

OLDMUTUAL

FINANCIALLY TALKING

JUNE 2022



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A CONFLUENCE OF RISKS

DAVE MOHR AND IZAK ODENDAAL | OLD MUTUAL MULTI-MANAGERS



Global markets have been under extreme pressure since the start of the year, with the main bond and equity benchmarks down double digits. Depending how you measure it, it has been the worst start to the year for a global balanced portfolio in at least the past 50 years. This does not mean that diversification doesn't work. It means that diversifying equity risk when developed market bond yields were extremely low and vulnerable to even modest inflation and interest rate increases was always going to be less effective. And neither inflation nor projected rate hikes is anywhere near modest. The way forward depends a lot on how three big macro risks evolve.

WAR, WHAT IS IT GOOD FOR?

Firstly, the ongoing war in Ukraine shows no sign of letting up, even if Russia had to abandon its initial goal of quickly capturing Kiev. Therefore, the upward pressure on food and energy will persist. Even if the conflict was to end now, which doesn't seem likely at all, global fertilizer shortages

can still lead to smaller harvest in six or 12 months. As always, the impact falls hardest on poorer countries and low-income groups within developed nations. But even for relatively affluent consumers, the cost of living has increased substantially. And even though wage and salary increases are running at the fastest pace in years, particularly in the US, they aren't keeping up with inflation. Meanwhile, the longer the war drags on, the greater the risk of a complete embargo of Russian oil and gas by either West or Russia itself, even if it would hurt both sides. Indeed, the European Union has now proposed implementing a ban on Russian oil imports by year end. It is also looking to ban any European company from shipping Russian oil to third parties, or financing or insuring such shipments. That would make it even more difficult to move Russian oil around even if the end customer is in a neutral country like India. Gas remains Europe's biggest vulnerability. Unlike oil, replacing Russian gas requires a complete reconfiguration of energy infrastructure since most of it is piped in.

While households and small businesses arguably have some flexibility, large factories that run on gas cannot quickly convert to other energy sources. Countries like Germany would likely slump into recession if either side were to cut off gas flows.

FROM FIFO TO FILO

The second big macro headwind is China's zero-Covid policy. It is responding to a Covid outbreak by imposing hard lockdowns on affected cities to halt the spread of the virus.

China was seemingly first-in first-out of the pandemic. Its zero-Covid policy in 2020 seemed to work and it was held up as a model for decisively dealing with the pandemic in contrast to the fumbling and bumbling approach of the US, UK and other democracies. But today, even though other countries are reporting much higher new case numbers, it seems to be a case of first-in last-out as far as the economic impact is concerned. Government's response seems to be disproportionate to the health risks, and again raises questions over policy credibility.

Meanwhile, this is clearly a blow to China's domestic economy. People locked down in their homes are spending less and struggling to get to work. Moving goods around internally is proving difficult. The government will probably have to step up stimulus measures to achieve its growth target of 5.5% this year.

The lockdowns also pose a risk for the global economy since so many supply chains run through China. It is still the world's factory. Global supply chains were already creaking before the war in Ukraine created additional problems. This feeds into pre-existing global inflationary pressures, bringing us to the third point.

HAWKY TALKIE

Inflation was already running uncomfortably high coming into 2022. Central banks initially viewed this as largely temporary, but the more recent evidence, particularly from the US, is that inflation has broadened out beyond commodity prices and pandemic-related distortions. While central bankers would ordinarily look through commodity price movements, this time it is hard to do so since inflation is already so high. There is a risk that expectations of future inflation shift permanently, potentially resulting in inflation becoming self-fulfilling.

Therefore, global central banks have dialled up the hawkish talk. Last week the US Federal Reserve put words into action by implementing a 50-basis point hike for the first time since 2000. By moving in bigger increments than the traditional 25 basis points, the Fed is hoping to send a strong signal that it is serious about fighting inflation. The equity

market initially seemed to get excited when Fed Chair Jerome Powell ruled out 75 basis increases, and the S&P 500 rallied 3%, the biggest rally on a Fed announcement day since December 2008 (when the Fed cut rates). But those gains were given back the following day. The volatility points to a market still grappling with a new reality that the Fed is aiming to deliver one of the sharpest rate increases on record. Money markets are pricing in a fed funds rate of just above 3% by the end of next year.

