



OLDMUTUAL

DISCLOSURE REPORT  
DECEMBER 2022

OLD MUTUAL  
**WITH-PROFIT  
ANNUITIES**



**CORPORATE**

DO GREAT THINGS EVERY DAY

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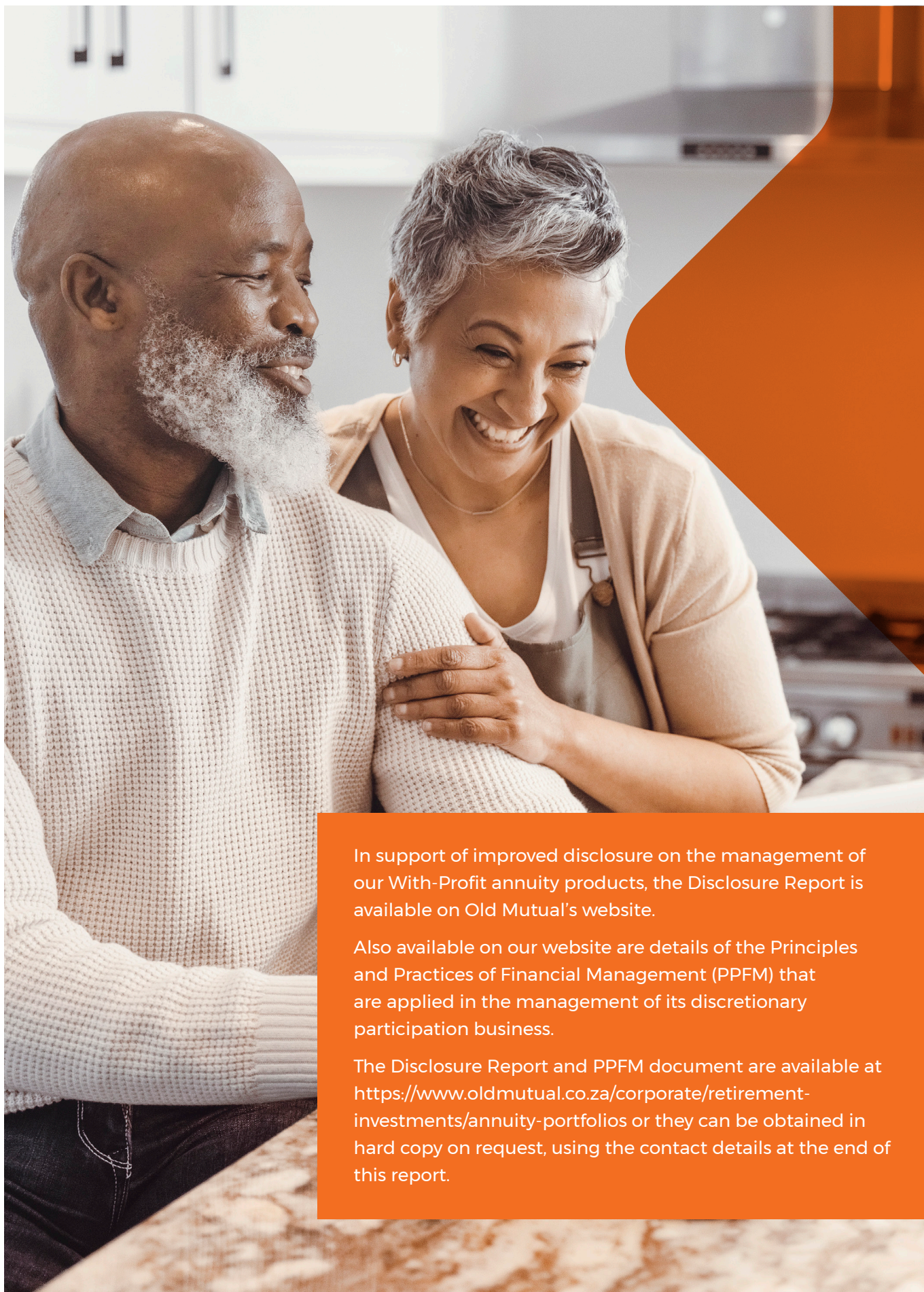
## 1. INTRODUCTION

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This Disclosure Report contains details of the structure of the portfolio of assets underlying the Old Mutual Life Assurance Company (South Africa) Limited's (Old Mutual) With-Profit annuity products as at 31 December 2022, as well as the returns generated by the underlying assets until this date.

This report also includes information on the Bonus Smoothing Reserve (BSR) levels, the internal processes and philosophies of the With-Profit annuity products pertaining to annuity increase declarations, as well as the level of capital Old Mutual holds to back portfolios with guaranteed benefits. Finally, notes on the fees and cost structures are provided.

An overview of aspects and practices relating to the management of our With-Profit annuity products is also provided. The nature, frequency, timing and format of disclosure may be reviewed in the future. This report is not intended to provide a comprehensive explanation of contractual terms and conditions. Contractual policy conditions will always prevail.



In support of improved disclosure on the management of our With-Profit annuity products, the Disclosure Report is available on Old Mutual's website.

Also available on our website are details of the Principles and Practices of Financial Management (PPFM) that are applied in the management of its discretionary participation business.

The Disclosure Report and PPFM document are available at <https://www.oldmutual.co.za/corporate/retirement-investments/annuity-portfolios> or they can be obtained in hard copy on request, using the contact details at the end of this report.

## 2. UNDERLYING INVESTMENT PORTFOLIOS

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This section of the Disclosure Report provides information about the structure and performance of the investment portfolios underlying the With-Profit Annuity products.

Old Mutual Investment Group had an organisational restructure in 2021, and now comprises a holding company named Old Mutual Investments (OMI) with, amongst others, the following subsidiaries: Old Mutual Investment Group (OMIG), Old Mutual Alternative Investments (OMAI) (held through Old Mutual Alternative Investment Holdings) Futuregrowth Asset Management, Old Mutual Specialised Finance (OMSFIN) and Marriot Asset Management.

Within the operational framework of Old Mutual, Old Mutual Life Assurance Company South Africa (OMLACSA), serves as the life insurer, providing product and investment policy provisions. It is responsible for collecting premiums from policyholders and deciding the mandates for these collected funds. This strategic decision-making role is integral to the group's functioning and investor satisfaction. OMI serves as the group's dedicated asset management entity. OMLACSA passes the investment mandates to OMI, thereby entrusting the critical task of managing these assets. This division of roles aligns the management of assets with policyholders' long-term goals, ensuring value generation for policyholders.

All investment returns shown in this document are annualised time-weighted rates of return and gross of underlying asset management fees, except for the local alternative assets portfolio where investment returns are stated net of asset management fees. The information provided in this document is in respect of funds for untaxed investors, such as retirement funds.

### 2.1 WITH-PROFIT ANNUITY PORTFOLIOS

The assets underlying Old Mutual's With-Profit Annuity products have a portion allocated to matched assets, which are intended to provide cash flows expected to match a proportion of future annuity payments and the remaining portion is allocated to unmatched assets, which are focused on delivering growth to enhance future increases.

The asset allocation of each category varies because of differences in investment guarantees and demographic profiles.

#### **ASSET ALLOCATIONS PER PRODUCT**

The assets underlying the With-Profit Annuity products are managed in a designated annuity portfolio. The products are further split into separate asset pools, each with its own asset mix. The asset pools each accommodate products and Post-Retirement Interest (PRI) rate categories. The significance of this unique investment strategy is that it recognises the different levels of investment guarantees inherent in the various products and categories.

The matched assets (percentage allocation to matching assets) differ between the asset pools. The portfolio's matched asset holding is set equal to the matched liability. In other words, the holdings are set as a percentage of the future expected cash flows (including future increases) to pensioners in that product and post-retirement interest rate category, which in turn is dependent on market yields, the Locked-In Yield (LIY) and other elements in the valuation basis, e.g., mortality.

The remaining (unmatched) assets are invested in a portfolio primarily composed of a suitable combination of growth assets. The PRI categories of all of the products share the same unmatched asset strategy.

Table 1 below shows the actual asset allocations of the With-Profit Annuity products as at 31 December 2022.

