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## The world stage and our business in 2011

The last year has been a wild ride on the global markets, leaving many investors reeling in its wake. In this newsletter we look at some of the stand-out events of the year – many of which caused extreme volatility in our markets. This further reinforces the importance of taking a long-term view when investing.

FTSE/JSE ALL SHARE INDEX (ALSI) FROM 31 DECEMBER 2010 TO 30 NOVEMBER 2011



<b>JANUARY</b>	<ul style="list-style-type: none"> <li>▼ Pro-democracy unrest erupts in Egypt, oil price surges.</li> </ul>
<b>FEBRUARY</b>	<ul style="list-style-type: none"> <li>▼ Christchurch, New Zealand, hit by a massive earthquake.</li> </ul>
<b>MARCH</b>	<ul style="list-style-type: none"> <li>▼ Japan devastated by a lethal earthquake-tsunami combination; fears of a meltdown at the Fukushima nuclear power plant.</li> <li>▼ Libyan uprising gains momentum and US and European military enters the fray.</li> </ul>
<b>APRIL</b>	<ul style="list-style-type: none"> <li>▼ US Democrats and Republicans lock horns.</li> <li>▼ Japan escalates its nuclear crisis to the levels of Chernobyl as it continues to experience severe aftershocks.</li> </ul>
<b>MAY</b>	<ul style="list-style-type: none"> <li>➤ Al' Qaeda strongman, Osama bin Laden, is captured and shot dead in Pakistan.</li> <li>▼ Renewed concerns over Greece's fiscal position.</li> <li>▼ Local inflation drifts up, driven primarily by food and energy prices.</li> </ul>
<b>JUNE</b>	<ul style="list-style-type: none"> <li>▼ Sovereign debt fears continue to stalk markets: Greek bailout plans stall; Moody's puts Italy on review for a downgrade.</li> <li>▲ Oil prices plummet as International Energy Agency announces a 60 million barrel oil sale from strategic reserves.</li> <li>➤ The US Federal Reserve's QE2 (quantitative easing round 2) ends.</li> </ul>
<b>JULY</b>	<ul style="list-style-type: none"> <li>▲ Greece gets its second bailout package to the tune of €109 million.</li> <li>➤ Norway is rocked by right-wing terror attacks.</li> <li>▼ At home, strike season is in full swing.</li> <li>▼ China hikes interest rates for the fifth time in nine months.</li> </ul>
<b>AUGUST</b>	<ul style="list-style-type: none"> <li>▼ Uncertainty around the future of the Eurozone and risk aversion result in market sell-off.</li> <li>▼ The UK descends into violence as rioters and looters take to the streets.</li> <li>▲ Gold price hits a US\$1 890 all-time high.</li> <li>▲ The US Federal Open Market Committee (FOMC) announces that interest rates will be fixed at 0.25% to mid-2013.</li> <li>▼ Down to the wire, US Congress breaks deadlock and raises the debt ceiling; S&amp;P downgrades US credit rating from AAA to AA+.</li> <li>▲ The European Central Bank starts buying Spanish and Italian debt.</li> </ul>
<b>SEPTEMBER</b>	<ul style="list-style-type: none"> <li>▼ Global flight of capital away from risk assets due to continued uncertainty – emerging markets hard-hit.</li> <li>▲ Rand weakens significantly against US dollar.</li> <li>➤ Occupy Wall Street, and anti-capitalist, anti-establishment gains national and global traction.</li> </ul>
<b>OCTOBER</b>	<ul style="list-style-type: none"> <li>▲ Equity markets rally due to upbeat macroeconomic data; good earnings reports out of the US.</li> <li>▼ Greek Prime Minister Papandreou announces a public vote on the austerity measures, catalysing turmoil.</li> <li>➤ Gaddafi is killed and Libya starts the slow process of transition towards democracy.</li> </ul>
<b>NOVEMBER</b>	<ul style="list-style-type: none"> <li>▲ Papandreou steps down, followed by Italy's Berlusconi.</li> <li>➤ Julius Malema is suspended from the ANC for five years.</li> <li>▼ German bond auction "flops".</li> <li>▼ Moody's downgrades Portugal to junk status.</li> <li>▲ On 30 November, the FTSE/JSE All Share Index spiked by 3.7% on the back of decisive action by major central banks.</li> </ul>

## MSI's 2011 business highlights

### Two key appointments

Diversity of skills is key to the success of our business model, and this year we made two important appointments, both of which enhance the quality of our team and our delivery to our clients.



