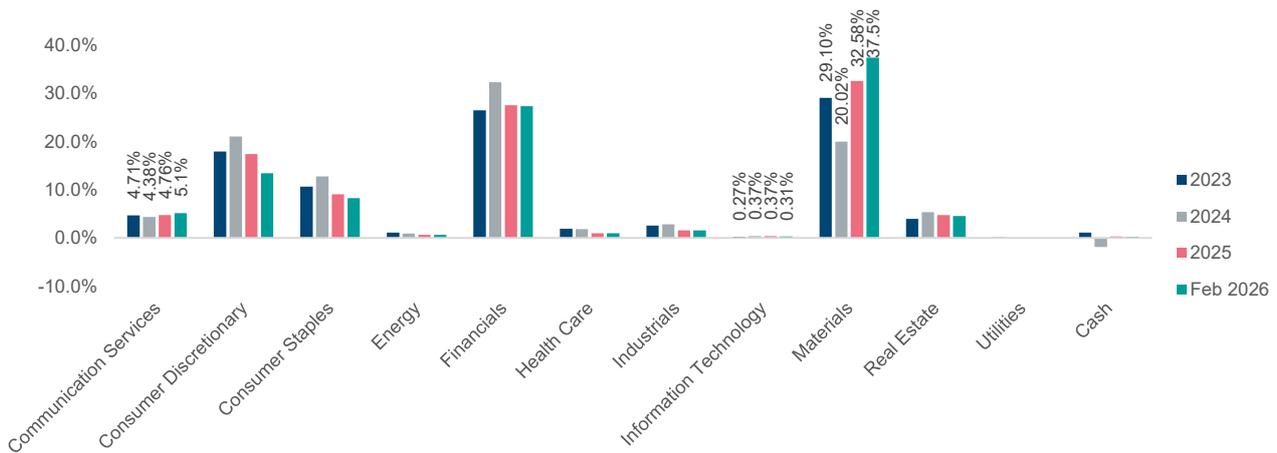


Concentration Risk: Elevated but Context Matters

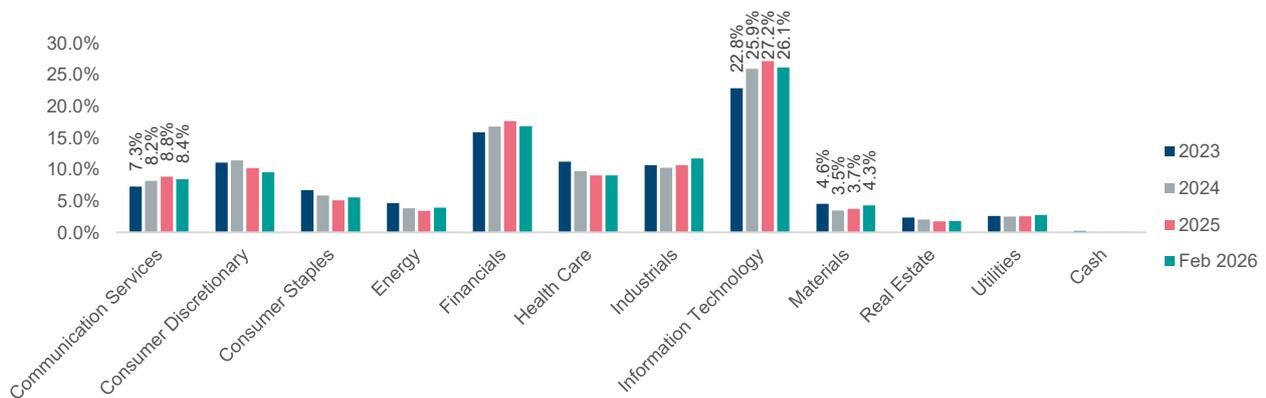
Concentration risk continues to remain a key concern for investors, which arises when a single sector, country, or underlying holding constitutes a significant portion of a portfolio. This lack of diversification can amplify volatility and increase the susceptibility of the portfolio to severe drawdowns during market corrections. The past year's rally in commodity prices and recent years of mega-tech sector outperformance, while boosting returns, has also heightened investor anxiety. Currently, the primary areas of concern are the Materials sector in the domestic economy and the Information Technology sector (including Communication Services) globally.

