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thoughtful investing for private clients

Quarterly Newsletter

Fourth Quarter 2023

Global Market Commentary

After a surprisingly resilient 2023, the U.S. economy faces slower growth and increasing vulnerability in 2024. Key sectors like business and consumer spending are set to cool, fuelled by cautious lending and tighter labour markets. While inflation has eased, the Fed's rate hikes may not be over, and a slower economy will be increasingly sensitive to shocks. Whether it be the U.S. election, significant geopolitical tension or a surprise from the Fed, risks remain that could push the economy into recession in 2024.

Companies and earnings: Earnings growth surprised on the upside in 2023, but defending margins will be tough in slower economic times. Revenues were the largest contributor to earnings, with consumer strength and pricing power allowing companies to boost sales. Tailwinds from AI spending as well as federal government support for semi-conductor manufacturing should continue in 2024. However, increased caution among lenders and slowing corporate profits could still constrain growth in capital expenditures. Margins, however, have detracted from earnings as companies grappled with higher input and labour costs. Looking to 2024 and 2025, expectations for double-digit earnings growth seem too optimistic as defending profit margins will become increasingly difficult in an environment of slowing economic growth and waning pricing power. We believe that, high-quality companies with strong balance sheets, ample cash balances and sustainable earnings should perform well relative to the broader index.

Inflation: After peaking in 2022, inflation is falling and could reach the Fed's target by mid-2024, easing pressure for further rate hikes.
Fed: The July 2023 rate hike has likely marked the peak of this cycle. December's unchanged rates and dovish forward guidance solidified this view.

Global economy a mixed picture: While the Eurozone, UK, Canada, and China faltered, the U.S., Japan, and emerging markets (except China) exhibited strength. China's weak consumer and business confidence, compounded by limited impact of stimulus measures, weighed on the Eurozone, which also grappled with weak domestic consumption and manufacturer pessimism. Elsewhere, India continues to see robust growth, supported by its growing middle class and government support for private businesses and digitalization. This divergence in global growth is expected to narrow in 2024, with the U.S. economy slowing down and China's economy stabilizing.

Stock markets beyond the mega-caps: U.S. equities rebounded in 2023, recouping much of their 2022 losses. This rally stemmed from better-than-expected consumer spending, resilient corporate earnings, and the AI buzz. However, the gains were concentrated in the largest stocks in the index by market-cap. Market concentration is not a new phenomenon and the weight of the top ten stocks in the S&P 500 has been rising since 2016. The earnings contribution from those stocks, however, has not kept pace and hardly budged last year despite strong price appreciation. The fact that the top ten stocks make up a third of the index but only account for a fifth of index earnings suggests significant mispricing in the stock market.

In Conclusion: The U.S. economy is entering a new chapter in 2024. While growth is expected to remain positive, the pace will slow down. Inflation seems under control, but the Fed remains cautious. The global picture remains mixed. In environments like these, active management is best suited to identify those companies with sustainable, high-quality earnings that are being overlooked by the markets.

"Investing is simple but not easy"

Warren Buffet

In This Issue

The final quarter of 2023 was a period of mixed emotions for the South African stock market. While global headwinds and domestic uncertainties kept the waters turbulent, the JSE All Share Index managed to carve out a positive return of 6.92% for the quarter. This was led by Shoprite (+56%), Bidcorp (+41%) and Glencore (+36%).

The listed property index enjoyed a strong rebound, returning 12.5% for the quarter but still well off its pre-Covid highs. The Financial & Industrial sector performed well over the period, with Resources basically flat.

The attractive yields on the local bonds enticed global investors who were net purchasers over the months of October and November. This provided strong returns for the asset class, with the All-Bond index over 8% for the quarter. This is despite the Fiscal woes facing South Africa. A widening budget deficit and rising debt levels raised fears of credit downgrades and potential sovereign debt defaults.

The Rand also strengthened over the quarter against the Greenback by nearly 3%. This in congruent with risk appetite increasing mainly from the outlook of global inflation looking to stabilise and even decrease into 2024. The Federal Reserve held rates steady for the past four meetings in light of this, which has aided to market performance over the short term. Interest rates across the world, including South Africa, will look to start decreasing in 2024 which will provide tailwinds to equity markets and capital appreciation to bonds.

