The Asset Allocation Conundrum

Monene Watson
Chief Investment Officer at Old Mutual Multi-Managers
## Aligning outcomes with Client expectations

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>FUND</th>
<th>MIN INVESTMENT TERM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhanced Income strategy</td>
<td>OM</td>
<td>mm Enhanced Income</td>
</tr>
<tr>
<td>Inflation plus 2-3% strategy</td>
<td>OM</td>
<td>mm Cautious</td>
</tr>
<tr>
<td>Inflation plus 3-4% strategy</td>
<td>OM</td>
<td>mm Defensive</td>
</tr>
<tr>
<td>Inflation plus 4-5% strategy</td>
<td>OM</td>
<td>mm Balanced</td>
</tr>
<tr>
<td>Inflation plus 5-7% strategy</td>
<td>OM</td>
<td>mm Aggressive Balanced</td>
</tr>
<tr>
<td>Maximum return strategy</td>
<td>Maximum return</td>
<td>10 years</td>
</tr>
</tbody>
</table>

**SOURCE:** OM | mm = OLD MUTUAL MULTI-MANAGERS
Investment process
STRATEGIC ASSET ALLOCATION

- **5%** | Global fixed income
- **3%** | Global property
- **22%** | Global equity
- **19%** | SA fixed income
- **5%** | SA property
- **46%** | SA equity

TACTICAL ASSET ALLOCATION

- **2%** | African equity
- **5%** | Global property
- **23%** | Global equity
- **6%** | SA ILBs
- **16%** | SA fixed income
- **4%** | SA property
- **45%** | SA equity

SOURCE: OLD MUTUAL MULTI-MANAGERS
Manager selection

UNDERSTAND HOW YOU INTEND WINNING

MANAGE YOUR MANAGER SELECTION BIASES
What does manager selection success look like?

10 YEAR TRACK RECORD WITH...

- 2.4% out-performance per annum net of fees
- 98% hit rate over rolling 3 year periods
- With less risk than the benchmark

SOURCES: OLD MUTUAL MULTI-MANAGERS & I-NET BRIDGE
# Diversified selection of Managers

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>MANAGER SPLIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA Equity</td>
<td>Prudential, Coronation, Visio Capital</td>
</tr>
<tr>
<td>Boutique Equity Portfolio</td>
<td>36ONE, Bateleur, Laurium Capital</td>
</tr>
<tr>
<td>SA Fixed Income</td>
<td>Prudential, Coronation, Prescient</td>
</tr>
<tr>
<td>SA Property</td>
<td>Catalyst, Sesfikile Capital</td>
</tr>
<tr>
<td>International Equity</td>
<td>Orbis, Harris, PineGlobal, Investec, Baillie Gifford</td>
</tr>
<tr>
<td>International Equity</td>
<td>Coronation, Hermes</td>
</tr>
<tr>
<td>International Property</td>
<td>Catalyst, BlackRock, Resolution Capital</td>
</tr>
<tr>
<td>Africa</td>
<td>Rudianius, Capital Management</td>
</tr>
</tbody>
</table>

Source: Old Mutual Multi-Managers
Can South African equity deliver the returns it did in the past?
We’ve been here before: markets are always cyclical

Rolling 5-year real returns
Equity has beaten cash 8/10 rolling 5-year periods since 1960

Patient investors have been rewarded by equities over time, but equities can lag cash
Equity markets are reasonably priced

- **Current market valuation**
- **Long term expected real return**

<table>
<thead>
<tr>
<th>Category</th>
<th>Current Market Valuation</th>
<th>Long Term Expected Real Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA Cash</td>
<td>1.3%</td>
<td>1.0%</td>
</tr>
<tr>
<td>SA ILBs</td>
<td>3.2%</td>
<td>1.5%</td>
</tr>
<tr>
<td>SA Property</td>
<td>3.2%</td>
<td>2.3%</td>
</tr>
<tr>
<td>SA Equity</td>
<td>8.7%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Int Cash</td>
<td>0.8%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Int Bonds incl Credit</td>
<td>5.3%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Int Property</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Int Equity (Developed)</td>
<td>7.0%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Int Equity (EM)</td>
<td>8.3%</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

**Source:** OLD MUTUAL MULTI-MANAGERS
Strategies success rate
since inception to December 2018

- 87% ROLLING THREE YEARS (Inflation + 1-3%)
- 84% ROLLING FIVE YEARS (Inflation + 3-5%)
- 93% ROLLING SEVEN YEARS (Inflation + 5-7%)

SOURCE: OLD MUTUAL MULTI-MANAGERS
The Asset Allocation Conundrum

John Orford
Portfolio Manager at MacroSolutions
What can you expect from here?

