

OLD MUTUAL UMBRELLA FUNDS: INVESTMENT

QUARTER 4 • 2015



RETIREMENT REFORM

In July, National Treasury published its anticipated draft default regulations as part of the country's broader retirement reforms. Old Mutual SuperFund welcomes the spirit of these regulations as they promote members' financial wellbeing in retirement.

A key aspect of this draft regulation is that they require all retirement funds to implement a set of default strategies for fund members in terms of investments, annuities upon retirement and preservation upon exiting the fund. The regulations also offer guidance to fund trustees on their roles and responsibilities regarding communication of these defaults to their members and providing counselling to guide members' decisions.

WHAT ARE DEFAULTS?

Defaults are instructions to the administrator as to what to do when a member does not specify what he wants done. The South African retirement industry has had defaults in place for many years but this new draft regulation emphasises the need to offer such investment defaults and extend this requirement to preservation and annuity options on retirement.

DEFAULT INVESTMENTS

The draft regulation requires that all retirement funds make provision for a default investment strategy that is simple, transparent and cost effective.

Old Mutual SuperFund already offers a default investment portfolio, namely the Old Mutual Absolute Stable Growth Portfolio. This portfolio is a cost effective medium growth investment portfolio that offers smoothed returns that target inflation plus 5.5% p.a. over rolling 3 year periods (after deduction of the charge for the capital guarantee) and guarantees that a member's retirement savings invested in the portfolio cannot drop in value by more than 20%.

DEFAULT PRESERVATION AND PORTABILITY

Upon withdrawal, a member's accumulated benefits must be automatically preserved unless the member specifically opts to

take the benefit in cash. Members must elect the cash option in writing. Otherwise, members' benefits will be held in the fund, or be transferred to the fund of their new employer, to grow with investment returns until their retirement.

Furthermore, when members leave the fund they should have access to counselling on the options available to them and the desirability of preservation. Old Mutual SuperFund is again well positioned to provide this counselling through Member Support Services. Ongoing support is also available through the Old Mutual Financial Wellbeing Programme.

DEFAULT ANNUITY STRATEGY

The draft regulation requires all retirement funds to have a default annuity strategy in place for members that satisfy a number of requirements laid down by National Treasury. What to do with your money at retirement is often one of the most complicated decisions to make. Old Mutual SuperFund is well positioned to assist members through the Member Support Services and Financial Wellbeing Programme.

IN THE BEST INTEREST OF MEMBERS

Old Mutual SuperFund supports the broad aims and purposes of these draft regulations with particular focus on transparency and disclosure. All decisions made and the choice of an appropriate default is always in the best interests of members. This fully aligns with Old Mutual's Responsible Business approach and its core purpose of helping members achieve their lifetime financial goals.

NOW WHAT???

It's important to remember that these are still draft regulations. The closing date for public comments was 31 October 2015.

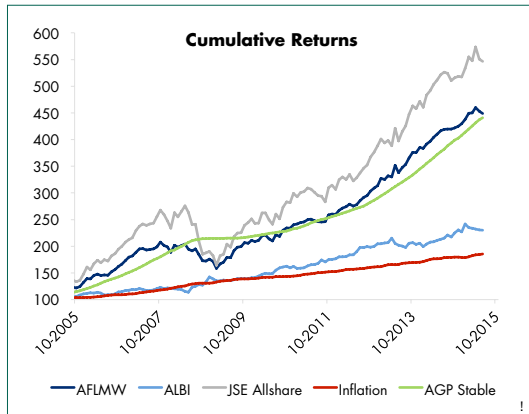
Old Mutual Corporate as well as the Fund submitted a comprehensive response to these draft regulations and will actively engage with National Treasury directly to better understand the requirements and to bring about changes should this be required to their product offering.

DO GREAT THINGS



OLDMUTUAL
CORPORATE

Old Mutual SuperFund supports these initiatives as they stand to significantly improve the level of retirement income for a large number of South Africans by encouraging more appropriate decisions during their working careers as members of retirement funds.



MARKET INDICATORS

The graph shows the continued strength of South African equities (JSE Allshare) relative to South African bonds (ALBI). As a result of the prudential investment limits in Regulation 28, a fund invests in a mix of the investment classes, so, in general, fund returns come somewhere between the two. The graph shows a typical moderate risk retirement fund return (AFLMW), which is market-linked, and the smoothed returns of the Old Mutual Absolute Growth Portfolio. In the longer run, the bonuses of the Old Mutual Absolute Growth Portfolio are driven by the underlying market returns. In the short run, the smoothed bonuses is driven by a formula which is based on inflation and the level of the Bonus Smoothing Reserve.

ABSOLUTE STABLE GROWTH UPDATE

The Old Mutual Absolute Stable Growth Portfolio is the Management Board's "default" investment for members who do not want to make an active investment decision. It is a smoothed bonus portfolio, which aims to provide competitive long-term returns with lower volatility.

To demonstrate this one can look at a measure which can tell you how much money your investment portfolio have made for you relative to the amount of risk it took over the same period. This is called a risk adjusted return.

RISK ADJUSTED WHAT?

Let's say you had to compare investment portfolios over a particular period. If they all gave you exactly the same return but they each had different levels of risk (more ups and downs

in return, commonly described as "volatility", being earned over the same period), the one with the least ups and downs would have had the best risk adjusted return.

A more common situation normally happens where the investment performance was not the same and the levels of risk were different, so which one did better on a risk adjusted basis? Let's use a real life example and look at the 5 year returns ending 30 June 2015 for the Absolute Stable Growth Portfolio, a typical market linked balanced fund and a typical Absolute Return Fund.

Portfolio	Return (p.a.)	Risk (Volatility)	Return / Risk
Absolute Stable Growth	14.5%	1.3%	11.2
Typical Balanced Fund*	16.5%	6.4%	2.6
Typical Absolute Return Fund**	12.3%	4.0%	3.1

* Alexander Forbes Large Manager Watch (Global) median

** Alexander Forbes Absolute Return (CPI+5% category) median

Simply dividing the return number with the risk number you get an indication of the risk adjusted return. A higher number implies that this portfolio has achieved a higher return per unit of risk taken.

This table demonstrates that the Absolute Stable Growth Portfolio (AGP) had achieved good returns compared to a typical balanced and absolute return fund, but with significantly lower volatility or risk, i.e. AGP offered a higher return per unit of risk.

WRAPPING UP

We hope you've enjoyed this investment update. The investment world is complicated and sometimes really confusing.

You can look out for a new investment update early next year, giving you more information to help you understand your investments better. This will keep you informed as to what the markets have been doing and what the economists are saying.

Until then...Continue saving!

THE MANAGEMENT BOARD

DO GREAT THINGS



OLD MUTUAL
CORPORATE