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 1 • 2016

HELLO 2016 GOODBYE 2015!!!

Welcome to 2016! It is expected to be another challenging year for investors, and (now more than ever!) we need to keep a long-term perspective in our investment decisions.

WHAT ON EARTH IS HAPPENING?

Every South African may have heard or read media reports about the negative effects on our economy lately, such as:

- The President's replacement of Mr. Nhlanhla Nene as Minister of Finance by Mr. David van Rooyen initially and then a few days later by Mr. Pravin Gordhan. The prices of shares on the Johannesburg Stock Exchange fell sharply and yields on Government debt rose, with investors anticipating that our Government debt would be downgraded to 'junk' status.
- Reduced international demand for commodities such as gold, platinum, iron ore and coal, from which we earn much of our foreign exchange, causing our Rand to weaken, (as has happened to other commodity exporting countries such as Brazil and Russia), and
- The severe drought with the consequence of needing to import maize!

On the positive side, the price of oil remains low. Some oil producing countries are having to sell some of their accumulated wealth in so-called sovereign funds in order to balance their budgets. This is negatively affecting stock markets worldwide.

This is all too much to handle so early on in the New Year! At the same time you may be wondering how all these events impact you as a member of the Old Mutual SuperFund.

DIVERSIFICATION

Your retirement fund savings are invested in investment portfolios that consist of many different types of assets, commonly called asset classes. This spread across different asset classes, such as equities, bonds, property, cash and alternative assets (the type of asset covered in the second quarter investment update in 2015) is known as diversification. Not all asset classes react the same way to market events.

By spreading assets amongst classes that react differently, the impact on your portfolio, as a whole, can be lessened. It's a fancy way of saying that you shouldn't have all your eggs in one basket.

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OUR BONDS ARE JUNK?

So, how do all these events impact the monthly investment returns that you earn and how does "diversification" help you?

Think of what happens if you throw a stone in a pond and circular ripples start forming from the center outwards and you'll get an idea that something else is going to happen!

Our Government needs money to spend on a number of things, social welfare, building roads, public facilities, funding State owned health care facilities and education to name a few. In order to do this they need to rely on the tax you pay on every item you buy at your local corner store (called VAT) and also taxing your monthly salary (called PAYE). The problem is that most governments spend more than what they take from you and me and they only have three options available to them, increase taxes (not very popular for anyone of us), decrease expenditure or borrow money from investors.

The last option, borrowing money, is done in the form of issuing what's called "bonds".

If our Government bonds are then "downgraded" to junk status it will mean that investors feel that our Government is more likely to "default" on repayment, i.e. investors believe there is a greater risk that the Government won't be able to pay back the money they have lent them. Investors will then demand a higher return to compensate for the higher risk of default, i.e. the riskier the investment the higher the return must be to compensate them for taking the risk. Government, companies and us, as individuals, will have to pay much more for the money we borrow, meaning that less will be available to fund the services the Government provides, putting pressure on taxes and reducing investment in infrastructure, companies will have less to spend on development and we will have less to spend on the goods and services that we buy. This will hurt the economy and could lead to an even weaker Rand and in turn higher inflation, the ripple effect that was mentioned earlier.

RAND WEAKENING

When investments or money leaves the country it results in a much lower demand for our currency, the Rand. When there is a lower demand for the Rand, they call it depreciation (everything is less valuable). Because our country imports more than it exports, everything we buy from overseas becomes so much more expensive, we pay more for food, pay more for petrol and because we need to pay more for almost everything this leads to higher inflation!

WHEN WILL IT RAIN?

The other reality is our drought and the continued decline in the water levels of our dams. We are already seeing for example that South Africa needs to import more maize and combined with a weaker Rand, it will cost more and this in turn will result in higher food prices and inflation!

RESERVE BANK STEPS IN

The Reserve Bank of South Africa has now stepped in to reduce increasing inflation or at least control upward inflationary pressures. One way to do this is to increase interest rates which will hopefully attract foreign investors back and try and reverse the cycle that was just explained but not without consequences!

Now back to us, the ordinary South Africans. If the Reserve Bank increases the interest rates (which they did!) it impacts everyone that has debt, be it a credit card, your monthly car installments or the bond repayments on your house. Everything becomes so much more expensive, more of your money is going towards paying a higher interest rate on these debts or commitments. This means less money in your pocket to spend on other items in the economy, like that new PLASMA TV you had your eye on or the newest cellphone (which by the way is imported and is now more expensive because the Rand is weaker against the dollar…). These events may also drive Government to increase taxes so be prepared to tighten your belts after the February budget.

All of these unrelated events are causing instability (i.e. volatility) in our South African Investment market and you as a member may already be seeing this in your investment returns earned, if your portfolio performance is directly linked to the market. For those who are in smoothed bonus portfolios, the impact has been felt, first, in the reserve held to facilitate the smoothing (called the bonus stabilization reserve). Only if the impact is prolonged, will your smoothed bonus returns be affected.

WHAT SHOULD YOU DO

As you can see, there are a wide range of factors which influence your investment returns! The Old Mutual SuperFund is very cautious and makes sure that the Investment Managers offering investment portfolios to our members have excellent people and processes in place and that each investment portfolio is well diversified across asset classes. These features should work together to protect you against inflation and achieve the investment returns required over the long term in order for you to ultimately live comfortably off your retirement savings.

There is nothing that you need to do.

Its important that you don't get frightened by market events into disinvesting from the market and putting your retirement savings into portfolios that aim to preserve capital value at the expense of long-term returns, thereby locking in any losses. You need to stay invested in growth assets such as company shares and property, as these stand the best chance in the long term to deliver the investment returns that you require.

ABSOLUTE STABLE GROWTH PORTFOLIO

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

Over the long term, you would expect to earn similar returns to a comparative 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 smooth's growth over time and reduces the impact of market ups and downs on your retirement savings.

WRAPPING UP

The investment world can be complicated and confusing, and there are lots of different views and events that affect this. We hope this Investment Update has helped explain some of the complexity and put you at ease.

Look out for the next Investment Update in May 2016. Until then… continue saving!

IMPORTANT UPDATE

We would like to inform you of name changes to two of the Profile Product Investment Portfolios with effect from 1 January 2016. The reason for the change is to align the naming conventions used across Old Mutual's retail and institutional product offerings. This name change will in no way impact on the risk and return objectives of these portfolios.

Current name	New Name
Profile Pinnacle Portfolio	Profile Edge28 Portfolio
Profile Stable Growth Portfolio	Profile Moderate Portfolio

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.

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