

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

Industrials approach year-end with a bang!

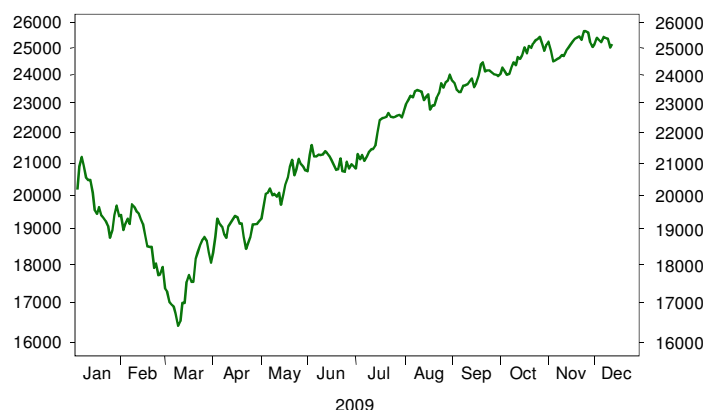


As of the end of November 2009, the local Industrial Index had skyrocketed 33% since the beginning of the year, albeit falling short of the FTSE/JSE All Share Index (ALSI)'s rise of 36%.

During November, the ALSI rose 2.1% versus the Industrial Index's 0.2% decline.

Results from the industrial companies have continued to roll in, and it has been a mixed bag. Broadly speaking, those with large local operations are still indicating deteriorating conditions, while those with offshore operations are reporting a bottoming out of weak economic conditions. It seems that South Africa (SA) has lagged the global recession by six months. Having said this, Stats SA recorded that the recession in SA technically ended in the third quarter of 2009.

FTSE / JSE Africa SA Industrials



Source: INET

The offshore companies seem to be reporting more aggressive cost cutting than those in SA. Five of the heavyweight industrial companies to report in November were Naspers, SABMiller, Remgro, Richemont and Tiger Brands. SABMiller and Richemont beat market expectations due to strong cost cutting programmes. Naspers reported earnings growth of 35%, but the growth came almost exclusively from its investment in Chinese internet business Tencent. Its TV businesses (Multichoice), with a big South African exposure, experienced far more subdued growth. Remgro's earnings were down 30% on a like-for-like basis as Impala, FirstRand and Total all came under pressure.

04 - 10 Dec 2009 in a nutshell

Global: Global bourses were a mixed bag this week on global debt woes, mainly emanating from Europe. The S&P 500 in the US gained a tad (0.18%), while its European peers shed 0.87% and emerging market shares fell 2.13%.

South Africa: The resources-heavy local market ended the week in the red on the weak commodity prices with the FTSE/All Share Index giving up 1.51%. The biggest losers were resources, falling 3.11%.

Markets and Economics - Highlights

Global

- The number of US workers claiming unemployment benefits fell for the fifth week running and dropped to the lowest level in 14 months, offering hope that the stricken labour market may be starting to improve, labour department figures showed.
- Greece's national debt is forecast to hit 125% of gross domestic product next year, the highest ratio in the euro area. The risk premium on government bonds jumped and bank stocks tumbled on Fitch Ratings' downgrade of its debt to BBB+, the first time it had fallen below investment grade in 10 years.
- Japan's economy grew much less than first estimated in the third quarter, as companies decided to save rather spend, adding to evidence the recovery is stumbling.

South Africa

- CEOs have remained optimistic for two successive quarters, according to the Merchantec CEO confidence index. The index climbed two points to 60.32 in the fourth quarter.
- Retail sales fell more than expected in October as shoppers cut back on spending at large general dealers and at hardware and building-related stores. The value of total sales fell 6.5% to an inflation-adjusted R39bn in October from the same month a year ago, official figures showed.
- SA's factory output shrank more slowly than expected in October, backing the view that the recovery in the economy's second-biggest sector is gathering momentum. Manufacturing contracted 9.3% compared to the same month last year, according to official data – the most moderate fall this year and a big improvement on the 11.4% dive in September.
- Motor trade sales decreased 9.1% y/y in October after declining a revised 8.8% in September, Statistics SA said.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 10.12.2009	% Performance Return
United States	S & P 500 (US\$)	0.18%	1,102	22.04%
Europe	Euro Stoxx 50 (Euro)	-0.87%	2,851	16.32%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-2.13%	965	70.19%
South Africa	FTSE/JSE All Share (ZAR)	-1.51%	26,901	25.07%
Global	MSCI (US\$)	-1.45%	1,154	25.43%
ZAR/Dollar	Rand/US \$ (ZAR)	1.76%	7.53	-20.99%
ZAR/Pound	Rand/£ (ZAR)	0.08%	12.23	-10.86%
ZAR/Euro	Rand/Euro (ZAR)	-0.45%	11.07	-15.88%
JSE	Industrials	-0.04%	24,484	13.90%
JSE	Financials	-0.25%	18,932	19.98%
JSE	Resources 20	-3.11%	49,718	29.10%
JSE	Small Companies	-1.24%	26,423	16.34%
JSE	Listed Property	-0.31%	318	2.58%
JSE	RAFI® ALSI	-1.89%	5,598	30.25%
JSE	RAFI® 40	-2.06%	5,417	27.10%
JSE	SWIX	0.18%	5,598	23.03%

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