# OLD MUTUAL SMOOTHED BONUS FUNDS

## PIONEERING SMOOTH INVESTMENT JOURNEYS FOR OVER HALF A CENTURY

2019 QUARTERLY REPORT Q2

CORPORATE

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# CONTENTS

# GLOBAL AND LOCAL ECONOMIC UPDATE

**Johann Els**

Old Mutual Investment Group, Chief Economist

## GLOBAL ECONOMY

While the global economy remains on track for a year of better balanced and more synchronised growth as per my base case outlook, overall growth was always expected to be slower in 2019 than last year. Unfortunately, the prolonged trade war has meant that growth forecasts have been downgraded even further.

Throughout April and early May, optimism was still building that a trade deal between the USA and China could be signed by the end of May. However, negotiations broke down around mid-May and the USA raised tariffs from 10% to 25% on US$200 bn worth of Chinese imports with threats of tariffs on the remaining US$300 bn of untaxed imports as well. China retaliated quickly. This re-escalation hit business confidence hard and we have since seen a significant impact on the manufacturing purchasing managers' index (PMI) of a number of countries.

Apart from this extension to the trade war, the other surprise in Q2 was the easier policy stance virtually everywhere. While the policy stance of the Federal Reserve Board in the USA (the Fed) has already evolved from the tightening bias during 2018 to a more patient approach early this year, the resultant trade-related growth risks moved them to an easing policy stance at their June policy meeting. The Fed's dot-plot indicates that seven members of the Federal Open Market Committee (FOMC) – the Fed's policy-setting committee – now expect 50bps of rate cuts by year-end. Another member expects one cut, eight members expect rates to be unchanged and one expects a rate hike. This is a substantial shift from no cuts expected by the FOMC when the previous dot-plot was published in March. The market is now widely expecting a rate cut at the July meeting. The consensus expects two 25bp rate cuts in the second half of this year, but some arguments can also be made for a 50bp cut at the July meeting for this "insurance" rate cut to be effective.

The European Central Bank (ECB) has turned more dovish and a rate cut is now on the cards within the next few months. Furthermore, the ECB could even extend Quantitative Easing (QE). Elsewhere, Australia, New Zealand, India, Russia, Malaysia and the Philippines cut rates recently. China, South Africa and others are expected to follow suit.

While easier policy will certainly help the global economy, it will not be enough on its own to engineer a stronger economic recovery. Confidence will only recover sufficiently once the trade war has been resolved. And though it is unlikely that a deal will be signed very soon, any news of progress on this front will help confidence.

### OUTLOOK FOR THE GLOBAL ECONOMY

I remain of the opinion that recession risk remains low and growth rotation from the USA to elsewhere should mean better balanced and more synchronised growth – even if at a slower pace than in 2018. With USA rate cuts on the cards, I expect the dollar to weaken. This will still be a better environment for emerging markets in general and South Africa in particular.

## SA ECONOMY

First off, despite uncertainty, volatility and very weak economic growth, I believe the "Winds of Change" investment theme is still on track. Nothing ever moves in a straight line – and we have certainly seen enough evidence of that. However, the broad underlying trend is still up.

The election outcome in May was in line with my expectations – a positive outcome for the political centre. The fringe parties have remained at the fringe while the ANC's share of the vote has improved from the 2016 local government elections, which – in my view – is the better comparison. I do not believe we should compare the outcome to the 2014 national elections.

This better election outcome allowed President Ramaphosa to improve his Cabinet – cutting the size and removing some non-performing ministers. Perhaps the Cabinet is not perfect yet, but it certainly is a vast improvement. Again, it would be unrealistic to expect overnight change. We are moving in the right direction: the headwinds holding us back are dying down and even turning into tailwinds pushing us forward.

However, the second quarter did have its share of bad news. The economy turned out to be even weaker than previously expected. While I expected a negative growth number for the first quarter – largely thanks to loadshedding – growth was recorded at -3.2% at an annualised pace. The slump was fairly widespread – going beyond the impact of electricity shortages – and obviously confidence among consumers and business was very weak amidst the pre-election uncertainty. Despite some rebound expected in second quarter GDP growth – already initial data for April suggests some turnaround in electricity and manufacturing production and retail sales. Nevertheless, 2019 GDP growth is now likely to stay close to the 0.8% reached last year.

Clearly a confidence turnaround is needed to help lift economic growth. And this is still possible through policy change. One of the highlights of President Ramaphosa's State of the Nation Address was the return of the National Development Plan (NDP) as the guiding light to get economic growth onto a higher trajectory. The NDP is a great plan but has not been implemented to the extent needed. Better policy and stronger confidence could lead to increased economic activity and I believe 3% growth is possible by 2021/2022.

Inflation remains very muted, with almost no evidence of second round price pressures despite significant cost increases in areas such as electricity and petrol. Food inflation has been well contained but is expected to rise towards December. I still expect inflation to average 4.4% this year and 4.7% in 2020.

A much more dovish global monetary policy stance, combined with local growth downside surprises (both in terms of actual and forecast growth) and very muted inflation has led to an easier policy stance at the South African Reserve Bank. I now expect a rate cut at the July Monetary Policy Committee (MPC) meeting. Unfortunately, there is not room for a significant downcycle – we can have one or two rate cuts at most. While rate cuts will certainly help lift sentiment, I do not expect them to have a big impact on the growth outlook. For that we need confidence boosting policies.

### OUTLOOK FOR THE SA ECONOMY

Easing global policy and a weaker USA dollar should help to improve the environment for emerging economies. This, in turn, should help SA this year. The comeback of the NDP and better policy implementation should also help growth to slowly gather pace in the second half of the year. Inflation will likely remain subdued. While a rate cut is now on the cards, better policy implementation and stronger confidence are needed. I then expect the rand to benefit later this year from the weaker dollar and improved confidence and growth.

# UNDERLYING PERFORMANCE AND POSITION

**Wesley Johnson**
Product Marketing Specialist, Guaranteed Solutions

**Tabasoem Parker**
Performance Analyst, Investment Strategy Team

## SMOOTHED BONUS FUND'S UNDERLYING PERFORMANCE & POSITION

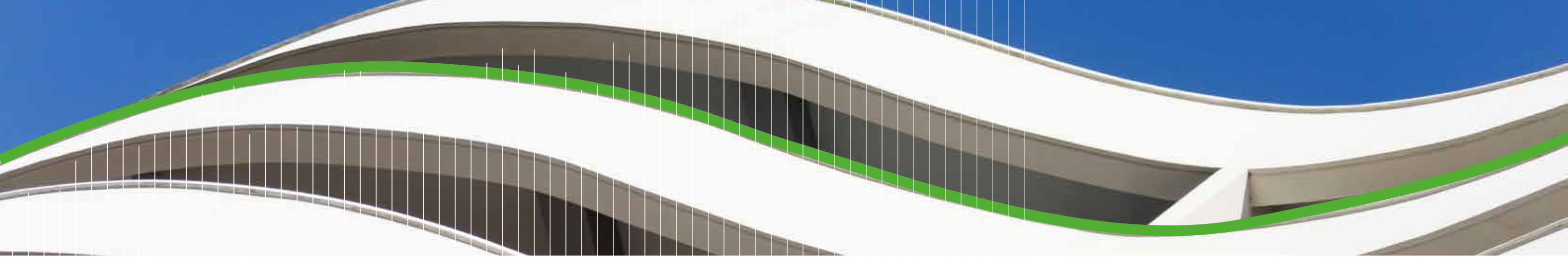
In this section we explain the rationale behind the current asset allocation position of the Old Mutual Smoothed Bonus Funds and comment on the underlying performance for the period ending 30 June 2019.

