FINANCIALLY TALKING

MARCH 2018

CONTENTS

OLDMUTUAL

A NEW DAWN FOR **SOUTH AFRICA**

ELIZE **BOTHA |** MANAGING DIRECTOR: OLD MUTUAL UNIT TRUSTS

"We will remember the life of one of the most remarkable leaders this country and this continent – and indeed, the world – has known… We will recount Madiba's long walk to freedom, his wisdom, his unfailing humility, his abiding compassion and his essential integrity"
President Cyril Ramaphosa, State of the Nation 2018.

This year is the centenary of our late former President Nelson Mandela. As I reflect on the challenges and victories we've seen in 2017, I believe that we all have the capability to push beyond boundaries.

The start of 2018 has brought about a time of renewed hope for South Africans, as we observed the dawning of a reinvigorated consciousness. We once again saw a peaceful transition in the Presidency on 15 February, and although the period running up to the transition was very uncertain, the markets were optimistic and our rand rallied from late December and strengthened more once there was certainty on the change of guard. The State of the Nation Address (SONA) as delivered by President Ramaphosa on 16 February and the Budget Speech as delivered by now former Minister of Finance, Malusi Gigaba, on 21 February shared government's strategy with us. As we know, structure follows strategy and to this end, President Ramaphosa announced his restructured cabinet on 26 February. The president's actions in such a short space of time has sent a strong signal about the commitment of government to be more disciplined with spending and most importantly to re-invigorate and renew South Africa.

KEY BUDGET TAKE-OUTS

The Budget and the SONA both confirmed the importance of investments as being key to economic growth, this in turn will lead to job growth and alleviate poverty. Government will generate the most revenue to offset the deficit through the 1% increase in VAT. The zero increase in dividend withholding tax and capital gains tax is good news for investors. Fund managers will be permitted to increase their offshore allocation of balanced funds from 25% to 30%, and the proportion to African investments from 5% to 10%.

WELCOME TO THE NEW MANAGING DIRECTOR OF ASSET MANAGEMENT FOR OLD MUTUAL INVESTMENT GROUP

In January Old Mutual Investment Group welcomed Khaya Gobodo who is now responsible for the asset management division of Old Mutual Investment Group. He has extensive experience working at large, sophisticated investment firms and, having previously built a boutique investment firm from the ground up, is well placed to unlock further value within our multi-boutique model. Khaya believes that change is a challenge at the best of times but with change comes the potential for new beginnings, vital learnings and, ultimately, progress and exciting new opportunities.

SUSTAINABLE ECONOMIC GROWTH

Old Mutual Unit Trusts believes in sustainability and inclusive economic growth, which is underpinned by our commitment to sustainable management of the environment and the ethical treatment of people. Unit trusts are great "equalisers", offering accessible, affordable, liquid and secure savings. It is also important to note the impact of inflation and that investors need to be exposed to growth assets and well – diversified funds, to limit both value attrition and risk. Investors also need to have a plan to give meaningful impact to their financial future. The Old Mutual Savings and Investment Monitor (SIM) results consistently show that the market sees financial services as complex and mysterious. And that is where we believe financial advice becomes critical.

We are living in an exciting time beaming with new prospects for our beautiful country. Together we can focus on investing in our planet, communities and a better future for all, ensuring the financial independence of our people.

As always, I am proud to call this magnificent country home.

WHAT SHOULD INVESTORS MAKE **OF THE BUDGET SPEECH?**

DAVE **MOHR** & IZAK **ODENDAAL** | OLD MUTUAL MULTI-MANAGERS

The dramatic political developments of the past few weeks provided a very unusual backdrop to the 2018 Budget Speech. What does this mean for investors?

FISCAL CONSOLIDATION APPEARS TO BE BACK ON TRACK

Years of running budget deficits have resulted in rapid growth of the overall debt-to-GDP ratio. Fiscal consolidation is the process of reducing the deficit (the shortfall of tax revenue relative to spending which has to be made up by borrowing).

Investors were looking for a credible and sensible approach to consolidation. By credible we mean a plan that markets and ratings agencies find convincing, based on realistic assumptions with a high likelihood of being implemented. Sensible refers to reducing the deficit without imposing crippling austerity (squeezing the last drop from taxpayers and slashing essential spending) that can trip the economy's nascent recovery.

The deficit for the current fiscal year is likely to be 4.3% of GDP, in line with the October Medium-Term Budget's revised projection. But unlike October, there is a plan to narrow the deficit over time by cutting R85bn on the spending side over the next three years and raising additional revenue.

