

Boutique

market strategies

Market Dynamics
June 2009



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Absolute Return Investments

Market Highlights

- ▲ Domestic equity markets were weak in June 2009, with the FTSE/JSE Top 40 Index down 3.8%.
- ▲ The SA Volatility Index (an indicator of uncertainty and risk aversion) rose by 1.5% to end the month at 29.2%. Although volatility has been steadily declining over the last few months, it is still higher than the historical average.
- ▲ Amid such various market conditions and with the outlook for the equity markets uncertain, we continue to see strong demand for funds that aim to protect capital while delivering consistent returns.

Old Mutual Capital Builder ... a safe way to build wealth

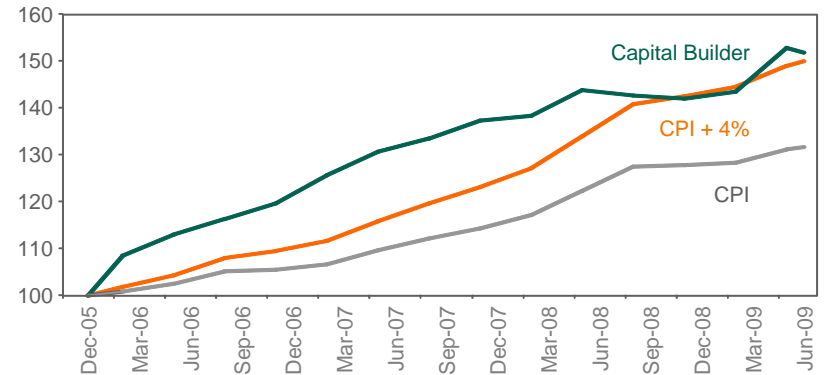
- ▲ The institutional Capital Builder Fund was down 0.7% in June 2009.
- ▲ Despite this negative month, Capital Builder performance for the year-to-date is still strong at 4.9%, compared to the Top 40 Index, which is only up 1.9%.
- ▲ Targeted at institutional investors, Capital Builder aims to achieve a CPI+4% return objective by protecting capital when equities fall and participating in equity rallies.
- ▲ Capital Builder has an optional guarantee for the most conservative investors.

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

Tom Connell | Boutique Head



Capital Builder Absolute Return Fund



Source: OMIGSA

Historical Returns – Capital Builder Fund (institutional)

	2005	2006	2007	2008	2009
Jan		5.1%	1.8%	-0.3%	0.2%
Feb		-0.6%	1.7%	2.8%	-1.0%
Q1		8.5%	4.9%	0.7%	1.0%
Mar		3.6%	2.9%	1.6%	1.8%
Apr		1.2%	0.4%	2.7%	1.3%
May		-0.7%	0.7%	-0.4%	3.4%
Q2		4.1%	4.0%	4.0%	6.6%
Jun		2.0%	0.5%	0.0%	-0.7%
Jul		-1.0%	0.8%	-2.7%	
Aug		2.0%	0.9%	1.9%	
Q3		3.0%	2.2%	-0.8%	
Sep		1.5%	1.7%	-2.1%	
Oct		1.9%	2.2%	0.7%	
Nov		-0.5%	-1.0%	1.0%	
Q4		2.9%	2.8%	-0.4%	
Dec	3.8%	1.3%	-1.8%	1.9%	
Annual return		16.8%	11.2%	7.2%	4.9%*
Return in excess of CPI		9.9%	1.9%	-4.3%	*ytd

