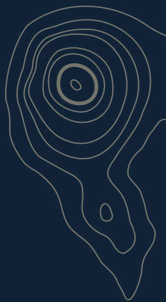
STRATEGY AND ASSET ALLOCATION REPORT

3rd Quarter 2023



NAVIGATING CHANGE

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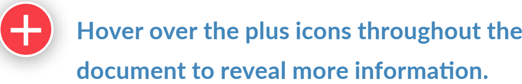


Introduction

WRITTEN BY:
Nolan Wapenaar and Peter Armitage
Chief Investment Officers

Throughout much of the past twenty years, there has always been a good reason not to invest. There are always storm clouds on the horizon, risk factors making investing uncomfortable as markets and the media fret about what may happen down the line. Most of these risk factors also pass us by without becoming actual events. Over the past quarter, we have been anxious over the risk of stage-8 and stage-12 loadshedding, the possibility of the US defaulting on its debt, China invading Taiwan, and China's property bubble imploding. In the end, these sources of angst and volatility never materialised. So, do not let possible risk factors hold you back from investing. Experience has taught us that those who start investing earlier and have the confidence to stand by their investment strategy over time have better returns. There is something to be said for periodically measuring your progress against your investment plan and making asset allocation shifts from time to time. However, for the most part, investing is a long-term game where strategic planning and patience are rewarded.

You may notice there are not many changes to our asset allocation views since our previous edition of *The Navigator – Anchor's Strategy and Asset Allocation*, released on 14 April. The global economy remains in the last part of the rate-hiking cycle, where 80% to 90% of rate hikes are done, but we are not quite there yet. Markets are forward-looking, and we think one should gradually shift towards asset allocation for the peak of the rate hiking cycle. Typically, this would mean leaning slightly more into risk, although investors need to be careful as certain pockets of equity look rather fully priced, as explained in this report. We think that bonds, both globally and domestically, have some appeal. Overall, we retain our view that a sensibly balanced investment portfolio is the way to go.

Experience has taught us that those who start investing earlier and have the confidence to stand by their investment strategy over time have better returns.

In terms of investing, our point is that a number of the risk factors that have been weighing on markets seem to be dissipating. We are hoping for a period of relative calm before the US and South African (SA) elections confront markets in 2024. Overall, this is as good a time to upweight your investments. Anchor strives to help you achieve the best outcomes within your risk tolerances and objectives. We see opportunities in all asset classes, and this document highlights some of the best opportunities we believe to be available.

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 (Own currency) (%)
	Negative	Neutral	Positive	
DOMESTIC				
Equity		●		12
Bonds			●	11
Listed property	●			8
Cash		●		8
Alternatives*			●	10 to 14
Rand/US$ (rand stronger)				7
GLOBAL				
Equity		●		7
Government bonds		●		6
Corporate credit		●		5
Listed property		●		5
Cash		●		4
Alternatives*			●	8 to 15

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

Asset Allocation Summary

This year has seen gains of differing proportions as we have edged towards the end of the interest rate hiking cycle. Our return expectations for the various asset classes have not shifted much. By and large, the changes reflect that asset prices have fluctuated a bit over the last quarter while our economic expectations have not.

Figure 1 below highlights 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 the outcome in the various scenarios. From a total return perspective, equity is the most attractive asset class though downside risks remain, and certain prices feel lofty. Global bonds and global cash have become increasingly compelling. Perhaps the most significant change since our previous edition is that the range of expectations for all asset classes continues to narrow, reflecting that confidence is returning as we progress through this part of the economic cycle.

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

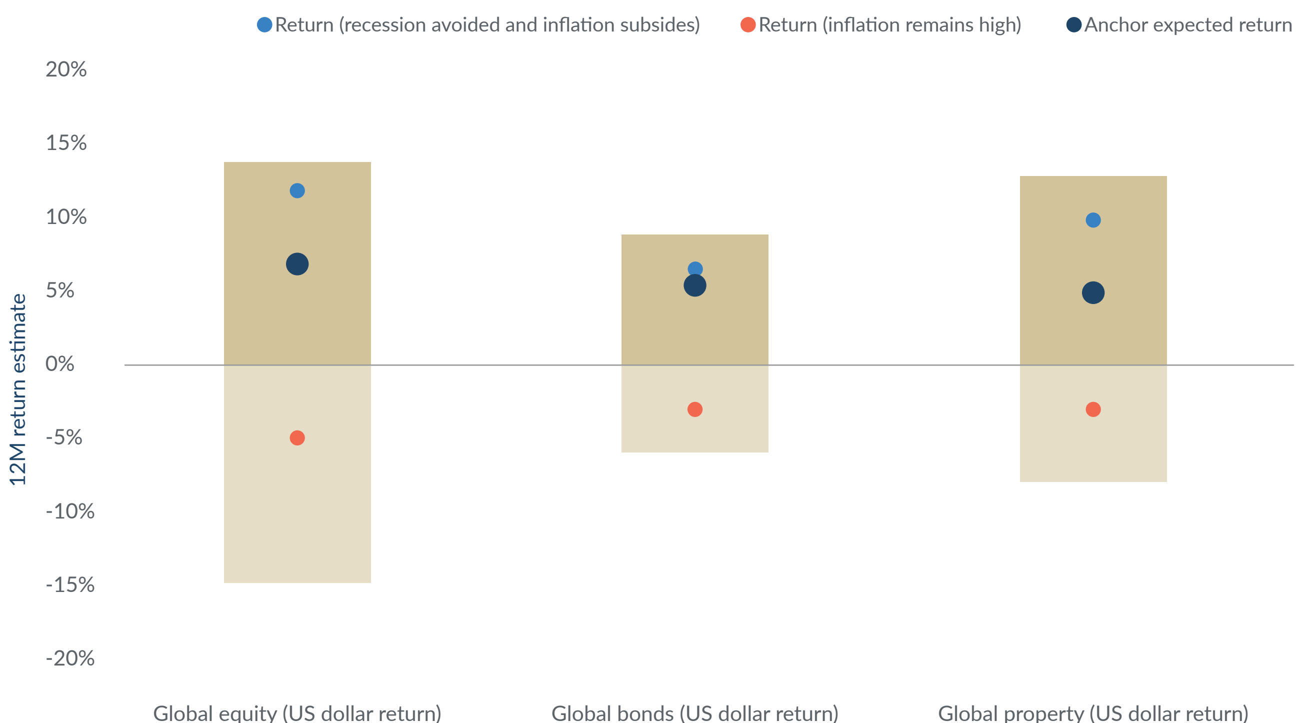
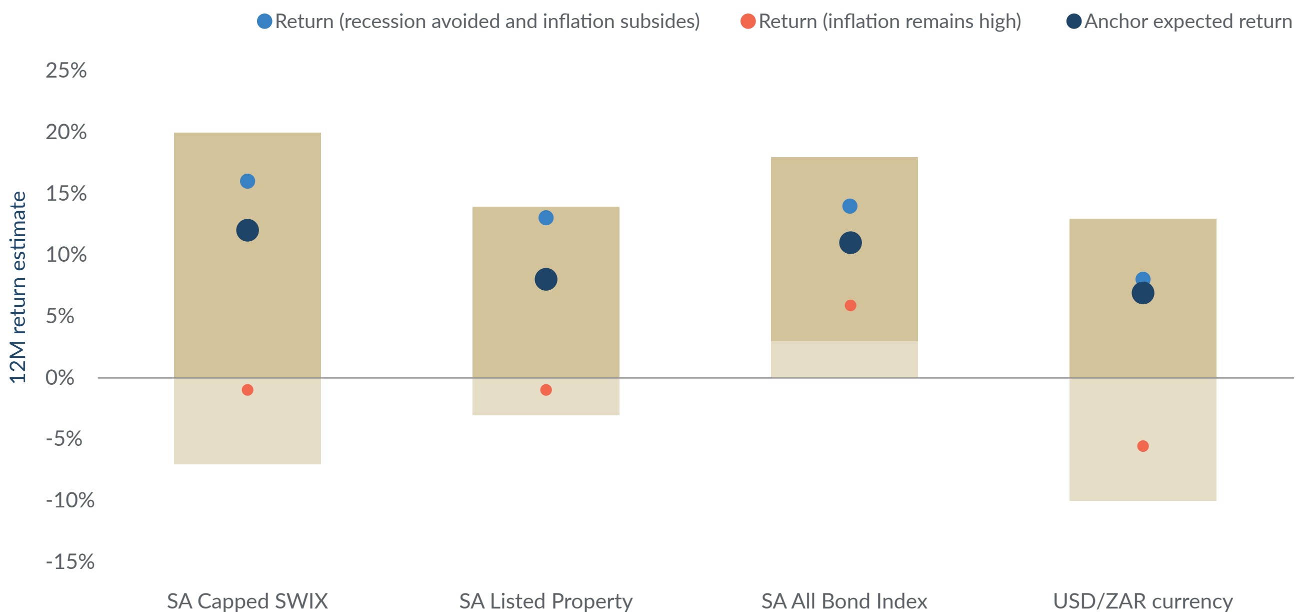


Figure 2: Anchor expected return by offshore asset class
Source: Anchor

	Global equity	Global bonds	Global property
Anchor expected return (in US dollar)	7%	6%	5%

Figure 3 below highlights 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 the outcome under the various scenarios. From a domestic investor perspective, equity markets were more challenging over the last quarter, and the bond markets remain compelling. Again, we point out that the range of outcomes for all asset classes has narrowed.

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



Domestically, we think this is a positive investment environment. All asset classes are positive and have compelling investment cases, although we think domestic bonds have the most compelling risk/reward relationship. We see a rand that is recovering over the next year though this will be uneven, back-ended and less than many are forecasting.

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

	Domestic equity	Domestic bonds	Domestic property	US$/rand
Anchor expected return (in rand)	12%	11%	8%	7%

Strategy and Asset Allocation

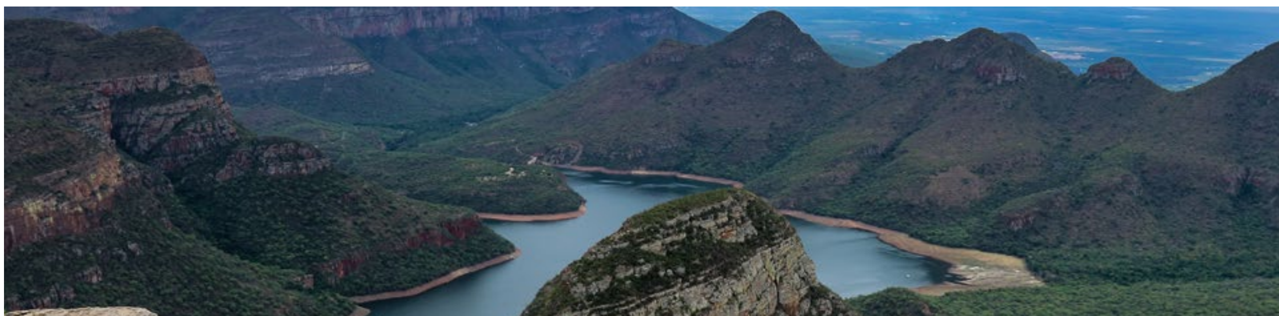
ECONOMICS

In recent weeks, global financial markets have been preoccupied with a further repricing of expectations for 'terminal rates' (the peak spot where the federal funds rate is forecast to climb before being cut). Whilst headline inflation rates appear to be firmly on a downward path in most major economies, central banks across the globe remain as hawkish as ever - quelling any hope financial markets were feeling (perhaps pre-emptively) that interest rate hiking cycles were nearing their end. June, in particular, has seen a spate of surprising rate hike decisions by international central banks, adding to pressure on local markets. Following a higher-than-expected UK inflation print, as measured by the consumer price index (CPI), the Bank of England (BoE) surprised markets by hiking its key lending rate by a higher-than-expected 50 bps, taking the rate to 5% - a level not seen since April 2008. Whilst the BoE did not explicitly signal further increases, it equally did not point to ending the cycle following this latest rate hike.

Whilst headline inflation rates appear to be firmly on a downward path in most major economies, central banks across the globe remain as hawkish as ever.

Another hawkish surprise on the monetary policy front was Norway's central bank hiking rates by 50 bps instead of 25 bps as was broadly expected. June also saw a swathe of 25-bp rate hikes by developed market (DM) central banks, notably the Swiss National Bank, the European Central Bank (ECB), the Reserve Bank of Australia and the Bank of Canada. Whilst the US Federal Reserve (Fed) decided at its June meeting to hold the policy rate steady at the current 5%-5.25% range (interrupting what had been a string of ten straight increases aimed at stomping inflation), in his recent testimony to Congress, Fed Chair Jerome Powell reiterated the Fed's commitment to returning inflation to its 2% target, saying more rate hikes are "likely" this year. This suggests we have not yet seen the end of the advanced economies' rate-hiking cycle. Meanwhile, monetary policy appears to be at odds with the hawkish West in China. The People's Bank of China has cut its primary benchmark lending rates for the first time in 10 months in its latest effort to bolster growth as the world's second-largest economy falters.

Over the weekend of 23-25 June, the world saw one of the most remarkable socio-political events in some time – what appeared to be the first coup attempt in Russia in three decades. Exactly how political events will continue to unfold in Russia (and what it means for the war in Ukraine) remains, at this point, an open-ended debate. What we are sure of at present is that whilst a formal political coup in Russia appears to have been averted (at least for now), recent events seem to point to a weakening of Putin's traditionally authoritarian grip on power. Furthermore, one cannot deny the potential for further internal rebellions against him and his greater administration over the coming months, as these events have sorely dented his political armour. The big question for many South Africans remains - what does this mean for us, given our government's problematic 'friendship' (or, in their words, 'neutrality') with Russia? If anything, recent events have further lowered the probability that the Russian president will attend August's BRICS (Brazil, Russia, India, China, and SA) Summit (to be held in SA) in person. This has been a critical sticky point and source of tension between SA and the international community, considering that the International Criminal Court (ICC) has issued an international arrest warrant for Putin and SA is a signatory to the Rome Statute.



As a result, logically, Putin is unlikely to be willing to travel far from Moscow in the foreseeable future, knowing that by doing so, he may provide an opportunity for such an event to resurface. This is a widely positive development for SA as it reduces the country's risk of being caught up in another international political whirlwind that would further isolate SA from our important trading partners. Ultimately, as a member of the BRICS grouping and a major emerging market (EM), we must seek to balance our relationships with multiple global powers. Maintaining a balanced approach and avoiding over-reliance on any single country is crucial for SA's foreign policy independence and ability to address its domestic challenges effectively.

Aside from simmering geopolitical tensions, domestic monetary policy continues to be a major driving force in local markets. The general direction (or mix thereof) of global interest rate cycles remains a crucial factor for the SA Reserve Bank's (SARB's) Monetary Policy Committee (MPC) when determining local rates. With global central banks maintaining a tight grip on the current rate-hiking cycle, this may feed through to SA, which, as we know, has its own idiosyncratic economic issues. Since November 2021, the SARB has hiked rates in ten consecutive meetings, adding 475 bps in the cycle overall. Following the better-than-expected May inflation data released by Stats SA in June, local market participants have begun to feel more confident that the SARB could pause interest rate hikes at its next meeting in July. Regardless, the latest rhetoric from the SARB (and overall tone) remains hawkish. We still believe there is a strong likelihood that the SARB will continue to hike rates by another 25 bps in July and possibly pause thereafter. At the time of writing, the market is pricing in two hikes of 25 bps for the remainder of the year.

Whilst SA narrowly missed a technical recession in 1Q23 (GDP grew 0.4% QoQ seasonally adjusted, after contracting by an upwardly revised 1.1% in 4Q22), local economic growth remains weak. Nonetheless, the 1Q23 economic performance clearly shows that the SA economy is adjusting to the challenges of heavy loadshedding. However, despite adapting, at the end of the day, loadshedding remains a significant obstacle to achieving substantial economic growth. Additionally, the series of interest rate hikes that began in November 2021 and intensified throughout 2022 and into 2023 are filtering through the economy and beginning to impact economic activity. Unfortunately, persistent downside risks remain, along with increased political uncertainty, which continues to hinder the growth outlook and overall sentiment. Nonetheless, there is a growing belief that our expectation of increased private-sector electricity generation capacity will gradually mitigate the impact of loadshedding on economic growth.

Salary and wage increases are not expected to happen to the extent sufficient to make up for the loss in spending ability in real or nominal terms.

Overall, however, we anticipate that the near-term prospects for growth will remain lacklustre. Moving into the second half of the year, we foresee SA's growth trajectory persistently showing weakness. The ongoing issues related to electricity supply are likely to continue as a significant limiting factor on economic activity and confidence. Moreover, the impact of elevated interest rates is expected to put a strain on household disposable incomes, thereby restricting growth in consumer spending. SA has essentially been in a stagflationary environment for a while now, with weak economic activity and a high inflationary environment. Whilst the second half of this year will likely see inflation drop back into the SARB's target band, salary and wage increases are not expected to happen to the extent sufficient to make up for the loss in spending ability in real or nominal terms.

SA EQUITIES

The JSE, as measured by the FTSE/JSE Capped Swix Index, ended 2Q23 up 1.2%, while YTD, the index is 3.7% higher. However, in US dollar terms, the index is down 6.1% YTD and has underperformed global markets (as measured by the MSCI World Index) by approximately 22%. This underperformance should be viewed in the context of the JSE having enjoyed a particularly strong period of relative outperformance since the end of 2021. Over 2Q23, the SA All Bond Index (ALBI) dropped by 1.5%, and the rand ended the quarter 5.6% weaker. Following its strong outperformance last year, we have been defensive on JSE equities since the beginning of the year, and our caution is unchanged. However, our 12M total return projection of 12% is now slightly higher than the previously communicated 10%, which we forecast when we published *The Navigator - Anchor's Strategy and Asset Allocation, 2Q23* report, on 14 April 2023. While our return expectation of 12% has increased over the quarter, so has our return hurdle to move to an overweight position in local equities. The current restrictive interest rate environment coupled with higher forecast risk impacted by constrained local operating conditions means that on a risk-adjusted basis, local fixed income still screens more attractively on the relatives.

The JSE experienced another lacklustre quarter, impacted by both global and domestic factors. On the global front, the outcome in China was a key driver of several important factors on the JSE. More directly, Tencent is and will remain the most crucial driver of the value of index heavyweights Naspers and Prosus. As shareholders, we are pleased with the steps taken by the Naspers/Prosus complex management to simplify its cross-holding structures and effectively give longevity to the share buyback for the foreseeable future. However, actions taken to date have done most of the heavy lifting needed to reduce the high discounts to net asset value (NAV) at which the shares trade. Based on our estimates, Prosus is trading at a 35% discount to its NAV (as of 30 June), and Naspers is trading at a c. 10% discount to its stake in Prosus. These discounts have narrowed significantly over the past year, and our base case is for no further narrowing of the discount in our return forecasts. From here, the performance of Naspers and Prosus is far more reliant on the operational performance of their biggest asset, the Chinese internet platform Tencent. Earnings growth for Tencent is expected to be at a respectable mid-teens compound annual growth rate (CAGR) over the next three years - a welcome return to trend growth after a few years of re-shaping and re-organising the platform.

China's economy is expected to grow at 5% this year (and to average 5% for the four years following that – based on internal hurdles set). China's growth at 5% will usually be seen as a tailwind for global commodity prices and, by implication, the domestic miners on the JSE. Nevertheless, the Chinese economy seems to be trending away from focusing on infrastructure-led growth and far more on stimulating growth for the Chinese consumer. YTD, the seeming lack of urgency by China's policymakers to produce property and infrastructure stimulus has weighed on sentiment in global commodity markets. This, coupled with the strong consensus globally that a global recession is imminent, has put further pressure across the complex of global diversified miners.

As a quality house, it is unlikely that we would ever have large overweight positions in the basic materials sector. We are currently underweight, with the view to take up exposure should there be some policy response from China that would prompt support for global commodities. Longer term, it is hard to argue the structural appeal of certain metals, particularly those used in the energy transition space. We have read many research articles that suggest that to meet carbon emission targets on energy production, the world will need to produce far more copper, nickel, lithium and certain rare-earth elements. Even higher-grade iron ore will see an increase in demand. Those developments keep us interested in the sector; however, they are not enough to get us overly excited in the current environment.

Domestically, the year has produced another frustrating environment for JSE investors. For the most part, we have been impressed with how many SA corporates are run. As an investment team that puts equal amounts of effort into local and global equities, we have experience with meeting management teams from all over the world, and SA management teams operate at a very high standard. Unfortunately, high unemployment, high interest rates, persistent loadshedding and continued policy uncertainty have set the tone for what was an incredibly difficult 1H23 for the domestically focussed sectors on the JSE. We went into the year defensive, preferring the earnings visibility of the banks to the less-certain retailers, mobile operators and industrials. As the first half played out and earnings expectations got taken down, so did the severity of the most direct earnings impact - loadshedding. Our extremely defensive local positioning is currently being heavily scrutinised.

With the upcoming 2024 National and Provincial Elections, we are optimistic for a better consumer environment over the next 12 months.

