

Old Mutual Growth and Protection Solutions

Guaranteed Fund



Disclosure Report
June 2010

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1 • Introduction

This Disclosure Report contains details of the structure of the portfolio of assets underlying the Guaranteed Fund as at 30 June 2010, as well as returns generated by the underlying assets up until this date.

This report also includes information on the Bonus Smoothing Reserve levels of the Guaranteed Fund, the internal processes and philosophies of Old Mutual Smoothed Bonus 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 the Guaranteed Fund are provided.

This report provides an overview of aspects and practices relating to the management of the Guaranteed Fund. The nature and format of disclosure may be reviewed in future. This report is not intended to be a comprehensive explanation of contractual terms and conditions; the contractual terms and conditions will always prevail.

Guaranteed Fund Disclosure Reports are available annually with an effective date of 30 June.

More regular information on the product's performance and the returns earned on its underlying portfolio are available in the Old Mutual Smoothed Bonus Portfolios Quarterly Reports.

To download the latest versions of these reports visit our website for corporate investors at www.oldmutual.co.za/GuaranteedInvestments

In terms of Financial Services Board Directive 147.A.i, Old Mutual is required to define and publicise the principles and practices of financial management (PPFM) that are applied in the management of its discretionary participation business, which includes Guaranteed Fund business. The PPFM document, as well as a consumer-friendly version specific to Old Mutual Corporate's Smoothed Bonus Portfolios is available on Old Mutual's website at www.oldmutual.co.za

or can be obtained in hard copy on request, via the contact details at the end of this report.

2. Underlying Investment Portfolio

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

It should also be noted 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 Total Guaranteed Fund Underlying Portfolio

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

Although the Guaranteed Fund 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.

Asset Allocation

The actual asset allocation of the underlying portfolio relative to the strategic asset allocation is shown below, effective 30 June 2010.

Asset Class	As at 30 June 2010	Strategic Asset Allocation
Domestic Equities	44.4%	44.0%
Domestic Interest Bearing Assets	17.4%	23.5%
Domestic Alternative Assets	7.8%	5.0%
Domestic Direct Property	10.3%	7.5%
International Equities	12.2%	11.0%
International Interest Bearing Assets	4.8%	5.5%
International Alternative Assets	3.1%	3.5%

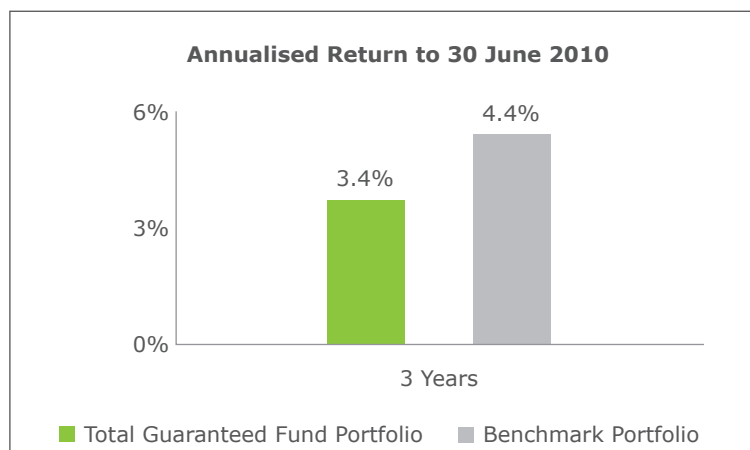
Alternative Investment Strategies

The management of each asset class is provided in the following sections. Old Mutual may, from time to time, and for the benefit of policyholders, invest in alternative investment strategies. These investments will be allocated to the asset class which is most representative of the nature of the investment.

Restrictions and Limitations

- 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. As at 30 June 2010 this holding made up 3.5% of the value of the policyholder equity holdings in total.
- Restrictions apply on the trading of Old Mutual plc, Nedbank and Mutual & Federal shares during closed periods.
- For shares with market capitalisation of less than R2bn, the local equity portfolio cannot invest more than 5% of its assets. For all other shares the local equity portfolio cannot invest more than 15% of assets in any one share.

Total Portfolio Underlying Performance



The portfolio performance can be broken down into performance attributed to selection and allocation. Allocation refers to performance that was attained by enhancing the exposure to better performing asset classes or sectors above their strategic or indexed allocations respectively. Selection refers to performance attained by selecting better performing assets within each specific asset class or sector.

The underlying portfolio underperformed the benchmark over the 3-year period ending 30 June 2010. The main detractors from performance were selection within the Domestic Equity, International Equity and Property portfolios over the most recent year. More information is contained in the relevant sections below.

