



INVESTMENT DESCRIPTION

Global Macro Equity is a worldwide equity strategy that actively exploits macro-economic and thematic drivers to generate outperformance of its benchmark. The investment team does this by taking active positions in predominantly aggregate countries, currencies, sectors and industries. The portfolio blends well with stock pickers.

The strategy aims to outperform the MSCI All Country World Index (net of withholding tax, dividends re-invested).

INVESTMENT APPROACH

- Active management of a global equity portfolio offered at a compelling fee due to its efficient portfolio construction.
- The team takes overweight positions if they have a positive view based on market valuations and macro considerations; and are underweight positions if they believe prices are overrated or there are macro-economic headwinds. The investment philosophy is deliberately not applied to individual stocks.
- Fundamental research backed by proprietary databases on the markets, sectors and currencies is used to scan for opportunities that are often not accessed by typical stock-pickers.
- The strategy aims to deliver active returns with measured risk levels avoiding periods of significant benchmark underperformance.
- Due to the investment process, all active exposures are deliberately taken to better deal with exogenous shocks and macro-driven crises.

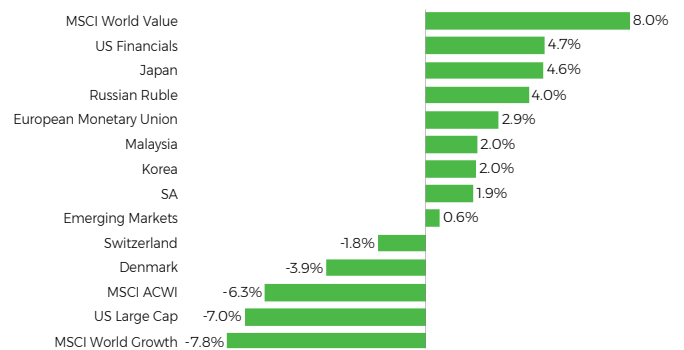
THE INVESTMENT TEAM

We follow a team-based approach when managing solutions. However, we also believe in individual accountability for client outcomes. Peter Brooke is the lead portfolio manager, supported by Urvesh Desai, Zain Wilson and Thomo Molatjane.

Our in-depth knowledge of macroeconomic and thematic drivers of investments enables us to opportunistically capitalise on emerging trends and successfully manage this global equity mandate from South Africa.

- The investment team’s asset allocation skills have been independently rated as excellent (BNP Paribas). This is where the team’s highest alpha potential exists.

POSITIONING RELATIVE TO MSCI ACWI



Source: Old Mutual Investment Group

The above shows the active positioning of the strategy relative to its benchmark as at 30 September 2021.



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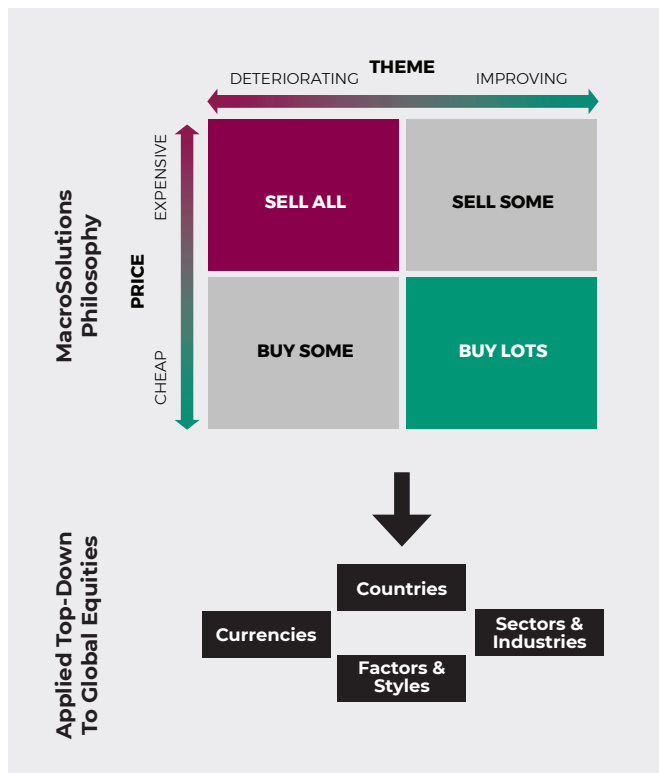
WHAT WE BELIEVE ABOUT INVESTING

Our investment philosophy captures both the theme (environment) and price (valuation) in a two-dimensional approach. Every investment decision takes place using this structured, disciplined and measurable implementation framework.

We apply this philosophy to the global equity universe using a combination of pragmatism, simplicity and playing to our strengths in terms of top down asset allocation. We do not have specialist in-depth knowledge of over 3,000 stocks in 69 different industries around the world but by combining stocks according to their most important, and common drivers of return and performance, we instead apply our philosophy to aggregate countries, currencies, sectors and industries.

This allows us to achieve 2 important goals:

1. Reduce the number of decisions we must make – and therefore dramatically increase our probability of making the right decision in total.
2. Align these decisions with trends that are:
 - a. More predictable as aggregates (due to the law of large numbers meaning lower variability); and
 - b. Top down in nature e.g. domestic market/ economic influence, currency, sector – playing to the existing MacroSolutions' edge of top down asset allocation.



