INVESTMENT GROUP

OLD MUTUAL PROFILE BALANCED PORTFOLIO

INSTITUTIONAL
AUGUST 2022

MULTI-ASSET CLASS SOLUTIONS: THE PROFILE RANGE

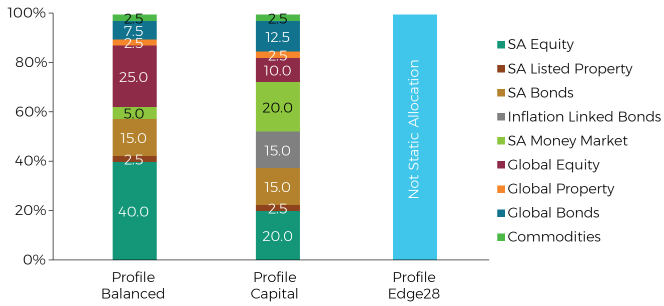
The suite of Profile portfolios is a comprehensive range of unitised, market-linked portfolios that span the risk/return spectrum. These policy-based investments are specifically designed for institutional investors and are compliant with Regulation 28 of the Pension Funds Act of South Africa.

Within the parameters of their mandates, the Profile portfolios invest across a range of local and offshore asset classes including equity, interest-bearing instruments, property, convertibles, commodities and derivatives.

There are four portfolios in the Profile portfolio range, from very conservative to aggressive. The investor may also switch between these funds within the range on a seamless basis to correspond with their changing risk profile.

STATIC BENCHMARK ASSET ALLOCATION

The static benchmark represents our view of the optimal long-term asset allocation per portfolio.



GRAHAM TUCKER

PORTFOLIO MANAGER

- BSc (Hons) (Actuarial Science), CFA® Charterholder
- 21 years of investment experience

MARKET COMMENTARY AS AT 30/06/2022

The second quarter proved tumultuous for global financial markets. 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 a repricing of global interest rates. Leading the charge has been the US Federal Reserve Bank which has hiked rates at its last three meetings including a jumbo 75bps hike in June, the biggest Fed hike since 1994. Futures markets now expect the Federal Funds Rate to exceed 3% by year end which is consistent with latest Fed guidance. This repricing of short-term interest rates was reflected in surging bond yields outside Japan and China where inflation remains benign. The US 10-year yield which languished well below 1% for much of 2020 reached a decade high of 3.5% in mid-June before pulling back as investors began to focus on recession risks. This sharp rise in the cost of capital has put significant pressure on financial assets which had previously benefited from ultra-low interest rates. The dollar appreciated with the broad trade weighted dollar rising 6% in the quarter. By contrast Bitcoin's price plunged by 57%. Risk assets and traditional safe havens like US bonds underperformed in tandem.

Global equities fell 16% in dollar terms and global bonds fell 8%. The S&P fell 16% marginally underperforming the global index, European equities (MSCI AC Europe) were down 14% and Emerging Markets, buoyed by a 3% rise in MSCI China, were down 11%. Growth shares underperformed value shares as rising inflation and bond yields undermined the story stocks of the last decade. The MSCI AC 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%. As growth concerns have mounted cyclical commodity prices came under pressure. Copper fell 20%, iron ore 14%, rhodium 28%, palladium 15% and platinum 9%. Energy prices however remained stubbornly high with Richards Bay Coal rising by 34% and Brent Crude oil by 7% as the impact of Russia's invasion of Ukraine continues to reverberate through commodity markets. The Rand weakened sharply depreciating by 12% and in dollar terms South African equities underperformed global equities. In Rand terms the JSE All Share Index was down 12% led lower by Resources which fell by 21% and Financials by 15%. Better performance by Industrials was largely reflective of Naspers and Prosus which rose by 42% and 32% respectively on the back of management announcing a significant share buyback program. The property index was also down 12%. Inflation rose to 6.5% in May and is likely to see the SARB continue increasing interest rates. Local markets continue to price in significant rate tightening in South Africa and bond yields rose, resulting in the JSE All Bond Index delivering a negative 4% return. Inflation linked bonds benefitted from the concerns about inflation and posted a 3% return in the quarter.

FUND PERFORMANCE COMMENTARY AS AT 30/06/2022

The nature of Profile Balanced means that it has a significant exposure to equity markets. Despite adopting a more defensive stance during the quarter, the portfolio delivered negative absolute returns in this challenging quarter for risk assets. The quarter also saw a reversal in price action for some of the positions that have benefited the portfolio over the last two years, such as banks, clothing retailers and the Naspers/Prosus complex.

The portfolio reduced equity exposure towards the end of 2021, driven by concerns around rising interest rates and tightening liquidity which, in our view, is what has driven markets lower. However, inflation remains a concern for central bankers and we therefore expect interest rates to continue on their upward trajectory. This will result in ongoing downward pressure on global growth and will filter through to earnings forecasts. As such, we remain cautiously positioned on equity, specifically global equity.

In addition to our caution on global equity, we purchased US treasuries in the portfolio at good levels in the middle of June. The 10-year US yield bottomed at 0.5% in the Covid crisis in March 2020. Yields held near these low levels for a few months before starting to climb. While we believe yields could still move higher, we considered it prudent to start allocating to this safe-haven asset class given the pressure on growth and the more attractive yields. At the time of purchase, the 10-year yield was touching 3.4%.

Turning to South Africa, we continue to see compelling opportunities in local assets, particularly local bonds. The South African economy is not without its challenges. However, we believe these are well known and that inflation-beating returns are achievable from equities and bonds over the medium-term time horizon. Local bonds still offer the best risk-adjusted returns in our view and hence we have steadily increased exposure to this asset class.

