BCI EQUITY FEEDBACK

22 APRIL 2020

ANCHOR

NAVIGATING CHANGE

WHAT WE ARE SAYING NOW…

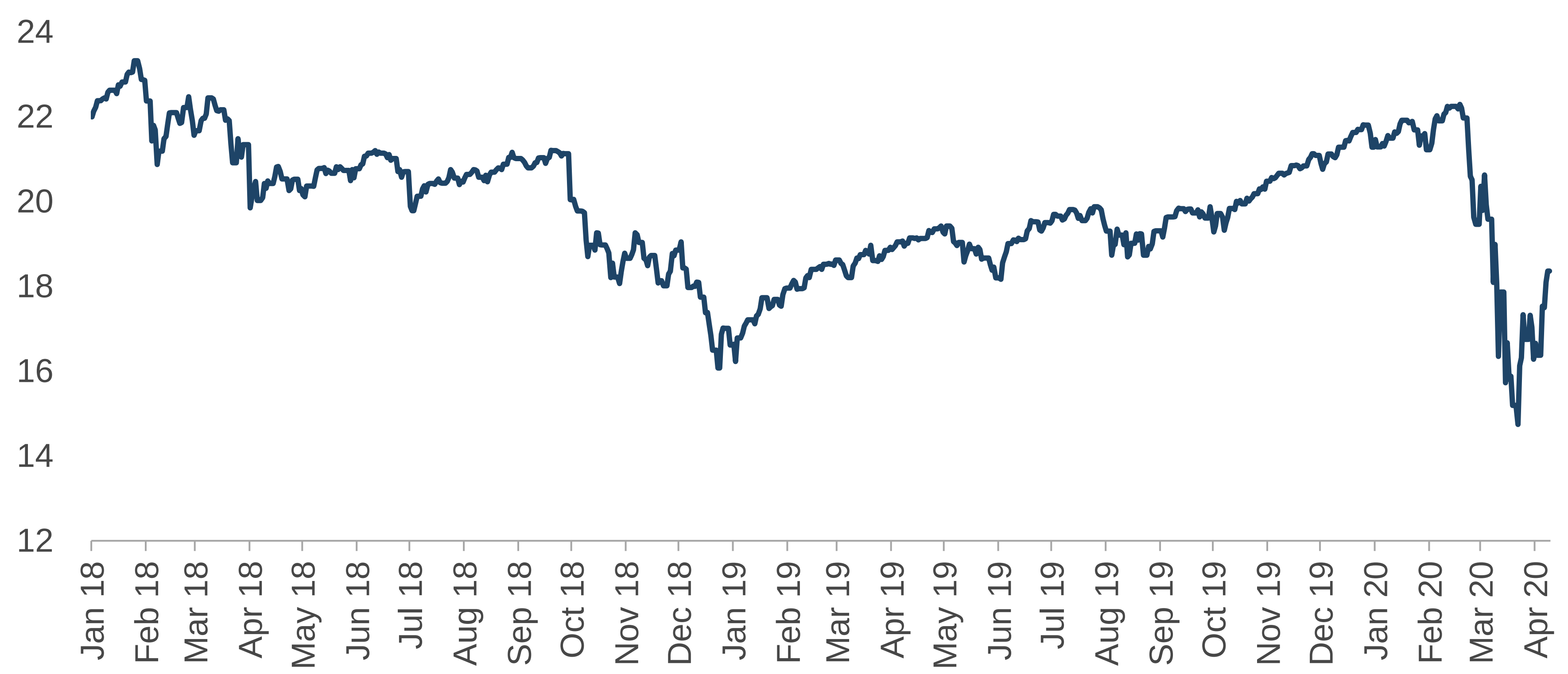
- Overriding perspective – ***Buy great businesses at good prices***
- Volatility prevails – FOMO now, but unchartered territory
- Offshore equity has bounced too much in the short term
- But still big upside opportunity in specific shares
- Little yield available offshore outside of emerging markets
- Rand extremely undervalued and risk to Rand-based investors when it strengthens
- Local equity market offering excellent opportunities
- Local bond market offering CPI+6%

- **This crisis will pass, like all others have**

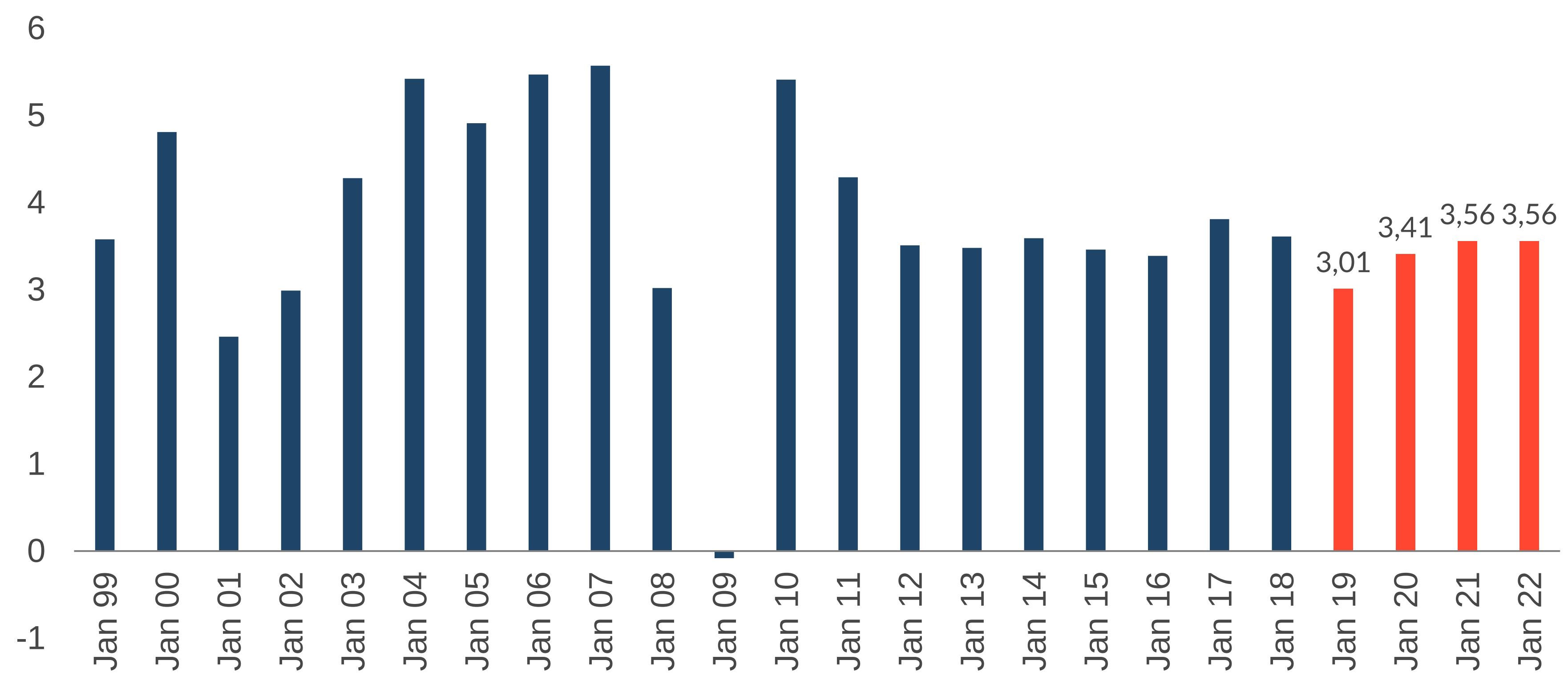
US Earnings season is underway!!!

