

Q1 2024

THE COGENT

QUARTERLY

MARKET BACKDROP

Overview of the last quarter's market movements

FUND HIGHLIGHTS

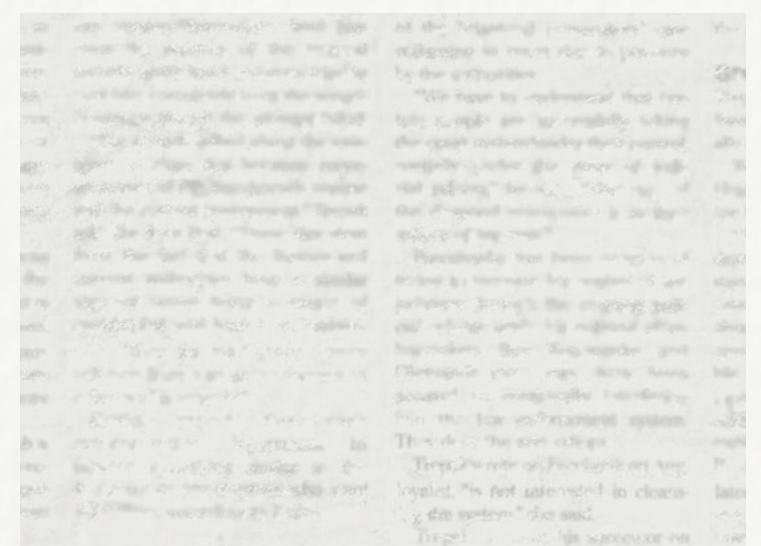
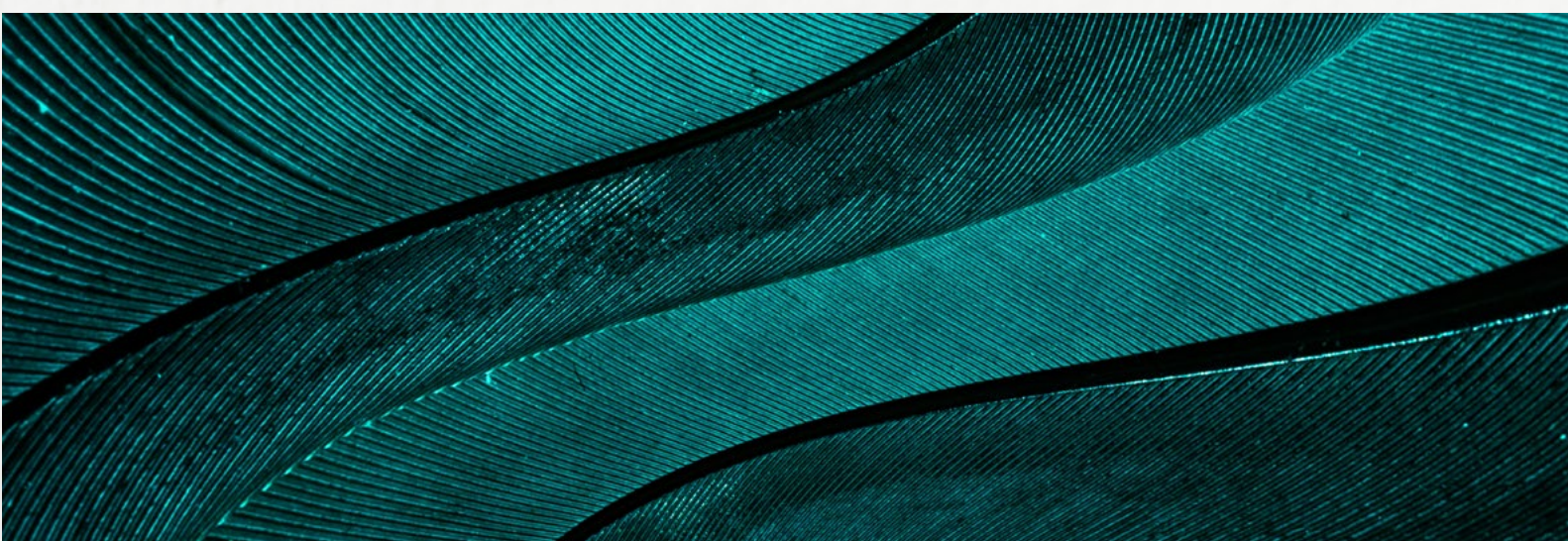
Update on portfolio performance and current positioning

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:

Ongoing AI hype and a resilient US economy pushed global equities higher. Japan surged.

Global and local bonds saw negative returns during the quarter.

Expectations of interest rate cuts boosted shares, but pace of cuts slower than market expected.

Developed Market (DM) equities as measured by the MSCI World Index rallied in the first quarter of the year (+8.9% in USD), on the back of ongoing enthusiasm over artificial intelligence (AI) and the widely anticipated interest rate cuts following the aggressive string of interest rate hikes over the past two years. Within DM, the sustained rally of the Magnificent Seven bolstered US equities (S&P 500: +10.6% in USD), Euro stocks (STOXX All Europe Index: +7.4% in GBP) were strong, and the UK posted modest returns (UK FTSE 100: +4.0% in GBP). Japan equities also had an impressive rally over the quarter (+20.9% in Yen) with the Nikkei 225 reaching its highest performance since 1998 driven by optimistic long-term prospects in the region, and positive sentiment around the Bank of Japan's (BOJ) decision to overhaul its monetary policy measures, lifting the long-standing negative interest rate policy.

