

OLDMUTUAL

FINANCIALLY TALKING

JUNE 2023



CONTENTS

STAY UPDATED	4
ECONOMY IN A SNAPSHOT	6
EIGHT LONG-TERM INVESTMENT LESSONS	7
BE INSPIRED TO TAKE CONTROL OF YOUR FINANCIAL FUTURE THIS NATIONAL YOUTH MONTH	9



**“NEVER UNDERESTIMATE
THE POWER OF INVESTING IN
THE FUTURE. IT’S NOT ABOUT
PREDICTING THE FUTURE; IT’S
ABOUT PREPARING FOR IT.”**

– UNKNOWN



Kerwyn

**KERWYN WILLIAMS – MANAGING DIRECTOR
OLD MUTUAL UNIT TRUSTS**

We have reached the halfway mark of the year and as the vibrant colours of autumn fade away and the air turns crisp, nature heralds the arrival of winter. Winter can creep up on our finances and wreak havoc on our budgets while we hibernate. We tend to take for granted the subtle, but potentially significant, impact that seasonal changes can have on our personal finances as we turn to comfort spending. Having set your financial goals for 2023 at the start of the year, it's important not to let winter or anything else throw you off track.

The Quarter 1 South African GDP figure came in at 0.4%. Although this is good news as it helps South Africa avoid a technical recession, it is still poor compared to our peers in emerging markets and may therefore make us less attractive as an investment destination. Trying to navigate through any investment strategy, without a plan specifically developed for your goals may lead to poor investment decision making. To be able to meet your financial goals, it is important for you, as an investor, to seek the advice of a qualified financial planner to understand the impact, if any, of such market news on your portfolio.

LONG-TERM PERSPECTIVES 2023

We have been publishing [Long-Term Perspectives](#) annually for the past 10 years. The aim of this publication is to draw investors' attention to the long-term patterns in asset behaviour and, in so doing, put shorter-term volatility into perspective. These patterns culminate in eight informative

lessons that we believe empower the long-term investor. This year we also focus on the dramatic rise in inflation over the past two years, the longer-term inflation prospects and what this means for investors. We hope that the lessons we have focused on will help you make the right decisions to grow your wealth in the years and decades to come.

EMPOWERING OUR YOUTH FOR A BETTER FUTURE

June is a significant month in the history of our country, as we commemorate the 47th anniversary of the Soweto Youth Uprising. The theme for Youth Month 2023 is "Accelerating youth economic emancipation for a sustainable future". It is very appropriate considering the high youth unemployment rate and the current socio-economic state of our country. While we pay tribute to the students who risked their lives to change their future for the better, we also need to empower our youth through financial education and guide them towards financial success. In this edition of our newsletter, we look at how young investors can take control of their financial future. As the saying goes, the best way to predict the future is to create it.

Wishing you an inspiring Youth Month!

STAY UPDATED

QUARTERLY STATEMENTS NOW AVAILABLE DIGITALLY

At Old Mutual, we believe that accelerating our adoption of technology in a secure online environment is a critical step in enhancing your experience of our business and ensuring you have safe access to your portfolio information. We are pleased to inform you that Old Mutual Wealth and Unit Trusts Quarterly Statements will now be available to you via our digital platforms only. Easily retrieve your quarterly transaction statements safely and securely, via the Old Mutual Wealth and Unit Trusts secure client website, WhatsApp and the Old Mutual App.



WE HAVE 3 OPTIONS AVAILABLE FOR YOU TO EASILY RETRIEVE YOUR QUARTERLY STATEMENTS SAFELY AND SECURELY:



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Add us on WhatsApp: Save the dedicated Old Mutual number **0860 933 333** (please use the mobile number you have provided to Old Mutual) and send a WhatsApp message "Hi". Select Option 5 (*Retrieve documents*) and then select Option 2 (*Latest statement(s)*). Enter your SA identity number when prompted and choose the statement you would like to retrieve from the list. It's that easy!



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ECONOMY IN A SNAPSHOT



IZAK ODENDAAL | INVESTMENT STRATEGIST AT OLD MUTUAL WEALTH

As we head towards the middle of the year, there is good news and bad news. The good news is that global growth has been much stronger than expected. In the developed countries, jobs are plentiful and workers scarce. This means consumers can keep spending at decent levels even though inflation is high and interest rates have increased a lot. It also helps greatly that key commodity prices are lower than on the eve of the Russian invasion. While the war in Ukraine tragically rages on, markets have lost interest (investors often have short attention spans) and a stalemate of sorts is now priced in.

