Boutique

market strategies

Market Dynamics
August 2011

OLD MUTUAL
Investment Group

Performance through Focus

Contents

Absolute Return Investments	1
Dibanisa Fund Managers	2
ELECTUS	3
Futuregrowth Asset Management	4
Macro Strategy Investments	5
Marriott	6
Property Investments	7
Toros Equity	8
Value Equity Investments	9
Contact Details	10
Regulatory Information	11

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Absolute Return Investments

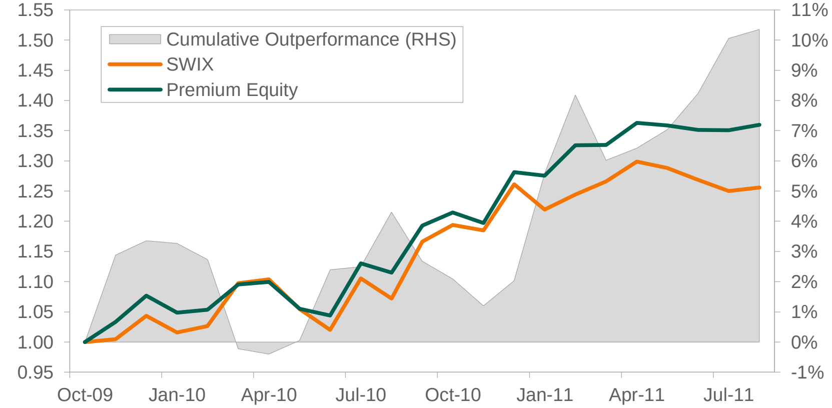
Market Highlights

- August 2011 proved to be a tremendously turbulent month for financial markets. A downgrade of the US sovereign debt rating, concerns on European sovereign debt and related concerns around global growth led to an equity market sell-off across the globe. The JSE was not immune, with the FTSE/JSE All Share losing over 9.0% at one stage during the month. Markets staged a remarkable recovery in the latter part of the month, following the US Fed Chairman's speech at Jackson Hole. By month-end, the FTSE/JSE All Share Index was only down 0.3%. Bonds performed well as investors looked for safe-havens, returning 3.5%, while cash delivered 0.5%.
- Implied volatility rose sharply with the equity market sell-off, but decreased slightly towards the end of the month as markets rallied.

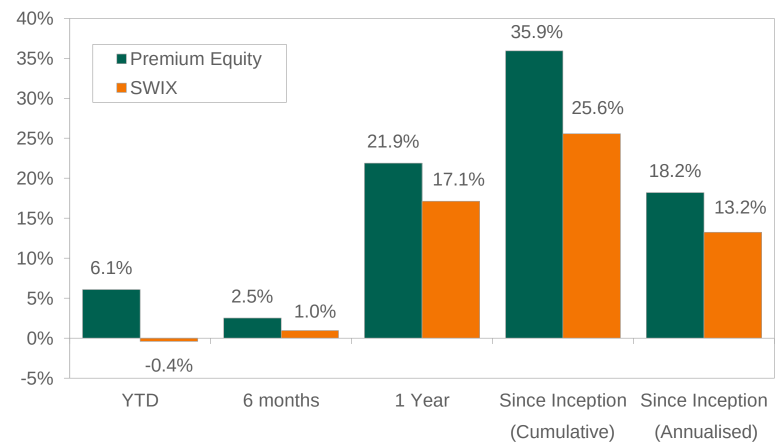
Premium Equity Fund

- Premium Equity Fund is an actively managed institutional equity fund that targets 2% to 3% outperformance of the FTSE/JSE SWIX All Share benchmark over the long term.
- Returns for the fund will also tend to be less volatile than other equity portfolios.
- The Premium Equity Fund was up 0.7% for the month, outperforming the benchmark by 0.2%.
- Since inception, the fund has outperformed the SWIX benchmark by 5% per annum.

Premium Equity Fund since inception
1 November 2009 – 31 August 2011



Historical Returns



Source: OMIGSA. Institutional returns only

"Our Premium Equity Fund has outperformed the market, with less volatility, since inception."