WHAT WE SAID AT THE BEGINNING OF 2020 – BEFORE THE BLACK SWANS

S&P 500 FWD P/E



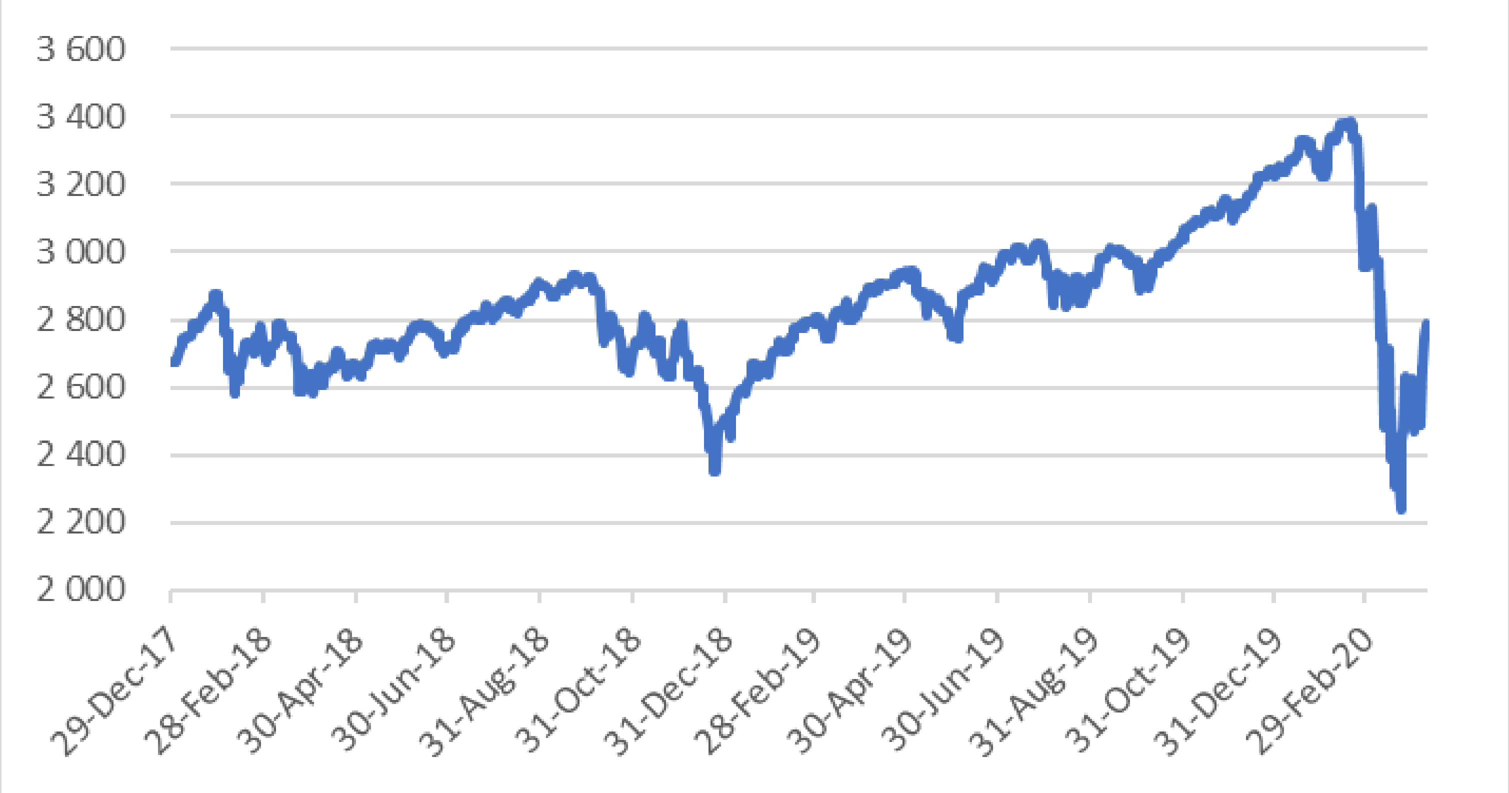
GLOBAL GDP GROWTH (IMF)



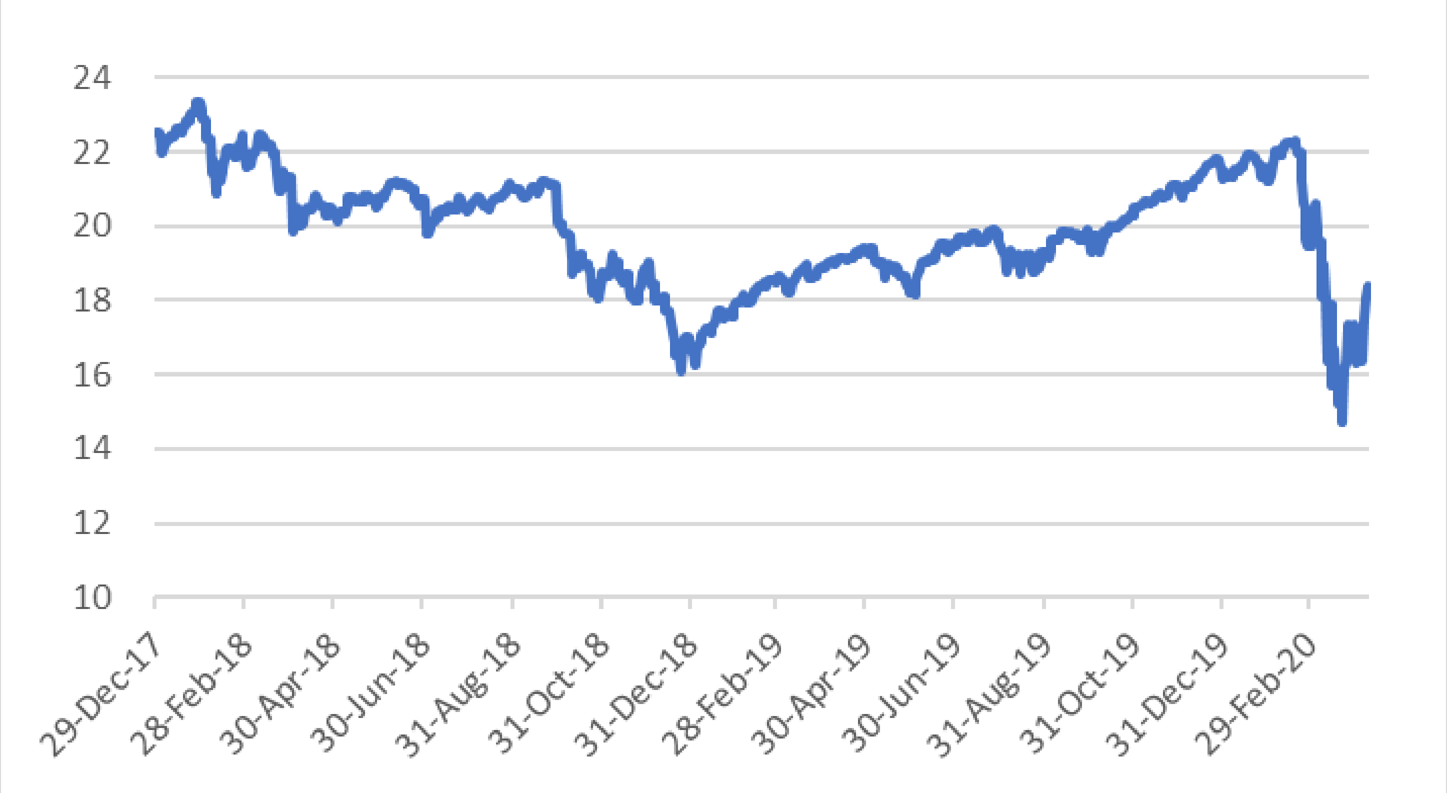
- The market looked moderately overvalued,
- But growth prospects looked promising,
- So we were somewhat cautious, but still expected a low $ return from global equities for the year
- Fair value at beginning of year was 3000-3200

WHAT HAS HAPPENED IN 2020

S&P INDEX



S&P PE MULTIPLE



- S&P plunged to 2400 (-30%), but has retraced to 2800 (+17%)
- S&P now only down 12.5% for the year
- Our estimate of fair value has decreased to 2800 – 3000 (as earnings decline for 12-18 months)
- But sectors have behaved very differently
- Opportunities lie in picking the right shares – massive bargains still exist
- Not a time for ETF’s

