# OLD MUTUAL MULTI-MANAGERS BUSINESS UPDATE

**TREVOR PASCOE**, CEO

What a tumultuous year 2017 turned out to be. The 11-month period to November 2017 already produced news that kept the media very busy: Trump's 'twittered' presidency, threats of nuclear war, and Brexit woes for Theresa May. On local shores we had cabinet reshuffles, downgrades, Radical Economic Transformation, and a failed impeachment vote than ran very close, just to name a few. December 2017, however, provided the cherry on the proverbial cake.

Steinhoff's dramatic share price plunge of 90% following the CEO's resignation amid allegations of fraud and irregularities at EOH took the sparkle out of a very good year on local equity markets. The ANC's elective conference in the middle of December was the talking point of the year and the outcome of the ANC presidential race was awaited with nervous expectations. Bond and currency markets reacted extremely favourably to the appointment of Cyril Ramaphosa despite the election of a divided leadership team.

It is in times like those during the events of 2017 that having an appropriate investment philosophy and sticking to it really counts. Asset allocation is probably the key determinant in the outcome of a multi-asset class portfolio. However, appropriate risk management is also critical as knee jerk reactions to market news can really destroy the value of investments. Many believe that local politics play a strong role in the movement of the rand. However, as our investment team has shown, international markets and especially commodity prices have the most significant long-term influence on the rand. We didn't change our asset allocation views when there was a likelihood that Pravin Gordhan was going to be fired. In addition, when asked about our positioning leading up to the ANC elective conference, we ensured that regardless of who was elected, the risks of either outcome was appropriately managed, i.e. we were overweight bonds if Ramaphosa was to win to benefit from an expected bond and currency rally and overweight offshore if Dlamini-Zuma was to win to benefit from a potential fall in the rand.

Our investment performance for 2017 highlights the benefits of our philosophy of having a long-term view, being diversified and being valuation driven. Our retail strategy funds are top quartile for the year and in the case of the Old Mutual Multi-Managers Balanced and Aggressive Balanced Fund of Funds top decile. The institutional funds' performance relative to peers was also exceptional and while performance surveys to the end of 2017 have not been released at the time of writing, we do expect our funds to be top quartile and in many cases the top performer against single and multi-managed funds.

While great relative performance is rewarding, our focus remains on achieving our respective investment targets. In June, as markets remained flat, we were getting worried about achieving our targeted returns over the relevant investment horizons. Therefore, we did some research on the future returns required over the remaining investment horizon period which indicated that markets really needed to recover substantially. Fortunately, international equity markets ended the year at all-time highs, while locally, the JSE was not far off its all-time high at the end of December.

An obvious concern for the local market was that a lot of the return was driven by Naspers (up 70% in 2017) that is now almost a quarter of the FTSE/JSE Shareholders Weighted Index (SWIX), the most used equity benchmark in South Africa. We are managing the risk of this level of exposure to a single stock by moving to the Capped SWIX as our equity benchmark limiting exposure to 10%. This should happen during the first quarter of 2018. Interestingly, most equity managers underperformed the SWIX in 2017 as a result of either preparing to move or having moved to the Capped SWIX already. We do believe that this is the correct move from a risk management perspective. A significant fall in Naspers' price could severely impact portfolios and this risk needs to be managed.

I did mention Steinhoff earlier in my note. Many comments were made about the asset management industry as a result of Steinhoff's share plunge. Neither passive nor active managers came out well as a result of Steinhoff's woes. Passive asset managers are forced to hold a stock in an index that is being tracked while active managers can only use public information to determine whether to invest in a stock or not. Managers who held little or no Steinhoff shares are being lauded while those that were overweight were severely criticized. As a multi-manager we offer the benefits of diversification and had managers in both camps, i.e. overweight and underweight. We have received positive responses from all our equity managers and are comfortable to retain them as it seems that the expected fraud was really well hidden.

Once again I would like to thank you for your continued support and trust that our exceptional investment performance pleases you as much as it does our team.

All the best

Trevor

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