

31 DECEMBER 2021

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8 Years industry experience

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MARKET COMMENTARY

Disclosure of FSP: Old Mutual Equities is an equity boutique within Old Mutual Investment Group (Pty) Ltd, which is a Licensed Financial Services Provider, FSP 604.

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 US Federal Reserve (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 normalisation of ultra-low policy interest rates. Supply constraints and high energy prices combined with reopened economies and strong demand to push inflation higher – to above-target levels in many areas. In December, this emerging market rate hiking cycle was joined by the UK (the first big economy to do so) when the Bank of England hiked their policy rate by 15 basis points.

The odd one out 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 PMIs (purchasing managers' indices) 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. While the Omicron variant turned out to be less damaging in terms of severe illness, the biggest impact came not from enforced lockdowns, but from global travel bans (and the related impacts on travel and tourism), as well as the indirect impact of workers being sick and staying away from work and thus slowing activity in many sectors.

Global growth was in any case trending somewhat lower compared to the hefty recovery in growth rates we have seen with the reopenings post Covid and is likely to continue trending lower in 2022. Importantly though, growth is slowing but not stagnating and is expected to remain faster than the potential rate. 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.

However, 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 was likely transitory, in the end, inflation continued to surprise on the upside and rose more than expected.

I believe 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 US is likely close to a peak 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.

Whilst 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 QE (i.e., the process of gradually reducing the amount of monthly quantitative easing) from \$15bn to \$30bn per month and bringing forward rate hikes. Tapering is now expected to end in March 2022, 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 more sharply than generally expected. I am concerned that this policy shift could turn out to be too aggressive and thus a policy error may be a major risk.

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. Biggest risk is a too aggressive Fed in the face of easing inflation.

SOURCE: OLD MUTUAL INVESTMENT GROUP AS AT 31 DECEMBER 2021.

FUND INFORMATION

RISK PROFILE

LOW

LOW TO MODERATE

MODERATE

MODERATE TO HIGH

HIGH

FUND OBJECTIVE

To provide long-term capital growth and returns in excess of inflation while promoting social responsibility investing. The fund invests in companies that are concerned with job creation, training and skills development, employment equity, economic and social empowerment, high health and safety standards, sound environmental practices and effective corporate governance.

RECOMMENDED MINIMUM INVESTMENT TERM

1 YEAR +

3 YEAR +

5 YEAR +

INVESTMENT MANDATE

South African listed securities that comply with socially responsible criteria. All investments in SA equity must be approved by Unity Incorporation according to SRI guidelines. The fund maintains 75% equity exposure at all times.

CHARACTERISTICS OF THE FUND AND RISKS

This fund is suited to investors seeking long-term capital growth while investing in socially responsible investments.

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FUND INFORMATION

FUND CATEGORY	South African – Equity – General
FUND BENCHMARK	FTSE/JSE All Share Index
LAUNCH DATE	1 June 1992
FUND SIZE	R202 million
FUND CODE	CGMG
DEALING PRICE	NAV
DISTRIBUTIONS	Declared: February 2021. Distributed 1 business day after declaration. February 2020: 43.93c per unit. February 2021: 19.23c per unit.
MINIMUM INVESTMENT	R5000 lump sum. Monthly debit order R500.
INITIAL CHARGE	No initial administration charge. Initial adviser fee will be between 0% to 3.45% (incl. VAT).
SERVICE FEE	0.5% p.a.
NAV PRICE (cents/unit)	1,480.00c
TOTAL EXPENSE RATIO (TER)*	0.71% (Annualised)

SECTOR ALLOCATIONS	%
BASIC MATERIALS	39.63
CONSUMER DISCRETIONARY	5.51
CONSUMER STAPLES	9.87
TELECOMMUNICATIONS	8.66
FINANCIALS	21.62
HEALTH	1.80
INDUSTRIALS	2.14
TECHNOLOGY	9.61
ASSETS IN LIQUID FORM	1.15
	100

OTHER	
MARKET VALUE (R MILL)	193,512,985
NET ASSET VALUE	200,164,122
BUY & SELL PRICE (CENTS)	1,480

ASSET ALLOCATION	%
EQUITY	99
ASSETS IN LIQUID FORM	1

FUND PERFORMANCE % Performance (annualised)

YEARS	FUND %	FUND BENCHMARK %	CATEGORY RANKINGS
1	25.9	27.5	92/163
3	11.3	12.3	88/145
5	8.3	7.9	57/118
7	6.6	6.6	45/91
10	9.5	9.8	40/64

*Past performance is no indication of future performance.

FUND (since inception)	HIGHEST %	AVERAGE %	LOWEST %
12-month return	53.56	13.37	-34.68

FUND COMPOSITION

TOP TEN HOLDINGS	INSTRUMENT	
	BHP GROUP PLC	27,082,925
	ANGLO AMERICAN PLC	24,245,287
	NASPERS LTD	19,244,520
	MTN GROUP LIMITED	17,342,429
	FIRSTRAND LTD	13,265,222
	SASOL LTD	12,252,772
	STANDARD BANK GROUP LTD	8,301,613
	SHOPRITE HOLDINGS LTD	7,156,647
	ANGLO AMERICAN PLATINUM LIMITED	6,160,667
	NEDBANK GROUP LTD	5,743,631
	TOTAL	140 795 714

TOP TEN HOLDINGS		
ASSETS IN LIQUID FORM		1.15%
TECHNOLOGY		1.80%
INDUSTRIALS		2.14%
HEALTH		5.51%
FINANCIALS		8.66%
TELECOMMUNICATIONS		9.61%
CONSUMER STAPLES		9.87%
CONSUMER DISCRETIONARY		21.62%
BASIC MATERIALS		39.63%

STATUTORY INFORMATION

Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. Past performance is no indication of future growth. Unit trusts may engage in scrip lending and may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. Unit trust prices are calculated on a net asset value (NAV) basis, which is the total market value of all assets in the portfolio including any income accrual and less any permissible deductions from the portfolio divided by the number of units in issue. Each fund's total expense ratio (TER) reflects the percentage of the average Net Asset Value of each portfolio that was incurred as charges, levies

and fees related to the management of the portfolio. Instructions to withdraw must reach Community Growth Management Company (RF) (Pty) Ltd (COMANCO) before 15h00 to ensure same day value.

The portfolio performance is calculated on a NAV-NAV basis and does not take any initial fees into account. Income is reinvested on the ex-dividend date NAV price. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income. Additional information is available free of charge and you could email: invest@comanco.co.za.

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