



COLLABORATING FOR
INVESTMENT RESULTS





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ECONOMIC OVERVIEW

December in Review

The consensus view of a year ago was that the world will fall into recession due to a synchronized increase in global interest rates. That view, we now know, was wrong. Global economic activity, as measured by Gross Domestic Product (GDP) is estimated to have been 3% in 2023. Employment has held up in most regions while inflation seems to be on the way down. Globally stock markets have risen by more than 20%. While this average performance conceals wide variation, it is fair to say that 2023 turned out to be a decent year for investors.

The armed conflicts in the Middle East and Ukraine continued to dominate headlines. In addition, there are ongoing civil wars in Afghanistan, Ethiopia, Iraq, Yemen, Syria, Somalia, Libya, the Central African Republic, the Democratic Republic of Congo, Myanmar, Colombia, and Mali, while Mexico is at war with their drug cartels. These and other geo-political events are likely to provide their fair share of surprises that will keep investors on their toes.

Reuters reported that 2023 was the warmest year on record. One after another, records have fallen in the last year alongside skyrocketing temperatures. Deadly floods, heatwaves and storms have unfolded against the backdrop of what climate scientists say is set to be the world's hottest year on record, with observations stretching back to the 1800s. The world, on average, has seen about 1.5 degrees Celsius of warming above pre-industrial temperatures in 2023, with global greenhouse gas emissions hitting new highs. Whether this has been caused by human actions or is part of the earth's long term climate pattern remains a debate – albeit skewed to humankind's influence.

A recovery is under way in global merchandise trade volumes following a recent slump



Port activity around the world has been under pressure due to a drought in Panama (affecting the capacity of the Panama Canal), attacks on ships in the Red Sea by Houthi rebels (which has impacted traffic through the Suez Canal), and various other logistical and weather challenges. Despite this, a recovery is under way in global merchandise trade volumes following a recent slump, according to the World Trade Organisation's (WTO's) Goods Trade Barometer. The bounce back is largely driven by automobile sales and production, as well as trade in electronic components. However, mixed economic figures and rising geopolitical tensions mean a high degree of uncertainty remains about the near-term outlook, the WTO says.

The United States' Federal Reserve announced in December that it will hold its key interest rate steady for the third consecutive time. Along with the decision to stay on hold, committee members penciled in at least three rate cuts in 2024, assuming quarter percentage point increments. That's less than what the market had been pricing, but more aggressive than what officials had previously indicated.

December saw markets end the year with a strong rally across most regions and asset classes. Global developed equities ended the month almost 5% higher in US dollars, while declining yields saw global bonds gain a little over 4%. Global equities ended the year higher, underpinned by a strong rally in the S&P 500 (up 24%) and the NASDAQ 100 delivering its best annual performance (up 55%) since 1999. Mid- and Small cap shares did not fare quite as well as their mega-cap counterparts, but the Russell 2000 still advanced by nearly 17% last year.



mixed economic figures and rising geopolitical tensions mean a high degree of uncertainty remains about the near-term

ECONOMIC OVERVIEW

CONTINUED



Local markets ended the month and year higher but not to the same extent as the rest of the world. Financials had a very strong 12 months (up 21.5%) and Industrials also performed well (up 16.6%). Resources shares provided a drag on the total market as they shed almost 12% in 2023

Listed property securities (as measured by the S&P South Africa REIT total return index) ended the year with a flurry to just about break even, while local bonds benefited from decreasing rates adding 1.4% in December and 9.7% for the year.

The rand strengthened against the major currencies in December but still gave up between 7% and 14% against the US dollar, Euro and Pound Sterling during the last twelve months.

