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Guaranteed Capital Fund

GUARANTEED CAPITAL FUND BUSINESS

1. BACKGROUND

Discretionary Participation Business

Guaranteed Capital Fund policies are classified as discretionary participation business because Old Mutual exercises a certain amount of discretion in the management of this business.

This discretion is limited as Old Mutual must still meet its contractual obligations, comply with regulatory requirements and take into account the reasonable benefit expectations and fair treatment of policyholders.

This document summarises the way in which Old Mutual currently exercises its discretion in the management of Guaranteed Capital Fund business.

Should there be any conflict between this document and the PPFM document mentioned below the latter will prevail.

Principles and Practices of Financial Management

Old Mutual is required to publish information on how it manages its discretionary participation business and has therefore published a document called the Principles and Practices of Financial Management (PPFM) which is currently available on the Old Mutual website (www.oldmutual.co.za/personalppfm). Hard copies are also available, on request, from the Client Communication Centre (0860 50 60 70 or +27 21 509 2765 during office hours).

Changes to these principles and practices require Board approval and input from the Committee for Customer Affairs and Old Mutual's Statutory Actuary.

Old Mutual will take reasonable steps to communicate any changes to principles and practices to those policyholders who are affected by these changes.

2. WHAT DISCRETION DOES OLD MUTUAL HAVE IN MANAGING GUARANTEED CAPITAL FUND BUSINESS?

2.1 INVESTING POLICYHOLDER FUND MONEY

The Guaranteed Capital Fund is a fund into which the maturity proceeds of eligible policies can be transferred at the request of the policyholder.

These policyholder fund assets are managed separately from shareholder fund assets.

Old Mutual has internal policies and procedures that govern a number of issues relating to the investment of policyholder fund assets, for example:

- Compliance with the requirements of the Insider Trading Act
- The prevention of possible conflicts of interest arising in the investment decisions taken by Old Mutual Investment Group
- Limiting the exposure of policyholder fund portfolios to credit risk.

2.2 ALLOCATING BONUSES TO POLICYHOLDERS

Bonus rates, which are declared monthly, are based on the returns earned on short-term interest-bearing assets and include a deduction to cover expenses, tax and profit.

The bonuses declared are always positive, so any amounts invested and subsequent bonuses added are always fully guaranteed. Shareholders carry the full cost of this guarantee.

The basis of calculation of the Guaranteed Capital Fund bonus rates is approved by the Statutory Actuary and reviewed periodically.

In the event of changes to tax legislation, the Statutory Actuary shall recommend to the Board's Committee for Customer Affairs a revised basis of allocation of tax charges to policyholder funds.