

# Boutique

## market strategies

Market Dynamics  
June 2011



# 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

# Absolute Return Investments

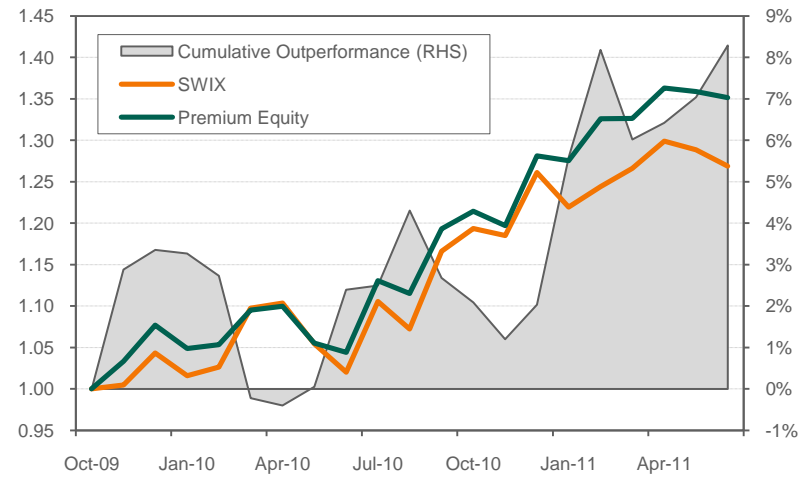
## Market Highlights

- Domestic equity markets declined in June 2011, with the FTSE/JSE SWIX Index down 1.5%. The headline equity returns do not tell the full story of a month when the equity market was down nearly 6% at one stage as concerns around a Greek default increased. The markets rallied strongly during the last week of the month as these fears eased and some positive economic data was released. All major sectors contributed to the performance, with the resources sector leading the way, down 3.1% over the month. The financial and industrial sectors were down 2.0% and 1.1% respectively.
- Implied volatility initially increased with the equity market sell-off, but decreased again towards the end of the month as markets rallied.

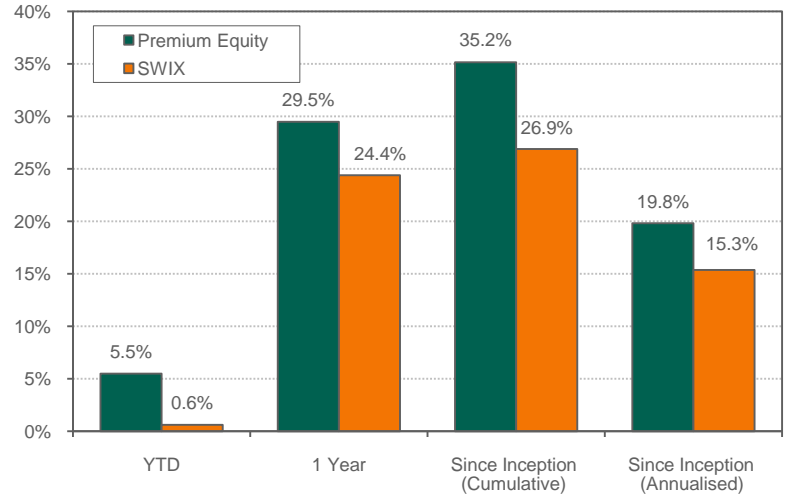
## Premium Equity Fund

- Premium Equity is an actively managed institutional equity fund that targets 3% outperformance of the SWIX benchmark over the long term.
- Returns for the fund will also tend to be less volatile than other equity portfolios.
- Premium Equity was down 0.5% for the month, therefore outperforming the benchmark by 1%.
- Since inception, the fund has outperformed the SWIX benchmark by 4.5% per annum.

