**OLD MUTUAL MULTI-MANAGERS**
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Dear Clients, Consultants and Administrators

**EXCITING DEVELOPMENTS AT OLD MUTUAL MULTI-MANAGERS**

As part of our continuous efforts to improve Old Mutual Multi-Managers offering to our clients, we would like to communicate some details on exciting changes within our business.

Below is a summary of these developments, the details of which are provided in the pages following.

1. New Fee Structure – implemented on 1 February 2018.
2. Allocation to Black Owned Equity Managers – implemented during February 2018.
3. Changes to the Old Mutual Multi-Managers Hedge Fund Building Block – implemented on 1 February 2018.
4. Local Equity Benchmark changed to Capped SWIX – implemented on 5 March 2018.
5. Change from Gross to Net Pricing on all the Old Mutual Multi-Managers Funds – effective 1 April 2018.
6. Changes to the Old Mutual Multi-Managers Absolute Fund Range – effective within the next two months.

These changes are a result of an ongoing process within our business which aims to continually improve the offering we give our clients. Lowering investment fees have been one of the key initiatives as well as our drive to promote transformation within the investment industry.

We have some further changes planned for the upcoming months, such as a new manager allocation for the absolute return funds and implementation of Global Investment Performance Standards (GIPS). More details on these will be communicated closer to the time.

We trust you will find the changes communicated in this letter favourable and I would like to encourage you to, as always, contact me should you have any questions in this regard. Until our next communication, thank you for your continued support.

Kind Regards

**Trevor Pascoe**
CEO
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## 1. New Fee Structure – implemented on 1 February 2018

The following lower fee structure was applied to the Old Mutual Multi-Managers Funds with effect from 1 February 2018:

| Annual Fee with a Capped Performance Fee | | | |
|---|---|---|---|
| Fund | Total fee (excluding performance fees) | Performance fees at cap* | Total fee (including capped performance fees)* |
| OM Multi-Managers Money Market Fund | 0.22% | N/A | 0.22% |
| OM Multi-Managers Inflation plus 1-3% Strategy | 0.76% | 0.25% | 1.00% |
| OM Multi-Managers Inflation plus 3-5% Strategy | 0.85% | 0.28% | 1.12% |
| OM Multi-Managers Inflation plus 5-7% Strategy | 0.88% | 0.29% | 1.17% |
| OM Multi-Managers Max 28 Fund | 0.88% | 0.31% | 1.18% |
| OM Multi-Managers Managed Fund | 0.88% | 0.97% | 1.84% |
| * Performance fees at CAP as disclosed above assumes that each of the managers (where performance fees are applicable) have reached their individual performance fee caps as agreed in the individual fee agreements. The actual level of performance will differ between managers, however is generally an onerous target for each mandate. | | | |

### Background to the change

Our team of investment professionals have re-engineered the funds and strategies as shown in the table above by reducing exposure to one of the alternative asset classes utilised in our funds, namely hedge funds. This change was implemented on 1 February 2018 – point three below elaborates further regarding this change.

Alternative asset classes are by nature more expensive than other asset classes. The investment team have been able to make this change whilst still maintaining the objectives of all the funds and strategies.

In addition to the above, we have renegotiated fees with the asset managers used in these funds and strategies. As a result, Old Mutual Multi-Managers will be passing on the full saving as a result of a lower fee to all clients invested in these funds.

### Further changes expected

As a result of further pending changes, we expect fees to change again within the next few months.

One of the changes is the investment team's decision to increase offshore exposure from 25% to 30% in line with the new Regulation 28 limits as set out in the 2018 National Budget tabled in Parliament on 21 February 2018. These changes will be made when the appropriate valuation opportunities present themselves.

A second change relates to when one of the asset managers used within our equity building block changes from a flat fee to a performance based fee. Details of these two changes are still to be finalised and will be communicated in due course.

### Looking ahead

The revised fees shown in the table above was applied to existing clients where applicable, and will apply to new clients going forward until such time that fees change again. Existing clients impacted by the fee changes will be issued with new fee documents once all changes mentioned above have been finalised, communicated and implemented.

### 2. Allocation to Black Owned Equity Managers – implemented in February 2018

Old Mutual Multi-Managers is committed to driving transformation within the asset management industry. We have a five-pronged approach to transformation and one of the prongs is to promote transformation by allocating assets to B-BBEE managers (minimum 50% black equity ownership). This is done within our fiduciary responsibility to clients.

Half of Old Mutual Multi-Managers' domestic property allocation is currently managed by a black owned asset manager, and Old Mutual Multi-Managers made an additional allocation to black owned equity managers in February 2018. Whilst initial allocations to the new equity managers are small as a percentage of our funds, our intention is to give black owned asset managers a better chance of gaining a sizeable allocation of our funds over time.

Assets have been allocated to asset managers where we believe their investment philosophy and process is aligned to our investment criteria, even though they might not yet have the length of track record we would usually require from asset managers. The actual placement of assets, Old Mutual Multi-Managers' ongoing monitoring of these funds, together with regular feedback sessions with these asset managers, gives both Old Mutual Multi-Managers the opportunity to increase conviction in the asset manager as well as for the asset manager to showcase their investment skill and commitment to their process and philosophy.