The Fed has also completely stopped buying bonds and will start letting its holdings mature, thereby shrinking its balance sheet starting next month. The positive impact of quantitative easing on equity markets was often overstated, and therefore it is easy to overstate the reverse impact of quantitative tightening. But the fact remains that this will drain liquidity from the financial system and amplify the impact of rate hikes.

KEEP CALM AND KEEP CLIMBING

While highlighting these risks, we should also highlight that there are always macro uncertainties. Investing is often a case of climbing a wall of worry, constantly wondering about the many things that can go wrong. Mostly they don't, however. In fact, when everything is looking rosy, it is probably time to start wondering what lurks around the corner. Good times can lead to overconfidence, excessive risk-taking and unrealistic extrapolations of recent performance. This description applies to many of the technology companies that have seen their pandemic-related gains wiped out.

The substantial weakness in markets since the start of the year means a lot of bad news is already priced in, but volatility looks likely to remain a feature until there is more clarity on the three big macro risks discussed above. While valuations have improved and there are selective opportunities in global equities, it doesn't seem to be time for a big increase in global equity exposure yet.

Hindsight might show that this was a great buying opportunity, but we're comfortable that we're maintaining enough equity exposure should markets recover. Hindsight might also show that this was a good time to get out before more big declines. That is the uncertainty investors always live with. Without perfect foresight, the better alternative is to diversify equity risk with other asset classes. Having a safety harness helps when climbing that wall of worry.


STAY UPDATED




ELECTRONIC DISTRIBUTION OF YOUR 2022 UNIT TRUSTS TAX CERTIFICATES


Old Mutual Unit Trusts will be following the broader **Old Mutual Group's** initiative of distributing tax certificates across various digital channels, instead of via post or email. This ensures that you can access them at your convenience, your data remains secure and there is no postal delay.

We have loaded your tax certificates. If you have not yet accessed them, we encourage you to do so via the following digital channels:

 **Log in to our Secure Services website:** Visit the Old Mutual Unit Trusts website at www.oldmutualinvest.com and click on the *Login* icon on the top right of the home page. Here you can log in to *My Old Mutual*, complete your secure access and select *Wealth and Unit Trusts Client*. Under the Tools section on the dashboard page, select *Tax Certificates and Statements*.

If you have not yet registered for secure access to Old Mutual Secure Services, click on the *Login* icon on the top right of the home page of our public site: oldmutualinvest.com and then select *Register for a service*.

 **Add us on WhatsApp:** Save the dedicated Old Mutual number 0860 933 333 and send the WhatsApp text "Hi". You will then be prompted to make a selection to get to the document menu. Selecting "Tax" will prompt you for your ID number and allow you to retrieve your tax certificate.

 **Download the Old Mutual App** by searching for the name "Old Mutual SA" in the Apple App Store, Android Play Store or the Huawei AppGallery.

If you would like to request that your tax certificates be emailed or posted to you, please contact the Old Mutual Unit Trusts Service Centre on 0860 234 234 (+21 21 503 1770 from outside South Africa) or email unittrusts@oldmutual.com.

