cogence

Q3 2024

THE COGENT
QUARTERLY

MARKET BACKDROP

Overview of the last quarter's market movements

FUND HIGHLIGHTS

Update on portfolio performance and current positioning

SCOOP OF THE DAY

Spotlight on an exciting investment opportunity

CHARTING THE FUTURE

Insights on market outlook and future opportunities

Market **backdrop**

THE QUARTER IN SUMMARY

After a turbulent start to the quarter, developed equities ended in positive territory.

Global bond markets ticked up on the back of the start of the rate-cutting cycle by central banks.

Emerging equities performed positively, with China's new stimulus measures driving up the South African market.

Financial markets saw predominantly positive performance over the third quarter of 2024. Developed equity gained 4.8% in local currency terms (and 6.6% in dollar terms). Emerging market equities returns were 6.8% in local currency terms, partially closing the relative underperformance to developed equities in 2024. As of end of September, developed equities are leading their emerging counterparts by c.2%. Mid- and small-cap stocks also resurged in the US, whereas their performance elsewhere was muted over the quarter.

Increased volatility over the period was driven by disappointing US economic data fueling recession fears, which, combined with concerns over the return on capital from the huge spend on artificial intelligence, led to a rotation out of growth and quality stocks. An interest rate hike by the Bank of Japan exacerbated the selling pressure as carry trades were unwound; these had relied on borrowing cheap Japanese yen to fund investments in higher-yielding assets.

Markets recovered towards the end of the quarter; expectations of more aggressive easing from the Federal Reserve were realised as interest rates were cut by 0.5%. Solid economic growth numbers and stimulus measures in China also led to improved investor sentiment.

Emerging market equities outperformed developed market equities driven by the Chinese government's aggressive stimulus measures to boost the economy. Following the announcement, Chinese equities experienced its largest single-day rally since 2008.

Within developed market equities, the US outperformed Europe. The S&P 500 saw a broadening out of returns beyond the technology sector as the average stock return outperformed the index.

As well as the rate cut from the Federal Reserve, over the quarter the European Central Bank cut rates for the second time, and the Bank of England also started its rate-cutting cycle, both reducing rates by 0.25%. Against this backdrop bond assets performed strongly, led by US treasuries and investment-grade credit. High yield also performed strongly as credit spreads continued to tighten. Government rates have reduced by close to 0.6% for US 10-year rates, 0.17% for UK and 0.35% for German 10-year rates.

South African bonds posted a very strong 10.5% return for the quarter. This brings the year performance to 26.7%, outperforming South African Equity by a little under 1% over the year. The 10-year SA government bond yields fell from 10% at the start of the quarter to 9%. The continued optimism around the new government, along with improving momentum, lifted South African Equity by another 9.6% over the quarter. The asset class has returns of 25.3% over the year so far.

Elsewhere, precious metals outperformed, with gold continuing to be a standout performer over the quarter as geopolitical risks continue to remain a tail risk for markets. Notable was the performance of oil, which was the worst-performing asset class given lingering concerns around the global economy.

Sources: BlackRock, Thomson Reuters DataStream. All returns are in local currency terms unless otherwise stated. Equity performance is the MSCI Total Return Index for the corresponding region.

Fund **highlights**

PERFORMANCE

Cogence Global Solutions – click here to view factsheets

		3-month return			1-year return			2-year return (p.a.)		
		Fund	Peer group	Relative	Fund	Peer group	Relative	Fund	Peer group	Relative
USD-denominated Global Portfolios	Cogence Global Cautious Portfolio	4.04%	4.07%	-0.03%	15.16%	12.67%	2.49%	10.04%	8.47%	1.57%
	Cogence Global Balanced Portfolio	4.19%	4.72%	-0.53%	20.30%	17.40%	2.9%	14.82%	12.58%	2.24%
	Cogence Global Growth Portfolio	4.60%	4.60%	0.00%	24.80%	20.04%	4.76%	19.36%	15.37%	3.99%
ZAR-denominated Global Portfolios	Cogence Global Cautious Prescient Feeder	-1.74%	-0.29%	-1.45%	5.18%	3.99%	1.19%	8.07%	7.95%	0.13%
	Cogence Global Balanced Prescient Feeder	-1.70%	-1.40%	-0.30%	9.16%	9.11%	0.06%	11.67%	12.14%	-0.47%
	Cogence Growth Prescient Feeder	-1.06%	0.66%	-1.72%	13.99%	10.55%	3.45%	15.37%	13.24%	2.13%
	Cogence Global Equity Prescient FoF	-3.87%	0.15%	-4.02%	16.31%	16.09%	0.21%	21.24%	19.57%	1.67%