Making us slightly more constructive over the next 6 to 12 months is the potential for a domestic earnings recovery towards the back end of 2023, which we think could start to get priced in sometime in 3Q23 or early 4Q23. Across many sectors, the earnings base will be low, and we expect the consumer environment to be less severe than what was experienced between November 2022 and June 2023, where loadshedding was at its worst and interest rates at their highest. It is not inconceivable that domestic interest rates have peaked, making us more balanced on the banks' earnings cycle and less negative on the local consumer. With the upcoming 2024 National and Provincial Elections, we are optimistic for a better consumer environment over the next 12 months than the previous 12 months. Still, the usual caveat applies, the economic outcomes for SA remain binary, making forecasting 12-month forward, total returns extremely difficult. We will continue to build our local equity portfolios with a quality bias, favouring those best-in-class shares in each sector which we believe will navigate the challenging environment with the least friction.

DOMESTIC BONDS

In 2Q23, SA Government Bonds (SAGBs) recorded a negative 1.53% return at an ALBI level. This follows a strong performance in 1Q23, where the index returned 3.42%.

Currently, yields across the curve have weakened, making domestic bonds more attractive. Globally and locally, a key concern remains to curtail inflation – central banks have been forthright in hiking rates even in cases of lower growth, as SA faces. With three SARB meetings remaining this year, domestically forward rate agreements (FRAs) are pricing 25-50 bps more in rate hikes for 2023, with the peak achieved by year-end.

We have for some time viewed interest rate hikes as more likely to curtail growth, which, combined with the heavy burden of elevated loadshedding stages, has seen the SARB slash its projections for SA's 2023 growth to a mere 0.2% YoY. Additionally, SA's growth outlook remains severely impacted by domestic political factors, with SA's cosy relationship with Russia and ongoing loadshedding *(discussed in more detail below)* being the two crucial ones of late.

The decrease in loadshedding as the mid-year approached should act as a deflationary pressure over the longer term, particularly given the increased demand for electricity during winter. However, the National Energy Regulator of SA (NERSA) granted tariff increases to ESKOM, which are now implemented and will dull this recovery over the short term.

We remain cautiously optimistic for SA fixed income – nominal bonds in the belly and long end of the curve currently yield materially over 11%, floating rate notes remain attractive with the repo rate (and thus the 3-month Johannesburg Interbank Agreed Rate [JIBAR]) remaining elevated in the near term. This gives various attractive instruments for investment across the fixed-income spectrum. However, the aforementioned political risks should temper this optimism. The 12-month time horizon includes SA's national election in 2024, which is likely to be a closer call for the ruling ANC's popularity than any previous election in the country's democratic history and thus has the potential of being another volatile moment.

Thus, we are currently cautiously positive duration, retaining a tilt towards the belly of the SAGB curve.

THE RAND

In 1H23, the rand weakened on the back of a stronger US dollar, risk aversion and domestic economic and political malaise. However, as the dust from this settles, we think the rand will likely trade in the R18.25-R19.00/US$1 range for the next quarter.

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

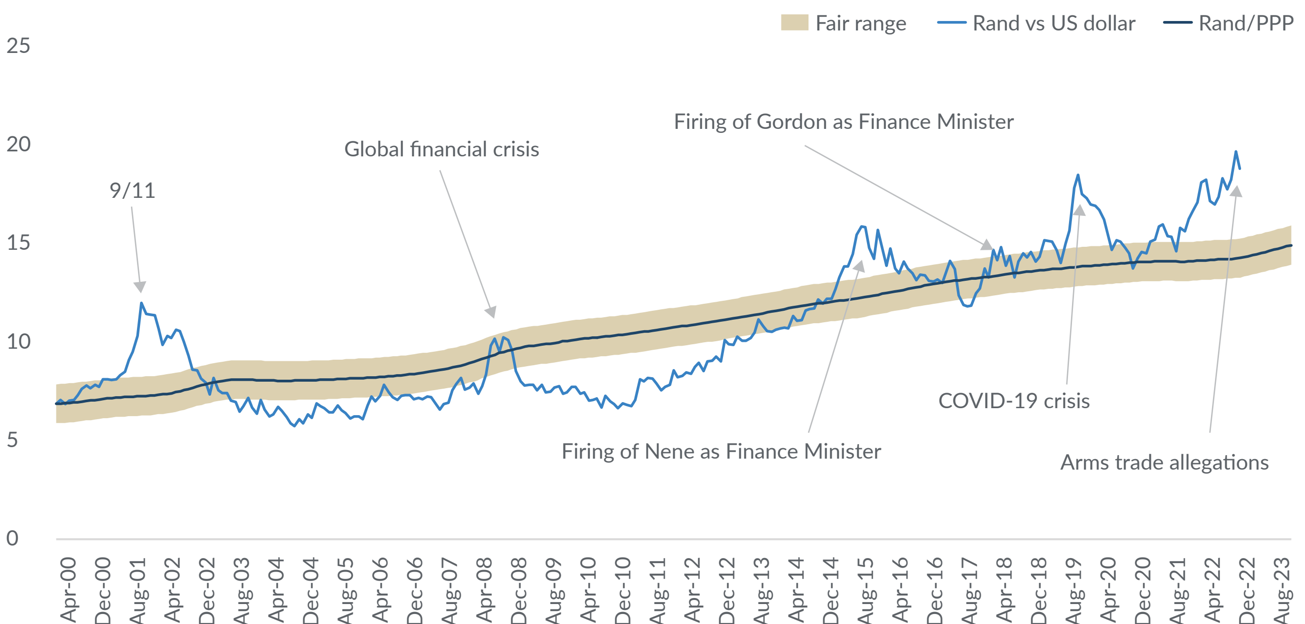
The indicators for the rand's fair value are continuing to turn negative. We note that the boon from high commodity export prices has subsided, eroding some currency support. Rating agencies and analysts are focusing on SA's fiscal situation and questioning the government's ability to achieve a sustainable primary surplus by 2025. We expect the global environment to gradually become more supportive as we head into 2024. Therefore, while the rand will continue to trade with a negative overhang over the near term, we see some recovery for the local unit in the next calendar year.

We retain our purchasing power parity (PPP) based model for estimating the fair value of the rand, and we have extended this out by three months since the publication of *The Navigator - Anchor's Strategy and Asset Allocation, 2Q23* report, dated *14 April 2023*. Over our forecast period, we expect inflation abroad to come under control and return towards more normalised levels. This means that our PPP model shows an increasing propensity for long-term rand weakness from next year again. As a result, our PPP-modelled value for the rand vs US dollar at the end of the next 12 months is R14.98/US$1 (See *Figure 1*). We apply a R2.00 range around this to get to a modelled fair-value range between R13.98/US$1 and R15.98/US$1.

The global backdrop means we are starting with the rand meaningfully weaker than our modelled fair-value 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 toward the end of 2H23, meaning that we expect to see currency normalisation, with the dollar giving up some of its gains in the latter part of this year. However, we do not expect the currency to recover fully, and we are projecting a rand in the R17.00-R18.00 range against the US dollar in one year. For this report, we have modelled on R17.50/US$1.

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

Figure 1: Actual rand/US dollar exchange rate vs rand PPP model
Source: Thomson Reuters, Anchor



GLOBAL EQUITIES

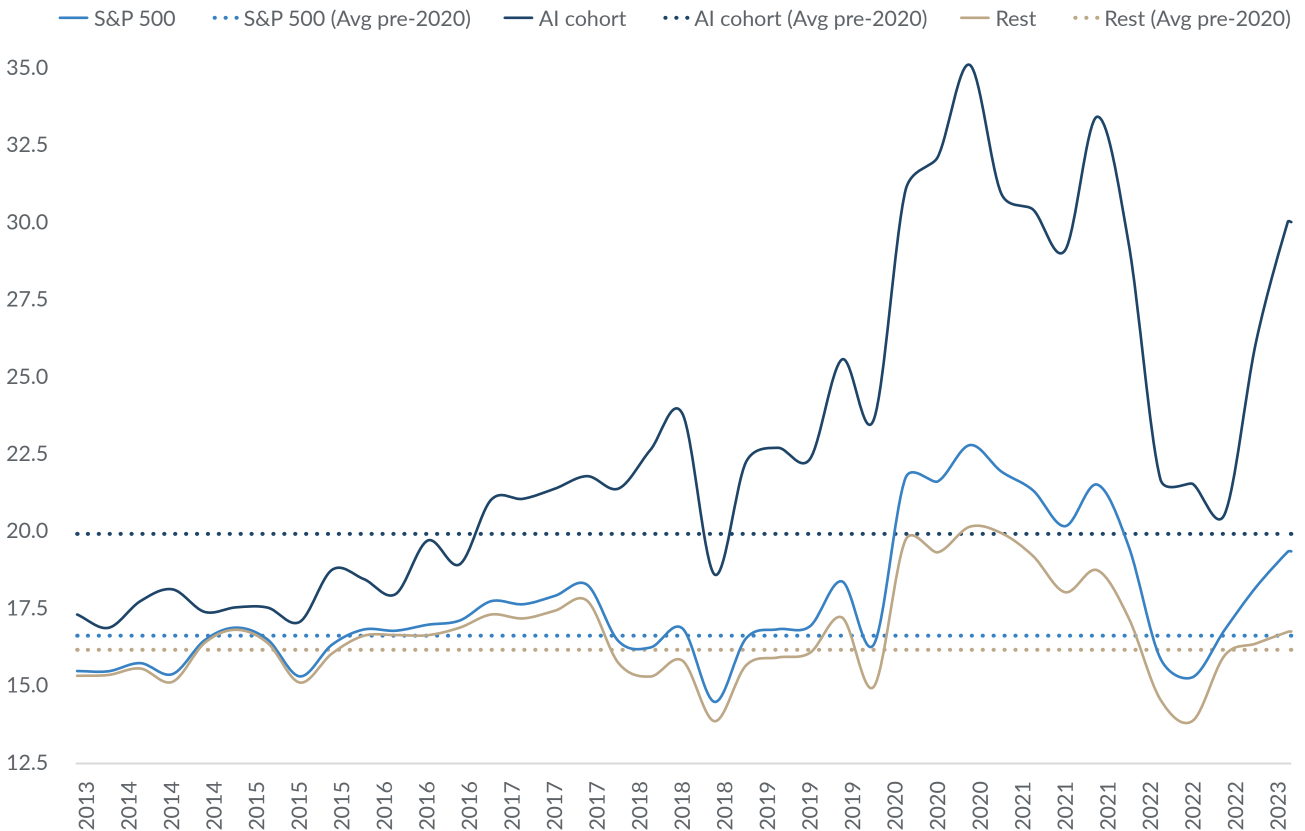
World markets have surprised everybody in 1H23, with a 16% rise in the MSCI World Index in US dollar terms. This exceeded the most bullish forecasts for a full 12 months in 2023. However, the stock market bloodbath of 2022 serves as a backdrop and market levels are similar to those of two years ago. We expect further real returns from global markets over the next 12 months (7% projected), although some volatility should be expected as inflation remains stubbornly high, and rates could still increase further.

In 1H23, markets were driven by a growing euphoria related to artificial intelligence (AI). Microsoft unveiled ChatGPT, which forced rival companies to reveal their progress on AI, and global IT capex budgets rapidly shifted towards AI. Nvidia's powerhouse H100 graphics processing unit (GPU), which enables AI processing, suddenly became like gold, and its orders tripled in weeks. Imaginations and projections ran wild, which saw the top 10 "AI stocks" (including Nvidia, Microsoft, Meta, Apple and Alphabet) rise by a collective 60%. This accounted for most of the gains in the US S&P 500, with the "other 490" shares only increasing by an average of 4% in 1H23.

Hence, while the moves in the market index level look strong, there is still significant potential catch-up for the rest of the market. The outlook for the general market is reliant on how the economic cycle continues to play out. Global bond yields have been rising lately as prior expectations of interest rate cuts in 2023 have faded. Inflation remains strong, the US economy is proving resilient, and the US Fed is insistent that there will probably be more interest rate hikes in the remainder of this year. The key risk is that the Fed goes too far, and the economy suffers late in the cycle.

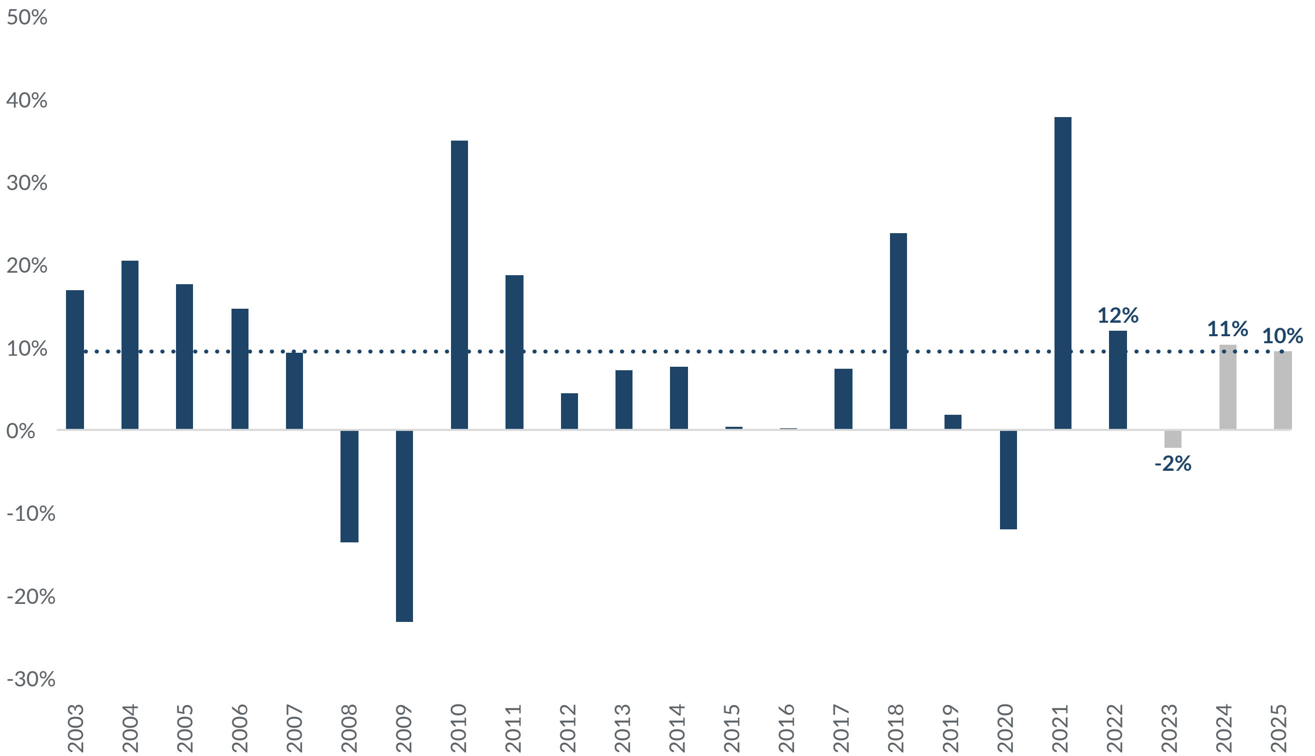
Valuations at the index level in global DMs look full (the MSCI World has a forward P/E of 17x), but given the AI phenomenon, it is illustrative to look a little deeper. The "AI cohort" is dragging the index valuation up – the S&P 500 fwd P/E is 16% above its 2014-2019 average P/E, with the AI cohort 50% above its average valuation for the pre-2020 period. **The rest of the index is only 4% pricier than its pre-2020 average** (see *Figure 2* below).

Figure 2: S&P 500 Index and AI cohort forward P/E
Source: Anchor, Bloomberg



The most important determinant of markets is earnings, which have proved resilient in the face of higher interest rates. While many companies have been negatively impacted, those who have been able to pass on the inflation pressures have flourished. 2023 US earnings growth is projected to decline by 2%. However, double-digit US dollar earnings growth should resume in 2024 and beyond, which is positive for equities. Declining interest rates and increasing earnings are a positive concoction when looking further out to 2024 and beyond.

Figure 3: S&P 500 EPS growth (annual)
Source: Anchor, Bloomberg



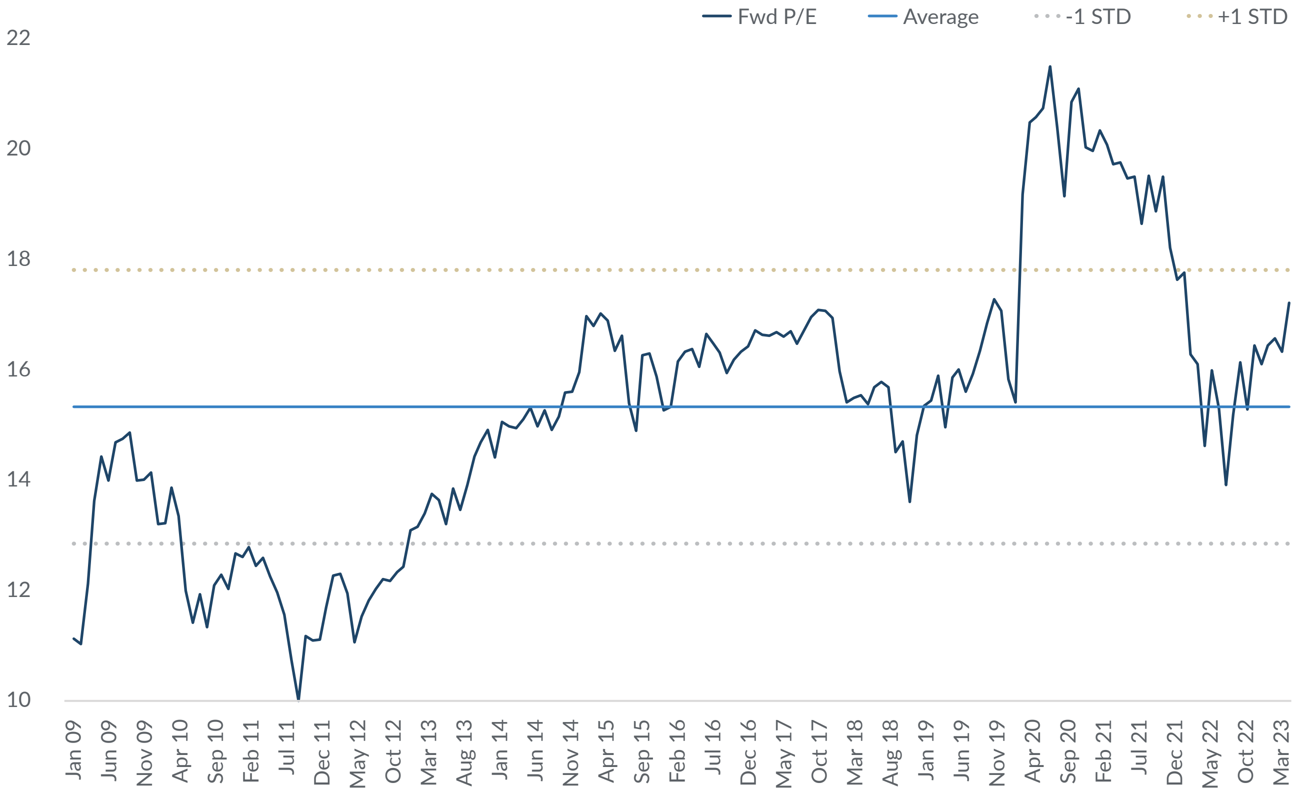
The MSCI World Index forward P/E is 17x (*see table below*). Multiples often increase when earnings dip as long as the future outlook is more positive. EMs are much cheaper, with strong recovery potential.

Figure 4: Various major global indices' EPS growth and forward P/E forecasts
Source: Anchor, Bloomberg

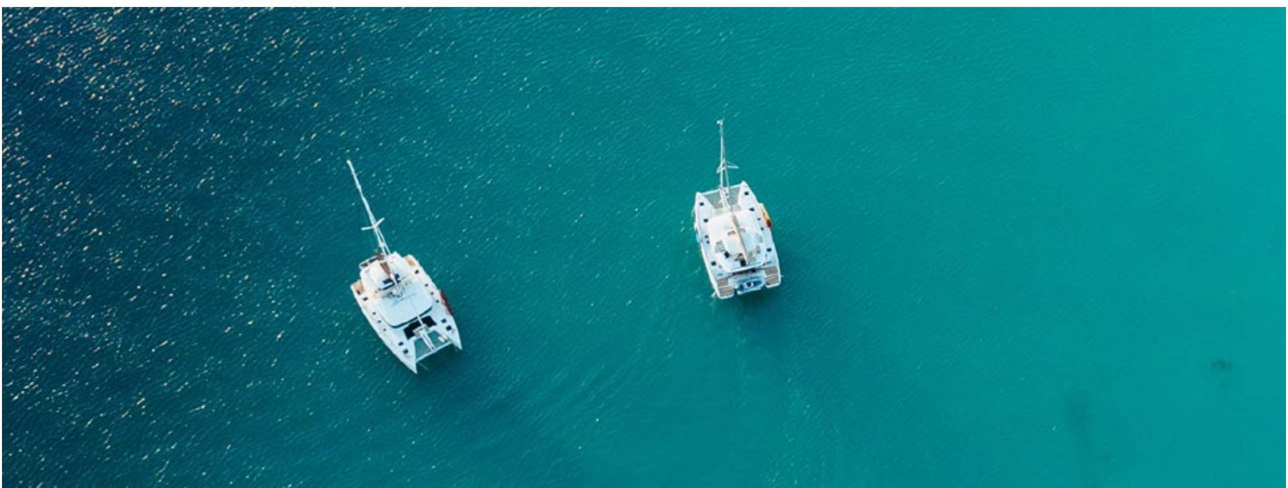
	Earnings growth		FWD P/E	
Name	**YR 1**	**YR 2**	**YR 1**	**YR 2**
MSCI World Index	3.2%	7.8%	16.9	15.7
MSCI EM Index	1.1%	16.8%	12.1	10.3
MSCI All Country World Index (10% EM)	3.0%	9.0%	16.2	14.9
S&P 500 Index (ex-Energy)	7.5%	10.6%	19.9	18.0
S&P 500 Index	2.9%	10.0%	19.3	17.6

This is shown graphically in the chart below.

