PERFORMANCE UPDATE

The stock market delivered stellar performance in 2005. Although the rally late last year was across the board, it was the performance of precious metal shares that captured investors' imagination. We also saw some of the lagging sectors, namely banks and industrials, playing catch-up.

Thanks to a strong currency, contained inflation expectations and a solid outlook for the economy, Old Mutual Asset Managers (OMAM) expects economic growth to remain strong in 2006. There are risks though. If the rand weakens dramatically or the oil price rises substantially, the second-round impact of petrol price increases could cause inflation, and subsequently interest rates, to increase.

OMAM continues to advise investors to adjust their return expectations and not anticipate a repeat of 2005. Read more about OMAM's asset outlook on page 4: *Asset Allocation into 2006*.

An important reminder: When looking at the performance table alongside, you will notice the performance between different unit trusts varies widely. It is vital to remember that all unit trusts are managed in strict accordance to their individual mandates. For example, the Gilt Fund may only invest in bonds and cash and cannot take advantage of the recent run in equities. Similarly, global funds must hold the majority of their portfolios offshore, regardless of currency movements or the performance of global markets.

Buy and sell units online in 2006

For those clients who use the internet for just about everything – news, weather, shopping and to view your unit trust values – you'll be pleased to hear that Old Mutual Unit Trusts is working hard to bring back the transaction capability to our secure website.

This capability was removed with the implementation of the Financial Intelligence Centre Act (FICA) as well as our move to a new administration system.

Go live in March

If you are registered on the Old Mutual Unit Trusts secure site and have complied with the FICA requirements (identification and verification of personal details) you will be able to buy and sell your units online once we go live.

Look out for the June edition of Financially Talking for an update. For more information please contact our Service Centre on 0860 234 234.

FUND	Performance % p.a. 1 year	3 years	5 years
Balanced Fund	27,8	24,3	17,4
Consumer Fund	31,5	42,5	29,9
Dynamic Floor Fund	21,0	17,4	n/a
Enhanced Income Fund	12,4	n/a	n/a
Financial Services Fund	34,8	34,0	16,5
Financial & Industrial Fund	30,7	34,1	16,7
Flexible Fund	30,6	27,2	18,4
Four Plus Capital Fund of Funds	14,6	12,7	n/a
Four Plus Global Fund of Funds	25,6	13,8	10,1
Four Plus Growth Fund of Funds	25,3	23,8	17,0
Four Plus Secure Fund of Funds	5,9	8,1	n/a
Gilt Fund	10,6	14,6	15,3
Global Bond Feeder Fund	4,2	-3,9	4,0
Global Equity Fund A	25,5	9,0	1,4
Global Technology Fund	15,2	7,4	-14,4
Gold Fund	60,1	5,8	29,5
Growth Fund	35,9	34,7	23,2
High Yield Opportunity Fund	27,9	37,7	32,3
Income Fund	7,8	10,7	10,9
International Growth FoF	20,9	4,6	-0,8
Investors' Fund	35,3	31,6	23,0
Mining & Resources Fund	59,2	25,5	33,3
Money Market Fund	6,9	8,8	9,5
SA Quoted Property Fund	44,6	n/a	n/a
Small Companies Fund	32,5	42,5	28,2
Top 40 Fund	45,5	25,6	n/a
Top Companies Fund	32,2	34,0	21,9
UK Money Market Feeder Fund	3,1	-5,2	2,1
Value Fund	29,7	36,5	28,3
South Africa CPI	**3,7**	**2,5**	**4,8**

Source: MoneyMate. Lump sum investments to the end of December 2005, distributions reinvested and NAV-NAV prices used (i.e. initial charges excluded). Old Mutual Unit Trusts has been licensed by the JSE Securities Exchange SA to use the FTSE/JSE Top 40 Index name.

