OLD MUTUAL SMOOTHED BONUS FUNDS

2020 QUARTERLY REPORT Q1

CORPORATE

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CONTENTS

LAUNCH OF A NEW BONUS SERIES FOR THE OLD MUTUAL ABSOLUTE GROWTH PORTFOLIOS

Fred van der Vyver
Product Actuary
Guaranteed Solutions

A new series of the Old Mutual Absolute Growth Portfolios (AGP) has been launched. This new series is called the **Old Mutual Absolute Growth Portfolios 2020**, or AGP 2020 (to signify its 2020 launch date). The AGP 2007 series (to signify its 2007 launch date) has been temporarily closed to new investments and, with effect from **25 March 2020**, all new investments will be placed in the new AGP 2020 series. This note positions the reasons for these developments and their likely impact, if any, on your investment.

THE IMPACT OF THE GLOBAL MARKET CRASH ON BONUS SMOOTHING RESERVES

While Covid-19 is a health crisis, the pandemic has had a massive economic impact across the world. South Africa has certainly not escaped this scenario, as the JSE All Share Index dropped by more than 21% in the first quarter (Q1) of 2020. As a result, the value of the assets underlying AGP fell dramatically. However, thanks to the nature of the smoothing mechanism, these negative market returns were absorbed by the Bonus Smoothing Reserve (BSR), effectively protecting AGP investors from the full impact of the global economic crisis. However, the value held in the BSR has been significantly negatively impacted as a consequence of it being used to smooth the current significant market volatility.

As a result of this combination of factors, a decision has been made to close the current AGP 2007 series to new investments with immediate effect. This will protect investors from placing new money into an underfunded portfolio, which would negatively impact their investment returns in the short term.

The primary aim of the closure of AGP 2007 to new money is to allow the BSR to recover to a level that allows reasonable cross-subsidies between existing and new investments.

LAUNCHING A NEW SERIES

In order to appropriately manage the impact on investors, a new series of AGP has been launched. This new series is a replica of the current series in that it has the same underlying investment strategy, guarantees, fee structure and bonus formula. The only difference between the two will be seen in their respective BSRs and, consequently, the bonuses they declare each month. As such, all AGP contributions received will be invested in AGP 2020 until such time that the AGP 2007 series BSR recovers sufficiently from its negative position.

INVESTMENT STATEMENTS

These developments will mean that your AGP investments will effectively be split in two. The amounts that have accumulated in AGP 2007 to date will be separated from the amounts that will be channeled into AGP 2020 going forward. As a result, monthly investment statements will now reflect both AGP 2007 and AGP 2020 investments separately.

OPERATIONAL AND ADMINISTRATIVE IMPACTS

As outlined above, AGP 2007 is closed to new investments (including contributions) with immediate effect and all investments will be invested in AGP 2020 as of 25 March. This will have the following implications for transactions:

- Unit prices in each of the AGP 2020 portfolios began at 100 and increased in line with the relevant AGP 2007 bonus rates declared for March 2020 for the remainder of the month.
- On 2 April 2020, the bonus rates declared for April 2020 applied. These were different for AGP 2007 and AGP 2020, and unit prices for investments in each of the portfolios will grow by the bonus rates applicable to them.

IN CLOSING

Our smoothed bonus range has delivered strong, risk-managed outcomes for investors through numerous market crashes over the last 53 years. In addition to our vast expertise in smoothing, our guarantees continue to provide investors with solid downside protection and peace-of-mind through all market cycles.

Should you have any questions or concerns regarding the above measures, please contact your Corporate investment specialist or personal financial adviser/broker/planner.

Yours sincerely

Fred van der Vyver
Product Actuary: Guaranteed Solutions

GLOBAL AND LOCAL ECONOMIC UPDATE

Johann Els
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THE COVID-19 CRISIS: THERE IS LIGHT AT THE END OF THE ECONOMIC TUNNEL

GLOBAL ECONOMY

The unprecedented stoppage in global activity as many countries responded to Covid-19 with lockdowns, will lead to the slowest global growth since 1946. In fact, our expectation is that global growth will be around -2% in 2020, which is an even greater contraction than the -1.8% seen in 2009 as a result of the recession brought on by the global financial crisis (GFC).

That said, while there is undoubtedly enormous uncertainty ahead, the current crisis differs from the GFC-induced financial shock and is more of a natural disaster, which typically sees faster economic recoveries and even some overshoot as lost production is recovered. At the same time, policy response to Covid-19 has been far more aggressive than was the case in the aftermath of the GFC. So, while there will be a very deep recession in the first half of 2020, it will likely be shorter than the GFC recession and the recovery should be stronger in nature.

This sharp "V-shaped" cycle is crucially dependent on the assumption that strict social distancing policies and rigid country-wide lockdowns will mostly end or be significantly eased by the end of April or early in May, and that the global virus infection rate will peak by the end of May. If this is the case, it should result in activity returning to close to normal levels by late May and into June.

