Old Mutual delivers a smooth ride for investors

Old Mutual's range of smoothed bonus funds has delivered positive returns for investors - generally at least double last year's inflation rate - despite the harsh economic climate.

Wynand du Plessis, Old Mutual product actuary in income and guaranteed solutions

For the middle-income to high-income markets, the final 2015 smoothed bonus declarations were 10,5% for retirement funds and 9% for non-retirement funds. Meanwhile, the consumer price index was 4,51% for 2015.

Smoothed bonus funds invest in a balanced range of assets such as equities, bonds, property and alternative assets in both the local and global markets. When markets do well, part of this market growth is put aside to smooth out future ups and downs caused by movements in the markets. Growth is passed on to investors through stable, regular bonuses ensuring good, risk-adjusted returns.

Robust returns

“Although negative performance is possible in extreme market events, this is the 42nd consecutive year since 1973 that our smoothed funds have seen a positive performance,” says Wynand du Plessis, product actuary in income and guaranteed solutions at Old Mutual.

“The robust returns were particularly noteworthy given the global context of volatile financial markets last year,” he explains.

Asset managers grappled with the implications of the first US interest rate hike since 2006, the economic slowdown in China, sharply stronger US dollar and a slump in commodity prices.

The local economy also faced growth of only 1,5% and a significant weakening of the rand. The JSE All Share Index returned 5,1%, less than half its return the previous year. The bond market performed poorly as well, with the All Bond Index returning losses of -3,9% for 2015.

“The diversified underlying portfolios of the Old Mutual smoothed funds, however, include offshore investments that benefitted from the weakening of the rand. Global equities for example performed very strongly, with the MSCI World Index returning 31,5% in rand terms.”

Rising inflation

Looking ahead, Du Plessis notes the potential impact of rising inflation. It exited the SA Reserve Bank’s inflation target range of 3%-6% in January and was expected to remain beyond the range throughout 2016.

“This implies that the upward trend in local interest rates, which started early in 2014 and has seen the prime rate rise from 8,5% to 10,5%, will probably rise further during the year."

“Together with a tighter fiscal stance and the prevailing difficulties in the global environment, the South African economy is expected to record growth of only about 0,5% in 2016. Another difficult year in local financial markets can be expected, making our range of smoothed bonus funds more relevant than ever."