FUTUREGROWTH
/ ASSET MANAGEMENT

# Monthly Review

September 2018

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## The Futuregrowth story: Past and future

A vision unfolding

In the wake of South Africa's democratic transition, Futuregrowth was founded in 1994, with a small suite of investment funds focused on social development and empowerment, and with the vision of creating a sustainable channel for pension funds to invest in disadvantaged communities and national development.

Fast forward more than 20 years: Today, Futuregrowth manages around R185 billion (+/- US$13 billion) of clients' assets, across the full range of fixed interest and development funds, and plays a leadership role in the asset management industry in South Africa. During this time we have not wavered from our purpose: to protect and grow investors' savings through skill and diligence, while being a force for good in the markets and environment in which we operate.

This sense of purpose is based on our belief that investors can make a positive difference in society while earning sound investment performance for pension fund members. That has inspired us to pioneer development funds in sectors such as infrastructure, rural and township retail property, agriculture and renewable energy, providing finance to innovative deals including low-income housing construction, a church in Soweto, urban regeneration projects, taxi finance, and alternative energy, to name a few.

As a responsible investor we engage with our industry and investee companies privately, and sometimes publicly, on sustainability issues. As examples: We have been working steadfastly to improve South Africa's debt capital market standards. In 2013, we identified unfair, unsustainable and prejudicial practices within the consumer lending industry. We chose to stop lending to such businesses in our developmental funds and publicly called for industry reform. And in 2016, we announced that we could no longer in good conscience invest pension fund members' assets in certain State Owned Enterprises (SOEs) until we had concluded detailed governance reviews.

The original concept of Futuregrowth is still alive and thriving in the Futuregrowth of today. Even though the company has developed into a successful asset management business, the philosophical belief on which the business was founded back in 1994 is still at the core of everything we do.

# Market review

## Economic and market review

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|---|---|
| A cruel quarter for emerging markets | The third quarter of this year was particularly cruel for emerging markets, mainly due to the barrage of negative news flow from Turkey and Argentina. This was in addition to existing headwinds like the escalating risk of more international trade restrictions between the United States (US) and key trading partners, which may have potentially dire consequences for emerging markets if they come to fruition. As market sentiment turned sour, foreign investors predictably responded by becoming large-scale sellers of emerging market bonds and currencies. |
| Large-scale foreign bond selling contributed to rand weakness | In the case of South Africa, foreign investors sold R17 billion of rand denominated RSA government bonds over this period, contributing to net sales of just short of R60 billion for the first nine months of this year. Although dwarfed by the excessively sharp depreciation of the new Turkish lira and Argentine peso, the rand, like most other emerging market currencies, failed to escape the carnage as it depreciated by approximately 11% against the US dollar from the end of June to early September. In the process, the local currency reached its weakest level against the greenback since June 2016. Although the rand retrieved some lost ground during the last three weeks of September, it is still about 20% weaker compared to its best level this year. This, in turn, contributed to heightened market fears of additional future inflationary pressure and a possible rate increase by the South African Reserve Bank (SARB). Although the SARB resisted the temptation to hike its policy rate, it utilised every opportunity to warn against the risks to higher inflation. This implies higher future monetary rates, should the rate of inflation accelerate too fast for its liking. A close 4:3 Monetary Policy Committee (MPC) voting split in favour of no interest rate increase at the September MPC meeting bears evidence of the Committee's recent hawkish bias. |
| Local data releases largely played into the hands of the bears | While negative international developments were prominent, local data releases also contributed to negative market sentiment. The rate of inflation at both consumer and producer levels continued to climb higher, with the latter now just outside the top end of the inflation target range. Most disappointing was the release of gross domestic production data for the second quarter of this year which confirmed a "technical" recession, namely, a negative quarterly growth rate for two consecutive quarters. From a bond market perspective, it is noteworthy that weak economic growth could hamper tax revenue collection, particularly of Corporate Income Tax (CIT) which is already lagging behind the budget estimated growth of 6.0% with lacklustre cumulative year on year growth of only 2.8%. If this is unmatched by expenditure cuts, fiscal consolidation will be at risk. This, in turn, would lead to a higher funding requirement and possibly further sovereign credit rating downgrades. Fortunately, the latest available data shows that South Africa's cumulative main budget fiscal deficit for the first five months of the 2018/19 fiscal year is still only marginally behind, relative to the budget presented in February this year. |
| Cash once again rendered the highest return in the interest rate bearing space | The events described above not only forced bond yields across the yield curve to higher levels, but also contributed to significant intra-quarter volatility. The extent of this volatility is demonstrated by the trading range of 8.57% to 9.25% of the benchmark R186 (maturity 2026). A late quarter relief rally caused the R186 to gain some lost ground, but it still closed the quarter 15 basis points higher at 8.99%. The net increase in yields during the quarter led to a disappointing JSE ASSA All Bond Index (ALBI) return of 0.8%. Although the inflation-linked bond market initially failed to escape negative market sentiment, real yields stabilised at higher levels towards the end of the quarter, bringing to an end the sharp rise in real yields that started in April this year. As a result, the JSE ASSA Government Inflation-linked Index (IGOV) returned only 0.5% for the quarter. However, this was a significant improvement considering the second quarter return of -4.6%. Cash retained the top position for the period under consideration, returning 1.6%. |

