Financially Talking

August 2010

Inside:

- Positioned for the future
- A low-return world
- Funds in the spotlight

OLD MUTUAL

Positioned for the future

Pieter Hugo
Managing Director of Old Mutual Unit Trusts

2010 has been another year full of surprises and it is evident that the global economic environment has an enormous impact on our economy. On page 3, fund manager Peter Brooke discusses the effects that slower global economic growth will have on South Africa going forward. The bottom line is that we must downgrade our expectations around the growth investments will deliver over the next five to 10 years, and expect increased volatility (ups and downs).

The FTSE/JSE All Share Index (ALSI) showed strong growth of +4.2% for the first quarter of 2010. Then, driven by concerns over the outlook for the world economy (specifically the debt crisis in the Euro-area), there was a sharp fall in global and local equity markets. The ALSI delivered a -8.2% return for the second quarter and +21.8% for the 12 months to 30 June 2010. This drop in performance impacts all funds that hold shares in their portfolios.

While this short-term volatility can be unnerving, it is important that when investing in shares you are in it for the longer term. If your investments are keeping you awake at night, it might be that you're in the wrong funds. For peace of mind it is vital that you choose funds that are designed to help you achieve your investment goals.

However, market volatility and the large number of funds available can make it hard to get your selection right. So to assist you in structuring your portfolio to achieve the appropriate level of capital growth and/or income that you will need in the future, we are pleased to introduce our **Classic Investment Collection**.

WHAT ARE ASSET CLASSES?
They are types of investment instruments and can be local or foreign (offshore):

- equities (shares)
- bonds
- property
- money markets (cash)

The Classic Investment Collection

The Classic Investment Collection is a carefully selected suite of funds tailored to meet a diversity of investment needs. I believe this range of expertly managed unit trust funds can serve as the foundation or core of a well-structured investment portfolio.

The beauty of our Classic Investment Collection is that four of the five funds have built-in asset class diversification.

This is a powerful advantage because different assets perform well in different market conditions, and the fund manager has the ability to adjust a fund's exposure accordingly. This has a dual benefit as it not only enables them to take advantage of growth opportunities, but also to avoid losses and protect your capital by selling out of assets that are likely to underperform.

The fifth fund, the **Old Mutual Top Companies Fund**, is at the high end of the risk spectrum and offers investors seeking higher returns pure equity exposure.

So there really is something for everyone in this collection. At the conservative end of the risk spectrum, the **Old Mutual Enhanced Income Fund** is designed to meet the needs of investors, for example retirees, who want to enjoy a relatively high, sustainable level of income and seek opportunities for capital gains.

If you are investing towards a short-term goal and you will need to cash in all or part of your investment in around three years, you may want to consider a fund that harnesses some growth, but without too much short-term risk. If you look at the table alongside, you will see that the **Old Mutual Stable Growth Fund** offers moderate growth with a maximum exposure of 40% to equities for growth potential, while the cash and bond holdings provide stability and income.

The **Old Mutual Balanced Fund** is ideal for people who seek moderately high growth over the long term and are prepared to take on added risk to achieve it, but are not willing to risk a 100% exposure to shares.

If, on the other hand, you are saving for a long-term need like retirement, you would typically seek to maximise growth over the long term. The benefit of having a long-term goal is that, if you keep your eye firmly on the end goal, you need not worry too much about short-term volatility in the markets.

Together with the **Old Mutual Top Companies Fund**, the **Old Mutual Flexible Fund** is a high-risk fund that offers you the opportunity for high growth through exposure to shares. The major difference between the two is that the **Old Mutual Flexible Fund** aims to offer similar returns to those of a pure equity fund but at reduced volatility, through its ability to diversify into other assets, should equities become less attractive. On the other hand, the **Old Mutual Top Companies Fund** invests in a concentrated, yet diverse, selection of SA shares and seeks opportunity through the type of companies in which it invests.

So whatever your goals, we have the funds to help you achieve them. Funds from our Classic Investment Collection can be used to construct your entire portfolio, or as core elements of your portfolio to which you can add other funds from our comprehensive offering, to tailor a portfolio to meet your specific requirements. For example, our *funds in the spotlight* on page 5 offer tried-and-tested alternative sources of income and growth.

