This guide explains how the Old Mutual Absolute Growth Portfolios work. References to the Old Mutual Absolute Growth Portfolios (AGP) include the following portfolios with their respective guarantee options:

- Absolute Smooth Growth Portfolio 50% guarantee
- Absolute Stable Growth Portfolio 80% guarantee

This note relates to both of these portfolios and covers the most important information contained in Old Mutual's official **Principles and Practices of Financial Management (PPFM) of Discretionary Participation Business** as it relates to AGP. The official PPFM is available on the Old Mutual website (www.oldmutual.co.za/personalppfm).

This guide covers the requirements of Directive 147 issued by the Financial Sector Conduct Authority (FSCA), which requires Old Mutual to make the official PPFM publicly available. As an addition to this requirement, we provide investors with this customer-friendly document that explains the contents of the official PPFM.

AGP is different from market-linked investment funds that pass on the returns earned on investments directly to investors. AGP is a smoothed bonus fund and Old Mutual is able to use discretion in the way the portfolio is managed. It is important that you understand the principles applied when Old Mutual uses this discretion, as it directly impacts your investment outcomes.

THIS GUIDE COVERS THE FOLLOWING:

- What is smoothing and what are its benefits?
- What assets do the Absolute Growth Portfolios invest in?
- How does the guarantee work?
- What happens if investment markets fall?
- Fees, charges and taxes

WHAT IS SMOOTHING AND WHAT ARE ITS BENEFITS?

Smoothing is the process used to pass investment returns earned on investment portfolios, which are exposed to market fluctuations, on to investors in a way that is more predictable and stable, or smoothed. These smoothed returns are referred to as bonuses. Investors benefit from the investment returns of the underlying investments of the portfolio by means of the smoothed bonuses declared by using a transparent formula.

The objective of smoothing is to protect investors against market volatility in the short term while ensuring that the bonuses declared produce a broadly similar return to that of the portfolio's underlying investments over the long term (before any applicable taxes, charges and expenses).

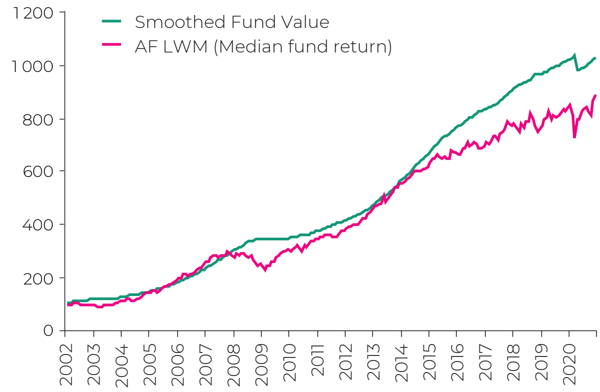
An investor in AGP has a smoothed fund value that is made up of their investments into the portfolio (net of any fees, charges and withdrawals), as well as bonuses declared on the portfolio.

Bonuses are declared monthly in advance using a transparent, fully disclosed formula. The formula takes inflation into account, as well as the level of the portfolio's Bonus Smoothing Reserve (BSR). These bonuses are applied to investors' smoothed fund values daily.

At the same time, AGP invests in underlying investments that have market values that rise and fall with investment returns.

The portfolio's BSR represents the difference between the market value of the portfolio's underlying investments and the portfolio's combined smoothed fund value.

The market value of the portfolio's underlying investments and its smoothed fund value will typically move in the following manner:

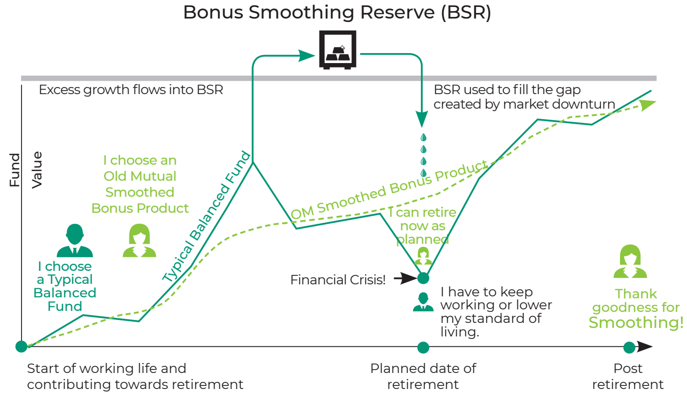


During periods of strong investment returns, the portfolio will declare bonuses that are relatively lower than the investment returns earned on its underlying investments. The excess investment returns are set aside in the BSR so that, during periods of relatively poor investment returns, this reserve can be used to declare a higher bonus than the investment returns earned on the underlying investments. In this way, the BSR 'absorbs' the ups and downs of the market.