VAT INCREASE DEMONSTRATES COMMITMENT TO SUSTAINABILITY

An additional R36bn in revenue will be raised, mostly by hiking the Value-Added Tax (VAT) rate to 15% from 14%, the first such increase in 25 years. The VAT increase will raise an additional R22bn. Other indirect taxes such as the fuel levy and excise duties will add around R2bn. On the direct personal tax side, there is some fiscal drag relief (R7.3bn) but government will still get R6.8bn from fiscal drag. However, there are no further increases in direct individual taxes.

The budget deficit is therefore projected to decline to 3.6% in the subsequent two years, eventually settling at 3.5%. If this is achieved, the debt-to-GDP ratio can stabilise at 56% in 2022, an acceptable level in the global context, and much better than the almost 60% ratio predicted in October.

By taking the politically unpopular, but pragmatic step of hiking VAT, government demonstrates its commitment to stabilising its finances and to achieving a more sustainable footing. This, together with the stronger global economy and improved domestic growth outlook, should convince Moody's to maintain our investment grade credit rating.

If there is a weakness in the Budget, it is probably the failure to meaningfully address the funding crisis at State Owned Enterprises (SOEs). Many SOEs (in particular Eskom, the largest and most geared entity) are running out of cash and are unable to fund themselves due to the extreme reluctance of institutional lenders (banks, pension funds and asset managers) to lend them money. Government cannot afford further bail-outs and the Budget emphasised that any further bail-outs will have to be deficit neutral, i.e. funded by selling assets, but still aimed at reducing exposure to guarantees. Unfortunately, there is no detail as yet. Private sector participation is still on the cards, but only "over the medium term". However, the change to Eskom's Board is an important step (and something that falls outside the purview of the Treasury).

AN INVESTOR-FRIENDLY BUDGET

The global backdrop to this Budget is far more favourable than in recent years. Global economic activity is expanding at the fastest pace in a decade and is spread across virtually all the major economies. This in itself should support South Africa's modest economic upswing, especially with commodity prices firming up. However, it also means that companies can generate decent profit growth, which is reflected in rising share prices. Despite the wobble in equity markets in early February, inflation and interest rates remain low after gradual increases. The macroeconomic environment therefore remains favourable.

From the point of view of individual investors, the Budget is positive. For one thing, there are no additional taxes on investment returns (including dividend withholding tax and capital gains tax).

By putting state finances on a more sustainable path, government should create a more accommodative overall investment climate. The 2018 Budget is probably enough to secure South Africa's current Moody's credit rating, reducing the risk of index exclusion and a forced selling by foreign investors. It also makes it easier for the Reserve Bank to focus on the inflation outlook instead of risk management. This leaves scope for interest rate cuts. Longer-term borrowing costs (bond yields) should also decline further due to the renewed focus on fiscal consolidation, supporting bonds and other asset classes. The increases in indirect taxes should not materially change the positive inflation outlook, and this is a further positive for bonds.

A NICE SURPRISE FOR OFFSHORE INVESTING

With the offshore allocation of balanced funds lifted to 30% from 25%, fund managers will have more freedom in allocation based on expected return and valuation. Institutional investors can also increase African exposure to 10% from 5%. This is probably the biggest surprise for local investors. The further easing of capital controls demonstrates confidence in the local economy and local assets on the part of government.

Offshore exposure (currently at the maximum of 25% for most balanced funds, including ours) will be carefully reconsidered. For one thing, the rand is probably in fair to slightly overvalued territory on a purchasing power parity (PPP) basis after the strong appreciation of the past two years.

THE COST OF MISSING **THE GOOD DAYS**

Don't let your emotions ruin your retirement

PETER **BROOKE** | HEAD OF MACROSOLUTIONS

2017 was a roller-coaster year for investors, but with that came an important long-term lesson: the need to stick to your plan and stay invested.

THE GOOD NEWS

Despite the weak South African economy and periods of negative returns, SA equity rallied in the second half of the year and ended 2017 up 21%.

THE BAD NEWS

Many people did not participate in this rally. Driven by local and global uncertainty and the fear of losing money, investors did not stick to their plan and opted, instead, to sit on the sidelines. In the middle of 2017, the most common question we were asked was: "Why bother with investing when I can leave my money in the bank and get a better return?" Following the bull market in the second half of the year, everyone was then wondering if it was too late to get into the market. It is common for returns to occur in short, sharp bursts and the opportunity cost of missing out on these is very high.

