AFFINITY CAPITAL MANAGEMENT

COLLABORATING FOR INVESTMENT RESULTS

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February 2024 | Investment Report

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ECONOMIC OVERVIEW

Bracket creep hits low- to middle-income earners

February in Review

South Africa's President, Cyril Ramaphosa, and his Minister of Finance, Enoch Godongwana, delivered the State of the Nation address and budget speech respectively. Notable observations following the budget speech were:

- Bracket creep hits low- to middle-income earners - The 2024 Budget proposals indicated no increase in tax rates in any category other than excise duties. The revenue gap is being addressed with the finance minister choosing to raise additional personal income tax. This is achieved by not adjusting the personal income tax brackets (commonly referred to as bracket creep), rebates, and medical tax credits for inflation. Additionally, above-inflation adjustments are being made to excise duties for alcohol and tobacco.
- Two-pot retirement system set for 1 September 2024 - From the implementation of the two-pot system, all contributions to retirement funds will be split into two components. One-third of the contributions will be credited to a "savings component" and the remaining two-thirds to a "retirement component". The main idea is to promote the preservation of retirement fund savings until retirement, while also providing investors with access to savings in times of need. It is estimated that R5 billion will be raised in 2024/2025 due to tax collected as fund members access once-off withdrawals.
- Global minimum corporate tax to be implemented - South Africa will implement a global minimum corporate tax of 15% from 1 January 2024, in line with the Organisation for Economic Co-operation and Development's base erosion and profit-shifting framework. The introduction is expected to increase corporate tax collection by R8 billion in the 2026/2027 tax year.

Joe Biden and Donald Trump are leading their respective party nomination races and are likely to face each other in the US Presidential election in November this year.

It's a matter of 'when', and not 'if' the US Federal Reserve will lower interest rates. That's according to its chairman Jerome Powell. He has however indicated that it's not likely to happen before spring in the northern hemisphere, while they closely watch the trajectory of inflation and other macro-economic indicators. After their December 2023 session, the Fed forecasted it would make three quarter-point cuts by the end of 2024 to lower the benchmark rate to 4.6%.

The number of political parties that have registered for the national and provincial elections in South Africa exceeds 350 for the May 2024 voting. This compares to 48 in 2019 and only 29 in 2014.

Nvidia added USD 277 billion (about R5.2 trillion) to its market capitalisation in one day during February 2024 - the largest single-session increase in history. This move is equal to about one quarter of the total market capitalization of the JSE in South Africa. The S&P 500 ended the month 5.3% higher in US Dollar terms. In Japan the Nikkei 225 rose 8% to reach a record high - surpassing a level last seen 34 years ago. This is despite the Japanese economy showing no growth in the last two quarters of 2023.

Joe Biden and Donald Trump … are likely to face each other in the US Presidential election in November

ECONOMIC OVERVIEW

CONTINUED

Chinese equities had a strong rebound as it ended the month 9.4% higher, but over one year it is still down by more than 10%.

South African equities shed 2.4% in February, mainly due to poor performance among resource stocks (down 6.9%). MTN, Northam Platinum and Sibanye Stillwater all gave up more than 12% while Richemont rose nearly 9% during the month. South African bonds receded somewhat as South African-specific risks as well as concerns about a delay in global interest rate cuts, caused long term rates to rise.

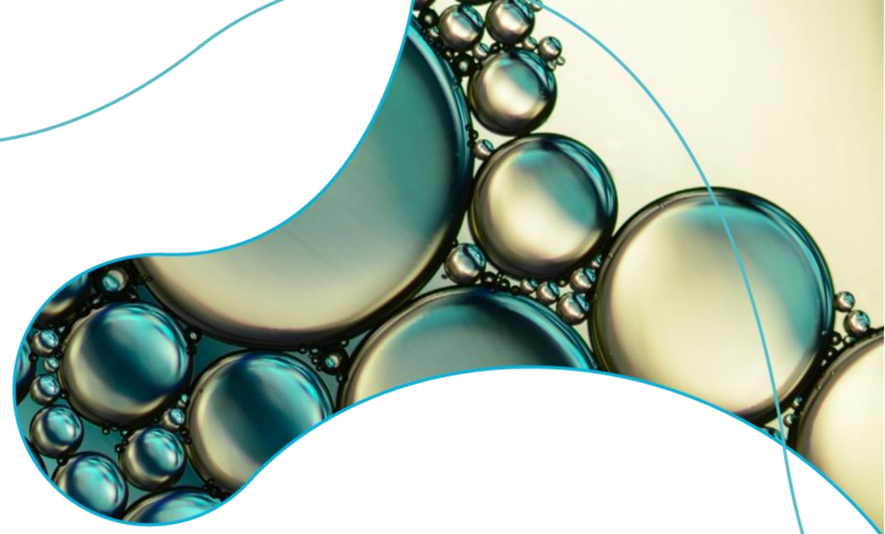
Gold ended the month flat on nearly USD 2 050 per fine ounce, while the price of a barrel of Brent crude oil went up by 2.3%.