2.2 Domestic Equity Portfolio

Management

The Domestic Equity portfolio underlying Guaranteed Fund is managed on a core/satellite approach. This approach aims to optimize efficient return generation from active management and make effective use of the specialist boutiques within OMIGSA. The table below shows the strategic allocation between the core and satellite portfolios, and which managers are mandated with these allocations.

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

* Previously named Umbono Fund Managers

** Previously named Core Equity Investments

*** Previously named Select Equity Investments

Tactical allocation between these portfolios is the responsibility of OMIGSA's Macro Strategy Investments boutique.

Domestic equity managers were permitted to have holdings in Gold Exchange Traded Funds since November 2009. These funds are subject to the same restrictions as the normal equity share holdings.

A small portion of investments within the Domestic Equity Portfolio are held outside the boutique structure. This includes the residual holding of Old Mutual shares as described under Section 2.1 not traded by the equity boutiques, as well as amounts invested in OMIGSA's Quantitative Investment Boutique's Managed Volatility and Enhanced Index capabilities, as well as in OMIGSA's Absolute Return Investments Double Alpha capability. Small amounts are also invested in small cap shares which were acquired prior to transitioning to the boutique structure. These investments are generally allocated a strategic weighting of 0%, and are each mandated with a maximum exposure of 0.5% of the Domestic Equity Portfolio. The residual holding in Old Mutual shares is mandated with a maximum exposure of 1.5 times the weight of Old Mutual plc in the SWIX index, excluding Old Mutual shares physically held by the boutiques.

Benchmark

In calculating the benchmark portfolio performance, the exposure to this asset class in the benchmark portfolio is set to the strategic exposure stated in section 2.1.

The performance benchmark for the Domestic Equities portion of the portfolio is the SWIX Index. The performance is measured over rolling periods of 12 months.

Manager Allocation

Manager	As at 30 June 2010	Strategic Allocation
Dibanisa Fund Managers	41.5%	50%
Toros Equity	21.4%	20%
Value Equity Investments	12.2%	10%
Electus	12.7%	10%
SYmmETRY Multi-Manager	12.2%	10%

Sector Allocation

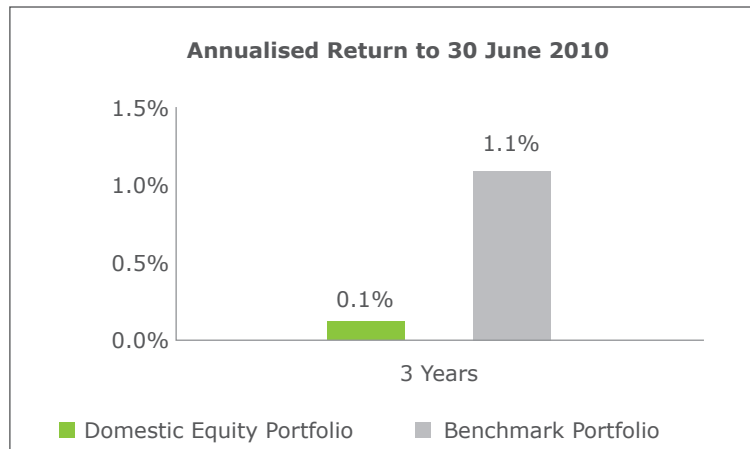
Class	Portfolio Exposure	Benchmark Exposure
Resources	29.6%	30.1
Financials	19.4%	18.8%
Consumer, Industrial & Tech	37.4%	40.6%
Small Companies	9.2%	6.4%
Property	2.3%	4.1%
Cash/Other	2.1%	-

Top 10 Holdings

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

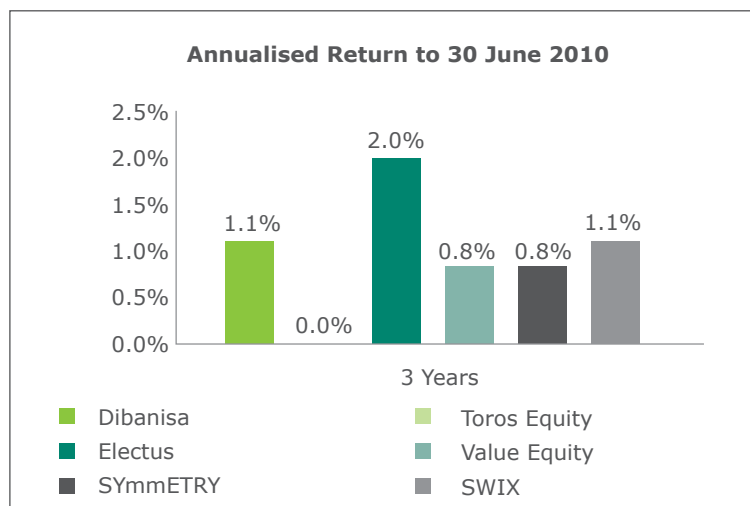
Stock	Portfolio Exposure	Benchmark Exposure
MTN Group Ltd	8.8%	7.7%
Sasol Ltd	5.9%	5.4%
Anglo American plc	5.7%	4.4%
Standard Bank Ltd	5.5%	5.0%
BHP Billiton plc	4.7%	5.5%
Firstrand Group	3.8%	4.3%
Naspers Ltd	3.5%	3.2%
Old Mutual plc	3.0%	1.2%
Absa Group Ltd	2.5%	1.8%
SAB Miller	2.5%	4.4%
TOTAL	45.9%	42.9%

