OLD MUTUAL INTERNATIONAL NEWSLETTER

AUGUST 2025

INTERNATIONAL

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BUILDING CAPITAL

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We are always juggling demands. One of the biggest challenges in building capital is that urgent, immediate needs often take priority over long-term growth. That's why there's a fundamental difference between spending capital and spending income. Income comes in and goes out. Capital is "there" – but is it working?

- ✓ Capital can only continue to grow if you are sustainably spending less than it's growth.
- ✗ But if you spend more than that, your capital suffers a permanent impairment – it's gone.

Once capital is impaired, it can only recover in two ways when:

1. It's left alone to heal (time and compounding do the work).
2. It's repaired through external contributions (new savings, fresh investment).

If capital is either fired (fully spent) or harassed (excessively drawn on), it loses its power to support you. And once it's gone, getting back to stability becomes exponentially harder.

Even if we don't have financial capital, we instinctively know what this feels like – because we *are* capital.

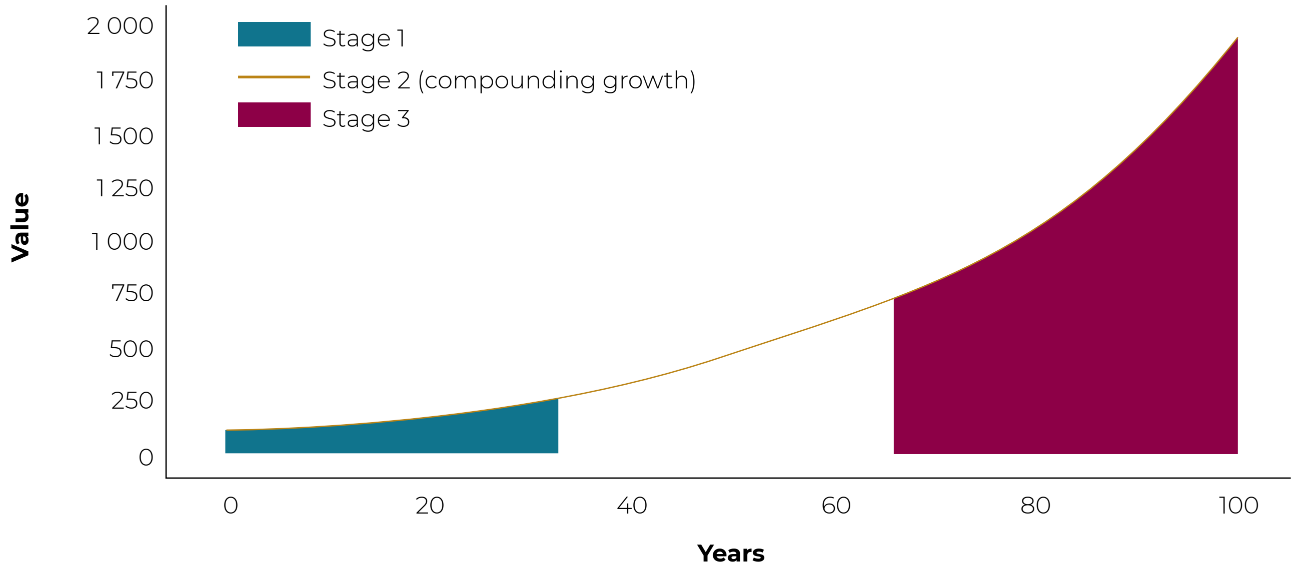
Our ability to earn, produce, and contribute sustains us. If we overextend, burn out, or face setbacks without recovery, our ability to generate income suffers. The same applies to our financial capital.

- **Stage 1 (Builder):** Capital accumulation begins, growth is slow but steady.
- **Stage 2 (Sustainer):** Capital reaches a point where withdrawals may begin. Overspending flattens the curve.
- **Stage 3 (Steward):** Capital is self-sustaining, and minimal spending allows continued exponential growth.

THE THREE STAGES OF BUILDING CAPITAL

Understanding the difference between spending capital and spending income is the key to moving

Chart 1: Three Stages of Compounding



through the three stages of financial independence. Each stage requires a mindset shift, and moving through them is harder than it seems.