5-year expected nominal returns, p.a.

<table>
<thead>
<tr>
<th>Active return</th>
<th>BALANCED FUND</th>
<th>CASH</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.5%</td>
<td></td>
<td>7.0%</td>
</tr>
</tbody>
</table>

SOURCE: MACROSOLUTIONS
America is great again!
And the market knows it

Note: * Real S&P 500 index in log terms
The winds of change ARE blowing IN
Bought local bonds

Reduced global equity

Exited global property

ACTIVE MANAGEMENT

Naspers

Capitec Bank

South African flag
Active positioning

45%  |  42%
THEN  |  NOW
Jan 2018 | Jan 2019

GLOBAL EXPOSURE

SOURCE: MACROSOLUTIONS, OLD MUTUAL BALANCED FUND
Active positioning

SOUTH AFRICAN EXPOSURE

Jan 2018

THEN
Jan 2018

35%

NOW
Jan 2019

44%

SOURCE: MACROSOLUTIONS, OLD MUTUAL BALANCED FUND
Competitive performance

QUARTILE POSITIONING FOR PERIODS ENDING 31 JANUARY 2019

<table>
<thead>
<tr>
<th>Fund</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
<th>Morningstar rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Mutual Flexible Fund</td>
<td>1st</td>
<td>2nd</td>
<td>1st</td>
<td>★★★★★</td>
</tr>
<tr>
<td>Old Mutual Balanced Fund</td>
<td>1st</td>
<td>1st</td>
<td>1st</td>
<td>★★★★★</td>
</tr>
<tr>
<td>Old Mutual Stable Growth Fund</td>
<td>1st</td>
<td>2nd</td>
<td>1st</td>
<td>★★★★★</td>
</tr>
</tbody>
</table>

SOURCE: MORNINGSTAR, MACROSOLUTIONS
NOTE: PLEASE REFER TO THE REGULATORY DISCLOSURES REGARDING PERFORMANCE
Recent returns low
Better returns ahead
Active management key
### REGULATORY DISCLOSURES ON PERFORMANCE

The Net Asset Value to Net Asset Value figures are used for the performance calculations. The performance quoted is for a lump sum investment. The performance calculation includes income distributions prior to the deduction of taxes and distributions are reinvested on the ex-dividend date. Performances may differ as a result of actual initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Annualised returns are the weighted average compound growth rates over the performance period measured. Performances are in ZAR and as at 31 January 2019. Sources: Morningstar and Old Mutual Investment Group

<table>
<thead>
<tr>
<th>Fund</th>
<th>Rolling 12month returns</th>
<th>Inception Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Mutual Flexible Fund</td>
<td>Highest: 54.0%  Average: 13.9%  Lowest: -26.9%</td>
<td>20/08/1996</td>
</tr>
<tr>
<td>Old Mutual Balanced Fund</td>
<td>Highest: 45.5%  Average: 13.1%  Lowest: -23.2%</td>
<td>01/03/1994</td>
</tr>
<tr>
<td>Old Mutual Stable Growth Fund</td>
<td>Highest: 18.6%  Average: 8.2%  Lowest: -5.3%</td>
<td>01/07/2007</td>
</tr>
</tbody>
</table>
IMPORTANT INFORMATION

We aim to treat our customers fairly by giving you the information you need in as simple a way as possible, to enable you to make informed decisions about your investments. We believe in the value of sound advice and so recommend that you consult a financial planner before buying or selling unit trusts. You may, however, buy and sell without the help of a financial planner. If you do use a planner, we remind you that they are entitled to certain negotiable planner fees or commissions. You should ideally see unit trusts as a medium- to long-term investment. The fluctuations of particular investment strategies affect how a fund performs. Your fund value may go up or down. Therefore, we cannot guarantee the investment capital or return of your investment. How a fund has performed in the past does not necessarily indicate how it will perform in the future. The fees and costs that we charge for managing your investment are disclosed in the relevant fund’s Minimum Disclosure Document (MDD) or table of fees and charges, both available on our public website or from our contact centre. Our cut-off time for client instructions (e.g. buying and selling) is at 15:00 each working day for all our funds, except the Money Market Funds, the price of which is set at 13:00. These are also the times we value our funds to determine the daily ruling price (other than at month-end when we value the Old Mutual Top 40 Fund and the Old Mutual Multi-Managers Equity Fund of Funds at 17:00). Daily prices are available on the OMUT public website and in the media. Unit trusts are traded at ruling prices, may borrow to fund client disinvestments and may engage in script lending. The daily price is based on the current market value of the fund’s assets plus income minus expenses (NAV of the portfolio) divided by the number of units on issue.