Asset Class		Pensions OptiPlus	Platinum Pension			Platinum Pension 2003		
PRI Category		All	3.50% & 4%	4.50% & 5%	5.50% & 6%	3.25% & Less	3.50% & 4%	4.50% & 5%
Local Matched Bonds		45.7%	59.3%	49.4%	40.6%	27.7%	42.4%	45.7%
LOCAL	Equity	18.2%	13.6%	16.7%	19.6%	24.2%	20.7%	20.6%
	Bonds, Money Market & Cash	0.4%	0.3%	0.3%	0.4%	0.5%	0.4%	0.3%
	Property	6.6%	4.9%	6.2%	7.3%	8.8%	6.7%	6.2%
	Alternative Assets	7.8%	5.9%	7.4%	8.6%	10.4%	8.0%	7.3%
GLOBAL	Equity	15.7%	11.8%	14.7%	17.3%	20.9%	16.0%	14.6%
	Bonds, Money Market & Cash	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
	Alternative Assets	4.7%	3.5%	4.4%	5.2%	6.3%	4.8%	4.4%
	Africa	0.8%	0.6%	0.8%	0.9%	1.1%	0.9%	0.8%

### UNMATCHED ASSETS: STRATEGIC ASSET ALLOCATIONS

The unmatched assets are managed in a single strategy that is accessed by all With-Profit Annuity products. Within the unmatched assets, Old Mutual Investment Group (OMIG) manages the tactical asset allocation of the underlying portfolios in accordance with the strategic (long-term) asset allocations described below. OMIG also applies tactical asset allocation tilts around these strategic allocations based on its views of the prospects for the asset classes in which the portfolios invest.

Table 2 below shows the strategic asset allocations of the unmatched portfolios for the With-Profit Annuity products as at 31 December 2022.

Asset Class		Unmatched Portfolio Strategic Asset Allocations
		With-Profit Annuity Portfolios
Growth asset exposure in the long term		95% +
LOCAL	Equity	31%
	Bonds, Money Market & Cash	1%
	Property	13%
	Alternative Assets	14%
GLOBAL	Equity	32%
	Bonds, Money Market & Cash	0%
	Alternative Assets	7%
	Africa	2%

### RISK MANAGEMENT

Investment mandates with portfolio managers include specific restrictions and limitations designed to manage risk.

The most important of these risk management measures are as follows:

- The overweight or underweight positions (tilts) that can be taken towards, or away from, an asset class's strategic weight are restricted within specified ranges. These ranges are consistent across all the With-Profit Annuity products. In general, the maximum tilts are less than 10% for larger asset classes (those with a strategic allocation above 10%) and less than 5% for smaller asset classes (those with a strategic allocation below 10%).

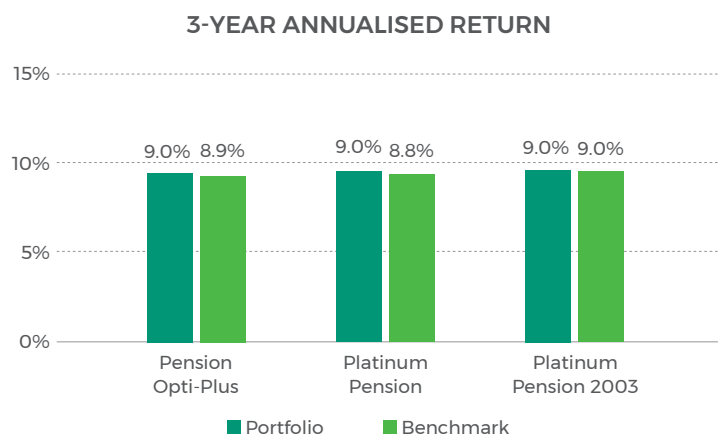
- The portfolio cannot include more than 45% in offshore assets according to South African Reserve Bank (SARB) requirements. (These limits were recently increased per the announcement by the Minister of Finance in his Budget Speech. As later confirmed by the South African Reserve Bank's (SARB) Exchange Control circular 10/2022, for institutional investors including retirement funds, offshore limits have been collapsed into a single increased limit allowing investment of up to 45% of assets offshore.)
- Within the matched portfolios, asset types are limited to interest-bearing instruments. Interest rate risk control mechanisms are set for the portfolio as a whole and for groups of policies with similar characteristics.
- A significant portion of the listed equity portfolio is allocated to portfolio managers who are bound by tracking error limits relative to their benchmarks.
- The local equity portfolio cannot invest more than 10% of its assets in shares with a market capitalisation of R2 billion or less. For larger market capitalisation shares, the local equity portfolio cannot invest more than 15% of its assets in any one share. Investment in any single company may not exceed 20% of that company's issued share capital or voting shares without prior approval from Old Mutual Life Assurance Company (South Africa) (OMLACSA).
- Derivative instruments can only be used for investment risk reduction, efficient portfolio allocation and yield enhancement. Derivatives may not be used to speculate. Asset class exposure is shown after taking derivatives into account, i.e. effective exposure is shown.
- Bond and money market assets are assigned an internal credit rating by the portfolio manager. There are exposure limits per counterparty and rating category, and minimum credit ratings at a portfolio level.
- The alternative assets portfolio has diversified exposure to various alternative investments, for example: different types of infrastructure, such as renewable energy and toll roads. This allows for increased diversification across geographies, industries, markets and other risk factors.
- Old Mutual may, from time to time, invest in newly established portfolios with the intention of including these in the mainstream investment strategy once they have developed a satisfactory track record. The amount that can be invested in these types of portfolios is restricted, both in aggregate and per portfolio.

## PERFORMANCE

Over the three-year period to the end of December 2022, all the annuity portfolios had a return of 9% p.a. Opti-Plus and Platinum Pension portfolios marginally outperformed their respective benchmarks and Platinum Pension 2003 performed in line with the benchmark.

The benchmarks of the portfolio are composites of the underlying asset class benchmarks. Differences in returns between these portfolios are primarily due to the different allocations between matched and unmatched assets within each portfolio.

Further details about the performance of each asset class (including the matched bond portfolio) against their respective benchmarks are provided in the relevant sections of this report.



Over the three-year period to 31 December 2022, MacroSolutions tactical asset allocation calls resulted in a positive alpha of 0.7% p.a.. The largest single detractor over the three-year period was direct property. This was followed by the global derivative activity where the portfolio held a short position in US equities and was hurt because markets rallied strongly over the full period. This is starting to unwind with the newer instruments in the channel (MSCI world protection and long value) having added positive alpha. Other moderate detractors were local bonds and African assets. The biggest positive contributions to alpha were the portfolios underweight to global bonds, the underweight to local money market and local hedge positioning also added value.

## 2.2 LOCAL EQUITY PORTFOLIO

### PORTFOLIO MANAGEMENT

The local equity portfolio is designed to deliver long-term inflation-beating returns relative to the benchmark over time by utilising the skills of specialist boutique equity portfolio managers within OMI. The portfolio also invests in external managers via the Old Mutual Multi-Managers capability where appropriate.

The local equity portfolio is a multi-strategy portfolio that combines a passive (index tracking) portfolio with active management. The active part of the portfolio is further split between different investment styles in order to provide a smoother return profile, making the portfolio less dependent on specific market cycles for performance.

Table 3 below provides the portfolio line-up, including the strategic weights in each of the portfolios as at 31 December 2022:

Strategy	Portfolio	Allocation %
PASSIVE	Index Tracking	32.5%
	Double Alpha	2.5%
ACTIVE	Fundamental Equity	32%
	Managed Alpha	14%
	Premium Equity	9%
	Old Mutual Multi-Managers	10%
<b>TOTAL</b>		<b>100%</b>

The MacroSolutions team manages the Fundamental Equity portfolio. This is an actively managed portfolio that invests in undervalued shares, based on fundamentals that are expected to outperform the market over the medium to long term. The portfolio aims to achieve its performance objectives primarily through stock selection, combining this with a strong emphasis on ensuring that its portfolios are well diversified by employing a rigorous portfolio construction process.

OMI’s Customised Solutions boutique manages the Index Tracking, Double Alpha, Managed Alpha and Premium Equity portfolios.

The Index Tracking portfolio is an important component of the overall solution and provides stability during times when active managers underperform the benchmark.

The Double Alpha portfolio utilises derivatives to track an underlying index. The use of derivatives creates opportunities for the manager to deliver benchmark-beating returns.

The Managed Alpha portfolio is a quantitatively driven investment strategy that evaluates the relative attractiveness of shares through the systematic analysis of fundamental, risk, economic and market data. The portfolio is designed to adapt to different market conditions by investing in themes that are currently driving the market. Managed Alpha aims to provide additional diversification relative to other more traditional, fundamentally based active strategies.

The Premium Equity portfolio employs a unique risk-controlled equity strategy that exploits opportunities within the equity derivative market. This strategy has successfully outperformed its benchmark and provided less correlated returns over the nearly eight years since it was included in the local equity portfolio.

Old Mutual Multi-Managers (OMMM) manages a portfolio of external managers for the local equity portfolio. This strategy provides further diversification within the portfolio by investing with a range of investment managers that are not part of the Old Mutual Group, with a specified allocation to black managers.

