OLD MUTUAL SMOOTHED BONUS FUNDS

PIONEERING SMOOTH INVESTMENT JOURNEYS FOR OVER HALF A CENTURY

2019 QUARTERLY REPORT Q4

CORPORATE

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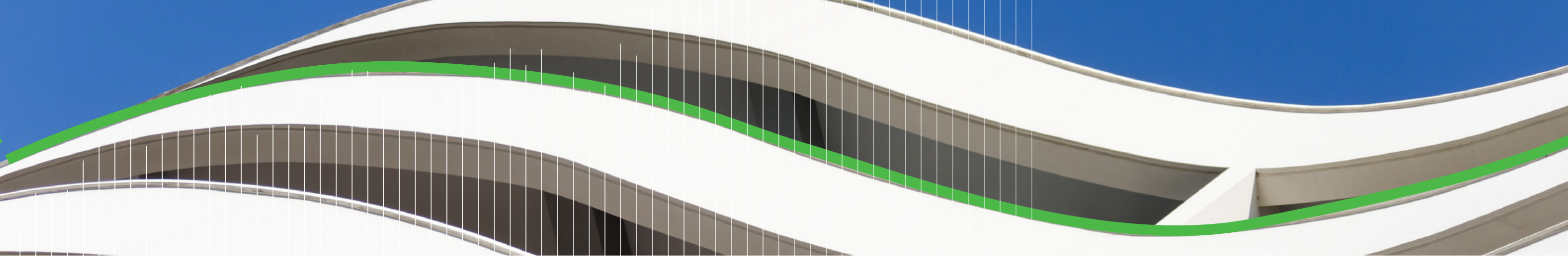


GLOBAL AND LOCAL ECONOMIC UPDATE

Johann Els – Old Mutual Investment Group, Chief Economist

Calendar 2019 proved to be a rollercoaster year, with highs and lows experienced in both the global and the South African context. The global economy (especially emerging markets – EMs) suffered from the disruptive influence on business confidence from the US/China trade war and the presumed impact on the world economy, as well as the ongoing Brexit and Trump impeachment dramas. Local confidence swings from before the May elections to the deteriorating environment after the elections added to the EM impact on South Africa. The weaker than expected economy, a dismal local medium-term Budget highlighting SA's fiscal and debt dilemma, a Moody's outlook downgrade and the shock of implementing a short-lived Stage 6 load-shedding schedule added to this negative environment.

GLOBAL ECONOMY

At the start of the last quarter of 2019, sentiment was still dragged lower by the risky trade and political environment. Most economic data points during October still reflected weak conditions. Gradually, purchasing managers indexes (both manufacturing and services) starting bottoming and by late December even showed signs of picking up. This was followed by better news out of the Chinese economy towards year-end.

A third rate cut for 2019 by the US Federal Reserve (the Fed) at the end of October reflected the Fed's continued concerns about the US economy. Real economic data has been slowing for some time and the Fed's preferred inflation gauge – the core PCE (personal consumption) deflator – remained decisively below the 2% target. While the US economy is clearly in late-cycle mode, recent indicators suggest that a recession remains unlikely for now. The job market remains healthy and has even recovered somewhat from a weakening trend in the middle quarters of the year. The benefit of lower interest rates continues to support the economy, while exports and business investment should rise from very low levels on the back of an improvement in global growth. Growth should stabilise and the Fed will likely keep rates unchanged for an extended period – allowing inflationary pressures to build from an ever-tightening labour market.

While the continued trade war still impacted negatively on business sentiment – and thus expectations of a continued slowing in the global economy – during the third quarter, conditions improved markedly during the subsequent quarter. Continued policy easing by central banks across the globe, better news flow around a potential Phase 1 trade deal between the US and China since early in the fourth quarter (combined with a halt in further tariff increases in December), and more certainty around Brexit after the decisive election win for the Conservative Party in the UK's December elections, have combined with indications of more stable manufacturing conditions in the US, Euro area and China. This, combined with stabilisation signs in other areas of the Chinese economy, has led to improved business sentiment towards the end of 2019.

Improved sentiment should help global growth to bottom and recover in the first quarter of 2020 and gradually gain momentum during the remainder of the year. This is a material turnaround compared to the rising recession expectations just a few months ago. Already, some improvement has been seen in the Global Purchasing Managers Indices (PMIs) – largely thanks to better PMIs in the US and in China (across manufacturing and services sectors). More expansive monetary policy is set to continue – with even more rate cuts in select economies – but perhaps not as many rate cuts as over the last six months.

The growth recovery is expected to be led by emerging markets (EMs) as the US economy is in late-cycle mode. This EM recovery will be driven initially by consumer spending as consumers are in relatively good shape, with healthy household balance sheets, and consumers are benefiting from lower interest rates. Household credit growth has also held up well. In developed markets unemployment rates are still low and wage growth is moderate. As consumption growth improves, corporate fixed investment spending should bottom as maintenance capex will be needed at a minimum to feed domestic demand. Gradually, fixed investment should also start to accelerate somewhat.

Outlook for the global economy: Recession risks have eased markedly over the last few months of 2019 in line with improved sentiment. The global economy is now expected to bottom and start improving over the next few months. This recovery will be led by emerging economies and consumers. Policy is likely to remain expansionary for an extended period.

SA ECONOMY

The last few months of 2019 seemed to pile on the bad news at an even faster pace than earlier in the year. From a continued very weak economy and associated dismal consumer and business confidence, to a disastrous Medium-Term Budget Policy Statement that highlighted the severe fiscal risks and led to a downgrade in its outlook statement to negative by Moody's; to further escalation in the Eskom risks (load shedding intensified and there is no new news on the promised debt restructuring plan) – it certainly has been a tumultuous final quarter.

Very low and volatile GDP growth in recent years was again highlighted during 2019. Growth (on a quarterly annualised basis) was -3.1% in the first quarter, +3.2% in the second quarter and -0.6% in the third quarter. Questions are continually asked whether SA risks falling into another recession (defined as two negative quarters), but the far more important issue is that with sub-1% annual average growth for the last five years (2019 included), the economy has been in a growth slump for a long time. 2019 growth is now expected to come in at best at about 0.4% – even lower than last year's 0.8% growth. The immediate prospects are not great given still depressed consumer and business confidence and the path predicted by the SA Reserve Bank (SARB)'s leading indicator and the latest manufacturing PMIs.