Given the current scenarios, my latest growth forecasts for the main regions are as follows:

- **USA:** Growth likely to be around -4.2% in 2020 (from +2.3% in 2019 and -2.5% in 2009) and then +4.5% and +2.6% in 2021 and 2022 respectively.
- **China:** Growth of +1.2% in 2020 (from +6.1% in 2019 and +9.4% in 2009) and then +9.5% and +6.0% in 2021 and 2022 respectively.
- **Euro Area:** Growth of -3.5% in 2020 (from +1.2% in 2019 and -4.5% in 2009) and then +4.8% and +1.5% in 2021 and 2022 respectively.

These forecasts include significantly negative quarter-on-quarter annualised GDP growth numbers in the first half of 2020. But should we see the end of lockdowns in most economies by end-May, and some return to normality during June, this should aid a strong recovery in the second half of the year. The pace of recovery after the end of lockdown measures will depend on how quickly production and consumption recovers. In China, production has recovered to approximately 80% in about seven weeks after the peak in new virus cases. However, the demand side remains muted.

The policy response across developed and emerging economies has been very quick in most economies, especially in the US. The Federal Reserve's quick reaction has created room for Emerging Market Central Banks to cut rates – in many cases more than once – since February. Apart from rate cuts, quantitative easing (QE) has also been very aggressive. Across the US, UK, Euro Area and Japan, aggressive QE, to the tune of a cumulative $6.5 trillion, is being implemented. In the USA alone, QE could be in the region of $4trn to $5trn, although it has been described as "unlimited" in size and duration.

Fiscal policy measures in the USA have also been more aggressive than during the GFC. Already, the US fiscal expansion equals 10% of GDP and more fiscal support packages are likely. In contrast, fiscal policy measures have been more limited in the Euro Area, and Emerging Markets (EM) don't have enough room for huge fiscal support packages.

The US dollar will likely remain strong during the crisis phase due to a flight to safe-haven assets, which also results in US Treasury yields dropping. Later, as the virus infection rates start to roll over, and the economy stabilises, expectations of a growth recovery should gain ground. But, similarly to the GFC, it is likely that policy will remain expansionary for a long time while the economy recovers, as policy makers will want to ensure the recovery remains on track. Very low returns in the US, relative to those available in EM, will likely lead to large capital outflows as investors look for better returns. This means that the US-dollar will likely weaken and EM currencies will strengthen.

The main risks to this base-case V-shaped cycle are the virus cycle timeline and the extent and duration of the containment measures. Should the virus infection rate peak later than expected, the cycle is likely to follow an "L" or "U" shape.

SA ECONOMY

In line with the impact of Covid-19 on the global economy, the SA economy is also heading for a severe and sharply deeper recession than the one that started in quarter three of 2019. After five consecutive years of pedestrian average growth of less than 1% per year, this pandemic will thrust the South African economy into an even deeper crisis than the one it was already facing. The biggest impact, apart from lower growth, will likely be on the fiscal deficit and, therefore, government's ability to stabilise the debt to GDP ratio.

2020 GDP growth is likely to be around -3.5%, much worse than during the GFC in 2009, when GDP growth registered -1.5%. Quarterly annualised growth during the first two quarters of the year will likely be shockingly negative (in the order of -10% to -20% on this basis). However, given the global V-shaped recovery and some policy measures taken locally, the SA economy should also recover sharply during the second half of 2020. Growth will likely rebound to +2.5% in 2021 and +1.8% in 2022.

Again, as per the global recovery cycle, the crucial assumption is that lockdown measures end soon and that the virus infection rate peaks within the next two months. Should activity start returning to normal levels by late May or early June, the expected V-shaped recovery should take hold in the second half of the year. The 2020 downturn will likely result in more job losses than what was seen during the 2008/09 recession (860 000 job losses at that time). Household spending is set to collapse, with negative growth of around -3.4% expected (vs. -2.6% and -3.6% experienced during the 2009 and 1985 crises respectively).

One benefit of the weak economy is that there will likely be little load-shedding during 2020 and this should provide Eskom with some opportunity to do crucial maintenance. Hopefully, this will ease the electricity constraints during the vital recovery period.

Because of the weak growth, inflation will likely decline further. The headline inflation rate could fall to around 2.5% over the next few months and is likely to average 3% in 2020 (from 4.1% in 2019, and against the 4.5% initially expected for 2020). This should result in more rate cuts by the Reserve Bank (SARB), which should ideally reduce the policy rate by another 2% within the next month or so. In my opinion, this cannot wait until the May Monetary Policy Committee meeting. While the SARB has started some QE by purchasing government bonds in the secondary market, to ease liquidity constraints, real US-style QE has not yet been implemented in South Africa. However, given the severity of the recession, the SARB should seriously consider massive QE to help fund government's budget deficit.

Unfortunately, the fiscal situation is likely to become even more dire going forward. The 6.8% deficit to GDP ratio envisioned at the time of the February 2020 Budget will be impossible to achieve. The weak growth will not only impact tax revenues, but also nominal GDP. Combined with extra spending, the budget deficit will likely accelerate quickly to at least 12%. While the South African government's response to the lockdown has been decisive, and the economic impact significant as a result, more support for low income taxpayers and SMMEs is needed, but the delivery of this support will have the effect of driving the deficit even higher.

