

OLDMUTUAL

# OLD MUTUAL SMOOTHED BONUS FUNDS

2021 QUARTERLY REPORT Q4



**CORPORATE**

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## PRODUCT UPDATE



**Marvin Nair**

Head of Smoothed Bonus Products: Guaranteed Solutions

### 2021 UPDATE OF THE PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT OF DISCRETIONARY PARTICIPATION BUSINESS

In June 2021, the Principles and Practices of Financial Management of Discretionary Participation Business (PPFM) was updated to improve clarity of the current practices. The changes fall into three categories namely, the default regulation formula changes, the confirmation of write-offs regarding shareholder loans and general updates to products' references and terminology. The PPFM was last updated in July 2018 and you can find the most recent version here: <https://www.oldmutual.co.za/about/ppfm>.

In June 2021, the Absolute Growth Portfolio moved onto a new formula, and CoreGrowth moved onto a formula for the first time, in order to comply with the new default regulations.

SECTION AND PG. NO.	OLD WORDING	UPDATED WORDING	CHANGE
5.3.2. pg. 19	Absolute Growth Portfolios	Absolute Growth Portfolios and CoreGrowth	Under the Special considerations for specific products as it relates to Bonus Declaration Practices: The Absolute Growth Portfolios section has been changed to include CoreGrowth. CoreGrowth moved from a discretionary bonus philosophy to a formulaic one.

A recent review of shareholder support was undertaken to ensure that sufficient clarity was provided to all stakeholders. The review focused on detailing the forms of shareholder support provided and ensuring that these were sufficiently expressed in the PPFM. In line with the existing PPFM Principles, the Board approved expansion of the PPFM Practices to clearly articulate the provision of shareholder support and writing off of shareholder loans. The following minor change was made to the PPFM Practices to explicitly confirm that write-offs are possible:

SECTION AND PG. NO.	OLD WORDING	UPDATED WORDING	CHANGE
5.3.5. pg.22	If and when the BSA position improves, the capital provided will be returned to shareholder funds with any returns earned on that capital.	If and when the BSA position improves, the capital provided, <b>net of any applicable write-off</b> , will be returned to shareholder funds with any returns earned on that capital.	PPFM Practices were expanded to explicitly detail provision of shareholder support and writing off shareholder loans in line with the existing PPFM Principles.

Over the years, some of our product offerings and the entities with which these products interact with have experienced changes. Notably, Old Mutual Investment Group (OMIG) has separated from Old Mutual Limited (OML), becoming a separate entity called Old Mutual Investments. These, and other changes have led to the PPFM updates detailed below. We continuously strive to have our documentation clear, accurate and as up to date as possible (noting that only key smoothed bonus related changes have been highlighted below):

SECTION AND PG. NO.	OLD WORDING	UPDATED WORDING	CHANGE
2.3. pg. 8 4.3.2. pg. 13 4.3.6. pg. 14 9.3.1. pg. 31 11. pg. 36	Old Mutual Investment <b>Group</b>	Old Mutual Investment	The Old Mutual Investment Group has separated from Old Mutual Limited, becoming a separate entity called Old Mutual Investment.
5.3.3. pg.21	Multi-managed Bonus Portfolio	Removed	The Multi-managed Bonus Portfolio is closed and so we have updated the PPF to exclude any mention of the fund.
5.3.3. pg.21	95% guarantee option under CoreGrowth	Removed	The 95% guarantee option no longer exists.
5.3.3. pg. 21	Retail Affluent	Personal Finance and Wealth Management	These updates align with the terms currently used for the Retail business within Old Mutual.
5.3.3. pg. 21	The policy balances for the following <b>Retail Affluent Market smoothed bonus funds</b> are 70% vested: • Smoothed Fund • Smoothed Growth Fund	The policy balances for the <b>Personal Finance and Wealth Management Market Essential Smoothed Growth Fund</b> are 70% vested.	
5.3.3. pg. 21	<b>Retail Mass Market Savings</b> Bonuses for the <b>Retail Mass Market Savings series launched in July 2005</b> are all non-vested.	<b>Retail Mass Market Savings</b> Bonuses for the Retail Mass Market Savings <b>products launched and sold since July 2005</b> are all non-vested.	
10.3.3. pg. 32	(less than 15%) (more than 20%)	Removed	These were removed since they have already been specified earlier in the PPFM.
11. pg. 36	The asset management businesses of all companies that are wholly owned by Old Mutual Limited.	The South African asset management businesses of the Old Mutual Group.	The Old Mutual Investment Group has separated from Old Mutual Limited, becoming a separate entity.

## GLOBAL AND LOCAL ECONOMIC UPDATE



**Johann Els**  
Chief Economist:  
Old Mutual Investment Group

### GLOBAL ECONOMY

The last quarter of 2021 was characterised by further rate hikes across the globe, continued market worries about supply chain and energy price issues and the impact on inflation, the emergence and rapid spread of Omicron and; probably the most impactful, a big shift in the Fed's thinking about US inflation and the resultant hawkish tilt in monetary policy.

Interest rate hikes across emerging economies accelerated in the last three months of the year in reaction to higher inflation, but also as part of the normalization of ultra-low policy interest rates. Supply constraints and high energy prices combined with reopened economies and strong demand pushed inflation higher – to above-target levels in many areas. In December, this EM rate hiking cycle was joined by the UK (the first big economy to do so) when the BoE hiked their policy rate by 15 basis points.

The outlier is Turkey, where political interference resulted in rates being cut by a cumulative 500 basis points during 2021 – despite consumer inflation accelerating to above 20%. As expected, this led to substantial market anguish and the Turkish lira bore the brunt of this interference by the president.

Growth indicators, such as Purchasing Managers Indices (PMIs), stabilised as the Delta wave eased towards the end of the third quarter last year and was just picking up somewhat when the Omicron wave hit late in November. Whilst the Omicron variant turned out to be less severe with respect to severe illness, the biggest impact did not come from enforced lockdowns, but from global travel bans (and the related impacts on travel and tourism) and the indirect impact of workers being sick, thus resulting in them staying away from work and slowing activity in many sectors.

Global growth was in any case trending somewhat lower compared to the hefty recovery growth rates we have seen post-COVID-19 re-openings and is likely to continue trending lower in 2022. Notably, growth is slowing but not stagnating and is expected to remain faster than potential. In addition, China's slowing trend during 2021 will likely quickly reverse course as the impact of recent policy easing starts to impact activity levels. More policy easing is likely over the next few months.

