

OLD MUTUAL EQUITIES



“THE GENUINE POWER OF OUR INVESTMENT APPROACH IS IN THE INFORMED DEBATE THAT OUR INDEPENDENT ANALYSIS AND MODELLING PROCESS PROVOKES.”

Peter Linley, Head: Old Mutual Equities

DO GREAT THINGS



OLD MUTUAL
INVESTMENT GROUP

OLD MUTUAL **EQUITIES**

DELIVERING CONSISTENT, ABOVE-AVERAGE PERFORMANCE DEMANDS A DISCIPLINED APPROACH TO MANAGING MONEY.

We invest in companies that are undervalued and clearly demonstrate an ability to create shareholder value over time. Our fundamental, valuation-based investment approach is enhanced by other select themes, which serve to reduce the cyclicity of value returns.

While we believe that undervalued shares outperform over the long term, we recognise that value is cyclical and subject to periods of shorter-term underperformance. Our research and experience show that by also considering the quality of a company, as well as its earnings growth and market sentiment, our ability to achieve more stable returns through shorter-term market cycles is enhanced.

We call this “driving with the headlights on”.

Built into this research is a deep understanding of the various portfolio and share risks. We believe that skilful risk management, not avoidance, can enhance returns within our client portfolios. Our disciplined portfolio construction process manages behavioural bias, drives debate within the team and enables us to invest with conviction.

Our clients are at the heart of everything we do. Our team’s incentives are aligned to the performance of our funds and the individual shares we select. This ensures that our clients’ interests drive our investment decisions.

We offer our clients a range of equity funds, predominantly within the South African market. We also offer Frontier African equity funds to institutional investors seeking broader exposure to the growth potential of stock markets across the African continent.

As part of Old Mutual Investment Group, we operate within a stringent corporate governance framework. We leverage off the Group’s world-class technology platforms to consolidate and analyse information; their competitive trading costs and their high standards of governance, security and administration. You can be assured that your investment is managed according to global best business practices.



INVESTMENT **PHILOSOPHY**

THIS IS WHAT WE BELIEVE:

VALUE OUTPERFORMS OVER TIME, BUT THEMES DRIVING MARKETS ARE CYCLICAL

Undervalued shares have proven to outperform over the long term, providing the rationale for our valuation-based approach. However, markets move in cycles and fund managers applying a specific investment style tend to suffer periods of underperformance. The negative impact of market cycles can be moderated by considering various company attributes that complement value and have also proven to outperform over time, namely **quality, growth** and **sentiment**.

MARKET INEFFICIENCIES CAN BE EXPLOITED THROUGH EXTENSIVE RESEARCH AND ANALYSIS

Relentless research underpins every investment decision. A disciplined and structured approach to fundamental analysis is essential in identifying and exploiting market inefficiencies – and ultimately extracting alpha. We invest extensively in systems to support our comprehensive research – tracking the long-term history of each share to determine its response under different scenarios. Following robust debate, these insights guide our forecasts and guard against psychological pitfalls.

SKILFUL RISK MANAGEMENT, NOT AVOIDANCE, IS CRITICAL TO LONG-TERM SUCCESS

Volatility creates opportunity. Rather than focusing solely on a share's upside potential, our approach is to fully understand the downside risks and skilfully exploit these. Understanding the risks also enables us to manage overall portfolio volatility by carefully considering how individual shares behave and interact. We believe that a fund manager skilled in controlling overall portfolio risk generates enhanced risk-adjusted returns for clients.

COMPANIES THAT FULLY EMBRACE ESG CREATE LONG-TERM SHAREHOLDER VALUE

As a long-term investor, we believe that incorporating relevant environmental, social and governance (ESG) factors into our investment and ownership decisions ultimately leads to improved risk-adjusted returns for our clients. Identifying issues that currently or at some point in the future may materially impact the long-term value of a company, gives us insight into a business' ability to grow sustainably. As shareholders, we regularly engage with companies' management teams as well as actively exercising our voting rights.