Figure 1: Capped All Share Sector Exposure



Source: Satrix Capped All Share ETF

Figure 2: MSCI ACWI Sector Exposure



Source: iShares MSCI ACWI ETF

From the charts above, two key observations emerge:

1. Domestic materials exposure is elevated but not unprecedented.

Historically, South African equities were heavily resource-dominated prior to the 1990s. Since then, however, the market structure has evolved meaningfully, with the Financials and Industrials sectors gaining significant weight and reducing the structural dominance of Resources. The current concentration, therefore, reflects a combination of cyclical commodity strength and longer-term structural dynamics, rather than an extreme departure from historical norms. Importantly, such shifts in index composition are not unusual in the South African market, and experienced active managers should be well-positioned to adapt their portfolios to manage this concentration risk appropriately.



2. Domestic and global equity exposures are structurally complementary.

The South African equity market has very low exposure to Technology, whereas global equity benchmarks have minimal exposure to Materials. This creates a natural diversification benefit when combining local and global equities. As a result, concentration risk becomes significantly more pronounced in portfolios invested solely in domestic or solely in global equities. In a blended portfolio, sector biases partially offset each other, reducing overall concentration risk.

A Changing Correlation Regime

Historical analysis of the market data also confirms the second finding above, which indicated that SA Equity and the MSCI All Country World Index (ACWI) have traditionally exhibited a positive correlation, moving largely in tandem with one another. This limited diversification benefits between the two asset classes. However, recent correlation trends reveal a notable shift in this dynamic. The correlation turned increasingly negative, deviating from its historical pattern. This emerging negative correlation suggests that SA Equity may now serve as an effective diversifier within a global portfolio, particularly during periods of global market stress. In such an environment, SA Equity could potentially offset losses in global equity exposures, thereby enhancing portfolio resilience. Although it is to be noted that the evolving correlation structure requires close monitoring, as it presents a potential opportunity to harness SA Equity for diversification benefits, contrary to its historical role as a return amplifier correlated with global markets.

Figure 3: Annual Correlation of SA Equity vs ACWI

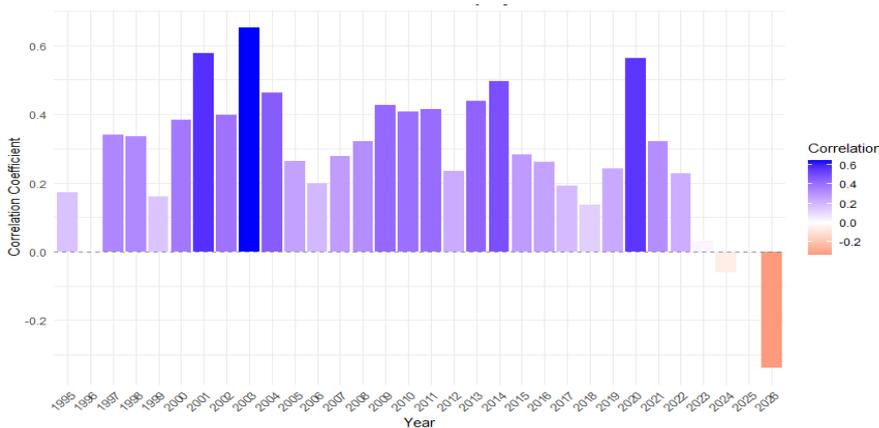
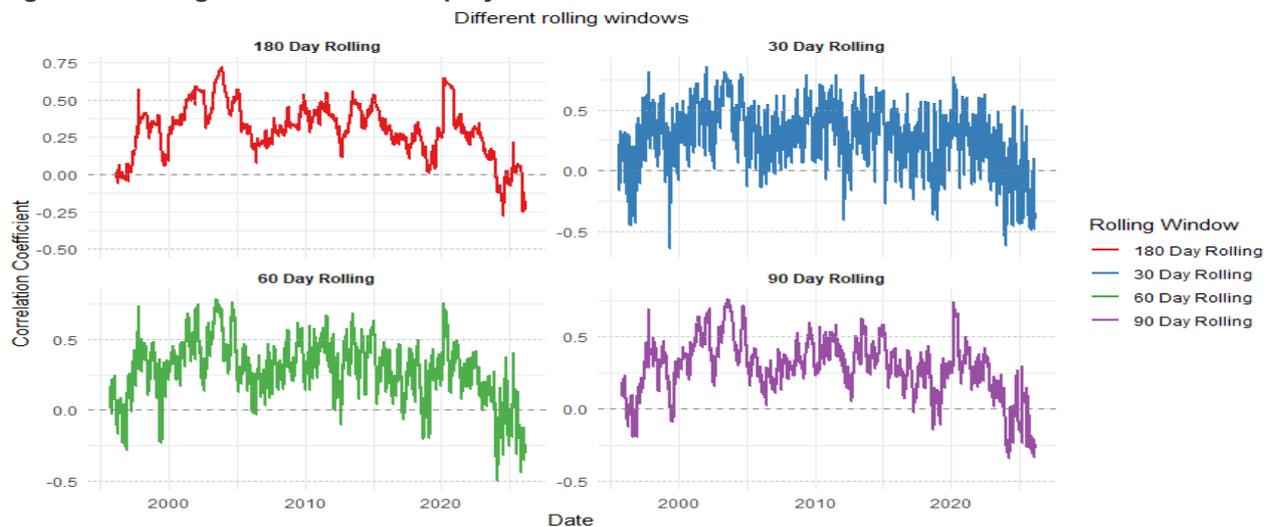