JANUARY 2006

Financially Talking

inside

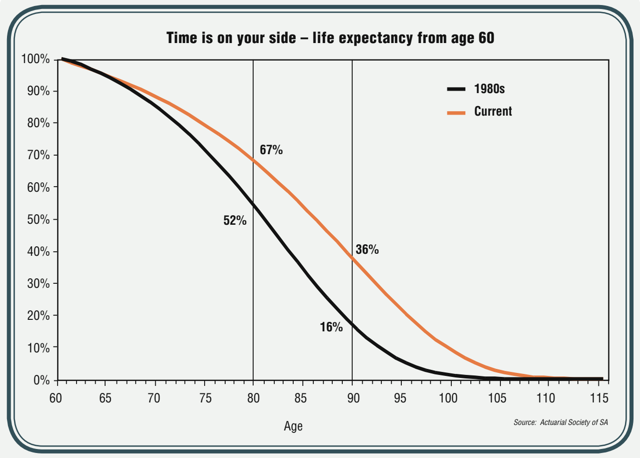
When living longer is dangerous for

Alexander the Great was 33 years old when he died. That was a good age for a time when the average life expectancy was around 25. Thanks to medical advancements, better public health systems and improved nutrition we are now living considerably longer… and not having to march across Asia with a quiver full of arrows can only up the statistics!

THE OLD ARE GETTING OLDER

Over the last century, the average life expectancy has risen from around 50 to over 75 years. The longer we live, the longer we're likely to live. In the United States, for example, the average life expectancy from birth is 77 years. However, those Americans reaching the age of 65 can expect to live on average another 18 years, taking them to a ripe old age of 83.

A similar trend is evident among older South Africans. Sadly, due to the ravages of diseases like Aids and TB our "from birth" life expectancy has dropped to around 47 years. However, South Africans reaching 60 can expect to live longer.



We spend our working lives dreaming about retirement and of all the things we'll do and places we'll go… but that's all dependent on how much money we have saved. One of the greatest risks facing retirees is outliving their income.

From the Editor

Tracy Hennessy,
Head of Communications

Happy 2006 to you all. We hope this year brings great prosperity to our country. There is certainly great optimism – read about OMAM's views on page 4.

Thank you to those who wrote, phoned or e-mailed us. We really appreciate hearing from you.

Letters (Letters have been edited for brevity)

The real risk of investing in cash **(FT October 2005)**
"Thanks for an interesting newsletter… but while Craig Gradidge may in some cases be correct about (not) investing in cash – for some people, under certain circumstances, it must be borne in mind that we should use up our R11 000 (now R15 000 – Ed) **of tax-free interest from investments before we start investing in unit trusts." B Abrey**

Good point. Tax exemptions are an important consideration and also apply to all interest-bearing unit trusts. However, the risk of investing in the Money Market Fund or cash over the long term remains a concern. Many clients are taking this route and we feel it is important for them to consider other income-generating alternatives (like the Income or Enhanced Income Funds) in order to preserve their capital, and as far as possible, their income levels. Tracy

Secret savings ride the high tide **(FT October 2005)**
"Thank you for the October 2005 Financially Talking... My experience unfortunately doesn't match Mrs Jean Miller's (3,5 times performance). I have an ongoing small contribution to the Global Equity Fund that struggles to reach 2,7 times growth – effectively 8% p.a. after 9 years." M Clarke

Unfortunately over the time of your investment, local markets have outperformed those offshore. Part of the problem with offshore investments has been the impact of the rand. In May 1996 the rand was at R4,33/US$, and over the nine years in question the rand has depreciated by 46% against the US dollar.

In addition to currency risk, global equities have performed poorly over the past three years (see the box on page 6 for longer term performance comparisons). The Global Equity Fund is mandated to invest at least 85% in offshore shares at all times, while the Investors' Fund, which Mrs Miller is invested in, has at least 85% invested in South African shares.

Despite this recent poor performance, we still hold the view that it is prudent to have a portion of your total investments offshore – in the interests of currency, country and market diversification. Tracy

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The **"do-it-for-me"** approach. This approach means investing in an actively managed risk-profiled portfolio where the fund manager can invest in a number of asset classes. There are a number of managed solutions available where asset allocation and market timing decisions are left to the fund manager. Selecting a managed solution fund also reduces the need to switch and make regular portfolio alterations, as these are done within the portfolio for you.

Provided that the appropriate funds are selected based on your risk profile and investment needs, these funds can play a valuable role in managing your risk over time.

