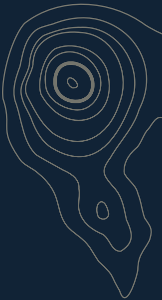
STRATEGY AND ASSET ALLOCATION REPORT

1st Quarter 2023



NAVIGATING CHANGE

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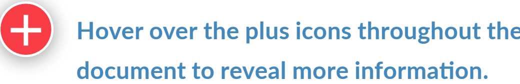

Introduction

WRITTEN BY:
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Last year hurt with global equity and bonds returning negative outcomes, while domestic equity and bonds returned a disappointingly small positive outcome. Platitudes like the worst bond market since records began, inflation spiking to levels last seen 40 years ago, rotation towards value and equity market corrections do not capture the reality that most investors lost money in 2022. Whether this is part of your long-term nest egg, a child's education fund, or an endowment does not matter. Last year was one where investment plans did not work out.

Investors should be thinking about how to add risk and when to phase it in

Much of the investment landscape has changed over the journey of 2022. Inflation is now broadly considered to have peaked, central banks have signalled an intent to slow the pace of interest rate hikes, and many investments (both equities and bonds) are offering entry prices that have not been seen for over a decade. Just after a market crash is usually a good time to invest, particularly if you anticipate an eventual economic recovery. However, it is too early to say that this is over, and the consensus is that the next six months will be telling for the globe.

In this context, investors should be thinking about how to add risk and when to phase it in. Of course, the road ahead will have speed bumps along the way; however, the outlook over the long term is increasingly positive, and while it might feel uncomfortable right now, we should be thinking about how to take advantage of the opportunities that are appearing.

We have seen a strong start to January 2023, which evidences the adage that you cannot afford to be out of the markets; you do not know when markets might pop. Missing these couple of strong up-days can have a significantly detrimental effect on your long-term outcome.

We continue to caution that now is not the time for wholesale changes to your portfolios. The risk of such changes resulting in permanent losses is too high. However, over time, if you need to adjust your risk tolerances, then a gradual and patient approach towards such changes is warranted. Therefore, we continue to advocate for asset class diversification domestically and abroad.

As you will see in this document, we look forward to a better 2023.

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		●	<	13
Bonds		>	●	11
Listed property	●	<		8
Cash	●			7
Alternatives*		>	●	10 to 15
Rand/US$ (rand stronger)				3
GLOBAL				
Equity			●	10
Government bonds		●		4
Corporate credit		●		4
Listed property		●		7
Cash	>	●		4
Alternatives*			●	8 to 20

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

Asset Allocation Summary

Global financial markets lost value as central banks hiked rates with urgency to catch up with inflation. We are starting the new year with markets at more moderate levels and with central banks slowing down the pace of rate hikes. There is some uncertainty as to how negatively the rate hikes will impact economic growth and corporate earnings. Our base case remains that US economic growth will slow markedly. However, we do not expect the US to plunge into a deep recession. As this plays out, volatility will remain high, and we advocate for patience coupled with a phasing-in of investments. We are slightly more bullish on the resilience of the US economy than consensus forecasts.

The dramatic sell-off in global equity markets means we see this asset class as the most attractive. We expect that within the 12-month time horizon of this document, earnings will bottom, inflation will be trending lower, and the next bull run will just be getting started. The path to the next bull run will likely see periods of market weakness; however, by December 2023, we see more upside than downside in global and local markets.

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 what the outcome will be in the various scenarios. From a global perspective, equity is the most attractive asset class though downside risks remain. For the first time in decades, global bonds and cash also have compelling investment cases. Perhaps the most significant change since our previous edition of *The Navigator* in October 2022 is that the range of expectations for all asset classes has narrowed, reflecting confidence 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

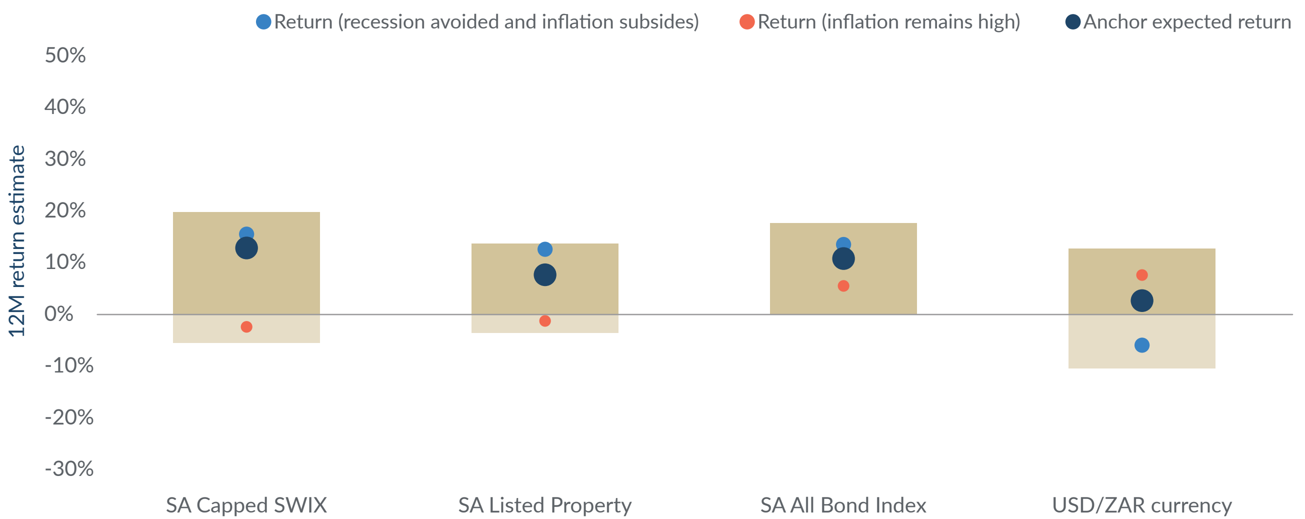
Globally, equity has disappointed in the past year, providing investors with more appealing entry points. Nevertheless, there is a risk that the negative momentum continues in equities, though we think that investors should begin gradually investing in this asset class at these levels. Accordingly, we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

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

	Global equity	Global bonds	Global property
Anchor expected return (in US dollar)	10%	4%	7%

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 have delivered well in the last quarter (4Q22), and the bond markets are more compelling. But, 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 believe that domestic bonds have the most compelling risk-reward relationship. We see the rand recovering over the next year though this will be uneven and by 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)	13%	11%	8%	3%

Strategy and Asset Allocation

ECONOMICS

As we welcome the new year, the global economic environment remains challenging. As a small, open commodity-exporting economy, South Africa (SA's) prospects are intrinsically tied to the global economy. As such, over the next year, we expect slower global economic growth to dominate the agenda. As a result, a recessionary-like environment can be expected across developed markets (DMs), with more divergence in economic activity for emerging markets (EMs). As such, our base case is for softer and more volatile commodity prices as global economic growth slows. Overall, financial markets remain relatively pessimistic about global growth prospects. As such, there is a greater potential for an upside surprise as the year develops.

A global shift in monetary policy, to either pause or slow down the pace of interest rate hikes in 2023, will largely remain a function of inflation which is broadly expected to ease — especially towards the latter part of 2023. Consequently, central banks are likely to shift their tone from arresting inflation to supporting growth. Once again, however, one cannot discount the strong risk of an upside surprise in global inflation. Meanwhile, Russia's war on Ukraine remains a key geopolitical risk that does not appear to be abating anytime soon. In addition, the effects of sanctions against Russia and their disruptive nature on oil prices and broader supply chains continue to dampen the economic outlook. The current European Union (EU) ban on Russia's seaborne crude oil and the expected ban on imports of refined oil products from Russia in 1Q23 are some challenges that will add volatility to the energy market. On the back of this, we caution that the effects of a global slowdown, combined with a higher interest rate environment, will continue to weigh on financial markets.

Food price inflation remains a focal point for investors at the start of 2023, given its impact on inflation and global monetary policy last year. Data released by the United Nations at the end of last week showed that The FAO Food Price Index (FFPI) averaged 132.4 points in December, down 1.9% from its November reading and, importantly, the ninth consecutive monthly decline. Thus, global food prices ended the year roughly where they started despite several disruptions, from the war in Ukraine to extreme weather. In relation, US inflation appears to have peaked in June 2022, with the consumer price index (CPI) providing a good reason to believe that we are now at the beginning of a downward trend. Moreover, the goods sector has primarily driven the decline in inflation over recent months, whilst prices of services have unfortunately proven stickier. Nonetheless, the downtrend is welcome news for markets and the US Federal Reserve (Fed), but it does not necessarily mean that we will get back to the Fed's 2% annual inflation target anytime soon. If historical trends are anything to go by, it could take up to two years for us to get there. Interestingly, the decline in inflation is taking place without a sharp increase in the unemployment rate, which points to a higher probability that the Fed might engineer a much-desired soft landing of the US economy, a scenario that many thought was very unlikely just a few months ago.

There is a greater potential for an upside surprise as the year develops.

The sequencing of how the Fed reaches its dual mandate (taming inflation and maintaining full employment) is key for capital markets as we move into 2023. Taming inflation first and moderating employment later means that the need for the largely feared "demand destruction" on the part of the Fed decreases. A less aggressive Fed (or a potential Fed "pivot" in 2023) would naturally be bullish for asset prices (public and private) ranging from rates to credit to equities. However, that being said, capital markets will likely remain vulnerable in 2023, and volatility will likely persist because capital remains scarce and expensive, and high-yield primary credit markets will probably stay virtually shut down for the time being.

No one will disagree that 2022 was an arduous year for SA, politically and economically. As a political institution, the ANC remains in a state of deep internal unease – with ongoing implications for the broader political economy. Many of these divisions and internal institutional weaknesses were displayed at the ANC's 55th National Conference in December. 2022 saw a record level of loadshedding; Transnet's crippling challenges; an ongoing breakdown in local government; and an elevated and poorly addressed crime crisis (particularly organised crime), which have all sapped local sentiment and undermined SA's stuttering economic recovery. These and other deep structural concerns face the ANC's new(ish) leadership, which continues to be impeded by three primary and ongoing growth constraints - ideology, patronage, and state capacity.

However, it is not all doom and gloom - the outcomes of the top seven and National Executive Committee (NEC) votes from the December conference provide a far more conducive basis for navigating these various challenges. It is also worth bearing in mind that since 2017 the president has made significant additional political headway, consolidating his internal authority in a deeply divided and often dysfunctional party. This has allowed the president to drive critical institutional and governance reforms, offer executive support for fiscal consolidation, and introduce some (if not ideal) economic reforms. Most importantly, however, post the December conference, the troublesome so-called radical economic transformation (RET) faction of the ANC appears to be in retreat - which should provide investors with some definitive relief.

The top seven and National Executive Committee (NEC) votes from the December conference provide a far more conducive basis for navigating various challenges.

Nevertheless, unlike in 2017, when Ramaphosa's election as president of the ANC (and later the country) initiated a period of heady investor optimism, this time around, any material improvement in sentiment will rely not only on the signals emanating from the ANC's recent conference but, instead, on the concrete, lasting reforms that the president and his allies push for in the new year. The most notable signal of intent in this regard will be the next cabinet reshuffle, which will likely be announced at some point early this year.

On the domestic monetary policy front, there is a high degree of uncertainty surrounding the upcoming 2023 interest rate decisions, given the diversity of views within the SA Reserve Bank's (SARB's) Monetary Policy Committee (MPC) about how it should approach the peak of the hiking cycle. At the last MPC in November, three members voted for a 75-bpt hike, and two voted for 50 bps. In fact, every MPC decision in 2022 featured a split vote, most of them quite evenly balanced. As such, we expect another split vote in the upcoming January MPC meeting. Forecasting the MPC's decision is more difficult than ever as SA nears the top of the nominal hiking cycle. Nonetheless, we believe the SARB will likely hike by a further 75 bps throughout 2023 in gradual increments.

SA EQUITIES

SA equities (FTSE/JSE Capped Swix) returned 4.3% last year, comfortably outperforming the MSCI Emerging Markets Index (-14.3% in rand) and the MSCI All World Index (-12.0% in rand) consistently throughout 2022. Our total return expectation for the JSE over the next 12 months is 13%, primarily driven by positive returns from the miners, energy, banking and rand-hedge industrial counters.

Most investors frame SA as a higher-risk EM, and as such, the relative defensiveness of the 2022 performance would have raised a few eyebrows. However, as highlighted numerous times in previous editions of *The Navigator*, the set-up going into 2022 for the JSE did not screen as risky as the set-up for DM indices – and the outcome was ultimately not that surprising. Several factors in the build-up to 2022 lead us to this conclusion. First, the local economy has been underperforming vs its potential for many years. As a result, those sectors with the highest beta to SA GDP growth (except banks) have become a much smaller component of the local overall index. This continued underperformance of nominal GDP growth has also resulted in a gradually increasing cost of capital (SA government bond yields) during a time when the developed world was experiencing a continued reduction in the cost of capital. Last year saw the cost of capital in the developed world increasing rapidly, placing increased pressure on valuation multiples investors were prepared to pay. At the same time, SA entered last year on low-growth prospects, inflation largely under control and a stock exchange trading on the lowest relative rating in its history (the increase in SA risk-free rates had less of an impact on overall valuation levels).

We continue to view the 2023 outcome of China's growth and economic policy as having the largest overall impact on JSE portfolio construction. In the middle of 2022, while China was taking a hard line with its zero-COVID policy and geopolitical risk was weighing on EM sentiment, the JSE also went through a tough run, with the Capped Swix down 12.7% between the end of 1Q22 and the end of 3Q22. However, as both of those risks started moderating, and pressure was taken off the US dollar towards the back of the year (due to the perceived threat of US inflation being under control), the JSE saw a sharp recovery in 4Q22. Consequently, it ended the year 4.3% higher in rand terms and down 2.2% in US dollar terms, emerging as one of the better geographies to invest in during 2022.

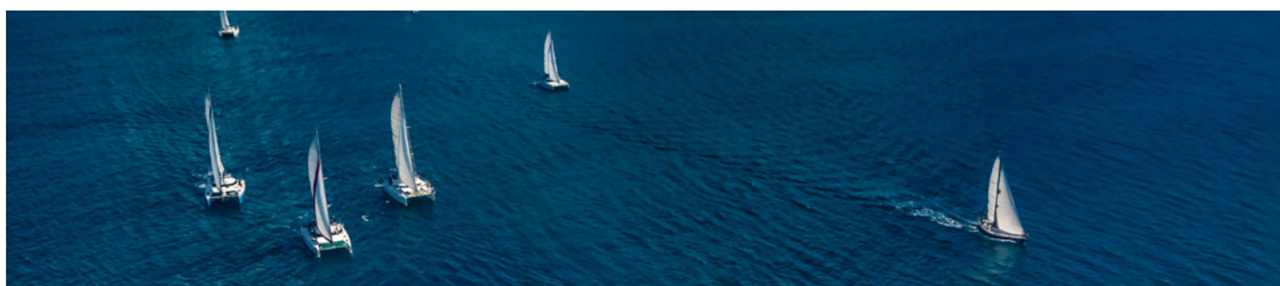
Some might question our conclusion on China's outsized impact on the JSE. However, the way the JSE has evolved, the basic materials sector now accounts for c. 25% of the local bourse, with China being the biggest swing factor on end commodity demand. In addition, there is also the direct exposure to the Chinese tech giant Tencent via Naspers and Prosus (c. 12%), not to mention SA's reliance on Chinese consumers for businesses like CFR Richemont (c. 3%), among others, accounting for over 40% of total directional exposure to China on the JSE. Thus, calling the outcome on China has become a key variable to get right for anyone managing a local equity portfolio.