Premium Equity Fund since inception  
1 November 2009 – 30 June 2011



Historical Returns



Source: OMIGSA. Institutional returns only

*“Premium equity has outperformed the market with less volatility since inception.”*

**Bryn Hatty** | Portfolio Manager



# Dibanisa Fund Managers

## Dibanisa Balanced Tracker Fund

- On 1 July 2011, we launched our Balanced Tracker Fund that aims to deliver long-term growth, at low cost, by investing in a balanced mix of local and offshore equities, cash, property and bonds.
- The fund will be available through the Old Mutual Super Fund (Evergreen) umbrella retirement solution, as well as directly through Dibanisa in a pooled vehicle at a fee of 0.36% excl VAT.
- Dibanisa Fund Managers will manage the portfolios on a Regulation 28-compliant basis, and annually rebalance back to the strategic allocation in March. Annual rebalancing helps ensure low trading cost, and that the portfolio partakes in the intended combination of returns originating from each asset class to achieve the long-term real return target of 5% (CPI + 5%).

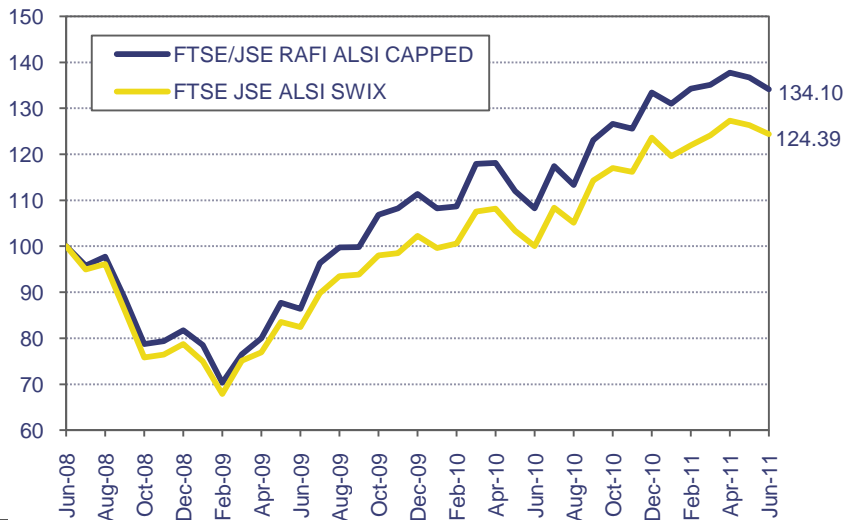
## Underlying Fund Selection

- The local equity building block is managed by Dibanisa through the Dibanisa RAFI® All Share Capped Tracker Fund. The FTSE/JSE RAFI® All Share Capped Index has cumulatively outperformed the FTSE/JSE Shareholder Weighted Index (SWIX) by 9.7% over the last three years.
- The local bond building block is managed by Dibanisa. Dibanisa has been tracking the All Bond Index (ALBI) since December 2002, with a since-inception tracking error of 0.14%.
- The Dibanisa All Country World Fund will be used for the international equity building block and tracks the MSCI All Country World Index (ACWI), with 87% invested in developed markets and 13% invested in emerging markets.
- The local cash building block is managed by Futuregrowth Asset Management through the Old Mutual Core Money Market Fund, which has consistently outperformed its benchmark over various periods.
- The international cash building block is managed by Macro Strategy Investments through the Old Mutual Global Money Market Fund. The performance objective of the fund is to outperform this benchmark by 50 basis points (bps) over rolling three-year periods.

**Table 1: Underlying building blocks of the Dibanisa Balanced Tracker Fund**

Asset Class	Fund Manager	Building Block / Benchmark	Strategic Allocation
Domestic Equity incl. property (2.5%)	Dibanisa	Dibanisa RAFI® All Share Capped Tracker Fund	57%
Domestic Bonds	Dibanisa	Dibanisa All Bond Tracker Fund	13%
Domestic Cash	Futuregrowth	Old Mutual Core Money Market Fund	10%
<b>Domestic Total</b>			<b>80%</b>
International Equity	Dibanisa	Dibanisa All Country World Index Fund	15%
International Cash	Macro Strategy Investments	Weighted average of three-month treasury bills using the IMF SDR basket currency weights	5%
<b>International Total</b>			<b>20%</b>

**Past performance of underlying local equity component vs SWIX**



Source: I-NET \* Backdated performance.