Interestingly, the biggest news over the last two months of 2021 came from the Fed. Whereas the Fed maintained for a long time that higher inflation (the result of a combination of a number of factors, such as adverse base effects from the hard COVID-19 lockdown; a faster than expected rebound as the economy reopened; supply chain and energy cost issues; and strong demand on the back of huge fiscal support) was likely transitory (i.e. temporary in nature – meaning inflation rates should ease again in 2022). Contrary to this belief, inflation continued to surprise on the upside and rose more than expected.

I believe that the huge outcry from consumers, businesses and politicians in the US led to a rapid change in thinking at the Fed. In my opinion, inflation in the USA is likely close to a peak (January or February 2022 will likely be the high point for CPI inflation) and will ease towards 3% (or lower) by the end of the year. As a result of the Fed's decision to retire the use of the word "transitory" with respect to inflation, monetary policy tightening quickly transitioned from slow and steady to a more aggressive or hawkish approach.

Where the Fed was previously on a path of slow tapering and rate hikes only from late 2022 or early 2023 onwards, this quickly evolved to a doubling in the pace of tapering of QE (tapering is the process of gradually reducing the amount of monthly quantitative easing) from \$15 billion to \$30 billion per month and bringing forward rate hikes. Tapering is now expected to end in March, with the first rate hike expected soon thereafter. In addition, the Fed now seems on the verge of starting QT (Quantitative Tightening, the opposite of QE) by the third quarter.

This shift is a remarkable turn of events. While the economy is strong and the labour market tight (apart from inflation, the labour situation is the Fed's other big focus area), growth is expected to slow and inflation will likely ease sharper than generally expected. I am concerned that this policy shift could turn out to be too aggressive and thus a policy error is a big risk in my mind.

In summary, global growth is expected to be relatively robust (slower than 2021, but still above long-term trends) in 2022. A potential upside risk to growth could come from stronger than expected fixed investment spending. High inflation rates will ease (as supply chain issues get resolved and the high base comes into play) and the rate hiking cycle will likely moderate. The biggest risk is a too aggressive Fed in the face of easing inflation.

## SA ECONOMY

The last few months of 2021 provided further evidence of the dismal state of the local economy (masked to some extent by the strong rebound in 2021 from a very weak 2020), when third quarter GDP and employment data reflected the devastating impact of the July unrests. The continued risk to the economic recovery were also laid bare by another round of loadshedding and the identification of the Omicron variant which led to travel bans - with serious consequences for the travel and tourism sectors. We also saw the Reserve Bank's decision to hike interest rates for the first time since the significant rate cuts during the first half of 2020. However, there was also better news from the fiscal side when the Medium Term Budget Policy (MTBPS) statement went further than expected in terms of the emphasis on the need for fiscal consolidation and policy reform.

While a negative impact on GDP during the third quarter was expected due to the July unrests, the extent of the slump came as a shock when the data was released towards the end of the year. Q3 growth was down 1.5% from the second quarter, or -5.8% on an annualised basis. This was not only due to weaker than expected growth in the unrest-impacted sectors (mainly in trade, transport and manufacturing), but the agricultural sector also recorded deeply negative growth. The latter was totally unexpected - and may indeed be revised away in future - as many agricultural crops recorded record levels. As a result of the unrest impact employment declined by 660 000 between the second and third quarters, and the loss of confidence also meant many potential job seekers giving up hope of finding a job as the size of the labour force dropped by 843 000.

While all of this sounds very depressing, there will likely be a strong growth rebound in the last three months of 2021 - and the available data indeed reflect that. But, the weaker than expected Q3 data and given downward revisions to growth in the mining, manufacturing and financial sectors in the first half of the year, growth for 2021 will now likely turn out around +4.7% versus my previous forecast of +5.4%. Fortunately, the Omicron variant did not lead to further restrictions late in 2021 (apart from travel bans). The economic impact were thus relatively limited compared to previous infection cycles. 2022 growth is still expected around +2.3% and I stick to my view that medium-term growth from 2022 onwards will likely be in the 2% to 2.5% range compared to the only 1% annual average growth experienced in the 5 years to 2019.

This view of better growth on the cards (explained in this report often over the past 18 months), is premised on the improving environment with respect to politics, policy reform and private sector participation in electricity generation. The fixed investment cycle – initially in the energy field – could turn out to be a significant growth driver that could give other sectors a much-needed growth kick-start.

After the ANC's poor performance in the 2021 local government elections – and following on the July unrests – many analysts speculated that the government will “jump to the left” with respect to economic policy. This did not happen. In fact, the need to not only continue with policy reform – but to actually accelerate reform – was emphasised in Minister Godongwana's MTBPS.

Minister Godongwana repeated strongly what he has often said: that faster sustained economic growth is a far better solution to the country's problems than simply spending money. Notable comments made by the Minister in his speech include: “Equally important is the faster implementation of structural reforms...” and “Let me reiterate that a permanent solution... ..is to achieve high and sustained levels of economic growth.” This was indeed a very positive budget compared to past MTBPS statements and the message was very clear that there cannot be a diversion from the fiscal consolidation path – in fact, the commitment to fiscal consolidation came through loud and clear.

As expected, the significant tax revenue windfall helped to lower the overall budget deficit from 9.3% of GDP estimated at the time of the February 2021 budget, to the revised estimate in the MTBPS of 7.8% of GDP. Given continued above expectation strong revenue trends and lower than expected expenditure, the eventual deficit could be around 6.5% of GDP – a remarkable improvement from the -15.7% of GDP estimated at the time of the October 2020 MTBPS for the 2020/21 fiscal year.

We speculated before that the better growth outlook and improved fiscal situation could lead to a stabilisation in South Africa's ratings situation, especially if the February 2022 budget repeat the same messages around policy reform and fiscal consolidation. An early surprise came from Fitch Ratings in December when they upgraded the outlook for SA's ratings from “negative” to “stable”, given the messages contained in the MTBPS. This indeed confirms for me this expected stabilization. More outlook changes from all three ratings agencies are possible after the February budget or later this year. Make no mistake, it will still take years to get back to investment grade rating as there is a long hard road ahead of us.

Inflation remains very much under control, despite an oil/petrol price related uplift in headline inflation. Petrol prices rose by a cumulative 490 cents per liter during 2021. Headline CPI inflation rose to 5.5% by November (and likely to 5.6% in December), but excluding the impact of petrol, inflation was only 4.2% in November. This suggests that there is still limited demand driven inflation. I expect headline CPI inflation to move back towards the Reserve Bank's “implicit” (and mid-point of the target range) target of 4.5% by late in the first half of 2022 and stay around that level over the next 18 months or so.

