# AFFINITY CAPITAL MANAGEMENT

## COLLABORATING FOR INVESTMENT RESULTS

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August 2025 | Investment Report

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# ECONOMIC OVERVIEW

The Fed is now embracing a more flexible inflation goal and a qualitative approach to assessing maximum employment

## August in Review

Central banks in major economies—including the United States, Eurozone, and Japan—held interest rates steady, signalling a pause in their rate cycles. Inflation continued to ease, with consumer price indices trending below prior peaks, allowing policymakers to focus on growth without stoking price pressures.

Global employment remained robust, with unemployment rates near historic lows in several regions. Wage growth was moderate, balancing inflation concerns with sustained labour demand.

Jerome Powell’s August 2025 Jackson Hole speech his final as chairperson of the US Federal Reserve—was a nuanced reflection on the evolving US economic landscape and the Fed’s policy stance. He signalled a shift away from the 2020-era Flexible Average Inflation Targeting (FAIT). The Fed is now embracing a more flexible inflation goal and a qualitative approach to assessing maximum employment. Following his speech, the market seemed to price for an interest rate cut being announced at the Federal Open Market Committee meeting in September.

In Europe, macro-economic news was mixed. GDP rose marginally, indicating a fragile recovery. In addition to this, retail trade sales increased, suggesting resilient consumer demand despite broader economic uncertainty. Industrial production and construction output unfortunately declined across most EU states. Unemployment rate remained unchanged overall, but the silver lining is that youth unemployment decreased in the euro area.

## ECONOMIC OVERVIEW

CONTINUED

The South African Reserve Bank (SARB) revised its 2025 GDP growth forecast down to 1.0% (from 1.2%). Weak external demand and domestic investment constraints contributed to the downgrade. There was some good news, though as inflation remained below the 4.5% midpoint target. The Reserve Bank, however, flagged potential upside risks due to electricity price adjustments. Despite disinflation, the governor signalled limited room for rate cuts, citing currency volatility and US policy spillovers.

China reaffirmed its 5% GDP growth target despite mounting headwinds. In this pursuit Beijing announced a record-high fiscal deficit (4% of GDP) and launched ¥4.4 trillion (over USD 600 billion) in local government bonds for infrastructure and housing. In addition, they also issued ¥1.3 trillion (USD 180 billion) in ultralong treasury bonds for national security and innovation, as well as ¥500 billion (USD 70 billion) in sovereign bonds to recapitalize state-owned banks.

Immigration remains a sensitive matter in Europe and the United Kingdom. The UK signed a new bilateral agreement with Iraq to expedite the return of failed asylum seekers. This is part of a broader strategy to curb Channel crossings, which surged to over 27 000 attempts year-to-date. This is up from 18 000 in the same period last year. In the rest of Europe many countries are struggling with the integration of migrating people from the Middle East, Eastern Europe and North Africa. Immigration policy is likely to be central to the next general elections in Western Europe and the United Kingdom.

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Global equity markets extended their gains in August 2025, supported by resilient corporate earnings, firm commodity prices, and growing expectations of monetary easing in the United States. The MSCI All Country World Index (ACWI) rose 2.6%, marking its fifth consecutive monthly advance and reflecting strength across both developed and emerging markets.

The S&P 500 gained 2.0%, buoyed by strong Q2 earnings and dovish Fed signals following soft labour market data. The NASDAQ advanced 2.2%, with standout performances from Intel (+21%), Applovin (+21%), and IDEXX Laboratories (+21%). Small-cap stocks rebounded sharply, with the Russell 2000 up 7.0%, its best monthly performance since late 2024.

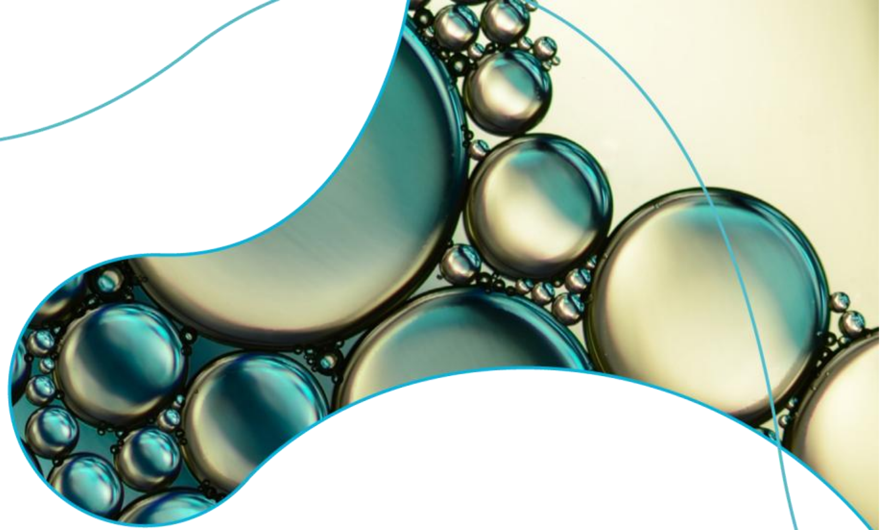
In Europe, the EUROSTOXX 50 edged up 0.6%, as investors looked past political noise and focused on the ECB's steady policy stance. The UK's FTSE 100 rose 0.6%, underpinned by commodity-linked sectors and upward earnings revisions in energy and materials. Japan's Nikkei 225 surged 4.0%, lifted by corporate reform momentum and continued support from US trade agreements