Resources shares provided a drag on the total market as they shed almost 12% in 2023

MARKET INDICES 1	31 December 2023		
(All returns in Rand)			
	3 months	12 months	5 years ²
SA equities (JSE All Share Index)	6.9%	9.3%	11.9%
SA property (S&P SA Reit Index)	15.0%	0.4%	-3.5%
SA bonds (SA All Bond Index)	8.1%	9.7%	8.2%
SA cash (STeFI)	2.0%	8.0%	5.9%
Global developed equities (MSCI World Index)	8.3%	33.7%	19.0%
Emerging market equities (MSCI Emerging Markets Index)	4.8%	18.5%	9.2%
Global bonds (Bloomberg Barclays Global Aggregate)	4.9%	13.6%	4.6%
Rand/dollar ³	-2.9%	7.5%	4.9%
Rand/sterling	1.4%	13.9%	4.9%
Rand/euro	1.3%	11.2%	4.2%
Gold Price (USD)	11.6%	13.3%	10.0%
Oil Price (Brent Crude, USD)	-19.2%	-10.3%	7.4%

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

AFFINITY INVESTMENT APPROACH

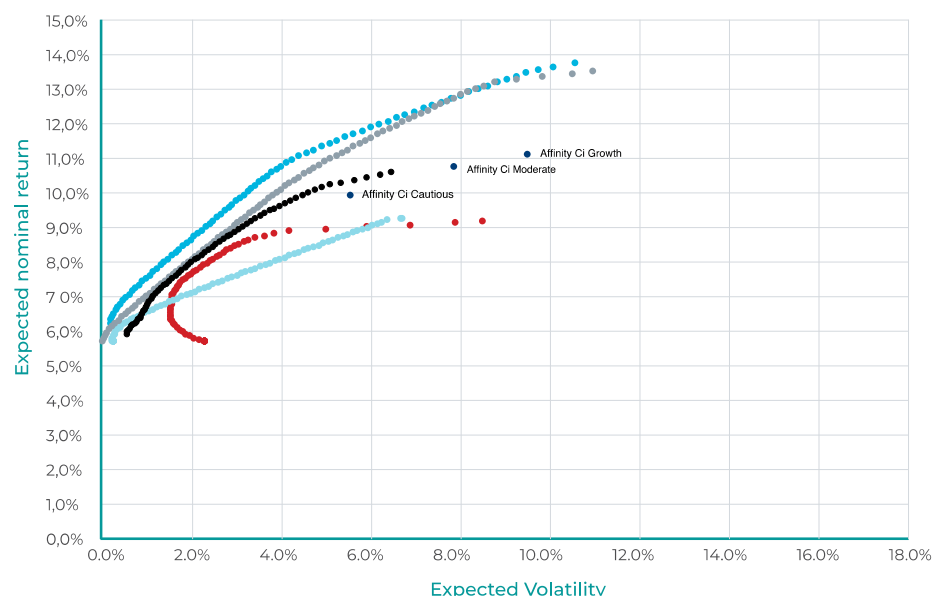
Affinity Capital Management has been established as a collaborative business that works hand in hand with financial advisors and their clients. We believe that investment solutions should not be created in isolation. A collaboration between advice and asset management ensures that investment products 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 managers 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.

