

Old Mutual Growth and Protection Solutions

# Platinum Pension 2003



Post-retirement

## Disclosure Report

March 2011



**OLD MUTUAL**

Corporate

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# 1 • Introduction

This Disclosure Report contains details of the structure of the portfolio of assets underlying Platinum Pension 2003 as at 31 December 2010, as well as returns generated by the underlying assets over the 3 year period leading up to this date.

This report also includes information on the Bonus Smoothing Reserve levels of Platinum Pension 2003, the internal processes and philosophies of Old Mutual With-Profit Annuity Portfolios pertaining to bonus declarations, as well as the level of capital Old Mutual holds to back portfolios with guaranteed benefits.

Finally, notes on the fee and cost structure, and size, of Platinum Pension 2003 are provided.

*This report provides an overview of aspects and practices relating to the management of Platinum Pension 2003. The nature and format of disclosure may be reviewed in future. This report is not intended to be a comprehensive explication of contractual terms and conditions, and contractual policy conditions will always prevail.*

In support of improved disclosure on the management of Platinum Pension 2003, Platinum Pension 2003 Disclosure Reports are available annually with an effective date of 31 December. Prior to 2010, these reports were made available annually with an effective date of 31 March.

In addition to these reports, Annual With-Profit Annuity Performance Reports are made available annually with an effective date of 31 December. These reports are produced in April of the relevant year.

To download the latest versions of these reports visit our website for corporate investors at [www.oldmutual.co.za/corporate/asset-management/annuity-portfolios.aspx](http://www.oldmutual.co.za/corporate/asset-management/annuity-portfolios.aspx)

## 2. Underlying Investment Portfolio

This section of the Disclosure Report provides information on the structure and performance of the investment portfolio underlying Platinum Pension 2003. The aim with this level of disclosure is to demonstrate the underlying asset manager's capability with regard to managing the portfolio in line with the benchmark.

It should also be noted that the returns disclosed in this section are time-weighted rates of return and are gross of asset manager fees. Furthermore, all information provided is in respect of untaxed policyholder funds.

### 2.1 Underlying Investment Portfolio

Old Mutual Investment Group (South Africa) (OMIGSA) manages the underlying portfolio in line with the strategic asset allocation given below. The portfolio manager is Denzil Burger of the Macro Strategy Investments boutique.

All Old Mutual's With-Profit Annuity products operate under one mandate. However the asset allocation differs per product to reflect differences in investment guarantees and demographic profiles. Although the mandate is not expected to change frequently, Old Mutual may make adjustments if deemed necessary, for instance if changes occur in the economic and investment environment or if a change occurs in the assessed risks in the portfolio.

The pensioner assets are managed in a specially designated pensioner portfolio. The portfolio is split into three separate asset pools namely Fund 10, Fund 11 and Fund 12, each with its own asset mix. The three asset pools each accommodate two categories as follows:

- Categories with Pricing Interest (pri) Rate of 3% and lower in Fund 10,
- Categories A (3.5% pri) & B (4%pri) in Fund 11, and
- Categories C (4.5% pri) & D (5% pri) in Fund 12.

The significance of this unique investment strategy is that it recognises the different levels of investment guarantees inherent in the various categories.

*Fund 10 did not have any assets three years ago and as a result there is not sufficient information available in order to report on the three year annualized returns.*

**Asset Allocation**

Asset Class	As at 31 December 2010		
	Fund 10 (Cat A+)	Fund 11 (Cat A & B)	Fund 12 (Cat C & D)
Domestic Equities	29.2%	24.3%	20.7%
Domestic Matched Interest Bearing Assets**	38.9%	49.1%	56.7%
Domestic Unmatched Interest Bearing Assets	1.4%	1.1%	1.0%
Domestic Alternative Assets	4.3%	3.6%	3.0%
Domestic Direct Property	9.9%	8.2%	7.0%
Domestic Cash	0.2%	0.1%	0.1%
International Equities	14.0%	11.7%	9.9%
International Interest Bearing Assets	0.9%	0.8%	0.6%
International Alternative Assets	1.0%	0.8%	0.7%
International Cash	0.2%	0.2%	0.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

\* The portfolio's Domestic Matched Interest Bearing Asset holding is set equal to the matched liability, which in turn is dependent on market yields, the locked-in-yield, and other elements in the valuation basis, e.g. mortality.

\*\* Certain Financial Sector Charter assets are invested in, to enable Old Mutual to comply with the Financial Sector Charter (FSC) section on "Targeted Investments". This allows policyholder money to make a valuable difference to communities by helping under-resourced areas while still earning respectable returns. 2% of policyholder assets have been earmarked for this purpose. Domestic Matched Interest Bearing Assets include the 2% allocation to FSC assets.

### Minimum & Maximum Asset Allocation Limits: Platinum Pension 2003 unmatched portfolio

The table below shows the strategic asset allocation assigned to the Platinum Pension 2003 unmatched portfolio. Departure limits from the strategic asset allocation are also shown.