# Market summary

## Key macroeconomic themes

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|---|---|
| Economic growth | A moderate global economic recovery remains our base case, with a sustained, strong US economic recovery still leading the way. The significant loosening of US fiscal policy will continue to contribute positively to growth, although this expansionary attempt by the US Government could be moderated by tightening monetary policy. Even so, we believe that the global recovery will continue to be structurally lower than in previous cycles, mainly due to lower productivity growth, ongoing broad-based balance sheet repair (deleveraging), and shifting demographics (ageing populations tend to save more and spend less). In the short term, we expect the tension pertaining to international trade protectionism to escalate mainly on the back of a worsening China-US trade dispute, which currently sees no conciliatory efforts from either of the powerhouses. Compromised global trade relations, coupled with higher crude oil prices, could become a larger drag on the global growth outlook than initially anticipated.<br><br>Locally, the biggest impediment to higher local growth remains of a structural nature. The low growth trap persists, largely due to policy vacuum, policy uncertainty, low levels of fixed capital investment, and a rigid labour market. While acknowledging the positive steps towards improved governance, marked by the reconfiguration of the boards of Eskom and Transnet boards and, most recently, the fast tracking of the finalisation of the mining charter, state-owned enterprises still remain a negative risk to the fiscus and, consequently, to domestic economic growth. For now, the risk of a failed economic recovery remains the biggest threat to our current investment theme. |
| Inflation | The US remains at the forefront of the global reflation effort, with a decade of ultra-easy monetary policy and recent fiscal stimulus yielding satisfactory inflationary effects. Progress towards European reflation is also highlighted by the recent announcement of asset purchase tapering by the European Central Bank (ECB). Although global reflation is welcomed, since this is what policy makers had aimed to achieve, it is important that the feed-through to underlying inflation remains contained. It is noteworthy, however, that final demand is not yet strong enough to cause core inflation rates in most developed economies to sustainably breach central bank targets.<br><br>Locally, the telegraphed drop in food inflation and a broadly neutral currency view results in our 2018 annual average inflation forecast of 4.8%. The net impact of recent tax changes, the one percentage point VAT hike in particular, has had an insignificant pass-through to consumer inflation thus far, and is therefore negligible to our inflation outlook. On the other hand, the sharp increase in the rand oil price and the threat of renewed currency weakness will contribute to upside inflation risk over the medium term. Even so, the pass-through of rand weakness to inflation still appears to be relatively weak, supporting the view that the near term acceleration in the rate of inflation may still turn out to be relatively benign, thus remaining within the SARB's target range. |