The Reserve Bank started the rate hiking cycle in November with a split vote decision. The earlier start, plus a still fragile growth outlook, under control inflation and anchored inflation expectations will likely mean a very slow or moderate rate hiking cycle. The MPC - and the Governor in the post-meeting press conference – stressed that an earlier start will increase the likelihood of further rate hikes being gradual. They said that gradual hikes will be “sufficient to keep inflation expectations well anchored and moderate the future path of interest rates.” I expect another three 25 basis point (bp) rate hikes this year and another three in 2023. That will leave the policy rate still 100 bps below the prevailing rate before the COVID-19-related emergency rate cuts started in March 2020. A slow cycle like this will help to normalise rates and should not be detrimental to the economic recovery.

## UNDERLYING PERFORMANCE AND POSITION



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### ASSET ALLOCATION AND PERFORMANCE OF THE OLD MUTUAL SMOOTHED BONUS FUNDS

In this section, we explain the rationale behind the current asset allocation position of the Old Mutual Smoothed Bonus Funds and comment on the underlying performance for the period ending 31 December 2021.

### UNDERLYING ASSET ALLOCATION OF THE SMOOTHED BONUS FUNDS

Each of Old Mutual's Smoothed Bonus Funds has a strategic asset allocation aimed at achieving that portfolio's long-term risk and return objectives. The Absolute Growth Portfolio has the highest allocation to growth assets and is therefore expected to deliver the highest real return over the long term. Conversely, the CoreGrowth Portfolio has the lowest allocation to growth assets and is expected to deliver lower, but more stable returns over the long term. The current strategic asset allocations are set out in Table 1 below. The portfolios are required to remain within set ranges around the targeted asset allocation for each asset class.

Table 1

ASSET CLASS	ABSOLUTE GROWTH PORTFOLIO		GUARANTEED FUND		COREGROWTH PORTFOLIO	
	Actual Allocation	Strategic Allocation	Actual Allocation	Strategic Allocation	Actual Allocation	Strategic Allocation
Local Equities	48.4%	45.5%	29.0%	26.0%	40.5%	37.5%
Local Interest-Bearing Asset	10.5%	13.0%	29.6%	32.5%	18.3%	21.0%
Local Alternative Assets	7.3%	7.0%	7.4%	7.0%	7.3%	7.0%
Property	5.7%	6.5%	5.8%	6.5%	5.7%	6.5%
Global Equities	19.0%	19.5%	16.3%	16.8%	18.0%	18.5%
Global Interest-Bearing Asset	3.0%	4.0%	5.8%	6.8%	4.0%	5.0%
Global Alternative Assets	4.8%	3.5%	4.9%	3.5%	4.8%	3.5%
African Equities	1.3%	1.0%	1.4%	1.0%	1.4%	1.0%

Old Mutual Investment Group's MacroSolutions boutique manages the underlying portfolios in accordance with their respective long-term strategic asset allocations. MacroSolutions also makes tactical allocations away from the strategic benchmarks in accordance with their asset class views, provided that the portfolios remain within set minimum and maximum asset class ranges.

Over the 3-year period ending 31 December 2021, MacroSolutions' tactical asset allocation resulted in a return of 0.73%. The largest single detractor is our global derivative activity. We held short positions which have hurt us with markets rallying strongly over the period, however when seen in combination with our overweight in physical equity, this detractor is not as severe.

Other moderate detractors were direct property and global alternatives, both strategic holdings, as well as local bonds (excluding bond futures). The biggest positive contributions to alpha were from our underweight in SA money market and local hedge positioning. Our UW in global bonds, as well as overweight in global equity also added value.

## MARKET INDICATORS

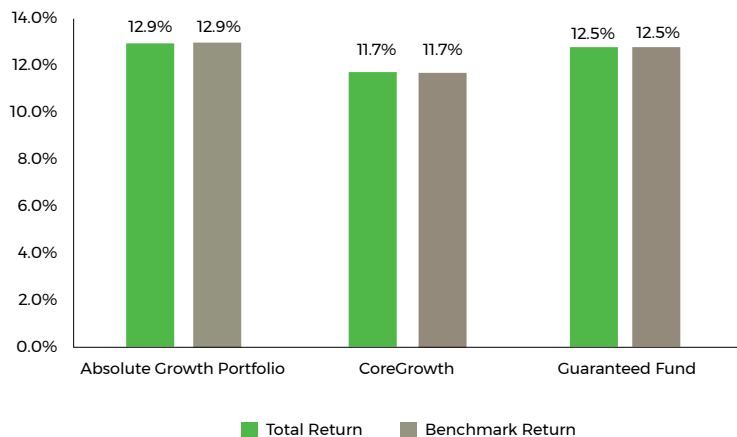
Table 2 below sets out a summary of the index returns to 31 December 2021.

	1 Year (%)	2 Years (%)	3 Years (%)	5 Years (%)	7 Years (% p.a.)	10 Years (% p.a.)
<b>SA Equity</b>						
Shareholders Weighted Index	21.1	11.5	10.7	7.8	6.6	10.9
Capped SWIX Index	27.1	13.1	10.9	7.2	0.0	0.0
All Share Index	29.2	17.6	15.7	11.4	9.2	12.2
Resources Index	32.3	26.6	27.3	22.9	13.2	7.8
Financial Index	24.6	0.0	0.2	2.1	2.8	9.8
Industrial Index	26.5	19.0	15.5	9.3	7.7	14.1
Top 40 Index	28.4	18.8	16.7	12.4	9.6	12.3
Mid-cap Index	28.9	5.1	8.5	4.3	5.5	9.8
Small-cap Index	59.1	25.9	15.0	6.0	6.5	11.8
<b>SA Property</b>						
SA Quoted Property Index	36.9	-5.3	-2.9	-4.4	-0.7	5.9
<b>SA Interest-Bearing</b>						
ALBI BEASSA	8.4	8.5	9.1	9.1	8.0	8.2
STeFI	3.8	4.6	5.5	6.2	6.4	6.2
Cash	3.3	3.7	4.7	5.5	5.6	5.4
<b>Global</b>						
MSCI World Index (R)	32.9	27.5	26.6	19.3	17.4	21.3
JPM International Bond (R)	1.6	8.2	6.5	6.1	6.7	8.2
US 1-month LIBOR (R)	8.8	7.7	4.9	4.4	5.7	7.9
<b>Inflation (estimate)</b>						
CPI	5.9	4.5	4.3	4.4	4.9	5.1

## UNDERLYING ASSET CLASS PERFORMANCE OF THE SMOOTHED BONUS FUNDS

All the Smoothed Bonus Funds are on par with their respective benchmarks over the 3-year period ending December 2021. While the performances of the three funds are expected to diverge over time, there may be some periods where the funds perform similarly.