Underlying Performance



The Domestic Equity Portfolio detracted from the overall relative performance over the three years to 30 June 2010, due to poor sector allocation. The performance was particularly hampered as a result of unforeseen strong foreign inflows into the Retail sector more recently, to which the portfolio as a whole had been underweight relative to the benchmark. However, good stock selection by the equity managers has contributed positive alpha to the portfolio.

Underlying Manager Performance



The above shows the three year performance of each equity boutique which manages assets within the Domestic Equity Portfolio compared with the SWIX benchmark to the end of June 2010. SYmmETRY and Toros Equity detracted from performance mainly due to poor sector allocation. However, given the fundamental positioning of Toros Equity's portfolio, it is well placed to generate alpha for its investors going forward. Value Equity also performed below SWIX over the three year period, however during periods where the market showed significant value, in 2009, the boutique did deliver favourable outperformance. Electus was ahead of the benchmark as a result of good stock selection. Dibanisa's performance was in line with benchmark as expected.

As described earlier in this section, some investments are held outside the boutique structure. Therefore the performance shown above, weighted by boutique exposure, is likely to differ from the aggregate performance of this asset class.

2.3 Domestic Interest Bearing Portfolio

Management

OMIGSA's Fixed Income Investments boutique manages the Domestic Interest Bearing Assets.

The Domestic Interest Bearing portion of the portfolio includes Targeted Investments, which are investments in assets that partially or wholly meet the definition of Targeted Investments as published by the Financial Services Charter Council. These assets are managed by OMIGSA's Alternative Investments boutique. Where Targeted Investments acquired in future do not match the risk profile of Domestic Interest Bearing Assets, these portfolios will be allocated to an asset class which provides a closer match in terms of the nature and risk profile of the acquired asset.

Benchmark

In calculating the benchmark portfolio performance, the exposure to this asset class in the benchmark portfolio is set to the strategic exposure stated in section 2.1.

The performance benchmark for the Domestic Interest Bearing portion of the portfolio is STeFI Money Market Composite Index for the cash portfolio and the BEASSA All Bond Index for the bond portfolio within this broader asset class. The bond portfolio shall at all times be limited to average durations within 1 year of the average duration of the benchmark.

Targeted Investments are benchmarked against 3 month JIBAR+0.7% per annum, gross of asset management fees.

Exposure by Duration

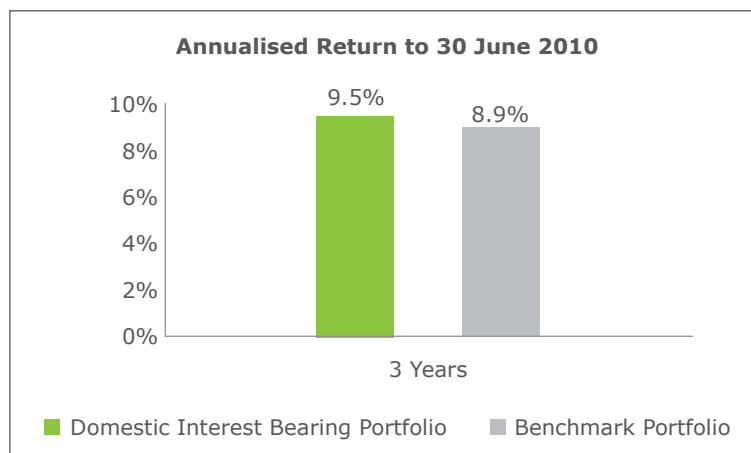
Duration	Portfolio Exposure
Money Market/Cash	27.2%
0-1 Year	0.1%
1-3 Years	9.5%
3-7 Years	8.8%
7-12 Years	38.7%
Longer than 12 years	15.7%

Bond Credit Structure

Credit Structure	Portfolio Exposure	Benchmark Exposure
Govt	52.8%	85.2%
Govt Guaranteed	1.4%	2.0%
AAA	8.9%	10.4%
AA	14.7%	-
A	18.7%	2.4%
BBB	2.4%	-
BB	0.7%	-
Unrated	0.4%	-
Total	100%	100%
Weighted Ave Rating	2.1	1.2

Weighted Average Rating is a measure of credit risk and is the weighted (by market value) individual ratings as follows: Government and Government Guaranteed = 1, AAA = 2, AA = 3, A = 4, all others = 5.

