

OLDMUTUAL

FINANCIALLY TALKING

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CONTENTS

- 4** STAY UPDATED
- 5** 2024 BUDGET INSIGHTS
- 6** DIVERSIFICATION PLUS ESG: MORE REASONS TO ADD SHARI'AH FUNDS TO YOUR PORTFOLIO
- 8** THE OLD MUTUAL ALBARAKA INCOME FUND CHOSEN BY GIFT OF THE GIVERS
- 9** A MARKET-POSITIVE BUDGET

KERWYN WILLIAMS – MANAGING DIRECTOR OLD MUTUAL UNIT TRUSTS



It seems like just the other day we were ushering in 2024 and I can't believe that autumn is here already. It's the season of harvest in the Southern Hemisphere; everything is turning burnt orange in preparation for picking. From planting to harvesting, the process requires many steps and is complex, just like investing.

When looking at the complexity of investment markets and financial planning, the importance of sound financial advice becomes abundantly clear. Just like a seasoned farmer knows when to sow and when to reap, a skilled financial adviser can help you navigate the complexities of investing to ensure a rich harvest. By partnering with a trusted financial adviser and sticking to a comprehensive financial plan and a disciplined investment approach, you can navigate seasonal changes and reap the rewards of a well-cultivated investment portfolio.

BUDGET SPEECH

The first quarter was marked by two big events. One was the State of the Nation Address, where the President gave a progress report about our national plans. The other was the National Budget Speech, which focused on how financial resources will be allocated in future to meet the goals set out in the State of the Nation Address. It serves as a crucial roadmap for the economic direction of our nation, impacting various sectors and individuals alike. Most of this newsletter focuses on the 2024 - 2025 SA Budget Speech.

TWO-POT SYSTEM

National Treasury has introduced the two-pot retirement system draft legislation. This reform is designed to encourage preservation of your retirement savings while allowing access to a portion of your contribution annually in the

event of an emergency. In his Budget Speech, the Minister of Finance confirmed that the effective date for this system will be 1 September 2024. If you're a member of a retirement solution with Old Mutual, we will be communicating directly with you on this and how it will unfold, as soon as the legislation is promulgated.

ASSET TV AWARDS

Peter Brooke, Portfolio Manager at Old Mutual Investment Group, walked away with an award for Most Watched Masterclass and Old Mutual won the Most Watched Company Award at the 2024 Asset TV Audience Choice Awards. This is testament to our commitment to ongoing investment awareness and education to our clients.

THANK YOU

While the road ahead may be unpredictable at times, I am confident that together, we can overcome any obstacles and continue to achieve greater success in the future. I encourage you to stay the course and remain focused on your investment objectives, and your patience and commitment will be rewarded.

On behalf of Old Mutual Unit Trusts, I thank you for your continued support, trust and partnership. Here's to a future filled with shared success and prosperity.

Kerwyn



STAY UPDATED



QUARTERLY STATEMENTS AND TAX CERTIFICATES AVAILABLE DIGITALLY

At Old Mutual, we believe that accelerating our adoption of technology in a secure online environment is a critical step to enhancing your experience of our business and ensuring you have safe access to your portfolio information. Old Mutual Wealth and Unit Trusts' quarterly statements and tax certificates are available to you via our digital platforms.

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2024 BUDGET INSIGHTS

NET POSITIVE IMPACT ON THE SA EQUITY MARKET

According to Jason Swartz, Portfolio Manager at Old Mutual Investment Group, the Budget led to a positive bond market outlook, although there were still concerns regarding overly optimistic fiscal targets. Watch Jason providing his outlook for investors and how to keep investments ahead of inflation to build wealth below.



GOVERNMENT SHOWS INTENT TO INCREASE SPEND ON INFRASTRUCTURE

According to Tana Mongwe, Investment Analyst at Old Mutual Investment Group, infrastructure development has been a key priority for President Cyril Ramaphosa. However, public investment is still well below where it should be and manifested in the pain points of the last year – rail and electricity. Watch Tana's insightful talk below.