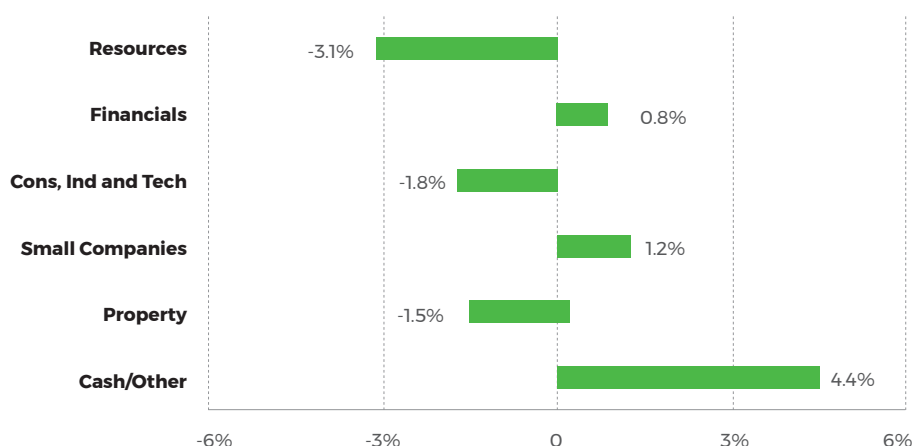
**BENCHMARK**

The performance benchmark for the local equity portfolio is the Capped SWIX Total Return Index.

**SECTOR ALLOCATION**

Allocations across sectors are an outcome of the blend of manager strategies. The sector tilts relative to the benchmark as at 31 December 2022 were as follows:

TILTS RELATIVE TO BENCHMARK



## TOP 10 HOLDINGS

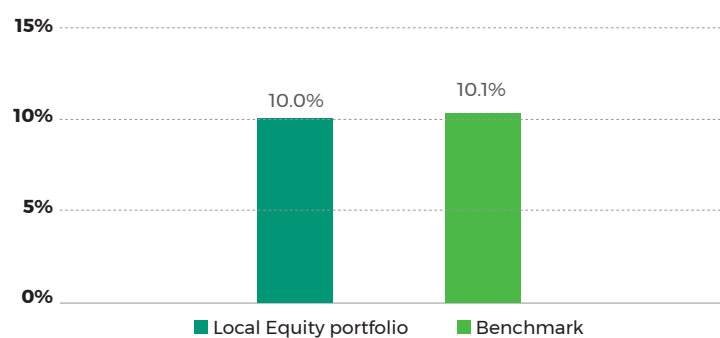
The local equity portfolio's top 10 holdings as at 31 December 2022 are shown in table 4 below. The portfolio exposure represents the stock holding as a percentage of the local equity portfolio and includes external equity managers.

Stock	Portfolio Exposure	Benchmark Exposure
Naspers Ltd	7.86%	8.76%
FirstRand	6.08%	5.35%
British American Tobacco	4.88%	3.01%
ABSA Group Limited	4.70%	2.80%
Standard Bank	4.70%	3.87%
Anglo American Plc	4.70%	4.81%
Prosus	4.55%	3.58%
MTN	3.55%	3.98%
Impala Platinum Holdings Ltd	3.39%	3.01%
Sasol	3.04%	2.61%
<b>TOTAL</b>	<b>47.45%</b>	<b>41.78%</b>

## PERFORMANCE

The local equity portfolio delivered a return of 10% p.a. over the three-year period to December 2022, underperforming the benchmark by 0.1% p.a.

### 3-YEAR ANNUALISED RETURNS



Over the three-year period ending December 2022, the resources sector has delivered very strong returns of 20.3% p.a., significantly outperforming industrials and financials which delivered returns of 10.9% p.a. and 2.9% p.a. respectively over the same period.

The Fundamental Equity portfolio underperformed its benchmark over the past three years by 1.0% p.a. The portfolio's overweight to Northam, Nedbank and Impala was the major contributor to the underperformance. Overweight positions to MTN, Absa and Investec contributed positively to the portfolio's performance.

The Managed Alpha portfolio outperformed the benchmark by 0.4% p.a. The portfolio's book value to price was greater than that of the benchmark and the portfolio's debt to equity ratio was greater than that of the benchmark, resulting in positive alpha. Looking at the share level, the major contributors to alpha were the overweight positions on Investec and Anglo, as well as the underweight positions on Sasol, Clicks and Mr Price. The portfolio's overweight positions on Telkom, AECI, Raubex and Astral and underweight positions on Implats detracted from the overall performance.

The Premium Equity portfolio delivered a return of 9.2% p.a. during the three-year period ending December 2022 while the benchmark had a return of 10.1% p.a., implying underperformance of the benchmark by 0.9%. 2021 was the worst year for the fund's strategy and the underperformance was as much as 4.6% when compared to the Capped Swix benchmark. This was due to the post-Covid market rally, which saw the Capped Swix bouncing up from a 12-month of -24.5% at the end of March 2020 to a 12-month high of +54.2% at the end of March 2021. Small cap stocks also staged a big comeback in 2021, posting returns of 59.1% for the year. The Capped Swix gained 27.1% for the year. 2022 brought to a halt the long bull market and the fund was ahead of the benchmark until the end of October 2022. However, strong gains in November resulted in the Top 40 Index underlying going through option strike prices, wiping off the positive alpha.

The Old Mutual Multi-Managers (OMMM) external manager portfolio outperformed the benchmark by 3.9% p.a. over the three-year period ending December 2022. The outperformance can largely be attributed to the performances of M&G, Coronation and Ninety One, who all delivered strong outperformance.

## 2.3 LOCAL UNMATCHED INTEREST-BEARING PORTFOLIO

### PORTFOLIO MANAGEMENT

The local unmatched interest-bearing portfolio consists of a 1% strategic allocation to cash. The portfolio also has the ability to allocate towards local bonds and money market instruments. The unmatched interest-bearing assets are managed by OMIG's Futuregrowth boutique.

The money market portfolio aims to generate returns through the active management of short- to medium-term interest-bearing instruments.

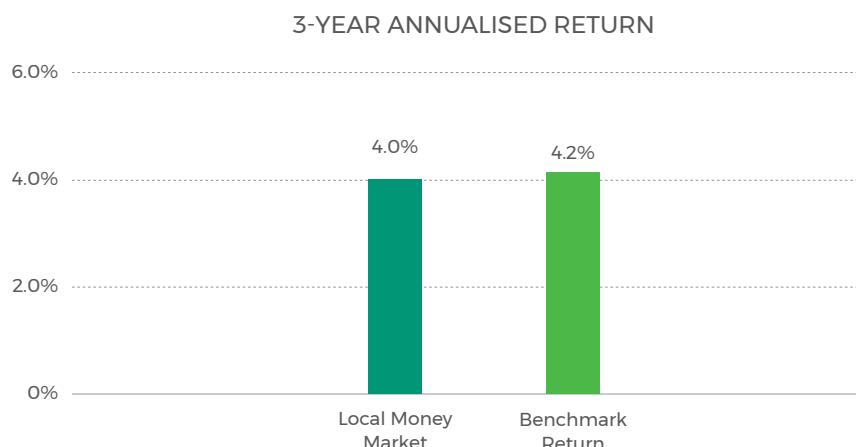
The bond strategy comprises a combination of a core bond and a yield-enhanced bond portfolio. The core bond portfolio aims to generate returns primarily through the management of interest rate risk. In addition to asset allocation and active interest rate management, the yield-enhanced portfolio aims to generate additional returns through investing in other listed and unlisted credit instruments.

### BENCHMARK

The performance benchmarks for the bond and money market portfolios are the All Bond Index (ALBI) and Short-Term Fixed Interest (STeFI) Composite Index respectively. The bond portfolio is, at all times, limited to an average modified duration within one year of the average modified duration of the benchmark.

### PERFORMANCE

Over the 3-year period to 31 December 2022, the unmatched interest-bearing asset portfolio only held cash. The cash portfolio underperformed the Stefi benchmark by 0.2% p.a.



## 2.4 LOCAL MATCHED INTEREST-BEARING PORTFOLIO

### PORTFOLIO MANAGEMENT

OMIGS's Liability Driven Investments (LDI) boutique manages the local matched interest-bearing asset portfolio.

### BENCHMARKS

The investment objective for the portfolio is to match a fixed proportion of the guaranteed annuity and future increases. The asset manager also aims to earn additional yield spread above the South African government bond yield curve, subject to staying within defined risk control limits (such as interest rate risk and credit risk).

### MATCHING STRATEGY

The fixed-interest assets backing With-Profit Annuities are invested to match the pattern of expected annuity payments. The assumed future increases are based on yields secured at the time of matching. The matching assets provide an overall rate of return per annum known as the locked-in yield. This provides valuable stability to the With-Profit Annuity portfolios. Interest rate volatility (and the resultant fluctuations in capital values) is thus largely controlled.