Source: Morningstar, 30 September 2024.
***Note: Past performance is not necessarily an indication of future performance**. USD-denominated global returns are quoted net of fees, in USD. Peer group: Global Cautious Portfolio – EAA OE Cautious Allocation, Global Balanced portfolio – EAA OE Moderate Allocation, Global Growth portfolio – EAA OE Aggressive Allocation. ZAR-denominated local returns are quoted net of fees, in ZAR. Peer group: Global Cautious Feeder – ASISA Global Multi-Asset Low Equity, Global Balanced Feeder – ASISA Global Multi-Asset Medium Equity, Global Growth Feeder - ASISA Global Multi-Asset High Equity, Global Equity FoF - ASISA Global Equity General.*

The Cogence global portfolios generated positive returns over the quarter. Amid a predominantly positive Q3 for capital markets, the USD-denominated funds delivered strong absolute returns across all three risk profiles, tracking closely to peers; however, the currency worked against the ZAR-denominated funds as the rand strengthened against the dollar. The full global range continues to show strong one-year performance, delivering meaningful outperformance across the various risk profiles. During Q3, manager selection detracted from portfolio returns, while asset allocation marginally detracted. From an asset allocation perspective, the overweight equity positions to the US and emerging markets were beneficial for active performance. Similarly, the allocation to gold was additive to portfolio returns. The bonds positions largely detracted from active performance, particularly the duration underweight. However, the addition to high yield was beneficial to portfolio returns. On the manager selection side, managers' active returns were largely negative; the largest detractors from portfolio returns were GQG US equity followed by BlackRock US Sustainable Advantage.

Cogence Local Solutions – click here to view factsheets

		3-month return			1-year return			2-year return (p.a.)		
		Fund	Peer group	Relative	Fund	Peer group	Relative	Fund	Peer group	Relative
Local Model Portfolios	Cogence Cautious Portfolio	5.68%	5.46%	0.22%	19.44%	16.37%	5.68%	15.06%	13.37%	1.69%
	Cogence Moderate Portfolio	5.67%	5.46%	0.21%	19.62%	17.45%	5.67%	15.73%	14.45%	1.28%
	Cogence Balanced Portfolio	5.82%	5.99%	-0.17%	19.93%	18.73%	5.82%	16.31%	15.85%	0.46%
	Cogence Equity Portfolio	4.66%	8.77%	-4.10%	21.20%	21.80%	-0.60%	18.77%	16.65%	2.12%
Local CIS Portfolios	Cogence Prescient Income FoF	As per CISCA requirements, performance figures will be made available 12 months after launch in March 2025.								
	Cogence Prescient Cautious FoF									
	Cogence Prescient Moderate FoF									
	Cogence Prescient Balanced FoF									

Source: Morningstar, 30 September 2024. ***Note: Past performance is not necessarily an indication of future performance**. Returns are quoted net of fees, in ZAR. Peer group category by risk profile: Income – ASISA very low equity, Cautious - ASISA SA Multi-Asset Low Equity, Moderate - ASISA SA Multi-Asset Medium Equity, Balanced – ASISA SA Multi-Asset High Equity, Equity – ASISA SA Equity General.*

The Cogence local portfolio range delivered positive performance over the quarter. The three multi-asset portfolios were largely in line with peers in Q3, bringing the 12-month relative outperformance to a significant c.6% against the respective peer groups. From an asset allocation perspective, we maintain a short position in South African (SA) assets, which detracted from the active returns over the quarter as both local equity and local bonds outperformed their global counterparts. This was driven by developed central bank rate cuts, including the Fed cutting rates by 50bps and improved stability in South Africa, both politically and financially. Additionally, the sustained lack of loadshedding in the last three months has also improved risk sentiment and consumer confidence. This has reflected in improved manufacturing activity as Manufacturing PMI increased from 49.3 in July to 51 in September.

