

# Futuregrowth



ASSET MANAGEMENT

RETURNS THAT MATTER



Andrew Canter  
Chief Investment Officer



“We are the largest Fixed Income Team in SA; and our team of 20 investment professionals are dedicated to finding the best income opportunities for our clients.”

# OMIGSA's Investment Insights

## Global Debt: The End Game

7 June 2010



A Member of the  OLD MUTUAL Investment Group

# The Economist

MAY 8TH-14TH 2010

Economist.com

Big Oil in deep trouble  
 China's two classes  
 America's Latinos galvanised  
 Booming cinemas  
 You are part Neanderthal

## Coming to a city near you?

Greece, the euro and contagion



Albania AL1760 Croatia HRK145 France €5.50 Ireland €5.50 Latvia LVL3.90 Nigeria Naira 700 Romania RON24 South Africa R45.00  
 Austria €3.50 Cyprus €5.50 Gibraltar GIP4.00 Israel NIS38.90 Lebanon L£11.500 Norway Nkr50 Saudi Arabia Rials40 Sweden SEK3  
 Bahrain Dinar4.00 Czech Rep. CZK150 Greece €5.50 Hungary HUF500 Italy €5.50 Lithuania LTL20 Poland PLN24 Serbia RSD660 Switzerland Sfr10  
 Belgium €6.00 Denmark Dkr43 Hungary HUF500 Kenya KSh340 Luxembourg €5.50 Portugal esc. €5.50 Slovakia €5.50 Turkey TLR12  
 Bulgaria BGN13 Estonia EEK89 Iceland ISK900 Kuwait Dinar3.20 Malta €5.50 Qatar Rials40 Slovenia €5.50 UAE Dirhams 40

### ENGLISH EDITION

20 MAY 2010

#### LEISURE PROPERTY

Suffers when things go wrong, like now p21

#### INVESTMENT

Moving averages signalling a warning light p42

#### TAXING MINERS

Lessons for SA in Australia's folly p60

#### BALANCE OF PAYMENTS

SA's rosy picture might not be all good p61



Online at  
 FIN 24.com

CRISIS  
 CHAOS  
 TURMOIL  
 CONFUSION  
 MASSIVE  
 GLOBAL DEBT

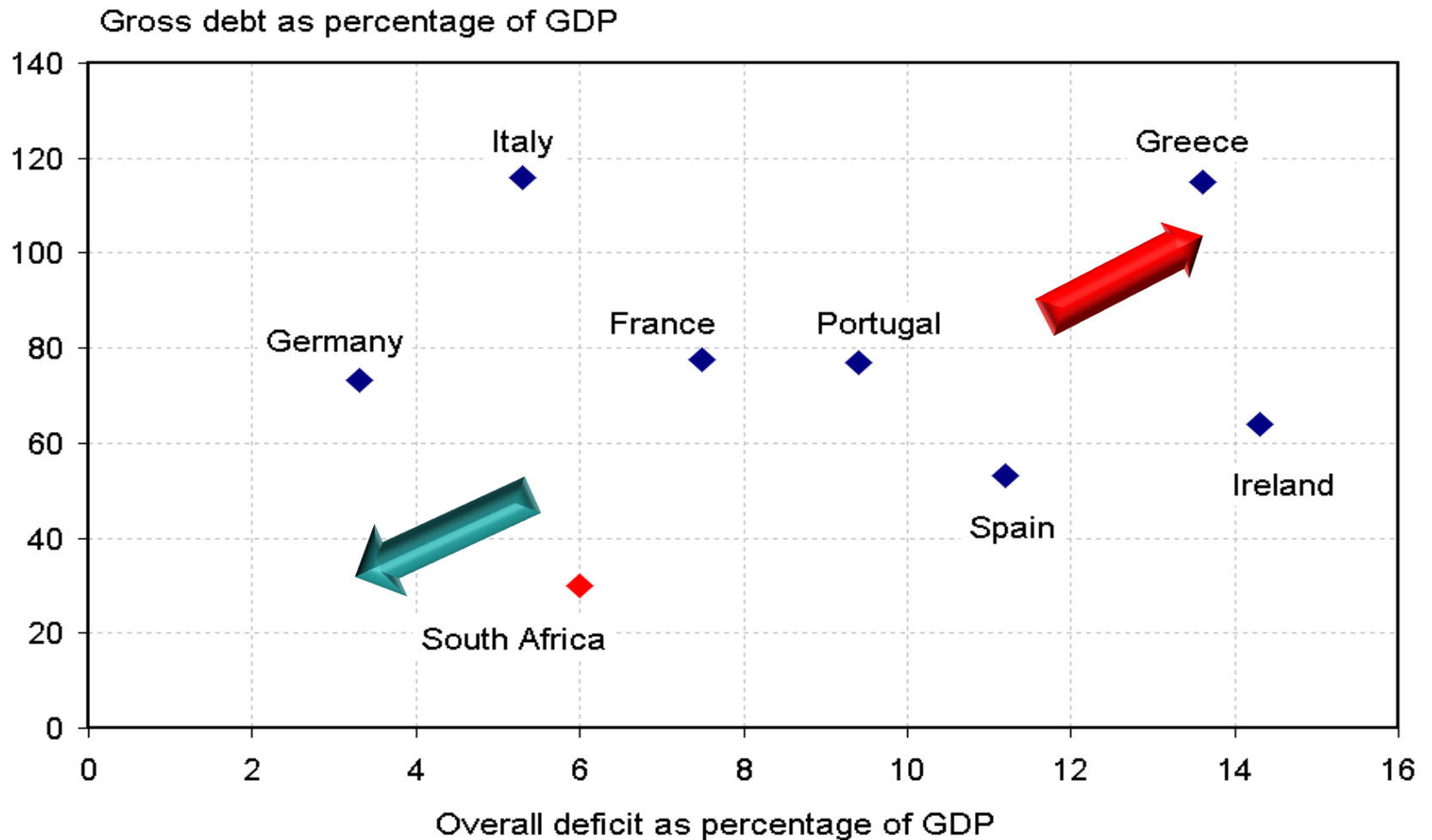
WHERE  
 TO NOW?

