



Internal Investment Guidelines

Old Mutual Global Strategic Bond Fund

Investment Objective

To produce an attractive level of income together with capital appreciation by investing in a diversified international portfolio of fixed and variable rate bond investments, including convertible securities. The fund will vary the currencies in which it invests to enable it to achieve its objective.

Performance Objective

In practice the fund is managed with the intention;

- To achieve a rising unit price over time
- To beat available short-term cash rates
- To beat a market reference benchmark
- To achieve a first quartile ranking in the IMA Global Bond sector under a variety of market conditions¹

It is understood that it may not be possible to achieve all of these objectives at the same time and that they remain an aspiration. The overriding aim is to protect the value of client money and achieve a rising unit price over reasonable investment horizons (one to three years).

Risk Measures

For the purposes of risk assessment the fund has two principle sources of comparison;

- A market benchmark of the JP Morgan Global Government Bond Index (unhedged) in Sterling terms
- A Value-at-Risk™ (VaR) measure viewed at a 95% confidence limit (5% probability of loss) on a one month horizon

The tracking error of the fund relative to the JP Morgan Global Government Bond Index (unhedged in sterling terms) will normally vary between 0% and 5% to remain competitive within the IMA Global Bond sector. However, the tracking error may increase beyond this point especially when the fund is allocating substantially to corporate bonds or the fund is substantially hedged back into the base currency.

The absolute Value-at-Risk measure will vary over time depending upon the recent volatility of the assets within the portfolio. The fund manager will review portfolio allocations when the VaR of the fund reaches 200% of the VaR of the JP Morgan Global Government Bond Index (unhedged) in Sterling terms² although this may not trigger an automatic reduction in VaR. There is no lower limit on the VaR of the fund at any one time.

For the purposes of day-to-day management the portfolio is available on Bloomberg. VaR can be calculated using the PVAR, VAR or BRSK functions available through the <Client> key.

¹ See end of document for list of competitor funds

² At present this is approximately 10%



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Portfolio restrictions

IMA Rules

Funds which invest at least 80% of their assets in fixed interest securities. All funds that contain more than 80% fixed interest investments are to be classified under this heading regardless of the fact that they may have more than 80% in a particular geographic sector, unless that geographic area is the UK, when the fund should be classified under the relevant UK (Sterling) heading.

Cash is an investment instrument and can potentially rise above 10%. It will usually be less than 5%, but must always be less than 20% to comply with the IMA rules.

Diversification

The fund should maintain diversified holdings to maintain liquidity such that;

- The investment strategy can be altered efficiently and with reasonable cost to the portfolio
- Clients may realize their investments or add to their investments in a timely manner
- The typical number of stocks in the fund would be 20 to 90, with individual holdings in government bonds being considerably larger than in corporate bonds.

COLL Restrictions

The fund will at all times comply with COLL restrictions:

- < 20% of deposits to be invested with a single issuer
- < 10% of NAV (other than Government and Public Securities) in a single issuer and sum of corporate issuers with < 5% of NAV must not exceed 40% of NAV in aggregate
- < 10% of NAV to be held in unapproved securities (i.e. unlisted and trading on a market which is not listed as Eligible in Prospectus), or suspended from an eligible market
- < 10% of NAV to be invested in any one Collective Investment Scheme
- < 20% of NAV to be invested with the same body as a combination of deposits, securities on exposure to OTC derivatives
- Aggregate derivatives exposure < 100% of NAV
- >35% of NAV exposure is permitted to a single Government and Public Securities issuers provided:
 - it is covered in the Investment Objectives in the Prospectus with disclosure of the potential states, local authorities or public international bodies;
 - < 30% is one issue is held;
 - fund holds > 6 different issues.

