OLD MUTUAL
MULTI-MANAGERS

QUARTER 2
INSTITUTIONAL REPORT

JUNE 2018

{ YOUR FUTURE. OUR FOCUS. }

DO GREAT THINGS

OLDMUTUAL

CONTENTS

BUSINESS UPDATE

TREVOR PASCOE
CEO of Old Mutual Multi-Managers

I remember this time last year we were looking at a three-year stretch of really poor domestic equity performance. We looked at 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 to the same position we were in 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 that looks to give the highest probability of achieving that targeted returns over the respective investment horizons. The team has recently adjusted the portfolios to make full use 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 plus 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 that went down really well was the presentation on Africa equity. This asset class has struggled for a few years, but has performed very well over the last 12 to 18 months. We currently hold an over-weight 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 as well as ourselves made the point, however, that the asset class is volatile and that diversification is really important when managing money for 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. Below are the links to the last two videos.
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 with regard to the Old Mutual Multi-Managers business.

All the best
Trevor

OVERVIEW OF OUR INVESTMENT OFFERINGS

OVERVIEW OF OUR INVESTMENT OFFERINGS

FUND	CATEGORY
Max 28 Fund	Strategy Funds
Old Mutual Multi-Managers Inflation Plus 1-3%	
Old Mutual Multi-Managers Inflation Plus 3-5%	
Old Mutual Multi-Managers Inflation Plus 5-7%	
Old Mutual Multi-Managers Absolute Balanced Fund	Risk Aware Funds
Old Mutual Multi-Managers Absolute Defensive Fund	
Old Mutual Multi-Managers Absolute Cautious Fund	
Old Mutual Multi-Managers Managed Fund	Peer Fund
Old Mutual Multi-Managers Money Market Fund	Specialist Funds
Old Mutual Multi-Managers Long Short Equity Hedge	
Old Mutual Multi-Managers ForLife	ForLife

THE FUND DESCRIPTION AND OBJECTIVES ARE OUTLINED BELOW:

STRATEGY FUNDS

The Strategy Funds are a set of investment strategies that is constructed to achieve specific real return (after-inflation) targets over a recommended minimum investment period. The objectives of the Strategy Funds are summarised as follows:

- Max 28 Fund - aims to achieve returns equal to CPI+6-7% over a ten-year period
- Inflation Plus 1-3% Strategy – aims to achieve returns equal to CPI+1-3% over a three-year period
- Inflation Plus 3-5% Strategy – aims to achieve returns equal to CPI+3-5% over a five-year period
- Inflation Plus 5-7% Strategy – aims to achieve returns equal to CPI+5-7% over a seven-year period

RISK AWARE FUNDS

The Risk Aware Funds consists of Absolute Balanced, Absolute Defensive and Absolute Cautious Funds. These Funds each have dual objectives of short-term capital protection and long-term inflation-beating returns:

- Absolute Balanced Fund – CPI+6% - capital protection over rolling 18-month periods
- Absolute Defensive Fund – CPI+4% - capital protection over rolling 12-month periods
- Absolute Cautious Fund – CPI+3% - capital protection over rolling 6-month periods

PEER FUND

The Managed Fund is an investment policy wrapped portfolio (in terms of the Long-Term Insurance Act) and will seek to provide a truly diversified solution for investors looking for real growth of capital over the long term. The Fund invests across all permissible asset classes including domestic equities, bonds, cash, property and offshore assets (up to a maximum of 25%). An additional allocation to Africa of 5% is allowed. Due to its multi-managed nature, the Fund is expected to provide similar returns to the average single-managed balanced fund over time, but with lower volatility. This policy-based investment is specifically designed for institutional investors and is managed to comply with Regulation 28 of the Pension Funds Act. It is thus suitable for retirement fund investors.

OVERVIEW OF OUR INVESTMENT OFFERINGS

SPECIALIST FUNDS

The Money Market Fund is an investment policy wrapped portfolio (in terms of the Long-Term Insurance Act) aimed to target 50 basis points (before fees) above inflation over the medium to long term. This policy-based investment is specifically designed for institutional investors and is managed to comply with Regulation 28 of the Pension Funds Act of South Africa.

The Long Short Equity Hedge is an investment policy wrapped portfolio (in terms of the Long-Term Insurance Act) designed to consistently outperform STeFI+7% over rolling 36-months period. Capital protection in down markets is a key objective of the strategy.

FORLIFE

ForLife is a life-staging solution that offers individual retirement fund members a single investment for life that changes as their investment requirements change over time. Using our Aggressive Fund and a combination of targeted return strategies, a member migrates from a high risk/high expected return portfolio (when young) into a low risk/low expected return portfolio when retirement approaches.

CLIENT COMMUNICATION SUMMARY

CLIENT COMMUNICATION SUMMARY

JO-ANN DE KLERK
Head | Marketing and Customer Support

Dear Clients

During the second quarter of 2018, we communicated to you on the following:

BUSINESS UPDATES

- Staff Transfer: Stephan de Kock, Chief Operating Officer (31 May 2018)

  As you may be aware, with the consolidation of Old Mutual Wealth into the Old Mutual Wealth and Investment Cluster headed up by Dave Macready, Farhad Sader was appointed to take up the position of Chief Operating Officer for the Cluster. This created a vacancy in the Old Mutual Wealth business.

  After a comprehensive recruitment process for Farhad's replacement, Stephan de Kock will be transferring from Old Mutual Multi-Managers to take up the role of General Manager: Operations, Service and Technology for Old Mutual Wealth effective 1 June 2018.

  The recruitment process for Stephan's replacement has already begun and until such time that a suitable candidate has been appointed, Stephan will continue to play the role of Chief Operating Officer for Old Mutual Multi-Managers. Even subsequent to this, Stephan will remain available to the Old Mutual Multi-Managers business.

  While we will regretfully say goodbye to a valuable member of our business, Stephan will leave behind a very strong team. I am confident that with the combination of the team's extensive experience, Old Mutual Multi-Managers' fine-tuned systems and processes and the legacy Stephan leaves behind, clients will continue to receive the rigorous operations and administration support that Old Mutual Multi-Managers has become known for providing. The day-to-day operations and administration services will not in any way be affected by Stephan's transfer into Old Mutual Wealth.

  I would like to thank Stephan for his invaluable contribution and continued commitment to our business since his appointment in 2015.

CLIENT COMMUNICATION SUMMARY

- Appointment of Chief Operations Officer (16 July 2018)

  I am very pleased to announce the appointment of Karen February as Chief Operations Officer for Old Mutual Multi-Managers with effect from 1 August 2018.

  Karen currently holds the position of Business Support Manager in the Old Mutual Income and Guaranteed Solutions business unit within Old Mutual Corporate. She has been with Old Mutual since February 1991 and has held various senior positions within the business over the years.

  Karen is an astute and proven leader and is the ideal successor to Stephan de Kock, who has transferred from Old Mutual Multi-Managers to take up the role of General Manager: Operations, Service and Technology for Old Mutual Wealth.

  We are confident that with the combination of Karen and the existing team's extensive experience and our fine-tuned systems and processes, our clients will continue to receive the same high levels of service that Old Mutual Multi-Managers has always provided.

  We're excited to welcome Karen to our team. We'd also like to thank her predecessor, Stephan de Kock, for his invaluable contribution.

PRODUCT CHANGES

- Exciting developments at Old Mutual Multi-Managers (4 May 2018)

  In my communication to you of 27 March 2018 regarding exciting developments at Old Mutual Multi-Managers, I alluded to the fact that we have further developments planned.

  Below is a summary of these additional developments.

  1. Changes to the Absolute Fund Range Asset Allocation – effective 1 June 2018.
  2. Changes to Strategic Asset Allocation – implemented end April 2018.

  These changes are a result of an ongoing process within our business that aims to continually improve the offering we provide to our clients. Lowering investment fees has been one of our biggest initiatives over the last year and we are very pleased that we are able to pass on these fee-saving benefits to our clients.

  At the time of writing this communication, there are still two planned changes pending. We will communicate the dates of implementation once all details have been finalised.

  These are:

  1. Changing the fee of one of the asset managers used within our equity building block from a flat fee to a performance based fee, and
  2. Implementation of Global Investment Performance Standards (GIPS).

Should you wish to discuss any of these communications, please contact me on 021 524 4835.

Kind regards

Jo-Ann de Klerk

LOCAL AND INTERNATIONAL MARKET COMMENTARY

LOCAL AND INTERNATIONAL
MARKET COMMENTRY

IZAK ODENDAAL
Investment Strategist

SYNOPSIS
- A positive month for US equities but emerging markets under severe pressure.
- Benchmark US 10-year yield back below 3%.
- JSE positive in June but still in the red year-to-date.

GLOBAL

Global markets were marginally negative in June, with the MSCI All Country World Index losing 0.5% in US dollar terms, wiping out gains for the year. Over 12 months, the return from global equities was 11% in dollars.

The US market was positive, with the benchmark S&P500 returning 0.6% in the month and 2.6% year-to-date. Over one year, the S&P500 returned 14.6%.

European equities were negative, with the Eurostoxx 600 index losing 0.6% in euros in June. Over one year, it returned only 3.2%.

Japanese equities were positive in yen terms in June, and while year-to-date returns are below zero, the Nikkei 225 gave investors 12.5% over 12 months.

Emerging market equities continue to struggle. Having massively outperformed developed markets in 2017, the MSCI Emerging Markets Index lost 4% in the month in dollar terms, taking the first half loss to 6.5%. A stronger dollar accounts for around half of this loss. Emerging markets returned 8.25% in dollars over one year. Apart from Russia, which benefited from the higher oil price, most major emerging markets are negative in 2018. South Africa, Brazil and Korea are hardest hit.

The benchmark US 10-year bond yield breached 3% amid much fanfare in mid-May, but has pulled back (i.e. bonds rallied) since. It ended the second quarter at 2.8%. While this is still up from 2.4% at the start of the year, the Federal Reserve has hiked interest rates twice during this period. In other words, short rates are still rising faster than long rates and the yield curve is flattening. The Citigroup World Government Bond Index was marginally negative in dollars in June, partly reflecting the strength of the greenback. It is negative over six months too, but has returned 1.2% over 12 months.

Global listed property was positive in June, with the EPRA/NAREIT Developed Index returning 1.6%. This lifted 2018 returns into positive territory, and one-year returns to 6.3% in dollars.

The euro was largely unchanged against the US dollar, but the yen lost nearly 2% against the greenback during the month, while emerging market currencies lost significant ground. The trade weighted dollar gained 1% during the month, and 4% in the second quarter.

Commodities were negative over a broad front in June, hit by concerns that an escalation of the trade war would harm demand. Most major precious and industrial commodities are also negative for 2018 to date. The notable exception is oil, which has surged 18% in 2018, of which 2.4% came in June. This is largely due to the collapse Venezuelan output, while the remaining OPEC members, along with Russia, have done better than expected in not breaching their production quotas. An agreement late in the month to increase output somewhat to prevent the oil price from rising too much did not have a big impact.

LOCAL

Across local financial markets, the forex market saw the most dramatic moves. The rand lost 8% against the US dollar and euro and 7% against the pound as it finally caught up with its emerging market peers. The rand started the year on the front foot following the positive political developments, rallying from R12.65 to the dollar in January to R11.57 in late February. However, from late March onwards the global sell-off of emerging market currencies saw the rand fall to R13.78 at the halfway mark of 2018.

The FTSE/JSE All Share index was positive in June, returning 2.8%. The positive second quarter return of 4.5% was not enough to put the year-to-date number in the black, and the All Share is still 1.7% down for the year. Over one year, the All Share return of 15% is respectable, but flattered by the fact that June 2017 was a negative month. Our preferred equity benchmark, the FTSE/JSE Capped SWIX returned 0.6% in the month and is down 5.8% year-to-date. Over one year, the return is also less impressive at 8.5%. The reason for the discrepancy is of course largely due to Naspers, which had a strong second quarter. From a risk management perspective, the reduced exposure to Naspers in the Capped SWIX (a maximum of 10% as opposed to more than 20% in the SWIX) is still appropriate.

Among the major JSE sectors, Resources had the best month, returning 6%, lifting year-to-date returns to 14% and one-year returns to an impressive 42%. This performance has been driven by Sasol (benefiting from the higher oil price), paper producers Sappi and Mondi, and the dual-listed diversified miners (Anglo American and BHP Billiton). While the gold and platinum mining indices were positive in month, benefiting from a weaker rand, they are negative in the second quarter, year-to-date, and over one and two years. In fact, in the case of the platinum mining index, one would have had to invest 18 years ago to make a profit.

The Industrial sector also benefited from the sharply weaker rand in June, returning 4.2%. Among the heavyweight rand-hedges, Naspers gained 15% in June and British American Tobacco 8%. However, the positive second quarter was not enough to lift the half-year return for Industrials into positive territory. Despite the strong month, BAT is negative year-to-date and Naspers flat. Richemont is up only 4%. Among the domestically focused industrial sectors, food producers, retail and telecommunications are negative year-to-date.

Financials' torrid year continued in June, with the sector losing 2.8% in the month. This compounded the second quarter and year-to-date losses, the latter being -9.4%. Banks and insurers were negative in June and year-to-date, but the bank index is still up 32% over 12 months. Property stocks are classified under financials by the JSE, and the collapse in the Resilient group of companies contributed to the losses.

However, most investors (including ourselves) view listed property as a separate asset class form equities, given the high and relatively steady pay-out ratio of rental income gives it bond-like characteristics. The SA Listed Property Index lost 3.4% in June, 21% year-to-date and 10% over one year. In fact it is also negative over two years, and only marginally positive over three.

Bonds were negative in June, in line with the global sell-off in emerging market debt. The All Bond Index lost 1.2% in June and 3.7% in the second quarter, but is still ahead of cash year-to-date. Over 12 months, the ALBI returned 10%. The 10-year government bond yield fell from 8.6% at the start of the year to a low of 7.9% in late March (i.e. bonds rallied), but increased rapidly thereafter to end June at 8.8% (incidentally exactly double the latest inflation print).

Local inflation linked bonds (ILBs) had another disappointing month, losing 2% as real yields kicked up. Over 12 months, the return has in fact been below inflation, at only 1.8%.

Sources: I-Net, Datastream, SARB, StatsSA, JP Morgan, Deutsche Bank

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MARKET INDICES PERFORMANCE TABLE

April 2002 - June 2018 (not annualised if less than one year)

	3 months	1 year	2 years	3 years	4 years	5 years	10 years	15 years
JSE All Share	4.5%	15.0%	8.2%	6.7%	6.2%	11.1%	9.8%	17.1%
JSE SWIX	2.1%	11.7%	5.8%	5.3%	6.5%	11.1%	11.2%	17.7%
JSE Top 40	6.2%	16.8%	8.9%	6.8%	5.9%	11.2%	9.1%	16.7%
JSE FINI	-6.0%	10.5%	6.5%	3.3%	7.5%	11.7%	14.8%	16.5%
JSE INDI	4.0%	7.5%	4.6%	5.6%	7.6%	11.9%	16.7%	21.7%
JSE RESI	21.7%	44.6%	21.7%	6.1%	-4.0%	3.4%	-2.5%	9.7%
JSE Midcaps	-7.2%	3.7%	0.4%	3.8%	5.7%	8.4%	14.0%	18.3%
JSE Smallcaps	-4.5%	0.6%	1.5%	2.5%	5.2%	9.6%	12.3%	19.8%
JSE Gold Mining	-6.0%	-11.4%	-32.0%	2.5%	-6.4%	-1.8%	-6.8%	-3.7%
JSE Value	7.3%	18.1%	8.2%	3.2%	1.9%	6.4%	6.2%	14.9%
JSE Growth	3.3%	13.5%	8.4%	9.0%	9.0%	14.0%	12.5%	18.3%
ALBI	-3.8%	10.2%	9.1%	7.8%	7.9%	7.4%	9.8%	8.7%
STeFI	1.8%	7.4%	7.5%	7.3%	7.0%	6.7%	6.9%	7.5%
FTSE/JSE Africa SA List Prop (SAPY)	-2.2%	-9.9%	-3.8%	0.9%	6.9%	6.7%	16.0%	18.4%
FTSE 100 INDEX	17.8%	11.0%	4.2%	3.6%	3.0%	8.1%	4.7%	7.0%
COMPOSITE DAX INDEX	11.5%	9.9%	13.2%	11.8%	9.7%	15.2%	10.0%	14.6%
NIKKEI 225 INDEX	15.5%	18.1%	11.4%	11.2%	14.7%	15.1%	10.7%	11.1%
SA CPI	1.3%	4.4%	4.9%	5.3%	5.2%	5.4%	5.5%	5.4%

Currency: ZAR

INDUSTRY UPDATES

ARGON ASSET MANAGEMENT

Following amicable negotiations between Mothobi Seseli, Dr Manas Bapela, Luyanda Joxo, Sello Setai and Argon Asset Management staff, an agreement was reached that Mothobi Seseli would entirely exit Argon Asset Management effective immediately from 30 April 2018. Mothobi sold his entire shareholding in Argon Asset Management. The resulting new shareholder structure of the business is 51% held by management, split between Manas, Sello and Luyanda, and 49% held by a Staff Share Trust.

As a result, the executive management structure was revised as follows: Dr Manas Bapela as Chief Executive Officer and Chief Investment Officer, Luyanda Joxo as Deputy CEO and Head of Institutional Business and Sello Setai as Chief Operating Officer. While there were no changes to the Investment Team, Sinenhlanhla Dlamini resigned from her position of Client Service Manager prior to the agreement with Mothobi being reached.

PERPETUA INVESTMENT MANAGERS

Mahesh Cooper has taken over the role of Chief Operating Officer at Perpetua from Logan Govender. Logan continues to remain involved in the business as a director with oversight over finance, risk and compliance functions. He will also be devoting more time to the launch and management of Perpetua's alternative investment offering.

Since the fourth quarter of last year, Perpetua has added four new analysts to the investment team: Vuyo Nzube (who joins from Nedgroup Investments), Johannes Visser (who joins from RECM), Museja Makhaga (who joins from SIM) and Janet Muzenda. In addition, Christine Fourie will be joining the business on 1 August 2018 as a fixed income portfolio manager. Christine joins Perpetua from Coronation where she has been a member of the fixed income team since 2007.

PRESCIENT INVESTMENT MANAGEMENT

Three members of Prescient's fixed income team decided to leave the business to pursue other opportunities. Farzana Bayat (a senior portfolio manager), Ryan van Breda (a member of the credit team) and Teresa Lu (a member of the money market team) all left the business at the end of May 2018.

Prescient has promoted Grace Dibeila to the role of Co-Manager of the Prescient Bond Funds and Jabulani Ngobese to the role of Money Market Dealer. In addition, Prescient announced the appointment of Henk Kotze as a portfolio manager in the interest-bearing team. Henk joins Prescient from Green Oak Capital where he was employed for the past 10 years as a fixed income portfolio manager.

