OLD MUTUAL INFLATION-LINKED BOND INDEX FUND

INSTITUTIONAL
31 AUGUST 2022

KEY FACTS

Launch Date:	May 2012
Portfolio Category:	South African - Interest Bearing - Variable Term
Product Vehicle:	Pooled, unitised fund policy as defined in the Long-term Insurance Act, 1988.
Benchmark:	JSE BEASA GOVI Index
Minimum Investment:	R5 million
Fees:	0.20% per annum (rebates for large investments exceeding R50 million apply). Fees exclude VAT.

INVESTMENT DESCRIPTION

The Inflation-Linked Bond Index Fund is managed on an indexation basis. This ensures that the performance of the fund is in line with that of the JSE ASSA IGOV Index.

The Inflation-Linked Bond Index Fund provides a hedge against inflation and offers investors additional diversification when combined with a core bond strategy. Incorporating inflation-linked bonds in an investment strategy that requires an annuity stream can be exceptionally valuable.

INVESTMENT OBJECTIVE

The investment objective is to generate performance in line with the JSE ASSA IGOV Index. The JSE ASSA IGOV Index is the government subsector of the composite Inflation-Linked Bond Index (CILI).

RISK CHARACTERISTICS

This moderate risk fund is exposed to interest rate and inflation fluctuations. Long-term bonds are more sensitive to rate changes, while short-term bonds experience modest price movements. The holding of long- and short-dated stock in the fund reduces these risks.

SUITABLE INVESTORS

The fund is suitable for investors seeking returns in line with inflation and the JSE ASSA IGOV Index.

INVESTMENT TEAM

The Fund is managed by the Indexation investment team within the Customised Solutions boutique.Officer of Indexation.

BERNISHA LALA
Head of Indexation
& Portfolio Manager

FRANK SIBIYA
Portfolio Manager

PERFORMANCE AS AT 31/08/2022

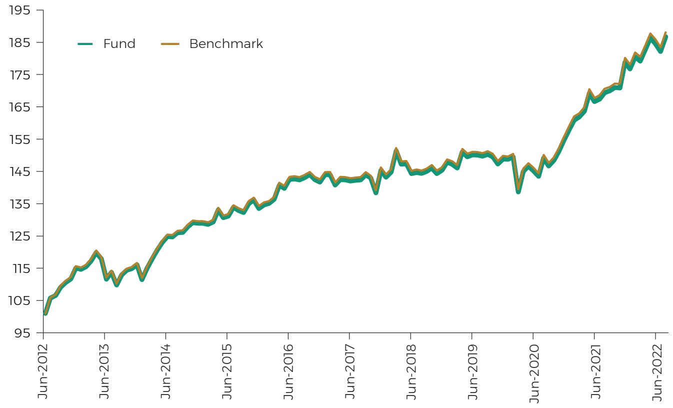
Gross Composite Returns

	3-Months	1 Year	3 Years	5 Years	Since Inception
Portfolio	0.2%	10.2%	7.6%	5.6%	6.3%
Benchmark	0.2%	10.2%	7.7%	5.6%	6.3%

Source: Old Mutual Investment Group

INFLATION-LINKED BOND INDEX FUND

MAY 2012 – AUGUST 2022



Source: Old Mutual Investment Group

TOP HOLDINGS AS AT 31/08/2022

Holding	JSE Code	Sector	% of Fund
RSA 5.5 2023	R197	INFLATION LINKED BONDS	14.3%
RSA ILB 2.00 310125	I2025	INFLATION LINKED BONDS	14.2%
RSA ILB 2.5 311250	I2050	INFLATION LINKED BONDS	13.6%
RSA ILB 2.25 310138	I2038	INFLATION LINKED BONDS	12.1%
RSA ILB 3.45 071233	R202	INFLATION LINKED BONDS	11.9%
RSA ILB 2.50 310346	I2046	INFLATION LINKED BONDS	11.8%
RSA 2.60 310328	R210	INFLATION LINKED BONDS	8.6%
RSA ILB 1.875 280233	I2033	INFLATION LINKED BONDS	7.2%
RSA ILB 1.875 310329	I2029	INFLATION LINKED BONDS	6.3%
Total			**100.0%**

Source: Old Mutual Investment Group

QUARTERLY COMMENTARY (30 JUNE 2022)

The Old Mutual Inflation-linked Bond Index Fund aims to replicate the composition of the FTSE/JSE Inflation-Linked Government Index as closely as possible and deliver a return which is in line with the benchmark.

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). PMIs, leading indicators, car sales and credit extended to corporates and households, have all improved further.

While the rand/US 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 local currency 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 (the Fed) became more aggressive with policy tightening, had an impact on all emerging market economies. Supportive commodity prices, the improved SA political and policy environment, 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 December 2021 to 5.9% by April 2022. Headline inflation will likely peak around 7.3% in June, July or August – the timing depends on the war 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 (SARB)'s interest rate normalisation cycle that started in November last year accelerated when the Monetary Policy Committee (MPC) decided to hike by 50 basis points (bps) in May. While the reality is that there was only one MPC meeting in the second quarter and this may have played a role in the decision to hike by 50 instead of 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 and 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 and 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 initially expected. 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 constraints, aggressive central bank policy action and no repeat of 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 US Federal Reserve (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.

Performance Commentary:

The JSE IGOV Index increased for the quarter returning 2.95%. The 1- to 3-year part of the CILI curve returned 2.62% for the quarter ending June while the 12+ years end of the curve returned 3.47%. Headline CPI inflation surprised on the upside in May, at 6.5% year on year (y/y), breaking through the upper limit of the SARB's 3%-6% monetary policy target range. This has been the highest inflation reading since January 2017, when the rate was 6.6%. On a monthly basis, prices rose by 0.7%, faster than April's 0.6% month-on-month increase. And as expected, core inflation increased to 4.1% y/y in May, from 3.9% y/y in April.

CONTACT DETAILS

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