## UNDERLYING ASSET ALLOCATION OF OUR SMOOTHED BONUS FUNDS

Each of Old Mutual's Smoothed Bonus Funds has a strategic asset allocation, which is set in order to achieve that portfolio's long-term risk and return objectives. The Absolute Growth Portfolio has the highest allocation to growth assets, and is therefore expected to deliver the highest real return over the long term. Conversely, the CoreGrowth Portfolio has the lowest allocation to growth assets, and is expected to deliver lower, but more stable returns over the long term. The current strategic asset allocations are set out in Table 1 below. The portfolios are required to remain within set ranges around the targeted asset allocation for each asset class.

**Table 1**

| ASSET CLASS | ABSOLUTE GROWTH PORTFOLIO | | GUARANTEED FUND | | COREGROWTH PORTFOLIO | |
|---|---|---|---|---|---|---|
| | Actual Allocation | Strategic Allocation | Actual Allocation | Strategic Allocation | Actual Allocation | Strategic Allocation |
| Local equities | 45.4% | 45.0% | 37.3% | 37.0% | 25.9% | 25.5% |
| Local interest-bearing assets | 15.6% | 13.0% | 23.8% | 21.0% | 35.1% | 32.5% |
| Local alternative assets | 6.0% | 7.5% | 6.0% | 7.5% | 6.0% | 7.5% |
| Direct property | 7.1% | 6.5% | 7.1% | 6.5% | 7.1% | 6.5% |
| Global equities | 18.2% | 20.0% | 17.1% | 19.0% | 15.5% | 17.3% |
| Global interest-bearing assets | 3.3% | 4.0% | 4.1% | 5.0% | 5.8% | 6.8% |
| Global alternative assets | 3.2% | 3.0% | 3.3% | 3.0% | 3.2% | 3.0% |
| African listed equities | 1.2% | 1.0% | 1.3% | 1.0% | 1.3% | 1.0% |



Old Mutual Investment Group's MacroSolutions boutique manages the underlying portfolios in accordance with their respective long-term strategic asset allocations. MacroSolutions also makes tactical allocations away from the strategic benchmarks in accordance with their asset class views, provided that the portfolios remain within set minimum and maximum asset class ranges.

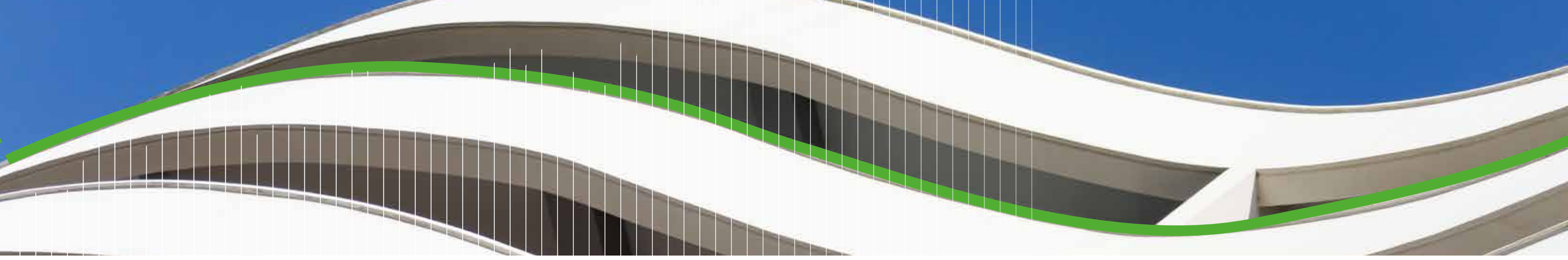
MacroSolutions' tactical asset allocation calls aggregated to a positive result of 0.1% p.a. over the three year period. The underweight to global bonds added most value, with good currency trading (mainly buying of rand in weakness) and active trading of SA bonds also contributing. Weighing against this was an underweight exposure to alternative asset classes, although it should be noted that the actual return achieved on the SA alternatives portfolio was significantly behind its challenging benchmark. Other detractors were the impact of topping up SA equity as the local market faltered through much of 2018 and the trimming of offshore equity exposure as the global equity markets rebounded. These factors thus also detracted over the most recent one year period, although the biggest impact was from being underweight global assets - global bonds in particular - as the rand weakened during the second half of 2018.

## MARKET INDICATORS

Table 2 below sets out a summary of the index returns to 30 June 2019.

**Table 2**

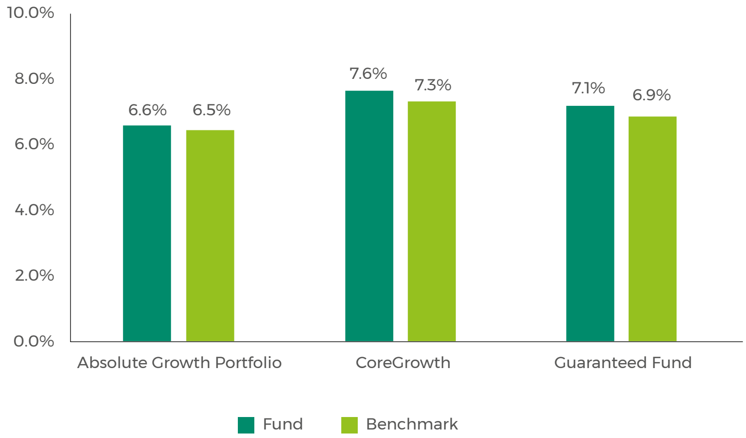
| | 1 YEAR (% P.A.) | 2 YEARS (% P.A.) | 3 YEARS (% P.A.) | 5 YEARS (% P.A.) | 7 YEARS (% P.A.) | 10 YEARS (% P.A.) |
|---|---|---|---|---|---|---|
| **SA EQUITY** | | | | | | |
| Shareholders Weighted Index | 1.2 | 6.3 | 4.3 | 5.4 | 11.0 | 13.5 |
| Capped SWIX Index | 1.1 | 4.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| All Share Index | 4.4 | 9.6 | 6.9 | 5.8 | 11.4 | 13.5 |
| Resources Index | 21.2 | 31.3 | 20.6 | 0.8 | 4.1 | 5.4 |
| Financial Index | 5.7 | 8.1 | 6.2 | 7.1 | 12.3 | 15.1 |
| Industrial Index | -3.7 | 1.8 | 1.8 | 5.3 | 13.2 | 16.8 |
| Top 40 Index | 4.6 | 10.5 | 7.4 | 5.6 | 11.7 | 13.3 |
| Mid-cap Index | 5.2 | 4.4 | 1.9 | 5.6 | 8.9 | 13.4 |
| Small-cap Index | -10.9 | -5.3 | -2.8 | 1.8 | 8.4 | 11.8 |
| **SA PROPERTY** | | | | | | |
| SA Quoted Property Index | 0.8 | -4.7 | -2.3 | 5.6 | 8.1 | 13.0 |
| **SA INTEREST-BEARING** | | | | | | |
| ALBI BEASSA | 11.5 | 10.8 | 9.9 | 8.6 | 7.8 | 9.0 |
| STeFi | 7.3 | 7.3 | 7.4 | 7.1 | 6.6 | 6.5 |
| Cash | 6.6 | 6.6 | 6.7 | 6.3 | 5.8 | 5.7 |
| **GLOBAL** | | | | | | |
| MSCI World Index (R) | 10.0 | 13.4 | 11.0 | 13.4 | 20.2 | 18.2 |
| JPM International Bond (R) | 8.7 | 7.5 | -0.4 | 7.0 | 9.2 | 8.8 |
| US 1-month LIBOR (R) | 5.0 | 5.5 | 0.0 | 6.7 | 8.8 | 6.8 |
| **INFLATION (ESTIMATE)** | | | | | | |
| CPI | 4.5 | 4.5 | 4.7 | 5.0 | 5.3 | 5.2 |



