AFFINITY CAPITAL MANAGEMENT

COLLABORATING FOR INVESTMENT RESULTS

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May 2024 | Investment Report

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ECONOMIC OVERVIEW

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May in Review

Sticky inflation and interest rate decisions are still frequently appearing in headlines. The change in May was however that some central banks are starting to talk about decoupling from the US Federal Reserve as their local economic conditions are calling for rate cuts despite the Fed's reluctance to reduce rates.

The Swiss National Bank became the first major western central bank to cut rates this cycle, with a 25 basis point cut in March. Following that the Swedish Riksbank cut its policy rate by 25 basis points to 3.75% early in May. At the start of June, the Bank of Canada became the first of the G7 economies to follow suit by dropping their rate from 5% to 4.75% and the European Central Bank one day later decided to also reduce their rate by 25 basis points to 3.75%.

Election results in South Africa and India surprised to the extent that both incumbents lost far more support than anticipated and forced the ruling parties to form either coalitions or governments of national unity. It underlined how difficult it is to forecast outcomes even when tens of thousands of potential voters are polled prior to the time.

In South Africa the ANC has attained 159 seats in South Africa's National Assembly - down 31% from the previous 230 seats attained. Jacob Zuma's MK Party exceeded all expectations by winning 58 seats in parliament and then also contesting the result.

Claudia Sheinbaum has been elected as Mexico's first female president, in a historic landslide win. She won by a margin of about 30 percentage points over her main rival, businesswoman Xóchitl Gálvez.

The Monetary Policy Committee (MPC) of the South African Reserve Bank has unanimously voted to keep interest rates unchanged at 6.50%, with risks to the inflation outcome assessed to be largely balanced.

In his statement Governor Lesetja Kganyago noted that South Africa’s annual inflation rate eased for the second consecutive month to a four-month low of 5.2% in April 2024. South Africa’s unemployment rate however increased to 32.9% in Q1 of 2024 - the highest in a year and up from 32.1% in the prior period.

In May global equity markets continued their upward trend (which in many instances took a break in April) with a large number of markets reaching all-time highs. As impressive as this sounds, it’s important to remember that, as markets generally go up over time, it’s bound to hit all-time highs on a fairly frequent basis.

Emerging market equities (up 0.2% in US dollars) lagged their developed counterparts (up 4.5%). Global bond yields drifted lower during the month but gave up some of these gains towards the end of the month as the Federal Reserve exhibited a more hawkish stance. South African bonds followed a similar path and ended the month with higher yields than at the end of April.

South Africa’s annual inflation rate eased for the second consecutive month to a four-month low of 5.2%

South African equities ended the month slightly stronger than its emerging market peers, but in the wake of the election results and subsequent negotiations about the formation of a new government markets, the equity market is expected to remain volatile as both rumours and facts emerge. Only once a new dispensation is announced and the efficiency thereof can be assessed will South Africa specific risks subside.

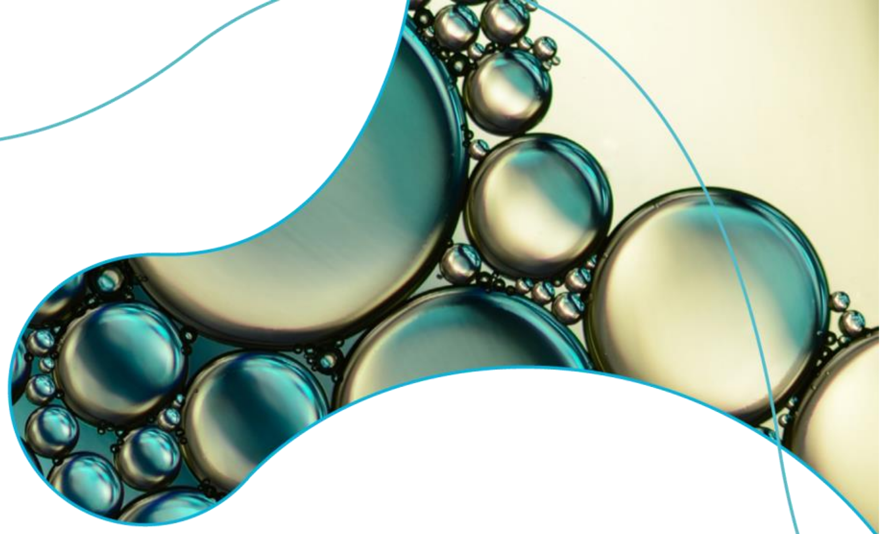
The gold price remained steady in May, while the price of a barrel of oil dropped by a little over 7%.

the equity market is expected to remain volatile as both rumours and facts emerge

