

OLDMUTUAL

OLD MUTUAL SMOOTHED BONUS FUNDS

2021 QUARTERLY REPORT Q2



CORPORATE

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PRODUCT UPDATE



Marvin Nair
Head of Smoothed Bonus Funds:
Guaranteed Solutions


Absolute Growth Portfolios and CoreGrowth compliance with Conduct Standard 5 of 2020

On 9 October 2020, the Financial Sector Conduct Authority (FSCA) published the anticipated Conduct Standard 5 of 2020 - Conditions for smoothed bonus policies to form part of default investment portfolios. Retirement funds were granted 9 months to ensure that their default investments comply with the conditions set out in the Conduct Standard.

Old Mutual has continually worked towards achieving compliance within the implementation timelines and has successfully done so by the 9 July 2021 deadline. To grant further peace of mind that all requirements have been met, the table below has been produced to elaborate on how Old Mutual has managed to comply with each of the requirements stated in the Conduct Standard:

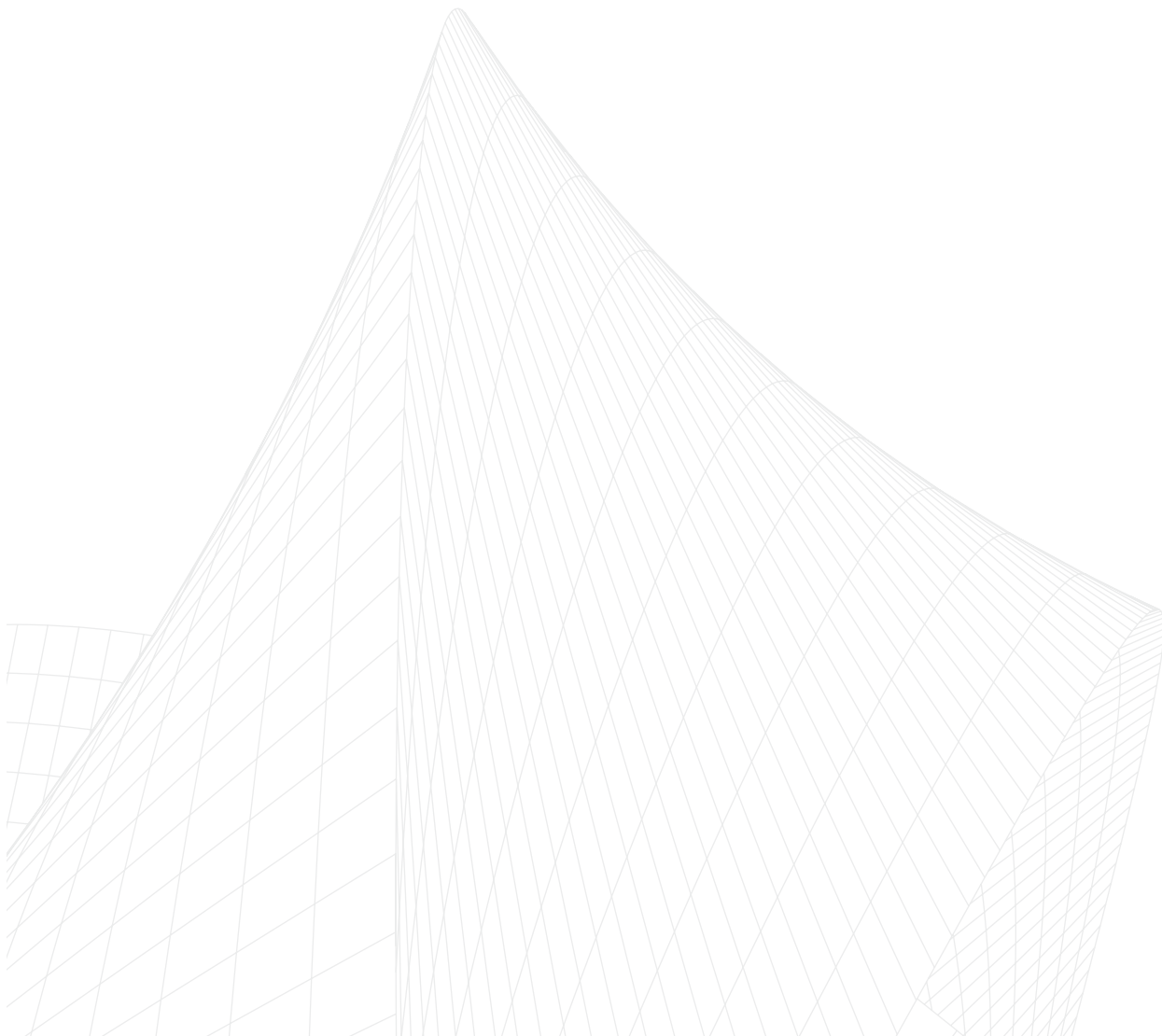
CONDITIONS SET BY CONDUCT STANDARD 5 OF 2020	ABSOLUTE GROWTH PORTFOLIOS	COREGROWTH
Bonuses must be declared using a disclosed formula	Fully complies AGP has declared formula-based bonuses since inception and will continue to do so.	Fully complies CoreGrowth has changed from declaring bonuses on a discretionary basis to formula-based bonuses.
Old Mutual must clearly disclose what the triggers are for the portfolio to call on shareholder capital support	Fully complies Capital triggers are outlined in the: <ul style="list-style-type: none"> - Old Mutual Principles & Practices of Financial Management (PPFM) for Discretionary Participation Business - AGP fund description - Disclosure Report for 2020 	Fully complies Capital triggers are outlined in the: <ul style="list-style-type: none"> - Old Mutual Principles & Practices of Financial Management (PPFM) for Discretionary Participation Business - CoreGrowth fund description - Disclosure Report for 2020
Old Mutual must clearly disclose what the shareholder capital support terms and conditions are	Fully complies Capital terms and conditions are outlined in the: <ul style="list-style-type: none"> - PPFM for Discretionary Participation Business - AGP fund description - Disclosure Report for 2020 	Fully complies Capital terms and conditions are outlined in the: <ul style="list-style-type: none"> - PPFM for Discretionary Participation Business - CoreGrowth fund description - Disclosure Report for 2020