PRUDENTIAL INVESTMENT MANAGERS

Prudential announced some changes to the structure of their investment team during the quarter. In the fixed income team, Gareth Bern has been promoted to the role of Head of Fixed Income. Gareth assumes the role from David Knee who is relinquishing some of his fixed income responsibilities to focus on his role as Chief Investment Officer. Duncan Schwulst, who had the role of Head of Property, has moved back into a credit analyst role within the fixed income team. Jeanne-Marie Snalam, one of the senior analysts in the property team, has been promoted to Portfolio Manager with responsibility for Prudential's property mandates as a result. Sandile Malinga, currently a Fixed Income Portfolio Manager, will be transitioning to the Multi-Asset team headed by Michael Moyle at Prudential over the next year. Sandile has also joined Prudential's Asset Allocation Committee.

In the equity team, Chris Wood has relinquished his role of Head of Equity in order to focus more time on portfolio management responsibilities. Johny Lambridis has taken on the position of Head of Equity, and will report to the CIO, with all of Prudential's Equity Portfolio Managers reporting to him. In addition, Rehana Khan will take on a newly created position of Head of Equity Research, and all Equity Analysts will report to her. Prudential has appointed three new Junior Equity Analysts: Nhlanhla Mlalazi, Pindiwe Mbelani and Rudi de Coning. Aadil Omar, one of Prudential's Equity Portfolio Managers, will be leaving Prudential having made the decision to relocate to London to join a global hedge fund manager.

PSG ASSET MANAGEMENT

PSG announced a number of changes to the investment team. Ian Scott, currently Head of Fixed Income, has decided to relocate back to Gauteng from the Cape and will be leaving the business. In addition, Paul Bosman will be leaving the business in April 2019.

In response to these departures, the following changes in fund manager responsibilities have been made: the PSG Diversified Income Fund will be co-managed by Lyle Sankar and Tyron Green (currently Money Market and Income Fund managers respectively) along with Greg Hopkins, the PSG CIO, effective from 1 July 2018. Greg will also join as Co-Manager on the PSG Income Fund. Dirk Jooste will join Paul Bosman as the Co-Manager of the PSG Stable Fund, while Kevin Cousins (Head of Research) will join Paul as Co-Manager of the PSG Balanced Fund.

VUNANI FUND MANAGERS

Vunani has made a number of new additions to their investment team over the quarter. Ntobeko Stampu joins as a Senior Portfolio Manager in the fixed income team. Ntobeko has over 15 years' investment experience, having previously been employed at Absa Asset Management, Momentum Asset Management and the South African Reserve Bank. Gershwin Long has been appointed as a Product Manager in the alternative investments team. Morotola Pholohane has been appointed as a portfolio manager in the absolute return team. In addition, Tshidiso Maduwa (Junior Credit Analyst), Nompumelelo Qwabe (Junior Equity Analyst) and Thami Mafongosi (Trainee Analyst) have also joined the investment team.

MARKET INSIGHT

IZAK ODENDAAL
Investment Strategist

WHAT STOOD OUT OVER THE SECOND QUARTER?

In our research, commentary and weekly investment meetings, the following attracted particular attention.

TRADE WAR TREPIDATIONS

The threat of a global trade war loomed large during the quarter, with US President Trump threatening further tariff increases against China and the European Union. This comes on top of a range of tariff increases that came into effect during the month of June, including against northern neighbour Canada. All the targeted countries have retaliated with threatened or actual tariff increases of their own. Seen in isolation, the tariff increases are potentially disruptive to global supply chains, but the economic damage is probably limited as companies can shift around production. For instance, in response to European tariffs against American motorcycles, Harley Davison announced it would increase production outside the US. Global trade in goods was worth $17 trillion last year according to the World Trade Organisation, so far the amount of threatened and implemented tariffs covers less than 4% of this number. It could, however, obviously rise and every successive round of tit-for-tat tariff increases risks slowing global growth. Whether Trump's trade tweets are just a negotiating tactic or a permanent feature remains to be seen. The biggest impact is probably not directly on trade volumes, but rather on the uncertainty it creates for businesses that cannot properly plan ahead if there is a risk that key input or selling prices could jump substantially.

NOT QUITE THE NEW DAWN YET

The 'New Dawn' narrative that has sprung up since President Ramaphosa took office, has been the source of much optimism, but it collided with the cold hard reality of a weak economy and a tumbling rand in recent months.

Gross domestic product – the broadest measure of economic activity – declined by 2.2% in the first quarter compared to the fourth quarter of last year. As the fourth was very strong, the first quarter number was always likely to be lower, but it ended up even lower than the worst estimates. The agriculture sector unexpectedly slumped by 24%, but this follows a strong performance with record crops last year. Mining and manufacturing also experienced sharp declines. These three sectors are traditionally more volatile and were responsible for the sharp decline in exports during the quarter. The steadier services sectors – which also account for a larger share of overall economic activity – fared somewhat better, but clearly not well enough to push the GDP growth number into positive territory.

The outlook is still that the economy should pick up during the course of the year, but the recovery is clearly struggling to get going.

The rand weakened 14% against the US dollar in the second quarter, having rallied in the first quarter. However, the fact that it has been weakening since President Ramaphosa took office at the Union Buildings is not a reflection on the effectiveness of his reform efforts. It is simply too early to tell and several key reforms are still to be finalised. Rather, the rand finally caught up with other emerging market currencies that have faced tremendous pressure as the US dollar has strengthened. Had it not been for "Ramaphoria", the rand would probably have ended the quarter much weaker than R13.87 against the US dollar.

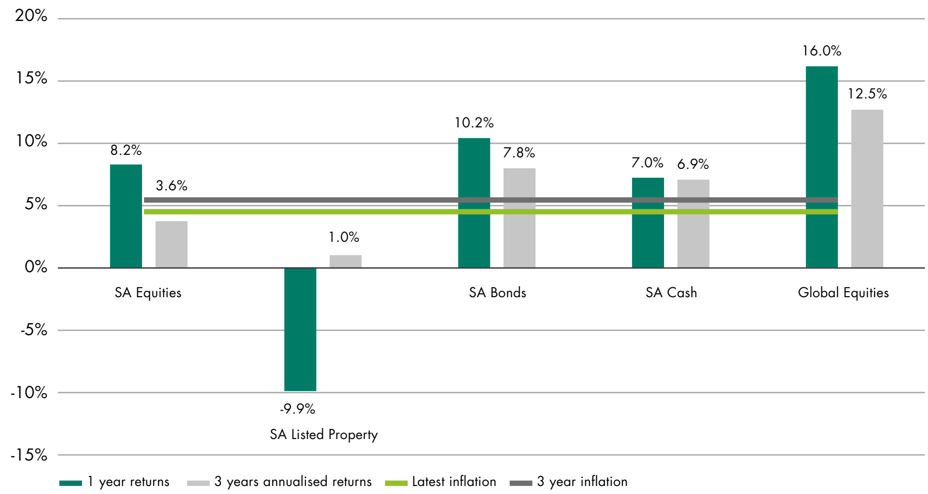
LOCAL RETURNS IN CONTEXT

IZAK ODENDAAL
Investment Strategist

The year started off on an extremely positive note with an upward surge in global equity markets and positive political change locally. Yet at the halfway mark of 2018, local investors are confronted with very disappointing returns from most asset classes. Naturally, investors are concerned and the following questions are raised.

WHAT HAVE MARKETS BEEN DOING?
Chart 1 shows the main asset class returns in rand as at the end of June 2018.

ASSET CLASS RETURNS IN RAND TO END JUNE 2018



Source: I-Net

The latest available annual inflation rate is 4.4% for May. The inflation hurdle is therefore currently easier to clear than in the past, but has still been tough to beat.

IS IT JUST MY FUND THAT IS STRUGGLING?
It is important to understand that that while each fund manager has its own unique recipe for baking the cake, we all use the same ingredients – the returns of markets give. No one can conjure returns out of thin air.

The biggest component of the typical balanced fund (including ours) is local equities. The disappointing performance from this asset class is the main reason for overall muted returns from balanced funds across the industry. Local equities delivered an-above inflation return in the 12 months to end June, but this was flattered somewhat by the fact that June 2017 was a negative month. Over three years, local equities (as measured by the FTSE/JSE Capped Swix index) delivered only 3.6%, behind both inflation and cash. It is no surprise that the average balanced delivered only 4.7% over three years to end June according to Morningstar.

SHOULD I JUST GIVE UP AND GO INTO CASH?

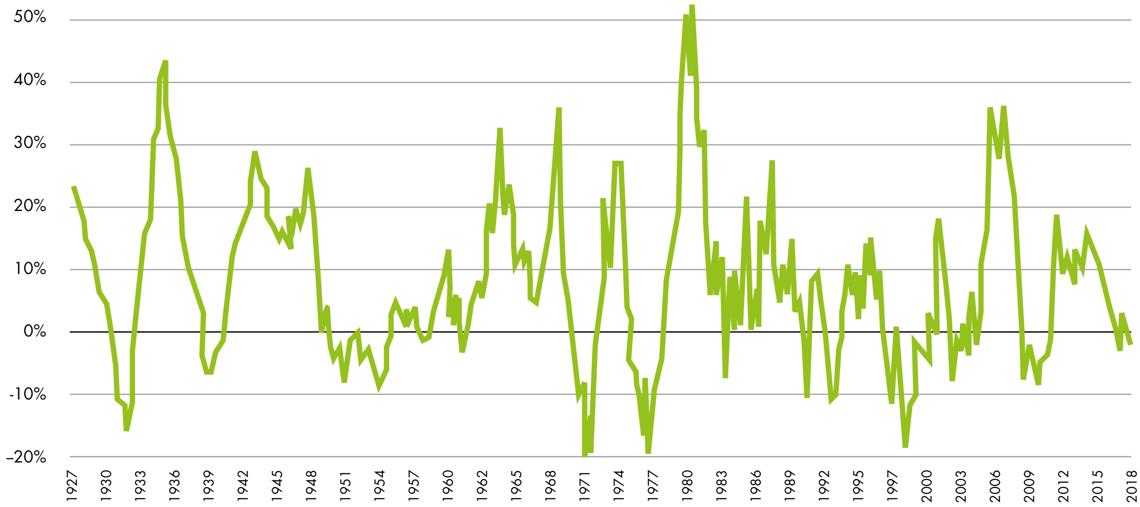
Equities is the asset class that gives the best return over time. But it can be very volatile in the short term, and returns tend to be cyclical, even over slightly longer periods.

Chart 2 shows the rolling three-year annual excess real returns of local equities over cash since 1925. In other words, each point on the line represents three years' worth of annual equity returns subtracting inflation and cash returns.

Three points stand out.

- What we are experiencing now is perfectly normal. There are periods of rising real returns and periods of falling returns.
- The line spends more time above zero than below zero, but it is only by remaining invested over long periods that one can capture those returns and benefit from the power of compounding.
- Unfortunately, the temptation is to switch out into cash when the line dips below zero. Historically, that is the worst time to do it. Although no one knows when things will turn around and timing the markets doesn't work, the data suggests that periods of low real returns are followed by periods of strong returns. Since 1925, when real returns from local equities were between -2.5% and 0% over three years, the average subsequent three-year real return has been 11% per year.

SA EQUITY - SA CASH REAL RETURN

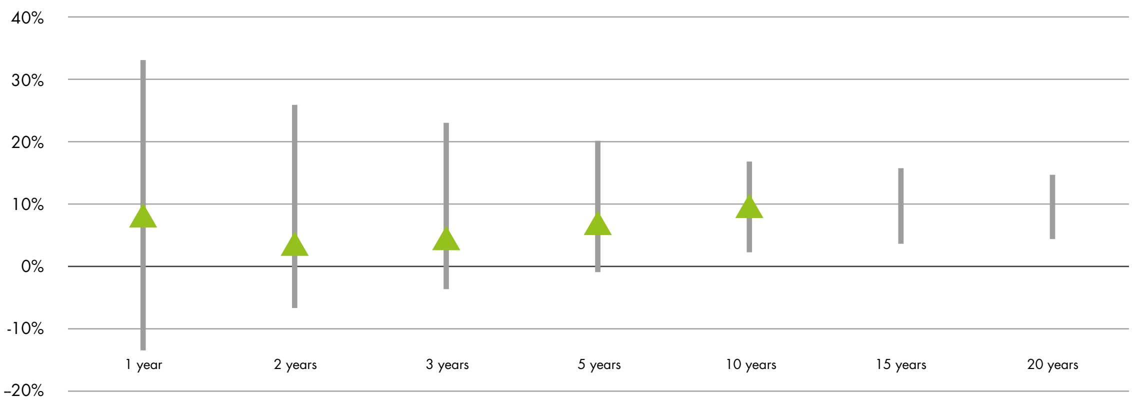


Source: I-Net and internal data

SO, ARE THESE RETURNS NORMAL?

While disappointing, the returns are within the expected range as illustrated in the various Old Mutual Wealth financial planning tools. The 'funnel' chart (Chart 3) shows that in any given one-year period, the expected return of the inflation plus 4% to 5% strategy (Old Mutual Multi-Managers Balanced Fund of Funds) is between -14% and 32%. This range narrows to 0.7% to 18% per year over five to seven years, the expected minimum recommended investment term.

OLD MUTUAL MULTI-MANAGERS BALANCED FUND OF FUNDS (INFLATION PLUS 4-5 STRATEGY)
Expected range of annual returns with actual return denoted by a triangle



Source: Internal data

WHAT CAN WE EXPECT LOOKING AHEAD?

The global economy is still strong and there is no recession expected in any major economy. The South African economy is slowly recovering from a very tough period. Local and global equities are priced reasonably. Importantly the recent depreciation of the rand (14% against the US dollar in the second quarter) supports returns from global asset classes and rand-hedges on the JSE. Overall, the JSE will take its tone from global markets. Local fixed interest is attractive with bond yields well in excess of inflation. There is no reason to expect that patient investors won't be rewarded with decent real returns from a diversified portfolio over the next few years.

SO WHAT SHOULD I DO?

The key is not to panic and make emotional decisions, especially when news headlines highlight all the uncertainties investors face. The Strategy funds are actively managed and we will make adjustments to asset allocation depending on the outlook for each asset class (looking forward, not backwards). The time to make a change in your investment strategy is when your personal circumstances have changed (e.g. having children, changing careers, retiring, emigrating) not when market conditions change.

LONG TERM INVESTING

AMEER AMOD
Head of Absolute Investments and Fixed Interest

THIS TOO SHALL PASS[1] . . .

A significant factor keeping investors from achieving their investment goals is the tendency to assess the world with emotion rather than objectivity. The growing area of behavioural finance documents many biases individuals face when making decisions. As investment managers, we are not surprised to see individuals wanting to exit an investment strategy that has underperformed a desired target over the short to medium term. This is understandable as research has shown individuals are much more sensitive to losses in wealth than to gains in wealth – in fact, twice as much.

I believe that there is confusion when we speak of short-term, medium-term and long-term performance. Firstly, what do these periods mean and secondly, how do we interpret them?

Presented below are two portfolios, 'A' and 'B'. Each of these comprise 100% exposure to equities. The data[2] (Jan 1925-May 2018) presented are the maximum losses and gains, average return and volatility of the respective portfolios.

The losses, gains and volatility of portfolio A are much higher than that of portfolio B. In fact, portfolio B has **no losses** – the maximum loss is actually positive 6%.

Which portfolio would you choose to allocate your capital?

PORTFOLIO A

	Maximum Loss	Maximum Gain	Average Return	Volatility
Equities	-48%	+125%	+17%	24%

PORTFOLIO B

	Maximum Loss	Maximum Gain	Average Return	Volatility
Equities	+6%	+26%	+15%	5%

Most respondents in studies posing a similar question chose portfolio B. Why the choice of B over A? As explained earlier, individuals focus more heavily on losses than gains in wealth. So B is the desired choice owing to a natural intolerance to risk. Interestingly though, both portfolios A and B are the same! The return data is presented over **two different** time horizons. Portfolio A represents the average of rolling one-year returns (short term), whilst B is the average of rolling 20-year returns (long term). Portfolio B is simply portfolio A held over a **much longer** time horizon. The rejection of A is considered to be 'myopic'.

The higher volatility and larger drawdowns of portfolio A causes investors to panic and make investment decisions based on emotion over the short term. The investor could be accused of looking at this portfolio at too close a cognitive distance or 'narrow framing'. What we need to think about is (i) how to avoid permanent loss of capital and (ii) achieving inflation-beating returns over the long term. The analysis illustrates that investors with a 20-year horizon on average have achieved a positive return even if they chose the worst (maximum loss) 20-year period for equities.

[1] Originally a Persian adage reflecting on the temporary nature of the human condition
[2] Data source: Old Mutual Multi Managers

We need to distinguish between portfolio evaluation periods and time horizon. Focusing on fund returns over the short to medium term is portfolio evaluation. If investors hold fund managers to short term evaluation cycles, conflicts often arise. However, if investors understand the investment philosophy of their fund manager, it is usually easier to withstand tough market cycles, and then capture the upswings when markets begin to deliver.

The article 'Low Return in Context' by Izak Odendaal (also in this Quarterly Report) speaks of the cyclical nature of asset class returns. Equities[3] have delivered 5.2% over the last three years vs cash of 6.9%. These poor equity returns over the past three years have caused investors to move out of equities and into cash. This move is a classic behavioural bias, where we tend to weigh recent performance more heavily than earlier performance. In doing so, we are effectively assuming this poor equity performance to continue into the future. Over the long term, equities have delivered returns of 7% above inflation and cash only 1%! This makes equities an important driver of long-term returns. When it comes to our long-term savings, we should concern ourselves about the impact of inflation, NOT short-term volatility.

Research by Shlomo Benartzi & Richard Thaler[4] found that the manner in which return data is presented can have a significant effect on the asset allocation decision. The essence of their research shows that retirement fund members are likely to invest more of their retirement savings in equities rather than cash when shown longer term rates of return. Long term should be consistent with the length of time a member would be part of a retirement fund or some long-term savings plan. This gives the member time to accumulate the higher returns generally expected from growth asset classes like equity. An interesting observation from Odendaal's article (see chart 2 on page 19 of this report) shows that equities tend to underperform cash over very short cycles. Therefore, even in down markets, there is a compelling argument to hold equities.

The 2018, Dalbar[5] report shows that most investors, particularly retail, badly mistime the market. In 2017, the S&P 500 delivered 13.7% (in dollars). The average unit trust investor made 5.5%. The Barclays Aggregate was up 6%, yet the average investor in fixed income funds achieved 1.2%. Investors in balanced funds made 2.2%. The report indicates that the overwhelming driver of these poor returns earned by investors is bad timing. This is the price investors pay for not sticking to long-term investment horizon objectives.

It is important that we are aware of our behavioural biases when it comes to investing. Understanding a manager's investment philosophy and long-term track record combined with your long-term goals are invaluable to help weather difficult market environments. While cash over this recent past has been the better performing asset class than equities... this too shall pass.