The upshot is that households and businesses are enjoying relief from the severe energy squeeze that seemed to have no end in sight not that long ago. Meanwhile, China has given up fighting Covid with lockdowns, so the world's number two economy is rebounding.

So where is the bad news? Inflation, though lower, is not low enough. Central banks in the rich world target 2% but inflation excluding volatile food and fuel prices was around 5% in the US and Europe at the time of writing.

Since households still have spending power, they can continue to put upward pressure on prices of consumer

goods and services. Besides, households in rich countries have additional firepower from savings built up during the pandemic years.

Put differently, the supply-driven phase of the global inflation surge is mostly something of the past. The supply chain and logistical bottlenecks that caused goods prices to spike have mostly faded, and commodity prices are lower. What the developed countries are dealing with instead is demand-pull inflation. Hence the need to have interest rates in restrictive territory to cool demand and ultimately put downward pressure on inflation.

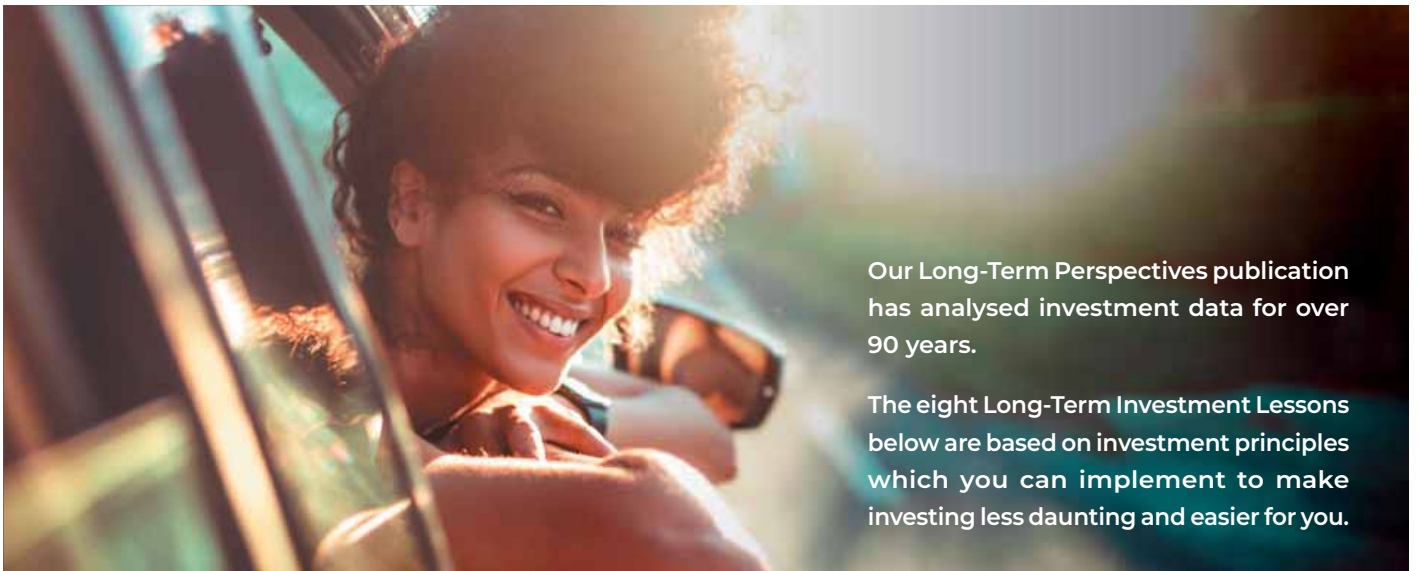
In other words, the better the global economy is doing now, the more central banks might have to raise interest rates to cool things, perhaps even causing a recession.

Locally, inflation is by and large a supply problem, not one of excess demand. Food and fuel prices are basically set in global markets, and to the extent that load shedding is adding to consumer prices, it is also a supply problem.

Still, inflation has been higher than expected, and the Reserve Bank does not like such surprises. As elsewhere, it is worried that consumers and firms will develop an inflationary psychology that becomes self-fulfilling. This means that the local rate hiking cycle is not necessarily done. However, we are certainly much closer to the end than the beginning.

EIGHT LONG-TERM INVESTMENT LESSONS

LONG-TERM PERSPECTIVES 2023

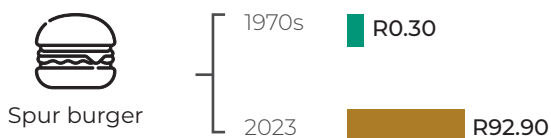


LESSON 1: INFLATION IS YOUR ENEMY

Many investors suffer from “inflation illusion”, as they don’t notice how inflation erodes spending power over time.

