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# FORLIFE MEMBER COMMUNICATION

## JUNE 2017

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**A SNEAK PEEK INTO THE BEST OF BOTH WORLDS**

## INTEREST RATES IN CONTEXT

### WHAT HAPPENED?

On 20 July the South African Reserve Bank (SARB) surprised the market by reducing the repo rate from 7% by 25 basis points (0.25%) to 6.75%, attributing its decision to lower expected inflation and slower growth outlook.

### WHAT IS THE ROLE OF THE SOUTH AFRICAN RESERVE BANK?

The SARB's primary responsibility is to ensure price stability, so that the purchasing power of the rands in your pocket does not erode too quickly. It was given a mandate by National Treasury to keep inflation within a 3% to 6% target range. It does this by adjusting the repo rate, which is the rate at which banks can borrow money from the SARB. The repo rate directly influences the prime interest rate, which is the rate at which banks lend to consumers. If it gets cheaper for banks to borrow from the SARB, it will become cheaper for consumers to borrow from banks. Interest rates affect not only South Africans who have debt, but they also affect the economy by either stimulating or stifling growth. Lower interest rates make it cheaper to borrow, but also reduces the interest earned in bank deposits.

The SARB targets inflation, but it has no direct control over how quickly prices of goods and services rise. The SARB sets the repo rate to influence borrowing in the economy, which influences overall economic activity and therefore indirectly the inflation rate. The repo rate is therefore a fairly blunt instrument. If the SARB expects higher inflation in future, it will raise the repo rate in response. If it expects inflation to decline and remain within its target range, as it does now, it has room to cut rates to stimulate the economy.

### WHAT IS THE IMPACT ON CONSUMERS?

Following the repo rate cut, the prime interest rate has dropped from 10.5% to 10.25%. If you have a bond (home loan) of R500 000 at the prime interest rate of 10.5% you can expect your repayments to reduce by R84. On a bond of R1 million your bond repayment will be reduced by R167 while you can expect to pay R251 less on a bond of R1.5 million.

In other words, the interest rate cut will have a relatively small impact on consumer spending, but will relieve some pressure on highly-indebted individuals. This rate cut is also unlikely to result in much more borrowing by households. Household borrowing has grown at a snail's pace over the past five years, and at a slower rate than household incomes.

### WHY DID THE SARB INCREASE THE REPO RATE IN THE FIRST PLACE?

The SARB increased the repo rate by a total of 2% from 5% to 7% in 2014 and 2015. The main reason was that the weakening rand was expected to put sustained upward pressure on inflation. The global environment at the time, with falling commodity prices, concerns over rising US interest rates and negative sentiment towards emerging markets, meant that the Reserve Bank was also worried that the rand could fall even more than it did. Yet, despite weakening from around R7 per dollar in late 2011 to R16 per dollar in early 2016, inflation never moved above 6% on a sustained basis. On previous occasions (like early the 2000s) a weak rand resulted in a rapid increase in inflation and interest rates. This has been the mildest rate cycle since the 1960s. Because rates did not go up much, they are also not likely to fall much, but one or two further cuts can be expected.

### FINALLY, WHY HAS THERE BEEN CONTROVERSY AROUND SARB'S OWNERSHIP?

The SARB's private ownership is fairly unique in a global context, but is a bit of a red herring. The private shareholders have no say in setting interest rates, or the appointment of key officials (the Bank's governor and deputy governors are appointed by the President) and get only a tiny share of any profits.

Central banks have throughout history been under pressure from politicians seeking re-election to lower interest rates (or worse, print money), even if this ultimately leads to higher inflation. As a recent example, on the campaign trail Donald Trump fiercely

criticised the US central bank (the Federal Reserve) for not raising rates faster, but now that he is President, he seems to be happy for interest rates to remain low. The key issue for ratings agencies and investors is therefore independence in monetary policy (i.e. setting interest rates without being influenced by politicians or other interest groups). The SARB's operational independence is written into the Constitution and nationalising the Reserve Bank will not change the way it sets interest rates.

