

BALONDOLOZI

— INVESTMENT LEADERSHIP —

BALONDOLOZI INFLATION LINKED BOND FUND

July 31, 2025

FACT SHEET

INVESTMENT OBJECTIVE

The fund seeks to outperform the JSE ASSA Composite Inflation Linked Index (CILI) by 1% per annum after fees over a rolling 3 year term.

INVESTMENT STRATEGY

This fund aims to out-perform its benchmark through active and quantitatively managed exposure via RSA stock and investment grade high yield credit bonds. Through the active management of duration which can vary by 2 years relative to the benchmark, alpha generation is achieved. Quantitative techniques such as the use of derivatives are employed to fine tune strategy and hedge risk factors.

FUND INFORMATION

Fund Classification	South African - Multi Asset - Income
Benchmark	CILI
Risk Profile	Moderately Conservative
Fund Managers	Fannuel Tigere, Sindisiwe Mahlangu
Inception Date	01 September 2018
Fund Size	R1415 million
Currency	SA Rands
Administration	Prescient Management Company (RF) (Pty) Ltd
Trustees	Standard Bank
Regulator	Financial Sector Conduct Authority (FSCA)
Regulation 28	Compliant

FEES

Initial & Exit Fees	Nil
Total Investment Charge	0.35%
Portfolio TER	0.35%
Management Fees	0.30%
Transaction Costs	0.00%
Audit Fees	0.00%
Other Costs	0.00%
Vat	15.00%
Pricing	Daily at 17:00

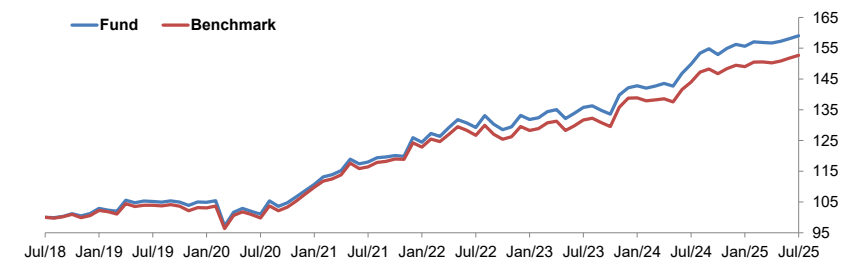
RISK RATIOS

	<i>Fund</i>	<i>Benchmark</i>
Annualised Return	6.85%	6.23%
Sharpe Ratio	0.28	0.19
Sortino Ratio	0.36	0.26
Max Drawdown	-7.83%	-7.06%
Drawdowns	32	31

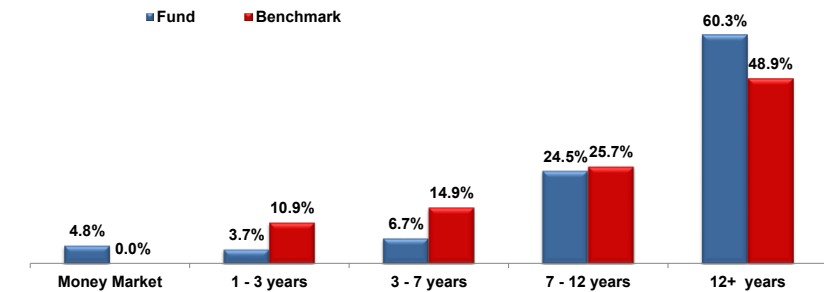
PERFORMANCE (Gross of fees)

	<i>Fund</i>	<i>Benchmark</i>
Jul-25	0.59%	0.59%
Year to Date	1.79%	2.14%
Rolling 12 months	6.17%	6.01%
Return p.a. since inception	6.85%	6.23%
Return since inception	59.05%	52.68%
Highest Rolling 1-year Return	16.62%	16.52%
Lowest Rolling 1-year Return	-7.93%	-7.76%

GROWTH OF R100 INVESTED AT INCEPTION



SECTOR ANALYSIS



FUND COMMENTARY

Global central banks have largely opted to hold interest rates steady amid growing uncertainty over trade dynamics and geopolitical tensions. At the centre of this caution is the United States, where renewed tariff threats by the Trump administration, targeting key trading partners including the Euro Area, China, and South Africa, which are disrupting trade flows and complicating monetary policy decisions.

Inflation linked government bonds returned 0.52% (IGOV); Inflation linked state-owned credit delivered 2.31% (ISOE); inflation linked corporate credit bonds returned 1.22% (ICORP) and cash returned 0.6% as indicated by the STeFi Call Index in July 2025. Overall, the CILl (Composite Inflation Linked-Bond Index) returned 0.59% for the month.

During the same period, the yield for the I2029 (benchmark bond) fell by -11 basis points to end the month at 4.51%. Concurrently, the I2050/I2029 spread ticked up by +18 basis points to 73 bps whilst medium-term break-evens tightened by -0.14% to 3.69%. Foreigners sold bonds worth R-1.3 billion as real yields rallied during the month of July 2025. □

Overall, the fund delivered 0.59% for the month in line with the benchmark return of 0.59%. The fund performed in line with the benchmark. Duration (-0.06%) and movements in curvature (-0.02%) detracted from alpha while credit allocation (0.08%) contributed positively. Going forward, the fund will continue holding long-end inflation linked bonds because of the rich premiums versus Treasury Inflation-Protected Securities' yields

After registering a value of 2.8% in May 2025, headline inflation for June 2025 was 3% (consensus 2.8%). On the same note, the price for Brent crude oil rose by 7.28%, to end the month at \$72.53 per barrel and the Rand depreciated against the Dollar by -2.82% to close at R18.21 per dollar. The seasonally adjusted Kagiso Purchasing Managers' Index (PMI) nudged up by 5.4 index points to reach 48.5 in June 2025.

