

OPTIMUM

ORION QUARTERLY REVIEW

From the Chairman's desk

Asset management is thought by some as an art and by others as a science. Indeed, some fund managers approach money management as both. For Orion Investment Managers, asset management is a very particular skill that has been honed by our team over decades and one that is constantly evolving and being refined. Though uniquely rewarding, asset management is becoming ever more complex, ever more specialised and ever more demanding. At Orion Investment Managers, we thrive on these challenges, as the rewards we deliver for our clients are worth every hour of research, modelling, asset allocation and portfolio management we put into each one of our companies' extensive suite of funds.

As a company, we took the decision a number of years ago to ensure that our clients derive the benefits of appropriate exposure to international markets, companies and financial instruments in their portfolios. In many respects, we were ahead of the curve. But this decision has allowed OIM to build up a significant wealth of experience in international markets to enhance our South African fund client offerings to clients.

It also means that we have invested in detailed research, global expertise and built up a team of top managers and advisors in the industry in order to deliver optimal asset management performance, irrespective of the type of fund one is invested in.

As Chairman of Orion Investment Managers, my personal commitment to all our clients, professional partners, IFAs and investors is to constantly improve and enhance our asset management offering, to innovate wherever appropriate, but to remain consistent in our endeavours, disciplines and philosophy of delivering real market beating returns in all our companies and across our range of funds.

So until next quarter, I wish to thank you all for your ongoing support of OIM and I look forward to speaking to you again to review the fourth quarter of 2023.

Yours sincerely,

Ian Kilbride
Chairman

Introduction from Orion Investment Managers' Managing Director, Adrian Meager

Dear readers across South Africa,

We are pleased to bring to you the Orion Investment Managers **Optimum** publication for the third quarter of 2023.

Orion Investment Managers owns a suite of asset managers with specific skill sets, areas of expertise and professional specialisation to provide an extensive suite of solutions to a wide range of discerning investors.

Optimum outlines the focus, philosophy, composition and performance of each of the underlying OIM asset managers and their respective funds over the quarter, with more detail provided through the respective hyperlinks within the body of the publication. But first, a short commentary on the international and local markets for the fourth quarter.

International markets trended softer for the quarter, with concerns resurfacing around the outlook for global economies amidst continued high interest rates. Markets in the US were blighted by a selloff in treasuries which saw a spike in yields, as well as concerns regarding a potential government shutdown. With recession fears still weighing on the US economy, the Dow closed down 3.5% for September,

the Nasdaq lower by almost 6%, and the S&P 500 almost 5% lower.

European markets ended the quarter mixed, with inflation in the Eurozone printing at 5.2% The European Central Bank hiked rates by 0.25% to 4.5%, indicating that current rates should contribute significantly to bringing inflation back to the 2% target, and signalling that any future decisions will be dependent on the data.

The UK market ended September in positive territory, with the Bank of England keeping rates on hold at 5.25%, albeit with a close 5-4 vote. Germany, Europe's largest economy, and France ended the month on the back foot, with the Dax lower by 3.5% and the CAC by 2.5% respectively.

Asian markets also declined in September as concerns about the strength of the Chinese economic recovery persisted. Both the Hang Seng and Shanghai Composite were affected by the continued sell off by foreign investors, especially in the financial and consumption areas, and thus ended lower by 3.1% and 0.3% for September respectively. The Japanese market also trended lower by 2.3% for September.

The South African market saw weakness across the board as the All-Share Index closed down by 3.4% for September. Consistent with the stance adopted by most other central banks, at its last meeting, the SA Reserve Bank kept rates unchanged, with the repo at 8.5% and prime at 11.75%. The SARB sounded a note of caution, however, as it flagged the upside threats of inflation, as well as the potential inflationary impact any expansive fiscal policy. Reprising the same cautionary tone, the SARB hinted at the possibility that further rate tightening might be in the offing dependent on the merging data.

Until next quarter, enjoy the read and please do not hesitate to be in touch with Orion Investment Managers should you have any query of any nature whatsoever.