Looking forward for the year ahead, local markets should benefit from monetary policy easing as inflation returns to the target bands. Latest headline CPI surprised on the upside, cooling to 5.5% (its first contraction since July) vs 5.9% the previous month. However, the ongoing energy crisis, characterized by frequent power outages (loadshedding), continued to cripple economic activity and investor confidence. Furthermore, there is heightened political uncertainty from the upcoming national elections and investors will be waiting to see if a new government is voted in and the policy landscape for the next 5 years.

Google Search made its official debut on September 27, 1998, setting the gold standard for search engines. Since then, it has continuously innovated its search algorithm to meet the growing demands of users worldwide. However, for investors, identifying the next breakthrough search engine, much like Google, is no easy task. In the early days of search engines around 1990, investors faced a choice among approximately twenty options, including WebCrawler, Lycos, AltaVista, and Yandex. Many invested heavily in what was considered the latest trend, but only those who chose Google in 1998 emerged as winners.

Today, a similar trend is observed with the rush to invest in electric vehicle (EV) shares. Investors are on the lookout for the next "Google" in the EV space, reminiscent of the earlier search engine frenzy. However, recent challenges have hit EV startups hard, with many struggling to survive.

A Wall Street Journal analysis revealed that at least 18 EV and battery startups, which went public in recent years, were at risk of running out of cash by the end of 2024. Companies like Nikola and Fisker, once promising, faced financial difficulties due to rising costs and manufacturing issues. Some, like Lordstown Motors, Proterra, and Electric Last Mile Solutions, even filed for bankruptcy.

Like past bubbles, inflated valuations and projections were common. Most struggling companies went public through special-purpose acquisition companies (SPACs), allowing unchecked growth projections. This highlights the risks of investing in trends without a solid foundation.

The analysis found that the median stock among these companies had plummeted more than 80% from its market debut, erasing billions of dollars in market value within a short period. The EV market, despite steady growth in demand, has not exploded as predicted. Established players like Tesla cutting prices to attract customers further pressure newcomers still grappling with production challenges.

Investors, often influenced by sentiment and familiarity bias, tend to trade on "noise" rather than information. Following the herd can lead to significant losses, as demonstrated by the struggles of many EV startups. As fund managers, we recognize the need to avoid fashionable investments and focus on companies that meet our requirements and process.

Buying shares based on what's popular around social gatherings like braais or golf courses is not a reliable strategy for generating returns. We prioritize investing in sensible businesses that align with our clients' financial goals. Our approach is disciplined, staying within our circle of competence, and emphasizing the power of consistent compounding of returns over time.

Warren Buffett's reminder of the losses in the airline industry's assured growth in the early 19th century resonates with the recent EV craze. We aim to learn from history and avoid investing in trends that appear too good to be true. Our conservative approach, investing alongside our clients, is grounded in the belief that consistent compounding will lead to good long-term growth.

Report back on our funds 31.12.2023

The Platinum BCI Worldwide Flexible Fund

In 2023, the SP500 had a strong performance, with a 12% increase in the last quarter and a notable 24.4% for the entire year. However, when reviewing the past two years, the returns have remained relatively flat. Meanwhile, the JSE All Share Index in South Africa experienced a 9% rise for the quarter. We remain satisfied with our fund's asset allocation, given the potential for a U.S. recession and the current elevated stock prices. Despite this, we maintain optimism about the long-term prospects of the underlying companies in our portfolio.

South Africa faced challenges in the past year, including power outages and high interest rates. Nonetheless, our strategic investments in foreign companies served as a hedge, yielding favourable return. In 2024, South Africa braces for a significant election that is likely to introduce volatility and uncertainty. While Eskom's issues may worsen due to increased private solar power usage, overall improvement is anticipated, though the economic environment remains challenging.

The JSE has seen a reduction in the number of shares available. We observe a tendency in the government to prioritize superficial aspects over practical effectiveness in policymaking. Given the robust performance of the US market, we favour investments in regions where opportunities for client gains make more sense. We like fishing where the fish are plentiful.