For the D-I-F-M investor

INVESTOR NEED	CORE FUND	RISK PROFILE (out of 5)	ASSET CLASS
Income: moderate security; high income, some capital growth potential	Enhanced Income Fund	Moderately conservative (2)	Cash, bonds, property
Capital preservation: minimal income, higher growth potential with robust risk management	Dynamic Floor Fund	Moderate (3)	Cash, shares
Growth/Income: moderate income, moderate capital growth potential	Balanced Fund	Moderate (3)	Shares, bonds
Growth: low income, high capital growth potential	Flexible Fund	Aggressive (5)	Shares, cash, bonds
Growth: global diversification, low income, high capital growth potential	International Growth Fund of Funds	Aggressive (5)	Global shares, bonds, cash

While short term market fluctuations can be unnerving, it is the long term picture that really matters. Ongoing financial planning, together with a portfolio built on the principle of diversification, can aid investors in reaching their investment goals in the long run. For sound advice speak to your broker or Old Mutual Financial Adviser.

"Hello, how may I help you?"

During a recent Ask Africa (independent) survey, our Service Centre was rated the best service centre in Old Mutual with a satisfaction rating of more than 90%. Meet some of our agents that have contributed to this rating and who strive to make each client interaction a satisfactory one:

Freddie Africa

Freddie joined our Service Centre back in 1999. He strives to ensure that each of our client contacts is handled expertly, professionally and that clients can look forward to future dealings with our Service Centre. Freddie enjoys designing, arts and culture and supports our local artists by regularly attending their performances.

Here is what you had to say about his service:

"…service is considerate, friendly and professional. It is a real pleasure to be served by a professional person." FR Maritz

Simoné Meyer

Simoné also started working at our Service Centre in 1999. She enjoys communicating with people from all walks of life. She has a passion for client service and her goal is to always exceed the client's expectations. She speaks to clients on a personal level, yet always remaining professional.

Here is what you had to say about Simoné:

"I really received efficient and excellent service from Simoné. She is really an asset to the company." A Schoeman

"One thing is certain – there are some highly efficient people at Old Mutual!!!" S Cowley

"Thank you for your letter confirming the transfer. I am impressed by the manner in which you expedited the entire transaction. Many, many thanks; you are a star." S Ormiston

Spread the risk and still reap the rewards:

Do-it-yourself or do-it-for-me

The local share market had a good year with the FTSE/JSE All Share Index returning 47% to the end of December 2005. Cash returns continued to disappoint – money market investors saw their income halve in just three years.

The divergence of performance from different investment types (asset classes) highlights the importance of diversification. Spread your risk. Time and experience have shown that no asset class is tops every year. Instead, a diversified portfolio across cash, bonds, property and local and global shares allows one to benefit from good returns when one asset class is doing well, and softens the lows when another is underperforming.

A model portfolio made up of 20% cash, 20% bonds, 20% local shares, 20% global shares and 20% property would have delivered a real return (that is growth minus inflation) of 21% for 2005.

When deciding on how best to diversify your unit trusts, there are two broad options:

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Foreign Equity 22,02%	SA Bonds 27,33%	Foreign Equity 36,32%	SA Equity 49,91%	SA Real Estate 22,34%	Foreign Equity 31,05%	SA Real Estate 16,94%	SA Real Estate 32,58%	SA Equity 38,47%	SA Real Estate 41,98%
SA Cash 16,31%	SA Cash 17,22%	SA Cash 17,79%	SA Real Estate 48,46%	SA Bonds 18,87%	SA Equity 21,81%	SA Bonds 15,26%	SA Equity 22,19%	SA Real Estate 34,78%	SA Equity 36,84%
SA Bonds 12,90%	SA Real Estate 17,17%	Diversified 11,55%	Diversified 33,67%	Foreign Equity 14,19%	Diversified 19,70%	SA Inflation 12,41%	Diversified 17,32%	Diversified 18,81%	Foreign Equity 24,55%
SA Equity 11,71%	Diversified 14,19%	SA Inflation 9,08%	SA Bonds 27,15%	Diversified 12,62%	SA Bonds 18,35%	SA Cash 11,53%	SA Bonds 17,13%	SA Bonds 14,43%	Diversified 24,14%
Diversified 10,66%	Foreign Equity 6,47%	SA Bonds 5,46%	Foreign Equity 27,13%	SA Cash 10,95%	SA Real Estate 16,66%	Diversified 1,35%	SA Cash 12,78%	SA Cash 8,22%	SA Bonds 10,43%
SA Inflation 9,31%	SA Inflation 6,05%	SA Real Estate 3,14%	SA Cash 15,72%	SA Inflation 6,99%	SA Cash 10,61%	SA Equity 1,22%	Foreign Equity 1,90%	SA Inflation 3,39%	SA Cash 6,90%
SA Real Estate -9,66%	SA Equity 2,77%	SA Equity -4,98%	SA Inflation 2,24%	SA Equity -3,24%	SA Inflation 4,59%	Foreign Equity -38,22%	SA Inflation 0,33%	Foreign Equity -1,85%	SA Inflation 3,68%