<p>The portfolio must place minimum and maximum limits on the level the BSR can reach</p>	<p>Fully complies</p> <p>The new AGP formula has been designed to cap the BSR at a minimum of -15% and a maximum of 20% of the portfolio's total value.</p>	<p>Fully complies</p> <p>The CoreGrowth formula has been designed to cap the BSR at a minimum of -15% and a maximum of 20% of the portfolio's total value.</p>
<p>The portfolio must have a long-term BSR range that does not exceed 5% of the portfolio's total value</p>	<p>Fully complies</p> <p>The new AGP formula has been designed to target a long-term BSR range between 0% and 5% of the portfolio's total value.</p>	<p>Fully complies</p> <p>The CoreGrowth formula has been designed to target a long-term BSR range between 0% and 5% of the portfolio's total value.</p>
<p>The portfolio must spread any excess reserves built up in the BSR over a smoothing period of 24 months or less.</p>	<p>Fully complies</p> <p>The new AGP formula has been designed to smooth any excess BSR over roughly 24 months. "Excess BSR" is defined as any reserves built up in the BSR in excess of the long-term BSR target range of 0% to 5% of the portfolio's total value.</p>	<p>Fully complies</p> <p>The CoreGrowth formula has been designed to smooth any excess BSR over roughly 24 months. "Excess BSR" is defined as any reserves built up in the BSR in excess of the long-term BSR target range of 0% to 5% of the portfolio's total value.</p>
<p>The portfolio cannot apply Market Value Adjusters (MVAs) to any benefit payments.</p>	<p>Fully complies</p> <p>AGP does not apply MVAs to defined benefit payments made when members leave the portfolio due to death, retirement, ill-health retirement, resignation or retrenchment.</p>	<p>Fully complies</p> <p>CoreGrowth does not apply MVAs to defined benefit payments made when members leave the portfolio due to death, retirement, ill-health retirement, resignation or retrenchment.</p>
<p>Should Old Mutual choose to make material* changes to the portfolio's strategic asset allocation, it will not be able to apply MVAs if investors choose to switch out of the portfolio as a result of the changes.</p> <p>*A material strategic asset allocation change is a change significant enough to change the portfolio's expected return target.</p>	<p>Fully complies</p> <p>Old Mutual will only make material changes to the strategic asset allocation in extreme circumstances in accordance with the PPFM and policy contracts. Old Mutual will not apply an MVA to clients who choose to leave the portfolio as a result of a material strategic asset allocation change.</p>	<p>Fully complies</p> <p>Old Mutual will only make material changes to the strategic asset allocation in extreme circumstances in accordance with the PPFM and policy contracts. Old Mutual will not apply an MVA to clients who choose to leave the portfolio as a result of a material strategic asset allocation change.</p>
<p>The portfolio must comply with Regulation 28.</p>	<p>Fully complies</p> <p>AGP is managed to comply with Regulation 28 as it relates to investment management and reporting.</p>	<p>Fully complies</p> <p>CoreGrowth is managed to comply with Regulation 28 as it relates to investment management and reporting.</p>



Old Mutual has been engaging with the regulator on this Conduct Standard for a number of years and we believe that the requirements it sets out are in the best interests of investors. Therefore, even though all investors in AGP and CoreGrowth don't need to comply with the Conduct Standard, all of the changes mentioned above have been implemented for all clients invested in AGP and CoreGrowth.

We believe in the spirit of these regulations and are confident that it aligns with the natural evolution of the smoothed bonus products we have been successfully managing over the past 54 years.



GLOBAL AND LOCAL ECONOMIC UPDATE



Johann Els
Chief Economist:
Old Mutual Investment Group

GLOBAL ECONOMY

The past few months were characterised by ongoing concerns about renewed COVID-19 infection cycles in some regions, accelerating vaccine rollout in a few selected developed countries, continued strong growth globally, and significant fiscal spending proposals in the US. On the whole, markets were particularly distressed about higher inflation in the US and what that might mean for interest rates and tapering of Quantitative Easing (QE).

The US's core personal consumption expenditure (PCE) deflator – the Federal Reserve Board (Fed)'s preferred inflation measure – rose from 0.9% (y-o-y % change) in April 2020, at the height of the COVID-19 lockdown in the US, to 1.4% by January 2021, and to 3.4% by May 2021. While the Fed's Flexible Average Inflation Targeting (FAIT) framework aims to maintain this inflation measure above the 2% target for as long as it has been below 2%, markets were becoming concerned that a more severe inflation cycle has started that will need strong Fed reaction in terms of quicker and faster tapering and rate hikes sooner rather than later. These fears were exacerbated when the Fed's so-called "dot-plot" after its last meeting suggested that interest rates will now start rising before the end of 2023 – compared to no rate increases before 2024.

The Fed is of the opinion – and I concur – that the bulk of the price pressures seen at present are temporary (or "transitory", to use Fed Chairman Jerome Powell's terminology). Prices normalised as the economy reopened and the resultant base effects (from sharp price reductions in many services – mainly hospitality and travel – to price increases now amidst reopening, even though many of these are still below prevailing price levels before COVID-19) caused the inflation uplift. Of course, there are also supply chain issues such as a shortage of computer chips used in cars that led to higher prices. Most of these will likely be resolved relatively soon and I expect the core PCE deflator to ease during the second half of the year and into 2022. The factors which have kept global inflation low over the last few decades – globalisation, increased competition and technological advances – are all still in effect and will continue to keep inflation low after this temporary disruption from the pandemic.

The Fed also wants the labour market to strengthen substantially further before it is ready to adjust policy. The employment recovery has not been smooth nor very strong, as it has been distorted to some extent by policy measures such as extended unemployment benefits that have kept workers from rejoining the labour market. While the employment recovery has accelerated slightly recently, the overall level is still 6.8 million jobs away from the pre-COVID-19 peak in February 2020. At the average pace of the last three months, it is still going to take another year before the labour market is fully recovered.

Markets will likely be somewhat calmer going forward, amidst signs that sequential growth is probably in peak territory and that inflation is also likely to soften somewhat. The Fed's communication will probably continue to be aimed at keeping markets well informed and abreast of thinking around tapering and rate increase plans. This is not the end of the Fed's relatively new policy framework – i.e. the willingness to accept higher inflation and a

stronger labour market. Thus, do not expect a rush towards fast tapering or rate increases.

I do, however, expect the Fed to be talking more about tapering in its upcoming communications. A tapering announcement in this regard is likely before the end of the year, with actual tapering probably starting sometime during the first few months of 2022. This is expected to be slow and measured and well communicated. I have brought forward my forecast of the first rate hike in the US. I now expect one 25 basis point rate hike in the second half of 2022. This cycle is also going to be at a measured pace and again well communicated.

SA ECONOMY

I have written extensively before about the better prospects for the SA economy – not only for this year, but also for the medium term. These stem from a very supportive global economy, a local economic rebound from last year's COVID-19-induced slump, an improved policy environment and a very positive February National Budget. As I reasoned previously, growth in 2021 could reach 5% and medium-term growth (i.e. from 2022 to 2026) could average 2% per annum. I have since revised these (already above-consensus) forecasts up to 5.5% growth in 2021 and a 2% to 2.5% range of annual average growth for the medium term.

There is a lot of concern in South Africa about the severity of the renewed infection wave, the slow rollout of vaccines and the worry that the global commodity price upcycle is unlikely to last forever. These are all very valid risks for the local economy. However, while the latest adjusted level 4 restrictions will clearly hurt the hospitality and alcoholic beverage sectors, Government seems adamant not to inflict the same pain on the economy as during the hard lockdown of April and May 2020. The slow vaccine rollout is gaining some momentum – and it seems reasonable to expect that a large percentage of the population will likely be vaccinated by the end of 2022.