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



**Craig Chambers | MD**



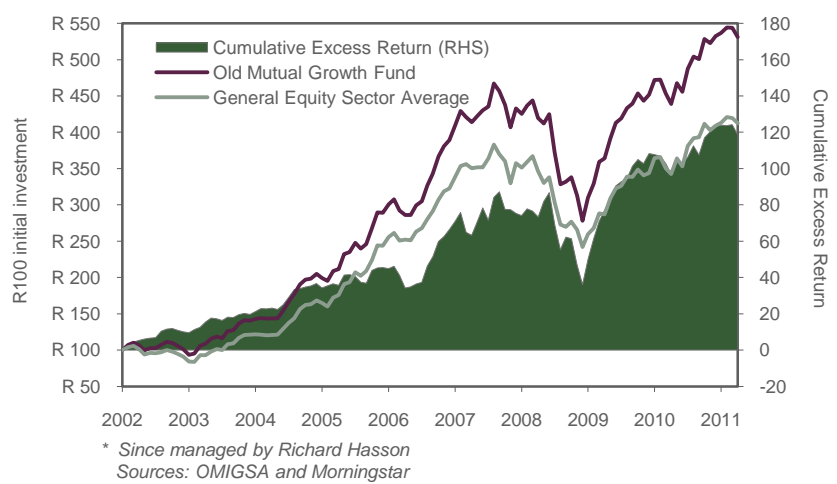
## MARKET HIGHLIGHTS

- For the quarter to June 2011, the FTSE/JSE All Share Index (ALSI) lost 0.6%, while the FTSE/JSE Shareholder Weighted All Share Index (SWIX) gained 0.2%.
- Resources shares were the worst performers, losing 5.7% while industrials and financials gained 3.7% and 1.3%, respectively. Large caps lost 1.3%, mid-caps gained 3.3%, and small caps gained 2.3%.

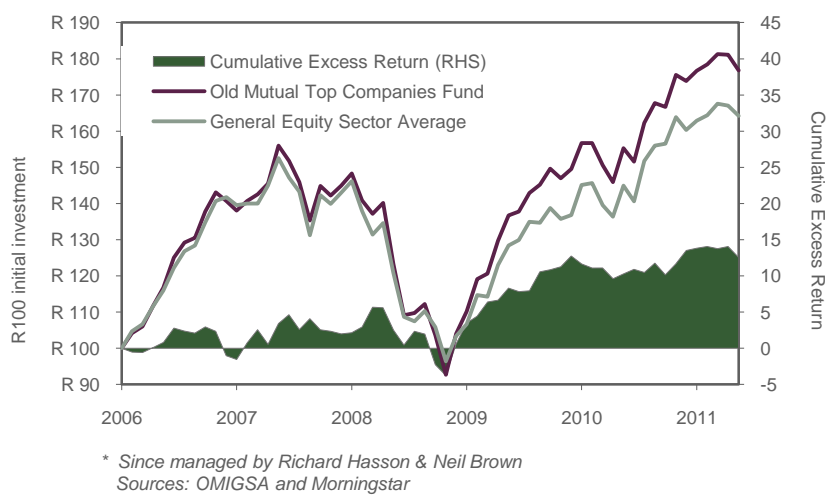
## PERFORMANCE PROFILE

- As shown in the end-June charts alongside, the funds have strongly outperformed their Domestic-Equity-General unit trust peer-group average over the medium- and 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 return potential.
- 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 JUNE 2011) \*



