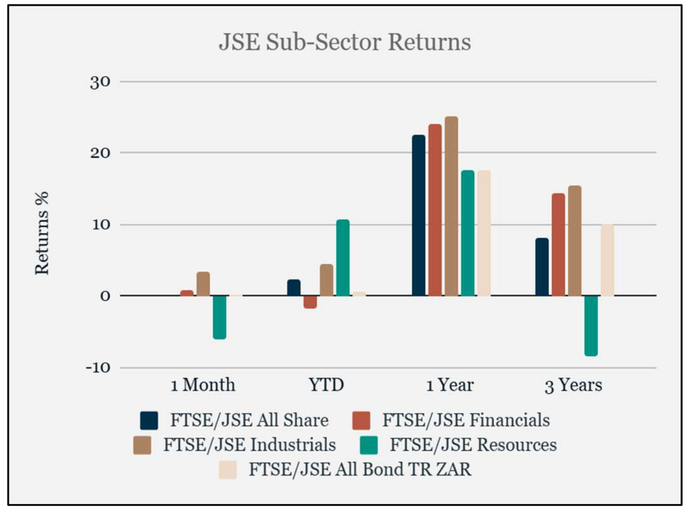
STAR INVESTMENT PARTNERS

South African Market

February presented a mixed picture for the local equity market. The FTSE/JSE ALSI index achieved several intra month record highs, including a daily close just under 90,000. However it gave up these gains and closed the month down (0.01%), lagging the EM composite despite strong performances from heavyweight constituents Naspers and Prosus. The Resources sector was the main drag on the index, declining by (6.17%) after posting strong gains in January. SA retailers encountered difficulties throughout the month following reports that Treasury officials were contemplating a 2% VAT increase. This potential hike raised concerns about decreased discretionary consumer spending, potentially undermining future revenue generation opportunities for the sector.

Local inflation rate climbed after the statistics office updated the methodology for measuring household spending. Consumer prices in the country increased for the third month in a row, reaching 3.2% YoY, up from 3.0% in the previous month, though still hovering near the lower end of the central bank's target range. The primary drivers of this inflation increase were housing and utilities costs, which rose by 4.5% YoY and contributed 1.1 percentage points to the overall figure, alongside food prices which increased by 2.3%. Core inflation, which excludes the volatile food and energy components, continued its downward trend, decreasing to 3.5% YoY from 3.6%.



Source: Morningstar (Returns more than 1 year are annualized)

On 30th January 2025, the South African Reserve Bank delivered its third consecutive 25 basis point reduction, lowering the repo rate to 7.5% during their first Monetary Policy Committee meeting of the year. With inflation figures continuing to hover at the lower end of the SARB target range, market participants widely anticipate another 25 basis point cut at the upcoming March 2025 meeting. This potential reduction would bring the repo rate down to 7.25%, approaching the neutral rate level. However, given the prevailing global economic uncertainties, this March adjustment could potentially represent the final reduction in the current monetary easing cycle.

Asset Class Performance (ZAR):

