Benguela Global Equity 27four Feeder Fund Commentary: 3Q2024

24 October 2024

Portfolio: Benguela Global Equity 27four Feeder Fund

Benchmark: MSCI All Country World Index (MSCI ACWI)

3Q2024 Performance Review

Despite geopolitical uncertainties and varying economic conditions globally during the quarter, investor sentiment improved due to indications of easing monetary policies from major central banks. The quarter was characterized by volatility as markets reacted to economic data releases and geopolitical events, but ultimately, the broader market movements reflected optimism about less dramatic economic growth slowdown. For the quarter ended September 30, 2024, the MSCI All Country World Index (ACWI) ZAR experienced modest gains, delivering a return of approximately 0.57%. This performance was driven by resilience in developed markets, which were buoyed by stabilizing inflation rates and positive corporate earnings announcements. The Benguela Global Equity 27four Feeder Fund returned -0.64% for the quarter, thereby underperforming the benchmark by -1.21% over the same period. For the 12 months period to 30 September 2024, the MSCI ACWI ZAR returned 20.48% while the Benguela Global Equity 27four Feeder Fund returned 13.74% thereby underperforming the benchmark by 6.74%. While this outcome is below expectations, our performance can largely be attributed to our cautious stance regarding a select group of influential companies known as the Magnificent Seven (M7)—Alphabet, Amazon, Apple, Microsoft, NVIDIA, Meta Platforms, and Tesla. These industry leaders have driven more than half of the index's gains this year, following their significant contribution to nearly two-thirds of the S&P 500's returns in 2023. Despite concerns about this concentration, their rise is somewhat justified as the M7 accounted for a major portion of the index's earnings growth in the first half of the year. Our approach diverges from the market consensus in that we remain skeptical about projecting the recent levels of

extraordinary profitability far into the future. We expect to underperform when markets discard the discipline of considering valuations in their pricing of assets.

Key drivers of global market performance in Q3 2024

From a regional standpoint, the United States led the gains within the MSCI ACWI, propelled by strength in the technology and consumer discretionary sectors. Europe lagged slightly behind at 6.5%, facing challenges such as inflationary pressures and less dynamic growth, though countries like France and the United Kingdom showed relative resilience due to strong domestic demand. In Asia, Japan delivered notable performance of +16.1% for the quarter driven by favorable currency dynamics and supportive monetary policies, while China's market lagged due to ongoing concerns over its property sector and slower-than-expected economic recovery. Although Emerging markets outperformed developed markets during the past quarter, this headline outcome was derived from mixed results, with Latin America benefiting from strong commodity prices, whereas Eastern European markets were weighed down by geopolitical tensions.

Year-to-date, the MSCI ACWI achieved a cumulative gain of approximately 19.1%, with technology, healthcare, and consumer discretionary sectors making substantial contributions. The technology sector continued to thrive on sustained demand for digital solutions and advancements in AI technologies. Healthcare gained momentum with the successful rollout of innovative therapeutics and increased healthcare spending. Consumer discretionary benefited from a resilient global consumer base and recovery in travel and leisure activities. For the quarter specifically, the energy sector also saw renewed interest as oil prices recovered, providing a positive impact on market returns. Overall, these sectors have been critical in driving both quarterly and year-to-date performance amidst evolving market dynamics.

EQUITIES PERFORMANCE BY SECTOR

30/09/2024

	% Change 1M	% Change 3M	% Change YTD	% Change 1Y
MSCI AC WORLD U$	2.36	6.72	19.08	32.35
MSCI ACWI UTILITIES $	5.43	16.78	23.32	36.85
MSCI ACWI FINANCIALS $	1.64	10.81	21.71	37.06
MSCI ACWI INDUSTRIALS $	3.18	10.25	18.42	34.28
MSCI ACWI MATERIALS $	5.49	9.77	8.54	21.19
MSCI ACWI CONS STAPLES $	1.60	9.54	12.64	18.91
MSCI ACWI CONS DISCR $	7.47	9.44	14.39	25.69
MSCI ACWI HEALTH CARE $	-2.63	6.31	14.51	21.39
MSCI ACWI COMMUNICATION SVS $	5.30	4.38	25.84	37.66
MSCI ACWI IT $	1.92	1.17	26.41	48.69
MSCI ACWI ENERGY $	-3.02	-1.94	6.93	4.02

Figure 1 – Source : Refinitiv/Benguela Global Research

3Q2024: Sector Allocation Review

Sector Contributors	Active Position	Allocation Effect (%)	Sector Contributors	Active Position	Allocation Effect (%)
Energy	U/W	0.229	Consumer Staples	U/W	-0.099
Consumer Discretionary	O/W	0.085	Communication Services	O/W	-0.076
Materials	O/W	0.068	Financials	U/W	-0.047

Sector Contributors

Energy (UW – positive contribution):

Portfolio Tactical Strategy: We have been and remain underweight in the energy sector due to what we considered to be an extreme level of profitability in 2023 when EBITDA margins hit a peak 24% versus long-term average of 16%. The profitability was exaggerated by flattering energy prices boosted by post-Covid supply chain constraints and Ukraine/Russia war in quick succession. We saw the low valuation multiples as a trap rather than an opportunity considering that margins were extremely above-average.