CONTINUALLY TIMING THE MARKET CORRECTLY IS IMPOSSIBLE

Our unwavering approach to selecting shares (based on the fundamental value combined with proven, outperforming themes) helps us avoid the lure of trying to time the markets. Attempting to time the market can play havoc with a portfolio's risk levels or cash levels – both of which ultimately detract from performance.



INVESTMENT PROCESS

We generate alpha in two ways: through share selection and through portfolio construction. We follow a highly disciplined investment process to build diversified, risk-adjusted portfolios. Relentless research and rigorous debate underpin every step of our process and guards against emotional bias. The result is that we only invest in shares that we are convinced will outperform the market over the medium term.

STEPS	PURPOSE	HOW	WHO
1. FUNDAMENTAL VALUATION	Identify shares trading below their intrinsic value	Discounted cash flow using the HOLT™ Cash Flow Return on Investment (CFROI) framework	Analysts
2. RANKING SHARES	Gain balanced, non-emotional perspective of each share in our universe	Converting ranking for Valuation, Quality, Growth and Sentiment into a score for each share	Analysts
3. CREATING A MODEL PORTFOLIO	Create optimal, risk-adjusted portfolios	Objective conversion of ranking table into model portfolio via an in-house developed portfolio modeller	Portfolio modeller
4. ROBUST DEBATE	Stress-test model portfolio to reveal strong-conviction buys and sells	Portfolio Managers analyse model and carefully consider sector allocation and share selection. Output results in rigorous debate and additional analysis	Entire team
5. INFORMED PORTFOLIO SELECTION DECISIONS	Rigorous analysis provides clear insight to make final portfolio allocation decisions	Portfolio Managers consider and implement the final portfolio	Portfolio Managers

STEP 1. FUNDAMENTAL VALUATION

The foundation of our investment approach is identifying companies that are undervalued by the market. We do this by calculating the intrinsic value of each company in our universe based on our analysts' forecast of future cash flows. As the nature of forecasting is subjective and it is impossible to predict the future, our analysts also calculate probability-weighted bull- and bear-case scenarios, in addition to our base-case valuation. Besides appreciating a more optimistic scenario, this also highlights the downside or potential capital loss of each share. A margin of safety is then applied, which reflects the levels of:

- i. uncertainty in forecasting a company's cash flows
- ii. management stewardship, and
- iii. competitive advantage for every company with a narrow or wide economic moat rating.

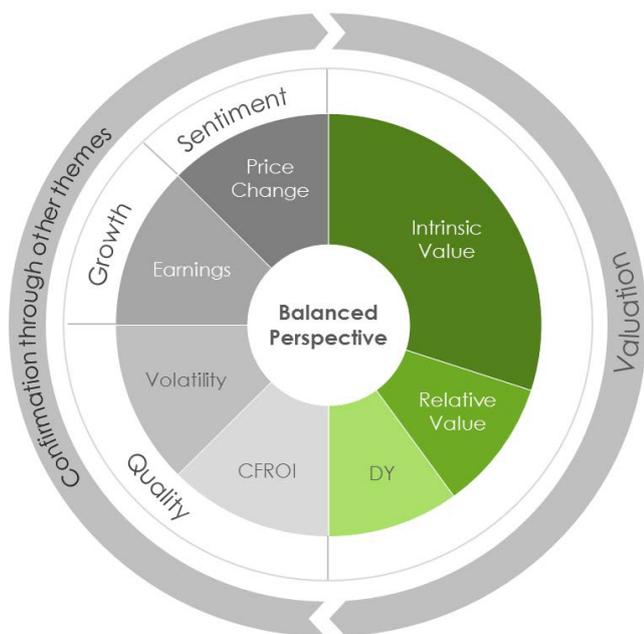
We then seek further confirmation and insight from other proven attributes that we have studied on the JSE. These are:

- **QUALITY.** We focus on cash flows rather than profits, using cash flow return on investment (CFROI) to determine a company's true potential to generate shareholder returns over time. We also analyse the

historical volatility of the share price under different market conditions. High quality companies tend to outperform the market with less risk.