SA: R19.50 (incl. VAT)  
 Nombiz: N\$19.50 (incl. VAT)

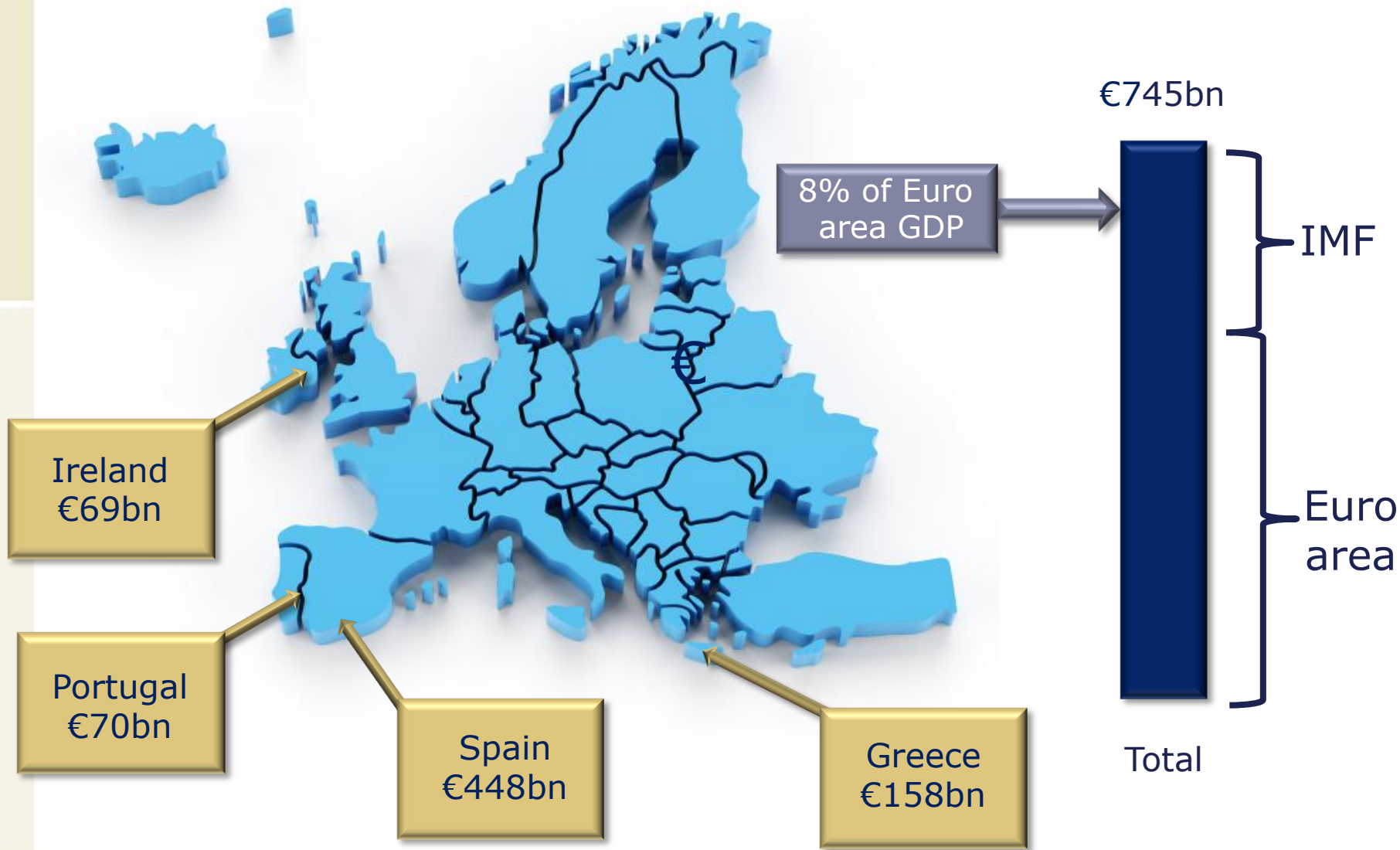




