

# FLEXI PORTFOLIO PERFORMANCE REPORT



J U L Y 2 0 1 1

## South African economic review

- During the second quarter we saw continued evidence that the local economic recovery remained on track. First quarter GDP came in at a seasonally adjusted annualised rate of 4.8%. Within this performance was a strong showing from consumer spending, supported by strong real income growth. However, given the uptrend in inflation, we expect this real income boost to wane somewhat over the rest of the year. This should result in somewhat slower consumer spending growth going forward.
- Fixed investment growth continued on the recovery path – albeit slower and later than consumer spending. Fixed investment growth normally lags the rest of the economic cycle. Investment by the private sector and public corporations (Transnet & Eskom) rebounded nicely, while that by general government continues to lag behind.
- Despite decent first quarter growth data, the economy is certainly not booming. Car and retail sales, as well as indicators such as consumer credit extended and building plans passed, suggest growth is still moderate and even slow when compared to the previous upcycle. Despite this, we expect 3.7% GDP growth in 2011, rising to about 4% by next year.
- Inflation rose to 4.6% in May. This is up from a cyclical bottom of 3.2% in September 2010. The primary drivers of this cycle have been food and energy prices. Indeed, core inflation (i.e. headline excluding food and energy) is now only at 3.2% after bottoming at 3.0%. We expect inflation to end the year at about 5.5%. Recent petrol price declines (unexpected only a few months ago) and the strong rand are acting as powerful brakes on inflation.
- We still expect the interest rate upcycle to start around the end of the year. The exact timing – and the extent of rises in the cycle – will depend on factors such as food and oil prices, the rand and the strength of the demand cycle.

*The local recovery remains on track. However, weakness in a number of areas still stands in the way of a faster recovery. Inflation is on a moderate uptrend and interest rates are expected to start to rise somewhere between the fourth quarter of 2011 and the first quarter of 2012.*

## MARKET PERFORMANCE INCLUDING DIVIDENDS

	Last Month (%)	Year to Date (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	8 Years (% p.a.)	10 Years (% p.a.)
JSE All Share	-2.0	0.5	24.6	4.5	11.4	21.6	16.5
JSE Fin & Ind	-1.4	2.9	27.1	15.7	14.2	23.1	16.4
JSE All Gold	-9.5	-11.2	-6.6	0.6	-5.4	1.9	9.7
All Bond	0.2	2.3	11.3	13.4	8.9	9.2	10.4
Total Cash	0.4	2.4	5.2	7.4	8.1	7.6	8.2
ALSI40	-2.4	0.9	25.7	2.5	10.7	21.0	15.8
INDI25	-1.4	4.8	34.9	16.0	17.9	26.1	17.1



**RETIREMENT ANNUITIES TO 01/07/2011 - Refer Notes**

PERFORMANCE PROFITS																	
Period	Equity %			Balanced %			Select %			SMOOTHED BONUS			STABLE FUND			CPI	
	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.		%
1 Year	6.9	16.3	16.3	6.1	12.4	12.4	6.0	12.5	12.5	6.7	7.2	7.2	4.3	4.6	4.6	5.1	
2 Years	10.2	16.7	16.8	8.4	12.3	12.3	8.1	12.9	13.1	7.3	7.4	7.4	4.9	5.1	5.4	4.7	
3 Years	11.7	9.4	2.4	8.9	8.3	4.6	9.3	8.7	4.8	7.3	7.3	7.2	5.6	5.9	6.7	5.4	
5 Years	5.9	6.3	6.5	6.1	6.5	6.7	6.1	7.0	8.1	8.2	8.7	10.5	6.4	6.5	6.7	6.8	
8 Years	11.2	12.5	16.3	9.7	10.6	13.3	10.3	11.5	14.3	11.0	11.1	12.0	6.3	6.3	6.2	5.3	
10 Years	12.1	12.3	11.7	10.3	10.4	10.0	11.3	11.6	11.8	11.1	11.0	10.7	6.3	6.3	6.2	5.7	
15 Years	11.9	11.6	11.1	10.4	10.3	10.2	-	-	-	10.8	10.8	10.7	6.6	6.7	7.6	6.0	
20 Years	12.4	12.3	12.9	10.9	10.9	11.7	-	-	-	11.3	11.4	12.1	7.8	8.0	9.5	7.0	
25 Years	13.4	13.6	15.3	11.9	11.9	13.2	-	-	-	12.5	12.6	14.0	-	-	-	8.5	
<b>INTERIM RATES</b>												6.20% p.a. (0.503% p.m.)			0.303% p.m.		

