INVESTMENT GROUP

OLD MUTUAL
FTSE RAFI® ALL WORLD INDEX FUND

INSTITUTIONAL
31 AUGUST 2022

KEY FACTS

Launch date:	1 March 2012
Size of fund:	R4.1 billion
Vehicle:	Pooled fund policy as defined in the Long-term Insurance Act, 1988
Number of stocks:	Approximately 1 600
Currency:	ZAR
Benchmark:	FTSE RAFI® All World 3000 Index
Subscription Settlement:	T + 1
Redemption Settlement:	T + 1
Minimum investment:	R10 million
Investment management fee:	31.5 basis points

INVESTMENT DESCRIPTION

The FTSE RAFI® All World Index Fund is a pooled portfolio that aims to achieve long-term asset growth through selecting and weighting securities by fundamental measures of company size, as opposed to market capitalisation. Using fundamental measures of sales, book value, cash flows and dividends, the RAFI methodology aims to quantify a company's size or economic footprint. This has the effect of allocating more to undervalued companies and less to overvalued companies relative to traditional market capitalisation weighted indices.

If undervalued companies rebound or overvalued companies return to fairer levels, investors who follow a Fundamental Indexation® approach to investing will benefit.

INVESTMENT STRATEGY

The Fund employs a traditional index tracking approach by predominantly investing in the stocks constituting the benchmark index. The Fund should not display significant deviations from the benchmark index as it aims to replicate the benchmark's performance while minimising total costs. This methodology captures many of the benefits of passive investing such as transparency, objectivity, broad economic representation, and diversification.

INVESTMENT TEAM

BERNISHA LALA
Head of Indexation & Portfolio Manager

FRANK SIBIYA
Portfolio Manager

PERFORMANCE AS AT 31/08/2022

Gross Returns (ZAR)

	3 months	1 Year	3 Years	5 Years	Since Inception
Fund	0.9%	6.9%	12.5%	11.4%	16.0%
Benchmark*	0.7%	6.5%	12.2%	11.3%	15.9%

Source: Old Mutual Investment Group

RISK STATS FOR THE 3 YEARS ENDING 31/08/2022

Measure	Fund	FTSE RAFI All World 3000 Index (Net Total Return)
Standard Deviation	14.8%	14.7%
Tracking Error	0.3%	

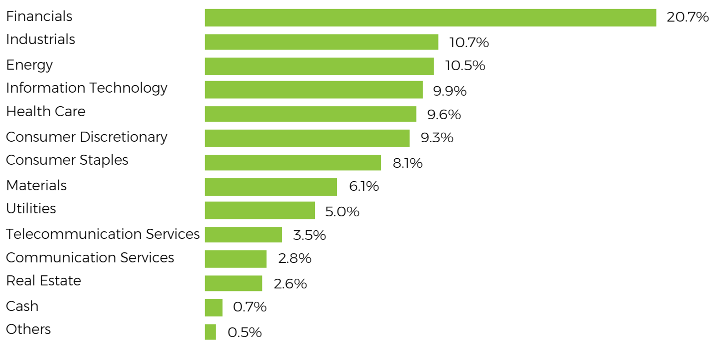
Source: Old Mutual Investment Group

PRINCIPAL EQUITY HOLDINGS AS AT 31/08/2022

Holding	Listed	Sector	% of Fund
Exxon Mobil Corporation	US	Energy	1.4%
Apple Inc.	US	Information Technology	1.4%
Microsoft Corp	US	Information Technology	1.0%
CHEVRON CORP	US	Energy	0.9%
Shell Plc	UK	Energy	0.9%
Wells Fargo & Company	US	Financials	0.8%
Berkshire Hathaway B	US	Financials	0.8%
JPMorgan Chase & Co	US	Financials	0.7%
Unitedhealth Group	US	Health Care	0.7%
Pfizer	US	Health Care	0.6%

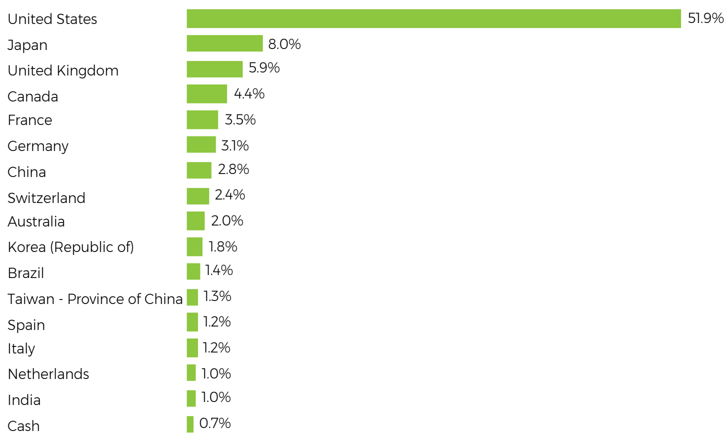
Source: Old Mutual Investment Group

SECTOR ALLOCATION AS AT 31/08/2022



Source: Old Mutual Investment Group, MSCI classifications

COUNTRY ALLOCATION AS 31/08/2022



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

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). Purchase Managers Index (PMI), leading indicators, car sales and credit extended to corporates and households, have all improved further. While the rand/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 rand 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 (Fed) became more aggressive with policy tightening, had an impact on all emerging market economies. Supportive commodity prices, the improved SA environment regarding politics and policy, 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 Dec 2021 to 5.9% by April 2022. Headline inflation will likely peak around 7.3% in June, July or August, with the timing depending on the war in Ukraine 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 rates by 50bps in May. While the reality is that there was only one MPC meeting in the second quarter and this might have played a role in the decision to hike by 50bps and not 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 – 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, 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 initial expectations. 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 drags, aggressive Central Bank policy action and no repeat to 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 Performance:

The fund tracks the FTSE RAFI® All World 3000 Index and aims to replicate the return of the underlying index.

The FTSE RAFI® All World 3000 Index offers exposure to both developed and emerging markets globally, by selecting and weighting the largest 3000 companies according to their fundamentals of dividends, cash flows, sales and book value, as opposed to market capitalisation.

The FTSE RAFI® All World 3000 Index returned -13% for the quarter to June 2022, while MSCI All Country World Index returned -15.66%. Over the last 12 months, the FTSE RAFI® All World 3000 Index returned -10.16%, while the MSCI All Country World Index returned -15.75%.

RAFI has a fundamental price indifferent, contra-trading approach, which looks to overweight under-valued stocks and underweight over-valued stocks.

The FTSE RAFI® All World 3000 Index has an underweight exposure to the information technology, healthcare, communication services and consumer discretionary sectors and an overweight exposure to the utilities, materials, energy, and financials sectors compared to the MSCI ACWI Index.

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

CONTACT DETAILS

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