

A man in a dark suit is lying on his back on a dark floor. To his left is a wall with a black and white checkered pattern. In front of him is a large, dark screen displaying text. The background is a plain, light-colored wall.

**JOHN ORFORD**  
**PORTFOLIO MANAGER**

**THROUGH THE LOOKING GLASS**



**OLD MUTUAL**  
INVESTMENT GROUP

# MACROSOLUTIONS

- What we do:
  - Active asset allocation delivering customer focused solutions
- How we do it:
  - Integrated asset allocation and specialist selection
  - Theme & Price – combine bottom up (price) and top down (theme)
  - Long term perspective, tactically aware
  - Experienced team
  - Accountability

# ASSET CLASS RETURNS YTD

A strong first half for SA equities, local bonds lagging

	Rand returns (%)	US dollar returns (%)
<b>SA returns</b>		
FTSE SWIX	14.1	13.5
SA Listed Property	10.1	9.5
SA Bonds	4.6	4.0
SA Cash	3.6	3.0
<b>International returns</b>		
MSCI AC World	5.7	5.1
Emerging Markets	9.7	9.1
Bonds	5.4	4.8
Cash	0.6	0.1

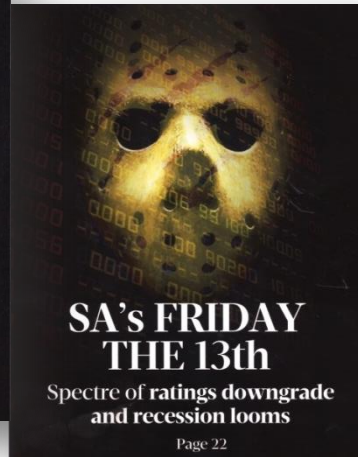
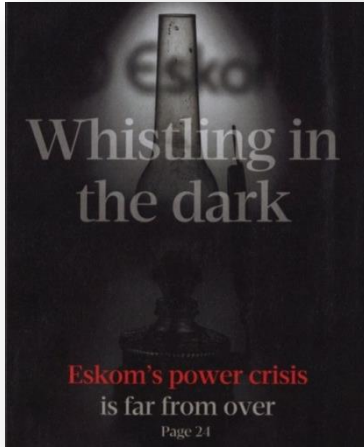
3 Source: MacroSolutions



