# OLD MUTUAL INCOME 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 a high level of income, together with relative capital stability. It aims to pay out a high regular income without putting the investor's money at undue risk. It aims to achieve higher than money market returns by taking on marginally more risk.

### WHO IS THIS FUND FOR?

This fund is suited to investors seeking capital stability. It can be used as a secure parking bay in times of stock market instability as well as a means of phasing money into an equity (share) fund over a period of time.

### INVESTMENT MANDATE

The fund invests in local interest-bearing investments including fixed and floating rate bonds and money market instruments. The average duration of the fund will always be less than two years, which contributes to its relative capital stability. Derivatives may be used for efficient portfolio management purposes.

### REGULATION 28 COMPLIANCE

The fund does not comply with the asset allocation sublimits set out in Regulation 28 of the Pension Funds Act, and therefore the fund is not Regulation 28 compliant.

| | |
|---|---|
| **COMPOSITE BENCHMARK:** | 80% STeFI Composite Index & 20% All Bond Index |
| **ASISA CATEGORY:** | South African – Interest Bearing – Short Term |
| **RISK OBJECTIVE:** | No negative quarters. |
| **FUND MANAGER(S):** | Wikus Furstenberg<br>*(Futuregrowth Asset Management)* |
| **LAUNCH DATE:** | 22/04/1989 |
| **SIZE OF FUND:** | R2.2bn |

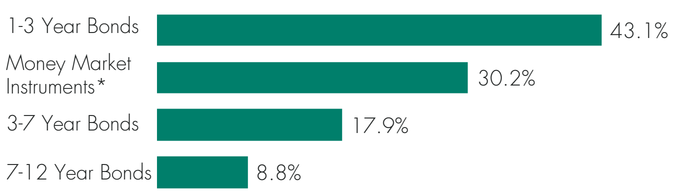
**DISTRIBUTIONS: (Quarterly)***

| Date | Interest | Yield | Total % |
|---|---|---|---|
| 30/09/2018 | 2.34c | 7.40% | 1.86% |
| 30/06/2018 | 2.32c | 7.41% | 1.85% |
| 31/03/2018 | 2.26c | 7.44% | 1.80% |
| 31/12/2017 | 2.30c | 7.38% | 1.83% |

* Class R fund distributions

## FUND COMPOSITION

### ASSET & PERCENTAGE ALLOCATION




* Money market instruments include cash, NCDs and treasury bills.

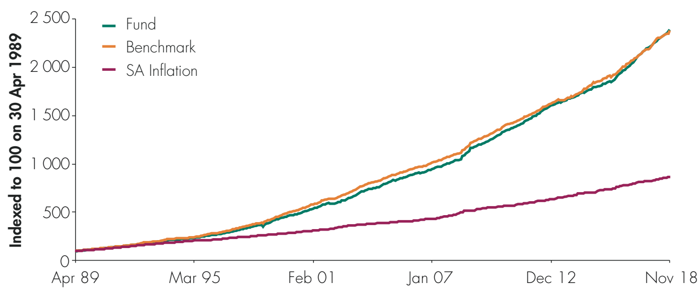
## FUND PERFORMANCE as at 30/11/2018

| | % PERFORMANCE (ANNUALISED) | | | | | |
|---|---|---|---|---|---|---|
| | 1-Yr | 3-Yr | 5-Yr | 7-Yr | 10-Yr | Since Inception[1] |
| Fund (Class R) | 8.1% | 8.8% | 7.4% | 7.3% | 7.7% | 11.3% |
| Fund (Class B1)[2] | 8.3% | 9.0% | 7.6% | - | - | - |
| Benchmark | 8.5% | 7.6% | 7.1% | 6.8% | 7.2% | 11.3% |

[1] Performance since inception of the fund.
[2] Inception: 31 January 2013. Class B1 Fund is only available through investment platforms such as Old Mutual Wealth.
Past performance is no indication of future performance. Fund returns are net of fees and measured against the benchmark.

| Rolling 12-Month Return | Highest | Average | Lowest |
|---|---|---|---|
| Fund (Since Inception) | 27.8% | 11.4% | 3.5% |