The first quarter of 2024 painted a complex picture for global bond



markets (Bloomberg Global-Aggregate Total Return: -2.1% in USD), however. Early enthusiasm regarding imminent rate cuts quickly met a dose of economic reality. Stubborn inflation data from major economies like the US, triggered a sharp correction as bonds became less attractive, particularly for longer-duration bonds, which are more sensitive to changes in interest rates. Later in the quarter, inflation data in several developed countries including the UK, threw another curveball, with inflation data dropping off sharply, strengthening the case for potential rate cuts later in the year, and reigniting investor interest in bonds as an asset class.



Emerging Market (EM) equities as measured by the MSCI Emerging Markets Index ended the quarter higher (+2.1% in USD) but underperformed its global counterparts. Within EM, China trailed behind peers (MSCI China: +1.2% in ZAR) despite signs emerging that the Chinese economy is stabilising. Locally, SA equities (FTSE/JSE All Share Index: -2.3% in ZAR) also struggled to keep up with EM peers as the country's subdued growth outlook and prevailing uncertainty surrounding the upcoming national elections dampened business sentiment. Persistent headwinds, as highlighted in the National Assembly's budget speech, from increased prices pressures, power outages, logistical challenges and droughts led to the downgrade of economic growth forecasts for South Africa by the International Monetary Fund. In line with global peers, the SARB kept the repo rate unchanged, and the rand continued its depreciation against the US dollar. Local bonds had a difficult start to the year (ALBI: -1.9%) but continue to be an attractive investment as investors are adequately compensated for implied risk.

Fund highlights

PERFORMANCE

Cogence Global Solutions – [click here to view factsheets](#)

		3m returns				12m returns			
		Fund	Peer Group	Relative	Quartile ranking	Fund	Peer Group	Relative	Quartile ranking
USD-denominated Global Portfolios	Cogence Global Cautious Portfolio	2.7%	1.8%	0.9%	1	8.7%	7.0%	1.7%	2
	Cogence Global Balanced Portfolio	5.1%	3.4%	1.7%	1	14.0%	10.2%	3.8%	1
	Cogence Global Growth Portfolio	7.5%	5.3%	2.2%	1	19.5%	13.3%	6.2%	1
ZAR-denominated Global Portfolios	Cogence Global Cautious Prescient Feeder	6.7%	4.1%	2.6%	1	18.0%	13.9%	4.1%	1
	Cogence Global Balanced Prescient Feeder	9.0%	8.3%	0.7%	1	23.9%	21.9%	2.0%	1
	Cogence Global Growth Prescient Feeder	11.6%	5.9%	5.7%	1	27.2%	18.2%	4.0%	1
	Cogence Global Equity Prescient FoF	12.0%	10.2%	1.8%	2	31.5%	26.8%	4.7%	2

Note: Past performance is not necessarily an indication of future performance. Source: Morningstar, 31 March 2024. USD-denominated global and ZAR-denominated local fund returns are quoted net of fees, in USD and ZAR, respectively. 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 portfolio range outperformed over the quarter, delivering 1st and 2nd quartile performance relative to peers across the various risk profiles. Robust performance of the *USD-denominated and ZAR-denominated global portfolios* over the last three months has contributed positively to the strong relative outperformance over the 12-month period to end March 2024. Both i) asset allocation and ii) manager selection contributions were positive. The quarter reflected a rally in risk assets, with both global equities and bonds up. On an asset allocation

front, the strong performance of DM equities over EM, the US in particular, where we have a meaningful overweight given the AI theme, has been a key driver of outperformance. Further, our positioning in Japan has been accretive given the exceptional performance over the quarter. Within manager selection, equity managers for the US (BlackRock) and EM (Schroders) were the largest contributors, followed by Emerging Market Debt High Yield Credit (Payden) and Global Credit (PGIM). BlackRock continental equity and GQG US equity partially detracted.



Cogence Local Solutions – [click here to view factsheets](#)

		3m returns (ZAR)				12m returns (ZAR)			
		Fund	Peer Group	Relative	Quartile ranking	Fund	Peer Group	Relative	Quartile ranking
Local Model Portfolios	Cogence Cautious Portfolio	3.4%	1.3%	1.7%	1	12.8%	8.6%	4.2%	1
	Cogence Moderate Portfolio	3.2%	1.6%	1.6%	1	11.9%	8.7%	4.6%	1
	Cogence Balanced Portfolio	3.0%	1.9%	1.1%	1	11.2%	9.4%	1.8%	1
Local CIS Portfolios	Cogence Equity Portfolio	3.9%	-1.8%	5.7%	1	12.7%	3.0%	9.7%	1
	Cogence Prescient Income FoF	Funds launched in March 2024. Track record available from Q2 2024.				Track record available March 2025.			
	Cogence Prescient Cautious FoF								
	Cogence Prescient Moderate FoF								
Cogence Prescient Balanced FoF									

Note: Past performance is not necessarily an indication of future performance. Source: Morningstar, 31 March 2024. 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 outperformed over the quarter, delivering 1st quartile performance relative to peers, across the board. The three multi-asset portfolios comfortably outperformed their respective peer groups by 1.1% – 1.7%, and the equity only portfolio performed ahead of peers by 6%. Strong performance over the last three months has contributed positively to the relative 12-month outperformance (top quartile) of the funds against respective peers as at end March 2024. The outperformance of the local portfolios can be largely attributed to i) gains from asset allocation, ii) the outperformance of the global portfolio, and iii) the depreciation of the rand, over the quarter.

The portfolios' long global assets allocation added to active returns as both local equity and bonds underperformed their global counterparts. Further, the outperformance of the Cogence Global Growth portfolio (see above), which all solutions feed into for the offshore exposure, has made strong contributions to performance. Here, we are overweight global on a dynamic allocation view which has been supportive over the quarter given strong global performance relative to local counterparts. Finally, despite appreciation in the rand during March, on average the rand depreciation against the dollar over the period, which contributed positively to returns.

