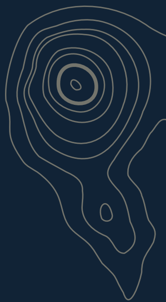
The Navigator

STRATEGY AND ASSET ALLOCATION REPORT

4th Quarter 2022



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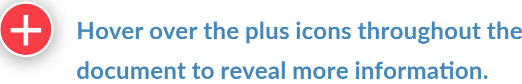

Introduction

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This season has not been easy as doomsayers are bleating, global central banks chase inflation, and economic growth is set to slow down worldwide. It has been a period where all asset classes have felt pain, and investors who were anywhere other than cash have seen losses. However, as assets get cheaper prospective returns improve, and investors need to keep their eye on the horizon.

It feels very uncomfortable to be invested in anything market-related at the moment, and volatility is unnerving. This same discomfort results in assets being mispriced and investors being willing to sell for below fundamental values. Assets are cheap when things are uncomfortable; conversely, when you feel comfortable because of positive recent returns, it probably means that assets are getting overpriced.

We know assets are now attractively priced, but the fear created by recent losses blurs our future vision.

There are very fundamentally attractive assets available globally. Consider, for example, non-FAANG (Facebook, Amazon, Apple, Netflix, and Google [Alphabet]) US growth shares trading at a forward 12x P/E, high-quality global treasuries yielding 4%-plus, Absa at a forward 9% dividend yield, and SA government bonds yielding 11% - a full 5% above where we think inflation will be by early next year.

We know assets are now attractively priced, but the fear created by recent losses blurs our future vision. Given the various factors creating the current upheaval, it is impossible to predict when exactly things will calm down, but as we move through the market cycle, we get closer to that point.

Against the backdrop of what has been a dreadful year, we are noticing a sliver of optimism starting to appear amongst the professional markets. Analysts that were the most bearish a year ago are starting to talk about positive returns as markets inevitably bottom, inflation subsides, central banks reach peak rates, and hikes become a thing of the past. The number of optimists is growing, and the number of pessimists is declining.

Looking out a year, we expect that the global economy is through the worst rate hikes and that inflation will be considerably lower (the market is pricing in 3% inflation for the US this time next year). This gives us some confidence that what lies ahead is better than what is in the rearview mirror. We continue to caution that now is not the time for wholesale changes to your portfolios. The risk of such changes resulting in permanent losses is too high. Over time, if you need to adjust your risk tolerances, then a gradual and patient approach towards such changes is warranted.

Although all asset classes have seen losses, some have been more susceptible than others, and we continue to advocate for asset class diversification domestically and abroad. You will note that we see more opportunities in domestic asset classes in the immediate future. However, we continue to advocate for a larger global holding of assets to achieve your long-term investment objectives.

Now is the time for cool heads and uncomfortable patience with markets.

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	
DOMESTIC				
Equity			●	16
Bonds		●		12
Listed property		●		13
Cash	●			7
Alternatives*		●		10 to 15
Rand/US$ (rand marginally stronger)**				8
GLOBAL				
Equity			●	12
Government bonds		●		7
Corporate credit		●		7
Listed property		●		9
Cash	●			4
Alternatives*			●	8 to 20

**Alternatives includes hedge funds, protected equity structured products, and physical property.*
***The rand is projected to strengthen towards R16.50/US$1.*

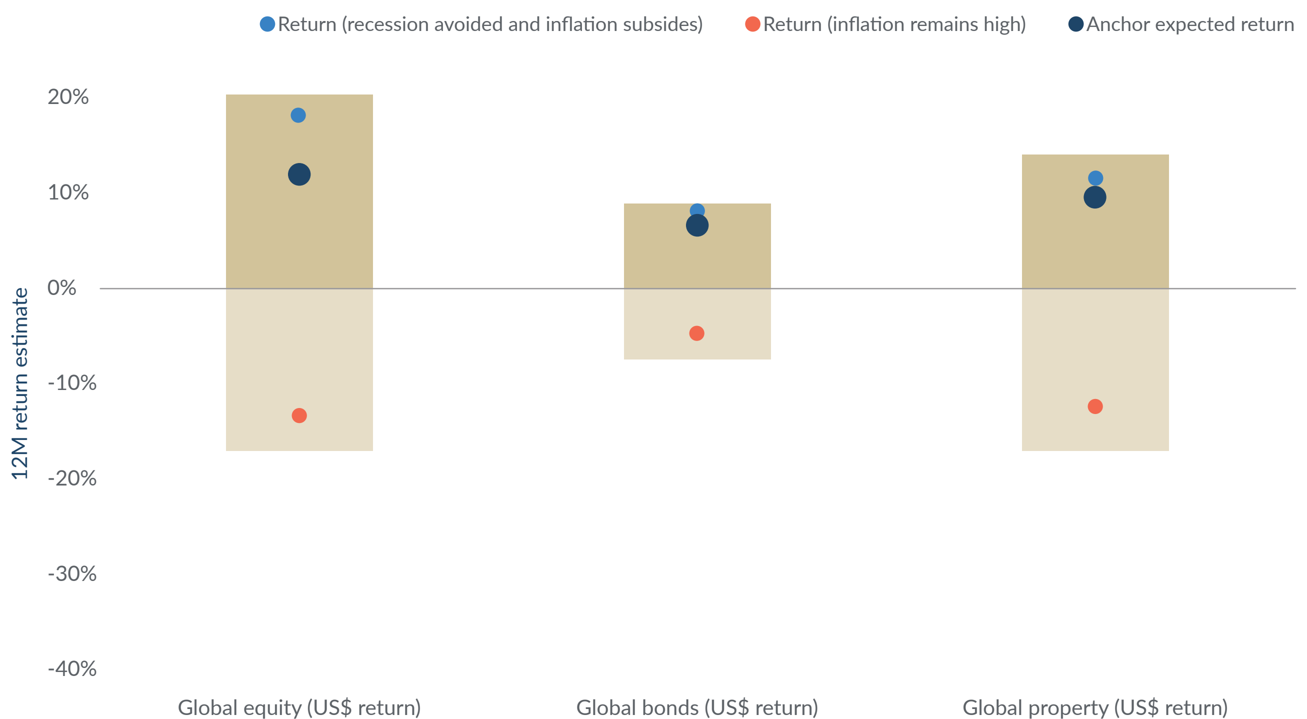
Asset Allocation Summary

A concerted drive from central banks to tame inflation has seen markets sell off significantly. As asset prices decline, the opportunities within markets are increasing. There is some debate as to how high interest rates must go and whether the US will be able to avoid a recession. Our base case remains that US economic growth will slow markedly, however, we do not expect the US to plunge into a deep recession. As this plays out, volatility will remain high, and we advocate for patience coupled with a phasing-in of investments.

The dramatic sell-off in equity markets both abroad and domestically means that we see this asset class as the most attractive. We expect that within the 12-month time horizon of this document, earnings will bottom, inflation will start to trend lower, and the next bull run will just be getting started. The path to the next bull run will likely see periods of market weakness, however, by October next year, we see more upside than downside in global and local markets.

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. We note that for the first time in decades, global bonds and global cash have compelling investment cases as well.

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



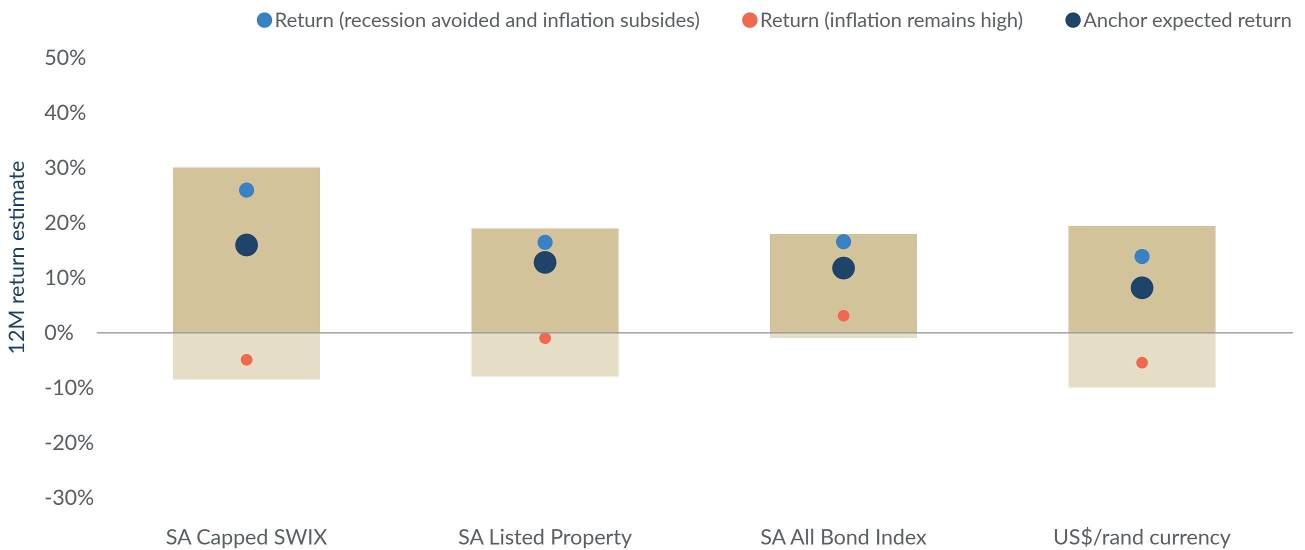
Globally, equity has disappointed in the past year, providing investors with more appealing entry points. There is a risk that the negative momentum continues in equities, though we think that investors should begin a gradual process of investing in this asset class at these levels. We have retained our neutral stance on global bonds, though the yields are more interesting than they have been in a while.

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

	Global equity	Global bonds	Global property
Anchor expected return (in US dollar)	12%	7%	9%

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

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



Domestically, we think this is a positive investment environment where risks are skewed towards the upside. All asset classes are positive and have compelling investment cases, although we think that domestic equity will give the most upside. We see a rand that is recovering over the next year though this will be uneven. For now, domestic assets seem to be compelling.

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

	Domestic equity	Domestic bonds	Domestic property	US$/rand
Anchor expected return (in rand)	16%	12%	13%	8%

Strategy and Asset Allocation

ECONOMICS

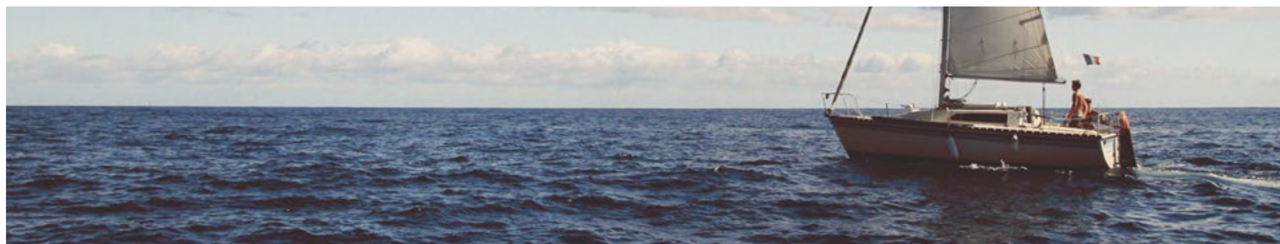
As we move into the last quarter of 2022, it is undeniable that the global economy is slowing, with no single factor behind the lethargy. In Europe, an energy crisis is battering household finances and weighing on industrial output. China is reckoning with the fallout of its real estate slowdown and strict zero-COVID policy. In the US, the Federal Reserve (Fed) is rapidly tightening policy to cool the surge in inflation powered by a return of post-lockdown consumer activity, excess savings, and supply chain bottlenecks. Monetary authorities around the globe have their work cut out for them, with increasing questions on whether they can pull off a soft landing - reducing demand enough to wrestle inflation down from 40-year highs without crashing their economies into a deep or prolonged recession.

As such, the frontloading of interest rates remains the central global economic theme. However, larger rate hikes have quickly become the norm for central banks, with 75 bpts replacing 50 bpts as quickly as 50 bpts replaced 25 bpts. Whilst frontloading remains the key directive; for now, expectations have shifted to rates remaining higher for longer. Consequently, global bond yields have increased sharply – especially in the UK. This is as the country moves into the eye of the storm of a self-inflicted financial crisis that threatens to accelerate the economy's dive into a recession. In the space of one week since the new UK administration unveiled the biggest tax cuts since 1972 (with scant detail of how these will be financed), the pound crashed to its lowest-ever level against the US dollar, and the cost of insuring British government debt against the risk of default soared to the highest since 2016. At the time of writing, the Bank of England (BOE) was forced to take emergency action to avoid a meltdown in the UK pension sector by unleashing a GBP65bn bond-buying programme to stem a crisis in government debt markets.

Headwinds are also mounting for the euro area, given the current energy crisis and continuing supply chain disruptions. As such, the European Central Bank's (ECB's) Governing Council faced a difficult decision in September as it attempted to balance the ongoing inflation problem against rising economic headwinds. Whilst rates are sure to rise again, the key question is centred around the magnitude of future rate hikes. In line with consensus expectations, the ECB increased its three key rates by 75 bpts - the biggest rise since 1999, during the very early days of the eurozone. The more aggressive nature of the hike is relatively unsurprising – inflation in Europe is currently sitting at a half-century high and approaching double-digit territory. Consequently, policymakers are worried that rapidly increasing prices could become entrenched, eroding the value of household savings and setting off a hard-to-break wage-price spiral. Overall, European policymakers are facing a particularly difficult economic challenge, fighting high prices in the face of growing expectations that the energy crisis will drive the region into recession territory.

Monetary authorities around the globe have their work cut out for them, with increasing questions on whether they can pull off a soft landing.

Shifting to our much-beleaguered SA, not only is the local economy being negatively impacted by global events, including a strong slowdown in the economic activity of most of our trading partners but local issues as well – most notably the renewed and record levels of loadshedding. This was clear in the latest 2Q22 GDP data released in September, indicating that SA's economy decreased by 0.7% QoQ. Notably, the weakness was most pronounced in the goods-producing economic sector, with significant negative contributors to growth recorded in the manufacturing, agriculture, trade, and mining sectors. This can largely be attributed to the record levels of loadshedding experienced this year. It is important to remember that Eskom implemented electricity outages for over half of the days in 2Q22, with 3Q22 also reaching new record levels. In rand billion, the SA economy remains at 2018 levels which speaks to the structural issues holding back the country's growth.



Looking ahead, growth in 2022 is expected to slow to a meagre 1.9% YoY, as per the SARB's latest estimates. Typically, in the local economy, material job creation has only occurred when GDP growth approaches 3% p.a. Thus, the SA economy is simply not growing at an adequate pace to sustainably boost long-term employment prospects for South Africans.

As we move into the close of 2022, the famous quote, “Uncertainty is the only certainty there is, and knowing how to live with insecurity is the only security.” by American mathematician John Allen Paulos, indeed holds true. This uncertainty will permeate both the global and local economic outlook in 4Q22. Nevertheless, much like what was experienced throughout previous quarters, whilst opportunities continue to exist in most asset classes, volatility will likely remain high for the foreseeable future.

SA EQUITIES

The FTSE/JSE Capped Swix Index followed global markets lower in 3Q22, ending the quarter 2.4% down in rand and falling by 12.3% in US dollar terms. YTD, the JSE has been a relative outperformer, with the Capped Swix Index down 18% in US dollar terms, while global equities (MSCI World) are down c. 25%, and emerging market (EM) equities are 27% lower. The fact that the JSE has outperformed both EM and global equities does not surprise us –the JSE is less vulnerable than the larger developed market (DM) exchanges to a de-rating, given the relatively lower valuations and earnings bases. Our base case over the next 12 months is for the JSE to continue outperforming with a total return expectation of 16% relative to 12% for global equities and for the rand to strengthen against the greenback. Our constructive view on SA equities is premised on valuation multiples having approached extreme levels of 8x forward earnings, overlayed with conservative earnings expectations and a discount rate at the high-end vs historical levels.

In building a set of expectations for the domestic equity market, we have bottom-up return expectations that cover roughly 80% of the local index – with no particular sector screening as fundamentally overvalued. Even at a company-specific level, the number of companies on our watchlists that are screening as expensive is about as low as it has been since the inception of our process. With fears around slowing global growth, stickier inflation in the developed world, and the resulting higher cost of capital, the general risk-off tone has made equity returns hard to come by. We think it is not unexpected that the contraction in valuation multiples reflects this. However, in the case of SA, a market that has had to deal with 'stagflationary' type conditions for the best part of a decade, the business models and management teams are in better shape to deal with the current operating environment relative to some of the DMs, where inflation above 2% is a relatively new concept. This view is further corroborated by the recent results reporting season, which saw a higher number of earnings beats than misses and commendable performances from the large industrial and banking counters that mainly operate locally.

Over the past month, we have met with around 25 locally listed SA management teams - with the common theme being acceptance and resilience. We have often made the point that SA management punches above their weight when it comes to the operational performances of the companies they run. This difficult environment, particularly over the past ten years, has resulted in a greater internal focus and a relatively low expectation that the operating environment will improve over the near term – the result of which has meant that businesses have been run lean and more focus has been on reporting clean metrics such as cash conversion, disciplined cost control, and prudent balance sheet management. The number of corporate deals in the listed space among locally focused businesses has fallen dramatically over the past five years, particularly offshore transactions. Recent examples of companies focusing internally to unlock shareholder value have been the decision of Shoprite to exit certain African operations and Woolworths' resolve to rationalise and optimise its Australian Apparel business and pay down debt.

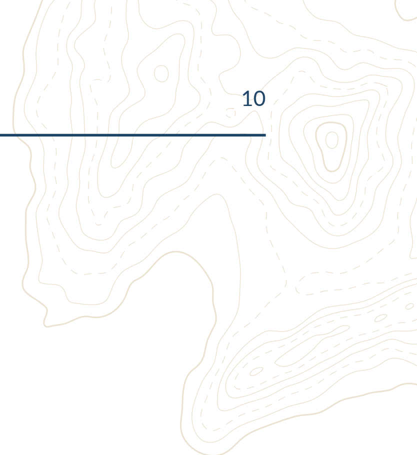
These are just two examples of management teams focusing on the controllable in a challenging operating environment and being rewarded for it. We continue to identify deeply undervalued domestic companies, most of which have some uniqueness to the investment case that does not involve rapid top-line growth. While many of these opportunities are yet to play out fully, many have not gone unnoticed, with the number of buyouts and delistings from the JSE having shot up in the past two years, with a few more in the pipeline.

Looking at those companies listed on the JSE and less reliant on the SA economy for earnings growth, we note that we find ourselves in the unique situation that some of our offshore earnings may be more at risk of negative revisions than domestically focused businesses. We do not often view the earnings expectations from Europe and UK with more scepticism than those locally. However, the deterioration in the UK and Europe's spending power in real terms over the next six months because of an unfamiliar increase in the cost of living will undoubtedly impact certain company earnings.

We find ourselves in the unique situation that some of our offshore earnings may be more at risk of negative revisions than domestically focused businesses.

Even in China, a region the JSE relies so heavily on for exports of commodities and the contribution of Tencent's earnings to Naspers, we have had to deal with a sharp deterioration in activity levels over the past year. Even as Naspers has chosen to sell down a portion of its stake in gaming conglomerate Tencent, the process will likely take place over several years. The Tencent asset will remain the most important driver of Naspers's returns for the foreseeable future. We maintain our constructive view on the Naspers and Prosus investment case, with Tencent's investment case having evolved (not too dissimilar to many SA companies) into a value-extraction exercise instead of a rapid-growth thesis. This evolution has been painful for equity holders as the valuation multiple Tencent trades on has compressed over the past 18 months. Our base case is that Tencent management has quite a few levers to pull to deliver above-trend operating EPS growth (>20% YoY) without needing the top line to grow by double-digits. Asset realisations, rationalisation, and prudent capital management are a few levers management has at its disposal to drive shareholder returns.

