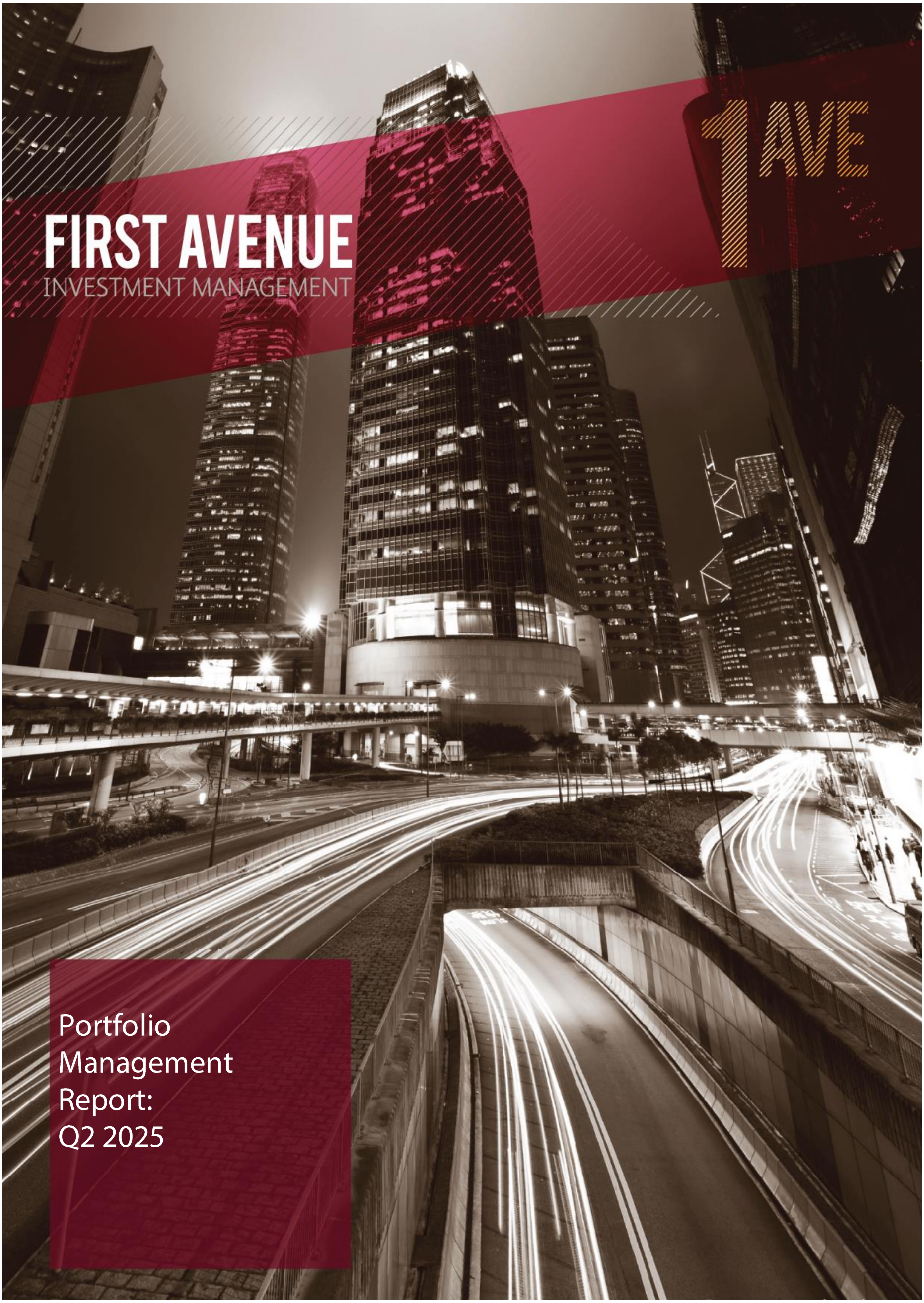


FIRST AVENUE
INVESTMENT MANAGEMENT

Portfolio Management Report: Q2 2025

THE ART OF THE DEAL: THE LOLLAPALOOZA EFFECT

Decoding Donald Trump's Negotiating Style

Risk is the existence of a number of possible adverse outcomes while uncertainty is the probability of each of the various possibilities materializing. To illustrate, the risk that the gold sector will lead the stock market higher in an environment of rising global uncertainty is high, or Clicks will grow economic profits faster than Dischem given that it is adding a third economic moat (pricing power) to the two it already possesses (scale efficiencies and switching costs). Uncertainty is the quantification of, putting a numeric probability to, the variety of outcomes (risks). To continue the illustration on gold and Clicks (CLS) - the probability that the gold sector leads the Johannesburg Securities Exchange rises gradually as America's trading partners retaliate to America's reciprocal tariffs. The probability of CLS' dominance of profit pool in the health and beauty segment gradually rises as the consumer attaches premium value to the company's private label offering enough to pay more for it in gradual increments. Risk gradually turns into reality as increases in global uncertainty and private label penetration occur, respectively, for the gold sector and CLS. The old saying, "risk doesn't' matter until it matters".

Donald Trump's behavior is outside of the norms expected of a traditional politician. Much like Ross Perrot, who ran for president in the early 90s, Trump is a businessman who entered politics. Much like Ross Perrot, Donald Trump's approach disrupted linear thinking in analyzing his politics and policies. Ross Perrot's jaunt into politics was very short-lived – he dropped out of the race for the presidency after just a few months – while Trump managed to ascend to the US presidency twice. On both occasions, socio, political, and economic actors were, and continue to be, completely puzzled by Trump's behavior and objectives. What is intriguing to us is that Trump, unlike a traditional politician, is a highly transparent individual. He tells you what he's going to do and does it. Trump does not threaten you. He prepares you, not a fan of outcomes, but for a specific outcome. Though not immune to political expediency, he is less prone to it than a traditional politician. So, why is the confusion in the things he says such that the market mistakes certainty for chaos?

The reason is the president employs a negotiating technique called "The Lollapalooza Effect" which results in enormous miscalibration of uncertainty of the matter in contention. This negotiating technique is often so devastating that Trump's interlocutors do not even, in the first instance, believe what he is asking for, let alone the specific cost he is willing to levy on you should he not get anything close to his asking price. In other words, one does not even understand how Trump came to a particular conclusion so much that it is incredible to see the risks associated with it. One is simply bamboozled.

A lollapalooza is an extraordinary, unusual to the point of incredulity, and highly uncertain occurrence. For instance, winning the lottery two or three times is a lollapalooza. Another example; it is mathematically incomprehensible for Michael Jackson to win as many Grammys as he did, or for Michael Jordan to win as many honors as he did, let alone over such a compressed career of 13yrs. Some phenomena are incomprehensible, illogical, and hence inexplicable. Straight away, you can see the difficulty in assigning a probability to someone else replicating these feats. You would sound foolish because the statistical distribution of such occurrences is so abnormal as to be referred to as gray swan. That is exactly how Trump's interlocutors feel when they contemplate the impact of both his politics and policies on them. They feel that something is abnormal but can't quite put their finger on it. It does not help either that Trump is transactional (deal based) in his approach to problems. You must figure out the lollapalooza he causes in you every time he wants something from you. The schooling system, and much professional experience, are based on linear thinking. If I disrupt linear thinking in your problem-solving toolkit, I will enhance the chances of psychological misjudgment on your part. Let me illustrate how Trump applied this to South Africa.

