Consumer Fund is now
OLD MUTUAL INDUSTRIAL FUND

After receiving the go-ahead from both our Consumer Fund clients and the Financial Services Board, we have changed the name and investment mandate of this fund.

Although the Consumer Fund has a superb track record (and won many performance awards) it was investing only in industrial shares with a consumer orientation. All other funds in its peer group* had a broader mandate to invest across the entire industrial sector (as defined by the FTSE/JSE Industrial Index). Broadening our fund's investment universe now gives the fund manager greater scope to continue delivering competitive performance.

Fund manager Patrick Ntshalintshali assures clients that this mandate change is not a radical step – as the consumer universe still dominates the industrial index. "The advantages of having a broader universe of industrial stocks," says Patrick, "is that the diversification benefits potentially improve the risk/reward ratios for both the fund and its clients. We continue to maintain our investment discipline and philosophy in line with Old Mutual's standards and procedures."

The fund changed its mandate and became Old Mutual Industrial Fund on 29 May 2006.

* Domestic - Equity - Industrial category

Buy and sell your unit trusts online!

Self-service isn't just for food halls or online shopping enthusiasts, it's also readily available to unit trust investors.

Old Mutual Unit Trusts recently reinstated online buying and selling of units. It is ideal for hands-on investors who actively manage their portfolios. In order to access this facility you must be registered on *My Secure Services*. For those not registered, the option is readily available on the Home Page in the "What Do You Want To Do" section.

You can opt to register for "view only" access, i.e. be able to see your unit trust portfolio and personal details online; or register to "transact", i.e. buy, sell and switch your units online. The "transact" registration process is lengthier than the "view only" process as it includes a rigorous verification process.

	Performance % p.a.		
FUND	**1 year**	**3 years**	**5 years**
Balanced Fund	31.6	28.3	19.2
Dynamic Floor Fund	18.5	18.3	n/a
Enhanced Income Fund	7.9	n/a	n/a
Financial & Industrial Fund	29.3	36.1	17.2
Financial Services Fund	30.1	36.5	17.4
Flexible Fund	33.5	31.5	18.1
Four Plus Capital Fund of Funds	13.1	13.0	n/a
Four Plus Global Fund of Funds	27.9	20.4	11.7
Four Plus Growth Fund of Funds	26.5	25.6	16.7
Four Plus Secure Fund of Funds	5.2	6.6	n/a
Gilt Fund	4.1	9.6	11.7
Global Bond Feeder Fund	8.2	2.1	6.7
Global Equity Fund A	27.6	16.8	6.5
Global Equity Fund R	28.5	17.8	7.1
Global Technology Fund	13.5	8.1	-8.1
Gold Fund	75.2	23.5	30.1
Growth Fund	35.2	38.1	23.8
High Yield Opportunity Fund	34.6	41.6	30.1
Income Fund	6.5	8.5	9.8
Industrial Fund	27.9	41.8	29.5
International Growth FoF	22.1	11.2	3.4
Investors' Fund	39.2	37.5	23.2
Mining & Resources Fund	77.2	44.2	33.4
Money Market Fund	6.7	7.7	9.2
SA Quoted Property Fund	21.1	n/a	n/a
Small Companies Fund	35.4	45.6	28.6
Top 40 Fund	51.4	37.7	19.2
Top Companies Fund	34.9	38.9	22.4
UK Money Market Feeder Fund	12.8	4.4	5.9
Value Fund	34.6	39.5	26.2
South Africa CPI	**4.7**	**2.9**	**4.7**

Source: Standard & Poor's Fund Services. Lump sum investments to the end of June 2006, 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.

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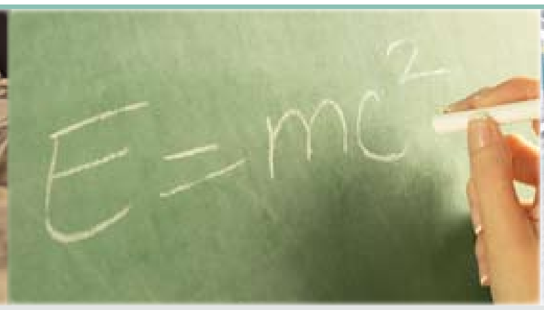