Figure 5: MSCI World Index fwd P/E
Source: Anchor, Bloomberg



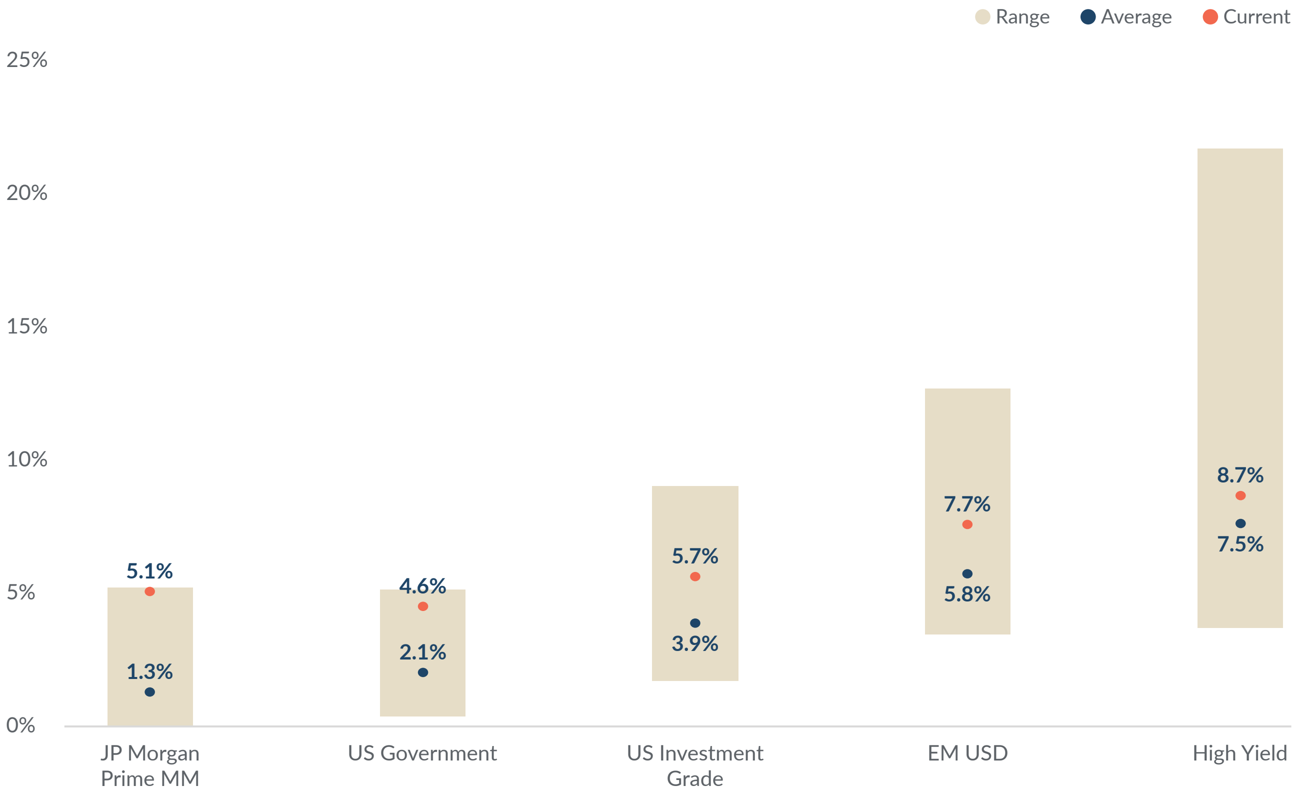
EMs have disappointed in 2023 as the much-vaunted Chinese recovery has been a letdown. Chinese government stimulus has been less aggressive than in previous cycles, but the government could act more decisively in 2H23. EM valuations are cheap, and a shift in sentiment could see a sharp rise in 2H23. An exciting opportunity is the Chinese AI shares, which have not shared the same reaction to the rapidly evolving future. This is despite many of them having invested heavily in this space over the past decade.



GLOBAL BONDS

Global bond yields remain elevated vs their history, particularly short-term yields, which are being propped up by the US Fed and other major DM central banks in an effort to get elevated DM inflation under control.

Figure 6: Global bond yields remain elevated relative to their 20-year average
Source: Anchor, Bloomberg

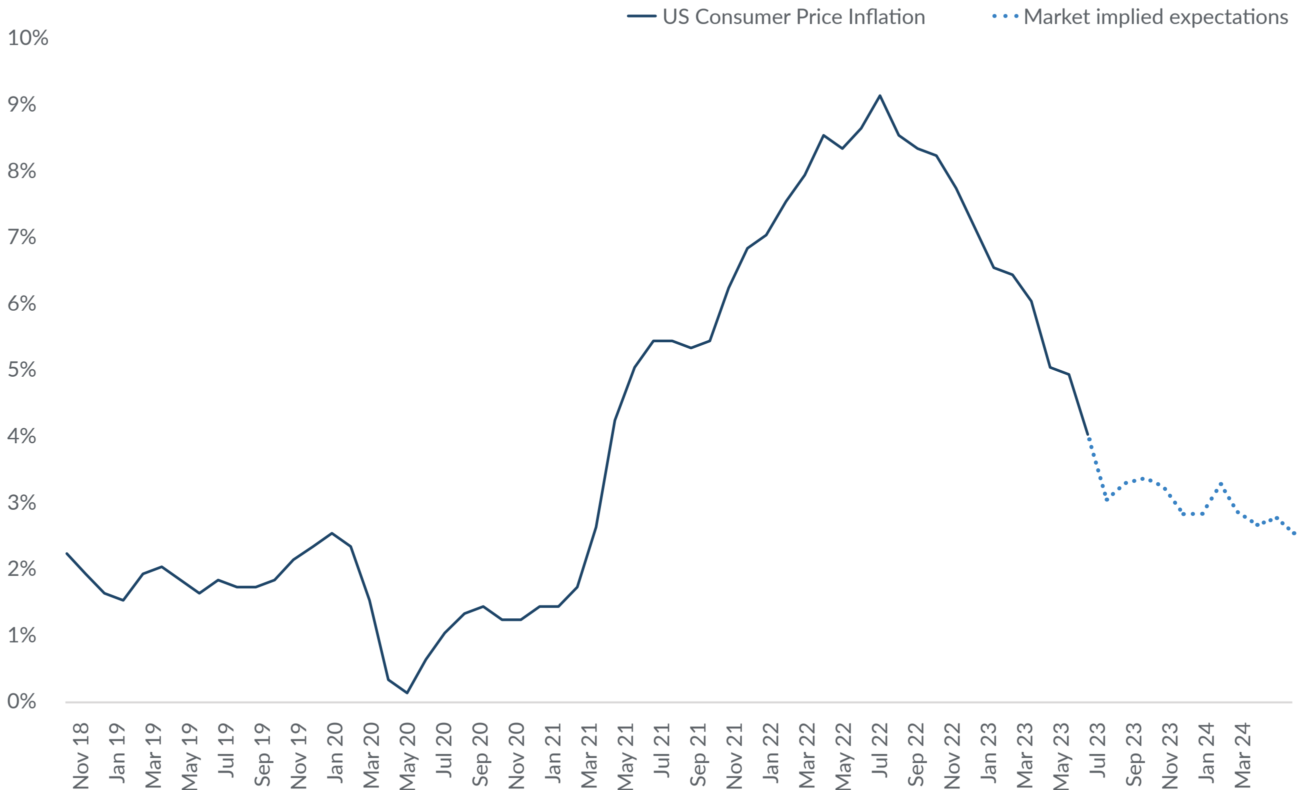


In terms of the direction rates take from here, we need to answer two questions:

1. How quickly will inflation normalise?
2. How much economic damage will the Fed's inflation fight cause?

On the first question, investors and the Fed are at odds, with the inflation rate implied by derivative markets suggesting inflation will drop quickly enough for the Fed to start cutting rates in 2H23. However, most Fed members believe it will be too soon to declare victory in the inflation fight this year.

Figure 7: Investors expect inflation to hover around 3% in 2H23 and then head towards the Fed's 2% target in 1H24
Source: Anchor, Bloomberg



On the second question, the more cautious the Fed, the more likely it is to cause significant economic damage, and the next few months will be key to that outcome.

Moderating inflation will remove concerns that we are entering a structurally higher inflation environment.

Long-term bond rates tend to be more sensitive to growth expectations than short-term rates, and so for US 10-year yields to fall meaningfully from here, there likely needs to be a fairly bad economic outcome. We do not place a high probability on that extreme outcome, and we believe that ***moderating inflation will remove concerns that we are entering a structurally higher inflation environment,*** taking a lot of pressure off the Fed, resulting in significantly lower short-term and marginally lower long-term rates. That outcome should see US 10-year bond yields in the 3.5%-4% range one-year out, resulting in a 5.5% total return for investors in US 10-year government bonds over the next twelve months.

After a brief wobble around the time of the banking mini-crisis earlier this year, US investment-grade corporate bonds have reverted to pricing in a fairly low probability of meaningful corporate defaults. We think this is perhaps overly complacent, given the significantly higher interest burden and the quantum of corporate debt. We expect that credit spreads will need to widen over the next twelve months. Despite the headwind from higher credit spreads, the offsetting impact of slightly lower rates and above-average yields currently on offer still leave investment-grade corporate bonds investors with the prospect of earning a 5.5% total return over the next twelve months.

GLOBAL PROPERTY

Global DM-listed property shares managed to end 2Q23 with a 3.1% QoQ gain, dragging them into positive territory for the year (+2% YTD). Still, the asset class has dramatically underperformed the broader equity market for a fifth consecutive quarter, underperforming global equities by 20% over those five quarters.

Figure 8: Global REITs have underperformed equity markets for five consecutive quarters and most of the past ten years
Source: Anchor, Bloomberg

Relative quarterly performance (Rhs) — Global equities — Global REITs

2.9 2.7 2.5 2.3 2.1 1.9 1.7 1.5 1.3 1.1 0.9

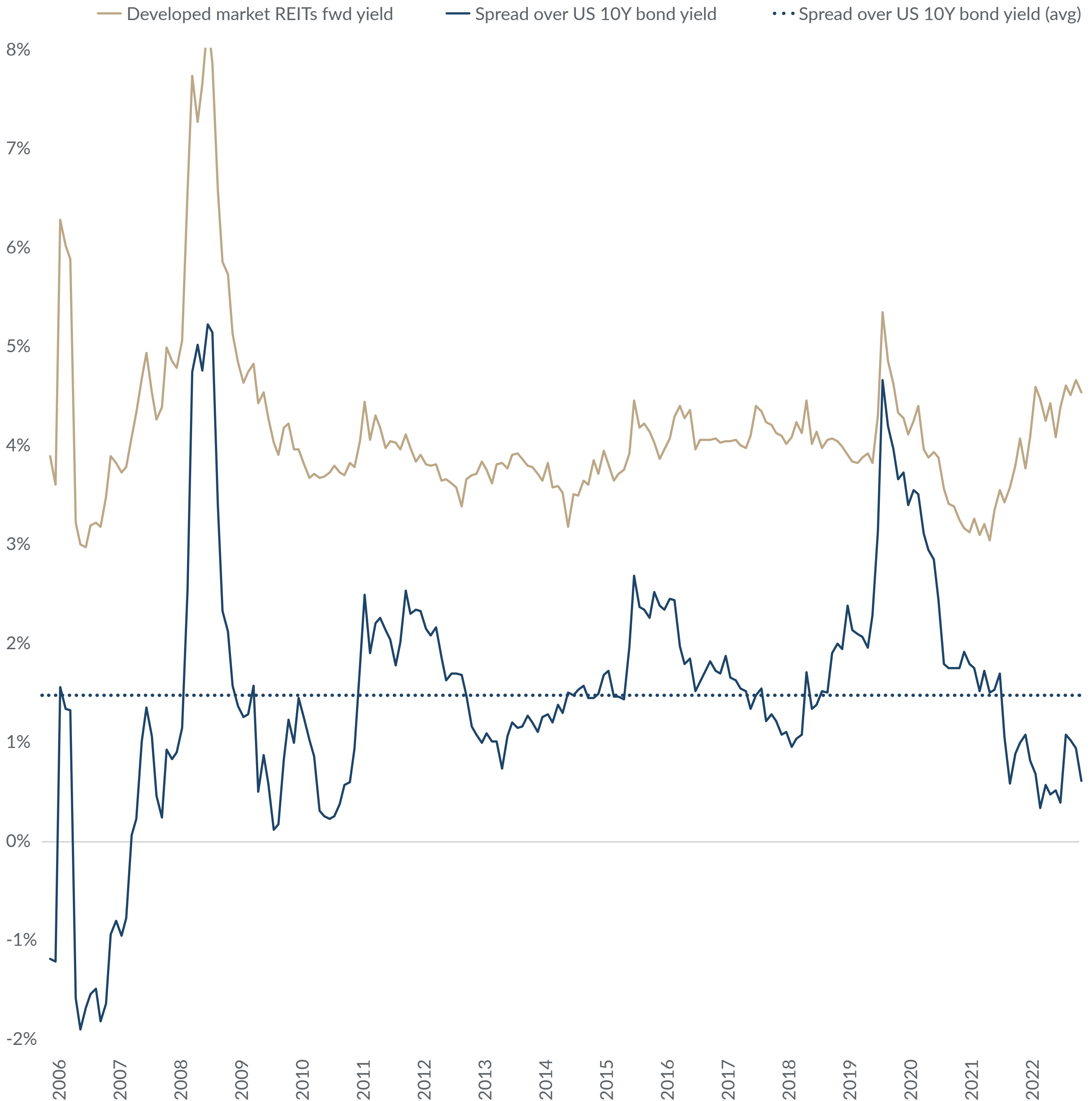
10% 8% 6% 4% 2% 0% -2% -4% -6% -8% -10%

2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

Despite its underperformance, the prospective yields on the asset class remain relatively unappealing given the generally higher rate environment we find ourselves in.

At 4.5%, the aggregate forward yield on DM real estate investment trusts (REITs) is barely above the current US 10-year government bond yield.

Figure 9: Despite recent underperformance, the prospective yield on global REITs remains relatively unattractive
Source: Anchor, Bloomberg



Tightening lending conditions and higher rates for debt refinancing are likely to remain a headwind for the commercial real estate sector for the foreseeable future, with the sector getting a special mention from US Fed Chair Jerome Powell at his press conference following the recent Fed meeting in June. Powell's comments included an assessment that the challenges for the sector "feels like something that will be around for some time" and that "the Fed is closely watching commercial real estate risks and expects to see losses". Some analyst estimates suggest that debt refinancing could have a c. 5% negative impact on cash flows for the sector. In light of this, we think it is hard to anticipate any meaningful earnings growth for the next few quarters. We estimate that investors will likely see a total return of c. 5% in US dollar terms over the next twelve months from the sector.

ANCHOR INSIGHTS

In this section, staff across Anchor provide insights into our thinking, strategy, and worldview. This quarter, David Gibb discusses the history and future of AI, Casey Delport looks at the US and China vying for influence in Africa as the continent's vast resources, growing markets, and strategic importance have drawn the attention of both superpowers, Henry Biddlecombe provides insights into optimising your portfolio with hedge funds, Shaun de Villiers talks about mitigating the potential for losses due to market volatility by having a well-diversified portfolio aligned with your long-term investment objectives, and, finally, Di Haiden discusses the consequences of SA's greylisting on trusts.

The Story of AI – and two brilliant Englishmen

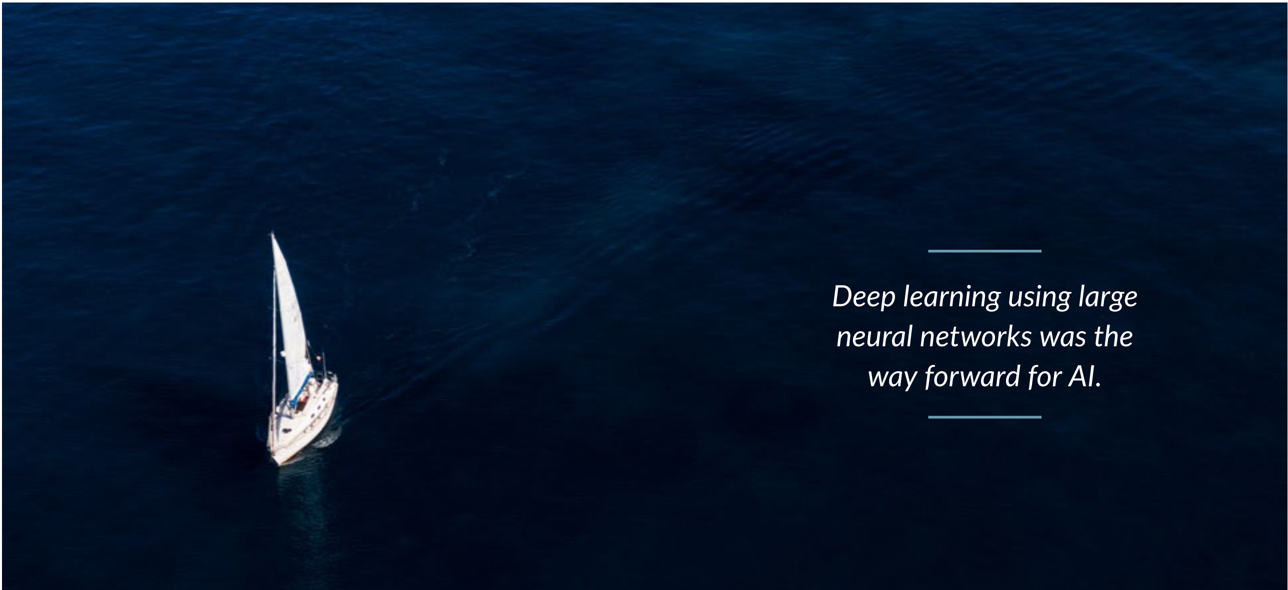
WRITTEN BY:
David Gibb
Fund Management

David has managed the Anchor Worldwide Flexible Fund since its inception in May 2013 and the Anchor Global Technology Fund since its inception in June 2019. He joined the investment industry in 1994 as an equity analyst at Libam. David has a BSc (Med) degree from UCT and is a CA (SA) and CFA charterholder.

Our story starts in October 1950 when an Englishman and renowned World War 2 codebreaker, Alan Turing, spelt out his test for what we now call artificial intelligence (AI). He wrote to the effect that if a machine, irrespective of the method it used, could exhibit an intelligence like that of a human being, then it should be labelled intelligent. This simple requirement would later become known as the Turing test.

For decades computer scientists tried in vain to design machines that would pass the Turing test. They were preoccupied with designing systems based on clear rules and facts that were easier to programme - and cheaper to compute. These so-called classical algorithms, however, were not very useful in other less-rigid fields filled with ambiguity, like languages. With these inherent limitations, AI experienced a series of winters where researchers lost heart and limited progress was made. The first 'AI winter' was from 1974-1980, and the second soon followed from 1987-1994.

In 1958, Frank Rosenblatt from Cornell Aeronautical Laboratory in Buffalo, New York, however, had devised a novel approach. Using a giant five-ton IBM 704 computer, he demonstrated the 'perceptron', which could distinguish between punch cards either marked on the left or the right, using an approach described as a simple artificial neural network. This artificial neural network was inspired by how the human brain was thought to work with neurons (nodes) and synapses (numerical



weights). But artificial neural networks did not take off as there was not enough computing power available. Until later....

With the second AI winter having recently ended, AI hit the limelight in 1997. Gary Kasparov, the world chess champion, had accepted the challenge to play six games of chess against IBM's Deep Blue computer. Tied at one game all and three draws, Kasparov shocked the chess world by conceding defeat for the first time in his career in the sixth and final game. A machine had defeated the finest chess player in history. Kasparov said he 'lost his fighting spirit'. But this still was not the modern AI of today that has captured our imagination. Like the classical algorithms mentioned earlier, Deep Blue 'relied mainly on a programmed understanding of chess'. There was more to come.

Geoffrey Hinton is our second brilliant Englishman. As a student at Cambridge, he had repeatedly changed his degree between different subjects before graduating with a Bachelor of Arts in experimental psychology. Hinton began working on neural networks in the late 1970s and early 1980s when the field was largely left for dead. But, like Turing, Hinton felt that the 'whole idea was to have a learning device that learns like the brain. And that was not my idea. Turing had the same idea and thought that was the best route to intelligence.'

Hinton wrote a paper in 1986, along with two others, on 'learning representations by back-propagating errors'. Hinton et al. were not the first to come up with back-propagating errors. Frank Rosenblatt had also used the term but did not know how to actually do it. But this important paper popularised the concept of artificial neural networks.