1. Stage 1: The Builder

You are working for capital. You support the capital. Your priority is to spend less than you earn and invest the rest. This phase demands discipline, patience, and consistency. Financial planning revolves around your spending goals and income-generating capacity. You are the central part of the financial plan.

2. Stage 2: The Sustainer

Your capital is now working for you. The capital supports you. You might begin drawing from it, but sustainability is key. The less you draw, the more it can continue growing. This stage is the most dangerous because overspending here can permanently reduce your chances of reaching Stage 3. Many people see this as a decumulation phase – ensuring the capital lasts a lifetime.

The challenge? Balancing spending, growth, and longevity risk.

✓ If you spend less than your portfolio's growth, your capital remains intact and continues compounding.

✗ If you overspend, you may never make it to Stage 3 – because the compounding process is permanently slowed or even reversed.

3. Stage 3: The Steward

Now, your capital is no longer about you. Your spending is small enough that it doesn't slow the compounding process. The real question shifts from "Will I have enough?" to "How should I allocate this capital to create impact?" You move from being dependent on your capital to being a custodian of it – making decisions that affect others, shape causes, and build legacies.

Few make it to Stage 3, but those who do realise something profound: capital is not just about security – it's about responsibility.

THE KEY DECISION: DOOR 1 OR DOOR 2?

At Stage 2, you face a critical choice:

Door 1: Continue contributing and let capital grow.

Door 2: Spend capital and risk never reaching Stage 3.

Choosing Door 2 too often leads you back to Stage 1. But those who choose Door 1 and manage their spending wisely unlock Stage 3 – where earning money becomes optional, and wealth becomes something to sustain beyond a single lifetime.

WHERE DO YOU SEE YOURSELF ON THIS JOURNEY?

The choices you make today determine whether you stay stuck in Stage 2 – or unlock the full potential of Stage 3. What's your next move?

SURFING THE TRUMP TSUNAMI

Izak Odendaal | Chief Investment Strategist at Symmetry

With Donald Trump starting his second term as US president, we all knew 2025 would be interesting. Few probably guessed just how eventful it would end up being, and we're only halfway. To name but a few things: Trump assigned Elon Musk to take a chainsaw to the federal government, with dire implications in terms of science and foreign aid. He attacked South Africa on land reform and crime, and of course there was the infamous Oval Office "ambush" of President Ramaphosa's delegation. He launched a trade war that momentarily saw the world's two largest economies, the US and China, levying triple-digit tariffs on one another. US tariffs on other countries' exports also jumped to unimaginable levels, only to be suspended. Where tariffs will ultimately settle is unclear, but at least it seems now that the extreme outcomes will be avoided. And, just as markets were becoming more relaxed about the trade war, a real war broke out between Israel and Iran, one that Trump joined in by bombing Iranian nuclear facilities. The oil price briefly spiked higher, but fortunately an uneasy truce has been reached. Across the domains of military, trade, monetary and fiscal policy, the Trump administration has introduced tremendous uncertainty. Indeed, "uncertainty" is an early front-runner for word of the year. Love him or loathe him, all investors need to find a way of surfing this Trump tsunami.

There are a few principles to help us stay afloat.

1. Time in the markets, not timing the markets

This age-old market adage remains as true as ever. Markets are moved by sentiment in the short term – and with Trump sentiment whipsaws around – but over the longer term, equity prices follow company profits. To remain invested through the volatility is to allow that profit growth to compound.

It is also remarkable how quickly equity markets can recover from sell-offs, but it happens again and again. Equity markets have a remarkable ability to sniff out positive change, and the rally usually starts well before the economic reality changes. Markets fell in a heap after the 2 April “Liberation Day” announcements and it would’ve been easy to look at all this chaos and decide to hide under a mattress. However, Trump backed down and markets rebounded very quickly.

Think back to the March 2020 Covid crash. As the reality of the pandemic became clear, the market slumped. But the recovery started later that month, before the virus truly spread. The market bottomed three days before South Africa went into national lockdown on 26 March, for instance. We can go back to previous corrections and bear markets throughout history and across time: the market always bottoms before economic fundamentals do.

