



The Navigator

Strategy and Asset Allocation Report
2nd Quarter 2021



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Introduction



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It is refreshing to be able to write that South Africa (SA) as a nation is in a better place than it was at the time of our January Navigator publication. Businesses are recovering faster from the pandemic than was initially anticipated, the nation's tax collection has proved to be more resilient than expected, national debt is now forecast to peak at 87.3% of GDP (which is still high but is better than the 92% peak that was forecast late last year). Similarly, the trade balance remains positive giving support to the currency, which is still on a gradual strengthening trend. President Cyril Ramaphosa has taken a strong stance against factionalism in the ANC and there can be no doubt that his hands are now firmly on the steering wheel of the party and the nation. Preserving lives remains at the forefront of the president's agenda, but equally we are seeing a focus on the economy that was lacking under the previous administration. The bungled vaccination drive confirms that SA is not perfect, however, we do expect that, in the end, vaccines will be made available.

SA asset classes (both equities and bonds) have performed better than their global counterparts this past quarter (1Q21) as the country benefits from the cyclical upswing. New uses for our mineral resources in greener energy may see SA prosper for a while yet. Local asset classes will quite possibly continue to outperform in the short term.

In the context of managing our clients' wealth, we maintain our view that diversification is of the utmost





































importance and that investors should seek to strike the right balance between domestic and foreign assets. The rand has strengthened against the US dollar and it is now close to our estimation of its fair value. Investors who have not yet done so, should think about taking some money offshore at current exchange rates. The rand is still in a strengthening trend and, while the exchange rate may yet improve, this is a good time to at least look to diversify some of your investments to offshore destinations.

SA asset classes (both equities and bonds) have performed better than their global counterparts this past quarter (1Q21) as the country benefits from the cyclical upswing

In this regard, some diversified exposure to global equities, global bonds, and alternatives such as hedge funds and structured products would make sense for many investors. This should form part of your long-term investment strategy and we would caution against getting too caught up in the short-term performances of these asset classes. Over time, patience and diversification are the keys to investment success, while offshore assets do bring some peace of mind. ➤

Asset Allocation

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

Asset class	Current stance			Expected returns (local currency) (%)
	Negative	Neutral	Positive	
LOCAL				
Equity				12.6
Bonds				9.8
Flexible income				6.3
Listed property				8.5
Core income				5.0
Alternatives*				10 – 15
Rand/US\$ (rand marginally stronger)				-2.5
GLOBAL				
Equity				5.0
Government bonds				0.4
Corporate credit				1.0
Listed property				3.0
Cash				0.1
Alternatives*				5 – 10

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

Asset Allocation Summary

The range of possible outcomes for the various asset classes seems to be narrowing, though it is highly dependent on your outlook on vaccines, economic growth, and inflation. We have decided to display the possible outcomes as a series of graphs below. Anchor's base case is somewhere between the scenario of growth accelerating from current expectations and the scenario of an economic speedbump slowing growth rates in the near term.

There are remarkably few changes since our last document, although we are incrementally more bullish on JSE-listed shares and have shifted to overweight based on

the skew of risks to the upside as the current environment is likely to continue. The index level returns might seem quite pedestrian; however, we expect that there might be quite significant swings in the performance of the shares underlying the index.

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

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

Source: Anchor

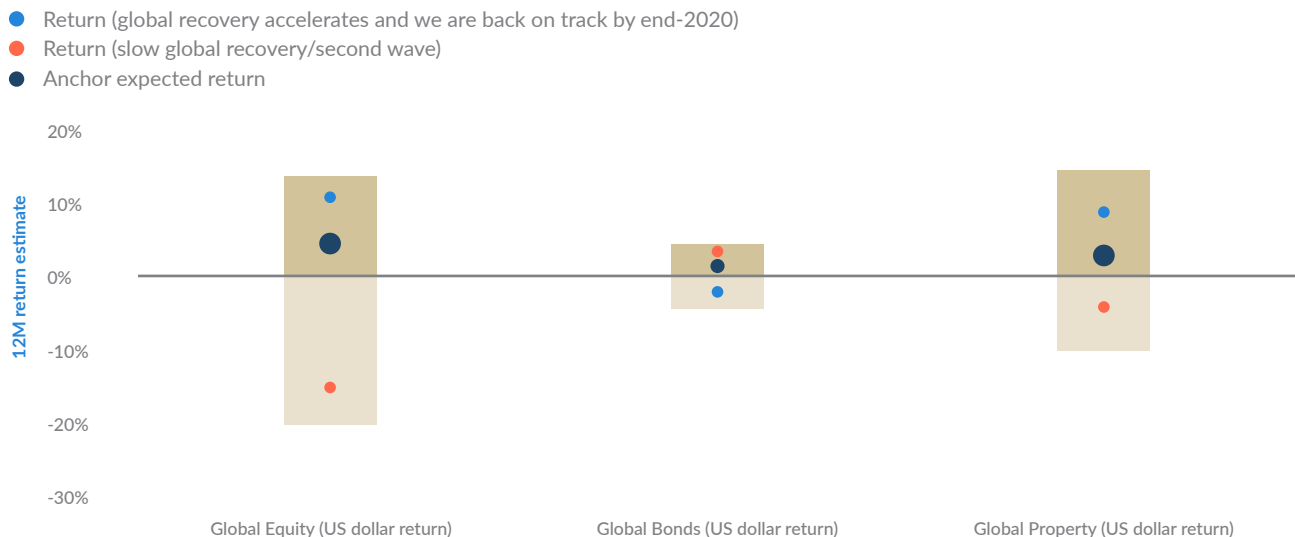


Figure 2: Anchor expected return by offshore asset class

Source: Anchor

	Global equity	Global bonds	Global property
Anchor expected return (in US dollar)	5.0%	0.7%	3.0%



In Figure 3 below, we highlight the rand return outlook for several domestic asset classes. The bar represents the reasonable range of possible outcomes, with the dots representing our estimate of what the outcome will be

under the various scenarios. From a domestic investor perspective, bonds are the most attractive asset class on a risk-adjusted basis, but we should also not ignore local equity which is starting to look compelling.

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

Source: Anchor

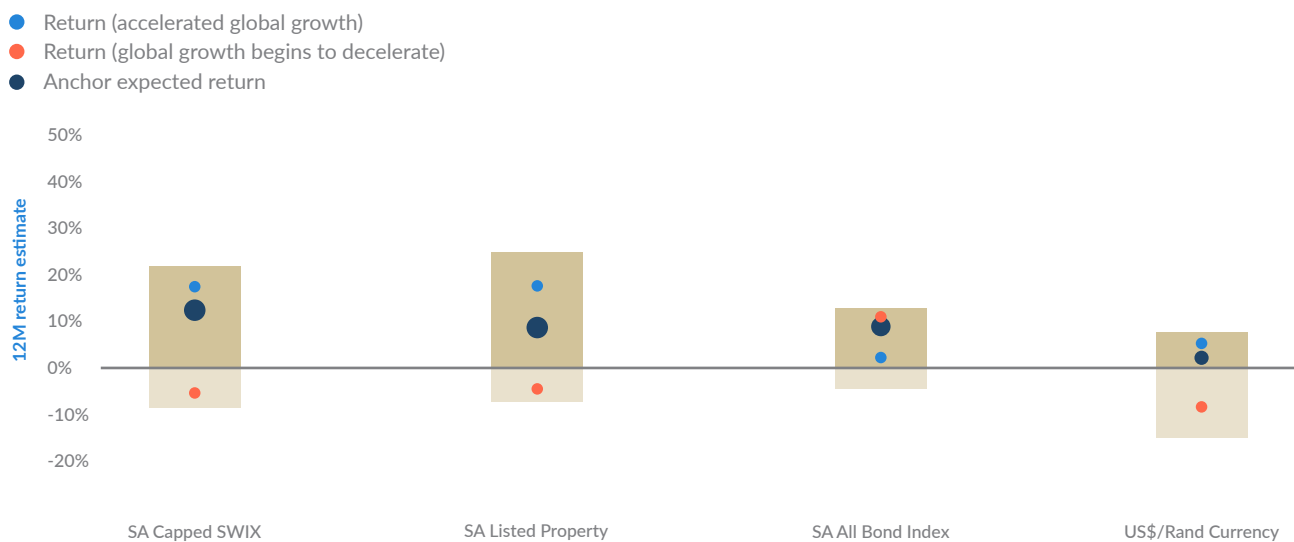


Figure 4: Anchor expected return for domestic asset classes

Source: Anchor

	Domestic equity	Domestic bonds	Domestic property	US\$/rand
Anchor expected return (in rand)	12.6%	9.8%	8.5%	2.5%

Strategy and Asset Allocation

ECONOMICS

As we enter 2Q21, there are increasing signs of divergence between global economies. Strict containment measures and increasing infection rates will hold back growth in some countries (such as India, Brazil, parts of the European Union [EU], and Africa), while other countries will benefit from effective health policies, faster vaccine deployment, and strong policy support. Nevertheless, the broad direction of travel is still one of optimism over world growth in 2021, as markets eye a gradual loosening of restrictions. Global GDP growth forecasts currently range around 5.5%-6%, with global output set to rise above pre-pandemic levels by mid-2021. However, despite the improved global economic outlook, output and incomes in many countries at the end of 2021 will remain below the levels expected prior to the pandemic.

A common theme in global markets since the start of this year has been the rise in inflation expectations. A combination of large fiscal stimulus, ultra-loose monetary policy, and renewed economic optimism has led market commentators to debate the potential for a rise in future inflation. Whilst cost pressures have begun to emerge in commodity markets due to the resurgence of demand and temporary supply disruptions, underlying inflation remains mild, held back by spare capacity around the world. In the most recent forecast round, the European Central Bank (ECB) and the US Federal Reserve (Fed) have made large upward revisions to their inflation outlooks for 2021, with the Bank of England (BoE) making a more modest upgrade. In comparison, the inflation outlook beyond 2021 was left relatively unchanged, with only minor upward revisions made across the three central banks. This reinforces the narrative reiterated by both the Fed and the ECB that any increase in inflation this year will be a purely transitory rise, which is somewhat at odds with market expectations.

Regardless, against rising short-term interest rates and inflation expectations, government bond yields have risen sharply. March saw US President Joe Biden sign his \$1.9trn American Rescue Plan into law, adding to the Trump administration's \$900bn COVID-19 relief package

from December 2020. Taken together, this represents an unprecedented fiscal boost worth 13% of GDP. In addition, further stimulus measures were announced in March, with Biden unveiling a US\$2trn American Jobs Plan, which will focus on increasing spending on major infrastructure categories as well as confronting climate change and attempting to curb wealth inequality over an 8-year period. The plan is expected to generate "millions of new jobs" and, to help pay for it, the Democrats aim to part-fund it with tax hikes. However, the tight party balance in the Senate casts doubt on the feasibility of sanctioning any tax rises, which would maximise the total fiscal stimulus.

Across the seas towards Europe and Asia, attention remains firmly focused on the race between the spread of the newer and more contagious strains of COVID-19 on the one side and vaccinations on the other. In Europe, the pace of inoculations has been too slow to contain a resurgence in infections. As a result, social restrictions have had to be extended in several countries. This will hold back the economic recovery in 2Q21 and explains the ECB's insistence on countering any tightening in financial conditions for the time being – including its decision in March to front-load quantitative easing (QE) or bond purchases. But, if vaccinations take the planned step up during 2Q21, then activity should rebound strongly within the medium term.

Locally, SA's public finances continue to present a big problem with no easy solutions. National Treasury's (NT's) 2021/2022 Budget, tabled in February, was arguably the most important and difficult budget since the dawn of democracy in 1994. SA's fiscal situation remains precarious and the country's debt service burden is unsustainable, so striking the right balance between providing relief and improving the fiscal prognosis of the country was imperative. Overall, the budget struck a confident note, and was viewed in a positive light by financial markets. However, government remains in a tight race to repair its finances and, whilst there has been credible progress, execution risk continues to remain high.

Overall, we believe that NT has done as much as it can at this stage to beat back any further ratings downgrades within the short- to medium-term, although ultimately this will depend on the execution of this fiscal strategy and the implementation of growth reforms. The Budget Review reports encouraging, albeit gradual, progress with the turnaround at the SA Revenue Service (SARS). However, general state-owned enterprises (SOE) reforms (outside of progress with energy reforms), remain frustratingly slow. Only time will tell if progress with proposed growth reforms augment with the necessary fiscal consolidation to ensure SA's debt stabilisation. Until the health risks associated with COVID-19 are sufficiently under control, a more durable recovery in confidence and economic activity will be difficult. On balance though, we expect that SA will continue to rebound from the lockdowns of

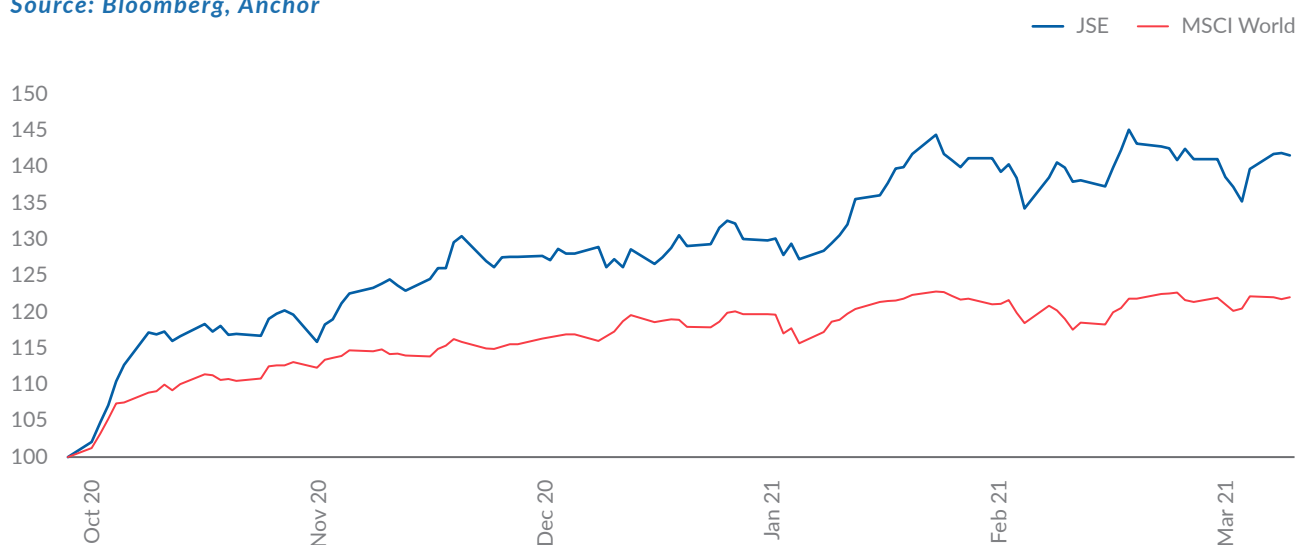
last year and we expect above trend economic growth this year and next.

SA EQUITY

The FTSE/JSE Capped Swix delivered a commendable 12.6% rand-denominated total return in 1Q21 and was a noticeable outperformer relative to most global equity markets, which delivered a return of 5.04% in US dollar terms (the comparable US dollar return for the JSE was 11.9%). The JSE's outperformance represented a continuation of a trend that started at the beginning of November 2020, when vaccine efficacy was first published, and which also happened to coincide with a change of guard in the US presidency.

Figure 1: FTSE/JSE Capped Swix total return relative to the MSCI World (in US dollar terms)

Source: Bloomberg, Anchor



In our previous Navigator ([The Navigator - Anchor's Strategy and Asset Allocation, 1Q21](#), dated 14 January 2021), we highlighted several factors unique to the construction of the JSE that make it well placed to benefit from the ongoing rotation in equity positioning - away from the defensive attributes of growth names and into those sectors more reliant on a cyclical uptick in global growth and inflation (value/cyclical type businesses on lower multiples). The current macroeconomic backdrop, with the expectation of rising global growth, higher inflation, and supportive conditions for many commodities seems to continue to suit the JSE which, at an index level, now comprises of more than 50% of listed counters being in

the financials and basic material sectors (both of which are net beneficiaries of rising inflation and commodity prices).

While the recent strong quarter (1Q21) for the Capped Swix should intuitively decrease the total return expectation for the market over the course of the next 12 months, we remain encouraged by the pace at which the return of the market has been matched by rising earnings expectations, particularly in those cyclical sectors and as a result our total return expectation has remained in the region of 12%.

As investors with a strong bias towards growth and quality, the continued market leadership by cyclical/value counters leave us with a relatively uneasy feeling as experience had led us to approach these types of value-driven equity market rallies with additional caution, forcing us to continuously reassess the sustainability of each move higher.

Navigating the notoriously cyclical basic material sector between now and the end of the year is arguably the mostly challenging portfolio construction decision JSE managers face, with optically cheap multiples (further amplified when applying spot commodity prices), which could potentially lure investors into a false sense of security in the assumption that low multiples really mean cheaper stocks. Barring one or two exceptions, investors cannot fault companies' management teams' handling of the most recent cycle. Capital allocation discipline (very little new supply) combined with, for the most part, "in line" production numbers, have resulted in management teams having navigated a particularly disruptive 2020 without fault and with the top lines having experienced a welcome boost from higher commodity prices as the levels of free cashflow generated by the sector has hit a record high. For investors to remain invested from these levels, where an investment thesis cannot rely on any form of the "self-help" element that it did a few years back when balance sheets were stretched, investors need to be comfortable with the sustainability of demand for various metals being produced.

