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Financially Talking

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Widespread volatility impacts fund performance



Anil Thakersee, MD: Old Mutual Unit Trusts

After five years of near-perfect market conditions – low inflation, low interest rates and a rising stock market – we suddenly find ourselves under very different economic conditions. Inflation is at its highest level in five and a half years (10.9%) and rising, interest rates have increased by a whopping five percentage points in two years and economic growth has slowed from 5% to 2.1% (from last quarter of 2007 to first quarter of 2008, figures annualised).

Ironically, after a long period of low interest rates a sudden rise is more painful for consumers than an extended period of high rates. Long periods of low interest rates, as we've recently experienced, often turn into extended shopping sprees as we enjoy easy, "cheap" access to credit.

Combined with now having to finance ever-increasing loan repayments, South Africans are finding that rising food and fuel prices are further eroding their disposable income. These surging prices, along with electricity price increases, are keeping inflation out of the Reserve Bank's target range (3% to 6%). Interest rates may be increased yet again in a continuing effort to curb borrowing and bring inflation under control.

The winners in times of high interest rates are the savers, as they get increasingly better yields on their short term interest-bearing investments (e.g. money market funds). There are, however, long term implications when investing in these funds. I encourage you to read our article on money market funds on page 4.

Increased volatility

Looking specifically at the share market, recently we've seen the FTSE/JSE All Share Index continue climbing upwards. This despite the fact that most sectors of the market fared rather poorly. How is this possible?

The reason is the exceptionally strong performance from the resources sector. Given that these resources companies are large businesses whose share prices are currently rising, the mining and resources sector

currently makes up 54% of the index. Their performance therefore tends to dominate the overall performance of the JSE – and in this case continues to push its return upwards even when other sectors have experienced negative returns.

To put this in context, take a look at the short term performance from the different sectors of the market over the first six months of this year:

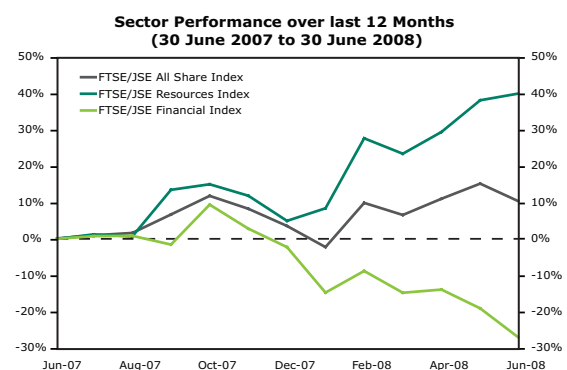
FTSE/JSE Indices	Performance 1 January to 30 June 2008
FTSE/JSE All Share Index	6.4%
FTSE/JSE Resources Index	33.3%
FTSE/JSE Financial Index	-25.5%
FTSE/JSE Industrial Index	-8.9%
FTSE/JSE Real Estate Index	-20.8%

The fund manager dilemma

The current environment has made it increasingly difficult for those fund managers who have equities (shares) in their portfolios to deliver short term performance. These managers have to buy shares that they believe will offer the best future value – but without taking excessive risks. Many of these managers have shied away from a high exposure to resources shares because:

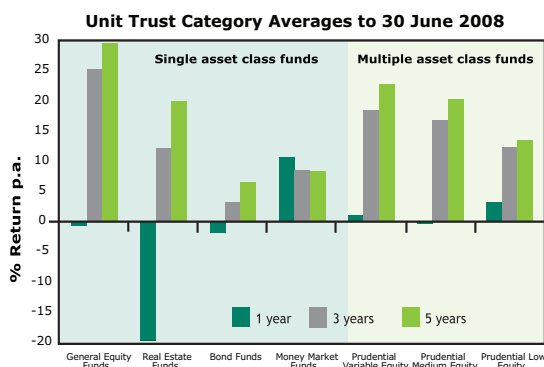
- This sector is considerably more volatile (risky) than many other sectors of the market over the long term.
- The resources sector is currently trading at a high price/earnings ratio, making it more expensive than other market sectors at present.

Consequently, several fund managers have been reducing their exposure to resources and increasing exposure to other market sectors – in particular financial shares (as they currently offer better long term value for money). The graph encapsulates the driving force behind this investment behaviour as it shows the strong performance from resources and the current value being offered by financials (remember the investment principle: "buy low, sell high").



