STAR INVESTMENT PARTNERS

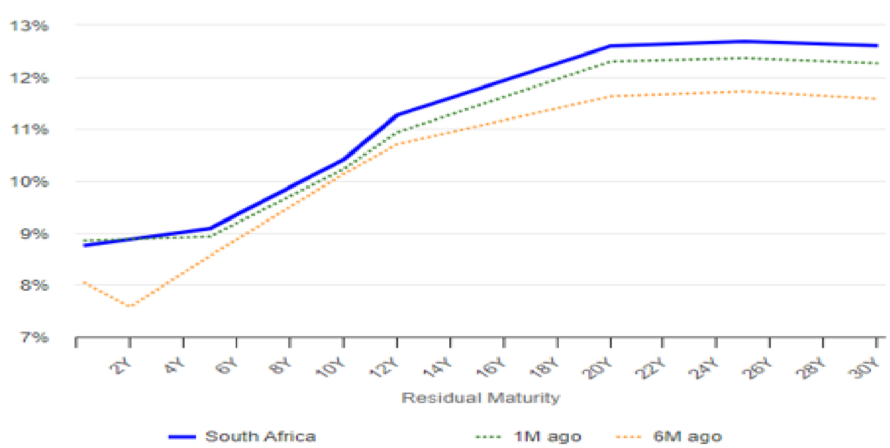
South African Market

August was a risk-off month in financial markets locally with selling pressure across the board following the past two positive months. Local equities ended the month lower, with the FTSE/JSE ALSI losing (4.77%), the biggest drop for the index in 2023. The resource sector was the primary driver behind the decline dropping (9.14%) with mining production being hit the hardest as weak Chinese economic activity weighed heavily on metal prices. Industrials and Financials also dropped (4.75%) and (1.28%) respectively. SA listed property advanced for a third consecutive month gaining 0.84%. South African equities are still looking cheap from a valuations point of view, as earnings that have been coming through are supportive of current prices.

Local inflation slowed further for a fourth consecutive month to the lowest level since July 2021 at a 4.7% YoY increase, down from 5.4% the previous month and below market expectations of 5%. Inflation is now close to the midpoint of the South African Reserve Bank's inflation target range of 3% to 6%. Despite previously being a major upward driver of inflation, the transport category pushed overall inflation down in July. Since peaking in July 2022, fuel prices have begun to ease, dropping from R26.74 per litre of petrol in July 2022 to R22.83 per litre in August 2023. The annual rate for fuel was down (16.8%), which dragged the transport category down into deflation territory for the first time since January 2021. Food inflation also eased in August, with the annual rate for food & non-alcoholic beverages dropping from 11.0% to 9.9%. With inflation nearing the midpoint of the SARB target range, all eyes will be on the MPC as they meet in September to announce their next interest rate decision. If positive economic conditions, such as lower inflation persist, the country could see rate cuts early in 2024.

The local bond market fared better than local equites over the last month; although still negative, the return of the ALBI over August was largely flat returning (0.23%). The South African government bond yield curve has seen an uptick on the long end, which is now looking more attractive than six months ago. At the same time, the shorter end of the yield curve has come down slightly, further contributing to a steepening curve. The SA-US 10-year bond spread has strengthened over the last few months to around 6.2%, which offers a good upside for SA bonds. The benchmark SA 10-year government bond yield pushed above 12% during the month and eventually settling at 11.39% at the end of the month.