And, given the prevailing market volatility and because it is likely that you have more than one goal, what better time to meet with your adviser or broker to make sure that your investment plan takes into account all your requirements?

OLD MUTUAL UNIT TRUSTS CLASSIC INVESTMENT COLLECTION

	Old Mutual Enhanced Income Fund	Old Mutual Stable Growth Fund	Old Mutual Balanced Fund	Old Mutual Flexible Fund	Old Mutual Top Companies Fund
Performance target per annum	Cash x 110%	Inflation + 4% (CPI + 4%)	CPI + 6%	CPI + 8%	Equity market + 2% (SWIX + 2%)
Fund objective/s	• Higher, regular income • Minimal growth	• Regular income • Some growth	• Moderate to high long-term growth • Reduced volatility	• High long-term growth • Lower volatility than equity	• Maximum long-term growth • Equity market volatility
Type of investor	• Risk averse • Wants a regular income • Minimal volatility • Probably retired	• Conservative • Wants a regular income and some growth • Low short-term volatility • Near retirement/ retired	• Moderate risk appetite • Seeks capital appreciation • Longer term horizon	• High risk appetite • Seeks high growth at reduced volatility • Long-term horizon	• High risk appetite • Seeks maximum growth • Can stomach the volatility of the equity markets • Long-term horizon
Asset class exposure	• Cash • Bonds • Property	• Cash • Bonds • Property • Max 40% equity	• Cash • Bonds • Property • Max 75% equity	• Cash • Bonds • Property • Max 100% equity	• Equity
Maximum offshore exposure	0%	20%	20%	20%	0%
Minimum recommended investment time	2-3 years	3 years +	5 years +	5-7 years +	7 years +

Today's trends all point to a low-return world

Peter Brooke
Fund Manager and Head of Macro Strategy Investments, our active asset allocation fund managers

Peter Brooke and the Macro Strategy Investments (MSI*) team have identified the economic and financial trends that they believe will impact both global and local asset classes over the longer term.

Three of the major trends, namely high government debt, lower economic growth and low interest rates in the developed economies, combine to suggest that we have entered a "lower return" world – a fourth significant theme.

MSI's five-year forecast of the returns the asset classes are likely to deliver certainly reflects this. A look at the table shows that, in their assessment, equity is the only asset class that still offers true growth potential, in particular offshore equity – and even that will be at muted levels when compared to the equity returns we have enjoyed in previous years.

But, according to Peter, this does not mean that there will be no opportunities, it simply means that both growth and income will be lower, and harder to find. This leads to trends five and six:

5) *emerging market economies are likely to be where investors can find the highest equity-linked growth; and*

6) the quest for yield.

Asset allocation funds offer the benefit of **diversification** as they can include all the asset classes, although their level of exposure to each will be determined by their investment objective and risk profile.

Emerging market opportunity

In spite of issues like political risk and the possibility of broken promises, emerging markets have all the conditions that favour growth – lots of people, lots of land, lots of foreign exchange reserves and lots of growth. This is the type of environment where people are going to put their money, and MSI is no exception, with emerging markets firmly on their buy list. While there has already been a lot of interest in these countries, there is still good value to be found – and will be for some years to come. Although, to maximise your long-term return potential, now may be better than later. Within the offshore portion of their portfolios, the **Old Mutual Flexible** and the **Old Mutual Balanced Funds**, managed by Peter, currently have overweight positions in emerging market equities relative to developed market exposure.

Locals look to dividend yield

For local investors struggling to find income in the current low interest rate environment, an attractive and tax-free income source can be found in the form of dividends. This is especially true if rates remain low and inflation becomes a more serious threat, as then equity exposure will provide protection against inflation as well as a growing income over time (in the form of dividend payouts).

For this reason the MSI team has made sure to include high dividend yielding shares in their equity selection. And, if you are interested in a pure equity fund that makes dividend yield its business, read more about our top-performing **Old Mutual High Yield Opportunity Fund** on page 5.