For us, the most interesting development in the sector is the relatively high intensity of commodity usage in the transition away from carbon-intensive energy production towards a cleaner, more sustainable, energy future. As managers we are reluctant forecasters of future commodity prices, but one aspect of the future that we are comfortable to take a firm view on is that the movement towards greener energy production is real, and that some key commodities (copper, aluminium, and the battery commodities) will be in structural demand for the foreseeable future, most likely at the expense of oil, coal, and iron ore. For now, the risks of lower commodity prices in base metals seem to largely reflect in the prices of the equities and, as a result, our total return expectation over the next 12 months remains in the double-digits.

Turning to the more domestically focussed sectors of the market, we entered the year incrementally more bullish on domestic stocks for the first time in a while,

with the net result being an upweighting of retailers and industrials in our core equity mandates. The decision to upweight was not driven by top-down factors, with SA's economic outlook still facing severe structural challenges but more driven by some company specific opportunities.

We have been particularly encouraged by the way certain management teams have navigated the past year, with some of our investee companies emerging from the crisis with highly cash-generative businesses, clearly articulated strategies on capital allocation, and growth ambitions. Companies such as Mr Price, Transaction Capital, Woolworths, and Shoprite come to mind. Even a business like MTN, continuously plagued by the uncertainties of doing business in frontier markets, has done a good job in comforting us that it is on the right track in terms of selling non-core assets, reducing debt, and simplifying its business, while also delivering encouraging operational metrics.

For us, the most interesting development in the sector is the relatively high intensity of commodity usage in the transition away from carbon-intensive energy production towards a cleaner, more sustainable, energy future.

As a result, earnings revisions keep moving in the right direction and with the base set relatively low, after many years of operating in a lacklustre growth environment, we see significant upside optionality should some top-line growth emerge.

In terms of the large cap, rand-hedge industrials, we continue to view a business such as Bidcorp as one of the best placed, locally listed companies to benefit from the unlocking of the global economy. We remain of the view that investors are underestimating the upcoming wave of consumer euphoria as lockdown restrictions are lifted in the UK and Europe, two of Bidcorp's key food service markets. There are no businesses listed in SA as geared to a "return-to-normal" in Europe as Bidcorp and we feel that local investors are placing too low a probability on Bidcorp surpassing its FY19 profit numbers by FY22.



It is also encouraging that our process seems to be uncovering a wider breadth of opportunities across the local market than we have seen in a while. From Aspen's J&J JV on vaccine production, to Wilson Bayly Holmes Ovcon (WBHO) being a beneficiary of increased local mining capex or Raubex's strong market positioning for increased spending on infrastructure, opportunities certainly seem to be emerging more frequently than we have been accustomed to in recent years. As always, the goal is to remain focused on quality, capital allocation and trustworthy and competent management teams. There is no shortage of these in SA, let us just hope that the political environment presents the right backdrop to leverage off.

SA BONDS

SA bonds began 2021 with a period of strength through to early February. However, thereafter the US 10-year yield began to increase, dragging EM bond yields higher. As a result, SA bond yields are higher over the past quarter (for 1Q21 the R2030 benchmark went from 8.725% to 9.465%). The local yield curve remains steep, and we believe that this once again presents investors with a strong yield-to-term relationship. Longer-duration debt remains more attractive as long as the short-end of the curve is pegged down by the repo rate (currently still at 3.5%).

The most recent SA Reserve Bank (SARB) Monetary Policy Committee (MPC) meeting unanimously resolved for a hold on interest rates. This was in sharp contrast to past meetings, where the split was between holding and cutting (with holding being the view of the majority in the MPC). This, in turn, has fed some expectations of future rate hikes into the market.

At present, the forward rate agreements' (FRA) Strip prices factor in a 50-bpt rate hike to the end of 2021, with a further 125-bpt increase priced in by the end of

2022. We are of the view that the market is being over exuberant on its rate hike expectations for SA, and we expect a sluggish economy and slow inflation to keep rate hikes in check. Thus, the repo rate is expected to slowly drift upwards over the next 2 years.

Nevertheless, the current yield on offer from the R186 of 7.46% (with a maturity date of end-2026), makes it a very attractive bond to hold in the near term. Given the low recent inflation prints (and expectations for near-term inflation to print in the 3%-4% region), SA 10-year debt currently offers a real return north of 6%.

Looking ahead, we foresee fair yields slightly below current levels, implying that there is capital appreciation, as well as interest income, to be generated by these SA Government Bonds (SAGBs). We are pencilling in a 12-month total return on the All Bond Index of 9.75%, which comprises interest income of 9.0% and capital gains of 0.75%.

SA RAND

Rising global yields have not put a dampener on the rand, which has continued to strengthen, supported by strong terms of trade keeping the trade balance positive. The higher domestic real yields and the stronger performance of the domestic equity market have also played a role in supporting the local currency. In the near term, we expect that these supportive factors will continue to support the rand, although their benefits will likely dissipate towards the end of this year.

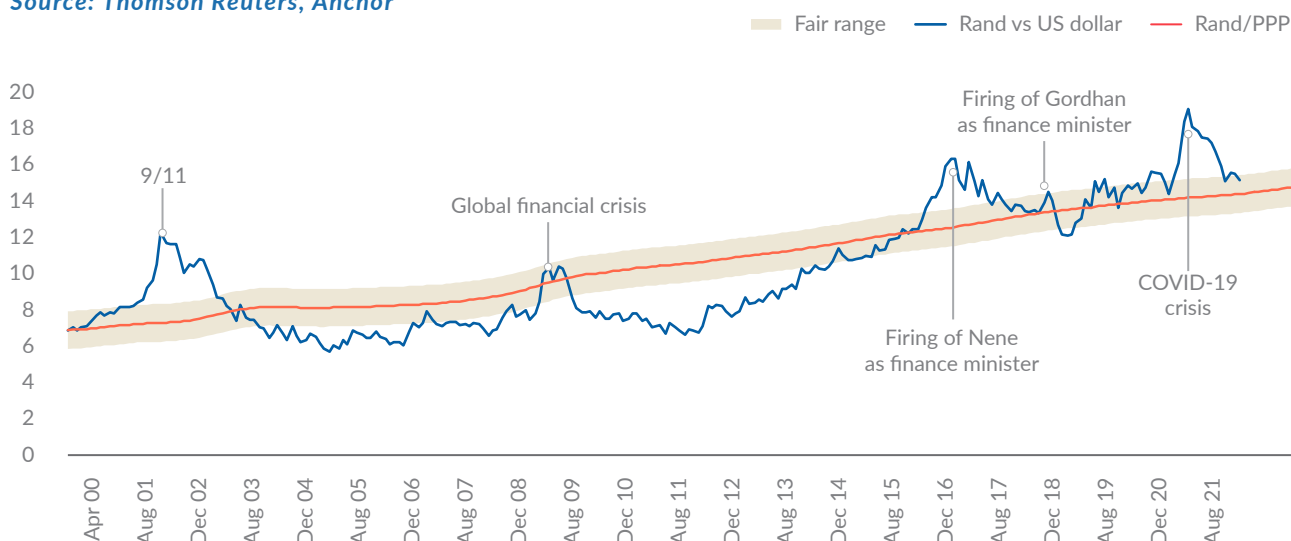
Projecting the rand's value in a year's time is a fool's errand. The rand vs US dollar exchange rate is one of the world's most volatile currency pairs and trades well away from any modelled fair value for long periods. We note, however, that the rand trades within a R2.50 range to the US dollar in most 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 the publication of *The Navigator - Anchor's Strategy and Asset Allocation, 1Q21* report on 14 January 2021. Our PPP-modelled value for the rand vs US dollar at the end of the next 12 months is R14.38/\$1 (See Figure 2). We apply a R2.00 range around this to get to a fair value range of between R13.38/\$1 and R15.38/\$1.

We expect the rand to remain particularly volatile even though we do think that it might touch the mid-point of our fair band before weakening again. This would imply that we see scope for up to a 2.5% improvement from the rand's current levels as global macro factors dominate.

Figure 2: Actual rand/US dollar exchange rate vs rand PPP model

Source: Thomson Reuters, Anchor



GLOBAL EQUITY - THE BULL MARKET CONTINUES ...

Global equity markets ended 1Q21 around 5% higher (MSCI World +4.9%, S&P +6.2%, FTSE up 11.3%, emerging markets [EMs] +2.3%). This was our projected return for 2021, with market levels now exceeding almost all of the 2021 year-end targets set by global investment banks at the end of 2020.

Our view at the beginning of 2021 was that we remained in a bull market and equity returns were likely to remain positive, with the risk of our projected return being exceeded over the short term. Our projection was for a 5%, 12-month US dollar forecast return for the MSCI World Equity Index.

We retain this positive view and our 12-month projection of a 5% US dollar return, with only high valuations preventing us from stretching our target to double-digits. During 1Q21, global GDP forecasts were upgraded and US earnings results for 4Q20 came in a full 17% higher than what was forecast three months earlier (5% earnings growth vs a consensus forecast of -12%). Businesses have recovered from the effects of the pandemic significantly faster than expected, driven by high commodity and energy prices and rapid growth from the big tech companies.

The *International Monetary Fund's* (IMF) GDP forecasts show a sharp rebound in 2021, with an above-trend growth again for the next two years as the recovery completes.

Figure 3: IMF global GDP growth forecasts*Source: IMF, Bloomberg, Anchor*

The growth in Figure 3 above will translate into strong company earnings growth, as shown in Figure 4 below. The table shows the projected earnings growth and

forward P/E multiples of the world's most meaningful indices.

Figure 4: Projected earnings growth and fwd P/E for selected major global indices*Source: Bloomberg consensus*

Name	Earnings growth		Fwd P/E, x	
	Year 1	Year 2	Year 1	Year 2
MSCI World Index	48.0%	11.9%	19.2	17.2
MSCI EM Index	11.7%	20.9%	16.1	13.3
MSCI All Country World Index (10% EMs)	41.1%	12.2%	18.8	16.7
S&P 500 Index	33.2%	15.9%	21.9	18.9

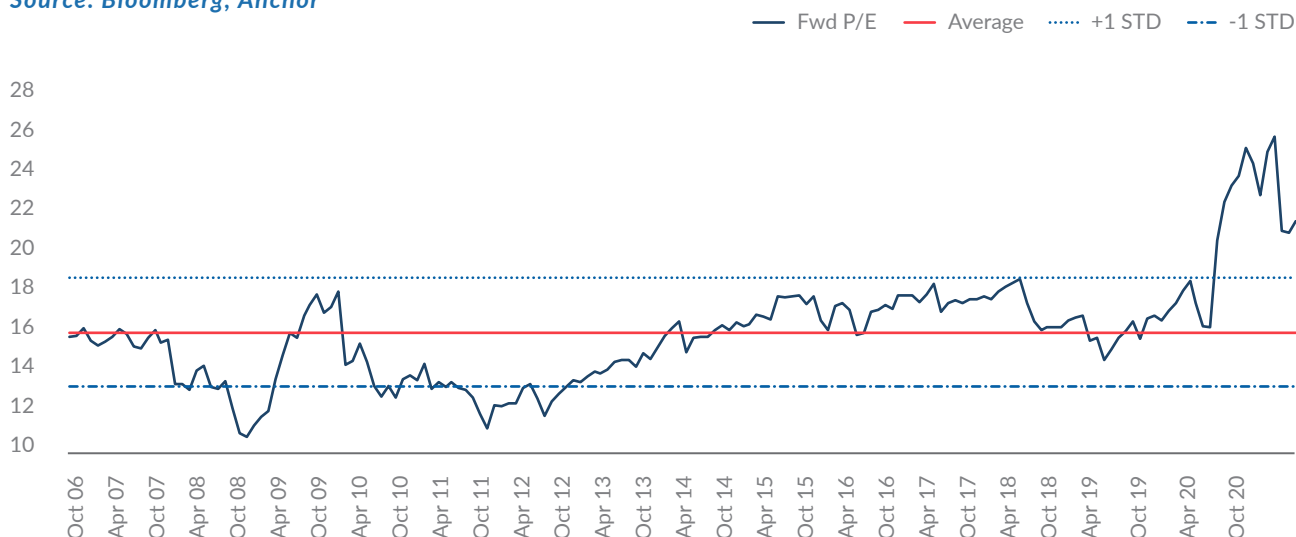


A recovery-driven 2021 48% increase in global earnings (many companies made losses in 2020), however is at least partially priced in, with the MSCI World forward

P/E of 19.2x - well above the long-term average shown in Figure 5 below:

Figure 5: MSCI World fwd P/E

Source: Bloomberg, Anchor



So, the market is priced for strong growth and investors should balance caution with optimism in projecting future returns. There are many factors that can change sentiment and, at these valuation levels, the impact could be material. Conditions are great for businesses looking forward, but 1Q21 saw the first sign of concern from markets that the recovery was too rapid. Worries about stimulus-induced growth resulting in inflation rising too fast saw US 10-year bond yields more than double. This resulted in a sharp drop in 2020's growth shares and a matching rise in the more cyclical and "recovery" plays.

Depending on an investor's positioning so far in 2021, the investment experience has been markedly different. We think this could continue to be the case and below we outline the prospects for what we consider to be the different categories of global equity markets:

GLOBAL TECHNOLOGY SHARES

Depending on what you include in this category, technology companies now make up close to 40% of global stock markets. This is where the long-term growth is and should form the core of any investment portfolio. But quality growth does not come cheap, and this sector of the market delivered remarkable returns in 2020, and in many instances became fully valued. They have so far underperformed in 2021, as the recovery, and certainty, of the earnings of more cyclical and COVID-19-impacted businesses has been a better short-term bet. One should

also differentiate between the larger-cap tech companies (Alphabet, Facebook, Alibaba etc.), which we think are now offering significant value, and the smaller tech companies, which have come off 20%-40% from their highs and are starting to, once again, offer pockets of good value.

CYCLICAL MATERIALS SHARES

We have been in a structural commodity boom market and prices of many commodities are now around all-time highs. Share prices are mostly pricing-in a sharp drop over the next 12 months in commodity prices and, if these are sustained for a reasonable time, there could be continued strong performances from these shares. Infrastructure spend will be strong globally for some time and the path of Biden's new infrastructure plan will be followed closely.

FINANCIAL SERVICES

Conditions in 2021 are likely to be great for US banks. Higher bond yields make it easier to make money and higher interest rates (which will happen eventually), mean higher returns for bank balance sheets. Overly conservative provisions made in 2020 will be partly reversed and we believe that consumer demand will grow meaningfully for the next 12-24 months. Quality banks have rebounded strongly already, and these banks are no longer in the value category, but momentum should continue. We believe there is more upside.



GLOBAL INDUSTRIAL BUSINESSES

This segment covers a broad range of businesses, but the general recovery should mirror the economic recovery. The better-quality businesses have already bounced back, but there is a segment of recovery plays (airlines, hotels, cruise liners, etc.), where confirmation of an end to the pandemic could still see material rises in share prices. We see great value in global pharma companies, which offer investment profiles that we consider attractive – 10%

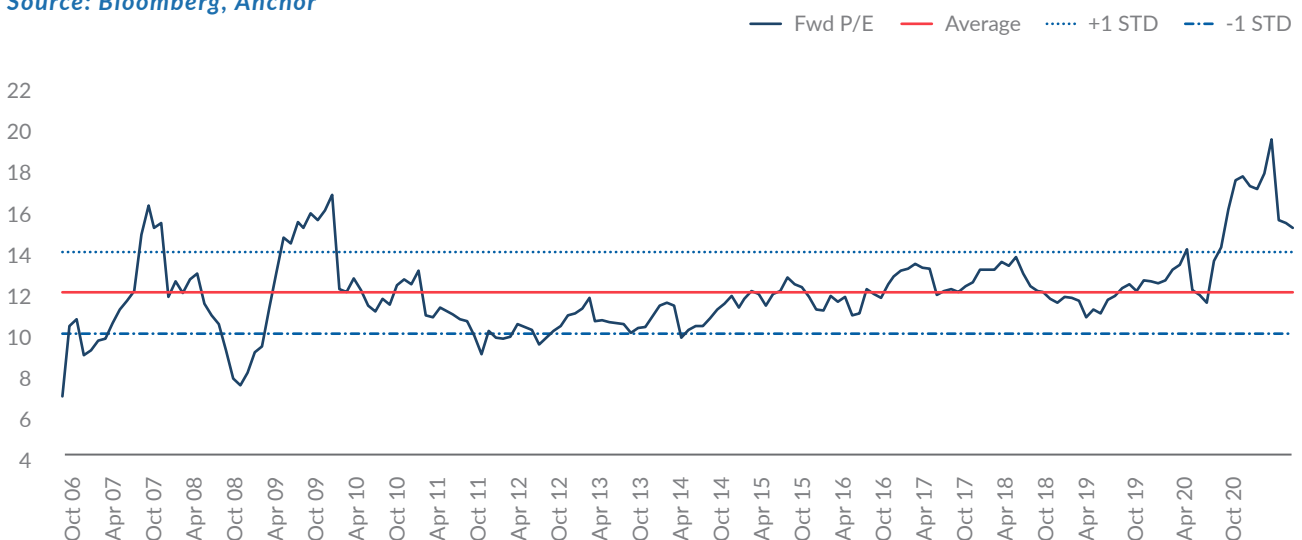
earnings growth at 10x P/E multiples, with an example of this being a company like GlaxoSmithKline (GSK).

EMS

EMs obviously cover all of the categories above but tend to move in unison. If markets continue upwards and the world maintains its “risk-on” stance, *Figure 6* below shows that valuations are a lot more attractive and offer potentially bigger upside.

