

Boutique

market strategies

Market Dynamics
December 2011



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Absolute Return Investments

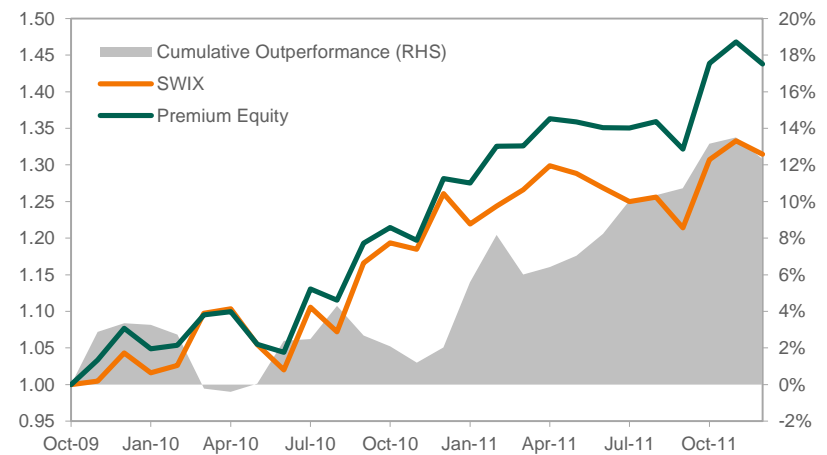
Market Highlights

- ▲ South African equities came under pressure in December, reversing some of the large gains made earlier in the quarter. The FTSE/JSE Top 40 Index declined 3.2% over the month, bringing returns for the quarter to a still-positive 8.4%. The bulk of the losses in December occurred mid month as investors began to realise that there was no quick-fix solution to the European debt crisis. The positive moves in the equity markets earlier in the quarter were largely driven by a more positive outlook on the European debt crisis.
- ▲ As a result of the improvement in the outlook for equity markets, implied volatility levels have fallen over the course of the quarter. The South African Volatility Index (SAVI), a measure of implied volatility on the FTSE/JSE Top 40 Index, fell from over 32% to finish the quarter at 27%.

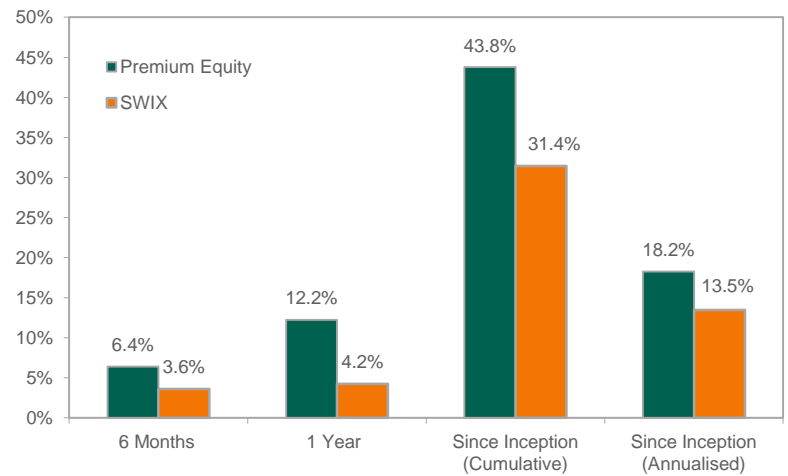
Premium Equity Fund

- ▲ Premium Equity Fund is an actively-managed institutional equity fund that targets 2% to 3% outperformance of the FTSE/JSE Shareholder Weighted Index (SWIX) 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 8.8% for the quarter, outperforming the benchmark by 0.5%.
- ▲ Since inception, the fund has outperformed the SWIX by 4.8% per annum.

Premium Equity Fund since inception
1 November 2009 – 31 December 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



Dibanisa Fund Managers

Market Highlights

- Following the strong performance by equity markets during the last three months, the South African (SA) equity market managed to end the year in positive territory. However, more defensive asset classes like government inflation-linked bonds, local bonds, listed property and money market funds performed much better during 2011.
- Equity markets should not be disregarded during these volatile times as SA equities still delivered more than double that of SA bond and money market investments over the last three years. During the last 10 years, the FTSE/JSE Shareholder Weighted All Share Index (SWIX) delivered 17.2% p.a.

