FINANCIALLY
TALKING

SEPTEMBER 2014

CONTENT

OLDMUTUAL

AN EVENTFUL YEAR FOR OMUT

PIETER HUGO, MANAGING DIRECTOR, OLD MUTUAL UNIT TRUSTS (OMUT)

The past year has again been an interesting one for investors. In last year's edition of Financially Talking, we discussed the slow pace of economic growth creating widespread concern and uncertainty among investors. This has been the general theme for a while now and remains topical.

This year, the local economy contracted in the first quarter and grew by only 0.6% in the second quarter.

The growth outlook for the rest of the year remains subdued amid low business confidence. The 2014 growth forecast for South Africa was lowered by the International Monetary Fund (IMF) to 1.7% from 2.3%. Similarly, the World Bank announced that it cut South Africa's economic growth forecast for this year to 2%.

Some of the key drivers behind the slowdown in growth in South Africa are the tight monetary policy combined with severe labour strikes and deficient electricity supply. The recent African Bank saga, market concern over similar lenders, and a downgrade in the credit rating of four large South African banks have added to the market noise.

To help you understand how the global economic environment impacts your investments, Rian le Roux, Chief Economist at Old Mutual Investment Group, has provided a brief overview of the global economy in this edition.

OUR SOLUTION FUNDS MANDATED TO DELIVER:

Typically, investors build diversified portfolios using asset class-specific funds, or alternatively, invest in asset allocation funds that offer "all-in-one" solutions to their investment needs. Our range of asset allocation unit trusts offers investors complete investment solutions where they can rely on the fund manager for both asset class selection and underlying stock selection across local and offshore investment markets.

These are "solution" funds, which means that they are designed to achieve specific return targets, and some also have built-in protection to meet specific risk requirements. In other words, you leave all the asset allocation and stock selection in their capable hands to deliver on the investment outcome that is most appropriate for your investment needs.

The funds are very popular among local and international investors.

Our solution funds are managed by Peter Brooke and his team of asset allocation specialists from MacroSolutions in the Old Mutual Investment Group. They ensure that our funds are exposed to the best blend of asset classes over time, to ensure these funds deliver on their respective investment outcomes over the agreed time periods. It will be worth your while to have a closer look at this range of solution funds, which forms part of our Classic Investment Collection. For a more in-depth look at these funds and some insights on their current outlook and fund positioning, read Peter Brooke's article later in this publication.

THERE HAVE BEEN A NUMBER OF INTERESTING DEVELOPMENTS WITHIN OUR BUSINESS, WHICH INCLUDE:

A move from performance fees to flat fees

At Old Mutual Unit Trusts we are continuously reviewing our value proposition to both potential and existing clients. This includes the evaluation of the appropriateness of each fund's investment mandate and allowable investment universe, as well as the fees we charge our clients within our funds. A key input into this process is the feedback we receive from you, our clients, as well as the financial advisers who provide you with valuable advisory services.

It is very important for us to ensure that we continue to provide good value to our clients on an ongoing basis as we can only be successful if you achieve your desired investment outcomes. We also have to make sure that we remain competitive in the market. In particular, we have reviewed the fees on our multi-asset class funds which have performance-based fees linked to the outperformance of their inflation-linked benchmarks. After taking all the above-mentioned factors into account, we have decided to change the performance-based fees on these funds to fixed fees. The investment mandates and the performance targets of these funds remain unchanged and we continue to deem these most appropriate to align your interest with the outcomes that the fund managers are aiming for. We are confident that this change will result in significantly improved value to our clients and enable our funds to deliver best on their respective investment outcomes. Please see the article later in this publication with more detailed information about this.

Bolstering our multi-management capability

Last year, the investment team that manages our multi-manager funds bolstered its capability with the merger of SYm|mETRY Multi-Manager and the Acsis investment teams, which has nearly doubled its size. We are very excited about these additional resources and capabilities, as they enable us to improve the management of these funds. This combined business has been renamed Old Mutual Multi-Managers, and will continue to manage our range of multi-managed funds.