POSITIONING

Cogence Global Solutions

Chart 1: Asset allocation as at 31 March 2024

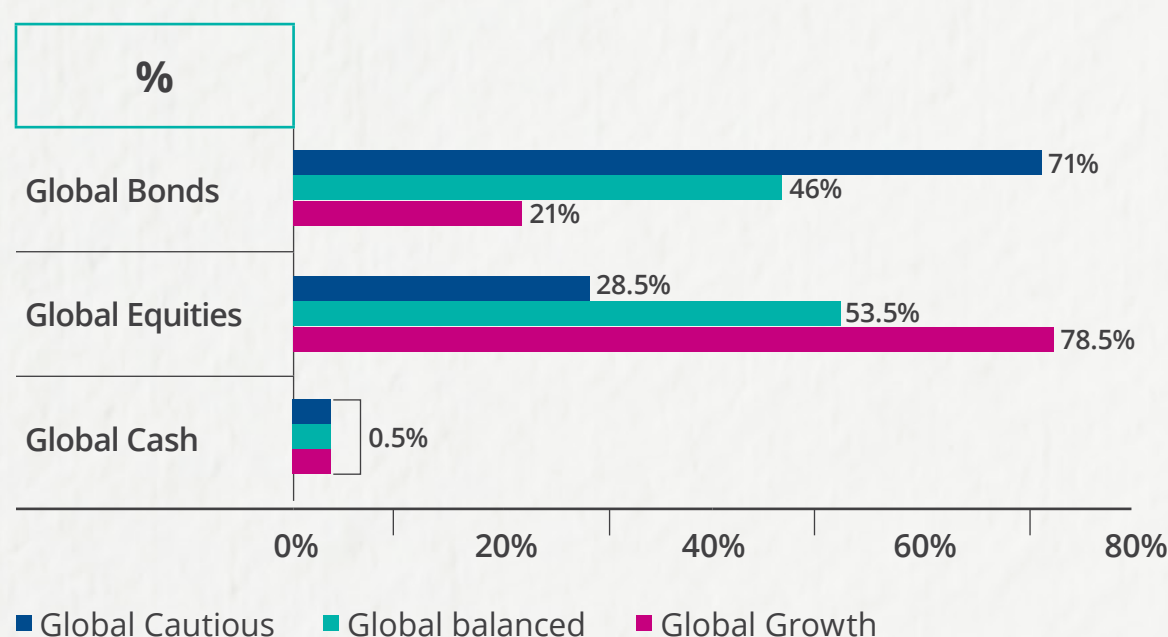
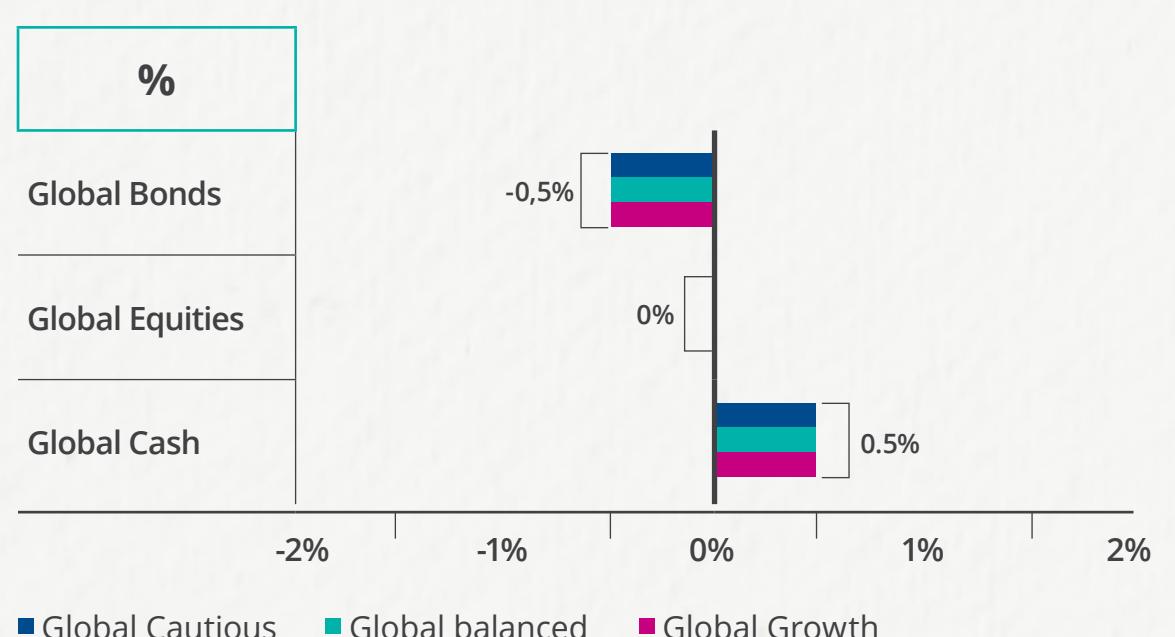


Chart 2: Dynamic allocation as at 31 March 2024



- In March, we rebalanced our strategic exposures leveraging our latest capital market assumptions. Within global bonds, we trim our overweight to inflation-linked bonds, given that we see inflation as moderated, reducing carry. We also add to Global Investment Grade Credit. With spread levels relatively tight in this space, the overall income and the relatively shorter duration combines to give attractive risk-adjusted returns. We maintain our view on high-yield credit, adding to that across all three profiles.
- Within government bonds, we prefer shorter duration

bonds and an underweight to the longer end which is implemented within US Treasuries. We also increase our allocation to European government bonds, which is funded out of the Global Government bond allocations. Finally, we reduce our allocation to EM debt across all three profiles.

- Within global cash, we add slightly across all three profiles by 0.5%.
- While we do not make any changes within global equities, the three portfolios continue to be positioned with a slight risk on approach.