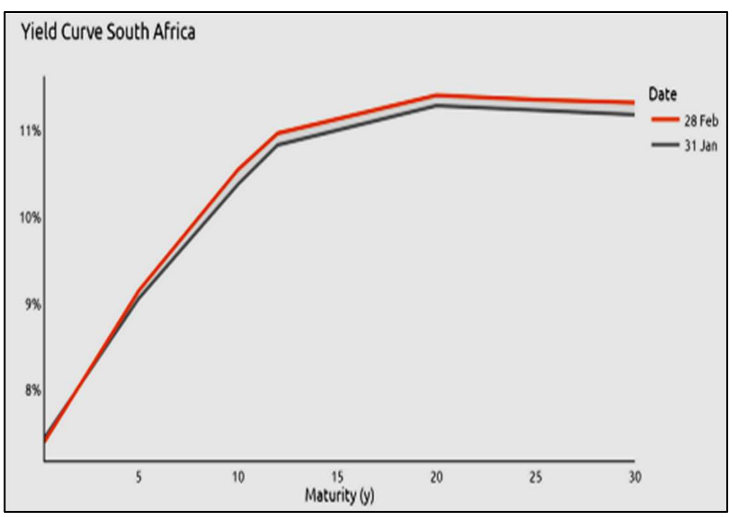
As of 28th February 2025	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity	(1.37)	0.78	10.88	15.77	16.68	14.57
Global Property	2.34	2.77	8.77	5.07	6.05	8.42
Global Bond	0.67	0.18	(1.62)	1.84	0.45	4.67
Global Cash	(0.19)	(0.88)	1.84	10.90	6.06	6.75
SA Equity	(0.01)	2.30	22.56	8.15	15.21	8.51
SA Property	(0.29)	(2.63)	19.69	13.93	8.81	1.80
SA Bond	0.07	0.51	17.63	9.93	9.42	8.33
SA Cash	0.56	1.20	8.05	7.16	5.81	6.19

ZAR/USD (negative = Rand strength)	0.27	(0.99)	(2.59)	6.67	3.60	4.83
Gold	(0.05)	5.10	26.63	15.73	12.20	10.95
Brent Crude Oil	(5.09)	(2.74)	(15.52)	(4.59)	11.26	6.39

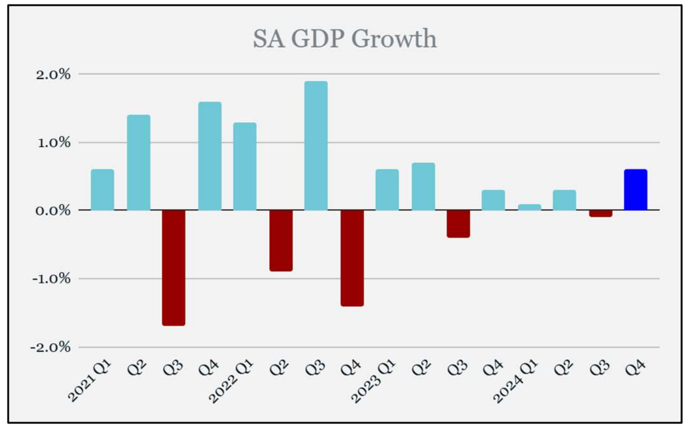
*Returns more than 1 year are annualized.

The South African Rand experienced significant volatility throughout February, with the USD/ZAR exchange rate exhibiting heavy fluctuations in response to unfavorable US headlines, however the Rand ultimately ended the month with only a slight depreciation of (0.27%) at R18.69/USD. Surprisingly, the Rand showed minimal reaction to the delayed Budget speech, which was unusual given the currency's typical volatility. Market participants remain uncertain about US economic developments and their implications, which can impact the local currency. With a focus on containing positive inflation for the US, which could potentially support additional interest rate reductions by the Federal Reserve, in turn this could lead to US Dollar weakness and consequently strengthen the Rand.

South African bond yields increased for the third month in a row during February. Despite this rise, the interest income accrued from these bonds was sufficient to counterbalance the reduction in bond prices (as yields increase, prices decrease), resulting in the All-Bond Index (ALBI) posting a marginal gain of 0.07%. The yield on South African 10-year government bonds reached 10.52%, its highest point since June 2024, as investors demanded greater risk compensation amid challenging economic conditions. The spread between South African and US 10-year yields also expanded to its widest margin in over a year as developed market bonds gained momentum.



