

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



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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.

Fund highlights

PERFORMANCE

Cogence Discovery Dynamic Asset Optimiser (DAO) solutions - [click here to view factsheets](#)

Cogence was appointed as the investment manager of the DAOs in April 2024. Cogence transitioned the portfolios during May and June to the new strategic asset allocations (SAA). The portfolios now feed into the Cogence Global Growth (USD) portfolio for its global exposure ([see factsheet here](#)).

		3-month return (ZAR)			1-year return (ZAR)			2-year return (ZAR) (p.a.)		
		Fund	Peer group	Relative	Fund	Peer group	Relative	Fund	Peer group	Relative
DAO Portfolios	Cogence Discovery Cautious Dynamic Asset Optimiser Fund of Fund	5.83%	5.46%	0.37%	20.45%	16.37%	4.08%	16.03%	13.37%	2.66%
	Cogence Discovery Moderate Dynamic Asset Optimiser Fund of Fund	5.47%	5.46%	0.01%	20.79%	17.45%	3.34%	17.34%	14.45%	2.89%
	Cogence Discovery Balanced Dynamic Asset Optimiser Fund of Fund	5.21%	5.99%	-0.78%	20.28%	18.73%	1.55%	16.75%	15.85%	0.9%

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: Cautious - ASISA SA Multi-Asset Low Equity, Moderate - ASISA SA Multi-Asset Medium Equity, Balanced - ASISA SA Multi-Asset High Equity.

The Cogence Discovery Dynamic Asset Optimiser (DAO) portfolio range tracked closely to peers over the quarter, delivering positive performance across the three risk profiles. Strong performance over the last three months has contributed positively to the relative outperformance over the 12-month period to end September 2024. 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 global manager selection side, managers' active returns were largely negative; the largest detractors from portfolio returns were GQG US equity followed by BlackRock Sustainable Advantage US.

Outside of the global sleeve, across the rest of the portfolio, key contributors to performance included Ninety One Active Quants which outperformed its benchmark given strong performance from underlying stocks such as the overweight position in Mr Price Group and Momentum Group. Conversely, Ninety One SA Equity underperformed the benchmark with the likes of Aspen Pharmcare Holdings and Gold Fields detracting from performance. SA listed property rallied in the third quarter, driven by lower bond yields and improved growth prospects from reduced interest rates. The Discovery Flexible Property Fund, however, underperformed its benchmark during this period. While offshore property showed solid returns, domestic stocks led the way. The Discovery Strategic Bond Fund outperformed the benchmark, contributing positively to the portfolio's relative performance. The continued strong performance of SA bonds supported overall portfolio returns for the quarter.



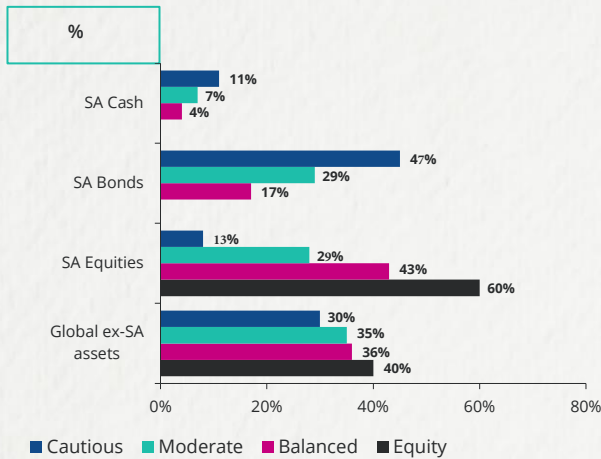
POSITIONING

Cogence Discovery DAO Solutions

The Cogence Discovery Dynamic Asset Optimiser Funds of Funds 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 advises Cogence on local manager selection.

