FUTUREGROWTH
ASSET MANAGEMENT

Monthly Review

March 2019

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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 R188.5 billion (+/- US$13.5 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 overview

Growth angst forces major central banks to join the dovish policy tide

Broad-based weak economic data coupled with a very muted inflation backdrop forced some of the world's major central banks to abandon their intentions of future policy tightening. Fragile market sentiment was sent into a tailspin following the Federal Reserve (Fed)'s decision to err on the side of caution and signal no rate increases for the remainder of this year. The Fed went one step further by announcing that the current central bank balance sheet runoff will end in September. This was close on the heels of the European Central Bank (ECB) which earlier in March reiterated a cautious monetary policy stance and restarted a crisis-era bank lending programme in response to a streak of underwhelming Eurozone economic data.

In response, bond yields tumbled across major markets

The major global bond markets entered a bull trend in November last year as investors responded to a downbeat growth outlook. Even so, the most recent policy stance change by two of the world's major central banks forced yields even lower as investors scurried towards the perceived safety of sovereign government bonds. In the Eurozone, the head-over-heels rally forced the yield of the 10-year German Bund into negative territory for the first time in three years. However, this rush into perceived safety comes at an obscure price: investors who bought at the negative yield are guaranteed a nominal loss should they hold the bonds to maturity. In the US, the 10-year Treasury yield reached the lowest level since December 2017 as it decreased sharply to 2.41% at the end of March. This is a very significant 83 basis points below the recent high of 3.24% recorded in October last year.

The strong global bond rally enticed foreign investors into local bonds

The global developments discussed above present somewhat of a dilemma from an emerging market point of view. On the one hand, the weaker global growth outlook bodes ill for vulnerable, small open economies like South Africa, specifically from an economic growth and a balance of payments perspective. Moreover, in the case of South Africa, downside risk to an already anaemic economic growth outlook is of particular concern considering the fragile state of South Africa's government finances. In contrast, an ease in global monetary policy in a benign inflation environment often leads to lower global bond yields, while it also holds the promise of an improved growth outlook as a result of policy stimulation. Typically, it is the latter that investors tend to focus on. This time was no different and foreign buying interest in domestic bonds during the quarter amounted to a net R9bn. This lent much-needed support to the bond market. As a result, the non-resident share of total marketable rand-denominated RSA government debt stabilised at just above 38%, still well below the peak of 43% reached in March 2018.

Investors had to deal with significant rand volatility

Even though the short-term correlation between the rand exchange rate and the local bond market has weakened considerably in recent times, as a result of a substantial breakdown between local currency movements and inflation, it remains difficult for a bond bull rally to be sustained in the presence of significant rand weakness/volatility. Although the exchange rate of the rand against the US dollar is back at year-end levels, the intra-quarter range of R13.25 to R14.65 made it one of the world's most volatile currencies thus far this year. Nervousness around Moody's biannual scheduled credit rating review for South Africa and contagion from the volatile Turkish Lira amid concerns regarding the country's central bank intervention in supporting the currency were some of the noisy negative developments that contributed largely to recent volatility.

Urgently required fiscal consolidation still illusive as ever

Investors in the local bond market had to take particular care to process this year's tabling of the national budget. The biggest news was the extraordinary fiscal support to Eskom: R69bn budgeted over the medium-term expenditure framework (MTEF) as a "provisional allocation" for reconfiguring the entity, to be transferred as a cash injection of R23bn per year over a three-year period. This allocation negates the benefit of departmental expenditure constraint in the 2018/19 fiscal year, and ultimately results in the lifting of the previously sacrosanct expenditure ceiling by R16bn over the MTEF. The net effect of this extraordinary fiscal support for Eskom is a wider budget deficit over the MTEF – now budgeted to peak at -4.5%/GDP in 2019/20. As a result, the gross debt-to-GDP profile is now expected to peak in excess of 60% in 2023/24. To us, this clearly points to sustained fiscal slippage with no near-term prospect of urgent consolidation. Using the phrase "going over the fiscal cliff" is arguably melodramatic, but it is hard to simply brush this risk aside, especially considering the fundamental challenges to persistent anaemic economic growth.

