



INDEPENDENT ALTERNATIVES

SAME DESTINATION | ALTERNATIVE WAY

QUARTERLY REVIEW

Q1 2026



BUSINESS UPDATE

2026 has seen continued strong growth across the business, with assets under management (AuM) increasing by R1.5 billion to R5.7 billion over the quarter. This growth was broad-based, with inflows across our Hedge Funds, Portable Alpha, and Bond Fund strategies, reflecting improved distribution and sustained client confidence.

Independent Alternatives is now an independently verified Level 1 B-BBEE contributor under the FSC scorecard. This reflects strong ownership and delivery across management control, skills development, and procurement. Our transformation profile is now fully measurable, scalable, and independently validated.

Key Growth Highlights (Q1 2026)

AuM Growth: Total assets under management increased by approximately 25% over Q1 2026 to R5.7 billion, supported by stronger client engagement and distribution momentum.

Investment Outcomes: Performance remained robust in a risk-off environment. Hedge funds delivered positive returns in line with expectations, while long-only strategies performed in line with benchmarks, underpinned by disciplined risk management.

Team Expansion: We welcomed two graduates into the investment team through the Independent Alternatives Hedge Fund Academy. The team now comprises seven professionals, with expanded coverage across asset classes and a strengthened succession pipeline.

What Enabled the Growth

Growth was enabled by a repeatable investment process, improved organisational capacity, and stronger operational foundations. The firm's approach combines top-down macro analysis with bottom-up quantitative research to identify dislocations and mean reversion opportunities. This was complemented by tighter portfolio construction, embedded risk governance, and continuous monitoring of liquidity, correlation, and drawdown risks.

Looking Ahead

Looking beyond Q1 2026, the focus remains on consolidating recent gains while scaling responsibly. Priorities include maintaining above-benchmark outcomes, deepening risk, and data capabilities, expanding client engagement, and continuing to invest in systems and infrastructure that support growth without compromising discipline.



SUMMARY OF PORTFOLIO POSITIONING

The global macro backdrop has shifted from a benign “Goldilocks” regime to a more unstable, two-sided environment, where both inflation and growth outcomes are increasingly uncertain. We do not expect a quick resolution to the US–Israel versus Iran conflict, with ongoing disruption risks to key energy supply routes suggesting oil prices are likely to remain higher for longer. This introduces a more persistent inflation impulse and raises the probability of stagflationary outcomes, as higher energy costs weigh on growth while sustaining price pressures. As a result, traditional directional exposures offer less favourable asymmetry, and the regime is increasingly sensitive to nonlinear shocks.

Today’s configuration carries important parallels to the 1973–74 regime shift, but with a faster and more financialised transmission mechanism. What began as a physical supply shock in oil has the potential to evolve into a broader market-structure event, where inflation becomes more persistent and less predictable. The divergence between physical and financial markets suggests that inflation risks remain underpriced, with forced convergence likely to drive sharper repricing across rates and risk assets. In this context, the risk is not just higher inflation, but a regime shift toward sustained volatility and weaker real returns—consistent with the prolonged adjustment period that followed the oil shocks of the 1970s.

South Africa – Credibility intact, but macro becoming more finely balanced. We expect growth to remain resilient in the near term ($\pm 1.3\text{--}1.5\%$), supported by improving real activity and easier financial conditions, but with downside risks emerging from a deterioration in the terms of trade. Inflation is likely to drift above the SARB’s 3% target ($\pm 1\%$ tolerance band), limiting further scope for rate cuts and introducing a rising probability that the easing cycle ends earlier than expected—with upside risk to policy rates over the medium term. While fiscal dynamics are improving on the back of strong revenue and expenditure discipline, and reforms in logistics and energy continue to support confidence, progress remains slow and uneven—anchoring stability but constraining a more meaningful growth acceleration.

Portfolio stance: Against this backdrop, we have transitioned toward a more neutral, resilient framework—reducing directional exposure, lowering duration risk, and increasing allocations to liquid, floating-rate instruments. The portfolio is anchored on diversified, non-directional return drivers, complemented by explicit convex hedging to protect against macro shocks, geopolitical escalation, and valuation compression.



DOMINANT THEMES IN THE PORTFOLIOS

FIXED INCOME POSITIONING: Neutral stance; maintain carry density with limited duration risk.

We have shifted to a more neutral view on rates as the easing cycle becomes less certain and inflation risks re-emerge. Positioning is centred on preserving carry through curve and relative value structures, with a bias toward flattening dynamics—whether bull or bear—while avoiding outright duration exposure. At the same time, we have increased allocations to T-bills, NCDs and short-dated instruments to capture attractive money market dislocations, enhancing carry quality while maintaining liquidity and optionality to redeploy capital as volatility creates more compelling opportunities.

