



AN ENHANCED INTERNATIONAL EQUITY PORTFOLIO

As active asset allocation specialists, we are constantly looking for new ways to extract value and drive performance. Allocation to offshore assets not only offers increased risk diversification, but also access to emerging market growth, and industries not available locally. So, to review our existing international equity portfolio during 2010 seemed a natural step. The end result is a newly-positioned portfolio that better reflects our worldview and the integrated nature of the global economy.

THE REVIEW PROCESS

We undertook the review with four goals in mind:

- 1) Simplifying and streamlining the existing investment structure;
- 2) Widening the investment opportunities for underlying managers;
- 3) Increasing the scope for emerging market exposure; and
- 4) More efficiently implementing our global macro investment views.

MANDATE CHANGES



Simplified building blocks

We have introduced a simple structure that has three building blocks – Quantitative Global Equity, Value Global Equity and Growth Global Equity.

Why? This model offers diversification by style and manager, while creating a more focused portfolio with an improved tracking error, and hence better potential to outperform the benchmark.

Global replaces Regional

Previously, 80% of the international equity portfolio was invested in regional mandates. Now two-thirds of the portfolio is invested in global mandates.

Why? Where a share is listed determines which region it falls in. However, in an increasingly globalised world, where a company earns its revenue is more important. Thus, giving our managers global scope as opposed to regional, their opportunity set expands and they can select the best shares in an industry worldwide. We therefore expect a more optimal portfolio.

Emerging markets included

The benchmark for the international equity portfolio will change from the MSCI World Index (which includes only developed countries) to the MSCI All Country World Index (ACWI), which includes emerging market countries like China, Russia, India and Korea.

Why? Emerging economies are fast becoming the engines of global growth. Recent data shows that they are responsible for approximately half of the world's economic growth. They therefore have an important place in any global equity portfolio.

MSI International Asset Managers		Global Quant	Global Value	
ACADIAN	Founded: 1986 AUM: \$42bn Ave experience: 15 yrs Philosophy: Market inefficiencies are caused by behavioural errors and can be exploited quantitatively. Style: Quantitative Manager track record: 24 years 10-year alpha p.a.: 3.3%		BARROW HANLEY	Founded: 1979 AUM: \$52bn Ave experience: 28 yrs Philosophy: Build portfolios with P/E and P/B ratios lower than market and dividend yield higher than market. Style: Value Manager track record: 31 years 10-year alpha p.a.: 2.5%*
ASHFIELD	Founded: 1973 AUM: \$3.2bn Ave experience: 32 yrs Philosophy: Blend of thematic and fundamental bottom-up analysis. Style: Growth-based. Risk conscious. Manager track record: 37 years 10-year alpha p.a.: 2.6%		WALTER SCOTT	Founded: 1983 AUM: \$3.2bn Ave experience: 19 yrs Philosophy: Invest in companies with sustainable wealth generation to generate real return. Style: Growth-based. Low volatility, high quality. Manager track record: 27 years 10-year alpha p.a.: 4.3%**
Global Growth				

*Based on Large Cap US Value portfolio. Ex-US portfolio alpha of 3.7% relative to MSCI EAFE. Value since inception (August 2006). OMIGSA invested from 1 July 2008.

** Based on ex-US portfolio relative to MSCI EAFE Growth Index.

UNDERLYING MANAGER CHANGES



Our value proposition for our international equity offering is to provide a blend of the best of the Old Mutual Group's global asset management capabilities.

This enables us to offer a quality international solution at a competitive price. With this in mind, we retained three of our existing relationships, namely Acadian, Ashfield and Barrow Hanley, all members of the Old Mutual Group, and added one external manager, Walter Scott. With the rationalisation of managers came a natural reduction in quants bias and a shift to being style agnostic, with a third in each of the value, growth and quantitative styles of equity management.

Appointing a non-Mutual manager was a big decision for us. But client investment needs come first and, as we were not able to source a compelling ex-US Global Growth building block capability within the Group, we looked elsewhere. The search was long and intensive, and we are confident that we have found the right blend in the combination of Walter Scott and Ashfield.

IMPROVED IMPLEMENTATION

OUR INTERNATIONAL OFFERING FOR INSTITUTIONAL INVESTORS



Over and above these portfolios, we are able to customise manager combinations and offer negotiable fees for larger clients seeking pure offshore exposure.

OUR INTERNATIONAL MANAGEMENT TEAM

Urvesh Desai
(7 Yrs) FIA



Peter Brooke
(15 Yrs)



Our team offers the benefit of diverse experience and expertise that share a total of 79 years of investment knowledge.

Urvesh Desai, portfolio manager and strategist, is the dedicated portfolio manager for international assets. He enjoys the support and input of the head of MSI, lead portfolio manager and award-winning analyst, Peter Brooke; Denzil Burger, who managed these portfolios since 2003; and Rian le Roux, OMIGSA's industry-renowned senior economist.

The underlying management of our international asset exposure is delegated to a blend of top international fund managers, with the aim of exploiting their expertise to optimise risk-adjusted returns.

Our allocation to each manager is guided by MSI's investment views, but the meticulously-selected underlying managers have the freedom to compose their own portfolios.

Denzil Burger
(27 Yrs)



Rian Le Roux
(30 Yrs)



MSI's competitive fees

Our standard fee scale for our international offering is as follows:

- International Equity: 0.8%
- International Bonds: 0.7%
- International Money Market: 0.6%

Comparisons to information available from the Alexander Forbes Manager Watch Survey of Retirement Fund Investment Managers show that we are very competitively priced. Importantly, we maintained these low fees despite now including managers from outside the Old Mutual Group. This is in keeping with our client-centric approach.

The cornerstone of our investment philosophy is blending top-down



investment ideas (macroeconomics) with bottom-up stock selection (fundamentals). In our international equity portfolio this approach was previously applied via our allocation to the underlying managers. With our shift to global mandates, if we have a view that is not directly aligned with the manager of a particular building block, we can implement our view as an overlay to that particular portfolio using exchange-traded funds (ETFs), derivatives and other securities. The superior liquidity of these instruments makes this process more efficient.

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