Umthombo Wealth Equity Report for Quarter ended 31 March 2026

UMTHOMBO
WEALTH

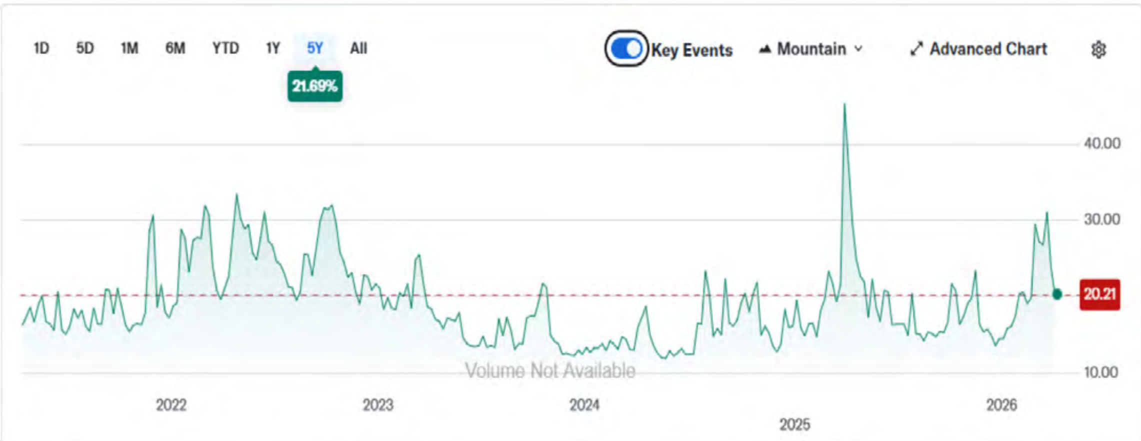
Contents

Economic food for thought

As we write this after the Easter break, it's a moment when you realise the new year isn't so new anymore, and the year has already taken on a personality. By April 2020, it was obvious it would be the year of Covid.

By this time last year, it was clear it would be dominated by tariffs. And now, it feels like the year of war and 1970s-style oil shocks—more so than last year. The question we now must ask ourselves is fundamental: what does investing look like in the time of war?

The markets are probably one of the best ways to read the mood of the world, though arguably that title could go to social media or Google Trends. Over the past 12 months, sentiment has swung from extreme fear to extreme fear, according to the CNN Fear & Greed Index, which tracks seven indicators—from stock momentum to investor demand for safe versus risky assets—to gauge the market's emotional mood. Volatility has also stayed high, according to the VIX, often called the "fear index," which measures expected swings in the S&P 500 over the next 30 days. Both sentiment and volatility are sandwiched within arguably one of history's longest and strongest bull markets.



Previous Close	25.78	Volume	0	52 Week Range	13.38 - 54.87
Open	21.25	Day's Range	20.34 - 21.63	Avg. Volume	0

Source: Yahoo finance

While this quarter's bout of anxiety is driven by flare-ups in the Middle East, last year's was sparked by tariffs, ironically titled "Liberation Day," a name that feels straight out of World War II's D-Day. And while oil uncertainty and ballistic missiles might seem more dramatic than tariffs, market volatility, as measured by the VIX, was higher last year.

Regardless of last year's "hiccups," the S&P 500 finished up roughly 17–18 %, the MSCI World Index rose about 21 %, and the FTSE/JSE All Share Index posted very strong gains, ranking among the top global markets with local returns well into the 30 %+ range in 2025. As can be seen, the true winners were emerging markets, with South Africa on top. Naturally, when the new year rolled around, we expected the rand rally to continue. Given the current backdrop, markets leaned into a risk-on mood, meaning investors were "stocking up" on US dollars and bonds rather than rands and local bonds.

We see another, less explicit "war" unfolding on the global stage: the new cold war, or 21st-century "Space Race," is AI, with the world's two largest economies, the US and China, vying for dominance. This is not just a race for better consumer gadgets or faster search engines, it is a battle for the Cognitive High Ground, where the "moon landing" of our era is the achievement of Artificial General Intelligence. Success would give the victor a permanent first-mover advantage across autonomous warfare, unbreakable cryptography, global finance, and scientific discovery, effectively creating a "Silicon Curtain" that splits the world into two distinct technological stacks: one led by American private frontier models, the other by Chinese state-integrated scale. The ultimate prize is hardcoding a nation's values, logic, and biases into the operating system of civilisation for the next century.

The US leads through capitalism, with roughly US$175 billion in venture capital for AI in 2025, alongside corporate R&D and infrastructure spending. China invests up to US$98 billion, mostly through government programmes, state-backed infrastructure, and large tech firms rather than private VC. For investors, these models matter: US spending tends to concentrate growth in high-margin, scalable companies that show up in public earnings, while China's state-led approach spreads risk and creates scale but exposes investors to policy shifts and less transparent returns. Understanding where real earnings are generated, and how these strategies interact with global capital flows, will be critical in positioning for the next cycle.

Outside the realm of AI, the US continues to lead in innovation. Around 62 technology companies in the US, eight of the world's 10 largest, reported profits of over US$1 billion, far outshining any other country and four times more than its closest competitor—China.

Yet despite the current AI hype and ongoing tech innovation, on-the-ground data shows the average American is far from optimistic. The US consumer sentiment index for current economic conditions has fallen to 50.4 points, the lowest on record. This is five points below the 2022 low and eight points below the 2008 low, and compares with 61.4 points in 1980, when annual inflation was 13.5 %. Confidence remains weighed down by inflation, job security, and broader economic uncertainty, with little sign of a meaningful rebound.

Polling shows that while a majority of Americans disapprove of the "Liberation Day" tariffs due to rising consumer costs, the measures are still raking in US$360 billion per year. US tariff revenue soared 234 % year-on-year in 2025, reaching a record US$265 billion compared with US$85 billion in 2024. Arguably, this provides a welcome reprieve against America's insurmountable treasury debt of around US$40 trillion. In times of war, it is estimated that the US is burning through roughly US$1 billion a day to fund military operations.

As we saw first-hand during the 2022 Russia/Ukraine conflict, war sends commodity markets into a tailspin, and this time was no exception. Oil breached the US$100 per barrel level at least three times in March. Commodities did not move as a single block but split depending on what was driving them. Oil rallied on a clear supply shock, yet that put pressure on the rest of the complex. Gold softened not because investors stopped seeing it as a safe haven, but because it became a source of liquidity—funds sold it to meet margin calls, while a stronger dollar and rising real yields added pressure. Platinum slipped for a different reason: it is more tied to industrial demand, especially autos, so higher oil prices fed into growth concerns and weaker demand expectations. The broader takeaway is mildly negative: the market priced a supply-driven shock rather than healthy global demand, which is why energy surged while most other commodities struggled.

An often-overlooked but important second-order effect is the jump in ammonia prices following the war. Production relies heavily on natural gas, and key supply regions have been hit, making fertiliser more expensive.

Soft commodities were already rising due to tight supply and other structural factors, so this only adds to the pressure. With crops like wheat and corn also climbing, higher fertiliser costs push up farmers' break-even prices and margins, feeding directly into food prices. The result is more persistent food inflation, which hits consumers—especially lower-income households—while adding further strain on the global economy.

The war also had a major impact on coal. Global supply was disrupted, particularly from key exporters, while sanctions and logistical bottlenecks tightened markets. Prices jumped as countries facing constrained natural gas supplies turned back to coal, boosting demand. This played directly into our contrarian view. Long before the conflict, we saw coal, especially South African coal often dismissed by the market as a "dirty relic," as a necessary transition fuel. Rising energy needs in developed markets, driven by AI and data centre growth, alongside expanding demand in developing economies, meant coal would remain critical in the near term. Fortunately, we were well positioned for this shift.

As alluded to earlier, this was expected to be the year of South African equity, with general optimism across the local investment community, us included. The JSE has been relatively flat year-to-date following a stellar 2025. While it is too early to say where markets will go in 2026, we continue to believe there are great, undervalued South African Inc. stocks to monitor. With commodity markets increasingly fickle and fluid, further aggravated by the war, we stay on top of developments daily and make tactical, opportunistic trades and hedges. The market may be volatile, but this is not our first rodeo, and we look forward to meeting the challenge and managing money with discipline this year.

