STERLING TIMES

JUNE 2026 EDITION

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Beyond

STERLING
PRIVATE WEALTH
A Merchant West Group Company

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Introduction by the Managing Director

Graydon Morris

The winter solstice is nearly upon us. Shorter days, dark mornings and early sunsets.

I get the argument for hibernation. There is no place to hide, though, in the world of investments. It has been a busy year.

Money does not sleep. From the outbreak of War in Iran, the continued conflict with Israel and all her neighbours, Ukraine still fighting the fight, global markets have had a lot to deal with. As have South American and Central American drug lords, being targeted in the Gulf by the US. I am not sure they saw that coming?

Compound a steeply rising oil price and an AI fuelled mania in certain areas of global equity markets, throw in a blow out in bond yields, and you have a recipe for some big movements. And performance dispersions.

Our role, as always, is to attempt to protect our client's downside volatility as far as possible and grow the real purchasing power of their portfolio over time. This requires paying attention to valuations, trying not to overpay for assets, and having a steely resolve. Our senior team have over 125 years of experience in doing so, and have seen first-hand many conflicts, crisis, corrections, and rallies.

Our deep experience is neatly complemented by a new generation of developing wealth managers who are open-minded, tech-savvy, and intelligent.

It is fantastic to have them onboard and exploring many new opportunities with us.

Next year marks our 25th year in business. It's a material milestone for us. It is one of which we are very proud. A quarter of a century walking side by side with our valued clients, living through investment cycles, personal and family ups and downs, and doing life together. As we always highlight, this is a great privilege.

There are so many different aspects to managing one's wealth. From preserving and growing real value, in international or local terms, looking for tax optimisation, simplicity and cost effectiveness. To product selection, providing income in retirement and estate planning. These are just a few of the many items on our regular agenda.

We regularly impress on our younger team the immense responsibility and duty of care they have for you all. It is wonderful to see them take on this challenge.

Notwithstanding all the investment noise, it's been a generally very positive time for investors. It is not always that way. Local equites and bonds, and sections of global equity markets have been buoyant, although somewhat narrow. This has largely offset Rand strength, confirming offshoring all your money is not always a one-way bet in the shorter term.

A few key pointers are provided below, as at 1 June 2026:

Global Equity Indexes (Total Return Indices)							
Description	**Index**	**Currency**	**Index Value**	**Week**	**Month**	**Month-to-Date**	**Year-to-Date**
Global	MSCI World	USD	4864.6	1.3%	5.8%	4.6%	10.5%
United States	S&P 500	USD	7580.1	1.4%	6.3%	5.2%	11.1%
Europe	Euro Stoxx 50	EUR	6050.5	0.6%	4.9%	3.7%	6.2%
United Kingdom	FTSE 100	GBP	10409.3	-0.4%	2.4%	0.7%	6.6%
Germany	DAX	EUR	25104.7	0.9%	4.8%	3.3%	2.5%
Japan	Nikkei 225	JPY	66329.5	4.7%	10.7%	11.9%	32.7%
Emerging Markets	MSCI Emerging Markets	USD	1752.2	4.0%	8.5%	9.7%	25.6%
South African Equity Indexes (Total Return Indices)							
Description	**Index**	**Currency**	**Index Value**	**Week**	**Month**	**Month-to-Date**	**Year-to-Date**
All Share	JSE All Share	ZAR	114632.30	1.4%	0.9%	-0.3%	0.8%
Top 40	JSE Top 40	ZAR	106822.80	1.5%	1.0%	-0.2%	0.7%
Shareholder Weighted	JSE Capped All Share	ZAR	57376.94	1.4%	0.9%	-0.3%	0.9%
Mid Caps	JSE Mid Cap	ZAR	107954.50	-1.1%	-2.5%	-3.6%	-3.8%
Small Caps	JSE Small Cap	ZAR	107173.70	-0.1%	1.4%	0.4%	1.5%
Resources	JSE Resources	ZAR	69298.79	3.3%	1.5%	-1.0%	4.5%
Industrials	JSE Industrials	ZAR	137122.40	0.0%	-0.1%	-0.7%	-6.1%
Financials	JSE Financials	ZAR	64657.98	0.8%	1.1%	0.9%	5.0%
SA Listed Property	JSE SA Listed Property	ZAR	482.71	0.1%	1.6%	0.6%	0.8%
Preference Shares	JSE Pref Shares	ZAR	5648.19	-0.1%	1.0%	1.2%	0.4%
South African Fixed Interest							
Description	**Index**	**Currency**	**Index Value**	**Week**	**Month**	**Month-to-Date**	**Year-to-Date**
All Bond	ALBI Total Return	ZAR	1406.34	2.0%	3.2%	2.9%	2.7%
Inflation Linked Bonds	Inflation Linked Total Return	ZAR	451.09	0.2%	0.6%	0.6%	3.8%
Cash	STEFI Composite	ZAR	657.06	0.1%	0.5%	0.5%	2.7%

