

OMIGSA Comment – Cavan Osborne, Portfolio Manager: Old Mutual Industrial Fund

Industrials rebound in line with broader market



The Industrial Index returned 10% during July, in line with the performance of the FTSE/JSE All Share Index (ALSI). The Industrial Index's return was 12% for the year to July, but nearly 40% since the March lows. Industrial companies have begun releasing trading statements for their results to June. In many instances, trading updates have exceeded the depressed market expectations, helped by cost-cutting measures rather than improved growth in sales.

To this end, the OM Industrial Fund remains more exposed to defensive counters like MTN, British American Tobacco (BAT), Remgro and Naspers. BAT and Naspers enjoyed good runs following the release of strong results. BAT reported growth in adjusted earnings of 25% for the six months to June 2009. The MTN exposure has proved a drag over the month as the merger negotiations with Indian mobile telecommunications company Bharti continue.

We remain true to our research philosophy of investing on intrinsic value, which is based on a long-term cash flow return-on-investment (CFROI) analysis, and will avoid chasing short-term momentum on share prices. Oversold opportunities will, however, be considered for inclusion.

FTSE / JSE Africa SA Industrials



Source: INET

31 July - 06 Aug 2009 in a nutshell

Global: Major global bourses just managed to stay in positive territory on a “mixed bag” of economic news from the US. The S&P 500 in the US rose 1.01%, while the European market stocks were a touch (0.26%) higher and Emerging market shares gained 2.64%

South Africa: The resource-heavy local bourse rallied on rising commodity prices and a weakening rand. The FTSE/JSE All Share Index soared 4.07% and the winners were resources, which ended the week 6.27% stronger.

Markets and Economics - Highlights

Global

- US manufacturing shrank less than forecast, and construction spending unexpectedly rose as overseas demand and the Obama administration's stimulus help resuscitate US factories from their worst slump in 28 years, the data from the Institute for Supply Management (ISM) showed.
- European producer prices fell the most in at least 28 years in June as oil prices dropped and the recession kept pressure on manufacturers to charge less. Factory-gate prices in the 16-nation euro region decreased 6.6% from a year earlier after a revised 5.9% drop in May, the European Union's (EU's) statistics office said.
- Brazil's industrial output rose for a sixth successive month in June, signalling factories are raising output after the worst first half since 1975. Production rose 0.2% in June from May. In addition, the central bank cut its benchmark rate to a record low of 8.75% this year from 13.75%.

South Africa

- The government announced a R2.4bn national job fund to assist employers and workers as a buffer against SA's recession. This is among several measures to be taken over the next two years to assist industries in distress.
- Factory output in SA slowed unexpectedly last month, lagging the improving global trend and dashing hopes the worst may be over for the economy's second-biggest sector. The Kagiso Securities purchasing managers index (PMI), a reliable health gauge of manufacturing activity, fell to 37,3 from 37,9 points in June, defying forecasts it would improve for the fourth month in a row.
- A rapid rise in spending and widening fiscal deficit in SA at a time when revenue is declining at such a strong clip is cause for concern, warned an emerging market economist. This comes after it was announced that SA posted a deficit of R482m in June, the end of the first fiscal quarter. This compares with a surplus of R2,5bn in the same month last year.
- South African business was very worried about the "militant" signal that a wave of pay strikes and service delivery protests had sent to global investors, the South African Chamber of Commerce (SACCI) said.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 06.08.2009	% Performance Return
United States	S & P 500 (US\$)	1.01%	997	10.41%
Europe	Euro Stoxx 50 (Euro)	0.26%	2,662	8.61%
Emerging Mkts	MSCI Emerg Mkts (US\$)	2.64%	856	50.97%
South Africa	FTSE/JSE All Share (ZAR)	4.07%	25,046	16.44%
Global	MSCI (US\$)	1.92%	1,059	15.11%
ZAR/Dollar	Rand/US \$ (ZAR)	3.47%	8.06	-15.42%
ZAR/Pound	Rand/£ (ZAR)	5.14%	13.49	-1.68%
ZAR/Euro	Rand/Euro (ZAR)	5.39%	11.54	-12.31%
JSE	Industrials	4.08%	22,895	6.51%
JSE	Financials	1.37%	17,881	13.32%
JSE	Resources 20	6.27%	45,999	19.45%
JSE	Small Companies	2.98%	25,033	10.22%
JSE	Listed Property	-0.33%	305	-1.61%
JSE	RAFI® ALSI	4.23%	5,220	21.45%
JSE	RAFI® 40	4.12%	5,031	18.04%
JSE	SWIX	3.59%	5,229	14.92%

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