Monthly Review

June 2019

Contents

Page 3
Economic and market overview
Page 4
Market summary
Page 7
Our investment view and strategy
Page 9
Performance of funds
Inside back cover
The Futuregrowth story

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Market review

Economic and market overview

The South African yield curve has steepened in a significant way

During the second quarter of this year, short-dated nominal bond yields decreased sharply, while those of the ultra-long-dated bonds increased, albeit only marginally. As far as constituents of the All Bond Index (ALBI) are concerned, the yield of the shortest-dated bond, the R208 (maturity 2021), decreased by a very significant 53 basis points (bps) to close the quarter at 6.33%. This was an extension of the short end rally that started in November last year, when the yield of the R208 turned at its most recent peak of 8.12%. In contrast, the yield of the longest dated R2048 (maturity 2048) increased by 9bps to end the quarter at a level of 9.67%. The yield curve change and individual stock characteristics (such as modified duration, coupon rate and curve position) benefited stocks in the 2026 to 2031 maturity band most. In particular, the R186 (maturity 2026) was best positioned, and this is reflected by the highest individual RSA Government bond return of 5.31%.

Short end supported by bullish repo rate expectations

The strong bull rally at the short to medium area of the yield curve was mainly a result of bullish rate expectations as local investors started positioning for a repo rate reduction in the near term, possibly as soon as mid-July. This sentiment was also strongly expressed in both the spot and forward money market. At the time of writing, 12-month bank non-negotiable certificates of deposit (NCDs) were offered at around 7.8%, well below the 8.2% demanded by a more jittery investor community until around the middle of May.

These bullish expectations are well-founded

Reasons for the strong bullish sentiment are wide ranging. Globally, the lingering concern of a failed economic growth recovery prompted actual policy easing, or at least firm talk, of such a move in a number of developed and emerging economies. This, combined with very weak local growth, as evidenced by the -3.2% quarter-on-quarter annualised rate of growth for the first quarter of this year as well as a seemingly sustained benign inflation backdrop, made it hard for the South African Reserve Bank (SARB) to persist with hawkish messaging. Unsurprisingly, two of the five SARB voting members voted in favour of a rate reduction at the May monetary policy committee meeting. That said, we agree with the SARB Governor's sentiment that weak growth is mainly the result of structural issues which cannot be resolved by simply lowering interest rates. On the inflation front, the Consumer Price Index continues to hover around 4.5%; the mid-point of the SARB's inflation target range.

In contrast, long-dated bonds had to navigate some headwinds, more specifically on the fiscal side

In contrast to the short end bull rally, the tail end of the yield curve reflected global risk volatility, partly linked to the ongoing China/US trade spat, coupled with the precarious local fiscal situation. Following the breach of the 2018/19 fiscal target earlier this year, the first month of the current fiscal year was not the best of starts, even though this was partly offset by a better than expected deficit in May. At face value, this is another disappointing outcome. However, we would caution against reading too much into two months' data in light of the following two factors. Firstly, the net VAT collection drop was the result of a sharp year-on-year rise in VAT refunds, which have increased by 30% on a fiscal YTD basis when compared to the same period in 2018/19, as the South African Revenue Service (SARS) is still addressing the backlog accumulated in the past. Secondly, seasonality, especially with respect to expenditure which appeared to be markedly higher, calls for caution when interpreting two months' data. That said, we remain concerned about the fiscal situation, especially with an eye on the state-owned enterprise (SOE) fiasco, while persistent weak economic growth and low inflation present major risks to current budget estimates. The fact that the CEOs of both Eskom and South African Airways have recently resigned, raises more red flags with regards to the risk some of these SOEs hold for the sovereign balance sheet and the country's creditworthiness.

Foreign investors turn net sellers of rand denominated government bonds

Sustained fiscal slippage explains why foreign investors, who still hold around 38% of local currency denominated government bonds, reduced their exposure. Although the net sales figure of R16bn for the first six months of the year is relatively small, it is nonetheless noteworthy, considering the renewed global search for yield as global yields drift lower. In light of the fact that this investor group mainly hold longer-dated nominal bonds, the net selling did contribute to weakness at the back end of the yield curve.

Inflation-linked bonds managed to recover some of their losses towards quarter end

Following the poor performance during the last nine months of 2018, the local inflation-linked bond market continued to recover some lost ground, although the recovery was marked by more volatility in the last quarter. While the benign inflation outlook presents a weak theme for inflation hedging, real yields have increased by enough over this period to entice investors into this market. Overall, real yields drifted lower on a net basis. For instance, the 10-year I2029 bond closed the quarter at a yield of 3.17%, a downward movement of 12bps.

