



QUARTER FOUR

OLDMUTUAL

INVESTMENT GROUP

CIO QUARTERLY INVESTMENT UPDATE

SIBONISO NXUMALO

DECEMBER 2025

THE RETURN OF EMPIRE: INVESTING IN AN AGE OF ANNEXATION

In 1884, the great powers of Europe gathered in Berlin to divide Africa among themselves. No African country was present. The organising principle was blunt: if you could occupy it, you could own it. The doctrine of “effective occupation” did not merely describe an era, it incentivised one. Claims required control. Control required force. Within three decades, roughly 90% of Africa fell under European rule.

The Berlin Conference (November 1884 to February 1885), convened by Otto von Bismarck, was framed as a mechanism to regulate trade and settle disputes, particularly around the Congo Basin. In practice, it formalised the rules of acquisition and accelerated the scramble. The list of attendees reads like a roll call of imperial authority: Germany, Austria/Hungary, Belgium, Denmark, Spain, the United States, France, Great Britain, Italy, the Netherlands, Portugal, Russia, Sweden/Norway, and the Ottoman Empire.

History matters in investing because it reminds us that “the way the world works” is not fixed – it is negotiated, enforced, and occasionally revised.

A SHIFT IN THE GLOBAL PERMISSION STRUCTURE

The opening days of 2026 delivered events that would have felt implausible not long ago: the military capture of a sitting head of state and his transfer to face charges in a foreign court; and explicit signalling that military options remained on the table regarding contested territory among allies.

Whether these prove to be turning points or temporary ruptures, they force investors to confront a possibility many had relegated to the past: that the post-1945 settlement, where borders are broadly fixed, sovereignty is formally respected, and disputes are at least aspirationally arbitrated, may be entering a period of revision.

This is not a forecast of inevitability. It is an acknowledgement of altered incentives. When deterrence looks uncertain and enforcement looks selective, revisionist behaviour becomes more rational. And for investors, the significance is not that politics mechanically dictates returns, but that it changes the price of safety in currencies, in assets, and in the assumptions, we quietly rely on.

LAW WITHOUT ENFORCEMENT IS THEATRE

The post-war system rests on a powerful norm: territorial integrity. The United Nations Charter’s prohibition on the threat or use of force against the territorial integrity of any state is its bedrock. But the architecture of enforcement was designed with exemptions at its core. The United Nations cannot act meaningfully without Security Council agreement and the permanent five retain veto power by design.

In other words, the system can declare norms, but it cannot reliably enforce them against great powers.

There is a further irony worth noting. In February 1945, Roosevelt, Churchill, and Stalin met at Yalta (in Crimea) to shape the post-war order. The region that hosted the creation of the veto structure later became a case study in its limits. History’s ironies are rarely so geographic.

THE INVESTMENT CONSEQUENCE: HARD POWER RAISES THE VALUE OF HARD ASSETS

Last quarter, we wrote of “hard money in a hard power world”. The thesis remains intact; what has changed is the speed and explicitness with which hard power is being exercised.

The post-war bargain rested on a simple premise: the dominant powers would constrain their own freedom of action in exchange for stability, legitimacy, and a system in which trade and capital could flow with fewer geopolitical discontinuities. It was never perfect, but it was the operating assumption.

That assumption is now being tested openly. Russia’s invasion of Ukraine demonstrated that borders could be challenged by force. Early 2026 has added a second implication: the guarantor of the old order is exhibiting a more transactional, more coercive posture. And when the world’s largest economy speaks openly about acquiring territory, the permission structure for others changes too.

For investors, this translates into three practical shifts:

“Risk free” is increasingly contextual. Sovereign instruments are not independent of politics when currencies, payment rails, reserves, and sanctions can be weaponised.

Efficiency yields to resilience. Supply chains optimised purely for cost must be re-optimised for durability and strategic redundancy.

Hard assets (commodities) regain a premium. Assets that cannot be printed, frozen, sanctioned, or redefined by political fiat. Gold, critical commodities, and productive real assets take on a relevance many investors have not had to price in for decades.

Investing is a study of history. The question is: which history applies? It is striking how quickly the pattern is beginning to rhyme with the pre 1945 world. A colleague captured it well: this is not a new world for history, but it is new to our memory. And because it is new to our memory, it is easy to underestimate how profoundly it can reshape investor behaviour.

IS THIS THE END OF US EXCEPTIONALISM?

THE MAGNIFICENT 7: WHEN GIANTS START BORROWING

Rapid price appreciation attracts speculation. But bubbles are rarely formed around nothing. They tend to form around a kernel of truth a genuine technological or economic shift with the potential to change how value is created. When the shift is real, capital arrives faster than fundamentals can absorb, valuations overshoot, and excess builds alongside innovation. Speculation is not proof that the theme is false; it is often evidence that it matters.

