



MULTI-ASSET CLASS SOLUTIONS: THE PROFILE RANGE

The suite of Profile portfolios is a comprehensive range of unitised, market-linked portfolios that span the risk/return spectrum. These policy-based investments are specifically designed for institutional investors and are compliant with Regulation 28 of the Pension Funds Act of South Africa.

Within the parameters of their mandates, the Profile portfolios invest across a range of local and offshore asset classes including equity, interest-bearing instruments, property, convertibles, commodities and derivatives.

There are four portfolios in the Profile portfolio range, from very conservative to aggressive. The investor may also switch between these funds within the range on a seamless basis to correspond with their changing risk profile.

STATIC BENCHMARK ASSET ALLOCATION

The static benchmark represents our view of the optimal long-term asset allocation per portfolio.



JOHN ORFORD

PORTFOLIO MANAGER

- BA (Hons) (Economic History), Postgraduate Dip (Quantitative Development Economics), MSc (Development Economics), MBA
- 20 years of investment experience

MARKET COMMENTARY AS AT 30/06/2022

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 Bank which has hiked rates at its last three meetings including a jumbo 75bps hike in June, the biggest Fed hike since 1994. Futures markets now expect the Federal Funds Rate to exceed 3% by year end which is consistent with latest Fed guidance. This repricing of short-term interest rates was reflected in surging bond yields outside Japan and China where inflation remains benign. The US 10-year yield which languished well below 1% for much of 2020 reached a decade high of 3.5% in mid-June before pulling back as investors began to focus on recession risks. 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 dollar appreciated with the broad trade weighted dollar rising 6% in the quarter. By contrast Bitcoin's price plunged by 57%. Risk assets and traditional safe havens like US bonds underperformed in tandem.

Global equities fell 16% in dollar terms and global bonds fell 8%. The S&P fell 16% marginally underperforming the global index, European equities (MSCI AC Europe) were 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 AC 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%. As growth concerns have mounted cyclical commodity prices came under pressure. Copper fell 20%, iron ore 14%, rhodium 28%, palladium 15% and platinum 9%. Energy prices however remained stubbornly high with Richards Bay Coal rising by 34% and Brent Crude oil by 7% as the impact of Russia's invasion of Ukraine continues to reverberate through commodity markets. The Rand weakened sharply depreciating by 12% and in dollar terms South African equities underperformed global equities. In Rand terms the JSE All Share Index was down 12% led lower by Resources which fell by 21% and Financials by 15%. Better performance by Industrials was largely reflective of Naspers and Prosus which rose by 42% and 32% respectively on the back of management announcing a significant share buyback program. The property index was also down 12%. Inflation rose to 6.5% in May and is likely to see the SARB continue increasing interest rates. Local markets continue to price in significant rate tightening in South Africa and bond yields rose, resulting in the JSE All Bond Index delivering a negative 4% return. Inflation linked bonds benefitted from the concerns about inflation and posted a 3% return in the quarter.

FUND PERFORMANCE COMMENTARY AS AT 30/06/2022

Profile Capital had a negative quarter as global and local equities as well as local bonds delivered negative returns on mounting fears of a US recession. During the quarter the portfolio's overweight to local equity was the main detractor from performance, but its overweight to global cash added value as risk assets sold off and the US dollar appreciated. It's nominal bond exposure detracted from value, but exposure to inflation-linked bonds added value as inflation-linked bonds performed well amid rising inflation concerns.

Within equities, the portfolio underperformed the benchmark mostly due to the underweight allocation to the combined Naspers and Prosus benchmark weight where a sizable share buy-back was announced driving significant gains in the two listings.

The odds of a US recession have increased significantly over the last six months and high inflation and tight labour markets have pushed the US Federal Reserve (Fed) towards an aggressive hiking path, with a US recession the likely resolution to high prices. The Fund has hedged this risk over the last period by holding a significant allocation to US dollar cash in preference to developed market bonds, which were simply too expensive.

However, the spike in US bond yields presented us with an opportunity to add medium-dated US Treasuries to the portfolio at attractive yields. These should provide a measure of protection to the portfolio if risk assets remain under pressure, as US Treasuries typically outperform during US recessions.

The portfolio continues to see good value in local assets, which, in both equities and bonds, are cheaper than their global counterparts and where we seek to take risk. Local government bonds offer excellent risk-adjusted returns, discounting higher inflation and higher interest rates.

Within our global equity exposure, we continue to favour value shares over growth shares. Recently, the portfolio added some exposure to China where we see prospects for a recovery as the economy relaxes Covid restrictions.

Overall, Profile Capital continues to favour SA risk assets over global risk assets and continues to hold a relatively large allocation to US cash and now also US Treasuries.



This is an actively managed and a very conservative investment that aims to provide high levels of capital protection by investing primarily in interest-bearing assets, while limited exposure to equity and quoted property provides scope for growth in excess of inflation.

This portfolio may be an attractive option for investors with a low risk appetite but who are mindful of the erosive effects of inflation on a cash-only portfolio, and the consequent need for some exposure to a selection of quality growth assets. Investors should note that investment objectives are not guaranteed.

The portfolio complies with Regulation 28 of the Pension Funds Act.

ADDITIONAL INFORMATION

Launch date:

January 1995

Benchmark:

Static asset allocation benchmark

Risk category:

Conservative

Investment objective

The portfolio aims to offer returns in excess of cash, and targets CPI + 3% per annum (gross of fees) over the long term, at a relatively low level of risk. The fund also aims to preserve capital over any 12-month period. Investment objectives are not guaranteed.