<u>South African Yield Curve vs 1M vs 6M:</u>

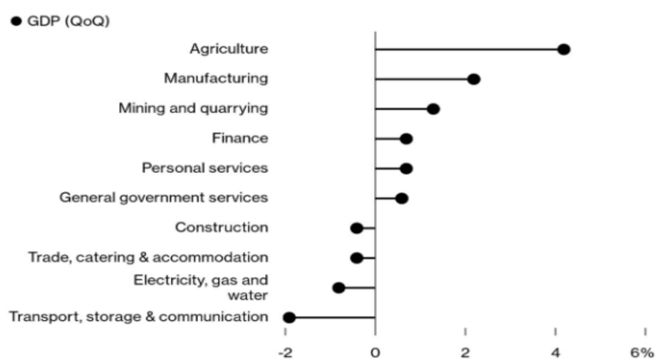


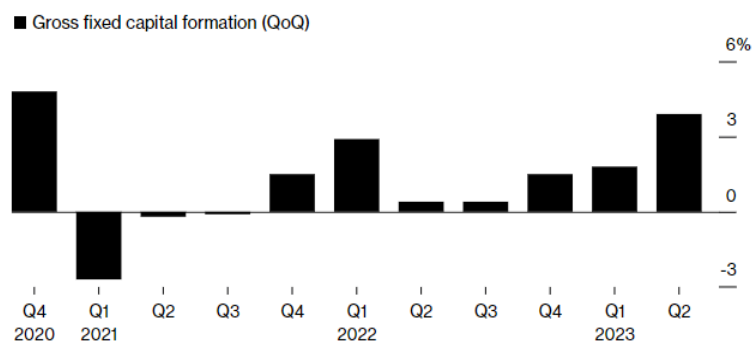
Source: World Government Bonds

With the general sell-off in markets, the Rand weakened against major developed market currencies. The weaker than expected domestic data and a resurgence in the Dollar caused the Rand to depreciate (6.17%) against the greenback to end the month at R18,90/$. National Treasury figures at the end of the month showed that the budgeted revenue moved to a deficit of R143.8 bn for the month, the largest deficit since at least 2004 and wider than the R115.5 bn forecast by economists. SA's fiscal deficit for this year is now set to be between 6%-6.5% of GDP, 50% higher than the Finance Minister's Budget Speech forecast of 4%. Finance Minister Enoch Godongwana said the government wants to stabilise South Africa's debt level at 70% of GDP, but it has already increased to 72%.

GDP data for the second quarter of the year showed that the economy grew faster than expected on improved output in the finance and manufacturing industries, extending its gains for a second consecutive quarter growing 0.6%, after expanding 0.4% in the first three months of 2023. Six of the ten industries on the supply side of the economy reported positive growth rates, with manufacturing 2.2% and finance 0.7% driving much of the upward momentum (these 2 industries make up more than a third of the GDP). On the demand side, the country benefitted from a sharp rise in investments in machinery and equipment, which included products related to renewable energy. The Reserve Bank expects the economy to expand 0.4% this year, while the International Monetary Fund predicts 0.3% growth.

2Q Economic growth & Fixed Capital spending:





Source: Bloomberg

Asset Class Performances in ZAR

As of 31st August 2023	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	3.44	27.41	26.40	11.83	13.18	15.85
Global Property - FTSE EPRA NAREIT DR	2.85	13.41	5.91	6.57	5.98	11.54
Global Bond - JPM GBI Global Traded	5.05	10.85	9.31	(4.17)	3.17	5.83
Global Cash - ICE LIBOR 1 Month	6.97	15.10	16.33	5.68	7.17	7.65
SA Equity - FTSE/JSE All Share	(4.77)	4.86	15.77	14.88	8.93	9.46
SA Property - FTSE/JSE SA Listed Prop	0.92	(1.33)	10.34	17.20	(3.25)	2.57
SA Bond - BEASSA ALBI	(0.23)	3.91	7.49	7.80	7.72	7.82
SA Cash - STeFI Call Deposit	0.67	5.00	7.09	4.88	5.36	5.77

ZAR/USD (negative = Rand strength)	6.17	11.19	10.96	3.78	5.16	6.29
Gold	4.18	14.30	19.74	0.65	12.69	7.79
Brent Crude Oil	8.09	12.51	0.00	28.95	7.71	3.40

*Returns more than 1 year are annualized.

