

momentum

multi-manager

Quarterly investment report

Momentum Investments Target Portfolio Range

Q3 2025



Introduction

Assessing investment returns in an outcome-based investment context

The Momentum Investments Target 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 Target 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.

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Economic overview

Q3:2025

Sanisha Packirisamy
Chief economist

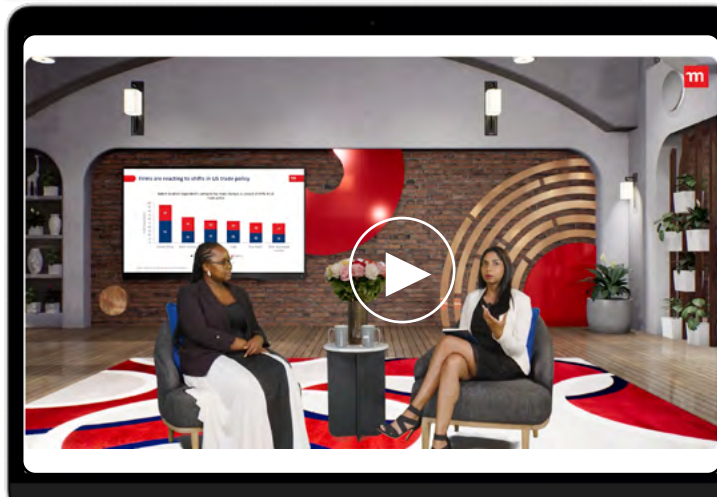


The global economy looks set to avoid recession, but growth remains lacklustre by historical standards, with trade tensions, weak investment and structural frailties weighing on activity. Protectionism is expected to push the United States (US) inflation up as national imperatives eclipse multilateralism, while disinflation continues elsewhere. South Africa's (SA) economy is forecast to expand by a modest 1% in 2025 and 1.4% in 2026, buoyed by consumption but hampered by weak investment, fiscal strain and political fragility in the Government of National Unity (GNU). Softer inflation, however, should give the South African Reserve Bank (SARB) scope to cut interest rates further in 2026.

Strong gold and platinum prices underpinned a buoyant performance from the Resources sector of the SA equity market. As a result, the overall SA equity market provided the strongest returns of all main local asset classes in the third quarter of 2025. With strong commodity prices driving a stronger rand in the quarter, this also contributed to global asset classes underperforming local assets. SA nominal bonds rallied further in the third quarter as the SARB confirmed that the 3% bottom end of the official inflation target range was now its preferred goal. SA inflation-linked bonds (ILBs) benefited as local inflation embarked on a cyclical uptrend. SA-listed property gained from falling local bond yields and positive earnings guidance from company managements. SA cash was the clear underperforming local asset class in the third quarter as the SARB continued to cut policy rates.

Within the global asset space, global fixed income returns clearly lagged global equities in the third quarter. Fiscal concerns around the world and worries about Federal Reserve (Fed) independence undermined global bond returns. In contrast, US equity returns were supported by resilient economic growth and more aggressive Fed rate cut expectations. Moreover, as more tariff settlements with some major economies were forthcoming in the quarter, some uncertainty was removed from equity markets. A general risk-on environment caused emerging equity markets (EM) to outperform developed markets (DM).

Watch our Chief Economist, Sanisha Packirisamy, and Economist Tshiamo Masike discuss the outlook of the economy.



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Asset class returns

Q3:2025

Herman van Papendorp
Head: Asset allocation



The returns for the asset class benchmarks for the third quarter of 2025 are reported in the first column of the table below. The next column highlights the returns for these asset classes for the previous year. These one-year returns are then converted into real returns by deducting inflation (3.3%) 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.

Watch our Head of Asset Allocation, Herman van Papendorp, share his outlook on financial markets.