THE REALITY

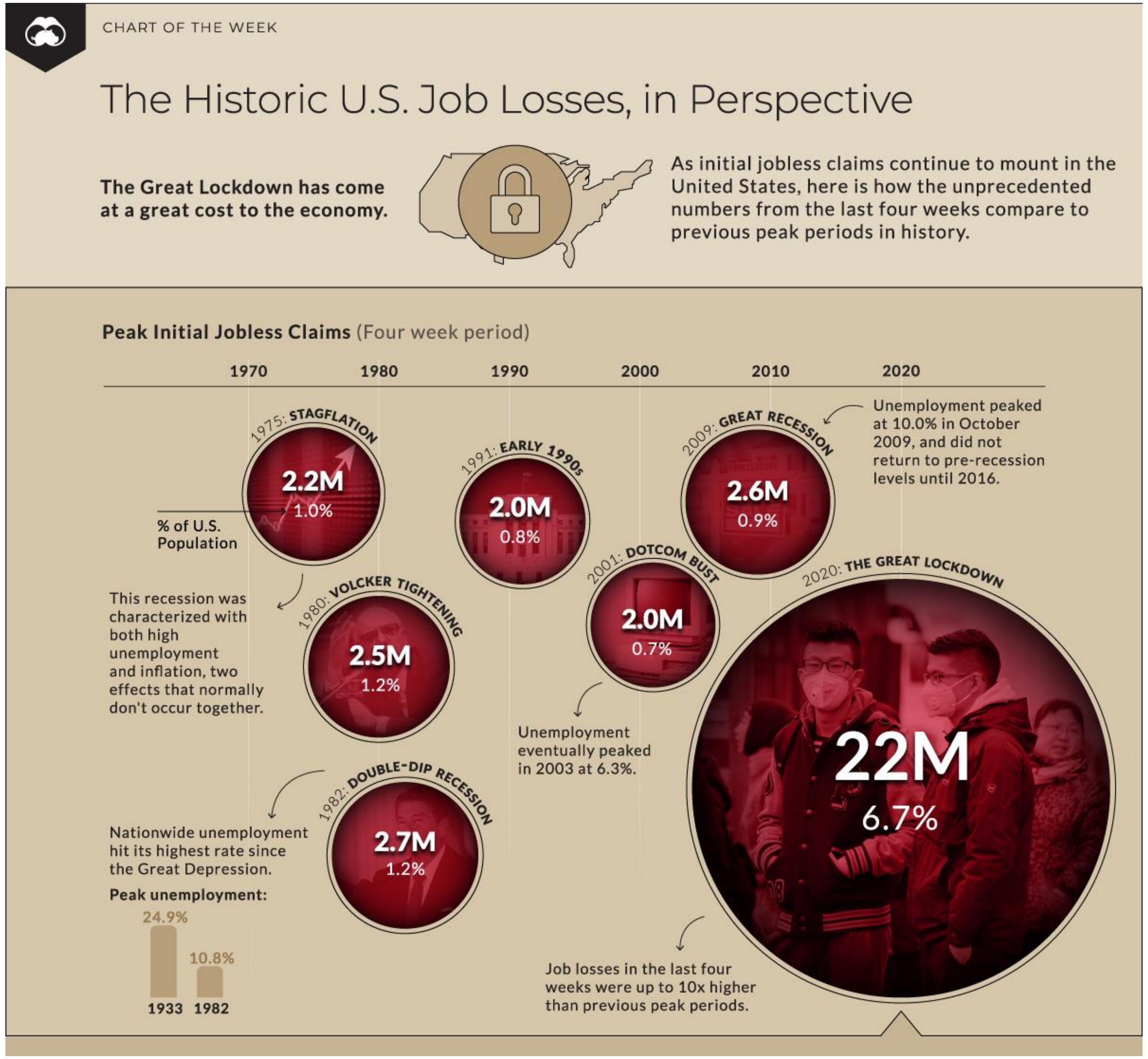
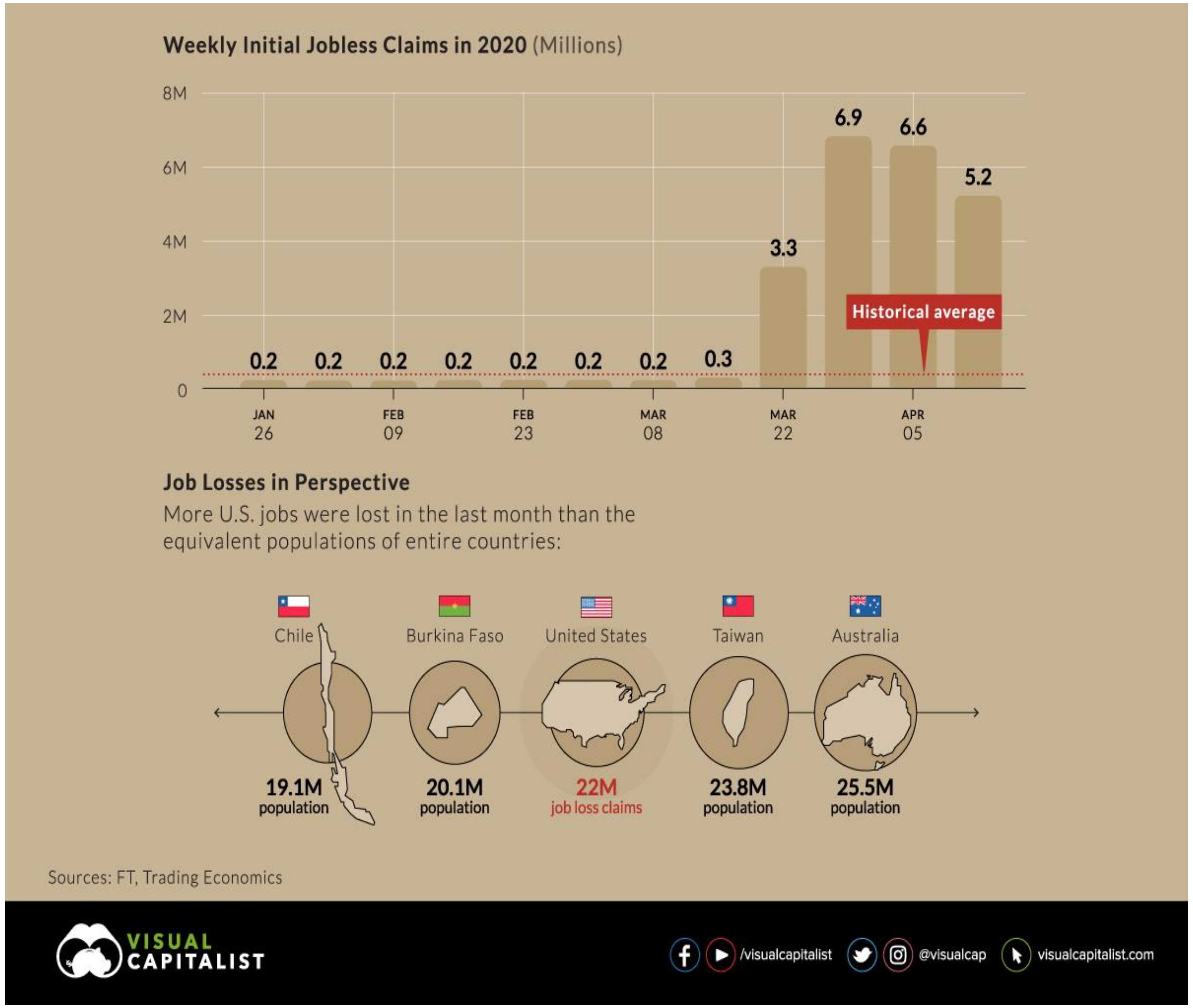


CHART OF THE WEEK
The Historic U.S. Job Losses, in Perspective
The Great Lockdown has come at a great cost to the economy.
As initial jobless claims continue to mount in the United States, here is how the unprecedented numbers from the last four weeks compare to previous peak periods in history.
Peak Initial Jobless Claims (Four week period)
1970
1980
1990
2000
2010
2020
1975: STAGFLATION
2.2M
1.0%
% of U.S. Population
1991: EARLY 1990s
2.0M
0.8%
2009: GREAT RECESSION
2.6M
0.9%
Unemployment peaked at 10.0% in October 2009, and did not return to pre-recession levels until 2016.
This recession was characterized with both high unemployment and inflation, two effects that normally don't occur together.
1980: VOLCKER TIGHTENING
2.5M
1.2%
2001: DOTCOM BUST
2.0M
0.7%
Unemployment eventually peaked in 2003 at 6.3%.
2020: THE GREAT LOCKDOWN
22M
6.7%
Nationwide unemployment hit its highest rate since the Great Depression.
1982: DOUBLE-DIP RECESSION
2.7M
1.2%
Peak unemployment:
24.9%
10.8%
1933
1982
Job losses in the last four weeks were up to 10x higher than previous peak periods.


