

Fundamentals

The quarterly news magazine of Old Mutual Investment Group (South Africa)

February 2011



- The rand: SA's biggest wild card in 2011
- Invest in Oz: Long the Australian dollar
- Listed property in 2011
- Pension fund regulation looks for more Alternatives

Performance through Focus

Diane Radley

CEO, Old Mutual Investment Group (SA) (OMIGSA)

I officially took up the position of OMIGSA's CEO in January and I am looking forward to getting more involved in the business. I am convinced our boutique structure is the best model for delivering the high standards required by investors. Now that the structure is well established, I plan to shift the focus more externally. In my article on page 15, I briefly discuss the areas of focus for our business in the coming year.

This first edition of Fundamentals for 2011 also includes interesting insights from our Chief Economist, Rian le Roux, on the outlook for the year ahead, which he sees as a generally positive one for both consumers and businesses. However, it's the "unforecastable" rand that's likely to determine whether interest rates and inflation remain supportive of growth.

With the National Treasury's recent increases in offshore investing limits, Peter Brooke, Head of Macro Strategy Investments, encourages investors to follow his lead and take this opportunity to further diversify their portfolios offshore. His long-term asset allocation views further support this investment strategy.

2011 should see the finalisation of additional legislation, with proposed revisions to Regulation 28 of the Pension

Funds Act and the Code for Responsible Investing in South Africa in final draft. Both of these should have a positive impact on our business, as OMIGSA is one of the biggest and most established private equity and SRI managers in the country. We include articles from both SYm|mETRY and Old Mutual Private Equity on the proposed amendments to the Pension Funds Act.

Also in this edition is our Quoted Property fund manager Evan Robins' outlook for the sector in 2011 and comment from OMAM UK's Head of Fixed Income on why Australia is an attractive investment option. Neil Brown and Richard Hasson of ELECTUS explain why, in order for South African equity managers to be successful, they need to have a good grip on emerging markets.

Enjoy this edition of Fundamentals and I look forward to sharing more insights from OMIGSA in future editions.

Should you require additional information, please contact us (contact details below).



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A photograph of a server room. The room is filled with rows of server racks, each enclosed in a glass door. The racks are white and have various components visible inside. The floor is made of light-colored square tiles. The ceiling has recessed lighting fixtures. The overall atmosphere is clean and professional.

“... while some softening of the rand would be welcome as a spur to economic growth... a sharp rand depreciation could spark inflationary pressures.”

Rian le Roux, pg 4

Rand the biggest wild card for SA economy in 2011



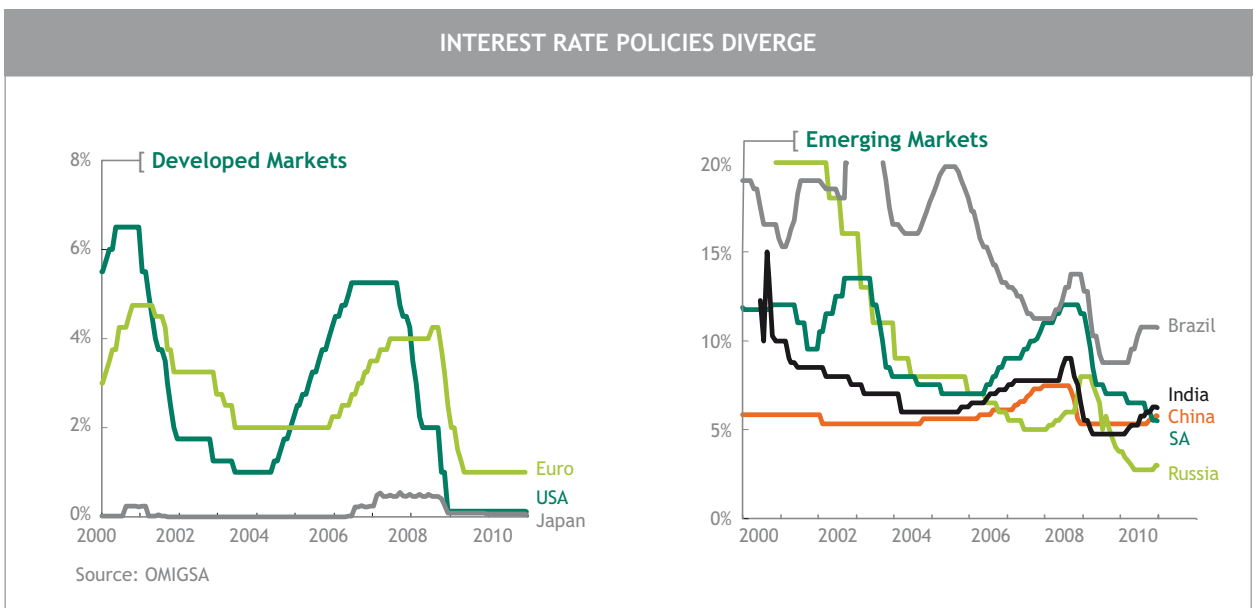
Rian le Roux
Chief Economist, Old Mutual Investment Group (SA) (OMIGSA)

After two years of surprising strength, the Rand's behaviour will probably hold the key to the South African economy in 2011. Although I do expect improved economic growth of around 3.5% for the year ahead, helped by gradual rand weakening, the currency's moves will be the big wild card in determining whether interest rates and inflation remain low to help keep the economy on this positive growth path.

As we know, the currency is probably the most "unforecastable" factor in our economy. In 2010 the rand was the third-strongest major currency in the world, due to uncontrollable factors like positive foreign investor sentiment, the favourable theme of emerging markets, attractive interest-rate

differentials with the rest of the world, and slow recoveries and high debt levels in developed markets. This kept our inflation in check, allowed interest rates to fall to 35-year lows and consequently helped boost consumers' incomes after a tough 2008-09.

In 2011, however, it's possible that this could unravel, although we don't believe it is likely. While we do believe the rand is overvalued at its current levels, some of the factors that made the rand attractive to offshore investors last year are becoming less supportive. For example, rising inflation in certain emerging markets is causing them to raise their interest rates, making SA interest rates relatively less attractive, especially since we expect our rates to remain largely unchanged for the year.



At the same time, emerging market growth could slow somewhat relative to developed markets, as higher interest rates act as a drag on the former, while the latter continue to enjoy easy money and accelerating economic growth. This means investment conditions are now somewhat less favourable for emerging markets in 2011 than they were in 2010. At one end of the scale, China's inflation and any consequent policy tightening will be keenly watched for their negative impact on growth. At the other end, we're already seeing stronger-than-expected growth data in the US, which could turn out to be the global 'surprise' of 2011 and help swing investor sentiment back towards developed markets. This could contribute towards rand weakness.

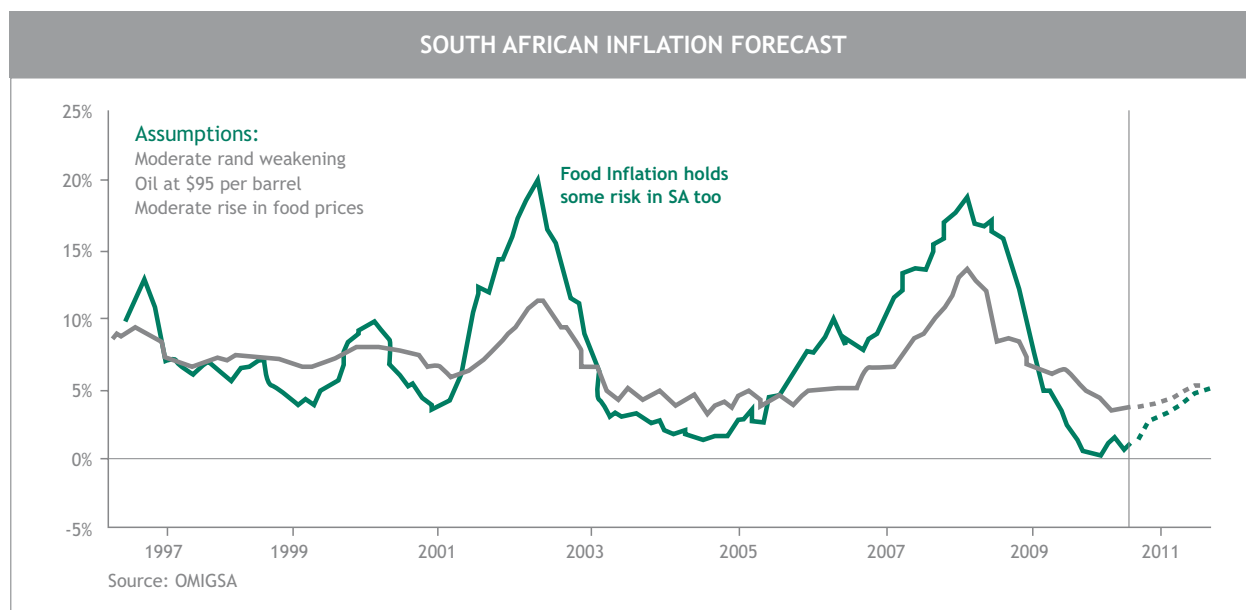
A sharp rand depreciation would be a threat to the SA economy by sparking inflationary pressures – especially with rising oil and food prices threatening globally. While the speed and extent of any rand weakening is hard to predict, some softening would be welcome as a spur to economic growth, providing a boost to mining, manufacturing and other export industries, without aggressively fanning inflation risks. I have pencilled in an exchange rate of R7.50 per US dollar by year-end.