## **Key macroeconomic themes** continue

| | |
|---|---|
| **Balance of payments** | Strong rand appreciation in December 2017 and the first three months of 2018 (and a resultant loss of competitiveness relative to peers) is undoing some of the previous benefit of rand weakness to the overall balance of payments. As a result, we expect a marginal widening of the current account balance from an annual average of -2.5% of Gross Domestic Product (GDP) in 2017, to -3.5% in both 2018 and 2019. Even with the significant cumulative net selling of rand denominated bonds and equities of R76 billion that we've seen thus far this year, the unfavourable income account deficit (primarily due to the large net dividend and interest payments to foreigners) remains a considerable drag on a sustained and meaningful balance of payments' correction. Rising international trade tension and the sharp increase in crude oil prices are cumulatively negative developments that will adversely impact the balance of payments, especially for a small open economy like South Africa, with strong eurozone and Chinese trade links. |
| **Monetary policy** | With the unemployment rate in the US now officially below 4% and inflation pressures gradually building, we believe that the Federal Reserve should continue with its interest rate normalisation process. While the Federal Reserve intends to reduce the size of its balance sheet in an interest rate neutral manner, we are of the opinion that the sheer size of this reduction should contribute to a gradual lift in the ceiling for US Treasury yields (which is already visible, with the 10-year Treasury Bond once again surpassing the 3% mark in the latter part of September), especially if the economic recovery continues to gather momentum. In addition, the expected widening of the Federal budget deficit for the forthcoming fiscal year on the back of strong economic growth momentum will create additional scope for monetary policy normalisation.<br><br>The current trend of global monetary policy divergence is slowly changing from an overall quantitative easing stance to moderate tightening - with more policy tightening in the US on the cards, and the ECB confirming that it will continue to taper its bond buying programme. All told, we expect central bank hawks to slowly gain some ground over the next few months.<br><br>The SARB is expected to maintain its more cautious stance, which we fully support. Factors contributing to this stance include: renewed pressure on the balance of payments; the fact that actual inflation is back above the midpoint of the target range (which the SARB has consistently telegraphed as the desired target point); inflation expectations remaining stubbornly close to the top end of the target band; and the waning support provided by a decade of ultra-loose global monetary policy. The risk to the stable repo rate outlook is skewed to the upside, mostly due to upside risks to the current inflation outlook. Even so, the central bank is not prone to respond in a panicked manner to shocks such as the recent emerging market sell-off. |
| **Fiscal policy** | Following the tabling of a less alarming national budget in February, National Treasury is still confronted by a very challenging fiscal path. As we have previously highlighted, structurally weak domestic growth is severely impeding the consolidation of SA's budget balance. We now look to the actual delivery of fiscal and wide-ranging state-owned enterprise reform to reinvigorate consumer and business confidence. On the brighter side, main budget numbers for the first five months of the 2018/19 fiscal year are tracking the budget estimates closely, with only a marginal shortfall due to a combination of underspending and significant resilience from VAT (and personal income tax receipts, to a lesser extent). Even so, we remain concerned about the sustainability of fiscal consolidation, due to the weak growth backdrop and the quality of tax revenue collections, specifically related to CIT. |

# Investment view and strategy

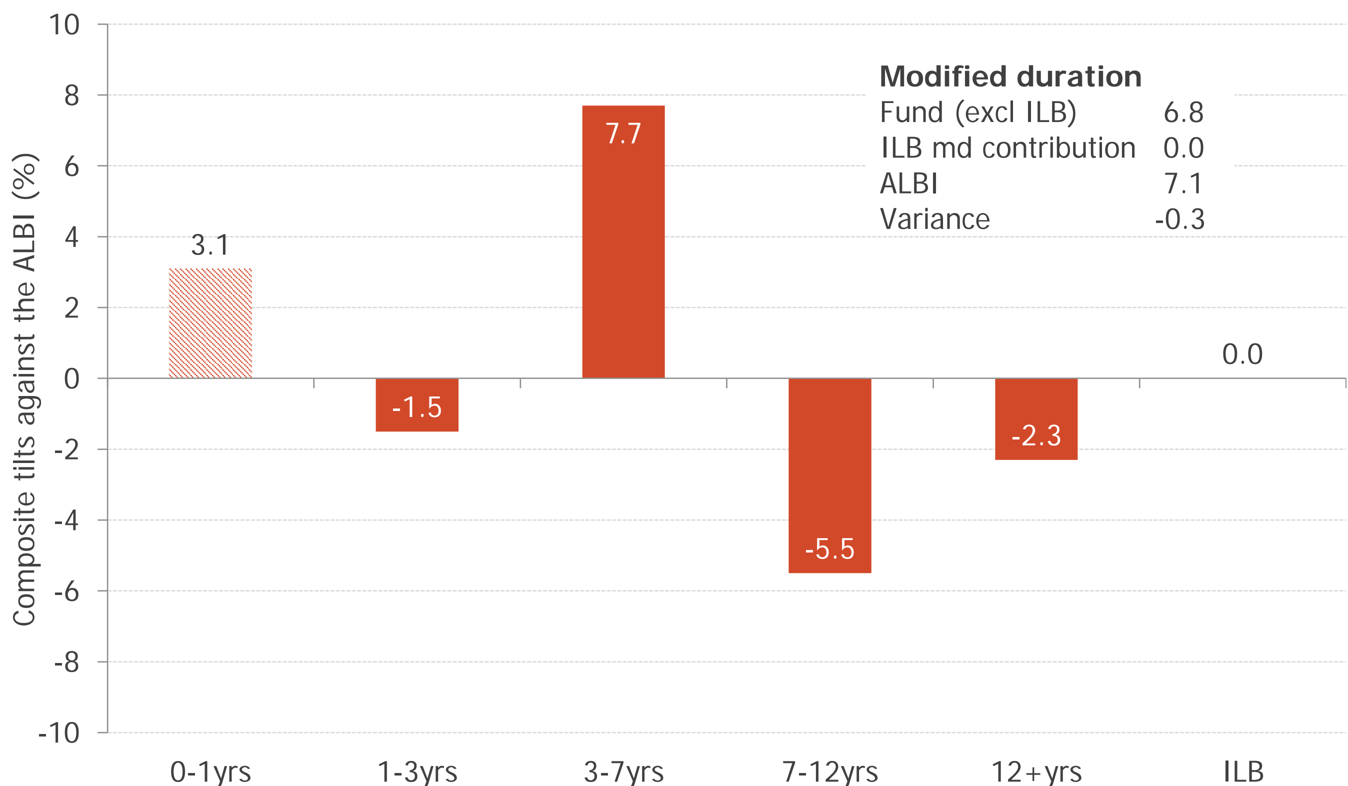
The recent, more sustained pick-up in global bond yields notwithstanding, our view remains that most developed bond markets are still not appropriately priced. In the case of the US, the strong pace of economic growth, the low level of unemployment and evidence of sustained higher inflation support further US monetary policy tightening. We believe that the Federal Reserve is in a position to lift its policy rate by at least another 25 basis points this year. More importantly, at a global level, the trend continues to gradually shift from quantitative easing to quantitative tightening.

