

Market Dynamics

March 2009

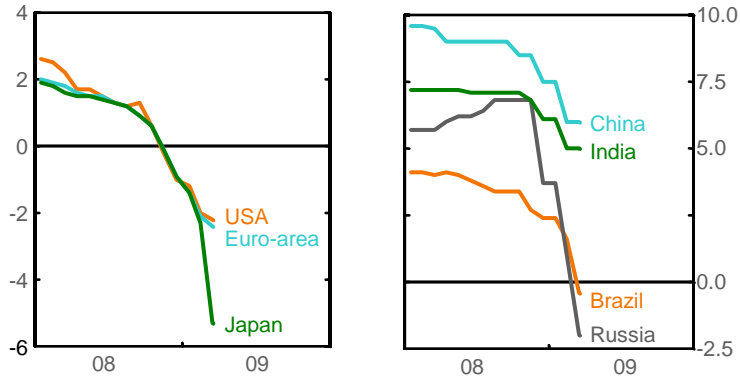


Contents

▲ Economic Overview and Outlook	1-2
▲ Equity Sector Overview and Outlook	3-5
▲ Fixed Interest Overview and Outlook	6
▲ Economic Indicators	7
▲ Market Indicators	8
▲ Contact Details	9
▲ Regulatory Information	10

World Economic Overview and Outlook

GDP growth forecasts for 2009



Source: OMIGSA (Iris)

Markets rally on hopes of economic stabilisation



Source: OMIGSA (Iris)

- ▲ The global downturn continues to spread via a broad-based slump in consumer demand, postponements or scrapping of private expansion plans, a sharp contraction in global trade, and steeply lower commodity prices.
- ▲ With the world still firmly in the grip of recession, global growth forecasts for 2009 and 2010 have been slashed further and the International Monetary Fund (IMF) expects the global Gross Domestic Product (GDP) to *contract* by about 1% in 2009, with only a moderate recovery taking hold in 2010. Private forecasters hold even more negative views.
- ▲ Given the grim global economic outlook, with risks skewed to the downside in the short term, policymakers have intensified stimulus efforts: interest rates have been lowered further, more fiscal support packages have been announced, and some central banks are lending direct support to borrowers who are constrained by still-frozen credit markets.

OMIGSA view: *The world growth slump continues, but the pace of deceleration should start to slow towards mid-year.*

- ▲ The poor economic data, ongoing concerns about the global banking system and slumping corporate profits caused a sharp sell-off of equities around the world during January and February.
- ▲ March saw a strong rally, albeit from heavily oversold levels, as aggressive policy action and some hopeful signs that the pace of the economic downturn may be moderating, drew investors back into more risky assets.
- ▲ We still expect conditions to stabilise towards mid-year, with a moderate recovery taking hold during the latter part of 2009. Nevertheless, in the short term, growth risks remain tilted to the downside and the recovery, when it eventually arrives, will likely be slow and uneven.

OMIGSA view: *2009 will be a year of two halves: a deep slump during the first half, followed by stabilisation and possibly even a moderate recovery in the second.*

Local Economic Overview and Outlook

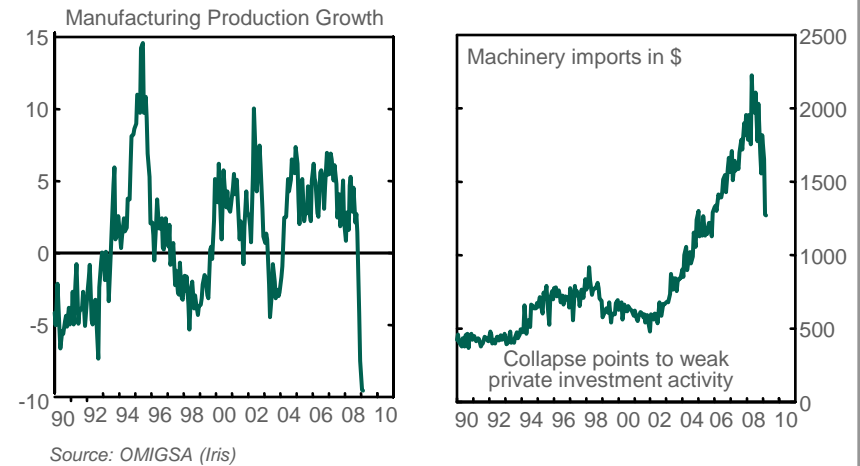
- ▲ Following an almost 2% contraction in Gross Domestic Product (GDP) in the fourth quarter of 2008, available data for the first quarter of 2009 does not look any better. Considerable weakness remains in key sectors such as mining, manufacturing and electricity production. Data points to another quarter of declining aggregate production (or GDP) during the first quarter of 2009.
- ▲ Prospects remain poor. The global slump poses a serious challenge to exporters and companies appear to be postponing or scrapping expansion plans given the fall-off in demand and extreme mid-term uncertainty.
- ▲ Banks have tightened their lending standards, slowing credit extension sharply - despite lower interest rates. GDP for the full 2009 calendar year is now expected to contract by about half a percent, with the risks to this forecast skewed to the downside.