Underlying Performance



The Domestic Interest Bearing Portfolio underperformed its benchmark by 0.6% per annum. The underperformance can be ascribed to good yield curve positioning.

2.4 Domestic Alternative Asset Portfolio

Management

The management of this section of the portfolio is performed predominantly by OMIGSA's Alternative Investments boutique. Domestic Alternative Assets include investments in:

- Private Equity investments, which consist of unlisted equity or equity-linked investments.
- Infrastructure investments including investments in the African Infrastructure Investment fund – a diverse range of infrastructure projects within Africa – as well as the Infrastructural Development and Environmental Assets (IDEAS) fund, which invests in commercially viable development projects that aim to achieve development objectives within South Africa.
- Mezzanine Debt, a hybrid of debt and equity financing. Essentially, it is debt capital with contractual repayment obligations ranking ahead of pure equity instruments. These investments include some right to participate in the net asset value and/or the cash available for distribution to shareholders.
- Domestic Hedge Funds which seek to provide diversification from other asset classes while consistently generating positive performance returns in excess of money market rates, even in adverse market conditions.
- OMIGSA's Absolute Return Boutique Vega Fund, which trades in volatility on the South African equity market.

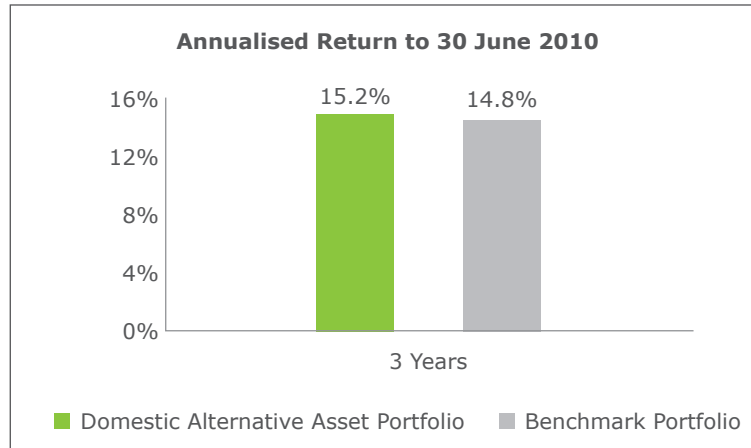
The portfolio may also have exposure to some of Old Mutual Corporate's other portfolios, e.g. Symmetry Multi-Manager Portfolios and Symmetry Defensive Fund. For reporting purposes, the performance and exposure levels underlying these investments are allocated to the appropriate asset class.

Benchmark

In calculating the benchmark portfolio performance, the exposure to this asset class in the benchmark portfolio is set to the strategic exposure stated in section 2.1.

The performance benchmark for this asset class is to generate a real return in excess of CPI+7% per annum (before charges and tax) over any rolling 3-year period.

Underlying Performance



The Domestic Alternative Asset Portfolio performed very well in absolute terms, and provided much needed diversification from the poor performance of the equity market over the period. As at 30 June 2010, the overall portfolio continued to be overweight this asset class offering good return prospects while providing favourable diversification opportunities.

2.5 Domestic Direct Property Portfolio

Management

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

The exposure to Domestic Direct Property is achieved through investments in OMIGPI's Triangle Core and, Development and SRI Funds. The Domestic Property Portfolio invests predominantly in direct property; however this portfolio may also include exposure to holdings in listed property shares. The portfolio is permitted to invest up to 2.5% in quoted property.

Benchmark

In calculating the benchmark portfolio performance, the exposure to this asset class in the benchmark portfolio was set to the strategic exposure (i.e. 7.5%), provided the actual exposure was less than a hurdle of 10%. If the actual weight of South African Direct Property is in excess of 10%, the strategic allocation to South African Direct Property reflected in the table in section 2.1 will be increased by the excess over 10% and the strategic allocations to South African Equities and South African Bonds reflected in the table in section 2.1 will be reduced in equal proportions by the excess over 10%.

For the period 1 July 2010 onwards, the adjustment to the South African direct property benchmark will fall away and the strategic benchmark will remain unadjusted.