With a specific eye on sectors that screen as most attractive, we continue to expect double-digit total returns from the local banking sector, trading on an average dividend yield of 7%, with double-digit earnings growth expected. The basic materials complex (including energy) continues to offer compelling value (>20% to our fair values). Still, we concede that the deteriorating global growth backdrop threatens our fair-value targets being achieved. However, should growth fears alleviate somewhat, we think that corner of the local market has the most significant upside. As such, we have been pairing underweights to the sector, particularly the platinum group metals (PGMs).



SA LISTED PROPERTY

The FTSE/JSE SA Listed Property Index (SAPY) has declined by 15.8% YTD, a slightly worse performance than equities. Our projected return for the next 12 months is 13%, most of which comes from distributions (in the region of 11%). Almost all asset classes in the world have declined, and SA property has suffered a similar fate. We would argue that the prospects for SA property companies have not worsened of late. Still, the relative attractiveness of other income-generating assets has put pressure on property companies' share prices. We believe that the SA-listed property sector should be assessed as follows:

- For SA-domiciled properties, the growth outlook is mediocre – a reasonable quality SA diversified portfolio should grow in the low single digits for the next few years. This is through a combination of 6%-7% escalations, roughly 10% reversions for new leases and increasing cost pressure from rates and utilities. We remain concerned about the challenging long-term net rental growth trajectory of large urban malls and the inability of landlords to pass on rising utility and other property operating costs to tenants in the current environment. The prospects for filling office space are limited as office occupation in the professional services space is very low. Tenants of the SA property landlords have been performing well if measured by the results of listed companies, which is a positive light on the horizon.

- For foreign-dominated property portfolios, Eastern European (the majority of exposure in SA-listed properties' offshore profit) profit growth still looks reasonable. However, the impact of the Russian-Ukraine war remains uncertain. For now, the impact on countries like Poland looks profit-positive as millions of people flow across the border from Ukraine.

- SA 10-year bond yields have increased from around 8.5% to 11% in the last year on the back of rising global yields. This has decreased the attractiveness of property income, which is reflected in the share prices YTD.

- The JSE-listed property companies have not devalued their property book values in line with the increase in bond yields. The market has, however, done so, and the average discount to book value is 35%. It is interesting to note that most property companies are selling properties at or around book value (which would indicate good value). Still, these transactions are primarily in the smaller property space (R50mn-R200mn) and have not been tested in the larger property space. It is difficult to see who would be a buyer of large properties at anywhere near book values when the companies themselves can be purchased at two-thirds of book value.

In summary, it is tough to grow out there, but earnings risks are also much lower than the average listed company. A reasonable portfolio of SA-listed property equities can generate a distribution yield of around 11%, and we are not projecting material capital growth given the above scenarios. When bond yields decline, there are prospects for capital revaluation.

DOMESTIC BONDS

SA government bonds (SAGBs) again underperformed in 3Q22, with an All Bond Index (ALBI) return of only 60 bpts over the past three months. Over a longer time horizon at the index level, the ALBI has retreated by 1.34 YTD, feeding into all duration-bearing assets in SA. Yields remain elevated and have seen pronounced volatility over the past two months, with the R2030 seeing low yields of 9.815% and high yields of 11.11% - a spread of 1.3% over three months.

On the global front, risk-off sentiment has become pronounced as central banks continue their rate hiking to corral DM inflation which is higher than at any point in the past 40 years. This has left US short-end rates (US 2-year Treasury) at 4.2% - well above the 1% level at the start of this year and c. 0.25% in October last year. Combined with the new UK chancellor and prime minister's policy proposals, the gas crisis in Europe leading into winter, Russia's ongoing war in Ukraine, the election of populist governments in Sweden and Italy and the polarising election in Brazil (set for a run-off), this has led to a market that is aggressively risk-off in sentiment.

Domestically, the past quarter (3Q22) has seen some major issues that have harmed the performance of SAGBs. These include:

1. Another bout of severe loadshedding (the worst on record) left most of the country indefinitely on level 4 loadshedding (as of the time of writing).

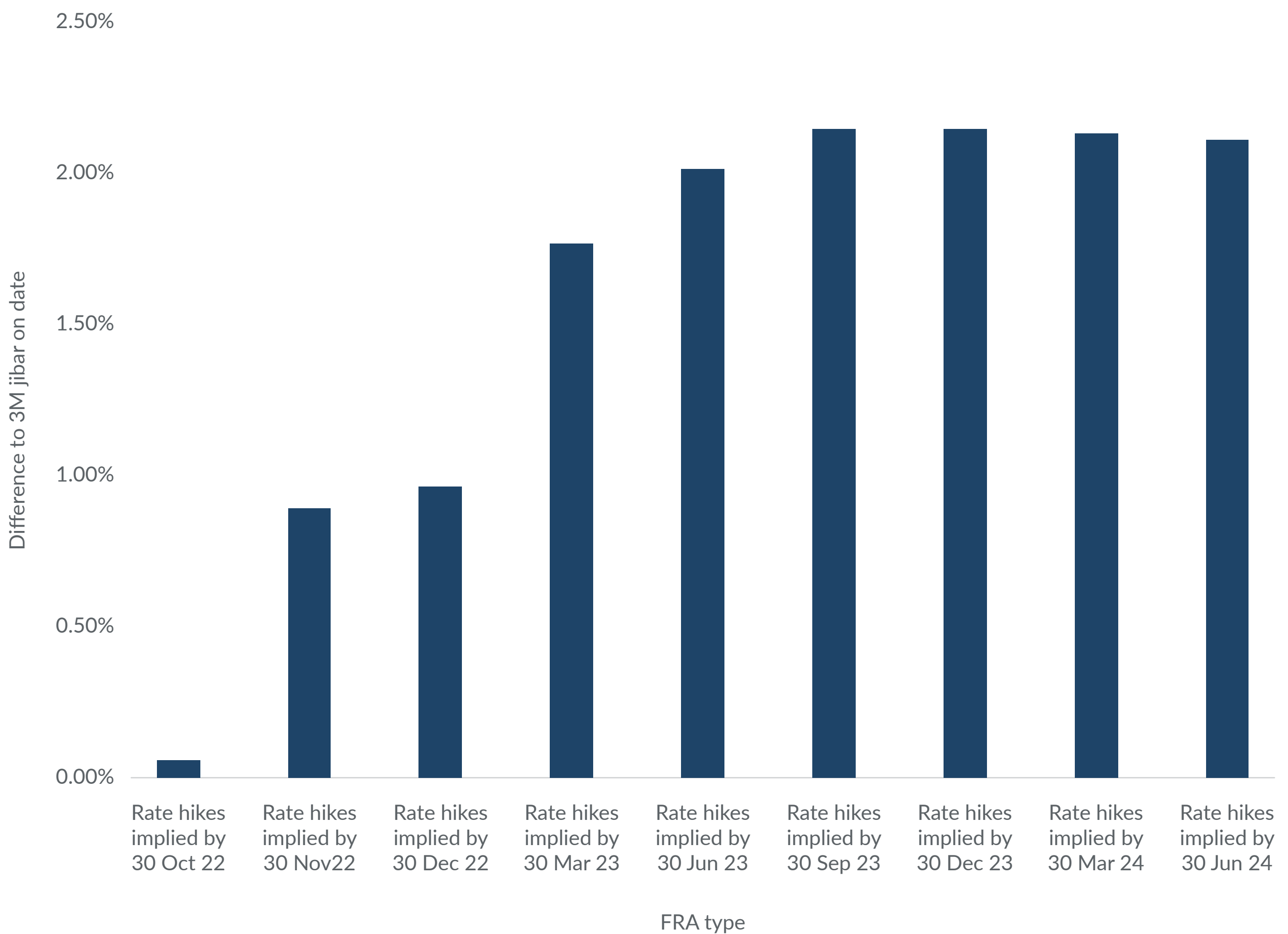
2. The upcoming ANC December elective conference.

3. The breakdown of coalition governments in Johannesburg and Nelson Mandela Bay.

4. Continued rate hiking (with another 0.75-bpt hike at each meeting this past quarter [3Q22] – July and September).

The SA Reserve Bank's Monetary Policy Committee (MPC) has been hawkish but split in terms of rate hiking, with the last meeting in September seeing a 2-3 split between a 100-bpt and 75-bpt interest rate hike (with the 75-bpt hike winning). Current market expectations (implied from FRAs) are for another c. 200 bpts of hikes to YE2023 (as shown in *Figure 1* below).

Figure 1: FRA strip comparison, 30 September 2022
Source: Thomson Reuters, Anchor

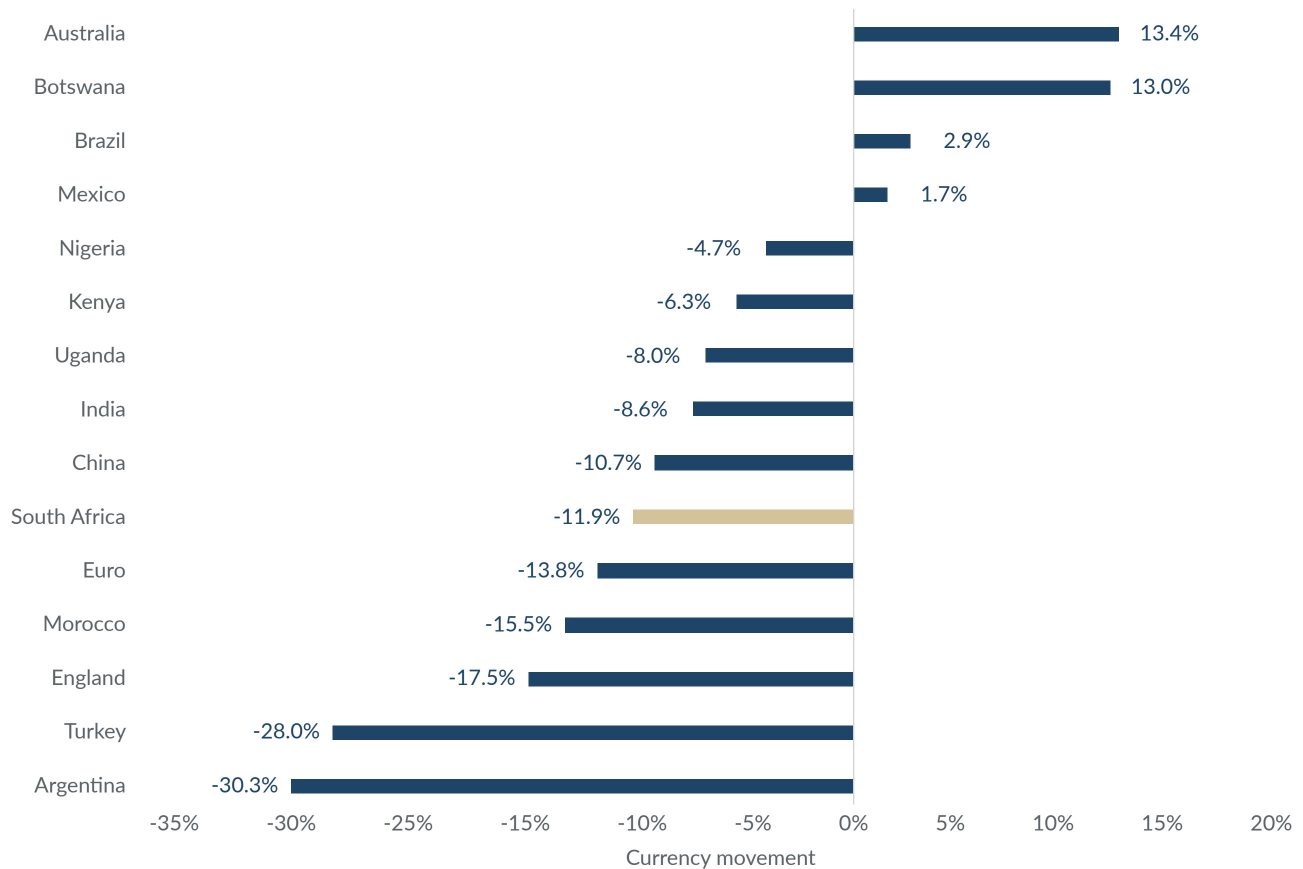


The Anchor Fixed Income team views this as materially too hawkish (for reference, if the implied 200 bpts of hikes materialise, the repo rate will return to levels last seen pre-2008). We retain a view that volatility (driven by the combination of economic, political, and financial markets turmoil) will likely be a feature of SAGB performance over the near- to medium-term. However, with yields at an index level over 11%, there is material upside in holding SAGBs at current levels, with the potential for capital growth if the risks subside or even moderate.

THE RAND

The past nine months have been characterised by a strong US dollar dominating all other currencies. In *Figure 2*, we set out the YTD performance of the US dollar against a basket of other currencies. Most of these currencies have depreciated against the US dollar. However, the strong policy stance of the SARB, coupled with a strong export performance, has seen the rand fare better against the greenback than the pound and the euro.

Figure 2: YTD performance of a basket of currencies against the US dollar
Source: Thomson Reuters, Anchor



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 an R2.50 range to the US dollar in most 12-month periods.

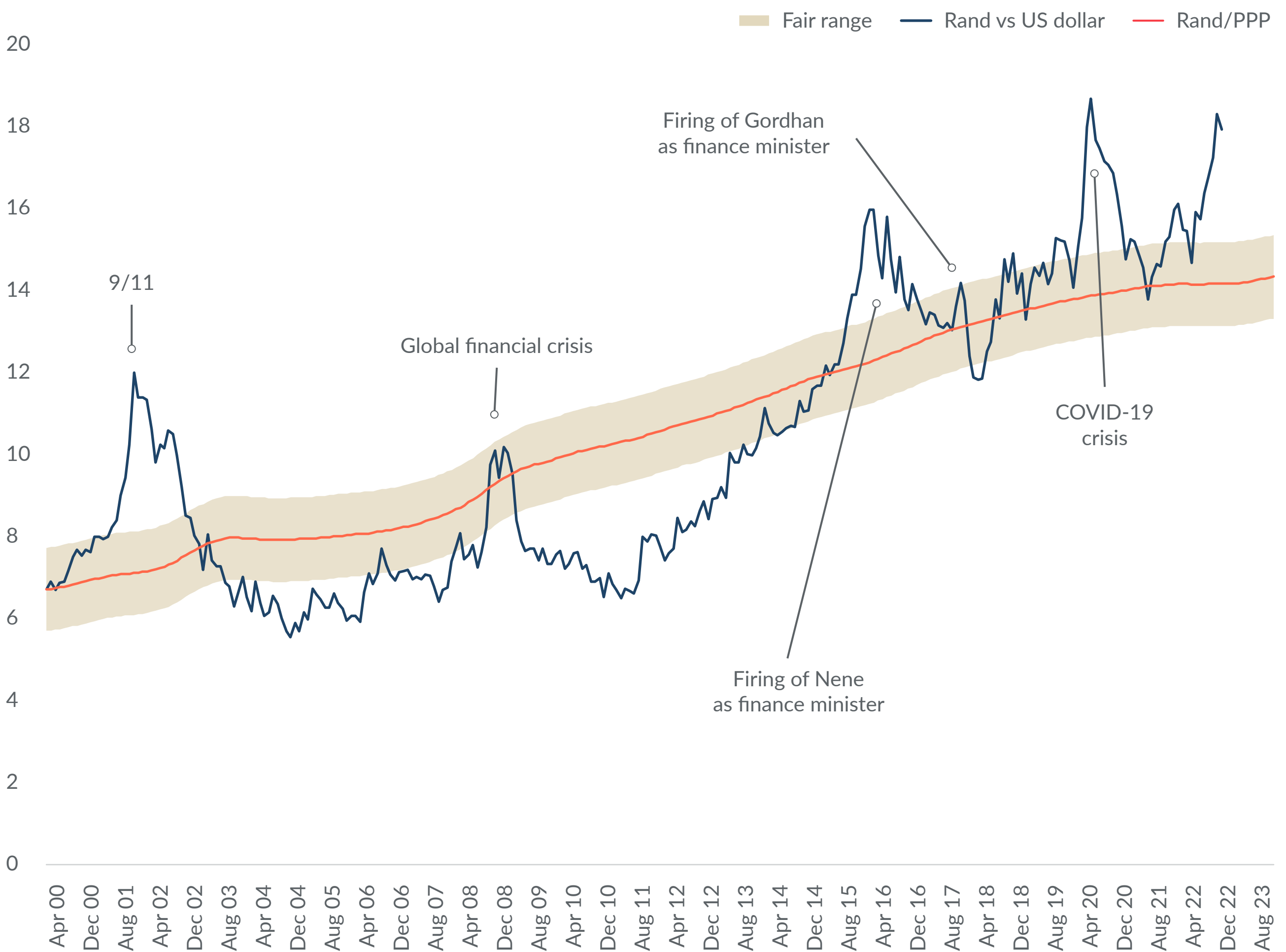
The indicators for the rand's fair value are gradually turning negative again. We note that 2022's current account surplus will likely give way to a shallow deficit in 2023, eroding some currency support.

We retain our purchasing power parity (PPP) based model for estimating the rand's fair value. We have extended this out by three months since the publication of *The Navigator – Anchor's Strategy and Asset Allocation, 3Q22* report on 11 July 2022. Over our forecast period, we expect inflation abroad to come under control and return to more normalised levels. This means that our PPP model shows an increasing propensity for long-term rand weakness from next year again. Our PPP-modelled value for the rand vs US dollar at the end of the next 12 months is R14.30/US$1 (see *Figure 3*). We apply a R2.00 range around this to get to a modelled fair value range between R13.30/US$1 and R15.30/US$1.

The global backdrop means we are starting with the rand meaningfully weaker than our modelled fair range. In previous cycles, US dollar strength has tended to dissipate (and reverse) toward the end of the US rate hiking cycle. Current indications are that the US Fed will reach peak rates in 1Q23, meaning that we expect to see currency normalisation, with the US dollar giving up some of its gains in the latter part of next year. We do not expect the currency to fully recover that rapidly, and we are projecting a rand in the R16.00-R16.75/US$1 range in one year. For this report, we have modelled on R16.50/ US$1.

We expect the rand to remain particularly volatile, and surprises are a certainty in the year ahead.

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



GLOBAL EQUITIES

We enter the last quarter of 2022 with global equity markets trading close to their 2022 lows, with the S&P 500 down c. 25%. Further disappointments in the short term (most likely from US CPI and quarterly earnings) could see another leg down, but we believe it is time to keep one's eyes on the horizon. We expect global equity indices to be higher 12 months out, with a projected return of 12%. That represents an S&P 500 Index level of 4,000 (from the current 3,600) - if the US can achieve an economic soft landing, this could even be higher.

Index-level projections can often mask very attractive underlying share-specific opportunities. While indices have dropped c. 25%, certain sectors and some high-quality businesses have crashed by 50%. There are some very compelling opportunities at a share level.