This makes market timing so difficult. You have to get the call right twice, selling before the market falls, and buying after the market has fallen. The second leg is the most difficult one, because it occurs while things still look very gloomy in the real world. The better approach is simply to sit tight. Points 2 and 3 below are useful ways of making that easier to do.

2. Valuations still matter

Valuations don’t tell you what will happen in the short term, but it remains the best guide to longer-term return expectations.

A margin of safety in valuation doesn’t protect against a sell-off, but more expensive assets fall further. High valuations arise when too much good news is priced in. This was the case with US assets at the start of the year. After the election, investors bought into Trump’s businessman and dealmaker persona and believed that the “exceptionalism” of US assets would get a further boost. US equities and the dollar were expensive at the start of the year.

The US has the best companies in the world, no question, and is at the forefront of emerging artificial technologies. But if everything is priced for perfection, there is room for disappointment, and US equities have underperformed the rest of the world, partly due to a declining dollar.

In contrast, when a lot of bad news is priced in, there is room for a positive surprise. South African investments have done remarkable well this year. Partly it is because there is genuine progress. The coalition government represents a deepening of democracy, even if it is a bit wobbly, and key reforms are changing the structure of the economy. But mainly, South African bonds, equities and property performed this year because they were cheap. The same can also be said about other markets internationally.

3. Diversification – boring but beneficial

As with the above, “diversify, diversify, diversify”: this is not new advice. That is because it works. This year was another example. At the start of the year, it might’ve been tempting to sell everything else and just put your whole portfolio into US “magnificent seven” stocks, the big winners of the past 12 months (and longer). It would have been a mistake, as a range of unloved investments have outperformed this year. Next year might be a different story altogether. The point is that these things are unpredictable. It is important to identify the right investments, but it is also important to scale exposures appropriately. Too little, and it does not benefit overall returns; too much, and it exposes you to risks.

Indeed, getting the broad asset allocation strategy right is probably the most important thing an investor can do. Simply put, if you are investing for long-term growth, the portfolio needs equity exposure irrespective of whether it feels like the world is falling apart. Conversely, if the goal is to preserve capital for a few months, a high cash allocation is important, even if it means missing out on a roaring bull market. The goal determines the exact allocation, but the principle of diversification remains.

4. Big trends

Some trends are simply too big even for Donald Trump to halt. This creates long-term investment opportunities.

One must be careful with technological hype, since history suggests the big winners are not always who you think they are. With AI, the winners might be the current leaders such as OpenAI and Nvidia, but the bigger winners might eventually be very boring companies who learn to use AI really effectively in their day-to-day operations. Or perhaps they are new companies altogether. History also suggests that we are bad at predicting how technology will ultimately be used and perceived.

The point is not to rush out and buy a technology fund today, but rather to say exciting things will happen in the future.

Another big trend is demographics. Birth rates in rich countries (and China) are declining relentlessly, and populations continue to age. Spending patterns will inevitably shift towards the care economy, but also to automation and robotics to make up for a lack of young workers. There are obvious downsides to an ageing world, but clearly also opportunities.

A third trend is sustainability. Just because Trump believes climate change is a hoax doesn't mean the rest of the world will follow. Other countries are moving ahead, not just because they believe in the threat posed by climate change, but also because energy security is increasingly important. The tensions around Iran and the risk of closing the Strait of Hormuz was yet another reminder how the addiction to oil makes countries vulnerable.

No wonder that China, for instance, is pushing ahead with a green revolution that not only reduces air pollution but also cuts its dependence on energy imports. Almost half of new cars sold there are electric, while renewable energy already matches the output from coal, and will soon surpass it. Global progress is likely to be uneven, but green energy, electrification and decarbonisation remain massive growth areas and will require significant amounts of raw materials.

5. Crisis and opportunity

Staying in China, it is often claimed that the Chinese character for "crisis" is made up of "danger" and "opportunity". This is not quite true, and the correct translation seems to be closer to "danger" and "turning point." Both interpretations carry an important truth. Times of turmoil create gaps for enterprising individuals to take, but they also force otherwise reluctant individuals to finally act.