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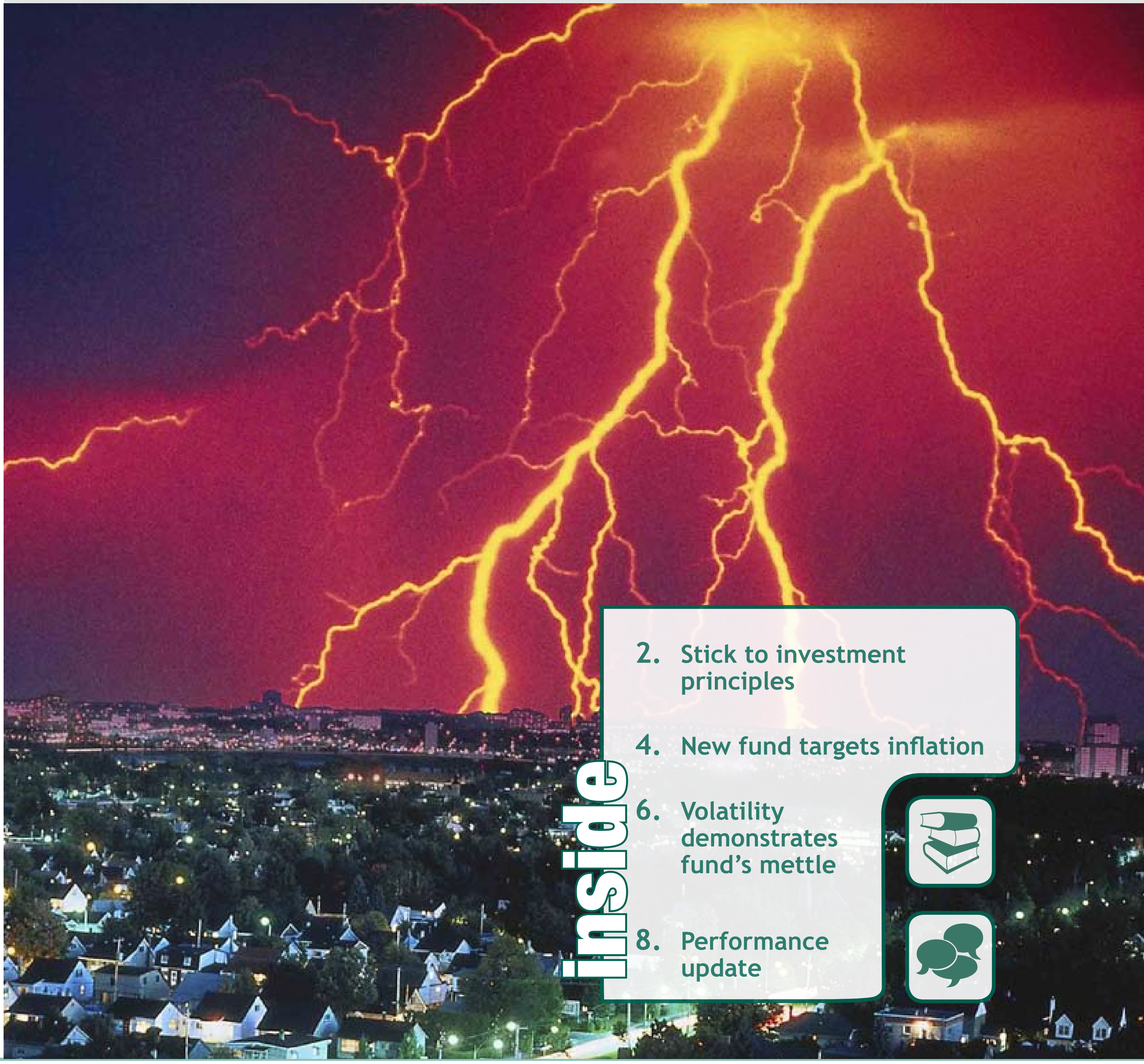

inside

OLD MUTUAL

From the Editor

Tracy Hennessy,
Head of Communications

Once again the markets are on a roller-coaster ride! What's encouraging is that, unlike the run-up to the 1998 market correction, unit trust investors have taken a far more cautious approach. Data published by the Association of Collective Investments (ACI) shows that, despite strong performance from shares, the majority of new investments are going into low to medium risk funds. These include funds that invest in both shares and interest-bearing securities. The South African unit trust investors are generally better placed to withstand some market volatility.

