

July 2007

# Financially Talking



## IN THIS ISSUE

- 2** Get the right mix – asset allocation explained
- 5** Is the bull over?
- 6** Something for everyone
- 8** Performance update



## The only free lunch in the investment world: getting the mix right

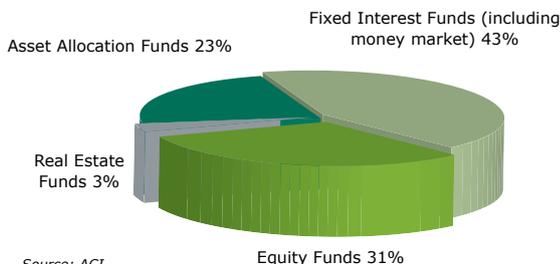
Anil Thakersee, MD, Old Mutual Unit Trusts

**T**en years ago over 80% of all money invested in South African unit trusts was held in equity funds (i.e. unit trusts investing in shares listed on the Johannesburg Securities Exchange).

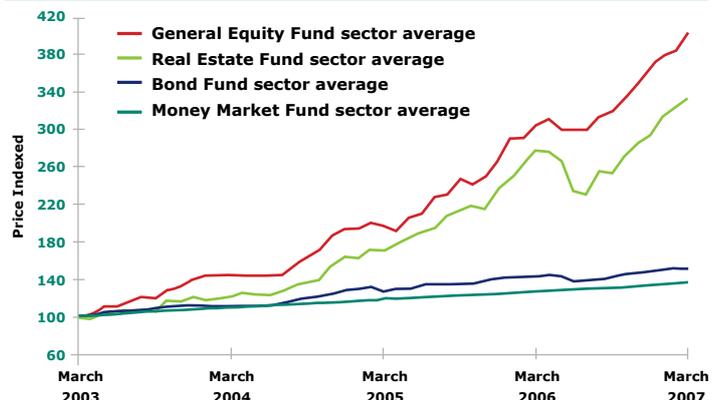
Today that picture is substantially different. Only 31% of money is invested in equity-only funds, with 43% in fixed interest funds and 23% in asset allocation funds. What's astounding is that more than 70% of all new money coming into the industry has gone into fixed income and money market funds. And this has occurred when most of the growth over the past four years has come from equity funds – the graph shows the average performance of general equity funds (funds that invest across different JSE sectors and industries) relative to other fund categories.

The last 20 years have seen the South African savings rate plummet. Young people are active consumers rather than savers. The result is that the majority of investments now belong to older investors, who naturally take a more conservative approach to investing.

### Unit Trust Industry: Total Domestic Assets: 31 March 2007



### Unit Trust Sector Performance: Four years to end of March 2007



### From the Editor, Tracy Hennessy, Head of Communication

**M**any investors are wondering whether local shares still offer value. After four years of exceptional performance, what can we expect going forward? I encourage you to read Johan Strydom's article on page 5. Intrigued by his thoughts, I asked my colleague Etienne Venter to analyse the All Share Index's past performance. While we know that past performance is not necessarily an indication of the future, the results were interesting.

Etienne looked at rolling returns over different periods from January 1960 to March 2007. Rolling returns calculate performance for every 5-year period, as an example, moving forward one month at a time. This calculation does not take any charges into account.

The results show that over all one-year periods, you have a 21% chance of a negative return. This drops to 12% over 2 years and to 1% for 5-year periods. From 9 years onwards your chances of a negative return drop to 0%.

This reinforces the importance of investment timeframes and goals determining the funds you choose. A shorter term investment need calls for a fund with a short term performance target.

Until next time... stick to your guns!

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### What is asset allocation?

Some describe asset allocation as the “only free lunch in the investment world”. This is because, if done correctly, it can substantially increase the value of your portfolio as well as manage your exposure to risk (i.e. the potential to lose money).

Asset allocation is spreading your money across different asset classes with the aim of achieving your financial goals at acceptable levels of risk.