Three prestigious awards

Old Mutual Global Investors, which manages our Old Mutual Global Equity and International Growth Funds, has won three prestigious awards at the 2014 Investment Week Fund Manager of the Year Awards held in London recently. Having been shortlisted in ten award categories, Old Mutual Global Investors was named "Global Group of the Year" and won awards for the Old Mutual North American Equity Fund and the Old Mutual Global Equity Fund in the Global Equity category. These awards recognised the excellent investment outcomes that our clients experienced in these funds.

These were echoed in the local market by the 2014 Raging Bull Awards earlier this year. Old Mutual Global Equity Fund, managed by our UK-based colleagues at Old Mutual Global Investors, scooped two well-deserved honours: the Raging Bull Award for top performance by a fund in the Best (South African-domiciled) Global-Equity-General fund category, as well as a certificate for Best (South African-domiciled) Global-Equity-General fund on a risk-adjusted basis.

These awards confirm the excellent capabilities within the Old Mutual Group, both locally and offshore, that we can utilise to the benefit of our South African investors. For me, these are also particularly relevant as most investment experts favour global equities as their preferred asset class over the next few years.

Old Mutual Investors' Fund: a fantastic fund for long-term wealth generation

We aim to provide you with options that can grow your wealth in real terms over the long term. We also continue to recommend that you get proper financial advice and develop a personalised investment plan to achieve your unique investment goals. Then implement that plan by investing in the most appropriate fund(s) for your required investment outcome, and stick to that over the long term. Our funds and our investment specialists are geared to help you navigate even the tough economic times, through strong management and diversification on your behalf.

Our oldest fund, the Old Mutual Investors' Fund, is the ultimate example of our long-term investment philosophy. This 48-year-old fund has delivered returns of 8.7% in excess of inflation since inception, and is also a top quartile performer over periods of one to eight years as at the end of July 2014.

At Old Mutual Unit Trusts we remain your committed investment partner and strive to offer you a range of unit trusts from which you can structure a personalised investment portfolio.

Thank you for your continued support. I look forward to continue partnering with you on your investment journey.

Pieter

STOCK MARKETS PROPELLED HIGHER BY SIGNS OF

US RECOVERY

RIAN **LE ROUX** | CHIEF ECONOMIST, OLD MUTUAL INVESTMENT GROUP

The rally in US equities in May extended through June and the S&P 500 Index gained a further 2%. By the end of July, the Index was 6% higher than it was at the end of 2013 and a whopping 180% up from the lows it plunged to in March 2009 when the global financial crisis peaked, spurring market panic.

Two factors in particular appear to have contributed to the sustained uptrend in equity prices over the past month. The first was growing evidence that the US economy recovered quite firmly in the second quarter of 2014, following a sharp contraction in activity in the previous quarter. The second factor was the still relatively dovish statement by the US Federal Reserve Board (the Fed) following the scheduled monetary policy meeting.

SECOND QUARTER TURNAROUND IN US GROWTH

Incoming US economic data was generally firm during the month and early market estimates put second quarter GDP growth at around 3% annualised. This reverses the 2.9% annualised decline in quarter one. This prompted market optimism that the output slump during the first three months of the year was indeed an aberration and not the start of a renewed downturn in the US economy.

In addition, hiring accelerated, with an average of 250 000 jobs created in both April and May, compared to monthly average gains of only 189 000 during the first quarter. These numbers not only indicate that the US labour market continues to heal – a key focus of Fed policy – but point towards a sustained economic recovery, as consumer spending remains the backbone of the US economy.

CALM PREVAILS AROUND CHINESE AND EMERGING MARKETS GROWTH

Further good news on the global front was some better economic data out of China, together with further targeted policy measures by the Chinese authorities to engineer a soft landing. The Chinese Premier also commented that the growth target of 7.5% for 2014 was still well within reach. These developments calmed market fears that China was heading for a relatively severe slowdown by Chinese standards, a development that would have had very negative consequences for the entire world economy.

The last piece of good news globally was that the long-awaited further policy action by the European Central Bank finally materialised in the form of a reduction in interest rates and the provision of additional market liquidity.

It was also the sixth month in a row of moderately calmer conditions in emerging markets. A slightly improved outlook for the world economy, greater certainty over the Fed's path of policy normalisation, and internal adjustments starting to occur in some countries, were the key contributors to the lull.

