Local Market Commentary

Quarter 1 | 2024

Global markets started on the front foot in the first quarter of 2024, posting strong gains across most regions. Sentiment remained strong towards risk assets, even in the face of persistent inflation and an expected delay in the interest rate cutting cycle. Central banks continue to wait for additional cooling signs amid resilient global economic activity, a strong job market, and stabilising inflation readings. Companies continue to produce strong corporate earnings, which boosted equity markets, especially for AI-related companies, with most names in the "Magnificent-Seven" dominating returns. Entering 2024, investors were optimistic that a "soft landing" was in store for the economy, whereby a recession would be avoided, inflation would continue to come down, and the central banks would start cutting interest rates by mid-year. As the quarter progressed, rate cut expectations were pushed out as economic data proved resilient. While the US continued its strong run, there was diverging performance from other regions; the Japanese equity market rose strongly and was one of the best performing regions, while on the other hand, the UK eked out a small gain, despite having two consecutive quarters of negative GDP growth and falling into a technical recession. Emerging market equities produced varied returns this quarter, with Chinese and Brazilian stocks enduring losses while India delivered decent performance.

During the quarter, most South African (SA) asset classes posted poor returns, lagging both developed and emerging market counterparts, as sentiment waned towards SA asset classes. Local equities and in particular "SA Inc." stocks moved lower this quarter. The exception to the declines recorded in SA asset classes was SA property, which continued its strong gains during the quarter. Looking at the drivers of the SA property (+3.9%) performance over the quarter, we see the return was driven largely by index heavyweights Redefine (+2.6%) and offshore focused Nepi Rockcastle (+7.6%). Local equities (-2.3%) on the other hand, moved lower, driven largely by the Financial (-7.6%) sector, which started the year on the back foot. Large SA banking and insurance counters produced weak returns on the back of general weakness in the sector. Firstrand (-13.3%), Discovery (-15.9%) and Standard Bank (-11.0%) were among the biggest laggards. SA Industrials (+0.6%) ended with marginally positive performance, largely driven higher by rand hedges and companies that have a large portion of their revenue generated outside of South Africa, which includes the likes of Richemont (+12.5%) and British American Tobacco (+9.2%). On the other hand, SA Retailers had a tough quarter, ending deeply in the red, with Spar (-25.0%), Woolworths (-15.9%) and Foshini (-9.1%) all ending in negative territory. SA Resources (-1.6%) ended the quarter lower, driven largely by energy and platinum shares. On the flip side, gold companies produced strong returns this quarter, on the back of an increase in the gold price. Local bonds (-1.8%) ended the quarter lower, in line with global bonds. Yields continued to tick higher this quarter (and prices lower), as concerns surrounding South Africa's fiscal position as well as the uncertainty of an election year weighed on sentiment. Cash delivered +2.1% in the first quarter, ahead of longer dated bonds, and was one of the few local asset classes to end in positive territory.

Over the quarter, South Africa's annual inflation rate moved higher and continues to trend in the upper end of the South African Reserve Bank's (SARB) target range of 3-6%. During the quarter, South Africa's inflation moved higher to 5.6% (year-on-year in February 2024), above market forecasts of 5.5%. The increase was mainly due to higher prices for transport (on the back of higher energy costs), housing, and utilities. On the back of inflation continuing to be at the upper end of the central bank's target range, the SARB unanimously decided to leave its key repo rate for the fifth time in a row at 8.25% in March, as widely anticipated. During the quarter, we also had an update from Finance Minister Enoch Godongwana, who delivered the annual budget speech, providing an update on South Africa's finances. While the budget speech provided no surprises other than the use of the contingency reserve to reduce debt, the market reaction was generally positive, with the 10-year SA treasury yield moving lower and the rand firming slightly on the day of the speech. Given that markets are forward-looking, the muted market moves suggest that a lot of the bad news is already priced in SA asset classes and that the reduction in government debt is seen as a net positive. Business confidence in South Africa remains low. The RMB/BER business confidence index fell for the second straight quarter to 30 in Q1 2024, compared to 31 in Q3 2023, signalling a growing pessimism among businesses. The continued supply constraints, including load-shedding, logistical challenges, and heightened global and domestic policy uncertainty, have kept South African businesses pessimistic about business conditions. On the positive side, South Africa's economy avoided a technical recession, as GDP grew quarter-on-quarter by 0.1% in Q4 2023 and grew by 1.2% (year-on-year ending Q4 2023), which was better than market estimates of a 0.9% rise. For historical context, the annual GDP growth rate in South Africa averaged 2.4% from 1994 until 2023, reaching an all-time high of 19.2% in the second quarter of 2021 and a record low of -16.2 % in the second quarter of 2020.