Figure 6: MSCI EM fwd P/E

Source: Bloomberg, Anchor



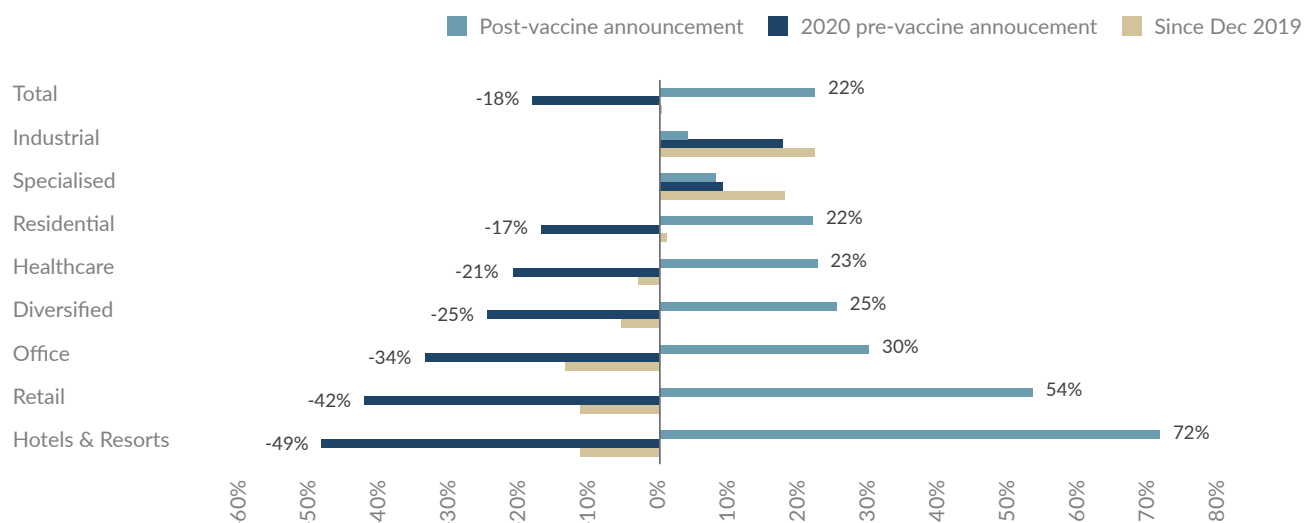
Markets are far from homogenous and stock picking becomes increasingly important when valuations are high. Our base case is for the market to move upwards, and we can still compile a share portfolio with appealing prospective returns, but we also note that our caution increases as the market rises.

GLOBAL PROPERTY

The rotation that started in early November 2020, with announcements confirming the launch of effective COVID-19 vaccines, gathered momentum into 2021 and, while most of the pandemic-affected, global listed property sectors are below their pre-COVID 19 levels, they have recovered significant ground.

Figure 7: DM-listed property sectors most affected by the pandemic have recovered significant ground since news of effective COVID-19 vaccines

Source: Anchor, Bloomberg



The recovery has driven forward dividend yields for US real estate investment trusts (REITs; 3.5%) to below their pre-pandemic levels (4%), and, while some of this can be explained by the slightly lower interest rate environment

(US 10-year government bond yields are also about 0.2% lower than their pre-pandemic levels), it is fair to say that the recent rally has already discounted a fairly rosy outcome.

Figure 8: Forward dividend yields are back below pre-pandemic levels for many US REIT sectors

Source: Anchor, Bloomberg

Sector	Current	Dec 2019 (pre COVID-19)	Yield change
Retail	4.5%	5.2%	-0.7%
Industrial	2.5%	2.6%	-0.1%
Residential	3.1%	2.7%	0.3%
Office	3.6%	3.2%	0.4%
Specialised	3.6%	4.2%	-0.6%
Diversified	4.7%	4.7%	0.0%
Healthcare	4.3%	5.0%	-0.7%
Hotels and resorts	0.5%	5.8%	-5.3%
Total	3.5%	4.0%	-0.5%
US 10-year bond yield	1.8%	1.9%	-0.2%

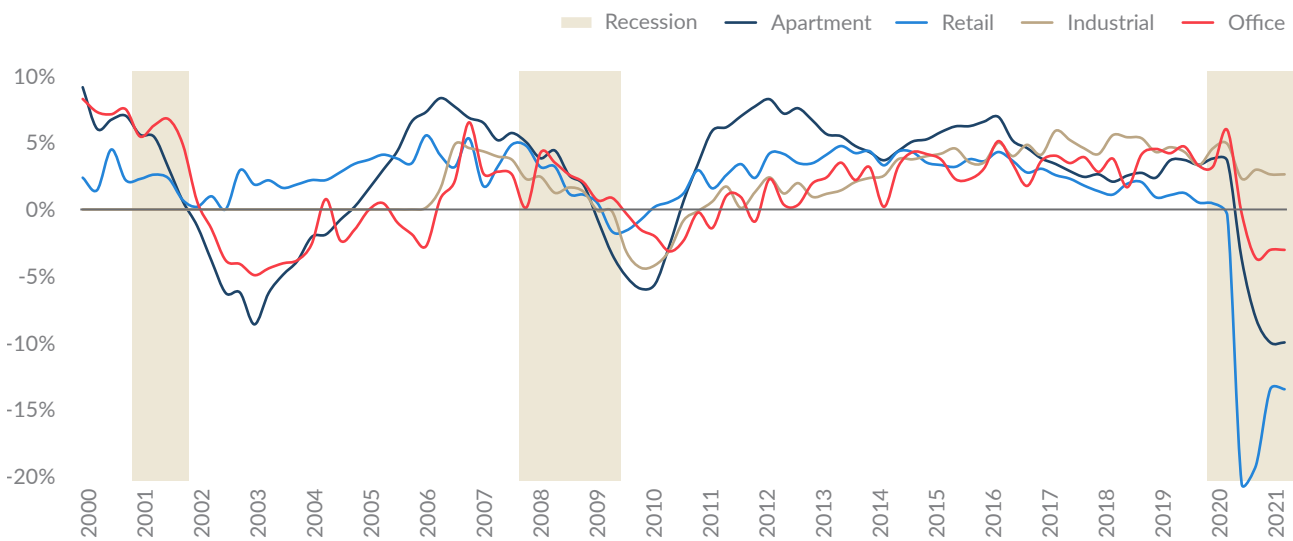
In this regard, the sector that sticks out like a sore thumb is the hotels and resorts sector, which is a fairly immaterial corner of the global REIT market and is dominated by a few US hotel operators. These REITs experienced significant operating losses in 2020 and analysts are not particularly optimistic about the prospects of them

paying dividends in 2021.

The North American REIT Association (NAREIT) estimates that the average net operating income (NOI) for US REITs fell significantly during the pandemic.

Figure 9: US REITs experienced significant declines in NOI during the pandemic

Source: Anchor, NAREIT, Bloomberg

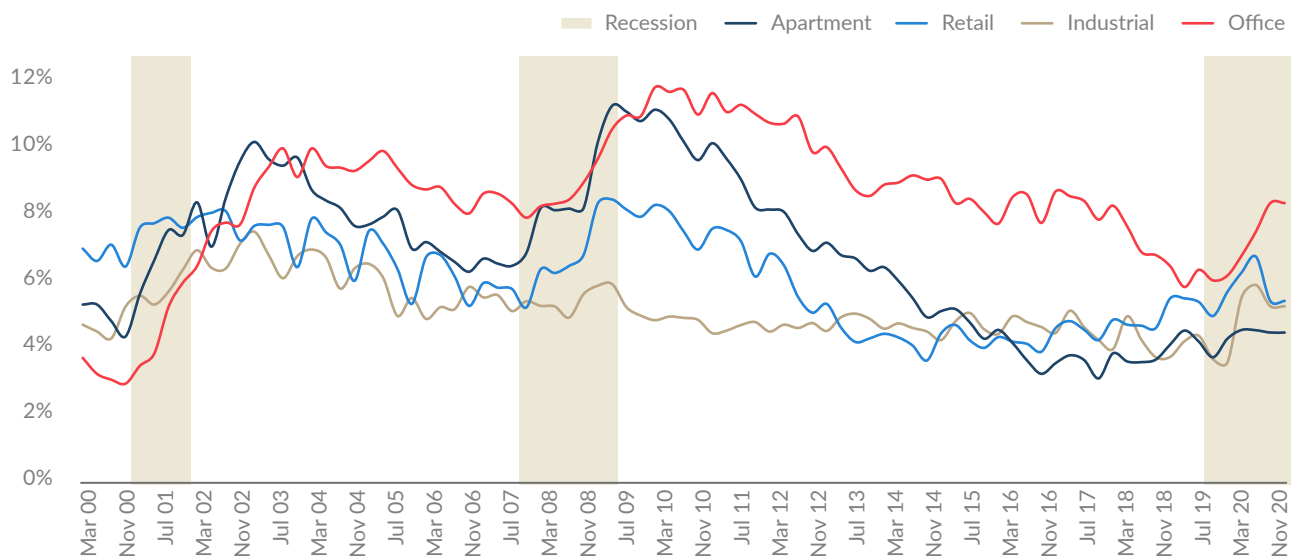


Despite the largest NOI declines in 20 years for many sectors, the bulk of this came without material increases in the average vacancy rates, with the office sector the

only major REIT sector to see a material rise in vacancy rates.

Figure 10: Increases in vacancy rates for US REITs have been fairly subdued thus far

Source: Anchor, NAREIT, Bloomberg



Historically, vacancy rates have taken a couple of years to peak, as long leases have resulted in a prolonged adjustment in most commercial property sectors. Given the external nature of this economic crisis, it is tempting to factor in a V-shaped recovery to rentals and no need for a prolonged rise in vacancy rates. The challenge with the current COVID crisis, like with most others, is deciding whether the behavioural changes it catalysed will be of a cyclical or structural nature. The office sector is one that has lots of question marks around the impact of a shift to more people spending more time working from home (WFH), while the retail sector, which was already struggling to adjust to a shift towards online retail activity pre-pandemic, saw the pandemic accelerate that trend.

The challenge with the current COVID crisis, like with most others, is deciding whether the behavioural changes it catalysed will be of a cyclical or structural nature.

On the flipside, those sectors that have benefitted most from the pandemic e.g., data centres and warehouses supporting online retail, are seeing supply accelerate on expectations that these pandemic-induced trends will persist. We think that 1Q21 US corporate earnings, due out shortly, will show a continuation of the trends seen last year, with a cautious tone about the trajectory from

management, that is likely to follow for the next set of results (2Q21) before green shoots of an improvement appear for subsequent quarters.

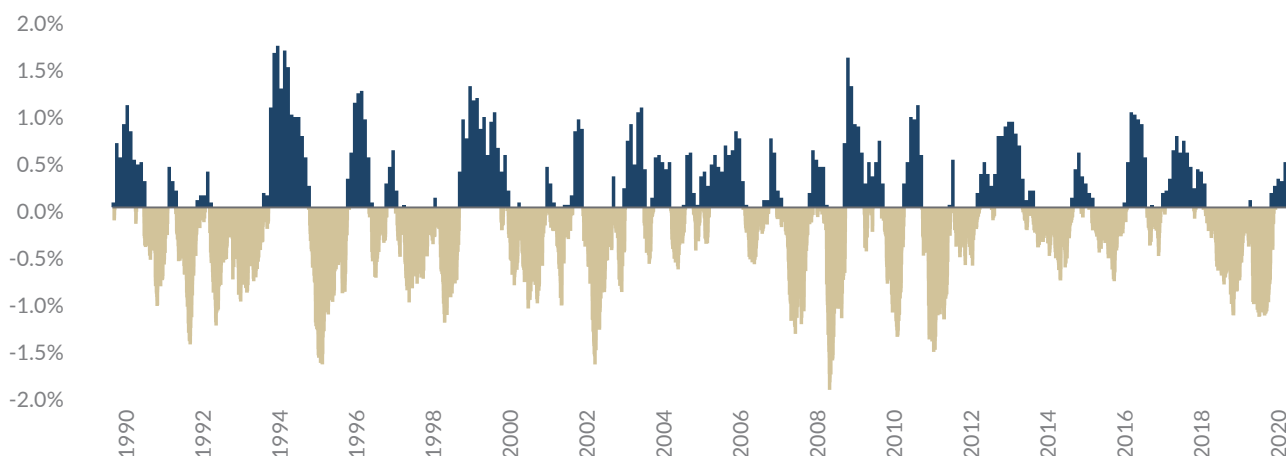
The cautious tone over the next couple of quarters should help keep a lid on valuations before a stabilisation in 4Q21 and 1Q22 changes the prospects. With a decent amount of good news already baked into current valuations and a reasonable amount of disappointing earnings still to be digested, we expect that investors in global REITs are likely to experience a mild capital loss, which should be more than offset by income, to deliver a 3% total return in US dollar terms over the course of the next twelve months.

GLOBAL BONDS

US 10-year bond yields, usually a topic that could send insomniacs to sleep, had an eventful 1Q21, even finding itself the subject of a few memes on the Reddit forum used by a new generation of tech-savvy young retail investors, WallStreetBets. The US government bond market is one of the largest and most important sectors of global financial markets (currently valued at more than \$20trn), since rates on US government bonds form the cornerstone of financial market valuations. So, it is difficult to underestimate the role of US government bond yields in financial markets but, as the proxy for “risk-free” investing, it is expected to exhibit fairly low volatility. The recent pace of moves in US 10-year bond yields (yields climbed > 1% in the past 6 months) is certainly large within historical context. In fact, this is only the third time in the past decade that we have seen a move of that quantum.

Figure 11: Change in US 10-year government bond yields over a rolling six month period

Source: Anchor, Bloomberg

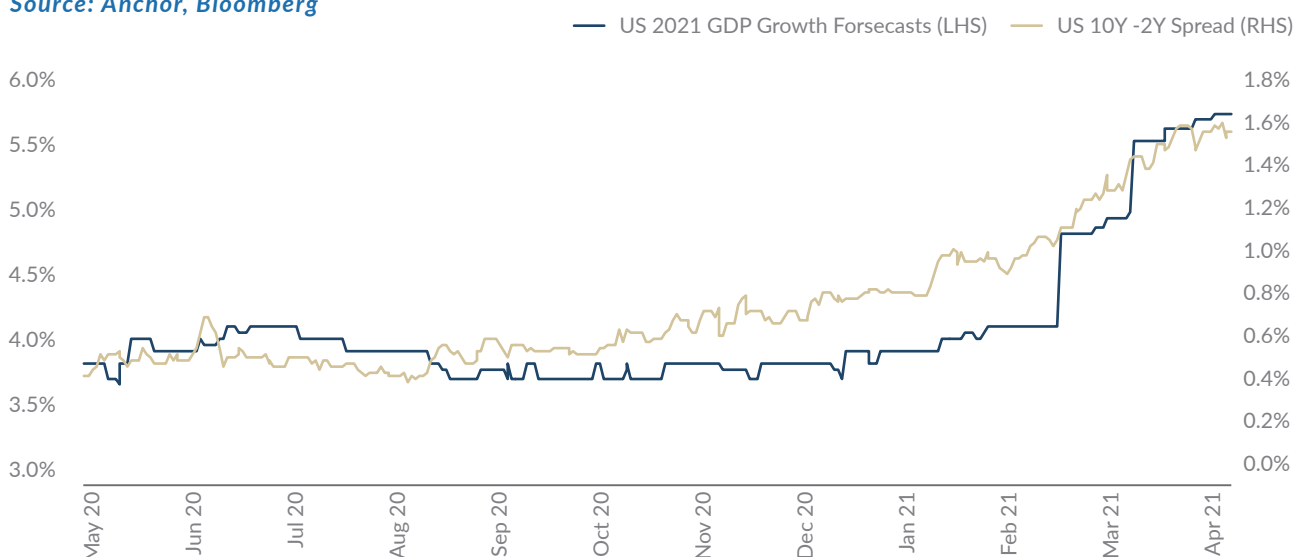


We were certainly amongst those caught off guard by the pace of the moves as we believed that ongoing central bank support would be enough to keep a lid on US 10-year bond yields. What has become clear is that, while investors are happy to follow Fed guidance that it will keep short-term rates anchored at around 0% for the next few years to ensure that it is not responsible for derailing the economic recovery, the market seems to be looking through that to a time when monetary policy will

normalise and that has been reflected in the “steepening of the yield curve” (i.e. market implied rates for tenors beyond the next couple of years reflect the removal of central bank support). Recent speeches by US Fed chair, Jerome Powell, have made it clear that the Fed is very comfortable with the market’s assessment that the economic recovery is on track and monetary policy will eventually normalise.

Figure 12: Most of the recent spike in US 10-year bond yields can be explained by increasing optimism about the pace of US economic growth post-pandemic and the prospect of monetary policy “normalising” beyond the next couple of years

Source: Anchor, Bloomberg



Our task now is to forecast the direction of rates from here and, from that perspective, we consider the following factors:

- How will inflation evolve?
- At what level do higher yields become unsustainable?

HOW WILL INFLATION EVOLVE?