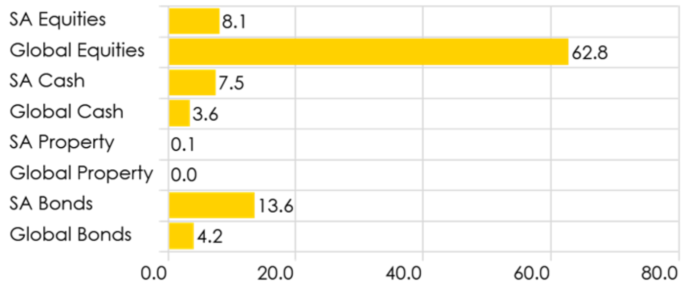
The Platinum BCI Worldwide Flexible Fund delivered positive results for the quarter and the year, with a growth of over 6% and 20.47%, respectively. Remaining among the top-performing funds for over three years, our success in 2023 was attributed to increasing our exposure to shares from 64% to 70% earlier in the year.

Our prudent stock choices and the decision to retain certain shares during market downturns proved beneficial. For instance, our investment in Williams Sonoma initially dipped to $111 per share in May but rebounded to over $200 per share by the end of December, making it the best-performing and most volatile share in our portfolio for 2023.

The standout performers for the quarter were Williams Sonoma, Qualcomm, and BHP Billiton, while Cisco, Bristol Meyers, and Comcast underperformed. Our investment strategy remained unchanged this quarter, with our companies' delivering earnings that either met or exceeded expectations. Despite the market's high valuation, we believe our fund is priced at fair value. Considering the peaking interest rates and impending uncertainty, we anticipate potential opportunities to add or acquire stocks in the coming months.

Our commitment to providing exceptional returns for our clients remains unwavering. We are dedicated to keep improving the fund's performance in the future.

Asset allocation



Top Holdings

Granate BCI Multi Income D	5.52
Microsoft Corp	5.38
Aluwani BCI High Yield D	5.30
Taquanta Active Income FR R3	4.84
Dodge & Cox Worldwide Global Bd USD Acc	4.42
Cencora Inc	4.31
Williams-Sonoma Inc	4.31
Prescient Global Income Provider B	4.06
Abbott Laboratories	3.32
Comcast Corp Class A	3.16

Trailing Returns

As of Date: 2023/12/31

	Last Q	1 Yr	3 Yrs	5 Yrs	10 Yrs
Platinum BCI Worldwide Flexible A	5.53	20.47	12.52	12.60	11.21
SA CPI +5%	2.69	10.80	11.42	10.28	10.46
EAA Fund ZAR/NAD Flexible Allocation	5.95	17.50	10.84	11.22	8.11

Note: Quarterly performance since inception: Highest 13.17% Lowest –6.68%. Annualised return is weighted average compound growth rate over the period measured. Actual annual figures are available to the investor on request. Source Morningstar as at 31 December 2023.

The Platinum BCI Balanced Fund of Funds and Platinum BCI Income Provider Fund of Funds

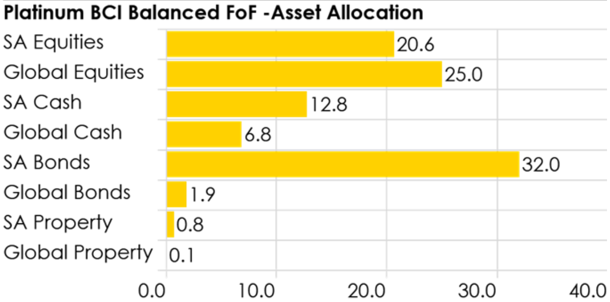
After a tough October, both funds rebounded strongly to outperform their real return benchmarks. The Balanced FoF provided returns of 3.57% for the quarter, against the CPI+4% benchmark of 2.45%, while the Income Provider FoF returned 3.29% vs its CPI+2% benchmark of 1.95%. This strong absolute performance will be well received by our investors in pursuit of their financial goals.

