OLDMUTUAL

OLD MUTUAL MULTI-MANAGERS

BUSINESS UPDATE – JUNE 2023

QUARTER 2, 2023

YEAR SO FAR

The year 2023 has passed its halfway mark and South Africa is now firmly in the grip of winter, while the northern hemisphere is basking in sunshine. Loadshedding has reduced somewhat in severity but not frequency since we have only enjoyed a single day so far this year where no loadshedding occurred nationally. That means we already had more days of loadshedding so far than the total for last year. Markets unfortunately mirror the same trend, with global markets outpacing the JSE by more than ten percent year to date. Add to that a massive 10.7% decline in the value of the rand against the US Dollar and it is clear that offshore exposure was the most productive portion of balanced funds so far this year.

This means that perhaps more than ever, offshore exposure is becoming one of the most important investment decisions one can make, and the timing thereof is more dangerous than ever. Whilst it is common cause that offshore exposure around the 40% mark seems to strike a good balance between risk and return for local investors, balanced fund returns will show more and more dispersion as views diverge on the optimal current positioning.

The offshore bulls point out all the economic and political challenges in South Africa as well as the fantastic diversification the global equity and bond markets can provide. But those in favour of a lower offshore allocation point out how attractively valued local equity and bond markets are right now, with the rand being at a very weak extreme. Certainly, switching views now and jumping the fence could be an extremely risky endeavour. From our perspective one should certainly pay attention to the rand's current weakness, as sudden currency strengthening is not uncommon and can quickly erode returns without warning.

For us it remains imperative that we maximise returns for clients and minimise the risk to poor returns and outcomes. South Africans are undoubtedly under severe financial pressure currently. Inflation, and especially food inflation, remains sky high. We observe many indicators of broad pressure to especially the middle class and lower income segments. That makes the responsibility of looking after savings on behalf of others so important and personal.

Multi-managers are in a unique position to diversify many risks. Primarily we combine different asset managers within each asset class to reduce the risk of active manager underperformance in the short term. We can also further reduce this risk by allocating a portion to a passive investment option in certain markets. But ultimately in almost all of our strategies, decisions such as total offshore allocation are made by our investment team. We therefore have to remain cautious and humble, as life is unpredictable. We are not keen on taking an extreme view, and often challenge our own views and reflect on our personal biases.

Since we have passed the longest night already, we hope that with longer days of sunshine coming, we will also start to see our local markets shine. In the end, our challenge is to grow capital for your clients in line with the plans and targets you agree with them. We appreciate the trust you place in us to make that happen.

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OLD MUTUAL MULTI-MANAGERS