## UNDERLYING ASSET CLASS PERFORMANCE OF OUR SMOOTHED BONUS FUNDS

All of the Smoothed Bonus Funds outperformed their respective benchmarks over the three-year period. The difference in returns between these funds are primarily due to the different strategic asset allocations adopted by each fund. While the performances of the three funds are expected to diverge over time, there may be some periods where the funds perform similarly relative to each other. The more conservative CoreGrowth portfolio has outperformed the Absolute Growth Portfolio and Guaranteed Fund over the past 3-years, largely as a result of higher exposure to the local bond market which is currently outperforming the equity market.

**3-YEAR ANNUALISED RETURN**




## UNDERLYING ASSET CLASS PERFORMANCE

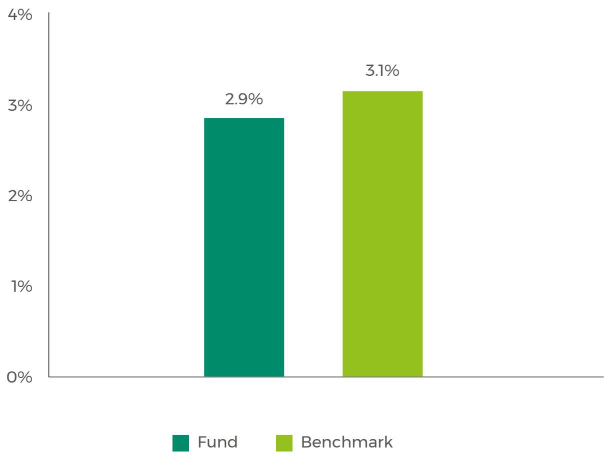
### Local Equities

The local equity portfolio consists of a diversified portfolio of South African JSE-listed equities. This portfolio is designed to deliver consistent performance through different market conditions by combining an index tracking portfolio with active management. The active part of the portfolio is split between different investment styles that are expected to complement each other and further diversify the portfolio. While each manager is included in the portfolio based on their individual strengths, the blend of these different managers provides a more consistent investment return than would be possible by investing in a single portfolio or strategy. The portfolio consists of the following:

| STRATEGY | PORTFOLIO | FUND % |
|---|---|---|
| **PASSIVE** | Capped-SWIX Tracker | 35% |
| **ACTIVE** | Old Mutual Equities | 35% |
| | Managed Alpha | 14% |
| | Premium Equity | 6% |
| | Old Mutual Multi-Managers | 10% |
| | **TOTAL** | **100%** |

The portfolio's benchmark changed from the SWIX index to the Capped SWIX index in July 2017. The total performance of the portfolio is shown below:

**3-YEAR ANNUALISED RETURN**




The Total Equity channel is currently underperforming over the three-year period to 30 June 2019. Underperformance was largely driven by the Managed Alpha Portfolio. The Old Mutual Equities portfolio (OME) and Old Mutual Multi-Manager (OMMM) also contributed slightly to the underperformance.

### Old Mutual Equities

Over the past year to June 2019 the portfolio has underperformed the benchmark by 0.3% p.a. The portfolios significant underweight in MTN and SA consumers were the major positive contributors to performance over this period. Holdings in Anglogold, Absa banking group, and Transaction Capital also contributed positively. Selection within the mining sector (holding Glencore over Anglo American) and position in British American Tobacco (BTI) were the most significant detractors over the period.

The portfolio underperformed the benchmark by 0.7% p.a. over the three-year period. The portfolios large underweight position in MTN and Brait, and overweight positions in Naspers, Absa Group and Transaction Capital contributed positively to performance. However, the overweight position in Steinhoff and underweight in Impala platinum were the major detractors.

### Managed Alpha

The Managed Alpha portfolio had a return of 1.5% p.a. over the past year, outperforming its respective benchmark the FTSE/JSE Capped Shareholder Weighted Index (Capped Swix) by 0.42% p.a. The allocation to healthcare and consumer staples sectors; allocation and selection within financials were the largest performance contributors. The fund was on average underweight to the health care and consumer staples sectors, and overweight to the financials sector over the one year period. At share level, Gold Fields (GFI), Aspen (APN) and Capitec (CPI) were the largest contributors to performance.

The portfolio had an annualised return of 1.7% p.a. for the three year period, underperformed the benchmark by 1.5% p.a. The largest detractors from performance were the average underweight positions in the financial sector, communication services and consumer discretionary sectors over the three years. The allocation to financials and selection within communication services and consumer discretionary sectors drove most of the performance drag. At share level Coronation Fund Managers (CML), Naspers (NPN) and Sanlam (SLM) were the largest performance detractors.

**Premium Equity**

The Premium Equity fund delivered 5.3% p.a. over the three-year period, outperforming the benchmark by 2.2% p.a. Strong Top 40 Index performance resulted in a negative option alpha. Although there has been some positive stock alpha, it is important to remember that the portfolios stock selection is designed to provide a platform for alpha generation using options while limiting benchmark risk to reasonable levels. In the long run the portfolio would expect the alpha from stock selection to be negligible.

**Old Mutual Multi-Managers**

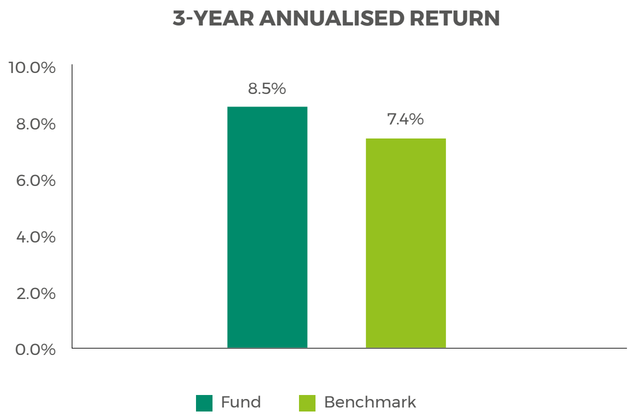
The OMMM Life Equity portfolio underperformed its benchmark by 3.2% p.a. over the last year. The underperformance of the benchmark over this time period was driven by the underperformance of four out of the five appointed managers, with the only manager outperforming over this time period being Sentio. Over the three-year period ending June 2019, the OMMM Life Equity portfolio returned 3.0% p.a. underperforming the benchmark by 0.7% p.a.

**Local Interest-Bearing Assets**

The local interest-bearing portfolio consists of bond and money market assets. These assets are managed by OMIG's Futuregrowth fixed-income boutique.

