EDITION 03 / JULY 2023

OPTIMUM

ORION QUARTERLY REVIEW

cadiz ASSET MANAGEMENT | PALMYRA ASSET MANAGEMENT | CAPITA Asset Management | accorn INVESTMENT MANAGEMENT | STARFUNDS.Ai ASSET MANAGEMENT

Introduction from Orion Investment Managers' Managing Director, Adrian Meager

Dear readers across South Africa,

We often overlook the spheres of excellence in South Africa amidst all the challenging news we have been subjected to in recent months. One key area of world-class excellence is to be found in our blue chip, bell-weather, companies. South African mining houses have long led the way globally in their respective sectors, particularly when operating in difficult jurisdictions and terrain. A number of our home-grown retailers are leading innovators and are admired by their peers across the world. South African innovation in the medical aid sector has the been the subject of Harvard Business School programmes.

Our top tier banking sector is world class and our telecoms companies have invigorated growth across the African continent. But in recent years, the stellar performer that has caught the eye of investors across the globe and has become a staple of the JSE and local portfolios and funds is Naspers and its 'offshoot' company Prosus. The companies recently announced a restructuring of their relationship and holdings which is significant for investors and is worth examining for better understanding.

Prosus announced its intention to simplify the group structure by removing the cross holding between Prosus and Naspers, which achieves:

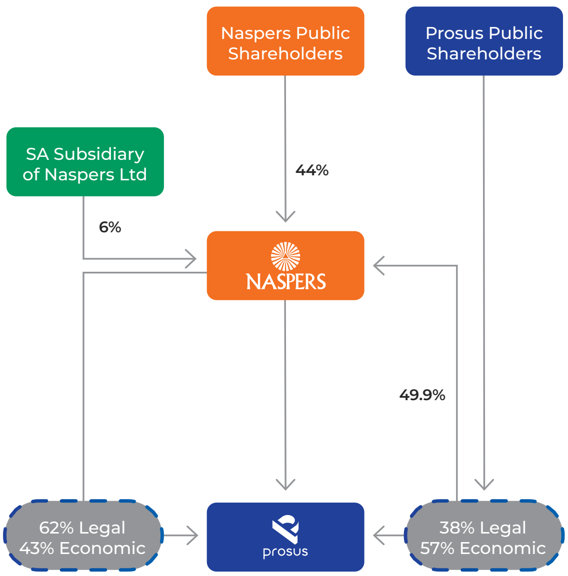
1) The removal of complexity arising from the cross-holding structure, which should have the effect of reducing the discount both companies trade to their NAV, and
2) Allowing the unfettered continuation of the Naspers' share buyback. The proposed transaction, which is subject to shareholder and regulatory approvals, is expected to be implemented during Q23.

Removal of NPN/PRX cross holding reduces complexity and a key push back from potential investors, driving substantial value unlock via narrowing the discount to NAV. The proposed transaction is executed via a capitalisation issue at both NPN/PRX to free float shareholders only, which eliminates the cross holding and results in NPN owning 43% of PRX, while PRX free float shareholders will own 57% of PRX directly, rather than 40% directly and 17% via the crossholding.

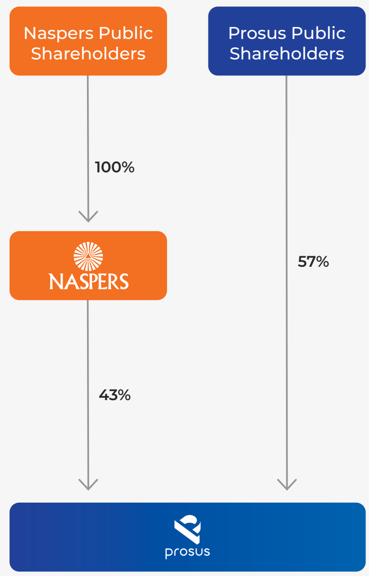
The proposed transaction incurs minimal costs and preserves NPN's SA listing and tax residency, both of which are key positives. In addition, the South African Reserve Bank (SARB) has also approved further PRX sales by NPN to fund its share buyback, which together with the structure simplification, will allow unfettered buyback at the NPN and PRX levels to continue for as long as the discount remains elevated.