Consumer Discretionary (OW – positive contribution):

Portfolio Tactical Strategy: Our overweight position in consumer discretionary, held for the past year, yielded positive allocation effects last quarter, though negative selection offset some gains. We anticipated that post-pandemic EBITDA margin normalization would be counterbalanced by robust volume growth driven by resilient US consumer spending. However, current elevated valuations suggest the market has largely priced in the benefits of developed market rate cuts. Anticipated topline moderation, due to disinflation and cooling consumer habits in the US and Europe following aggressive rate hikes, challenges the justification for these high multiples, even with further rate cuts expected.

Materials (OW – positive contribution):

Portfolio Tactical Strategy: Over the past twelve months, our overweight position in materials has yielded mixed allocation outcomes. Weaknesses in the Chinese economy have depressed bulk commodity prices, while geopolitical factors have driven a sustained rally in gold prices. In the past quarter, the gold sector particularly excelled, providing us with a positive allocation effect. Although both commodity and non-precious materials share prices have declined, a stimulus from China could potentially act as a catalyst for renewed commodity price momentum. Without such a stimulus, we anticipate that the recent price rally may lose steam. Meanwhile, precious metals, and gold in particular, are likely to be supported by ongoing tensions in the Middle East, especially if the situation escalates to involve Iran. We are selective in our investments within the materials sector, focusing on low-cost producers with growth potential, such as increased production capabilities. Supply-side discipline must be balanced against decreasing demand, particularly for commodities like iron ore.

Sector Detractors

Consumer Staples (UW – negative contribution):

Portfolio Tactical Strategy: We have maintained a relatively elevated underweight position in global consumer staples since 1Q2023 as we expected the sector's profit margins to normalise from a cyclical high of 11.2% in 2022 after a flattering price inflation induced by the supply chain constraints. We've indeed seen the disinflation wave driving margins back below the 10% level at a global level in 2024. The US staples sector (3Q2024 EBITDA margin of 8% vs 9.7% in 2Q2022) carried most of the margin fallout while the EU and emerging markets held on to most of their high margins in the post-Covid era. From a rating perspective, the market seemed to have taken comfort in the strong performance of the US economy and maintained a high rating for the US consumer staples while derating EU and emerging market participants in the sector. Although growth in EM and EU look tepid at best, we are seeing some valuation opportunities in these two regions that could help us reduce the underweight position in the sector. Asia Pacific ex-Japan and China has better profit margins than US but slightly lower returns and volatile sales growth profile.

Communication Services (OW – negative contribution):

Portfolio Tactical Strategy: The fund has been overweight communications over the past year, which has given us a positive allocation benefit for that period. However, in the past quarter we had a marginal allocation detraction from the sector. In general, the sector has a high margin and high capex but low return profile on the carrier subsegment which trades at low valuation multiples. Our focus is therefore on the capital light model of internet-based telecommunications services. Cloud service providers (CSPs) bring generative AI (Gen AI) proofs of concept to market, requiring them to manage the costs and risks of data handling, model training, scaled inference, and error mitigation. CSPs focus on identifying optimal data for Gen AI applications and assessing data quality, security, and governance implications related to sharing data with cloud providers. This presents significant cost burdens and increases competitive pressure, particularly in home broadband, yet also offers opportunities to redefine their roles within the connectivity ecosystem and enhance their future standing.

Although carriers look a lot cheaper, we believe that cloud service providers are increasingly vital to the communications sector, offering scalable infrastructure and innovative services that power network operations, enhance customer experiences, and enable new digital offerings. Our allocation decisions take this factor into account through being underweight carriers and overweight internet-based communications services.

Financials (UW – negative contribution):

Portfolio Tactical Strategy: The global financial sector's performance over the past 12 months has been shaped by rising interest rates, boosting bank net interest margins but impacting valuations elsewhere. However, with interest rates now peaking and beginning to decline, the outlook shifts. While banks may see some moderation in net interest income growth, this could be offset by increased lending activity as borrowing becomes cheaper. Conversely, lower rates might improve valuations for insurance and other financial firms, potentially stimulating investment. Therefore, a portfolio should likely reduce overweight positions in banks, diversifying into segments less sensitive to interest rate changes, such as select insurance companies or asset managers that may benefit

from a recovering market environment. Nonetheless, lingering geopolitical uncertainty, inflation, and the ongoing threat of recession will continue to significantly influence market sentiment and investment decisions, impacting credit quality and market volatility across the financial industry. We maintain a cautious approach with a diversified portfolio across various financial sub-sectors and geographies.