**Local Money Market**

The money market assets are invested in a yield enhanced money market portfolio. The portfolio aims to generate returns through the active management of short to medium-term interest bearing instruments. The total performance of the portfolio is shown below:

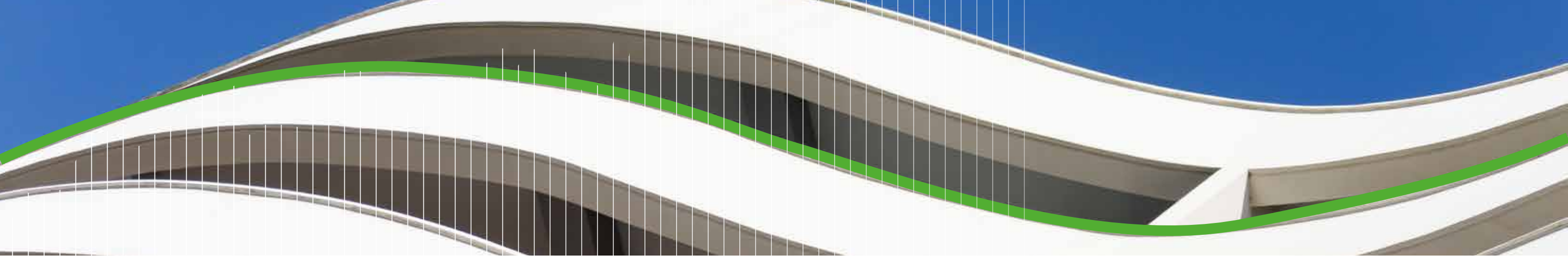



The portfolio has performed well over 3 years outperforming its benchmark by 1.1% p.a. The fund has benefitted from the higher spreads earned on the Step Rate Notes and Floating Rate Credit Assets. The fund also benefitted positively from good duration management (fixed vs. floating) and asset selection.

**Local Bonds**

The bond strategy comprises a combination of a core bond and a yield-enhanced bond portfolio.

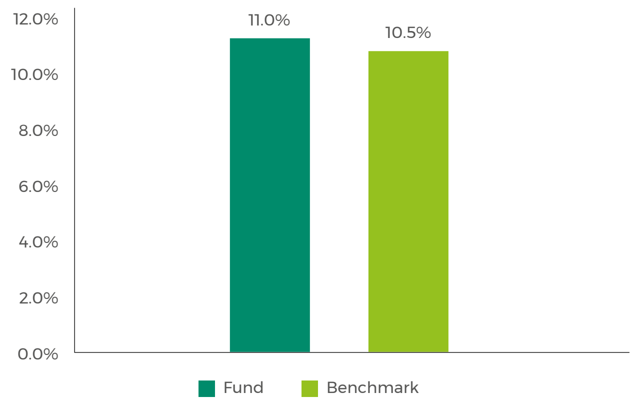
The core bond portfolio aims to generate returns primarily through the management of interest rate risk. Futuregrowth aim to implement their views on interest rates across various interest bearing assets and asset durations. The core bond portfolio also has a small allowance to invest in non-government bonds – which are expected to generate higher investment returns.



In addition to asset allocation and active interest rate management, the yield enhanced portfolio aims to generate additional returns through the investment in other listed and unlisted credit instruments.

The total bond portfolio performance is shown below:

**3-YEAR ANNUALISED RETURN**




### Core Bond Portfolio

The Core Bond Fund outperformed the benchmark by 0.4% p.a. over one year and by 0.7% p.a. over three years. This was mainly the result of holding higher yielding non-governing bonds and enhanced by the fact that the yield at which these bonds were offered narrowed relative to the sovereign yield curve (yields at which RSA Government bonds trade).

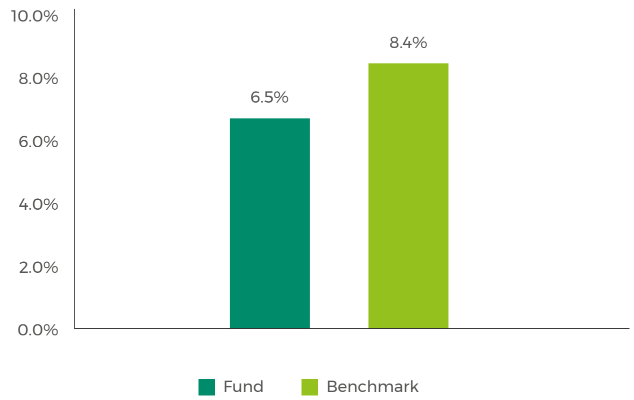
### Yield-Enhanced Portfolio

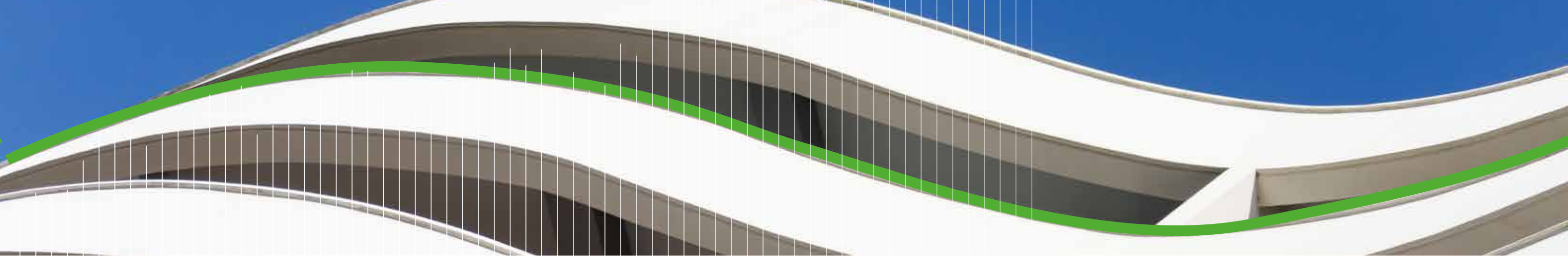
The fund outperformed the benchmark by 1.1% p.a. over one year and by 1.5% p.a. over three years. Detractors from a credit perspective relate to credit revaluations on certain unlisted credit counters. Interest position being a detractor off the back of nominal positioning particularly in respect of the 7-12 year area of the curve, however we note the decrease in base accrual leakage. The Fund's holding in various unlisted equity was a positive contributor to performance.

## Direct Property

The direct property portfolio invests in a diversified range of unlisted properties, with exposure across the retail, office and industrial property sectors. While the majority of the portfolio's assets are located within South Africa, the portfolio has recently started to diversify its exposure into other countries where suitable opportunities exist.

**3-YEAR ANNUALISED RETURN**





The property portfolio underperformed the benchmark by 1.8% p.a. over the three-year period to 30 June 2019. Factors that contributed to the portfolios underperformance are:

- Large land holdings such as Stella Rd and Zonkiziziwe, which is not income producing and thus not delivering any income return. Furthermore, there has been no improvement in the land price, which has resulted in a no capital growth.
- Vacancies are higher than the benchmark in both the industrial and retail sector.
- Development spend in the retail portfolio over the past 2 years (mainly at Gateway, Rosebank & Cavendish) has not yet translated into income return and capital growth due to vacancies. The expectation is that an improvement in the returns should be seen once the vacant space has been let.
- Rental reversions and longer lead time to fill vacant space is impacting future income streams and resulting in lower capital growth.

Properties are continually monitored on an individual property basis and focus on industry benchmarking of operating expenses across all properties, to improve performance.