**3-YEAR ANNUALISED RETURN**



The performance of each of the asset classes underlying these portfolios is as follows:

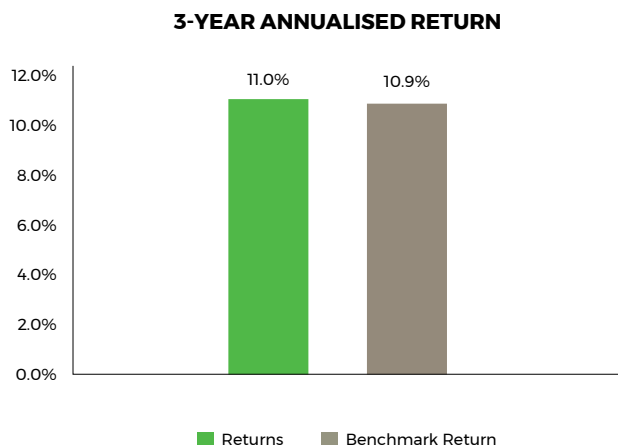
**LOCAL EQUITIES**

The local equity portfolio consists of a diversified portfolio of South African JSE-listed equities. This portfolio is designed to deliver consistent performance through different market conditions by combining an index tracking portfolio with an active management component. The active part of the portfolio is split between different investment styles that are expected to complement each other and further diversify the portfolio. While individual managers are included in the portfolio based on their demonstrated strengths, effectively blending these different managers provides a more consistent investment return than would be possible by investing in a single portfolio or strategy. Table 3 below shows the portfolio composition.

**Table 3**

STRATEGY	PORTFOLIO	FUND %
<b>PASSIVE</b>	Capped SWIX Tracker	32.5%
	Old Mutual Equities	32%
<b>ACTIVE</b>	Double Alpha	2.5%
	Managed Alpha	14%
	Premium Equity	9%
	Old Mutual Multi-Managers	10%
<b>TOTAL</b>		<b>100%</b>

The portfolio's benchmark changed from the SWIX Index to the Capped SWIX Index in July 2017. The overall performance of the portfolio in comparison to that index is shown below:



The fund has outperformed the benchmark by 0.12% over the 3-year period ending 31 December 2021. The equity positioning was a major contributor in the overperformance over the 3-year period.

### OLD MUTUAL EQUITIES

The portfolio has underperformed the benchmark by 1.6% over the **past quarter**. Contributors were our overweight positions in Investec (INL) and MTN relative to our underweight in Naspers (NPN) and Aspen (APN).

Detractors were Richemont (CFR), which we do not own, and our holdings in Sasol (SOL), Anglo Platinum (AMS) and the SA Banks (FSR, ABG and SBK).

The portfolio underperformed the benchmark by 0.72% annualised over the **past three years**. Contributors were our overweight positions in Transaction Capital (TCP), British American Tobacco (BTI) and MTN Group (MTN).

Detractors were our overweight positions in Nedbank (NED), and underweight in Northam (NHM) and Richemont (CFR).

### MANAGED ALPHA

The Managed Alpha portfolio outperformed the benchmark by 12 basis points **over the last quarter**. Positive contributors were underweight positions in Financials, Health Care, Communication Services. The detractors were overweight positions in Materials and Industrials and an underweight position in Customer Staples. At a share level, the top three positive contributors were the overweight positions in Investec and Steinhoff and underweight position in Aspen Pharmacare. The top three detractors were the underweight position in Gold Fields and overweight positions in Pick n' Pay and Super Group.

**Over the 3-year period** the portfolio outperformed the benchmark by 1.24%. The top three positive contributors for this period were the overweight position in Financials and underweight positions in Real Estate and Consumer Discretionary. The largest detractors for the period were underweight positions in Consumer Staples, Communication Services and Utilities. At a share level, the top three positive contributors were being overweight to Investec and Gold Fields and an underweight position in Naspers, while the top three detractors were an overweight position in Sasol Limited and underweight holdings in MTN and Aspen Pharmacare.

### OLD MUTUAL MULTI-MANAGERS

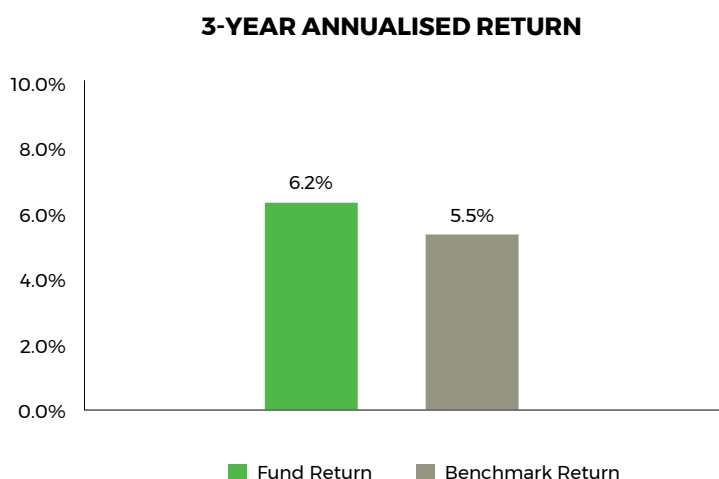
The OMMM Life Equity Portfolio outperformed its benchmark by 8.7% over the **fourth quarter** of 2021. The fund returned 13.9% over the three-year period ending 31 December, outperforming the benchmark by 3.0% p.a. Over the three-year period, the outperformance can largely be attributed to the performances of M&G and Coronation, who both delivered outperformance. This offset the underperformance of Mazi and Sentio during the period, as well as the underperformance of Visio earlier in the period before they were replaced by Ninety One.

### LOCAL INTEREST-BEARING ASSETS

The local interest-bearing portfolio consists of bond and money market assets. These assets are managed by OMIG's Futuregrowth fixed-income boutique.

### LOCAL MONEY MARKET

The money market assets are invested in a yield-enhanced money market portfolio that aims to generate returns through the active management of short- to medium-term interest-bearing instruments. The overall performance of the portfolio relative to its benchmark is shown below:



The portfolio has performed well over three years, outperforming its benchmark by 0.7% p.a. The Modified Duration of the funds were managed prudently, as the funds did have a high exposure to floating rate notes, and this was changed with the onset of COVID-19 to a high exposure to longer dated fixed rate notes. The selling of the floating rate notes and the timely switch to fixed rate notes towards the beginning of last year produced a good profit for the funds.

