# INVESTMENT GROUP

# OLD MUTUAL GLOBAL ISLAMIC EQUITY PORTFOLIO

INSTITUTIONAL
31 AUGUST 2022

## KEY FACTS

| | |
|---|---|
| **BENCHMARK:** | S&P Developed Large-Mid-Cap Shariah Index |
| **LAUNCH DATE:** | 1 March 2013 |
| **STRATEGY ASSETS:** | $139.8m (30 June 2022) |
| **VEHICLE:** | Segregated Portfolio |
| **SHARI'AH COMPLIANCE:** | We have partnered with the largest dedicated Shari'ah compliant financial institution in South Africa, namely Albaraka Bank, part of Albaraka Banking Group (Bahrain) |
| **NUMBER OF STOCKS** | (60-80) |

### INVESTMENT DESCRIPTION

The Old Mutual Global Shari'ah Equity Portfolio offers investors exposure to a broad spectrum of Developed Market shares. The Portfolio is Shari'ah Compliant and excludes companies whose core business involves dealing in alcohol, gambling, non-halaal foodstuffs or interest-bearing instruments. The Portfolio adheres to the standards of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) as interpreted by the Shari'ah Supervisory Board.

This solution is suitable for investors seeking an ethical, diversified investment, who have a moderate risk profile in an equity context and a time horizon longer than three years.

### INVESTMENT STRATEGY

The Portfolio aims to provide investors with a valuable source of alternative alpha, along with a low correlation to other equity strategies.

We believe superior investment performance comes from a combination of stock selection and portfolio construction. Our stock selection process seeks to systematically invest in high quality, attractively valued companies with favorable long-term growth prospects. Viewed from a portfolio construction lens, we believe that outperformance can be obtained by actively managing the portfolio's volatility via portfolio construction.

### SUITABLE INVESTORS

Retirement funds, corporates, asset aggregators, medical aids

- With a time horizon greater than 3 years
- And a moderate risk profile in an equity context

**FAWAZ FAKIER**
Portfolio Manager

**MAAHIR JAKOET**
Portfolio Manager

## CONTACT DETAILS

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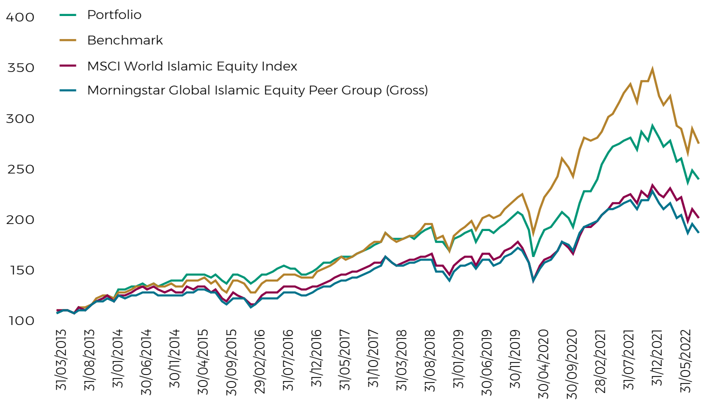
## PERFORMANCE AS AT 31/08/2022

**Gross Composite Returns**

| | 3 months | 1 Year | 3 Years | 5 Years | Since Inception |
|---|---|---|---|---|---|
| Portfolio | -8.0% | -14.7% | 9.0% | 8.1% | 9.4% |
| Benchmark | -4.6% | -17.7% | 11.5% | 11.1% | 11.0% |
| MSCI World Islamic* | -8.9% | -10.6% | 8.4% | 6.8% | 7.3% |
| Morningstar Global Islamic** | -8.4% | -15.2% | 6.7% | 5.8% | 6.4% |

*MSCI World Islamic Equity Index
**Morningstar Global Islamic Equity Peer Group (gross)
Sources: Old Mutual Investment Group, Morningstar, MSCI.
Returns for periods greater than 1 year are annualised.