## OLD MUTUAL TOP COMPANIES FUND (TO END OF JUNE 2011) \*



**“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

# Futuregrowth Asset Management

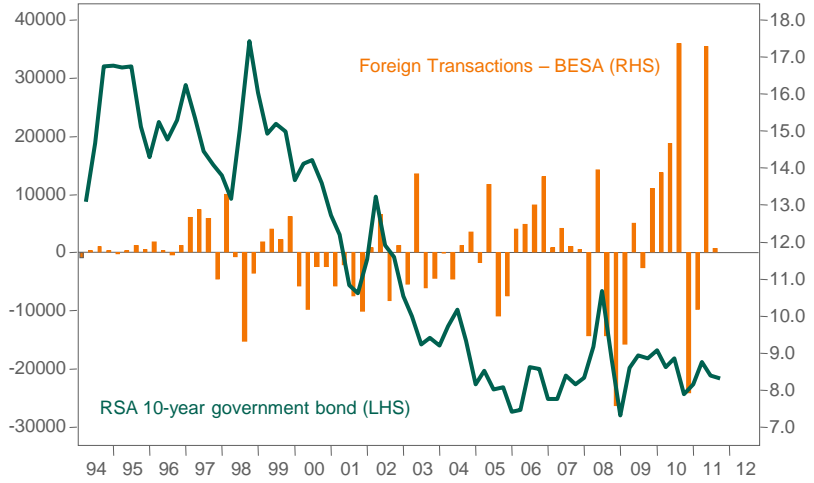
## Market Highlights

- | Lower bond yields in advanced market economies; a sharp decline in crude oil prices; the decision by the South African Reserve Bank (SARB) to keep the repo rate at a multi-decade low; rand stability; and non-resident purchases of local bonds totalling a net R35.6bn, led bond yields to decrease during the second quarter. As a result, the All Bond Index (ALBI) returned 3.9%, outperforming both cash (1.4%) and the FTSE/JSE Inflation-linked Bond Index (3.8%).
- | The ongoing concerns about further Greek debt restructuring had no visible impact on market sentiment towards most emerging markets, including South Africa. Rising local inflation also failed to spook market participants because it is behaving largely in line with general expectations, while core inflation still appears to be relatively benign.
- | Recent market events did not change our core investment view and, therefore, our broadly defensive investment strategy. Although inflation has behaved relatively well until now, partly due to the lagged effect of the rand's strength, the medium-term outlook remains a concern from an interest rate point of view. It therefore follows that the central bank will be required to start the policy tightening cycle later this year – as a repo rate at the lowest level since 1974 is unsustainable against this background.

## Investment Strategy

- | Our money market funds are underweight to duration and overweight in short- and medium-dated assets, in anticipation of rising interest rates.
- | We still have a strong preference for variable-rate bonds, as opposed to fixed-rate bonds, given the point in the interest rate cycle.

## Strong foreign buying of local bonds



Sources: I-Net, Futuregrowth

- | In our bond mandates, we maintain an underweight tilt to modified-duration and short-dated fixed-rate bonds in anticipation of monetary policy tightening.
- | Corporate debt spreads have tightened to the point where we conduct a very selective purchase strategy.
- | Although inflation-linked bond yields are still relatively low, the more bearish medium-term inflation outlook is more supportive.

*“The recent bull rally offered an opportunity to reduce exposure to short-dated fixed rate bonds in anticipation of policy tightening.”*