Thank you to those who wrote or e-mailed us. We really appreciate hearing from you. We have had a few queries around the reduction in our charges. Late last year we reduced our initial charge, deducted from all new investments. This charge is made up of an administration fee (maximum 2%) and commission for advice (maximum 3%). For investments of R5 000 and more per fund the administration fee is now 0%.

The reduced charge only applies to individual transactions within a fund and is not based on the total value of new investments or of your portfolio. This is because of the administrative cost associated with processing transactions. Similarly, the reduced fee does not apply to our retirement products (Personal Living Annuity and Personal Retirement Annuity) as regulatory requirements make these products more costly to administer.

Enjoy this edition of Financially Talking and I look forward to hearing from you. - Tracy

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Stick to your Principles

Since late 2005 we continued to caution investors that, after such exceptional local market performance (from equities and property in particular), they needed to adjust their future return expectations downwards and their risk expectations upwards. Even so, the sharp and swift correction by local markets in May and June surprised many of us.

Before the beginning of the correction in May, the FTSE/JSE All Share Index delivered an exceptional 3-year return in the region of 45% p.a. (to the end of April 2006). This type of growth is not only exceptional but also rare in the history of our stock market. Only on two previous occasions over the past 45 years has the stock market delivered such outstanding 3-year returns.

History shows us that after periods of high returns, performance tends to be lower in the following few years, although the long term trend remains upwards. While the 3-year return was entering the stratosphere, it is worth noting that the 10-year return on the All Share Index was 15% p.a. – a performance very much in line with the long term historical average of 16% p.a. (rolling 10-year periods from 1960 to end April 2006).

SO WHAT DOES THIS TELL US?

Nothing new! By now most of us are acutely aware that over the short term the stock market can be volatile, but over the long term it remains one of the most powerful generators of wealth. Recent studies on investment returns have shown that more than anything else, investors' behaviour contributes to the returns they achieve. Regardless of what the markets are doing, it is important that you stick to the basic investment principles:

Establish a sound financial plan with regular reviews
Financial planning is about finding a solution that satisfies your individual needs. This should include determining your goals, current financial position, time horizons and your appetite for risk. Once you have established your plan, it is important to review it regularly with the help of your financial adviser or broker. This is especially important after periods of strong under- or over-performance in the markets. Investors should get together with their adviser at least once a year to revisit their previous assumptions and make changes where necessary.

A diversified portfolio helps manage risk
Past performance shows us that no asset class (shares, bonds, cash, property) performs top of the ranks every year. For this reason, you are encouraged to diversify your portfolio. Diversification simply means "not putting all your eggs in one basket". It reduces your risks because weak performance in one investment can be offset by stronger performance of the other investments. While many investors understand the principle of diversification, some overlook the importance of including global investments. This protects you against local currency fluctuations and spreads your money across global markets and industries. A good example is the recent weakness in local markets coinciding with a weaker currency – and boosting the returns of offshore

New Communication Platform gives greater flexibility

We have implemented a new communications system that allows you to receive your correspondence via e-mail. The e-mail option means you avoid postal delays and receive instant notification of completed transactions.

The following can be received via post or e-mail:

- Transaction statement detailing your buy, sell and/or switch transactions.
- Confirmation of changes to your personal, bank and/or debit order details.
- Money Market Fund statements (sent monthly to investors with R10 000+ in the fund).

E-mail only:

- Distribution statements are sent in April and October every year. They include those funds that declare distributions quarterly (the other 2 declarations are covered in the January and July Account Statements – see below).

Post only: (as these include this newsletter or our annual report)

- Account statements are sent in January and July every year. They detail transactions since the previous statement as well as include an income distribution breakdown (IT3b).
- Tax statements – the distribution (IT3b) and capital gains tax (IT3c) statements are posted in March every year.

If you would prefer to receive your correspondence via e-mail please call us at 0860 234 234 or e-mail us at unittrusts@oldmutual.com. E-mails are in a PDF format and maximum 70KB in size.

"Hello, Marlene speaking"

Marlene Brooks has years of client servicing experience. She enjoys interacting with clients and financial advisers – and takes pride in being able to provide good service. "When I receive a call from someone who is really dissatisfied, it makes me feel good that I could assist them and make a difference to their day."