A money market fund is not a bank deposit account. Its unit price aims to be constant but investment capital is not guaranteed. The total return is primarily made up of interest (declared daily at 13:00) but may also include any gain/loss on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in the case of abnormal losses, it can have the effect of reducing the capital value of the fund. The published yield is calculated using the average of the fund’s previous seven days’ net income (and assumes all income was reinvested). This figure is then annualised, which is the weighted average compound growth rate. Excessive withdrawals from the fund may place the fund under liquidity pressures. In such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. Income funds derive their income primarily from interest-bearing instruments as defined. The yield is a current yield and is calculated daily. A fund of funds is a portfolio that invests in other funds which levy their own charges, which could result in a higher fee structure for the fund of funds. Some funds hold assets in foreign countries and therefore may have risks regarding liquidity, the repatriation of funds, political and macro-economic situations, foreign exchange, tax, settlement, and the availability of information. Please contact us for risks specific to each country.

The Net Asset Value to Net Asset Value figures are used for the performance calculations. The performance quoted is for a lump sum investment. The performance calculation includes income distributions prior to the deduction of taxes and distributions are reinvested on the ex-dividend date. Performances may differ as a result of actual initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Annualised returns are the weighted average compound growth rates over the performance period measured. Performances are in ZAR and as at 31 December 2018. Sources: Morningstar and Old Mutual Investment Group.

Old Mutual Unit Trust Managers (RF) (Pty) Ltd (OMUT) is a registered manager in terms of the Collective Investment Schemes Control Act 45 of 2002.

Old Mutual is a member of the Association for Savings and Investment South Africa (ASISA).

OMUT has the right to close the portfolios to new investors in order to manage it more efficiently in accordance with its mandate.
Old Mutual Investment Group (Pty) Ltd

Physical Address: Mutualpark, Jan Smuts Drive, Pinelands, 7405

Telephone number: +27 21 509 5022

Old Mutual Investment Group (Pty) Ltd (Reg No 1993/003023/07) is a licensed financial services provider, FSP 604, approved by the Registrar of Financial Services Providers (www.fsca.co.za) to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. Old Mutual Investment Group (Pty) Ltd is a wholly owned subsidiary of Old Mutual Investment Group Holdings (Pty) Ltd and is a member of the Old Mutual Investment Group.

Market fluctuations and changes in rates of exchange or taxation may have an effect on the value, price or income of investments. Since the performance of financial markets fluctuates, an investor may not get back the full amount invested. Past performance is not necessarily a guide to future investment performance. The investment portfolios may be market-linked or policy based. Investors’ rights and obligations are set out in the relevant contracts, in respect of pooled, life wrapped products, the underlying assets are owned by Old Mutual Life Assurance Company (South Africa) Limited who may elect to exercise any votes on these underlying assets independently of Old Mutual Investment Group. In respect of these products, no fees or charges will be deducted if the policy is terminated within the first 30 days. Returns on these products depend on the performance of the underlying assets.

Disclosures: Personal trading by staff is restricted to ensure that there is no conflict of interest. All directors and those staff who are likely to have access to price sensitive and unpublished information in relation to the Old Mutual Group are further restricted in their dealings in Old Mutual shares. All employees of the Old Mutual Investment Group are remunerated with salaries and standard incentives. Unless disclosed to the client, no commission or incentives are paid by the Old Mutual Investment Group to any persons other than its representatives. All inter-group transactions are done on an arms length basis. We outsource investment administration of our local funds to Curo Fund Services (Pty) Ltd, 35% of which is owned by the Old Mutual Investment Group.

Disclaimer: The contents of this document and, to the extent applicable, the comments by presenters do not constitute advice as defined in FAIS. Although due care has been taken in compiling this document, Old Mutual Investment Group does not warrant the accuracy of the information contained herein and therefore does not accept any liability in respect of any loss you may suffer as a result of your reliance thereon. The processes, policies and business practices described may change from time to time and Old Mutual Investment Group specifically excludes any obligation to communicate such changes to the recipient of this document.

This document is not an advertisement and it is not intended for general public distribution. The recipient is advised to assess the information with the assistance of an advisor if necessary, with regard to its compatibility with his/her own circumstances in view of any legal, regulatory, tax and other implications. The information herein does not constitute an offer to sell or a solicitation of an offer to buy any securities. This document is expressly not intended for persons who, due to their nationality or place of residence, are not permitted access to such information under applicable law.

Old Mutual Investment Group has comprehensive crime and professional indemnity insurance. For more detail, as well as for information on how to contact us and on how to access information please visit www.oldmutualinvest.com.

All images were sourced from Google | www.unsplash.com