

PROPOSAL TO MERGE THE OLD MUTUAL HIGH YIELD OPPORTUNITY FUND WITH THE **OLD MUTUAL MANAGED ALPHA EQUITY FUND**

Old Mutual currently has a wide range of unit trust funds. As part of our drive to streamline our range, Old Mutual Unit Trust Managers proposes the amalgamation (merger) of the Old Mutual High Yield Opportunity Fund into the Old Mutual Managed Alpha Equity Fund with effect from 31 January 2018. Please note that an amalgamation transaction will not trigger a capital gains tax event.

The rationale behind establishing the Old Mutual High Yield Opportunity Fund

The Old Mutual High Yield Opportunity Fund is an equity fund that invests in South African listed assets only. Since it launched in 1999, the Fund's primary objective was to deliver income, more specifically dividend income, to investors. The key benefit of this strategy is that dividends increase over time and therefore, the income investors earn would steadily increase over time. In this regard, the Fund performed exceptionally well. The Fund's income objective is expressed in its benchmark of 1.5 times the dividend yield of the FTSE/JSE All Share Index. To achieve this objective the fund manager actively seeks investments for the Fund that provide a higher than average dividend income.

What has changed since the launch in 1999?

At the time the Fund was launched, dividend income was exempted from income tax. In 2012 Dividend Withholding Tax was introduced at 15%, which was subsequently increased to 20% in 2016. This means that 20% of all dividends currently received by the Fund, from the underlying investments in shares, must be withheld and paid to the South African Revenue Services. This tax, which could still increase, is applicable to any individual investor irrespective of their income profile. Furthermore, income earned within the Fund from investments in listed property is taxable at the investor's marginal income tax rate – often at a higher rate than 20%.

As the Fund has to sacrifice some growth opportunities in its search for higher dividend yield, it is challenging to provide an attractive after tax income, while aiming to deliver a competitive total return (income plus capital growth). Therefore, we believe that it is in our investors' best interest to no longer continue the dividend income strategy, as its viability has been eroded by income tax on dividends. In considering this proposal, we also looked into the number of investors in the Fund receiving the income, as opposed to reinvesting the income distributions. We found that the vast majority of investors reinvest the income distributions, which tells us that they are investing for total return rather than for income.

About the Old Mutual Managed Alpha Fund

Like the High Yield Opportunity Fund, this Fund is also an equity fund, classified in the ASISA SA Equity General category and invests in South African listed assets only. This Fund is also managed by the same investment boutique within Old Mutual Investment Group (Old Mutual Customised Solutions) that manages the High Yield Opportunity Fund. The Fund's benchmark is different in that it does not seek to achieve a particular level of income but focuses on total return, which is what investors are seeking, and more specifically to outperform the FTSE/JSE Capped Shareholder Weighted Index. Therefore, the level of income the Fund historically delivered is much lower than that of the High Yield Opportunity Fund. However, the total return (income plus capital growth) has been significantly higher over the past five and ten years.

Kind regards



Deon Wessels
Head of Product

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