Calendar years ending 31 December. Distributions reinvested, charges excluded.
SA Equity: SA General Equity category average
SA Cash: Alexander Forbes Money Market index
SA Real Estate: SA Real Estate category average plus 1995 and 1996 data provided by OMAM SA
SA Bonds: SA Bond category average
Foreign Equity: Foreign Equity category average

The **"do-it-yourself"** approach. You can tailor your own portfolio using a range of building block funds from different asset classes. This route may require you to rebalance your portfolio more regularly. As over time some asset classes perform better than others, a portfolio can become overweight in the asset class that has recently outperformed.

For the DIY investor

INVESTOR NEED	CORE FUND	RISK PROFILE (out of 5)	ASSET CLASS
Cash management: secure; high income, no capital growth potential	Money Market Fund	Conservative (1)	Cash
Growth & income: high income, high capital growth potential	SA Quoted Property Fund	Moderate (3)	Listed property
Growth: local diversification, low income, high capital growth potential	Investors' Fund	Moderately aggressive (4)	Shares
Growth: local diversification, low income, high capital growth potential	Value Fund	Moderately aggressive (4)	Value-type shares
Aggressive growth: low income, high capital growth potential	Top Companies Fund	Aggressive (5)	Shares (OMAM's aggressive stock picks)
OFFSHORE:			
Cash management: secure; high income, no capital volatility, global diversification	UK Money Market Fund	Conservative (1)	Cash (GBP Sterling)
Income: moderate security; high income, limited capital growth potential, global diversification	Global Bond Feeder Fund	Moderately conservative (2)	Global bonds
Growth: global diversification, low income, high capital growth potential	Global Equity Fund	Moderately aggressive (4)	Global shares

our lifestyle

In the 1980s, 52% of those retiring at the age of 60 could expect to live another 20 years. Now 67% are expected to live to 80, while 10% will live for a century (that's 40+ years of retirement!). This puts the current average life expectancy of South African retirees at 88 years.

CONQUERING YOUR RETIREMENT YEARS

There are a number of things we need to consider when planning our retirement:

- **Start early.** The table shows how many years your retirement income would last, depending on when you started investing and how much of your monthly salary you invested.

  Bearing in mind that we live on average 28 years after retiring, the green blocks show under which scenarios one is financially prepared for retirement.

- **Be realistic. Don't draw more than you earn.** The great risk of drawing too much income is that it erodes our capital base. Take a look at these two examples.

  Investor A earns an 8% p.a. return on his retirement investment, but is forced to draw an income of 10% a year to survive. After 20 years, his income and capital base has fallen by almost a third.

  Investor B also earns 8% p.a. on his retirement investment. He draws 8% in year one, and increases his income by inflation every year. If we assume an inflation rate of 5% this investor will run out of capital 16 years and 5 months later.

- **Be prepared to take on more risk.** At present, roughly 50% of the unit trust industry's assets are in fixed interest investments. On average, these funds* delivered 15% p.a. over the past 10 years, but only 8,5% over the last 12 months. With interest rates coming down sharply, many investors are at considerable risk of their money being eroded by inflation. (*Average of all bond, income and money market funds to end of December 2005. Source: MoneyMate, distributions reinvested, NAV-NAV prices.)

  With the possibility of close on 30 years of retirement, you have to seek capital growth as well as income. This means being prepared to take on more risk as well as actively searching for high yielding investments. For these clients we have two options:

Lifespan of Retirement Income (years)

Percentage of monthly salary invested to age 60	5%	10%	15%	20%	25%	30%	35%
Started investing at age 20	5	12	19	29	42	54	56
Started investing at age 30	3	7	11	16	21	27	34
Started investing at age 40	2	4	6	8	10	13	16
Started investing at age 50	1	2	2	3	4	5	6

<u>Assumptions:</u> Pre- and post-retirement savings grow at 8% p.a. • Monthly income after retirement is 75% of final salary, escalating at 5% p.a.