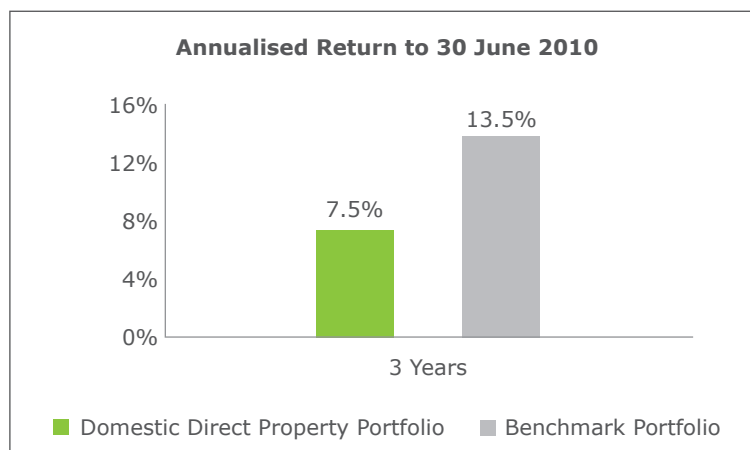
The performance benchmark for this asset class is to generate a real return in excess of CPI + 5.5% per annum (before charges and tax) over any rolling 3-year period.

Exposure by Property Type

Class	Portfolio Exposure
Retail	63.6%
Office	13.9%
Industrial	7.6%
Residential	0.4%
Developments, Land holdings and Vacant Land	9.8%
Listed Property	-
Cash	4.7%

The top three properties in the portfolio were Gateway (Umhlanga), Menlyn Park (Pretoria) and Cavendish Centre (Cape Town) at 30 June 2010.

Underlying Performance



The Domestic Direct Property Portfolio performed well in absolute terms by returning 7.5% per annum over the 3-year period ending 30 June 2010, providing welcome diversification from the equity market which delivered returns below inflation over three years. Performance lagged the inflation-linked benchmark in a period of particularly high inflation.

2.6 International Equity Portfolio

Management

OMIGSA uses OMAM(UK) and OMAM(US) to manage the International Equity portfolio.

The portfolio may also have exposure to African Equity Funds, which are actively managed, listed equity funds that provide exposure to a selection of fast-growing and investor friendly economies in Africa. These are managed by OMIGSA's Long Term Equity Boutique.

Benchmark

In calculating the benchmark portfolio performance, the exposure to this asset class in the benchmark portfolio is set to the strategic exposure stated in section 2.1.

The performance benchmark for the International Equity portfolio is the total return of the Morgan Stanley Composite Index of World Equity (in South African rands).

Regional Allocation

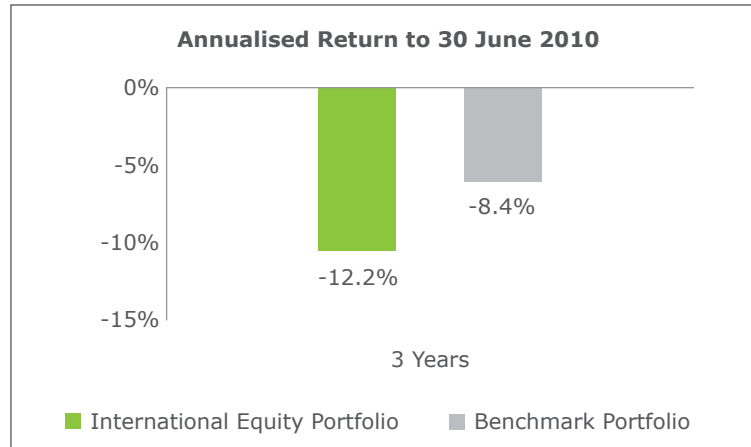
Region	Portfolio Exposure	Benchmark Exposure
Emerging Markets	7.7%	-
Europe (excl UK)	15.8%	19.6%
Japan	9.2%	10.5%
North America	52.9%	54.7%
Pacific (excl Japan)	6.3%	5.6%
UK	8.1%	9.6%

Top 10 Holdings

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

Stock	Portfolio Exposure
IBM	1.6%
Emerging Markets ETF	1.5%
Royal Dutch Shell	1.2%
Johnson & Johnson	1.2%
Conoco Philips	1.1%
Bristol Meyers Squibb	1.1%
Chevron	1.1%
AT&T Inc	1.1%
JP Morgan Chase & Co	1.0%
Microsoft	1.0%
TOTAL	11.9%

Underlying Performance



The International Equity Portfolio underperformed its benchmark by 3.8% per annum over the three year period, largely due to an over reliance on quantitative asset managers during 2008 and 2009. We are implementing structural changes to the Foreign Equity Mandate as a result.

2.7 International Interest Bearing Portfolio

Management

OMIGSA uses OMAM(UK), Dwight Asset Management Company and Rogge Global Partners to manage the International Interest Bearing portfolio.

