QUARTER 2, 2018

OLD MUTUAL MULTI-MANAGERS BUSINESS UPDATE

TREVOR PASCOE, CHIEF EXECUTIVE OFFICER

I remember this time last year looking at a three-year stretch of really poor domestic equity performance. We focused on what magnitude of real returns would be required to achieve our investment targets for investors who joined over the previous three-year period. The returns were in excess of CPI plus 7%. Markets recovered over the following six months (especially in July 2017) to the point that the targeted return funds easily met their intended targets. With negative domestic equity markets over the past six months, we are back in the same position than 12 months ago.

A key element of our investment philosophy is valuation and on a valuation basis, the expected returns over the next 12 months should enable the funds to achieve their expected real returns over this period. However, while we do have the valuation tailwind, there are a number of macroeconomic factors and geopolitical issues that could lead to continued muted returns. Our investment team follows a very rigorous asset allocation process to give the highest probability of achieving that targeted returns over the respective investment horizons. Therefore, our team has also recently adjusted the portfolios to take full advantage of the offshore allocation allowed in terms of regulations.

As always, we continually review our asset manager line-ups and will be making a few small tweaks in the allocations to our asset managers as well as add one or two managers over the next two to three months. This is to further assist in increasing the probability of us achieving our goals. These changes will be communicated as and when we make them.

During the middle of July, we arranged for a few of our smaller boutique asset managers to present their investment approach to retail advisers. The presentation on Africa equity went particularly well. Although this asset class struggled for a few years, it performed very well over the last 12 to 18 months. We currently hold an overweight position in Africa equities, however, we have not made full use of the 5% allocation allowed in terms of regulations. While there are constraints around investing in Africa in terms of liquidity and number of stocks of suitable size, there are also many businesses that are finding great opportunities that deliver really good returns for shareholders.

The investment case presented was so compelling that some members of the audience wanted to immediately allocate investment to Africa. The presenter and us made the point, however, that this asset class is volatile and that diversification is really important when managing money over the long term. This speaks directly into the way in which we manage our portfolios. While we look for opportunities, we temper our investment approach to ensure that we have risk- managed robust funds that should deliver. Our track record proves the value of this.

We have also recently filmed a few short videos that talk to our investment process and the way in which we manage money. We will be posting these videos over the next few months. Please see the links to the last two videos below:
https://www.linkedin.com/feed/update/urn:li:activity:6419515504750260224

https://www.linkedin.com/feed/update/urn:li:activity:6417000684440285184

Thank you once again for your support and we look forward to any questions or comments that you may have on our business.

All the best

Trevor

Trevor

OLD MUTUAL WEALTH