Figure 4: Rolling correlation: SA Equity vs ACWI



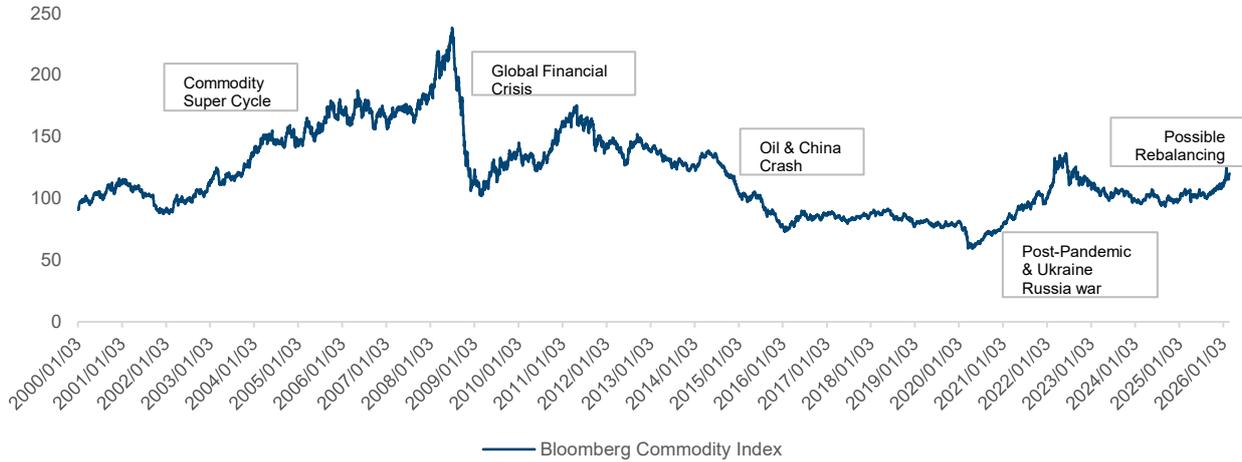
Source: Bloomberg



Commodity Cycle Risk: Correction or Structural Support?

In addition, while there is a risk of the commodity price reversal, as the Bloomberg Commodity Index shows that sharp upward trajectories are often followed by significant corrections. The current index has not reached unsustainable highs across the board, but the velocity of the rally in specific metals does increase the risk of a pullback.