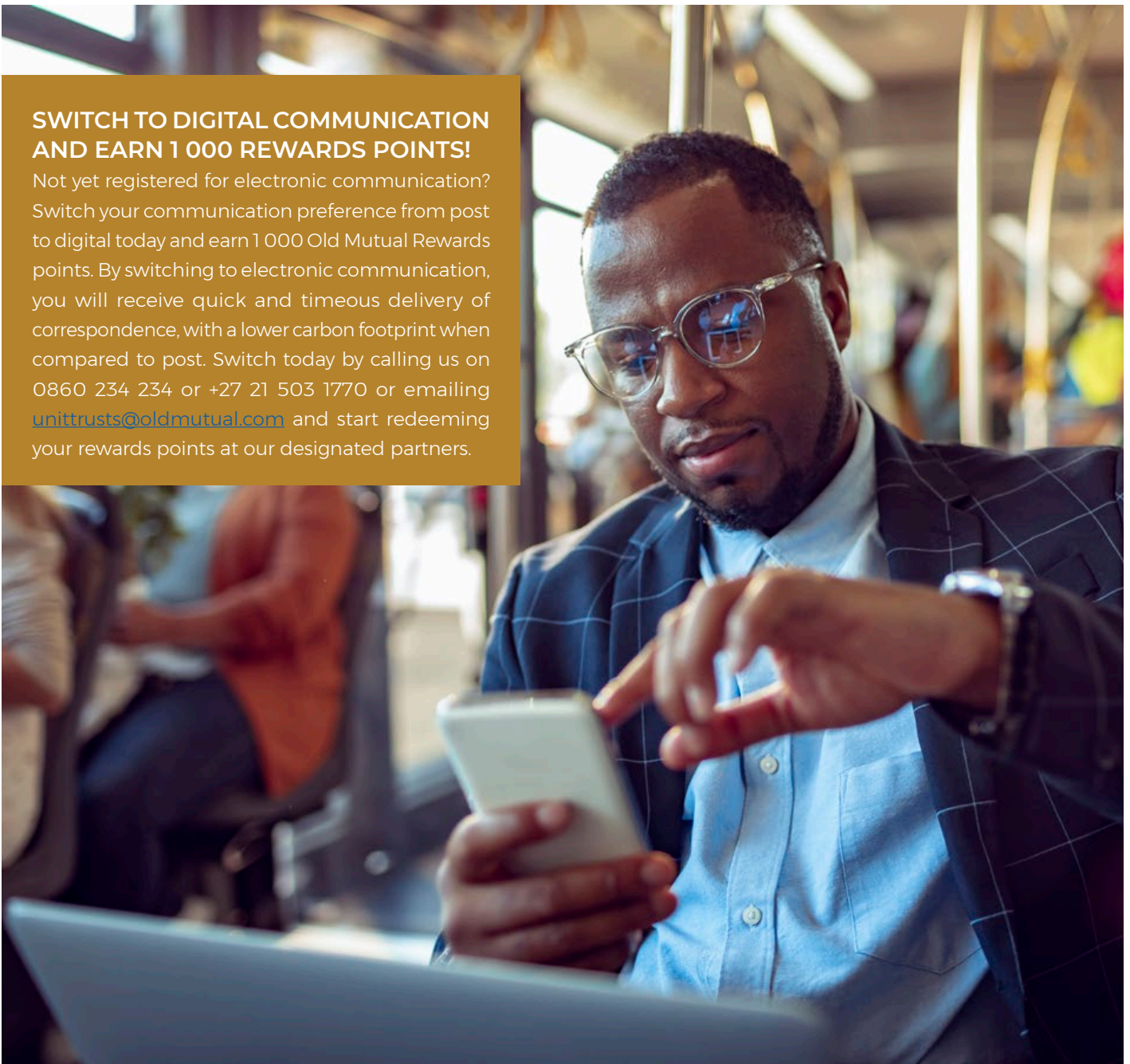
CLIENT DEDICATED IDENTIFICATION ON DEPOSITS

Please note, with the implementation of Client Dedicated Identification (CDI) on Deposits, our bank account will be converted from a Personal Beneficiary to a Bank Approved/Public/Listed Beneficiary on your electronic banking profile. As a result, you will no longer be able to use the existing bank account details under your personal beneficiary list when making deposits into our bank account. You will be prompted to select our account under the "Bank Approved/Public/Listed Beneficiary". This new feature will be available during the month of August.



SWITCH TO DIGITAL COMMUNICATION AND EARN 1 000 REWARDS POINTS!

Not yet registered for electronic communication? Switch your communication preference from post to digital today and earn 1 000 Old Mutual Rewards points. By switching to electronic communication, you will receive quick and timeous delivery of correspondence, with a lower carbon footprint when compared to post. Switch today by calling us on 0860 234 234 or +27 21 503 1770 or emailing unitrusts@oldmutual.com and start redeeming your rewards points at our designated partners.



GET REWARDED FOR ACHIEVING YOUR FINANCIAL GOALS



KERWYN WILLIAMS | CHIEF OPERATING OFFICER AT OLD MUTUAL UNIT TRUSTS

We are excited to introduce you to the Old Mutual Rewards programme. This programme rewards you for investing, taking control of your finances and working towards your financial goals.