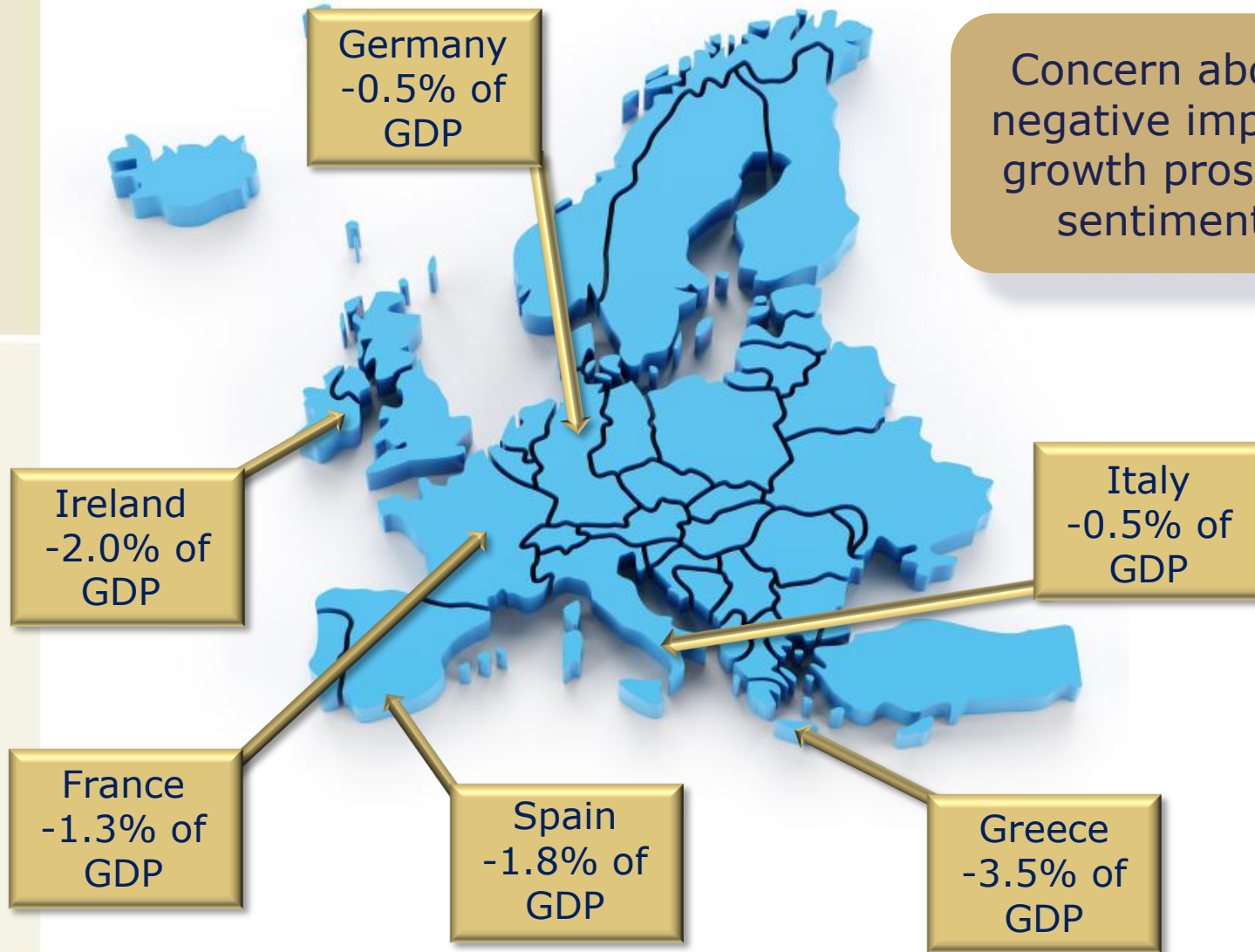
# Governments wandered off the "track"...