Source: Refinitiv



Source: Trading Economics

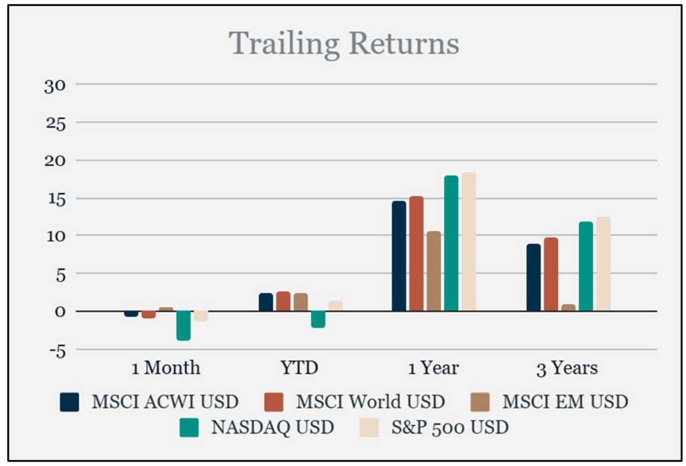
South Africa's economy showed a modest recovery in the fourth quarter of 2024, growing by 0.6% and avoiding a technical recession after the third quarter's revised (0.1%) contraction. This Q4 growth, though below the anticipated 0.9%, contributed to an annual growth rate of 0.6% for 2024, slightly lower than 2023's 0.7% figure, highlighting the country's continuing economic vulnerability. The agricultural industry was a key driver of this improvement, with a substantial 17.1% quarterly increase following a significant decline in Q3. The retail sector also benefited from the boost provided by the two-pot redemption allowance, that boosted household spending. Despite these positive elements, seven of the ten economic sectors experienced contraction compared to the previous quarter.

The presentation of South Africa's 2025 Budget has been postponed by the Cabinet to March 12, 2025, with Finance Minister Enoch Godongwana set to deliver it. Financial markets responded cautiously after the postponement, assessing both the delay's implications and the broader political landscape. Central to the Government of National Unity's internal disagreement is a proposed two percentage point increase in Value-Added Tax, designed to support expanded funding for social programs, public employee compensation, and infrastructure development while still allowing debt to reach its peak in fiscal year 2025/2026, though at a somewhat higher level. This proposal has met with opposition from most GNU coalition partners, creating uncertainty about whether the Budget will receive sufficient parliamentary support, given the African National Congress's dependence on its coalition members.

Global Markets

Following a strong start to 2025, global equity markets lost some momentum in February. Increasing uncertainty regarding the effects of US administration policies dampened both business and consumer confidence, while growth concerns resurfaced. The MSCI ACWI declined by (0.86%), pulled down by disappointing US market performance. Concerns about the sustainability of earnings among US mega cap technology companies overshadowed decreasing yields, resulting in global growth stocks falling (2.56%), whereas value equities advanced by 1.58%. Emerging markets managed to outperform their developed counterparts, returning 0.50% compared to (0.96%) in USD terms over the month, bolstered by ongoing positive trends in Chinese technology stocks. Emerging markets also further benefited from a depreciating US Dollar during this period.

United States inflation rose more than anticipated in the latest month, with elevated egg and energy costs contributing to increased living expenses for Americans. Annual inflation climbed to 3.0%, reaching its highest point in six months and surpassing market expectations of 2.9%. Energy prices increased by 1%, primarily due to more expensive gasoline. Food costs rose 0.4% MoM, the most significant increase in two years, substantially influenced by egg prices, which surged 15.2%, due to ongoing avian flu —the largest such increase since 2015. Meanwhile, core inflation, which excludes the more volatile food and energy components, inched up to 3.3% from 3.2%.



Source: Morningstar (Returns more than 1 year are annualized)

The Federal Reserve maintained its benchmark overnight interest rate within the 4.25%-4.50% range during its January meeting, following a cumulative 100 basis point reduction since initiating its monetary easing cycle in September. The combination of higher inflation figures and a stable employment environment has led economists to project that the Fed's rate-cutting cycle has likely concluded. Market participants have pushed back expectations for the next potential rate reduction to at least September, as uncertainty grows regarding how President Trump's proposed policies—including tariffs, tax reductions, immigration restrictions, and federal workforce reductions—will impact prices, economic growth, and labor market dynamics.

