momentum
multi-manager

Quarterly investment report

Momentum Investments Flexible Factor Portfolio Range

Q1 2025

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PORTFOLIO MANAGEMENT
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Introduction

Assessing investment returns in an outcome-based investment context

The Momentum Investments Flexible 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:
    1. The returns from the investment strategies (or styles) used in the building block (if any)
    2. 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

Q1:2025

Sanisha Packirisamy
Chief economis

The inauguration of Trump and his subsequent policy changes were the dominant driving forces for financial markets throughout the first quarter of 2025. As the barrage of Trump's executive orders that aggressively transformed the geopolitical and global trade landscape gained momentum during the quarter, financial market uncertainty about the implications of his actions increased investor anxiety. The initial investor interpretation of the proposed Trump campaign policy mix — comprising higher tariffs, tighter immigration controls, deregulation, and tax cuts — was that it would be broadly reflationary over the medium term, with expectations of stronger US economic growth accompanied by a moderate rise in inflation. However, market focus in the first quarter of this year increasingly pivoted towards the near-term downside risks for the US and global economies, particularly the adverse growth implications of substantial tariff increases. This shift has elevated concerns around a potential recession or a stagflationary environment globally, marked by significantly weaker growth alongside higher inflationary pressures. As a result, the more growth-supportive components of the policy agenda, including deregulation and prospective tax relief, have receded in prominence within the current investment narrative.

Against this backdrop, a more risk-off market sentiment prevailed as the first quarter progressed. As a result, global equities meaningfully underperformed global bonds in the quarter, with global bond returns flat versus negative global equity returns.
As the perceived ultimate global safe-haven asset, US bonds performed exceptionally well in the quarter, with 10-year yields falling by 31 basis points (bps). In contrast, other developed market (DM) bond yields generally rose in the quarter, with European 10-year yields up 34 basis points. The latter was in direct response to the German parliament's relaxation of the country's strict 'debt brake' rules to substantially boost future defence and infrastructure spending in a major policy shift that should underpin economic activity in the coming years. Within the global equity space, the standout trend in the quarter was the large discrepancy between US equity returns, which were sharply negative, and European equity returns, which were significantly positive. US equity returns were also negatively impacted during the quarter by a significant sell-off in large technology stocks.

Despite some rand appreciation in the first quarter of 2025 (primarily due to US dollar weakness), SA asset classes strongly outperformed global assets in rand terms. On the back of sharp increases in gold and platinum prices, as the dollar weakened and trade tensions intensified, the SA resources sector had a very robust performance, supporting the overall SA equity market. In contrast, the rise in SA bond yields (10-year yields up by 32 basis points in the quarter) as worries about global risk appetite and local political stability surfaced, had a negative bearing on both SA-listed property and the financial sector, with both down in the quarter.

For a detailed economic outlook by our chief economist, Sanisha Packirisamy, please click **here**.

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Portfolio management
Q1:2025

Mohammed Sibda
Portfolio manager

There were no material changes to portfolio positionings during the quarter. In early April, however, we reduced global bond and global cash exposures. These asset classes provided protection during the fallout and also benefited from the Rand's weakness. The proceeds were switched into local equity and local cash.

No other changes were made as we are mindful of further market weakness given the economic uncertainty. We are also comfortable with our overall positioning as our portfolios are diversified across asset classes, geographies and strategies. We will, however, continue to look to take advantage of market volatility.

Portfolio Performance Overview

The Flexible Range underperformed over the quarter and 12 months.

The underperformance is explained by:

The underperformance of the local balanced block:

1. Underweight local equity and underweight gold stocks detracted
2. Exposure to ILBs also detracted from performance.

The underweight local equity position during the shift to the new long-term SAA has also contributed to some of the Factor 7 portfolio's underperformance.

VIEW LATEST FACT SHEETS

Asset class returns

Q1:2025

Herman van Papendorp
Head: Asset allocation

The first column of the table below reports the returns for the asset class benchmarks for the first quarter of 2025. The next column highlights the returns for these asset classes for the previous year. These one-year returns are converted into real returns by deducting inflation (3.1%) 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.

For a detailed financial market outlook report from the Head of Asset allocation, Herman van Papendorp, please click **here**.

Asset class	Q1 2025 returns	Nominal returns for the previous 12 months	Real returns for previous 12 months*	Expected real return (p.a.)
Local equity (Capped SWIX)	5.8%	22.9%	19.7%	5.8%
Local bonds (ALBI)	0.7%	20.2%	17.0%	3.3%
Local listed property (SAPY)	-3.5%	19.8%	16.7%	7.0%
Local ILBs (ILBI)	0.6%	8.9%	5.8%	2.8%
Local cash (SteFI)	1.9%	8.3%	5.1%	1.3%
Global equity (MSCI ACWI)	-3.7%	4.4%	1.2%	6.5%
Global bonds (WGBI)	2.6%	2.1%	-1.0%	-0.3%
Global property	-0.7%	1.8%	-1.3%	4.0%
US dollar/rand**	-2.5%	-3.0%		
SA CPI*	**1.3%**	**3.1%**		

*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.