# Liquidity: Gross financing need (2010-2012)



# Fiscal adjustment to secure solvency

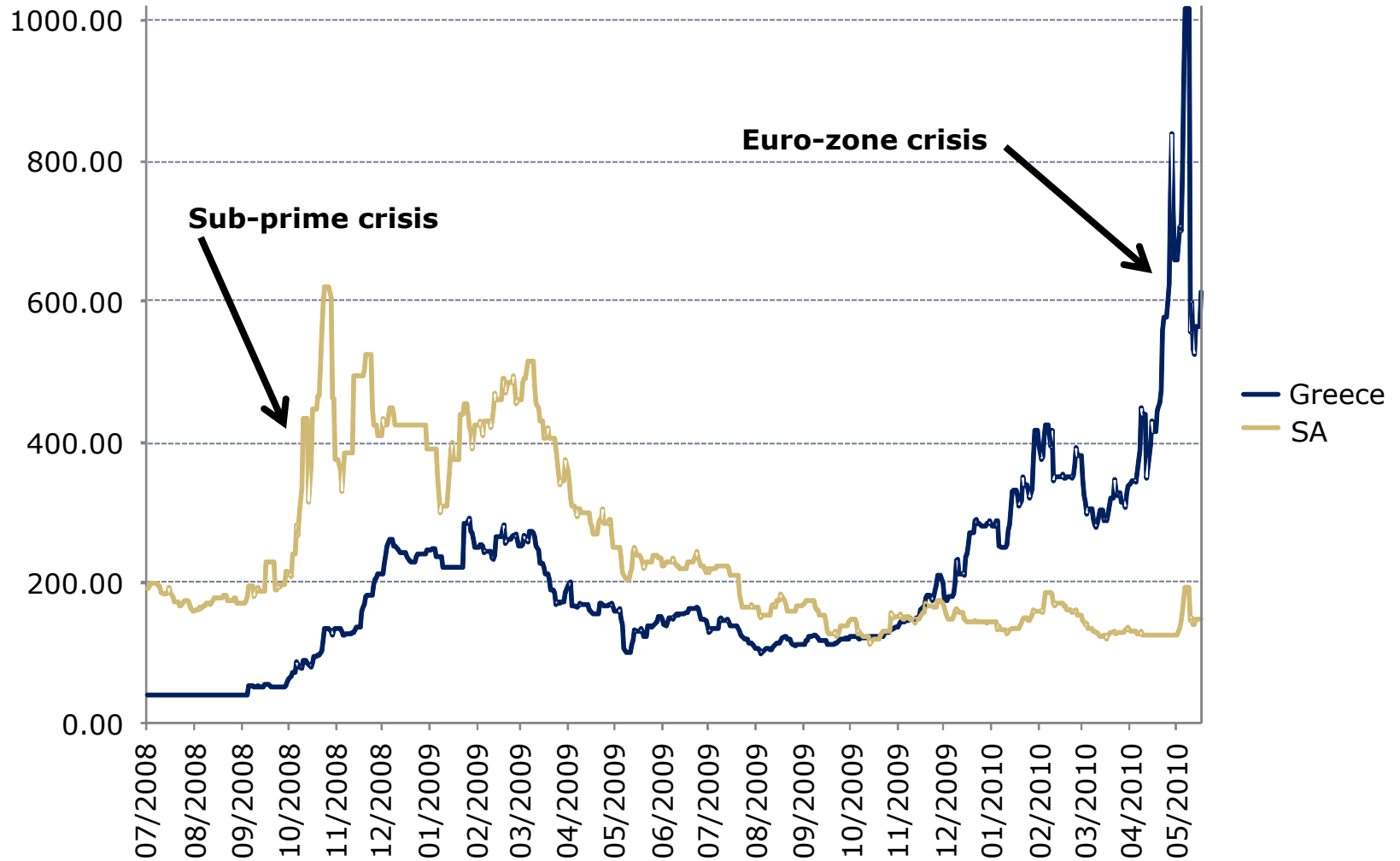


# Europe will “export” deflation & recession

- First step is to provide liquidity...through support packages
- Then fiscal adjustment in order to secure solvency by:
  - government expenditure reduction and/or
  - tax increases
- Possible outcome:
  - Euro zone won't fall apart (costs/complexity too high)
  - “marginal” economies cannot exit Euro (could wipe out banking sectors)
  - Euro weakness necessary to relieve pressure (boost exports/growth)
  - Risk of eventual default (reschedule, restructure, conversion) still high

