

Please note that the commentary is for the retail class of the Fund.

Performance

The year 2025 was characterised by a heavy focus on US politics and policies, particularly around global trade. Markets struggled to digest tariff announcements, tariff pauses, tariff U-turns, and trade deals. In addition, the market's growing unease about sovereign debt levels in several developed nations was further compounded by the passing of the One Big Beautiful Bill Act in the US. Geopolitical events remained prominent, continuing to centre around developments in the Middle East and the Russia-Ukraine war.

Against this uncertain background, risk assets delivered robust returns, with the MSCI All World Index delivering 22% in US dollars for the year and emerging markets outperforming developed markets over the same period. In this context, South African (SA) equity markets ended the year strongly, delivering a 62% dollar return for the 12 months, with the rally in precious metals the major driver.

For the year, the Fund delivered a 17.5% return (in rands), meaningfully outperforming its CPI + 4% target. Longer term, the Fund has pleasingly also delivered ahead of target returns across all periods. From an absolute return perspective, it was a return-rich environment over the last 12 months, with a blistering performance from SA equities (+42% in rands), SA bonds (+24%), and SA property (+31%). Global returns were healthy for the year, but the 12% strengthening of the rand versus the US dollar took the shine off some of this performance in rand terms. The Fund closed out its currency lock position (long rand, short dollar position) during the year as the rand retraced from oversold levels.

Looking into 2026, the global economy continues to show impressive resilience despite elevated geopolitical tensions and ongoing trade frictions. Inflation remains well contained. While US inflation is above target, the expected tariff-induced impact on inflation has been far less than feared and China continues to struggle with persistently low inflation. Global interest rates are expected to continue to ease. Despite this supportive outlook, this is by no means a benign investing environment, with the strength of the gold price indicating heightened investor alertness to unexpected risks materialising. The Fund's returns have benefited from the strong rally in gold and platinum ETFs and equities. While we have taken some profits, we continue to maintain a considered exposure to precious metals and stocks for diversification and hedging purposes.

Fund positioning

Globally, we are observing a massive change in pace of the development of new technologies, which is expected to have a profound impact on many traditional industries. SA investors have limited local access to these advancing technologies and to developing new ecosystems. We thus think a sensible allocation to global equities is necessary to provide the exposure and to deliver the required growth in long-term capital for our clients. Offshore assets represent 38% of the Fund, with the majority of this (30%) in global equity, and the remainder allocated to cash and short-dated bonds. In 2025, we observed a broadening out of global market returns outside of a handful of large US-listed technology shares. While we are still finding select value in some US stocks, we continue to see wider appeal in ex-US exposure – across sector, style, and geography. Our focus is on picking winning businesses that can deliver enduring growth in earnings and returns.

In contrast to global equity exposure, we have no exposure to long-dated global sovereign bonds. We remain concerned about high government debt levels in many countries. A broad set of countries is pushing the traditional boundaries of debt sustainability. Among the developed markets, Japan, Italy, the United States, France, Canada, the UK, and Spain all have public debt levels at, or exceeding, 100% of GDP. Similarly, debt levels in China, Brazil, India, and SA are slightly lower but still exceptionally high by conventional emerging market metrics. Elevated debt levels – and the associated deficits – can result in higher government financing costs, higher rollover risk, financial repression, or monetisation. To date, major countries have generally escaped the most severe manifestations of these challenges, but their high (and rising) debt levels leave them vulnerable. We don't think current yields on offer compensate for these risks.

SA entered 2025 with cautious optimism following improvements in electricity availability and tentative signs of reform momentum. The country hit a rocky start with an unexpected delay in passing the budget, which highlighted the political fragility in the system. While this was eventually resolved, economic growth remained lacklustre, constrained by weak global demand, infrastructure bottlenecks beyond energy, and persistent fiscal pressures. Household consumption has been supported by declining inflation, interest rate cuts, and real wage

growth; however, this has struggled to translate into meaningful revenue traction for most local consumer-facing stocks.

Our SA equity allocation was a key positive contributor to the Fund's returns. Outside of gold and platinum equities, exposure to Naspers/Prosus, MTN, and Richemont also contributed. MTN had a sharp recovery off a very low share price base as the company delivered excellent operational results in its ex-SA operations. This, coupled with a recovery in the Nigerian and Ghanaian currencies, drove strong earnings improvement, which led to a re-rating of the share price. We have taken some profits here, but the outlook for earnings growth remains resilient, and we expect good cash flows to materialise as the business de-gears.

We continue to believe that we need to be careful in our selection of SA domestic equities. There are many investment opportunities in the SA domestic universe where valuations look undemanding and thus seem to provide a margin of safety. Despite this, these businesses are too often exposed as value traps as the lack of economic growth, cut-throat competition, cost pressures, and poor management of these factors have an adverse impact on earnings growth and shareholder returns. We continue to allocate capital to a curated basket of SA equities that we think are well-managed and have robust business models that can grow and take market share in a subdued economy. SA fixed income instruments also delivered a healthy contribution to returns. The FTSE/JSE All Bond Index delivered 24% over the last year, benefiting from yield compression, a lowered inflation outlook, and increased foreign participation in our local bond markets. While we have been cautious on the outlook for Government's rising debt burden and longer-term fiscal risks, we have maintained a high allocation to SA fixed income and managed the risks through containing the duration of our exposure. This was a conscious decision to trade off return to manage portfolio risk. We believe such actions are necessary to fulfil our objective of delivering inflation-beating returns while being mindful of the need to protect capital.

Outlook

The closing quarter of 2025 reinforced a familiar theme for investors: asset markets can remain resilient even as underlying economic and political risks accumulate. Globally, the balance between moderating inflation, easing monetary policy, and elevated valuations requires disciplined asset allocation and active risk management. Domestically, SA's outlook is characterised by incremental improvement rather than a step-change in growth, with reform execution remaining the key determinant of longer-term outcomes. The run-up to local municipal elections may cause some volatility as political risks come to the fore.

While we would not expect a repeat of the phenomenal returns that we saw this year from SA asset classes, we still believe we can deliver overall fund returns ahead of our CPI + 4% target.

- Starting valuation points (PE multiples, bond yields) for SA assets are more normal, but real fixed income yields and our fair values for equities and property indicate good returns can still be achieved.
- On the global front, we have highlighted the necessity of exposure to global equities as a driver of capital growth and diversification for the Fund. We have also highlighted the key reasons why we continue to avoid long-dated global sovereign debt exposure.
- We remain focused on judicious risk management using tools such as currency locks and equity put protection where appropriate.

The Fund remains managed in line with its conservative mandate and focus on protecting client capital through the cycle. To this end, we continue to focus on fund diversification, active asset allocation, and bottom-up security selection to deliver the real returns required by our clients.

Portfolio managers

Pallavi Ambekar, Charles de Kock and Neill Young
as at 31 December 2025