Equity fund range performance

Umthombo Wealth Equity funds breakdown

Umthombo Wealth has four equity offerings that accommodate a range of client risk/return solutions. Our offerings include low tracking error benchmark cognisant funds and non-benchmark cognisant high tracking error funds.

Fund name	Conservative Fund	Moderate Fund	Best House View Fund	Unconstrained Fund
Type of fund	Benchmark cognisant	Benchmark cognisant	Non-benchmark cognisant	
	High IR	With constraints	High conviction	No constraints
Number of shares	50 to 75	30 to 60	20 to 30	10 to 25
Tracking error	< 3%	3% to 5%	> 5%	> 5%

1. Moderate Fund

Our Moderate offering represents our constrained best house view active positioning relative to any specific benchmark. The share count ranges between 30 and 60, targeting a tracking error of less than 5% over a rolling three-year period. The Moderate offering is ideal for clients seeking an actively managed solution with certain constraints. It provides a balanced approach that aims to capture opportunities while managing risk.

Fund Information

Portfolio Managers: Alexander Duys, CFA, CAIA, Lauren Zunckel, CFA, Nyiko Mnisi, CFA, FRM, & Jandre Pieterse

Benchmark: CAPPED SWIX Total Return

Inception date: 1st January 2016

Investment vehicle: Segregated only

Fund size: R8.59bn (invested within the Moderate offering)

Umthombo Wealth Equity composite performance. (net of fees)

Performance	Client Equity Portfolios		
	Composite	Benchmark*	Alpha
Inception Date		1st Nov 2016	
1 Month	-9.59%	-10.45%	0.87%
3 Months	-2.62%	-0.61%	-2.00%
6 Months	6.95%	7.44%	-0.49%
1 Year	32.72%	33.60%	-0.87%
2 Years	27.89%	28.16%	-0.27%
3 Years	19.11%	19.04%	0.07%
4 Years	14.49%	14.16%	0.33%
5 Years	14.52%	13.92%	0.61%
6 Years	19.35%	19.48%	-0.13%
7 Years	12.75%	11.89%	0.86%
8 Years	11.48%	9.98%	1.50%
Number of years	9.33		
Since Inception	166.35%	142.02%	24.34%
Since Inception (Ann)	11.07%	9.93%	1.13%
Downside Risk	2.20%	2.47%	
Volatility	3.87%	4.23%	
Sortino Ratio	1.85	1.19	
Sharpe Ratio	1.05	0.69	
Tracking error (inception)	3.32%		
Information ratio	0.34		

**Benchmark: Capped SWIX Total Return (TR) from 1st November 2016 until 30th of November 2019. 1st December 2019 until current is SWIX Total Return (TR).*

"I HAVE NOT FAILED. I'VE JUST FOUND 10,000 WAYS THAT WON'T WORK."

Thomas Edison

2. Conservative Fund

Our Conservative offering represents our most cautious active positioning relative to any specific benchmark. The share count ranges between 50 and 75, targeting a tracking error of less than 3% over a rolling three-year period. The aim is to achieve a high information ratio. Our Conservative offering is ideal for clients seeking a core-satellite approach.

Fund Information

Portfolio Managers: Alexander Duys, CFA, CAIA, Lauren Zunckel, CFA, Nyiko Mnisi, CFA, FRM, & Jandre Pieterse

Benchmark: CAPPED SWIX Total Return

Inception date: 1st January 2016

Investment vehicle: Segregated only

Fund size: R825m (invested within the Conservative offering)

Performance	Client Equity Composite		
	Composite	Benchmark*	Alpha
Inception Date		1st April 2020	
1 Month	-9.82%	-10.55%	0.73%
3 Months	-0.98%	-0.45%	-0.52%
6 Months	8.71%	8.42%	0.29%
1 Year	33.64%	34.12%	-0.49%
2 Years	26.73%	28.37%	-1.64%
3 Years	18.27%	19.24%	-0.96%
4 Years	13.63%	14.19%	-0.56%
5 Years	13.76%	13.94%	-0.17%
Number of years	6.00		
Since Inception	181.29%	190.90%	-9.61%
Since Inception (Ann)	18.81%	19.48%	-0.67%
Downside Risk	1.80%	1.91%	
Volatility	3.90%	4.07%	
Sortino Ratio	6.57	6.53	
Sharpe Ratio	3.03	3.07	
Tracking error (inception)	2.24%		

**Benchmark: SWIX Total Return (TR) from 1st April 2020 until 31st of July 2022. 1st August 2022 until the current Capped SWIX Total Return (TR).*

STRIVE NOT TO BE A SUCCESS,
BUT RATHER TO BE OF VALUE.

Albert Einstein

3. Best House View Fund (BHVF)

Our Best House View Fund (BHVF) offering represents our most convicted active positioning relative to any specific benchmark. The share count ranges between 20 and 30, with all positions being overweight compared to the benchmark, without any positions at neutral or underweight. The offering does not have a specific tracking error target but is expected to exceed 5% without a cap. Our BHVF offering showcases our capability to add value when minimal limitations are in place. It provides an opportunity for clients who seek a high conviction approach with the potential for significant outperformance.

Fund Information

Portfolio Manager: Alexander Duys, CFA, CAIA

Benchmark: CAPPED SWIX Total Return

Inception date: 1st January 2016

Investment vehicle: Segregated only

Fund size: R294m (invested within the BHVF offering)

Performance	Client Equity Portfolios		
	BVHF Composite	Capped SWIX TR	Alpha
Inception Date		1st October 2021	
1 Month	-7.69%	-10.55%	2.87%
3 Months	1.15%	-0.45%	1.61%
6 Months	11.90%	8.42%	3.47%
1 Year	40.19%	34.12%	6.07%
2 Years	29.89%	28.37%	1.51%
3 Years	21.54%	19.24%	2.30%
Number of years	4.50		
Since Inception	113.47%	97.07%	16.39%
Since Inception (Ann)	18.35%	16.27%	2.08%
Downside Risk	1.57%	2.14%	
Volatility	3.37%	3.96%	
Sortino Ratio	7.21	4.33	
Sharpe Ratio	3.36	2.34	
Tracking error (inception)	5.28%		
Information ratio	0.39		

"WHETHER YOU THINK YOU CAN, OR YOU THINK YOU CAN'T, YOU ARE RIGHT".

Henry Ford

4. Unconstrained Fund

Our Unconstrained offering represents our most strongly held conviction on an absolute basis. The Unconstrained fund incorporates our best and highest conviction ideas. The share count ranges between 10 and 25, providing greater flexibility in portfolio construction compared to the Best House View Fund (BHVF). The offering does not have a specific tracking error target but is expected to have a tracking error higher than 5%, without a cap. Our Unconstrained offering exemplifies our ability to add substantial value when no limitations are in place.

Fund Information

Portfolio Managers:	Lauren Zunckel, CFA
Benchmark:	CAPPED SWIX Total Return
Inception date:	1st January 2019
Investment vehicle:	Segregated only
Fund size:	R1.19m (invested within the Unconstrained offering)

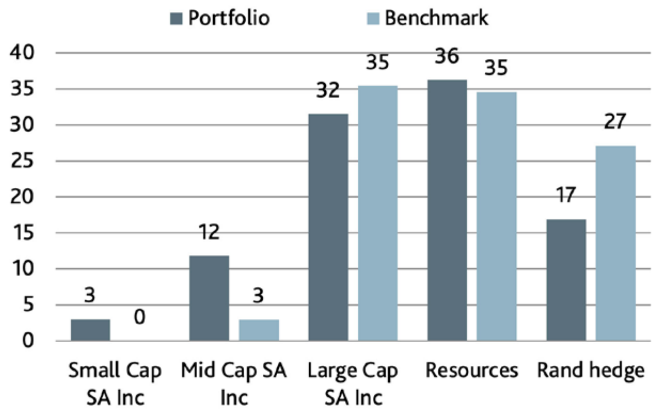
Umthombo Wealth Equity Model performance