On a relative basis, the funds were not as successful against their peers largely as a result of the overweight positions in offshore assets in a period where the Rand strengthened against the US Dollar. We remain confident in our tactical allocation in favour of global equities over local equities, given the relative growth opportunities and quality of companies offshore, and trust that this will provide additional alpha to the strategies over the long term.

We do hold an overweight position in local bonds where yields are providing a high return over inflation while providing downside protection for the overall portfolio. As interest rates look to decrease into 2024, yields will likely come down but the bonds held will benefit from the resulting capital appreciation.

On the manager front, Aylett was our star equity performer and Truffle continues to lag their peers. We have met with Truffle to understand the underperformance in more detail. We remain confident in the investment strategy and portfolio positioning and will continue to monitor their performance closely. Our core bond manager, Granate, was the best performer from our fixed income allocations, who benefited from their local property and bank debt holdings.

Platinum BCI Balanced FoF -Asset Allocation



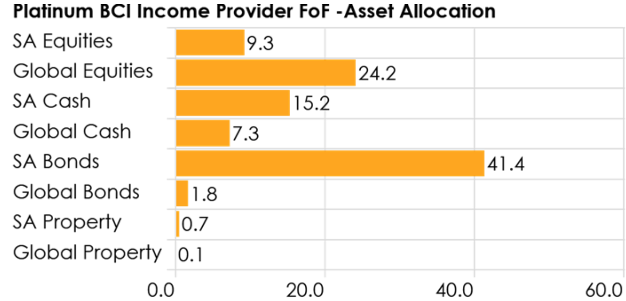
Top Holdings	
The Platinum Global Managed B USD Acc	27.17
Granate BCI Multi Income D	14.38
Aluwani BCI High Yield D	14.16
Taquanta Active Income FR R3	13.23
36ONE BCI Equity D	7.79
Truffle SCI General Equity C	6.82
Aylett Equity Prescient A1	6.31
M&G Equity Fund F	5.76
Fairtree Equity Prescient A2	2.80

Trailing Returns

As of Date: 2023/12/31

	Last Q	1 Yr	3 Yrs	5 Yrs	10 Yrs
Platinum BCI Balanced FoF A	3.57	10.32	8.67	8.99	7.48
SA CPI +4%	2.45	9.74	10.36	9.23	9.40
(ASISA) South African MA Medium Equity	5.80	11.28	9.39	8.60	6.80

Platinum BCI Income Provider FoF -Asset Allocation



Top Holdings	
The Platinum Global Managed B USD Acc	29.99
Granate BCI Multi Income D	18.29
Aluwani BCI High Yield D	17.92
Taquanta Active Income FR R3	17.18
36ONE BCI Equity D	4.08
Truffle SCI General Equity C	3.52
Aylett Equity Prescient A1	3.34
M&G Equity Fund F	2.89
Coronation Strategic Income P	1.55

Trailing Returns

As of Date: 2023/12/31

	Last Q	1 Yrs	3 Yrs	5 Yrs	10 YrS
Platinum BCI Income Provider FoF A	3.29	10.52	7.45	7.47	6.97
SA CPI +2%	1.95	7.63	8.24	7.12	7.30
(ASISA) South African MA Low Equity	5.42	11.05	8.51	7.85	6.80

Note: Quarterly performance since inception: Platinum BCI Balanced fund: Highest 8.62% Lowest –3.90%. Platinum BCI Income Provider fund: Highest 5.28% Lowest –1.84%. Annualised return is weighted average compound growth rate over the period measured. Actual annual figures are available to the investor on request. Source Morningstar as at 31 December 2023.

Platinum Defensive Income Fund of Funds

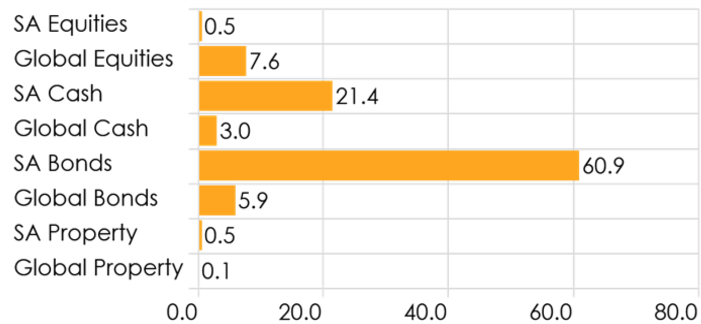
The Platinum BCI Defensive Income Fund was successfully launched in October 2023, experiencing strong support and capital inflows from our investor base. Although the fund has only been in existence for the last quarter of 2023, the assets under management (AUM) has quickly escalated to just under R100m.