That doesn't mean that the SARB hasn't made mistakes in monetary policy setting from time to time, with rates either too high or too low for prevailing economic conditions. But the SARB and its policy of inflation targeting cannot be blamed for South Africa's poor economic performance. Interest rates address cyclical conditions in the economy, not the economy's underlying structure.

# FUND PERFORMANCE

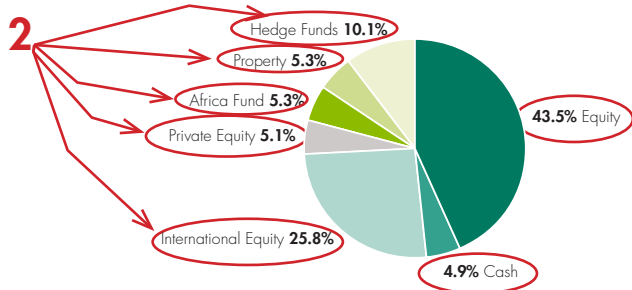
## A PICTURE ...

... speaks a thousand words ... so instead of putting you to sleep with boring spreadsheets and wordy essays, we've captured the performance of your funds in simple snapshots. Here's an example of what the information on each diagram is telling you:

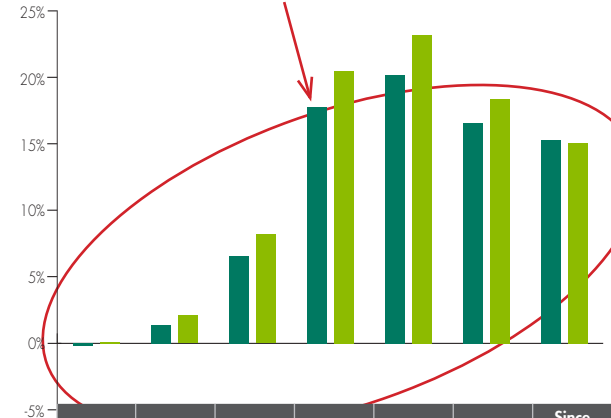
### AGGRESSIVE FUND

**1** →

Assets under management	R2 335 746 470
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 2017:	



### RETURNS



**3**

	1 month	3 months	6 months	1 year	3 years*	5 years*	Since inception*
Fund	0.2%	1.4%	6.6%	17.8%	20.2%	16.6%	15.3%
Benchmark	0.1%	2.1%	8.2%	20.5%	23.2%	18.4%	15.1%

- Returns for periods greater than 1 year are annualised.
  - 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.
  - The benchmark comprises appropriate market indices weighted by the Fund's strategic allocation.
- Sources: Old Mutual Multi-Managers and INet

**#1:** This figure refers to how big the Fund is in terms of the total market value of the assets Old Mutual Multi-Managers manage collectively for you and all the other clients invested in the Fund.

**#2:** This pie chart indicates which asset classes Old Mutual Multi-Managers has invested your money in if you are an investor in the Fund, as well as the weighting to each asset class.

**#3:** These figures are the "yardstick" or "goal" for returns the Fund managers work towards when they manage these funds.

**#4:** This graph shows how the Fund has performed in relation to its benchmark over different time periods.



# FORLIFE

Forlife offers a single solution to your retirement saving needs, throughout your working life. During the earlier years of your career you will be invested in one of our risk-profiled funds. This is called the **Pre-Horizon Fund**. As you approach retirement, and depending on the elected risk profile, you will be switched to an appropriate Horizon Fund for the year in which you intend to retire. The purpose of this switch is to reduce your investment risk as you near retirement.

## DID YOU KNOW?

There are three types of Pre-Horizon Funds, each of which has a different risk profile:

- Aggressive Fund:** This is the most aggressive of the Pre-Horizon Funds, with the highest expected risk and return.
- Absolute Balanced Fund:** This is a medium-risk fund that targets returns of 6% p.a. above CPI inflation (before fees) over the long term and no negative returns over 18-month periods.
- Absolute Defensive Fund:** This is the lowest risk Pre-Horizon Fund that targets returns of 4% p.a. above CPI inflation (before fees) over the long term and no negative returns over 12-month periods.

