AFFINITY CAPITAL MANAGEMENT

Collaborating for investment results

May 2022

Investment Report

CONTENTS

ECONOMIC OVERVIEW

GLOBAL

Economic growth around the globe is likely to be lower than was anticipated at the start of the year. Combined with the war in Ukraine, strict COVID-19 lockdowns in China, higher inflation for longer, and steeper than expected interest rate increases, it has had a significant negative impact on the expected earnings for companies which has been reflected in recent share price movements.

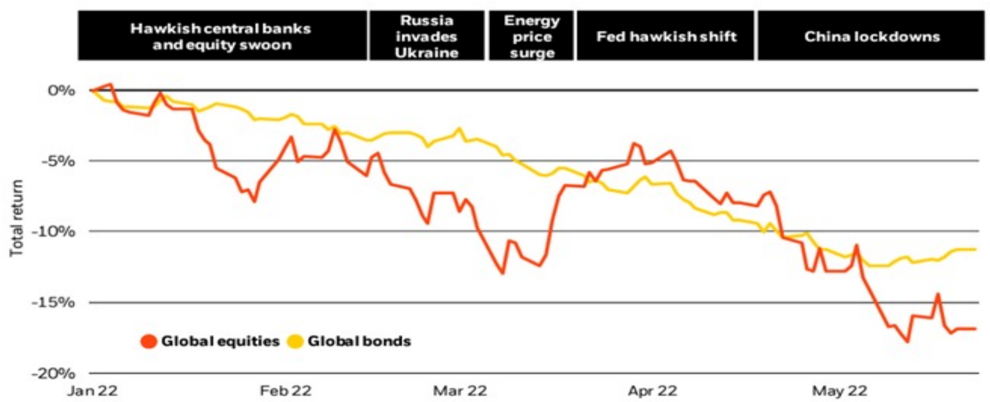
They see a worsening macro outlook due to the Federal Reserve's hawkish stance…

In a recent report, RMB Global Markets adds that the global growth outlook is vulnerable to both the impact of elevated commodity prices and increasingly restrictive monetary policies. Their base case is that output in advanced economies will slow, most notably in Europe, which is directly impacted by the war. Some resource-rich developing economies will continue to benefit from the higher commodity prices, but the net export position will be the differentiator.

In their May 2022 Global Outlook the Blackrock Investment Institute identifies three investment themes. In the first theme, "Living with inflation", they note that central banks are facing a growth-inflation trade-off. Hiking interest rates too aggressively risks triggering a recession, while not tightening enough may cause runaway inflation. The US Federal Reserve has made it clear it is ready to dampen growth, which is partly why investment markets have retreated significantly in recent months. Their second theme pivots around cutting through all the confusion. The Russia-Ukraine conflict has aggravated inflation pressures. Trying to contain inflation will be costly to growth and jobs. They see a worsening macro outlook due to the Federal Reserve's hawkish stance, the commodities price shock, and China's growth slowdown. In the third instance they highlight the navigation towards net zero, where carbon emissions equal carbon recycling. Climate risk is investment risk, and the narrowing window for governments to reach net-zero goals means that investors need to start adapting their portfolios. The net-zero journey is not just a 2050 story; it's a now story. Investors should, however, be mindful about how green investments truly are – many product providers have green-washed their assets so that they could get on the bandwagon of this theme rather than providing a truly sustainable investment proposition.

In summary: geo-political, monetary and renewed supply chain shocks have led to both global bonds and equities selling off this year. According to Blackrock, there will have to be significant positive surprises to the economic outlook for equities to have a proper rebound:

Global equities and bond total returns, 2022

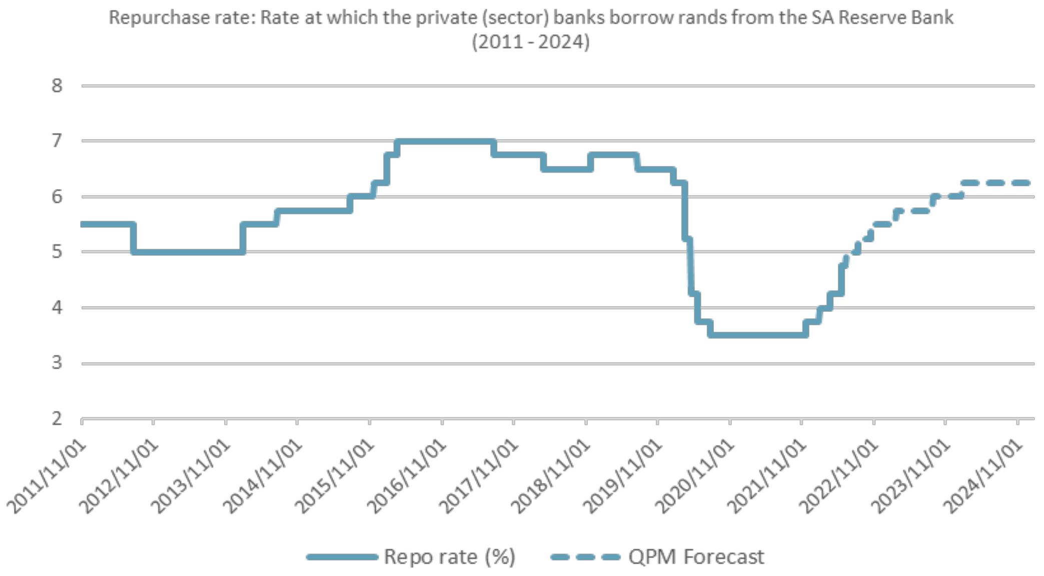


Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index.
Sources: BlackRock Investment Institute with data from Refinitiv Datastream and Bloomberg, May 2022. Notes: The chart shows year-to-date to returns for the MSCI ACWI index and Bloomberg Global Aggregate index for bonds since the start of the year.

South Africa

The South African Reserve Bank's Monetary Policy Committee (MPC) decided to increase the repurchase rate by 0.5%, taking it to 4.75%.

Four members of the Monetary Policy Committee voted for this increase, with one opting for a more modest 25 basis point hike. In his statement following the meeting, the governor said that the implied policy rate path of their Quarterly Projection Model indicates gradual normalisation through to 2024. The market's consensus view is that, all else being equal, the repo rate will normalise at 6.25% in two years' time. This is still below the policy rate of 6.5% (in 2019) before the Covid-19 pandemic significantly influenced monetary policy.



Source: South African Reserve Bank, Bloomberg

This is still below the policy rate of 6.5% in 2019 before Covid-19…

The increased cost of servicing debt that is associated with interest increases, coupled with ever rising cost of energy and less than reliable electricity supply will continue to weigh on the growth prospects of the South African economy. Much of this is already reflected in share price movements – if it's in the press it's in the price.

Despite the significant increase in fuel prices, South Africa's inflation seems to be far more under control than in the rest of the world. The Reserve Bank expects inflation to average 5.9% in 2022, falling to 5.0% in 2023 and 4.7% in 2024.

Their growth outlook remains anything but rosy though. The economy is forecast to expand by 1.9% in both 2023 and 2024. At these rates, growth remains well below potential, impacted by loadshedding, infrastructure and policy constraints. Investment by the government sector has weakened significantly in recent years and that of public corporations is forecast to be very modest. Household spending remains supportive, as a result of good growth in disposable income, rising asset prices, and low interest rates. Private investment has also proven to be more resilient than previously expected. Tourism, hospitality and construction should see stronger recoveries as the year progresses. Current assumptions are quite gloomy, which implies that modest upside surprises could spark short-term rallies. The recent arrest of two Gupta brothers in the UAE may be a small victory, but it will help in the war against corruption.

