ASHBURTON
INVESTMENTS



September 2026

Ashburton Targeted Return Fund

Quarterly Investment Commentary

Fund Performance and Positioning

The third quarter of 2026 presented a more challenging environment across asset classes following the strong recovery experienced in the second quarter. The Ashburton Targeted Return Fund returned -0.04% over the three months to 30 September, compared with -1.78% from its CPI + 3.5% benchmark. Over the longer term, however, performance remains strong, with the fund returning 8.23% over one year and 13.18% per annum over three years, compared with benchmark returns of 7.86% and 7.52%, respectively. The fund therefore remains comfortably ahead of its inflation-plus objective over the rolling three-year investment horizon.

The softer quarterly performance reflected a more difficult backdrop for both growth and duration assets. Global bond yields rose sharply as higher energy prices renewed inflation concerns and central banks moved back towards tighter monetary policy. The US Federal Reserve raised rates by 25 basis points in September, while the ECB and Bank of Japan also tightened policy. The US 10-year Treasury yield rose by 54 basis points during September to 5.29%, contributing to a broader global bond sell-off. In South Africa, the SARB raised the repo rate by 25 basis points to 7.25%, as higher fuel prices and the risk of second-round inflation effects weighed on the inflation outlook.

Within South African markets, cash was the strongest of the major domestic asset classes over the quarter, returning 1.72%, while inflation-linked bonds returned 1.45%. Nominal bonds came under pressure, with the ALBI returning-0.68%, while South African equities were broadly flat, with the ALSI returning-0.27%. Listed property was also weaker, returning-1.14% over the quarter. This was a meaningful reversal from the second quarter, when listed property had returned 10.03% and strengthening domestic bond markets had provided an important tailwind to the fund.

The composition within equities was particularly important. While the overall ALSI declined only 0.27% over the three months, there was considerable dispersion beneath the headline number. Resources returned 16.62%, while industrials and financials returned -10.39% and -3.70%, respectively.

Consumer discretionary shares declined 10.94%, while technology fell 12.02% over the quarter. This divergence illustrates why the broader equity allocation did not provide the same level of portfolio support as in previous periods despite strength in selected commodity-sensitive sectors.

Portfolio positioning remained diversified, but there were several notable changes during the quarter. Exposure to the Ashburton Equity Fund slightly increased, with the holding rising from 11.11% at the end of June to 11.70% at the end of September. The portfolio also established a meaningful holding in US Treasuries, which represented 5.07% of the fund at quarter-end. At the same time, exposure to the SA property was reduced modestly from 4.53% to 4.34%.

The fixed-income allocation continued to provide an important defensive and income-generating component of the portfolio. While nominal government bonds detracted as yields moved higher, inflation-linked bonds proved more resilient, returning 1.45% over the quarter as higher oil and fuel prices increased demand for inflation protection. Floating-rate and short-dated credit exposures also remained attractive given the higher policy-rate environment, providing carry while limiting the fund's sensitivity to rising bond yields.

Fund assets increased from approximately R2.51 billion at the end of June to R2.57 billion at the end of September.

Outlook

Looking ahead, we remain cautious but constructive. The sharp adjustment in yields during the quarter has improved prospective returns from parts of the fixed-income market, particularly short-to-medium-dated government bonds, cash and high-quality floating-rate credit. At the same time, elevated oil prices and the associated inflation risks argue for retaining exposure to inflation-linked bonds. The SARB is likely to remain data-dependent, with further rate increases possible should inflation pressures broaden or inflation expectations remain above its 3% target.

The outlook for risk assets is more mixed. Higher global interest rates and elevated bond yields present a more challenging valuation backdrop for equities and listed property, while geopolitical developments and energy prices remain important sources of volatility. However, the significant dispersion evident within the equity market continues to create opportunities for selective exposure. The fund's allocation across domestic and offshore equities, government bonds, inflation-linked bonds, credit, property and cash therefore remains important in reducing reliance on any single source of return.