Turning to global equities, most global equity markets produced positive returns this quarter, as positive sentiment filtered through most global equity markets. In the US, the S&P 500 (+10.6%) returned its best first quarterly performance in five years, with every sector increasing except real estate. US technology moved higher this quarter, with the tech-heavy Nasdaq 100 (+8.7%) rising strongly. While the "Magnificent Seven" produced positive returns this quarter, it's worth noting that Nvidia drove the lion's share of the return and other tech stocks came under pressure. Nvidia rose more than 80% this quarter, while Tesla was down -27% — the worst performing stock in the S&P 500. On the other hand, Apple was down -11%, while Alphabet was up 8%, however, it trailed the broad market. Turning to bonds, improving news on the global economy caused yields to move higher, providing a headwind for fixed income asset classes. Longer-duration bonds underperformed their short-duration counterparts. High-yield bonds were a standout winner among fixed income. Turning to FX, we saw the US dollar gain versus most developed- and emerging-market currencies, providing a tailwind for unhedged exposures.

Market participants continue to grapple with a few key developments. On one hand, the market backdrop appears favourable, with sentiment improving and corporate earnings rising. On the other hand, central banks may not pursue rate cuts as early as expected on the back of a more resilient economy. Moving into the second quarter, inflation and the direction of interest rates will likely continue to be the key talking points among investors. Additionally, the upcoming elections carry the potential for increased market volatility and uncertainty. This underscores the importance of constructing portfolios that effectively manage risk and maximize returns across various market conditions. It reinforces the need for robustness and diversification in portfolios.

Wealth Associates BCI Income Fund Update

Quarter 1 | 2024

Income focused investors generated positive returns in the first quarter of 2024, given the risk-on global environment. While most central banks kept interest rates unchanged, the higher starting yield on cash and short-dated nominal cash instruments continued to deliver a stable return profile, benefiting income-based portfolios. On the other hand, the weak returns recorded in the longer duration instruments acted as a headwind to performance this quarter.

The Wealth Associates BCI Income Fund returned +1.0% for the quarter and has generated a return of +8.3 over the past year.

The fund remains conservatively positioned, with a diverse allocation to attractively valued assets which we expect to deliver stable inflation beating returns over the long term.

Asset Allocation

Local bonds make up the bulk of the asset allocation within the Portfolio. This includes allocations to corporate, government and inflation-linked bonds. Short dated nominal bonds held up well over the quarter and produced a stable performance ahead of longer duration peers. Longer-dated instruments ended the quarter lower, as the yield curve shifted higher, with the longer dated part of the curve rising the most. The weakness in the SA bond market was largely on the back of concerns surrounding South Africa's fiscal position as well as the uncertainty of an election year, which weighed on sentiment. Local cash allocations managed to deliver positive returns this quarter and cash was one of the few local asset classes to deliver a positive performance. Offshore bond and cash allocations detracted from performance on the back of improving news on the global economy as well as higher inflation, which caused yields to move higher, providing a headwind for fixed income asset classes. The weak rand, however, acted as a tailwind to the performance of offshore allocations. A small allocation to local listed property contributed to performance this quarter, as the property sector continued its strong run ahead of most local asset classes on the back of strong performance from the larger listed players Redefine (+2.6%) and offshore focused Nepi Rockcastle (+7.6%), which led the sector higher.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Methodical BCI Income delivered good performance, relative to its peer group, in the first quarter of 2024. The fund delivered first quartile performance, as it benefitted from its conservative positioning in a difficult local bond market. Medium and long dated SA government bonds came under pressure due to concerns surrounding South Africa's fragile fiscal position and poor growth prospects. Potential interest rate cuts this year have also been pushed out to later in the year, as inflation in local as well as key developed markets such as the US continues to remain elevated relative to targets. With attractive yields on offer in the SA fixed income space, the manager continues to take advantage of these yields and expected volatility in the fund.