Inflation remains well within the target range, allowing the SARB some welcome breathing space

While the fiscal situation remains perilous at best, the conservative South African Reserve Bank continued to receive welcome news on the inflation front. The rate of inflation at both consumer and producer levels continued to drift lower and was more consistent with the central bank's stated intention to force inflation to the mid-point of the official target range of 3% - 6%. Even though our forecasts suggest that the inflation cycle has bottomed, the outlook remains relatively benign, primarily the result of weak domestic economic activity and a slowing global growth backdrop. The combination of the benign inflation outlook, low economic growth and the global easing of monetary policy assisted the SARB in retaining a neutral policy stance at its March Monetary Policy Committee Meeting.

Nominal bond yields trapped in a relatively tight range

During the first quarter of this year, the yield of the benchmark R186 (maturity 2026) was bound to a relatively narrow range of 8.60% to 8.94%, due to the developments described above. The role non-resident investors played was also relatively muted compared to the second half of 2018 when net selling caused its share of total marketable local currency government bonds to decline from 43% to 38%. Another supportive factor remains from a valuation perspective, with a real yield of almost 4% offered by longer-dated nominal bonds.

On a comparative basis, SA nominal bonds also appear relatively attractive against their emerging market peer group. From a risk perspective, domestic nominal bonds are already trading at a sub-investment sovereign credit rating level.

Inflation-linked bond yields continued to drift higher

In contrast, the market yield offered by inflation-linked bonds has been under renewed upward pressure. The combination of sharply lower inflation, a benign inflation outlook and the fragile fiscal situation did the inflation-linked market no favours. Following a brief respite in January, real yields resumed their drift to higher levels. The yield of the medium dated R197 (maturity 2023) increased from 2.90% at the end of 2018 to 3.17%, the weakest level since November last year. The real yield curve slope also steepened as long-dated real yields increased more than that of shorter-dated bonds.

Nominal bonds delivered a strong performance

The net result of the above developments and market movements on market returns was mixed. The net decrease in medium and long- dated nominal bond yields during the quarter resulted in a strong performance, with the ASSA JSE All Bond Index (ALBI) rendering a total return of 3.8% for the first three months of the year. This was significantly higher than both cash (1.7%) and the JSE Inflation-linked Government Bond Index (IGOV) which returned a mere0.5%.

Market summary

Key macroeconomic themes	
Economic growth	The global economic recovery of the last few years started losing momentum in the latter half of 2018, with recent fears of recession impacting investor sentiment in a significant way. We still do not foresee a broad-based collapse, partly due to late-cycle fiscal expansion in global growth engines such as the US and China. Central banks also remain sensitive to growth signals, especially in light of sustained low inflationary pressures, particularly in developed markets. That said, the risk to our base case is skewed to the downside. The two notable potential catalysts to this downside risk are sustained weak Euro area growth and continued global trade friction, as a result of intensifying protectionism. Locally, the biggest impediment to higher local growth remains of a structural nature. The low-growth trap is largely due to policy uncertainty, weak policy implementation, low levels of fixed capital investment and a rigid labour market. There have been positive steps towards improved governance, such as the reconfiguration of the Eskom and Transnet boards and the finalisation of the mining charter, but the perilous state of most state-owned enterprises remains a negative risk to the fiscus, and therefore to domestic economic growth. This includes the negative impact of the acute operational challenges at Eskom. For now, the risk of a failed economic recovery continues to be the biggest threat to our current investment theme. Should a global growth slowdown culminate, it will worsen the local growth outlook in a significant way.

A Safe Bet: Cash Connect

Futuregrowth has an interest in the promotion and protection of small businesses. We were attracted to Cash Connect which was founded in 2006 as an automated cash handling business – with the intention to provide a secure mechanism for SMMEs in handling cash.

To read about this deal, visit: **www.futuregrowth.co.za/newsroom**

Key macroeconomic themes continue

Inflation

Slow rising global inflation over the past few years has been the result of a combination of firmer total demand, tighter production capacity, higher commodity prices and rising employment costs, brought on primarily by accommodative monetary conditions. However, despite an environment of ultra-accommodative monetary conditions, none of the drivers were strong enough to cause an overshoot of target levels. Considering the current moderation in global economic growth, our base case remains for inflation to remain relatively benign in most economies.

Locally, the telegraphed drop in food inflation and a broadly neutral currency view results in our 2019 annual average inflation forecast of 4.6%. More importantly, there is strong evidence that the pass-through of rand weakness to inflation remains exceptionally weak, reflective of the weak economic growth and the inability of producers and retailers to pass on price increases to the end consumer. This continues to support the view that the near-term acceleration in the rate of inflation is expected to be relatively benign. The targeted inflation rate should remain within the SARB's 3% to 6% range, although still above the more desirable mid-point of 4.5%.