Chinese equities had a strong rebound as it ended the month 9.4% higher

MARKET INDICES 1 **(All returns in Rand)**	**29 February 2024**		
	3 months	12 months	5 years[2]
SA equities (JSE All Share Index)	-3.4%	-2.9%	9.3%
SA property (S&P SA Reit Index)	13.9%	7.7%	-3.5%
SA bonds (SA All Bond Index)	1.6%	7.6%	7.8%
SA cash (STeFI)	2.1%	8.3%	6.0%
Global developed equities (MSCI World Index)	12.1%	31.2%	19.4%
Emerging market equities (MSCI Emerging Markets Index)	5.1%	14.1%	8.8%
Global bonds (Bloomberg Barclays Global Aggregate)	2.7%	7.7%	5.3%
Rand/dollar [3]	1.2%	4.5%	6.4%
Rand/sterling	1.2%	9.2%	5.3%
Rand/euro	0.4%	6.6%	5.3%
Gold Price (USD)	0.4%	11.9%	9.3%
Oil Price (Brent Crude, USD)	1.0%	-0.3%	4.8%

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



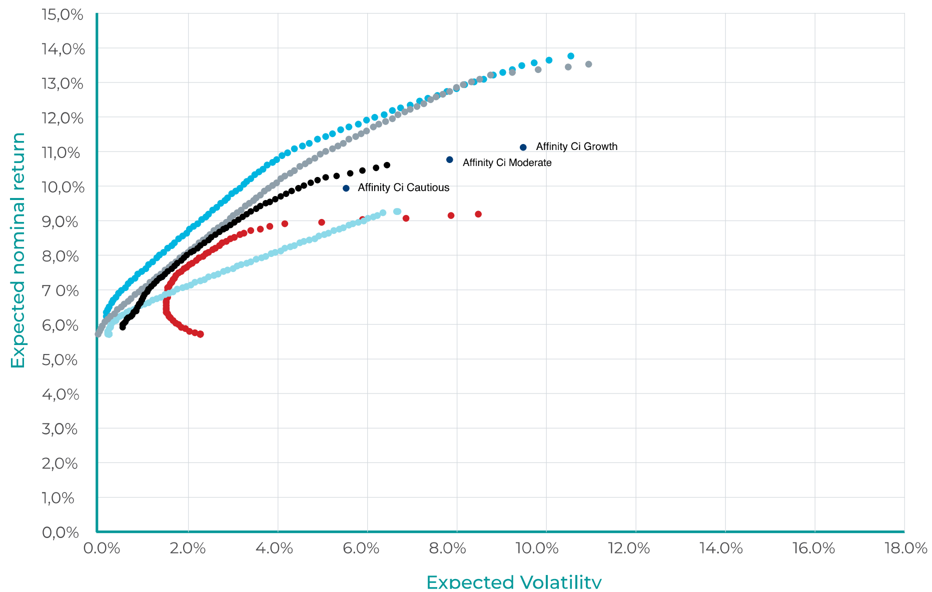
Affinity Capital Management has been established as a collaborative business that works hand in hand with financial advisors and their clients. We believe that investment solutions should not be created in isolation. A collaboration between advice and asset management ensures that investment products 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 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)	-2.4%	-3.4%	-1.3%	-2.9%	1.6%	7.5%	9.3%	7.9%	-5.3%
JSE Preference Shares (J251)	2.4%	4.4%	7.5%	4.9%	9.0%	20.2%	12.3%	9.4%	1.7%
SA Property (South African Listed Property Index)	0.8%	15.3%	17.1%	17.6%	11.2%	14.8%	0.6%	3.7%	4.9%
SA Bonds (SA All Bond Index)	-0.6%	1.6%	5.7%	7.6%	6.3%	7.2%	7.8%	8.1%	0.2%
ILBs (Barclays South Africa Government Inflation Linked Bond)	-0.8%	1.3%	3.8%	6.6%	4.6%	6.8%	6.0%	5.5%	-0.7%
SA Cash (STeFI)	0.7%	2.1%	4.2%	8.3%	6.9%	5.9%	6.0%	6.5%	1.4%
Global Equities (MSCI All Countries World Index, $)	7.6%	11.4%	13.3%	29.3%	19.0%	16.1%	18.2%	15.4%	10.1%
Developed Market Equities (MSCI World Index, $)	7.6%	12.1%	14.2%	31.2%	20.5%	18.1%	19.4%	16.2%	10.7%
Emerging Market Equities (MSCI Emerging Market Index, $)	8.1%	5.1%	6.4%	14.1%	7.4%	1.8%	8.8%	9.6%	4.8%
Global Bonds (Bloomberg Barclays Global Aggregate,$)	1.8%	2.7%	3.5%	7.7%	5.2%	2.2%	5.3%	5.8%	2.2%
RAND/DOLLAR	3.1%	1.2%	1.3%	4.5%	11.4%	8.2%	6.4%	6.0%	4.9%
RAND/STERLING	2.5%	1.2%	1.1%	9.2%	8.2%	4.6%	5.3%	3.0%	4.1%
RAND/EURO	2.8%	0.4%	1.0%	6.6%	9.4%	4.1%	5.3%	3.4%	2.8%