We have provided a few insightful pieces in this edition of the Sterling Times.

Firstly, a short piece by Marteen Michau, Head of our Fiduciary Partners, Fidelis Vox, deals with Direct Shareholdings and Estate Planning.

Alyssa Viljoen follows with a short note on AI and the impact on the USA labour market, a topic very important for many as the knock-on effects globally may be profound.

We then follow with short pieces on Portfolio Concentration, Passion, the SpaceX IPO and Performance Chasing by a few other guest contributors.

We hope you enjoy the read as we head deeper into winter.

Beware of holding some direct shareholdings

Marteen Michau, Director
Fidelis Vox (Pty) Ltd

In estate planning one often overlooks the vital exercise of simplifying the administration process as far as possible. Complexity results in long delays in one's estate before your loved ones can receive any benefits. At present one can experience delays with the process in Master's Offices in SA with deceased estates, and one wants to do as much as possible to avoid any further delays.

Local shareholdings – Direct Shares (JSE)

Small shareholdings on the JSE can cause a nightmare for executors, often having to spend a huge amount of time on the process. It is extremely time consuming, often staying on phone calls for hours, or not being able to sell or transfer these shares at all, as the deceased did not have a duplicate share certificate. Direct shares can take months to finalise and liquidate.

One example hereof is JSE listed shares in life assurers such as Sanlam and Old Mutual, from when they demutualised, including Old Mutual shares resulting in additional Quilter shares. With the Old Mutual shares for example being held electronically, the deceased did not have a share certificate for the resultant Quilter shares. A duplicate share certificate is not available for the executor to use to transfer or sell these shares, now causing huge delays in the estate winding up process.

Offshore shareholdings

Shares held directly in companies registered in for example the US or UK, can be situs assets for purposes of inheritance taxes in these countries. The effect will be that these shares will be subject to inheritance taxes in these countries, at rates as high as 40% (with no relief at first dying of spouses in the US).

A threshold is applicable before inheritance taxes are paid, but the threshold is only USD 60 000 in the US and is GBP 325 000 in the UK. These shares cannot be traded in until these inheritance taxes have been paid, which can take years with the tax authorities in these countries. During this time, the estate in SA can also not be finalised, as the values of these shares as well as the amount of these taxes paid in those countries have to be considered in the estate duty calculation in SA. Delays of 3 to 4 years can be experienced in estates when these shares are held, and often for small amounts of holdings.

When holding any of the above, please urgently consider selling these shares while you are alive and add the proceeds to unit trust funds or other investments which will not cause these negative consequences in the administration process of your estate.

USA Labour Participation and AI

Alyssa Viljoen, Managing Director
Merchant West Investments

The US labour force participation rate just hit 61.9% - its lowest since 1977 outside of the pandemic. Fewer people are working or looking for work. But prime-age participation (25–54) is near multi-decade highs. The decline is almost entirely demographic - boomers retiring and immigration policy shrinking the replacement pipeline. The participation rate for Americans 55+ has fallen from 40.2% to 37.2% in just five years. Europe and Japan face even steeper demographic headwinds.

