

[Quarter 1 2015](#)  
Compiled March 2015

## INTRODUCTION

Welcome to 2015! It is expected to be another challenging year for investors, so keep in mind that retirement saving requires a long term perspective in investment decisions.

During the first quarter of last year we put the spotlight on the return objectives and benchmarks that the Management Board uses to assess the performance of your investments. In this edition we want to expand on this by looking at how index based benchmarks reflect the long term exposure of the portfolio and how they are used to ensure the highest probability of achieving the portfolio's stated performance objective.

## STRATEGIC ASSET ALLOCATIONS

Most, but not all, investment portfolios have what is called a strategic asset allocation. This is the portfolio manager's view of the most appropriate combination of, and allocation to, different asset classes to best achieve the portfolio's performance objective in the longer term. Such return objectives are often real return objectives e.g. inflation plus 5%. Other portfolios have peer related return objectives e.g. beating at least 50% of the other managers who participate in a specified survey. Others use index benchmarks which are described below.

## INDEX BENCHMARKS

A portfolio's strategic asset allocation is often used in combination with indices that reflect the performance of the market for each asset class. The "index benchmark" is the combination of these indices weighted by the percentages in each asset class as present. For example, assume the portfolio's strategic asset allocation is 65% in equities (where a suitable index is the SWIX), 30% in bonds (where a suitable index is the ALBI) and 5% in cash (where a suitable index is the STeFI). The index benchmark performance over any period is then comprised of 65% of the performance of the SWIX, 30% of the performance of the ALBI, and 5% of the performance of the STeFI, all over the selected period.

The index benchmark thus represents the potential return of the portfolio without the involvement of the portfolio manager and can be used to measure the value added by the investment manager.

For some products, the index based benchmark and the performance objectives are directly linked e.g. performance objective is to outperform stated benchmark by 2%. However more commonly, the index based benchmark is not directly linked to the performance objective, particularly with inflation related or



peer related return objectives. With these products, it is important that the strategic asset allocation (which the benchmark represents) is developed with due care and subject to rigorous review to ensure that it continues to offer the highest probability of achieving the stated performance objectives.

Index based benchmarks are also useful in judging the relative risk profiles of different investment products. Products with a high exposure to growth assets are expected to be more volatile in the short run, but deliver stronger performance in the longer term. By comparing the different allocation to growth assets within a portfolio's benchmark, investors can judge the relative risk of different portfolios.

### PORTFOLIO MANAGEMENT

With most of the investment products available on the Fund, the portfolio managers have the opportunity to add value, over the benchmark, in two ways:

- By deviating from the benchmark's allocation to the different asset classes e.g. overweighting equities when they feel that they offer greater value than the other asset classes; These decisions are based on the asset manager's view of expected economic conditions over the medium term;
- By holding a portfolio which is different from the index; These decisions are based on the asset manager's research of the different counters;

The exceptions are the index tracking mandates such as the Old Mutual Conservative Index Tracking Fund. With index tracking portfolios, the asset allocation is kept relatively stable and the manager is mandated to track the index as closely as possible. These products consequently carry a much lower fee.

### MONITORING

The Management Board, with the assistance of an investment consultant will continue to monitor the performance of all of the

investment portfolios offered against their respective performance objectives and, where appropriate, their benchmarks.

As always the important message remains that the long term goal will be to save enough for your retirement and to achieve this; you will need to earn a particular return above inflation. An investment portfolio's performance objective will indicate to you a realistic expectation with regard to long term performance. In addition, the portfolio's index benchmark will give you an indication of the risk of the portfolio and enable you to compare it to similar portfolios.

### ABSOLUTE STABLE GROWTH UPDATE

The Old Mutual Absolute Stable Growth Portfolio is the Management Board's chosen investment for members who do not want to make an active investment decision, as well as for members who do not have investment choice. It is a *smoothed bonus* portfolio, which aims to provide competitive long-term returns with lower risk.