	Model Equity Portfolios							
Performance	Best House View	Benchmark	Moderate	Benchmark	Conservative	Benchmark	Unconstrained	Benchmark
Inception Date	1st Jan 2016		1st Jan 2016		1st Jan 2016		1st Jan 2019	
1 Month	-7.70%	-10.55%	-9.71%	-10.55%	-9.76%	-10.55%	-9.96%	-10.55%
3 Months	1.57%	-0.45%	-2.02%	-0.45%	-0.69%	-0.45%	-0.98%	-0.45%
6 Months	12.80%	8.42%	9.32%	8.42%	9.57%	8.42%	8.41%	8.42%
1 Year	42.26%	34.12%	36.11%	34.12%	35.32%	34.12%	31.74%	34.12%
2 Years (Ann)	31.50%	28.37%	29.94%	28.37%	28.26%	28.37%	26.80%	28.37%
3 Years (Ann)	22.95%	19.24%	20.79%	19.24%	19.61%	19.24%	21.83%	19.24%
4 Years (Ann)	18.72%	14.17%	15.77%	14.17%	14.95%	14.17%	16.34%	14.17%
5 Years (Ann)	18.16%	15.40%	17.22%	15.40%	16.21%	15.40%	17.89%	15.40%
6 Years (Ann)	23.05%	21.11%	22.13%	21.11%	21.19%	21.11%	21.67%	21.11%
7 Years (Ann)	17.91%	13.20%	15.15%	13.20%	14.03%	13.20%	17.12%	13.20%
8 Years (Ann)	15.68%	11.11%	13.59%	11.11%	12.35%	11.11%		
Number of years	10.25	10.25	10.25	10.25	10.25	10.25	7.25	
Since Inception	292.55%	181.18%	236.30%	174.68%	212.75%	174.68%	226.64%	147.39%
Since Inception (Ann)	14.27%	10.61%	12.56%	10.36%	11.77%	10.36%	17.74%	13.31%
Downside Risk	1.76%	2.40%	2.13%	2.40%	2.19%	2.40%	1.96%	2.67%
Volatility	3.55%	4.21%	3.89%	4.21%	3.96%	4.21%	3.65%	4.57%
Sortino Ratio	4.12	1.51	2.61	1.40	2.18	1.40	5.48	2.36
Sharpe Ratio	2.05	0.86	1.43	0.80	1.20	0.80	2.94	1.38
Tracking error (inception)	5.37%		3.33%		2.07%		6.94%	
Information ratio	0.68		0.66		0.68		0.64	

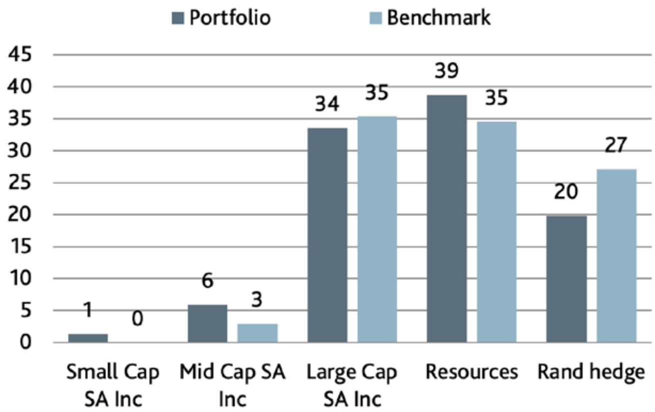
Portfolio insights

For the quarter to March 2026, markets experienced significant volatility. The first two months of the quarter were characterised by a continuation of the kind of price action we saw in 2025, namely continued strength in resource shares as commodity prices continued to rise, aided by Trump's policies and a weaker Dollar. The All-Share Index reached a record high. Then, at the end of February, the US war with Iran began, causing a major reversal in trends. Resource shares collapsed and pulled most other shares down with them. Our portfolios remained diversified, and we further implemented risk management measures given the macro developments, including an underweight position in Sasol, and an overweight position in Thungela. These positions hedge us well against disruption to the global energy supply chain.

Portfolio SA Inc Exposure Relative to Benchmark - Moderate



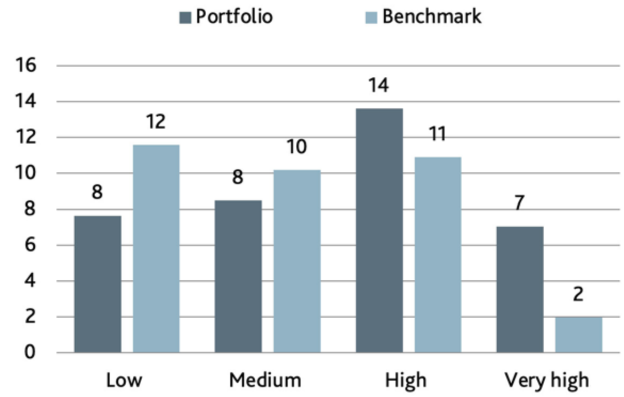
Portfolio SA Inc Exposure Relative to Benchmark - Conservative



Source: Apex, Umthombo estimates

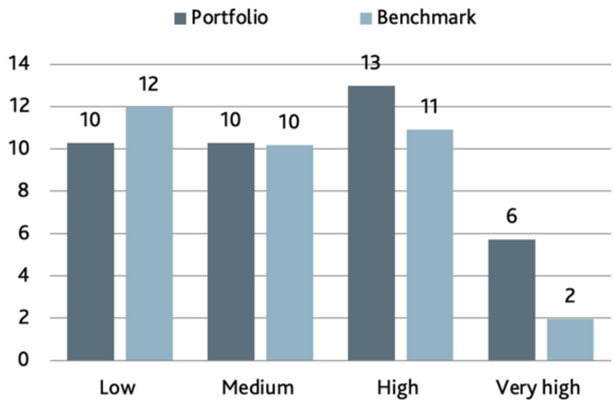
We remain significantly exposed to SA Inc stocks given numerous opportunities we continue to find. Our Moderate Fund plays SA Inc primarily through midcaps, however we have been cognisant to retain substantial exposure to large cap SA Inc stocks as well, given the likelihood of large caps rallying first in the event of an SA Inc rally. We have bought the likes of Capitec, Shoprite, Clicks and OUTsurance during the quarter, all large cap SA Inc shares that will benefit in the event of a risk on SA Inc trade. We do have an underweight position on Rand hedge stocks and are thus mindful of the risk of a blow out in the ZAR in our portfolios.

Portfolio Resources Rand Hedge Breakdown Relative to Benchmark - Moderate



Source: Apex, Umthombo estimates

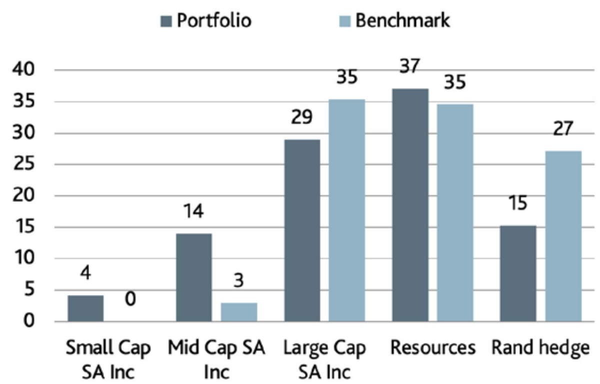
Portfolio Resources Rand Hedge Breakdown Relative to Benchmark



One way we can mitigate our underweight rand hedges risk, is to gain rand hedge exposure in the resources space. Different resource companies offer varied levels of beta to the South African rand. For example, a resource company with operations primarily in South Africa offers significantly higher beta to the South African Rand compared to a resource company with minimal South African exposure. An example of a stock with very high beta to the South African ZAR is Harmony Gold, and an example of a stock with low beta to the South African ZAR is BHP Group.

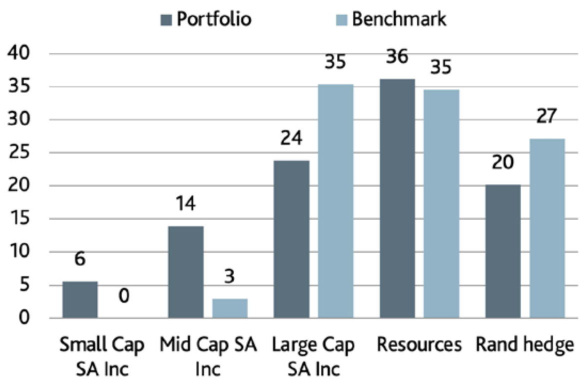
Segmenting the portfolio in this way, we find that our portfolios' resource positioning does give us significant ZAR depreciation protection. Many of our resource picks are in the very high and high sensitivity categories relative to the benchmark. In this way we mitigate our underweight position on pure Rand hedge stocks.