The asset manager is required to ensure that the value of the assets moves as closely as possible in line with movements in the value of the liabilities. The benchmark performance is the value of the liability, which is affected by factors such as mortality, and thus cannot easily be hedged by the asset manager. We therefore do not compare the performance of this portfolio against the benchmark in this report. The portfolio is rebalanced quarterly.

Table 5 below shows the exposure by asset duration of the With-Profit Annuity products as at 31 December 2022.

Duration	Exposure by asset duration						
	OptiPlus	Platinum Pension			Platinum Pension 2003		
	All PRIs	3.5% & 4.0% PRI	4.5% & 5.0% PRI	5.5% & 6.0% PRI	3% PRI & Less	3.5% & 4.0% PRI	4.5% & 5.0% PRI
0-3 YEARS	16.53%	14.22%	14.02%	13.66%	14.69%	14.02%	15.87%
3-7 YEARS	24.14%	25.91%	20.27%	22.28%	36.89%	24.74%	26.57%
7-12 YEARS	19.72%	20.37%	17.01%	15.66%	17.54%	21.31%	22.69%
12+ YEARS	47.20%	58.40%	56.26%	55.14%	52.26%	55.84%	46.21%
CASH	1.47%	1.63%	1.14%	1.15%	3.02%	1.78%	1.75%
INTERNALUNIT	10.90%	8.90%	10.56%	11.23%	7.47%	8.22%	11.35%
REPO	-19.96%	-29.42%	-19.25%	-19.12%	-31.87%	-25.92%	-24.44%

## 2.5 DIRECT PROPERTY PORTFOLIO

### PORTFOLIO MANAGEMENT

The direct property portfolio invests in a diversified range of unlisted properties, with exposure across the retail, office and industrial property sectors. While the majority of the portfolio's assets are located within South Africa, the portfolio has also diversified its exposure into other countries and regions such as Kenya, the United Kingdom and Eastern Europe where suitable opportunities exist. The portfolio is managed by Old Mutual Property Management Services.

## BENCHMARK

The performance benchmarks for property investments are:

- Developed properties: SAPOA/Investment Property Databank (IPID)<sup>1</sup> South African Property Total Return Index. This index is compiled annually and published with up to a six months lag. Actual performance of the portfolio is used to estimate the benchmark portfolio performance until the latest IPD figures are available. Benchmark performance is then updated retrospectively.
- Properties that are under development, and vacant land: South African Consumer Price Inflation (CPI).

## EXPOSURE BY TYPE AND REGION

The direct property portfolio is dominated by large retail shopping centres. Large industrial properties and selected office space also form part of the broader strategy, as well as pockets of land strategically held for development.

As at 31 December 2022, the exposure of the property portfolio to the various property sectors was as follows:

Country	Sector	Exposure
South Africa	Retail	67.2%
	Industrial	11.4%
	Office	3.7%
	Land	0.2%
Kenya	Retail	0.0%
United Kingdom	Office	2.1%
Eastern Europe	Office	15.3%

The largest properties in the portfolio include Gateway Shopping Centre (Durban), Cavendish Square (Cape Town), Bedford (Johannesburg), Riverside Mall (Nelspruit), The Zone (Johannesburg) and the Mutualpark office building (Cape Town). However, towards the end of 2022 Mutualpark was sold to the Shareholder and is no longer part of the Direct Property Portfolio.

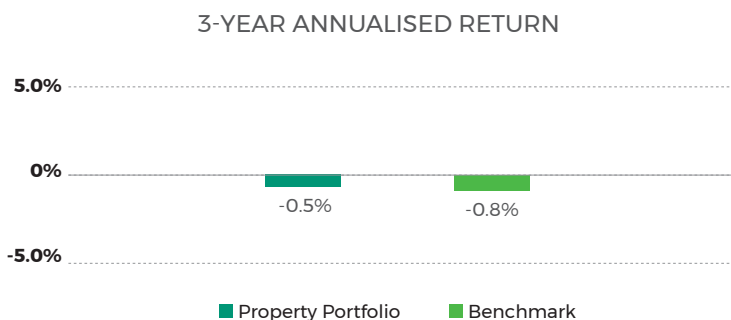
The table below shows the portfolio exposure by country and province:

Country	Province	Exposure
South Africa	KwaZulu-Natal	36.4%
	Gauteng	21.4%
	Western Cape	16.8%
	Mpumalanga	4.2%
	Eastern Cape	3.8%
Kenya		0.0%
United Kingdom		2.1%
Eastern Europe		15.3%

The high exposure to KwaZulu-Natal is primarily due to the investment in the Gateway Shopping Centre, which is the largest single property in the portfolio.

<sup>1</sup>Investment Property Databank (IPD) is a leading global provider of real estate analysis

## PERFORMANCE



A large proportion of the SA direct property portfolio is retail, predominantly large regional and superregional centres. Tenant turnover in these centres YTD to November 2022 is up by 17.5% when compared to YTD November 2021 and up by 7.4% versus YTD November 2019 (pre-Covid levels). Most of the recovery is due to improved footfall as people return to shopping centres after the lifting of Covid restrictions. This has also assisted in the recovery of the restaurants, fast-food and entertainment sectors.

Vacancies have decreased marginally from 6.6% at the beginning of the year to 5.1% by year end. While there have been improvements in the leasing for the retail and industrial sectors, there was an increase in office vacancies where there is no demand for new office space and existing tenants are either vacating or reducing their lettable area. This is a result of low economic growth, and work-from-home policies for office workers reducing demand for office space.

There was also an improvement in rental reversions which is at -9.7% versus a budget of -11.8%, mainly due to improved retail sector performance and tenants recovering from Covid impacts.

Municipal expenses (rates, electricity, water) and insurance premiums continue to increase at rates above CPI and most of these increases cannot be passed onto tenants and are being absorbed by the landlord.

The loadshedding impact has been severe and negatively impacted the portfolio in Q3 and Q4 due to increased costs of running generators (which are not recoverable from tenants) as well as loss of revenue from parking and lower retailer sales due to downtime during loadshedding.

Rental arrears have improved from 5.9% of billings to 2.8% as collections have improved resulting from tenant turnover and tenants' affordability to repay arrears from 2020 and 2021 when Covid impacts were most felt.

## 2.6 LOCAL ALTERNATIVE ASSETS PORTFOLIO

### PORTFOLIO MANAGEMENT

The local alternative assets portfolio includes:

- Private equity investments (shares in unlisted companies).
- Infrastructure investments in commercially viable development projects, predominantly within South Africa, including renewable energy, toll roads, utilities and prisons.
- Impact funds, which mainly consist of assets that meet the definition of targeted investments in the Financial Sector Charter (FSC). This includes investments in affordable housing and schools, as well as in companies that provide end-user finance to low- to middle-income earners.
- Agricultural investments, which comprise South African agricultural land and associated infrastructure.

The portfolios are managed by the Old Mutual Alternative Investments (OMAI) boutique, apart from the agricultural investments, which are managed by Futuregrowth.

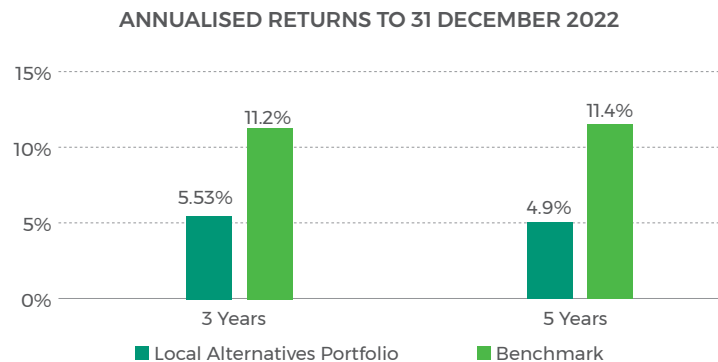
## BENCHMARK

The overall performance benchmark for the local alternative assets portfolio is a composite which includes an inflation-linked component and a Jibar linked component which is assessed over rolling three-year periods. Asset strategies within this class are also managed according to their own individual benchmarks.

Over the short to medium term, performance relative to the inflation-related benchmark may not reflect the skill of the asset manager. Therefore, consideration is given to the market and inflation environment when assessing relative performance over three-year periods. Given the long-term nature of this asset class and its non-investable benchmark, we show returns for periods of three and five years for alternative assets.

## PERFORMANCE

The performance shown below for the local alternative assets portfolio is reflected net of investment management fees.



The local alternative assets portfolio has underperformed its benchmark over both three and five years. This is a result of the private equity and impact funds sub-classes having underperformed their targets. Infrastructure performance is the only sub-class either matched or exceeded its target for the above time periods.

The early stages of Covid-19 saw a significant impact on company earnings and in turn the private equity sub-class returns had been adversely impacted. Some of the portfolio companies were also negatively impacted by the July 2021 social unrest in KZN and Gauteng. But this proved to be a short-term impact. Since then, there has been a strong recovery with the 1-year performance numbers beating the benchmark by 2% p.a. The two assets in the private equity sub-class which are seeing a slower recovery are Tourvest and Primedia.