# THE NEWS HAS BEEN BAD

Toxic combination of electricity, labour, rates and ratings

**AMCU'S  
MOMENT**

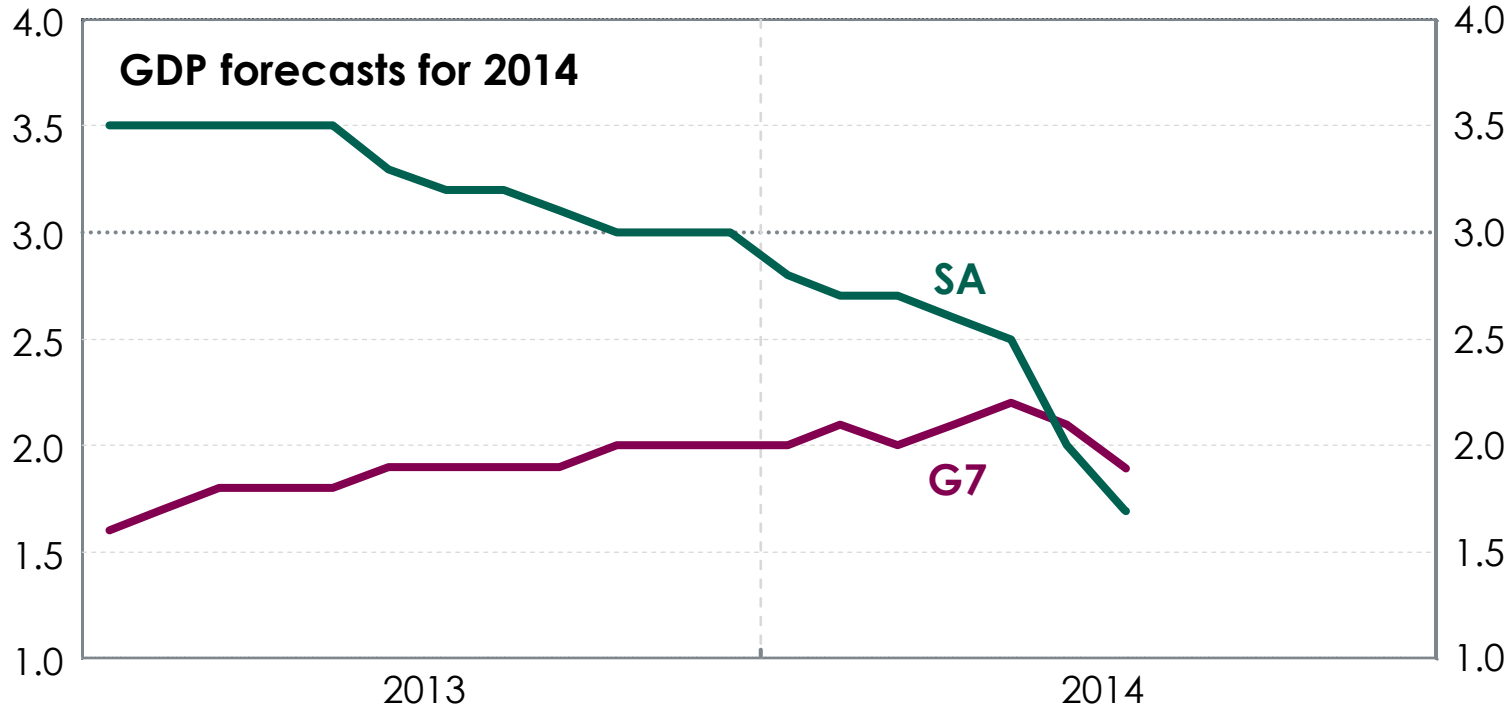


**LOW  
interest rates**  
will abnormal  
policy normalize?