[3] Weighted All Share SWIX
[4] Risk Aversion or Myopia? Choices in Repeated Gambles and Retirement Investments. Journal of Management Science, Vol 45, March 1999
[5] Quantitative Analysis of Investor Behavior

FUND
SPECIFIC
COMMENTARY

OLD MUTUAL MULTI-MANAGERS
MAX 28 FUND

The Fund is an amalgamation of the Old Mutual Multi-Managers Aggressive Fund and the Old Mutual Multi-Managers Inflation Plus 7% Strategy.

INCEPTION DATE: 14 October 1999	ASSETS UNDER MANAGEMENT: R1 798 586 109.61

COMMENTARY

This quarter, the Fund returned 4.4% net with the FTSE/JSE All Share Index (ALSI) returning 4.5% and the All Bond Index (ALBI) -3.8%. The local property sector was down -2.2%.

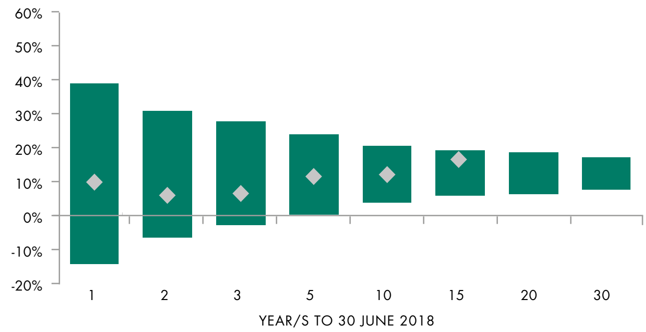
The threat of a global trade war loomed large during the month, with US President Trump threatening further tariff increases against China and the European Union. This comes on top of a range of tariff increases that came into effect during the month. All the targeted countries have retaliated with threatened or actual tariff increases of their own. According to the World Trade Organisation, global trade in goods was worth $17 trillion last year and so far the amount of threatened and implemented tariffs covers less than 4% of this number. This could obviously rise and every successive round of tit-for-tat tariff increases risks slowing global growth. The biggest impact is probably the uncertainty it creates for businesses that cannot properly plan ahead if there is a risk of key input or selling prices changing substantially. For the time being, however, global economic growth remains relatively strong.

Across local financial markets, the forex market saw the most dramatic moves. The rand lost 8% against the US dollar and euro as it finally caught up with its emerging market peers. The FTSE/JSE Capped SWIX was positive in June, returning 0.7% but is down 5.8% year to date and up 8.5% over the last year. Resources has been the only sector to deliver positive returns year to date with gains of 14% and a one-year return of 42%. This performance has been driven by Sasol, paper producers Sappi and Mondi, and the dual-listed diversified miners (Anglo American and BHP Billiton). The rest of the market has struggled as domestic stocks have given up some of the strong gains made in the latter half of last year. The financial sector is sharply lower for the year to date, compounded by losses in the property sector. Among the heavyweight randhedges, Naspers gained 15% in June and British American Tobacco (BAT) 8%. Despite the strong month, BAT is negative year to date and Naspers flat while Richemont is up only 4%.

Global markets were marginally negative in June, with the MSCI All Country World Index losing 0.5% in US dollar terms, wiping out gains for the year. Over 12 months, the return from global equities was 11% in dollars. The US S&P 500 has been the strongest market with gains of 2.6% year to date. Over one year, the S&P 500 returned 14.6%. By contrast, the Eurostoxx 600 Index is up only 3.2% over the last year. Over the last 12 months, the local bond market returned a good 10%. Local listed property returns have remained volatile and are 9.9% lower for the 12 months to end June 2018. Local cash has returned 7.3% for the last 12 months.

LIKELY FUND RANGE OF RETURNS AND CURRENT RETURN*

The graph shows the strategy's likely fund range of returns over different investment periods, based on the research team's investigation and modelling. The diamonds indicate the current actual historical return over each period of the fund.



PERFORMANCE DATA TO 30 JUNE 2018

% PERFORMANCE (P.A.)

	1 YR	2 YRS	3 YRS	5 YRS	7 YRS	10 YRS	SINCE INCEPTION
Old Mutual Multi-Managers Max 28 Fund	9.6%	6.4%	6.7%	11.4%	14.4%	12.3%	13.8%
CPI + 6.5% p.a	10.9%	11.4%	11.8%	11.9%	12.0%	12.0%	12.5%

CPI REFERS TO THE CPI (ALL URBAN AREAS) AS PROVIDED BY STATISTICS SOUTH AFRICA, EFFECTIVE 1 JANUARY 2009. PRIOR TO JANUARY 2009, THE CPIX (ALL METROPOLITAN AND URBAN AREAS) WAS USED AS THE MEASURE FOR INFLATION FOR OUR FUNDS.

THE BENCHMARK RETURNS SHOWN HERE ARE A COMPOSITE OF THE TWO MEASURES. THE PREVIOUS MONTH'S CHANGE IN INFLATION IS USED AS AN ESTIMATE FOR THE CURRENT MONTH (SINCE INFLATION NUMBERS ARE RELEASED ONE MONTH IN ARREARS).

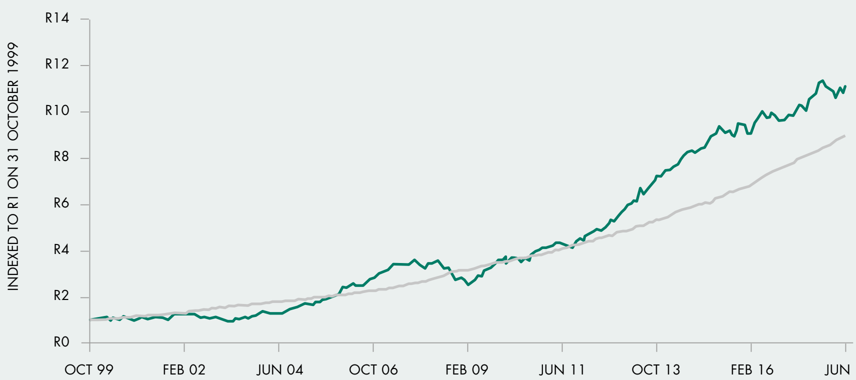
PERFORMANCE AGAINST STRATEGY OBJECTIVE*

(SINCE INCEPTION)

OLD MUTUAL MULTI-MANAGERS MAX 28 FUND

CPI + 6.5% p.a

The graph illustrates the Strategy's performance against it's performance target.



OLD MUTUAL MULTI-MANAGERS
MAX 28 FUND

INVESTMENT OBJECTIVE

This Investment Strategy gives you the opportunity to achieve maximum long-term growth. It invests in diversified portfolios of high-quality instruments. The strategy's primary exposure will be to South African and international listed shares. It aims to achieve a return in the range of 6%-7% above inflation over rolling ten-year periods.

This policy based investment is specifically designed for institutional investors and is managed to comply with Regulation 28 of the Pension Funds Act of South Africa.

PERFORMANCE TARGET

CPI +6.5%

THE MAIN INVESTMENTS

This investment strategy is made up of underlying portfolios, which invest in specialist asset classes managed by various asset managers. Generally, the strategy may invest in South African and international cash, fixed interest securities, listed shares and listed property. This strategy aims to achieve maximum capital growth over a long-term horizon and is therefore primarily invested in growth assets.

ASSET MANAGER PROFILES

Old Mutual Multi-Managers researches the market and appoints the most appropriate asset managers to manage the strategy's underlying portfolios. After appointing asset managers, the investment team continually monitors the strategy, the underlying portfolios and the appointed managers and their investment processes to ensure that they remain appropriate. Old Mutual Multi-Managers has selected a combination of asset managers to manage this strategy's various underlying portfolios.

ASSET MANAGER	RESPONSIBILITY
Prudential	South African equity, fixed income & inflation-linked bonds
Coronation	South African equity, long/short equity, fixed income, international equity (emerging markets) & Africa equity
Prescient	South African inflation-linked bonds & cash
Sanlam	South African cash
Investec	International fixed income
Futuregrowth	South African fixed income
Catalyst	South African & international property
Laurium Capital	South African equity & long/short equity
Visio Capital	South African long/short equity
Bateleur Capital	South African equity & long/short equity
Steyn Capital Management	South African equity & long/short equity
Sesfikile Capital	South African property
Blackrock	International property
Orbis	International equity
Ginsglobal Index Funds	International equity
Baillie Gifford	International equity
Harris Associates	International equity
36One	South African long/short equity
Mazi Capital	South African equity
Sentio Capital Management	South African equity

ASSET CLASS HOLDINGS

OLD MUTUAL MULTI-MANAGERS
INFLATION PLUS 1 - 3% STRATEGY

The Old Mutual Multi-Managers Inflation Plus Strategies were created to provide investors with investment strategies that are identical to the SIS Life Inflation plus strategies used by Acsis for more than 10 years. The funds are housed on the OMLACSA life license. Returns reported for a one-year period is what clients have experienced in the Old Mutual Multi-Managers Strategy on a gross basis. The returns for periods greater than one year are composite returns of the Old Multi-Managers and SIS Strategies. The Old Mutual Multi-Managers and the SIS Life range are managed in the same way by our investment team.

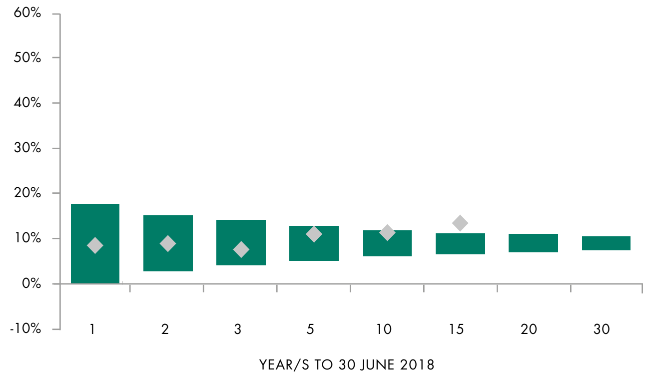
INCEPTION DATE: 14 October 1999 | ASSETS UNDER MANAGEMENT: R523m

COMMENTARY

The Inflation Plus 1-3% strategy returned 7.9% per annum over the recommended minimum investment period of three years. Over the last 12 months, this strategy returned 8.4%.

LIKELY FUND RANGE OF RETURNS AND CURRENT RETURN*

The graph shows the strategy's likely fund range of returns over different investment periods, based on the research team's investigation and modelling. The diamonds indicate the current actual historical return over each period of the Fund.



PERFORMANCE DATA TO 30 JUNE 2018

	% PERFORMANCE (P.A.)						
	1 YR	2 YRS	3 YRS	5 YRS	7 YRS	10 YRS	SINCE INCEPTION
Old Mutual Multi-Managers Inflation Plus 1-3% Strategy	8.4%	7.2%	7.9%	9.9%	11.8%	11.4%	13.2%
CPI + 2% p.a	6.4%	6.9%	7.3%	7.4%	7.5%	7.5%	8.0%

CPI REFERS TO THE CPI (ALL URBAN AREAS) AS PROVIDED BY STATISTICS SOUTH AFRICA, EFFECTIVE 1 JANUARY 2009. PRIOR TO JANUARY 2009, THE CPIX (ALL METROPOLITAN AND URBAN AREAS) WAS USED AS THE MEASURE FOR INFLATION FOR OUR FUNDS.

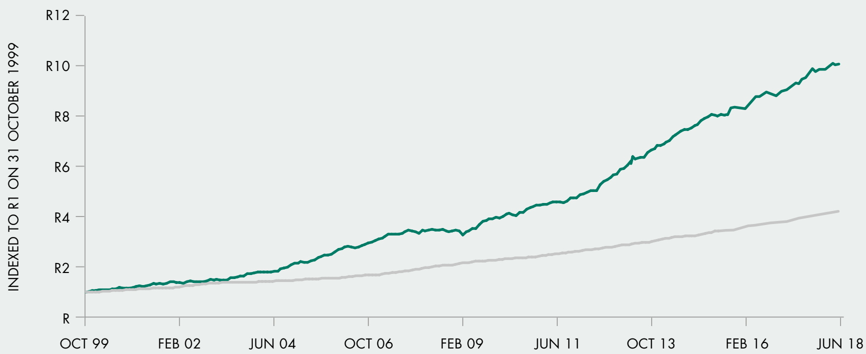
THE BENCHMARK RETURNS SHOWN HERE ARE A COMPOSITE OF THE TWO MEASURES. THE PREVIOUS MONTH'S CHANGE IN INFLATION IS USED AS AN ESTIMATE FOR THE CURRENT MONTH (SINCE INFLATION NUMBERS ARE RELEASED ONE MONTH IN ARREARS).

PERFORMANCE AGAINST STRATEGY OBJECTIVE*
(SINCE INCEPTION)

OLD MUTUAL MULTI-MANAGERS INFLATION PLUS 1 - 3 STRATEGY

CPI + 2% p.a

The graph illustrates the Strategy's performance against it's performance target.



OLD MUTUAL MULTI-MANAGERS
INFLATION PLUS 1 - 3% STRATEGY

INVESTMENT OBJECTIVE

This investment strategy seeks to grow your capital and income at a steady pace. It invests in a range of portfolios diversified across various asset classes, asset managers and high-quality instruments, including South African and international cash, listed property and listed shares. It aims to achieve a return in the range of 1%-3% above inflation over rolling three-year periods. This policy based investment is specifically designed for institutional investors and is managed to comply with Regulation 28 of the Pension Funds Act of South Africa.

PERFORMANCE TARGET:

CPI +2%

THE MAIN INVESTMENTS

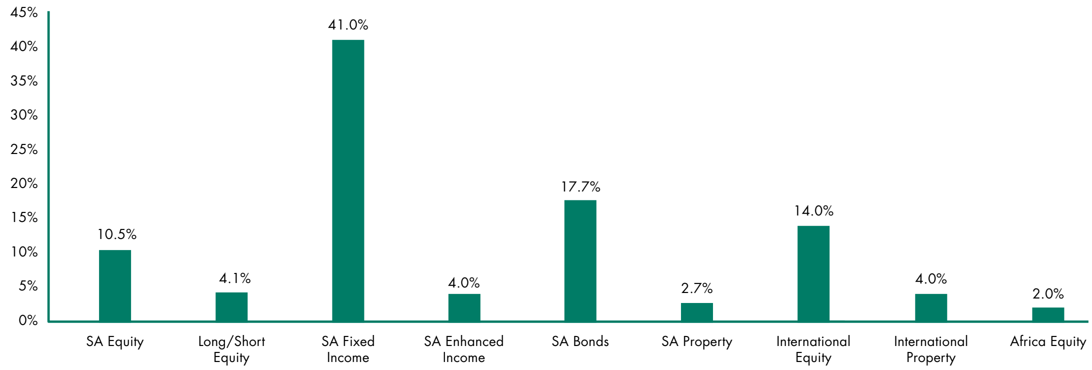
This investment strategy is made up of underlying portfolios, which invest in specialist asset classes managed by various asset managers. Generally, the strategy may invest in South African and international cash, fixed interest securities, listed shares and listed property. This strategy is considered to be relatively conservative and therefore mainly invests in low risk asset classes such as cash and fixed income. This ensures that the strategy provides the necessary capital protection during volatile periods, while also being positioned to benefit from rising markets.

ASSET MANAGER PROFILES

Old Mutual Multi-Managers researches the market and appoints the most appropriate asset managers to manage the strategy's underlying portfolios. After appointing asset managers, the investment team continually monitors the strategy, the underlying portfolios and the appointed managers and their investment processes to ensure that they remain appropriate. Old Mutual Multi-Managers has selected a combination of asset managers to manage this strategy's various underlying portfolios.

ASSET MANAGER	RESPONSIBILITY
Prudential	South African equity, fixed income & inflation-linked bonds
Coronation	South African equity, long/short equity, fixed income, international equity (emerging markets) & Africa equity
Prescient	South African inflation-linked bonds & cash
Sanlam	South African cash
Investec	International fixed income
Futuregrowth	South African fixed income
Catalyst	South African & international property
Laurium Capital	South African equity & long/short equity
Visio Capital	South African long/short equity
Bateleur Capital	South African equity & long/short equity
Steyn Capital Management	South African equity & long/short equity
Sesfikile Capital	South African property
Blackrock	International property
Orbis	International equity
Ginsglobal Index Funds	International equity
Baillie Gifford	International equity
Harris Associates	International equity
36One	South African long/short equity
Mazi Capital	South African equity
Sentio Capital Management	South African equity

ASSET CLASS HOLDINGS



OLD MUTUAL MULTI-MANAGERS
INFLATION PLUS 3 - 5% STRATEGY

The Old Mutual Multi-Managers Inflation Plus Strategies were created to provide investors with investment strategies that are identical to the SIS Life Inflation plus strategies used by Acsis for more than 10 years. The funds are housed on the OMLACSA life license. Returns reported for a one-year period is what clients have experienced in the Old Mutual Multi-Managers Strategy on a gross basis. The returns for periods greater than one year are composite returns of the Old Multi-Managers and SIS Strategies. The Old Mutual Multi-Managers and the SIS Life range are managed in the same way by our investment team.

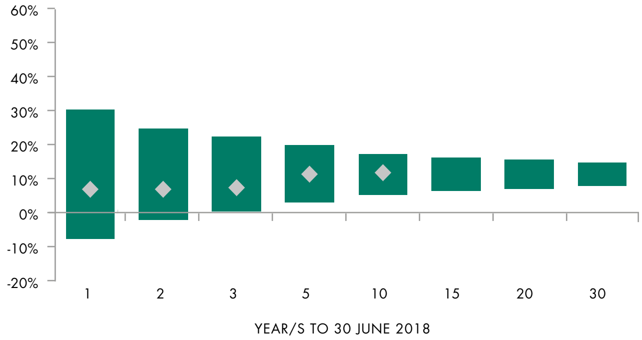
INCEPTION DATE: 30 June 2003 | ASSETS UNDER MANAGEMENT: R4.8bn

COMMENTARY

The Inflation Plus 3-5% strategy returned 10.7% per annum over the recommended minimum investment period of five years. Over the last 12 months, this strategy returned 9.5%.

LIKELY FUND RANGE OF RETURNS AND CURRENT RETURN*

The graph shows the strategy's likely fund range of returns over different investment periods, based on the research team's investigation and modelling. The diamonds indicate the current actual historical return over each period.



PERFORMANCE DATA TO 30 JUNE 2018

% PERFORMANCE (P.A.)

	1 YR	2 YRS	3 YRS	5 YRS	7 YRS	10 YRS	SINCE INCEPTION
Old Mutual Multi-Managers Inflation Plus 3-5% Strategy	9.5%	6.9%	7.9%	10.7%	13.2%	12.1%	14.8%
CPI + 4% p.a	8.4%	8.9%	9.3%	9.4%	9.5%	9.5%	9.6%

CPI REFERS TO THE CPI (ALL URBAN AREAS) AS PROVIDED BY STATISTICS SOUTH AFRICA, EFFECTIVE 1 JANUARY 2009. PRIOR TO JANUARY 2009, THE CPIX (ALL METROPOLITAN AND URBAN AREAS) WAS USED AS THE MEASURE FOR INFLATION FOR OUR FUNDS.