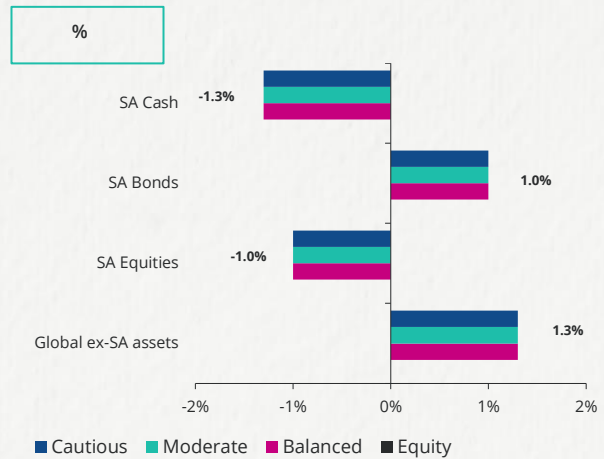
Current asset allocation of the various investment solutions represents the combined exposure from the long-term strategic asset allocation (SAA) and the short-term dynamic asset allocation (DAA) taken over the three-month period to the latest quarter end.

Chart 1: Strategic asset allocation



30 September 2024

Chart 2: Dynamic asset allocation



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.

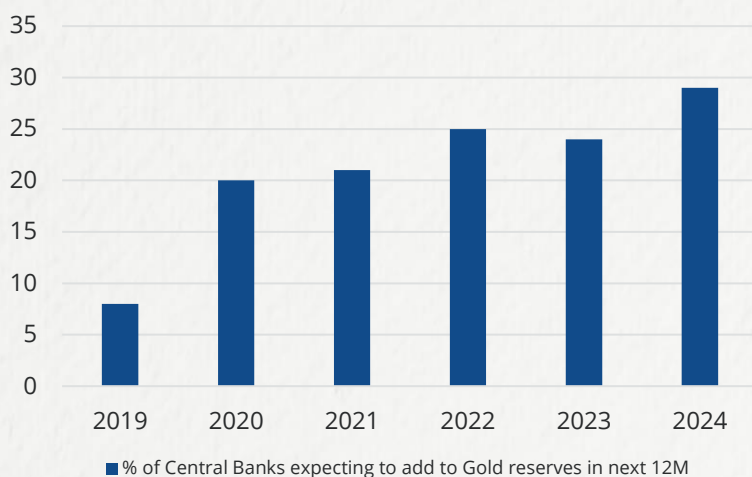
Short-term economic factors

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.

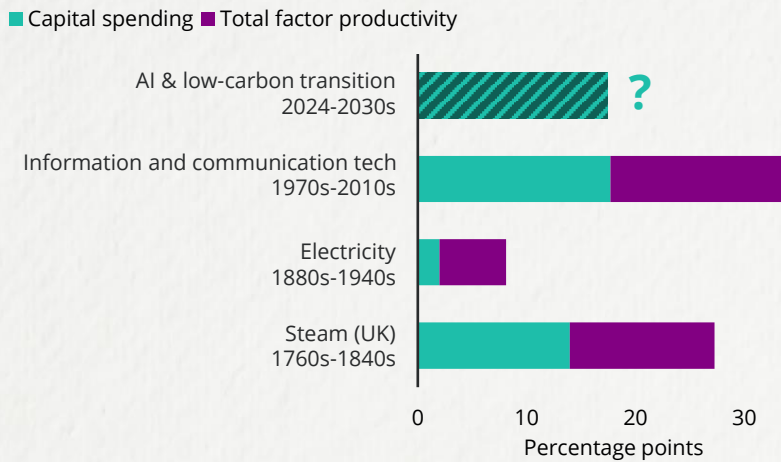
Bottom line: We have a strategic and dynamic allocation to gold.

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.