Our stance towards China is positive. Still, we concede that our outlook was also positive a year ago when China emerged from a painful 2021 for holders of many Chinese equities. Our view then was premised on China being counter-cyclical, easing monetary conditions at a time when the rest of the world needed to tighten. Instead, the Chinese credit impulse, a measure of monetary conditions in China, has been tightening steadily from late 2020 and throughout 2021. We expected this to reverse going into 2022 to stabilise the country's property market.

What caught us off guard was the government's approach towards containing the spread of COVID-19 in the middle parts of the year and Russia's invasion of Ukraine and the further spotlight it shed on the complex relationship between China and Taiwan. Our view and outlook on China should be seen in that context.

We remained overweight Naspers and Prosus in our domestic portfolios throughout the extreme volatility, and we hope to be justified in our decision. We were certainly not one of the many asset managers calling China "uninvestable". Our base case is for Chinese economic growth of 5% this year, which will be multiples of what we will see throughout the developed world. We believe there is enough pent-up demand, especially from Chinese consumers, to drive a solid earnings recovery from Tencent and other China-focused consumer names.

Return expectations from domestically focussed companies have moderated since our last forecasts were published on 10 October 2022 in the previous edition of *The Navigator – Anchor's Strategy and Asset Allocation, 4Q22.* We have been very bullish on SA banks for over two years. The combination of self-help and impairment unwinds post-pandemic, and positive endowment impacts from a rate-tightening cycle have been driving healthy earnings upgrades. The banks were a standout performer last year among the larger companies listed on the JSE. The FTSE JSE SA Banks Index rose by 17.7%, contributing a significant portion of the overall return of the Capped Swix (2.9%). While we are still invested in the banking sector, and it still looks fairly priced with reasonable growth prospects, our view is that without the same tailwinds driving share price performance that we have seen for the past two years, the ability to rerate materially from here will be somewhat limited. Our total return expectation is still north of 10% for the year, but ultimately we believe that the shares will be range bound and provide defensive exposure to the domestic component of the JSE. With economic conditions continually deteriorating in SA, it is difficult to get overly excited about any specific sector structurally.



Nevertheless, what is becoming clear is that the next round of investment opportunities is emerging as the dust settles post-COVID-19. In our portfolios, we are looking for businesses executing well (Afrimat, Shoprite and Bidvest come to mind) and self-help stories where the management teams have done an excellent job of driving positive change from the inside (Woolworths, Absa and OUTsurance). As a result, we think that stock pickers will be rewarded in the coming year as the differentiation between winners and losers becomes more pronounced, and management teams are rewarded for running businesses well in an extremely tough operating environment.

DOMESTIC BONDS

SA government bonds (SAGBs) recorded their strongest performance of the year in 4Q22, with the All Bond Index (ALBI) returning 5.19% for the last quarter of 2022. This implies a 2022 return of 3.78%, a clear indication of the struggles SAGBs experienced throughout 2022 as markets were rattled by:

1. Russia's invasion of Ukraine.

2. Persistently elevated inflation in DMs (often, CPI prints in DMs have been multiples of their respective central bank targets).

3. Global central bank rate hiking due to the slowing (or reversal) of quantitative easing (QE).

4. China's ongoing zero-COVID policy saw harsh movement restrictions in place there (the policy was finally abandoned in December 2022).

Given the above, the SARB has responded with successive rate hikes in 2022, leaving the repo rate at 7% by year-end vs 3.5% just eighteen months prior. DM central banks have also faced runaway (and sticky) inflation. However, in SA, inflation peaked in July 2022 at 7.8% YoY. Since then, it has moderated to 7.4% at the most recent print - which remains 1.4% above the top end of the SARB's 3%-6% target band and 2.9% above the midpoint of the target band.

Currently, forward rate agreement (FRA) expectations are for rates to peak at 50 bps higher (in July 2023) than present levels, leaving the repo rate at 7.5% before the central bank pauses hikes. Cuts are only expected to happen in 1H24. With SAGBs entering 2023 with yields above 10% across the curve (from the R2030 onwards, a 7-year bond which matures on 31 January 2030) and long-dated debt still yielding 11.4% (R2040 17-year bond), we currently foresee returns in 2023 of 10.25%, with most of that return being interest income.

Domestic political and social risks pose a material threat to this forecast. These risks include:

1. President Cyril Ramaphosa remained under a cloud even after his re-election as head of the ANC because of the robbery (of US$580,000) and alleged cover-up at his Phala-Phala farm. After the early December 2022 threat of his resignation, the market reaction laid bare how critical a figure he is considered to be by the market at large.

2. Ongoing loadshedding remains a risk - 2022 was the worst year yet for blackouts, with more hours per day without power than in any previous year.

3. The lead-up to the 2024 SA national general elections will create uncertainty as we head into the latter part of 2023, given the decline in ANC support at a national level. Some polls are placing ANC support for the 2024 election at 50%-52%. Still, there is the risk that the national government will be destabilised and uneasy coalitions will be formed – a downside risk for stability.

At Anchor Fixed Income, we remain bullish on SAGBs as an investment class. However, we are mindful of the above risks. The potential for volatility throughout 2023 exists with some headwinds that may materialise, negatively impacting bond returns.

THE RAND

Last year was characterised by a strong US dollar dominating other currencies, allowing the rand to end the year at R17/US$1. We note that consensus forecasts are shifting towards a weaker dollar for 2023, and we have already seen global hedge funds shifting their positioning accordingly. We are questioning how much a weaker dollar manifests as a strong rand for the year.

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.

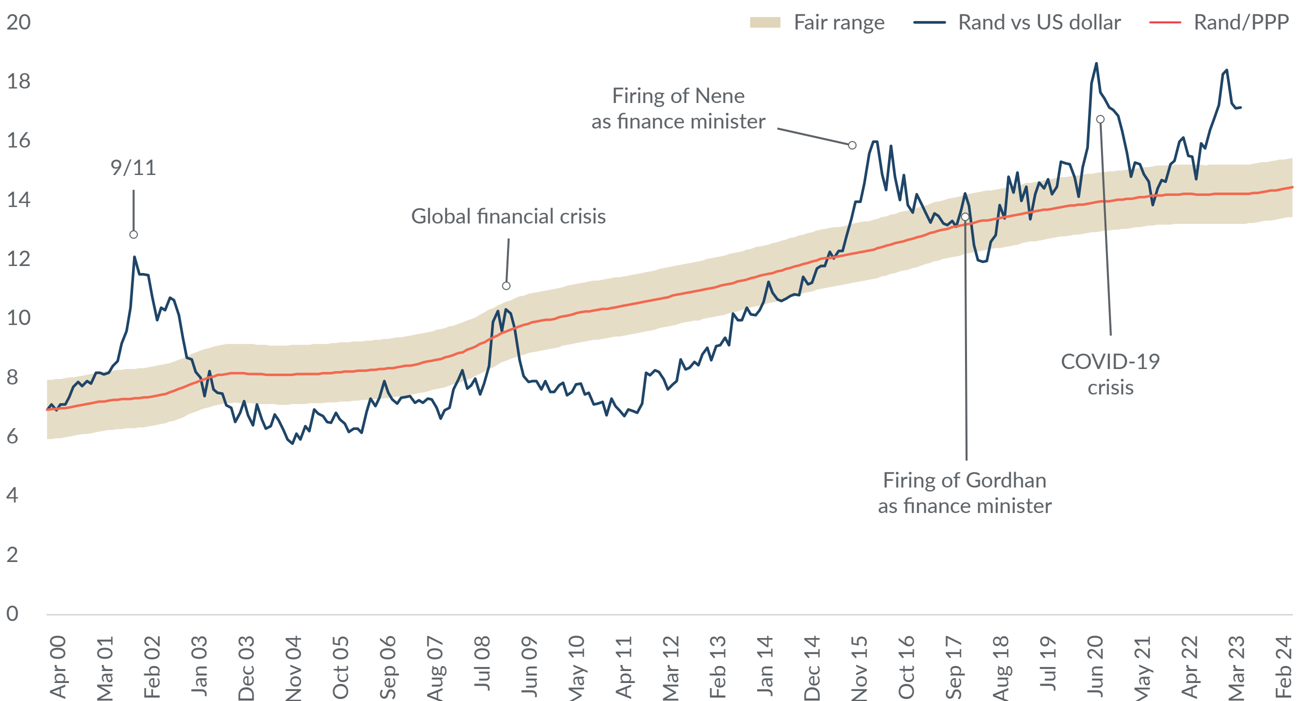
The indicators for the rand's fair value are gradually turning negative again. We note that 2022's current account surplus will likely give way to a shallow deficit in 2023, eroding some currency support. The boon from high commodity prices will also dissipate, shining a light on SA's fragile fiscal situation and poor government finances.

We retain our purchasing power parity (PPP) based model for estimating the fair value of the rand. We have extended this out by three months since the publication of *The Navigator – Anchor's Strategy and Asset Allocation, 4Q22* report on 17 October 2022. Over our forecast period, we expect inflation abroad to come under control and return towards more normalised levels. As a result, our PPP model is again showing an increasing propensity for long-term rand weakness from 2024. Our PPP-modelled value for the rand vs US dollar at the end of the next 12 months is R14.30/US$1 (see *Figure 1*). We apply a R2.00 range around this to get to a modelled fair value range between R13.30/US$1 and R15.30/US$1.

The current global backdrop means we are starting with the rand meaningfully weaker than our modelled fair range. In previous cycles, dollar strength has tended to dissipate (and reverse) toward the end of the US rate-hiking cycle. Current indications are that the US Fed will reach peak rates in 1H23, meaning that we expect to see currency normalisation, with the US dollar giving up some of its gains in the latter part of next year. However, we do not expect the currency to fully recover that rapidly, and we are projecting a rand in the R16.00-R16.75/US$1 range in a year. For this report, we have modelled on R16.50/US$1.

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

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



GLOBAL EQUITIES

We expect global equities to recover some lost ground in 2023. Markets crashed in 2022 and gave up all of the gains of 2021 as global interest rates were hiked aggressively. We have now moved further into the cycle, and inflation appears to have peaked a few months ago. We expect asset prices to eventually rebound as central banks slow and, eventually, stop monetary tightening (probably in the next six months). This process is never smooth, but we should end 2023 with a far brighter economic outlook, which we believe markets will have priced in by then. We expect volatility and some further dips, which will provide opportunities to add value by stock picking.

Global bearishness prevails, with major US investment bank S&P's forecasts tightly around the 4,000 level (0%-5% equity return for the year), with an expectation of a poor first half as the economy remains under pressure. This might be the case, but we expect the bear market to end as inflation recedes. Positive surprises could be well rewarded in a pessimistic environment. We believe a 4,400 level at the end of 2023 is viable, which equates to a 14% return for 2023, although we have pencilled in a 10% return to be conservative. The S&P started 2022 at around 4,800 and ended the year just above the 3,800 level.

Beneath the index level, there are three important underlying dynamics:

- There is massive desynchronisation between the East and the West. In the US (the world's biggest economy), it is all about putting on the brakes and suppressing inflation, which risks a recession. In China (the world's second-biggest economy), the economy is being powerfully stimulated, and a recovery is expected after opening up from harsh COVID-19 lockdowns. This revitalised engine of growth will be positive for commodities and Chinese cyclicals like luxury goods.

- The end of the US monetary tightening cycle should weaken the dollar. However, the market has already started this process, and the US Dollar Index ended the year 8% stronger after peaking at a massive 17% a few months earlier. This will be positive for commodity prices and US earnings, with 38% of US profits coming from offshore.

- In 2022, defensive and energy shares held up well, while tech and other growth-oriented companies slumped considerably more than the index (the Nasdaq was down 32% in 2022). The premium for long-term secular growth all but disappeared. As markets recover later in 2023, the reverse will likely apply, and many great growth companies are now trading at very attractive multiples. Microsoft, one of the world's top-quality growth stocks, was down 32% in 2022.

Global growth in 2023 (see *Figure 2* below) is likely to be the lowest in years, with China countering poor US growth. However, more synchronised growth is expected to follow in 2024. This is what the market will be pricing in at the end of this year.

Figure 2: Global GDP growth
Source: IMF, Anchor

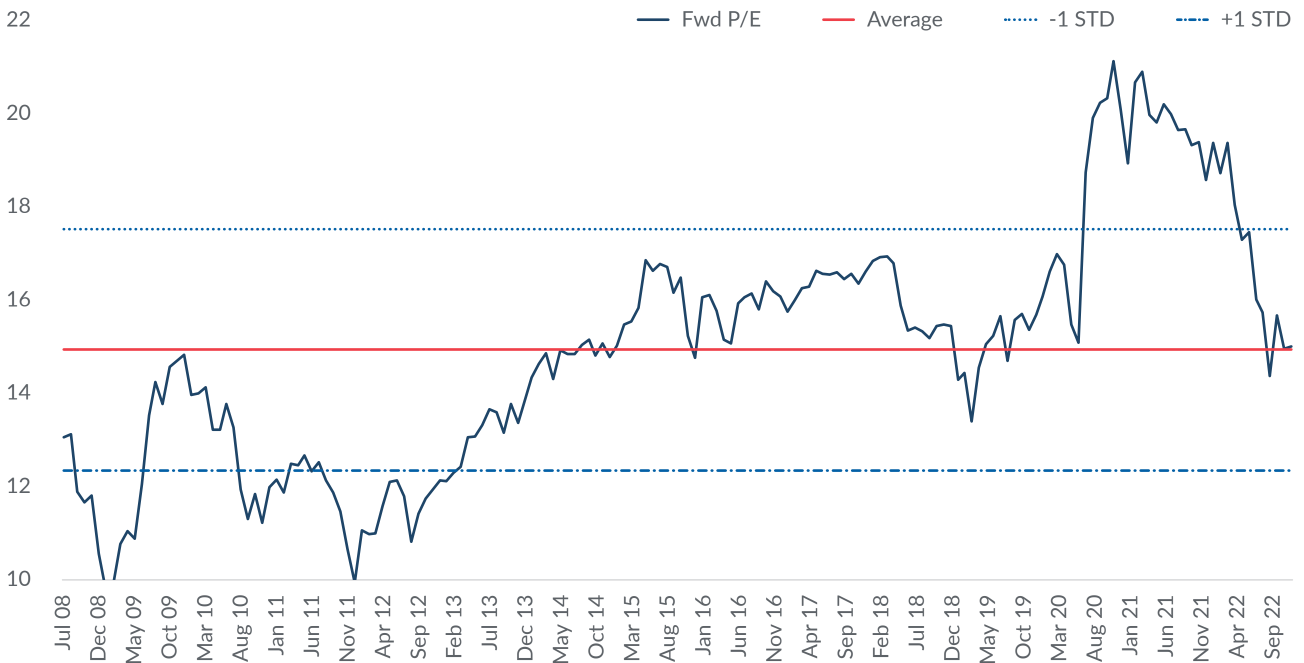
The MSCI World Index's forward P/E of 15.7x (*see table below*) leaves room for upside, even though the 10% earnings growth forecast is likely too high. Multiples often increase when earnings dip as long as the future outlook is more positive. In addition, EMs are much cheaper, with strong recovery potential

Figure 3: Various major global indices' EPS growth and forward P/E forecasts
Source: Bloomberg, Anchor

	Earnings growth		FWD P/E	
Name	**YR1**	**YR2**	**YR1**	**YR2**
MSCI World Index	10.2%	8.0%	15.7	14.4
MSCI EM Index	-8.0%	13.6%	12.3	10.9
MSCI All Country World Index (10% EM)	7.2%	8.8%	15.1	13.9
S&P 500 Index	9.3%	9.9%	17.2	15.7

