

OLDMUTUAL

# ABRIDGED ANNUAL FINANCIAL REPORT 2019

OLD MUTUAL UNIT TRUST MANAGERS (RF) (PTY) LTD



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Please note: This Abridged Annual Report contains limited information on Old Mutual Qualified Investor Hedge Fund Scheme. For more detailed information on these funds please go to [www.oldmutualinvest.com](http://www.oldmutualinvest.com) or call 0860 234 234. Copies of the audited financial statements may be obtained, free of charge, and on request, from the management company.

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# CHAIRMAN'S MESSAGE TO UNITHOLDERS

## ECONOMIC OVERVIEW

2019 ended on a high note with equity markets surging in December, as it turned out to be a good year for investors, with almost all global asset classes posting positive returns. The US Federal Reserve (Fed) cut rates three times in the second half of the year, having gone into 2019 expecting to hike three times. The Fed has signaled that rates will remain at current levels for the remainder of the year, while it will continue to add reserves to the banking system to ensure the smooth functioning of the US money market. Other major central banks have cut or are cutting, and the "lower for longer" view of global interest rates is firmly in place.

The US and China agreed to a 'phase one' trade deal that was officially signed at a White House ceremony early in January 2020. The US Treasury also removed China from its list of currency manipulators. Boris Johnson's decisive victory in the December election (by number of seats won, not total votes) meant that Britain left the European Union by the end of January in an orderly fashion with a withdrawal agreement in place (though the hard work of negotiating a new trade regime lies ahead).

## SURPRISES

Predictably, there were a few surprises in the first days of January 2020. The first shock was the **killing of a top Iranian general** in a US drone strike, setting off fears that the longstanding conflict between the two countries could escalate into all-out war. However, neither countries seemed to want war and ironically, the tragic accidental downing of a passenger jet by Iranian anti-aircraft missiles also served to defuse the situation by removing any claim Iran might have had to the moral high ground. After the initial knee-jerk sell-off, the market reaction was muted. Due to sanctions, Iran is currently a much smaller participant in global oil markets and unlike in 1979, it was never going to be able to engineer a doubling of oil prices.

The second, much more pleasant surprise was the 0.25% **repo rate** cut announced by the Monetary Policy Committee of the SA Reserve Bank in January. It was about time. Inflation declined through the course of 2019, hitting a seven-year low of 3.6% in November, while the economy is struggling. Meanwhile, the economic growth outlook has been cut sharply as load-shedding seems likely to persist through the course of the year. The SARB expects 2019 growth will be reported as 0.4%, while the 2020 growth forecast has been downgraded to 1.2%.

## COVID-19 (CORONAVIRUS)

The Virus originated in a wet market in Wuhan around 12 December 2019. Similar to SARS, the virus resides in animals such as bats and can migrate to and among humans through close contact. Chinese health authorities alerted outside bodies including the World Health Organisation (WHO) on 31 December 2019. At time of going to press, the World Health Organisation had declared COVID-19 a pandemic, as there were almost 190 000 cases recorded, with 7.5% having succumbed in 56 countries. On 16 March, President C Ramaphosa declared a national state of disaster in South Africa, focusing on

prevention measures to stem the growth of infections. As at 16 March 2020, SA had 62 confirmed cases of COVID-19.

## 2020 OUTLOOK – IN A TECHNICAL RECESSION

South Africa's Q4 2019 GDP growth was much weaker than expected, coming in at -1.4% on an annualized basis, following the -0.8% of the third quarter. The two consecutive quarters of negative GDP growth means that the SA Economy is now back in a technical recession. More importantly, the annual average growth in the SA economy over the last five years was less than 1%, 0.8% to be exact. This weakness was very broad-based and seems to be more than the load-shedding that occurred in December of the 4th quarter of 2019. 2020 will likely also see growth of less than 1%.

The 2020 outlook for South Africa is a concern as we confront a by-now familiar list of problems: consumers under pressure, load-shedding, low growth, rising government debt and COVID-19.

The likelihood of a **Moody's downgrade** to junk status (the other ratings agencies already rate South Africa as junk) has increased.

