OLD MUTUAL
MSCI EMERGING MARKETS ESG LEADERS INDEX STRATEGY

MSCI ESG RATINGS AAA

CCC | B | BB | BBB | A | AA | AAA

INSTITUTIONAL
31 AUGUST 2022

STRATEGY INFORMATION

Benchmark:	MSCI Emerging Markets ESG Leaders Index
Morningstar Category:	EAA OE Global Emerging Markets Equity
Market Cap Size Bias:	Liquidity based
Number of Stocks:	400
Launch Date:	May 2015
Strategy Size:	US$251.3 million (as at 30/06/22)

INVESTMENT DESCRIPTION

The Old Mutual MSCI Emerging Markets ESG Leaders Index is designed to have a relatively low tracking error to the normal market capitalization MSCI Emerging Markets Index (the "Parent Index"), while comprising companies with strong sustainability profiles.

The investment objective of the Strategy is to replicate the MSCI Emerging Markets ESG Leaders Index (the "Benchmark Index") through the management of a diversified portfolio of equity securities with high Environmental, Social and Governance (ESG) performance relative to their sector peers in Emerging Markets Worldwide.

INVESTMENT STRATEGY

The Strategy employs a traditional index tracking approach by investing all, or substantially all, of its assets in the securities constituting the Benchmark Index in order to replicate its performance and minimise total costs. The Benchmark Index aims to be both sector and region neutral relative to the weights of the Parent Index, which limits the systematic risk introduced by the ESG selection process. The ESG methodology aims to include securities of companies with the highest ESG ratings representing 50% of the market capitalization in each sector of the Parent Index.

INVESTMENT TEAM

BERNISHA LALA
Head of Indexation & Portfolio Manager

FRANK SIBIYA
Portfolio Manager

ANELISA BALFOUR
Portfolio Manager

PRINCIPLE HOLDINGS AS AT 31/08/2022

Company	Country	Sector	% of Fund
TAIWAN SEMICONDUCTOR MFG	Taiwan - Province of China	Information Technology	11.9%
TENCENT HOLDINGS LI (CN)	China	Communication Services	7.6%
ALIBABA GRP HLDG (HK)	China	Consumer Discretionary	5.3%
Meituan Dianping (P Chip)	China	Consumer Discretionary	3.1%
Reliance Industries	India	Energy	3.0%
Infosys	India	Information Technology	1.9%
CHINA CONSTRUCTION BK H	China	Financials	1.7%
Housing Development Finance	India	Financials	1.6%
NetEase (P Chip)	China	Communication Services	1.1%
Tata Consultancy Services	India	Information Technology	1.1%

PERFORMANCE AS AT 31/08/2022

Gross Returns US$

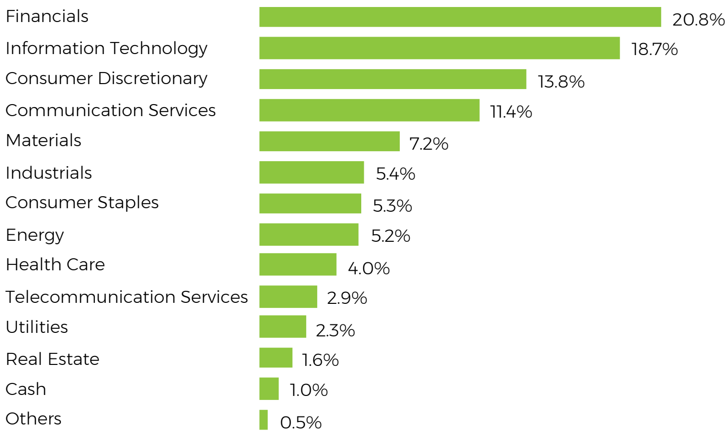
	Fund	Benchmark*	MSCI Emerging Markets Index (Net) $
3 Months	-8.3%	-8.1%	-6.5%
6 Months	-15.4%	-15.7%	-13.3%
1 Year	-25.2%	-25.3%	-21.8%
3 Years	2.2%	2.3%	2.7%
5 Years	0.6%	0.9%	0.6%
Since Inception	2.6%	2.8%	1.8%

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

Measure	Portfolio	MSCI Emerging Markets ESG
Standard Deviation	16.6%	18.3%
Tracking Error	0.5%	
Beta	1.0%	

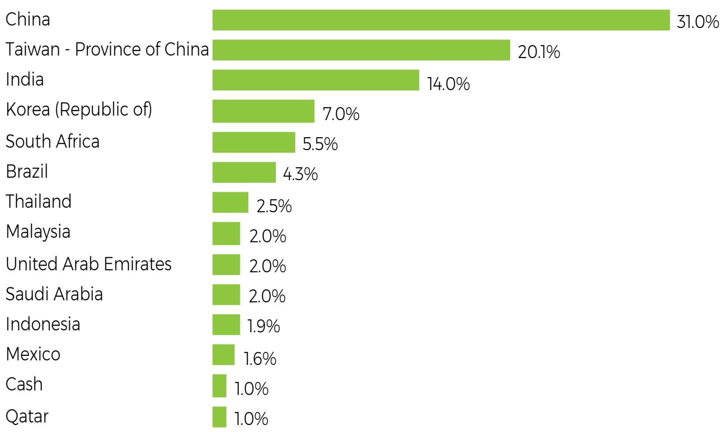
Source: Russell Investment Company. Index returns are net of withholdings tax.