The disastrous Medium-Term Budget Policy Statement (MTBPS) that revised the budget deficit and debt ratios significantly higher without a clear plan to correct the public finances, led to Moody's decision to downgrade its outlook statement from stable to negative and warn that a lack of a clear deficit reduction plan in the February Budget would lead to a ratings downgrade. In my view, this situation was avoidable if Government had implemented more significant expenditure cuts, as these would have improved the deficit and debt profiles.

While February's Budget will likely see a serious attempt to rein in the budget deficit and stabilise debt through combined expenditure and revenue measures, this is unlikely to be enough to satisfy Moody's. A ratings downgrade to sub-investment grade is therefore our base case for early 2020. However, despite much anxiety around this, a downgrade will not derail the economy, attempts at reform or fiscal improvement for 2020 and beyond. As this downgrade and the resultant exit from the World Government Bond Index is widely expected and thus priced into the markets, it is not expected to have a large or lasting impact on the currency and bond yields.

It was not all bad news though: the policy debate has at least heated up, the corruption fight seems to be accelerating, President Ramaphosa's investment summit reached the halfway mark of the 5-year target after only two years; the new Integrated Resource Plan targeted significant new investment (which should mostly come from the private sector) in renewable energy; there were some tentative signs of stabilisation in the economy in private fixed investment and consumer credit extended, and inflation continued to surprise on the downside (which is beneficial to consumers). While the target of getting South Africa in the top 50 of the "Ease of doing Business" index still seems some way off given our 84th position, SA has improved in the World Economic Forum's Global Competitiveness Index from 67th in 2018 to 60th position in 2019. The recent change in government and institutional rebuilding have helped in lifting our position in the "Institutional Strength" sub-index from 69th position to 55th over the same period.

Despite the uncertainty and challenges, I still believe the "Winds of Change" investment theme is on track. Thus, the next five years are very likely to be better than the past five (average growth from 2015 to 2019 will end up at less than 1% on average per annum). While we are unlikely to experience the 5.2% average annual growth SA registered from 2004 to 2007 again anytime soon, a more sustainable growth uplift towards 2.5% is likely by 2022/2023.

I still believe in the renewal and rebuilding of the state, the corruption fight and the strength of SA's institutions, and that the policy debate and other smaller changes will gather momentum and gain some traction with respect to building confidence and lifting growth. Given all the changes of the last 20 months, I expect the next five years to be better than the past five.

Inflation remains muted, with almost no evidence of second-round price pressures despite significant cost increases in areas such as electricity and petrol. A more dovish global monetary policy stance, combined with local growth downside surprises and muted inflation, has led to an easier policy stance at the SARB and the Bank duly cut rates in July (a reversal of the policy error that was the November 2018 rate hike). The Bank has not cut rates again due to its perception of risks around Eskom, the Budget and a potential Moody's downgrade. Since I believe that the downgrade risk has been fully priced, the Reserve Bank is likely making a grave policy error by not cutting rates given the very weak economy and ultra-low inflation. While I totally agree that rates will do little to lift growth and that more and faster structural reforms are needed, rate cuts will crucially help to stabilise or lift confidence.

Outlook for the SA economy: While the very weak growth backdrop and slow policy reforms limit any immediate growth improvement, I do believe that a slow growth pick-up is likely over the next few years. Even slow policy reforms are eventually expected to gain some traction and stabilise and lift confidence. I therefore expect the next few years to show a better growth performance that the past five years.

UNDERLYING PERFORMANCE AND POSITION

Wesley Johnson
Product Marketing Specialist, Guaranteed Solutions

Tabasoem Parker
Performance Analyst, Investment Strategy Team

SMOOTHED BONUS FUND'S UNDERLYING PERFORMANCE & POSITION

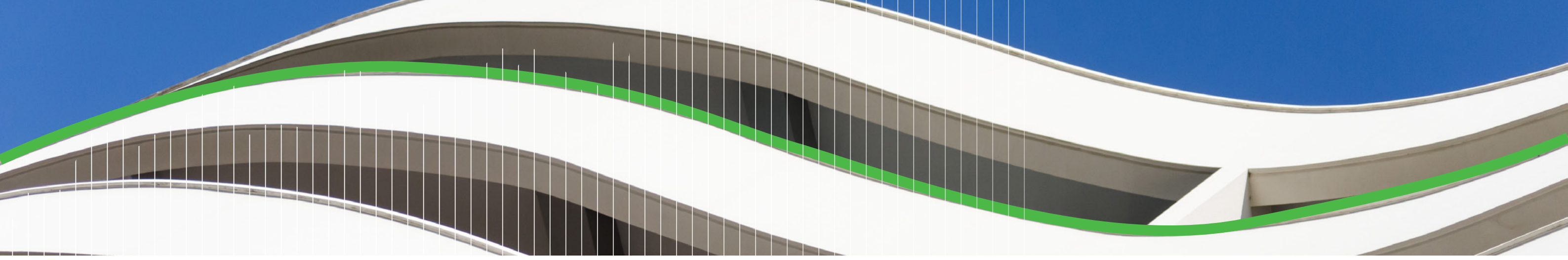
In this section we explain the rationale behind the current asset allocation position of the Old Mutual Smoothed Bonus Funds and comment on the underlying performance for the period ending 31 December 2019.

UNDERLYING ASSET ALLOCATION OF OUR SMOOTHED BONUS FUNDS

Each of Old Mutual's Smoothed Bonus Funds has a strategic asset allocation, which is set in order to achieve 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	45.9%	45.5%	37.8%	37.5%	26.3%	26.0%
Local interest-bearing assets	14.0%	13.0%	22.1%	21.0%	33.5%	32.5%
Local alternative assets	6.6%	7.0%	6.6%	7.0%	6.6%	7.0%
Direct property	7.0%	6.5%	7.0%	6.5%	7.0%	6.5%
Global equities	17.7%	19.5%	16.7%	18.5%	15.0%	16.8%
Global interest-bearing assets	4.4%	4.0%	5.3%	5.0%	7.2%	6.7%
Global alternative assets	3.1%	3.5%	3.1%	3.5%	3.1%	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.