Cogence Local Solutions

Chart 1: Asset allocation (incl. dynamic allocation) as at 31 March 2024

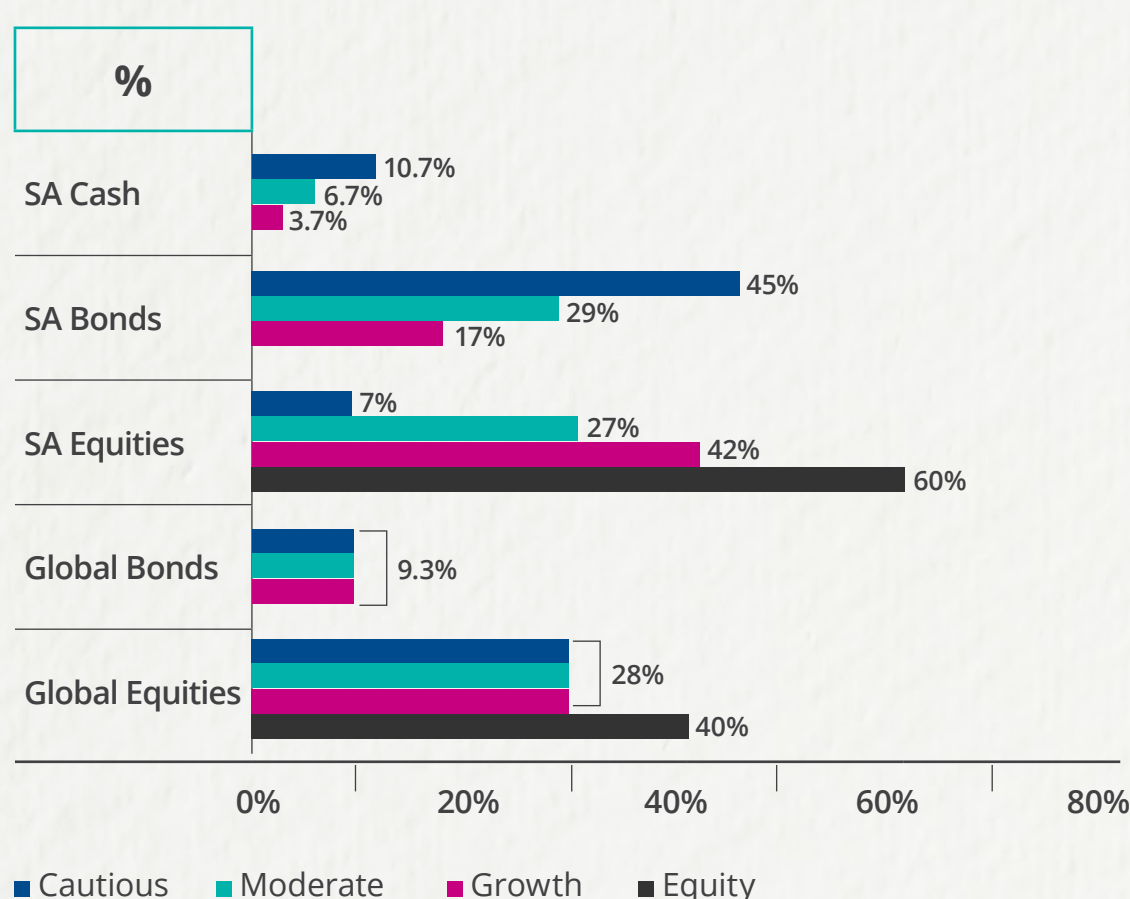
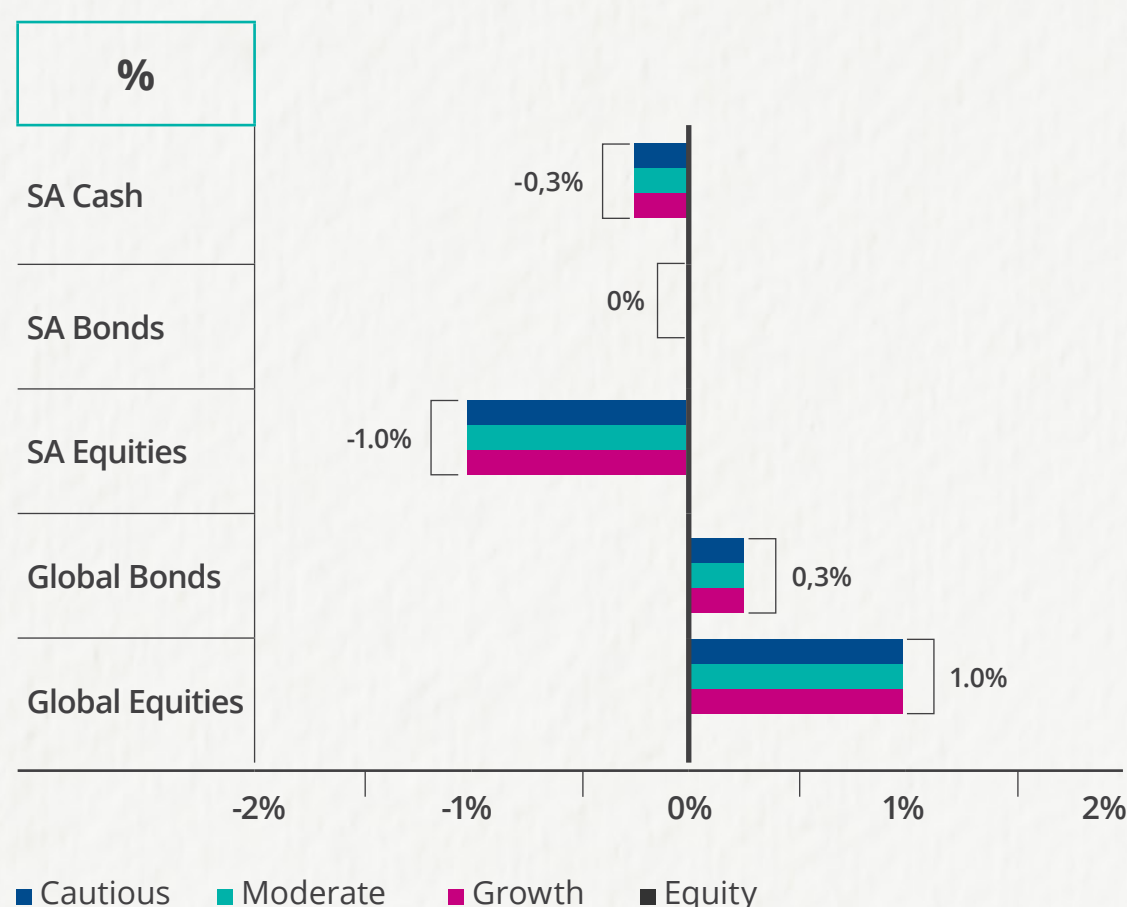