**MSI manages three of the funds included in our Classic Investment Collection; see pages 1 and 2 for details.*

5-year asset class view (updated every six months)

	Five-year Real Return	View	Comment
SA		**N–**	**Vulnerable to decreased risk appetite.**
Equity	6.5%	N+	Time value is making our equity market more attractive. Expect a better second half.
Property	6.0%	N	Strong performance has reduced upside. Downgrade to neutral.
Bonds	3.0%	N	Fair value.
Cash	2.5%	N–	Lower rates for longer means lower returns.
Offshore		**N+**	**Diversification is valuable.**
Equity	7.0%	+	Reasonable valuations and growing dividends are more important than double-dip fears.
Bonds	1.0%	–	Low nominal yield of 2.5% creates risk of capital losses. Avoid.
Cash	0.0%	–	Rate hikes pushed out means negative real returns for longer.

N = Neutral **+** = Positive **–** = Negative

Source: Macro Strategy Investments

At the risk of being too safe

The Association for Savings and Investment of South Africa's recent data revealed that in a R823 billion industry, over 60% of unit trust investments were invested in cash or low-equity funds in the quarter to the end of June 2010. These types of investments aim to protect your capital and provide you with an income and, in some cases, moderate capital growth…

Based on this high percentage, we have to assume that some people are using these funds for their long-term savings needs. These investors may be at risk of not having enough retirement income. Here's why…

Old Mutual research has shown that 67% of South Africans retiring at age 60 can expect to live to be 80, while 10% will live past 100 years. That means we need to plan for at least 25 years in retirement, if not more.

We did some simple calculations to determine how best to invest your money in order to have sufficient capital at retirement. In the table we look at three different scenarios of investors who start saving for their retirement at different ages. We then grew their savings – before and during retirement – at three different growth rates:

- Growth at inflation + 2% (a typical enhanced income fund)
- Growth at inflation + 4% (a typical prudential-low-equity fund)
- Growth at inflation + 7% (the average long-term return of the FTSE/JSE All Share Index)

At retirement each investor continues to draw an income equal to their last salary, escalating at 6% a year. Based on this, we then calculated how long they could draw an income off their retirement capital (see *Lifespan of Capital* in the table).

By studying the figures in this table you will see that the three golden rules of saving for your retirement stand out:

1. **Start early.** Investor 1's *Total Amount Invested* was only R474 509 more than that of Investor 2, but with more time in the market, his capital value at retirement is nearly R7 million more than that of Investor 2. This is thanks to the powerful force of compounding growth (i.e. growth on your growth).
2. **Save more.** Historically, many have thought that saving 10% of one's salary would provide sufficient capital on which to retire. However, with people living longer, a minimum of 15% is more realistic.
3. **Take on some risk.** If you have time on your hands you need to be invested in higher growth assets, like shares. Take Investor 1 as an example: the higher growth option gives three times more capital at retirement than the conservative (CPI + 2%) option. But, more importantly, the lower risk option only offers capital with a lifespan of 9 years and 11 months versus the higher risk option that will likely provide sufficient income for one's lifetime.

Those investors some way off from retirement should consider having greater exposure to shares (equities) in order to benefit from the growth potential. It could make all the difference to your future.

CRITERIA USED TO SAVE FOR RETIREMENT

	Investor 1	Investor 2	Investor 3
Current Age	25	35	45
Retirement Age	65	65	65
Investment Term	40	30	20
Starting Monthly Salary (increasing at 6% p.a.)	R20 000	R35 817	R64 143
Percentage of Salary Saved	15%	15%	15%
Total Amount Invested	R5 602 288	R5 127 779	R4 278 007
Monthly Salary at Retirement (increasing at 6% p.a.)	R153 722	R153 722	R153 722