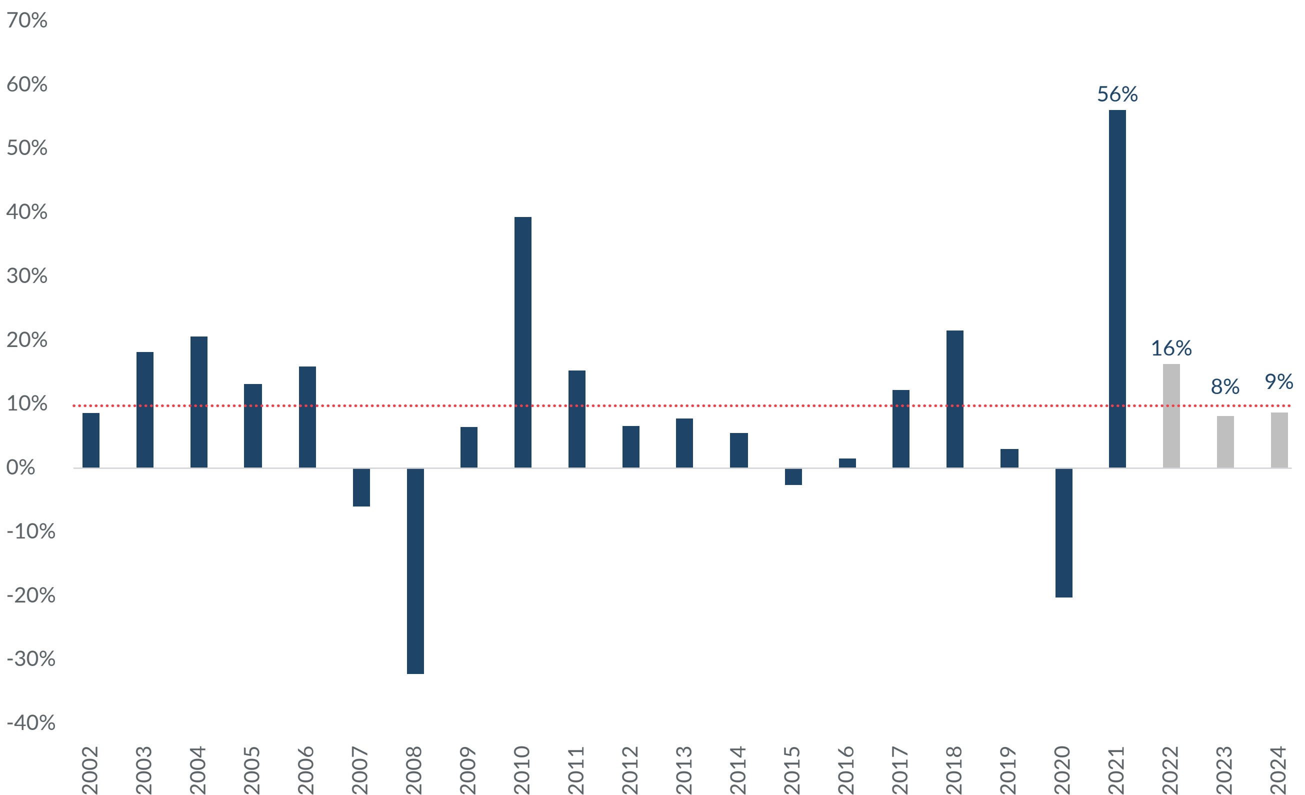
Global inflation is at the core of this year's market meltdown, driven by easy money and supply pressures from clogged supply chains and Russia's war on Ukraine. We think that the current 8% US inflation could subside to 3% within a year, easing pressure on central banks to act in a restrictive manner. During the height of the volatility and market declines, it is important to remember that it is an economic cycle, and we are well past the halfway mark. It is also vital to remember that markets move long before economies actually turn - they look forward and price-in the aggregate view of the future. By the time the economy is on the up again, markets will have already run away.

So, the playbook sounds simple, but the shorter term is far more complex, and market participants and commentators are on edge trying to work out when rates will peak, how long rates will remain high, and how deep the economic impact will be. These are all factors that will determine the short-term trajectory of markets. The dollar has been incredibly strong this year (strengthening by a massive 17% against its average trading partner), and once peak dollar and peak rates are in sight, the next bull market could be in the making.

Inflation stickiness will be one of the key things to watch over the next few months. A tight labour market and stubborn rental numbers will be a drag, while many of the inputs into goods manufacturing and transport have already declined. The US Fed will continue to speak loudly in unison about doing what it has to do, but, as history has shown, positions can change rapidly. The term of the times is "the Fed pivot". At a base rate of 3.25% (the fastest rate hike in history from 0.25% six months ago), there could be another 1% rate increase to go, at which point any further hikes would be very damaging to the US economy.

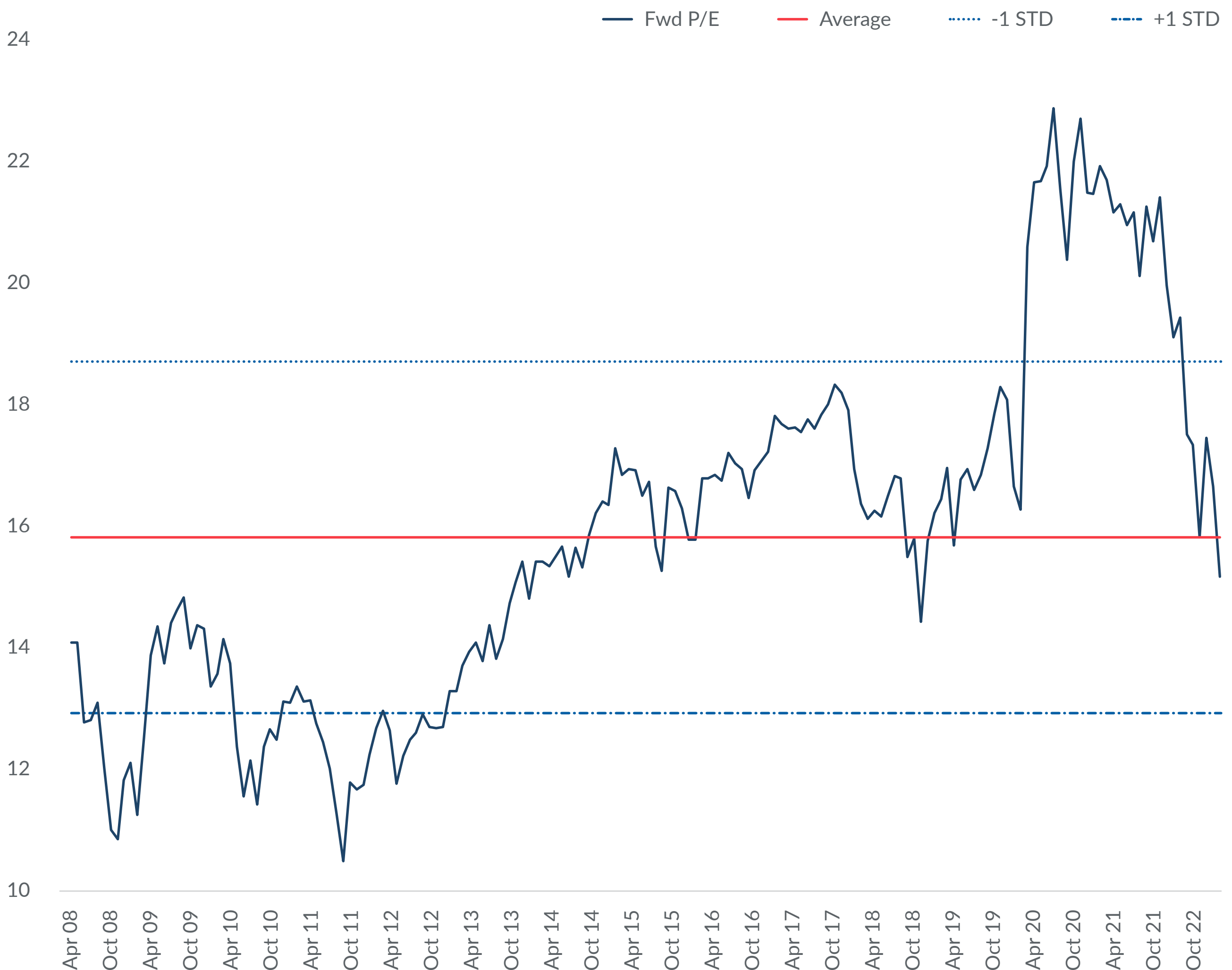
However, the most important determinant of markets is earnings, and downgrades will certainly follow – official forecasts tend to lag the actual expectations that are discussed in investment meetings. *Figure 4* below shows that Bloomberg consensus analysts' US EPS growth projections for 2023 are at 8%, which appears high given the economic pressure that will be felt from higher interest rates. We would argue that much of this has been anticipated and is priced in at current valuations.

Figure 4: S&P 500 Index EPS growth (annualised)
Source: Bloomberg consensus forecasts, Anchor



The US S&P forward P/E of 15x (see graph below) is below long-term averages, and if you strip out the big-five tech companies, this decreases to a cheap 12x. This does leave a buffer for anticipated downgrades.

Figure 5: S&P 500 Index forward P/E
Source: Bloomberg, Anchor

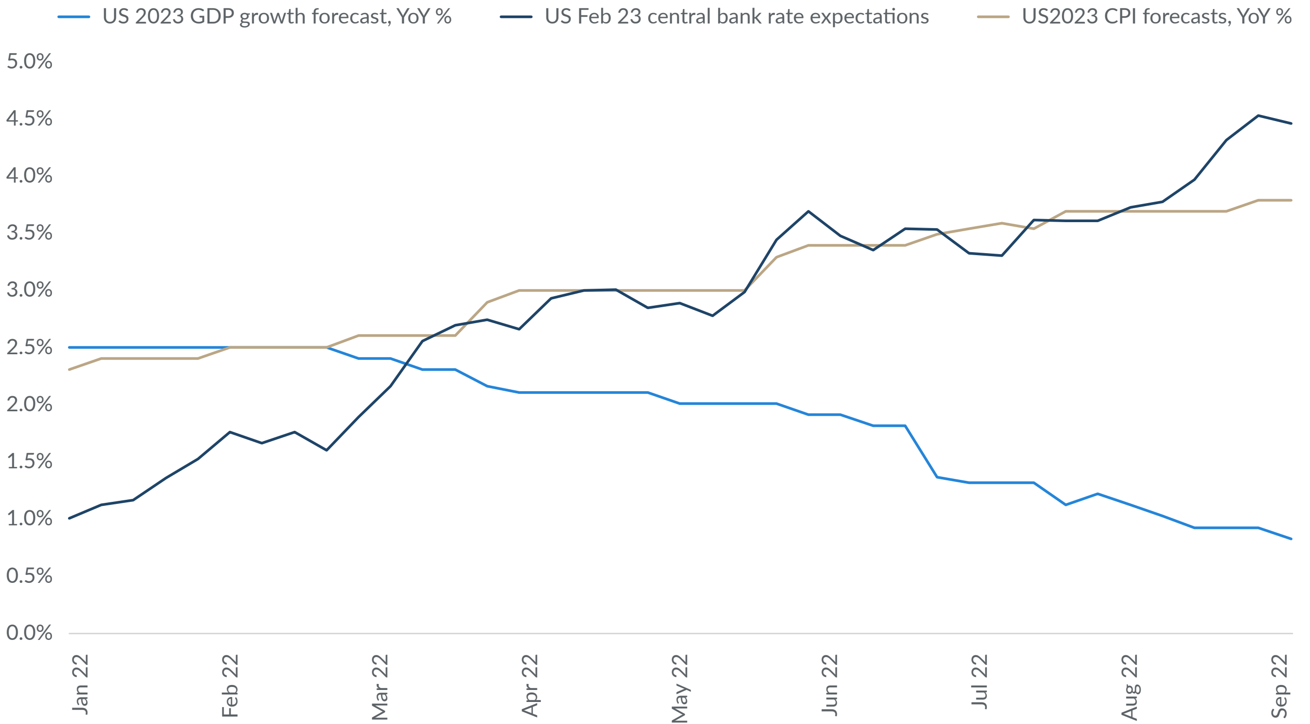


GLOBAL BONDS

US 10-year government bond yields rose materially for a third-consecutive quarter, spiking to 3.8% by quarter-end, having more than doubled from the 1.5% level where they started the year. Going into 2022, the US Fed had hiked rates by 0.75% or more only five times in the past 40 years. However, by the end of 3Q22, the Fed had delivered three consecutive 0.75% hikes, with the fourth hike of that quantum all but a certainty at the next Fed meeting in early November. The crux for global bond investors is how high rates will go and how long they will stay there.

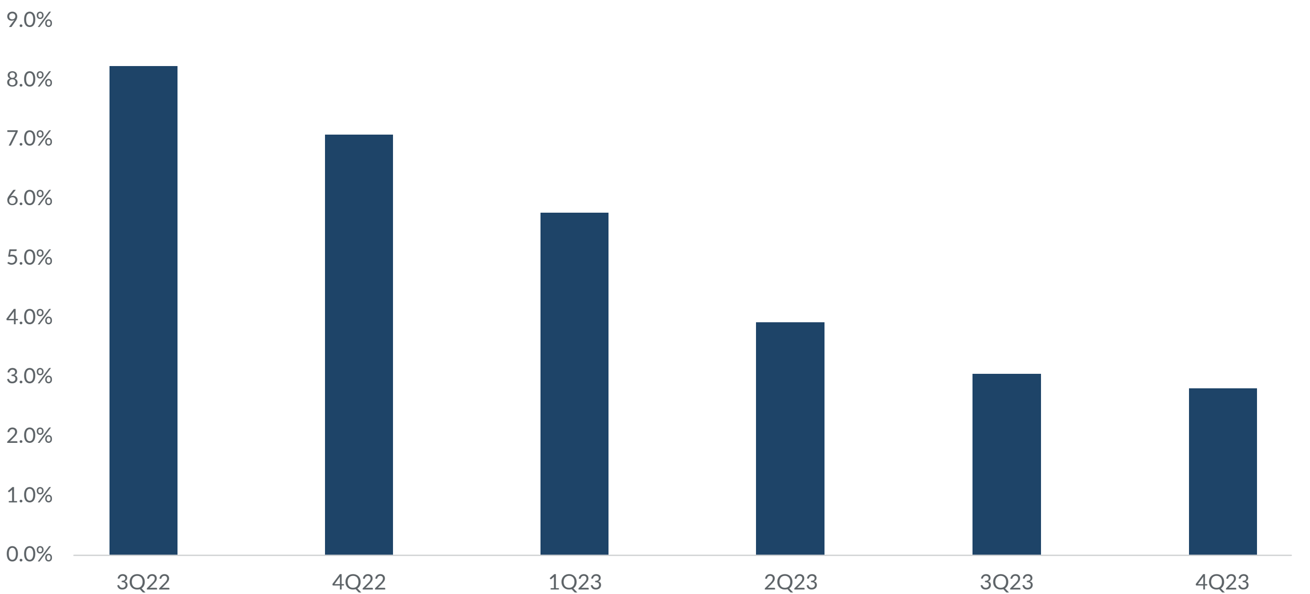
Talk of a soft-landing, where the Fed can swiftly reverse course on monetary policy tightening in early 2023 as inflation normalises, thereby avoiding a recession, seems to now be a much tougher ask as the Fed itself is talking about causing economic pain to get inflation under control. At its most recent press conference, the Fed was at pains to talk down investor expectations for an imminent unwinding of tighter monetary policy. Investors and economists have spent most of the past year adjusting their expectations to the prospect of less transitory inflation, central bank rates which are higher for longer and significantly weaker growth.

Figure 6: US economic forecasts for 2023 (economists have spent most of the year recalibrating their expectations for more inflation, less growth and higher central bank rates in 2023)
Source: Anchor, Bloomberg



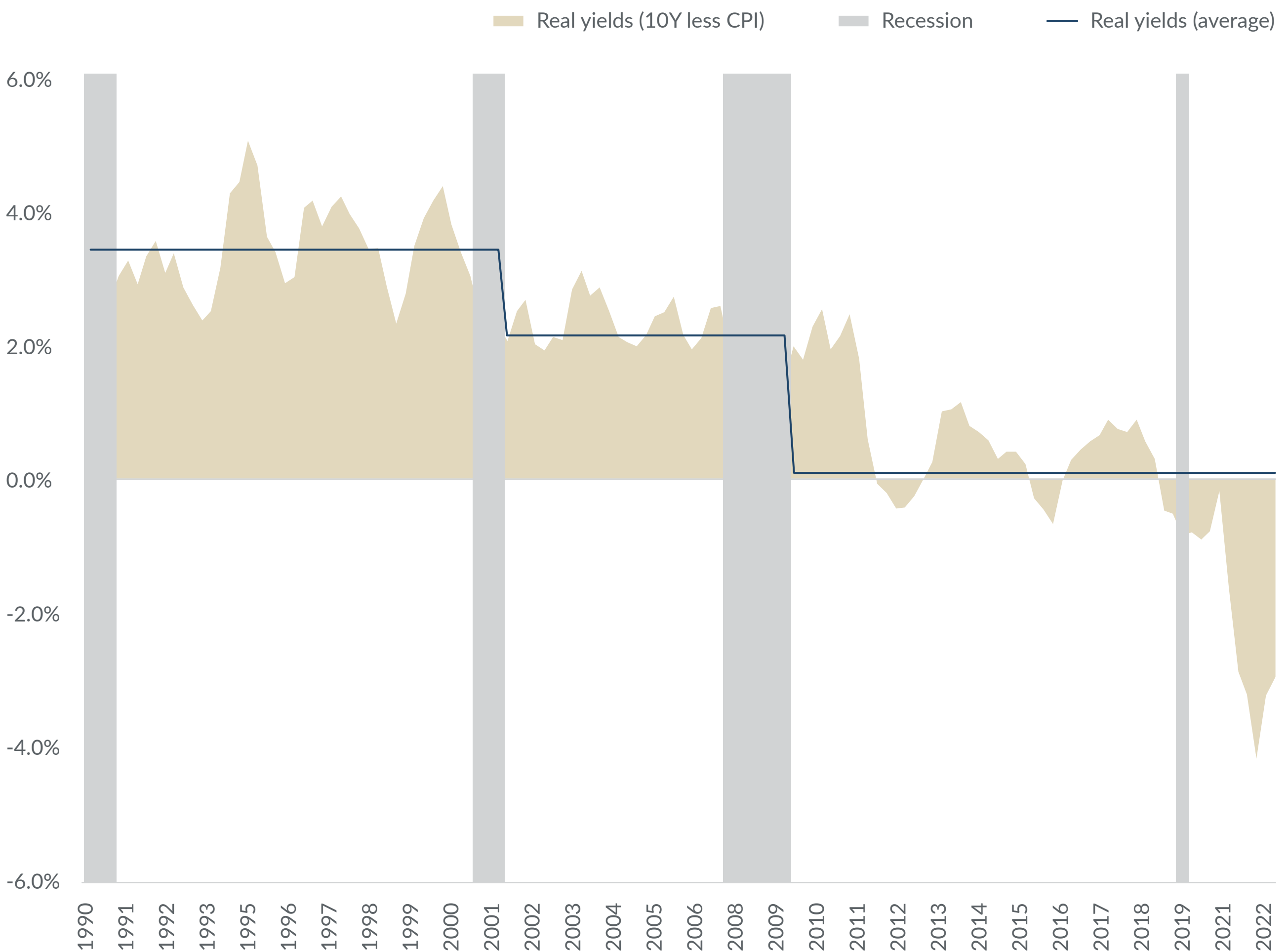
Fortunately, it seems that by mid-2023, we will be through the worst of the inflation, and central banks will have stopped hiking rates.