- **GROWTH.** We seek companies offering the potential to grow earnings faster than the market average over the next two years. We also analyse company and industry data for directional trends in earnings revisions. Companies delivering stronger earnings growth than the market tend to outperform with less risk.
- **SENTIMENT.** We analyse the short- and longer-term market sentiment indicators to give us a sense of the market's "mood". An undervalued quality company, supported by positive share price sentiment, supports our conviction. Conversely, a company with poor share price sentiment is a focus for further research, as it is viewed as a potential opportunity to invest in an "unloved" share.

Including these attributes in our final evaluation of a share gives us a more balanced perspective and helps moderate the negative impact of market cycles.



STEP 2. RANKING EACH SHARE

Ranking the shares provides an objective framework for further analysing the attractiveness of companies: A score is allocated to each measurement factor, with a majority weighting to valuation. Shares with the highest overall score typically represent “buys” and shares with lower scores represent “sells”. This is a dynamic process with rankings changing as and when new information becomes available.

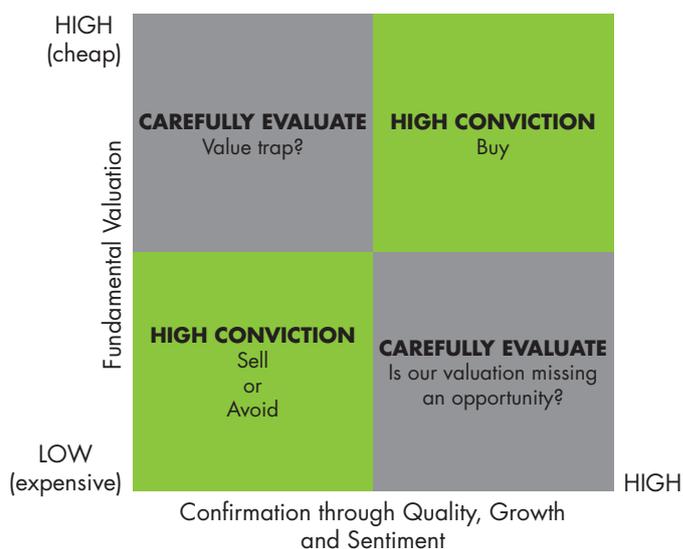
Step 3. CREATING A MODEL PORTFOLIO

The next step is to build a portfolio using our in-house developed portfolio modeller. The modeller takes into account both the scores of each share and a range of risk considerations. These include the impacts of potential macro-economic risks, contributions of shares and sectors to portfolio volatility, optimal diversification, tracking error and overall portfolio volatility. The final result is an optimal and a risk-adjusted portfolio that forms the basis for debate and further analysis.

Step 4. ROBUST DEBATE

We now stress-test our model portfolio. Assumptions are challenged, outcomes scrutinised and share selection validated or refuted. To better understand both upside and downside risks, we look at the probabilities of bull- and bear-case valuations for each share. We also pay particular attention to understanding the potential capital loss and to what is implied in the market price of a share.

The graphic shows how shares ranking highly on their fundamental value as well as the confirming themes represent a strong-conviction “buy”. Conversely, shares ranking poorly on all four metrics are given a “sell” or an “avoid” status. Shares ranking highly on one measure but not on the other generally results in further analysis and debate to either gain conviction or confirm our misgivings.



Step 5. INFORMED PORTFOLIO SELECTION DECISIONS

This rigorous analysis provides clear insight, informs debate and allows us to make portfolio allocation decisions with conviction. The portfolio managers, being fully accountable for the final portfolio, decide on the final sector weights and equity selection.