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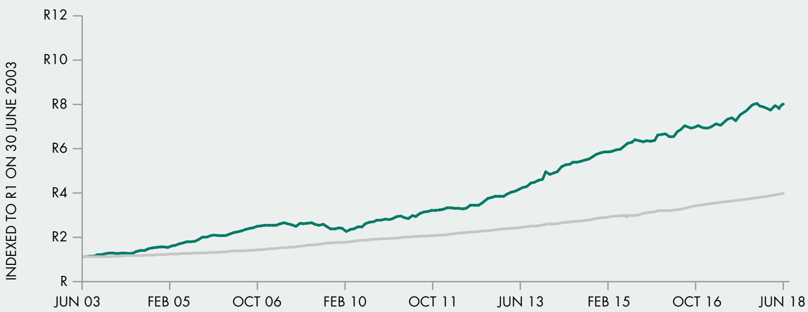
PERFORMANCE AGAINST STRATEGY OBJECTIVE*
(SINCE INCEPTION)

OLD MUTUAL MULTI-MANAGERS INFLATION PLUS 3-5% STRATEGY

CPI + 4% p.a

The graph illustrates the Strategy's performance against it's performance target.



OLD MUTUAL MULTI-MANAGERS
INFLATION PLUS 3 - 5% STRATEGY

INVESTMENT OBJECTIVE

This investment strategy seeks to grow your capital and income at a reasonable pace. It invests in a range of portfolios diversified across various asset classes, asset managers and high-quality instruments, including South African and international cash, fixed interest securities, listed property and listed shares. It aims to achieve a return in the range of 3%-5% above inflation over rolling five-year periods. This policy based investment is specifically designed for institutional investors and is managed to comply with Regulation 28 of the Pension Funds Act of South Africa.

PERFORMANCE TARGET

CPI +4%

THE MAIN INVESTMENTS

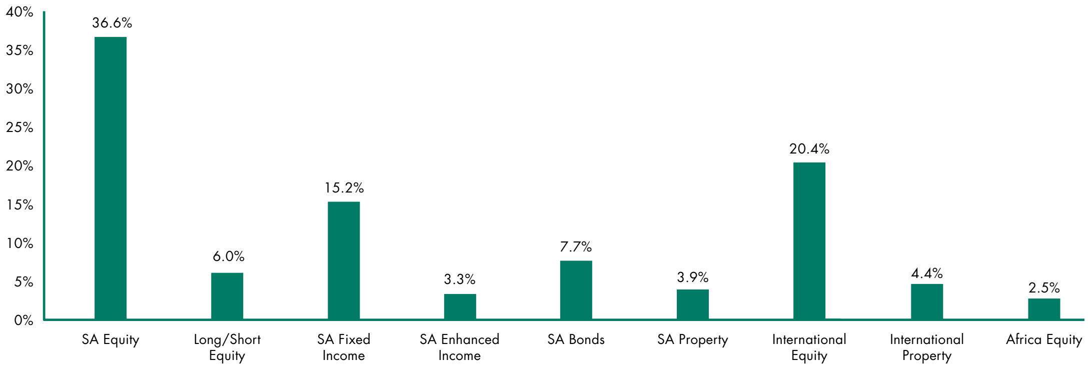
This investment strategy is made up of underlying portfolios, which invest in specialist asset classes managed by various asset managers. Generally, the strategy may invest in South African and international cash, fixed interest securities, listed shares and listed property. This strategy aims to achieve capital growth over a medium-term horizon and therefore has a moderate exposure to growth assets such as equities and a relatively lower exposure to income-generating asset classes.

ASSET MANAGER PROFILES

Old Mutual Multi-Managers researches the market and appoints the most appropriate asset managers to manage the strategy's underlying portfolios. After appointing asset managers, the investment team continually monitors the strategy, the underlying portfolios and the appointed managers and their investment processes to ensure that they remain appropriate. Old Mutual Multi-Managers has selected a combination of asset managers to manage this strategy's various underlying portfolios.

ASSET MANAGER	RESPONSIBILITY
Prudential	South African equity, fixed income & inflation-linked bonds
Coronation	South African equity, long/short equity, fixed income, international equity (emerging markets) & Africa equity
Prescient	South African inflation-linked bonds & cash
Sanlam	South African cash
Investec	International fixed income
Futuregrowth	South African fixed income
Catalyst	South African & international property
Laurium Capital	South African equity & long/short equity
Visio Capital	South African long/short equity
Bateleur Capital	South African equity & long/short equity
Steyn Capital Management	South African equity & long/short equity
Sesfikile Capital	South African property
Blackrock	International property
Orbis	International equity
Ginsglobal Index Funds	International equity
Baillie Gifford	International equity
Harris Associates	International equity
36One	South African long/short equity
Mazi Capital	South African equity
Sentio Capital Management	South African equity

ASSET CLASS HOLDINGS



OLD MUTUAL MULTI-MANAGERS
INFLATION PLUS 5 - 7% STRATEGY

The Old Mutual Multi-Managers Inflation Plus Strategies were created to provide investors with investment strategies that are identical to the SIS Life Inflation plus strategies used by Acsis for more than 10 years. The funds are housed on the OMLACSA life license. Returns reported for a one-year period is what clients have experienced in the Old Mutual Multi-Managers Strategy on a gross basis. The returns for periods greater than one year are composite returns of the Old Multi-Managers and SIS Strategies. The Old Mutual Multi-Managers and the SIS Life range are managed in the same way by our investment team.

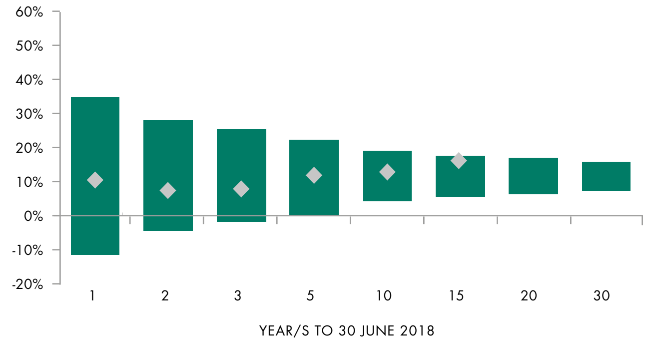
INCEPTION DATE: 14 October 1999	ASSETS UNDER MANAGEMENT: R9.0bn

COMMENTARY

The Inflation plus 5-7% strategy returned 14.3% per annum over the recommended minimum investment period of seven years. Over the last 12 months, this strategy returned 10.0%.

LIKELY FUND RANGE OF RETURNS AND CURRENT RETURN*

The graph shows the strategy's likely fund range of returns over different investment periods, based on the research team's investigation and modelling. The diamonds indicate the current actual historical return over each period of the fund.



PERFORMANCE DATA TO 30 JUNE 2018

% PERFORMANCE (P.A.)

	1 YR	2 YRS	3 YRS	5 YRS	7 YRS	10 YRS	SINCE INCEPTION
Old Mutual Multi-Managers Inflation Plus 5-7% Strategy	10.0%	7.0%	7.5%	11.4%	14.3%	12.7%	14.4%
CPI + 6% p.a	10.4%	10.9%	11.3%	11.4%	11.5%	11.5%	12.0%

CPI REFERS TO THE CPI (ALL URBAN AREAS) AS PROVIDED BY STATISTICS SOUTH AFRICA, EFFECTIVE 1 JANUARY 2009. PRIOR TO JANUARY 2009, THE CPIX (ALL METROPOLITAN AND URBAN AREAS) WAS USED AS THE MEASURE FOR INFLATION FOR OUR FUNDS.

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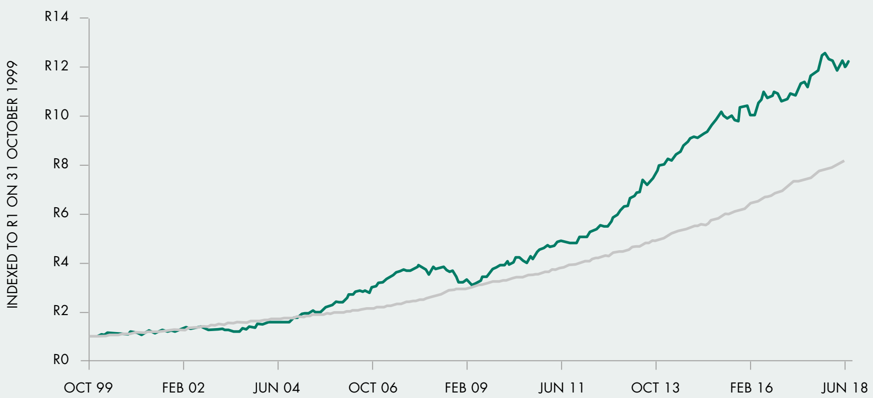
PERFORMANCE AGAINST STRATEGY OBJECTIVE*

(SINCE INCEPTION)

OLD MUTUAL MULTI-MANAGERS INFLATION PLUS 5-7% STRATEGY

CPI + 6% p.a

The graph illustrates the Strategy's performance against it's performance target.



OLD MUTUAL MULTI-MANAGERS
INFLATION PLUS 5 - 7% STRATEGY

INVESTMENT OBJECTIVE

This investment strategy seeks to grow your capital and income at a moderate to high pace. It invests in a range of portfolios diversified across various asset classes, asset managers and high-quality instruments, including South African and international cash, fixed interest securities, listed property and listed shares. It aims to achieve a return in the range of 5-7% above inflation over rolling seven-year periods.

This policy based investment is specifically designed for institutional investors and is managed to comply with Regulation 28 of the Pension Funds Act of South Africa.

PERFORMANCE TARGET

CPI +6%

THE MAIN INVESTMENTS

This investment strategy is made up of underlying portfolios, which invest in specialist asset classes managed by various asset managers. Generally, the strategy may invest in South African and international cash, fixed interest securities, listed shares and listed property. This strategy aims to achieve high capital growth over a long-term horizon. It therefore has a high exposure to growth assets such as equities and minimum exposure to income-generating asset classes.

ASSET MANAGER PROFILES

Old Mutual Multi-Managers researches the market and appoints the most appropriate asset managers to manage the strategy's underlying portfolios. After appointing asset managers, the investment team continually monitors the strategy, the underlying portfolios and the appointed managers and their investment processes to ensure that they remain appropriate. Old Mutual Multi-Managers has selected a combination of asset managers to manage this strategy's various underlying portfolios.

ASSET MANAGER	RESPONSIBILITY
Prudential	South African equity, fixed income & inflation-linked bonds
Coronation	South African equity, long/short equity, fixed income, international equity (emerging markets) & Africa equity
Prescient	South African inflation-linked bonds & cash
Sanlam	South African cash
Investec	International fixed income
Futuregrowth	South African fixed income
Catalyst	South African & international property
Laurium Capital	South African equity & long/short equity
Visio Capital	South African long/short equity
Bateleur Capital	South African equity & long/short equity
Steyn Capital Management	South African equity & long/short equity
Sesfikile Capital	South African property
Blackrock	International property
Orbis	International equity
Ginsglobal Index Funds	International equity
Baillie Gifford	International equity
Harris Associates	International equity
36One	South African long/short equity
Mazi Capital	South African equity
Sentio Capital Management	South African equity

ASSET CLASS HOLDINGS

OLD MUTUAL MULTI-MANAGERS
ABSOLUTE BALANCED FUND

INCEPTION DATE: May 2004	ASSETS UNDER MANAGEMENT: R1 967 929 606.69

COMMENTARY

The Absolute Balanced Fund returned 5.2% for the quarter, 9.0% over one year and 9.9% annualised over five years.

As at the end of June 2018, exposure to asset classes for the Absolute Balanced Fund is as follows: domestic equities 35%, listed property 9%, bonds 14% and close to maximum offshore exposure. The Fund has also maintained exposure to alternative asset classes such as private equity 6% and hedge funds 5%.

Over the past quarter, Coronation returned 4.7%, Investec 7.1% and Prudential 4.6%.

MANAGER ALLOCATION

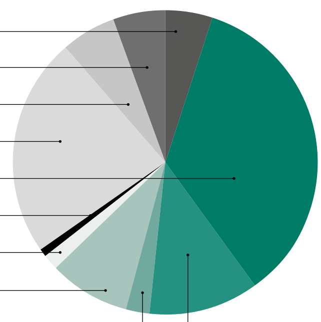
Absolute - Coronation	23.2%
Absolute - Investec	23.4%
Absolute - Prudential	37.1%
Hedge Funds - Old Mutual Multi-Managers	4.8%
Private Equity - Old Mutual	5.5%
International Bond - Prescient	6.0%

5 YEAR ANNUALISED RISK ADJUSTED RETURNS

	Return (%)	Std Dev (%)
Absolute Balanced	9.9	4.9
JSE SWIX	11.1	10.8
JSE Capped SWIX	10.0	10.3
ALBI	7.4	7.8
STeFI	6.7	0.2
SA Listed Property	6.7	14.1
MSCI World Index	18.3	13.1

ASSET ALLOCATION

Long Short Equity	4.8%
Private Equity	5.5%
International Bonds	6.0%
International Equities	23.3%
Equity	35.2%
Other	0.8%
Cash	1.7%
Property	8.6%
Index-Linked Bonds	2.6%
Bonds	11.5%



OLD MUTUAL MULTI-MANAGERS
ABSOLUTE BALANCED FUND

FUND OBJECTIVE

The fund is an investment policy wrapped portfolio (in terms of the long term insurance act) designed to target non-negative returns over rolling 18-month periods with a 6% real return expectation per annum over the long term (before fees). This policy based investment is specifically designed for institutional investors and is managed to comply with Regulation 28 of the Pension funds Act of South Africa. Investment objectives are not guaranteed.

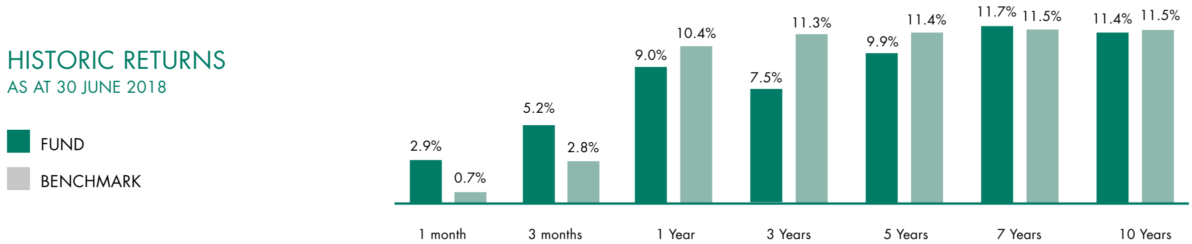
BENCHMARK

The Absolute Balanced Fund and the underlying managers are measured against Headline CPI for all urban areas.

TARGET

Non-negative returns over rolling 18 months with 6% real p.a. over the long term.

HISTORIC RETURNS
AS AT 30 JUNE 2018

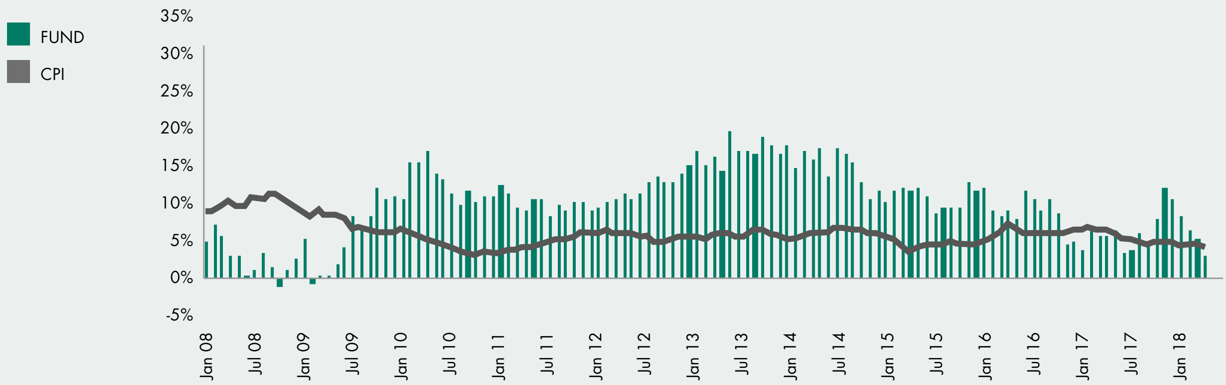


1. RETURNS FOR PERIODS GREATER THAN 1 YEAR ARE ANNUALISED.
2. WHERE APPLICABLE ALL RETURNS REFLECTED ARE NET OF PERFORMANCE FEES PAID TO UNDERLYING MANAGERS. WHERE NET PRICED ASSET MANAGER PORTFOLIOS ARE USED, RETURNS STATED ARE NET OF NET PRICED ASSET MANAGER FEES AND GROSS OF OLD MUTUAL MULTI-MANAGERS FEES.

CALENDAR YEAR PERFORMANCE (%)

	YTD	2017	2016	2015	2014
Fund	1.4%	11.1%	4.4%	11.6%	9.0%
Benchmark	5.8%	10.6%	12.6%	10.8%	11.8%

18 MONTHS ROLLING RETURNS AS AT 30 JUNE 2018



OLD MUTUAL MULTI-MANAGERS
ABSOLUTE DEFENSIVE FUND

INCEPTION DATE: October 2002 | ASSETS UNDER MANAGEMENT: R1 040 266 586.17

COMMENTARY

The Absolute Defensive Fund returned 5.3% over the quarter, 8.0% over one year and 7.4% annualised over three years.

As at the end of June 2018, exposure to asset classes for the Absolute Defensive Fund is as follows: domestic equities 24.0%, domestic bonds 18.0% and 15.0% in cash. Offshore is close to maximum as permitted by Regulation 28. The Fund has also maintained exposure to alternative asset classes such as private equity 4.0% and hedge funds 5.0%.

Over the past quarter, SIM returned 4.6%, Coronation 4.7% and Investec 7.1%.

MANAGER ALLOCATION

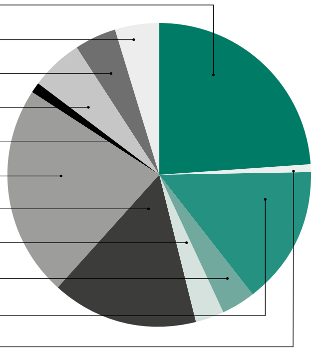
Absolute - Coronation	26.4%
Absolute - Investec	27.5%
Absolute - SIM	31.5%
Hedge Funds - Old Mutual Multi-Managers	4.6%
Private Equity - Old Mutual	4.5%
International Bond - Prescient	5.5%

5 YEAR ANNUALISED RISK ADJUSTED RETURNS

	Return (%)	Std Dev (%)
Absolute Defensive	9.6	4.0
JSE SWIX	11.1	10.8
JSE Capped SWIX	10.0	10.3
ALBI	7.4	7.8
STeFI	6.7	0.2
SA Listed Property	6.7	14.1
MSCI World Index	18.3	13.1

ASSET ALLOCATION

Equity	23.9%
Long Short Equity	4.6%
Private Equity	4.5%
International Bonds	5.6%
International Cash	1.1%
International Equity	22.4%
Cash	15.5%
Index-linked Bonds	3.0%
Property	3.6%
Bonds	14.9%
Other	0.9%



OLD MUTUAL MULTI-MANAGERS
ABSOLUTE DEFENSIVE FUND

FUND OBJECTIVE

The Fund is an investment policy wrapped portfolio (in terms of the Long-Term Insurance Act) designed to target non-negative returns over rolling 12-month periods with a 4% real return expectation per annum over the long term (before fees). This policy based investment is specifically designed for institutional investors and is managed to comply with Regulation 28 of the Pension Funds Act of South Africa. Investment objectives are not guaranteed.