Asset class	Q3 2025 returns	Nominal returns for the previous 12 months	Real returns for previous 12 months*	Expected real return (p.a.)
Local equity (Capped SWIX)	12.8%	28.1%	24.8%	5.8%
Local bonds (ALBI)	6.9%	14.5%	11.2%	3.3%
Local listed property (SAPY)	6.7%	11.4%	8.1%	7.0%
Local ILBs (ILBI)	5.1%	7.6%	4.3%	2.8%
Local cash (SteFI)	1.8%	7.8%	4.5%	1.3%
Global equity (MSCI ACWI)	4.6%	18.0%	14.7%	6.5%
Global bonds (WGBI)	0.2%	1.6%	-1.7%	-0.3%
Global property	1.3%	0.9%	-2.4%	4.0%
US dollar/rand**	-2.9%	0.2%		
SA CPI*	1.1%	3.3%		

*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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Portfolio management

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Mohammed Sibda
Portfolio manager



No material changes were made during the last quarter apart from reducing global bond exposures in favour of both local bonds and property. The portfolios are positioned for further gains in risk assets (local and global equity and property) and local bonds.

As explained above, our outcome-based investing philosophy starts at the asset class level and then goes down to an investment strategy (if appropriate) and investment mandate choice 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.



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Building block Return assessment

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Local equity building block

South African Equity was a standout performer in the third quarter of 2025. The FTSE/JSE All Share Index gained 12.9%, largely powered by an extraordinary 50.8% return in the resource sector, while Industrials rose just 3.7% and Financials were nearly flat at 0.3%, all in rand. Gold and platinum mining stocks led the rally, with gold miners and technology giants Naspers and Prosus contributing to the index's strong total return. In contrast, domestically focused sectors struggled; discretionary and general retailers declined, while banks and insurers posted only modest gains, reflecting persistent local economic pressures.

The Target Equity building block delivered a return of 12.3% for the quarter. The higher level of cross-sectional volatility is straining medium-term returns. The Trending strategy managed to deliver 0.5% outperformance over the quarter. The Value strategy performed almost in line with the benchmark, but the Quality strategy lagged by 2.2%. This is due to the bias towards lower Beta stocks, which often lag during a strong market such as the current environment. The underweight exposure to precious metals stocks explains most of the underperformance.

Local property building block

The SA Listed Property Index (SAPY) and the All-Property Index (ALPI) recorded total returns of 6.7% and 5.5% respectively for the quarter ended September 2025. The South African listed property sector

continued to demonstrate momentum in the third quarter of 2025. The composition of SA-listed real estate total shareholder return shifted in 2025, moving from a valuation-driven re-rating in 2024 to an earnings-led capital return year-to-date supported by an improving income growth profile. Furthermore, market stability has been bolstered by the reduction in bond yields over recent periods.

The retail sector performance showed continued resilience. The retail sector continues to dominate, making up approximately 50% of the South African assets held by REITs. Annualised trading density growth increased to 4.1% year-on-year (y-o-y) to June 2025 and continues to outpace inflation. The overall retail vacancy rate marginally edged up to 5.1% in June 2025 (from 4.9% in March 2025). The increase in vacancy is generally viewed as temporary and strategic, as landlords aim to right size and replace underperforming tenants. The office sector continues its recovery, with a focus on quality stock.

The national office vacancy rate declined to 13.1% in Q3 2025, marking the lowest level in five years. However, the absolute quantum of vacant space remains high. The industrial sector remained the most favourable, outperforming the other property sectors on a total return basis, delivering a 15.2% total return. Sector fundamentals remained robust, characterised by a stable, low vacancy rate of 2.1%. Demand is focused on distribution and logistics properties, driven by e-commerce and entities consolidating operations to leverage efficiencies.

The building block posted a return of 5.5% for the quarter, which was in line with the benchmark.

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Local real return portfolio

The Real Return building block delivered a quarterly return of 4.7%. Sanlam Investment Management produced 3.5% for the quarter. They are, on balance, still concerned about the potential headwinds to risky assets, more than we are positive on the tailwinds. These include the Trump administration’s tariff policies, Middle East tensions and EU geopolitical tensions, and still elevated equity valuations (particularly in the US). The strategy remains focused on capital preservation and continues to hold most of the assets in income asset classes rather than equity.