In her spare time, Marlene likes to get involved in charity drives within her community. She also enjoys reading.

This is what some of you had to say to Marlene:

"I must compliment you – your service is really outstanding." L da Silva

"Thank you for your quick and efficient response." C Smith

"I am very highly impressed with the service that you have given me." FH Gani

"You have the most friendly call centre and it is a pleasure dealing with all of you." JT van Wyk

continued from page 5

by the end of this decade. That means a mass of cheap, employable (low-skill) labour comes available. So for the first time India will have a rising savings rate combined with both a bulge in its working population and literate, employable people.

This puts conditions in place for India to do what China has been doing – bringing together capital and labour to carry out acts of simple, cheap manufacturing. So while India's services sector is under threat from China's rising middle class, China's manufacturing sector will have to start competing with India.

TOP-LINE vs. BOTTOM-LINE GROWTH

Strong top-line growth does not mean that there is always high bottom-line growth (company profits). We have seen China generate high GDP growth rates (top-line) over long periods of time – yet their stock market remains volatile. This is especially true in areas that are just about the application of labour and capital. Input prices are going up and competition is increasing, putting margins (profit) under pressure.

Volatility demonstrates fund's mettle

Volatility is beginning to characterise world markets, and emerging markets are becoming increasingly vulnerable to global market jitters.

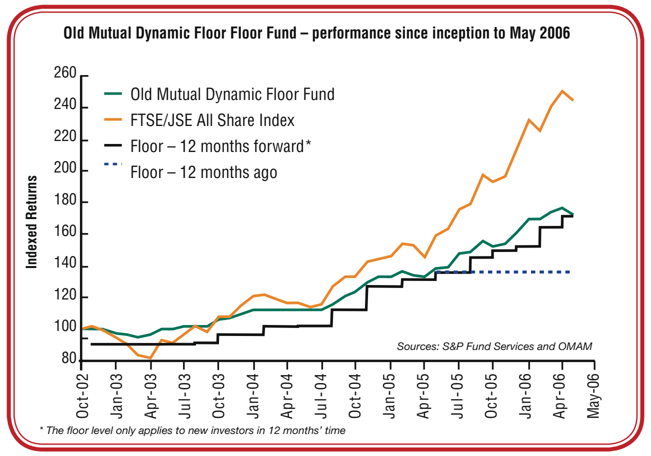
Despite the recent dips in the FTSE/JSE All Share Index (ALSI), flows into South African unit trusts indicate that investors are better prepared for market volatility than they were in 1998, for example. Over the last few years the bulk of investments have gone into moderate risk funds. One such group of funds is the "Targeted Absolute & Real Return" category of unit trusts – in which our Old Mutual Dynamic Floor Fund now manages R2.9 billion of investors' money.

The Dynamic Floor Fund aims for long term capital growth, with a strong emphasis on risk management (i.e. reducing the potential to lose money). It uses a sophisticated quantitative model to determine the exposure to various asset classes (shares, bonds and cash). The fund's aim is to ensure that the initial net value of an investor's capital does not fall below 90% after any 12-month period. It is important to note that this fund does not offer any guarantees and the value of your investment will fluctuate, albeit at more moderate levels than a pure equity fund.

This diversified fund generally has a bias towards shares, but when the market weakens the fund's share weighting is adjusted down – either through the use of listed derivatives or through increased exposure to bonds and cash. Similarly, as the stock market rises, fund manager Garth Taljard increases the percentage of the portfolio held in shares. As the fund value increases so does its floor, locking in gains already made.

For example, in early 2003, as markets declined, the fund's share exposure dropped to below 20% of the portfolio – but its floor level remained intact. Later, during the second half of 2004, when the stock market was running, the fund maintained a fairly aggressive share exposure of more than 60% of the portfolio. At that time, the fund manager was able to raise the floor and effectively lock in gains for investors.

Since the Dynamic Floor Fund's inception in November 2002 to the end of June 2006, the highest return delivered over a 12-month rolling period is 32% and the lowest is 6%. The floor has been raised 50 times over this period. The dotted line on the graph shows the critical level beyond which the fund should not drop as this is the level at which the fund's return was "locked in" 12 months ago.