Bryn Hatty | Portfolio Manager

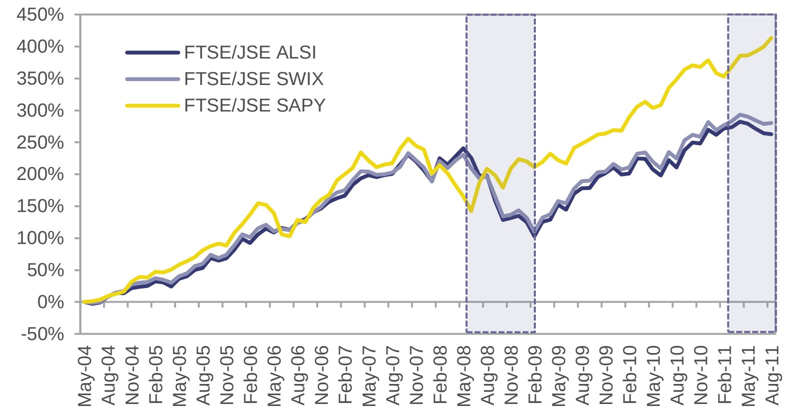
OLD MUTUAL Investment Group | Absolute Return Investments

Dibanisa Fund Managers

Dibanisa launches SA Listed Property Tracker Fund

- The new Dibanisa SA Listed Property Tracker Fund is now available to institutional investors on large multi-manager platforms as well as directly through Dibanisa.
- The FTSE/JSE SA Listed Property Index (SAPY) was launched in June 2004 and currently consists of 18 property companies. The SAPY index has a track record of delivering both long-term capital growth and reasonable income. SAPY has outperformed both the FTSE/JSE All Share and FTSE/JSE SWIX All Share indices since June 2004, while also offering great protection and diversification during the 2008 market crash.
- The SAPY index has increased by 7.3% so far this year, while the FTSE/JSE All Share Index has declined by 1.8% year-to-date.

SA Listed Property: Offers outperformance and diversification



Source: I-NET Bridge

RAFI® funds perform well during a market crash and recovery

- Since the market started to recover in March 2009, the FTSE/JSE RAFI 40 Index outperformed the FTSE/JSE Top 40 and FTSE/JSE SWIX 40 indices by 2.9% p.a. and 2.3% p.a., respectively.
- While the FTSE/JSE RAFI 40 Index delivered stronger performance during this recovery period, fundamental indices also offered protection during the market crash from May 2008 to February 2009. The FTSE/JSE RAFI 40 Index outperformed the FTSE/JSE Top 40 and FTSE/JSE SWIX 40 indices by 7.6% and 5.0%, respectively.
- Capitalisation-based strategies are good momentum strategies, but are vulnerable to price movements driven by market sentiment and emotions. RAFI® indices, on the other hand, represent the economic output of a market, by looking at four company fundamental factors: **sales, dividends, book value and cash flows**. Fundamental-based strategies do not increase weightings to high P/E stocks during episodes of unsustainable P/E expansions, avoiding the risk of over-exposure to the overvalued stocks.

Average out/under performance of FTSE/JSE RAFI 40 Index (31 Jan 2002 to 30 June 2011)

	Negative Markets		Positive Markets		All Markets	
	ALSI 40	SWIX 40	ALSI 40	SWIX 40	ALSI 40	SWIX 40
1 Month	0.95%	0.45%	-0.25%	-0.04%	0.25%	0.16%
3 Month	2.69%	1.32%	0.12%	0.23%	0.81%	0.52%
6 Month	5.52%	3.04%	0.22%	0.41%	1.45%	1.02%
12 Month	8.72%	5.15%	0.97%	0.95%	2.56%	1.81%
36 Month	3.54%	2.88%	2.17%	1.47%	2.18%	1.48%
60 Month	N/A	N/A	1.62%	1.22%	1.62%	1.22%

Source: I-NET Bridge

**FTSE/JSE RAFI® 40 Index was launched on 1 Oct 2007. Data prior to this was back-tested*

"Cost-effective, technology-dominated tracker solutions can add significant value to a fund's overall portfolio construction."

Craig Chambers | MD

MARKET HIGHLIGHTS

- For the month to end August 2011, the FTSE/JSE All Share Index (ALSI) lost -0.3% while the FTSE/JSE Shareholder Weighted All Share Index (SWIX) gained 0.5%.
- Resource shares were the worst performers losing 1.3%, while financials performed best, gaining 1.3%, industrials in turn lost 0.2%. Large caps lost 0.3%, mid-caps lost 0.4%, and small caps lost 1.9%.