The impact of the recent low returns from the broader market, and the move away from resources, is already

filtering into the performance of portfolios. To illustrate this we looked at the performance of various unit trust categories (peer groups). One can see how the strong broad-based performance from the JSE fuelled returns over the past three and five years – even in those sectors with low equity exposure (e.g. Prudential Low Equity).



The recent slowdown is already being reflected in the one-year figures, particularly in those funds with a high equity exposure.

Take action or sit tight?

Despite the fact that we have, for some time now, anticipated increased market volatility – warning investors to expect lower returns from their equity investments – it is still difficult to know how to react appropriately. While the long term investor could regard these times as a buying opportunity, it is prudent for others to ensure that their portfolios remain suitably diversified.

Appropriate diversification and asset allocation will determine your time horizons:

- If you were happy that your investments would meet your future financial goals when you bought them, and your goals have not changed, then you should consider weathering the current storm.
- If, however, your investment goals have changed or you feel your current portfolio make-up will not reach your goals, then you should consider reviewing your asset allocation in consultation with your financial adviser.

However, we do caution long term investors against fleeing to cash. Money market funds can play an important role in an overall diversified portfolio, but there is always the possibility that these investors will not receive a real return from their savings over the long term.

Market outlook

While there are many factors having an immediate negative impact on our economy, we are confident that the economy remains on a sound footing. It is impossible to know the magnitude of our current market cycle, but we believe inflation is nearing its peak and that interest rates will be cut in late 2009. When these start to fall we expect to see a strengthening in many other sectors of the market. Investors who have a 3-year or longer time horizon should consider the importance of exposure to growth assets like shares.

Why do different unit trusts deliver different returns?

A unit trust fund’s return is determined by the performance of the underlying investments it holds. Unit trusts are categorised according to this investment universe (i.e. asset allocation). For example, all bond funds are grouped together and all mining funds form a category/peer group of their own.

The performance of the different market sectors and asset classes (equities, bonds, property and cash) will influence the returns these funds deliver.

However, funds within a single category can also have a divergence of returns. This can be for two reasons:

- The fund manager’s stock selection and views on (exposure to) a market sector/asset class will influence performance (as discussed above).
- The fund’s benchmark (investment aim) also influences how a fund is managed – both across and within categories. For example, a general equity fund with an All Share Index (ALSI) benchmark should, under current market conditions, outperform a general equity fund with a SWIX¹ benchmark. This is because the ALSI has a heavier weighting to resources shares (54%) than the SWIX (currently 42%).

¹ The Shareholders Weighted Index (SWIX) only includes shares in the proportions actually available to South Africans. This means it excludes foreign shareholdings as well as shareholdings held by companies themselves. The SWIX is more representative of how the typical South African general equity fund is invested.

Tracy Hennessy, Editor



While discussing the importance of looking beyond this recent market volatility, my colleague Pieter quipped: “If you want short term returns, go rob a bank.” He then proceeded to show me how a little money and a lot of patience could make you millions.

Investing for a Million: A historical illustration of Old Mutual Investors’ Fund to the end of June 2008.

Start at age	Period of investment	Monthly investment	Total investment	Final value
25	40 years	R10.80	R5 185.68	R1 000 000
35	30 years	R60.95	R21 943.12	R1 000 000
45	20 years	R586.50	R140 759.33	R1 000 000
55	10 years	R2 834.52	R340 142.79	R1 000 000

Look at how much one would need to have invested every month to retire with R1 million at 65. I think the figures speak for themselves. While we all wish we’d invested more when we were younger, it’s never too late to reap the benefits of putting a little away every month. Securing your financial future starts from R500 a month – what many of us pay for a cell phone account!

Our new-look website can help you figure out just how much you need to invest to reach your goals (read more about InvestRight™ on page 7). So why not take charge today and visit www.omut.co.za or call your financial adviser.

Until next time – buy low, sell high.

Financially Talking, Old Mutual Unit Trusts, PO Box 207, Cape Town 8000 Service Centre: 0860 234 234, Fax: (021) 509 7100, Email: unittrusts@oldmutual.com, Internet: www.omut.co.za

A time and place for money market funds

High interest rates are not always bad news. For those who have money to invest and want a short term safe haven, the Old Mutual Money Market Fund offers an attractive yield.

Money market unit trusts are often overlooked by cash investors, despite offering highly competitive rates. The Old Mutual Money Market Fund, for example, delivered a return of 10.7% for the 12 months to 30 June 2008 — outperforming the money market unit trust sector average of 10.6%. And thanks to the recent rise in short term interest rates, it currently offers an attractive yield of 12.37% (as at 30 June 2008).