In February 2018, Old Mutual Multi-Managers made an allocation to two black owned asset managers – Mazi Capital and Sentio Capital. Together, these asset managers will account for 10% of the domestic equity building block. The same equity asset managers are used across all of our inflation targeting strategies.

Given that we use the same building blocks across our range of strategy funds, black owned asset managers now manage approximately 11% of our domestic institutional assets. This is higher than the 10% target we set ourselves and has been allocated within a shorter time frame than initially targeted.

### 3. Changes to the Old Mutual Multi-Managers Hedge Fund Building Block – implemented on 1 February 2018

Effective 1 February 2018 the following changes were implemented:

- Reduced hedge fund of funds exposure from 10% to 5%,
- Renegotiated fees with our hedge fund managers resulting in a lower and uniform fee basis across managers - a capped performance fee structure, a hard hurdle and a high water mark, and
- Manager changes.

The new manager mix consists of three pure directional equity long/short funds that target maximum real returns and by default have a relatively higher beta to the market. We sought to select managers who demonstrated the ability to generate superior risk adjusted returns over the long term. We then complemented these with two low beta funds with a proven track record of downside protection. These funds follow a completely different alpha extraction methodology to the other three funds and thereby present greater diversification benefits in the portfolio.

The remaining hedge allocation (given the reduction from 10% to 5%) will be equally weighted across the selected managers.

The overall costs of the hedge fund asset class will be reduced and, importantly, we believe that the revised manager mix provides a sound and superior balance on a risk and return basis.

**Rationale for the change**

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

We held this exposure as we believe that the inclusion of long-short type equity hedge funds adds attractive diversification benefits to balanced funds as well as superior risk adjusted returns.

We have, however, 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. Our approach of reducing fees and reducing the allocation to hedge funds allows us to maintain exposure to this asset class, but at a reduced overall cost.

**4. Local Equity Benchmark changed to Capped SWIX – implemented on 5 March 2018**

Old Mutual Multi-Managers has changed the benchmark on its SA equity building block from the SWIX (Shareholder Weighted Index J403) to the Capped SWIX (J433) effective from 5 March 2018.

**Rationale for the change**

The key reason for making this change is to move to a benchmark that is more diversified than the current SWIX benchmark. The SWIX benchmark has become more concentrated over time. This is mainly due to the sharp rise in the Naspers share price, which has seen the weight of Naspers increase materially within the SWIX. This means that the benchmark is no longer as diversified as it was, as over 20% is allocated to one share. Diversification is a key pillar of our philosophy and hence our preference to move to a more diversified equity benchmark.

The Capped SWIX starts with the SWIX benchmark but then effectively limits the weight of any one share to 10 percent within the benchmark. Naspers is the only share that is affected by the 10 percent cap. The reduction in the weight of Naspers is distributed to the rest of the shares in the SWIX, with the result that they all marginally increase in weight.

**5. Change from Gross to Net Pricing on all the Old Mutual Multi-Managers Funds – effective 1 April 2018**

As part of our initiative to be completely transparent regarding fees and in response to feedback from clients, Old Mutual Multi-Managers will change from gross to net pricing on all Old Mutual Multi-Managers funds with effect from 1 April 2018.

This change has numerous benefits in terms of ease of reporting for clients, the removal of the hybrid gross and net priced asset manager mix (some asset managers only provide net prices), and is accompanied by an internal Old Mutual Multi-Managers project where we will hold both the net and gross price (grossing up all net prices, including assumptions where necessary) to provide clients with a complete view on both <u>true</u> gross and net returns.

**6. Changes to the Old Mutual Multi-Managers Absolute Fund Range – effective within the next two months**

Old Mutual Multi-Managers intend to remove hedge funds, private equity and Prescient Qualified Investor Fund (QIF) allocations from the Absolute Balanced, Defensive and Cautious Funds within the next two months. Our absolute fund mandates have generally allocated about 15% to alternative asset classes over the years.

**Rationale for the change**

Removing all hedge fund exposure from these funds makes sense from a fee perspective, but will also avoid unnecessary volatility in the funds. The hedge fund allocation will in time be allocated to Social Responsible Investing (SRI) type asset classes, like the FutureGrowth Infrastructure and Development Bond fund. The major benefit to clients is the significant reduction in fees.

The ten year term for Private Equity has come to an end and we extended the term for another year. The reason for the extension is that the Old Mutual Private Equity team expect the assets remaining in the fund to realise higher values as they are sold or listed. We therefore felt, that in order to mitigate risk, we should exit 50% of the fund now, however the Old Mutual Private Equity team managed to liquidate 40% of the fund. Old Mutual Multi-Managers will receive the 40% in cash by the end of this month. The rest of the cash will be realised by the end of this year.

Most of the instruments in the Prescient Qualified Investor Fund (QIF) have expired last month, or are expiring this month and hence the decision to unwind this allocation as well.

We will communicate an update in this regard as and when changes are made, including the impact these changes will have on fees.