INVESTMENT GROUP

OLD MUTUAL
GLOBAL MACRO EQUITY STRATEGY

INSTITUTIONAL
31 AUGUST 2022

STRATEGY INFORMATION

Benchmark:	MSCI All Country World Index (dividends reinvested), net of withholding tax
Launch Date:	November 2016
Strategy Size:	USD571m (30.06.22)
Currency:	US$

INVESTMENT DESCRIPTION

This is a worldwide equity strategy that aims to outperform its benchmark in a risk-controlled manner. The outperformance is pursued through active investment allocations towards particular global investment segments. These segments include industries, countries, regions or currencies. The allocations are made opportunistically in order to capitalise on macroeconomic trends. The investment team uses both fundamental analysis and macroeconomic research to identify the potential factors that may drive changes in economies and industries. In this way the most attractive global investment segments are identified and the strategy invests towards those views. On the other hand the strategy avoids investing in segments that are expected to lag due to overrated prices or macroeconomic headwinds. The risk exposure in the strategy is managed by ensuring that there is ample diversification of investment exposures and by controlling the relative size of the individual active positions taken.

THE TEAM

PETER BROOKE | PORTFOLIO MANAGER
- BBusSc Finance (Hons)
- 26 years' experience

KENNETH MABEBE | QUANTS ANALYST
- BSc (Decision Science), Investment Analysis & Portfolio Management
- 17 years' experience

ZAIN WILSON | STRATEGIST
- BBusSc Economics, CFA
- 12 years' experience

THOMO MOLATJANE | ANALYST
- BSc (Hons)
- 6 years' experience

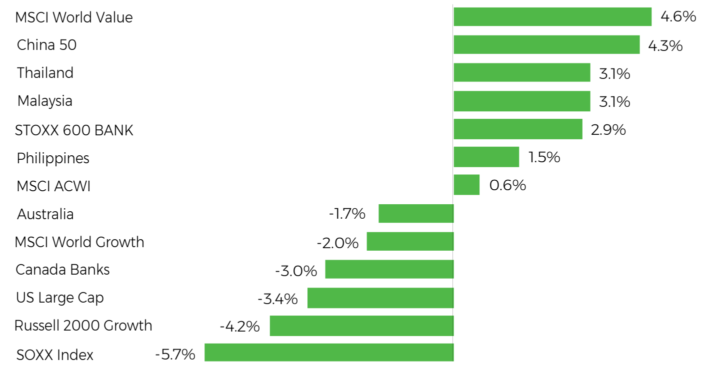
STRATEGY PERFORMANCE

Gross USD Performance

	PORTFOLIO	BENCHMARK
3 Months	-6.5%	-5.6%
1 Year	-17.6%	-15.9%
3 Years	6.2%	8.0%
5 Years	5.3%	7.0%
Since Inception	7.7%	9.1%

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

STRATEGY POSITIONING RELATIVE TO MSCI ACWI



Source: Old Mutual Investment Group

QUARTERLY COMMENTARY (30 JUNE 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 (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. Futures markets now expect the federal funds rate to exceed 3% by year-end, which is consistent with the latest Fed guidance. This repricing of short-term interest rates is reflected in surging bond yields. The US 10-year 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 sharp rise in the cost of capital has put significant pressure on financial assets which had previously benefited from ultra-low interest rates. The US dollar has appreciated with the broad trade weighted dollar rising 6%. By contrast, bitcoin's price plunged by almost 60%. Risk assets and traditional safe havens like US bonds underperformed in tandem. Global equities fell 16% in dollar terms during the quarter. The S&P fell 16%, the MSCI Europe Index was 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 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 enjoyed a good quarter relative to its MSCI All Country World Index benchmark, with most of our positions working. The largest driver of returns was the overweight in value and the opposite

QUARTERLY COMMENTARY (30 JUNE 2022)
continued

underweight in growth. This position has worked well as the global cost of capital increased, hurting the higher valued, longer duration growth shares. We have steadily taken profit in this position and have halved our position size. The reduction in weight has been driven by a combination of trade discipline into a narrowing valuation spread and the theme score decreasing. In our philosophy, themes refer to the drivers of performance, and in this case, we no longer see as much recovery in the earnings of the value index.

Another area that contributed to performance was good trading, as measured by our trade diary. We implemented a new position in China A shares and managed to execute at close to the lows. While we take a long-term approach to our capital allocation, we do keep a sharp eye on our execution to try and maximise alpha on our investments. We have been working on China as an overweight for some time, but felt that the theme was still deteriorating due to the twin forces of a housing contraction and a Zero-Covid policy. Having been patient, with a lot of the bad news in the price and an expectation that the 2023 outlook would improve, we initiated a new overweight position.

During the quarter, we exited our overweight position in US financials. This was a position that has worked well for the strategy, but we were keen to reduce our cyclical exposure. Initially, we saw US rate hikes as positive for US financials, as they drove a higher endowment effect on bank margins. However, as the US Federal Reserve (the Fed) is forced to hike further, the cyclical nature of US financials will start to weigh on returns. At the same time, we increased our exposure to more defensive markets through buying the Danish market, moving back to neutral. The combination of these two trades has reduced the beta of the Global Macro Equity portfolio to below one. This was a deliberate part of our portfolio construction, as we face a more uncertain macroeconomic outlook. When looking at some of our key competitors over the last five years, we see that we deliver our returns with less volatility, which is a compliment to our risk management.

In other news for the Global Macro Equity strategy, we are delighted to announce that Kenneth Mabebe has joined the team to help strengthen our quantitative processes. Kenneth has 17 years' investment experience and we are excited by the value that he can add to our clients' portfolios.

CONTACT

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