Balance of payments

We expect the negative current account balance to have widened to 3.5% of GDP in 2018 and to remain at similar levels for the following two years. 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. An escalation of international trade tensions still represents the biggest risk to the balance of payments position, especially for a small open economy like South Africa, with strong Eurozone and Chinese trade links.

Monetary policy

With unemployment in the US anchored around a historically low 4%, and moderate growth still seen as more likely than a recession, we believe that the Fed should not simply abandon its interest rate normalisation process, but rather opt to pause for appropriate periods of time, bearing cognisance of the risks to US and global economic growth. We therefore disagree with the current market view of a possible rate reduction by the Fed this year.

The SARB is expected to maintain its more cautious stance, which we fully support. Factors contributing to this stance include sustained pressure on the balance of payments, the fact that inflation expectations remain above the mid-point of the target range, and the possibility that inflation has bottomed for now. This is at least partly balanced by the fact that the central bank is not completely ignorant of persistently weak underlying economic activity. Barring a significant financial crisis, a stable to weak monetary policy tightening cycle remains our base case.

Fiscal policy

Our reading of the February budget would have been kinder if we were convinced that the extraordinary support to Eskom would be enough to negate the fiscal and economic risk the entity poses over the medium term. This seems to be where we differed from the market in our reading of the budget. While over-delivering in its support of Eskom, relative to prior market expectations, we are of the view that Government support still falls short of what is required to keep Eskom solvent over the medium term.

The bottom line: without improved domestic growth, South Africa's debt burden looks increasingly unsustainable – particularly in light of the abandonment of two critical fiscal consolidation anchors, namely, the expenditure ceiling and deficit-neutral SOE funding.

Our investment view and strategy

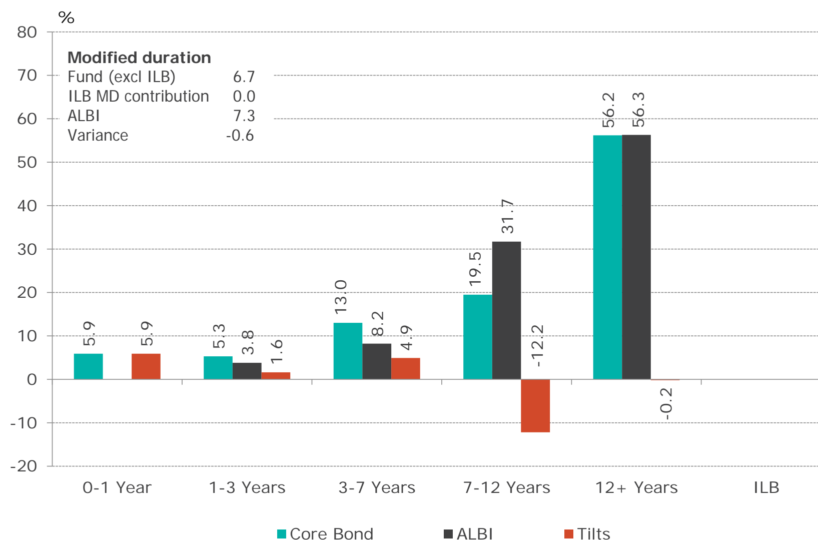
At a global level, the shift from quantitative easing to tightening has stalled, and in some cases even reversed, due to fear of a global growth slowdown. Even so, we are of the view that authorities are prepared to adjust relatively quickly and in some cases are already responding to avoid a broad-based collapse in economic growth. This implies that global bond yields, and more specifically the US Treasury market, have already responded as if an easing cycle has commenced. Our view is somewhat different in the sense that although we agree with a global growth slowdown, the risk of a collapse is small enough to argue in favour of higher bond yields and steeper curves than current levels. However, given the level of uncertainty about the growth outlook, yields may be trapped at the lower levels for a while.