THE LIFESPAN OF RETIREMENT INCOME

Conservative Option: Growing at inflation (CPI)* + 2%			
Value at Retirement (CPI + 2%)	R21 640 788	R14 643 649	R8 839 460
Lifespan of Capital	9 years, 11 months	6 years, 6 months	3 years, 10 months
Moderately Conservative Option: Growing at inflation (CPI)* + 4%			
Value at Retirement (CPI + 4%)	R33 451 818	R20 063 829	R10 820 101
Lifespan of Capital	19 years, 9 months	10 years, 1 month	5 years
Higher Growth Option: Growing at inflation (CPI)* + 7%			
Value at Retirement (CPI + 7%)	R68 071 782	R33 227 731	R14 845 304
Lifespan of Capital	More than 40 years	34 years, 7 months	8 years

* Assumed inflation rate of 6%
Source: OMIGSA. For illustration purposes only.

Speak to your Old Mutual financial adviser or broker about a retirement plan tailored to your unique requirements.

Funds in the spotlight

Old Mutual Real Income Fund | Old Mutual High Yield

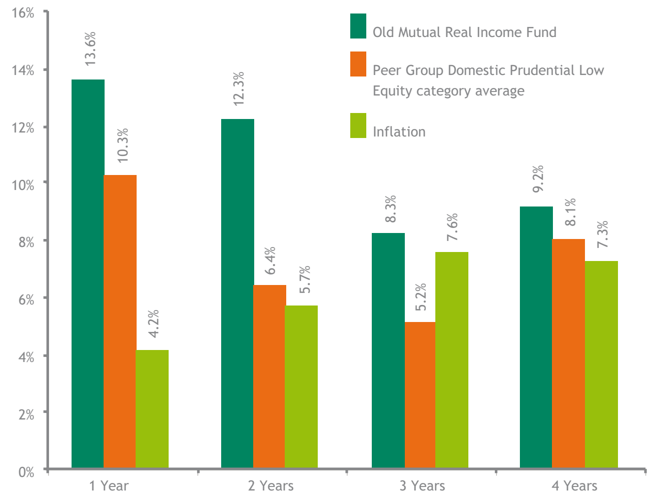
Here we shine the spotlight on a few funds that offer alternative sources of income and/or growth. Depending on your specific needs, these funds can be considered in conjunction with a core portfolio (as discussed on page 1).

OLD MUTUAL REAL INCOME FUND

This fund aims to provide a growing income and some level of capital appreciation – with a target of delivering inflation (CPI) + 3% a year. This is a more conservative fund, offering some security and an income via bonds and money market instruments. Capital growth comes from limited exposure to equities and listed property (kept to a maximum 35% of the fund value).

It is also a top-quartile performer among its peer group of funds over one, two, three and four years to 30 June 2010.

Old Mutual Real Income Fund vs CPI + 3% and Peer Group to end June 2010



Sources: OMIGSA & Morningstar

OLD MUTUAL HIGH YIELD OPPORTUNITY FUND

This fund aims to provide investors with a combination of a growing dividend income and capital growth. The good news is that dividend income is currently untaxed in the hands of private investors.

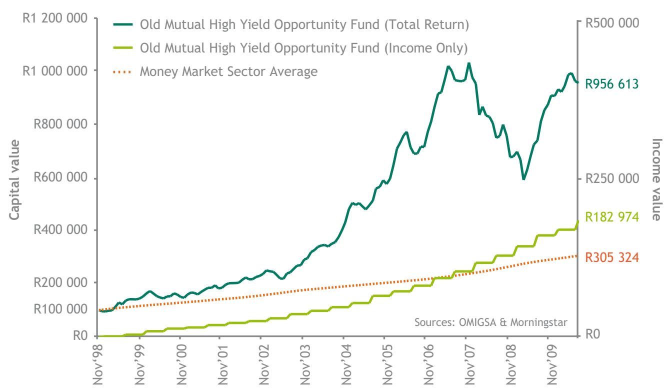
Investors have been delighted with the fund's consistently generous dividend income distributions – consistently surpassing its target of a dividend yield of one-and-a-half times that of the FTSE/JSE All Share Index (ALSI).