MARKET PERFORMANCE

Markets around the world remained volatile as investors tried to navigate inflation, interest rates, supply shocks and geo-political turmoil…

Markets around the world remained volatile as investors tried to navigate inflation, interest rates, supply shocks and geo-political turmoil in Europe. The MSCI World index, a bellweather for global developed market equities, was well down mid month but ended May up a meagre 0.2% (in US Dollars). Emerging markets fared slightly better adding 0.5% for the month, while the South African All Share Index lost 0.4% in local currency terms. These movements may seem slight, but they hide the significant mid-month market movements that we saw around the globe.

The South African equity market was supported by strong performances of some of the large cap stocks including Anglos, Naspers, Sasol and Glencore, as well as the banking sector which remains the best performing JSE sector in 2022. Visio Capital further reports that local bonds continued to do better than their global counterparts despite continuous foreign selling. Year-to-date local equities have far outperformed their global counterparts.

MARKET INDICES 1 (All returns in Rand)	31 March 2022		
	3 months	12 months	5 years[2]
SA equities (JSE All Share Index)	3.8%	18.6%	11.4%
SA property (S&P SA Reit Index)	0.0%	30.6%	-6.1%
SA bonds (SA All Bond Index)	1.9%	12.4%	8.9%
SA cash (STeFI)	1.0%	3.9%	6.1%
Global developed equities (MSCI World Index)	-13.1%	9.5%	15.0%
Emerging market equities (MSCI Emerging Markets Index)	-14.8%	-12.0%	8.2%
Global bonds (Bloomberg Barclays Global Aggregate)	-14.1%	-7.4%	3.5%
Rand/dollar [3]	-8.4%	-1.0%	1.7%
Rand/sterling	-11.0%	-5.6%	2.8%
Rand/euro	-10.4%	-6.3%	2.5%
Gold Price (USD)	6.7%	13.7%	9.3%
Oil Price (Brent Crude, USD)	38.7%	69.8%	15.4%

1 Source: Factset
2 All performance numbers in excess of 12 months are annualized
3 A negative number implies fewer rands are being paid per US dollar, so it implies a strengthening of the rand

That's the thing about statistics – it reduces data to a useful quantity

Commentary: Kings (And queens) of capital allocation

There are primarily two ways in which a company can reward its shareholders – paying dividends or buying back shares. Both of these options have pros and cons and also depend on the tax treatment of dividends received versus capital gains (the latter typically a direct result of share buybacks).

The success of share buybacks often depends on the capital allocation skills of company management: if they could always buy low and sell high they would add immense value to the value of shares, but this is not always the case. If they were to stick to paying dividends, the capital allocation decision (whether to buy more shares in the company) lies with each investor. So the question is whether company management teams are better positioned to get the timing of share buybacks right when compared to other investors in the company.

In a 2011 report by McKinsey they open the debate by stating that company managers, like investors, often gauge the performance of share repurchases against that old investment adage: buy low, sell high. If they could consistently time repurchases to periods when shares were undervalued, as some try to do, they could reward loyal shareholders at the expense of those who sell out. Of course managers, like investors, can't always do what old adages suggest. Markets are volatile and unpredictable, and what seem to be longer term trends can quickly reverse course. Overconfidence can lead executives to buy back shares even at the peak share price — and a bias for caution can restrain them from buying shares when prices are lowest. The result is that companies seldom consistently pick the right time to buy back their shares at advantageous prices. Indeed, for the years 2004 through 2010, McKinsey's analysis finds that a majority of companies repurchased shares when they and the market were both doing well—and were reluctant to repurchase shares when prices were low relative to their intrinsic valuations. Few stopped repurchases even as the market peaked in 2007. And when the market bottomed in 2009, few companies were buying back shares.