Trump alleged that the South African government is engaged in genocide against the White population of the country and offered asylum to members of that community if his concerns are not immediately addressed. First, the allegation and the remedy were communicated outside the bounds of diplomatic practice. Second, they were so incomprehensible that one would have to string together a myriad of far-fetched assumptions to make a hair's breadth of sense of the allegation, let alone the remedy. As the late Charlie Munger said, a lollapalooza is an occurrence so unlikely, it can only be explained by a confluence of factors so rare that assigning probability to them (as a whole) is futile (a statistical six sigma event). The beauty (for lack of a better word) though of this negotiating style is that it prepares the interlocutor for the outcome – the remedy of asylum to White South Africans -right up-front. The mistake he government of South Africa made was to try to correct Trump's assertions on genocide and not look through them to what he wanted. Incredulity makes one to think Trump was bluffing (zero percent chance of the risk of political asylum taking place). The risk was non-existent (0% uncertainty) … until the first airplane full of asylum seekers left for America, and then uncertainty increased to 100% in 3 seconds. The South African government, as well as other governments around the world, were in denial that Trump was asking for referendum on how their domestic policies affected world trade. No one, they thought, has the right to question "paywalls" they set inside the countries they earned a democratic mandate to govern. The paywalls Trump dramatically latched onto were Black Economic Empowerment and Land Restitution.

This negotiating tactic starts with the end-result (an offer to White South Africans to take up asylum in America) and provides a bridge to navigate this outcome (amend domestic policy toward private property ownership). It leaves the South African government room to only negotiate the severity of the allegation, not to deny it. But because the entire engagement is incredulous (defies logic), interlocutors tend to suffer fate clearly communicated to them at the beginning. The second feature of the negotiating tactic is that it is so draconian in its demands, that interlocutors are likely to concede everything rather than achieve a win-win.

What is the solution? The best bet is to interact with the allegation by recognizing its intention to disrupt your linear thinking and seek a solution in a completely different area of enormous importance to Trump. In other words, employ inverted thinking. Genocide of any kind is not high on the list of problems Americans want solved. Trump is not going to spend his political capital on a matter so inconsequential to the American people. Giving Starlink access was not that important to Trump (the evidence is asylum is still open to White South Africans despite our government's concessions to Elon Musk on Starlink). South Africa offering Starlink (as Lesotho did) was a symptom of a deer caught in a lollapalooza of headlights. The issue was never Starlink. Trump has reinstated April 2 tariffs on both South Africa and Lesotho despite concession on Starlink. Rather, what Starlink experienced when it applied for license, namely, non-tariff barrier (paywall) in the form of BEE is the issue consequential to American economic interests. Non-tariff barriers irk Trump so much he's willing to go to war with China, America's largest trading partner, over them. If he's willing to do that with China, what more South Africa? The South African government should have approached Trump with a proposal to workshop possible solutions to redressing (not abandon) the economic imbalances created by the country's past in a manner that fully preserves the letter and spirit of the global trade order. But we were too caught up in the incredulity of the genocide assertion and its remedy – lollapalooza in full effect!

Why does Trump think that the way BEE in its current form is an impediment to the invisible hand of the global marketplace? For better or worse, this is worth a debate with America, the architect and material beneficiary of the global trade order. As an aside, one can argue that China's ascendency to the WTO has yielded the greatest (or most dramatic) economic transformation of any country and made China--not America--the largest beneficiary of the world trade order, but I digress. Take it from Lee Kuan Yew, founder of Singapore (and completely accomplished public servant) when he spoke to Charlie Rose (an American media personality) at Harvard University on October 18, 2000. He said in global trade and technology, you can create (multiple) sets of bonds or links that will not only bind two economies such that they are both dependent on each other, and the people of the two economies are also dependent on each other: CEOs of various companies in two countries, professional industry guilds in two countries, engineers, accounting systems, legal systems, and so on such that there is a broad based appreciation of the elevation of the interests of the global trade system above any one country's internal interests.

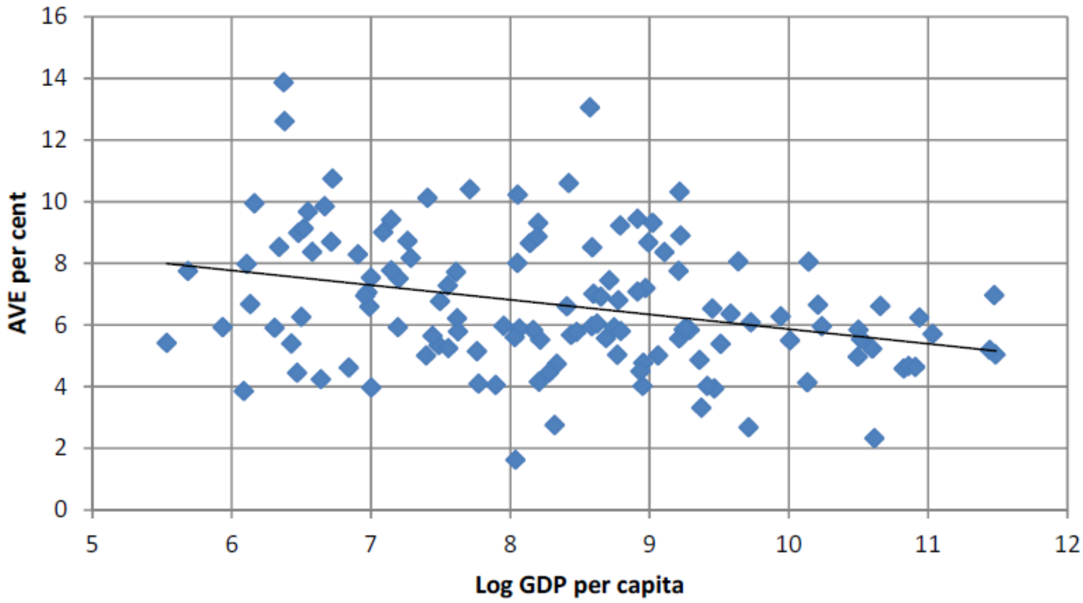
Practically speaking, why should capital move freely in one direction to South Africa's benefit (e.g., South African Breweries acquisition of Anheuser Busch) but American capital seeking opportunity in South Africa (or India, Malysia, or China) be subject to non-market requirements such as BEE, Economic Indigenization (Botswana, Zimbabwe, Nigeria) as opposed to Indigenization for cultural redress, and so on? Legislative creep in many countries in the name of economic empowerment of locals or strategic industries has led to the sub-optimal functionality of the very trade system that has lifted billions of people out of poverty. And America underwrote that prosperity – ask Western Europe and China. For instance, in the media industry, many countries have local content quotas for entertainment at the expense of foreign entertainment while America has none. In America, South African artists have equal (exposure) opportunity as their American counterpart for Americans to enjoy their music or movies. What if America added back a "counter local content tax" on South African music and movies that play in America to compensate American artists for what the needle time they miss out on in South Africa? That would be akin to Sarafina or Lion King paying to play on Broadway rather than being paid for their artistic creativity. The production company enjoys the economic benefit Americans attach to the cultural value they derive.

The French also assert local content quotas in music and movies. What if America adds back a tax to penalize French movies aired in America? Don't get me started on "strategic" interventions in China and India. Strategic interventions by the Chinese government in all industries is exactly why America adds Chinese govt subsidies to the tune of 100% on exports of solar panels and Battery Electric Vehicles (BEVs). Today, the global system that was meant to enable the freest era of trade in human history is replete with impediments. Think about it - how can governments around the world think that they can make their citizens prosperous through "developmental" or "strategic" non-market policies while grinding the very vessel of prosperity, the global trade system to a halt? Why elevate State interests, through paywalls, above interests of the commons? It truly is difficult for most people to appreciate that less is more.

