

moment of portfolio facts & figures

Momentum Investments Classic Factor Portfolio Range

Quarterly commentary to end March 2024

Assessing investment returns in an outcome-based investment context

The Momentum Investments Classic Factor Portfolio Range is managed in terms of our outcome-based investing philosophy, where we design the portfolios to maximise the probability of achieving the inflation-plus return target of each portfolio over the relevant period, while continuing to meet the portfolios' risk targets. To achieve this, our portfolio management approach conceptually starts at an (multi) asset class level, then progresses to the identification of specific investment strategies within each asset class (if appropriate) and finally ends up in the selection of (potentially more than one) investment mandates awarded to investment managers that will implement the desired investment strategies.

Given this outcome-based investing framework, when assessing the returns of the Momentum Investments Classic Portfolio Range, it is important to start by looking at the returns from the portfolios against their inflation-related targets. This allows us to answer the question: did we achieve our target over the most recent relevant period? We then assess these returns relative to this target in terms of the following:

- The returns provided by the asset classes included in the portfolios
- The returns from the building blocks that provide the asset class exposure for the portfolio against their asset class (or strategic) benchmark. This in turn is explained by:
 - The returns from the investment strategies (or styles) used in the building block (if any)
 - The returns from the investment managers that were awarded the mandates used in each of the building blocks

This quarterly review thus starts with the assessment of the investment returns generated by the portfolios against their targeted investment outcomes over the most recent periods. The next section focuses on the economic environment and the returns generated by the asset classes (beta) for the most recent quarter, measured against our average real return expectations for each asset class. We review the returns from the building blocks and the underlying investment managers against their strategic investment benchmarks.

Economic overview

Incoming data and central bank rhetoric are being taken on board by financial markets as they adjust their views of the economic outlook and the trajectory for inflation. As such, markets have significantly pulled back the number of expected interest rate cuts for 2024. Given the effects of disrupted trade flows, supply chain shortages, increased uncertainty and higher risk premia arising from geopolitical tensions, a higher level of political instability in the global economy could result in higher inflation, lower growth and significant welfare losses in the longer term.

For South African (SA) investors, our preference remains tilted towards domestic asset classes over global counterparts in the upcoming year due to more appealing valuations and the potential for rand appreciation. While global equity markets have largely discarded the probability of a recession in the United States (US), some indicators point to a lingering and non-negligible risk. There could be a significant downside for equities should recession ensue. Moreover, equities are currently priced more than one-and-a-half standard deviations expensive relative to US bonds.

A record number of elections are taking place globally this year. In SA, polls for the May general elections currently flag a significant risk for the incumbent ruling party. We expect pedestrian growth of 1% this year, up from 0.7% last year, to be supported by fixed investment in energy and a marginal recovery in household spending. Upside risks to the inflation outlook continue to stem from a weaker exchange rate, administered prices and geopolitically-driven higher global food and oil prices. Meanwhile, demand-pull and wage inflation are expected to remain contained, limiting second-round or persistent inflationary pressures. We expect the first move to lower SA interest rates in the second half of the year. Aligned with the SA Reserve Bank's (SARB) Quarterly Projection Model which, now forecasts only 50 basis points worth of easing by the end of the year, risks are tilted to a shallower interest rate cutting cycle.

The valuation metrics of the SA equity market have reset to consistently lower levels since the pandemic. SA equities remain very underowned by local and global portfolio managers, enhancing their rerating potential should there be positive surprises on the domestic economic growth front or if a global risk-on environment takes hold. We foresee a necessity for investors to extend the duration of their SA fixed-income holdings during 2024 to mitigate the escalating reinvestment risk associated with shorter-duration fixed-income assets like cash as we near the start of the domestic rate cutting cycle.