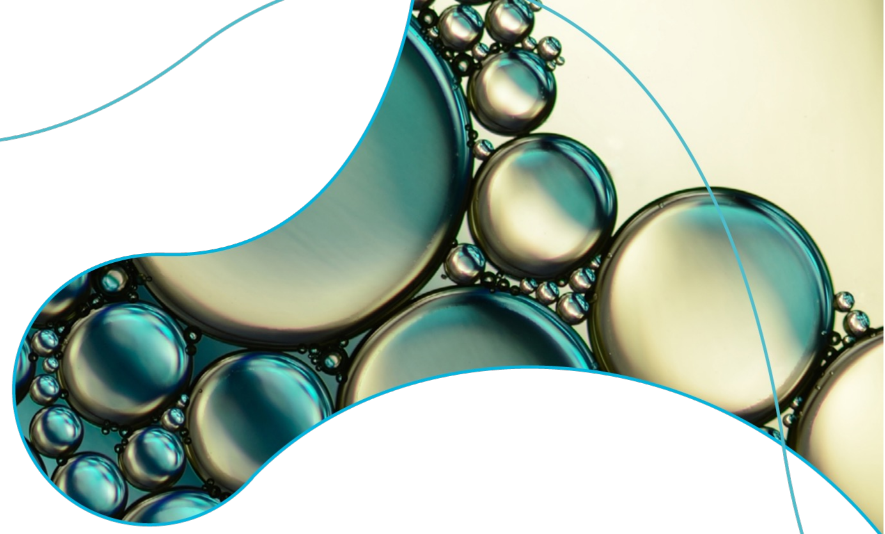
McKinsey looked at the S&P 500 companies between 2004 and 2011. It turns out that companies don't just tend to buy back more shares when the underlying earnings are strong - they also seem more willing to do so when their share prices are high. The result is a cyclical pattern: companies pay out disproportionately large amounts at the top of a cycle and withhold repurchases at the bottom. Over longer-term periods, such as the up-and-down market cycle from 1998 to 2005 or 2006 to 2010, share repurchases came at the expense of long-term loyal shareholders by delivering lower returns than they might otherwise have received. The study compared the actual repurchases of S&P 500 companies from 2004 to 2010 with a modeled strategy of buying the same dollar amount of shares each quarter, much as an investor might regularly purchase shares as part of an income-averaging approach or as a company might think of a share repurchase as akin to a regular dividend. McKinsey found that the latter strategy significantly outperformed what actually happened. For companies that repurchased 5 to 25 percent of their outstanding shares, the median return of actual buybacks lagged behind that of the modeled strategy by 4.5 percent. For companies that bought back more than 25 percent of their shares, the median return of actual buybacks lags behind that of the alternative approach by 3 percent. Only 31 percent of the companies earned a positive return from buying back shares—less than you would expect from a random throw of the dice.

These findings suggest an easy fix: companies should give up trying to time the market. Long-term shareholders will be better off if management would simply forecast total excess cash and evenly distribute it each calendar quarter as "dividends" in the form of share repurchases. CFOs can approach such regular buybacks in two ways. First, they can repurchase shares as excess cash becomes available. This is the easiest approach and the one least likely to send adverse signals to investors around the potential for excess cash or cash shortfalls. It is probably right for most companies, even if it generates lower returns.

Second, companies can evenly distribute similarly sized repurchases over time. For those willing to stand by their forecasts of future cash flows, this dividend-like approach will probably generate higher returns for shareholders. Investors will, however, inevitably try to determine exactly what management is thinking, given the level of repurchases it sets. And it's worth bearing in mind that as with dividends, investors may react negatively if repurchases eventually decline, viewing this as a signal of management's pessimism.

If the kings and queens of capital management (i.e. management teams of companies) struggle to successfully time the buying of their own shares it stands to reason that it's no easier for investors to do the same. The debate around the value creation of share buybacks versus paying dividends is far from over – it's certainly more complex than described above. It's in these instance where a seasoned investment manager may be able to add value as they could consider other opportunities for capital allocation when opting for a dividend rather than a share buyback. As long as your capital spends time in the market you're better off than timing the market…

