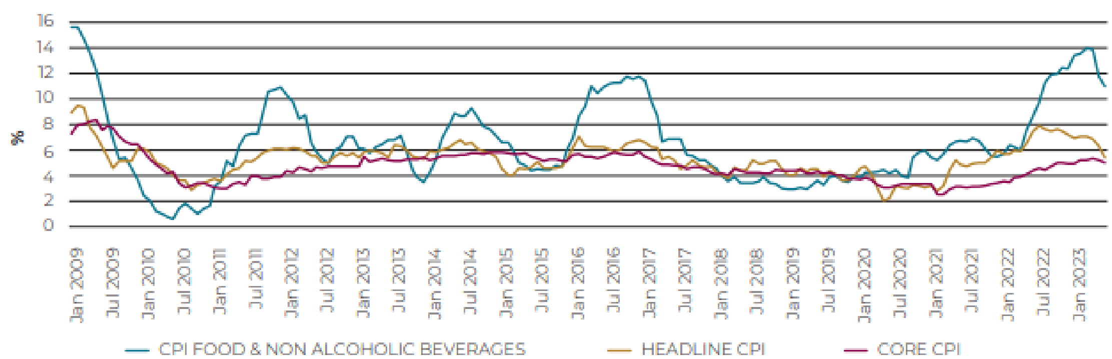
STAR INVESTMENT PARTNERS

South African Market

Local equities benefited from improved market sentiment over the last month, with the FTSE/JSE ALSI returning 4.01% in July, for a second consecutive month of positive returns, the first time this year. Resources gained 3.16% as higher commodity prices, especially gold and platinum buoyed the index. There were also further gains across all the other sectors, with financials, and industrials up 7.10% and 2.58% respectively. SA listed Property also advanced for a second consecutive month, up 2.32%.

The pace of increase in consumer inflation slowed to 5.4%, down from 6.3% the previous month and below market expectations of a drop to 5.6%. This is the lowest reading in 19-months, down from a peak of 7.8% this time last year. This drop sees inflation moving to within the SARB target range of 3% - 6% for the first time since December 2021. Notably, food inflation has eased from 14% to 11%, while transport inflation dropped from 7% to 1.8%. Annual core inflation also slowed to 5%, after a 5.2% rise the previous month and broadly in line with market estimates of 5.1%. With inflation declining locally, and global factors also starting to ease the SARB monetary policy committee has left the repo rate unchanged at its meeting at the end of July at 8.25% and while that may bring some reprieve the MPS has stated that there are still risk factors that can push interest rates up and Reserve Bank governor Lesetja Kganyago was quick to add that the pause did not mean an end to the hiking cycle and that future rate decisions would continue to depend on economic data and risks to the inflation outlook.

Inflation in South Africa:



Source: Refinitiv Data

Local bonds had a strong month in July, with the ALBI ending the month up 2.29%, which puts the index firmly in the green for the year returning 4.14%. High yields contributed to returns, as well as a rally in the short end of the South African yield curve. The short-end rally may be an indication that the market expects rate cuts in the near future or towards the end of the year. The South African yield curve declined slightly on the long end, but still keeping longer dated government bonds attractive at over 11%. The benchmark 10-year government bond yields decreased slightly to 11.23% at the end of July, down marginally from the previous month of 11.39%.

Being a higher-risk currency, the Rand also benefited from the increased risk sentiment this month. The Rand continued to recover in July, building on the gains made the previous month. The Rand appreciated 5.47% against the greenback to end the month at R17.81/$, the lowest level since early April this year. The Rand also made gains against the Pound and Euro, rising by 4.5% and 4.4% respectively.

Sentiment in the local manufacturing industry fell further to its weakest level since the July riots in 2021, coming in at 47.3, down from 47.6 the previous month. Although the headline index was only marginally lower it highlights that, notably, the seasonally adjusted business activity index tanked by almost 11 points. This is also the sixth consecutive month below the 50- ‘neutral’ mark- indicating a contraction in an industry that accounts for roughly 14% of South Africa’s GDP. For the first time since 2018, all five subcomponents used to calculate the headline PMI were below the neutral 50-point level, pointing to a worsening of business conditions in the sector. A key drag on the sector seems to come from weak demand, with the new sales orders index edging down once again as the decline in export sales deepened and domestic demand remains under pressure. For a second consecutive month manufacturing production increased by 2.5%, following a 3.6% surge the previous month and above forecasts of a 2.3% rise.