In the end, nominal bonds weathered the Q2 storm best

The performance of nominal bonds in the 2026 to 2035 maturity band made the biggest contribution to the 3.7% rendered by the JSE ASSA ALBI during the second quarter. This was followed by a reasonable 2.8% outcome for the JSE Inflation-linked Government Bond Index (IGOV). Both outperformed the cash return of 1.6% by a significant margin, albeit amidst significantly higher volatility. Returns for the first six months of the year are 7.7%, 3.3% and 3.2% respectively.

Market summary

Key macroeconomic theme	
Economic growth	The global economic recovery of the last few years started losing momentum in the latter half of 2018, and recent fears of recession have impacted 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. 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, the appointment of a new SARS commissioner and the finalisation of the mining charter. However, the perilous state of most state-owned enterprises (SOEs) 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 – this was clearly evidenced in the April budget deficit figure which came in markedly higher due to an emergency payment of R13.5bn made to 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.
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 continues for inflation to remain relatively benign in most economies.

Looking for an inflation hedge?
The South African Reserve Bank, not unlike most other central banks, keeps reminding us that an important part of its mandate is to bring about relative price stability, i.e. to fight inflation. Financial markets offer a number of potential inflation-beating alternatives. In our world of interest rate bearing investments, the best option to match inflation is an investment in inflation-linked bonds. The principle is simple and eloquent.
To read more, visit:
www.futuregrowth.co.za/newsroom

Key macroeconomic themes (continued)

Inflation (continued)	Locally, the telegraphed drop in food inflation, and a broadly neutral currency view, results in our 2019 annual average inflation forecast of 4.4%. 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 inflation expectations still remain above the more desirable mid-point of 4.5%.
Balance of payments	We expect the negative current account balance to have widened to 3.3% of GDP in 2019 and to have increased to 4% by 2021. 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 3.6%, 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. That said, the broader market is priced for rate cuts. Should this fail to materialise, US market rates will head upwards from current low levels. 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. Similar to market expectations in the US, the local market is priced for rate cuts and is thus at risk should these fail to materialise.
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

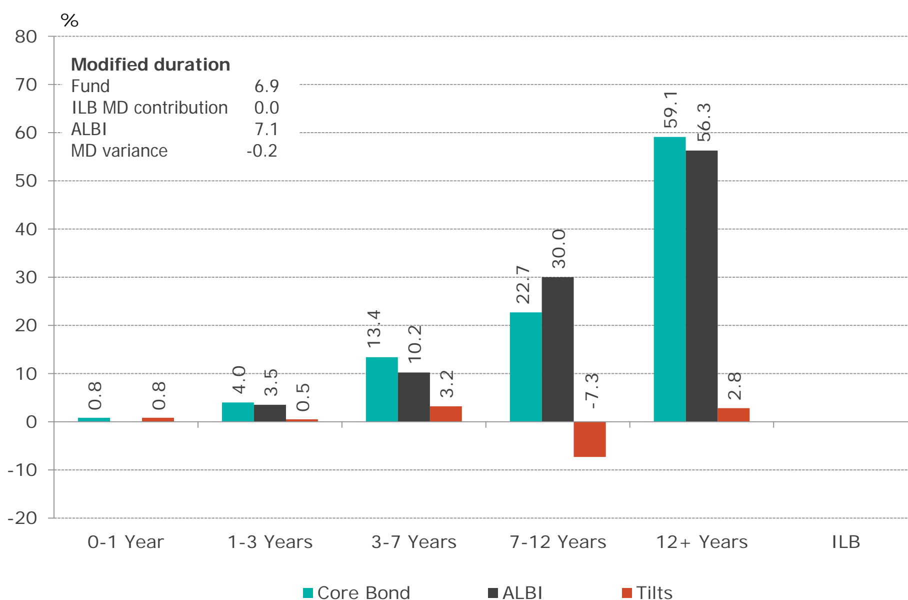
At a global level, the shift from quantitative easing to tightening has stalled, and in some cases even reversed, due to fear of a global growth slowdown. Even so, we are of the view that authorities are prepared to adjust relatively quickly, and in some cases are already responding, to avoid a broad-based 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, and especially the role that international trade friction plays, developed market government bond 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; with this firmly supported by disappointing first quarter GDP data. 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 SOEs on state finances has reached a point where the delivery of a credible national budget is nearly impossible in the absence of 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 Monetary Policy Committee (MPC)'s decision to keep the repo rate stable in May 2019, 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. This is best reflected by the recent split decision by the MPC members, with two members voting for a rate cut. Although this implies a higher probability of a rate cut in the near term, we are sticking to a stable policy path for now, but acknowledging that the risk is to the downside, in light of weak economic growth and strong disinflationary forces.