Assuming a moderate rand depreciation, a moderate rise in food prices and oil at US\$95 per barrel, consumer price inflation (CPI) should remain within the SA Reserve Bank's 3%-6% target band, but increase gradually to end the year around 5%. This means interest rates are likely to remain around their current low levels for most of the year, with the first rate hike seen only during the fourth quarter of 2011 at the earliest.

“We do believe the rand is overvalued, and some factors making it attractive in 2010 are becoming less supportive.”

Such a scenario would prove positive for SA's economic recovery, helping to lift growth to around 3.5% in 2011 from the disappointing estimate of 2.8% in 2010. However, there are still weak spots in the economy, like sluggish exports and fixed investment (including the public sector) that need to recover further to get this rate higher. And structural reforms remain imperative to reach the 7% growth rate targeted by the Government and to reduce high unemployment.

Overall, I believe 2011 should be a reasonably good year for SA consumers and businesses as the economy gains momentum, individuals' financial positions improve moderately further, and businesses consider more investment and hiring, thanks to stronger earnings and a likely absence of economic policy shocks. Through its new partnership with the BRIC countries, the SA government also has an exceptional chance to generate new growth opportunities for the country in the year ahead.



2011: Time to diversify offshore



Peter Brooke
Head of Macro Strategy Investments (MSI)

A strong chance that the rand will depreciate, the logic of diversification, and attractive relative valuations offshore are all significant factors that make 2011 a good time for investors to increase their international equity exposure. In fact, international equity will be the best performing asset class in real terms over the next five years.

If your risk tolerance allows, and you're holding less than the 25% maximum offshore exposure now permitted for pension funds, there are some compelling reasons to consider adding international equities to your portfolio this year. First, there are the obvious benefits of diversification – such as reduced risk and providing exposure to fast-growing companies and industries not available in South Africa (SA). Detailed historic analysis done by MSI shows that an optimal portfolio for South African (SA) investors would hold more than 35% in international assets to capture these benefits. At the same time, SA equity volatility is 30% higher than that of international equity, making the former more risky than the latter.

The timing of the Government's December exchange control easing could not have been better. Those invested in active asset allocation funds have likely already had their offshore exposure increased by their fund managers. For instance, we at MSI have already taken advantage of the strong rand over the New Year period to increase offshore equity in the funds we manage.

Looking at valuations

Following 2010's exceptional performance by SA equities (the FTSE/JSE SWIX gained 20.9% in rand

terms and 34.5% in US dollar terms to be the best-performing major market in the world), the local equity market's previously relatively attractive valuation has now been eroded. The current price/earnings ratio of 17.2 times is high historically, and SA companies will need strong earnings growth this year to produce good investor returns. South African equities no longer trade at a discount and therefore no longer justify an overweight position. We are forecasting a real return of 6.0% per year over the next five years from SA equities, and 6.5% per year from international equities.

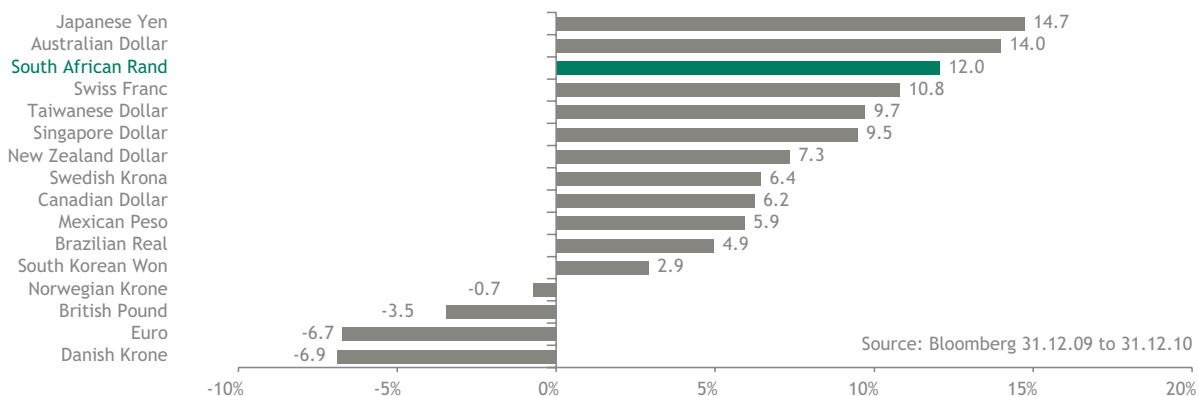
Turning to the rand

The local currency was the third-strongest major currency in the world in 2010 (see graph overleaf), making the real value of the rand now expensive by historic measures. Although the big global investment themes do remain supportive of the rand this year, they are weakening. The global emerging markets (GEM) theme, strong demand for commodities, relatively high SA interest rates and the quest for yield are favourable for our currency, but gradual rate hikes elsewhere, a possible slowdown in emerging markets growth (particularly China) and an upside surprise in US growth could all mean bad news for the rand.

Japanese and African markets offer opportunities

So with the rand, relative equity valuations and the benefits of diversification all increasing the appeal of offshore equity investments, I believe Japan and Africa offer some of the best opportunities.

BIGGEST DRIVER OF ASSET PRICES IN 2011 WAS THE RAND
RAND WAS THE THIRD STRONGEST MAJOR CURRENCY IN THE WORLD



These markets sit at the two extremes of the development spectrum, but both offer their own attractions. Japan offers a contrarian trading opportunity – the Japanese equity market has experienced massive underperformance for years, and is currently trading at the same levels in real terms seen 30 years ago. Its shares are unloved and under-owned, which is shown by the market’s price/sales ratio of 0.6 times. However, I believe the headwinds it’s been experiencing have now turned to tailwinds with a better global growth environment and the potential of yen intervention. Given its cheap valuations, now could be a good time to buy.

On the other hand, Africa represents a longer-term opportunity for higher returns, albeit with higher risk. The continent is truly the last investment frontier, with good growth prospects but underdeveloped equity markets. With its large resource base, it offers a leveraged play to the emerging consumer – particularly through soft commodities like food.

SA equity still likely to outperform other local asset classes

Turning to the options for investors in the local market, I continue to favour local equity over property, bonds and cash, although all asset classes are likely to return far less in the next five years than in the previous decade. This means investors need to save more in order to retire with adequate finances.

I expect SA equities to post a real return of 6.0% per year through 2016, with a “grind higher” in 2011 given the market’s relatively strong 2010 performance. This will be driven by earnings growth, particularly

from resources. The return is downgraded from our forecast of 6.5% last year.

On listed property, I have downgraded my real return forecast to 5.5% per year over the next five years, from 6.0% previously. With no further interest rate cuts likely, the potential for capital gains is limited, following another year of being the best-performing asset class.

I expect bonds to return 2.5% (real) per year, beating cash yields due to their higher interest rate rather than through capital gains. Cash will also provide a lower real return of only 1.5% (real) per year over the next five years, with rates seen remaining near their current 35-year lows, while inflation accelerates from low levels.

Long-Term Asset Allocation View

Expected return over next five years.

Asset Class	Real Return	View	Comment
SA		N -	Rand is becoming overvalued.
Equity	6.0%	N +	Full value on an absolute basis but still attractive relative. Grind higher.
Property	5.5%	N	Expected return continues to fall.
Bonds	2.5%	N	Limited potential for capital gains but attractive carry versus cash.
Cash	1.5%	-	Lower rates for longer means lower returns.
International		N +	Diversification is valuable.
Equity	6.5%	+	Preferred asset class for 2011.
Bonds	1.0%	-	Longer-term bearish.
Cash	0.0%	-	Cash is still unattractive.

01 January 2011

The wisdom of Oz: Long the Australian dollar



Stewart Cowley
Head of Fixed Income, Old Mutual Asset Managers (UK)

It's been painful watching the news reports of the floods in Queensland, Australia. The loss of life and lovingly cultivated property is deeply disturbing and illustrates that the forces of nature can overwhelm the best intentions of humanity. Reports that the destruction will lower Australian GDP by 0.5%-1.0% in the near term has had effects on the currency in particular. The Australian dollar has declined by some 3% against the US dollar, but this, leaving aside our concern for those involved, doesn't really alter the long-term case for Australia as one of the best-placed countries in the world to benefit from global developments in the next decade.

