OLD MUTUAL
EMPLOYEE GROUP IN SUPERFUND

QUARTERLY INVESTMENT UPDATE

NOVEMBER 2021 - Q3

IN THIS EDITION WE

- Provide you with a Market overview;
- Provide an investment performance update as at 30 September 2021;
- Prudential Portfolio Managers now M&G; and
- Share a link to a Mindspace article "10 steps to clearing your debt".

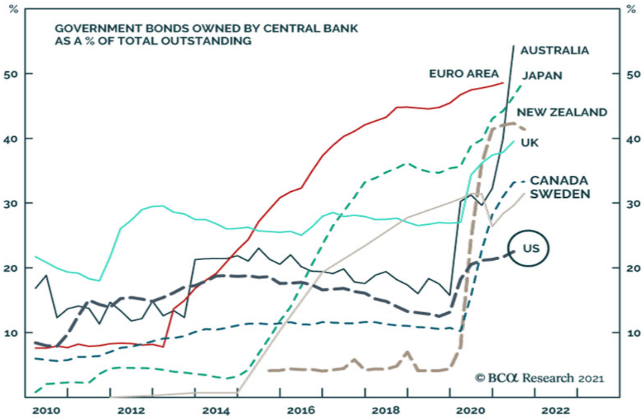
MARKET OVERVIEW

Market Outlook

Global economic growth continues to recover post the pandemic lockdown as the severity of the lockdown eases in many countries. Financial markets have been buoyed by this uptick in economic activity, but the third quarter of 2021 was not without volatility - we witnessed a correction in some asset classes, including emerging market equities and offshore bonds with the South African equity market ending the quarter flat. While the quarter got off to a good start in July 2021, it did not end well, and September was a particularly weak month globally.

Fears around inflation and debt levels raised their heads during September 2021.

The percentage of government debt owned by reserve banks around the world has escalated dramatically with the US Federal Reserve having spent the equivalent of a dollar a minute on buying US government debt. The graph below shows how the US Federal Reserve now owns almost 25% of all US government debt, while in the Euro Zone and Japan the central banks have bought nearly 50% of all government debt. Financial markets have become accustomed to the stimulus measures so any news of "tapering" or curtailing of asset purchases by Central Banks, usually sends financial markets in a tailspin with a sell-off in risky asset classes and an increase in volatility, which is what we experienced in September 2021. The US Federal Reserve is likely to taper the scale of its bond purchases by December 2021 or early 2022 while the EU may only start next year.



Source: BCA Research

The second major concern is that the more the developed world (primarily) continue to pursue monetary policy stimulus and add liquidity into the financial system, the greater the unintended consequences such as the risk of inflation spiralling out of control on a global basis. Over the short term, we have seen an increase in global inflation, but this has largely been due to base effects and supply-side constraints caused by the pandemic. The market's concern is that inflation could remain at elevated levels for some time and as the economic cycle turns again in future, stagflation sets in.

Locally, the South African economic recovery is progressing. Local economic activity, however, will likely be uneven with various sectors impacted differently by lockdown levels and the recent riots. The revised estimate of GDP in 2020 was R5 521 billion, which is 11% higher than the previous estimate of R4 973 billion, which is hugely beneficial to our debt to GDP ratio. South Africa has experienced some other positive developments over the years regarding the strengthening of key institutions and the ability for the private sector to generate up to 100MW of electricity, which could increase confidence and encourage further investment in the economy. Government does, however, need to ensure policy certainty and urgently address the structural issues that were preventing robust and sustainable growth prior to the pandemic.

Other positive news for the South African fiscal situation is that local tax revenue collection for 2021/2022 is on track to be substantially higher than originally budgeted, largely due to larger profits from resources firms, which have benefitted from high commodity prices. High commodity prices have boosted South Africa's current account balance to a significant surplus position, last seen only in the 1980s. Commodity prices are likely to remain high if the global economic recovery remains on track and the US dollar remains weak, but September highlighted how quickly things can change with the drop in the Resource index of over 9% and a weakening of the Rand against the US dollar of 4%.

Risks to commodity prices include lower demand from China in particular; credit stimulus in China remaining weaker for longer, the US Fed normalising interest rates sooner than expected; and the recovery in supply from commodity producers being stronger than anticipated. On the other hand, massive infrastructure spending in developed (and some emerging markets) together with a focus on renewable energy and the green economy may keep demand strong for commodities, especially copper, aluminium, nickel, lithium, cobalt, and uranium.