Ninety One Diversified Income produced third quartile returns in the first quarter of 2024. In a negative local bond market, the fund protected its capital this quarter. However, its offshore positioning was a drag on performance as the Rand outperformed bonds in February and March. Medium and long dated SA government bonds came under pressure due to concerns surrounding South Africa's fragile fiscal position and poor growth prospects. Potential interest rate cuts this year have also been pushed out to later in the year, as inflation in local as well as key developed markets such as the US continues to remain elevated relative to targets. The fund's modified duration positioning at the end of the quarter sat at 1.38 years (including inflation linked bonds), with a yield of 10.5% on the current portfolio.

There were no changes to the underlying fund structure in the first quarter.

Summary

We are pleased that the fund managed to deliver a positive return over the first quarter in a particularly weak local environment. The fund continues to hold a diverse range of attractively priced fixed income assets, which we believe will generate stable inflation-beating returns in a variety of market environments.

Wealth Associates BCI Cautious Fund of Funds Update

Quarter 1 | 2024

Conservative investors generated positive returns in the first quarter of 2024, given the risk-on global environment. While most central banks kept interest rates unchanged, the higher starting yield on cash and short-dated nominal cash instruments continued to deliver a stable return profile, benefiting income-based portfolios and low equity portfolios. On the other hand, the weak returns recorded in the longer duration instruments acted as a headwind to performance this quarter.

The Wealth Associates BCI Cautious FoF returned +1.2% for the quarter and has generated a return of +8.9% over the past year.

The fund remains diversified in terms of its exposure to various asset classes, and we remain confident in its ability to deliver inflation-beating returns over the long term, independent of the market environment.

Asset Allocation

Local bonds make up the bulk of the asset allocation within the portfolio. This includes allocations to corporate, government and inflation-linked bonds. Short dated nominal bonds held up well over the quarter and produced a stable performance ahead of longer duration peers. Longer-dated instruments ended the quarter lower, as the yield curve shifted higher, with the longer dated part of the curve rising the most. The weakness in the SA bond market was largely on the back of concerns surrounding South Africa's fiscal position as well as the uncertainty of an election year, which weighed on sentiment. Local equities and in particular "SA Inc." stocks moved lower this quarter as sentiment waned towards South African asset classes, driven largely by the Financial (-7.6%) sector, which started the year on the back foot. Large banking and insurance counters produced weak returns on the back of general weakness in the sector. Firstrand (-13.3%), Discovery (-15.9%) and Standard Bank (-11.0%) were among the biggest laggards. SA Industrials (+0.6%) ended with marginally positive performance, largely driven higher by rand hedges and companies that have a large portion of their revenue generated outside of South Africa, which includes the likes of Richemont (+12.5%) and British American Tobacco (+9.2%). On the other hand, SA Retailers had a tough quarter, ending deeply in the red, with Spar (-25.0%), Woolworths (-15.9%) and Foschini (-9.1%) all ending in negative territory. SA Resources (-1.6%) ended the quarter lower, driven largely by energy and platinum shares. On the flip side, gold companies produced strong returns this quarter, on the back of an increase in the gold price. Global equities had a robust quarter, with most equity markets ending in positive territory. Given the risk-on environment, the S&P 500 (+10.6%) returned its best first quarterly performance in five years, with every sector increasing except real estate. US technology moved higher this quarter, with the tech-heavy Nasdaq 100 (+8.7%) rising strongly. Most global equity markets produced strong hard currency performance this quarter, with the rand weakness providing a further tailwind to performance. Offshore bond and cash allocations detracted from performance on the back of improving news on the global economy as well as higher inflation, which caused yields to move higher, providing a headwind for fixed income asset classes. A small allocation to local listed property contributed to performance this quarter, as the property sector continued its strong run ahead of most local asset classes on the back of strong performance from the larger listed players Redefine (+2.6%) and offshore focused Nepi Rockcastle (+7.6%), which led the sector higher.

Fund Selection

The contribution from fund selection was mixed during the quarter.