We think that we will see some transitory inflation because of pandemic-induced supply chain issues and low base effects. However, the Fed will look through these and underlying structural trends and the composition of the US inflation basket will keep the Fed’s preferred measure of core inflation comfortably below 2% for most of the foreseeable future. (For more detail on this read our

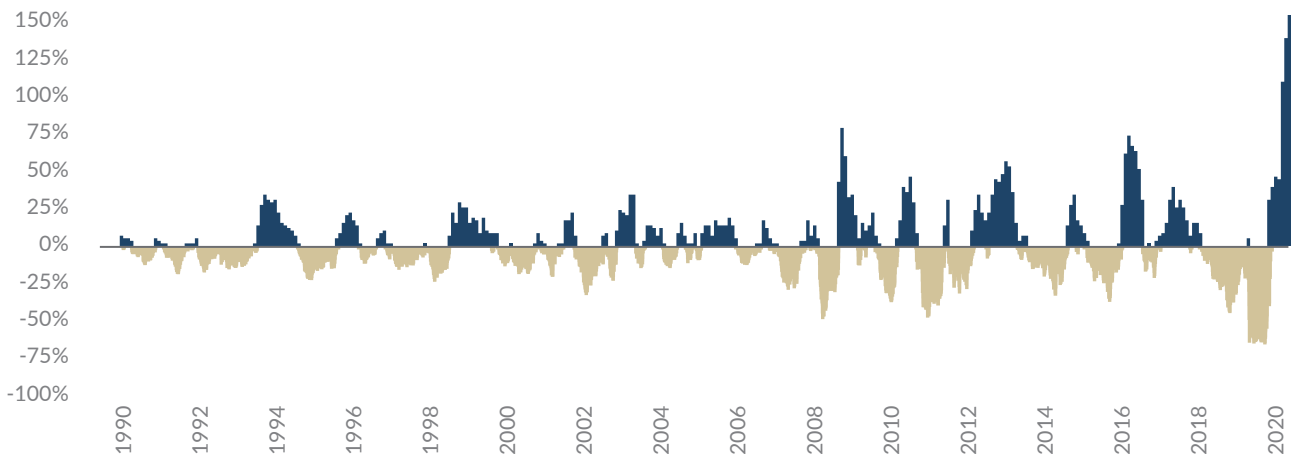
recent article entitled [Will inflation end the bull market?](#), dated 25 January 2021).

AT WHAT LEVEL DO HIGHER YIELDS BECOME UNSUSTAINABLE?

Earlier in this article, we discussed the recent change in US 10-year bond yields in absolute terms, but perhaps more pertinent to the debt sustainability discussions is the size of the move relative to its level. Over the past six months, yields have more than doubled off a low base (US 10-year bond yields were c. 0.7% six months ago). This is comfortably the biggest proportionate six-month move in US 10-year bond yields we have seen – more than double the proportionate move of any previous spike in yields.

Figure 13: Proportionate change in US 10-year government bond yields over a rolling six-month period (US 10-year bond yields more than doubled over the previous six-months)

Source: Anchor, Bloomberg

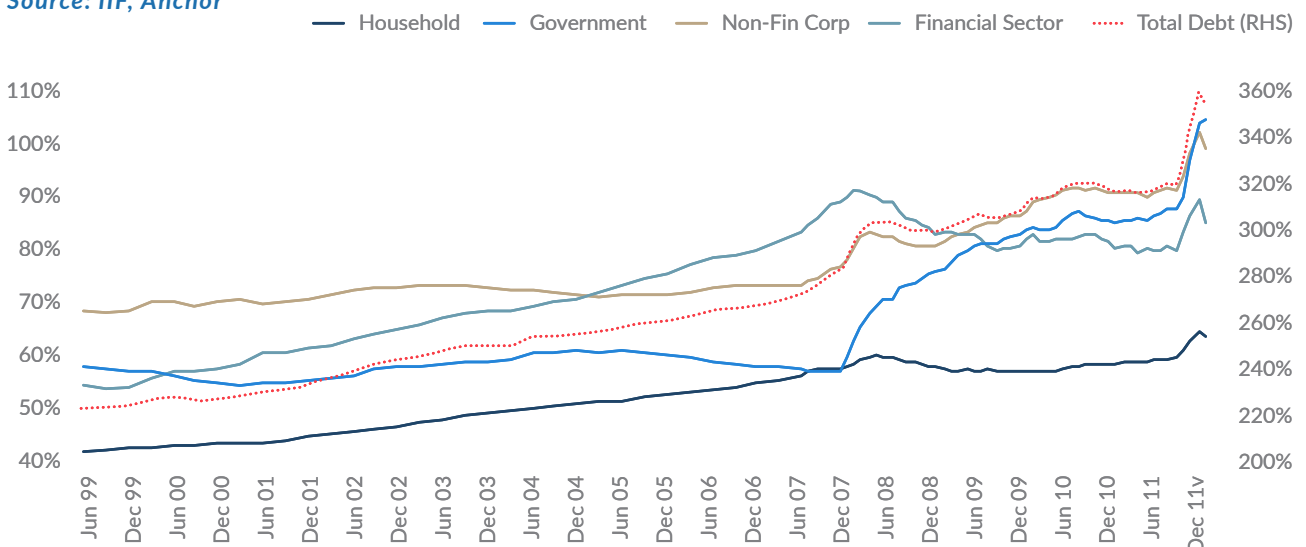


The proportionate move is relevant given the affordability of the world's current debt load as a function of historically low interest rates. Government debt, in particular, has ballooned over the past decade even as banks and households have worked to keep their indebtedness under control in the wake of the global financial crisis (GFC). While improving economic activity should help consolidate the level of relative debt, the sustainability of the debt requires interest rates to remain

near historic lows, particularly given that governments (particularly the major DM ones – the US, Europe, and Japan which owe the bulk of the debt) are significantly less able to reset their debt load via default like other major borrowers (households, corporates, and the financial sector). The alternative to default, which comes in the form of transferring the debt back to households and corporations via higher taxes, we think is largely politically unpalatable and much less likely to happen.

Figure 14: Global debt relative to economic activity has ballooned since the pandemic as governments have borrowed to prop up economic activity

Source: IIF, Anchor

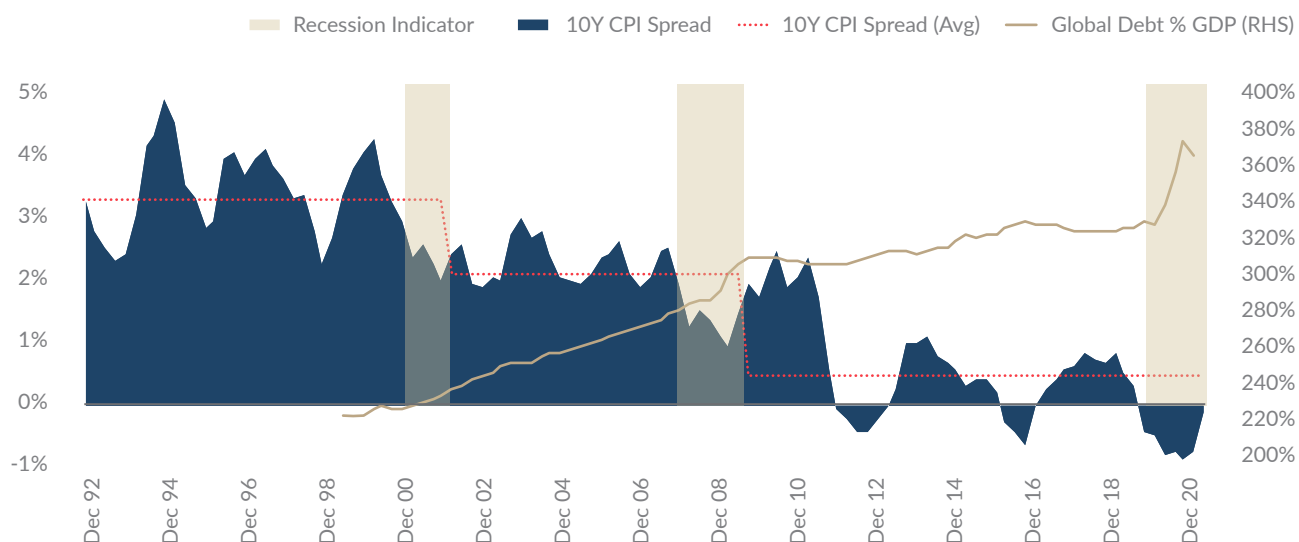


With that context, we think it is likely that we will see major central banks working to maintain real interest rates in a fairly tight range of around 0% as we have seen

over the course of the past decade, using QE as the tool with which to achieve that outcome.

Figure 15: The recent trend, where central banks use QE to manage real interest rates in a tight range around 0% is likely to persist to make current government debt levels sustainable

Source: Anchor, Bloomberg, IIF



So, with the current term premium on US government debt already factoring in a fairly rosy outcome, any spikes in inflation are likely to be transitory in nature and central banks are likely to use QE to manage the real interest burden on governments' heavy debt levels. We think US 10-year bond yields are likely to top out at around 1.85% over the course of the next year, leaving investors in US

10-year government bonds with a 0.4% total return. Even though US investment-grade corporate credit spreads are at their post-GFC lows, we think the strong economic trajectory likely supports them around these levels, leaving investors in the asset class with a total return over the next year of 1%. ➤



ANCHOR INSIGHTS

In this section, staff from across Anchor provide insights into our thinking, strategy, and view of the world. This quarter, Henry Biddlecombe outlines a tactical approach to investing in 2021, Nick Dennis asks if the sun is setting on the growth stock era, Seleho Tsatsi looks at the investment case for online travel agencies, Michael Sarris provides insights into offshore investing, and Sandy van der Zanden discusses pension vs provident funds and SA's changing retirement landscape.

A tactical investment approach to 2021



Written By:

Henry Biddlecombe
Fund Management

After working in the corporate finance team at Pinnacle Technology Holdings (JSE: PNC), Henry joined the Anchor investment team in 2015, initially as an equities analyst (contributing to both the local and offshore investment processes), and now as fund manager (he is co-manager of the Anchor BCI Global Technology Fund). Henry is a CFA Charterholder and holds a BCom Investment Management from the University of Johannesburg.

A year can be a long time in capital markets, with 2020 serving as a prime example! Once this article is published, it will be just over a year since the S&P 500 bottomed out on 23 March 2020 - having dropped by 34% since its peak (reached on 19 February 2020). Since then, the world's bellwether equity index has gone on to rebound by 76% (as at the time of writing), surpassing last year's all-time high by a significant 15%.

Many technology companies were perfectly positioned for a global lockdown, and their stock prices saw a severalfold increase.

The scale of the COVID-19 pandemic-induced initial sell-off, the resultant global fiscal and monetary response, and the subsequent rally, have left heads spinning. Essentially, we have borne witness to a full cycle in the space of just 12 months - which the last time around took five and a half years to play out. Understandably, most market strategists have since pulled their total return expectations for the equity market in the year ahead down to the low single-digits.

Our view on the market's prospects for 2021 is similar (see our market return expectations on page 4 of this report), however we still see an opportunity to beat the performance of the broader market through a

more proactive and selective approach to portfolio construction.

To avoid last year's drawdown, or to benefit fully from the recovery that followed, would have required decisive and committed action from investors - the very same type of behaviour that often results in the destruction rather than the creation of value. Indeed, if you made no changes to your portfolio throughout the crisis, there is a good chance that you are now even better off than before.

Nevertheless, it is also difficult to ignore the more tactical investment opportunities that were created by the violent swings in investor sentiment as the pandemic progressed through its various stages. Many technology companies were perfectly positioned for a global lockdown, and their stock prices saw a severalfold increase. On the opposite end of the spectrum, hospitality businesses were priced as if they were facing their end. Unwavering optimism, and excessive pessimism, acted on opposite ends of the market simultaneously, creating pockets of opportunity that would yield returns far in excess of the broader equity market (and may still).

Although the start of 2021 has brought with it a degree of "normalisation" on both ends - that is, growth stocks have experienced somewhat of a pullback, and the physical economy stocks have rebounded meaningfully - the disparate pockets of stretched optimism and obstinate pessimism are still evident.

It is in this context that we have identified several tactical investment opportunities which, collectively, stand a good chance of beating the likely anaemic performance of global equity markets in aggregate over the next 12 months. In this article, we will take you through how we are currently leveraging this for our clients through Anchor's 2021 Tactical Portfolio – which can be implemented as a segregated portfolio or as a carve-out in an existing solution.

TAKING A CALCULATED RISK ON A TRAVEL REVIVAL...

No sector was as obviously, or badly, impacted by the pandemic as the travel and hospitality industry. The abrupt and sweeping halt to the physical movement of people across the world would ground the global aircraft fleet, reduce hotel occupancy rates to zero, and cause cruise line bookings to evaporate.

Many businesses in this sector suddenly found themselves with no revenue, inflexible operating costs, and shrinking balance sheets – a formula that would likely end in near-term bankruptcy. Naturally, their stock prices would reflect this fast-approaching cliff's edge, with share prices falling anywhere from 70%-90% in 2020.

Fortunately, rapid central bank intervention kept funding lines open (e.g., Norwegian Cruise Lines recently raised US\$850mn in debt funding through senior unsecured

notes at a rate of 5.9%) and global pharma has started distributing effective vaccines with government spearheaded vaccination programmes already underway in many countries.

Although near-term holidaying and business travel activity levels are still near all-time lows, we are starting to see signs of green shoots. Delta Airlines, the US' largest domestic carrier, is set to end its pandemic policy on 1 May and will start booking middle seats again. Norwegian Cruise Lines' cumulative bookings for 1H22 are actually ahead of 1H19 levels (pre-pandemic!), and its planned 2023 *Around the World in 180 Days* voyage sold out **within one day** of opening for sale to the general public on 27 January this year – with more than one-third of those bookings coming from first-time customers.

While many of these stocks have retraced a significant proportion of last year's losses, they are still not pricing in normality – and the magnitude of their underperformance relative to the rest of the market over the past year is material.

If one were to calculate the prospective returns in this sector, in the event of a complete retracement to February 2020 levels, the opportunity even on a risk-adjusted basis looks attractive. Even if these stocks retrace just half of their drawdown from last year until now, the resultant return will almost certainly beat the market.

Figure 1: BEACH stocks prospective returns in the event of a 100% retracement to pre-pandemic levels
Source: Bloomberg, Anchor

Company	Stock price on 12 February 2020 (US\$)	Current stock price* (US\$)	Prospective return assuming 100% retracement
Norwegian Cruise Line Holdings Ltd.	54.21	27.59	96%
Carnival Corporation	44.06	26.54	66%
United Airlines Holdings Inc.	82.20	57.54	43%
Royal Caribbean Cruises Ltd.	117.23	85.61	37%
American Airlines Group Inc.	30.47	23.90	27%
Delta Air Lines Inc.	59.47	48.28	23%
Average			49%

*as at 2 March 2021.

None of these businesses are obvious investment opportunities at this point. They continue to face very real liquidity constraints should lockdowns persist. However, should our lives start to return to normal over the next year and should people start to move again – these stocks will very likely deliver strong double-digit returns from here.

Renowned business strategist Scott Galloway predicts that, once the pandemic subsides, the world may well experience a repetition of the early twentieth century's Roaring Twenties – a period of mass consumerism, when the world spent excessively on experiences, travel, and the pleasures a free post-war world had to offer. We share this view and hence, on a risk-adjusted basis, we view a basket of suppressed travel and hospitality-related stocks as a good tactical opportunity.

BUYING INTO THE WEAKNESS ACROSS US FINANCIALS...

There is no doubt that the macroeconomic conditions that befell the US banking sector last year were less than ideal. Global lockdowns resulted in furloughs and layoffs (the US unemployment rate briefly spiked to its highest level since 1948 at 14.8%), raising concern among

investors over the magnitude of credit book impairments that US banks would need to make. Additionally, the monetary response from the US Fed meant banks' net interest margins (the profit earned from lending money) would compress in absolute terms.

Consumer credit providers looked to be in an even worse position given the unsecured nature of their loan books, and markets responded by pricing in gigantic reductions in book values.

As we have highlighted previously, however, the combined response from the US Federal Government and the Fed was both rapid and meaningful – with payroll protection programmes keeping US consumers afloat, while QE ensured access to capital for banks and credit providers.

The point here is, as one looks forward, the trajectory of the profitability of US financial institutions is now pointed back towards a level of normality – a factor that we do not believe is fully priced into the sector, as yet.

In fact, looking at the basket of US financial services firms in *Figure 2* below, it appears to us as though they are still trading at meaningful discounts to their intrinsic values, assuming normalised levels of profitability.

Figure 2: US financial stocks prospective returns as measured by justified price-to-book value

Source: Bloomberg, Anchor

Company	Stock price (US\$)	Current price: Tangible book value (US\$)	Justified price: Book value (US\$)	Prospective return
Wells Fargo	39.07	1.2	2.0	69%
Goldman Sachs	327.00	1.4	1.8	25%
Synchrony Financial	40.66	2.4	2.8	17%
Bank of America	38.69	1.9	2.2	15%
US Bancorp	55.31	2.3	2.5	11%
Average		1.8	2.3	27%

Again, in the context of what will very likely be a flattish equity market over the next year, the prospect of healthy double-digit returns is appealing. Investing in a financial

sector that still exhibits fundamental value (at a time when other parts of the market exhibit the opposite!), makes sense to us from a tactical perspective.

BIG TECH'S BIG UNDERPERFORMANCE...

