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1. INTRODUCTION

This Disclosure Report contains details of the structure of the portfolio of assets underlying the Old Mutual With-Profit Annuity portfolios as at 31 December 2017, as well as returns generated by the underlying assets up until this date.

This report also includes information on the Bonus Smoothing Reserve (BSR) levels, the internal processes and philosophies of the With-Profit Annuity portfolios pertaining to increase declarations, as well as the level of capital Old Mutual holds to back portfolios with guaranteed benefits. Finally, notes on the fee and cost structures are provided.

An overview is provided of aspects and practices relating to the management of the With-Profit Annuity products. The nature, frequency, timing and format of disclosure may be reviewed in the future. This report is not intended to provide a comprehensive explanation of contractual terms and conditions, and contractual policy conditions will always prevail.

In support of improved disclosure on the management of the With-Profit Annuity products, the Disclosure Report is available on our website.

In terms of Financial Services Board Directive 147.A.i (4 December 2006), Old Mutual is required to define and publicise the principles and practices of financial management (PPFM) that are applied in the management of its discretionary participation business.

The Disclosure Report and PPFM document are available on Old Mutual’s website at: www.oldmutual.co.za/AnnuityPortfolios

or can be obtained in hard copy on request, using the contact details at the end of this report.
2. UNDERLYING INVESTMENT PORTFOLIOS

This section of the Disclosure Report provides information about the structure and performance of the investment portfolios underlying the With-Profit Annuity portfolios.

The underlying investment portfolios are managed predominantly by various investment boutiques within the Old Mutual Investment Group (Pty) Limited (OMIG).

All investment returns shown in this section are annualised, time-weighted rates of return and gross of underlying asset management fees, except for the local alternative assets portfolio where investment returns are stated net of asset management fees. The information provided in this section is in respect of funds for untaxed investors, such as retirement funds.

2.1 WITH-PROFIT ANNUITY PORTFOLIOS

The assets underlying Old Mutual’s With-Profit Annuity products include a portion allocated to matched assets, which are intended to provide cash flows that are expected to match future annuity payments, and a separate portion allocated to unmatched assets, which are focused on delivering growth to enhance future increases. The asset allocation of each product varies as a result of differences in investment guarantees and demographic profiles.

**Asset allocations per product**

The pensioner assets underlying the With-Profit Annuity products are managed in a specially designated pensioner portfolio. The product portfolios are further split into separate asset pools, each with its own asset mix. The asset pools each accommodate product and post-retirement interest rate (PRI) categories as indicated on the next page. The significance of this unique investment strategy is that it recognises the different levels of investment guarantees inherent in the various products and categories.

It is only the matched assets (actual matched assets held and percentage allocation to matching assets) which differ between the asset pools. The portfolio’s matched asset holding is set equal to the matched liability, i.e. a percentage of the future expected cash flows (including future increases) to pensioners in that product and post-retirement interest rate category, which in turn is dependent on market yields, the locked-in yield and other elements in the valuation basis, e.g. mortality.

The remaining (unmatched) assets are invested in a portfolio of assets which is primarily composed of a suitable combination of growth assets. The PRI categories of all of the products share the same unmatched asset strategy. The next table shows the actual asset allocations of the With-Profit Annuity products as at 31 December 2017.
Old Mutual With-Profit Annuities Disclosure Report – December 2017

Asset Class | Actual Allocations
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PRI Category</td>
<td>All</td>
<td>3.5% &amp; 4%</td>
</tr>
<tr>
<td>Local Matched Bonds</td>
<td>45.70%</td>
<td>49.80%</td>
</tr>
<tr>
<td>LOCAL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>18.4%</td>
<td>17.1%</td>
</tr>
<tr>
<td>Bonds, Money Market &amp; Cash</td>
<td>2.3%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Property</td>
<td>6.9%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Alternative Assets</td>
<td>6.6%</td>
<td>6.1%</td>
</tr>
<tr>
<td>GLOBAL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>15.9%</td>
<td>14.7%</td>
</tr>
<tr>
<td>Bonds &amp; Money Market</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Alternative Assets</td>
<td>3.1%</td>
<td>2.8%</td>
</tr>
<tr>
<td>African Equity</td>
<td>1.1%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Unmatched assets: strategic asset allocations

The unmatched assets are managed in a single strategy that is accessed by all With-Profit Annuity products. Within the unmatched assets, OMIG’s MacroSolutions investment boutique manages the asset allocation of the underlying portfolios in accordance with the strategic (long-term) asset allocations described below. MacroSolutions also applies tactical asset allocation tilts around these strategic allocations based on its views of the prospects for the asset classes in which the portfolios invest.

The table below shows the strategic asset allocations of the underlying portfolios for the With-Profit Annuity funds as at 31 December 2017. Although the strategic asset allocations are not expected to change frequently, Old Mutual may make adjustments if deemed necessary – for instance, if changes occur in the economic and investment environment or if a change occurs in the assessed risks in the portfolio.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Strategic Allocations With-Profit Annuity Portfolios</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOCAL</td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>36%</td>
</tr>
<tr>
<td>Bonds</td>
<td>0%</td>
</tr>
<tr>
<td>Money Market &amp; Cash</td>
<td>1%</td>
</tr>
<tr>
<td>Property</td>
<td>13%</td>
</tr>
<tr>
<td>Alternative Assets</td>
<td>15%</td>
</tr>
<tr>
<td>GLOBAL</td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>25%</td>
</tr>
<tr>
<td>Bonds &amp; Money Market</td>
<td>0%</td>
</tr>
<tr>
<td>Alternative Assets</td>
<td>6%</td>
</tr>
<tr>
<td>African Equity</td>
<td>4%</td>
</tr>
</tbody>
</table>

Over the long term, the exposure to growth assets (equity, property and alternatives) will be more than 95% of the total assets.
RISK MANAGEMENT

Investment mandates with portfolio managers include specific restrictions and limitations designed to manage risk.

The most important risk management measures are as follows:

The overweight or underweight positions (tilts) that can be taken towards or away from an asset class’s strategic weight are restricted within specified ranges. These ranges are consistent across funds. In general, the maximum tilts are less than 10% for larger asset classes (those with a strategic allocation above 10%) and less than 5% for smaller asset classes (those with a strategic allocation below 10%).

At the date of the report the portfolio could not include more than 25% in offshore assets and 5% in Africa, according to the South African Reserve Bank (SARB) requirements.

Within the matched portfolios, asset types are limited to interest-bearing instruments, and interest rate risk control mechanisms are set for the portfolio as a whole and within various term buckets.

A significant portion of the listed equity portfolio is allocated to portfolio managers that are bound by tracking error limits relative to their benchmarks.

The local equity portfolio cannot invest more than 10% of its assets in shares with a market capitalisation of R2bn or less. For larger market capitalisation shares, the local equity portfolio cannot invest more than 15% of its assets in any one share. Investment in any single company may not exceed 20% of that company’s issued share capital or voting shares without prior approval.