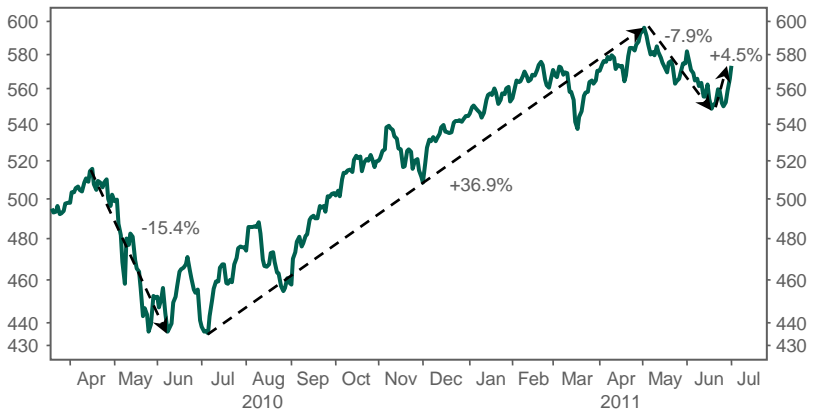
**Wikus Furstenberg** | Portfolio Manager

# Macro Strategy Investments

## Quarterly Market Comments

- ▲ The concerns around Eurozone sovereign debt and the risk of contagion continued to weigh on equity markets in June. Across the Atlantic, Ben Bernanke expressed his disappointment at the pace of the US recovery, in particular the poor employment numbers.
- ▲ However, markets regained some lost ground in the last week of the month, as the announcement of the Greek austerity programme alleviated some of the European fears.
- ▲ Locally, South African Reserve Bank (SARB) Governor Gill Marcus expressed her concerns about South Africa's muted growth, leading to the conclusion that interest rates are likely to remain on hold for longer.
- ▲ For the one, three and six months, bonds outperformed equities. Local equities marginally outperformed global equities in June, but have underperformed global equities significantly in the first half of 2011.
- ▲ Local property returned 1.2% in the month, to cap off a strong quarter. Inflation-linked bonds delivered good returns, and is one of the best performing asset classes year-to-date.

## MSCI All Country World Index – US Dollar [Total Return]



*“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 June 2011

AGGRESSIVE		1 Year	3 Years	5 Years
Profile Funds	Profile Pinnacle	19.2%	9.1%	11.4%
	Performance Target: CPI + 7%	12.1%	12.5%	13.9%
Life Wrapped	Optimised Aggressive	17.4%	6.5%	9.7%
	Performance Target: CPI + 8%	13.1%	13.5%	14.9%
Unit Trusts	Old Mutual Flexible Fund	19.6%	7.8%	11.3%
	Performance Target: CPI + 8%	13.1%	13.5%	14.9%

MODERATE		1 Year	3 Years	5 Years
Profile Funds	Profile Balanced	17.8%	7.4%	10.2%
	Performance Target: CPI + 5%	10.1%	10.5%	11.9%
Life Wrapped	Optimised Balanced	15.6%	6.3%	9.0%
	Performance Target: CPI + 6%	11.1%	11.5%	12.9%
Unit Trusts	Old Mutual Balanced Fund	17.5%	6.9%	9.6%
	Performance Target: CPI + 6%	11.1%	11.5%	12.9%

CONSERVATIVE		1 Year	3 Years	5 Years
Profile Funds	Profile Stable Growth	14.9%	8.9%	10.0%
	Performance Target: CPI + 4%	9.1%	9.5%	10.9%
Life Wrapped	Optimised Defensive	11.3%	7.9%	9.2%
	Performance Target: CPI + 4%	9.1%	9.5%	10.9%
Unit Trusts	Old Mutual Stable Growth Fund	11.3%	7.9%	–
	Performance Target: CPI + 4%	9.1%	9.5%	10.9%

VERY CONSERVATIVE		1 Year	3 Years	5 Years
Profile Funds	Profile Capital	11.7%	9.8%	10.0%
	Performance Target: CPI + 3%	8.1%	8.5%	9.9%
Unit Trusts	Old Mutual Real Income Fund	11.2%	11.9%	9.6%
	Performance Target: CPI + 3%	8.1%	8.5%	9.9%

Below performance target (Orange)    On or 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