## CUMULATIVE PERFORMANCE TO 31 AUGUST 2022




Sources: Old Mutual Investment Group, Morningstar, MSCI

## RISK STATISTICS AS AT 31/08/2022 – 3 YEARS (ANNUALISED)

| Measure | Portfolio | Benchmark |
|---|---|---|
| Standard Deviation | 19.6% | 19.6% |
| Tracking Error | 7.6% | |
| Information Ratio | -0.3 | |

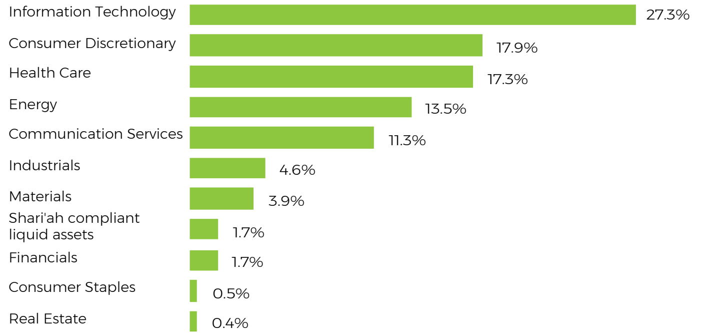
*Morningstar Global Islamic Equity Peer Group (gross)
Sources: Old Mutual Investment Group, Morningstar, MSCI

## PRINCIPAL EQUITY HOLDINGS AS AT 31/08/2022

| Company | Listed | Sector | % of Portfolio |
|---|---|---|---|
| Eog Resources | United States | Energy | 7.6% |
| Meta Platforms A | United States | Communication Services | 6.1% |
| Shell | United Kingdom | Energy | 5.9% |
| Micron Technology | United States | Information Technology | 4.2% |
| Novo Nordisk B | Denmark | Health Care | 4.0% |
| Alphabet A | United States | Communication Services | 3.7% |
| Autozone | United States | Consumer Discretionary | 3.3% |
| Apple | United States | Information Technology | 2.8% |
| Microsoft Corp | United States | Information Technology | 2.6% |
| Vertex Pharmaceuticals | United States | Health Care | 2.5% |

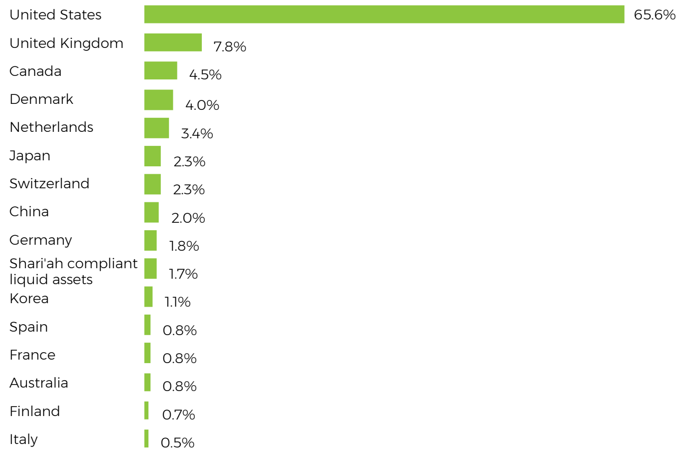
Sources: Old Mutdual Investment Group, Morningstar, MSCI

## SECTOR ALLOCATION AS AT 31/08/2022




Source: Old Mutual Investment Group

## COUNTRY ALLOCATION 31/08/2022




Source: Old Mutual Investment Group

## QUARTERLY COMMENTARY 30 JUNE 2022

Global equities fell sharply in the second quarter as US markets slid into bear market territory. The MSCI World Index fell 14.3% in the second quarter and 18.3% in the first half of 2022. Over the same periods, the S&P 500 tumbled by 16.1% and 20.0% respectively. Regional returns were diverse, with relatively modest declines in the UK and Japan. Emerging market losses were offset by gains in Chinese stocks. These performances made the first half of 2022 the weakest start for global equities in nearly 50 years.

Consumer discretionary and technology stocks were hit hardest as markets priced in recession risk and as bond yields rose. Energy stocks outperformed but ended the quarter down on fears of a recession. Defensive sectors, such as consumer staples and utilities, were relatively resilient. Minimum volatility and value stocks outperformed growth stocks. Meanwhile, cryptocurrency values crashed, as heightened risk aversion led investors to abandon more speculative assets.

The market action over the first half of the year reflects unexpectedly high inflation in several regions, which has fostered uncertainty and policy differences around the world. The European Central Bank (ECB) is preparing for its first interest rate hike in more than a decade. In the UK, stagflation – a noxious combination of inflation and slowing growth – seems to be taking root. In contrast, inflation remains low in Japan, which is staying the course with its loose monetary policy contributing towards dramatic moves in the yen in the second quarter. China is somewhat countercyclical to developed economies, as it eases policy to help achieve the government's GDP growth target of 5.5%, while enforcing a Zero-Covid agenda that has stifled economic activity and negatively impacted commodity prices. With no end seemingly in sight to the Russia/Ukraine war, geopolitical instability continues to cloud the global outlook.

