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New MD at the helm



Pieter Hugo, MD of Old Mutual Unit Trusts

Firstly, let me say what a privilege it is to head up Old Mutual Unit Trusts and how fortunate I am to have the support of such a highly competent and efficient team of people.

2009 will undoubtedly be a challenging year for investors worldwide. As always, it is important to look beyond current market uncertainty and ensure you are appropriately invested to meet your future financial goals, whether that be investing for an income or for long term capital growth.

For capital growth in excess of inflation, you need exposure to the stock market. While the FTSE/JSE All Share Index is currently extremely volatile, historical trends show that an investment in quality shares is one of the surest ways to grow your capital in real terms (i.e. in excess of inflation) over time. A note to those investors waiting to get into the market: don't wait too long... when markets rally, they tend to do so rapidly.

Of particular concern for me at the moment are the investors with longer term (3+ years) investment horizons that are invested in money market funds. These funds aim to preserve capital and offer a steady income – and thanks to our current high interest rate environment, clients are currently receiving a fabulous income from their investments. However, money market funds are not designed to outpace inflation over the long term and their outlook is further dampened by the likelihood of more interest rate cuts in 2009.

Income investors need to look for alternative approaches to generating income. We have funds that focus on generating income from diverse sources, including listed property, without taking on excessive risk. These funds also offer some capital growth to provide some protection against inflation. Your financial adviser can tell you more about the [Old Mutual Enhanced Income Fund](#) and the [Old Mutual Real Income Fund](#).

I'd like to take this opportunity to thank you for your support of Old Mutual in 2008 and I look forward to a fruitful investment partnership in 2009. ■

Pieter Hugo is the new Managing Director of Old Mutual Unit Trusts. In October 2008 he took over the reins from Anil Thakersee, who is now a portfolio manager in Old Mutual Investment Group SA.

Pieter is well known within Old Mutual, having joined the company in 1998. His work experience has primarily been in investment product development, with his last assignment before joining Old Mutual Unit Trusts being the Development Actuary for all of Old Mutual's retail (non-institutional) investment products.

Tracy Hennessy, Editor



Different market conditions tend to drive different investment themes. While the stock market downturn is dominating headlines, the theme dominating investment professionals' minds is the risk of being out of the equity market (i.e. being in cash for too long).

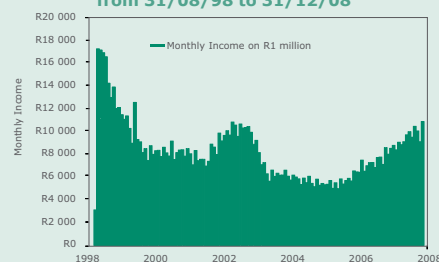
The overarching theme of this edition is the importance of ensuring your investments outpace inflation – and how shares remain the primary driver of long term growth. Peter Linley puts short term stock market volatility into perspective when he looks at the percentage of times different investments delivered inflation-beating (real) growth. I encourage you to read his article on the facing page.

Our new MD, Pieter Hugo, addresses the risks of money market funds. To emphasise his point, the graph below shows how income from the Old Mutual Money Market Fund fluctuates as interest rates rise and fall. Our chief economist, Rian le Roux, is forecasting a drop in interest rates in 2009 – see his article on page 4.

Pieter also mentions two income-generating investments for more conservative investors and, for investors with a great appetite for risk, we've included an article on dividend income on page 5.

For those investors currently in the market, Anil Thakersee sums it up at the end of his article on page 6: "If you are already invested in the market, you need to keep your head while all around you are losing theirs."

Old Mutual Money Market Fund
from 31/08/98 to 31/12/08



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The global financial crisis – the worst has been averted



Peter Linley, Head of Core Equity Investments

The impact of the 2008 global financial crisis has been far worse than most anticipated, with concerns that it would lead to a depression. While I obviously did not experience the Great Depression first-hand, its effect on our parents’ and grandparents’ consumer behaviour was felt for decades thereafter.