Portfolio SA Inc Exposure Relative to Benchmark - BHVF



Source: Apex, Umthombo estimates

Portfolio SA Inc Exposure Relative to Benchmark - Unconstrained

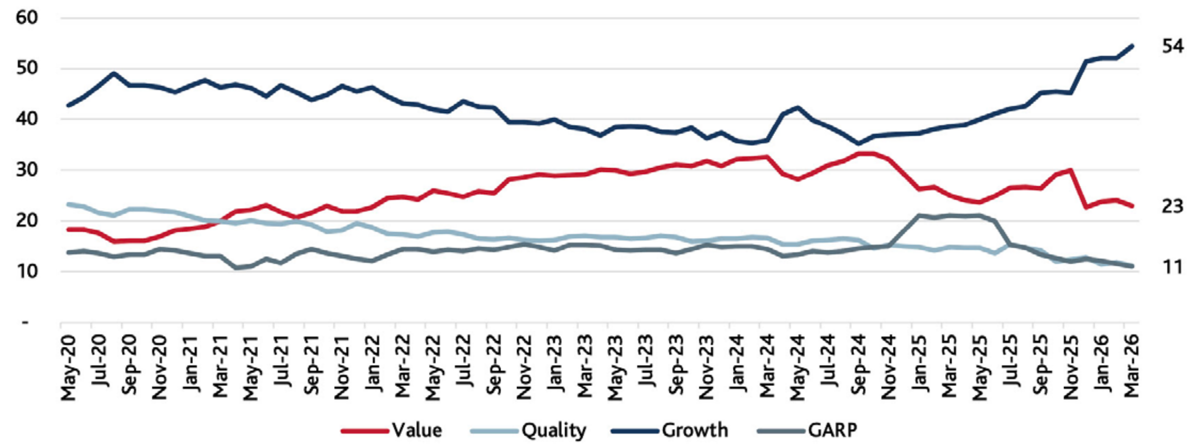


Our high conviction Best Houseview and Unconstrained funds are more active in the small and mid-cap space as these funds tend to be smaller in size and are nimbler. These funds have higher risk limits as well, allowing us to have bigger positions in many stocks that are small in the benchmark or are not in the benchmark at all. This does also mean performance for these funds is likely to be lumpier in nature and less consistent than our Moderate and Conservative offerings. All in all, we are comfortable with the incidental bets being taken across the funds. We continue to build portfolios from the bottom up, with these top-down views serving as risk overlay tools.

"TO ACHIEVE GREATNESS, START WHERE YOU ARE, USE WHAT YOU HAVE, DO WHAT YOU CAN."

Arthur Ashe

Investment Style Time Series - Moderate



Source: Apex, Umthombo estimates

We are underweight Quality and GARP. We have recently reduced our underweight position in quality with the addition of Clicks to the fund. Click's share price has been under pressure which doesn't make sense to us given continued good results and plenty of runway on future growth given continued share gains from the independents. If we look at the share price and current multiples relative to history, the current share price likely represents a good buying level. Furthermore, we have struggled to find viable options within the general retail space.

Many of the clothing retailers have substantial offshore operations which dilutes the exposure to South Africa. We had previously favoured Mr Price, however we have cut the position following the announcement of the NKD deal, a deal we view with substantial skepticism. Clicks give us clean exposure to the SA consumer.

We are also underweight GARP and think this is the right position given the abundance of value opportunities on offer. The market (Ex resources) looks cheap to us, and we think it is more appropriate to own GARP stocks when there are fewer obvious opportunities elsewhere.

Overall, our style positioning continues to demonstrate our style agnosticism, given material exposure to all styles. This position suits us well to outperform in most kinds of style cycles.

Company and sector insights

Pepkor Capital Markets Day (CMD)

The Pepkor Capital Markets Day (CMD) convened against a volatile backdrop, as geopolitical tensions in the Middle East triggered a broad market sell-off. With Pepkor's share price retreating approximately 16% from its February month-end levels, the stakes for the session were high. Management entered the presentation clearly recognising the need to articulate a robust strategic narrative to shore up investor confidence.

Management's case rests on the sheer, unmatched magnitude of the group's ecosystem. Rather than presenting as a traditional retailer, the executive team framed Pepkor as a "retail-powered consumer platform" with a massive physical footprint. This scale translates into a high-frequency "moat," with over 60 transactions occurring every second and a dominant presence in the informal market through the FLASH platform. By "stitching together" these formal and informal touchpoints, the group plans to use its massive retail reach as a low-cost acquisition engine for higher-margin financial and connectivity services.

Accompanying the strategic pivot is a structural reorganisation designed to enhance operational transparency and segment accountability. A primary component of this shift is the decoupling of the FinTech division into two specialised units: Financial Services and the Informal Market. The Financial Services segment now consolidates the group's high-growth consumer offerings - including credit, cellular rentals, and insurance while serving as the incubation hub for the forthcoming banking platform.

Conversely, FLASH now operates as a standalone business within the Informal Market segment, a move that recognizes its unique scale and dominant position within the trader ecosystem. To further sharpen divisional performance metrics, the group has also aligned its internal enablers to ensure these businesses are reported directly within the segments they support, providing a more accurate reflection of the true cost and efficiency of each operation e.g. Pepkor lifestyle finance now reported in Pepkor lifestyle segment.

To build on the narrative of scale, management formalized several group-wide commitments focused on aggressive revenue growth and operational discipline. Central to this is the group's ambition to maintain a 10%–15% compound annual growth rate (CAGR) for headline earnings over the next three years.

Key financial commitments over the next 3 years include (CAGR):

- LFL sales growth of between 5% and 6%.
- Space growth of between 3% and 4%.
- Gross profit margins of between 39% and 41%.
- Other income growth of between 4% and 5%.
- Cost of doing business (incl. debtors cost) of between 27% and 29%.

- Operating profit margins of between 11% and 13%.
- Net Debt-to-EBITDA of between 0.5x and 1.0x
- RONA >25%, ROIC>15% and ROE>10%
- Dividend cover of 3x until 2029 then 2x thereafter.
- Capex of 2.5% of revenue. Hurdle IRR of 30% and payback of 3yrs on projects.

To mitigate concerns over aggressive credit-led growth, management formalised specific ceilings on debtor's book expansion and associated costs. These measures are designed to improve the group's cash conversion rates while leveraging credit as a loyalty engine.

The primary guardrails include:

Sales Mix Discipline: Limiting retail credit to between 17% and 19% of total sales to ensure the core business remains cash dominant.

Controlled Expansion: Targeting a gross debtor's book growth rate of between 17% and 22%.

Cost Containment: Capping the growth of debtors' costs at 22% to prevent margin erosion as the book scales. This will be done through a combination of decreasing approval rates and favouring doing business with customers with established credit worthiness within the group.

Evidence that the measures put in place are working to manage risks associated with credit risk are:

- Lower expected credit losses as a percentage of debtor's book.
- Flat non-performing loans as a percentage of debtor's book.
- Lower net yields despite the above meaning that credit quality is in a general upward trend.

Management maintains a core conviction that the South African retail landscape is structurally mature, or "ex-growth," suggesting that incremental value will primarily be driven by operational optimization and disciplined, value-accretive M&A.

While the group remains open to international expansion, there is a clear strategic bias toward less established high growth retail markets and a deliberate avoidance of traditional developed economies (e.g. UK).

Importantly, capital allocation guardrails, necessitated by cash flow preservation and the intensive focus on the "PlusB" banking rollout are expected to moderate the scale of future acquisitions, ensuring that inorganic growth does not divert management's focus on the group's core assets.

Growth drivers per segment:

Clothing and General Merchandise

- Leverage direct sourcing to further maintain lowest-cost advantage.
- Pep expected to cross 3000 store milestone.
- Integrating acquisitions.
- Furniture, Appliances and Electronics/Lifestyle
- Integration of SA Shoprite furniture brands.
- Credit and maximising customer lifetime value.

Informal Market platform

- Data monetisation.
- Merchant acquisition.
- Business lending.
- Micro banking.