On the manager selection side, key contributors included All Weather Equity, given its portfolio tilt towards SA Inc, Sesfikile BCI Property, which benefited from favourable market conditions (lower bond yields and better growth prospects due to declining interest rates), and Discovery Strategic Bond Fund, which outperformed amid post-election market sentiment, driving a bond rally. Our underweight position in inflation-linked bonds (ILBs) through the 1nvest ILB Index Tracker also contributed positively to the fund's overall performance given ILBs struggled to keep pace with nominal bonds. Detractors from performance included Ninety One SA Equity, GQG US equity, and BlackRock US Sustainable Advantage.

The equity-only portfolio delivered positive returns over the quarter but underperformed peers. Asset allocation and manager selection were both negative contributors with BlackRock's Factor strategy and the Global Unconstrained strategy detracting from the portfolio return.

POSITIONING

The Cogence investment solutions are constructed as diversified portfolios of funds spanning various asset classes, and across both active and passive strategies. Asset allocation and global manager selection advice is provided by BlackRock, while RisCura provides local manager selection.

Current asset allocation of the various investment solutions represents the combined exposure from the long-term strategic asset allocation (SAA) and the short-term dynamic asset allocation taken over the three-month period to the latest quarter end.

Cogence Global Solutions

Chart 1: Strategic asset allocation

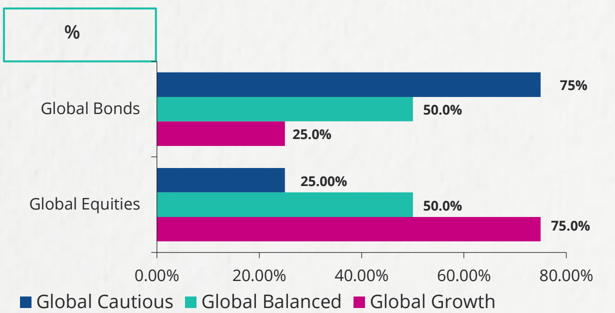
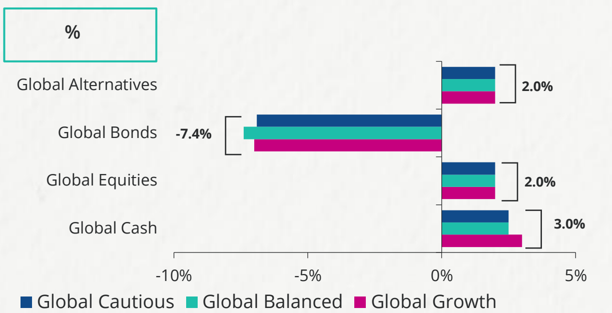


Chart 2: Dynamic asset allocation



30 September 2024

Strategic asset allocation changes

- There have been no material changes made to the SAA over the quarter.

Dynamic asset allocation changes

- **In July,** we did not make changes to the portfolios.
- **In August**, within equities, we introduce several active global and US equity managers across all three profiles, resulting in a more balanced blend between style and investment philosophies. We also close our relative positioning within US equities versus European equities. This change is driven by our earnings momentum signals turning neutral on the US versus Europe where valuations look reasonable, and we are encouraged by the fact that margins have held up well despite wages increasing faster than prices. Within bonds, we trimmed our exposure to US government bonds. This is driven by a combination of downside surprises on US growth and inflation which has driven US yields lower over the last month. We see the market as having moved too far in response to these downside surprises and increase our conviction that yields are biased to the upside from here.
- **In September**, we add to US equities using profits from global investment grade credit which performed well. We also added to European and Japanese equities, in turn reducing our exposure to cash. We see non-US equities as benefitting from the recent Fed pivot, with quicker cuts in Europe and a more cautious hiking cycle in Japan, as well as reasonable valuations. Within bonds, we redeploy capital from US government bonds into UK gilts. We see relative monetary policy trends as mispriced for the next 12-18 months, with too many cuts priced in for the US while too few cuts priced in for the UK. We also see the thrust of fiscal policy as likely to be somewhat tighter in the UK than in the US for 2025 and beyond.