Asset Class Performance (USD):

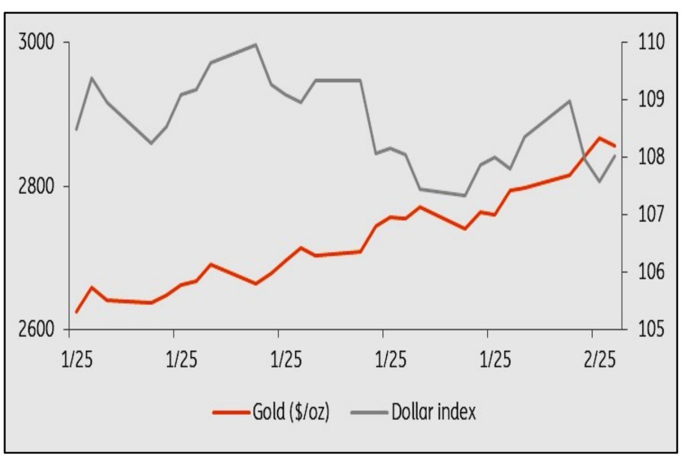
As of 28th February 2025	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity	(0.86)	2.40	14.53	8.89	12.87	9.35
Global Property	2.87	4.41	12.35	(1.18)	2.59	3.49
Global Bond	1.20	1.78	1.62	(4.21)	(2.83)	(0.09)
Global Cash	0.34	0.71	5.19	4.31	2.60	1.89
SA Equity	0.51	3.94	26.59	1.72	11.45	3.57
SA Property	0.23	(1.07)	23.63	7.16	5.26	(2.83)
SA Bond	0.60	2.12	21.50	3.39	5.85	3.40
SA Cash	1.09	2.82	11.60	0.79	2.35	1.35

ZAR/USD (negative = Dollar strength)	(0.27)	1.00	2.66	(6.25)	(3.48)	(4.61)
Gold	0.48	6.78	30.79	8.85	8.54	5.90
Brent Crude Oil	(4.59)	(1.18)	(12.74)	(10.27)	7.63	1.55

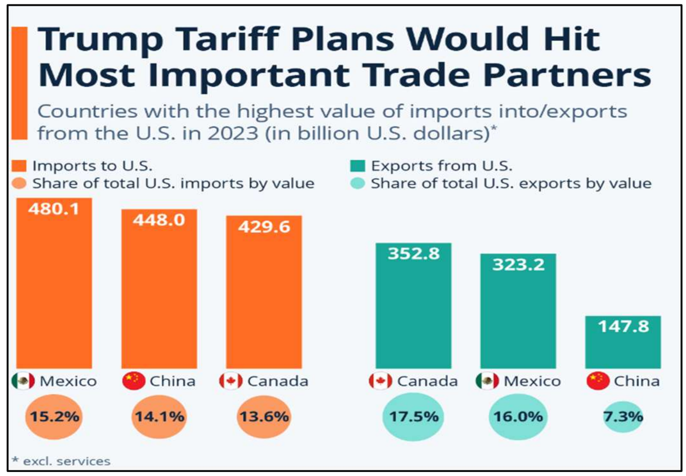
*Returns more than 1 year are annualized.

UK inflation increased markedly to 3.0%, rising from 2.5% and exceeding analysts' forecasts of 2.8%. The most significant contributions to the monthly uptick in annual CPI rates came from the transport sector, along with food and non-alcoholic beverages. Core inflation, which excludes volatile energy and food components, climbed to 3.7% from 3.2%. Market participants are increasingly questioning how the upcoming 1 April employer tax increases and the substantial 7% minimum wage hike will ultimately impact consumer prices as businesses absorb these additional costs. Earlier this month, the Bank of England implemented its first interest rate reduction of the year, lowering its benchmark rate to 4.5%, a decision influenced by weak economic growth and the temporary inflation decline observed in January's reading.