Solutions	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	10 Years	YTD
Affinity Income Solution	0.3%	2.3%	5.1%	9.8%	8.6%	7.9%	7.5%	6.9%	4.2%
Affinity Ci Cautious Fund	1.4%	2.8%	5.9%	9.7%	7.2%	7.0%	6.7%	6.0%	9.1%
Affinity Ci Moderate Fund	1.9%	3.0%	6.2%	9.7%	7.1%	7.4%	7.0%	6.4%	10.6%
Affinity Moderate Solution (Non Reg 28)	3.8%	6.0%	8.5%	14.1%	9.4%	8.2%	7.0%	6.4%	14.8%
Affinity Ci Growth Fund	2.1%	3.3%	6.3%	9.6%	6.5%	7.3%	6.6%	6.6%	11.7%
Affinity Growth Solution (Non Reg 28)	4.1%	6.2%	8.7%	14.0%	9.3%	8.4%	9.4%	8.2%	15.8%
Affinity High Growth Solution (Non Reg 28)	5.9%	8.6%	10.5%	17.1%	10.7%	9.0%	11.9%	8.7%	20.1%
Affinity Global Cautious Solution	1.2%	4.4%	5.9%	9.2%	1.1%	0.6%	3.6%	2.7%	9.8%
Affinity Global Cautious Restricted	0.6%	3.3%	5.0%	7.1%	1.9%	1.7%	4.5%	2.9%	7.3%
Affinity Global Moderate Solution	1.7%	5.9%	7.3%	11.0%	0.3%	0.3%	4.5%	3.5%	13.3%
Affinity Global Moderate Restricted	1.8%	5.6%	7.2%	10.2%	1.5%	1.6%	5.6%	4.0%	12.2%
Affinity Global Growth Solution	2.9%	7.5%	9.0%	13.1%	0.7%	0.9%	5.8%	4.6%	16.7%
Affinity Global Growth Restricted	3.4%	8.0%	9.7%	13.3%	2.1%	2.5%	7.5%	5.6%	17.1%

LESS RISK/ RETURN

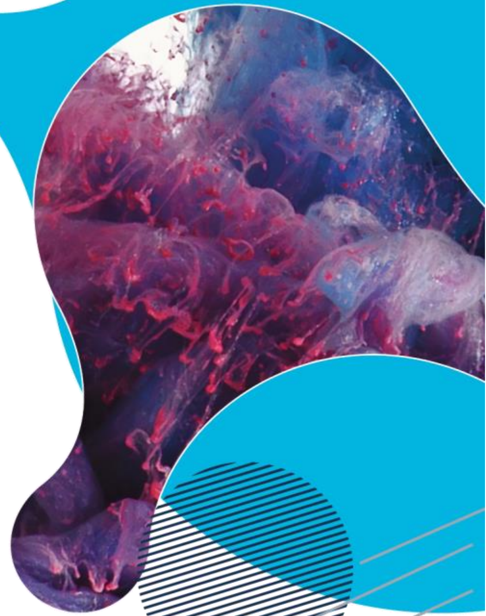
- Low
- Low Medium
- Medium
- Medium High
- High

MORE RISK/ RETURN

ZAR returns

USD returns

AFFINITY PERFORMANCE



FEBRUARY UPDATE

Global equity markets saw significant growth in February. The MSCI Worlds Index reached a new high, the Nikkei broke its 30-year record, and the EUROSTOXX 50 matched its 1999 peak. The developed markets are officially in a bull market as economic data remains broadly supportive, with strong GDP growth and stabilizing inflation. Chinese equities rebounded strongly over the month despite various challenges, including low consumer confidence.

South Africa underperformed its emerging market peers last month. Local equities struggled to gain traction in all major sectors and subsequently the local bourse ended in negative territory. The resources sector was the worst-performing local asset class, which dragged down the overall market. In addition, local bonds and inflation-linked bonds (ILBs) also lost value as investors began to doubt whether rate cuts would happen as quickly as they initially anticipated.

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.