**May:**

**Melanie Vollenhoven, Distribution Support Specialist**

Melanie brings her diverse experience in the financial services distribution arena to support our endeavours to offer seamless client service. Among other things, Melanie manages all our client databases; coordinates

client interactions and events; and assists with reports, communication material and responses to client queries.

She has significantly improved our capacity to serve our clients optimally.



**November:**

**Arthur Karas, Senior Portfolio Manager: Equity**

Prior to accepting our offer, Arthur was the Chief Investment Officer at Hermes Asset Management for six years, where he was responsible for, among other tasks, the investment process and strategy, equity research and portfolio management. On his watch the company launched two unit trusts, won several segregated institutional mandates and in that time picked up an S&P award for best small unit trust company.

Arthur will focus primarily on equity selection, along with Alida Jordaan and Warren van der Westhuizen. His input will add further insights to our "best investment view" equity portfolio.

### Increased offshore allowance

In December 2010, the South African Reserve Bank relaxed its foreign exchange control limits, increasing allowable offshore exposure from 20% to 25%, plus a further 5% may be invested in Africa. Regulation 28 of the Pension Funds Act was amended to reflect this increase, and to update the asset class exposure guidelines, which now make formal provision for the inclusion of hedge funds and derivatives in retirement portfolios.

Backed by rigorous statistical optimisation techniques, using data over a 40-year period, we took the opportunity to further diversify offshore, taking advantage of the prevailing rand strength. Our investments have benefited from this position as the rand has subsequently weakened.

### Improvement in global portfolio returns

Last year we completed a significant restructure of our global equity portfolios. A year later, it is pleasing to note the improvement in performance and we look forward to this being an ongoing trend.

Portfolio	1-year performance rankings
Global Balanced	3/9
Opportunities Equity	8/22
Multi-Style Equity	5/22
Global Bond	1/7
Global Money Market	1/3

Source: Alexander Forbes International Survey August 2011

### Old Mutual Real Income Fund

This low-risk unit trust has proved extremely popular with investors as it hit R1bn assets under management in January and, just nine months later, reached R2bn. This fund offers volatility protection, while aiming to deliver a growing income and inflation protection through a maximum exposure to 25% equity.

This bears testimony to the growing awareness of investors that, in times of low interest rates and inflationary pressure, an actively managed conservative fund is a more compelling strategy than a pure money market investment.

### Offshore exposure does not increase risk

We successfully balloted investors in the fund to extend its mandate to include offshore exposure. As the portfolio manager, I would like to reassure investors that this in no way compromises the fund's objective of delivering a growing income. In fact, it is actually a powerful tool that I can use to better achieve this objective.

### Twin benefits of offshore exposure

I will be using the fund's ability to invest offshore to take advantage of opportunities to generate additional income for investors and to further protect the fund from rising inflation.

- A primary source of inflation is rand weakness (a weak rand = more expensive imported goods). Offshore exposure will respond favourably in rand terms when inflationary pressures emerge.
- The offshore component also provides me with a broader opportunity set when seeking income. For example, I can invest in foreign convertible bonds which have the potential to deliver income plus some potential capital growth.

It is worth noting that I do not intend to make a predetermined allocation to a portfolio of offshore assets. Rather, any individual foreign asset held in this fund will be considered specifically in relation to the objectives of the fund.

### Performance

To end October 2011, the fund is a top-quartile performer and has delivered handsomely for investors over the medium term.

	3 years		5 years (since inception 2006)	
	Returns	Rank*	Returns	Rank*
Old Mutual Real Income Fund	12.0%	4/53	9.5%	3/32
CPI	4.9%		6.8%	

\* Against Asset Allocation - Prudential - Low Equity peer group.  
Source: Morningstar

For more information, visit [www.omigsa.com/msi](http://www.omigsa.com/msi)

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