BENCHMARK

The Absolute Defensive Fund and the underlying managers are measured against Headline CPI for all urban areas.

TARGET

Non-negative returns over rolling 12 months with 4% real p.a. over the long term.

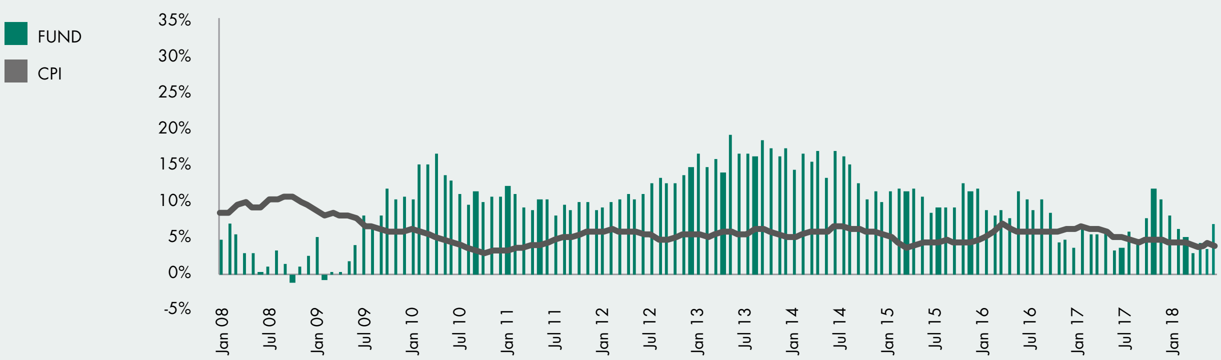
HISTORIC RETURNS
AS AT 30 JUNE 2018

1. RETURNS FOR PERIODS GREATER THAN 1 YEAR ARE ANNUALISED.
2. 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-MANAGERS FEES.

CALENDAR YEAR PERFORMANCE (%)

	YTD	2017	2016	2015	2014
Fund	3.3%	8.3%	4.0%	12.1%	10.1%
Benchmark	4.9%	8.6%	10.6%	8.8%	9.8%

12 MONTHS ROLLING RETURNS AS AT 30 JUNE 2018



OLD MUTUAL MULTI-MANAGERS
ABSOLUTE CAUTIOUS FUND

INCEPTION DATE: October 2005	ASSETS UNDER MANAGEMENT: R165 872 434.18

COMMENTARY

The Absolute Cautious Fund returned 2.8% over the quarter, 7.7% over one year and 7.1% annualised over three years.

As at the end of June 2018, exposure to asset classes for the Absolute Cautious Fund is as follows: domestic equities 14.7%, domestic bonds 24.4% and 30.1% in cash. Offshore is approximately 20%. The Fund has also maintained exposure to alternative asset classes such as hedge funds of 4.4%.

Over the past quarter, Prudential returned 2.0% and SIM 4.6%.

MANAGER ALLOCATION

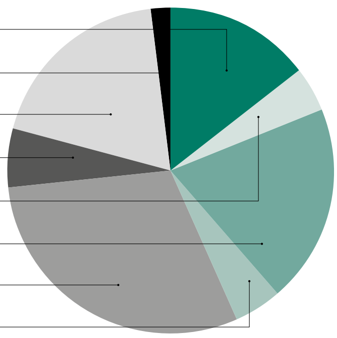
Absolute - SIM	43.4%
Absolute - Prudential	52.2%
Hedge funds - Old Mutual Multi-Managers	4.4%

5 YEAR ANNUALISED RISK ADJUSTED RETURNS

	Return (%)	Std Dev (%)
Absolute Cautious	8.4	2.8
JSE SWIX	11.1	10.8
JSE Capped SWIX	10.0	10.3
ALBI	7.4	7.8
STeFI	6.7	0.2
SA Listed Property	6.7	14.1
MSCI World Index	18.3	13.1

ASSET ALLOCATION

Equity	14.7%
International Cash	1.8%
International Equity	18.9%
Property	5.6%
Long Short Equity	4.4%
Bonds	19.7%
Cash	30.1%
Index-linked Bonds	4.6%



OLD MUTUAL MULTI-MANAGERS
ABSOLUTE CAUTIOUS FUND

FUND OBJECTIVE

The Fund is an investment policy wrapped portfolio (in terms of the Long-Term Insurance Act) designed to target non-negative returns over rolling 6-month periods with a 3% real return expectation per annum over the long term (before fees where applicable). This policy based investment is specifically designed for institutional investors and is managed to comply with Regulation 28 of the Pension Funds Act of South Africa. Investment objectives are not guaranteed.

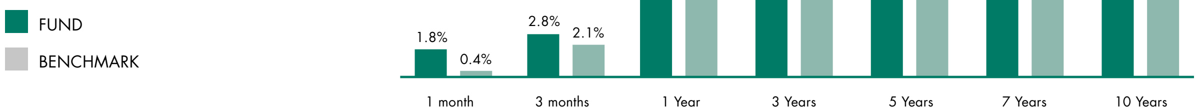
BENCHMARK

The Absolute Cautious Fund and the underlying managers are measured against Headline CPI for all urban areas.

TARGET

Non-negative returns over rolling 6 months with 3% real p.a. over the long term.

HISTORIC RETURNS
AS AT 30 JUNE 2018

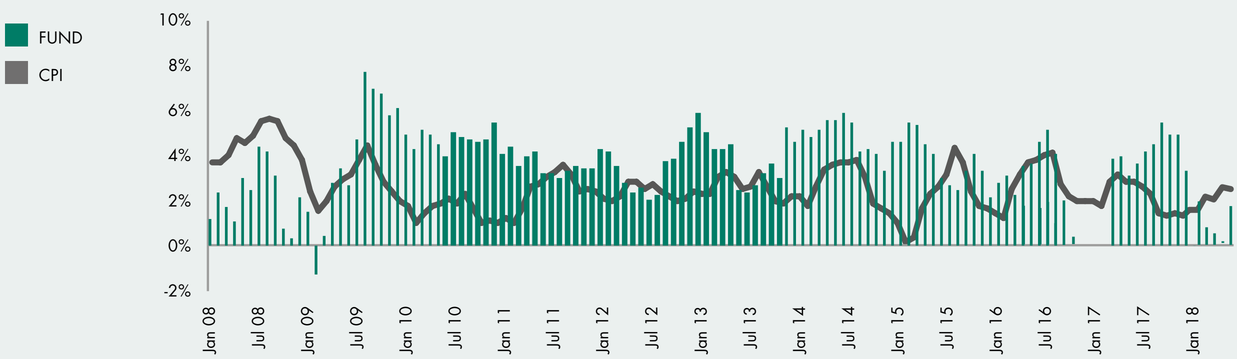


1. RETURNS FOR PERIODS GREATER THAN 1 YEAR ARE ANNUALISED.
2. WHERE APPLICABLE ALL RETURNS REFLECTED ARE NET OF PERFORMANCE FEES PAID TO UNDERLYING MANAGERS. WHERE NET PRICED ASSET MANAGER PORTFOLIOS ARE USED, RETURNS STATED ARE NET OF NET PRICED ASSET MANAGER FEES AND GROSS OF OLD MUTUAL MULTI-MANAGERS FEES.

CALENDAR YEAR PERFORMANCE (%)

	YTD	2017	2016	2015	2014
Fund	2.0%	9.3%	6.1%	8.6%	10.2%
Benchmark	4.4%	7.6%	9.6%	7.8%	8.8%

6 MONTHS ROLLING RETURNS AS AT 30 JUNE 2018



OLD MUTUAL MULTI-MANAGERS
MANAGED FUND

INCEPTION DATE: April 2010	ASSETS UNDER MANAGEMENT: R2 661 469 308.79

COMMENTARY

This quarter, the Fund returned 4.9% net with the FTSE/JSE All Share Index (ALSI) returning 4.5% and the All Bond Index (ALBI) -3.8%. The local property sector was down -2.2%.

For the quarter, all underlying manager returns were positive with Prudential returning 4.0%, Coronation 4.0%, Foord 6.6% and Allan Gray 5.6%.

For the 12 months ending June 2018, Coronation and Prudential returned 9.3% and 11.2% respectively with Foord still lagging at 6.7%.

The Fund has returned 9.7% nett over this period.

MANAGER ALLOCATION

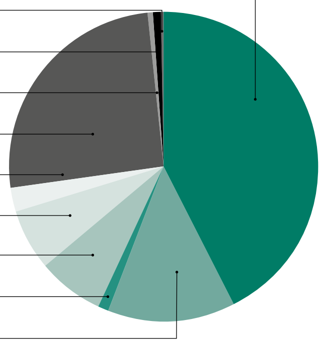
Coronation Balanced	30.1%
Prudential Balanced	29.7%
Foord Balanced	20.0%
Allan Gray	20.2%

5 YEAR ANNUALISED RISK ADJUSTED RETURNS

	Return (%)	Std Dev (%)
Managed Fund	9.9	6.9
JSE SWIX	11.1	10.8
JSE Capped SWIX	10.0	10.3
ALBI	7.4	7.8
STeFI	6.7	0.2
SA Listed Property	6.7	14.1
MSCI World Index	18.3	13.1

ASSET ALLOCATION

Equity	42.5%
International Other	0.2%
International Cash	0.7%
International Bonds	0.5%
International Equities	25.8%
Other	2.5%
Cash	6.3%
Property	6.9%
Index-linked Bonds	1.1%
Bonds	13.5%



OLD MUTUAL MULTI-MANAGERS
MANAGED FUND

FUND OBJECTIVE

The Fund is an investment policy wrapped portfolio (in terms of the Long-Term Insurance Act) and aims to outperform the median of the Alexander Forbes Global Large Manager Watch (AFLMW) by maintaining the maximum equity exposure allowed under Prudential Investment Guidelines and also utilises the freedom to invest in property and alternative assets. Capital depreciation is possible. This policy based investment is specifically designed for institutional investors and is managed to comply with Regulation 28 of the Pension Funds Act of South Africa.

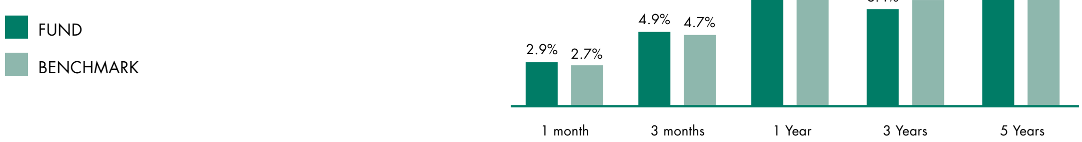
BENCHMARK

Median of Alexander Forbes Global Large Manager Watch.

TARGET

To outperform the median of the Global Large Manager Watch.

HISTORIC RETURNS
AS AT 30 JUNE 2018

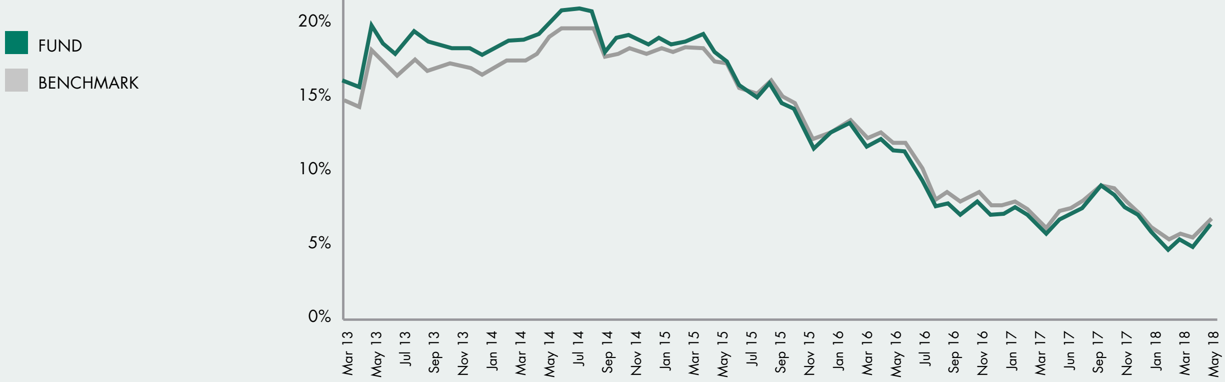


1. RETURNS FOR PERIODS GREATER THAN 1 YEAR ARE ANNUALISED.
2. ALL RETURNS REFLECTED ARE NET OF PERFORMANCE FEES PAID TO UNDERLYING MANAGERS. BENCHMARK RETURNS ARE GROSS OF FEES.
3. RETURNS STATED ARE NET OF NET PRICED ASSET MANAGER FEES AND GROSS OF OLD MUTUAL MULTI-MANAGERS FEES.

CALENDAR YEAR PERFORMANCE (%)

	YTD	2017	2016	2015	2014
Fund	1.6%	11.8%	3.5%	7.2%	10.7%
Benchmark	2.0%	11.5%	3.3%	9.1%	11.6%

3 YEARS ROLLING RETURNS



OLD MUTUAL MULTI-MANAGERS
MONEY MARKET FUND

INCEPTION DATE: August 2000	ASSETS UNDER MANAGEMENT: R338 430 550.76

COMMENTARY

The investments are diversified across a number of issuers and instruments and are therefore considered less risky than a deposit with any one bank. According to the most recently available data, the Strategy's weighted average maturity is 120 days.

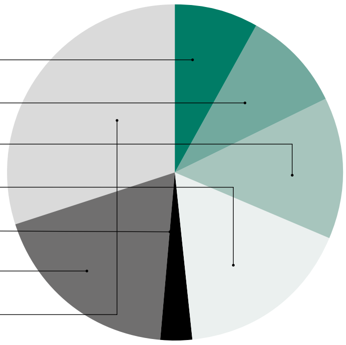
The Strategy's term exposure is biased towards the short-end of the money market curve with close to 73% of instruments within six months of maturity. More than 96% of the strategy was exposed to F1/F1+ rated investments.

MANAGER ALLOCATION

Sanlam Money Market	49.6%
Prescient Money Market	50.4%

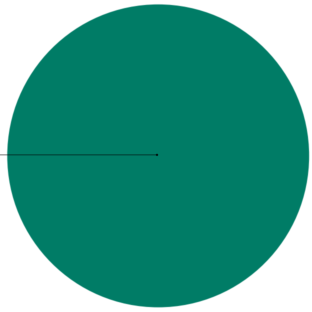
MATURITY PROFILE

0-7 days	8.2%
8-30 days	9.7%
31-60 days	13.5%
61-90 days	17.1%
91-120 days	3.1%
121-180 days	18.6%
181 plus days	29.8%



ASSET ALLOCATION

Cash	100.0%



OLD MUTUAL MULTI-MANAGERS
MONEY MARKET FUND

FUND OBJECTIVE

The Fund is an investment policy wrapped portfolio (in terms of the Long-Term Insurance Act) aimed to target 50 basis points (before fees) above inflation over the medium to long term. This policy-based investment is specifically designed for institutional investors and is managed to comply with Regulation 28 of the Pension Funds Act of South Africa.

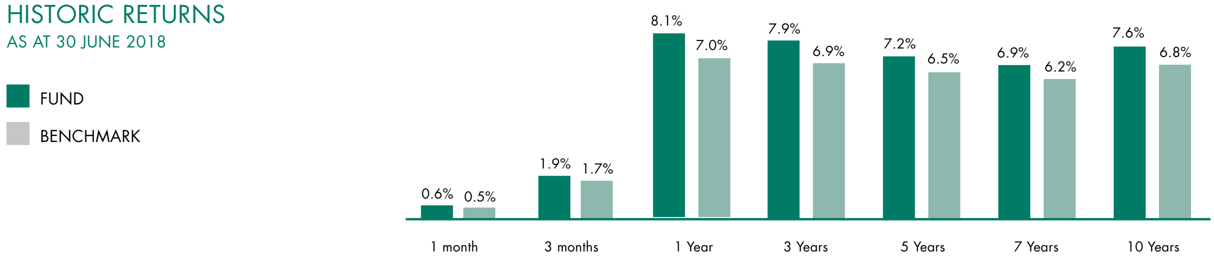
BENCHMARK

The Money Market Fund is measured against STeFI 3 month.

TARGET

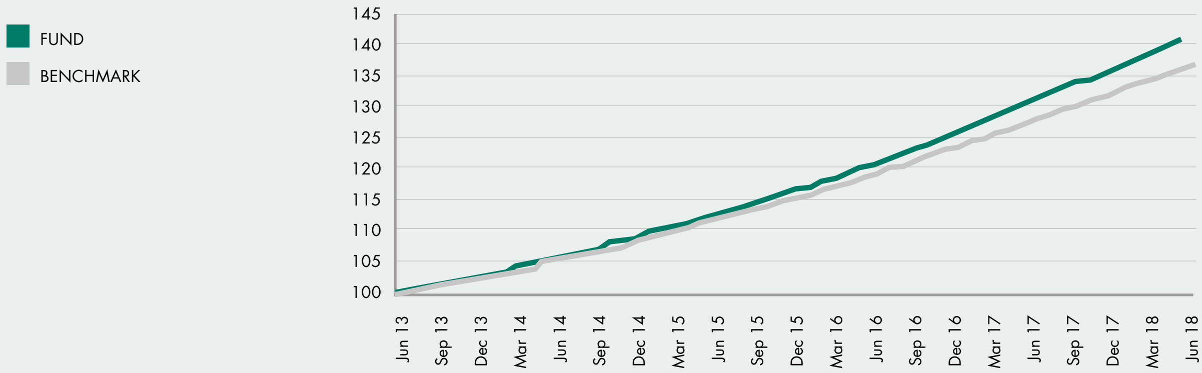
STeFI +0.5% p.a over the medium to long term.

HISTORIC RETURNS
AS AT 30 JUNE 2018



1. RETURNS FOR PERIODS GREATER THAN 1 YEAR ARE ANNUALISED.
2. 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-MANAGERS FEES.

5 YEARS CUMULATIVE RETURNS



OLD MUTUAL MULTI-MANAGERS
LONG SHORT EQUITY HEDGE

INCEPTION DATE: May 2004 | ASSETS UNDER MANAGEMENT*: R1 314 921 421

COMMENTARY

Local equity markets recorded a successive negative quarter in the second quarter of 2018, with the Capped SWIX down 0.8%. Our equity markets sold off alongside other emerging markets at the back of amplified geopolitical risks and rising US interest rates.