Blending indices to achieve investment objectives

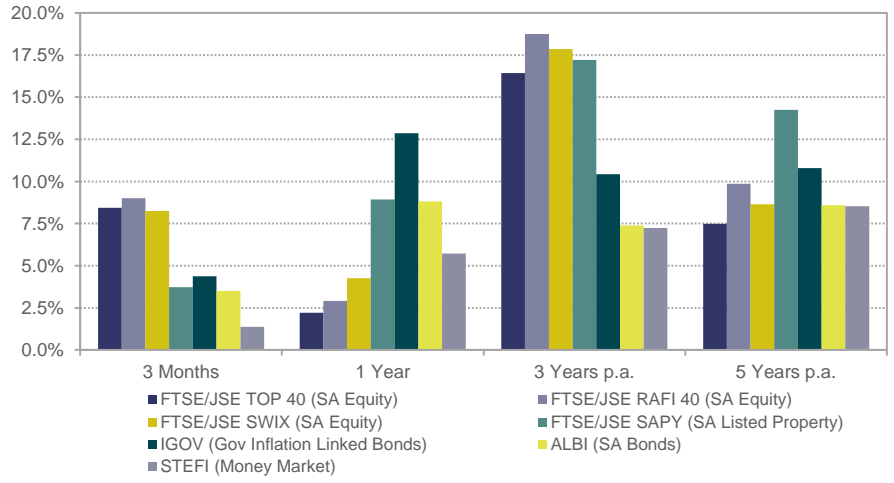
- During periods of higher volatility, investors can look to reduce their risk by blending indices. One such solution is a 50:50 blend of a FTSE/JSE RAFI 40 and FTSE/JSE Equally Weighted Top 40 Index, which we compared to the FTSE/JSE SWIX 40 Index. Since December 2005, the blended solution outperformed 82% of the time and achieved lower volatility 97% of the time over rolling three-year periods. The average three-year active return was 1.3% with an average 0.9% lower volatility.
- The Old Mutual RAFI 40 Fund and Nedbank BetaBeta Equally Weighted Top 40 Exchange Traded Fund can be used by retail investors to create a similar strategy.
- Blending indices is not limited to equities. Blending the Government Inflation-linked Bond Index (IGOV) with the All Bond Index (ALBI) can also achieve significant active returns against an ALBI benchmark.
- Dibanisa can manage a tracker solution to any blend of indices on a segregated basis.

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



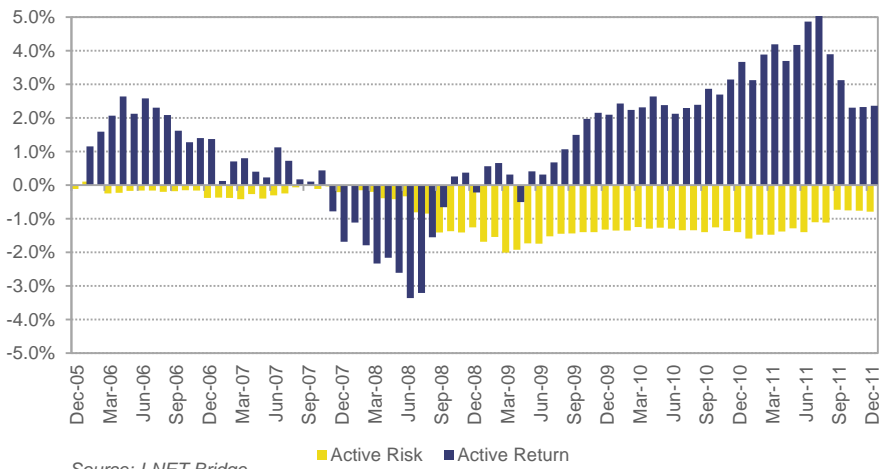
Craig Chambers | MD

Asset class performance as at 31 December 2011



Source: I-NET Bridge
Returns prior October 2007 are backdated.