It was in Canada, not the US, where the newfound field of neural networks was to move from idea to invention. *The Canadian Institute for Advanced Research* (CIFAR), a government-funded 'university without walls', provided Hinton with a home to pursue his rudimentary ideas on neural networks. Others soon joined, and before long, CIFAR's new neural network division (NCAP) was the hotbed of research on AI. The large technology companies were soon to take notice.

In 2012, Alex Krizhevsky, a PhD student in Canada, in collaboration with another student, Ilya Sutskever, and his PhD supervisor, Hinton, entered the ImageNet Large Scale Visual Recognition Challenge (ILSVRC). The ImageNet dataset consisted of over 1mn images, and the challenge was 'to evaluate algorithms designed for large-scale object detection and image classification.' This was no easy task. The three entered the competition using an unconventional approach – an artificial neural network that Krizhevsky designed. They used two GPUs (graphics processing units) made by a company called Nvidia to speed up the computing process. AlexNet, as the neural network was later named, thrashed the other competitors and won the Challenge. At this point, it became clear that deep learning using large neural networks was the way forward for AI. Google soon hired all three of them, and the other large tech firms began to acquire deep learning start-ups and other teams of researchers.

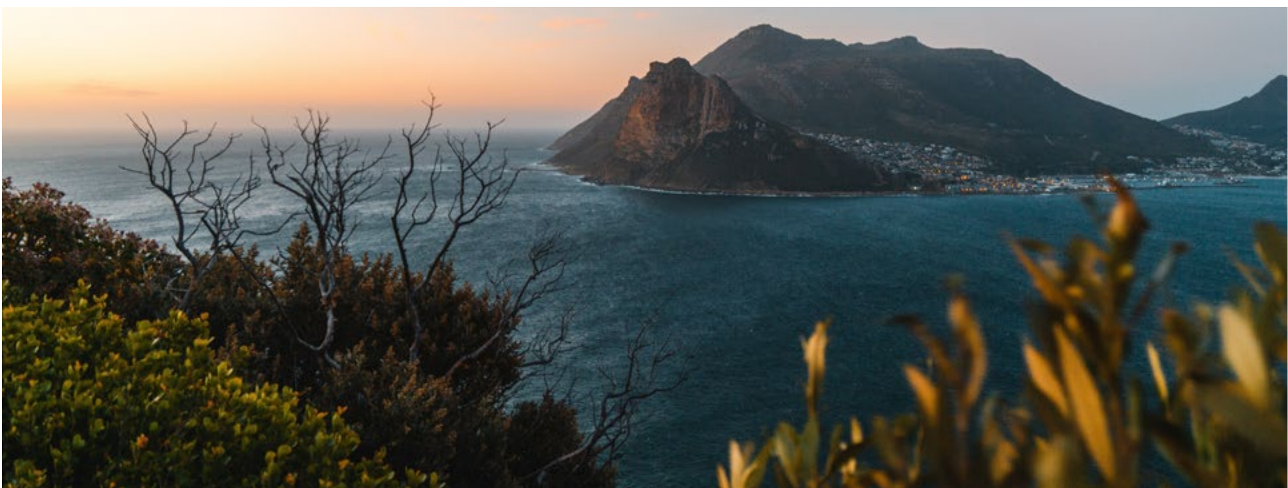
2012 was also the year that AI really found Nvidia. Since its founding in 1993, Nvidia was known as a provider of 3D graphics chips for computer games. These chips, known as GPUs, were designed for specific and repetitive tasks like accelerating the rendering of images on a screen – a memory-intensive process. GPUs are more efficient at doing this type of parallel processing than CPUs (central processing units) built for speed, i.e., with low latency. Tim Dettmers explains that GPUs are bandwidth optimised while CPUs are latency optimised. GPUs are like a truck – slow but can carry a lot – while CPUs are like a Ferrari – fast but cannot carry much.

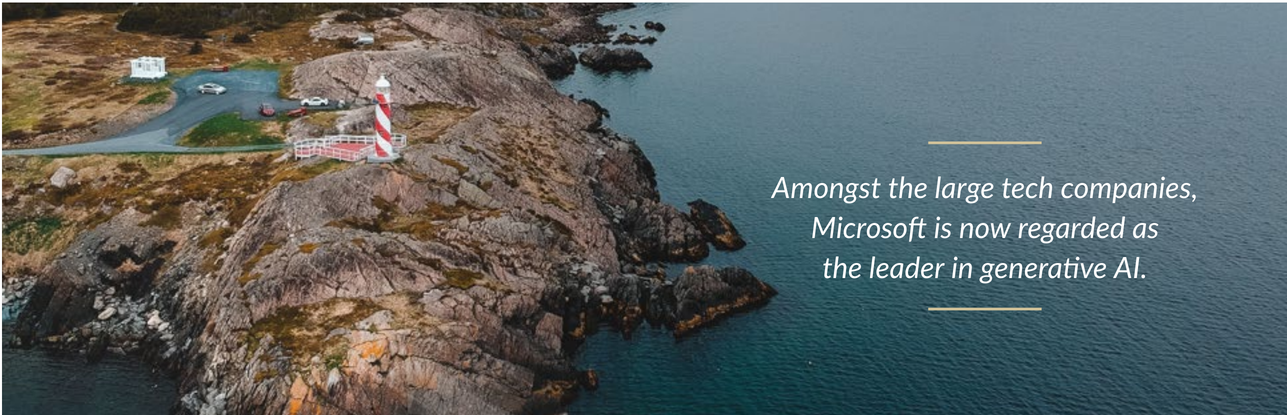
It is important to understand that GPUs are vitally important in the first leg of deep neural networks – training.

But before the GPUs of old would be of any use in an AI challenge like ImageNet, they needed to be adapted for broader use than 3D graphics. Nvidia had already started on this journey when it introduced Cuda, a new programming language, in 2006. Cuda allowed GPUs to be re-programmed for other purposes, not just graphics. At the time, the company's co-founder and CEO, Jensen Huang, presumably felt that his GPUs had more to offer in solving more challenging computing problems. He was ambitious. CPUs were also running against limitations with Moore's Law – where the number of transistors was expected to double approximately every two years. Huang tried other things that failed – like cellphone chips – but his somewhat crazy move to introduce Cuda opened a whole new world to Nvidia's GPUs. People working on neural networks soon cottoned on and used GPUs in 2007. Introducing reprogrammable GPUs meant the right computing power had arrived to make AlexNet's neural network possible. From 2012 onward, Nvidia and the AI community worked more closely together.

Before we move on, it is important to understand that GPUs are vitally important in the first leg of deep neural networks – *training*. This is the process where a computer sifts through a large dataset and learns 'how to analyse a predetermined set of data and make predictions about what it means.' It involves trial and error using artificial neurons. It mimics how a brain works and eventually draws accurate conclusions. The process is memory intensive, and Nvidia's GPUs dominate this market. OpenAI's large language model, GPT-3, had 175bn parameters that needed to be trained. GPT-4, released in 2023, is estimated to be 1000x bigger, with some 170trn parameters. Once the model has been trained, a task that preferably takes one month or less, the model is ready for *inference*. With inference, a chatbot will receive a query, and the model can then predict the specific answer. CPUs currently dominate the inference market, but Jensen Huang believes that GPUs will become a more energy-efficient option here. So *training* is like going to school and getting an education. *Inference* is like applying that education once you have a job.

Only when DeepMind's Alpha Go machine defeated the Go champion, Lee Sedol, in 2016 did modern AI really show up in board games. Unlike chess, which only has 400 possible moves after the first two moves, Go has close to 130,000 next moves after the first two. Alpha Go's intelligence relied on two neural networks and a game tree search procedure. 'In the 37th move in the second game, AlphaGo made a very surprising decision. A European Go champion said, "It's not a human move. I've never seen a human play this move. So beautiful."'





OpenAI is where we close our history of AI. In late 2015, at the end of an AI conference in Montreal, Sam Altman, from tech incubator Y-Combinator, and Elon Musk unveiled a new AI business, OpenAI. With guidance from Yoshua Bengio, an academic at Montreal University and one of the founding fathers of deep learning along with Hinton and Yann LeCun, OpenAI attracted the top AI researchers in the industry. This included people like Ilya Sutskever, from AlexNet fame. Despite receiving far higher offers from other tech companies, the elite researchers that joined were drawn to the mission of OpenAI - a non-profit at the start - of advancing AI for the benefit of humanity and sharing their work with the public (sharing has now been retracted somewhat).

Since then, OpenAI has issued various research papers, as is the norm in the industry, and unveiled a series of deep-learning generative AI products that have captured the world's imagination. These products include ChatGPT, a generative AI chatbot that works off (i.e., *inference*) a large language model (LLM) called GPT that has been trained (*training*) on vast internet datasets, and Dall-E, which generates digital images. Which deep learning models are they using? As *The Information* reports, 'almost all generative AI models, including ... ChatGPT, are based on transformers', a Google invention. A transformer is a very efficient deep-learning model that was first described in a 2017 research paper written by Google researchers titled *'Attention is all you need.'*

In 2019, Microsoft made an initial US$1bn investment in the three-year-old start-up and has since invested an estimated additional US$12bn. To his credit, Satya Nadella, the CEO of Microsoft, has driven this initiative despite initial reluctance from Bill Gates and members of Microsoft's vast in-house research team that had been working on AI since 2009 – with limited success. Amongst the large tech companies, Microsoft is now regarded as the leader in generative AI and is using this caché to draw more customers to its cloud computing division, Azure. Microsoft now owns 49% of OpenAI in what is, for many observers, a somewhat awkward relationship. OpenAI, an independent company, needs the computing power of Microsoft but is understandably very cautious about the roll-out of AI and, probably, about being too tied to this tech behemoth. Conversely, for now, Microsoft needs the expertise of OpenAI but is aggressively rolling out OpenAI tech features across its Microsoft product suite. There are contradictions here. Time will tell.

In the meantime, interest in other AI start-ups has also soared. Anthropic, Stability AI, Cohere, Hugging Face, Runway and many others are raising large amounts of money, primarily to access the computing power required for running LLMs. The spending on 'picks and shovels' to keep the machines whirring is also rocketing. Nvidia is the new Cisco. It feels like 1999!

Where has modern AI come from, and where is it going? The first major development in modern AI was image recognition (from 2012) - pictures and faces. Ian Buck of Nvidia talks about this AI period as the era of Recognition. He now says we have moved into the era of Generation. Generation started small with Google's BERT (Bidirectional Encoder Representations from Transformers) language models (in 2018), but it has now blossomed into OpenAI's wide-ranging latest large language model, GPT-4. LLMs will improve and become more efficient at training. Different specialisations are also developing as LLMs move into healthcare, finance, law, and other sectors. LLMs will also be adapted to work on smaller devices like smartphones. Google recently ran its latest LLM, PaLM2, on a Samsung Galaxy handset. Rudimentary apps running off smaller models with between 1bn and 10bn parameters are what Ben Bajarin from Creative Strategies is predicting. The key is to make

generative AI cheaper to run so it is accessible to more users on more devices.

What comes after the era of Generation? The experts predict that Reasoning will be next. One of the limitations of LLMs is that they do not do chains of reasoning very well – but my understanding is that this is being worked on using chain-of-thought (CoT) reasoning etc.

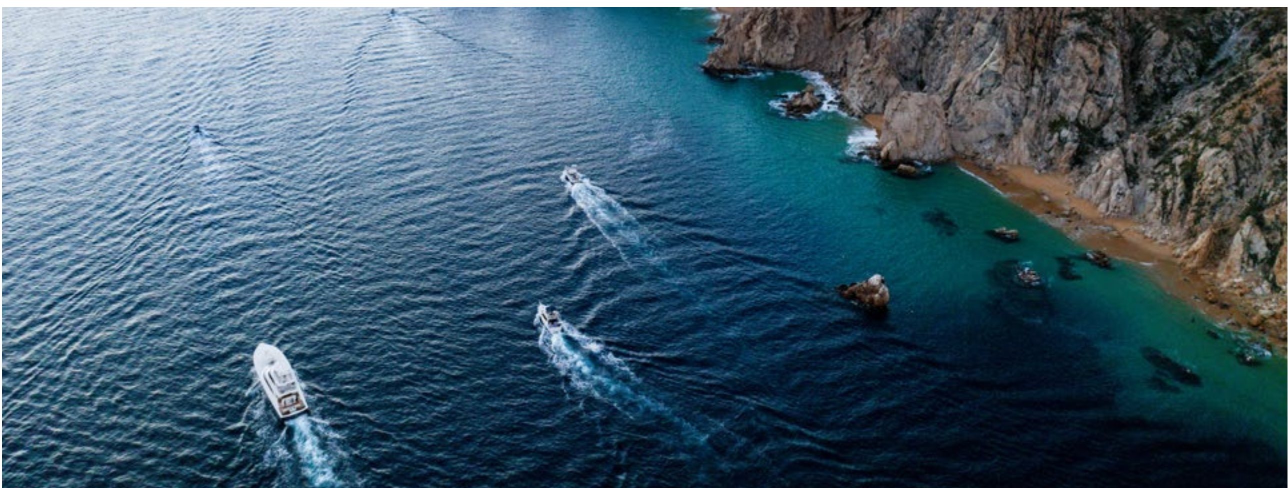
In a September 2022 interview, Ray Kurzweil, the computer scientist and respected AI futurist, reiterated his view that AI will finally pass the Turing test in 2029. He has held this view for many years, while other AI experts believed he was too optimistic. They have recently begun to agree with him, and that was before the arrival of GPT-4. Kurzweil uses a stricter definition of the Turing test, where a LLM is tested over several hours to judge whether it displays human-like intelligence. Interestingly, he believes that once a LLM passes the test, it is conscious.

Kurzweil goes on to say humans can then connect their neo-cortex, the section of the brain where we do our thinking, to AI via the cloud. This is like connecting a smartphone (ala brain) to the internet, which has made the smartphone a much smarter device. In humans, there are some rudimentary moves in this direction with companies like Neuralink, founded in 2016 by Elon Musk and others. Kurzweil expects this to happen in the 2030s. In other words, humans will merge with AI, amplifying our brains, he thinks.

The end game with AI appears to be achieving artificial general intelligence (AGI), a step up from generative AI. We are not there yet. A seasoned AI investor, Ian Hogarth, wrote a chilling essay on AGI in the *Financial Times* in April 2023. He has another name for it, God-like AI. He writes, 'AGI can be defined in many ways but usually refers to a computer system capable of generating new scientific knowledge and performing any task humans can.' The risk with this type of God-like superintelligent computer is that, he continues, it 'understands its environment without the need for supervision and ...can transform the world around it.'

How do we ensure that AI is safe for humans and the planet? Using AI speak, how do we ensure the goals of AI 'align' with human values? This is causing great distress for many elders in the industry, like Hinton and Bengio. With the move out of academia into industry, the AI genie is out of the bottle. How do you contain something Bill Gates has described as the most important development since personal computers? To paraphrase Henry Kissinger et al., human intelligence is meeting artificial intelligence. It will take a global effort to define our relationship with artificial intelligence and the resulting reality.

Suppose AI proves to be similarly disruptive to the global economy as other momentous new technologies, such as the introduction of personal computers and the birth of the internet. In that case, we should expect the usual short-term pain for long-term gain. Specific categories of jobs may become redundant in the near term while new types of jobs will be created. This process has repeated over the centuries whenever a novel new technology emerges. The novel technology then spurs the launch of a cluster of related technologies. The technology cluster sweeps across the economy, gradually changing the economy and society. After the initial disturbance, productivity growth typically accelerates, bringing long-term benefits to society. It may be too early to say if AI will be any different.



A Clash of Titans: Unravelling Africa's Geopolitical Chessboard – the US vs China

WRITTEN BY:
Casey Delport
Investment Analyst – Fixed Income

Casey holds an MCom in Economics and joined Anchor in 2019. She brings her passion for economics into the fixed-income space, particularly regarding global and African country analysis. Casey also focuses on the Agri-sector, both locally and abroad.

Undoubtedly, the world geopolitical order has undergone significant transformations since the end of the Cold War, with profound implications for global economic dynamics. Key to this transformation has been the decline of bipolarity and the rise of multilateralism. The end of the Cold War marked the decline of the bipolar world order dominated by the US and the Soviet Union. The dissolution of the Soviet Union led to the emergence of new independent states and a more multipolar international system. As a result, multilateral institutions and frameworks, such as the United Nations (UN) and the World Trade Organization (WTO), gained prominence in shaping global economic governance.

The rise of emerging economies has led to a rebalancing of global economic influence.

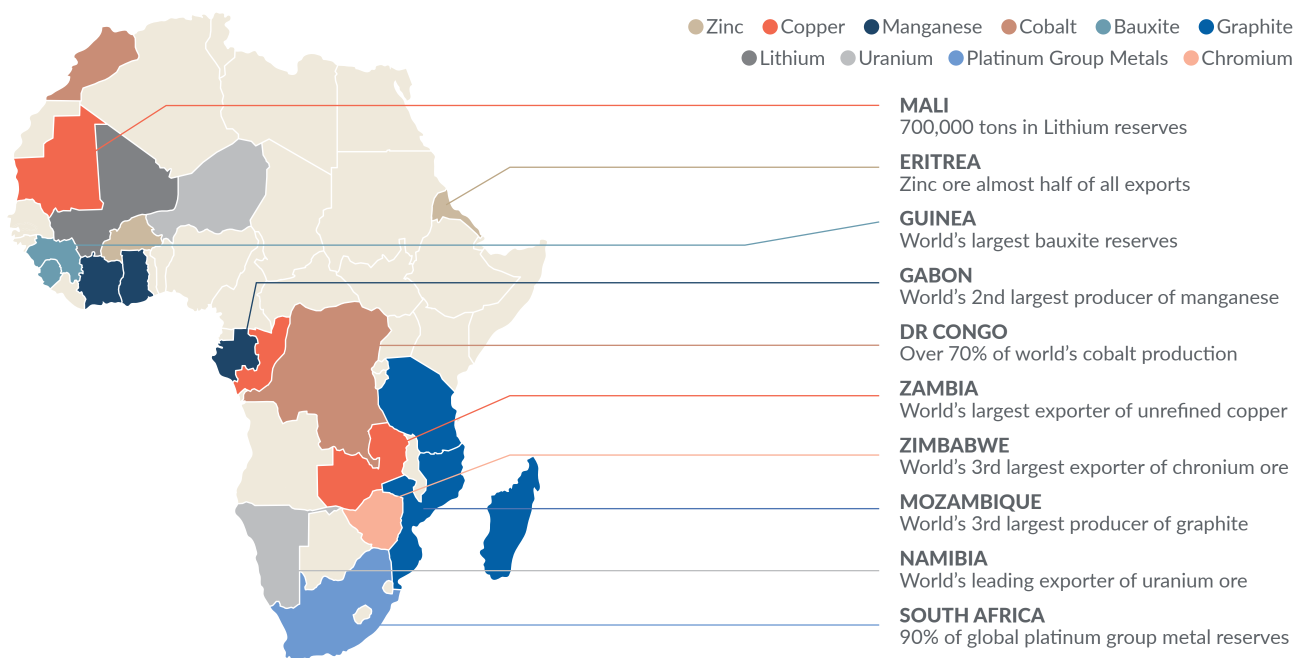
Consequently, the post-Cold War era witnessed an unprecedented acceleration of globalisation, characterised by the free flow of goods, capital, and information across borders. Technological advancements, particularly in communication and transportation, facilitated the integration of economies into global supply chains and increased cross-border investments. The expansion of international trade, aided by the proliferation of free trade agreements and regional economic blocs, has been a defining feature of the new economic order. As such, the post-Cold War period has seen the rise of several emerging economies as major players in the global economic landscape. Countries such as China, India, Brazil, and other EMs have experienced rapid economic growth, fuelled by market-oriented reforms, investments in infrastructure, and export-oriented strategies. The growing economic power of these countries has reshaped global trade patterns, investment flows, and regional dynamics. While the US remains a dominant economic force, the rise of emerging economies has led to a rebalancing of global economic influence.

China, in particular, has emerged as the world's second-largest economy and a key driver of global growth. With its rapid internal economic growth, expanding influence, and strategic initiatives, China has positioned itself as a major force in the global economy. Moreover, in recent years, China has also demonstrated its growing influence through regional and bilateral economic agreements worldwide, solidifying its economic ties and expanding its global reach. Simultaneously, China's economic rise has raised concerns and generated geopolitical tensions as intellectual property rights, market access, and fair-trade practices have become areas of contention with its trading partners. Additionally, geopolitical frictions arise from China's territorial disputes, military expansion, and differences in political systems and values. The most notable of these 'frictions' is the one that has arisen between China and the US, as both seek to shape the new emerging global economic order.

This rivalry between the US and China has led many to question whether we are in some form of a new 'Cold War'. Whether this is an oversimplification of the complicated relationship between these two powerful nations is a debate for another day. What is clear, however, is that the economic and geopolitical crossfire between China and the US has broader implications beyond their bilateral relationship, affecting the economic fortunes and policy choices of countries worldwide. Africa, in particular, occupies a significant place in the unfolding rivalry between the US and China. The continent's vast resources, growing markets, and strategic importance have drawn the attention of both superpowers as they vie for influence and economic advantages. The US-China rivalry in Africa is intertwined with their broader competition for geopolitical influence. Both countries are keen to expand their diplomatic and strategic foothold on the continent. China has pursued a policy of deepening diplomatic ties with African countries through extensive high-level visits, development assistance, and military cooperation. The US, in response, has been bolstering its engagements with African governments, focusing on issues such as counterterrorism, governance, and security cooperation. Regardless of their methods, the US and China view Africa as a critical economic partner.