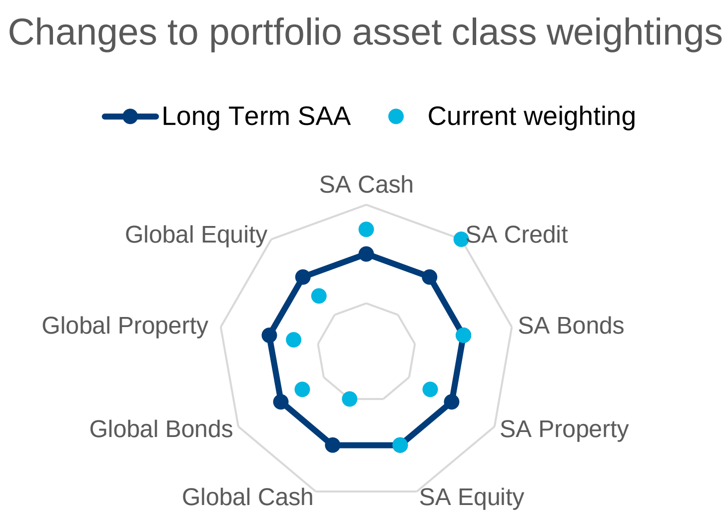
…Currently the Affinity funds move towards a neutral to underweight these growth asset classes to ultimately minimize market volatility through this period…

Source: Morningstar Direct & Analytics Consulting

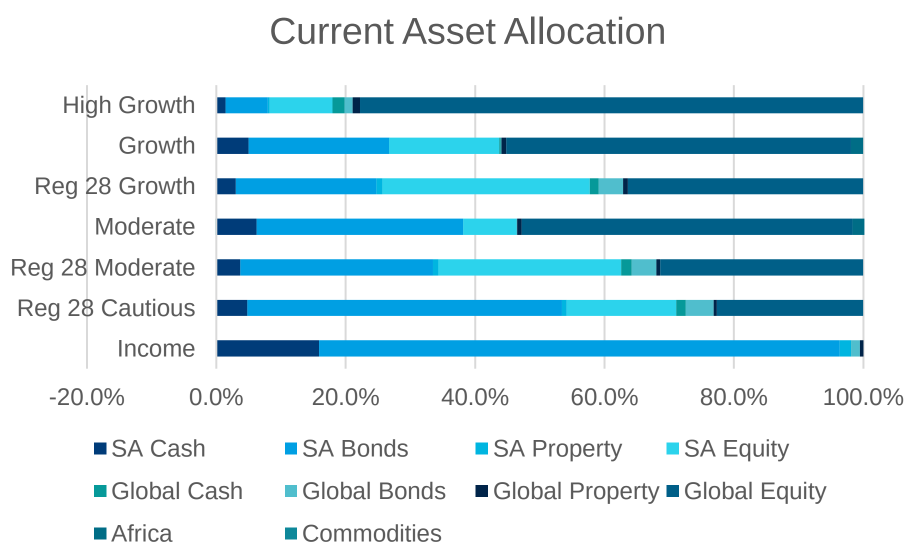
Financial Services Provider: Portfolio Analytics Consulting; FSP No 18490;
Tel: (021) 936 9500; Website: www.analyticsconsulting.co.za.

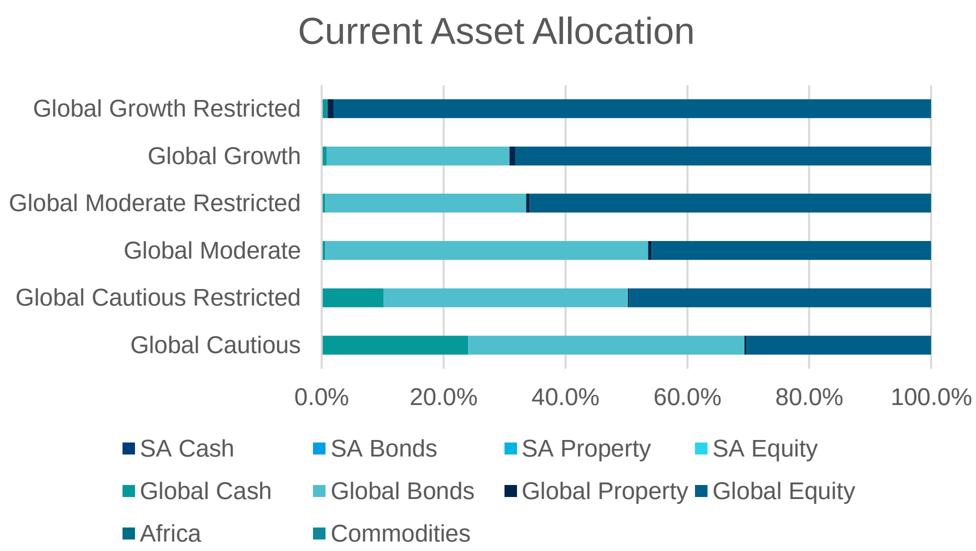
Weighting of asset classes

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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