Old Mutual Income Fund aims to deliver a higher income than a cash investment, with the potential for some capital growth. This fund invests in both cash and bonds. It tends to be more heavily invested in lower risk bonds that mature in the short term rather than higher risk, long term bonds. The fund thus holds a slightly higher risk than a money market fund, but with the potential to provide a higher income as well as to grow your capital. It is ideal for those investors with shorter term needs (2 years+).

Old Mutual Enhanced Income Fund aims to add an extra 1% - 2% on the average bank deposit yields. This has the potential to increase a monthly income by a significant 20%. The fund invests in a portfolio of diverse income-generating investments, including, when appropriate, exposure to the capital growth potential of bonds and listed property shares. This means it holds more risk than the Income Fund, but with the potential to deliver a higher income and capital growth over the longer term. This fund is for investors with a slightly longer term view (3 years and more).

Ralph Mupita,
Managing Director,
Old Mutual Unit Trusts

Asset Allocation into 2006

Peter Brooke, Equity Strategist, Old Mutual Asset Managers

Listed property and shares were the best performing asset classes during 2005, delivering total returns of 50% and 47% respectively during the year. Bonds lagged, with the All Bond Index notching up total returns of 11% for the year. Cash yields remained in single digit territory, offering investors 7,5% pre-tax, depressed by the low inflation/low interest rate environment.

A similar trend is likely to play out during 2006, albeit at more subdued levels. Over the long term, shares are likely to remain the asset class of choice given the structural shift towards higher economic growth.

Although it is impossible to predict the future, our belief in the potential of shares is based on the following fundamentals, which are likely to drive the economy during 2006.

Super cycle In commodities

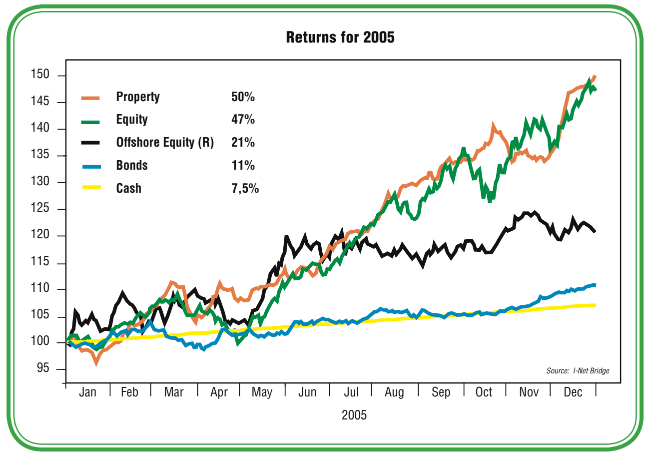
Despite many analysts believing that resource prices are too high, this view is based only on the sector's experience over the past 10 to 15 years. In my opinion, we have been in a 20-year commodity bear market and are nowhere near the prices reached 30 - 60 years ago, as well as being a long way off the 1970s peak. China has limited natural resources and is importing raw materials. Global commodities are likely to remain in demand as China continues to grow ahead of the 2008 Beijing Olympic Games and the 2010 Shangai World Exposition.

The emerging consumer

There are now an additional 5.2 million economically active people in South Africa! That means more people buying cars, houses, cellphones, clothing and other consumer items. With household electrification growing from 58% to 84%, there is an increasing demand for durable goods such as TVs, stoves, irons and fridges. Adult literacy has also increased, so more people are able to open bank accounts. All this is having a positive, driving effect on our economy.

Government policy

The government has committed itself to a target growth rate of 6% by 2012. Part of the plan to reach the target is to increase government spending. The proposed R400 billion infrastructure investment programme will be a tremendous economic boost over the next few years. More jobs mean increased spending, which in turn boosts company profits.



Lower cost of capital

With inflation under control, interest rates are likely to remain low. Low interest rates mean consumers can afford to borrow at a lower cost. They thus have greater perceived disposable income (boosting the retail sector and increasing company profits). Cash flush companies are also able to pay out higher (tax-free) dividends.

Considering these factors, South African growth prospects look good. This bodes well for listed companies as they continue to grow and expand.