Figure 7: Economist US inflation expectations by quarter (the bulk of elevated inflation is expected to work its way out of the system by the end of 1H23)
Source: Anchor, Bloomberg



As we contemplate what "normal" monetary policy might look like through the next cycle, we expect we will move back to an environment that is unlikely to look like the past decade or so, where extraordinary amounts of quantitative easing (QE) squashed the real yields that investors would typically expect to be compensated with for taking on long-term uncertainty when lending money for periods as long as ten years. With fresh scars from the inflationary shock that was likely partially a function of excessive QE, central banks are sure to be more circumspect when deploying QE. Nevertheless, having formed a key quiver in the bows of major DM central banks for so long, we think it is unlikely that we have seen the last of QE. So, we expect the new normal will see a return of positive real yields for long-bond investors, but it is unlikely that those real yields will ever reach the same levels they were in the pre-QE world.

Figure 8: The QE-era crushed real yields for long-bond investors, but a more circumspect approach to future QE is likely to see a return of moderate real yields in the next economic cycle
Source: Anchor, Bloomberg



So, as we approach the end of the 1-year forecast horizon that we consider in this publication, we are likely to have entered an environment of subdued inflation, peak central bank rates and slow economic growth. In such an environment, we think it is likely that the Fed will be contemplating moving rates to more supportive territory but is unlikely to be considering QE yet. As such, we expect US 10-year government bond yields to be reflecting a moderate real yield (0.75%) over a more normal, long-term inflation rate (2.5%) for a level of 3.25%, which will give 10-year US government bond investors a 6.8% total return in US dollar terms over the next twelve months.

We expect US investment-grade corporate credit spreads to gradually deteriorate over the next twelve months as economic activity slows and the burden of higher debt servicing starts to weigh on indebted corporates. Although credit spreads for investment-grade borrowers are already slightly elevated (1.6%) relative to their 10-year average (1.25%), they remain well below the levels they can spike to during periods of economic stress. Therefore, we think it is realistic that they can widen to 1.8% over the next year, leaving investors in US investment-grade corporate bonds with a total return of 7% in US dollar terms.

Figure 9: US investment-grade credit spreads are elevated but still well below the levels they typically get to during times of severe economic stress
Source: Anchor, Bloomberg

GLOBAL PROPERTY

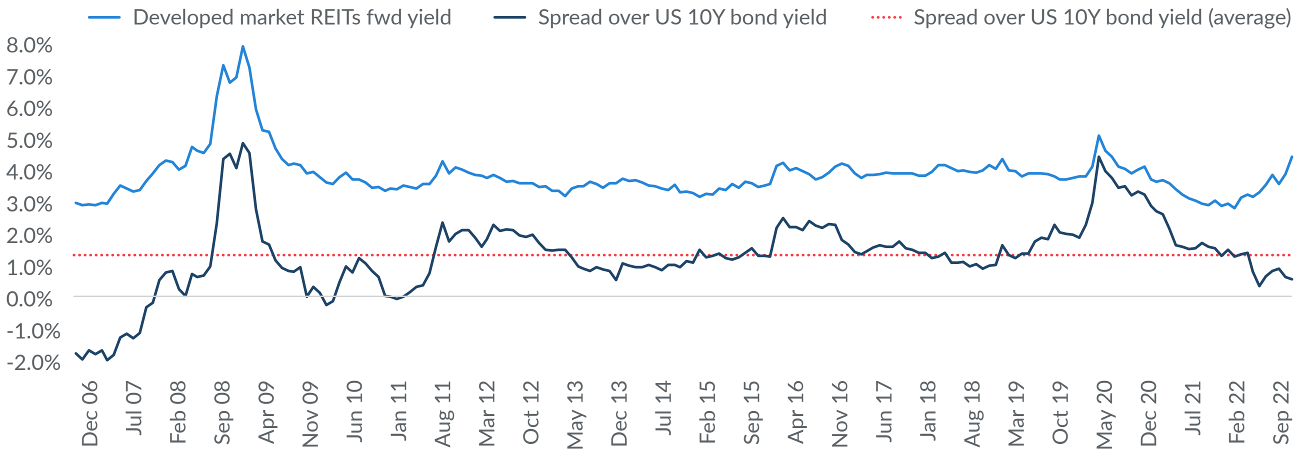
Global listed property had a torrid 3Q22, falling at twice the pace of equity markets. This asset class is arguably the worst placed to weather the combination of rising rates and a deteriorating economic growth outlook.

Figure 10: US REITs experienced another tough quarter – squeezed between deteriorating economic growth expectations and higher rates
Source: Anchor, Bloomberg

	Fwd dividend yield	4Q21	1Q22	2Q22	3Q22	YTD
US 10-year Government bond yield		1.5%	2.3%	3.0%	3.8%	
- change in 10Y yield		0.0%	0.8%	0.7%	0.8%	2.3%
US 2023 GDP growth forecast		2.5%	2.3%	1.9%	0.8%	
- change in US 2023 GDP growth forecast		0.1%	-0.2%	-0.4%	-1.1%	-1.7%
S&P 500		11.0%	-4.6%	-16.1%	-4.9%	-23.9%
- US REITs vs S&P 500		5.2%	0.5%	-1.0%	-5.1%	-4.5%
US REITs	4.4%	16.3%	-4.1%	-17.1%	-9.9%	-28.3%
Diversified	6.7%	10.0%	-5.3%	-4.1%	-7.9%	-16.4%
Hotel & Resort	3.6%	1.8%	6.7%	-22.1%	-4.0%	-20.3%
Health Care	5.8%	5.1%	5.5%	-14.6%	-15.7%	-24.1%
Specialized	3.9%	18.5%	-7.3%	-12.0%	-8.0%	-24.9%
Residential	3.3%	15.9%	-5.6%	-15.9%	-8.5%	-27.3%
Retail	5.9%	16.2%	-6.5%	-15.5%	-8.5%	-27.7%
Office	5.4%	7.4%	2.5%	-28.3%	-12.7%	-35.8%
Industrial	3.3%	32.4%	-6.4%	-22.9%	-12.2%	-36.7%

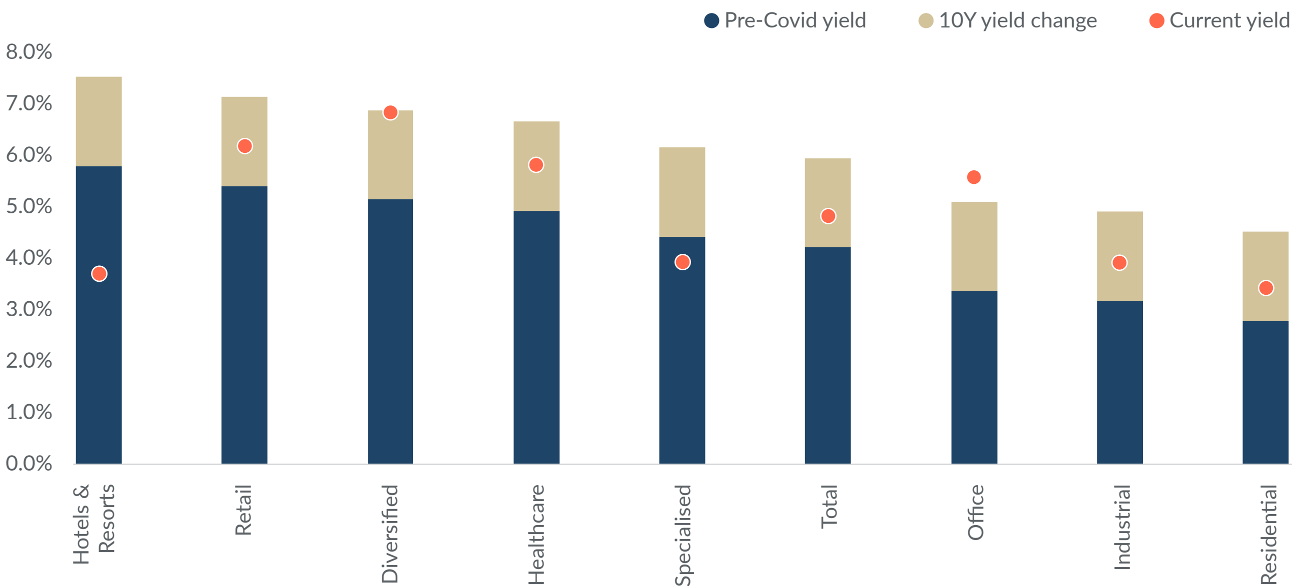
Despite the precipitous fall in real estate investment trust (REIT) values (and the associated spike in forward dividend yields), US 10-year bond yields have spiked faster, resulting in the spread between US 10-year bond yields over US REIT forward dividend yields narrowing to further below its long-run average. By this metric, if US bond yields remain at around these levels, REIT valuations are likely to still be a bit stretched.

Figure 11: US bond yields have spiked faster than US REIT forward dividend yields, making the latter seemingly still on the pricey side for the new higher rate environment
Source: Anchor, Bloomberg



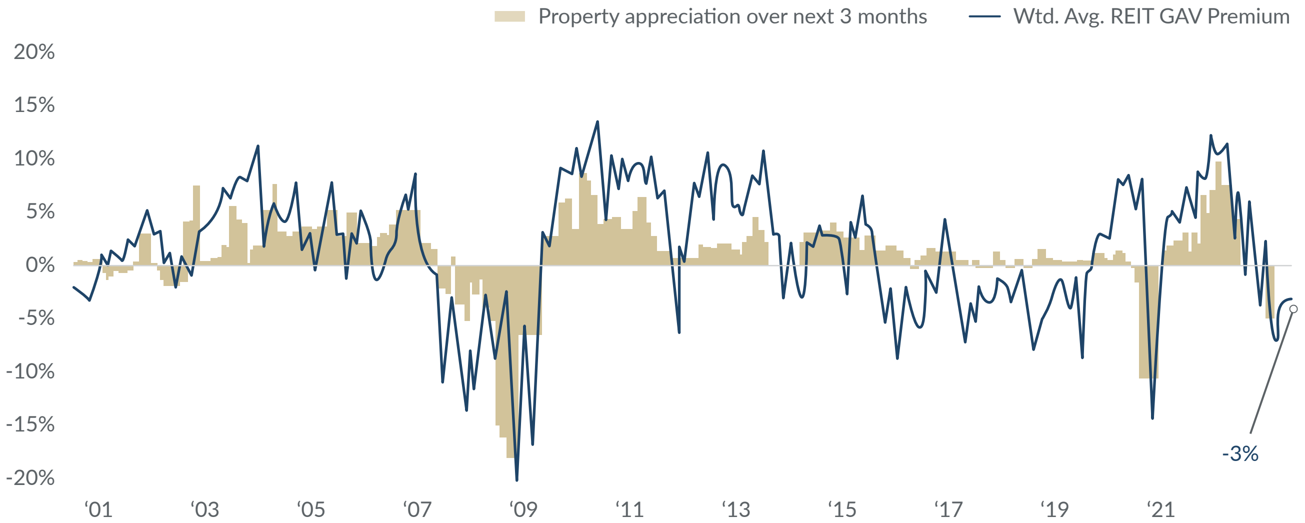
While REITs in aggregate, still seem slightly expensive based on their forward yields, the sector that still sticks out as cheap, even when adjusting for the current higher bond yield environment, is the office sector. Investors seem nervous about the potential structural impacts on the sector from the work-from-home (WFH) phenomenon. Investors have seen the impact of structural changes in behaviour on retail REITs, which have lost roughly a quarter of their value since 2016 due to a shift to more online shopping.

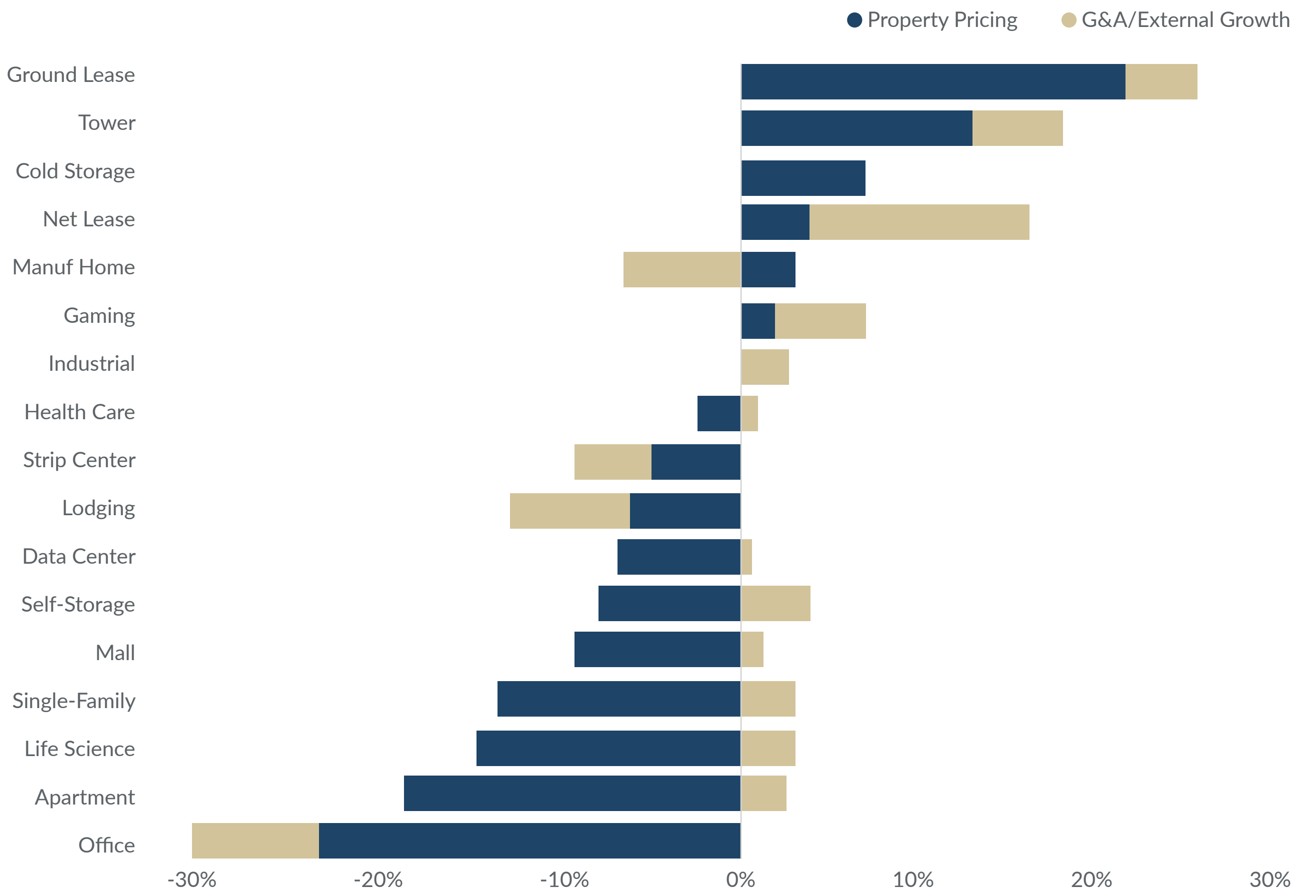
Figure 12: Most US REIT sectors remain slightly expensive relative to pre-COVD-19 levels when adjusting for a higher rate environment
Source: Anchor, Bloomberg



Even though some of the major REIT sectors in the US appear to be trading at significant discounts relative to where private market property transactions are being executed, historically, this has been a leading indicator for a drop in private market transaction values rather than a sign that listed markets are too cheap.

Figure 13: REIT premium/(discount) predicts moves in property prices (LHS), and REIT GAV premiums vary by property sector (RHS)
Source: Greenstreet research





We believe US rates will rally slightly over the next year, helping erase most of the overvaluations in the asset class. That will leave DM REIT investors with a combination of yield and earnings growth to deliver a 9% total return in US dollar terms over the next year.

ANCHOR INSIGHTS

In this section, staff from across Anchor provide insights into our thinking, strategy, and worldview. This quarter, veteran mining analyst James Bennett gives his thoughts on investing in the diversified miners, Basil Spanellis and Jonathan Gershuny delve into alternative investments in a pre- and post-retirement portfolio, Nichole Maroun discusses share portfolios vs collective investment schemes, Zinhle Mayekiso looks at SA retail trends since the onset of the COVID-19 pandemic, and Casey Delport provides insights into the risks and implications of SA's possible greylisting for the country's financial services sector.

A veteran analyst's thoughts on investing in the diversified miners

WRITTEN BY:
James Bennett
Global Equity Analyst

James has a BCom Hons from the University of the Witwatersrand and started his career at UBS (and its predecessor firms) in Johannesburg in 1994. During his 20-year career at UBS as a sell-side analyst, he was rated among the top 2 in the SA diversified mining sector for 14 consecutive years (by the annual Financial Mail Ranking the Analysts survey) up until his departure in 2014. During this time, he was also rated the number one analyst in the SA steel sector for 9 consecutive years. From 2015 to 2018, James covered the SA diversified mining sector at Citi. Since then, he has managed his own global stock portfolio mostly investing in the US, China, and Europe. James started at Anchor in 2022 covering global listed companies.

I covered the SA-listed diversified miners on the sell-side (the term used in the financial services industry that denotes a firm that sells investment services to asset management companies [buy-side] or corporate entities) for over two decades - starting in 1994. In this article, I give my perspectives on how investors should think about investing in mining shares. Mining shares are volatile and somewhat unpredictable compared to many other sectors. Covering the miners can be humbling at times. Even seasoned mining analysts periodically make fools of themselves. However, covering the miners teaches you that nothing goes up forever. You get regularly reminded of how quickly things can change. The miners are also a solid valuation grounding school.

Even though I covered mining stocks professionally, my personal investing journey has always stretched far beyond the mining sector. My investments have been global and local, mainly outside the mining sector. These days, I cover global equities for Anchor. I would describe myself as an investment enthusiast who just happened to cover the mining sector. Had any other sector fallen in my lap in 1994, I would probably have enjoyed covering it just as much as the miners.

It has often been said of the miners that "you do not buy them, you rent them". The volatility and unpredictability of mining stocks mean you quickly take the profits that the sector offers you. At Anchor, we consider ourselves to be 'quality-growth' investors. For the most part, the miners do not fit into this camp. It is much harder to find secular compounders in the mining sector like you sometimes find in the global tech sector, for example.

The volatility and unpredictability of mining stocks mean you quickly take the profits that the sector offers you.

As a quality-growth fund manager, you typically try to buy asset-light, high-margin, and high return-on-capital-employed (ROCE) assets. The miners struggle to fit into this investment style. Mining companies are capital intensive with a finite resource base. These companies also often have a low ROCE on a through-the-cycle basis.

Let us take a theoretical example of a retailer that owns 100 stores when you invest in it. When you buy the share, the retailer plans to close five stores every year for the next 20 years, meaning that in 20 years, the retailer will close its doors and cease to exist. Essentially, you sign up for this when you buy a miner – it is a finite and ever-depleting resource. While this oversimplifies the reality of investing in mining shares, I think my point is made.