Weekly Initial Jobless Claims in 2020 (Millions)
8M
6M
4M
2M
0
0.2
0.2
0.2
0.2
0.2
0.2
0.2
0.3
3.3
6.9
6.6
5.2
Historical average
JAN 26
FEB 09
FEB 23
MAR 08
MAR 22
APR 05
Job Losses in Perspective
More U.S. jobs were lost in the last month than the equivalent populations of entire countries:
Chile
Burkina Faso
United States
Taiwan
Australia
19.1M population
20.1M population
22M job loss claims
23.8M population
25.5M population
Sources: FT, Trading Economics
VISUAL CAPITALIST
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visualcapitalist.com

AMAZON

WHAT CRISIS?

But exposure to companies that benefit should be part of a portfolio:

E.g. Amazon, Alibaba, tencent, Netfilx (too expensive), gaming, Naspers etc

S&P 500

SINCE 17 JANUARY 2020

TICKER	AVERAGE WEIGHT (%)	CONTRIBUTION TO RETURN (%)	TOTAL RETURN (%)
S&P500 Portfolio	**100**	**-22**	**-22**
Energy	3	-2	-50
Financial	17	-6	-30
Industrial	9	-3	-29
Consumer, Cyclical	8	-3	-28
Basic Materials	2	-1	-27
Communications	15	-3	-17
Utilities	3	-1	-16
Consumer, Non-cyclical	22	-4	-16
Technology	20	-3	-15

- It is important to break the market down into sectors – **IT IS A BARBELL**
- Technology stocks (c. 30% of SP500) has been particularly resilient
- The energy, industrial and consumer cyclical sectors have been hit the hardest
- We have identified numerous opportunities in these sectors, **particularly in the hospitality / travel space**

PLAYING THE RECOVERY

- Don’t change long term, high quality growth portfolios
- But opportunity to invest in “recovery” shares to supplement long term portfolio
- Notably, recovery portfolio has little tech (our favoured long term sector)
- Recovery portfolio does not have typical portfolio construction characteristics
- For most of the shares proposed in this portfolio quality and high historic returns have been the biggest criteria.
- After a market crash, the opportunity to buy durable, high quality businesses at bargain prices is very appealing.
- At this stage, any investor must be able to stomach volatility

ANCHOR BCI GLOBAL EQUITY FEEDER FUND

A CLASS

PROFILE AND OBJECTIVE

- Long-term capital growth.
- Invests in a concentrated portfolio of high-quality, attractively valued, growing companies selected from both developed and emerging markets.
- High risk.

WHO SHOULD INVEST

Investors with long-term investment horizons.

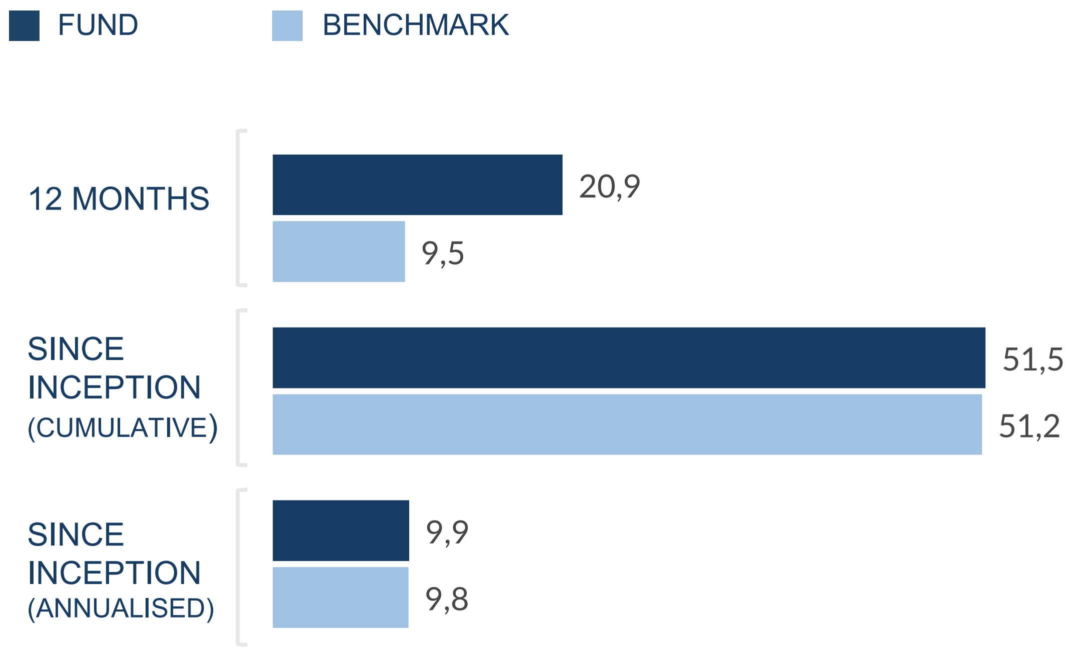
FUND INFORMATION

Risk profile: LOW | LOW-MOD | MOD | MOD-HIGH | **HIGH**

Inception Date	November 2015
Benchmark	MSCI World All Country World Index
Minimum Investments	None
Fees:	
Annual Management Fee	Underlying investment fees: 1.25%. Annual service fees (incl VAT): 0.29%

FUND INFORMATION AT 31 MARCH 2020

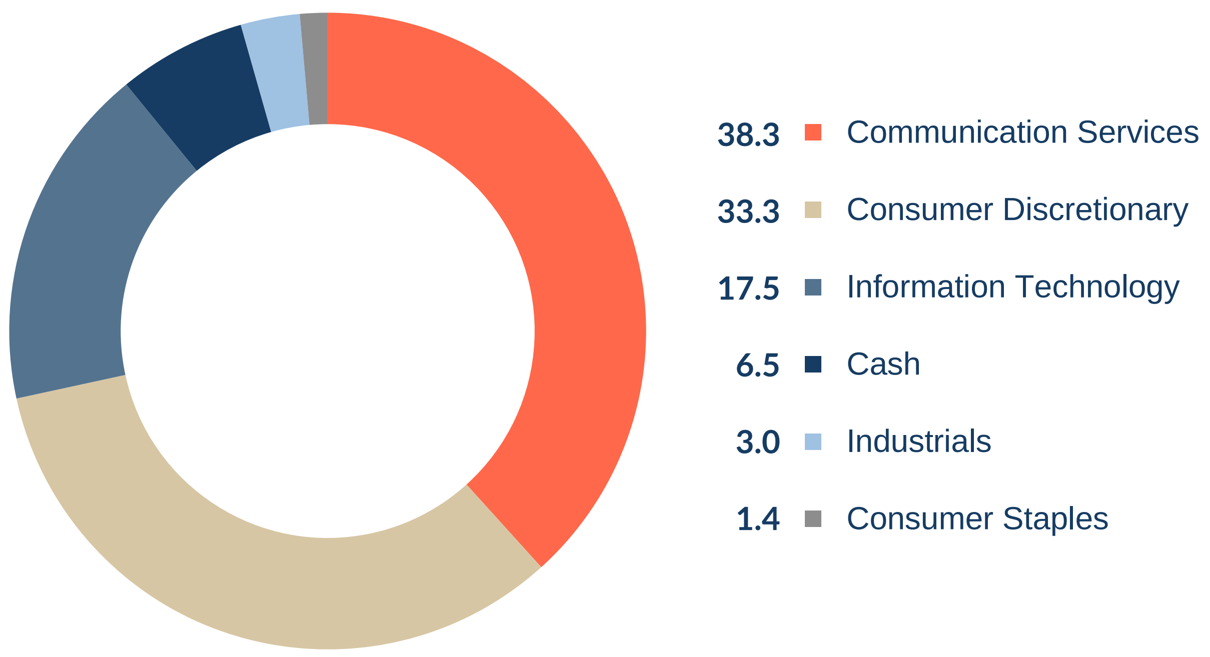
FUND PERFORMANCE (%)



TOP TEN HOLDINGS

Alibaba
Alphabet Inc A
Amazon
Facebook
Mastercard Inc
Netflix
Nintendo
Sea
Spotify
Tencent

SECTOR ALLOCATION (%)



Note: Past performance is not necessarily an indication of future performance. Consult the Minimum Disclosure Document for full disclosure on fees, performance, etc. This is available at www.anchorcapital.co.za

ANCHOR BCI GLOBAL TECHNOLOGY FUND

A CLASS

PROFILE AND OBJECTIVE

- To maximise long-term total returns by investing in firms that create and benefit from advances in technology.
- Favours a diversified portfolio of high-quality, growth-focused global tech stocks.
- Rand denominated.
- Equity exposure to always exceed 80% of the portfolio's NAV.
- At least 80% of its NAV to be invested outside SA.
- No more than 80% exposure to assets in a specific geographical region.