Source: OMIGSA, institutional fund returns only



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Absolute Return
Investments

Core Equity Investments

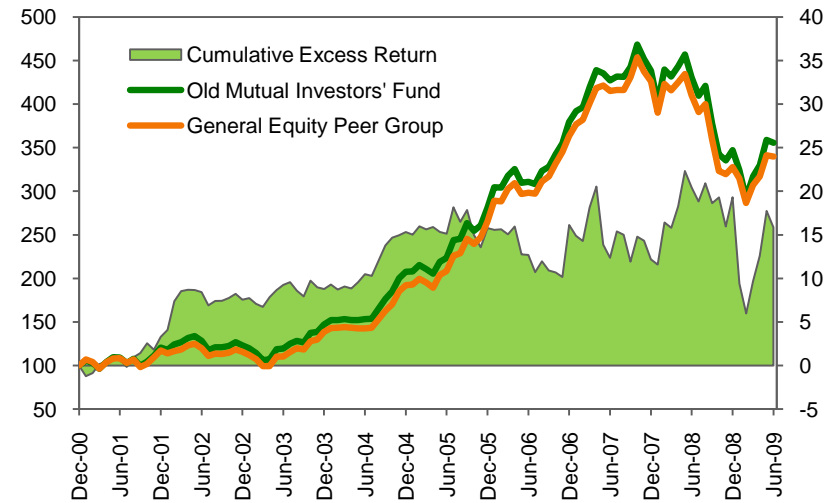
Market Highlights

- ▲ The FTSE/JSE All Share Index (ALSI) experienced a very strong quarter with a positive return of 8.6%.
- ▲ On a sector basis, industrials (+14%) outperformed financials (+12.3%) and resources (+3%) over the quarter.
- ▲ The best performing local sub-sectors for the quarter were household goods (+33%), software & computer services (+29.1%) and media (+25.1%), while the worst were gold mining (-16.2%), coal mining (-13%) and automobiles & parts (-10%).
- ▲ Mid-caps (+14.5%) outperformed small caps (+11.6%) and large caps (+7.7%).
- ▲ Emerging markets (+34.8%) continued to outperform developed markets (+21%), over the quarter.
- ▲ Over the period, the oil price increased by 50% to \$70 per barrel, platinum increased 6% to \$1186 per oz and copper rose by 26% to \$5 108 per ton.

Investment Strategy

- ▲ Market volatility, although still high, has come down from the very high levels earlier in the year. Stock valuations rather than momentum have driven our market over the last three months. This has benefited our portfolios as we stuck to our philosophy of only buying shares that trade at a discount to their intrinsic value, and not playing the momentum game.
- ▲ On broad sector exposure, our model portfolio has an underweight position in Industrial rand hedges, small companies and listed property, a neutral position in financials, and overweight positions in resources and local industrials.

Old Mutual Investors' Fund Performance to 30 June 2009



Source: Morningstar

- ▲ We subscribe to the view that the liquidity and stimuli injected by central banks into economies and financial systems globally will have a positive effect on economic growth, and lead to a mild V-shaped recovery.
- ▲ We have an overweight position to the cyclical part of the market, which we believe is attractively priced, and an underweight position in the defensive counters, which we believe are fully valued.

"We expect a mild 'V-shaped' economic recovery and have positioned our portfolio accordingly."

Core Equity Boutique



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Investment Group

Core Equity
Investments

Futuregrowth Asset Management

Market Highlights

- ▲ The local bond market continued to weaken in tandem with global markets. This was despite a continued improvement in global risk appetite, lower-than-expected year-on-year increases in Producer Price Inflation (PPI) and private credit extension, and a strong rand. A slower-than-expected decline in Consumer Price Inflation (CPI) and the decision by the South African Reserve Bank (SARB) to keep the repo rate unchanged played in the hands of bears.
- ▲ The net effect of steady short-term interest rates and rising long-bond yields was a further steepening of the yield curve.
- ▲ The bond market is expected to trade in a range of about 100 basis points in the medium term, and is marginally better priced relative to low money market rates.

Investment Strategy

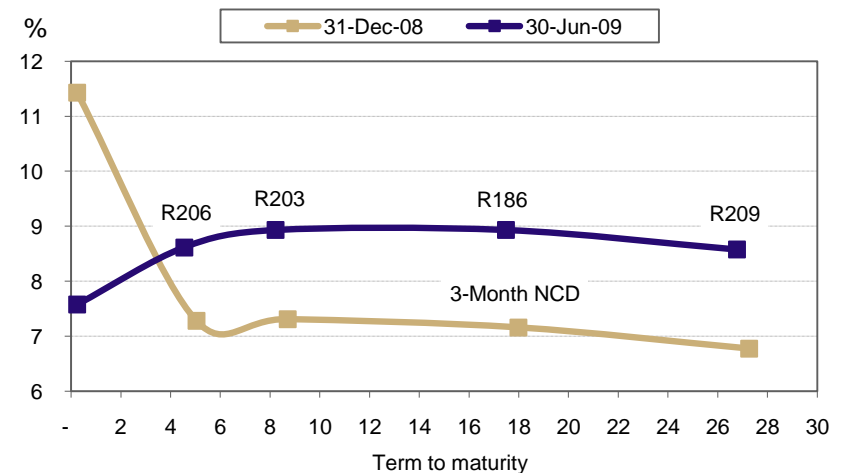
- ▲ Our money market funds maintained an underweight duration tilt and a low cash holding, while we added to medium-dated and longer-dated money market instruments when market rates retraced to higher levels following the decision by the SARB to keep policy unchanged.
- ▲ In the bond funds we are putting less emphasis on the modified duration tilt, and are instead looking to add value by being correctly positioned on the yield curve.