An obvious example is Trump's lukewarm stance towards Europe in the US's obligations under NATO. With the Russian threat is still looming menacingly, European leaders have finally gotten the message that they must spend more on their own military capabilities. This is particularly true in Germany, where a constitutional "debt brake" is being reformed to allow for more funding for defence and critical infrastructure. This spending will have several important economic and market consequences, but the point is that it would not have happened was it not for the sense of crisis and vulnerability among European leaders, who would otherwise have happily done nothing. Ironically, Trump might succeed in Making Europe Great Again.

In conclusion, there is still six months left of 2025, and more eventful things are bound to happen. And this is only the first year of four in Trump's second term. Trying to predict what is going to happen seems foolish. The better approach is to ensure your portfolio is appropriately structured to deliver on its long-term objective, and then let it be. Perhaps, for the benefit of your blood pressure, also avoid following the news too closely. It will be good for your health and your wealth.

WE WILL SURVIVE AGAIN: LESSONS FROM MARKET TURMOIL

Deon Gouws | Chief Investment Officer, Credo London

FROM COVID CRASHES TO TRUMP'S TARIFFS – WHY INVESTORS MUST STAY THE COURSE

It's time for some reflection. In early 2020, the Financial Mail editor offered me an opportunity to contribute a column, which I was going to grab with both hands, even though I had no idea what I might be writing about regularly. Where would one find material to come up with 750 fresh words every single month?

Then Covid arrived.

My first piece was published in the second week of March that year. As I was writing it, financial markets were falling out of bed, with traders and fund managers having no real idea of how to handle a world going into lockdown.

For someone with a bias towards equity investing and an approach that boils down to the glass being half full, this presented serious complications. What to say while practically every investor in the world seemed to be dumping stocks?

In response, I mustered all the optimism I could find despite the many adverse headlines and put forward the bull case for equities. I did this, not because I had any inkling that stock prices were about to turn, but simply because I believe in human endeavour and animal spirits (which underpin stock market gains over time), even in the face of the greatest adversity. I will thus always be bullish about the longer term.

As I said in that maiden piece: "The biggest danger to investors' wealth is never the next correction or

bear market, but their own behaviour when one of these events inevitably happens". Will they blink at the bottom, sell out at what proves to be exactly the wrong time, and end up suffering the inevitable opportunity cost as a consequence?

It turned out that the publication of that first column coincided with the actual 2020 stock market bottom. Talk about a lucky escape!

For a firm like ours, which operates within the financial services industry in the UK, the Covid-induced market crash was also interesting from a timing point of view, as it happened shortly after the introduction of some new rules under the MiFID II regulatory framework. One of these rules required us to immediately notify each client when their portfolio dropped by 10% or more compared to its value at the end of the previous quarter. Additionally, further notification was required for each additional discrete 10% drop in value.

In March 2020, this requirement kept us pretty busy. My e-mail archives indicate that some of our more adventurous clients (those with full equity exposure) received no fewer than three of these notifications (representing a decline in portfolio value of more than 30%) over the same 10-day period that I was writing that first column.

In the covering note that accompanied one of those messages, I wrote the following: "We do not need to tell you that coronavirus fears and fallout are dominating headlines. We cannot and do not pretend to know better than any other commentators, but in accordance with our philosophy, we continue to keep an eye on the long term and believe that the dust will eventually settle (even though we also recognise the economic fallout is likely to be significantly worse than previously anticipated)."

Thankfully, this client remained fully invested and enjoyed the gains that followed soon after.

Fast-forward to today, and stock markets have once again been under pressure. At its worst point, the S&P 500 suffered an official correction (defined as a drawdown of over 10%). Even worse, the much-hyped Magnificent 7 technology stocks found themselves in official bear market territory, having declined more than 20% on average since reaching record highs in December last year.

Five years ago, we knew exactly which virus to blame for market volatility; this time, the argument is somewhat more nuanced. Yes, you can argue that share prices had been trading at unsustainably high multiples for too long, and there was way too much AI hype in the market until recently.

But there is little doubt that US President Donald Trump and his erratic approach to tariffs – potentially leading to a recession in the US later this year – also have a lot to do with it.

When the pandemic hit just over five years ago, I wasn't 100% sure that the world would survive it. But we did. No doubt we will survive Trump as well.

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This article previously appeared in the Financial Mail.