Asset Class	Strategic Asset Allocation	Minimum Allocation	Maximum Allocation
<b>South African Assets</b>	<b>70%</b>	<b>60%</b>	<b>80%</b>
Domestic Equities	47.5%	40%	55%
Domestic Unmatched Interest Bearing Assets	2%	1%	3%
Domestic Alternative Assets	4%	4%	7%
Domestic Cash	1%	0%	3%
Domestic Direct Property	15.5%	12..5%	20%
<b>International Assets</b>	<b>30%</b>	<b>20%</b>	<b>40%</b>
International Equities	24%	18%	30%
International Interest Bearing Assets	4%	0%	8%
International Alternative Assets	2%	1%	3%

### Restrictions and Limitations

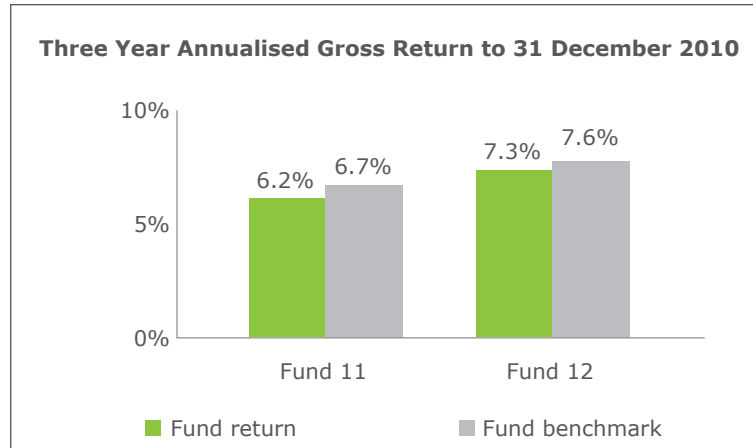
The Domestic Matched Interest Bearing Asset portion of the portfolio is to invest only in investment grade South African bonds and derivatives.

Derivative instruments can only be used for the purpose of reducing investment risk, efficient portfolio allocation and yield enhancement. Derivatives may not be used to speculate.

Old Mutual is not legally permitted to acquire any further shareholding in Old Mutual plc, being its ultimate holding company. For this reason a group wide strategic holding of 10% of the market capitalisation at listing, excluding any additional capital raised, was acquired prior to the time that Old Mutual plc became the ultimate holding company of the Old Mutual group. This holding can be sold, but never be increased.

Restrictions apply on the trading of Old Mutual plc and Nedbank shares during closed periods.

### Total Portfolio Underlying Performance



## 2.2 Domestic Equity Portfolio

### Management

At the end of 2007, the management of the Platinum Pension 2003 Domestic Equity portfolio was transferred from a single manager system to a Core-Satellite approach to optimise efficient return generation from active management and make effective use of the specialist boutique houses within OMIGSA. The changes are the result of in-depth research and detailed consultation with an international consulting house.

The new managers and their strategic allocations for the Domestic Equity portfolio are:

Management Style	Strategic Allocation	Manager
Passive Core	50%	Dibanisa Fund Managers
Active Core	20%	Toros Equity
Active Satellite	10%	Value Equity Investments
	10%	Electus Equity Specialists
	10%	SYmmETRY Multi-Manager

### Benchmark

In calculating the benchmark portfolio performance, the exposure to this broad class in the benchmark portfolio will be set to the actual exposure at the start of each month.

The performance benchmark for the Domestic Equities portion of the portfolio is the SWIX index. The portfolio is targeted to produce 1.5% per annum out-performance of the benchmark over any rolling 3-year period.

## Sector Allocation

Class	Portfolio Exposure	Benchmark Exposure
Resources	31.0%	29.4%
Financial	17.6%	17.0%
Consumer, Industrial & Technomedia	38.6%	41.8%
Small Companies	10.7%	7.9%
Quoted Property	2.1%	3.9%
<b>TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>

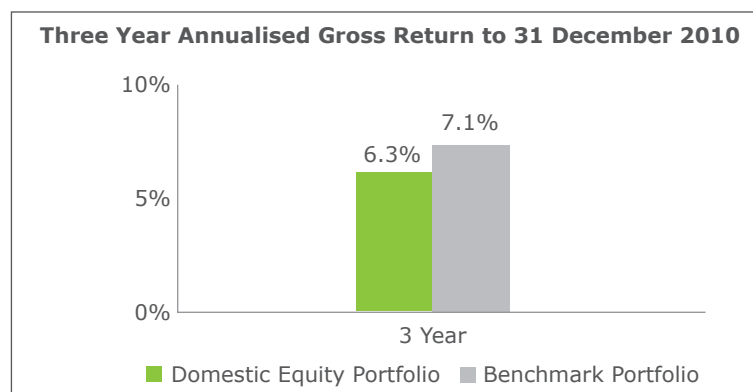
## Top 10 Holdings

The percentages indicated represent the stock holding as a percentage of the Domestic Equity portfolio.