SECTOR ALLOCATION TO 31/08/2022



Sources: Old Mutual Investment Group, MSCI classifications

COUNTRY ALLOCATION TO 31/08/2022



Note: Only countries with a weight greater than 1% are included in the graph
Sources: Old Mutual Investment Group, MSCI classifications

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QUARTERLY COMMENTARY (30 JUNE 2022)

Market Commentary

The local economy had a very strong start to the year with an 8% annualised GDP growth rate in the first quarter (up from 5.6% in Q4 of last year). PMIs, leading indicators, car sales and credit extended to corporates and households, have all improved further.

While the rand/US dollar exchange rate weakened during the first part of the second quarter, some reversal of this weakening occurred from around mid-May into June. The rand slipped from R14.65 at the start of the quarter to R16.24 by 9 May and subsequently recovered to around R15.50 by early June. The local currency weakened again later in June as uncertainty around the global economy mounted.

Uncertainty around the Russia/Ukraine war and its impact on the global economy, as well as a stronger dollar as the US Federal Reserve (the Fed) became more aggressive with policy tightening, had an impact on all emerging market economies. Supportive commodity prices, the improved SA political and policy environment, better growth outlook and substantial reduction in fiscal risk will likely help to keep the rand relatively stable over the next year or two. S&P's revision of their outlook for SA's debt from "stable" to "positive" is reflective of less fiscal risk and will also be supportive of the rand.

Inflation has moved roughly sideways during the first few months of this year – from 5.9% in December 2021 to 5.9% by April 2022. Headline inflation will likely peak around 7.3% in June, July or August – the timing depends on the war and oil and petrol prices. The extension of the fuel levy will help, but the path of oil prices is unclear, and we might get another petrol price shock when the fuel levy holiday expires. Excluding petrol, inflation is more subdued at 5.1%.

The SA Reserve Bank's interest rate normalisation cycle that started in November last year accelerated when the Monetary Policy Committee (MPC) decided to hike by 50 basis points (bps) in May. While the reality is that there was only one MPC meeting in the second quarter and this may have played a role in the decision to hike by 50 instead of 25bps, there seems to be a clear effort by the MPC to get the interest rate increases front-loaded, as they are concerned that recent price pressures might lead to a strong uplift in inflation expectations.

South Africa's prospects are continuing to improve – albeit at a slow pace and despite all the global headwinds and local negatives. Higher commodity prices, decent growth, continued fiscal consolidation, under-control inflation, moderate rate hikes, a stable rand and a healthy surplus on the current account – and hopefully improved politics – will all help lift confidence this year.

Globally, we have seen warning signs of a slowing underlying growth trend with relatively high recession risk, given higher inflation and central bank policy tightening. This risk has been exacerbated by the ongoing war in Ukraine, which has lasted far longer than initially expected. In addition to hitting consumer and business confidence, the war has sharply lifted energy and food prices, significantly draining business and consumer spending ability.

Higher-for-longer energy prices as well as overall inflation, a sharp drag from Covid policies in China, some lingering supply chain constraints, aggressive central bank policy action and no repeat of the expansionary fiscal policies of the last two years, have meant more growth risk and thus downward revisions to growth forecasts recently.

Talk around further sanctions from European powers against Russia raises the risk of a total energy embargo, which could lead the euro area into recession. In the US, the aggressive front-loading of policy tightening by the Fed will likely make it difficult to avoid a technical recession. Recession in these two big economies will not leave the rest of the world untouched.

Fund Commentary

The fund tracks the MSCI Emerging Markets ESG Leaders Index and aims to replicate the return of the underlying index.

The MSCI Emerging Markets ESG Leaders Index is a free float-adjusted market capitalisation weighted index designed to measure the equity market performance of companies with high environmental, social and governance (ESG) performance relative to their sector peers across developed markets worldwide.

The MSCI Emerging Markets ESG Leaders Index detracted by 12.97% for the quarter ending June 2022. All sectors had negative returns except for consumer discretionary that returned 8.53%, while the worst performing sectors were information technology and materials returning -22.19 and -20.17 respectively. From a country perspective, China was the only country with positive returns of 1.28%. The worst performing countries were Poland, Greece and Brazil recording -30.18, -29.52 and -29.52 respectively.

Note:*All returns are in USD unless otherwise stated.

CONTACT DETAILS

Mutualpark, Jan Smuts Drive, Pinelands 7405, PO Box 878, Cape Town 8000, South Africa.

Tel: +27 21 509 5022, Fax: +27 21 509 4663, Email: futurematters@oldmutualinvest.com, Website: www.oldmutualinvest.com

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