South Africa, along with many other countries, either does not comprehend the idea of sanitizing (not corrupting) the commons, or it disagrees with it. The country is reported to soon start its trade negotiations with the United States and rather than institute structural reforms of domestic policies that soil the commons, it is offering a framework of transactions it thinks America wants (e.g., a joint fund to invest critical minerals, duty free quotas on US autos and steel, and duty free import of US Liquified Natural Gas (LNG)). The government does not realize that in trying to placate the Trump administration, such deals constitute a continuation of soiling the commons. Anything to maintain the status quo!

The United Nations Conference on Trade and Development (UNCTAD), a unit of the UN, a body to whom South Africa is a member, refers to such self-interested measures as Non-Tariff Measures (NTMs). In a report titled "Unseen Impact of Non-Tariff Measures", UNCTAD concludes that while most NTMs have legitimate policy objections, in most sectors of the economy their restrictiveness far exceeds that of customs duties on imports (tariffs). It quantified NTMs by converting their impact into a numerical expression (dollars and cents) it terms Ad Valorem Equivalents (AVEs). Without saying whether NTMs cause poverty, it is clear from the chart below that countries with low per capita GDP encounter high NTMs when they export to countries higher up the per capita GDP ladder (locking them out of global seaborne trade). In other words, they have low bargaining power over their customers they are locked in poverty. Djibouti finds it hard to penetrate South Africa much like South Africa finds it hard to penetrate China. Another stylized fact is that all countries, to varying degrees, have NTMs.

Figure 1: Ad Valorem Equivalents of NTMs on Exports vs. GDP Per Capita of Exporting Countries



Source: UNCTAD, "The Unseen Impact of Non-Tariff Measures: Insights from a New Database"

To illustrate, Washington's trade complaints against Pretoria comprise NTMs that impede free trade in a range of industries from vehicles to citrus to meat and so on. To be fair, South Africa employs NTMs commonly deployed by countries around the world to protect local industry. One of them is called Phytosanitary (health and hygiene) requirements for meat (beef and pork and not to mention a 62% tariff on chicken) are additional costs US meat exporters must comply with to land product in South Africa. South Africa recently made a big song and dance about the same phytosanitary requirements the EU imposed on its citrus produce.

Now, a foreign company may decide to set up shop in an end market (we can use South Africa as an example) to bypass both excise duties and technical NTMs such as phytosanitary requirements, only to be told that there is one more NTM (this time, non-technical) the company must comply with, namely, BEE, as laid out in charter of the relevant sector. Instantly, you can see that customs duties are the least of the problems in the global trade system (South Africa has a trade-weighted average customs excise tax of 7% but its NTMs are material – your guess is as good as mine). The people that ridicule Trump's calculation of reciprocal tariffs (30% on South Africa) are themselves none the wiser on how to unscramble the egg that is NTMs.

To appreciate why regulations are a royal waste of tax-payer money, please explain how we spend tax-payer funds to police private sector compliance with poverty alleviating global initiatives such as United Nations Development Program (UNDP) Sustainable Goals or COP conferences on the one hand, while also spending tax-payer funds to erect barriers to a trade system that has patently raised the prosperity of many people around the world (Americans, Europeans, Chinese, Singaporeans, South Koreans, Japanese, etc.)? It turns out the government's left hand is undoing the work of the right hand. This is a failure of Kafkaesque proportions!

What is required, in much of the world, to solve the current tariff impasse is to replace legislative creep in the guise of developmental policies with legislative creativity that enhances ***GDP per capita*** (citizen prosperity and not State-based wealth). The current trade negotiations going on between America and the 17 priority countries are indeed workshops of the very kind South Africa should have requested with no holy cows (BEE, VAT, and other NTMs that favor domestic production over imports) spared. Now imagine how much pressure India (one of the 17 priority trade deals under negotiation), giving up its own version of BEE (requirement to foreign capital to partner with an Indian citizen) heaps on South Africa to move unempathetically on BEE sector charters!

One last point on NTMs if you are still unconvinced of the argument that relieving the commons of country-based regulatory burdens is a catalyst for prosperity and not poverty, the World Bank ranks countries by Regulatory Quality (ability of regulatory architecture of countries to formulate and implement policies that promote private sector development). First, there is an inverse relationship between regulatory intensity and regulatory quality (e.g., the left-hand undoing what the right hand did). Second, the higher the regulatory quality, the greater economic prosperity per capita there is. More regulation leads to less quality, which leads to less prosperity. In short, it is beguiling how more interventionism leads to undesirable outcomes. Of interest to us is where South Africa ranks on the World Bank Regulatory Quality Global Index. With a score of -0.22 out of a possible 2.5, South Africa ranks 104th out of 193 countries, just below Tuvalu and above Türkiye.

Singapore ranks first in the world with a score of at 2.31 (out of 2.5). To put BEE in perspective, the question in Regulatory Quality, the fact that Malysia from whom South Africa copied the concept of BEE ranks 49th with a score of 0.66 means there is a lot to be desired from how South Africa's implementation of the policy (not whether redress is necessary). No wonder the country has been in a ***per capita GDP recession*** for the last 11 years. One may very well wonder why, when presented with a fresh canvass to paint its economic policies, South Africa copied Malaysia and not Singapore, given that Singapore seceded from Malaysia in 1965 (on account of deep, irreconcilable differences over political and economic policies) and went on to generate economic prosperity on a ***per capita*** basis in the shortest amount of time known in human history. In less than the fullness of time, the *individual responsibility-based* policies of Singapore trumped those of *State sponsored rights* policies in Malaysia by a wide margin.

Conclusion

Because South Africa failed to untangle itself from the lollapalooza effect, much needed private schooled kids of non-black ethnicity have a free put on American residency for their skills. The burden of proof of genocide on the part of an asylum applicant is so low that the allegation of genocide was a ruse for something else. It wasn't for Starlink. It was for non-tariff barriers. As for BEE, we certainly have ideas of how it can be implemented to better achieve both per capita economic growth through economic mobility and factor productivity. However, that is a subject for another time. Last, rather than decry the effort to sit across the table from America to negotiate tariffs, the world should aim to hold America's feet to the fire of a sanitized the world trade order and not just its own economy.

APPLE

The Best Way to Understand Trump's Tariffs is to Understand What Apple's Success Rests on (and Perhaps Why Berkshire is Selling the Stock)

No company encapsulates the arguments for America's tariffs against China's policies (and other statist policies around the world), and China's attempts at autarky than Apple. The problem is such a lollapalooza that it is difficult to see how Apple does not suffer material losses stemming from an imperfect eventual compromise between America and China. Such is the lollapalooza that it is not an exaggeration to ask if Apple is Apple because of China or China is China because of Apple.

Facing bankruptcy in 1996, as it had numerous times before, Apple finally sold off its last factory in the US where it was manufacturing MacIntosh computers to a contract manufacturer. Ever since, the company has been determined to tightly control the supply chain of manufacturing computers – from design through production. While it kept research and development (R&D) and design in America, Apple outsourced manufacturing to contractors in South Korea and Taiwan. By the time the company hit China, the value of outsourcing to a contract manufacturer was instantly self-evident. As China ascended to the WTO in 2000-2004, and the disparity in labor costs between the United States and China made it hard to ignore.