Unless you can grow your investments at least in line with inflation, you will face a decline in the value of your investments. This is why it is important to plan carefully and ensure you invest in growth assets like equities that can deliver inflation-beating returns over the long term.

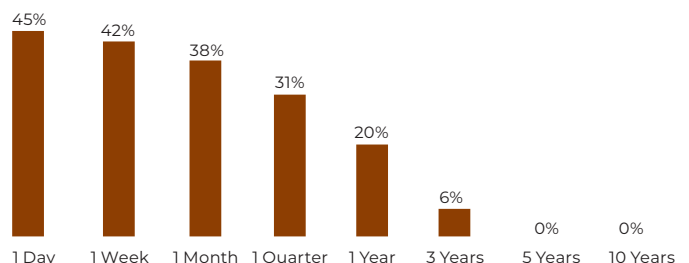
The impact of inflation using the example of the price of a Spur burger over time:



LESSON 2: TIME IS YOUR FRIEND

It’s all about the time you’re invested in the market, not timing the market. The best way to decrease the probability of losing money is to invest for longer. As soon as you extend your holding period for more than three years, SA equity past performance shows that the chance of losing money becomes negligible.

FREQUENCY OF NEGATIVE EQUITY RETURNS OVER DIFFERENT TIME PERIODS

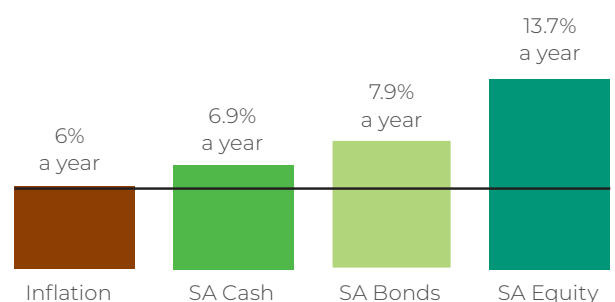


Sources: Old Mutual Investment Group, FactSet
 1 day and 1 week: Rolling total returns, June 1995 to December 2022
 1 month to 10 years: Rolling returns, January 1960 to December 2022

LESSON 3: YOU NEED EQUITIES

Investors need the higher long-term returns from equities (shares) to grow their investments above inflation. This is particularly important in a world where people are living longer, and well into retirement, where the money invested needs to beat inflation to last longer well into their retirement years.

PERFORMANCE OVER 93 YEARS (NOMINAL RETURNS)



The portion above the line are real returns.

LESSON 4: THE VALUE OF MONEY ERODES IN THE BANK

A bank deposit exposes you to minimal risk, but there is a price to be paid for that security. While cash in the bank is considered low risk and advisable for short-term capital protection, it does not increase your real (inflation-beating) wealth over time. Over 93 years, cash has an after-inflation return of less than 1% a year.

TIME NEEDED TO DOUBLE YOUR MONEY

Using the long-term average returns of each asset class, this is how long it will take to double your REAL investment value.



LESSON 5: COMPOUNDING IS A POWERFUL WEALTH GENERATOR

Staying invested over time has the benefit of compound growth, which means that you make money on your original investment as well as on the gains made in previous years (i.e. growth on growth over time). Remember to tick the dividend reinvest box on your investment application form to further maximise your growth.

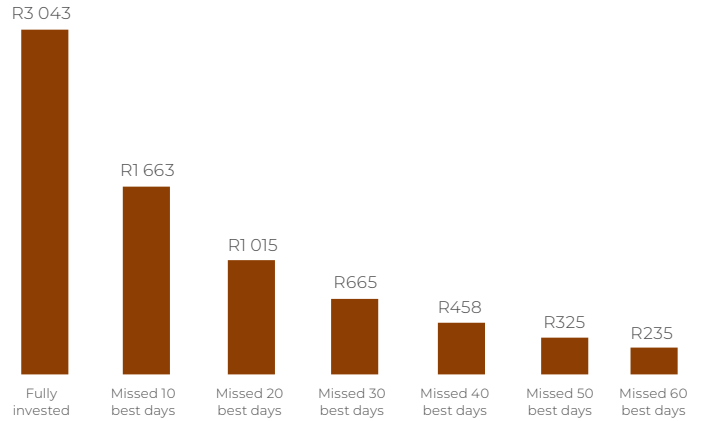
GROWING YOUR WEALTH OVER TIME

Using the long-term nominal average return of 13.7% a year, look at what happens when a lump sum is invested in SA equities over time, and the difference between reinvesting the gains and withdrawing them.