ABSA PMI Vs. Manufacturing Production:

Source: ABSA

Taquanta Asset Management, our credit focused fixed income manager have noted that issuance activity in the domestic debt capital markets increased again in July following a busy June. Primary market issuance during the month was through both private placements and auctions. Positively, there continues to be broad representation from issuers including banks, corporates, and securitisations. While the view on issuance activity continues to be positive, primary market issue spreads are expected to remain suppressed as the demand for assets does not yet seem to be abating. Their short-term fund performance exceeded the target return of STeFI Composite+ 2% over the quarter and YTD (year to date). The fund has outperformed via the diverse holding of high yielding assets that offer a significant liquidity premium above cash instruments.

In the SA money markets, the 3-m JIBAR rate fell to 8.45% versus the previous month of 8.5%, while the 12-m JIBAR rate fell by 30 bps m/m to 9.3%. These JIBAR linked rates indicate that money market funds are likely to generate a return of between 9% and 10% over the next 12 months with very low volatility.

STAR INVESTMENT PARTNERS

Asset Class Performances in ZAR

As of 31st July 2023	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(2.23)	23.17	20.65	12.59	15.18	15.60
Global Property - FTSE EPRA NAREIT DR	(2.32)	10.26	(1.53)	6.13	8.11	10.98
Global Bond - JPM GBI Global Traded	(5.71)	5.53	1.96	(6.09)	4.46	5.62
Global Cash - ICE LIBOR 1 Month	(5.43)	7.59	11.49	3.16	8.17	7.29
SA Equity - FTSE/JSE All Share	4.01	10.11	19.34	16.66	10.51	10.28
SA Property - FTSE/JSE SA Listed Prop	2.30	(2.22)	3.42	13.40	(3.01)	2.12
SA Bond - BEASSA ALBI	2.29	4.14	8.07	8.20	7.37	7.70
SA Cash - STeFI Call Deposit	0.67	4.30	6.84	4.75	5.33	5.74

ZAR/USD (negative = Rand strength)	(5.47)	4.73	7.09	1.54	6.34	6.03
Gold	(3.87)	9.72	13.92	(1.01)	13.80	8.37
Brent Crude Oil	7.54	4.09	(16.98)	27.31	9.36	3.60

*Returns more than 1 year are annualized.

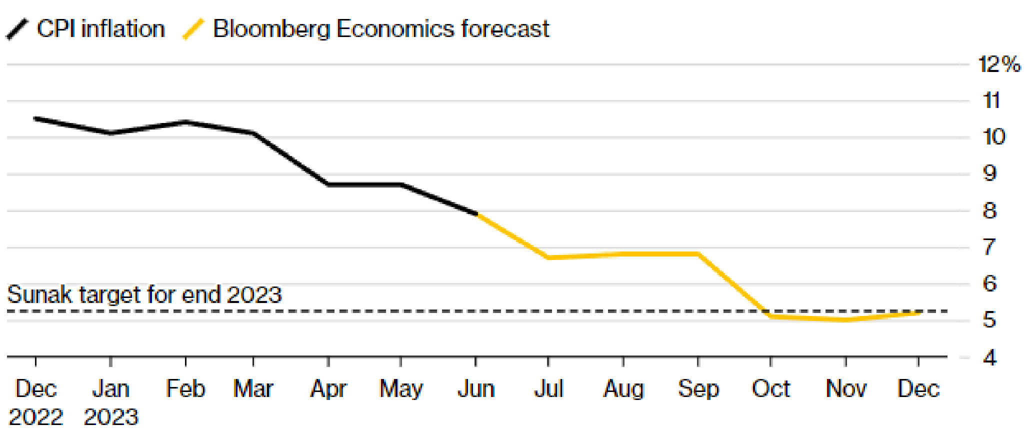
Global Markets

Global risk sentiment improved in July, leading to higher performance in most global stock indices. The renewed optimism came after data pointed to a sustained slowdown in global inflationary pressures. With inflationary pressures easing and the labour market holding up well, investors have become more confident in the likelihood of a soft landing for the world's largest economy. Moreover, Asian markets saw an uplift as expectations of additional Chinese stimulus outweighed the otherwise dull outlook for that economy. Consequently, the MSCI ACWI ended July up 3.86%, as energy stocks advanced on expectations of tighter supply and positive growth data. Both developed and emerging markets ended in positive territory, with the MSCI World and EM markets ending the month up 3.38% and 5.54%, respectively.