UPDATE

Cadiz is a specialist local fixed-income manager providing investment solutions to both the retail and institutional market, whose philosophy is to provide incremental outperformance over time within defined risk parameters.

The Cadiz Money Market Fund once again produced cash-beating returns with minimal volatility during the quarter. Trading activity was primarily prompted by deployment of cash and managing maturities. The fund continues to be managed within the prescribed mandate constraints with the objective of outperforming the benchmark, while ensuring substantial liquidity and low variation of return. The current high interest rate environment allows the fund to exploit lucrative opportunities to invest with minimal downside risk. At quarter end the forward yield on the fund was 9.14%.

The Cadiz Enhanced Income Fund produced positive returns despite the negative returns from the bond and inflation-linked markets. The fund remains well diversified across a wide variety of floating rate notes which provided the positive support during the period. The fund remains consistent with its long-standing track-record of delivering low volatility returns and focusing on growing wealth, while limiting downside risks. The heightened volatility in the bond market provided little support during the month of September and trading activities

implemented were driven by cash flows and reinvestment strategies, aligning with the fund's objective of prudent portfolio management. At quarter end, the forward yield on the fund was 9.88%, with an effective duration of 0.36.

The Cadiz Absolute Yield Fund limited the volatility caused by its exposure to nominal and inflation-linked bonds by shortening duration and having a well-diversified exposure to corporate floating rate notes. September was a challenging month, as bond and real yields continued to rise in a fixed-income market that was increasingly risk averse. Trading activities included the deployment of cash, re-investment of maturing instruments and active duration management to match the investment strategy and investment view. The fund remains actively managed by the team to take opportunities as they present themselves and to manage prevailing risks. At quarter end, the forward yield on the fund was 9.98% with an effective duration of 1.47.

Please click on the Cadiz logo for a link to its website where you will find more information on the company and funds managed.

UPDATE

Palmyra Asset Management manages local equity and multi-asset funds on behalf of its institutional and individual clients, following a bottom-up valuation methodology to seek out true value and innovative opportunities.

The Palmyra Stable and Palmyra Balanced Funds maintained their overweight exposure to South African nominal bonds over the quarter due to the attractive real yields available. However, the effective duration of the funds was shortened relative to the JSE All Bond Index (ALBI) due to increased risks in the bond market.

During the quarter, we maintained our foreign equity exposure in both funds at neutral. Although we believe that SA equities look fairly attractive at present versus developed market equities from a valuation perspective, we remain neutral due to the downside risks to SA earnings caused by the continued costs of load shedding, low economic growth and the threat of higher interest rates.

UPDATE CONTINUED.

The Palmyra SA Equity Fund is a new fund that will be added to the Palmyra's suite of funds in October. The fund is a general equity fund which follows a bottom up investment philosophy and will invest into South African equities only and will not hold any foreign equities.

The Palmyra Property Fund is a benchmark cognisant fund that follows a momentum factor investment strategy, and at the end of the quarter held a relative overweight position in Attacq Ltd, Fortress Real Estate Investments, Liberty Two Degrees Ltd, MAS Plc, and NEPI Rockcastle. Underweight positions were in Equites Property Fund Ltd, Hyprop Investments Ltd, Investec Property Fund Ltd,

Redefine Properties Ltd and Stor-Age Property REIT Ltd.

The Palmyra Global Flexible Fund of Funds is a top-down managed fund and in line with our house view, holds an overweight position in foreign equity with a relative underweight exposure to developed market fixed income instruments. Our geographic allocation favours a marginal overweight exposure to the US over Europe and UK equities.

Please click on the Palmyra logo for a link to its website where you will find more information on the company and funds managed.

UPDATE

Capita is a multi-asset and long-only equity fund manager, following a meticulous top-down and bottom-up investment process that ensures a diversified selection of investments.

The Capita Real Income Fund limited the volatility caused by its exposure to nominal and inflation-linked bonds by shortening duration and having a well-diversified exposure to corporate floating rate notes. Trading activities during the quarter included the deployment of cash, re-investment of maturing instruments and active duration management to match the investment strategy and investment view. The fund remains actively managed by the team to take

opportunities as they present themselves and to manage prevailing risks.