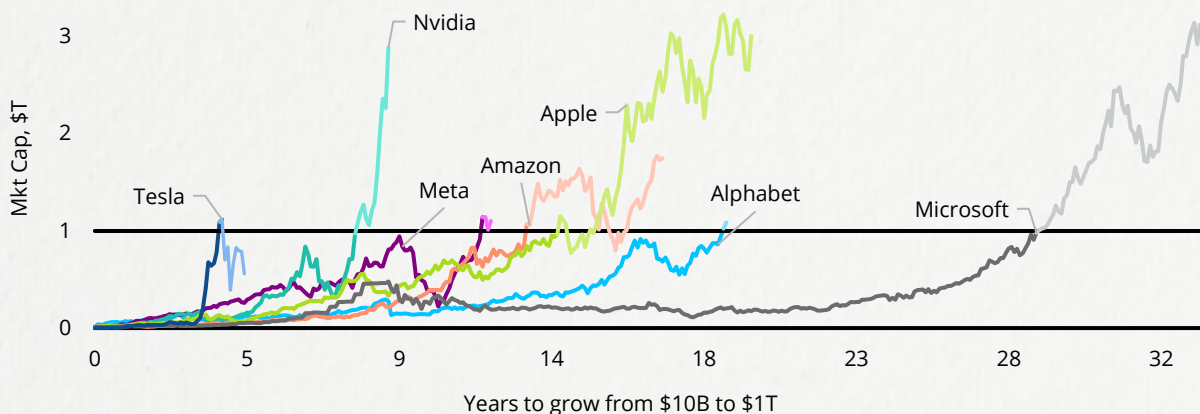
Total contributions to GDP growth



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

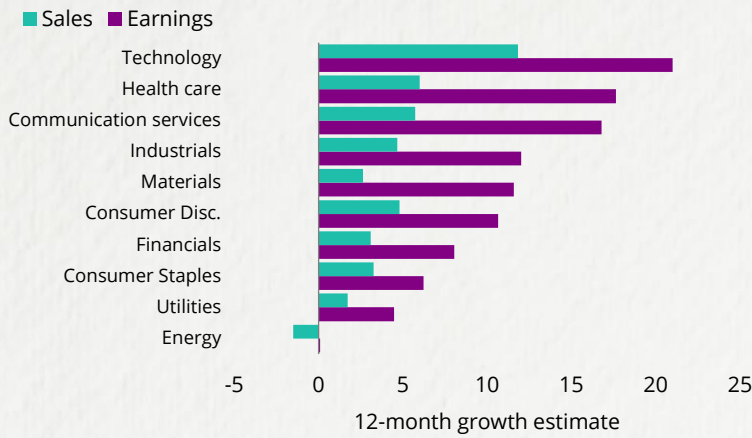


This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise – or even estimate – of future performance. Past performance is not a reliable indicator of future results. Source: BlackRock Investment Institute, with data from LSEG Datastream, 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

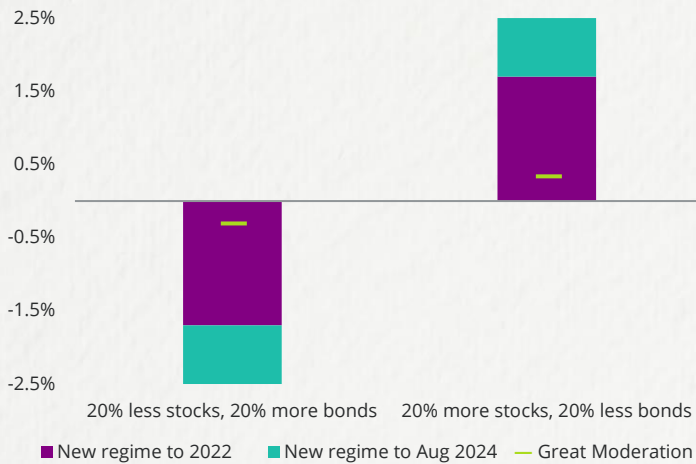


Past performance is not a reliable indicator of current or future results. Forward looking estimates may not come to pass. It is not possible to invest directly in an index. Indexes are unmanaged. Index performance does not account for fees. Source: BlackRock Investment Institute, MSCI, with data from 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.

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