**ENDOWMENTS / LIFE PORTFOLIOS TO 01/07/2011 - Refer Notes**

PERFORMANCE PROFITS																	
Period	Equity %			Balanced %			Select %			SMOOTHED BONUS			STABLE FUND			CPI	
	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.		%
1 Year	8.0	16.6	16.6	5.5	10.5	10.5	4.4	11.2	11.2	5.5	6.0	6.0	2.3	2.6	2.6	5.1	
2 Years	10.5	16.6	16.6	6.9	10.3	10.1	6.8	11.5	11.6	6.1	6.2	6.2	2.9	3.2	3.5	4.7	
3 Years	11.2	9.0	1.7	7.0	6.4	2.7	7.8	7.3	3.3	6.1	6.1	6.0	3.7	4.1	4.9	5.4	
5 Years	5.4	5.7	5.8	4.5	4.9	5.3	4.7	5.6	6.5	7.0	7.5	9.3	4.6	4.7	5.0	6.8	
8 Years	10.3	11.5	15.0	8.1	9.0	11.8	8.7	10.0	13.1	9.9	10.1	11.1	4.7	4.7	4.8	5.3	
10 Years	11.0	11.1	10.6	8.9	9.0	8.8	9.9	10.3	10.6	10.0	10.0	9.9	4.8	4.8	5.0	5.7	
15 Years	10.8	10.5	9.9	9.2	9.1	9.0	-	-	-	10.0	10.0	10.0	5.5	5.6	6.6	6.0	
20 Years	11.3	11.1	11.8	9.6	9.6	10.4	-	-	-	10.4	10.5	11.1	6.6	6.7	8.0	7.0	
25 Years	12.2	12.3	14.0	10.4	10.5	11.8	-	-	-	11.5	11.6	13.0	-	-	-	8.5	
<b>INTERIM RATES</b>												5.00% p.a. (0.407% p.m.)			0.155% p.m.		
<b>GUARANTEED CAPITAL FUND (CURRENT AFTER-TAX RATE)</b>												4.50% p.a. (0.367% p.m.)					
<b>EQUIVALENT RETURN at the tax rate of 18%</b>												5.49% p.a. (0.446% p.m.)					
												7.50% p.a. (0.604% p.m.)			at the tax rate of 40%		

## PORTFOLIO ASSET SPLIT

	Retirement Annuities						Endowments/Life					
	PP Equity %	PP Balanced %	PP Select %	Smoothed Bonus %	WW Equity %	WW Balanced %	PP Equity %	PP Balanced %	PP Select %	Smoothed Bonus %	WW Equity %	WW Balanced %
Interest-bearing	0 (0)	17 (0)	21 (0)	17 (1)	0 (0)	26 (21)	0 (0)	16 (1)	21 (0)	17 (1)	0 (0)	26 (22)
Ordinary Shares	100 (17)	69 (19)	74 (16)	58 (13)	100 (83)	74 (57)	100 (21)	70 (19)	74 (16)	58 (13)	100 (83)	74 (57)
Property	0	10	5	10	0	0	0	10	5	10	0	0
Other	0	4	0	15	0	0	0	4	0	15	0	0

Figures in brackets - international portion of sector weighting

## TOP EQUITY HOLDINGS (SA)

	Name	% Split	Sector
1	MTN Group	10.5	Mobile Telecommunications
2	Anglo American	6.7	General Mining
3	Sasol	6.6	Oil & Gas
4	BHP Billiton	5.7	General Mining
5	Standard Bank Group	4.3	Banks
6	Naspers	4.0	Media
7	Old Mutual	3.4	Life Insurance
8	SABMiller	3.2	Consumer Goods
9	FirstRand Group	2.9	Banks
10	ABSA	2.6	Banks