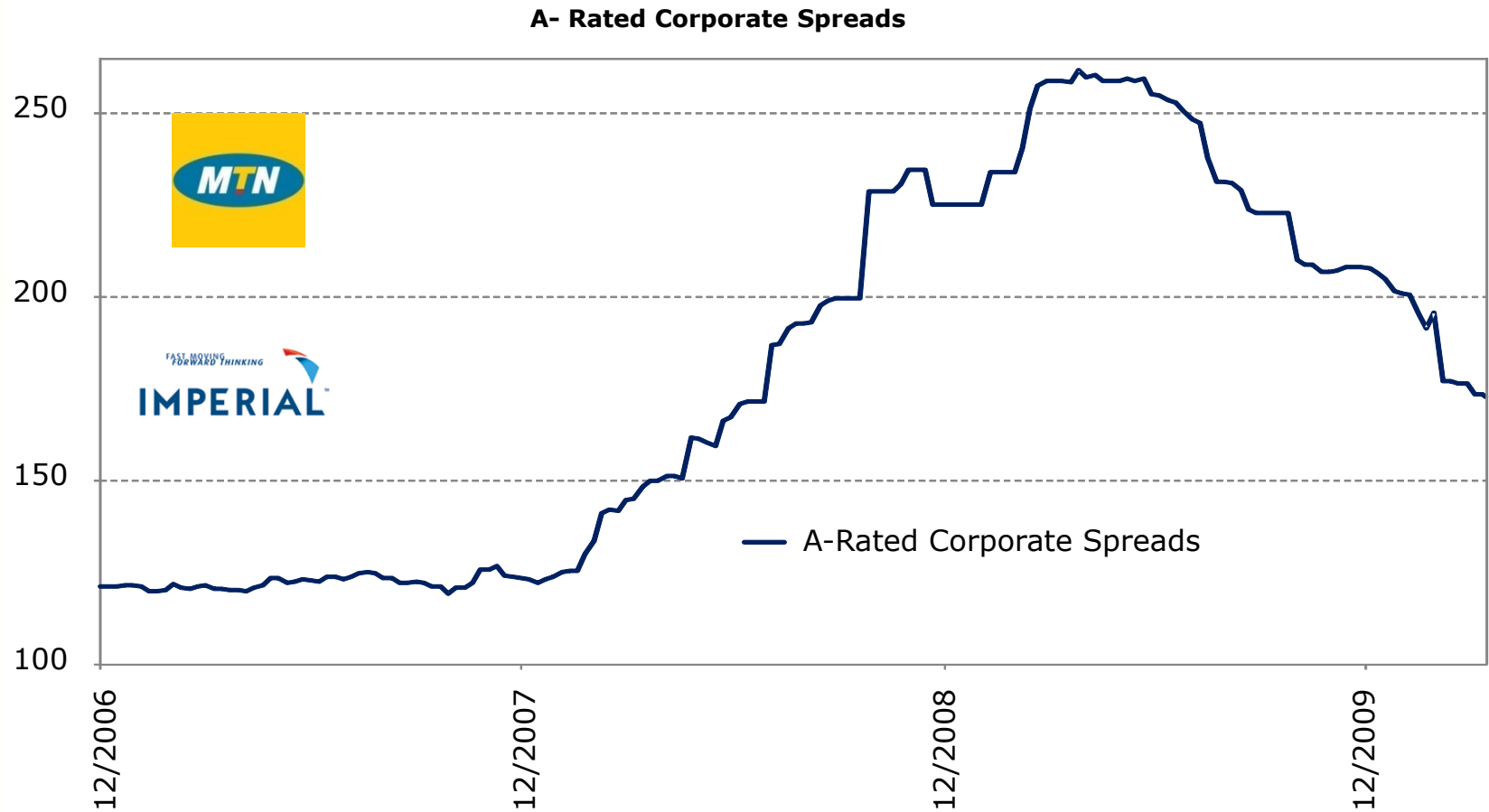
# Credit Default Swaps

...investors are differentiating between good and bad



# Corporate bonds

Still an attractive investment

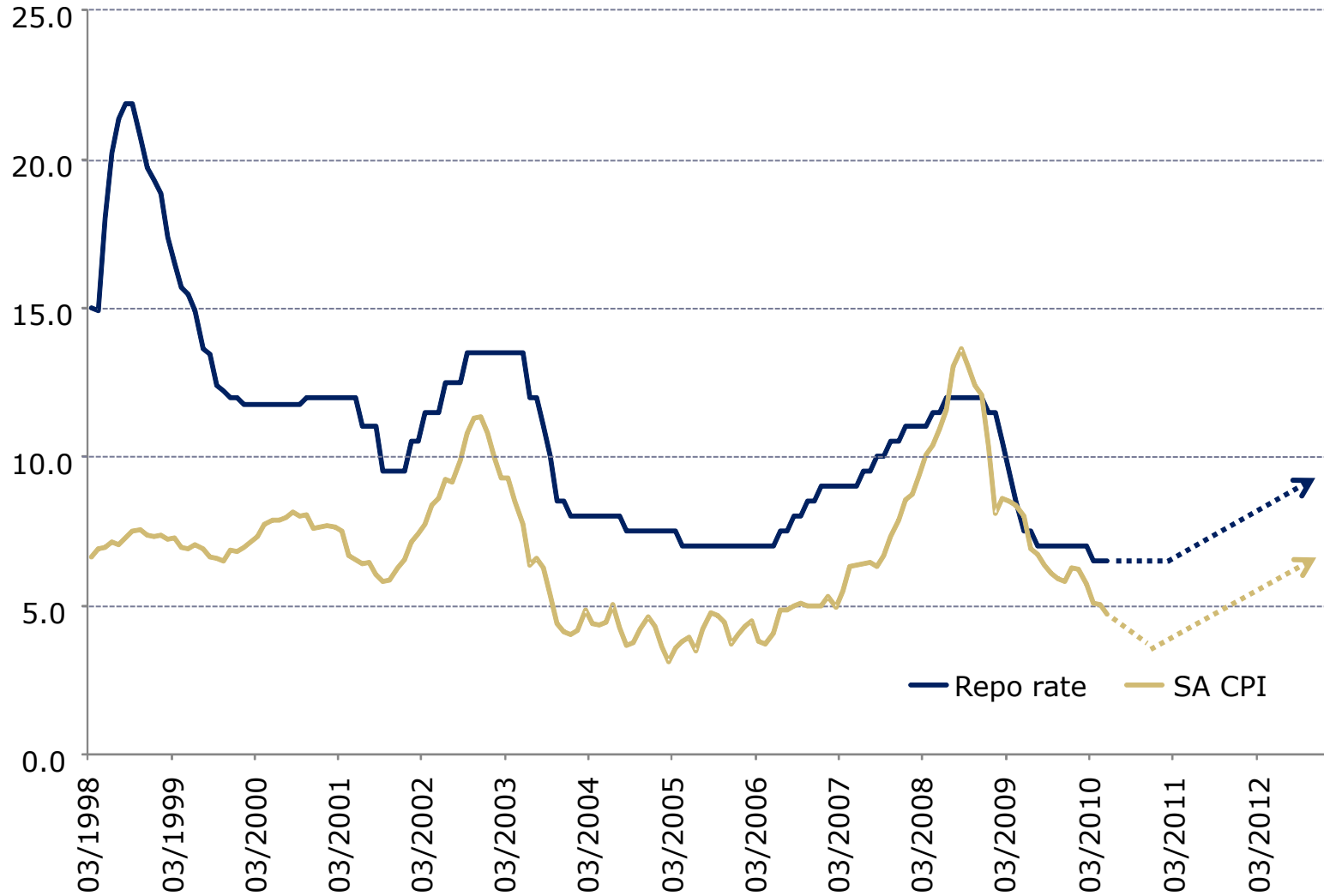


# South African credit still attractive...

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- Credit spreads widened in reaction to global turmoil in 2008
- We always stated that SA Inc fundamentally in better position to survive:
  - Relative sound fiscal position
  - Average corporation is under geared
  - SA banking sector is well regulated
  - SA have good borrowers
- Strong fundamental credit analysis remains a critical component of investment process
- Futuregrowth offers a long strong track record managing credit risk

# Our longer term interest rate view...



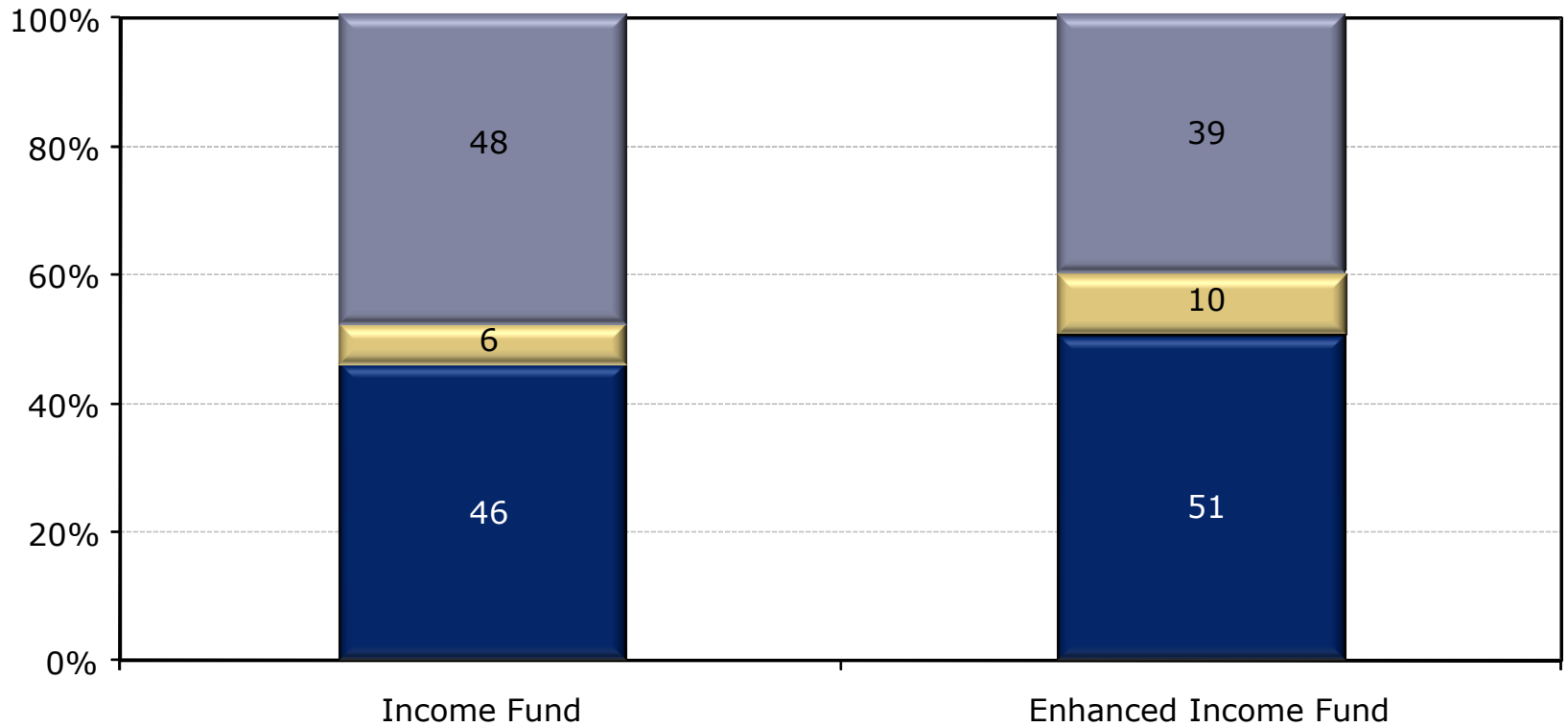
# How to express the credit/interest rate view?