HOW TO EARN POINTS

Old Mutual Rewards members earn points by completing financial assessments and surveys, staying committed to financial plans by using online calculators like the education savings or debt repayment calculators, and increasing their financial knowledge by completing education modules on our online financial education hub. The more they learn and engage, the more points they will earn.

Members can also earn points by having the right financial solutions with Old Mutual. They can earn up to 50% of their monthly funeral insurance premium in points and up to 5% of their monthly savings, investments, and lending premiums in points.

Old Mutual offers five tiers on this programme. Your Old Mutual Rewards tier is determined by the number of financial needs met with us. The rate at which you earn points and other discounted benefits is determined by your rewards tier. For example, having four financial needs covered puts members at Tier 3, where they earn 25% of their monthly funeral insurance premium back in points.

BONUS POINTS FOR STAYING PHYSICALLY FIT

Not only are Old Mutual Rewards members getting rewarded for being financially fit, but also for staying physically fit.

Old Mutual Rewards members with qualifying Old Mutual Personal Cover products can earn bonus points for completing qualifying endurance events and for successfully completing our health assessment. For taking care of their financial wellbeing as well as their physical wellbeing, members could earn up to 250% of the qualifying premium in bonus points. Bonus points will be a percentage of the qualifying premium. The percentage is based on the tier status at the end of the previous month.

HOW TO SPEND OR REDEEM POINTS

There are three ways that Rewards members can redeem their points. They can save their points into their Old Mutual Money Account, donate them to a charity, or spend their points at any of the many great Old Mutual Rewards partners. To redeem points at a participating store, members need to generate a code using the Old Mutual App, and have it scanned at the till. Alternatively, you can also purchase vouchers with points on the Rewards portal. Points are redeemed via digital codes and vouchers.

MEMBER BENEFITS

Old Mutual Rewards also provides members with special member benefits such as local and international flight discounts, discounted gym membership fees, medical and legal services, among other great offers.

LEARN MORE

To learn more about Old Mutual Rewards and how to make smart financial decisions, visit www.oldmutual.co.za/rewards today.



WORLD ENVIRONMENT DAY ENCOURAGES US TO TAKE ACTION TO PROTECT OUR ENVIRONMENT



GONTSE TSATSI | HEAD OF RETAIL CLIENT MANAGEMENT AT OLD MUTUAL INVESTMENT GROUP

After being postponed earlier this year, the World Economic Forum (WEF) has been meeting in Davos from 22 May. Looking at its programme, it is a stark reminder that whilst this forum is a great learning and sharing platform, as South Africa, and Africa, we must also develop our own forums for robust engagement around meeting United Nations Sustainable Development Goals (UNSDGs), particularly those on issues of Climate Change.

It is significant for the African continent that the forum coincided with the Africa Day celebrations, a great time to reflect on whether we are living sustainably to enable future generations to also celebrate our achievements and thrive on a prosperous planet.

However, we see it as a missed opportunity that there was no focus on how to deal with the Environmental Social and Governance (ESG) investment challenge in Africa.

ESG is relevant for South Africa (and Africa) because to meet the UNSDGs, it must grow its economy and be true to the agreements it made at COP26 in the 'Just Energy Transition Partnership'.

South Africa received a commitment of R128 billion to help end its reliance on coal. That this action is urgent and important is understandable as South Africa is the 7th largest coal producer and 12th largest carbon dioxide emitter, responsible for nearly half of Africa's carbon dioxide.

Indeed, the social impact is huge for South Africa, especially for the Mpumalanga province which is the largest single area affected by nitrogen oxide in the world, according to Greenpeace. WEF states that "a recent court ruling found that air pollution in the area infringes residents' constitutional right to an environment that isn't harmful to their health".

This is proven true at least from a health perspective, with more than half of hospital admissions and deaths in the area resulting from respiratory illness. Due to weather patterns Johannesburg and South Africa's capital Pretoria, are unfortunately the inheritors of the polluted air from Mpumalanga as well.