To **check which fund you are invested in**, refer to the column with your elected risk profile and then look at the row that contains your intended retirement year.

YEAR OF RETIREMENT	PRE-HORIZON FUND		
	AGGRESSIVE	ABSOLUTE BALANCED	ABSOLUTE DEFENSIVE
after 2023	Aggressive Fund	Absolute Balanced	Absolute Defensive
2023	Horizon Fund	Absolute Balanced	Absolute Defensive
2022	Horizon Fund	Absolute Balanced	Absolute Defensive
2021	Horizon Fund	Horizon Fund	Absolute Defensive
2020	Horizon Fund	Horizon Fund	Absolute Defensive
2019	Horizon Fund	Horizon Fund	Horizon Fund
2018	Horizon Fund	Horizon Fund	Horizon Fund
2017	Horizon Fund	Horizon Fund	Horizon Fund
2016	Horizon Fund	Horizon Fund	Horizon Fund

## AGGRESSIVE FUND

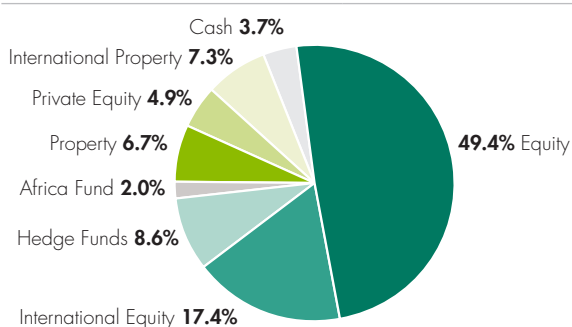
Assets under management R2 233 648 325,19

Inception date 1 April 2000

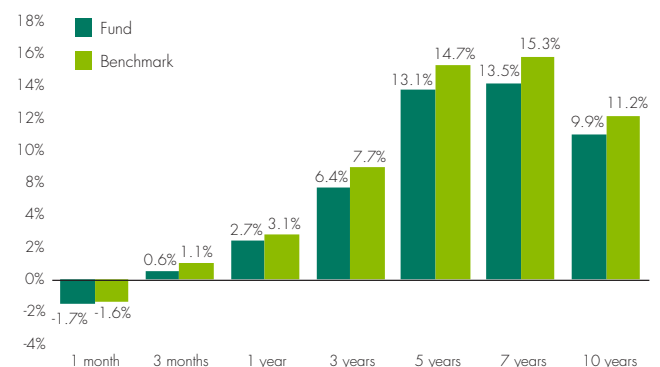
### Fund objective

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

Asset Allocation as at 30 June 2017:



## RETURNS



- Returns for periods greater than 1 year are annualised.
- 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.
- The benchmark comprises appropriate market indices weighted by the Fund's strategic allocation.

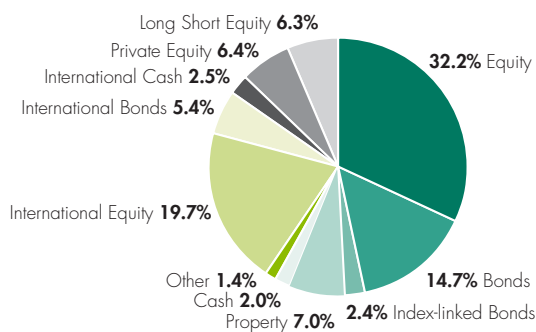
Sources: Old Mutual Multi-Managers and HNet