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Building block Return assessment

Q1:2025 Commentary

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 multiple balanced building block

The first quarter of 2025 began with optimism, driven by expectations of US economic strength under a potential Trump administration and anticipated interest rate cuts. However, sentiment shifted dramatically due to unpredictable US trade policies, including the imposition of tariffs on imports from Mexico, Canada, China, and eventually South Africa ("Liberation Day" tariffs announced post-quarter end). This led to increased global market volatility, dampening US growth expectations and causing the S&P 500 to decline, while European and emerging markets showed more resilience initially. Global fixed income markets saw positive returns amid growing risk aversion. Domestically, the South African equity market (Capped SWIX up nearly 6%) was buoyed by surging precious metal prices (gold up 19%) and global stocks listed on the JSE. However, domestic-facing stocks declined due to concerns over the Government of National Unity (GNU), a failed budget, and slow economic reforms. The ALBI delivered a modest 0.7% return, and the Rand strengthened slightly against the dollar during the quarter, though political instability and US tariffs added pressure later.

Off the back of this, the building block had a disappointing quarter, returning 1.1% and underperforming relative to its benchmark.

Coronation returned 2% for the quarter, underperforming its benchmark. Over 12 months, it returned 18.6% versus the benchmark's 20.7%, though it outperformed significantly over periods longer than 3 years. The fund's meaningful underweight position in gold shares detracted from performance as gold prices surged. However, domestic stock selection, focusing on resilient franchises like Shoprite and Capitec, performed well despite economic headwinds. The fund maintained an underweight in resources but built positions in PGM miners and holds a healthy cash allocation.

Ninety One delivered a return of 1.5% over the quarter. Performance was driven by holdings in Gold ETFs and miners, Naspers/Prosus (benefitting from a rebound in Chinese tech sentiment), British American Tobacco, Standard Bank, and MTN. Detractors included 'SA Inc.' stocks, affected by political risk and growth concerns, and SA-listed property. The fund managers took profits early in the quarter, reduced risk exposure (exiting Glencore, Investec, trimming miners), reshaped 'SA Inc.' holdings, initiated a position in BAT, and raised the cash buffer towards the quarter-end amid rising uncertainty.

Abax had a poor quarter, delivering -1.1%. However, its 12-month return was still strong at 23.8%, significantly outperforming the benchmark. The fund continues to outperform its benchmark and CPI +5% target over all annualised periods. Key contributors included local inflation-linked bonds (benefitting from rising inflation expectations and political uncertainty), Naspers/Prosus, and MTN. Stocks like Absa, Zeda, and Kumba detracted or showed tepid performance due to factors like rising sovereign risk, weak consumer demand, and softening commodity prices. The portfolio shifted from a risk-on stance early in the quarter to a more cautious position, reducing duration and increasing ILBs in response to US trade measures and local political instability.

During the period, Foords delivered a return of 1.5%, which was positively impacted by strong performance in South African equities, led by resource stocks (gold, platinum) and Prosus/Naspers, alongside modest gains from SA bonds where the yield curve steepened. The fund's direct gold allocation was also a significant contributor as prices surpassed $3,000/oz amid geopolitical tensions, while high-yielding cash continued to enhance absolute returns. Strategically, exposure to domestic-focused equities was trimmed due to budget and political uncertainty. At the same time, holdings in longer-dated nominal and inflation-linked South African government bonds were increased to capitalise on attractive yields following a sell-off. The physical gold position was maintained for its diversifying properties, listed property exposure remained minimal due to poor fundamentals, and cash holdings were slightly increased for flexibility and appealing yields.

Local absolute strategies building block

The building block delivered a return of 3.4% for the quarter, outperforming its benchmark of 2.6%. For the year, it achieved a return of 17.9%, outperforming the benchmarks' 16%.

Sentio delivered a return of 3.8% for the quarter, outperforming its CPI + 4% target (2.30%). Strong equity selection drove performance, bouncing back from Q4 2024. Top contributors included positions in gold stocks (Goldfields, Anglogold, Harmony), platinum (Impala), industrials (MTN, Prosus, Naspers, Anheuser-Busch), and Standard Bank. Detractors were mainly domestic consumer/retail stocks (Truworths, Foschini, Shoprite, Pepkor, Woolworths, Motus, Bidvest), Nedbank, and Anglo American. The fund maintained an overweight duration position in fixed income, adding exposure in the 15-20 year area, favouring nominal bonds for their compelling real yields (~9%). The fund remains cautious given global policy uncertainty and potential recession risks.