## Global Equities

The Multi-Style equity portfolio is an actively managed portfolio that blends different managers and investment styles in order to target a relatively stable outcome. The majority of the underlying portfolios are managed on a global basis, allowing each manager to invest across both developed and emerging markets.

<table>
<tr><th>FUND MANAGER</th><th>FUND STYLE</th><th>FUND %</th></tr>
<tr><td>Customised Solutions</td><td>MSCI World ESG Tracker</td><td>10%</td></tr>
<tr><td>Barrow Hanley Mewhinney & Strauss</td><td>Global Value</td><td rowspan="4">80%</td></tr>
<tr><td>Acadian</td><td>Global Quant</td></tr>
<tr><td>Fiera Capital</td><td rowspan="2">Global Growth</td></tr>
<tr><td>Baillie Gifford</td></tr>
<tr><td>MacroSolutions</td><td>Global Macro</td><td>10%</td></tr>
</table>

**MSCI World ESG Tracker:** This portfolio tracks the performance of the MSCI World ESG Index. The index is designed to give effect to responsible investing by investing more heavily in companies that meet specific economic, social and governance (ESG) criteria. The ESG Index targets the same sector and regional weights as the MSCI World Index in order to target performance that is similar to that of the MSCI World Index, whilst still achieving the broader objective of investing in companies with strong ESG ratings.

**Barrow, Hanley, Mewhinney & Strauss:** The manager provides value-oriented investment strategies across various international markets. Their equity portfolios are designed from the bottom up with a strong value underpin and tend to exhibit below-market price-to-earnings ratios, below-market price-to-book ratios, and above-market dividend yields, regardless of market conditions.

**Acadian:** Acadian Asset Management LLC specialises in global and international quantitative equity strategies. Acadian seeks to capture the fundamental drivers of stock return, exploiting market inefficiencies through a quantitative investment process.

**Fiera Capital:** Fiera Capital is a growth-oriented manager that seeks to exploit opportunities in long-term quality growth companies with high returns and supportive intrinsic valuations. Investments are made with a long-term horizon, which leads to low portfolio turnover.

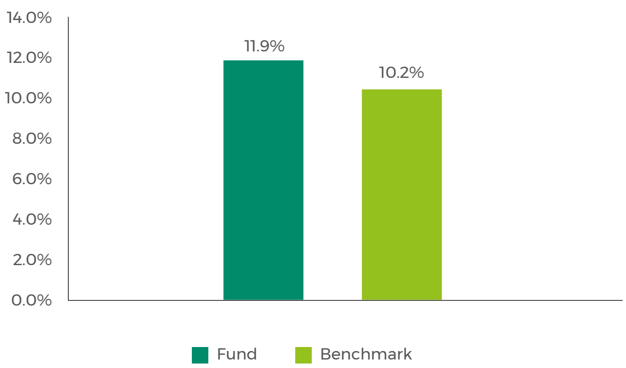
**Baillie Gifford:** The manager uses fundamental analysis and proprietary research in order to identify companies that it believes will deliver above-average profit growth over the long term. The manager constructs portfolios on a bottom-up basis with the objective of outperforming its benchmark over the long term.

**Global Macro Portfolio:** The Global Macro Equity portfolio is an active equity portfolio which applies top-down views in order to generate outperformance relative to the global equity benchmark. Active positions are taken predominantly in regions, countries, sectors and currencies. The portfolio is run by OMIG's MacroSolutions boutique.

**Global Emerging Market (GEM):** The GEM portfolio invests in a diversified portfolio of shares listed on emerging market (EM) exchanges around the world. The strategy is value based, targeting superior returns by investing in companies with quality business models, high margins of safety in their fundamental valuations, and governance standards that meet minimum requirements.

As of 1 May 2019, Old Mutual Investment Group has taken a strategic decision to discontinue the GEM Fund. The 1% allocation towards the GEM boutique has been reallocated towards the MSCI World ESG Tracker Fund which is managed by Customised Solutions.

**3-YEAR ANNUALISED RETURN**

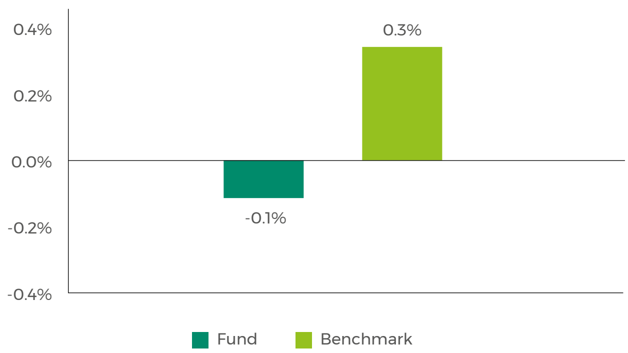



The Global Equity fund outperformed the benchmark by 1.7% p.a. gross of fees over the three-year period. The Growth and Quality managers produced good returns and significantly outperformed their respective benchmarks.

### Global Interest-Bearing Assets

The global interest-bearing portfolio consists of global bond and global cash assets.

**3-YEAR ANNUALISED RETURN**



The Global Bond fund underperformed its benchmark over the three-year period by 0.4% p.a.

Towards the end of May 2019, the investment in the Old Mutual Global Aggregate Bond Fund, managed by Allianz (formerly known as Rogge) was terminated. Global bond and cash exposure is now achieved through investments in the multi-managed Russell Global Bond and Cash Fund.

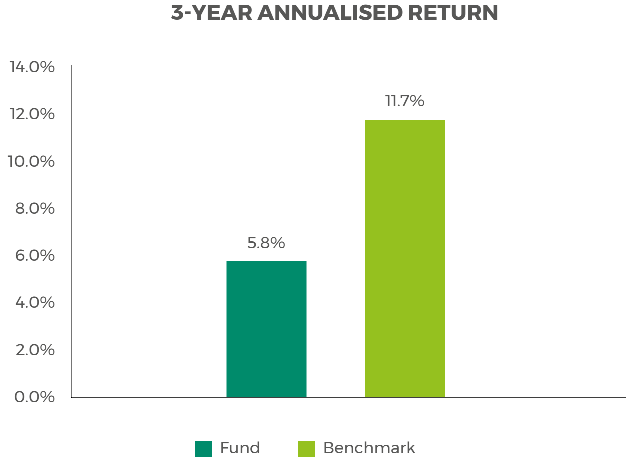
### Alternative Assets

The alternative asset portfolio includes:

- Exposure to Private Equity, both within South Africa and globally. Investment into local Private Equity is primarily made via direct investment into local Private Equity funds. Global private equity exposure is accessed through investment into fund of funds structures
- Infrastructure investments in commercially viable development projects, both within South Africa and in the rest of Africa. Typical investments include renewable energy projects, toll roads, utilities and airports
- Impact Funds, including local investments in affordable housing and schools, as well as in companies that provide end-user finance to low- to middle-income earners
- Agricultural investments, which consists of agricultural land and associated infrastructure primarily in South Africa, with increasing exposure to the rest of Africa

The local and global alternatives portfolios are managed predominantly by the Old Mutual Alternative Investments (OMAI) boutique, with the exception of the agricultural investments, which are managed by OMIG's Futuregrowth boutique.

