FORLIFE MEMBER COMMUNICATION
MARCH 2018

A SNEAK PEEK INTO THE BEST OF BOTH WORLDS

OLDMUTUAL

ALREADY AN EVENTFUL YEAR

Though the year is still young, it is already very eventful. As will be apparent when looking at first quarter statements, the contrast between the general sense of optimism on the streets and around the braai fires and disappointing short-term investment returns is rather stark. It was a tough first quarter for most multi-asset class funds, with the unusual combination of weaker global equity markets and a stronger rand dragging one-year returns. At least inflation declined to 4% in February, lowering the hurdle for achieving real terms.

SENTIMENT BETTER

Sentiment has turned for the better in South Africa and the country is increasingly standing out among emerging markets, and this time for the right reasons. Huge challenges remain, but the economy is benefiting from three tailwinds. Firstly is clearly the prospect (with some initial evidence) of improved governance and the return of sensible policy-making under President Ramaphosa. Secondly, the global economy is humming along nicely and as a small open economy, South Africa tends to follow the global cycle with a bit of a lag. Thirdly, local consumers are already benefiting from lower inflation which has boosted real incomes and spending power. The interest rate cut in March will also help. This is a huge improvement from a year ago, when we suffered downgrades, a technical recession and huge political uncertainty. Moody's has recognised this, announcing that they are maintaining South Africa's investment grade credit rating, and upgrading the outlook to stable.

RETURN OF VOLATILITY

Compared to this fairly happy picture, global equity markets have experienced a torrid time in the first quarter as volatility returned after a long quiet stretch in 2017. The JSE has followed global markets lower.

Global risk appetite surged in December and January, fuelled by tax cuts in the US and strong global growth. But since early February, three broad concerns have led to rising volatility. Firstly, there is a worry that strong growth and tightening labour markets will lead to inflation jumping and central banks – particularly the US Federal Reserve – slamming on the brakes.

Secondly, the high-flying technology sector has come under sudden pressure as investors fear a regulatory backlash against dominant companies like Facebook and Amazon. Naspers, the biggest share on the JSE has similarly had a tough time as global tech sold off. These shares traded at high valuations after a strong run and were vulnerable to reversal, but there is no evidence yet that their business models are fundamentally threatened.

TRADE SPAT

Thirdly, and perhaps most significantly, has been the concern that the world's two largest economies are heading toward a trade war after US President Trump announced tariffs on Chinese goods and China retaliated with tariffs on mostly agricultural imports from the US. The background is firstly long-standing complaints that China is pilfering US intellectual property, but more recently that the US trade deficit has ballooned to record levels (in nominal terms). However, the trade deficit is not a sign of the weakness of the US economy, but rather its strength as improving domestic demand draws in more imports. US exports are also at record high levels.

We live in a globally integrated world where almost no piece of machinery, equipment or consumer product is made in a single country in its entirety. Parts are typically sourced from several places, and even assembly can happen in different places. The same good can cross borders a number of times before it is finalised. Detangling these complex supply chains can be like unscrambling an egg. Another layer of complexity is that companies from one country often export to another from a third; the two biggest exporters of cars made in the US to China are German (BMW and Mercedes). This also means that if you try to block imports from China, there is a good chance imports from India or Vietnam will surge, doing nothing to reduce the deficit.

Markets tend to sell first and ask questions later, but it really does appear too soon to argue that a full-on trade war is looming. Both sides have a lot to lose.

GLOBAL MACROECONOMIC BACKDROP STILL HEALTHY

Nonetheless, it is safe to say that uncertainty is back on markets, and particularly with regards to the unpredictable US president, and markets never like uncertainty. But looking beyond this, the global economic picture is still healthy. Growth is solid, inflation still low and central banks accommodative. After all, even though the US Federal Reserve is hiking rates, they are still negative in real terms. In Japan and Europe, they are negative in nominal terms. Companies are generating strong profit growth. Major bear markets have historically only occurred during US recessions (1987 was a notable exception), and there is no sign of a looming recession there or at any other major economy.

Therefore, investors who follow a considered approach, grounded by a proper financial plan, can avoid a knee-jerk reaction to market turbulence. After all, while corrections are always unpleasant, they are also fairly common, especially after a strong run-up in equities.

