OLD MUTUAL BALANCED INDEX FUND

INSTITUTIONAL 31 AUGUST 2022

KEY FACTS

Launch Date:	July 2012
Product Vehicle:	Pooled, unitised fund policy as defined in the Long-term Insurance Act, 1988.
Target:	CPI + 5% over rolling three- to five-year periods
Benchmark*	Composite Asset Allocation Benchmark
Minimum Investment:	R10 million
Fees:	30bps

* The fund aims to track the components of the benchmark. Please refer to the table alongside for further details of the benchmark

INVESTMENT DESCRIPTION

The Balanced Index Fund is a fully diversified portfolio investing in a mix of local and offshore equities, listed property, interest bearing assets (including inflation linked bonds) and cash.

The fund invests in funds targeting the return of an index. Index funds offer the benefits of substantially lower fees and significantly reduce the uncertainty of fund performance relative to the market. Lower fees and efficient investment indexation processes minimise the tracking error on the overall returns.

INVESTMENT OBJECTIVE

Through a well-diversified mix of asset classes, this fund aims to deliver long-term growth while limiting the volatility in returns. The portfolio is Regulation 28 compliant and rebalanced, in line with its strategic allocation, in March every year. Rebalancing the portfolio annually keeps trading costs to a minimum while ensuring that the portfolio partakes in the intended combination of returns originating from each asset class. The fund has a long-term real return target of 5% (CPI+5%).

RISK CHARACTERISTICS

This is a moderate risk fund exposed to share price, interest-rate and currency fluctuations. A balanced, diversified portfolio across local and global asset classes helps lessen these fluctuations.

SUITABLE INVESTORS

This fund is suitable for investors wanting moderate to high long term growth with less volatility than pure equity.

INVESTMENT TEAM

The Fund is managed by the Indexation investment team within the Customised Solutions boutique.

BERNISHA LALA
Head of Indexation & Portfolio Manager

FRANK SIBIYA
Portfolio Manager

ANELISA BALFOUR
Portfolio Manager

FUND PERFORMANCE AS AT 31/08/2022

Gross Composite Returns

	3-Months	1 Year	3 Years	5 Years	Since Inception
Fund	-2.7%	1.9%	8.0%	5.8%	9.2%
Benchmark*	-2.6%	2.0%	7.9%	5.7%	9.3%
Target: CPI+5%	3.8%	12.4%	10.1%	9.9%	10.2%

* The Fund aims to track the components of the benchmark.

Source: Old Mutual Investment Group

ASSET ALLOCATION AS AT 31/08/2022

Asset Class	Building Block/ Benchmark	Actual Asset Allocation
Domestic Equity excl. property	FTSE/JSE Capped SWIX Index Fund	45.6%
Domestic Property	SA Listed Property Index Fund	5.7%
Domestic Bonds	All Bond Index Fund	7.2%
Domestic Inflation-linked Bond	Domestic ILB Index Fund	6.5%
Domestic Cash	OM Core Money Market Fund	6.2%
Domestic Total		**71.2%**
International Equity (MSCI)	MSCI ACWI ESG Index Fund	25.6%
International Bonds	Group-of-Seven (G7) Index	3.2%
International Total		**28.8%**

Source: Old Mutual Investment Group

BUILDING BLOCK RETURNS

1-year Annualised Returns	Fund	Benchmark	Differential
FTSE/JSE Capped SWIX Index Fund	3.6	3.7	-0.1
SA Listed Property Index Fund	-3.6	-3.4	-0.2
All Bond Index Fund	1.4	1.5	-0.1
Domestic ILB Index Fund	10.2	10.2	-0.0
OM Core Money Market Fund	4.6	4.0	0.6
MSCI ACWI ESG Index Fund	-2.7	-2.5	-0.2
Group-of-Seven (G7) Index	-5.0	-4.6	-0.4

Source: Old Mutual Investment Group

TOP TEN SA EQUITY HOLDINGS AS AT 31/08/2022

Holding	JSE Code	Sector	% of SA Equity
Naspers Ltd	NPN	Consumer Services	9.2%
Firstrand Ltd	FSR	Financials	5.7%
Anglo American Plc	AGL	Basic Materials	4.1%
Prosus Prx	PRX	Consumer Services	4.1%
Mtn Group Ltd	MTN	Telecommunications	4.0%
Standard Bank Group Ltd	SBK	Financials	3.6%
Sasol Ltd	SOL	Oil & Gas	3.3%
British American Tobacco Plc	BTI	Industrials	3.2%
Capitec Bank Hldgs Ltd	CPI	Financials	3.1%
Impala Plat Hldgs Ltd	IMP	Basic Materials	2.6%
Total			**43.0%**

Source: Old Mutual Investment Group

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 US Federal Reserve (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 broad South African equity market exposure in the fund is primarily through an allocation to the FTSE/JSE Capped SWIX All Share Index (Capped SWIX), which is intended to be a fairer reflection of the investment universe available to a South African investor. The Capped SWIX has a strategic weighting of 47% in the fund. The Capped SWIX detracted returning -10.65% for the quarter ending June 2022.

The only sector with positive performance for the quarter was technology returning 34.42%, reversing losses from the first quarter. The worst performing sectors were telecommunications and basic materials returning -25.36% and -21.59% respectively.

In addition to the broad local equity market exposure, the fund also has exposure to SA listed property, which has a strategic weighting of 6.00%. The JSE SA Listed Property Index detracted returning -11.56% for the quarter ending June 2022.

The international equity exposure is invested in the MSCI ACWI ESG Index, which has a strategic weighting of 25.00%. This index offers exposure to both developed and emerging markets globally. The MSCI ACWI ESG Index detracted returning -15.47% in USD terms. The rand depreciated by 11.41% against the US dollar over the quarter.

To diversify the fund away from equity, it invests in nominal bonds through exposure to the JSE All Bond Index (ALBI), which has a strategic weighting of 7.00%. The JSE ALBI decreased by 3.71% for the quarter. In addition to the nominal bond exposure, an allocation is also made to inflation-linked government bonds through exposure to the JSE IGOV Index, which has a strategic weighting of 6.00%. The index increased by 2.95% for the quarter.

To diversify the fund away from equity, it invests in nominal bonds through exposure to the JSE All Bond Index (ALBI), which has a strategic weighting of 7.00%. The JSE ALBI increased by 1.86% for the quarter. In addition to the nominal bond exposure, an allocation is also made to inflation-linked government bonds through exposure to the JSE IGOV Index, which has a strategic weighting of 6.00%. The JSE IGOV Index increased by 0.21% for the quarter.

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