Challenges like the one of Mpumalanga may sometimes seem insurmountable to ordinary people, who might feel like only large-scale projects can truly make a difference. However, there are many ways that individuals can contribute to a better world such as recycling household waste, seeking out retailers who are 'green' and using solar energy.

Another impactful way is using savings and investments for the good. This can be done by making sure that their investment managers who manage retirement funds or unit trusts invest in companies that practice Responsible Investing or incorporate ESG principles in their investment processes. In addition, investors who hold individual stocks through private investment portfolios can also buy funds that are rated highly on ESG considerations.

Events like the WEF and observance days such as Africa Day and World Environment Day, are necessary to take stock of the progress we've made, determine how far there is still to go and of course, celebrate our wins.

Therefore, as we observe World Environment Day, we must remember that as individuals there are several tools in our hands, that we can utilise to drive and encourage positive action for the protection of our environment. This is a collective responsibility and each and every one of us must do what we can to help protect our environment for generations to come, by so doing achieve the UNSDGs. These might seem like audacious goals, but remember, we are here because of individual actions of the past.





LET YOUR MONEY GO GLOBETROTTING

Letting your money go globetrotting is way less scary than it sounds and way less expensive than you would think. Follow our tips on how to invest globally – it could be one of the smartest money moves you'll ever make.

Hello World! Now that international borders have been opened and pandemic restrictions are easing, travel is on our minds. Well, guess what? Your money loves to travel too. And no, we don't mean buying air tickets (though that's always enjoyable). We mean **investing globally**.

Financial experts tell us to diversify our portfolios, which is money-talk for not putting all your eggs in one basket. Investing globally – also called offshore investing – is not just a buzzword, but sure, it does sound sophisticated. Simply put, it means investing money in a region or industry outside your home country. This allows you to invest in shares, for example, in thriving international companies, brands and currencies.

It's easy and convenient because you can leave the nitty-gritty, such as the selection of shares, to the investment professionals. You don't even need to have bucket loads of cash to invest globally.

Insider secret: From as little as R500 a month you can invest in a unit trust with Old Mutual Unit Trusts, which allows you to grow your money by owning a piece of top international and innovative companies like Tesla, Amazon, and Apple.

DIVERSITY IS THE SPICE OF LIFE

... and it's a solid investment principle too. The South African stock market represents less than 1% of the world's investment landscape. So, if you've got all your money invested at home in Mzansi and nowhere else, you're only exposed to a teeny-weeny slice of the delicious multi-tier cake the world of investing has to offer.

Of course, investing locally is a good idea, but an even better idea is to invest both locally *and* internationally, where you can give your money exposure to developed and emerging markets. By the way, developed markets are those in high-income countries such as the US, UK, Germany and Japan, amongst others. They have mature economies and efficient, strongly regulated financial markets. Emerging markets are those in developing countries such as Brazil, India and China that have a high potential for growth but also a higher political and economic risk (and yes, South Africa also fits into this category).

Insider secret: Diversification is meant to reduce the overall risk in your portfolio. But beware of "diworsification" – worsening instead of improving your risks and returns. For example, by over-diversifying in too many funds that are all doing the same thing and not bringing anything different to the mix.

LET YOUR MONEY GO GLOBETROTTING

Unit trusts are the best way to invest globally and offer a cost-effective solution to diversify your risk. You can start

investing globally from as little as R500 a month with Old Mutual Unit Trusts. Among our range of funds with global exposure, you'll find one that is right for your offshore investing journey. Check out the Old Mutual Global Equity Fund, for example. The fund has been around for nearly three decades (since 1995), promises moderate to high risk, and holds about 450 quality shares from developed countries around the world.

TIMING IS EVERYTHING

Time is one of the most crucial ingredients in investing. Markets go up and down. When they are down and emotions are running high, it may be tempting to take your money out. But panic selling is not a good strategy, and you will generally get rewarded with higher returns over time. Remember, investing is a long-term game.

However, money invested in unit trusts is easily accessible. To guide you on your journey, each unit trust fund comes with a minimum time horizon and risk profile. Exactly which fund is the best fit for you depends on the return you want, the amount of risk you are willing to take and how long you are willing to stay invested.