AFFINITY INVESTMENT APPROACH



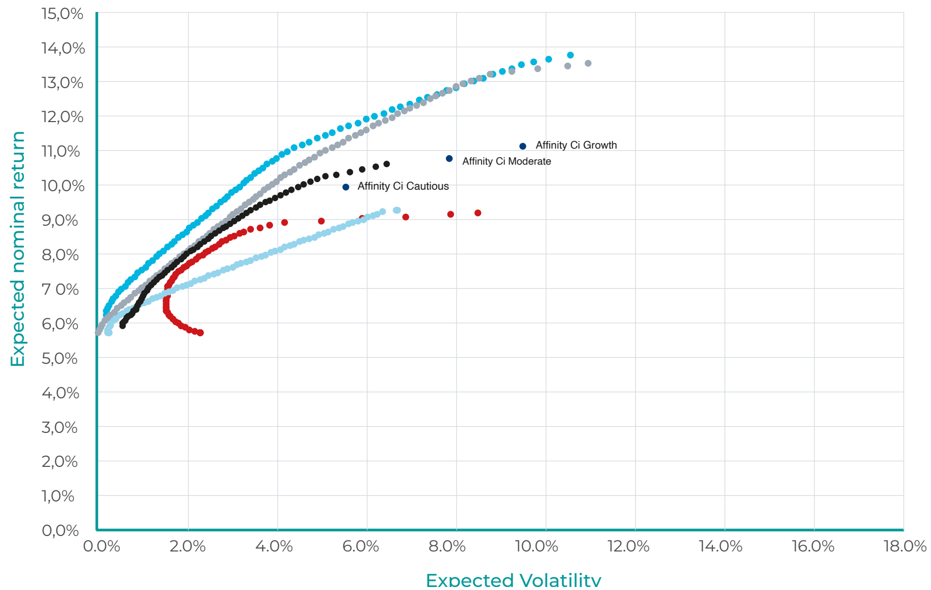
Affinity Capital Management has been established as a collaborative business that works hand in hand with financial advisors and their clients. We believe that investment solutions should not be created in isolation. A collaboration between advice and asset management ensures that investment products are designed solely with the clients' needs in mind. Our investment approach primarily focuses on balancing client return outcomes with risk management.

We have adopted a long-term strategic asset allocation framework as a basis for our investment solutions. Over long investment time horizons comparisons between active managers and passive strategies show that very few active mangers outperform an efficient frontier and thus a core component of our solutions utilises passive and rules-based strategies to access the market optimally. Active managers are included in our solutions where they have a proven track record of generating excess returns. Since asset allocation is the greatest predictor of portfolio volatility, we construct our portfolios with a clear mindset to risk mandates using a building block approach. This allows us to increase risk and returns in a predictable and measurable manner, creating distinct portfolios by simply increasing or decreasing the weightings of asset classes. An additional layer of portfolio risk management is introduced through diversification both across asset classes and within asset classes. We devote a great deal of time and resources aimed at identifying and extending our asset class categories and how best to access them.

Finally, we believe that a dynamic asset allocation framework can add value to portfolio returns when asset class return profiles and correlation behaviours are understood in different market regimes. Ongoing management of our investment solutions thus centres on understanding market regimes and the behaviours of asset classes in different market cycles. Through our proprietary models we assess certain lead indicators of market cycles and use this to position portfolios optimally for the expected market environment. Based on the signal strength of the lead indicators we will then implement appropriate tilts to the long-term Strategic Asset Allocation weightings.

Asset class return expectations and correlations change in different market cycles. We have thus adopted a dynamic asset allocation approach, which allows us to tilt away from our long term strategic asset allocations through different market cycles. The size of these tilts is informed by the signal strength of various lead indicators. We are currently positioning our portfolios between a contraction and recovery cycle.

Comparison of efficient frontiers through market cycles.
Forward looking Affinity fund positioning