Benchmark

In calculating the benchmark portfolio performance, the exposure to this asset class in the benchmark portfolio is set to the strategic exposure stated in section 2.1.

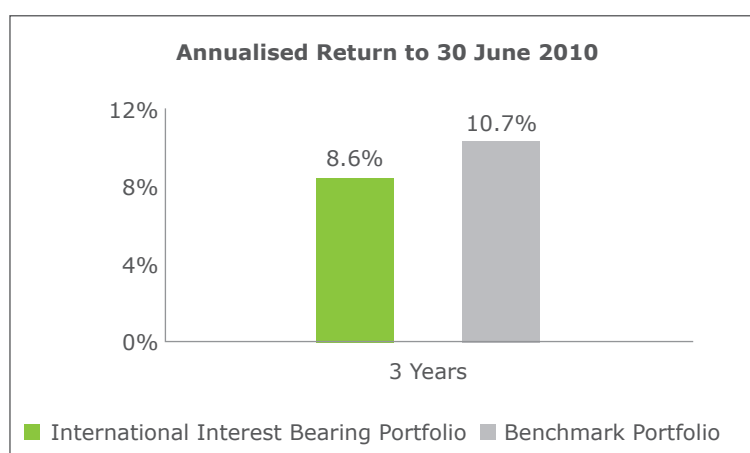
The performance benchmark for the International Interest Bearing portfolio is 50% JP Morgan International Bond Index and 50% Lehman Global Aggregate Total Return Index (in South African rands).

The portfolio shall at all times be limited to an average duration of within 1 year of the average duration of the benchmark.

Regional Allocation

Region	Portfolio Exposure	Benchmark Exposure
Emerging Markets	3.1%	1.0%
UK	10.0%	5.5%
European Monetary Union	21.7%	25.0%
Europe (Other)	2.8%	2.0%
North America	51.5%	40.0%
Japan	6.3%	25.1%
Pacific (excl Japan)	4.6%	1.0%
Supra-National	-	0.4%
Middle East	-	0.0%

Underlying Performance



The International Interest Bearing Portfolio underperformed its benchmark by 3.0% p.a. over the three year period. The portfolio lagged its benchmark primarily due to its overweight exposure to corporate bonds and underweight exposure to government bonds during the financial crisis.

2.8 International Alternative Asset Portfolio

Management

The management of the international alternative asset portfolio is performed by OMIGSA's Absolute Return; Alternative Investments and Property Investment boutiques. Furthermore, the Absolute Return Boutique uses the American-based Larch Lane Advisors, which specialises in hedge funds, as its consultant.

The Alternative Asset Portfolio includes funds of hedge funds, foreign direct property investments and equity-linked investments in Africa.

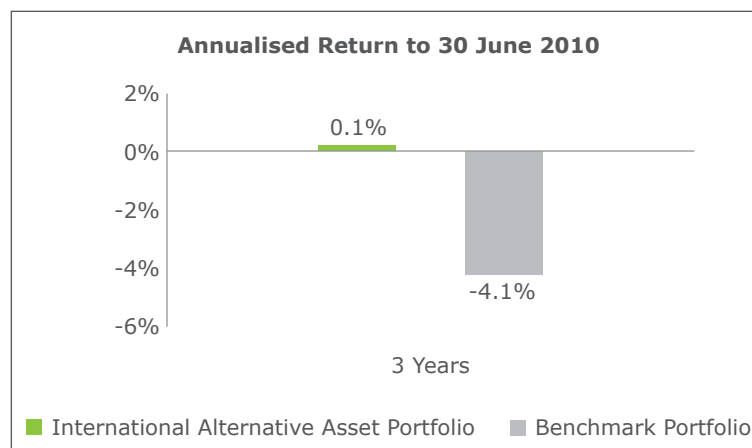
Benchmark

In calculating the benchmark portfolio performance, the exposure to this asset class in the benchmark portfolio is set to the strategic exposure stated in section 2.1

The benchmark for international alternative assets is US Consumer Inflation plus 5% per annum in US Dollars, over rolling 5 year periods.

A maximum exposure of 7% of the total portfolio can be held in alternative assets. These assets can include hedge funds, funds of hedge funds, absolute return funds and other defensive portfolios.

Underlying Performance



The International Alternative Asset Portfolio outperformed its benchmark by 4.2% per annum over the 3-year period to the end of June 2010. This contributed positive diversification to the performance of the total underlying portfolio relative to its benchmark.

2.9 Other Asset Strategies

Scrip Lending

Old Mutual enters into scrip lending contracts (which is 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 ¹	Bonds	Equities
40%	First R2.25bn	First R2.25bn
35%	Second R2.25bn	Second R2.25bn
30%	Third R2.25bn	Third R2.25bn
25%	Above R6.75bn	Above R6.75bn

¹ 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 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 it are periodically market-tested. The fee paid to the agent equates to 40% of the revenue earned by the portfolio and is only paid on successful completion of each transaction.