On the final day of July, the National Council of Provinces (NCOP) approved the Eskom Debt Relief Amendment Bill, increasing the allocation by over 50% to stabilise the utility's finances and improve energy security. The ANC supports the bill, citing progress in reducing load shedding and Eskom's ongoing recovery. In contrast, the EFF opposes it, advocating for a coal-based, state-led energy approach. Amid ongoing disputes over the Regulatory Clearing Account (RCA) between the National Energy Regulator of South Africa (Nersa) and Eskom, a pending settlement would be credit positive for Eskom bondholders, given upcoming debt maturities, tight tariffs and looming debt maturities.

Transnet has submitted a request for R16 billion under the July window of the Budget Facility for Infrastructure (BFI), with further plans to seek additional funding in October. It recently secured R94.8 billion in new government guarantees, supplementing the R51 billion announced in May, to cover debt redemptions and buffer against credit risks. Despite this support, S&P downgraded Transnet's credit rating, citing its heavy reliance on government backing and weak financial fundamentals, with limited prospects for near-term improvement. However, the injection of new funding and guarantees may create a pathway for Transnet to strengthen its operations and enhance future creditworthiness.

In the United States, the Federal Reserve left interest rates unchanged at 4.25%–4.50% for the fifth consecutive meeting, a move widely anticipated by markets. Policymakers cited lingering uncertainty around the economic outlook, with no clear guidance on future rate changes. Notably, two key members, Bowman and Waller frontrunners in the race for the next Fed Chair, dissented in favor of a rate cut. Inflation picked up again, with the annual rate climbing to 2.7% in June 2025 from 2.4% in May, the highest since February. The economy showed surprising strength, expanding at an annualized 3% in Q2 after contracting 0.5% in Q1, fueled largely by a sharp 30.3% drop in imports.

This plunge followed a front-loading of goods in Q1 due to tariff threats, particularly as President Trump imposed new levies on imports from India and Brazil. Despite solid GDP figures, manufacturing showed signs of weakening, with the S&P Global Manufacturing PMI falling to 49.5 in July, missing expectations. Meanwhile, the 10-year Treasury yield edged higher to 4.37%, as investors digested mixed signals from the Fed, strong GDP numbers, and renewed tariff risks across sectors including autos, lumber, and pharmaceuticals, raising concerns about future growth.

The European Central Bank kept interest rates unchanged in July, likely marking the end of its easing cycle after eight cuts over the past year. Inflation in the eurozone held steady at 2% in June, while GDP growth slowed sharply to just 0.1% in Q2, down from 0.6% in Q1, boosted previously by pre-tariff U.S. import activity. Despite the slowdown, recent PMI data showed stronger-than-expected business activity, particularly in services and manufacturing, hinting at resilience in the region. However, uncertainty over the incomplete US-EU trade deal continues to dampen business confidence, with investors skeptical of its terms, which appear to favor the U.S. Additional risks include potential deflation pressures from Chinese dumping of surplus goods, which could suppress European prices and force the ECB to consider renewed rate cuts. Markets are already pricing in a 25bps cut by March 2026. On a more positive note, the eurozone's services confidence index climbed to 4.1 in July, its highest level since February, offering some reassurance amid broader concerns.

In China, the central bank maintained key lending rates at record lows during the July fixing, in line with ongoing policy support to counteract economic headwinds. Consumer prices rose 0.1% year-on-year in June 2025, ending a three-month stretch of deflation and surpassing expectations. GDP grew by 1.1% quarter-on-quarter in Q2, a stronger-than-expected performance driven by Beijing's continued stimulus efforts, including rate cuts and liquidity injections. However, trade tensions with the U.S. persist, and no resolution has yet been reached. This fuels concerns that China may offload surplus goods onto global markets, depressing prices and exacerbating trade imbalances elsewhere. Despite the lack of concrete progress, recent US-China trade talks were described as "constructive," with both sides agreeing to extend the 90-day ceasefire on tariffs. Meanwhile, China's 10-year government bond yield rose to 1.74%, reflecting cautious investor optimism amid efforts to stabilize the economy and trade ties.

The South African Reserve Bank cut the policy rate by 25 basis points to 7%, effective 1 August, as inflation remains near the bottom of the 3–6% target range and expectations have eased. Despite weak first-quarter growth and global uncertainty ranging from volatile oil prices and stalled trade deals to potential tariff hikes, the domestic inflation outlook has improved, supported by a stronger rand. The MPC now aims for inflation to settle at 3%, allowing for future interest rate cuts while keeping inflation expectations anchored. Low inflation could support a gradual recovery, but risks remain. June inflation rose to 3%, its highest in four months, while the PMI edged up to 48.5, still indicating weak manufacturing activity. Investor sentiment is cautious, with 10-year bond yields steady around 9.8%. The looming 30% U.S. tariff on South African exports, due on 1 August, poses a major threat to trade and growth, especially with further tariff warnings against BRICS nations. Falling business confidence, persistent infrastructure challenges, and fiscal pressures despite Parliament passing the 2025/26 Appropriation Bill of ZAR 1.2 trillion add to the uncertainty. These factors could derail South Africa's fragile recovery if global and domestic conditions deteriorate. □

Given this backdrop, fundamentals relative to US treasuries suggest that real yields are rich, whilst sentiment indicators suggest that real yields are oversold and expected to rally. Furthermore, short-term breakeven rates suggest that there is value in inflation linked bonds (ILBs). The fund closed the month with a long duration view due to holdings in medium term ILBs. The managers will not hesitate to take short term opportunities offered by the volatility in the markets. Since credit spreads are tightening, the fund will seek credit and target high quality names to benefit from the yield pick-up whilst minimising the risk of widening spreads.