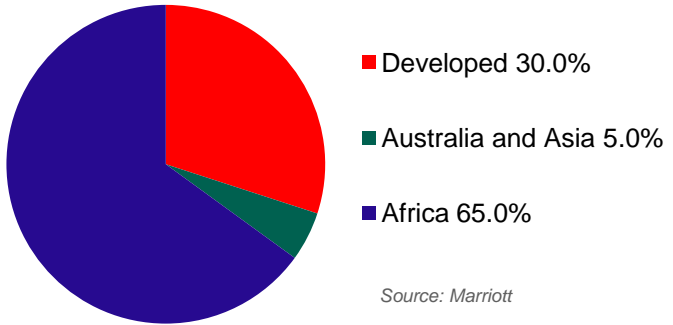
## Market Highlights June 2011

- **Inflation:** Consumer price inflation (CPI) continued its upward trend, increasing from 4.2% year-on-year (y/y) in April, to 4.6% y/y in May. The primary driver was food prices, which increased by 1.7% month-on-month. Administered price inflation also remains elevated, measuring 11.3% y/y in May. 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 South African (SA) economy, we anticipate this rising trend to continue throughout 2011.
- **Currency:** The rand traded mostly sideways during the month of May and ended at R6.75/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 25% overvalued.
- **Local Markets:** We are of the view that the majority of sectors making up the FTSE/JSE All Share Index (ALSI) are expensive, as reflected in low dividend yields without the prospect of above-average dividend growth. A sector that is showing good value, however, is the telecommunications sector. The forward yields of certain companies are in the region of 6.5%, with the potential for reliable, inflation-beating income growth over the next five years.
- **Offshore Markets:** The global economy is showing slower growth, which generally manifests as 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 the dividend yields of some of the biggest companies in the world well above bond yields, equity valuations in these markets are presenting investors with a significant opportunity to generate inflation-beating returns over the next five years.

## The Marriott Dividend Growth Fund – rand-hedge restructuring

- Current dividend yields of SA equities appear unreasonably low. As a result of a recovery in earnings, local companies significantly increased their dividend payouts to shareholders during the course of 2010 and 2011. This dividend growth coincided with an even greater rise in share prices which has reduced the dividend yield of local equities to well below their historic averages. To justify current low yields, companies must produce above-average dividend growth. This appears unlikely, due to the continued pressure on household consumers and the prospects of rising interest rates in the years ahead.
- In anticipation of a weakening rand, the Marriott Dividend Growth Fund has been restructured to maximise exposure to rand-hedge securities. The chart below illustrates the increased percentage of dividend income the fund now derives from international markets.

### Current rand-hedge exposure



Source: Marriott

“Marriott – The Income Specialists”

Simon Pearse | CEO



# Property

## Market Highlights

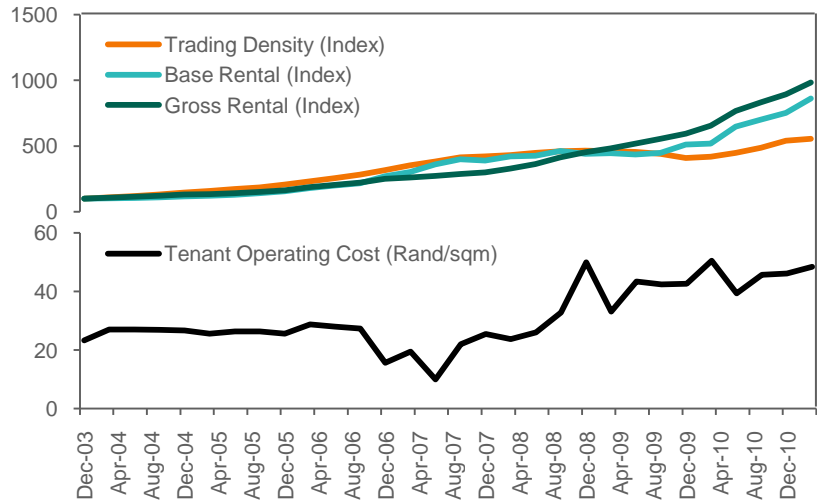
- ▲ Retail trading conditions are expected to soften moving through 2012 as rising costs, policy tightening and limited pricing power come into play.
- ▲ Regionally dominant centres have traditionally offered some protection to investors and tenants in this environment, as stable footcount and increased spending per head result in high demand for space and defensive market rental growth.
- ▲ All indications are that the economic recovery to date has been consumer led, underpinning the trading growth seen from the retail property sector. However, expectations are that rising interest rates, higher inflation and lower real wage increases will dampen retail sales growth moving through 2012.
- ▲ In addition, the second of Eskom's three annual price increases in its bulk electricity rate came into effect recently, and municipal customers can expect to be paying approximately 20% more from the 1st of July.
- ▲ In this increasingly competitive environment, active management of tenant retention and centre positioning is essential to protect total returns.