Studies<sup>1</sup> conducted on US pension and mutual funds (unit trusts) have shown that a key driver of growth within an investment portfolio comes from being exposed to the right mix of assets. This was reinforced by research conducted by the New York based company, Alliance Bernstein Investments. They asked financial advisers for the “single most detrimental mistake investors make”. The majority responded that it was “not paying enough attention to asset allocation”. While “83% of financial advisors surveyed said effective asset allocation could have cut investor losses by at least half during the bear market of the early 2000s”.

### How does asset allocation work?

We’ve seen from the chart that shares, listed property, bonds and cash tend to move up or down at different times. The reason for this is that different market conditions influence asset classes in different ways. Asset allocation fund managers take advantage of

these different relationships (correlations) by tactically combining diverse asset classes in one portfolio. This reduces the risk of being over-exposed to a single asset class.

Selecting optimal combinations of asset classes to achieve the best possible risk/return balance is no simple task. It requires a detailed understanding of these relationships combined with extensive market research.

With a growing demand worldwide for multi-asset class solutions, Old Mutual has developed a range of asset allocation funds for its clients. Each solution is tailored to meet different needs in terms of:

- ▲ Objectives (i.e. income or growth)
- ▲ Timeframes (i.e. short term or long term)
- ▲ Risk tolerance (i.e. low risk or high risk)

Read more about these funds and how they are managed on page 6. You can also read about the new addition to our asset allocation fund range: **Stable Growth Fund**.

Remember, when making your investment decisions, to seek the advice of a trained professional. A financial adviser can assist you in selecting the most suitable investments for your current (and future) needs.

<sup>1</sup> “Determinants of Portfolio Performance” (1986) and “Determinants of Portfolio Performance II: An Update” (1991), Brinson et al. “Does Asset Allocation Policy Explain 40, 90, or 100 Percent of Performance?” Roger Ibbotson and Paul Kaplan (2000).

### No asset class is tops every year (annual performance to the end of June)

June 1999	June 2000	June 2001	June 2002	June 2003	June 2004	June 2005	June 2006	June 2007
SA Real Estate 26.7%	Foreign Equity 28.9%	SA Real Estate 31.8%	SA Equity 10.5%	SA Real Estate 30.1%	SA Equity 29.4%	SA Real Estate 52.8%	SA Equity 43.2%	SA Real Estate 43.0%
SA Cash 18.4%	SA Real Estate 25.2%	SA Bonds 29.6%	Foreign Equity 10.0%	SA Bonds 23.6%	SA Real Estate 15.9%	SA Equity 45.9%	Foreign Equity 23.7%	SA Equity 39.1%
SA Bonds 16.8%	SA Bonds 19.2%	Diversified 16.2%	SA Cash 9.8%	SA Cash 12.8%	Diversified 12.1%	Diversified 28.2%	SA Real Estate 23.5%	Diversified 24.3%
Foreign Equity 16.0%	Diversified 17.9%	SA Equity 12.5%	Diversified 8.9%	SA CPI 6.7%	SA Cash 9.2%	SA Bonds 19.0%	Diversified 20.2%	Foreign Equity 23.8%
Diversified 15.5%	SA Cash 11.6%	SA Cash 10.4%	SA CPI 8.0%	Diversified 6.2%	SA Bonds 5.1%	Foreign Equity 16.0%	SA Cash 6.8%	SA Cash 8.3%
SA CPI 7.3%	SA CPI 5.1%	SA CPI 6.4%	SA Real Estate 7.4%	SA Equity -8.1%	SA CPI 1.2%	SA Cash 7.3%	SA CPI 4.9%	SA Bonds 7.5%
SA Equity -0.2%	SA Equity 4.7%	Foreign Equity -3.1%	SA Bonds 6.8%	Foreign Equity -27.5%	Foreign Equity 1.1%	SA CPI 2.8%	SA Bonds 3.9%	SA CPI 6.1%

Diversified portfolio: Equal weighting in cash, bonds, property, equities and global equities.