# GDP GROWTH EXPECTATIONS

World healing, South Africa stalling

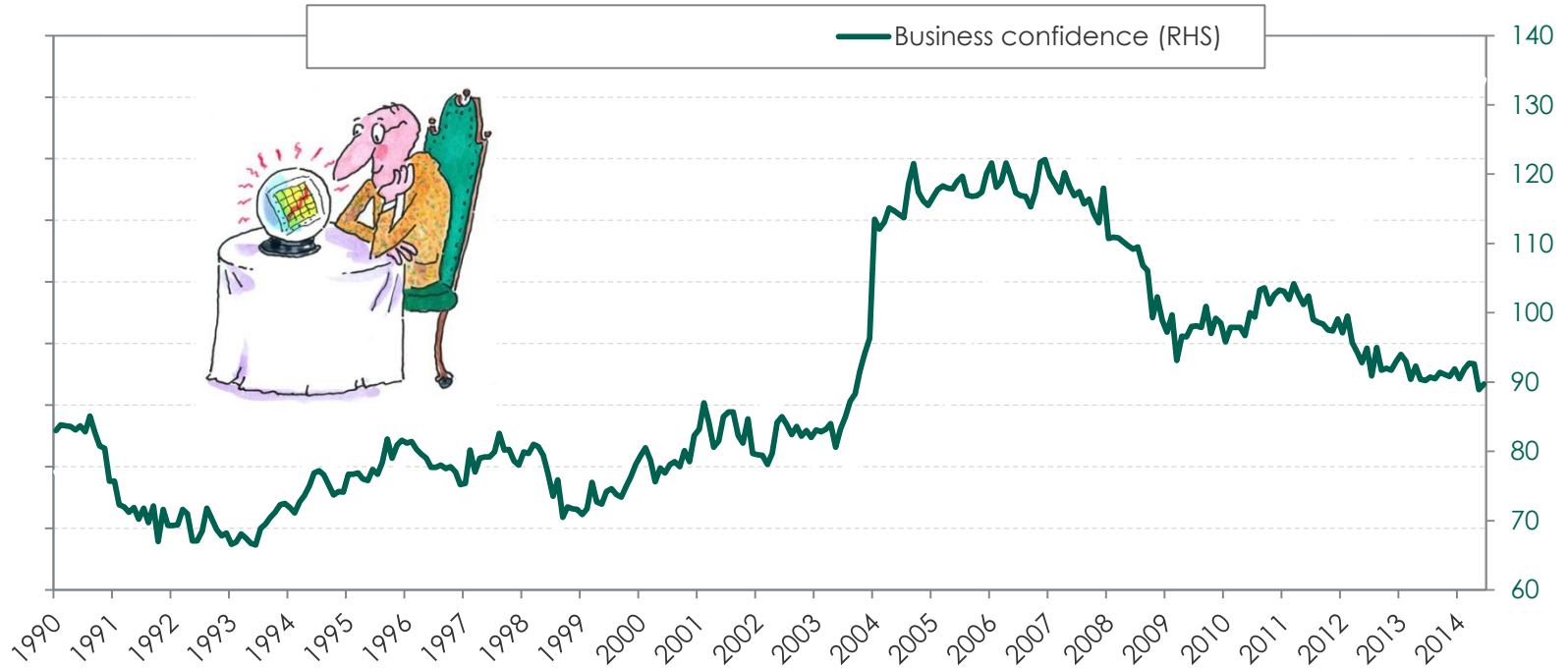


5 Source: MacroSolutions



# JSE AND MAIN STREET DISCONNECT?

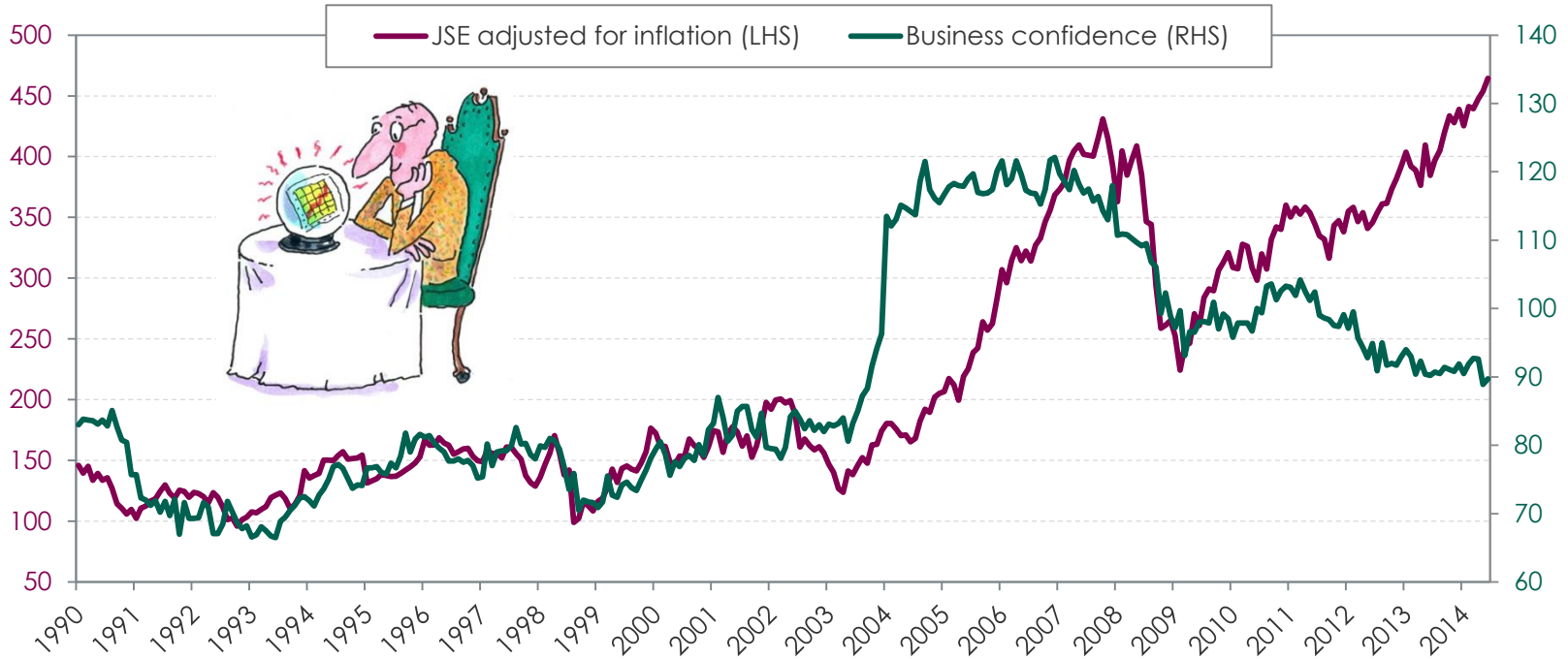
Despite the bad news the JSE has marched higher