The current financial crisis is certainly the worst since the Great Depression, but unlike 1929, the swift and coordinated efforts by central banks and governments in Europe, the UK and the US to pump liquidity into the market appears to have averted a repeat of that event.

Both crises were triggered by credit and speculative asset bubbles. However, the difference then was the lack of response from the authorities. In 1929, the US central bank did not supply liquidity to the banking system. Instead, it raised interest rates and allowed commercial banks to fail en masse, leading to massive wealth loss and 5 000 or so bank failures (the US banking system was relatively fragmented).

By contrast, today central banks have cut interest rates and governments have recapitalised banks in an attempt to restore confidence in the financial system. The global cooperation to limit further economic damage has resulted in far fewer (but larger) banks going bust.

Although the slowdown is being felt worldwide, emerging markets (of which South Africa is one) today have a far bigger share of the world economy and will continue to experience economic growth, albeit lower than before the crisis. This is primarily being driven by domestic infrastructure and consumer spending.

In addition, rigid exchange controls and stringent regulatory frameworks have, to some extent, shielded emerging markets’ financial systems from the global meltdown.

This is especially true for South Africa, where, although our stock market fell 23% in 2008, we are unlikely to suffer the implosion experienced in the US (the S&P 500 fell 37% in US dollar terms). Our banks remain financially sound, and the credit market has not been impaired. This is partly thanks to interventions such as the National Credit Act (NCA), which ensured that non-deserving consumers did not have access to credit, and early attempts to curb spending through raising interest rates.

Equities: The Real Thing

This sudden downturn, combined with the attractive yields currently offered by interest-bearing securities, has seen many investors seeking refuge in money market funds.

While interest-bearing investments, like bonds and cash, can offer a wonderful safe haven in times of stock market turbulence, they can potentially have a more serious long term impact on our investments than a stock market crash. That is because, over time, inflation quietly erodes the buying power of our savings. Unless we take proactive steps to invest at least some of our money in assets that provide real growth (i.e. growth in excess of inflation), we will be poorer for it.

Historical returns have shown that investing in shares over the long term is far less volatile than people think. Shares have also provided higher historic real returns than other asset classes. Stock market crashes have proved to be relatively short-lived, with equity values recovering in the long run.

Probability of delivering inflation-beating returns*

	5 years	10 years	15 years	20 years
FTSE/JSE All Share Index	87%	100%	100%	100%
FTSE/JSE All Bond Index	59%	58%	56%	69%
SA Cash	66%	65%	65%	71%

*The figures are over rolling periods from 01/01/1970 to 31/12/2008. Rolling returns calculate performance for every five-year period, as an example, moving forward one month at a time. This calculation does not take any charges or tax implications into account.

The table above shows the percentage of times different investment types delivered returns in excess

Market Outlook continues on page 4

The global financial crisis — Market outlook (continued from page 3)

of inflation (using the inflation rate applicable at that time). Over any five-year period, for example, the All Share Index delivered inflation-beating returns 87% of the time, while over ten-year periods and longer at no time did inflation get the upper hand.

What does 2009 hold?

Although the measures instituted by the central banks of the major developed economies will prevent a full-blown global depression, these measures work with lags and will not prevent a deep global slump, with very negative profit and employment implications during the first half of 2009. Looking further out, we expect conditions to stabilise, with a moderate economic recovery taking place towards the end of 2009.

Definitions

Depression: a severe downturn in the economy over a long period of time. **Recession:** two consecutive quarters of negative economic growth (as measured by GDP). **Bear market:** when stock market prices move down over a long period of time.

Following the severe correction in local share prices over the last six months it is evident that shares have already priced in a significant amount of bad news. However, volatility will remain high as investors are influenced by new data being weaker or stronger than expected. Historically, major corrections in equity markets have often presented great buying opportunities. However, trying to pick the bottom of a market has proven notoriously difficult.