Locally, our main concern with regards to the bond market remains the strong link between lacklustre economic growth and fiscal consolidation, or, more specifically, the rising debt burden of government, which arises as a consequence of a lack of fiscal consolidation and therefore continues to threaten the country's sovereign risk profile. The risk of a failed economic recovery has risen following a slew of disappointing data releases over the past quarter. This makes us question the quality of tax revenue collections, which, in turn, keeps the risk of a budget deficit overrun at elevated levels.

On the monetary policy front, we maintain our view that the SARB will remain hostage to the opposite forces of a lacklustre economic growth outlook and upside risks to inflation. For now, this, to us, suggests a stable policy path. The risk to this view is skewed in favour of some upside risk to inflation and thus interest rates.

While the observable investment theme and related real time developments mostly have negative consequences for the local bond market, it is important to note that current market valuation is largely reflective of this. Cheaper market valuations following the sell-off during the second quarter afforded us an opportunity to cautiously increase risk by selectively buying bonds. We shall continue to look for opportunities to increase bond market exposure, but only into bouts of weakness, considering the level of uncertainty discussed above.

As a result, our broad interest rate investment strategy remains defensive. In the case of our Core Bond Composite (benchmarked against the All Bond Index), this is expressed as follows:



## Key economic indicators and forecasts (annual averages)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Global GDP | 2.8% | 2.9% | 2.5% | 3.3% | 3.3% | 3.2% |
| SA GDP | 1.5% | 1.3% | 0.3% | 1.3% | 0.9% | 2% |
| SA Headline CPI | 6.1% | 4.6% | 6.3% | 5.3% | 4.8% | 5.0% |
| SA Current Account (% of GDP) | -5.4% | -4.4% | -3.3% | -2.0% | -3.5% | -3.5% |

