OLD MUTUAL
GLOBAL MACRO EQUITY STRATEGY

INSTITUTIONAL
31 MARCH 2021

STRATEGY INFORMATION

Benchmark:	MSCI All Country World Index (dividends reinvested), net of withholding tax
Launch Date:	November 2016
Strategy Size:	USD591m (31.12.20)
Currency:	US$

INVESTMENT DESCRIPTION

This is a worldwide equity strategy that aims to outperform its benchmark in a risk-controlled manner. The outperformance is pursued through active investment allocations towards particular global investment segments. These segments include industries, countries, regions or currencies. The allocations are made opportunistically in order to capitalise on macroeconomic trends. The investment team uses both fundamental analysis and macroeconomic research to identify the potential factors that may drive changes in economies and industries. In this way the most attractive global investment segments are identified and the strategy invests towards those views. On the other hand the strategy avoids investing in segments that are expected to lag due to overrated prices or macroeconomic headwinds. The risk exposure in the strategy is managed by ensuring that there is ample diversification of investment exposures and by controlling the relative size of the individual active positions taken.

THE TEAM

PETER BROOKE | PORTFOLIO MANAGER
- BBusSc Finance (Hons)
- 26 years of investment experience

URVESH DESAI | STRATEGIST
- BSc (Hons), FIA, FASSA, CFA
- 18 years of investment experience

ZAIN WILSON | STRATEGIST
- BBusSc Economics, CFA
- 11 years of investment experience

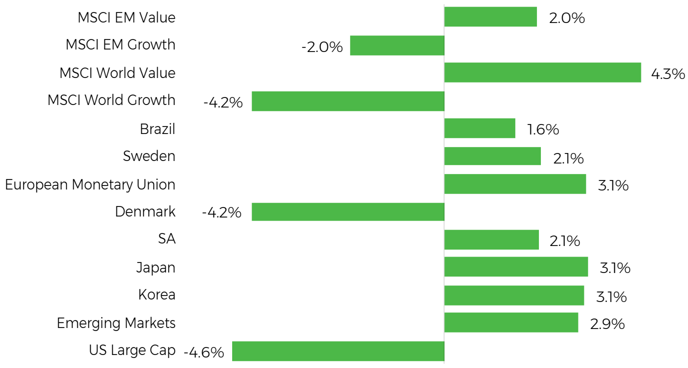
STRATEGY PERFORMANCE

Gross USD Performance

	PORTFOLIO	BENCHMARK
3 months	4.7%	4.6%
6 months	20.6%	19.9%
1 Year	53.0%	54.6%
3 Years	10.8%	12.1%
5 Years	0.0%	13.2%
Since Inception	13.2%	13.9%

Source: Old Mutual Investment Group. Returns for periods greater than 1 year are annualised.

STRATEGY POSITIONING RELATIVE TO MSCI ACWI



Source: Old Mutual Investment Group

COMMENTARY (MARCH 2021)

The first quarter of the year continued global equities' march forward out of the worst recession in the last 100 years. With the MSCI All Country World Index delivering 4.6% over the quarter, markets were driven by a benign rise in bond yields, alongside differentiation in vaccination progress and lockdown strategies across countries.

Whilst tracking gyrations in the latter has become the norm over the last year, the move in bond yields signalled a shift in market leadership for the first time in a decade. Having troughed at a multi-decade low of 0.5%, US bond yields rapidly moved higher to end the quarter at 1.7%. The bulk of the bond yield move was of the growth-friendly kind – driven by rising break-even inflation signalling a recovery in growth from recessionary lows. This benign rise in inflation and bond yields saw value beat growth by 8.3% globally. This was the highest return spread in 20 years and reflects a sharp reversal after years of value underperformance. A growth-friendly environment was also evident in the sector leadership in global equities. Financials and energy benefited from high leverage to an economic rebound, while the traditionally defensive healthcare and consumer staples sectors fared the worst.

The portfolio was well positioned for these shifts, benefiting from overweights in value, as well as an underweight in growth and Denmark (heavily skewed to global healthcare). After a decade of underperformance, we are still in the early stages of a cyclical rebound in value-oriented sectors. Further growth outperformance faces headwinds to multiples from rising bond yields. Meanwhile, a shift towards easier fiscal policy and higher inflation accommodation should support value-oriented earnings. The portfolio's overweights in South Africa and Sweden, similarly geared to a recovering global cycle, also benefited from a rising global tide and added to portfolio performance. Both of these markets benefited from strong currency as well as domestic market performance, reflecting their cyclical nature.

COMMENTARY (MARCH 2021) continued

Detractors from performance were a handful of country-specific issues. This was most evident in Brazil. The portfolio has been overweight Brazil since last August, where the market composition aligned well with our reflationary global themes. While earnings have trended higher relative to the All Country World Index, politics have dominated profits and drove a large derating in the market and currency. Heading into an election next year, political visibility remains poor. We have thus reduced some of the portfolio's overweight to the market to manage the risk in the portfolio.

Other detractors over the quarter included the portfolio's overweight in South Korea, and the underweight in the United States. South Korea has been the darling of the portfolio, delivering stellar outperformance over the last year. While the market has pulled back from extended levels in the short term, we view this as transitory and remain comfortable with our overweight position. Support for chip prices and demand remains robust, while supply remains tight. Better performance from the United States detracted from the portfolio given our underweight positioning. This was entirely driven by a strong US dollar over the quarter. With extended dollar positioning now neutralised, we expect the dollar to be flat to weaker as global liquidity and growth remain favourable. This is notwithstanding the more stimulative domestic policy in the US.

We expect 2021 to remain a story of recovering growth, supportive policy and a rotation towards more cyclical sectors and markets. The portfolio is well positioned to benefit from this environment given its procyclical bias. Looking forward to 2022, as the recovery moves into the base, focus will shift towards those markets with independent growth drivers. In anticipation of this shift, the portfolio has closed its underweights in India and Thailand over the last quarter. We are closely tracking the ASEAN region as a source of new opportunities in the portfolio.

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