Financial Services

- Maximising customer lifestyle value
- Handset rentals
- Insurance
- Banking (+plusB)

The banking ambitions of the group are well defined, and it seems that the plan has been well thought out. The value creation plan has these main pillars:

Digital first

The risk of having staff distracted by banking activities is too high to favour physical roll out. +more is a rich data source for the group and is likely to help them identify an economical customer base.

<R1bn cost to deliver

Management is very clear the fact that do not want the bank draining cash resources before going live, expect a payback period of 3 years and an ROE of 30% by year 5. The costs include cloud badger acquisition costs.

Execution

Clear-up development resources (cloud badger wrapping up other commitments with 6 banks on the African continent) Learn from other recently launched banks to speed up approvals. Section 16 application submitted. The bank will be deposit accepting with a target of income primacy for 1.8m primary banked customers. Integration with flash to unlock synergies.

Integration

- Processing FLASH through-put and group wide merchant acquisition needs.
- Credit and Insurance collection fees can be offset through on-us collections.
- Cheap funding through low-cost deposits can be used to grow credit activities.

Management did note that guidance does not include any revenue from the bank but includes the costs that will be incurred in launching the bank.

As of the April 8th close, Pepkor's valuation reflects a discount to its business prospects. This is partly due to risks to global growth from the US-Iran conflict and, by extension, the South African consumer through inflationary pressure. The primary internal risk is execution risk. The group is managing several pivots including the PlusB rollout, Avenida turnaround, speciality and lifestyle brands integration. Operational slippage could undermine the investment case. However, macro risks should moderate over the medium term. A defensive retail core should provide support for valuations as the business works through various initiatives.

The Price of Expansion: Why NKD Spooked Investors

To set the scene, it was 10 December last year. Our team was gearing up for the much-anticipated December holidays, with the atmosphere of South Africa's infamous and much-loved "Dezemba" period about to kick into full swing. Then Mr Price, South Africa's apparel retail heavyweight, dropped a SENS announcement confirming the acquisition of German value retailer NKD for €487 million—roughly R9.6 to R9.7 billion at the time.

And just like that, the sell-off of a market darling was in full swing. Mr Price fell 12–13 percent on the first day, wiping out roughly R7 billion to R9 billion in market cap. Despite a fairly solid holiday trading period, the share slid a further 15 percent in the weeks that followed. All in all, Mr Price lost about R10.5 billion in market value.

So, what does this imply? The market is effectively ascribing zero, if not negative, value to the NKD acquisition.

But why such a negative reaction? To be blunt, the South African investor community has a bit of PTSD from the many unsuccessful offshore ventures that too many South African companies embarked on in the 2010s. We won't catalogue them all, but two case studies stand out: Woolworths and Spar.

Woolworths

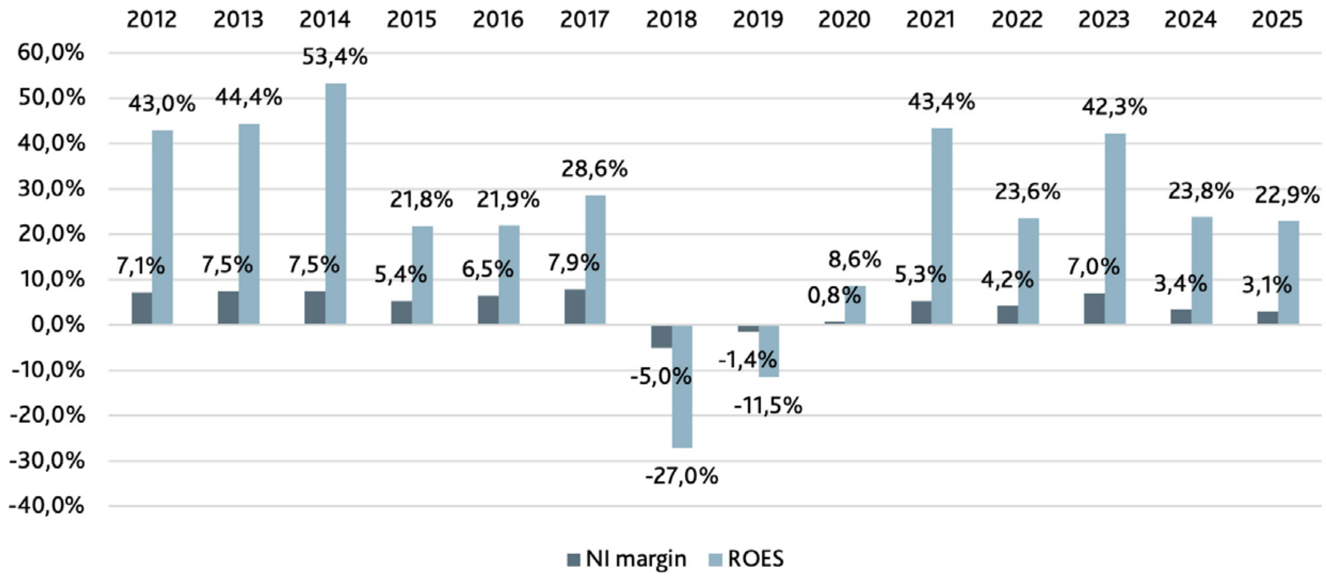
Woolworths was historically robust, with a strong balance sheet, healthy margins, and a cash-generative model. Investors trusted the company to deliver steady growth and returns.

Then came the 2014 acquisition of David Jones for roughly A$2.1 billion (R21–22 billion at the time), pitched as a step-change offshore growth opportunity. The logic was clear: exposure to a developed consumer market and a higher-income customer base.

In reality, it became a textbook example of overpaying for a structurally challenged asset. Department store retail globally was already under pressure from e-commerce and shifting consumer behaviour. Execution in Australia fell short, with margin erosion, weak like-for-like sales, and repeated strategy resets. Over time, Woolworths was forced into multiple impairments and eventually exited the asset in 2022 via a demerger at a fraction of the original valuation.

What made the situation more uncomfortable for investors was the perception of misaligned incentives. There was a lingering sense that Woolworths management may have viewed the David Jones deal as an opportunity to establish a presence in Australia, raising concerns that strategic discipline took a back seat to personal and organisational incentives. The CEO who led Woolworths into this "Aussie mess" was eventually ousted—but with a R70 million exit package paid by shareholders. In other words: CEOs can't lose, and we, the shareholders, foot the bill.

Net Income and ROEs



Equity

Source: Company Financials, Umthombo Wealth

The graphs illustrate the margin and ROE compression following the Australian acquisition, which ultimately wiped out shareholder equity on the balance sheet.

Spar's aggressive European expansion over the past decade provides a cautionary tale for investors. A R5 billion+ investment intended for diversification instead left the group heavily leveraged and strategically stretched.

The R2.25 billion venture into the UK and Ireland and the R1.6 billion commitment to Switzerland failed to deliver the returns needed to offset their immense costs. Meanwhile, the R1.3 billion entry into Poland became a persistent financial quagmire. Chronic losses and integration hurdles ultimately forced a full strategic retreat. High debt levels and diluted focus compelled the group to exit these territories—most notably via the distressed disposal of its Polish operations—as it pivoted back to its South African core to repair the balance sheet and restore investor confidence.

However, Spar was not always in this position. Historically, it had a robust balance sheet, strong margins, good growth, and a cash-generative model—making the post-expansion struggles all the more striking.