PERFORMANCE

Indices	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	10 Years	YTD
SA Equities (JSE All Share Index)	-0.4%	-4.0%	4.5%	11.0%	23.8%	13.0%	9.8%	11.6%	-0.3%
JSE Preference Shares (J251)	-2.0%	6.3%	14.0%	40.2%	31.5%	14.1%	12.1%		7.0%
SA Property (South African Listed Property Index)	0.0%	3.6%	5.1%	15.5%	26.0%	-5.0%	-5.2%	4.5%	-2.6%
SA Bonds (SA All Bond Index)	1.0%	-0.2%	3.9%	5.6%	8.3%	7.7%	8.2%	7.9%	1.2%
ILBs (Barclays South Africa Government Inflation Linked Bond)	1.8%	3.1%	9.0%	10.1%	12.6%	7.4%	5.4%	6.4%	4.2%
SA Cash (STeFI)	0.4%	1.1%	2.1%	4.1%	4.1%	5.1%	6.0%	6.1%	1.8%
Global Equities (MSCI All Countries World Index, $)	0.2%	-5.7%	-9.1%	-6.4%	15.5%	12.2%	9.5%	10.8%	-12.6%
Developed Market Equities (MSCI World Index, $)	0.2%	-5.5%	-9.0%	-4.4%	16.2%	13.2%	10.3%	11.7%	-12.8%
Emerging Market Equities (MSCI Emerging Market Index, $)	0.5%	-7.2%	-10.0%	-19.6%	10.4%	5.4%	4.2%	4.5%	-11.7%
Global Bonds (Bloomberg Barclays Global Aggregate,$)	0.3%	-8.1%	-11.2%	-13.2%	-4.8%	-1.4%	0.1%	0.5%	-11.1%
RAND/DOLLAR	-1.5%	0.8%	-2.7%	13.6%	-6.0%	2.3%	3.4%	6.2%	-2.4%
RAND/STERLING	-1.1%	-5.3%	-7.4%	0.7%	-5.1%	2.3%	2.9%	4.1%	-9.1%
RAND/EURO	0.1%	-3.8%	-7.4%	-0.5%	-7.7%	1.0%	2.4%	4.7%	-8.0%
Solutions	**1 Month**	**3 Months**	**6 Months**	**1 Year**	**2 Years**	**3 Years**	**5 Years**	**10 Years**	**YTD**
• **Affinity Income Solution**	0.8%	1.6%	3.4%	6.2%	6.6%	6.5%	7.5%	6.8%	1.6%
• **Affinity Ci Cautious Fund**	0.1%	-1.9%	-2.6%	3.8%	6.1%	5.0%	6.0%	6.0%	-1.9%
• **Affinity Ci Moderate Fund**	0.0%	-2.4%	-2.3%	4.3%	8.2%	5.7%	5.6%	7.9%	-2.4%
• **Affinity Moderate Solution (Non Reg 28)**	-0.8%	-3.8%	-8.8%	1.8%	5.0%	3.6%	4.3%	7.4%	-3.8%
• **Affinity Ci Growth Fund**	0.0%	-3.3%	-2.9%	3.9%	8.7%	5.3%	5.8%	8.5%	-3.3%
• **Affinity Growth Solution (Non Reg 28)**	-0.8%	-4.1%	-8.6%	2.1%	8.1%	7.9%	7.4%	10.6%	-4.1%
• **Affinity High Growth Solution (Non Reg 28)**	-1.5%	-5.5%	-13.3%	0.1%	7.6%	10.7%	7.8%	10.8%	-5.5%
• **Affinity Global Cautious Solution**	-0.2%	-4.7%	-8.0%	-8.1%	3.0%	3.3%	3.5%	2.4%	-4.7%
• **Affinity Global Cautious Restricted**	-0.4%	-2.9%	-4.5%	-4.4%	5.2%	4.8%	4.4%	2.7%	-2.9%
• **Affinity Global Moderate Solution**	-0.4%	-6.3%	-10.8%	-10.7%	4.6%	4.7%	4.7%	3.8%	-6.3%
• **Affinity Global Moderate Restricted**	-0.5%	-5.0%	-8.4%	-8.1%	6.5%	6.3%	5.7%	4.2%	-5.0%
• **Affinity Global Growth Solution**	-0.5%	-7.1%	-12.5%	-12.0%	6.4%	6.4%	6.1%	5.6%	-7.1%
• **Affinity Global Growth Restricted**	-0.7%	-6.0%	-10.8%	-10.0%	9.2%	8.8%	7.7%	6.4%	-6.0%