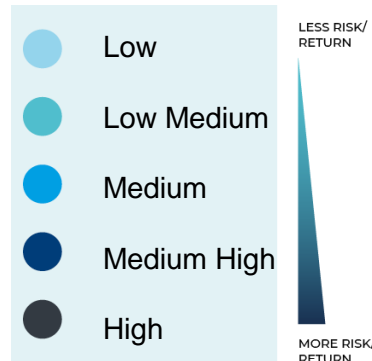
Asset class return expectations and correlations change in different market cycles. We have thus adopted a dynamic asset allocation approach, which allows us to tilt away from our long term strategic asset allocations through different market cycles. The size of these tilts is informed by the signal 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)	2.0%	6.9%	3.2%	9.3%	6.4%	13.5%	11.9%	8.8%	9.3%
JSE Preference Shares (J251)	2.7%	1.0%	5.0%	4.4%	8.5%	19.5%	12.4%		4.4%
SA Property (South African Listed Property Index)	9.9%	16.4%	15.2%	10.1%	5.2%	14.9%	0.2%	2.9%	10.1%
SA Bonds (SA All Bond Index)	1.4%	8.1%	7.7%	9.7%	6.9%	7.4%	8.2%	8.0%	9.7%
ILBs (Barclays South Africa Government Inflation Linked Bond)	2.0%	5.6%	6.4%	6.5%	5.5%	8.6%	6.4%	5.5%	6.5%
SA Cash (STeFI)	0.7%	2.0%	4.2%	8.0%	6.5%	5.6%	5.9%	6.4%	8.0%
Global Equities (MSCI All Countries World Index, \$)	4.8%	11.1%	7.5%	22.8%	0.4%	6.2%	12.3%	8.5%	22.8%
Developed Market Equities (MSCI World Index, \$)	4.9%	11.5%	7.8%	24.4%	1.2%	7.8%	13.4%	9.2%	24.4%
Emerging Market Equities (MSCI Emerging Market Index, \$)	3.9%	7.9%	4.9%	10.3%	-5.9%	-4.7%	4.1%	3.0%	10.3%
Global Bonds (Bloomberg Barclays Global Aggregate,\$)	4.2%	8.1%	4.2%	5.7%	-5.9%	-5.5%	-0.3%	0.4%	5.7%
RAND/DOLLAR	-3.5%	-2.9%	-3.2%	7.5%	7.0%	7.6%	4.9%	5.7%	7.5%
RAND/STERLING	-2.8%	1.4%	-2.9%	13.9%	3.8%	5.1%	4.9%	3.0%	13.9%
RAND/EURO	-2.3%	1.3%	-2.0%	11.2%	5.5%	4.0%	4.2%	3.4%	11.2%
Solutions	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	10 Years	YTD
• Affinity Income Solution	1.2%	4.1%	6.1%	10.5%	8.6%	7.7%	7.6%	6.9%	4.0%
• Affinity Ci Cautious Fund	1.1%	6.6%	5.8%	12.3%	5.1%	7.4%	6.9%	5.9%	4.1%
• Affinity Ci Moderate Fund	1.2%	7.1%	5.6%	12.9%	5.1%	8.2%	7.4%	6.4%	4.2%
• Affinity Moderate Solution (Non Reg 28)	1.4%	7.5%	5.5%	16.3%	3.7%	7.9%	6.8%	6.2%	3.8%
• Affinity Ci Growth Fund	1.3%	7.4%	5.2%	13.3%	4.4%	8.1%	7.6%	6.6%	4.2%
• Affinity Growth Solution (Non Reg 28)	1.5%	7.8%	5.3%	16.6%	3.7%	8.3%	9.6%	8.0%	3.9%
• Affinity High Growth Solution (Non Reg 28)	1.8%	8.3%	5.0%	19.4%	2.2%	8.5%	11.8%	8.4%	3.5%
• Affinity Global Cautious Solution	3.3%	6.9%	5.3%	9.5%	-1.8%	0.3%	4.4%	2.6%	4.7%
• Affinity Global Cautious Restricted	2.5%	5.4%	4.9%	7.5%	0.0%	1.7%	5.2%	2.9%	4.1%
• Affinity Global Moderate Solution	4.3%	9.0%	6.2%	11.2%	-3.7%	-0.1%	5.6%	3.5%	5.7%
• Affinity Global Moderate Restricted	3.7%	8.0%	6.0%	10.1%	-2.1%	1.3%	6.6%	4.0%	5.3%
• Affinity Global Growth Solution	4.9%	10.4%	6.7%	12.6%	-4.5%	0.3%	7.0%	4.5%	6.3%
• Affinity Global Growth Restricted	4.6%	9.9%	6.7%	12.0%	-3.2%	1.9%	8.7%	5.4%	6.2%



ZAR returns

USD returns

AFFINITY PERFORMANCE

DECEMBER UPDATE

Global markets saw yet another significant increase in December, wrapping up a great year for most major asset classes. Developed market equities outperformed emerging market stocks by 1.0% over the month. Global equity markets were bolstered as the US Fed kept rates unchanged and signalled its intent to start cutting sooner than markets expected. Chinese stocks continued to struggle in with the MSCI China index experiencing a 2.4% fall while the EM ex-China index rose 6.5% in USD terms.

South African markets underperformed their emerging market counterparts in USD terms this year, mainly due to the challenging year experienced by mineral and resource companies, particularly producers of platinum and palladium. In December, the stock prices of Naspers and Prosus fell due to the announcement of new regulations in China's gaming industry. These regulations will limit the amount players can spend on in-game purchases. As a result, the share price of Tencent Holdings, in which both companies have a considerable stake, was also affected.

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).

