**OLD MUTUAL MULTI-MANAGERS**
The Estuaries, 2 Oxbow Crescent, Century City, 7441.
PO Box 44604, Claremont, 7735, South Africa.
Tel +27 (0)21 524 4430, Fax +27 (0)21 441 1199
www.ommultimanagers.co.za

31 August 2018

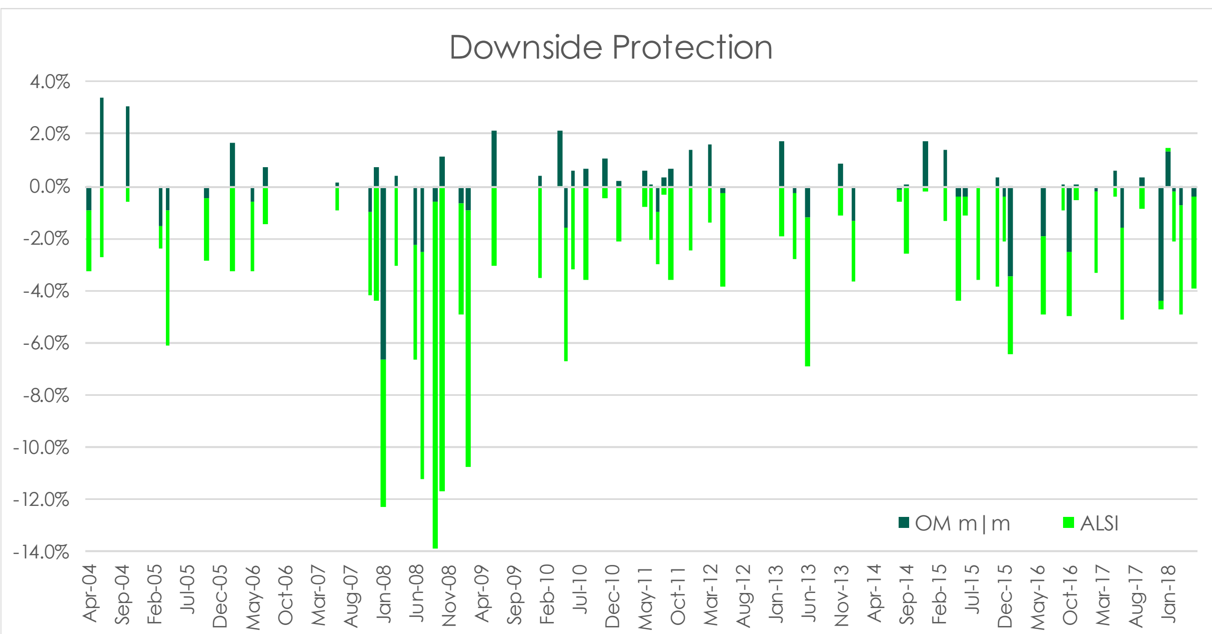
Dear Valued Clients, Consultants and Administrators

**WHY HEDGE FUNDS?**

Old Mutual Multi-Managers included hedge funds in its institutional funds following the revision in Regulation 28 rules, which made allowance for exposure to alternative assets.

We remain of the view that the inclusion of long-short type equity hedge funds adds attractive diversification benefits to balanced funds as well as superior risk adjusted returns. This is because hedge fund managers have more tools to express their views on the market and have the potential to make money during rising and falling markets.

The graph below plots the monthly returns of the Old Mutual Multi-Managers Long Short Equity (LSE) building block relative to the JSE All Share (ALSI)'s negative returning months since inception to June 2018. The capital preservation and downside protection nature of the Old Mutual Multi-Managers LSE building block is clearly evident. It also posted positive returns during some of the negative equity market months experienced by the broader market, clearly providing a source of diversification to the overall portfolio.



## Performance

The tables below display the Old Mutual Multi-Managers LSE building block's longest running track record since inception as well as the institutional track record following the change of Regulation 28 rules to allow institutional clients to invest in hedge funds. The building block has posted an annualised return of 12.4% over the past 14 years, at a notably lower risk than the equity market and thereby posted superior risk adjusted returns as evidenced by the higher Sharpe Ratio. Over the six year period of running the institutional track record the building block posted equally impressive returns to the equity market at lower risk to both equities. Hedge had somewhat disappointed as at the end of 2017 over a two year and shorter periods, especially after the strong equity market rally we saw last year. We have since seen a reversal of this recently, and therefore the benefit of this building block, while the market has fallen 2% for the seven months to end July, the LSE building block was up 3.7% over the same period.

| Annualised statistics | Old Mutual Multi-Managers LSE (Apr '04) | Equities (ALSI) | Bonds | Cash |
|---|---|---|---|---|
| Since inception return | 12.4% | 15.7% | 8.9% | 7.4% |
| Risk (Std. Dev) | 5.7% | 14.5% | 7.1% | 0.5% |
| Sharpe Ratio | 0.8 | 0.5 | 0.2 | 0 |

| Institutional Track Record | | | | |
|---|---|---|---|---|
| Annualised statistics | Old Mutual Multi-Managers LSE (Mar '12) | Equities (ALSI) | Bonds | Cash |
| Since inception return | 10.0% | 11.7% | 7.9% | 6.4% |
| Risk (Std. Dev) | 6.5% | 10.7% | 7.7% | 0.3% |
| Sharpe Ratio | 0.6 | 0.5 | 0.2 | 0 |

## Fees

We reviewed our allocation to hedge funds in the context of the fee structure of these investment vehicles. While we maintain that hedge funds offer compelling benefits on a net of fees basis, the cost of this asset class does raise overall costs in a portfolio. In order to reduce costs in our portfolios, we reduced the hedge fund allocation from 10% to 5%. In addition, we also used this opportunity to renegotiate and reduce the fees paid to these managers.

It is also important to note that the cost of including hedge funds in our portfolios is limited to the underlying manager cost. Old Mutual Multi-Managers does not charge an additional fee for the inclusion of an effective hedge fund of funds in our portfolios. Old Mutual Multi-Managers' fee is limited to the policy fee at portfolio level. Old Mutual Multi-Managers has never charged performance fees on the LSE building block part of the portfolio.

As always, we remain committed to providing superior risk adjusted, long term returns to you, our clients.

Should you have any questions in this regard, please do not hesitate to contact us on 021 524 4430.

Kind Regards

**Monene Watson**
Chief Investment Officer

**Busi Nqgondoyi**
Head | Property and Hedge