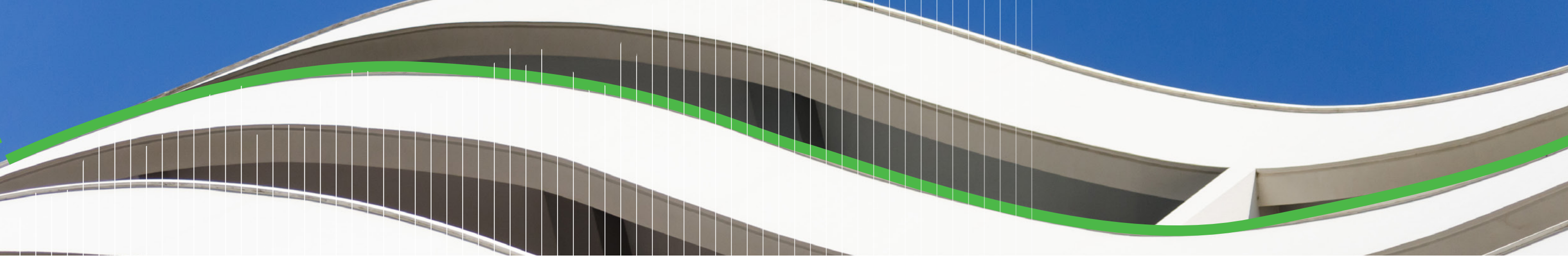
Over the three-year period to 31 December 2019, MacroSolutions' tactical asset allocation resulted in a negative 0.2% p.a. The largest single detraction resulted from trimming global equity exposure via derivatives and in particular a short S&P futures position. Buying of SA equity exposure through derivatives also detracted as the local equity market continued to lag other equity markets. Another factor was the underweight holding of SA alternative assets, although these did not match their benchmark performance. The biggest positive contribution was from currency derivative activity, as we bought into rand weakness. SA bond trading via futures also added value.

MARKET INDICATORS

Table 2 below sets out a summary of the index returns to 31 December 2019.

Table 2

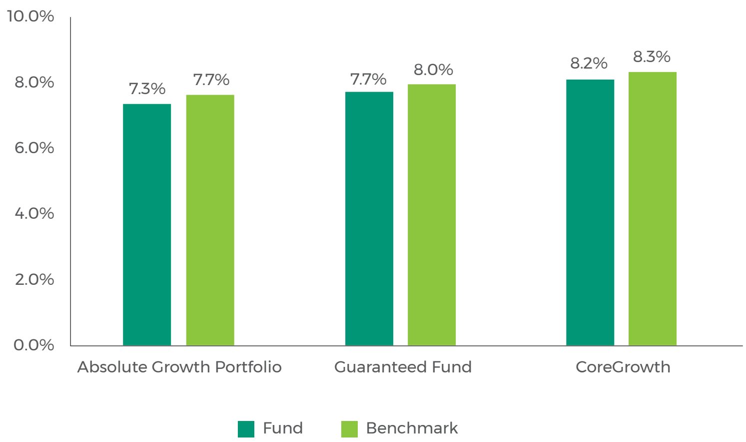
	1 YEAR (% P.A.)	2 YEARS (% P.A.)	3 YEARS (% P.A.)	5 YEARS (% P.A.)	7 YEARS (% P.A.)	10 YEARS (% P.A.)
SA EQUITY						
Shareholders Weighted Index	9.3	-1.7	5.4	4.8	8.4	11.1
Capped SWIX Index	6.8	-2.5	3.5	N/A	N/A	N/A
All Share Index	12.0	1.2	7.4	6.0	8.8	10.8
Resources Index	28.5	21.9	20.5	8.2	3.6	3.3
Financial Index	0.6	-4.2	3.5	3.9	9.1	12.3
Industrial Index	8.9	-5.2	3.2	3.5	9.3	13.8
Top 40 Index	12.4	1.5	8.3	6.1	8.7	10.5
Mid-cap Index	15.6	2.1	3.9	5.6	8.6	12.1
Small-cap Index	-4.1	-9.5	-5.5	-0.4	5.9	9.3
SA PROPERTY						
SA Quoted Property Index	1.9	-12.7	-3.7	1.2	5.5	10.8
SA INTEREST-BEARING						
ALBI BEASSA	10.3	9.0	9.4	7.7	7.0	8.9
STeFi	7.3	7.3	7.4	7.2	6.7	6.5
Cash	6.5	6.5	6.6	6.4	5.9	5.7
GLOBAL						
MSCI World Index (R)	24.8	15.4	14.0	13.6	19.4	17.4
JPM International Bond (R)	3.1	9.1	4.8	6.1	8.4	8.9
US 1-month LIBOR (R)	-0.5	8.4	2.4	5.0	8.3	7.3
INFLATION (ESTIMATE)						
CPI	4.0	4.3	4.4	5.0	5.1	5.1



UNDERLYING ASSET CLASS PERFORMANCE OF OUR SMOOTHED BONUS FUNDS

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

3-YEAR ANNUALISED RETURN



UNDERLYING ASSET CLASS PERFORMANCE

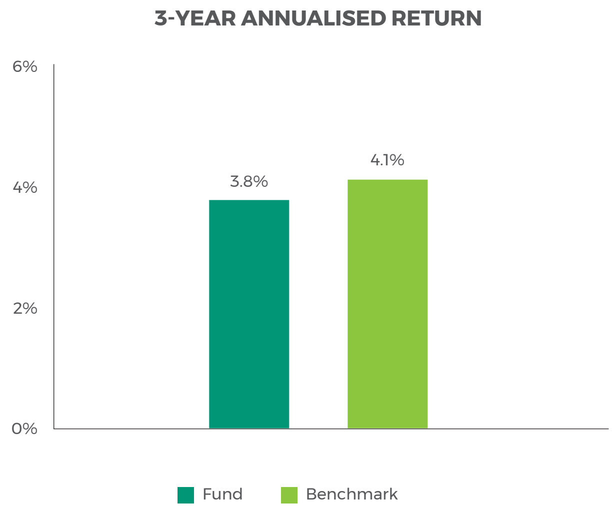
Local Equities

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 active management. 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 each manager is included in the portfolio based on their individual strengths, the blend of these different managers provides a more consistent investment return than would be possible by investing in a single portfolio or strategy.

The portfolio consists of the following:

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 total performance of the portfolio is shown below:



The Total Equity channel is currently underperforming over the 3-year period to 31 December 2019. Underperformance was largely driven by the Managed Alpha Portfolio and Old Mutual Multi-Manager (OMMM).

Old Mutual Equities

Over the latest quarter the Old Mutual Equities boutique underperformed the benchmark by 0.81%. Detractors were not holding any Sibanye Gold (SGL), the underweight in Northam Platinum (NHM) and overweight in Nedbank (NED). A significant holding to British American Tobacco (BTI), Remgro (REM) contributed positively to the portfolio as well as not holding any Telkom (TKG).