Competitive returns

Our fund manager can buy many different money market securities from a variety of financial institutions. This diversification means the Old Mutual Money Market Fund has the potential to beat rates offered by investments limited to a single financial institution.

A safe place to park

The fund is an ideal short term “parking bay” for those needing capital in the immediate future. As your needs change you can switch, free of charge, to any of our other unit trusts. Alternatively, through our automated phasing facility, you can gradually move your investments out of this fund and into equities (shares) over a time-period of your choice. The fund could also form part of an overall balanced portfolio.

Valuable tax benefits

There are attractive tax benefits when investing in interest-generating investments like this fund. The first R19 000 a year of all interest income earned (R27 500 if aged 65 or older as at the end of February 2009) is exempt from income tax. This means that, at an interest rate of 12% a year, you could invest up to R158 333 (R229 166 if you are 65+) without incurring tax on interest income.

Know the risks

Generally a money market fund is regarded as one of the lowest risk unit trusts. While the fund does not guarantee your capital, the chances of losing the money you invested are minimal. However, for large, long term investors there are some potential pitfalls:

- Although there are valuable tax exemptions on interest income (as discussed), the income generated from larger investments will surpass these exemption limits. For example, a R1 million investment at an interest rate of 12% a year, would add R101 000 (after deducting the R19 000 exemption) to your annual taxable income.
- Your long term investment growth is at risk of being eroded by inflation. As our inflation rate creeps upwards, your real return reduces (real return = growth minus inflation). This means that over time you run the danger of becoming poorer.

While the Old Mutual Money Market Fund does offer valuable advantages in meeting specific, short term investment needs we caution long term investors to be aware of the risks. For these investors it may play a more beneficial role as part of a larger, balanced portfolio.

Who manages this fund?

The Old Mutual Money Market Fund manager is Ameesha Chagan (BCom), a member of the fixed income team who will be joining up with Futuregrowth to become the largest fixed income asset manager in SA (read more on the opposite page). With 14 years’ investment experience in the money and capital markets, Ameesha currently manages Old Mutual portfolios totalling R3 billion.

To find out more about this fund or our other investment solutions that combine the growth potential of shares with the security and yield of money market securities, contact your broker or Old Mutual financial adviser.

High interest rates: the good news

Get the best of the money market with the Old Mutual Money Market Fund.

Make rising interest rates work for you by investing in the Old Mutual Money Market Fund. This fund has delivered a return of 10.2% for the 12 months to 30 April 2008 (above the average of the money market unit trust sector). And thanks to rising interest rates, its current yield is at 12.02%. So if you’re looking for a short term parking bay for your money that offers a liquid investment that moves in line with prevailing interest rates, give us a call. Plus you can switch into any of Old Mutual’s full range of funds without any switching costs.

*The yield is an annual return which is based on the income earned by the fund in a 7-day period. It provides an indication of what investors are currently earning.

Contact your Old Mutual financial adviser, your broker, call 0860 INVEST or visit www.omut.co.za

 **OLD MUTUAL**
Investment Group

invest
in your
success

Unit trusts are generally medium to long-term investments. Past performance is no indication of future growth. It is important that you are prepared for some shorter term fluctuations as your investment moves in line with the markets. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Unit trusts can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commission is available from the company intermediary. You can easily sell your investment at the ruling price of the day (calculated at 19:00 on a forward pricing basis). The Old Mutual Money Market Fund unit price is static, while a constant price is maintained, the investment capital is not guaranteed and interest is declared daily at 19:00. The yield is calculated using an annualised seven-day rolling average as at 30 May 2008. The portfolio performance is calculated on a total return basis and does not take any initial fees into account. Income is reinvested on the ex-dividend date. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of redemption of income. Old Mutual Unit Trusts is a member of the Association of Collective Investment Schemes, SA.

Put investing in perspective



Peter Brooke
Boutique Head
Macro Strategy Investments

The stock exchange has recently fallen 17% from its high in May, while financial and industrial shares have fallen 25% and listed property stocks are down a massive 38% from their highs last

year. As a result, many people are panicking, selling their investments and rushing to the safety of cash.

The first point to highlight is that very few people bought at these highs, so most people have not experienced such large losses. Many people are invested in the stock market via their pension funds, steadily buying over the years through monthly deductions.

A truer perspective of returns is the growth of R100 invested over the long term. This highlights the compounding power of time in the market.