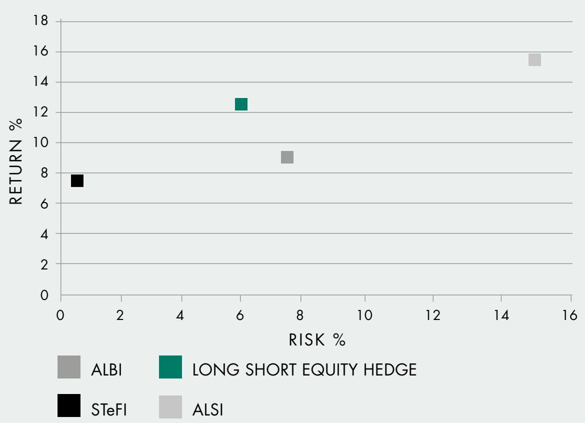
The Long Short Equity Fund in contrast was up an impressive 3.8% for the quarter, outperforming both bonds and cash which were down 3.8% and up 1.8% respectively. Hedge fund managers were largely positioned for a weak rand and benefited as the rand lost shy of 14% to the US dollar. Over 12 months, the Fund returned 3.9%, cash 7.4% and the equity market 8.2%. It's been difficult to match cash plus returns over the last 12 months with equity markets giving very little return but for a few select stocks which are very volatile.

We are encouraged by the re-emergence of the capital preservation elements from the long short building block which have cushioned the returns of the balanced funds with exposure to hedge during the quarter and the first half of the year.

APRIL 2004 - JUNE 2018: SUMMARY STATISTICS

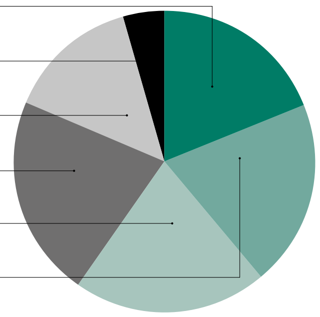
	Long Short Equity Hedge	STeFI	JSE All Share
Return	12.5%	7.4%	15.8%
# of Down Periods	42	0	63
# of Up Periods	129	171	108
Best Period Return	5.5%	1.0%	12.5%
Worst Period Return	-6.7%	0.4%	-13.2%
Maximum Drawdown	-10.7%	0.0%	-40.4%
Up Capture vs. Market	39.2%	12.9%	100.0%
Down Capture vs. Market	7.3%	-24.3%	100.0%
Correlation vs. Market	0.6	-0.2	1

RISK ADJUSTED RETURNS SINCE INCEPTION



ASSET ALLOCATION

Coronation	20.3%
Steyn Capital LS	4.1%
Steyn Large Cap Fund	13.9%
36One Fund	21.2%
Nitrogen	20.6%
Bateleur	19.9%



OLD MUTUAL MULTI-MANAGERS
LONG SHORT EQUITY HEDGE

FUND OBJECTIVE

The Fund is an investment policy wrapped portfolio (in terms of the Long-Term Insurance Act) designed to consistently outperform STeFI+7% over a rolling 36 months. Capital protection in down markets is a key objective of the Fund.

BENCHMARK

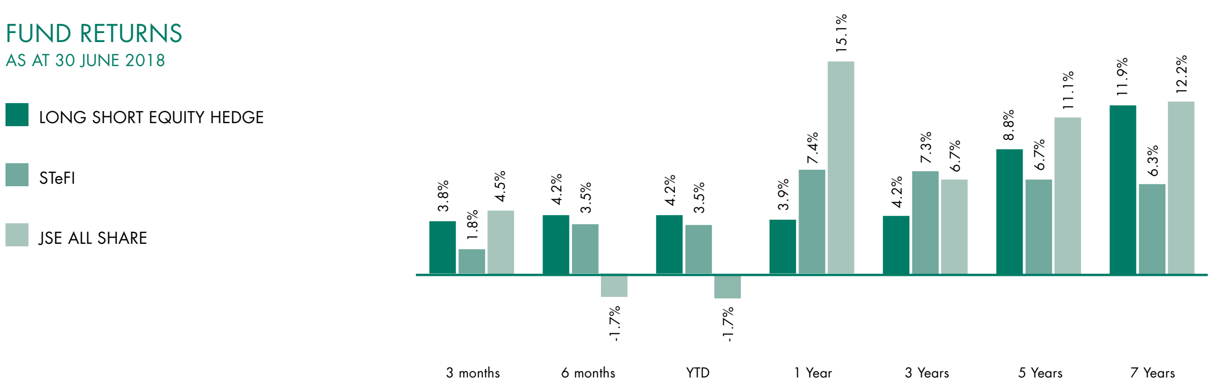
STeFI

WHO SHOULD INVEST?

The Long Short Equity Hedge is for investors who require equity market participation with limited downside returns. The underlying managers will vary their equity exposure through market cycles in an attempt to maximise upside and minimise downside returns. As the Fund is not fully exposed to equity markets at all times, it is likely to underperform during bull markets and outperform during bear markets. The Fund is suitable for investors who require equity participation with far less equity volatility and with limited downside performance.

FUND RETURNS

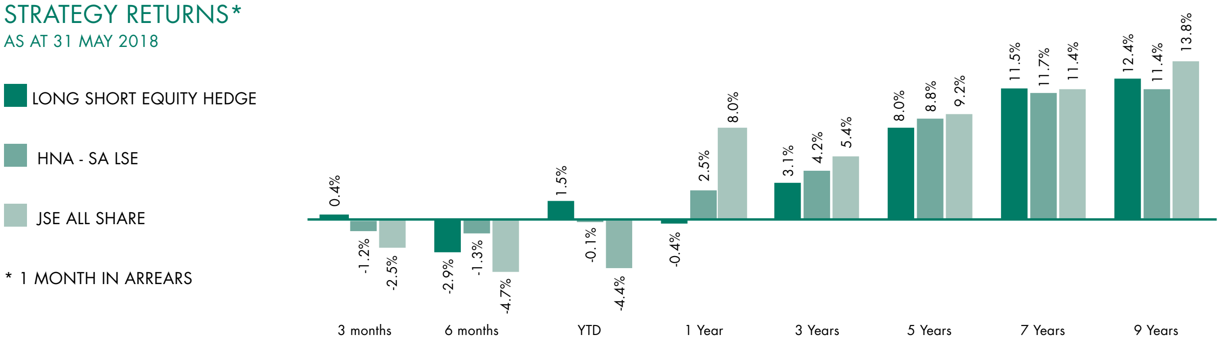
AS AT 30 JUNE 2018



1. RETURNS STATED ARE NET OF THE UNDERLYING MANAGERS MANAGEMENT AND PERFORMANCE FEES.

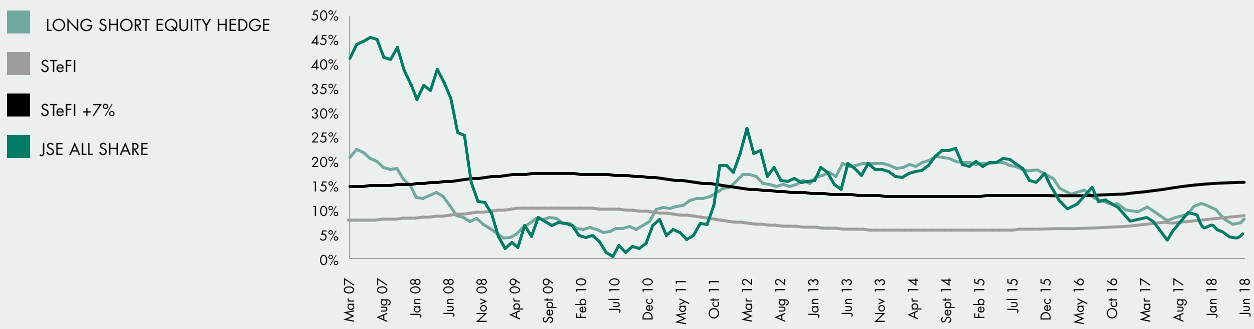
STRATEGY RETURNS*

AS AT 31 MAY 2018



* 1 MONTH IN ARREARS

ROLLING ANNUALISED 36 MONTH RETURN



ASSET MANAGER REVIEW

ASSET MANAGER REVIEW

SOUTH AFRICAN EQUITY – PRUDENTIAL PORTFOLIO MANAGERS

Prudential is a relative value manager and invests in shares that are trading below their intrinsic values. The portfolio returned 16.5% over the last year, outperforming its benchmark by 6.8% on a gross basis. The outperformance, relative to the benchmark, was largely driven by a consistent underweight to Steinhoff over the last year. Overweight positions in Anglo American, Old Mutual, Exxaro and The Foschini Group also aided the portfolio in achieving outperformance.

Following strong gains in the quarter, Prudential took some profits on part of their overweight resources position. The portfolio does remain overweight to resources stocks such as Anglo American, BHP Billiton, Exxaro, Sappi and Sasol. The manager maintains its holdings in global giants such as Naspers and British American Tobacco which have significant exposure to global growth. Prudential also remains overweight financial shares such as Old Mutual, Standard Bank and Barclays Group Africa which have offered attractive valuations with relatively high dividend yields. In general, the Prudential portfolio remains underweight to retail stocks. At current valuation levels, Prudential believes that the market is priced to deliver attractive medium-term returns.

SOUTH AFRICAN EQUITY – CORONATION FUND MANAGERS

Coronation's valuation-driven process aims to identify mispriced assets trading at discounts or premiums to their long-term values. The portfolio returned 7.8% over the last year, underperforming its benchmark by 1.9% on a gross basis. The underperformance, relative to the benchmark, was dominated by the overweight to Steinhoff. This was a detractor throughout the last year. Other notable detractors over the last year included overweight positions in Northam Platinum, British American Tobacco and Intu Properties, as well as an underweight to FirstRand. While overweight positions in Anglo American, Old Mutual and Exxaro did contribute positively to portfolio performance, they did not offset the significantly negative performance of some of the portfolio's detractors. Coronation continues to hold large positions in several of the JSE-listed offshore stocks, including Naspers, British American Tobacco and Anheuser-Busch InBev.

These positions are held for stock-specific reasons, rather than thematic reasons. Among the domestic stocks, Coronation prefers to hold high quality, defensive names, with their preference being for hospital stocks, as well as food producers and retailers. Coronation has limited exposure to economically sensitive domestic companies as they believe the valuations on these companies do not currently offer a sufficient margin of safety. Within financials, Coronation prefers bank exposure over life companies. Coronation also maintains a reasonable exposure to resources and believes that increased policy certainty as a result of the release of the proposed mining charter should provide a more conducive environment for domestic investment.

SOUTH AFRICAN EQUITY – VISIO CAPITAL MANAGEMENT

Visio is a valuation-focused manager with a long-term horizon and a strong emphasis on downside protection and understanding how a company generates its earnings. The portfolio returned 6.7% over the last year, underperforming its benchmark by 3.0% on a gross basis. The underperformance, relative to the benchmark, can be largely attributed to underperforming overweight positions in Steinhoff, British American Tobacco, Aveng and Advtech. While overweight positions in Old Mutual and Bidvest did contribute positively to returns, the Visio portfolio had larger detractors than contributors.

Visio believes that South African domestic companies are cheap. Bases are low on all counts, with the exception of resources shares. As the exuberance for domestic shares seen in December and January has dissipated, Visio sees opportunities in a large number of mid- and small-cap companies that stand to benefit meaningfully from any signs of a sustained turnaround in the local economy. The manager remains exposed to specific re-structuring opportunities and a few large-cap stocks which are currently plagued by poor sentiment, but where the businesses are underpinned by solid fundamentals. Visio are cautiously optimistic that local dynamics should outweigh the effects of any foreign dislocations, provided that the South African Government stays on course with its new initiatives.

ASSET MANAGER REVIEW

SOUTH AFRICAN EQUITY – BOUTIQUE EQUITY PORTFOLIO

The Boutique Equity Portfolio is composed of equally weighted allocations to 36ONE, Bateleur, Laurium and Steyn. The managers have a downside protection bias, gained from their experience in managing long-short hedge funds and focus on driving returns through stock picking. The portfolio returned 6.0% over the last year, underperforming its benchmark by 3.7% on a net basis. The underperformance, relative to the benchmark, was mostly driven by the significant underperformance of Steyn. The main detractors in the Steyn portfolio were the underperforming overweight positions in Steinhoff, Impala Platinum and Fortress-B, as well as being underweight strong performers such as Naspers, Anglo American and Standard Bank. Laurium and 36ONE were the strongest performers in the portfolio, with both managers outperforming the benchmark. Laurium's outperformance was largely driven by overweight positions in Old Mutual, Exxaro and Nedbank. The 36ONE portfolio's outperformance, relative to the benchmark, was driven by overweight positions in Old Mutual and Astral, as well as by avoiding Steinhoff. Bateleur underperformed over the last 12 months, with the main detractor to portfolio performance being the holding that the portfolio had in EOH.

SOUTH AFRICAN EQUITY – MAZI CAPITAL

Mazi Capital follows a long-term, fundamental investment approach with a bias for quality companies. Mazi was added as a manager in February 2018. For the five-month period ending June 2018, the Mazi portfolio returned -5.2%, outperforming its benchmark by 0.3% on a gross basis. Longer-term performance will be reported on over time as a longer track record develops.

SOUTH AFRICAN EQUITY – SENTIO CAPITAL MANAGEMENT

Sentio Capital Management follows a fundamentally based investment philosophy and process that gives due consideration to risk management in their portfolio construction process through the use of quantitative methods. Sentio was added as a manager in February 2018. For the five-month period ending June 2018, the Sentio portfolio returned -4.6%, outperforming its benchmark by 0.8% on a gross basis. Longer-term performance will be reported on over time as a longer track record develops.

SOUTH AFRICAN LONG/SHORT EQUITY – CORONATION

Gavin Joubert manages the hedge fund along with Quinton Ivan. Gavin is also responsible for the Global Emerging Markets Fund, while Quinton manages the Core Equity Fund and is co-head of equity research. The Fund is long-term, bottom-up, valuation driven investing predominantly in Large Caps. Presidio had a strong quarter, up 11.07% and more than made up for the disappointing first quarter returns. The short book added notably to returns with six of their short positions in the top 10 contributors to returns over the quarter. These included short positions in Cashbuild, Massmart and Harmony, to name a few. The biggest contributors on the long side included positions in Naspers and Sasol. The portfolio returned 3.2% for the year to June 2018. Long exposures to Naspers, Anglo American, Sasol and Spar were the largest contributors to the performance for the year, while Steinhoff, British American Tobacco and short positions in Imperial and Kumba Iron Ore detracted.

SOUTH AFRICAN LONG/SHORT EQUITY – 36ONE ASSET MANAGEMENT

36ONE is one of the longest running hedge fund businesses in the industry, founded in 2004. Formed by Cy Jacobs and Steven Liptz. The investment approach is centred on the principle that the market does not efficiently price securities at all times. 36ONE therefore believes that stock selection through bottom-up fundamental analysis can outperform over time. The primary focus is on value investment within the South African equity market, but attractive growth shares and opportunities in other asset classes and/or geographies may also be explored. 36ONE posted a flat but positive return, up 0.93% for the second quarter largely at the back of a long position in Naspers, which was up 20% over the same period. Short positions in the Resilient group of companies which added notably to returns in the first quarter, slightly detracted over the second quarter. The fund is up an impressive 18.7% over the last 12-month period to June 2018.

ASSET MANAGER REVIEW

SOUTH AFRICAN LONG/SHORT EQUITY – BATELEUR CAPITAL

Founded in 2005 by brothers Kevin and Mark Williams, the business is managed on bottom-up fundamental analysis with a considerable amount of time spent on research. The investment team focuses on under-researched stocks predominantly in the large and mid-cap space. They also focus on macro fundamentals and the effect of this on asset valuations. The Fund recovered from a negative first quarter and was up 1.83% during the second quarter. The return was largely supported by exposure to Naspers and Sasol. It recorded an annual return of 6.96% over the last 12 months, with long positions in Naspers, Sasol and BHP Billiton adding to returns while Steinhoff, EOH and Novus Holdings were among the detractors.

SOUTH AFRICAN LONG/SHORT EQUITY – STEYN CAPITAL LARGE CAP

André Steyn has a background of managing hedge funds in New York and London. His forensic audit skills allow him to identify balance sheet discrepancies, which make his process unique. The Steyn Capital Large Cap Fund was launched in May 2013 on the back of the highly successful Long/Short Equity Fund, which was at the time closed to flows. The Fund invests in fundamental value opportunities. Steyn Long/Short was up 2.47% for the quarter and returned -11.19% for the year. The largest contributors to the performance during the year were exposures to Astral Foods, Naspers, and a short position in EOH, while Steinhoff, Impala Platinum and PPC Limited detracted.

SOUTH AFRICAN LONG/SHORT EQUITY – STEYN CAPITAL LONG SHORT

André Steyn has a background of managing hedge funds in New York and London. His forensic audit skills allow him to identify balance sheet discrepancies, which make his process highly unique. The Steyn Capital Long/Short Fund was launched in May 2009 and is closed to new flows in order to preserve its opportunity set. It recently re-opened to flows at a back of disinvestments which freed up capacity. The Fund differs from the large cap offering in that it may invest in small cap and fledgling stocks. The Fund posted a flat return for the quarter, up 0.23%, largely on the back of a long position in African Phoenix and a Truworths short. The Fund ended the year up 0.68%. Exposure to Quantum Foods, EOH (short) and Montauk added to the annual return, while African Phoenix and Hospitality Property Fund were some of the biggest detractors.

SOUTH AFRICAN LONG/SHORT EQUITY – NITROGEN LONG SHORT EQUITY

The business was founded in 1998 by brothers Rowan and Lance as a private equity business. In 2006, the Nitrogen hedge fund was launched using the skills learnt from private equity investing. The Nitrogen Fund is a low volatility long/short equity hedge fund trading in the South African equity market. The fund is managed on a fundamental basis with a value bias. The fund consists of two books – a long-term fundamental book and an active short-term trading book. Nitrogen posted a 3.01% return during the second quarter and 6.69% for the year to June 2018. Having little exposure to Steinhoff helped the Fund and a number of pair trades added to returns during the year.

SOUTH AFRICAN LISTED PROPERTY – CATALYST FUND MANAGERS

Catalyst invests in well-managed listed property companies that deliver high levels of income and long-term capital appreciation at appropriate levels of risk. Over the last 12 months, the portfolio recorded -7.95%, outperforming its benchmark by 1.99% on a net basis. The outperformance was mostly driven by underweight positions in Fortress-B and Resilient, as well as overweight positions in Stor-Age, Emira and Octodec. Given the sell down in the sector, Catalyst continues to see value in the SA Listed Property sector despite the weak outlook for local property fundamentals and the risks facing the Resilient group of companies. Catalyst notes that SA-centric companies are trading at positive yield spreads to the South African long bond, while offshore companies are trading at attractive forward yields relative to their comparable long-term government bond yields.