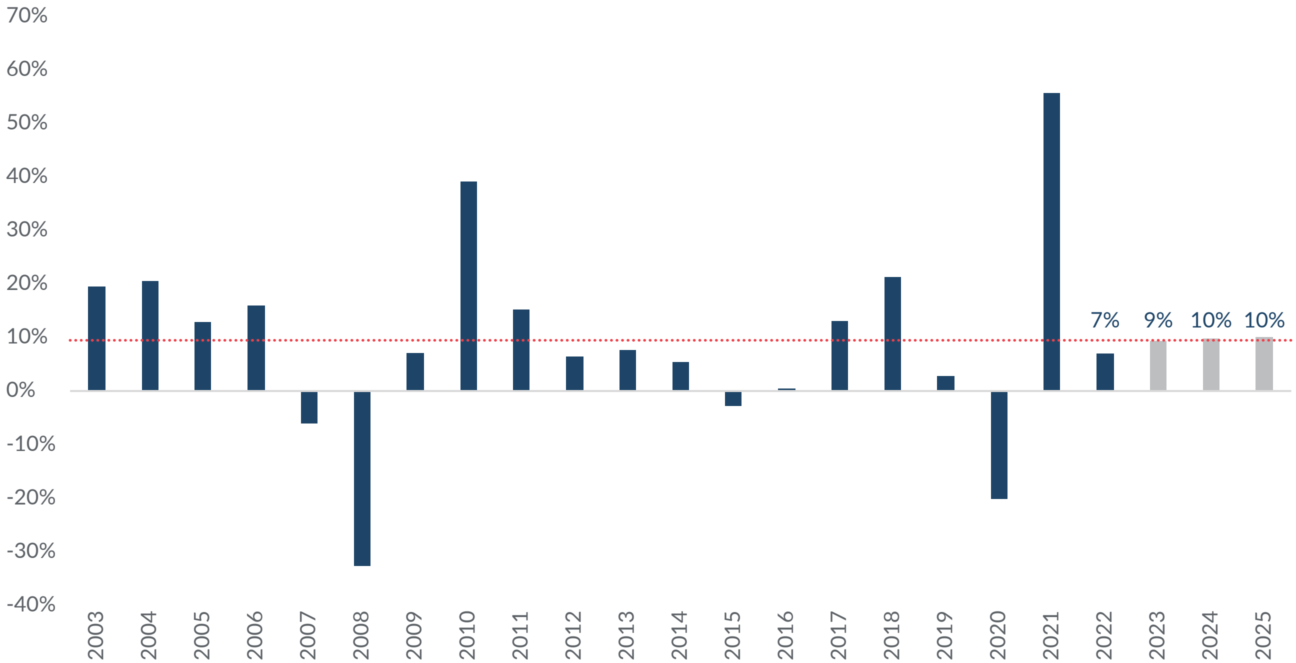
The MSCI World Index's forward P/E is shown in the chart below.

Figure 4: MSCI World Index fwd P/E
Source: Bloomberg, Anchor



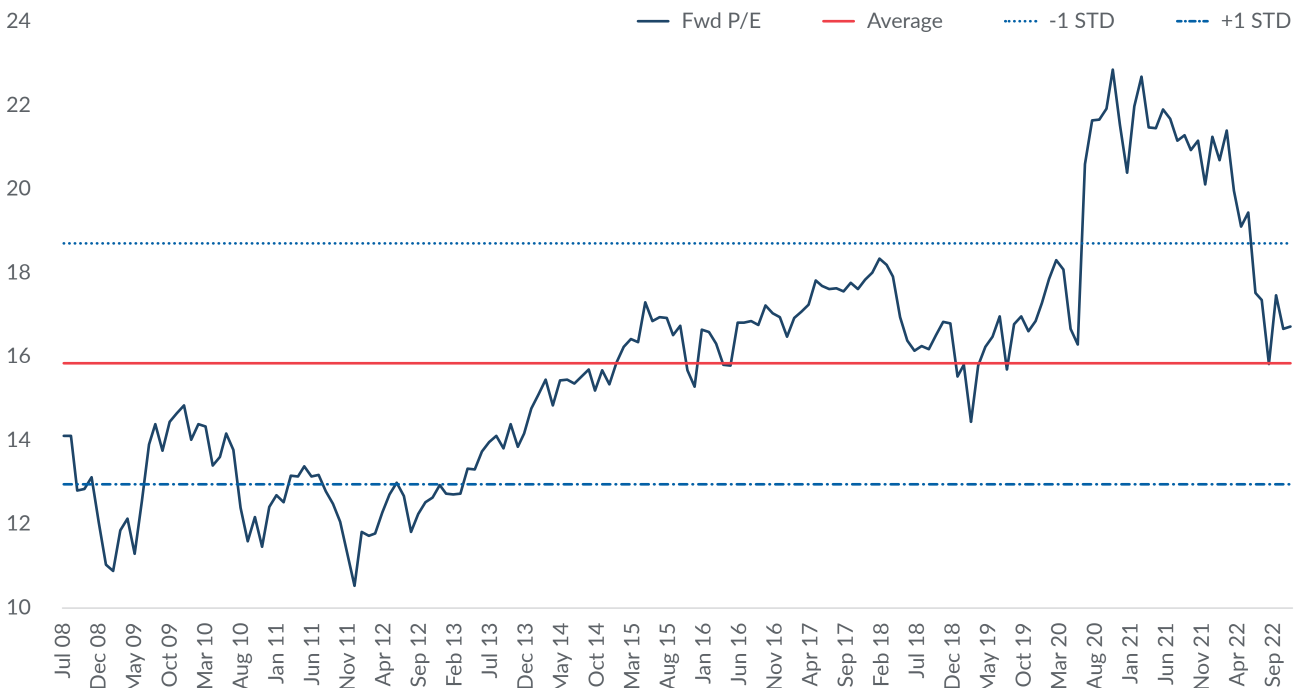
But the most critical determinant of markets is earnings, and downgrades will certainly follow – official forecasts tend to lag the actual expectations discussed in investment meetings. The picture below shows that *Bloomberg* consensus' 2023 EPS growth projections for the US are 9% YoY, which appears high given the economic pressure that will be felt from higher rates. We would argue that much of this has been anticipated and is priced in at current valuations.

Figure 5: S&P 500 EPS growth (annual)
Source: Bloomberg, Anchor



The US S&P 500 forward P/E of 17x (*see graph below*) is just above the 15-year average, which is the argument for moderating return expectations. However, if you strip out the big five tech companies, this decreases to a cheap 14x. Nevertheless, we note that this does leave a buffer for anticipated downgrades.

Figure 6: S&P 500 Fwd P/E
Source: Bloomberg, Anchor



GLOBAL BONDS

US 10-year government bond yields spent most of the post-global financial crisis (GFC), post-inflation, QE-era capped at around 3%. Over this era, the US Fed was more than willing to rush in with a liquidity injection ("Fed put") with the threat of inflation seemingly confined to the history books and this, along with a similar outlook on supportive monetary policy from the European and Japanese central banks, made fixed-income investments unappealing for investors seeking a real return. Central banks doubled down on QE and zero rates when the pandemic hit, and fixed-income yields became even more unappealing. Then, in 2022, seemingly extinct inflation came roaring back to life as DM consumers emerged from the COVID-19 pandemic (in pristine financial condition thanks to aggressive fiscal stimulus) with pent-up consumer demand and supply chains still clogged up. The resultant inflation appeared transitory but was exacerbated by food and energy price shocks caused by the unexpected Russian invasion of Ukraine.

The prospect of spiking inflation becoming entrenched increased dramatically. DM central banks were caught on the back foot and scrambled to catch up, causing the biggest sell-off in bonds in at least the 40-odd years that most bond indices have existed. By October 2022, the Bloomberg Global Aggregate Bond Index had fallen more than 20% YTD.

However, that is all in the rear-view mirror, and going forward, ***the most important questions for global bond investors are:***

1. ***Will we return to a benign inflationary environment, and if so, how quickly?***

2. ***Will the "Fed put" return***, and if so, how much can we rely on it?

On the former question, we believe that most factors that appeared to have confined inflation to the "history books" are still firmly in place.

Figure 7: Structural factors that have kept a lid on DM inflation for the past few decades are still largely present
Source: Anchor

Factors	Relevance going forward
Demographics (aging populations with declining fertility rates)	Still very much in place. Growing populations have historically created a meaningful source of incremental demand; this source of demand is largely behind us and is in the process of shifting to a headwind (i.e., shrinking DM populations). In addition, ageing demographics generally result in a larger share of the population being past their peak consumption years.
Technology (generally synonymous with doing more, faster, with less resources)	We believe that technological advances will, at the very least, continue to be a deflationary factor. But, if anything, we expect the pace of technological advances to accelerate, allowing us to do things more efficiently, faster, and less resource- and labour-intensive.
Consumption shifting increasingly towards services	A growing global middle class and increasing GDP per capita will sustain this factor. As economies mature, they tend to spend a larger part of their disposable income on services relative to goods. Services are generally less susceptible to inflationary shocks that occasionally impact the commodities used in producing goods.
Manufacturing outsourced to low-cost jurisdiction	We are likely past the peak deflationary impact of this factor, but the reversal of this factor via onshoring is unlikely to have a material impact on inflation in the future, and fiscal support may somewhat offset the inflationary impact.

Having said that, the current bout of excess ***DM demand is unlikely to dissipate without a meaningful deterioration in economic activity*** (and the concomitant increase in unemployment), which we believe is only likely to materialise in 2H23. As such, ***inflation is expected to remain uncomfortably high for 1H23.***

Our thoughts on the "return of the Fed put" are that QE is now very much an arrow in DM central bank quivers and will make a reappearance during the next bout of economic stress. Thus, in our view, the Fed put is still very much in place. Still, we now believe that the ability of investors to blindly rely on it kicking in every time there is market volatility is a thing of the past, given the recent confirmation that the threat of inflation is still very real. ***We think real evidence of higher unemployment is necessary before we can rely on the Fed put kicking in.*** As previously mentioned, we believe it will only likely show up in 2H23 at the earliest.

Regarding the outlook for US government bonds in 2023, towards the end of our investment horizon (i.e., late 2023), we will see the economic conditions necessary for a start of easing monetary policy. Unfortunately, for bond investors, we think that current DM government bond yields already reflect this outcome, so ***our base case is for US 10-year government bond yields to end the year close to their existing 3.5% level,*** giving investors a total return (in US dollar terms) of 3.5% for the next 12 months.

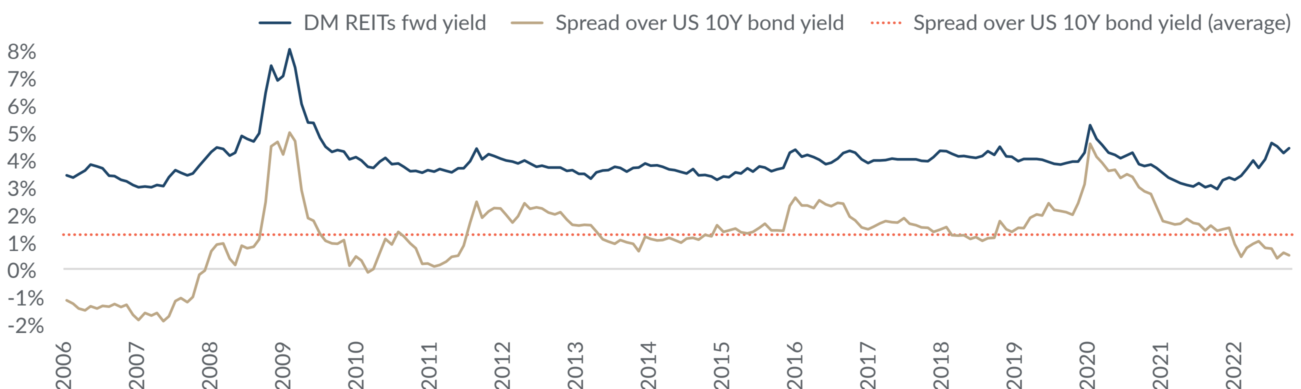
The likelihood of the US ending 2023 in a period of economic stress cannot be excluded. As such, the prospect of some corporate defaults rattling corporate bond markets must be factored in. US investment-grade credit spreads have already pre-empted some of this and are trading well off their cycle lows. Still, as is almost always the case, ***credit markets will likely overreact to defaults, and as such, there is a reasonable prospect of credit spreads ending 2023 slightly higher.*** That will be a fantastic opportunity for corporate bond investors. Still, the path to that point is likely to cause some pain, such that US corporate bond investors will likely match the performance of government bond investors in 2023 with a 12-month total return (in US dollar terms) of 3.5% with a slight capital loss offsetting an attractive yield.

GLOBAL PROPERTY

DM-listed property was one of the worst-performing asset classes in 2022 (FTSE EPRA/NAREIT Global REITs Index -24.5% YoY). The asset class matched many others in entering a bear market in 1H22 (i.e., down more than 20%), but it was the relative performance in 2H22 that was perhaps the most disappointing, falling almost twice as much as global equities in 3Q22 (-11% QoQ vs -6% QoQ for global equities) and then lagging the 4Q22 recovery (6.6% QoQ vs 9.9% QoQ for global equities). In a year when DM interest rates spiked, resulting in one of the biggest bond market selloffs on record, it is perhaps unsurprising that this income-generating asset class also had a tough time.

The major derating for the asset class resulted in an increase in the forecast dividend yield of 1.4% for 2022 (from 3.2% at the start of 2022 to 4.6% at year-end). But, such was the extent of the spike in rates for 2022 that the jump in forecast dividend yield lagged the increase in bond yields, resulting in a compression of the relative yield premium for real estate investment trusts (REITs) over bonds to well below its historical average, leaving the asset class still looking relatively expensive even after a very poor year.

Figure 8: Despite the selloff in DM REITs in 2022, they ended the year looking expensive relative to DM bonds
Source: Bloomberg, Anchor



The selloff was fairly indiscriminate, with all sectors and regions experiencing pain in 2022.

Figure 9: All major REIT sectors and countries came under pressure in 2022
Source: Bloomberg, Anchor

FORECAST 1-YEAR FORWARD DIVIDEND YIELD			
Sector	**Dec 2022**	**Dec 2021**	**Change**
Diversified	6.2%	5.1%	1.1%
Healthcare	5.7%	4.1%	1.5%
Retail	5.4%	4.2%	1.2%
Office	5.3%	3.6%	1.7%
Hotels & Resorts	3.9%	1.9%	2.1%
Specialised	3.9%	2.6%	1.3%
Industrial	3.7%	2.3%	1.4%
Residential	3.7%	2.3%	1.4%
Country	**Dec 2022**	**Dec 2021**	**Change**
US	4.2%	2.8%	1.5%
Japan	3.8%	3.4%	0.4%
UK	4.9%	3.0%	1.9%
Australia	5.9%	5.0%	0.9%
Canada	4.9%	3.5%	1.4%
Singapore	6.2%	5.6%	0.6%
France	8.2%	4.3%	3.9%
Hong Kong	5.8%	4.9%	0.8%
Total	4.6%	3.2%	1.4%
US 10-year government bond yield	3.9%	1.5%	1.9%

Going forward, we expect to remain in a structurally higher interest rate environment, and this will mean that the operating model (which relies on leverage, that will now come at a higher cost) and the valuations (which are viewed relative to other yield-generating investments) will need to adjust accordingly. We believe this adjustment still has some way to run and will weigh slightly on capital values. However, this is offset by the positive tailwind we expect from moderately higher inflation, driving rental escalations and the prospect that all of the pandemic-related supply chain and labour disruptions we have experienced for the past few years will potentially keep supply cyclically constrained.

