Old Mutual Life Assurance Company SA Ltd

Monthly Commentary

April 2022

VUNANI
FUND MANAGERS

Old Mutual Life Assurance Company SA Ltd

Inception Date	18 June 2020	**Long Term Benchmark**	CPI + 7%
Fund Size	R 551,644.48	**Net Cash Flow**	R 7,589.72

Fund Information

Fund Objective

The long-term objective of the fund is to achieve a return of at least 700 basis points in excess of inflation (CPI) over all rolling 60 month periods gross of management fees and tax.

The client recognises that there will be times when it is necessary to invest in more or less risky assets to achieve the long-term investment objective. The investment manager will be required to minimise the risk of underperforming CPI over any rolling 12 month period whilst taking into consideration the long-term investment objective.

Performance Summary

		Benchmark	
	Fund	CPI*	Long term benchmark*
1 Month	-0.5%	0.7%	1.2%
3 Months	-0.6%	2.3%	4.0%
Year to date	-2.6%	2.5%	4.8%
1 Year	6.0%	6.0%	13.4%
3 Years *	n/a		
5 Years *	n/a		
Since inception *	7.9%	5.8%	13.2%

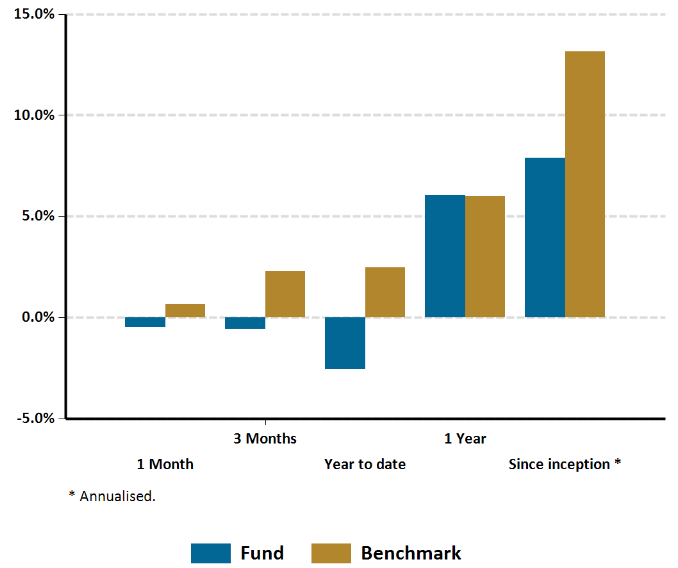
* Annualised if more than 12 months

Calendar year returns

2021	13.9%	5.9%	13.3%

%'s rounded to 1 decimal point
Past performance is not a reliable indicator of future results

Comparative Performance **



***The benchmark used in the chart above reflects CPI over periods of 1 yr and shorter and the fund's Long Term benchmark over periods of more than 1 year.*

Fund Manager Comment

The manufacturing investment plans survey carried out by the BER for 2022Q1 indicated the strongest intentions in a decade. Additionally, intentions to hire are better as domestic activity continues to improve. These are positive news in the face of mounting worries about higher fuel and food costs. Relative to other economies, South African inflation remains in familiar territory. Thus, the inflationary spike in places like the US that stoked fears of accelerated interest rate hikes, mask the improving health of the South African economy.

The local equity market de-rated in sympathy with global equity markets during April. That has served to improve the rating for investors considering buying the market. South Africa continues to screen as a relatively attractive emerging market, especially with other notables like Russia and Turkey looking rather uninvestable by comparison.

We are not dismissive of inflationary risks in the local economy. We note that on balance the pressure is to the upside. We also anticipate that the next MPC meeting scheduled for 19 May will see the policy rate nudged upwards once again, possibly by 50 basis points. The dynamic that we saw in recent months of a weaker front end of the yield curve (but a resilient back end) should probably continue to play out.

For your portfolio, this all combines to a stance that is neutral to local equities (but cautious to offshore exposure) and a fixed income stance that prefers the back end of the nominal curve and the front end of the inflation-linked curve.