I remain of the view that following the correction we have already seen, and with the market offering a lot more value, a prudent approach will be to start investing in the local equity market on a staggered basis. In my view you cannot ignore this asset class as the cornerstone of every wealth-creating portfolio. ■

The falling interest rate cycle is underway



Rian le Roux, OMIGSA
chief economist

After a difficult 2008, 2009 is set to bring some welcome relief to consumers and investors in the form of falling inflation and interest rates. This is due largely to the impact of declining

prices and slower, even negative, economic growth around the world, which is bringing lower petrol and food prices, as well as other commodity prices, to South Africa.

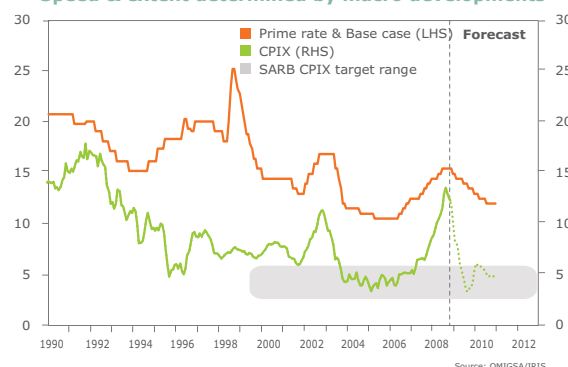
Although at 12.1% year on year (y/y) in November, consumer price inflation (CPIX) was still far above the South African Reserve Bank (SARB)'s 3% to 6% y/y target range, we expect inflation to continue to decline sharply in the months to come. In January 2009 we are expecting a steep drop to around 7% y/y, as inflation is dragged lower by a falling petrol price, easing food inflation, technical "base effects" and the re-weighting and re-basing of the inflation measure.

As a result of this dramatic fall in inflationary pressures, we are likely to see our interest rates about two percentage points lower from current levels (with prime at 13%) by the end of 2009. This means the SARB should be cutting rates by at least half a percentage point at each of its Monetary Policy Committee (MPC) meetings in February, April, June and August this year. There is even scope for quicker and/or deeper rate cuts, depending on the severity and duration of the global recession.

However, South Africa will not be able to escape the fallout from the global recession, which has already reduced demand for our exports and pushed key export prices (mainly for commodities) much lower. Investor jitters also continue to put pressure on the value of the rand, which remains a key risk for inflation prospects in 2009.

Although lower interest rates will help boost consumer buying and reduce business costs, the outlook for our economic growth is less rosy due to the wider global gloom. Rising job losses, slower production growth and low corporate earnings will take their toll, reducing GDP growth to only around 1.5% this year, from just over 3% in 2008. One of the brighter factors driving growth will be strong government investment spending as the infrastructure drive remains intact. Major risks to our forecasts remain a weaker rand, a stubbornly wide current account deficit and the possibility of further global systemic shocks. ■

Rate cutting cycle has begun
Speed & extent determined by macro developments



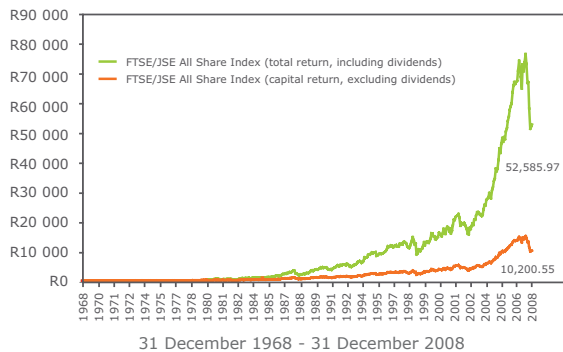
Dividends: The bedrock of an investment portfolio

In times of extreme market volatility, many investors tend to focus only on the erratic share price movements – overlooking the important role dividends play in a portfolio. Unlike share prices, dividend payments are influenced by company profitability and not market sentiment.

Dividends contribute a much larger proportion of the performance of a portfolio than many realise. Over the last 40 years dividends, and the growth in dividends, have proved to be a powerful driver of the FTSE/JSE All Share Index’s total return.