- High holding of non-government bonds at attractive spreads
- Prefer variable rate exposure on a 2-3 year interest rate view:
  - “Lock-in” credit spreads
  - Variable rate offers hedge against rising rates
- Buy inflation-linked bonds at 3%+
  - Receive inflation + 3%
  - Capital hedged against future inflation
  - Difficult to spot big negative inflation surprises
- Use liquid government bond market to express duration views

# Fund positioning

## Government versus non-government

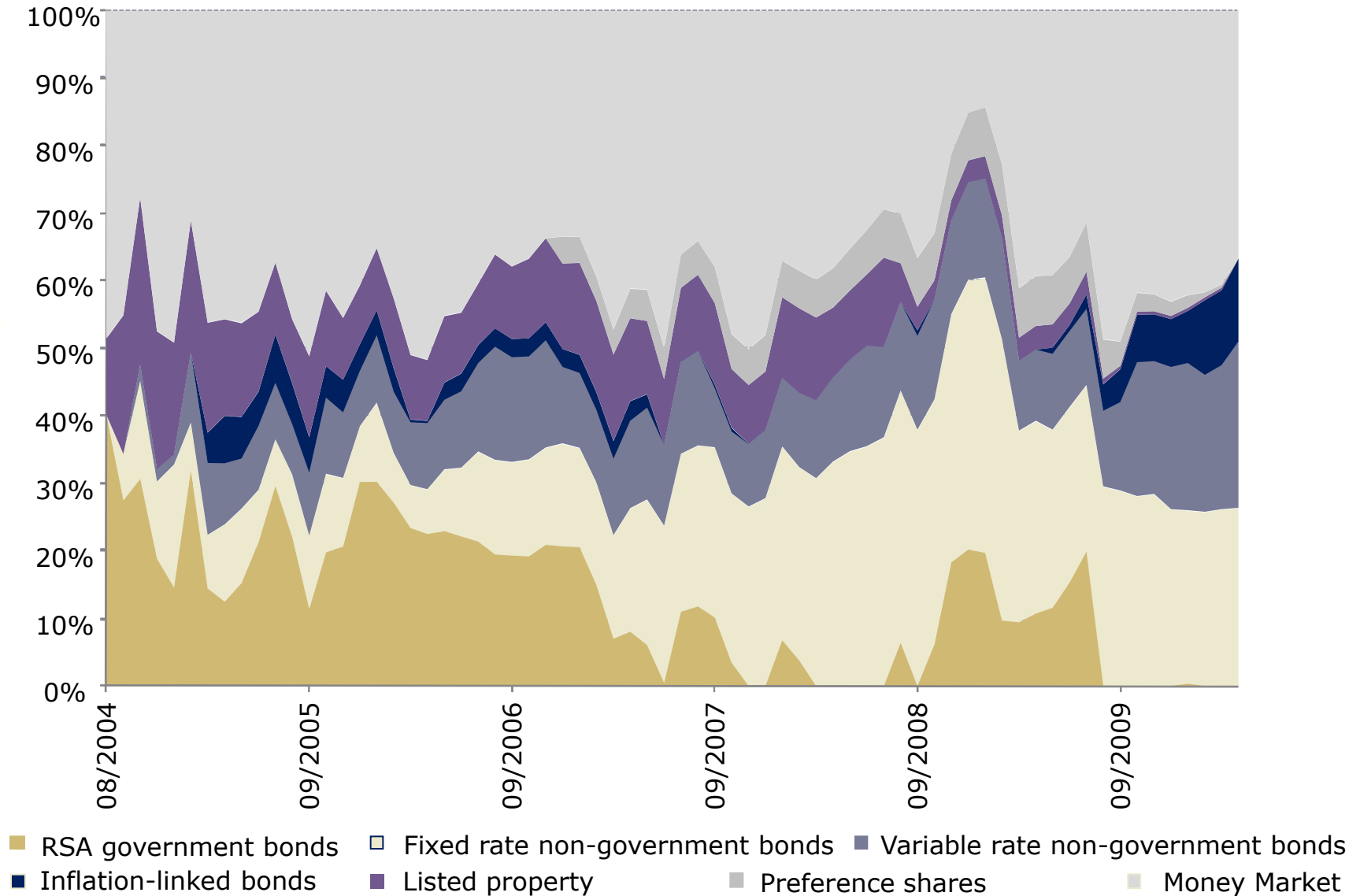
Holdings as percentage of total fund value



- Non-government bonds (fixed, inflation-linked and variable rate)
- RSA government bonds (fixed, inflation-linked)
- Money market (including cash)

# Enhanced Income Fund

## Changes to structure



# Investment Themes

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- US/Euro competitive devaluations: But China/EmAsia to revalue
- Europe exporting deflation, recession, unemployment...
- Not a global double-dip, but a scary 3-6 months
- Cash isn't attractive for 2010-2011. Global rate hikes deferred
- Safety & Growth: Nations & currencies with good fiscal position
- Governments are not "risk free" : Trade credit selectively
- Long-term inflation is rising: Partial hedging is suitable
  - Producing property, oil, ILBs, some currencies , commodities, gold?
  - Global bonds near cyclical lows
- Inflation to surprise on downside in short-term (2010/2011)
- Rising chance of a Bank Rate cut in 3Q2010.