## Global economic overview

- The global economy settled into a period of slower growth during the second quarter of 2011. This came on the back of a number of economic events, as well as concerns and risks for investors. Amongst these were: the effects of the Japanese earthquake; high oil and other commodity prices; rising inflation; higher interest rates; continued fear from the Greek debt fall-out, plus fears over possible sharp slowdowns in the Chinese and US economies.
- The Japanese earthquake impacted substantially on the global supply chain and thus slowed industrial production across the globe. This was exacerbated by the impact on investor confidence by the other events mentioned above.
- We were of the opinion that these impacts on growth were temporary and that world growth would return to the moderate growth path that started to emerge during 2010 and early 2011. Indeed, Japanese industrial production rebounded in a V-shaped recovery and will similarly improve production elsewhere. Also, commodity prices eased from the highs of early 2011, boosting corporate and individual confidence. Lower commodity prices have also eased inflation and interest rate fears.
- Some of the negative sentiment during the quarter also emanated from uncertainty around the Federal Reserve Board's quantitative easing (QE) policy, set to end in June. Although the Fed did not announce a third round of QE, its exit strategy will be passive and gradual – meaning that there will not be an effective tightening in policy for some time.
- Another positive came with the announcement by the International Energy Agency of a 60 million-barrel oil sale out of strategic oil reserves over a 30-day period. This could potentially be renewed after the initial 30 days. The impact was an immediate reduction in oil prices.
- Thus, the soft patch in growth in the second quarter now seems as if it indeed will be temporary – and not the start of a sustained downcycle in global growth. We expect growth to recover in the second half of the year.

*After a soft patch in global growth during the second quarter, we expect growth to rebound during the second half of 2011. Substantial risks remain – including fiscal policy tightening globally – so we cannot expect more than moderate growth going forward.*

## GLOBAL MARKET PERFORMANCES IN RAND TERMS

	Last Month (%)	Year to Date (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	8 Years (% p.a.)	10 Years (% p.a.)
MSCI World	-2.2	8.2	16.0	-3.7	1.8	6.7	2.7
JP Morgan	-0.5	6.5	-2.6	1.4	6.5	5.0	6.2
S&P 500	-2.4	8.4	15.1	-1.9	1.5	4.2	0.6
FTSE 100	-3.5	7.9	18.5	-6.1	0.2	7.1	3.7
Nikkei 225	1.1	-1.2	1.4	-6.1	-3.2	4.8	-0.2
Rand/Dollar	-0.7	2.5	-11.6	-4.7	-1.0	-1.3	-1.7

## WORLDWIDE FUNDS - PERFORMANCE IN RAND TERMS - Refer Notes

Period	WW EQUITY %						WW BALANCED %					
	Retirement Annuities			Endowments/Life			Retirement Annuities			Endowments/Life		
	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.
1 Year	5.3	8.9	8.9	4.4	8.0	8.0	4.0	6.0	6.0	3.7	5.8	5.8
2 Years	4.9	9.6	9.9	4.0	8.5	8.7	3.5	6.9	7.4	3.2	6.4	6.7
3 Years	2.8	0.9	-9.0	1.6	-0.1	-9.8	1.6	0.6	-6.2	1.2	0.2	-6.6
5 Years	-2.3	-1.9	-1.6	-3.4	-3.4	-4.3	-0.9	-0.3	0.9	-1.4	-0.8	0.2
8 Years	1.5	1.9	4.4	0.2	0.5	3.4	3.3	3.5	5.5	2.3	2.5	4.4
10 Years	1.7	1.6	1.7	0.3	0.2	0.2	3.1	3.1	2.9	2.0	2.0	2.0
15 Years	2.9	3.1	6.4	1.7	1.8	5.4	4.2	4.3	7.1	3.3	3.4	6.4

## GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark <sup>8</sup>	Difference
United States	37.1	43.1	-6.0	40.6	36.1	4.5
Japan	9.5	7.9	1.7	10.1	25.1	-15.0
Europe ex UK	13.5	18.1	-4.6	23.5	28.5	-5.0
United Kingdom	6.1	8.2	-2.2	11.0	5.5	5.5
SE Asia & Canada	10.4	11.0	-0.5	10.8	4.4	6.4
South Africa	16.8	0.0	16.8	0.9	0.1	0.8
Other	6.6	11.7	-5.2	3.1	0.2	2.9
Total	100.0	100.0	0.0	100.0	100.0	0.0

## EQUITY SECTOR SPREAD

	Fund	MSCI	US	JAPAN	UK	Europe ex UK
Cash	1.8	0.0	0.8	0.2	0.1	0.3
Consumer Discretionary	9.3	10.2	4.2	1.1	0.7	1.5
Consumer Staples	7.4	9.6	3.4	0.8	0.5	1.2
Energy	9.5	11.7	4.2	1.1	0.7	1.5
Financials	11.9	20.2	5.3	1.4	0.9	1.9
Healthcare	9.1	8.7	4.0	1.1	0.7	1.5
Industrials	10.2	10.9	4.6	1.2	0.7	1.7
Information Technology	12.8	11.3	5.7	1.4	0.9	2.1
Materials	6.2	9.0	2.8	0.6	0.4	1.0
Other	0.2	0.0	0.1	0.0	0.0	0.0
Telecom Services	2.8	4.6	1.2	0.3	0.2	0.5
Utilities	1.9	3.8	0.8	0.2	0.1	0.3
SA Rand Hedge	16.8	0.0	0.0	0.0	0.0	0.0