The moderation in US interest rates contributed to the Dollar's decline, with the currency weakening for a second straight month, falling (0.86%). The greenback's downward trajectory accelerated after the Conference Board reported its consumer confidence index fell by 7 points to 98.3—the steepest drop since August 2021 and significantly below economists' projected 102.5. Tariff-related headlines, rather than actual tariff implementation, heightened policy uncertainty, as the absence of immediate tariffs under the Trump administration triggered depreciation, especially against major trading partners. Gold extended its impressive performance with a 0.48% gain, supported by both Dollar weakness and safe-haven demand amid US trade policy uncertainty. Despite the US reaching an agreement with Canada and Mexico to postpone tariffs for one month, ongoing trade and tariff uncertainties have continued to bolster gold prices, which remain near the $3,000 threshold.



Source: Refinitv, ING Research



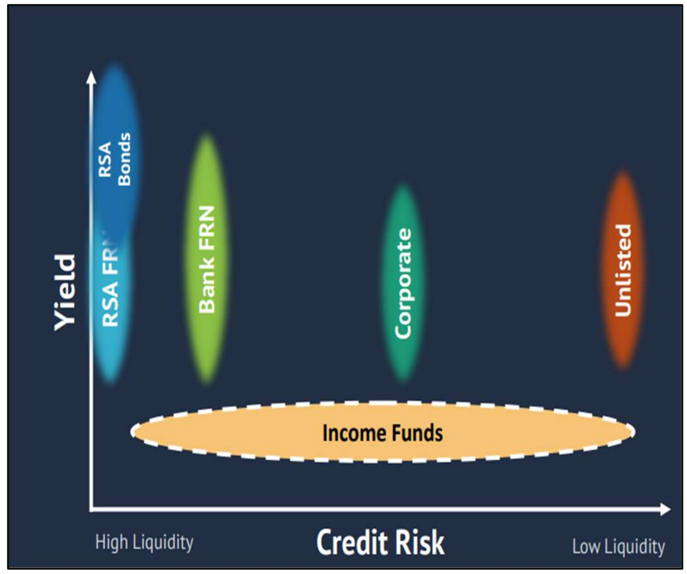
Source: Statista; UN Comtrade

Global government bonds once again delivered positive returns in February, gaining 1.20% following the market downturn experienced at the beginning of the year. This earlier sell-off stemmed from multiple factors: persistent inflation concerns, reduced expectations for interest rate reductions (particularly in the United States), and apprehensions about fiscal deficits and their financing requirements. Growing unease regarding economic deceleration and waning consumer sentiment prompted investors to shift toward safer assets, notably US Treasuries, resulting in declining yields (which move inversely to prices)—an outcome that the Trump administration identified as a primary objective. By month-end, US 10-year Treasury yields had decreased to 4.21% from 4.52%.

Recent global economic uncertainty has largely stemmed from a series of policy declarations and executive directives issued by the Trump administration. A significant development that captured headlines was the implementation of 25% tariffs on Canadian and Mexican exports to the US, which took effect on March 4th. Simultaneously, Chinese imports faced an additional 10% tariff (supplementing an existing 10% duty), prompting retaliatory tariff measures from China. The impact is potentially far-reaching, as nearly half of all US imports come from Canada, China, and Mexico. The US maintains a trade deficit, importing more than it exports, and these tariffs could potentially narrow this imbalance by increasing prices on foreign products and shifting American consumer preference toward domestic goods. However, tariffs often lead to higher costs for consumers, as affected companies pass their new costs along especially to consumers.