Locally, our main concern regarding the bond market remains the strong link between lacklustre economic growth and the lack of fiscal consolidation. More specifically, this points to the rising debt burden of the state, which arises as a consequence of the lack of fiscal consolidation. This continues to threaten the country's sovereign risk profile and places pressure on domestic funding costs. The risk of a failed economic recovery has certainly not dissipated. Even when accounting for the strong second half rebound in 2018 GDP of 2.6%, and 1.4% in the third and fourth quarters respectively, the underlying economy remains structurally weak with growth for the 2018 calendar year an uninspiring 0.8%. This makes us question the quality of tax revenue collections, and consequently the state of health of the tax base, which in turn keeps the risk of a budget deficit overrun at elevated levels. The financial burden of poorly managed state-owned enterprises on state finances has reached a point where the delivery of a credible national budget is near impossible in the absence of a substantial remedial action for the unfolding financial disaster. The proverbial chickens, mainly in the form of Eskom, have come home to roost and this requires more than the usual liquidity provision. Addressing solvency is an entirely different matter, requiring more than simply kicking the can down the road via more liquidity bail-outs.

On the monetary policy front, we maintain our view, following the repo rate increase in November 2018, that the central bank will remain hostage to the opposing forces of a lacklustre economic growth outlook and limited upside risks to inflation in light of the strong disinflationary environment. For now, this suggests a stable policy path combined with a central bank that will keep warning of their response function to the threat of higher inflation outcomes. The underlying domestic disinflationary trend and the risk to the global growth outlook should not be ignored. On balance, the risk to the stable repo rate outlook is still skewed to the upside, but our base case remains for a stable repo rate.

The bull rally of late, combined with renewed concerns about the fiscal state, convinced us to reduce risk into bouts of market strength. In doing that, we endeavour to strike a balance between avoiding capital loss in the case of a market sell-off and losing out on the accrual offered by a steeply sloped yield curve. We have also considered the fact that nominal bonds are currently trading at an attractive real yield of around 4%. So, while our broad interest rate investment strategy remains defensive, the modified duration variance of -0.60 is still some way off the maximum allowed position of -1.0. Real yields have retraced enough to entice us to close some of our underweight positions.

In the case of our Core Bond Composite (benchmarked against the All Bond Index), our view is expressed as follows:



Key economic indicators and forecasts (annual averages)

	2015	2016	2017	2018	2019	2020
Global GDP	2.9%	2.5%	3.3%	3.2%	2.7%	2.8%
SA GDP	1.3%	0.3%	1.3%	0.8%	1.5%	2.0%
SA Headline CPI	4.6%	6.3%	5.3%	4.6%	4.4%	4.7%
SA Current Account (% of GDP)	-4.4%	-3.3%	-2.0%	-3.5%	-3.3%	-3.5%

Source: Old Mutual Investment Group

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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 Benchmark Outperformance	6.73% 6.50% 0.22%	7.02% 6.71% 0.31%	6.58% 6.20% 0.37%	6.13% 5.73% 0.40%	6.18% 5.74% 0.44%	7.05% 6.60% 0.45%
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 Benchmark Outperformance	8.06% 6.93% 1.13%	8.24% 7.07% 1.17%	7.68% 6.66% 1.02%	7.12% 6.22% 0.89%	7.13% 6.29% 0.84%	7.89% 7.11% 0.78%
Corporate Short Term Funds (unit trust)	STeFI Composite Index	Aims to deliver a regular income and to outperform corporate bank deposits over time, while preserving capital and maintaining a high level of liquidity.	Michael van Rensburg/ Nazley Bardien	August 2018	Product Benchmark Outperformance	N/A					
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 Benchmark Outperformance	8.24% 7.26% 0.98%	8.52% 7.43% 1.09%	7.94% 7.01% 0.93%	7.35% 6.52% 0.82%	7.36% 6.50% 0.86%	8.12% 7.26% 0.86%
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 Benchmark Outperformance	8.22% 7.26% 0.96%	8.90% 7.43% 1.47%	8.30% 7.01% 1.30%	8.09% 6.52% 1.57%	8.10% 6.60% 1.49%	8.96% 7.74% 1.22%
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 Benchmark Outperformance	9.33% 7.26% 2.07%	9.94% 7.43% 2.51%	9.29% 7.01% 2.29%	8.96% 6.52% 2.44%		8.87% 6.46% 2.41%

