

Income solutions for today's environment

Low interest rates & rising inflation = negative real returns from bank deposits

We have been in a low interest rate environment for some time now, with the current repo rate at 5.5% — around a three-decade low! — and some analysts are predicting another rate cut before the year is out!

To illustrate the impact of this on investors, consider the following example. In July 2008, a R100 000 investment in a 12-month fixed deposit would have earned R11 000 in income before tax.

In July 2011 this same investment would have earned an income of only R4 470 before tax. That is quite a dramatic reduction.

The fact is that it is very difficult for investors to receive attractive real yields from short-term cash investments like bank deposits.

Old Mutual Unit Trusts' solutions

We have a range of specialist income and asset allocation funds that offer risk-averse investors access to varying degrees of growth assets to help preserve and grow capital while paying a regular

income. In terms of volatility they are slightly more risky than bank accounts, but in a low inflation, rising interest rate environment, investors seeking a sustainable income have no choice but to take on slightly more risk. The alternative is to accept a lower level of income.

Income and specialist income funds aim to offer a higher yield (interest) from interest-bearing assets such as bonds and money market instruments, and may also include a limited amount of property – a growth asset. Alternatively, low risk asset allocation funds include limited amounts of equity (shares), which is the best bet when trying to ward off the erosive effects of inflation.

These funds are specially designed to meet the needs of investors who cannot afford to take risk and so the inclusion of growth assets is strictly controlled, and income generation remains the primary objective. Examples include Old Mutual Enhanced Income Fund and Old Mutual Real Income Fund.

Income solutions

Fund	Benchmark	Objective	Capital protection aim	Risk rating	Performance vs benchmark	
					One year to 31 July 2011	Three years to 31 July 2011
Old Mutual Money Market Fund	STeFI	To deliver a regular income and outperform bank deposits over time	Protect capital over the short term; no negative months	1	5.8% vs 6.1%	8.2% vs 8.1%
Old Mutual Income Fund	80% STeFI 20% ALBI	To pay a high, regular income and achieve higher returns than the money markets	No negative quarters	1	7.5% vs 6.6%	9.6% vs 8.9%
Old Mutual Enhanced Income Fund	110% STeFI Call Deposit Index	To pay a high regular income and outperform money market and income funds over time	Protect capital over rolling six months	2	7.1% vs 6.1%	9.4% vs 8.9%
Old Mutual Real Income Fund	CPI	To provide an income that grows in line with inflation while sustaining the level of capital	Protect capital over rolling 12 months	2	9.5% vs 5.3%	10.9% vs 4.9%

Funds are available directly from Old Mutual Unit Trusts, as well as via MAX and Fairbairn Capital and most major LISPS.

Please contact your OMIGSA Sales Executive for more information. Alternatively, visit www.omut.co.za or call the service centre on 0860 234 234.

Unit trusts are generally medium- to long-term investments. Past performance is no indication of future performance. 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 adviser fees is available from Old Mutual Unit Trust Managers Ltd (OMUT). You may sell your investment at the ruling price of the day (calculated at 15h00 on a forward pricing basis and 17h00 at month-end for Old Mutual RAF[®] 40 Tracker Fund, Old Mutual Top 40 Fund and SYm|metry Equity Fund of Funds). The Old Mutual Money Market Fund unit price aims to be static but investment capital is not guaranteed. The total return is primarily made up of interest (declared daily at 13h00), but may also include any gain/loss on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the fund. Specialist equity funds may hold a greater risk as exposure limits to a single security may be higher. A feeder fund is a portfolio that, apart from assets in liquid form, consists solely of participatory interests in a single portfolio of a collective investment scheme. A fund of funds unit trust invests only in other collective investment schemes, which may levy their own charges. 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.

Source: Morningstar, for periods ended 31 July 2011.

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. Past performance is not necessarily an indication of future performance.

Old Mutual South Africa is a member of the Association for Savings and Investment South Africa (ASISA).



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