3Q2024: Stock Selection Review

Stock selection is a primary source of our value add. For the quarter the key contributors and detractors were:

Key Contributors	Active Position	Selection Effect	Key Detractors	Active Position	Selection Effect
Alibaba Group Holding	O/W	0.495	Copart	O/W	-0.23
Lockheed Martin	O/W	0.27	Autoliv	O/W	-0.23
Tencent Holdings	O/W	0.255	Gentex	O/W	-0.35
Bristol Myers Squibb	O/W	0.234	NIB Holdings	O/W	-0.384
Amazon Com	U/W	0.23	Medpace Holdings	O/W	-0.476
Top Contributors Aggregate	5.27%	1.484	Top Contributors Aggregate	7.30%	-1.67

Key Stock Level Performance Contributors

- Alibaba Group Holding: O/W
  Alibaba Group is a leading Chinese e-commerce conglomerate that operates in various segments, including retail, cloud computing, and digital media. For the quarter the stock returned a phenomenal +56.8%. Alibaba experienced significant share price increases in September, driven by several positive catalysts. These include China's easing of lending standards to stimulate economic growth, the launch of Alibaba's new open-source AI models and text-to-video technology, and the successful completion of a three-year regulatory rectification process. The broader rally in Chinese internet stocks further underscores the positive impact of these supportive regulatory and technological advancements. Alibaba's 2Q2024 results fell short of expectations, with both revenue and net income lower than anticipated. While overall revenue increased by 4% year-on-year, net income dropped 29% due to decreased operating income and investment impairments. The core China e-commerce business (Taobao and Tmall) experienced a 1% year-on-year decline, although gross merchandise value showed double-digit growth, indicating continued platform usage. Conversely, the international e-commerce segment demonstrated strong performance with a 32% year-on-year sales increase. Alibaba's cloud computing division continues to be a key growth driver, achieving 6% year-on-year revenue growth and a substantial 155% increase in adjusted EBITA, fueled by investments in AI. Despite the mixed results, Alibaba's stock price saw a modest increase, reflecting ongoing efforts under new CEO Eddie Wu to restructure and refocus its business on third-party merchants and high-margin cloud services.

- Lockheed Martin: O/W

  Lockheed Martin is a global aerospace and defense company primarily known for its advanced military technology, including fighter jets, missile systems, and space exploration capabilities. For the quarter the stock returned +25.8%. The company's recent earnings performance showed strong demand across its defense segments, particularly in Aeronautics and Missile Systems, driven by increased defense spending and international sales. In the 2Q2024, Lockheed achieved better-than-expected earnings, fueled by ongoing government contracts and a solid order backlog. In the most recent quarter, Lockheed Martin reported earnings of $6.80 per share, surpassing analysts' expectations of around $6.40. Revenue was $17.1 billion, a year-over-year increase of +1.3%. The aeronautics segment accounted for 38% of total sales, benefiting from increased military contracts amid heightened global defense spending.

- Tencent Holdings: O/W

  Tencent Holdings is a Chinese multinational conglomerate with a diverse portfolio in social media, gaming, digital payments, and cloud computing. For the quarter the stock returned +20.0%. The company's major revenue drivers include its online gaming and social networking services, particularly WeChat and its gaming titles. Tencent's 2Q2024 results showcase a strong rebound, with +8% year-on-year revenue growth and a significant +82% increase in profit. This growth is fueled by the success of its gaming division, particularly the strong performance of the newly launched Dungeon & Fighter Mobile in China, alongside increased revenue from Valorant and international games (both up +9%). The online advertising business also performed exceptionally well, up +19% year-on-year, driven by WeChat video advertising. While the fintech and business services division saw more moderate +4% growth due to slower consumer spending, the overall performance suggests a return to strong growth for Tencent, exceeding investor expectations.

- Bristol Myers Squibb: O/W

  Bristol Myers Squibb is a global pharmaceutical company that focuses on discovering, developing, and delivering innovative medicines for serious diseases, particularly in oncology, immunology, and cardiovascular diseases. For the quarter the stock returned +26.5%. In its recent earnings announcement for 2Q2024, the company exceeded revenue expectations primarily due to strong sales of its blockbuster drugs like Opdivo and Eliquis. The firm's performance reflects continued growth in its oncology portfolio, strengthening its position in the competitive pharmaceutical landscape. Growth portfolio revenue increased by 18% (21% adjusted for currency) to $5.6 billion, while legacy portfolio revenue saw a modest 2% increase (3% adjusted) reaching $6.6 billion. The company also announced positive Phase 3 trial results for cendakimab in eosinophilic esophagitis and achieved multiple regulatory approvals, including expanded indications for Breyanzi and pending approvals for subcutaneous nivolumab. Analysts have raised future earnings projections due to the strength of it's pipeline.

- Amazon.com: U/W

  Amazon.com is a global leader in e-commerce and cloud computing, offering a wide range of products and services, including retail, streaming, and Amazon Web Services (AWS). For the quarter the stock returned -3.6%. Amazon's 2Q2024 earnings report, while showing strong AWS performance (18.7% revenue growth exceeding expectations), disappointed investors with lower-than-expected overall sales ($148B vs. projected $148.67B) and weaker-than-expected guidance. The retail segment, particularly North America, experienced decelerating growth (9%

Year-on-year in Q2 vs. 12% in Q1), attributed to consumers trading down on price. Despite this, positive indicators exist. Analyst opinions are divided, with some concerned about margin pressure from price-sensitive consumers and others seeing Amazon as poised for growth due to reset expectations post-Q2. Ultimately, while AWS continues its growth trajectory, the performance of Amazon's retail operations remains a key area of investor focus.

