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## OLD MUTUAL MULTI-MANAGERS BUSINESS UPDATE

TREVOR PASCOE, CEO

Just as it seemed that the local markets were settling into a period of normality, recent weeks have reinforced the view that 2016 has been a roller coaster ride for investors. First the potential for a hard Brexit outcome followed by the charges levelled against Finance Minister Pravin Gordhan; the latter coming at a time when our investment team was starting to be optimistic about the future of South Africa.

Since 2013, South Africa has been hit by a number of major shocks as commodity prices have halved and this has been the major factor behind the collapse of the rand. In addition, South Africa has experienced the worst drought in decades, food prices rising significantly, interest rates rising (one of the few countries to experience interest rate hikes), load shedding, the visa debacle plus the Ebola virus impacting tourism and Nenegate last year.

The reality is that many (note not all) of the shocks are reversing or unlikely to be repeated. Commodity prices are generally firmer, the rand has improved since the end of 2015, there was no load shedding for over a year, food prices at farm level are falling, rainfall patterns should be more normal, tourism has picked up after the visa issue being addressed, interest rates are unlikely to rise and business confidence is slightly better.

The recent charges levied against Pravin Gordhan will increase the likelihood of a ratings downgrade. However, the markets seem to have priced in the downgrade as the cost of credit default swaps for South Africa is in line with other countries like Brazil, Turkey and Russia who are already rated as junk status. Credit default swaps effectively price the risk of a country defaulting on its bond payments, i.e. the cost of insurance against a default.

Under these circumstances of fluctuating optimism and political uncertainty, the question remains how one effectively manages an investment portfolio. The key for Old Mutual Multi-Managers is the foundation of our portfolio construction, namely our investment philosophy. Knowing what client

outcomes we want to achieve determines our strategic asset allocation from which we make tactical calls. Sticking to the investment strategy through periods of volatility is key; often doing nothing is the most important investment decision an asset manager can make.

Looking at investment performance over the past 12 months, absolute returns have been muted as markets have struggled. Pleasing, however, is to see that relative performance has been good. Having said this, relative performance is not our aim, more important is the delivery of clients' investment outcomes. We believe that our asset manager selection and asset allocation will keep us on track to deliver these outcomes.

It is with gratitude to you, our clients, that I close this update. We sincerely hope to deliver on the trust that you have placed in us.

All the best

Trevor