Inside Portfolios:

The Star BCI Stable Fund and Star BCI Balanced Fund maintain fixed income exposures of 63% and 41%, respectively, often requiring a strategic balance between long-dated bonds and floating rate notes (FRNs) across different yield environments. In rising yield environments, FRNs—such as RSA FRNs and Bank FRNs, as shown in the graph—offer rate adjustments that help preserve value and liquidity. In contrast, long-dated fixed-rate bonds, like RSA Bonds, gain in declining yield environments due to price appreciation. The South African credit market further introduces corporate and unlisted debt, that can offer higher yields but come with increased credit risk and lower liquidity. Different managers employ varying strategies to extract the best yields possible. The Portfoliometrix BCI Dynamic Income fund, a key holding in the STAR funds, is currently positioned with 50% + in money market and floating-rate instruments for liquidity and the balance in longer dated fixed rate bond exposure providing higher yields for longer term investors.



Source: Portfoliometrix

Historic Asset Class Performance Matrix

The performance matrix below shows returns (colour coded) for the 4 main indicative sources of return per asset class and separated for SA 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 28th February 2025.

	YTD	2/2025	2/2024	2/2023	2/2022	2/2021	2/2020	2/2019	2/2018	2/2017	2/2016	2/2015	2/2014
Best	Global Property 2.8	SA Equity 22.6	Global Equity 27.6	Global Cash 21.6	SA Prop-erty 22.4	SA Equity 33.2	Global Fixed Income 20.0	Global Property 36.7	SA Equity 17.4	SA Fixed Income 13.5	Global Fixed Income 38.1	SA Prop-erty 44.3	Global Equity 43.3
	SA Equity 2.3	SA Prop-erty 19.7	SA Prop-erty 17.6	Global Equity 9.7	SA Equity 20.5	Global Equity 27.4	Global Property 16.3	Global Cash 21.5	SA Fixed Income 14.3	SA Prop-erty 11.0	Global Cash 35.7	Global Property 28.6	Global Property 27.3
	SA Cash 1.2	SA Fixed Income 17.6	Global Cash 10.1	SA Equity 6.2	Global Property 17.9	SA Fixed Income 8.3	Global Equity 15.8	Global Equity 18.4	Global Equity 7.6	SA Cash 6.9	Global Property 28.7	Global Equity 16.4	SA Equity 22.8
	Global Equity 0.8	Global Equity 10.9	SA Cash 8.0	SA Cash 5.4	Global Equity 9.4	SA Cash 4.0	Global Cash 14.2	Global Fixed Income 17.3	SA Cash 6.8	SA Equity 6.3	Global Equity 19.5	SA Equity 16.1	Global Fixed Income 20.7
	SA Fixed Income 0.5	Global Property 8.8	SA Fixed Income 7.6	SA Prop-erty 5.1	SA Fixed Income 9.0	Global Fixed Income 0.3	SA Fixed Income 8.9	SA Cash 6.6	Global Fixed Income -3.5	Global Equity 2.2	SA Cash 5.9	SA Fixed Income 15.0	Global Cash 19.9
	Global Fixed Income 0.2	SA Cash 8.0	Global Fixed Income 6.3	SA Fixed Income 4.9	SA Cash 3.6	Global Property -1.9	SA Cash 6.6	SA Fixed Income 4.2	SA Prop-erty -6.1	Global Property -7.1	SA Prop-erty -2.0	Global Cash 8.6	SA Cash 4.8
	Global Cash -0.9	Global Cash 1.8	Global Property 5.6	Global Property 1.0	Global Cash 2.1	Global Cash -3.6	SA Equity -5.7	SA Equity -0.9	Global Cash -8.7	Global Cash -16.7	SA Fixed Income -3.7	SA Cash 5.5	SA Prop-erty -0.3
Worst	SA Prop-erty -2.6	Global Fixed Income -1.6	SA Equity -2.9	Global Fixed Income 1.0	Global Fixed Income -3.5	SA Prop-erty -15.8	SA Prop-erty -19.1	SA Prop-erty -5.2	Global Property -11.9	Global Fixed Income -17.7	SA Equity -4.4	Global Fixed Income 3.2	SA Fixed Income -1.0

Source: Morningstar Direct