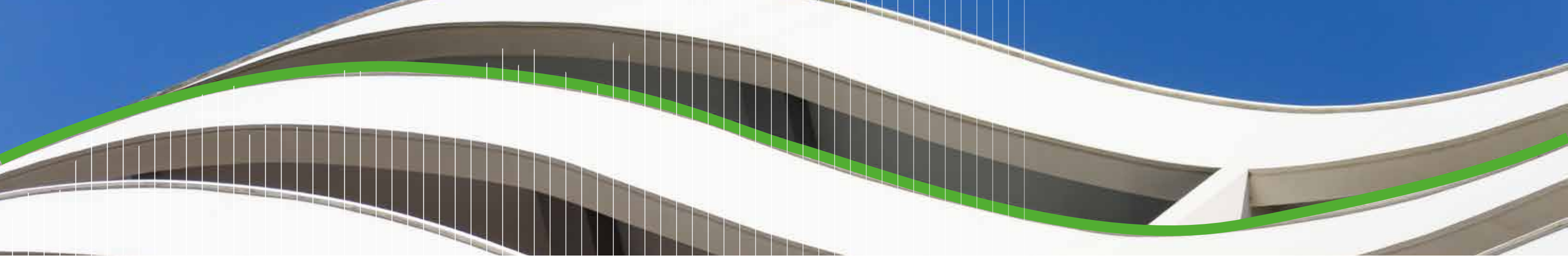
### Local Portfolio




The local alternative portfolio is a high growth portfolio that aims to provide investors with significant real returns over the long term. The portfolio has a long-term performance target of approximately CPI + 7%. The local portfolio invests in assets that are linked to the local economy, and has consequently struggled to meet this target recently, having performed above inflation over the past 1 and 3 years, but well below its long-term target.

The Infrastructure investments have performed well, with the IDEAS Fund having delivered real returns over the past 1 and 3 years.

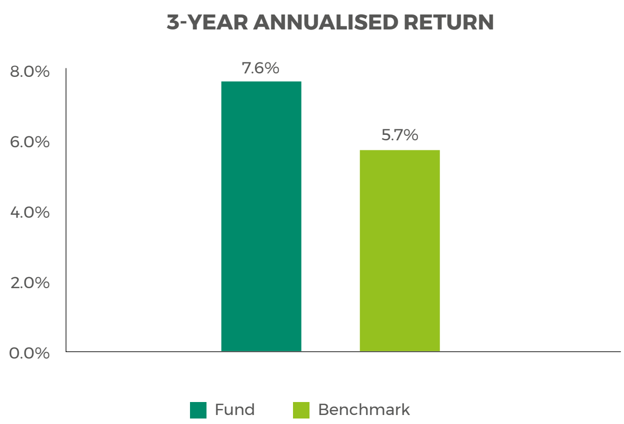
The Impact Fund ("IF") investments continues to struggle, having been significantly impacted by the deteriorating local economic environment. The largest Fund within the IF strategy is the Housing Impact Fund of South Africa (HIFSA) which finances and builds



homes, primarily for lower income earners. HIFSA relies on the ability of its target market to afford and get access to finance for the purchase of homes developed by the Fund. The struggling economy has resulted in the IF strategy, and especially HIFSA, underperforming over 1 and 3 years. The IF strategy is a long-term strategy and future returns will depend in large part on the performance of the local economy.

The local Private Equity portfolio has underperformed its investment target over the short and medium term. The underlying businesses held within the Private Equity Funds have been largely affected by the state of the local economy and this had a negative impact on the financial performance of these businesses. OMIG's Private Equity Fund IV is the largest holding within the local Private Equity strategy. Private Equity Fund IV is relatively new and as with most private equity funds, will require additional time to unlock and realise value in the underlying investments, which are typically realised towards the end of life of the Fund.

**Global Portfolio**

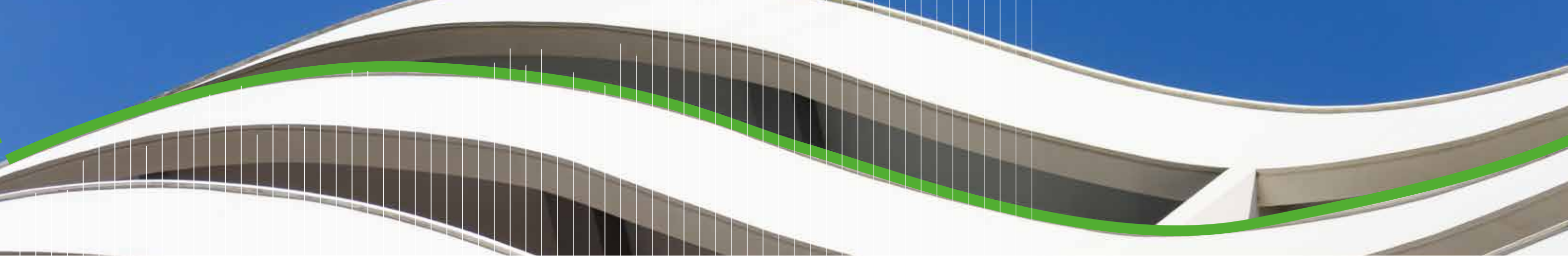



The objective of the global alternatives portfolio is to deliver long-term real returns that significantly exceed US CPI. The portfolio has delivered very strong performance over 1 and 3 years. The Private Equity Fund of Funds, makes up the bulk of the global strategy, has performed well. In addition, the mature infrastructure investments in Africa have outperformed their investment targets.

Both Fund Of Funds I (FOF I) and Fund Of Funds II (FOF II) have performed well over the past 3 years, with distributions continuing to increase as the underlying funds exit their investments. More recently, the one-year performance has slowed down, due to pressure on valuations worldwide, given current market volatility. Fund Of Funds III (FOF III) is now 85% committed, but given that it only started making commitments to underlying funds in 2017, it is still too soon to comment meaningfully on the return.

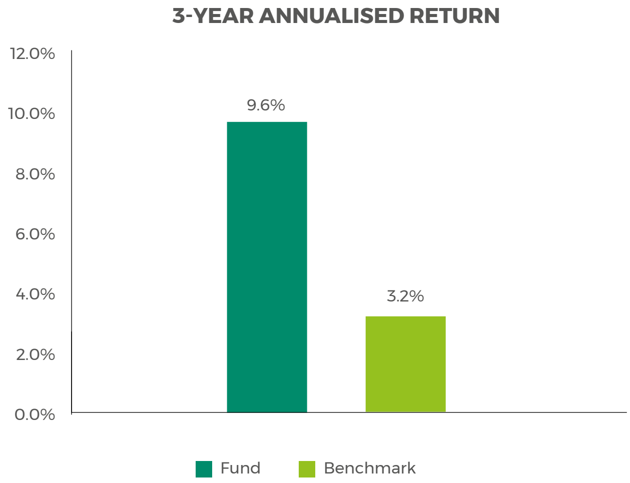
Africa FOF (AFOF) is currently performing below expectation. However, private equity in Africa generally has only produced a 2.3% net return over the past 5 years (according to the Cambridge Associates Africa Private Equity and Venture Capital Index Return). Also note that some of the underlying funds in AFOF are still young and the performance of these funds are expected to improve over time.

The performance of the global alternatives portfolio demonstrates the benefit of investing in an alternatives portfolio that is diversified across different strategies, countries, currencies and industries, particularly given recent weakness in the local economy.