Stock	Portfolio Exposure	Benchmark Exposure*
MTN Group	9.7%	8.5%
Anglo American plc	6.6%	4.7%
Sasol Limited	6.3%	5.6%
BHP Billiton plc	5.8%	6.0%
Standard Bank Group Ltd	4.7%	4.3%
Naspers	4.1%	4.0%
Firststrand Group	3.3%	3.9%
Old Mutual plc	2.7%	1.0%
SAB Miller	2.5%	3.9%
ABSA	2.4%	1.7%
<b>TOTAL</b>	<b>48.1%</b>	<b>43.6%</b>

\* As mentioned in the commentary above, the benchmark for the domestic equity portfolio is the SWIX. The SWIX underweights resources compared to the JSE All Share Index as it makes adjustments for non-South African shareholdings.

## Underlying Performance



## 2.3 Domestic Interest Bearing Portfolio

### Management

Tanja Tippet of OMIGSA's Liability Driven Investments (LDI) boutique manages the Domestic Matched Interest Bearing Asset portfolio.

### Benchmarks

The investment objective for the Matched Domestic Interest Bearing portion of the portfolio is to match a fixed proportion of the guaranteed pension and the future bonuses in respect of that proportion. These projected bonuses are consistent with the locked-in-yield. Earning additional yield spread above the South African Government Yield Curve is a secondary consideration.

As from October 2010, the matched portions of all of Old Mutual's With-Profit annuity portfolios became benchmarked against a custom liability index, which will provide a measure of how the value of the liabilities underlying the matched portion has changed due to yield curve movements. The index is backdated to 1 April 2010.

### Matching Strategy

The fixed interest assets backing Platinum Pension 2003 are invested to match the pattern of the expected pension payments. The assumed future bonuses are based on yields secured at the time of matching. When Old Mutual introduced this long-term matching strategy, interest rates were considerably higher than they are today. Hence, as interest rates declined, Old Mutual did not immediately release the capital appreciation for bonus purposes. The capital appreciation is released gradually over time.

Note that the primary requirement on the asset manager of the Matched Interest Bearing Assets is to ensure that the value of the assets moves as closely in line as possible with the movements in the value of the liabilities. While the asset manager will be expected to look out for investment out-performance opportunities, this is only a secondary requirement. As mentioned above, the benchmark performance is the value of the liability, which is affected by issues such as mortality experience, and thus cannot easily be hedged by the asset manager. Therefore we do not compare performance of this portfolio against the benchmark in this report. The portfolio is, however, rebalanced quarterly.

### Exposure by Duration: Matching Interest Bearing Asset Portfolio

Duration	Portfolio Exposure		
	Fund 10	Fund 11	Fund 12
0-3 Years	1.9%	13.3%	18.4%
3-7 Years	0.4%	7.5%	10.3%
7-12 Years	1.3%	8.6%	13.3%
Longer than 12 years	92.7%	67.0%	53.8%
FSC Assets	3.7%	3.7%	4.1%
<b>Total Matched Portfolio</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

### Domestic Unmatched Interest Bearing Assets

The Unmatched Interest Bearing portion of the portfolio invests mainly in South African inflation-linked bonds, with a small proportion also invested in money market instruments denominated in South African Rands.

The performance benchmark is the Barclay's BESA South African Government Inflation-Linked Bond Index.

## 2.4 Domestic Direct Property Portfolio

### Management

The management of this section of the portfolio is performed by OMIGSA's Property Investments boutique.

The Domestic Property Portfolio invests predominantly in direct property investments, however this portfolio may also include exposure to holdings in listed property shares, as well as cash. Currently, no listed property investments are held.

### Benchmark

The long-term objective for the property exposure is 7.5% of the total portfolio.

Due to the illiquidity of this asset class, the portfolio manager is not in a position to effect asset allocation changes in the short term. There is an agreement in place to take into account the overweight allocation to this illiquid asset class, as short term tactical asset allocation changes are not advisable within a portfolio of direct property investments.

In calculating the benchmark portfolio performance, the exposure to this asset class in the benchmark portfolio is set to the strategic exposure (i.e. 7.5%), provided the actual exposure is equal to or less than 10%. The exposure to this asset class in the benchmark portfolio is increased above 7.5% by the extent to which the actual Domestic Direct Property exposure exceeds 10%. Any exposure above 7.5% in the benchmark portfolio for Domestic Direct Property is accommodated for by reducing the exposure in the benchmark portfolio to Domestic Equities and Domestic Interest Bearing Assets equally.