MIND OVER MARKETS: BRIDGING BEHAVIOURAL GAPS FOR FINANCIAL FORTITUDE

Shivani Naidoo | Head: EQT

“What will the rand do in 2025?”

“Should I move my money now?”

“When is the best time to invest offshore?”

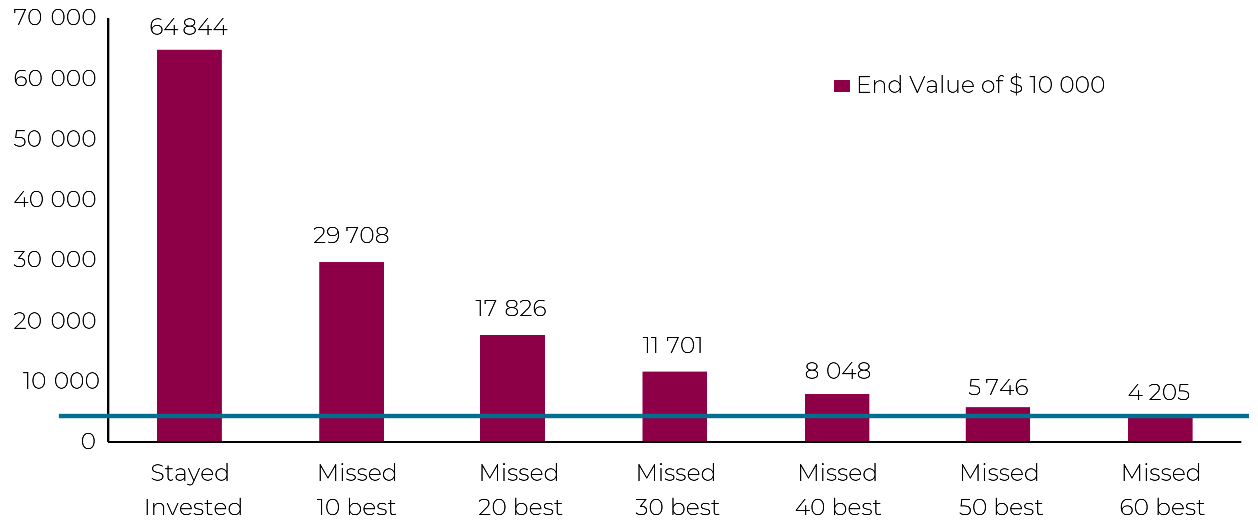
These are not just common client questions – they’re recurring moments of hesitation that test the discipline and behavioural resilience of even the most seasoned investors. For South African financial advisers, particularly those serving affluent clients with global aspirations, answering these questions effectively requires more than just technical competence. It demands a firm grasp of behavioural dynamics – and the ability to guide clients through emotional terrain with insight, empathy, and conviction.

THE BEHAVIOUR GAP: A REAL COST TO PORTFOLIOS

The chart below makes the message clear. An investor who stayed fully invested in the S&P 500 from 2003 to 2022 turned $10 000 into nearly **$65 000.** But missing just the **10 best days** saw returns halved. Miss 20? You’re down to **$17 826.** Miss 60? You’re left with **$4 205** – less than half your initial investment.

This illustrates what we call the **behaviour gap:** the cost of poor decision-making driven by fear, overconfidence, or indecision. When clients react emotionally to markets – moving to cash, waiting for a stronger rand, or chasing returns – they risk missing the very moments that drive long-term performance.

Chart 1: Value of $10 000 invested in S&P 500 (Jan 03 - Dec 22)



Source: JP Morgan. S&P 500 Index total returns from 1 Jan 2003 to 31 Dec 2023

Fun fact: 7/10 best days in offshore markets over the past two decades have occurred while the market is deep in bear territory. During these market downturns, investors are the most susceptible to loss aversion and premature selling. These biases act as a self-fulfilling prophecy, resulting in investors who were out of the market during the ten best days over this period realising returns of only 45% of that earned by their peers who remained invested throughout the two decades.

ANCHORING BIAS: FIXATING ON THE RAND

One of the most common decision-making traps in offshore investing is anchoring – the tendency to fixate on a particular exchange rate or "fair value". Clients often defer offshore investments in the hope that the rand will "strengthen back" to a historical level. But the rand, averaging 6% annual depreciation over time, doesn't move according to sentiment or memory.