As product flew off the shelves of the first iStore (meant gauge consumer demand) in China in 2008, Apple decided to double down in the country. The company established manufacturing contracts with local companies, Foxconn being the most well-known of them, and cranked out products. It was not smooth sailing initially. Having realized that the iPhone was a status symbol in China, Chinese Triads (organized crime) were buying up all the stock in the iStore (as well as importing more from the US suing fake US email accounts), tempering with the product to avoid traceability and re-selling at better margins than Apple was making. As a result, Apple did not stand behind warranties of tempered phones. This caused angst among the customer base, and with Secretary General Xi Jinping of the Chinese Communist Party (CCP). After just 36 hours of being elected leader of the CCP and the country, he took aim at Apple, accusing it of profiting from the misery of Chinese customers.

Apple's profit margins had gone up from 1% before it began manufacturing in China to well into the mid-teens by 2013. On the other hand, Foxconn's parent, Hon Hai Precision Industry Co., saw its profit margins go the other way – from 12% to 1% despite increased iPhone throughput. Apple established a committee to study a response it would table to the government. The response proved to be highly symbiotic for Apple and China.

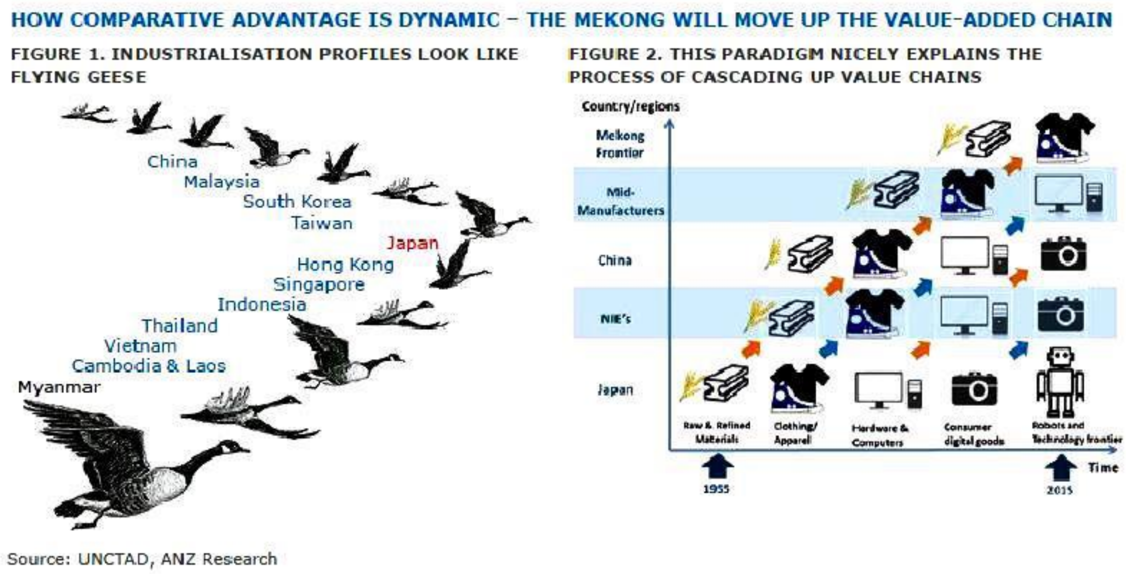
Apple's outsourcing approach, however, was different. Unlike other vendors such as Dell and Compaq, Apple would send its engineers to work alongside, and train, Chinese engineers to produce product to exacting standards of beauty (design), functionality, and quality (reliability). Together, Apple's onsite American engineers and budding Chinese engineers figured out how to manufacture to perfection Jony Ive's differentiated designs (zero defect). Jony Ive was the head of design at Apple. Apple would spend billions on R&D in America and work with Chinese engineers in China to implement. During this time, Apple was a leader in innovation (it has since fallen woefully behind). In return for skills and technology transfer, China molded national policies that cranked out engineers from the conveyor belt of universities to work for Apple and other multi-nationals at cheap wages. China has one govt. backed labor union that all industry unions belong to. In effect, the government is the "union" a multi-national negotiates with. Given the bigger picture (technology and skills transfer), working conditions, pay, environmental standards, and so on were distant considerations.

In 2015, the government introduced the "Made in China" policy to formalize the optimal conditions for skills and technology transfer. China's experience with Apple no doubt informed the policy.

So far, nothing here is amiss. Foreign Direct Investment (FDI) by American corporations had historically done a great job of opening previously closed markets up to the world and encouraged, a general opening of the political and civil society. Starting with the Marshall Plan after WWII, American corporate investments spurred on economic growth in Western Europe. People forget that Taiwan was under military rule (Martial Law) from 1947-1987, and Spain under the fascist reign of General Franco for 36yrs (1939-1975). Look at both of them today!

American corporate FDI was not all altruistic. It was instead a result of the evolution of the economic maturity of a country. Companies first exploits factors of production at home, and then, as the economy matures into slow growth, they move to secure cheaper factors elsewhere while keeping higher value-added functions at home. It is a phenomenon commonly referred to as the flying geese paradigm. Flying geese bring products closer to markets where they will also be manufactured.

Figure 2: Flying Geese Paradigm



Successful Western European companies, Japanese, South Korean companies have followed this same pattern. Today, Japan imports into Japan more Suzuki and Honda cars (themselves Japanese owned brands) from factories in India than it produces inside Japan. China was meant to be the next market where multi-nationals both benefit from cheaper factors of production and sell into. Except China barely cracked the door open for its citizens to buy goods made by multi-nationals in China (except Apple). Instead, it took technologies for a range of products (high-speed rail, electronics manufacturing, power generation, ship-building, etc.), threw heavy state subsidies to manufacture them, and simply turned product around in the form of exports to the rest of the world. China does not ever intend to follow the flying geese paradigm where it manufactures in less developed countries (African and South American continents and South-East Asian sub-continent) for consumption in China. Instead, it is undercutting capacity utilization in the rest of the world. For instance, while America innovated solar energy, China has undercut the world at the costs of producing it, thanks to state subsidies. It did the same thing with rare earths, high speed trains, apparel, electronics, and is now doing it with Battery Electric Vehicles (BEV). In other words, industries in China do not have a cost curve because they are funded by State owned banks rather than private sector investors and business cashflows. It is not clear what drives Chinese policy to use NTMs to declare war on its trading partners.

Canadian author Patrick McGhee uses the analogy of the Marshall Plan to put Apple's symbiotic relationship with Chinese autarky in perspective. In today's dollars, the Marshall Plan that rebuilt Western Europe from the ruins of WW2 cost US$150bn (it was US$13bn in 1946-1952). McGhee estimates that Apple's FDI to China, since 2015, adds up to USD550bn. Apple has been China's Marshall Plan. It is not an overstatement to say that China is indebted to Apple just as much as Apple is indebted to China's tailor-made resources to maintain its success.

A view shared by Professor Ricardo Hausmann of Harvard University is instructive here. Technical knowledge diffuses across the world over time through trade. You start off by trading an egg, then the equipment (stove), ingredients, and then the recipe (knowledge to boil, fry, and scramble). Over time, the different parts of the value chain of scrambled eggs are outsourced to various countries. The highest profit margin is continually improving the recipe, while the lowest margin is the reselling of scrambled eggs. Eventually other countries catch up because the recipe cannot be improved further. China wants to catch up with Western Europe and North America but has gamed the world trade order to prevent wealthier trading partners pulling ahead and less privileged trading partners catching up with it.

Case in point, Foxconn (Apple's primary contract manufacturer in China) is inexplicably frustrating Apple's efforts to diversify its concentration risk away from China into India. Foxconn has instructed hundreds of Chinese engineers and engineers posted to India to return home. Bloomberg reports that earlier in the year that officials in Beijing verbally encouraged regulatory agencies and local governments to curb technology transfers and equipment exports to India and South-East Asia in what is an attempt to prevent companies from shifting manufacturing elsewhere.

This is the geopolitical quagmire Apple finds itself trapped in.

