

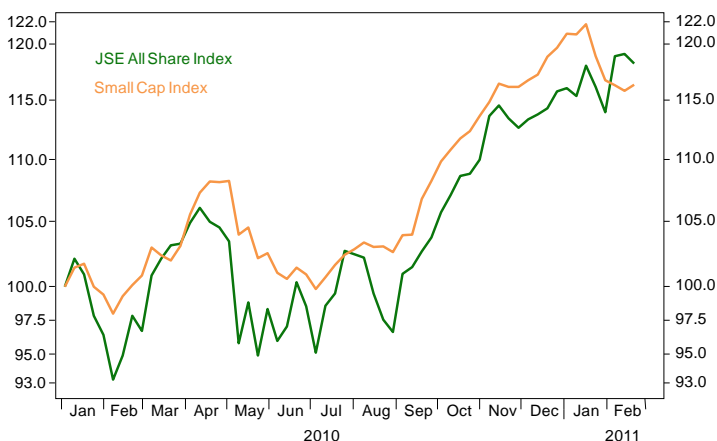
OMIGSA Comment – Warren Jervis, Head: Small Caps

Small Caps take a breather on profit-taking.....after a spectacular 2010



The market was very strong over the last quarter of 2010 based on capital flows into emerging markets and a major allocation swing from bonds into equities. Besides profit-taking in the New Year, there are also other global strains that are emerging. Social unrest in the Middle East and highly disruptive weather patterns have made investors cautious about the year ahead. Food inflation is now a global phenomenon and is triggering unrest in areas with high proportions of disaffected youth. Lack of jobs and rising food prices are proving to be strong stimulants for regime change.

Small Cap Index vs JSE All Share Index



Source: I-Net

Meanwhile, the Small Cap and Mid-Cap indices returned -3.6% and -4.8%, respectively, for the month ended 31 January 2011, while the FTSE/JSE Top 40 Index returned -1.7%. The underperformance of shares at the small/mid cap level was due, in part, to profit-taking after a spectacular 2010.

Internationally, concerns remain around European bank stress tests and continued European bail-out agreements. Economic growth numbers are being revised down in China and strong inflationary pressures are emerging. These factors will have a major impact on how the rest of the world fares throughout 2011. Portfolio managers are more cautious about the year ahead and only modest returns are expected from most asset classes.

11 - 17 Feb 2011 in a nutshell

Global: Global equities advanced this week, ignoring lacklustre macro-economic news coming from the world's major economies. The S&P 500 in the US gained 1.36% while the European market shares collected 1.29% and emerging market stocks rallied 2.11%.

South Africa: The local bourse was strong this week, with the FTSE/JSE All Share Index rising 0.97%. Resources were the laggards, ending the week flat, at -0.18%.

Markets and Economics - Highlights

Global

- Rising global demand for food and fuel pushed up the US cost of living more than forecast in January, a sign the risk of a damaging drop in prices is ebbing. The Consumer Price Index advanced 0.4% for a second month, led by the biggest increase in food costs in more than two years, according to figures from the Labour Department in Washington. Other reports showed manufacturing is bolstering the expansion, and consumer confidence is being buffeted by rising household expenses.
- Europe's economy expanded less than economists forecast in the fourth quarter as cold weather curbed German output and French growth unexpectedly stalled. Gross domestic product in the Euro region rose 0.3% from the previous three months, when it increased at the same rate, the European Union's statistics office in Luxembourg said. Economists had forecast the economy to expand 0.4%, the median of 37 estimates in a Bloomberg News survey showed.
- A leading economic index for China fell for the first time since 2008, The Conference Board, a

New York-based research organisation, said on its website. The measure declined 0.5% to 154.3 points in December from November. It's "too early to tell" if the world's second-biggest economy will have an economic slowdown, Jing Sima, an economist for The Conference Board said.

South Africa

- Strong December retail figures show that consumer spending, the main driver of SA's economic recovery, is becoming sustainable. According to Statistics SA figures, retail sales rose 8.3% year-on-year in December at constant prices, compared with an upwardly revised 8% increase during the previous month. SA's economy grew at 4.0% in the fourth quarter of 2010, bringing growth for the year to 2.7%, according to the Bureau for Economic Research (BER). This is up from -1.7% in 2009.
- After benefiting from a record wave of foreign inflows into emerging markets last year, the rand has been hit by a reversal of the flows as developing economies lose their price advantage over US and European markets. Analysts have also blamed the rand's weakening against all major currencies on the upheavals in Egypt, relaxed foreign exchange controls, and a more aggressive Reserve Bank. The rand has lost almost 8.5% against the US dollar so far this year.
- The slight rise seen in inflation in January was the first of many to come in 2011, according to several economists on Wednesday. The increase in SA's consumer price index (CPI), used by the SA Reserve Bank for its inflation target, was 3.7% year-on-year in January from 3.5% y/y in December, figures from Statistics SA showed.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 17.02.2011	% Performance Return
United States	S & P 500 (US\$)	1.36%	1,340	6.52%
Europe	Euro Stoxx 50 (Euro)	1.29%	3,065	9.74%
Emerging Mkts	MSCI Emerg Mkts (US\$)	2.11%	1,112	-3.39%
South Africa	FTSE/JSE All Share (ZAR)	0.97%	32,723	1.88%
Global	MSCI (US\$)	1.64%	1,360	6.25%
ZAR/Dollar	Rand/US \$ (ZAR)	-1.24%	7.17	8.47%
ZAR/Pound	Rand/£ (ZAR)	-0.77%	11.59	12.42%
ZAR/Euro	Rand/Euro (ZAR)	-1.11%	9.77	10.52%
JSE	Industrials	1.32%	28,699	-5.63%
JSE	Financials	1.91%	21,601	-0.21%
JSE	Resources 20	-0.18%	59,490	5.66%
JSE	Small Companies	0.23%	32,458	-3.75%
JSE	Listed Property	0.27%	365	-5.68%
JSE	RAFI® ALSI	1.39%	6,874	3.29%
JSE	RAFI® 40	0.82%	6,647	2.78%
JSE	SWIX	1.39%	6,722	0.33%

Editor: kbuthlezi@omigsa.com

OMIGSA: Tel. 021 509 7622

www.omigsa.com

The information in this document is obtained from OMIGSA, Morningstar and Reuters as at 17 Feb 2011. While every effort has been made to ensure the accuracy of information contained on this document, the Old Mutual, the Old Mutual Investment Group, its associated companies, its Directors or employees provide no representation or warranty, express or implied, regarding the accuracy, completeness or correctness of information contained in this website. Any opinion expressed is intended for general information, and is subject to change at any time without notice. Old Mutual Investment Group (South Africa) (Pty) Limited is a licensed financial services provider, FSP 604, approved by the Registrar of Financial Services Providers (www.fsb.co.za) to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. Old Mutual Investment Group is a member of Old Mutual South Africa Limited. Reg No 1993/003023/07.