Nedgroup Investments Core Bond delivered negative performance over the quarter, as medium and long dated SA government bonds came under pressure during the quarter. Investors continue to remain concerned about South Africa's fragile fiscal position, poor economic growth prospects as well as uncertainty related to the outcome of the upcoming election. Potential interest rate cuts this year have also been pushed out to later in the year, as inflation in local as well as key developed markets such as the US continues to remain elevated relative to targets. This has led to yields on medium and long dated bonds moving higher, impacting prices negatively.

Aylett Equity delivered second quartile performance in the first quarter of 2024. While the returns were negative, they were ahead of the fund's benchmark, the FTSE/JSE All Share Index (-2.3%), over this period. Key contributors to performance over the quarter included the fund's holdings in offshore counters such as Rubis (+47.3%), Bath & Body Works (+20.5%), Berkshire Hathaway (+22.1%) and British American Tobacco (+9.2%). Holdings in Remgro (-24.9%) and Sabre Corp (-43.1%) were the main detractors of performance over the quarter.

There were no changes to the underlying fund structure in the first quarter.

Summary

We are pleased that the fund managed to deliver a positive return over the first quarter in a particularly weak local environment. The fund continues to be allocated to a diverse range of attractively priced local and global asset classes and we are confident that it will be able to deliver on its investment objective over the long term.

Wealth Associates BCI Moderate Fund of Funds Update

Quarter 1 | 2024

Moderate investors generated positive returns in the first quarter of 2024, as most risk assets recorded robust performance. Strong returns from global equities acted as a tailwind to the performance of the fund over the quarter. In addition, the weaker rand acted as a further tailwind to the performance of global asset classes over the quarter.

The Wealth Associates BCI Moderate FoF returned +1.1% for the quarter and has generated a return of +8.8% over the past year.

The fund remains diversified in terms of its exposure to various asset classes, and we remain confident in its ability to deliver inflation-beating returns over the long term, independent of the market environment.

Asset Allocation

Local bonds make up the bulk of the asset allocation within the Portfolio. This includes allocations to corporate, government and inflation-linked bonds. Short dated nominal bonds held up well over the quarter and produced a stable performance, ahead of longer duration peers. Longer-dated instruments ended the quarter lower, as the yield curve shifted higher, with the longer dated part of the curve rising the most. The weakness in the SA bond market was largely on the back of concerns surrounding South Africa's fiscal position as well as the uncertainty of an election year, which weighed on sentiment. Local equities and in particular "SA Inc." stocks moved lower this quarter as sentiment waned towards South African asset classes, driven largely by the Financial (-7.6%) sector, which started the year on the back foot. Large banking and insurance counters produced weak returns on the back of general weakness in the sector. Firstrand (-13.3%), Discovery (-15.9%) and Standard Bank (-11.0%) were among the biggest laggards. SA Industrials (+0.6%) ended with marginally positive performance, largely driven higher by rand hedges and companies that have a large portion of their revenue generated outside of South Africa, which includes the likes of Richemont (+12.5%) and British American Tobacco (+9.2%). On the other hand, SA Retailers had a tough quarter, ending deeply in the red, with Spar (-25.0%), Woolworths (-15.9%) and Foschini (-9.1%) all ending in negative territory. SA Resources (-1.6%) ended the quarter lower, driven largely by energy and platinum shares. On the flip side, gold companies produced strong returns this quarter, on the back of an increase in the gold price. Global equities had a robust quarter, with most equity markets ending in positive territory. Given the risk-on environment, the S&P 500 (+10.6%) returned its best first quarterly performance in five years, with every sector increasing except real estate. US technology moved higher this quarter, with the tech-heavy Nasdaq 100 (+8.7%) rising strongly. Most global equity markets produced strong hard currency performance this quarter, with the rand weakness providing a further tailwind to performance. Offshore bond and cash allocations detracted from performance on the back of improving news on the global economy as well as higher inflation, which caused yields to move higher, providing a headwind for fixed income asset classes. The weak rand, however, acted as a tailwind to the performance of offshore allocations. A small allocation to local listed property contributed to performance this quarter, as the property sector continued on its strong run, ahead of most local asset classes on the back of strong performance from the larger listed players including Redefine (+2.6%) and offshore focused Nepi Rockcastle (+7.6%), which led the sector higher.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Truffle SCI General Equity produced a second quartile performance, however, the fund ended the quarter ahead of the category as well as the fund's benchmark; the FTSE/JSE Capped SWIX Index (-2.3%). The fund was dragged lower by its exposure to SA financials and SA retailers this quarter, as SA Inc. shares came under pressure. This includes Firstrand (-13.3%), Absa (-

9.5%), Standard Bank (-11.0%) and Spar (-25.0%). On the other hand, the fund's exposure to MultiChoice Group (+40.2%), which moved higher on a potential bid for the company by French Media conglomerate Vivendi, added to the performance. In addition, the holdings in rand hedges including, British American Tobacco (+10.2%), Naspers (+7.3%) and Prosus (+9.1%) added to the fund's performance.