Over the 3-year period the portfolio underperformed the benchmark by 0.35% p.a. This was derived from the portfolios overweight positions in Steinhoff (SNH) and Netcare (NTC) and the underweight in Anglo American (AGL). The overweight position to Naspers (NPN) AngloGold Ashanti (ANG) and Transaction Capital (TCP) contributed positively to the portfolio.

Managed Alpha

The Managed Alpha portfolio outperformed the benchmark by 0.2% p.a. over the latest quarter end. The positive contributors over the quarter was its overweight position in Materials, underweight position to Consumer Discretionary and underweight to Industrials. The overweight position in Communication Services, and the underweight position in Consumer Staples and Healthcare detracted from the portfolios performance over the quarter. At a share level the positive contributors were the overweight position in Naspers, Goldfields and Northam Platinum and detractors were the overweight position in Telkom, Aspen and Mr Price.

Over the three-year period the portfolio underperformed by negative 1.4% p.a. as a result of the overweight to Communication services and Industrial and underweight Consumer Discretionary. The top detractors from a share perspective was the overweight positions in Coronation and the positions in Telkom and Naspers. The portfolio was overweight Coronation since its high Return on Equity was expected to benefit its return. Unfortunately, this did not materialise and Coronation has had a very poor return over the three-year period. The portfolios overweight position in BHP and Kumba and the underweight position in Aspen contributed positively to the portfolios return.

Premium Equity

Premium Equity returned 5.4% over the fourth quarter of 2019, thus outperforming the benchmark by 0.15%. At portfolio level, effective equity exposure fluctuated between 83.7% and 97.5%, closing out the quarter around 88.2%.

The fund returned 5.8% p.a. during the three-year period, while the benchmark had a return of 4.1% p.a. Over this three-year period the local derivatives market offered up a number of diverse trading opportunities at attractive prices. As opportunities presented themselves, the Fund was able to introduce varied trade ideas within a risk-controlled framework. The strategy outperforms most when equity returns are flat, moderately rising or negative. As a result, over the past three years, most of the alpha in the fund came from selling call options.

Old Mutual Multi-Managers

The OMMM Life Equity portfolio underperformed its benchmark by 0.7% p.a. and 0.9% p.a. over one and three years respectively. The underperformance of the benchmark over the one-year period was driven by the underperformance of Prudential, Mazi and Sentio, and also the underperformance of Visio.

Over the three-year period, the portfolio returned 3.2% p.a. underperforming the benchmark return of 4.6% 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.

Local Interest-Bearing Assets

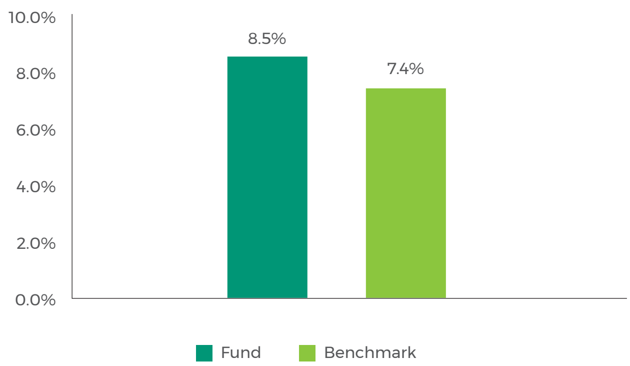
The local interest-bearing portfolio consists of bond and money market assets. These assets are managed by OMIG's Futuregrowth fixed-income boutique.

Local Money Market

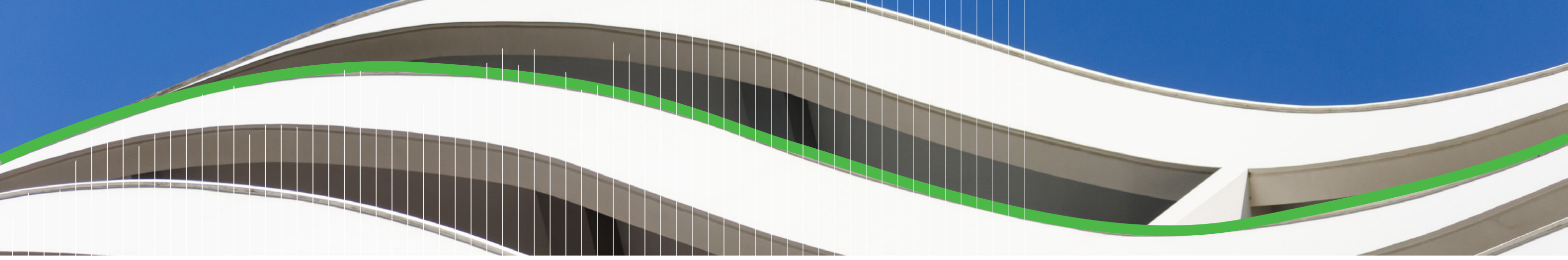
The money market assets are invested in a yield enhanced money market portfolio. The portfolio aims to generate returns through the active management of short to medium-term interest bearing instruments.

The total performance of the portfolio is shown below:

3-YEAR ANNUALISED RETURN



The portfolio has performed well over 3 years outperforming its benchmark by 1.2% p.a. The fund has benefitted from the higher spread accruals earned on the Step Rate Notes and longer dated credit assets. The fund also benefitted positively from enhanced yield pick-up from short-dated Treasury Bills.



Local Bonds

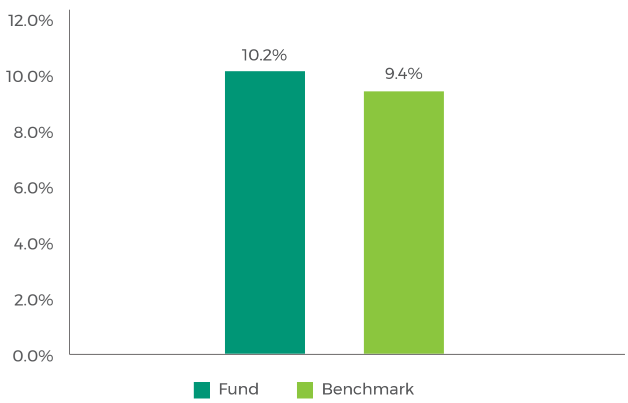
The bond strategy comprises a combination of a core bond and a yield-enhanced bond portfolio.

The core bond portfolio aims to generate returns primarily through the management of interest rate risk. Futuregrowth aim to implement their 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 additional returns through the investment in other listed and unlisted credit instruments.