Regarding our expectations for the next twelve months, we think investors can anticipate a dividend yield of c. 4.6% to combine with mid-single digit operating income growth and a slight derating for a total return (in US dollar terms) of 7% for the asset class.

ALTERNATIVES

The last year has reminded investors that equities and bonds are volatile and can incur material losses over shorter-term timeframes. A year or two ago, the promise of a steady 8%-12% return p.a. seemed only moderately exciting. However, the relative attractiveness of that profile is now much more interesting to many investors after a year of pervasive double-digit declines. This is where the world of alternative investments comes into play.

Alternative investments offer some compelling investment profiles and potential returns. For example, in our asset allocation table earlier in this document, we indicate a return expectation of 10%-15% in rand investments and 8%-20% in the US dollar category. This is a broad range of returns, and we discuss the various available opportunities in this article.

We indicate a return expectation of 10%-15% in rand investments and 8%-20% in the US dollar category.

The term alternative investment is broad, and we view this category as investments different from long-only, vanilla (and typically listed) exposure to underlying assets like equities and bonds. Alternative investments include hedge funds, structured products, private debt, private equity, special opportunities and property development. The risks and potential returns vary markedly, and these must be properly understood and considered together with a suitable investment professional.

Alternative income investments are probably the easiest to understand. Our "vanilla range" of income collective investment schemes (CIS) generate running yields of around 8.5%-10.5% in rand terms and invest primarily in liquid, listed instruments. These funds are mainly lent to the government, banks and large corporates. You can earn even bigger returns if you are willing to lend to private businesses and individuals. Anchor can source private debt funds, generating yields of around 13%-14% in rand and 9% in pound sterling. These are riskier than vanilla lending; usually, money must be committed for longer than one year. While the risks are higher, the track record of our UK fund is exemplary, and the fund managers are of the highest calibre. Anchor has also just launched a global income fund generating a running yield of close to 7% in US dollar terms. This fund invests primarily in US dollar-denominated bonds of big SA corporates.

The simplest way to understand **hedge funds** is that they are unitised products where the fund manager has a more extensive toolset and can enter into contracts which create different profiles for long-only investments. The fund manager can hedge (reducing risk), short (making money out of shares going down) and gear (using debt to buy more of an investment). A hedge fund's track record and investment discipline are crucial. We do not typically invest in hedge funds outside of the Anchor stable as we properly understand the styles and processes of our managers. Our Anchor Accelerator Fund won the award for the best long/short hedge fund in SA in 2019, and it invests across SA and EMs. Our best-performing local fund has generated a low volatility return of 17% p.a. over the past five years. We also have a global macro fund (not licensed to be marketed in SA), which sophisticated investors can enquire about.

Structured products have become particularly attractive due to higher interest rates and high volatility. Banks build these for us based on the investment profile we wish to create, and we can offer hedging, capital guarantees, geared portfolios and generate attractive coupons. These form a crucial pillar of many of our high-net-worth individual (HNWI) portfolios and should be considered supplementary to vanilla long-term investments. “Reverse convertibles” are an attractive space at present. We are also generating interest in US dollar coupons of 15%-20% (paid out monthly) if investors are prepared to accept some downside risk in the chosen equities. We can also create a diversified basket of these products, where we typically aim for a low volatility 12%-14% US dollar return, which we have been achieving for the last year.

Anchor also has dedicated resources sourcing exceptional opportunities that are made available to our clients. For example, in the property space, **Anchor Tenant** typically creates three to four offshore property opportunities every year, and our standard minimum return objective is more than 15% p.a. in US dollar terms. As a result, we can regularly identify properties that fit the bill in terms of quality and risk. In addition, other opportunities, including underwriting, equity-secured lending and placings, have generated meaningful returns for our clients.

As seen above, alternative investments span a broad spectrum, but generally, these products offer something different to vanilla equities and bonds. The return threshold for these to be interesting is typically double digits, with lower risk than equities. Higher interest rates have made this more easily achievable. Anchor is starting a unitised fund that offers a diversified range of the products and profiles explained above, with the objective of a reasonably stable 12%-15% rand return p.a.

ANCHOR INSIGHTS

In this section, staff across Anchor provide insights into our thinking, strategy, and worldview. This quarter, Ross McConnochie asks if you should use your excess savings to pay your mortgage or invest in the stock market, Steph Erasmus discusses the SA construction industry and the recent SANRAL tender awards, Lelethu Poswa delves into what is happening at Transnet, Seleho Tsatsi looks at the impact of climate change on investing, Reko Nare provides insights into what portfolio management entails and, finally, Di Haiden delves into emigration from SA.

Should you use your excess savings to pay your mortgage or invest in the stock market?

WRITTEN BY:

Ross McConnochie, CFA
Offshore Analyst/Portfolio Management

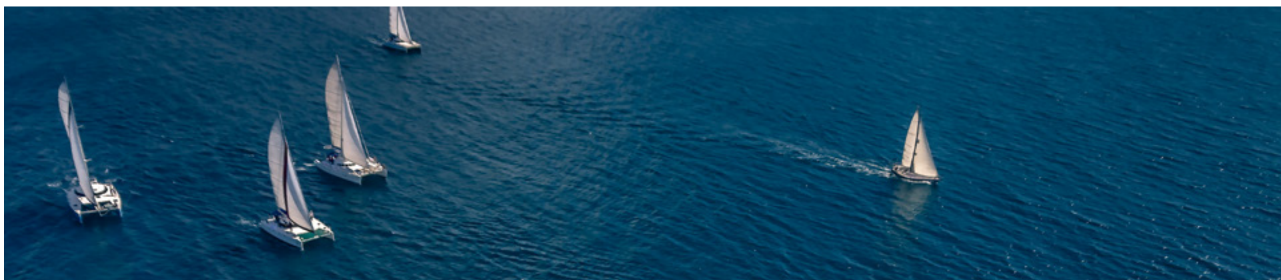
Ross has worked for Robert Cowen Investments since 2011, with a current focus on offshore analysis and portfolio management. Ross holds a B. Bus Sci Finance Honours from the University of Cape Town and is a CFA charterholder.

Every month a minimum debit order comes off your bank account to slowly whittle down your mortgage, and if you are diligent and do not access the bond, you should typically pay it off after 20 years. However, many ask what to do with savings available after all expenses have been met. Should you invest these savings into the stock market or try to pay down your debt quicker? This article explores how your wealth would have changed over the past 20 years had you implemented various strategies.

Many ask what to do with savings available after all expenses have been met

It is June 2002, and you decide to buy a house for R1.1mn; you put down a deposit of R100,000 and get a bond for R1mn from your favourite bank at a rate of prime less 1%. The average prime rate was 15.75% for your first year, thus, your rate was 14.75%, and your starting net asset value (NAV; assets less liabilities) would have been R100,000. Your first-year payment to the bank would have been R157,000 or R13,000 per month. Almost all of that amount would have gone to servicing interest, and thus very little capital would have been paid back. You have also been disciplined that year, and you were able to save R1,000 per month or R12,000 for the year, and you now have a choice to pay back your loan or invest it in the stock market. In this analysis, your options are either the FTSE JSE All Share Index or the US S&P 500 Index. Let us also assume that you were able to increase that saving each year by inflation, therefore, R12,000 in the first year and R12,144 in the second year and so on.

So, let us look at various scenarios and how they would have impacted your wealth 20 years later.



SCENARIO A: PAY OFF YOUR BOND AS QUICKLY AS POSSIBLE, AND AFTER PAYING DOWN THE DEBT, YOU INVEST IN A FIXED DEPOSIT.

This is the most conservative approach as you put all your savings into your bond and shy away from markets. Remember, you are not investing in anything; you pay down your debt a little more each year. But you also save all the future interest on that amount paid back, which compounds in your favour. You were charged a whopping R147,000 interest in your first year, and your loan closes at only R990,000 - a measly R10,000 less than how you started that year. You now take your hard-earned R12,000 savings to reduce your debt to R978,000. So, you are chipping away at your debt as best you can. Fortunately, your property has increased in value to R1.17mn, and thus your NAV is now R192,000.

If you continue putting your inflation-growing savings into the loan, you will pay off your loan in 15.5 years instead of 20, which sounds fantastic. Now that you have paid off your debt, you decide, being very conservative, to save all the funds that you would have paid into the bond (monthly bond payments + extra savings) into a fixed deposit. Thus 4.5 years later, after 20 years, you would have a house worth R5.5mn, a fixed deposit of R866,000, no debt and a NAV of R6.4mn. Pretty good going, but could you have done better?

SCENARIO B: DO NOT PAY DOWN YOUR BOND AT ALL BUT RATHER INVEST IN THE JSE.

Instead of paying off your bond as soon as possible, you decide to put your savings into the FTSE JSE All Share Index and all the dividends are reinvested in that portfolio over time. Therefore, your bond will last the full 20-year term, and you will pay the maximum possible interest on this debt. However, after 20 years, you will have an equity portfolio worth R1.1mn and a paid-off house. Thus, your ending wealth would be R6.7mn.

SCENARIO C: DO NOT PAY DOWN YOUR BOND BUT RATHER INVEST IN THE US S&P 500 INDEX

This scenario is similar to Scenario B, where you do not pay off your bond but instead decide to invest the money in the US S&P 500 as you believe better returns will be generated offshore. In rand terms, you would have had a very similar investment path until about year 15, when you would have begun to pull ahead as the SA market underperformed the US. At the end of 20 years, you would have an offshore equity portfolio worth R1.9mn, giving you a total NAV of about R7.5mn.

So far, investing in the stock market was a better decision than paying off your debt. But let us explore two more variations to the above.

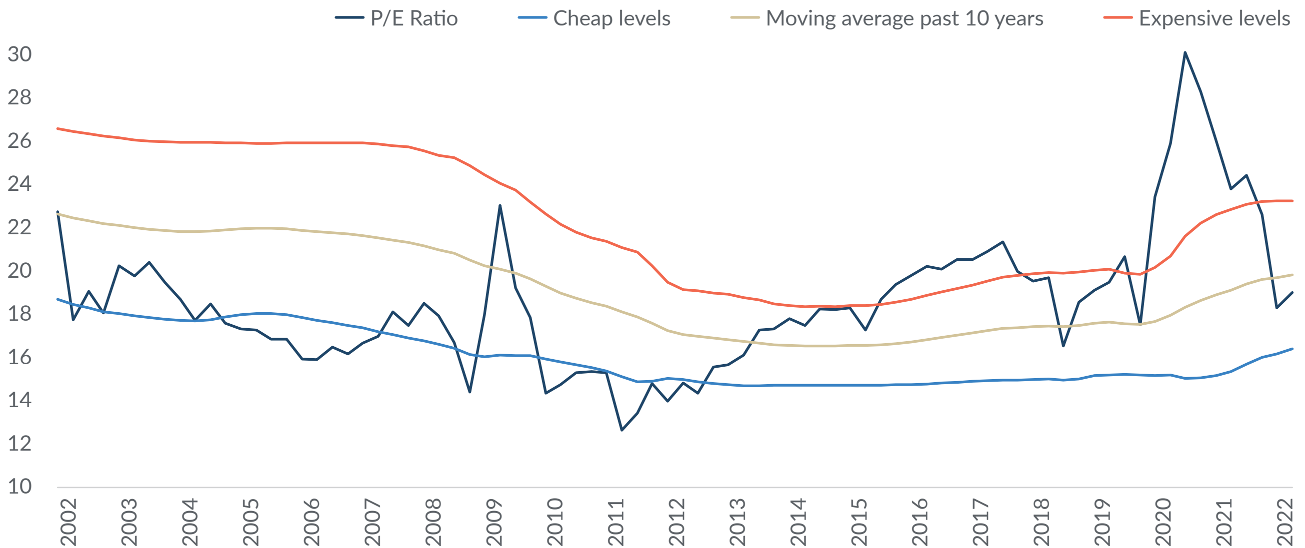
SCENARIO D: PAY DOWN YOUR DEBT AS SOON AS POSSIBLE AND THEN INVEST OFFSHORE IN THE US S&P 500

This is similar to Scenario A, where you try and pay off your debt as soon as possible, but instead of investing in a fixed deposit after you have paid off your bond, you invest in the S&P 500. In this scenario, you will also pay off your debt after 15.5 years, but you would only have invested in the stock market for the past 4.5 years. Thus, you have not received the benefit of time and compounding in the stock market, but you would have at least beaten Scenario A and ended with a NAV of R6.53mn.

SCENARIO E: INVESTING IN THE US S&P 500 WHEN CHEAP OR PAYING OFF YOUR DEBT WHEN EXPENSIVE.

This is the most interesting scenario where you put a little more thought into what you do. In this scenario, you invest in the market when it is cheap or pay back your loan when it is expensive. Then, if the market is about average, you split your savings between the two.

Figure 1: The US S&P 500 P/E valuation levels
Source: Bloomberg, Anchor



Note that the market is expensive above the red line or cheap under the blue line.

In this scenario, you would have invested your savings into the market for six of the 20 years. You would have paid off your bond in four of the 20 years and split your savings the rest of the time. In Scenario E, you would have paid back your loan after 17.5 years, and after it is paid off, you then put all your proceeds into the S&P 500. After 20 years, you would have an equity portfolio of R1.6mn, giving you a closing NAV of about R7.mn or second place after Scenario C.

CONCLUSION

Figure 2: A summary of the various scenarios
Source: Anchor

	Scenarios					
	A	**B**	**C**	**D**	**E**	**F**
Life of bond in years	15.5	20	20	15.5	17.5	19.5
Interest paid over the life of bond	1 049 019	1 379 784	1 379 784	1 049 019	1 251 102	1 350 075
Value of fixed deposit at 30 Jun 2022	866 285					
Value of equity at 30 June 2022		1 187 350	1 974 072	1 003 964	1 673 117	1 940 067
Value of property at 30 June 2022	5 533 771	5 533 771	5 533 771	5 533 771	5 533 771	5 533 771
NAV at 30 June 2022	6 400 053	6 721 122	7 507 843	6 537 735	7 206 888	7 473 838

The best scenario is C, investing as much as possible in the S&P 500 and allowing for compound growth over the long term. Unfortunately, Scenario A has the worst outcome. The interest saved on paying off your bond and the interest earned afterwards is not as good as being invested in the market. And, if we deduct income tax on that interest you earned, the final NAV would be even worse.

Figure 3: NAV after 20 years
Source: Bloomberg, Anchor

8 000 000
7 000 000
6 000 000
5 000 000
4 000 000
3 000 000
2 000 000
1 000 000
0

7 507 843
7 206 888
6 721 122
6 537 735
6 400 053

2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

Scenario A: Pay back bond as soon as possible and then save in a fixed deposit
Scenario B: Invest all savings in the FTSE JSE All Share with reinvested dividends
Scenario C: Invest all savings in the US S&P 500 with reinvested dividends
Scenario D: Pay off bonds as soon as possible, then invest in S&P 500
Scenario E: Invest in the market when cheap or half if average. When expensive pay off bond.

Intuitively you would think that Scenario E is the best strategy as it uses a lot more brain power, but it does not beat Scenario C because of the times you split your savings between bond payments and the market. This is because the market can be averagely valued, but because the earnings of the underlying companies continue to rise, it ends up beating the interest rate on your bond over time.

For those who have read this far and love the numbers, we have included a slight variation to Scenario C in Scenario F (see table in *Figure 2* above), where we continually invest in the stock market unless it is expensive. Now we are saying that we are long-term investors all the time except when the market is expensive but what is crazy is that we still do not beat Scenario C! So, it is quite clear that trying to time the market around cheap or expensive is not a successful long-term strategy. You would be much better off putting a debit order in your bank account to invest in the market no matter what and allow for long-term compounding over and above the interest paid or earned.