In September and October, the Affinity Ci Cautious, Affinity Ci Moderate and Affinity Ci Growth repositioned the local equity strategies. The 36One SA Equity Fund was introduced as well as a S&P DSW 100 Index. The S&P DSW 100 is a custom-built index to access the local equity market. The Affinity investment committee believes the inclusion of new strategies have a high probability to capture upside when the local equity market recover. The allocation to asset classes did not change.

Source: Morningstar Direct & Analytics Consulting

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Any opinions, statements and information made available, whether written, oral or implied are expressed in good faith. Views are subject to change on the basis of additional or new research, new facts or developments. All data is in base currency terms unless otherwise indicated and are sourced from Factset or Morningstar Direct.

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

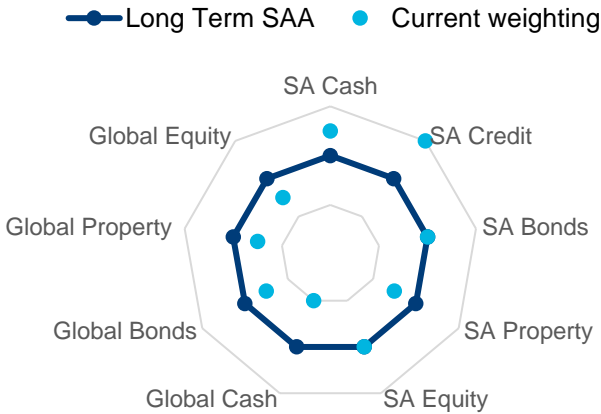
ATTRIBUTION OF PERFORMANCE

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Weighting of asset classes

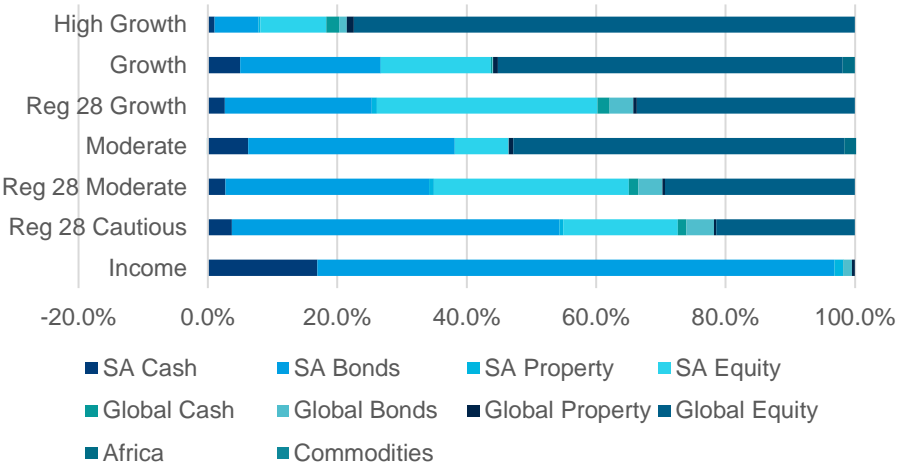
Our asset allocation models indicate that we fall within an economic expansionary regime, thus local government bonds have been increased and within local equities, the level of protection should be reduced in favour of direct equity market exposure and thus the weighting of Methodical (a protected equity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