The Capita Cautious and Balanced Funds maintained their overweight exposure to South African nominal bonds over the quarter due to the attractive real yields available, while maintaining a shorter modified duration than the JSE All Bond Index (ALBI).

UPDATE CONTINUED.

During the quarter, we maintained our foreign equity exposure in both funds at neutral. Although we believe that SA equities look fairly attractive at present versus developed market equities from a valuation perspective, we remain neutral due to the downside risks to SA earnings caused by the continued costs of load shedding, low economic growth, and the threat of higher interest rates.

The Capita Equity Fund following its top-down and bottom-up investment process increased foreign equity allocation to approximately 32%, the local equity allocation was overweight resources, neutral financials, and underweight industrials.

To find out more about Capita, please click on the logo for a link to its website where you will find more information on the company and funds managed.

UPDATE

Accorn is a multi-asset and long-only equity fund manager, following a meticulous top-down and bottom-up investment process that ensures a diversified selection of investments.

The Accorn Balanced Fund maintained an overweight exposure to South African nominal bonds due to the attractive real yields available, while remaining a shorter duration than the ALBI.

During the quarter we maintained our foreign equity exposure at neutral. Although we believe that SA equities look more attractive than developed market equities from a valuation perspective, we remain cognisant of the downside risks to SA earnings due to the continued costs of load shedding, low economic growth, and higher interest rates.

Accorn Equity Fund following its top-down and bottom-up investment process increased foreign equity allocation to approximately 32%, the local equity allocation was overweight resources, neutral financials, and underweight industrials.

Accorn International Fund of Funds is a top-down managed fund and in line with our house view, maintained an overweight position in foreign equity, with a relative underweight exposure to developed market fixed-income instruments. Our geographic allocation favours a marginal overweight exposure to the US over Europe and UK equities.

Foreign equities still look more attractive than foreign fixed income instruments, as central banks around the world are not expected to cut interest rates until mid-2024.

To find out more about the asset management capabilities of Accorn, please click on the logo for a link to its website.

Starfunds.ai is a unique, rule-based, quantitative manager using a fund selection algorithm conceptualised and designed in 2015. The algorithm selects top-performing funds, which enables Starfunds.ai to achieve long-term outperformance against its benchmarks.

The Starfunds.ai Stable Fund of Funds was launched on 1 September with the objective of providing a stable level of income, combined with long-term capital stability. The portfolio is Regulation 28 compliant, and the benchmark is the ASISA SA Multi-Asset Low Equity category average. The fund finished the quarter holding exposure in the following funds: Allan Gray Stable, Coronation Balanced Plus, Fairtree BCI Select Cautious, PPS Institutional Multi Asset Low Equity and the Sygnia Skeleton Balanced 40 Funds.

The Starfunds.ai Balanced Fund of Funds aims to provide the investor with a moderate level of income and long-term capital growth by investing into five SA Multi-Asset High Equity funds, and finished the quarter invested into the Abax Balanced Prescient, Allan Gray Balanced, Denker Sci Balanced, PSG Balanced and the Perspective Balanced Prescient Funds.

The Starfunds.ai Equity Fund of Funds objective is to provide investors with high long-term capital growth by investing into five SA Equity General funds. It finished the quarter invested into the Denker SCI SA Equity, Fairtree Select Equity Prescient, PSG Equity, PSG SA Equity and the Steyn Capital Equity Prescient Funds.

The Starfunds.ai Property Fund of Funds objective is to provide investors with moderate long-term capital growth by investing into five equally weighted SA Real Estate general funds. The Fund finished the quarter invested into the Absa Property Equity, Nedbank Investments Property, Old Mutual SA Quoted Property, Investec Property Equity, and the M&G Property funds.

Please click on the Starfunds.ai logo for a link to its website where you will find more information on the company and funds managed.

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Palmyra Asset Management (Pty) Ltd (Reg. No. 2017/386924/07) is an authorized financial services provider (FSP 49020)
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