The total bond portfolio performance is shown below:

3-YEAR ANNUALISED RETURN



Core Bond Portfolio

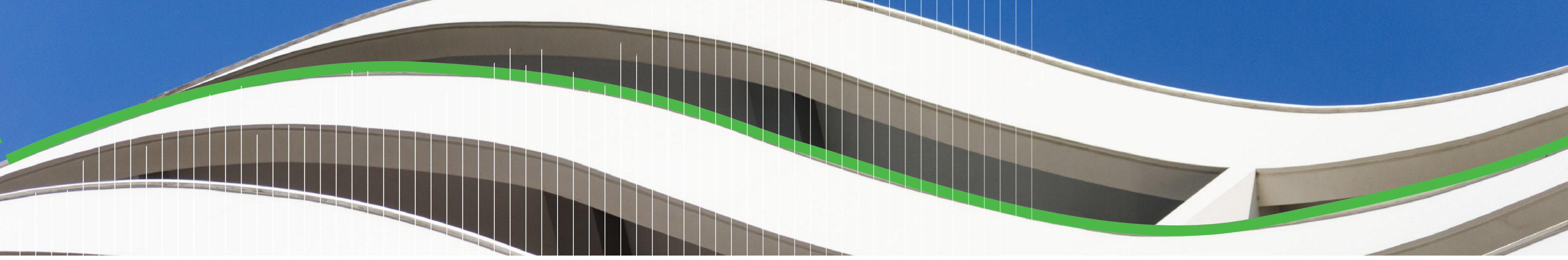
The Core Bond Fund outperformed the benchmark by 0.1% p.a. over one year and by 0.5% p.a. over three years. The additional yield (spread accrual) offered by the non-government bond holding contributed +0.47% to total outperformance. This was enhanced by the fact that the yields at which these bonds are offered narrowed relative to the sovereign yield curve.

Yield-enhanced Portfolio

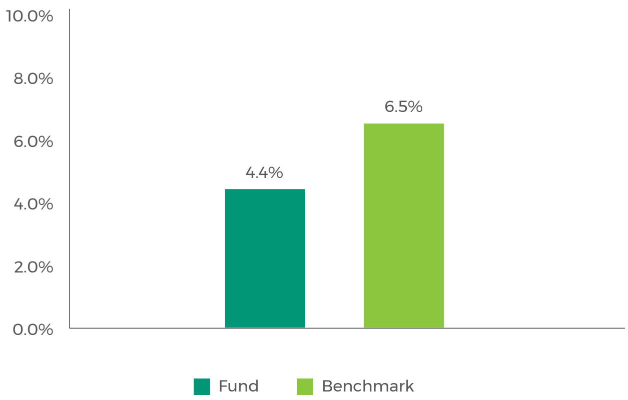
The Yield Enhanced portfolio underperformed the benchmark by 0.1% p.a. over one year and outperformed by 0.1% p.a. over three years. The primary driver of performance continues be spread accrual from investments in both listed and unlisted credit assets. The portfolio continues to rely on the use of derivatives, primarily through futures to ensure alignment with the targeted benchmark modified duration with the proceeds thereof being invested in credit assets. Another detractor from performance was in respect of a short position in respect of the fixed rate leg of the swap primarily in the back end, as swap spreads experienced further widening during the period under review.

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, the portfolio has recently started to diversify its exposure into other countries where suitable opportunities exist.



3-YEAR ANNUALISED RETURN



The property portfolio underperformed the benchmark by 2.1% p.a. over the three-year period to 31 December 2019. Factors that contributed to the portfolios underperformance are:

- Large land holdings such as Stella Road and Zonkiziziwe, which is not income producing and thus not delivering any income return. Furthermore, there has been no improvement in the land price, which has resulted in a no capital growth
- Vacancies are higher than the benchmark in both the industrial and retail sector
- Development spend in the retail portfolio over the past 2 years (mainly at Gateway, Rosebank & Cavendish) has not yet translated into income return and capital growth due to vacancies. The expectation is that an improvement in the returns should be seen once the vacant space has been let
- Rental reversions and longer lead time to fill vacant space is impacting future income streams and resulting in lower capital growth

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

Global Equities

The Global equity portfolio is an actively managed portfolio that blends different managers and investment styles in order 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>
<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. The index is designed to give effect to responsible investing by investing more heavily in companies that meet specific economic, social and governance (ESG) criteria. The ESG Index targets the same sector and regional weights as the MSCI World Index in order to target performance that is similar to that of the MSCI World Index, whilst 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. Their equity portfolios are designed from the bottom up with a strong value underpin and tend to exhibit below-market price-to-earnings ratios, below-market price-to-book ratios, and above-market dividend yields, regardless of market conditions.

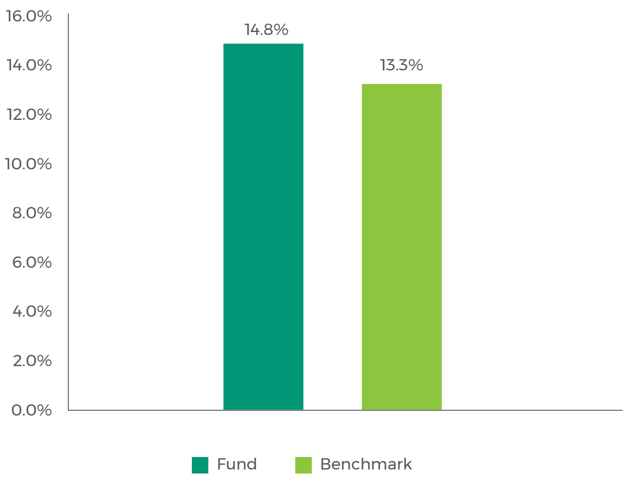
Acadian: Acadian Asset Management LLC specialises in global and international quantitative equity strategies. Acadian seeks to capture the fundamental drivers of stock return, exploiting market inefficiencies through a quantitative investment process.

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

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

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

3-YEAR ANNUALISED RETURN

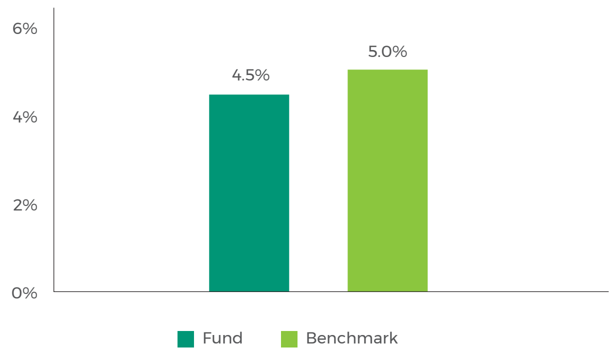


The Global Equity fund outperformed the benchmark by 1.5% p.a. gross of fees over the three-year period. All managers outperformed their benchmark with the exception of Acadian who underperformed by 4.1% p.a.