NO PAIN, NO GAIN

To benefit from the superior long-term real returns from equities, one has to be prepared to experience some short-term distress. An appropriately diversified portfolio – as our Strategy Funds are – will reduce this discomfort, because not all asset classes have struggled: buoyed by lower inflation, a rate cut and the Moody's reprieve, bonds have delivered 8% returns year to date. But the discomfort can never be eliminated completely in funds that aim to generate above-inflation returns, since nobody can time these ups and downs consistently.

It is also worth considering that a portion of most balanced funds, usually around a quarter, is exposed to global markets directly and the rand's 13% appreciation against the dollar is a further dampener on these returns. Should the rand depreciate in the near future – and remember not too long ago many thought it impossible for the rand to do anything but depreciate – this situation will reverse itself. The importance of diversification is precisely that we don't know exactly what the future holds and therefore need to be prepared for a range of outcomes.

SIT TIGHT, DON'T FIGHT OR FLIGHT

For investors, it's hardly comforting to hear that they should "sit tight" or "focus on the long term" when faced with dramatic headlines and disappointing returns. Instead, the fight or flight response tends to kick in. This is normal. But remember that the fight or flight response evolved in a very different set of circumstances, certainly before we were able to do proper financial planning. When looking at markets, we should do our best to ignore our instinctive reptilian brains and engage the more reflective mammalian parts. One way is to remind ourselves of the general principle that financial plans should be amended in response to changes in your personal circumstances, but not in response to financial markets changes.

FUND PERFORMANCE

FUND **PERFORMANCE**

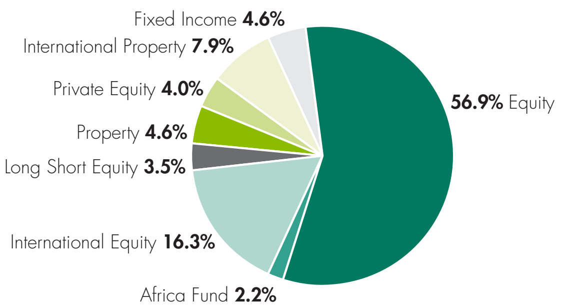
MAX 28 FUND

Assets under management	R1 676 448 534
Inception date	1 April 2000

Fund objective

The Fund has been designed to maximise real returns and capital growth over the long term.

Asset Allocation as at 31 March 2018:



RETURNS

1. Returns for periods greater than 1 year are annualised.
2. Where applicable all returns reflected are net of performance fees paid to underlying managers. Where net priced asset manager portfolios are used. returns stated are net of net priced asset manager fees and gross of Old Mutual Multi-Manager fees.
3. The benchmark comprises appropriate market indices weighted by the Fund's strategic allocation.

Sources: Old Mutual Multi-Managers and I-Net

ABSOLUTE BALANCED FUND

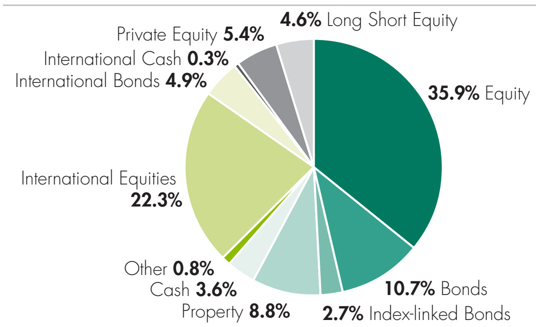
Assets under management	R2 058 842 086
Inception date	1 May 2004

Fund objective

The Fund targets CPI +6% (before fees where applicable) over the longer term and no negative returns over rolling 18-month periods.

Investment objectives are not guaranteed.

Asset Allocation as at 31 March 2018:



RETURNS

1. Returns for periods greater than 1 year are annualised.
2. Where applicable all returns reflected are net of performance fees paid to underlying managers. Where net priced asset manager portfolios are used. returns stated are net of net priced asset manager fees and gross of Old Mutual Multi-Manager fees.
3. The benchmark is CPI +6%.

Investment objectives are not guaranteed.

