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.

QUARTER 3 • SEPTEMBER 2018

Welcome to your 3rd Quarter investment update.

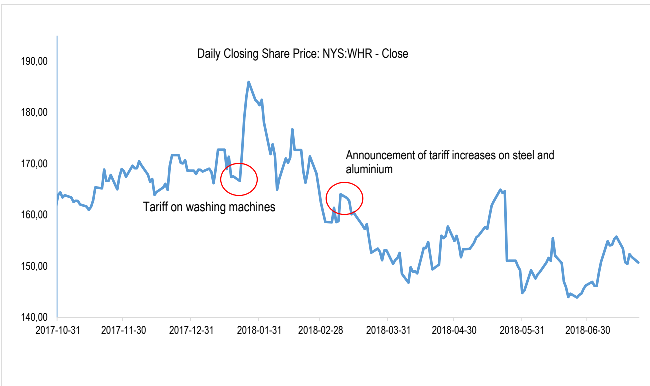
TRADE WARS

As an old African proverb states: when two elephants fight, it is the grass that suffers most.

When discussing global economics, the two elephants are, without a doubt, the United States of America (USA) and China. The USA have introduced import tariffs on a number of Chinese products over the past couple of months. An import tariff is used to restrict imports by increasing the price of goods that are brought into the country from outside its borders. The idea behind introducing an import tariff is that the increased cost of these goods should make it less attractive to consumers and as a result benefit locally produced goods.

Tariffs, however, can be a double-edged sword. For example, in January this year, Trump announced the introduction of import tariffs on solar panels and large washing machines. This immediately caused the share price of Whirlpool, one of the largest manufacturers of washing machines, to spike. This spike was however reversed a short while later when the White House announced similar tariffs on steel and aluminium – both key materials required for the manufacturing of washing machines.

Whilst individual stock prices (or even indices) can move significantly on short term news as illustrated in the graph below, the longer term trend of individual stock prices will be driven by company fundamentals. Short term fluctuations are absolutely normal in investment markets and should be viewed as such.



IMPACT ON SOUTH AFRICA

In recent months, the threat of a trade war has expanded to include other countries, which has the potential to negatively impact global trade activity and to hurt emerging markets such as South Africa.

In addition, South Africa has already felt the impact of raised interest rates in the US.

You may ask, why would raised interest rates in the USA affect South Africa?

Investors are continuously looking for opportunities to earn a higher return while seeking to minimise risk. The increased interest rates in the USA reduce the relative attraction of investments in emerging markets, because these carry a higher level risk.

The dollar has also strengthened against foreign currencies. Earlier this year the Rand was trading as low as R11.50 against the dollar but is now trading at over R14. Whilst a weakening Rand is positive for our stock market, it can also have a number of negative impacts. For example, the repayments on any dollar denominated debt have just increased.

YOUR MEMBER SHARE (RETIREMENT SAVINGS)

Your member share may be invested in a single portfolio or a combination of various investment portfolios. The underlying investment returns that you earn on your member share are driven by the returns earned on the different types of assets in the investment portfolio(s). It is important to note that investment portfolios may not hold the different types of assets in the same proportion and may therefore be impacted differently. For example: If equity markets fall and your investment portfolio has a high allocation towards equity you would be impacted more than an investment portfolio that has a low allocation towards equity.

Fears of a trade war have not only affected global equity but also had an impact on our local bond and equity markets. Members who monitor their retirement savings closely may have noticed the impact this has had on their investment returns over the past few months. However, it is very important to remember that fluctuations over a short term period are normal and there is no need to panic.

Retirement savings are a long-term investment. You should therefore never make emotional decisions based on good or bad performance of the markets or of a particular company share price over a short-term period.

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.

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 make investment portfolio

selections 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. It also provides an underlying guarantee that the value cannot fall by 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.

Although the external market factors have affected the market value of the assets, it did not directly affect the book value. If you are invested in the Absolute Stable Growth Portfolio your member share (retirement savings) would have simply grown by the positive bonus declared over this period.

The benefit of this investment portfolio is such that your retirement 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.

Click here to find out more about the investment choices available and how they work.

WRAPPING UP...

We hope this will help you understand that short term fluctuations are normal in investment markets. The key is to remain steadfast and to stick to your plan. Before making any investment choices we recommend that you consult your financial advisor. Call our **Member Support Services on 0860 38 88 73** and they can provide you with contact details for an accredited Financial Adviser whom you may wish to contact.

Look out for the next Investment Update for the last quarter of 2018.

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