### Performance Since Inception

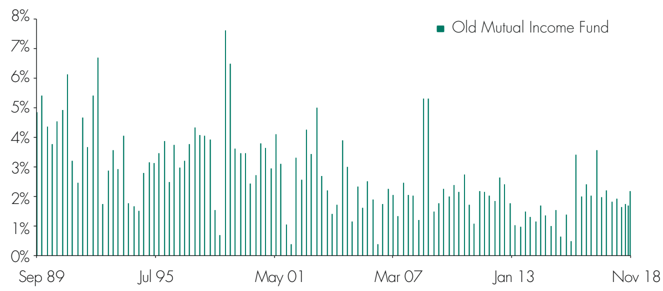



Past performance is no indication of future performance.

| Risk Statistics (Since Inception) | |
|---|---|
| Maximum Drawdown | -5.0% |
| Months to Recover | 2 |
| % Positive Months | 95.5% |
| Annual Standard Deviation | 2.6% |

Risk statistics are calculated based on monthly performance data from inception of the fund.

### Rolling Quarter-end Returns




## PRINCIPAL HOLDINGS as at 30/09/2018

| HOLDING | % OF FUND |
|---|---|
| R186 10.5% 21/12/2026 | 5.6% |
| R212 2.75% 31/01/2022 | 2.4% |
| SBS55 FRN 12/06/2022 | 2.0% |
| FirstRand Bank Ltd Callable 2112 | 1.9% |
| IDC 8.34% 22/10/2020 | 1.7% |
| GRT08 FRN 24/06/2019 | 1.6% |
| FRJ23 FRN 31/07/2023 | 1.6% |
| COJ05 12.205% 05/06/2023 | 1.5% |
| FRJ22 FRN 07/03/2022 | 1.4% |
| LBK11 9.62% 28/11/2019 | 1.4% |

**Funds are also available via Old Mutual Wealth and MAX Investments.**
**Helpline** 0860 234 234 **Fax** +27 21 509 7100 **Internet** www.omut.co.za
**Email** unittrusts@oldmutual.com

FUTUREGROWTH / ASSET MANAGEMENT OLDMUTUAL

# OLD MUTUAL INCOME FUND

## FUND MANAGER INFORMATION

**WIKUS** FURSTENBERG
PORTFOLIO MANAGER

- MCom (Economics)
- 23 years of investment experience

## FUND COMMENTARY as at 30/09/2018

The third quarter of this year was particularly cruel for emerging markets, especially due to the barrage of persistently negative news flow from Turkey and Argentina. This was in addition to existing headwinds, like the escalating risk of more international trade restrictions between the US and key trading partners, which, if they come to fruition, may have potentially dire consequences for emerging markets. As market sentiment soured, foreign investors predictably responded by becoming large-scale sellers of emerging market bonds and currencies.

In the case of South Africa, foreign investors sold R17 billion worth of rand-denominated RSA government bonds over the quarter, contributing to net sales of just short of R60 billion for the first nine months of this year. Although dwarfed by the excessively sharp depreciation of the Turkish lira and Argentinian peso, the rand (like most other emerging market currencies) failed to escape the carnage and depreciated by around 11% against the US dollar from the end of June to early September. In the process, the local currency reached its weakest level against the greenback since June 2016. Although the rand regained some lost ground during the last three weeks of September, it is still about 20% weaker than its best level this year. This, in turn, contributed to heightened market fears of additional future inflationary pressure and a possible rate increase by the South African Reserve Bank (SARB). Although the SARB has thus far resisted the temptation to hike its policy rate, it did use every single opportunity to warn against the risks to higher inflation, which implies higher future rates should inflation indeed accelerate too fast for its liking.

While negative international developments had been prominent, local data releases also contributed to negative market sentiment. The rate of inflation at both consumer and producer levels continued to tick higher, with the latter now just outside the top end of the inflation target range. Most disappointing was the release of gross domestic product (GDP) data for the second quarter of this year, which confirmed a "technical" recession (that is, negative growth for two consecutive quarters). From a bond market perspective, it is noteworthy that weak economic growth could hamper tax revenue collection, particularly corporate income tax, and if unmatched by expenditure cuts, put fiscal consolidation at risk. This, in turn, would lead to a higher funding requirement and possibly more sovereign credit rating downgrades. Fortunately, the latest available data shows that South Africa's cumulative main budget fiscal deficit for the first five months of the 2018/19 fiscal year is still largely on track relative to the Budget presented in February this year.

