INVESTMENT GROUP

OLD MUTUAL GLOBAL BALANCED STRATEGY

INSTITUTIONAL
31 AUGUST 2022

STRATEGY INFORMATION

Benchmark:

Equities:

- 65% MSCI All Country World Index

Bonds:

- 30% Barclays Capital Global Aggregate Index

Money Market*: 5%

- 40% US Dollars: Bloomberg Barclays US Treasury Bills 1-3 month
- 35% Euro: Bloomberg Barclays Euro Treasury Bills 0-3 month
- 15% Japanese Yen: ICE Bank of America Japan 0-1 year Government
- 10% UK Pound: ICE Bank of America Sterling 3 month Government Bill (unhedged in USD) ("the Benchmark Index").

Launch Date:	January 2013
Strategy Size:	US$161m (31.12.21)
Share Currency:	US$

*Please note: The benchmark changed from a composite of varying weights as per the Special Drawing Rights (SDR) basket to a composite of fixed weightings effective from 1 March 2020.

INVESTMENT DESCRIPTION

The strategy is US dollar-denominated and actively managed with diversified exposure to global equities, global bonds and global currencies. Investments in other asset classes such as property and gold are also considered for inclusion in order to enhance returns or manage risk. The strategy is managed on a "fund of funds" approach using active allocations to specialist underlying asset class portfolios and appropriate exchange traded funds (ETFs) and contracts (ETCs). The strategy seeks to produce long-term performance through achieving a balance between risk and reward as well as a balanced allocation to all major international regions.

INVESTMENT TEAM

URVESH DESAI

Portfolio Manager

B.Sc. (Hons), FIA, FASSA, CFA

Urvesh is the Portfolio Manager of our Global Balanced offering.

He is responsible for portfolio construction as well as appointing the underlying global managers on a best-of-breed approach.

For over a decade, he has been the portfolio manager and architect behind the Multi-Style and Opportunities Global Equity strategies, two multi-managed global equity portfolios which are top quartile performers. Urvesh no longer manages the Multi-Style portfolio but retains responsibility for the Opportunities Global Equity offering.

Urvesh contributes as a strategist and analyst to the Global Macro Equity strategy as well as other MacroSolutions' funds. He is also the portfolio manager of the Old Mutual Moderate Balanced Unit Trust fund. He was previously also responsible for the Namibian multi-asset class portfolios. Urvesh is a qualified actuary and a CFA Charterholder.

STRATEGY PERFORMANCE

Gross USD Strategy Performance

	FUND	BENCHMARK
3 months	-5.3%	-5.3%
1 Year	-15.5%	-16.0%
3 Years	5.0%	3.9%
5 Years	4.8%	4.2%
7 Years	6.3%	5.7%
Since Inception	5.5%	5.5%

Source: Old Mutual Investment Group. Returns for periods greater than 1 year are annualised.

RISK STATISTICS – SINCE INCEPTION (ANNUALISED)

	FUND
12 Months Max	38.9%
12 Months Min	-15.5%
Annualised Standard Deviation	10.4%

Source: Old Mutual Investment Group

PORTFOLIO HOLDINGS AS AT 31 AUGUST 2022

Global Equity	**69.8%**
Quantitative Equity	17.0%
Value Equity	16.1%
Quality Equity	10.5%
Growth Equity	6.2%
Global Macro Equity	16.4%
Emerging markets Equity	3.6%
Global Hedge	**4.2%**
Global Derivatives	4.2%
Global Fixed Interest	**26.0%**
Global Aggregate Bonds	4.0%
Ishares USD Treasury	11.6%
Emerging Market Local Currency Bonds	10.4%
Global Money Market & Cash	**4.0%**
USD Money market & cash	4.0%
Derivative Notional Cash	**-4.0%**
Derivative Notional Cash	-4.0%
TOTAL	**100.0%**

Source: Old Mutual Investment Group

QUARTERLY COMMENTARY (30 JUNE 2022)

The second quarter of 2022 proved even more tumultuous for global financial markets than the first. Inflation breached 8% in both the US and Europe compared to targets of 2%. Rattled by persistently high inflation, central bankers around the world have ratcheted up their rhetoric about fighting inflation at all costs. The result has been higher global interest rates. Leading the charge has been the US Federal Reserve (the Fed), which has hiked rates at its last three meetings, including a jumbo 75 basis point hike at its last meeting – the biggest hike since 1994. Markets now expect the federal funds rate to exceed 3% by year-end, which is consistent with the latest Fed guidance. The US 10-year government bond yield, which languished well below 1% for much of 2020, this year reached 3.5% in mid-June, the highest level since 2011, before pulling back by the end of June.

This radical and rapid repricing of US government debt prompted us to substantially increase our investment in US treasury bonds during the quarter. The holding went from 3% to 12% of the portfolio – quadrupling it. The increased value available with higher yields and the much tighter monetary policy prompted this change. These assets – at the right price – make for great diversifiers of risk from equities.

Gold has also been sensitive to the prospect of interest rate hikes, falling 6.7% in the quarter. The strategy exited its holding in gold at the highs of the quarter (in favour of global and US bonds).

The sharp rise in interest rates (or the cost of capital) has put significant pressure on financial assets which had previously benefited from ultra-low interest rates – including equity. This meant risk assets like equities and traditional safe havens like US bonds underperformed in tandem. This left very few places for the portfolio to hide from capital losses.

Global equities fell 16% in US dollar terms in the quarter. The S&P fell 16% and the MSCI Europe Index was down 14%. The MSCI Emerging Markets Index was down 11% buoyed by a 3% rise in MSCI China. During the quarter, the strategy sold down some of its global equity holdings and switched some of this into exposure which included downside protection. The portfolio also increased exposure to China, which helped.

Growth shares underperformed value shares as rising inflation and bond yields undermined the story stocks of the last decade. The MSCI World Growth Index was down 20% compared to the MSCI Value Index, which was down 11%. Year to date, the growth-heavy Nasdaq Index is down 29%. The strategy has had a value-over-growth overlay for some time and benefited from this.

As growth concerns mounted, cyclical commodity prices came under pressure. Copper fell 20%, iron ore 14%, rhodium 28%, palladium 15% and platinum 9%. Later in the quarter, the portfolio exited its holdings of platinum, again in favour of US government bonds.

Losing capital is never a good outcome. When market movements cause these losses, our aim is to mitigate this as much as possible without impacting the potential for longer-term returns. We then aim to use the opportunities created by these market movements to position the strategy for generating real returns into the future. To benefit from this and to continue to generate real wealth, however, one must remain invested.

CONTACT

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Old Mutual Investment Group

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