Despite the easing inflationary pressures, the Federal Reserve raised interest rates by 25 basis points at its meeting in July after a pause at their previous meeting. This brings the target range to 5.25%-5.5%, the highest level since January 2001. While in line with expectations, the market now believes that the Fed is likely done hiking interest rates, and with the labour market still strong, has raised the probability assigned to a soft landing. While this narrative has lifted markets, it is still unknown how long the Fed will keep interest rates elevated which in turn raises the risk that the monetary policy lags will seep into the economy. Inflation once again slowed in the month to 3% down from 4% the previous month. This was the lowest YOY increase since March 2021 and down from a four-decade high of 9.1% in June 2022 as pandemic supply chain issues clashed with burgeoning consumer demand. Even though inflation has continued to slow down, price increases still remain higher than the Fed's 2% annual target rate.

The UK is still grappling with high inflation and an economy that is struggling to cope with the rising cost of living. Although inflation has somewhat eased in recent months, it remains stubbornly high. In June, consumer price inflation stood at 7.3%, a decrease from its peak of 11% in October 2022, but still the highest among the Group of Seven wealthy nations and significantly above the Bank of England's target rate of 2%. The decline in energy prices have contributed to this decrease, but it will take time for the impact of falling fuel and gas costs to fully reflect in the consumer price inflation data. The central bank's latest forecast indicates that inflation is expected to reduce to 4.9% in the last quarter of this year, aligning with UK Prime Minister Rishi Sunak's pledge made back in January to halve inflation to around 5%. Furthermore, the central bank's report highlights that annual wage growth has exceeded expectations, rising by an average rate of 7.7% in the three months leading up to May.

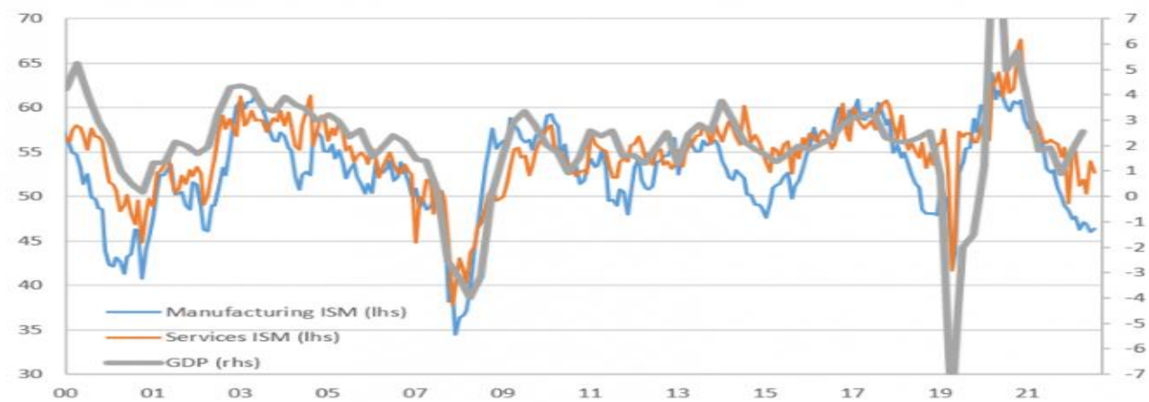
UK CPI vs Forecast:



Source: BoE, Bloomberg

Economic activity in the US service sector continued to expand in July, albeit at a slower pace than in June, with the ISM Services PMI declining to 52.7 from 53.9, pointing to the slowest growth in the services sector in five months as demand conditions softened. With the US labour market remaining tight and demand for workers outstripping supply, there is continued upward pressure on wages. US real GDP growth for the second quarter of this year beat estimates of 1.8%, by a bigger than expected margin of 2.4% as activity proved resilient in the face of the Federal Reserve's campaign of aggressive interest rate rises. This marked an acceleration from a 2% in the first quarter. Consumer spending growth slowed after an unusually strong start to the year, but the reduction was more than offset by strong business investment in inventories and fixed assets. Looking ahead to the rest of the year, the International Monetary Fund upgraded its forecast for US economic growth for 2023 to 1.8%; an improvement from the 1.6% growth the IMF had predicted for 2023 at the end of the first quarter.