THE CONSEQUENCES

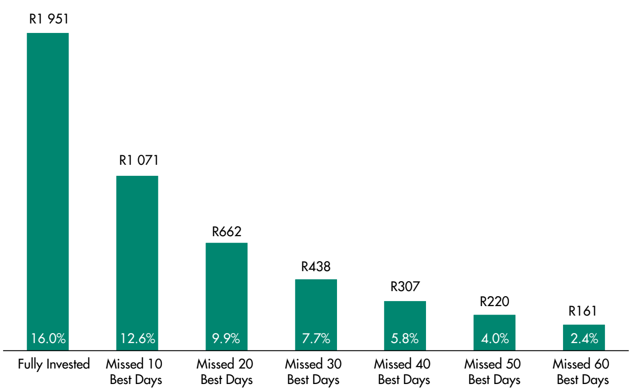
Our analysis of the FTSE/JSE All Share Index (ALSI) over the past 20 years shows that if you stayed invested over the entire period, you would have enjoyed an excellent return of 16.0% a year. However, if you missed the 10 best days, your returns would be 12.6% a year. This may not appear to be much of a difference, but as I discuss in our latest yearbook, LONG-TERM PERSPECTIVES 2018 (http://ww2.oldmutual.co.za), compounding over time is a powerful wealth generator – missing out on the top 10 days means you would end up with roughly half the money.

With the primary aim of investors being to save for long-term goals, the objective of LONG-TERM PERSPECTIVES is to draw attention to the long-term behaviour of asset classes and, in so doing, provide perspective on the shorter-term volatility.

INSIGHT: Almost all of the 10 best days occurred after bad news or during uncertain times, when people were fearful. While no one can know when the market is going to rally, sitting on the sidelines and missing those good days is detrimental to your savings. We don't know what will happen over the next year, but what we are certain of is that South Africans are not saving enough and, as a result, will not have enough to retire on. The only thing you can control is to **have a plan** and to **stick to that plan**. That is the best way of ensuring you have a secure retirement.

CHART 5: THE HIGH PRICE OF MISSING OUT

The performance of R100 invested in the ALSI from June 1997 to December 2017



Source: FactSet

EXCELLENT MULTI-ASSET FUND PERFORMANCE FOR OLD MUTUAL UNIT TRUSTS IN 2017

Our asset allocation funds showed excellent performance against their peer groups as well as benchmarks in 2017. Our Old Mutual Investment Group asset allocation fund quartile rankings to 31 December 2017 are listed in the table below.

	Quartile Rank		
	1 Year	**3 Years**	**5 Years**
Old Mutual Stable Growth	1	2	2
Old Mutual Moderate Balanced	1	-	-
Old Mutual Balanced Fund	1	1	1
Old Mutual Flexible Fund	1	1	1
Old Mutual Maximum Return Fund of Funds	1	1	-

These are great results and help to build a positive reputation for our company as a multi-disciplinary and focused team of experts. Our asset allocation funds with a targeted inflation objective aim to provide our clients with a specific return above inflation for a given level of risk. This performance showcases our ability as a leading edge asset manager that is focused on achieving results for clients. I would like to thank you for your contribution in 2017 and look forward to an even better 2018.

For more information please contact your Financial Adviser or visit our website www.omut.co.za or get in touch with our contact centre on 0860 234 234 or unittrusts@oldmutual.com.

Old Mutual Unit Trust Managers (RF) (Pty) Ltd is a registered manager in terms of the Collective Investment Schemes Control Act 45 of 2002. The fund fees and costs that we charge for managing your investment are set out 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. 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 includes income distributions prior to the deduction of taxes and distributions are reinvested on the ex-dividend date. Actual performance may differ as a result of actual initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Past performance is not a guide to future performance. Annualised returns are the weighted average compound growth rate over the performance period measured. The actual highest, average and lowest 12-month return figures since inception to 31 December 2017 are:

	High	Average	Low	Inception date
Old Mutual Balanced Fund R	46%	13%	-23%	01/03/1994
Old Mutual Flexible Fund R	54%	14%	-27%	20/08/1996
Old Mutual Maximum Return Fund of Funds A	24%	10%	-4%	01/07/2013
Old Mutual Moderate Balanced Fund A	13%	5%	1%	02/02/2015
Old Mutual Stable Growth Fund A	19%	8%	-5%	01/07/2007

Morningstar and Old Mutual Investment Group calculated the performance of the fund as at 31 December 2017. Old Mutual is a member of the Association for Savings & Investment South Africa (ASISA).