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Key Fund Information as at 30 April 2022

Market Value Summary for the month

	Market Value
Capital employed at start of the period	**513 223**
Net cash flow	7 590
Income earned	4 632
Realised profit (loss) for period	0
Expenses (incl. VAT)	-197
Capital employed at the end of the period	525 247
Unrealised profit (loss) at the end of the period	26 397
Market value at the end of the period	**551 644**

Risk Measures since inception

	Fund
Tracking error	5.0%
Downside risk	3.4%
Sharpe ratio	0.7
Sortino ratio	-1.4
Information ratio	-0.9
% Positive months	65.2%
% Negative months	34.8%
Best month	2.9%
Worst month	-2.3%
Maximum drawdown	-2.7%
Maximum drawdown period (months)	3

Statistics calculated on monthly returns

Fund Structure as at 30 April 2022

Asset Class	Physical Exposure	%	Effective Exposure *	%	Previous Month	%
Total		**100.0%**		**100.0%**		**100.0%**

** Effective exposure is calculated on a look-through basis.*

Top 10 SA Equity Holdings

	% of Equity	% of Fund
Total		

SA Fixed Interest Maturity Profile

Sector	Market Value	Modified Duration
Total	**0**	

SA Inflation Linked Maturity Profile

Sector	Market Value	Modified Duration
Total	**0**	

OVERVIEW

Global growth prospects appear much bleaker than at the start of the year. The Russia-Ukraine war is sending the shockwaves throughout the globe and exacerbating the setback to most countries struggling to recover from the COVID-19 pandemic. Many countries face an economic crisis as the growth outlook is sliding down while inflation accelerates to new highs, particularly in advanced economies. Russia's invasion of Ukraine has sent oil prices soaring, worsening the inflationary pressures; however, the crude oil has softened as other nations, including the United States (US), announced plans to tap into strategic oil stocks to boost supply. In its monthly report, the Organization of the Petroleum Exporting Countries (OPEC) has cut its forecast growth in global oil demand in 2022, citing the resurgence of the omicron variant and the impact of the Ukraine conflict. Economic activities are slowing down, mainly as witnessed in China, with renewed lockdown in dozens of cities. This has led to OPEC lowering its economic growth forecast for 2022 to 3.9 percent from 4.2 percent, with more downside risks expected if the current situation extends into the second half of the year.

Furthermore, the International Monetary Fund (IMF) downgraded global economic growth for the second time this year, citing concerns about the Russia-Ukraine conflict and inflation. Both 2022 and 2023 global growth estimates were cut to 3.6 percent (from 4.4 percent and 3.8 percent, respectively) as higher food and energy prices put downward pressure on fragile economies. Almost 143 economies' growth outlook was downgraded, representing about 86 percent of global economic output, but most countries still maintain positive growth. While it is forecasted that both Russia and Ukraine will face recessions in 2022, there are mounting fears that most economies may also face recession due to escalating war tensions. Consumer confidence was observed to weaken in most countries as the war intensified, thus dimming the economic and income outlooks for 2022. The concern now is how policymakers can tame price rises without causing stagflation or a recession.

Some economists believe that if the supply chain shortage was one main reason that led to a higher inflationary environment, then the shortage itself wasn't supposed to make inflation last longer. What is evident is the prolonged inflation in the developed economies (led by US and eurozone), where the central banks conducted mega-sized monetary stimulus as the pandemic began. And arguably, the skyrocketing inflation is primarily in those developed economies compared to Asian economies, where most significant economies still print below 5 percent inflation based on recent data. Unfortunately, the Fed officials did not observe most huge imbalances as they initially thought that the price pressures were transitory. By the time policymakers were tapering off their bond purchases, the inflation was way off above the policy target.

A LOOK AT CHINA

For the second time in 2022, the IMF lowered its GDP growth forecast for China to 4.4 percent and 5.1 percent from 4.8 percent and 5.2 percent earlier in January for 2022 and 2023, respectively. As the economy faces headwinds, many economists question whether the country can deliver even this growth rate. In February, the National People 's Congress (NPC) announced a growth target of 5.5 percent for 2022, the lowest annual growth rate on record, despite the economy waning with many more risks and challenges. GDP growth target seems more optimistic, higher than FitchRatings estimates of 4.3 percent and Bloomberg consensus of 4.9 percent. The first-quarter GDP growth accelerated to 4.8 percent year-on-year, even though the real estate sector, which accounts for 20 percent of GDP, worsened. Also, significant lockdown restrictions were imposed in more regions starting in March.