The South African construction industry:

On a hiding to nothing amidst SANRAL tender awards

WRITTEN BY:
Stephan Erasmus CFA
Investment Analyst

Steph joined Anchor as a senior investment analyst in 2022. Steph worked in several financial management positions after studying at Rhodes University, UNISA, and the University of Pretoria. He joined Avior Capital Markets in 2018 as a sell-side analyst. While at Avior Capital Markets, Steph was rated fourth in the annual Financial Mail Ranking the Analysts survey for healthcare and pharma sector coverage in 2021 and was also the top-rated industrial small- and medium-cap analyst for 2020 and 2021. Steph holds the CFA designation and the CGMA global designation for management accountants.

In 2008, the SA government estimated that upgrading the country's road network would cost R72bn. Furthermore, the government estimated that 82% of SA's roads were older than their designed lifespan of 20 years, while 40% of all tarred roads, totalling 120,000km, would reach the end of their structural life within ten years. As a result, the government allocated R5.2bn for maintenance and upgrading, falling well short of the estimated R72bn. Moreover, the government approved R24bn for the Gauteng Freeway Improvement Project (GFIP) to reduce traffic congestion.

Fast forward to 2016, when the Organisation Undoing Tax Abuse (OUTA) alleged that the South African National Roads Agency SOC Ltd (SANRAL) overpaid for the GFIP by 321%. Moreover, the Competition Commission reported collusion in some GFIP tenders three years ago. At this point, how much responsibility does the private sector bear for our abysmal roads? If SANRAL had not overpaid by c. R11bn for the GFIP, the e-tolling system would not exist, according to a 2016 OUTA report. In the end, SANRAL claimed c. R760mn in damages from seven firms involved in the GFIP.

The government estimated that 82% of SA's roads were older than their designed lifespan of 20 years

In 2017, the National Treasury (Treasury) introduced its new infrastructure procurement and delivery management standard. The new standard aimed to enhance the value for money offered by professional service providers. However, although noble, the new standard was unenforceable due to a lack of capacity at Treasury. In total, the ructions between SANRAL and Treasury resulted in c. R5.1bn in budgeted SANRAL tenders going unawarded between 2016 and 2017.

In a 2020 decision that some saw as passing the buck of civil unrest, SANRAL changed the clause on which contractors rely when dealing with unforeseen and unavoidable disruptions at construction sites. As a result, a joint venture (JV) made up of infrastructure and resources group Aveng and Austria's Strabag International (JV) terminated a contract to an R1.65bn bridge in the Eastern Cape. The JV cited fears over violent protests on site. According to the SA Forum of Civil Engineering Contractors (SAFCEC), the total value of projects disrupted by criminals across the country stood at R25.5bn by March 2019.

SANRAL gives and takes. In 2022, the transport minister endorsed SANRAL's decision to cancel road improvement and construction tenders worth R17bn, sighting procurement irregularities. As a result, the SANRAL board halted at least five key projects. Withdrawing these tenders might indicate that the state is taking a more aggressive stance against corruption in public procurement, which is a welcome development. However, the SA construction industry, which is already in an abysmal state, had almost started invoicing on the contracts already awarded. As a result, some contractors likely issued painful credit notes.

During the first week of November 2022, SANRAL announced awarding four of its five crucial road improvement and construction projects valued at c. R17bn. However, SANRAL awarded up to R6.65bn in tenders to foreign, specifically Chinese, contractors. Consequently, SANRAL has come under fire from the SA construction industry as it searches for answers behind the multibillion-rand tendering process that ultimately selected Chinese contractors when the local construction industry is in dire straits. There is a long history of Chinese construction companies building sub-standard infrastructure across Africa. We are reminded of the old Afrikaans adage "Goedkoop is duur koop", which loosely translated means that if you pay the lowest prices, you will be paying more in the long run.

If you pay the lowest prices, you will be paying more in the long run.

One can understand that government is probably once bitten, twice shy, following the collusion amongst some SA construction firms in the GFIP. However, we would argue that the average South African is perhaps growing frustrated with the government's inaction and the awarding of tenders to foreign companies by SANRAL. Infrastructure projects are low-hanging fruit that SA must take advantage of to help kick-start our economy. The multiplier effect of keeping the rand compounding within the local economy makes SANRAL's decision even more challenging to understand.

Transnet: What is happening at the parastatal?

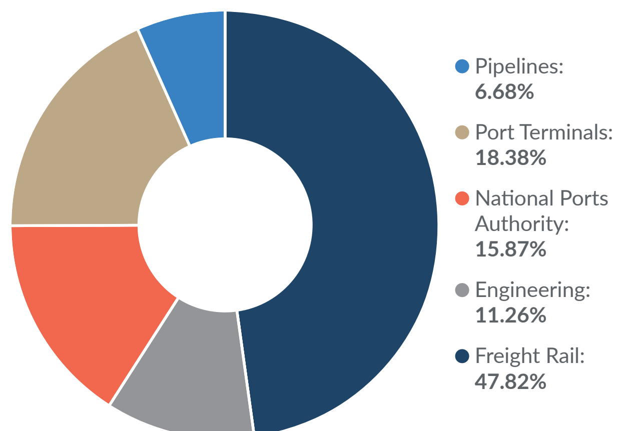
WRITTEN BY:
Lelethu Poswa
Fixed Income Analyst

Lelethu holds a BBusSc triple-major degree from UCT, specialising in finance, economics and statistics. Lelethu has worked in the fixed-income space for companies such as Old Mutual Investment Group and Investec Asset Management. He joined Anchor in 2020 as a fixed-income analyst focusing on the credit space.

Transnet SOC Limited (Transnet) is a wholly government-owned state entity that owns and operates SA's national freight railway network, ports, and pipeline infrastructure. The state-owned entity's (SOE's) main objectives include constructing an efficient rail freight system to reduce reliance on road transport and operating ports efficiently to reduce ocean freight costs. In this article, we discuss Transnet's current financial and operational challenges and make recommendations that we think would make Transnet a more effective SOE.

Transnet has five operating divisions, with Transnet Freight Rail (TFR) being the largest in terms of revenue (*Figure 1*). The TFR division generates revenue from freight transportation over the rail network. More than 66% of TFR revenue is generated from the transportation of export coal, iron ore, and manganese.

Figure 1: Transnet FY22 revenue split by operating division
Source: Company financial statements, Anchor



Historically, Transnet had a strong track record of moderate revenue growth and operated without any extraordinary government support. However, over recent years, Transnet's operational and financial performances were negatively impacted by a combination of the following:

1. Pandemic-related sharp volume declines.
2. Declining capital expenditure (CAPEX) and, consequently, infrastructure capacity constraints.
3. High debt levels and a weak liquidity position.
4. Compromised corporate governance structures.
5. Several operational challenges, including incidents of crime and environmental disruptions.

PANDEMIC-RELATED SHARP VOLUME DECLINES

Figure 2: Rail volumes have declined sharply
Source: Company financial statements, Anchor

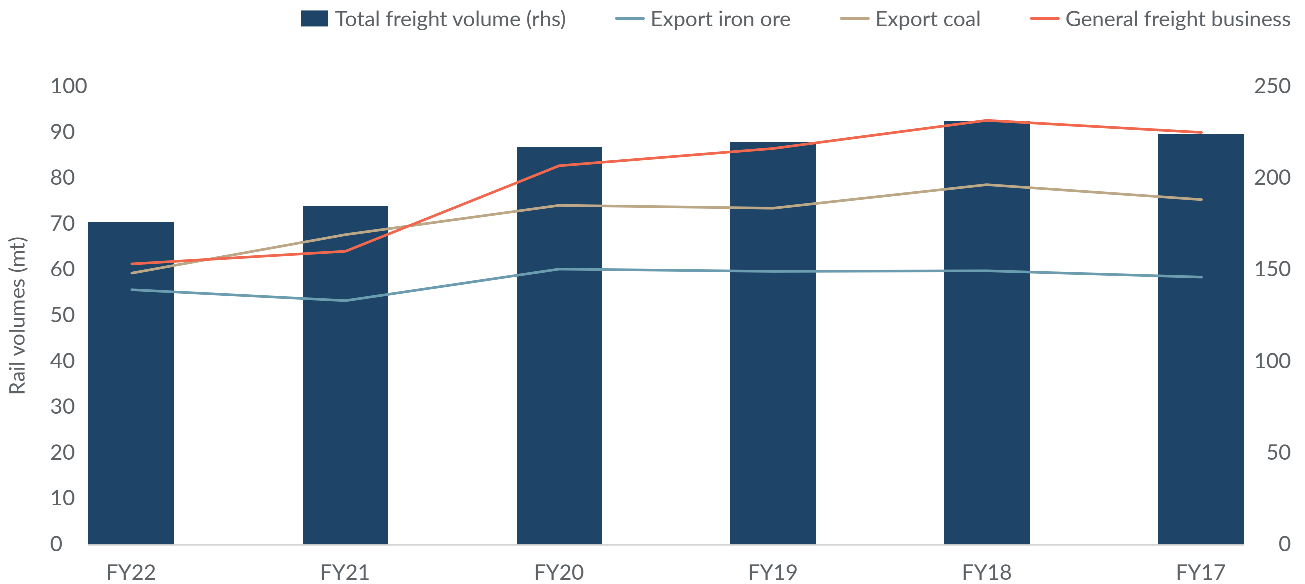
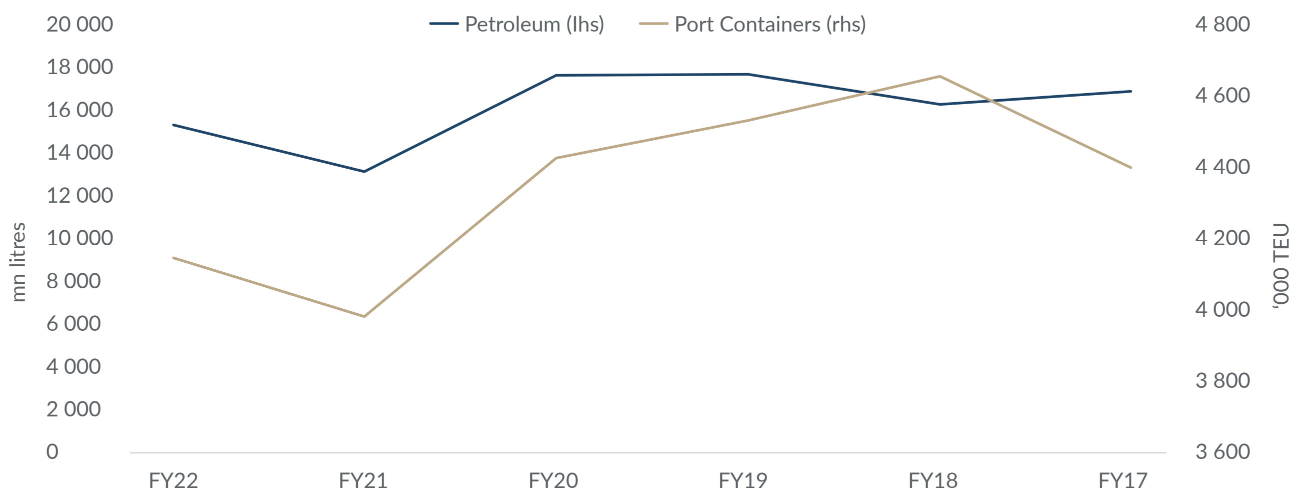


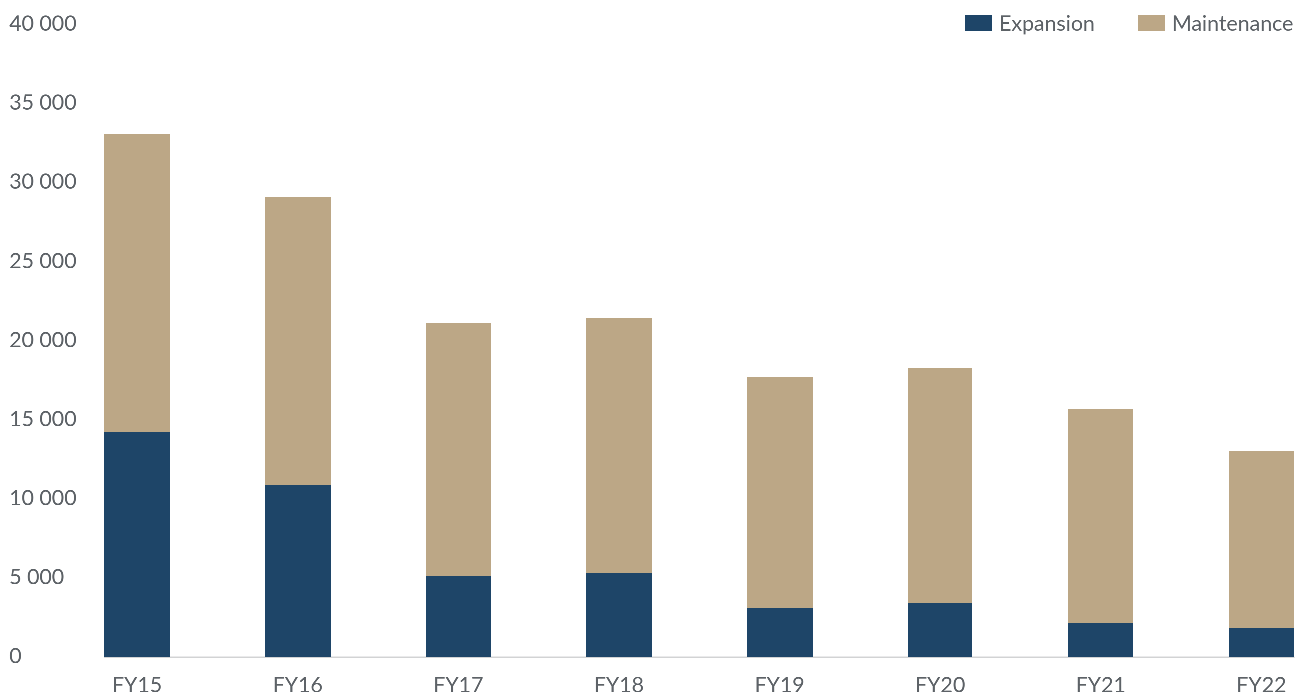
Figure 3: A sharp decline in petroleum and container volumes
Source: Company financial statements, Anchor



In FY21 (Transnet's financial year ending 31 March 2021), Transnet's financial and operational performances were severely impacted by the COVID-19 pandemic as SA was in hard lockdown for four weeks. During this hard lockdown, Transnet's primary customers, the mining industry, halted operations, and as a result, freight volumes declined sharply (*Figure 2*). General Freight Business (GFB) volumes were hit the hardest - down c. 22% YoY (*Figure 2*). In addition, the Pipeline and Port Terminal divisions combined account for more than c. 30% of Transnet's profit and also experienced a sharp drop in petroleum and port container volumes (*Figure 3*). These sharp drops in volumes resulted in Transnet's FY21 revenue declining by 11% YoY, and the SOE reported a loss for the year of R8.7bn, compared to R2.9bn profit in the previous financial year (FY20).

