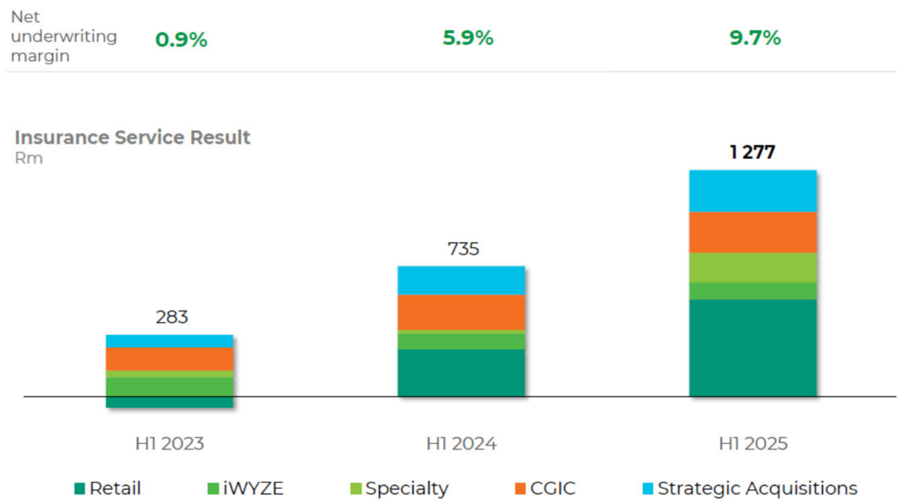
Old Mutual recently reported a strong set of interim results, boosted by an exceptional performance from the short-term insurance business. Strong investment performance driven by positive equity market returns also assisted in driving the 31% increase in headline earnings per share. The Mass and Foundation business reported a poor result, with results from operations down 15% due to higher lapses and lower new business margins.

We are cautious on the result from the short -term insurance business. It is clear the market is enjoying a period of very high underwriting margins and that these are unlikely to be sustainable. Old Mutual's short-term insurance business reported an underwriting margin of 9.7%, well above the target of 4–6%. The short-term insurance business is cyclical and goes through cycles of higher and lower margins as natural or other disasters strike from time to time.



Source: H1 2025 Old Mutual Results Presentation

Our preference within the life insurance sector has always been Sanlam, given its higher quality of earnings. However, given Old Mutual trades at a discount to Sanlam (historically justified in our view), our interest is now piqued given a change in the management team. Specifically, the new CEO, Jurie Strydom has just assumed his new role, and although details of a new strategy remain relatively scarce, some indication was given at the recent results presentation. Specific reference was made to a focus on return on embedded value and cash generation.

This could potentially address our concerns over subpar earnings quality compared to Sanlam. Additionally, we have long felt Old Mutual is a massive business that has lost momentum and needs new focus, something which a new management team can bring. This will help to unlock much value we feel is trapped in the share.

We are also aware of some investor activism behind the scenes, which is pushing management along on this path, something that can also assist in regaining momentum.

Old Mutual trades at a price to Group equity value of 0.7x, which is in line with history. Management will be looking to close this gap to Group Equity Value, and we think they have successfully identified cash generation specifically as a potential lever to do this. This will also enable a higher dividend, compared to the 6.6% dividend yield the share currently trades on. While we will not be taking a position in the company yet, we will watch developments at the upcoming Capital Markets Day closely, where the new strategy will be unveiled. Should management identify a realistic path to closing the discount to Group Equity Value, we will strongly consider buying the stock for our client portfolios.