HOW WE MANAGE THIS STRATEGY

The strategy is constructed using our well-established MacroSolutions process of Theme, Price, Roadmap, Risk, and Position Size.

1. IDEA GENERATION: THEME AND PRICE FRAMEWORK

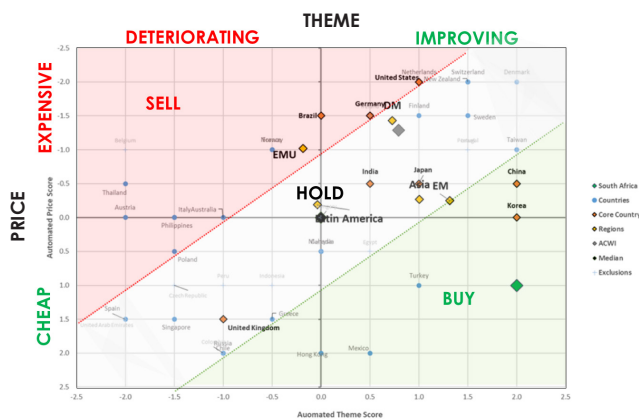
We believe we have an established edge in applying our investment philosophy to top-down macro driven calls. When attributing historical returns on global equity markets, a significant proportion of the outcome is driven by country, currency and sector selection effects. We are therefore applying a rigorous process to an area that has high alpha potential.

Country and sector analysis

Quantitative analysis is used to screen for potential investment opportunities. The Theme score includes earnings/profitability metrics and risk adjusted momentum characteristics. The Price score includes various valuation metrics.

Theme/Price Dot Plot

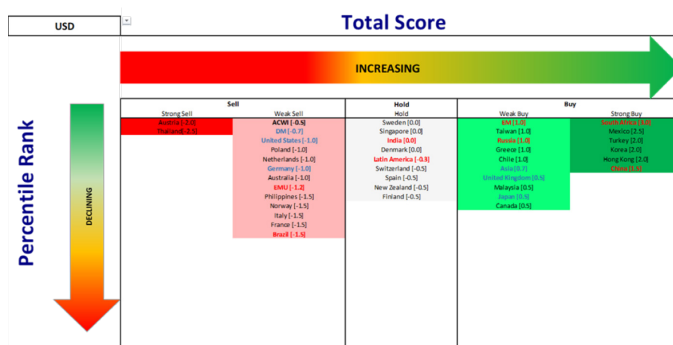
For each investment, a Theme & Price score is plotted as per the illustrative graph alongside. We want to be overweight investments with positive Theme & Price scores (these are Buy rated), and underweight investments with negative Theme & Price scores (these are Sell rated).



Buy/Sell List

More explicitly, we use the dot scores from our initial Theme and Price screen to generate a buy, hold and sell ranking. Continuing the example, at a country level, the output appears alongside.

Once we have narrowed down the focus for our research effort, we are then able to investigate these ideas further.



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Investability assessment and fundamental research

The ideas generated by the buy/sell list are assessed for investability. From our example, we look at the market structure of the country, in particular, assessing concentrations and where individual shares overwhelmingly influence markets. We also look at derivative availability and tradability. As our quantitative process accesses a vast data set on the markets, sectors and currencies, we can scan for opportunities that are often overlooked by other investors. In-depth fundamental analysis involves:

- The market – its sector make-up, long term profitability and valuation trends.
- The economy – an assessment of long-term macro variables as well as fiscal and monetary policy.
- The currency – an analysis of the balance of payments, relative valuation and interest rate dynamics.

2. ROADMAP

It is important for us to understand how a potential position will unfold over time:

- A longer-term perspective is gained on the investment to establish expectations.
- We also analyse shorter-term indicators such as technical and positioning data.

The reason we break our analysis into two-time frames is to isolate whether a position we are taking is strategic or tactical. We would expect to gain more alpha from strategic holdings, which will be held for a longer-time. We also want to access tactical, or shorter-term opportunities, but will tend to exit these positions quicker by having stop losses in place.

3. RISK AND POSITION SIZE

The final part of our analysis is the assessment of the risk characteristics of the investment and how it impacts the total portfolio. This includes elements such as country and sector beta, volatility, credit default swap spreads, correlations as well as factor exposures, style biases and macro variable sensitivities. On a bottom up basis, we also look extensively at corporate leverage and interest coverage.

Sell discipline

While the initial Theme and Price screening tool is used primarily for idea generation, it also forms part of the sell discipline process. On a monthly basis, we rerun the screening tool, a significant change in screen rankings of the Theme and Price framework for a position held would trigger a formal review.

ESG

ESG factors are considered in our investment and ownership decisions. Our third party management company oversees the proxy voting. Their proxy voting policy is reviewed annually by our Responsible Investment team to ensure that it is in line with best practice.

A DIFFERENTIATED OFFERING

This is a highly differentiated product which ensures we are focusing on our competitive advantage. Unlike most equity managers we are focusing on what drives 80% of returns (country, sector, style and currency) rather than the 20% (stock-picking). This has some distinct advantages including:

- less competition, which creates unique alpha opportunities
- less decisions which increases focus
- the ability to craft our risk budget pre-trade
- we blend well with bottom up stock-pickers due to our completely differentiated approach

CONTACT DETAILS

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