The floods have served to illustrate the place Australia occupies in the competition for resources going forward. The north of Australia exports some 50% of the world's coal. That is an extraordinary position to be in when you are geographically placed close to China, the biggest consumer of energy going forward. In what follows I am going to shamelessly borrow from the excellent essay of Andrew M Lees entitled "In Search of Energy" that elegantly and cogently lays out the challenges of the global economy as it struggles to cope with the dwindling nature of carbon-based fuels. We have written about this in the past and one of our investment themes is "Peak Oil", but recent events and the rise in prices for oil and coal have forced us to return to it to reinforce some of that thinking.

Here, in essence, is Andrew's argument: Oil is a tremendously efficient but finite source of energy. In

the past, when oil was abundant, we put little effort in but the calorific energy we got out was enormous. The ratio of input to output has been some 20 times. Because of this efficiency, its cost in GDP terms is very low. However, oil is a finite resource and as we switch to other forms of energy, the efficiency decline (which means the cost), as a proportion of GDP, rises. In effect, we reallocate resources away from other social activities (pensions, societal spending) towards maintaining our energy needs. If governments haven't addressed these social activities we will have to renege on pensions and social spending, otherwise budget deficits will expand at the same time as inflationary energy costs become the biggest concern in society. Other sources of energy (so-called alternatives, like wind, ethanol from agriculture and solar power) are not the solution because they are highly inefficient and may even (when the accounting is done correctly) cost more energy to extract than the energy they produce. Unless some form of nuclear fusion option is found which is inexhaustible (but costs lots of research money to develop) we are on a path of rising energy costs.

By our own calculation, the moment of Peak Oil is rushing towards us. Some countries that are currently oil producers (like Norway and the UK) will run out of the black sticky stuff in the very near future. Interestingly, as an interim solution the idea of coal-fired power stations returns to us in a way that was unimaginable 20 years ago. What was once, in the UK at least, regarded as a Victorian energy source to be closed

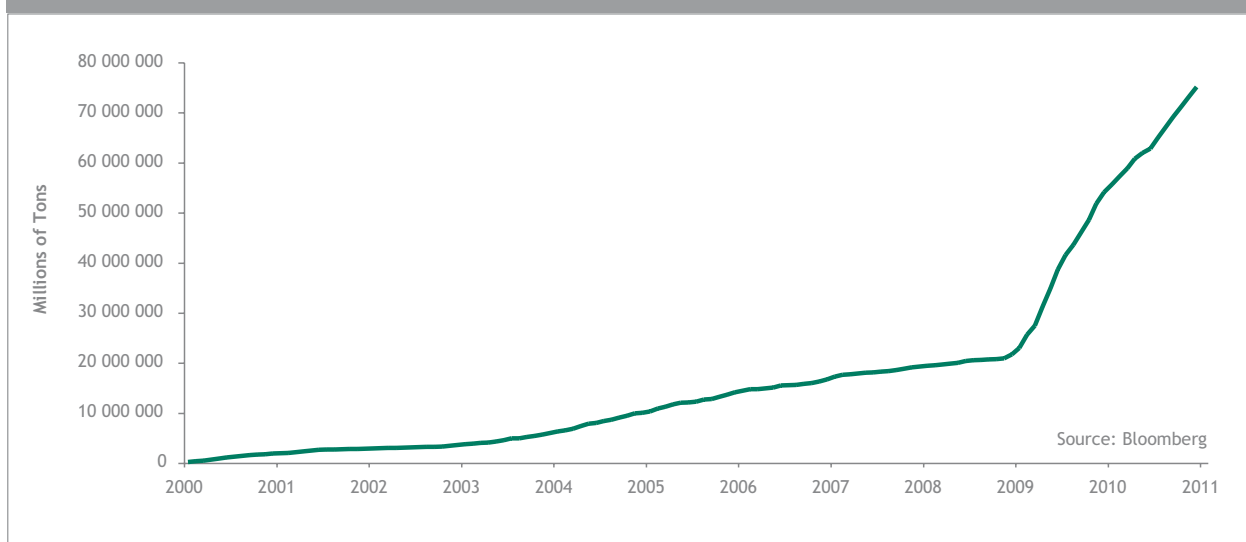
“We should expect an increasing proportion of the \$2.9trn sitting in the Chinese bank account will be spent in the quest to acquire energy...”

down because of the unionisation of labour and the grip it could have had on the nation (older readers will remember the year-long miners’ strike of 1984) could yet re-emerge as a global force. Until recently, China had been opening new coal-fired power stations at the rate of one a week. But all this does is create future demand for a product (coal) they now have to import to feed their insatiable desire for global dominance. You only have to look at the rate at which China is importing coal from Australia (see graph) to understand the reality of their inter-relationship with Australia. In recent years it has taken off exponentially – and it’s not about to stop soon. As we all know, what makes you strong will, one day, make you weak. We should expect that going forward an increasing proportion of the \$2.9trn sitting in the Chinese bank account will be spent

in the quest to acquire energy, because energy lies at the root of all economic activity. Whether it is the bread on your table or the processing power of your computer-based job, without energy everything stops and with it our technological society looks like a carbon-based blip in the history of humanity. With that kind of money in your bank account, the Chinese bid will no doubt become a feature of the global energy markets – if it isn’t already here.

So while it is important to pay attention to short-term volatility in currencies and have sympathy and genuine condolences for the human cost of the floods, the long-term dynamics have not changed for Australia. They have a geographical and historical position that is to be envied by many nations in the world. It is wise to invest in Oz.

CUMULATIVE COKING EXPORTS FROM AUSTRALIA TO CHINA

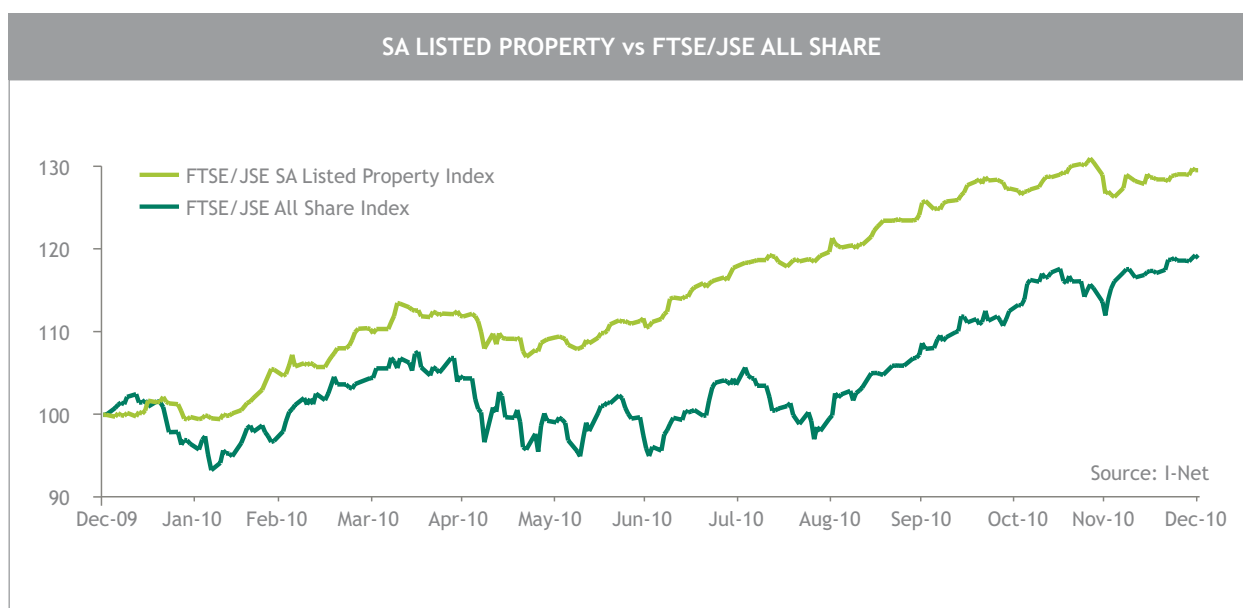


2011 will be more challenging for listed property



Evan Robins
Sector Head: Quoted Property (Equity Research boutique)

Listed property has provided a total return of 29.6% in 2010, outpacing the 19% of the FTSE/JSE All Share Index. Such a high return is not exceptional – coincidentally, it is the same as the average total return over the eight-year history of the FTSE/JSE SAPY listed property index. However, we expect that 2011 will be well below-average year for the sector.