Derivative instruments can only be used for the purposes of investment risk reduction, efficient portfolio allocation and yield enhancement. Derivatives may not be used to speculate. Asset class exposure is shown after taking account of derivatives, i.e. effective exposure is shown.

The London Stock Exchange (LSE) listing rules do not permit Old Mutual to acquire any further shareholding in Old Mutual plc shares. A group-wide strategic holding was acquired prior to listing, and since new shares cannot be acquired, we manage this exposure centrally by allowing the listed equity boutiques to buy and sell exposure to and from this central pool. All excess exposure (i.e. shares not held by a boutique) is hedged using derivatives. Therefore customers are only exposed to the portfolio managers’ desired overall position in Old Mutual shares.

Restrictions apply to the trading of Old Mutual plc and Nedbank shares during closed periods. These restrictions apply equally to trading activity with regard to the central pool of Old Mutual plc shares.

Bond and money market assets are assigned an internal credit rating by the portfolio manager. There are exposure limits per counterparty and rating category, and minimum credit ratings at a portfolio level.

The alternative assets portfolio has diversified exposure to different types of alternative investments. An example would be investing in different types of infrastructure, such as renewable energy and toll roads. This allows for increased diversification across different geographies, industries, markets and other risk factors.

Old Mutual may, from time to time, invest in newly established portfolios where the intention is to include the portfolio in the mainstream investment strategy once it has developed a satisfactory track record. The amount that can be invested in these types of portfolios is restricted, both in aggregate and per portfolio.
Over the three-year period returns for the largest PRI categories in the respective products ranged from 9.0% per annum for the OptiPlus 5% PRI category to 8.5% per annum for the Platinum 2003 3.5%-4% PRI categories. Differences in returns between these portfolios are primarily due to the different allocations between matched and unmatched assets within each portfolio.

The benchmarks for the With-Profit Annuity portfolios are composite benchmarks of the underlying asset class benchmarks. Each of the With-Profit Annuity portfolios performed broadly in line with their respective benchmarks. Further detail about the performance of each asset class (including the matched bond portfolio) against their respective benchmarks is provided in the relevant sections of this report.

MacroSolutions’ tactical asset allocation calls had a positive impact on returns over the past three years, outperforming the strategic asset allocation benchmarks by 0.2% p.a. This outperformance was primarily driven by overweight positions in global equities and local interest-bearing assets, as well as an underweight position in global interest-bearing assets.

FORWARD VIEWS

MacroSolutions’ overweight or underweight positions (tilts) to or away from asset classes relative to the strategic allocations are shown on the next page as at 31 December 2017.
The portfolio maintains its maximum overweight position in global equity. This position is offset by being underweight to local equity, which continues to be vulnerable, especially given the muted outlook for the local economy.

Global bond yields remain unattractive at current low levels with local bonds providing reasonable value.

MacroSolutions does not take views on illiquid asset classes, namely property and alternative assets. The intention is rather to remain as close as possible to the strategic allocation over the long term, with the actual allocation varying depending on the availability of investment opportunities, maturities of investments and liquidity in these asset classes.

Details about the management of each asset class are provided in the following sections. All performance figures are quoted in South African rand (ZAR).
2.2 LOCAL EQUITY PORTFOLIO

PORTFOLIO MANAGEMENT

The local equity portfolio is designed to deliver reasonable long-term returns relative to the benchmark over time by utilising the skills of specialist boutique equity portfolio managers within OMIG. The portfolio also invests in external managers via the Old Mutual Multi-Managers capability where appropriate.

The local equity portfolio is a multi-strategy portfolio that combines a passive (“index-tracking”) portfolio with active management. The active part of the portfolio is further split between different investment styles in order to provide a smoother return profile, making the portfolio less dependent on specific market cycles for performance.

The table below provides the latest portfolio line-up, including the strategic weights to each of the portfolios as at 31 December 2017:

<table>
<thead>
<tr>
<th>Manager</th>
<th>Portfolio</th>
<th>Allocation %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passive</td>
<td>Index Tracking</td>
<td>35%</td>
</tr>
<tr>
<td>Active</td>
<td>Old Mutual Equities</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>Managed Alpha</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>Premium Equity</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>Old Mutual Multi-Managers</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>100%</td>
</tr>
</tbody>
</table>

The Old Mutual Equities (OME) team runs an actively managed portfolio that invests in undervalued shares that are expected to outperform the market over the medium to long term. The portfolio aims to achieve its performance objectives primarily through stock selection, combining this with a strong emphasis on ensuring that its portfolios are well diversified by employing a rigorous portfolio construction process.

OMIG’s Customised Solutions boutique manages the Index Tracking, Managed Alpha and Premium Equity portfolios.

The Index Tracking portfolio is an important component of the overall solution, and provides stability during times when active managers underperform the benchmark.

The Managed Alpha portfolio is a quantitatively driven investment strategy that evaluates the relative attractiveness of shares through the systematic analysis of fundamental, risk, economic and market data. The portfolio is designed to adapt to different market conditions by investing in themes that are currently driving the market. Managed Alpha provides diversification relative to other more traditional, fundamentally based, active strategies.
The **Premium Equity** portfolio employs a unique risk-controlled equity strategy that exploits opportunities within the equity derivative market. This strategy has successfully outperformed its benchmark and provided uncorrelated returns over the nearly eight years since it was included in the local equity portfolio.

**Old Mutual Multi-Managers** (OMMM) manages a portfolio of external managers for the local equity portfolio. This strategy provides further diversification within the portfolio by investing with a range of investment managers that are not part of the Old Mutual Group.

**Changes to strategic portfolio allocations**

The strategic weights to the underlying portfolios were revised slightly during 2017 in order to ensure that the local equity portfolio remains optimally positioned to deliver on its long-term performance objectives. These changes included increases in the strategic weights to the Managed Alpha and Premium Equity portfolios of 1.5% and 1% respectively, as well as a 2.5% decrease in the allocation to external managers. The composition of the external manager portfolio was also aligned with OMMM’s house-view institutional equity offering.

**Change of benchmark from SWIX to Capped SWIX**

A recent occurrence within the local equity market has been the dramatic increase in the weighting of Naspers within traditional market indices following the surge in Naspers’s price over the past few years. This resulted in significant single-stock exposure to Naspers within these indices, with the share’s weight within the SWIX Index exceeding 20% at the end of June 2017.

The JSE recently launched the **Capped SWIX** Index as a result of this increased concentration risk within the SWIX. The Capped SWIX limits its exposure to any individual share to 10%, and while this is currently relevant to Naspers, it would also apply if this situation were to occur with other shares in the future.

Following these developments, the benchmark of the local equity portfolio was changed from the SWIX Index to the Capped SWIX Index with effect from 1 July 2017. This new benchmark reduces the risk that investors face through exposure to the fortunes of a single share.

**BENCHMARK**

The performance benchmark for the local equity portfolio is the Capped SWIX Total Return Index. Prior to 1 July 2017 the benchmark was the SWIX Total Return Index.