## FUND PERFORMANCE

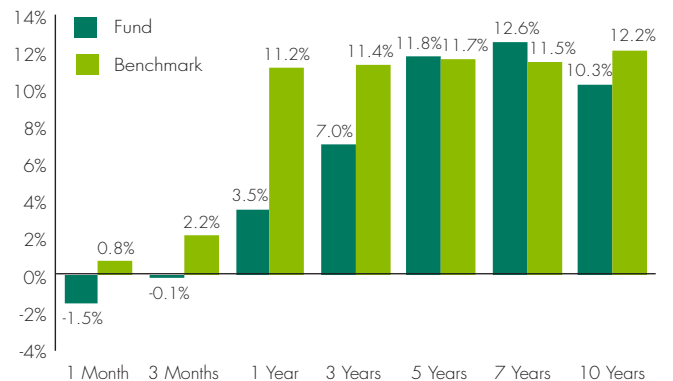
### ABSOLUTE BALANCED FUND

Assets under management R2 261 993 554  
 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 30 June 2017:



### RETURNS



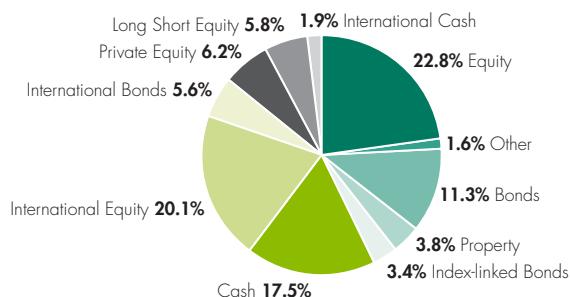
- Returns for periods greater than 1 year are annualised.
- Where applicable all returns reflected are net of performance fees paid to underlying managers. Where net priced asset manager portfolios are used, returns stated are net of net priced asset manager fees and gross of Old Mutual Multi-Manager fees.
- The benchmark is CPI +6%.  
Investment objectives are not guaranteed.

Sources: Old Mutual Multi-Managers and I-Net

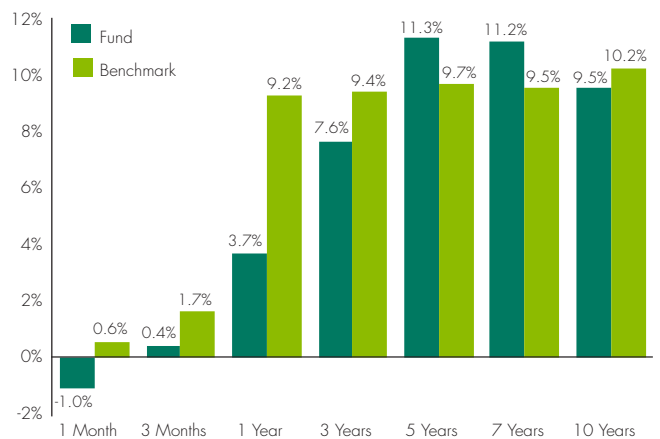
### ABSOLUTE DEFENSIVE FUND

Assets under management R974 076 342  
 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 30 June 2017:



### RETURNS



- Returns for periods greater than 1 year are annualised.
- 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.
- 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
<b>2017</b>	27-Jan-10	0.48%	0.57%	2.10%	1.68%	4.44%	3.96%	7.17%	7.69%	7.01%	8.51%	10.98%	9.80%	11.34%	10.92%
<b>2018</b>	27-Jan-11	0.11%	0.55%	2.07%	1.51%	4.72%	4.45%	5.85%	8.29%	7.33%	9.43%	11.72%	10.86%	11.05%	10.98%
<b>2019</b>	3-Apr-12	-0.41%	0.56%	1.88%	1.49%	4.86%	4.68%	5.33%	8.79%	7.55%	10.21%	12.49%	12.65%	11.91%	12.33%
<b>2020</b>	23-Apr-14	-1.10%	0.60%	1.38%	1.61%	4.65%	4.94%	4.57%	9.35%	6.92%	10.99%	-	-	7.60%	11.18%
<b>2021</b>	12-Nov-14	-1.49%	0.66%	1.03%	1.80%	4.43%	5.34%	4.16%	10.29%	-	-	-	-	6.22%	11.98%
<b>2022</b>	11-May-15	-1.55%	0.74%	1.00%	2.04%	4.48%	5.84%	3.87%	10.95%	-	-	-	-	3.76%	10.56%
<b>2023</b>	30-Apr-16	-1.61%	0.19%	0.82%	1.89%	4.43%	5.44%	3.14%	7.30%	-	-	-	-	3.13%	7.08%

\* Annualised

The benchmark is a composite benchmark of the fund building blocks. The building blocks in the cash horizon funds are Aggressive Fund, OM m|m Inflation 5-7%, OM m|m Inflation 3-5%, OM m|m Inflation 1-3% Fund and the OMMM 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 OM m|m Inflation 5-7%, OM m|m Inflation 3-5% and OM m|m Inflation 1-3% Fund.