In addition, the funds also benefited from the higher yield pickup on the Step Rate Note Securities as well as the longer dated floating rate credit assets.

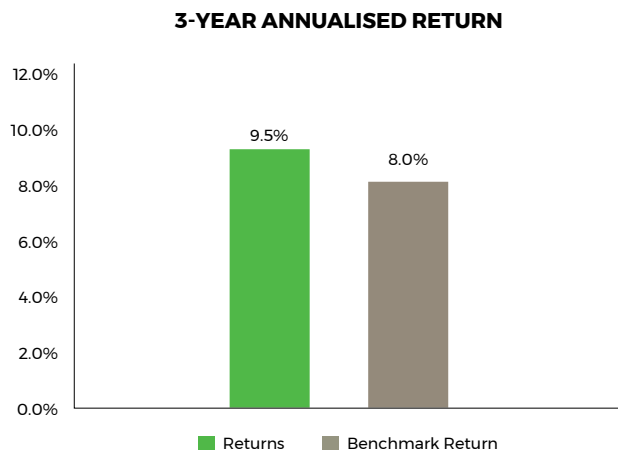
### LOCAL BONDS

The bond strategy is comprised of a combination of a core bond and a yield-enhanced bond portfolio.

The core bond portfolio aims to generate returns primarily through the management of interest rate risk as Futuregrowth implements its views on interest rates across various interest-bearing assets and asset durations. The core bond portfolio also has a small allowance to invest in non-government bonds, which are expected to generate higher investment returns.

In addition to asset allocation and active interest rate management, the yield enhanced portfolio aims to generate returns through investment in other listed and unlisted credit instruments.

The overall bond portfolio performance is shown below:



The portfolio outperformed the benchmark by 1.5% p.a. over the 3-year period to 31 December 2021

#### CORE BOND PORTFOLIO

The core bond portfolio outperformed the benchmark by 10 basis points. The additional yield (spread accrual) offered by the non-government bond holding was the biggest single positive contributor.

Spread accrual totalling 0.39% was partly offset by marginal spread widening, which detracted 0.09% for a net spread component contribution of 0.30%.

The interest rate position detracted 0.20% from relative performance. This is mainly the result of the relative losses during the second and third quarters of 2020, in turn the underweight position to bonds in the best performing 1- to 7-year maturity band. In turn, the out-performance of this sector is directly linked to the unexpected and aggressive monetary policy easing during the twelve-month period ending December 2020. This was significant enough to impact longer term fund performance. That said, fund performance significantly recovered over the last year as the Fund managed to outperform the benchmark. This was the combined result of positive contributions from both credit holdings and interest rate positioning.

#### YIELD ENHANCED PORTFOLIO

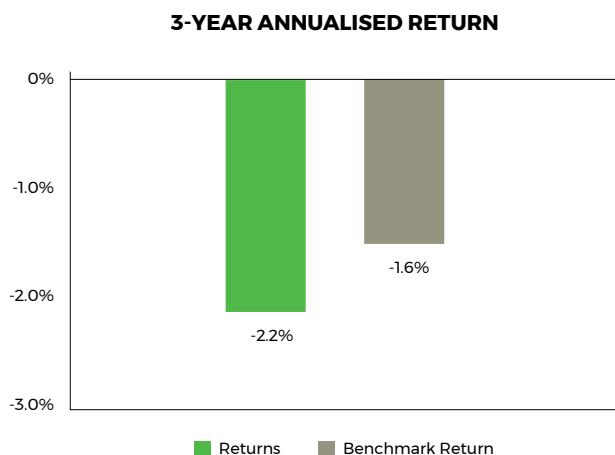
The Fund outperformed the benchmark by 1.09%. The biggest driver of positive performance being credit spread accrual although this was partially offset by unlisted credit revaluations.

The interest rate position detracted from relative performance. This is mainly the result of the relative losses during the second and third quarters of 2020, in turn the underweight position in bonds is the best performing 1- to 7-year maturity band. In turn, the out-performance of this sector is directly linked to the unexpected and aggressive monetary policy easing during the twelve-month period ending December 2020. This was significant enough to impact longer-term fund performance. That said, fund performance recovered significantly over the last few months, which in turn allowed the fund to outperform the benchmark for the quarter, year-to-date and twelve-month periods.

The Fund continues to rely on the use of derivatives, primarily through futures to ensure alignment with the targeted benchmark modified duration, with the proceeds thereof being invested in credit assets. The funding cost attached to this ranges between 25 bps - 50 bps over time, depending on available liquidity in the market.

## DIRECT PROPERTY

The direct property portfolio invests in a diversified range of unlisted properties, with exposure across the retail, office and industrial property sectors. While the majority of the portfolio's assets are located within South Africa, diversification of exposure into other countries is undertaken, where suitable opportunities are identified.



The portfolio underperformed the benchmark by 0.6% p.a. over the 3-year period ending 31 December 2021. The following factors contributed to the portfolio's performance:

- The net income of the portfolio improved in 2021, as the level of COVID-19 concessions and impacts were relatively lower in 2021, compared to 2020. Notwithstanding the improvement, net income is lower when compared to Pre-COVID-19 levels of 2019.
- Vacancies have improved from 11.1% at the beginning of the year to 6.6% by year-end. There is very little demand for retail and office space, but we have seen an improvement in the industrial vacancies.
- Municipal expenses (rates, electricity, water) continue to increase at above CPI. Most of these increases cannot be passed onto tenants and are being absorbed by the landlord. There was also an increase in cleaning and security costs to adhere to COVID-19 regulations and impact of civil unrest.

Properties are continually monitored, on an individual property basis, and there is a focus on industry benchmarking of operating expenses across all properties to improve performance.

## GLOBAL EQUITIES

The global equity portfolio is actively managed and blends different managers and investment styles to target a relatively stable outcome. The majority of the underlying portfolios are managed on a global basis, allowing each manager to invest across both developed and emerging markets. In the fourth quarter of 2019, the portfolio increased its exposure to the passive developed and emerging market ESG capabilities to 30% and reduced the allocation to the actively managed funds. Table 4 below shows the portfolio composition.