**SECTOR ALLOCATION**

Allocations across sectors are an outcome of the blend of manager strategies. The sector tilts relative to the benchmark as at 31 December 2017 were as follows:
TOP 10 HOLDINGS
The local equity portfolio’s top 10 holdings as at 31 December 2017 are shown in the table below. The portfolio exposure indicated represents the stock holding as a percentage of the local equity portfolio.

<table>
<thead>
<tr>
<th>Stock</th>
<th>Portfolio Exposure</th>
<th>Benchmark Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Naspers Ltd</td>
<td>12.8%</td>
<td>9.1%</td>
</tr>
<tr>
<td>British American Tobacco</td>
<td>4.9%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Sasol</td>
<td>4.7%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Standard Bank</td>
<td>4.6%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Barclays Africa</td>
<td>3.7%</td>
<td>2.2%</td>
</tr>
<tr>
<td>FirstRand</td>
<td>3.3%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Old Mutual</td>
<td>3.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>MTN</td>
<td>3.1%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Remgro</td>
<td>2.5%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Anglo American Plc</td>
<td>2.4%</td>
<td>2.7%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>45.0%</strong></td>
<td><strong>40.9%</strong></td>
</tr>
</tbody>
</table>

PERFORMANCE
The local equity portfolio delivered a return of 7.5% p.a. over the three-year period to December 2017 and underperformed the benchmark by 1.1% over this period.
The financial and industrial sectors were the best performing local sectors over the three-year period with returns of 9.7% p.a., relative to the resources sector, which delivered -0.1% over the same period. However, the resources sector has had a strong rally over the last two years delivering 25.8% p.a.

The Old Mutual Equities portfolio underperformed its benchmark over the past three years by 1.6% p.a., primarily due to an underweight position in the resources sector during the last two years. Stock selection within the industrial sector also contributed to the underperformance over the period.

The Managed Alpha Equity portfolio underperformed the benchmark by 0.8% p.a. over the last three years, which was largely due to underperformance of the stock picks in the industrial sector.

The Premium Equity portfolio was the best performing internal fund over the three-year period and managed to outperform the benchmark by 1.2% p.a. over this period. Performance was largely driven by the derivative strategy while good stock picks within the industrial and financial sector also added to outperformance.

The Old Mutual Multi-Managers (OMMM) external manager portfolio has underperformed the benchmark by 2.7% over the last three years.

The Capped SWIX Tracking portfolio delivered in line with its objective of tracking the Capped SWIX index, and remains within 0.1% of its benchmark over all periods.
2.3 LOCAL UNMATCHED INTEREST-BEARING PORTFOLIO

PORTFOLIO MANAGEMENT
The local interest-bearing portfolio consists of bond and money market assets. The overall bond portfolio is a combination of a core bond and a yield-enhanced bond portfolio. The bulk of the assets are managed by Futuregrowth – OMIG’s specialist fixed-income investment boutique.

BENCHMARK
The performance benchmarks for the bond and money market portfolios are the All Bond Index (ALBI) and STeFI Composite Index, respectively. The bond portfolio is at all times limited to an average modified duration within one year of the average modified duration of the benchmark.

PERFORMANCE
Bond yields improved strongly in December 2017, mainly as a result of improved market sentiment. This resulted in strong asset performance for the year ended 2017. Performance across the interest-bearing portfolio has also been strong over longer periods, with outperformance over three and five years.

![Annualised 3-year return to 31 December 2017](image)

The overall bond portfolio outperformed the ALBI benchmark by 0.8% p.a. over three years. The main drivers of good returns included:
- An overweight position in bonds with a maturity of 1-7 years
- A small exposure to short-dated inflation-linked bonds
- Strong performance of the underlying credit investments
- The money market portfolio outperformed the STeFI benchmark by 1.0% p.a. over three years and 0.7% p.a. over five years.
LOCAL BOND PORTFOLIO EXPOSURE BY DURATION

As at 31 December 2017, the bond portfolio has an underweight modified duration position relative to the ALBI. The bond portfolio is overweight in short- to medium-term bonds (1-7 years) and underweight in longer-dated bonds (7-12 years and 12+ years). The following graph shows the maturity profile of the local bond portfolio compared to the benchmark.
LOCAL BOND PORTFOLIO CREDIT STRUCTURE

The bond portfolio largely consists of securities with credit ratings of A or higher, with a small portion in unlisted credit in order to increase the overall credit yield of the portfolio. The following graph shows the credit profile of the local bond portfolio and its benchmark as at 31 December 2017:

![Credit Profile Graph]

2.4 LOCAL MATCHED INTEREST-BEARING PORTFOLIO

PORTFOLIO MANAGEMENT

Old Mutual Investment Group’s Liability Driven Investments (LDI) boutique manages the local matched interest-bearing asset portfolio.

BENCHMARKS

The investment objective for the matched interest-bearing portfolio is to match a fixed proportion of the guaranteed pension and future increases. The asset manager also aims to earn additional yield spread above the South African government bond yield curve, subject to staying within defined risk control limits (such as interest rate risk and credit risk).
MATCHING STRATEGY

The fixed-interest assets backing With-Profit Annuities are invested to match the pattern of expected pension payments. The assumed future bonuses are based on yields secured at the time of matching. The matching assets provide an overall rate of return per annum known as the locked-in yield. This provides valuable stability to the With-Profit Annuity portfolios. Interest rate volatility (and the resultant fluctuations in capital values) is thus largely controlled.

The asset manager is required to ensure that the value of the assets moves as closely as possible in line with movements in the value of the liabilities. However, the asset manager is mandated to pursue opportunities for investment outperformance, subject to staying within the defined risk control limits.

The benchmark performance is the value of the liability, which is affected by factors such as mortality, and thus cannot easily be hedged by the asset manager. Therefore, we do not compare performance of this portfolio against the benchmark in this report. The portfolio is rebalanced quarterly.

The table below shows the exposure by asset duration of the With-Profit Annuity products as at 31 December 2017:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All</td>
<td>3.5% &amp; 4%</td>
<td>4.5% &amp; 5%</td>
</tr>
<tr>
<td>0 - 3 years</td>
<td>21.3%</td>
<td>18.6%</td>
<td>19.7%</td>
</tr>
<tr>
<td>3 - 7 years</td>
<td>16.3%</td>
<td>11.5%</td>
<td>11.3%</td>
</tr>
<tr>
<td>7 - 12 years</td>
<td>10.6%</td>
<td>7.4%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Longer than 12 years</td>
<td>49.6%</td>
<td>60.6%</td>
<td>56.1%</td>
</tr>
<tr>
<td>Cash</td>
<td>2.2%</td>
<td>1.9%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Total Matched Portfolio</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
2.5 DIRECT PROPERTY PORTFOLIO

PORTFOLIO MANAGEMENT

The direct property portfolio invests in a diversified range of unlisted properties, with exposure across the retail, office and industrial property sectors. While the majority of the portfolio’s assets are located within South Africa, the portfolio has recently started to diversify its exposure into other countries where suitable opportunities exist. The portfolio is managed by Old Mutual Property Management Services (OMPMS).