Source: Old Mutual Investment Group

## Produced by the Interest Rate Team

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# Product information and performance

| Product | Benchmark | Description | Portfolio manager | Inception date | Investment returns | 1 Year | 3 Years* | 5 Years* | 7 Years* | 10 Years* | Since inception* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **MONEY MARKET** | | | | | | | | | | | |
| Call Money Market | Average Call rate of four largest SA banks | Aims to provide maximum return on overnight cash investments. | Nazley Bardien | January 2000 | Product<br>Benchmark<br>Outperformance | 6.83%<br>6.54%<br>0.29% | 6.96%<br>6.62%<br>0.34% | 6.40%<br>6.02%<br>0.38% | 6.03%<br>5.61%<br>0.42% | 6.42%<br>5.96%<br>0.46% | 7.06%<br>6.60%<br>0.46% |
| Core Money Market | STeFI 3-month Index | Targets high cash returns through a carefully balanced and actively managed mix of short-term interest-bearing investments. The weighted average duration for the Composite may not exceed 120 days. | Michael van Rensburg | July 2004 | Product<br>Benchmark<br>Outperformance | 8.02%<br>6.93%<br>1.09% | 8.12%<br>6.98%<br>1.14% | 7.43%<br>6.47%<br>0.96% | 6.96%<br>6.12%<br>0.84% | 7.38%<br>6.51%<br>0.87% | 7.88%<br>7.12%<br>0.77% |
| 180 day Enhanced Money Market | STeFI Composite Index | Targets high cash returns through a carefully balanced and actively managed mix of short- and medium-term interest-bearing investments with maturities ranging from 180 days to 2 years. | Michael van Rensburg | July 2004 | Product<br>Benchmark<br>Outperformance | 8.19%<br>7.27%<br>0.92% | 8.37%<br>7.34%<br>1.04% | 7.66%<br>6.81%<br>0.85% | 7.18%<br>6.40%<br>0.78% | 7.62%<br>6.71%<br>0.91% | 8.11%<br>7.26%<br>0.85% |
| **STEFI PLUS** | | | | | | | | | | | |
| Yield Enhanced A STeFI+ Short Term | STeFI Composite Index | Targets high cash returns through active interest rate risk management and yield enhancement. The Composite's weighted average rated credit quality must be a minimum of A-. Weighted average term to maturity less than 365 days. | Rhandzo Mukansi | October 2002 | Product<br>Benchmark<br>Outperformance | 8.80%<br>7.27%<br>1.53% | 8.86%<br>7.34%<br>1.53% | 8.23%<br>6.81%<br>1.43% | 8.05%<br>6.41%<br>1.65% | 8.33%<br>6.82%<br>1.51% | 8.98%<br>7.75%<br>1.23% |
| Yield Enhanced A STeFI+ | STeFI Composite Index | Targets high cash returns through active interest rate risk management and yield enhancement. The Composite's weighted average rated credit quality must be a minimum of A based on official ratings. Weighted average term to maturity less than five years. | Rhandzo Mukansi | January 2010 | Product<br>Benchmark<br>Outperformance | 9.88%<br>7.27%<br>2.62% | 10.02%<br>7.34%<br>2.69% | 9.19%<br>6.81%<br>2.38% | 8.87%<br>6.41%<br>2.46% | | 8.86%<br>6.41%<br>2.45% |
| Yield Enhanced BBB STeFI+ | STeFI Composite Index | Targets high cash returns through active interest rate risk management and yield enhancement. The Composite's weighted average rated credit quality must be a minimum of BBB. | Daphne Botha | February 2010 | Product<br>Benchmark<br>Outperformance | 10.92%<br>7.27%<br>3.65% | 11.32%<br>7.34%<br>3.98% | 10.75%<br>6.81%<br>3.94% | 10.42%<br>6.41%<br>4.02% | | 10.29%<br>6.40%<br>3.90% |