Key Stock Level Performance Detractors

- Copart: O/W

  Copart is a global online vehicle auction platform that specializes in the resale of used and salvaged vehicles. For the quarter the stock returned a disappointing -3.3%. Recently, the company has faced challenges in its business segment, experiencing declining revenues linked to fluctuating vehicle availability due to supply chain disruptions and inventory shortages. Copart, Inc.'s financial results for the year ended July 31, 2024, show positive growth in revenue, gross profit, and net income, increasing by 9.5%, 9.8%, and 10.1%, respectively, compared to the previous year. However, the three-month period ending July 31, 2024, reveals a different picture with revenue up 7.2%, but both gross profit and net income experiencing slight decreases of 0.9% and 7.3%, respectively, leading to a decrease in diluted earnings per share. Purchased vehicle gross profit decreased by about $4 million or 12%. Gross profit for the quarter decreased by about 1% to over $453 million. Operating income and net income for the quarter decreased by 8% and over 7%, respectively.

- Autoliv: O/W

  Autoliv is a global leader in automotive safety systems, manufacturing airbags, seatbelts, and other safety-related components for major automobile manufacturers. For the quarter the stock returned a disappointing -12.2%. Autoliv Inc. (ALV) reported mixed third-quarter 2024 results. While adjusted earnings per share ($1.84) and net sales ($2.56 billion) slightly beat expectations, they fell short of internal projections and year-ago figures. Lower-than-expected organic sales growth (down 0.8%), particularly in China, impacted adjusted operating income and margin. Although the Seatbelts segment exceeded expectations, Airbags underperformed. While European sales were strong, the Americas and China showed declines. Consequently, Autoliv lowered its full-year organic sales growth forecast to approximately 1%, from a previous 2% estimate, while maintaining an adjusted operating margin forecast of 9.5-10% and projecting operating cash flow of $1.1 billion.

- Gentex: O/W

  Gentex is a technology company best known for its production of automatic-dimming rearview mirrors and electronic components for the automotive industry. For the quarter the stock returned a disappointing -11.6%. Gentex's stock price fell following a disappointing second-quarter report, which showed a substantial $50 million revenue shortfall relative to analysts' expectations and a surprising decrease in gross margin, primarily due to weak June performance in outside mirrors and Full Display Mirrors (FDMs). However, management believe this June downturn is not representative of the second half of 2024, predicting improved conditions and maintaining their forecast of approximately 500,000 additional FDM shipments for the year. The company's share price dipped by approximately 7% following the earnings release, reflecting investor concerns about ongoing softening of automotive sector demand.

- NIB Holdings: O/W

NIB Holdings is an Australian health fund that provides health insurance services. The company's recent performance has been hampered by increasing competition and regulatory challenges within the health insurance market. For the quarter the stock returned a disappointing -14.1%. In its 3Q2024 earnings report, NIB's financial results did not meet market expectations, revealing a slower growth trajectory and heightened customer acquisition costs, contributing to a reassessment of its strategic priorities. NIB Holdings experienced a 2H2024 profit decline, reporting net earnings of AUD133 million, down from AUD138 million the previous year, leading to a 6% decline in stock price. Increased healthcare claims and competition in private insurance markets pose ongoing risks, prompting analysts to lower earnings forecasts going forward.

- Medpace Holdings: O/W

  Medpace Holdings is a global clinical research organization that provides comprehensive drug development services for the pharmaceutical and biotech industries. For the quarter the stock returned a disappointing -18.9%. Despite its strong fundamentals, Medpace experienced challenges in 3Q2024, primarily related to contract delays and reduced client spending in response to an uncertain economic environment. Earnings performance fell market below expectations, prompting the company to reassess its operational strategies and revenue projections moving forward. Medpace's latest earnings report showed revenues of $533 million, falling short of consensus estimates of $541 million. The company attributed this shortfall to decreased demand for clinical trials in certain therapeutic areas, resulting in a stock price drop of about 5% after the announcement, as investors reacted to lower guidance for the next quarter.

Market Environment Review: A New Era of Rate Cuts Amid Slowing Global Economic Growth

Macroeconomic Outlook: Global Inflation Review

OECD year-on-year inflation, as measured by the Consumer Price Index (CPI), eased to 4.7% in August 2024, down from 5.4% the previous month. This improvement reflects a notable increase in the number of countries achieving headline inflation at or below 2%, rising from nine in July to sixteen in August. However, inflation still rose in nine OECD member states, indicating persistent price pressures in certain economies. As of October 2024, the global inflation outlook remains complex and varied across different regions, with recent developments shaping the economic landscape. In the United States, inflation has shown signs of moderation, with the Consumer Price Index (CPI) settling at 2.4% year-over-year in September 2024, closer to the Federal Reserve's 2% target. That's down from 2.5% the previous month and in line with market expectations of 2.3% to 2.4%. The inflation rate peaked at 8.9% in June 2022 – a 41-year high. The Federal Reserve's aggressive monetary policy stance, including a series of interest rate hikes that brought the federal funds rate to 5.25-5.50%, has played a crucial role in taming inflation. September's CPI showed a slight increase in headline inflation (0.2% MoM, 2.4% Year-on-year), easing from August but remaining above the Fed's 2% target. While lower energy prices contributed to the slowdown, shelter and food prices drove most of the monthly increase. Importantly, core inflation accelerated (0.3% MoM, 3.3% Year-on-year), driven by persistent services price gains, suggesting lingering inflationary pressures that could moderate the Fed's rate-cutting pace.