BENCHMARK

The performance benchmarks for property investments are:

Developed properties: SAPOA/IPD\(^1\) South African Property Total Return Index. This index is compiled annually and published up to six months in arrears. Actual performance of the portfolio is used to estimate the benchmark portfolio performance until the latest IPD figures are available. Benchmark performance is then updated retrospectively.

Properties that are under development, and vacant land: South African inflation (CPI).

EXPOSURE BY TYPE AND REGION

The direct property portfolio is dominated by large retail shopping centres. Large industrial properties and selected office space also form part of the broader strategy, as well as pockets of land strategically held for development.

As at 31 December 2017, the exposure of the property portfolio to the various property sectors was as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>Sector</th>
<th>Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>Retail</td>
<td>67.7%</td>
</tr>
<tr>
<td></td>
<td>Industrial</td>
<td>6.5%</td>
</tr>
<tr>
<td></td>
<td>Office</td>
<td>13.2%</td>
</tr>
<tr>
<td></td>
<td>Land</td>
<td>7.7%</td>
</tr>
<tr>
<td>Kenya</td>
<td>Retail</td>
<td>3.2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Office</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

The largest properties in the portfolio include Gateway Shopping Centre (Durban), Cavendish Square (Cape Town), Bedford (Johannesburg), Riverside Mall (Nelspruit), The Zone (Johannesburg) and the Mutualpark office building (Cape Town).

---

\(^1\) Investment Property Databank (IPD) a leading global provider of real estate analysis
The table below shows the exposure across the provinces:

<table>
<thead>
<tr>
<th>Country</th>
<th>Province</th>
<th>Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>KwaZulu-Natal</td>
<td>32.7%</td>
</tr>
<tr>
<td></td>
<td>Gauteng</td>
<td>29.9%</td>
</tr>
<tr>
<td></td>
<td>Western Cape</td>
<td>24.5%</td>
</tr>
<tr>
<td></td>
<td>Mpumalanga</td>
<td>5.2%</td>
</tr>
<tr>
<td></td>
<td>Eastern Cape</td>
<td>2.8%</td>
</tr>
<tr>
<td>Kenya</td>
<td></td>
<td>3.2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td></td>
<td>1.6%</td>
</tr>
</tbody>
</table>

The high exposure to KwaZulu-Natal is primarily due to the investment in the Gateway Shopping Centre, which is the largest single property in the portfolio.

**PERFORMANCE**

The direct property portfolio has performed well in recent years, with three-year performance comfortably ahead of benchmark. This strong performance has been driven by portfolio management activities that were focused on enhancing the quality of the portfolio, including:

- Rationalisation and re-orientation of the portfolio via the successful disposal of properties that do not form part of the long-term portfolio strategy.
- Making use of the interest rate cycle to raise debt at attractive rates, thereby gearing the fund at opportune times.
- Growing net income by reducing vacancies and municipal expenses, adopting proactive leasing strategies; and progressing development opportunities in new and existing buildings.
- Expansions at Gateway and Cavendish, which have contributed to growth in net income.
In addition to the performance of the entire property portfolio, it is also useful to compare the performance of the developed properties which dominate the portfolio to the IPD South African Large Funds Index. This index represents the average underlying property performance of 13 of the largest South African institutional property funds (funds larger than R10bn), covering more than 1,449 properties (over R296.6bn). Old Mutual contributes to this index, as do the large listed property companies.

Since IPD evaluates the performance of income-producing properties, undeveloped land and properties that are in the process of being developed are excluded from portfolio performance. These assets would reduce overall performance as they include development costs and are not yet rented out. However, they are strategic assets which are expected to unlock value in the future. The effect of gearing is also excluded for this comparison. Adjusting the above performance to ensure an appropriate comparison provides the following history (2017 IPD returns will be available towards the end of Q2 2018):

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core income-producing properties</td>
<td>17.7%</td>
<td>14.0%</td>
<td>16.0%</td>
</tr>
<tr>
<td>IPD universe (large funds)</td>
<td>12.9%</td>
<td>12.7%</td>
<td>11.2%</td>
</tr>
</tbody>
</table>

Performance has improved significantly in recent years, and the portfolio of income-producing properties has outperformed the comparable IPD universe in each of the previous three years, indicating that the recent portfolio management activities have had a positive impact on performance. The fund has outperformed the IPD benchmark over a 3-, 5- and 10-year cycle.

PORTFOLIO CHANGES

During 2017 further changes were made to the way in which the property portfolio is structured and managed, with the objective of improving future performance outcomes.

The fund undertook several yield-enhancing developments and acquisitions, including a 20,000m² expansion at Gateway, which is currently underway and expected to be completed during 2018. This expansion is expected to entrench Gateway as one of the premier centres in South Africa. Further expansions were undertaken at Cavendish and Rosebank, with the introduction of new international and local retailers which have improved the overall mix and performance of the centres.

The portfolio successfully acquired the Bedford Centre in Bedfordview, Johannesburg in October 2017. This acquisition increased the portfolio’s exposure to Gauteng and reduced concentration to the Gateway Shopping Centre in KwaZulu-Natal.

The portfolio increased its offshore exposure during 2017 by investing in a diversified portfolio of offices and industrial properties in the UK. The management team in the UK focuses on adding value through selective property acquisitions and ensuring that the properties are tenanted by low risk tenants (typically larger companies).
2.6 LOCAL ALTERNATIVE ASSETS PORTFOLIO

PORTFOLIO MANAGEMENT

The local alternative assets portfolio includes:

- Private equity investments (shares in unlisted companies).
- Infrastructure investments in commercially viable development projects, predominantly within South Africa, including renewable energy, toll roads, utilities and prisons.
- Development finance, which mainly consists of assets that meet the definition of targeted investments in the Financial Sector Charter (FSC). This includes investments in affordable housing and schools, as well as in companies that provide end-user finance to low- to middle-income earners.
- Agricultural investments, which comprise South African agricultural land and associated infrastructure.

The FSC assets were included in our local alternative assets portfolio from June 2014 and performance for FSC is reflected from this date onwards.

The portfolio is managed by the Old Mutual Alternative Investments (OMAI) boutique, with the exception of the agricultural investments, which are managed by OMIG’s Futuregrowth boutique.

BENCHMARK

The overall performance benchmark for the local alternative assets portfolio is a composite which includes an inflation-linked component and is assessed over rolling three-year periods. Asset strategies within this class are also managed according to their own individual benchmarks.

Over the short to medium term, performance relative to the inflation-related benchmark may not reflect the skill of the asset manager. Therefore consideration is given to the market and inflation environment when assessing relative performance over three-year periods. Given the long-term nature of this asset class and its non-investable benchmark, we show returns for periods of three and five years for alternative assets.
PERFORMANCE

The performance shown below for the local alternative assets portfolio is reflected net of investment management fees.

The local alternative assets portfolio has underperformed its benchmark over both three and five years. While a number of the underlying portfolios continue to perform well, underperformance within parts of the Development Finance portfolio detracted from the overall performance of the alternative assets portfolio. The local alternative assets portfolio has outperformed CPI by approximately 4.2% p.a. over the past five years.