BROADEN YOUR INVESTMENT HORIZON

If you're feeling bewildered, the best way to invest globally is via a well-established local investment company. Not only will you be able to access many well-structured global investment options, but they will also guide you in your decisions based on your goals, risk tolerance and budget.

An experienced financial adviser will also be able to assist you in structuring your portfolio to minimise risk and maximise growth, making recommendations based on your other investments and financial assets, and talking you through any tax implications and opportunities. There are no guarantees when investing, so it's important that you understand where you are putting your hard-earned moolah.

Insider secret: Benefit further by using your tax-free investment allowance to invest in a tax-free unit trust with global exposure, like the Old Mutual Global Equity Fund. That way you won't pay tax on any interest earned, no tax on dividends and no capital gains tax. It's a win-win.

START YOUR GLOBAL INVESTMENT JOURNEY

A journey of 1000 miles begins with a single step, so go ahead and take that first step! Let your money go globetrotting by contacting Old Mutual via our secure site oldmutualinvest.com/offshore or speak to an accredited financial adviser by calling 0860 50 60 70.

8 LONG-TERM INVESTMENT LESSONS

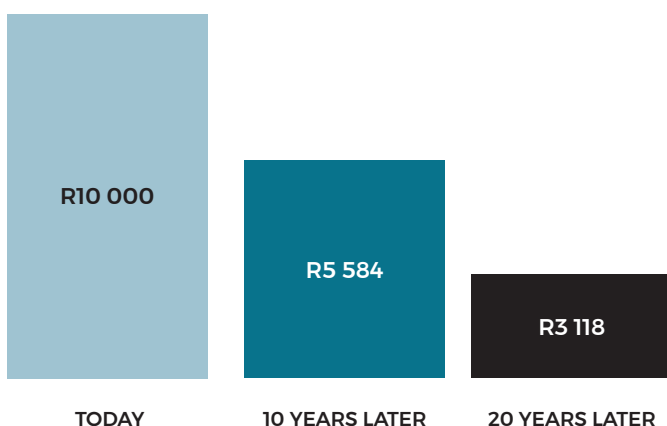
Analysing long-term data is crucial to our investment process and it also teaches us some profound lessons. Understanding these lessons will help you build the right investment solution to achieve your goals.



LESSON 1: INFLATION IS YOUR ENEMY

Many investors suffer from 'inflation illusion', as they don't notice how destructive inflation can be over time. It is therefore important to generate real returns over time, i.e. inflation-beating returns.

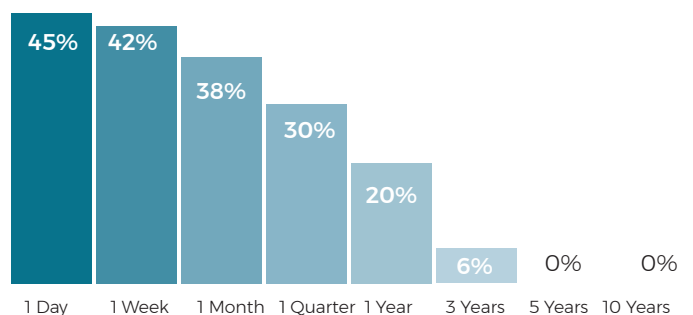
Take a look at what a 6% inflation rate can do to your money over time:



LESSON 2: TIME IS YOUR FRIEND

It's all about time 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



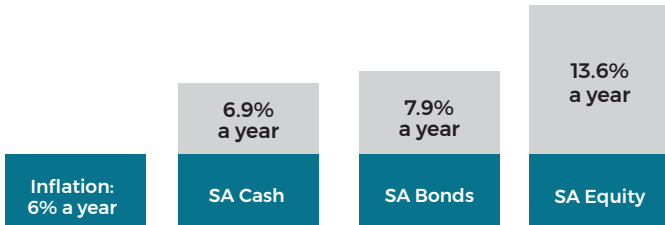
Sources: MacroSolutions, FactSet

1 day and 1 week: Rolling total returns for SA equity, June 1995 – December 2021
1 month to 10 years: Rolling returns for SA equity, January 1960 – December 2021

LESSON 3: YOU NEED EQUITIES

We need the higher long-term returns from equities (shares) to grow our wealth. This is particularly important in a world where people are living longer, and well into retirement, where we need invested money to beat inflation over a longer term.