ASSET MANAGER REVIEW

Sesfikile Capital
Property Investment Done Right

SOUTH AFRICAN LISTED PROPERTY – SESFIKILE CAPITAL

Sesfikile is a specialist listed property manager that believes in long-term value investing, while also taking advantage of short-term property-specific growth opportunities. Over the last 12 months, the portfolio returned -3.81%, outperforming its benchmark by 6.13% on a net basis. The outperformance was largely driven by overweight positions in NEPI, Redefine and Vukile, as well as underweight positions in Resilient and Fortress-B. Sesfikile noted that SA-focused stocks are trading at a discount relative to bond yields and at levels last seen at the height of the global financial crisis. They conceded that a lot of this discount is due to the fallout of the 'Resilient stable', as well as the unwinding of non-recurring earnings from several companies. But the earnings forecasted in the forward yield projections are undemanding and have already been written down in many cases. It is on this basis that they see good value in the sector, while taking into account very specific company risks, so careful stock selection is of primary importance. Sectorally, they believe the office market remains on the back foot as the latest SAPOA data indicated a 0.3% hike in vacancies to 11.5%, and while the absolute level in vacancies is not out of sync with the range we have witnessed over the past few years, it is in their view somewhat misleading, as the sample set has seen lesser quality assets removed as a result of obsolescence or conversion to residential. They noted, on the positive side, that rentals have gone backwards in real terms and the amount of speculative development has come off significantly, so the base is set quite low. However, for any meaningful growth we would need gross domestic product growth to support demand. The industrial sector is performing adequately considering the current economic environment.

CATALYST

INTERNATIONAL PROPERTY – CATALYST FUND MANAGERS

This portfolio offers global diversification in the listed property market. Over the last 12 months, the Catalyst portfolio returned 5.69% and performed in line with the benchmark. Sectorally, the portfolio is also overweight to the retail, residential, specialty and industrial sectors and underweight to the diversified, hotels and office sectors. Geographically, the manager maintains an underweight to Japan and Singapore and a marginal underweight to the US, while in Europe, they favour Germany and the Netherlands but underweight to France and the UK. The portfolio is currently underweight to the Asia-Pacific region, with an underweight to Japan and Singapore but an overweight allocation to Hong Kong. Catalyst believes that real estate fundamentals overall remain healthy, largely due to relatively low supply and an improved economic growth outlook. Taking current forward yields and medium-term growth prospects into account, Catalyst believes that the global listed real estate sector currently looks fair valued on a risk-adjusted basis.

BLACKROCK

INTERNATIONAL PROPERTY – BLACKROCK

The BlackRock World Real Estate Securities strategy employs a fundamental, bottom-up approach to stock selection, aided by a macro-environment and capital markets overlay. Over the last 12 months, the portfolio returned 4.67%, underperforming the benchmark return by 0.97% on the back of negative relative stock selection in Asia Pacific and EMEA. Geographically, the BlackRock portfolio is underweight to United States. The portfolio is also underweight to the Asia-Pacific region, with underweights to Hong Kong and Singapore contributing to this active position, despite being overweight Japan. The portfolio is benchmark-neutral to Europe with overweight positions in the France, Luxembourg and Ireland being offset with underweight positions in Sweden and Switzerland. In the US, BlackRock remains positive on the single-family-rental, life-science and data centre sectors, driven by multi-year demand and operating synergies that they expect to drive risk-adjusted returns in these sectors.

BlackRock maintains their holdings in select, well-located and well-curated retail real estate. The manager continues to favour select names in Japan and is selective and cautious in Australia, where they favour data centres and self-storage, while retail names with quality assets continue to screen attractively. They are selective in Hong Kong and cautious in Singapore. In Europe, BlackRock sees positive fundamentals for most markets outside of the UK.

Investec
Asset Management

INTERNATIONAL CASH – INVESTEC ASSET MANAGEMENT

The portfolio aims to preserve capital and provide liquidity and high income growth by investing in short-term notes denominated exclusively in the relevant currencies. Investments are restricted to highly-rated issuers with concentration limits. The maximum term per instrument is 12 months. As at the latest available dates, the portfolio's weighted average term to maturity is between 41 and 48 days. Investec continues to remain cautiously positioned, with the fund manager targeting a high percentage of A-1+ rated short-term securities to enhance the credit quality of the portfolio. The manager expects official interest rates to increase across major markets and, as a result, is tactically reducing the portfolios' weighted average maturity.

Individual weighted average terms to maturity:
USD cash – 41 days
GBP cash – 48 days

INTERNATIONAL EQUITY – STATE STREET – GINSGLOBAL

GinsGlobal invests using index management techniques (developed by the State Street Group) designed to track the performance and risk of the MSCI World Index as consistently as possible. As at 30 June 2018, the portfolio returned 10.5% (net of manager fees), underperforming the benchmark by 0.2%. A passive portfolio will often lag its benchmark performance due to costs and fees.

INTERNATIONAL EQUITY – ORBIS

Orbis is a contrarian, long-term, value manager that follows a bottom-up stock selection process. The portfolio returned 8.5% during the past 12-month period ending 30 June 2018, underperforming the MSCI All Country World Index by 2.2%. The contrarian nature of the manager's stock selection process means that the strategy will tend to hold businesses that are currently disliked by the market and are trading at depressed prices, which in turn could lead to periods of short-term underperformance but where the manager has identified catalysts of unlocking potential value.

The second quarter of 2018 saw a continuation of positive global equity markets, largely driven by the strength of the US economy with corporate earnings being a stand-out contributor to market sentiment. In terms of downside risk, markets were particularly volatile given heightened risk of trade conflict between the US and other major trade partners, notably China. The fund positioning, while bottom-up, still holds a material overweight to Asia ex-Japan and a material underweight to US equity, relative to the benchmark. The largest stock detractors over the period were Symantec (-1.5%), Arconic (-1.1%) and Netease (-0.9%). The largest contributors to alpha were XPO Logistics (2.0%), Nike (0.7%) and Sberbank of Russia (0.6%). Celgene and Bayerische Motoren Werke were added to the Fund, while American Intl. Group, L'Air Liquide and SAP were sold out of entirely.

INTERNATIONAL EQUITY (EMERGING MARKETS) – CORONATION FUND MANAGERS

Coronation follows a long-term, valuation-driven approach and builds portfolios from the bottom up, which means that country and sector allocations are a function of stock selection. The portfolio returned 5.6% for the 12-month period ending 30 June 2018, which is 2.6% behind the MSCI Emerging Market Index. The Fund had a difficult quarter, in line with broader emerging markets, which were under pressure as trade war risk and a stronger dollar concurrently pushed down both emerging market currencies and equity markets. The largest detractors were education positions Kroton and Estácio, together they each detracted 2.4%, the other large detractor was Porsche (-0.56%). The largest positive contributors were YES Bank (+0.50%), Airbus (+0.37%) and Naspers (+0.36%). Two notable new additions in the Fund are Anheuser Busch Inbev (AB Inbev) and YUM China, which is the Chinese assets unbundled from YUM Brands (who own several major brands such as KFC, Pizza Hut and Taco Bell).

INTERNATIONAL EQUITY: BAILLIE GIFFORD

The Baillie Gifford Global Alpha Fund was added to the global equity strategy in December 2015 to achieve more balance in this building block, particularly from an investment style perspective. Baillie Gifford's philosophy stems from the belief that share prices ultimately follow earnings. They achieve this by identifying companies they believe enjoy sustainable, competitive advantages in their industries and that will grow earnings faster than the market average. The portfolio returned 17.2% during the past 12-month period ending 30 June 2018, outperforming the

MSCI All Country World Index by 6.5%. North America contributed to quarterly returns, while Asia was neutral and all other regions (Emerging Markets, Europe and the UK) detracted. The largest relative contributors were Amazon.com (+0.5%), Apache (+0.4%) and Abiomed (+0.4%). Detractors included Banco Bradesco (-0.4%), TSMC (-0.4%) and Signify (-0.3%). From a sector perspective, consumer discretionary and healthcare contributed positively to returns at +0.9% and 0.5%, respectively. Industrials and financials were the largest detractors at -0.2% and -0.6%, respectively.

HARRIS ASSOCIATES

INTERNATIONAL EQUITY: HARRIS

Harris applies a long-term investment horizon as they seek out significantly under-priced companies with strong business fundamentals and proven management teams. They build high-conviction concentrated portfolios, underpinned by the bottom-up value investment process and upside potential of each of the stocks. The portfolio returned 9.6% during the 12-month period ending 30 June 2018, underperforming the MSCI All Country World Index by 1.1%.

The quarter saw higher levels of volatility as the market reacted to potential trade conflict between the US and China. This impacted the portfolio positively at fund level, however, as US, China and Mexico holdings had a net positive contribution to the Fund, while the UK, Germany and Swiss holdings detracted the most. In terms of particular positions, Tenet Healthcare (+38%), MasterCard (+12%), and Grupo Televisa (+19%) were the strongest contributors over the period, while Daimler (-21%), CNH Industrial (-13%) and TE Connectivity (-9%), were the largest detractors. The manager added two new holdings, Southwest Airlines and Reckitt Benckiser, during the period and Phillips was removed.

PRUDENTIAL PORTFOLIO MANAGERS

SOUTH AFRICAN FIXED INCOME & INFLATION-LINKED BONDS – PRUDENTIAL PORTFOLIO MANAGERS

It was another volatile quarter for global financial markets, hit by growing fears of a global trade war as the US, EU and China (plus others) ratcheted up tariff threats. This combined with some weaker-than-expected economic data, rising US interest rates and continuing risk-averse sentiment among global investors weighed on both bond and equity markets, with emerging markets particularly hard-hit by asset sales.

In global fixed income, as in previous quarters, despite rising government bond yields, they continue to trade at very low yields historically, and remain at risk to rising interest rates in the US and UK, and increasingly in Europe as well. Prudential continues to be underweight global sovereign bonds and underweight duration to reduce interest rate risk, preferring to hold investment-grade US and European corporate bonds. In SA nominal bonds, following the quarter's sizeable rise in yields, valuations became more attractive compared to their longer-term average and we see them as cheap. Consequently, Prudential added to their current modest overweight when yields reached levels over 9.0%. This was funded from cash holdings. Longer-dated government bonds are still preferred due to the more attractive yields on offer. Downside risks have eased somewhat given the government reforms underway and reinstated fiscal probity, but inflation remains a threat and the SA government and businesses have not yet done enough to eliminate the prospects of further credit rating downgrades. For inflation-linked bonds, the manager is positioned neutrally in this asset class. Real yields are attractive, especially after this quarter's weakness, but Prudential still believes that better value exists elsewhere – in long-dated nominal bonds and equities.

The Prudential Flexible Fixed Income Fund returned -1.38% for the quarter ending June 2018. As at the end of June 2018, the Fund has a modified duration of 5.2 years and a fund yield of 9.38%.

The Prudential Inflation-Linked Bond portfolio produced a return of -4.4% over the quarter. The Fund has a modified duration of 11.2 years.

FUTUREGROWTH /ASSET MANAGEMENT

SOUTH AFRICAN FIXED INCOME – FUTUREGROWTH ASSET MANAGEMENT

The Futuregrowth Infrastructure & Development Bond Fund returned -2.96% over the last quarter relative to the JSE All Bond Index (ALBI), which returned -3.78%. Cash yielded 1.8% and inflation-linked bonds about -4.65%. For the 12 months ending June 2018, the local bond market has delivered 10.19%, cash 7.35% and inflation-linked bonds about 1.59%.

ASSET MANAGER REVIEW

The second quarter of 2018 saw global investors hurriedly taking risk off the table. The about-turn in global risk appetite had been the result of a confluence of factors. This ranged from idiosyncratic issues to forces of a more globalised nature. Emerging markets had an important role to play, but so did the developed world. Both Argentina and Turkey were forced to play the policy rate card in an effort to stabilise their respective currencies following significant net capital outflows as weak fundamentals could no longer be overlooked. Argentina in particular had to bear the brunt of the investor fall-out as its economic and financial market fragility relative to its emerging market peer group, mostly pertaining to the country's endemic inflation rate and wide twin deficits, simply could not be ignored. Elsewhere, Italian politics spooked markets while an escalation of trade tensions between the USA and some of its main trading partners, inclusive of Canada, the UK, the Eurozone and China, reached a new worrying level. All of this played out against a backdrop where the US Federal Reserve stuck to its well telegraphed intention to gradually increase its key policy rate. Even the European Central Bank confirmed plans to begin with the unwinding of its net purchase of bonds in the secondary market.

In light of the events described above, South Africa's status as a small, open economy with strong Eurozone and Chinese trade links, once again exposed its vulnerability to global risk-off investment strategies. This, apart from a strong US-dollar, which tends to do well in periods of global risk aversion, caused the South African currency to lose some ground and bond bears to gain confidence. The risk of a large foreign holding of local bonds was once again clearly demonstrated, as net selling amounting to circa R40bn during the first half of this year had been one of the main drivers of the recent surge in bond yields. That said, while there are similarities with problem-child Argentina, one very distinct difference is the fact that South Africa's foreign currency denominated government debt amounts to 5% of GDP, well below Argentina's 22%. Equally important is the gulf in monetary policy management – wherein South Africa ranks favourably relative to economies like Argentina and Turkey. As a result, the weakening pressure on the local currency and bond markets was relatively contained in comparison to some of the other emerging markets.

With uncertainty mounting, both domestically and abroad, the South African Reserve Bank appropriately opted to keep the repo rate unchanged at its May monetary policy committee meeting. Most encouraging to fixed income managers like Futuregrowth who fear inflation almost as much as borrowers who default on their obligations, is that the Committee sounded the hawkish alarm bell regarding future inflation risks. In light of the developments described above, it also comes as little surprise that market interest rate expectations have shifted from a mild bullish state a mere few weeks ago.

Against this background, the path of least resistance for bond yields had been upwards. The yield of the benchmark R186 (maturity 2026) increased sharply by 117 basis points from 7.99% at the end of March to a weakest point of 9.16% around mid-June, before settling slightly lower at 8.84% on 29 June. More telling is that the slope of the yield curve steepened as long-dated bond yields rose by more than those of shorter-dated bonds. As a result, the total return of the All Bond Index slumped to a quarterly return of -3.8%, well below the cash return of 1.6% over the same period. Even so, the extent of the bull rally during the first three months of the year was big enough for the All Bond Index (+4.0%) to remain slightly ahead of cash (+3.3%) for the first half of 2018.

Returns in the inflation-linked bond market also disappointed in the second quarter. Real yields drifted higher in tandem with nominal bond yields even as the inflation outlook worsened, which usually tends to support the demand for inflation protection. Moreover, the real yield curve steepened slightly with long-dated inflation-linked bond yields rising more than those of short-dated bonds. As a result, the Inflation-Linked Government Bond Index returned -4.6% for the quarter, well below cash and slightly worse than nominal bonds.

CORONATION FUND MANAGERS

SOUTH AFRICAN FIXED INCOME – CORONATION FUND MANAGERS

The hunt for yield in developing markets started to sour towards the end of April. Emerging market assets tumbled, spurred on by concerns of an overheating US economy and fears around the escalation of a US/China trade war, in turn fuelling a rally in the US dollar. Locally, we have seen disappointing growth data and a slowdown in the pace of policy reform implementation. Coupled with the souring global environment for emerging markets, this resulted in the All Bond Index (ALBI) falling 3.8% in the second quarter of 2018, bringing its return year to date to 4% (marginally ahead of cash at 3.4%), but maintaining a solid double-digit return of 10.2% for the 12-month period. The South African 10-year government bond benchmark yield rose by almost 1% to 8.84% at the end of June (from its first quarter closing level of 7.98%), touching an intra-quarter high of 9.15%. The liquidation of bond holdings by foreigners resulted in a substantial swing in net bond flows, moving from a year-to-date net inflow figure of R17.6 billion (at 31 March 2018) to a net outflow of R35.6 billion (at end-June 2018). This had a significant impact on the exchange rate, with the rand weakening by 13.7% over the quarter.

ASSET MANAGER REVIEW

More recently, many of South Africa's self-imposed obstacles have started to show signs of clearing. Inflation remains at a cyclical low and should not exceed the top end of the Reserve Bank (SARB) target band (3% to 6%) over the next 12 to 24 months. Growth numbers for the first quarter of 2018 surprised materially to the downside (-2.2% quarter on quarter and 0.8% year on year). This implies that the SARB has room to provide more cyclical support to the local economy by further easing the repo rate; however, considering the recent rout in emerging markets, the worst-case outcome is that the repo rate remains stable for at least the next six to 12 months. On the growth front, although most recent data are cause for concern, real consumer income growth will be closer to 2% this year, allowing for an additional recovery in consumer spending, which makes up about 60% of GDP. Long-term growth prospects will rely on an increase in fixed investment into the local economy, which can only be realised in a certain and transparent policy environment. The SA economy is in a very favourable position relative to its peer group, with growth heading higher and inflation being stable (or lower), thereby creating a supportive environment for local bonds.

Coronation's outlook for inflation over the next two years remains benign, with expected averages of 4.8% in 2018 and 5.1% in 2019. At the end of June, shorter-dated fixed rate negotiable certificates of deposit (NCDs) traded at 8.53% (three-year) and 9.09% (five-year) respectively – up substantially over the quarter. The increase in fixed rates was due to the sell-off in fixed rate bonds and the market's repricing of repo rate expectations (moving from a 25 bps cut to a 25 bps hike).

The Coronation Flexible Fixed Income Fund returned -2.0% for the quarter ending June 2018. As at the end of June 2018, the Fund has a modified duration of 6.7 years and a fund yield of 9.8%.

PRESCIENT

SOUTH AFRICAN INFLATION-LINKED BONDS – PRESCIENT INVESTMENT MANAGEMENT (PRESCIENT)

Inflation-linked bond yields rose during the quarter and were dragged higher by the fixed coupon bond yields as the break evens widened. Further pressure on fixed coupon bond yields will continue to push yields up further and should provide a good opportunity at some stage to lock in decent real yields.

The Barclays Inflation-linked Bond Index lost nearly -5% over the quarter. Rates of inflation-linked bonds increased by between 20 and 60 bps. The largest increases were seen at the short end of the curve, which had previously been sticky. Inflation-linked bonds underperformed the ALBI (which lost -3.78%) and the STeFI Call Index (+1.74%).

The Fund outperformed the ILB benchmark as well as the 90% ILB benchmark/10% STeFI Call blended benchmark over the quarter. Credit exposure and the resulting yield pick-up contributed positively to performance. Much the same, the Fund's short duration position performed well too.

It is difficult to know what the long-term fair value for inflation linked-bonds is, but Prescient think it is in the order of 3% to 3.5% – an attractive real yield without any unexpected inflation risk. Above 3%, the manager started to add exposure to the portfolio. The current purchase programme is designed to generate alpha in a disciplined way by incrementally buying bonds across the real curve as yields increase.

Within the quarter, the manager has bought longer-dated ILBs such that we are now only 0.7 years short duration versus the ILB index. Prescient intends to continue reducing their short position incrementally and will be fully invested in these funds if long-dated inflation-linked bond yields rise above 3.2%.