The real question isn't "why are people leaving the workforce?" It's "can productivity growth compensate?" So far, the answer has been encouraging. US labour productivity rose 2.3% in 2024 - the strongest in 14 years outside the pandemic. In 2025, non-farm business productivity grew a further 2.5% year-on-year. That's well above the sluggish 1.4% average that plagued the 2011–2023 period. Research from the Kansas City Fed shows that industries with higher AI adoption tend to have faster productivity growth - early evidence that the technology is starting to show up in the data, not just the narrative.

This is where AI shifts from hype to necessity. A shrinking labour force means the economy simply needs each worker to produce more. Goldman Sachs estimates 63% of US jobs could be complemented by AI - not replaced, but augmented, according to the International Economic Development Council. Workers are already averaging 33% higher productivity in hours where they use generative AI. The question is whether adoption scales fast enough to offset the demographic drag. For investors, the playbook feels clear: businesses that can grow earnings without proportionally growing headcount are structurally advantaged. The companies investing in AI-driven efficiency today are building the moats of tomorrow.

Is Portfolio Concentration the Answer

Sean Peche, Fund Manager
Ranmore Fund Management

In 1989, Peter Lynch coined the phrase, "diworsification" to describe the perils of being too diversified

And in 1996 Warren Buffett said, "Diversification is protection against ignorance. "

So you might think a very concentrated portfolio is the answer to wealth creation?

It is, if you can accurately predict the future.

But you can't?

So I asked Perplexity, how many companies Peter Lynch held on average?

"the average number of holdings was around 200 stocks in the portfolio, and at its peak in 1989 it reportedly reached about 1,400 holdings"

I bet you weren't expecting 200.

So then I asked :

"How has the total number of investments Berkshire Hathaway owned, changed over the years?"

"In the late 1970s and 1980s, Berkshire's investments were essentially a few dozen material positions overall

By the early 2020s, Berkshire had grown into a conglomerate with of the order of 60–70 majority-owned subsidiaries spanning insurance, railroads, energy, manufacturing, and retailing to well over 100 distinct business and stock investments today."

So a few dozen to 100 across many industries

And how about UK investing legend, Anthony Bolton?

"Bolton's style across his major funds was to hold roughly 40–100 stocks at a time"

My conclusion is that we know about these investing legends because of their great returns and because they survived in the markets over long periods of time, giving compounding time to work. Part of that "survival" is being diversified.

In a 2019 a Morningstar paper studying the impact of portfolio concentration on returns, the author, **Alex Bryan, CFA**, concluded,

“The idea that investing with conviction improves returns is a myth. Increasing portfolio concentration is just as likely to hurt returns as it is to help.”

Over the past 12 months, some big holdings in some big funds have taken big hits:

- Novo Nordisk is down 54%,
- RELX is down 47%,
- LSEG is down 26%,

So maybe it's time to reconsider the common notion that "high conviction investing" is the answer.

Especially in a fast-changing world.

Love what you do

Bear Grylls,
Global Adventurer

I wasn't the Best Climber. But I Loved It. Years ago, I joined a team to climb Everest. I wasn't the best climber on the team. I was far from it. There were guys who were stronger, fitter, and more technically skilled than I was.

But I loved it. I loved the mountains. I loved the challenge. I loved the camaraderie. And I've found that the things you build out of love last much longer than the things you build out of ambition. Ambition is fragile. It breaks when things get hard. It fades when the applause stops. But love? Love endures. It keeps you putting one foot in front of the other when your lungs are burning and your legs are shaking.

If you're building a business, leading a team, or chasing a goal, make sure you actually love what you're doing. Because when the storms come (and they will) that love is the only thing that will keep you going. Are you building out of love, or ambition?

