



INDEPENDENT ALTERNATIVES

SAME DESTINATION | ALTERNATIVE WAY

QUARTERLY REVIEW

Q2 2025



GLOBAL MARKET REVIEW

Market Overview: Markets were volatile in Q2 2025 following U.S. tariff actions in April, but sentiment improved after a temporary tariff pause and a key U.S.–China trade accord in June. The deal included phased tariff rollbacks and export commitments, while a U.S.–UK agreement reduced trade barriers. The Israel–Iran conflict in mid-June briefly spiked oil prices and added to geopolitical risks. Falling inflation, steady U.S. rates, and rate cuts by the ECB and BoE supported risk assets. A weaker dollar lifted global returns. U.S. equities hit new highs, and EM outperformed DM on trade relief and strong inflows.

US Economic Overview: In Q2 2025, the Federal Reserve kept interest rates steady at 4.25%–4.50%, citing steady economic growth, low unemployment, and still-elevated inflation. Headline CPI eased to 2.3%–2.4%, while Core PCE held at 2.8%. GDP was flat to slightly positive in April and grew in May, with Q2 growth projected at 1–2% annualized. Recession fears have receded, with expectations shifting toward a slow expansion.

Other DM Economic Overview: Developed Markets softened in Q2 2025. The Eurozone edged closer to recession, prompting the ECB to cut rates to 1.75%. The UK saw a mild recovery, with the BoE lowering rates to 4.25%, while Japan's growth remained sluggish with no policy change. Overall, DM economies lost momentum as central banks shifted toward easing to support growth.

Emerging Markets Overview: Emerging Markets performed strongly in Q2 2025, supported by a weaker U.S. dollar and easing global trade tensions. EM equities rose approximately 11.0%, with standout contributions from Mexico, Brazil, and South Africa. These markets benefited from strong capital inflows, attractive real yields, and the tailwind of a weakening dollar. Overall, EM assets were buoyed by favourable conditions and renewed demand for higher-yielding opportunities.

Currency and Commodities Overview: The U.S. dollar weakened in Q2 2025, supporting commodity markets amid easing trade tensions and resilient global growth. Commodities were broadly higher: gold surged to record highs on geopolitical risks and central bank demand, while copper rebounded sharply following the U.S.–China trade accord and surging Chinese imports. Oil prices were volatile but ended higher, boosted by the outbreak of the Israel–Iran conflict in mid-June. Agricultural markets were mixed—cocoa rallied on West African supply deficits, while corn and coffee fell on strong harvests and waning demand.



SOUTH AFRICAN MARKET REVIEW

SA Market Overview: Despite facing global market volatility, domestic political uncertainty, and a further deterioration in relations with the United States, South African markets delivered a robust performance in Q2 of 2025. Equities rallied impressively, with the FTSE/JSE All Share Index advancing 10.15%, led by strong gains in the Industrial (+11.39%) and Resources (+9.53%) sectors, while Financials posted a respectable 4.95% gain. The bond market also experienced a notable recovery, with the All-Bond Index returning 5.84% for Q2. This was largely driven by a sharp rebound in May across the fixed income spectrum, bolstered by increased offshore investor interest in South African government bonds (SAGBs), particularly in the belly and the long end of the yield curve.

SA Inflation and Economic Overview: Inflation held steady at 2.8% year-on-year in April and May 2025, marking the fifth straight month below the South African Reserve Bank's 4.5% midpoint target within its 3–6% band. This disinflation was driven by softer food prices, stable fuel costs, and a stronger rand, which helped offset imported inflation pressures.

The May 2025 Budget reinforced the government's commitment to fiscal consolidation, projecting public debt would stabilise at 77.4% of GDP, supported by better revenue collection, spending discipline, and state-owned enterprise reforms. However, a proposed VAT increase was scrapped due to strong public opposition, sparking tensions within the Government of National Unity over fiscal priorities.

These divisions were quickly resolved as key stakeholders reaffirmed support for prudent fiscal management and reform, helping to rebuild investor confidence and ease political uncertainty.

SA Monetary Policy Overview: In May, the South African Reserve Bank (SARB) cut the repo rate by 25 basis points to 7.25%, citing contained inflation and supportive financial conditions. The Monetary Policy Committee (MPC) showed strong consensus, with five of six members backing the move, while one member favoured a deeper 50 basis point cut, pointing to room for further easing amid benign inflation dynamics.

The SARB also announced that technical work to lower the official inflation target to 3%—from the current midpoint of 4.5%—is well advanced, pending coordination with the National Treasury. This proposed shift is intended to strengthen the credibility of monetary policy and reinforce a low-inflation regime. Markets welcomed the move, interpreting it as a sign of potential further easing, provided inflation expectations remain anchored, and the rand stays stable.



SUMMARY OF PORTFOLIO POSITIONING

The investment environment remains complex and volatile, shaped by rising geopolitical tensions, inflationary pressures from tariffs, and tighter liquidity conditions that are weighing on asset flows. While global growth expectations are broadly intact, significant dispersion across regions and sectors has emerged due to diverging policy paths and ongoing supply chain challenges. Although interest rate cuts remain a possibility, they are likely to proceed at a slower pace, as inflationary effects from tariffs and commodity price instability persist. These dynamics continue to fuel market volatility and reinforce the need for active risk management.