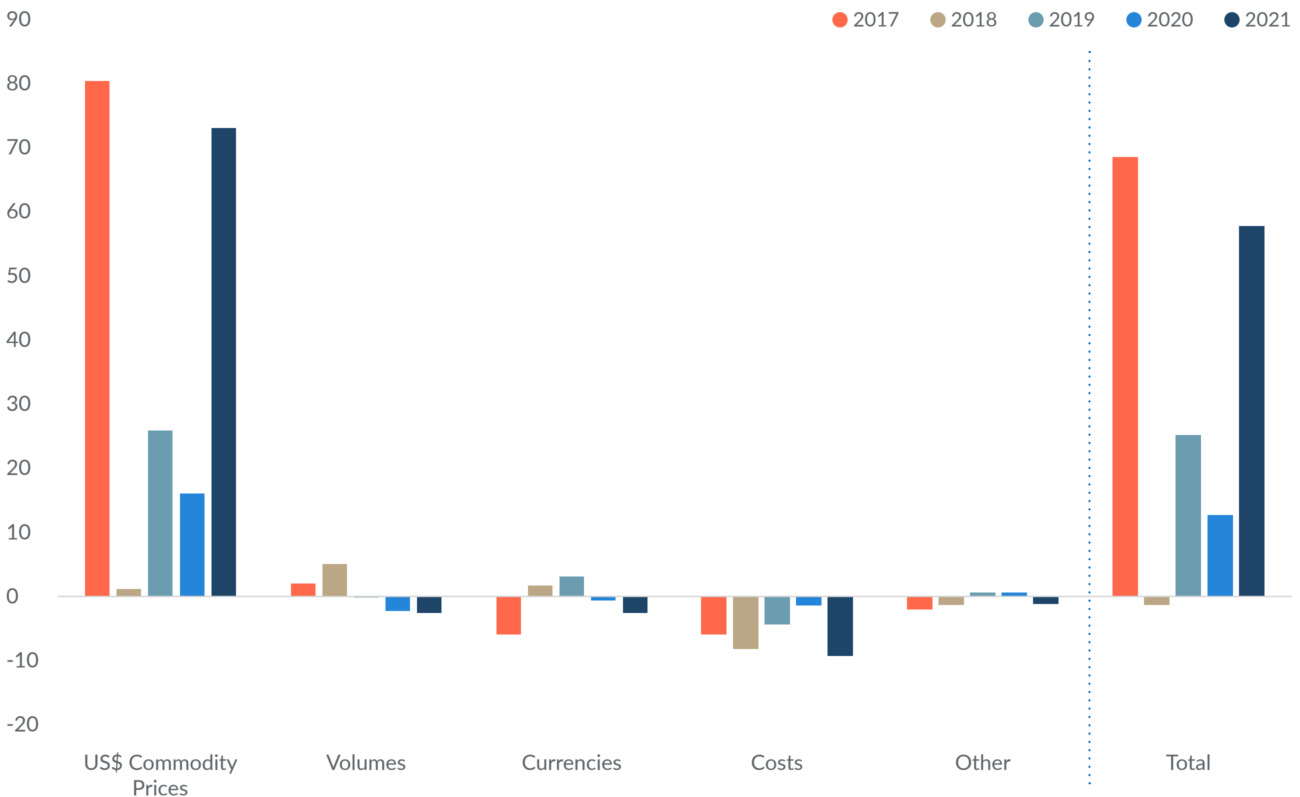
When mining companies start mining a new deposit, it stands to reason that they will attempt to mine the best parts first. As the years roll by, grades fall, and haulage distances increase, especially with underground mines. Therefore, costs steadily rise. Some mining companies spend significant amounts of money on so-called 'expansion capex' over many years without growing their overall production volumes. In other words, what they define as volume expansion, is just replacement volumes to offset the otherwise declining production base.

There can sometimes be a sting in the tail of the bull thesis for a specific commodity. On occasion, the bull case for a commodity price is based on rising producer costs, falling industry production and a lack of discoveries. Remember that when you buy a commodity producer, you might be investing in some of the cost and production challenges yourself. It is often not a free lunch when you buy shares in the underlying commodity producers.

There are four key drivers of the US dollar earnings of a commodity producer - US dollar commodity prices, production volumes, producer currencies and production costs (in local currency terms).

Figure 1 below summarises the drivers of Rio Tinto's US dollar earnings over the past five years. The chart below shows the percentage impact of each driver on Rio Tinto's US dollar earnings; all other factors held constant. The individual drivers add to the totals on the right-hand side of the chart each year.

Figure 1: Rio Tinto key earnings drivers, %
Source: Anchor, Company reports.



In my experience, US dollar commodity prices are unequivocally the key earnings driver for miners. So much broker research is written about the other three drivers, and while this can add interesting angles to the investment thesis, it always comes back to the move in US dollar commodity prices. This is a simple reality.

Production volumes are typically the smallest of the four earnings drivers in any given period. This is especially true for large, established, diversified miners. The make or break of any earnings report is unlikely to come from the production volume numbers unless you are dealing with a smaller startup.

The move in producer currencies can appear to be a reasonable driver at face value. However, here the catch is that those producer currencies (such as the SA rand or the Australian dollar) are often driven by moves in US dollar commodity prices. These two drivers should not be viewed independently of each other. While SA miners are supposed to benefit from a weaker rand, ironically, some of the best share price performances can occur when the rand is strengthening in response to rising US dollar commodity prices.

The change in local currency-based operating costs (away from the move in producer currencies) is what we should evaluate mining management for above anything else. For the most part, this is all mining management has under its direct control. Compared to many other sectors, it always feels that mining management has so little it can directly influence.

The miners cannot change production volumes in the same way that an industrial or tech company can. A software company can sell an almost unlimited amount of its products. The miners cannot run sales promotions or launch exciting new products. The miners cannot innovate or decide to raise prices by 10% of their own accord because input costs have risen.

For the most part, mining management is about controlling costs. One key to controlling costs is ensuring that the miner invests in the correct assets. In the long term, it is almost always true that controlling costs in an open-pit mine is easier than in a deep-level, hard-rock underground mine. Rio Tinto and BHP (arguably the world's two leading diversified mining companies) have long curbed their exposure to deep-level, underground mining for this reason. Here the argument goes that no one can control costs in a miner if you are in the wrong assets.

Notwithstanding my cautious approach to the miners, there are times in history when the miners have offered investors outlandish returns. If you could catch one of these in your investing journey at some point in the future, you would be well rewarded. Three times in my career, the miners have offered returns asymmetrically skewed to the upside. These periods were around 1998, 2009 and 2015.

There is one other unique investment opportunity that the miners offer periodically. High net debt is a hurdle that non-cyclical companies struggle to overcome. For example, it is very hard for a consumer business to trade its way out of a debt crisis. It is not as though the company can temporarily double its selling prices while it pays down its debt. Often, these companies do not survive or have to conduct deeply dilutive rights issues. This locks in a permanent capital loss for the company's equity shareholders.

For the most part, mining management is about controlling costs. One key to controlling costs is ensuring that the miner invests in the correct assets.

However, the debt crisis for a miner is often triggered by a temporary collapse in its underlying commodity prices. Provided the miner can hang on long enough without triggering a rights issue, the inevitable recovery in commodity prices can enable the miner to manage its debt down via rising operating cash flows. In 2015, Anglo American and Kumba Iron Ore were excellent examples of this. These high net-debt, low equity value situations can easily present ten-bagger opportunities. I would summarise my view as follows: It seldom makes sense to buy a company overwhelmed by debt, but if you do, your best chance of success is with a cyclical commodity-type company.

A final issue I would highlight is that there is arguably a difference in how global and local fund managers think about investing in the miners. Materials (excluding energy) account for only about 3% of the S&P 500 Index. Most global fund managers can largely ignore investing in the miners because of their comparatively small size and the unpredictability of the sector. Once every few years, a global fund manager might put a small percentage of their fund into a couple of mining shares when the investment opportunity is asymmetrically skewed to the upside. If it works, they add a few percentage points to their returns. If not, then very little performance is lost.

Mining companies struggle for space within a global portfolio. However, in a local portfolio, they are well worth their place.

However, SA captive money does not have the luxury of ignoring the miners. The mining sector accounts for c. 25% of the FTSE/JSE All Share Index. It is too big a weighting to ignore. Also, there has been a material reduction in the number of companies listed on the JSE over the past two decades. As such, the range of investment opportunities on the JSE has shrunk.

In as much as I have suggested that the miners are not in the global quality growth camp, within the mining industry, some truly world-class mining companies are listed on the JSE. BHP, Glencore and Anglo American are all arguably within the top 5 diversified miners in the world. That makes the JSE-listed miners unique relative to the local banks and industrial companies. Furthermore, a company like BHP has no assets in SA, so it offers local fund managers some geographic asset diversification outside of SA.

Mining companies struggle for space within a global portfolio. However, in a local portfolio, they are well worth their place. Nevertheless, the current point in time does not feel like a unique buying opportunity for these miners. The upside and downside risks seem about evenly balanced. It, therefore, seems like a stock picker's market, searching for individual mispricing opportunities.

Alternative investments in a pre-and post-retirement portfolio

WRITTEN BY:
Basil Spanellis
Wealth Management

AND:
Jonathan Gershuny
Portfolio Management

Basil is a Certified Financial Planner. He joined Anchor in 2016 as an IFA seeking succession planning and found Anchor fit for the role. He has worked in the financial services industry since 2010 and has valuable experience in portfolio management, wealth planning, and tax. Basil can provide clients with a diverse approach to reaching their long-term financial goals and needs. In 2010, he obtained a BCom Degree in investment management from the University of Stellenbosch and completed a post-graduate degree in financial planning. Basil has also passed the JSE Registered Persons Examination in equity markets and the JSE Trader Examination. He attended the Association for Savings and Investment South Africa (ASISA) analyst boot camp in 2013.

Jonathan holds a BBusSc (Finance and Econ) from UCT. He has worked in financial markets since 1998, commencing his career with Simpson McKie. Jonathan returned to South Africa in 2011 and managed Sasfin Securities in the Western Cape before joining Anchor in 2020. He has gained global investment expertise managing high-net-worth clients' equity and derivative portfolios in Australia and South Africa.

Jonathan and Basil work closely together utilising Anchor's extensive product offering to deliver bespoke and appropriate asset allocation solutions both domestically and offshore.

The recent market turmoil has once again highlighted one of the biggest risks to those individuals who diligently provide for a predictable retirement. Although prudent, the allure of enhancing one's retirement pot with significant risk exposure can be mistimed because of unpredictable markets. This is where correctly assigned alternative investments such as hedge funds may offer investors the opportunity to earn real returns in rising and falling equity or bond markets. This asset class can provide unique risk and return opportunities as standalone investments and diversifiers in multi-asset balanced portfolios.

Many advisors and investors have overlooked these assets due to a lack of understanding, previous legislation or, in some cases, a lack of access to their current investment platforms. The legislation was changed in 2015 to correct the lack of transparency, improve regulation, and allow daily pricing, making alternative investments more attractive.

These legislation changes include:

1. Hedge funds were declared collective investment schemes (CIS) under the CIS Control Act, 2002, in 2015.

2. Retail hedge funds now provide daily pricing, greater liquidity, and lower minimum investments and are strictly regulated with improved risk management controls.

3. Regulation 28 restrictions allow retirement funds to invest 10% in hedge funds - 2.5% per fund and 5% in a fund of funds.

4. These changes have facilitated access for retail investors via retirement funds, living annuities and discretionary portfolios across a wide range of investment platforms.

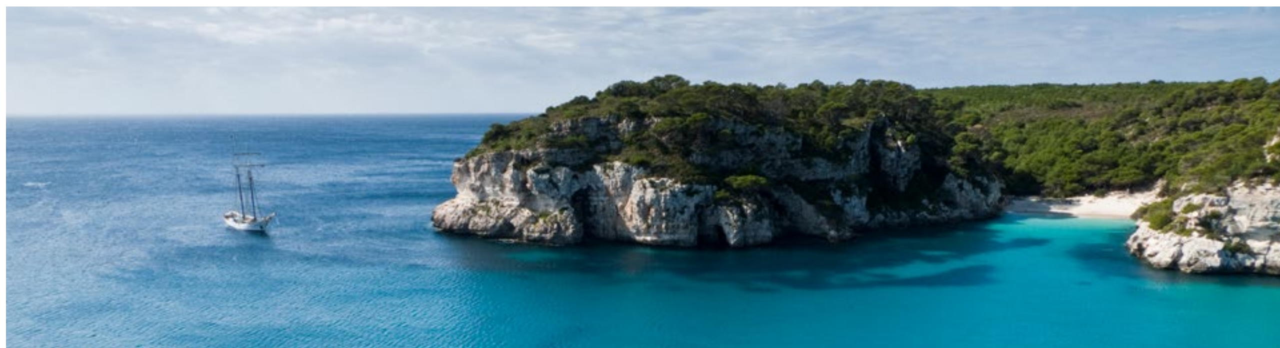


Figure 1: Regulation 28 limits
Source: Anchor

Asset class	Previous exposure limit, %	New exposure limit, %
Cash	100	Unchanged
Equity	75	Unchanged
Offshore	30	45%
Listed property	25	Unchanged
Private equity	15	Unchanged
Africa	10	Combined with offshore
Hedge funds	10	Unchanged
Other assets	2,5	Unchanged

HOW TO PICK A HEDGE FUND STRATEGY FOR YOUR PORTFOLIO?

A key determinant of which hedge fund is suitable for your pre-or post-retirement portfolio involves understanding the strategy employed by the manager to generate returns or reduce risk. The fund's strategy must complement your existing portfolio of assets.

The most popular strategies are:

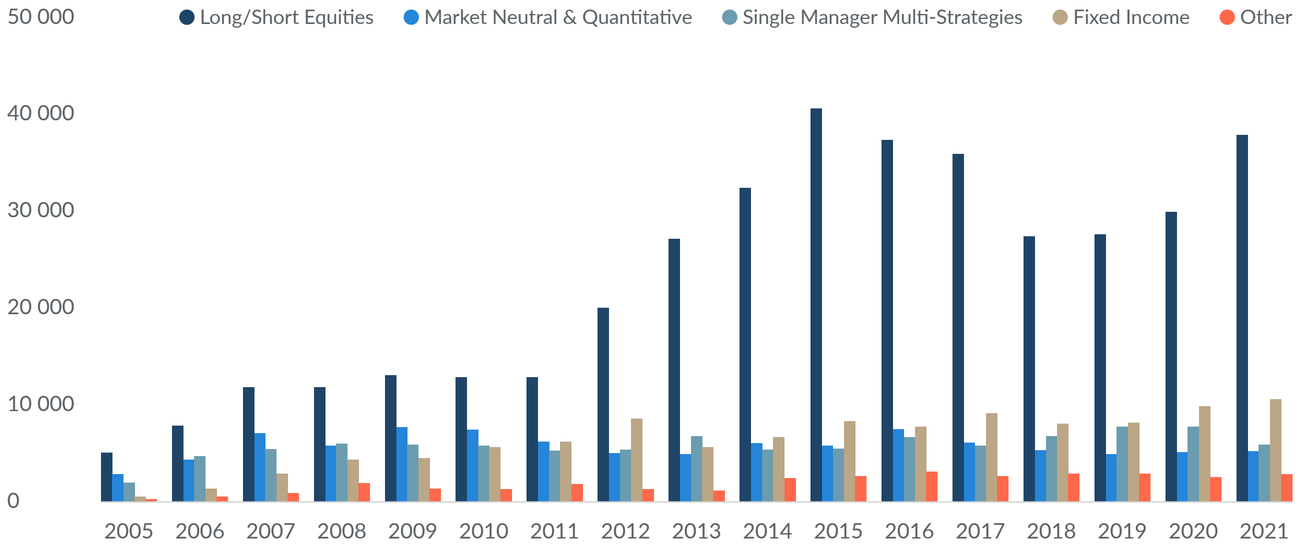
1. **Long/short equity:** This strategy looks to exploit profit opportunities on both the potential upside and downside. It takes long positions in stocks identified as being relatively underpriced while selling short stocks deemed overpriced. In SA, the long/short equity strategy has seen the most inflows.

2. **Global macro strategy:** This strategy takes a big-picture position on the economic and, in some cases, political views of various countries or their macroeconomic principles. Holdings may include long and short positions in equity, fixed income, currency, commodities, and futures markets.

3. **Equity market neutral:** In this investment strategy, the intention is to exploit differences in stock prices or valuations by being long and short in equal measure in closely related stocks. These shares may be within the same sector, industry, and country or share similar characteristics such as market capitalisation or are historically correlated.

4. **Fund-of-funds approach:** These are multi-manager funds with different styles. Managers get picked by the fund-of-funds manager. These funds are very attractive diversifiers in that they allow investors to benefit from a best-of-breed combination of different managers spreading investment risk across strategies.

Figure 2: Rand assets by strategy, 2005-2021, Rmn
Source: Hedge News Africa



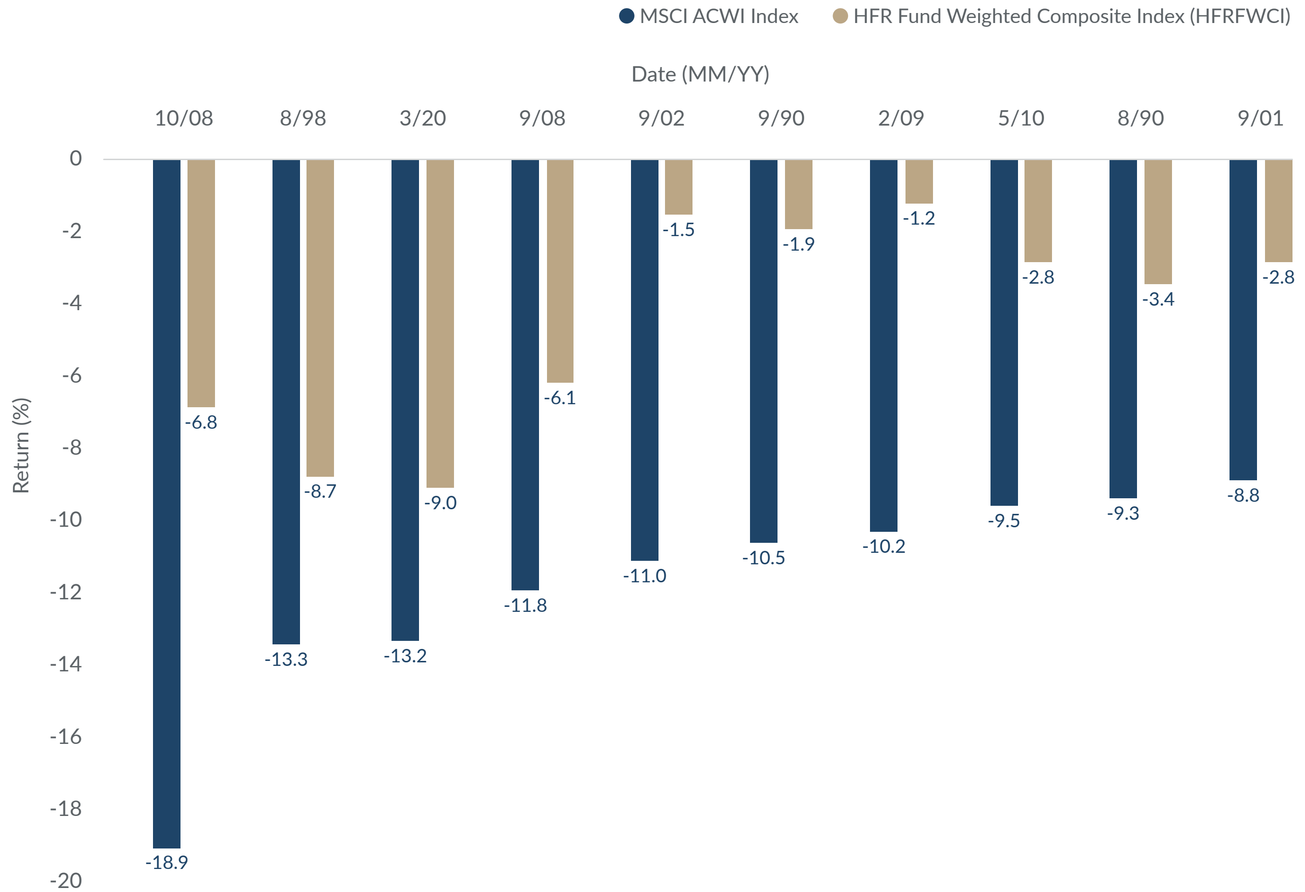
SO, WHAT IS THE IDEAL HEDGE FUND ALLOCATION FOR YOUR PRE-AND POST-RETIREMENT PORTFOLIO?