PERFORMANCE OVER 92 YEARS (nominal 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 91 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. Remember to tick the dividend reinvest box on your investment application form to maximise your growth.

GROWING YOUR WEALTH OVER TIME

Using the long-term nominal average return of 13.8% a year, look at what happens when a lump sum is invested in SA equities over time.



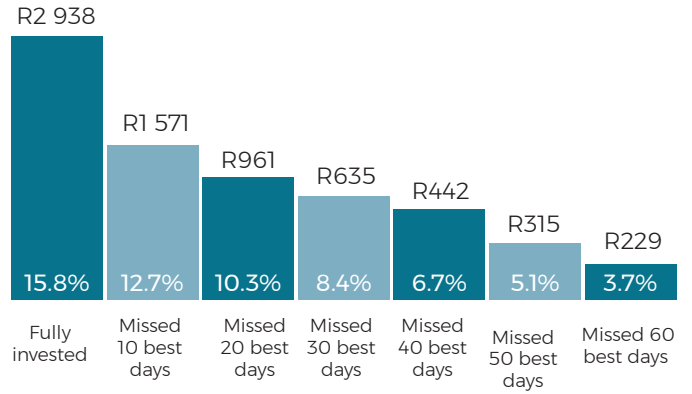
Download the detailed Long-Term Perspectives yearbook [HERE](#).

For more information, please contact your financial adviser, or the Old Mutual Unit Trusts Contact Centre: 0860 234 234. Email: unittrusts@oldmutual.com. Website: oldmutualinvest.com.

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

LESSON 6: HIGH PRICE OF MISSING OUT

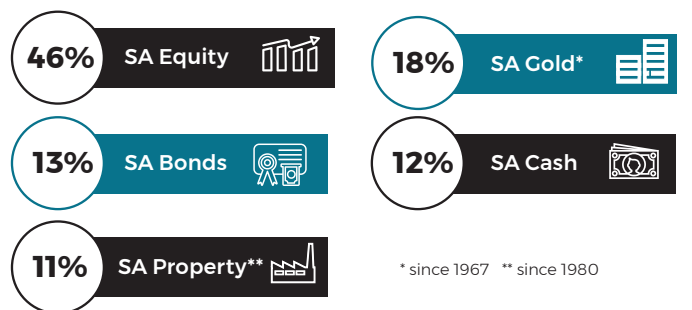
Short-term volatility can often lead to investors selling their investments at the worst time – as almost all of the 10 best days on the JSE occurred after bad news or during uncertain times. Missing out can drastically affect your investment plan.



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 is to diversify across different asset classes.

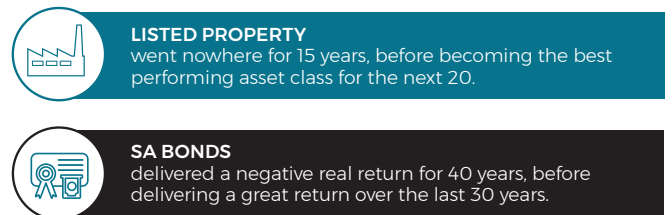
PERCENTAGE OF TIME AS THE YEAR'S BEST PERFORMING LOCAL ASSET CLASS (1930 – 2021)



LESSON 8: ASSET ALLOCATION ADDS VALUE

Asset classes (like bonds, shares, property) have distinct secular or long-term periods of under- and outperformance. Active asset allocation is a vital tool in delivering superior returns.

UNDERSTAND THAT MARKETS MOVE IN CYCLES



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About Old Mutual Unit Trusts

Old Mutual Unit Trust Managers (RF) (Pty) Ltd is a registered manager in terms of the Collective Investment Schemes Control Act 45 of 2002. The fund fees and costs that we charge for managing your investment are set out in the relevant fund's minimum disclosure document (MDD) or table of fees and charges, both available on our public website, or from our contact centre. Collective Investment Schemes are generally medium- to long-term investments; the value of participatory interests or the investment may go down as well as up; past performance is not necessarily a guide to future performance. Old Mutual is a member of the Association for Savings and Investment South Africa (ASISA).

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