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 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 Benchmark Outperformance	10.13% 7.26% 2.87%	10.95% 7.43% 3.52%	10.80% 7.01% 3.80%	10.45% 6.52% 3.93%		10.28% 6.45% 3.83%
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 Benchmark Outperformance	10.24% 7.26% 2.98%	11.04% 7.43% 3.62%	12.28% 7.01% 5.27%	11.71% 6.52% 5.18%		11.77% 6.49% 5.28%
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 Benchmark Outperformance	9.29% 7.26% 2.03%	10.79% 7.43% 3.36%	12.00% 7.01% 4.99%	11.28% 6.52% 4.76%	11.82% 6.60% 5.22%	11.70% 7.15% 4.55%
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 Benchmark Outperformance	11.02% 7.26% 3.75%	11.37% 7.43% 3.94%				11.35% 7.03% 4.32%
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 Benchmark Outperformance	7.53% 7.10% 0.44%	8.94% 8.74% 0.21%	8.08% 7.98% 0.10%	7.37% 6.94% 0.44%	7.55% 7.04% 0.52%	8.58% 8.01% 0.57%
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 Benchmark Outperformance	8.79% 7.25% 1.54%	9.11% 7.48% 1.62%	8.00% 7.04% 0.96%	7.91% 6.57% 1.34%	8.22% 6.72% 1.49%	8.92% 7.31% 1.61%
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 Benchmark Outperformance	9.21% 6.53% 2.68%	9.92% 8.00% 1.92%	9.19% 7.32% 1.87%			8.92% 6.85% 2.07%

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 Benchmark Outperformance	3.45% 1.62% 1.84%	8.76% 7.53% 1.24%	7.94% 7.06% 0.88%	8.54% 7.24% 1.30%		9.17% 8.07% 1.10%
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 Benchmark Outperformance	-3.41% -3.48% 0.07%	2.32% 2.29% 0.03%	4.37% 4.39% -0.02%	5.67% 5.72% -0.05%	7.11% 7.17% -0.07%	8.19% 8.26% -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 Benchmark Outperformance	-2.73% -3.48% 0.74%	2.89% 2.33% 0.55%	4.64% 4.39% 0.24%	6.04% 5.72% 0.31%	7.71% 7.17% 0.54%	8.34% 8.00% 0.34%
Yield Enhanced Long Duration ILB	JSE Composite Inflation-linked Index 12+ Year	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 Benchmark Outperformance	-4.84% -8.18% 3.34%	2.04% -0.18% 2.23%	5.26% 3.03% 2.22%	7.26% 5.02% 2.24%		8.00% 5.90% 2.10%
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 Benchmark Outperformance	-4.37% -8.42% 4.05%	3.52% 0.28% 3.25%				3.35% 0.18% 3.18%
Infrastructure & Development ILB	JSE Composite Inflation-linked Index 12+ Year	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 Benchmark Outperformance	-6.12% -8.18% 2.07%					-1.07% -2.31% 1.24%
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 Benchmark Outperformance	3.40% 3.46% -0.05%	10.09% 10.11% -0.02%	8.32% 8.33% -0.01%	8.02% 8.02% 0.01%	8.64% 8.66% -0.01%	10.66% 10.64% 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	4.25%	10.74%	8.78%	8.71%	9.41%	11.14%
					Benchmark	3.46%	10.11%	8.33%	8.02%	8.66%	10.54%
					Outperformance	0.79%	0.63%	0.45%	0.69%	0.75%	0.60%
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	5.30%	11.84%	10.48%	10.39%	11.15%	11.18%
					Benchmark	3.46%	10.11%	8.33%	8.02%	8.66%	9.27%
					Outperformance	1.85%	1.73%	2.15%	2.36%	2.49%	1.92%
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	4.88%	11.71%	10.29%	10.33%	11.22%	12.47%
					Benchmark	3.46%	10.11%	8.33%	8.02%	8.66%	10.54%
					Outperformance	1.42%	1.60%	1.96%	2.30%	2.56%	1.93%
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	4.88%	11.71%	10.29%	10.33%	11.22%	12.47%
					Benchmark	3.46%	10.11%	8.33%	8.02%	8.66%	10.54%
					Outperformance	1.42%	1.60%	1.96%	2.30%	2.56%	1.93%
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	11.77%	8.78%	12.95%	12.13%	12.74%	16.21%
					Benchmark	14.07%	14.80%	15.06%	15.30%	15.26%	15.94%
					Outperformance	-2.30%	-6.02%	-2.11%	-3.17%	-2.52%	0.27%
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	12.04%	16.59%	15.31%	13.97%	12.13%	13.72%
					Benchmark	8.07%	8.80%	9.06%	9.30%	9.25%	9.72%
					Outperformance	3.97%	7.79%	6.25%	4.67%	2.87%	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						
					Benchmark	N/A					
					Outperformance						