The African continent is rich in natural resources, including minerals, oil, and gas, making it a crucial target for resource-hungry nations. Africa currently holds 30% of the world's mineral reserves, many of which are critical to renewable and low-carbon technologies, including solar, electric vehicles (EVs), battery storage, green hydrogen, and geothermal. To meet the expected rise in global demand, the production of minerals and metals such as lithium, graphite and cobalt will need to increase by nearly 500% by 2050. In simple terms, this cannot be achieved without Africa's resources.

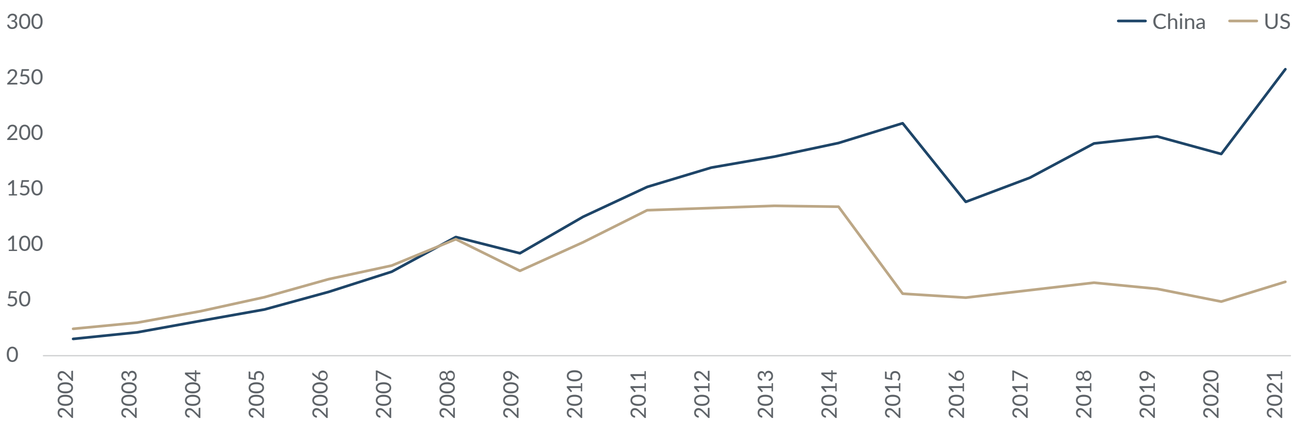
Figure 1: Selected low-carbon minerals African supply
Source: Mo Ibrahim Foundation



The US and China seek access to these resources to meet domestic needs and maintain economic competitiveness. Africa's potential as an energy producer also plays a vital role in global energy security. China's demand for energy resources has driven its investments in African oil and gas sectors, while the US also seeks to secure energy supplies from the continent.

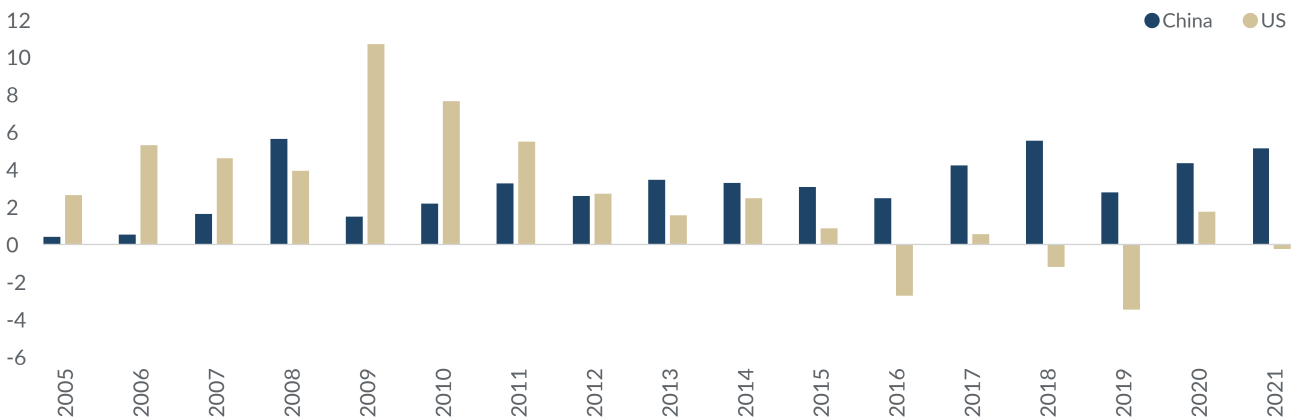
The US, however, has begun this competitive scramble for resources and political relevance on the back foot. After a period of relative diplomatic retreat since the 2008/2009 global financial crisis (GFC), the US has lost its sway in the African continent. The US's withdrawal from Africa in the last decade has, in turn, allowed China to expand its hold on Africa. In 2011, China overtook the US as a major African export partner, placing the US in the position to play a significant catch-up.

Figure 2: US-Africa trade vs China-Africa trade, US$bn
Source: UN Comtrade, Anchor



Furthermore, compared to the US's somewhat stagnant rate, China has become a significant source of foreign direct investment (FDI) in Africa over the past two decades. China's FDI flows to Africa have been substantial, and the country has emerged as one of the continent's largest investors - particularly in infrastructure projects.

Figure 3: China vs US FDI to Africa, US$bn (unadjusted)
Source: The Statistical Bulletin of China's Outward FDI, US Bureau of Economic Analysis, Anchor



In addition to trade and FDI, China is a major creditor to the African continent, often as a 'lender of last resort'. China has provided substantial financial support to African countries through various financing mechanisms, such as loans, export credit, and development assistance. Approximately 20.6% of Africa's external debt is now owed to China. In addition to its economic diplomacy, China has emphasised cooperation with Africa as a partnership between equals (regardless of the truth of that fact) and through what it terms "principles of sincerity," often referred to as "sincerity in foreign relations," which is an important aspect of China's diplomatic approach. The principle of sincerity is rooted in the Chinese philosophy of Confucianism, which emphasises harmonious relationships, trust, and mutual respect. This fresh, new approach has been well received in a region where engagement with traditional partners (such as the US and Europe) has been on unequal and, at times, paternalistic and somewhat condescending terms. In simple terms, China has three key aims for the African continent with regard to its global growth agenda:

1. Africa forms a strategic exterior line for China to geopolitically contain the US whilst providing a backbone of support for China on its self-interest issues (naturally).
2. Africa is a source of inputs to sustain China's economic development, including new energy.
3. Africa is an ally for China to play a more significant role in global governance, advancing the reform of the global governance system and reshaping the international order.

African countries may have justifiable reason to be wary of the sudden outpouring of diplomatic engagement from the US following years of silence and stagnant relations.

In turn, however, the US and Africa share a complicated history. During the Cold War, the US was engaged in several proxy wars against communist influence on the continent, most notably in the Democratic Republic of Congo (DRC). Whilst the end of the Cold War saw a cooling in these particular tensions, the relationship between the two has remained stagnant, hitting an all-time low during former US President Donald Trump's administration. During his term as president, Trump made little effort to engage Africa, failing to visit the region and managing to anger African leaders with his disparaging comments about the continent. Under US President Joe Biden's administration, however, the US has acknowledged its diminished position in Africa and has shown its commitment to prioritising economic partnership with the region through several investment and trade-boosting packages.

Nevertheless, the real question at the end of the day is, where does this leave Africa as it muddles through a complex game of geopolitical chess between these two

global titans? With China being the primary threat to US interests, African countries may have justifiable reason to be wary of the sudden outpouring of diplomatic engagement from the US following years of silence and stagnant relations. Centuries of Western imperialist policies, from slavery and colonialism to Cold War support for undemocratic regimes in the name of anti-communism, rightfully continue to taint how African countries view US policy. Today, modern-day challenges such as climate change, debt distress, and pandemic response and recovery continue to be viewed through the lens of that history — problems emerging or made worse by powerful, developed nations imposing unfair costs on the African continent.

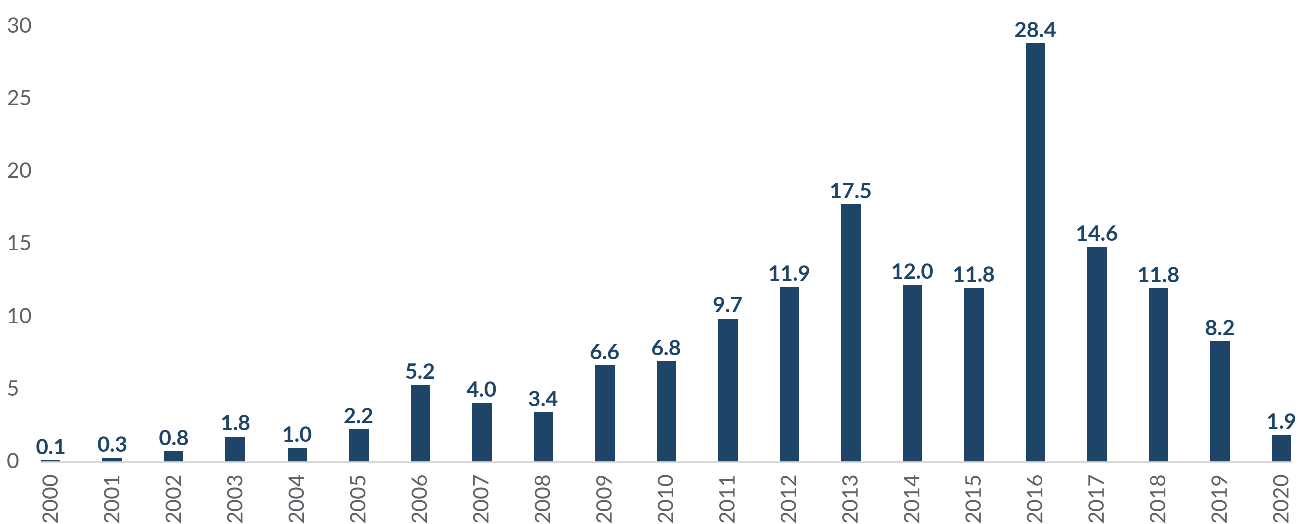
Conversely, from a broad strategic perspective, China's interests in Africa are driven more by geopolitical considerations than commercial ones. By supporting African countries economically and financially, China is building a loyal base of 'friendly' countries that will enable it to reshape the global order to better accommodate and promote China's interests. China's primary policy task is sovereignty, security, and domestic development. Africa is simply a means to that end. Ultimately, African countries represent the largest voting block of UN member states, with more than one-quarter of the world's voice. No geopolitical power can credibly claim the title of global leader without Africa as a 'friend'.

But concerns are mounting regarding the sustainability and implications of Africa's debt to China. As mentioned, c. 20.6% of Africa's external debt is now owed to China. African countries have increasingly turned to China to finance infrastructure development projects due to its willingness to provide loans with fewer conditions than traditional lenders. However, there is a growing worry that some African countries may be accumulating unsustainable debt levels, which could hamper their long-term economic growth and development. Moreover, the terms of Chinese loans have been criticised for lack of transparency and potentially unfavourable conditions. Some loans may have high interest rates, short repayment periods, or have been collateralised against strategic national assets.

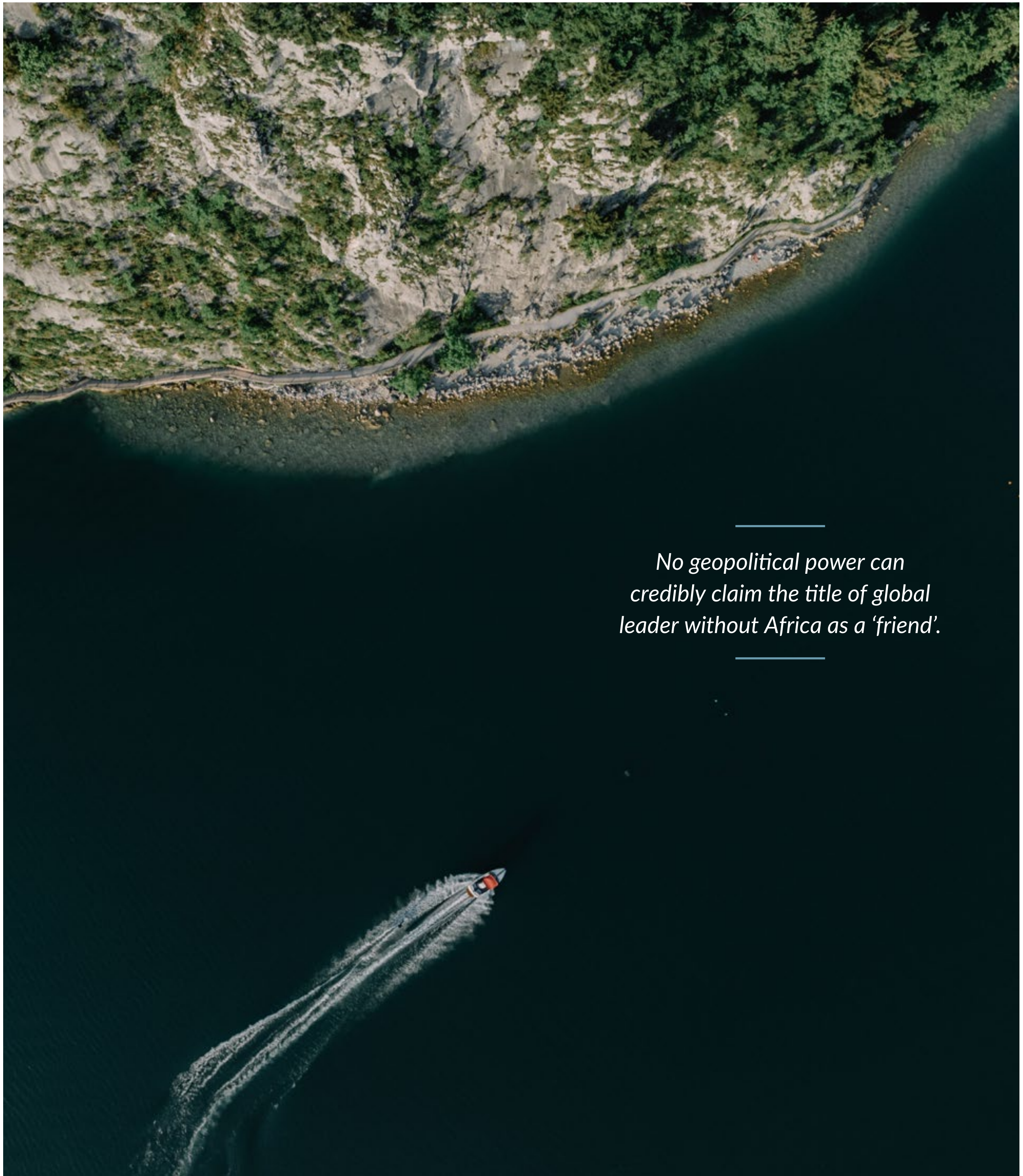
This raises concerns about debt sustainability and the potential for future debt distress. Critics argue that excessive debt to China may result in economic dependency as African countries become more reliant on Chinese financing and expertise. This dependency could potentially limit African governments' policy space and decision-making autonomy, impacting their ability to negotiate fair terms and prioritise their national interests. Whilst China-financed infrastructure projects have brought tangible benefits to some African countries, there are concerns that the focus on infrastructure development may overshadow investments in social sectors like education and healthcare. Thus, it is crucial for African countries to carefully manage their debt levels, ensure transparency, and strike a balance between infrastructure development and other social and economic priorities.

Figure 4: China's loans to Africa, US$bn

Source: Johns Hopkins University's School of Advanced International Studies (SAIS), Anchor



Regardless of the geopolitical complexities, it is important to remember that African nations have agency in navigating the US-China rivalry and should seek to maximise their interests by engaging with both powers. African countries should look to increasingly diversify their partnerships and pursue a more balanced approach to benefit from the economic opportunities and development assistance offered by both the US and China. While the US and China are engaged in a complex contest for influence and economic advantages on the continent, African nations are well poised to leverage these rivalries to promote their economic growth and development.



No geopolitical power can credibly claim the title of global leader without Africa as a 'friend'.

Optimising your portfolio with hedge funds

WRITTEN BY:
Henry Biddlecombe
Head of Asset Management AG Capital

After working in the corporate finance team at Pinnacle Technology Holdings (JSE: PNC), Henry joined the Anchor investment team in 2015, initially as an equities analyst (contributing to both the local and offshore investment processes) and now serving as head of asset management at Anchor Group subsidiary AG Capital. Henry is a CFA charterholder and holds a BCom Investment Management from the University of Johannesburg.

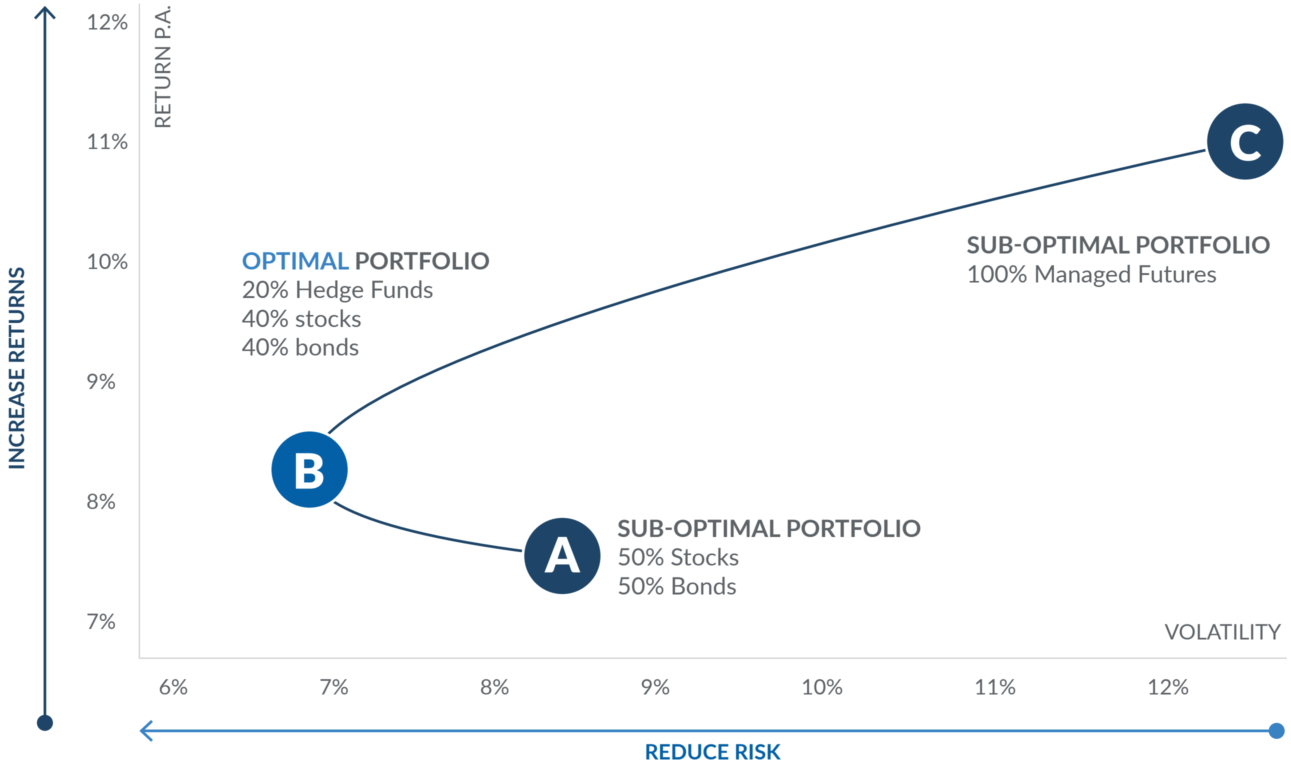
One universal truth regarding investing is that to earn returns, one must take risks. You cannot beat inflation and grow your wealth in real terms without taking on risk. The right amount of risk depends on your investment objectives, but getting the mix even approximately right **can have a *profoundly* positive impact on** your long-term investing outcome.

Once an investor has determined the right level of risk to build into their portfolio (something your wealth manager should be helping you with!), the next most important step is to optimise the potential returns of your portfolio given your "risk budget". There is no point in taking on additional risk if it does not result in concomitantly higher returns. Conversely, one should target a required return while taking on the lowest possible level of risk.

Modern investment theory illustrates this principle graphically with a concept called the "efficient frontier" – a relatively simple chart which plots portfolio returns against portfolio risk (see *Figure 1*). You do not need to be a professional investor to find the optimal portfolio in this example (Portfolio B), as this portfolio clearly ***earns the highest return per unit of risk.***

The fundamental difference between Portfolio A, a classic mix of stocks and bonds, and Portfolio B (the optimum portfolio) is that Portfolio B includes an allocation to hedge funds – a highly effective and yet often overlooked asset class that will enhance the risk-adjusted performance of most investors' portfolios given an appropriate allocation.