| Product | Benchmark | Description | Portfolio manager | Inception date | Investment returns | 1 Year | 3 Years* | 5 Years* | 7 Years* | 10 Years* | Since inception* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **STEFI PLUS CONT.** | | | | | | | | | | | |
| Yield Enhanced BB STeFI+ | STeFI Composite Index | Targets high cash returns through active interest rate risk management and yield enhancement. The Composite's weighted average rated credit quality must be a minimum of BB. | Daphne Botha | January 2012 | Product<br>Benchmark<br>Outperformance | 11.36%<br>7.27%<br>4.09% | 11.23%<br>7.34%<br>3.89% | 12.25%<br>6.81%<br>5.45% | | | 11.85%<br>6.43%<br>5.42% |
| Yield Enhanced Geared BB STeFI+ | STeFI Composite Index | Targets high cash returns through active interest rate risk management and yield enhancement, as well as equity risk. The Composite's weighted average rated credit quality must be a minimum of BB-. | Daphne Botha | January 2008 | Product<br>Benchmark<br>Outperformance | 10.96%<br>7.27%<br>3.69% | 11.20%<br>7.34%<br>3.86% | 12.03%<br>6.81%<br>5.23% | 11.43%<br>6.41%<br>5.02% | 11.70%<br>6.82%<br>4.88% | 11.81%<br>7.14%<br>4.67% |
| Power Debt | STeFI Composite Index | Targets high cash returns through active interest rate risk management and yield enhancement. The Composite's weighted average rated credit quality must be a minimum of BBB. Investments in this product are limited to listed and unlisted assets in the power sector and supporting industries. | Paul Semple | May 2014 | Product<br>Benchmark<br>Outperformance | 11.15%<br>7.27%<br>3.88% | 11.48%<br>7.34%<br>4.14% | | | | 11.43%<br>7.00%<br>4.43% |
| **INCOME** | | | | | | | | | | | |
| Core Income | 50% STeFI Call Deposit Index; 50% 3-7 Years All Bond Index | Aims to deliver excess return by investing in money market and bond assets with a focus on yield enhancement while limiting interest rate risk to a maximum average duration of two years. | Wikus Furstenberg | November 2002 | Product<br>Benchmark<br>Outperformance | 7.22%<br>6.69%<br>0.53% | 8.05%<br>7.93%<br>0.11% | 7.39%<br>7.22%<br>0.17% | 7.11%<br>6.69%<br>0.42% | 7.78%<br>7.20%<br>0.59% | 8.52%<br>7.93%<br>0.58% |
| Flexible Income | 110% SteFI Call Index | Aims to deliver excess return by investing in money market, bonds, preference shares and listed property and taking advantage of yield enhancement and capital growth opportunities. The composite is not limited by duration constraints. | Wikus Furstenberg | July 2006 | Product<br>Benchmark<br>Outperformance | 8.25%<br>7.31%<br>0.94% | 8.49%<br>7.41%<br>1.08% | 7.63%<br>6.85%<br>0.78% | 7.86%<br>6.47%<br>1.39% | 8.62%<br>7.16%<br>1.46% | 8.90%<br>7.31%<br>1.59% |
| Yield Enhanced Income | 20% All Bond Index; 80% STeFI Composite Index | Aims to deliver excess returns through a combination of active interest rate risk management and yield enhancement by investing in listed and unlisted assets. Interest rate risk is constrained. | Wikus Furstenberg | May 2012 | Product<br>Benchmark<br>Outperformance | 9.58%<br>7.30%<br>2.28% | 9.47%<br>7.46%<br>2.01% | 8.92%<br>6.93%<br>1.99% | | | 8.84%<br>6.71%<br>2.13% |