However, as investors we need to remember that with such bad news come opportunities to buy investments at discounted prices. Meanwhile the global backdrop remains supportive of decent returns from investments not directly linked to South Africa, including the many global companies listed on the JSE whose share prices are unaffected by local gloom.

## 2020 BUDGET SPEECH OUTCOMES

The positives outweighed the negatives in the 2020/21 Budget Speech, tabled by the Minister of Finance on 26 February. It showed that the National Treasury is willing to make hard choices during difficult times by focusing on expenditure cuts rather than tax hikes. Whilst the absence of net tax hikes is good news for consumers, risks remain around the ambitious plans to cut expenditure on the wage bill, as this still needs to be negotiated with unions. Mboweni also announced baseline spending reductions of R261 billion with adjustments on the wage bill penned in at about R160 billion over the medium term. Government's intention to restructure the corporate income tax system over the medium term by broadening the base and reducing the rate was welcome. South Africa's corporate income tax rate has remained unchanged at 28% for more than a decade. However, the large deficit, debt ratio and primary deficit, combined with still weak economic growth and the risks around the wage bill savings, could still lead to a Moody's downgrade in March. As expected, Moody's highlighted these risks in their post-budget commentary.

## OLD MUTUAL ALBARAKA BALANCED FUND WINS

Old Mutual Investment Group was adjudged the winner of the Global Islamic Finance Awards (GIFA) 2019, for the Old Mutual Albaraka Balanced Fund. The success of the fund is a result of a strong and equal partnership between Old Mutual and Al Baraka Bank. This fund is a

## CHAIRMAN'S MESSAGE TO UNITHOLDERS (continued)

Regulation 28 accredited ethical investment solution that delivers steady, long-term capital growth. It is part of the suite of Shari'ah funds that Old Mutual offers, the others being the existing Old Mutual Albaraka Equity Fund and the Old Mutual Albaraka Income Fund, which will launch this year. The established funds have outperformed their peers in the General Equity category on a 5-year rolling average and median basis from November 1992 to November 2019. In addition, these funds have a significant social impact, a dimension that is not captured in the pure return on investment. Over the past seven years, the board has donated R52 million to healthcare, education and maternity care projects. The donations are not only to Muslim communities, but benefit South Africans of different faiths and social backgrounds across the country.

### DRIVING INNOVATION THROUGH ESG SOLUTIONS

Old Mutual Investment Group's focused research since 2010 has enabled innovation and the establishing of ESG fund ranges to the market in 2016. These passive, low-cost products are designed to offer investors the opportunity to achieve benchmark-like returns, by holding a basket of companies that is measurably better for the planet. With ESG products ranging across institutional, retail and direct, Old Mutual Investment Group became a leading SA investment manager in the provision of ESG investment solutions.

### OLD MUTUAL ESG INDEX UNIT TRUSTS

In November 2018, Old Mutual Unit Trusts launched South Africa's first ESG Index unit trusts, the Old Mutual MSCI World ESG Index Feeder Fund and Old Mutual MSCI Emerging Markets ESG Index Feeder Fund. These funds aim to achieve long-term capital growth by primarily gaining exposure to the MSCI Emerging Markets ESG Leaders Index, a free float-adjusted market capitalisation weighted index. These unit trusts can be accessed directly, online or from financial planners.

### LAUNCH OF THE INVESTMENT SERIES

Aligned with the vision of making investing easy, and as an investment manager with an extensive unit trusts offering, in 2019 Old Mutual Unit Trusts launched The Investment Series. This range is packaged in a simple way that seeks to address customer goals. The goals are then matched with a relevant fund based on targeted returns and customers' investment period, evidence that there is a unit trust for every need, for every investor, at every stage of life. The Investment Series offers a core range of ten hand-picked funds. The five needs buckets are: Home and security; Freedom and adventure; Education and ambition; Retirement independence, and A big goal.

### SIMPLIFICATION OF PRODUCT OFFERING

The fundamental equity product suite was simplified to focus on one product proposition for clients – General Equity. As a result, the following sector funds were merged into the Old Mutual Equity Fund over the past 2 years:

- Old Mutual Financial Services Fund
- Old Mutual Growth Fund
- Old Mutual Industrial Fund
- Old Mutual Top 20 Fund
- Old Mutual Top Companies Fund
- Old Mutual Mining and Resources Fund

### ONLINE BUY FORM LAUNCHED

Old Mutual Unit Trusts went live with an online buying form, My Shopper, to make it easier for clients to invest digitally and upload documents online, without the need to print, sign and scan. These digital developments are designed to create a more streamlined experience for customers, to save time and make investing with Old Mutual Unit Trusts as easy as possible.