Figure 5: Commodity Cycle Risk



Source: Bloomberg

In the recent Budget Speech, it was highlighted that in the 2026 fiscal year, the recovery in the domestic economy, combined with a rally in metal prices, resulted in tax collections overshooting expectations by a meaningful margin. Importantly, National Treasury indicated that the full impact of higher metal prices has not yet been completely reflected in revenue outcomes, suggesting the potential for further upside to tax receipts in the next fiscal year. Investor concerns have largely centred on gold prices. However, our analysis indicates that South African equities are, in aggregate, more leveraged to platinum group metal (PGM) prices than to gold. While recent US dollar strength, driven by heightened Middle East tensions, has placed pressure on both commodities, technical indicators suggest that underlying sentiment remains constructive.

From a broader macro perspective, the strategic rivalry between the US and China remains a key theme. One interpretation of the US joining Israel in military action (in addition to the Venezuela intervention) is that it may very likely serve to challenge China’s energy security positioning. In this environment of heightened geopolitical competition, central banks are likely to continue diversifying their foreign exchange reserves, albeit at a slower pace, including maintaining or increasing allocations to gold alongside US dollar assets. These technical indicators may not indicate significant upside but rather can be interpreted that in the near term, the degree of correction, if it does happen, may be contained.

Figure 6: Gold momentum indicators

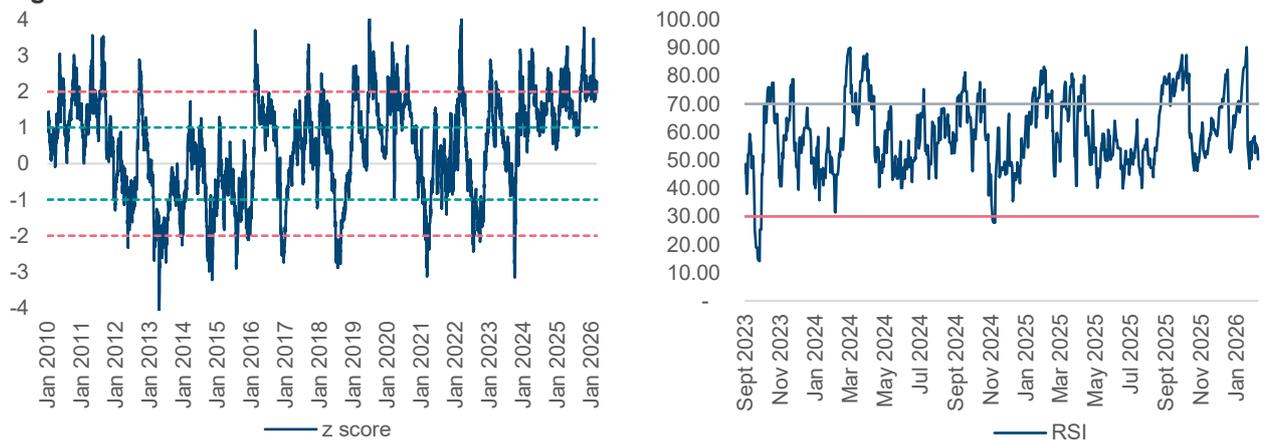
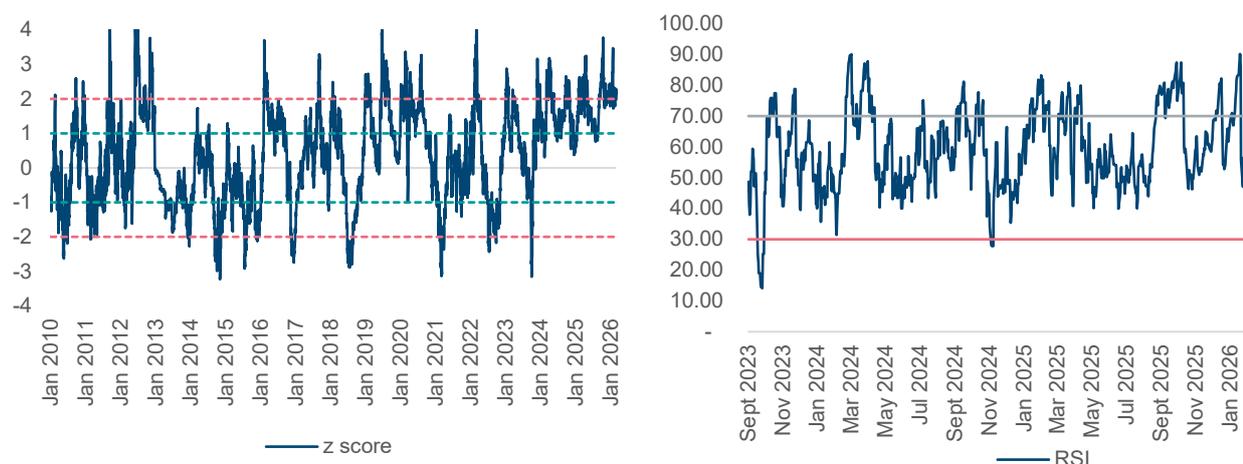




