OLD MUTUAL WEALTH JOURNEY

WINTER 2018

THE CURRENT GENERATION OF SOUTH AFRICAN YOUTH, THOSE AGED BETWEEN 18 AND 34, POPULARLY KNOWN AS MILLENNIALS, IS THE MOST EDUCATED AND ENTREPRENEURIALLY ORIENTATED IN SOUTH AFRICA'S HISTORY. 27% HOLD BACHELOR'S DEGREES AND 13% HOLD POSTGRADUATE QUALIFICATIONS.

SOURCE: OLD MUTUAL GENERATION Y AND Z (MILLENNIAL) RESEARCH, DECEMBER 2017.

KERRIN **LAND**
OLD MUTUAL WEALTH CEO

In June every year, we celebrate Youth Day to remember the critical role of youth in moving our country forward. Due to our diverse backgrounds, this day might well mean different things to different people. However, one thing is clear: recent studies show that youth starting their working careers have many reasons to be optimistic about our future growth and sustainability. Elize Botha, MD of Old Mutual Unit Trusts, unpacks the detail of our studies inside this issue but for me there are three things that give immense hope:

EDUCATION
Their sustained lobbying for quality education tells us a lot about the mindset of our young people and their determination to achieve their goals. October 2015 started as an intensification of a long-running protest against increasing fees for university education and gave birth to the #Feesmustfall movement. True to how the millennials connect, this protest was driven by a #hashtag, largely through digital and social media and spawned a nationwide movement. In December 2017, South African students were rewarded for their dogged pursuit of this goal, when Government announced free higher education for poor and working class students. Reasonable concerns around the source of the funding and the increased pressure on the fiscus aside, as well as concerns around the sustainable execution of the programme over time, most agree that access to education, regardless of background or wealth, is an important and necessary step.

ENTREPRENEURSHIP
According to Stats SA, South Africa's high unemployment rate, especially among millennials, is recorded at 38.2%. In our study, we noted millennials' high affinity to self-employment, with 10% of the sample aged 18 – 24 running their own businesses compared to 6% of the general population. In addition, the survey showed this generation's aspirations around work indicates a culture of entrepreneurship. We know that the real power of successful economies lies not in big businesses, but in the thousands of small businesses at the heart of driving growth. If we can find ways as a nation to marry the desire, ideas and determination of our youth to build businesses, with the skills, experience, wisdom and capital of corporates and an older generation of successful business people, we will create the solution to our unemployment woes.

SUSTAINABILITY
The research study Global perspectives on sustainable investing 2017 indicates that millennials are driving the swing towards sustainable investing. They are more clued up on sustainable investment funds, show the greatest propensity to prefer sustainable investing methods from a perception perspective, and are more likely to report an increase in sustainable investment funds ownership when compared to the older generations. In addition, the report notes they don't just invest in sustainability – they regard sustainability as a critical lifestyle choice.

There are green shoots that suggest our country will be in good hands for the future. It is satisfying to know that the investments we grow and protect for the next generation will be used with substantial knowledge, creativity and a sense of responsibility. For a country with our history, this is big reason to put aside our permanent anxiety for a day or a month, and celebrate the journey we're on!

Kerrin

OLDMUTUAL WEALTH

MILLENNIALS: HOW THE PURPOSE GENERATION WILL RESHAPE WEALTH

ELIZE **BOTHA** | MANAGING DIRECTOR AT OLD MUTUAL UNIT TRUSTS

BENEFITING FROM A FREE SOUTH AFRICA – Millennials are arguably the most exciting generation in South Africa. The oldest millennials were only born five years after 16 June 1976 and had just entered their teenage years when South Africa achieved freedom in 1994. They will be the first generation in which age-based profiling can be used more accurately to help segment a certain part of the population (as opposed to race), because they had greater access to equal opportunities relative to their predecessors.

MILLENNIALS ARE NOT HOMOGENOUS

In the last few years there has been a lot of research published on millennials. This is not surprising, considering that millennials are responsible for 23% of global spend (US Bureau of Labour Statistics) and in South Africa, this number is as high as 55% (Stats SA).