An investor who is saving for retirement may be faced with the risk that markets might be down precisely at the time they need their money. This is known as investment timing risk. In a smoothed bonus fund investors share this investment timing risk – with some investors receiving less than the value of the underlying investments on retirement when markets have performed better than average, and other investors receiving more than the underlying investment value after a period of below average market performance. By pooling large numbers of investors together, these groups of investors cross-subsidise each other and, in the process, remove much of the investment timing risk, so that all investors are able to receive their smoothed fund value regardless of when they leave.

The effect of smoothing is illustrated below:

Bonus Smoothing Reserve (BSR)



Smoothing thus benefits you by:

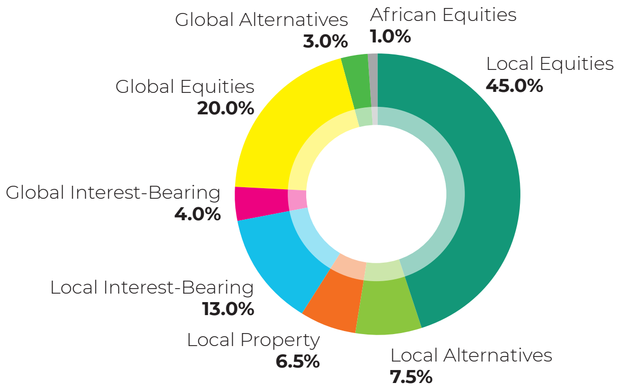
- Reducing your exposure to the extreme ups and downs typically associated with investing in market-linked balanced funds in the short term.
- Allowing you to remain invested in portfolios with higher growth asset allocations while achieving a smooth progression of your investment over time.
- Reducing the risk of you potentially making investment decisions (driven by the erratic emotions caused by market volatility) that might have a negative impact on your investments.

Please discuss the short-term impact of the current level of the BSR on future bonus expectations with your financial adviser.

WHAT ASSETS DO THE ABSOLUTE GROWTH PORTFOLIOS INVEST IN?

The underlying investments of AGP include local and global equities, bonds, money market instruments, property and alternative investments.

The long-term asset allocation for AGP is shown below:



This asset allocation has a large portion allocated to growth assets in order to achieve inflation-beating return targets over the long term (in excess of 5 to 10 years). As such, the AGP asset allocation is in line with that of an aggressive balanced fund.

The investment managers may depart from the long-term asset allocation over the short to medium term, based on their view of the markets and the relative attractiveness of these asset classes.

Although the long-term asset allocation is not expected to change often, Old Mutual may adjust this if changes occur in the regulatory, economic or investment environment.

HOW DOES THE GUARANTEE WORK?

AGP offers a proportional guarantee which is maintained at a proportion of a customer's smoothed fund value. This proportional guarantee differs depending on the portfolio you have chosen:

- The Absolute Smooth Growth Portfolio guarantees 50% of your smoothed fund value.
- The Absolute Stable Growth Portfolio guarantees 80% of your smoothed fund value.

These guarantees are applied to Defined Benefit Payments only. Defined Benefit Payments are as follows:

PRODUCT	DEFINED BENEFIT PAYMENTS
Retirement Annuity Preservation Fund	Retirement, ill-health retirement and death
Living Annuity	Annuity income payments and death
Investment Plan (LIFE)	Guaranteed Smoothed Value Dates and death

The Guaranteed Smoothed Value Date is set 5 years from the day of the first investment into the portfolio. On reaching a Guaranteed Smoothed Value Date, a new Guaranteed Smoothed Value Date is set for 5 years into the future. This continues at each 5-year anniversary over the policy term.

Customers who voluntarily choose to take their money out of AGP via a withdrawal or switch while the portfolio's BSR is positive, will receive their smoothed fund value. Should customers choose to voluntarily withdraw while the portfolio's BSR is negative however, a Market Value Adjuster (MVA) will be applied to their smoothed fund value. More detail on MVAs is available in the 'Market Value Adjuster (MVA)' section.