PRODUCT OFFERING

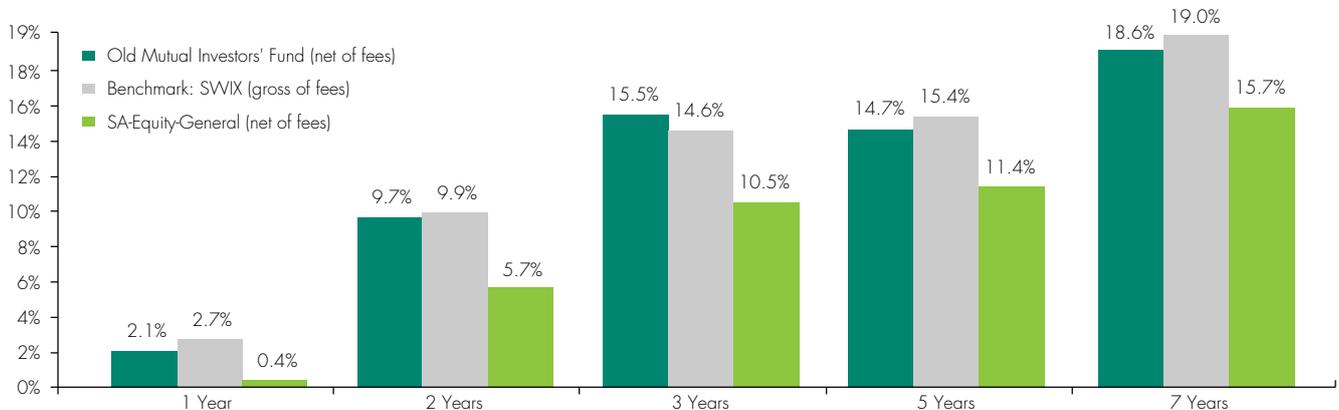
	FUND	PRODUCT TYPE	BENCHMARK	PORTFOLIO MANAGER
SOUTH AFRICAN EQUITY	Unconstrained Equity	Unit trust (Old Mutual Investors' Fund) Segregated portfolio or pooled	FTSE/JSE Shareholder Weighted Index (SWIX)	Peter Linley & Jonathan Larcombe
	Old Mutual Classic Equity	Segregated portfolio or pooled	FTSE/JSE Shareholder Weighted Index (SWIX)	Peter Linley & Jonathan Larcombe
	Old Mutual Growth Fund	Unit trust (includes offshore)	FTSE/JSE Shareholder Weighted Index (SWIX)	Jonathan Larcombe
FRONTIER AFRICA	Old Mutual African Frontiers Fund	Pooled, linked policies*	MSCI Emerging Frontier Markets Africa ex South Africa Index	Cavan Osborne
	Old Mutual Pan African Fund	Pooled, linked policies*	MSCI Emerging Frontier Markets Africa Index	Cavan Osborne & Peter Linley
SOUTH AFRICAN SECTORS	Old Mutual Financial Fund	Unit trust	ASISA Category Average	Neelash Hansjee & Tracy Brodziak
	Old Mutual Industrial Fund	Unit trust	ASISA Category Average	Brian Pyle
	Old Mutual Gold Fund	Unit trust	70% FTSE/JSE Gold Mining Index and 30% FTSE Gold Mines Index	Meryl Pick
	Old Mutual Mining and Resources Fund	Unit trust	ASISA Category Average	Ian Woodley

*European investors: UCITS, Open Ended Investment Company

PERFORMANCE

We have consistently implemented our investment approach since July 2010. The performance of our flagship Old Mutual Investors' Fund shows the success of this investment strategy. The Fund currently ranks top quartile in the South African General Equity category over all periods from two to 10 years (as at 31 March 2016).

OLD MUTUAL INVESTORS' FUND TOP QUARTILE OVER ALL PERIODS FROM TWO TO 10 YEARS



Note: These returns are annualised.