Three-year rolling active return and active risk of a blended FTSE/JSE RAFI 40 and FTSE/JSE Equally Weighted 40 Index solution vs. the FTSE/JSE SWIX 40 Index



Source: I-NET Bridge



ELECTUS

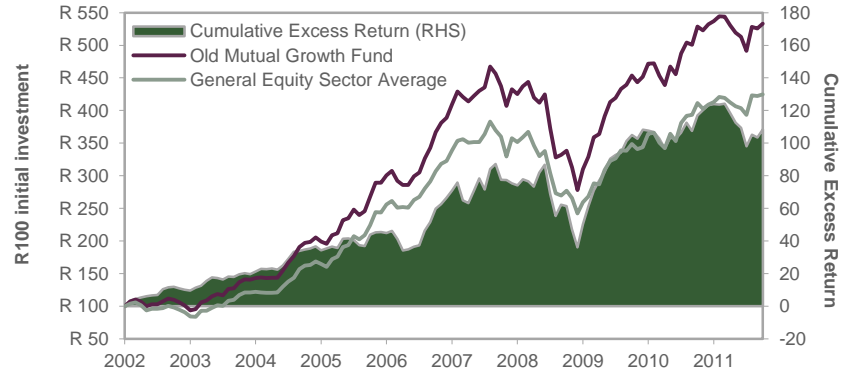
MARKET HIGHLIGHTS

- For the quarter to the end of December 2011, the FTSE/JSE All Share Index (ALSI) gained 8.4% while the FTSE/JSE Shareholder Weighted All Share Index (SWIX) gained 8.3%.
- Resource shares were the worst performers over the quarter, gaining 7.7%, while industrials and financials gained 9.0% and 9.6%, respectively. Large caps gained 8.4%, mid-caps gained 8.2%, and small caps gained 6.8%.

PERFORMANCE PROFILE

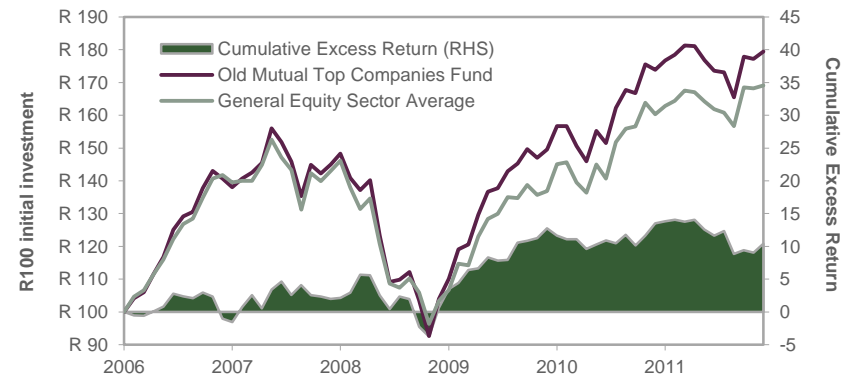
- As shown in the end-December charts, the funds have strongly outperformed their Domestic-Equity-General unit trust peer-group average over both the medium and the long term. An important change in the quarter is that the Old Mutual Growth Fund has started buying units of the new Old Mutual Global Emerging Market (GEM) Fund, a fund also managed by the ELECTUS boutique.
- Within the resources sector, we continue to have a bias towards the large diversified and high-quality mining companies, especially the undervalued Anglo American, as they are typically low-cost producers with diversified income streams across various commodities and geographies.
- 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 Old Mutual remains our preferred holding in the life assurance sector. Old Mutual performed very strongly in the quarter following the proposed disposal, at a good price, of its Nordic life business. We continue to believe more upside potential exists in its restructuring initiatives.
- The funds have rolling price:earnings (p:e) ratios below the market, while they are expected to have above-average earnings growth.