In response, our strategy reflects a deliberate and balanced approach—combining tactical flexibility with long-term conviction. We continue to position the portfolio for an extended business cycle, underpinned by expectations of steady growth and a gradual decline in inflation. This view supports a continued emphasis on risk premia strategies that are well-suited to a “Goldilocks” macroeconomic environment, with a particular focus on fixed income and equity spread opportunities.

Following the April 2025 market dislocation, which stemmed from tariff escalations and political uncertainty around the Government of National Unity (GNU), we increased both risk exposure and position sizes. The market had prematurely priced in a worst-case scenario. Our belief in a more measured resolution has strengthened our conviction, and we have reaffirmed our risk-on positioning in line with our high-conviction views.

DOMINANT THEMES IN THE PORTFOLIOS

FIXED INCOME POSITIONING: FLATTER CURVES & OVERWEIGHT FIXED INCOME CARRY.

We remain overweight South African nominal bonds, focusing on long-duration SAGBs (2044, 2048, 2053 maturities) to capture attractive real yields while managing interest rate risks by shorting belly and shorter dated Bonds (R2030, R2032). We are long SA nominal bonds relative to ILBs as we don't see inflation surprising to the upside and will most likely be anchored to 3% as part of the new SARB target. We are long asset swap spreads, benefiting from improved sovereign risk premia. We increased exposure to FRA markets via FRA receivers in April, capitalizing on expected rate cuts and front-end pricing of monetary policy easing.



DOMINANT THEMES IN THE PORTFOLIOS

EQUITY POSITIONING: LONG VALUE VS SHORT GROWTH, TACTICAL EQUITY HEDGES IN PLACE

Tactical overweight on SA Inc. stocks, particularly banks, retailers, and select industrials, which benefit from a stronger domestic outlook and reduced reliance on global supply chains. From a risk premia perspective, we Prefer Value, Earnings Momentum, and Price Momentum risk premia, ensuring exposure to high-quality, cash-generating companies. Within Global equities we have maintain short exposure to high-valuation U.S. tech stocks, maintaining selective shorts in Tesla, Amazon and Paypal and select oil names to hedge against continued rate volatility and sector rotations.

COMMODITY POSITONING: TRADE TENSION DISLOCATIONS IN AGRICULTURAL COMMODITIES AND STRUCTURAL WEAKER DOLLAR

Our current commodities positioning targets alpha through strategic exposure to trade-sensitive markets, particularly in meats, grains, and oilseeds. By leveraging historical patterns of price responsiveness to policy shifts, we've structured relative value trades such as long lean hogs vs. short live cattle, and long soybeans vs. sunflower. These positions reflect a conviction in substitution effects and geopolitical trade realignments. Additionally, our geographical arbitrage in US vs. SA wheat and Safex corn vs. white maize exploits geographical and regional pricing inefficiencies. Overall, our approach blends macro foresight with tactical execution to capture dislocations in anticipation of mean reversion.

RISK MANAGEMENT AND HEDGING: GROWTH SCARES, AND GEOPOLITICAL UNCERTAINTIES WARRANT HEDGING

Gold remained a key hedge, supported by safe-haven demand, strong central bank buying, and monetary policy uncertainty. S&P 500 Puts hedge against equity market underperformance, especially given how expensive US equities currently are relative to history. We are long USDZAR calls to hedge our fixed income positions against geopolitical risks given the ongoing war between Israel and Iran as well as the trade tensions between the US-SA.



BUSINESS UPDATE

As of mid-2025, Independent Alternatives manages R3.3 billion on behalf of respected institutional investors and high-net-worth individuals. Assets grew by R300 million over the period due to further client growth and performance.

Office Relocation to Parc Nicol, Bryanston

Independent Alternatives has successfully completed its relocation from Homestead Road to Parc Nicol in Bryanston. This move aligns with the firm's long-term growth strategy and provides a modern, scalable workspace with upgraded infrastructure. The new offices are designed to support the expansion of both the investment and operations teams as the business advances toward its strategic goal of growing AuM from R3.3 billion to R10 billion by 2027.

Diketso Phokungwane Appointed as Fixed Income Portfolio Manager

As part of its ongoing investment in talent, Independent Alternatives is pleased to announce the appointment of Diketso Phokungwane as Fixed Income Portfolio Manager. Diketso brings extensive experience in fixed income trading and structuring, with deep capabilities in credit structuring, bespoke funding solutions, and capital markets execution. He began his career at Independent Alternatives in 2017 before joining Absa Corporate and Investment Bank in 2019, where he rose to Vice President: Credit Trading and Structuring. In that role, he led transactions across listed and private credit markets, credit derivatives, and repo financing for domestic and international clients. He holds a BSc in Mining Engineering from the University of the Witwatersrand and has completed several financial markets certifications. His return significantly enhances the firm's fixed income hedge fund platform.

The investment team now consists of 5 individuals with a combined experience of more than 45 years of investment experience.

Lufuno Makhari Appointed Chairperson of the Board

Independent Alternatives is also proud to announce the appointment of Lufuno Makhari as Chairperson of the Board of Independent Alternatives Investment Managers. Lufuno brings a wealth of experience across investment management, private equity, and M&A, supported by a successful track record in financial services. A CFA charterholder, he holds a Bachelor of Business Science (Finance Honours) from the University of Cape Town and has served as a Non-Executive Director on the Board since 2020, contributing to strategic oversight and governance.



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, utilising 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 annualised 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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