“Low short-term interest rates, sticky inflation, higher global bond yields and rising net issuance should keep the yield curve slope in positive territory.”

Wikus Furstenberg | Portfolio Manager



Significant yield curve normalisation over the last six months



Sources: OMIGSA and I-Net

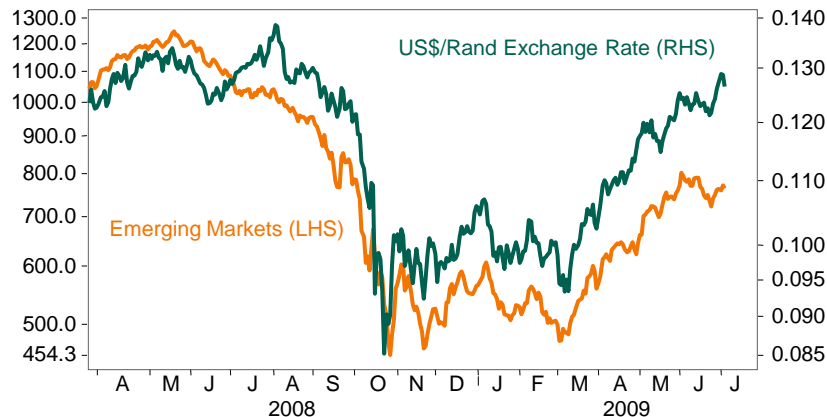
- ▲ Given the general level of market rates, we are running underweight tilts to the one- to three-year and 12-year+ maturity bands. This is offset by a significant overweight tilt to bonds in the seven- to 12-year band.
- ▲ The RSA CPI-linked bond holding was kept at zero on valuation concerns, following the sharp decrease of real yields in March and April. We did utilise opportunities to pick up non-government CPI-linked bonds offered at very attractive spreads.
- ▲ We maintain a low listed property holding on a weak economic growth outlook, preferring nominal bonds and preference shares instead, while consistently looking to increase the holding of attractively priced non-government debt.

Macro Strategy Investments

Second Quarter Market Comments

- ▲ The second quarter of 2009 saw a sharp recovery in global equity markets.
- ▲ Locally, the FTSE/JSE Shareholder Weighted All Share Index (SWIX) was up 9.7%.
- ▲ While offshore equity markets were strongly positive as well, their shine was taken off by a rampant rand. A decrease in risk aversion saw the rand as the best-performing currency versus the US dollar, up 19.4%.
- ▲ Locally, bond yields edged higher as well.
- ▲ Property was down 0.9% in the quarter, but has outperformed the All Bond Index by more than 10% over the 12 months to June 2009.

As risk aversion recedes, emerging markets and the rand rebound



Sources: OMIGSA and I-Net

"As a long-term investor, you have to see through the noise."

Peter Brooke | Boutique Head



Boutique performance relative to performance target to end June 2009

		AGGRESSIVE	1 Year	3 Years	5 Years
Profile Funds	Profile Pinnacle		-6.3%	7.4%	18.2%
	Performance Target: CPI + 7%		15.6%	15.8%	13.9%
Life Wrapped	Optimised Aggressive		-9.4%	6.1%	16.7%
	Performance Target: CPI + 8%		16.6%	16.8%	14.9%
Unit Trusts	Old Mutual Flexible Fund		-9.8%	7.1%	17.5%
	Performance Target: CPI + 8%		16.6%	16.8%	14.9%

		MODERATE	1 Year	3 Years	5 Years
Profile Funds	Profile Balanced		-9.9%	5.8%	15.9%
	Performance Target: CPI + 5%		13.6%	13.8%	11.9%
Life Wrapped	Optimised Balanced		-8.6%	5.4%	15.2%
	Performance Target: CPI + 6%		14.6%	14.8%	12.9%
Unit Trusts	Old Mutual Balanced Fund		-9.2%	5.6%	16.0%
	Performance Target: CPI + 6%		14.6%	14.8%	12.9%

		CONSERVATIVE	1 Year	3 Years	5 Years
Profile Funds	Profile Stable Growth		-0.9%	7.3%	13.5%
	Performance Target: CPI + 4%		12.6%	12.8%	10.9%
Life Wrapped	Optimised Defensive		1.8%	7.9%	12.8%
	Performance Target: CPI + 4%		12.6%	12.8%	10.9%
Unit Trusts	Old Mutual Stable Growth Fund		1.9%	–	–
	Performance Target: CPI + 4%		12.6%	12.8%	10.9%