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



* Since managed by Richard Hasson
Sources: OMIGSA and Morningstar

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



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

“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



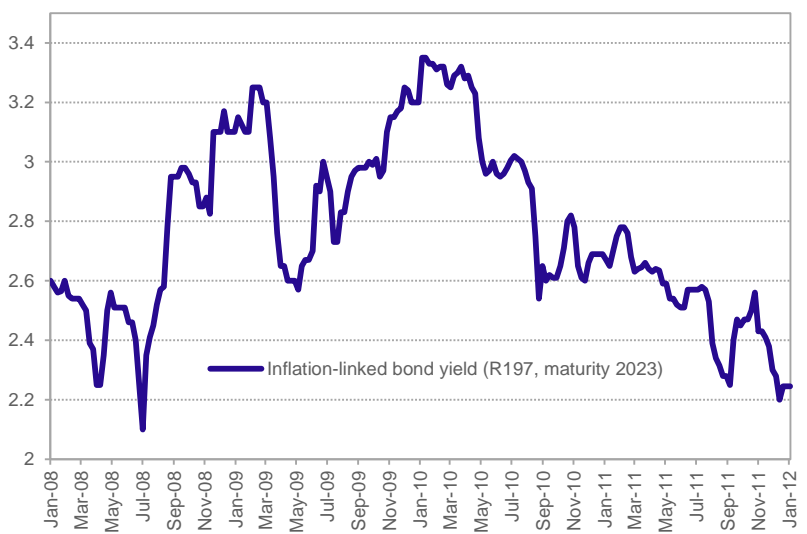
ELECTUS
EQUITY SPECIALISTS

Futuregrowth Asset Management

Market Highlights

- | Eurozone troubles, global currency volatility and rising local headline CPI were some of the main sentiment drivers during the last quarter of 2011. The yield of the benchmark R208 government bond ranged between 8.3% and 7.8% over this period. Rising inflation and growing concerns about the potential negative impact of broad-based rand depreciation since August 2011 lent strong support to the inflation-linked bond market. This caused the real yield of the benchmark R197 government CPI-linked bond to rally from 2.61% to 2.25%; the lowest level since July 2008. As a result, the official CPI-linked index returned 4.3% for the three months ending December 2011, followed by the All Bond Index (+3.5%) and the SteFi Money Market Index (+1.4%).
- | It is unlikely that the Eurozone debt debacle will be resolved soon as efforts to date to stabilise the situation simply lack the power to address the complicated solvency issues the peripheral countries are facing. The domino effect of stringent austerity measures and the inability to gain from currency depreciation have already pushed countries some into recessionary territory. Small open economies with strong trading links to the Eurozone, like South Africa, will not escape the might of global sentiment swings – with continued market volatility being unavoidable. The most likely outcome is a combination of below-trend growth, higher inflation, stable short-term interest rates, bond market volatility and continued strong demand for inflation protection.

Demand for inflation protection the strongest since 2008



Sources: I-Net, Futuregrowth

Investment Strategy

- | Our money market funds are neutral duration and overweight in short- and medium-dated assets.
- | In our bond mandates, we retain a defensive duration position.
- | Corporate debt spreads have tightened to the point where we conduct a very selective purchase strategy.
- | Inflation-linked bonds still offer good value despite the strong bull rally over the past month.

“Our investment view remains defensive, with a focus on Short-term capital preservation while carefully considering potential investment opportunities into market weakness, especially with regards to long-dated fixed rate bonds.”



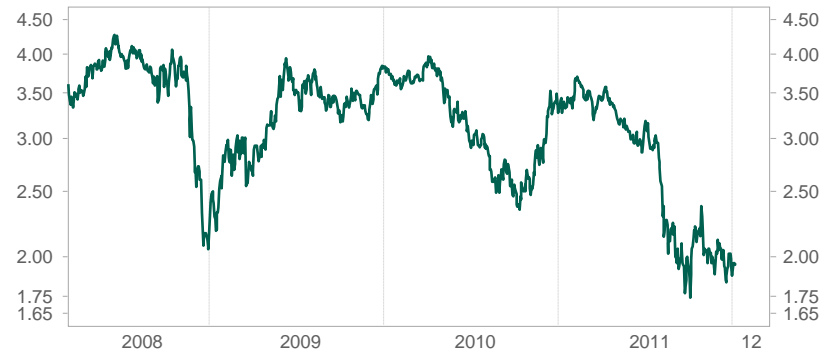
Wikus Furstenberg | Portfolio Manager

Macro Strategy Investments

Quarterly market comments

- ▲ 2011 proved a highly eventful year, including political instability in North Africa and the Middle East, earthquake and tsunami devastation in Japan, and an unfolding sovereign debt crisis in the Eurozone.
- ▲ Further weighing on investor sentiment were anaemic job growth and a credit rating downgrade for the US, as well as fears of a sharp slowdown in China.
- ▲ Risk assets came under pressure, although this eased somewhat during the fourth quarter. Divergent performance in equity markets was a key feature of 2011, with some markets at the epicentre of the crisis in Europe and some of the major emerging markets posting large losses for the year.
- ▲ In December, the FTSE/JSE All Share Index (ALSI) posted a small gain of 2.5% as its performance was bolstered by a weaker rand.
- ▲ Bond markets were the main beneficiaries of growth fears, with the US 10-year government bond yield declining to 1.96%.
- ▲ Locally, for the year, the Inflation-linked Bond Index advanced by 13% while nominal government bonds and listed property posted gains of just under 9%.

