OLD MUTUAL
GLOBAL MACRO EQUITY STRATEGY

INSTITUTIONAL
31 OCTOBER 2021

STRATEGY INFORMATION

Benchmark:	MSCI All Country World Index (dividends reinvested), net of withholding tax
Launch Date:	November 2016
Strategy Size:	USD750m (30.06.21)
Currency:	US$

INVESTMENT DESCRIPTION

This is a worldwide equity strategy that aims to outperform its benchmark in a risk-controlled manner. The outperformance is pursued through active investment allocations towards particular global investment segments. These segments include industries, countries, regions or currencies. The allocations are made opportunistically in order to capitalise on macroeconomic trends. The investment team uses both fundamental analysis and macroeconomic research to identify the potential factors that may drive changes in economies and industries. In this way the most attractive global investment segments are identified and the strategy invests towards those views. On the other hand the strategy avoids investing in segments that are expected to lag due to overrated prices or macroeconomic headwinds. The risk exposure in the strategy is managed by ensuring that there is ample diversification of investment exposures and by controlling the relative size of the individual active positions taken.

THE TEAM

PETER BROOKE | PORTFOLIO MANAGER
- BBusSc Finance (Hons)
- 26 years of investment experience

URVESH DESAI | STRATEGIST
- BSc (Hons), FIA, FASSA, CFA
- 19 years of investment experience

ZAIN WILSON | STRATEGIST
- BBusSc Economics, CFA
- 11 years of investment experience

THOMO MOLATJANE | QUANTS ANALYST
- BSc (Hons)
- 5 years of investment experience

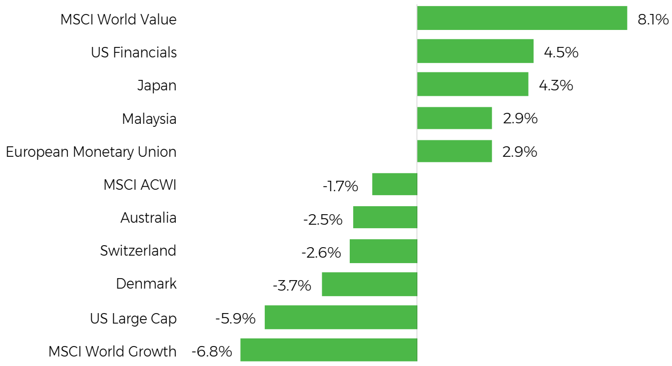
STRATEGY PERFORMANCE

Gross USD Performance

	PORTFOLIO	BENCHMARK
3 months	3.0%	3.3%
6 months	5.0%	7.0%
1 Year	35.0%	37.3%
3 Years	15.7%	17.5%
Since Inception	13.6%	14.7%

Source: Old Mutual Investment Group. Returns for periods greater than 1 year are annualised.

STRATEGY POSITIONING RELATIVE TO MSCI ACWI



Source: Old Mutual Investment Group

QUARTERLY COMMENTARY (30 SEPTEMBER 2021)

Global equities ended the quarter down 1.4% as risk appetite took a step backwards in the face of accelerating expectations for the US Federal Reserve (the Fed) to begin tapering, while ongoing developments in China – in both the "Old" and "New Economy" – reverberated through emerging markets (EMs). Taking a step back, the quarter-end marked 18 months into the post-Covid recovery, with the MSCI All Country World Index up 27.4% in US dollar terms over a year, and a staggering 84.8% since the trough in March 2020.

While the fund has benefited handsomely from the strong global recovery, it has lagged the benchmark by -1.5% and -1.6% over 1 and 3 years respectively. This is a disappointing outcome, so we performed an in-depth analysis unpacking how the investment environment and our philosophy have contributed to the fund's underperformance. We took a few insights from this.

Firstly, the past five years have been an unusually disastrous environment for value as a style relative to growth. This is not "new", but the extent to which it has been driven by relative valuations, as opposed to being justified by earnings, is stark. MSCI World Growth has outperformed MSCI World Value by a cumulative 67% over five years, while its earnings have underperformed by 4.5%. Secondly, both the share of assets outperforming the benchmark, and the extent of performance relative to benchmark for the median asset, have fallen to multi-decade lows. This holds true whether you are picking countries, sectors or shares. The other side of the market narrowness (a handful of outsized winners) has been "US exceptionalism". The weight of US listed companies in the MSCI World Index stood at 68% at the end of last quarter. This is the highest level since the end of the 1970s, and 20 percentage points higher than where it started the last decade!

QUARTERLY COMMENTARY (30 SEPTEMBER 2021)
continued

While the fund's philosophy of blending value and growth attributes and benchmark cognisance has limited the downside relative to global peers, this has not been enough to prevent underperformance against a benchmark which is increasingly weighted to expensive growth-oriented assets. Alongside a US equity underweight, these two features have been the biggest drivers of the fund's underperformance.

Will the conditions supporting narrow markets, outsized growth performance and US exceptionalism likely continue into the future? We do not think so. While "disruption" as a theme is unlikely to go away, we are past the trough in global bond yields. We expect the next decade to be different from the 2010s via more active fiscal and regulatory intervention in economies and markets and a move towards higher average inflation, and stable to rising (as opposed to falling) bond yields. These three changes markedly shift the environment from strongly favouring growth over value, to a more delicate balancing act, where the importance of the price you pay increases. This shift also presents headwinds for the core of US large cap equity – higher bond yields are bad for tech valuations, while government increases the likelihood of rising taxes and regulatory oversight, a challenge to lofty margins.

These themes are well represented in other key positions in the fund. Over the past two quarters, we have added an overweight to US financials, a beneficiary of a shift to more intervention from government via rising infrastructure stimulus, as well as rising bond yields. More recently, we have added a new underweight in Switzerland, a defensively oriented market which typically underperforms during periods of rising bond yields, while maintaining our long position in the Russian Ruble, a beneficiary of higher oil prices and inflation. While the above has time on its side, we have likely passed the recovery stage of the current market cycle, and expect opportunities to be increasingly driven by unique, idiosyncratic themes. As such, the fund has taken profits on some of its cyclical global recovery plays in the last quarter, exiting Sweden and reducing our exposure to Korea. The proceeds from the above, alongside a reduction in our overweight in MSCI Emerging Markets, have been recycled into a new position in Malaysia. ASEAN countries performed particularly poorly during the pandemic, but present some of the most favourable long-term demographics, savings and foreign direct investment trends. This is an area we are continuing to apply time to, and are investigating adding positions across the region.

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