Table 4

FUND MANAGER	FUND STYLE	FUND %
Customised Solutions	MSCI World (Developed) ESG Indexation	30%
	MSCI (Emerging Market) ESG Indexation	
Barrow Hanley, Mewhinney & Strauss	Global Value	60%
Acadian	Global Quant	
Fiera Capital	Global Growth	
Baillie Gifford		
MacroSolutions	Global Macro	10%

**MSCI World ESG Tracker:** This portfolio tracks the performance of the MSCI World ESG Index, which is designed to give effect to responsible investing by being more heavily weighted towards companies that meet specific Economic, Social and Governance (ESG) criteria. The ESG Index targets the same sector and regional weights as the MSCI World Index in order to target performance that is similar to that of the MSCI World Index, while still achieving the broader objective of investing in companies with strong ESG ratings.

**Barrow, Hanley, Mewhinney & Strauss:** The manager provides value-oriented investment strategies across various international markets. Its equity portfolios are designed from the bottom up with a strong value underpin and tend to exhibit below-market price-to-earnings ratios, below-market price-to-book ratios, and above-market dividend yields, regardless of market conditions.

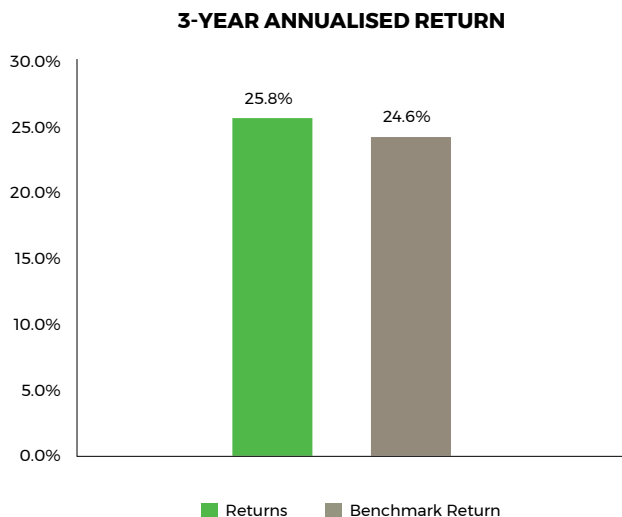
**Acadian:** Acadian Asset Management LLC specialises in global and international quantitative equity strategies. Acadian seeks to capture the fundamental drivers of stock return, exploiting market inefficiencies through a quantitative investment process.

**Fiera Capital:** Fiera Capital is a growth-oriented manager that seeks to exploit opportunities in quality growth companies with high returns and supportive intrinsic valuations. Investments are made with a long-term horizon, which leads to low portfolio turnover.

**Baillie Gifford:** The manager uses fundamental analysis and proprietary research in order to identify companies that it believes will deliver above-average profit growth over the long term. Portfolios are constructed on a bottom-up basis, with the objective of outperforming their respective benchmarks over time.

**Global Macro Portfolio:** The Global Macro Equity portfolio is an active equity portfolio that applies top-down views to generate outperformance relative to the global equity benchmark. Active positions are taken predominantly in regions, countries, sectors and currencies. The portfolio is run by OMIC's MacroSolutions boutique.

The overall global equity portfolio performance over three years, relative to its benchmark, is shown below:

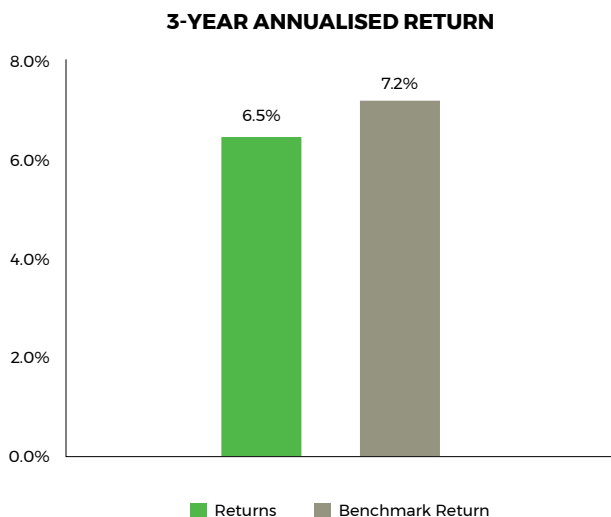


The global equity portfolio outperformed its benchmark by 1.2% p.a. (gross of fees) over the 3-year period.

Over 3 years, the strategy performed in line with its benchmark. The largest detractors of performance were the Old Mutual Global Macro Equity Capability, Baillie Gifford and the Barrow Hanley. The largest contributors to performance were Fiera Capital and Accadian.

### GLOBAL INTEREST-BEARING ASSETS

The global interest-bearing portfolio consists of global bond and global cash assets and is managed through investments in the multi-managed Russell Global Bond and Cash Fund.



The global interest-bearing portfolio underperformed its benchmark by 0.7% p.a. over three years.

### ALTERNATIVE ASSETS

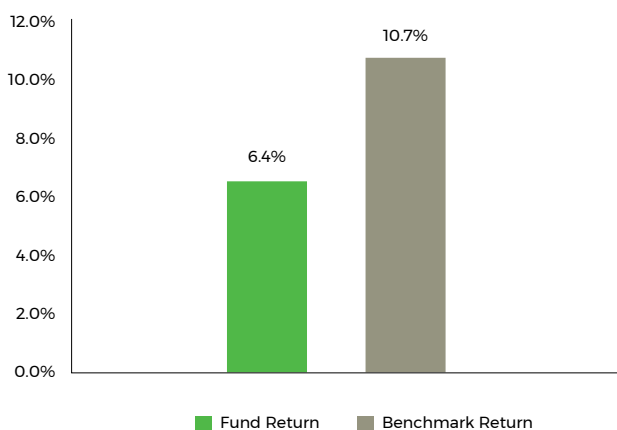
The alternative asset portfolio includes:

- Exposure to **private equity**, both within South Africa and globally. Local private equity exposure is mainly achieved via direct investment into local private equity funds. Global private equity exposure is accessed through investment into fund of funds structures.
- **Infrastructure investments** in commercially viable development projects within South Africa and in the rest of Africa. Typical investments include renewable energy projects, toll roads, utilities and airports.
- **Impact funds**, including local investments in affordable housing and schools, as well as in companies that provide end-user finance to low- to middle-income earners.
- **Agricultural investments**, which consist of agricultural land and associated infrastructure, primarily in South Africa, but with increasing exposure to the rest of Africa.

The local and global alternatives portfolios are managed predominantly by the Old Mutual Alternative Investments (OMAI) boutique

### LOCAL PORTFOLIO

3-YEAR ANNUALISED RETURN



The local alternative portfolio underperformed its benchmark by 4.3% p.a. over the 3-year period.