Source: MorningStar

### Portfolio rebalancing

A great advantage of asset allocation funds is that rebalancing of your portfolio is done for you. Over time, as one asset class performs better than others, your portfolio can become skewed towards the outperforming asset class. With an active asset allocation team managing your money, the rebalancing is done for you – ensuring that the diversification remains geared towards your longer term risk/return needs.

## At the risk of not knowing

*Risk: n - possibility of loss.*

**There are always risks associated with investing. A fund's risk rating indicates how much it will fluctuate in value over the short term.**

To better understand the risks associated with our different funds, Old Mutual has developed a rating system out of 5. These ratings consider the potential that a fund's value may decrease over the short term as a result of moves in market factors. They do not take inflation risk (capital eroding over time) or currency risk into account.

Using historical asset class performance as a guide, each fund's risk rating is determined by its mandate (where and how it invests) and its benchmark (the performance criteria against which it is measured).

### **Risk rating 1 (Conservative)**

These low risk funds aim to protect your money against capital loss and to deliver a steady income stream. There is minimal growth potential and no protection against inflation.

### **Risk rating 2 (Moderately Conservative)**

The primary aim of these funds is to deliver stable income payouts (distributions), with some capital growth (giving protection against inflation). A higher bond, or some equity, exposure can increase volatility (there is thus some potential for capital loss).

### **Risk rating 3 (Moderate)**

These funds aim for both a moderate income stream and long term capital growth in excess of inflation. The higher equity and/or bond exposure increases the potential for short term volatility (and thus capital loss).

### **Risk rating 4 (Moderately Aggressive)**

These higher risk funds aim for long term capital growth in excess of inflation. With a greater exposure to equities, the funds may experience higher levels of volatility over the short term (and thus the potential for capital loss). This risk is managed by spreading your money across different sectors of the equity (share) markets.

### **Risk rating 5 (Aggressive)**

These are high risk, niche funds with focused equity portfolios. They actively seek growth within a single sector or handful of shares. This high short term growth potential comes with high levels of capital volatility (and thus the potential for capital loss).

A basic rule of thumb is the longer your investment horizon, the more short term risk you can take. This is because short term market dips have more chance of recovering over the longer term.

Turn to page 8 for each fund's risk rating.

## Investing offshore still makes sense for the long term

**M**any investors fear that the "correct" time for investing offshore has passed. But holding a portion of your portfolio offshore remains as true a value proposition with the rand at R7,50/USD as it does at R6,00/USD.

An offshore investment reduces portfolio risk through geographic diversification, while also lowering emerging market and currency risks. It also provides exposure to companies or industries not available in the local market.

Unit trust asset swap funds offer an easy way to access offshore investment opportunities. They are ideal if you want to invest smaller amounts or shy away from the paper work needed to satisfy exchange control regulations. They also provide additional offshore investment exposure for those who believe they need a greater allocation than the R2 million they are allowed to invest directly offshore.

As with any investment, offshore investing is not without its risks. Investors should take care to choose the most appropriate offshore option with the help of their financial adviser. Our range of asset swap funds are managed by Old Mutual Asset Managers (UK), part of the Old Mutual Group and an award-winning multi-boutique business:

**Old Mutual Global Equity Fund** provides an entry point to world stock markets through broad exposure to quality shares across the globe. The fund aims to offer superior returns over the medium to longer term by actively managing country and sector exposure.

**Old Mutual International Growth Fund of Funds** offers a diversified portfolio of international equity (share), bond and money market unit trusts. The primary focus remains on shares, with opportunities in the bond and money markets being sought to take advantage of changing economic and market conditions.

**Old Mutual Global Bond Feeder Fund** aims to offer a combination of capital growth and income, over the medium to long term. This actively managed fund holds a diversified portfolio of interest bearing investments selected from bond markets across the world.

**Old Mutual UK Money Market Feeder Fund** aims to preserve your capital while offering high levels of income. It holds a portfolio of many different UK deposits and short dated money market instruments. This is a more conservative fund that can be used as a safe haven during times of stock market turbulence.