The sharp decline in US government bond yields in 2011



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 December 2011

AGGRESSIVE		1 Year	3 Years	5 Years
Profile Funds	Profile Pinnacle	6.7%	13.7%	8.3%
	Performance Target: CPI + 7%	13.2%	12.3%	14.0%
Life Wrapped	Optimised Aggressive	4.4%	12.3%	6.7%
	Performance Target: CPI + 8%	14.2%	13.3%	15.0%
Unit Trusts	Old Mutual Flexible Fund	3.0%	14.5%	7.3%
	Performance Target: CPI + 8%	14.2%	13.3%	15.0%

MODERATE		1 Year	3 Years	5 Years
Profile Funds	Profile Balanced	7.8%	13.2%	7.7%
	Performance Target: CPI + 5%	11.2%	10.3%	12.0%
Life Wrapped	Optimised Balanced	5.4%	11.5%	6.3%
	Performance Target: CPI + 6%	12.2%	11.3%	13.0%
Unit Trusts	Old Mutual Balanced Fund	6.8%	12.6%	6.7%
	Performance Target: CPI + 6%	12.2%	11.3%	13.0%

CONSERVATIVE		1 Year	3 Years	5 Years
Profile Funds	Profile Stable Growth	9.1%	11.2%	8.4%
	Performance Target: CPI + 4%	10.2%	9.3%	11.0%
Life Wrapped	Optimised Defensive	7.3%	9.3%	7.8%
	Performance Target: CPI + 4%	10.2%	9.3%	11.0%
Unit Trusts	Old Mutual Stable Growth Fund	6.8%	9.7%	-
	Performance Target: CPI + 4%	10.2%	9.3%	11.0%

VERY CONSERVATIVE		1 Year	3 Years	5 Years
Profile Funds	Profile Capital	9.8%	9.8%	9.2%
	Performance Target: CPI + 3%	9.2%	8.3%	10.0%
Unit Trusts	Old Mutual Real Income Fund	7.3%	10.8%	9.0%
	Performance Target: CPI + 3%	9.2%	8.3%	10.0%

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

Market Highlights December 2011

- **Inflation:** Consumer inflation in November measured 6.1% year-on-year (y/o/y), edging above the South African Reserve Bank's 6% upper target band for the first time in almost two years. What is of concern is that, although we have seen inflation steadily ticking up throughout 2011, it has to some extent been masked by the strength of the rand, which has kept imported inflation at bay. Almost one third of our gross domestic expenditure (GDE) consists of imports, thus the rand's recent depreciation against the US dollar will exert significant upward pressure on inflation in the months ahead.
- **Currency:** The rand is currently trading at approximately R8.13/US dollar. A likely contributor to the rand's recent depreciation is a significantly-lower volume of foreign inflow into South African capital markets during 2011 when compared to what was experienced during 2010.
- **Local Markets:** The final month of 2011 to date has not been a good month for local equity investors with the FTSE/JSE All Share Index (ALSI) declining in value by approximately 3%. We are of the view that the majority of sectors making up the ALSI are expensive, as reflected in low dividend yields without the prospects of above average dividend growth. Sectors that are showing good value, however, are the telecommunications and insurance sectors. 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. This yield growth proposition suggests cheap income streams.
- **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.

Marriott - reducing financial anxiety

Don't speculate with your life savings

- This relates to a short-term time horizon: trading in unit trusts or shares; looking for the next best-performing investment; and buying at the bottom and selling at the top.
- This strategy appears good in theory, but invariably produces anxiety and mixed results in practice.
- Speculating is invariably based on little fundamental knowledge of the investment itself.

Investing is for the long term – ten years +

- Monitoring the prices of your investments every day is not constructive.
- A short-term time horizon can be very disruptive when trying to accumulate capital and grow its value.
- Rather monitor the income that is being produced by those investments.

Look at income and capital separately

- The income and capital value of an investment is affected by different factors in the short term.
- In general, more can be known about the income produced by an investment than the reason for short-term capital volatility.