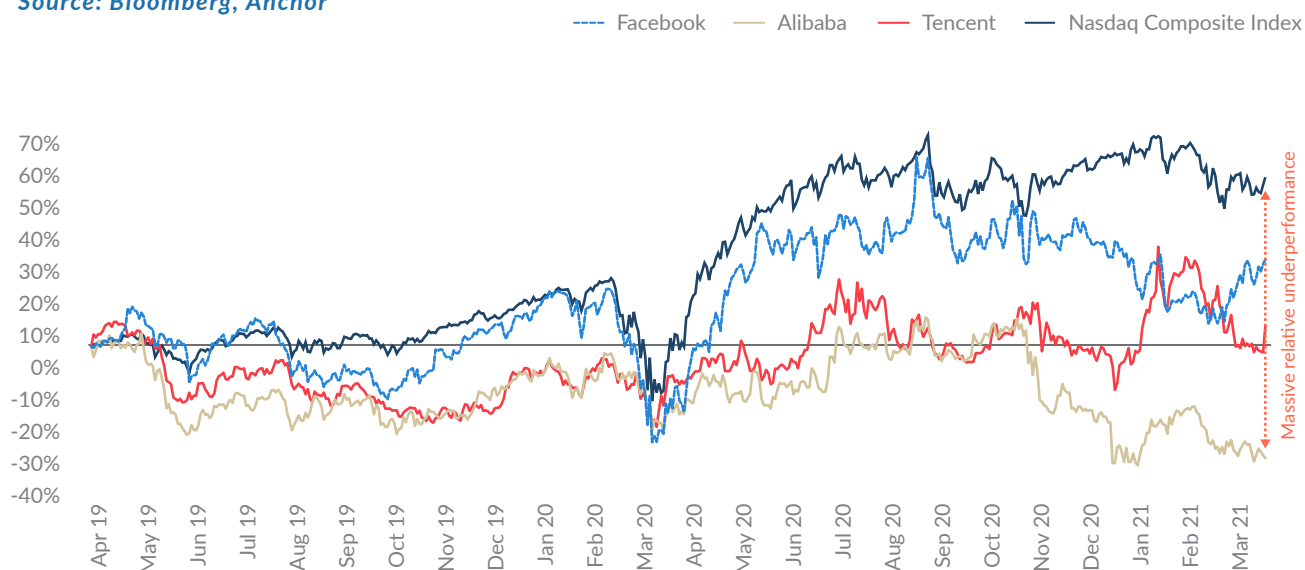
The pandemic was not the exclusive driver of markets last year, with a global wave of anti-trust initiatives sweeping across the tech sector in response to an increasingly concentrated and uncompetitive landscape. While we have previously highlighted the negative investor sentiment stemming from government-driven, anti-trust action in the tech sector earlier this year (see [The Navigator - Anchor's Strategy and Asset Allocation, 1Q21](#), dated 14 January 2021) the relative underperformance of big tech as compared to the broader tech sector has continued and, in some cases, has become even more pronounced.

Alibaba has not yet recovered from the brutal and intentionally embarrassing termination of Ant Group's (formerly Ant Financial and Alipay) IPO, Tencent's fintech operations have fallen into similar regulatory crosshairs and Facebook has only recently started to recover after falling out of favour with investors over its handling of misinformation and user data.

A great way to visualise the relative weakness across these counters is to chart the change in their forward earnings multiple as compared to the change in the broader tech sector's forward earnings multiple (represented in Figure 3 by the Nasdaq Composite Index) over the past two years.

Figure 3: Facebook, Alibaba, and Tencent vs the Nasdaq, 12M fwd P/E, % change

Source: Bloomberg, Anchor



The relative weakness in their share prices stands in stark contrast to the stellar results reported by the underlying businesses, which have performed extremely well. Alibaba, Tencent, and Facebook grew their revenues by 36%, 26%, and 33% YoY, respectively, for 4Q20 on a comparable period that predated the pandemic! The point to make here is that not only do these shares exhibit relative value, but they also exhibit absolute value.

As the ratings of many companies in the tech sector stand out as being optimistic, or even vulnerable to correction, big tech looks like it is set up to beat the market over the next 12 to 18 months. We forecast very healthy double-digit returns from here, and we have positioned our portfolios accordingly.

Figure 4: Tech stocks prospective returns as measured by Anchor's assessment of fair value*Source: Bloomberg, Anchor*

Company	Stock price	Fair value (Anchor)	Prospective return
Alibaba	US\$ 225.00	US\$ 404.93	80%
Facebook	US\$ 298.00	US\$ 372.90	25%
Amazon	US\$ 3,161.00	US\$ 3,769.00	19%
Tencent	HKD 654.00	HKD 752.00	15%
Alphabet	US\$ 2,129.00	US\$ 2,442.98	15%
Average			31%

RIDING THE MOMENTUM IN COMMODITIES...

Cyclical businesses have cyclical share prices, and the producers of hard commodities are one of the best examples. The complex interplay between longer-term structural supply and demand issues, and shorter-term shock factors, can be difficult to predict and can drive massive shifts in commodity prices in a short space of time. On top of commodity price volatility, the profitability of the producers of these commodities is generally leveraged to these movements – often creating significant trading opportunities.

From an investor's perspective, the important takeaway here is that the share prices of the producers of these commodities have not caught up to the appreciation in the prices of these commodities.

Although we are c. one-year into the trade already, both iron ore and the platinum-group metal (PGM) prices are trending upward on the back of such a shift in market dynamics.

After years of underinvestment in production capacity by PGM producers in the face of weak prices, there was always the potential for a demand-side pickup to squeeze prices higher. As more stringent carbon emissions

requirements across the globe necessitate ever-higher metal loadings in catalytic converters, this scenario has begun to play out.

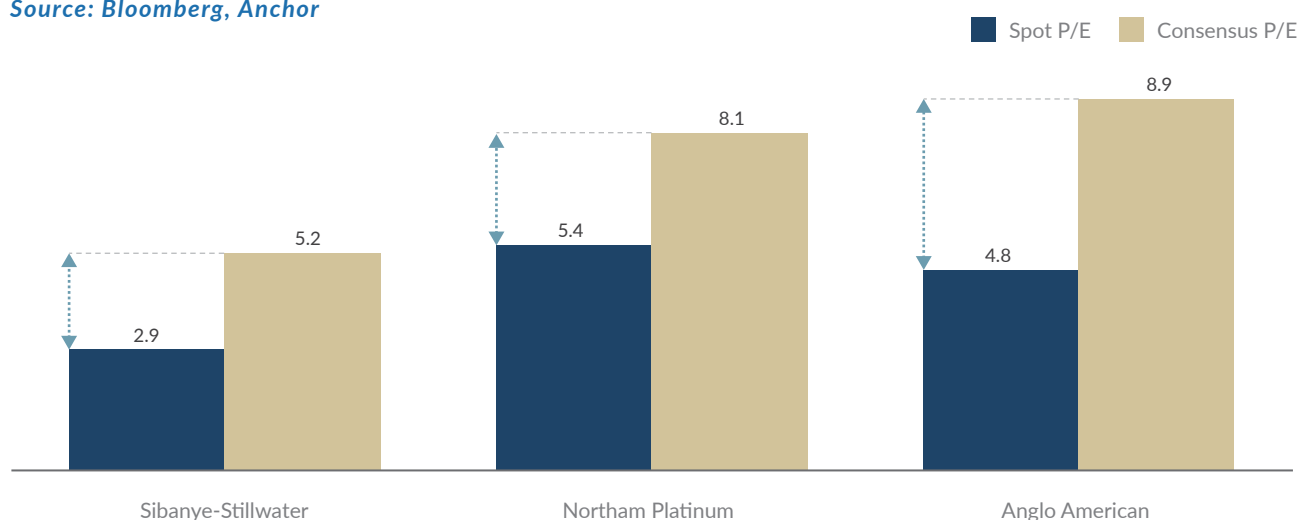
Separately, a material proportion of the significant fiscal response to the 2020 COVID-19 pandemic by governments around the world has taken the form of infrastructure spending. The US alone has just passed a US\$2trn infrastructure bill, with China's additional infrastructure spending announced under their "Made in China 2025" national strategic plan estimated to total between US\$2trn and US\$2.5trn. This has created a surge in demand for base metals, including iron ore.

From an investor's perspective, the important takeaway here is that the share prices of the producers of these commodities have not caught up to the appreciation in the prices of these commodities. In fact, analyst estimates are still well behind the numbers that producers such as Sibanye-Stillwater, Northam Platinum, or Anglo American will achieve should spot metal prices simply hold at their current levels. This implies a high level of market scepticism around the sustainability of current commodity price levels.

Figure 5 shows the significant difference between the earnings multiples at which these producers trade based on spot prices, as compared to the valuations implied by analysts' estimates. The point to make here is, the longer commodity prices stay at current levels – the more likely it is that producer share prices will adjust upward as spot earnings multiples converge with consensus multiples.

Figure 5: Commodity producers, spot vs consensus P/Es

Source: Bloomberg, Anchor



Based on the principle described above, the potential upside to the producers identified in Figure 6 below is meaningful and hence we have included these counters in our tactical positioning.

Bear in mind that should iron ore or PGM prices turn down, the impact on these shares could be equally pronounced in the opposite direction. However, for now, the underlying supply/demand fundamentals seem supportive of the trade.

Figure 6: Commodity producers' prospective returns, as measured by spot vs consensus P/Es

Source: Bloomberg, Anchor

Company	Current stock price (R)	Share price applying consensus P/E to spot earnings	Prospective return
Anglo American	583.43	1,081.78	85%
Sibanye-Stillwater	65.28	117.05	79%
Northam Platinum	258.28	387.42	50%
Average			72%

A TACTICAL APPROACH TO DIVERGENT SECTOR PERFORMANCES...

Although our total return expectations from global equity markets this year are subdued in aggregate, we expect to see divergent performances at a sector level. Your experience as an investor will be determined by your relative positioning in this context, and hence we believe an active, tactical approach will ultimately outperform the broader equity market over the next 12-18 months.

Low interest rates and thematic rotation were powerfully supportive forces at the growth end of the market in 2020, which may well normalise as the physical economy

continues to recover into 2021.

While investment opportunities are not as plentiful or obvious as they were in the midst of the chaos last year, the aftereffects have not fully dissipated, and the associated price dislocations still appear to be attractive.

Our tactical investment approach to the year ahead incorporates the opportunities we have covered in this article and will continue to adapt to evolving market conditions. ➤

For more information on Anchor's 2021 Tactical Portfolio, please contact your relationship manager.

Is the sun setting on the growth stock era?



Written By:

Nick Dennis
Fund Management

Nick has managed the Anchor Global Equity Fund (which won two 2020 Raging Bull Awards) since March 2015. Before joining Anchor, Nick was a senior investment manager in the Emerging Market Equities team at Pictet Asset Management, in London. Nick is a CA (SA) and CFA Charterholder.

Markets obsess about one thing at a time. Remember when the euro crisis dominated the collective consciousness as we waited for the dominoes to fall... first Greece, then Spain, Italy, and France? What about COVID-19? Cast your mind back a year, with the global economy in a self-induced coma and markets in freefall. Did anything else matter? In the moment, nothing else did and it was difficult, if not impossible, to maintain perspective.

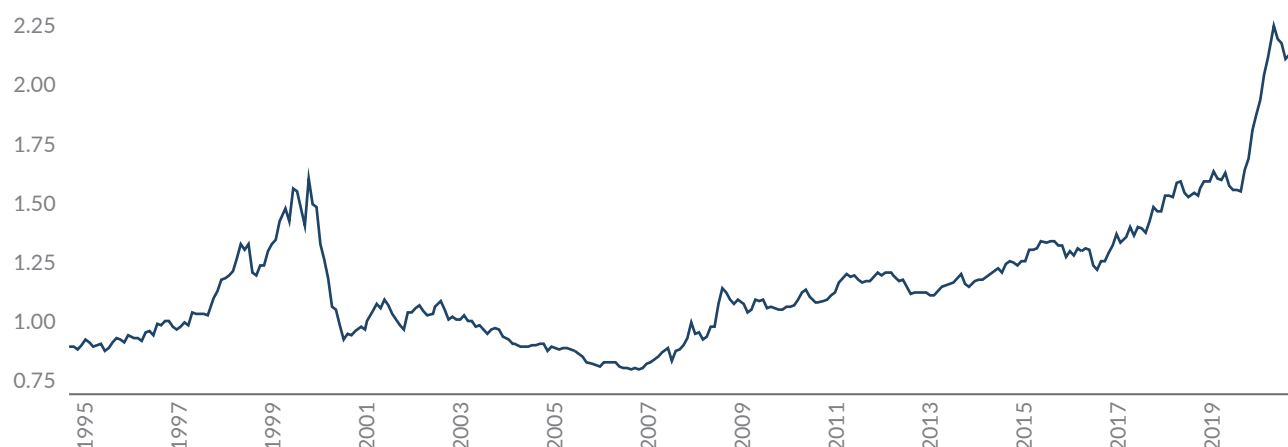
These episodes appear relatively benign in the rear-view mirror, an obvious buying opportunity. Could they have turned out differently? Absolutely. And yet, one

can reasonably conclude, even without the benefit of hindsight, that the odds and potential pay-off were highly favourable at the time. As investors that is about as much as we can ask for and act on.

What is the market obsessed about today? The return of economic growth, inflation, and rising interest rates. The dominant narrative is that this environment is good for value stocks and cyclical shares, and bad for growth stocks. After a decade of outperformance, investors are asking whether this represents the sunset for growth and a new dawn for value.

Figure 1: Ratio of S&P growth vs S&P value stocks – is the trend at an end?

Source: Bloomberg, Anchor



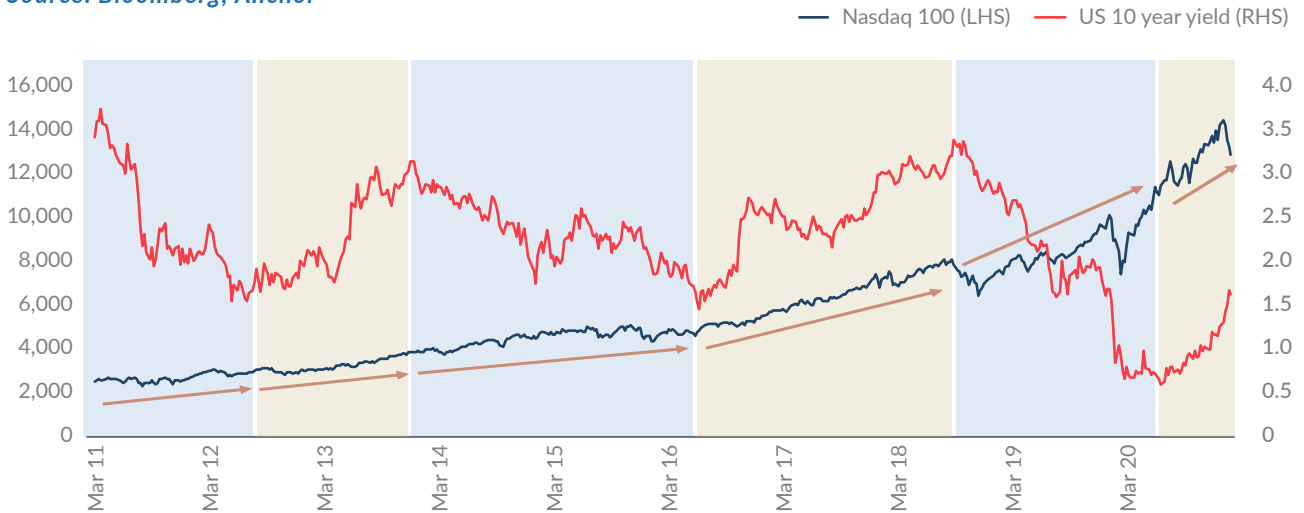
Although we generally find the growth vs value distinction arbitrary, our holdings are nevertheless biased towards the former group. Are we on the wrong side of history?

The data do not support the narrative. In *Figure 2* below, we highlight the Nasdaq Index (dark blue line, intended

to represent technology and growth stocks) and the US 10-year yield (red), while the shaded light blue and beige areas represent periods of falling and rising interest rates, respectively. Over the past decade, the Nasdaq rose irrespective of the direction of interest rates.

Figure 2: The Nasdaq 100 Index has risen over multiple interest rate regimes

Source: Bloomberg, Anchor

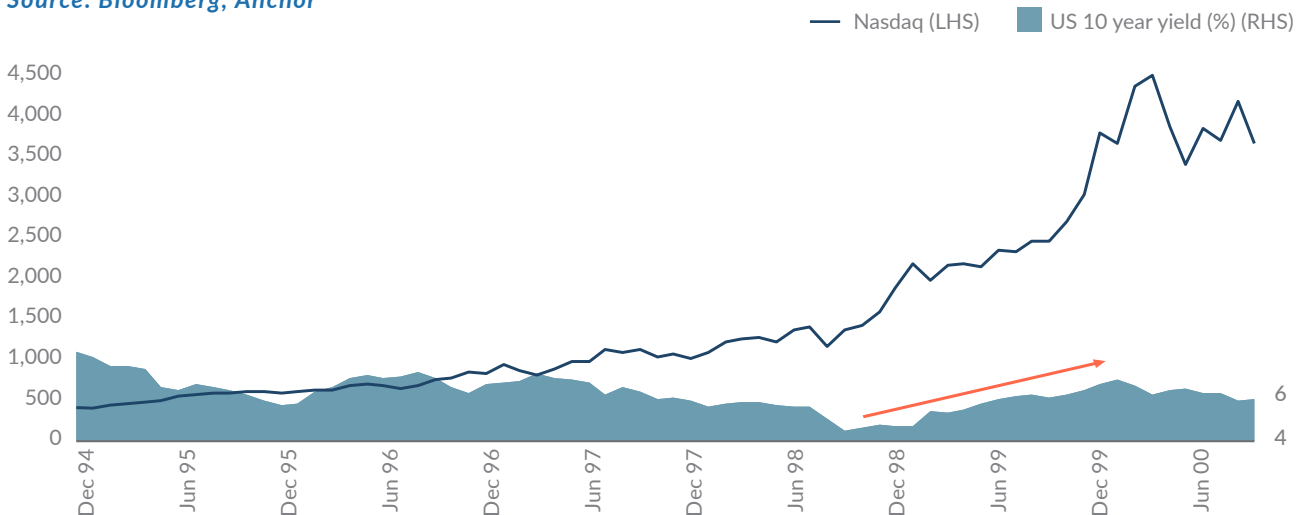


We also note that the technology bubble took place in an era of 6% interest rates. Equally noteworthy is the fact

that the steepest part of the ascent came as yields rose from roughly 4% to 6%.