Investment Period	R100 in the FTSE/JSE All Share index	R100 in the FTSE/JSE Real Estate index
5 years	R418	R285
10 years	R598	R756
20 years	R3 128	R1 068
30 years	R38 116	R6 669

Time in the market also smoothes out returns and reduces the volatility of investing. Or, in simple English,

time takes away the roller-coaster feeling of short term dips. Looking at returns from the All Share Index over any five-year period since 1960, at no time would an investor have lost money.

The second concern we have is that people are doing the opposite of what logic implies. Typically, if things you desire are put on sale, you buy them. In the case of listed property, as soon as the "25% off" sign went up people started to sell, not buy. The reality of investing is that most of the return comes from dividends (yield) and the growth in those dividends. Clients will receive that yield regardless of what the share price does on a day-to-day basis. Following the recent correction, investors are once again getting the opportunity to buy listed property on a yield of more than 10%.

Our final concern regarding the stampede into cash is what will happen to the cash and the interest thereon. After the Government has taken their tax, we suspect the average South African's propensity to spend will be too great and the money will be spent rather than invested. While we do recognise the current attraction of cash – holding record levels across our funds – we are continually looking for good opportunities to re-invest it. Investors should be wary of looking only at the short term when it is the long term approach that will pay off in the end.

Peter and his team manage Old Mutual Flexible Fund, Old Mutual Real Income Fund, Old Mutual Stable Growth Fund, Old Mutual Balanced Fund and Four Plus Growth Fund of Funds.

Creating a fixed income powerhouse



Thabo Dloti, CEO: Old Mutual Investment Group, SA

Old Mutual Investment Group (SA) (OMIGSA), asset managers for many of Old Mutual Unit Trusts' funds, recently agreed to purchase WIPHOLD's 69% shareholding in Futuregrowth pending approval from the competition authorities.

Futuregrowth's specialist capabilities will complement and enhance those of OMIGSA. Futuregrowth has emerged as one of the leading specialist asset managers in South Africa in the areas of fixed interest, quantitative equity and socially responsible investments, and we appreciate the benefits of keeping the business focused and unique, in line with our boutique model.

Building even greater capabilities

The move will see our fixed income team, who manages funds like our Money Market and Enhanced Income Funds, become one of the largest and strongest fixed income asset managers in South Africa as it joins forces with the Futuregrowth team. The boutique – which will continue under the Futuregrowth name – will have 16 investment professionals managing close to R100 billion in combined assets under management.

In addition, the Futuregrowth equities team will form a separate capability in the OMIGSA stable, managing equities using an active quantitative approach. They will continue to manage the renowned Futuregrowth Albaraka Equity Fund, among others.

Impact on funds

The funds managed by both groups will continue to be managed by the same managers, with their mandates unchanged. You can rest assured that the fees, administration and all reporting systems will also remain unchanged. Should any changes be made to the mandate or fee structure of any fund in future, investors will be duly informed.

We are confident that our collaboration on research, new products and potential enhancements to existing offerings will prove beneficial for our clients going forward.

Website gets a fresh look

We recently revamped our website. The new site now boasts a fresh, clean layout with simple navigation and repackaged tables and tools.

Users can look forward to comprehensive click-to-arrange fund information. Should you require information that is fund related, you can simply click on "Fund Information and Prices" or go to "Portfolio Managers" to see who manages your particular fund as well as a brief biography on the manager.

The website maintains its popular secure services where you can register to view your portfolio information in a secure environment. Should you wish, you can also register to switch, buy or sell your unit trusts online. Click on the "register" link on our website to start the registration process.

You now have even more reason to visit our website, as we have introduced four exciting calculators that will help you establish how much you need to save to reach your goals – whether you are saving for retirement, education or to make your dreams a reality – or to determine what level of income you can draw in retirement. InvestRight™ is currently accessible from the homepage or the "New to Unit Trust Investing" section.

Remember that our website is also updated with new economic and news items on an ongoing basis, and you can now gain access to the site with the new short-name URL www.omut.co.za.



Update your details and WIN!

We have included a personal details update form along with your account statements. We would greatly appreciate it if you could check that your details are correct. If not, please complete the form and return it to us as indicated. Having your correct details on our system is vital – for security reasons and to provide you with better, swifter service.

And while a little effort is required in filling out the form, the rewards could be great. If you update or confirm your details by 30 September 2008, you become eligible to enter our lucky draw. You could be one of five lucky winners to have R5 000 worth of units added to your unit trust portfolio. See the personal detail update form for information on how to enter the competition and the rules.