		ULTRA CONSERVATIVE PORTFOLIOS	1 Year	3 Years	5 Years
Profile Funds	Profile Capital		6.3%	8.9%	11.9%
	Performance Target: CPI + 3%		11.6%	11.8%	9.9%
Unit Trusts	Old Mutual Real Income Fund		10.9%	7.8%	–
	Performance Target: CPI + 3%		11.6%	11.8%	9.9%

Below performance target (orange) Above performance target (green)

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

- ▲ **Inflation** – May saw an 8% y/y increase in the CPI. This was the 27th consecutive month that the increase in the prices of consumer goods and services has been above the SARB’s 3%–6% target band. With service inflation (a heavily-weighted component of the basket) at above 8% y/y, it seems likely that inflation will remain above the target for many months to come.
- ▲ **Currency** – June was a good month for the rand as it moved below the R8,00/US\$ level, benefiting from significant foreign inflows into our bond and equity markets. Despite this, we remained concerned over the vulnerability of the rand.
- ▲ **Local Markets** – The FTSE/JSE All Share Index (ALSI) was down 3.1% in June, erasing some of May’s gains. Although the first signs of a global economic recovery are appearing, SA has only just entered into a recession. The subsequent unemployment saw over 170 000 jobs being lost in the first quarter of this year. Recovery at this stage seems unlikely.
- ▲ **Offshore Markets** – June saw mixed results for the US, UK and European markets. The Dow Jones posted a 0.6% gain, whereas the FTSE 100 declined by approximately 3% m/m. Despite the developed markets’ lack of direction, encouraging data, such as resilient consumer spending and better-than-expected corporate earnings, may suggest that a recovery is starting to look inevitable.

Investment Strategy

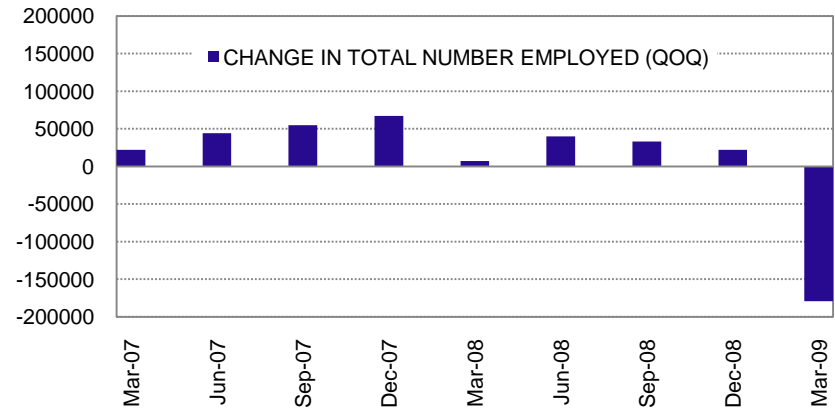
An income-focused investment style results in long-term superior risk-adjusted returns that are ideal for retired investors. It is characterised by acceptable total returns, low volatility and the highest possible income streams from all asset classes.

“The Marriott High Income Fund of Funds has produced more income than any other Domestic Fixed Interest fund over 5 years.”
(ending 30 June 2009)

Simon Pearse | MD



Market Highlights: Change in employment numbers in SA



Source: Marriott

Over 170 000 jobs were lost in the first quarter of 2009, affirming South Africa’s recessionary status.

The Marriott High Income Fund of Funds

The effects of the recession on property values and bond prices will eventually enable the portfolio to take advantage of lower-priced income streams.

However, until this opportunity arises, a significant portion of the portfolio has been moved from short-dated deposits into 12-month deposits. This will enable the portfolio to take advantage of any price weakness in listed property, while allowing for stable distributions (income) for the next 12 months.

As the portfolio moves into the next phase of the investment cycle, we expect to see a small element of capital volatility in its price. Some of the instruments have been purchased at a premium, with a maximum capital loss of 3% over the year. However, investors have enjoyed capital stability for the last two years, combined with high distributions, and this income stability should continue.

Property Investments

Market Highlights

- While uncertainty and ongoing debates on the length and depth of the global slowdown continued through the last quarter, financial markets started to show some signs of stabilisation, with indications emerging that investors are seeing fair value in some of the more developed real estate markets such as the UK.
- On the local front, there are signs of weakening yields in some of the secondary buildings but, in general, our market has not seen the distressed selling of many of the developed countries. Retail sales, while under pressure, continue to provide nominal growth.
- That said, the consumer contraction and its knock-on effect in wholesale warehousing segments, as well as lower growth expectations in the corporate sector, have led to reduced demand and a gradual increase in vacancies over the last three months.
- With demand declining and electricity, rates and taxes increasing, so the need to aggressively manage "in-control costs" (management fees and other operating costs) and income leakage (arrears and bad debts) has increased importance.