The events described above not only forced bond yields across the yield curve to higher levels (yields rise as bond prices fall), but also contributed to significant intra-quarter volatility. The extent of this volatility is demonstrated by the trading range of 8.57% to 9.25% of the benchmark R186 (maturity 2026). A late quarter relief rally caused the R186 to gain some lost ground, but it still closed the quarter 15 basis points (bps) higher at 8.99%. The net increase in yields during the quarter led to a disappointing JSE ACSA All Bond Index (ALBI) return of 0.8%. Although the inflation-linked bond market initially failed to escape negative market sentiment, real yields stabilised at higher levels towards the end of the quarter, bringing to an end the sharp rise in real yields that started in April this year. As a result, the JSE ASSA Government Inflation-linked Index (IGOV) returned only 0.5% for the quarter. However, this was a significant improvement considering the second-quarter return of -4.6%. Cash retained the top position for the period under consideration, returning 1.6%.

The recent more sustained pick-up in global bond yields notwithstanding, our view remains that most developed bond markets are still not appropriately priced. In the case of the US, the strong pace of economic growth, the low level of unemployment and evidence of sustained higher inflation support further US monetary policy tightening. We believe that the US Federal Reserve (Fed) is in a position to lift its policy rate by at least another 25bps this year. More importantly, at a global level, the trend continues to gradually shift from quantitative easing to quantitative tightening.

Locally, our main concern with regard to the bond market remains the strong link between lacklustre economic growth and fiscal consolidation – or more specifically, the rising debt burden of Government, which arises as a consequence of a lack of fiscal consolidation and therefore continues to threaten the country's sovereign risk profile. The risk of a failed economic recovery has risen following a slew of disappointing data releases the last few weeks. This makes us question the quality of tax revenue collections, which, in turn, keeps the risk of a budget deficit overrun at elevated levels.

On the monetary policy front, we maintain our view that the central bank will remain hostage to the opposite forces of a lacklustre economic growth outlook and upside risks to inflation. For now, to us this suggests a stable policy path. The risk to this view is skewed in favour of some upside risk to inflation and thus interest rates.

While the observable investment theme and related real-time developments mostly have negative consequences for the local bond market, it is important to note that current market valuation is largely reflective of this. Cheaper market valuations following the sell-off during the second and third quarters of this year afforded us an opportunity to cautiously increase risk by selectively buying nominal bonds. We shall continue to look for opportunities to increase bond market exposure, but only into bouts of weakness, considering the level of uncertainty discussed above.

The fund outperformed the benchmark on a net basis for the 12-month period ending September 2018. The negative contribution from an underweight exposure to the top performing long-dated nominal bonds was more than offset by the contribution from high yielding variable rate bonds.

The fund is conservatively positioned, with an underweight modified duration position, a large holding of relatively stable variable rate bonds and exposure to fixed rate money market instruments with a term to maturity of less than 12 months. We have used recent market weakness to increase fund exposure to short-dated inflation-linked bonds.

We will continue to look for opportunities to invest in low duration, higher-yielding non-government variable rate bonds with a focus on steady accrual accumulation, while avoiding the potentially negative impact of excessive interest rate volatility. That said, we will keep an eye on the level of nominal yields, with the potential to accumulate medium-dated fixed rate government bonds. The same applies to shorter-dated inflation-linked bonds.

Source: Old Mutual Investment Group as at 30/09/2018

## OTHER INVESTMENT CONSIDERATIONS

### MINIMUM INVESTMENTS:

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

### INITIAL CHARGES (Incl. VAT)*:

There is no initial administration charge for investment transactions of R500 and above. Initial adviser fee will be between 0% and 0.69%.

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

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

### ONGOING

| | Class R | Class B1* |
|---|---|---|
| Annual service fees (excl. VAT) | 0.75% | 0.60% |

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

The 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, are included in the TER. A portion of Old Mutual Unit Trusts' annual service fees may be paid to administration platforms. Old Mutual Income Fund A3 may pay 0.50% (excl. VAT) of its annual service fee of 1.25% (excl. VAT) as an ongoing adviser fee.

**TAX REFERENCE NUMBER:** 9430/004/60/7

**ISIN CODES:**

| | |
|---|---|
| **Class R** | ZAE000020822 |
| **Class B1** | ZAE000174132 |

| | 36 Months | | 12 Months | |
|---|---|---|---|---|
| **Total Expenses (Incl. Annual Service Fee)** | **Class R** | **Class B1*** | **Class R** | **Class B1*** |
| Total Expense Ratio (TER) Incl. VAT | 0.88% | 0.71% | 0.88% | 0.71% |
| Transaction Cost (TC) | 0.01% | 0.01% | - | - |
| Total Investment Charge | 0.89% | 0.72% | 0.88% | 0.71% |

* 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.

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