## African Listed Equity

The African listed equity portfolio is an actively managed fundamental equity portfolio which aims to outperform its benchmark over the long term. The portfolio is managed by the Old Mutual Equity (OME) boutique within OMIG.




After a fairly solid start to the year, African markets have been trending sideways to down since beginning of March. The three big global factors that continue to influence markets are the ongoing US-China trade conflict, softening US rate expectations (rate cuts now expected in 2H 2019) and oil price volatility. The currencies of our larger markets have remained stable (Nigeria, Kenya) to stronger (Egypt), whilst currencies in some smaller markets (Ghana, Zambia) have been under pressure. US rate cuts will reduce the pressure on African currencies and also ease concerns about the Kenyan Shilling in particular.

Over the period the fund performed well against it mandate, with its overweight allocation to Egypt contributing positively to performance. The fund gave up some performance from its lower exposure to Morocco, but did benefit from lower volatility by avoiding the sharp swings that characterise Moroccan share prices as the domestic fund industry rebalance toward period ends (typically December and June).

## SMOOTHED BONUS PRODUCTS: PERFORMANCE

| Product | Apr 2019 | May 2019 | Jun 2019 | Performance over Periods to 30 June 2019 (Annualised except *) | | | | | Risk Analysis (Based on three-year Performance) | | Max Drawdown[1] (Based on a three-year period to June 2019) | Fund Size |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Quarter* | 1 year | 3 years | 5 years | 10 years | Annualised Volatility | Return/ Risk | Performance | (R million) |
| **Growth-focused Portfolios** | | | | | | | | | | | | |
| Absolute Smooth Growth | 0.49% | 0.86% | 0.29% | 1.65% | 5.75% | 7.41% | 10.08% | 11.23% | 0.87% | 8.22 | 0.14% | R52 386 |
| Absolute Smooth Growth 2009 Series[2] | 0.49% | 0.86% | 0.29% | 1.65% | 5.75% | 7.41% | 10.08% | 12.10% | 0.87% | 8.22 | 0.14% | |
| Absolute Stable Growth | 0.45% | 0.82% | 0.25% | 1.53% | 5.25% | 6.90% | 9.57% | 10.72% | 0.87% | 7.67 | 0.10% | R79 399 |
| Absolute Stable Growth 2009 Series[2] | 0.45% | 0.82% | 0.25% | 1.53% | 5.25% | 6.90% | 9.57% | 11.59% | 0.87% | 7.67 | 0.10% | |
| Guaranteed Fund | 0.64% | 0.64% | 0.64% | 1.94% | 8.00% | 10.32% | 13.11% | 12.11% | 0.46% | 20.60 | 0.64% | R4 315 |
| **Protection-focused Portfolios** | | | | | | | | | | | | |
| Absolute Secure Growth | 0.29% | 0.67% | 0.08% | 1.04% | 3.60% | 5.02% | 7.63% | 8.55% | 0.83% | 6.25 | 0.05% | R916 |
| Absolute Secure Growth 2009 Series[2] | 0.29% | 0.67% | 0.08% | 1.04% | 3.60% | 5.02% | 7.63% | 9.60% | 0.83% | 6.25 | 0.05% | |
| CoreGrowth 100 | 0.40% | 0.50% | 0.40% | 1.31% | 6.80% | 8.16% | 9.25% | 9.78% | 0.52% | 16.40 | 0.40% | R4 462 |
| CoreGrowth 90 | 0.48% | 0.58% | 0.48% | 1.55% | 7.83% | 9.19% | 10.29% | 10.83% | 0.52% | 18.40 | 0.48% | R3 258 |
| **Other Indices and Comparative Performance** | | | | | | | | | | | | |
| Local Equities (JSE ALSI) | 4.23% | -4.84% | 4.78% | 3.92% | 4.42% | 6.89% | 5.85% | 13.47% | 11.66% | 0.6 | -12.56% | |
| Local Bonds (BEASSA ALBI) | 0.75% | 0.64% | 2.27% | 3.70% | 11.50% | 9.86% | 8.59% | 9.02% | 6.46% | 1.5 | -4.66% | |
| Local Cash (STeFI)[3] | 0.63% | 0.61% | 0.59% | 1.84% | 7.31% | 7.44% | 7.09% | 6.55% | 0.09% | 74.0 | N/A | |
| Rand/Dollar | -1.33% | 1.99% | -3.33% | -2.72% | 2.66% | -1.38% | 5.81% | 6.21% | 16.05% | -0.1 | N/A | |
| Consumer Price Index (CPI) | 0.63% | 0.27% | 0.37% | 1.28% | 4.48% | 4.71% | 5.03% | 5.20% | 1.06% | N/A | N/A | |
| Typical Balanced Fund (Large Global)[4] | Not comparable over the short term | | | | | 5.49% | 6.26% | 12.20% | 7.26% | 0.8 | -8.33% | |
| Typical Balanced Fund (Conservative Global)[5] | | | | | | 6.54% | 7.57% | 10.38% | 4.58% | 1.4 | -4.17% | |

Performance figures are net of capital charges and gross of investment management fees for all products except Guaranteed Fund. The Guaranteed Fund's performance is net of capital charges and asset management charges, gross of investment administration fees.

**Notes**

[1] Worst cumulative negative performance. Where no negative return exists, it is taken as the lowest positive monthly return.
[2] Uses 2009 Series returns prior to the merger. The 2007 Series and 2009 Series of the Absolute Growth Portfolios merged on 1 May 2012.
[3] Money Market investments are able to achieve very low volatility, but often at the cost of being able to achieve significant real returns over the long term.
[4] Source: Alexander Forbes Manager Watch Survey for Large Global Funds (median).
[5] Source: Alexander Forbes Manager Watch Survey for Conservative Global Funds (median).

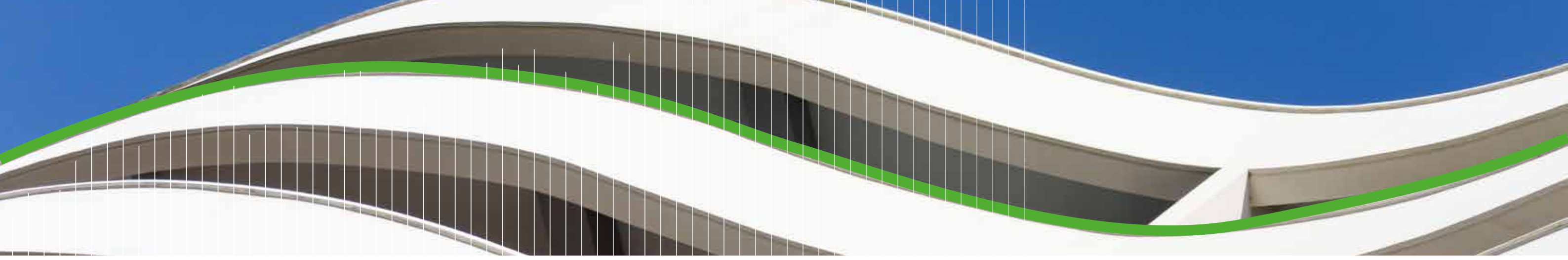
# SMOOTHED BONUS PRODUCTS: BONUS SMOOTHING RESERVES

**Formulaic Smoothed Bonus Products: Quarterly Disclosure**

| | Sep 2017 | Dec 2017 | Mar 2018 | Jun 2018 | Sep 2018 | Dec 2018 | Mar 2019 | Jun 2019 |
|---|---|---|---|---|---|---|---|---|
| **ABSOLUTE GROWTH PORTFOLIOS** | | | | | | | | |
| Greater than 25% | | | | | | | | |
| 20% to 25% | | | | | | | | |
| 15% to 20% | | | | | | | | |
| 10% to 15% | | | | | | | | |
| 5% to 10% | | | | | | | | |
| 0% to 5% | | | | | | | | |
| -5% to 0% | | | | | | | | |
| -10% to -5% | | | | | | | | |
| -15% to -10% | | | | | | | | |
| Less than -15% | | | | | | | | |