WATER WOES HIGHLIGHT THE IMPORTANCE **OF AN EMERGENCY FUND**

Following the City of Cape Town's announcement that water prices have been increased as of February in a bid to bring down consumption, many Capetonians have stepped up and implemented various water saving and recycling measures amid the worst drought to hit the province in the last century.

Elize Botha, Managing Director, Old Mutual Unit Trusts, says that while these measures are certainly necessary – and fast becoming mandatory – they have unfortunately resulted in Cape Town residents incurring unexpected costs that may cause many to have to dig into their hard-earned savings.

"The need for the implementation of such water saving measures is unlikely to be one that people have pre-empted and provided for financially, yet for Capetonians it has become an urgent expense," says Botha. "Using your emergency fund to absorb unexpected expenses, such as a water tank or grey water system, rather than go into debt is advisable as it avoids paying high interest rates on credit".

Financial experts suggest that investors should have between three and six months' salary saved in an emergency fund to handle unexpected expenses, says Botha. "Having cash set aside for this is essential as it can prevent you from going into debt in order to cover the costs of the unplanned event. Rather spend less on luxury items (eating out, expensive cell phone data, clothes, etc.) so that you can put money into a fund that can assist you when an emergency arises."

When asked about where an emergency fund should be kept, Botha suggests making use of a fund that is separate from day-to-day and discretionary spending such as a Money Market unit trust, because it is safe, secure, reliable, and offers liquidity.

"For long term investments we propose growth portfolios such as a Balanced fund to outpace inflation in the long term, but for an emergency fund it is essential to look at three elements: the return you can expect, the stability of the investment and liquidity, as you might need your money at very short notice. A Money Market Fund ticks all these boxes. "However, your individual circumstances will need to be considered when selecting the best product for your needs", she adds.

While conceding that the need for an emergency fund depends on personal circumstances, Botha points out that the current water crisis is the perfect example of an unavoidable unforeseen expense that is likely to affect Capetonians across the board and, which if not dealt with early on, can result in even more financial outlay.

"Emergencies do not wait until you are financially ready, they can happen at any time. Right now, short-term expenditure on water saving equipment at home is worth the long-term investment of securing our water resources. It's the right thing to do," she concludes.

8 PRINCIPLES FOR **STAYING CYBER SAFE**

"Cyber threats is the second biggest mover on things that keeps International CEOs up at night, moving up from number 10 to number 4, from 2016 to 2017" (PwC, 21st Annual Global CEO Survey). In the digital age that we are living, cybercrime threatens the sustainability of business and therefore economic development. The convenience of using the Internet to connect across borders and transact digitally, has unfortunately created opportunities for cyber attacks, data fraud and theft.

The 8 principles below will help you take the necessary safety measures to ensure you are cyber safe and reduce your risk of cyber attacks.

CREATE COMPLEX PASSWORDS

Use a password manager to help you store and create strong passwords for all of your personal accounts. Always create a strong password by using a passphrase that contains a combination of capital and lowercase letters, numbers and special characters. If your online accounts offer multi-factor authentication activate it as an additional layer of protection.

THINK BEFORE YOU CLICK

Be aware of the dangers of phishing and spam emails and avoid being tricked into revealing personal or sensitive information. Spam emails, phony "free" offers, click bait, online quizzes and more, all use these tactics to entice you to click on dangerous links, attachments or reveal your personal information.

BE A SELECTIVE SHARER

There are a lot of opportunities to share our personal information online. Be cautious about what you share and who you share it with, especially your identity information. This can potentially be used to impersonate you, or guess your passwords and logins. This applies to all social media accounts like Facebook and Twitter.

PROTECT YOUR MOBILE LIFE

Your mobile devices are just as vulnerable to online threats as your laptop. Mobile devices face new risks, such as risky apps and dangerous links sent by text message. Be careful where you click, don't respond to messages from strangers, and only download apps from official app stores after reading other users' reviews first. Enable security software on your mobile, just like on your computers and other devices.

PRACTICE SAFE SURFING AND SHOPPING

When shopping online, or visiting websites for online banking or other sensitive transactions, always make sure that the site's address starts with "htttps", instead of just "http", and has a padlock icon in the URL field. This indicates that the website is secure and uses encryption to scramble your data so that it can't be intercepted by others.

KEEP UP TO DATE

Keep all your software updated so you have the latest security patches. Turn on automatic updates so you don't have to think about it, and make sure that your security software is set to run regular scans.