6 Source: I-Net, SA Chamber of Business confidence index

# JSE AND MAIN STREET DISCONNECT?

Despite the bad news the JSE has marched higher



7 Source: I-Net, SA Chamber of Business confidence index

# JSE CORRELATED TO GLOBAL MARKETS

Long term rise in correlation of JSE to global markets



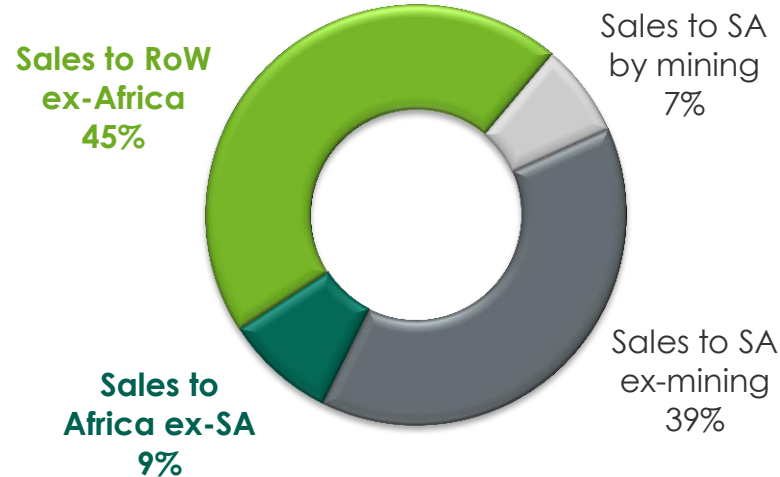
8 Source: MacroSolutions, rolling 3 year correlation of JSE vs. Global equity both in US\$



# THE JSE DOES NOT EQUAL THE LOCAL ECONOMY

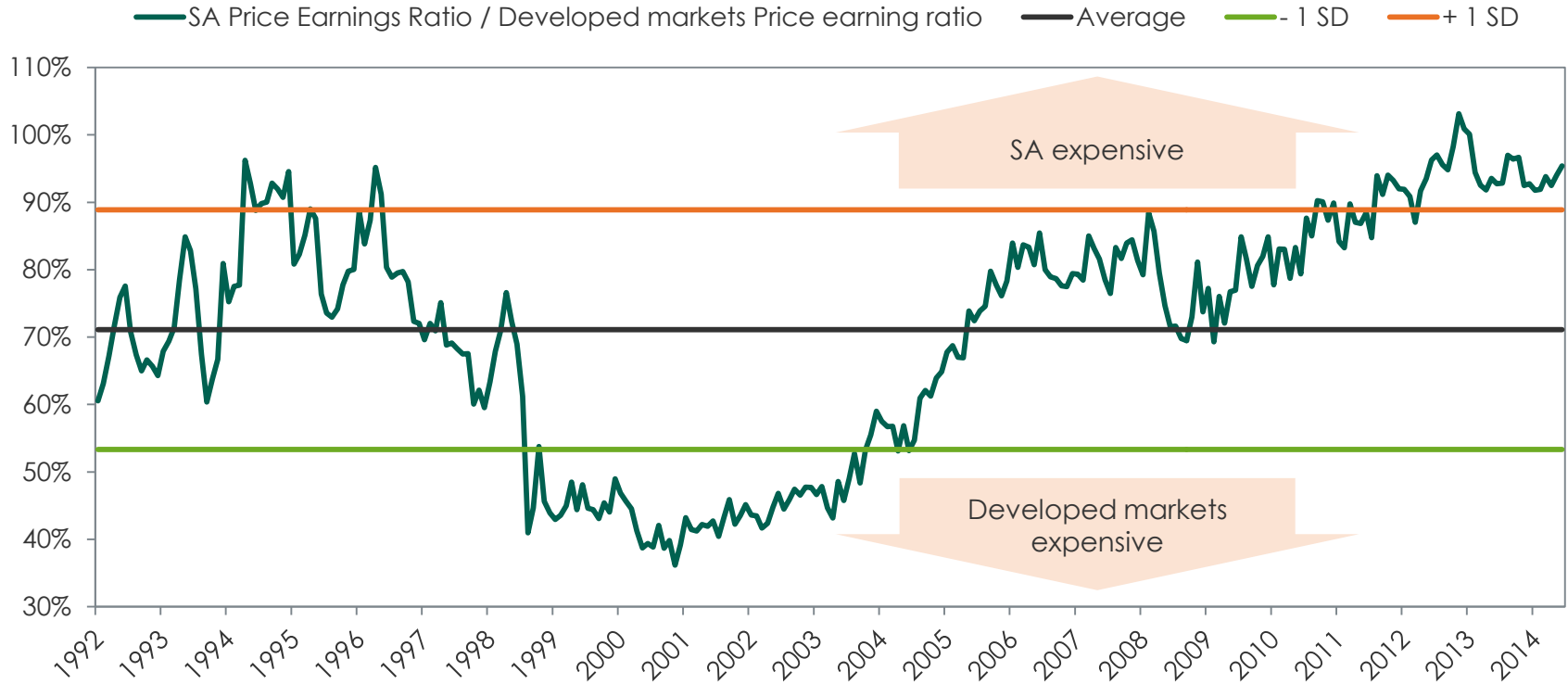
More than half JSE sales are outside of SA & that share is rising