OUR VIEW ON THE GLOBAL ECONOMY

We believe that the global economic recovery will remain on track, although at a sluggish pace. With inflation generally low, we see little risk of central banks (with the exception of a few emerging markets) being forced to remove growth-supporting stimulus measures unexpectedly fast. ■

SLOW ROTATION STILL ON –

BUT RISKS ABOUND

PETER **BROOKE** | HEAD OF MACROSOLUTIONS

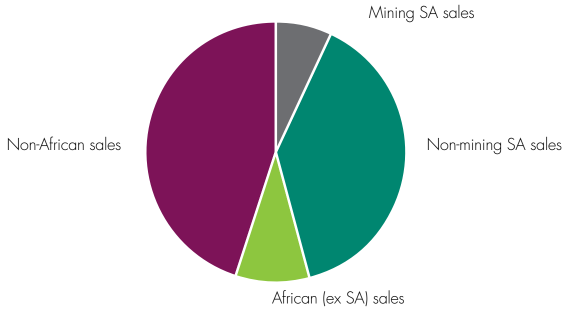
OUR BROAD THEMATIC OUTLOOK REMAINS IN PLACE, WITH THE GLOBAL ECONOMY GRADUALLY HEALING, CHINA TRANSITIONING AND SA SUFFERING.

At home, the main story for the first half of 2014 was a flood of bad domestic news: a devastating five-month, AMCU-led platinum strike, compounded by the Numsa strike that followed hot on its heels; interest rate hikes by the South African Reserve Bank (SARB); rising inflation; and a downgrade by rating agency Standard & Poor's. The cumulative effect was to drag down the SA economy and we expect a long-term growth rate of less than 3.5%.

Against this bleak backdrop many people have been surprised that the JSE hit new highs, but our analysis shows us that fewer than half of all the JSE companies' sales revenue is directly linked to SA. This means that the JSE is more exposed to the global economy and has benefited materially from rand weakness during the last year.

FTSE/JSE SHAREHOLDER WEIGHTED ALL SHARE INDEX (SWIX)

Split of company sales revenues in latest financial statements



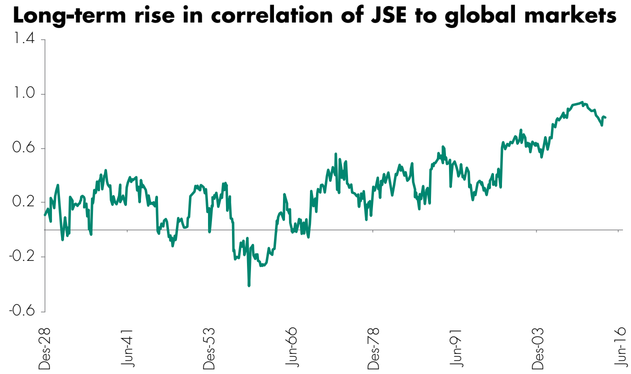
Sources: MacroSolutions; JSE

THREE-YEAR ROLLING CORRELATION

SA Equity vs Global Equity

JSE CORRELATED TO GLOBAL MARKETS

Long-term rise in correlation of JSE to global markets



Sources: MacroSolutions; Iris

What did surprise us was that the SA market (+11.8%) outperformed global markets (7.6%) in rands during the period, despite stretched valuations.

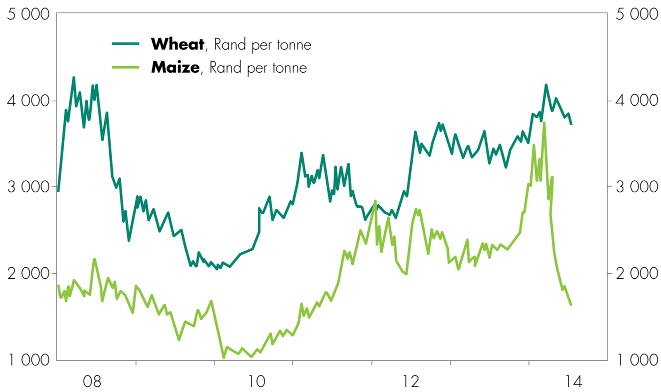
Regardless, considering the outlook for profits, we still strongly prefer offshore equity to SA equity on a risk-adjusted basis. We are agnostic on the rand, with the upside and downside risks fairly evenly balanced.