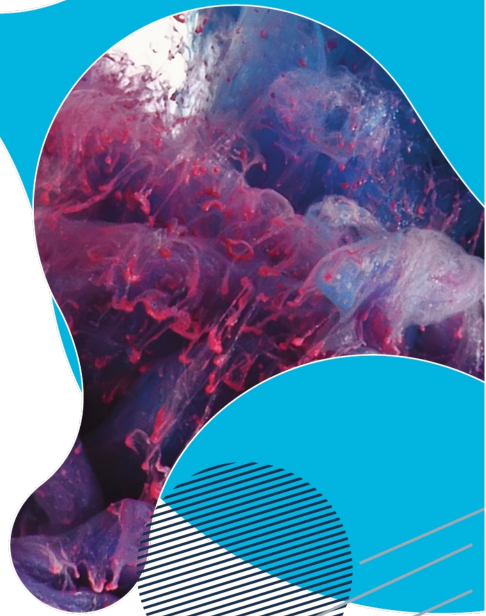
LESS RISK/ RETURN

- Low
- Low Medium
- Medium
- Medium High
- High

MORE RISK/ RETURN

ZAR returns

USD returns



AFFINITY PERFORMANCE

MAY UPDATE

Global markets continued to experience high volatility in May, as investors remained uncertain about the impact of high inflation and interest rate hikes. Global equity markets ended the tremulous month slightly in the green, the emerging markets composite followed suite and ended the month with a positive dollar return. Emerging market bonds continued to outperform their developed market counterparts, which have lost 8.2% year-to-date. SA equities performed better than the global composites in rand terms. The local bourse was supported by strong performances from large cap stocks, as well as the banking sector which remains the best performing JSE sector in 2022. Local bonds continued to do better than their global counterparts, outperforming by 2.2%. Inflation-linked bonds were the best performing domestic asset class, as investors sought instruments to hedge against inflation.

AFFINITY PORTFOLIOS

The Affinity strategies invest in strategic asset allocations that have high probabilities of achieving the respective return targets of the various portfolios on a risk adjusted basis. The asset allocation process allows for dynamic asset allocation based on various leading indicators of macro economic regimes. As of late, the OECD indicator suggests that the global economy moved towards an economic slowdown regime and the Affinity portfolios are positioned to mitigate any volatility and allocate to asset classes that are expected to perform well in this regime and underweight the other asset classes that are expected to underperform (within certain limitations). This framework is designed to work (and is best evaluated) over longer investment periods (typically longer than a quarter, a year or even 3 years).

A slowdown regime is still somewhat beneficial for most growth asset classes (such as South African Equities and Property as well as Global Equities and Property, both in Emerging and Developed Markets) but even better for defensive assets (such as local and global bonds, credit and cash). Currently the Affinity funds move towards a neutral to underweight these growth asset classes to ultimately minimize market volatility through this period.

Source: Morningstar Direct & Analytics Consulting

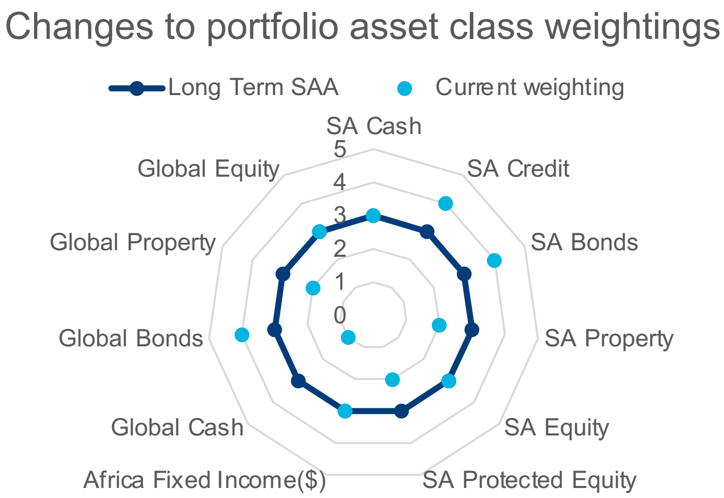
…Currently the Affinity funds move towards a neutral to underweight these growth asset classes to ultimately minimize market volatility through this period…