## Performance Profile

### SA Corporate Real Estate Fund (Listed Real Estate)

- ▲ Through its continued turnaround strategy, the fund delivered a notable total return of 7.9% for the year ending May 2011, outperforming the FTSE/JSE SA Listed Property Index (SAPY)'s 1.6% and achieving a top-quartile ranking in the listed sector.
- ▲ As a result of management's continued action, the fund has seen a decreasing trend in vacancies over the first half of the year. Management will continue to give special attention to the level of arrears and unsigned leases to further improve portfolio performance.
- ▲ With the listing activity over the past couple of months, the SA Corporate Fund remains well placed in terms of market capitalisation and portfolio diversification, while offering value at current levels with a substantial discount to NAV and a historic yield in excess of 8.0%.
- ▲ The fund is currently also investigating development expansion possibilities at the Umlazi Mega City and at East Rand Galleria, in line with the fund's improvement strategy in the retail offering.

### A return to positive turnover growth in Super Regional Centres



Sources: Old Mutual Property Research, IPD

### Triangle Funds (Direct Real Estate)

- ▲ The South African economy is continuing on a moderate growth path, with the consumer recovery still on track. As a retail-dominant fund, the Triangle Real Estate Core Fund expects retail sales growth to soften in the medium term as inflation and interest rates creep higher.
- ▲ Interest rate increases are expected for 2012, impacting on consumer spending. However, we believe that super regional centres will not be adversely affected. The fund anticipates strong demand from national retailers to expand into our existing centres.
- ▲ The fund continues to drive leasing within the portfolio. However, there is currently low demand for take-up of office space, particularly in the Durban CBD, where there is a substantial oversupply of space.

*"... 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**



# Toros Equity

## Market Highlights

- For the second quarter of 2011, domestic equity markets declined, with the FTSE/JSE All Share Index (ALSI) marginally down by 0.6%. Amongst the best-performing sectors were healthcare (+6.9%) and telecommunications (+5.4%), while amongst the worst were gold mining (-13%) and oil & gas (-8.5%).
- Markets have sold down on the back of a reduced appetite for risk by investors, as concerns have increased over the Greek debt issue and the possibility that the global economy is slowing towards recession. It is our view that these concerns are overstated and the deceleration reflects a normal mid-cycle slowdown. The short-term impact of the Japanese earthquake on global demand also needs to be considered.