Since April 02 when Donald Trump announced tariffs, investors loudly fixated on whether he was wrong or right. Many countries protested at getting hit with (retaliatory) tariffs. China has strongly cautioned its trading partners against compromising its budding hegemony in whatever trade deal countries cut with the United States. All protesting parties miss the point. Many countries ought to thank America for resetting the world trading order (even if they do it under their breath). Yet, they must ensure that America itself must not miss the point - the current disruption to world trade should not happen again. So upset with America are some countries (e.g., the E.U.), they wish to establish a new "partisan" trade body to replace an irreparably broken W.T.O.

The President of the European Commission, Ursula von der Leyen, introduced a proposal to form a new world trade body in partnership with "like minded nations in Asia' but excludes the United States. This proposal represents (understandable) anger but the E.U. cannot allow emotion to triumph over pragmatism. Instead, countries (E.U. included) should loudly and demonstrably participate in the current discourse America has begun for the purpose of creating a system without internal paywalls; to restore not only frictionless movement of goods, money, and services, but also the value of the WTO as the sole arbiter of rules that govern world trade. The WTO, not America, should be the sun that all countries orbit.

I do not see how such redress occurs without adversely affecting Apple's success. In other words, the conditions that created Apple's success are not only under existential threat; China is ensuring that they cannot be replicated anywhere else. Here's an example.

After pioneering Generative Artificial Intelligence (G.A.I.) assistant through Siri, in 2010, it is common knowledge that Apple has since fallen precariously behind in the A.I. innovation sweepstakes. To get out in front again, the company is willing to bring in a competitor. It is rumored to be considering the A.I. competencies of at least three competitors, namely, (i) a buy-out of Perplexity (an A.I start up with a search engine and chatbot used by 15m people around the world), or contracting exclusivity with either (ii) Anthropic or (iii) OpenAI to power a reboot of Siri. Apple may very well be caught between a rock and a hard place here. The playbook of the past will not no longer work: On the one hand, China will not allow Chat GPT (owned by Open A.I.), Gemini (owned by Google, who is banned in China), Claude A.I (owned by Anthropic, whose major shareholders are Amazon and Google), Perplexity, or any foreign A.I. agent to operate in the country.

The Chinese government prefers home grown internet capabilities by Baidu, Deep Seek, Tencent, and so on. In the past, Apple would infuse fruits of its R&D investment in collaborations with Chinese partners to calibrate iOS for compliance with government edicts in China. With draconian restrictions on technology transfer on A.I. software and hardware by the White House, how will Apple infuse Perplexity's intellectual capital (or Open A.I., Anthropic, Google, or anyone else) into Chinese AI software destined for use in its phones, iPads, and MacBooks in China? In other words, for the first time in its history of operating in China, Apple does not lead in new technology to transfer to China! In the absence of this bargaining chip, what can Apple use to continue to enjoy preferential treatment in China?

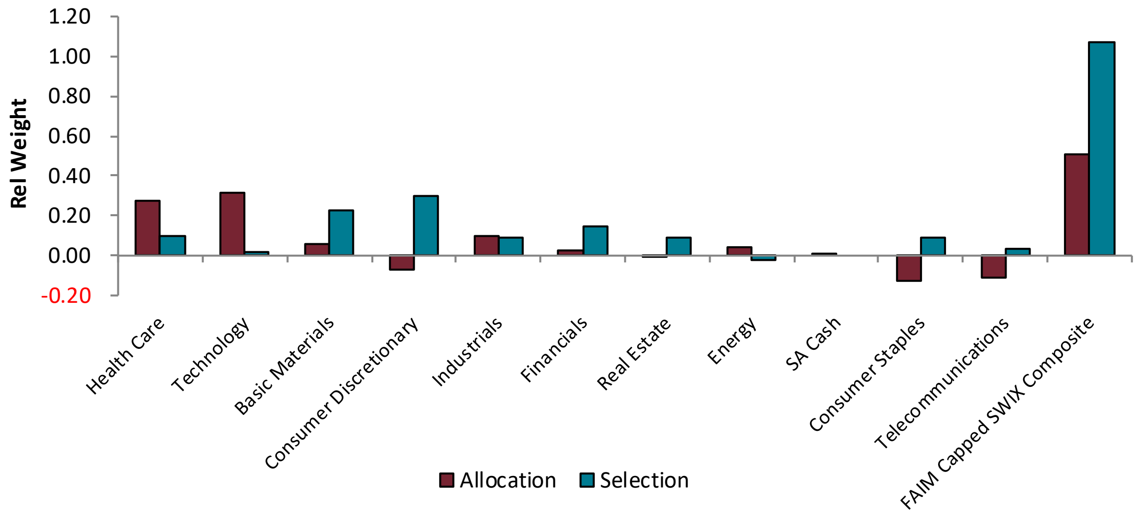
The investment case for the company will never be the same again. The company's market performance relative to both market indices and peers is increasingly reflecting a wider fan of outcomes than has been the case customarily. In other words, the investment case is riskier than it has been in a long, long time.

Q2 2025 INVESTMENT DISCUSSION.

South African Equities

Our outcomes are a testament to the structure of the portfolio in addressing the twin threats of (i) systematic risk and (i) systemic risk. If there was ever a quarter to test the resilience of the portfolio against systematic risks (macroeconomic risks in the form of tariffs, geo-political risks in the form of Israel's attack on Iran and potential ramifications on oil prices), this was it. We are delighted to say that the portfolio accounted for those risks admirably. In Basic Materials, a sector most leveraged to global opportunities and threats, we recorded a positive attribution from both sector allocation and stock selection. More importantly, as active investors we could not be prouder that stock selection contributed more than two thirds of our alpha in the quarter, and this came across sectors!

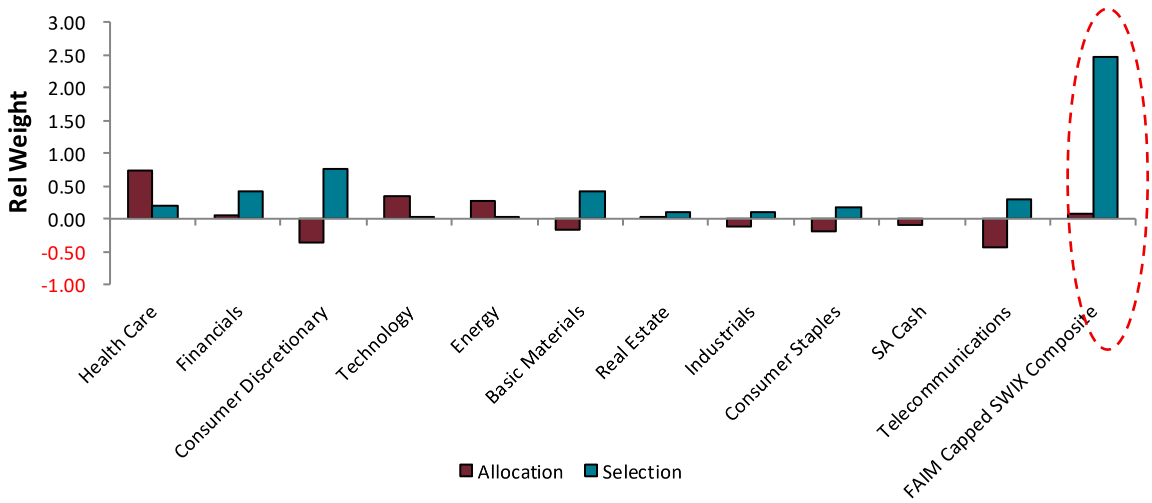
Figure 1: Attribution Analysis: Sector Allocation vs. Stock Selection CAPPED SWIX Funds Q2'2025



Source: First Avenue, Statpro

As was the case in the quarter, stock selection disproportionately drove alpha (relative returns).