## JSE sales by destination (%)



9 Source: Old Mutual Investment Group

# RATIO OF SA MARKET TO DEVELOPED MARKET VALUATIONS

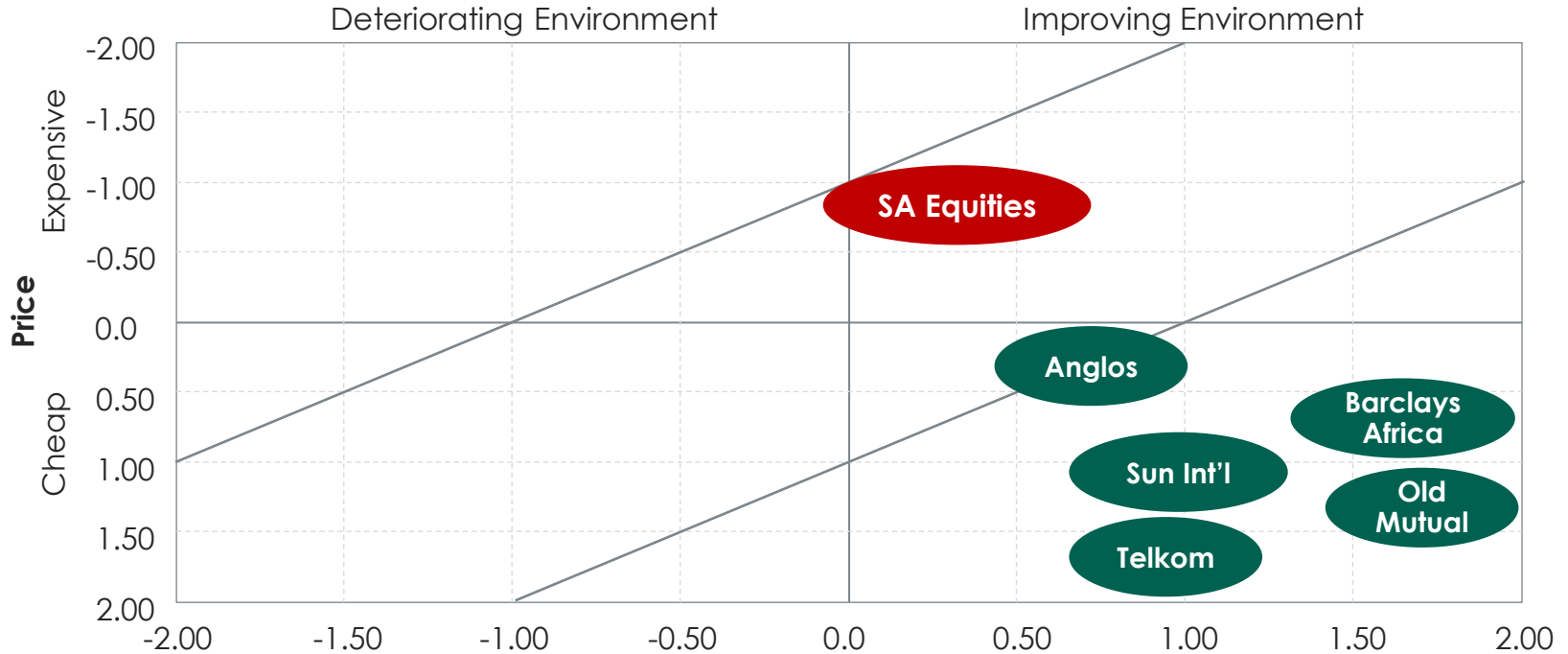


Source: MacroSolutions

# SELF HELP STORIES

SA economy is slowing, rate hikes. Market has rerated, returns likely to be lower