Figure 7: Platinum momentum indicators



Source: Bloomberg

Valuations: Is This Bubble Territory?

Taking a closer look at the Materials and Information Technology sector within the Capped All Share and MSCI ACWI indices, it can be seen that on a sector level, the Materials sector’s price to earnings (P/E) ratios have risen since 2023 with current PE ratios above 20x. Forward PE ratios indicate that this sector may be more fairly valued with a PE ratio closer to 10.5x for local markets compared to 17.5x for the MSCI ACWI.

Table 1: Specific sector-level valuations for Capped All Share and MSCI ACWI indices

Satrix Capped All Share ETF					iShares MSCI ACWI ETF				
	2023	2024	2025	Feb 2026		2023	2024	2025	Feb 2026
Materials	29.1%	20.0%	32.6%	37.5%	Materials	4.6%	3.5%	3.7%	4.3%
P/E	9.74		26.28	21.37	P/E	19.04	23.78	23.17	22.90
BEst P/E	9.53	7.42	10.08	10.50	BEst P/E	15.24	14.65	16.08	17.52
Information Technology	0.3%	0.4%	0.4%	0.3%	Information Technology	22.8%	25.9%	27.2%	26.1%
P/E		15.37	14.81	13.48	P/E	35.09	39.09	34.66	31.25
BEst P/E	12.92	11.12	10.75	10.16	BEst P/E	25.07	27.02	24.51	21.39
Communication Services	4.7%	4.4%	4.8%	5.1%	Communication Services	7.3%	8.2%	8.8%	8.4%
P/E	12.37		14.48	17.38	P/E	21.44	23.51	22.56	21.25
BEst P/E	10.11	11.04	10.91	13.11	BEst P/E	16.44	18.78	20.10	19.66

Focusing on the Materials sector, a comparison of the PE and forward PE ratios across companies listed on the JSE vs global-listed companies contained in the MSCI AWCI index was conducted. To facilitate the comparison, only the 22 largest weighted companies within the MSCI AWCI Materials sector were chosen to equate the number of constituents found in the Capped All Share index’s Materials sector. The analysis revealed that on average, the global companies had higher current and forward PE ratios compared to local counterparts with the exception of a few extremely overvalued companies, such as Impala Platinum Holdings Ltd with a PE ratio of 431.30x but a forward PE ratio of 9.21x, as well as Glencore PLC with a 198.35x PE ratio and 17.49x forward PE ratio. (Please refer to the charts in the appendix).

