ASHBURTON INVESTMENTS

July 2026

Ashburton Equity Fund

Quarterly Investment Commentary

Overview

South African equities have lagged global and emerging market equities this year. The lack of artificial intelligence (AI) related company exposure within the constituents of the JSE All Share Index, has meant that the global AI investment theme appears to have bypassed our local market as global investors have focused their attention on the United States and South Korean technology related equity opportunities.

Despite the year-to-date underperformance of the local equity market, there are emerging signs that investor enthusiasm for the global AI-related momentum trade may be moderating as investors are becoming increasingly cautious regarding the capital-intensive nature of the hyperscaler investment thesis which has dominated the global equity landscape. There are growing concerns as to whether the substantial capital being deployed into AI-related data centre infrastructure will generate adequate long-term returns. Particularly as technological advancements often accelerate obsolescence much sooner than traditional 'bricks and mortar' type investments. While there is little doubt in AI as an emerging transformative technology, given the scale of recent investment by the hyperscalers, one gets the sense that there may be some winners and losers over the coming years. Companies that invested heavily into the hyperscaler AI 'gold rush' without a clear business case, committed offtake and demonstrable value-add could be most at risk. This waning AI sentiment led to $2,3 trillion of market value being erased off the Magnificent Seven (Mag 7) during the month of June alone, or a decline of nearly 10% month on month.

While the local bourse doesn't have material AI related exposure, our equity market competes for the attention of global investors. The extreme positive momentum in AI related investments over the past year or more has diverted enormous amounts of equity capital out of emerging and developed markets which lacked exposure to this popular theme. Any future reversal of this trend should be viewed positively by emerging and developed markets who haven't participated in this momentum trade. The South African equity market falls firmly into this category.

The conflict in Iran and the resultant Middle East energy crisis continues to add material uncertainty into the South African equity market and took 'the wind out of the sails' of the South African economy which was well poised to finally show some positive momentum into the benign and falling interest rate cycle. Rapidly rising energy costs have diverted South African consumers discretionary spending to cover increased travel expenses.

This has led to a marked deterioration of our inflation trajectory as rising energy costs have filtered their way into the pricing of goods and services, forcing the South African Reserve Bank governor to respond with an interest rate hike. There is little room for pragmatism around the external and temporary nature of the recent inflation spike if the reserve bank's new 3% inflation target is to be taken seriously.

This local headwind saw many South African facing companies share prices' derate as their near-term earnings forecasts deteriorated due to the economic headwinds brought about by the current Middle East crisis. To further complicate matters, investors have had to become accustomed to severe volatility associated with two of the extremely unpredictable opposing parties involved in the Middle East conflict, President Trump and the Iranian regime. This has resulted in day-to-day changes to the conflict status and with-it extreme volatility in local equity prices. There have been ongoing share price oscillations between companies which benefit from higher energy prices and those who are harmed by higher energy prices and the resultant weakening of consumer spending.

Towards the end of the quarter there appeared to be a Middle East ceasefire of sorts, with intermittent skirmishes to muddy the waters. The partial ceasefire has allowed the resumption of energy flow through the Straits of Hormuz, albeit still at reduced rate versus the pre-conflict levels. On the back of this, energy prices fell rapidly to pre-crisis levels. This was somewhat surprising given the fragile nature of ceasefire, low global oil inventories and significant damage to Middle Eastern energy infrastructure.

At the time of writing, the ceasefire appears to be over and hostilities have resumed. If tensions persist, energy prices are likely to face upward pressure once again.

Despite heightened geopolitical risk, pressure on the gold and platinum group metals (PGM) prices persisted into the second quarter as concerns grew that central bankers around the world would look to raise interest rates to combat energy induced inflation. Given the JSE All-share's significant gold and PGM equity exposure, this price weakness was a material headwind to our local equity market's overall quarterly performance.

