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Investing for a
world of change

Quality after the crowd moves on



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Key takeaways

- Risk assets have continued to rise – investors willing to embrace risk have been well rewarded across markets.
- Beneath the surface, leadership remains narrow – a small group of themes has driven much of the gains, but there are early signs of broadening.
- Parts of the market look stretched – optimism and positioning leave less room for disappointment, and downside risks are rising from elevated expectations.
- Our funds remain intentionally different – anchored in durable business models, resilient cash flows and sensible prices.
- Our portfolio's valuation and forward growth prospects are as compelling as they've been in decades, creating a meaningful opportunity.

The past year has rewarded investors willing to embrace risk. It wasn't only equities that performed – gains were broad across risk assets. But concentration and momentum defined the period. A small group of leaders generated an outsized share of index returns, shaping overall outcomes far more than headline numbers imply.

In such conditions, investment styles that emphasise durability, balance sheet strength and consistent cash generation often lag. When momentum is strong and multiples expand, exposure to the most economically sensitive or thematically favoured areas tends to dominate short-term performance.

This dynamic is not unusual. Periods of strong performance often reinforce themselves – rising prices attract capital, capital reinforces leadership, and confidence builds around a narrow set of perceived winners. The result can feel decisive and durable. Yet history suggests that when returns become concentrated and expectations rise quickly, future outcomes tend to rely less on further enthusiasm and more on the delivery of underlying fundamentals.

Investors should distinguish between what drives returns in a single year and what sustains them over time. Over shorter horizons, valuation expansion and narrative can be powerful. Over full cycles, however, the compounding of earnings and free cash flow has historically done the heavy lifting.

Outlook – where we see opportunity

Looking ahead, returns are likely to be more discriminating and increasingly tied to fundamentals rather than broad-based multiple expansion. After exceptional gains, expectations in parts of the market are elevated. That does not eliminate upside, but it does compress the margin for error.

In contrast, we see a compelling combination of resilient earnings growth and valuations that are attractive relative to history for the businesses we hold. Many of the businesses we own continue to compound free cash flow at double-digit rates, supported by strong competitive positions and disciplined capital allocation. From current levels, that internal growth alone provides a credible pathway to attractive long-term returns, rather than relying on favourable macro conditions or sustained re-rating.

We believe the next phase of the cycle will reward companies capable of delivering consistent earnings progression. In that environment, balance sheet strength, pricing power and reinvestment discipline matter more.

Positioning – what we’re doing

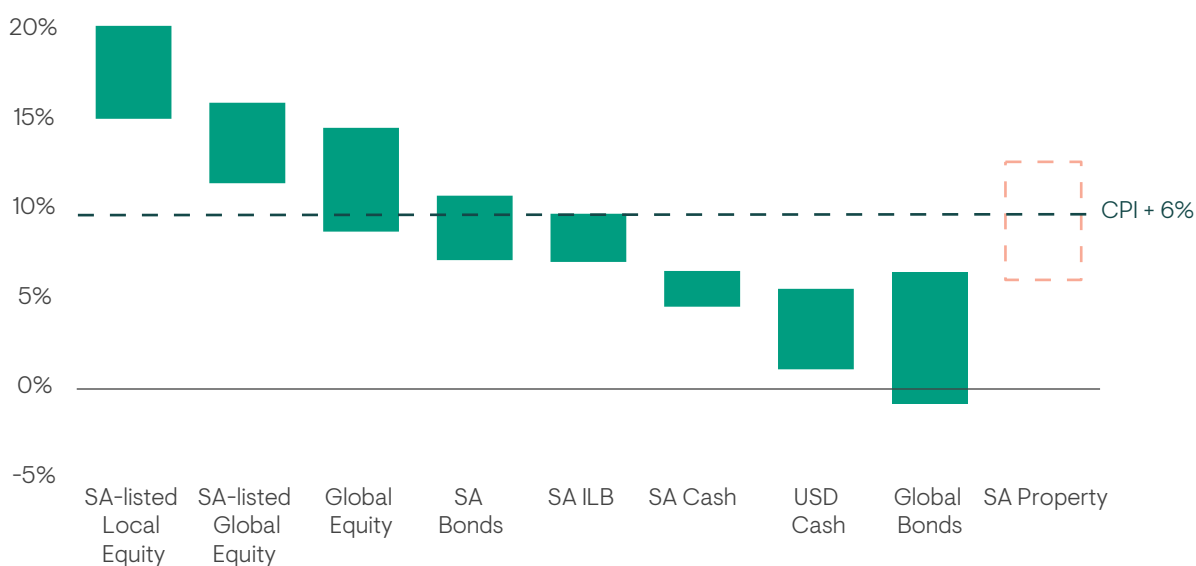
Portfolios remain balanced, not defensive, not euphoric. We maintain exposure across asset classes and within equities across durable, defensive and selective growth businesses, diversified by geography and sector. The objective is not to predict a single macro outcome, but to allocate capital to assets and companies capable of delivering sustainable real returns across a range of environments.

We continue to recycle capital deliberately, trimming where prices have become demanding and adding where earnings resilience remains intact but sentiment has softened. Equities remain the primary driver of long-term capital growth within the portfolio, and we retain a clear bias toward high-quality businesses capable of compounding value over time. The majority of our equity exposure is to companies listed globally or South African-listed businesses with meaningful global earnings streams, providing diversification beyond the domestic cycle.

South African bonds remain an important allocation, offering attractive real yields and providing stability alongside our equity exposure. Cash provides optionality, and the flexibility to act decisively when volatility creates opportunity.

We believe the portfolio is positioned to deliver attractive real returns, underpinned by the steady growth of earnings and cash flows within the businesses we own. We would be more cautious, however, about assuming that recent index-level returns can be repeated as easily from here, particularly in areas where expectations are already elevated.

Figure 1: Expected 5-year returns



Source: Ninety One; For illustrative purposes only and is not the return of the fund. As at 31 January 2026.

Conclusion

In summary, our positioning reflects a balanced portfolio built on high conviction:

- **Global equities provide the strongest opportunity for long-term capital growth** - particularly quality businesses with durable advantages and globally diversified earnings, cash flow growth, resilience, and attractive valuations.
 - Within domestic markets, we see **select opportunities in South African equities**, though the opportunity set is narrower and demands disciplined capital allocation.
- **Asset class diversification remains essential** - equities do the heavy lifting over time, but South African bonds offer attractive real yields relative to cash and provide stability alongside our global equity exposure. We are deliberate about risk and do not invest based on hope.

Quality investing does not aim to capture every cyclical surge. Its purpose is to compound capital steadily over time. When enthusiasm fades, and excess returns driven by optimism begin to normalise, it is typically earnings - not narrative - that endure. That is where we are positioned, with resilience on the downside and meaningful upside as fundamentals continue to compound.

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