EQUITY POSITIONING: Harvest premia with limited net beta; hedge valuation risk

We maintain a market-neutral, factor-aware equity posture designed to harvest risk premia in a more uncertain and less directional environment, without relying on broad beta. Index hedges remain in place to protect against valuation compression and geopolitical shocks, particularly in crowded global segments. We remain overweight SA equities (banks, retailers, industrials), where improving financial conditions and the “carry + credibility” impulse support a gradual earnings recovery. While the easing cycle has likely ended, valuations remain undemanding and local equities have lagged the rates-led recalibration—creating a dislocation between improving fundamentals and still-muted pricing, which we seek to capture through a disciplined, premia-focused approach.

COMMODITY POSITIONING: Stay tactical; express convexity through agricultural relative value.

Commodity exposure remains a key source of inflation protection and geopolitical convexity, but implementation is focused on relative value rather than outright direction. We are actively expressing this through agricultural long/short trades capturing substitution and margin dynamics—long lean hogs vs short live cattle (protein substitution), long soybeans vs short sunflower (input substitution), and short soybean crush spreads to reflect tightening processing margins. We also remain alert to energy-induced dislocations across commodities where oil acts as a key input or substitute, seeking second-order opportunities arising from the ongoing oil shock.

RISK MANAGEMENT AND HEDGING: Elevated uncertainty warrants explicit protection.

We maintain convex hedges across asset classes, including equity downside protection, rates volatility structures, and FX optionality. Systematic strategies enhance diversification, while elevated liquidity preserves the ability to redeploy capital into dislocations.



GLOBAL MARKET REVIEW

Market Overview: In Q1 2026, the global macro backdrop was defined by tightening financial conditions and rising geopolitical tensions. Persistent inflation and resilient labour markets kept policy restrictive, while escalating Middle East risks introduced stagflationary dynamics—adding upside pressure to inflation and downside risks to growth. Across major economies, this tension became more pronounced. China’s growth was supported by industrial and export strength, but structural weaknesses persisted. Europe flagged rising energy-driven stagflation risks, while Japan continued gradual normalization and Australia turned more hawkish amid upside inflation surprises.

US Economic Overview: Policy remained restrictive as inflation dynamics proved uneven and labour markets broadly resilient. While underlying price pressures showed signs of gradual moderation, energy-driven volatility reintroduced upside risks to headline inflation, complicating the disinflation narrative. At the same time, employment conditions remained stable, with wage growth easing only modestly—reinforcing the view that policy will need to remain tighter for longer. Growth momentum remained subdued but positive, with consumption holding up despite tighter financial conditions. Overall, the US backdrop continues to point to a late-cycle environment characterised by persistent inflation, resilient labour markets, and a slower, more uncertain path toward policy normalization.

Other DM Economic Overview: Across developed markets, policy remained broadly on hold in Q1 2026, reflecting the tension between persistent inflation and moderating growth. The UK showed signs of softening activity and a loosening labour market, while Japan continued along a gradual tightening path as it normalises policy from historically accommodative levels. Australia also maintained a tightening bias, with firmer growth and more persistent inflation pressures limiting the scope for easing.

Emerging Markets Overview: EMs entered Q1 2026 strong on dollar weakness and robust inflows, but the late-February Middle East conflict and Hormuz oil shock triggered a sharp reversal, with EM equities finishing the quarter down 13.26%, led by India, South Africa, and Mexico.

Currency and Commodities Overview: Q1 2026 was dominated by the escalation in Middle East tensions and disruption through the Strait of Hormuz, triggering a sharp repricing in energy markets and reinforcing inflation risks. Commodity price action reflected stress rather than a traditional risk-off dynamic, with oil input costs becoming a key driver across markets—pressuring industrial metals, supporting parts of the agricultural complex, and contributing to a breakdown in typical safe-haven behaviour in precious metals. In FX, the impact was most acute for net oil importers and more vulnerable economies, with the yen, sterling, and emerging market currencies such as the rand weakening amid higher oil prices and heightened global risk aversion.



SOUTH AFRICAN MARKET REVIEW

SA Market Overview: Q1 2026 marked a clear inflection point in South Africa's market narrative, as the late-quarter Middle East shock exposed the vulnerability of an oil-importing, high-beta economy. While headline returns appeared relatively contained, underlying performance was dominated by a sharp March drawdown, reflecting a rapid repricing across both equities and bonds.

Equity markets displayed significant internal divergence. Resource stocks initially benefited from the commodity rally, while domestically exposed sectors came under pressure from rand weakness and rising input costs. Financials proved relatively more resilient but ultimately reflected broader risk-off dynamics, underscoring the sensitivity of local assets to external shocks.