Chart 2: Dynamic allocation as at 31 March 2024



31 March 2024

- We remain moderately constructive on global assets, expressing a small overweight to both global equity and bonds. As a result, we maintain a 1% short position in SA equity and a small underweight to local cash.
- During the quarter, we went overweight global equities, taking our overall global asset allocation to 37.3%. This was driven by two factors: S&P expectations for S&P500 earnings growth for 2024 were revised up, with the tech sector expected to account for half of this year's S&P 500 earnings. In line with this, we went overweight U.S. stocks in January 2024, still leaning into the artificial intelligence (AI) theme. We think upbeat risk appetite can broaden out beyond tech as more sectors adopt

AI and as market confidence is buoyed by recent Fed messaging and falling inflation.

- Secondly, we up our overweight to Japan. Solid corporate earnings and a recovery in wages and inflation after decades of sluggish progress has brightened the backdrop for Japan stocks. We think the BOJ's monetary policy stance is supportive of Japan's markets.
- Strategically, we stay selective in global bonds. In February, we trimmed our maximum overweight to inflation-linked bonds, yet our expectation for inflation to settle at a level higher than markets expect keeps us overweight. Within global government bonds, we keep a preference for short-term maturities.



Scoop of the day

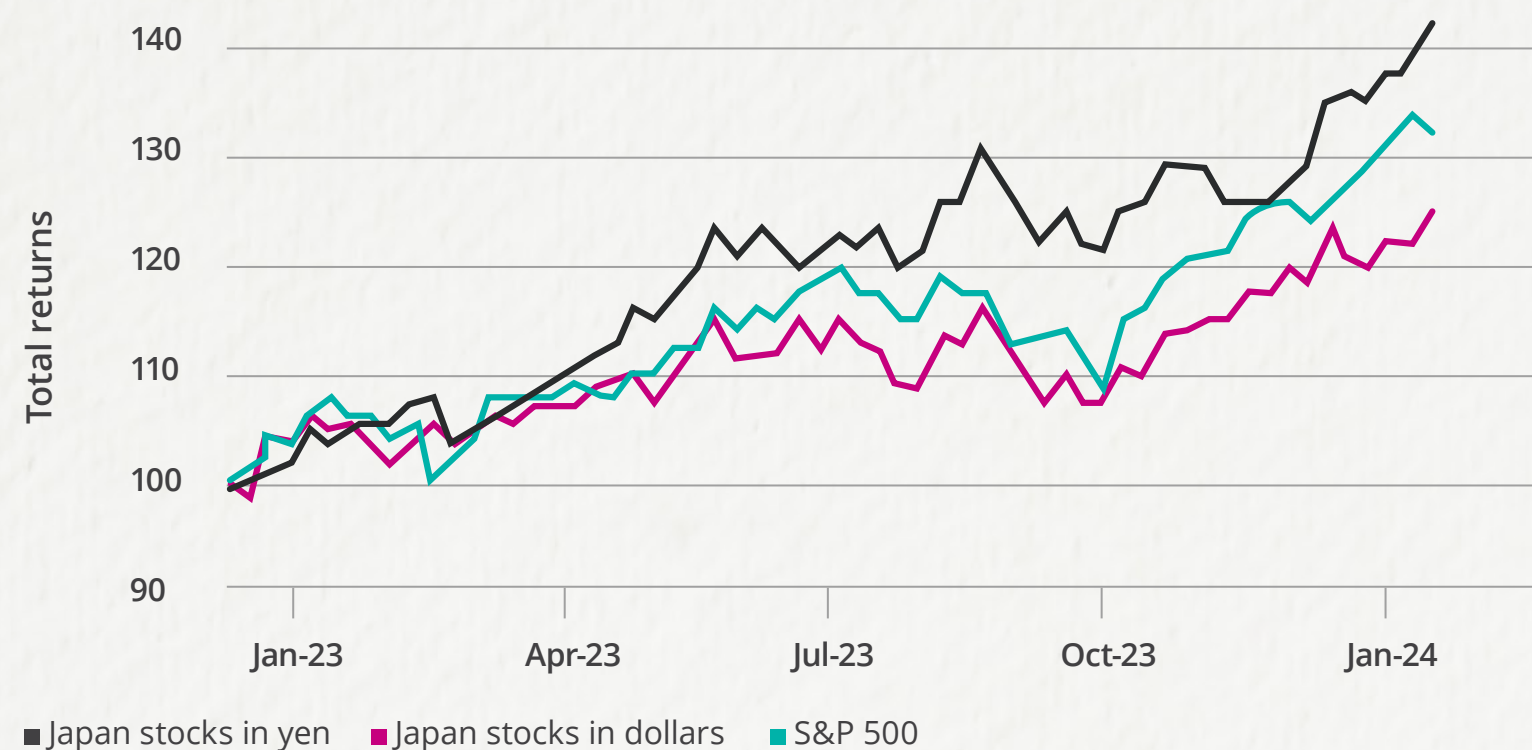
Japan – high can go higher!