Pre-retirement funds are subject to Regulation 28 and will allow a 10% allocation in hedge funds. Post-retirement portfolios, such as living annuities or discretionary portfolios, are not subject to Regulation 28 and have no asset class limits.

One of the most significant risks to your retirement plan is a major drawdown in value with limited time to recover these losses. Hedge funds can be used to smooth the volatility, avoid large drawdowns and de-risk the possibility of permanently impairing the capital base that has been built up.

As shown in *Figure 3* below, hedge funds have delivered significantly lower drawdowns when compared to the overall market during the ten worst months for the MSCI All Country World Index (MSCI ACWI) historically.

Figure 3: Hedge fund performance during the ten worst months for the MSCI ACWI
Source: HFR, Anchor



Another factor to consider when constructing your portfolio is the Sharpe ratio. The Sharpe ratio is an important measure of an investment's risk-adjusted performance. The higher the Sharpe ratio, the better the return achieved per unit of risk. For the past five years, the average Sharpe ratio across SA retail hedge funds was significantly higher than the average of large SA balanced funds.

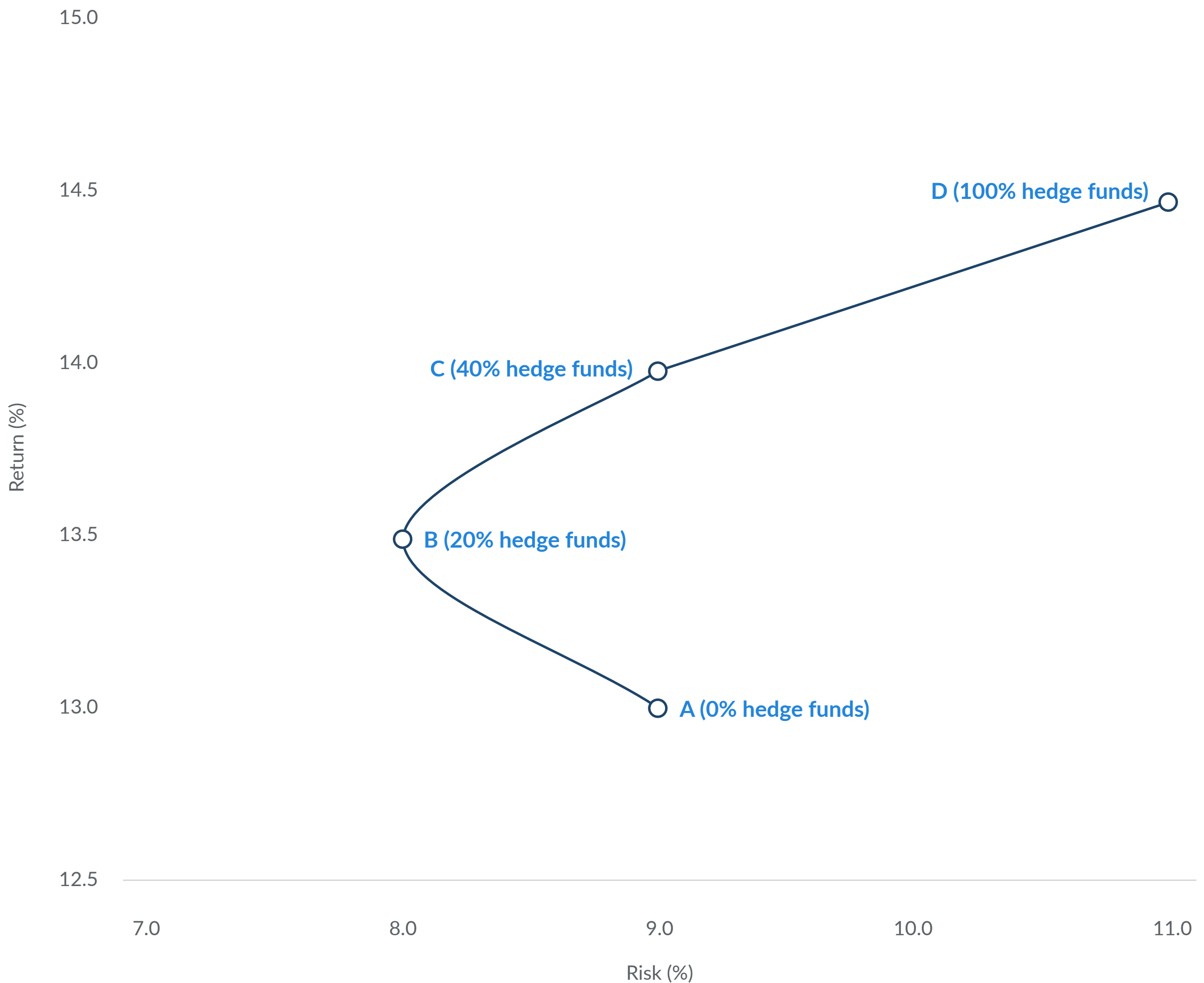
Figure 4: Hedge fund vs balanced funds performance
Source: Allan Gray Fund Research, Morningstar

	Average SA balanced funds	Average hedge funds	Average balanced fund and 20% hedge funds
Max drawdown (%)	27.93	8.11	20.1
Sharpe ratio*	0.33	1.39	0.51
Standard deviation (%)	11.15	5.21	8.20
Portfolio risk score	Below average	Low	Below average

**A Sharpe ratio below 1.0 is considered bad. 1.0 is considered acceptable or good. 2.0 or higher is rated very good, and 3.0 or higher is considered excellent.*

The efficient frontier explains the relationship between risk and return in investment portfolios and should be used to select the most efficient portfolio incorporating hedge fund exposure. The optimal portfolio would be **B** (in *Figure 5* below) for living annuities and discretionary portfolios; this point represents the lowest risk with an optimal amount of hedge fund exposure.

Figure 5: The most efficient portfolios incorporating hedge fund exposure
Source: HFR, Anchor



CONCLUSION

With the benefit of hindsight, having had a 10% allocation in your retirement fund and a 20% exposure in living annuities (or discretionary portfolio) over the long term would have significantly altered the outcome for someone entering this pre- or post-retirement phase and who is reliant on their hard-earned retirement plan. Given the outlook for equities, it may be a good time for advisors and investors to consider allocating to hedge funds in a multi-asset, balanced mandate to realise the benefits that hedge funds offer.

Investors need to do their homework and understand the fund, the management style and the fees when selecting hedge funds for their portfolios. Helpful resources to look to when selecting hedge funds are manager monthly newsletters, fact sheets and HedgeNews Africa, or you can contact your Anchor wealth and investment manager to assist.

Back-to-basics:
Share portfolio vs collective investment scheme

WRITTEN BY:
Nichole Maroun
Assistant Portfolio Manager

Nichole works in Anchor's Portfolio Management team and has been in the investment industry since 2017. Nichole worked as an associate analyst for Citi Bank and UBS, covering local and European banks She is a chartered financial analyst (CFA) and has a B.Com (Hons) in investment management.

Over the past ten months or so, we have experienced turbulent times in the investment universe. YTD (to 30 September), the S&P 500 Index is down 24.8%, while the MSCI World Index is down 25.1%, leaving many investors wondering if we have finally seen the bottom of this market correction. While we can never reassure our clients that this is the end of the market volatility we have seen since late last year, it is important to remember that timing the market is a fool's game. Moving into the final quarter of 2022, we emphasise that time-in-the-market has historically beaten timing the market. Investing dry powder in smaller tranches is perhaps the correct approach to managing this market volatility.

It is important to remember that timing the market is a fool's game.

In saying this, we thought it would be valuable to break down the pros and cons of both a share portfolio and a collective investment scheme (CIS). Generally, this is one of the first dilemmas clients face when deciding to invest in equity markets.

Share portfolios allow for portfolio managers at Anchor to create a bespoke solution focused on each client's personal circumstances and investment goals. Share portfolios are often the proverbial 'sexier' option as individuals can be directly invested in some of the most attractive businesses in the world, such as Apple, Nike, The Walt Disney Company (Disney), etc.

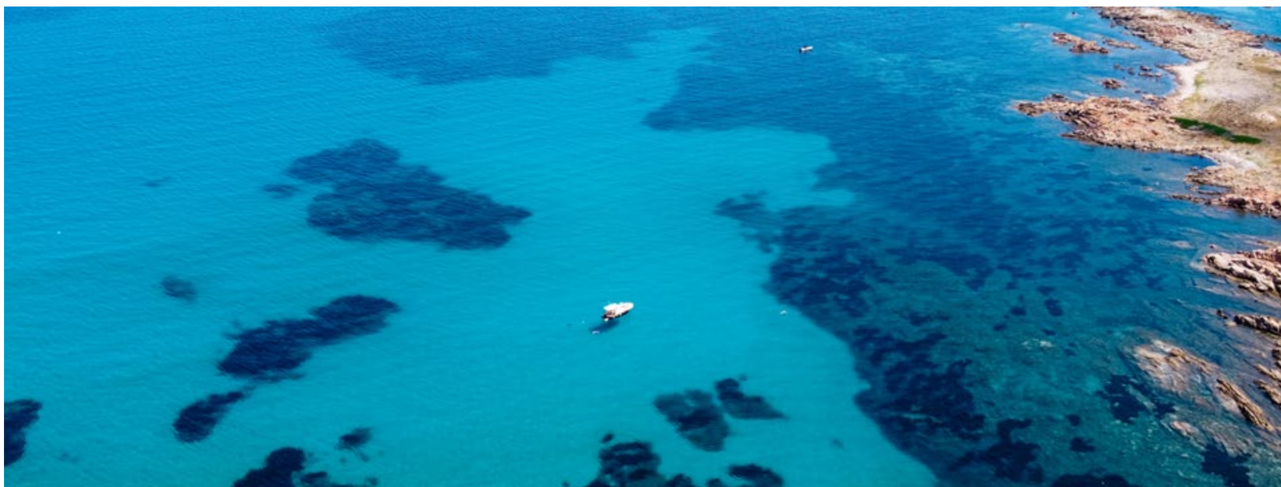
Our clients' investment needs range from capital-growth focused to an income-yielding share portfolio. This flexibility affords both Anchor and its clients multiple benefits. These include:

1. The ability to take a phased approach to build up an investor's equity content, especially given the volatility experienced recently in global and local markets.

2. The ability to be nimble within a portfolio and make changes relatively quickly if a changing investment landscape necessitates this.

3. When managing an offshore investment, Anchor's approach to buying hard currency to invest offshore can be made using a phased approach as opportunities arise.

4. Fee structures are clear. Brokerage is charged on each trade made as a percentage of the value of that trade, and an annual management fee is charged on the asset under management.



An important consideration when managing a share portfolio is taxes. Portfolio managers must be cognisant of any capital gains inherent within a portfolio when rebalancing to minimise the capital gains tax (CGT) implications. In saying this, Anchor has always been platform agnostic, and we do recommend structures to manage this risk when appropriate.

While segregated share portfolios have been our bread and butter over the past ten years, it is important to consider other investment options for clients where these are appropriate.

Portfolio managers must be cognisant of any capital gains inherent within a portfolio when rebalancing to minimise the capital gains tax (CGT) implications.

CIS (unit trust funds) allow investors to pool their funds together within one structure managed by a professional fund manager to achieve a specific mandate. Traditionally, a unit trust fund is recommended to clients with investment values of less than R1mn due to the following:

1. The fund can achieve a more diversified portfolio of shares with a pool of funds.

2. A fund is more cost-effective given the lower brokerage costs, which would otherwise erode the capital value of the investment.

3. Clients seeking offshore exposure with smaller investment values can invest in feeder funds. This way, they gain access to offshore markets without incurring the costs of converting their capital to foreign currency and the larger platform fees which exist, given investment minimums.

4. CGT is only paid on exit from the fund, thus allowing a client to benefit from the effect of compounding and not hindering the fund manager's ability to rebalance the portfolio.

While there are several benefits to unit trust funds, a few key points to consider before investing in such a fund is also worth mentioning. These include:

1. The ability of a fund manager to be nimble and react to changes in the investment environment can be difficult due to liquidity constraints in larger funds.

2. Over-diversification is possible when holding multiple funds, often leading to an unclear overall investment strategy.

3. The ability to time the market in terms of the initial investment is somewhat hindered as investors cannot phase in their investment with specific stock selection.

4. A fund-of-funds approach can be quite expensive due to the multiple layers of fees charged by the various underlying managers

Over the past five years, our role as portfolio managers has shifted from the more traditional role, which solely involved using fundamental bottom-up analysis of equities to select a portfolio of quality shares and relying on the ability of the market to price in these fundamentals. Anchor CEO Peter Armitage refers to Nike as arguably the poster child for the volatility we are currently experiencing. We consider Nike to be a best-in-breed, high-quality company and brand. In November 2021, the share price seemed expensive, trading at around US$180/share. However, it has since fallen c. 52% from its closing high of US$175.83/share on 5 November 2021, and on 30 September 2022, it closed at pre-COVID-19 levels of c. US$83.12/share. Nevertheless, it is arguable more valuable than ever as the business moves out of the supply chain blockages caused by the pandemic and now sells a large percentage of its merchandise direct to the consumer, thus creating a tailwind for future earnings.

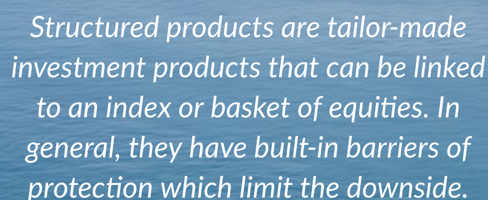
Figure 1: Nike share price performance, US$
Source: Bloomberg, Anchor

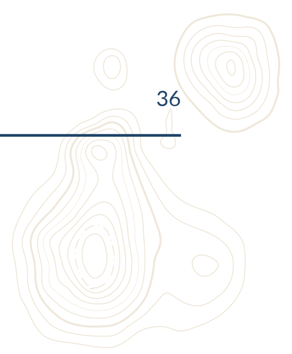
Examples like Nike have forced Anchor to evolve its investment process and look outside its traditional toolbox into instruments which allow us to take advantage of these fast-changing waters. Where the client's financial wealth allows, we prefer to use a core-satellite approach, enabling us to enhance profit while providing our clients with greater consistency in terms of results. At the core of the investment is a bespoke segregated portfolio of carefully selected quality shares which maintain a long-term buy and hold strategy. We like to complement this strategy with satellite funds (where appropriate), with specific exposure that assists in achieving the client's financial objective, takes advantage of short-term opportunism, and has a better opportunity for risk-adjusted returns and a complementary investment style. We mainly look to alternative asset classes to achieve this.

Hedge funds have historically had a bad reputation within the market, given their ability to use gearing, which has in the past left the funds overexposed to the market. However, in a conservatively managed hedge fund, clients can reduce the risk within their portfolio. Considering the current market volatility, this can be a complementary addition to a segregated mandate as the hedge fund manager has the mandate to profit from short-term volatility, which otherwise would not have been possible.

Structured products can also be a valuable option when investing, especially given their ability to de-risk the portfolio over the long term while still providing inflation-beating returns. Structured products are tailor-made investment products that can be linked to an index or basket of equities. In general, they have built-in barriers of protection (created using derivative components, the most common options), which limit the downside. Thus, investors forego some potential upside to limit the downside over a 3-to-5-year time horizon.

To conclude, while the title of this article suggests that our recommendation should be as basic as either a unit trust structure or a share portfolio recommendation to new clients, we are finding more and more that a combination of both these investment vehicles is the ideal way to navigate the ever-changing investment environment. As portfolio managers, we strive to guide and advise clients through these important decisions.





SA retail trends since the onset of the COVID-19 pandemic

WRITTEN BY:
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Investment Analyst

Zinhle has a BCom (Hons) in investment management and joined Anchor in 2020 as an investment analyst. Her passion for capital markets and equity analysis has allowed her to analyse diverse companies in emerging and frontier markets. She currently covers local equities with a predominant focus on the retail and food-producing sectors.

Retail trends in SA and around the globe have been interesting since a slew of unexpected events hit the world, altering consumer behavioural patterns and ultimately impacting retail trends. The onset of COVID-19 and its ripple effect on the global economy and retailers has been far-reaching. COVID-19 has impacted every fibre of human society, and one would think the world has lived through an event of biblical proportions. Globalisation and the world's interconnectedness have meant that we have all felt the highs and lows of living through the pandemic. This article focuses on SA retail trends since the onset of COVID-19.

SA is an unequal country in which high-income earners pocket the largest percentage of the nation's income.

SA BEFORE COVID-19

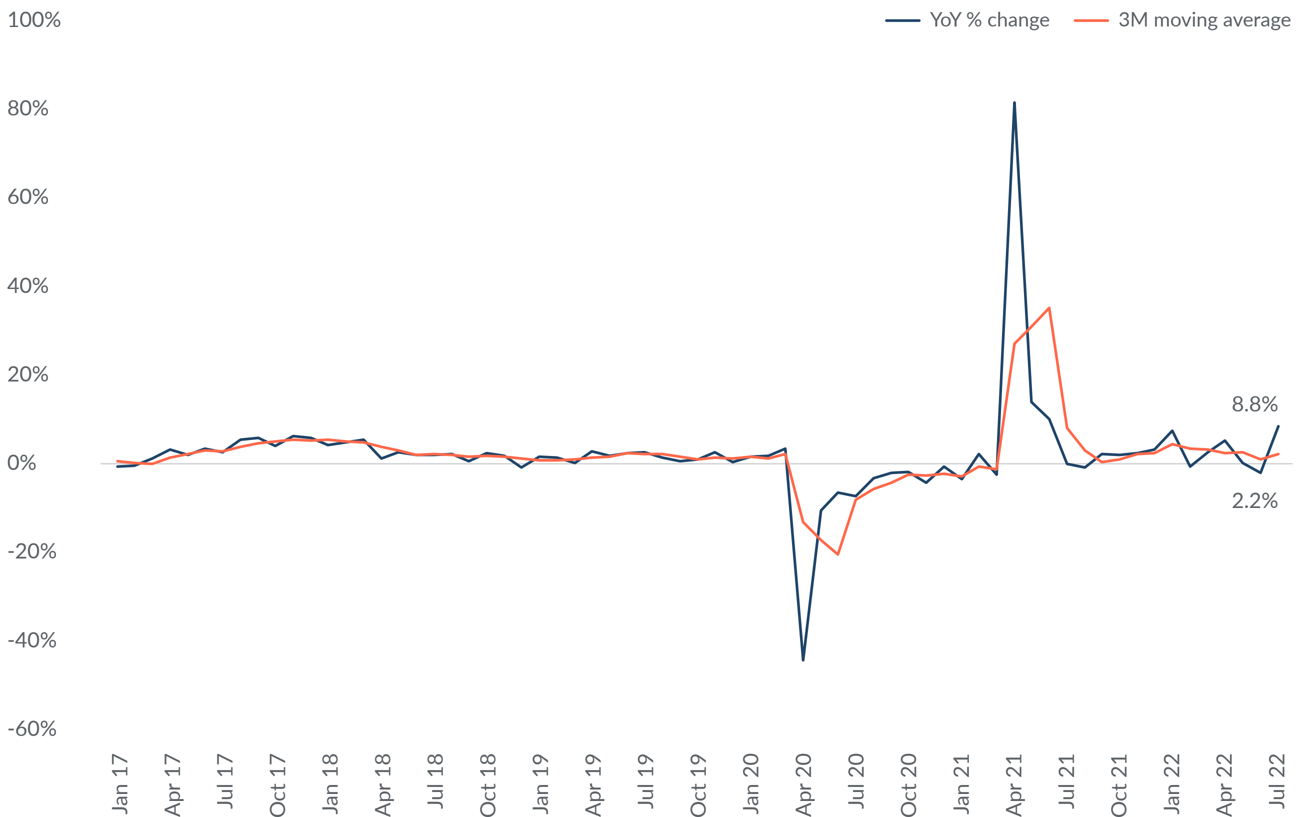
First, it is important to highlight that a big underlying driver for the retail market is a country's macroeconomic environment. Thus, it is essential to provide the context of SA's macroeconomic environment before the arrival of the pandemic. This will help readers understand the country's retail trends holistically - not only in a historical and current context but also in future implications.