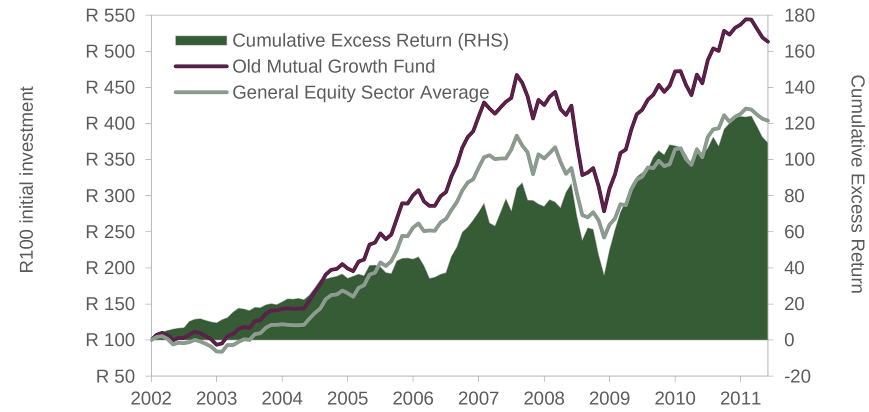
PERFORMANCE PROFILE

- As shown in the end-August charts, the funds have strongly outperformed their Domestic-Equity-General unit trust peer-group average over the medium and the long term.
- Within resources, we continue to have a bias towards the large, diversified and high-quality mining companies, as they are typically low-cost producers with diversified income streams across various commodities and geographies. We also hold selected single-commodity shares in businesses that we believe have a competitive position within their respective industries.
- In the South African industrial sector, we have reduced exposure to a few of the domestic consumer industrials, as they have now reached full value. With the proceeds, we have slightly increased exposure to selected, high-quality and better value rand-hedge industrial shares.
- Within financials, we retain our preference for Absa and Standard Bank in the banking sector, and have added to our position in Old Mutual in the life assurance sector, as we continue to believe it offers good upside potential.
- The funds have rolling price:earnings (p:e) ratios below the market, while they are expected to have above-average earnings growth.

"We always strive to buy into high quality businesses at prices that are low compared to their long-term investment value."

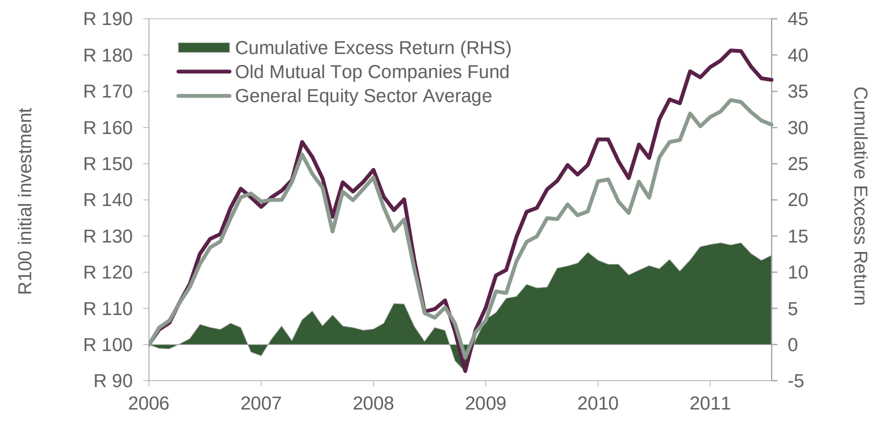
Richard Hasson & Neil Brown | Boutique Heads

OLD MUTUAL GROWTH FUND (TO END OF AUGUST 2011) *



Since managed by Richard Hasson
Sources: OMIGSA and Morningstar

OLD MUTUAL TOP COMPANIES FUND (TO END OF AUGUST 2011) *



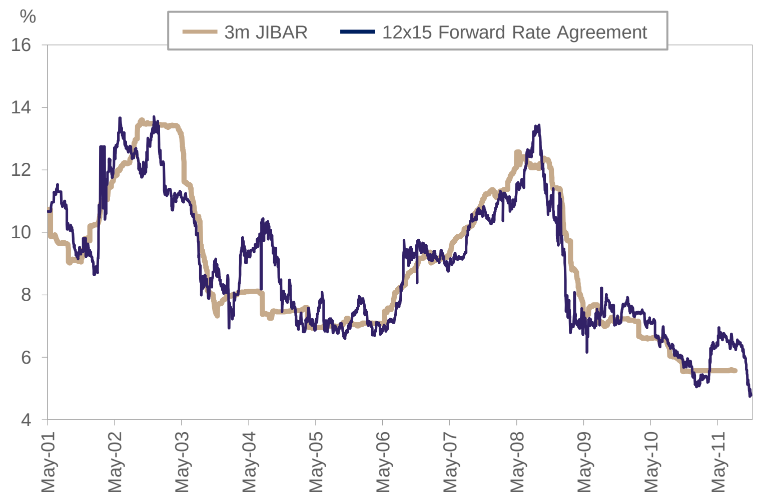
Since managed by Richard Hasson & Neil Brown
Sources: OMIGSA and Morningstar

