

# ABSOLUTE RETURN INVESTMENTS

*"Capital protection is the cornerstone of our investment philosophy."*

Tom Connell | Boutique Head



## OUR BUSINESS

The Absolute Return Investments boutique targets consistent inflation-beating returns. The business focuses exclusively on providing risk-managed investment offerings. Our boutique uses a combination of techniques including stock selection, dynamic asset allocation and derivative structures to provide a flexible and an efficient balance of real growth and capital protection. The team's investment experience has been key to establishing a distinguished long-term track record for delivering absolute returns for our clients, irrespective of market conditions.

We particularly pride ourselves on our careful, disciplined approach to managing downside risk. We use our proven quantitative and derivative strategies where appropriate, with certain offerings featuring a capital guarantee.

We invest across most asset classes, including cash, fixed interest, property and equities. Of key importance, and of significant value to clients, is our active management style as we switch between asset classes to capture the best possible performance, while aiming to preserve capital in line with the mandates of the respective funds.

## WHY ABSOLUTE RETURN MATTERS

Periods of market volatility or sustained periods of negative performance can cause a setback in investment goals, be it achieving capital growth, preserving capital or generating rising income distributions from your capital. An absolute return investment strategy emphasises the importance of consistent performance over the full market cycle, thereby keeping financial plans on track.

### Absolute Return Investments offers you:

- ▲ A comprehensive range of targeted and absolute return offerings.
- ▲ A team with a combined 119 years of investing experience.
- ▲ Access to a unique, proprietary downside risk management model.
- ▲ A long-term track record of delivering absolute returns in various market cycles.
- ▲ Our fully transparent risk management strategy.
- ▲ Access to one of the best-resourced research teams in the country.

## INVESTMENT OFFERING

	Benchmark (rolling three years, before fees)	Performance target (rolling three years, before fees)	Protective aim (not a guarantee)	Three-year annualised return to 30 September 2011
<b>CAPITAL BUILDER FUND RANGE</b>				
Capital Builder Cash Plus Fund* (institutional)	Cash	Cash + 3% p.a.	100% of net capital over any tax quarter	7.7%
Old Mutual Capital Builder Fund (unit trust)	Cash	Cash + 3% p.a.	100% of net capital over any tax quarter	6.3%
<b>DYNAMIC FLOOR FUND RANGE</b>				
Old Mutual Dynamic Floor Fund (unit trust)	CPI	CPI + 6% p.a.	90% of net capital over any rolling 12-month period	7.9%
Wealth Defender Fund (life fund)	CPI	CPI + 6% p.a.	90% of net capital over any rolling 12-month period	8.1%
Wealth Defender Income Fund (life fund)	CPI	CPI + 5.5% p.a.	105% of net capital over any 18-month period	8.0%
SA Absolute Return Fund (Institutional)	CPI	CPI + 6% p.a.	90% of net capital over any 12-month period	9.0%

Sources: Morningstar & OMIGSA



**OLD MUTUAL**  
Investment Group

Absolute Return  
Investments

## Capital Builder Fund Range

### Fund Description

Capital Builder Funds are actively managed, conservative funds that aim to provide investors with a return in excess of cash, while maintaining a low level of risk.

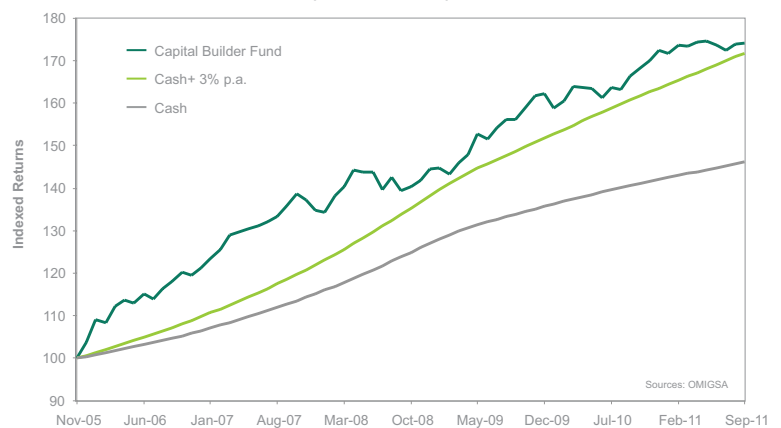
The funds target positive returns every quarter in any market conditions and have consistently demonstrated superior risk and return characteristics from their active portfolio management style.

The funds invest in a fully-hedged portfolio of large cap equities together with cash and money market instruments. The funds' proprietary portfolio construction methodology optimises derivative usage such that capital protection is achieved without materially sacrificing returns.