WHO SHOULD INVEST

Individuals with a long-term view and an aggressive risk profile.

FUND INFORMATION

Risk profile: LOW | LOW-MOD | MOD | MOD-HIGH | **HIGH**

Inception Date	June 2019
Benchmark	MSCI ACWI Information Technology Index (in ZAR)
Minimum Investments	$1,000
Fees:	
Annual Management Fee	A Class: 1.53% (incl. VAT)

FUND INFORMATION AT 31 MARCH 2020

TOP TEN HOLDINGS (%)

Prosus	9.3
Amazon	8.1
Alibaba	7.9
Naspers Limited	7.1
Spotify	5.6
Microsoft Corp	4.7
Facebook	4.2
Delivery Hero	4.1
ASML Holding	3.1
Alphabet Inc A	2.9

ANCHOR BCI WORLDWIDE FLEXIBLE FUND

A CLASS

PROFILE AND OBJECTIVE

- Moderate to high long-term total return.
- Rand-denominated fund with the flexibility to invest in equities, property, bonds and cash, both globally and in South Africa.
- Invests in companies with a durable competitive advantage that are underappreciated by investors.

WHO SHOULD INVEST

Individuals with long-term investment horizons.

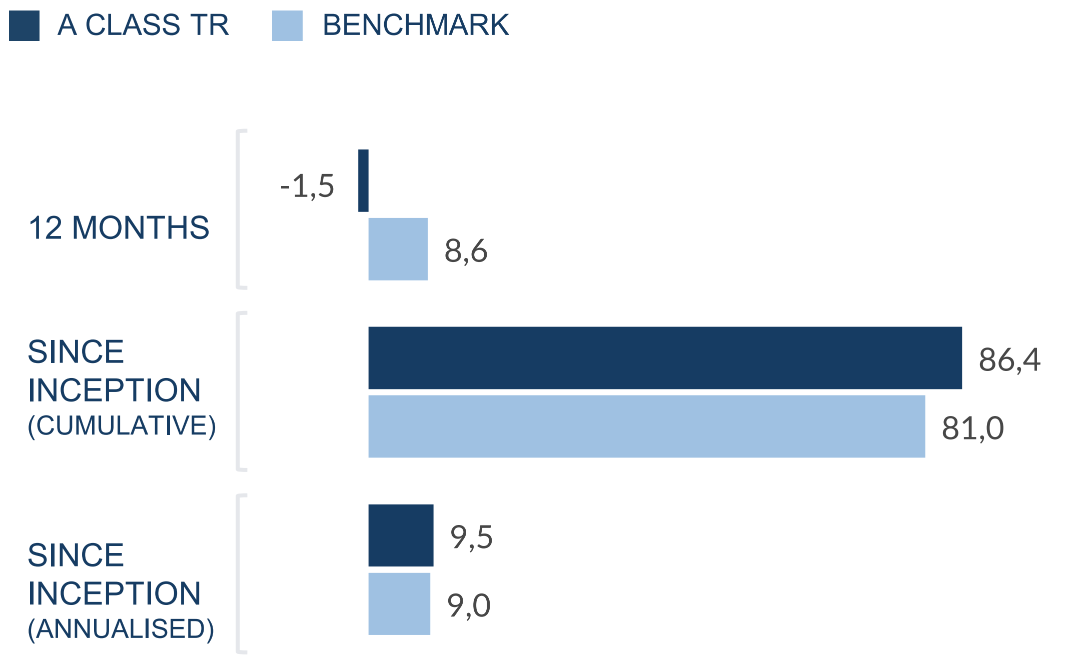
FUND INFORMATION

Risk profile: LOW | LOW-MOD | MOD | **MOD-HIGH** | HIGH

Inception Date	May 2013
Benchmark	Inflation (SA CPI) + 4% p.a.
Minimum Investments	None
Fees:	
Annual Management Fee	1,15% (incl. VAT)

FUND INFORMATION AT 31 MARCH 2020

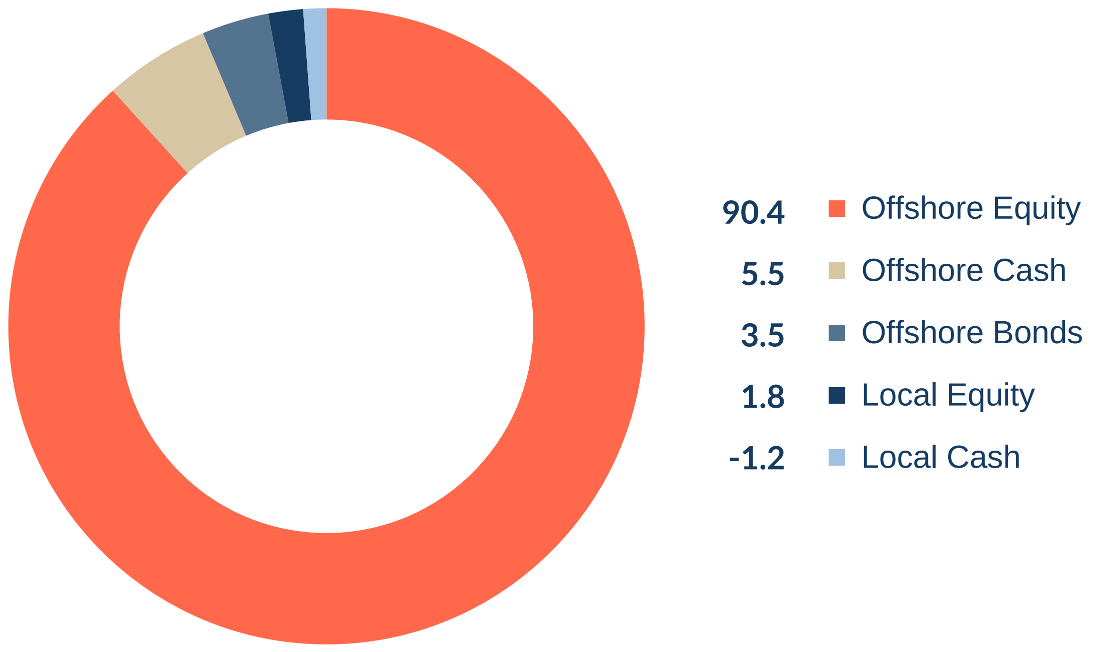
FUND PERFORMANCE (%)



TOP TEN HOLDINGS (%)

JPMorgan Chase	8.6
GlaxoSmithKline Plc	7.8
Unilever	6.6
US Bancorp	6.2
Admiral Group	5.1
Mastercard Inc	4.3
Yum! Brands Inc	3.8
Royal Dutch Shell	3.8
Alphabet Inc A	3.6
American Express	3.5

ASSET ALLOCATION (%)