Figure 3: The tech bubble took place with high (and rising) interest rates

Source: Bloomberg, Anchor



Growth stocks became a crowded trade as COVID-induced uncertainty peaked. As vaccines were announced and countries gradually re-opened their economies, investors rotated into the sectors that would benefit from a return to normal. According to *JP Morgan's* proprietary 'crowding indicator', growth stocks have recently experienced one of the largest unwinds in positioning in over three decades. *Bank of America's* March 2021 Fund Manager Survey revealed a wholesale rotation into cyclical sectors, while participants' technology sector holdings had been cut to the lowest level in over a decade. Investors were more bullish on the outlook for value stocks than at any point in the survey's almost 15-year history. To the extent that value and cyclical represented a high odds, favourable pay-off bet in mid-2020, that is less likely the case today.

The Anchor Global Equity Fund is focused on a subset of growth stocks, called multibaggers. These are the elite of the elite...

The recent setback in growth stocks, while painful, is arguably both necessary and a (long-term) positive. First,

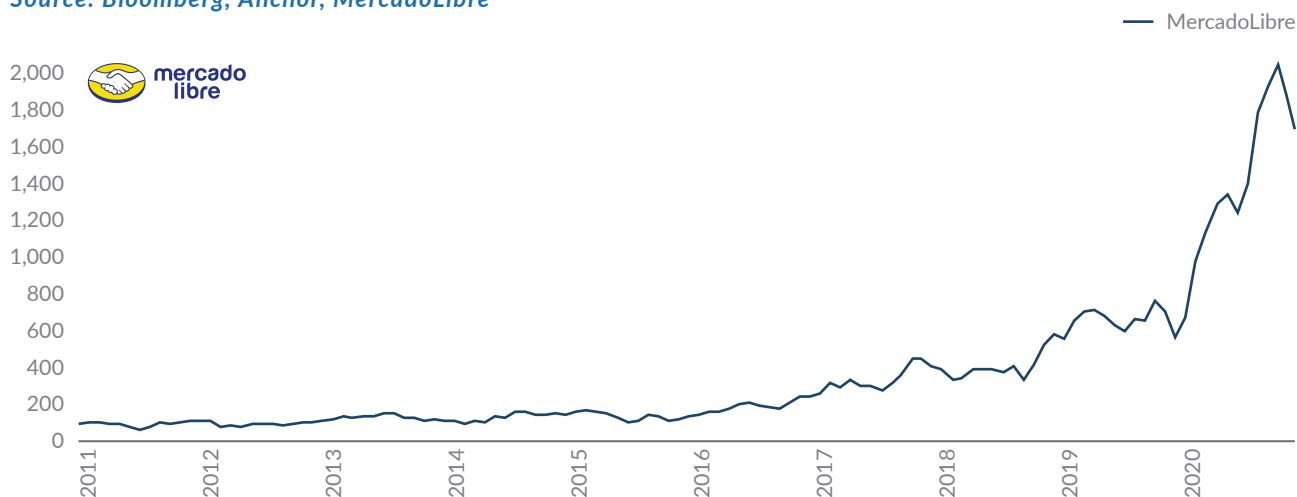
the fact that the rally has broadened out across sectors is a healthy sign and may result in a more durable bull market. An unchecked parabolic run in a narrow group of stocks, much like the tech bubble, is unlikely to be sustainable. Second, it is an almost immutable law that the market demands its pound of flesh from investors. There can be no ups without downs and no highs without lows. Some will fail the latest test, while the strong hands will go on to reap their reward.

The Anchor Global Equity Fund is focused on a subset of growth stocks, called multibaggers. These are the elite of the elite, the companies (and shares) with the potential to increase by multiples of their current size over the next 5 to 10 years. Over shorter time horizons, these shares are prisoners of their labels; when the algorithms sell baskets of technology and growth shares, our holdings do not escape unscathed. Longer term, however, we believe each share will rise (or fall) on its own merits.

Take MercadoLibre, the Amazon of Latin America, as a case in point. Headquartered in Argentina, MercadoLibre has operated in countries with hyperinflation, stagnant economic growth, and chronically weak currencies. And yet, despite a host of seemingly insurmountable challenges, the stock has risen 20-fold (in US dollar terms) over the past decade. A narrow focus on macro variables (or factor labels) would almost certainly have led to the wrong investment decision.

Figure 4: MercadoLibre has been a massive multibagger, despite major headwinds

Source: Bloomberg, Anchor, MercadoLibre



Over the next decade, the success of our holding in Sea Limited will depend on whether the company can press home its leading position in ecommerce in Indonesia and other Southeast Asian markets. Likewise, Snap's returns will hinge on its ability to deliver engaging augmented reality experiences to both consumers and advertisers. And if Etsy can provide more shoppers with a greater selection of unique, handcrafted items, we believe its shares will deliver a pleasing performance. What is less likely to matter, for these companies and the rest of our holdings, is the direction of interest rates or their

classification as either growth or value counters.

Shorter term, the sentiment and positioning pendulum may have swung to the point where growth stocks offer better odds and a superior payoff vs value stocks. Longer term, the question of growth vs value is largely irrelevant. Rather, we are placing our bets on founder-led companies that are building great products and growing rapidly. We are looking for the next MercadoLibre. The market will inevitably move on to a new obsession, but the sun will never set on multibaggers. ➤



Time for take-off?

The investment case for online travel agencies



Written By:

Seleho Tsatsi
Investment Analyst

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. He joined Cannon Asset Managers in January 2015 and moved to Anchor in November 2015. Seleho covers the basic materials sector locally and co-manages the Anchor BCI Global Technology fund. He is a CFA charterholder.

SUMMARY

Below we examine the investment case for the major US online travel agencies (OTAs), and we find that, unsurprisingly, the COVID-19 pandemic has had a devastating impact on industry fundamentals. However, despite this, the performance of listed OTAs has exceeded that of global equity markets since the end of 1Q20. Nevertheless, companies in the industry continue to guide for their earnings to remain under pressure over the short term and we believe that the reason is that investors are looking past the length of the recovery and instead using shares of OTAs to gain exposure to the recovery theme.

We also examine two longer-term trends in the industry. First, we find that the industry is relatively mature. Moderate annual growth in global travel spending and an already high penetration of travel spending occurring online, has driven this maturity, with travel experiences and alternative accommodations representing new growth opportunities. Second, we conclude that increased competition from Google, and subsequent declining returns on OTAs' marketing spend, is pressuring margins for these companies. For these reasons, we remain cautious on online travel.

INTRODUCTION

As mentioned, COVID-19 had a devastating effect on the fundamentals for OTAs and, from 1Q20 onwards, international travel across the world has declined dramatically. Global scheduled flights were down 69% YoY in May 2020 and, although slightly improved, they were still down 48% YoY in September 2020. Hotel occupancy rates in the US and Europe fell by 28% and 52% YoY, respectively. Lower travel activity also fed through into the OTAs' financial results, with the average revenue decline for major OTAs standing at 46% YoY in 2020. After generating \$7.1bn of free cash flow (FCF) in 2019, the major listed OTAs burned through \$5.7bn in 2020. To deal with the cash burn, these major OTAs raised a net \$12.3bn in debt and equity last year.

OTAS ARE OUTPERFORMING GLOBAL MARKETS

Still, the major OTAs have outperformed global equity markets since the end of 1Q20 (see Figure 1).

Figure 1: Total returns of major listed OTAs vs the MSCI World Index*Source: Company data, Anchor*

Company	1Q20	2Q20 - 4Q20	YTD 2021
Airbnb	Had not yet listed	Had not yet listed	14%
Booking Holdings	-14%	18%	-1%
Expedia	-27%	88%	28%

Note that the table shows the outperformance/underperformance of OTAs vs the MSCI World Index over the respective time periods.

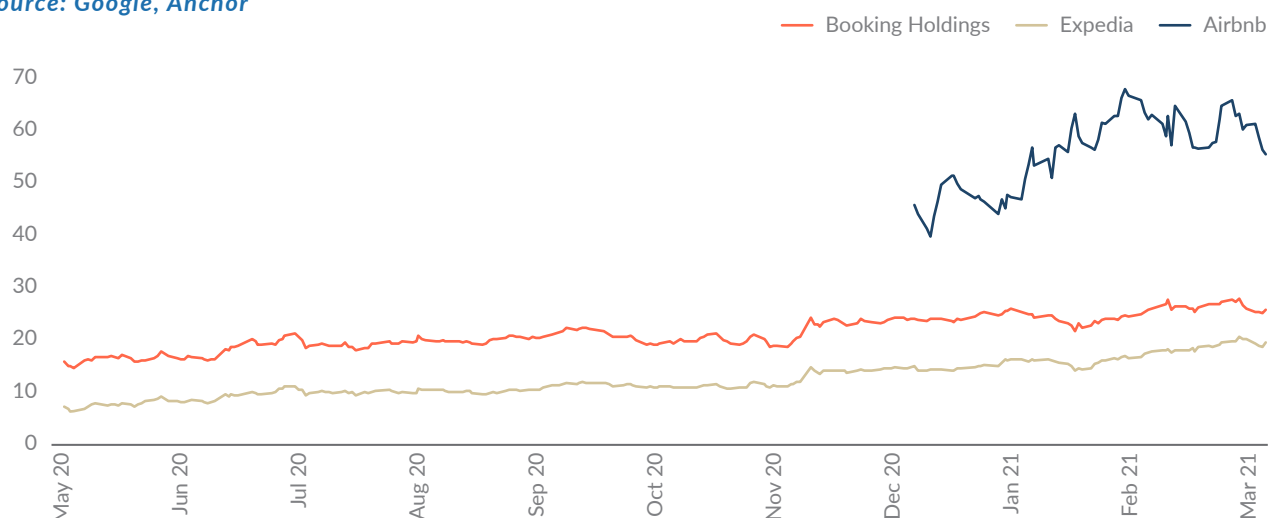
"We continue to believe it will be years and not quarters before travel returns to pre-COVID-19 levels." - Glenn Fogel, Booking Holdings CEO 4Q20 earnings call.

Major OTAs' earnings have continued to be poor after 2Q20, so we note that the outperformance of their share prices has not been driven by earnings growth. Furthermore, several OTAs have either guided to continued losses in 2021 or have suggested that any recovery will take years rather than quarters.

Given this poor short-term earnings outlook, we believe the sector's outperformance in equity markets since 1Q20 has been mainly driven by investors using it to gain exposure to a recovery trade (buying into those industries that are especially sensitive to an economic recovery and/or return to "normal").

Several OTAs have either guided to continued losses in 2021 or have suggested that any recovery will take years rather than quarters

The combination of earnings remaining under pressure and strong share price performances has led to a re-rating in the valuation multiples placed on these businesses. In Figure 2, we measure OTAs' share prices to FCF using 2019 FCF figures to avoid the effects of the pandemic in 2020. Price to FCF multiples have re-rated significantly and no longer appear cheap for the sector.

Figure 2: Price to FCF*Source: Google, Anchor*

Note that Airbnb listed in December 2020.

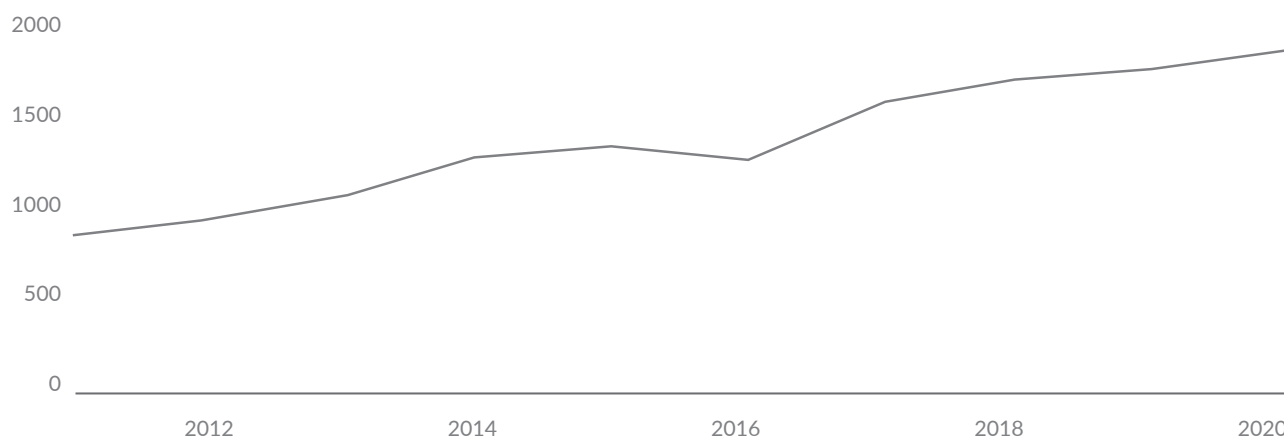
A MATURE INDUSTRY?

Online travel is also a relatively mature industry due to global travel spend typically growing moderately over time. Travel expenditures depend on population and

discretionary income growth and both these data tend to grow moderately over time. We estimate that travel spend has grown by 3%, 7%, and 8% p.a. over the past three, five, and seven years, respectively.

Figure 3: Global travel market (US\$bn)

Source: Phocuswright, Expedia



Online travel is also a relatively mature industry due to an already high penetration of travel spend occurring online. In 2019, 45% of all travel spend in the US and Europe took place online, according to *Phocuswright*. The online travel industry has thus captured a meaningful proportion of its addressable market already.

However, booking travel experiences online is one possible future source of growth for the industry, although it is small in comparison to the accommodations business. The overall addressable market for travel is estimated to have been US\$1.5trn in 2019. Most of that money goes towards short-term stays (less than 28 days), which accounts for \$1.25trn. The remaining \$250bn is paid towards travel experiences. The idea is for travellers to be able to book not only their accommodation for a

trip online, but also the experiences that they will have on the trip. OTAs hope that travellers going to Paris, for example, will also book their accommodation in Paris and their tickets to tourist experiences such as a visit to the Eiffel Tower with them. Over time, the industry anticipates that experiences can provide growth to help offset the more mature short-term stay business.

Alternative accommodations are another source of growth for the travel industry. Alternative accommodations allow travellers to stay in the homes, or unique spaces, of hosts - typically individuals. Airbnb is the market leader in this category. The company's higher growth relative to other major OTAs exemplifies the impressive growth being offered by this category.

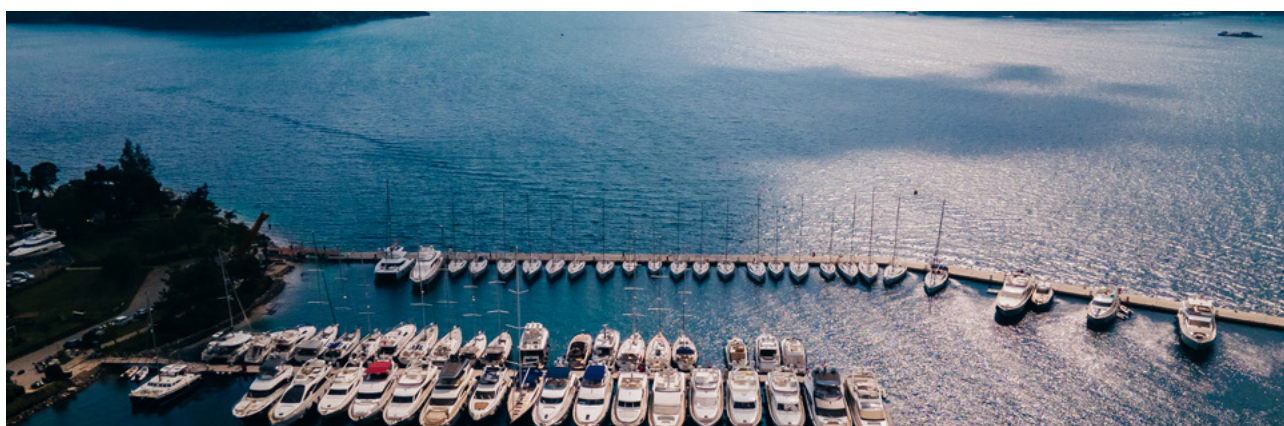
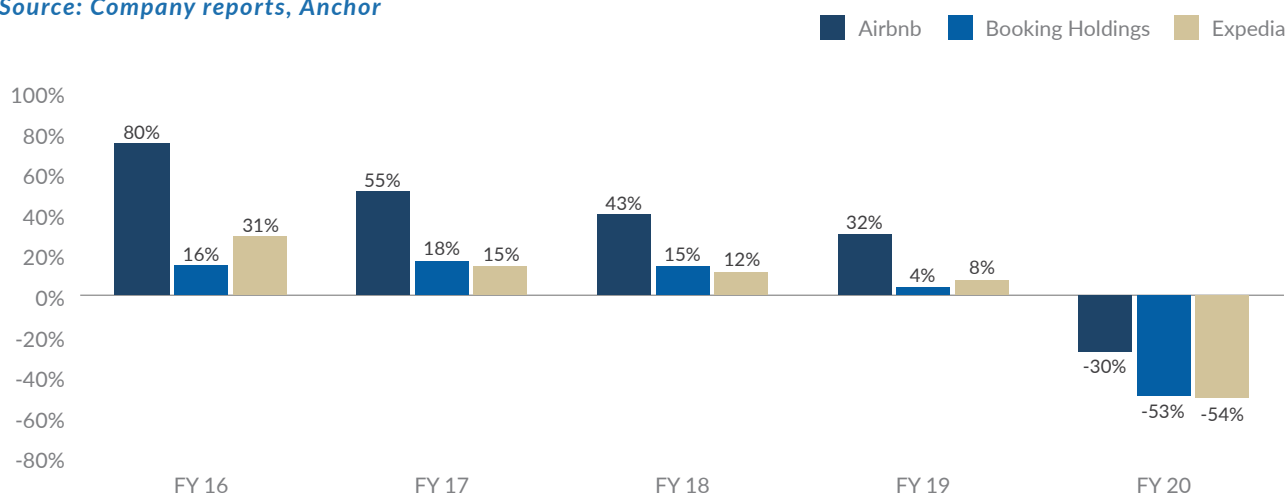


Figure 4: Revenue growth for major OTAs, YoY**Source: Company reports, Anchor**

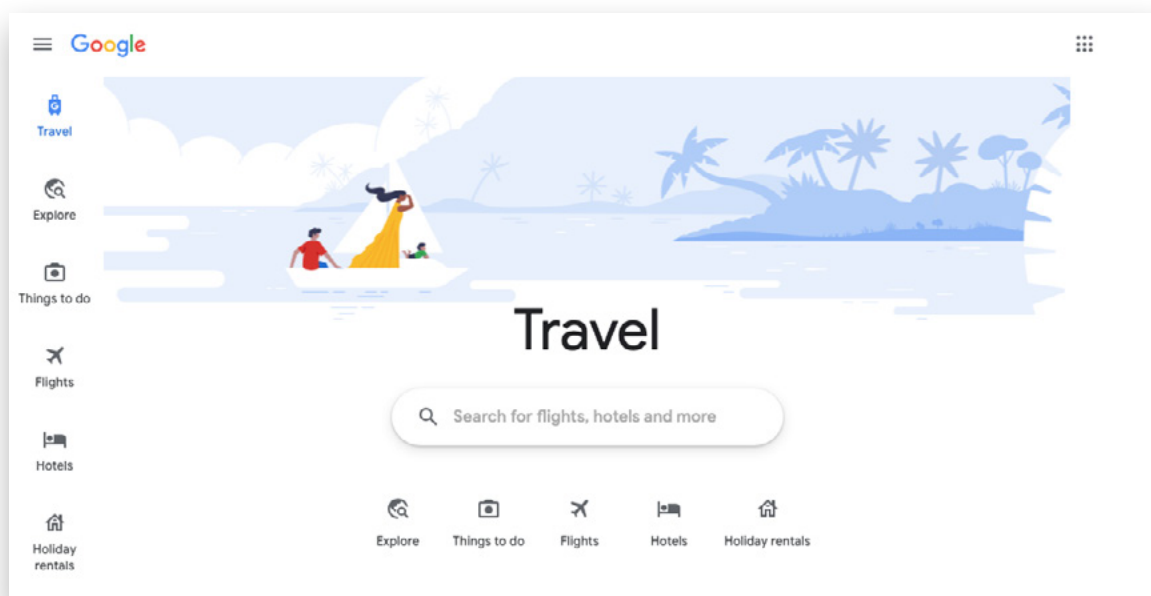
Traditional OTAs are investing in the space both to defend their incumbent businesses and to benefit from the higher growth offered in alternative accommodations.