Futuregrowth Asset Management

Market Highlights

- Growing uncertainty about economic growth prospects caused a fair amount of market volatility in August. Against this background, foreign investors continued to increase their South African bond holdings, taking their cue from relatively higher yields and healthier public finances. Bond-unfriendly data released during August included CPI, PPI, international trade and fiscal data. However, this was more than offset by weak activity data, particularly second quarter GDP. Moreover, the central bank made it clear that they are in no hurry to start the tightening cycle, considering weaker growth prospects and slowly rising core inflation. As a result, the forward money market is pricing in a small possibility of rate cuts during the next 12 months, following expectations of rising rates merely a few weeks ago.
- In light of the above, the yield of the 10-year RSA government bond declined sharply during the month, from 8.3% to 7.7%. Interestingly, buying also pushed the real yields of inflation-linked bonds lower, clearly reflecting concern about rising headline CPI. The All Bond Index returned 3.5% in August, followed by the Inflation-linked Index (3.4%) and cash (0.5%).
- It is worth noting that weaker growth prospects do not bode well for government's tax revenue targets. July fiscal data showed disappointing tax receipts, resulting in a higher budget deficit for the first four months of fiscal 2011/2012. Although it's still early days, the risk is rising for the budget deficit to be slightly higher than the target of 5.3% of GDP.

The forward rate market has started pricing interest rate cuts



Sources: Bloomberg, Futuregrowth

Investment Strategy

- Our money market funds are neutral duration and overweight in short- and medium-dated assets.
- We still express a strong preference for variable-rate bonds, as opposed to fixed-rate bonds, given the point in the interest rate cycle.
- In our bond mandates, we have increased the underweight tilt to modified-duration into recent market strength.
- Corporate debt spreads have tightened to the point where we are conducting a very selective purchase strategy.
- Although inflation-linked bond yields are low, the market is supported by low money market rates and rising headline CPI.

"The recent bull rally offered an opportunity to reduce interest rate risk as markets are too bullish on possible rate cuts."

Wikus Furstenberg | Portfolio Manager

Futuregrowth ASSET MANAGEMENT

A Member of the OLD MUTUAL Investment Group

Macro Strategy Investments

Monthly market comments

- Global equity markets saw quite sharp moves in August on the back of weak economic data, uncertainty about a sustainable solution to Europe's sovereign debt issues, and a surprise downgrade of the US credit rating.
- While equity markets were generally weaker for the month, there was a wide spread of returns. Germany's DAX plunged 19% for the month, while the JSE/FTSE All Share Index (ALSI) declined by less than 1% over the same time period.
- Despite the ratings downgrade, US bond yields fell sharply on fears of a recession and the South African bond market produced a return of 3.5% for the month. Inflation-linked bonds and listed property also performed well.
- Locally, interest rate hike expectations have experienced a significant shift. Previously expectations were for hikes later this year to early next year; this has now been pushed out further, with some analysts now seeing a rate cut as probable.

US bond yields decline sharply in August

Source: I-Net

"Asset allocation is simply much easier than adding alpha to a fund, since there is more to sink your teeth into. Counter-intuitively, asset classes are more inefficiently priced than stocks."
Jeremy Grantham, CIO and co-founder: GMO

Peter Brooke | Boutique Head

Boutique performance relative to performance target to end August 2011

AGGRESSIVE		1 Year	3 Years	5 Years
Profile Funds	Profile Pinnacle	12.0%	7.6%	10.1%
	Performance Target: CPI + 7%	13.1%	11.9%	13.9%
Life Wrapped	Optimised Aggressive	10.2%	5.2%	8.4%
	Performance Target: CPI + 8%	14.1%	12.9%	14.9%
Unit Trusts	Old Mutual Flexible Fund	11.2%	7.0%	9.6%
	Performance Target: CPI + 8%	13.1%	13.5%	14.9%

MODERATE		1 Year	3 Years	5 Years
Profile Funds	Profile Balanced	11.5%	6.4%	9.1%
	Performance Target: CPI + 5%	11.1%	9.9%	11.9%
Life Wrapped	Optimised Balanced	9.6%	5.1%	7.8%
	Performance Target: CPI + 6%	12.1%	10.9%	12.9%
Unit Trusts	Old Mutual Balanced Fund	12.2%	6.1%	8.5%
	Performance Target: CPI + 6%	12.1%	10.9%	12.9%

