



**PORTFOLIO FACTS**

INCEPTION DATE:	1 June 2006
STRATEGY SIZE:	R38bn (30/06/2021)
BENCHMARK:	FTSE/JSE Capped Shareholder Weighted All Share Index (CAPPED SWIX) since 1 May 2017. Prior to that the FTSE/JSE Shareholder Weighted All Share Index.
VEHICLE:	Segregated or pooled
NUMBER OF STOCKS:	40 - 50
MINIMUM INVESTMENT:	R100m

**LONG TERM OBJECTIVE**

This portfolio is for institutional investors requiring management of an active South African equity portfolio which aims to outperform the benchmark over the long term with less volatility.

**INVESTMENT APPROACH**

Our investment philosophy captures both the theme (environment) and price (valuation) in a two-dimensional approach. This fundamental, valuation-based approach is enhanced with quantitative confirming scores for other themes driving the market, namely quality, growth and sentiment. Extensive research, skilful risk management and disciplined portfolio construction improves our ability to achieve more stable returns through various market cycles.

**PORTFOLIO MANAGERS**



**SIBONISO NXUMALO**

Portfolio Manager  
BCom (Hons); MBA  
15 years experience



**NEELASH HANSJEE**

Portfolio Manager  
B.Com (Hons), CA (SA)  
14 years experience



**ARTHUR KARAS**

Portfolio Manager  
B.Com, CFA  
28 years experience

**STRATEGY PERFORMANCE AS AT 31/10/2021**

**Gross Composite Returns**

	Portfolio (%)	Benchmark (%)
1 Year	44.4%	39.8%
3 Years	8.1%	9.1%
5 Years	5.3%	6.2%
10 Years	10.0%	10.2%
Since Inception	10.4%	11.0%

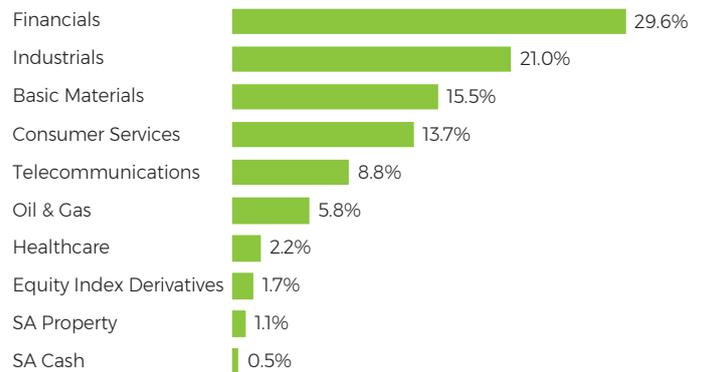
Source: Old Mutual Investment Group. Returns greater than 12 months are annualised.

**RISK STATISTICS AS AT 31/10/2021  
- 3 YEARS (ANNUALISED)**

Measure	Strategy (%)
Tracking Error	3.6%
Standard Deviation	18.6%
Information Ratio	-0.31

Source: Old Mutual Investment Group  
Prior to 1 May 2017, the benchmark was the FTSE/JSE Shareholder Weighted Index (SWIX).

**SECTOR ALLOCATION**



Source: Old Mutual Investment Group

**PRINCIPAL HOLDINGS AS AT 31/10/2021**

TOP 10 HOLDINGS	% OF FUND
Firststrand Ltd	8.5
MTN Group Ltd	7.7
Anglo American plc	6.2
Absa Group Limited	6.2
PROSUS PRX	6.2
Sasol Limited	5.9
Standard Bank Group Ltd	5.2
British American Tob plc	4.0
Northam Platinum Hldgs Ltd	3.5
Transaction Capital Ltd	3.4

Source: Old Mutual Investment Group



## QUARTERLY COMMENTARY (30 SEPTEMBER 2021)

We apply a pragmatic approach to building and managing equity, property and multi-asset class solutions. We seek to invest in assets that are both attractively priced and experiencing tailwinds to their growth prospects. To do this, we blend top-down and bottom-up research, use quantitative tools and apply our philosophy of theme and price.

Over the past year, driven by our research, we had identified the following key themes that would drive the investment returns clients hire us to deliver.

### Globally

- Earnings over ratings: This means we see a strong but maturing global recovery where returns will be driven increasingly by fundamental earnings rather than a price-earnings (PE) re-rating (which was the key driver from the bottom of the pandemic-induced recession).
- Regime change: This means that we are anticipating higher inflation over the medium term. Inflation will be driven by supply chain disruptions, high commodity prices and the record volumes of stimulus that central banks used to drive the recovery.

### South Africa

- Cyclical recovery: The higher commodity prices have (in the short term) created a terms of trade windfall. A continuing vaccination drive and global recovery will fuel a cyclical recovery in South Africa.
- Cash is trash: Low rates will drive return-seeking investors to growth assets and away from cash.

Thus, with the above themes, we positioned and continue to position clients' funds in favour of cyclical/economically sensitive companies. We have positioned the fund towards South Africa, given the compelling valuations relative to emerging and global markets. We have also positioned clients' funds favouring "value" rather than "growth" shares. Earnings per share (EPS) growth in this recovery has not been scarce, so paying a lower price for EPS growth makes sense.

## FUND PERFORMANCE

Clients enjoyed a pleasing Q3 with the Fund returning 5.3% relative to the benchmark's return of 3.2%. Thus, an outperformance of 2.1%, which is a continuation of the recovery clients have enjoyed across our entire range of funds and has resulted in our range of funds being top quartile over the past year.

Over the past quarter, our overweight positions in MTN (+36.9%), OMNIA (+31.2%) Sasol (+27.7%) and Old Mutual (+24.6%), including some strong returns from the big four banks and Investec, contributed meaningfully to the returns. Our underweight position in the Naspers/Prosus complex was also a key contributor to client returns. This particular investment call illustrates the advantage of our multi-faceted investment approach. Naspers is a market darling and a very sizeable position in many portfolios. Market commentators tend to agree that the Naspers/Process complex offers compelling fundamental bottom-up value. That's before you add the discount that they trade at relative to their stake in the Chinese tech company Tencent. While we do not materially disagree with the market's view that Tencent is a world-class business that should warrant a very high rating given its market opportunity, that famous Albert Einstein adage needs to be mentioned here: "Not everything that can be counted counts and not everything that counts can be counted."

Our thematic lens into the world raised concerns about the regulation of tech companies. This concern and our cyclical recovery and value > growth theme meant that we had been reducing our stake in Naspers/Prosus at higher valuations, and deploying that in domestically focused, economically sensitive SA Inc companies. This proved to be a highly profitable decision, as the draconian regulatory decisions in China took their toll on the Tencent share price, leading to a substantial underperformance in the companies from their peaks earlier in the year.

Following a substantial price recovery, we have been reducing our platinum group metal and diversified miners holdings. We have continued buying Investec, Discovery, Pepkor and Anheuser-Busch on the back of weakness in the price.

## CONTACT DETAILS

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