DECLINING CAPEX AND INFRASTRUCTURE CAPACITY CONSTRAINTS

Figure 4: Capital investment continues to fall, Rmn
Source: Company financial statements, Anchor

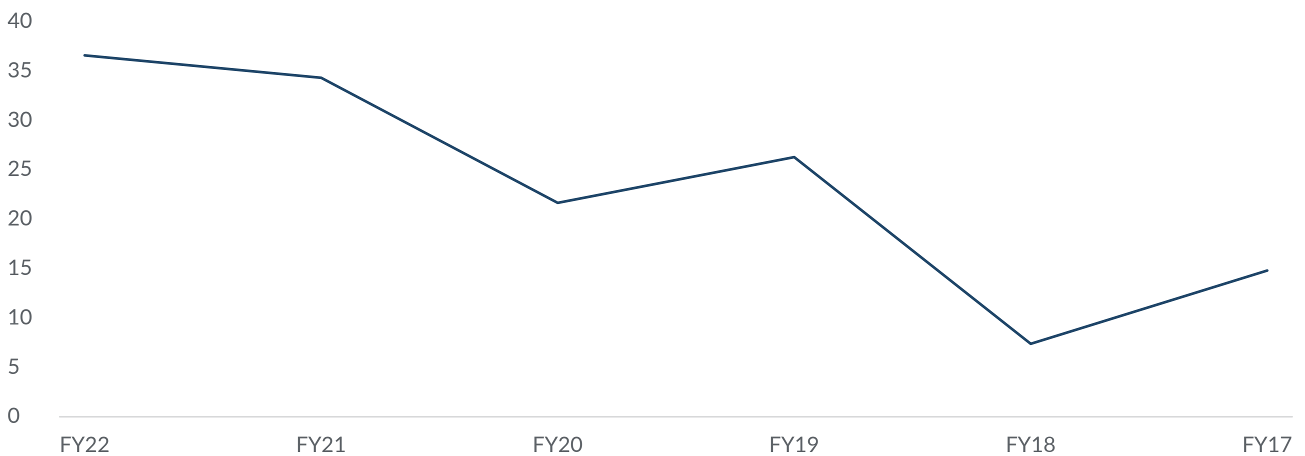


Transnet has a large CAPEX programme. The expenditure is for maintaining existing infrastructure (maintenance) and creating new capacity (expansion). To try and offset the lost revenue from lower volumes, Transnet has for years opted to reduce or defer its immediate spending on infrastructure to preserve cash flows. As a result, Transnet's CAPEX dropped to c. R13bn in FY22 compared to the c. R33bn that was reported in FY15 (*Figure 4*). This strategy does alleviate immediate funding pressures; however, it also compromises the existing infrastructure over the long term as the risks of accidents and rail incidents increase.

Transnet's new locomotive fleet's reliability is compromised as manufacturers make it difficult to obtain spare parts, and contracts are suspended. The older locomotive fleets are unreliable due to obsolescence, which has resulted in the decommissioning of c. 25% of Transnet's locomotive fleet since 2018. The freight railway network is currently operating with a sub-optimal number of locomotives. Speed restriction measures were implemented on several infrastructure lines to minimise the risk of rail incidents and avoid a network collapse. However, a sharp rise in crime incidents, including infrastructure sabotage, vandalism, cable theft, and cyber-attacks, has put additional pressure on its infrastructure. Thus, Transnet's ability to meet customer demand has become increasingly limited, given these infrastructure constraints. All this is negative for the company's earnings generation.

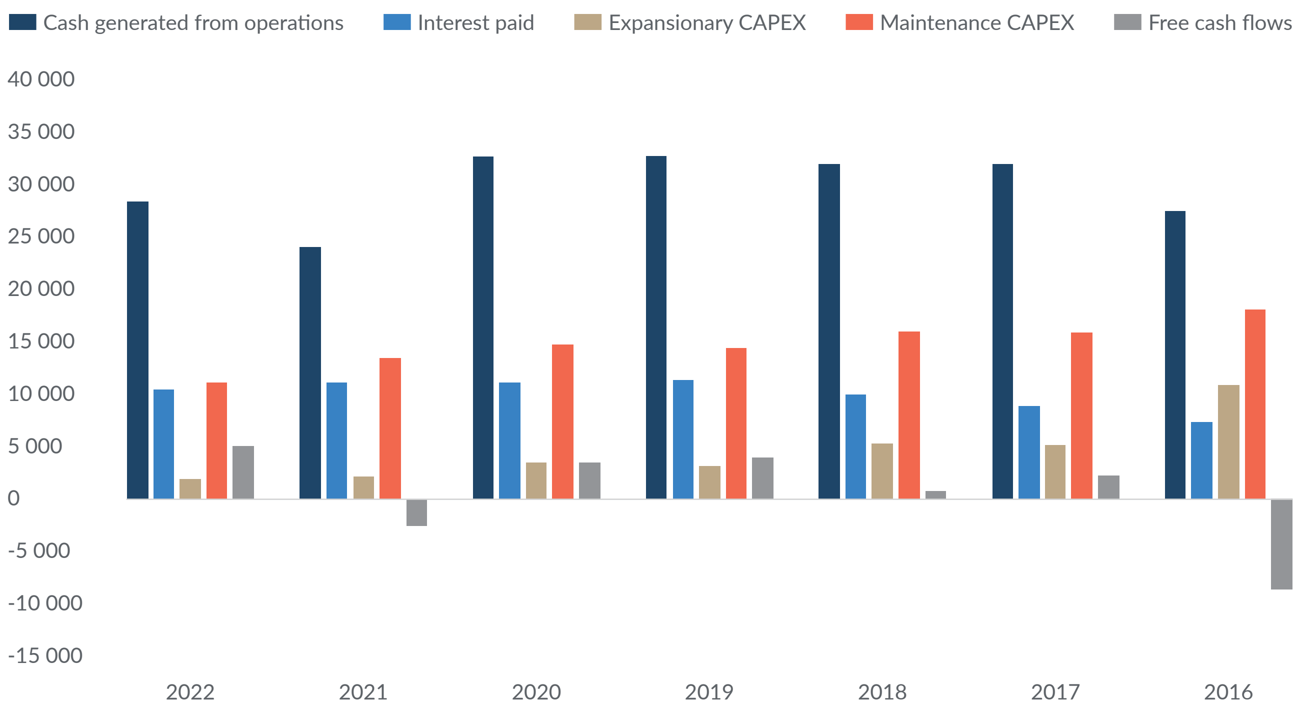
The years of capital underinvestment and operational disruptions are also undermining volume recovery at Transnet despite the lifting of lockdown restrictions. In FY22, freight rail volumes continued to decline while petroleum and container volumes remained significantly below pre-pandemic levels (see *Figures 2 and 3*). FY22 revenue growth was low at c. 1.8% YoY, illustrating how Transnet has been unable to benefit from the economic recovery and elevated commodity prices. The difference between targeted and actual freight volumes also keeps growing, registering 36mnt in FY22 (*Figure 5*). Muted revenue growth, and high inflation on operational costs, will make the recovery of profitability margins challenging.

Figure 5: The difference between targeted and actual freight volumes, mnt
Source: Company financial statements, Anchor



HIGH DEBT LEVELS, A WEAK LIQUIDITY POSITION, AND HIGH REFINANCING RISKS

Figure 6: Limited financial flexibility, Rmn
Source: Company financial statements, Anchor



Transnet's R130bn debt bill comprises mainly rand-denominated bonds, bank loans, and development finance institution (DFI) loans. In addition, interest payments on its debt bill remain high at around R10bn. As a result, finance costs combined with CAPEX continue to absorb a significant portion of cash flows, leaving minimal free cash flows for debt repayments and making the SOE highly reliant on refinancing debt maturities when these become due (*Figure 6*).

Transnet had a strong track record of refinancing upcoming debt maturities through its diversified funding base. However, recent delays in the release of its financial statements, several loan covenant breaches, a series of qualified audit opinions, credit rating downgrades, weak operational and financial performances, and negative sentiment toward SOEs, in general, have negatively impacted Transnet's ability to access international and local debt capital markets in a timely manner. This is evidenced by how Transnet struggled to refinance the US$1bn bond that came due in July 2022.

COMPROMISED CORPORATE GOVERNANCE STRUCTURES

Transnet has made several changes to its executive management after several of its executives resigned, were dismissed, or were suspended in 2018. Sixteen of the seventeen current executive members were appointed in or after 2020. In addition, Transnet's corporate governance structures have been compromised, given past deficiencies in the risk control framework, which led to insufficient control over procurement and contract management. From FY18 to FY21, Transnet received a qualified audit opinion due to the auditor's inability to determine the full extent of irregular expenditure. The qualification resulted in a breach of loan covenants, and lenders successfully received waivers.

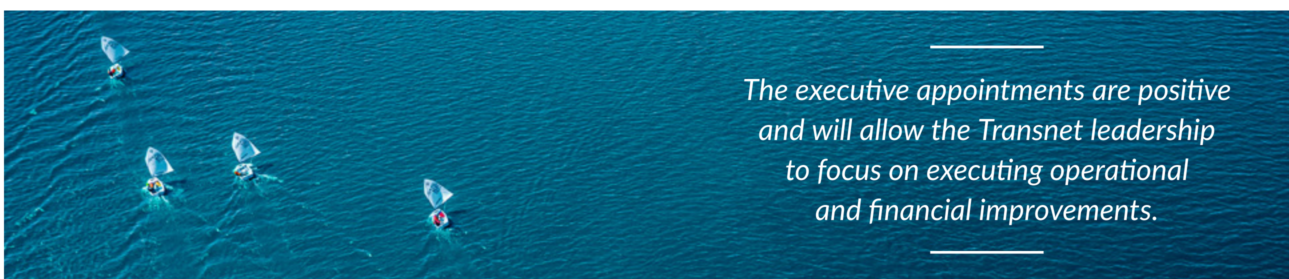
Executive appointments were made to resolve Transnet's management and governance deficiencies. In FY22, Transnet received an unqualified opinion, given improvements in the control environment and the continued focus required in the compliance space. In our view, the executive appointments are positive and will allow the Transnet leadership to focus on executing operational and financial improvements in the business. However, we note that, in pursuit of transparency, accountability, and sound financial management, several changes to the executive team in such a short period could result in a phenomenon known as corporate amnesia – "loss of institutional knowledge".

OPERATIONAL CHALLENGES

Transnet has experienced increased crime incidents, including vandalism, cable theft, infrastructure sabotage, cyber-attacks, fire blowouts, and social unrest, causing operational disruptions in several parts of its business. These operational challenges have contributed to Transnet's deteriorating operational efficiency – increasing the risk of accidents, derailments, force majeure events, and the incurrence of costs related to security and maintenance, which are pressurising profitability margins. Furthermore, environmental disruptions like the KwaZulu-Natal (KZN) floods damaged Transnet infrastructure, placing additional strain on its capacity levels.

WHAT CAN TRANSNET DO?

Despite the abovementioned challenges, Transnet remains a strategically important entity for the country. It has a strong business profile underpinned by being a monopoly provider of port and pipeline infrastructure and having a dominant position in freight rail. In the 2022 Medium Term Budget Policy Statement (MTBPS), the finance minister confirmed that Transnet would be allocated a bailout amounting to R5.8bn. However, given the complex nature of Transnet's operational and financial challenges, the road to recovery is likely to be long, and we could see more state bailouts for the SOE soon.



Even with increasing fiscal pressures coming from other SOEs, such as Eskom Holdings Limited, one can argue that the state's willingness to provide extraordinary support to Transnet remains high, given its strategic importance to the SA government and the economy.

Transnet can become a more effective business by focusing on and urgently addressing the issues we have highlighted below. These interventions include the following:

1. Improving Transnet's infrastructure capacity by ramping up its CAPEX.

2. Focusing on developing public-private partnerships (PPP), which, in our view, is crucial, especially in upgrading SA's ports. A PPP will reduce pressure on public finances and increase the number of projects in any future government-initiated public infrastructure plan. For example, in 2021, the government said it needed private partners for an R100bn terminal at Durban harbour as part of a port's master plan in line with the president's Economic Reconstruction and Recovery Plan. If it does happen, it will make the port the biggest and busiest in Africa. Its capacity for container handling would grow from 2.9mn units to over 11.3mn, according to Business Leadership SA. Any backlog at our ports will take much longer to address and be extremely costly without private sector assistance.

3. Improving Transnet's liquidity profile and its liquidity management by making the entity less reliant on refinancing debt maturities or, alternatively, Transnet can refinance these debt maturities well in advance.

4. Increasing the security and maintenance costs of the entity to limit any operational disruptions caused by criminal activities such as theft and vandalism of rail infrastructure. It is essential that when criminals tampering with the network are caught, their convictions move ahead faster, and sentences are harsher. TFR CEO Sizakele Mzimela said in August that at this stage, the conviction rate is only 10%, which is not a deterrent.

5. Strengthening Transnet's governance structures with a continued focus on the compliance space.

The impact of climate change on investing

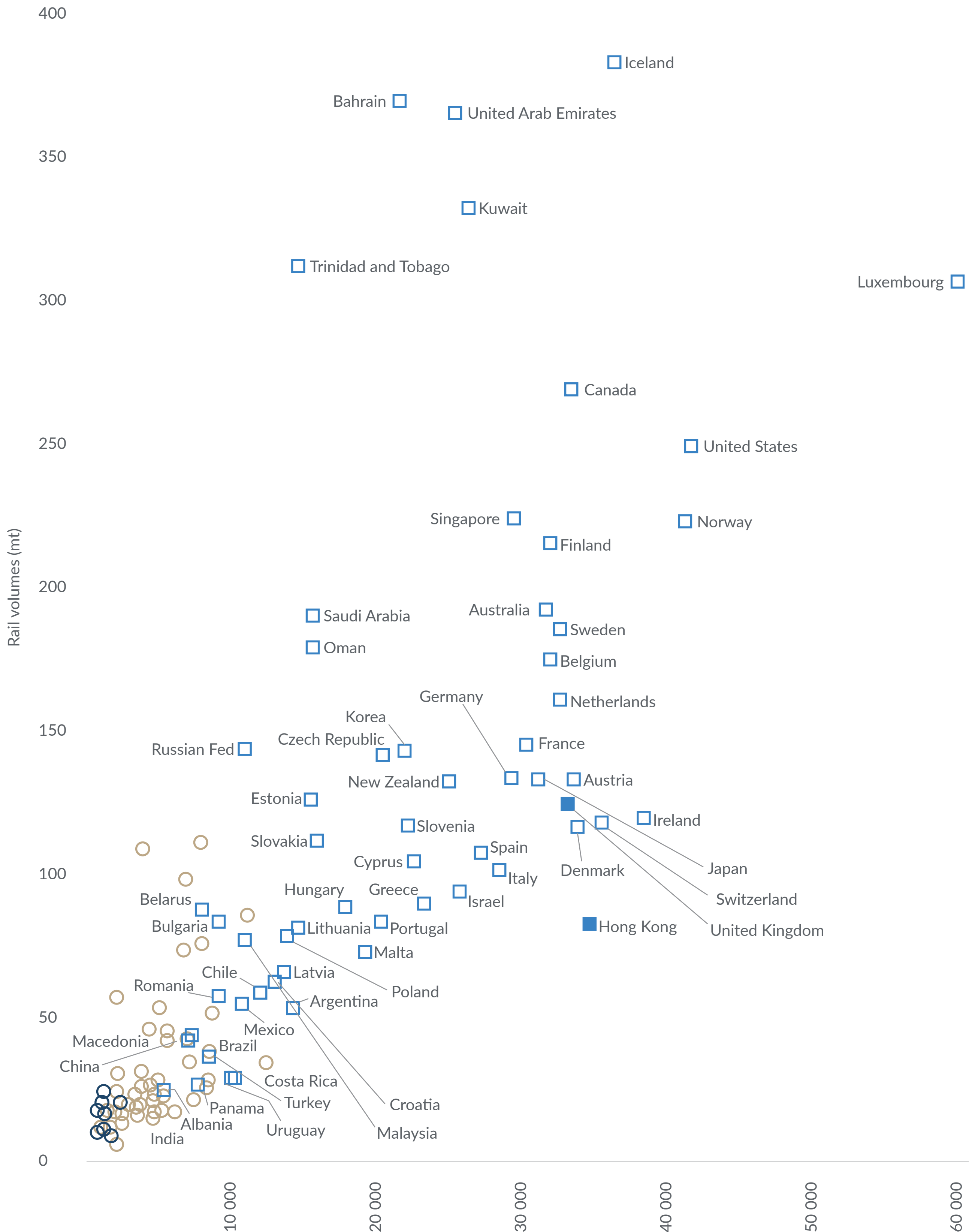
WRITTEN BY:
Seleho Tsatsi
Investment Analyst

In 2013, Seleho completed his BCom in Economics and Finance at Wits University, where he received the SASFIN Securities Prize. In 2014, he was awarded the Postgraduate Merit Award upon enrolment for Honours. He joined Cannon Asset Managers in January 2015 and moved to Anchor in November 2015. Seleho covers the basic materials sector locally and co-manages the Anchor BCI Global Technology fund. He is a CFA charterholder.