3. Bonuses

The smoothing process inherent in the bonus philosophy aims to ensure that, over time, the bonus should produce the same return as the underlying portfolio net of the guarantee and other costs, but with the impact of short-term market volatility significantly reduced.

Bonus Philosophy

The surplus attributable to smoothed bonus 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 difference between the market value of the assets and the basic value of the liabilities (i.e. book value). A separate BSR is maintained for each of the Old Mutual Corporate Smoothed Bonus Portfolios.

The amount available for each bonus declaration is therefore taken as the accumulated balance in the BSR. This balance depends primarily on:

- Amounts earned in the past, which have not previously been declared as bonuses.

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 net investment return earned during the prior twelve-month period.

Bonuses declared usually differ from the actual net (of charges) investment return earned in a year, so as to reduce the impact of short-term volatility of returns to policyholders. 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.

The BSR is therefore credited with the net investment return and is debited with the cost of bonuses declared, the charge for investment guarantees and the cost of managing the assets.

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

Bonus Declaration Process

Bonuses are declared annually in arrears, based on the financial position as at 30 June, at the discretion of the Board, which is based on the recommendation by the Statutory Actuary.

In addition to the above considerations, the process below describes how the annual final bonus is determined:

- The impact of the declaration of a proposed bonus on the BSR is assessed.

The BSR is targeted in the long term to be within a range of 0% to 5% of the accumulated policy values. However, the smoothing process, coupled with short-term market movements, and the impact of cashflows will inevitably cause the BSR to move outside of this range in the short term.

The bonus process is designed to restore the BSR to its long-term target over a reasonable period, consistent with guidelines issued by the Actuarial Society of South Africa (ASSA) that require the Statutory Actuary not to allow the BSR to drop below a position that can reasonably be expected to be restored within three years.

Consideration is given to the current level of the BSR, e.g. if the BSR is at a level below the target range, the proposed bonus may be reduced. The greater any shortfall, the greater the downward adjustment. Any shortfalls or excesses are not eliminated immediately but rather recouped or redistributed over time.

- A view on the relative level of the market compared to historical levels, as well as the current and medium-term economic outlook and prospects for investment markets is also factored into the equation. This is necessary to assess the amount available for the final bonus declaration. For example, in times when the relative level of the market is high, and returns on the underlying assets have consequently been high, the BSR will be more positive. This allows an assessment to be made of the appropriate level of the BSR going forward.

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

- The degree to which returns are smoothed compared to previous bonus declarations and levels of returns earned on the underlying assets.
- The reasonable expectations of policyholders as to the size of the final bonus.
- The impact on bonuses if a severe 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 Smoothed Bonus Portfolios offered by other providers.

Interim Bonus Rates

It is intended that the Interim Bonus rates are not changed frequently to reflect the variation in the value of the underlying portfolio. These bonuses are set conservatively and aim to distribute a reasonable return to clients that might terminate during the twelve-month period after 30 June, without disadvantaging continuing clients.

However, the Interim Bonus rate is reviewed, retrospectively, every quarter or more frequently. This review could result in an increase or decrease in the Interim Bonus rate.

Guaranteed vs. Non-Guaranteed Bonuses

In moderate investment conditions, the process aims to guarantee roughly half of the total bonus declared (i.e. guaranteed and non-guaranteed elements, gross of investment fees and retirement fund tax). However, in times of severe market uncertainty, or when a high final bonus has been declared, this ratio can be reduced.

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, and will make use of the following remedial steps, taking due consideration of the economic and investment environment at all times.

The first would be through the bonus mechanism as described in this section, a mechanism used at all levels of BSR. The second would be to remove the non-guaranteed element (Capital Account) where this is possible. Such a removal may occur, for example, if the Board, on the recommendation of the Statutory Actuary, considers it not possible to restore the level of the BSR during the ensuing three years through the bonus declaration process, or for the purposes of restoring equity between different generations of policyholders, given the prevailing investment and economic conditions and future outlook for these.

If, after the removal of the non-guaranteed element, the Board considers that the level of the BSR may not be capable of being restored within three years, shareholder capital will be used to provide temporary support to the portfolio. If and when the position improves, the support provided will be returned to shareholder funds with returns earned.

The Cost of Managing the Assets

OMIGSA levies a charge that is expected to be in the range of 0.25% to 0.35% per annum on the underlying assets. This charge varies by asset allocation and tactical asset allocation at certain limits may result in these fees moving slightly outside this range. Furthermore, fees can be above this level from time to time in the event of significant outperformance by asset managers.