**Discretionary Smoothed Bonus Products: Annual Disclosure**

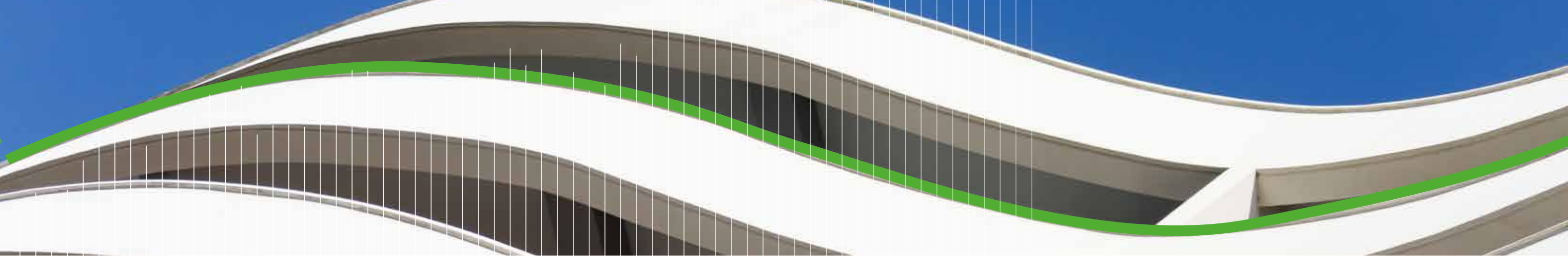
| | CoreGrowth | Guaranteed Fund |
|---|---|---|
| **DISCRETIONARY PORTFOLIOS AT 30 JUNE 2019** | | |
| Greater than 25% | | |
| 20% to 25% | | |
| 15% to 20% | | |
| 10% to 15% | | |
| 5% to 10% | | |
| 0% to 5% | | |
| -5% to 0% | | |
| -10% to -5% | | |
| -15% to -10% | | |
| Less than -15% | | |



## SMOOTHED BONUS PRODUCTS: KEY FEATURES

<table>
<tr><th colspan="2" rowspan="2"></th><th colspan="3">GROWTH</th><th colspan="2">PROTECTION</th><th colspan="2">COSTS</th><th rowspan="2">Inception date</th></tr>
<tr><th>Performance objective</th><th>Strategic allocation to growth assets[1] in underlying portfolio</th><th>Management style and manager</th><th>Protection objective</th><th>Guarantee in extreme environments</th><th>Capital Charges (per annum)</th><th>Investment management fee (per annum)</th></tr>
<tr><td rowspan="3">Absolute Growth Portfolios</td><td>Smooth</td><td>Targets CPI+6% over medium to long term (after guarantee charge)</td><td rowspan="3">83%</td><td rowspan="6">OMIG Boutiques</td><td rowspan="6">Positive bonuses each month</td><td>50% of fund credit on claim</td><td>0.20%</td><td rowspan="3">Investment management fee depends on allocation to local and global assets<br><br>Local Assets: 0.525% - 0.650%<br><br>Global Assets: 0.825% - 0.950%</td><td rowspan="3">April 2007 (new series launched in April 2009)</td></tr>
<tr><td>Stable</td><td>Targets CPI+5.5% over medium to long term (after guarantee charge)</td><td>80% of fund credit on claim</td><td>0.70%</td></tr>
<tr><td>Secure</td><td>Targets CPI+3.5% over medium to long term (after guarantee charge)</td><td>100% of fund credit on claim</td><td>2.70%</td></tr>
<tr><td rowspan="2">CoreGrowth Portfolios</td><td>100</td><td rowspan="2">Return on a conservative to moderate market-linked fund over the long term, less the guarantee charge</td><td rowspan="2">61%</td><td>100% of fund credit on claim</td><td>1.80%</td><td rowspan="2">0.23% - 0.50% (depending on fund size)</td><td>March 1998</td></tr>
<tr><td>90</td><td>90% of fund credit on claim</td><td>0.80%</td><td>January 2003</td></tr>
<tr><td colspan="2">Guaranteed Fund</td><td>Return on a broadly balanced market-linked fund over the long term, less the guarantee charge</td><td>74%</td><td>100% of capital invested and a portion of bonuses declared</td><td>0.75%</td><td>0.25% - 0.35% (asset management charge depending on asset allocation) plus 0.20% - 0.35% (investment administration fee depending on fund size)</td><td>July 1967</td></tr>
</table>

[1] Includes equities, properties and alternative assets (including private equity).



# CONTACT US

**Find out more about the Investment Portfolios in Old Mutual's range of Growth and Protection Solutions. Contact your Old Mutual Corporate Consultant, or broker, or call your nearest Old Mutual Corporate office.**

| | |
|---|---|
| **Johannesburg:** | 011 217 1990 |
| **Pretoria:** | 012 360 0000 |
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| **KwaZulu-Natal:** | 031 581 0600 |
| **Eastern Cape:** | 041 391 6300 |
| **Bloemfontein:** | 051 430 9787 |

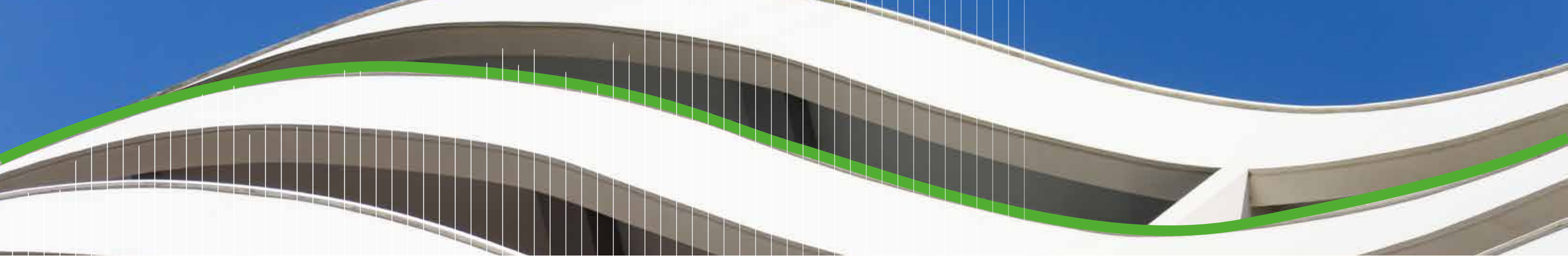
**Email: CorporateInvestments@oldmutual.com**

**Visit the Corporate website:** oldmutual.co.za/corporate

**Note:**

This performance report, as well as other information on Old Mutual's Smoothed Bonus Funds, is available on the Old Mutual website: **oldmutual.co.za/InvestmentReports**

Queries can be emailed to Old Mutual Corporate (Investment Services) at **corporateinvestments@oldmutual.com**





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