OLD MUTUAL TOP 20 FUND

FUND INFORMATION

RISK PROFILE

Low	Low to Moderate	Moderate	Moderate to High	High

RECOMMENDED MINIMUM INVESTMENT TERM

1 year+	3 years+	5 years+

FUND OBJECTIVE

The fund aims to offer long-term capital growth through investing in a concentrated portfolio of 20 shares across all sectors of the FTSE/JSE All Share Index.

WHO IS THIS FUND FOR?

This fund is suited to investors seeking long-term capital growth through exposure to a concentrated portfolio of 20 South African shares. These investors can tolerate concentration risk and stock market volatility.

INVESTMENT MANDATE

The fund invests in a concentrated portfolio of 20 equity securities, primarily listed across all sectors of the FTSE/JSE All Share Index (J203). The portfolio manager places emphasis on well-researched, superior share selection. Derivatives may be used for risk management purposes.

REGULATION 28 COMPLIANCE

The fund aims to achieve long-term inflation-beating growth, and therefore may hold a higher allocation to equities than what is allowed in terms of Regulation 28 of the Pension Funds Act. This fund is therefore not Regulation 28 compliant.

BENCHMARK:	ASISA Category Average
ASISA CATEGORY:	South African – Equity – General
FUND MANAGER(S):	Philip Short & Peter Linley *(Old Mutual Investment Group – Equities)*
LAUNCH DATE:	29/06/2018
SIZE OF FUND:	R313m

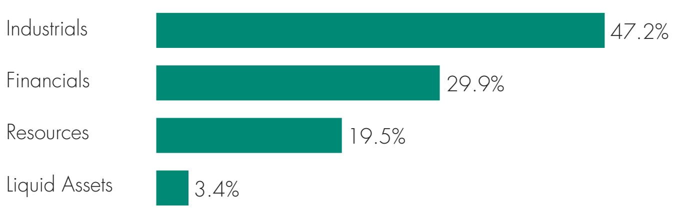
DISTRIBUTIONS: (Half-yearly)*

Date	Dividend	Interest	Total	Total %
31/12/2018	1.92c	0.22c	2.14c	1.19%

* Class A fund distributions

FUND COMPOSITION

ASSET & PERCENTAGE ALLOCATION



PRINCIPAL HOLDINGS

HOLDING	% OF FUND
Naspers Ltd	20.4%
British American Tobacco	9.1%
ABSA Group Ltd	8.2%
Sasol Ltd	7.8%
Nedbank Group Ltd	6.5%
Blu Label Telecoms Ltd	6.4%
Old Mutual Ltd	5.8%
BHP Group Plc	5.8%
Netcare Ltd	5.2%
Transaction Capital Ltd	4.5%

FUND MANAGER INFORMATION

PHILIP SHORT
PORTFOLIO MANAGER

- BSc Mathematics, CFA Charterholder
- 16 years of investment experience

PETER LINLEY
PORTFOLIO MANAGER

- BA Economics, BCom (Hons)
- 33 years of investment experience

FUND COMMENTARY as at 31/12/2018

The local market had a weak quarter, with the FTSE/JSE Capped SWIX Index down 4% while the MSCI World Index declined 19%, both in rand terms.

Notable detractors of performance within the fund were owning British American Tobacco (BAT) and Sasol. Sasol's share price is highly correlated to the rand oil price and has had to contend with both a weak rand (down 19% against the US dollar in 2018) and a 40% drop in crude oil prices since October. BAT, on the other hand, was aggressively sold off in the fourth quarter of 2018, down 30%, on the back of two trending news headlines: the proposal to ban menthol flavoured cigarettes in the US and the proliferation of e-cigarettes.

Contributing positively to fund performance were select holdings in SA Inc. (companies generating the majority of their earnings locally), namely Absa and Netcare.

While the market was weaker than some may have hoped, it will likely be remembered more for its heightened volatility. Volatility will test one's convictions, but it will also create opportunities. In volatile markets shares may be oversold when decisions are based on emotions rather than on fundamentals. Our responsibility is to study the issues and assess their validity and the risk, threat and/or opportunity they present. A case in point this past quarter was BAT.