Portfolio management

Portfolio performance was positive for the quarter and was driven largely by the global exposure. The overweight position to global equity and corresponding underweight to local equity contributed to returns. During the quarter we increased the global exposure (at levels between R18.50 and R18.60) which was funded predominantly from reducing local equity and local bonds after the recovery in the fourth quarter. The cash allocation in the portfolios is at the highest levels since mid-2020 and reflects the cautious views of the investment team.

Asset class returns

The returns for the asset class benchmarks for the first quarter of 2024 are reported in the first column of the table below. The next column highlights the returns for these asset classes for the previous year. These one-year returns are then converted into real returns by deducting inflation (5.6%) for the year. The final column in the table contains the returns above inflation we expect to get (on average) for these asset classes for a full market cycle.

Asset class	Q1 2024 returns	Nominal returns for the previous 12 months	Real returns for previous 12 months*	Expected real return (p.a.)
Local equity (Capped SWIX)	-2.3%	2.9%	-2.7%	5.8%
Local bonds (ALBI)	-1.8%	4.2%	-1.4%	3.3%
Local listed property (SAPY)	3.8%	20.5%	14.9%	7.0%
Local ILBs (ILBI)	-0.5%	5.6%	0.0%	2.8%
Local cash (SteFI)	2.1%	8.4%	2.8%	1.3%

Global equity (MSCI ACWI)	12.1%	32.4%	26.8%	6.5%
Global bonds (WGBI)	-2.4%	-0.8%	-6.4%	-0.3%
Global property	2.5%	16.0%	10.5%	4.0%
US dollar/rand**	3.5%	6.9%		
SA CPI*	1.1%	5.6%		

*CPI is lagged by 1 month

**A positive/negative value here reflects the effects of a depreciation/appreciation of the rand against the US dollar on global asset class returns in rand terms. As the rand gets weaker/stronger, the returns of global investments get better/worse from a local investor's perspective.

Building block return assessment

As explained above, our outcome-based investment philosophy starts at the asset class level and then goes down to an investment strategy (if appropriate) and investment mandate level within each asset class. We thus construct building blocks that reflect our selected investment strategies and managers that were awarded the mandates to implement these to either improve on the returns of the asset class or manage its risk profile.

Local equity building block

The first quarter of 2024 brought a continuation of the relatively bullish investor sentiment towards global equities seen in the last months of 2023, as prospects for growth in the US were buoyed by positive company earnings reports and supportive economic data that increased the likelihood of a "soft landing" for the economy. On the other hand, global bonds were weaker as inflation proved higher than expected and major central banks kept interest rates on hold, prompting pundits to move out their rate cut expectations to the second half of the year.

The Japanese and US equity markets were the stand-out performers, while the UK disappointed. China continued to experience losses, although the magnitude of these fell as the quarter progressed, helped by small gains in March. Emerging markets were broadly in the red, except for India, and South African equities remained in the doldrums on the back of slow growth and the approaching May national elections.

Locally, the All-Share Index and Capped SWIX Index underperformed, both delivering a return of -2.3%. The local market was dragged down by a 7.6% loss in Financials, while Industrials delivered a return of 0.6%, Resources 0.8% and Listed Property 3.5%, the latter continuing its rally from the previous quarters.

Off the back of that, the building block delivered a return of -1.2% for the quarter, outperforming the benchmark. For the past year, it has delivered 3.4%, outperforming the Capped SWIX return of 2.9%.

Fairtree outperformed the benchmark by 1.7%, delivering a return of -0.6% for the quarter. The Consumer Discretionary sector was the key performance contributor during the quarter, and the fund's overweight positions in AngloGold, Gold Fields, Naspers, Prosus and British American Tobacco contributed to the funds' performance. The overweight positions in Firststrand, Sasol, ABSA, and Northam Platinum detracted from the performance. The manager continues to hold their overweight position in gold exposure to protect the portfolio in the current climate of global uncertainty and geopolitical tension and maintain the discipline to trim during periods of significant share outperformance. This was a strong contributor to the fund's performance over the quarter.