To get clearer insight and understanding on what drives this generation; what their aspirations, goals and, most importantly, their attitudes towards savings and investments are, we recently completed a study on South African millennials.

MILLENNIALS ACROSS THE WORLD: THERE ARE SIMILARITIES

THEY ARE BETTER EDUCATED THAN PREVIOUS GENERATIONS

Globally, millennials are better educated. With greater access to education than ever before, South African millennials are more self-confident and believe that they control their own destiny. 21.7% are graduated, 27% hold a bachelor's degree and 13% have postgraduate qualifications.

THEY ARE COMMITTED TO SUSTAINABILITY

Globally, millennials are more informed on sustainable investment funds than generations before them. South African millennials also value sustainability and will consider the impact of brands on the environment, their communities and others. They are two times more likely to invest in sustainable investments than the generations before them and they want to make an impact on the world.

THEY ARE DIGITALLY SAVVY

With information at their fingertips, millennials are at the forefront of digital trends and their world is truly a global village. They rely on the internet for many things, not least of which are financial products.

THEY HAVE A SIGNIFICANTLY POSITIVE OUTLOOK ON LIFE

According to a study by FCB Alchemy, in partnership with Answered Insight, 87% are optimistic about their personal future. This research indicates that they are possibly the most optimistic generation in a long time.

Currently millennials represent 27% of the South African population. However, there is a clear generational wealth shift indicated by the fact that 37% of millennials aged 25-34 earn above R20 000 per month compared to only 26% in the Old Mutual Savings and Investment Monitor universe.

Our research clearly shows that the younger generation is more likely to be self-employed and 568 000 are entrepreneurs with their own businesses. Therefore, they already have a substantial impact on the economy.

ENGAGING AND EMPOWERING MILLENNIALS

1. "Don't interrupt my life." The internet has enabled millennials to determine who they will talk to, when and why. 68% use the internet to seek financial information. At Old Mutual, we are enhancing our digital platforms – from websites to client portals and social media handles – to share content and connect with them.

2. 39% of millennials seek financial information from family and friends. Leveraging trusted relationships is a powerful source. Parents need to find a way to teach them about finances in an engaging way. 34% of millennials rely on financial planners for advice. Therefore, planners can also play a greater role in engaging with millennials to secure clients for life.

3. Millennials want authenticity and an experience. As a company that strives to be client-centric, we're doing all we can to enhance our client experience for this upcoming generation.

FINANCIAL FREEDOM

Millennials have a slightly different picture of what financial freedom means. They want to be debt-free to afford whatever they want, when they want. Millennials are not interested in a typical 9-5 job and want to earn enough to travel the world with their laptop. In celebrating the youth of our country this Youth month, we'd like to enable them to realise their dreams in a sustainable and responsible way while achieving financial freedom and growing their wealth at the same time.

Why is financial partnership important in this market?

- Millennials are the next generation and will determine our country's future prosperity. Therefore, they need to be financially secure.
- This generation requires a better understanding of different investment vehicles. Currently, most of them leave their investments in banks, which will more than likely not outperform inflation over time.
- We need to listen to very specific needs and engage with them in a different way to meet their financial goals.

SAMPLE	18 – 34-year-olds (sourced from the Columinate Digital Research Panel) who work part-time or full-time and are responsible for savings and investment decisions.
DATA COLLECTION	Online quantitative survey. Data collection between 3 and 8 November 2017.
OUTCOMES	Total sample: n=400 (Old Mutual Savings and Investment Monitor) Generation Z (18 – 24 years): n=194 Generation Y (25 – 35 years): n=206

SOUTH AFRICANS HAVE UNIQUE TRAITS

THEY ARE SUPPORTING THEIR PARENTS AND SIBLINGS

75% of South African millennials have a child, partner or parent financially dependent on them. Most are first-generation middle class and actively playing asset catch-up. As a result, they are highly indebted. This impacts their ability to plan for their own financial future.