Hope for bonds and muted rate hikes

The area of the market that was most affected by the bad news was SA bonds, which delivered a meagre 3.4% in the first six months of 2014. Following this underperformance, the value of bonds has marginally improved. Oddly, the bad news creates the potential for a better fixed-income outlook over the next year – inflation has peaked and will decline, assisted by lower food prices, while slow growth should limit underlying inflationary pressures.

PLUMMETING GRAIN PRICES BRIGHTEN

Short-term inflation outlook



Sources: MacroSolutions, I-Net

As a result, the SARB hiking cycle will be muted. Year on year we will see an improvement in the current account as the strike effects wash out and the economy rebalances, and exports improve and imports contract.

We also expect fiscal tightening (think higher taxes) in the February 2015 budget as Treasury needs to manage the budget deficit down. These conditions favour bonds over domestically profit-oriented companies.

Global improvements

The global environment was characterised by lower bond yields, driving a quest for yield around the world. While this benefited our overweight exposure to emerging markets, it leaves global bonds vulnerable to better US data. We have cut our expected returns from global bonds and remain underweight.

We still expect a slow rotation from interest-bearing to growth assets as rates stabilise over the next few years. This favourable macroeconomic environment should enable equity valuations to be sustained at higher levels. A major risk to healing would be an outbreak of inflation accelerating the rotation and causing a crash.

Risks have increased

Geopolitical risks have also risen but should be contained, unless they feed through into the oil price. The Ukrainian crisis has benefited South Africa due to safe-haven seeking out of the Russian markets. Since the invasion in February, South African debt and equity markets have received a combined inflow of R28.6 billion. This was despite the Standard & Poor's ratings downgrade. Our view is that the downgrade was simply the rating agency catching up with reality, hence the subdued response. Once Moody's has moved their SA outlook in line, we do not expect a further downgrade.

Longer term, it is crucial that SA delivers on the National Development Plan, as ongoing sub-standard trend (long-term) economic growth poses a very real risk of populism. Another cloud on the horizon is that African geopolitical risk is rising and taking some of the gloss off the African Renaissance. This is not good news, as the rest of Africa already accounts for 9% of the sales on the JSE and is growing fast as companies pour into the continent looking for better growth opportunities than they are able to find at home.

Not much has really changed

Our world view is broadly unchanged, resulting in an overweight position in global equity and an underweight position in global bonds and cash. Locally, the environment has deteriorated for equities relative to bonds and we have shifted exposure accordingly. Conditions remain supportive of growth assets but risks have increased with higher valuations, and a more cautious stance is justified.

KEY TAKEOUTS:

- "RISK ON" SENTIMENT SUPPORTS SHIFT FROM INTEREST-BEARING TO GROWTH ASSETS.
- DETERIORATING OUTLOOK FOR GLOBAL BONDS; IMPROVING FOR SA BONDS.
- LOCAL EQUITIES GETTING EXPENSIVE; WE PREFER OFFSHORE EQUITY.

LONG-TERM ASSET CLASS OUTLOOK

	Real return	View	Comment
SA		**Neutral –**	**Rand weakness occurred but potential overshoot**
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
International*		**Neutral +**	**Maintain diversification for risk management**
Equity	5.5%	+	Best risk-adjusted returns
Bonds	-1.0%	–	Expensive with major secular headwinds
Cash	-1.0%	–	Cash is still unattractive

NB: These are long-term real returns expected over the next five years, as at 20 July 2014.
* The international return expectations above are in US dollar terms; any rand depreciation will add to returns in rands.

MID-YEAR UPDATE:

Expected long-term asset class returns

We update our medium-term (five-year) asset class outlook twice yearly, or if conditions change significantly.

SA economy:

So far 2014 has been a bad year for the local economy and we expect a slight improvement in 2015, mainly because it can't get any worse. Our structural challenge remains how to improve trend growth, which is too low.

Global economy:

We expect a continued grind higher in the global economy and, with inflation well contained, a slow increase in global rates.

SA equity:

The local market is expensive but may remain so due to its correlation to global markets. However, the profit environment has deteriorated and we are cautious.

SA listed property:

The local property market has had a slow 12 months plus good distribution growth, which has helped refresh valuations and we are comfortable with the relative valuation of the asset class.