Infrastructure investments continued to deliver strong inflation-beating returns during 2017, and the infrastructure portfolio remains ahead of its target over the medium to long term. The underlying investments have started to mature, and a number of the infrastructure development projects are complete and operational. Operational performance was generally strong across the portfolios.

Private equity detracted from performance during 2017, largely as a result of the impact that challenging economic conditions had on some of the underlying portfolio companies. Despite this recent underperformance, the Private Equity portfolio has outperformed its investment targets over the long term.

The underperformance of the Development Finance portfolio in recent years was predominantly caused by the portfolio’s exposure to affordable housing developments, which have been materially impacted by the downturn in the local economy.

Over the long term, the local alternative assets portfolio continues to deliver strong returns against a challenging benchmark, and has contributed positively to overall portfolio returns over the past ten years.
2.7 GLOBAL EQUITY PORTFOLIO

PORTFOLIO MANAGEMENT

The bulk of the global equity portfolio is invested in MacroSolution’s Multi-Style global equity portfolio, which aims to generate returns above the benchmark by allocating funds to underlying offshore asset managers. This is an actively managed strategy that blends different managers and investment styles in order to target a relatively stable performance outcome. The majority of the underlying portfolios are managed on a global basis, allowing managers to invest in both developed and emerging markets.

The table below provides the latest Multi-Style portfolio line-up, including the strategic weights to each of the portfolios as at 31 December 2017 including an overview of how the strategy changed during the year:

<table>
<thead>
<tr>
<th>Manager</th>
<th>Strategy</th>
<th>Strategic Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>OMIG Customised Solutions</td>
<td>MSCI World ESG Tracker</td>
<td>9%</td>
</tr>
<tr>
<td>OMIG GEM Boutique</td>
<td>Global Emerging Markets</td>
<td>1%</td>
</tr>
<tr>
<td>OMIG MacroSolutions</td>
<td>Global Macro</td>
<td>10%</td>
</tr>
<tr>
<td>Acadian</td>
<td>Global Quant</td>
<td></td>
</tr>
<tr>
<td>Barrow Hanley</td>
<td>Global Value</td>
<td>10%</td>
</tr>
<tr>
<td>Fiera Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baillie Gifford</td>
<td>Global Growth</td>
<td>80%</td>
</tr>
</tbody>
</table>

CHANGES TO STRATEGIC PORTFOLIO ALLOCATIONS

During 2017, the Multi-Style portfolio introduced exposure to a passively managed portfolio that tracks the MSCI World ESG Developed Market Index as well as exposure to the Old Mutual Global Emerging Markets portfolio. These exposures account for about 10% of the portfolio.

UNDERLYING PORTFOLIOS

**Acadian:** Acadian Asset Management LLC specialises in global and international quantitative equity strategies. Acadian seeks to capture the fundamental drivers of stock return, exploiting market inefficiencies through a quantitative investment process.

**Barrow, Hanley, Mewhinney & Strauss:** The manager provides value-oriented investment strategies across various international markets. Their equity portfolios are designed from the bottom up with a strong value underpin and tend to exhibit below-market price-to-earnings ratios, below-market price-to-book ratios, and above-market dividend yields, regardless of market conditions.

**Baillie Gifford:** The manager uses fundamental analysis and proprietary research in order to identify companies that it believes will deliver above-average profit growth over the long term. The manager constructs portfolios on a bottom-up basis with the objective of outperforming its benchmark over the long term.
Fiera Capital: Fiera Capital is a growth-oriented manager that seeks to exploit opportunities in long-term quality growth companies with high returns and supportive intrinsic valuations. Investments are made with a long-term horizon, which leads to low portfolio turnover.

MSCI World ESG Tracker: This portfolio tracks the performance of the MSCI World ESG Index. The index is designed to give effect to responsible investing by investing more heavily in companies that meet specific economic, social and governance (ESG) criteria. The ESG Index targets the same sector and regional weights as the MSCI World Index in order to target performance that is similar to that of the MSCI World Index, whilst still achieving the broader objective of investing in companies with strong ESG ratings.

Global Emerging Market (GEM): The GEM portfolio invests in a diversified portfolio of shares listed on emerging market (EM) exchanges around the world. The strategy is value based, targeting superior returns by investing in companies with quality business models, high margins of safety in their fundamental valuations, and governance standards that meet minimum requirements.

Global Macro portfolio: The Global Macro equity portfolio is an active equity portfolio which applies top-down views in order to generate outperformance relative to the global equity benchmark. Active positions are taken predominantly in regions, countries, sectors and currencies. The portfolio is run by OMIG’s MacroSolutions boutique.

BENCHMARK

The performance benchmark for the global equity portfolio is the total return of the MSCI All Country World Index (net of dividend withholding tax) measured in South African rands.

The underlying portfolios, within the global equity portfolio, have the following benchmarks:

- Acadian – Morgan Stanley Composite Index (MSCI) All Country World
- Barrow Hanley Mewhinney & Strauss – Morgan Stanley Composite Index (MSCI) All Country World Value
- Ballie Gifford & Fiera Capital – Morgan Stanley Composite Index (MSCI) All Country World Growth
- MSCI ESG World Tracker – Morgan Stanley Composite Index (MSCI) ESG World
- GEM – MSCI Global Emerging Markets
STYLE ALLOCATION

- Global Growth: 27%
- Global Value: 27%
- Global Macro: 10%
- Global Quant: 27%
- Global Emerging Markets: 1%
- MSCI World ESG Tracker: 9%

REGIONAL ALLOCATION TILTS

- Americas: -6.8%
- EMEA: 8.9%
- Asia Pacific: -2.1%

EMEA = Europe, Middle East, Africa
PERFORMANCE

The global equity portfolio outperformed the benchmark by 1.1% p.a. over the three-year period. This was primarily a result of strong investment performance from Barrow Hanley (Global Value) as well as Baillie Gifford and Fiera Capital (Global Growth), all of whom materially outperformed their respective benchmarks. Acadian (Global Quants) performed slightly below its benchmark over the period.

Over the past two years the portfolio had an overweight position in emerging markets, which also contributed positively to the outperformance.

Compared to peers the portfolio is in the top quartile over one, two, three and four years in the Morningstar Large Cap Blended Category and over five years the portfolio is in the top third of peers.
2.8 GLOBAL INTEREST-BEARING PORTFOLIO

PORTFOLIO MANAGEMENT

The global interest-bearing portfolio consists of global bond and global cash assets. OMIG’s MacroSolutions boutique manages the global interest-bearing portfolio by allocating funds to the underlying offshore asset managers. Rogge (based in London, UK) is currently the only investment manager used within this portfolio.

The sub-asset classes within the portfolio are:
- Global aggregate bonds
- Global cash, and
- Global emerging market (EM) debt.

BENCHMARK

The performance benchmark for the global bond portfolio is the Barclays Capital Global Bond Aggregate Index. The portfolio is at all times limited to an average duration of within one year of the average duration of the benchmark.