Performance Profile

SA Corporate Real Estate Fund (Listed Real Estate)

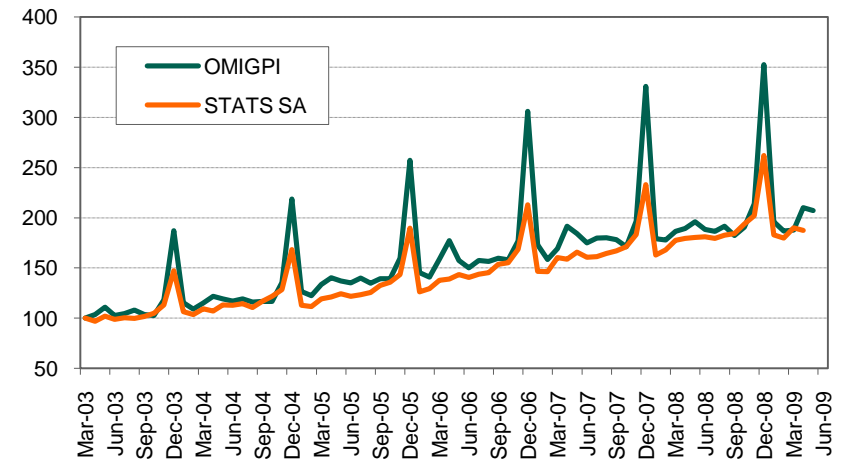
- The second quarter of 2009 saw a continuation of the difficult trading environment, although the fund's share price has responded positively, ending the quarter at 255c after starting off at 240c a share.
- In addition, there has been a recent change in senior management on the fund with the appointment of Len Van Niekerk as Fund Manager and CEO, and Zaida Adams as Financial Director, (both subject to FSB approval).
- With retail trading expected to remain difficult in the short term, aggressive attention to the drivers of net income has already begun to show dividends and we will continue with the announced disposal programme in order to improve the quality of the portfolio.

"... it is in these times that leaders emerge, new ideas are generated, and the great companies of the future are created."



Ben Kodisang | Boutique Head

Retail Sales Growth – OMIGPI Retail Index vs. STATS SA Index



Source: OMIGPI Research

Triangle Funds (Direct Real Estate)

- The portfolio retained its overweight tilt to the retail segment with a bias towards quality regional and super-regional centres. With income growth largely protected by national leases and contracted escalations, the pressure was expected to reflect in capital valuations; however, conservative write-ups during the up-cycle have paid off and values held their own in the second quarter, with some properties even showing marginal increases.
- Signs of the downturn have begun to show, however. While some of the national retailers continued to see year-on-year increases across many categories, many smaller tenants are feeling the impact and requests for concessions are ticking up.
- Given recent upward trends, arrears across all segments are receiving special attention. In addition, deteriorating wholesale and manufacturing output has translated into a longer leasing cycle for vacant industrial space.



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Property
Investments

Select Equity Investments

Market Highlights

- ▲ For the quarter, the FTSE/JSE All Share Index (ALSI) gained 8.6%, while the FTSE/JSE Shareholder Weighted All Share Index (SWIX) increased 9.7%.
- ▲ From an equity sector perspective, resources performed well over the quarter gaining 2.8%, while industrial shares added 14%, and financials gained 12.3%. Both mid-caps (14.5%) and small caps (11.6%) outperformed large caps, which only gained 7.7% during the quarter.

Performance Profile

- ▲ The relative outperformance by the funds ahead of their peer groups and benchmarks during the month was driven by many areas. The small shifts in sector weightings added value, while the majority of the relative outperformance was due to very good share selection.
- ▲ Within the resources sector 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.
- ▲ In the domestic industrial sectors we have built up weightings in those companies where we believe earnings are more defensive, such as the telecommunications sector, the media sector and the fixed investment sector. The recent purchasing of some great quality mid- and small cap industrial businesses which are trading at attractive valuations has added substantial value to the fund during the past six months.
- ▲ Within financials we retain our preference towards the banking sector and Old Mutual, which have rebounded strongly recently after falling to extremely cheap levels in line with their net asset values earlier in the year.