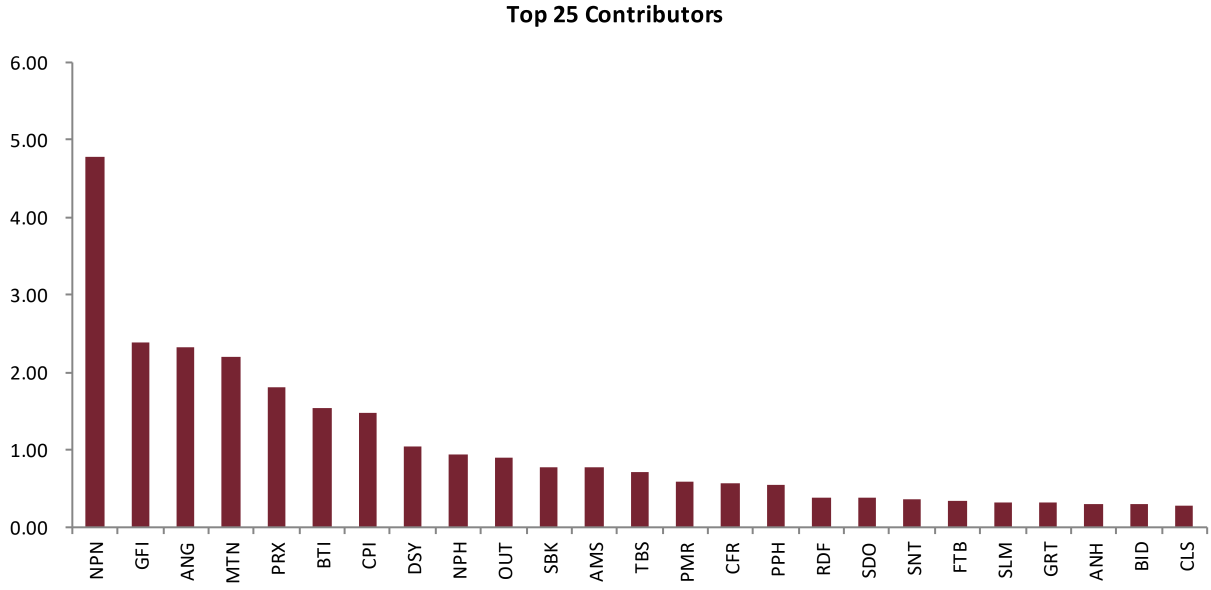
Figure 2: Capped SWIX Sector Allocation and Stock Attribution: 12Months to June 2025



Source: Statpro, First Avenue

While attribution analysis identifies success in your active weights (over and under) to your relative performance (alpha) contribution analysis identifies how much each stock in the portfolio lent to the fund's absolute returns. A review of the top 25 contributors (on a 1yr basis) to absolute returns shows that stocks from a variety of sectors put their shoulders to the wheel. That there is no sector bias in contribution to returns corroborates our stock picking prowess.

Figure 3: Top 25 Contributors – 12months ending June 2025: Capped Swix Composite

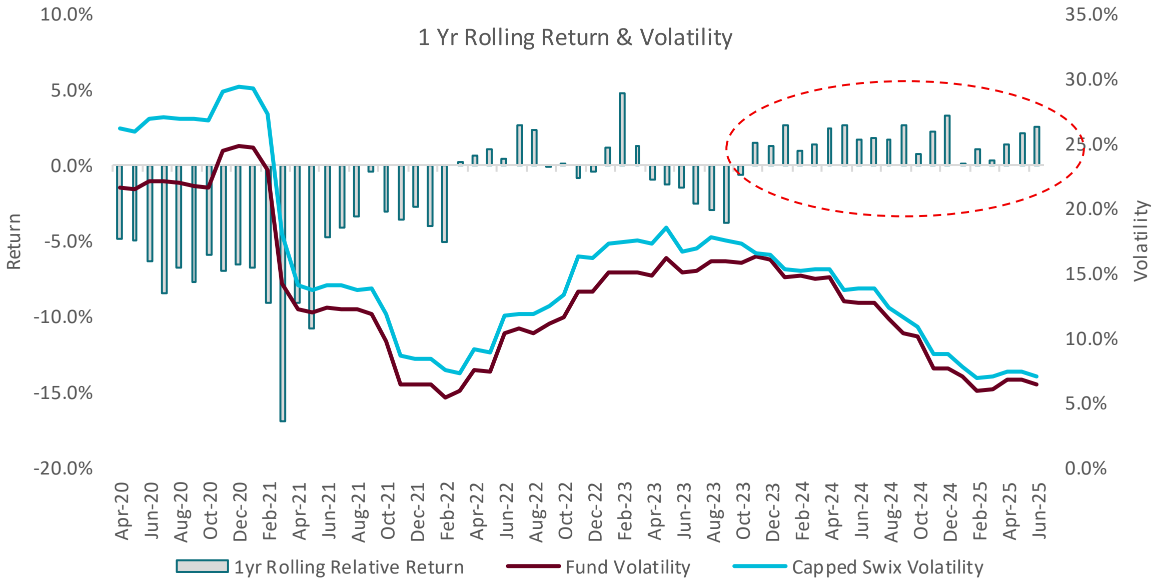


Source: Statpro, First Avenue

Over a 12month period to June 2025, it is pleasing to see that the contribution from stock selection to our alpha dwarfed sector allocation by quite a margin. After all, we are primarily stock pickers. Only in periods of heightened systematic risk does sector allocation trump stock selection.

Last, we take great pride in fulfilling the promise we made to clients that suffered the retrenchment in Quality between 2019-2021. We have made them whole. We wish to express our deepest gratitude to them for retaining their confidence in our ability to "go and fetch their money". True to our DNA, we accomplished this feat without enduring more volatility than the index. The lessons we learnt from raising the titanic from the ocean floor have molded us into a rare specimen of investor, business, and character traits.

Figure 4: Rolling 12 months Relative Returns & Volatility vs CAPPED SWIX



Source: Statpro, First Avenue

The health of the tale of the performance tape is reminiscent of what our clients know First Avenue to be.

Figure 5: Table of Investment Performance to June 2025

	First Ave Capped SWIX Composite	Capped SWIX	Relative
1 Year:	27.10%	24.55%	2.55%
2 Years:	19.19%	17.07%	2.12%
3 Years:	16.72%	15.86%	0.86%
4 Years:	14.29%	13.56%	0.73%
5 Years:	15.96%	16.24%	-0.28%