The local alternative portfolio is a high-growth portfolio that aims to provide investors with significant real returns over the long term and has a long-term performance target of approximately CPI + 7%. The portfolio invests in assets that are linked to the local economy and has consequently struggled to meet this target over 1- and 3-year periods.

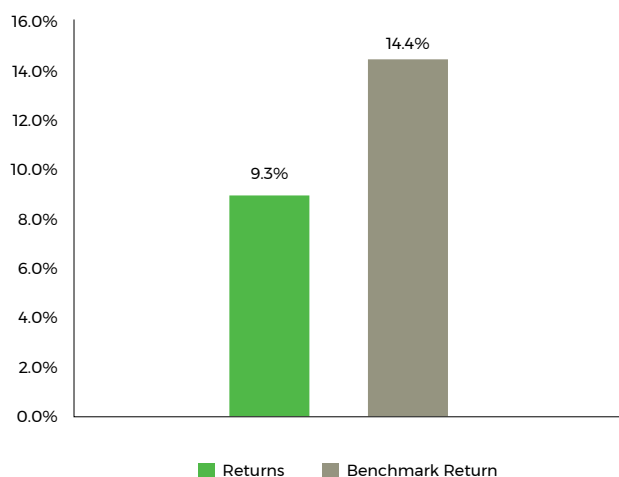
The infrastructure investments have performed well, with the IDEAS Fund having delivered real returns over the past year, and three year period.

The Impact Fund (IF) investments continue to struggle, having been significantly impacted by the deteriorating local economic environment. The largest fund within the IF strategy is the Housing Impact Fund of South Africa (HIFSA), which finances and builds homes, primarily for lower income earners. HIFSA relies on the ability of its target market to afford and access finance for the purchase of homes developed by the fund. The struggling economy has resulted in the IF strategy, more especially HIFSA, underperforming over one and three years. However, the IF strategy is long term and future returns will depend in large part on the performance of the local economy.

The local private equity portfolio has underperformed its investment target over the short- and medium-term. The financial performance of many of the underlying businesses held within the private equity funds has been negatively affected by the state of the local economy. OMIG's Private Equity Fund IV is the largest holding within the local private equity strategy.

## GLOBAL PORTFOLIO

### 3-YEAR ANNUALISED RETURN



The global alternative portfolio underperformed its benchmark by 5.1% p.a. over the 3-year period.

The objective of the global alternatives portfolio is to deliver long-term real returns that significantly exceed US CPI.

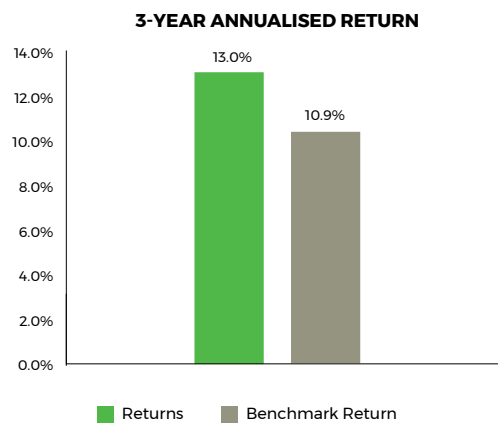
Fund of Funds II (FoF II) has performed well over the past three years, with distributions continuing to increase as the underlying funds exit their investments. The fund has seen a valuation increase, which along with the distributions and amounts contributed, indicates positive portfolio performance. Positive contributors have been the improved performance from CVC Asia IV, FFL Capital Partners IV, and Sorenson Capital Partners III. Some of the detractors include weaker performance from Advent GPE VII, Affinity Asia IV, and AXA LBO V. However, the fund only started making commitments to underlying funds in 2017, so it is still too soon to comment meaningfully on the returns achieved.

Africa FoF (AFoF) is currently performing below expectations. It is worth noting, though, that some of the underlying funds in AFoF are still young, and the performances of these funds are expected to improve over time.

The performance of the global alternatives portfolio demonstrates the benefit of investing in an alternatives portfolio that is diversified across different strategies, countries, currencies and industries, particularly given recent weakness in the local economy.

### AFRICAN LISTED EQUITY

The African listed equity portfolio is an actively managed fundamental equity portfolio that aims to outperform its benchmark over the long term. The portfolio is managed by the Old Mutual Equity (OME) boutique within OMIG. The overall performance of the portfolio relative to its benchmark is shown below.



African markets (excluding South Africa) in which the African listed equity portfolio invests, outperformed the benchmark by 2.0%. The top three contributors to the 3-year performance were Label Vie (Moroccan food retailer), MTN and Nigerian Breweries (underweight).

The top three detractors were Safaricom (Mobile Telco in Kenya - underweight), Unilever Nigeria and Guaranty Trust Bank (Nigeria).