CONSERVATIVE		1 Year	3 Years	5 Years
Profile Funds	Profile Stable Growth	10.9%	8.1%	9.4%
	Performance Target: CPI + 4%	10.1%	8.9%	10.9%
Life Wrapped	Optimised Defensive	8.3%	7.3%	8.6%
	Performance Target: CPI + 4%	10.1%	8.9%	10.9%
Unit Trusts	Old Mutual Stable Growth Fund	8.9%	7.8%	–
	Performance Target: CPI + 4%	10.1%	8.9%	10.9%

VERY CONSERVATIVE		1 Year	3 Years	5 Years
Profile Funds	Profile Capital	9.6%	9.2%	9.7%
	Performance Target: CPI + 3%	9.1%	7.9%	9.9%
Unit Trusts	Old Mutual Real Income Fund	9.7%	10.4%	9.7%
	Performance Target: CPI + 3%	9.1%	7.9%	9.9%

Below performance target — On or above performance target

Note: A performance target is not necessarily the same as a benchmark. It is the average level of performance that the fund manager aims to achieve over the long term.

Note: These fund returns are shown net of management fees (does not include initial charge for unit trusts), except for Profile funds, which are gross of fees.

Source: OMIGSA

OLD MUTUAL Investment Group | Macro Strategy Investments

Marriott

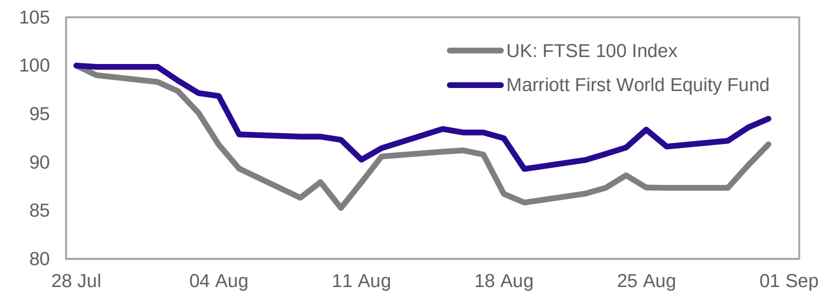
Market Highlights August 2011

- **Inflation:** Consumer inflation increased for the seventh consecutive month, rising from 5.0% year-on-year (y/y) in June to 5.3% y/y in July. The primary driver behind this rising trend has been steadily increasing food and transport prices. With limited prospects for further currency appreciation to mask the impact of rising food and energy prices, along with a number of other structural inefficiencies within the SA economy, we anticipate this rising trend in inflation to continue throughout 2011.
- **Currency:** The rand weakened during August to end the month at R6.99/US$. Purchasing power parity of the rand relative to the US dollar is estimated to be in the region of R8.70, suggesting that the rand is currently 20% over-valued.
- **Local Markets:** The FTSE/JSE All Share Index (ALSI) was down 0.3% for the month of August. We are of the view that the majority of sectors making up the ALSI are expensive, as reflected in low dividend yields without the prospect of above-average dividend growth. Sectors that are showing good value, however, are telecommunication and insurance. The forward yields of Vodacom, MTN, Altech and Liberty Holdings compare favourably to current cash interest rates. On an after-tax basis, the yields of these securities are even more attractive. These companies also have the potential to grow their income in line with inflation over the next five years.
- **Offshore Markets:** The global economy is showing slower growth, which would generally manifest itself in less growth in corporate dividends and hence less capital growth. Seeking out reliable dividend streams and high dividend yields will therefore be the better way of ensuring reasonable returns. With dividend yields of some of the biggest companies in the world well above bond yields, equity valuations in these markets are presenting investors a significant opportunity to generate inflation beating returns over the next five years.

Comment on recent market volatility

- The local Marriott portfolios have been largely unaffected by the current market volatility. The international funds, as measured in US dollars or sterling, have declined in value by some 7%. All funds will continue to provide consistent and reliable income.
- We will, however, take advantage of current market prices, where appropriate.
- Yields on inflation-linked bonds have declined from 3% since we first invested in May 2010, to 2.3%, resulting in capital appreciation. As opportunities allow, we are reducing exposure in the Marriott High Income and Marriott Core Income Funds from 20% to 15%.
- Telecommunication and insurance companies now offer yields in excess of 6% and these have been up-weighted to 15% in the Marriott High Income and Marriott Core Income Funds.
- Liberty Holdings has been added to the Marriott Dividend Growth Fund.
- Our offshore exposure remains at its maximum.