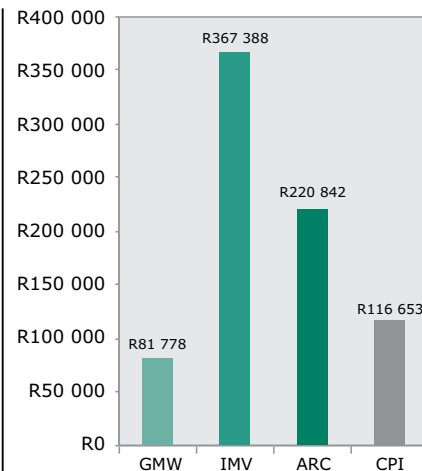
## TOP EQUITY HOLDINGS (GLOBAL)

Name	Sector
1. Royal Dutch Shell	Energy
2. Conoco Phillips	Energy
3. China Mobile	Telecommunication Services
4. Philip Morris International	Consumer
5. Capital One Financial	Financials
6. IBM	Information Technology
7. Microsoft	Information Technology
8. Novartis	Pharmaceuticals
9. SJM Holdings	Consumer
10. Texas Instruments	Information Technology

## Actual policy payouts

### RETIREMENT ANNUITY (FLEXiPENSION PERF. PROFITS BALANCED) - POLICY NUMBER: 5369357

Monthly premium	R160.00
Entry date	1/7/1987
Maturity date	1/7/2011
Guaranteed Maturity Value (GMV)	R81 778.00
Illustrative Maturity Value (IMV) (@ 15%)*	R367 388.00
Illustrative Maturity Value (IMV) (@ 12%)*	R232 053.00
Total premiums paid	R46 080.00
Retirement age (anb)	56
Actual Retirement Capital (ARC)	R220 842.03
Policyholder's investment return**	11.4% p.a.
Average inflation of policy term (CPI)***	7.0% p.a.

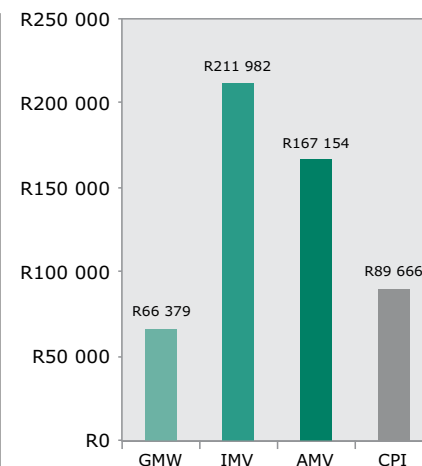


### AN OPTION AT MATURITY (SINGLE LIFE ANNUITY)

One-third cash	R73 614.01
Consideration for annuity	R147 228.02
Gross annuity	R1 139.61
After-tax (40%) annuity	R683.77
Net return (after tax)	12.0%

### PURE ENDOWMENT (FLEXiDOWMENT SMOOTHED BONUS) - POLICY NUMBER: 9570885

Single premium	R35 000.00
Entry date	1/7/1995
Maturity date	1/7/2011
Guaranteed Maturity Value (GMV)	R66 379.00
Illustrative Maturity Value (IMV) (@ 12%)*	R211 982.00
Illustrative Maturity Value (IMV) (@ 9%)*	R135 698.00
Total premiums paid	R35 000.00
Actual Maturity Value (AMV)	R167 154.25
Policyholder's investment return**	10.3% p.a.
Average inflation of policy term (CPI)***	6.1% p.a.



\* The Illustrative Maturity Value calculation is based on the allocation amount (gross premiums minus policy charges). These were the IMV rates applicable at inception. As stipulated by the BIA, the IMV rates for new business are currently 4% and 10%, effective from 1 July 2005.

\*\* The policyholder's investment return is based on gross premiums paid.