The capital gain in the sector in 2010 had little to do with property per se and almost everything to do with the fall in interest rates. Lower interest rates mean investors will accept a similarly lower income yield from property, which implies that prices rise, creating capital gains. In addition, distributions from property companies increased by more than 7% – comfortably above inflation. If listed property prices now appear expensive, it is because interest rates have dropped. Excluding the impact of interest rates, property is valued on a similar rating as at the beginning of 2010.

Interestingly, the four companies that had the best returns to date in 2010 (Vukile, Octodec, Premium and SA Corporate) have among the sector's least-prime portfolios, while the three funds that provided the worst returns year-to-date (Sycom, Fountainhead and Acucap – excluding a small specialist fund) have above-average quality portfolios. The market no longer thinks (as it did in 2009) that in the current tough conditions these lower-quality shares will perform as badly relative to the market.

While listed property prices have increased substantially, direct commercial property prices have, as yet, increased little. This is reflected in muted growth in property companies' portfolio valuations. However, lower bond yields are gradually exerting upward pressure on direct property prices, starting with prime assets, which listed funds tend to buy. The decrease in interest rates has helped support direct property prices despite the deterioration in operating conditions.

As a result of these factors, listed property companies are now trading at a premium to their direct property valuations. Consequently, property vendors will receive more money by listing their property holdings than by selling in the direct property market. This factor, and the rally in the secondary-quality property shares, are some of the reasons why several unlisted portfolios are attempting to list in 2011.

Conditions to remain tough

Operating conditions will remain tough for much of 2011, and market expectations may be too positive. Results in 2010 held up to expectations until the final quarter, when results and guidance disappointed. Many funds anticipate that vacancies have peaked or will do so this year. However, vacancy reductions do not necessarily imply better conditions, although they can immediately increase distributions. This can be achieved by giving highly concessionary rentals or providing attractive and undisclosed incentives.

Also, property companies may be hit by negative expiries (particularly for office space) where, as leases expire, they are renewed at a lower rental. This is because market-linked rentals have been flat over the last year, while contractual rents escalate annually. As time progresses, the base rental at which leases were originally signed becomes higher. Consequently, the difference between the rental on expiry and current market rental levels can eventually turn negative. Should this happen,

gains from a reduction in vacancies could be offset somewhat by negative expiries. Furthermore, as operating costs (notably for rates and electricity) have increased significantly, an owner's net income falls if gross rentals just remain flat.

New listings to boost sector

Next year will be a dynamic one for the listed property market. If currently proposed deals take place, the listed sector will have five companies, each with a market cap exceeding R10 billion, compared to only two of this size at present. These will make up 65% of sector market cap. More as-yet-unannounced mergers, acquisitions and new listings are also likely. Large capital raisings could put technical downward pressure on prices.

Below-average returns likely

We expect 2011 to provide below-average returns. A significant short-term capital risk is the increased likelihood that bond yields will end 2011 at higher levels. Despite rising pressures, if inflation is able to remain low it will be beneficial in real terms for property owners, as contractual rental escalations are in nominal terms so property owners benefit when inflation is low.

While we expect lower returns in 2011 than 2010, and despite the challenging operating environment, property is not an unattractive investment proposition. Investors will receive an initial one-year forward-yield of above 8% and above-expected inflation distribution growth over the medium term. Considering the current low-return environment, this is an acceptable short-term return from a secure, high-yielding, long-term hard asset which provides meaningful income growth. It warrants particular consideration from income-dependent investors with some risk tolerance and who require both income and capital growth. However, investors should temper their capital return expectations in the coming year and remember that property is a long-term investment.

Why Global Emerging Markets are now a permanent asset class and not just an opportunistic investment

Richard Hasson and Neil Brown
Boutique Heads of ELECTUS



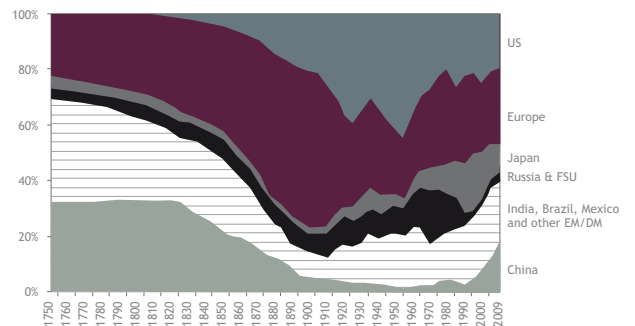
When reckless United States and European sub-prime lending caused the global financial crisis in mid- to late 2008, it triggered the demise of once-great US businesses like AIG and Lehman Brothers. Many other reckless US and European banks (think of Merrill Lynch, HBOS) were also forced to either be sold, merged or closed. At the same time the US government-related mortgage lenders, Fannie Mae and Freddie Mac, whose job it is to ensure home ownership is possible for the vast majority of Americans, effectively became government-controlled businesses.

The reality is that since the early 1990s, the US and the majority of European consumers and their governments have spent far more money on housing, assets and consumption than they can afford. In order to balance these vast Western-world trade and fiscal deficits, the majority of the emerging economies were in good shape (especially following the 1998 Asian financial crisis) and were exporting to the West – and building reserves without experiencing a consumption binge.

What this showed us was that over the past five to ten years, there has been a strong structural shift underway... with Emerging countries, economies and markets (led by China) in the process of taking over the global leadership position from the Developed countries, economies and markets. This leadership became strikingly clear post the 2008 global financial crisis. We believe that this structural shift will probably gain strength for many years to come and will firmly entrench the role of the Emerging countries as leaders of the global economy and markets.

Third (and fastest) transition in World Manufacturing

Shares of World Manufacturing Output 1750-2009



Sources: Paul Bairoch, "International Industrialization Levels from 1750-1980", Journal of European Economic History; Samuel P. Huntington, "The clash of civilizations and the remaking of world order; Manufacturing Value added from International Yearbook, United Nations Statistical Database, Euromonitor, IHS Global Insight, Morgan Stanley Research.

As we observed this shift in global leadership, we realised that if we wished to continue succeeding as a South African-based equity fund manager we needed to better understand Emerging countries, economies and markets. We could no longer simply survive on the abundance of US- and Western European-focused research, journals, newspapers and general reading. Rather, we needed to fully understand how countries and economies like China, India and Brazil operated, how their companies competed globally and, importantly, how South African-listed companies needed to operate in order to successfully compete in a world where the "rules of the game" were changing fast and moving East and to other Emerging countries.

In mid-2009 and again in mid-2010, we visited China to better understand its impact on the world economy and, importantly, its ongoing demand for commodities to keep infrastructure spending and urbanisation plans on schedule. We also wanted to gain some insight into the growing spending by the Chinese consumer.

Shifting economies, shifting minds

In late 2009 we decided that the best way for us to understand the role of the Emerging countries, economies and markets would be for us to manage a Global Emerging Markets (GEM) fund. We are absolutely convinced that this will enable us to become better South African equity fund managers. For example, we mentioned the need for us to understand China's ongoing demand for commodities. These commodities are supplied to China by companies such as Anglo American and BHP Billiton – both of which are very large holdings in our client funds.

Another relevant example is to look at MTN. Having analysed and held this quality company in client funds since 2001, we understand MTN's business model very well. However, the most important country in MTN's diversified portfolio is now Nigeria. This country's competitive landscape for mobile phone businesses is in the process of changing due to the recent purchase by an Indian company, Bharti, of the underperforming Kuwaiti-owned company Zain, operating in Nigeria. Bharti's operating model is different to MTN's model, as it is based on the typical Indian mobile phone business model, which is priced to encourage mobile phone users to spend a greater amount of time speaking on their phones. This is commonly referred to as the "minutes" model and is normally priced differently to the standard MTN or Nigerian mobile phone model.

It is also important to note that South Africa currently makes up around 8% of the Global Emerging Markets (GEM) indices and benchmarks. This means that as we already operate in an existing Emerging market, we should be better positioned, skilled and culturally attuned to understand Emerging market investing compared to those investors living in large Developed markets such as the US, Western Europe and Japan.

Equipping ourselves to manage a GEM fund

As ELECTUS was a two-person investment team, we could not hope to analyse and manage a GEM fund while also remaining focused on effectively managing our clients' South African equity funds.

We are delighted that our OMIGSA colleague and unit trust award-winning Head of Resources Sector Research, Anwaar Wagner, recently became the third member of ELECTUS boutique's investment team. We know Anwaar well, we have the same investment philosophies and his resource-sector skills complement our South African market experience. As a combined team we have, over

the past 10 years, won South African unit trust awards in the resource, financial, small companies and general equity sectors.

“We are in a world where the rules of the game are changing fast and moving East and to other Emerging countries.”