This charge is in respect of managing the assets underlying the Guaranteed Fund, and includes:

- All asset manager base and performance fees;
- Other costs and expenses incurred in the management of the assets including, but not limited to, brokerage, taxes, levies, audit charges, bank charges, custodian charges, agent fees, licensing fees and other costs and expenses incurred on behalf of clients; and
- Specialist investment management costs which will include, but are not limited to, costs incurred in respect of scrip lending and dividend right sale.

Any bonuses declared are net of the asset management charge.

The Cost of Providing Guarantees

Old Mutual levies a capital charge of 0.75% per annum. The capital charge is levied monthly in arrears on the assets underlying the policy. Thus any bonuses declared are net thereof. This charge is in respect of the cost of providing the guarantees inherent in this product.

4. Portfolio Bonus Smoothing Reserve Levels

As of 31 December 2002, mandatory guidance relating to the disclosure of solvency levels (Bonus Smoothing Reserves) in Smoothed Bonus Portfolios became effective.

Old Mutual complies with this guidance by making public, information relating to the solvency levels for all classes of business. The published reports contain a statement regarding the solvency levels of each class relative to a level of -7.5% of the value of the liabilities in that class. This information is effective as at 31 December.

As at 31 December 2009, the Bonus Smoothing Reserves for the Guaranteed Fund was not outside the stated range, i.e. it was not more negative than -7.5%.

On an annual basis Old Mutual provides information on the Bonus Smoothing Reserves (BSR) for the Guaranteed Fund effective 30 June. The actual BSR at 30 June 2010 after taking account of all declared bonuses falls within the indicated BSR range:

Bonus Smoothing Reserve Range	
Greater than 20%	
Between 15% and 20%	
Between 10% and 15%	
Between 5% and 10%	
Between 0% and 5%	
Between -5% and 0%	
Between -10% and -5%	
Between -15% and -10%	
Less than -15%	

As at 30 June 2010, the actual BSR level was in the range between 0% and 5%.

5. Company Solvency

The guarantees on benefit payments offered in the Guaranteed Fund are backed by the capital of Old Mutual.

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

	Dec 2009	Jun 2010
Net Assets * (R'bn)	375.8	349.1
Actuarial Liabilities (R'bn)	330.0	307.4
Shareholder Capital (R'bn)	45.8	41.7
Capital over Liabilities	13.9%	13.6%

* net of inadmissibles and other adjustments

The extent of capital, combined with the stability over time, provides an indication of the quality of the guarantees that apply to our Smoothed Bonus 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:

	Dec 2009	Jun 2010
Shareholder Capital (R'bn)	45.8	45.0
Statutory Capital Required (R'bn)	11.1	11.5
Cover	4.1 x	3.9 x

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 a six monthly basis with the publication of the financial results of Old Mutual plc. The 2009 values of net assets (and therefore shareholder capital) may have changed slightly from that previously reported as a result of previously disclosed figures including estimates of inadmissible items.

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.

6. Fee Structure

Investment Administration Fee

An investment administration fee is deducted from the Basic Guaranteed Account monthly in arrears, calculated on the daily balance in the Basic Guaranteed Account and the Capital Bonus Account. This fee is in respect of the investment administration performed by Old Mutual.

The standard fee structure is currently as shown in the table below. These rates are subject to a minimum fee of R5,000 p.a.

Annual Fee	Fund Size
0.35%	Applicable to the first R50 million
0.30%	Applicable to the next R50 million
0.25%	Applicable to the next R100 million
0.20%	Applicable to amounts exceeding R200 million

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

7. Portfolio Size

The Guaranteed Fund portfolio size, expressed as the aggregate sum of Basic Guaranteed Accounts and Capital Bonus Accounts, as at 30 June 2010, was approximately R17.7bn. Please note that this amount does not include any Bonus Smoothing Reserve.

8. Ring Fencing

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

The Guaranteed Fund 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 are 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 his investment from, say, the Guaranteed Fund to Old Mutual Absolute Stable Growth.

Large new clients may also be allowed to bring in portfolios of assets rather than cash as consideration, if acceptable to the portfolio manager.

The principle that applies on any such transfers or take-on of portfolios 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 Reserves between different policyholder portfolios is not precluded but will only happen in specific circumstances.

This could occur where a client moves its investment from one Old Mutual Smoothed Bonus Portfolio to another. Under certain circumstances any corresponding portion of the underlying BSR in the transferring portfolio can be transferred. The principle followed 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.

As 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 applied in such an instance is once again that investors in neither of the portfolios should be prejudiced by such a step.

How to Contact Us

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

Contact your Old Mutual Corporate consultant, or broker, or call your nearest Old Mutual Corporate office.

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