INVESTMENT GROUP

OLD MUTUAL MACROSOLUTIONS MEDICAL AID PORTFOLIO

JUNE 2022

A medical aid portfolio that offers you access to international and local asset classes — actively managed across regions, sectors and economies.

INVESTMENT PARTNER OF CHOICE

As a specialist in active asset allocation and multi-asset class solutions, MacroSolutions tailors risk-adjusted portfolios to meet the specific needs of its clients – including navigating the restrictions laid out in Regulation 30 of the Medical Schemes Act 131 of 1998.

We integrate a top-down analysis of the macroeconomic environment with bottom-up valuation analyses in order to identify, and take advantage of, opportunities in the market while managing downside risk.

The flexibility to move freely between asset classes as and when market conditions change means that we have the agility to strategically and tactically address the pressing issue of medical aid inflation, within the conservative mandates of these investments. We currently manage over R1 billion of assets in segregated funds specifically for medical scheme-related clients.

PORTFOLIO MANAGERS

JOHN ORFORD

- BA Economic History (Hons), Postgraduate Dip (Quantitative Development Economics), MSc (Development Economics), MBA
- 20 years of investment experience

COMMENTARY AS AT 30/06/2022

The fund endured a tough quarter as both equities and bonds sold off aggressively. Our exposure to effective US dollar cash provided some protection from the drawdown, as did exposure to inflation-linked bonds, which delivered a positive return in the quarter. However, this was not enough to offset the drawdown in both equities and nominal bonds. Within equities, the fund's underweight position in the Naspers/Prosus complex detracted from performance, with the share prices up 42% and 33% respectively on the back of the company announcing a major share buyback.

Positions that contributed positively to equity performance included the overweight exposure to Sasol and the underweight exposure to mining shares such as Anglo American and the platinum miners. However, alongside the underweight position in Naspers, local industrial and banking shares came under pressure in the quarter detracting from the fund's performance.

The major driver of weakness in global and local financial markets has been the sharp repricing of US and global rates, as the US Federal Reserve (the Fed) leads the charge in fighting surging inflation. This has seen the dollar rising sharply against most currencies. However, while the repricing of global bonds from abnormally low levels is very reasonable, especially given inflation of over 8% in the US and Europe, South African bond yields were already offering attractive real yields before the recent sell-off. With inflation rising in South Africa, underlying or core local inflation is more muted with limited demand-driven inflation. We expect inflation to remain above target for the next few months, but over 12 months it should moderate moving back within the central bank's 3% - 6% target range. This will support local bonds. The fund is therefore maintaining its overweight allocation to local bonds, and we have added duration during the sell-off.

The spike in US bond yields during the quarter provided an attractive entry point to this asset class. The fund added medium-dated US bonds at some of the highest levels seen in the last 10 years. With the Fed acting aggressively to contain inflation expectations, we expect both slower growth in the US and moderating inflation to support US treasuries. The fund is positioned to harvest attractive real yields in local Interest Bearing Account (IBA), has a neutral allocation to local equities, and holds US dollar cash and bonds as a hedge against global recession risks.

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ADDITIONAL INFORMATION

Benchmark:

Static allocation benchmark

Risk category:

Conservative

Investment objective

The portfolio targets returns of CPI + 4% per annum (gross of fees) over the long term, while aiming to minimise capital loss over rolling 18-month periods. Investment objectives are not guaranteed.

Minimum investment: R200 million

Fees (including VAT)

Domestic assets:	0.45% p.a.
International bonds:	0.70% p.a.
International cash:	0.60% p.a.

Liquidity

The portfolio can accommodate daily inflows and outflows of pre-agreed maximum amounts. One month's notice is required for full termination.

PRINCIPAL HOLDINGS AS AT 30/06/2022

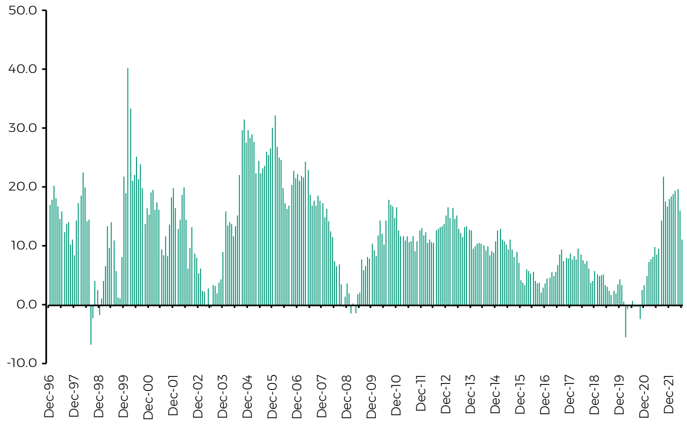
HOLDING	SECTOR	% OF FUND
Firstrand	Banks	2.8%
Sasol	Oil & Gas	2.8%
Prosus	Media	2.2%
Bats	Consumer Goods	2.1%
Mtn	Mobile Telecommunications	2.0%
Stanbank	Banks	1.9%
Absag	Banks	1.3%
Glencore	Basic Resources	1.2%
Anglo	Basic Resources	1.2%
Nedcor	Banks	1.2%

CAPITAL PRESERVATION

Over rolling 18-month periods capital has been protected over 95% of the periods reviewed.

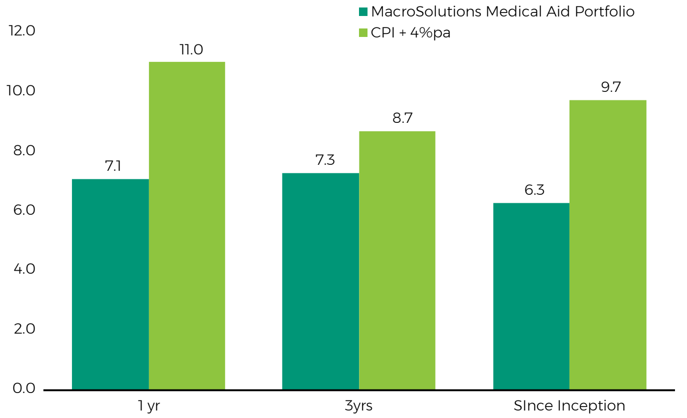
ROLLING 18-MONTH RETURNS

(non-annualised): 30 September 1996 - 30 June 2022



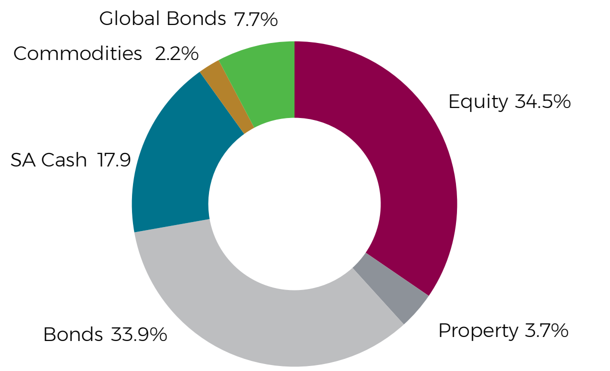
Source: Old Mutual Investment Group

PERFORMANCE AS AT 30/06/2022



Source: Old Mutual Investment Group(IRIS)

ASSET ANALYSIS AS AT 30/06/2022



Source: Old Mutual Investment Group

CONTACT

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