

OLDMUTUAL

PENSIONS OPTIPLUS

INCREASE ANNOUNCEMENT 2024



CORPORATE

DO GREAT THINGS EVERY DAY



OLD MUTUAL CORPORATE ANNUITY FUNDS

The Old Mutual Life Assurance Company (South Africa) Limited (OMLAC(SA)) Board has approved the following Pensions OptiPlus increases, effective for increase dates from 1 January 2024 to 31 December 2024:

PROFIT CATEGORY	PRI ¹	2024 INCREASE ²	CPI ³
I	3.5%	9.5%	5.4%
II	4.0%	8.9%	
III	4.5%	8.2%	
IV	5.0%	7.6%	
V	5.5%	7.0%	
VI	6.0%	6.4%	
VII	6.5%	5.8%	
VIII	7.0%	5.2%	
IX	7.5%	4.6%	
X	8.0%	4.0%	

1. Post-retirement Interest rate.
2. Applicable to Pensions OptiPlus annuitants only.
3. Headline CPI year-on-year figure for September 2023.

This note provides an understanding of the factors considered in the declaration of the increases. It also provides some insight into the investment markets leading up to the declaration and the security of Old Mutual's Corporate with-profit annuity range.

Communication to individual annuitants will be distributed during the month in which their increase becomes effective.



In support of improved disclosure on the management of your Pensions OptiPlus investment, the following reports are available in respect of Old Mutual Corporate's with-profit annuity portfolios (which include Pensions OptiPlus):

- With-Profit Annuities Disclosure Report - 2022
- Principles and Practices of Financial Management (PPFM)

The above Pensions OptiPlus reports are available on Old Mutual's website at:

www.oldmutual.co.za/corporate/pensions-optiplus

1. INVESTMENT MARKETS IN PERSPECTIVE

Pensions OptiPlus increases applicable in 2024 are based primarily on investment returns for the year from 1 October 2022 to 30 September 2023 (the investment year). We are pleased to announce that the increases granted for 2024 are higher than last year's increases with most PRI categories exceeding CPI inflation over the same period.

Pensions OptiPlus assets are split between a matched Interest-Bearing Asset (IBA) portfolio and a portfolio of growth assets. It is the performance of this growth asset portfolio, together with the locked-in yields (LIY) on the matched IBA portfolio that are used to support the declared increases.

The table below outlines the gross investment returns per asset class for the period ended 30 September 2023 for Pensions OptiPlus specifically. They are for one-year and three-year periods. Also provided is the alpha generated for the growth portfolio, which is the difference between the actual and benchmark return. In addition, the actual asset allocation as at 30 September 2023, aggregated across the whole Pensions OptiPlus investment portfolio is also shown:

	ONE-YEAR RETURNS	ONE-YEAR BENCHMARK RETURNS	ALPHA	THREE-YEAR RETURNS ANNUALISED	THREE-YEAR BENCHMARK RETURNS ANNUALISED	ALPHA	ASSET ALLOCATION
Local Interest-Bearing Assets	7.1%	7.5%	-0.4%	4.8%	5.0%	-0.2%	0.3%
Global Interest-Bearing Assets	9.5%	7.2%	2.3%	0.7%	-3.1%	3.8%	0.1%
Local Equities	10.3%	11.9%	-1.6%	13.9%	13.8%	0.1%	17.7%
Global Equities	27.2%	26.6%	0.6%	12.6%	11.3%	1.3%	15.7%
Local Property	11.3%	11.0%	0.3%	4.4%	4.0%	0.4%	6.7%
Local Alternatives	25.9%	12.4%	13.5%	16.3%	12.9%	3.4%	7.5%
Global Alternatives	2.6%	16.3%	-13.7%	13.9%	17.5%	-3.6%	5.2%
African Equities	14.4%	9.6%	4.8%	4.1%	3.3%	0.8%	0.9%
Total Growth Portfolio	17.1%	17.4%	-0.3%	12.9%	12.1%	0.8%	54.0%
Matched Portfolio	11.2%*			11.2%*			46.0%
Total	14.4%			12.1%			100.0%

* The return shown for the Matched Portfolio is the average LIY over the relevant period. This LIY is available for increases from the matched assets over the term of the policy, irrespective of actual market returns on this portion of the portfolio over the short term.

LOCAL EQUITIES

Over the one-year period to September 2023 the local equities portfolio underperformed the benchmark by 1.6% p.a, however, over the three-year period the portfolio managed to perform in line with the benchmark.

The South African economy surpassed expectations with real gross domestic product expanding by 0.6% in quarter two of 2023. While encouraging, there remains a myriad of known challenges constraining economic growth, including energy and logistical constraints. Consequently, and with inflation within the SARB's target range, the Monetary Policy Committee voted to keep the repurchase rate unchanged at 8.25% in September 2023. Commodity price weakness hindered returns from resource counters, which, along with industrial shares, dragged down the local equity index. The FTSE/ JSE Capped SWIX delivered -3.8% for the quarter, bringing the year-to-date return to -0.3%.