Gold rose 4.8% to USD3 429/oz, subsequently breaking above the USD3 500 threshold in September amid rising expectations of a Fed rate cut

| **MARKET INDICES [1] (All returns in Rand except where otherwise indicated)** | **31 August 2025** | | |
|---|---|---|---|
| | 3 months | 12 months | 5 years |
| SA equities (JSE All Share Index) | 8.4% | 25.8% | 17.2% |
| SA property (S&P SA REIT Index) | 6.6% | 21.8% | 21.1% |
| SA bonds (SA All Bond Index) | 5.8% | 15.1% | 11.3% |
| SA cash (STeFI) | 1.9% | 7.9% | 6.4% |
| Global developed equities (MSCI World Index) | 6.3% | 15.8% | 14.4% |
| Emerging market equities (MSCI Emerging Markets Index) | 7.7% | 17.3% | 6.6% |
| Global bonds (Bloomberg Barclays Global Aggregate) | -0.2% | 3.1% | -0.9% |
| Rand/dollar [3] | -2.0% | -0.3% | 0.9% |
| Rand/sterling | -1.8% | 2.4% | 1.1% |
| Rand/euro | 1.0% | 5.4% | 0.4% |
| Gold Price (*USD*) | 5.6% | 39.3% | 12.0% |
| Oil Price (Brent Crude, *USD*) | 6.6% | -13.6% | 8.5% |

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



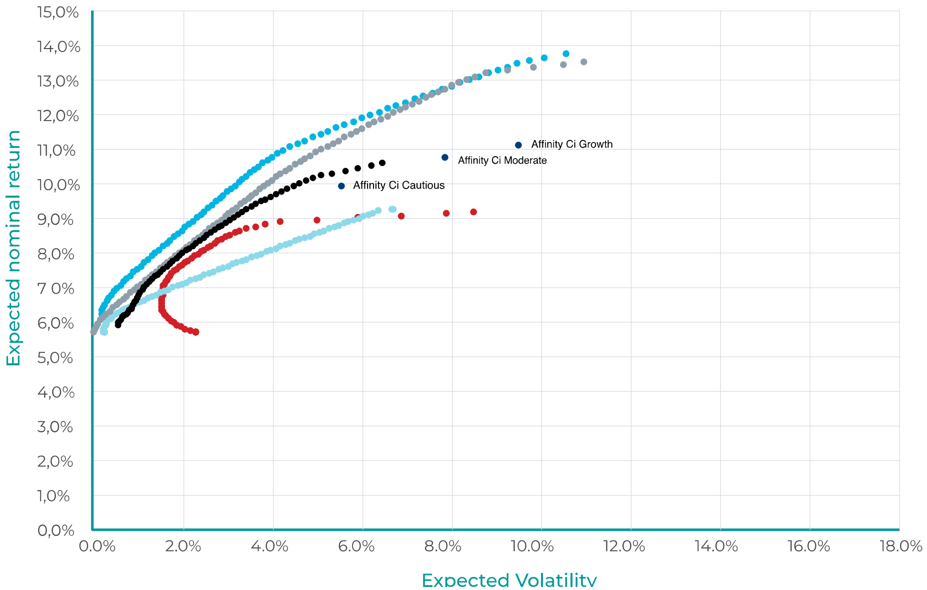
Affinity Capital Management has been established as a collaborative business that works hand in hand with financial advisors and their clients. We believe that investment solutions should not be created in isolation. A collaboration between advice and asset management ensures that investment products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