SA's macroeconomic environment before COVID-19 was already quite challenging compared to the mid-2000s when the country's economic prosperity was relatively good. SA grew GDP at a healthy pace, peaking in 2006 at 5.6% YoY. The years 2008 to 2018 were characterised by poor governance and low levels of GDP growth. Furthermore, SA unemployment increased and remains alarmingly high, even in a post-COVID-19 world. A key issue with SA's economy is that it has one of the highest Gini coefficients in the world. The Gini coefficient is based on the comparison of cumulative proportions of the population vs cumulative proportions of income, and it ranges between 0 (perfect equality) and 1 (perfect inequality), which means that SA is an unequal country in which high-income earners pocket the largest percentage of the nation's income. As a result, high inequality presents serious risks for the country in the medium- to long-term, and the current administration's reform mandate has been to address this high inequality. However, COVID-19 and Russia's war on Ukraine have dealt a massive blow to the local economy, and economic reform has been slow. This means that the macroeconomic climate SA so desperately needs to create jobs and improve the living conditions of its populace is likely to be delayed, with the economy slow to recover.

THE COVID-19 IMPACT ON RETAIL SALES

Looking at total retail sales trends over the past five years (*Figure 1*), we see that the initial negative impact on overall SA retail sales is very apparent after March 2020, when COVID-19 first arrived on our shores. Since March 2020, several other events have further impacted retail sales performance, albeit slightly less than COVID-19. The two events that directly or indirectly affected the SA retail environment were the July 2021 civil unrest locally and Russia's invasion of Ukraine in February this year.

Figure 1: Total retail sales based on real prices since 2017, seasonally adjusted
Source: Stats SA, Anchor



Below we highlight some interesting takeaways from *Figure 1*.

- Relative to the pre-pandemic era and despite a challenging economic climate in the years preceding COVID-19, retail sales have been a lot more volatile post-pandemic vs pre-pandemic.
    - Although the economy has recovered to a certain extent, the volatility in retail sales growth has been driven by the impact of several lockdown restrictions due to various COVID-19-waves, base effects and the July 2021 civil unrest locally.
- Russia's invasion of Ukraine has indirectly impacted SA's retail market. The subsequent sanctions on Russian seaborne crude oil and petroleum products have been a catalyst for the brent crude oil price, which has driven fuel prices higher. This has seen inflation soar and driven most global central banks to hike rates as inflation remains stubbornly high in many countries, including SA. Furthermore, Ukraine and Russia play a significant role in exporting essential grains, and some soft commodity prices have increased as a result, pushing soft commodity prices higher, which in turn have negatively impacted food inflation, driving it higher.

Figure 2 below demonstrates the effect COVID-19 had on fuel as brent crude oil prices plummeted on the back of dwindling demand when COVID-19 and the ensuing lockdowns swept the globe. As the world recovered and demand returned, we can see the impact of fuel prices in SA as brent crude oil prices increased after Russia invaded Ukraine.

Figure 2: Income from fuel sales
Source: Stats SA, Anchor

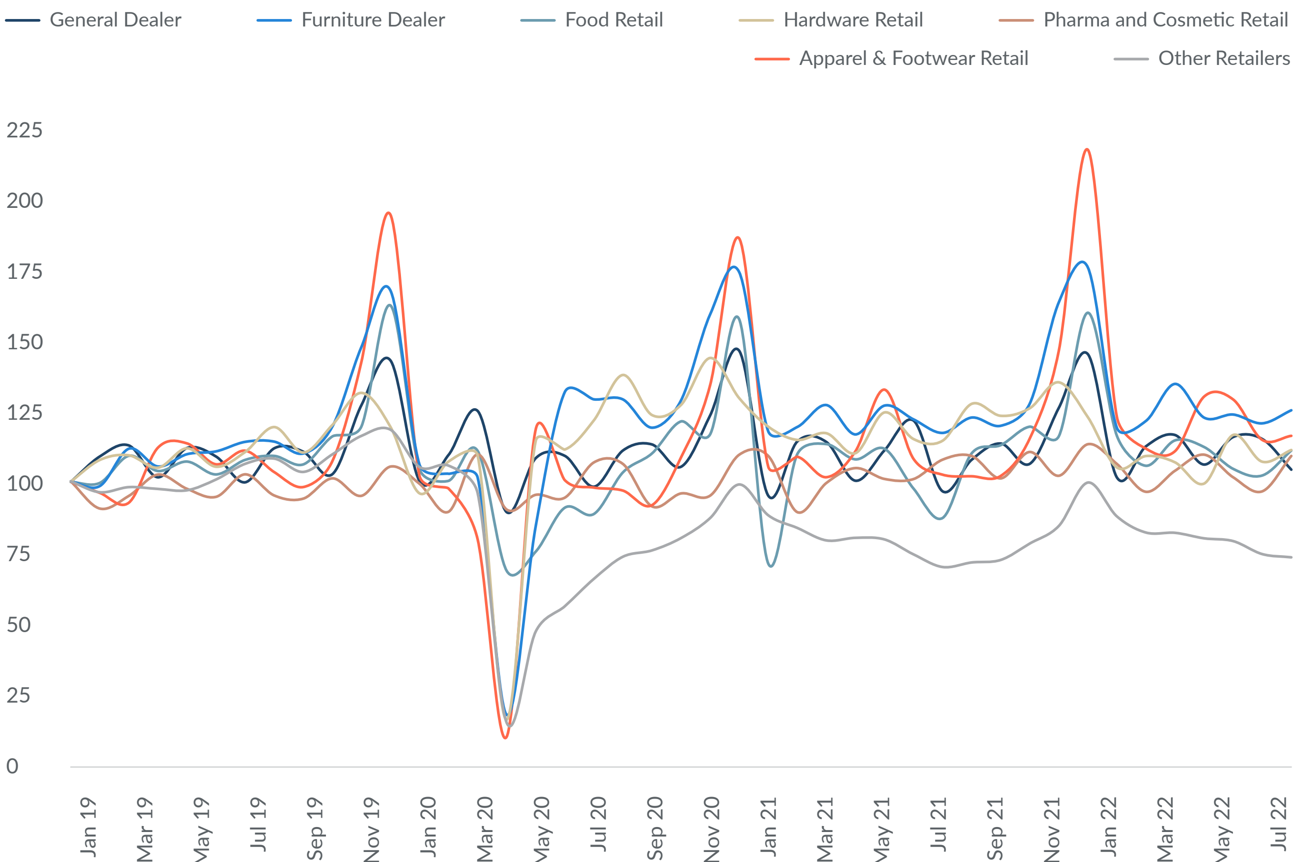
Figure 3: Income from fuel sales rebased to 100
Source: Stats SA, Anchor

DIVING DEEPER INTO SECTORAL RETAIL TRENDS

In *Figure 4*, we rebase various retail sectors' sales performance from January 2019 until July 2022. The data below are based on constant prices and are not adjusted for seasonality.

- *Figure 4* shows that spending in discretionary retail segments typically increases during the festive season. The apparel and footwear sector experienced heightened sales in December 2021, followed by furniture and food retail.
- We can also see the severe impact of COVID-19 on all retail sectors after March 2020.
- The impact of the July civil unrest is most pronounced within the food, general dealer and apparel categories.

Figure 4: Sectoral retail sales growth, rebased to 100
Source: Stats SA, Anchor

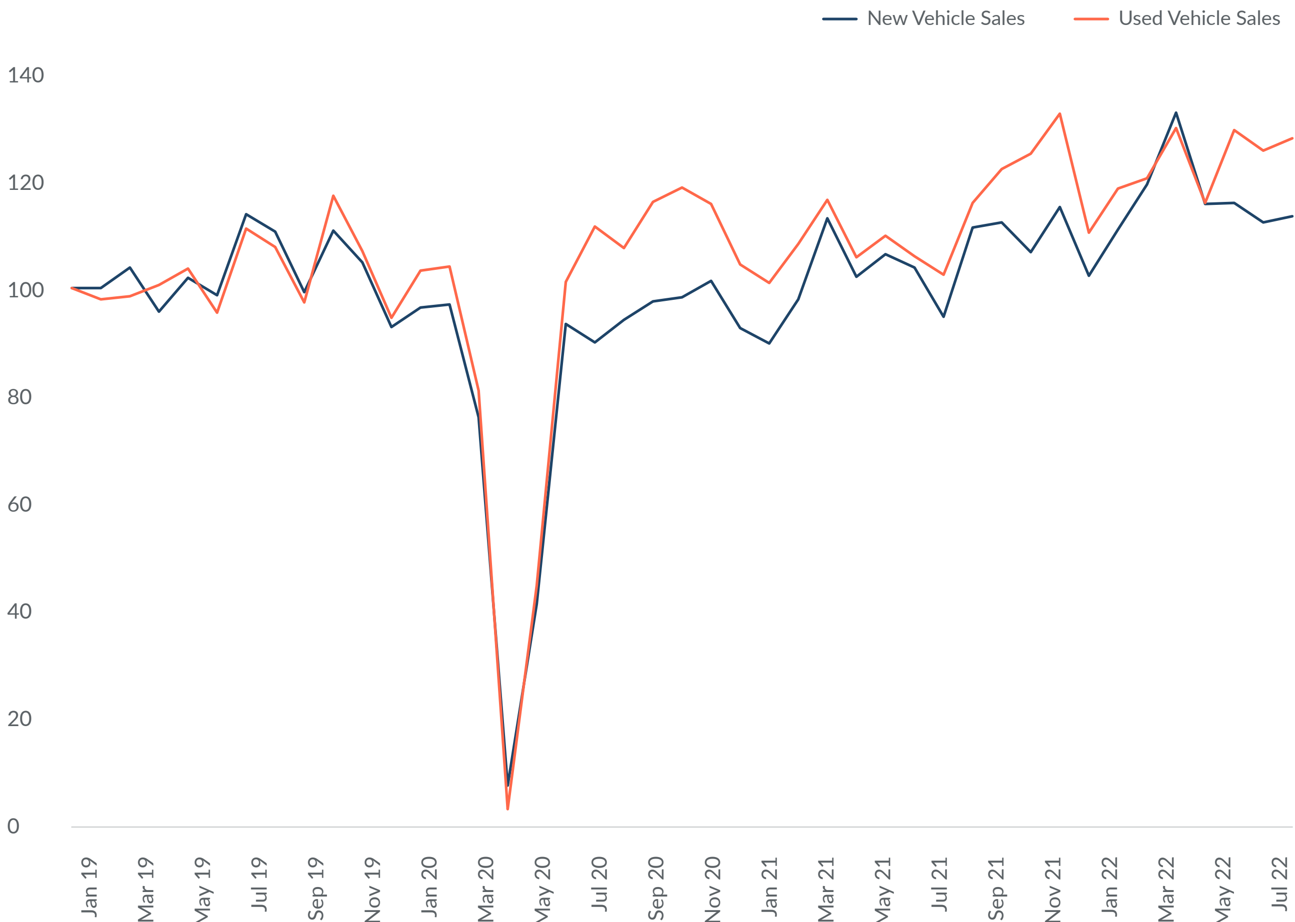


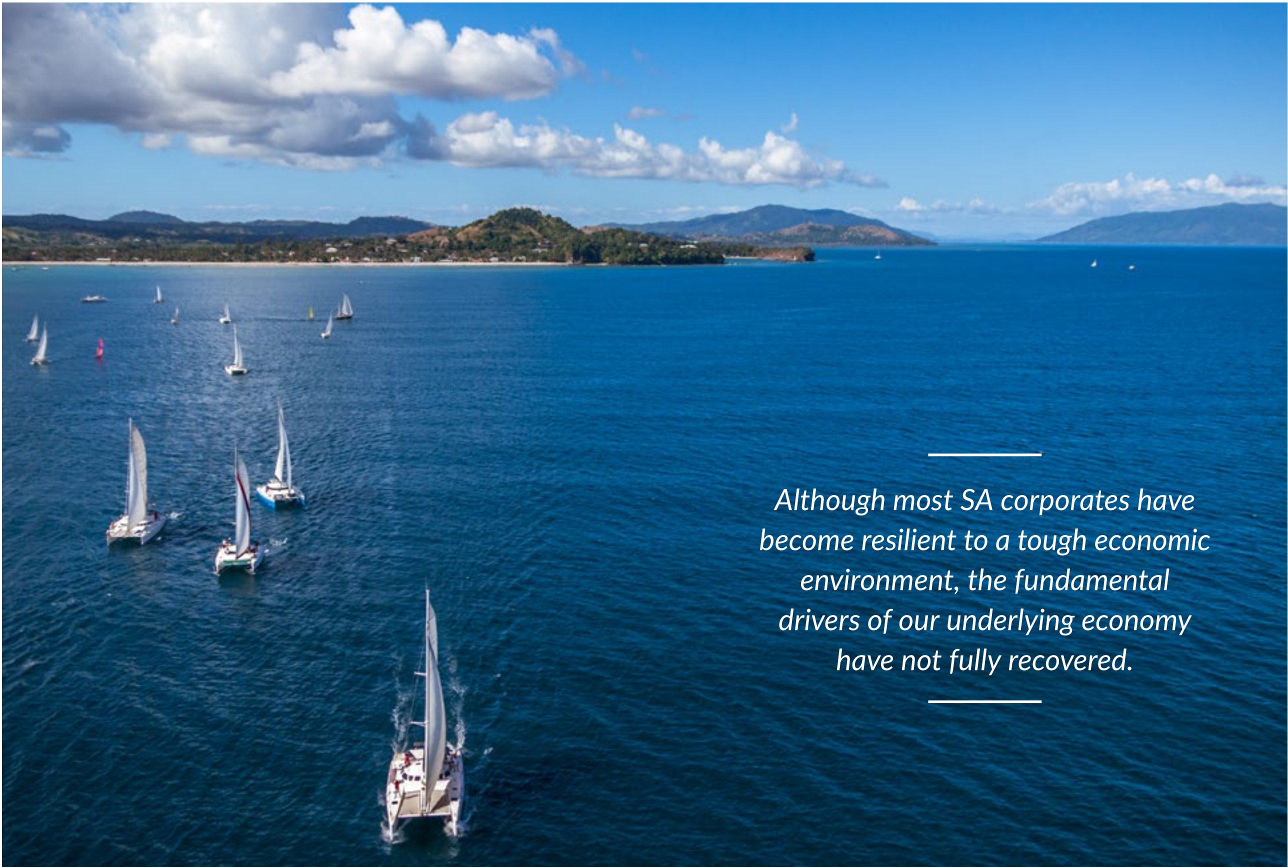
Following the onset of COVID-19, some retail segments have performed differently compared with the pre-COVID era, spurred by unexpected consumer behavioural patterns. Although the local economy was negatively affected by COVID-19, pockets of the economy that were insulated from job and income losses influenced retail trends in interesting ways during the height of the pandemic.

As lockdown restrictions were put in place locally, remote work became a convenience for most SA corporates due to the lockdown restrictions, particularly in the services sector. This went on to influence behavioural patterns amongst consumers. Despite the severe job losses resulting from COVID-19, SA's working population, particularly the mid-to-upper Living Standards Measure (LSM) demographic, had relatively good disposable income. Low petroleum prices, working-from-home (little to no commuting expenses), and the low-interest rate environment meant that consumers could pursue their DIY projects and divert spending that was provisioned for travel, entertainment and fuel towards special DIY projects and more discretionary purchases. However, since lockdown restrictions have been lifted, the economy has started to recover, and spending patterns have also normalised. As a result, 2022 has seen retail growth exposed to the home improvement and DIY sectors decline, given these categories' higher base effects in 2020 and 2021.

Furthermore, COVID-19 also affected the seaborne market, which resulted in major supply-chain disruptions driven by shipping delays, a shortage of shipping containers and increased port congestion. The motor retail segment is one discretionary retail segment that has performed well locally, benefitting partly from the automotive microchip shortages in the world, which has dislocated the supply of motor vehicles globally. Due to low supply and high demand for these vehicles, new and used vehicle prices have also increased significantly.

Figure 5: New and used vehicle trade sales, rebased to 100
Source: Stats SA, Anchor





COVID-19 SA GOVERNMENT INTERVENTIONS

The SA retail market has also benefitted from some of the government's COVID-19 economic interventions. The two key interventions highlighted below continue to positively affect or benefit the retail market, particularly the apparel and food retail sectors.

- The R350 unemployment grant; and
- The Presidential Employment Stimulus (PES) employs youth as temporary teacher assistants and pays them a stipend of c. R3,500/month. The programme aims to limit high unemployment rates amongst the youth.

Without these interventions, we might not have witnessed some of the strong retail growth rates that several of SA's apparel and food retailers experienced during the pandemic. Additionally, a few JSE-listed companies' management teams have linked retail weakness in May and June to the temporary cessation of unemployment grants. This demonstrates the positive effects of these interventions on the local economy. As SA continues to recover to pre-pandemic levels, these government interventions may be revoked as they have been used as temporary interventions to cushion the economy from the adverse effects of COVID-19. If they are revoked, SA may witness pedestrian retail growth numbers once everything fully normalises. Recall that SA's economic reform plan is being implemented at a snail's pace, and loadshedding has become a bottleneck in the country's economic recovery. Although most SA corporates have become resilient to a tough economic environment, the fundamental drivers of our underlying economy have not fully recovered, and SA's strong retail sales growth numbers in some sub-sectors of the retail market are currently laced with a high inflationary component as opposed to volume growth.

NEAR-TERM UNCERTAINTY REMAINS

To conclude, for the SA retail market to flourish further, the country needs a healthy macroeconomic environment as the world continues to normalise. However, as SA and other major economies pursue contractionary monetary policy, geopolitical risks remain elevated, and the near-term outlook for the local and global retail market remains opaque.

What in the greylisting?

The risks and implications for the SA financial services sector

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In October 2021, the Financial Action Task Force (FATF), an intergovernmental policymaking body combatting all forms of money laundering and terrorism financing, published an evaluation of SA's anti-money laundering measures. Through a peer review process facilitated by the FATF, SA was evaluated for a period in 2019 on its anti-money laundering and combatting the finance of terrorism systems. It is a two-fold assessment of the adequacy of SA's legal framework and the efficiency with which legislation is implemented. The review did not go well. The published report outlined serious shortcomings in SA's policies and efforts to combat money laundering and terrorist financing, despite the country's financial system already being highly vulnerable to crimes of this nature.