Traditionally, monetising debt is not an option, but now might be the time for South Africa to consider doing so. Larger budget deficits might have to be financed by the central bank during this crisis, but in this weak economy, such central bank intervention is unlikely to be inflationary. SA's open economy, sophisticated financial systems, deeply developed markets and healthy, independent institutions should all assist in preventing hyperinflation from taking root. Policies will likely reverse strongly at any sign of inflation lifting its head.

The loss of South Africa's last investment grade rating (from Moody's) was fully expected given the perceived inability of the annual budget announced in February to rein in the deficit, stabilise the debt ratio or lift the country's future growth path. While this downgrade might have been fully priced into financial markets before the Covid-19 crisis, it is difficult to judge what the impact will be once SA is removed from the World Government Bond Index (WGBI) at the end of May. Index-linked outflows will likely still be matched by active investors; especially given the wall of US QE money that will look for better returns in emerging markets. Another downgrade by Standard & Poor's and Fitch Ratings is likely during 2020, but this should not have a significant impact on capital flows and liquidity in this era of significant US QE and the aforementioned hunt for better returns. This should ease any potential capital constraint in South Africa.

While this global recession has also led to a stronger US dollar, as a result of the flight of capital back to the US (the so-called flight to quality), the massive amounts of QE money will also eventually lead to huge flows into emerging bond and equity markets - as was the case after the GFC. This should lead to a material strengthening of the rand exchange rate from later this year into next year.

President Ramaphosa's recent decisive actions to Covid-19, and his previously stated intention to cut back the public-sector wage bill, could lead to more decisive economic policymaking going forward. The President is now also more likely to retain the presidency of the ANC at the next ANC leadership elections and this will create greater stability and higher levels of confidence, both of which are essential for the South African economy right now.

UNDERLYING PERFORMANCE AND POSITION

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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 31 March, 2020.

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	
	Actual Allocation	Strategic Allocation	Actual Allocation	Strategic Allocation	Actual Allocation	Strategic Allocation
Local equities	40.6%	45.5%	32.5%	37.5%	20.9%	26.0%
Local interest-bearing assets	14.5%	13.0%	22.8%	21.0%	34.4%	32.5%
Local alternative assets	7.3%	7.0%	7.4%	7.0%	7.4%	7.0%
Direct property	8.1%	6.5%	8.2%	6.5%	8.1%	6.5%
Global equities	20.2%	19.5%	19.3%	18.5%	17.4%	16.8%
Global interest-bearing assets	3.4%	4.0%	3.9%	5.0%	5.9%	6.7%
Global alternative assets	4.6%	3.5%	4.6%	3.5%	4.6%	3.5%
African listed equities	1.3%	1.0%	1.3%	1.0%	1.3%	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 three-year period to 31 March 2020, MacroSolutions' tactical asset allocation resulted in an average return of -0.3% p.a. The largest single detractor from performance was an underweight position in global bonds, as US 10-year yields have fallen from highs of over 3% over the prior three years to 0.68% at end of Q1 2020. Other moderate detractors were the underweight holding of SA alternative assets and overweight position in SA cash. The biggest positive contributions to alpha came from being overweight in global cash (as a result of the weak rand) and activity in global equity derivatives.

MARKET INDICATORS

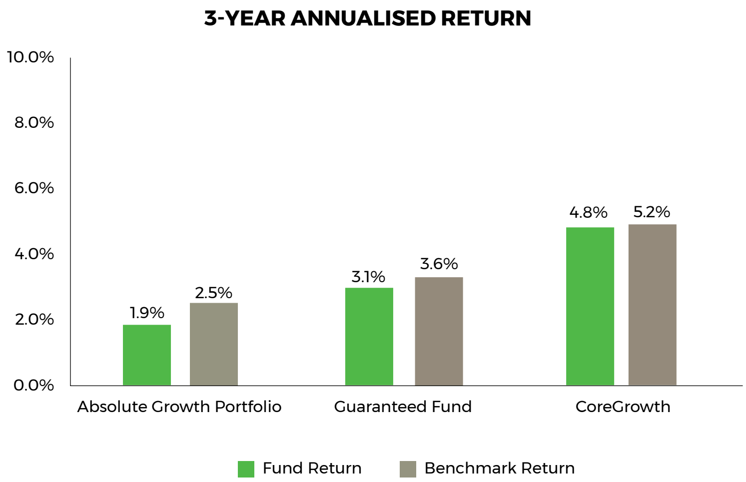
Table 2 below sets out a summary of the index returns to 31 March 2020.