	TODAY	10 YEARS LATER	20 YEARS LATER
REINVESTING THE GAINS Growth on growth over time	R1 000	R3 610	R13 078
WITHDRAWING THE GAINS Growth over time	R1 000	R2 380	R3 760

LESSON 6: HIGH PRICE OF MISSING OUT

Short-term volatility can often lead to investors selling their investments at the worst time. History shows us that the worst days on the market are usually followed by the best days. While the urge to sell when markets are volatile may feel like you're mitigating risk, the reality is that you are likely to make a poor timing decision and can put your portfolio years behind in its objective of reaching your financial goals.

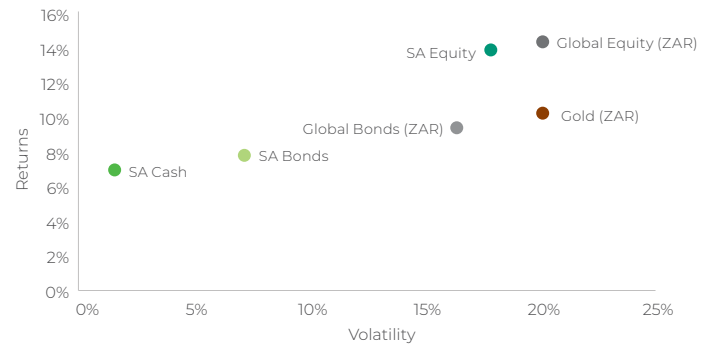


LESSON 7: DON'T PUT ALL YOUR EGGS IN ONE BASKET

Although you need growth assets like equities to grow your investment, equities have not always been the top performing asset class each year. The best way to reduce volatility and manage risk is to diversify across different asset classes, as it reduces the impact that a single poorly performing asset has on your overall portfolio.

A BALANCING ACT BETWEEN RISK AND RETURN

Annualised real returns versus volatility of nominal returns (December 1929 – December 2022)

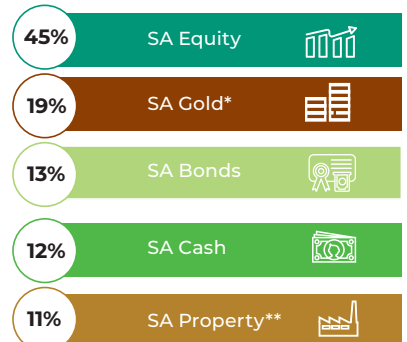


LESSON 8: ASSET ALLOCATION ADDS VALUE

Asset classes (like bonds, shares and property) have distinct secular or long-term periods of under- and outperformance.

Equities may have been the best performing asset class since 1930, but cash was the best performer for 10 of those 93 years and listed property for nine of those years. This variation in returns from different asset classes creates an opportunity to deliver better returns through active asset allocation.

PERCENTAGE OF TIME AS THE YEAR'S BEST PERFORMING LOCAL ASSET CLASS (1930 – 2022)



* Since 1967 ** Since 1980

Download the detailed Long-Term Perspectives yearbook [HERE](#).

For more information, please contact your financial adviser, or the Old Mutual Unit Trusts Contact Centre: 0860 234 234.

Email: unittrusts@oldmutual.com. Website: www.oldmutualinvest.com.

These funds form part of our Investment Series fund range. For more information and fact sheets, click [HERE](#).

BE INSPIRED TO **TAKE CONTROL** **OF YOUR** **FINANCIAL** **FUTURE** THIS NATIONAL YOUTH MONTH

This year marks the 47th anniversary of the Soweto Youth Uprising, when black South African students took to the streets to assert their right to education equality. Today all South Africans enjoy basic human rights, so let's celebrate the youth's courage and solidarity by remembering that, because of them, we can now have better futures – especially when it comes to our finances. As the saying goes, the best way to predict the future, is to create it.

If you're just getting started on your investment journey, perfect! Now is the time to focus on financial resilience, and to begin building a buffer to protect you from life's financial knocks – we might not know when and where they'll come from, but they are sure to happen.

But how? Here are three simple, yet powerful tips to help you make the most of your money, right now.