Some Built-In Domestic Diversification

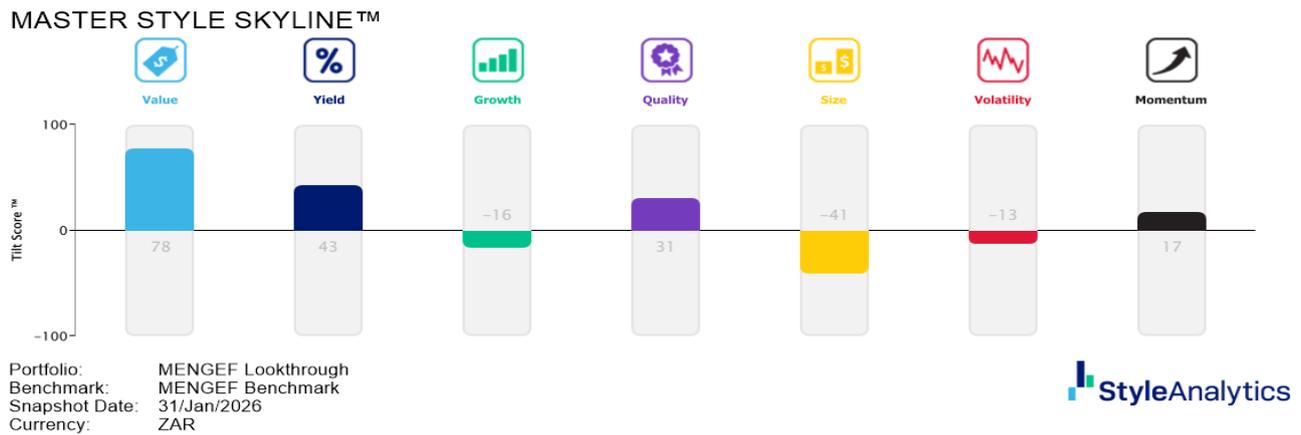
The Financials sector within South Africa represents a significant portion of the domestic index, 27% of the Capped All Share. South African Inc companies, such as banks in the Financials sector, offer investors some protection against possible market shifts and volatility associated with resource companies within the Materials sector, as these companies provide domestic economic exposure, relatively stable earnings streams and reduce pure reliance on commodity cycles.



Active mechanisms within the Mentenova Global Equity Building Block

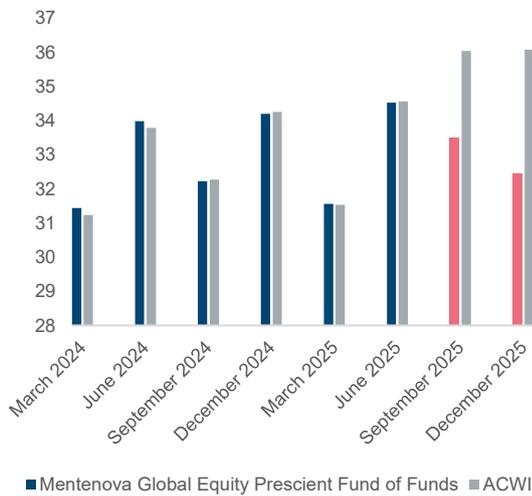
Our Global Equity Building Block began to utilise some degree of active management approach as of H2 2025 to navigate the concentration risk. While the benchmark has increased its IT allocation, we have strategically pulled back slightly. More importantly, the portfolio's style exposure has tilted toward Value, High Yield, and Quality factors. This positioning allows the portfolio to benefit from the current style rotation away from pure growth and provides greater resilience during periods of heightened volatility. Currently, we are seeing a style rotation into value, which will be a benefit for our global equity building block.