The European Union has faced more persistent inflationary pressures, with the Harmonised Index of Consumer Prices (HICP) for the Euro area standing at 3.2% in September 2024. This is down from 5.5% a year earlier but still above the European Central Bank's 2% target. The ECB's deposit rate, currently at 4%, has contributed to cooling inflation, though at the cost of dampened economic growth across the bloc. In Asia, Japan has finally escaped its long-standing deflationary trap, with inflation reaching 1.8% in August 2024, approaching the Bank of Japan's 2% target for the first time in decades.

China, the world's second-largest economy, has been grappling with deflationary pressures, with the CPI registering a modest 0.5% increase year-over-year in September 2024. This low inflation rate reflects ongoing challenges in domestic demand and the property sector. Meanwhile, emerging markets present a mixed picture, with countries like India experiencing inflation at 4.5%, within its central bank's target range of 2-6%. Brazil has successfully brought down inflation from double digits to 3.9% through tight monetary policy, while Turkey continues to struggle with high inflation, recording a rate of 55% in September 2024, despite recent efforts to stabilize its economy and currency.

We expect disinflation to continue in the US, driven by weaker consumer spending, greater price sensitivity, lower profit margins, slowing wage growth, and falling rental costs. Our forecast is for headline and core CPI inflation to reach 2.2% and 2.9% year-over-year, respectively, by the end of 2024. Furthermore, we project the Personal Consumption Expenditures (PCE) price index - the Fed's preferred inflation measure - to conclude the

year at approximately 2.5% year-over-year, subsequently approaching the Fed's 2% target in early 2025. Figure 2 shows that inflation expectations are aligned to the Fed target but look set to remain above that target in the foreseeable future.