The BlackRock Investment Institute recently shared some insights into the opportunity emerging in Japanese equities. During the quarter, Japan's Nikkei index hit a record high for the first time since 1989, when stocks soared to the point the real estate-driven bubble later burst. Those events led to decades of low or no inflation and mostly flat growth.

What's driving the stock surge? Firstly, a weak yen has helped boost the value of corporate earnings made abroad. Further, the excess yield investors receive for the risk of holding Japanese stocks over bonds looks attractive. Secondly, higher inflation is allowing firms to raise prices and protect margins, while wage growth helps to keep fuelling consumer spending. Thirdly, corporate governance reforms and a revamped tax-free stock investment scheme which kicked off this year aiming to stoke domestic investor

Beyond the Yen

Total return for Japanese stocks vs. U.S. stocks, 2023 – 2024



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, with data from LSEG Refinitiv, February 2024. Notes: The chart shows total returns for TOPIX, the Japanese stock index, valued denominated in yen and U.S. dollars, and total returns for the S&P 500. The data has been rebased so that 100 = Dec. 30, 2022.

flows into Japanese equities has been a key driver of the stock gains.

March was a pivotal month for Japanese markets with the annual union wage negotiations coinciding with the Bank of Japan's policy meeting. A recovery in wages and mild inflation after decades of sluggish progress spurred a cautious BOJ pivot in monetary policy to end negative interest rates. We view this policy shift as a normalisation, not a shift to tightening. We favour Japan equities on mild inflation, strong earnings growth and shareholder-friendly reforms.

Bottom line:

We up our overweight to Japanese equities and think they can beat their all-time highs.

Source: The BlackRock Investment Institute, 26 February 2024.