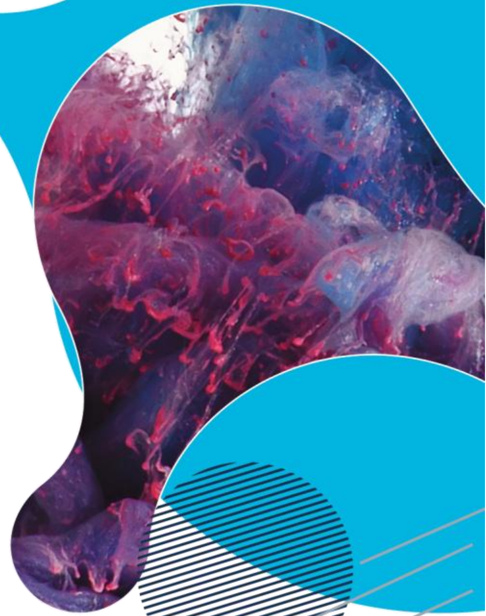
| Indices | 1 Month | 3 Months | 6 Months | 1 Year | 2 Years | 3 Years | 5 Years | 10 Years | YTD |
|---|---|---|---|---|---|---|---|---|---|
| SA Equities (JSE All Share Index) | 3.5% | 8.4% | 20.8% | 25.8% | 20.9% | 19.1% | 17.2% | 11.1% | 23.6% |
| JSE Preference Shares (J251) | 0.3% | 5.7% | 17.8% | 29.5% | 23.9% | 14.6% | 22.2% | 13.1% | 15.6% |
| SA Property (South African Listed Property Index) | 2.8% | 6.7% | 16.4% | 18.1% | 27.8% | 21.7% | 21.3% | 3.2% | 13.4% |
| SA Bonds (SA All Bond Index) | 0.7% | 5.8% | 9.7% | 15.1% | 16.8% | 13.6% | 11.3% | 9.4% | 10.3% |
| ILBs (Barclays South Africa Government Inflation Linked Bond) | 1.7% | 2.8% | 3.1% | 5.5% | 8.2% | 6.0% | 8.3% | 5.3% | 3.8% |
| SA Cash (STeFI) | 0.6% | 1.9% | 3.7% | 7.9% | 8.2% | 7.9% | 6.4% | 6.8% | 5.1% |
| Global Equities (MSCI All Countries World Index, $) | 2.5% | 8.6% | 11.6% | 16.3% | 20.1% | 18.2% | 12.5% | 11.7% | 14.7% |
| Developed Market Equities (MSCI World Index, $) | 2.6% | 8.5% | 11.0% | 16.2% | 20.5% | 19.1% | 13.4% | 12.2% | 14.1% |
| Emerging Market Equities (MSCI Emerging Market Index, $) | 1.5% | 9.9% | 16.9% | 17.7% | 16.6% | 11.4% | 5.7% | 7.4% | 19.6% |
| Global Bonds (Bloomberg Barclays Global Aggregate,$) | 1.5% | 1.8% | 5.1% | 3.5% | 5.2% | 3.4% | -1.8% | 1.1% | 7.2% |
| RAND/DOLLAR | -2.1% | -2.0% | -4.7% | -0.3% | -3.3% | 1.3% | 0.9% | 2.9% | -6.2% |
| RAND/STERLING | -0.1% | -1.8% | 2.2% | 2.4% | -0.2% | 6.4% | 1.1% | 1.6% | 1.2% |
| RAND/EURO | 0.1% | 1.0% | 7.2% | 5.4% | 0.4% | 6.5% | 0.4% | 3.4% | 6.0% |
| **Solutions** | **1 Month** | **3 Months** | **6 Months** | **1 Year** | **2 Years** | **3 Years** | **5 Years** | **10 Years** | **YTD** |
| Affinity Income Solution | 2.0% | -0.6% | 1.2% | 5.5% | 7.2% | 7.9% | 8.4% | 7.4% | 1.2% |
| Affinity Ci Cautious Fund | 1.0% | 4.2% | 6.9% | 12.8% | 13.4% | 12.7% | 9.4% | 6.7% | 6.9% |
| Affinity Ci Moderate Fund | 1.2% | 4.3% | 7.4% | 13.7% | 14.2% | 13.5% | 10.4% | 6.7% | 7.4% |
| Affinity Moderate Solution (Non Reg 28) | 1.3% | 10.8% | -1.7% | 1.0% | 2.9% | 4.8% | 5.8% | 8.9% | -1.7% |
| Affinity Ci Growth Fund | 1.3% | 4.6% | 7.6% | 14.0% | 14.5% | 13.9% | 10.4% | 6.8% | 7.6% |
| Affinity Growth Solution (Non Reg 28) | 0.7% | 4.2% | 5.4% | 12.9% | 13.3% | 13.7% | 9.8% | 7.8% | 5.4% |
| Affinity High Growth Solution (Non Reg 28) | -0.3% | 9.6% | 9.6% | 17.1% | 10.0% | 8.0% | 8.2% | 11.9% | 9.6% |
| Affinity Global Cautious Solution | 1.2% | 3.2% | 4.5% | 7.2% | 9.3% | 7.8% | 3.8% | 4.0% | 4.5% |
| Affinity Global Cautious Restricted | 0.0% | 2.6% | 3.5% | 7.7% | 8.0% | 6.3% | 4.8% | 3.9% | 3.5% |
| Affinity Global Moderate Solution | 1.6% | 4.1% | 5.5% | 8.6% | 11.3% | 9.2% | 4.4% | 5.1% | 5.5% |
| Affinity Global Moderate Restricted | 0.4% | 4.6% | 4.0% | 9.1% | 9.8% | 7.7% | 5.9% | 5.1% | 4.0% |
| Affinity Global Growth Solution | 1.9% | 5.0% | 6.3% | 10.1% | 13.3% | 10.7% | 5.5% | 6.2% | 6.3% |
| Affinity Global Growth Restricted | 0.8% | 6.8% | 4.2% | 10.7% | 11.8% | 9.4% | 7.8% | 6.7% | 4.2% |