WHAT TO EXPECT

Shares: In our view, long term investors should retain their share-holdings but should adjust their return expectations. Investors have been spoilt with unsustainably high returns over the last 30 months. The momentum is slowing and we expect more muted, yet still attractive, total returns of between 10% and 15% from the JSE All Share Index.

Property: The property cycle remains positive as a result of relatively low inflation, 24-year low interest rates, a strong retail supply chain and improving demand for space. However, much of this good news has already been priced into share prices, so strong capital gains similar to 2004/2005 appear unlikely. Property is an excellent diversifier and should outperform bonds and cash in the medium term.

Bonds and Cash: Interest rates are expected to remain low and it is unlikely that the central bank will change its inflation outlook in the near future. This should keep money market rates and bond yields at close to the current lower levels.

DIVERSIFY

All investments come with some level of risk – whether that be the risk of falling share prices or the risk of capital growth not outpacing inflation. The key to risk management is diversification, both locally and globally.

IN BRIEF

Shares: Total returns of 10% to 15% a year over time.
Property: Through added income growth, we expect ±10% a year over time.
Bonds: Have already adjusted to lower inflation so expect ±8% a year over time.
Cash: Remains trash, especially after tax! Expect ±7% a year over time.
Offshore: Relatively fairly valued; some offshore exposure is prudent for risk diversification.

Fund Focus: High Yield Opportunity Fund

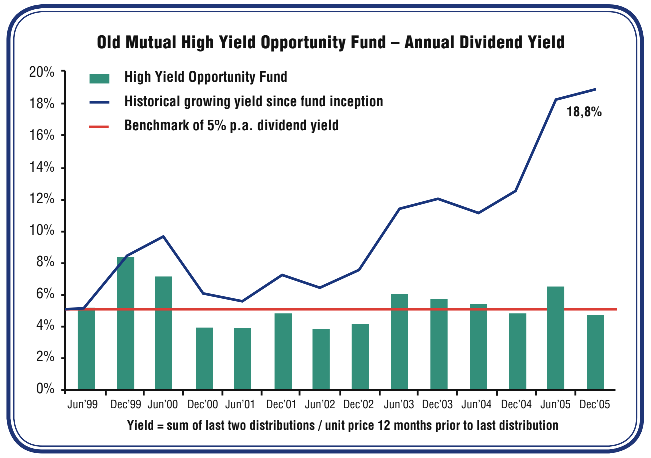
The current low interest rate environment is narrowing the gap between after-tax returns on interest-bearing investments and dividends earned on shares. Dividend-yielding assets are becoming increasingly popular as they offer a sustained long term income as well as the potential for capital appreciation.

Old Mutual High Yield Opportunity Fund has the unique mandate of investing only in high yielding shares. It targets fundamentally sound companies that have high dividend yields and good prospects for medium term growth. The fund's benchmark is to deliver a yield of not less than 5% p.a. on the initial net investment.

"The fund has a unique mandate of a targeted dividend yield, with capital appreciation as a secondary objective," says fund manager Douw Steenekamp. "We will not deviate from this mandate in order to chase performance. At the same time, the mandate does not preclude the fund from superior capital appreciation under the right conditions."

Towards the end of 2004, Old Mutual was forced to temporarily close the High Yield Opportunity Fund to new investments because it appeared unlikely that the yield objective would be obtained during the following year, due to the then ruling level of the market.

As it turned out, the fund appreciated 28% during the 12 months to the end of December 2005, which included a yield of 4,8%. While slightly below the target of 5%, this tax-free yield still compares very favourably with any interest-bearing yields available in the marketplace on an after-tax basis. At a 40% tax rate you would have had to earn interest of more than 8% to beat this dividend yield – and that's without the capital growth potential of shares.



"The beauty of holding dividend-paying stocks is that companies generally tend to grow their dividends," says Douw. "Even in periods of low profit growth, companies seldom decrease their dividends, so there is a lot less volatility in dividend income. While there might be better returns available elsewhere, investing for dividends gives investors a greater degree of certainty."

Those investors that have been in this fund since inception (November 1998) received an 18,8% dividend yield on their initial net investment in 2005 – tax free!

Sources: Deutsche Bank, INET-Bridge, MoneyMate and OMAM; distributions reinvested, NAV-NAV prices