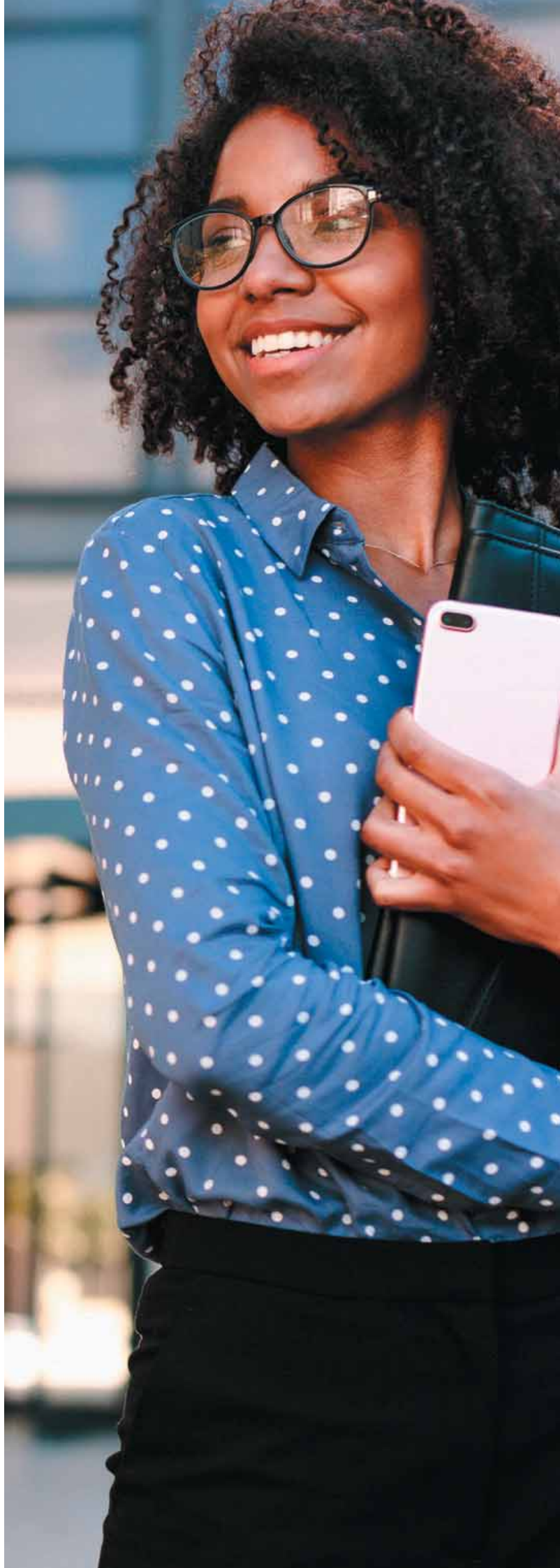


1. START THAT EMERGENCY FUND

This is the first, most essential step you can take to make sure that emergencies – such as car trouble or replacing an appliance – don't turn into a crisis.

Ideally, you should aim to build up enough money to cover your living expenses for three to six months. For this reason, it's a good idea to draw up a monthly budget, so that you know exactly how much money you're spending each month, and on what.

It is crucial to live within your means and, if possible, to even live below your means.



This means that if you can afford a R2 million home, rather opt for a R1 million home, so that you can put the balance of your money towards building up your investments.

A rule of thumb is to apply the 50/30/20 principle to your budget, as it's simple and easy to remember: use 50% of your monthly income for essentials such as your home, food and so on; use 30% for wants; and the final 20% can go towards investing and repaying debt (if you have debt, pay this off first, then invest).



2. START INVESTING – PRONTO

The best time to start investing? Ten years ago. The next best time is right now!

Investing may sound scary and complicated, especially if you're just starting out, but it is really simple and straightforward.

You don't need to wait for an increase or a windfall – you can start right now with as little as R500 per month. It's an especially good idea to begin an investment portfolio when you're young, because time is on your side.

Saving is an essential first step, but it's not a good long-term strategy for financial resilience. Putting money under your mattress, or in a savings account, will not help it keep up with inflation, meaning your money will lose value over time. To keep up with – or even better, get ahead of – inflation, you need to take advantage of compound interest.

So, rather invest your money than just merely saving it!

For beginner investors, a tax-free investment account is recommended, as it allows you to invest R36 000 per year, or R500 000 over your lifetime, tax free.

Once you get the hang of it, you can begin to look into additional investments such as unit trusts and other investments, both locally and offshore (the Old Mutual Investment Series covers all the bases and offers investment solutions for every stage of life).



3. GET SMART

Learn all you can about the best way to manage your money.

Financial literacy is an investment in yourself, so putting in the effort to learn about it will help you make the right financial decisions for your future.

Get curious: listen to podcasts, visit financial services websites and peruse their free content. Read books, track news updates and subscribe to newsletters. There are plenty of resources out there – you will soon find services and expertise that talk to you in a way that clicks.

Finally, empower yourself by consulting a qualified and an accredited financial planner to help you on your journey. Think of that person as a financial fitness coach who can hold you accountable, advise you, motivate you and be an objective ally in your quest for financial resilience.



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About Old Mutual Unit Trusts

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