Global Interest-Bearing Assets

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

3-YEAR ANNUALISED RETURN



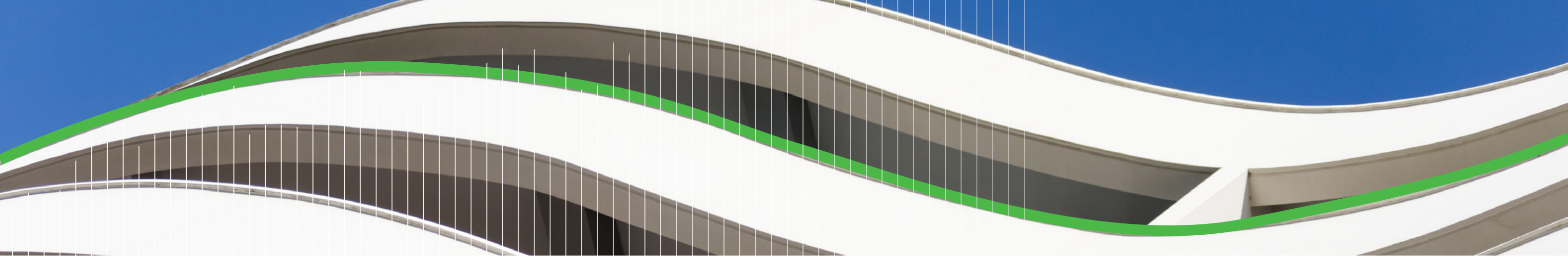
The Global Interest Assets portfolio underperformed its benchmark over three years by 0.5% p.a. This was primarily driven by the return of the bond fund underperforming by 0.2% p.a. over the three-year period which makes up a large part of the portfolio. The currency portfolio outperformed by 1.8% p.a. over the same period.

Alternative Assets

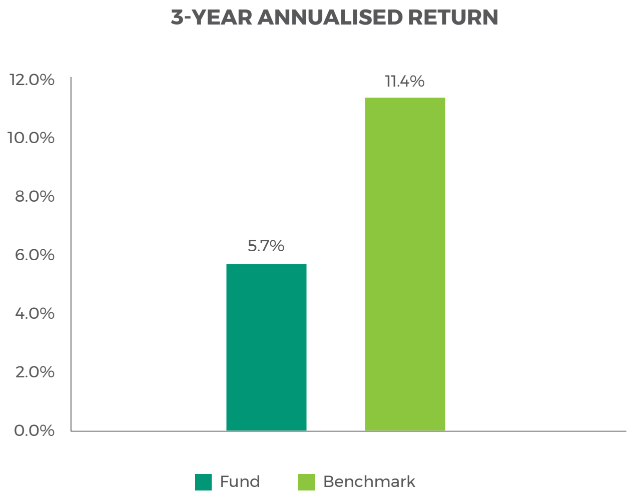
The alternative asset portfolio includes:

- Exposure to Private Equity, both within South Africa and globally. Investment into local Private Equity is primarily made 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, both 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 consists of agricultural land and associated infrastructure primarily in South Africa, 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



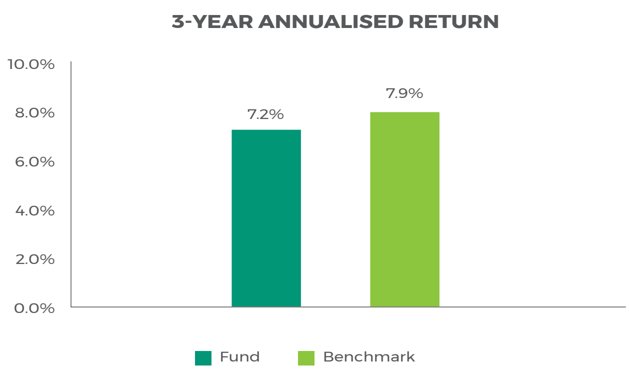
The local alternative portfolio is a high growth portfolio that aims to provide investors with significant real returns over the long term. The portfolio has a long-term performance target of approximately CPI + 7%. The local portfolio invests in assets that are linked to the local economy, and has consequently struggled to meet this target recently, having performed above inflation over the past 1 and 3 years, but well below its long-term target.

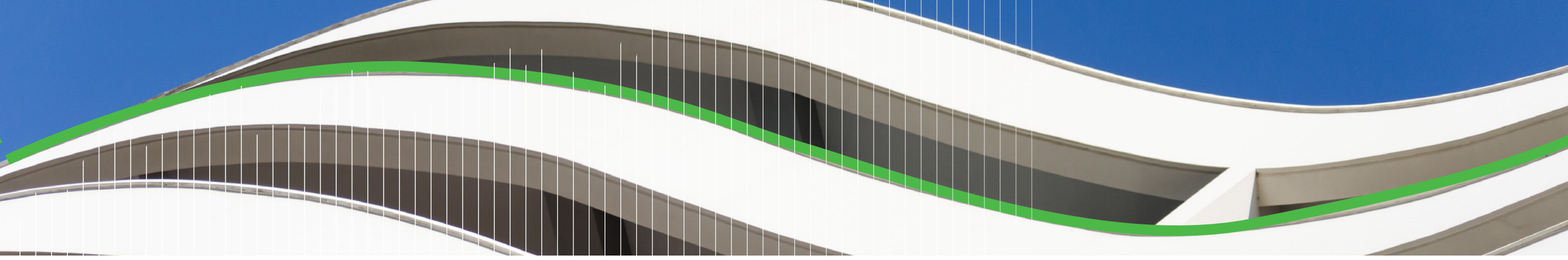
The Infrastructure investments have performed well, with the IDEAS Fund having delivered real returns over the past 1 and 3 years.

The Impact Fund ("IF") investments continues 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 get access to finance for the purchase of homes developed by the Fund. The struggling economy has resulted in the IF strategy, and especially HIFSA, underperforming over 1 and 3 years. The IF strategy is a long-term strategy 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 underlying businesses held within the Private Equity Funds have been largely affected by the state of the local economy and this had a negative impact on the financial performance of these businesses. 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





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 their benchmark by 0.7% p.a.