Sources: Old Mutual Multi-Managers and I-Net

ABSOLUTE DEFENSIVE FUND

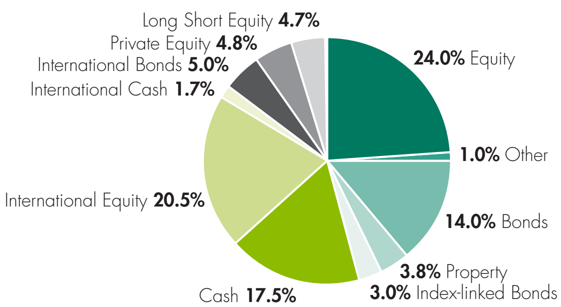
Assets under management	R998 025 564
Inception date	1 October 2002

Fund objective

The Fund targets CPI +4% (before fees where applicable) over the longer term and no negative returns over rolling 12-month periods.

Investment objectives are not guaranteed.

Asset Allocation as at 31 March 2018:



RETURNS

1. Returns for periods greater than 1 year are annualised.
2. Where applicable all returns reflected are net of performance fees paid to underlying managers. Where net priced asset manager portfolios are used. returns stated are net of net priced asset manager fees and gross of Old Mutual Multi-Manager fees.
3. The benchmark is CPI +4%.

Investment objectives are not guaranteed.

Sources: Old Mutual Multi-Managers and I-Net

FUND **PERFORMANCE** continued

CASH HORIZON FUNDS

RETURNS

	Inception Date	1 month		3 months		6 months		1 year		3 years*		5 years*		Since inception*	
		Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
2016	17-Feb-09	0.67%	0.56%	2.01%	1.71%	3.98%	3.42%	8.22%	7.07%	7.00%	7.70%	8.55%	8.12%	11.92%	11.36%
2017	27-Jan-10	0.67%	0.56%	2.01%	1.71%	4.09%	3.42%	8.85%	7.01%	6.40%	8.52%	9.01%	9.01%	11.12%	10.55%
2018	27-Jan-11	0.79%	0.78%	1.60%	2.00%	3.26%	3.68%	9.30%	7.05%	6.60%	9.22%	9.81%	9.85%	10.89%	10.59%
2019	3-Apr-12	0.94%	1.01%	1.04%	2.28%	2.48%	3.94%	9.52%	7.24%	6.90%	9.81%	10.53%	10.74%	11.68%	11.70%
2020	23-Apr-14	0.16%	1.05%	-0.49%	2.41%	1.59%	4.19%	8.79%	7.76%	6.17%	10.53%	-	-	8.03%	10.52%
2021	12-Nov-14	-0.95%	1.09%	-2.35%	2.53%	2.24%	4.44%	9.65%	8.37%	7.07%	10.79%	-	-	7.38%	11.10%
2024	20-Jun-17	-2.06%	1.27%	-4.22%	3.08%	-0.84%	7.61%	-	-	-	-	-	-	5.82%	12.74%

* Annualised

The benchmark is a composite benchmark of the fund building blocks. The building blocks in the cash horizon funds are Max 28 Fund, Old Mutual Multi-Managers Inflation 5-7%, Old Mutual Multi-Managers Inflation 3-5%, Old Mutual Multi-Managers Inflation 1-3% Fund and the Old Mutual Multi-Managers Money Market Fund.

The building blocks in the cash horizon funds changed from Forlife CPI+7% Fund, Forlife CPI+5% and Forlife CPI+3% Fund to Max 28 Fund, Old Mutual Multi-Managers Inflation 5-7%, Old Mutual Multi-Managers Inflation 3-5% and Old Mutual Multi-Managers Inflation 1-3% Fund.

ASSET ALLOCATION AND MANAGERS

	Equities	Property	Flexible Fixed Interest	Fixed Income	Alternative Assets	Money Market	International Equity	International Property
2016	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%
2017	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%
2018	1.0%	1.8%	0.0%	24.8%	1.8%	62.2%	7.0%	1.5%
2019	2.2%	4.1%	0.0%	57.3%	4.1%	12.6%	16.2%	3.5%
2020	14.2%	4.7%	0.0%	52.8%	4.3%	0.0%	19.7%	4.3%
2021	30.4%	4.8%	0.0%	35.1%	3.8%	0.0%	21.4%	4.6%
2022	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Managers	Visio	Sesfikile	Coronation	Coronation	Old Mutual	Prescient	Coronation	Catalyst
	Prudential	Catalyst		Prudential	Old Mutual Multi-Managers	SIM	Gins Global	Black Rock
	Coronation			Prescient			Orbis	
				Futuregrowth			Baillie Gifford	
							Harris Associates	