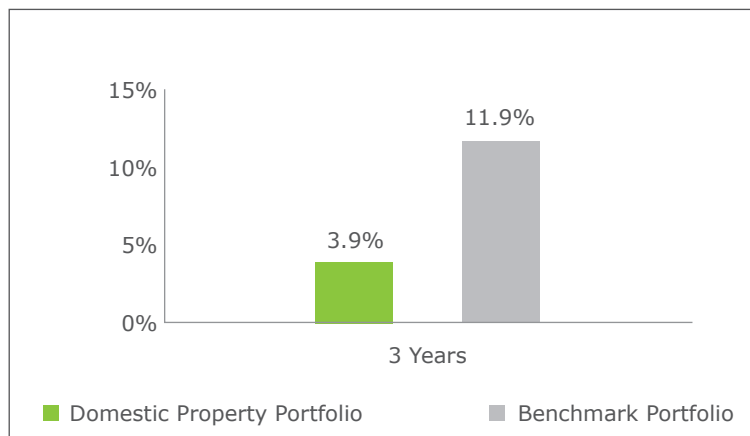
The performance benchmark is the SAPOA/IPD South African Property Total Return Index (All Property). A benchmark of CPI+5.5% has also been introduced (from 7 July 2008) in order to evaluate OMIGPI in between IPD release dates.

### Exposure by Property Type

Class	Portfolio Exposure
Retail	65.4%
Offices	12.3%
Industrial	10.0%
Working capital	3.9%
Cash	8.4%
<b>Total</b>	<b>100.0%</b>

The top three properties in the portfolio are Gateway Theatre of Shopping (Umhlanga), Menlyn Park (Pretoria), and Riverside Mall (Nelspruit).

### Underlying Performance



## 2.5 Domestic Alternative Asset Portfolio

### Management

This class contains investments in the Development Fund and the IDEAS Fund. Paul Boynton of OMIGSA's Alternative Investments boutique manages these Funds. This class may also contain exposure to some of OMIGSA's other portfolios from time to time e.g. OMIGSA's Symmetry Multi-Manager Portfolios. For reporting purposes, the performance and exposure levels underlying these investments are allocated to the appropriate asset class.

The Development Fund has a medium- to long-term investment horizon. Investments may take the form of equity and/or debt capital although the primary focus will be on unlisted equity or equity linked instruments. Investments will be made in the following asset classes: Empowerment, Infrastructure, Mezzanine Debt, Private Equity, Domestic Hedge Funds and African Assets.

The IDEAS (Infrastructure, Developmental and Environmental Assets) Fund invests specifically in infrastructure and development assets aimed at financing projects to promote South Africa's long-term economic development.

### Benchmark

The long-term objective is for the exposure to Domestic Alternative Assets to be at 2.0% of the total portfolio.

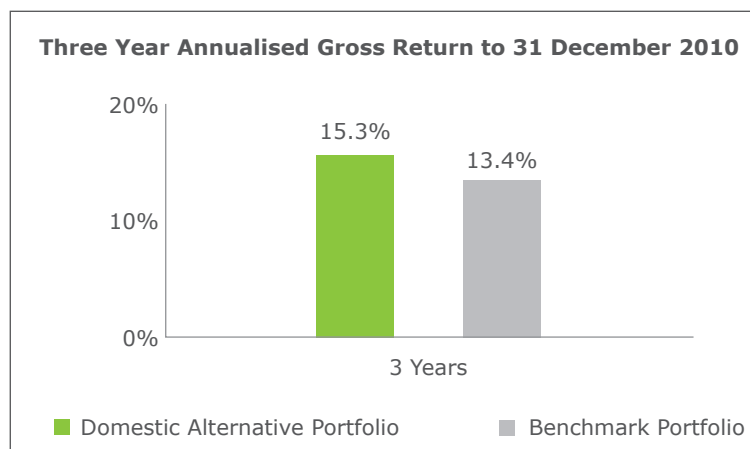
Given the very low liquidity of this asset class, and the long-term nature of investments, OMIGSA is not able to effect asset allocation changes to this class over the short to medium term. As such, short-term performance objectives do not have much meaning. Nevertheless the following is a guideline to the performance that can be expected.

The current performance benchmark for the domestic alternative portfolio is to generate a real return (relative to South African CPI) in excess of 7% per annum, over rolling 3-year periods.

### Exposure by Fund

Fund	Portfolio Exposure
IDEAS Fund	25.6%
CPIX+7% Product	50.3%
OMIGSA Multi-Strategy	23.7%
Other	0.4%

### Underlying Performance



## 2.6 International Equity Portfolio

### Management

OMIGSA uses various asset managers to manage the International Equity portfolio, namely:

- Ashfield
- Barrow Hanley
- Walter Scott
- Acadian
- OMIGSA Direct
- Old Mutual Global Index Trackers Pty Ltd

### Benchmark

Due to the existence of exchange controls, the exposure to International Assets in the benchmark portfolio is set to the actual international exposure at the start of each month. In creating the benchmark portfolio the following fixed allocations are made within this broader class:

Asset Class	Allocation
Equities	80.0%
Interest Bearing	13.3%
Alternative Assets	6.7%

The performance benchmark for the International Equity portfolio is set equal to the total return of the Morgan Stanley Composite Index All Country Equity (in South African Rands).

The International Equity portion of the portfolio is targeted to produce 1.5% per annum outperformance of its benchmark over any rolling 3-year period, before costs.