With the above in mind, we continue to 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 long-dated 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 -0.2 is some way off the maximum allowed position of -1.0. This acknowledges reasonable valuation which partly offsets the relatively poor investment theme.

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)

	2014	2015	2016	2017	2018	2019	2020
Global GDP	2.8%	2.9%	2.5%	3.3%	3.2%	2.9%	2.8%
SA GDP	1.5%	1.3%	0.3%	1.3%	0.8%	1.5%	2.0%
SA Headline CPI	6.1%	4.6%	6.3%	5.3%	4.6%	4.4%	4.7%
SA Current Account (% of GDP)	-5.4%	-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	6.79% 6.56% 0.23%	7.00% 6.69% 0.31%	6.65% 6.28% 0.36%	6.19% 5.79% 0.39%	6.14% 5.70% 0.44%	7.05% 6.60% 0.44%
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	8.20% 6.96% 1.24%	8.25% 7.07% 1.18%	7.78% 6.73% 1.05%	7.20% 6.28% 0.92%	7.09% 6.24% 0.85%	7.90% 7.11% 0.79%
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	8.46% 7.31% 1.15%	8.52% 7.43% 1.09%	8.05% 7.08% 0.96%	7.42% 6.59% 0.84%	7.33% 6.46% 0.87%	8.13% 7.26% 0.87%
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	8.13% 7.31% 0.82%	8.90% 7.43% 1.47%	8.33% 7.08% 1.25%	8.08% 6.59% 1.50%	8.04% 6.55% 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	9.31% 7.31% 2.00%	9.91% 7.43% 2.48%	9.34% 7.08% 2.26%	9.00% 6.59% 2.41%		8.89% 6.48% 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	9.59% 7.31% 2.28%	10.80% 7.43% 3.37%	10.70% 7.08% 3.61%	10.39% 6.59% 3.80%		10.25% 6.47% 3.78%
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	8.86% 7.31% 1.55%	10.77% 7.43% 3.34%	11.62% 7.08% 4.53%	11.69% 6.59% 5.10%		11.66% 6.52% 5.14%
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	8.47% 7.31% 1.16%	10.49% 7.43% 3.06%	11.41% 7.08% 4.32%	11.28% 6.59% 4.79%	11.62% 6.55% 5.07%	11.64% 7.15% 4.49%
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	10.98% 7.31% 3.67%	11.22% 7.43% 3.79%	11.19% 7.08% 4.10%			11.31% 7.05% 4.27%
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	10.36% 9.84% 0.52%	9.02% 8.74% 0.28%	8.29% 8.11% 0.18%	7.48% 7.04% 0.44%	7.68% 7.15% 0.53%	8.64% 8.06% 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 Benchmark Outperformance	9.51% 7.30% 2.21%	9.23% 7.47% 1.76%	8.14% 7.11% 1.03%	7.85% 6.63% 1.22%	8.32% 6.77% 1.56%	8.95% 7.31% 1.64%
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	9.87% 8.17% 1.70%	9.90% 7.95% 1.95%	9.24% 7.44% 1.80%	8.96% 6.88% 2.08%		8.99% 6.92% 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	9.99% 8.92% 1.07%	8.47% 7.20% 1.27%	8.00% 7.04% 0.96%	8.35% 7.17% 1.19%		9.30% 8.22% 1.08%
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	4.09% 4.06% 0.03%	1.75% 1.68% 0.08%	3.76% 3.78% -0.02%	5.87% 5.91% -0.04%	7.06% 7.11% -0.06%	8.25% 8.32% -0.06%
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	4.31% 4.06% 0.25%	2.27% 1.77% 0.50%	4.07% 3.78% 0.29%	6.21% 5.91% 0.30%	7.65% 7.11% 0.54%	8.40% 8.07% 0.33%
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	3.48% 2.15% 1.33%	1.15% -0.98% 2.13%	4.22% 2.12% 2.10%	7.40% 5.22% 2.18%		8.03% 5.97% 2.06%
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	4.32% 1.40% 2.92%	1.93% -1.20% 3.13%				3.69% 0.59% 3.10%
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	2.47% 2.15% 0.32%					-0.20% -1.36% 1.16%
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	11.44% 11.50% -0.06%	9.85% 9.86% -0.02%	8.57% 8.59% -0.02%	7.80% 7.80% -0.01%	9.00% 9.02% -0.02%	10.73% 10.71% 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 Benchmark Outperformance	11.83% 11.50% 0.32%	10.51% 9.86% 0.65%	9.01% 8.59% 0.42%	8.47% 7.80% 0.67%	9.77% 9.02% 0.75%	11.20% 10.61% 0.59%
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 Benchmark Outperformance	12.66% 11.50% 1.16%	11.54% 9.86% 1.68%	10.55% 8.59% 1.95%	10.06% 7.80% 2.26%	11.48% 9.02% 2.46%	11.26% 9.36% 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 Benchmark Outperformance	12.12% 11.50% 0.62%	11.37% 9.86% 1.51%	10.43% 8.59% 1.84%	10.04% 7.80% 2.24%	11.53% 9.02% 2.51%	12.51% 10.61% 1.91%
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 Benchmark Outperformance	12.12% 11.50% 0.62%	11.37% 9.86% 1.51%	10.43% 8.59% 1.84%	10.04% 7.80% 2.24%	11.53% 9.02% 2.51%	12.51% 10.61% 1.91%
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 Benchmark Outperformance	9.97% 14.49% -4.51%	8.69% 14.79% -6.10%	12.64% 15.01% -2.37%	12.58% 15.26% -2.75%	12.79% 15.26% -2.42%	16.12% 15.96% 0.16%
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 Benchmark Outperformance	10.31% 8.48% 1.83%	16.62% 8.79% 7.84%	15.43% 9.01% 6.42%	13.97% 9.32% 4.65%	12.40% 9.21% 3.19%	13.68% 9.74% 3.95%
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 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 Benchmark Outperformance	4.59% 4.84% -0.25%	8.32% 6.33% 1.98%	6.93% 5.08% 1.84%	9.85% 8.06% 1.79%	11.06% 9.70% 1.36%	12.22% 11.16% 1.06%
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	10.98% 7.31% 3.67%	11.22% 7.43% 3.79%	11.19% 7.08% 4.10%			11.31% 7.05% 4.27%
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	4.32% 1.40% 2.92%	1.93% -1.20% 3.13%				3.69% 0.59% 3.10%
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	2.47% 2.15% 0.32%					-0.20% -1.36% 1.16%