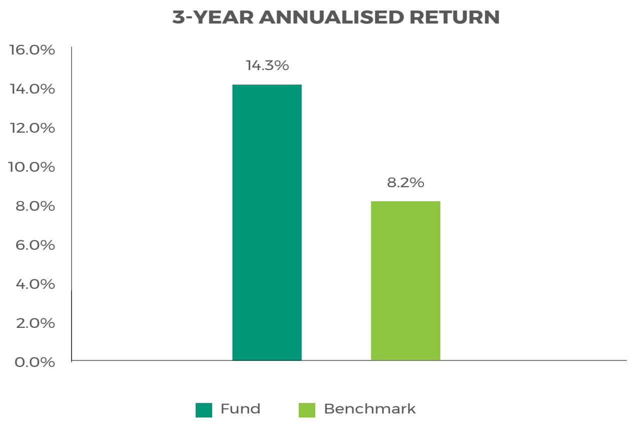
Both Fund Of Funds I (FOF I) and Fund Of Funds II (FOF II) have performed well over the past 3 years, with distributions continuing to increase as the underlying funds exit their investments. More recently, the one-year performance has slowed down, due to pressure on valuations worldwide, given current market volatility. Fund Of Funds III (FOF III) is now 85% committed, but given that it only started making commitments to underlying funds in 2017, it is still too soon to comment meaningfully on the return.

Africa FOF (AFOF) is currently performing below expectation. Also note that some of the underlying funds in AFOF are still young and the performance 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 which aims to outperform its benchmark over the long term. The portfolio is managed by the Old Mutual Equity (OME) boutique within OMIG.



African markets (excluding South Africa) returned 14.3% p.a. over the three-year period to 31 December 2019, this was assisted by a strong last quarter which was up 7%. The performance was very mixed across the markets. Kenya ended the year as the top performing African market – up close to 50%. Kenya's market was boosted by a strong performance from the leading mobile telecommunications company Safaricom continuing to show earnings growth as well as the removal of interest rate caps. The scrapping of the caps will allow banks to first charge higher interest rates, and second, since they can now price more appropriately for higher risk customers, loan growth should improve. Other markets that ended the year up around 10-15% were Egypt, Mauritius, Morocco and Bourse Régionale des Valeurs Mobilières SA (BRVM - representing many of the French speaking West African markets). All of Ghana, Nigeria and Zambia delivered negative returns over 2019. Also, following the introduction of its own currency, Zimbabwe's US dollar return was sharply down.

SMOOTHED BONUS PRODUCTS: PERFORMANCE

Product	Oct 2019	Nov 2019	Dec 2019	Performance over periods to 31 December 2019 (Annualised except *)					Risk Analysis (Based on three-year Performance)		Max Drawdown[1] (Based on a three-year period to December 2019)	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%	5.43%	7.02%	8.91%	11.34%	0.84%	8.75	0.14%	R54 158
Absolute Smooth Growth 2009 Series[2]	0.49%	0.49%	0.49%	1.48%	5.43%	7.02%	8.91%	11.92%	0.84%	8.75	0.14%	
Absolute Stable Growth	0.45%	0.45%	0.45%	1.36%	4.93%	6.51%	8.40%	10.83%	0.84%	8.13	0.10%	R79 687
Absolute Stable Growth 2009 Series[2]	0.45%	0.45%	0.45%	1.36%	4.93%	6.51%	8.40%	11.41%	0.84%	8.13	0.10%	
Guaranteed Fund	0.64%	0.64%	0.64%	1.94%	9.49%	10.81%	12.34%	12.52%	0.36%	27.00	0.64%	R4 578
Protection-focused Portfolios												
Absolute Secure Growth	0.29%	0.29%	0.29%	0.87%	3.03%	4.63%	6.46%	8.62%	0.81%	5.75	0.05%	R716
Absolute Secure Growth 2009 Series[2]	0.29%	0.29%	0.29%	0.87%	3.03%	4.63%	6.46%	9.42%	0.81%	5.75	0.05%	
CoreGrowth 100	0.60%	0.70%	0.80%	2.11%	6.27%	8.01%	8.60%	9.87%	0.55%	16.00	0.40%	R4 362
CoreGrowth 90	0.68%	0.78%	0.88%	2.36%	7.29%	9.05%	9.64%	10.92%	0.55%	18.00	0.48%	R4 540
Other Indices and Comparative Performance												
Local Equities (JSE ALSI)	3.14%	-1.80%	3.30%	4.63%	12.05%	7.42%	5.99%	10.78%	12.00%	0.6	-12.56%	
Local Bonds (BEASSA ALBI)	-0.35%	0.22%	1.86%	1.73%	10.32%	9.41%	7.75%	8.85%	6.04%	1.6	-4.66%	
Local Cash (STeFI)[3]	0.59%	0.56%	0.58%	1.74%	7.29%	7.36%	7.19%	6.52%	0.07%	74.0	N/A	
Rand/Dollar	-0.27%	-2.97%	-4.41%	-7.50%	-2.46%	0.75%	4.10%	6.58%	15.12%	0.1	N/A	
Consumer Price Index (CPI)	0.00%	0.09%	0.26%	0.35%	4.02%	4.40%	5.04%	5.11%	1.03%	N/A	N/A	
Typical Balanced Fund (Large Global)[4]	Not comparable over the short term					6.48%	6.31%	10.72%	7.12%	0.9	-8.33%	
Typical Balanced Fund (Conservative Global)[5]						7.33%	7.50%	9.62%	4.46%	1.6	-4.17%	

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).