In 2025, AI moved further from story to industrial reality. It has become a structural claim on capital: data centres, chips, energy infrastructure, cloud capacity, and a widening ecosystem of second-order demand.

The Magnificent 7 narrative has historically centred on exceptional cash generating, asset-light businesses that scaled and threw off cash. That story is evolving. Capital expenditure has accelerated sharply as the hyperscalers fund infrastructure that may take years to monetise. The move into debt markets is therefore not surprising, but it is a change in character: from asset-light compounders toward capital-intensive infrastructure builders.

This is where valuation discipline matters most. Investors paying extreme multiples of free cash flow are underwriting a demanding proposition: that these companies will execute one of the largest coordinated investment programmes in corporate history while achieving monetisation breakthroughs that, at the margin, remain unproven.

The conclusion is not simply “AI wins” or “AI is a bubble”. Transformative technologies can be real and still be mispriced. The bigger the narrative, the easier it becomes for price discipline to erode and the wider the dispersion between great companies and great investments.

2025: A GREAT YEAR TO BE A SOUTH AFRICAN AND AFRICAN INVESTOR: LOCAL EXPRESSION OF A GLOBAL REGIME SHIFT

South Africa’s returns were extraordinary, not because we decoupled from the world, but because we expressed the world’s dominant forces through our market structure. We are a commodity producing nation, and in 2025, that reality asserted itself as strongly as it has in years, particularly through precious metals (gold and PGMs).

JSE Sector Performance

ZAR Total Returns – Q4 2025 & Full Year 2025

SECTOR / INDEX	Q4 2025	FULL YEAR 2025
Capped SWIX All Share	+8.9%	+42.6%
Precious Metals & Mining	+11.6%	+214.6%
SA Financials	+18.4%	+27.4%
SA Industrials	1.2%	+18.1%

Commodity-linked performance: Precious Metals & Mining delivered +214.6% for the year, driving SA’s material outperformance.

Source: JSE, Capped SWIX indices

In short, 2025’s returns were strong, but leadership was concentrated and tightly linked to the global forces driving commodity prices.

GLOBAL MARKETS: STRONG US DOLLAR RETURNS, MEANINGFUL CURRENCY EFFECTS

The rand began the year at R18.77 against the US dollar and ended at R16.57, a material headwind for South African investors with offshore exposure and a meaningful driver of relative outcomes.

Global Equity Market Returns

USD Total Returns – Full Year 2025

MARKET	2025 RETURN
MSCI South Africa	+78.7%
MSCI Emerging Markets	+47.5%
MSCI Europe	+34.4%
MSCI World	+21.6%
MSCI US	+17.8%
MSCI Japan	+7.5%

South Africa was a material outperformer, driven by precious metals.
Source: MSCI Indices, USD returns

In fixed income, global sovereign bonds were essentially flat into year end, while inflation-linked outcomes were notably stronger in our local context.

PORTFOLIO POSITIONING: HARD ASSETS IN A HARD POWER WORLD

The thesis we articulated last quarter has strengthened. In a world where fiat currency systems can be weaponised, supply chains can be disrupted by decree, and territorial integrity itself is more openly contested, the assets that cannot be manufactured by policy gain renewed strategic value.

PORTFOLIO POSITIONING: UNDERAPPRECIATED QUALITY IN PRACTICE

Using the Old Mutual Investors' Fund to illustrate our positioning: our portfolio reflects our Underappreciated Quality philosophy, concentrating client capital in a select group of companies we believe can grow clients' wealth over time. These are businesses with quality characteristics, high or improving returns on capital, strong cash generation, balance sheet resilience, and attractive market opportunity that we believe are not yet fully recognised in price.

RESOURCES

Our constructive view on a shifting global order and the enduring value of hard assets underpins our overweight position in resources. Among diversified miners, we particularly favour Glencore, given its broad and attractive commodity exposure combined with a compelling valuation. In PGMs, we prefer Valterra and Northam Platinum for their strong positioning in the sector. Our selective underweight in gold reflects a preference for higher quality, lower cost producers, such as AngloGold Ashanti and Gold Fields, while deliberately underweight higher cost names like Harmony Gold Mining and Sibanye Stillwater.

RAND SENSITIVE EXPOSURES

We have concentrated holdings in businesses with durable competitive advantages that can withstand currency volatility. Anheuser-Busch InBev stands out for its global scale, robust pricing power, and underappreciated deleveraging potential. Bidcorp runs food service operations in 31 countries globally. The market is underestimating the earnings potential of the business and is currently overly concerned by the recent low free cash flow conversion. It operates in a fragmented business, with relatively low market shares, which provides a long runway for growth (organic and acquisitive). Mondi presents a significant opportunity at current levels, trading at a deep discount during a cyclical low point. After a strong rally in Naspers/Prosus we have taken profits and gone underweight. We believe the valuation post the rally accurately reflects the fundamentals of the business.