I would argue that the slow rollout of COVID-19 vaccinations to the SA population is no longer a significant detriment to the economic recovery, as there are many positives overshadowing the negative. While a fourth infection cycle is indeed possible, regulations will likely be less severe, as another infection cycle should be relatively mild, given ongoing vaccination. Global growth and commodity prices should remain fairly robust amidst ongoing policy support in the short term and the likely very slow removal of such support in the medium term. Global growth and commodity prices are expected to peak soon but to remain relatively supportive, and not collapse.

It is probably worthwhile to run through the positives we have seen recently, to measure the reality against my base case of an expected economic recovery over the next few years.

On the political and policy fronts, there can be no doubt that it has been a truly remarkable turn of events over the past month or so. It seems clear that the ANC overall, and the NEC (National Executive Committee of the ANC) in particular, is backing the President more strongly than ever. President Ramaphosa has been able to resolutely drive his anti-corruption crusade with the NEC's decision that all members accused of corruption should step aside until investigations or court proceedings have been finalised. Thus, the ANC's Secretary General was forced to temporarily vacate his position. As he was perceived to be one of the main obstacles to the anti-corruption and economic reform campaigns, this is clearly a sizable positive.

Furthermore, the Constitutional Court's ruling that the former president was in contempt of a previous judgement and thus will be jailed, is a monumental event for South Africa's judiciary. While South Africa has always been perceived as having an independent judiciary, the latter has come under increasing attack in recent years. This ruling clearly and soundly reaffirms the rule of law. No matter what Mr Zuma's response is, the ruling has clearly defined the responsibilities of ruling politicians and the repercussions of defying the courts.

We have also seen a number of announcements on the policy and corruption fronts – many of these where President Ramaphosa took charge himself, which is also an indication of the President’s renewed emphasis on policy change:

- In June, the President announced that the limit for self-generation of electricity without licence will be lifted from 1 MW to 100 MW (substantially more than the 10 MW the Energy Minister was reluctantly considering and double what business was hoping for).
- SA’s ports will be unbundled from Transnet, thus being able to reinvest revenues generated from port operations in upgrading and expanding port infrastructure – without the constraints of the holding company wanting to invest that money elsewhere within the broader group.
- SAA was privatised with 51% sold to a private company (a majority stake sale this time, compared to the 20% stake sold to Swissair in 1999 – which was bought back in 2002).
- The Health Minister was placed on special leave due to corruption concerns.
- It was announced that the extradition treaty between the UAE (where the corruption-accused Gupta brothers allegedly live now) and SA will come into force on 10 July – which might assist the corruption fight.
- Eskom has managed to reduce its debt from a peak of R484 billion in March 2020 to below R400 billion by early July 2021.

Meanwhile, the economy has responded as follows to the strong global environment and reopening:

- Much stronger than expected GDP growth, at +4.6% annualised, was recorded in Q1 2021 – despite the lockdowns in place during January and February.
- Nominal GDP has rebounded strongly and is already back above the pre-COVID-19 level of the fourth quarter of 2019 – thanks to a large extent to strong commodity price-related uplift in the GDP deflator.
- Car sales have rebounded strongly, and consumer credit is expanding again.
- The Reserve Bank’s leading indicator index has continued to perform strongly, and manufacturing and the whole country PMI’s are in expansionary territory.
- Tax revenues are recovering strongly and reflect the better economy. Similarly, the prevailing sentiment about fiscal risk has turned sharply since the February Budget. Fiscal risk has indeed declined markedly since late last year. The 2021/22 budget deficit could turn out substantially better than the -9.3% budgeted. My estimate is -7%. The debt-to-GDP ratio could also stabilise around 83% – compared to the 95.3% assumed at the time of the October 2020 MTBPS (Medium-Term Budget Policy Statement).
- Consumer balance sheets are being repaired as the economy and asset prices recover. The household savings rate is in positive territory – and as consumer confidence recovers, some of this excess savings will likely be spent. The savings rate recovered, as spending collapsed by more than incomes last year.

- The external trade balance remains in record surplus territory, with the last few monthly surpluses surpassing R50 billion a month. The cumulative trade balance for the first five months of 2021 totalled R220 billion, versus +R18.7 billion in 2020 and -R6.3 billion in 2019.
- Similarly, the current account balance recorded another large surplus in the first quarter of the year.
- Business confidence has rebounded strongly across many sectors, e.g. retail and motor trade, manufacturing and construction.
- While consumer confidence is still constrained – especially among the lower income groups, where the end of the COVID-19 relief grants hurt confidence. Other income groups are feeling better about the environment, and sentiment in the housing market is also on the mend.

This is an environment where the investment cycle should also start to kick in – with more renewable electricity plants in line with recent policy moves. The mining sector will likely also expand capital spend in line with the better conditions in that sector. Better growth will likely lift fixed investment across a range of other sectors as well.

Under these conditions, confidence among consumers, business and investors can improve rapidly further, driving growth up. Clearly, investors need to be cognisant of this improving environment, as markets will rapidly discount the better news. Ignore this at your peril – don't miss out.

UNDERLYING PERFORMANCE AND POSITION



Wesley Johnson
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ASSET ALLOCATION AND PERFORMANCE OF THE OLD MUTUAL SMOOTHED BONUS FUNDS

In this section we explain the rationale behind the current asset allocation position of the Old Mutual Smoothed Bonus Funds and comment on the underlying performance for the period ending 30 June 2021.

UNDERLYING ASSET ALLOCATION OF THE SMOOTHED BONUS FUNDS

Each of Old Mutual's Smoothed Bonus Funds has a strategic asset allocation aimed at achieving that portfolio's long-term risk and return objectives. The Absolute Growth Portfolio has the highest allocation to growth assets and is therefore expected to deliver the highest real return over the long term. Conversely, the CoreGrowth Portfolio has the lowest allocation to growth assets and is expected to deliver lower, but more stable returns over the long term. The current strategic asset allocations are set out in Table 1 below. The portfolios are required to remain within set ranges around the targeted asset allocation for each asset class.

Table 1

ASSET CLASS	ABSOLUTE GROWTH PORTFOLIO		GUARANTEED FUND		COREGROWTH PORTFOLIO	
	Actual Allocation	Strategic Allocation	Actual Allocation	Strategic Allocation	Actual Allocation	Strategic Allocation
Local equities	49.2%	45.5%	41.1%	37.5%	29.7%	26.0%
Local interest-bearing assets	10.2%	13.0%	17.8%	21.0%	29.7%	32.5%
Local alternative assets	6.5%	7.0%	6.7%	7.0%	6.4%	7.0%
Direct property	6.1%	6.5%	6.4%	6.5%	6.1%	6.5%
Global equities	20.5%	19.5%	19.5%	18.5%	17.8%	16.8%
Global interest-bearing assets	2.5%	4.0%	3.5%	5.0%	5.2%	6.8%
Global alternative assets	3.8%	3.5%	3.8%	3.5%	3.9%	3.5%
African listed equities	1.2%	1.0%	1.2%	1.0%	1.2%	1.0%

Old Mutual Investment Group's MacroSolutions boutique manages the underlying portfolios in accordance with their respective long-term strategic asset allocations. MacroSolutions also makes tactical allocations away from the strategic benchmarks in accordance with their asset class views, provided that the portfolios remain within set minimum and maximum asset class ranges.