Marriott First World Equity Fund & FTSE 100 Index
- price movement since July 2011 (based to a 100)



Source: Marriott

"Seeking out companies with reliable dividend streams and high dividend yields is a good way of ensuring reasonable long-term returns."

Simon Pearse | CEO

MARRIOTT

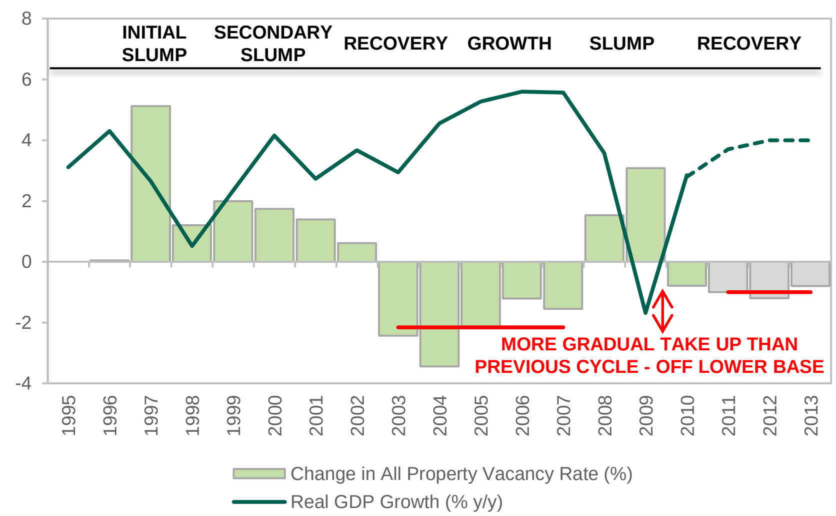
A Member of the OLD MUTUAL Investment Group

Property

Market Highlights

- South Africa's GDP growth for the second quarter of 2011 was 1.3% (seasonally adjusted annual rate). Comparing this number to the 4.5% SAAR recorded in the first quarter, it is evident that economic activity slowed considerably over the three months to the end of June 2011.
- From a commercial property point of view, it is worth noting the contribution of the underlying sectors to this aggregate growth figure.
- Financial and business services recorded growth of 3% during the second quarter. Retail, wholesale and other trading also grew by 4%, indicating that real household income remained supportive of higher spending. Employment growth for these sectors also remained positive for the year ending June 2011.
- The major detractors from growth were agriculture (down 8%), mining (down 4%) and manufacturing (down 7%, mainly as a result of strike action).
- As the major drivers of property performance remain relatively healthy, we expect a gradual take up of excess rental space and do not foresee another slump in demand as experienced in 2001.
- In saying that, we expect vacancy rates for office property to remain high in the short term, with a risk of oversupply in certain nodes.

Economic slowdown unlikely to impact property recovery



Sources: IPD, Old Mutual Property Research, OMIGSA

Performance Profile

SA Corporate Real Estate Fund (Listed Real Estate)

- The fund outperformed the listed property sector in the first half of 2011, producing a total return of 9.6% against the sector's 2.8%, and the discount to net asset value (347cpu) narrowed from 12.6% at end-June 2010 to 4.2% at June 2011.
- The distribution for the first half of the year to the end of June 2011 (14.35 cpu) increased by 0.8% relative to the comparable period in June 2010 (14.24 cpu) and increased by 1.2% relative to the second half of 2010 (14.18 cpu).
- The standing portfolio has increased by 1.9% since December 2010. The fund disposed of six properties valued at R181.9m over the first six months of 2011.
- Industrial rental growth (14.5%) was underpinned by the take up of 1.7% of vacant space, an 85.1% retention ratio and an 8.3% positive reversion on expiries. The portfolio's overall vacancies decreased to 6.3% at 30 June 2011.

Triangle Funds (Direct Real Estate)

- The ground-breaking ceremony for the Portside development was held on 12 August 2011. Set to become a landmark tower in the emerging financial district of the Cape Town CBD's foreshore area, this R1.6bn project will have over 52 000m² of office space as well as 1 200m² of banking and retail area, with easy access from all sides on the ground level.
- The project is a joint initiative between Old Mutual and FirstRand Bank. It will become the provincial headquarters for the three divisions of FirstRand Bank - FNB, RMB and Wesbank. An additional 25 000m² of prime space will be leased to corporate and retail tenants.
- With 32 floors, the new Portside building will be the highest building in the Cape Town CBD, and will be built on a full city block between Buitengracht, Hans Strijdom, Bree and Mechau streets. It will capitalise on the stunning views of Table Mountain and the Atlantic Ocean. The project is likely to be a big boost for the local construction industry and represents a substantial investment into the Western Cape province.