Anwaar will spend the majority of his time on GEM markets, and the balance ensuring that he provides us with quality input on the South African resource sector (being the largest equity sector within our market). In this way, we are convinced that we can optimise our experience and skills to become better South African-based fund managers and, critically, ensure that we will be able to continue to meet our long-term goals. These goals are to maintain our nine-year track records of delivering excess returns of more than 3% a year for client funds, as well as build up a strong GEM fund track record.

A key to the success of the new GEM fund will be our ability to utilise the superb OMIGSA platform. It enables us to draw on excellent skills, systems and industry relationships that would not be possible in a smaller investment house. In addition to making full use of the industry and equity sector knowledge of our 16-strong equity research team, we will also draw on the knowledge of our two OMIGSA economists. While these colleagues will not provide us with "bottom up" GEM share analysis, their intimate knowledge of sector drivers and company modelling metrics will guide and assist us.

A bubble or sustained growth?

We have raised many of the key reasons why the structural shift from Developed to Emerging countries, economies and markets is likely to continue for many decades. If we had more space we could also discuss other important areas, such as the improving political and governance behaviour as well as the very positive demographic, urbanisation, labour and social profiles of Emerging countries. However, we have one final topic for discussion and this relates to the valuation of GEM in absolute terms as well as relative to World markets.

Continued ...

Following a decade of Emerging markets outperforming Developed markets, many market commentators are stating that they believe Emerging markets are entering a “bubble” phase. We believe that this decade of outperformance is entirely justified as the key Developed markets, such as the US, Western Europe and Japan, are all battling to overcome their long-term structural problems of over-indebtedness, poor demographics, excessive consumption and a lack of infrastructural spending. Over the past couple of years we have seen a great deal of quantitative easing by the US and Western Europe, as well as an ongoing flow of money into Emerging markets. If this trend continues unabated for another decade then an Emerging market “bubble” is a distinct probability.

However, two key factors are currently in favour of Emerging markets being fairly priced and not in “bubble” territory:

1. Global investors are still “underweight” Emerging markets relative to the GEM weightings in global indices and benchmarks, as well as their contribution to global GDP. GEM makes up around 13% of World equity indices and benchmarks (and a far greater portion of world GDP). The vast majority of global investors are still below this level of GEM equity exposure. True “bubbles” normally occur when investors are highly “overweight” country or sector exposures. Examples that come to mind are Japan at the end of the 1980s and the technology “bubble” at the turn of the century.
2. The most widely followed valuation metrics of Return on Equity (ROE), Price/Earnings (P/E), Price/Book (P/B) and Dividend Yield would suggest that the GEM shares are, in aggregate, better companies than the Developed market companies, while they trade, in aggregate, at fairly similar valuation metrics to the Developed market companies.

While we acknowledge that there are very specific risks to investing into GEM funds, we strongly believe that there is greater risk if global investors do not acknowledge that GEM has become a “permanent asset class and not just an opportunistic investment”. At ELECTUS, we believe that through applying our disciplined and proven investment philosophy, and by analysing and managing a GEM fund made up of between 40 to 80 quality shares diversified by country and sector, we will be able to be a very competent manager in the GEM arena, while also gaining deeper insights into our own SA companies.

World and Emerging Markets Trailing ROE

January 1990 - November 2010



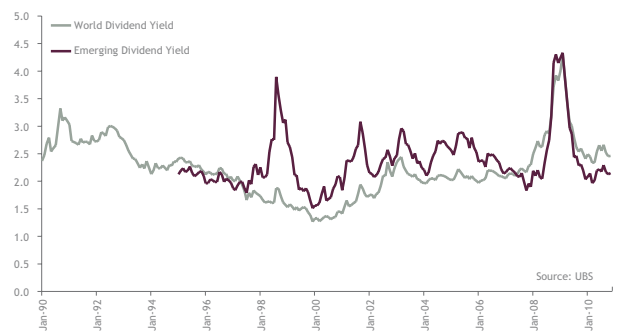
World and Emerging Markets Consensus 12-m Forward PE

January 1990 - November 2010



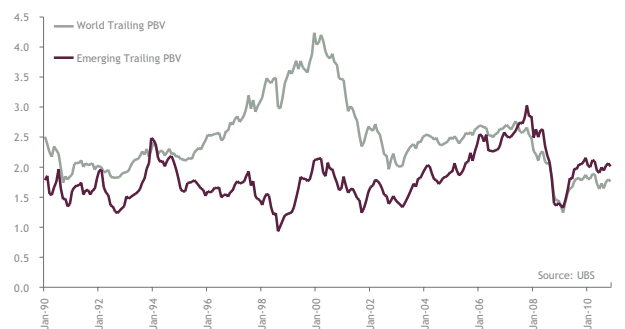
World and Emerging Markets Trailing Dividend Yield


January 1990 - November 2010



World and Emerging Markets Trailing PBV

January 1990 - November 2010





“I am supportive of the boutique structure as the best structure for delivering the high standards required by institutional and retail investors.”

Diane Radley, pg 15

Taking a client-focused approach



Diane Radley
CEO, Old Mutual Investment Group SA (OMIGSA)

I'm very happy finally to have taken up the position of OMIGSA's CEO, after five long months of being in the "designate" role, and to now be able to focus 100% of my energy on the business.

Having been Financial Director at Old Mutual SA for almost three years, I'm not unfamiliar with the OMIGSA business and the local asset management industry. I am very supportive of the boutique structure, which was embarked on in 2006, as the best structure for delivering the high standards required by institutional and retail investors. The business has spent considerable time establishing our boutiques, both structurally and in terms of the teams and their investment philosophies and processes, and this is now well bedded down. So the time has come to focus more externally. As a past and current customer of OMIGSA – I was a trustee of the Altron Pension Fund and Old Mutual Retirement Fund and am an Old Mutual retail investor – I think I am well positioned to comment on the business from a customer's perspective. And this is where I will be focusing my efforts.

In a market that has experienced significant volatility over the last couple of years, signs of economic stabilisation are emerging and confidence is returning to investors and markets alike. Locally, we saw strong inflows into the Collective Investment Scheme (CIS) industry in 2010 as conditions improved. The fourth quarter of last year experienced the highest net flows into the industry ever – totalling R35.8 billion. These inflows continue to be predominantly into lower-risk asset classes, with only R5 billion going into pure equity funds. On the positive side, we have not seen strong outflows from our equity investments.

Outcome-based solutions gain momentum

The trend towards outcome-based solutions, which we started to observe just after the 2008 financial crisis started, continues to gain favour among investors, with confidence being placed in skilled asset allocation managers who aim to ensure optimum outcomes. For example, we have recently seen the Old Mutual Real Income Fund,

managed by Macro Strategy Investments, our asset allocation boutique, break the R1 billion assets-under-management level. The unit trust business, in particular, has always been a "relative performance" game, with strong comparisons in performance between benchmarks and competitors. The unit trust industry currently comprises 943 funds and performance across funds is often not measured in terms of absolute return. Often narrowly defined, unit trust funds experience significant volatility compared with more broadly classified and diversified outcome-based funds. This may result in lower value to those investors who attempt to combine the narrow funds themselves. We certainly saw the impact of timing the market in 2008 and investors are reverting to a more long-term, diversified view of investing rather than chasing short-term gains. Unit trust funds which meet the specific outcome needs of investors – rather than investors themselves recreating the risk diversification they require – are thus gaining momentum. There is always demand for skilled asset allocation managers who can optimise return with the most appropriate risk.

A focus on Africa

Globally, Africa is also becoming a significant area of focus, with international investors seeking higher growth opportunities on the African continent. I recently met with some international investors who were clearly focused on West Africa, Southern Africa and Egypt, the key economic growth regions.

Particularly within Africa, we retain our strong focus on responsible investing – ensuring our investments play a role in the country's economic development as well as community upliftment, while also providing good returns for investors. Socially Responsible Investments (SRI) continue to gain momentum and OMIGSA is one of the biggest and most established managers in this area, offering a broad suite of specialist products with long track records.

Government continues to focus on development challenges and is active in engaging with funds and industry to mobilise capital for these purposes. In addition to our focus on housing and infrastructure, last year we saw the launch of our Africa (excluding SA) and our South Africa Agri-Funds, and in 2011 we intend to raise a Schools and Education Fund. Our SRI-type funds, although long-term in nature, continue to deliver strong investment returns and are important building blocks in our solutions. We see a strong move by institutional clients to further diversify investments post 2008, seeking to protect their value by adding more alternative assets – like SRI and infrastructure – with lower correlation to markets.

“We see a strong move by institutional clients to further diversify... by adding more alternative assets – like SRI and infrastructure – with lower correlation to markets.”