In the third quarter of 2021, we also witnessed a regulatory crackdown in China on companies operating in the technology and education sectors. Increasingly, the Chinese government is looking to reduce concentration of power and "regulate excessively high incomes" in the search for "common prosperity". One of the companies affected by this regulatory tightening has been Tencent. Tencent makes up a large portion of the valuation of both Naspers and Prosus. Therefore, the negative impact on Tencent has filtered through to Naspers and Prosus in the local equity market.

The risks out of China are not insignificant either. The fallout from the default of Evergrande, a major Chinese property developer with over $300 billion in liabilities, has also rocked global financial markets over the past few weeks. However, in a centrally planned economy like China the risks of contagion seem limited but is nevertheless a concern given the size of Evergrande.

In an environment of low interest rates in the developed world and the prospects of higher inflation and higher bond yields, equities could still be supported over the short term. While equities as a whole look attractive it is important for investors to pay attention to the fundamentals of each company and to be selective as some sectors and countries are trading at stretched valuations. Local equities and bonds remain attractive and are not trading at such high multiples as the US market for instance. As risks surface there will, however, be short term selloffs as we have seen in September.

Financial markets are never without risks and after the unprecedented times we have been through, the future can seem uncertain and unsettling for members. We would still encourage OMEGS members to stick to their long-term strategy and select portfolios appropriate to your needs, risk tolerance and time horizon. Speak to a trusted financial advisor if you are in doubt.

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INVESTMENT PERFORMANCE SUMMARY AS AT 30 SEPTEMBER 2021

The table below provides the gross return of each portfolio over the 1, 3- and 5-year periods ending 30 September 2021.

Category	Portfolio	1 Year	3 Years	5 Years
Default	Old Mutual Absolute Smooth Growth	12.6%	5.9%	6.7%
	Target: Inflation + 6%	**11.3%**	**10.3%**	**10.7%**
Market-Linked	Old Mutual Multi-Managers Inflation Plus 5 - 7%	27.6%	10.4%	8.7%
	Old Mutual Investment Group Profile Edge 28	32.8%	8.9%	8.6%
	Coronation Managed	26.3%	11.0%	8.4%
	Target: Inflation + 6%	**11.3%**	**10.3%**	**10.7%**
	Prudential Global Balanced	26.5%	8.3%	8.8%
	Old Mutual Balanced Index Fund	22.7%	7.5%	6.9%
	Target: Inflation + 5%	**10.2%**	**9.2%**	**9.6%**
Smooth Bonus	Old Mutual Absolute Smooth Growth	12.6%	5.9%	6.7%
	Target: Inflation + 6%	**11.3%**	**10.3%**	**10.7%**
	Old Mutual Coregrowth 100	7.6%	6.4%	7.4%
	Target: Inflation + 3%	**8.1%**	**7.2%**	**7.5%**
Shari'ah	Old Mutual Investment Group Shari'ah Composite Fund	22.6%	6.5%	6.8%
	Target: Inflation + 4.5%	**9.7%**	**8.7%**	**9.1%**
Money Market	Old Mutual SA Money Market	3.8%	6.1%	6.9%
	Target: Inflation	**5.0%**	**4.0%**	**4.4%**

The above summary reflects the gross performance of the underlying investment options available to OMEGS members. This performance is not necessarily an indication of future performance. Saving for retirement is part of a long-term financial planning process and we encourage you to seek financial advice before making any invested related decisions.

PRUDENTIAL PORTFOLIO MANAGERS NOW M&G

M&G plc has purchased a further stake in Prudential Portfolio Managers (South Africa) (Pty) Ltd., resulting in M&G returning to its former position of majority shareholder in the company. Following this shift in shareholding, Prudential has changed its name to M&G Investment Southern Africa (Pty) Ltd., which came into effect on 15 November 2021.

The investment philosophy and process adopted by Prudential in constructing its portfolios remains unchanged.

MINDSPACE ARTICLE

10 steps to clearing your debt

The secret to clearing your debt is to tackle it step by step. Use this guide to help you gain control over your debt – and finances.

Click here to access the short article.

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