MARKET INDICES 1 (All returns in Rand)	**31 May 2024**		
	3 months	12 months	5 years[2]
SA equities (JSE All Share Index)	7.3%	6.3%	10.7%
SA property (S&P SA Reit Index)	-2.3%	17.5%	-3.8%
SA bonds (SA All Bond Index)	0.2%	13.0%	7.2%
SA cash (STeFI)	2.1%	8.5%	6.0%
Global developed equities (MSCI World Index)	2.1%	19.2%	19.3%
Emerging market equities (MSCI Emerging Markets Index)	1.7%	7.2%	9.4%
Global bonds (Bloomberg Barclays Global Aggregate)	-2.5%	-4.3%	3.6%
Rand/dollar [3]	-1.9%	-5.0%	5.3%
Rand/sterling	-1.2%	-2.4%	5.5%
Rand/euro	-1.5%	-3.3%	4.7%
Gold Price (USD)	13.6%	18.3%	12.2%
Oil Price (Brent Crude, USD)	-2.4%	12.3%	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



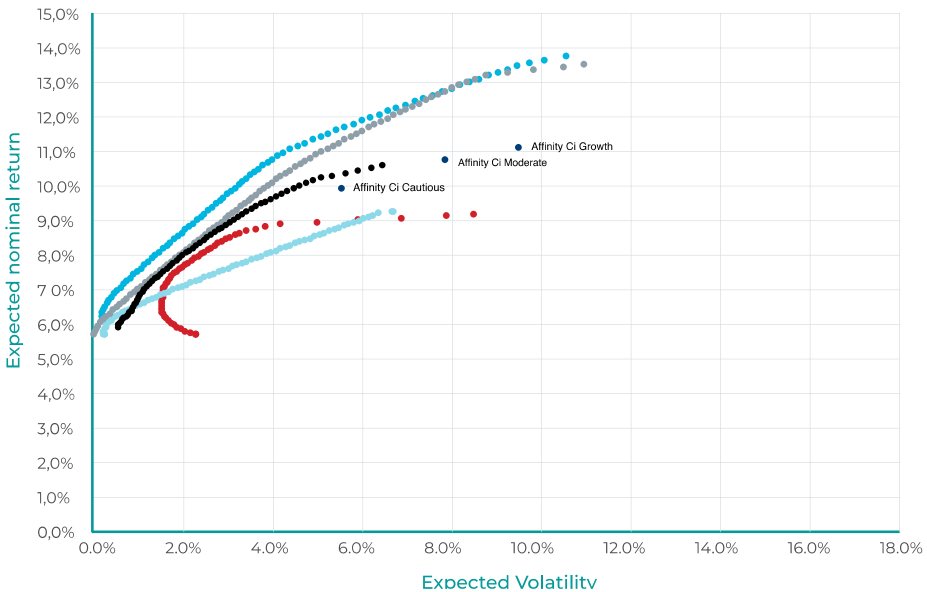
Affinity Capital Management has been established as a collaborative business that works hand in hand with financial advisors and their clients. We believe that investment solutions should not be created in isolation. A collaboration between advice and asset management ensures that investment products 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)	1.0%	7.3%	3.6%	6.3%	7.4%	8.6%	10.7%	8.0%	1.6%
JSE Preference Shares (J251)	0.7%	2.8%	7.4%	12.4%	7.2%	16.7%	11.3%	9.0%	4.5%
SA Property (South African Listed Property Index)	0.2%	-1.4%	13.6%	20.3%	8.4%	10.7%	0.2%	3.0%	3.4%
SA Bonds (SA All Bond Index)	0.8%	0.2%	1.8%	13.0%	6.5%	6.3%	7.2%	7.8%	0.4%
ILBs (Barclays South Africa Government Inflation Linked Bond)	-0.8%	-0.3%	1.0%	6.5%	2.9%	5.4%	5.5%	4.8%	-0.9%
SA Cash (STeFI)	0.7%	2.1%	4.2%	8.5%	7.4%	6.3%	6.0%	6.5%	3.5%
Global Equities (MSCI All Countries World Index, $)	4.1%	4.0%	14.4%	24.1%	12.2%	5.6%	12.2%	9.0%	9.1%
Developed Market Equities (MSCI World Index, $)	4.5%	4.0%	15.2%	25.5%	13.5%	7.1%	13.3%	9.7%	9.8%
Emerging Market Equities (MSCI Emerging Market Index, $)	0.6%	3.6%	7.6%	12.8%	1.9%	-5.5%	3.9%	3.0%	3.5%
Global Bonds (Bloomberg Barclays Global Aggregate,$)	1.3%	-0.7%	0.7%	0.8%	-1.9%	-5.8%	-1.6%	-0.4%	-3.3%
RAND/DOLLAR	0.0%	-1.9%	-0.6%	-5.0%	9.9%	11.1%	5.3%	5.9%	3.0%
RAND/STERLING	1.6%	-1.2%	-0.1%	-2.4%	10.5%	7.1%	5.5%	3.0%	2.8%
RAND/EURO	1.5%	-1.5%	-1.1%	-3.3%	10.6%	6.8%	4.7%	3.5%	1.2%
Solutions	**1 Month**	**3 Months**	**6 Months**	**1 Year**	**2 Years**	**3 Years**	**5 Years**	**10 Years**	**YTD**
• **Affinity Income Solution**	0.9%	1.9%	4.2%	11.1%	8.7%	7.9%	7.4%	6.8%	2.1%
• **Affinity Ci Cautious Fund**	1.5%	2.0%	4.9%	11.9%	9.3%	7.5%	6.7%	6.0%	3.4%
• **Affinity Ci Moderate Fund**	1.8%	3.0%	6.2%	12.5%	10.0%	8.1%	7.4%	6.4%	4.9%
• **Affinity Moderate Solution (Non Reg 28)**	2.0%	1.6%	7.7%	12.3%	12.4%	8.8%	7.0%	6.3%	5.4%
• **Affinity Ci Growth Fund**	1.8%	3.1%	6.5%	12.2%	9.9%	7.9%	7.1%	6.5%	5.3%
• **Affinity Growth Solution (Non Reg 28)**	2.2%	2.2%	8.5%	12.6%	12.8%	9.1%	9.9%	8.0%	6.4%
• **Affinity High Growth Solution (Non Reg 28)**	2.5%	1.5%	10.3%	12.5%	14.7%	9.6%	12.3%	8.5%	7.5%
• **Affinity Global Cautious Solution**	1.5%	1.6%	6.0%	10.1%	4.3%	0.0%	3.7%	2.8%	2.8%
• **Affinity Global Cautious Restricted**	1.0%	1.7%	5.1%	9.0%	4.3%	1.3%	4.6%	3.0%	2.4%
• **Affinity Global Moderate Solution**	1.9%	1.8%	7.7%	12.4%	4.6%	-0.8%	4.6%	3.6%	3.5%
• **Affinity Global Moderate Restricted**	1.7%	2.1%	7.7%	12.8%	5.2%	0.6%	5.8%	4.1%	3.9%
• **Affinity Global Growth Solution**	2.3%	2.2%	9.9%	15.7%	5.6%	-0.6%	6.1%	4.7%	5.1%
• **Affinity Global Growth Restricted**	2.3%	2.7%	10.9%	17.4%	6.7%	0.8%	7.9%	5.7%	6.2%