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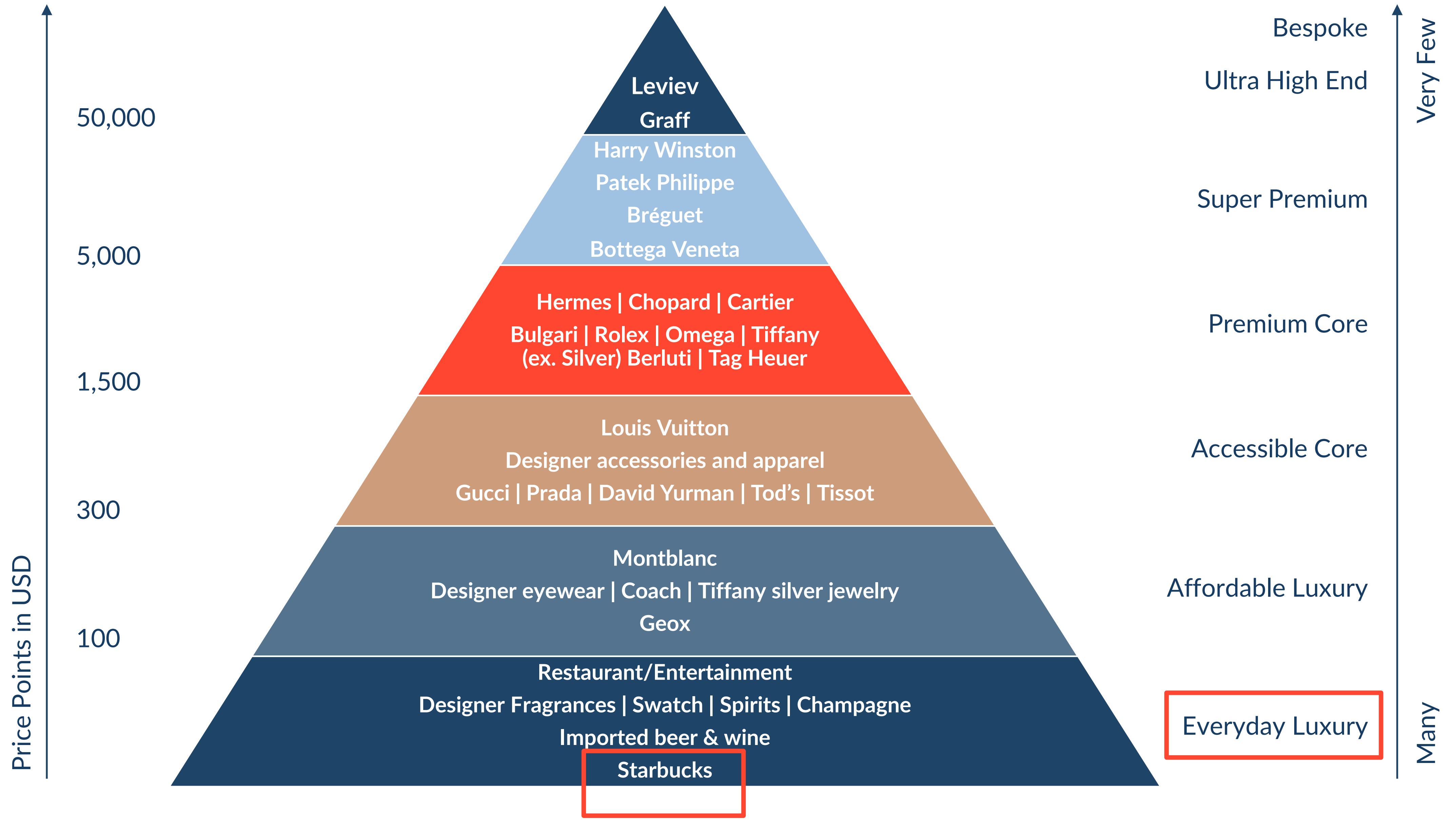
PROPOSED RECOVERY PORTFOLIO

COMPANY	TICKER	RETURN SINCE 17 JAN (%)	5-YR AVE P/E	P/E	DERATING (%)	PROSPECTIVE RETURN (%)	PROPOSED WEIGHT (%)
Low Risk – not especially cheap, but big correction							**20**
JPMorgan Chase & Co.	JPM US Equity	-39	13	8	-39	63	3.3
Hasbro Inc.	HAS US Equity	-36	20	16	-18	56	3.3
Starbucks	SBUX US Equity	-28	28	22	-23	38	3.3
McDonald's Corp	MCD US Equity	-24	24	21	-14	31	3.3
Paychex Inc.	PAYX US Equity	-32	27	19	-28	47	3.3
Stryker Corp.	SYK US Equity	-30	25	20	-17	43	3.3
Medium Risk – Very Cheap							**70**
Synchrony Financial	SYF US Equity	-63	10	2	-77	101	12
Sysco Corp.	SYY US Equity	-52	22	11	-52	56	12
Leggett & Platt	LEG US Equity	-51	19	9	-53	53	12
Borgwarner Inc.	BWA US Equity	-48	11	5	-55	46	12
Snap-On Inc.	SNA US Equity	-43	17	8	-53	33	12
Ulta Beauty	ULTA US Equity	-43	30	13	-58	31	12
Higher Risk – Probably Very Cheap							**10**
Ryman Hospitality Group	RHP US Equity	-65	20	11	-46	112	2.5
Delta Airlines	SAL US Equity	-64	10	3	-67	106	2.5
Boeing Co, The	BA US Equity	-61	N/A	N/A	N/A	94	2.5
Beacon Roofing	BECN US Equity	-57	23	36	55	75	2.5
Total Portfolio E(R)		**56.1**					

STARBUCKS

RESILIENT AFFORDABLE LUXURY

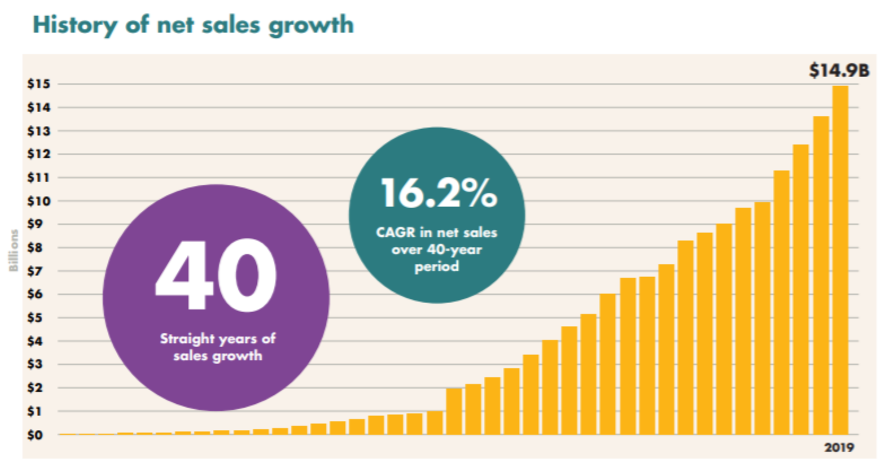
Qualitatively, Starbucks is one of the world's best businesses and most valuable brands. Delivering a return on capital of > 40%, and consistent earnings growth since 2008 has meant the share has been a star performer - delivering a compound annual return of 22% since the end of the GFC. Although store closures have been necessary in many parts of the world, US stores continue to trade via drive-thru locations and through delivery services. Affordable luxuries tend to be quite resilient even in times of economic duress, and we believe sales will normalise rapidly. The balance sheet is essentially ungeared once adjusting for operating leases, and we believe the 30% sell-off likely presents an attractive opportunity for investors.



COMPANY	TICKER	RETURN SINCE 17 JAN (%)	MARKET CAP	5-YR AVE P/E	P/E	DERATING (%)	NET DEBT: EBITDA	ROIC (%)	PROSPECTIVE RETURN (%)
Starbucks	SBUX US Equity	-28	$ 74,001,785,000	28	22	-23	2.4	40	38

STRYKER

STRONG MEDICAL PLAY CAUGHT IN THE CROSSFIRE



Stryker, one the world's pre-eminent joint implant & replacement manufacturers, generates a highly defensive profit stream through a network of committed customers (surgeons). Once a surgeon has trained on a specific brand of joint replacement (e.g. Stryker), they generally stay with the brand for the length of their career due to the high switching cost (i.e. training on a new system). The company has grown its sales for 40 consecutive years. A sell-off of 30% is an opportunity to buy a business that will largely be unaffected, at a meaningful discount.

