



OLD MUTUAL SUPERFUND

INVESTMENT UPDATE

July 2022 | Q2

Much of the same

As we enter the second quarter of 2022, we continue to experience eventful and dramatic times. It feels like we have been saying this far too often recently!

The last update covered the Russian invasion of Ukraine, and news from the 2022 Budget speech relating to offshore exposures. It provided some very important practical steps that you can take to improve your financial future despite the uncertain world we find ourselves in.

For this update we think it is important to provide an update on these events and the impact on global and local markets which will ultimately impact your retirement savings.

The Power of the two P's

What can we expect as the invasion of Ukraine continues unabated and dramatic events continue to unfold? You may have heard on the news or read in your local papers that this is causing commodity prices to spike, but how does this impact you?

Commodities are often used as inputs in the production of other goods or services. They include things such as oil, natural gas, and gold.

Prices normally spike because of unexpected large changes in the supply and/or demand of a specific commodity and this is what the invasion has caused. The spike in oil, gas and wheat prices is already impacting expected global growth in the short term. It is adding to the already high inflation rates being seen around the world.

But is this the only risk we are facing globally? Unfortunately, not. Central banks across the globe, including RSA, are raising interest rates in response to high inflation rates. Balancing the risk of high inflation rates with the need to support economic growth is not for the faint hearted. The primary focus of central banks presently has been to focus on inflation, but they are aware that too much or too soon may result in a recession!

This is truly a tricky macro environment to navigate in.

Bringing us to the two P's! Vladimir Putin and Jerome Powell. The impact these two individuals have, and will continue to have, on global markets is significant. The impact of Putin's activities and the potential escalation of the war are obvious. However, historically the actions of central banks have had much bigger impacts on markets (and in turn investment portfolios) than any geopolitical events.

Powell, chair of the Federal Reserve in the States, has indicated that to address the current high inflation rates in the US, interest rate hikes are necessary. This is not unique to America. Domestically, our Reserve Bank has started increasing short term interest rates. This has not been as aggressive as some of our fellow members of BRICS countries, but rates are still heading in an upward direction! By having placed more recent focus on inflation, it now appears that Powell is exercising caution as he and his counterparts around the world carefully monitor the impact of their actions and what is unfolding in Ukraine on growth prospects.



What now?

Globally, as prices for commodities remain high, the energy and material sectors of economies benefit. By contrast, the big tech companies tend to suffer in environments of high interest rates as it reduces their future earnings estimates.

The US, in particular, which has equity markets tilted towards higher exposure to tech companies, has seen significant losses this year. Other markets such as UK and South Africa have held up well due to higher exposure to oil and mining companies.

This, together with our Rand which was unusually strong during 2021, culminated in strong equity market performance and tax revenues which are significantly higher than expected which has benefited us.



To be or not to be offshore?

Asset managers can now invest up to 45% of total retirement fund assets offshore, however we are not seeing a rush for the exit. The feedback we have received from managers, to date, is that they are in the process of revisiting their asset allocation models. We expect some changes because of this.

The increase in the potential offshore allowance provides more flexibility for asset managers. This is good news, but it must make financial sense as well. We have seen local assets performing very well compared to global assets. Linked with our stronger currency, the differential in performance between local markets and global markets has been significant in the short term. However, in recent weeks we have seen a weakening of our currency, which could potentially reverse this trend.

How much to invest offshore is a critical decision which asset managers must take. It is important that they take the time to update their asset allocation models to reflect the highest probability of meeting their investors' objectives.

An asset allocation model is simply a model or technique that is used to establish how much of each asset class one should hold, locally and offshore, that will provide the highest probability to achieve a specific performance benchmark.

On a very simplistic basis, we have constructed two notional portfolios. We have assumed that each one will have exposure to local equities (using our FTSE JSE All Share Index as a proxy) and offshore equities (using MSCI All Country World Index as proxy) with the following percentages between these:

Portfolio	Minimum Local Equities	Maximum Offshore Equities
Old Limit	70%	30%
New Limit	55%	45%

This is a very simple example and does not consider any other asset class (such as bonds, properties or cash) all of which should be present in a well-diversified portfolio. However, it does illustrate the potential impact of this change in limits.

The below table indicates what the overall return would have been for these two notional portfolios across a range of periods ending March 2021 if the maximum offshore exposure had been in place:

Portfolio	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Old Limit	-1,5%	15,0%	14,5%	12,3%	13,7%	10,9%
New Limit	-4,1%	13,2%	14,6%	12,7%	14,6%	11,2%
Differential (New minus Old)	-2,6%	-1,8%	0,1%	0,4%	0,8%	0,2%

What this example illustrates is that over the short term, local equities have performed better, with almost a 3% outperformance in returns. Over other periods there is a marginal difference. In practice, we have seen most asset managers recently favouring local assets, with very few being close to the maximum offshore limits before the change because of the very attractive valuations locally compared to offshore.

In summary it is not an easy decision to make but nevertheless needs careful consideration which considers a range of scenarios and varying exposures to a range of other asset classes.



What must I do?



If anything, the past two years have taught us:

- INVEST** - The value of having a well-diversified portfolio.
- Time and Patience** - The importance of keeping a long-term focus; and
- Steady Growth** - The danger of reacting to short term headlines.

As always, it is important to remember that investment returns come in cycles, and that there is no guarantee how long a cycle will continue. The key is that you now know that good cycles will be followed by bad ones and bad ones by good ones, eventually. Don't focus on short term performance (be it good or bad), but rather the long-term investment outcome for your retirement, and ensuring that your investment strategy is suitable for your own individual needs.

For more information regarding investment returns of the SuperFund portfolios please consult the [website](#).



HOT OFF THE PRESS

NEW IDENTITY: KAGISO ASSET MANAGEMENT, NOW KNOWN AS CAMISSA ASSET MANAGEMENT (CAM)

Kagiso Asset Management has undergone a corporate restructuring and changed its name to **Camissa Asset Management (CAM)**. This is believed to be a positive development at a time where their business is on a strong trajectory- on the back of excellent long-term investment performance. Majority staff ownership and greater independence will further strengthen the business foundations for the next phase of delivering for their clients.

Please note: the Kagiso Islamic Balanced Portfolio will now be displayed as the Camissa Islamic Balanced Portfolio.