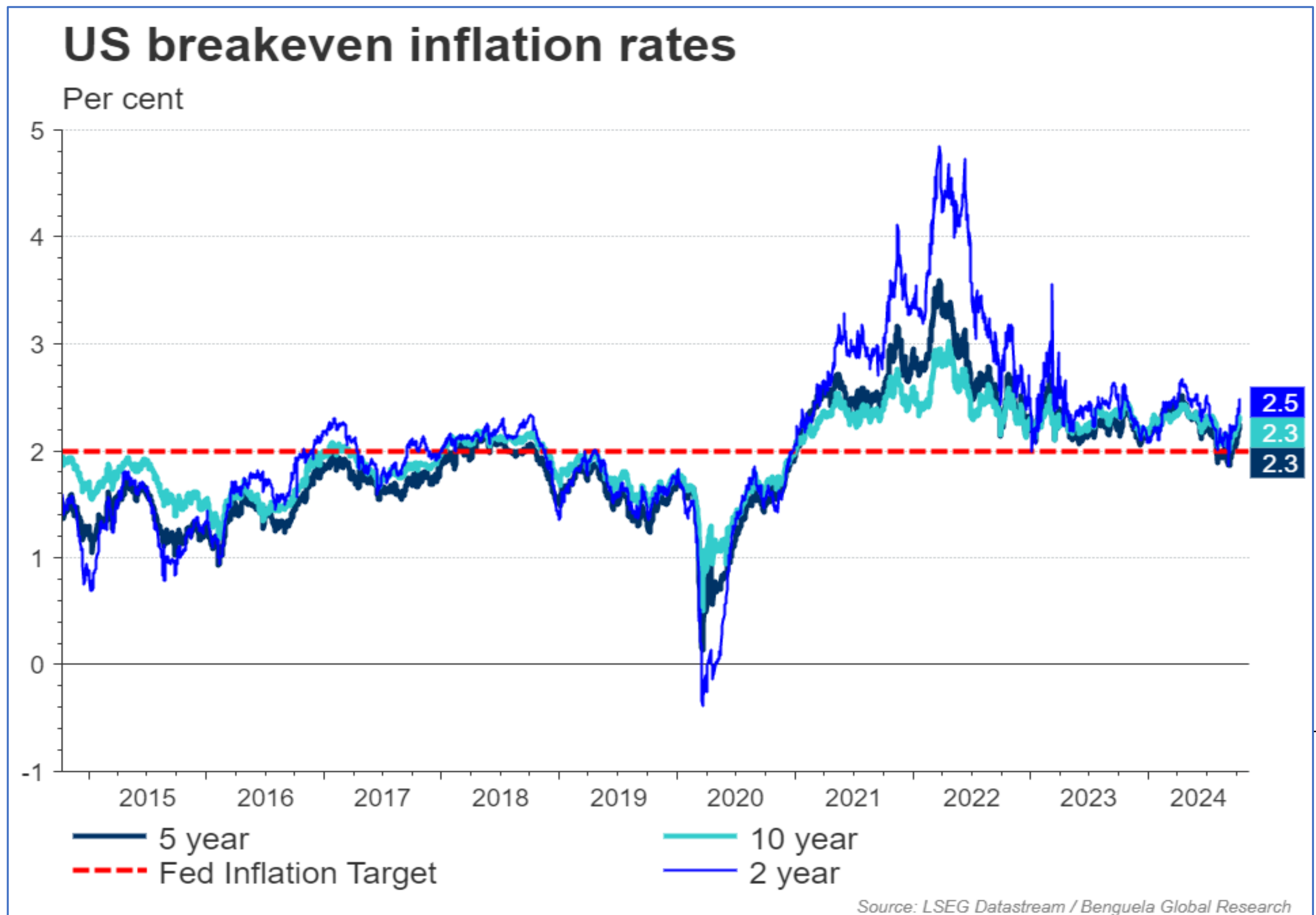

Figure 2

The ECB projects headline inflation (HICP) to rise slightly in late 2024 due to energy price base effects, then decline to 2.2% in 2025 and 1.9% in 2026. The underlying inflation (HICPX) is expected to remain around 3% through late 2024 before declining, driven by services inflation. Energy inflation is projected to be muted in the medium term, with some volatility expected; food inflation should remain stable initially then moderately decrease. The overall decline in HICPX reflects easing indirect effects of past energy shocks, the impact of monetary policy tightening, and reduced wage growth, with services inflation gradually moderating and goods inflation returning to historical averages. The 2% inflation target is still expected to be reached by the fourth quarter of 2025.

Growth and inflation projections for the euro area

(annual percentage changes, revisions in percentage points)

	September 2024			
	2023	2024	2025	2026
Real GDP	0.5	0.8	1.3	1.5
HICP	5.4	2.5	2.2	1.9
HICP excluding energy and food	4.9	2.9	2.3	2.0