Dividends are a powerful driver of performance

R100 invested in 1968



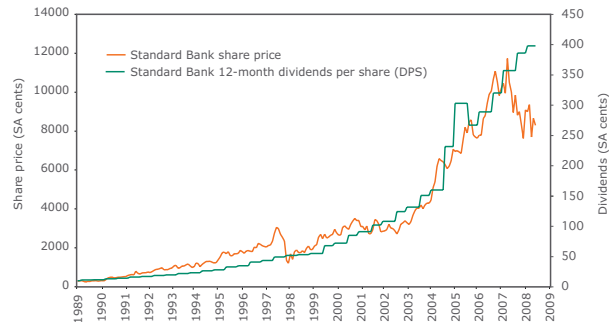
A sign of good health

The payment of a growing dividend over time is a sign of a well-managed, financially healthy company. While there are ways for companies to manipulate their accounts and artificially overstate profits, they can’t invent cash. A company that physically pays money to investors is less likely to have “cooked the books”.

Companies able to pay dividends tend to have low debt levels, with surplus cash available to pay a dividend to their shareholders and to reinvest for further growth. This makes them attractive from a long term income and performance potential perspective. These companies also tend to be extremely reluctant to cut their dividends – even if their earnings come under pressure – as they know it could severely impact their share price.

A good example of this is Standard Bank. The following graph shows that although its share price, along with those of most other listed financial companies, has been under pressure since May 2007, the company continues to pay a strong, growing dividend.

Standard Bank share price and dividend payments December 1989 to December 2008



A source of liquidity

Dividends also provide a valuable source of liquidity for investors. A bear market is usually a culmination of a number of factors – including rising inflation and interest rates. This puts disposable income under pressure and can force investors to sell their investments when prices are down. Receiving a dividend income could mean the difference between selling in a weak market and being able to ride through the volatility.

An accessible portfolio

In realising the benefits of a portfolio of high-yielding shares, we launched the Old Mutual High Yield Opportunity Fund in November 1998. This popular fund aims to take advantage of the tax benefits and growth characteristics associated with dividends as an income stream. It does this by investing in quality companies that have high dividend yields and good prospects for medium term growth. Its benchmark is to provide you with a dividend yield of 1.5 times that of the FTSE/JSE All Share Index.

This fund has performed well despite the recent market volatility. Take a R100 000 investment made at the launch of the Old Mutual High Yield Opportunity Fund: In 2008 the market dropped by more than 20%, but this investment paid a tax-free income of R25 326,48 for the year (1 January 2008 to 31 December 2008).

A well-constructed portfolio of dividend-paying shares tends to do well even in bear markets. ■

Source: Morningstar. The investment performance is for illustrative purposes only. It is calculated taking the actual initial fees and all ongoing fees into account for the amount shown. Income is reinvested on the reinvestment date, unless otherwise stated. Past performance is not necessarily an indication of future performance.

After the crash... how we're managing your money



Anil Thakersee, Portfolio Manager,
Macro Strategy Investments

The 2008 crash has been the worst experienced for many decades — and the first in a truly globalised world where we saw markets across the globe, and across almost all asset classes, being severely impacted by the crisis.

The Macro Strategy Investments team had for some time been expecting markets to deliver more moderate returns. This prompted us to start reducing our exposure to equities (shares) in early 2008. We raised our cash holdings to record levels in anticipation of increasing volatility. However, we certainly didn't expect the full-scale market crash that occurred in the second half of 2008 and in hindsight should have had more in cash.

Looking on the brighter side, with market mayhem come opportunities for value. We began using some of our cash holdings to buy selected shares at very attractive levels in the fourth quarter.