Recognise that capital values are volatile in the short term

- The price at which investments trade on the securities exchange in the short-term is affected by factors beyond our control, such as interest rates and inflation.
- This short-term volatility should not cause concern as long as the investment continues producing the income as expected.

"Marriott aims to reduce the financial anxiety of the retired investor"

Simon Pearse | CEO



Property

Market Highlights

- Our view is that the commercial property cycle is still in its recovery phase as excess supply continues to be absorbed. As such, we expect a total return in the low double digits for 2012. Our preference remains for retail property, as current strong retail sales figures are expected to support letting conditions and rental growth in the sector.
- The worrying factor is the declining consumer confidence indicator (see top graph), which is now back at mid-2009 levels. However, it should be noted that the index constituent driving the decline is the consumer's view on South Africa's economic position over the next 12 months. The consumer's own expected financial position for the next 12 months remains relatively strong, while its rating of 'present time to buy durable goods' is improving (see bottom graph).
- While we expect commercial property total returns to continue improving gradually, we do not expect a repeat of the previous upcycle which was characterised by total returns in excess of 25% a year.

Performance Profile

SA Corporate Real Estate Fund (Listed Real Estate)

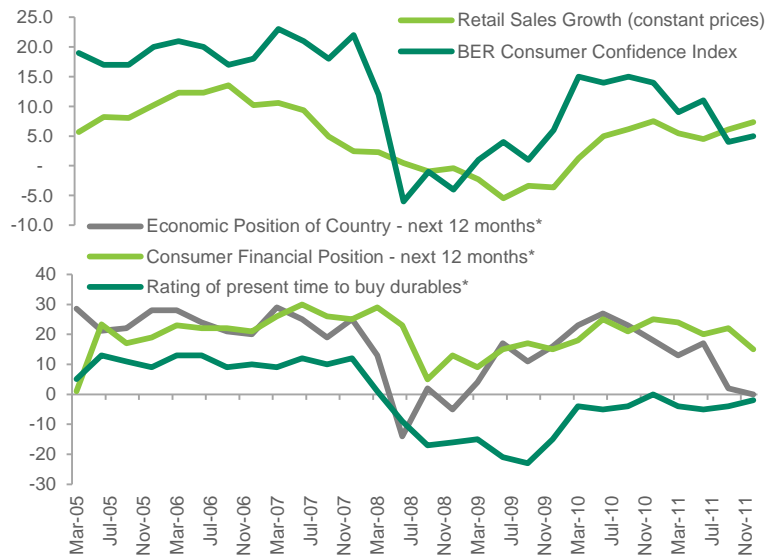
- As at the end of December 2011, SA Corporate's total return for the year-to-date (YTD) was 19.3%. The fund outperformed the FTSE/JSE SA Listed Property Index (SAPY's) 8.93% return, achieving a top quartile ranking in the listed sector.
- The management team has reached a decision to dispose of the fund's associate stake in Oryx and will use the proceeds to achieve some of the set strategic objectives.
- Management is relatively pleased with gains made over the 2011 on the portfolio's collection ratio, lease renewals and unsigned leases.
- Over a pretty challenging market in 2011, the fund has made notable gains on improving the quality of the portfolio, through executing properties identified for sale and continuing to allocate capital to identified core properties.

"With increasing pressure on vacancy rates, our preference is for dominant retail centres."

Peter Levett | Boutique Head



Strong retail sales growth expected to support letting



* Components of BER Consumer Confidence Index
Sources: IPD, StatsSA; Old Mutual Property Research

Triangle Funds (Direct Real Estate)

- The good news is that new vehicle sales and employment growth continued their upward trend in the third quarter of 2011. Early-December reports suggest that this trend will continue into the fourth quarter.
- Retailers report their 26 week trading updates next week and we are cautiously optimistic that the festive season will be better-than-expected, given the reported positive growth in notes in issue. However, the consumer remains under severe pressure from increased fuel and energy costs.
- SAPOA's third quarter Cap and Discount Rate survey indicates a more optimistic view on fundamentals by valuers. However, our exposure to the Durban CBD office market, where vacancies are above the sector average, will mean a downward adjustment to the portfolio's capital value.
- We are confident that we will achieve our budgeted net income for 2011.