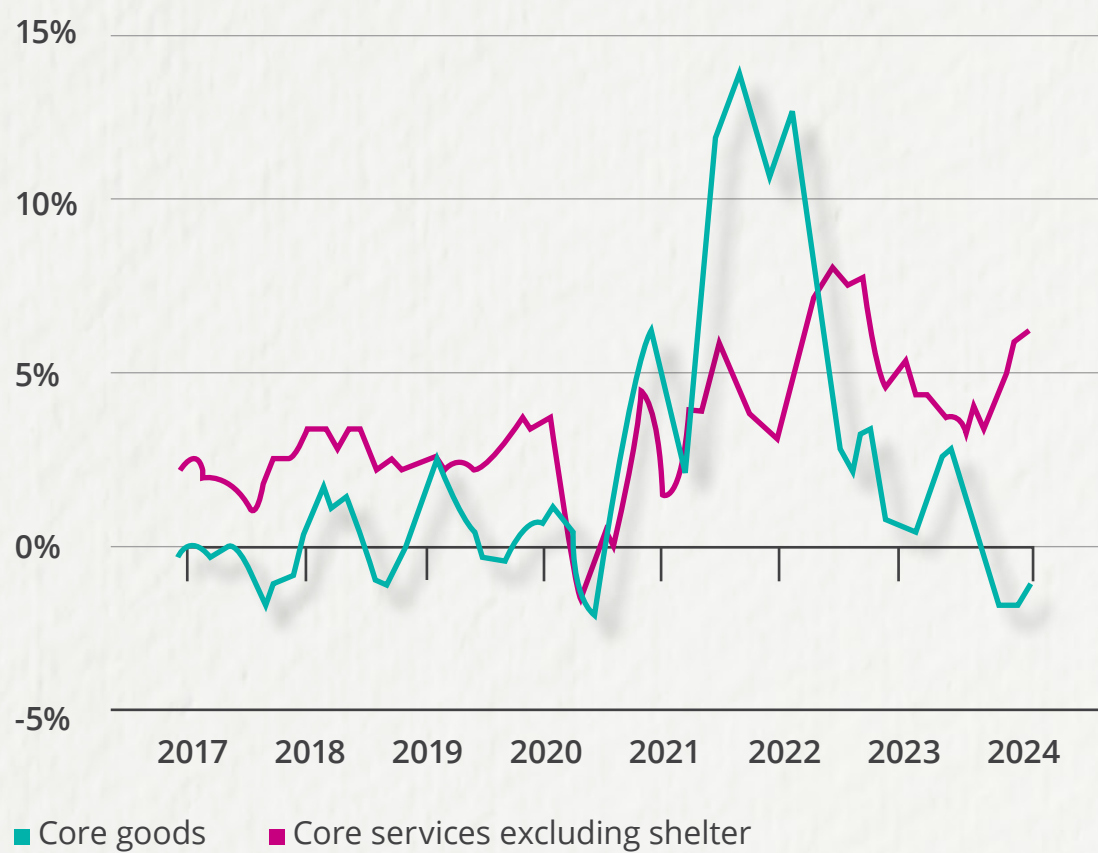


Charting **the future**

LOOKING AHEAD

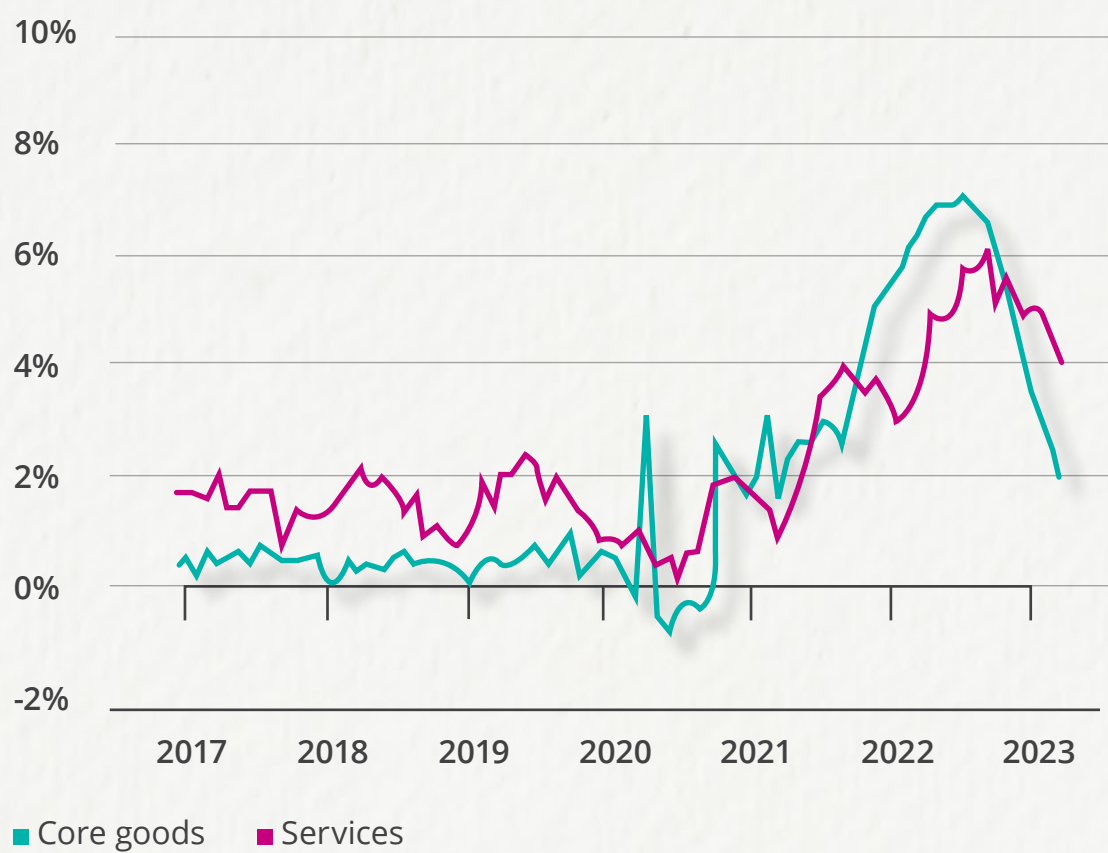
01 Upbeat market sentiment has room to run: As we look ahead to the next quarter, we see little in the near term to disrupt the market's perception that inflation is slowing, growth is holding up and cuts are coming. We think the risk of resurgent inflation could eventually dent the mood.

U.S. core inflation, 2017 - 2024



Source: The BlackRock Investment Institute, U.S. Bureau of Labor Statistics, with data from Haver Analytics, March 2024. Note: The chart shows core goods and services inflation measured by the change over six months at an annualised rate. Core goods inflation covers all goods excluding energy and food costs; core services inflation covers all services excluding energy and shelter costs.