Source: Statpro, First Avenue

Figure 6: Top Ten Under-weights and Over-weights: Q2 2025

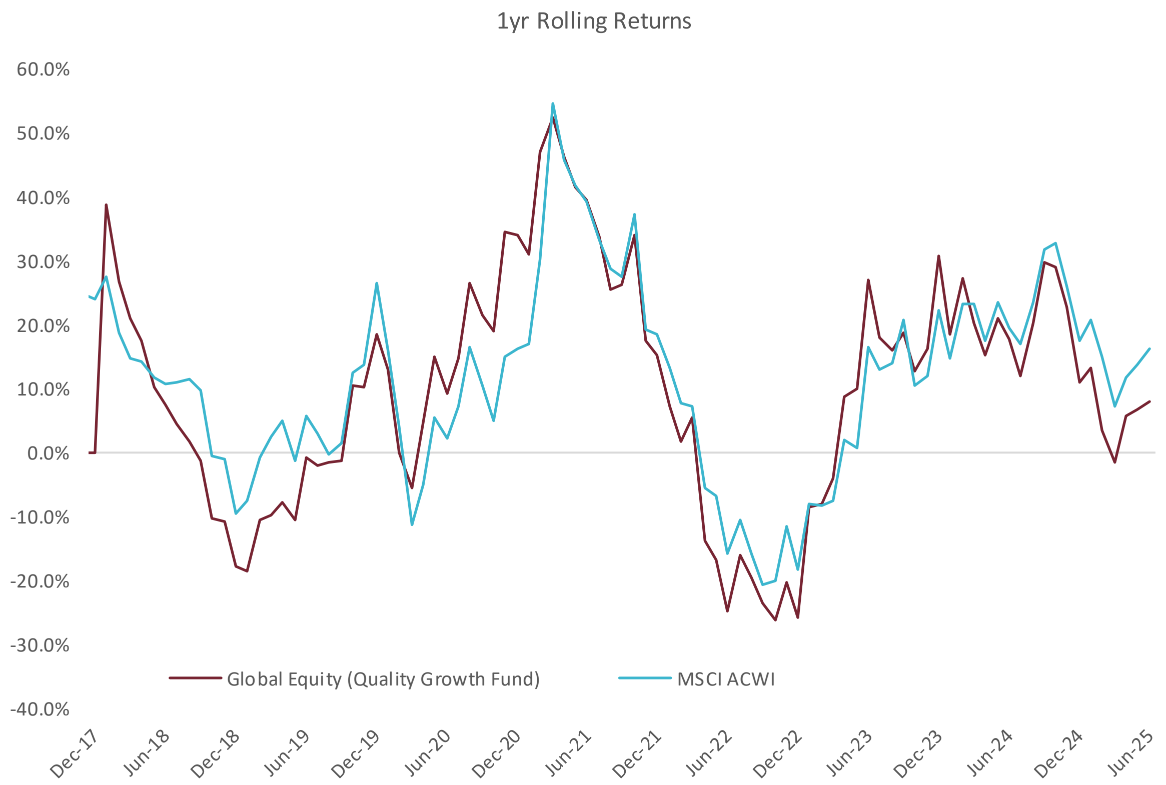
Source: First Avenue

Global Equity Strategies:

A. Quality-Growth Strategy – A clearly slowing down US economy is bad in a good way

The strategy is a high active share, high tracking error, and long duration. As much as it is excellent for long term wealth creation, it is more susceptible to exogenous factors than endogenous factors. The Quality of the businesses in the portfolio addresses fundamental risk better than other styles. Fraught with macroeconomic and geopolitical uncertainties, the fund initially suffered on April 2 when Trump announced tariffs. Steadfast in our belief in quality and growth, we took the opportunity to add several great companies during the correction. Those additions stood us in such good stead because we closed the quarter at parity to the market. We appreciate that we lag the benchmark over 1 year basis. That is because of the underperformance of the US small cap ETF, Russell 2000, in the past 12 months. Fortunately, the ETF has turned around, and in July, we will be lapping the 1yr period in which it overwhelmingly contributed to negative alpha. In an otherwise stellar track record, all the underperformance sits in the 1yr number! Stick with us.

Figure 7: Quality Growth Strategy vs. MSCI ACWI (June 2025)



	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years
Global Equity (Quality Growth Fund)	8.1%	12.9%	17.4%	5.0%	11.1%	9.1%
MSCI ACWI	16.2%	17.8%	17.3%	8.0%	13.7%	10.8%

Source: Statpro, First Avenue

While so much has been made of the ending of American exceptionalism, we will never bet against the exception endured by the American citizen to demonstrate ingenuity to time and gain, dig himself out of a hole. The citizen of every industrialized nation is overly reliant on the government to dig them out. This survival instinct is most baked into the companies in this strategy. That is why we will not bet against exceptionalism wherever it exists. Investors who have it in them to remain invested in exceptional companies despite heightened geopolitical upheavals should experience equally exceptional returns. Case in point, look at how sharply the US market caught up to Europe after suffering collateral damage for Trump's tariff announcement. The narrative of the end of American exceptional was overdone (thank you very much sell side brokers). American companies have over delivered on earnings expectations during this very season, proving the death of American dynamism an exaggeration.

Figure 8: The “Great Rotation” that Isn’t.

We are building what we would like to suggest is a unique proposition by a local manager. Quality Growth is a strategy that requires the guardrails of Quality to extract growth from the economy. The latter, on its own, can be so difficult to handicap that it is often deemed speculative. Quality, on the other hand, requires a track record in the fundamentals of a company that grounds an investment case (gives management the right to sail further away from the shore). Quality Growth investing counts among its luminaries distinguished investors such as John Maynard Keynes, Phillip Fisher (Motorola), Charlie Munger (Costco), and yes often enough, Warren Buffett (Coca Cola). These folks demonstrated admirable skill at beating the market over long periods of time. It is simply an unenviable task to beat the market for even a decade, let alone for as long as the luminaries of Quality Growth investing have. They popularized companies that hitherto were unknown to the wider investment community. In next quarter’s report, we will show you an illustration of how differentiated our portfolio is relative to the average global equity fund on offer in South Africa.

Despite the setback to long-term returns in the quarter, we are confident that when this fund turns 10 years old in 2027, it will serve as a reliable local alternative to the best Quality Growth funds in the world. The secret to outperforming in the decade ahead is to have a more balanced exposure across different sectors, market caps, and countries. The outright dominance of the “tech” sector and large caps in market leadership over the last 10 years will be severely tested in the next 10. The idea is to find Quality companies, at reasonable valuations, across the world that are best positioned for growth domestically (e.g., Cintas, Hemnet Group) or globally (Rheinmetall, Novo Nordisk).