Over the 3-year period to 30 June 2021, MacroSolutions' tactical asset allocation resulted in a return of -0.17%. The largest single detractor is our global derivative activity. We held short positions which have hurt us with markets rallying strongly over the period, however when seen in combination with our overweight in physical equity, this detractor is not as severe.

Other moderate detractors were direct property and global alternatives, both strategic holdings. Local bonds also detracted at the margin. It is pleasing to see that global bonds are no longer a detractor over the 3-year period. The biggest positive contributions to alpha were from our currency futures (recently holding overweight USDZAR positions), as well as our underweight in local cash and overweight in global cash.

MARKET INDICATORS

Table 2 below sets out a summary of the index returns to 30 June 2021.

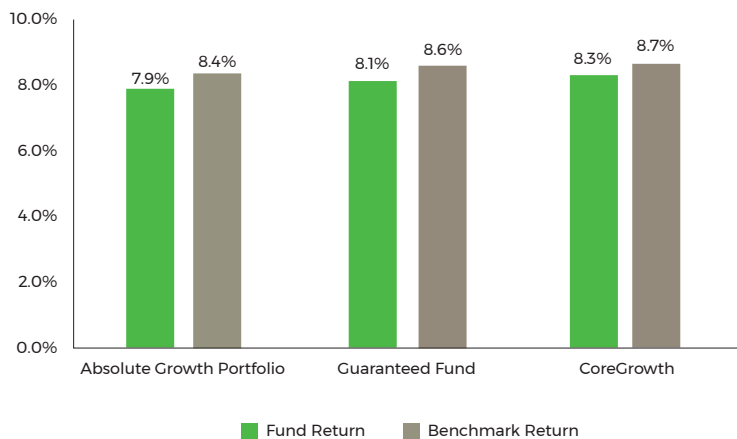
Table 2

	1 Year (%)	2 Years (%)	3 Years (%)	5 Years (%)	7 Years (% p.a.)	10 Years (% p.a.)
SA Equity						
Shareholders Weighted Index	21.8	7.0	5.0	5.3	5.8	10.4
Capped SWIX Index	27.6	6.7	4.8	0.0	0.0	0.0
All Share Index	25.1	10.0	8.1	8.1	7.0	10.9
Resources Index	29.6	20.7	20.9	20.6	6.1	5.7
Financial Index	26.5	-9.0	-4.3	-0.1	2.2	8.7
Industrial Index	19.4	11.5	6.2	5.5	7.0	13.5
Top 40 Index	23.0	10.6	8.5	8.7	7.0	11.0
Mid-cap Index	33.4	4.9	5.0	3.1	5.4	9.2
Small-cap Index	65.2	12.8	4.3	3.2	4.8	10.1
SA Property						
SA Quoted Property Index	25.2	-13.3	-8.9	-6.9	-0.2	5.1
SA Interest-Bearing						
ALBI BEASSA	13.7	8.1	9.2	9.2	8.5	8.5
STeFI	4.0	5.4	6.0	6.6	6.6	6.3
Cash	3.3	4.5	5.2	5.8	5.8	5.4
Global						
MSCI World Index (R)	14.8	20.9	17.2	14.9	15.5	19.9
JPM International Bond (R)	-17.8	3.2	5.02	1.1	5.9	9.4
US 1-month LIBOR (R)	-17.3	2.0	3.0	0.8	5.3	8.5
Inflation (estimate)						
CPI	4.9	3.5	3.8	4.2	4.6	5.0

UNDERLYING ASSET CLASS PERFORMANCE OF THE SMOOTHED BONUS FUNDS

All the Smoothed Bonus Funds have underperformed their respective benchmarks over the 3-year period to the end of June 2021. The difference in returns between these funds is primarily due to their varied strategic asset allocations. While the performances of the three funds are expected to diverge over time, there may be some periods where the funds perform similarly. The more conservative CoreGrowth Portfolio has continued to outperform the Absolute Growth Portfolio and Guaranteed Fund over the past three years, largely as a result of higher exposure to the local bond market, which is currently outperforming the equity market.

3-YEAR ANNUALISED RETURN



The performance of each of the asset classes underlying these portfolios is as follows:

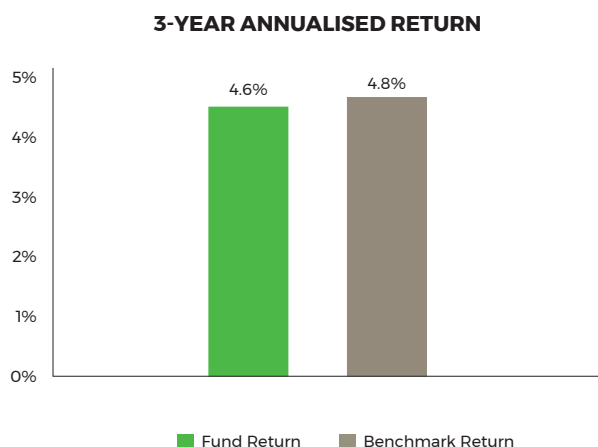
LOCAL EQUITIES

The local equity portfolio consists of a diversified portfolio of South African JSE-listed equities. This portfolio is designed to deliver consistent performance through different market conditions by combining an index tracking portfolio with an active management component. The active part of the portfolio is split between different investment styles that are expected to complement each other and further diversify the portfolio. While individual managers are included in the portfolio based on their demonstrated strengths, effectively blending these different managers provides a more consistent investment return than would be possible by investing in a single portfolio or strategy. Table 3 below shows the portfolio composition.

Table 3

STRATEGY	PORTFOLIO	FUND %
PASSIVE	Capped SWIX Tracker	32.5%
	Old Mutual Equities	32%
ACTIVE	Double Alpha	2.5%
	Managed Alpha	14%
	Premium Equity	9%
	Old Mutual Multi-Managers	10%
TOTAL		100%

The portfolio's benchmark changed from the SWIX Index to the Capped SWIX Index in July 2017. The overall performance of the portfolio in comparison to that index is shown below:



The fund has underperformed the benchmark by only 20 basis points over the 3-year period to 30 June 2021. The equity positioning was a major contributor in the underperformance over the 3-year period.

OLD MUTUAL EQUITIES

The portfolio has outperformed the benchmark by 1.7% over the **past quarter**. Contributors were our overweight positions in Foschini Group and Transaction Capital and our underweights in Anglo American Platinum and Prosus where we did not have a holding. Detractors were Capitec and Richemont which we do not own and our holding in Northam which underperformed.

