

OLD MUTUAL SUPERFUND: MEMBER INVESTMENT UPDATE

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

QUARTER 4 • NOVEMBER 2016



DECEMBER IS AROUND THE CORNER

Welcome to your 4th Quarter investment update.

Who would have predicted that 2016 would turn out so eventful? 2016 has turned out to be the year when politics shook markets, both domestically and globally. In many ways, Donald Trump's victory in the US presidential election is a repeat of the 'Brexit' shock, when the UK voted in a June referendum to leave the European Union.

SHOCKWAVES

As with Brexit, markets were volatile in the weeks leading up to the vote, but surged prior to voting day as the final opinion polls indicated that Hillary Clinton would win.

Despite a decades-old tradition of fairly accurate polling in the US, the polls were wrong, and markets sold off –

- The Mexican currency, the peso, was hardest hit, falling to a record low against the US dollar.
- Asian equity markets closed sharply lower, with the Japanese market worst hit.
- The US dollar weakened against other developed market currencies.
- The rand was very strong leading up to the vote. It immediately lost ground against the US dollar (and more against the pound and euro), but is still stronger than a month ago.
- The JSE All Share index opened sharply lower but recovered by late morning.
- The gold price jumped above US \$1300.

WHY DO THE MARKETS FEAR A TRUMP PRESIDENCY?

The main issue is that his presidency presents an unknown, while a Clinton win would have represented continuity. More specifically, Trump's campaign rested on an anti-globalisation and anti-immigration platform, with promises to shake up the establishment. This echoes the reasons that were attributed to the vote for Brexit. It is clear that these ideas are now firmly entrenched in the developed world, as real incomes of the middle classes have stagnated. Looming elections in Europe could also have unexpected outcomes.

TRUMP VERSUS BREXIT

There are undoubtedly similarities to the Brexit vote, but there are also important differences. As much as Trump is the anti-establishment candidate, this does not represent an important disruption of any existing political or economic relationships. Brexit implied Britain cutting some ties with its largest trading partner, Europe, although there is still uncertainty over how and when this will happen. A US presidency, in contrast, is a fixed four-year term and exists within a 224-year old constitutional framework that was specifically designed to limit the power of any one political actor.

Several JSE-listed companies have substantial UK exposure and therefore the Brexit vote had a direct impact on our market. With the Trump win, our markets are mostly impacted as part of a broader emerging market sell-off and concerns about future US relations with, and support for, emerging markets, particularly in relation to trade agreements.

DO GREAT THINGS



OLDMUTUAL
CORPORATE

Despite being a shock, the Brexit vote had little lasting impact on markets (apart from the pound, which remains weak). This cautions against a knee-jerk reaction.

The US is of course a much bigger economy than the UK, and what happens there truly has global implications. It is too soon to tell what a Trump presidency means for the US and the broader global economy. Many of his more extreme promises (like building a wall on the Mexican border) are unlikely to come to pass. A silver lining might be that with Republican control of the White House and Congress, there is a chance that infrastructure investment and other growth enhancing initiatives (like tax cuts) might actually take place. But the long-term implications of a Trump presidency are simply an unknown at this stage, and markets hate uncertainty.

Nonetheless, as far as the global economy and markets are concerned, the most important building in Washington D.C. is not the White House, but the Eccles building where the Federal Reserve holds its monetary policy meetings. Aggressive interest rate hikes are much more likely to cause a US recession than policy changes from Trump. The likelihood of a rate hike in December has fallen from about 80% to 50% according to the futures markets, while the longer term outlook still suggests that a rate increase will be gradual.

INVESTMENT IMPLICATIONS

Markets typically overreact to such events and are likely to be volatile while the outcome and its effects are being digested. When the market overreacts, it can create opportunities for skilled asset managers to add value and suitably diversified portfolios also provide protection from volatility. It's essential for members to remain calm and resist any urge to make changes to their investments. Old Mutual SuperFund encourages members to stick to their long term investment plan to reach their retirement goals.

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. It does this because of 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. The benefit of this formula is that it smoothes growth over time and reduces the impact of market ups and downs on your retirement savings.

WRAPPING UP...

We hope this Investment Update has helped you understand risk and return a bit more.

Look out for the next Investment Update in the 1st quarter of 2017. Until then... keep your retirement savings focus on the long term, all the best over the festive season and take care.