### The funds have the following principal features:

Returns in excess of cash	<input checked="" type="checkbox"/>	Return target of Cash + 3% p.a. over rolling 3-year periods
Targeted capital protection	<input checked="" type="checkbox"/>	A fully-hedged portfolio
Full liquidity	<input checked="" type="checkbox"/>	Daily
Tax efficiency	<input checked="" type="checkbox"/>	Lower exposure to interest-bearing assets
Optional guarantee	<input checked="" type="checkbox"/>	Quarterly rising guarantee is available on the institutional fund only

**Capital Builder Cash Plus Fund: Total Performance**  
Since inception to 30 September 2011



\* The performance of this institutional portfolio is for illustration purposes only as the unit trust fund was only launched on 28/02/08 and may charge higher fees.

## Dynamic Floor Fund Range

### Fund Description

The Dynamic Floor Funds strive for long-term capital growth as well as some level of capital protection. Through the use of a quantitative risk model, the funds aim to profit from a rising share market and protect against capital losses in a weak market.

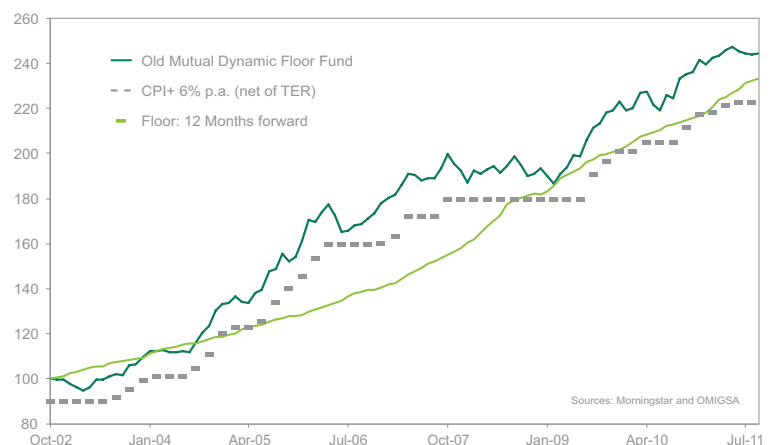
The funds invest across shares, bonds and cash – moving from shares into fixed interest investments when the funds' value drops below a predetermined floor. When markets start to move up, the funds increase holdings in shares, tapping into these growth opportunities. Derivatives may also be tactically used to manage and limit downside risk and to capture or lock in gains as and when they occur. The funds aim to protect at least 90% of the net investment over a 12-month period.

The funds conform to the legislation governing retirement funds and are thus a suitable investment vehicle for individual and institutional retirement savings.

### The funds have the following principal features:

Returns in excess of CPI	<input checked="" type="checkbox"/>	Return target of CPI + 6% p.a. over rolling 3-year periods
Targeted capital protection	<input checked="" type="checkbox"/>	Dynamic Floor Technology applied to protect 90% of net investment over 12 months
Full liquidity	<input checked="" type="checkbox"/>	Daily
Tax efficiency	<input checked="" type="checkbox"/>	Lower exposure to interest-bearing assets

**Old Mutual Dynamic Floor Fund: Total Performance and Fund Floors**  
Since inception to 30 September 2011 (net of TER)



## ABSOLUTE RETURN TEAM



**Tom Connell, CA**  
Boutique Head

▲ Experience 23 years; Group 14 years



**Saul Burman, FIA, CFA, B.BusSc (Hons)**  
Portfolio Manager

▲ Absolute return funds & equity funds  
▲ Experience 15 years; Group 15 years



**Nelisiwe Nzama, BCom (Hons)**  
Act. Science  
Portfolio Manager

▲ Quantitative analysis, hedge & equity funds  
▲ Experience 12 years; Group 5 years