ISM Indices vs GDP Growth:

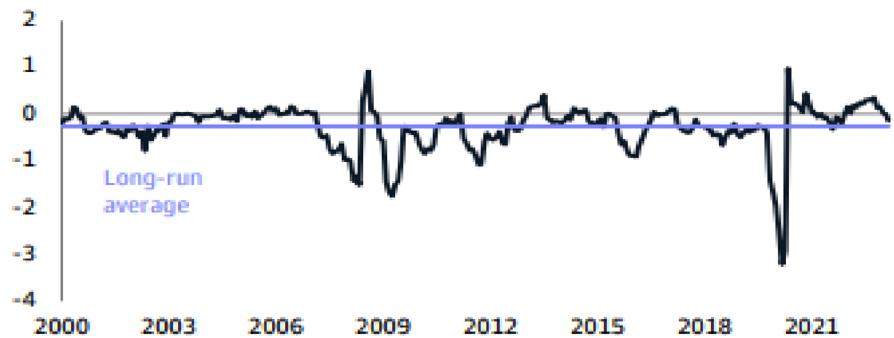


Source: Macrobond

Despite negative overall returns in global government bond markets in July, yields at the shorter end of the curve declined as central banks showed signs of potentially slowing down interest rate hikes. The US 10-year yield continued its upward trajectory, rising from 3.81% to 3.95%, pushing the yield closer to the 4% level, while the two-year yield remained at 4.87%. Throughout the month, US and European investment grade and high yield bond markets performed well, surpassing government bonds in generating positive returns. The Bank of Japan (BoJ) introduced market volatility by adjusting its yield curve control (YCC) policy, maintaining the original target range but widening the reference band by implementing a 1% cap on the 10-year Japanese government bond yield, leading to a sell-off of Japanese government bonds in response.

Under most macroeconomic conditions, corporate credit spreads and US Treasury yields tend to display a negative correlation. During periods of robust economic growth, yields typically rise while credit spreads tighten, and the opposite occurs during economic downturns. However, an exception to this negative correlation arises in an environment characterized by elevated inflation (and policy tightening). In such cases, both yields and credit spreads tend to increase, as observed for a significant portion of 2022. Entering 2023, expectations suggested that the negative correlation will reestablish itself as inflation returns to a more normalized level. As depicted in the graph below, during the past few months, the correlation has indeed returned to negative territory, indicating that the markets are preparing for a soft landing.

US Treasury Yields and Credit spreads:



Source: Goldman Sachs

The Smithson Investment Trust, a holding in our Star Global Growth Fund and managed by Fundsmith, recently released their interim half year report and below are some key extracts from their Portfolio Manager Simon Barnard surrounding performance: “The performance during this half year is more satisfactory than last year, being 9.8% ahead of the reference index. In fact, from the lows of June 2022, the overall performance of the fund is much improved over the last 12 months, with the NAV increasing by 24%”. He further continues to comment surrounding changes to the current allocation: “This is a watershed moment in the history of the Smithson Investment Trust as for the first time, the largest sector weighting is in Industrials, rather than Information Technology, we always construct the portfolio from the bottom up, acquiring the best companies that look most attractive at any given time.”

Sector	**30 June 2023(%)**	**30 June 2022(%)**
Industrials	33%	19%
Information Technology	32%	44%
Healthcare	14%	13%
Consumer Discretionary	10%	13%
Consumer Staples	4%	4%
Communication Services	3%	3%
Financials	3%	3%
Materials	0%	0%
Cash	1%	1%