### ALWAYS REMEMBER THE INVESTMENT PRINCIPLES

On the first trading day of 2010, the 4th of January, the FTSE/JSE All-Share Index was at 17 960 points. Ten years later, on 31st December 2019, it had more than doubled to 41 218 points, (and touched over 60 140 points in January 2018.) If we look over the long term, an investment of R1 in the FTSE/JSE All-Share and Cash Indices 90 years ago, would give one a total of R563 and R2.11 in Equities and Cash respectively at 31 December 2019.

The above statistics point to an unequivocal theme of long-term investment principles that investors should always remember. Some of them are:

- **Stay invested** – A risk to future financial freedom is investing in cash. While there is minimal risk of losing money, it takes a lifetime to double the real value of money, as opposed to 10 years in equities;
- **Inflation is an investor's worst enemy** – To counter the effects of inflation and low-return investments, investors need the higher growth potential of equities. SA equities were the top performing asset class when compared to SA cash, SA bonds, Global equity ZAR, Global Bonds (ZAR), Gold (ZAR) for 42 of the last 90 years to December 2019;
- **Diversification is key** – While equities are often the winning asset class, it still pays to diversify. There is benefit in blending different asset classes;

Probably the best investment advice is for investors to seek out professional help in developing and sticking to a plan, to achieve financial freedom. Financial Planners have the qualifications, are legislated to take lifelong financial education, have access to the latest market data and have tools to help investors. Sticking to a plan is key as it relates to another important investment principle, that which states that "it's time in the market, not timing the market, that counts".



**PJ Dempsey**

Chairman: Old Mutual Unit Trusts

## ABRIDGED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

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### STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Old Mutual Aristeia Opportunities QI Hedge Fund	Old Mutual Chronos QI Hedge Fund	Old Mutual Managed Alpha QI Hedge Fund	Old Mutual Volatility Arbitrage QI Hedge Fund
Net income from operations before finance costs	8 471	223	9 946	8 315
Total finance costs	7 860	10 118	10 544	7 603
Distributions	7 860	10 118	10 544	7 603
Change in net assets attributable to unitholders	611	(9 895)	(598)	712

### STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

Total assets	160 306	152 761	179 972	162 880
Total liabilities, excluding net assets attributable to unitholders	12 302	14 085	17 485	14 094
Net assets attributable to unitholders	148 004	138 676	162 487	148 786

## PORTFOLIO COMPOSITION (%) AS AT 31 DECEMBER 2019

	Cash and cash equivalents*	Money market instruments	Derivatives at fair value#	Bonds	Unit trusts		Equity	
					Local	Foreign	Local	Foreign
Old Mutual Aristeia Opportunities QI Hedge Fund	21.88	63.31	-	8.46	6.35	-	-	-
Old Mutual Chronos QI Hedge Fund	32.76	37.11	-0.10	9.96	20.27	-	-	-
Old Mutual Managed Alpha QI Hedge Fund	27.43	47.03	1.01	24.53	-	-	-	-
Old Mutual Volatility Arbitrage QI Hedge Fund	17.36	67.22	6.31	9.11	-	-	-	-

\* Only capital, current and call deposits are included.

#Where portfolios hold SAFEX instruments the fair value of derivative assets and liabilities is zero.

## INVESTMENT PERFORMANCE (%) AS AT 31 DECEMBER 2019

	Year 1	Year 3	Year 5	Year 7	Year 10
	(Class A1)				
Old Mutual Aristeia Opportunities QI Hedge Fund	3.9	5.3	5.4	5.8	-
Old Mutual Chronos QI Hedge Fund	-3.5	-0.6	0.4	2.5	-
Old Mutual Managed Alpha QI Hedge Fund	4.2	3.6	4.6	-	-
Old Mutual Volatility Arbitrage QI Hedge Fund	4.5	5.5	5.6	5.7	5.8