### Regional Allocation

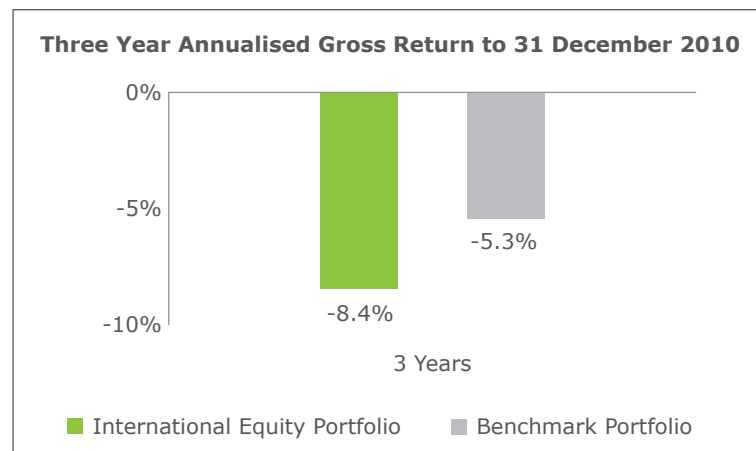
Region	Portfolio Exposure	Benchmark Exposure
North America	46.6%	47.1%
Japan	10.7%	8.7%
UK	7.4%	8.4%
Pacific (excl Japan)	6.8%	5.3%
Emerging Markets	14.3%	13.7%
Europe (excl UK)	14.2%	16.8%

### Top 10 Holdings

The percentages indicated represent the stock holding as a percentage of the International Equity portfolio.

Stock	Portfolio Exposure
iShares MSCI Emerging Markets ETF	3.2%
Emerging Market ETF	1.4%
Conoco Phillips	1.1%
IBM	1.1%
Johnson & Johnson	1.0%
China Mobile	1.0%
Microsoft	0.9%
J P Morgan Chase & Co	0.8%
Chevron	0.8%
Carnival Corp	0.8%
<b>Total</b>	<b>11.9%</b>

### Underlying Performance: International Equities



## 2.7 International Interest Bearing Portfolio

### Management

OMIGSA uses various asset managers to manage the International Interest Bearing portfolio, namely:

- Dwight
- Rogge
- OMAM(UK)

### Benchmark

Due to the existence of exchange controls, the exposure to International Assets in the benchmark portfolio is set to the actual international exposure at the start of each month. In creating the benchmark portfolio the following fixed allocations are made within this broader class:

Asset Class	Allocation
Equities	80.0%
Interest Bearing	13.3%
Alternative Assets	6.7%

The total portfolio of international interest bearing assets is divided into 2 components: A portfolio of fixed-interest bonds and a component consisting of short-term money market instruments, with all instruments denominated in foreign currencies.

The performance benchmark for the bond component of the International Interest Bearing portfolio is derived as a composite index of 50% Barclays Capital Aggregate Bond Index (previously Lehman Global Aggregate Total Return Index) plus 50% JP Morgan Global Bond Index (in South African Rands).

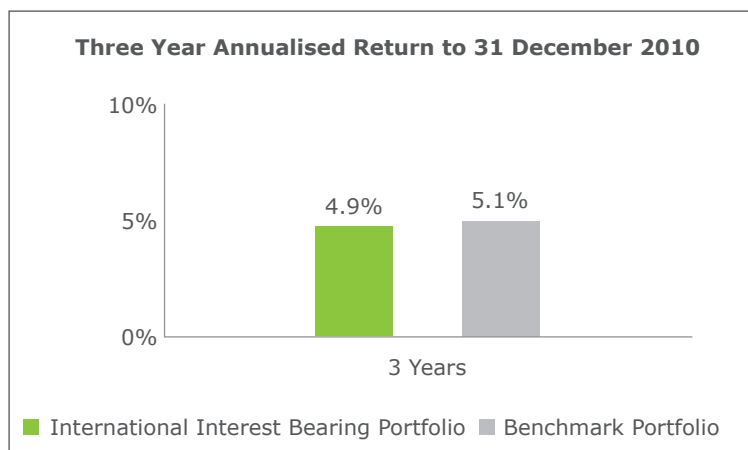
The performance benchmark for the Money Market portfolio has the following benchmark: a composite money market basket of 3 month instruments where the weights are the currency weights in the International Monetary Fund's Special Drawing Rights basket.

The International Interest Bearing portion of the portfolio is targeted to produce 0.5% per annum outperformance of its benchmark over any rolling 3-year period, before costs. The portfolio shall at all times be limited to an average duration of within 1 year of the duration of the benchmark.