In this article, we explore the significance of energy and the impact of climate change on investors. We will begin by discussing the current state of climate change and why it is a pressing issue. Next, we will examine the steps being taken to address this problem. Finally, we analyse why energy and climate change will likely be critical areas for investors to pay attention to in the future.

The world currently emits 51bn tons of greenhouse gases per year. That figure is measured in carbon dioxide equivalents (CO2e). There are several greenhouse gases, such as carbon dioxide, methane and nitrous oxide, but the most common is carbon dioxide. Part of the challenge is that their energy use naturally grows as economies grow. As a result, there is a strong relationship between GDP per capita and power consumption per person.

Figure 1: GDP per capita vs power consumption per person
Source: Sustainable Energy, David Mackay

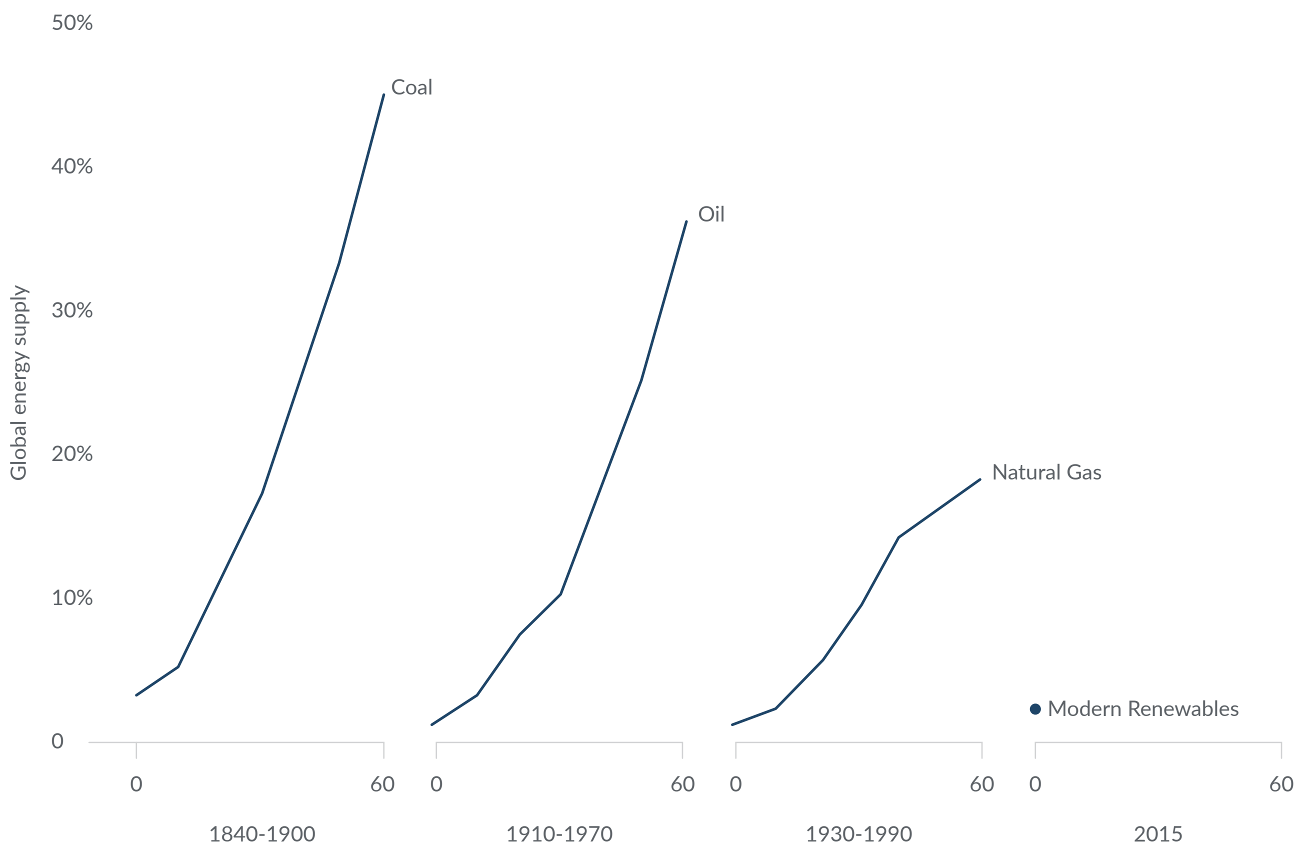


The problem with the world continuing to emit c. 50bn tons of greenhouse gases every year is that these greenhouse gas emissions increase global temperatures. Higher global temperatures can lead to huge weather, health and economic challenges. Increases of 1 or 2 degrees Celsius in average global temperatures may sound small but can significantly impact the world. As a globe, we may experience more intense storms, wildfires, heatwaves, erratic crops and higher sea levels. There is still a lot that scientists do not know, but the majority (97%) believe that human behaviour is indeed impacting the climate. That is important because scientific consensus is a driver in global policy. It has contributed, for example, to the Paris Agreement. The Paris Agreement, which includes over 190 countries as signatories, aims to keep the rise in the world's average temperature below 2 degrees Celsius compared to pre-industrial levels.

The aim is to get annual emissions to net zero (i.e., we remove as many greenhouse gases as we put in the atmosphere). This is a mammoth task for the world. To put the size of the challenge ahead of us into context, consider the COVID-19 pandemic. In 2020, the world emitted 48bn-49bn tons of CO2e, yet, global emissions fell by only c. 5% in 2020. That is astonishing when you consider the change in behaviour required for us to get there - large parts of the world were "locked down" at home, air travel was suspended, and much economic activity was stopped as we dealt with the pandemic. Clearly, getting to net zero will require a fundamental re-working of our economy rather than a mere reduction of activity in certain areas.

Climate change is likely to create significant opportunities for investors going forward. One reason is that the transition to a greener economy may have to occur much quicker than previous energy transitions. Historically, energy transitions have taken place over decades. It took coal 60 years to go from 0% to 45% of the world's energy supply. It took oil 60 years to go from 0% to just under 40% of the world's energy supply. Natural gas has only become 20% of the global energy supply over the past 60 years. This transition may need to happen over a much shorter period because of the urgency to reduce emissions, and the economic implications of such a transition could be unprecedented.

Figure 2: Time taken for previous energy transitions
Source: How to Avoid a Climate Disaster by Bill Gates



Climate change will also likely create significant opportunities for investors because it affects many parts of the global economy (see *Figure 3* below).

Figure 3: Greenhouse gas emissions by economic activity
Source: How to Avoid a Climate Disaster by Bill Gates

Making things (cement, steel, plastic)	31%
Plugging in (electricity)	27%
Growing things (plants, animals)	19%
Getting around (planes, trucks, cargo ships)	16%
Keeping warm and cool (heating, cooling, refrigeration)	7%

From the clothes we wear to the fertilisers used for the foods we eat to the plastic in so many of the household items we use, fossil fuels are a fundamental part of modern life. It is natural to think of climate change as just a problem of burning fossil fuels to generate electricity, but it is much more pervasive. As the table above shows, manufacturing (especially cement, steel and plastic) is an even larger contributor to climate change than electricity generation. This is a challenge not only for the energy sector (for example, thermal coal or oil companies) but for the whole economy - iron ore and steel producers, clothing manufacturers, the automotive industry, agricultural companies, etc.

The third reason why climate change is likely to create significant opportunities for investors is that climate change policies can create supply shortages for fossil fuels. Globally, governments and corporations generally want to use less fossil fuels over time. There is public pressure on banks to provide less funding to fossil fuel companies. As a result, less capital is generally spent on maintaining these fuels' output levels. The irony, therefore, is that sharp increases in energy demand can lead to dramatic price increases. We have seen this since the global economy began to recover from the COVID-19 pandemic. The dramatic recovery in global GDP and the subsequent Russian invasion of Ukraine created severe supply tightness for oil, natural gas and thermal coal. As international policy becomes more stringent on fossil fuels and capital markets become increasingly less willing to fund these companies, investors may be presented with severe demand-supply mismatches at certain times.

In conclusion, climate change is an important issue for investors. The current annual emissions rate of 51bn tons of CO2e can have major weather, health and economic impacts. To prevent this, the global policy aims to minimise the increase in the world's average temperature vs pre-industrial times. As a result of that minimisation, climate change will likely present opportunities for investors for three reasons, these include:

- The transition to a low-carbon economy may have to occur much faster than previous energy transitions.
- The transition is likely to be pervasive across all facets of the economy.
- Finally, the transition may, at times, create severe supply shortages for fossil fuels.

Climate change will likely present opportunities for investors.

Portfolio management: A value proposition

WRITTEN BY:
Reko Nare
Portfolio Management

Reko is an economics graduate from the University of Pretoria. He holds a postgraduate diploma in investment analysis and portfolio management from UNISA and is currently pursuing a CFA designation. Reko is a member of the South African Institute of Financial Markets and joined the portfolio management team focusing on servicing the investment needs of high-net-worth clients in South Africa.

THE PORTFOLIO APPROACH TO INVESTING

An investment portfolio can be defined as a collection of financial instruments such as equities, bonds, exchange-traded funds (ETFs), cash, and cash equivalents. The portfolio perspective on investing highlights that the risk an investor takes by holding only a single security is not rewarded by higher returns. On the other hand, modern portfolio theory concludes that holding a diversified investment portfolio reduces the risk for a given level of expected return. Diversification allows an investor to reduce portfolio risk without necessarily reducing the portfolio's expected return.

How individual investments shape this risk-return profile is one of portfolio management's core functions.

Evaluating how individual investments shape this risk-return profile is one of portfolio management's core functions. Yet, constructing well-diversified portfolios that are conscious of investors' unique circumstances is only one of the characteristics of portfolio management.

We recently sat down with a handful of Anchor's senior portfolio managers to better understand the portfolio management process and its value proposition within our private client business.

THE PORTFOLIO MANAGEMENT PROCESS

The first step within the portfolio management process involves establishing the investor's return objective given their personal risk profile, time horizon, tax exposure, income, and liquidity needs. Of course, this will differ for each investor depending on their unique circumstances, financial position, or preference, and once established, an appropriate risk profile can be assigned to the client.

The next step within the portfolio management process involves determining how funds will be allocated to the various asset classes, given their risk-return characteristics. Portfolio managers must be able to justify the proportion of a portfolio most appropriate to allocate to each asset class. Once asset class allocations have been determined, the portfolio manager is tasked with identifying the most attractive securities within each asset class that are best positioned to meet the investor's return objectives, given the abovementioned constraints.

The final step within the process involves providing feedback to the client in the form of periodic reporting, in which the portfolio manager measures the portfolio's performance and evaluates it relative to the return on the benchmark established upon the inception of the portfolio. The benchmark is the standard against which an investor can measure the relative performance of their portfolio.

As an investor's circumstances change, asset classes and risk-return characteristics will also change. As a result, the actual weights of the securities within investment portfolios will also change as asset prices move. The portfolio manager is therefore tasked with transition management which involves monitoring these changes and rebalancing the portfolio periodically in response to these changes while adjusting security weights back to their desired allocations.

ACTIVE VS PASSIVE MANAGEMENT

Investment portfolios can typically be managed by applying active or passive management strategies. Active investment management strategies attempt to outperform a chosen benchmark through a portfolio manager's various analysis techniques. In addition, a dynamic research complement typically supports portfolio managers that follow an active strategy and tend to construct portfolios around a specific theme, such as value, growth, or momentum-oriented investing. In contrast, passive investment management strategies attempt to replicate the sector of the market they represent.

A dynamic research complement typically supports portfolio managers that follow an active strategy.

Portfolio managers that apply a passive approach typically use unit trusts or ETFs that replicate the performance of a chosen benchmark index, such as the FTSE JSE All Share Index Top 40 (ALSI 40) or the S&P 500. It has been interesting to note how rapidly the market share for passive management has grown. This is partly due to the lower fees passive managers charge investors and, in part, to questions about whether active managers can add value over time on a risk-adjusted basis, especially in DMs that are believed to be relatively efficient. While the active vs passive debate continues, our senior portfolio managers were content to conclude that although each strategy requires a unique skill set, there is room for both strategies within a portfolio manager's arsenal and, when applied appropriately, in considering the unique circumstances of individual investors.

PORTFOLIO MANAGERS AS MARKET STRATEGISTS

Portfolio managers are tasked with more than just understanding how different securities, asset classes, funds, and weightings impact each other; they are also responsible for being strategic around the timing of the portfolio. The portfolio manager takes on the role of market strategist. The value they offer to investors is that they can identify favourable entry points into and out of the market through their access to timely macroeconomic, industry, and company-specific information.

The value [portfolio managers] offer to investors is that they can identify favourable entry points into and out of the market.

Here portfolio managers must be able to sift through a daily blizzard of information to identify anything that could materially change the fundamental backdrop of the securities held within their clients' respective investment portfolios. Equity research reports and insights from our investment team support Anchor's investment process. The analysts, fund managers and investment managers deliberate this research and the assets in our portfolios at our weekly local and offshore investment meetings, providing the portfolio managers with more than one perspective of the fundamental underpinnings of each security and thereby enriching the decision-making process.

Portfolio managers must have a sense of the key drivers of the movements in security prices, which in the near term are far more influenced by swings in investor psychology than by changes in companies' long-term prospects. Herein lies another role that portfolio managers play on behalf of individual investors as wealth psychologists. Before we discuss this, it is important to establish an investor's risk tolerance. While an investor's risk capacity is determined by their ability to take on additional risk, their risk tolerance is how comfortable a client is with changes in investment returns or an investor's appetite or willingness to take on more risk in pursuing a return objective.

PORTFOLIO MANAGERS AS WEALTH PSYCHOLOGISTS

Behavioural finance, pioneered by the results of Kahneman and Tversky in the early 1970s, highlights that human decision-making has systematic biases that lead to irrational decisions. When faced with complex decision-making, individuals often lack the time or ability to derive the optimal course of action prescribed by traditional finance. Nowhere do these biases arise more prevalently than in an investor's attempt to manage their own funds, where cognitive limitations and emotional responses lead to decisions that result in less favourable outcomes for investors.

In this regard, portfolio managers are responsible for identifying these errors and emotional biases and guiding investors through them while conveying investment information in a way that instils confidence. Portfolio managers may, from time to time, fall victim to these cognitive errors and emotional biases themselves. Here the collective calm of deliberating investment decisions within a wider, experienced management team ensures that the potential impact of these decisions on clients' investment portfolios is carefully considered. Macro events and the ebbs and flows of companies' near-term fortunes are unpredictable and not necessarily indicative of, or relevant to, their long-term prospects. The role of portfolio managers here is to steer clients' portfolios through the soap opera that plays out daily in local and global markets.