"The major drivers of property performance remain relatively healthy."

Peter Levett | Acting Boutique Head

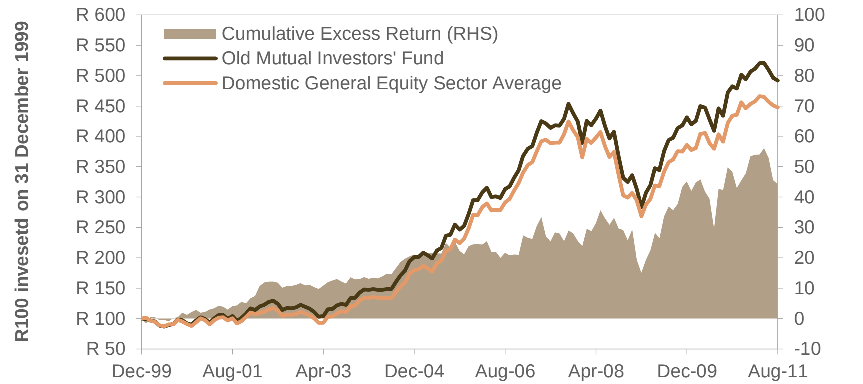
OLD MUTUAL Property

Toros Equity

Market Highlights

- Well, what a month it's been! The local equity market ended virtually unchanged despite some huge volatility during the month. We said last month that we saw the current slowdown in economic indicators as a mid-cycle slowdown and that life would improve towards the end of the year. Markets panicked hugely, fearing that this might be a lot worse than a mid-cycle slowdown, but by the end of the month we were back to where we had begun!
- The graph on the right reflects the significant gap between investor sentiment (panic, red line) and Global Industrial Production momentum in July. The interpretation is that investors are fearing an economic environment worse than when Lehman Brothers collapsed. I think this is unlikely. The concern is that this panic in itself will affect sentiment in the actual economy, but I expect continued stimulatory policies to continue to support global growth.

Old Mutual Investors' Fund performance to 31 August 2011

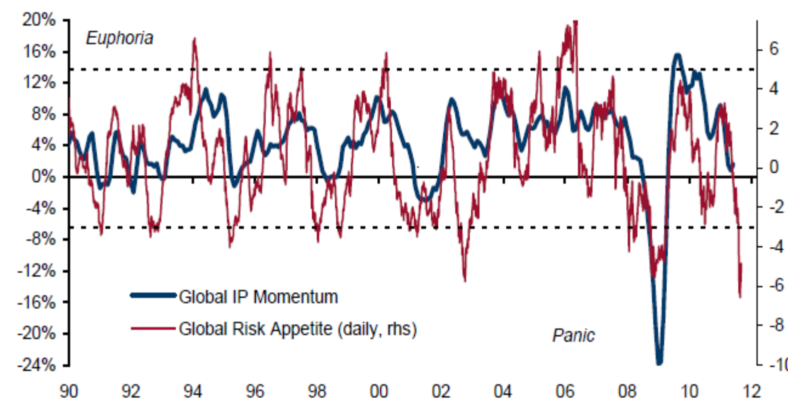


Sources: Morningstar & OMIGSA

Portfolio Overview

- Valuation is often ignored in these bouts of volatility, which makes stock picking a tough game in the short term, although opportunities to buy cheap stock frequently arise. An analysis of various factors shows that valuation (cheap shares) significantly underperformed momentum and quality over the last 1, 3 and 12 months within the Financial & Industrial Index.
- Our fund positioning has favoured the cheaper, more cyclical shares over some of the higher-quality shares based on the more appealing valuations of the former. However, we hold a core holding of excellent quality, defensive shares which have served us well in this environment. While this positioning has hurt us in the short term, we expect stronger longer-term performance based on the uplift in values from many relatively attractively valued shares in the portfolio.

Global IP Momentum & Risk Appetite:
Investors in panic mode (red line)



Source: Thomson Reuters DataStream, Credit Suisse; Note: Global IP Momentum until July 2011

"While nervousness may affect markets in the short term, I expect conditions to remain supportive of equities over the medium term."