An investment made on its launch date in November 1998 would now be paying a dividend yield of 28% p.a. on the original net investment amount (dividends reinvested). If you had invested R100 000 on that date, it would now be worth R956 613 – just shy of R1 million! That's a total return of 856.6% (or 21.38% a year). This translates into an income of R182 974 and a capital value of R582 823.

Not surprisingly, this is the top-performing general equity fund, out of 80 funds, for the 12 months to 30 June 2010, and over the long term (since its launch 12 years ago) it ranks third out of 24 funds.

Turn to page 3 to read what our asset allocation expert, Peter Brooke, has to say about the importance of including dividends in an investment portfolio.

R100 000 invested in Old Mutual High Yield Opportunity Fund vs Money Market Sector Average 4 November 1998 to end June 2010



EXPERT EQUITY RESEARCH

We offer a range of specialist equity funds that showcase the research and analysis skills of our Equity Research team. These funds are aimed at investors who have special investment needs and are prepared to take on the high risk associated with 100% equity exposure to a single sector, in order to achieve their targets.

Mining and resources shares make up around 41.8% of the ALSI and 47.6% of the FTSE/JSE Top 40 Index, and for this reason our asset management company, Old Mutual Investment Group (SA) (OMIGSA), places enormous emphasis on high-quality research in this sector, as share selection here will have a large impact on how general equity portfolio managers structure their funds.

Opportunity Fund | Old Mutual Mining and Resources Fund

The expertise of the resources research team, led by fund manager Anwaar Wagner, is evident in the performance of the Old Mutual Mining and Resources Fund.

This multi-award-winning fund is a top performer in the Basic Industry sector over all annual periods (starting 1 June) from three to 12 years and it also beat all unit trusts in the country over five years (to the end of June 2010). Its latest industry accolade is the Raging Bull Award for Best Outright Performance over the three-year period to the end of December 2009.

This is a specialist fund and could be considered as an addition to a more diversified core portfolio. While a specialist equity fund is not appropriate for everybody, it certainly bears testimony to the strength of our team of Equity Research specialists.

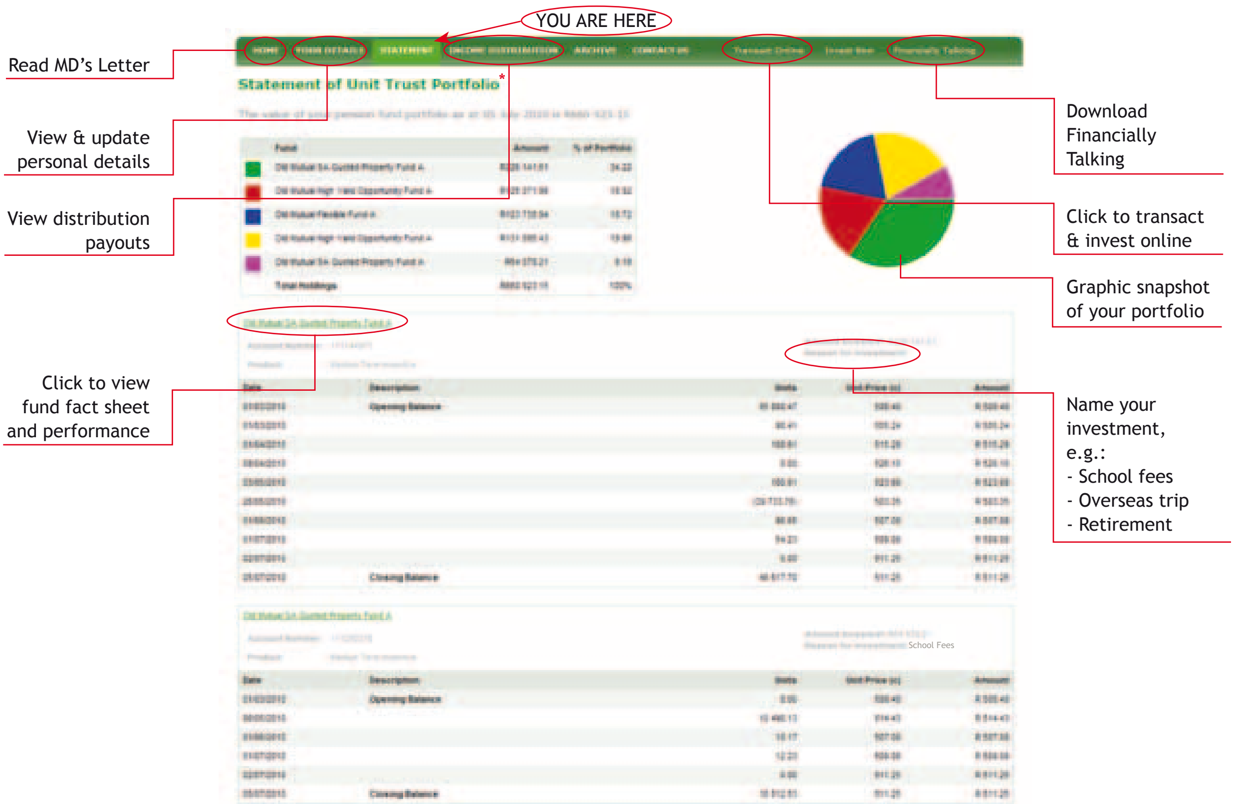
Other specialist equity funds managed by Equity Research:

- Old Mutual Financial Services Fund
- Old Mutual Gold Fund
- Old Mutual Industrial Fund
- Old Mutual SA Quoted Property Fund
- Old Mutual Small Companies Fund

Specialist Equity Funds
These are funds that invest in shares belonging to one sector, such as financials, gold and resources.

Find your way around your new-look e-statement

If you have chosen to receive electronic communications from us, you will have noticed that your statement now looks a little different. Spend some time exploring all the convenience and functionality of this interactive and comprehensive statement. If you receive your statements via post, we highly recommend that you switch to email. It is not only a safe and secure way to access your investment information, but it is quick to deliver and environmentally friendly, too. All you have to do is download a simple application once and open the statement sent to you.



* This is a mock portfolio for illustration purposes only

Service and Communication Snippets

Invest online and access up-to-date portfolio info

You can now invest online by using our online application form available on the home page of www.omut.co.za. To access your portfolio, transact online and view your transaction history at your convenience, register on our secure site! You can also access different reports, including capital gains tax and income statements. Simply click "register" at the top of the web page to access these advantages and more.

SARS details update:

For living annuity investors

The South African Revenue Service (SARS) requires us to supply income tax numbers on the tax statements of all investors in the Old Mutual Personal Living Annuity. If any of the details below have recently changed please notify us immediately.

1. Initials, first two names and surname;
2. ID number;
3. Passport number and country of issue (where no SA ID number is available);
4. Date of birth;
5. Income tax reference number;
6. Email address (where available);
7. Cellphone, home telephone and/or fax numbers;
8. Physical business, postal and residential address;
9. Bank account details.

For all unit trust investors drawing an income

While not yet law, as of 2011, it is likely that SARS will have the same requirements as above for all investors who receive any form of income as a result of an investment with us, including lump sum payouts from retirement annuities. We encourage you to take early action and update your details now.

How to update your details

If you receive your statement electronically, simply select the "Your Details" tab. Alternatively you may do so via our secure website, or email us. For investors who do not have internet and email access, please call our Service Centre.

Contacts

- www.omut.co.za
- Call 0860 234 234 (+27 21 503 1770) to speak to a skilled client service consultant during office hours, or obtain investment values via our automated system, 24/7. Please have your account number on hand.
- Fax your requests or completed forms to +27 21 509 7100.
- Email queries to unittrusts@oldmutual.com (we respond within 24 hours).
- Visit your nearest Old Mutual branch and speak to one of our accredited financial advisers.