Old Mutual goes Greener

You can now receive all your Old Mutual Unit Trusts communication from us via email. This not only avoids postal delays but using less paper is environmentally friendly too! We currently send out over 2 million pages of correspondence a year.

To receive electronic communication and also become eligible for our lucky draw, update your communication preference in one of a number of ways. You can simply phone our call centre at 0860 234 234 or, if you are a registered secure site user, you can request the change online. Alternatively, visit one of Old Mutual's branches, or complete the appropriate section on the enclosed personal details update form and fax it to the number provided on the form. Letters are in a PDF format and do not exceed 70 KB in size.



Fresh Thinking

Our goal is to help you grow your investments. That's why we're so pleased to introduce two fresh new concepts. Both of these are centred around your investment needs and are geared towards helping you achieve your goals. The first innovation takes a fresh look at risk, while the second can help to quantify your savings needs.

Refreshing change 1: a new take on "risk"

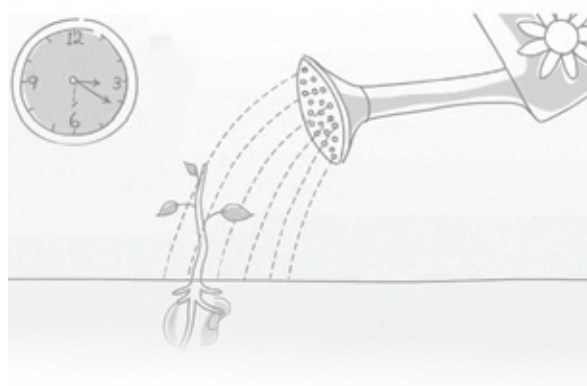
Risk is between inverted commas for a reason. That's because, traditionally, risk is viewed rather one-dimensionally – as the risk of losing money in the short term. But having tracked the Association of Collective Investments SA (ACI) statistics over a number of years, we have seen a trend where many people are making overly conservative investment choices... running the very real risk that the growth in their savings will fall short of their future expectations. That's why we have equipped advisers with the NeedRight™ tool to assist them in looking at risk in a multi-dimensional way – and in that way placing them in a better position to advise you on the appropriate choices to meet your future goals.

Rather than focusing exclusively on a risk rating, your investment decision should depend on:

- Your investment horizon: the length of time you expect to invest for.
- Your investment objective: are you investing for an income, aiming to preserve your wealth or wanting to grow your investment?
- Your risk concern: what kind of risk are you most concerned about? Volatility risk (i.e. the risk that your investment will decline in the short term), inflation risk (i.e. the risk that your money's purchasing power will be eroded over time) or some combination of the two? When it comes to investing, there is always a trade-off between volatility risk and potential return – but your personal circumstances will mean that you attach greater significance to one of these.
- Your return expectation: is your desired level of return realistic given the above? For example, if you are investing for capital stability or high levels of income in the short term, you may want to invest in a fund that holds less volatile assets such as bonds and cash. These assets will have lower long term return expectations, so a return expectation of inflation plus 1% to 3% p.a. may be realistic.

Ask your financial adviser to introduce you to NeedRight™ and illustrate how it can help you in finding an appropriate fund.

InvestRight™



Refreshing change 2: calculate that!

While NeedRight™ was developed with our advisers in mind, InvestRight™ was developed for our clients. This simple and interactive web-based guide can help you calculate how much you will need to save to meet your future financial goals – whether that goal is retirement, a dream vacation or a tertiary education for your child – or to calculate what level of income you can draw in retirement.

This tool is easy to use (it will even talk you through the process) and you will have an idea of what you need to save after a few simple questions. So why not visit www.investright.co.za, or visit our website at www.omut.co.za and follow the links from there.

We hope that these new additions to your and your adviser's investment toolkit will enable you to invest with greater confidence... and turn your investment dreams into reality.

SERVICE UPDATE

Important: make it formal!

Please note that to buy, sell or switch units you need to complete the appropriate forms. We have tried to keep them as simple and short as possible. They are available via our website www.omut.co.za (under *Investment Forms*). Alternatively, you can call 0860 234 234.

You can always get what you need.

- ☎ Call 0860 234 234 to speak to our skilled Client Service consultants.
- ✉ Email queries to unittrusts@oldmutual.com (we respond within 24 hours).
- 📍 Call 0860 700 000 for investment values, any time of day or night. Have an account number on hand.