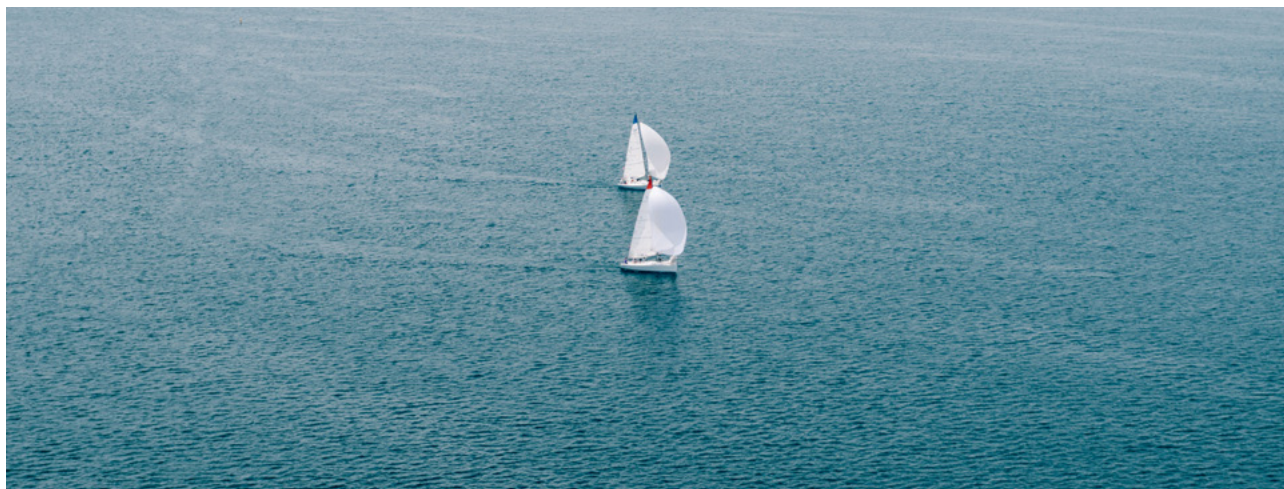
COMPETITION FROM SEARCH ENGINES

However, the profitability of OTAs faces headwinds from increased competition with prominent search engines such as Google, and declining returns on marketing spend. Sales and marketing expenses are typically the biggest expense for an OTA, ranging anywhere from 30% to 50% of their total revenue. It consists of performance and brand marketing. An OTA incurs performance marketing expenses to drive traffic to its websites and apps from

popular search engines or social media platforms. Brand marketing expenses are incurred to increase the strength of an OTA's brand, which hopefully leads to more unpaid, direct traffic (rather than paid traffic from performance marketing) over time.

Historically, OTAs were able to pay for traffic via performance marketing from large internet platforms (Google, in particular), at attractive rates. That dynamic has recently changed as Google launched its own metasearch products such as Google Flights, Google Travel, and Google Hotel Ads. These services provide potential customers with thorough travel planning and booking services comparable to those of OTAs.

Figure 5: Examples of Google's own metasearch products**Source: Google**

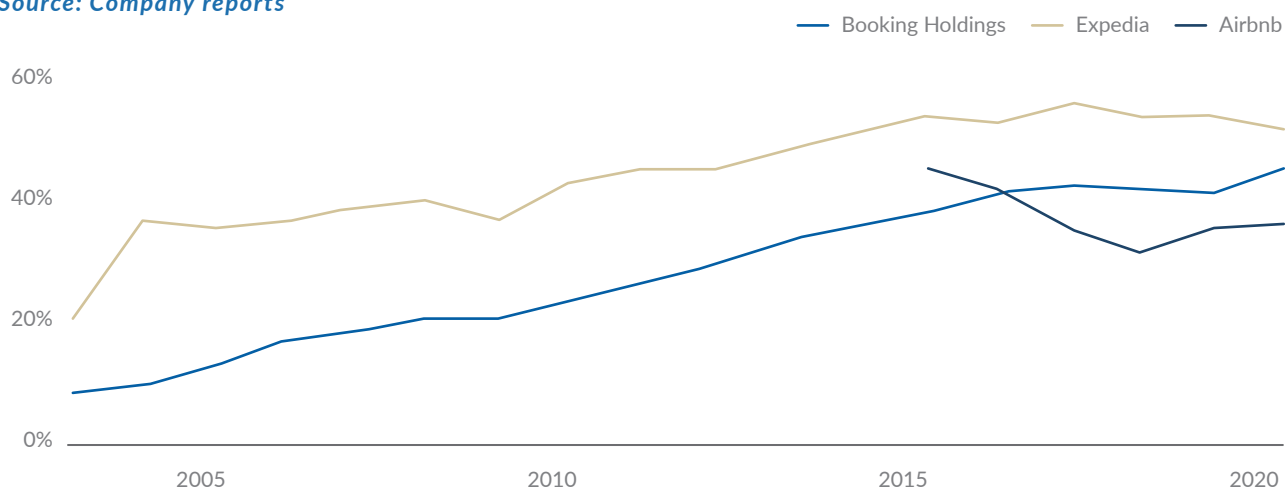


As a result of Google's travel offerings, OTAs' offerings are now shown less prominently to potential customers in their Google search results. Over time, OTAs have had to spend increasing amounts to generate comparable

traffic from performance marketing. Sales and marketing expenses as a percentage of revenue for these OTAs have also increased by an alarming rate over time as *Figure 6* below shows.

Figure 6: Sales and marketing expenses as a percentage of revenue

Source: Company reports



HOW HAVE OTAS RESPONDED?

OTAs have responded to Google's move by trying to drive more direct traffic to their platforms. However, doing so is a difficult balancing act - OTAs must balance the benefit of higher direct traffic over time, with the cost of performance marketing becoming more attractive to rivals as OTAs reduce their own performance marketing spend. We believe declining returns on marketing spend will continue to pressure the profitability of OTAs over time.

CONCLUSION

After the devastating impact of the COVID-19 pandemic

on industry fundamentals, OTAs' share prices have re-rated strongly. We believe that this has been driven by investors looking past an unknown length of time before a recovery happens and, instead, using the share price performances of OTAs to gain exposure to the recovery theme. However, it is also clear to us that the industry is relatively mature and that margins are being pressured by more competition from Google and the decline in returns from marketing spend that has resulted from this. So, in terms of our investment case for these companies, we remain cautious on online travel due to the longer-term industry trends, coupled with the impressive re-ratings already being enjoyed by these shares after 1Q20 vs global equity markets. ➤

Offshore Investing

A view from the moon



Written By:

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Wealth Management

Michael has a Postgraduate Diploma from the University of the Free State and is a registered certified financial planner (CFP). He also holds a diploma with the Financial Markets Institute (FMI) and worked in the financial services industry since 1998. Prior to joining anchor in 2015, Michael was director of new business at Absa Wealth and Investments.

It has been over 50 years since the first moon landing and most would likely recall the famous quote by Astronaut Neil Armstrong “That’s one small step for man, one giant leap for mankind”. What you are probably not aware of is that there has been a total of six successful moon landings. In addition, there has also been over 100 planned missions to the moon, with a large number of these ending in failure, but there are still more planned for the future. Items left on the moon range from six planted flags, a disc of goodwill messages, a gold-plated olive branch, two golf balls, and five vehicles.

Selecting a blend of assets will give an investor a very different range of returns.

Now imagine being one of those astronauts, setting foot on the moon and glancing up at our beautiful blue planet. As big as the full moon is when viewed from earth, from there the earth is thirteen times greater in size. So too it becomes clear to us in SA, how large the global investment world is. SA only accounts for a tiny part of the global economy (less than 1%), so having all your investment “eggs” in one basket is certainly not ideal. In this regard, diversifying your portfolio offshore presents investors with a multitude of investment opportunities. However, this vast opportunity set does come with its own issues and, in this article, we have tried to highlight some of the key points investors need to consider before investing offshore.

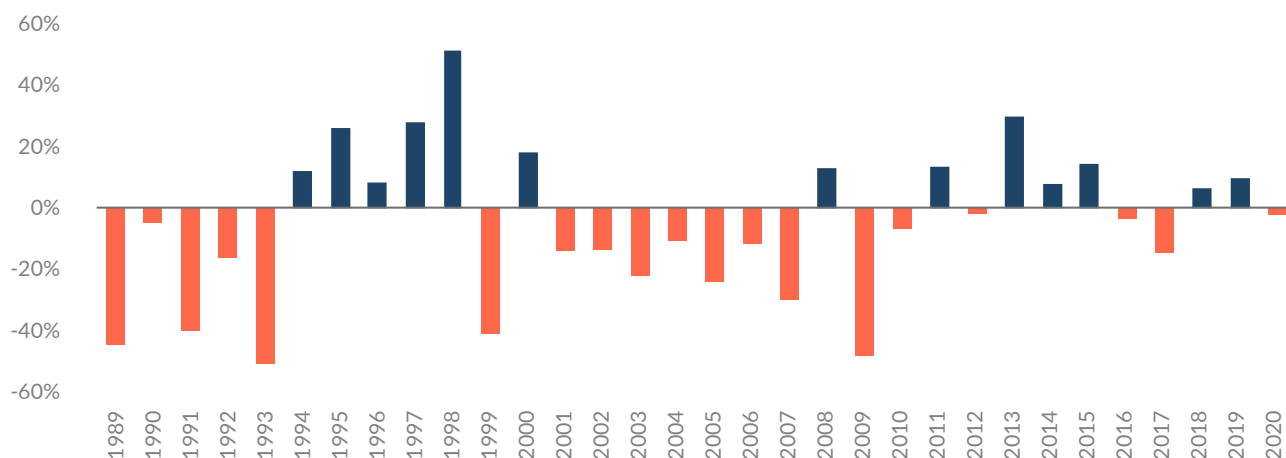
DIVERSIFICATION AND ASSET ALLOCATION

Diversification and asset allocation is a risk management strategy that mixes a wide variety of investments within a portfolio. A diversified portfolio contains a mix of distinct asset types and investment vehicles in an attempt at limiting an investor’s exposure to any single asset or risk. The rationale behind this investment technique is that a portfolio constructed of a variety of assets will, on average, deliver a more predictable long-term outcome with lower risk than any individual holding or security. It aims to balance risk and reward by apportioning a portfolio’s assets according to an individual’s goals, risk tolerance, and investment horizon.

The main asset classes are equities, fixed income, property, and cash. Each of these assets have varying levels of risk and return, so each will behave differently over time. For example, some investors are very comfortable with 100% equity exposure in their investment portfolio, while others prefer a mixed portfolio. If your portfolio has a higher equity exposure, it typically comes with the risk that you can experience substantial, albeit usually temporary, capital losses. Selecting a blend of assets will give an investor a very different range of returns. An individual will need to select what is most appropriate to their specific investment strategy. Historically, EMs have outperformed DMs but most recently (over the past 10 years), DMs have handsomely outperformed EMs by an average of c. 6% on an annualised basis.

Figure 1: Overall global equity market performance: DMs minus EMs annual equity market performance, 1989-2020

Source: Anchor, Bloomberg



TIME

Before you invest, be acutely aware of the time frame you can work with. To create a portfolio based on time, you must realise that volatility is a bigger risk in the short term, than over the long term. If you have 30 years to reach an investment goal, such as retirement, a market move that causes the value of your investments to temporarily decline is not as big a danger to your financial wellbeing, given that you still have decades to recover. However, experiencing the same volatility a year before you retire can seriously impact your retirement plans. Investors often choose aggressive asset allocation and then maintain it indefinitely, without adjusting their portfolios to changing circumstances or their specific stage of life, which can end in disaster.

SHORT-TERM INVESTING:

As a general rule, short-term goals are those less than three years hence. With a short-term time horizon, if markets drop, the date on which the money is needed will be too close for your investment to have enough time to recover from a market decline. To reduce the

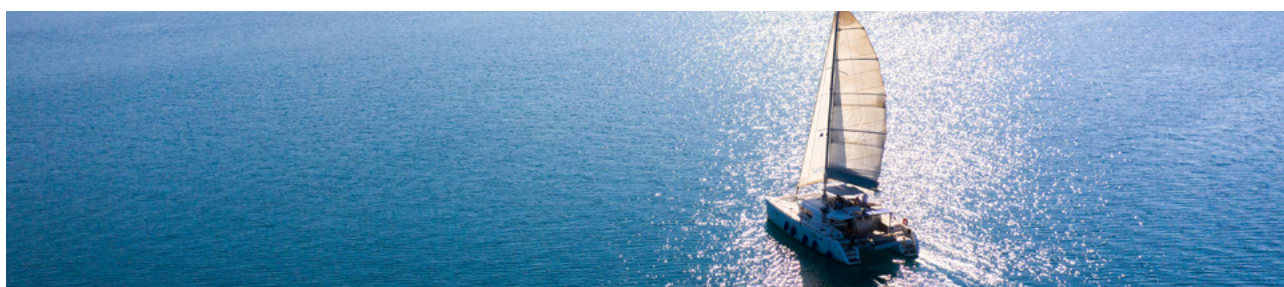
risk of loss, keeping your investments in cash or cash-like investments is likely the most appropriate strategy here. Money market funds and fixed-deposit accounts are common conservative investment options.

MEDIUM-TERM INVESTING:

Investment goals of three to seven years in the future, can be classified as a medium-term investment. Over this time, some exposure to equities and bonds will introduce capital growth to the portfolio. Having the additional time allows investors to recover from temporary market corrections. Balanced funds, which include a mix of equities, bonds, and cash should be held for these type of intermediate investment terms.

LONG-TERM INVESTING:

Investment horizons of more than seven years will allow investors to aim for significant capital growth and therefore having maximum equity exposure offers the greatest returns. While these assets also entail greater risk, there is time available to recover from a significant loss. A unit trust that is 100% invested in equities would be an ideal investment in this instance.





CURRENCY MOVEMENTS

Currency fluctuations are a natural outcome of floating exchange rates, which is the norm for most major economies. Numerous factors influence exchange rates, including a country's economic performance, the outlook for inflation, interest rate differentials, capital flows, and so on. A currency's exchange rate is typically determined by the strength, or weakness, of the underlying economy. Predicting currency movements is fraught with risk. An economic data release surprising on the downside or an unpredictable political event can cause a currency to slip or jump in the short term.

However, in the medium or long term, the main drivers of currency are the differentials in interest rates and investors' perspectives of the trajectory of those interest rate differentials. Inflation, along with the sustainability of debt, is a key driver of interest rates. Stable economies, which have predictable demand growth and sufficient productivity to meet growing demand, tend to have lower inflation.

INFLATION, TAX, AND REAL RETURNS

Inflation reduces the purchasing power of each unit of currency, which leads to increases in the prices of goods and services over time. In practical terms that means you have to spend more every year to fill up your car, buy bread and milk, or even go for a haircut - it basically increases your cost of living. DMs have predominantly lower inflation rates than EMs such as SA. In addition, to factoring in inflation's impact on your investments, you should also consider the impact of other factors such as taxes and investment fees to calculate real, net returns on

your investment. Bear in mind that different investments will provide disparate returns, so when you are searching for a real return in excess of inflation this will depend a lot on your overall asset allocation.