The portfolio underperformed the benchmark by 1.2% annualised over the **past three years**. Contributors were our overweight positions in AngloGold Ashanti, Transaction Capital and Foschini. Detractors were our overweight positions in Nedbank, and underweight in Sibanye Stillwater and Northam.

MANAGED ALPHA

The Managed Alpha portfolio underperformed the benchmark by 41 basis **points over the last quarter**. Positive contributors were overweight positions in Consumer Discretionary, Information Technology and Energy. The detractors were underweight positions in Consumer Staples, Real Estate and Healthcare. At a share level, the top three positive contributors were the overweight positions in Investec and Richemont and underweight position in Naspers. The top three detractors were the underweight position in Capitec and overweight positions in Steinhoff and Anglo American Platinum.

Over the 3-year period the portfolio outperformed the benchmark by 79 basis points. The top three positive contributors for this period were the overweight position in Financials and underweight positions in Real Estate and Consumer Discretionary. The largest detractors for the period were underweight positions in Consumer Staples, Communication Services and Utilities. At a share level, the top three positive contributors were being overweight to Naspers, Gold Fields and Anglo American Platinum, while the top three detractors were overweight positions in Sasol Limited and Astral Foods and an underweight holding in Telkom SA SOC Limited.

PREMIUM EQUITY

Premium Equity underperformed the benchmark by 48 basis points over the **second quarter** of 2021.

The fund returned an annualised 6.1% during the 3-year period to 30 June 2021, while the benchmark delivered 4.8% p.a. Overall, the fund outperformed the benchmark by 1.3% over the 3-year period.

OLD MUTUAL MULTI-MANAGERS

The OMMM Life Equity Portfolio outperformed its benchmark by 72 basis points over the **second quarter** of 2021. The fund returned 6.0% over the three-year period to 30 June, outperforming the benchmark by 1.2% p.a. The outperformance over this period can be largely attributed to the significant outperformance of Coronation and Prudential.

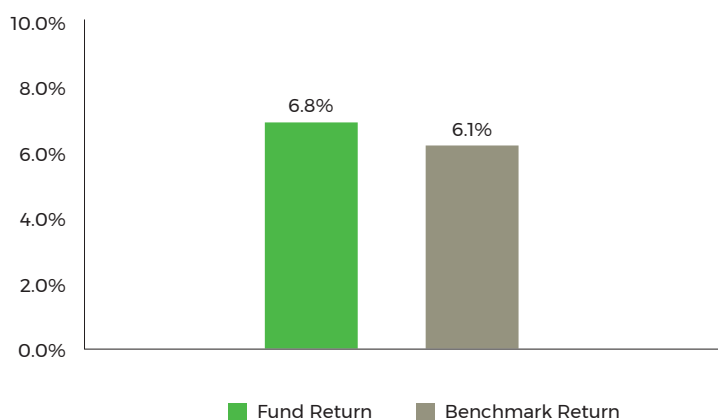
LOCAL INTEREST-BEARING ASSETS

The local interest-bearing portfolio consists of bond and money market assets. These assets are managed by OMIG's Futuregrowth fixed-income boutique.

LOCAL MONEY MARKET

The money market assets are invested in a yield-enhanced money market portfolio that aims to generate returns through the active management of short- to medium-term interest-bearing instruments. The overall performance of the portfolio relative to its benchmark is shown below:

3-YEAR ANNUALISED RETURN



The portfolio has performed well over three years, outperforming its benchmark by 0.7% p.a. The Modified Duration of the funds were managed prudently, the funds did have a high exposure to floating rate notes, and this was changed with the onset of COVID-19 to a high exposure to longer dated fixed rate notes. The selling of the floating rate notes and the timely switch to fixed rate notes towards the beginning of last year produced a good profit for the funds.

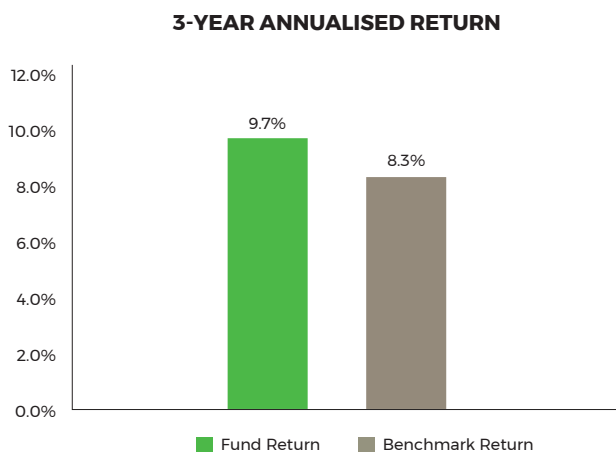
In addition, the funds also benefited from the higher yield pickup on the Step Rate Note Securities as well as the longer dated floating rate credit assets.

LOCAL BONDS

The bond strategy is comprised of 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 as Futuregrowth implements its views on interest rates across various interest-bearing assets and asset durations. The core bond portfolio also has a small allowance to invest in non-government bonds, which are expected to generate higher investment returns.

In addition to asset allocation and active interest rate management, the yield enhanced portfolio aims to generate returns through investment in other listed and unlisted credit instruments.

The overall bond portfolio performance is shown below:



CORE BOND PORTFOLIO

The core bond portfolio outperformed the benchmark by 6 basis points. The additional yield (spread accrual) offered by the non-government bond holding was the biggest single positive contributor.

Spread accrual totalling 0.39% was partly offset by marginal spread widening of 0.02% for a net spread component contribution of 0.37%. The interest rate position detracted 0.28% from relative performance. This is mainly the result of the relative losses during the second and third quarters of 2020, in turn the underweight position to bonds in the best performing 1- to 7-year maturity band. In turn, the out-performance of this sector is directly linked to the unexpected and aggressive monetary policy easing during the twelve-month period ending December 2020. This was significant enough to impact longer term fund performance. That said, fund performance recovered significantly the last few months, which in turn allowed the fund to outperform the benchmark for the quarter, year-to-date and twelve-month periods.

YIELD ENHANCED PORTFOLIO

The Fund outperformed the benchmark by 1.13%. The biggest driver of positive performance being credit spread accrual although this was partially offset by unlisted credit revaluations.

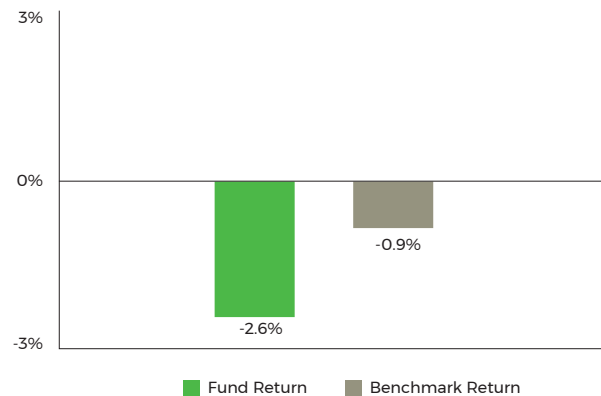
The interest rate position detracted from relative performance. This is mainly the result of the relative losses during the second and third quarters of 2020, in turn the underweight position to bonds in the best performing 1- to 7-year maturity band. In turn, the out-performance of this sector is directly linked to the unexpected and aggressive monetary policy easing during the twelve-month period ending December 2020. This was significant enough to impact longer-term fund performance. That said, fund performance recovered significantly the last few months, which in turn allowed the fund to outperform the benchmark for the quarter, year-to-date and twelve-month periods.