The Code for Responsible Investing in South Africa is almost in final draft and, in response, we recently appointed an Environmental, Social and Governance (ESG) expert in our Equity Research team to support all our boutiques in this area. They will ensure that our

investment strategies are compliant with OMIGSA corporate governance guidelines, as well as with legislation and other applicable industry codes pertaining to SRI and ESG. In addition, they will manage strategic relationships both within and outside the business, while identifying potential strategic SRI/ESG initiatives that will increase the value of the OMIGSA business and provide new investment opportunities for our clients.

No doubt 2011 will bring its own challenges, but increased regulation will ensure that individual investors are better protected. Alignment of regulation globally will simplify disclosure and ensure greater transparency for investors.

The year has already started well for OMIGSA, winning three accolades for best-performing funds at the recent Raging Bull Awards. The Marriott Dividend Growth Fund won both a 2010 Raging Bull award and a certificate for top straight performance over three years in the domestic equity sector. What makes this achievement remarkable is that it generated these high returns for investors while exposing them to less risk (as measured by volatility) than any other general equity fund in the country.

Another winner was the Old Mutual Mining & Resources Fund*, which won a Raging Bull certificate for top outright performance in its sector over three years – for the third year in a row! Over the longer term, the fund (R-class) is the top-performing fund in the industry over five years (to the end of December 2010).

Building on this success, I’m looking forward to a year where we continue to build on our clients’ trust, exceeding the market’s expectations.

* Awarded to Old Mutual Mining & Resources Fund A as the Best Domestic Equity Resources and Basic Industries Fund. Prior to 2010, awards were for Old Mutual Mining & Resources Fund R, which is now closed to new business.

Dibanisa expands global emerging markets tracking capability

Craig Chambers, MD of Dibanisa Fund Managers

Dibanisa Fund Managers, which is celebrating its tenth anniversary in 2011, recently expanded its global tracking capabilities to include the popular MSCI Emerging Markets Index.

We have been managing global tracker funds for over a year. Now, in recognition of this track record, we have added the MSCI Emerging Markets Index to our wide range of tracking options, and are pleased to have already attracted initial investments of US\$70 million (R500 million) from investors.

From a skills capacity perspective, our global tracking capability is now well established. We have been managing local tracker funds since 2001 and, in the process, have built up a long and successful track

record for low tracking errors. This experience has helped significantly in our global pursuits.

We have an excellent investment team in place, and I am confident that we will continue to establish a great three-year track record outside South Africa, while ensuring that tight tracking errors are maintained on all our domestic funds.

To put this into perspective, in aggregation, we now track more than 4 000 stocks within numerous indices, spread across 47 countries – with this kind of complexity you need excellent technology and experienced tracker managers. We have both, and are looking forward to more inflows in 2011, as we expect both low-cost tracking funds and emerging markets investments to remain attractive for investors this year.

The greatest risk to post-retirement investments: Capital erosion



Simon Pearse
CEO of Marriott Income Specialists

Conventional wisdom in the investment industry today considers the measures of risk and return as useful when planning. We would like to pose the question: “Are these two measures really useful in post-retirement planning?”

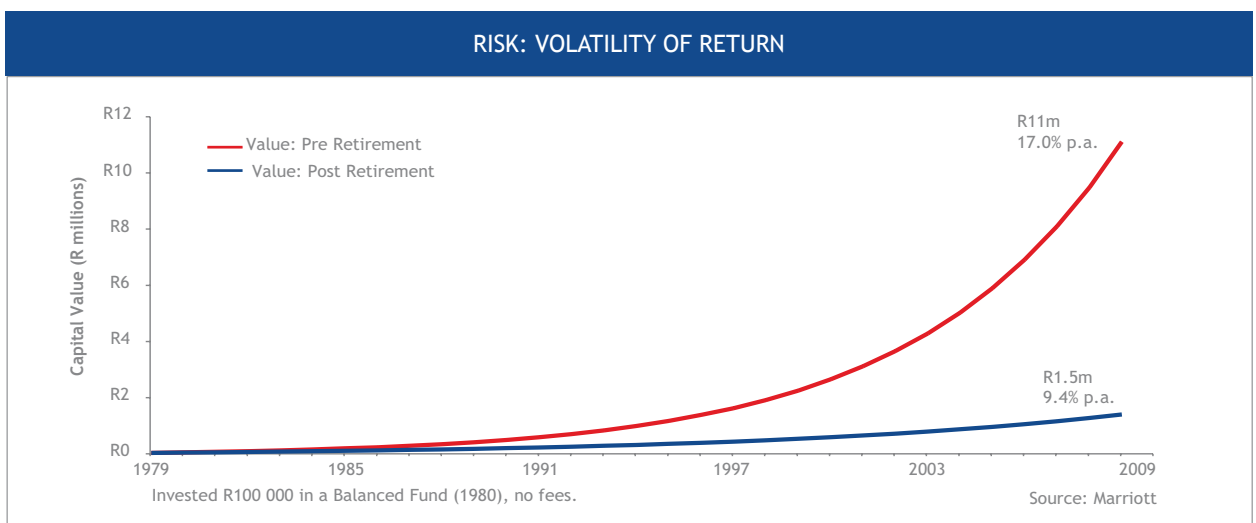
When investing for retirement (age 30 to 60) the aim is to accumulate capital. All investment income is reinvested, often tax free. The post-retirement phase (age 60 to 90) differs as the investor draws an annuity from the investment.

In addressing the usefulness of the measures of return and risk, we have considered two investors, the first in the pre-retirement phase and the second in the post-retirement phase. Assuming that both invest R100 000 at the start of their 30-year periods and that both invest in a balanced portfolio comprising 60% equities, 30% bonds and 10% cash. The only difference between these two investments is that the pre-retirement investor reinvests all income, while the post-retirement investor draws all the income, but does not erode capital. We see the outcome in the chart.

The published conventional measure of return assumes reinvestment of income and therefore correctly describes the pre-retirement investor outcome. This outcome of 17% p.a. is, however, not the case for the post-retirement investor, who lived off the income and had an average return of 9.4% p.a. The published conventional measure of return therefore incorrectly describes the post-retirement investor outcome. In other words: what you see is not always what you get.

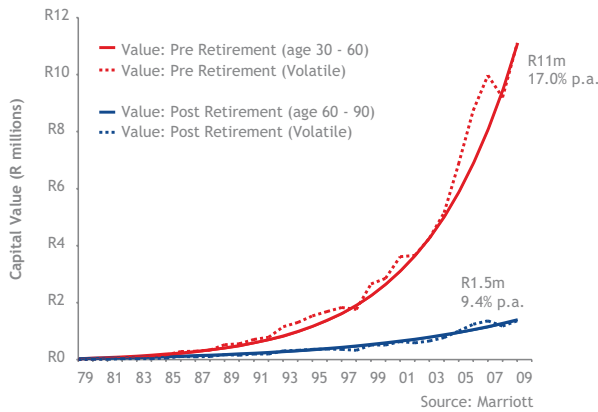
The conventional returns of 17.0% p.a. or 9.4% p.a., as shown in the chart, assume a smoothed-return experience. However, the reality is quite different, with actual returns proving to be volatile over time. This is where the convention of risk measured by “volatility of return” enters the debate.

What is the impact of this volatility on an investor’s return? It is interesting to observe in the chart below that there is no difference in the outcome when all income is reinvested (in the case of a pre-retirement investment): R11 million is still accumulated over the period. For an investor who draws only the income generated by the



investment, with no capital erosion, the outcome is also unaffected – with capital equalling R1.5 million after 30 years. The conclusion that may be drawn is that risk as measured by volatility of return is useful in managing the investor's experience, but not necessarily the outcome.

OUTCOMES NOT AFFECTED BY VOLATILITY



The real threat to an annuity

A risk that is seldom measured, and may be considered the greatest risk for post-retirement investing, lies with capital erosion, not return volatility. While the volatility of return does impact the post-retirement investor outcome when capital is eroded, this impact is far less than the capital erosion itself. The post-retirement phase (age 60 to 90) is a phase when the investor draws an annuity from the investment. The real threat to the annuity lasting is capital erosion – best described by the level of annuity income exceeding the level of income produced by the selected investment funds after all fees. In post-retirement planning, the critical drivers are therefore the selection of investment funds that produce a reliable income as well as the avoidance of capital erosion.

The bar chart below represents a typical case of capital erosion. The first blue bar represents an annuity of 5% a year. The second blue bar represents the

income yield of 3% that may be expected from a balanced fund. The red represents the annual capital erosion of 1.5%. The third blue bar represents the net yield from the fund after removing annuity fees. The point being made is that the probable capital erosion in many retired investor annuities is likely to be greater than 2%. This is difficult to access as most balanced and equity funds do not publish income yields.

The chart below also describes various outcomes from the same investment of R100 000 made in 1980 into a balanced fund of 60% equities, 30% bonds and 10% cash. A retired investor who drew an annuity that equated to the income yield of the fund, after fees, would have had an average annual return of 9.4% and today the investment would be valued at R1.5 million. Had the same investor drawn an annuity of 1% more than the fund produced, the value today would have been R300 000. An annuity of 2% more would have eroded all the capital within 22 years.