10X S&P SA Top 50 produced a disappointing third quartile return, over the quarter, following the broad market weakness. Exposure to resources, energy counters and financials contributed to the underperformance. On the other hand, exposure to rand hedges and gold shares contributed to performance. Among the detractors, the fund's positions in Firstrand (-13.3%), Standard Bank (-11.0%), Sasol (-19.9%), BHP (-10.9%) and Discovery all detracted from performance this quarter. Among the outperformers this quarter, Gold Fields (+11.0%), Harmony Gold (+32.1%) and Richemont (+14.9%) all contributed to performance.

There were no changes to the underlying fund structure in the first quarter.

Summary

We are pleased that the fund managed to generate a strong return over the first quarter in a particularly weak local environment. We remain comfortable with the positioning of the fund, both from an asset allocation and a manager selection perspective. The fund continues to be allocated to a diverse range of attractively priced local and global asset classes and we are confident that it will be able to deliver on its objective over the long term.

Wealth Associates BCI Balanced Fund of Funds Update

Quarter 1 | 2024

Moderately aggressive investors generated strong returns in the first quarter of 2024, as most risk assets recorded strong performance. Strong returns from global equities acted as a tailwind to the performance of the fund over the quarter. In addition, the weaker rand acted as a further tailwind to the performance of global asset classes over the quarter.

The Wealth Associates BCI Balanced FoF returned +1.2% for the quarter and has generated a return of +9.1% over the past year.

The fund remains diversified in terms of its exposure to different asset classes, and we remain confident in its ability to deliver inflation-beating returns over the long term, independent of the market environment.

Asset Allocation

Local equities and in particular "SA Inc.” stocks moved lower this quarter, as sentiment waned towards South African asset classes, driven largely by the Financial (-7.6%) sector, which started the year on the back foot. Large banking and insurance counters produced weak returns on the back of general weakness in the sector. Firstrand (-13.3%), Discovery (-15.9%) and Standard Bank (-11.0%) were among the biggest laggards. SA Industrials (+0.6%) ended with marginally positive performance, largely driven higher by rand hedges and companies that have a large portion of their revenue generated outside of South Africa, which includes the likes of Richemont (+12.5%) and British American Tobacco (+9.2%). On the other hand, SA Retailers had a tough quarter, ending deeply in the red, with Spar (-25.0%), Woolworths (-15.9%) and Foschini (-9.1%) all ending in negative territory. SA Resources (-1.6%) ended the quarter lower, driven largely by energy and platinum shares. On the flip side, gold companies produced strong returns this quarter, on the back of an increase in the gold price. Global equities had a robust quarter, with most equity markets ending in positive territory. Given the risk-on environment, the S&P 500 (+10.6%) returned its best first quarterly performance in five years, with every sector increasing except real estate. US technology moved higher this quarter, with the tech-heavy Nasdaq 100 (+8.7%) rising strongly. Most global equity markets produced strong hard currency performance this quarter, with the rand weakness providing a further tailwind to performance. Local bonds make up the next largest allocation within the Portfolio. This includes allocations to corporate, government and inflation-linked bonds. Short dated nominal bonds held up well over the quarter and produced a stable performance ahead of longer duration peers. Longer-dated instruments ended the quarter lower, as the yield curve shifted higher, with the longer dated part of the curve rising the most. The weakness in the SA bond market was largely on the back of concerns surrounding South Africa’s fiscal position as well as the uncertainty of an election year, which weighed on sentiment. Local cash allocations managed to deliver positive returns this quarter and was one of the few local asset classes to deliver a positive performance. Offshore bond and cash allocations detracted from performance on the back of improving news on the global economy as well as higher inflation, which caused yields to move higher, providing a headwind for fixed income asset classes. The weak rand, however, acted as a tailwind to the performance of offshore allocations. A small allocation to local listed property contributed to performance this quarter, as the property sector continued on its strong run, ahead of most local asset classes on the back of strong performance from the larger listed players including Redefine (+2.6%) and offshore focused Nepi Rockcastle (+7.6%), which led the sector higher.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Nedgroup Investments Core Global FF produced strong performance over the quarter, which was in line with peers. The primary contributor to performance was the fund's 67% exposure to global equity, as global equity markets continued their strong run in the first quarter of the year. Rand's weakness over the quarter also contributed to the fund's overall performance.