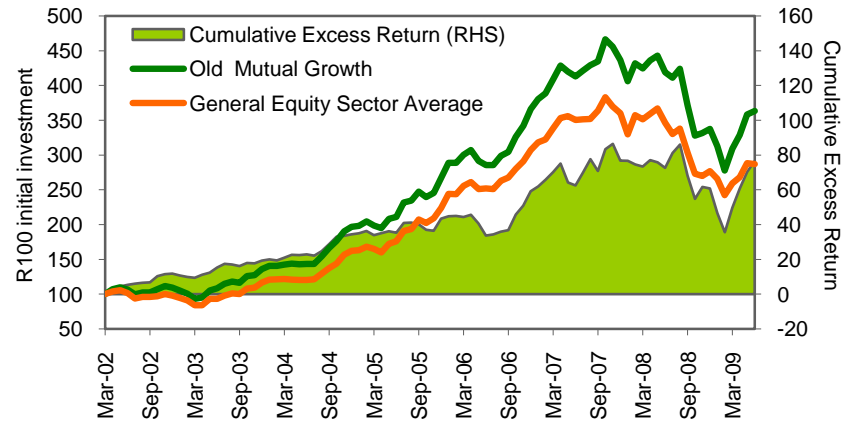
"We strive to buy shares in quality businesses at prices that are low compared to their long-term investment value."

Richard Hasson & Neil Brown | Boutique Heads



Old Mutual Growth Fund

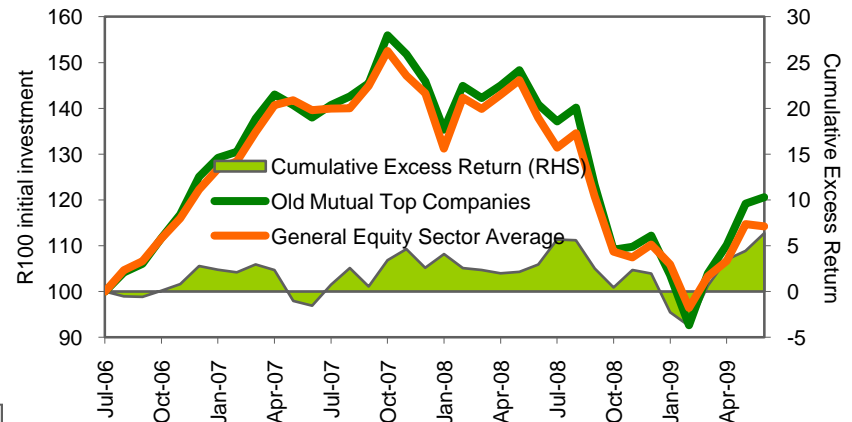
(unit trust managed by Richard Hasson since 01.04.2002)



Source: OMI GSA

Old Mutual Top Companies Fund

(unit trust managed by Richard Hasson & Neil Brown within Select Equity since 01.08.2006)



Source: OMI GSA



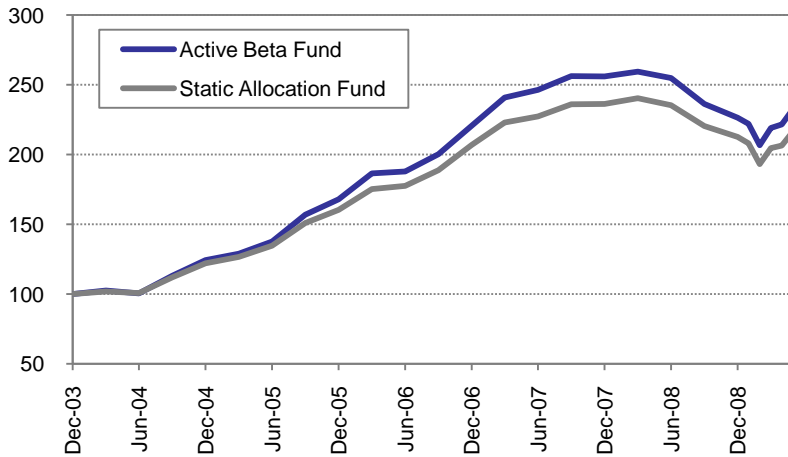
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Umbono Fund Managers