Garth Taljard, Fund Manager:

"At the onset of market weakness I rapidly cut the fund's equity (share) exposure from the maximum 70% allowed to about 25% of the portfolio value. Although the fund lost 9% from 11 May to 13 June, the forward floor levels remain intact, and I will not hesitate to cut exposure even further should the market continue to move lower."

What if more volatility or a bear market lies ahead?

With protracted volatility or a full-fledged bear market, the fund will protect capital by running at low exposure to shares and higher cash reserves.

The fund manager will attempt to improve the fund's returns whilst still keeping its moderate risk profile by:

- Extracting extra yield from property
- Selectively picking stocks based on OMAM's extensive research
- Astute use of derivatives.

It is possible that the fund may underperform its return target at times. It is thus important to realise that:

- The fund has no guarantees.
- The fund could lose more than 10% in the short term.
- The fund is highly unlikely to go down more than 10% on a rolling one-year basis.

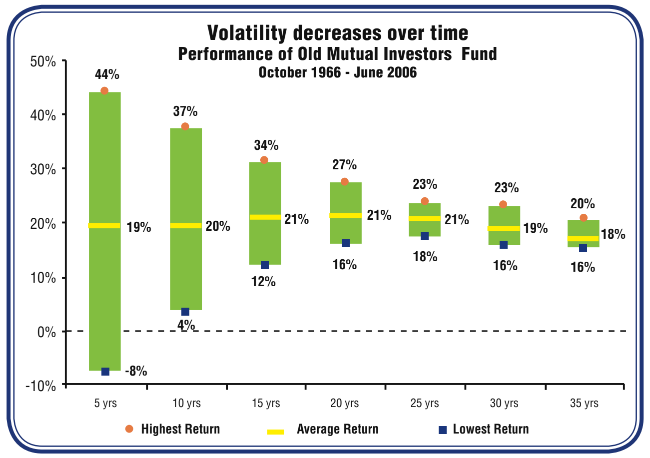
investments. One fund benefiting from our weaker currency is **Old Mutual International Growth Fund of Funds**. This fund gives you instant global diversification as it invests in a range of share (equity), bond and money market unit trusts. When deciding to move money offshore or to bring offshore assets back home, it is important to work with your financial adviser as currency volatility can seriously impact your returns.

It's time in the market that counts, not timing

Many people believe that knowing when to buy and sell is the secret of successful investing. The truth is that no one knows when markets will rise or fall – and trying to time the market is not only stressful, but also seldom successful. Generally, the sooner you can start saving, and the longer you can save, the more likely you are to make a handsome return regardless of the ups and downs along the way.

A long term investment approach provides valuable benefits:

1. It reduces your risk levels. The longer you are in the market, the less volatile your overall performance. The graph shows the divergence of returns from the Old Mutual Investors' Fund over different time frames. Over any 5-year term (from October 1966 to the end of June 2006) you would have had a high of 44% p.a. and a low of -8% p.a., with the average being 19% p.a. Taking that picture over 35-year periods, your high would be 20% p.a., your low 16% p.a. and your average 18% p.a. A far less volatile picture.



2. A long term investment approach exposes your money to the power of compounding. Albert Einstein once described compounding as the eighth wonder of the world. It simply means making money on your original investment as well as on the gains made in previous years (i.e. growth on growth over time). If you invest R1 000 at a growth rate of 10% p.a., you would have R1 100 at the end of the year. If you reinvested that R100, the following year's earnings would be on the original R1 000 as well as on the R100. Your R1 100 would now have grown to R1 210.

While the benefits of long term investing are evident, the beauty of unit trusts is that there are funds to meet shorter term needs as well. Many investors want exposure to the growth potential of shares, but are concerned about the risks (i.e. market volatility causing capital losses). Old Mutual Dynamic Floor Fund is a moderate risk fund aiming to produce returns in a rising market and offers some capital protection in a falling market. Turn to page 6 and read why investors have entrusted R2.9 billion to this fund.

