMANCE							BENCHMARK PERFORMANCE					
	Start date	Annualised p.a. (%)	Since inception (%)	12-month (%)	6-month (%)	3-month (%)	Dec 2019 (%)	Since inception (%)	12-month (%)	6-month (%)	3-month (%)	Dec 2019 (%)	Performance vs Benchmark (%)
UNIT TRUSTS													
Anchor BCI Equity	Apr-13	10.4	95.4	7.7	-1.3	3.7	1.2	64.2	6.8	-0.1	5.3	3.1	31.3
Anchor BCI Flexible Income	Jun-15	7.9	41.8	9.3	3.7	1.5	0.6	39.9	7.5	3.7	1.8	0.6	1.9
Anchor BCI Managed	Jan-15	3.9	20.7	9.5	0.3	1.9	0.7	24.5	9.5	2.5	2.5	1.1	-3.8
Anchor BCI Worldwide Flexible	May-13	11.3	103.8	21.9	6.0	0.0	-1.7	76.7	7.6	3.3	1.3	0.4	27.1
Anchor BCI Property Fund	Nov-15	-2.6	-10.3	-2.9	-4.5	0.5	-1.3	-8.1	1.9	-3.9	0.6	-2.1	-2.1
Anchor BCI Global Equity Feeder	Nov-15	7.9	37.0	27.0	7.2	3.5	-2.1	51.0	23.0	7.9	0.4	-1.3	-13.9
Anchor BCI Bond Fund	Feb-16	10.3	46.8	11.1	3.2	1.9	1.8	44.5	10.3	2.5	1.7	1.9	2.3
Anchor BCI Diversified Stable Fund	Feb-16	6.6	28.6	8.4	2.7	1.5	0.7	24.5	8.6	2.7	1.5	0.6	4.1
Anchor BCI Diversified Moderate Fund	Feb-16	5.4	22.9	8.3	2.3	2.0	0.9	21.5	9.5	2.5	2.0	0.9	1.4
Anchor BCI Diversified Growth Fund	Feb-16	4.2	17.7	8.0	1.9	2.5	1.1	20.5	9.5	2.5	2.5	1.1	-2.8
Anchor BCI Africa Flexible Income	Mar-16	7.4	31.4	14.5	4.0	-1.0	-0.2	41.1	9.3	4.6	2.2	0.8	-9.8
Anchor BCI Global Technology Fund	Jun-19	6.6	12.0	0.0	0.0	0.0	1.7	15.3	0.0	0.0	5.6	0.1	-3.3
EQUITY NOTES & SEGREGATED MANDATES													
Anchor Equity	Jul-13	7.5	59.6	2.2	-3.7	0.9	1.1	63.0	6.8	-0.1	5.3	3.1	-3.4
Growing Yield*	Jun-12	9.0	90.4	-0.5	-4.8	0.7	-0.3	106.5	8.6	3.8	1.6	0.5	-16.1
HEDGE FUNDS													
Long Short Equity	Mar-13	6.8	56.3	6.3	0.0	0.0	0.0	70.1	8.8	4.3	2.1	0.7	-13.8
Property Long Short	Jan-14	6.6	47.0	-4.0	-5.7	0.6	-0.8	68.4	9.3	4.5	2.2	0.7	-21.4
Anchor Accelerator	Feb-16	10.5	47.1	33.5	10.5	9.9	4.9	18.2	6.8	-0.1	5.3	3.1	28.9
OFFSHORE													
High Street Equity - Dollars	Jun-12	12.4	140.0	28.7	5.3	8.3	2.9	130.4	28.4	9.4	8.7	3.0	9.6
High Street Equity - Rands	Jun-12	20.7	310.5	25.6	4.8	-0.1	-1.7	293.3	24.8	8.4	0.1	-1.7	17.2
Offshore Balanced - Dollars	Jun-12	10.4	109.7	21.1	3.9	5.1	2.1	70.8	19.1	6.0	5.3	2.0	38.9
Offshore Balanced - Rands	Jun-12	18.5	258.0	17.7	3.0	-3.1	-2.5	191.4	15.7	4.3	-3.7	-2.7	66.6
Global Dividend - Dollars	Jan-14	8.8	64.6	20.4	6.1	6.7	2.6	71.3	28.4	9.4	8.7	3.0	-6.7
Global Dividend - Rands	Jan-14	13.1	107.1	17.0	5.2	-1.6	-2.0	115.2	24.8	8.4	0.1	-1.7	-8.1
Anchor Sanlam Global Stable Fund - Dollars	May-15	1.5	7.2	11.2	3.3	2.6	0.8	13.1	2.7	1.3	0.7	0.2	-5.9
Anchor Sanlam Global Stable Fund - Rands	May-15	4.7	23.3	8.1	2.3	-5.5	-3.8	30.3	0.1	0.5	-7.3	-4.5	-7.0
Anchor Sanlam Global Equity - Dollars	May-15	8.4	45.0	32.8	8.8	12.0	3.4	41.5	26.6	8.9	9.0	3.5	3.5
Anchor Sanlam Global Equity - Rands	May-15	10.3	57.2	29.0	7.8	3.2	-1.4	55.6	23.0	7.9	0.4	-1.3	1.6

Source: Morningstar and Bloomberg 31 December 2019

*Provisional performance returns

DISCLAIMER

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