Figure 1: Using hedge funds to construct the most risk-efficient portfolio
Source: Bloomberg



Notes to Figure 1:

1. *Empirical study spanned the 20-year period between 1987–2008.*
2. *Managed futures portfolio: CASAM CISDM CTA Equal Weighted.*
3. *Stocks: MSCI World.*
4. *Bonds: JP Morgan Government Bond Global (Source: Bloomberg).*

USING HEDGE FUNDS TO BUILD THE OPTIMUM PORTFOLIO

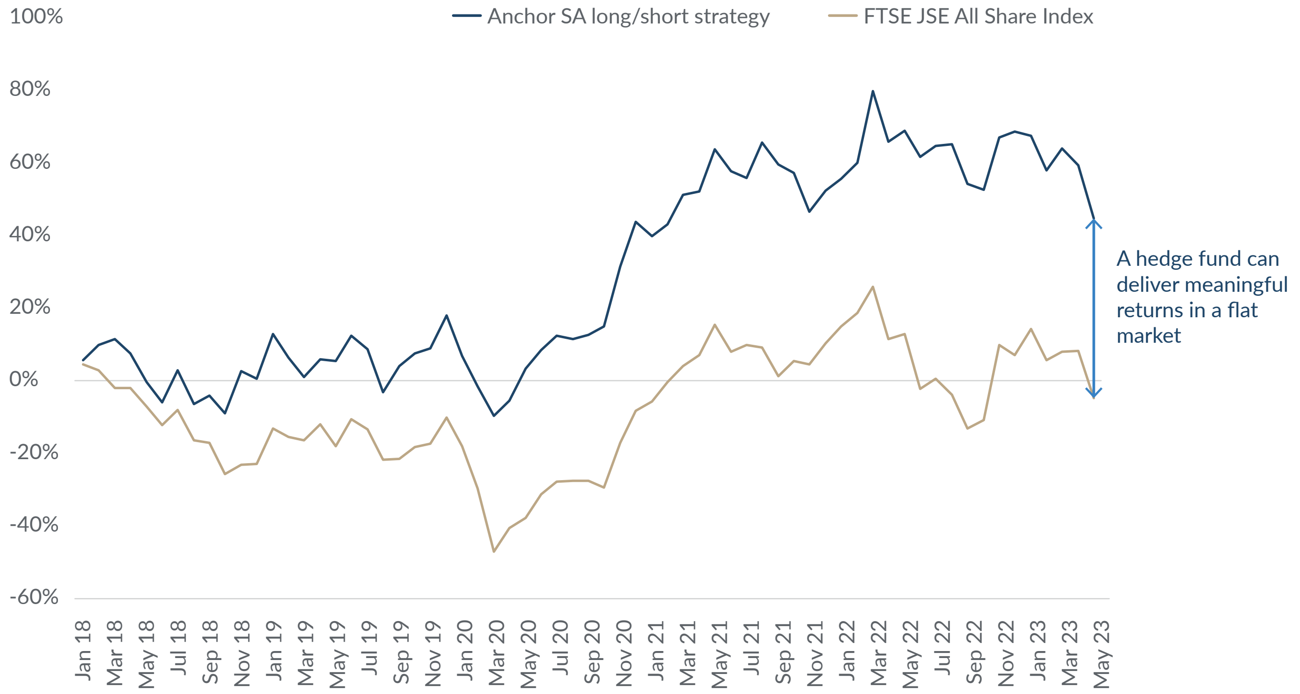
So how do we go about building the optimum portfolio? Fortunately, we have a century of market data to lean on to help us.

While the exact optimal allocation to each asset class will vary per study, depending on the timeframe and asset class indices that are referenced - the conclusion is always the same: a modest allocation to hedge funds in a well-diversified portfolio materially reduces risk (or portfolio volatility) while resulting in a higher compound return through time (an important by-product of lower volatility).

This axiom is particularly relevant in the context of the South African equity market, which, when measured in US dollar terms, has produced underwhelming returns – despite the elevated level of volatility.

Figure 2 compares the cumulative US dollar return of the FTSE JSE All Share Index to the cumulative US dollar return of one of Anchor's best-performing South African long/short hedge fund strategies over the last five years.

Figure 2: The Anchor SA long/short strategy vs FTSE JSE All Share Index, US$ cumulative return over five years
Source: Anchor, Bloomberg



The numbers speak for themselves. The ability of a hedge fund to capitalise on the JSE's volatility means that real hard currency returns are possible (42% in US dollar terms over five years in this instance), even in an environment where the FTSE JSE All Share Index has essentially been flat (in US dollar terms). Both asset managers and their regulator (the Financial Services Conduct Authority [FSCA]) have worked together in recent years to make hedge funds more accessible to South African investors for this reason, and we encourage our clients to reassess their asset allocation accordingly.

REEVALUATING THE BENEFITS OF ACTIVE HEDGE FUND STRATEGIES

Despite the overwhelming empirical evidence of portfolio enhancement achieved through the inclusion of hedge funds, the asset class continues to be one of the most underutilised tools in the retail investment landscape.

This is partly a consequence of historical accessibility issues (*which are no longer a factor*). Still, a general lack of comfort around hedge funds and their perceived complexity and riskiness is also one of the more prominent issues.

Although the term "hedge fund" can describe a broad range of investment strategies, ranging from relatively low-risk to very high-risk funds, it is important to understand some of the more fundamental reasons that active hedge fund strategies are so effective. These include:

THEY CAN BENEFIT FROM THE LONG AND THE SHORT SIDE OF THE MARKET

Hedge funds are in the fortunate position to be able to take a long position on the market (i.e., to make a profit when stock prices go up) as well as a short position (i.e. to make a profit when stock prices go down).

You will notice that hedge funds often outperform long-only funds when market conditions are poor, primarily due to their ability to go short.

THEY OFTEN TAKE LESS RISK THAN THE MARKET

Given their ability to go both long and short, the volatility of hedge funds' returns is usually lower than the broader equity market as their net exposure (i.e. total percentage long positions – total percentage short positions) is less than 100%.

Most South African hedge funds take a modest level of directional exposure, which results in an asymmetrical return profile: i.e., investors capture much of the upside, but less of the downside, of the broader equity market.

HEDGE FUNDS HAVE A MORE DIVERSE TOOLKIT

In addition to the ability to go short, hedge funds can use a more diverse range of instruments to enhance returns and protect against downside risk.

Options structures are often overlayed on top of long positions to limit losses in a market downturn, and exchange rate risk can be mitigated through currency futures.

MANAGERS ARE REMUNERATED ON PERFORMANCE

Although the fees charged by hedge funds are considerably higher than those levied by more passive strategies (such as conventual equity funds or passive exchange-traded funds [ETFs]), a large proportion of these fees are performance-based.

Hedge fund managers' incentives are directly aligned with their investors' best interests, which is a meaningful contributing factor to the superior risk-adjusted performance of this asset class.

CONSIDER A MULTI-STRATEGY OR MULTI-MANAGER APPROACH

Given that hedge funds target absolute returns rather than benchmark-relative returns, the performance of various individual hedge fund strategies is highly divergent, making selecting a hedge fund manager challenging.

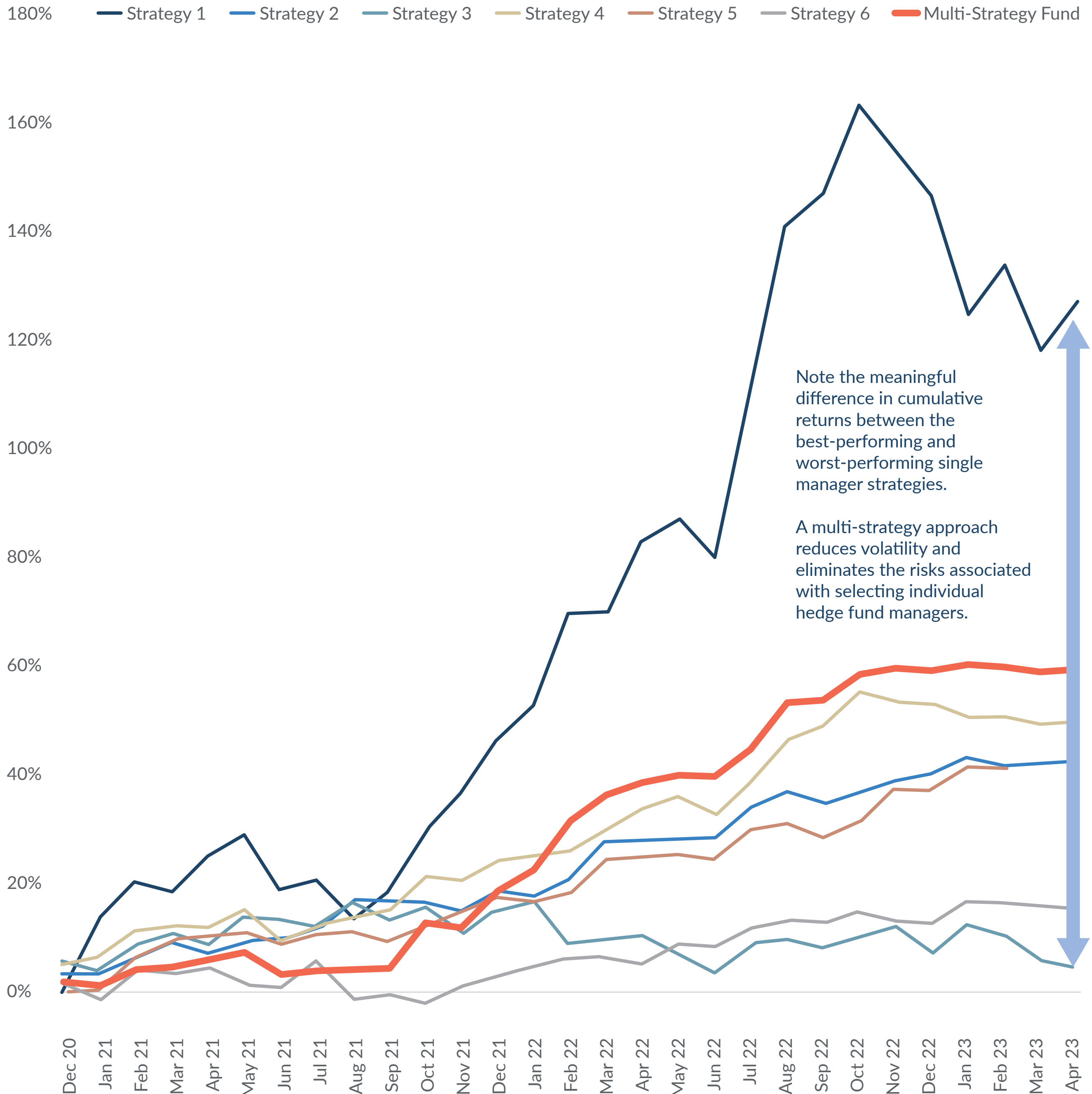
Although a manager's capability can be judged against a meaningful track record, past performance is certainly no guarantee of future returns – and strategies that have worked well in the past can perform poorly when market conditions change.

To mitigate manager selection error (i.e., choosing a manager who will underperform), allocate across several hedge fund managers and preferably across managers who demonstrate complementary styles. This will ensure less volatile overall returns.

We strongly encourage allocating to a multi-strategy hedge fund, or a fund of hedge funds, where several different managers or funds have been selected and incorporated into a blended strategy. The primary advantage of a blended solution is that managers have been selected not only on merit but also on the basis that their strategies are complementary.

The chart below compares the cumulative return of one of Anchor's multi-strategy hedge fund solutions with the cumulative return of each underlying individual fund or strategy. It demonstrates the benefits of a multi-strategy approach. Not only does the multi-strategy fund demonstrate less volatility than the constituent funds, but it also mitigates the risk of selecting a single-manager fund that may underperform.

Figure 3: Multi-strategy solution vs single-manager hedge funds, cumulative performance since fund inception
Source: Anchor



Anchor runs several multi-strategy hedge funds with very competitive risk-adjusted track records, available across most major investment platforms and featuring very low investment minimums (from R1,000). South African Regulation 28-compliant retirement portfolios are now also able to allocate up to 2.5% to a single manager hedge fund, up to 5% to a fund of hedge funds, and up to 10% to hedge funds in aggregate – which means most South African investors can now benefit from an allocation to hedge funds.

Our wealth managers are equipped to help you select the most appropriate hedge fund solution in light of your investment objectives, with the primary objective being to optimise the risk-adjusted performance of your overall portfolio.

The demise of the 60/40 portfolio?

WRITTEN BY:
Shaun de Villiers, CFP
Wealth Management

Shaun has a B Com Honours from the University of Pretoria and is a certified financial planner (CFP) who has worked in the financial services industry since 2016. He started his career as a private banker at Investec in the acquisitions team managing CAs at audit firms before moving on to the broader financial services industry. Shaun joined Anchor as a wealth manager in 2021. He has a passion for providing tailored, client-centric solutions with excellent service.

As wealth managers, our clients rely on us to construct and manage their portfolios in a manner that will achieve their investment objectives. Unfortunately, the journey is never one of linear growth, and the concept of market volatility can be emotional at best. While structured products should not replace one's allocation to equities, they can be used to supplement the portfolio and smooth out returns.

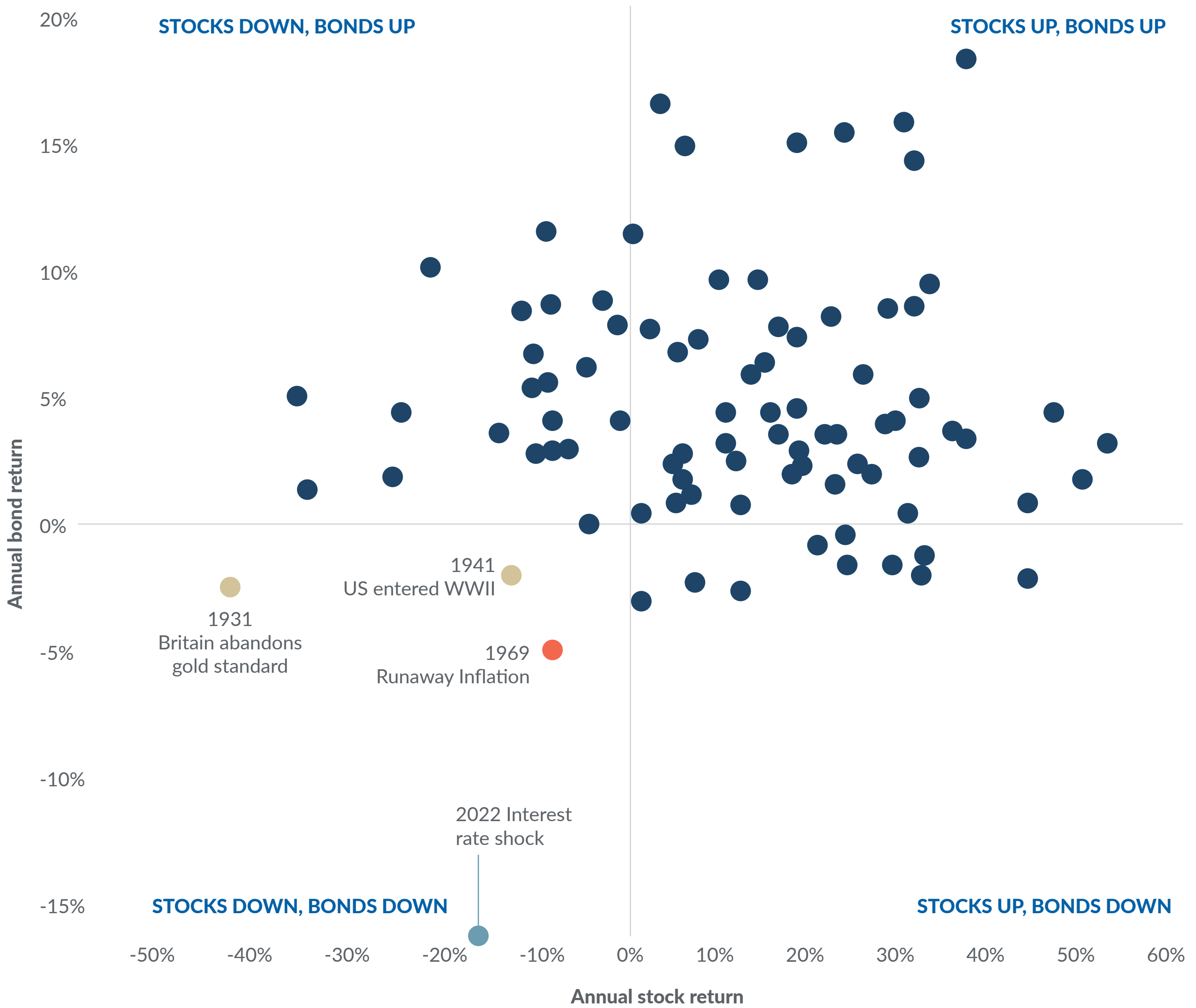
THE TRADITIONALIST

The key to mitigating the impact of market uncertainty and reducing the potential for losses caused by market volatility is to have a well-diversified portfolio aligned with the investor's long-term investment objectives.

For many years this was achieved by investing in a range of asset types with exposure to various industries, geographies, and currencies. The outcome was a traditional 60/40 portfolio comprising 60% equities and 40% bonds, with the intention of equities providing capital appreciation and fixed income offering yield and risk mitigation.

Conventional wisdom suggests that bonds and equities should act complementary in investors' portfolios (i.e., when equities fare poorly, bonds typically do well and vice versa). But there are certainly environments where that is not the case, and investors will have fresh memories of the 2022 market sell-off when equities had a very tough year, and bonds had one of their worst years on record. This is a good reminder of alternative assets' value and their essential role in investors' portfolios when traditional assets may struggle.

Figure 1: When bonds DO NOT go up when equities go down - annual returns on US stocks and bonds, 1929-2022
Source: Blackrock



ALTERNATIVE DIVERSIFICATION

So how do we generate returns in an economic environment unsuitable to conventional investment categories and strategies? We would require an investment that can mitigate the impact of market volatility while generating returns uncorrelated to the broader market. Look no further than alternative investments.

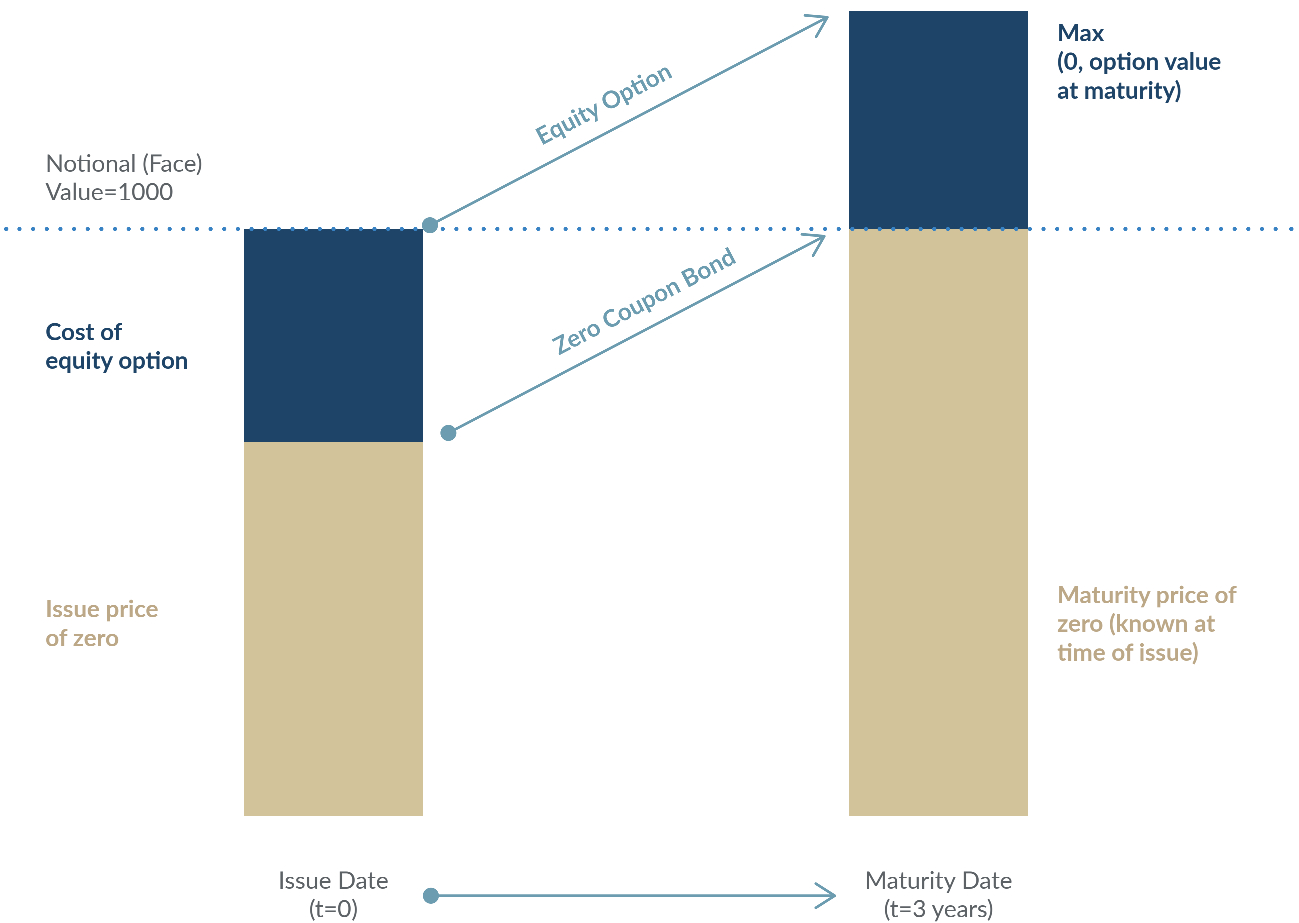
In a recent report by *One Goldman Sachs Family Office Initiative*, entitled *Eye on the Horizon: Family Office Investment Insights*, *Goldman Sachs* set out to interview 166 family office decision-makers around the globe to determine how these offices were allocating client assets. While 72% of the family offices' managed assets were over US$1bn, what caught our attention was the outsized allocation to alternative assets, which equated to an average of 44%!