## Portfolio Overview

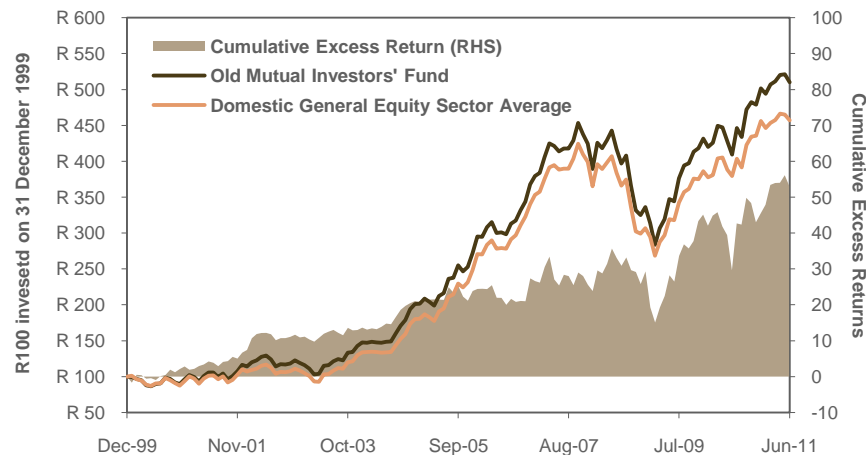
- We adopted a cautious approach as the markets sold off, but then looked for opportunities to invest cash in companies whose share prices had been sold to very cheap levels.
- Anglo American and BHP Billiton offered excellent opportunities to add to the existing investments as markets panicked, and these share prices discounted very bearish scenarios. We took some profits in MTN, but then bought back shares as the price fell back towards an attractive entry point.
- The fund's low exposure to gold and platinum shares has so far proven to be correct, as these share prices continued to underperform. Our preference for the gold ETF over the gold shares has worked well.

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

**Peter Linley** | Boutique Head

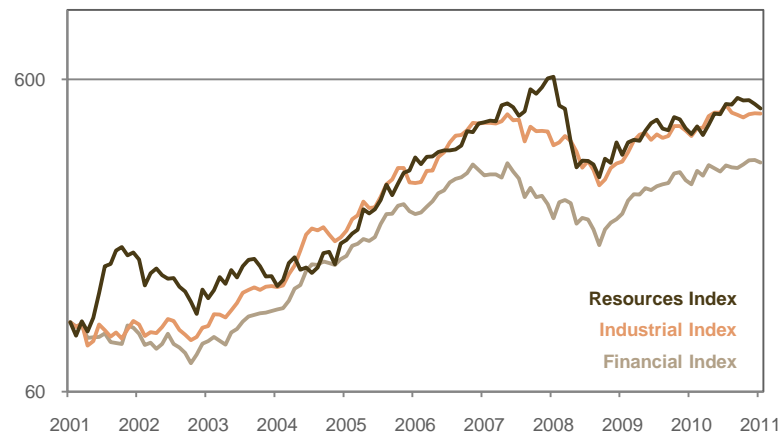


Old Mutual Investors' Fund performance to 30 June 2011



Sources: Morningstar & OMIGSA

Last 10 years: Industrials versus Resources and Financials



Source: OMIGSA



# Value Equity Investments

## Sell-off continues in June

- ▲ The South African equity market continued to show poor performance over June, with the FTSE/JSE All Share Index (ALSI) posting a total return of -2.0%, the second worst monthly return for 2011. The worst performance came from the basic materials sector (-3.0%), followed by consumer goods (-2.1%), financials (-2.0%), oil & gas (-1.8%), and consumer services (-1.4%). The standout sector in June was the healthcare sector, which managed to grind out a positive 0.8%.

## 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 Tencor.
- ▲ The fund has managed to accumulate some reasonable dividends for the first half of the year and plans to distribute 30.15c (2.2% yield) in the first week of July.

## OM High Yield Opportunity Portfolio Attributes as at 30 June 2011

30 June 2011	ALSI	OM HYO Fund (not actual - based on underlying holdings)	Discount
P/Earnings	14.9	13.8	8%
Div. Yield	2.6	4.1	61%
P/Book	2.9	3.3	-10%
Upside to Analyst FV	2%	8%	6%

**R100 invested at launch in November 1998  
has already paid out R187,  
is now yielding R24.30 per annum (tax free)  
and is today worth more than R582.**

*Valuation metrics are not actual, but a roll-up of the underlying fund holdings  
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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# 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](http://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 30 June 2011.