

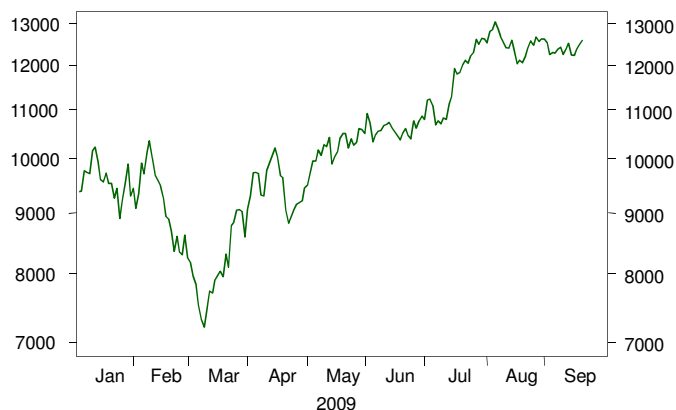
**OMIGSA Comment – Paul Kahumuza, Analyst: Financials**

**Life sector “out of the woods” but policy terminations blur outlook**



The life sector index was up 0.8% in August as the interim reporting season for the sector commenced. Old Mutual (OM) was a drag in the month, notwithstanding its strong contribution to the sector’s performance since the lows of March 2009. Excluding OM, the sector was up just over 4%, backing the general upward trend of the market (the SWIX gained 3.8%) and continued to consolidate, following a strong nine-month outperformance to February 2009.

**FTSE/JSE Life Insurance Index**



Source: INET

Most companies in the sector have reported deterioration in policy retention due pressure on households’ disposable income. Muted equity markets in the first half of the year kept a lid on earnings and in some cases, the stronger rand diluted offshore assets. However, the sector remained well capitalized in spite of the turmoil in equity markets and smooth bonus funding levels have improved significantly.

Going forward, policy retention is expected to remain a challenge and the risk of further job losses poses more headwinds. Although the recent recovery in equity markets has strengthened capital positions and boosted asset-based fees, the sector’s defensive nature suggests that it will lag the market should equities continue to rally.

Despite its recent rally, OM remains the cheapest counter based on its sum-of –the-parts fair value. Sanlam is trading close to its historical highs on a price-to-embedded value basis, suggesting limited upside. Although it is hard to choose between Metropolitan and Liberty on valuation, the former is a safer bet, given its higher gearing to equity markets while the latter is faced with pressures on policy retention.

**11 - 17 Sept 2009 in a nutshell**

**Global:** The bulls continued their forward march in most global bourses for a second consecutive week amid strong macro-economic data and tangible signs that the global economy is recovering. The S&P 500 in the US collected 2.01% while European market shares gained 2.73% and emerging market stocks climbed 3.72%.

**South Africa:** The positive news from overseas markets and Warren Buffet’s statement that he’s buying equities boosted the local market with the FTSE/JSEA All Share Index rallying 2.39%. The winners were industrials, surging 4.32% and the loser was Listed Property, falling 1.57%.

**Markets and Economics - Highlights**

**Global**

- Warren Buffet, the US billionaire investor, said that the US economy had “hit a plateau at bottom”. “We have not bounced but we’ve quit going down”. Signs that the worst recession since the 1930s is over have accumulated in the past two months, with US manufacturing expanding for the first time in 19 months last month and home sales rising. The Bloomberg Global Confidence index exceeded 50

- in September? for a second month, meaning optimists outnumbered pessimists.
- Europe's economies are rebounding at different speeds, complicating the European Central Bank's (ECB's) efforts to put the region back on a more stable footing. Europe replaced North America as the world's richest region last year as measured by assets under management, a survey by the Boston Consulting Group showed.
  - China's big state-owned firms invested \$36 billion (R265 bn) abroad last year despite the downturn, the government said.

### South Africa

- Reserve Bank Governor Tito Mboweni warned that the central bank was "increasingly concerned" about the rand's strength and its effect on SA. This he said after the unit scaled a new 13-month peak at R7.29/\$, extending hefty gains this year, which could erode the competitiveness of exports and threaten economic recovery.
- When Finance Minister Pravin Gordhan presents his first mini budget next month, he may reveal that the expected budget deficit for the 2009/10 fiscal year has widened to between 7% and 8% of gross domestic product (GDP). The deficit – which is the gap between revenue collection and government spending – was only 1% of GDP in the previous fiscal year, analysts said.
- Retail sales for July are likely to be better than the preceding figures for June, with analysts predicting a slight uptick in apparel sales and footwear. According to Statistics SA, retail sales plunged by 6.7% y/y in June compared with a revised 4.4% contraction in May.

#### Key Indicators:

| Market        | Index                    | Movement for the period |                          | Year to Date         |
|---------------|--------------------------|-------------------------|--------------------------|----------------------|
|               |                          | %                       | Index Value @ 17.09.2009 | % Performance Return |
| United States | S & P 500 (US\$)         | 2.01%                   | 1,065                    | 17.94%               |
| Europe        | Euro Stoxx 50 (Euro)     | 2.73%                   | 2,895                    | 18.12%               |
| Emerging Mkts | MSCI Emerg Mkts (US\$)   | 3.72%                   | 920                      | 62.26%               |
| South Africa  | FTSE/JSE All Share (ZAR) | 2.39%                   | 25,921                   | 20.51%               |
| Global        | MSCI (US\$)              | 2.42%                   | 1,142                    | 24.13%               |
| ZAR/Dollar    | Rand/US \$ (ZAR)         | -2.25%                  | 7.38                     | -22.56%              |
| ZAR/Pound     | Rand/£ (ZAR)             | -3.66%                  | 12.12                    | -11.66%              |
| ZAR/Euro      | Rand/Euro (ZAR)          | -1.18%                  | 10.88                    | -17.33%              |
| JSE           | Industrials              | 4.32%                   | 25,817                   | 20.10%               |
| JSE           | Financials               | 2.18%                   | 18,614                   | 17.97%               |
| JSE           | Resources 20             | 2.32%                   | 47,210                   | 22.59%               |
| JSE           | Small Companies          | 0.22%                   | 26,396                   | 16.23%               |
| JSE           | Listed Property          | -1.57%                  | 314                      | 1.29%                |
| JSE           | RAFI® ALSI               | 2.08%                   | 5,350                    | 24.48%               |
| JSE           | RAFI® 40                 | 2.10%                   | 5,154                    | 20.93%               |
| JSE           | SWIX                     | 2.56%                   | 5,456                    | 19.91%               |

 Editor: [kbuthlezi@omigsa.com](mailto:kbuthlezi@omigsa.com)

OMIGSA: Tel. 021 509 7622

[www.omigsa.com](http://www.omigsa.com)

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