LOCAL INTEREST-BEARING ASSETS

Local interest-bearing assets underperformed over one-year and three-year periods by 0.4% and 0.2% respectively. The unmatched portfolio's exposure to interest-bearing assets is predominantly cash and did really impact the overall return of the portfolio.

LOCAL PROPERTY

The local property portfolio outperformed the benchmark over both periods to 30 September 2023. The following factors contributed to the portfolio's performance:

- The recovery in the retail sector has been encouraging during 2022. However, the high turnover base and economic headwinds facing consumers have impacted turnover growth.
- Strong leasing activity has continued into 2023 with portfolio vacancies decreasing in quarter two of 2023.
- Rental reversions (i.e. the change in rentals on renewals and new leases) for 2023 year-to-date are down. While this covers only a small subset of the gross leasable area it is indicative of the tough economic conditions that are still impacting rental negotiations.
- Our persistent focus on arrears management (in the post-Covid era) continues in 2023. Following a reduction in arrears from December 2021 to December 2022, we continued to build on this momentum with arrears reducing further as at June 2023.
- Portfolio turnover growth has slowed but remains above pre-Covid levels. The portfolio and Gateway were both impacted by Spar vacating in December 2022. Trading at Gateway (and, subsequently, the portfolio) has further been impacted by malls in the region reopening following the 2021 riots, as well as a general slowdown in KwaZulu-Natal.
- Persistent load-shedding continued to weigh on income, mainly due to diesel costs. This not only directly impacts our net income, but also indirectly impacts underlying tenant turnover (e.g. loss of turnover, increasing cost of occupancy and lower turnover rental).

LOCAL ALTERNATIVES

The local alternative assets portfolio outperformed its benchmark over one-year and three-year periods by 13.5% and 3.4% p.a respectively. It is a high-growth portfolio that aims to provide investors with significant real returns over the long term and has a long-term performance target of approximately CPI plus 7%. The portfolio invests namely in private equity investments, development finance funds, infrastructure and natural resources that are linked to the local economy. Private equity and infrastructure contributed to the overall portfolio performance, whereas development finance fund and natural resources detracted.

GLOBAL EQUITIES

The global equities portfolio performed relatively well and outperformed its benchmark over both periods. The change in performance pattern over this period compared to the pre-Covid period is stark. The value strategy strongly outperformed both the benchmark and the value index over this period while the growth strategy lagged substantially, significantly underperforming a lagging growth index. The quality and quantitative strategies within the global equities portfolio were both comfortably ahead of benchmark over the three-years and contributed to performance.

GLOBAL INTEREST-BEARING ASSETS

The global interest-bearing portfolio outperformed its benchmark over one-year and three-year period. While global bonds have recently come under pressure, the portfolio has been appropriately positioned to outperform the benchmark in a tough environment.

GLOBAL ALTERNATIVES

The objective of the global alternative assets portfolio is to deliver long-term real returns that significantly exceed the US CPI. The portfolio consists of global private equity and global infrastructure. Over the one-year and three-year period the portfolio underperformed its benchmark with the infrastructure fund being the major contributor to the underperformance over the three-year period.

Overall, the international private equity portfolios have been resilient in an environment of macroeconomic uncertainty and market volatility. In an environment of persistent inflation, high financing cost and slowing economic growth, portfolios have re-rated, and we expect to see private equity market returns gravitating lower overall. That said, most of the international private equity funds produced positive performance over the quarter.

2. INCREASE DECLARATION RELATIVE TO INVESTMENT RETURNS

The bonus smoothing reserves (BSRs) for Pensions OptiPlus as at 30 September 2022 and 2023 were within the following bands:

DATE	ST-BSR	LT-BSR
30 September 2022	0% to 5%	-5% to 0%
30 September 2023	0% to 5%	-5% to 0%

The long-term BSR (LT-BSR) is the difference between the value of the cash flows that are matched, and the market value of those matching assets. This difference is released gradually over the full lifetime of the annuitants.

The short-term BSR (ST-BSR) is the difference between the value of the remaining liabilities and the market value of the remaining assets.