Table 2

	1 YEAR (% P.A.)	2 YEARS (% P.A.)	3 YEARS (% P.A.)	5 YEARS (% P.A.)	7 YEARS (% P.A.)	10 YEARS (% P.A.)
SA EQUITY						
Shareholders Weighted Index	-20.9	-10.9	-4.6	-1.9	4.1	7.6
Capped SWIX Index	-24.5	-14.2	-7.4	0.0	0.0	0.0
All Share Index	-18.4	-7.4	-2.1	-0.1	4.7	7.7
Resources Index	-18.5	7.4	8.4	2.1	0.2	0.1
Financial Index	-38.8	-24.1	-12.2	-8.0	0.7	5.8
Industrial Index	-7.2	-5.5	-1.9	0.5	7.0	12.4
Top 40 Index	-16.2	-5.7	-0.4	0.5	5.2	7.8
Mid-cap Index	-27.5	-16.5	-10.6	-4.7	1.6	6.4
Small-cap Index	-33.0	-25.2	-18.4	-8.5	-1.0	4.5
SA PROPERTY						
SA Quoted Property Index	-47.9	-29.9	-23.0	-13.5	-5.1	2.8
SA INTEREST-BEARING						
ALBI BEASSA	-3.0	0.2	5.3	5.2	5.5	7.4
STeFi	7.2	7.2	7.3	7.2	6.8	6.5
Cash	6.4	6.5	6.6	6.5	6.0	5.7
GLOBAL						
MSCI World Index (R)	11.6	19.2	12.8	12.2	17.0	17.1
JPM International Bond (R)	32.9	26.6	15.1	11.5	12.0	12.1
US 1-month LIBOR (R)	26.7	25.3	11.9	9.3	10.9	10.0
INFLATION (ESTIMATE)						
CPI	4.1	4.3	4.2	5.0	5.0	5.1

UNDERLYING ASSET CLASS PERFORMANCE OF OUR SMOOTHED BONUS FUNDS

All of the Smoothed Bonus Funds have underperformed their respective benchmarks over the three-year period to end-March 2020. 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.



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

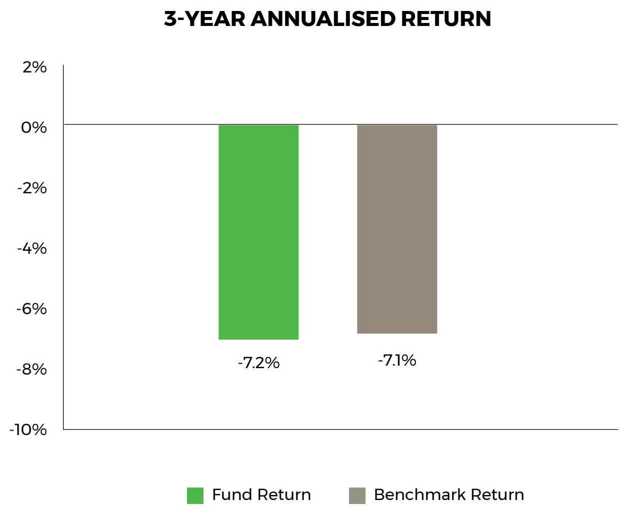
LOCAL EQUITIES

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	35%
ACTIVE	Old Mutual Equities	35%
	Managed Alpha	14%
	Premium Equity	6%
	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 Total Equity channel has underperformed over the three-year period to 31 March 2020, largely due to the Managed Alpha and Old Mutual Multi-Manager (OMMM) portfolios.

OLD MUTUAL EQUITIES

Over the **last quarter** the Old Mutual Equities boutique underperformed the benchmark by 1.35%. Contributors to this were holdings in British American Tobacco (BTI), Anglogold (ANG) and Vodacom (VOD). Detractors were the underweight Naspers (NPN) and overweight Nedbank (NED) and Sasol (SOL) positions.

Over the **three-year period**, the portfolio has underperformed the benchmark by 0.35% p.a. Positive contributors to underperformance were overweight positions in British American Tobacco (BTI) and AngloGold Ashanti (ANG), and not holding any Sappi (SAP). Detractors were overweight positions in Steinhoff (SNH) and Nedbank (NED) and an underweight position in Anglo American (AGL).

MANAGED ALPHA

The Managed Alpha portfolio outperformed the benchmark by 1.5% p.a. **over the last quarter**. Positive contributors were underweight positions in Consumer Discretionary, Real Estate and Industrials. The largest detractor was the underweight position in Communications. At a share level, the top three positive contributors were a correct position in Sasol throughout the period (as its price fell sharply), an overweight position in Reinet (overweight its exposure to the long-term interest rate factor), and an underweight position in Naspers (overweight its exposure to intrinsic value factor).

Over the three-year period the portfolio underperformed the benchmark by 0.7% per annum. The top three positive contributors for this period were an overweight position in Materials, and underweight Healthcare and Technology. The largest detractor for the period was an overweight position in Communication Services. At a share level, the top three positive contributors were being overweight Sasol, Mr Price and Reinet, while the top three detractors were overweight positions in Vodacom, Coronation and Steinhoff (marginally).

PREMIUM EQUITY

Premium Equity outperformed the benchmark by 2.5%, **over the first quarter of 2020**.