Overall, we believe the diversified structure of the fund remains appropriate for the current environment. We continue to favour income and carry from fixed income, selective exposure to duration, inflation protection and measured exposure to growth assets, while maintaining sufficient diversification to respond to changing market conditions. The focus remains on delivering the fund's CPI + 3.5% objective over the rolling three-year investment horizon while managing downside risk and portfolio volatility, rather than taking excessive short-term risk to recover quarterly underperformance.

Performance vs Benchmark

	YTD	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
Ashburton Targeted Return L	2.91%	-1.60%	-0.04%	3.74%	8.23%	11.10%	13.18%	10.69%
CPI + 3.5% (1 month lag)	6.74%	0.29%	1.78%	5.04%	7.86%	7.33%	7.52%	8.40%
(ASISA) South African MA Low Equity	2.78%	-1.18%	0.33%	3.85%	7.24%	9.87%	12.00%	9.51%

Past performance is not necessarily an indication of future performance.

Market and Economic Data

Table 1: Market Data as of 30 September 2026

Central Bank Decisions	30 September	Δ QTD	Δ 100d MA	Δ 200d MA
SA Repo Rate %	7.25	0.50	0.26	0.38
Fed Fund Target Rate %	4.00	0.25	0.22	0.24
BoE Base Rate %	3.75	0.00	0.00	0.00
ECB Main Rate %	2.65	0.50	0.26	0.38
Inflation				
US CPI YoY %	3.40	0.70	-0.24	0.17
UK CPI YoY %	3.10	-0.30	0.26	0.10
Eurozone CPI YoY %	3.80	1.80	0.77	1.21
SA CPI YoY %	4.40	0.80	-0.09	0.47
Market Data				
USDZAR	16.42	-0.84%	0.54%	0.00
Brent Crude Oil ($/bbl)	103.53	70.14%	13.67%	17.46%
US 10-year Generic %	5.28	1.12	0.62	0.84
3m JIBAR %	7.22	0.47	0.22	0.36
3X6 FRA %	7.38	0.82	0.08	0.32
6X9 FRA %	7.82	1.39	0.27	0.63
12X15 FRA %	7.85	1.64	0.29	0.68
Cash - STeFI Composite	672.28	5.13%	1.29%	2.58%
All Bond Index (ALBI)	1 418.32	3.54%	0.34%	1.63%
SA 10-year Generic %	8.77	0.57	0.07	0.14
Composite Inflation Linked Index (CILI)	464.30	6.81%	1.44%	3.28%
SA 10-year ILB Generic %	4.28	0.08	0.11	0.12
JSE All Share (ALSI)	21 186.39	-3.22%	-2.98%	-4.50%
SA 5Y ASW	42.42	-40.11	-3.93	-19.72
MSCI World	4 902.65	472.27	29.01	216.74
S&P 500	7 651.54	806.04	87.41	420.36
MSCI World ex. US	3 197.92	236.84	-29.31	46.63
MSCI EM	1 704.87	300.50	4.05	91.00
WGBI	892.15	-25.70	-19.01	-23.54
US 10Y %	5.28	1.12	0.62	0.84
US IG Spreads	39.46	-0.39	1.92	1.24
US HY Spreads	332.71	41.21	36.28	31.49

Table 2: US & SA Economic Data as of 30 September 2026

Event	Survey	Actual	Prior
US			
ADP Employment Change	47k	38k	44k
Change in Nonfarm Payrolls	55k	162k	-23k
CPI YoY	3.40%	3.40%	3.40%
ISM Manufacturing	55.2	54.6	55.6
Unemployment Rate	4.10%	4.10%	4.10%
ISM Services Index	54.1	55.4	54.1
SA			
CPI YoY	4.50%	4.40%	4.30%
Trade Balance Rand	17.0b	20.5b	20.1b
Retail Sales Constant YoY	1.00%	3.40%	1.60%
Manufacturing Prod NSA YoY	-2.00%	1.10%	-1.70%
Current Account as a % GDP	-1.30%	-2.60%	2.40%

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