Currency: ZAR/Gross of fees

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

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.

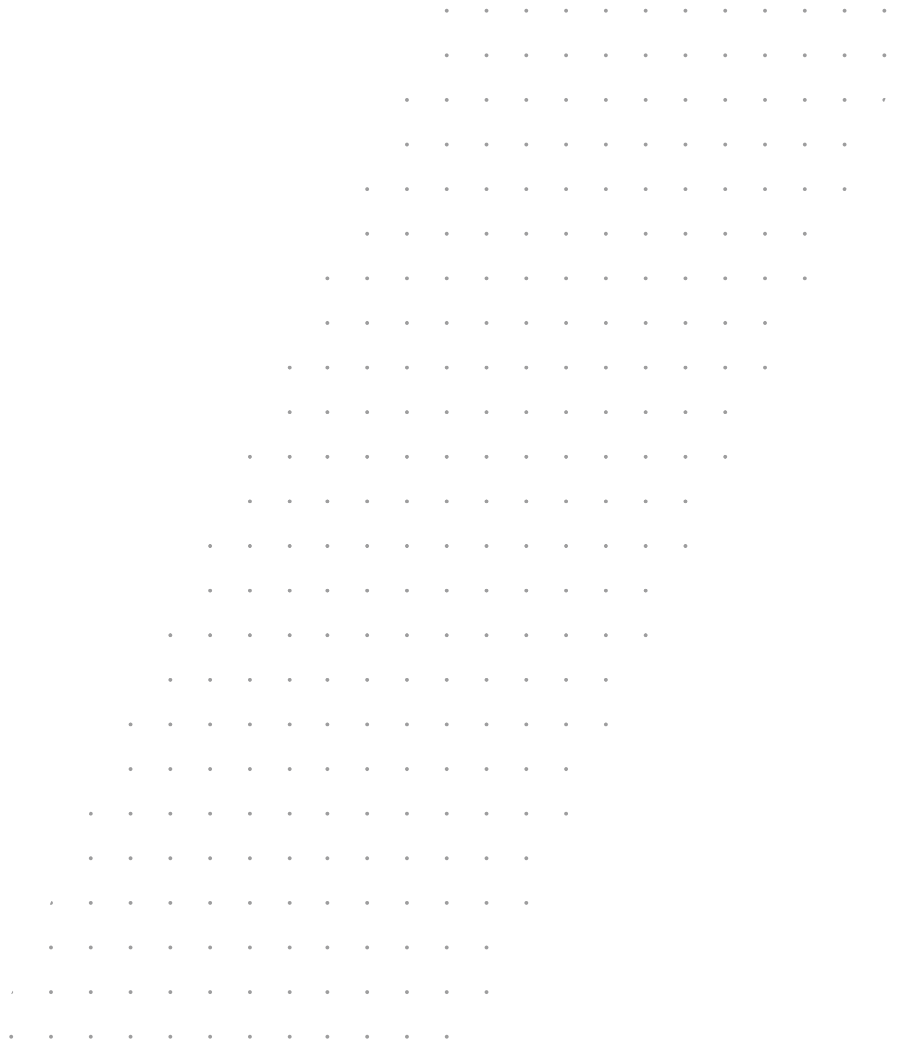
As a responsible investor we engage with our industry and investee companies privately, and sometimes publicly, on sustainability issues. As examples: We have been working steadfastly to improve South Africa's debt capital market standards. In 2013, we identified unfair, unsustainable and prejudicial 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.