The Fund continues to rely on the use of derivatives, primarily through futures to ensure alignment with the targeted benchmark modified duration with the proceeds thereof being invested in credit assets. The funding cost attached to this ranges between 25bps-50bps over time depending on available liquidity in the market.

DIRECT PROPERTY

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, diversification of exposure into other countries is undertaken, where suitable opportunities are identified.

3-YEAR ANNUALISED RETURN



The portfolio underperformed the benchmark by -1.7% p.a. over the 3-year period to 30 June 2021. The following factors contributed to the portfolio's performance:

- We are still expecting COVID-19 to impact retail sales (and rentals) for the rest of 2021 and it will take a while for both shoppers and retailer confidence to return, at which point we expect a recovery in the retail sector.
- Vacancies has slightly improved from 11.1% in December to current vacancy of 10.3%. Current conditions are not favourable for leasing, and we do not expect any significant decrease in vacancies for the second half of 2021 due to a lack of demand and poor trading conditions.

Properties are continually monitored, on an individual property basis, and there is a focus on industry benchmarking of operating expenses across all properties in order to improve performance.

GLOBAL EQUITIES

The global equity portfolio is actively managed and blends different managers and investment styles to target a relatively stable outcome. The majority of the underlying portfolios are managed on a global basis, allowing each manager to invest across both developed and emerging markets. In the fourth quarter of 2019, the portfolio increased its exposure to the passive developed and emerging market ESG capabilities to 30% and reduced the allocation to the actively managed funds. Table 4 below shows the portfolio composition.

Table 4

FUND MANAGER	FUND STYLE	FUND %
Customised Solutions	MSCI World (Developed) ESG Indexation	30%
	MSCI (Emerging Market) ESG Indexation	
Barrow Hanley, Mewhinney & Strauss	Global Value	60%
Acadian	Global Quant	
Fiera Capital	Global Growth	
Baillie Gifford		
MacroSolutions	Global Macro	10%

MSCI World ESG Tracker: This portfolio tracks the performance of the MSCI World ESG Index, which is designed to give effect to responsible investing by being more heavily weighted towards companies that meet specific Economic, Social and Governance (ESG) criteria. The ESG Index targets the same sector and regional weights as the MSCI World Index in order to target performance that is similar to that of the MSCI World Index, while still achieving the broader objective of investing in companies with strong ESG ratings.

Barrow, Hanley, Mewhinney & Strauss: The manager provides value-oriented investment strategies across various international markets. Its 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.

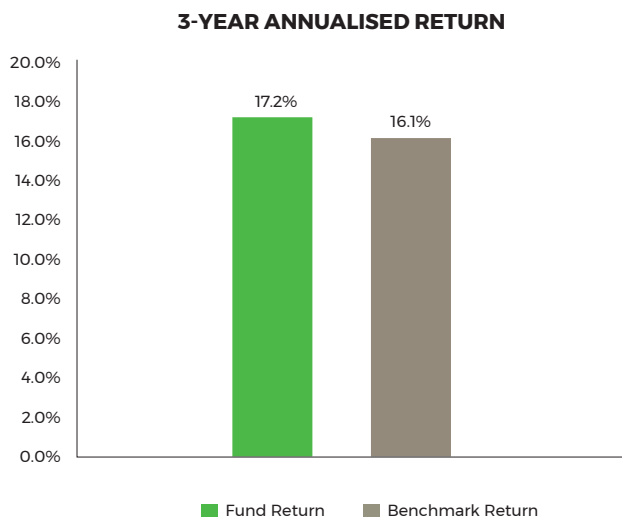
Acadian: Acadian Asset Management LLC specialises in global and international quantitative equity strategies. Acadian seeks to capture the fundamental drivers of stock return, exploiting market inefficiencies through a quantitative investment process.

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

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. Portfolios are constructed on a bottom-up basis, with the objective of outperforming their respective benchmarks over time.

Global Macro Portfolio: The Global Macro Equity portfolio is an active equity portfolio that applies top-down views 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.

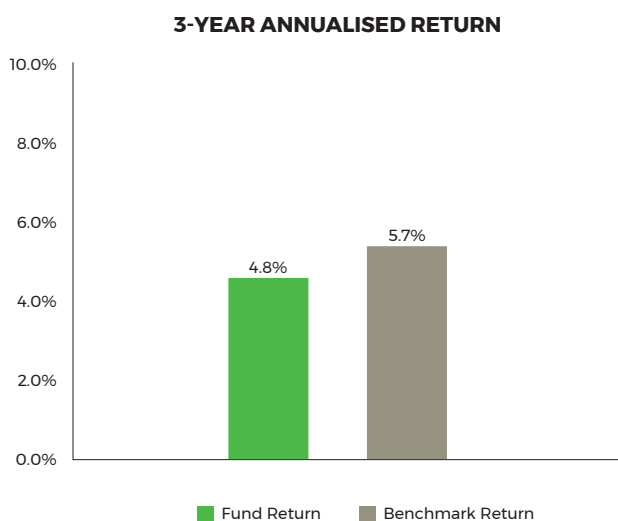
The overall global equity portfolio performance over three years, relative to its benchmark, is shown below:



The global equity portfolio outperformed its benchmark by 1.1% p.a. (gross of fees) over the 3-year period. Over 3 years, the strategy performed in line with its benchmark. The largest detractors of performance was the Old Mutual Global Macro Equity Capability and the Barrow Hanley Value capability. The largest contributors to performance was Fiera Capital and Ballie Gifford.

GLOBAL INTEREST-BEARING ASSETS

The global interest-bearing portfolio consists of global bond and global cash assets and is managed through investments in the multi-managed Russell Global Bond and Cash Fund.



The global interest-bearing portfolio underperformed its benchmark by 0.9% p.a. over three years.