The foundation of our investment philosophy

We manage your money based on some key principles, including the following:

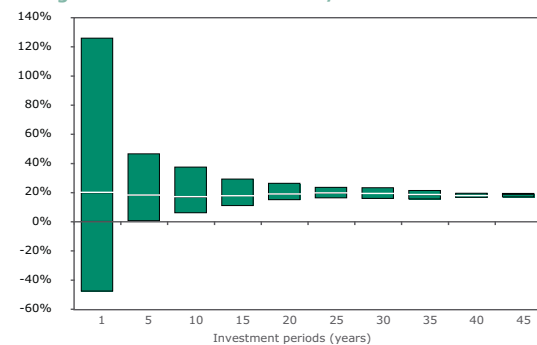
- Our number-one job is to grow our clients' savings in REAL terms. This means delivering returns above inflation in the long term. To do this it is important for us to invest your savings in quality shares, as equities remain the primary driver of long term, inflation-beating returns. How much you should have in equities depends on your age and financial needs.
- Investing is a LONG TERM commitment. Over time the market ups and downs smooth out, and the risk of losing money reduces. The graph shows that over all one-year performance periods since 1960, the average return from the All Share Index

Old Mutual's Macro Strategy Investments

manage the multi-asset class solution funds: Old Mutual Real Income Fund, Old Mutual Stable Growth Fund, Old Mutual Balanced Fund and Old Mutual Flexible Fund, as well as the Optimised range of (life) funds.

Multi-asset class funds are diversified across the various asset classes such as cash, bonds, property and equities (shares) in local and offshore markets. Our range of funds meets different risk profiles, from younger investors looking for high growth to retired investors looking for income and capital stability.

Investment risk reduces over time Range of returns from the FTSE/JSE All Share Index



was 21% p.a. (with a high of 126% and a low of -48%). Notice how dramatically this high/low range reduces when investing over just five years.

While we encourage our investors to take a long term view, as active asset managers we are constantly monitoring market developments on behalf of our investors to take advantage of shorter term moves.

- The funds we manage offer built-in DIVERSIFICATION across the different asset classes. Diversification ensures that you don't have too many eggs in one basket, and having a diversified portfolio is especially important during equity bear markets. The result is a lower level of overall risk, while still enjoying exposure to potentially inflation-beating returns. This is particularly crucial for people in retirement.

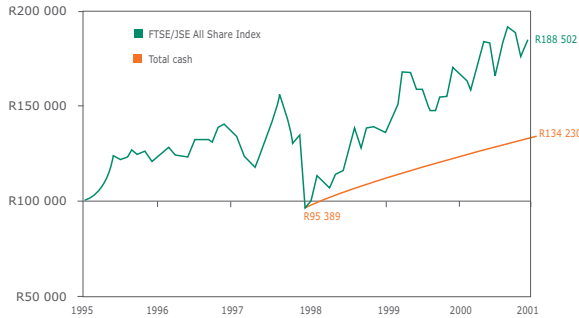
Where to now?

For investors who have been sitting on the sidelines in cash, we recommend you use this opportunity to get exposure to growth assets, as the five-year prospects (see table on the following page) from current levels look attractive and cash yields will head lower over 2009.

If you are already invested in the market, you need to keep your head while all around you are losing theirs. I've included a powerful illustration of what would have

happened to R100 000 had it been moved out of shares and into cash at the wrong time. As I've said before: investing is a long-term commitment.

The risk of selling at the wrong time



Given the current market conditions we have revised our five-year forecasts. The table alongside is a brief summary of the real returns (after inflation) we expect from the different asset classes going forward. Importantly, these long-term forecasts determine our asset allocation strategies for the funds we manage. ■

Investment Outlook in Brief

Asset Class	Five-Year Real Return	View	Comment
SA		N+	Major rand weakness has happened.
Equity	8.0%	N+	Good long term real return. Concerned about real earnings growth.
Property	8.0%	+	High yield of 8% with growth but cyclical fear. High barriers to entry = electricity & building costs.
Bonds	2.5%	-	Looking interesting in the next year, but longer term concerns about inflation.
Cash	3.5%	+	Attractive in the short term but rates will fall, so risk of reinvesting at lower rate.
Offshore		N-	Less attractive following rand collapse.
Equity	8.0%	+	Cheap compared to history but negative earnings momentum.
Bonds	2.0%	-	No inflation risk in short term but low nominal returns.
Cash	0.0%	N	Downgraded as rates fall sharply.