### Regional Allocation

Region	Portfolio Exposure	Benchmark Exposure
Japan	7.7%	25.8%
Supra-National	0.0%	0.4%
Middle East	0.0%	0.0%
Pacific Ex Japan	5.5%	1.2%
Emerging Markets	5.1%	1.0%
North America	41.3%	39.2%
European Monetary Union (ex UK)	25.7%	24.7%
UK	10.6%	5.6%
Europe - Other	4.0%	2.1%

### Underlying Performance



## 2.8 International Alternative Asset Portfolio

### Management

International alternatives are invested in a mixture of asset classes, including Hedge Funds, Private Equity, Mezzanine Debt, Infrastructure, Property and other attractive investment opportunities which might arise.

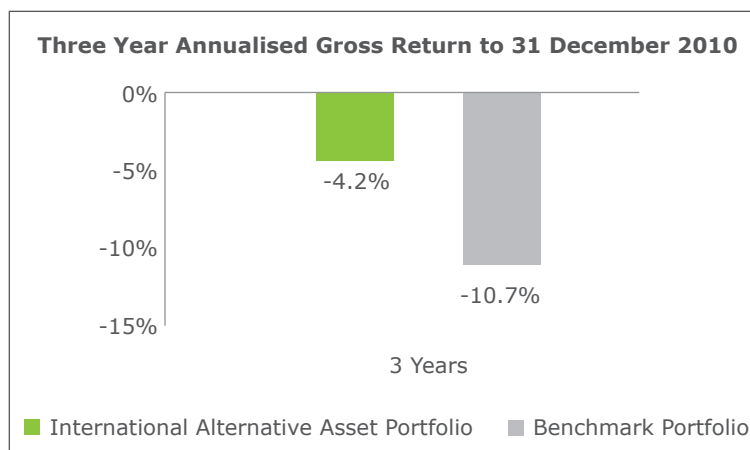
### Benchmark

Due to the existence of exchange controls, the exposure to International Assets in the benchmark portfolio is set to the actual international exposure at the start of each month. In creating the benchmark portfolio the following fixed allocations are made within this broader class:

Asset Class	Allocation
Equities	80.0%
Interest Bearing	13.3%
Alternative Assets	6.7%

The performance benchmark for any International Alternative Assets is US CPI + 5% in US Dollar terms over rolling 5-year periods.

### Underlying Performance



## 2.9 Other Asset Strategies

### Scrip Lending

Old Mutual enters into scrip lending contracts (which are subject to rigorous risk management) in respect of the underlying portfolio. The portfolio, and hence the policyholders participating in this portfolio, receive the full revenue of the transactions, less the fees of the facilitating agent.

Old Mutual Specialised Finance (Pty) Ltd, a subsidiary of Old Mutual South Africa Limited, is generally appointed as agent and fees paid to them are periodically market-tested. These fees are currently based on the sliding scale below, with the agent carrying all expenses incurred in scrip lending:

Fees Paid to Agent <sup>1</sup>	Bonds	Equities
40%	First 2.25bn	First 2.25bn
35%	Second R2.25bn	Second R2.25bn
30%	Third 2.25bn	Third 2.25bn
25%	Above R6.75bn	Above R6.75bn

<sup>1</sup> This fee is expressed as a percentage of the revenue earned on transactions with magnitude shown for each of Bonds and Equities.

### Dividend Rights

As part of the management of the equity portfolio within the Untaxed Policyholder Fund, dividend rights may be sold to third parties. The portfolio, and hence the policyholders participating in this portfolio, receive the full profit of the transactions, less the fees of the facilitating agent.

Old Mutual Specialised Finance (Pty) Ltd, a subsidiary of Old Mutual South Africa Limited, is generally appointed as agent and fees paid to it are periodically market-tested. The fee paid to the agent equates to 50% of the revenue earned by the portfolio and is only paid on successful completion of each transaction.

## 3. Bonuses

### Bonus Philosophy

The surplus attributable to with-profit policies (i.e. generally the net investment return earned on policyholder funds) is credited to a Bonus Smoothing Reserve (BSR), from which bonuses are declared. The BSR is in effect the excess of the market value of the assets over the value of the liabilities. Bonuses declared usually differ from the actual net (of charges and pricing interest rate) investment return earned in a year, so as to reduce the impact of short-term volatility of returns to policyholders. The pricing interest rate is deducted from the investment return earned in determining the surplus available for bonuses, as this has already been taken into account in determining the annuity instalments.

In years when above average investment returns are earned, the bonus declared tends to be lower than the net investment return earned, and in years when below average investment returns are earned, the bonus declared tends to exceed the net investment return earned.

Positive BSR balances represent surplus attributable to with-profit policyholders that have not yet been declared as bonuses, which will be used to support subsequent bonus declarations. A negative BSR balance means that more has been declared as bonuses to policyholders than has been earned to that date (as a consequence of the smoothing process), and that this will be recovered in future bonus declarations (i.e. future bonuses will be less than the net investment return earned).

The BSR is credited with the surplus or deficit and is debited with the cost of bonuses declared, the charge for investment guarantees, the cost of the pricing interest rate on benefit payments, and investment management charges.

### Profit Sources

Pensioners participate in the investment and mortality profits/losses generated by the portfolio, through bonus increases.