AUM as at 31 December 2018

FUTUREGROWTH

/ ASSET MANAGEMENT



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GIPS disclaimer: Futuregrowth a subsidiary of Old Mutual Investment Group Holdings (Pty) Limited is a specialist investment company which manages the full range of interest bearing and developmental investments in an ethical and sustainable way. Futuregrowth claims compliance with the Global Investment Performance Standards (GIPS®). Contact Futuregrowth at +27 21 659 5300 to obtain a list of composite descriptions and/or a presentation that complies with the GIPS® standards. The investment returns reflected are supplemental information as they are not calendar year returns and are gross-of-fees. Currency: ZAR

Old Mutual Unit trusts disclaimer: We aim to treat our clients fairly by giving you the information you need in as simple a way as possible to enable you to make informed decisions about your investments.

1. We believe in the value of sound advice and so recommend that you consult a financial adviser before buying or selling unit trusts. You may however, buy and sell without the help of a financial adviser. If you do use a financial adviser, we remind you that they are entitled to certain negotiable adviser fees or commissions.
2. The fees and costs that we charge for managing your investment are accessible on the relevant fund's minimum disclosure document (MDD) or table of fees and charges both available on our public website or from our service centre.
3. You should ideally see unit trusts as a medium to long term investment. The fluctuations of particular investment strategies affect how a fund performs. Your fund value may go up or down. Therefore, we cannot guarantee the investment capital or return of your investment. How a fund has performed in the past does not necessarily indicate how it will perform in the future.
4. Our cut-off time for client instructions (e.g. buying and selling) is at 13:00 each working day. We value the fund at 15:00 to determine the daily ruling price. Daily prices are available on the public website and in the media.
5. Funds may borrow to pay client disinvestments and may engage in scrip lending.
6. The daily ruling price is based on the current market value of the fund's assets plus income minus expenses (NAV of the portfolio) divided by the number of units in issue. Old Mutual Unit Trusts has the right to close a portfolio to new investors in order to manage it more efficiently in accordance with its mandate.
7. Old Mutual Unit Trust Managers (RF) (Pty) Ltd is a registered manager in terms of the Collective Investment Scheme Control Act 45 of 2002. Old Mutual is a member of the Association for Savings and Investment South Africa (ASISA).
8. Old Mutual Unit Trust Managers (RF) (Pty) Ltd has the right to close the portfolio to new investors in order to manage it more efficiently in accordance with its mandate.

Income Funds:
Income funds derive their income primarily from interest-bearing instruments as defined. The published yield is a current yield and is calculated daily. The value of underlying assets of Income funds are marked to market on a daily basis.

The portfolio performance is calculated on a NAV-NAV basis and does not take any initial fees into account. Income is reinvested on the ex-dividend date. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income.

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