Cogence Local Solutions

Chart 1: Strategic asset allocation

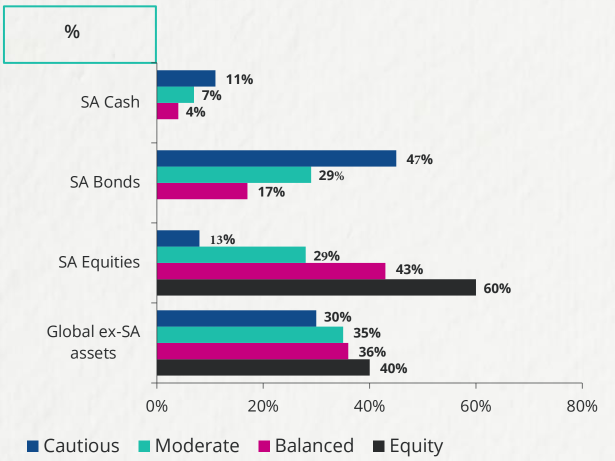
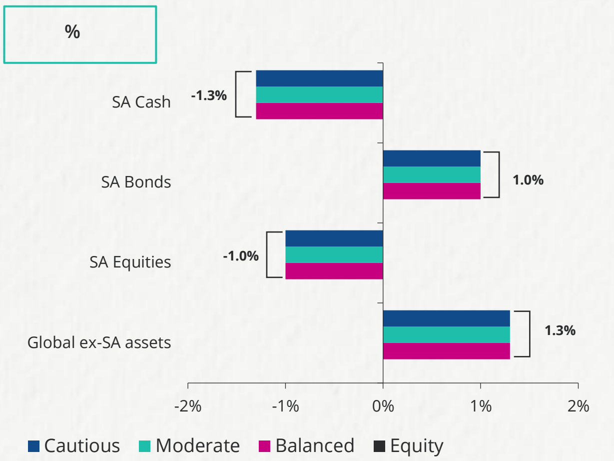


Chart 2: Dynamic asset allocation



30 September 2024

Strategic asset allocation changes

- During the third quarter of 2024, we made changes to the long-term strategic asset allocation (SAA) for the cautious and moderate profiles. The portfolios' offshore (Global ex-SA) exposure in the SAA decreased from 36% to 30% and 35%, respectively. There were no changes made to the SAA for the Balanced profile.
- The cautious portfolio remains within the defined risk parameters of a low-risk profile as per the ASISA category's maximum equity allowance of up to 40%. The moderate portfolio remains within the defined risk parameters of a medium-risk profile as per the ASISA category's maximum equity allowance of up to 60%.

Dynamic asset allocation changes

- During Q3, we go overweight South African bonds (1.0%) as we see the asset class providing attractive income for the portfolio and prefer local bonds over local equity and cash. We maintain our underweight South African equity (-1.0%), using the allocation to fund the overweight to global-ex SA assets (1.3%), which is invested in a combination of global equity and bond assets, as they seem to provide a stronger growth momentum as well as access to secular themes.
- We use the cash position (-1.3%) to partially fund the overweight to Global assets and to manage the overweight to South Africa bonds across the three multi-asset portfolios.
- On a look-through basis, please note the dynamic asset allocation changes over the quarter in the Cogence Global Growth Portfolio (see section above), which the local solutions feed into for the global-ex SA assets component.

Scoop of the day

Gold's stars continue to align

In a recent article, BlackRock's Russ Koesterich, managing director and portfolio manager in the Global Allocation team, discusses how gold may continue to serve as a store of value in the current environment of increased political and geopolitical risk.

Many investors were frustrated with the performance of gold in 2021 and 2022. Amid the biggest surge in inflation in 40 years, gold traded sideways, with a total return close to 0. In contrast, in the current year when inflation is normalising, gold is having a stellar year.