Anil Thakersee, Head of Investment Marketing, Old Mutual

Over the long term cash is unlikely to deliver inflation-beating returns

Investing in cash may seem a safe bet, especially when markets are volatile, but it comes at the price of lower returns. Investors in money market funds, fixed deposits and many traditional bank savings vehicles have seen their returns almost halved in the last three years as interest rates have fallen. This has resulted in some investors, especially retirees, having to live off a lower income or draw from their capital. Income-seeking investors need to actively search for high-yielding investments as well as be prepared to take on more risk (by harnessing the growth potential of shares). For these clients we have two investment options:

1. **Old Mutual Enhanced Income Fund** aims to add an extra 1% - 2% on the average money market fund yields. This has the potential to increase a monthly income by a significant 20% in rand terms. The fund invests in a range of income-generating investments including some exposure to listed property shares. It actively seeks high income yielding investments as well as provides some potential for capital growth.
2. **Old Mutual Real Income Fund** aims to grow your income and your capital in line with inflation. It may initially pay a lower income than the Enhanced Income Fund but with its aim of growing your initial investment, your income will be paid out of an ever-rising capital base.

Turn to page 4 to find out more on these funds.

Have realistic growth expectations

For some time now, we have cautioned investors to expect more muted growth from the All Share Index in the years ahead. It would be more realistic to expect 13% p.a. from an equity fund, 10% from property, 8% from bonds and 7% from cash (Money Market Funds) over the long term.

Never let fear or greed rule your financial decisions. History shows us that the market has highs and lows; and lows and highs. Diversify your portfolio and let your long term investment goals weather the short term storms.

All data sourced from Old Mutual Investment Services.

New fund helps manage retirement risks

Arno Lawrenz
Head of Fixed Interest,
Old Mutual Asset Managers

In our previous edition of Financially Talking we spoke about the challenges of living longer. With advances in medical care and people living healthier lives, we are at risk of outliving our retirement savings.

In the 1980s, half of those retiring at age 60 could expect to live another 20 years. Now two-thirds (67%) are expected to live to 80, while 10% will live for a century (that's 40+ years of retirement!). On average we have to make financial provision for 28 years of retirement. (Source: Old Mutual Actuarial Department)

With these realities and our lower interest rate environment, South Africans need to take steps to protect and grow their capital.

This is where **Old Mutual Real Income Fund** could assist investors. It invests across the full spectrum of fixed interest-bearing investments together with selective exposure to shares and listed property. With this combination of investments the fund aims to offer investors a growing income and some capital growth, both in line with the inflation rate.

"I actively look for opportunities to protect your capital against inflation," says fund manager Arno Lawrenz, "with the aim of your income being paid out of this ever-growing capital base. So while initial income distributions may be low, they will grow over time."

Given the strong inflation protection theme, Arno's equity (share) investment strategy is largely determined by the inflation drivers in the economy at the time. For instance, if the rand is likely to depreciate (a key inflation driver), he will consider rand hedge shares that offer protection against a potential currency depreciation. Rand hedges are companies that derive a large portion of their profits from activities outside of SA. Similarly, if the fund manager believes food inflation is likely to rise then holding Astral shares, for example, could be an inflation hedge against rising food prices – an increase in underlying food prices means a potential increase in the company's earning stream if managed correctly. Similarly, other shares are sought to provide a hedge against other inflation components, such as medical inflation, which is of particular importance for retired investors. Naturally, given this exposure, this inflation-themed income fund may have higher capital volatility than the other income funds in the Old Mutual stable.

Our range of income-generating funds

	MONEY MARKET FUND	INCOME FUND	ENHANCED INCOME FUND	REAL INCOME FUND
Aim	Provides a slightly higher income than bank call rates. Preserves capital, but no growth.	Provides a higher income than the money market fund. Modest capital growth.	Provides a high level of income. Higher capital growth than income funds.	Provides a growing income in line with inflation. Provides capital growth in line with inflation.
Invests in...	Money market instruments.	Money market instruments and short to medium term bonds.	A range of money market instruments, bonds and maximum 25% in listed property.	A range of money market instruments, bonds, inflation-linked bonds and maximum 35% in shares & listed property.
Risks*	No risk of losing capital. Significant reinvestment risk.	Low risk of losing capital. Less reinvestment risk.	Some risk of capital loss. Low reinvestment risk.	Moderate risk of capital loss. Well-managed reinvest-ment risk.
Investment time frames	0 - 6 months	6 - 18 months	18 - 36 months	36 months or longer
Suitable for...	Investors that want to protect their capital as well as get a higher income than what a bank deposit offers. Investors who want to phase into the stock market.	Investors wanting a higher income, with minimal capital risk. Suitable option for busi-nesses with cash to invest for a short period. Investors who want to phase into the stock market.	Investors wanting to max-imise total return (income yield + capital). Investors that require the highest possible income. Investors that recognise one has to take some risk to protect capital.	Investors wanting to grow their income over time, thereby protecting its value from inflation. Investors who are prepared to take on some risk to protect and grow their capital and income.
These funds are suitable for individual and institutional retirement savings as they conform to legislation governing retirement funds (Regulation 28).				