Foord had the best quarter of our equity managers and delivered a return of 0.6% versus the -2.3% of the Capped Swix. The fund outperformed its benchmark on a combination of both sector allocation and security selection. The underweight to financials contributed to performance as negative economic sentiment and an expectation that the rate cycle is likely to turn weighed on the financial sector. Sizeable positions in global media giants Naspers / Prosus contributed to performance, the two counters performed well off the back of rand depreciation and a sharp swing in momentum for Chinese equities. The overweight position

in the pharmaceutical group Aspen contributed positively as well. While an underweight position in gold miners was negative, the funds' exposure to physical gold contributed. The funds' sizeable allocation to cash contributed as well.

Truffle delivered a return of -1% for the quarter, a good performance following a tough 12 months. The fund benefitted over the quarter from an underweight in MTN. Poor results from the telecommunications company were driven by significant currency losses in Nigeria and a weak SA market. An underweight in Standard Bank also benefitted with an overweight to ABSA Group detracting as SA Banks came under pressure. An overweight position in MultiChoice benefited. Shareholders responded favourably to the local media company's announcement of a takeover bid from French company Canal+, at a healthy premium. Sappi performed well over the quarter and an overweight in this counter added to the performance. The fund also benefitted from an overweight in AngloGold given solid returns from precious metals in March, however an underweight in Harmony Gold detracted from relative return.

Local property building block

The SA Listed Property Index (SAPY) and the All-Property Index (ALPI) recorded total returns of 3.85% and 3.47% respectively for the quarter ended 31 March 2024. In March, South African listed property saw a slight pullback in its year-to-date gains. However, it remained the top-performing asset class for the first quarter, continuing the strong rebound from the final quarter of 2023, driven by market expectations of global rate cuts and an improving risk appetite. On a 12-month basis, the All-Property Index delivered returns of 20.33%, outperforming cash (8.32%), bonds (4.09%) and equities (2.87%).

During the quarter, several property funds, including Nepi Rockcastle, Growthpoint, Hammerson, Shaftesbury Capital, Mas, Fortress, Hammerson, Attacq, SAC, Hyprop, Lighthouse, and Resilient, released their results. Results have largely been in line with guidance and market expectations, and consistent with the operational outlook presented previously. Interest rates remain the key driver of low to negative performance while fundamentals continue to improve.

The GPR 250 Index ended the first quarter marginally (0.5%) higher with America (-1.0%) and Europe (-2.1%) negatively impacting whilst the other three regions, Africa (3.5%), Asia (6.2%) and Oceania (8.4%) ended the quarter higher. The best performing sectors globally in USD for the year were Data Centres (47.51%), Student Housing (33.31%), and Single-Family Housing (32.03%). The worst performing sectors were Lab Space (-9.51%), Strip Retail (1.07%) and Gaming Net Lease (1.08%). The building block delivered a return of 2.1% for the quarter.

Catalyst delivered a return of 2.4% for the period and underperformed the benchmark for the quarter. From a tactical asset allocation perspective, the underweight to SA property and overweight cash position contributed negatively to performance relative to the benchmark. The main contributors to performance were overweight positions in Digital Realty, SA Corporate, Cubesmart and Gaming and Leisure Properties which outperformed relative to the benchmark, and underweight position in Burstone which underperformed the benchmark.

The main detractors to performance were underweight positions in Fortress Group (A and B units) and Attacq which outperformed relative to the benchmark and overweight positions in Link REIT, Hyprop and Rexford which underperformed.

Meago delivered a return of 1.7% for the quarter. The largest positive contributors to performance were the overweight positions in Fortress, SA Corporate and Sirius. The largest detractors to performance were underweight positions in Lighthouse, Nepi Rockcastle and Attacq.

Local absolute strategies building block

The building block had a difficult quarter in what was a tough quarter for most South African asset classes. It delivered a return of -0.67% for the quarter, slightly lagging the benchmark return of -0.41%.