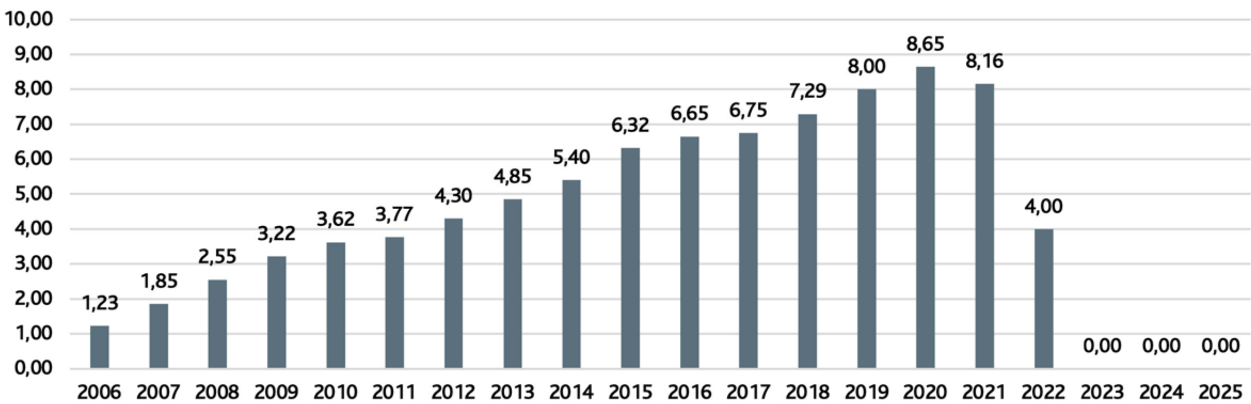
The effects of a poor acquisition are far-reaching, and Spar provides a textbook example:

- **Balance sheet stress:** Even historically clean companies almost breached debt covenants.
- **Cash flow strain:** Poor cash generation struggled to cover the CAPEX-heavy nature of new businesses.
- **Margin erosion:** Low-quality assets dragged down overall profitability.

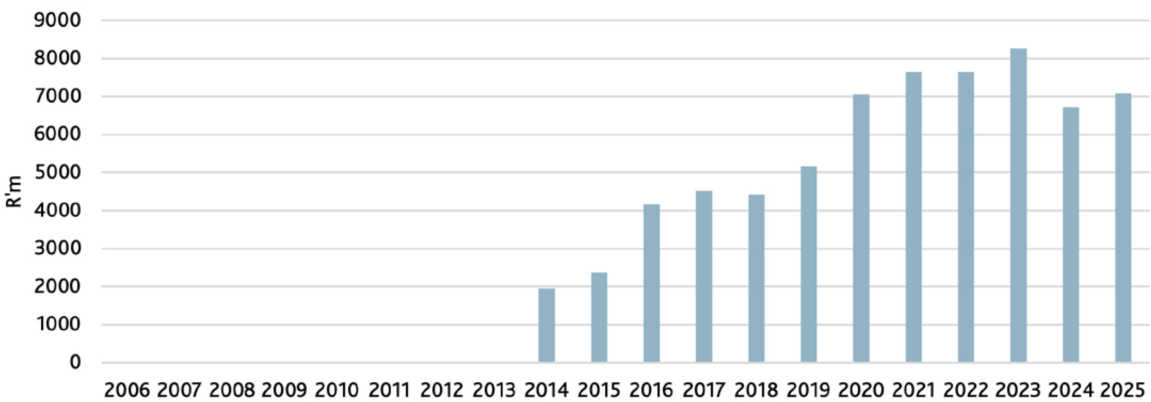
How did these factors interact? Higher debt drove up interest costs, while lower margins shrank the bottom line. Equity and ROEs came under pressure. With less cash available to fund investments and service debt, dividends became a casualty of war. Payout ratios shrank, leaving shareholders with smaller distributions.

The full knock-on effect: lower ROEs, slower growth, and reduced payout ratios—all key drivers of valuation. Price-to-book and price-to-earnings multiples compressed, leaving investors dissatisfied if capital gains and dividends didn't follow.

Dividends per share



Debt



Source: Company Financials, Umthombo Wealth

These graphs point to the high debt burden and reduced capacity to pay dividends back to shareholders post the European acquisitions.

So, what is our approach to Mr Price? Last year, we were bullish, holding an overweight position. We liked Mr Price as a pure-play SA apparel retailer with quality over scale.

Shortly after the NKD acquisition, we sent a formal letter to management asking questions we assumed many investors were asking:

- What will drive NKD's earnings growth?
- How does the deal's return compare to share buybacks, and why prioritise it?
- Is the asset base adequately invested, and what capex is required?
- How reliable are the financials, and what due diligence was done?
- What exit flexibility exists pre-closing, and what are the break costs?

We exited our position shortly after sending this letter.

In conclusion, the NKD acquisition impaired our original Mr Price investment thesis. We continue to monitor the stock, but we now view it through a completely different lens. We would only consider re-entering if new fundamentals emerge that justify a revised market price and valuation.

We have recently initiated a position in Nampak in our high conviction Unconstrained Fund. We believe the share price has lagged clearly improving fundamentals. The full year results for fiscal 2025 demonstrated notable improvements in key areas, specifically the cash flow statement and the balance sheet. The Group demonstrated positive free cash flow generation of R902m in the second half. This places Nampak on a free cash flow yield of 20%. Adjusting for once offs in the cash flow number, the free cash flow yield is closer to 14%.

Moreover, this means we are starting to see further deleveraging on the balance sheet. Net debt reduced from R4.5bn in 2024 to R2.3bn in 2025. Debt levels remain high, with net debt to equity of 93%, however this is both an opportunity and a risk. We think its an opportunity given improved cash generation and corporate action optionality in the form of a potential sale of the Zim business. This means the potential for equity value unlock is substantial.

We also think Nampak has a complexity discount. The results over the past few years have been complex, with numerous income statement items impacting earnings. This stems from the Group's prior operations in Africa, resulting FOREX adjustments, pension fund adjustments, as well as the sale of many non-core operations. This period of complexity is now largely behind the Group, and earnings going forward should be much cleaner and easier to discern by the investment community. For example, Nampak reported earnings of R103 / share in 2025. Normalised earnings, stripping out once offs, was closer to R70. This still puts NPK on a PE of 6X.

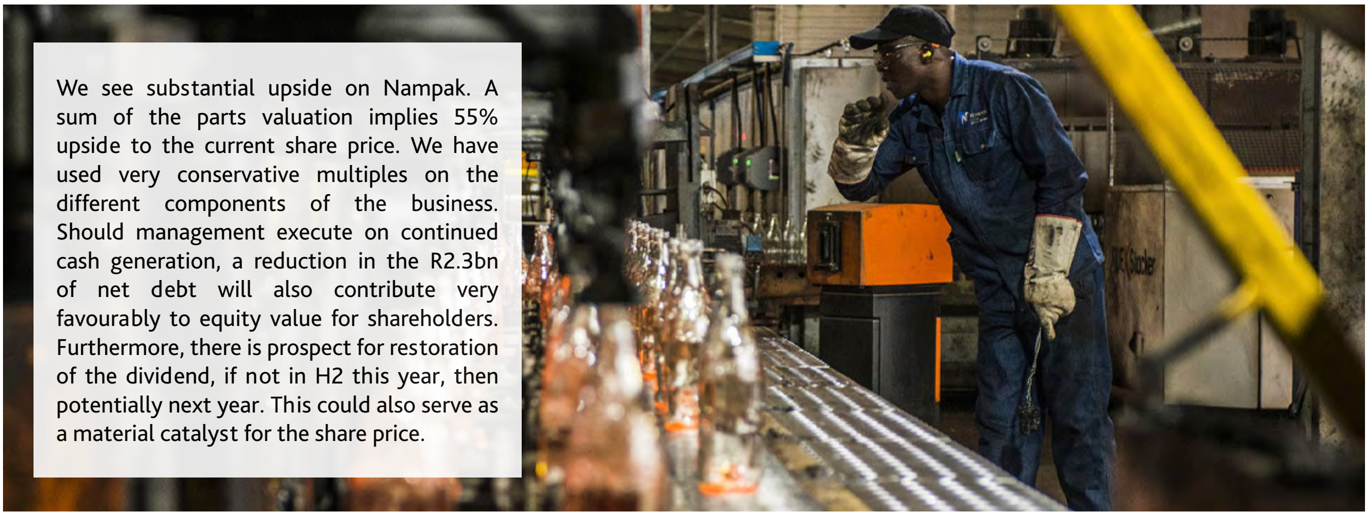
The earnings trajectory remains favourable, with management having made significant operational improvements on the Bevcan business. The Bevcan business now accounts for 70% of trading profit. Notwithstanding operational improvements, the business also benefits from structural demand tailwinds, as Bevcan demand grows in excess of GDP growth due to substitution from other packaging formats. Management is in the process of moving a Bevcan line from Angola to South Africa. The business is well positioned to benefit from an improving South African macroeconomic landscape.

One concern is management. Phil Roux, the highly regarded turnaround specialist, will be leaving Nampak as CEO, after having implemented a highly successful turnaround strategy.