ALTERNATIVE ASSETS

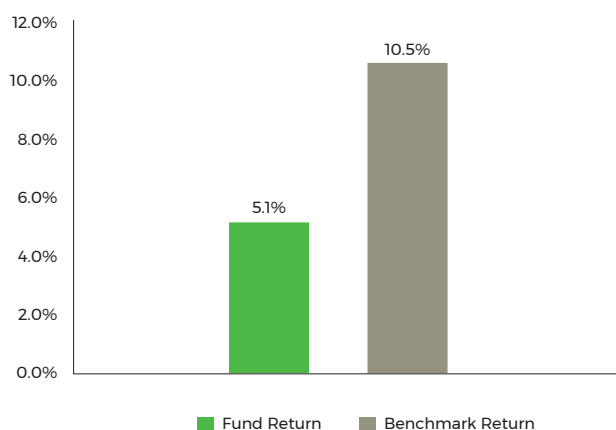
The alternative asset portfolio includes:

- Exposure to **private equity**, both within South Africa and globally. Local private equity exposure is mainly achieved via direct investment into local private equity funds. Global private equity exposure is accessed through investment into fund of funds structures.
- **Infrastructure investments** in commercially viable development projects within South Africa and in the rest of Africa. Typical investments include renewable energy projects, toll roads, utilities and airports.
- **Impact funds**, including local 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 consist of agricultural land and associated infrastructure, primarily in South Africa, but with increasing exposure to the rest of Africa.

The local and global alternatives portfolios are managed predominantly by the Old Mutual Alternative Investments (OMAI) boutique, with the exception of the agricultural investments, which are managed by OMIG's Futuregrowth boutique.

LOCAL PORTFOLIO

3-YEAR ANNUALISED RETURN



The local alternative portfolio underperformed its benchmark by 5.4% p.a. over the 3-year period.

The local alternative portfolio 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 + 7%. The portfolio invests in assets that are linked to the local economy and has consequently struggled to meet this target over 1- and 3-year periods.

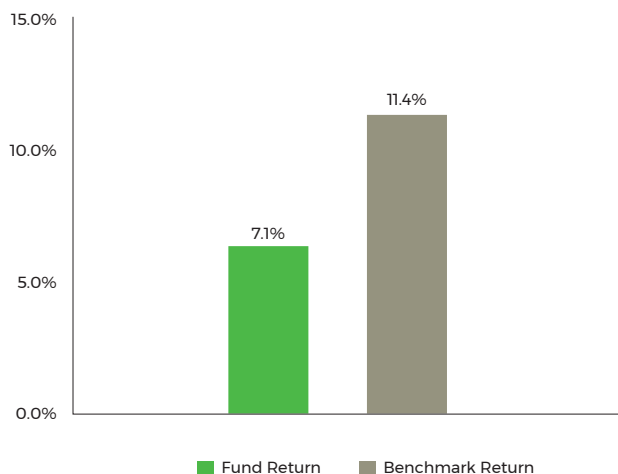
The infrastructure investments have performed well, with the IDEAS Fund having delivered real returns over the past year and three years.

The Impact Fund (IF) investments continue to struggle, having been significantly impacted by the deteriorating local economic environment. The largest fund within the IF strategy is the Housing Impact Fund of South Africa (HIFSA), which finances and builds homes, primarily for lower income earners. HIFSA relies on the ability of its target market to afford and access finance for the purchase of homes developed by the fund. The struggling economy has resulted in the IF strategy, and especially HIFSA, underperforming over one and three years. However, the IF strategy is long term and future returns will depend in large part on the performance of the local economy.

The local private equity portfolio has underperformed its investment target over the short and medium term. The financial performance of many of the underlying businesses held within the private equity funds has been negatively affected by the state of the local economy. OMIG's Private Equity Fund IV is the largest holding within the local private equity strategy.

GLOBAL PORTFOLIO

3-YEAR ANNUALISED RETURN



The global alternative portfolio underperformed its benchmark by 4.3% p.a. over the 3-year period.

The objective of the global alternatives portfolio is to deliver long-term real returns that significantly exceed US CPI.

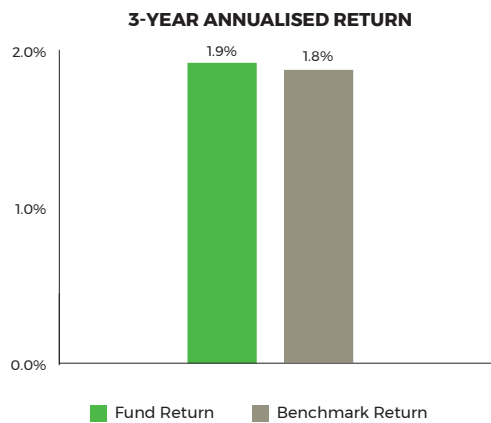
Fund of Funds II (FoF II) has performed well over the past three years, with distributions continuing to increase as the underlying funds exit their investments. More recently, the 1-year performance has slowed down due to pressure on valuations worldwide as a result of current market volatility. Fund of Funds III (FoF III) is now 85% committed. However, it only started making commitments to underlying funds in 2017, so it is still too soon to comment meaningfully on the returns achieved.

Africa FoF (AFoF) is currently performing below expectations. It is worth noting, though, that some of the underlying funds in AFoF are still young, and the performances of these funds are expected to improve over time.

The performance of the global alternatives portfolio demonstrates the benefit of investing in an alternatives portfolio that is diversified across different strategies, countries, currencies and industries, particularly given recent weakness in the local economy.

AFRICAN LISTED EQUITY

The African listed equity portfolio is an actively managed fundamental equity portfolio that aims to outperform its benchmark over the long term. The portfolio is managed by the Old Mutual Equity (OME) boutique within OMIG. The overall performance of the portfolio relative to its benchmark is shown below.



African markets (excluding South Africa) in which the African listed equity portfolio invests, returned 1.9% p.a. over the 3-year period to 30 June 2021, underperforming the benchmark by 0.01%. The top three contributors to the 3-year performance were Label Vie (Moroccan food retailer), MTN and Nigerian Breweries (underweight).

The top three detractors were Safaricom (Mobile Telco in Kenya - underweight), Unilever Nigeria and Guaranty Trust Bank (Nigeria).