The strategy is designed to provide a return of 2% per annum over money market rates / cash and has consistently outperformed this benchmark, with a return of 2.81% net of fees over the quarter (vs 2.29% for the benchmark). In addition, it has done so without any monthly drawdowns demonstrating the capital preservation nature of this solution.

The core of the portfolio is invested across flexible bond and credit managers, looking to provide protection and diversification in down markets while taking advantage of high yields and provide consistent returns. Granate, as mentioned above, which is one of the largest holdings in the fund provided stellar returns for the strategy. In addition, BCI Income Plus continues its good performance through a highly diversified portfolio of local and offshore credit instruments.

Looking forward, this strategy will provide an attractive alternative to bank deposits as there is immediate access to the funds and a forward yield of approximately 10%.

Asset Allocation



Top Holdings	
Aluwani BCI High Yield D	23.81
Granate BCI Multi Income D	23.81
Taquanta Active Income FR R3	22.97
BCI Income Plus A	16.98
The Platinum Global Managed B USD Acc	10.07
36ONE BCI Equity D	1.03

Note: Fund Launched 2 October 2023. Performance figures will be published as from 1 October 2024.

The Platinum Global Managed Fund USD

Closing the year with its Morningstar 5-star rating intact, the fund had a stellar conclusion in a strong year for the MSCI World Index USD which was up 11% for the quarter. The fund delivered a solid return of 10.62% in USD to investors for the year, and had a good uptick of 6.28% for the last quarter.

Market volatility during the quarter presented an opportunity for us to strategically increase our holdings in stocks that had reached their fair value, including Nike, Abbott Labs, Pepsi-Co, Visa and Texas Instruments. This resulted in an increase in our equity holdings from 65% to 69% aligning our asset allocation to where we want to be.

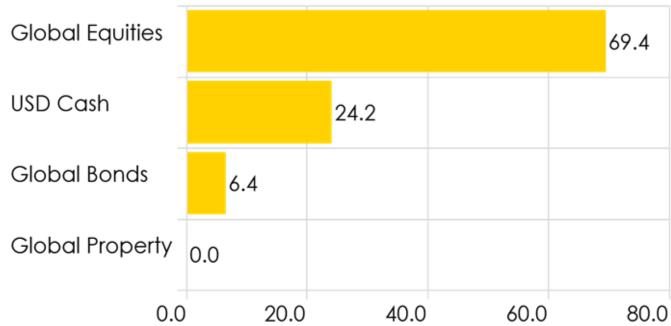
Top performers in our portfolio for the quarter included Williams-Sonoma, Microsoft, Qualcomm, Cencora (previously Amerisource-Bergen) and Abbott Labs.

Microsoft is the largest holding in our portfolio and one of our top performers for the quarter. Given its partnership with OpenAI and leading position in the cloud, Microsoft is well-positioned to profit from the boom in AI. However, due to Microsoft's tremendous scale and diversification, the company is not dependent upon AI for its success. Microsoft's diverse portfolio of software and cloud offerings ensures the company will thrive even if the next hot thing, like AI, fizzles out. In this way, Microsoft is emblematic of our broader investing approach. We seek to benefit from powerful trends, but we do so with an eye toward managing risk and limiting downside in case the future turns out to be less rosy than hoped for.

However, not all stocks in our portfolio performed strongly, with detractors including Bristol-Myers Squibb, Cisco Systems and our two tobacco stocks, BAT and Altria. The inclusion of these tobacco stocks in the portfolio has been for their yield and we are actively exploring better opportunities for these holdings.