M&G under-performed its real return investment objective over the quarter, delivering -1.7%. Looking at the fund's asset allocation, SA cash holdings added by far the most value to absolute performance for the quarter, followed by SA-listed property

which also made a positive contribution. SA equity exposure was the largest detractor from performance, followed by SA nominal bonds.

Within SA equities, the rally in Naspers and Prosus shares added good value to the fund, as did the rebound in Multichoice over the quarter. Other notable contributors included globally exposed holdings Richemont and BAT, and gold counters AngloGold Ashanti and Gold Fields. The largest detractors from performance were MTN (over concerns around its Nigerian operations), banking shares Standard Bank, First Rand and Absa, mining counters Harmony and Exxaro as well as Sasol.

Sentio underperformed the internal benchmark slightly during the quarter, delivering -0.9%. In Fixed Income the fund initially had an overweight duration position but moved tactically over the quarter, resulting in slight underperformance relative to the strategic benchmark. The overweight duration stance continues to be held as the manager views valuations to still attractive with SA inflation still within the target band.

The top 10 contributors included positions in AngloGold Ashanti, Naspers, Goldfields, Richemont, Prosus, Multichoice, Bidcorp, BTI and RH Bopelo. Their position in property contributed to the returns and was led by NEPI Rockcastle. Top 10 Detractors included positions in Firstrand, Standard Bank, Remgro, MTN, Sasol, BHP Group, Shoprite Discovery, Woolworths, and Discovery.

Laurium delivered a negative return of -1.2% for the quarter. These negative returns were attributable to the local equity and fixed-income allocations. Additionally, the property allocation in the fund had a marginal positive contribution, with STOR-AGE being the preferred pick in the sector.

The real return component had a good quarter, achieving 0.5% for the quarter. Prescient delivered a return of 0.4%, with income and money market being the strongest contributors to performance. Local equity exposure was the main detractor for the quarter. Sanlam investments achieved a return of 0.6% for the quarter. This component is defensively positioned and is focused primarily on capital protection.

Local flexible bond building block

The first quarter of the year 2024 saw fixed-income asset classes struggle after the hugely positive end to 2023. Total returns were under pressure as nominal and inflation-linked yields moved higher. Both nominal bonds, ILBs and the ZAR delivered negative returns, with the ALBI at -1.80%, the IGOV at -0.47% and the ZAR losing 3.2% against the USD. Cash (STeFI) delivered 2.06%, while the only asset class to deliver positive returns was listed property (3.85%).

Currently, credit exposure consists mainly of exposure to the large banks and these spreads have remained stable over the quarter, but at fairly compressed levels relative to history. The non-bank credit market has seen a decline in activity and a continued grind lower in spreads on offer. With spreads tight and the macro backdrop challenging, there has not been too much opportunity for yield enhancement from credit. Both investment managers have thus rather increased interest rate risk by moving longer out on the money market curve as the better option for generating outperformance over the coming quarters.

For the quarter, the building block delivered a return of negative 2.1% compared to the ALBI's negative 1.8%. The large overweight exposure to the 12+ years sector contributed the most to the underperformance against the ALBI. Measured over an appropriate investment term of three years, the building block yielded a strong 7.79% compared to the ALBI's 7.41%. Measured over a five-year period, it yielded 6.14% compared to the 7.05% generated by the ALBI. The latter period includes the worst performance experienced by the ALBI at the start of the COVID-19 pandemic in 2020.

The 1-3-years sector was the strongest-performing sector for the quarter at a return of 0.81%. All the other sectors detracted from performance on an absolute basis. The 3-7-years sector had a return of negative 1.42%, the 7-12-years sector returned negative 2.38%, whilst the 12+ years sector was the weakest performer with a return of negative 2.73%.