The outperformance of the Infrastructure sub-class over the most recent one year period, was driven by the strong operating performance of the underlying assets. Toll roads have recovered from the reduced traffic volumes experienced during 2020, refinancing of renewable assets and the valuation increase in a key Digital Infrastructure asset all had positive impact on returns. The renewable energy asset category continues to be a key contributor to the portfolio returns as positive operational performance sees distributions being received which also drives portfolio returns.

The underperformance of the local alternative assets was also largely driven by the impact fund sub-class. For the schools portfolio, portfolio companies are performing in line with expectation. The education sector has proven resilient through the worst of the pandemic. In Q4 2021, the schools in the portfolio continued to be fully operational with learners attending school five days a week. Rental assets also continue to perform in line with expectation. Greenfield assets remain the main contributor to underperformance. That said, sales within the Greenfields portfolio have been buoyed by the reduction in home loan rates over the recent past. The start of a rising interest rate cycle is likely to have a cooling effect on market volumes, but affordable housing demand is still on an upward trajectory within greenfield developments. The Retirement accommodation portfolio has also struggled with performance

given the difficult trading conditions and impact of Covid-19, which resulted in slower sales rates and extended construction periods. In 2021, the focus at the retirement developments has been on stabilising existing assets, increasing sales, cost containment and enhancing operational efficiency.

## 2.7 GLOBAL EQUITY PORTFOLIO

### PORTFOLIO MANAGEMENT

The global equity portfolio is invested in MacroSolutions' Multi-Style Global Equity portfolio, which aims to generate returns above the benchmark by allocating funds to underlying offshore asset managers. This is an actively managed strategy that blends different managers and investment styles in order to target a relatively stable performance outcome. The majority of the underlying portfolios allow managers to invest in both developed and emerging markets.

Table 6 provides the latest Multi-Style portfolio line-up, including the strategic weights in each of the portfolios as at 31 December 2022:

Manager	Strategy	Strategic Allocation
OMIG Customised Solutions	MSCI World ESG Tracker	30%
OMIG Customised Solutions	Global Managed Alpha (Quant)	4%
OMIG MacroSolutions	Global Macro Equity	10%
Acadian	Global Quant	18%
Barrow Hanley	Global Value	20%
Fiera Capital	Global Growth	10%
Baillie Gifford		8%

### UNDERLYING MANAGERS

**Acadian:** Acadian Asset Management LLC specialises in global quantitative equity strategies. Acadian seeks to capture the fundamental drivers of stock return, exploiting market inefficiencies through a quantitative investment process.

**Barrow, Hanley, Mewhinney & Strauss:** The manager provides value-oriented investment strategies across various international markets. Their equity portfolios are designed from the bottom up with a strong value underpin and tend to exhibit below-market price-to-earnings ratios, below-market price-to-book ratios, and above-market dividend yields, regardless of market conditions.

**Baillie Gifford:** The manager uses fundamental analysis and proprietary research in order to identify companies that it believes will deliver above-average profit growth over the long term. The manager constructs portfolios on a bottom-up basis with the objective of outperforming its benchmark over the long term.

**Fiera Capital:** This is a quality and growth-oriented manager that seeks to exploit opportunities in long-term quality growth companies with high returns and supportive intrinsic valuations. Investments are made with a long-term horizon, which leads to low portfolio turnover.

**MSCI ACWI ESG Index:** This portfolio tracks the performance of the MSCI ACWI ESG Index. The index is designed to give effect to responsible investing by investing more heavily in companies that meet specific economic, social and governance (ESG) criteria. The ESG Index targets the same sector and regional weights as the MSCI ACWI Index in order to target performance that is similar to that of the MSCI ACWI Index, whilst still achieving the broader objective of investing in companies with strong ESG ratings.

**Global Macro Equity Portfolio:** The Global Macro Equity portfolio is an active equity portfolio which applies top-down views in order to generate outperformance relative to the global equity benchmark. Active positions are taken predominantly in regions, countries, sectors and currencies. The portfolio is run by OMIG’s MacroSolutions boutique.

**Global Managed Alpha (Quant):** The Global Managed Alpha Equity Portfolio aims to generate a total return that outperforms the equity market by systematically exploiting behavioural biases through investing in the themes that are current market drivers.

**BENCHMARK**

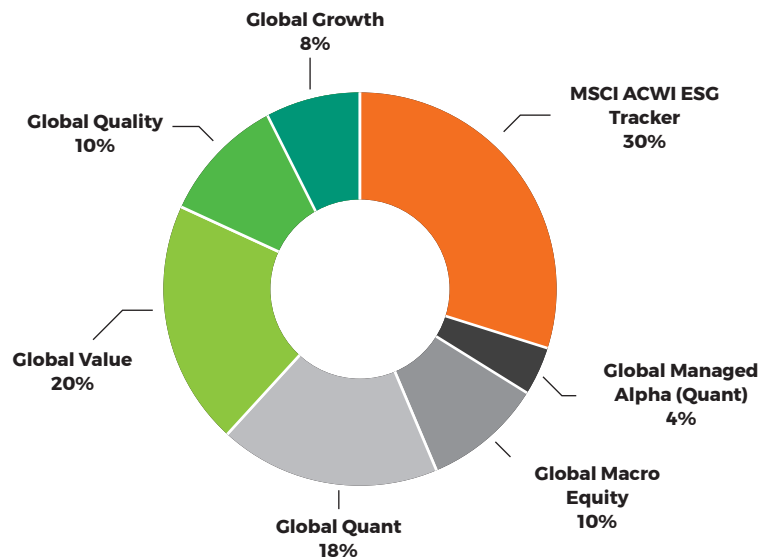
The performance benchmark for the global equity portfolio is the total return of the MSCI All Country World (net of dividend withholding tax) measured in South African rands.

The underlying portfolios, within the global equity portfolio, have the following benchmarks:

- Acadian – Morgan Stanley Composite Index (MSCI) All Country World
- Barrow Hanley Mewhinney & Strauss – MSCI All Country World Value
- Ballie Gifford & Fiera Capital – MSCI All Country World Growth
- MSCI ESG ACWI Index – MSCI All Country World Index
- Old Mutual Global Macro Equity - MSCI All Country World Index
- Global Managed Alpha (Quant) - MSCI All Country World Index

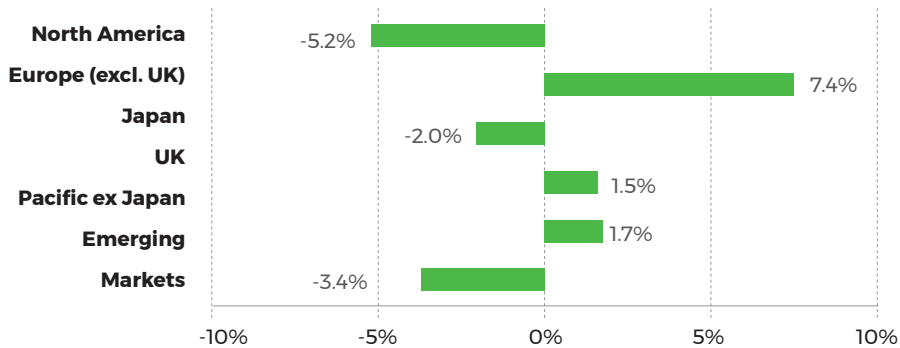
**STYLE ALLOCATION**

GLOBAL EQUITY STYLE ALLOCATION AS AT 31 DECEMBER 2022



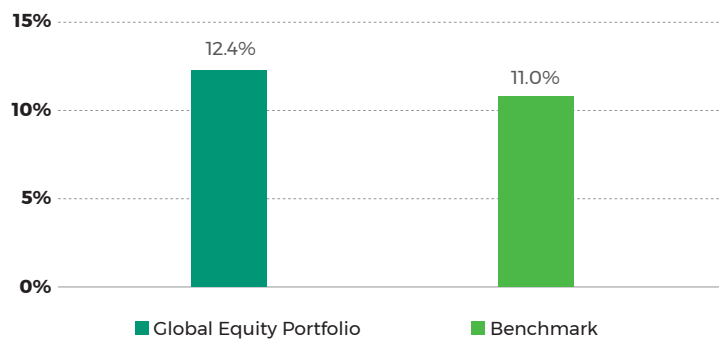
REGIONAL ALLOCATION TILTS

TILT FROM THE GLOBAL EQUITY STRATEGIC WEIGHTS AS AT 31 DECEMBER 2022



PERFORMANCE

3-YEAR ANNUALISED RETURN



The Global equity portfolio delivered good alpha overall in 2022 and outperformed the benchmark by 1.4% p.a. over the three-year period. This was primarily a result of strong investment performance from Fiera Capital, Barrow Hanley, Acadian and Global Managed Alpha. This positive return was offset by negative return from Baillie Gifford and the Global Macro Equity portfolio.