Investment profits are realised for each profit category (i.e. the pricing or post-retirement interest rate category chosen by clients) if the returns earned on the underlying portfolios are in excess of the pricing or post-retirement rate. Mortality profits will arise if pensioners do not live as long as expected. Mortality losses will arise if pensioners live longer than expected. However, the main source of profits is likely to be investment profit.

The bonus increase, once granted, is guaranteed and can never be removed. The level of future bonuses is, however, not guaranteed.

### Bonus Declaration Process

Bonuses are declared annually in arrears, based on the financial position as at 31 December. The declared bonus is at the discretion of the Board and is based on the recommendation by the Statutory Actuary. In assessing the bonus rate to declare, the Board of Old Mutual will look primarily at the size of the Bonus Smoothing Reserve. The long-term target level for the BSR should be in the range of 0% to 5%. The target can vary outside this range depending on market conditions. In determining a minimum BSR tolerance level, the criterion is that any negative BSR should be capable of being recouped within at most 3 years. If recoupment is not possible within 3 years, shareholder funds are used to correct the situation.

In determining the maximum tolerance level, consideration is given to the maintenance of equity between different generations of pensioners.

It is important to note that the BSR is used to declare bonuses for the benefit of Platinum Pension 2003 policyholders only, and can therefore not be accessed by Old Mutual shareholders.

Further factors that the Board considers when determining the bonus to be declared, include the following:

- The reasonable expectations of policyholders as to the size of the final bonus.
- The impact on bonuses if a severely falling market environment was experienced. For example, in such an environment, bonuses will be affected by the need to ensure that the BSR does not become too negative, as this would adversely affect subsequent bonuses.
- Our competitive position against the bonus declarations of With-Profit Portfolios offered by other providers.

### Allowance for Management Action in Adverse Circumstances

As mentioned, the BSR is targeted in the long term to be within a range of 0% to 5% of the liabilities. Tolerance for BSR levels outside this range reduces as the absolute levels move further away from this range. The tolerance for a particular level of smoothing reserve is also a function of the prevailing investment and economic conditions and the outlook for these.

The focus here is particularly on a three-year time horizon, in line with the Actuarial Society of South Africa guidelines as described in this section. While Old Mutual has some internal guidelines, there are no absolute levels set at which particular management actions are automatically taken. Such an approach may be imprudent, as it may not consider all the factors involved at that time. However, if the BSR trends away from the long-term average, the extent of management action will become more pronounced, taking due consideration of the economic and investment environment at all times.

The BSR is debited with the following costs:

### **Investment Management Charge**

The investment management charge (which includes asset manager costs) is approximately 0.70% to 0.8% of assets per annum. It may vary slightly depending on the asset allocation and asset manager performance relative to benchmark. Bonuses declared are net of this charge.

### **The Cost of Providing Guarantees**

Old Mutual guarantees that existing pensions will be paid for life, and that any increase, once granted, will also be guaranteed for life. The price Old Mutual levies for these guarantees is the capital charge.

The capital charge of 1.0% pa will be levied monthly in arrears on the assets underlying the policy. Thus any bonuses declared are net thereof.

This capital charge came into effect from 1 October 2007. Prior to that date, a capital charge of 1.5% per annum was levied monthly in arrears on the assets underlying the policy.

## 4. Portfolio Bonus Smoothing Reserve Levels

Old Mutual Life Assurance Company (South Africa) (OMLAC(SA)) is required to disclose Short-Term Bonus Smoothing Reserve (ST-BSR) levels below  $-7.5\%$  for With-Profit Annuity portfolios.

OMLAC(SA) complies with this requirement through making public, information relating to the BSR levels for all classes of business.

As at financial year ended 31 December 2010, the ST-BSR for none of the annuity portfolios issued by OMLAC(SA) was below the stated level of  $-7.5\%$  of the value of the liabilities in that class.

The long-term target of the ST-BSR is between  $0\%$  and  $5\%$ . Departures around this long-term target can be expected in the short-term.

The bonuses effective for increase dates between 1 April 2011 and 31 March 2012 were based on the portfolio's ST-BSR level as at 31 December 2010. At this date, the ST-BSR, after taking account of all declared bonuses for 2011, falls within the indicated range in the table shown.

Short-Term Bonus Smoothing Reserve Range	
Greater than 15%	
Between 10.0% and 15.0%	
Between 5.0% and 10.0%	
Between 0% and 5.0%	X
Between -5.0% and 0.0%	
Less than -5.0%	

### Long-term Bonus Smoothing Reserve

OMLAC(SA) has reviewed the basis on which it values its liabilities, the Financial Soundness Valuation (FSV) method, with effect from 31 December 2007. This change is consistent with recommendations made by external consultants who have recently reviewed our practice. The total value of policyholder funds is the same on the new basis as under the old basis. However, the allocation between the bonus smoothing reserve (BSR) and underlying liabilities has changed. The existing (short-term) BSR continues unchanged. However, a new "long term" BSR is now shown separately from the underlying liabilities, whereas it was previously included in the underlying liabilities. This new long-term Bonus Smoothing Reserve (LT-BSR) essentially reflects bond capital appreciation that has not yet been released to the short-term BSR, and will vary depending on the level of market yields. It will be released to pensioners gradually over the expected lifetime of the pensioners via the short-term BSR.