Over the week that the menthol ban was proposed by the US Food and Drug Administration (FDA), BAT's share price declined by 20%. It's worth highlighting that the US's menthol cigarette market contributes 22% to BAT's group profit, thus the market was pricing the ban to be effective almost immediately, with 100% certainty, and that all those smokers will be lost from BAT's nicotine portfolio. What we know from our research is that (1) the process to ban menthol, if it does happen, will take 5-10 years to enact due to regulatory and legislative hurdles; (2) the FDA has tried to ban menthol before, in 2012, and has not made progress to date; (3) where menthol was banned in immaterial menthol markets for BAT (such as Canada) and where BAT did not contest the ban, only 12% of menthol smokers stopped smoking entirely, with many converting to BAT's traditional non-menthol cigarettes or BAT's menthol flavoured electronic cigarettes (e-cigs) and hence largely staying within BAT's profit pool.

E-cigs are an interesting dynamic to research as they're fairly new with little long-term data available to understand the effects on consumers. However, I think it's fair to say they are indeed less harmful than traditional combustible cigarettes and do pose a risk to how nicotine has traditionally been consumed. Could e-cigs then completely cannibalise combustible cigarettes, making combustible cigarettes a thing of the past, and what does that mean for the old guard in BAT and Philip Morris? Firstly, it's important to note that BAT itself is a player in the e-cig market. Our starting point in evaluating the question of cannibalisation is: if BAT can achieve its global market share in e-cigs to the same level it has in combustible cigarettes, a large risk is removed regarding which nicotine delivery method ends up winning. Through our research, which studies the global markets where e-cigs are present, and speaking to independent sector specialists and to the various management teams involved across the nicotine spectrum, we are comfortable that BAT can maintain at least the same market share in e-cigs as it has in combustibles. Moreover, e-cigs are growing the total nicotine market, have less regulatory restrictions and are more profitable than combustible cigarettes.

BAT is trading at a 7.5% dividend yield. On a forward price-earnings (PE) ratio, it's trading at a 45% discount relative to its own long-term history and at a 40% discount relative to the broader index. We believe the stock market to be oversold and see adding a cheap, high dividend yielding, quality defensive like BAT as a rare opportunity.

Looking ahead, we expect the heightened stock market volatility that characterised the latter half of 2018 to well continue into 2019. This is a result of a prolonged global bull market, politically based outcomes (Brexit and the European Union, US/China trade conflict and South Africa's leadership changes) and slowing global growth. By having a sound philosophy and guided principles, the fund is well positioned to take advantage of opportunities that present themselves in this environment.

Source: Old Mutual Investment Group as at 31/12/2018

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OTHER INVESTMENT CONSIDERATIONS

MINIMUM INVESTMENTS:

- Monthly: R500
- Lump sum: R10 000
- Ad hoc: R500

INITIAL CHARGES (All fees are VAT inclusive)*:

There is no initial administration charge for investment transactions of R500 and above. Initial adviser fee will be between 0% and 3.45%.

* Please note: Initial charges do not apply to the Class B funds.

Investment transactions below the R500 fund minimum incur a 2.30% administration charge.

EXIT FEE:

Old Mutual Unit Trusts will charge an exit fee of 2.30% if exiting within 2 weeks of entry and reserves the right to charge this fee if exiting within 6 months of entry. The exit fee will not apply to investments in the fund via the Old Mutual Unit Trusts Tax-Free Investment.

ONGOING

	Class A	Class B1*
Annual service fees (excl. VAT)	1.35%	1.00%

* Please note: The Class B1 Fund is only available through investment platforms such as Old Mutual Wealth.

This fee is accrued daily and paid to the management company on a monthly basis. Other charges incurred by the fund, and deducted from its portfolio, include audit, custodian and trustee charges and service fees of collective investment schemes in which the fund holds interests. These are included in the TER.

TAX REFERENCE NUMBER: 9188/970/23/1

ISIN CODES: **Class A** ZAE000259537
Class B1 ZAE000259545

Total Expenses (Incl. Annual Service Fee) (30/09/2018)	36 Months		12 Months	
	Class A	Class B1*	Class A	Class B1*
Total Expense Ratio (TER) Incl. VAT	1.56%	1.16%	1.56%	1.16%
Transaction Cost (TC)	0.30%	0.30%	0.30%	0.30%
Total Investment Charge	1.86%	1.46%	1.86%	1.46%

* Please note: The Class B1 Fund is only available through investment platforms such as Old Mutual Wealth.
TER is a historic measure of the impact the deduction of management and operating costs has on a fund's value. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER, which includes the annual service fee, may not necessarily be an accurate indication of future TERs. Transaction Cost (TC) is a necessary cost in administering the fund and impacts fund returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER.

Funds are also available via Old Mutual Wealth and MAX Investments.
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