FINANCIALS

We prioritise franchises with sustainable competitive moats and resilient earnings profiles. FirstRand consistently delivers strong capital discipline and superior returns. Discovery benefits from genuine network effects via its Vitality programme, which offers meaningful global optionality, while its banking arm progresses toward break even and continues strengthening the balance sheet. Our overweights in ABSA and Old Mutual capture former high-quality businesses that have in recent years lost their competitive edge. They both installed new management with a compelling turnaround strategy. We believe that both are mispriced relative to their potential as they execute their respective turnarounds, cost reductions and clarity of mission in where and how they will compete in highly competitive markets.

PERFORMANCE COMMENTARY (QUARTER-END 31 DECEMBER 2025)

Reflecting on the year and the quarter, a few performance highlights stand out:

- Equity standouts: Old Mutual RAFI was the best performing equity fund over the year (54.07% return in 2025), while Old Mutual Managed Alpha ranked as the 5th best performing equity fund.
- Global leadership: The Old Mutual Global Managed Alpha Fund delivered 5.95% alpha in 2025 and remains top quartile across all periods. The Global Islamic Equity Fund also maintained strong momentum, staying top quartile over three and five years.
- African frontiers: The African Frontiers Strategy returned 52% in US dollars over the year despite volatile markets and currencies, and the African Frontiers Flexible Income Strategy remains top quartile across all periods.
- Fundamental turnaround: We saw encouraging performance improvement in our fundamental multi asset and equity strategies. The Old Mutual Balanced Fund and Old Mutual Real Income Fund delivered top quartile returns in the quarter, lifting both into the second quartile over five years.
- Indexation consistency: The Core Balanced, Core Moderate, and Core Conservative funds are now top quartile across all periods, reflecting steady delivery through varying market conditions.

INVESTMENT OUTLOOK AND POSITIONING

Underweight the US (particularly the “Magnificent 7” equities): We believe the US is in a late cycle phase after an extended period as the world’s primary growth and currency magnet. The conditions that drove over a decade of outperformance, abundant liquidity, dollar strength, and uncontested tech leadership are now mature rather than nascent. More importantly, the fundamentals underpinning the Magnificent 7 are showing signs of strain: free cash flow generation and balance sheet strength have deteriorated as capital expenditure surges to fund AI infrastructure, while revenue growth is decelerating from the extraordinary rates that justified premium valuations. At the same time, the policy environment is shifting in ways that directly pressure their business models, tariffs threaten the global supply chains these companies optimised around, while industrial policy increasingly redirects capital toward strategic sectors and onshoring rather than platform economics. The question is not whether these remain exceptional businesses, but whether the distribution of outcomes still favours holders at current prices. With fundamentals softening, policy headwinds building, and valuations reflecting continued dominance, we think the asymmetry has shifted and that capital is better deployed in markets and assets where structural tailwinds are emerging rather than fading.

OVERWEIGHT HARD ASSETS / COMMODITIES

Overweight real assets (commodities): In a world drifting toward power politics, supply security, and rearmament, real assets reprice. When nations prioritise self-sufficiency over efficiency, the scarcity value of tangible resources increases relative to financial assets. But there is a deeper point: what happened to the value of money itself may be the more important story. The dollar weakened against every major currency last year and fell sharply against gold. When fiat currencies weaken, returns measured in those currencies flatter the underlying reality, making a currency perspective essential to assessing where wealth is being created.

The quarter’s return on leadership precious metals is consistent with this direction of travel. Currencies anchored to real production benefit when capital rotates from financial assets toward hard assets. South Africa sits on the right side of this shift: a producer of metals.

Overweight emerging and frontier markets (selectively): The Emerging/Africa/Frontier return backdrop in US dollar terms supports the case that non-US markets can deliver outsized upside when capital flows broaden, US dollar strength fades, and local catalysts (reform, valuation mean reversion, commodity linkage) matter more.

CONCLUSION

Much of human history has followed a hard rule: those with military power tend to use it to secure their own interests, while those with valuable resources become vulnerable if they cannot defend or control them. It is why tariffs, spheres of influence, and coercive diplomacy are hallmarks of the late 1800s and early 1900s and are resurfacing in modern form. We also appear to be moving into the backend of an era defined by a strong US dollar and exceptional US equity outperformance, with a narrow group of mega cap US stocks carrying more of the index burden, while US fiscal and policy risks rise. In this environment, hard assets and return dispersion can remain defining market forces conditions that supported a pleasing quarter of returns and strong performance in parts of the range positioned for these realities.

For any further information please don't hesitate to contact us.



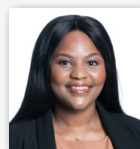
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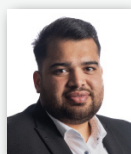
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November 2024.



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