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

					Performance vs benchmark	
Fund	Benchmark	Objective	Capital protection aim	Risk rating	One year to 30 September 2011	Three years to 30 September 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	5.6% vs 5.9%	7.8% vs 7.8%
Old Mutual Interest Plus Fund	STeFI	To deliver returns in excess of those offered by money market funds and similar levels of liquidity, without significantly increasing risk	No capital losses over any monthly period	1	Fund not 1 year old yet	
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	7.3% vs 5.9%	9.3% vs 8.4%
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	6.6% vs 5.9%	8.8% vs 8.2%
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	7.0% vs 5.4%	10.7% vs 4.7%

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.

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