Figure 8: Global Equity Building Block Style Exposure



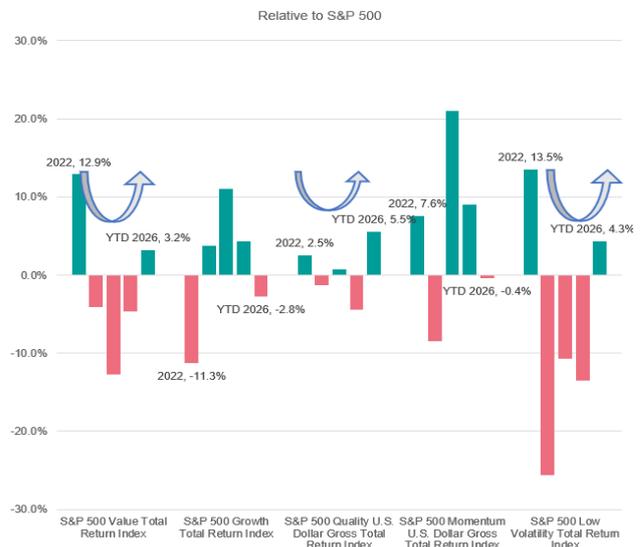
Source: Style Analytics

Figure 9: Historical IT Holdings in Global Equity Building Block



Source: Morningstar and Bloomberg

Figure 10: Style Rotation on the horizon



Concentration risk is elevated in both domestic resources and global technology but elevated does not mean unmanageable. In South Africa, higher Materials sector exposure reflects cyclical strength rather than structural imbalance, while global Information Technology dominance remains supported by strong fundamentals. When combined in a diversified portfolio, these exposures can meaningfully offset one another. Encouragingly, improving correlation dynamics and supportive fiscal and valuation signals add further resilience. Ultimately, managing concentration is not a binary choice. It is an art, balancing benchmark risk against concentration risk. Deviate too far from the index, relative risk increases; hug it too closely, unintended concentration builds. The objective is not to eliminate concentration, but to manage it deliberately within a disciplined, diversified framework.



Appendix:

Figure 11: Comparison of PE and Forward PE ratios across JSE-listed and global-listed companies in the Materials sector