Changes to portfolio asset class weightings

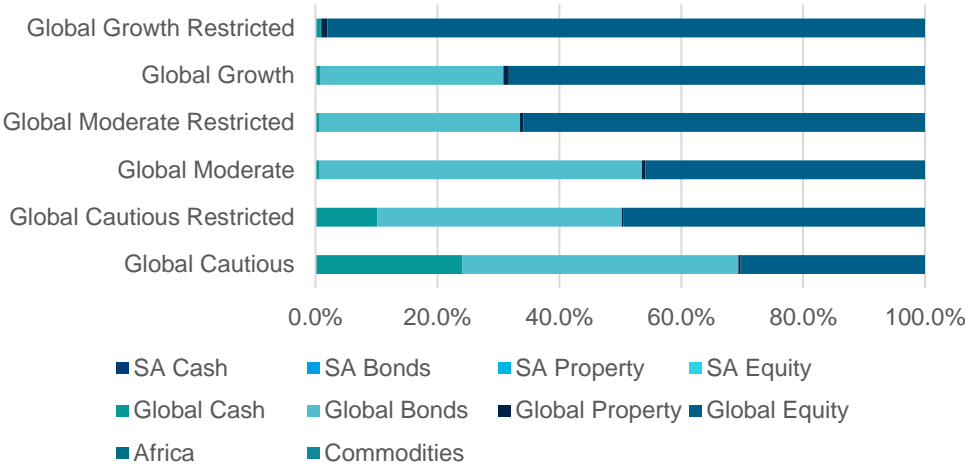


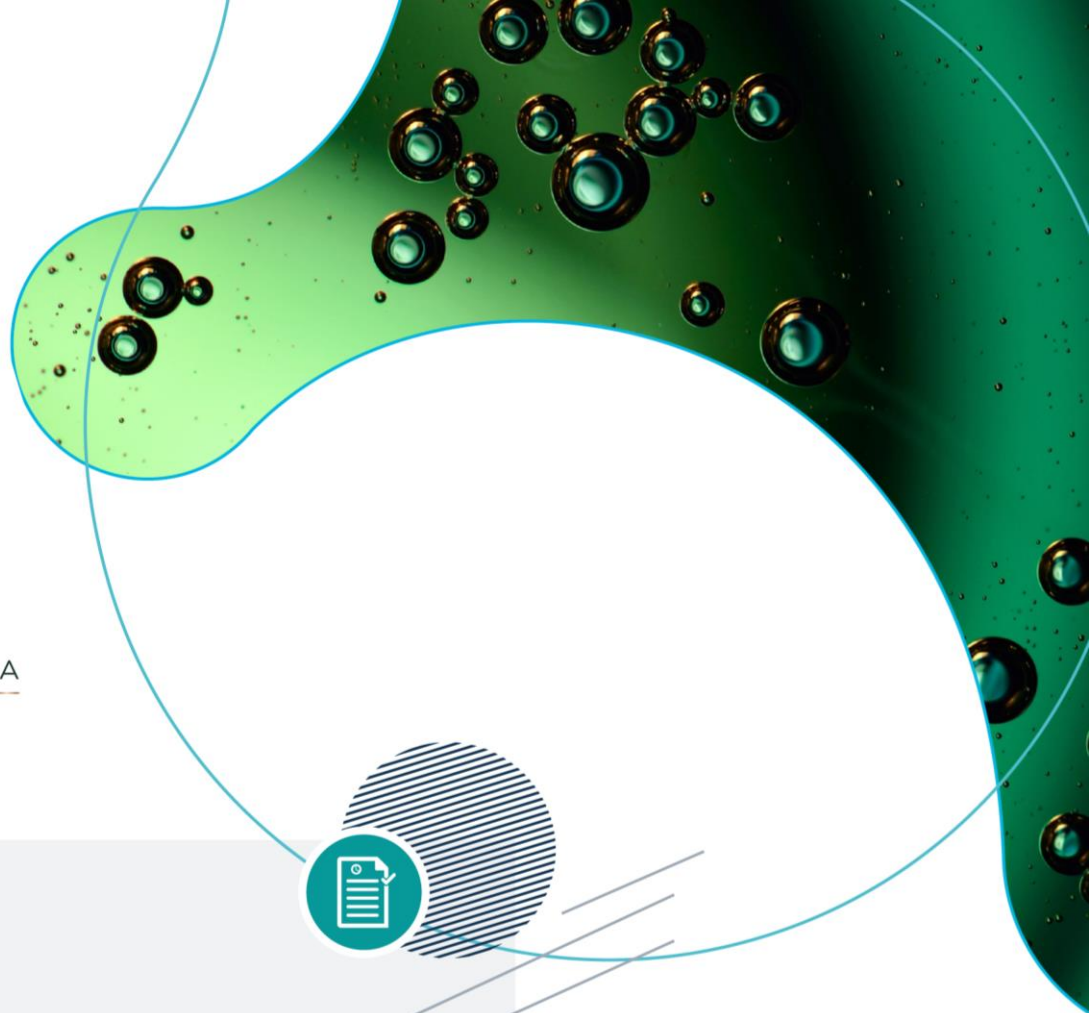
ASSET ALLOCATION ACROSS SOLUTIONS

Current Asset Allocation



Current Asset Allocation





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