We believe the impact of the buyback is significant, with $12.5bn buyback executed by PRX over the past year delivering NAV accretion (6%) supporting value unlock beyond the discount narrowing.

Complex Structure Today



Simplified Structure Post Transaction



Source: Prosus FY23 results presentation

Most international markets in June continued the trend started in May as the threat of a US government default was safely avoided. The Federal Reserve's pause in rate rises, after 10 consecutive hikes, also added to positive market sentiment.

The United States markets continued to be driven by the large tech counters as the interest in the Artificial Intelligence aspect of the market continues to drive the hype. Both the Nasdaq and S&P showed significant gains. The S&P closed the month higher by 6.5%, while the Nasdaq ended the month up 6.6%. In contrast, the Dow Jones lagged the other two indices, only rising by 4.6% for the month.

On the economics front, data pointed to a resilient US economy, despite the higher rate environment, allaying fears of a US recession. Headline inflation for May came in lower than expected at 4.0% YoY vs the previous reading of 4.9% in April. Core CPI, which excludes the volatile energy and food components, declined to 5.3% YoY for May vs the April reading of 5.5%. This is a sign that the Fed may not need to continue raising rates much higher in their attempt to curb inflation.

Local markets also ended the month of June firmer, with the All-Share Index up by 1.3%, as the financial sector ran ahead, experiencing a gain of 11.4%. The industrial sector was the second-best performing sector (up 3.5%), and property up by 0.4%, while resources fell by 8.2%, as a broad commodity sell-off weighed with lower prices, especially in gold and platinum, as well as experiencing challenging logistical issues locally. Shares to highlight during the month are: Prosus (up by 6.5%), Naspers (up by 14.2%), and the BHP group, (up by 4.4%).

Local inflation for the month of May slowed for the second consecutive month to 6.3% YoY, from the previous print of 6.8% YoY in April. The big drivers were to the base effect as the fuel increases of 2022 fell out, and the annual rate for food and non-alcoholic beverages came in lower than expected at 11.8% YoY vs the April print of 13.9% YoY. Inflation continues to remain outside the SARB's target range of 3%-6% however. Retail sales for the month of April, which were released in June, fell for the fifth month consecutively as retail trade shrank by 1.6% YoY.

Electricity supply continues to be a millstone around the South African economy, even though the news from Eskom has been slightly more positive recently. Weather conditions and improved diesel supply are the major mitigating factors, although higher levels of rolling blackouts remain a significant risk in the short term as large generation units continue to be offline. There may be some 'light' at the end of the proverbial tunnel, however, as we anticipate the following capacity to come onstream during the next year or so: three units of Kusile to be back online by December this year, unit two of Koeberg to be back online by April 2024, Medupi unit four repairs to be completed by July 2024, and unit five of Kusile to be online by April 2024.

As ever, we live in hope!

We now turn to a review of the individual Orion Investment Managers asset management companies and funds for quarter two 2023.

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 delivered on its history of consistent cash-beating returns while limiting volatility. The team continues to manage the fund within the mandate constraints and aims to provide benchmark-beating returns, while ensuring high liquidity and low variation of return. The fund's stellar long-term performance is aided by historically high cash rates, which provide strong returns with limited downside risk. As at quarter end, the Fund had a forward yield of 9.23%.

The Cadiz Enhanced Income Fund delivered impressive performance over June, with almost all exposures adding to positive performance. The strongest performance came from the exposure to nominal bonds, with the All-Bond index returning 4.58% over the period. The stability of returns was maintained due to the highly-diversified allocation to corporate floating rate securities and money market instruments. The fund remained consistent with its track-record of delivering low volatility returns aimed at growing wealth, while limiting downside risk. As at quarter end, the Fund had a forward yield of 9.74%.

The Cadiz Absolute Yield Fund delivered stellar performance during June thanks to its relatively high allocation to South African Government bonds, which, due to the rally in nominal bonds, added to absolute performance. The allocations to cash securities and corporate floating credit tempered volatility and maintained the variability of returns. The Fund actively manages duration positioning via exposure to fixed and floating rate instruments with a forward yield of 10.04% as at quarter end.