## So what if the bull is dead?

**By Johan Strydom, fund manager of Old Mutual Investors' Fund and joint head of OMIGSA's Core Investments team.**

The FTSE/JSE All Share Index reached an all-time high of 29 510 on 20 June 2007 (for the period under review to the end of June 2007). Despite this, the markets remain volatile with a number of commentators saying that the local share market is becoming expensive.

### Should investors be concerned?

Equity investors have experienced exceptional returns over the last four years, receiving 39.6% p.a. from the All Share Index to the end of June 2007. In the first six months of this year alone the Index delivered 15.1% – and reached new historic highs during this time. However, it would be unrealistic to expect similar levels of growth going forward. Concerns about inflation breaching the upper end of the Reserve Bank's 3% to 6% target range and higher interest rates contributed to the JSE becoming more volatile in June.

We continue to hold the view that, against the background of continued strong real earnings growth, driven by structural change in the local economy, equities (shares) will prove to be the best performing asset class in 2007, albeit at lower nominal levels. Over the longer term, they remain the asset class of choice when it comes to increasing the purchasing power of your money (i.e. growth in real or after-inflation terms).

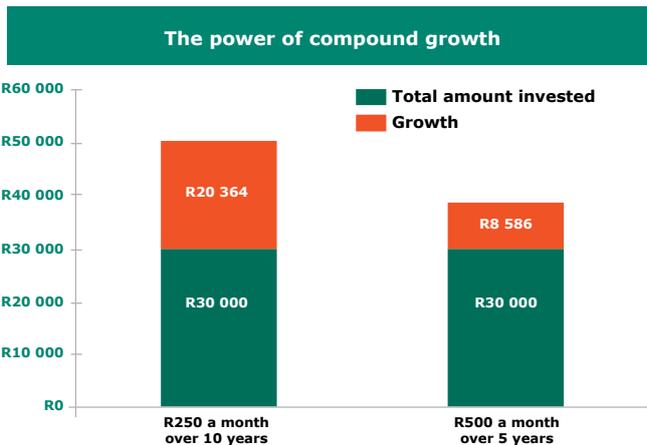
So what do long term investors have to bear in mind when it comes to investing in a market that has delivered exceptional short term performance?

### Forget about the market...

If you are investing for the long term, don't be tempted into taking inappropriate action by "micro-managing" your money. There is an easy way to make money from the market: invest for the long term, and start as early as possible. In doing so, you'd be harvesting the potential of one of the most powerful forces in the universe: compound growth. By earning growth on growth already earned during a previous period, you really make your money work for you.

Take the example of Investor A who invests R250 per month for 10 years at an illustrative annual rate of 10%. At the end of the 10-year investment term, this investor would have accumulated R50 364. By contrast, Investor B waits a further 5 years before investing, but then invests double that amount at R500 per month. This investor accumulates only R38 586 after 5 years – substantially less despite both investors having invested a total of R30 000 each. Investor A accumulated more money because his money had time to grow.

An additional benefit of regular investing is that you do not need to be too worried about short term market



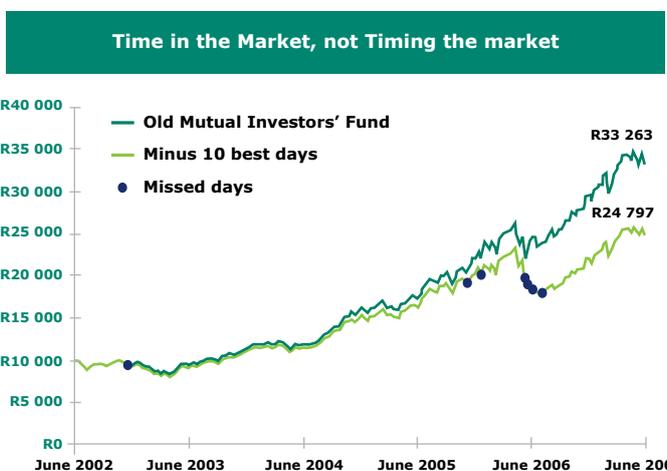
fluctuations. Wise investors continue investing through dips in the market, knowing that the cheaper shares become, the greater the buying opportunities and the greater the gains to be made when the market recovers.