N = Neutral view **+** = Positive view **-** = Negative view

Thanks and congratulations

We would like to thank all our clients who updated their details in response to our July statement mailing appeal. By taking the time to do this, you have helped to ensure a speedier service in future.

Congratulations to the five winners of our lucky draw. Each winner had R5 000 worth of units added to their Old Mutual Unit Trust portfolio!

1. Mr GW Peiser, Cape Town
2. Mrs RB Nandkoomar, Newcastle
3. Mr A Tsotetsi, Witbank
4. Mr PM Pretorius, Cape Town
5. Mr AJ Bidgood, Durban

New share brings foreign income

Late last year Remgro Ltd and Richemont SA unbundled British American Tobacco. This meant that our unit trust funds holding Remgro or Richemont shares received separate British American Tobacco (BTI) shares. However, because BTI derives the majority of its earnings from outside of South Africa it is regarded as an "inward listed" share. In terms of the South African Reserve Bank (SARB) Exchange Control Regulations, an inward listed share is considered an international asset. Those funds that may only hold domestic shares in their portfolio have been given a two-year exemption to allow the portfolio manager to sell the share at a time deemed beneficial to the fund. For the time being this share will be reported as foreign equity and its earnings reflected as foreign income on your tax statements. The following domestic unit trust funds may therefore show a foreign holding in their portfolio.

- | | |
|-------------------------------|-------------------------------|
| Old Mutual Value Fund | Old Mutual Growth Fund |
| Old Mutual Top Companies Fund | Old Mutual Industrial Fund |
| Old Mutual Real Income Fund | Old Mutual Umbono Top 40 Fund |



A Member of the **OLD MUTUAL** Investment Group

Futuregrowth joins OM stable

In late 2008 Old Mutual Investment Group SA (OMIGSA) purchased a majority stake in Futuregrowth. This well-established financial services company has a solid reputation for delivering investment performance and is well known for its particular brand of socially responsible and specialist fixed interest investing.

While Futuregrowth owns and manages a number of investment portfolios it was decided to move their unit trust funds under Old Mutual Unit Trusts' collective investment scheme licence. This will facilitate client servicing and should reduce auditor and trustee fees, thus potentially lowering the total expense ratios of some funds.

In a further step to reduce costs and confusion we are proposing to amalgamate certain Futuregrowth unit trusts with similar funds owned by Old Mutual Unit Trusts. Later in the year we will be sending a letter to those of you invested in any of the impacted funds. The letter will explain the proposed changes in detail and request that you vote for or against the amalgamation of the funds. If you have any queries in this regard please call our Service Centre at 0860 234 234. ■

A safe way to grow your wealth

We recently launched a new fund that offers the safety of capital protection along with a moderate level of tax-efficient growth. The **Old Mutual Capital Builder Fund** aims to:

- Deliver a reliable return of cash + 3% a year, over rolling three-year periods
- Preserve capital by limiting the possibility of loss over every tax quarter (under any market conditions).

The fund can invest across most asset classes, including cash, fixed income, listed property and shares (equities). The equity holding of the fund (between 65% and 75% of the portfolio) is invested primarily in select shares of the FTSE/JSE Top 40 Index. The risk of holding shares is reduced through the use of derivatives – lowering the fund's effective equity market exposure to between 0% and 40%.

A major benefit of this fund is that it offers capital protection without the usual tax implications associated with interest-bearing investments. Returns are predominantly generated from capital gains and dividends, which are more tax efficient than interest-bearing assets for those investors who have used their tax exemptions.