The fund returned -4.8% p.a. during the **three-year period,** while the benchmark delivered -7.1% p.a. Over the past three years, the level of sold call options has varied from 0% to 53.3% of the portfolio. This flexibility often produces better outcomes for the fund. The decision to trade options is largely driven by a view that realised volatility will not exceed implied volatility for the period in which an option is effective. The market conditions over the past three years have been more suited to the fund, with frequent bouts of increased volatility. Our option usage produced a positive alpha of 0.7% p.a. over the three-year period.

OLD MUTUAL MULTI-MANAGERS

The OMMM Life Equity portfolio underperformed its benchmark by 1.3% p.a. **over one- and three-year periods**. The underperformance of the benchmark over the one-year period was driven by the underperformance of Prudential, Mazi/Sentio and Visio.

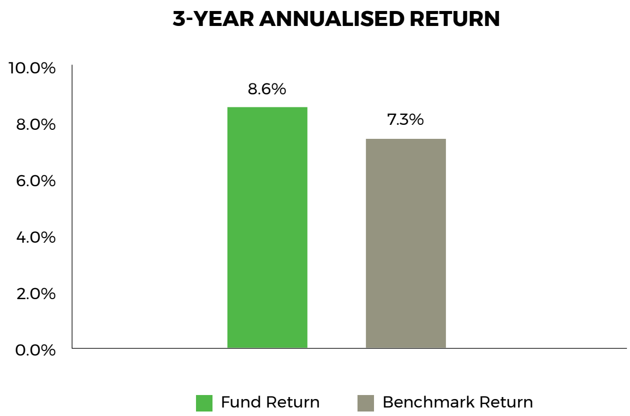
Over the three-year period, the portfolio's return of -7.9% p.a. represents an underperformance against its benchmark return of -6.6% p.a. The three-year underperformance can largely be attributed to the underperformance of Visio. The Visio mandate was terminated in November 2019, with this portfolio transitioning to Investec from December 2019.

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:



The portfolio has performed well over three years, outperforming its benchmark by 1.3% p.a. It has benefitted from the higher spread accruals earned on the Step Rate Notes and longer dated credit assets.

LOCAL BONDS

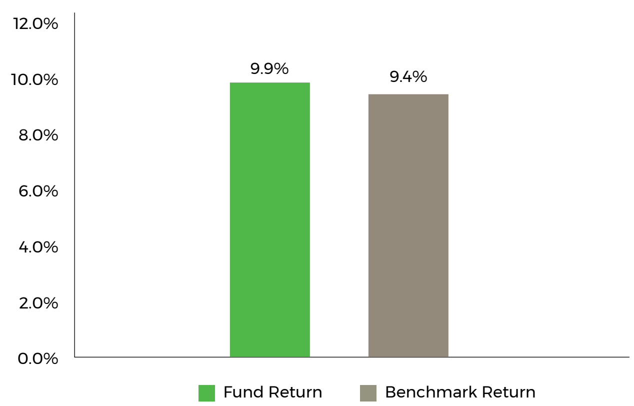
The bond strategy comprises a combination of a core bond and a yield-enhanced bond portfolio.

The core bond portfolio aims to generate returns primarily through the management of interest rate risk 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:

3-YEAR ANNUALISED RETURN



CORE BOND PORTFOLIO

The Core Bond Portfolio outperformed its benchmark by 0.5% p.a. over three years. The additional yield (spread accrual) offered by the non-government bond holding contributed +0.45% to total outperformance. This was enhanced by the fact that the yields at which these bonds are offered narrowed relative to the sovereign yield curve. The attribution from this alpha source (credit spread tightening) was +0.10% for a total non-government attribution of 0.55%.

The interest rate position detracted 0.10% from relative performance. Bond yields rose on a net basis over this period, which caused a relative loss of 0.01%. The base accrual (carry) loss of 0.11% also detracted from total performance. The small off-benchmark inflation-linked bond holding contributed +0.02%, which managed to offset some of the loss from the nominal interest rate position.

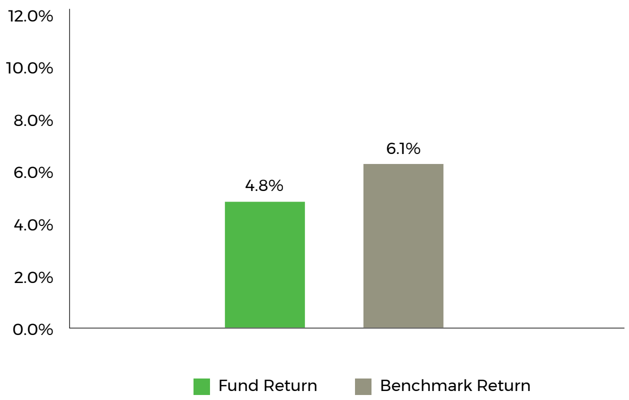
YIELD ENHANCED PORTFOLIO

The Yield Enhanced Portfolio outperformed the benchmark by 1.2% p.a. over three years, with the biggest driver of positive performance being credit spread accrual of 174bps. The fund continues to rely on the use of derivatives, primarily through futures, to ensure alignment with the targeted benchmark modified duration. The proceeds are then invested in credit assets.