DIVERSIFICATION PLUS ESG

MORE REASONS TO ADD SHARI'AH FUNDS TO YOUR PORTFOLIO



GONTSE TSATSI | HEAD OF RETAIL CLIENTS AT OLD MUTUAL INVESTMENT GROUP



One of the prevalent misconceptions about Shari'ah compliant funds is that they are exclusively tailored for members of the Muslim community. However, this couldn't be further from the truth. In fact, investing in any of the four Shari'ah unit trust funds offered by Old Mutual Investment Group can yield two significant benefits for investors, irrespective of their religious background: first, portfolio diversification, and second, the opportunity to make a positive impact on environmental, social and governance outcomes.

Shari'ah investing principles have historically been interpreted by scholars to determine the minimum standards that an investment must satisfy to meet the requirements of Islamic Law. Islamic Law is centred on the

preservation and protection of life, natural resources and the environment, among other principles. The Shari'ah investment approach actively incorporates ESG principles and the United Nations' Sustainable Development Goals such as responsible consumption and production, climate action, clean water and sanitation, among others.

The growing popularity of Shari'ah investing is proof that focusing on shared values rather than differences leads to resilient and sustainable outcomes for all market participants. Global Islamic finance is growing ahead of core markets, offering investors a broader choice of funds than before, making it easier to create a diversified portfolio with ESG overlap/influences.



According to the State of the Islamic Global Economy Report 2022/3, nations outside the traditional Islamic finance hubs such as Australia, Canada, Mexico and Russia, among others, are exploring the sector's benefits to cater for their Muslim citizens. In addition, there is an increase in integrating Islamic finance principles within the broader financial ecosystem to strengthen finance in general.

Old Mutual Investment Group's range of Shari'ah unit trusts comprises four funds, including the Old Mutual Albaraka Income Fund (Regulation 28 compliant), Old Mutual Albaraka Balanced Fund (Regulation 28 compliant), Old Mutual Albaraka Equity Fund, and the Old Mutual Global Islamic Equity Feeder Fund. Each of these funds provides exposure to specific investment opportunities or themes, with three of the four funds managing over R1.6 billion in assets. The fourth fund, launched late in 2022, is still in the asset accumulation stage.

Investors with a long-term horizon focused on growth can choose between global and South Africa-focused equity funds, which invest in a wide range of local and offshore listed companies. The Global Islamic Equity Feeder Fund benefited from both local and global equities over the quarter, being fully invested as of 30 September 2023. Having quality at the core of the investment philosophy should help investors weather a potential slowdown in developed markets.

All four Shari'ah funds, including the equity funds, strictly adhere to Shari'ah law and do not invest in companies involved in alcohol, gambling, non-halal foodstuffs or interest-bearing instruments. Old Mutual ensures

compliance across its Shari'ah range through a Shari'ah Supervisory Board, responsible for ensuring that the funds adhere to the standards of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

On the other end of the risk spectrum, investors with a low to moderate risk tolerance can consider the Old Mutual Albaraka Income Fund. This fund offers capital stability through local and international equities, liquid assets, and non-equity securities such as sukuks or Islamic bonds, while limiting equity exposure to 10% and property exposure to 25%.

Our income fund aims to offer investors an ethical investment vehicle providing income and relative capital stability over time, offering an attractive yield with a duration of approximately two years, and all our funds share the common goal of protecting capital while delivering returns per the stated fund mandates.

According to the State of the Islamic Global Economy Report 2022/3, from a structural perspective, Islamic finance is merging with global sustainability initiatives and eco-projects. Indeed, the shared values between ESG and Shari'ah provide investors with a wider variety of ethical investments, and more opportunities for diversification, which could partly explain the growth in Islamic finance and Shari'ah investments worldwide.

[Click here for an insightful video delving into our four expertly managed and designed Shari'ah compliant funds spanning across different asset classes.](#)

Read more on
our website.



THE OLD MUTUAL ALBARAKA INCOME FUND CHOSEN BY GIFT OF THE GIVERS

The Old Mutual Albaraka Income Fund is the underlying investment for the Old Mutual Gift of the Givers Life Fund. The fund has outperformed inflation and its benchmark on a cumulative basis and has only underperformed in 2 out of the 36 months to December 2023 since its inception.