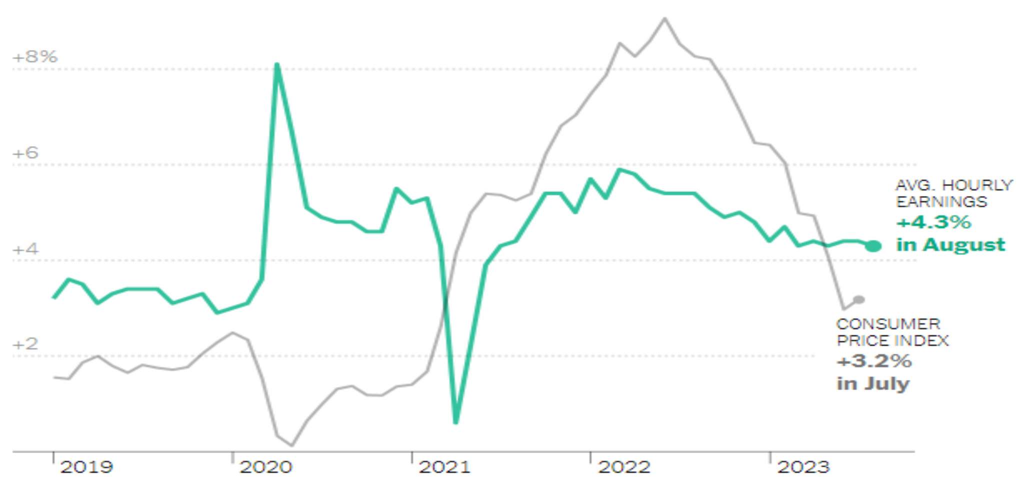
Global Markets

Global markets eased off highs in August, due to persistent indications of slowing growth in Europe and China. Investor confidence, that the Federal Reserve's tightening cycle ended with the rate rise in July, took a knock due to indications that policy makers are divided on the next directional moves in rates. This dampened risk sentiment and led to a decline in longer duration assets. The MSCI ACWI ended down (2.85%), however, the listed technology sector was positively supported especially by NVIDIA beating its already ambitious earnings expectations by a larger than expected margin. Developed market equities held up fairly well relative to global markets, while emerging markets suffered a larger drop over the month mainly due to the renewed weakness in the Chinese real estate sector. The MSCI World and EM markets both ended the month down (2.64%) and (6.43%) respectively.

US headline inflation rose this month after 12 straight months of declines, boosted mostly by costlier housing as well as food prices. Inflation rose to 3.2% up from the previous month of 3.0%, but below forecasts of a rise to 3.3% YoY. Excluding volatile food and energy prices, the core inflation matched the smallest monthly increase in nearly two years. While inflation has come well off its 40-year highs of mid-2022, it is still above the 2% level where the Federal Reserve would like to see it and high enough that cuts in interest rates are unlikely anytime soon. Having raised its benchmark interest rate by more than 5% since March 2022, the Fed is now seeing more credible signs that inflation is on its way to trend downwards, even if the deceleration has been somewhat sticky. Expectations are that the Fed will hold interest rates at its current level at their next meeting in September.

While the US labour market continues to exhibit relative strength, recent data points to a gradual slowdown. According to the Nonfarm Payrolls report, the US economy added 187,000 jobs, slightly below the anticipated 200,000. Despite this, there remains a relatively healthy ratio of 1.51 jobs for every unemployed individual. However, recent trends in these reports indicate a downward trajectory. With the US job growth rate showing signs of deceleration, the unemployment rate has risen to 3.8%, up from 3.5% the previous month, and wage increases have since moderated. These developments suggest that labour market conditions are easing, leading to expectations that the Federal Reserve will likely refrain from raising interest rates this month. In August, economic activity within the US service sector maintained its expansion for the eighth consecutive month, as evidenced by the ISM Services PMI climbing from 52.7 to 54.5. This shift indicates the most robust growth in the services sector seen in half a year. Conversely, US manufacturing, while still contracting in August, did so at a slower rate compared to July, as the ISM Manufacturing PMI advanced to 47.6 from the previous month's 46.4, still firmly in contraction territory.

Year-over-year percentage change in consumer earnings vs. inflation:

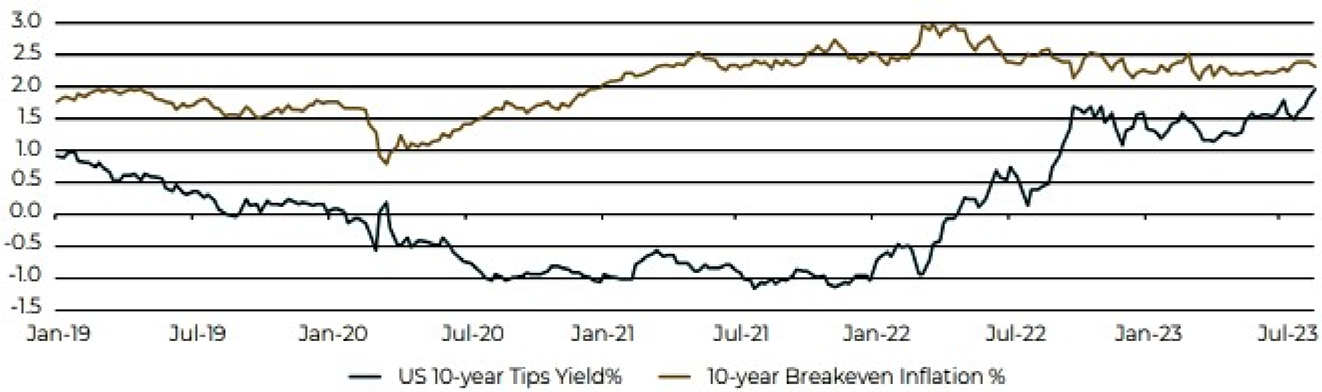


Source: Bureau of Labor Statistics

Interest rates in the UK increased to 5.25% during August as the Bank of England implemented another 25-bps interest rate hike in an attempt to tame inflation. However, with annual inflation still running hot at 6.8% and wage data showing record growth of 7.8% year-on-year, the Bank of England will likely need to maintain their hawkish stance in the near future. While it was revealed that the UK economy had grown by 0.2% in the second quarter, beating consensus expectations of zero growth, forward-looking indicators of economic activity deteriorated. Recent data highlights that both the manufacturing and services sectors have entered contractionary territory. Additionally, retail sales declined by 3.2% year-on-year, underscoring the impact of elevated rates and prices on consumer demand.

At the beginning of August Fitch Ratings, one of three major independent agencies that assess creditworthiness, downgraded the US's top-tier AAA down to AA+ citing the growing debt burden and a "steady deterioration" in governance as reasons for its decision. The US Treasury’s subsequent announcement of its higher-than-expected borrowing intentions over the coming months, led to the 10-year Treasury yield reaching 4.35%, its highest level since 2007, before retreating to end the month at 4.10% however still up from 3.95% the previous month, while the 2-year yield remained largely unchanged moving to 4.86% from 4.85%. The US dollar strengthened against all other major currencies, benefitting from resilient domestic growth against a weak global backdrop. The market is anticipating that higher rates for longer may be required in order to bring inflation sustainably back to target levels.

US Real Yields vs. Market based Inflation expectation:

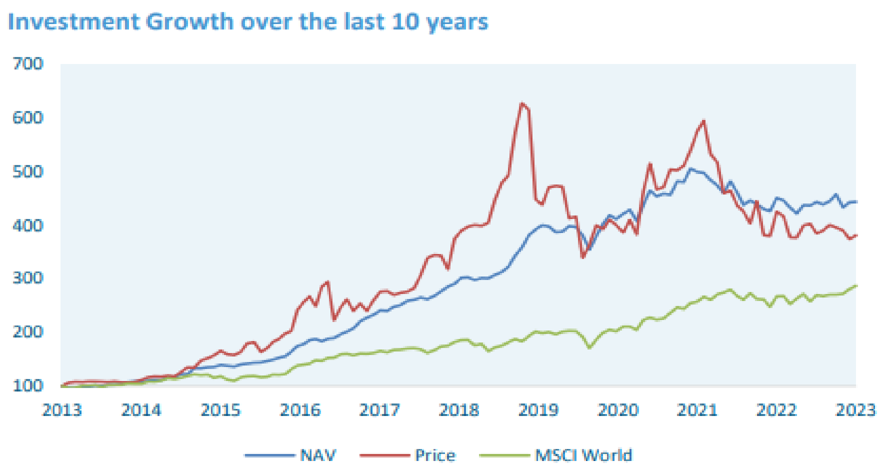


Source: Bloomberg & Refinitiv

The surge in US bond yields can be attributed to the anticipation of elevated real interest rates. As depicted in the chart above, the real yield, representing the yield on inflation-protected bonds, has been steadily increasing, while breakeven inflation rates have remained relatively stable. This pattern aligns with the fact that inflation has been on a declining trajectory rather than showing signs of rising. As the US economy maintains its momentum, generating employment opportunities and delivering tangible wage growth for workers, the Federal Reserve is inclined to lean towards maintaining higher interest rates as a precautionary measure to ensure that inflation continues its positive trajectory.

In our offshore portfolio we hold approximately 3.76% of the Lindsell Train Investment Trust, part of our multi-strategy and multi-manager approaches to investments. In the face of challenging circumstances there is a reassuring consistency from the manager and no changes have been made to the overall investment approach within the Trust. The Trust is comprised of ten durable cash generative companies and two pooled funds, themselves made up of similar companies, generating in aggregate higher returns on capital than the average quoted company.

Michael Lindsell, recently commented on August 23rd, that as the year has progressed, the performance of the Trust's individual holdings has increasingly reflected the divergence of performance in the US where a platoon of large capitalisation technology companies has accounted for the majority of the S&P 500 YTD returns. London Stock Exchange Group ('LSEG') and RELX are up 20% and 16% respectively in 2023, whilst all of the other quoted holdings are either up or down less than 10% in Sterling terms. The graph below illustrates the Trusts NAV (net asset value) and price performance vs. its benchmark over the past 10 years. Due to general market sentiment the Trust is trading at an 11% discount to its NAV.