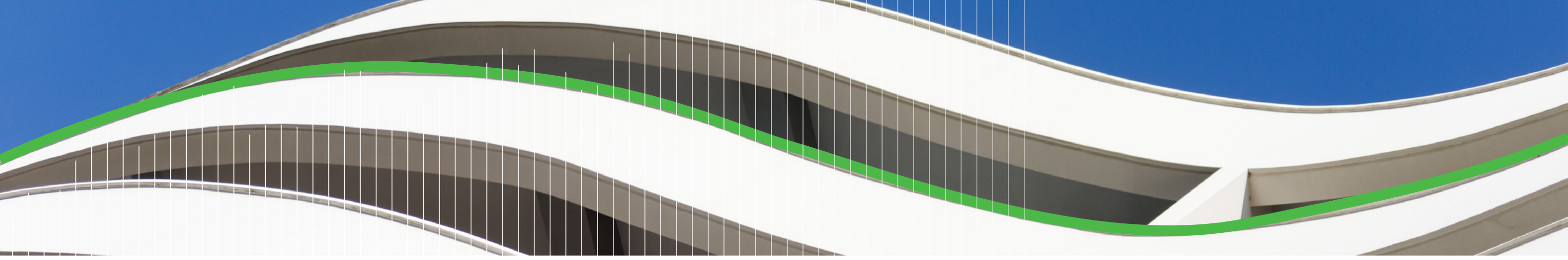
SMOOTHED BONUS PRODUCTS: BONUS SMOOTHING RESERVES

Formulaic Smoothed Bonus Products: Quarterly Disclosure

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

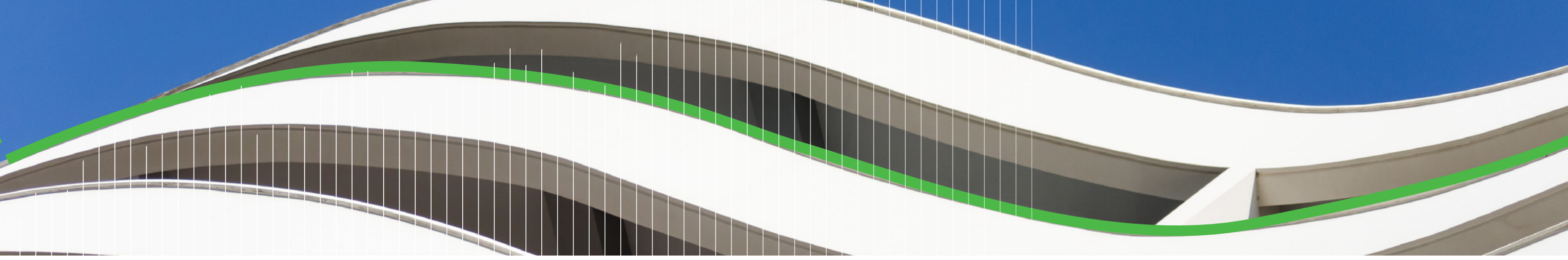
Discretionary Smoothed Bonus Products: Annual Disclosure

	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%		



<table>
<tr><th colspan="10">SMOOTHED BONUS PRODUCTS: KEY FEATURES</th></tr>
<tr><th colspan="2" rowspan="2"></th><th colspan="3">GROWTH</th><th colspan="2">PROTECTION</th><th colspan="2">COSTS</th><th rowspan="2">Inception date</th></tr>
<tr><th>Performance objective</th><th>Strategic allocation to growth assets[1] in underlying portfolio</th><th>Management style and manager</th><th>Protection objective</th><th>Guarantee in extreme environments</th><th>Capital Charges (per annum)</th><th>Investment management fee (per annum)</th></tr>
<tr><td rowspan="3">Absolute Growth Portfolios</td><td>Smooth</td><td>Targets CPI+6% over medium to long term (after guarantee charge)</td><td rowspan="3">83%</td><td rowspan="6">OMIG Boutiques</td><td rowspan="6">Stable bonuses each month</td><td>50% of fund credit on claim</td><td>0.20%</td><td rowspan="3">Investment management fee depends on allocation to local and global assets
Local Assets: 0.525% - 0.650%
Global Assets: 0.825% - 0.950%</td><td rowspan="3">April 2007 (new series launched in April 2009)</td></tr>
<tr><td>Stable</td><td>Targets CPI+5.5% over medium to long term (after guarantee charge)</td><td>80% of fund credit on claim</td><td>0.70%</td></tr>
<tr><td>Secure</td><td>Targets CPI+3.5% over medium to long term (after guarantee charge)</td><td>100% of fund credit on claim</td><td>2.70%</td></tr>
<tr><td rowspan="2">CoreGrowth Portfolios</td><td>100</td><td rowspan="2">Return on a conservative to moderate market-linked fund over the long term, less the guarantee charge</td><td rowspan="2">61%</td><td>100% of fund credit on claim</td><td>1.80%</td><td rowspan="2">0.23% - 0.50% (depending on fund size)</td><td>March 1998</td></tr>
<tr><td>90</td><td>90% of fund credit on claim</td><td>0.80%</td><td>January 2003</td></tr>
<tr><td colspan="2">Guaranteed Fund</td><td>Return on a broadly balanced market-linked fund over the long term, less the guarantee charge</td><td>74%</td><td>100% of capital invested and a portion of bonuses declared</td><td>0.75%</td><td>0.25% - 0.35% (asset management charge depending on asset allocation) plus
0.20% - 0.35% (investment administration fee depending on fund size)</td><td>July 1967</td></tr>
</table>

[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.

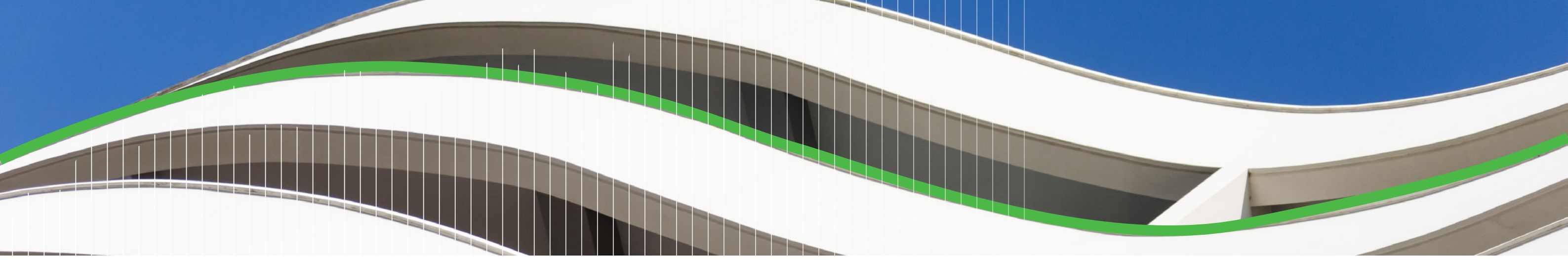
Johannesburg:	011 217 1990
Pretoria:	012 360 0000
Western Cape:	021 530 9600
KwaZulu-Natal:	031 581 0600
Eastern Cape:	041 391 6300
Bloemfontein:	051 430 9787

Email: CorporateInvestments@oldmutual.com

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: **oldmutual.co.za/InvestmentReports**

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



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