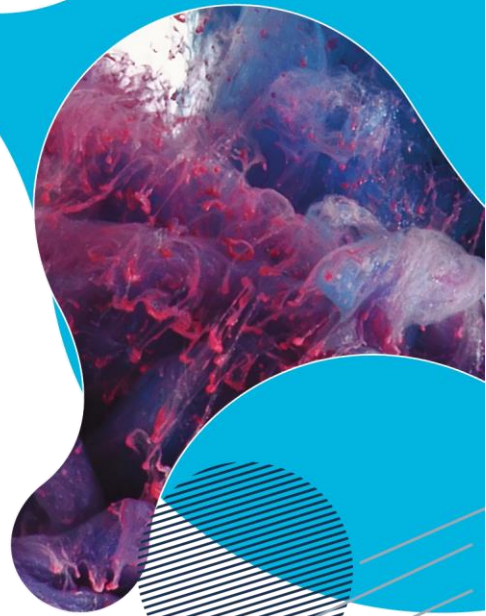
- Low
- Low Medium
- Medium
- Medium High
- High

LESS RISK/ RETURN

MORE RISK/ RETURN

ZAR returns
USD returns

AFFINITY PERFORMANCE



APRIL UPDATE

During May, developed market equities performed the best among all asset classes. The EURO STOXX and the FTSE 100 showed healthy growth, while the NIKKEI 225 saw a slight increase. The US markets stood out, with the Dow Jones Industrial Average reaching a milestone by surpassing the 40,000 level for the first time. Additionally, the S&P 500 and the Nasdaq experienced record-breaking growth due to the AI-driven rally. In the US, inflation dropped to 3.6%, but this single data point is not sufficient for the Federal Reserve (FED) to consider a rate cut at this stage.

In the local South African markets, there has been significant volatility over the past month. Initially, the markets were optimistic in line with global trends, but there was a sharp retreat during the election week. Bonds experienced a 35 basis point decline in yields over the month, only to rise again in the two days following the election. South African equities lost over 3.0% in the final week of the month, but still ended in positive territory. Notably, the ANC lost its majority vote for the first time in 30 years. As a result, the markets are cautiously awaiting to find out which governing coalition will emerge.