**Bivashen Naidoo, FIA, B.BusSc (Hons)**  
CFA, CA(SA)  
Portfolio Manager

▲ Hedge funds  
▲ Experience 7 years; Group 4 years



**John Gilchrist, MBA, CA(SA)**  
Portfolio Manager

▲ Absolute return & hedge funds  
▲ Experience 13 years; Group 6 years



**Dr Daniel Polakow, BSc (Hons) MSc PhD**  
Derivative Specialist

▲ Quantitative analysis & hedge funds  
▲ Experience 11 years; Group 1 year



**Hanno Niehaus, BEcon (Hons), CFA**  
Portfolio Manager

▲ Absolute return funds  
▲ Experience 12 years; Group 12 years



**Bryn Hatty, CA(SA), CFA, B.BusSc (Hons)**  
Portfolio Manager

▲ Hedge funds & equity funds  
▲ Experience 14 years; Group 5 years



**Tassius Chigariro, BSc (Hons), FIA, CFA**  
Portfolio Manager

▲ Absolute return funds  
▲ Experience 12 years; Group 6 years



**Theresa Delcarme, BSc**  
Business Development Executive

▲ Manage client relationships  
▲ Experience 19 years; Group 19 years

**EXPERIENCE COVERING RISK MANAGEMENT, INVESTMENT BANKING & LIABILITY-DRIVEN INVESTING  
WITH A DERIVATIVES FOCUS**

## HOW WE DELIVER ABSOLUTE RETURNS

### Investment Philosophy

Capital protection is the cornerstone of our investment philosophy. We are dedicated to structuring portfolios for more risk-averse investors whose priority is capital preservation, but who still want to benefit from rising financial markets. We pride ourselves on our careful, disciplined approach to managing downside risk, using our proven quantitative and derivative strategies where appropriate, while at the same time always seeking to maximise returns.

We can invest across most asset classes, including cash, fixed income, property and equities, constructing the most appropriate portfolios for a variety of risk levels. Of key importance, and of significant value to clients, is our highly active management style as we shift between asset classes to capture the best possible performance, while preserving capital. While the preservation of investment capital is high priority, we offer no guarantee against capital loss.

## INVESTMENT PROCESS

Portfolios consist of a diversified mix of assets, where the strategic asset allocation is based on expected real-return opportunities for each asset class.

Steps in Investment Process	Strategy and Performance Drivers	Outcome for CASH+ Mandates	Outcome for CPI+ Mandates
<b>1</b> MANDATE DEFINITION	<ul style="list-style-type: none"> <li>▶ Define level of capital protection over specified time period.</li> <li>▶ Define return target according to long-term prospects of investment strategy.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Target capital protection over defined quarter (expectation: more than 90% of quarters positive).</li> <li>▶ Target a return of CASH + 3% p.a. over rolling 3-year periods.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Ensure 90% of capital is protected over one year.</li> <li>▶ Target a return of CPI + 6% p.a. over rolling 3-year periods.</li> </ul>
<b>2</b> ASSET SELECTION	<ul style="list-style-type: none"> <li>▶ Input from Economic Research Unit on asset class outlook.</li> <li>▶ Input from research analysts on stock level drivers.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Select 15 to 25 shares from the Top40 Index with attractive downside risk properties.</li> <li>▶ Interest-bearing assets managed by Futuregrowth.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Select a broad spectrum of shares that offer long-term growth potential.</li> <li>▶ Management of asset classes outsourced where appropriate.</li> </ul>
<b>3</b> CAPITAL PROTECTION	<ul style="list-style-type: none"> <li>▶ Highly efficient derivative usage.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Implement optimised option strategies to manage equity exposure and gain positive exposure to volatility.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Dynamic Floor Technology used to lock in gains and protect capital levels.</li> <li>▶ Control downside risk by raising floor to protect capital when appropriate.</li> </ul>
<b>4</b> ACTIVE MANAGEMENT	<ul style="list-style-type: none"> <li>▶ Daily trading to maximise returns.</li> <li>▶ Capture alpha in both equity and derivatives markets.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Put options struck quarterly to lock in gains.</li> <li>▶ Quantitative mean-reversion trading using single stock and index futures.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Adjust asset allocation according to risk buffer between fund value and floor value.</li> </ul>
<b>5</b> PERFORMANCE EVALUATION	<ul style="list-style-type: none"> <li>▶ Daily reporting and evaluation of fund performance against mandate.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Since inception, these funds have delivered stable, consistent returns in excess of cash.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Since inception, these funds have delivered stable, consistent returns in excess of inflation.</li> </ul>

### IN A NUTSHELL:

- ▶ **Performance track record** - our Absolute Return funds have delivered substantial equity market participation since inception in April 2002.
- ▶ **Capital protection** - we have successfully protected capital over the majority of any rolling 12-month period and did not break the forward floor despite the current market turmoil.
- ▶ **Superior risk management** - risk management is deeply embedded in our investment processes and complemented by the use of sophisticated risk analysis systems and techniques.
- ▶ **Floor fund technology** - our proprietary technology used in downside risk management is probably the most distinctive feature in our approach. This technology provides for both disciplined risk management and return "lock-in" features.
- ▶ **Specialist derivative skills** - we are a highly skilled and experienced team, dedicated to managing derivative-based portfolios in a cost-efficient manner.
- ▶ **Specialist investment management capabilities** - the underlying asset classes are actively managed by OMIGSA's Investment Boutiques who have an in-depth, intimate understanding of their discipline.

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#### Old Mutual Investment Group (South Africa) (Pty) Limited

Mutualpark, Jan Smuts Drive, Pinelands 7405  
 PO Box 878, Cape Town 8000, South Africa  
 Tel +27 (0)21 509 5022, Fax +27 (0)21 509 4663  
[www.omigsa.com](http://www.omigsa.com)



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