Advisers must help clients break free from this fixed mental anchor. The reality is: **currency diversification and offshore exposure** are not just tactical moves – they are long-term strategic decisions. Tools like **rand-cost averaging** can support entry without relying on perfect timing.

FRAMING EFFECT: LANGUAGE MATTERS

How we present investment information matters. The same data, framed differently, can evoke entirely different responses. Positioning an offshore investment as a "hedge against future rand weakness" might invite interest. Presenting it as "risk exposure to currency volatility" might induce avoidance.

Advisers should strive for **neutral, balanced framing** – contextualising risk and return in a client's overall plan rather than relying on persuasive one-sided narratives.

OVERCONFIDENCE BIAS: THE ILLUSION OF MARKET MASTERY

Some clients believe they can predict when to "get in" or "get out" – confident they can outwit markets. This overconfidence often leads to higher trading activity, increased costs, and disappointing returns. The S&P 500 chart serves as a cautionary tale: **missing just a few good days has a compounding effect on long-term wealth.**

Your role as an adviser is to bring a steady hand – reinforcing the importance of discipline, diversification, and long-term strategy over speculative tactics.

MARKET TIMING: THE COST OF CHASING THE HORIZON

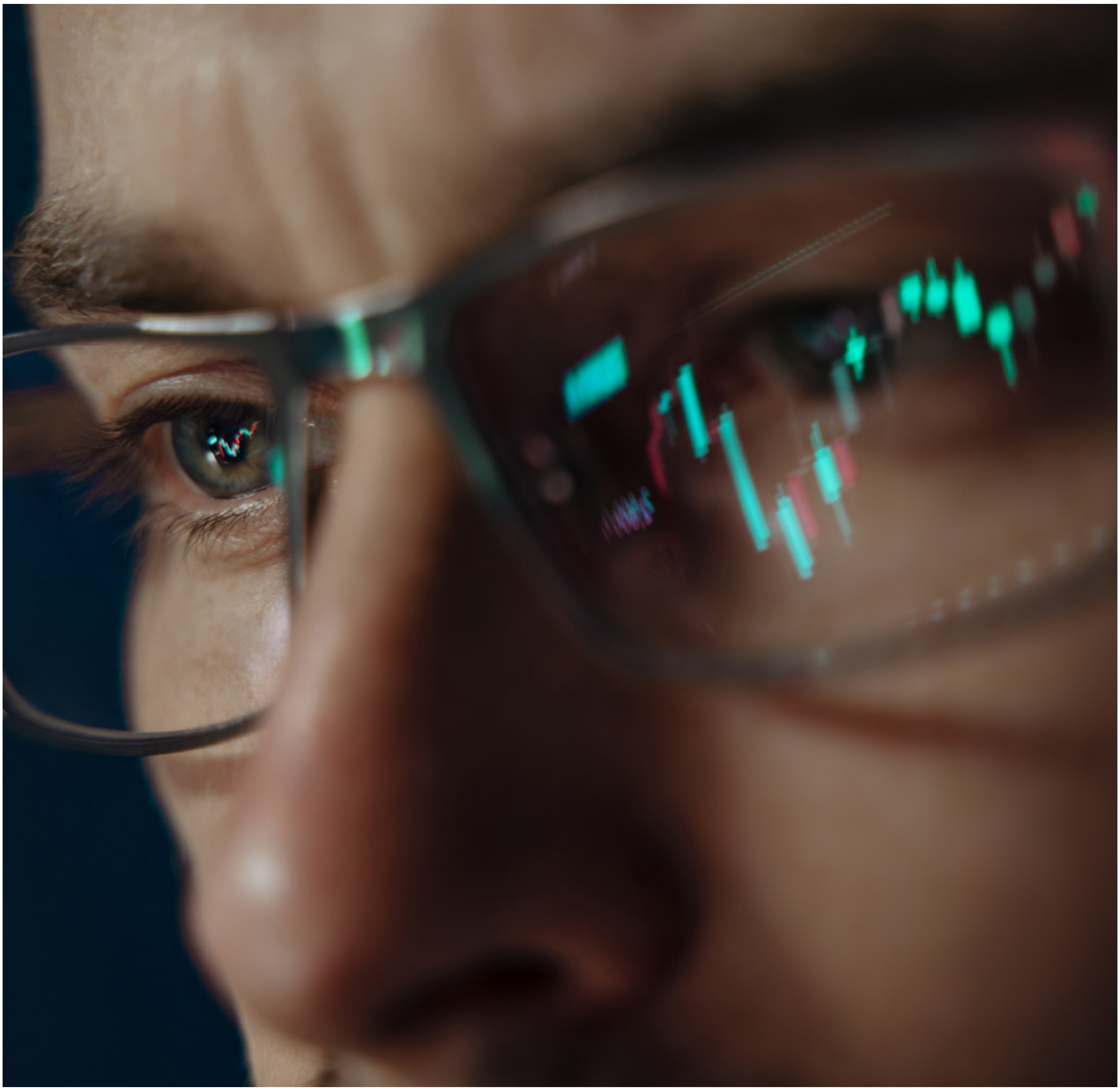
Human tendencies like **FOMO, herding, and loss aversion** can distort investment decisions. Clients who panic at market lows often lock in losses. Others who chase rallies often buy at peaks. These behavioural responses, while natural, are financially damaging.