Prescient delivered a return of 6.0% for the period. The allocation to protected equity and income was the main driver of returns for the quarter. Additional performance was generated from the holding in the Clean Energy Fund.

The local bond building block

The third quarter saw the strong performance from fixed income asset classes accelerate as a confluence of global and local factors came together to drive both nominal and real yields lower. Nominal yields rallied a significant 70 basis points across the curve, driving strong bond (6.9%) and listed property (6.7%) total returns. Real yields rallied around 35 basis points, lifting Inflation-Linked Bonds to a 5.2% return, while the ZAR gained 2.3% against an ailing U.S. dollar. Lastly, cash (STeFI) delivered 1.8% as the lagged impact of rate cuts continues to filter through.

Credit continues to perform exceptionally well. The compression in both bank and non-bank credit spreads continues, with investors receiving a lower risk premium for taking on credit or term risk. There does not seem to be an obvious trigger for spreads to widen, but the preference is to maintain credit exposure in higher-quality issuers and with shorter term-to-maturity.

The building block produced a quarterly return of 7.1%. Looking ahead, Prescient Investment Management is still cautiously optimistic about the return prospects from nominal and inflation-linked bonds.

Global equity building block

Global equities finished strongly in the third quarter, with tech and AI leaders driving the gains in the S&P 500 and Nasdaq, while better-than-expected earnings also added gains to the rest of the equity market. Outside of the US, Emerging Markets (EM) had a better quarter than Developed Markets (DM), led by China and commodity-linked markets like South Africa.

The MSCI World Index was up 4.4% in rand terms, and the MSCI USA and S&P 500 indices both rose by 4.9%. The Nasdaq 100 Index ended the period up 5.8% with four stocks (Tesla, Alphabet, Nvidia and Apple) accounting for over half of the S&P 500’s quarterly return. The MSCI Europe Index gained 0.6%, and the MSCI United Kingdom Index was up 2.8%.

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Within emerging markets, the MSCI China Index was up 17.2% for the quarter, while the MSCI India Index was down 10.3%. The MSCI Emerging Markets Index had a very strong quarter, ending the period up 7.4%.

Against this backdrop, the global equity building block gained a return of 4.5% over the quarter, outperforming its MSCI AC World benchmark, which recorded 4.4% over the same period.

Global property building block

Globally, the FTSE EPRA/NAREIT Developed Rental Net Total Return Index (the index) recorded a net total USD return of 3.5% for the quarter. The best performing listed real estate market was Australia, which recorded a total USD return of 12.5% for the quarter. The UK recorded the lowest total USD return of -7.3%. Year to date, the best performing sectors globally are Health Care (+31.2%), Diversified (+29.1%) and Malls (+28.6%). The worst performing sectors are Cold Storage (-34.2%), Data Centres (-10.9%) and Lab Space (-5.70%). The Rand's strength over the quarter detracted from performance.

Against this backdrop, the global property building block delivered a return of 0.0% for the quarter, which was below the benchmark of 1.4%.

Global fixed income building block

Global fixed income markets were shaped by moderating inflation, uneven growth, and recalibrated central bank stances. U.S. Treasuries traded in a volatile range, with the 10-year yield ending the quarter near 3.95%, down around 25 basis points as softer growth data offset lingering inflation concerns. In Europe, Bund yields fell to 2.25%, with spreads tightening across peripherals as the ECB maintained policy stability after earlier cuts. UK Gilts rallied after the BoE's 25 bp rate reduction to 4.75%. Japanese government bonds saw limited movement, with the 10-year JGB anchored around 0.95% as the BoJ maintained its cautious normalisation path. Credit markets remained firm, U.S. high yield spreads tightened to 350 basis points, supported by strong liquidity and light issuance, though investor positioning turned more defensive into quarter-end.

Against this backdrop, the building block delivered a return of -2.2% for the quarter, which was above the benchmark return of -2.7%. The Rand's strength of close to 3% against the US Dollar detracted from the asset class returns.

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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.

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