Figure 3 – Source: ECB Staff Macroeconomic Projections for The Euro Area

Macroeconomic Outlook: Global Interest Rates Review

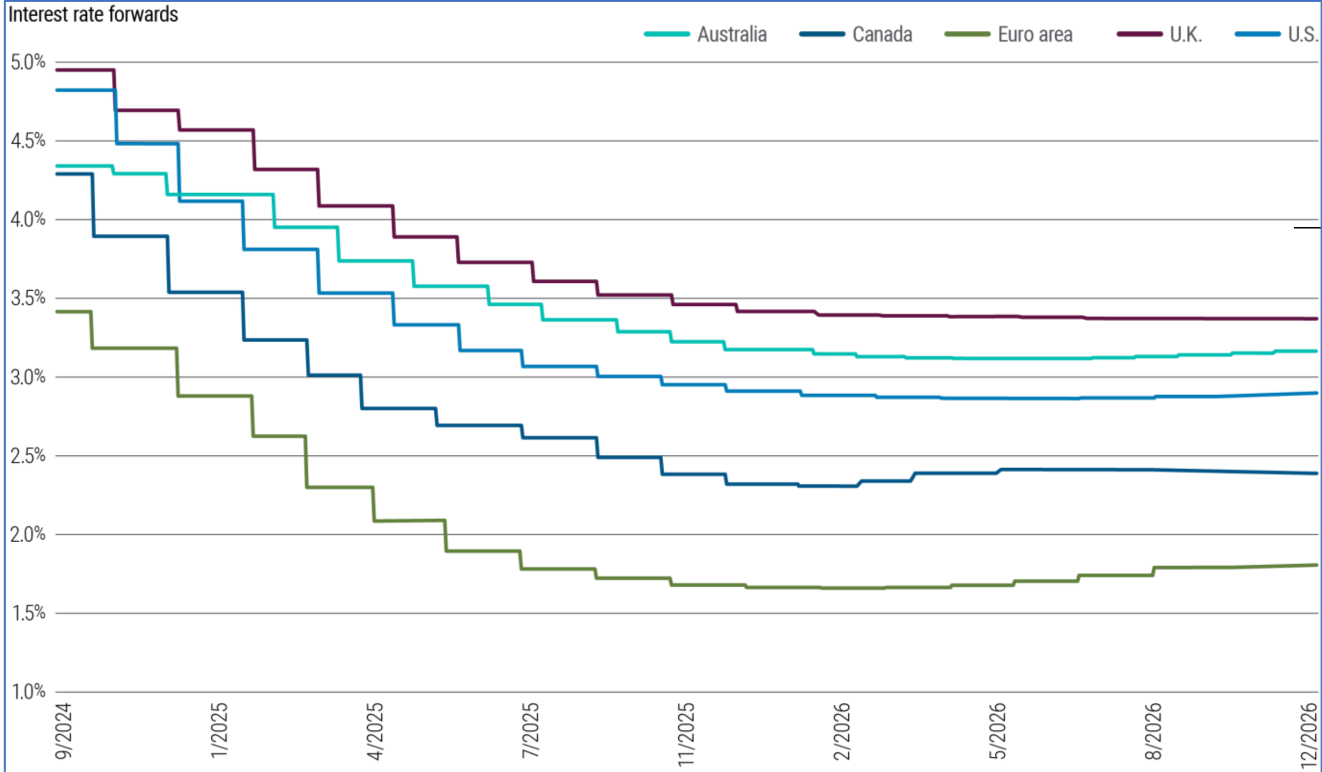

Figure 4 – Source: Bloomberg data and PIMCO calculations as of 30 September 2024

As the global economic narrative evolves, major economies are witnessing a transformative shift away from the aggressive rate hiking phase to the onset of a cutting cycle. This transition marks a significant change in monetary policy, with central banks now prioritizing economic stimulation amidst signs of tempered inflation and moderated growth. According to forward-looking projections, illustrated in Figure 4, developed markets are poised for a predictable trajectory of rate reductions, with expectations of cuts accompanying each central bank meeting. This consistent glide path of easing aims to foster favorable conditions

for sustained recovery, signaling a new chapter in economic strategy as policymakers adapt to the prevailing economic climate.

The Federal Reserve's recent decision to lower the target range for the federal funds rate by 0.5 percentage points to 4.75% - 5% reflects a cautious shift in its monetary policy stance. This move signals the Fed's increased confidence in the progress made towards controlling inflation, which is approaching its 2% objective, albeit still somewhat elevated. The slowdown in job gains and the slight uptick in unemployment, while still low, are critical factors influencing this policy adjustment. The Fed is navigating a complex economic landscape marked by solid economic activity but with an outlook that remains uncertain. By reducing interest rates, the Fed aims to support maximum employment while ensuring inflation steadily decreases to its target level.

Looking ahead, the Fed's approach appears to be one of careful monitoring and data dependence. With multiple Federal Reserve policymakers expressing varied views on the pace and depth of future rate cuts, there seems to be a consensus, albeit with differing opinions on execution, that further rate reductions may be necessary. The range of FOMC members' projections for short-term rates by December 2025—from 2.75% to 4.25%—highlights the balance of potential economic scenarios, including robust labor market conditions and international developments. There's a general expectation that rates will decline to around 3.5%, with adjustments reflecting ongoing evaluations of economic data and risk assessments. Fixed income markets echo similar sentiments, projecting short-term rates around 3.25% to 3.5% by the end of 2025, acknowledging a broad range of potential outcomes. This prospective easing of monetary policy is consistent with the cooling of inflationary pressures, assuming employment conditions stay stable. However, should the labor market demonstrate resilience, rates might remain at the upper end of the current expectations. Conversely, significant weakening in employment could prompt even lower rates. Ultimately, while the trajectory for interest rates seems oriented towards gradual reductions, the specific path will depend heavily on the evolving economic indicators and risk environment.

In the EU, the European Central Bank's recent decision to lower its three key interest rates by 25 basis points marks a strategic move to adapt to the shifting economic conditions within the Eurozone. The updated rates, with the deposit facility at 3.25%, main refinancing operations at 3.40%, and marginal lending facility at 3.65%, reflect an effort to accommodate an evolving inflation outlook and recent decreases in economic activity indicators. This cautious monetary easing is designed to foster economic growth while maintaining a firm commitment to achieving a 2% inflation target over the medium term. Despite ongoing restrictive financing conditions, the ECB has acknowledged the disinflationary trends already in motion. Inflation is expected to see a temporary increase before aligning with target levels later in the year, primarily due to domestic pressures like elevated wage growth. The ECB anticipates that labor cost pressures will gradually diminish, aiding in inflation moderation as profits buffer some impact. The policy adjustment underscores the ECB's intent to balance inflationary dynamics while promoting economic stability. By maintaining a restrictive stance but allowing for flexibility in response to economic shifts, the ECB demonstrates its commitment to navigational agility. The ECB's

data-driven, adaptable approach ensures it remains ready to modify monetary policy as necessary, focusing on sustaining economic stability and guiding inflation towards its target.

Following recent rate cuts by the US and ECB, key emerging markets have adjusted their monetary policies with varying strategies. The Bank of Mexico lowered its benchmark interest rate to 10.50% in September 2024, responding to improved inflation trends despite caution over sticky core inflation and potential currency depreciation. South Africa's Reserve Bank reduced its key interest rate by 25 basis points to 8% in September 2024, marking its first policy easing since the pandemic despite ongoing inflationary concerns, as inflation slowed to 4.4% in August, below the central bank's target range midpoint.

Meanwhile, the Reserve Bank of India held its policy repo rate steady at 6.5% but changed its stance to neutral, suggesting potential for future cuts amid signs of an economic slowdown. In China, the People's Bank of China cut its one-year loan prime rate to 3.1% and its five-year rate to 3.6%, continuing its monetary stimulus efforts to support the economy amid weak consumer sentiment and a prolonged property crisis.