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

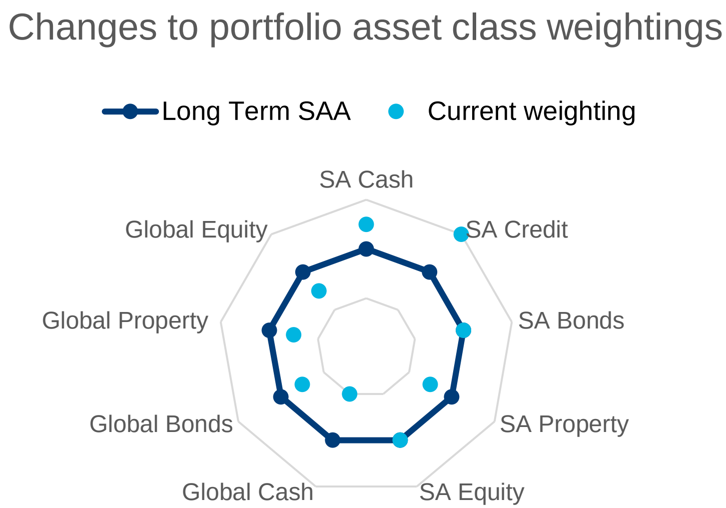
Financial Services Provider: Portfolio Analytics Consulting; FSP No 18490;
Tel: (021) 936 9500; Website: www.analyticsconsulting.co.za.

ATTRIBUTION OF PERFORMANCE

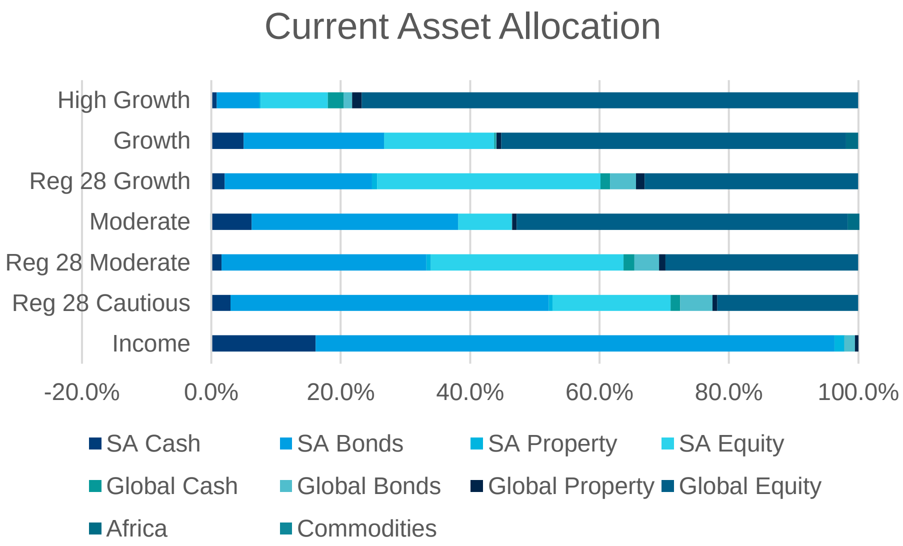
CONTINUED

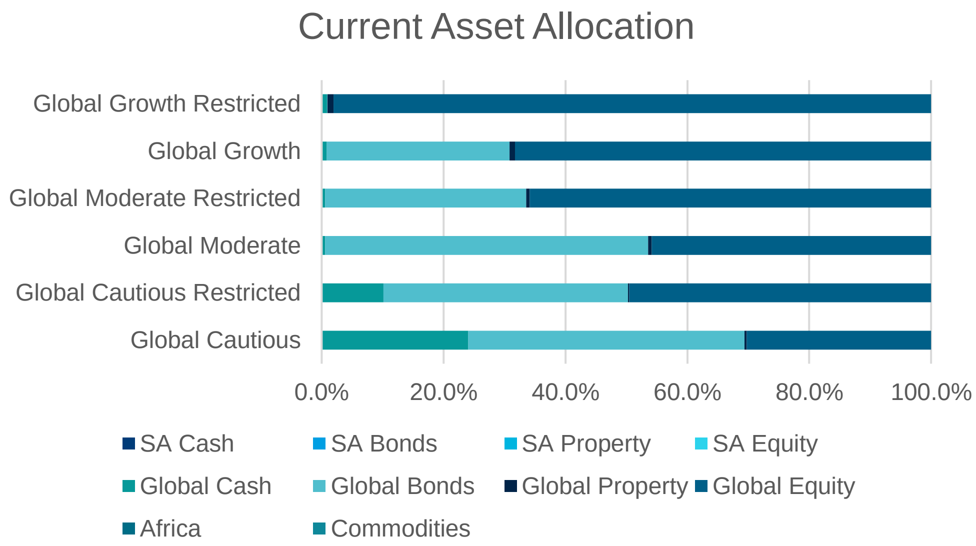
Weighting of asset classes

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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