On the currency front, the Rand has remained strong versus the United States dollar (USD). Rand strength in 2026 is helping mitigate local inflation expectations. Softer gold and PGM export prices will have a negative impact on our terms of trade later in the year (our positive terms of trade have been supportive of Rand). The recent weakening of the oil price should help mitigate some of the terms of trade headwinds due to lower precious metal prices.

For the second quarter, the JSE Capped All Share Index returned negative -2.4%. Dragged down by the weakness in the SA resource sector, which fell -18.8%. With this, the oil, gas and coal sector gave back -15.6% of its recent gains.

Real estate and Financials were the best performing local sectors, delivering +10.2% and +8.3% respectively over the three months.

Year to date the JSE Capped All-share has now fallen -2.8%, a sobering outcome versus the strong local equity market performance over the past few years.

Portfolio Performance

The Ashburton Equity Fund (A class) delivered a negative return of -3.3% for the second quarter of 2026, -90bps below the JSE Capped All Share Index's negative Rand return of -2.4%.

The fund's overweight positions in Glencore, Northam and Impala weighed on performance as energy and PGM's prices fell. However, the negative active performance from the two PGM names we owned needs to be seen in conjunction with the positive active contribution from not owning Valterra and Sibanye Platinum over the same period. However, not owning Capitec and Richemont hurt our quarterly performance. Both are quality names whose valuations have become too rich for our liking.

Pleasingly, the portfolio's small and mid-cap exposure added significant value for the quarter. Grindrod, KAP, Datatec and PPC were all in our top five active contributors over the three-month period.

Year to date the portfolio has performed in line with its benchmark, returning -2.8%.

Over one year, the fund returned +17,3% versus the JSE Capped All-share return of +19.4%, underperforming the benchmark by -2,1%. The main driver of one year underperformance remains our gold sector underweight and the weak performance from some of the portfolio's small and mid-cap exposures which have lagged due to weak South African sentiment (but remain very attractively priced). Our overweight positions in Glencore, Grindrod and the South African banks helped active performance over twelve months.

Over three years, the fund has delivered +16,6% per annum, behind the benchmark return of +17.8% per annum. While over 5 years, the portfolio has delivered +14,5% per annum, outperforming its benchmark by +10bps per annum.

Outlook & Strategy

Middle East geopolitics are likely to remain the short-term driver of our equity market's performance.

This is unlikely to change until the conflict reaches some sort of permanent resolution, be it via negotiation or acts of war. This stop, start equity market is a very frustrating environment to manage assets for fundamental valuation focused investors. We do not believe we have any discernible 'edge' in predicting what President Trump or the Iranian regime's next geopolitical move will be.

All we can do is focus on leveraging the volatility in the market to accumulate positions in companies which will still be around when the Middle East dust settles. We are being selective in owning companies whose financial position is such that they can ride out the current macro headwinds.

While the ongoing conflict is likely to sustain elevated market volatility, it is also creating opportunities to acquire quality companies at attractive entry valuations for investors with a long-term investment horizon.

Specifically, we are using the weakening sentiment around some domestic consumer discretionary facing companies to our advantage, where we have built new positions at very attractive entry prices. While no one knows the exact timing of a potential local economic recovery, the meaningful discounts available in the market now make us believe that the risk versus return balance is skewed in our favour.

The South African market trades on attractive valuation metrics versus many other developed and emerging markets due to the global factors discussed earlier. The local market's forward price to earnings (PE) ratio is around 10 times currently. Well below the 12,5 times for the broader emerging market complex. While the MSCI World index forward PE multiple is currently just under 20 times, highlighting the extent to which the local market has not participated in the recent global equity market rally.

We continue to believe that over the long-term term, valuation matters. It is at times like these that investors' patience is tested and we need to fall back on focusing on consistently executing on our investment process. Our investment process has served us well over multiple equity cycles.

Lastly, we will continue to seek a balance in our portfolio construction to ensure that our portfolio is not too dependent on any one macroeconomic driver or outcome.

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