It is useful to review how the ST-BSR changed over the period, as a result of the experience over the investment year and the impact of the declared increases. The table below outlines how the ST-BSR movements can be estimated for the Pensions OptiPlus portfolio as a whole:

PENSIONS OPTIPLUS	
Opening ST-BSR range at 30 September 2022	0% to 5%
Add: Investment Return ¹	15.2%
Less: Charges and Fees	1.8%
Less: PRI ²	4.5%
Less: Increases Declared ³	8.2%
Add: Other ⁴	1.0%
Closing ST-BSR range at 30 September 2023	0% to 5%

- 1 This is the estimated return, for the year ended 30 September 2023, into the ST-BSR. This includes the return on the growth assets and the contribution from the LIY. The difference between this estimated return and the total return earned on the portfolio would have an influence on the level of the LT-BSR.
- 2 "PRI" is the post-retirement interest rate. It represents the amount of credit for future investment returns that is given to the annuitant at the outset of the contract. The PRI of 4.5% in the table above represents the weighted average PRI across all the categories.
- 3 Weighted average cost of increases across all the categories.
- 4 "Other" includes items like underwriting profit, net client cash flows and other minor adjustments.

3. INCREASE HISTORIES AND INFLATION PROTECTION

The table below shows the historical increases that have been declared on the categories offered on Pensions OptiPlus compared to CPI inflation. It also shows the annualised increases over three-, five- and ten-year periods:

YEAR	CPI*	PRI CATEGORY									
		3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
Annual increases declared											
2015	5.9%	11.0%	10.4%	9.7%	9.1%	8.5%	7.8%	6.5%	5.2%	4.0%	5.4%
2016	4.6%	11.0%	10.4%	9.7%	9.1%	8.5%	7.8%	7.2%	6.6%	6.0%	5.4%
2017	6.1%	10.5%	9.9%	9.2%	8.6%	8.0%	7.4%	6.7%	6.1%	5.5%	4.9%
2018	5.1%	10.0%	9.4%	8.7%	8.1%	7.5%	6.9%	6.3%	5.7%	5.1%	4.5%
2019	4.9%	9.5%	8.9%	8.2%	7.6%	7.0%	6.4%	5.8%	5.2%	4.6%	4.0%
2020	4.1%	9.0%	8.4%	7.7%	7.1%	6.5%	5.9%	5.3%	4.7%	4.1%	3.5%
2021	3.0%	8.0%	7.4%	6.8%	6.1%	5.5%	4.9%	4.3%	3.7%	3.1%	2.5%
2022	5.0%	9.0%	8.4%	7.7%	7.1%	6.5%	5.9%	5.3%	4.7%	4.1%	3.5%
2023	7.5%	6.5%	5.9%	5.3%	4.7%	4.1%	3.5%	2.9%	2.3%	1.7%	1.1%
2024	5.4%	9.5%	8.9%	8.2%	7.6%	7.0%	6.4%	5.8%	5.2%	4.6%	4.0%
Annualised figures over 3, 5 and 10 years											
3 years	6.0%	8.3%	7.7%	7.1%	6.5%	5.9%	5.3%	4.7%	4.1%	3.5%	2.9%
5 years	5.0%	8.4%	7.8%	7.1%	6.5%	5.9%	5.3%	4.7%	4.1%	3.5%	2.9%
10 years	5.2%	9.4%	8.8%	8.1%	7.5%	6.9%	6.3%	5.6%	4.9%	4.3%	3.9%

*The CPI inflation numbers are the year-on-year figures that coincide with the corresponding investment year (i.e. they are the year-on-year figures to 30 September of the previous year).

Pensions OptiPlus increases for 2024 have increased by approximately 3% across all the categories compared to 2023 increases, with all categories except 7.0%, 7.5%, as well as 8.0% PRI outperforming inflation.

Over the long term, the 4% PRI category is expected to provide increases that are, on average, in line with CPI inflation. From the above table, it can be seen that the ten-year average increase on the 4% PRI category has been substantially higher than the corresponding increase in the CPI.

4. SECURITY IN TURBULENT TIMES

Assets backing Old Mutual's annuity liabilities, including BSRs, are held in policyholder funds – shareholders cannot access these funds. Shareholder capital is separate from, and over and above policyholder funds. Shareholder capital has no impact on the level of annuity increases. It does, however, represent the security backing the annuity guarantees offered by Old Mutual.

The assets backing annuitant liabilities (policyholder funds) have to be in the name of the insurer and may not be encumbered. This means that no outside party may have a claim on those assets. They are for the benefit of the annuitants only.

OMLAC(SA) has a BB Insurer Financial Strength rating from S&P Global Ratings, which is higher than the overall South African sovereign debt rating. OMLAC(SA) also remains very well capitalised with a cover ratio of 2.09 times the statutory adequacy capital requirement as at the end of June 2023.



**IN SUMMARY, ANNUITANTS
MAY REST ASSURED THAT THE
GUARANTEES FROM OLD MUTUAL
CAN BE RELIED UPON.**

**PAYMENT OF THEIR ANNUITIES
ARE GUARANTEED FOR LIFE AND
WILL NEVER DECREASE.**

FOR MORE INFORMATION

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Visit the Old Mutual Corporate website

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You can ask for a copy of this report by calling the Pincare Service Centre on 0860 40 60 90.

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