The external managers all performed well over the one-year period to December 2022, and it was particularly gratifying to see a recovery by Baillie Gifford following a very difficult period of performance. Following a very poor Q4 2021 and Q1 2022 the decision was made to stay with Baillie Gifford whilst other managers were reviewed, with the expectation that their bias towards speculative technology companies would see a near term recovery following the initial shock of higher interest rates. This has been borne out with Baillie Gifford outperforming the Growth benchmark by 3.3% in the second half of 2022, leaving them just ahead of benchmark for the year.

Acadian enjoyed another strong calendar year and was ahead of the benchmark by 1.9%, whilst Barrow Hanley also outperformed their value benchmark by 2.8%. Fiera Capital, our Quality Franchise manager outperformed the growth benchmark by 10.8% in 2022, an outsized achievement and timely in light of the team buyout from their parent company Fiera Capital, to form a new asset management company – Stonepine.

## 2.8 GLOBAL INTEREST-BEARING PORTFOLIO

### PORTFOLIO MANAGEMENT

The global interest-bearing portfolio consists of global bond and global cash assets. The global bond and global cash assets are managed by Russel Investments.

### BENCHMARK

The performance benchmark for the global bond fund is the Bloomberg Barclays Global Aggregate Index.

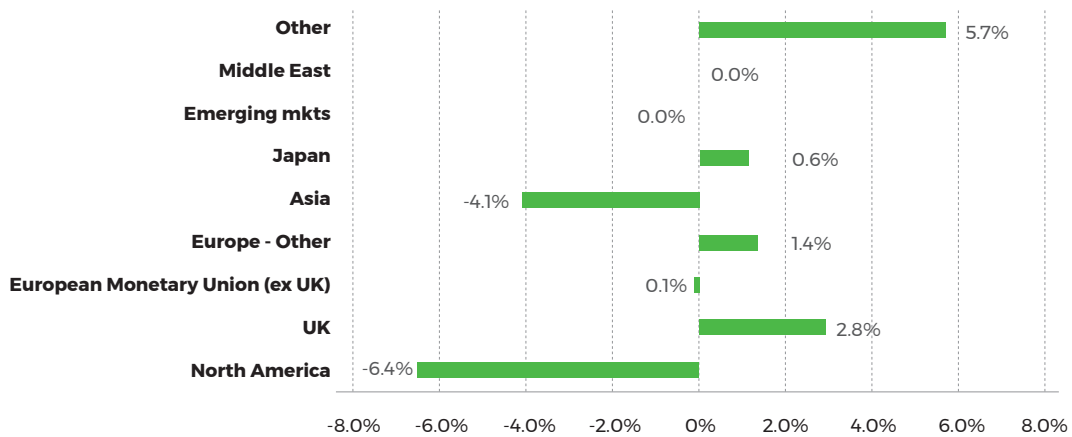
The performance benchmark for the global cash portfolio is as follows:

- 40% GOB1 – Bloomberg Barclays US Treasury Bills 1-3month
- 35% LEB2TREU – Bloomberg Barclays Euro Treasury-Bills 0-3 month
- 15% GOYA – ICE Bank of America Japan 0-1 year Government
- 10% G3BB – ICE Bank of America Sterling 3-month Government Bill
- (unhedged in USD) (the Benchmark Index).

### REGIONAL ALLOCATION

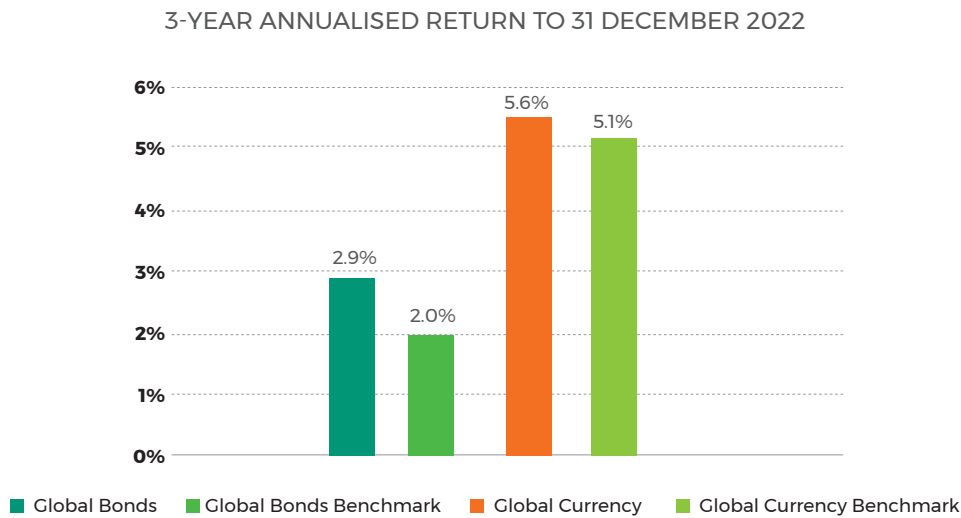
During 2022, the portfolio underweights both American and Asian bonds while overweight to European bonds. The full regional allocation tilts relative to benchmark is shown below:

REGIONAL ALLOCATION TILT RELATIVE TO STRATEGIC WEIGHTS FOR GLOBAL INTEREST-BEARING ASSETS AT 31 DECEMBER 2022



## PERFORMANCE

The global interest-bearing portfolio outperformed the benchmark over three years.



The global bond portfolio outperformed its benchmark by 0.9% p.a. over three years. The global cash portfolio outperformed its benchmark by 0.5% p.a. over three years.

## 2.9 GLOBAL ALTERNATIVE ASSETS PORTFOLIO

### PORTFOLIO MANAGEMENT

The global alternative assets portfolio is managed by the Old Mutual Alternative Investments (OMAI) boutique and a portion is also invested in direct property, which is co-managed by Old Mutual Property Management Services.

The portfolio primarily consists of:

- Private equity investments, held via a fund of funds structure managed by OMAI.
- Infrastructure investments, which are also managed by OMAI.
- Direct property investments in India, is managed by Old Mutual Property Management Services.
- African private equity and infrastructure investments.

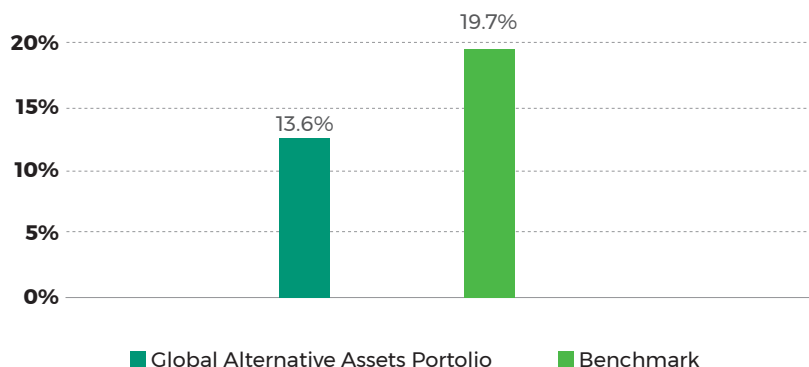
### BENCHMARK

The performance benchmark for the global alternative assets portfolio is US CPI + 5% p.a. in US dollars (before charges and tax), assessed over rolling five-year periods. Asset strategies within this portfolio are managed according to their own individual benchmarks.

Over the short to medium term, performance relative to the inflation-related benchmark may not accurately reflect the skill of the asset manager, and therefore the market and inflation environment should also be considered when assessing relative performance over these periods.

## PERFORMANCE

The chart below reflects the performance of the underlying investments over three years ending 31 December 2022.



The global alternatives asset class has underperformed its benchmark by 6.1% over the three-year period ending 31 December 2022.

Fund of Funds II outperformed its benchmark over the time horizon and saw improved performance from Alpinvest Secondaries V and Pacific Equity Partners V. Fund of Funds III also outperformed its benchmark, moreover it increased its funds from 7 to 17 with the main contributors of performance being from Affinity Asia V, Genstar IX, NEA 16 and Thoma Bravo XIII.

However, Fund of Funds I and IV, as well as Africa FOF, are currently facing challenges due to weaker performance from some of their underlying funds and subsequently have underperformed their benchmarks. Fund of Fund I's main detractors of performance were from AXA LBO IV, CVC Asia III and Pacific Equity Partners IV while. Fund of Fund IV's main detractors of performance were from CVC VIII, NEA 17 and Thoma Bravo XIV.

It's important to note that Fund of Funds IV is still young, and some of the underlying funds in AFOF are also new.