* **Reinvestment Risk:** The risk that the income you reinvest may not generate the same rate of return as when your capital was originally invested. This is especially applicable in times of falling interest rates.

Crouching Tiger Hidden Dragon:
the Rise of India and China

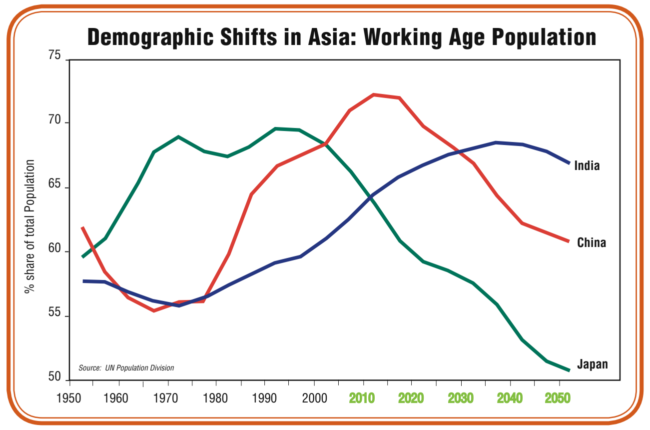
You only need read the newspaper to think that China (and now India) is taking on the world. It is true that these two countries have large economies, but compared to the United States, they are much smaller and also very poor. The primary reason for all the global attention is their phenomenal rates of GROWTH!

Over the past decade China has grown at over 8% a year and India at around 7%. What makes these figures even more impressive is that, when compounded over 10 years, you see the dramatic transformation of China and India.

Sanjeev Sanyal, Director of Global Markets Research at Deutsche Bank, was a guest speaker at Old Mutual's annual Investment Summit for financial advisers. He highlighted some interesting conditions for, and potential obstacles to, sustained growth in these increasingly important economies:

Investment driven growth

Western economic growth is typically driven by productivity. In Asia growth tends to be driven by investment. China has an astonishing level of investment – with almost 47% of gross domestic product (GDP) being invested back into the country every year! This investment comes primarily from domestic savings as China saves almost half of every dollar it produces (49% of GDP). Although India's savings rate is steadily increasing (currently around 29% of GDP), their investment effort is almost half that of China's, at around 25%.



Demographic impacts on economic growth

Demographics are an extremely important part of this Asian miracle-type growth.

China's growth model is currently based on large amounts of capital coming together with large amounts of labour – driving their construction and (export) manufacturing sector. As can be seen from the graph, China has been at its population peak for the last decade – with roughly 73% of the population being of working age – and it is likely to remain there for another decade. However, in 1980 China introduced the one-child policy. The birth rate declined sharply and it is likely that around 2020 the working population will begin to fall off. Industrialised economies like Japan, the US and those of Europe are seeing their populations age at an alarming rate. This means less people of working age, more retirees and greater pressure on social services.

India's growth, on the other hand, is propelled by its well-educated, English-literate middle class. Their services sector is booming both locally and globally – from exporting software and back-office outsourcing to their domestic successes like airlines, banks, telecommunications and so on. They have, for example, two million new cellphone connections every month.

While this urban middle class has successfully competed globally, they are under threat. It is a relatively small group (accounting for about 80 million of a 1.1 billion population) making them increasingly expensive. This means they are less competitive globally and therefore unlikely to continue driving a 7% annual growth rate. In addition, China's growth has led to a growing middle class – creating further competitive pressure for India.

Does this mean an end to India's boom? There are two demographic shifts that will support India going forward. The first is that they are still to go through the working population bulge – lagging the rest of Asia by two to three decades. The second dynamic is their primary education revolution. India's literacy rate has shot up and is expected to be around 80%

continued on page 7