Introducing the Old Mutual Active Beta Global Balanced Fund

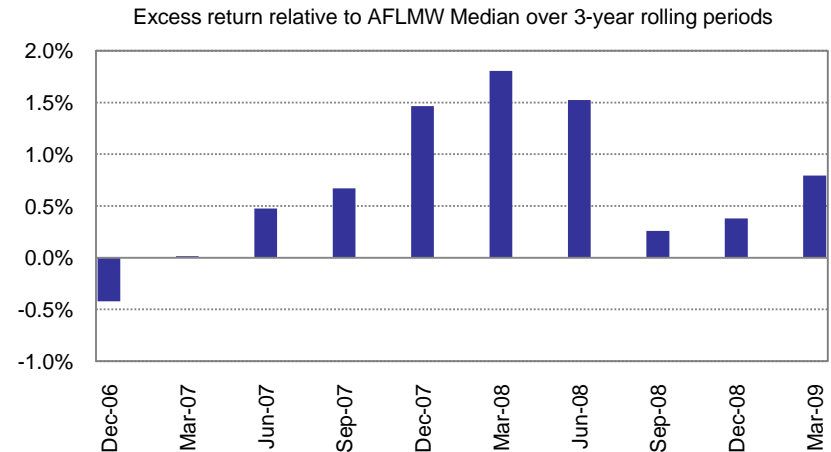
- ▲ The Old Mutual Active Beta Global Balanced Fund combines the proven active asset allocation skills of the Macro Strategy Investments boutique (MSI) with the index tracking (beta) skills of Umbono Fund Managers.
- ▲ We believe that this combination of active and beta techniques – two seemingly opposed investment approaches – has the potential to deliver efficient market outperformance by offering a best-of-both-worlds product.
- ▲ Numerous studies over the years have demonstrated that asset allocation accounts for a significant proportion of investment returns. According to Ibbotson & Kaplan (Financial Analysts Journal, 2000): *“Our analysis shows that asset allocation explains about 90% of the variability of a fund’s return over time.”*



Source: OMIGSA

Adding some Beta to your Alpha

- ▲ The new fund has therefore been designed to ensure that the active asset allocation provides the potential for **alpha**, over and above the **beta** provided by the index tracker funds.
- ▲ In the back-testing of the fund, the actual asset allocation decisions made by the MSI team were applied to the representative indices for each asset class. The resulting outperformance – over a static asset allocation fund – averaged 1.1% per year.
- ▲ The **beta** building blocks, meanwhile, ensure that the fund can be very aggressively priced. This, we feel, is extremely appropriate given the possible future lower-return environment in the local equity market, and the inevitable increase in investor cost sensitivities.
- ▲ The illustrative fee on a R200m mandate will be just over 0.30% per annum.



Source: OMIGSA

“Collaboration is just one of the many benefits inherent in OMIGSA’s multi-boutique structure”

Craig Chambers | MD



Value Equity Investments

The market this quarter

The FTSE/JSE Shareholder Weighted All Share Index (SWIX) experienced a disappointing month with a negative 1.3% return. Despite this, the quarterly return is 9.7%. This is 25% off the lows in mid-March when sentiment was at its worst. Returns have been widespread. The interest rate sensitive banks, clothing and furniture retailers as well as the construction sector, had a good showing. Gold counters were the laggards.

Equity prices globally are up, as are emerging market currencies and commodity prices. This reflects a very sudden shift away from fear and safe haven assets to cautious optimism, which brings along with it renewed appetite for risk. Investors' focus has seemingly shifted back to valuations and away from momentum and, given the huge amount of cash and liquid assets around, this may well continue for some time.

The Old Mutual Value Unit Trust

The repositioning of the fund into the more cyclical side of the equity spectrum has clearly started to bear fruit. The fund is well ahead of its SWIX benchmark for the quarter and over 12 months. Over the quarter, our top three holdings, Anglo, ArcelorMittal and Old Mutual, have all delivered returns well in excess of the benchmark. Our GoldFields exposure has held back performance.

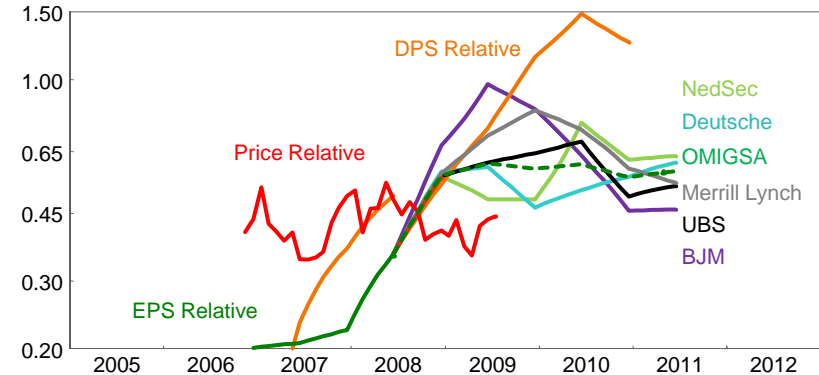
The most significant changes to the portfolio have been the reduced exposure to Mvela Resources and Investec and the inclusion of MTN. MTN is once again involved in merger talks with another India telecoms company, Bharti. It is yet to be seen if these talks would materialise into anything tangible. We also had some profit-taking on Old Mutual.