Figure 9: Top Ten Holdings: Global Equity Quality/Growth Fund Q2 2025

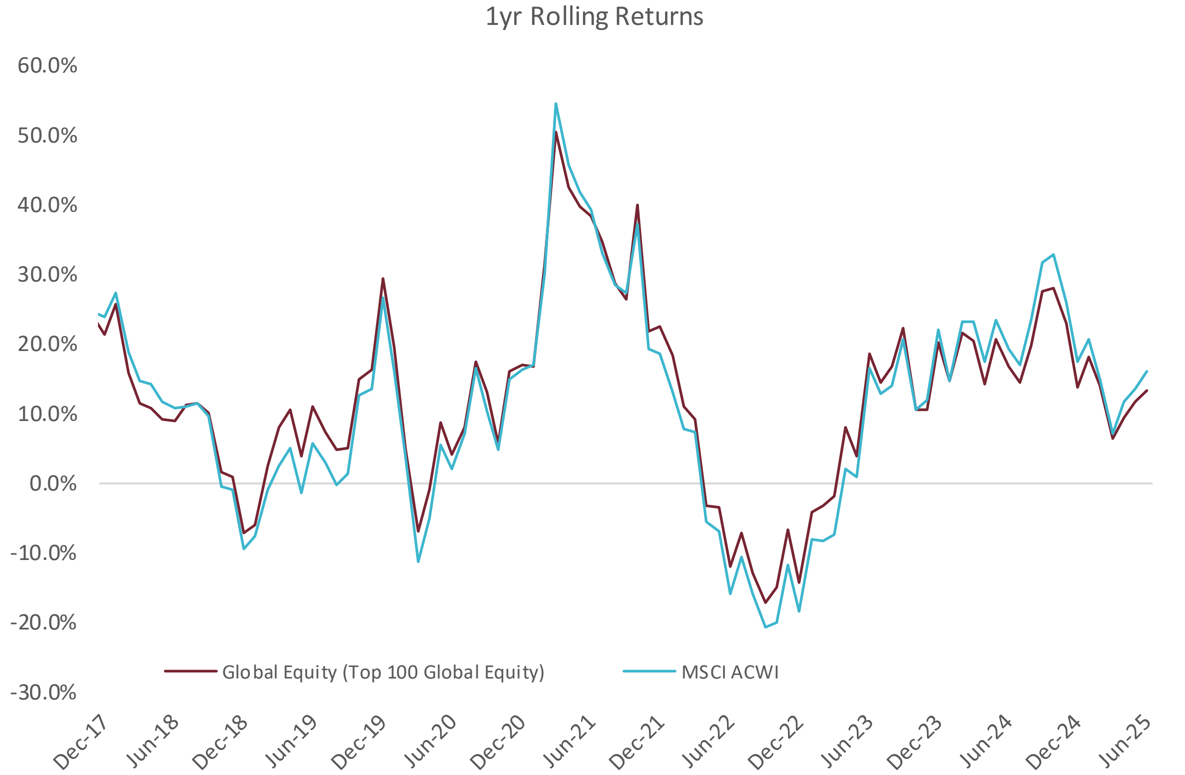
Top 10 Holdings	
Global Quality Growth Fund	
ISHARES RUSSELL 2000 ETF	27.7%
TRADE DESK INC	4.1%
ISHARES EUROPE MC UCITS ETF AC	3.3%
ALPHABET CL C ORD	3.2%
MICROSOFT ORD	3.0%
BERKSHIRE HATHWAY CL B ORD	2.9%
AMAZON.COM INC	2.4%
VERTEX PHARMACEUTICALS ORD	2.2%
FERRARI ORD	2.2%
CROWDSTRIKE HOLDINGS CL A ORD	2.1%

Source: First Avenue

B. Global Top 100 Quality Companies Fund – Low Tacking Error, Low Active Share

The low tracking error, low active share proposition of this strategy lends itself very well to institutional client risk controls. The objective of this strategy is to outperform the index by 1.5% per annum. Consequently, the strategy has outperformed the index by a cumulative 25% since inception. While all the constituents of the portfolio bear the financial signature of Quality, the appropriate characterization of the portfolio is Large Cap Blend. The scalability of this strategy allows it to play the role of Core in a core satellite portfolio construct.

Figure 10: Top 100 Global Equity Fund vs. MSCI ACWI: 1yr Rolling Returns (US$) to June 2025



	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
Global Equity (Top 100 Global Equity)	13.4%	15.1%	16.3%	8.5%	13.9%	12.1%	10.8%
MSCI ACWI	16.2%	17.8%	17.3%	8.0%	13.7%	10.8%	10.0%

Source: Statpro, First Avenue

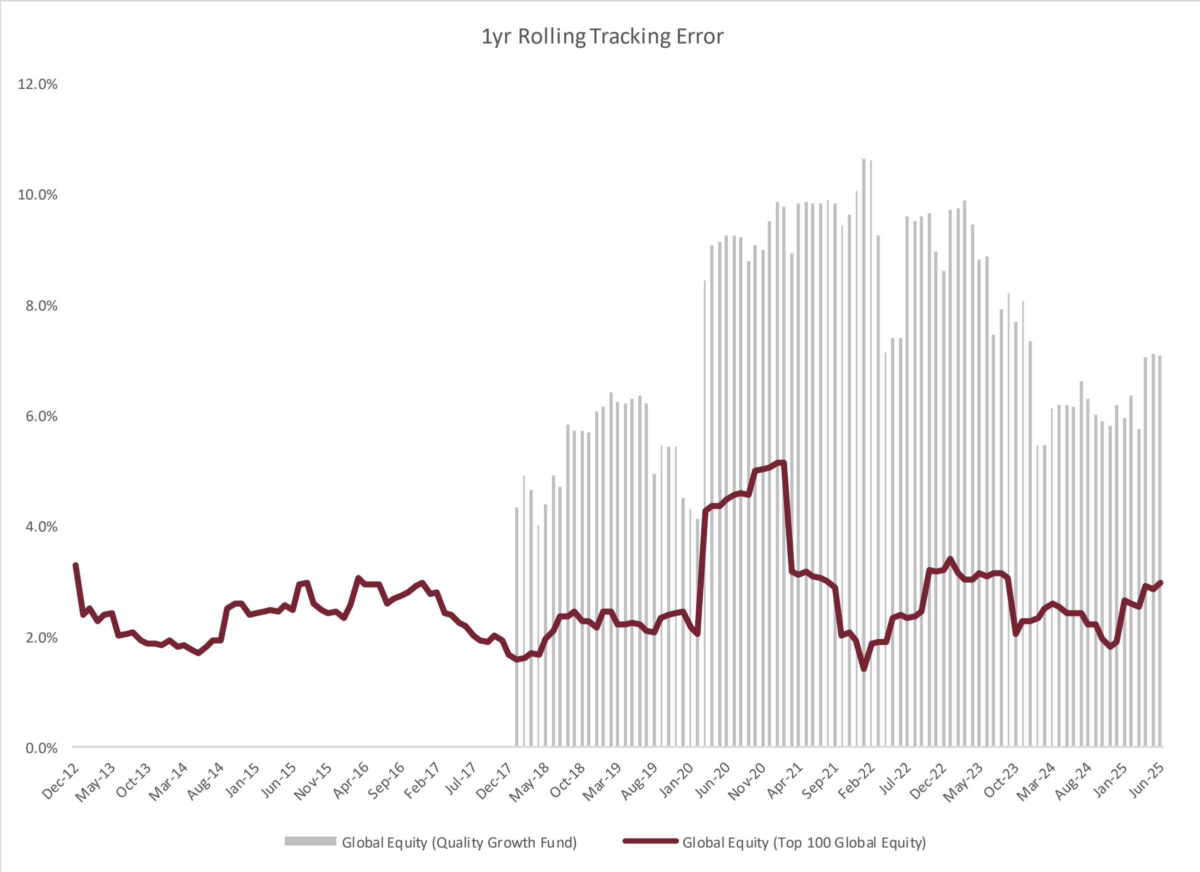
Figure 11: Top Ten Holdings: Top 100 Global Equity Fund Q2 2025

Top 10 Holdings	
Global Quality Growth Fund	
Netflix Inc	1.88%
Broadcom Inc	1.78%
Philip Morris Int	1.74%
Tesla Inc	1.54%
AT & T Inc	1.48%
Oracle Corp	1.47%
Nvidia Corp	1.46%
Walmart Inc	1.39%
Goldman Sachs Group	1.36%
SAP SE	1.35%

Source: First Avenue, Curro

The two propositions could not be more different, and their use in client solutions could not be more different. The Global Top 100 is better suited to perform the role of a Core allocation to replace the index (MSCI ACWI). It sports a tracking error range of between 2.7% and 4.5%, an active share of 65%, and a very low portfolio turnover (<5%). Its volatility is marginally above that of the index yet outperforms the index by 1.5% per annum over 12 years. The Quality Growth proposition exhibits a much higher tracking error (6-12%), an active share of 89%, and a portfolio turnover of 2%. Its volatility is much higher than that of the index. It is a typical satellite strategy with an aggressive alpha objective. That said, we are proud to say it produces outcomes that rank with the very best international funds available in South Africa. In addition, both propositions stand head and shoulders above the BEE cohort of global equity strategies.

Figure 12: Tracking Error: Top 100 Global Equity Fund vs. Global Quality Growth Equity



Source: First Avenue, Statpro

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