The performance benchmark for the global cash portfolio is a composite basket of three-month money market instruments where the weights of the instruments in the basket are equivalent to the currency weights in the International Monetary Fund’s Special Drawing Rights Basket.

The performance benchmark for the global emerging market debt portfolio is the JP Morgan Global Bond Index Emerging Markets Diversified Index.

REGIONAL ALLOCATION

During 2017, the portfolio increased its weighting in the Europe, Middle East and Africa (EMEA) regions while reducing its overall exposure to the Asia Pacific regions. The regional tilts of the global bond portfolio are shown below:

Regional weights as at 31 December 2017

<table>
<thead>
<tr>
<th>Region</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>-15%</td>
</tr>
<tr>
<td>EMEA</td>
<td>-10%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>-5%</td>
</tr>
<tr>
<td></td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>15%</td>
</tr>
</tbody>
</table>

EMEA = Europe, Middle East, Africa
PERFORMANCE

Developed market bonds were marginally positive in the month of December 2017. Bond yields did not move dramatically during the year with the US 10-year yield ending 2017 close to where it started. However, short-term yields have increased substantially in anticipation of further tightening of monetary policy in the US. The gap between longer- and shorter-dated yields fell but still remained positive.

The global interest-bearing portfolio has outperformed the benchmark over three and five years. This performance, in rand terms, is shown below:

The portfolio outperformed the benchmark by 0.5% p.a. over three years. The portfolio has performed well in USD terms, but the strength of the rand has negatively impacted performance in rand terms. The portfolio has benefited by holding overweight positions in EM debt and currencies (and underweight in USD debt and currency).

Over three years, the Global Aggregate Bond Index returned 4.3%. Global developed market government bonds were up 4.2% while EM local government bonds were up 4.9%.
2.9 GLOBAL ALTERNATIVE ASSETS PORTFOLIO

PORTFOLIO MANAGEMENT

The global alternative assets portfolio is managed by the Old Mutual Alternative Investments (OMAI) boutique. A portion is also invested in direct property, which is co-managed by Old Mutual Property Management Services.

The portfolio primarily consists of:
- Private equity investments, held via a fund of funds structure managed by OMAI.
- Infrastructure investments, which are also managed by OMAI.
- Direct property investments in India, which are co-managed by Old Mutual Property Management Services.
- African private equity and infrastructure investments. These investments were transferred to the global alternative assets portfolio during 2016.

BENCHMARK

The benchmark for the global alternative assets portfolio is US CPI + 5% p.a. in US dollars, assessed over rolling five-year periods. Asset strategies within this portfolio are managed according to their own individual benchmarks.

Over the short to medium term, performance relative to the inflation-related benchmark may not accurately reflect the skill of the asset manager, and therefore the market and inflation environment should also be considered when assessing relative performance over these periods.

PERFORMANCE

The performance shown below has been constructed reflecting the performance of the underlying investments and their respective benchmarks from their respective inception dates over the past three and five years.
The global private equity programme consists primarily of three separate private equity fund-of-fund ("FOF") portfolios that are in various stages of investment. The first FOF is mature and has delivered strong investment returns over its lifespan. The second FOF is mid-lifecycle and also performing well relative to expectations at this stage. The first and second FOF portfolio benefited from strong global equity markets, which in turn resulted in a general increase in asset values. A third FOF was established during 2017, and is currently in the process of making commitments to underlying private equity portfolios.

The African infrastructure and private equity investments comprise a mixture of early-stage, developmental investments as well as later-stage operational assets. The African portfolio detracted from performance over both three and five years, largely as a result of the rand strengthening against the US dollar.

### 2.10 AFRICAN EQUITY PORTFOLIO

#### PORTFOLIO MANAGEMENT

Exchange control regulations and Regulation 28 of the Pension Funds Act allow retirement funds to invest up to 5% in African assets. This is in addition to the allowance for foreign investments of 25% (increased to 30% in the 2018 budget speech).

The African equity portfolio is currently managed by the Old Mutual Equity (OME) boutique within OMIG. The portfolio is an actively managed fundamental equity portfolio which aims to outperform its benchmark over the long term.

The African equity portfolio was previously also invested in an index-tracking portfolio. During 2017 the index-tracking portfolio was closed, and the assets were transferred to the OME portfolio. This decision was primarily driven by technical difficulties of tracking an index in Africa, as well as a preference for equity investments in Africa to be actively managed.

#### BENCHMARK

The African equity portfolio benchmark is the MSCI Emerging Frontier Markets Africa (with a component excluding South Africa).
PERFORMANCE

Performance shown below is depicted in rand terms and is to the end of December 2017.

The African equity portfolio outperformed its composite benchmark by 2% p.a. over the three-year period to 31 December 2017. After two difficult years, African markets (excluding South Africa) rebounded strongly in 2017. The largest markets in Africa are Nigeria and Egypt. Both of these countries have gone through significant currency devaluations in the last 18 months, but have rebounded strongly in local currency terms over the last year. Morocco has been the best performing stock market in US dollar terms. Outperformance over the period can primarily be attributed to exposure to consumer stocks in Morocco and underweight positions in Nigerian stocks. It should be noted that performance across the various African stock markets is extremely volatile from month to month and performance relative to benchmark can therefore change rapidly.
2.11 OTHER ASSET STRATEGIES

SECURITIES LENDING
Old Mutual enters into securities lending contracts in respect of the underlying portfolio. The portfolio, and hence the customers participating in this portfolio, receive the full revenue of the transactions, less the fees of the facilitating agent.

Old Mutual Specialised Finance (Pty) Ltd (OMSFIN), a subsidiary of Old Mutual South Africa Limited, is appointed as the agent, and fees paid to them are periodically market-tested. These fees are currently based on the sliding scale below, separately for bonds and equities, with the agent carrying all expenses incurred in securities lending:

<table>
<thead>
<tr>
<th>Fees Paid to Agent²</th>
<th>Bonds and Equities</th>
</tr>
</thead>
<tbody>
<tr>
<td>35%</td>
<td>First R4.5bn</td>
</tr>
<tr>
<td>30%</td>
<td>Second R2.25bn</td>
</tr>
<tr>
<td>25%</td>
<td>Above R6.75bn</td>
</tr>
</tbody>
</table>

DERIVATIVE STRATEGIES
Derivative instruments are used to enhance the portfolio and not to speculate. Portfolio managers are not allowed to use derivatives to speculate and may not borrow money to fund derivative positions.

The investment mandates limit the use of derivatives to:
• enhancing the efficiency of asset allocation, including the equitisation of cash;
• adjusting the duration of interest-bearing portfolios, provided it is within mandated risk limits;
• reducing investment risk via hedging, which provides insurance against specific events or reduces the tracking error; and
• enhancing yield through derivative price anomalies.