The SPACE X IPO

Andrew Mitchell, CEO
Ophir Asset Management

I remember in Bali watching a man sell a 'genuine' Rolex to a Yank for $500. He was the best salesman I've seen... until now.

Elon Musk is set to pull off the impossible. Float a company that's growing at 33% for over 100x revenue and US$2Trillion market cap!!

He is not a con man; the company is real. But at 100x sales, that is an amazing salesman!

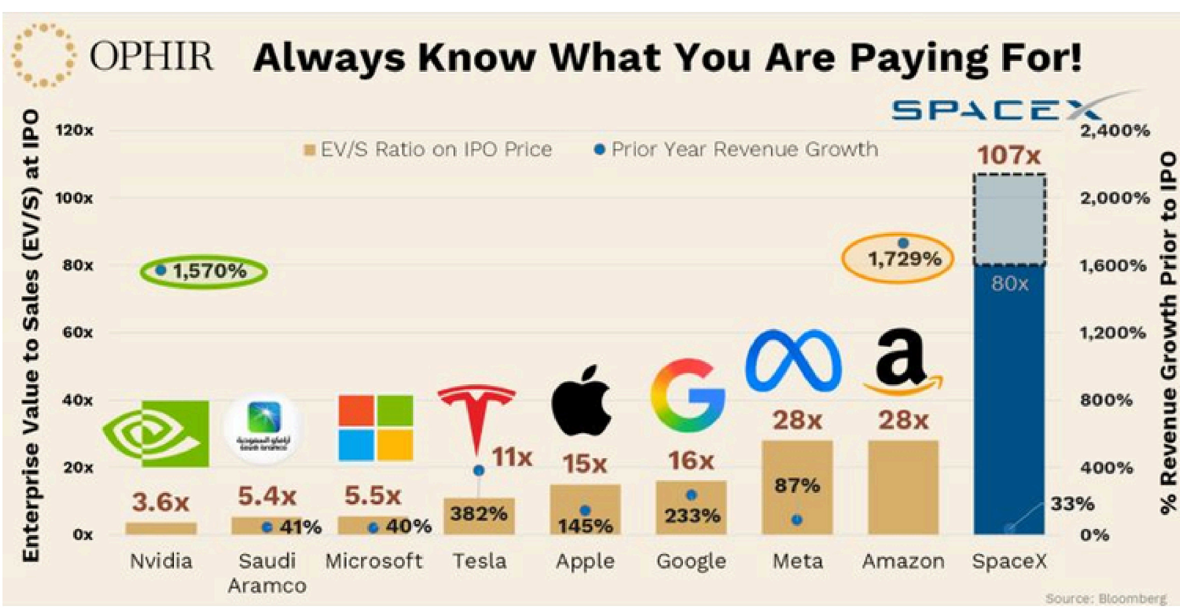
Bezos, Zuckerberg and Brin and Page had businesses growing at many multiples of what SpaceX is growing now.

Their IPO valuation...? A fraction of SpaceX.

But when you show a rocket landing between two chopsticks, people want a part of that. And suddenly the dream of mining asteroids is not crazy.

The world is lucky to have Elon Musk taking risks (and to date executing).

I'm hoping for the whole of humanity this IPO goes well. Elon has a lot of expectations to deliver into!



Please, please stop chasing fund performance

Joe Wiggins, Ex CIO
Fundhouse UK

I recently read an article about another high-profile 'star' fund manager whose performance had been flagging severely. You can probably guess who it was, but that is irrelevant. What matters is the depressingly repetitive pattern of fund managers being lauded as geniuses after a spell of strong returns and dismissed as frauds when gravity brings those returns back to earth. This dramatic shift in sentiment is symptomatic of how most active fund investing works, and it is an almost sure path to failure.

The comments beneath the piece lamenting the latest star fund manager's downturn were inevitably vitriolic. Here is a sample:

"A has-been definitely proves he is a has-been."

"Finally exposed."

"Poor excuses for poor decisions."