Prescient had large exposure to the 12-plus-years sector of the yield curve at the end of the quarter slightly down from the previous quarter's 81.79%, with a 77.99% exposure compared to the ALBI at 40.88%. Prescient had an overweight exposure to the 7-12-years sector (21.18% as opposed to the ALBI's 27.94%). The overweight positioning to the 12+ years sector contributed

negatively to the relative return for the quarter. On the other hand, Coronation ended the quarter being overweight the 12+-years sector (54.96%) The exposure to ILBs (4.49%) and Listed Property (3.06%) contributed positively to the relative returns. Coronation's exposure to the 7-12-years sector was at 12.59%.

The building block allocation to listed property (1.56%) contributed to the returns on a relative basis (SAPY at 3.85%). The allocation to ILBs (2.29%), also contributed positively to the relative returns of the building block, as this asset class delivered a 0.42% for the quarter.

At the end of the quarter, the building block had a duration position of 6.26 years compared to the ALBI of 5.53 years. Both Investment Managers slightly decreased duration during the quarter. On aggregate, the building block was overweight the 12-plus-years sector (65.81% versus the ALBI at 40.88%), marginally underweight the 3-7-years sector (12.18% against the ALBI's 13.41%) and substantially underweight the two other sectors.

Local cash building block

Monetary policy remained on hold during Q1 of the new year, as both the January and March meetings saw the monetary authorities vote unanimously to keep the repo rate unchanged. The repo rate has now remained at 8.25% (prime at 11.75%) since May 2023, as the authorities monitor and assess the impact of their current policy stance on growth and inflation. The traded money market reflected the benign policy environment, with rates virtually unchanged and volatility low over the quarter. The 3-month Jibar rate moved 5bps lower to 8.35%, while the 12-month rate was unmoved at 9.12%. Based on these Jibar rate levels the total return for the STeFi Composite Index was 2.06% for the quarter.

For the quarter, the building block delivered a return of 2.3% compared to 2.1% for the SteFI benchmark.

For the year, the building block delivered a return of 9.6% against the SteFI benchmark of 8.4%. It consistently met its objective of capital preservation by maintaining positive returns on a one-year rolling basis. Both investment managers had a high exposure to floating-rate notes, which provided a fair degree of liquidity, while also providing above-benchmark yields.

Global equity building block

Global bond and equity markets concluded the first quarter of 2024 on a positive note, with investors preparing for additional volatile swings after experiencing months of alternating between optimism and pessimism regarding potential interest rate cuts by major central banks. Strong economic indicators provided encouraging signs, bolstering the likelihood of a gentle economic slowdown. A favourable shift in the overall economic environment was also evident in the adjustment of market expectations for interest rate reductions, which notably decreased, aligning more closely now with central banks' guidance. Nevertheless, the market's solid performance continued undeterred, even as the threat of higher-for-longer interest rates re-emerged.

Global stock markets performed well in the first quarter of the year, buoyed by economic resilience. The 8.2% rise in the MSCI All Country World Index was predominantly supported by a firm performance in developed market (DM) equities. The MSCI DM Index advanced 8.9% during the first quarter with Japanese equities registering the biggest increase. The Japanese Nikkei 225 Index experienced a phenomenal rise of 21.5% in the quarter as foreign investors continued to buy Japanese stocks, taking advantage of the cheap yen and corporate governance reforms that have supported an increase in shareholder returns. Semiconductor stocks in particular ran hard. The yen continued to slide despite the Bank of Japan (BoJ) hiking interest rates for the first time in 17 years. Cautious sentiment by the BoJ tempered further interest rate hike expectations and sent the yen weaker.

Gains in the Eurostoxx 50 Index followed at 12.9% for the quarter, partly driven by expectations that the ECB may have to lower interest rates before the Fed given a weaker growth backdrop. Investors' expectations of earlier rate cuts for the region were buoyed after Switzerland kicked off the easing cycle among the larger DM economies in March 2024. More attractive valuations compared to US stocks have further driven increased investment in European shares.