SMOOTHED BONUS PRODUCTS: PERFORMANCE

Product	Apr 2021	May 2021	Jun 2021	"Performance over Periods to 30 June 2021" (Annualised except *)					Risk Analysis (Based on three-year Performance)		Max Drawdown ¹ (Based on a three-year period to June 2021)	Fund Size (R million)
				Quarter ^a	1 year	3 years	5 years	10 years	Annualised Volatility	Return/Risk		
Growth-focused Portfolios												
Absolute Smooth Growth	1.29%	1.29%	1.29%	3.92%	12.00%	5.63%	6.67%	10.85%	3.46%	1.60	-5.00%	R57 924
Absolute Smooth Growth (2009 Series) ²	1.29%	1.29%	1.29%	3.92%	12.00%	5.63%	6.67%	11.00%	3.46%	1.60	-5.00%	
Absolute Smooth Growth (2020 Series) ³	1.29%	1.29%	1.29%	3.92%	12.33%							
Absolute Stable Growth	1.25%	1.25%	1.26%	3.81%	11.49%	5.15%	6.17%	10.34%	3.44%	1.50	-5.00%	R77 600
Absolute Stable Growth (2009 Series) ²	1.25%	1.25%	1.26%	3.81%	11.49%	5.15%	6.17%	10.49%	3.44%	1.50	-5.00%	
Absolute Stable Growth (2020 Series) ³	1.25%	1.25%	1.26%	3.81%	11.82%							
Guaranteed Fund	0.64%	0.64%	0.64%	1.94%	8.00%	7.97%	9.37%	12.31%	0.67%	11.43	0.41%	R1 600
Protection-focused Portfolios												
Absolute Secure Growth	1.10%	1.09%	1.10%	3.33%	5.97%	4.04%	4.72%	8.59%	1.05%	4.00	0.05%	R597
Absolute Secure Growth (2009 Series) ²	1.10%	1.09%	1.10%	3.33%	5.97%	4.04%	4.72%	8.74%	1.05%	4.00	0.05%	
Absolute Secure Growth (2020 Series) ³	1.10%	1.09%	1.10%	3.33%	9.76%							
CoreGrowth 100	0.70%	0.60%	0.55%	1.86%	6.96%	6.64%	7.51%	9.60%	0.76%	8.25	0.00%	R5 078
CoreGrowth 90	0.78%	0.68%	0.63%	2.10%	7.99%	7.66%	8.55%	10.65%	0.76%	9.63	0.08%	R5 174
Other Indices and Comparative Performance												
Local Equities (JSE ALSI)	0.97%	1.02%	-1.91%	0.05%	25.07%	8.09%	8.11%	10.92%	17.57%	0.5	-21.72%	
Local Bonds (BEASSA ALBI)	1.90%	1.82%	2.99%	6.86%	13.67%	9.24%	9.16%	8.53%	8.93%	1.0	-9.79%	
Local Cash (STeFI) ⁴	0.30%	0.06%	0.56%	0.92%	4.01%	6.05%	6.63%	6.26%	0.47%	12.0	0.06%	
Rand/Dollar	-1.89%	-2.02%	0.49%	-3.40%	-17.74%	1.30%	-0.59%	7.76%	16.48%	0.1	-23.33%	
Consumer Price Index (CPI)	0.67%	0.08%	0.25%	1.01%	4.87%	3.85%	4.24%	4.98%	1.36%	N/A	N/A	
Typical Balanced Fund (Large Global) ⁵	Not comparable over the short term					7.26%	7.05%	10.56%	11.72%	0.6	-14.75%	
Typical Balanced Fund (Conservative Global) ⁶						7.90%	7.34%	9.66%	7.98%	1.0	-10.30%	

Performance figures are net of capital charges and gross of investment management fees for all products except Guaranteed Fund. The Guaranteed Fund's performance is net of capital charges and asset management charges, gross of investment administration fees.

Notes

¹ Worst cumulative negative performance. Where no negative return exists, it is taken as the lowest positive monthly return.

² Uses 2009 Series returns prior to the merger. The 2007 Series and 2009 Series of the Absolute Growth Portfolios merged on 1 May 2012.

³ Uses 2020 Series returns. The 2007 and 2020 series of the Absolute Smooth Growth and Absolute Stable Growth Portfolios merged in September 2020. The 2007 and 2020 series of the Absolute Secure Growth Portfolio merged in April 2021.

⁴ Money Market investments are able to achieve very low volatility, but often at the cost of being able to achieve significant real returns over the long term.

⁵ Source: Alexander Forbes Manager Watch Survey for Large Global Funds (median).

⁶ Source: Alexander Forbes Manager Watch Survey for Conservative Global Funds (median).

SMOOTHED BONUS PRODUCTS: BONUS SMOOTHING RESERVES

Formulaic Smoothed Bonus Products: Quarterly Disclosure

	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021
ABSOLUTE GROWTH PORTFOLIOS									
Greater than 25%									
20% to 25%									
15% to 20%									
10% to 15%									
5% to 10%									
0% to 5%									
-5% to 0%									
-10% to -5%									
-15% to -10%									
Less than -15%									

■ Bonus Smoothing Reserve
■ Long Term Expected Average

	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021
COREGROWTH									
Greater than 25%									
20% to 25%									
15% to 20%									
10% to 15%									
5% to 10%									
0% to 5%									
-5% to 0%									
-10% to -5%									
-15% to -10%									
Less than -15%									

■ Bonus Smoothing Reserve
■ Long Term Expected Average

Discretionary Smoothed Bonus Products: Annual Disclosure

GUARANTEED FUND AT 30 JUNE 2021	
Greater than 25%	
20% to 25%	
15% to 20%	
10% to 15%	
5% to 10%	
0% to 5%	
-5% to 0%	
-10% to -5%	
-15% to -10%	
Less than -15%	

■ Bonus Smoothing Reserve
■ Long Term Expected Average

SMOOTHED BONUS PRODUCTS: KEY FEATURES

		GROWTH			PROTECTION		COSTS		Inception date
		Performance objective	Strategic allocation to growth assets ¹ in underlying portfolio	Manager	Protection objective	Guarantee in extreme environments	Capital Charges (per annum)	Investment management fee (per annum)	
Absolute Growth Portfolios	Smooth	Targets CPI+6% over medium to long term (after guarantee charge)	83%	OMIG Boutiques	Positive bonuses each month	50% of fund credit on claim	0.2%	Depends on allocation to local and global assets: Local Assets: 0.525% - 0.650% Global Assets: 0.825% - 0.950%	April 2007
	Stable	Targets CPI+5.5% over medium to long term (after guarantee charge)				80% of fund credit on claim	0.7%		
	Secure	Targets CPI+3.5% over medium to long term (after guarantee charge)				100% of fund credit on claim	2.7%		
CoreGrowth Portfolios	100	Targets similar return to a conservative to moderate market-linked fund over the long term, less the guarantee charge	61%	OMIG Boutiques	Positive bonuses each month	100% of fund credit on claim	1.8%	0.23% - 0.50% (depending on fund size)	March 1998
	90	Targets similar return to a broadly balanced market-linked fund over the long term, less the guarantee charge				90% of fund credit on claim	0.8%		January 2003
Guaranteed Fund		Targets similar return to a broadly balanced market-linked fund over the long term, less the guarantee charge	74%	OMIG Boutiques	Positive bonuses each month	100% of capital invested and a portion of bonuses declared	0.75%	0.25% - 0.35% asset management charge (depending on asset allocation) plus 0.20% - 0.35% investment administration fee (depending on fund size)	July 1967

¹ Includes equities, properties and alternative assets (including private equity).

CONTACT US

Find out more about the investment portfolios in Old Mutual's range of Growth and Protection Solutions. Contact your Old Mutual Corporate Consultant, or broker, or call your nearest Old Mutual Corporate office.

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Visit the Corporate website: oldmutual.co.za/corporate

Note:

This performance report, as well as other information on Old Mutual's Smoothed Bonus Funds, is available on the Old Mutual website: www.oldmutual.co.za/InvestmentReports

Queries can be emailed to Old Mutual Corporate (Investment Services) at corporateinvestments@oldmutual.com