The fund is targeted at investors wanting tax-efficient, cash-plus returns through most market cycles. To find out more about **Old Mutual Capital Builder Fund** speak to your broker or Old Mutual financial adviser or call 0860 234 234. ■

No more Gilt

The Old Mutual Gilt Fund will be changing its name to the **Old Mutual Bond Fund**. A gilt is a bond issued by government or parastatal institutions. The Old Mutual Gilt Fund holds both gilts and bonds, and therefore it was decided to change the name of the fund to the Old Mutual Bond Fund as this name is more reflective of the investment strategy of the fund. It is also the description used for the fund's Association of Collective Investments (ACI) grouping: Domestic – Fixed Interest – Bond. ■

Fund	TER [#] (%)	Performance % p.a.			Risk Rating
		1 year	3 years	5 years	
Balanced Fund R	1.30	-14.5	8.3	16.1	3
Dynamic Floor Fund A	1.05	0.6	6.2	11.9	3
Enhanced Income Fund A	1.14	11.9	9.7	-	2
Financial Services Fund R	1.15	-20.2	4.6	19.0	5
Flexible Fund R	1.38	-19.1	7.8	17.3	4
Four Plus Capital FoF A	2.43	2.6	5.8	9.3	3
Four Plus Global FoF A	2.45	-17.7	2.4	8.8	4
Four Plus Growth FoF A	2.07	-12.2	6.0	14.2	3
Four Plus Secure FoF A	2.04	11.8	8.2	7.6	2
Gilt Fund R	0.87	17.5	8.6	10.4	3
Global Bond Feeder Fund A	1.70	21.0	14.7	8.3	2
Global Equity Fund A	2.09	-24.1	1.7	5.6	4
Global Technology Fund A	2.54	-27.6	-1.9	-0.7	5
Gold Fund R	1.16	-10.6	3.8	6.2	5
Growth Fund R	1.15	-22.7	8.1	19.9	4
High Yield Opportunity Fund A	1.42	-26.9	2.6	16.9	4
Income Fund R	0.86	14.5	9.6	9.4	1
Industrial Fund A	1.41	-18.4	7.6	20.2	5
International Growth FoF A	2.87	-14.1	3.9	5.2	4
Investors' Fund R	1.14	-20.8	7.3	18.7	4
Mining & Resources Fund R	1.15	-25.1	16.7	23.8	5
Money Market Fund A	0.58	12.1	9.5	8.6	1
Real Income A	1.39	4.2	-	-	2
SA Quoted Property Fund A	1.43	-6.7	13.0	23.6	4
Small Companies Fund R	1.15	-37.1	4.0	19.2	5
Stable Growth Fund A	1.17	-0.6	-	-	2
SYmmENTRY Balanced FoF A	-	-4.6	9.7	16.5	3
SYmmENTRY Defensive FoF A	-	-1.8	8.4	13.9	2
SYmmENTRY Equity FoF A	1.50	-23.7	5.8	16.4	4
SYmmENTRY Fixed Interest FoF A	1.19	11.7	9.0	9.2	2
Top Companies Fund R	1.15	-23.1	6.1	17.7	5
UK Money Market Feeder Fund A	0.56	4.8	11.9	6.4	1
Umbono RAFI® 40 Tracker Fund A	0.91	-20.7	-	-	4
Umbono Top 40 Fund A	0.73	-24.5	7.3	17.0	4
Value Fund R	1.15	-26.7	4.7	17.8	4
South Africa CPI		10.9	8.5	6.5	

All figures in the publication sourced (unless otherwise stated): Morningstar. Lump sum investments to the end of December 2008, distributions reinvested and NAV-NAV prices used (i.e. initial charges excluded). 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. Old Mutual Unit Trusts has been licensed by the JSE Securities Exchange SA to use the FTSE/JSE Top 40 Index name. [#]TERs (total expense ratios) are as at 31 December 2008. Contact our Service Centre at 0860 234 234 to obtain copies of the updated fact sheets, or visit www.omut.co.za and click on "Fund Information & Prices" and select "Fees & Charges". Risk ratings do not take the impact of currency fluctuations into account.

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