Low
Low Medium
Medium
Medium High
High

LESS RISK/ RETURN

MORE RISK/ RETURN

ZAR returns
USD returns



# AFFINITY PERFORMANCE

## MAY UPDATE

Global equity markets remained broadly positive in August. This occurs despite weaker-than-expected US job market figures, as well as a report released by the Massachusetts Institute of Technology (MIT) suggesting that artificial intelligence pilot programmes were not boosting corporate revenue growth.
Due to a shift in economic risks, Fed Chairman Jerome Powell hinted at a policy change at the annual Jackson Hole meeting, making a September rate cut highly likely. Markets have largely begun to look beyond the current level of policy uncertainty, with the latest being the US proposing a 50% tariff on India in an effort to reduce its dependence on Russian oil and gas imports.
The US and China extended their trade truce until 10 November, which benefited Chinese export firms. Chinese tech names were also boosted by the government announcing intentions to triple the chip supply in 2026.
South African equity markets again outperformed their emerging market counterparts for the fifth month this year, largely due to continued strong performance in the resources sector. The index reached new highs during the month and is now comfortably above the 100,000 level, which it so briefly touched last month.
The July inflation print saw inflation rise to 3.5% (up from 3.0% in June), which was in line with market expectations.

## 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*

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



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# ATTRIBUTION OF PERFORMANCE