### ... but stay in the market

Trying to time the market is a near-futile exercise that could potentially cost investors money. Yet many investors try to do precisely this and, as the example below illustrates, the price of getting it wrong is high.

Just look at what would have happened to a R10 000 investment into the Investors' Fund over the past five years, had the investor missed out on the best 10 days of performance due to switching and trying to time the market. Missing out on the top 10 days would have taken 7% (R8 467) off the final value.

Sticking with the market through the highs and lows over the five years would have earned him a handsome return of 27% p.a.



### So is this the end of the bull market?

Who knows, but as long as you are investing for the long haul, the short term ups and downs of the market actually do not matter.

# The Shopping Mall of Investing

**A** sset allocation is about investing across different local and global asset classes in an attempt to maximise capital growth without taking on undue exposure to risk. Well, if the thought of getting that right keeps you awake at night, then read how one of the most experienced asset allocation teams in the country can help you.

Old Mutual Investment Group (SA) (OMIGSA) is made up of 12 specialised investment boutiques, each with their particular area of specialisation. This article focuses on the **Macro Strategy Investments** boutique and the funds they manage.

The Macro Strategy Investments team, headed by Peter Brooke, manages a range of asset allocation unit trust funds. With over 80 years' combined investment experience, this highly skilled team is further supported by OMIGSA's extensive investment research capabilities and world-class infrastructure.

Following a disciplined investment process, the team actively moves your money between, and within, asset classes to take advantage of changing market conditions.

"We use proven quantitative and qualitative methods to understand the macro or 'big picture' drivers of performance in each asset class," says Peter Brooke. "We then build these investment portfolios based on the absolute and relative long term values of each asset class."

## The Shopping Mall

We all enjoy the convenience of shopping malls – with all you need under one roof. The funds managed by the Macro Strategy Investments boutique are similar... a range of unit trust funds that meet your changing needs.

Most investors have completely different needs at the various stages of their lives and that often determines where they invest their money.

- ▲ For instance, 30-something investors are predominantly focused on maximising the growth of their investments, with little consideration for income-generating investments.
- ▲ Investors in their mid- to late-40s have little more than a decade to retirement. Their emphasis remains on seeking capital growth but with more of an eye on risk than in their younger years.