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 1.3% p.a. over the three-year period to 31 March 2020.

Prospects for 2020:

- The fund vacancy of 7.1% is above the industry average, mainly due to high retail vacancies and high office vacancies. Some of the retail space has been let with occupation for Q3 2020. This will reduce vacancies to 6.1%.
- The COVID-19 virus will have a significant impact on the performance of the retail portfolio, with forced shutdown of non-essential stores effective from 26 March to 30 April 2020. During this period retailers have been unable to trade, and major listed clothing retailers have indicated paying only 20% of their rental. Medium size and smaller businesses are unlikely to afford any rentals and most likely we will have to provide rental relief for most of their rentals.
- Furthermore, we anticipate a gradual improvement of sales post lockdown, which will require the landlord to further assist medium size and smaller businesses with rental relief after May, until they achieve pre-COVID-19 turnover levels.
- We expect significant rental reversions for tenants whose leases expire in 2020, all due to negative COVID-19 impact. With most retailers generating little or no sales growth, rental escalations and rental increases at expiry will become increasingly difficult to achieve.

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

<table>
<tr><th>FUND MANAGER</th><th>FUND STYLE</th><th>FUND %</th></tr>
<tr><td rowspan="2">Customised Solutions</td><td>MSCI World (Developed) ESG Indexation</td><td rowspan="2">30%</td></tr>
<tr><td>MSCI (Emerging Market) ESG Indexation</td></tr>
<tr><td>Barrow Hanley Mewhinney & Strauss</td><td>Global Value</td><td rowspan="4">60%</td></tr>
<tr><td>Acadian</td><td>Global Quant</td></tr>
<tr><td>Fiera Capital</td><td rowspan="2">Global Growth</td></tr>
<tr><td>Baillie Gifford</td></tr>
<tr><td>MacroSolutions</td><td>Global Macro</td><td>10%</td></tr>
</table>

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.

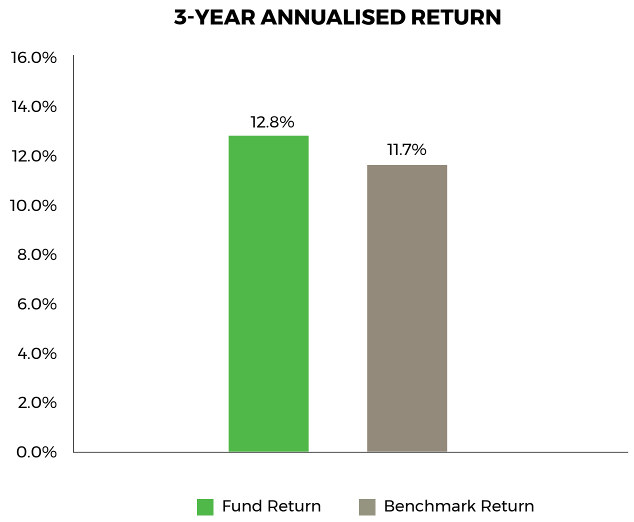
Acadian: Acadian Asset Management LLC specialises in global and international quantitative equity strategies. Acadian seeks to capture the fundamental drivers of stock return, exploiting market inefficiencies through a quantitative investment process.

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.

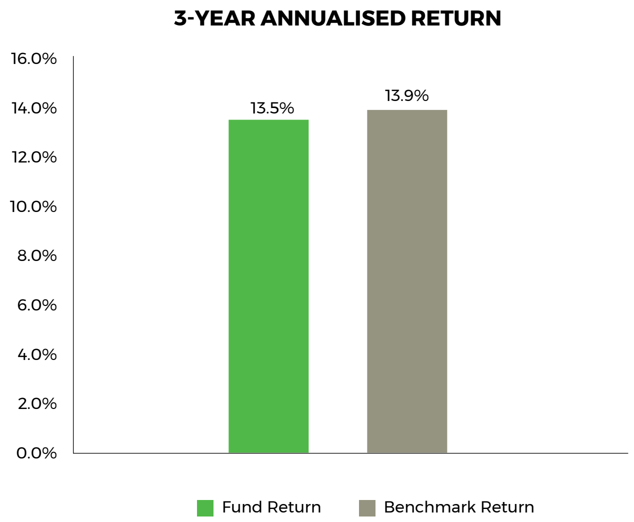
The overall Global Equities Portfolio performance over three years, relative to its benchmark, is shown below:



The Global Equities Portfolio outperformed its benchmark by 1.1% p.a. (gross of fees) over the three-year period. All managers outperformed their benchmarks with the exception of Baillie Gifford, which underperformed by 0.5% p.a.

GLOBAL INTEREST-BEARING ASSETS

The global Interest-bearing portfolio consists of global bond and global cash assets. Global bonds and cash are managed by Russell Investments.