Fixed income markets experienced a more pronounced adjustment, with the yield curve bear flattening. Losses were concentrated at the long end and belly, driven primarily by duration exposure as well as the magnitude of yield moves, as inflation risks repriced and the policy outlook shifted. Forward rates moved materially higher, reflecting a transition away from easing expectations toward a higher-for-longer, and potentially tightening, rate environment.

SA Inflation and Economic Overview: The quarter began with tentative signs of recovery in the South African economy, but momentum proved short-lived as activity weakened through the period. Early improvements in mining and business sentiment gave way to softer manufacturing and declining activity indicators, highlighting the fragility of the growth backdrop. At the same time, initial disinflation driven by lower fuel and food prices reversed sharply, with rising energy costs pushing the inflation outlook higher and growth expectations lower. Overall, the macro environment remains characterized by uneven recovery and external vulnerability, with deteriorating terms of trade and renewed inflation pressures constraining a more durable growth recovery.

SA Monetary Policy Overview: The SARB held the repo rate at 6.75% at both its January and March MPC meetings. Monetary policy turned more cautious over the quarter, with the SARB signalling a clear shift toward the end of the easing cycle.

While policy was initially supported by favourable currency and energy dynamics, the tone shifted meaningfully following the escalation in geopolitical risks, with inflation risks moving to the upside and growth risks to the downside. The central bank's updated outlook reflects a more delayed and uncertain path for policy normalization, with easing expectations pushed out and increasingly conditional. Importantly, the balance of risks has shifted sufficiently that further easing is no longer assured, with the potential for policy tightening should elevated oil prices persist—reinforcing a higher-for-longer rates environment.



APPENDIX :IA FUNDS DESCRIPTION

IA MUHU MULTI STRATEGY HF A quantitatively biased, multi-asset, multi-strategy fund investing in domestic fixed-income, equity, and derivative product markets. Using a well-defined macro-thematic process, our investment strategy seeks to profit from market inefficiencies and mispriced risks. The fund is focused on absolute returns and targets positive returns irrespective of market conditions. The fund targets an annualised volatility range of 3 to 5% per annum and aims to deliver net returns that exceed the STeFI by 3% per annum over a rolling 3-year investment period. The fund is appropriate for investors with a conservative to moderate risk profile who aim to preserve and grow the real value of their assets with a low level of capital risk over the medium term. The fund can substitute or complement an income or low-equity balanced fund.

IA LONG SHORT EQUITY HF A conservative long-short equity fund, investing in domestic and global listed equities and derivative markets. The fund follows a rules-based investment approach comprising a quantitatively driven long-short equity portfolio overlaid with derivative hedging strategies to ensure outperformance during equity market drawdowns. The fund targets low volatility with a maximum net long exposure of 50%. Average exposure ranges between -20 % and 40%, aiming to deliver net returns that exceed cash rates by 5% per annum over a rolling 3-year investment period.

IA FIXED INCOME HF The portfolio invests in government bonds, interest swaps, forward rate agreements, fixed income derivatives and money market instruments. The fund can deliver absolute returns by investing in government bonds and fixed income derivatives on a long and short basis, utilizing interest rate derivatives to hedge and create asymmetric investment outcomes and providing positive returns irrespective of bull or bear market conditions. The fund targets an annualized volatility range of 3-5% per annum and aims to deliver net returns that exceed the STeFI by 2-4% per annum over a rolling 3-year investment period.

IA ACTIVE BOND FUND The fund is an actively managed bond fund with a quantitative bias, investing in cash and high-quality fixed-interest assets. The fund is actively managed, and the fund manager expresses views on the direction of interest rates and the shape of the yield curve. The fund implements several investment strategies to generate returns relative to its benchmark. The fund has investment strategies that profit from the general direction of interest rates (carry premia) and those that profit from the change in the yield curve (curvature premia). The fund aims to generate annualised returns above the JSE All Bond Index of 1,5% net of all costs over a rolling 36-month investment period, with a maximum tracking error of 2.50%.

IA MONEY MARKET FUND The fund aims to maximise the interest income, provide liquidity, and preserve capital through investing in domestic cash and near-cash instruments. The fund invests in selected money market instruments issued by government, parastatals, corporations, and banks with a maturity term of less than 13 months. This Fund is suited to investors with a low-risk profile seeking a competitive yield without compromising on liquidity or capital invested. The fund aims to outperform the Short-Term Fixed Interest (STeFI) Index before fees over three-year rolling periods.

PORTABLE ALPHA FUNDS (GLOBAL & SA) The fund is a quantitative, passively managed equity fund, investing in a client-specified beta exposure through futures and seeking alpha from an uncorrelated alpha engine. The fund uses financial engineering to extract hedge fund or fixed income alpha and port it to equity markets. The fund aims to outperform the specified benchmark by 1% before fees over a rolling 3-year investment period.



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