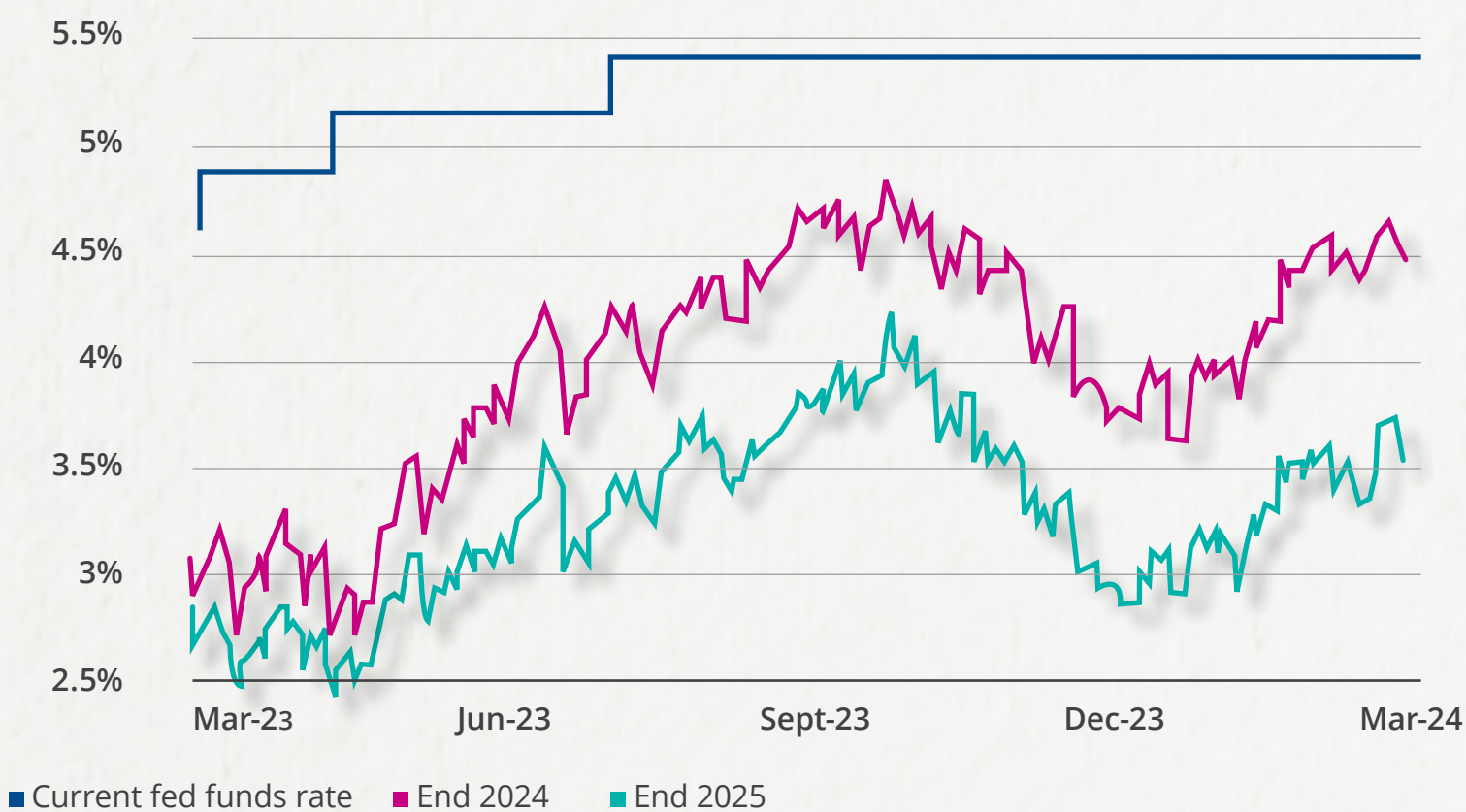
Euro area core inflation, 2017 - 2024



Source: The BlackRock Investment Institute, U.S. Bureau of Labor Statistics, with data from Haver Analytics, March 2024. Note: The chart shows core goods and services inflation measured by the change over six months at an annualised rate. Core goods inflation covers all goods excluding energy and food costs; core services inflation covers all services excluding energy and shelter costs.

02 Deliberately navigating macro risks remains key: Market pricing of Fed rate cuts has been dialled back in line with our view thanks to a persistently tight labour market and sticky services inflation. We still think markets are hoping for deeper rate cuts than are likely in the long term.

Market pricing of future Fed Policy rate, 2023 - 2024



Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, with data from LSEG Datastream, March 2024. Notes: The chart shows the current fed funds policy rate and market expectations of the fed funds rate via SOFR futures pricing. The fed funds rate shown is the midpoint of the Federal Reserve's target range.

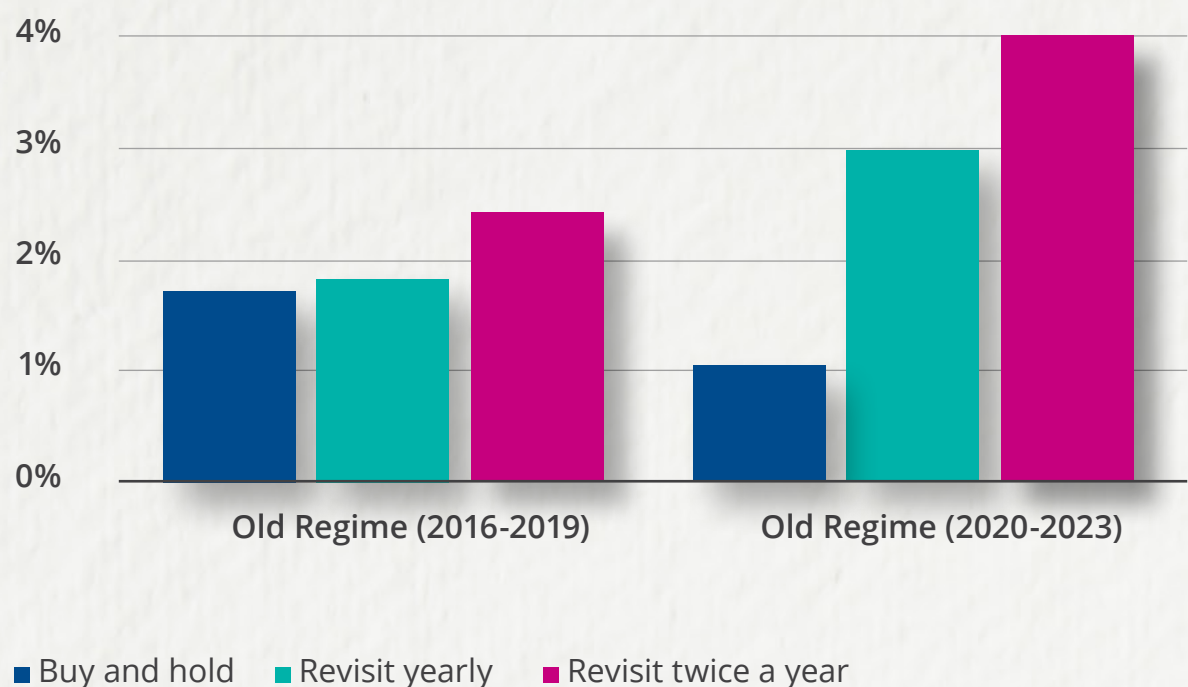


03

Active strategies may benefit from greater dispersion: More macro volatility has seen greater dispersion between and within asset classes. We see this environment as more conducive for active strategies looking to beat market benchmark returns.

Greater rewards for good insight

Hypothetical impact of acting on U.S. sector insight



Past performance is not a reliable indicator of future performance. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, MSCI with data from Bloomberg, January 2024. Notes: The chart shows monthly U.S. equity returns – based on the MSCI USA – in the old and new regime under three scenarios: keeping the holdings unchanged (buy-and-hold), yearly rebalances and semi-annual rebalances. The rebalances optimize the hypothetical portfolio for returns, diversification and risk with the perfect foresight of equity sector returns in the MSCI USA index. This analysis uses historical returns and has been conducted with the benefit of hindsight. Future returns may vary and these results may not be the same for other asset classes. It does not consider potential transaction costs that may detract from returns. It also does not represent an actual portfolio and is shown for illustrative purposes only.

Source: BlackRock Investment Institute, 25 March 2024.



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