²This fee is expressed as a percentage of the revenue earned on transactions with magnitude shown for bonds and equities.
2.12 RESPONSIBLE INVESTMENT

INTRODUCTION

Responsible Investment (RI) is a key part of Old Mutual’s broader approach to Responsible Business, characterised by five pillars:
1. Responsible to our Customers
2. RESPONSIBLE INVESTMENT
3. Responsible to our Employees
4. Responsible to our Communities
5. Responsible Environmental Management

At Old Mutual we believe that Responsible Investment (RI) is essential to our goal of pursuing long-term returns for our customers, while aligning with the broader interests of society. In 2012, Old Mutual became a signatory to the United Nations Principles for Responsible Investment (UNPRI), the overarching global framework on ESG (economic, social and governance) issues in investment and ownership decision-making practices.

Old Mutual’s approach to RI is founded on an understanding of the growing sustainability trend and its potential to impact the competitive landscape across sectors. Old Mutual therefore believes that incorporating ESG factors into its investment process and asset ownership practices is important to assist in delivering in line with our obligations to beneficiaries. We also recognise that doing so will align with the broader objectives of society. This aligns to the ideals of the UNPRI.

How we practically endorse our beliefs in RI is channelled through three key themes:
• ESG incorporation into Investment Process
• Active Ownership, through Proxy Voting and Company Engagement
• Disclosure of Policies and Implementation.

ACTIVE OWNERSHIP

OMIG’s active ownership practices are guided by its proxy voting policy and active ownership policy, which are available online. Active ownership is also informed by a proprietary governance model that evaluates companies on a range of ESG criteria.

The graph on the next page summarises the proxy voting activity by OMIG, in respect of the local listed equity investments of the portfolios. It displays the proportion of votes cast across various categories of resolutions, as well as the proportion for/against within the resolution category.
OMIG’s policy is to vote on 100% of resolutions and it has adopted a proactive engagement process whereby, in the event the decision is to vote against a resolution, the company is contacted to discuss the concerns regarding the resolution. When electing directors, votes are guided by the aim of achieving appropriate composition of boards with respect to experience, balance, independence, diversity etc. When voting on remuneration policies, the aim is to achieve alignment between the company’s business strategy and the long-term interests of shareholders. During 2017, OMIG successfully engaged with companies on a broad range of ESG issues. OMIG further participated in various industry initiatives on key sectoral or thematic matters such as the Mining Charter and Integrated Reporting.
INVESTMENTS IN SUSTAINABILITY

Old Mutual has also made significant investments in sustainability, which offers attractive investment returns for customers while achieving desirable outcomes for society and the natural environment. These investments are accessed through the alternative assets allocations (equity) and through the Interest-bearing asset allocations (debt). Examples of sustainable investments include:

Infrastructure: The local alternative assets portfolio has exposure to infrastructure investments (including renewable energy projects) of over R5bn.

Agriculture: Investment in agriculture ensures environmentally sustainable methods of agriculture; provides education, healthcare and training for staff; while upholding high ethical and business standards. The local alternative assets portfolio currently has over R600m invested in agriculture in South Africa and on the broader African continent.

Development Finance: The local alternative assets portfolio currently has exposure of over R5bn to development finance initiatives. These include investments that are aligned with the requirements of the Financial Sector Charter, for example housing and schools, where exposure is gained via the Housing Impact Fund, and Schools Fund.

RI DISCLOSURE

As a signatory to the UNPRI, the Old Mutual Group prepares an annual report of its RI activities, the results of which are available on the UNPRI website.

Old Mutual’s RI Policy and other documents listed below are available publicly on Old Mutual’s website by following the RI link at Responsible Investing and browsing the Responsible Investment pages for Old Mutual and OMIG.

Alternatively, click directly on the links below:

- Responsible Investment Policy
- OMIG RI Resources – for example, the RI Policy, the Proxy Voting Policy and the CRISA Report
- UNPRI Transparency Report

4 Responsible Investing Link: www.oldmutual.co.za/CorporateRI
5 Responsible Investment Policy Link: www.oldmutual.co.za/CorporateRI
6 OMIG RI Resources Link: http://www2.oldmutual.co.za/old-mutual-investment-group/about-us/responsible-investing/ri-resources
3. INCREASES

INCREASE PHILOSOPHY
The surplus attributable to With-Profit policies (i.e. generally, the net investment return earned on policyholder funds) is credited to a Bonus Smoothing Reserve (BSR), from which annuity increases are declared. The BSR is in effect the excess of the market value of the assets over the value of the liabilities. Increases declared usually differ from the actual net (of charges and pricing interest rate) investment return earned in a year, so as to reduce the impact of short-term volatility of returns to policyholders. The PRI is deducted from the investment return earned in determining the surplus available for annuity increases, as this has already been taken into account in determining the annuity instalments.

In years when above-average investment returns are earned, the increases tend to be lower than the net investment return earned, and in years when below-average investment returns are earned, the increases tend to exceed the net investment return earned.

A positive BSR balance represents a surplus attributable to With-Profit policyholders that has not yet been declared as increases and that will be used to support subsequent increases. A negative BSR balance means that more has been declared as increases to policyholders than has been earned to that date (as a consequence of the smoothing process), and that the deficit will be recovered in future increase declarations (i.e. future annuity increases will be less than the future net investment returns earned).

The BSR is increased with a surplus in years of favourable performance and decreased in years of unfavourable performance. The BSR is reduced further by the cost of the declared increases, the charge for investment guarantees (i.e. the capital charge), the cost of the PRI on benefit payments, and investment management charges.

It is important to note that the BSR is used to declare bonuses for the benefit of With-Profit Annuity customers only, and cannot be accessed by Old Mutual shareholders.

SOURCES OF PROFIT
Pensioners participate in the investment and mortality profits/losses generated by the product to which they belong, through the increases.

Investment profits are realised for each PRI category only if the net returns earned on the underlying assets are in excess of the PRI. Mortality profits will arise if pensioners do not live as long as expected. Mortality losses will arise if pensioners live longer than expected. The main source of profits is likely to be investment profits.

Annuity increases, once granted, are guaranteed and can never be removed. However, the level of future increases is not guaranteed.

INCREASE DECLARATION PROCESS
Increases are declared annually in arrears, based on the financial position at the relevant product’s year-end. The increases are declared at the discretion of the Board of OMLAC(SA) and are based on the recommendation by its statutory actuary. In assessing the amounts to declare, the Board of OMLAC(SA) will look primarily at the size of the relevant BSR. The long-term target level for the BSRs is in the 0% to 5% range. The level of the BSRs can vary outside this range depending on market conditions.
In determining a minimum BSR level, the criterion applied is that any negative BSR should be capable of being recouped within, at most, three years. If recoupment is not possible within three years, shareholder funds are used to rectify the situation. In determining the maximum level, consideration is given to the maintenance of equity between different generations of pensioners.

It is important to note that the BSRs are used to declare increases for the benefit of the annuity policyholders only, and cannot be accessed by Old Mutual’s shareholders.

Additional factors considered by the Board when determining the increases to be declared include the following:

- The reasonable expectations of annuity policyholders as to the size of the increase.
- The impact of an extremely negative market environment on increases. For example, in such an environment increases will be affected by the need to ensure that the BSR does not become too negative, as this would adversely affect subsequent increase declarations.
- Old Mutual’s competitive position against the bonus/increase declarations of with-profit products offered by other providers.

