ARYSTEQ
ASSET MANAGEMENT

FROM THE CIO'S DESK

Quarterly Review

Q2 2026

Dean Isaaks: Designate Chief Investment Officer

Conviction Without Complacency

One of the defining characteristics of financial markets during the second quarter of 2026 was its ability to absorb extraordinary levels of uncertainty while continuing to reward disciplined investors. Geopolitical conflict in the Middle East, renewed inflationary pressures, higher oil prices, shifting central bank expectations and continued concentration within global equity markets all combined to create an environment that challenged even experienced investors. Yet beneath the headlines, markets told a more nuanced story.

Rather than moving uniformly higher or lower, returns became increasingly differentiated across regions, sectors and individual securities. In our view, this represents a healthy evolution. As extraordinary liquidity gradually gives way to a world where fundamentals once again matter, investment outcomes are increasingly determined by disciplined security selection rather than broad market momentum. For active managers, this is precisely the type of environment we seek to exploit.

Our Global Opportunities Fund illustrates this well. Although we remained underweight the Information Technology sector relative to the benchmark, careful stock selection delivered exceptional results. Our long-standing investment in Micron Technology, established well before the current enthusiasm surrounding AI infrastructure, continued to benefit from accelerating demand for memory and semiconductor technologies.

Likewise, our overweight exposure to Financials, particularly in Japan and Europe, contributed meaningfully as higher interest rate expectations supported bank profitability. Importantly, these returns were not achieved by chasing fashionable themes. They were achieved by identifying high-quality businesses trading below our assessment of intrinsic value and allowing time for that value to be recognised. That distinction remains central to our investment philosophy.

At the same time, the quarter served as a timely reminder that diversification remains one of the few free lunches available to investors. While global equities produced strong returns, the Arysteq SA Equity Fund experienced a more difficult period as precious metals corrected sharply following an exceptional run. The Arysteq Property Fund participated in the continued recovery of listed property, while fixed income markets began to stabilise following the sharp repricing earlier in the year. Elevated money market yields also continued to provide attractive opportunities for capital preservation without sacrificing meaningful income.

Across our diversified portfolios (Arysteq Balanced Fund and Arysteq Real Return Fund), these varying return drivers reinforced an important principle which is that successful investing is rarely about correctly predicting a single outcome. It is about building portfolios capable of navigating multiple outcomes. This philosophy also shaped our fixed income positioning. Throughout the first half of the year, we maintained a deliberately shorter duration profile within our Bond Fund while selectively increasing exposure to Namibian government bonds as valuations became increasingly compelling relative to South African bonds. While this positioning may occasionally create short-term underperformance, it reflects our broader objective of managing downside risk while retaining the flexibility to respond as opportunities emerge. Perhaps the most significant development during the quarter was not geopolitical or economic, but behavioural.

Following another powerful rally in AI-related stocks, investor enthusiasm has once again become increasingly concentrated in a relatively small number of businesses. We remain cautiously optimistic on the long-term opportunities presented by artificial intelligence and continue to own businesses we believe will benefit meaningfully from this structural trend. However, as we have written previously, investing is ultimately about balancing quality with valuation. Even exceptional businesses can become poor investments if expectations become detached from underlying fundamentals. This is where our philosophy of maintaining a margin of safety becomes particularly relevant.

Risk management is often misunderstood as simply reducing portfolio volatility. We view it differently. Risk management begins long before a trade is executed. It starts with disciplined research, robust debate and a willingness to challenge our own assumptions. Our recent article, *The Wisdom of Many*, explored this concept in greater depth, highlighting why we believe superior investment outcomes are built not around star portfolio managers, but around strong investment teams willing to test ideas rigorously before capital is committed. As uncertainty inevitably increases, we believe this decision-making discipline becomes an increasingly valuable competitive advantage.

Looking ahead, we expect markets to remain influenced by several powerful forces. Inflation remains above central bank targets in many regions, monetary policy remains expansive, geopolitical tensions continue to create intermittent volatility, and technological innovation continues to reshape industries at an extraordinary pace. While these developments will undoubtedly create periods of uncertainty, they will also create opportunities for patient, valuation-conscious investors. Our focus therefore remains unchanged.

We will continue to invest with a long-term horizon, apply a disciplined margin of safety, challenge every investment idea through collaborative debate, and allocate capital only where we believe the balance between risk and reward is favourable. Successful investing has never required certainty - it requires discipline. As always, we thank our clients for their continued trust and confidence. We remain committed to preserving and compounding your capital through thoughtful, research-driven investment management, regardless of the market environment.

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