He will hand over the reins to Riaan Heyl, the prior CEO of PepsiCo SA. This seems to be a credible appointment, and we do note that most of the heavy lifting in terms of implementing the turnaround strategy is complete. The business is now on the right path.

Sum of the parts	**Revenue**	**EBIT**	**EBIT margin %**	**PAT**	**Fair PE**	**Value**
Bevcan SA	6 487	791	12.2	577	9.0	5 197
Diversified SA	2 948	275	9.3	201	2.5	502
Bevcan Angola	1 086	333	30.7	250	7.5	1 873
Corporate	206	195		142	6.0	854
Total	**10 727**	**1 594**	**14.9**	**1 170**	**7.2**	**8 426**
Less: Net debt						2 295
Add: Investment in associates						25
Less: Minorities						324
Equity value						5 833
Shares in issue						8.48
Implied price per share						688
Implied Upside / (Downside) %						**55**

Source: Nampak financials, analyst estimates



We see substantial upside on Nampak. A sum of the parts valuation implies 55% upside to the current share price. We have used very conservative multiples on the different components of the business. Should management execute on continued cash generation, a reduction in the R2.3bn of net debt will also contribute very favourably to equity value for shareholders. Furthermore, there is prospect for restoration of the dividend, if not in H2 this year, then potentially next year. This could also serve as a material catalyst for the share price.

Mining & Resources: Energy Shock

Summary

Q1 has been dominated by a sharp re-pricing of the energy complex, triggered by the escalation of the Iran conflict. Disruptions to key oil and gas infrastructure, alongside the effective closure of the Strait of Hormuz, drove a significant rally in oil, LNG and thermal coal prices.

This energy shock reignited inflation concerns and tightened financial conditions via higher nominal rate expectations and a stronger US dollar. As a result, most metals particularly precious metals and copper sold off sharply. Aluminium has been the key exception supported by significant supply disruptions.

Overall, the quarter marked a shift from a disinflationary recovery narrative to one of stagflation risk, with energy outperforming and most other resource classes de-rating.

With a ceasefire now in place (at the time of writing) and a defined negotiation window, the path to de-escalation has become more credible. Our base case is that the conflict does not become protracted, given the political and economic pressure that elevated oil prices and inflation place on all parties. Encouragingly, we have seen steady, if uneven, progress, with the US shifting towards pursuing a deal and Iran moving from refusing talks to engaging in negotiations.

As such, we are bullish on Resources, particularly PGMs & Diversifieds.

We acknowledge that risks remain and outcomes are still path dependent. As such, we are avoiding extreme positioning, preferring to retain flexibility while selectively increasing exposure where risk-reward has improved.

Precious Metals (Gold & PGMs)

After a strong 2025, precious metals have had a difficult start to the year. A sharp correction began in late January, flushing out speculative positioning, and was subsequently exacerbated by the Iran conflict.

The weakness has been driven by:

- Higher energy prices lifting inflation expectations and nominal bond yields
- A stronger US dollar, supported by rate expectations and a flight to liquidity
- Evidence of gold selling from some Middle Eastern central banks, likely to fund widening fiscal deficits
- Investor profit-taking and forced deleveraging
- Rising growth concerns, weighing on automotive demand and PGMs

Outlook

Given our expectation of a de-escalation, we view the sell-off as a correction rather than the end of the cycle and have increased our exposure.

We prefer PGMs over gold. Supply remains structurally constrained, and the complex is well positioned for a rotation out of gold as risk appetite recovers. This was beginning to show in China prior to the conflict, where new platinum and palladium futures have gained investor traction. There is also potential for government stockpiling given increasing focus on supply security.

By contrast, gold may face headwinds if central bank buying moderates, which has been a key pillar of demand.

Positioning

Our preferred PGM exposures are Northam and Sibanye.

Northam is best-in-class from a capitalisation perspective, supporting a stronger outlook for growth, cost control and capital discipline, and ultimately dividend capacity. Sibanye trades at a deep discount to peers, reflecting asset quality concerns, but we see scope for re-rating driven by management change, insider buying, balance sheet repair, and full exposure to gold upside following the roll-off of collars.

Our preferred gold exposures are Pan African Resources and Harmony Gold Mining Company.

Pan African offers strong organic growth with low capital intensity and limited reliance on M&A, which supports consistent earnings expansion and superior capital discipline.

Harmony represents a contrarian value opportunity, where the discount to peers has widened to extreme levels amid concerns around high capex at lower gold prices. As the gold price stabilises and potentially recovers, we see scope for this discount to narrow as balance sheet concerns dissipate, driven by improved earnings visibility and leverage to higher gold prices.

Energy

Energy has been the clear outperformer this quarter.

- Oil and gas prices rallied sharply due to supply disruptions and constrained export routes
- Damage to LNG infrastructure, particularly at Ras Laffan, is expected to take multiple years to repair, removing a meaningful portion of global supply

We expect LNG markets to remain structurally tight even in a de-escalation scenario, given long supply response times and lower inventory levels.

Thermal coal has also rallied, albeit less than LNG. We see further upside as relative pricing continues to incentivise gas-to-coal switching, particularly in energy-constrained regions.

Positioning

Our preferred exposure remains Thungela Resources, which offers:

- Pure-play leverage to thermal coal
- A net cash balance sheet
- Strong free cash flow and dividend optionality at current prices

Diversified Miners

We continue to favour diversified miners with exposure to both energy-linked commodities and structurally tight metals markets.

Our preferred name is South32, underpinned by our constructive view on aluminium. The market is facing significant supply disruptions, which should drive inventory drawdowns and relative price outperformance over the next 12 months.

Key supply impacts include:

- Closure of Mozal, potentially permanent
- Reduced output at Alba following missile damage
- Full outage at Al Taweelah due to power infrastructure damage

In contrast, copper remains more binary. A resolution to the conflict, which is our base case, should support a recovery in prices, while prolonged elevated energy costs and weaker global growth would weigh on demand.

We also favour Glencore given:

- Meaningful thermal coal exposure
- A highly profitable Marketing division that benefits from volatility
- A copper business with peer-leading growth

We remain cautious on iron ore, where rising supply and structurally weaker Chinese steel demand continue to cap upside.

Pulp & Paper (Sappi)

We are increasingly constructive on Sappi as pricing and operational tailwinds begin to align. Dissolving wood pulp prices have inflected from ~$795/t in late January to $850/t, pointing to meaningful margin expansion ahead.

The broader pricing backdrop is also supportive. Higher oil prices are lifting polyester prices, improving the competitiveness of viscose staple fibre, while elevated fertiliser costs are pushing cotton prices higher. At the same time, emerging wood supply constraints are adding further upward pressure to pulp markets.

At a company level, easing currency headwinds, ongoing ramp-up in North America, and continued cost reductions in Europe support a stronger earnings outlook. A potential European JV transaction provides an additional catalyst, particularly for balance sheet deleveraging. With financial risk largely reduced, Sappi is well positioned for sequential EBITDA upgrades as pricing flows through.

We remain cognisant of macro risks, particularly the potential for demand destruction if the energy shock persists. In addition, a sharp decline in oil prices may temper some of the support for DWP prices. However, at current levels and with significant operating leverage, we continue to see an attractive risk-reward as the pulp cycle recovers and self-help measures advance.

The Governance Gap in the Age of Artificial Intelligence (AI)

We have spent a decade talking about AI in extremes… It's either the next best thing since Google or the thief of the modern workforce. However, as much of the hype clears, we now know that AI is no longer a futuristic claim to prepare for but a tool that has begun to infiltrate our everyday lives.

With the novelty of AI innovation wearing off, and the use of generative and agentic AI already a part of business models and strategies. We begin to focus on the seemingly "obvious" risks that the hype cycle often distracts us from…AI Governance.

The Cost of inadequate governance: Professional Failures

The media have highlighted examples of how industries that are pivotal in upholding law, ethics, and confidentiality have already seen a concerning increase in AI-related scandals that undermine the urgency required for heightened AI oversight. In the legal profession, tools have generated fabricated case citations, leading to disciplinary actions, court sanctions, and reputational risk. Secondly, one of the Big Four Audit and Advisory firms, Deloitte has faced public scrutiny after using AI to generate a report that contained hallucinated references and fake judicial quotes for the Australian government. And most recently, the media reported that the Pentagon used AI services from Anthropic during its attack on Iran.