COMPANY	TICKER	RETURN SINCE 17 JAN (%)	MARKET CAP	5-YR AVE P/E	P/E	DERATING (%)	NET DEBT: EBITDA	ROIC (%)	PROSPECTIVE RETURN (%)
Stryker Corp.	SYK US Equity	-30	$ 55,500,811,722	25	20	-17	1.9	13	43

SYSCO

BIGGEST US FOOD DISTRIBUTOR AT A 50% DISCOUNT

- This is an extremely high quality business with predictable, sustainable growth in normal conditions
- Sentiment toward restaurant & hospitality sector now at extreme negative levels
- Restaurants likely to normalize rapidly as epidemic clears
- Typically highly-rated defensive business now at an historic 11x PE
- Low interest rates could push P/E to historically high levels

COMPANY	TICKER	RETURN SINCE 17 JAN (%)	MARKET CAP	5-YR AVE P/E	P/E	DERATING (%)	NET DEBT: EBITDA	ROIC (%)	PROSPECTIVE RETURN (%)
Sysco Corp.	SYY US Equity	-52	$ 20,086,088,950	22	11	-52	2.7	21	56

JSE

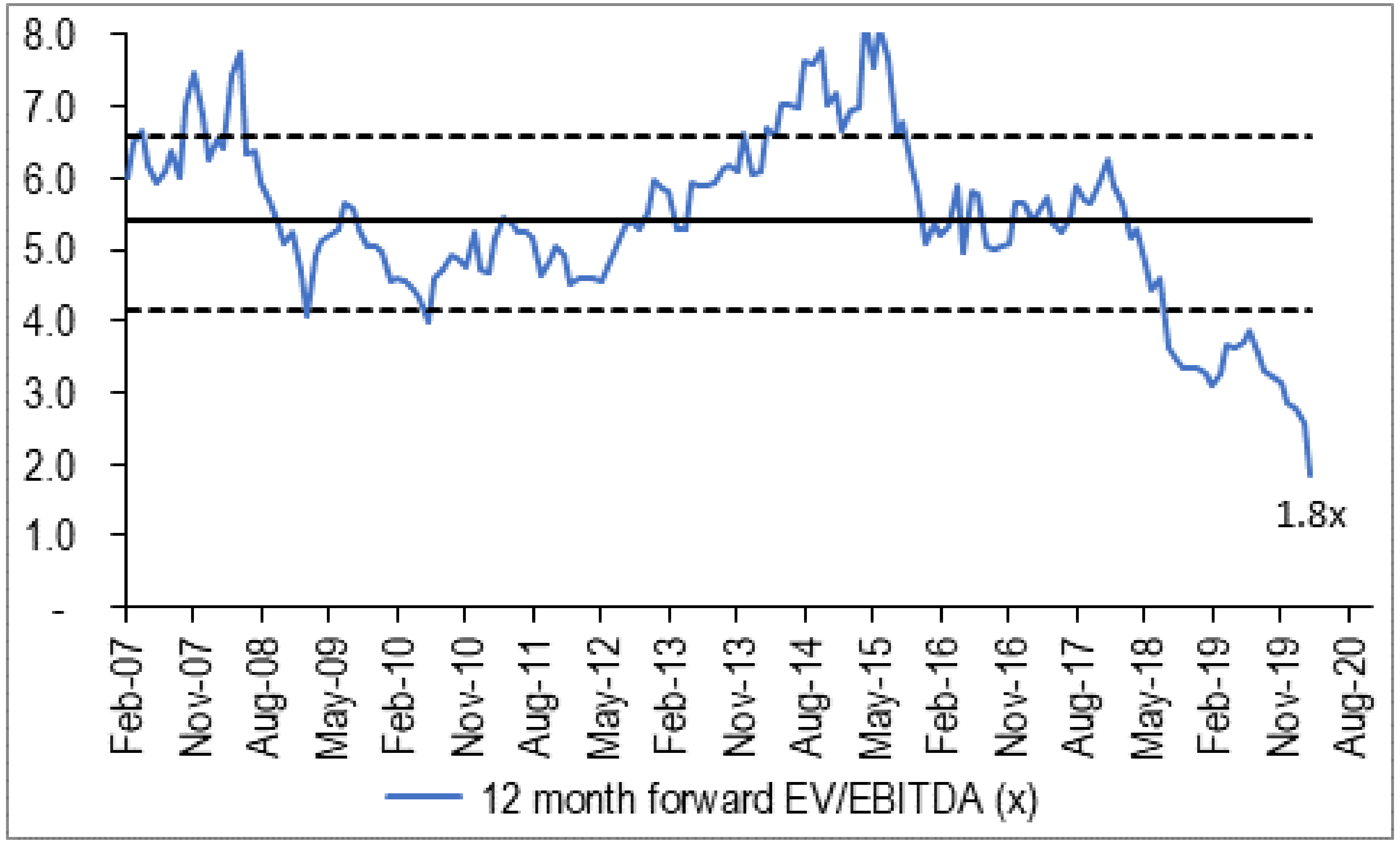
GREAT VALUE EMERGING

- In SA-inc shares, we have experienced a crash after a crash
- Little exposure to high-risk places for now – especially businesses which have zero turnover
- Trading opportunities for the first time in years; *volatility will continue*
- **Some opportunities:**
  - Offshore basket (with Rand hedged)
  - MTN
  - Bidcorp (but cautious)
  - Bidvest
  - Shifting into more cyclical shares when normalisation becomes evident

MTN AS AN EXAMPLE

- A rock solid business – telecoms a safe sector in these conditions
- Price has halved
- Cheapest ever – 1.8x EV/EBITDA
- Fwd 6.5x PE, fwd 13.5% DY
- Acting like an oil proxy because of Nigeria (27% of business)
    - Profits from Nigeria down (Naira down and some US$ costs) and dividend might not be possible
- Over-reaction; > 50% upside
- Earnings and dividend might disappoint, but it is not worth R45

MTN EV/EBITDA



Vodacom share price

MTN share price

ANCHOR BCI EQUITY FEEDBACK - 1Q20 (TO 21 APRIL)

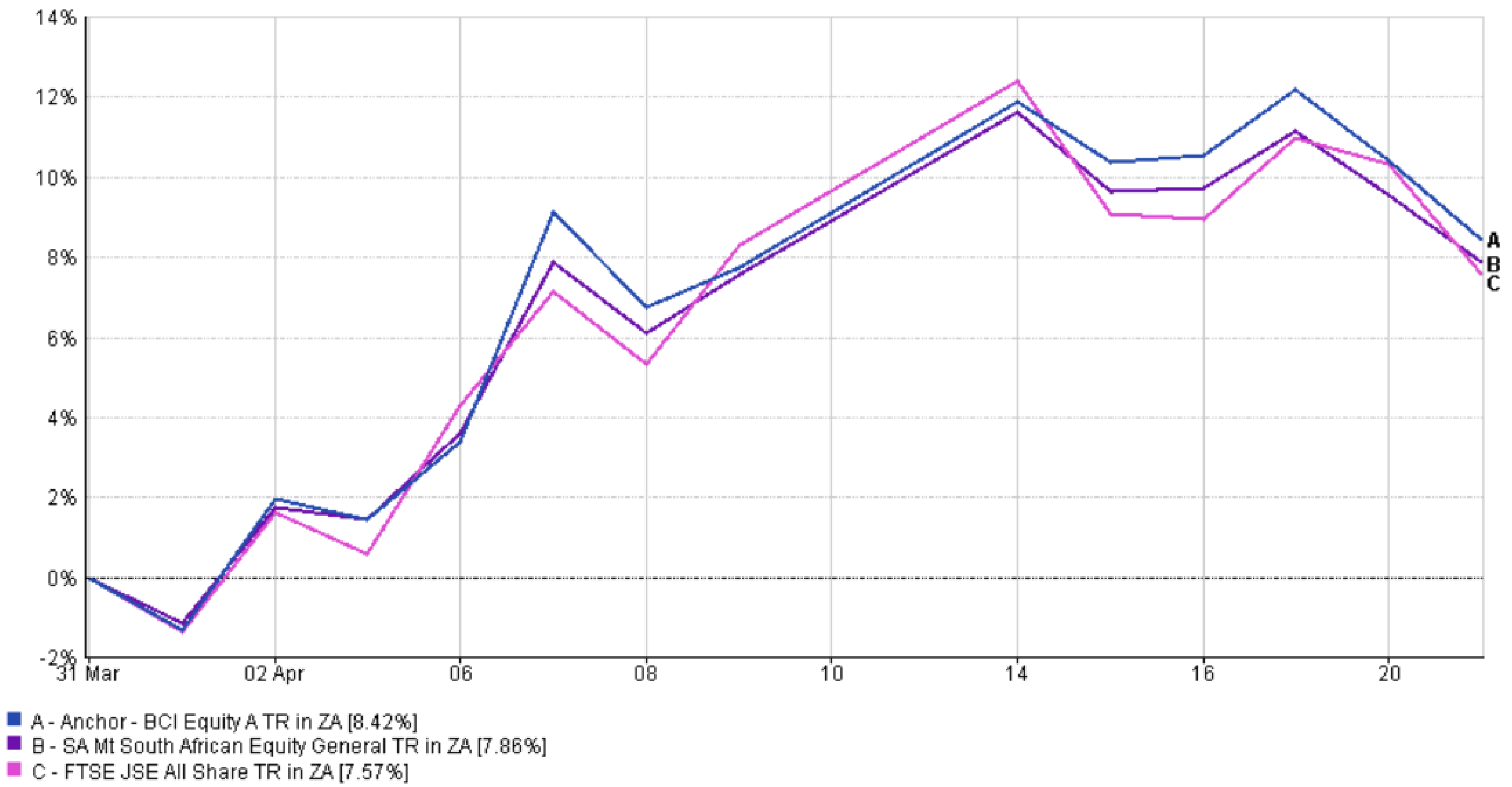
- Year to date down 20% vs SWIX down 22.5%