Against this challenging backdrop, the Old Mutual Global Islamic Equity Fund performed well relative to its benchmark. The fund outperformed its benchmark for the quarter as well as for the half year by 2.3% and 2.26% respectively.

### Outlook and positioning

As the third quarter begins, it's clear that US interest rates are going up, and the Purchasing Managers' Index (PMI), an important signal of economic conditions, is pointing downward. In previous economic slowdowns and inflationary periods, corporate margins and earnings revisions came down significantly as the PMI bottomed. Earnings expectations have not yet adjusted to an economic slowdown. In this regard, the portfolio has a built-in margin of safety in terms of higher long-term earnings growth relative to its benchmark, of around 1.5%, as well as significantly higher gross profit margins relative to its benchmark.

### Playing defence with quality

Companies with attractive free cash flow yields, pricing power and healthy balance sheets have historically performed better through economic slowdowns and recessions. Pricing power helps companies maintain margins in inflationary times, whilst fortress balance sheets and low debt levels offer protection from a rising interest rate cycle and allow astute company management to invest countercyclically when valuations are depressed.

| | EY NTM | FCF Yield avg (5y) | ROA avg (5y) | Cash Flow ROIC avg (5y) | GP Margin avg (5y) | EBITDA Margin avg (5y) | Net Margin avg (5y) | FCF Margin avg (5y) | Total Debt to Total Equity | Net Debt to EBITDA | Interest Coverage | EPS Long-Term Growth Rate |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 6.44 | 2.62 | 14.17 | 33.88 | 55.38 | 24.03 | 22.17 | 15.28 | 61.41 | -0.29 | 255.76 | 14.89 |
| S&P Shari'ah | 5.04 | 1.90 | 10.91 | 26.31 | 49.00 | 21.29 | 20.55 | 12.46 | 96.31 | 1.34 | 70.44 | 13.48 |
| MSCI World | 6.30 | 2.63 | 7.72 | 21.28 | 39.18 | 18.61 | 15.41 | 8.40 | 135.84 | 2.08 | 43.51 | 12.09 |
| MSCI ACWI | 6.58 | 2.81 | 7.59 | 21.25 | 37.9 | 16.49 | 12.98 | 6.02 | 131.60 | 1.88 | 49.42 | 11.82 |
| **Rel to ACWI** | **0.98** | **0.93** | **1.87** | **1.59** | **1.46** | **1.46** | **1.71** | **2.54** | **0.47** | **-0.16** | **5.18** | **1.26** |

Sources: OMIG, FactSet 30 June 22

When we examine the fund's free cash flow yield, gross profit margins (a proxy measure for pricing power) as well as its aggregate balance sheet relative to its benchmark and other mainstream benchmarks such as MSCI World and MSCI ACWI, it is clear that our portfolio reflects superior quality, higher earnings growth and attractive valuation.

### Yin and yang: Balancing defence and offence

Managing portfolio volatility whilst being invested in high-quality businesses with stable business values trading at attractive prices can help alleviate volatility in a downturn. Diversification is also important with many investors being underweight to emerging markets, where valuations are attractive, particularly in China, which may be poised for recovery given its loosening monetary policy and fiscal stimulus. We believe China is investable and attractive given the positive catalysts of reopening, policy easing and simmering down of regulation. The portfolio has direct Chinese exposure of approximately 6.4%, balancing the return opportunity vs the potential regulatory risk. We have a self-imposed limit of maximum 10% direct Chinese exposure given the potential for adverse regulatory action.

Whilst the bulk of the portfolio is positioned for a slowdown in terms of being invested in resilient businesses with a high level of annuity income, 13% of the portfolio is invested in more cyclical quality, which adds an element of "offence" to the portfolio. Crucially, companies in the cyclical quality portion of the portfolio all have fortress balance sheets and low-cost structures vs peers, positioning them well for the risk of a protracted slowdown.

The good news is that investors should remember that nothing lasts forever – including downturns. As an asset class, equities remain a key source of long-term returns, diversification and inflation hedging even in economically challenging periods with elevated market volatility. Following recent market falls, current valuations point to improved future expected returns. We are confident that the portfolio is well positioned to navigate the market uncertainty and to create long-term wealth for our clients.