## MACRO STRATEGY TEAM

Peter Brooke



Adrian Allardice



Denzil Burger



Urvesh Desai



### Asset Allocation Process



Graham Tucker



Warren van der Westhuizen



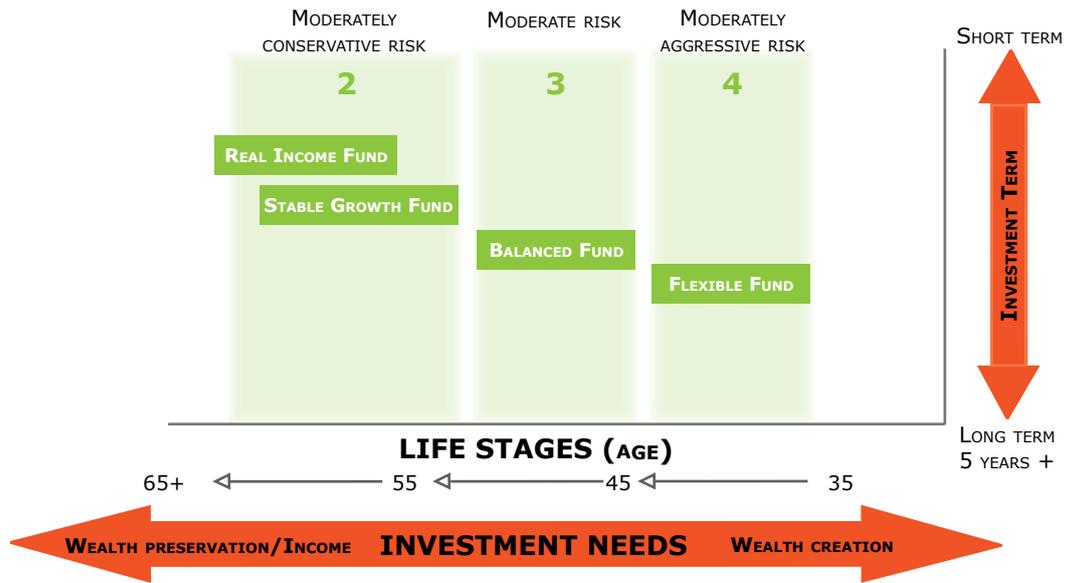
Fazlin Viljoen



Rian le Roux

### Quantitative Research Team

### Head of Economic Research Team



- ▲ As investors enter their 60s, priorities change. While capital growth is still necessary (to ensure the investment lasts their lifetime), preservation and income generation become more of a concern.
- ▲ As the investor moves further into retirement, the focus moves to needing a regular and reliable income. At this stage, it is crucial to find an investment that grows your income and your capital at least in line with inflation.

Old Mutual’s asset allocation range of funds caters for these life stages. However, your personal circumstances will determine your risk profile, investment goals and

timeframes. It is important to work with a financial adviser in deciding on the most suitable solution for you.

**New fund launched on 1 July 2007**

We are delighted to have recently added a new unit trust to our range of multi-asset class funds. The **Old Mutual Stable Growth Fund** is a conservative fund suitable for retired or risk-averse investors. It targets a return in excess of inflation, while aiming to minimise the risk of capital loss over 18 months.

**OLD MUTUAL’S RANGE OF ASSET ALLOCATION SOLUTIONS**

Fund	Asset Allocation	Client Need	Performance Target	Yield Projection**	Risk Target <sup>#</sup>
<b>Old Mutual Real Income Fund</b>	Bonds and cash, with combined maximum of 35% of the fund value allowed in listed property and shares. No offshore.	The fund aims to distribute a regular income stream with some level of capital growth – both increasing in line with inflation.*	CPIX + 3% a year	7.4% a year	May see some short term volatility, but less risky than most asset allocation funds. Risk Rating: 2
<b>Old Mutual Stable Growth Fund</b>	Bonds and cash, with maximum of 40% in shares and up to 15% in listed property. 15% may be held offshore.	The fund’s primary aim is for moderate capital growth with stable income distributions.*	CPIX + 4% (gross of fees) over rolling 3-year periods	5.8% a year	Aims to minimise capital losses over rolling 18-month periods. Risk Rating: 2
<b>Old Mutual Balanced Fund</b>	Shares, bonds, property and cash. The bias is towards shares (maximum 75% of the fund value). 15% may be held offshore.	This balanced portfolio’s focus is on delivering long term growth as opposed to income.*	CPIX + 5% over rolling 3-year periods	4% a year	Will experience some short term volatility, but carries less risk than a flexible fund. Risk Rating: 3
<b>Old Mutual Flexible Fund</b>	Shares, bonds, property and cash. The fund seeks to maximise total returns, which means a bias towards growth assets. 15% may be held offshore.	This more aggressively managed asset allocation portfolio aims for high, long term growth.	CPIX + 7% a year	3% a year	There will be short term volatility, but potentially less so than a pure equity fund (as it benefits from diversification across asset classes). Risk Rating: 4

\* The funds are suitable for retirement savings as their portfolios conform to legislation governing retirement funds.  
 \*\* The yield projections are based on each fund’s current asset allocation and estimates of the yields on asset classes over the next year. These give you an indication of the income you are likely to receive for the coming year but are subject to change with changes in asset allocation and market movements.  
<sup>#</sup> To find out more about risk ratings, turn to page 4.

## SERVICE SNIPPETS

### Manage your portfolio online.

To buy, sell or switch units online register on **My Secure Services** at [www.oldmutualunittrusts.co.za](http://www.oldmutualunittrusts.co.za).