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 Benchmark Outperformance	2.07% 2.37% -0.30%	8.13% 6.07% 2.06%	7.46% 5.44% 2.02%	9.73% 7.87% 1.85%	11.23% 9.94% 1.29%	12.23% 11.13% 1.09%
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 Benchmark Outperformance	11.02% 7.26% 3.75%	11.37% 7.43% 3.94%				11.35% 7.03% 4.32%
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 Benchmark Outperformance	-4.37% -8.42% 4.05%	3.52% 0.28% 3.25%				3.35% 0.18% 3.18%
Infrastructure & Development ILB	JSE Composite Inflation-linked Index 12+ Year	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 Benchmark Outperformance	-6.12% -8.18% 2.07%					-1.07% -2.31% 1.24%

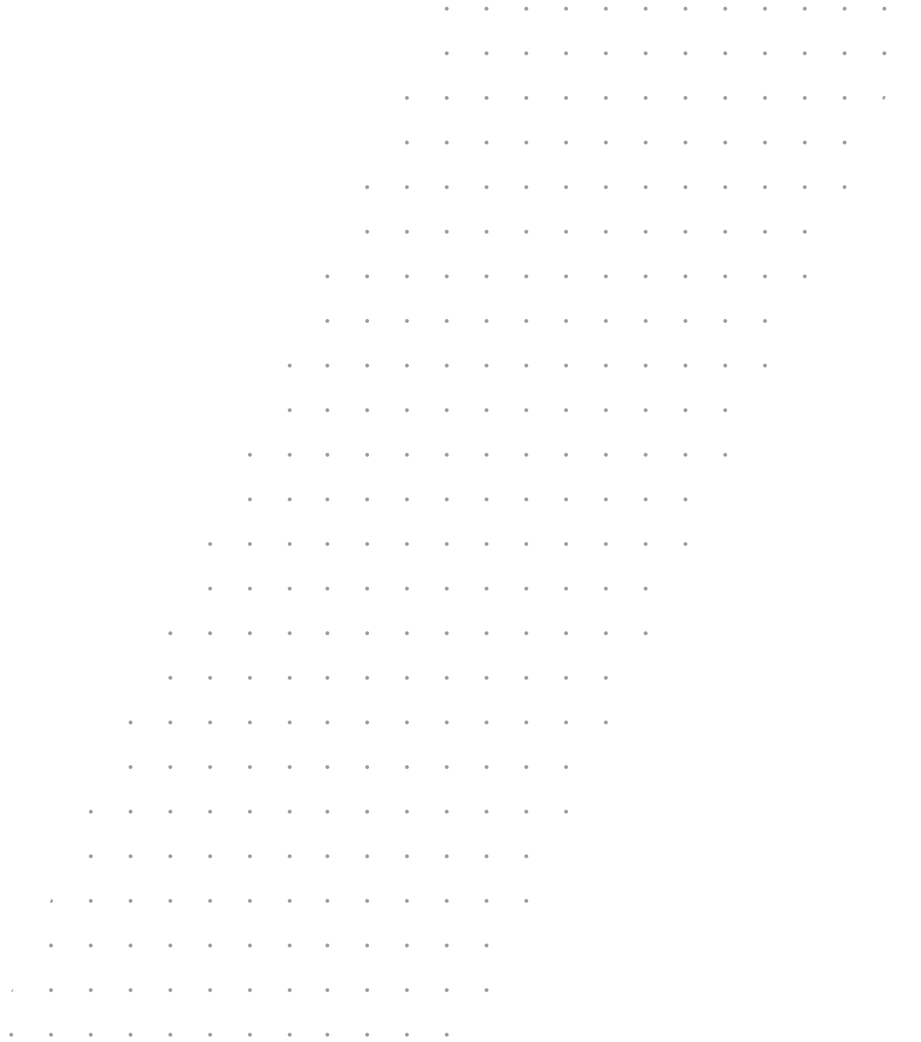
Currency: ZAR/Gross of fees

*Annualised

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

FUTUREGROWTH

/ ASSET MANAGEMENT



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- The Net Asset Value to Net Asset Value figures are used for the performance calculations. The performance quoted is for a lump sum investment. The performance calculation includes income distributions prior to the deduction of taxes and distributions are reinvested on the ex-dividend date. Performances may differ as a result of actual initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Annualised returns are the weighted average compound growth rates over the performance period measured.

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