The Prescient Inflation-linked bond portfolio produced a return of -3.20% over the last quarter. The Fund has a modified duration of nine years. Approximately 15% of the Fund is exposed to floating rate notes and about 85% in inflation-linked bonds.

Sanlam
PRESCIENT

SOUTH AFRICAN CASH – SANLAM INVESTMENT MANAGERS (SIM)/PRESCIENT INVESTMENT MANAGEMENT (PRESCIENT)

Investments within the cash portfolio have a residual maturity of less than 13 months and a weighted average, legal maturity not exceeding 120 days. The cash portfolio returned 1.8% over the quarter ending June 2018 and about 7.9% over the last 12 months, outperforming the STeFI three-month benchmark return of 7.2%.

The Fund's maturity position at the end of June was at 112 days. The Fund's investments are well diversified across a number of issuers and instruments and are therefore considered less risky than a deposit with any one bank. 98.0% of the strategy was exposed to F1/F1+ rated investments, in other words, a highly rated investment.

GLOBAL BALANCED – CORONATION

The past quarter was marked by a major reversal in investor sentiment towards emerging markets. Emerging currencies, bonds and equities all succumbed to immense pressure as global investors de-risked their portfolios. The stronger US dollar, higher US bond yields, an expectation of further rate hikes in the US, as well as in Europe, and all the talk of trade wars started by the Trump government combined to generate enough bad news flow to spook investors. SA did not escape this global trend. The rand lost 14% of its value relative to the dollar and bond yields surged as foreigners offloaded a massive R65bn of government bonds over the quarter.

The JSE saw a major shift in sentiment too with domestic orientated shares under selling pressure while rand hedges were protected as expected in turbulent times. The decent allocation in offshore holdings at the start of the quarter, a healthy exposure to rand-hedged shares and a low modified duration in the bond portion of the portfolio all helped to protect the fund against the sell-off. The wild gyrations in the market gave the opportunity to make some meaningful changes to the composition of the fund. The rise in yields of government bonds to levels between 9% and 10%, depending on its duration, is particularly attractive to funds such as this, especially as inflation is expected to average between 5% and 6% over the long term. Within the domestic equity portion of the fund, the position in Mondi was trimmed as this high quality company's share now offers limited upside following its stellar performance.

The manager added to Standard Bank, Naspers, Bidcorp, Anheuser-Busch (ABI) and added newly-listed share Quilter ahead of its unbundling from Old Mutual. The strong performance in resource stocks has been driven by robust pricing across most commodities. The property market declined 2% in the quarter. Coronation continues to avoid most of the counters within the Resilient stable and find more value in the A property sector as the UK counter listed domestically. UK exposed property names have continued to languish as the British pound has weakened and concerns remain around what Brexit will mean for these operations. These stocks continue to trade on vast discounts to their underlying value and on attractive dividend yields and remain a high conviction position in our funds.

Over the short term, the negative attitude to emerging markets may well persist for a while. However, the high real yields available in the bond market as well as the de-rating of many domestic shares to attractive levels gives optimism in reaching the goal of beating inflation by at least 4% over rolling three-year periods.

GLOBAL BALANCED – FOORD

Global economic expansion was sustained by US and Chinese strength while Europe and Japan softened – but slower ex-US growth, accelerating emerging market outflows and a flattening US yield curve are risks to continued synchronised growth. Global equities advanced marginally and volatility increased as peak economic cycle concerns rose – corporate earnings still support valuations but increasing concentration of returns in limited counters and sectors are symptomatic of bull market late stages. Emerging markets with large external dollar-denominated debt and wide current account deficits sold off sharply on US dollar strength and surging oil prices, despite many emerging markets having sound economic fundamentals, balance of payments pressures should subdue market recovery in the near term.

SA equities rose, buoyed by resources and non-resource rand hedge companies – domestically focused companies such as banks and retailers de-rated significantly from the unrealistic sentiment driven highs of the first quarter of 2018. R186 government bonds (-2.5%) delivered negative returns as yields moved higher on accelerating foreign withdrawals due to rising geopolitical tension and higher developed market yields. Foreign assets (up 16.4%) at 31% of the portfolio contributed materially to performance with rand weakness being a key driver of returns. The rand hedges, Naspers (+20.5%), BHP Billiton (+31.9%), Sasol (+24.7%), CF Richemont (+9.0%) and Capital & Counties (+15.2%) rebounded strongly – accounting for most of the positive JSE equity and property returns. The Newgold ETF (+9.9%) was also a positive contributor to performance.

The portfolio construction continues to reflect a cautious investment strategy, predicated by slow domestic economic activity, negative emerging market sentiment and continued central bank liquidity withdrawal. The fund has reduced weighting to several JSE-listed holdings but continues to favour global businesses over SA Inc. counters – despite their outperformance this quarter, these global rand hedges still offer greater certainty of inflation-beating returns and capital protection than domestically focused businesses. Foreign assets are weighting now at the 30% prudential maximum – global companies' earnings prospects are superior to those in SA, with greater certainty in the outlook given the long-term structural tailwinds to many global businesses in the portfolio. The listed property position is marginally lower – Foord tactically reduced the Capital & Counties position on rand weakness after Capco announced a potential demerger of its two businesses, but it remains a sizeable holding in the portfolio. Physical gold is an attractive uncorrelated investment. It acts as portfolio insurance by preserving its real capital value at times of increased financial or geopolitical risk and is still core to the portfolio.

The manager added selectively to fixed coupon bonds after yields rose markedly, running yields above 9% offer a high probability of beating inflation by at least 4% over the next three years. The portfolio construction reflects Foord's cautious investment strategy.

PRUDENTIAL PORTFOLIO MANAGERS

GLOBAL BALANCED – PRUDENTIAL

Prudential continues to be underweight global sovereign bonds and underweight duration to reduce interest rate risk, preferring to hold investment-grade US and European corporate bonds. In SA nominal bonds, following the quarter's sizeable rise in yields, valuations became more attractive compared to their longer-term average and we see them as cheap. Consequently, Prudential added to their current modest overweight when yields reached levels over 9.0%. This was funded from cash holdings. Longer-dated government bonds are still preferred due to the more attractive yields on offer.

For global equities, gains in developed markets over the quarter lifted valuations slightly, but these are still modestly cheap on a broad basis, having started the quarter at about 10% cheap. However, valuation disparities between developed and emerging markets widened in the second quarter, with markets like the Nasdaq returning 7.3% and S&P 500 3.4%, while many emerging markets were punished, making many materially cheap. Prudential continues to prefer the global banking sector, which has underperformed the broader market, as well as certain developed markets where equities are undervalued but fundamentals for earnings growth remain positive, including Germany and Japan, and selected emerging markets such as South Korea, Indonesia, Turkey and China. These overweight positions are financed primarily by an underweight in global bonds, as well as US equities to a lesser extent. As in the previous quarter, Prudential still sees better value in many regions compared to SA.

SA equity earnings have been depressed relative to their long-term trends, and therefore have the potential to improve if the current government has even modest success in lifting the rate of potential growth. SA equities moved to more attractive valuations during the quarter: the ALSI 12-month forward price-earnings ratio (P/E) fell to around 13.7X at quarter-end from around 14.1X in the first quarter. During the quarter, Prudential took profits and sold down overweight resources position following the sector's 20%+ gains in recent months. However, portfolios still hold resources stocks with exposure to global growth like Anglo American, BHP Billiton, Exxaro, Sasol and Sappi, as well as global giants such as Naspers and British American Tobacco. Prudential has also maintained an overweight exposure to financial shares including Old Mutual, Standard Bank and Barclays Group Africa, which have offered attractive valuations with relatively high dividend yields. The manager is still underweight retail stocks in our house view portfolios, but do hold select overweights in Pick 'n Pay and Foschini.

Prudential is neutral SA listed property. Even though the sector has fallen sharply in value, this is still largely due to the effect of the Resilient group's share prices. Excluding the four Resilient companies, the asset class is trading modestly above its fair value range. It is priced to deliver attractive low double-digit returns over the medium term, but the manager remains concerned about the risks in the sector, including slow growth and rising inflationary pressures.

ALLANGRAY

MANAGED – ALLAN GRAY

With few exceptions, notably India, most countries experienced slower economic growth in the first quarter of 2018. There is widespread concern that trade wars between the US and other countries could destabilise the global economy. As a consequence of global risk concerns, there has been a significant sell-off of emerging market (EM) financial assets. 'Ramaphoria' reversed during the second quarter with local bonds falling and many 'South Africa Inc.' companies (banks, insurers, retailers and industrial companies) selling down to levels lower than at the start of the year. As an example, the FTSE/JSE General Retailers Index increased by 50% in US dollar terms from the start of December 2017 to late February 2018, only to end back at its starting point in June.

One of the Portfolio's most significant purchases during the quarter was British American Tobacco (BAT). Interestingly, the pound share price has been flat since November 2015, despite the company growing its earnings by 36%. The stock market is increasingly pricing in a substantial probability of the tobacco industry being disrupted by products with reduced health risks, such as electronic cigarettes. Being ignorant to disruption is a proven way to fail, but BAT has invested in a wide range of products including vapour, tobacco heating and hybrid products that have gained traction across Europe and Japan – in many cases achieving higher market share than in their traditional products. BAT seems well positioned to benefit from the trend to safer nicotine consumption and is arguably more sustainable in the long run. The US market has seen competition rise from independent companies like JUUL, which has reached 4% market share in a short time. But all is not lost. BAT's premium brands have continued to do well despite JUUL gaining significant traction. Allan Gray continues to monitor the extent to which long-run prospects are priced into assets and will adjust the portfolio accordingly.

CORONATION ABSOLUTE RETURN

Globally, the past quarter was marked by a major reversal in investor sentiment towards emerging markets. Emerging currencies, bonds and equities all succumbed to immense pressure as global investors de-risked their portfolios. The stronger US dollar, higher US bond yields, an expectation of further rate hikes in the US, as well as in Europe, and all the talk of trade wars started by the Trump government combined to generate enough bad news flow to spook investors. SA did not escape this global trend. The rand lost 14% of its value relative to the dollar and bond yields surged as foreigners offloaded a massive R65bn of government bonds over the quarter.

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Over the short term, the negative attitude to emerging markets may well persist for a while. However, the high real yields available in the bond market as well as the de-rating of many domestic shares to attractive levels make gives optimism in reaching the goal of beating inflation by at least 4% over rolling three-year periods.

Over the past year, Coronation returned 8.6%.

INVESTEC ABSOLUTE RETURN

For the quarter, the portfolio delivered solid absolute returns amid continuing volatility and uncertainty. The foreign equity component was the largest contributor to returns. This was not only due to a weaker rand over the quarter, but also strong gains in US dollar terms. Over the quarter, the offshore component outperformed global markets with key contributors being Twenty-First Century Fox, Verisign, Visa, Intuit and Microsoft. These gains were marginally offset by more muted returns from holdings in Philip Morris International as well as 3M Company. The local equity component added strongly to performance. Gains came from our rand-hedge and resource counters including Sasol, Richemont, Bid Corp, and Naspers. In addition, the holding in Capital & Counties added to performance given sterling currency moves relative to the rand. Investec's commodity holding in the New Gold ETF contributed meaningfully to returns – up almost 10% over the quarter on the back of a stronger US dollar.

The local bond component detracted from performance over the quarter. A deteriorating outlook for EM bonds, including SA bonds, resulted in significant selling pressure from global investors over the quarter. In addition, a deterioration in the domestic inflation outlook (rising petrol prices) saw the local 10-year yield rise by more than 80 bps, to close the second quarter above

8.8%. Domestic interest-rate sensitive counters such as Santam, JSE, and Standard Bank Group weighed on returns over the quarter given the EM sell-off and unwinding 'SA Inc.' trade. Investec initiated a 1% position in Naspers. Following the realisation of the company's stake in Flipkart and the cash received from the partial sale of Tencent, the balance sheet of the business has strengthened, and, at the margin, an improvement in capital allocation.

Investec believes that investors were too optimistic about Ramaphosa's ability to turn the economy around in the short term, and more rational expectations have taken root. Investment and employment are required to lift growth prospects in South Africa, but capital will sit on the side-lines while there is concern about the mining charter, land appropriation and government attempts to push ahead with national health insurance without an appropriate plan for funding. The pressure on an already indebted consumer is rising with increases in VAT and the price of petrol. Lending further weight to these concerns was a negative 2.2% GDP print for the first quarter of 2018 and a disappointing current account balance.

SA's weak environment is occurring during a period of stronger global growth, and one where the US Federal Reserve is comfortable to continue draining liquidity through rate hikes and quantitative tightening. The portfolio selection has resulted in a balance between old economy staples and newer, higher-growth opportunities. What these businesses have in common, apart from their prodigious cash generation and exceptional returns on capital, is an ability to grow with a lower dependence on the economic cycle than the average business. In a similar vein, we have sought out locally-listed global businesses with little dependence on a weak South Africa. Locally, the best opportunity remains SA government bonds, offering more attractive risk-adjusted yields as EM risk-off sentiment has come to the fore. At yields of close to 9%, these instruments offer far higher risk-adjusted return potential than the retail, banking and property sectors. Investec therefore maintains a balance of exposures in the portfolio that offer protection in a number of different investment environments.

Over the past year, Investec returned 11.1%.

PRUDENTIAL
PORTFOLIO MANAGERS

PRUDENTIAL ABSOLUTE RETURN

In South Africa, it was a tough quarter for investors as the rand, bonds and equities all came under selling pressure amid the risk-averse global sentiment, as well as from largely unfavourable domestic data. Resources shares were a notable exception, helped by the stronger US dollar. SA's first quarter GDP growth shocked the market with a sharp contraction of -2.2% (q/q annualised). Prudential remains underweight global bonds and global cash, and overweight global equities, with the latter offering attractive valuations in many markets, particularly when viewed relative to bonds, and much higher potential returns over the medium term. Offshore exposure remains at around 25% in higher return-targeting multi-asset funds.

Prudential continues to be underweight global sovereign bonds and underweight duration to reduce interest rate risk, preferring to hold investment-grade US and European corporate bonds. In SA nominal bonds, following the quarter's sizeable rise in yields, valuations became more attractive compared to their longer-term average and we see them as cheap. Consequently, Prudential added to their current modest overweight when yields reached levels over 9.0%. This was funded from cash holdings. Longer-dated government bonds are still preferred due to the more attractive yields on offer.

For global equities, gains in developed markets over the quarter lifted valuations slightly, but these are still modestly cheap on a broad basis, having started the quarter at about 10% cheap. However, valuation disparities between developed and emerging markets widened in the second quarter, with markets like the Nasdaq returning 7.3% and S&P 500 3.4%, while many emerging markets were punished, making many materially cheap. Prudential continues to prefer the global banking sector, which has underperformed the broader market, as well as certain developed markets where equities are undervalued but fundamentals for earnings growth remain positive, including Germany and Japan, and selected emerging markets such as South Korea, Indonesia, Turkey and China. These overweight positions are financed primarily by an underweight in global bonds, as well as US equities to a lesser extent. As in the previous quarter, Prudential still sees better value in many regions compared to SA.

SA equity earnings have been depressed relative to their long-term trends, and therefore have the potential to improve if the current government has even modest success in lifting the rate of potential growth. SA equities moved to more attractive valuations during the quarter: the ALSI 12-month forward P/E fell to around 13.7X at quarter-end from around 14.1X in the first quarter. During the quarter, Prudential took profits and sold down overweight resources position following the sector's 20%+ gains in recent months. However, portfolios still hold resources stocks with exposure to global growth like Anglo American, BHP Billiton, Exxaro, Sasol and Sappi, as well as global giants such as Naspers and British American Tobacco.

Prudential has also maintained an overweight exposure to financial shares including Old Mutual, Standard Bank and Barclays Group Africa, which have offered attractive valuations with relatively high dividend yields. The manager is still underweight retail stocks in our house view portfolios, but do hold select overweight's in Pick 'n Pay and Foschini. Prudential is neutral SA listed property. Even though the sector has fallen sharply in value, this is still largely due to the effect of the Resilient group's share prices. Excluding the four Resilient companies, the asset class is trading modestly above its fair value range. It is priced to deliver attractive low double-digit returns over the medium term, but the manager remains concerned about the risks in the sector, including slow growth and rising inflationary pressures.

Over the past year. Prudential returned 12.1%.

SANLAM INVESTMENT MANAGERS (SIM) ABSOLUTE RETURN

The month of June saw equities bounce back into positive territory, with the FTSE/JSE All Share Index gaining 2.8% (after a 3.5% decline in May) on the back of a weaker rand, and despite the risk-off market sentiment still prevalent during the month. Leading the charge were the consumer services sector (+9.4%) and basic materials (+6.0%). On the opposite end of the performance scale, the big losers were telecommunications (-7.2%), healthcare (-3.0%) and financials (-2.9%). There was again no respite in the property sector sell-off (-3.5%), extending the sector's year-to-date loss to -21.3%. Nominal bonds (-1.2%) suffered from the general emerging market bond weakness seen in recent weeks, while inflation-linked bonds (-2.0%) fared even worse. Cash returned a respectable 0.55%.

The effective local equity position of the fund was marginally lower in June relative to May. The fund's nominal bond position was higher, ILBs were again largely unchanged, and cash was slightly higher. The strategy of enhancing the fund's yield by investing in term bank paper and high quality corporate debt instruments, has continued to serve the fund well in the month, while keeping total fund volatility relatively low. The recovery in domestic equities in June, and over the quarter (4.5%) helped fund performance. SIM took advantage of higher bond yields to increase exposure to nominal bonds, with 10-year yields over 9% (as of end-June) providing a compelling return over our long-term inflation expectation of 5.25%. The manager remains more positive on nominal bonds relative to ILBs, with the relative performance of nominal bonds year to date (+4.0% total return) compared to ILBs (-0.5%) supporting this view. Offshore, SIM continues to see better value in European equities compared to US equities based on valuations and cognisant of the various risks that exist in some European economies.

Over the past year, SIM returned 9.0%.

PRUDENTIAL ABSOLUTE CAUTIOUS

In South Africa it was a tough quarter for investors, as the rand, bonds and equities all came under selling pressure amid the risk-averse global sentiment, as well as from largely unfavourable domestic data. Resources shares were a notable exception, helped by the stronger US dollar. SA's Q1 GDP growth shocked the market with a sharp contraction of -2.2% (q/q annualised). Prudential remain underweight global bonds and global cash, and overweight global equities, with the latter offering attractive valuations in many markets, particularly when viewed relative to bonds, and much higher potential returns over the medium term.

Prudential continue to be underweight global sovereign bonds and underweight duration to reduce interest rate risk, preferring to hold investment-grade US and European corporate bonds. In SA nominal bonds, following the quarter's sizeable rise in yields, valuations became more attractive compared to their longer-term average and we see them as cheap. Consequently, Prudential added to their current modest overweight when yields reached levels over 9.0%. This was funded from cash holdings. Longer-dated government bonds are still preferred due to the more attractive yields on offer.

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ASSET MANAGER REVIEW

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Over the past year, Prudential returned 7.8% .



IMPORTANT INFORMATION

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