ATTRIBUTION OF PERFORMANCE

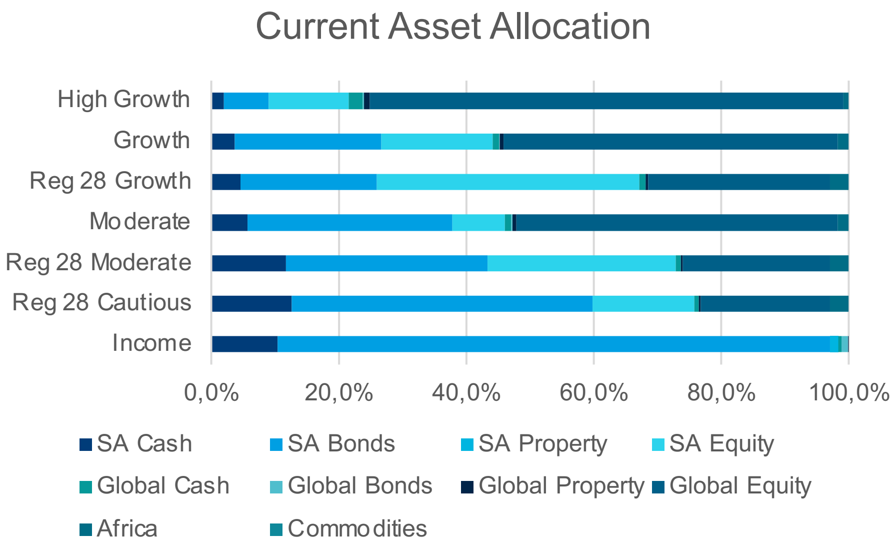
CONTINUED

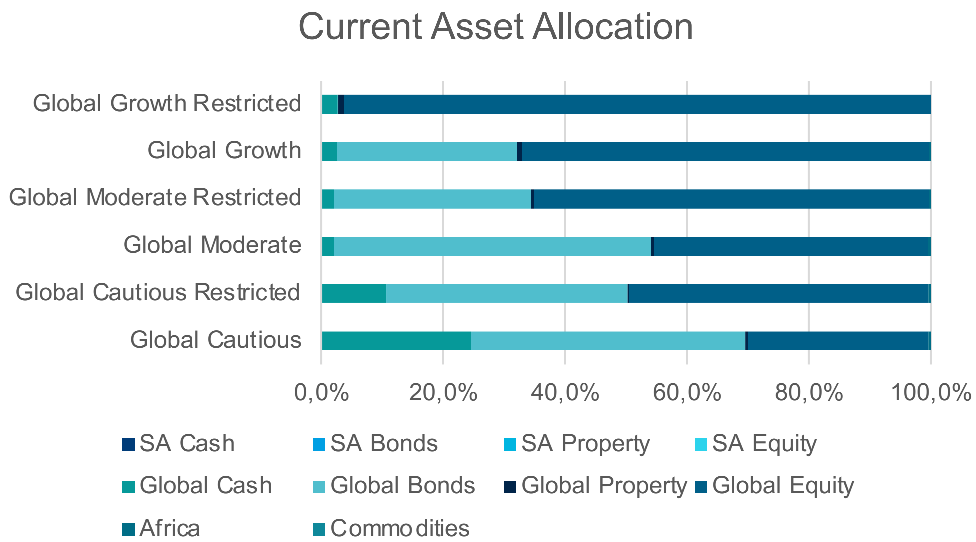
Weighting of asset classes

Our asset allocation models indicate that we fall within an economic expansionary regime, thus local government bonds have been increased and within local equities, the level of protection should be reduced in favour of direct equity market exposure and thus the weighting of Methodical (a protected equity manager) was reduce further. With regards to the portfolio's offshore exposure, the expansionary regime supports our portfolios holding more global equities.



ASSET ALLOCATION ACROSS SOLUTIONS





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