Alternative investments take many forms, including private equity, venture capital, private debt, hedge funds and structured products. Structured products are designed to provide capital protection and predefined outcomes. One key benefit of structured products is that they can deliver pre-agreed returns in flat or declining market conditions while ensuring a client's capital is partially or fully safeguarded over the long term.

WHAT IS A STRUCTURED PRODUCT?

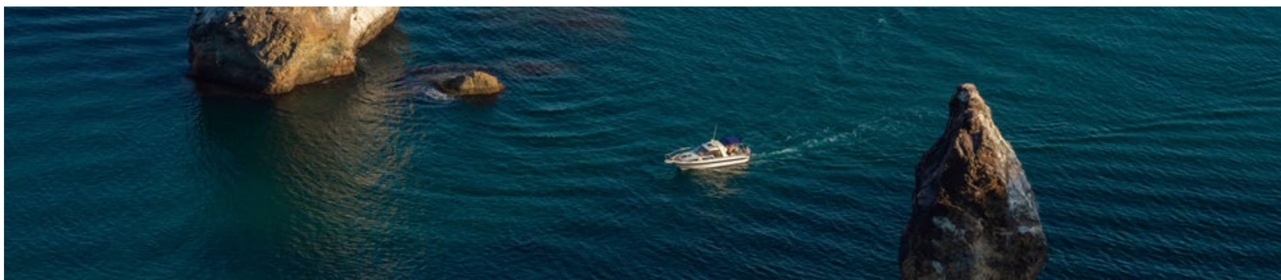
Simply put, structured products can be considered a hybrid between an equity-linked deposit and a fixed-deposit savings account. This hybrid is achieved by taking traditional securities, such as an investment-grade bond and replacing the usual payment features (periodic coupons and final principal) with non-traditional payoffs derived from the underlying asset or index performance as opposed to the bond's cash flow. Through this mechanism, investors can safeguard their capital while having the ability to gain from market-linked returns.

Figure 2: Structured products – what happens between the issue and the maturity date
Source: Investopedia



Without going down the rabbit hole, there are many factors to consider when selecting a structured product. These include the reference asset, investment term, initial investment amount, desired returns, and the level of capital protection. Below we outline the basic notions that affect an investor's payoff profile – returns and capital protection.

One of the benefits of using a structured product lies in the optionality to structure the product to achieve the investor's return objective. Traditionally, investors would select an asset class to derive a specified goal (i.e., fixed income to generate yield, equities for growth and property for a mix of growth and income). The other appealing aspect of structured products is the ability to introduce features that protect the investor from capital losses.



CAPITAL PROTECTION

The certainty investors obtain around protecting their capital when investing in a fixed deposit at the bank can be matched to investing in some structured products. Although the capital protection feature in structured products is subject to the creditworthiness of the issuing entity, investors should exercise care when selecting at which bank they place their fixed deposit. Thus, investors should exercise care when selecting the bank that issues their choice of structured products.

Capital protection features in structured products can be broken down into two main categories:

- **Hard capital protection:** The issuer guarantees 100% of the original investment amount.
- **Soft capital protection:** The capital guarantee is subject to specific pre-defined criteria being met, e.g., the investor's capital is protected provided the reference asset has not fallen by more than 30% at the maturity of the structured product. In this instance, if the reference asset has fallen by 35% at maturity of the structured product, the investor will bear the full 35% capital loss.

PRE-DEFINED RETURN OUTCOMES

The pre-defined return outcomes for a structured product can be broadly split into fixed or variable return outcomes.

FIXED RETURN OUTCOMES

- **Reference asset:** The performance depends on the reference asset's return, which can be an equity index or a basket of individual equities/bonds.
- **Pre-defined return:** The investor earns a pre-defined return on the structured product if the reference asset meets specific pre-defined criteria (e.g., a 12% p.a. return, provided that the equity index has not fallen by more than 30% when the structured product reaches maturity).
- **Capital protection:** This original capital invested is protected provided that the reference asset does not fall by more than a pre-defined amount over the term of the asset (e.g., if the referenced equity index has dropped by more than 30% at the maturity of the product, the investor is exposed to the full loss, in all other instances the capital is guaranteed).

VARIABLE RETURN OUTCOMES

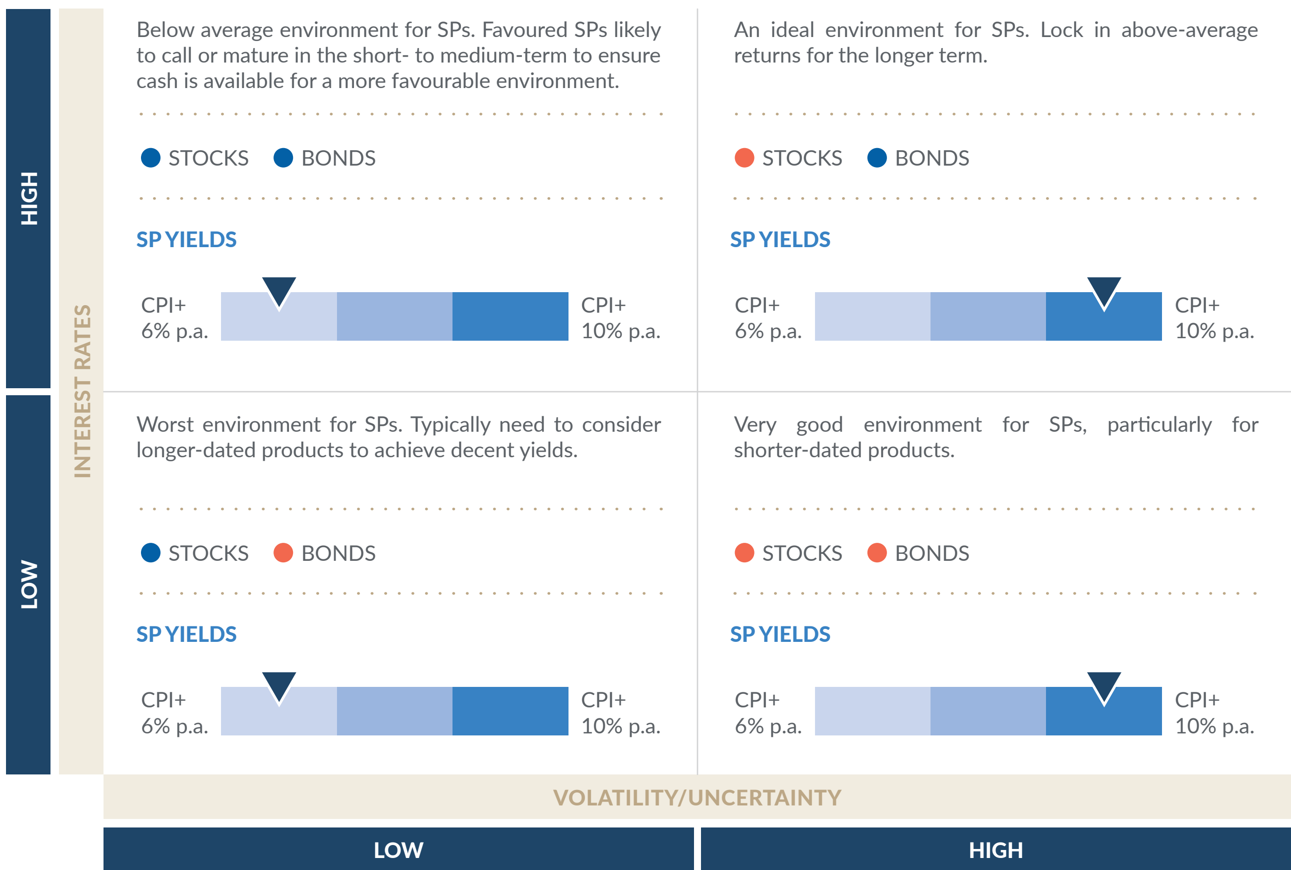
- **Reference asset:** The performance depends on the returns of the exposure selected - typically equity (e.g., an equity index or basket of individual equities).
- **Enhanced/geared returns:** Returns are geared to the index (e.g., 2.5 times the index's performance).
- **Return capped:** The investor's returns are capped at a certain level (e.g., a maximum return of 25% even if the enhanced return of the reference asset is higher than that at the maturity of the structured product).
- **Capital protection:** It is usually subject to conditions (e.g., the reference index has not fallen by more than 30% at maturity). If capital protection is unconditional, this usually reduces the amount of enhancement or gearing the investor participates in on the upside or reduces the cap.

Ultimately, the reference asset and note structure selected will provide the investor with a means of achieving their investment outcome, provided the reference asset has performed within the pre-defined parameters selected by the investor. Thus, investors should understand how the performance of these reference assets affects the return on their investment and remember that past performance does not necessarily indicate future performance.

A CONDUCIVE ENVIRONMENT FOR STRUCTURED PRODUCTS

Most asset classes have an environment that is highly conducive to their optimal performance. Equities generally perform best in periods of low uncertainty (volatility) and low or decreasing interest rates. At the same time, bonds fare better when uncertainty is high, and rates are high or decreasing but fare poorly when rates increase. Structured products can function as a good alternative, particularly to equity, when uncertainty is high. High uncertainty (volatility) typically results in very attractive pricing for fixed-return structured products, mainly when rates are high and rising (an environment which is not good for bonds, which investors would typically turn to when uncertainty is heightened). That said, the fact that structured products can be tailored to the prevailing environment makes them appealing in a portfolio most of the time.

Figure 3: Structured product payoff profile
Source: Anchor



Depending on what stage in the interest rate cycle we find ourselves in and the prevailing market volatility experienced, these two factors determine the effectiveness of structured products and the preferred type of product to use in the correlating environment.

As expected, high interest rates and high levels of market uncertainty are the ideal environment for most structured products. They should favour longer-dated, fixed-return products to enable investors to lock in above-average returns. When interest rates are low but market uncertainty is high, this still provides a good environment for structured products, with a preference towards shorter-dated products.

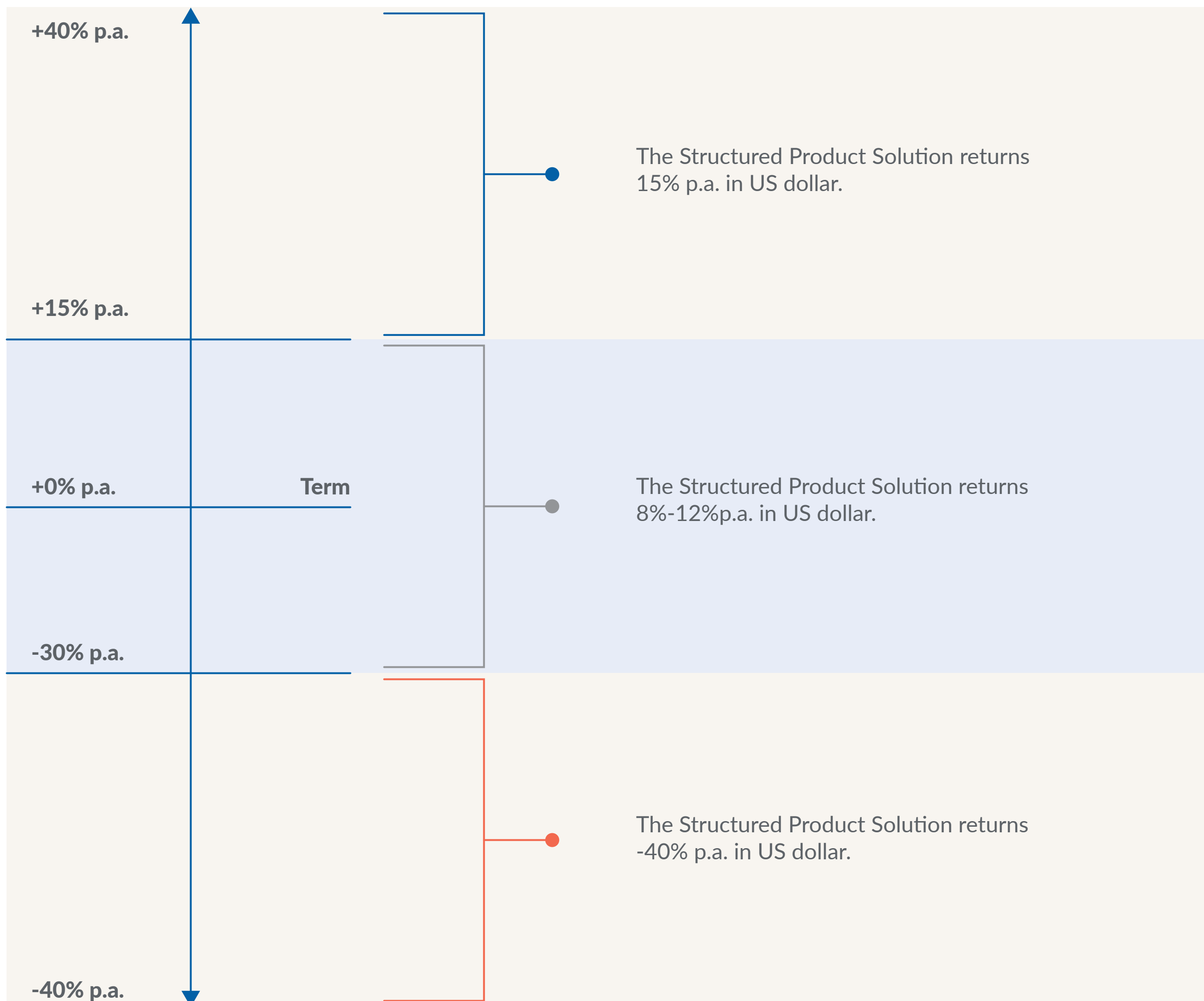
When volatility begins to subside, we find the environment sub-optimal for structured products. All-in-all, by changing the characteristics of the structured products, one can obtain exposure to a predictable long-term outcome regardless of the investment environment.

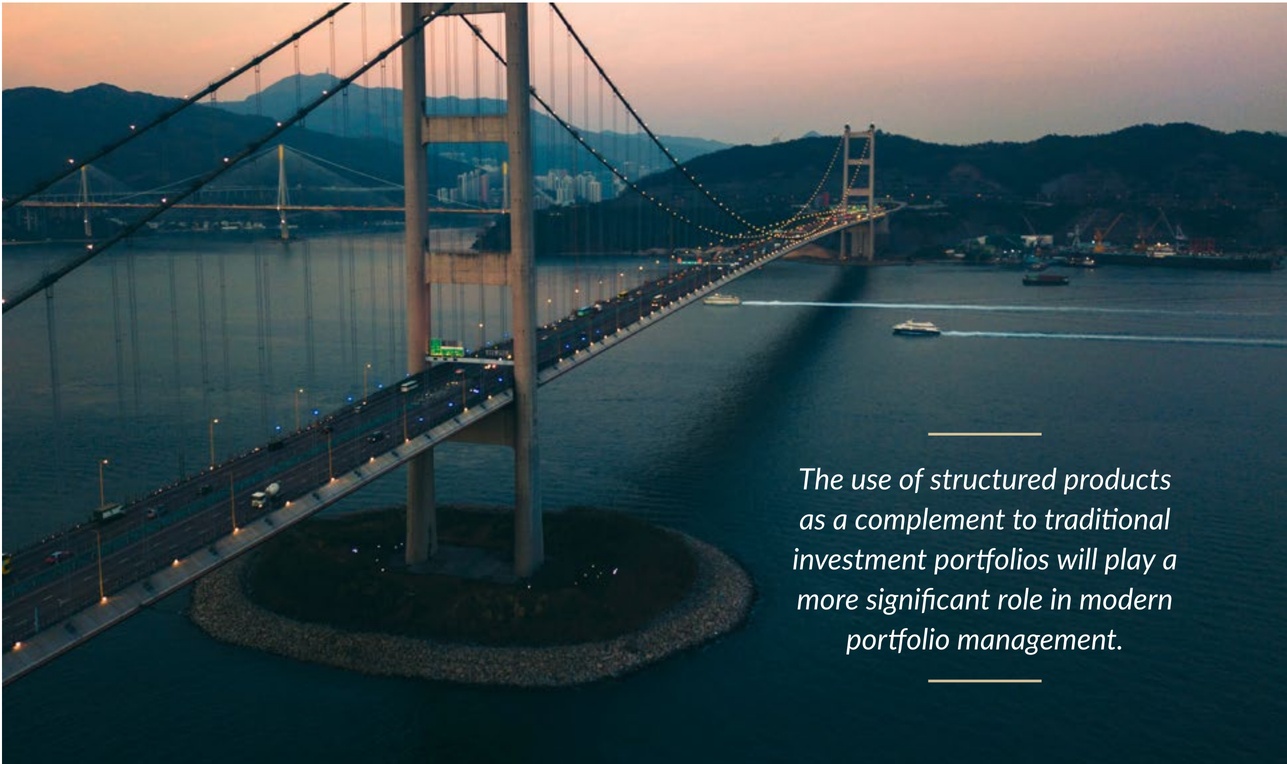
ALTERNATIVE WAYS TO INVEST IN STRUCTURED PRODUCTS

So, why have structured products not been more prevalent in traditional investor portfolios? Structured products are bespoke and complex products issued by banks. They are crafted using derivatives which can be complicated to understand. They are typically unlisted and usually have very high minimum investment levels. Structured products have long investment terms, and while they can typically be unwound reasonably easily, this can impact capital protection. The complexity, high minimums and liquidity considerations have often been enough to deter investors.

At Anchor, we pride ourselves on innovation and thinking outside the box to bring our clients solutions that enable them to meet their investment objectives. As a testament to this, the Anchor investment team has recently launched a bespoke, actively managed, structured product solution. This solution aims to deliver a return profile to investors which is consistent and predictable by building a portfolio of structured products. The return objective is to generate a US dollar-denominated return of 8%-12% over any three-year rolling period (net of fees).

Figure 4: Defined return structures 'sweet spot'
Source: Anchor





The use of structured products as a complement to traditional investment portfolios will play a more significant role in modern portfolio management.

THE STRATEGY AND OBJECTIVE

From a strategic perspective, the solution uses a blend of shorter and longer-dated defined return structures to balance market risks and deliver a consistent and predictable return profile to investors. Depending on current market conditions, the solution may be fully invested in shorter or longer-dated defined return structures to optimise returns at prevailing market conditions. Staggered liquidity events (maturities, expiries and Autocalls) allow the asset managers to take advantage of attractive product opportunities when they arise, adding flexibility and liquidity in the solution not found in purchasing direct structured products in a client portfolio.

The four main advantages of investing in the solution as opposed to holding individual structured products directly are as follows:

- **Diversification:** The solution allows investors to invest in a diversified basket of structured products instead of concentrated exposure in one or two structured products. Thereby reducing single-product exposure risk.

- **Lower minimum investment:** The solution is ideal for investors with smaller amounts to invest, as the minimum investment amount for investing directly into individual structured products can be prohibitive for many investors.

- **Active management:** The bespoke solution is run by professionals who can efficiently shoulder the administrative and managerial aspects inherent in direct structured product investments - particularly managing the reinvestment of cash received from coupons and maturities.

Overall, this bespoke, actively managed structured product solution is a unique alternative for investors who want to gain exposure to equity markets but may be hesitant to do so, given the recent market volatility.

Alternative assets are becoming more popular amongst retail investors, and the use of structured products as a complement to traditional investment portfolios will play a more significant role in modern portfolio management. A bespoke structured product solution should create more conviction inside client portfolios which will most certainly surprise on the upside. As with all asset classes, seek advice from your wealth or portfolio manager to maintain a balance in your portfolio for growth, income, and asset protection.

The impact of SA's greylisting on trusts

WRITTEN BY:
Di Haiden
CEO: Robert Cowen Investments

Di is the CEO of Robert Cowen Investments (RCI), a subsidiary of Anchor, and has been at RCI since 1990.