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, while maintaining a shorter modified duration than the JSE All Bond Index (ALBI).

During the quarter, we upgraded foreign equity exposure in both funds to neutral, from underweight. Although we believe that SA equities look more attractive than 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 elevated interest rates.

MULTI-ASSET STRATEGIC ASSET ALLOCATION	STABLE FUND	BALANCED FUND
Cash	Neutral	Neutral
Bonds	Overweight	Overweight
Property	Underweight	Underweight
Local Equity	Neutral	Neutral
Foreign Equity	Neutral	Neutral

UPDATE CONTINUED.

The Palmyra Equity Fund ended the quarter overweight financials and neutral industrials, while being underweight resources. The Fund maintained zero exposure to foreign equities.

The Palmyra Property Fund is a benchmark cognisant fund 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 Equities 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 under-weight 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-manager that manages its local portfolios using a proven decision-making process. Capita partners with Cadiz Asset Management and Starfunds.ai, who consult regarding the management of Capita's portfolios.

The Capita Real Income Fund invested in appropriate credit issues over the quarter as cashflows and maturities provided the necessary liquidity. The Fund maintained a 70% allocation to five multi-asset income funds, these funds remained unchanged over the quarter and the remaining 30% is invested in fixed-income instruments. The fixed-income exposure continued to be shorter duration relative to the ALBI.

The Capita Cautious Fund finished the quarter holding exposure to the 10X High Equity, ABAX Balanced, Allan Gray Balanced, Investec Wealth Balanced High Equity and Nedgroup Core Accelerated Funds.

The Fund maintained a 70% allocation to funds with the remaining 30% invested in fixed-income instruments. Over the quarter, bond-specific risk was reduced by diversifying across various maturities, this kept the fund's fixed-income duration shorter than that of the ALBI's, while targeting a yield of greater than 10.50%.

The fund is aligned with our house view asset allocation, with the fixed-income instruments having a marginally lower duration than the ALBI, while maintaining adequate yield compensation for the duration risk taken.

The Capita Balanced Fund's finished the quarter holding exposure to the 10X High Equity, ABAX Balanced, Allan Gray Balanced, Investec Wealth Balanced High Equity and Nedgroup Core Accelerated Funds. The Fund maintained a 70% allocation to funds with the remaining 30% invested in local equity.

Over the quarter the fund increased its foreign equity exposure to remain in line with our house view strategic asset allocation.

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.