Source: Lindsell Train

Asset Class Performances in USD

As of 31st August 2023	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity – MSCI ACWI	(2.85)	14.49	13.78	7.76	7.52	8.94
Global Property - FTSE EPRA NAREIT DR	(3.40)	1.91	(4.67)	2.69	0.68	4.89
Global Bond - JPM GBI Global Traded	(1.34)	(0.39)	(1.60)	(7.66)	(1.99)	(0.48)
Global Cash - ICE LIBOR 1 Month	0.47	3.43	4.72	1.83	1.81	1.24
SA Equity - FTSE/JSE All Share	(10.56)	(5.77)	4.21	10.70	3.49	2.94
SA Property - FTSE/JSE SA Listed Prop	(5.22)	(11.33)	(0.67)	12.93	(8.08)	(3.54)
SA Bond - BEASSA ALBI	(6.29)	(6.63)	(3.24)	3.87	2.34	1.40
SA Cash - STeFI Call Deposit	(5.45)	(5.64)	(3.60)	1.06	0.09	(0.53)

ZAR/USD (negative = dollar strength)	(5.81)	(10.07)	(9.87)	(3.64)	(4.91)	(5.91)
Gold	(2.16)	2.71	7.79	(3.02)	7.05	1.37
Brent Crude Oil	1.52	1.11	(9.98)	24.25	2.33	(2.76)

*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 August 2023.

	YTD	8/2023	8/2022	8/2021	8/2020	8/2019	8/2018	8/2017	8/2016	8/2015	8/2014	8/2013	8/2012
Best	Global Equity 27.4	Global Equity 26.4	Global Cash 18.7	SA Property 51.0	Global Equity 29.4	Global Property 13.6	Global Equity 26.6	SA Fixed Income 10.2	Global Property 35.1	SA Property 27.5	Global Property 28.8	Global Equity 42.0	SA Property 38.8
	Global Cash 15.1	Global Cash 16.3	SA Equity 4.6	SA Equity 25.2	Global Fixed Income 17.6	Global Fixed Income 12.9	Global Property 20.8	SA Equity 10.2	Global Fixed Income 21.9	Global Cash 24.9	Global Equity 26.3	Global Property 24.1	Global Property 37.7
	Global Property 13.4	SA Equity 15.8	SA Cash 4.1	Global Property 16.3	Global Cash 12.8	SA Fixed Income 11.2	Global Cash 14.7	SA Property 9.4	Global Equity 19.8	Global Property 21.8	SA Equity 24.5	SA Equity 22.8	Global Equity 28.1
	Global Fixed Income 10.9	SA Property 10.3	SA Fixed Income 1.5	SA Fixed Income 14.8	SA Cash 5.5	SA Cash 6.6	Global Fixed Income 10.8	SA Cash 7.0	Global Cash 11.4	Global Equity 17.7	SA Property 20.2	Global Cash 21.8	Global Fixed Income 21.4
	SA Cash 5.0	Global Fixed Income 9.3	Global Equity -0.9	Global Equity 11.7	SA Fixed Income 4.2	Global Cash 6.2	SA Fixed Income 8.0	Global Equity 4.0	SA Equity 8.6	Global Fixed Income 17.0	SA Fixed Income 11.7	Global Fixed Income 14.5	Global Cash 20.7
	SA Equity 4.9	SA Fixed Income 7.5	Global Property -1.8	SA Cash 3.5	SA Equity 3.9	Global Equity 2.6	SA Equity 6.9	Global Cash -10.9	SA Cash 6.5	SA Cash 5.7	Global Fixed Income 9.4	SA Cash 4.8	SA Equity 18.0
	SA Fixed Income 3.9	SA Cash 7.1	SA Property -3.4	Global Cash -14.5	Global Property -2.8	SA Equity -2.6	SA Cash 6.6	Global Fixed Income -12.9	SA Fixed Income 4.5	SA Fixed Income 5.4	SA Cash 5.1	SA Fixed Income 0.1	SA Fixed Income 13.5
Worst	SA Property -1.3	Global Property 5.9	Global Fixed Income -4.2	Global Fixed Income -16.0	SA Property -44.3	SA Property -5.5	SA Property -12.4	Global Property -12.9	SA Property 3.5	SA Equity 1.1	Global Cash 4.0	SA Property 0.0	SA Cash 5.3

Source: Morningstar Direct