Asset Allocation

- The fund may have up 100% in corporate (credit) bonds or 100% in government bonds depending upon market opportunities
- For the purpose of this definition “credit” does not include semi-government Agencies, supranational bodies or sovereign issuers
- There are to be limits to individual bond issuers as well, excluding government agencies, supranationals and local authority bonds:
 - AAA 5.0%
 - AA 4.5%
 - A 3.5%



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- BBB 2.5%
 - BB& B & Unrated 1.5%
- No more than 5% of the fund may be invested in corporate bonds below a single-B credit rating.
- Internal guideline maximum exposure to high yield of 20% of NAV

Duration Management

- There is no formal limit on the duration range of the fund
- Under UCITS III legislation the fund may have a negative duration at the aggregate level
- In practical terms, and to stay within the VaR limit, it would be expected that the modified duration would range between -9 and 9 depending on market opportunities
- Altering the duration of the fund will be achieved by the sale or purchase of government bond futures and options on futures;
 - $\text{Cash} + \text{Future} = \text{Bond Position}$
 - $\text{Bond Position} - \text{Future} = \text{Cash}$
 - $\text{Cash} - \text{Future} = - \text{Bond Position}$
- At all times there should be sufficient cash available such that if the futures or options on futures position were to be exercised then the position would be covered by available cash. The fund may not leverage i.e. derivatives obligations be greater than the available cash.
- Cash is defined as cash on deposit i.e. money market bills or instruments are not regarded as cash

Currency Exposure

- The fund may have a minority in the base currency (UK Sterling) or be fully hedged into the base currency especially when sterling is anticipated to be strong against the majority of foreign currencies
- Eligible currencies in the fund include
 - members of the JP Morgan Global Government Bond Index and
 - members of the JP Morgan Emerging Markets Bond Index Plus (maximum 20%)
- The currency exposure of the fund may be altered using
 - Forward foreign exchange contracts
 - Currency futures
 - Options on currency futures
- At all times there should be sufficient cash and assets available such that if the futures or options on futures position were to be exercised then the position would be covered by available assets
 - $\text{Cash} + \text{assets} > \text{currency hedge}$

Reviewed by SAC

Updated by SAC

Updated by SAC (16.12.2009)

Updated by SAC (22.02.2010)

Updated by SAC (15.03.2011) – duration amended from (-4 to 10 yrs) to (-9 to 9 yrs).



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BREAKDOWN OF GLOBAL BONDS PEER GROUP

1. HIGH YIELD / EMERGING MARKETS

Baillie Gifford Em Mkts Bd B Inc
F&C Maximum Income Bond S1 I
Investec Emerg Mkts Debt A G £
IP European High Yield Inc
M&G Emerg Mkts Bd X Inc
M&G European Hi Yd Bd X Inc
Newton European High Yld Bd
Threadneedle Emerg Mkts Bnd 1
Threadneedle Eur High Yd Bd 1

2. GOVERNMENT / CREDIT FUNDS

Old Mutual Gbl Statagic Bd Acc
F&C Global Bond 1 Inc
IP Global Bond Inc
Marlborough Global Bond Inc
Lord Abbett Ltd Bd Deb A Inc
Investec Glb Bond A Net Inc £
BlackRock Global Bond A Inc

3. CONSERVATIVE GOVERNMENT BOND FUNDS- J P MORGAN BENCHMARK

SG International Bond Ret Acc
SW International Bond A Acc
JPM Global (ex-UK) Bond A Inc
Newton International Bd Inc
M&G Intl Sovereign Bd A Inc
Henderson Global Bond 3
Henderson Overseas Bd A
Baring Global Bond
Std Lf Gbl IndxLinkBd Rtl A
Baillie Gifford Oseas Bd C In
SW Overseas FI Tracker I Inc
Threadneedle Global Bond 1
Fidelity Inst International Bond
Skandia Gbl Fx Int Bld Inc
SWIP Global Bd Plus A Acc

4. ABSOLUTE RETURN/ DYNAMIC

Templeton Gbl TotlRn Bd A acc £
M&G Global Macro Bond X Inc



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Legg Mason Glb Multi Strat Bd A
Baring Directnl Gbl Bd Inc
Newton Glb Dynamic Bd GBP Inc
UBS Abs Return Bond A Acc Net
Dimensional Gbl S-D Bond Inc
SW Cautious Portfolio A Acc
City Financial Strategic Gbl Bd

5. SINGLE CURRENCY PURE CORPORATE BOND FUNDS

AEGON European Bond A Inc
AXA Framlington Pan Euro Bd Inc
M&G European Corp Bond A Inc
SWIP European Corp Bd A Inc
Threadneedle Euro Corp Bd 1
Threadneedle European Bond 1
Threadneedle Dollar Bond 1