TREVOR PASCOE, CEO

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OLD MUTUAL MULTI-MANAGERS BUSINESS UPDATE

RECALLED, RESHUFFLED, RE-RATED ... RETURNS

As 2017 was settling down to all the surprises of last year and the positive signs of growth were sprouting in South Africa, the key uncertainty – political risk – reared its head. Most economists were optimistic heading into 2017, with the proviso that there was political stability and fiscal discipline. Unfortunately the economist caveat reared its head in a very significant way; the ramifications of which could be quite drastic for South Africa.

As an asset manager it is times like these that make life very interesting to say the least. We can look back at very recent history and note that:

- Brazil and Russia saw bond prices increase after being downgraded to junk
- Bond yields recovered after Nenegate
- South Africa saw global inflows into bonds after the Finance Minister's recall from London
- The rand is stronger than it was a year ago
- Cost of borrowing is still lower than it was a year ago
- Returns on most balanced funds increased over the two week-period from Pravin Gordhan's recall and Fitch's downgrade

As indicated above, despite the negative news, multi-asset class fund returns have been positive. The rand weakening by about 12% has led to improvement in offshore returns, as well as rand hedged local securities. With more than 50% of the JSE companies' earnings being in dollars, the local bourse has had a pretty good two weeks. The question, however, remains, what does the future hold from a returns perspective?

It seems clear that if the President gets his way in controlling Treasury and the nuclear deal goes through, we will have a problem in achieving our real return targets. Should the 'people uprising' that we are seeing lead to a change in direction by Government or the ANC, we could be heading towards more normalised markets that will make asset allocation easier.

You will probably have noted that three of the four Inflation Plus Strategy funds are sitting in the top quartile over one year. This demonstrates the value of our approach in managing the unit trust funds on a targeted return basis. During 2015 when we implemented the change in investment strategy away from the SYm|mETRY absolute return approach, the funds did struggle – mainly due to underperformance from some of the managers and our overweight emerging markets. Staying with our manager line-up and retaining emerging market exposure have proved to be the correct call and showed benefit through 2016 and the start of 2017.

Always remember that while you keep looking after your clients, we remain committed to managing their valuable investments in line with our sound investment philosophy.

All the best

Trevor

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