Gold's performance a few years ago is less surprising given gold's mixed record as a short-term inflation hedge. But while gold can be an inconsistent hedge, this year demonstrates its value as a long-term store of value, particularly in a time of high government debt.

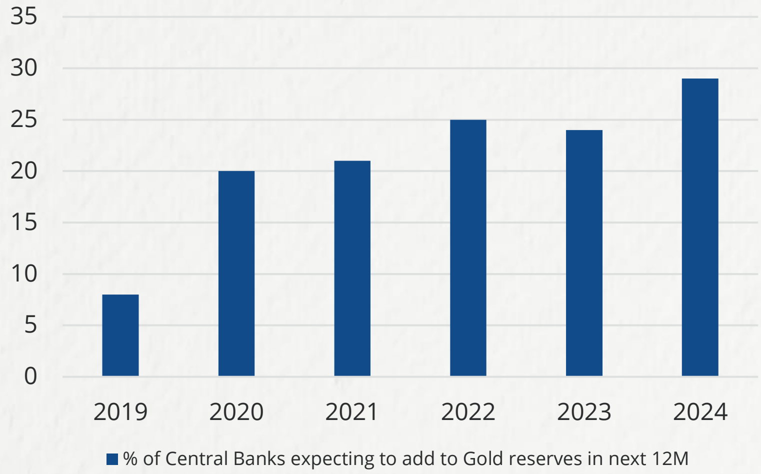
Short-term economic factors

In recent months the historically negative relationship between gold and the dollar has reasserted itself (in other words the price of gold has risen as the dollar weakened). A similar dynamic holds for real rates. This is important as both the dollar and rates have reversed their early 2024 trends. Going forward, with inflation heading back to trend and the economy slowing, more rate cuts are likely, offering the potential for further gains in gold.

Sustained long-term drivers

In addition to an inflection in the macro-outlook, the longer-term support from central bank demand is very much in place. Central banks continue to add to their gold portfolios. Based on data from Bloomberg, China's central bank gold holdings are roughly 45% higher today than in the summer of 2022. Beyond central bank buying, gold continues to get a bid as investors react to structural US fiscal deficits, which continue to pile up.

World Gold Council: Central Bank Gold Reserves Survey



Sources: BlackRock, based on Datastream and World Gold Council as of 30/09/2024, data on China gold reserves as of 31/08/2024.

With the economy slowing, central banks easing and governments still racking up debt at an outsized pace, gold still makes sense, particularly if there is continued weakness in the dollar.

Year-to-date gold is up more than 25%, outpacing stocks and easily beating a traditional 60/40 portfolio. In other words, any allocation to gold would have significantly improved the return of just about any multi-asset portfolio. We expect this to continue amid continued geopolitical fragmentation and electoral appointments with related policy uncertainty.

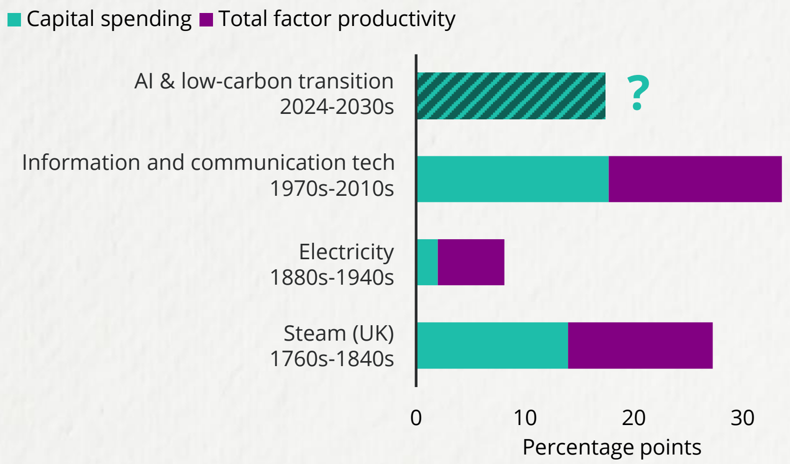
Bottom line: We have a strategic and dynamic allocation to gold.

Charting **the future**

LOOKING AHEAD

01 **Mega forces driving the transformation ahead:** A potential wave of investment in artificial intelligence (AI), the low-carbon transition and a rewiring of global supply chains could put us on the verge of a major transformation. But its speed, scale and impact is highly uncertain.