BENCHMARK YOUR INVESTMENT

A benchmark is a standard or a measure that can be used to analyse the allocation, risk, and return of a given portfolio. A variety of benchmarks can be used to understand how a portfolio is performing against various market segments. The MSCI World Index, for example, is often used as a benchmark for equities around the world. You need to select an appropriate benchmark that mirrors your offshore investment allocation since you want to be able to gauge whether your investment has done better or worse than the benchmark and take the appropriate actions if need be.

A currency's exchange rate is typically determined by the strength, or weakness, of the underlying economy.

Ultimately, the most important benchmark you should have is to see if you are on track to reach your investment goals. This is the greatest of all benchmarking, and it is one that should be checked and reviewed at least once a year, ideally as part of an investor's annual portfolio review with their investment advisor. ➤

Pension vs provident funds

The changing retirement landscape



Written By:

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Sandy has worked in the financial services industry since 2006, addressing the key investment outcomes for private clients and high-net-worth individuals.

There are two main types of employee retirement funds – pension funds and provident funds. Historically there has been a difference in the tax treatment of the two, with provident fund contributions not being tax deductible in the hands of employees. This has meant that employers made the contributions to the fund and not the employees themselves. Currently, with most employees' remuneration being calculated on a cost-to-company (CTC) basis, there is no real difference to employees as the contribution is just part of their overall salary package.

The one significant difference between provident and pension funds – provident fund members have the option to take 100% of their fund value in cash at retirement. However, members of pension funds are limited to a maximum of one-third in cash at retirement (the remaining two-thirds is used to purchase an income). This enhanced optionality of provident funds **has** made them the more popular choice by far when setting up employee retirement funds.

RETIREMENT REFORM

The SA government has proposed changes to the industry to encourage retirement fund members to save towards retirement and to actually retire with adequate savings. These reforms harmonise the treatment of the various retirement funds including pension, provident, and preservation funds as well as retirement annuities (RAs). However, the real impact will be felt by provident fund members. The proposed changes encompass three main areas:

- Retirement;
- fund transfers; and
- emigration.

Further detail on each of the above is included below.

RETIREMENT

From 1 March 2021 all contributions made to a retirement fund (including to a provident fund), will allow a maximum withdrawal of one-third in cash at retirement. **The balance will be used to purchase an annuity (regular income) in the same way that existing pension fund members do now.**

The fact that members have vested rights in a retirement fund means:

Any fund member **over the age of 55 on 1 March 2021 will still** be able to access the full invested amount in cash (including all contributions made to the fund and the future growth in the fund itself).

Fund members **below the age of 55 on 1 March 2021 will have vested rights on** the investments made up to that point (and the growth of these investments). However, all future contributions will be subject to the new limits, with a maximum of one-third in cash at retirement.

FUND TRANSFERS

Fund members of any age will retain vested rights on all transfers to another approved fund. Future contributions (after 1 March 2021) are, however, not given vested right benefits. Nevertheless, a special concession has been made for members aged 55 years and older – all future contributions made (plus growth) will also gain vested rights benefits and can be withdrawn in full at retirement.

It should also be noted that, if a provident fund member, aged 55 or older, transfers to a new employer fund after 1 March 2021, then the new contributions and growth will be classified as non-vested benefits and subject to the new annuitisation rules (a maximum of one-third in cash at retirement).

EMIGRATION

Up until 1 March 2021, preservation funds and RAs allowed for a full lump sum withdrawal on “formal emigration” from SA or the cessation of a work visa. Now, instead of emigration, members must remain a

non-tax resident for 3 years or longer to access their RA/preservation fund prior to retirement. The requirement to emigrate has been removed entirely which is good news to many; but may introduce a three-year waiting period for members to access these retirement savings.

It is important to highlight that giving up your SA tax residency creates a deemed disposal for capital gains tax (CGT) on all your assets (except fixed property). This can be an unexpected and sizeable tax bill, and it is therefore highly recommended that you consult your tax practitioner before starting this process.

WHAT ABOUT THE TAX PAYABLE ON EXITING RETIREMENT FUNDS?

The changes in legislation only affect what is possible, but do not provide any guidance as to what funds members should actually do when contemplating a pre-retirement withdrawal from retirement funds. One important consideration is the tax that would be payable on early exit. Pre-retirement withdrawals are taxed according to the withdrawal tax table in Figure 1 below.

Figure 1: Withdrawal tax pre-retirement

Source: PKF Tax Guide 2021-2022

Lump sums accruing between 1 March 2014 and 28 February 2021

Taxable portion of withdrawal	Rates of tax
R0 – R25,000	Nil
R25,001 – R660,000	18% of the amount over R25 000
R600,001 – R990,000	R114,300 + 27% of the amount over R660,000
R900,001+	R203,400 + 36% of the amount over R990,000

An assessed loss cannot be set-off against the taxable lump sum.

The withdrawal tax table above is less favourable than the below tax table (Figure 2), which shows taxation rates at retirement.



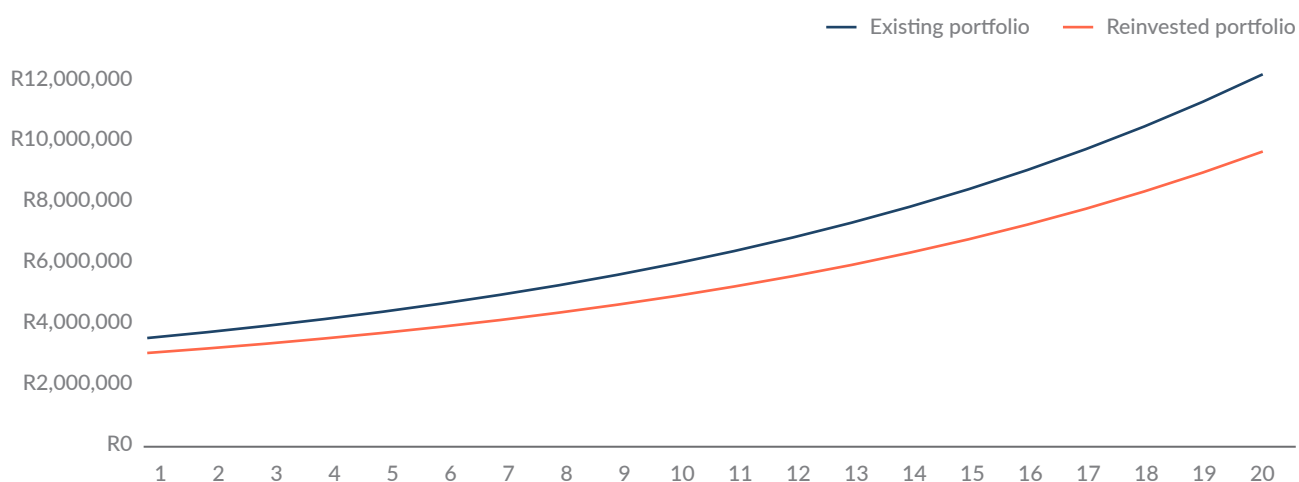
Figure 2: Withdrawal tax on retirement**Source: SARS tax tables****Lump sums accruing between 1 March 2014 and 28 February 2021**

Taxable portion of lump sum	Rates of tax
R0 – R500,000	Nil
R500,001 – R700,000	18% of the amount over R500,000
R700,001 – R1,050,000	R36,000 + 27% of the amount over R700,000
R1,050,001+	R130,500 + 36% of the amount over R1,050,000

An assessed loss cannot be set-off against the taxable lump sum.

On retirement, up to R500,000 can be taken per lifetime in cash (tax-free) vs pre-retirement withdrawal cash lump sums that allow only R25,000 tax-free in cash. We note that the tax tables are cumulative during a taxpayer's lifetime, which means that any withdrawals made pre-retirement will effectively increase the tax on retirement lump sums taken at a later stage.

There is also a general principal worth remembering - *tax deferred is tax saved*. If you are paying tax now to access your retirement funds, then it leaves less assets to keep growing for you. *Figure 3* below illustrates the effect of withdrawal tax on retirement assets and how this affects the long-term growth.

Figure 3: The long-term impact of withdrawal tax on the value of retirement assets**Source: Anchor**

As an illustrative example, *Figure 3* assumes that R2mn is invested in a provident preservation fund. The preservation fund member is 45 years old (below retirement age), when a 100% withdrawal is made in order to invest the money directly offshore. The real cost of the move is felt most acutely down the line - let us assume the same investment returns are achieved

over the next 10 years by the preservation fund and the offshore investment. In this case, the preservation fund would have been worth over R1mn more than the offshore investment (by not paying the withdrawal tax now). In other words, the offshore investment has to beat the local preservation fund return by 3.5% p.a. just to come out even in 10 years' time.



An argument can be made that you could do better by investing 100% offshore now, but there is a real cost to making the move, and therefore a real need to achieve better returns to make the withdrawal worthwhile from an investment return perspective.

WHAT ABOUT REGULATION 28 RESTRICTIONS ON RETIREMENT FUNDS?

Regulation 28 guidelines remain in force on retirement funds. This restricts investment exposure inside all retirement funds (the offshore investment exposure is limited to 30%, for example). These restrictions have led to many retiring from pension funds etc. earlier than necessary in order to access investments which are not subject to these investment restrictions (i.e., living annuities). As we have already noted, “retirement” tax is less than “withdrawal” tax (refer to *Figure 1 and 2* above), but there is also income tax to consider - living annuities must pay fund members an income of between 2.5% and 17.5% of the fund value per year. This is fully taxable as income in the member’s hands.

Usually, this tax is not overly onerous for retirees who have lower income, but if members are still working, or there are other sources of income (like rental income, for example) this can rapidly increase the rate of tax payable for members in living annuities.

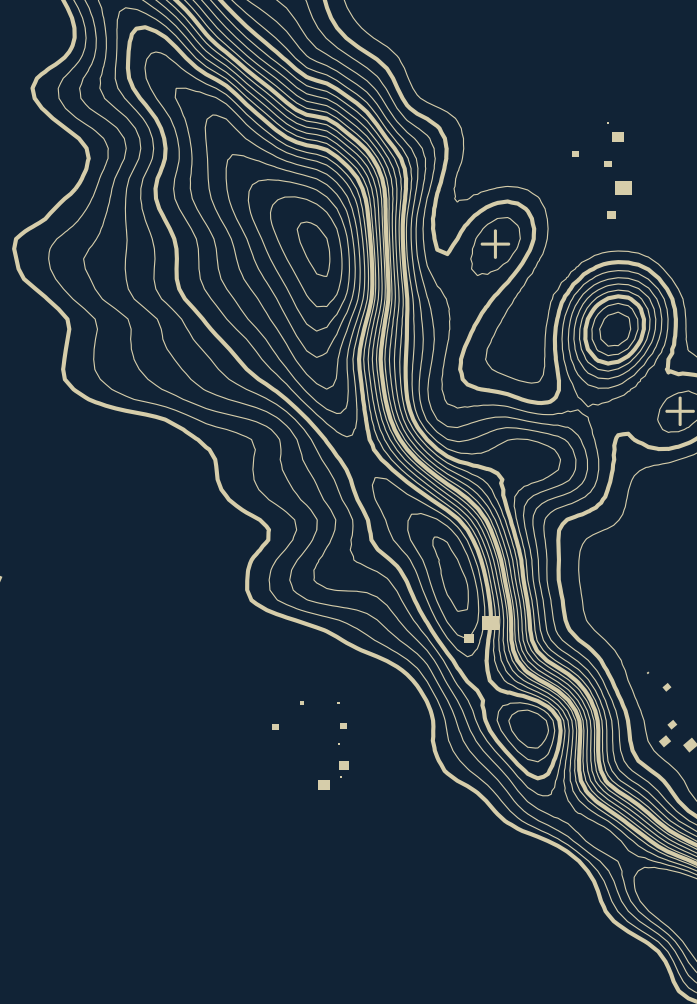
IN SUMMARY

The retirement landscape is constantly shifting and keeping an eye on these changes is essential for retirees, emigrants, and savers in general. Seeking competent advice is highly recommended in this area and may require input from your tax practitioner in addition to your investment advisor. ➤

Disclaimer: The contents of this article is for information purposes only and the accuracy, completeness, timeliness, or correct sequencing of any of the information contained herein cannot be guaranteed and should thus not be construed as investment advice. Readers should thus only act thereon after having consulted their financial advisor.

Performance Summary

	FUND PERFORMANCE							BENCHMARK PERFORMANCE					
	Start date	Annualised p.a. (%)	Since inception (%)	12-month (%)	6-month (%)	3-month (%)	Mar 21 (%)	Since inception (%)	12-month (%)	6-month (%)	3-month (%)	Mar 21 (%)	Performance vs Benchmark (%)
UNIT TRUSTS													
Anchor BCI Equity Fund	Apr-13	10.3	118.4	51.6	22.7	13.1	3.1	85.9	54.2	25.5	12.6	3.7	32.5
Anchor BCI Flexible Income Fund	Jun-15	7.3	51.1	8.6	2.7	0.5	0.2	49.2	4.8	2.2	1.1	0.4	1.9
Anchor BCI Managed Fund	Jan-15	5.0	35.3	35.0	12.0	6.3	0.4	40.6	30.7	13.7	7.4	1.4	-5.3
Anchor BCI Worldwide Flexible Fund	May-13	11.4	134.3	25.7	4.1	3.1	-0.4	93.5	6.9	3.6	2.1	1.0	40.8
Anchor BCI Property Fund	Nov-15	-6.8	-31.5	30.6	27.7	6.5	2.8	-36.0	34.4	30.0	6.4	1.2	4.4
Anchor BCI Global Equity Feeder	Nov-15	17.8	142.5	60.1	1.0	-7.4	-13.4	93.9	28.2	6.1	5.2	-0.0	48.6
Anchor BCI Bond Fund	Feb-16	8.9	55.3	16.7	4.5	-2.1	-2.6	54.3	17.0	4.9	-1.7	-2.5	1.0
Anchor BCI Diversified Stable Fund	Feb-16	6.8	40.2	19.1	7.6	3.9	0.1	35.5	17.3	7.2	3.5	0.2	4.8
Anchor BCI Diversified Moderate Fund	Feb-16	6.0	34.8	26.2	10.8	5.9	0.6	35.1	24.2	10.3	5.5	0.7	-0.3
Anchor BCI Diversified Growth Fund	Feb-16	5.1	29.5	33.0	13.9	7.4	1.2	36.1	30.7	13.7	7.4	1.4	-6.6
Anchor BCI Africa Flexible Income	Mar-16	7.1	41.5	17.3	2.1	-1.9	-2.3	53.7	6.6	2.9	1.4	0.5	-12.2
Anchor BCI Global Technology Fund	Jun-19	32.5	66.7	41.9	5.4	1.7	-1.6	80.5	42.0	3.8	2.3	-2.1	-13.7
Anchor BCI Flexible Fund	Jul-13	10.7	120.2	19.9	0.4	1.7	-1.7	9.8	7.9	4.1	2.4	1.1	110.4
Anchor BCI Core Income Fund	Aug-20	6.0	3.9	N/A	2.9	1.2	0.4	2.2	N/A	1.9	0.9	0.3	1.7
Anchor BCI Global Flexible Income Fund	Sep-20	-16.0	-9.0	N/A	-11.1	-0.6	-1.4	-14.0	N/A	-12.0	0.6	-2.7	4.9
EQUITY NOTES & SEGREGATED MANDATES													
Anchor Equity	Jul-13	7.9	80.2	48.6	23.9	11.1	4.3	84.6	54.2	25.5	12.6	3.7	-4.4
HEDGE FUNDS													
Anchor Accelerator	Feb-16	12.4	84.6	37.9	11.6	6.1	1.4	33.8	54.2	25.5	12.6	3.7	50.8
OFFSHORE													
High Street Equity - Dollars	Jun-12	13.6	206.4	55.8	19.3	3.8	0.1	181.9	54.8	19.8	5.0	3.4	24.4
High Street Equity - Rands	Jun-12	21.6	453.1	28.8	5.5	4.4	-2.5	408.3	28.3	6.0	5.7	0.6	44.8
Offshore Balanced - Dollars	Jun-12	10.5	139.4	33.9	13.3	2.6	0.3	96.6	32.5	11.0	1.1	1.2	42.8
Offshore Balanced - Rands	Jun-12	18.2	331.3	10.6	0.2	3.2	-2.4	254.7	10.0	-1.9	1.7	-1.3	76.7
Global Dividend - Dollars	Jan-14	8.5	79.3	35.3	20.2	5.7	3.3	109.6	54.8	19.8	5.0	3.4	-30.3
Global Dividend - Rands	Jan-14	12.9	138.1	11.8	6.4	6.4	0.6	178.2	28.3	6.0	5.7	0.6	-40.1
Anchor Global Stable Fund - Dollars	May-15	2.3	14.3	13.4	5.3	0.7	0.4	16.7	2.5	1.2	0.6	0.2	-2.4
Anchor Global Stable Fund - Rands	May-15	5.8	38.8	-6.0	-6.8	1.3	-2.3	42.0	-15.1	-10.8	1.2	-2.1	-3.2
Anchor Global Equity - Dollars	May-15	18.6	171.6	115.5	20.3	-3.1	-10.1	72.0	54.6	19.9	4.6	2.7	99.6
Anchor Global Equity - Rands	May-15	22.6	229.9	78.7	6.4	-2.5	-12.5	108.9	28.2	6.1	5.2	-0.0	121.0
RCI UNIT TRUSTS													
RCI BCI Flexible Growth Fund	Sep-16	14.6	85.1	43.7	6.9	-1.9	-5.4	48.9	7.9	4.1	2.4	1.1	36.2
RCI BCI Worldwide Flexible Fund	Dec-16	11.6	60.6	11.9	-2.7	2.8	-1.9	40.5	6.9	3.6	2.1	1.0	20.1



DISCLAIMER

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