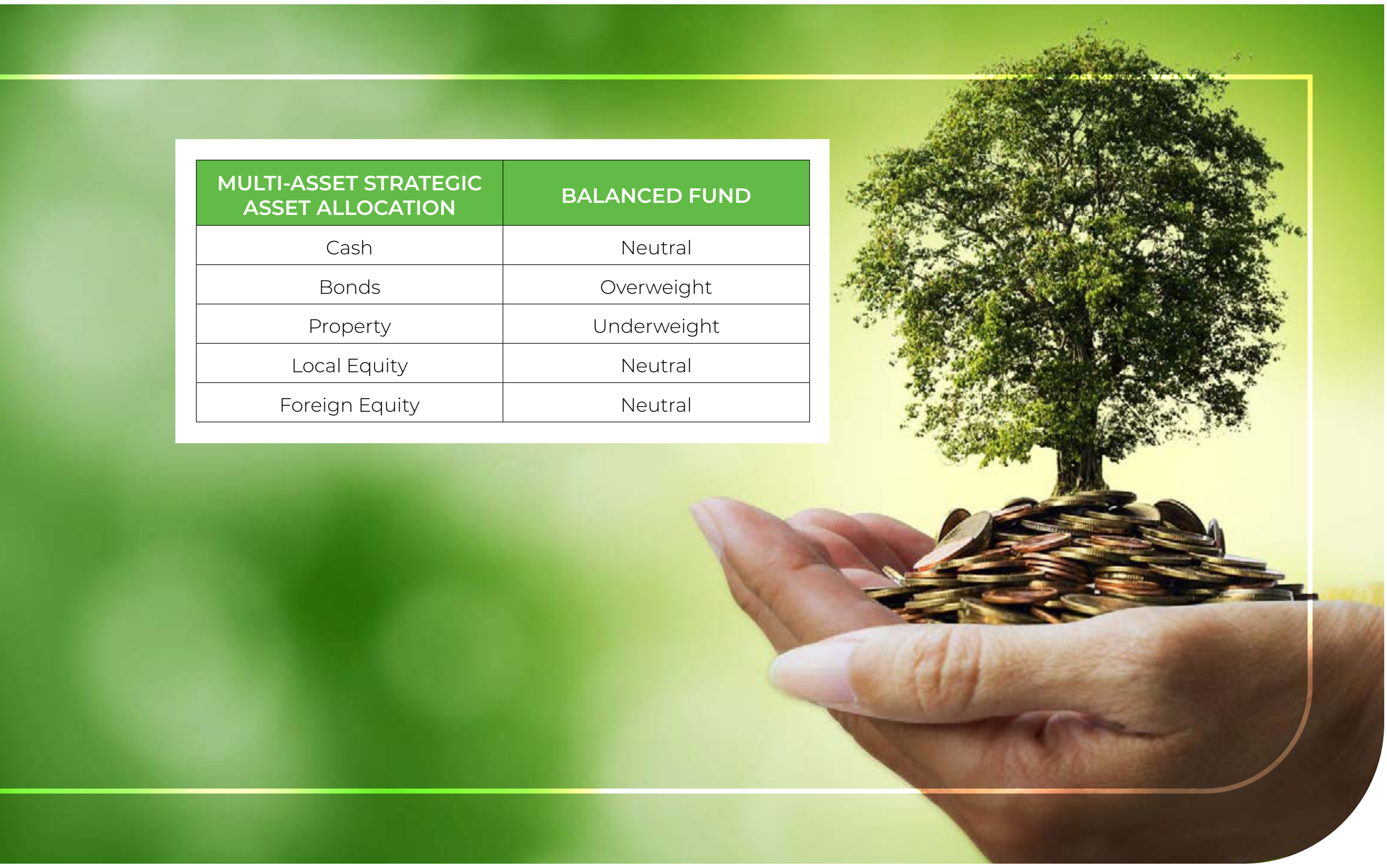
accorn INVESTMENT MANAGEMENT

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 shorter duration than the ALBI.

During the quarter we upgraded the foreign equity exposure to neutral from underweight. 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 elevated interest rates.



MULTI-ASSET STRATEGIC ASSET ALLOCATION	BALANCED FUND
Cash	Neutral
Bonds	Overweight
Property	Underweight
Local Equity	Neutral
Foreign Equity	Neutral

The 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.

The 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 expected to continue raising interest rates.

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

STARFUNDS.Ai ASSET MANAGEMENT

UPDATE

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 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 10X High Equity, ABAX Balanced, Allan Gray Balanced, Investec Wealth Balanced High Equity and Nedgroup Core Accelerated 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 Fairtree Select Equity, Investec Wealth Equity, Old Mutual Rafi 40 Index, PSG Equity and the PSG SA Equity 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 Catalyst Flexible Property, Nedgroup Investments Property, M&G Enhanced SA Property Tracker, Investec Property Equity, and the Satrix Property Index Funds.

PLEASE NOTE: Starfunds.ai is excited to announce the launch of a new fund on 1 August 2023, the Starfunds.ai Stable Fund of Funds, with the objective of providing a stable level of income, combined with long-term capital stability. The portfolio will be Regulation 28 compliant, and the benchmark will be the ASISA SA Multi-Asset Low Equity category average.

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.

ORION INVESTMENT MANAGERS

cadiz ASSET MANAGEMENT | PALMYRA ASSET MANAGEMENT | CAPITA Asset Management | accorn INVESTMENT MANAGEMENT | STARFUNDS.Ai ASSET MANAGEMENT

Postal Address Alphen Estate, Alphen Drive, Constantia, 7806 | **Email** info@orionim.biz | **Telephone** +27 21 657 8300

Physical Address: Alphen Estate, Alphen Drive, Constantia, Cape Town, 7848