Asset Class Performances in USD

As of 31st July 2023	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	3.86	17.85	13.02	10.98	8.35	9.03
Global Property - FTSE EPRA NAREIT DR	3.77	5.50	(7.75)	4.61	1.69	4.67
Global Bond - JPM GBI Global Traded	0.16	0.96	(4.48)	(7.43)	(1.73)	(0.38)
Global Cash - ICE LIBOR 1 Month	0.46	2.94	4.45	1.68	1.75	1.19
SA Equity - FTSE/JSE All Share	10.49	5.35	11.79	14.99	3.96	4.01
SA Property - FTSE/JSE SA Listed Prop	8.67	(6.45)	(3.12)	11.77	(8.76)	(3.68)
SA Bond - BEASSA ALBI	8.66	(0.36)	1.24	6.64	1.00	1.59
SA Cash - STeFI Call Deposit	6.94	(0.21)	0.09	3.25	(0.92)	(0.26)

ZAR/USD (negative = dollar strength)	5.78	(4.52)	(6.62)	(1.52)	(5.97)	(5.69)
Gold	2.11	4.98	6.72	(2.43)	7.05	2.21
Brent Crude Oil	14.23	(0.41)	(22.23)	25.49	2.88	(2.29)

*Returns more than 1 year are annualized.

STAR INVESTMENT PARTNERS

Historic Asset Class Performance Matrix

The below performance matrix shows returns (colour coded) for the 4 main indicative sources of return per asset class and separated for South Africa and Global. **All performance figures here shown in ZAR.** The performances show the one-year performance of each asset class up to the displayed date (X-axis) except for the column showing YTD returns up to 31st July 2023.

	YTD	7/2023	7/2022	7/2021	7/2020	7/2019	7/2018	7/2017	7/2016	7/2015	7/2014	7/2013	7/2012
Best	Global Equity 23.2	Global Equity 20.6	Global Cash 14.5	SA Property 28.5	Global Fixed Income 31.2	Global Property 17.4	SA Fixed Income 11.2	Global Equity 12.1	Global Property 30.2	SA Property 31.0	SA Equity 28.3	Global Equity 47.3	SA Property 35.0
	Global Property 10.3	SA Equity 19.3	SA Property 9.7	SA Equity 27.1	Global Equity 28.1	Global Fixed Income 14.5	Global Equity 10.9	SA Equity 7.6	Global Fixed Income 22.4	Global Property 24.5	Global Equity 25.9	Global Property 30.9	Global Property 31.8
	SA Equity 10.1	Global Cash 11.5	SA Equity 4.7	Global Property 17.7	Global Cash 21.7	Global Equity 10.9	SA Equity 7.2	SA Fixed Income 7.2	Global Equity 10.3	Global Equity 21.8	Global Property 24.1	SA Equity 23.0	Global Fixed Income 25.2
	Global Cash 7.6	SA Fixed Income 8.1	SA Cash 3.9	Global Equity 16.3	SA Cash 5.8	Global Cash 10.8	SA Cash 6.7	SA Cash 7.0	Global Cash 10.3	Global Cash 17.9	Global Fixed Income 12.9	Global Cash 20.9	Global Cash 22.7
	Global Fixed Income 5.5	SA Cash 6.8	Global Property 3.1	SA Fixed Income 13.9	Global Property 5.2	SA Fixed Income 8.1	Global Property 4.6	SA Property 3.3	SA Property 9.0	Global Fixed Income 10.5	SA Property 12.7	Global Fixed Income 14.8	Global Equity 17.8
	SA Cash 4.3	SA Property 3.4	SA Fixed Income 2.9	SA Cash 3.5	SA Fixed Income 4.2	SA Cash 6.6	Global Cash 0.9	Global Cash -4.0	SA Fixed Income 6.4	SA Fixed Income 8.2	Global Cash 8.3	SA Property 9.4	SA Fixed Income 17.5
	SA Fixed Income 4.1	Global Fixed Income 2.0	Global Equity 1.7	Global Cash -14.0	SA Equity 1.6	SA Equity 2.2	Global Fixed Income -1.2	Global Fixed Income -8.0	SA Cash 6.4	SA Cash 5.7	SA Fixed Income 7.2	SA Cash 4.8	SA Equity 14.5
Worst	SA Property -2.2	Global Property -1.5	Global Fixed Income -3.8	Global Fixed Income -15.6	SA Property -41.2	SA Property 0.1	SA Property -13.6	Global Property -8.7	SA Equity 4.5	SA Equity 4.4	SA Cash 5.1	SA Fixed Income 1.6	SA Cash 5.3

Source: Morningstar Direct