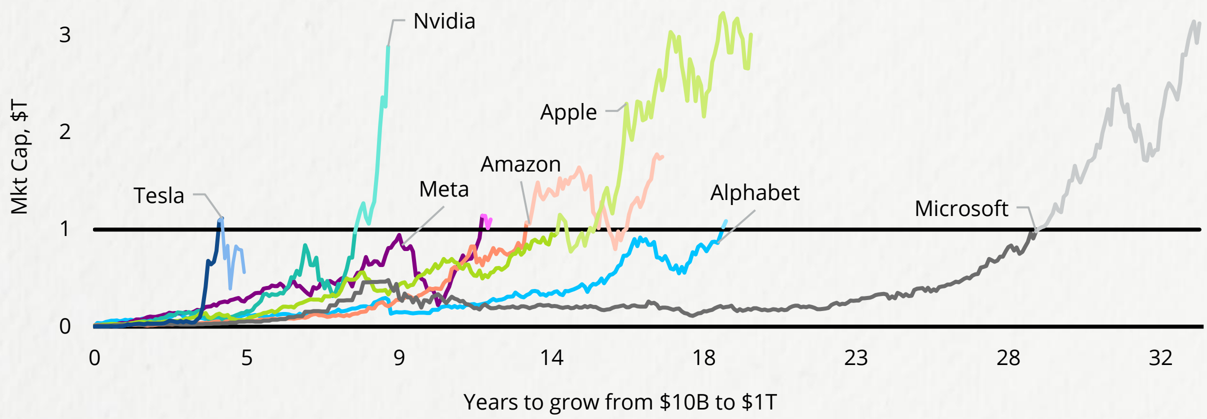
Total contributions to GDP growth



Forward-looking estimates may not come to pass. *Source: BlackRock Investment Institute, June 2024 with data from Crafts (2021). Notes: The chart shows annual contribution of previous U.S. technologies (except "steam") to GDP growth. The estimates for information and communication tech, electricity and steam are taken from historic economic literature as in Crafts (2021). The spend needed for artificial intelligence (AI) and the transition is a BII estimate based on external research on data centre investment requirements and the BII Transition Scenario (for professional investors here). Other revolutions took place over decades so our estimates for AI and transition-related spend assumes an optimistic case over a short span of time.*

02 **Getting real | Volatile AI equity valuations reflect the uncertainty ahead:** Much investment ahead will flow into tangible assets and industries like infrastructure and tech, in our view. Nvidia's surge to $3 trillion in market cap – and volatility – reflects both the big expectations and uncertainty from AI.

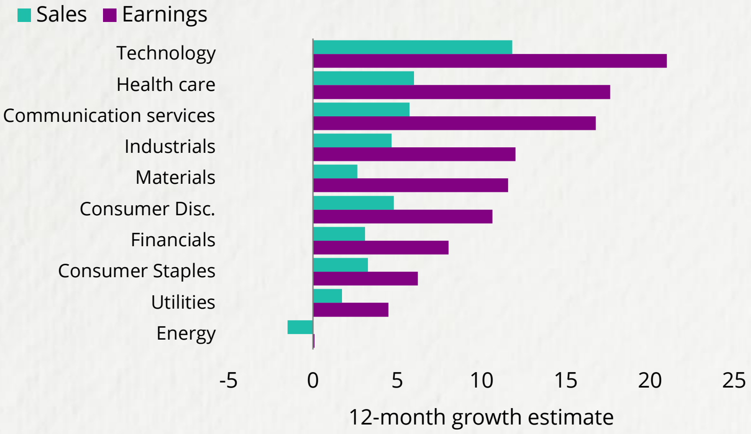
Years to go from $10 bln to $1 trn in market capitalisation



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise – or even estimate – of future performance. Past performance is not a reliable indicator of future results. *Source: BlackRock Investment Institute, with data from LSEG Datastream, October 2024. Notes: The chart shows how long it took for the "magnificent seven" stocks to go from $10 billion to $1 trillion in market capitalization.*

03 | **Leaning into risk | We think US equity gains can broaden:** Falling inflation could provide a further boost to already-high corporate profit margins beyond tech.

