OLD MUTUAL Investment Group | Equity Research

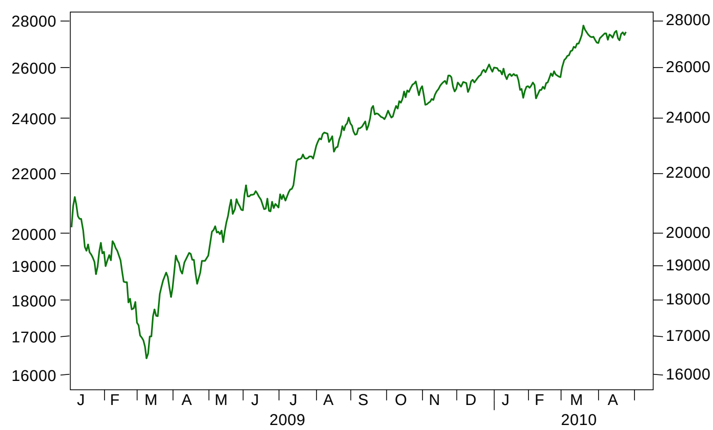
23 April 2010

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

Foreigners snap-up local retail shares

The industrial sector performed roughly in line with the overall market for the first quarter of 2010, (up 4.4%), but underperformed in the month of March. Performance was spread around the whole sector, but discretionary retailers led the pack.

SA Industrial Index



Source: INET

Woolworths, Truworths and Massmart were up more than 20% in the quarter, and Mr Price and Foschini were up more than 10%. Foreign institutions were leading the buying into retail shares, as local retailers appeared cheap compared to their emerging market counterparts, despite the fact that they were already looking fully valued compared to our local market. Truworths and Massmart have long been the darlings of foreign investors, given their strong management and consistent earnings.

There are indications that the consumer has turned the corner, but we have reservations about how rapid the recovery will be, given the still over-indebted state of the consumer's balance sheet.

Meanwhile, large cap rand hedges such as Richemont, South African Breweries (SAB) and Remgro also performed very well during the quarter. Barloworld and Imperial both reacted positively to an apparent turnaround in the consumer's appetite for cars, and Barloworld was further fuelled by a belief that their yellow metal equipment (e.g. Caterpillars) used by mines will recover as a result of the turn in the commodity cycle.

15 - 22 April 2010 in a nutshell

Global: Major global bourses ended in the red this week, as investors shunned riskier assets on a fraud case against Goldman Sachs and Greece's sovereign debt woes. The S&P 500 in the US shed 0.25% while its European counterpart was hardest hit, plunging 3.82%, and emerging market stocks gave up 2.40%.

South Africa: The local market tracked its global peers lower, with the FTSE/JSE All Share Index falling 2.51% this week. Commodities led the decline, decreasing 4.27%.

Markets and Economics - Highlights

Global

- The number of Americans filing claims for unemployment benefits fell last week as the rebounding economy prompted companies to make fewer job cuts. Initial jobless applications dropped by 24 000 to 456 000 in the week ended last Saturday, the Labour Department said in Washington.
- The Euro area's budget deficit increased to more than double the European Union's (EU's) limit of 3% of gross domestic product (GDP) last year, the EU's statistics office said, while Moody's Investors Service downgraded Greece's sovereign debt rating. The euro declined on the news.

- India's central bank raised interest rates for the second time in a month and ordered lenders to set aside more cash as reserves, seeking to slow the fastest inflation among Group of 20 nations. The bank said it had boosted its three policy rates by a quarter point

South Africa

- Growth in SA's economy is likely to accelerate to more than 4% in the first quarter of this year, buoyed by inventory restocking and consumer demand, said Johan Els, OMIGSA's senior economist. Els' forecast of 3.5% growth in 2010 is more optimistic than market consensus of just below 3% and official forecasts of 2.3%.
- A local bank's Residential Property Barometer survey of estate agents saw respondents estimating a more significant jump in residential demand activity for the first quarter compared with previous quarters.
- Most business leaders in SA are optimistic about the future, proud to be South African and have not considered emigrating. About 62% of top professionals surveyed by Ipsos-Markinor said their company was better off than a year ago, while 72% believed they would be more prosperous in a year's time.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 22.04.2010	% Performance Return
United States	S & P 500 (US$)	-0.25%	1,209	8.42%
Europe	Euro Stoxx 50 (Euro)	-3.82%	2,898	-2.30%
Emerging Mkts	MSCI Emerg Mkts (US$)	-2.40%	1,218	23.10%
South Africa	FTSE/JSE All Share (ZAR)	-2.51%	28,822	4.18%
Global	MSCI (US$)	-1.85%	1,218	4.28%
ZAR/Dollar	Rand/US $ (ZAR)	3.57%	7.55	2.17%
ZAR/Pound	Rand/£ (ZAR)	1.60%	11.45	-3.46%
ZAR/Euro	Rand/Euro (ZAR)	-0.10%	9.89	-5.72%
JSE	Industrials	-1.22%	26,374	4.47%
JSE	Financials	-2.28%	20,957	8.44%
JSE	Resources 20	-4.27%	51,718	1.24%
JSE	Small Companies	-0.47%	30,146	8.10%
JSE	Listed Property	-0.85%	351	8.67%
JSE	RAFI® ALSI	-2.43%	6,067	5.48%
JSE	RAFI® 40	-2.79%	5,883	5.20%
JSE	SWIX	-2.37%	6,008	4.76%

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