INVESTMENT GROUP

OLD MUTUAL PROFILE BALANCED PORTFOLIO

INSTITUTIONAL
AUGUST 2022

This is an actively managed and a moderate-risk portfolio that aims to provide investors with compelling real returns over the long term by investing in an optimal spread of local and international asset classes. While the bias is towards growth assets, the portfolio manager will allocate to other asset classes to exploit market opportunities and to achieve diversification.

Closely aligned with our "Best Investment View" process, this portfolio offers our clients the opportunity to receive the full benefit of our proven investment track record. Investors should note that investment objectives are not guaranteed.

This portfolio may be ideal for investors who are prepared to accept the potential for short-term market fluctuations in pursuing significant real growth relative to inflation over the long term. The portfolio complies with Regulation 28 of the Pension Funds Act.

ADDITIONAL INFORMATION

Launch date

January 1995

Benchmark

Static asset allocation benchmark

Risk category

Moderate

Investment objective

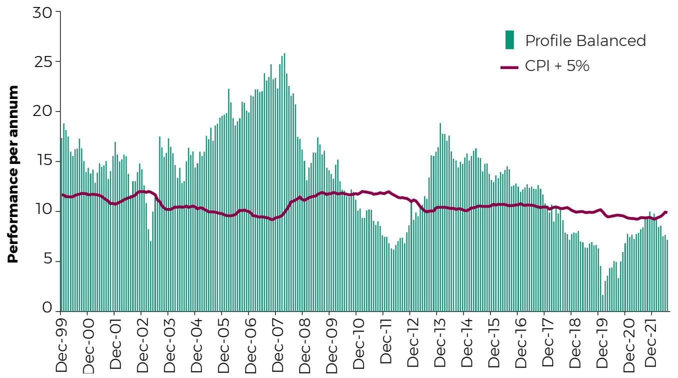
The portfolio aims to deliver competitive and consistent real returns with a target of CPI + 5% per annum (gross of fees) over the long term. The fund also aims to outperform its composite index benchmark. Investment objectives are not guaranteed.

PRINCIPAL HOLDINGS AS AT 31/08/2022

HOLDING	SECTOR	% OF FUND
Firstrand Ltd	Financials	3.7
Naspers Ltd	Consumer Services	3.6
Standard Bank Group Ltd	Financials	2.8
British American Tobacco plc	Industrials	2.8
Barclays Africa Group Ltd	Financials	2.2
Mtn Group Ltd	Telecommunications	1.9
Glencore Plc	Basic Materials	1.8
Sasol Ltd	Oil & Gas	1.8
Richemont SA	Industrials	1.4
Anheuser-Busch Inbev SA	Industrials	1.3
		23.3

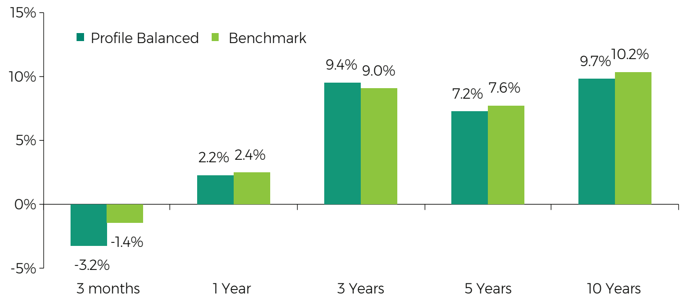
PERFORMANCE AS AT 31/08/2022

5-Year Rolling Returns



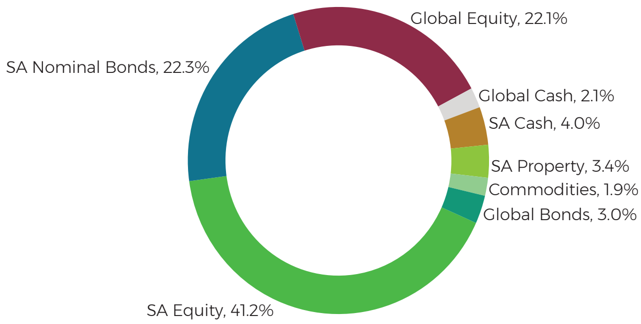
Source: Old Mutual Investment Group (IRIS)

RETURNS AS AT 31/08/2022



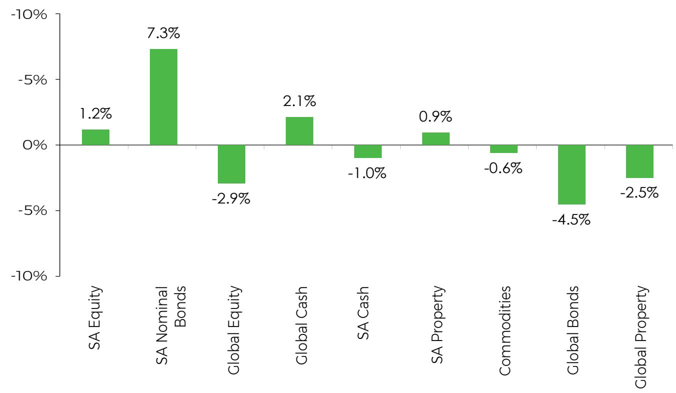
Source: Old Mutual Investment Group (IRIS)

ASSET ANALYSIS AS AT 31/08/2022



Source: Old Mutual Investment Group

FUND TILT VS BENCHMARKS



Source: Old Mutual Investment Group (HiPortfolio)

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