WHAT HAPPENS IF INVESTMENT MARKETS FALL?

ACTIONS THAT MAY BE TAKEN

If investment conditions are adverse (for example, if there is a significant fall in the value of the portfolio's investments), management actions may need to be taken by Old Mutual to ensure the ongoing sustainability of the portfolio. The aim of these management actions is to restore the BSR to a level where reasonable future bonuses can be declared without threatening the portfolio's ongoing sustainability.

Management actions can include a combination of the following:

- Low bonuses may be declared, as per the bonus formula.
- Negative bonuses are expected to be declared in adverse market conditions, as per the bonus formula.
- The impact of any negative bonuses is limited by the guarantee level of the portfolio selected, i.e. for an AGP Stable investment with an 80% guarantee, a negative bonus of up to 20% may be declared.
- An MVA will be applied to voluntary withdrawals, as described below.
- A special bonus will apply in instances where the BSR is below -15% or above 20%.

[1] Voluntary withdrawals include S14 transfers, directive 135 transfers, change in fund choice out of AGP, zero-interest loans, part-withdrawals, etc.

MARKET VALUE ADJUSTER (MVA)

After periods of poor investment returns, the market value of the portfolio's underlying investments may fall below the portfolio's combined smoothed fund value and cause the portfolio's BSR to become negative. During such periods, the amount that investors receive on voluntary withdrawals[1] will be lower than their smoothed fund values. This reduction in an investor's smoothed fund value is called a Market Value Adjuster (MVA). An MVA is used to bring the portfolio's smoothed fund value in line with the value of the portfolio's underlying investments.

The purpose of the MVA is to protect the interests of the investors remaining in the portfolio. If this adjustment is not put in place and an investor voluntarily chooses to withdraw from the portfolio while the BSR is negative, the value paid to this investor from the portfolio would be too high. The negative BSR would be left behind and the investors that remain in the portfolio would need to recover this BSR using their prospective investment returns. This would cause the investors that remain in the portfolio to receive future bonuses that are too low.

It is important to note the following:

- An MVA will not be applied to a Defined Benefit Payment. This means that investors can benefit from receiving their full smoothed fund values when Defined Benefit Payments are made, regardless of market conditions at the time.
- The adjustment to an investor's smoothed fund value on a voluntary withdrawal (that is, the MVA) in response to a negative BSR does not benefit Old Mutual's shareholders. Therefore it protects those investors who remain invested in the portfolio by keeping the BSR from becoming excessively negative due to the voluntary withdrawal.

Old Mutual reserves the right to use its discretion in the application of the bonus formula and MVAs.

FEES, CHARGES AND TAXES

Fees and charges are applied to AGP in order to cover the costs of managing the portfolios (investment management fee rates as reflected in the AGP performance fact sheets), as well as the cost of providing the guarantees (capital charges as reflected in the table below).

Guarantee option	Capital charge
Absolute Smooth Growth Portfolio	0.20% per year
Absolute Stable Growth Portfolio	0.70% per year

AGP is available for investment across all investment products as outlined in the table below. Investments in various products are subject to the following tax treatments:

Product	PRODUCT AVAILABILITY		Tax treatment
	Old Mutual Wealth	Max	
Retirement Annuity	•	•	Returns not subject to tax.
Preservation Fund	•		
Living Annuity	•	•	
Investment Plan (LISP)			Returns subject to tax. Bonuses applied net of tax.
Investment Plan (LIFE)	•	•	

FIND OUT MORE

This guide aims to provide a high-level explanation of how the Absolute Growth Portfolios work. To keep it as short as possible we have only outlined the most important information contained in Old Mutual's official **Principles and Practices of Financial Management (PPFM) of Discretionary Participation Business** as it relates to AGP. The complete official PPFM is available on the Old Mutual website (www.oldmutual.co.za/personalppfm).

You can get more information on how the AGP bonus formula works in the document entitled 'How the Old Mutual Absolute Growth Portfolio bonus formula works' which is available on the Old Mutual website (www.oldmutual.co.za/smoothedguides).

You can also obtain more information about the portfolio from your Old Mutual Personal Financial Adviser or broker, or by calling the relevant number below.

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