FUND **PERFORMANCE** continued

BOND HORIZON FUNDS

RETURNS

	Inception Date	1 month		3 months		6 months		1 year		3 years*		5 years*		Since inception*	
		Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
2016	15-Jan-09	2.51%	2.56%	11.36%	10.06%	13.98%	12.54%	19.29%	18.09%	8.19%	8.21%	9.41%	9.37%	11.88%	11.08%
2018	27-Jan-11	2.51%	2.56%	11.36%	10.06%	13.98%	12.54%	19.29%	18.09%	9.83%	11.68%	11.72%	11.41%	12.23%	11.68%
2019	27-Mar-12	2.51%	2.56%	11.35%	10.06%	14.53%	12.54%	21.29%	18.05%	13.87%	13.62%	14.80%	13.03%	15.29%	13.82%
2020	08-Jul-16	1.19%	1.79%	5.75%	6.13%	7.00%	8.25%	13.81%	12.45%	-	-	-	-	10.06%	11.58%

* Annualised

The benchmark is a composite benchmark of the fund building blocks. The building blocks in the cash horizon funds are Max 28 Fund, Old Mutual Multi-Managers Inflation 5-7%, Old Mutual Multi-Managers Inflation 3-5% Fund and the Long Bond Fund.

The building blocks in the bond horizon funds changed from Forlife CPI+7% Fund and Forlife CPI+5% Fund to Max 28 Fund, Old Mutual Multi-Managers Inflation 5-7% and Old Mutual Multi-Managers Inflation 3-5% Fund.

ASSET ALLOCATION AND MANAGERS

	Equities	Property	Flexible Fixed Interest	Fixed Income	Alternative Assets	Money Market	International Equity	International Property
2016	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2017	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2018	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2019	11.9%	1.6%	76.1%	0.0%	1.3%	0.0%	7.5%	1.6%
2020	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2021	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2022	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2023	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2024	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2024	Visio	Sesfikile	Future Growth	Coronation	Old Mutual	Prescient	Coronation	Catalyst
Managers	Prudential	Catalyst		Prudential	Old Mutual Multi-Managers	SIM	Gins Global	Black Rock
	Coronation			Prescient			Orbis	
				Futuregrowth			Baillie Gifford	
							Harris Associates	

FUND **PERFORMANCE** continued

LIVING ANNUITY HORIZON FUNDS

RETURNS

	Inception date	1 month		3 months		6 months		1 year		3 years*		Since inception*	
		Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
2018	30-Apr-11	-1.23%	1.09%	-2.82%	2.53%	-0.20%	4.44%	6.98%	8.26%	5.71%	10.71%	10.74%	11.29%
2019	30-Apr-12	-1.35%	1.12%	-2.97%	2.63%	-0.19%	4.64%	7.04%	8.67%	5.54%	11.13%	11.02%	12.48%
2020	27-May-13	-1.52%	1.15%	-3.20%	2.73%	-0.26%	4.84%	7.02%	9.08%	-	-	3.33%	12.38%
2021	01-Apr-14	-1.69%	1.18%	-3.43%	2.82%	-0.33%	5.04%	7.00%	9.50%	5.28%	11.36%	7.59%	12.23%
2022	23-Apr-15	-1.86%	1.22%	-3.65%	2.92%	-0.38%	5.24%	6.99%	9.91%	-	-	4.69%	9.88%
2023	04-Jul-16	-2.03%	1.25%	-3.88%	3.02%	-0.47%	5.44%	6.83%	10.47%	-	-	9.49%	8.96%
2024	20-Jun-17	-2.20%	1.27%	-4.22%	3.08%	-0.83%	7.61%	-	-	-	-	5.83%	12.74%

* Annualised

The benchmark is a composite benchmark of the fund building blocks. The building blocks in the cash horizon funds are Max 28 Fund, Old Mutual Multi-Managers Inflation 5-7% and Old Mutual Multi-Managers Inflation 3-5% Fund.