Recent mobility trends suggest that growth momentum deteriorated significantly in April, as witnessed in traffic congestion and other high-frequency indicators at their weakest level compared to the initial pandemic outbreak. Retail sales, a vital sign of consumer spending, fell by 3.5 percent from a year ago. Imports, which have been racing ahead in the two months of the year, fell sightly with the renewed restrictions. Economic activity slowed as most big cities (87 out of 100) and other industrial centres were either under some form of restrictions or shut down.

In April, few actions were taken by the People's Bank of China (PBOC) that kept the financial risk manageable. Funding conditions improved as PBOC cut the reserve requirements, including the reserve requirement on foreign currency deposits, to counter the sharp decline of its currency. The authorities are expected to intervene further to avoid further rapid yuan depreciation. Although corporate bond yields declined, credit distress among real estate developers and weak stock market sentiment remain sources of instability.

A LOOK AT SOUTH AFRICA

The primary channel of the impact of the Ukraine war is through commodities. South Africa (SA) is a net resource exporter (about 6.3 percent of GDP) and only has marginal trade with Russia (about 0.2 percent of GDP). SA has seen favourable terms of trade as the export prices rose faster than the import prices, driven mainly by the commodities price shocks (such as the increased export price of coal). However, the slowdown experienced in some of SA's main trading partners, such as Europe and China, may dampen the demand, threatening the current trade account surplus momentum. Also, the recent natural disaster resulting from KwaZulu-Natal (KZN) floods will impact the supply of commodities and goods. The disruption in the ports and transportations has lengthened local input lead times, leading to weaker private-sector output levels and increased order backlogs. KZN is the second most significant provincial contributor to the national GDP; thus, business and consumer activity disruption will impact the overall economy. Meanwhile, in its recent publication, the IMF left SA GDP growth unchanged at 1.9 percent and 1.4 percent for 2022 and 2023, respectively. Factoring in the KZN floods impact, domestic economic growth may slow and surprise on the downside.

The latest economic data locally was mixed. The mining production contracted by 6 percent year-on-year after an acceleration of 1.6 percent in the prior month. This was the most significant contraction since January 2021, when the contraction fell by 7.8 percent. Retail sales declined by 0.9 percent, worse than the consensus forecast of 5.5 percent. Manufacturing output grew marginally by 0.2 percent, significantly lower than the consensus of 3.1 percent. The headline producer inflation (PPI) was the highest since November 2008, accelerating to 11.9 percent from 10.5 percent in the prior month. The most significant upward price pressure continued to stem from the energy prices, notable global oil prices that remain elevated. Ultimately, the price pressure at the consumer level will be passed onto consumer inflation. PPI may soften as the prices of some commodities come under pressure with slower growth expected in China. Credit growth continued to gain momentum as the growth in money supply and private sector extension accelerated by more than the consensus expectation. There was increased uptake by both household and corporate sectors. However, the corporate credit demand may still be burdened by low business confidence and the strength of the economic recovery. Also, consumer confidence is likely to weaken due to slower economic and income outlooks as the unemployment rate continues to be higher.

On the fiscal side, the latest statistics reported for March and the last for the 2021/2022 fiscal year showed that the government revenue for the 2021/2022 fiscal year exceeded budgeted revenue by a considerable amount of ZAR 314 billion (about 25 percent). The fiscal deficit was also better at 5.2 percent of GDP than the budgeted 5.7 percent, reflecting improved revenue collections. The rating agency is noticing budgetary improvements, and as such, Moody upgraded SA's fiscal outlook from negative to stable.

CONCLUDING REMARKS

The global growth profile became less robust than it was in 2021, with both stocks and bonds selling off in April. In the past, central banks tightened monetary policies when economies were robust or overheating, but neither the South African nor global economies such signs of overheating now.

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