CONCLUSION

It would be a dramatic understatement to say that 2022 was a challenging year for global investors. Perhaps more unnerving was the extent and persistence of the negative market performance and how widespread it was across most geographies and asset classes. Research shows that even for investors that adopted the most balanced and well-diversified approaches across equities and bonds, last year was still one of the worst years to be an investor in the past 150 years. Though challenging for portfolio managers, this has presented an opportunity to pause and reflect on many aspects within the discipline of portfolio management, such as effectively identifying and managing client and portfolio risk. It has offered a chance to relook at the construction of client portfolios through the lens of their preparedness and reinforce their resilience to future uncertainties. This has also highlighted how a robust investment process that allows for healthy deliberation across disciplines only enriches the asset allocation and decision-making process for portfolio managers. The adage of too many cooks spoiling the broth proves woefully false when considering the merits of investment prospects within a wider investment team.

When considering the portfolio management value proposition, the analogy of a *travel agent vs a tour guide* comes to mind. A travel agent sells you a holiday package to a city or a destination that they have often not been to themselves. However, tour guides, through their knowledge and experience, walk you through the cities themselves, pointing out the historical and cultural significance of the destination while ensuring that you stay within the intended path. Likewise, portfolio managers are called to do more than sell a 'house view'. Portfolio managers use their expertise to chart the best possible investment course for their clients' unique, individual requirements and oversee the daily management of their clients' investment portfolios so that investors can achieve their desired return objectives. This is the essence of portfolio management.

Emigration from SA:
The importance of emigration

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.

To leave or not to leave – that is the question! Do you have to emigrate if you leave South Africa (SA)? What are the financial consequences if you do not emigrate but leave SA? Obviously, it is a personal choice to leave the country, but it affects not only you but your family and the businesses you may leave behind.

To a great extent, the process of emigrating involves your tax affairs.

What is emigration? It is the formal process of terminating your residency in a particular country to reside in another country. For clarification, immigration is the flipside of the coin and is the formal process that takes place in the country you go to. This article covers emigration FROM SA.

To a great extent, the process of emigrating involves your tax affairs, and it is important to establish where you are tax resident. In SA, there are two ways in which you can be considered tax resident. You can be:

1. Ordinarily resident; OR
2. physically present.

Ordinary residence is not defined in the income tax act but is 'defined' by case law and considers your particular circumstances – where is your permanent home/place of abode, where does your family live, where do you return to after your international wanderings, where do you work. It is not based on the number of days you are in the country.

The physical presence test takes into account the following;

You are present in SA for:

- More than 91 days (in aggregate) during the year of tax assessment AND
- More than 91 days (in aggregate) in each of the preceding five years AND
- More than 915 days (in aggregate) during those five preceding assessment years.

If you meet either of the above criteria, the SA Revenue Service (SARS) will assume you are a SA tax resident UNLESS you are considered exclusively resident of another country in terms of a double tax agreement (DTA) between SA and the country you move to.

SARS could also consider you a **SA resident temporarily abroad,** which can subject you to SA tax. Often, South Africans leave SA (especially young adults who go and work offshore after studying) and do nothing about formally leaving, i.e., they do not emigrate. This can lead to confusion and murky grey areas, which is important to avoid unless you intend to be an SA resident temporarily abroad.

Being a SA tax resident means you are taxed on your **worldwide income** – if you remain a resident unintentionally, you could be subject to SA tax on investments you start accumulating offshore.

Therefore, if you have no intention of returning to SA, it is important that you emigrate if necessary!

Understanding whether a DTA may apply to you is also important. Why is this important? One of the functions of these agreements is to ensure that you are not subject to double tax. If you move to a place with no DTA, you could be subject to double taxation. If it is unclear where you are a tax resident, the DTA grants the relevant authorities permission to determine where you are resident. You may have heard the term 'tie-breaker clause' – based on specific aspects such as your property ownership, your centre of vital interests, your place of abode, your citizenship etc., the contracting states of the DTA will determine where you are a resident. We believe it would be better for you to determine that, not them!

Once you decide to emigrate, a process must be followed. Up until 2021, the process was controlled by the SARB, but this function has now been allocated to SARS. It has taken SARS some time to refine the process, and it is now becoming more efficient. Basically, you apply to SARS to become a non-resident for tax purposes, and once that is done, you are considered to have emigrated.

This seems simple enough, but we strongly recommend you use an expert to emigrate you. Dealing with SARS has its challenges, and it is better to entrust the process to someone with contacts at SARS who can deal with any curve balls that may come your way.

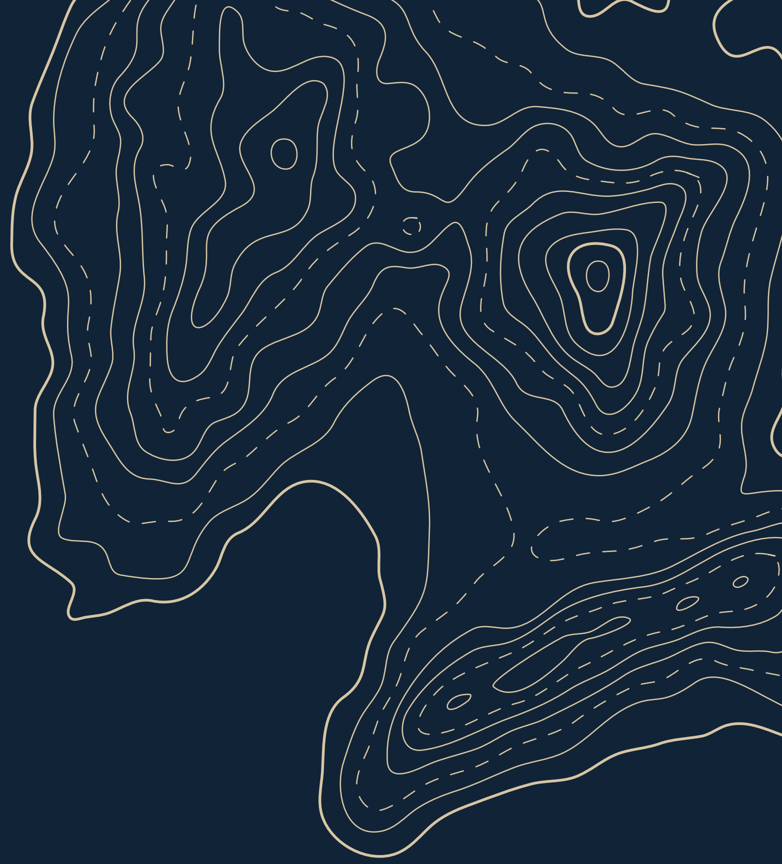
We strongly recommend you use an expert to emigrate you.

We have kept this article high-level, simple and general, but it can become complicated in practice. Where we are dealing with clients who have left SA but not emigrated, it is causing more complications than necessary on distributions from trusts, family members transferring money to offshore family, clients who have one foot in SA and one in another country, family inheriting from SA deceased estates and their funds being blocked etc. To avoid these complications, if you have left SA permanently, please emigrate if you have not done so already!

Please contact Di Haiden or Kate Trollip to discuss if you wish to learn more about what applies to you – experience has taught us that it is essential to understand your specific circumstances; there is no one-size-fits-all approach.

Performance Summary

	FUND PERFORMANCE									BENCHMARK PERFORMANCE							
	Start date	Annualised p.a.	Since inception	5 Year	3 Year	12-month	6-month	3-month	Dec-22	Since inception	5 Year	3 Year	12-month	6-month	3-month	Dec-22	Performance vs Benchmark
UNIT TRUSTS																	
Anchor BCI Equity Fund	Apr-13	8.8%	127.7%	3.0%	5.2%	-4.7%	5.7%	7.7%	-2.1%	119.1%	4.9%	10.1%	4.4%	9.5%	12.2%	-2.8%	8.7%
Anchor BCI SA Equity	Aug-21	12.4%	16.0%	N/A	N/A	3.7%	8.1%	10.5%	-1.9%	14.1%	N/A	N/A	4.4%	9.5%	12.2%	-2.8%	1.9%
Anchor BCI Flexible Income Fund	Jun-15	6.9%	65.6%	6.4%	5.3%	4.4%	3.9%	2.9%	0.7%	63.3%	6.2%	5.3%	5.9%	3.3%	1.8%	0.6%	2.3%
Anchor BCI Managed Fund	Jan-15	4.9%	46.4%	4.6%	6.6%	-3.0%	5.1%	5.8%	-0.9%	57.2%	5.9%	8.1%	-0.2%	6.8%	6.9%	-1.1%	-10.9%
Anchor BCI Worldwide Flexible Fund	May-13	8.6%	121.3%	5.7%	2.8%	-11.6%	3.6%	6.7%	0.9%	131.0%	8.9%	9.3%	11.4%	5.5%	1.7%	0.6%	-9.7%
Anchor BCI Property Fund	Nov-15	-2.7%	-17.7%	-5.4%	-2.8%	-4.0%	7.8%	12.6%	1.3%	-17.2%	-7.2%	-3.4%	0.5%	15.1%	19.3%	1.1%	-0.5%
Anchor BCI Global Equity Feeder	Nov-15	11.9%	123.3%	15.6%	17.7%	-17.5%	3.0%	-1.3%	-2.2%	107.1%	12.2%	11.1%	-12.7%	7.1%	3.5%	-3.5%	16.2%
Anchor BCI Bond Fund	Feb-16	8.6%	76.9%	7.4%	6.4%	3.4%	6.3%	5.5%	0.4%	77.4%	7.8%	7.1%	4.3%	6.3%	5.7%	0.6%	-0.5%
Anchor BCI Diversified Stable Fund	Feb-16	7.0%	60.1%	6.9%	7.6%	3.9%	5.4%	5.2%	-0.1%	50.5%	5.9%	6.5%	1.3%	5.3%	4.8%	-0.3%	9.5%
Anchor BCI Diversified Moderate Fund	Feb-16	6.7%	56.2%	6.6%	8.3%	3.8%	6.8%	6.9%	-0.3%	50.5%	5.9%	7.4%	0.3%	6.3%	6.0%	-0.7%	5.7%
Anchor BCI Diversified Growth Fund	Feb-16	6.1%	50.3%	6.1%	8.5%	2.4%	6.9%	7.2%	-0.5%	52.2%	5.9%	8.1%	-0.2%	6.8%	6.9%	-1.1%	-1.9%
Anchor BCI Africa Flexible Income	Mar-16	5.5%	44.2%	6.2%	3.1%	-2.8%	12.3%	9.2%	0.4%	71.9%	7.8%	6.8%	7.2%	3.9%	2.0%	0.7%	-27.8%
Anchor BCI Global Technology Fund	Jun-19	2.7%	10.0%	N/A	1.0%	-37.1%	-2.0%	-4.4%	-1.4%	79.4%	N/A	15.9%	-26.5%	1.9%	0.1%	-7.7%	-69.4%
Anchor BCI Flexible Fund	Jul-13	6.4%	80.2%	7.2%	2.1%	-32.1%	-6.2%	-5.4%	-2.6%	10.2%	10.0%	10.3%	12.4%	6.0%	2.0%	0.7%	70.1%
Anchor BCI Core Income Fund	Sep-20	5.8%	14.0%	N/A	N/A	6.5%	0.1%	1.9%	0.7%	10.6%	N/A	N/A	5.2%	2.9%	1.6%	0.5%	3.3%
Anchor BCI Global Flexible Income Fund	Sep-20	0.0%	0.0%	N/A	N/A	0.5%	4.0%	-3.3%	1.0%	4.2%	N/A	N/A	8.7%	5.5%	-4.4%	0.5%	-4.2%
Anchor BCI Worldwide Opportunities Fund	Feb-21	-3.5%	-6.4%	N/A	N/A	-12.2%	1.1%	4.0%	-1.1%	13.1%	N/A	N/A	7.4%	3.6%	0.8%	0.3%	-19.5%
EQUITY NOTES & SEGREGATED MANDATES																	
Anchor Equity	Jul-13	8.9%	124.7%	6.1%	12.1%	6.9%	7.8%	10.4%	-1.6%	117.5%	4.4%	10.1%	4.4%	9.5%	12.2%	-2.8%	7.2%
HEDGE FUNDS																	
Anchor Stable SNN RIHF	Jul-03	12.4%	875.8%	7.0%	10.5%	17.1%	9.9%	6.3%	-0.1%	277.7%	5.8%	4.8%	5.2%	2.9%	1.6%	0.5%	598.1%
Anchor Accelerator	Feb-16	7.4%	63.1%	9.0%	3.5%	-9.9%	4.2%	7.0%	-0.1%	57.7%	4.9%	10.1%	4.4%	9.5%	12.2%	-2.8%	5.4%
OFFSHORE																	
High Street Equity - Dollars	Jun-12	8.4%	132.9%	2.3%	-1.0%	-28.0%	1.2%	8.2%	-3.7%	170.2%	6.7%	5.4%	-17.7%	3.2%	9.9%	-4.2%	-37.3%
High Street Equity - Rands	Jun-12	16.2%	384.6%	9.2%	5.7%	-23.2%	5.1%	2.5%	-3.6%	462.2%	13.7%	12.6%	-12.0%	8.1%	3.6%	-3.8%	-77.6%
Offshore Balanced - Dollars	Jun-12	6.8%	98.7%	1.5%	-1.8%	-21.2%	0.9%	6.3%	-2.2%	78.1%	3.3%	1.4%	-17.2%	0.8%	7.8%	-2.3%	20.6%
Offshore Balanced - Rands	Jun-12	14.3%	307.3%	7.9%	4.4%	-17.1%	4.9%	0.7%	-2.1%	265.3%	9.7%	7.8%	-12.8%	3.8%	-0.3%	-2.5%	42.0%
Global Dividend - Dollars	Jan-14	7.1%	83.7%	4.3%	3.7%	-9.9%	3.2%	11.6%	-2.2%	100.9%	6.7%	5.4%	-17.7%	3.2%	9.9%	-4.2%	-17.1%
Global Dividend - Rands	Jan-14	12.2%	180.2%	11.1%	10.6%	-3.9%	7.2%	5.6%	-2.1%	207.7%	13.7%	12.6%	-12.0%	8.1%	3.6%	-3.8%	-27.5%
Anchor Global Stable Fund - Dollars	May-15	0.7%	5.2%	1.2%	-0.6%	-11.5%	0.3%	3.8%	-0.6%	25.4%	3.2%	3.5%	5.2%	2.9%	1.5%	0.5%	-20.1%
Anchor Global Stable Fund - Rands	May-15	5.2%	47.5%	7.8%	6.2%	-5.4%	5.1%	-2.2%	-0.2%	75.9%	10.0%	10.5%	12.4%	7.7%	-4.4%	-0.4%	-28.4%
Anchor Global Equity - Dollars	May-15	10.6%	115.1%	11.5%	14.1%	-21.8%	1.0%	5.4%	-3.7%	59.2%	5.2%	4.0%	-18.4%	2.3%	9.8%	-3.9%	55.9%
Anchor Global Equity - Rands	May-15	15.6%	201.6%	18.8%	21.9%	-16.3%	5.8%	-0.6%	-3.3%	123.1%	12.2%	11.1%	-12.7%	7.1%	3.5%	-3.5%	78.4%
RCI UNIT TRUSTS																	
RCI BCI Flexible Growth Fund	Sep-16	3.8%	26.3%	3.7%	1.2%	-36.1%	-6.8%	-4.7%	-3.9%	80.6%	10.0%	10.3%	12.4%	6.0%	2.0%	0.7%	-54.3%
RCI BCI Worldwide Flexible Fund	Dec-16	4.5%	31.0%	5.3%	0.6%	-27.9%	2.0%	-1.2%	-1.4%	67.8%	8.9%	9.3%	11.4%	5.5%	1.7%	0.6%	-36.8%



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