Peter Linley I Boutique Head

TOROS EQUITY
A Member of the OLD MUTUAL Investment Group

Value Equity Investments

The Return of Volatility

- The FTSE/JSE All Share Index (ALSI) fell marginally during August (-0.3%). However, that masks some huge volatility: after only seven days of trading, the market was down nearly 10% as bad international news weighed heavily on equity markets.
- In particular, it was the failure within the Euro-zone to create more certainty around its future, although the downgrading of the US credit rating by Standard & Poor's was probably the catalyst for the market weakness. We do not believe that we will see a repeat of the financial crisis, when equity markets dived globally. Companies are generally in much better shape today and thus much more able to withstand a downturn.

The quest for yield

- Globally, interest rates are near record lows (close to zero in the US) and are expected to remain low for the foreseeable future. Global investors continue to be forced to seek yield in high dividend-paying emerging market equities.
- This is very positive for the Old Mutual High Yield Opportunity Fund, which has always aimed at delivering a yield in excess of the market, coupled with capital growth.
- With a nice blend of cyclically underperforming shares and some high-quality defensive shares, this portfolio is built to deliver on its yield target and grow capital.
- Our top pick in the fund is MTN. It is a leader in the emerging markets' telecommunications industry, operating in some 21 countries in Africa and the Middle East where it typically enjoys huge market shares, and trades at a discount to its calculated intrinsic value.
- We have an underweight position in the rand-hedge sector (SABMiller, Richemont, Naspers) because we believe that these shares are too expensive. Instead, we are holding BAT and Trencor.

OM High Yield Opportunity Portfolio Attributes as at 31 August 2011

31 August 2011	ALSI	OM HYO Fund (not actual - based on underlying holdings)	Discount
P/Earnings	12.3	12.3	0%
Div. Yield	2.8	4.3	50%
P/Book	2.7	2.7	-2%
Upside to Analyst FV	12%	13%	1%

Valuation metrics are not actual, but a roll-up of the underlying fund holdings

R100 invested at launch in November 1998
has already paid out R211 to 31 August 2011,
is now yielding R24.50 per annum (tax free)
and is today worth more than R670.

Source: OMIGSA

"Our philosophy and process are paying dividends."

Feroz Basa| Joint Boutique Head

OLD MUTUAL Investment Group | Value Equity Investments

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OLD MUTUAL
Investment Group

Regulatory Information

Old Mutual Investment Group

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All employees of Old Mutual Investment Group (South Africa) (Pty) Limited are remunerated with salaries and standard short-term and long-term incentives. No commission or incentives are paid by Old Mutual Investment Group (South Africa) (Pty) Limited to any persons. All inter-group transactions are done on an arm's length basis. In respect of pooled, life wrapped products, the underlying assets are owned by Old Mutual Life Assurance Company (South Africa) Limited, who may elect to exercise any votes on these underlying assets independently of Old Mutual Investment Group (South Africa) (Pty) Limited.

In respect of these products, no fees or charges will be deducted if the policy is terminated within the first 30 days. Returns on these products depend on the performance of the underlying assets. Old Mutual Investment Group (South Africa) (Pty) Limited has comprehensive crime and professional indemnity insurance, as part of the Old Mutual Group cover. For more detail, as well as for information on how to contact us and on how to access information, please visit www.omigsa.com.

Unit trusts are generally medium to long term investments. Past performance is no indication of future growth. Shorter term fluctuations can occur as your investment moves in line with the markets. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Unit trusts can engage in borrowing and scrip lending. The fund's TER reflects the percentage of the average Net Asset Value of the portfolio that was incurred as charges, levies and fees related to the management of the portfolio. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. A schedule of fees, charges and maximum commissions is available from the company. You may sell your investment at the ruling price of the day (calculated at 15h00 on a forward pricing basis (and 17h00 at month-end for Old Mutual Umbono RAFI® 40 Tracker Fund and Old Mutual Umbono Top 40 Fund). Certain funds may be capped to be managed in accordance with their mandates. Different classes of units apply to these portfolios and are subject to different fees and charges. Old Mutual Unit Trusts is a member of the Association of Savings and Investments, SA. The portfolio performance is calculated on a NAV-NAV basis and does not take any initial fees into account. Income is reinvested on the ex-dividend date. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income. Past performance is not necessarily an indication of future performance.

A schedule of fees and charges and maximum commissions is available from the management company/intermediary. Source for unit trust fund returns: Morningstar (unless otherwise stated) for periods ended 31 August 2011.

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