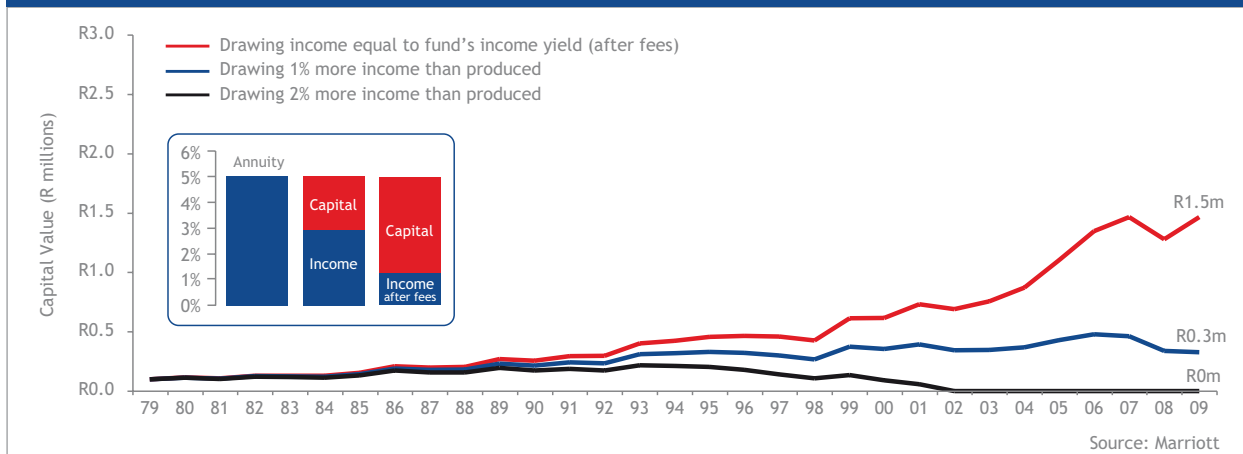
A critical measure is therefore a fund's net yield **after** fees. If you don't know the true yield of a fund, you can't know if you are eroding capital. And this is the real risk that a post-retirement investor faces: running out of capital.

To conclude, when planning in post retirement, an investor should:

1. Minimise capital erosion by choosing funds that produce a net income yield (after fees) that is as close as possible to the annuity yield drawn.
2. Ensure this relationship between annuity yield and fund yield holds by choosing funds that produce a reliable income.

This is the essence of Marriott's Income Focused investment style.

RISK: CAPITAL EROSION



Take Two: Pension Funds Act takes centre stage

SYm | mENTRY Multi-Manager



Roland Gräbe

Chief Investment Officer



Bernard van Wyk

Head of Asset Strategies



Fred Liebenberg

Head of Absolute Investments and
Fixed Interest



Stephen Brierley

Head of Funds of Hedge Funds

While a number of noteworthy amendments have been made to Regulation 28 of the Pension Funds Act of 1956, the most impactful changes for the investment industry could be the higher allocation limits to alternative investments, due to the diversification potential they offer. With existing interests in Private Equity and a very strong Hedge Fund capability, we at SYm | mENTRY Multi-Manager are already well-equipped to add value for our clients in this specialised area, should the second draft be promulgated.

Numerous economic and investment industry developments over the last few years, particularly with the growth of complex investment options such as hedge funds and derivatives, necessitated the review of Regulation 28 of the Pension Funds Act. Released in December 2010, the second draft of proposed amendments focuses strongly on the requirement of having an Investment Policy Statement, on trustee training and amended asset allocation limits, and for the first time, acknowledges alternative assets as an independent asset class. While, in the longer term, there may be space for further debate around the actual relevance of asset constraints, there is no doubt that the second draft of Regulation 28 will play a key role in bolstering diversification in portfolios and more innovation in the quest to achieve enhanced portfolio returns.

The main amendments

While the second draft, like the current Regulation 28, is rules-based, it differs in that it has overriding principles such as asset-liability matching, improved trustee education, black economic empowerment, sustainable investing and managing foreign exposure risk. The look-through principle has been introduced in the second draft, meaning that for certain assets reporting will be done on underlying assets, not the products through which they are held. The second draft also refers to retirement annuities which were previously exempt, and the concept of investment policy statements is, for the first time, acknowledged and required by law – although the Act could perhaps be more explicit in its purpose, role and requirements.

And finally, derivatives, hedge funds and private equity have been explicitly defined and not merely categorised as “other” – with their investment limit increasing from 2.5% to a maximum allocation of 15%. From an industry perspective, the most impactful of the amendments has been this higher allocation to, and clarity on, these alternative assets.

SYm|mENTRY is well equipped

At SYm|mENTRY, the entire infrastructure for alternative investments, like funds of hedge funds, for example, is already in place, which means we will be well equipped – both structurally and operationally – when Regulation 28 is promulgated in its new form. This also means that cost implications for the actual implementation may not be particularly significant at this stage, although solutions like alternative investments do typically come at a higher cost. Since net returns ultimately drive pension fund members' savings, clients need to weigh up the benefit of diversification of returns to these costs. However, it is important to note that greater flexibility afforded to asset managers will make it easier to help clients fulfil their investment objectives.

While changes to Regulation 28 have meant slight shifts in our distribution, marketing and asset allocation in particular, they certainly haven't required a shift in the investment mindset of the business. We have always believed in alternative assets.

Addressing perceptions

It will be interesting to witness this regulation unfold in the South African investment industry. Regulation 28 changes are likely to give the alternative asset industry a platform from which to readdress the perceptions of this often-misunderstood asset class.

So, the second draft may not only play a key role in addressing the perception of hedge funds and other alternative assets, but also help to bolster these industries in their entirety. Although, we believe there is still some work to be done in terms of the actual classification of funds of hedge funds and single strategy hedge funds in the second draft, the fact that the Financial Services Board (FSB) and pension funds are recognising hedge funds is a testament to their value, and may help investors realise that while it may not currently be an effectively regulated asset class, it is certainly not inherently risky – a myth asset managers, particular those who deal with alternative assets like hedge funds, have been grappling with for years.

Education is key

One of the key factors in maximising the potential of alternative investments, given the proposed higher limits, is educating the industry about their merits, especially among trustees. Trustees are essentially volunteers from non-investment backgrounds who are elected to look after pension funds, yet they are legally held responsible to make decisions on behalf of their members. Professional,

independent trusteeship should be promoted and trustee remuneration should be regulated, but encouraged. Pension funds may do well to hire and pay for experts to become trustees, or existing trustees should continue to empower their members by ensuring they are well informed and educated.

In the near future...

Similarly, as custodians of clients' money, we as managers need to act responsibly and invest prudently. Negative and positive perceptions can pose a systemic risk to the entire industry. Given the proposed changes, asset managers will have to rethink their alternative strategies and determine how to use them more effectively. While in the short term there may not be an overwhelming inflow of funds into hedge funds and private equity funds, over the longer term, as pension funds, retail investors and trustees become more educated on the merits of alternative investing, there is likely to be hardened interest and greater inflows into these funds.

Proper forums, frameworks and dialogues need to be set up to ensure a smooth ride – over the long term striving towards world-class systems and regulatory frameworks.

Local vs Global

Currently, the changes to Regulation 28 differ from trends and practices offshore. Since South African hedge funds, for example, are in their infancy stage, the country has some way to go in terms of size – in relation to the US, for example – as well as regulatory and government interaction. In addition, internationally the trend is not to limit the amount that investors and pension funds can invest, but to put the onus on trustees. Understandably, South Africa may not be ready for this kind of system – primarily due to the education factor.

And finally

While we recognise that there is certainly room for continued improvement of the Act, we are certain the Act will open the playing fields for pension funds – that are entrusted with large amounts of members' funds – to realise the value of multi-manager alternative portfolios. Service providers will have additional opportunities to add value to clients in the alternative space, while providing funds with advice, investment policy statements and strategies.

The move to increase allocations will undoubtedly help to give pension funds and clients greater access to product ranges which can enhance their portfolio returns – and we are well equipped for this new journey.

Proposed Reg 28 amendments make Private Equity no longer an “Alternative”

Alternative Investments/Private Equity



Kevin French

Business Development Executive



Jacci Myburgh

Private Equity Portfolio Manager



Quinton Dicks

Private Equity Portfolio Manager

“The Fund has delivered an exceptional 29.6% return p.a. ...more than any unit trust over the same period...”