LOOK OUT FOR THE LATEST SCAMS

Online threats are evolving all the time. Most of them are sent by email, so make sure you know what to look out for. Currently, "ransomware" is on the rise. This is when a hacker threatens to lock you out of all your files unless you agree to pay a ransom. Be a step ahead of scammers and other threats by staying informed.

KEEP YOUR GUARD UP

Always be cautious about what you do online, which sites you visit, and what you share. Use comprehensive security software, and ensure that you back up your data on a regular basis in case something goes wrong. By taking preventative measures, you can save yourself from headaches later on.

STAY UPDATED: ENSURE YOUR **PERSONAL AND BENEFICIARY DETAILS ARE CURRENT**

PERSONAL DETAILS

Please ensure that all your personal details, linked to your unit trust portfolio are complete and up to date. If any of your details change e.g. email address; contact number (mobile, work, home); address (residential; postal), please inform us as soon as possible, so that we can update our records.

TAX RESIDENCY DETAILS

Please ensure that you have provided us with your tax residence information and, if you are a Foreign Tax Resident, your tax number. Processing of transaction instructions are dependent on this information being up to date. If you have not yet provided us with this information or are aware that it has changed – please inform us to avoid any unnecessary delays when you need to transact.

HOW TO DO THIS?

- If you receive your transaction statement electronically via an Old Mutual Unit Trusts InfoSlip, select the "Your Details" tab to update your contact details.
- If you have access to the Old Mutual Unit Trusts Secure Service, you can update your personal details at www.omut.co.za.
- You can call our Client Services Centre on 0860 234 234 or +27 21 503 1770.
- You can download the Client Details Update Form from **https://www.oldmutual.co.za/personal/investments-and-savings/unit-trusts/forms** and return the completed form, along with your supporting documents, via email to uttransactions@oldmutual.com or fax +27 21 509 7100.
- If you prefer face-to-face interactions, you can inform your adviser of your change in personal details or visit your nearest Old Mutual branch, to update your details on the Old Mutual system.

BENEFICIARY DETAILS

If you are invested in any of our Old Mutual Unit Trusts, retirement products it is important that you nominate beneficiaries to receive the proceeds of your investment in the event of your death. Keep your nominated beneficiaries current, especially if your family circumstances change.

You can access the beneficiary nomination form by following: **https://www.oldmutual.co.za/personal/investmentsand-savings/unit-trusts/forms**

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STATUTORY INFORMATION

We aim to treat our clients 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 adviser before buying or selling unit trusts. You may however, buy and sell without the help of a financial adviser. If you do use a financial adviser, we remind you that they are entitled to certain negotiable adviser fees or commissions.
- The fees and costs that we charge for managing your investment are accessible on the relevant fund's minimum disclosure document (MDD) or table of fees and charges both available on our public website or from our service centre.
- 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.
- Our cut-off time for client instructions (e.g. buying and selling) is at 15:00 each working day for all funds, except the Money Market Funds, which are at 13:00. These are also the times we value our funds to determine the daily ruling price, except for our Index tracking and Core fund range which is valued at 24h00. (At month end we value our Old Mutual Multi Managers Fund of Funds range at 17:00). Daily prices are available on our public website (www.omut.co.za) and in the media.
- Funds may borrow to pay client disinvestments and may engage in scrip lending.
- The daily ruling 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 in issue. Old Mutual Unit Trusts has the right to close a portfolio to new investors in order to manage it more efficiently in accordance with its mandate.
- Unit Trust Managers (RF) (Pty) Ltd (OMUT) is a registered manager in terms of the Collective Investment Schemes Control Act 45 of 2002. The fund fees and costs that we charge for managing your investment is accessible on 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. Old Mutual is a member of the Association of Savings & Investment South Africa (ASISA).

Fund of Funds:

A fund of funds is a portfolio that invests in other funds in order to meet the investment objective of the fund of funds. Fund of funds can invest in local, foreign or offshore funds which levy their own charges, and may result in a higher fee structure.

These articles are for information purposes only and does not constitute financial advice in any way or form. It is important to consult a financial planner to receive financial advice before acting on any information contained herein. Old Mutual Wealth, Old Mutual Group and its directors, officers and employees shall not be responsible and disclaim all liability for any loss, damage (whether direct, indirect, special or consequential) and/or expense of any nature whatsoever, which may be suffered as a result of, or which may be attributable, directly or indirectly, to the use of, or reliance upon any information contained in these articles.