Toros Equity

Market Highlights

- The USA's key short-term economic indicators beat consensus expectations.
- Although early days, this, combined with signs of recovery in manufacturing from China and key European countries, made investors go bargain hunting for some oversold companies.
- The local market struggled to maintain a particular direction over the quarter, but in the end, the FTSE/JSE All Share Index (ALSI) closed 8.4% higher.
- Old Mutual outperformed the Shareholder Weighted All Share Index (SWIX) by 21% during the quarter.

Portfolio Overview

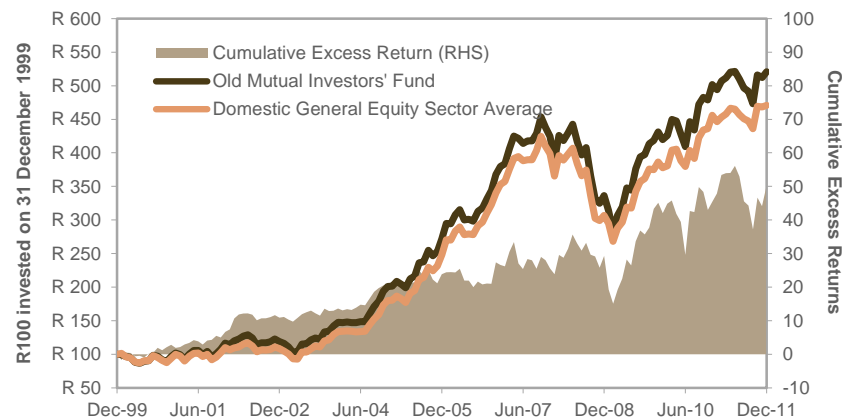
- Recent economic data appears to support our previously stated view that the world economy was unlikely to experience a 'double-dip' recession.
- Large cash levels and the strong performance of defensive shares suggest that investors have been very cautiously positioned.
- Europe remains a significant risk. However, we recognise that a lot of bad news is already discounted in global asset prices.
- We are likely to continue experiencing volatile markets in 2012 as key macro events compete with company fundamentals. We continue to invest in companies with strong operational metrics, competitive advantages and defensive earnings. We have focussed on sound portfolio construction which is extremely important in the current environment.

'We are likely to continue experiencing volatile markets in 2012 as key macro events compete with company fundamentals'



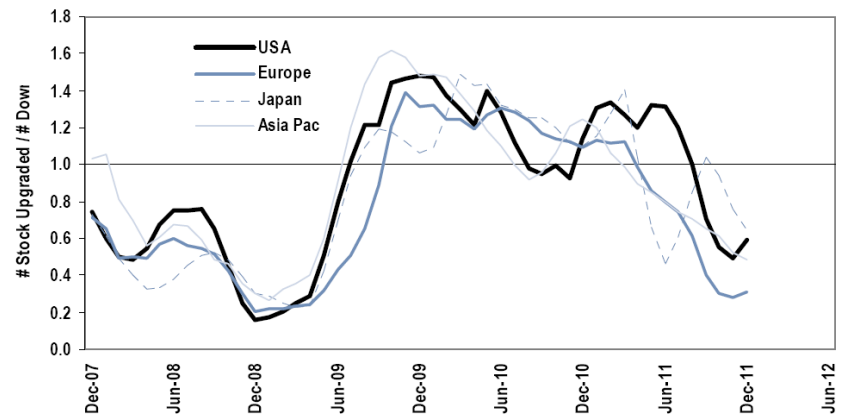
Peter Linley | Boutique Head

Old Mutual Investors' Fund performance to 31 December 2011



Sources: Morningstar & OMIGSA

Trends in Earnings Expectations by Region



Source: Merrill Lynch Global Quantitative Strategy, MSCI, IBES

The graph illustrates the continual downgrade in company earnings expectations in all regions in 2011. This together with investor concerns over Europe and global growth worries created a nervous environment for investors in 2011.