Fees

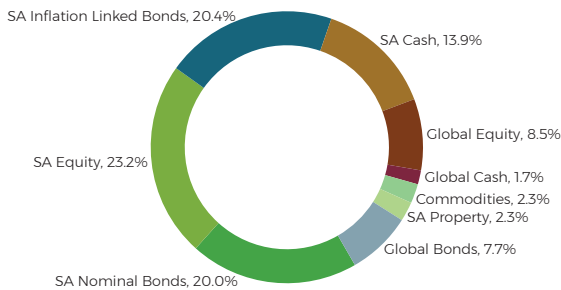
Domestic assets: 0.40% p.a. (rebates for large funds)

International assets: 0.80% p.a.

Plus: A performance fee in respect of alternative assets.

Fees on domestic assets exclude VAT. (VAT is deemed not payable.)

ASSET ANALYSIS AS AT 30/06/2022



Source: Old Mutual Investment Group

PRINCIPAL HOLDINGS AS AT 30/06/2022

HOLDING	SECTOR	% OF FUND
Sasol Ltd	Oil & Gas	1.9
Firststrand Ltd	Financials	1.7
Naspers/Prosus	Consumer Services	1.5
British American Tobacco plc	Industrials	1.5
MTN Group Ltd	Telecommunications	1.2
Standard Bank Group Ltd	Financials	1.2
Glencore plc	Basic Materials	0.8
Nedbank Group Ltd	Financials	0.8
Anglo American plc	Basic Materials	0.8
Anheuser Busch Inbev SA	Industrials	0.8
		12.2

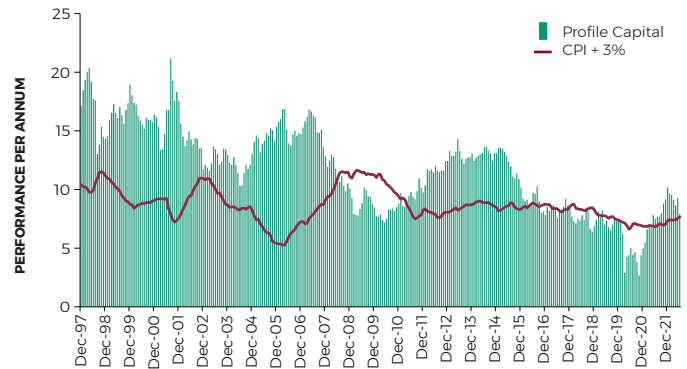
CONTACT DETAILS

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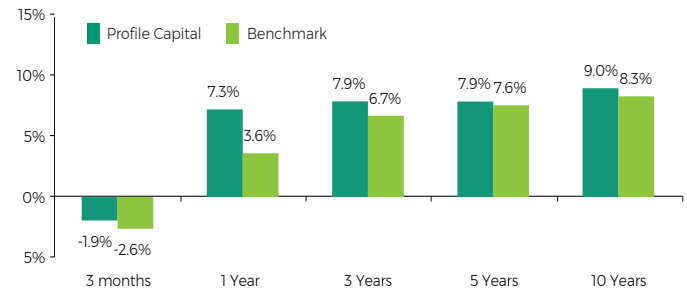
PERFORMANCE AS AT 30/06/2022

3-Year Rolling Returns



Source: Old Mutual Investment Group (IRIS)

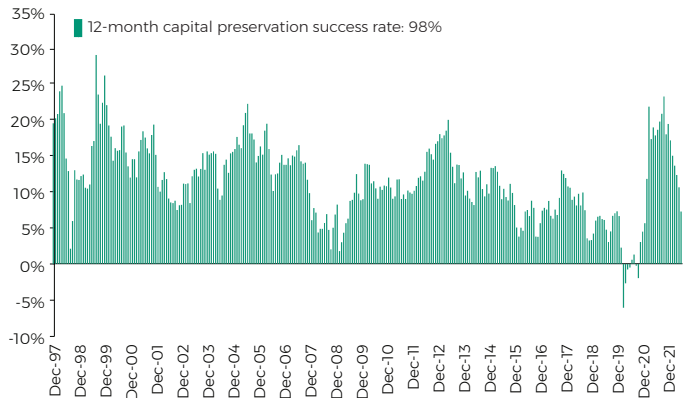
RETURNS AS AT 30/06/2022



Source: Old Mutual Investment Group (IRIS)

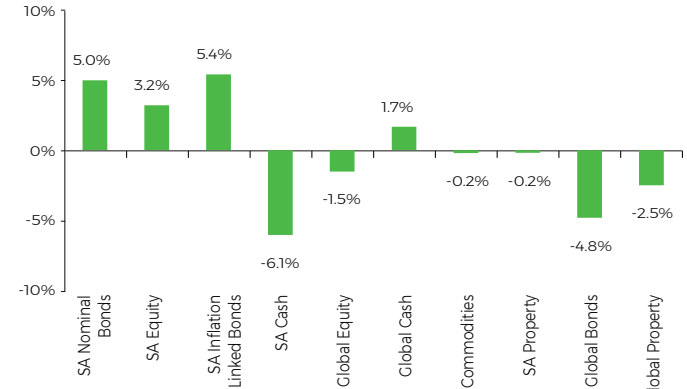
12-MONTH ROLLING RETURNS (NON-ANNUALISED)

31/12/1995 TO 30/06/2022



Source: Old Mutual Investment Group (IRIS)

FUND TILT VS BENCHMARKS



Source: Old Mutual Investment Group (HiPortfolio)