The building blocks in the living annuity horizon funds changed from Forlife CPI+7% Fund and Forlife CPI+5% Fund to Max28 Fund, Old Mutual Multi-Managers Inflation 5-7% and Old Mutual Multi-Managers Inflation 3-5% Fund.

ASSET ALLOCATION AND MANAGERS

	Equities	Property	Fixed Income	Alternative Assets	International Equity	International Property
2018	34.6%	4.8%	30.5%	3.7%	21.8%	4.7%
2019	36.7%	4.9%	28.0%	3.7%	21.9%	4.8%
2020	39.7%	5.0%	24.5%	3.8%	22.0%	5.0%
2021	42.6%	5.1%	21.1%	3.9%	22.2%	5.1%
2022	45.6%	5.3%	17.6%	4.0%	22.3%	5.3%
2023	35.3%	4.8%	29.6%	3.7%	21.8%	4.7%
2024	40.1%	5.0%	24.0%	3.8%	22.1%	5.0%
Managers	Visio	Sesfikile	Coronation	Old Mutual	Coronation	Catalyst
	Prudential	Catalyst	Prudential	Old Mutual Multi-Managers	Gins Global	Black Rock
	Coronation		Prescient		Orbis	
			Futuregrowth		Baillie Gifford	
					Harris Associates	

FUND **PERFORMANCE** continued

WITH-PROFIT ANNUITY HORIZON FUNDS

RETURNS

	Inception date	1 month		3 months		6 months		1 year		3 years*		Since inception*	
		Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
2018	31-Oct-12	0.74%	0.89%	2.29%	1.91%	4.67%	3.18%	8.87%	5.59%	7.55%	8.07%	11.07%	9.44%
2019	31-Oct-12	0.74%	0.89%	2.29%	1.91%	4.99%	3.18%	9.90%	5.83%	7.12%	9.07%	11.38%	10.85%
2020	28-Feb-13	0.01%	0.99%	0.38%	2.22%	3.27%	3.81%	9.76%	7.12%	6.44%	10.29%	10.85%	12.45%
2021	31-Oct-14	-0.95%	1.09%	-2.16%	2.53%	0.53%	4.44%	7.82%	8.37%	5.54%	10.79%	7.06%	11.10%
2022	31-Mar-15	-1.54%	1.17%	-3.09%	2.77%	0.06%	4.94%	7.45%	9.41%	5.69%	9.92%	5.69%	9.92%
2023	30-Apr-16	-1.97%	1.25%	-3.77%	3.02%	-0.36%	5.44%	6.95%	10.47%	-	-	3.40%	8.73%
2024	30-Jun-17	-2.20%	1.27%	-4.23%	3.08%	-0.84%	7.61%	-	-	-	-	4.18%	12.74%

* Annualised

The benchmark is a composite benchmark of the fund building blocks. The building blocks in the With Profit funds are Max 28 Fund, Old Mutual Multi- Managers Inflation 5-7%, Old Mutual Multi- Managers Inflation 3-5% Fund and the Forlife CoreGrowth Fund.

The building blocks in the with profit horizon funds changed from Forlife CPI+7% Fund and Forlife CPI+5% Fund to Max 28 Fund, Old Mutual Multi-Managers Inflation 5-7% and Old Mutual Multi- Managers Inflation 3-5% Fund.

ASSET ALLOCATION AND MANAGERS

	Equities	Property	Fixed Income	Alternative Assets	International Equity	International Property
2018	-	-	-	100.0%	-	-
2019	-	-	-	100.0%	-	-
2020	12.6%	1.7%	11.1%	65.0%	7.9%	1.7%
2021	29.6%	4.1%	26.1%	17.6%	18.6%	4.0%
2022	49.3%	5.5%	13.2%	4.1%	22.5%	5.4%
2023	49.3%	5.5%	13.2%	4.1%	22.5%	5.4%
2024	56.9%	4.6%	4.6%	7.6%	18.3%	7.9%
Managers	Visio	Sesfikile	Coronation	Old Mutual	Coronation	Catalyst
	Prudential	Catalyst	Prudential	Old Mutual Multi-Managers	Gins Global	Black Rock
	Coronation		Prescient		Orbis	
			Futuregrowth		Baillie Gifford	
					Harris Associates	

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