FUND PERFORMANCE TO 30 JUNE 2010

Fund	TER# (%)	Performance % p.a. 1 year	3 years	5 years	Risk Rating
Four Plus Capital Fund of Funds A	2.56	7.8	5.2	7.8	3
Four Plus Global Fund of Funds A	2.36	9.0	-6.0	5.1	4
Four Plus Growth Fund of Funds A	2.23	11.6	0.2	9.9	3
Four Plus Secure Fund of Funds A	1.99	6.8	8.5	7.5	2
Old Mutual Active Quant Equity Fund A	1.00	21.7	-0.2	14.2	4
Old Mutual Balanced Fund R	1.32	14.4	0.6	12.1	3
Old Mutual Bond Fund R	0.87	10.3	8.6	7.4	3
Old Mutual Capital Builder Fund A	1.70	4.7	-	-	2
Old Mutual Dynamic Floor Fund A	2.10	10.2	5.2	9.4	3
Old Mutual Enhanced Income Fund A	1.14	9.3	8.9	9.3	2
Old Mutual Financial Services Fund R	1.16	26.5	1.5	13.9	5
Old Mutual Flexible Fund R	1.35	16.3	1.1	13.8	4
Old Mutual Futuregrowth Albaraka Equity Fund R	1.86	9.9	-8.7	8.8	4
Old Mutual Futuregrowth Global Index Fund of Funds R	1.48	11.2	-7.0	2.8	4
Old Mutual Global Bond Feeder Fund R	1.71	8.9	9.2	7.8	2
Old Mutual Global Equity Fund R	1.22	7.4	-13.1	1.2	4
Old Mutual Global Technology Fund A	2.46	14.6	-3.6	5.1	5
Old Mutual Gold Fund R	1.16	16.0	1.3	12.5	5
Old Mutual Growth Fund R	1.15	20.7	2.0	15.7	4
Old Mutual High Yield Opportunity Fund A	1.43	29.4	-0.4	13.3	4
Old Mutual Income Fund R	0.86	9.1	10.5	9.1	1
Old Mutual Industrial Fund A	1.44	20.9	1.7	13.9	5
Old Mutual International Growth Fund of Funds A	2.91	6.7	-8.5	1.9	4
Old Mutual Investors' Fund R	1.15	18.8	-0.4	13.6	4
Old Mutual Mining & Resources Fund R	1.17	19.5	3.2	22.1	5
Old Mutual Money Market Fund R	0.58	7.6	10.0	9.0	1
Old Mutual RAFI® 40 Tracker Fund A	0.91	22.0	-	-	4
Old Mutual Real Income Fund A	1.39	13.6	8.3	-	2
Old Mutual SA Quoted Property Fund A	1.43	25.3	7.9	17.4	4
Old Mutual Small Companies Fund R	1.16	33.9	-4.8	14.0	5
Old Mutual Stable Growth Fund A	2.12	10.7	5.1	-	2
Old Mutual Top 40 Fund A	0.74	18.8	-1.3	14.0	4
Old Mutual Top Companies Fund R	1.16	21.0	1.9	14.2	4
Old Mutual UK Money Market Feeder Fund A	0.73	-9.9	-3.8	2.2	1
Old Mutual Value Fund R	1.16	23.9	-0.6	13.7	4
SYm|mETRY Balanced Fund of Funds A	1.85	17.5	5.0	13.2	3
SYm|mETRY Defensive Fund of Funds A	1.52	13.9	5.0	10.8	2
SYm|mETRY Equity Fund of Funds A	1.48	18.0	-0.9	13.8	4
SYm|mETRY Fixed Interest Fund of Funds A	1.19	10.4	9.2	8.9	2
South Africa CPI		4.2	7.6	6.8	

Source: Morningstar

All figures in the publication sourced (unless otherwise stated): Morningstar. Lump sum investments to the end of July 2010, distributions reinvested and NAV-NAV prices used (i.e. initial charges excluded). Income is reinvested on the ex-dividend date. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income. Past performance is not necessarily an indication of future performance. Old Mutual Unit Trusts has been licensed by the JSE Securities Exchange SA to use the FTSE/JSE Top 40 Index name. # TERs (total expense ratios) are as at 30 June 2010. Contact our Service Centre at 0860 234 234 to obtain copies of the updated fact sheets, or visit www.omut.co.za and click on "Fund Information & Prices" and select "Fees & Charges". Risk ratings do not take the impact of currency fluctuations into account.