Macroeconomic Outlook: Global Economic Growth Review

The global economy has demonstrated notable resilience amidst a landscape of rising interest rates, with our projections indicating a GDP growth of 3.1% in 2024, inching up to 3.2% in 2025. Advanced economies are expected to see modest acceleration, with growth increasing from 1.5% in 2023 to 1.8% in 2025, driven by gradually loosening monetary policies and improved inflation-adjusted incomes, particularly across Europe and the UK. Conversely, emerging markets are anticipated to experience a slight deceleration, slowing from 4.2% in 2023 to 4.1% in 2024 and 2025, primarily due to structural slowdowns in China that counterbalance robust momentum in India and moderate growth in regions like Latin America and the Middle East and North Africa.

The International Monetary Fund's latest analysis underscores this mixed global growth outlook, maintaining their 2024 GDP growth forecast at 3.2% but noting subtle shifts among individual country forecasts. While the U.S., India, and Brazil display strong resilience with upward revisions, other areas such as China, Japan, and the euro zone see slight downgrades due to various economic challenges, including supply chain disruptions and low consumer confidence. Additionally, potential external risks, including geopolitical tensions and trade policy shifts, present uncertainties that could influence global growth trajectories. Nevertheless, projected economic improvements in areas like Spain and India indicate opportunities for balanced global growth, supported by domestic reforms and international economic integration.

Macroeconomic Outlook Conclusion

In summary, our twelve-month outlook is as follows:

- Inflation Outlook: Global inflation is expected to continue its downward trajectory, easing from an average of 6.2% in 2023 to 4.6% in 2024 and further to 3.5% in 2025. In advanced economies, inflation is anticipated to decline more rapidly, approaching central bank targets as persistent services inflation gradually dissipates. Conversely, emerging markets may still face core inflation challenges, necessitating careful monitoring and policy adjustments.

- Interest Rates Outlook: Central banks in both developed and emerging markets are likely to gradually ease monetary policies as disinflation trends continue. However, the pace of rate cuts will likely be cautious and measured, akin to an "escalator on the way down," due to lingering risks associated with inflationary pressures and external global economic factors. Policymakers will remain vigilant, balancing the need to support economic growth with the imperative to maintain price stability.

- Growth Outlook: The global economy is showing resilience with projected GDP growth of 3.1% for 2024, slightly increasing to 3.2% in 2025. Advanced economies are set for modest growth rates supported by looser monetary policy and rebounding real incomes, while emerging markets may face slight deceleration due to structural changes in major economies like China. Despite these challenges, opportunities in regions such as India and Latin America may contribute to balanced global growth, contingent on strategic domestic reforms and sustained international cooperation.

Portfolio Management Outlook

As we reflect on the past twelve months, our commitment to quality investing and disciplined valuation metrics remains steadfast despite the challenging landscape that the Benguela Global Equity Fund has faced. The volatility of the market has tested our strategies, particularly following a stellar performance period since our inception. Although we have encountered obstacles that impacted our short-term returns, we are proud to maintain a mid-table ranking in both the three and five-year Citywire standings, underscoring the resilience of our strategy over a longer horizon.

One significant detractor from our relative performance has been our investment in Nvidia; which rallied shortly after we established a small position as the AI hype drove valuations to levels beyond intrinsic worth. While this experience serves as a reminder of market exuberance, it highlights our commitment to thorough research and the importance of adhering to disciplined valuation practices. We will be providing clients with a detailed

thought piece on Nvidia, where we will delve deeper into our investment rationale and lessons learned that will ultimately fortify our investment approach going forward.

We reviewed four alpha drivers in the application of the fundamental law of active management: tracking error, information coefficient, portfolio breadth and transfer coefficient. We identified key areas for improvement, particularly in portfolio breadth and transfer coefficient. Allocations to midcap companies, especially within the energy, education and healthcare sectors, have faced challenges including amongst others: reckless changes in strategy by management or hostile regulatory environments. In light of these lessons, we have adapted our strategy to reduce bet sizes on smaller companies while still respecting their quality and attractive valuations. Additionally, we recognize the need to enhance our exposure to AI-driven technology within the U.S. market, which is poised for substantial growth in the current environment.

Looking ahead, our team is optimistic about the trajectory of the Benguela Global Equity Fund. With an information coefficient of 67% indicating a solid relative hit rates in our stock selection processes, we are well-positioned to refine our investment strategies moving forward. Our tracking error remains at a manageable 3%, supported by an active share greater than 80%, reflecting our deliberate differentiation from benchmark index constituents. Given the current volatile markets and a declining economic growth outlook, our quality investing approach is expected to perform favorably, enabling us to better serve our clients and enhance portfolio outcomes in the months to come. We are dedicated to leveraging our insights from the past year as we pursue opportunities aligned with our investment philosophy, ensuring a resilient and high-quality portfolio for our investors.

Zwelakhe Mnguni Chief Investment Officer
Email zwelakhe@benguelaglobal.com
Mobile 082 408 5106

Grant Nader Portfolio Manager
Email grant@benguelaglobal.com
Mobile 082 408 5106

BENGUELA GLOBAL
FUND MANAGERS

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APPENDIX 1: OECD REAL GDP