Ninety One Global Franchise FF delivered positive performance over the quarter, however, the fund lagged both the broad global equity market and peers. The fund's quality bias provides exposure to defensive global equities, which we would expect to protect capital better than the market and peers during equity corrections, however, we would expect the fund to lag slightly during cyclical bull markets. The fund's exposure to ASML Holdings (+29.4%), Microsoft (+13.1%) and Visa (+8.4%) were the largest contributors to performance over the quarter, while exposure to VeriSign (-7.2%) and Beiersdorf (-1.9%) were the largest detractors.

There were no changes to the underlying fund structure in the first quarter.

Summary

We are pleased that the fund managed to generate a strong return over the first quarter in a particularly weak local environment. The fund continues to be allocated to a diverse range of attractively priced local and global asset classes and we are confident that it will be able to deliver on its objective over the long term.

Wealth Associates BCI Flexible Growth Fund of Funds Update

Quarter 1 | 2024

Aggressive investors generated positive returns in the first quarter of 2024, as most global risk assets recorded strong returns. Robust returns from global equities acted as a tailwind to the performance of the fund over the quarter. In addition, the weaker rand acted as a tailwind to the performance of global asset classes over the quarter.

The Wealth Associates BCI Flexible Growth FoF returned +8.0% for the quarter and has generated a return of +22.8% over the past year.

The fund retains a strong bias toward global equities, which we expect to deliver significant inflation-beating returns in the long term.

Asset Allocation

Offshore equities make up the largest allocation in the Portfolio. Global equities had a robust quarter, with most equity markets ending in positive territory. Given the risk-on environment, the S&P 500 (+10.6%) returned its best first quarterly performance in five years, with every sector increasing except real estate. US technology moved higher this quarter, with the tech-heavy Nasdaq 100 (+8.7%) rising strongly. Most global equity markets produced strong hard currency performance this quarter, with the rand weakness providing a further tailwind to performance. Offshore bond and cash allocations detracted from performance on the back of improving news on the global economy as well as higher inflation, which caused yields to move higher, providing a headwind for fixed income asset classes. The weak rand, however, acted as a tailwind to the performance of offshore allocations.

Fund Selection

The contribution from fund selection was mostly positive over the quarter.

PCM Core Global FF delivered a strong performance over the quarter, which was ahead of its peers. The fund benefitted from strong performance from global equity markets, particularly allocations to US, Japanese and European equities, which delivered decent returns over the quarter. Sector allocations to World Communication Services, World Financials and World Health Care also contributed positively to performance over the quarter. Allocations to Chinese equities, global developed market sovereign bonds and local currency emerging market debt detracted from performance over the quarter.

Nedgroup Investments Global Emerging Markets Equity FF delivered positive performance over the quarter, however, the fund lagged peers that had larger allocations to developed market equities. Key emerging markets including China and India delivered weaker returns relative to key developed markets including the US, Japan and Europe. The fund's exposure to Taiwan Semiconductor (+26.1%), SK Hynix (+23.7%) and Max Healthcare (+19.0%) were the largest contributors to performance over the quarter, while exposure to HDFC Bank (-15.5%), Sunny Optical Technology (-43.7%) and AIA Group (-23.0%) were the largest detractors.

Nedgroup Investments Core Global FF produced strong performance over the quarter, which was in line with peers. The primary contributor to performance was the fund's 67% exposure to global equity, as global equity markets continued their strong run in the first quarter of the year. Rand's weakness over the quarter also contributed to the fund's overall performance.

There were no changes to the underlying fund structure in the first quarter.