Long-term (LT) Bonus Smoothing Reserve level as at 31 December 2010 falls within the indicated range in the table shown.

<b>Long-Term Bonus Smoothing Reserve Range</b>	
Greater than 15%	
Between 10.0% and 15.0%	
Between 5.0% and 10.0%	
Between 0% and 5.0%	
Between -5.0% and 0.0%	X
Less than -5.0%	

## 5. Company Solvency

The guarantees on benefit payments offered under Platinum Pension 2003 are backed by the capital of Old Mutual South Africa.

Old Mutual's historical capital levels have been as follows:

	December 2009	June 2010
Net Assets * (R'bn)	375.8	369.5
Actuarial Liabilities (R'bn)	330.0	324.5
Shareholder Capital (R'bn)	45.8	45.0
Capital over Liabilities	13.9%	13.9%

\* net of inadmissibles and other adjustments

The extent of capital, combined with the stability of the capital position over time, provides an indication of the quality of the guarantees that apply to our With-Profit Annuity Portfolios. It is important to note that the Actuarial Liabilities shown here include Bonus Smoothing Reserve for the different classes of business.

The capital required (R'bn) on a statutory basis at the corresponding dates was as follows:

	December 2009	June 2010
Shareholder Capital (R'bn)	45.8	45.0
Statutory Capital Required (R'bn)	11.1	11.5
<b>Cover</b>	<b>4.1 x</b>	<b>3.9 x</b>

As at 30 June 2010 Old Mutual had 3.9 times as much capital set aside to protect policyholders' guaranteed benefits as is required by regulation. This information is made available on an annual basis with the publication of the financial results of Old Mutual plc.

Due to the fact that risks inherent in the different products that Old Mutual offers are correlated (whether negatively or positively), the amount of capital set aside to back all guarantees cannot be separated out for each product independently, hence the figures shown above apply across the board for the whole of Old Mutual South Africa

## 6. Fee Structure

The following fees are built into the upfront consideration:

### **Initial Administration Fee**

The current fees for new business are:

- R570 for a single pensioner or child
- R855 for a married pensioner

The fees are increases annually in line with inflation therefore different fees apply to business written in the past.

### **Renewal Administration Fee**

The fee for new business is 2.04% of the annuity payment, capitalized and included in the upfront consideration. This fee can vary depending on the size of the annuity.

For other charges relating to the management of this product, please refer to the Bonuses section of this report.

## 7. Portfolio Size

The Platinum Pension 2003 Portfolio size as at 31 December 2010 was approximately R7.5bn.

## 8. Ring Fencing

The portfolio of underlying assets that supports Platinum Pension 2003 is managed separately from the assets of other portfolios (both policyholders and shareholders). This separation extends to the Platinum Pension 2003 specific Bonus Smoothing Reserve (BSR) that forms an integral part of the portfolio of underlying assets that support Platinum Pension 2003.

Platinum Pension 2003 is managed in accordance with a specific mandate as described earlier in this document.

Although the assets are managed separately from other portfolios they are not housed in a separate legal entity but remain the registered property of OMLAC(SA).

All fees and charges will be transferred from this portfolio to shareholder fund portfolios.

Other transfers of assets between different portfolios would occur in the normal course of events.

Such transfers could reflect normal trading between two portfolio managers with different investment mandates and investment views or the transfer of a pool of assets where a client chooses to change its investment from, say, Platinum Pension 2003 to the Platinum Pension.

However, please note that the Platinum Pension portfolio was closed to new business in 1999 due to a major product revamp.

Exposure to investments in certain main classes, such as International Assets, Domestic Direct Property and part of Domestic Alternative Assets (in particular the Development Fund and IDEAS Fund) is redistributed on a monthly basis to ensure an equal exposure in line with the investment mandates for Pensions OptiPlus, Platinum Pension and Platinum Pension 2003.

The principle that applies in any such transfers will be that any assets accepted into the portfolio must not alter the portfolio in such a way that compliance with the investment mandate is compromised.

The transfer of Bonus Smoothing Reserve between different policyholder portfolios is not precluded but will only happen in specific circumstances.

This could happen when a mature portfolio diminishes in size over time; a stage might be reached where the size of the portfolio is less than optimal for the smoothing of returns to be effective. At such a point the mature portfolio could be combined with a larger portfolio with a corresponding transfer of BSR taking place. The principle is that, as far as possible, we aim to ensure that the BSR percentages of both portfolios are similar after such a transfer to what they were before the transfer.

### How to Contact Us

**Find out more about the investment portfolios in Old Mutual's range of Growth and Protection Solutions.**

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