As we look ahead to 2024, we hold the view that the majority of our companies are well positioned to navigate a potentially lower global growth environment and deliver robust earnings growth. Irrespective of the direction of interest rates, our portfolio remains well-balanced. In the event of declining rates, our divided-paying stocks should thrive, offering more attractive yields. However, with the markets experiencing a strong rally and higher valuation, we anticipate more restrained capital appreciation in the broader market in 2024. Against this backdrop, we believe our portfolio of quality, dividend-growth stocks, is strategically positioned for the challenges and opportunities that lie ahead.

Asset allocation



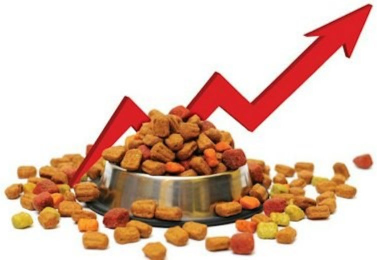
Top Holdings	
Microsoft Corp	5.08
Dodge & Cox Worldwide Global Bd USD Acc	4.70
Williams-Sonoma Inc	4.63
Prescient Global Income Provider B	4.19
Cencora Inc	3.89
Visa Inc Class A	3.53
Abbott Laboratories	3.49
PepsiCo Inc	3.26
Nike Inc Class B	2.95
Comcast Corp Class A	2.90

Trailing Returns

As of Date: 2023/12/31

	Last Q	1 Yr	3 Yrs	5 Yrs	10 Years
The Platinum Global Managed A USD Acc	6.28	10.62	4.34	7.69	6.18
EAA Fund USD Aggressive Allocation	7.73	12.30	2.19	6.76	3.97

Note: Quarterly performance since inception: Highest: 16.11% Lowest: -8.98%. Annualised return is weighted average compound growth rate over the period measured. All performance figures quoted are sourced from Morningstar. Period ending 31 December 2023. Actual annual figures are



CAPITALISING ON THE BOOMING COMPANION PET MARKET

The global companion pet market is experiencing unprecedented growth, and Zoetis, a leading animal health company, is strategically positioned to reap the benefits of this flourishing industry. As people increasingly consider pets as integral members of their families, the demand for high-quality veterinary care and related products has skyrocketed.

The expanding pet ownership trend

Over the past few decades there has been a significant shift in the way society views pets. Beyond serving as mere companions, pets are now seen a family member, leading to a surge in pet ownership worldwide. According to the American Pet Products Association (APPA), around 67% of U.S, households own a pet, with over sixty-three million households owning a dog and forty-two million owning a cat. This growing pet ownership trend is mirrored globally, with other countries also witnessing a surge in pet adoption rates.

Humanisation of Pets

One key driver behind the growth in the companion pet market is the humanization of pets. Pet owners are increasingly willing to invest in premium products and services for their furry friends, ranging from specialised diets and grooming services to advanced veterinary care. This shift has opened new avenues for companies like Zoetis to offer innovative solutions that cater to the evolving needs of pet owners.

Advancements in Veterinary Medicine

The veterinary industry has witnessed significant advancements, paralleling those in human medicine. With Cutting-edge technologies and treatments becoming more accessible, pet owners are now more willing to seek out advanced healthcare options for their pets. Zoetis, as a leader in animal health, is at the forefront of developing and providing veterinary medicines, vaccines, and diagnostic products that cater to the evolving demands of pet healthcare.

Global expansion opportunities

The companion pet market is not limited to any region, and Zoetis has been strategically expanding its global footprint. As emerging markets witness an increase in disposable income and a shift towards pet ownership, there is a vast untapped market for veterinary products and services. Zoetis is well positioned to tap into these opportunities and establish itself as a key player in the international companion pet market.

Conclusion

Zoetis is a leading player in the global animal health industry that offers a diversified range of over 300 products for both companion animals and livestock. The company has a strong moat supported by patents, scale, and respected brands. With a diverse revenue stream and a strong presence in key markets around the world, Zoetis is well position to benefit from the secular trend of improving human-animal bonds and increasing demand for animal health due to the growing population. We particularly like the company's strong track record of innovation, and its revenue growth which has outperformed the market by a wide margin for many years and we believe will continue to do so.

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