To be greylisted by the FATF means a country's shortcomings threaten the international financial system and is a serious blow to a country's reputation.

The FATF report found that SA has "a solid legal framework to fight money laundering and terrorist financing" but has "significant shortcomings implementing an effective system, including a failure to pursue serious cases". Out of 40 ratings on legislation adequacy, half of SA's ratings scored as partially compliant or non-compliant. Out of 11 ratings on the efficiency of implementing the legislation, SA was scored critically weak on all ratings. As such, SA now runs the serious risk of being placed on the FATF's greylist - the FATF has worryingly raised more serious concerns about SA than it did about the United Arab Emirates (UAE), which was greylisted earlier this year.

To be greylisted by the FATF means a country's shortcomings threaten the international financial system and is a serious blow to a country's reputation. Such a country is subjected to increased monitoring and has to deal with adverse economic consequences for trade and transactions with other countries. Regulators in the US, the UK and the EU may also restrict their banks from transacting with greylisted countries' banks. In addition to the UAE, the FATF's current greylisted countries include the likes of Cambodia, the Cayman Islands, Burkina Faso, Albania, Yemen, Pakistan, and Syria. Blacklisted countries — at this stage, only North Korea and Iran — are officially considered high-risk jurisdictions. The list essentially warns of the significant danger of money laundering and terrorism financing that a particular nation holds in global dealings. As identified by the FATF, SA's three most-critical weaknesses are:

1. Customer due diligence;
2. terrorist financing offences; and
3. targeted financial sanctions for terrorism and terrorist financing.

In a scorecard on the work of the Directorate for Priority Crime Investigation (DPCI or Hawks), police, intelligence agencies and the National Prosecuting Authority (NPA), the FATF report stated that SA principally struggles to detect and prosecute terrorist-financing offences. In this regard, key findings in the FATF mutual evaluation report, for example, include that authorities' understanding of terrorist-financing risks is "underdeveloped and uneven". The report further states that law enforcement "lacks the skills and resources to proactively investigate money laundering and terror financing." SA has until October 2022 to show the Paris-based FATF that it has made sufficient progress in remedying the identified deficiencies.

Landing on the grey list will be detrimental to the integrity of the SA banking system and jeopardise the country's relationships with overseas banks.

Suppose it fails to convince FATF at the October meetings. In that case, SA could become the second G20 nation after Turkey to be added to the watchlist of what the FATF calls "jurisdictions under increased monitoring" - the one step before being formally placed on the greylist in a follow-up review. FATF is due to make its final decision on the composition of the formal greylist in February 2023.

WHAT ARE THE IMPLICATIONS FOR THE FINANCIAL SECTOR AND THE GREATER SA ECONOMY?

The results of global empirical studies of the impact of greylisting or blacklisting by FATF are mixed. A recent IMF study estimates that capital inflows typically decline by 7.6% of GDP at the time of a greylisting (with a typical range of 4.5% to 10.5%). In contrast, two empirical studies found that blacklisting had no significant and enduring impact on banking flows and tax havens. Falling in between these results is a Latin American study that found a small (0.3%-0.4% of GDP) impact on foreign direct investment (FDI) but no consistent impact on other flows. Two further studies found a 10% and 15% decline in cross-border receipts and growth in bank inflows, respectively.

Essentially, these divergent empirical findings demonstrate the difficulty in accurately estimating the economic impact of the FATF's greylisting and/or blacklisting. This is arguably at least partly because, unlike the specific event of an adverse listing, the fundamentals that inform such listing typically deteriorate or become greater over time. Thus, investors would typically react to these fundamentals independently and not only to the listing status itself. For example, global investors would already have been more cautious about their transactions with SA during the state capture era rather than waiting for an adverse listing of the country by the FATF. Plainly speaking, many international investors would have already priced in the risk of transacting with and within the SA financial system. This mirrors the same dynamic as that of a sovereign credit rating downgrade which does not necessarily cause a material and persistent economic and/or market reaction because the relevant, weak fundamentals are typically discounted well in advance.

Nonetheless, it is safe to assume that landing on the grey list will be detrimental to the integrity of the SA banking system and jeopardise the country's relationships with overseas banks. Regulators from some of SA's main trading partners, such as the US, the UK, China and Japan, may restrict their banks from transacting with SA banks. Of those able to transact, the associated costs will be raised significantly. This, in turn, may have a material adverse impact on capital flows and subsequent growth, as well as on the currency and bond markets. Furthermore, it will become increasingly difficult to invest offshore, even for the wealthiest investors. Whilst one cannot rule out an adverse impact on SA's economy, bonds, and currency should the country be greylisted, at this stage, it would be premature to adjust our macroeconomic forecasts on the assumption that at least some of SA's deficiencies are already being discounted by high idiosyncratic risk premia and, if placed on the grey list, the reasonable probability of authorities making adequate progress in addressing these deficiencies to be removed off said list.

HOW DO WE GET OUT OF THIS MESS?

Significant progress would need to be made in a very short period to avoid such an adverse outcome of the FATF process currently underway. Positively, the FATF assessments lend substantial weight to any demonstrable effort by policymakers (such as interventions by the SARB and Treasury) to address SA's shortcomings. However, aside from the typical uncertainty surrounding the timeframes to complete specific actions (such as regulatory changes), the FATF assessments also embody inherent subjectivity, which clouds estimating any probability that SA can make enough progress timeously to avoid being greylisted. Nonetheless, an adverse outcome is not inevitable, but at this point, recent assessments by the Treasury and the SARB of a "high" probability of such an outcome appear pertinent.

Regardless, in an urgent move to help prevent SA from being greylisted, cabinet approved a raft of new amendment bills in late August. The omnibus of bills amends the Financial Intelligence Centre Act, the Non-profit Organisations Act, Trust Property Control Act, the Companies Act and the Financial Sector Regulations Act. The amendments included in the bill aim to respond to the deficiencies identified during the peer review of the country conducted by the FATF and address around 14 of the 20 areas in which the FATF found SA deficient. The Protection of Constitutional Democracy against Terrorist and Related Activities Amendment Bill, currently before Parliament, will address two other deficiencies. The remaining technical deficiencies will be addressed through various regulatory changes.

SA authorities will need to fully assure the FATF that collectively, SA is more capable of giving effect to this legal framework than it has been in the past.

Whilst it is indeed plausible (even if unlikely) that Parliament will be able to process these legislative reforms by the end of this year, other aspects of the FATF review will require a broader political response to correct. In particular, SA authorities will need to fully assure the FATF that collectively, SA is more capable of giving effect to this legal framework than it has been in the past and governance institutions can hold to account those responsible for past and inevitable future transgressions. With regards to the upcoming review, above all, authorities will need to restore confidence in SA's capacity to deliver accountability for state capture crimes and its ability to recoup the funds looted from state institutions by those implicated in high-level state capture offences.

COULD THIS BE THE WAKE-UP CALL THAT SA NEEDS?

While no country would ever want to wind up on the FATF's greylist, doing so could kick-start and accelerate much-needed reforms to counter fraud, corruption, and terrorism financing in SA. Such was the case for Mauritius – the country was able to get off the greylist in under two years, much to its longer-term economic benefit. Mauritius was initially greylisted in February 2020 for several reasons, including a lack of effective risk-based supervision, limited access to beneficial ownership information, and insufficient oversight of non-profit organisations that may be subject to terrorist financing. There was also a general ineffectiveness in conducting money laundering investigations. After quickly and proactively implementing the necessary reforms, the country's financial sector is beginning to stand out for all the right reasons - attracting significant international growth and development opportunities.

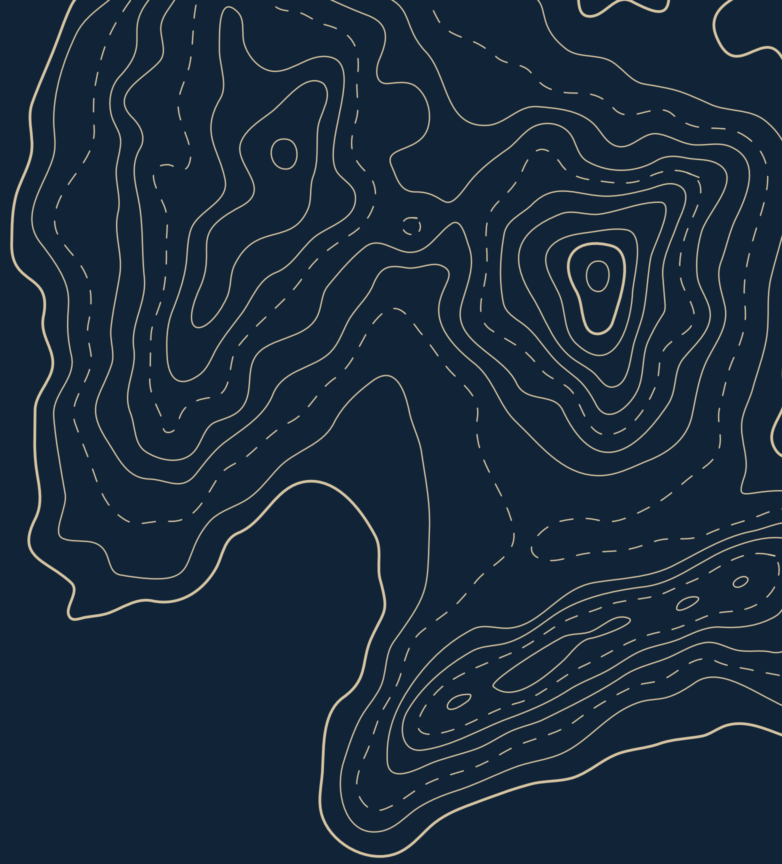
SA might not be as lucky as Mauritius was to get off the grey list so quickly - as countries tend to spend several years on the list tackling the various identified deficiencies – but it is possible. Mauritius took a concerted effort to exit the greylist, but it is now fully compliant with 39 of the 40 FATF recommendations. Mauritius has its FATF-approved objectives set out across core strategies such as:

- Strengthening anti-money laundering/counter financing terrorism (AML/CFT) legal and regulatory frameworks to meet international standards, effective in mitigating risks.
- Implementing a comprehensive, risk-based supervision framework to monitor financial institutions and designated non-financial businesses, such as real estate brokers, banking and securities, and jewellery stores.
- Improving the process of detecting fraud threats, prosecuting criminals, and confiscating illegal proceeds.
- Enhancing the transparency of legal persons and enlisted national coordination, as well as regional and international cooperation
- Increasing training and capacity and raising awareness to ensure all stakeholders are working in accordance with AML/CFT obligations.
- Implementing an AML/CFT data collection system to continuously improve risk detection.

These are all solid, sound steps that have gone a long way for Mauritius, not only in removing itself from the greylist but also in setting up the country's financial sector (and thus the greater economy) for better, long-term development and growth opportunities. SA could do well to take note.

Performance Summary

	FUND PERFORMANCE									BENCHMARK PERFORMANCE							
	Start date	Annualised p.a.	Since inception	5 Year	3 Year	12-month	6-month	3-month	Sep-22	Since inception	5 Year	3 Year	12-month	6-month	3-month	Sep-22	Performance vs Benchmark
UNIT TRUSTS																	
Anchor BCI Equity Fund	Apr-13	8.2%	111.4%	1.6%	3.9%	-4.7%	-9.2%	-1.8%	-5.8%	95.2%	4.2%	7.8%	1.1%	-12.8%	-2.4%	-3.8%	16.2%
Anchor BCI SA Equity	Aug-21	4.8%	4.9%	N/A	N/A	2.8%	-7.7%	-2.2%	-5.6%	1.7%	N/A	N/A	1.1%	-12.8%	-2.4%	-3.8%	3.2%
Anchor BCI Flexible Income Fund	Jun-15	6.7%	61.0%	6.0%	4.8%	3.0%	1.1%	1.0%	-0.5%	60.5%	6.2%	5.3%	5.2%	2.8%	1.5%	0.5%	0.5%
Anchor BCI Managed Fund	Jan-15	4.3%	38.4%	3.4%	5.4%	-2.7%	-4.9%	-0.7%	-3.3%	47.1%	5.0%	6.6%	0.2%	-5.8%	-0.1%	-3.1%	-8.7%
Anchor BCI Worldwide Flexible Fund	May-13	8.1%	107.5%	3.7%	0.6%	-13.5%	-5.7%	-2.8%	-4.4%	127.1%	9.0%	9.2%	11.7%	7.0%	3.7%	0.5%	-19.6%
Anchor BCI Property Fund	Nov-15	-4.4%	-26.9%	-6.8%	-6.4%	-7.8%	-13.1%	-4.2%	-7.4%	-30.6%	-9.0%	-8.7%	-8.7%	-14.7%	-3.5%	-6.3%	3.7%
Anchor BCI Global Equity Feeder	Nov-15	12.5%	126.3%	14.7%	19.6%	-14.2%	-0.6%	4.4%	-0.6%	100.1%	10.7%	10.0%	-5.1%	-3.0%	3.5%	-4.5%	26.2%
Anchor BCI Bond Fund	Feb-16	8.1%	67.7%	6.8%	5.2%	0.7%	-3.4%	0.8%	-2.2%	67.9%	7.1%	5.7%	1.5%	-3.1%	0.6%	-2.1%	-0.2%
Anchor BCI Diversified Stable Fund	Feb-16	6.5%	52.2%	6.1%	6.3%	3.5%	-0.8%	0.2%	-2.6%	43.7%	5.2%	5.4%	1.5%	-2.4%	0.5%	-2.0%	8.5%
Anchor BCI Diversified Moderate Fund	Feb-16	5.8%	46.1%	5.6%	6.6%	3.1%	-2.1%	-0.1%	-3.5%	42.0%	5.1%	6.1%	0.9%	-4.3%	0.3%	-2.7%	4.0%
Anchor BCI Diversified Growth Fund	Feb-16	5.2%	40.1%	5.0%	6.9%	2.7%	-3.2%	-0.3%	-4.1%	42.4%	5.0%	6.6%	0.2%	-5.8%	-0.1%	-3.1%	-2.2%
Anchor BCI Africa Flexible Income	Mar-16	4.3%	31.9%	4.0%	-0.2%	-10.8%	-3.8%	2.8%	-2.6%	68.5%	7.8%	6.9%	6.6%	3.5%	1.8%	0.6%	-36.5%
Anchor BCI Global Technology Fund	Jun-19	4.3%	15.0%	N/A	4.5%	-32.9%	-9.8%	2.5%	-4.9%	79.1%	N/A	17.9%	-12.3%	-10.7%	1.7%	-7.6%	-64.1%
Anchor BCI Flexible Fund	Jul-13	7.2%	90.6%	8.3%	4.8%	-24.2%	-11.3%	-0.8%	-6.9%	10.2%	10.0%	10.2%	12.7%	7.5%	3.9%	0.6%	80.4%
Anchor BCI Core Income Fund	Sep-20	5.5%	11.8%	N/A	N/A	5.7%	0.0%	1.3%	0.4%	8.9%	N/A	N/A	4.6%	2.5%	1.3%	0.5%	2.9%
Anchor BCI Global Flexible Income Fund	Sep-20	1.6%	3.4%	N/A	N/A	9.3%	17.7%	7.5%	3.4%	9.0%	N/A	N/A	20.6%	24.0%	10.3%	5.7%	-5.6%
Anchor BCI Worldwide Opportunities Fund	Feb-21	-6.3%	-10.0%	N/A	N/A	-11.3%	-8.0%	-2.7%	-5.7%	12.2%	N/A	N/A	7.6%	5.2%	2.8%	0.2%	-22.2%
EQUITY NOTES & SEGREGATED MANDATES																	
Anchor Equity	Jul-13	8.0%	103.6%	4.3%	8.8%	4.6%	-9.0%	-2.4%	-5.0%	93.8%	5.7%	4.7%	4.4%	2.4%	1.3%	0.5%	9.8%
HEDGE FUNDS																	
Anchor Stable SNN RIHF	Jul-03	12.3%	817.8%	6.3%	10.5%	17.6%	3.5%	3.4%	-1.3%	271.9%	5.8%	4.9%	4.6%	2.5%	1.4%	0.5%	545.9%
Anchor Accelerator	Feb-16	6.6%	52.4%	8.2%	4.4%	-14.9%	-12.5%	-2.7%	-5.8%	40.5%	4.2%	7.8%	1.1%	-12.8%	-2.4%	-3.8%	11.8%
OFFSHORE																	
High Street Equity - Dollars	Jun-12	7.8%	115.2%	2.0%	-1.0%	-32.1%	-23.7%	-6.5%	-8.5%	145.9%	5.8%	5.1%	-19.2%	-21.2%	-6.1%	-9.3%	-30.7%
High Street Equity - Rands	Jun-12	16.4%	373.0%	8.1%	4.8%	-18.9%	-6.1%	2.6%	-3.5%	442.7%	12.1%	11.4%	-3.4%	-2.6%	4.3%	-4.2%	-69.7%
Offshore Balanced - Dollars	Jun-12	6.3%	86.8%	1.1%	-2.2%	-24.4%	-18.2%	-5.1%	-6.6%	65.3%	2.5%	0.6%	-19.8%	-18.7%	-6.4%	-7.6%	21.6%
Offshore Balanced - Rands	Jun-12	14.6%	304.6%	6.8%	3.1%	-10.9%	0.7%	4.2%	-1.5%	266.3%	8.7%	6.6%	-3.6%	0.9%	4.1%	-2.3%	38.4%
Global Dividend - Dollars	Jan-14	5.9%	64.6%	3.1%	2.2%	-13.0%	-17.3%	-7.6%	-6.4%	82.8%	5.8%	5.1%	-19.2%	-21.2%	-6.1%	-9.3%	-18.2%
Global Dividend - Rands	Jan-14	11.9%	165.2%	9.1%	8.0%	3.6%	1.8%	1.5%	-1.3%	197.0%	12.1%	11.4%	-3.4%	-2.6%	4.3%	-4.2%	-31.7%
Anchor Global Stable Fund - Dollars	May-15	0.2%	1.4%	0.5%	-1.0%	-13.9%	-7.8%	-3.3%	-3.5%	23.5%	3.0%	3.2%	4.5%	2.6%	1.4%	0.5%	-22.1%
Anchor Global Stable Fund - Rands	May-15	5.7%	50.8%	6.5%	4.9%	3.0%	13.8%	7.4%	1.9%	84.0%	9.1%	9.5%	25.4%	27.0%	12.6%	6.1%	-33.2%
Anchor Global Equity - Dollars	May-15	10.2%	104.0%	11.0%	16.4%	-28.8%	-18.7%	-4.2%	-6.2%	45.0%	4.4%	3.7%	-20.7%	-21.4%	-6.8%	-9.6%	59.0%
Anchor Global Equity - Rands	May-15	16.3%	203.4%	17.6%	23.4%	-14.9%	0.4%	6.4%	-1.0%	115.6%	10.7%	10.0%	-5.1%	-3.0%	3.5%	-4.5%	87.7%
RCI UNIT TRUSTS																	
RCI BCI Flexible Growth Fund	Sep-16	4.8%	32.6%	N/A	5.4%	-30.9%	-15.2%	-2.2%	-4.3%	77.1%	N/A	10.2%	12.7%	7.5%	3.9%	0.6%	-44.5%
RCI BCI Worldwide Flexible Fund	Dec-16	5.0%	32.6%	N/A	1.4%	-24.3%	-9.3%	3.2%	-4.7%	65.0%	N/A	9.2%	11.7%	7.0%	3.7%	0.5%	-32.4%



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