Source: Morningstar, 31 March 2016

EXPERIENCE **SETS US APART**

Our performance track record is a consequence of the stability and experience of our investment team. Our team has lived through market cycles and has a deep institutional knowledge of our universe of listed companies and the markets within which we operate. This combination of knowledge and experience equips us in analysing markets and consistently applying our investment philosophy to the benefit of our clients.



Standing: **Neelash Hansjee**, Investment Professional (6 yrs); **Cavan Osborne**, Portfolio Manager: Rest of Africa (18 yrs); **Leanne Micklewood**, Quantitative Analyst (20 yrs); **David Lumby**, Chief Operating Officer (15 yrs); **Jonathan Larcombe**, Portfolio Manager (16 yrs); **Randolph Oosthuizen**, Investment Professional: Africa (13 yrs); **Sanaa Zarif**, Investment Professional: Africa (9 yrs); **Phillip Short**, Investment Professional (13 yrs); **Peter Linley**, Boutique Head & Portfolio Manager (31 yrs); **Pearlene Govender**, Quantitative Analyst (9 yrs); **Brian Pyle**, Investment Professional (18 yrs)

Seated: **Kayalethu Nodada**, Investment Professional (4 yrs); **Tracy Brodziak**, Head of Research (15 yrs); **Ian Woodley**, Investment Professional (22 yrs); **Meryl Pick**, Investment Professional (4 yrs); **Graham Bell**, Strategist (38 yrs)

AWARDS

BEST AFRICA FUND MANAGER 2014.

Received by Cavan Osborne, Portfolio Manager of the Old Mutual African Frontiers Fund, at the Africa investor (Ai) Awards.

LONG-TERM PERFORMANCE AWARD 2013.

Received for Old Mutual Investors' Fund at the Africa Asset Management Awards.



CONTACT US



JANINA SLAWSKI
Head of Marketing and Distribution

Email: jslawski@oldmutualinvest.com
Telephone: +27 11 217 1873 / +27 71 606 3831



DAVID LUMBY
Chief Operating Officer: Old Mutual Equities

Email: dlumby@oldmutualinvest.com
Telephone: +27 21 504 8066 / +27 71 607 5928

DO GREAT THINGS



OLD MUTUAL
INVESTMENT GROUP

CONTACT DETAILS: Old Mutual Investment Group (Pty) Limited, PO Box 878, Cape Town 8000. Tel: +27 21 509 5022 Fax: +27 21 509 4663 www.oldmutualinvest.com

REGULATORY INFORMATION: Old Mutual Investment Group (Pty) Limited is a licensed financial services provider, FSP 604, approved by the Registrar of Financial Services Providers (www.fsb.co.za) to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. Old Mutual Investment Group is a wholly owned subsidiary of Old Mutual South Africa Limited. Reg No 1993/003023/07. Market fluctuations and changes in rates of exchange or taxation may have an effect on the value, price or income of investments. Since the performance of financial markets fluctuates, an investor may not get back the full amount invested. Past performance is not necessarily a guide to future investment performance.

DISCLAIMER: Although all due care has been taken in compiling this document, Old Mutual Investment Group does not warrant the accuracy of the information contained therein and therefore does not accept any liability in respect of any damages or loss suffered by you as a result of your reliance on the information contained in this document. The processes, policies and business practices described may change from time to time and Old Mutual Investment Group specifically excludes any obligation to communicate such changes to the recipient of this document. Unit trusts are generally medium- to long-term investments. Past performance is no indication of future growth. Shorter term fluctuations can occur as your investment moves in line with the markets. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Unit trusts can engage in borrowing and scrip lending. The fund's TER reflects the percentage of the average Net Asset Value of the portfolio that was incurred as charges, levies and fees related to the management of the portfolio. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. A schedule of fees, charges and maximum commissions is available from the company. You may sell your investment at the ruling price of the day (calculated at 15h00 on a forward pricing basis). Certain funds may be capped to be managed in accordance with their mandates. Different classes of units apply to these portfolios and are subject to different fees and charges. Old Mutual is a member of the Association for Savings and Investment SA.