The Old Mutual Albaraka Income Fund adheres to Shari'ah laws and does not invest in companies involved in alcohol, gambling, non-halal foodstuffs or interest-bearing instruments. Old Mutual ensures compliance across its Shari'ah range through a Shari'ah Supervisory Board, responsible for ensuring that the funds adhere to the standards of the Accounting and Auditing Organisation for Islamic Financial Institutions

MORE ON OLD MUTUAL GIFT OF THE GIVERS LIFE FUND

The Old Mutual Gift of the Givers Life Fund is structured as an endowment portfolio, fully invested in the Old Mutual Albaraka Income Fund.

All income from the Old Mutual Gift of the Givers Life Fund is directed specifically to the Gift of the Givers Foundation. These funds will be dedicated to supporting disaster relief and humanitarian efforts in South Africa. Therefore, investors can take pride in knowing that their investments support Gift of the Givers' life-changing efforts across the country. Additionally, since the income of the endowment fund is donated, a tax advantage accrues to the fund. Old Mutual, on behalf of investors, claims this tax benefit and reinvests it into the fund to ensure capital appreciation.

Learn more about the Old Mutual Gift of the Givers Life Fund and how you can invest with purpose here.



A MARKET-POSITIVE BUDGET



IZAK ODENDAAL | CHIEF INVESTMENT STRATEGIST AT OLD MUTUAL WEALTH



A market-friendly budget is not necessarily the same as a good budget for taxpayers or citizens. To get Government's borrowing levels under control, it has to cut spending or tax revenues need to rise. The former negatively impacts the delivery of public services and public investment, while the latter are a drag on household consumption. However, in the long run, no one will benefit if there is a fiscal crisis. Moreover, as Government's interest burden rises due to its growing debt obligations and high borrowing costs, other spending areas are already being squeezed out. Indeed, debt service costs already exceed total spending on social grants and continue to rise. Already, around 21 cents of every rand SARS collects is paid over to Government's creditors.

Because the bond market knows this is not a sustainable trend, it charges Government a very high rate of interest, i.e. government bond yields are very high. But these high bond yields in turn raise the debt burden. It is a vicious cycle that must be broken. There must be some short-term pain for long-term gain.

Therefore, despite it being an election year, the 2024 Budget displays an ongoing commitment to fiscal consolidation and debt stabilisation. While other developing countries often see populist budget policies leading up to elections, there was no sign of it here. The personal tax burden rises by R18 billion through not adjusting tax brackets for the impact of inflation, while the Social Relief of Distress (SRD) grant stays at R350. The SRD will remain in place after 2025, as was widely expected. The total social grant budget will rise in line with inflation over the medium term. Again, this is hardly a sign of populism.

Fortunately, the pain of adjustment is helped somewhat by an unwieldy acronym. Until now, few people have heard of GFECRA, the gold and foreign exchange contingency reserve account at the Reserve Bank, but now it is the talk of the town.

GFECRA is effectively the unrealised valuation gains or losses on South Africa's foreign exchange reserves. Though held by the Reserve Bank, these gains or losses accrue to Government. Unlike in other countries, there hasn't been a regular transfer from the central bank to Government. The sharp depreciation of the rand (from R6/\$ in 2010 to almost R19/\$ today) means GFECRA has ballooned to R500 billion. Treasury has been discussing the matter with the Reserve Bank, and the Finance Minister announced that R150 billion will be transferred to Treasury to pay down debt and reduce Government's annual gross borrowing requirement from R553.1 billion in 2023/24 to R428.5 billion in 2026/27. This also means the debt-to-GDP ratio is projected to stabilise at 75.3% in 2025/26, a lower and earlier peak than projected in last year's Medium-Term Budget Policy Statement (MTBPS).

There is a limit to how far tax rates can be increased before the proverbial golden goose is killed. There is also a limit to how far government departments can cut their budgets. The recent furore over unemployed young doctors is a prime example of what happens when government spending levels are reduced too much. The bottom line is that South Africa needs faster economic growth to ensure long-term fiscal sustainability. Several reforms have been implemented to address the big constraints on economic growth (electricity, logistics, etc.) but these will take time to bear fruit. In the meantime, the 2024 Budget is a step towards sounder government finances.



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About Old Mutual Unit Trusts

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