## INCOME DISTRIBUTION PER UNIT (CENTS) AS AT 31 DECEMBER 2019

	MARCH 2019	JUNE 2019	SEPTEMBER 2019	DECEMBER 2019
	(Class A1)	(Class A1)	(Class A1)	(Class A1)
Old Mutual Aristeia Opportunities QI Hedge Fund	-	5.08	-	-.*
Old Mutual Chronos QI Hedge Fund	-	5.31	-	-.*
Old Mutual Managed Alpha QI Hedge Fund	-	5.97	-	-.*
Old Mutual Volatility Arbitrage QI Hedge Fund	-	5.06	-	-.*

\* Class A1 Shares closed during the year.

## PRICE, TOTAL EXPENSE RATIO (TER) AND PERFORMANCE FEE AS AT 31 DECEMBER 2019

	LAST PUBLISHED PRICE	TOTAL EXPENSE RATIO (TER)	PERFORMANCE FEE COMPONENT OF TER
	(31/12/2019)	Percentage per Class (%)	%
	(Class A1)	(Class A1)	
Old Mutual Aristeia Opportunities QI Hedge Fund	205.25	-.*	-.*
Old Mutual Chronos QI Hedge Fund	175.03	-.*	-.*
Old Mutual Managed Alpha QI Hedge Fund	192.35	-.*	-.*
Old Mutual Volatility Arbitrage QI Hedge Fund	206.08	-.*	-.*

\* Class A1 Shares closed during the year.

# OLD MUTUAL UNIT TRUST MANAGERS (RF) (Pty) Ltd

## ABRIDGED ANNUAL REPORT 2019

### TRUSTEE'S REPORT

Standard Bank of South Africa Limited provides custodian services for a fee as disclosed in the statement of comprehensive income.

Report in terms of section 70(f) of the Collective Investment Schemes Control Act (the Act), No. 45 of 2002, for the period 1 January 2019 to 31 December 2019 – Old Mutual Qualified Investor Hedge Fund Scheme.

We confirm that according to the records available to us, no losses were suffered in the portfolios and no investor was prejudiced as a result thereof.

We conclude our report by stating that we reasonably believe that the Manager has administered the Schemes in accordance with:

- (i) the limitations imposed on the investment and borrowing powers of the manager by the Act; and
- (ii) the provisions of the Act and the deed.

### IMPORTANT NOTICE:

In terms of the Collective Investment Schemes Control Act, the trustees of all unit trust companies must report on their adherence to limitations imposed on investing, borrowing powers and the general provisions of the Act and Trust Deed. Our trustee, Standard Bank of South Africa Limited, have released Old Mutual Qualified Investor Hedge Fund Scheme report for 2019. The report does not detail any material breaches and is available from the Manager on request and may be viewed at the registered offices of the Manager.



### STATUTORY INFORMATION:

Only the A Class fund portfolios have been included in this Abridged Annual Report. Performance figures are only disclosed for funds that have been in existence for more than one year. A fund portfolio is identical for all the respective classes of that fund. Different classes purely reflect different fee structures, not different portfolio compositions. The A Classes have been selected for this Annual Report as this is the only class of units which a retail investor can purchase directly from Old Mutual Unit Trust Managers (RF) (Pty) Ltd. Note that full details of all the funds and classes are available in the full Annual Report. All performance figures are based on lump sum investments to December 2019. Unit trusts are generally medium- to long-term investments. Past performance is no indication of future growth. Shorter term fluctuations can occur as your investment moves in line with the markets. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Unit trusts can engage in borrowing and scrip lending. The fund's Total Expense Ratio (TER) reflects the percentage of the average Net Asset Value of the portfolio that was incurred as charges, levies and fees related to the management of the portfolio. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. A schedule of fees, charges and maximum commissions is available from the company. You may sell your investment at the monthly ruling price on the first working day of the month in advance of the Transaction Date, unless agreed to be later in terms of a Service Level Agreement. The Transaction Date is the last working day of the calendar month. Certain funds may be capped to be managed in accordance with their mandates. Old Mutual is a member of the Association for Savings and Investment SA.

Source: Morningstar.

The performance is calculated on a NAV-NAV basis and does not take any initial fees into account. Income is reinvested on the ex-dividend date. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income.