## 2.10 AFRICAN EQUITY PORTFOLIO

### PORTFOLIO MANAGEMENT

The African equity portfolio is currently managed by MacroSolutions which is a boutique within OMIG. The portfolio is an actively managed fundamental equity portfolio which aims to outperform its benchmark over the long term.

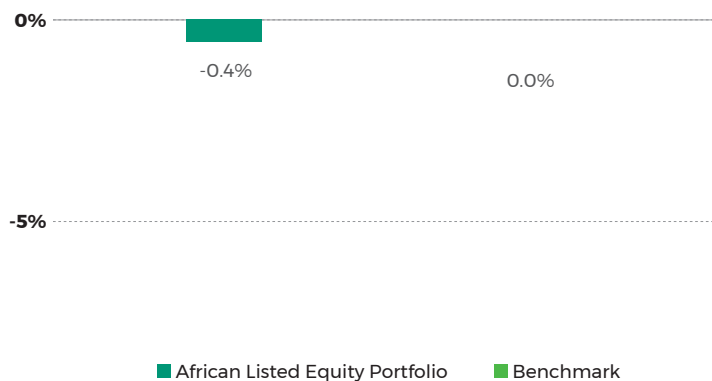
Exchange control regulations and Regulation 28 of the Pension Funds Act allows retirement funds to invest up to 40% in offshore assets, which includes African assets.

### BENCHMARK

The African equity portfolio benchmark is the MSCI Emerging Frontier Markets Africa Index (with a component excluding South Africa).

## PERFORMANCE

THREE-YEAR ANNUALISED RETURNS FOR AFRICAN EQUITIES AS AT 31 DECEMBER 2022.



The African equity portfolio returned -0.4% p.a. over the three-year period to 31 December 2022. The biggest detractors of performance were due to the haircut taken on the value of the Nigerian assets and holding Commercial International Bank in London rather than in Egypt. The top three contributors were the overweight to Label Vie (a Moroccan food retailer which continues to grow with the trend from mom-and-pop store to modern retailer) and MTN, and an underweight position to Moroccan Telco. The top three detractors were the funds overweight to MTN Nigeria and Dangote Cement and the overweight to IHS Holdings.

## 2.11 OTHER ASSET STRATEGIES

### DERIVATIVE STRATEGIES

Derivative instruments are used to enhance the portfolio and not to speculate. Portfolio managers are not allowed to use derivatives to speculate and may not borrow money to fund derivative positions. The investment mandates limit the use of derivatives to:

- enhancing the efficiency of asset allocation, including the equitisation of cash;
- adjusting the duration of interest-bearing portfolios, provided it is within mandated risk limits;
- reducing investment risk via hedging, which provides insurance against specific events or reduces the tracking error; and
- enhancing yield through derivative price anomalies.

## 2.12 RESPONSIBLE INVESTMENT

Responsible Investment (RI) is a key part of Old Mutual’s broader approach to Responsible Business, which is built on the following five pillars:

### OUR APPROACH TO RESPONSIBLE INVESTMENT

Our core objective is pursuing long-term risk-adjusted returns for our clients, while aligning with the broader interests of society and addressing long-term system risk. This includes driving real-world outcomes in the form of impact.

#### ACTIVITIES



Consideration of RI practices in investment and ownership decisions, responsible stewardship, supporting industry Responsible Investment initiatives and contributing to Responsible Investment thought leadership and public disclosure



#### OUTCOME



Embedding Responsible Investment within our investment strategy



#### IMPACT



An investment approach that is aligned to the broader interests of society, addressing long-term system risk, alongside long-term risk-adjusted returns for our clients

### STRATEGIC IMPERATIVE

Our Responsible Business approach is set at a group level and aligns with, and supports, the group strategy. It is informed by an understanding of the expectations of our customers and the societies and communities we operate in, along with an awareness of the growing environmental and social crises our planet is facing. As a financial services organisation, our Responsible Business efforts are embedded in all facets of the organisation. This includes Responsible Investment through offering client’s access to unique investments that address key global issues, such as climate change, energy scarcity, agriculture, infrastructure, and education, while also delivering sustainable risk-adjusted returns.

We engage in Responsible Investment because we understand the expectations society has of our business and our role in addressing growing environmental and social crises. Our values guide our actions and behaviours, and we acknowledge the need to recognise, evaluate and incorporate material ESG risks and opportunities into our investment and ownership decisions.

Our approach to Responsible Investment is founded on an understanding of the investment and systemic risks posed by sustainability issues. Therefore, our Responsible Investment practices complement our activities in that we aim to pursue long-term risk-adjusted returns for our customers, while aligning with the broader interests of society. As a long-term investor, we believe that it is in the interests of all participants in the financial ecosystem to play a proactive role in creating long-term sustainable outcomes for all stakeholders. Fundamental alignment on these issues creates a virtuous cycle that connects the aspirations of our clients with the long-term sustainability strategies of the firms in which we invest.

### OUR RESPONSIBLE INVESTMENT THEMES

#### PLANET



Mitigating impacts on the environment and resultant societal harm by responding to material business risks and opportunities.

#### PEOPLE AND PROSPERITY



Increasing client value through value drivers associated with economic and social prosperity.

#### GOVERNANCE



Achieving long-term value by aligning and driving both financial and societal performance, innovating, ensuring accountability and building legitimacy with stakeholders.

**OUR COMMITMENT TO RESPONSIBLE INVESTMENT**

We have been a **signatory to the PRI since 2012**. Through our **membership of the PRI Asset Owner Technical Advisory Committee** during 2021 we were able to support the PRI in empowering Asset Owners as responsible investors.



We are committed to **aligning our Responsible Investment approach** with the Code for Responsible Investing in South Africa.



We remain committed to **contributing to the United Nations Sustainable Development Goals (SDGs)** through our Responsible Investment actions.



**CLIMATE CHANGE COMMITMENTS**

Our approach towards addressing the systemic risk posed by climate change is embedded as part of our overall Responsible Investment strategy. To date, extensive work has been done in respect of articulating our public positioning on climate change (inclusive of our thermal coal investment holdings) as articulated in our [Asset Owner Responsible Investment Climate Change Action Statement](#). In addition to this statement, we have updated our [Asset Owner RI Policy](#) in order to integrate key climate change considerations. Mandate reviews to make explicit reference to climate change considerations are also included as part of this scope of work.

**UN-convened Net Zero Asset Owner Alliance**

We joined the UN-convened Net Zero Asset Owner Alliance, demonstrating a commitment to achieving carbon neutrality across our investment portfolios by 2050 or sooner.

“We share the conviction of the Alliance that containing the global climate crisis requires commitment and collective effort from every sector, both public and private. We are committed to positively contributing to the global transition by decarbonising our proprietary investment holdings in a responsible and fair manner, aligned to improving real world outcomes. We understand the fundamental role that we must play as an asset owner through influence, capital allocation and collaboration, and we pledge to further our efforts in all of these areas in pursuit of real-world emissions reduction aligning with the 1.5°C Paris Agreement goal.”

**Iain Williamson, CEO, Old Mutual Limited**



**Task Force on Climate-related Financial Disclosures (TCFD)**

We support the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) recommendations. These recommendations enable us to incorporate climate-related factors into our long term investment strategy. The Climate Report informed by the recommendations is available [here](#) **Old Mutual Climate Report 2022**



**CDP Disclosure**

We continue to disclose Greenhouse Gas emissions (GHG) to the CDP. We achieved a B score in 2021, improving on a C score in the prior year.



**Collaboration with our Asset Managers**

We have established a dedicated climate change workstream focused on our role as a responsible investor. Members of the workstream comprise asset owner and asset manager representatives from across the Group.

**Mandate:** Driving collaborative efforts towards the decarbonisation of our investment holdings, identifying new green economy growth opportunities and overseeing the alignment of investment metrics and targets across the Group.



## 3. ANNUITY INCREASES

### ANNUITY INCREASE PHILOSOPHY

The surplus attributable to With-Profit annuity policies (generally, the net investment return earned on these assets) is credited to a Bonus Smoothing Reserve (BSR), from which annuity increases are declared.

The BSR is the excess of the market value of the assets over the value of the liabilities. It is split into a long-term BSR (LT-BSR) and a short-term BSR (ST-BSR).

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

The ST-BSR is the difference between the value of the remaining liabilities and the market value of the remaining assets. The level of the ST-BSR is significantly impacted by the net investment returns earned on the unmatched portfolio and the locked in yield referred to earlier. It is the level of this ST-BSR that is the most relevant for determining the increase that can be declared.

These annuity increases usually differ from the actual net (of charges and PRI) investment return earned in a year, so as to reduce the impact of short-term volatility of returns on policyholders. The post-retirement interest rate (PRI) is deducted from the investment return earned in determining the surplus available for annuity increases, as this has already been taken into account in determining the annuity amounts, or the premium for known annuity amounts.