For the quarter:

- FTSE/JSE Capped Swix down 26.6%
- Anchor BCI Equity Fund down 26.3%
- ZAR down 21.5%

	Benchmark
SA domestic (ex Property)	-14.86
Materials	-7.70
Naspers	1.52
Small caps	-1.19
ZAR hedge	-1.40
Domestic Property	-3.33

April month to date: +8.4%



Source: FE Analytics

NON JSE PORTFOLIO

- c.18% exposure = 0.5% alpha

Winners:

- BABA +0.5%
- Amazon +0.3%
- Admiral +0.3%
- Home Depot +0.2%
- Google +0.1%
- Ping An +0.1%
- Facebook +0.1%

Losers:

- ITAU -0.2%
- JP Morgan -0.2%
- Disney -0.2%
- FTSE 250 Etf -0.2%

- Commentary… U/W vs peers… I suspect
  - Key debate on levels of exposure… completing circle of debate is attractive investment opportunities that meet our philosophical guidelines
  - Decision to exit HD US reached

CURRENT POSITIONING STILL BALANCED…

	BCI Equity	Index	O/U
Large cap "New Dawn"	26%	41%	-15%
ZAR hedge	25%	31%	-6%
Small/midcaps	7%	3%	4%
Small cap prop co.	0%	2%	-2%
Basic Materials	16%	22%	-5%
Non-dom equity	18%	0%	18%
Top40 Future	1%	0%	1%
Cash	6%	0%	6%
	100.0%	98.8%	

- Commentary and discussion points…
  - Still healthy exposure to SA cyclical via Banks and some property
  - MTN still the telco call
  - No Gold, 3% in PGM's
  - 18% exposure to offshore…is this enough?
  - Banks>Retail … is this still correct?
    - Should we be adding general retail?
    - Should we have ANY exposure to discretionary retail?
  - Happy to not own hospital stocks
  - Mid/Small caps, over time can generate huge alpha, but limited exposure now (Transaction Capital and Peregrine the majority)
  - Still overweight Sasol
  - Exxaro, is there a break in the thesis?
  - What multiple and what earnings in SA??
    - What's the cost of equity in South Africa?
    - Owning SA stocks worked for 3 months in 3 years.
      - Fantastic tactical opportunities but nothing to compound with

WHAT WE ARE SAYING NOW…

- Overriding perspective – ***Buy great businesses at good prices***
- Volatility prevails – FOMO now, but unchartered territory
- Offshore equity has bounced too much in the short term
- But still big upside opportunity in specific shares
- Little yield available offshore outside of emerging markets
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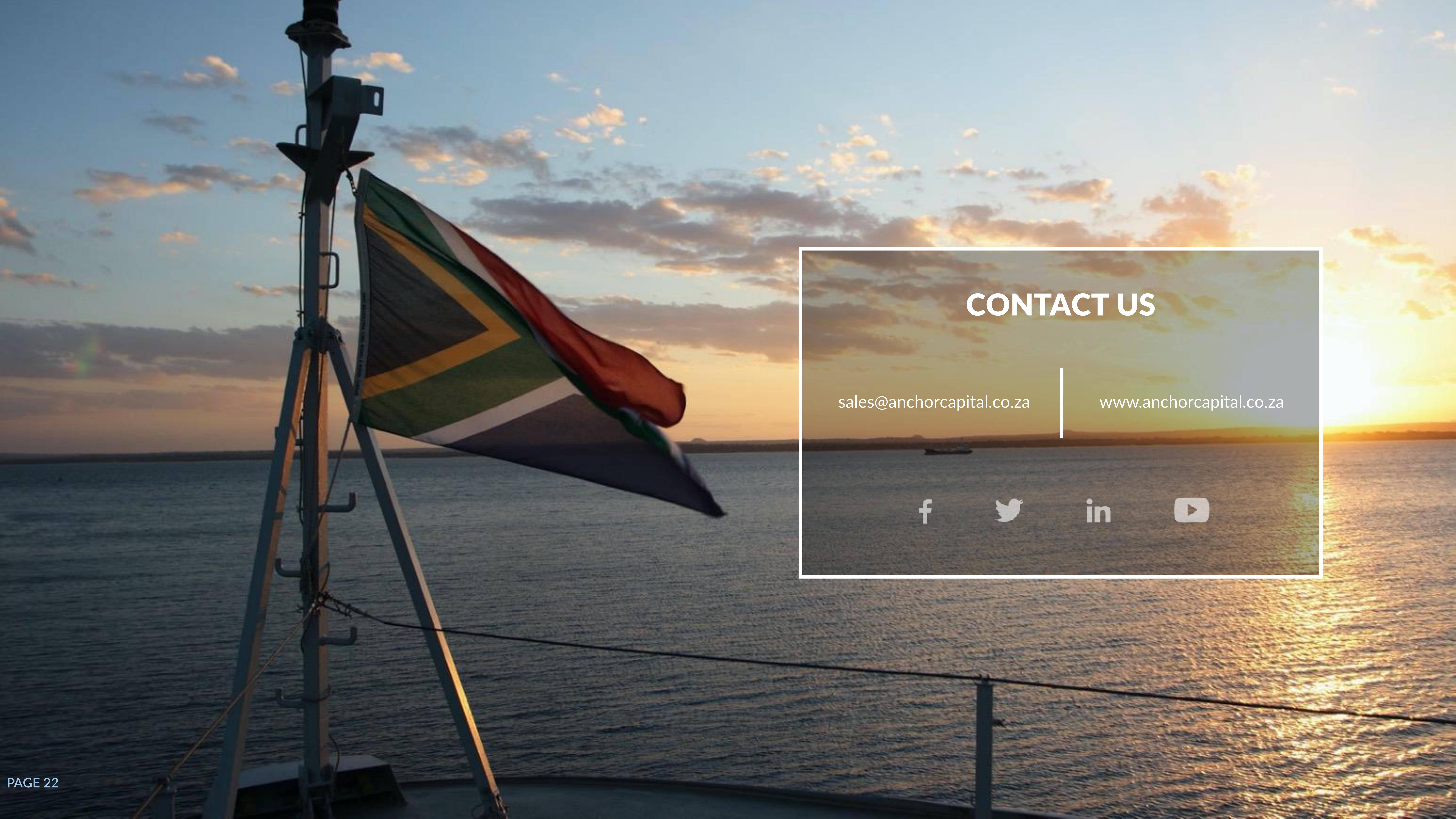

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