### Avoid postal delays.

To receive correspondence from us via email please call us at 0860 234 234 or email us at [unittrusts@oldmutual.com](mailto:unittrusts@oldmutual.com). Letters are in a PDF format and do not exceed 70KB in size. Your annual account statements will continue to be posted to you, along with Financially Talking.

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Call 0860 234 234 to speak to our skilled Client Service consultants.



Email us at [unittrusts@oldmutual.com](mailto:unittrusts@oldmutual.com) (we respond within 24 hours).



Call 0860 700 000 for investment values, any time of day or night. Have an account number on hand.

### When you're good, you're good!

Thank you for your positive feedback!! Research International (an independent research agency) surveyed clients who contacted our Service Centre in 2006. They rated "caller satisfaction" in excess of 88% – one of the highest ratings in the industry. In addition to external research, we monitor our calls every day. Our internal system shows us that more than 86% of calls are answered within 20 seconds, with less than 2% being abandoned.



### Goodbye Tracy.

When calling our Service Centre, many of you have been fortunate enough to have Tracy Kroukamp assist you. Sadly (for us) Tracy has moved to a position in the Old Mutual Group Marketing team. We are grateful for all her years of dedication. Thankfully she leaves behind a skilled, enthusiastic team of consultants. Good luck, Tracy!

Fund	TER# (%)	Performance % p.a.				Risk Rating*
		1 year	3 years	5 years		
Balanced	1.2	32.4	33.3	21.6	3	
Dynamic Floor	1.7	13.7	18.8	n/a	3	
Enhanced Income	1.1	11.7	12.8	n/a	2	
Financial Services	1.1	40.6	41.4	27.1	5	
Flexible	1.3	38.4	36.1	24.3	4	
Four Plus Capital	2.4	10.5	13.4	n/a	3	
Four Plus Global	2.3	21.0	25.6	13.0	4	
Four Plus Growth	1.9	25.8	28.8	20.5	3	
Four Plus Secure	1.8	6.6	6.5	n/a	2	
Galaxy Balanced	2.2	25.7	28.9	22.1	3	
Galaxy Defensive	1.8	20.8	21.9	19.6	2	
Galaxy Equity	1.2	34.2	40.4	24.5	4	
Galaxy Fixed Interest	1.2	9.9	9.1	10.5	2	
Gilt	0.8	7.0	10.3	11.8	3	
Global Bond Feeder	1.4	3.0	8.6	0.0	2	
Global Equity - A	2.0	25.3	25.2	8.9	4	
Global Technology	2.4	26.1	13.6	3.8	5	
Gold	1.1	-1.0	27.3	10.0	5	
Growth	1.1	44.6	42.3	31.3	4	
High Yield Opportunity	1.4	40.2	40.3	34.8	4	
Income	0.8	7.6	8.3	9.8	1	
Industrial - A	1.4	42.7	39.7	34.6	5	
International Growth	2.7	17.6	18.7	4.2	4	
Investors'	1.2	37.4	40.8	27.2	4	
Mining & Resources	1.1	39.6	54.3	30.8	5	
Money Market	0.5	8.2	7.5	8.9	1	
Real Income	1.3	12.1	n/a	n/a	2	
SA Quoted Property	1.1	46.3	40.7	n/a	3	
Small Companies	1.1	64.9	52.3	41.6	5	
Stable Growth	n/a	n/a	n/a	n/a	2	
Top 40	0.7	32.2	41.3	22.0	4	
Top Companies	1.1	36.2	39.0	28.6	5	
UK Money Market	0.5	10.8	10.6	1.1	1	
Value	1.1	43.9	41.0	32.1	4	
<b>South Africa CPI</b>		<b>6.4</b>	<b>4.7</b>	<b>4.4</b>		

All figures in the publication sourced (unless otherwise stated): Standard & Poor's Fund Services. Lump sum investments to the end of June 2007, 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. \* Total expense ratio figures to end March 2007. \* Read more about these risk ratings on page 4.

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