FOR THEM, ADVICE IS ABOUT TRUST

They will also rather seek financial advice from a family member, a friend or a peer before consulting a financial institution and/or planner. However, 34% still make use of a financial planner.

THEY HAVE LOW FINANCIAL CONFIDENCE

A surprising number of South African millennials have low levels of financial education and lack confidence in their ability to make financial decisions.

HALFWAY IN 2018

DAVE **MOHR &** IZAK **ODENDAAL** | OLD MUTUAL MULTI-MANAGERS

We are fast approaching the halfway mark of a very eventful year. South Africa has experienced substantial political change for the better. On the global stage, it feels like politics are becoming more complicated, with President Trump throwing his weight around picking trade fights, pulling out of the nuclear deal with Iran (sending the oil price soaring) while at the same time trying for a US-North Korea agreement on nuclear weapons.

SENTIMENT BETTER LOCALLY

Sentiment has improved locally and South Africa is increasingly standing out among emerging markets, and this time for the right reasons. Huge challenges remain, but the economy is benefiting from three tailwinds. Firstly, there is the prospect (with initial evidence) of improved governance and the return of sensible policy-making under President Ramaphosa. Secondly, the global economy is humming along nicely, and as a small open economy, South Africa tends to follow the global cycle with a lag. Thirdly, local consumers are already benefiting from lower inflation (despite the higher petrol price), boosting real incomes and spending power. The rate cut in March will also help (although it reduces the potential returns from money market funds at the same time). This is a huge improvement from a year ago, when we suffered downgrades, a technical recession and huge political uncertainty. Moody's has recognised this and maintained South Africa's investment grade credit rating, upgrading the outlook to stable.

However, the contrast between the general sense of optimism around the braai fires and disappointing short-term investment returns is rather stark. At the time of writing, the average balanced fund returned 5% in the year to end of April, according to Morningstar. A big reason for the muted return is the appreciation of the rand over this period. This reflects the improved sentiment regarding South Africa's economic prospects, but also depresses returns from offshore assets, including global JSE-listed companies.

RETURN OF VOLATILITY

Global markets sold off sharply in early February and have remained volatile with two broad concerns weighing on sentiment. Firstly, the worry that strong growth will lead to a jump in inflation and central banks – particularly the US Federal Reserve – slamming on the brakes.

The second concern is the possibility of a trade war after US President Trump slapped tariffs on steel and aluminium and a range of Chinese imports. Negotiations are still underway and hopefully sanity will prevail, as a trade war is in no one's long-term interest. In today's globally integrated world, almost no piece of machinery, equipment or consumer product is made in a single country in its entirety. Parts are typically sourced from several places and even assembly can happen in different places. Detangling these complex supply chains will be like unscrambling an egg.

In the meantime, it is safe to say that we will have to live with greater uncertainty. But looking beyond this, the global economic picture is still healthy. Growth is solid, inflation still low and central banks are still accommodative. Major bear markets have historically only occurred during US recessions (1987 was a notable exception), and there is no sign of a looming recession there or in any other major economy.

FOCUS ON THE LONG TERM

So while markets can wobble in the short term and returns can undershoot expectations at times, the best thing to do is to sit tight. For many investors, this is difficult when faced with dramatic headlines and disappointing returns. Instead, the fight or flight response tends to kick in. This is normal, but a knee-jerk response to market moves often causes more damage than the move itself. It's important to always keep in mind that financial plans should be amended in response to changes in your personal circumstances and not in response to changes in financial markets.

Nobody knows the future with certainty, and nobody should pretend to know. You can build statistical models to forecast, or take educated guesses, but things rarely turn out as expected as this eventful year so far has demonstrated. That is why portfolios need to be appropriately diversified (depending on your investment goal) to be prepared for a range of possible outcomes. Diversification might be a boring message in a fast-paced world, but it is precisely because things change so quickly that it makes sense.

OLD**MUTUAL**
WEALTH

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