Summary

We are pleased that the fund managed to generate a strong return over the first quarter in a particularly weak local environment. We remain comfortable with the positioning of the fund, both from an asset allocation and a manager selection perspective. The fund continues to have a large allocation to global and local equities, which we expect to deliver significant inflation-beating returns over the long term.

Wealth Associates BCI Equity Fund Update

Quarter 1 | 2024

Equity investors generated mixed returns in the first quarter of 2024. Strong returns from global equities acted as a tailwind to the performance of the fund over the quarter. In addition, rand weakness acted as a further tailwind to global assets.

The Wealth Associates BCI Equity returned -0.6% for the quarter and has generated a return of +4.3% over the past year.

The fund retains a strong bias toward local and global equities, which we expect to deliver significant inflation-beating returns in the long term.

Asset Allocation

Local equities, and in particular "SA Inc." stocks moved lower this quarter, as sentiment waned towards South African asset classes, driven largely by the Financial (-7.6%) sector, which started the year on the back foot. Large banking and insurance counters produced weak returns on the back of general weakness in the sector. Firstrand (-13.3%), Discovery (-15.9%) and Standard Bank (-11.0%) were among the biggest laggards. SA Industrials (+0.6%) ended with marginally positive performance, largely driven higher by rand hedges and companies who have a large portion of their revenue generated outside of South Africa, which includes the likes of Richemont (+12.5%) and British American Tobacco (+9.2%). On the other hand, SA Retailers had a tough quarter, ending deeply in the red, with Spar (-25.0%), Woolworths (-15.9%) and Foschini (-9.1%) all ending in negative territory. SA Resources (-1.6%) ended the quarter lower, driven largely by energy and platinum shares. On the flip side, gold companies produced strong returns this quarter, on the back of an increase in the gold price. Offshore equities make up the largest allocation in the Portfolio. Global equities had a robust quarter, with most equity markets ending in positive territory. Given the risk-on environment, the S&P 500 (+10.6%) returned its best first quarterly performance in five years, with every sector increasing except real estate. US technology moved higher this quarter, with the tech-heavy Nasdaq 100 (+8.7%) rising strongly. Most global equity markets produced strong hard currency performance this quarter, with the rand weakness providing a further tailwind to performance.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Fairtree Equity Prescient produced a second quartile performance, ending the quarter in negative territory. While the performance is disappointing the fund outperformed the ASISA South Africa general equity category and performed well in a particularly weak environment. Key detractors include the fund's exposure to energy and platinum holdings including Sasol (-19.9%), Northam Platinum (-18.8%) and Impala Platinum (-14.2%). In addition to this, the fund's exposure to SA financials including Firstrand (-13.3%) and Absa (-9.5%) contributed to the relative underperformance. On the other hand, the fund's exposure to rand hedges and gold companies contributed to performance. These include AngloGold Ashanti (+24.1%), Prosus (+9.1%), Naspers (+7.3%) and British American Tobacco (+10.2%) to name a few.

Aylett Equity delivered second quartile performance in the first quarter of 2024. While the returns were negative, they were ahead of the fund's benchmark, the FTSE/JSE All Share Index (-2.3%), over this period. Key contributors to performance over the quarter included the fund's holdings in offshore counters such as Rubis (+47.3%), Bath & Body Works (+20.5%), Berkshire Hathaway (+22.1%) and British American Tobacco (+9.2%). Holdings in Remgro (-24.9%) and Sabre Corp (-43.1%) were the main detractors of performance over the quarter.

PSG Equity produced fourth quartile returns in the first quarter of 2024, ending the quarter in negative territory in a weak local equity market. The main detractors from performance over the quarter were the fund's holdings in Pepco Group (-29.5%), Prudential Plc (-12.8%), AECI (-15.3%) and Northam Platinum (-18.9%), while holdings in Anglogold Ashanti (+24.1%) and Babcock International Group (+35.1%) were positive contributors.

There were no changes to the underlying fund structure in the first quarter.

Summary

We are pleased that the fund managed to generate a strong return over the first quarter in a particularly weak local environment. We remain comfortable with the positioning of the fund, both from an asset allocation and a manager selection perspective. The fund continues to have a large allocation to global and local equities, which we expect to deliver significant inflation-beating returns over the long term.

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