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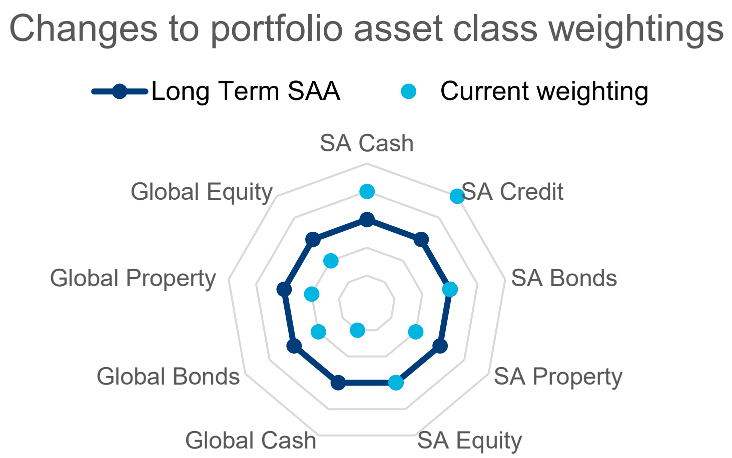
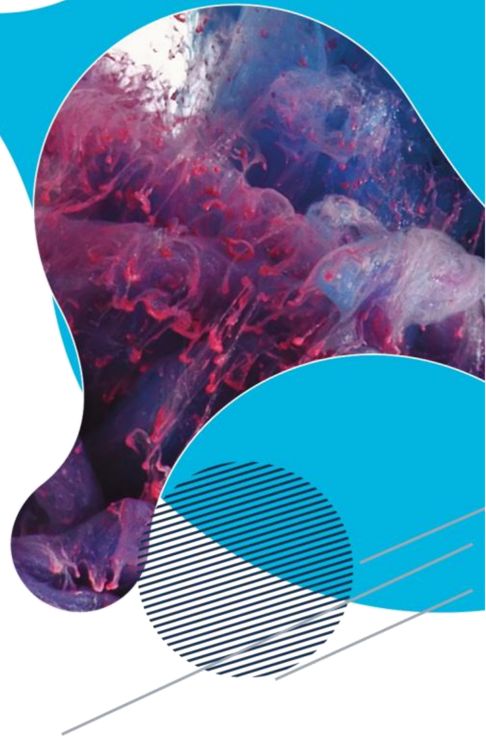
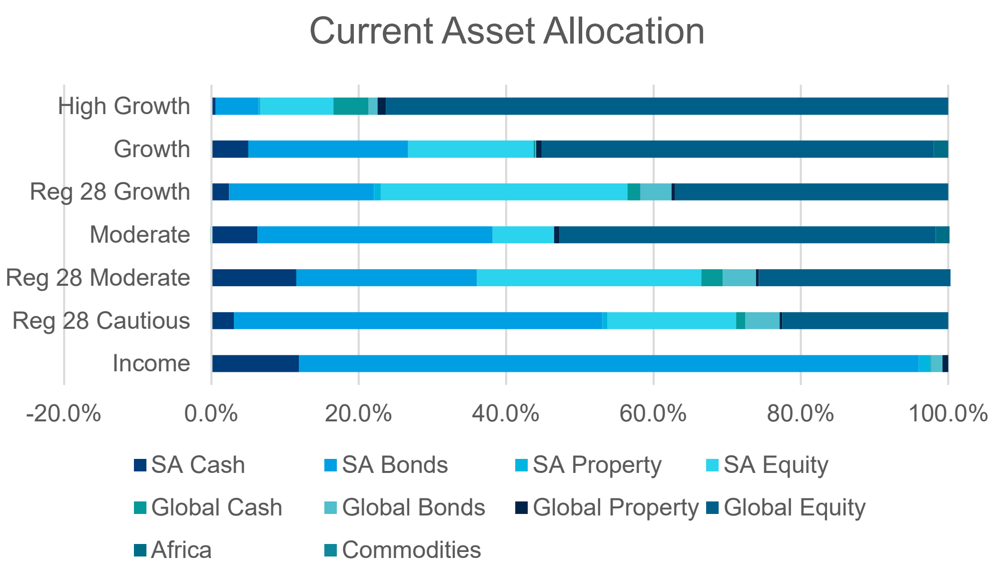
## Weighting of asset classes

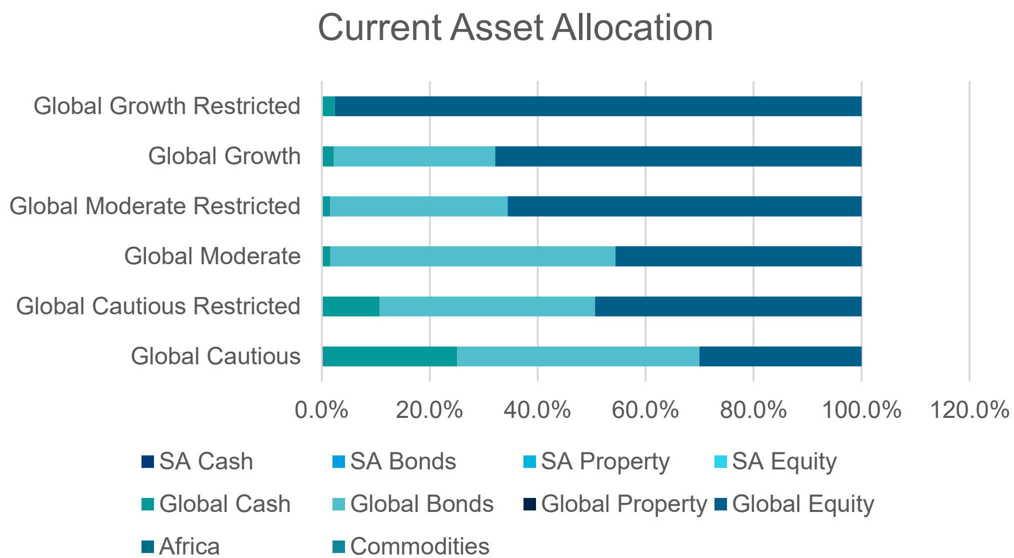
Our asset allocation models indicate that we fall within an economic expansionary regime, thus local government bonds have been increased and within local equities, the level of protection should be reduced in favour of direct equity market exposure and thus the weighting of Methodical (a protected equity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



# ASSET ALLOCATION ACROSS SOLUTIONS



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