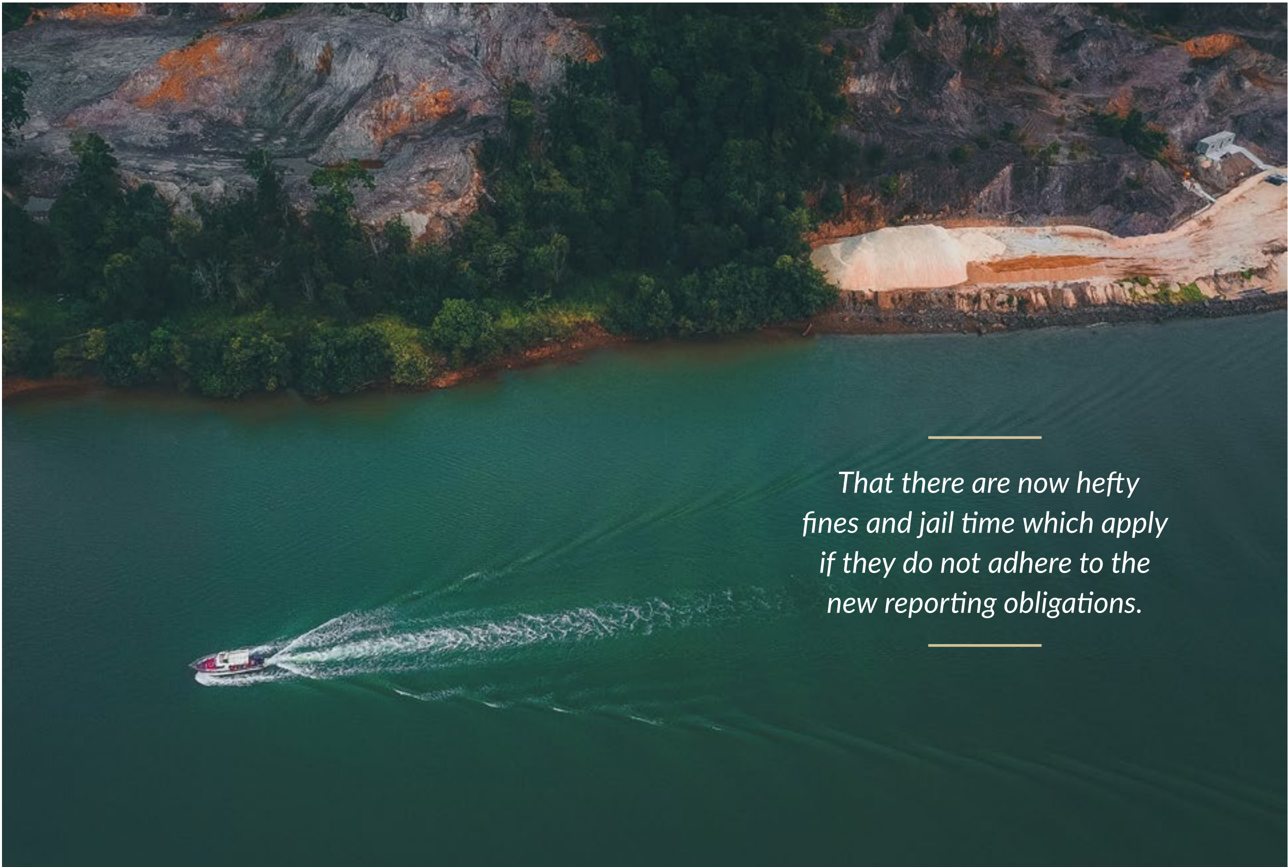
SA's greylisting and its consequences have impacted many aspects of our lives, and trusts are no exception. As many financial advisors and individuals are trustees of trusts in SA, we cannot emphasise enough how much the trust landscape has changed over the years. It is, therefore, essential that you are up to date with the new legislation if you are a settlor, trustee, beneficiary of a trust, owner of a company, or are involved in a loop structure. In this article, we focus primarily on trusts.

BUT first, some background to the greylisting, who is responsible for its introduction and its implications for trusts.

BACKGROUND

The Financial Action Task Force (FATF) is the global money laundering and terrorist financing watchdog, setting international standards to prevent such illegal activities and the harm they can cause society. The FATF was founded in 1989 and comprises 39 member countries, including SA.

FATF greylisted SA in February 2023 – what does that mean? Greylisting happens when a country has deficiencies in its anti-money laundering (AML), combatting the financing of terrorism (CFT) and counter-proliferation financing (CPF) regulations. The said country is placed under increased monitoring by the FATF. The FATF provided SA with 38 recommendations, and according to Werksmans Attorneys, almost all of these impact trusts directly or indirectly. Recommendations which directly impact trusts are preventing abuse regarding trusts which are non-profit organisations (NPOs), transparency regarding settlors, trustees, beneficiaries and protectors of trusts, transparency regarding the beneficial owners of trusts other than the above and stringent obligations for the providers of services to trusts.



The Financial Intelligence Centre (**FIC**) is the SA body established to combat money laundering and terror financing and enforce compliance with the FIC Act (the FATF's watchdog on the ground, as it were!). The FIC recently conducted a survey covering anyone providing services to trusts relating to administration, advice and compensated trustees. It now expects trustees to be able to identify money laundering, terrorist financing and tax evasion. The FIC's (and FATF's) particular concerns are cash held by trusts, cross-border transactions, a lack of records in trusts, abuse of NPOs and the lack of reporting on contraventions.

SA was given 18 months from November 2021 to become compliant but did not do so, and what follows are the consequences of that.

NEW LEGISLATION

The General Laws Amendment Act 22 Of 2022 was signed into law in December 2022. The legislation aims to align SA's regulatory framework with that of the FATF. Major amendments came into effect on 1 April 2023 (we have been given six months to comply) and have significant implications for trust, company law, and accountable institutions. These changes affect the Trust Act and the Companies Act and will impact all these structures in SA. Rules for companies and trusts are not identical, so ensure you are familiar with both rules. In this article, we only focus on trusts.

An important point to note for trustees is that there are now hefty fines and jail time which apply if they do not adhere to the new reporting obligations – these are:

- **Direct sanctions:** A trustee who fails to comply with these new obligations commits an offence and, on conviction, is liable to **a fine not exceeding R10mn, imprisonment for a period not exceeding five years, or to both such fine and imprisonment.** Additionally, the Master of the High Court may impose sanctions, including declining approval for a person to be a trustee of the same or other trusts.

- **Indirect sanction:** Non-compliant trustees and non-compliant beneficiaries will not be issued with the SA Revenue Service (SARS) Tax Compliance Status (TCS) PINs regarding their personal tax affairs. They will then not, for example, be able to utilise their R10mn foreign investment allowances.

So how do we, as trustees, comply with FATF and FIC's increased rules and regulations to avoid the above?

TRUSTS

New rules have been introduced in the Trust Property Control Act (TPCA) regarding the disclosure of beneficial ownership of assets. For trusts, a new section (11A) was introduced into the TPCA - a trustee must establish and record the beneficial owner of the trust.

Who is the beneficial owner?

A beneficial owner must be a natural person who directly or indirectly owns the trust property, a natural person who exercises effective control of the administration of the trust, the founder/settlor of the trust, a trustee of the trust and all beneficiaries named in the trust deed – a broader definition than applied previously.

Duties of trustees

Trustees are bound to do the following with immediate effect – they must keep records on file, lodge records electronically with the Master of the High Court and keep records up to date. The records to be lodged with the Master must be uploaded as data files, and this has to be done six months from the effective date (1 April 2023) by the end of September 2023 and then regularly after that. Considering everyone involved, this is no small task and should not be taken lightly. As South Africans, we are used to deadlines being extended, but this deadline (of 30 September 2023) has been put in place by FATF and is unlikely to change.

To add further to the compliance issues, a new public electronic register of disqualified trustees (with reasons for disqualification) will be in place as well as a requirement that trustees must record details of transactions with accountable institutions. SARS, not to be left out of the party, has announced new requirements for trustees to report information about ALL distributions to beneficiaries (or other persons) from SA trusts in the previous tax year by the end of September of each year.

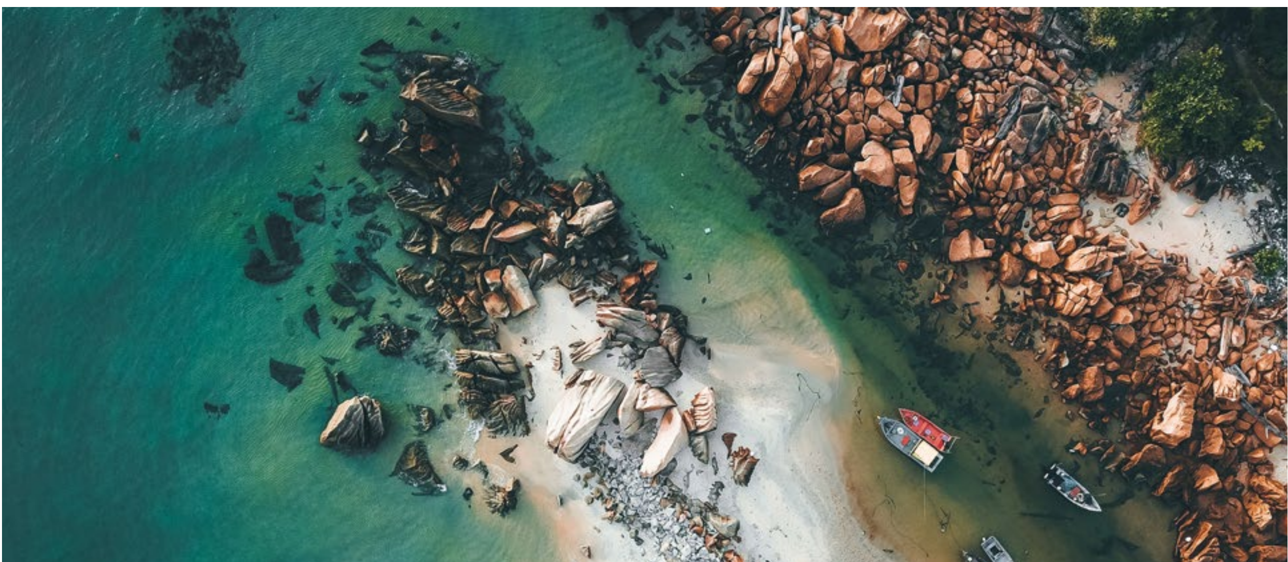
All of the above is to be done electronically. One can go to the Master's office for assistance if there are problems uploading data, but this is not a practical solution considering the current state of the Master's capacity.

CONCLUSION

We believe it is important that all trustees (not just the independent trustees) and trust service providers are aware of the challenges we face and should work closely together to meet these more onerous obligations foisted on us due to SA's greylisting.

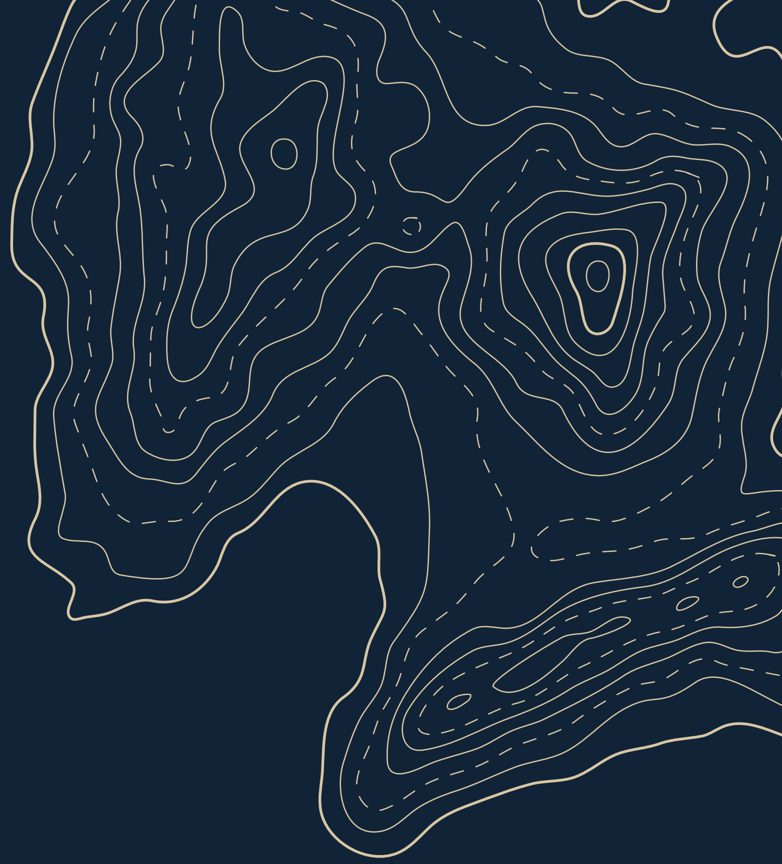
If you do have any issues relating to loop structures, companies or trusts where you are either the settlor, trustee, beneficiary or all of the above and are not sure what is required, please contact us to clarify or assist you in any way by contacting Di Haiden at di@rcinv.co.za or Andrew Lawson at andrewl@rcinv.co.za.

Reference: Michael Honiball, Werksmans, Trusts and Transparency – 18 April 2023.



Performance Summary

		FUND PERFORMANCE								BENCHMARK PERFORMANCE							
	Start date	Annualised p.a.	Since inception	5 Year	3 Year	12-month	6-month	3-month	Jun-23	Since inception	5 Year	3 Year	12-month	6-month	3-month	Jun-23	Performance vs Benchmark
UNIT TRUSTS																	
Anchor BCI Equity Fund	Apr-13	9.2%	147.4%	4.9%	11.9%	14.9%	8.6%	4.1%	2.0%	127.0%	6.9%	15.7%	13.5%	3.6%	1.2%	3.8%	20.4%
Anchor BCI SA Equity	Aug-21	11.1%	20.5%	N/A	N/A	12.2%	3.8%	1.3%	5.0%	18.3%	N/A	N/A	13.5%	3.6%	1.2%	3.8%	2.2%
Anchor BCI Flexible Income Fund	Jun-15	6.9%	71.6%	6.6%	5.8%	7.6%	3.6%	1.3%	1.5%	70.0%	6.3%	5.6%	7.5%	4.1%	2.1%	0.7%	1.5%
Anchor BCI Managed Fund	Jan-15	5.6%	58.6%	6.4%	10.1%	13.9%	8.4%	4.5%	2.4%	68.8%	7.5%	11.4%	14.7%	7.4%	3.0%	1.3%	-10.2%
Anchor BCI Worldwide Flexible Fund	May-13	10.4%	173.2%	8.6%	8.8%	27.9%	23.4%	12.6%	0.5%	141.5%	8.9%	10.0%	10.3%	4.6%	2.5%	0.5%	31.7%
Anchor BCI Property Fund	Nov-15	-3.0%	-20.8%	-3.8%	8.8%	3.8%	-3.7%	1.2%	-0.3%	-20.9%	-3.5%	11.3%	10.0%	-4.4%	0.7%	0.9%	0.1%
Anchor BCI Global Equity Feeder	Nov-15	12.8%	151.0%	14.9%	5.5%	15.8%	12.4%	8.6%	-0.1%	160.3%	15.1%	13.9%	34.7%	25.7%	12.6%	0.6%	-9.3%
Anchor BCI Bond Fund	Feb-16	8.3%	80.5%	7.1%	6.8%	8.4%	2.0%	-1.5%	4.7%	80.6%	7.4%	7.6%	8.2%	1.8%	-1.5%	4.6%	-0.2%
Anchor BCI Diversified Stable Fund	Feb-16	7.4%	69.4%	7.6%	9.5%	11.6%	5.8%	1.4%	2.1%	59.4%	6.8%	8.4%	11.5%	5.8%	2.1%	1.3%	10.1%
Anchor BCI Diversified Moderate Fund	Feb-16	7.1%	66.8%	7.9%	11.5%	14.0%	6.8%	1.8%	1.7%	60.6%	7.2%	9.9%	13.4%	6.7%	2.5%	1.2%	6.2%
Anchor BCI Diversified Growth Fund	Feb-16	6.8%	62.8%	7.7%	13.2%	15.9%	8.4%	2.1%	1.6%	63.4%	7.5%	11.4%	14.7%	7.4%	3.0%	1.3%	-0.5%
Anchor BCI Africa Flexible Income	Mar-16	6.3%	56.7%	7.3%	4.3%	22.0%	8.7%	6.1%	0.3%	79.9%	7.8%	7.0%	8.8%	4.7%	2.4%	0.8%	-23.3%
Anchor BCI Global Technology Fund	Jun-19	9.7%	45.9%	N/A	-0.8%	30.1%	32.7%	13.1%	-0.3%	172.6%	N/A	19.2%	54.8%	52.0%	21.0%	0.9%	-126.7%
Anchor BCI Flexible Fund	Jul-13	10.4%	168.4%	12.5%	8.5%	39.7%	49.0%	25.3%	-1.3%	10.2%	9.9%	11.0%	11.3%	5.0%	2.7%	0.6%	158.3%
Anchor BCI Core Income Fund	Sep-20	6.4%	19.1%	N/A	N/A	7.9%	0.0%	2.4%	0.9%	14.8%	N/A	N/A	6.8%	3.7%	1.9%	0.6%	4.4%
Anchor BCI Global Flexible Income Fund	Sep-20	4.2%	12.3%	N/A	N/A	16.8%	12.3%	6.7%	-4.3%	18.8%	N/A	N/A	20.3%	14.0%	8.0%	-4.2%	-6.5%
Anchor BCI Worldwide Opportunities Fund	Feb-21	3.0%	7.3%	N/A	N/A	16.0%	14.6%	6.6%	1.7%	16.0%	N/A	N/A	6.3%	2.6%	1.6%	0.2%	-8.7%
EQUITY NOTES & SEGREGATED MANDATES																	
Anchor Equity	Jul-13	8.9%	134.0%	7.9%	17.8%	12.2%	4.1%	1.8%	5.3%	125.4%	3.6%	15.7%	13.5%	3.6%	1.2%	3.8%	8.6%
HEDGE FUNDS																	
Anchor Stable SNN RIHF	Jul-03	12.4%	933.1%	9.5%	14.5%	16.4%	5.9%	2.3%	1.8%	291.7%	5.8%	5.0%	6.8%	3.7%	1.9%	0.6%	641.3%
Anchor Accelerator	Feb-16	6.6%	60.7%	8.7%	0.2%	2.6%	-1.5%	-1.7%	0.9%	63.4%	6.9%	15.7%	13.5%	3.6%	1.2%	3.8%	-2.7%
OFFSHORE																	
Anchor High Street Equity - Dollars	Jun-12	9.7%	177.7%	6.5%	5.6%	20.6%	19.2%	5.9%	4.4%	211.9%	9.6%	12.7%	19.1%	15.4%	7.0%	6.1%	-34.1%
Anchor High Street Equity - Rands	Jun-12	18.4%	541.5%	13.7%	8.6%	39.2%	32.4%	12.7%	-0.4%	616.1%	16.7%	15.7%	37.7%	27.4%	13.5%	0.9%	-74.6%
Anchor Global Balanced - Dollars	Jun-12	7.4%	119.7%	3.7%	3.4%	11.6%	10.6%	4.1%	3.1%	95.0%	5.2%	5.2%	10.4%	9.5%	3.4%	3.6%	24.7%
Anchor Global Balanced - Rands	Jun-12	16.0%	410.2%	10.7%	6.6%	31.4%	25.3%	10.8%	-1.7%	342.4%	11.7%	7.6%	25.7%	21.1%	9.7%	-1.3%	67.9%
Anchor Global Dividend - Dollars	Jan-14	7.1%	91.1%	5.8%	9.9%	7.3%	4.0%	1.9%	3.7%	131.9%	9.6%	12.7%	19.1%	15.4%	7.0%	6.1%	-40.7%
Anchor Global Dividend - Rands	Jan-14	13.3%	223.6%	12.7%	12.9%	23.8%	15.5%	8.5%	-1.1%	291.9%	16.7%	15.7%	37.7%	27.4%	13.5%	0.9%	-68.3%
Anchor Global Stable Fund - Dollars	May-15	1.0%	8.4%	1.7%	0.8%	3.3%	3.0%	1.4%	1.3%	29.4%	3.6%	4.1%	6.2%	3.2%	1.6%	0.5%	-21.0%
Anchor Global Stable Fund - Rands	May-15	6.6%	67.7%	8.3%	3.4%	19.4%	13.7%	7.5%	-3.7%	100.8%	10.3%	7.0%	23.0%	14.2%	7.6%	-3.9%	-33.2%
Anchor Global Equity - Dollars	May-15	10.4%	122.0%	10.8%	5.5%	4.2%	3.2%	1.3%	6.3%	81.3%	8.1%	11.0%	16.5%	13.9%	6.2%	5.8%	40.6%
Anchor Global Equity - Rands	May-15	16.5%	243.4%	18.0%	8.3%	20.5%	13.9%	7.4%	1.0%	180.5%	15.1%	13.9%	34.7%	25.7%	12.6%	0.6%	62.9%
RCI UNIT TRUSTS																	
RCI BCI Flexible Growth Fund	Sep-16	8.4%	72.1%	7.9%	2.8%	27.0%	36.2%	19.3%	3.0%	89.7%	9.9%	11.0%	11.3%	5.0%	2.7%	0.6%	-17.6%
RCI BCI Worldwide Flexible Fund	Dec-16	8.6%	71.9%	8.4%	2.9%	33.8%	31.2%	12.6%	0.0%	75.5%	8.9%	10.0%	10.3%	4.6%	2.5%	0.5%	-3.5%



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An authorised Financial Services Provider; FSP no: 39834
www.anchorcapital.co.za | invest@anchorcapital.co.za