Laurium delivered a return of 3.8% for the quarter. Performance was driven by positions in South African government bonds, AngloGold, Prosus (benefiting from the China tech rally), AB InBev, Impala Platinum, Northam Platinum, Remgro, and Momentum. Retail shares such as The Foschini Group, Woolworths, and Motus detracted from performance. Within local equity the manager favours banks like FirstRand/ABSA, insurers like Momentum/Sanlam, Remgro, TFG, Woolies, and rand hedges like AB InBev, Bidcorp, and BAT.

M&G delivered a return of 3.3% for the quarter. The overweight equity position added significant absolute value but slightly underperformed its strategic benchmark. Overweight bonds and neutral ILBs contributed positively. Property stock selection detracted, though the underweight position helped relative returns. Within equity, overweight positions in MTN (+34%) and AngloGold Ashanti (+66%) were top contributors. Not holding Harmony Gold and holding in The Foschini Group (-26%) detracted. The fund tactically reduced its equity exposure to neutral during the quarter but still views SA equities as fundamentally cheap. It maintains an overweight position in nominal bonds due to attractive real yields and a small underweight/neutral stance in property.

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The Real Return component delivered 2.6% for the quarter. Prescient delivered a return of 4.2% for the quarter, outperforming its CPI + 3% benchmark (2.0%). Performance benefited from the SA equity rally in March. The fund employs a strategy using index options for downside protection, with adequate equity exposure at ~30.1%. The portfolio held substantial nominal bonds (~57%), money market (~0.6%), inflation-linked bonds (~7%), and infrastructure debt (~5%).

Sanlam delivered a return of 1.2% for the quarter. Performance was driven by fixed income assets, given still attractive real yields in enhanced cash (CPI+4-5%) and bonds (up to CPI+8%). Equity exposure was further reduced during the quarter in favour of fixed income. Nominal bonds are preferred over ILBs, and the funds remain cautious on local listed property due to high bond yields.

Local cash building block

The monetary easing cycle continued in Q1, with a 25bp cut in the repo rate at the Jan meeting. This move by the authorities takes the repo down to 7.50% (prime at 11.00%), as they inch policy towards neutral from the current restrictive setting, which is much more appropriate for the benign growth and stable inflation environment we are experiencing. The traded money market responded accordingly, with rates moving lower. The 3-month Jibar rate declined 19 bps to 7.56%, while the 12-month rate declined less significantly, by 3 bps to 8.09%. Based on these Jibar rate levels the total return for the STeFi Composite Index was 1.89% for the quarter.

Credit spreads have compressed significantly, led by the banks but increasingly everything else following. Investors are not really being compensated adequately for taking term credit risk, and investment managers preferred shorter dated, more defensive exposure. There is not a lot of opportunity by way of new issuance or further spread compression at the moment.

For the quarter, the building block delivered a return of 2.24% compared to 1.89% for the SteFI benchmark. For the year, the building block delivered a return of 9.87% against the SteFI benchmark of 8.28%. 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.

Hedge fund solutions building block

Momentum Moderate fund of hedge funds was negatively affected by a select equity long/short funds that held long positions in stocks such as ABSA, Kaap Agri, Reunert, Bell, and Coronation. A large position in the Naspers/Prosus discount trade was also a net detractor as the widened discount to NAV persisted for the quarter. The positive contribution from the fixed income strategy for the quarter was not big enough for the fund to outperform. The Momentum portable alpha hedge fund solution and Momentum Aggressive hedge captured most of the market upside, outperforming their respective benchmarks for the quarter.

Contribution in the portable alpha solution came from various sources, although the lead contributors were multi-strategy and equity long-short funds that were long precious metals (gold and platinum) and consumer

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discretionary stocks. The market neutral as a strategy detracted the most. A short position in consumer staples, selective financials, and long positions in the real estate sector contributed negatively to portfolio performance.

Momentum Aggressive hedge also benefited from long positions in stocks that have exposure to gold, platinum, and consumer discretionary stocks. It further benefited from short positions in a couple of JSE-listed apparel retailers. On the other hand, some domestically focused longs, which traded down on sentiment, slightly detracted from the portfolio's performance.

Special opportunities building block

The Special Opportunities Fund delivered a return of 2.18% for the first quarter of 2025. As reported in Q4'2024, the Momentum Africa Real Estate Fund ("MAREF") was pursuing the sale of the two Ghanaian assets, but unfortunately, had terminated discussions with the potential purchaser whose exclusivity period had lapsed without much progress in their due diligence. Both properties are currently generating positive cash flow, being 61% and 88% net respectively. Pipeline for new leases also looks promising, and many of the major delinquent tenants have been removed. Dollar illiquidity remains a challenge, but MAREF managed to expatriate $1.3m to Mauritius in January and February. There are four legal challenges with the tenant of the Kenyan development and the GP, the developer, and their counsel believe that they have a strong defence in all four matters.

