



29 July 2011

Dear Old Mutual and OMIGSA Colleagues,

Following on the heels of a very successful IPO of Life Healthcare last year, and more recently the conditional disposal of our stake in Savcio, Tuesday, 5 July marked the realisation of our seven-year investment in Pepkor. This is a short note to inform you of the successful outcomes of the Pepkor buyout transaction, first advised to you in 2004. **The bottom line is that, over seven years, our investment in Pepkor has produced more than a five-fold cash return of initial capital invested, for Old Mutual Private Equity (OMPE) investors.**

A turbulent start....

The Pepkor investment was made in March 2004, amid much economic and political uncertainty and even some controversy - including threats by labour unions to demonstrate outside our offices, unless their demands for job security were met. There was also massive media interest and some opposition to the deal from certain quarters. Ultimately, the then-shareholders voted resoundingly to either follow Pepkor into the private space or accept the cash offer.

Setting industry benchmarks...

The 2004 delisting of Pepkor then represented the country's largest-ever private equity de-listing, at a market capitalisation of some R2.6 billion. The acquiring consortium including Old Mutual Private Equity and Brait Private Equity, who originated and lead the transaction, dedicated more than 6 months to fundamentally analysing and valuing the Pepkor business before bidding, and paid almost a 100% takeout premium to the 60-day VWAP prior to the first cautionary. The entire transaction took more than 15 months to finalise following a concerted effort by our then-fledgling OMPE team, representing just over a decade of collective private equity experience.

Forward seven short years to the sale of the Pepkor investment by OMPE, Brait Private Equity Fund 3, J&J Private Equity Fund and Medu Private Equity on 5 July 2011 - at a value of over R8 billion, it now sets the yardstick for the single largest disposal in the South African and African private equity industry. The investment has delivered in excess of R5.0 billion to the many policyholders and retail investors of Old Mutual Private Equity, including Old Mutual Multi-Manager Private Equity Funds 1 and 2 and the Old Mutual Private Equity Secondary Fund.

Growth for Pepkor and OMPE

The receipt by Old Mutual of the sale proceeds marks the end of a seven-year investment era with Pepkor. During this time, OMPE has been actively involved on Pepkor's board, audit and remuneration committees, alongside our fellow investors Christo Wiese, Brait Private Equity Fund 3, Medu Private Equity and the J&J Private Equity Fund.

Together with the highly regarded Pepkor management team, OMPE has overseen the expansion of Pepkor's global footprint. This footprint includes a substantial increase in the number of Pep, Ackermans and other store brands and formats in South Africa; growing its Australian business Best & Less; initiating the start-up of Pepco in Poland, as well as expanding the reach of Pep to more than 100 retail outlets throughout Africa. Not only has Pepkor's branch network been

increased from approximately 1600 outlets at the time of the investment to 2800 as at the end of December 2010, but despite concerns at the outset, its staff base has grown commensurately over the same time, alongside a more than a four-fold profit improvement.

At the same time, the establishment of the Pepkor Workers Trust, which OMPE, Brait, J&J and Medu effectively funded, has led to R75 million being created for the benefit of previously disadvantaged Pepkor staff members.

I believe that we are undoubtedly leaving behind a stronger, more mature Pepkor business than at the time of our investment. Over the years, Christo Wiese and his very capable management team have been a constant source of immense value added commitment, to whom we bid farewell as they embark on new longer-term strategies, alongside the restructured Brait business.

I believe that OMPE, too, is a significantly better business today than it was 10 years ago. The Pepkor, Life Healthcare and Savcio investments were instrumental in elevating OMPE into a substantial player in the industry; with the transactions' excellent outcomes being testament to the capability set, investment process and high levels of experience now engrained in the entire OMPE team and investment process.

As of 31 March this year, OMPE was the largest player in the South African private equity industry, with total funds under management of over R12 billion and having participated in more than 20 direct private equity transactions since 2001. At the same time, OMPE has built up a formidable 10-year track record of delivering upper-decile private equity performance of over 30% on an annualised basis, and now field a highly competent, 12-member team with over 140 years of collective private equity experience, which together with significant funding capacity and appetite for new deals, bodes well for the future.

For investors wishing to include private equity in their investment portfolio, the Old Mutual Private Equity Secondary Fund currently has capacity available for investors.

Regards,

Mark Gevers
Head, Old Mutual Private Equity

Contractual rights and obligations of investors in these funds are subject to contract. Private Equity investments have short term to long term liquidity risks and there are no guarantees on the investment capital nor performance. The value of the investment may fluctuate as the value of the underlying investments change. Past performance is not necessarily a guide to future investment performance.

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