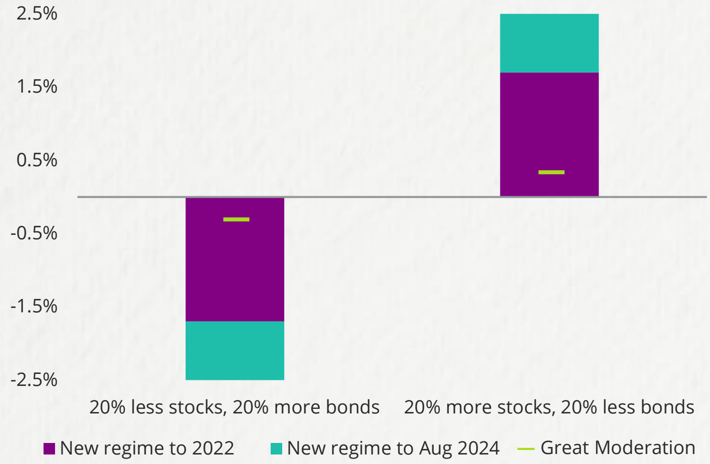
U.S. sector earnings, Sept.2024

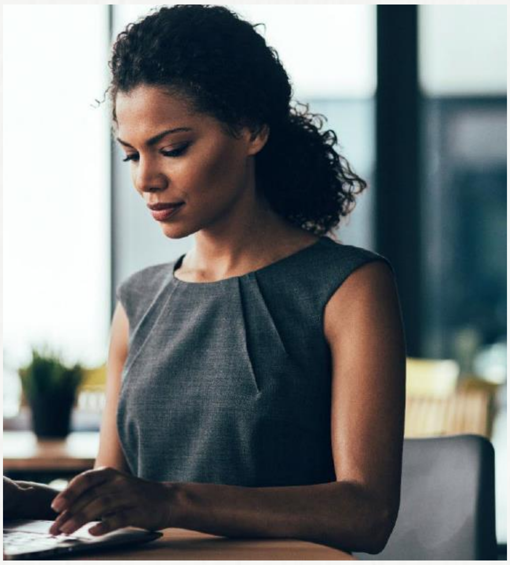


Past performance is not a reliable indicator of current or future results. Forward looking estimates may not come to pass. It is not possible to invest directly in an index. Indexes are unmanaged. Index performance does not account for fees. *Source: BlackRock Investment Institute, MSCI, with data from LSEG Datastream, October 2024. Notes: The chart shows the change in aggregate analyst earnings forecasts for U.S sectors. Index proxies are: MSCI USA IT, MSCI USA Communication Services, MSCI USA Materials S, MSCI USA Industrials, MSCI USA Utilities S, MSCI USA Energy S.*

04 | **Spotting the next wave | Asset allocation matters more now than in the past:** We've long said that investment decisions carry more weight in this new, more volatile regime. Our findings suggest that the range of possible returns for different portfolio mixes is much wider today than in the decades prior.

Estimated impact of deviating from a hypothetical 60/40 stock-bond mix





Past performance is not a reliable indicator of current or future results. Indexes are unmanaged. Index returns do not account for fees. It is not possible to invest directly in an index. For illustrative purposes only. These do not represent actual portfolios and do not constitute investment advice. This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance. *Source: BlackRock Investment Institute with data from LSEG Datastream and Morningstar. Returns data as of August 2024. Notes: The chart illustrates the contrast between estimated average annual relative performance of two hypothetical portfolios against a 60-40 global equity-global bond portfolio since January 2020 over the Great Moderation era (Jan 1990-Dec 2019) of stable growth and inflation. We show hypothetical performance of portfolios comprising a 40%-global equity-60% global bond split and an 80% global equity-20% global bond mix. Index proxies: MSCI AC World for equities and the Bloomberg Global Aggregate Index for bonds. We use the actual returns for both indexes using LSEG data to estimate portfolio returns..*

Source: BlackRock Investment Institute, 30 September 2024.