| Product | Benchmark | Description | Portfolio manager | Inception date | Investment returns | 1 Year | 3 Years* | 5 Years* | 7 Years* | 10 Years* | Since inception* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **INTEREST RATE ASSET ALLOCATION** | | | | | | | | | | | |
| Interest Rate Asset Allocation | ALBI (62.5%); JSE ILB IGOV Index (30%); STeFI Call Deposit Index (7.5%) | Aims to deliver excess return mainly through a combination of aggressive asset allocation within the various interest-bearing asset classes. | Wikus Furstenberg | July 2010 | Product<br>Benchmark<br>Outperformance | 6.44%<br>5.22%<br>1.23% | 7.26%<br>6.27%<br>0.99% | 7.62%<br>6.55%<br>1.06% | 8.77%<br>7.46%<br>1.31% | | 9.09%<br>7.98%<br>1.11% |
| **INFLATION-LINKED BONDS** | | | | | | | | | | | |
| Passive ILB Index | JSE ILB IGOV Index | Aims to match the returns of the benchmark through passive interest rate and yield curve management. | Nazley Bardien | September 2005 | Product<br>Benchmark<br>Outperformance | 0.72%<br>0.75%<br>-0.03% | 3.10%<br>3.08%<br>0.02% | 5.14%<br>5.16%<br>-0.02% | 6.62%<br>6.68%<br>-0.06% | 7.60%<br>7.67%<br>-0.07% | 8.45%<br>8.52%<br>-0.07% |
| Core ILB | JSE ILB IGOV Index | Aims to deliver excess return through active interest rate risk management and limited yield enhancement. | Wikus Furstenberg | November 2005 | Product<br>Benchmark<br>Outperformance | 1.33%<br>0.75%<br>0.59% | 3.55%<br>3.12%<br>0.44% | 5.39%<br>5.16%<br>0.23% | 7.04%<br>6.68%<br>0.37% | 8.08%<br>7.67%<br>0.40% | 8.61%<br>8.28%<br>0.33% |
| Yield Enhanced Long Duration ILB | Barclays SAGILB 15+ Total Return Index | Targets high cash returns through a combination of active, real and nominal interest rate risk management and yield enhancement by investing in listed and unlisted assets. | Jason Lightfoot | June 2011 | Product<br>Benchmark<br>Outperformance | -0.14%<br>-1.67%<br>1.53% | 3.13%<br>1.11%<br>2.02% | 6.87%<br>4.73%<br>2.14% | 8.54%<br>6.32%<br>2.22% | | 8.47%<br>6.46%<br>2.00% |
| Power ILB | RSA Inflation Linked Government Bond I2038 Total Return Index | Targets high cash returns through a combination of active, real and nominal interest rate risk management and yield enhancement by investing in listed and unlisted assets in the power sector and supporting industries. | Jason Lightfoot | January 2014 | Product<br>Benchmark<br>Outperformance | 0.57%<br>-2.11%<br>2.68% | 4.95%<br>1.80%<br>3.15% | | | | 3.44%<br>0.36%<br>3.07% |
| Infrastructure & Development ILB | Barclays BESA SAGILB 15+ | Targets high cash returns through a combination of active, real and nominal interest rate risk management and yield enhancement by investing in listed and unlisted socially responsible and developmental assets. | Jason Lightfoot | November 2016 | Product<br>Benchmark<br>Outperformance | -0.89%<br>-1.67%<br>0.78% | | | | | -1.39%<br>-2.38%<br>1.00% |
| **NOMINAL BONDS** | | | | | | | | | | | |
| Passive All Bond | All Bond Index | Aims to match the returns of the benchmark through passive interest rate and yield curve management. | Nazley Bardien | June 2000 | Product<br>Benchmark<br>Outperformance | 7.09%<br>7.14%<br>-0.04% | 7.66%<br>7.66%<br>0.00% | 7.15%<br>7.16%<br>-0.01% | 7.92%<br>7.92%<br>0.01% | 8.54%<br>8.55%<br>-0.01% | 10.58%<br>10.56%<br>0.02% |

| Product | Benchmark | Description | Portfolio manager | Inception date | Investment returns | 1 Year | 3 Years* | 5 Years* | 7 Years* | 10 Years* | Since inception* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **NOMINAL BONDS cont.** | | | | | | | | | | | |
| Core Bond | All Bond Index | Aims to deliver excess return through a combination of interest-bearing asset allocation, active duration management and yield enhancement. | Daphne Botha/ Wikus Furstenberg/ Rhandzo Mukansi | January 2000 | Product<br>Benchmark<br>Outperformance | 7.82%<br>7.14%<br>0.68% | 8.21%<br>7.66%<br>0.55% | 7.67%<br>7.16%<br>0.51% | 8.62%<br>7.92%<br>0.70% | 9.36%<br>8.55%<br>0.81% | 11.07%<br>10.46%<br>0.61% |
| Yield Enhanced Bond | All Bond Index | Targets high cash returns through a combination of active interest rate risk management and yield enhancement by investing in listed and unlisted assets. | Jason Lightfoot | December 2001 | Product<br>Benchmark<br>Outperformance | 9.24%<br>7.14%<br>2.11% | 9.68%<br>7.66%<br>2.02% | 9.43%<br>7.16%<br>2.27% | 10.32%<br>7.92%<br>2.40% | 11.03%<br>8.55%<br>2.48% | 11.08%<br>9.14%<br>1.94% |
| Infrastructure & Development Bond | All Bond Index | Targets high cash returns through a combination of active interest rate risk management and yield enhancement by investing in listed and unlisted socially responsible and developmental assets. | Jason Lightfoot | January 1995 | Product<br>Benchmark<br>Outperformance | 9.26%<br>7.14%<br>2.13% | 9.52%<br>7.66%<br>1.86% | 9.43%<br>7.16%<br>2.27% | 10.40%<br>7.92%<br>2.47% | 11.12%<br>8.55%<br>2.56% | 12.43%<br>10.46%<br>1.97% |
| **DEVELOPMENTAL INVESTMENTS** | | | | | | | | | | | |
| Infrastructure & Development Bond | All Bond Index | Targets high cash returns through a combination of active interest rate risk management and yield enhancement by investing in listed and unlisted socially responsible and developmental assets. | Jason Lightfoot | January 1995 | Product<br>Benchmark<br>Outperformance | 9.26%<br>7.14%<br>2.13% | 9.52%<br>7.66%<br>1.86% | 9.43%<br>7.16%<br>2.27% | 10.40%<br>7.92%<br>2.47% | 11.12%<br>8.55%<br>2.56% | 12.43%<br>10.46%<br>1.97% |
| Development Equity | Consumer Price Index (CPI) + 10% | Targeting high returns by investing in equity and related assets that are socially responsible or developmental. | James Howard & Sarah de Villiers | September 2006 | Product<br>Benchmark<br>Outperformance | 10.13%<br>14.94%<br>-4.81% | 10.90%<br>15.21%<br>-4.31% | 13.64%<br>15.33%<br>-1.69% | 12.64%<br>15.43%<br>-2.79% | 12.39%<br>15.33%<br>-2.94% | 16.50%<br>16.06%<br>0.44% |
| Community Property | Consumer Price Index (CPI ) + 4% | A portfolio specialising in the finance and development of retail shopping centres catering to the needs of under-serviced communities throughout South Africa. | Smital Rambhai | June 1996 | Product<br>Benchmark<br>Outperformance | 13.23%<br>8.94%<br>4.29% | 18.80%<br>9.20%<br>9.60% | 14.98%<br>9.33%<br>5.65% | 13.26%<br>9.43%<br>3.83% | 12.12%<br>9.32%<br>2.79% | 13.79%<br>9.79%<br>4.00% |
| Agri | Consumer Price Index (CPI) + 10% | A portfolio specialising in equity investments in agricultural land, agribusinesses and farming infrastructure. | Smital Rambhai (Product Manager) | March 2010 | Product<br>Benchmark<br>Outperformance | N/A | | | | | |