The underlying investments are managed against the following strategic asset allocation:

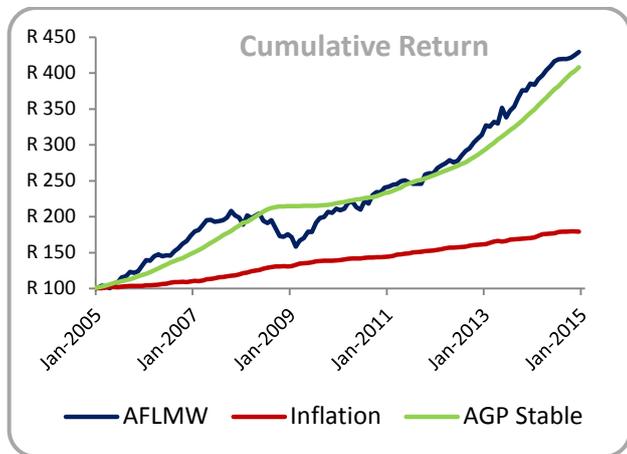
Region	Asset Class	Allocation
Domestic	Equities	47.7%
	Fixed Interest	13.3%
	Alternatives	7.5%
	Property	6.5%
International	Equities	15.0%
	Fixed Interest	4.0%
	Alternatives	3.5%
Africa	Equities	2.5%

The smoothed bonus approach has protected members excellently over the last 5 years. A typical market-linked portfolio has seen higher investment returns over the last 4 years, but this is coming off a very low base, and the longer-term perspective shows the consistency of smoothing.

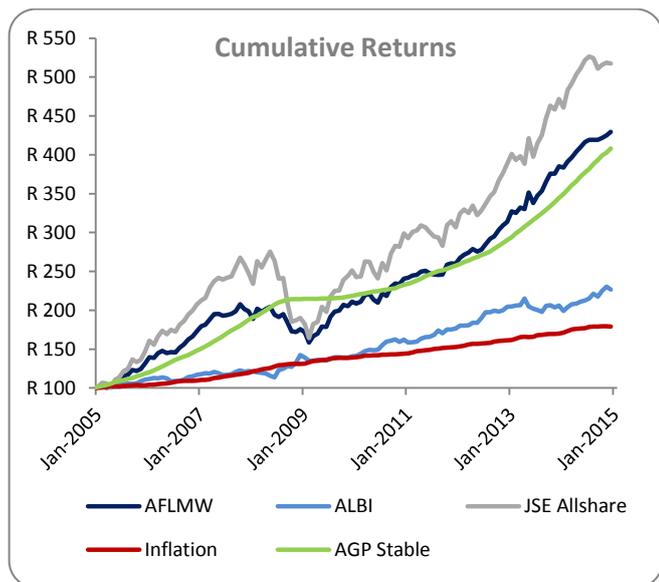
Over the long term, you would expect to earn similar returns to a comparative market-linked fund - just with fewer ups and downs. The graph



below illustrates this quite well, comparing the *Absolute Stable Growth Portfolio (AGP Stable)* against a typical “Medium Reward/Medium Risk” market-linked portfolio (AFLMW). Prior to 2007 the actual bonuses declared on Genesis were used in the AGP Stable figures.



**MARKET INDICATORS**



The graph shows a high level summary of the performance of South African equities (*JSE Allshare*), South African bonds (*ALBI*) and a typical “Medium Risk Medium Return”

**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

retirement fund investment *FLMW - Alexander Forbes Global Manager Watch Large Managers*, compared against inflation (*CPI*) and the Old Mutual Absolute Stable Growth Portfolio (*AGP Stable*).

Both the AGP Stable and the typical moderate risk retirement fund investment portfolio continue to show reasonable growth. However the uncertainty in global and local markets is expected to lead to continued volatility and a long-term focus remains critical.

**WRAPPING UP**

We hope you’ve enjoyed this investment update. The investment world is complicated and sometimes really confusing. We hope that some more background on strategic asset allocations and index benchmarks has helped you understand another aspect of this complex topic. You can remain assured that the Old Mutual Umbrella Funds are very careful to make sure that the investment portfolios on offer to our members continue to deliver and are appropriate to the varying needs of members.

You can look out for a new investment update in May 2015, giving you more information to help you understand your investments better. In future editions we will be shedding light on alternative asset classes and social investing as well as keeping you informed as to what the markets have been doing and what the economists are saying.

Until then...Continue saving!

THE MANAGEMENT BOARD

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.