SA bonds:

We have increased our expected long-term real return to 2.5% and would view any further rate hikes as positive for the bond market.

SA cash:

Following rate hikes amounting to 75 basis points in total, we now expect a marginal real return from local cash. We still think it is unattractive in the long term but have increased our holding due to increased risk.

Rand:

We are agnostic on the rand, with the upside and downside risks fairly evenly balanced.

Global equities:

In a low-return world, we still think global equity offers the best potential for decent inflation-beating returns and remain overweight in this asset class.

Global bonds:

As a result of the recent rerating in global bonds, we have cut our expected returns to a negative 1% real return. Avoid.

Global cash:

With a slow rate hiking cycle likely, this asset class remains diabolical. ■

OLD MUTUAL MULTI-MANAGERS. NEW NAME.
SAME COMMITMENT TO **EXCELLENCE**

Having merged the investment teams of SYm|mETRY Multi-Manager and Acsis into a single entity called Old Mutual Multi-Managers, headed by Trevor Pascoe, we now have a stronger investment team that will continue to build on a long-standing track record of investment success.

During the transition process, we stayed focused on our commitment to give our clients the highest quality of service and continued to achieve excellent investment performance. Our investment decisions remain independent and our team of experienced investment experts is, in fact, even stronger after the consolidation. As a result, we're now able to apply even greater focus to managing our funds, strategies, and favourable client outcomes.

IMPORTANT ENHANCEMENTS TO THE OLD MUTUAL SYm|mETRY FUNDS

Traditionally, the SYm|mETRY funds have allowed underlying fund management houses to conduct asset allocation – going forward, this will be undertaken by our own investment team.

This is a process that has been successfully implemented by the Acsis team for a considerable period under the leadership of Andrew Salmon, who is now the Head of Investments at Old Mutual Multi-Managers. To further strengthen the asset allocation capability, we have brought in Dave Mohr as Chief Investment Strategist. Dave is a former Chief Economist of Old Mutual and was until recently a Director at Citadel.

While we have delivered superb returns to SYm|mETRY clients over the past 14 years, with the enhanced process we'll have even greater control to deliver on client outcomes.

Our research comparing the different approaches indicates that the new approach is more likely to meet the real returns we are targeting for our clients.

To strengthen our offering to clients, we will also appoint one or two fund management houses who are specialists in each asset class: local equities, local bonds, local property, global equities and so on. The decision to allocate more or less to each manager will rest with Old Mutual Multi-Managers.

The majority of the assets will continue to be managed by the existing fund management houses that SYm|mETRY Multi-Manager appointed (such as Investec, Coronation and Prudential). Only now it will be the specialist teams in those firms.

CLIENTS WILL CONTINUE TO ENJOY THE BENEFITS THEY ALWAYS HAVE – WITH ADDED ONES TOO!

We'd like to assure clients that they will continue to receive the same level of service and focus – if not greater – as they always have. We believe that the funds continue to be the ideal investment solutions for clients.

Reasons for this include:

- **Our benchmarks are linked to inflation.** Investors know what to expect from the funds over time, and how they fit in with their financial plans.
- **We select fund managers based on thorough research – then monitor them carefully.** We have an independent team to identify the most suitable fund managers for the job, and to blend them into a complementary portfolio.
- **Because our size means we can negotiate discounts from managers, we offer cost effectiveness for clients.** This means that clients do not pay more for our multi-management services than they would for single-manager funds.
- **Our funds offer tax efficiency.** If we make manager changes or rebalance our portfolios it does not trigger Capital Gains Tax.
- **Our portfolios are well diversified** across securities, asset classes and fund managers.
- **Our all-in-one solutions are client-focused.** Rather than trying to simply outperform benchmarks, or peers, our funds are specifically aimed at helping clients meet their investment objectives.

LOOKING AHEAD TO AN EXCITING FUTURE

We're very excited by the prospect a larger team brings. Our combined team has access to world-class systems, data and technology to select and monitor managers and manage portfolios. A larger team means we can spend even more time identifying the best fund managers in South Africa and globally.