The Global Interest-bearing Portfolio underperformed its benchmark over three years by 0.4% p.a. This underperformance was primarily driven by the 0.2% p.a. return of the bond fund, which makes up a large part of the portfolio. The currency portfolio outperformed by 1.8% p.a. over the same three-year period.

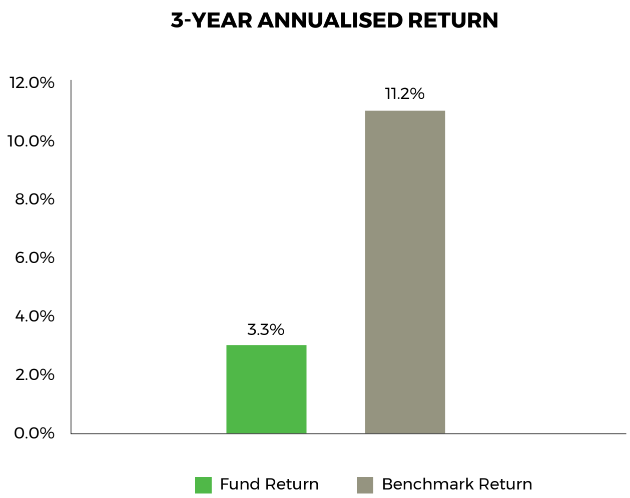
ALTERNATIVE ASSETS

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



The Local Alternative Portfolio is a high-growth portfolio that aims to provide investors with significant real returns over the long term and has 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 one- and three-year periods, despite achieving above inflation returns over the same periods.

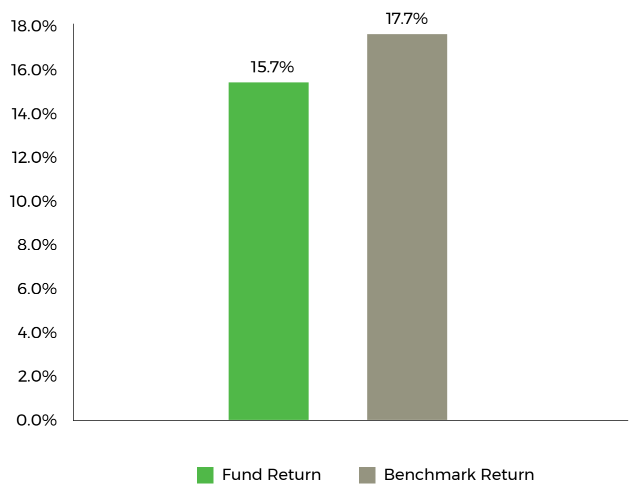
The infrastructure investments have performed well, with the IDEAS Fund having delivered real returns over the past one- and three years.

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 purchasing 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. Private Equity Fund IV is now fully invested and will start to move through its J-Curve within the next year or two.

GLOBAL PORTFOLIO

3-YEAR ANNUALISED RETURN



The objective of the Global Alternatives Portfolio is to deliver long-term real returns that significantly exceed US CPI. Over the three-year period, the fund underperformed this benchmark by 2.0% p.a.

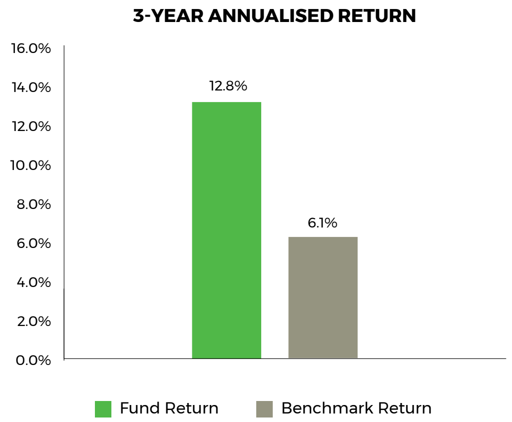
Both Fund Of Funds I (FOF I) and Fund Of Funds II (FOF II) have performed well over the past three years, with distributions continuing to increase as the underlying funds exit their investments. More recently, the one-year performance has slowed down due to pressure on valuations worldwide as a result 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 expectation. 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 12.8% p.a. over the three-year period to 31 March 2020, outperforming the benchmark by 6.7%. The African stock markets got off to a reasonable start to 2020, but markets came tumbling down in March. The combination of the coronavirus spreading outside of China and the oil market collapse after Russia and Saudi Arabia had a spat triggered a severe sell-off in global markets. There are times when African markets are lowly correlated to global markets, but this was not the case. Markets ended March off their worst levels, but MSCI World was still down 20% for the quarter, MSCI Emerging markets down 19% and the fund's benchmark MSCI EFM Africa (excluding South Africa) was off 25%. Egypt, Nigeria and Mauritius were the hardest hit, all showing declines of around 30%. Some of the smaller markets like Botswana, Tunisia and Ghana held up, but it's probably due to lack of liquidity. Generally, African currencies have not weakened as sharply as some of the emerging market currencies.