# **Large, experienced Fixed Income team**

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**20 Investment Professionals**

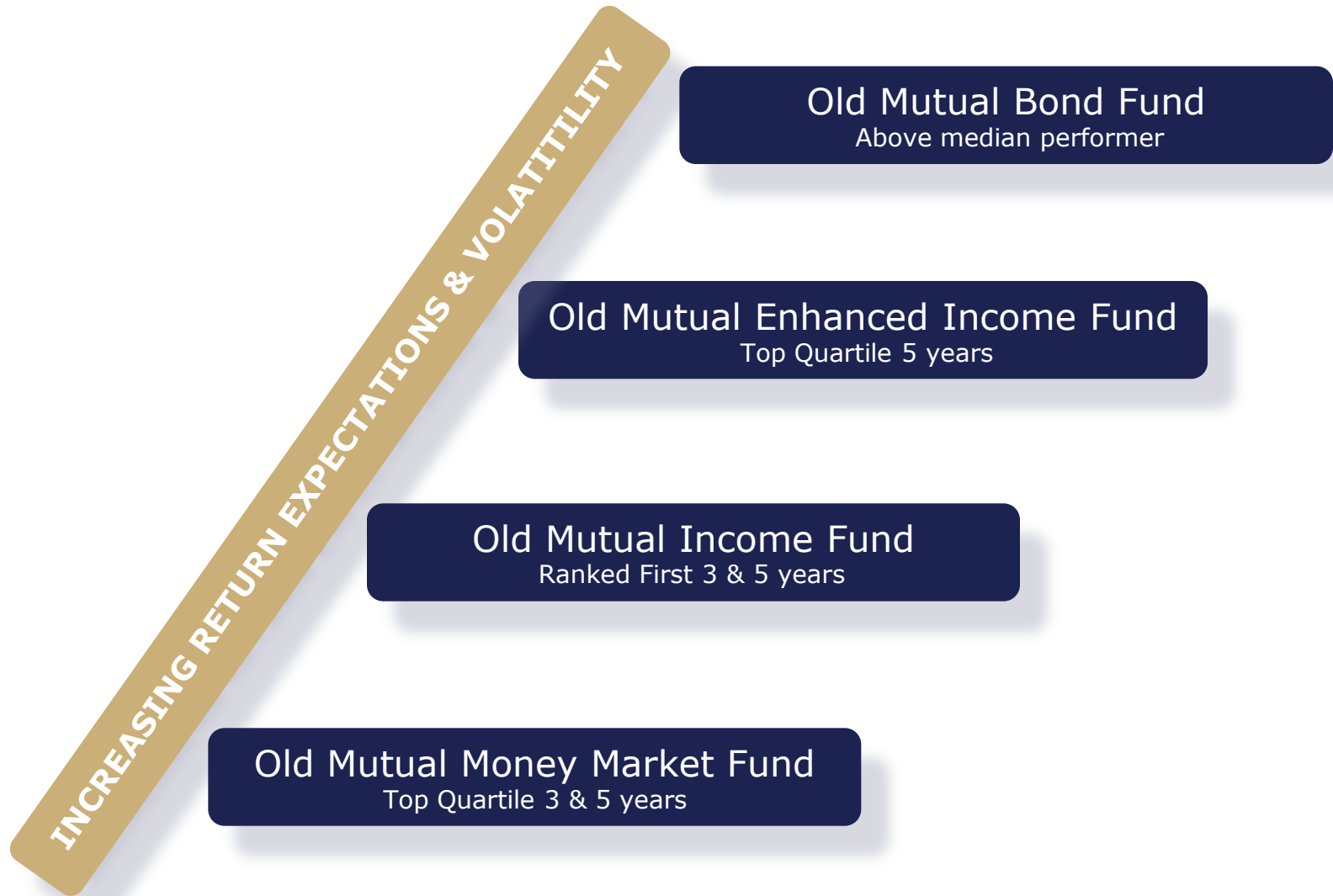
# Why choose Futuregrowth?

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- Robust investment process with scale
  - For conventional and credit instruments
- Large and skilled investment team
  - Well positioned dealing team
- Product suite to fit the clients needs

# The retail fund range

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# The Global Crisis: Reflections & Regulations

- Assumption that diversity & market efficiency is a panacea to all risks.
- Unconstrained capitalism will produce genuinely dangerous stuff.
- The Essence of a profession

*Measure success by the success of our clients*