

OLD MUTUAL SUPERFUND: MEMBER INVESTMENT UPDATE

Live Longer,
Laugh at how easy it is to understand investments,
Love how much your retirement savings can grow.

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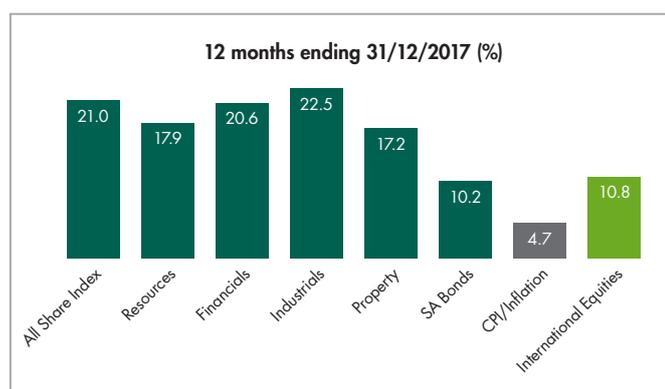


Welcome to your 1st Quarter investment update.

This year is already in full swing and looking back at a very eventful 2017 we can rest assured that another eventful year awaits all of us. Just as most people were winding down 2017, we had an unwelcome surprise in respect of the Steinhoff share price, which saw the share price plunge by 90%!

Not all was doom and gloom: the markets and the rand responded very positively to the election of Mr Cyril Ramaphosa as the new leader of the ANC. Overall, the markets ended strongly in 2017 despite Steinhoff.

The graph below gives a view of how the various indices performed.



STEINHOFF IMPACT

As a retirement fund member, you may have grown accustomed to seeing Steinhoff appear in the top 10 of many of your active managers' portfolios. However, the

exposure was not limited to active managers who viewed the share positively but also to passive or index tracking portfolios, who held these shares because they were tracking a particular benchmark or index.

The overall exposure and impact of this share price shock on your retirement savings would have been roughly equal to the amount of your investment portfolio invested in this stock. As an example, if your investment portfolio had a 2% exposure to Steinhoff at the beginning of December and the share price dropped by 90%, the loss in respect of this share would be approximately 1.8% for December 2017.

Managers had different levels of exposure and sold out their positions at different points as events unfolded.

HAS THIS SHORT-TERM LOSS AFFECTED YOUR LONG-TERM SAVINGS FOR RETIRING?

Always remember that your retirement fund savings are long-term investments. One should therefore never make emotional decisions based on poor performance of the markets or of a particular company share price over a short-term period or for that matter if performance over the short term has been very good.

Always keep in mind that your selection of investment portfolios depends on your attitude towards risk, the number of years of service you have left until you retire and other aspects related to your own financial planning. Remember, as you approach your retirement age your financial needs may change and so too may your attitude towards risk and return.

DO GREAT THINGS



When you invest money into your retirement fund it should be with a long-term outlook, whether you are 5 years or 20 years from retirement. When the markets under-perform it is natural to be concerned about how this affects the hard earned money that you are putting away for the day you retire. When markets under-perform it is possible that your fund will take a knock, depending on its overall exposure to equities. It is therefore important to stick to your long-term investment strategy and keep your eye on the end target.

ABSOLUTE STABLE GROWTH PORTFOLIO

The Old Mutual Absolute Stable Growth Portfolio is the Management Board's choice of investment portfolio for members who do not want to decide for themselves. It is a smoothed bonus portfolio, which aims to provide competitive long-term returns with lower volatility than you would get if you were subject to market returns and an underlying guarantee that the value cannot fall more than 20%.

Over the long term, you would expect to earn similar returns to a comparable market-linked fund – just with fewer ups and downs due to the smoothing.

Smoothing is a tool that is used to turn unstable market returns into smoothed returns, also called bonuses. These returns will give a smooth progression of the value of your investment over time. These bonuses are calculated using a simple and transparent formula.

IMPACT ON ABSOLUTE STABLE GROWTH PORTFOLIO

These portfolios deliver stable returns by declaring bonuses, which smooth out the volatility associated with investing directly in an open market (or "marked-linked") investment. Member contributions (and capital investments) are invested in a balanced, market-linked portfolio, which primarily invests in "growth" assets, such as the local stock market. As with any other investment portfolio there is a risk of negative returns whenever investments are made in the stock market. However, the Smoothed Bonus portfolios reduce this risk by passing the returns earned on the underlying portfolio on to members through smoothed bonuses, which deliberately present a more stable return.

Smoothing is achieved by declaring lower bonuses than the return the underlying portfolio is delivering during periods of positive market performance, to build up reserves. The reserves are then used to declare positive stable bonuses during periods of negative market performance. During periods of negative market performance, negative reserves can be tolerated. This means that the value of your investment is worth more than the underlying portfolio during these times.

Because of this mechanism, Old Mutual maintains records of the following values for your fund value:

- The value of contributions accumulated with bonuses declared (or "book" value);
- The value of those same contributions accumulated with returns earned on the underlying portfolio (or "market" value).

Although the sudden fall in the Steinhoff share price has affected the market value of the assets, it did not directly affect the book value. Your book value would have simply grown by the positive bonus declared over this period, which demonstrates the benefits of this type of investment.

So the benefits of this investment portfolio is such that your savings will not have seen a sudden fall in value like any other market linked portfolio would have experienced as the negative return was absorbed by the reserves. Even after this impact the reserves remain in positive territory.

WRAPPING UP...

Looking ahead for 2018 there are positive signs on the political front and a very strong local currency.

We hope this investment update will help our members understand the uncertain investment market and remain steadfast on increasing their chances of accumulating as much retirement savings as possible.

Look out for the next Investment Update in the 2nd quarter of 2018. Until then... keep your retirement savings focus on the long term.