ALLOWANCE FOR MANAGEMENT ACTION IN ADVERSE CIRCUMSTANCES

As mentioned, the long-term target level for the BSRs is within the range of 0% to 5% of the liabilities. Tolerance for BSR levels outside this range reduces as the absolute levels move further away from this range. The tolerance for a particular level of smoothing reserve also depends on the prevailing investment and economic conditions and outlook.

The focus is particularly on a three-year time horizon, in line with the guidelines of the Actuarial Society of South Africa as described in this section. While Old Mutual has some internal guidelines, there are no absolute levels set at which particular management actions are automatically taken. Such an approach could be imprudent, as it may not consider all the factors involved at the time. If the BSR trends away from the long-term average, however, the extent of management action will become more pronounced, taking due cognisance of the economic and investment environment at all times.

BSR CHARGES

The following costs are deducted from the BSRs:

- **INVESTMENT MANAGEMENT CHARGE**
  The investment management charge is currently approximately 0.7% to 0.8% of assets per annum. It may vary slightly depending on the asset allocation and asset manager performance relative to benchmark. Annuity increases are declared net of this charge.

- **THE COST OF PROVIDING GUARANTEES**
  Old Mutual guarantees that existing annuities will be paid for the life of each annuitant, and that any increase, once granted, will also be guaranteed for the annuitant’s life. The price that Old Mutual levies for these guarantees is the capital charge. Capital charges are levied monthly in arrears on the assets of each product’s underlying portfolio. Thus any increases declared are net of these charges. The current capital charges in respect of the various With-Profit Annuity products are set out in the document “Capital Charges applying to Discretionary Participation Business” on Old Mutual’s website and are available in hard copy on request.
4. FEE STRUCTURE

The fees for new business as at 31 December 2017 were:

INITIAL ONCE-OFF ADMINISTRATION FEES
• R800 for the first annuitant in the family unit; plus
• R400 for each additional annuitant.

RENEWAL ADMINISTRATION FEES
The renewal fee was R95 per annuitant per month, capitalised and included in the premium.

For other charges relating to the management of these products, please refer to the Increases section of this report.
5. **BONUS SMOOTHING RESERVE LEVELS**

Old Mutual is required to disclose Short-term Bonus Smoothing Reserve (ST-BSR) levels below -7.5% for With-Profit Annuity products.

Old Mutual complies with this requirement by making information relating to the BSR levels for all classes of business publicly available.

As at 31 December 2017, the ST-BSR levels for all of the With-Profit Annuity products issued by OMLAC(SA) were greater than the stated level of -7.5% of the value of the liabilities in that class.
6. PRODUCT PORTFOLIO SIZE

As at 31 December 2017, the size of the With-Profit Annuity portfolios were approximately:

<table>
<thead>
<tr>
<th>Assets Under Management</th>
<th>31 Dec 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensions OptiPlus</td>
<td>R15.5bn</td>
</tr>
<tr>
<td>Platinum Pension (1999)</td>
<td>R12.9bn</td>
</tr>
<tr>
<td>Platinum Pension 2003</td>
<td>R13.5bn</td>
</tr>
</tbody>
</table>

Please note that these amounts include the BSR values.
7. RINGFENCING

The portfolios of underlying assets that support the various With-Profit Annuity products are all managed separately from each other as well as the assets of other products (both policyholders and shareholders). This separation extends to the individual BSRs that form an integral part of the portfolios of underlying assets that support each product.

Old Mutual’s With-Profit Annuities are managed in accordance with a specific mandate as described earlier in this document.

Although the assets are managed separately they are not housed in a separate legal entity. They remain the registered property of OMLAC(SA).

All fees and charges are transferred from these portfolios to shareholder fund portfolios.

Transfers of assets between different portfolios would occur in the normal course of events. Such transfers could reflect normal trading between two portfolio managers with different investment mandates and investment views, or the transfer of a pool of assets where Old Mutual permits a client to move its investment from one portfolio to another.

Exposure to investments in certain main asset classes, such as global assets, local direct property and a part of local alternative assets (in particular the Development Fund and IDEAS Fund), is rebalanced on an ad hoc basis to ensure an equal exposure in line with the investment mandates for Pensions OptiPlus, Platinum Pension 1999 and Platinum Pension 2003.

The principle that applies to any such transfer will be that any assets accepted into the portfolio must not alter the portfolio in such a way that compliance with the investment mandate is compromised.

The transfer of BSRs between different With-Profit Annuity product portfolios is not precluded but will only happen in specific circumstances – for instance, when a mature product portfolio diminishes in size over time, a stage may be reached where the size of such portfolio is less than optimal for the smoothing of returns to be effective. At such a point the mature portfolio could be combined with a larger portfolio, with a corresponding BSR transfer taking place. The aim is to ensure, as far as possible, that the BSR percentages of both portfolios after such a transfer are similar to what they were before the transfer.
8. COMPANY SOLVENCY

The guarantees on benefit payments offered in With-Profit Annuity products are backed by the capital of OMLAC(SA). The capital required on a statutory basis at the corresponding dates was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Dec 2016 (R’bn)</th>
<th>Dec 2017 (R’bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets*</td>
<td>570.0</td>
<td>612.8</td>
</tr>
<tr>
<td>Actuarial Liabilities</td>
<td>(524.0)</td>
<td>(567.2)</td>
</tr>
<tr>
<td>Excess Assets on Statutory Basis</td>
<td>46.0</td>
<td>45.6</td>
</tr>
<tr>
<td>Statutory Capital Requirement</td>
<td>14.3</td>
<td>15.4</td>
</tr>
<tr>
<td>Ratio of Capital to legal Capital Requirement</td>
<td>3.2x</td>
<td>3.0x</td>
</tr>
</tbody>
</table>

As at 31 December 2017, OMLAC(SA) had 3.0 times as much capital set aside to protect policyholders’ guaranteed benefits as is required by regulation.

Due to the fact that risks inherent in the different products that OMLAC(SA) offers are correlated (whether negatively or positively), the amount of capital set aside to back all guarantees cannot be separated out for each individual product; hence the figures shown above apply for the whole of OMLAC(SA).
HOW TO CONTACT US

Find out more about the investment portfolios in Old Mutual’s range of growth and protection solutions. Contact your Old Mutual Corporate consultant, or broker, or call your nearest Old Mutual Corporate office.

<table>
<thead>
<tr>
<th>AREA</th>
<th>CONTACT DETAILS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johannesburg</td>
<td>011 217 1246</td>
</tr>
<tr>
<td>Pretoria</td>
<td>012 368 3540</td>
</tr>
<tr>
<td>Western Cape</td>
<td>021 504 7813</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>031 582 0600</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>041 391 6300</td>
</tr>
<tr>
<td>Bloemfontein</td>
<td>051 444 0831</td>
</tr>
</tbody>
</table>

For more information, email corporateInvestments@oldmutual.com or alternatively visit the Old Mutual Corporate website www.oldmutual.co.za/corporate