| Product | Benchmark | Description | Portfolio manager | Inception date | Investment returns | 1 Year | 3 Years* | 5 Years* | 7 Years* | 10 Years* | Since inception* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **DEVELOPMENTAL INVESTMENTS cont.** | | | | | | | | | | | |
| Development Balanced** | A composite weighting of the underlying funds' benchmarks. | A balanced portfolio providing investors with social impact from a targeted and development perspective and exposure to listed equities that track the JSE's SRI Index. | James Howard | November 2004 | Product<br>Benchmark<br>Outperformance | 7.28%<br>3.79%<br>3.49% | 8.71%<br>6.36%<br>2.34% | 8.28%<br>6.20%<br>2.08% | 10.95%<br>8.81%<br>2.14% | 10.12%<br>8.99%<br>1.14% | 12.47%<br>11.31%<br>1.16% |
| Power Debt | STeFI Composite Index | Targets high cash returns through active interest rate risk management and yield enhancement. The Composite's weighted average rated credit quality must be a minimum of BBB. Investments in this product are limited to listed and unlisted assets in the power sector and supporting industries. | Paul Semple | May 2014 | Product<br>Benchmark<br>Outperformance | 11.15%<br>7.27%<br>3.88% | 11.48%<br>7.34%<br>4.14% | | | | 11.43%<br>7.00%<br>4.43% |
| Power ILB | RSA Inflation Linked Government Bond I2038 Total Return Index | Targets high cash returns through a combination of active, real and nominal interest rate risk management and yield enhancement by investing in lis ted and unlisted assets in the power sector and supporting industries. | Jason Lightfoot | January 2014 | Product<br>Benchmark<br>Outperformance | 0.57%<br>-2.11%<br>2.68% | 4.95%<br>1.80%<br>3.15% | | | | 3.44%<br>0.36%<br>3.07% |
| Infrastructure & Development ILB | Barclays BESA SAGILB 15+ | Targets high cash returns through a combination of active, real and nominal interest rate risk management and yield enhancement by investing in listed and unlisted socially responsible and developmental assets. | Jason Lightfoot | November 2016 | Product<br>Benchmark<br>Outperformance | -0.89%<br>-1.67%<br>0.78% | | | | | -1.39%<br>-2.38%<br>1.00% |

Currency: ZAR/Gross of fees

*Annualised
**Currently investors are Futuregrowth staff who may elect to invest through their retirement funds.

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