Position: Overweight companies that are restructuring



Source: Old Mutual Investment Group

# INVESTMENT HORIZON

Prepared ahead of time



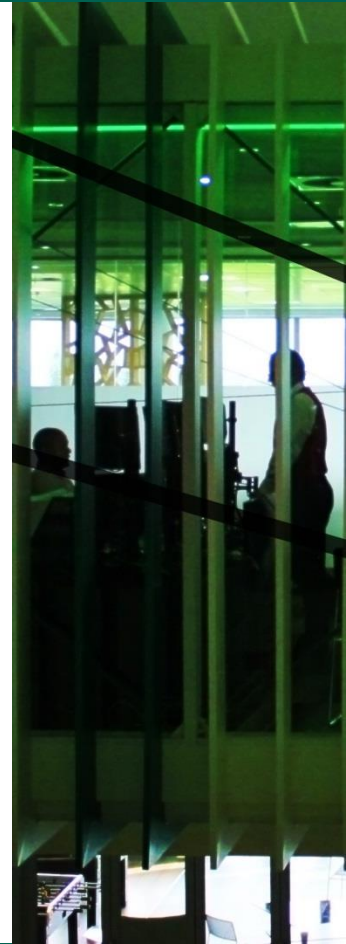
CLOUDS



RAIN



FLOODS



## NEXT YEAR WILL BE BETTER ...

- Strikes behind us
- Electricity supply should improve
- Current account deficit likely to narrow
- Tax hikes
- Only modest rate hikes

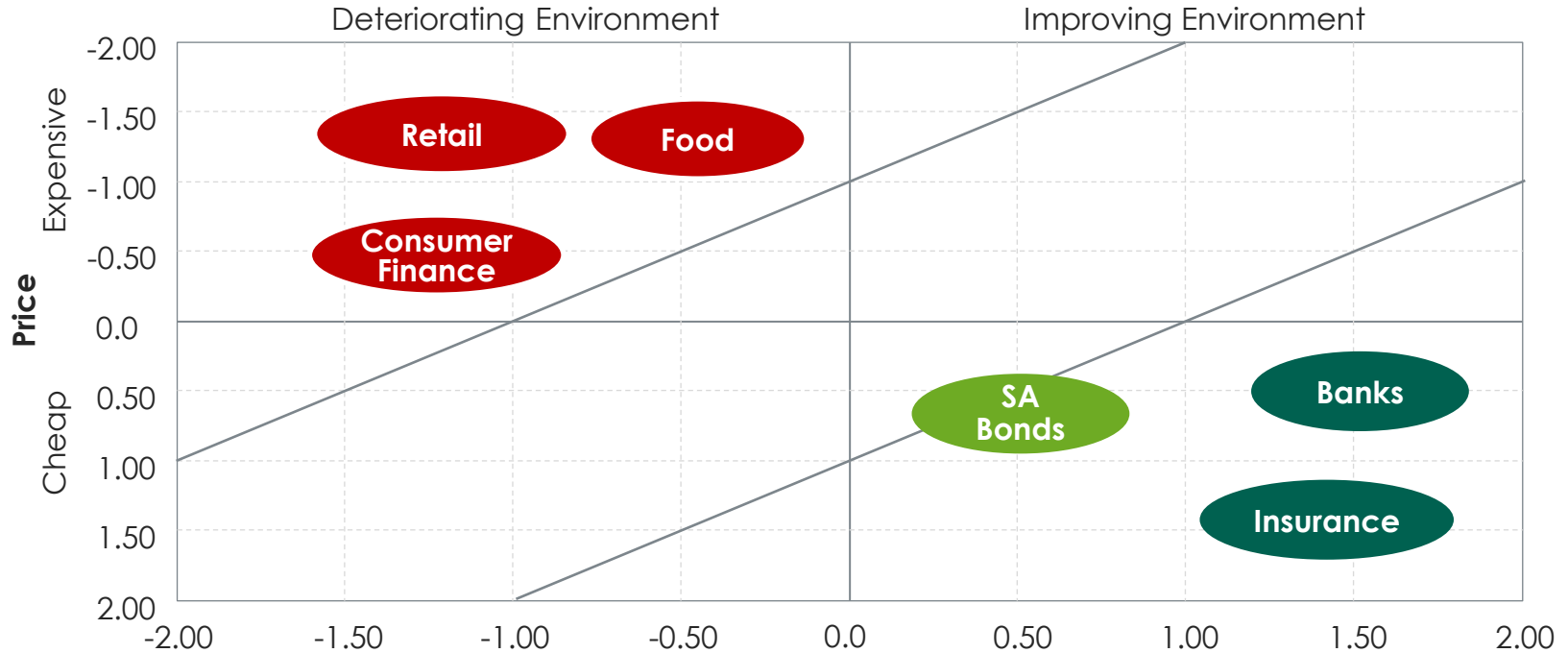
... FOR FIXED INCOME



# SA REBALANCES

SA needs to rebalance given the current imbalances

Position: In equities underweight consumer overweight financials; More positive on bonds