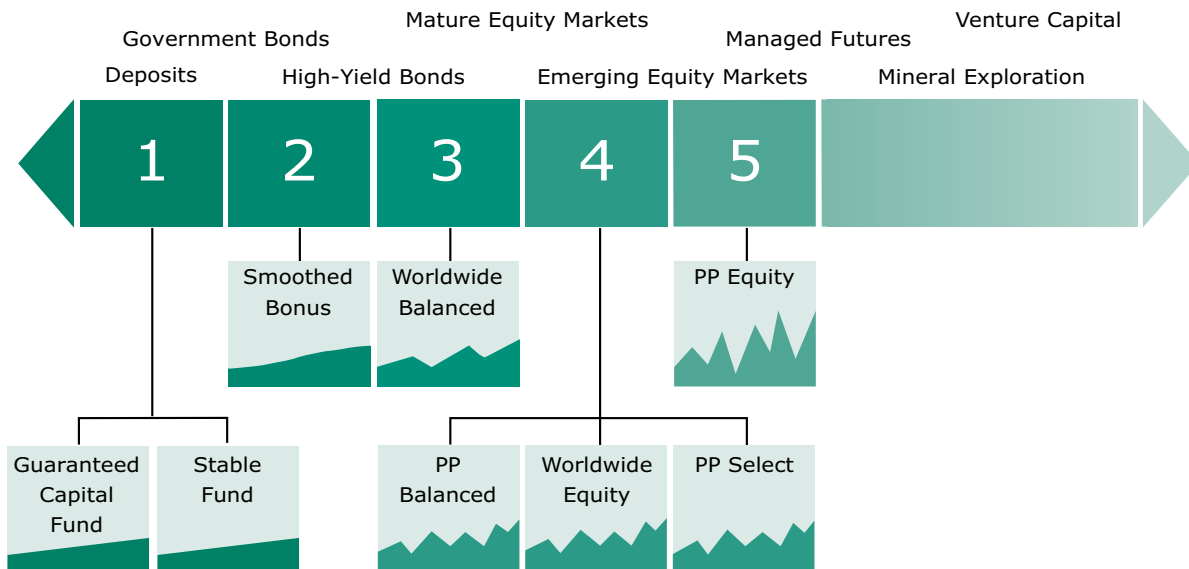
\*\*\* The average inflation (CPI) of policy term is based on gross premiums paid and payment mode.

# Marketing Facts

## THE RISK-RETURN SPECTRUM REVISITED

The 21st century has thus far been a difficult period for investors to sustain good returns on their investable assets, whether they were local or offshore assets. However, it has been statistically proven that in the long term, equities will outperform bonds. Why then, should 100% of an investor's investable funds not be ploughed into the equity market?

The answer is simple. Every investor has a different risk tolerance level. The table below illustrates the different products as they relate to the varying degrees of risk within the Flexi investment spectrum.



Every investor has to make a compromise between investments characterised by higher risk and higher potential returns and lower risk options with a corresponding lower return. The risk-taking investor will have to endure the roller-coaster ride associated with equity portfolios (4 and 5 in the spectrum). The risk-averse investor will enjoy smooth, albeit potentially more modest, performance from a more demure secure portfolio (1 and 2 in the spectrum).

Investment needs analyses, together with the risk profiling of investors, are becoming more important in the 21st century. This is because investors now have access to a multitude of funds, each having a definite place within the risk spectrum.

South African investors are also now critically analysing their investment choices, because they now have access to a plethora of investment information available on the internet. These investors all have individual risk profiles. Therefore, they should be advised, in this time of volatility within equity markets, to invest according to their needs, desires and appetite for risk, the starting point being the risk-return spectrum.

## Notes

1. The performance figures in the tables represent the returns earned on premiums allocated. The returns on premiums actually paid will be lower than this because they take the policy specific charges into account. For this reason examples of actual payouts are shown.
2. All returns are quoted net of investment fund charges and tax.
3. The Smoothed Bonus declaration is made up of a vesting bonus and a claim bonus. The vesting bonus portion of the total bonus cannot be removed on death or maturity of the policy. The claim bonus portion is not guaranteed and could be adjusted should investment conditions dictate.
4. M.P. = monthly premium, A.P. = annual premium, S.P. = single premium.
5. The Flexi range of products was launched on 1 September 1984. Returns for the periods starting before this date apply to policies available before the introduction of the Flexi range of products.
6. The Equity Portfolio as an investment option has only been available since February 1990. Longer term returns are based on the equity component of the Balanced Portfolio.
7. The Property Portfolio and the OMD Top 40 Index Fund returns are available at any time.
8. The MSCI World Index is the benchmark for the Worldwide Equity portion. The benchmark figures for the Worldwide Bond portion consist of 70% JP Morgan Bond Index and 30% Barclays Capital Global Bond Index.

## JULY 2011

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