ASSET ALLOCATION AND MANAGERS

	Equities	Property	Fixed Income	Alternative Assets	Money Market	International Equity	International Property
<b>2017</b>	0.8%	1.6%	14.7%	1.8%	75.0%	4.8%	1.3%
<b>2018</b>	2.4%	4.8%	44.2%	5.3%	25.0%	14.5%	3.8%
<b>2019</b>	12.0%	6.5%	50.1%	6.8%	-	19.7%	5.1%
<b>2020</b>	29.9%	6.7%	32.0%	6.1%	-	20.2%	5.1%
<b>2021</b>	42.0%	6.6%	20.0%	5.8%	-	20.5%	5.1%
<b>2022</b>	47.9%	6.2%	14.3%	6.0%	-	20.5%	5.1%
<b>2023</b>	50.5%	6.1%	8.6%	8.0%	1.0%	20.3%	5.6%
<b>Managers</b>	Visio	Sesfikile	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
2017	27-Jan-10	-1.14%	-1.40%	0.78%	0.96%	2.85%	3.19%	6.97%	7.22%	6.53%	6.55%	10.63%	8.59%	11.10%	10.10%
2018	27-Jan-11	-1.14%	-1.40%	0.78%	0.96%	2.85%	3.19%	6.47%	6.96%	6.88%	8.18%	11.40%	10.10%	10.81%	10.38%
2019	27-Mar-12	-1.22%	-0.90%	1.71%	1.15%	12.85%	3.79%	14.31%	7.73%	10.67%	10.27%	14.44%	12.68%	13.78%	12.55%
2020	08-Jul-16	-1.34%	0.05%	1.07%	1.32%	4.16%	4.30%	-	-	-	-	-	-	4.92%	7.86%

\* Annualised

The benchmark is a composite benchmark of the fund building blocks. The building blocks in the cash horizon funds are Aggressive Fund, OM m|m Inflation 5-7%, OM m|m Inflation 3-5% Fund and the Long Bond Fund. The building blocks in the bond horizon funds changed from Fortlife CPI+7% Fund and Fortlife CPI+5% Fund to OM m|m Inflation 5-7% and OM m|m Inflation 3-5% Fund.

ASSET ALLOCATION AND MANAGERS

	Equities	Property	Long Bond	Fixed Income	Alternative Assets	Money Market	International Equity	International Property
2017	-	-	100.0%	-	-	0.0%	-	-
2018	-	-	100.0%	-	-	0.0%	-	-
2019	9.6%	1.7%	80.9%	-	1.4%	0.0%	5.1%	1.3%
2020	29.8%	5.2%	-	41.1%	4.4%	0.0%	15.6%	3.9%
Managers	Visio	Sesfikile	Futuregrowth	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

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
<b>2017</b>	29-Sep-10	-1.45%	0.62%	1.02%	1.67%	4.35%	5.03%	4.30%	9.41%	7.10%	10.51%	11.42%	11.70%
<b>2018</b>	30-Apr-11	-1.46%	0.64%	1.02%	1.72%	4.39%	5.16%	4.26%	9.75%	6.91%	10.90%	11.08%	11.64%
<b>2019</b>	30-Apr-12	-1.49%	0.67%	1.01%	1.82%	4.40%	5.35%	4.20%	10.16%	6.73%	11.32%	11.46%	13.01%
<b>2020</b>	27-May-13	-1.52%	0.70%	0.99%	1.92%	4.42%	5.55%	4.14%	10.58%	-3.47%	11.69%	2.49%	13.02%
<b>2021</b>	01-Apr-14	-1.55%	0.73%	0.98%	2.01%	4.43%	5.75%	4.07%	11.00%	6.43%	12.06%	7.49%	12.80%
<b>2022</b>	23-Apr-15	-1.58%	0.76%	0.96%	2.11%	4.45%	5.96%	3.85%	10.82%			3.57%	9.68%
<b>2023</b>	04-Jul-16	-1.61%	0.19%	0.83%	1.89%	4.44%	5.44%	-	-	-	-	3.34%	7.30%