“As interest in alternative investments has grown, and as such investments have become more mainstream, the phrase ‘alternative investments’ itself is beginning to sound like a contradiction in terms. What were once considered fringe investments are now deemed essential components of many institutional investors’ portfolios.”¹

As Old Mutual Private Equity, we have been on a journey for the last five years to increase appreciation for private equity as an investment class among institutional and retail investors alike, by raising its profile and providing attractive products through which they can gain this exposure.

As private equity managers, we have come to know and have experienced the attractive returns offered by the asset class – our existing clients have benefited handsomely from these over the years. However, the challenge in South Africa has been that private equity has not been well understood, regulations governing it have been unclear, and investor access has been limited by both the high minimum investment required (usually R50m) and long periods of lock-in.

Innovative and lucrative funds for smaller investors since 2006

In order to provide retail and smaller institutional investors with direct access to private equity, we launched our first private equity fund of funds in 2006, the Old Mutual Multi-manager Private Equity Fund 1 (OMMMPEF1). In order to ensure ease of access to a broad array of investors, the unique design of this fund included a low minimum investment of R100 000 and a liquidity option should investors need to exit before the fund matured. The OMMMPEF1, which reaches its fifth anniversary in April 2011, has delivered an exceptional annualised return of 29.6% after tax and fees, substantially more than any unit trust in South Africa over the same period. Through the launch of this fund and our following two funds, the Old Mutual Multi-Manager Private Equity Fund 2 (October 2007) and the Old Mutual Private Equity Secondary Fund (October 2009), we have seen growing investor interest, with our total assets under management reaching R12.2bn as of the end of 2010 (of which R1.2bn is invested in these three retail funds). Most of the interest has come from astute wealthy individuals and a few progressive institutional investors who looked to gain first-mover advantage.

One of the biggest challenges for institutional investors in the private equity space has been the lack of clarity in the regulations that govern how pension funds are managed. Regulation 28 of the Pension Funds Act is decades old, and makes no mention of what allocation pension funds can make to private equity. Most investors who have included private equity in their portfolios included it

¹(Russell Investments 2007-2008)

under the Act's guidelines for either "Other Assets", which allowed a 2.5% allocation, or "Unlisted Equity", which allowed a 5% allocation. However, many trustees and consultants were not prepared to allocate any funds to private equity because legislation was not clear on its categorisation.

Internationally, pension fund allocations to alternative assets (unlisted equities, private equity, hedge funds, etc) range from around 5% to 30%, with some regions applying no restrictions at all to private equity (see table below).

Country	Private Equity limit for Pension Funds
Australia	No limit
Austria	70%
Belgium	No limit
Brazil	20%
Canada	No limit
Colombia	5%
Denmark	10%
Finland (statutory plans)	15%
Germany	5%
Ireland	No limit
Italy	20%
Mexico	10%
New Zealand	No limit
South Korea	10%
UK	No limit
US	No limit

Furthermore, research indicates that pension fund allocations have steadily increased over time (see table below).

Interestingly, as international markets started to show early signs of recovery in 2009, a number of pension funds announced their intention to introduce alternative asset allocations or significantly increase previous allocations. For example:

- *South Korea's sovereign wealth fund (Korea Investment Corporation), with \$30 billion in assets, announced in July 2009 it was looking to increase its exposure to private equity, ramping up its allocation to 20%.³*
- *The UK's Pension Protection Fund (PPF) – 20% of its £3.9 billion in assets for alternative investments.⁴*
- *Yale Endowment Fund – Yale boosted its fund's private equity target to 26% from 21% at its June 2009 investment committee meeting.⁵*

In December last year, following a period of consultation with industry stakeholders, National Treasury released draft amendments to Regulation 28 which go a long way towards clarifying pension fund allocations to private equity, by specifically allowing up to a 10% allocation to private equity.

While, when compared to international standards the South African allocation may still be a little low, we believe it is a good first step for South Africa and should remove the uncertainty that exists surrounding the current regulations. We expect this to clear the way for more investors to allocate investments to private equity given its strong return and diversification benefits. In so doing, this should make private equity a more "mainstream", rather than "alternative" asset class.

The current private equity industry in South Africa manages in excess of R100 billion; however, a large proportion of that exposure is owned by individuals and foreign investors. We estimate that the average pension fund exposure to private equity in South Africa is less than 1%. This is a very low percentage by international standards, as highlighted by the tables.

Given the scarce nature of private equity, in the coming years pension funds will need to build up their exposure by allocating a portion of their portfolios to proven private equity managers and funds with solid track records, excellent diversification, ease of exit and accessible minimum investments.

Given the depth of experience of the Old Mutual Private Equity team, its successful track record and innovative products, we believe we are well placed to assist clients who wish to diversify their portfolios into this attractive asset class. The Old Mutual Private Equity Secondary Fund is currently open to investors, with R300m of capacity available. This is an attractive fund which is fully invested and has returned 26.4% for the 12-month period ended 31 December 2010. It provides investors with a diversified portfolio of 12 quality companies and a competitively-priced liquidity option should the investor need to exit.

For further information, please contact Kevin French on 021 509 4326 or at kfrench@omigsa.com.

Investor name	2005 Allocation		2009 Allocation	
	(\$bn)	(% of AUM ²)	(\$bn)	(% of AUM ²)
California Public Employees' Retirement System	9.8	5.1	24.3	12.1
California State Teachers' Retirement System	6.9	5.4	15.9	12.1
CPP Investment Board	2.9	3.6	14.1	11.4
Michigan Department of Treasury	5.9	11.0	8.2	17.6
Oregon State Treasury	5.1	7.6	9.2	14.1
University of Texas Investment Management Company	1.2	8.4	3.5	22.0
Washington State Investment Board	6.9	5.4	11.5	16.3
Wellcome Trust	2.7	11.5	4.5	20.5

²Assets under management | ³Source: (Witkowsky 2010) | ⁴Source: (Witkowsky 2010) | ⁵(Bloomberg 2010)

Market Indicators as at 31 January 2011

	DY %	PE Ratio	1 Month %	12 Months %
FTSE/JSE All Share Index	2.3	16.8	-2.2	20.7
FTSE/JSE Resources Index	1.6	18.7	-0.5	19.4
FTSE/JSE Industrial Index	2.7	12.5	-4.1	25.6
FTSE/JSE Financial Index	4.0	12.9	-1.5	13.4
FTSE/JSE SA Quoted Property Index	7.6	13.2	-4.2	24.5
ALBI BEASSA Bond Index			-2.1	12.2
STeFI Money Market Index			0.5	6.8
MSCI World Index (R)			11.0	14.1
MSCI World Index (\$)			2.3	19.8

Economic Indicators		Latest Data	Previous Year
Exchange Rates			
Rand/US\$	January-11	7.2	7.6
Rand/UK Pound	January-11	11.5	12.2
Rand/Euro	January-11	9.8	10.6
Rand/Aus \$	January-11	7.2	6.7
Commodity Prices			
Gold Price (\$)	January-11	1332.8	1081.1
Gold Price (R)	January-11	9510.7	8171.6
Oil Price (\$)	January-11	99.3	71.1
Interest Rates			
Prime Overdraft	January-11	9.0%	10.5%
3-Month NCD Rate	January-11	5.5%	7.1%
R157 Long-bond Yield	January-11	7.9%	8.4%
Inflation			
CPI (y-o-y)	December-10	3.5%	6.3%
Real Economy			
GDP Growth (y-o-y)	September-10	3.2%	-2.4%
HCE Growth (y-o-y)	September-10	5.8%	-2.6%
GFCF Growth (y-o-y)	September-10	-1.4%	-6.7%
Manufacturing Production (y-o-y)	November-10	4.1%	-4.4%
Balance of Payments			
Trade Balance (cumulative 12-month)	December-10	\$1.7	-\$1.8
Current Account (% of GDP)	September-10	-3.0%	-3.1%
Forex Reserves (incl. gold)	December-10	\$42.7	\$39.0

Source: OMIGSA

DISCLAIMER

The funds or securities referred to herein are not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such funds or securities or any index on which such funds or securities are based. The Prospectus contains a more detailed description of the limited relationship MSCI has with Old Mutual Global Index Trackers and any related funds.

Unit trust figures are based on lump sum investments to the end of December 2010. Charges excluded (NAV-NAV prices) and distributions reinvested (unless otherwise stated). Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income. 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 and charges and maximum commissions is available from the company/intermediary. Unit trusts are generally medium- to long-term investments. Unit trusts can engage in borrowing and scrip lending. The daily price is based on the current value of the fund's assets plus income (minus expenses) divided by the number of units in issue. The Old Mutual Money Market Fund unit price aims to be static but investment capital is not guaranteed. The total return is primarily made up of interest (declared daily at 13h00), but may also include any gain/loss on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the fund. You can easily sell your investment at the ruling price of the day (calculated at 15h00 on a forward pricing basis). Old Mutual is a member of the Association for Savings and Investment SA.

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