"It was a complete open goal in 2025. Any fool could have made money."

"Having endured years of presentations from active fund managers, I can confirm that the only real skill they possess is selling snake oil."

Although I wasn't surprised by the tone, it did jar with the universally positive perspectives I was sure I had read about this very same fund manager when their relative performance was a little healthier. I looked at the comments responding to a far more positive article from 2021:

"An absolute legend who deserves every penny."

"Great man – and a great team."

"Fantastic and fully deserved. May you have many successful years ahead."

"Great guy. I'm heavily invested. Worth every penny. Those who say he isn't simply aren't good at valuing his contribution. Their loss."

In the space of five years the fund manager has gone from investing genius to greedy and incompetent. I spent years having to justify why I hadn't invested in this particular manager and was apparently a fool to be missing out on such an obvious winner. Now everyone says they knew all along it wouldn't last.

Neither of these binary perspectives is true, but they do perfectly represent how most people seem to approach investing in active funds: find the funds that have generated the strongest performance over three to five years, latch onto the narratives that have built up around either the manager or their investment style, and then sit tight for mean reversion to take hold.

It is hard to overstate what a terrible approach to investing this is, yet it is accepted practice across every part of the industry.

All high-conviction actively managed funds will experience prolonged spells of outperformance and underperformance – and by prolonged, I mean years. This is entirely irrespective of whether the manager possesses genuine skill or edge. If a fund is enjoying an unusually strong period of relative returns, it is almost inevitable that leaner times lie ahead, even if the timing is uncertain. Yet each time it happens we act as though we have never witnessed it before.

There is no process, no matter how robust, that works in all environments and at all times.

The endemic performance chasing in the active fund industry is driven by two powerful behaviours: outcome bias and extrapolation. With outcome bias we judge the quality of a process – or a fund manager – purely by the results delivered, which in a noisy system is an incredibly dangerous assumption to make. Extrapolation compounds this. When a fund manager is outperforming, not only is their investing ability considered unimpeachable, we cannot see any end to those high returns.

When a previously high-flying manager begins to struggle, the same outcome bias that gave us such conviction in their acumen now leads us to spot weaknesses in the process. It becomes easy to identify changes in approach and construct plausible-sounding reasons why returns have deteriorated so sharply. The last thing we want is to acknowledge our own failings, or accept that we misjudged the inherent cyclicality of fund manager returns. Instead, we have to build a compelling case for why things outside our control have changed, and why we need to sell.

One of the most frustrating features of this hire-and-fire culture is that we treat each high-profile case as a unique instance with its own particular circumstances. Yet it is the same pattern repeating. It is about our behaviour far more than the capabilities of any individual fund manager.

Few of us readily admit to performance chasing when selecting funds. We always construct persuasive stories justifying our decisions and explaining why historic returns were incidental to the choices we made. It is just a coincidence that, if you know a fund's past performance, you can almost perfectly predict the outcome of any research carried out on it. It is not merely that we don't want to admit it – we are genuinely wired to find a good process behind good outcomes, and a flawed one behind poor outcomes.

Even investors who sincerely try to avoid performance chasing find it extraordinarily difficult when it is such a powerful industry norm. Everyone is happy when you sell a struggling fund or buy into one topping the performance charts, despite the evidence suggesting that this is unlikely to be a good idea.

If you want to invest in high-conviction active funds with genuinely differentiated returns, you need to do three things: identify a manager with real skill or edge; be willing to sit through potentially years of underperformance even when you believe in that skill; and develop the ability to distinguish between cyclical underperformance and a genuine deterioration of process. None of these is easy.

The good news is that there is no obligation to do any of it. Index or diversified systematic funds remain a perfectly sensible option and a far better one than investing in high conviction active funds with wholly unreasonable expectations. If you do want to identify skilled, differentiated active managers, it is extraordinarily hard to do well, made significantly harder by a set of very human behaviours. To have a chance of succeeding you need to approach it very differently. Or not do it at all.

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