

# OLD MUTUAL SUPERFUND INVESTMENT UPDATE



Quarter **2** 2015  
Compiled May 2015

## ALTERNATIVE ASSET CLASSES

This quarter we are putting the spotlight on alternative asset classes to enable you to better understand these products and how they can be used within your retirement fund investments. With the expectation of lower real returns from the more traditional asset classes such as equities, bonds and cash, Portfolio Managers are increasingly looking for alternative sources of diversification and return. We would like to explain some of the terminology used and shed some light on where they are currently found within SuperFund's investments.

## SO WHAT ARE THEY?

The term Alternative Assets covers a range of very different asset classes including (but not limited to):

### Commodities

These are physical assets e.g. raw materials or precious metals. Historically the Pension Fund's Act made provision for Funds to hold physical gold in the form of Kruger Rands; however this has been expanded in more recent times to include a broader range of commodities. Today it is common for portfolio managers to hold gold and platinum within their portfolios, however they generally do this by buying gold or platinum Exchange Traded Funds (ETF's) rather than physical bars of the precious metal - far less

tempting for bank robbers. ETF's are securities which trade on exchanges like other shares, but which track the movements of the price of the underlying instrument i.e. the gold or the platinum price.

### Private Equity

The difference between private equity and your normal equity (or shares) is simply that with private equity you hold shares in a company that is not listed on the stock exchange. Private Equity investors don't enjoy the benefits associated with listed equity investors such as listing requirements and monitoring, transparency of pricing and trading ability. Private Equity investing thus carries more risk and the associated potential for higher returns. Such investments tend to be made with a fixed-term view on a particular company and the investor is often required to supply financial assistance and/or operational assistance in the underlying investments.

### Hedge Funds

This asset class refers to Funds who use diverse investment techniques to achieve the return objective. In the South African environment such return objectives are generally absolute in nature i.e. they seek to achieve positive returns irrespective of the markets. Such techniques include the use of derivatives which has led to the public impression that Hedge Funds must be risky investments. Whilst this is



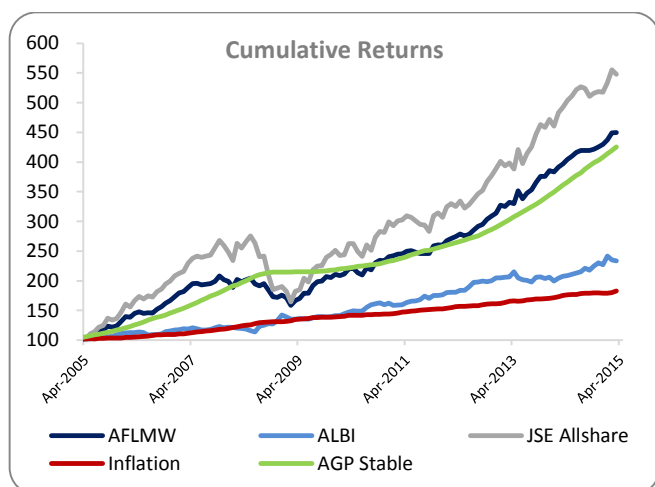
true for some Funds, locally it is far more common for such Funds to be structured to be less risky than traditional investments and portfolio managers will often bring them into their portfolio to add diversification, reduce risk and enhance the stability of returns. Retirement funds only permit the use of these instruments for managing risk.

## SO HOW ARE THEY USED?

Alternative assets are becoming an increasingly important tool in the arsenal of the asset manager. They are used to compliment the overall asset class selection, increase diversification and help to produce investment return in excess of benchmark against which the managers is measured.

Alternative asset classes often come at a higher cost than traditional asset classes and when evaluating a portfolio it is important to know how much of the portfolio will be allocated to the alternative assets.

## MARKET INDICATORS



## HAVE ANY QUESTIONS?

Contact your accredited financial adviser or call our decision support line on 0860 38 88 73 which can provide you with contact details for accredited financial advisers whom you may wish to contact.

### IMPORTANT:

Please note that while care has been taken to ensure that the information provided in this update is correct, it represents an overview of the topics under discussion only and as such does not constitute advice. The update is not designed to be comprehensive, and in particular does not necessarily reflect the thoughts of the Management Board on these topics. It is not the role of the Management Board to provide investment advice and we strongly suggest that you contact your professional adviser before taking any decisions based on this information.

## REAL CASE SCENARIO

The Old Mutual Absolute Growth portfolios strategic asset allocation to this asset class is approximately 11% (7.5% local and 3.5% global) and includes a range of the types mentioned above.

The 30 June 2014 disclosure report that sets out the structure of the portfolio of assets underlying the smoothed bonus products demonstrated that the local alternative asset portfolio delivered very strong returns and has outperformed its benchmark over the relevant periods considered, with performance largely being driven by valuations on renewable energy projects.

The underlying benchmark for this asset class is set at inflation plus 7% and it has managed to outperform this tough benchmark by over 3% over 5 years (i.e. it managed to deliver inflation plus 10%!).

The graph shows the continued strength of South African equities (*JSE Allshare*), South African bonds (*ALBI*). On the back of these market returns, the typical moderate risk retirement fund investment portfolio is showing more muted returns but still in excess of inflation. Recent performance of the Old Mutual Absolute Growth Portfolio has been strong. In the short run, bonuses on these portfolios are driven by inflation and the level of the Bonus Smoothing Reserve. In the longer run, the returns of the underlying investment portfolio will drive the resultant bonuses.

## THE MANAGEMENT BOARD