We are very confident that existing SYm|mETRY clients will continue to benefit from our manager selection expertise, while the additions to our team and enhancements to our investment process will improve the ability to meet their investment objectives. ■

OLD MUTUAL MULTI-MANAGERS

OLDMUTUAL

CHANGE IN
FEE BASIS

At Old Mutual Unit Trusts, we are continuously reviewing and improving our value proposition to both potential and existing clients. It is very important for us to ensure that we continue to provide good value to our clients.

Consequently, we have reviewed the fee basis on our multi-asset class funds. As you will probably know, these funds typically charge performance-related fees for performance relative to a CPI or cash-linked benchmark. To reduce fee volatility and to help provide you with greater certainty as to the level of the fund fees, we have decided to switch to a flat-fee basis. These fee changes will affect the following funds:

- Old Mutual Balanced Fund
- Old Mutual Stable Growth Fund
- Old Mutual Flexible Fund
- Old Mutual Capital Builder Fund
- Old Mutual Dynamic Floor Fund

It is also important for us to ensure that our fees remain competitive and to enable our clients to continue benefiting from competitive investment returns.

We would like to reiterate that we are very comfortable that the benchmarks of these funds remain appropriate and align clients' outcomes and the objectives of our fund managers.

EFFECTIVE DATE

The fee changes will officially be effective from 1 January 2015. This date allows for the required three months' notice period for fee changes on unit trust funds.

As our new fee basis currently results in lower fees on all of these funds, the lower fees were implemented on 15 August 2014.

We are therefore charging the lower of the new flat fee or existing performance-based fee on all these funds from 15 August 2014 until 1 January 2015 (when the notification period will end) to make sure that you immediately enjoy the benefit of lower fees but aren't prejudiced if the old basis may have resulted in a lower fee during this period. From 1 January only the new fee basis will apply.

BENEFITS OF THIS CHANGE

We believe that the new fee basis will give you more certainty on investing in our funds. You will also receive an immediate benefit on your existing and new assets, as the new fee basis is significantly lower than the level of fees you are currently paying, which will also effectively result in correspondingly higher net investment performance.

To view the new fees, visit www.omut.co.za ■

OLD MUTUAL GLOBAL EQUITY FUND **WINS INTERNATIONAL AWARD**

GLOBAL GROUP OF THE YEAR | OLD MUTUAL GLOBAL INVESTORS

Old Mutual Global Investors has won three prestigious awards at the 2014 Investment Week Fund Manager of the Year Awards which took place in London in July. These awards have been running for 19 years and are the most coveted awards in the UK investment management industry.

1. Investment Week Fund Manager of the Year 2014: Global Group of the Year
2. Investment Week Fund Manager of the Year 2014: Best Global Equity and Income Fund for Old Mutual Global Equity Fund
3. Investment Week Fund Manager of the Year 2014: Best North American Fund for Old Mutual North American Equity Fund

In addition, Ian Heslop and his team have won ten industry awards to date in 2014, including:

- The Old Mutual Global Equity Absolute Return Fund won the Best Absolute Return Fund in the Equities Absolute Return category at the Expansion and Allfunds Awards held in Madrid.
- **The Old Mutual Global Equity Fund won Best Fund over three and five years in the Equity Global Category at the Lipper Fund Awards 2014 and Best Smaller Global Growth Fund Award at the 2014 Money Observer Awards. The fund is available to South African investors, giving them exposure to global equity.**
- The Old Mutual Japanese Equity Fund won the Best Smaller Japanese Equity Fund Award at the 2014 Money Observer Awards.
- The Old Mutual North American Equity Fund won the Best US Equity Fund Award at the Morningstar UK Fund Awards 2014 and the Best Larger North American Fund Award at the 2014 Money Observer Awards. ■

KEEP US UPDATED... **IT'S EASY**

THERE ARE NUMEROUS WAYS TO DO THIS:

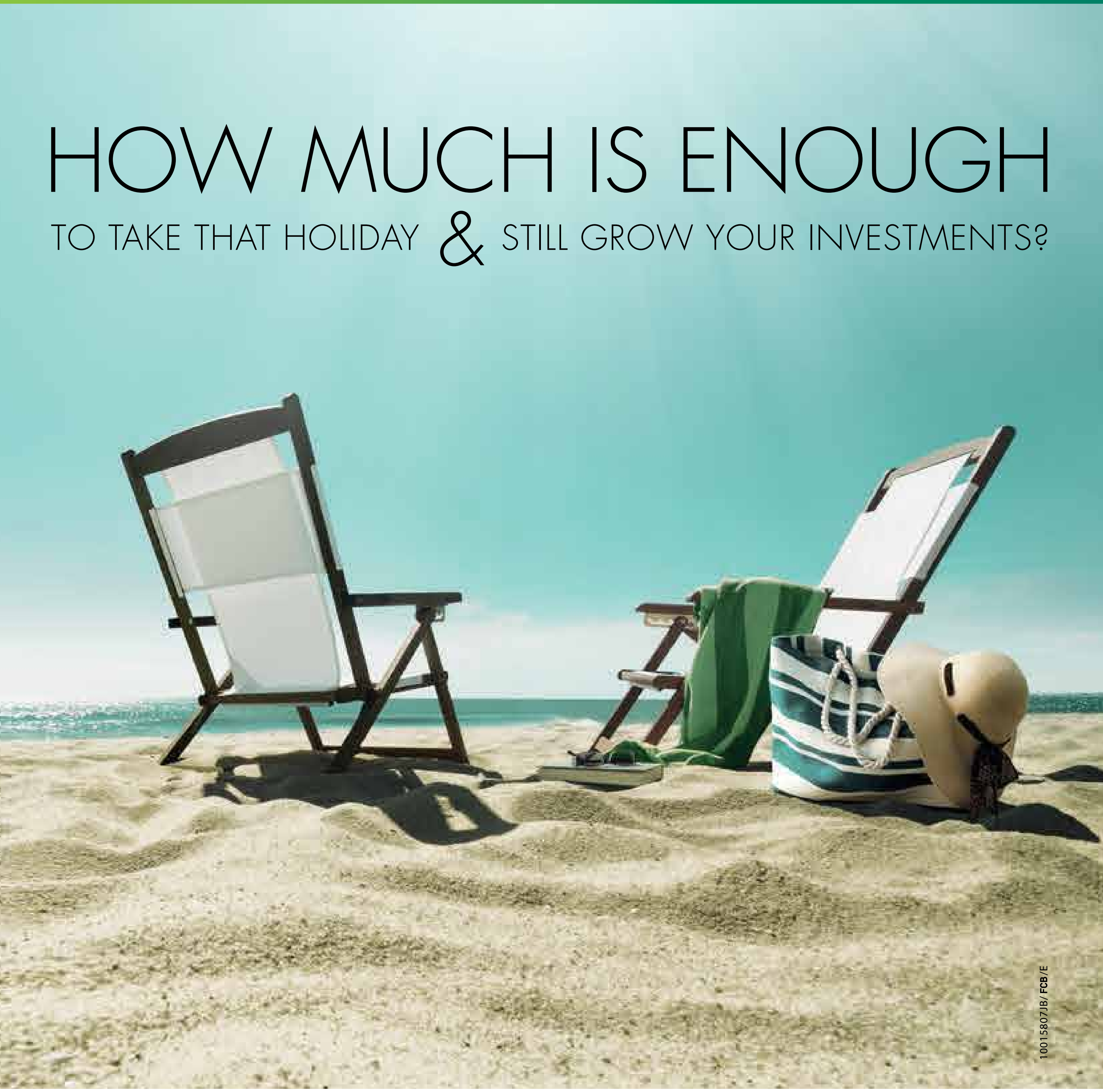
If you receive your statement electronically, select the "Your Details" tab to update your contact details and income tax reference number.

Via our secure site: **www.omut.co.za**. If you are registered for secure access you can update your contact details, your income tax reference number and banking details.

You can update all of your details by emailing us at **unittrusts@oldmutual.com**, or you can call our Client Service Centre on **0860 234 234** or **(021) 503 1770**.

Via our website: www.omut.co.za. You may download and complete our Unit Trusts Client Details Update Form and send this together with your supporting documents to **uttransactions@oldmutual.com** or fax them to **(021) 509 7100**.

If you prefer face-to-face interactions, you are welcome to visit your nearest Old Mutual branch. All detail changes and transactions will be confirmed with an email or SMS to ensure added peace of mind. ■


HOW MUCH IS ENOUGH
TO TAKE THAT HOLIDAY & STILL GROW YOUR INVESTMENTS?
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