Advisers should regularly revisit a client's **risk behaviour profile,** educating them on these tendencies and implementing safeguards – such as automated investing, regular reviews, and clear rebalancing protocols – to stay the course.

FROM ADVISER TO BEHAVIOURAL COACH

In today's digitally-enabled, empathy-driven world, financial advisers are more than just asset allocators – they are coaches, confidants, and guides. Recognising and addressing psychological blind spots, both in clients and ourselves, elevates the value of advice and builds deeper, more resilient relationships.

Behavioural coaching is not just about managing risk – it's about building **financial fortitude.**



UNDERSTANDING INVESTMENT RETURNS: INTERNAL RATE OF RETURN (IRR) VERSUS TIME-WEIGHTED RATE OF RETURN (TWRR)

Samantha Naidoo | Investment Actuarial Specialist
Trevor John | Head of Sales & Distribution Old Mutual International

For investors, the most important question is how their investments performed. And as seems customary with investing, there are many ways to answer this question. Each fund manager, adviser, and even platform will have their own way of determining investment performance often based on their interest in the investment itself. As such, it can be very confusing for clients to understand and compare performance between different investments or even the same investment through different platforms.

One particular point that often gets raised is the terminology used when it comes to investment returns. We often find that IRR is used as a catch-all phrase for all types of return calculation methodologies, often being confused with the TWRR which fund managers show on their fund factsheets. So we thought it the perfect opportunity to delve into the world of returns and unpack the IRR and TWRR.

Internal Rate of Return (IRR)

Definition: The IRR is the return earned taking account of any cashflows occurring during the specified period. In other words, the IRR accounts for any contributions and withdrawals made during the specified time period and is impacted by the size and timing of each cashflow.

Key features:

- Impacted by cashflows (size and time dependent).
  - Large contributions or withdrawals when market performance is volatile can result in extreme values for IRR which can sometimes be misleading.
- Investor-specific return, so not suitable for comparing managers or funds objectively.

Ideal usage

- For investors to get a sense of their personal return experience within their specific investment portfolio.

Time-Weighted Rate of Return (TWRR)

Definition: The TWRR is the rate of return earned over a specified time period ignoring any cashflows during the specified period. In other words, it shows how much would have been earned if an investor put in their money on day one and made no further contributions or withdrawals for the entire time period.

Key features:

- Not impacted by cashflows.
- Shows only pure investment performance and ignores manager skill in timing cashflows or rebalancing.
- Allows for comparison between different fund factsheets.
- Does not reflect actual return earned by individual investors.

Ideal usage:

- Used by fund managers to provide the period-specific returns of their funds.
- To compare returns between different investment funds.

At Old Mutual International we understand the importance of performance reporting for both clients and advisers. Our online portal, IMS, provides users with access to both IRR and TWRR on a client's profile. In addition and to add to the performance conversation, we include various other performance metrics for users to assess their portfolios.

Please reach out to your respective offshore specialist should you wish to discuss the Performance Reporting functionality on IMS in more detail.