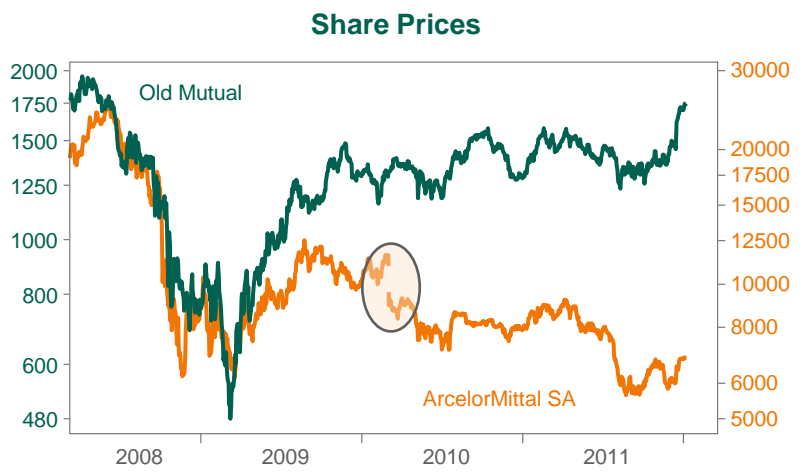
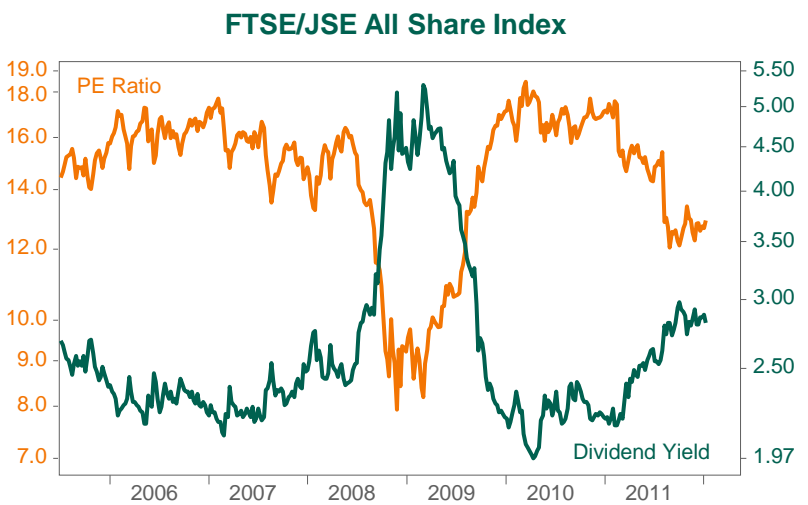
Value Equity Investments

Market Highlights

- ▲ The local equity market finished 2011 with an excellent final quarter (+8.4%) and recovered well from the low of 28.500 in early August, to close at about the 33.000 level. Even after that run, the market is now substantially cheaper than it was at the beginning of last year. This is expressed by the price-to-earnings ratio, which has fallen from 17 times to 13 times, and the dividend yield, which has risen to 2.8%.
- ▲ Going into 2012, we are cautiously optimistic on the equity market, which seems to be somewhat in contrast to most commentators and analysts out there. Most eyes are fixated on Europe and her problems at the moment, leaving any surprise potential on the upside. We think that the US and Japan will do better, and that China, as well as many other developing countries, will continue to show healthy growth. This will be good news for South Africa (SA).
- ▲ From the moment of deepest despair, shares usually tend to appreciate quite rapidly, and we believe that we are close to that right now.

Two Recovery Stories

- ▲ During December, two bits of good news came out on two shares that we are holding in both of our portfolios, namely Old Mutual plc. and ArcelorMittal SA (AMSA).
- ▲ Old Mutual announced the sale of its Skandia operations in Northern Europe, achieving a price that was well above expectations. As a result, substantial value was unlocked, which made the share rally during the month. Through this deal, the Group is reducing its exposure to Europe and increasing its growth profile more towards emerging markets. Importantly, the debt reduction targets seem within reach now, which bodes well for increased distributions to shareholders.
- ▲ The other highly-positive development last month took place in the South Gauteng High Court, which ruled that the Sishen Iron Ore Company (SIOC) is the holder of 100% of the mineral rights to the mine it is operating. This ruling sets aside other rights that had been awarded to a previously unknown company without any mining experience, but with plenty of political connections instead. Whilst our faith in the SA legal system has been restored by this ruling, we feel that the outcome has substantially strengthened steelmaker AMSA's hand in its arbitration case with SIOC's parent, Kumba Iron Ore. Investors will recall that we took pain some two years ago, when AMSA lost its access to cheap iron ore from that mine, and the share took a routing. We are now anticipating a much better future for AMSA.



Source: I-Net

"The equity market is a lot cheaper than last year"

Feroz Basa | Joint Boutique Head



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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 December 2011.