# ANNUAL ASSET CLASS RETURNS – KEEP THE BALANCE

Source: Old Mutual Investment Group

Highest



Lowest

	50 Years	40 Years	30 Years	25 Years	20 Years	15 Years	10 Years	5 Years
	SA Equities 17.9%	SA Equities 19.1%	Global Equities 18.5%	SA Equities 16.4%	SA Property 15.8%	SA Property 23.2%	SA Property 23.2%	Global Equities 23.3%
	<b>Balanced Index 15.9%</b>	Global Equities 18.5%	SA Equities 18.0%	<b>Balanced Index 15.7%</b>	SA Equities 15.6%	SA Equities 17.9%	SA Equities 21.0%	SA Equities 21.6%
	Global Equities 15.4%	<b>Balanced Index 17.3%</b>	<b>Balanced Index 16.9%</b>	SA Property 14.8%	<b>Balanced Index 14.9%</b>	Gold 16.1%	Gold 19.1%	SA Property 20.9%
	Gold 13.5%	Global Bonds 15.7%	Global Bonds 15.9%	SA Bonds 14.1%	Global Equities 13.6%	<b>Balanced Index 15.5%</b>	<b>Balanced Index 17.3%</b>	<b>Balanced Index 18.4%</b>
	Global Bonds 13.0%	Gold 13.3%	SA Bonds 14.2%	Global Equities 13.5%	SA Bonds 12.9%	SA Bonds 11.9%	Global Equities 13.8%	Gold 14.0%
	SA Cash 10.9%	SA Bonds 12.4%	SA Property 14.0%	Global Bonds 12.5%	Gold 12.4%	Global Bonds 9.7%	Global Bonds 10.8%	Global Bonds 10.7%
	SA Bonds 10.4%	SA Cash 12.1%	SA Cash 12.3%	SA Cash 11.7%	Global Bonds 11.7%	Global Equities 8.7%	SA Bonds 9.4%	SA Bonds 9.5%
	SA CPI 9.0%	SA CPI 9.9%	Gold 11.9%	Gold 10.9%	SA Cash 10.5%	SA Cash 8.7%	SA Cash 7.5%	SA Cash 6.1%
	SA Property n/a	SA Property n/a	SA CPI 9.2%	SA CPI 7.9%	SA CPI 6.6%	SA CPI 6.3%	SA CPI 6.0%	SA CPI 5.3%
	<b>8.9%</b>	<b>9.3%</b>	<b>9.3%</b>	<b>8.5%</b>	<b>9.2%</b>	<b>16.9%</b>	<b>17.3%</b>	<b>18.0%</b>

	2010	2011	2012	2013	2014
	Gold 31.9%	SA Equities 24.6%	Gold 32.5%	Global Equities 44.6%	Global Equities 34.3%
	SA Property 29.0%	SA Property 20.5%	SA Property 26.3%	SA Property 24.0%	SA Equities 32.7%
	SA Equities 21.8%	<b>Balanced Index 17.7%</b>	Global Bonds 24.7%	SA Equities 21.0%	<b>Balanced Index 24.5%</b>
	<b>Balanced Index 16.8%</b>	Global Equities 15.7%	Global Equities 15.1%	<b>Balanced Index 20.5%</b>	Gold 16.6%
	Global Equities 10.1%	SA Bonds 11.3%	SA Bonds 14.6%	Global Bonds 15.2%	Global Bonds 14.7%
	SA Bonds 9.9%	Gold 7.2%	<b>Balanced Index 12.7%</b>	SA Bonds 6.3%	SA CPI 6.4%
	SA Cash 7.5%	SA Cash 6.2%	SA Equities 9.2%	SA CPI 5.5%	SA Property 6.0%
	SA CPI 4.2%	SA CPI 5.0%	SA Cash 5.7%	SA Cash 5.3%	SA Bonds 5.4%
	Global Bonds 3.7%	Global Bonds -2.9%	SA CPI 5.5%	Gold -11.7%	SA Cash 5.4%
	<b>28.3%</b>	<b>27.5%</b>	<b>26.9%</b>	<b>56.3%</b>	<b>28.9%</b>

15 RANGE BETWEEN HIGHEST AND LOWEST RETURN

# PRICE: LONG-TERM ASSET ALLOCATION VIEW

	Real return		View	Comment
<b>SA</b>			<b>Neutral</b>	<b>Rand weakness has happened; but potential overshoot</b>
Equity	5.5%		Neutral -	Getting expensive with slower growth
Property	5.3%		Neutral	Reasonable return but higher risk
Bonds	2.5%		Neutral +	Increasingly attractive as SARB hikes rates
Cash	0.5%		-	Needs volatility to create opportunity value
<b>Global*</b>			<b>Neutral</b>	<b>Maintain diversification for risk management</b>
Equity	5.5%		+	Best risk adjusted returns
Bonds	-1.0%		-	Expensive with major secular headwinds
Cash	-1.0%		-	Cash is still unattractive