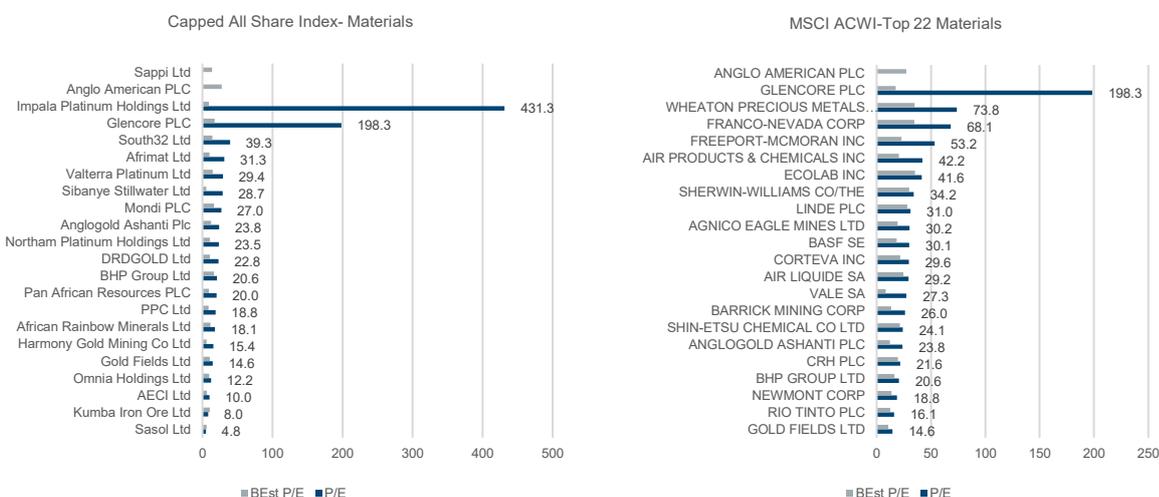


Table 2: Materials sector sub-industries valuations look through

Satrix Capped All Share ETF (STXCAP SJ)						iShares MSCI ACWI ETF (ACWI US)					
Market Value (%)	Stock	GICS Industry Name	GICS Sub-Industry Name	P/E	BEst P/E	Market Value (%)	Stock	GICS Industry Name	GICS Sub-Industry Name	P/E	BEst P/E
2.92%	Impala Platinum Holdings Ltd	Metals & Mining	Precious Metals & Minerals	431.30	9.21	0.07%	Glencore Plc	Metals & Mining	Diversified Metals & Mining	198.3	17.5
1.20%	Glencore PLC	Metals & Mining	Diversified Metals & Mining	198.35	17.49	0.08%	Wheaton Precious Metals Corp	Metals & Mining	Gold	73.8	34.9
0.13%	South32 Ltd	Metals & Mining	Diversified Metals & Mining	39.25	14.23	0.05%	Franco-Nevada Corp	Metals & Mining	Gold	68.1	34.5
0.06%	Afrimat Ltd	Construction Materials	Construction Materials	31.29	9.93	0.10%	Freeport-Mcmoran Inc	Metals & Mining	Copper	53.2	23.0
4.60%	Valterra Platinum Ltd	Metals & Mining	Precious Metals & Minerals	29.37	14.73	0.06%	Air Products & Chemicals Inc	Chemicals	Industrial Gases	42.2	20.5
2.08%	Sibanye Stillwater Ltd	Metals & Mining	Precious Metals & Minerals	28.69	5.46	0.08%	Ecolab Inc	Chemicals	Specialty Chemicals	41.6	35.4
0.38%	Mondi PLC	Paper & Forest Products	Paper Products	26.97	16.41	0.09%	Sherwin-Williams Co/The	Chemicals	Specialty Chemicals	34.2	29.8
7.48%	Anglogold Ashanti Plc	Metals & Mining	Gold	23.79	12.18	0.24%	Linde Plc	Chemicals	Industrial Gases	31.0	28.1
1.62%	Northam Platinum Holdings Ltd	Metals & Mining	Precious Metals & Minerals	23.50	10.52	0.13%	Agnico Eagle Mines Ltd	Metals & Mining	Gold	30.2	19.4
0.27%	Drdgold Ltd	Metals & Mining	Gold	22.85	10.33	0.05%	Basf Se	Chemicals	Diversified Chemicals	30.1	18.4
1.01%	Bhp Group Ltd	Metals & Mining	Diversified Metals & Mining	20.60	16.40	0.06%	Corteva Inc	Chemicals	Fertilizers & Agricultural Chemicals	29.6	21.6
0.67%	Pan African Resources Plc	Metals & Mining	Gold	20.03	9.23	0.13%	Air Liquide Sa	Chemicals	Industrial Gases	29.2	24.7
0.09%	Ppc Ltd	Construction Materials	Construction Materials	18.83	8.48	0.07%	Vale Sa	Metals & Mining	Steel	27.3	8.3
0.25%	African Rainbow Minerals Ltd	Metals & Mining	Diversified Metals & Mining	18.10	11.31	0.09%	Barrick Mining Corp	Metals & Mining	Gold	26.0	13.4



2.07%	Harmony Gold Mining Co Ltd	Metals & Mining	Gold	15.35	5.73	0.07%	Shin-Etsu Chemical Co Ltd	Chemicals	Specialty Chemicals	24.1	21.5
8.66%	Gold Fields Ltd	Metals & Mining	Gold	14.64	10.60	0.06%	Anglogold Ashanti Plc	Metals & Mining	Gold	23.8	12.2
0.15%	Omnia Holdings Ltd	Chemicals	Diversified Chemicals	12.16	9.58	0.08%	Crh Plc	Construction Materials	Construction Materials	21.6	19.6
0.12%	Aeci Ltd	Chemicals	Specialty Chemicals	9.99	6.24	0.22%	Bhp Group Ltd	Metals & Mining	Diversified Metals & Mining	20.6	16.4
0.21%	Kumba Iron Ore Ltd	Metals & Mining	Steel	8.00	10.69	0.15%	Newmont Corp	Metals & Mining	Gold	18.8	13.6
0.91%	Sasol Ltd	Chemicals	Diversified Chemicals	4.80	5.76	0.12%	Rio Tinto Plc	Metals & Mining	Diversified Metals & Mining	16.1	12.5
2.47%	Anglo American Plc	Metals & Mining	Diversified Metals & Mining		27.40	0.05%	Gold Fields Ltd	Metals & Mining	Gold	14.6	10.6
0.11%	Sappi Ltd	Paper & Forest Products	Paper Products		13.60	0.06%	Anglo American Plc	Metals & Mining	Diversified Metals & Mining		27.4
37.45%						2.11%					