**SMOOTHED BONUS PRODUCTS: PERFORMANCE**

Product	Oct 2021	Nov 2021	Dec 2021	"Performance over Periods to 31 December 2021" (Annualised except *)					Risk Analysis (Based on three-year Performance)		Max Drawdown <sup>1</sup> (Based on a three-year period to December 2021)	Fund Size (R million)
				Quarter <sup>a</sup>	1 year	3 years	5 years	10 years	Annualised Volatility	Return/Risk		
<b>Growth-focused Portfolios</b>												
Absolute Smooth Growth	0.82%	0.86%	1.02%	2.72%	13.26%	6.41%	6.97%	10.90%	3.48%	1.83	-5.00%	R64 527
Absolute Smooth Growth (2009 Series) <sup>2</sup>	0.82%	0.86%	1.02%	2.72%	13.26%	6.41%	6.97%	11.03%	3.48%	1.83	-5.00%	
Absolute Smooth Growth (2020 Series) <sup>3</sup>	0.82%	0.86%	1.02%	2.72%	13.26%							
Absolute Stable Growth	0.79%	0.82%	0.98%	2.61%	12.76%	5.93%	6.48%	10.39%	3.46%	1.69	-5.00%	R79 037
Absolute Stable Growth (2009 Series) <sup>2</sup>	0.79%	0.82%	0.98%	2.61%	12.76%	5.93%	6.48%	10.52%	3.46%	1.69	-5.00%	
Absolute Stable Growth (2020 Series) <sup>3</sup>	0.79%	0.82%	0.98%	2.61%	12.76%							
Guaranteed Fund	0.49%	0.49%	0.49%	1.47%	7.00%	7.15%	8.86%	12.10%	0.58%	11.83	0.41%	R1 579
<b>Protection-focused Portfolios</b>												
Absolute Secure Growth	0.63%	0.67%	0.83%	2.15%	9.24%	4.74%	5.02%	8.64%	1.08%	4.27	0.05%	R81
Absolute Secure Growth (2009 Series) <sup>2</sup>	0.63%	0.67%	0.83%	2.15%	9.24%	4.74%	5.02%	8.77%	1.08%	4.27	0.05%	
Absolute Secure Growth (2020 Series) <sup>3</sup>	0.63%	0.67%	0.83%	2.15%	10.67%							
CoreGrowth 100	0.56%	0.59%	0.74%	1.90%	7.98%	6.48%	7.44%	9.61%	0.70%	9.29	0.00%	R6 127
CoreGrowth 90	0.64%	0.67%	0.81%	2.13%	9.00%	7.50%	8.47%	10.66%	0.70%	10.71	0.08%	R5 311
<b>Other Indices and Comparative Performance</b>												
Local Equities (JSE ALSI)	5.15%	4.47%	4.80%	15.13%	29.23%	15.71%	11.38%	12.17%	17.29%	0.9	-21.72%	
Local Bonds (BEASSA ALBI)	-0.48%	0.66%	2.69%	2.87%	8.40%	9.12%	9.06%	8.20%	8.71%	1.0	-9.79%	
Local Cash (STeFI) <sup>4</sup>	0.32%	0.32%	0.34%	0.98%	3.81%	5.49%	6.25%	6.17%	0.49%	11.0	0.06%	
Rand/Dollar	1.18%	4.17%	0.35%	5.77%	8.50%	3.56%	3.10%	7.05%	14.60%	0.2	-23.33%	
Consumer Price Index (CPI)	0.24%	0.49%	0.57%	1.31%	5.88%	4.32%	4.43%	5.05%	1.34%	N/A	N/A	
Typical Balanced Fund (Large Global) <sup>5</sup>	Not comparable over the short term					12.53%	9.18%	11.19%	11.13%	1.1	-14.75%	
Typical Balanced Fund (Conservative Global) <sup>6</sup>	Not comparable over the short term					10.94%	8.98%	9.90%	7.69%	1.4	-10.30%	

Performance figures are net of capital charges and gross of investment management fees for all products except Guaranteed Fund. The Guaranteed Fund's performance is net of capital charges and asset management charges, gross of investment administration fees.

**Notes**

<sup>1</sup> Worst cumulative negative performance. Where no negative return exists, it is taken as the lowest positive monthly return.

<sup>2</sup> Uses 2009 Series returns prior to the merger. The 2007 Series and 2009 Series of the Absolute Growth Portfolios merged on 1 May 2012.

<sup>3</sup> Uses 2020 Series returns.

<sup>4</sup> Money Market investments are able to achieve very low volatility, but often at the cost of being able to achieve significant real returns over the long term.

<sup>5</sup> Source: Alexander Forbes Manager Watch Survey for Large Global Funds (median).

<sup>6</sup> Source: Alexander Forbes Manager Watch Survey for Conservative Global Funds (median).

## SMOOTHED BONUS PRODUCTS: BONUS SMOOTHING RESERVES

### Formulaic Smoothed Bonus Products: Quarterly Disclosure

	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021
<b>ABSOLUTE GROWTH PORTFOLIOS</b>									
Greater than 25%									
20% to 25%									
15% to 20%									
10% to 15%									
5% to 10%									
0% to 5%									
-5% to 0%									
-10% to -5%									
-15% to -10%									
Less than -15%									

■ Bonus Smoothing Reserve  
■ Long Term Expected Average

	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021
<b>COREGROWTH</b>									
Greater than 25%									
20% to 25%									
15% to 20%									
10% to 15%									
5% to 10%									
0% to 5%									
-5% to 0%									
-10% to -5%									
-15% to -10%									
Less than -15%									

■ Bonus Smoothing Reserve  
■ Long Term Expected Average

**Discretionary Smoothed Bonus Products: Annual Disclosure**

<b>GUARANTEED FUND AT 30 JUNE 2021</b>	
Greater than 25%	
20% to 25%	
15% to 20%	
10% to 15%	
5% to 10%	
0% to 5%	
-5% to 0%	
-10% to -5%	
-15% to -10%	
Less than -15%	

■ Bonus Smoothing Reserve  
■ Long Term Expected Average

**SMOOTHED BONUS PRODUCTS: KEY FEATURES**

		GROWTH			PROTECTION		COSTS		Inception date
		Performance objective	Strategic allocation to growth assets <sup>1</sup> in underlying portfolio	Manager	Protection objective	Guarantee in extreme environments	Capital Charges (per annum)	Investment management fee (per annum)	
Absolute Growth Portfolios	Smooth	Targets CPI+6% over medium-to long-term (after guarantee charge)	83%	OMIG Boutiques	Positive bonuses each month	50% of fund credit on claim	0.2%	Depends on allocation to local and global assets: Local Assets: 0.525% - 0.650% Global Assets: 0.825% - 0.950%	April 2007
	Stable	Targets CPI+5.5% over medium-to long-term (after guarantee charge)				80% of fund credit on claim	0.7%		
	Secure	Targets CPI+3.5% over medium-to long-term (after guarantee charge)				100% of fund credit on claim	2.7%		
CoreGrowth Portfolios	100	Targets similar return to a conservative to moderate market-linked fund over the long term, less the guarantee charge	61%	OMIG Boutiques	Positive bonuses each month	100% of fund credit on claim	1.8%	0.23% - 0.50% (depending on fund size)	March 1998
	90	Targets similar return to a broadly balanced market-linked fund over the long term, less the guarantee charge				90% of fund credit on claim	0.8%		January 2003
Guaranteed Fund		Targets similar return to a broadly balanced market-linked fund over the long term, less the guarantee charge	74%	OMIG Boutiques	Positive bonuses each month	100% of capital invested and a portion of bonuses declared	0.75%	0.25% - 0.35% asset management charge (depending on asset allocation) plus 0.20% - 0.35% investment administration fee (depending on fund size)	July 1967

<sup>1</sup> Includes equities, properties and alternative assets (including private equity).

## CONTACT US

Find out more about the investment portfolios in Old Mutual's range of Growth and Protection Solutions. Contact your Old Mutual Corporate Consultant, or broker, or call your nearest Old Mutual Corporate office.

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**Note:**

This performance report, as well as other information on Old Mutual's Smoothed Bonus Funds, is available on the Old Mutual website: [www.oldmutual.co.za/InvestmentReports](http://www.oldmutual.co.za/InvestmentReports)

Queries can be emailed to Old Mutual Corporate (Investment Services) at [corporateinvestments@oldmutual.com](mailto:corporateinvestments@oldmutual.com)