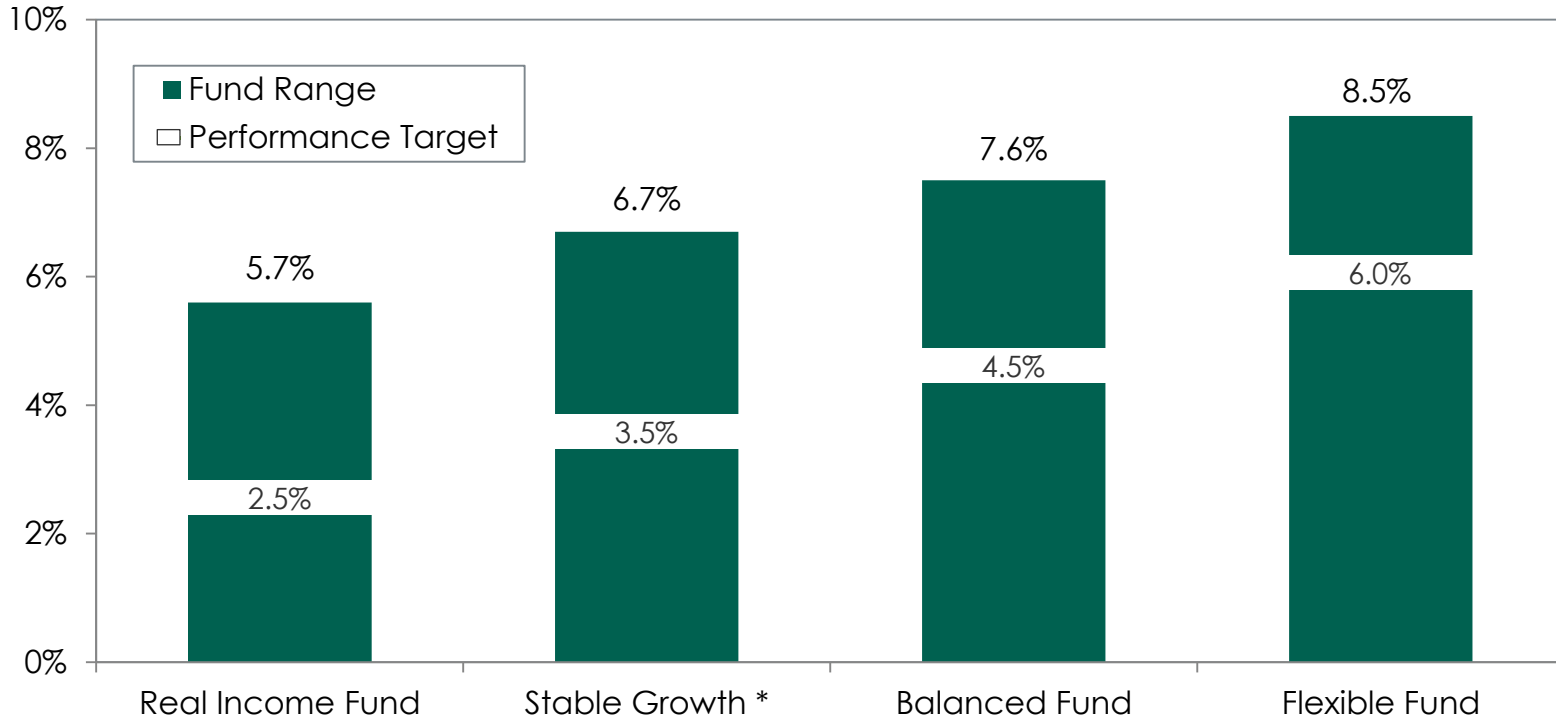
Source: MacroSolutions | NB: These are long-term, real returns expected over the next five years, as at 22 July 2014

\* The global return expectations above are in US Dollar terms; any rand depreciation will add to returns in rands.



# DELIVERING AHEAD OF OBJECTIVES

Real returns from inception to 30 June 2014



Source: MacroSolutions | \* Stable Growth = Optimised Defensive with Stable Growth Returns from July 2007



# CONCLUSION

- Overweight global equities underweight local equities
  - Less about the Rand, more about value & risk
  - Self help and international drivers of return
- Tactically more positive on local bonds
  - Economic conditions better for bonds than locally focused equities
  - We have been reducing our underweight in nominal government bonds
- Stick to your plan
  - If you must, move down the risk spectrum
  - But bear in mind the opportunity cost of holding cash

# REGULATORY INFORMATION

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