You win again

The Old Mutual Mining and Resources Fund and SYm|mETRY Defensive Fund of Funds were winners at the 2007 Micropal Awards (previously the S&P Awards). However, our investors are the true winners for placing their trust, loyalty and investments with Old Mutual.

The Old Mutual Mining and Resources Fund clinched first position over the five-year period on a risk-adjusted basis in the Domestic Equity Mining & Resources sector. This fund has been a consistent sector standout over most periods, and is managed by Anwaar Wagner, Head of Resources and a member of the 35-person-strong Investment Research team.

According to Wagner, "While other smaller investment teams cannot cover the entire market in significant depth, our structure enables us to be highly focused in each sector and to manage sector specialist equity funds."

SYm|mETRY Multi-Manager's Defensive Fund of Funds walked off with the top performer "Best in Sector" award over five years on a risk-adjusted basis in the Domestic Asset Allocation Prudential Low Equity category.

SYm|mETRY CEO Raymond Berelowitz said the fund's award-winning risk-adjusted performance demonstrates that investors don't have to sacrifice return for security. "This really is the best of both worlds for investors," he notes. "Especially in uncertain market conditions like these, when investors are likely to be concerned about protecting their capital, it's important that our Defensive Fund of Funds is able to prove its mettle."

To find out more about these funds, visit our website at www.omut.co.za

Fund	TER* (%)	Performance % p.a.				Risk Rating
		1 year	3 years	5 years		
Balanced R	1.34	-2.1	19.5	22.5	3	
Dynamic Floor A	1.57	1.7	11.1	13.9	3	
Enhanced Income A	1.14	2.6	7.3	-	2	
Financial Services R	1.14	-22.5	12.4	22.6	5	
Flexible R	1.38	-1.5	22.1	25.4	4	
Four Plus Capital A	2.59	3.0	8.8	10.4	3	
Four Plus Global A	2.52	-6.3	13.2	14.6	4	
Four Plus Growth A	2.03	-3.7	15.3	19.2	3	
Four Plus Secure A	2.00	8.4	6.7	7.0	2	
Gilt	0.87	-2.1	2.9	6.6	3	
Global Bond Feeder	1.62	20.6	10.4	5.7	2	
Global Equity A	2.11	-4.2	15.3	13.9	4	
Global Technology	2.48	-4.2	11.1	8.8	5	
Gold R	1.16	13.5	25.4	16.2	5	
Growth R	1.15	1.5	25.6	31.0	4	
High Yield Opportunity A	1.43	-22.5	13.5	25.3	4	
Income R	0.87	7.9	7.3	8.2	1	
Industrial A	1.45	-7.0	19.3	30.5	5	
International Growth	2.82	-1.4	12.3	9.8	4	
Investors' R	1.22	0.7	24.4	29.2	4	
Mining & Resources R	1.15	49.0	54.5	44.2	5	
Money Market	0.59	10.7	8.5	8.4	1	
Real Income A	1.39	0.7	-	-	2	
SA Quoted Property A	1.22	-23.5	10.6	-	4	
Small Companies R	1.15	-22.2	20.2	31.7	5	
Stable Growth A	1.28	2.9	-	-	2	
SYmmETRY Balanced A	1.77	-1.0	16.7	20.5	3	
SYmmETRY Defensive A	1.48	1.0	13.4	17.1	2	
SYmmETRY Equity A	1.69	-7.4	21.9	25.6	4	
SYmmETRY Fixed Interest A	1.18	4.4	7.1	8.0	2	
Top Companies R	1.15	2.1	23.3	30.1	5	
UK Money Market Feeder	0.58	16.4	13.3	8.0	1	
Umbono RAFI 40 Tracker A*	-	-	-	-	4	
Umbono Top 40 A	0.73	15.6	32.3	31.9	4	
Value R	1.16	-7.8	21.3	29.2	4	
South Africa CPI		12.0	7.9	5.5		

All figures in the publication sourced (unless otherwise stated): Morningstar. Lump sum investments to the end of June 2008, distributions reinvested and NAV-NAV prices used (i.e. initial charges excluded). 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. Old Mutual Unit Trusts has been licensed by the JSE Securities Exchange SA to use the FTSE/JSE Top 40 Index name. The TER for the Old Mutual Umbono RAFI® 40 Tracker Fund cannot be accurately determined because it does not include information gathered over a full year. *TERs are as at 31 March 2008, the latest available at the time of going to press. TERs for the quarter ended 30 June will be available by 31 July 2008 on the relevant fund fact sheets or on the website. Contact our service centre at 0860 234 234 to obtain a copy 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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