

OMIGSA Comment – Evan Robins: Sector Head: Listed Property

Listed property now offers improved value



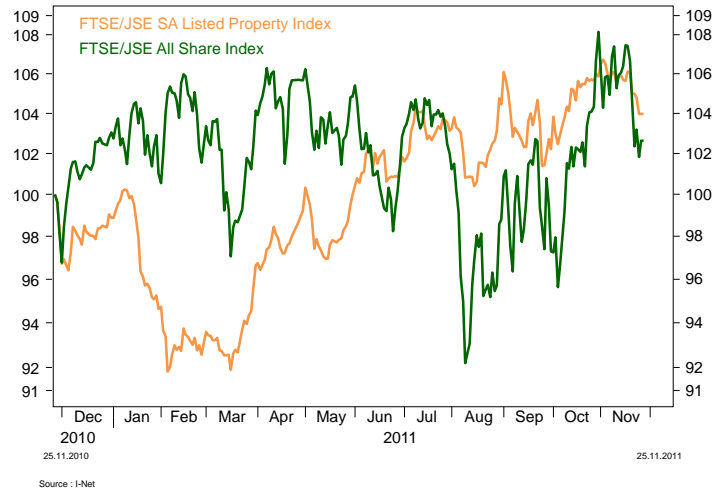
The FTSE/JSE SA Listed Property Index (SAPY) provided a 2.6% total return in October. This was lower than the All Bond Index's 2.8%, the FTSE/JSE All Share Index's 9.4% and General Retailers 14.1%.

News flow over the month was disappointing, with the two specialist funds that reported showing a fall in distributions compared to the comparable period. The positive price impact of the 40 basis point reduction in bond yields allowed the sector to show positive growth over the month.

Following the price movement, listed property now offers improved value relative to both nominal bonds and equities. It is more defensive compared to other equities as most of its earnings are based on medium-term contracts. As a result, it should perform better in an economic downswing.

The sector offers a one-year forward yield greater than 8%, which comfortably exceeds the 10-year bond yield, and distribution growth approximating inflation. Downside operational risk has reappeared, but base funding rates have reduced.

FTSE/JSE SA Listed Property Index vs FTSE/JSE All Share Index



18 November – 24 November 2011 in a nutshell

Global: Global markets once again delivered negative returns as the S&P 500 fell 4.47% and its European counterpart was down 6.80%, while emerging markets also declined 6.69%.

South Africa: The local market dropped much less than its global counterparts this week, with the FTSE/JSE All Share Index falling 3.81%. All sectors recorded negative returns – resources took the biggest knock with a negative return of 6.01%.

Markets and Economics – Highlights

Global

- The US deficit committee's failed attempt to address the US economy's spiraling debt was met with a surprisingly muted reaction on Wall Street and Main Street. This was partly due to the fact that astute observers concluded that the Congress may accomplish more by not doing anything when it comes to the deficit. Should this deadlock continue into 2012, approximately \$7 trillion in tax cuts and spending programmes will expire under the current law, which is sufficient enough to eradicate the deficit problem by 2014 - well ahead of the most ambitious plans offered in Congress.
- The euro and commodity-linked currencies came under pressure against the dollar after Portugal's sovereign credit rating was cut to junk by Fitch Ratings, while reports surfaced that troubled French-Belgian bank Dexia SA was tapping emergency liquidity assistance. This news managed to wipe out all of the euro's earlier gains following positive results in a German business confidence survey. The euro slipped back below \$1.34 against the dollar, after briefly trading above that level, while other risk-sensitive currencies such as the Australian dollar and SA rand were also knocked by yet more negative headlines coming out of the Eurozone.
- Emerging market stocks gained some ground after German business confidence unexpectedly improved and speculation mounted that China will ease lending restrictions. German Chancellor Angela Merkel said she remained opposed to common euro-area debt sales, citing that it would take them back to a time before the crisis. German business confidence rose for the first time in five months in November. China's central bank also cut reserve ratios for more than 20 rural credit cooperatives by half a percentage point.

South Africa

- Food and fuel prices were the main drivers behind South Africa's 21-month inflation rate high, which fast-tracked to 6% in October, from its recorded 5.7% in September. This now reduces the South African Reserve Bank (SARB)'s chances to lower interest rates in order to stimulate the economy. According to an expert, the fact that inflation has reached the upper limit of the SARB'S 3% to 6% target range has sufficient shock value to finally banish any expectations of a rate-cut. The SARB expects inflation to peak at an average of 6.3% in the first quarter of 2012, and remain above the inflation target band until the fourth quarter of 2012.
- South Africa, like China and India, is among the world's top five producers of coal. The three nations hoard large domestic coal supplies that provide a cheap source of energy to meet an ever-growing demand. South Africa generates 90% of its electricity from coal, China 70%, and India follows suit with 55%. These nations are collectively spending tens of billions of dollars on new coal plants, while also driving plans for nuclear and renewable energy generation. However, environmental activists are not happy, saying that these countries are not trying their utmost to develop renewable energy sources. Unfortunately, South Africa is bearing the brunt of this scorn since it is the host of the UN climate talks starting in Durban on Monday.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 24.11.2011	% Performance Return
United States	S&P 500 (US\$)	-4.47%	1,162	-7.65%
Europe	Euro Stoxx 50 (Euro)	-6.80%	2,090	-25.16%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-6.69%	888	-22.83%
South Africa	FTSE/JSE All Share (ZAR)	-3.81%	31,202	-2.86%
Global	MSCI (US\$)	-5.40%	1,100	-14.08%
ZAR/Dollar	Rand/US \$ (ZAR)	3.20%	8.47	28.14%
ZAR/Pound	Rand/£ (ZAR)	1.63%	13.13	27.35%
ZAR/Euro	Rand/Euro (ZAR)	2.45%	11.31	27.94%
JSE	Industrials	-2.97%	27,386	-9.94%
JSE	Financials	-2.46%	21,074	-2.65%
JSE	Resources 20	-6.01%	50,985	-9.44%
JSE	Small Companies	-0.90%	31,574	-6.37%
JSE	Listed Property	-3.03%	377	-2.70%
JSE	RAFI® 40	-4.00%	6,411	-3.67%
JSE	RAFI® ALSI	-4.19%	6,131	-5.20%
JSE	SWIX	-3.14%	6,593	-2.24%

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