The local property fund (MPOF) management team continues to work towards the realisation of assets across the portfolio, having successfully realised a number of assets across the portfolio. At the time of writing, the team had concluded the sale of two of the assets in the portfolio: Makro Carnival City (previously subject to competition commission approval) and Build It Hammerdale. Unconditional competition commission approval has been received and the proceeds from the disposals has been received by MPOF but not yet distributed to investors. The fund manager is arranging for the distribution of those proceeds net of any refinance requirements that will be retained for one of the assets in the portfolio, being Chuma Mall.

The Corporate Debt Strategy remains the largest allocation in the fund and continues to contribute positively to the overall portfolio. No new direct opportunities were executed over the quarter. The team was previously pursuing one direct opportunity, but it was terminated due to the unavailability of capital to invest. We have not made any further cash distributions during the past quarter.

Global equity building block

The first quarter of 2025 marked the beginning of a new era, both geopolitically, as the Trump administration reshapes the global order, and economically, with nationalism replacing globalisation. Trump 2.0's sweeping policy changes – tariffs, deregulation, and protectionism – have heightened uncertainty, damaging consumer and business confidence and raising recession fears. March's market performance reflected this growing unease. A wave of new tariffs and escalating trade tensions has weighed on investor sentiment, while the US has reinforced its focus on China as its primary geopolitical adversary. European allies face mounting pressure to increase defence spending, with Germany taking extraordinary steps to loosen fiscal constraints and fund military expansion. Equity markets saw increased volatility amid these shifts. The combination of tariff uncertainty and concerns over US AI competitiveness extended the sell-off in megacap tech. The MSCI World declined by -4.5% in March, with the 'Magnificent 7' falling by -9.7%.

Building block Return assessment

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The S&P 500 dropped -5.7%, erasing year-to-date gains. Chinese equities continued to rally, with MSCI China up 2.0% in March and 15% YTD, as policy easing, regulatory support, and AI optimism boosted sentiment.

Against this backdrop, the Global Equity Building block delivered a negative return of -4.0% for the quarter, marginally below the benchmark returns of -3.8%.

Global property building block

Globally, the FTSE EPRA/NAREIT Developed Rental Net Total Return Index (the index) recorded a net total USD return of 1.5% for the quarter. The best performing listed real estate market for the quarter was Japan, which recorded a total USD return of 9.1%. Australia recorded the lowest total USD return of -0.9%. The best performing global sectors for the quarter were Healthcare at 15.6%, Gaming Net Lease at 11.5%, and Traditional Net Lease at 10.6%, while the worst performing sectors for the quarter were Data Centers with -15.6%, Hotels with -12. 7% and Lab Space with -3.5%. The Rand strengthened slightly against a weakening USD, while weakening somewhat against the Euro and Pound.

Against this backdrop, the Global Property building block delivered a negative return of -0.9% for the quarter.

Global fixed income building block

The first quarter of 2025 saw a significant shift in the global macroeconomic landscape, marked by rising divergence across regions. US exceptionalism came under pressure as heightened policy uncertainty and political risk triggered a drop in sentiment and revived recession fears. In contrast, Germany's fiscal policy pivot under a new incoming administration, led to an improved sentiment across Europe. The German parliament approved the relaxation of strict debt limits, allowing defence and security spending to bypass budget constraints and establishing a €500bn infrastructure fund over 12 years. This triggered the largest daily jump in Bund yields since reunification in 1990, although markets partially recovered by quarter-end amid renewed tariff concerns ahead of US "Liberation Day." US Treasuries outperformed as weaker economic data drove yields lower. In corporate credit, US dollar-denominated investment grade and high-yield bonds outperformed their euro counterparts. In the UK, gilt yields edged higher as stagflation concerns and fiscal vulnerability, highlighted in the Spring Statement, weighed on sentiment. In Asia, Japanese bond yields rose on stronger growth and inflation, while China's deflationary backdrop kept yields subdued. Overall, regional macro policy changes drove pronounced divergence across fixed-income markets. The Rand strengthened slightly against a weakening USD, while weakening somewhat against the Euro and Pound.

Against this backdrop, the Global Bond building block delivered a negative return of -0.1% for the quarter.

Building block
Return assessment

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Conclusion

We are mindful of the current economic environment and market volatility. We will continue to manage the portfolios prudently, ensuring that they are well diversified. Our focus is on the long-term objectives, and as such, we will resist making any knee-jerk reactions but will rather look for opportunities to increase the probabilities of achieving the stated portfolio objectives.