"Our long-term strategy of buying undervalued shares is bearing fruit."

Varusha Daljee | Trainee Portfolio Manager



Our value philosophy at work – a closer look at Exxaro relative to BHP Billiton



Source: OMIGSA

- ▲ The chart above is a price, earnings and dividend relative chart of Exxaro versus BHP Billiton. It also includes the brokers' and OMIGSA analysts' forecasts of forward earnings.
- ▲ The Exxaro share price underperformed BHP Billiton, but this was unexpected as it has many defensive qualities. The company's largest division is deriving its income from the supply of coal to Eskom, which is not linked to coal spot prices, but based on contracts that escalate every year. This business is highly cash-generative and has already reported a very attractive dividend payment.
- ▲ In late 2008, Exxaro was offering significant upside. Its defensive assets coupled with stronger forward earnings potential convinced us to build a position in the counter.
- ▲ Exxaro is a top 10 pick in the Value Unit Trust. Despite its outperformance in the recent past, it continues to look attractive on a relative valuation basis.



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Value Equity
Investments

For more information, please contact: _____

Western Cape:

Old Mutual Investment Group, 3rd Floor, West Campus, Mutualpark, Pinelands 7405

Mike van Heerden – Senior Executive: Business Development
Tel: +27 21 509 5082 Cell: +27 82 450 4483
E-mail: mvheerden@omigsa.com

Nirdev Desai – Investment Marketing & Sales Executive: Retail
Tel: +27 21 504 6305 Cell: +27 82 419 4770
E-mail: ndesai@omigsa.com

Paul Glendining – Investment Marketing & Sales Executive: Retail
Tel: +27 21 504 7690 Cell: +27 82 414 3412
E-mail: pglendining@omigsa.com

Gauteng:

Old Mutual Square, Umnotho Building, 3rd Floor, OMIGSA office, 93 Grayston Drive, Sandton 2196

Mario Schoeman – Investment Marketing & Sales Executive: Fund of Funds
Tel: +27 11 217 1411 Cell: +27 83 269 8999
E-mail: mschoeman@omigsa.com

Wynand Gouws – Head: Retail Channel Management
Tel: +27 11 217 1664 Cell: +27 82 450 7386
E-mail: wgouws@omigsa.com

Taz Victor – Manager: Retail Distribution
Tel: +27 11 217 1002 Cell: +27 82 460 1495
E-mail: tvictor@omigsa.com

Sean du Buisson – Investment Marketing & Sales Executive: Retail
Tel: +27 11 217 1003 Cell: +27 82 926 6955
E-mail: sdubuisson@omigsa.com

Durban:

Viewz @ Westway, Office 3B, 11 The Boulevard, Westway Park 3611

Imtiaz Shaik – Investment Marketing & Sales Executive: Retail
Tel: +27 31 275 8305 Cell: +27 83 292 7860
E-mail: ishaik@oldmutual.com

Bloemfontein:

PHG Building, 196 Nelson Mandela Drive, Bloemfontein 9300

Des Bothma – Investment Marketing & Sales Executive: Retail
Tel: +27 51 505 2950 Cell: +27 82 410 2666
E-mail: dbothma@omigsa.com

Pretoria:

1st Floor, Glen Manor Office Park, Frikkie de Beer Street, Menlyn 0042

Hennie van Rensburg – Investment Marketing & Sales Executive: Retail
Tel: +27 12 369 7220 Cell: +27 83 286 2405
E-mail: hjansevanrensburg@omigsa.com

Eastern Cape:

3rd Floor, Old Mutual Place, Cnr Cape Rd & Langenhoven Dr, Greenacres, PE 6000

Colin Archibald – Investment Marketing & Sales Executive: Retail
Tel: +27 41 502 4906 Cell: +27 82 804 1746
E-mail: carchibald@omigsa.com



Regulatory Information

Old Mutual Investment Group (South Africa) (Pty) Limited
Physical address: Mutualpark, Jan Smuts Drive, Pinelands 7405
Telephone number: +27 21 509 5022

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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 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.omiqsa.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 30 June 2009.