In years when above-average investment returns are earned, the increases tend to be lower than the net investment return earned. And in years when below-average investment returns are earned, the increases tend to exceed the net investment return earned.

A positive BSR balance represents a surplus attributable to With-Profit annuity policyholders that has not yet been declared as increases, and that will be used to support subsequent increases. A negative BSR balance means that more has been declared as increases to policyholders than has been earned to that date (as a consequence of the smoothing process). This deficit will be recovered by declaring future annuity increases that are lower than the future net investment returns earned.

The BSR is increased by a surplus in years of favourable experience and decreased in years of unfavourable experience. The BSR is reduced further by the cost of the declared increases, the charge for investment guarantees (i.e. the capital charge), the cost of the PRI on benefit payments, and investment management charges.

It is important to note that the BSR is used to declare increases for the benefit of With-Profit annuity policyholders only and cannot be accessed by Old Mutual shareholders.

#### SOURCES OF PROFIT

Annuitants participate in the investment and mortality profits/losses generated by the assets underlying the with-profit annuity products, through the increases.

Investment profits are attributed to each PRI category only if the net returns earned on the underlying assets are in excess of the PRI. Mortality profits will arise if annuitants do not live as long as expected. Mortality losses will arise if annuitants live longer than expected. The main source of profits is likely to be investment profits.

Annuity increases, once granted, are guaranteed and can never be removed. The level of future increases is, however, not guaranteed.

### ANNUITY INCREASE DECLARATION PROCESS

Annuity increases are declared annually in arrears, based on the financial position of each product at its year-end. The increases are declared at the discretion of the Board of Old Mutual and are based on the recommendation by its chief actuary. In assessing the amounts to declare, the Board will look primarily at the size of the relevant BSR. The long-term average level for the ST-BSRs is expected to be in the 0% to 5% range. The level of the ST-BSRs can vary outside this range, depending on market conditions.

In determining a minimum BSR level, the criterion applied is that any negative BSR should be capable of being recouped within, at most, three years. If recoupment is not possible within three years, shareholder funds are used to rectify the situation. In determining the maximum level, consideration is given to the maintenance of equity between different generations of annuitants.

Some of the additional factors considered by the Board when determining the increases to be declared include the following:

- The reasonable expectations of annuity policyholders as to the size of the increase.
- The impact of an extremely negative market environment on increases. In such an environment, increases will be affected by the need to ensure that the BSR does not become too negative, as this would adversely affect subsequent increase declarations.
- Old Mutual's competitive position against the bonus/increase declarations of With-Profit annuity products offered by other providers.

### ALLOWANCE FOR MANAGEMENT ACTION IN ADVERSE CIRCUMSTANCES

As previously mentioned, the long-term target level for the BSR is within the range of 0% to 5% of the liabilities. Tolerance for BSR levels outside this range reduces as the absolute levels move further away from it. The tolerance for a particular level of smoothing reserve also depends on the prevailing investment and economic conditions, and the outlook for such conditions.

The focus is particularly on a three-year time horizon, in line with the guidelines of the Actuarial Society of South Africa as described in this section. While Old Mutual has some internal guidelines, there are no absolute levels set at which particular management actions are automatically taken. Such an approach could be imprudent, as it may not consider all the factors involved at the time. However, if the BSR trends away from the long-term average, the extent of management action will become more pronounced, taking due cognisance of the economic and investment environment at all times.

## BSR CHARGES

The following costs are deducted from the BSRs:

- **INVESTMENT MANAGEMENT CHARGE**  
The investment management charge is currently approximately 0.75% to 0.85% of assets per annum. In any given year, this percentage can change as the asset allocation varies, and as asset manager performance varies relative to benchmark. Fees can be above this level from time to time, due to short-term tactical allocations away from the benchmark or outperformance by asset managers. Annuity increases are declared net of this charge.
- **THE COST OF PROVIDING GUARANTEES**  
Old Mutual guarantees that existing annuities will be paid for the life of each annuitant, and that any increase, once granted, will also be guaranteed for the annuitant's life. The price that Old Mutual levies for these guarantees is the capital charge.

Capital charges are levied monthly in arrears on the assets of each product's underlying portfolio. Thus, any increases declared are net of these charges. The current capital charges in respect of the various With-Profit annuity products are set out in the document Capital Charges applying to Discretionary Participation Business on Old Mutual's website. It is also available in hard copy on request.

## 4. FEE STRUCTURE

As at 31 December 2022, the administration fees for new business were as follows:

### INITIAL ONCE-OFF ADMINISTRATION FEES

- R800 for the first annuitant in the family unit; plus
- R400 for each additional annuitant

These initial administration fees are included in the premium and will not be deducted from future pension increases

### RENEWAL ADMINISTRATION FEES

As at December 2022, the renewal fee was R95 per annuitant per month, capitalised and included in the premium.

For other charges relating to the management of these products, please refer to the Annuity Increases section of this report.

## 5. BONUS SMOOTHING RESERVE LEVELS

The BSRs for Old Mutual's With-Profit annuities were within the following bands:

DATE	Platinum Pension		Platinum Pension 2003		Pensions OptiPlus	
	ST-BSR	LT-BSR	ST-BSR	LT-BSR	ST-BSR	LT-BSR
31 December 2021	5% to 10%	0% to 5%	5% to 10%	-10% to -5%	0% to 5%	0% to 5%
31 December 2022	0% to 5%	-5% to 0%	0% to 5%	-10% to 5%	0% to 5%	-5% to 0%

Old Mutual is required to disclose Short-term Bonus Smoothing Reserve (ST-BSR) levels below -7.5% for With-Profit annuity products.

As at 31 December 2022, the ST-BSR levels for all the With-Profit annuity products issued by Old Mutual were greater than the stated level of -7.5% of the value of the liabilities of that product.

## 6. PRODUCT PORTFOLIO SIZE

As at 31 December 2022, the sizes of the With-Profit annuity portfolios were approximately as follows:

Assets Under Management	31 December 2022
Pensions OptiPlus	R11.6 billion
Platinum Pension	R9.6 billion
Platinum Pension 2003	R12.4 billion

Please note that these amounts include the BSR values.

## 7. RINGFENCING

Old Mutual's With-Profit annuities are managed in accordance with a specific mandate as described earlier in this document.

The portfolios of underlying assets that support the various With-Profit annuity products are all managed separately from each other, as well as from the assets of other products (both policyholder and shareholder portfolios). This separation extends to the individual BSRs that form an integral part of the portfolios of underlying assets that support each product. Although the assets are managed separately, they are not housed in a separate legal entity. They remain the registered property of Old Mutual.

All fees and charges are transferred from these portfolios to shareholder fund portfolios.

Transfers of assets between different portfolios occur in the normal course of events. Such transfers could reflect normal trading between two portfolio managers with different investment mandates and investment views, or the transfer of a pool of assets where Old Mutual permits a client to move an investment from one portfolio to another.

The principle that applies to any such transfer is that any assets accepted into the portfolio must not alter the portfolio in such a way that compliance with the investment mandate is compromised.

The transfer of BSRs between different With-Profit annuity product portfolios is not precluded but will only happen in specific circumstances. For instance, when a mature product portfolio diminishes in size over time, a stage may be reached where the size of such portfolio is less than optimal for the smoothing of returns to be effective. At such a point, the mature portfolio could be combined with a larger portfolio, with a corresponding BSR transfer taking place. The aim is to ensure, as far as possible, that the BSR percentages of both portfolios after such a transfer are similar to what they were before the transfer.

## 8. COMPANY SOLVENCY

The guarantees on benefit payments offered in With-Profit annuity products are backed by the capital of Old Mutual. Old Mutual's past capital levels using the SAM reporting standard are shown in table 9 below.

	December 2021	December 2022
Eligible Own Funds* (R'bn)	62.5	59.6
Solvency Capital Requirement (SCR)(R'bn)	31.1	27.9
Solvency Ratio	201%	214%

\*Net of inadmissible assets and other regulatory adjustments

By law, South African insurers must hold funds of sufficient quality and quantity to absorb significant unforeseen losses arising from the risks associated with their activities. The level of capital required for regulatory purposes should address the risk areas to which insurers are exposed and should be proportionate to the nature, scale and complexity of the business involved. As at the end of December 2022, Old Mutual had 2.14 times as much capital as was required.

Due to the fact that risks inherent in the different products that Old Mutual offers are correlated (whether negatively or positively), the amount of capital set aside to back all guarantees cannot be separated out for each individual product; hence the figures shown above apply to the whole of Old Mutual.

# FOR MORE INFORMATION

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You can ask for a copy of this report by calling the Pincare Service Centre at 0860 40 60 90, or emailing [pincarehelpdesk@oldmutual.com](mailto:pincarehelpdesk@oldmutual.com).

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