Gains in the S&P 500 Index were solid at 10.6% for the first quarter of the year, the biggest first-quarter gain since 2019, but US equities still trailed the performance of the European and Japanese bourses. The uptick in the S&P 500 Index continued to be driven by information technology and communication services stocks (despite underperformance by Apple and Tesla, two of the dubbed 'Magnificent 7' stocks), but a broader rally was also evident in energy, financials, healthcare, and industrial shares. J.P. Morgan Wealth Management calculated that the Magnificent 7 stocks contributed 41% of the S&P 500 Index's returns in the first quarter of the year, down from 60% in 2023.

Gains in EM stocks were milder compared to their DM counterparts, in line with shallow gains in commodity prices, ongoing concerns over China's property sector and a further rise in US treasury yields. The MSCI EM Index inched 2.4% higher in the first quarter of the year, dragged lower by shares in Latin America. The MSCI Latin America Index slid 4% over the same timeframe on lacklustre iron ore prices. The MSCI EMEA (Europe, the Middle East and Africa) Index closed the quarter 1% higher while the MSCI Asia Index gained 3.4% over the same period.

Rand weakness during the quarter contributed to the returns of the building block. Against this backdrop, the Global Equity building block posted a return of 11.5 % for the quarter ending 31 March 2024. Jennison was the largest contributor to performance, mainly due to their stock selection within the IT Hardware and Consumer Products sectors. The main detractor from performance over the quarter were our quality style managers, specifically Robeco's conservative strategy, coming from their stock selection within the Consumer Products sector.

Global property building block

Stubborn inflation data and an uptick in manufacturing activity in the US tempered rate cut expectations for 2024, leaving the yield on the US 10-year government bond higher. Yields in the US jumped 32 basis points in the first quarter of 2024 to 4.2%. The German 10-year government bond yield followed suit and sold off 27 basis points to end the quarter at 2.3%.

The GPR 250 Index ended the first quarter marginally (0.5%) higher with America (-1.0%) and Europe (-2.1%) negatively impacting whilst the other three regions, Africa (3.5%), Asia (6.2%) and Oceania (8.4%) ended the quarter higher. The best performing sectors globally in USD for the year were Data Centres (47.51%), Student Housing (33.31%), and Single-Family Housing (32.03%). The worst performing sectors were Lab Space (-9.51%), Strip Retail (1.07%) and Gaming Net Lease (1.08%).

Rand weakness during the quarter contributed to the returns of the building block. Against this backdrop, the Global Property building block posted a return of 0.2% for the quarter ending 31 March 2024.

Global fixed-income building block

In the UK, after strong data in the early part of the quarter led to Gilts initially underperforming other markets, Q4 GDP print came in weak at -0.3% and inflation data was also on the dovish side for January and February, with the latest Headline CPI at 3.4% YoY, 0.6% lower than the previous print and 0.1% lower than expectations, while Core CPI printed at 4.5%, still elevated, but following the exact same trend vs previous print and expectations. This, combined with softer labour market data, resulted in increased confidence in the path towards lower inflation over the coming months, and allowed Gilts yields to fall in the last month of the quarter. Overall, Gilt yields were still higher over the quarter with the 2-year 19 basis points higher at 4.17%, the 10-year 40 bps higher at 3.93% and the 30-year 28 basis points higher at 4.42%.

In Japan, the long-awaited end to the negative interest rate policy finally happened in March, as the Bank of Japan hiked rates for the first time since 2007. The JGB curves sold off, with the 2 years up 14 basis points to 0.19%, its highest quarterly close since 2011, the 10-year up 11 basis points to 0.73% and the 30-year up 19 basis points to 1.82%.

Rand weakness during the quarter contributed to the returns of the building block. Against this backdrop, the Global Bond building block posted a return of 0.6% for the quarter ending 31 March 2024.

Conclusion

We are comfortable with the positioning of the portfolios within the current environment and believe they are well-poised to navigate this environment. The portfolios have a slight tilt to defensive strategies but have adequate exposure to growth asset classes should markets continue to rally.