Without governance, AI risk results conduct and reputational risk that blurs the lines of accountability, national defence systems and professional integrity.

The Regulatory Gap: Why POPIA is Not Enough

While South Africa has made significant progress relative to its peers, current legislation remains inadequate for the AI era. Regulations like the Protection of Personal Information Act (POPIA) and the GDPR provide vital safeguards for data privacy, but they contain broad gaps. They often fail to address:

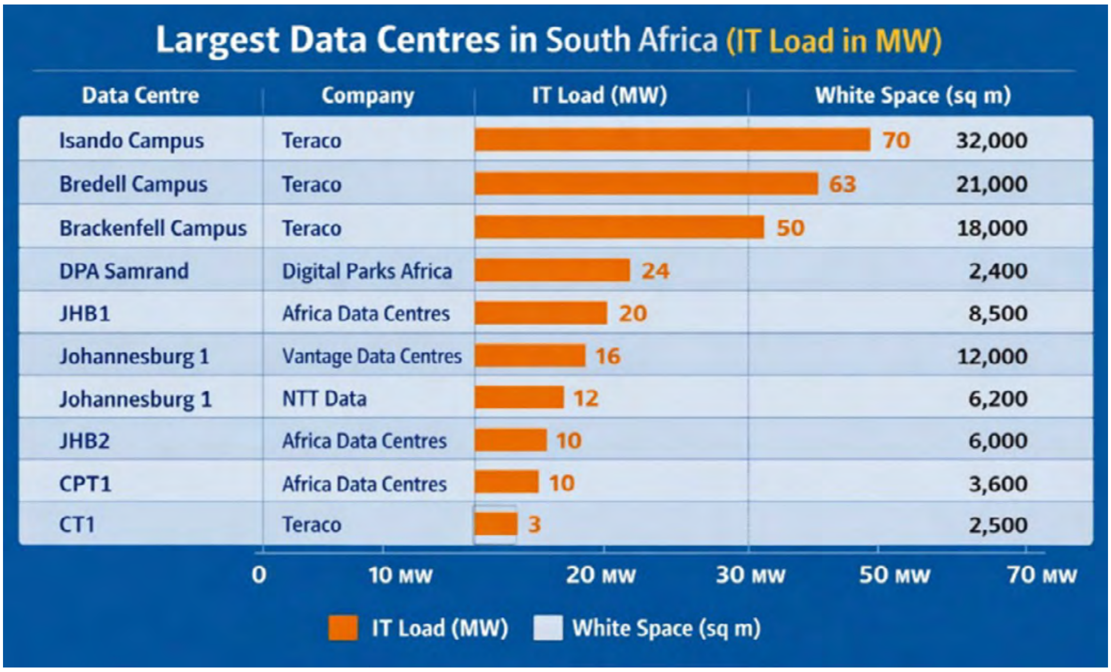
- **Algorithmic Accountability:** The "how" behind automated decisions and potential exclusions due to confidentiality concerns of users in medical or governmental fields.
- **Model Explainability:** The ability to interpret and justify AI-driven decisions.
- **Assurance:** The requirement to audit actions that legislation does not currently cover.
- **Environmental and Social Impact:** Current laws do not mandate assessments for energy consumption or social equity in AI deployment.

The Draft National AI Policy Framework (April 2026) aims to close these gaps by establishing nine strategic pillars which are developing the country's AI talent pool; developing the necessary digital infrastructure; investing in AI research and development; promoting public sector uses of AI; developing standards and guidelines for ethical design and use of AI; ensuring data protection; ensuring safety and security; and promoting AI transparency and explainability. However, as a high-level document, it still lacks granular guidance on implementation, leaving a "regulatory landmine" for companies that rely solely on minimum compliance.

The South African Investment Landscape

Despite these risks, investment in South African AI infrastructure is accelerating. The Department of Science, Technology, and Innovation has invested over R484 million into foundational digital capabilities, including the Centre for Artificial Intelligence Research (CAIR) across nine universities. This may pale in comparison to global AI capex allocation reaching $650 billion, however it is promising that South Africa has already built 56 data centres (approximately 1% of global AI data centre capacity) with a total load capacity of 350 MW.

There have been huge private-public ventures on the horizon, such as the proposed $3 billion to $10 billion AI data center in Durban. This facility is projected to consume 400MW, which would make it the largest in the country dwarfing existing facilities like Teraco's 70MW Isando campus.



Largest Data Centres in South Africa (IT Load in MW)

Data Centre	Company	IT Load (MW)	White Space (sq m)
Isando Campus	Teraco	70	32,000
Bredell Campus	Teraco	63	21,000
Brackenfell Campus	Teraco	50	18,000
DPA Samrand	Digital Parks Africa	24	2,400
JHB1	Africa Data Centres	20	8,500
Johannesburg 1	Vantage Data Centres	16	12,000
Johannesburg 1	NTT Data	12	6,200
JHB2	Africa Data Centres	10	6,000
CPT1	Africa Data Centres	10	3,600
CT1	Teraco	3	2,500

Source: TechCentral

The Hidden Cost of the AI Revolution: Electricity, Water, and Social Equity

The environmental and social impact of AI is a growing concern, especially in a developing economy like South Africa.

The concern with data centres is that they are "resource-intensive". In a country with grid instability and a coal-dependent economy, a facility consuming 25% of a city's electricity as proposed in Durban represents what could become an energy crisis. Research in the U.S shows that residential electricity costs have increased by 15-25% in areas with concentrated AI infrastructure and grid instability has become prevalent during peak AI training periods, leading to rolling blackouts. This serves as a potential risk for South Africa and reinforces the increases the demand to increase fossil fuels for energy generation, further increasing carbon emissions.

Given that cooling the server banks for these data centres requires millions of litres of water, the water security risk will be exacerbated in water-stressed regions like the Western Cape or Gauteng by directly competing with agricultural and residential needs which is a significant sustainability risk. With most of South Africa dependent on an ageing municipal water infrastructure and high non-revenue water loss, we believe this to be an immediate water security threat if left without adequate oversight.

Besides the obvious environmental risks, there are risks like AI hardware causing long-term environmental damage, increasing e-waste, and the biodiversity impact from data centre construction in natural habitats.

Beyond the "S" in ESG

AI's societal effects are creating new forms of inequality and social disruption that current governance frameworks fail to address. AI generated content holds the possibility of manipulating the masses, automating administrative jobs, and affects the mental health of communities by creating functions that can replace human connections. So, while it can create temporary construction jobs, the long-term threat is permanent skill obsolescence in traditional professional roles if transition support is not governed.

The Governance Gold Standard: C-Suite and Board Integration

We are moving into an era where we no longer look for companies that merely use AI; we look for companies that can govern it. The "buy" signal in 2026 is the presence of robust, visible governance integrated into board level composition and risk appetite.

We are seeing a change in the South African financial sector where IT/cybersecurity expertise are becoming a fiduciary duty. Examples of this are:

- Sanlam recently appointed Theo Mabaso as Group Chief AI Officer, signalling that AI is a strategic priority rather than a "nice to have" addition to the CIO role.
- Banks like Nedbank and Absa are increasingly prioritising specialised IT and cybersecurity directors on their boards to oversee the increasing cyber risks of not just AI but data breaches, like the breach that was recently announced by Standard Bank.

These roles ensure that AI deployment aligns with King V principles, treating AI as a core component of long-term value creation rather than just a cost cutting tool.

Conclusion: Accountability is the Only Sustainable Algorithm

AI is here to stay, but it is a headwind waiting to happen if left ungoverned. A poorly managed strategy can lead to POPIA violations, increasing carbon tax obligations, or catastrophic operational disruptions (drought).

Conversely, companies that build a robust governance framework by aligning with King V, integrating environmental and social sustainability metrics, and ensuring algorithmic transparency will likely see lower volatility and superior long-term returns. In the age of autonomous operations, accountability is the only sustainable path forward.

Registered Name: Umthombo Wealth (Pty) Ltd
Registration Number: 2013/058341/07

Physical Address
Suite 14, 2nd Floor Katherine and West Building, 114 West Street, Sandton 2196
FSP Number: 44802
T: 27 11 318 0171 E: info@umthombow.com

www.umthombow.com

UMTHOMBO
WEALTH