SMOOTHED BONUS PRODUCTS: PERFORMANCE

Product	Jan 2020	Feb 2020	Mar 2020	Performance over periods to 31 March 2020 (Annualised except*)					Risk Analysis (Based on three-year Performance)		Max Drawdown[1] (Based on a three-year period to March 2020)	Fund Size
				Quarter*	1 year	3 years	5 years	10 years	Annualised Volatility	Return/ Risk	Performance	(R million)
Growth-focused Portfolios												
Absolute Smooth Growth	0.49%	0.49%	0.49%	1.48%	6.01%	7.02%	8.31%	11.33%	0.84%	8.75	0.14%	R56 703
Absolute Smooth Growth 2009 Series[2]	0.49%	0.49%	0.49%	1.48%	6.01%	7.02%	8.31%	11.83%	0.84%	8.75	0.14%	
Absolute Stable Growth	0.45%	0.45%	0.45%	1.36%	5.50%	6.51%	7.80%	10.82%	0.84%	8.13	0.10%	R78 051
Absolute Stable Growth 2009 Series[2]	0.45%	0.45%	0.45%	1.36%	5.50%	6.51%	7.80%	11.32%	0.84%	8.13	0.10%	
Guaranteed Fund	0.00%	0.00%	0.00%	0.00%	2.64%	8.47%	10.39%	11.93%	1.39%	6.07	0.00%	R4 421
Protection-focused Portfolios												
Absolute Secure Growth	0.29%	0.29%	0.29%	0.87%	3.49%	4.63%	5.87%	8.62%	0.81%	5.75	0.05%	R685
Absolute Secure Growth 2009 Series[2]	0.29%	0.29%	0.29%	0.87%	3.49%	4.63%	5.87%	9.33%	0.81%	5.75	0.05%	
CoreGrowth 100	0.80%	0.80%	0.70%	2.32%	7.44%	8.23%	8.43%	9.92%	0.55%	13.67	0.40%	R4 494
CoreGrowth 90	0.88%	0.88%	0.78%	2.56%	8.47%	9.26%	9.47%	10.97%	0.55%	15.50	0.48%	R4 644
Other Indices and Comparative Performance												
Local Equities (JSE ALSI)	-1.69%	-8.99%	-12.13%	-21.38%	-18.42%	-2.07%	-0.13%	7.68%	14.71%	-0.1	-21.72%	
Local Bonds (BEASSA ALBI)	1.19%	-0.04%	-9.75%	-8.72%	-2.99%	5.27%	5.18%	7.40%	8.56%	0.6	-9.79%	
Local Cash (STeFI)[3]	0.58%	0.52%	0.59%	1.69%	7.25%	7.31%	7.23%	6.51%	0.08%	73.0	N/A	
Rand/Dollar	7.18%	4.33%	14.04%	27.52%	23.18%	10.01%	8.04%	9.37%	17.48%	0.6	N/A	
Consumer Price Index (CPI)	0.26%	0.96%	0.35%	1.58%	4.14%	4.16%	4.97%	5.10%	0.98%	N/A	N/A	
Typical Balanced Fund (Large Global)[4]	Not comparable over the short term					0.45%	2.24%	8.64%	9.90%	0.0	-14.75%	
Typical Balanced Fund (Conservative Global)[5]						3.01%	4.62%	8.23%	6.79%	0.4	-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] 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.
[4] Source: Alexander Forbes Manager Watch Survey for Large Global Funds (median).
[5] Source: Alexander Forbes Manager Watch Survey for Conservative Global Funds (median).

SMOOTHED BONUS PRODUCTS: BONUS SMOOTHING RESERVES

Formulaic Smoothed Bonus Products: Quarterly Disclosure

	Jun 2018	Sep 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020
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%								

Discretionary Smoothed Bonus Products: Annual Disclosure

	CoreGrowth	Guaranteed Fund
DISCRETIONARY PORTFOLIOS AT 30 JUNE 2019		
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%		

SMOOTHED BONUS PRODUCTS: KEY FEATURES

		GROWTH			PROTECTION		COSTS		
		Performance objective	**Strategic allocation to growth assets[1] in underlying portfolio**	**Manager**	**Protection objective**	**Guarantee in extreme environ-ments**	**Capital Charges (per annum)**	**Investment management fee (per annum)**	**Inception date**
Absolute Growth Portfolios	**Smooth**	Targets CPI+6% over medium to long term (after guarantee charge)				50% of fund credit on claim	0.20%		
	Stable	Targets CPI+5.5% over medium to long term (after guarantee charge)	83%			80% of fund credit on claim	0.70%	Depends on allocation to local and global assets: Local Assets: 0.525% - 0.650% Global Assets: 0.825% - 0.950%	April 2007 (new series launched in April 2020)
	Secure	Targets CPI+3.5% over medium to long term (after guarantee charge)				100% of fund credit on claim	2.70%		
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	1.80%	0.23% - 0.50% (depending on fund size)	March 1998
	90					90% of fund credit on claim	0.80%		January 2003
Guaranteed Fund		Targets similar return to a broadly balanced market-linked fund over the long term, less the guarantee charge	74%			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**

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