\* Annualised

The benchmark is a composite benchmark of the fund building blocks. The building blocks in the cash horizon funds are Aggressive Fund, OM m|m Inflation 5-7% and OM m|m 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 OM m|m Inflation 5-7% and OM m|m Inflation 3-5% Fund.

ASSET ALLOCATION AND MANAGERS

	Equities	Property	Fixed Income	Alternative Assets	Money Market	International Equity	International Property
<b>2017</b>	39.0%	6.8%	22.9%	5.7%	-	20.5%	5.2%
<b>2018</b>	40.2%	6.7%	21.7%	5.7%	-	20.5%	5.1%
<b>2019</b>	50.9%	6.0%	11.5%	6.1%	-	20.6%	5.0%
<b>2020</b>	39.0%	6.8%	22.9%	5.7%	-	20.5%	5.2%
<b>2021</b>	47.3%	6.2%	14.9%	5.9%	-	20.5%	5.1%
<b>2022</b>	49.7%	6.1%	12.6%	6.0%	-	20.6%	5.0%
<b>2023</b>	50.5%	6.1%	8.6%	7.9%	0.9%	20.3%	5.6%
<b>Managers</b>	Visio	Sesfikile	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

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
2017	11-Aug-11	0.70%	0.42%	1.84%	1.06%	3.55%	3.77%	7.75%	6.76%	9.21%	7.54%	12.48%	9.60%
2018	31-Oct-12	0.70%	0.42%	1.84%	1.06%	3.55%	3.77%	7.52%	6.85%	8.40%	8.60%	11.36%	10.00%
2019	31-Oct-12	0.16%	0.47%	1.85%	1.21%	4.17%	4.16%	6.00%	7.90%	7.63%	9.86%	11.49%	11.65%
2020	28-Feb-13	-0.91%	0.57%	1.41%	1.52%	4.53%	4.79%	4.46%	9.20%	6.87%	10.94%	10.80%	13.34%
2021	31-Oct-14	-1.49%	0.66%	1.04%	1.80%	4.43%	5.34%	4.16%	10.29%	-	-	6.51%	11.92%
2022	31-Mar-15	-1.56%	0.74%	1.00%	2.04%	4.47%	5.84%	3.88%	10.95%	-	-	4.73%	9.97%
2023	30-Apr-16	-1.61%	0.19%	0.82%	1.89%	4.44%	5.44%	3.14%	7.30%	-	-	0.20%	6.60%

\* Annualised

The benchmark is a composite benchmark of the fund building blocks. The building blocks in the With Profit funds are Aggressive Fund, OM m|m Inflation 5-7%, OM m|m 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 OM m|m Inflation 5-7% and OM m|m Inflation 3-5% Fund.

ASSET ALLOCATION AND MANAGERS

	Equities	Property	Fixed Income	Alternative Assets	Money Market	International Equity	International Property
2017	-	-	-	100.0%	-	-	-
2018	-	-	-	100.0%	-	-	-
2019	9.6%	1.7%	5.6%	76.8%	-	5.0%	1.3%
2020	29.1%	5.0%	17.1%	29.7%	-	15.3%	3.8%
2021	42.0%	6.6%	20.0%	5.8%	-	20.5%	5.1%
2022	50.9%	6.0%	11.5%	6.1%	-	20.6%	5.0%
2023	50.5%	6.1%	8.6%	8.0%	1.0%	20.3%	5.6%
Managers	Visio	Sesfikile	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	



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