OMIGSA view: *Local 2009 growth prospects are poor due to the global slump and intensifying local demand weakness.*

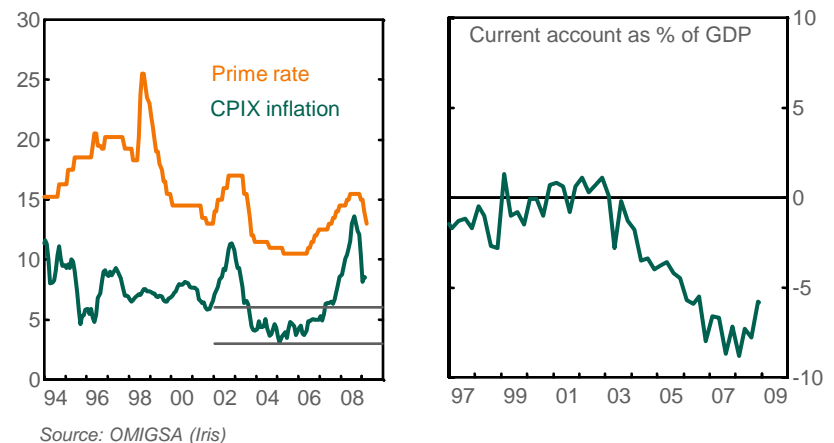
- ▲ The outlook for consumers is a little more rosy. Lower interest rates, a general slowdown in inflation and recent tax cuts will lend support to consumption. The risk is that the downturn in the broader economy will cause widespread layoffs.
- ▲ With the economy slowing sharply and promising prospects for a further notable deceleration in inflation in the months to come, the South African Reserve Bank (SARB) lowered interest rates by a further 100 basis points (bps) late in March.
- ▲ More good news came in the form of a sharp narrowing of the trade deficit to less than R1bn in February, from the shocking R17bn deficit recorded in January. Trade numbers are extremely volatile but the February number has revived hopes that the current account deficit, which narrowed from 7.8% of GDP in the third quarter of 2008 to 5.8% in the fourth quarter, will narrow further during the remainder of 2009.

OMIGSA view: *The downcycle in local interest rates is underway and rates should decline a further 200 basis points (bps) in 2009.*

Real economy very weak



Inflation and rates decline; current account narrows



Equity Sector Overview and Outlook

Resources

- ▲ The basic materials sector delivered a strong performance in March with 31%, 17% and 9% returns for the platinum, diversified miners and oil/gas sectors respectively.
- ▲ The result was a 1.6% return by the resources sector for the March 2009 quarter vs the -4.2% delivered by the FTSE/JSE All Share Index.
- ▲ Most of the outperformance was from the precious metals sectors – gold and platinum – which were seen as traditional safe havens during the economic turmoil, and the quantitative easing (printing money) witnessed recently.
- ▲ Global uncertainty regarding economic growth remains high. As a result, it would be prudent to avoid higher-cost, lower-quality resources companies or exploration/junior companies that will not receive funding under the current conditions.
- ▲ We expect most non-gold mining companies to post substantially lower profits than their last set of record results, with pressure on earnings during 2009 due to materially lower commodity prices and/or volumes.
- ▲ Despite the uncertainty regarding global growth, there is substantial value in certain shares and/or sectors even on (lower) normalised earnings, such as ArcelorMittal.

Investment Research view: *The diversified miners are protected by their exposure to a variety of commodities and currencies in their portfolios as they typically have the best assets and tend to remain profitable even in commodity downturns, unlike some of the pure and smaller miners. Mining valuations remain compelling, given the recent weak share price performance. While short-term conditions are tough for some non-mining resources companies, valuations are very compelling.*

Small Companies

- ▲ There is a lot of global uncertainty at present, which has caused a sell-off in many securities. South African (SA) small caps are no exception, exacerbated by some suspected forced selling by local and international players. In this environment, small caps tend to underperform relative to the FTSE/JSE All Share Index.
- ▲ During the first quarter of 2009, the Small Cap Index lost 6.4%, compared to the 4.1% decline posted by the JSE Top 40 Index.
- ▲ We are constantly seeing downward revisions to forecasts, and company results are confirming the economic slowdown. Another feature coming from the recent reporting season is the extent to which layoffs are increasing. This must surely impact on consumers, particularly at the lower end.
- ▲ Decreasing interest rates should be good for small caps, as many companies are reliant on the health of the SA consumer for their wellbeing.
- ▲ The waning appetite for additional risk among some funds is likely to increase small cap volatility, but this can provide us with good buying opportunities in the year ahead.

Investment Research view: *The average price:earnings (p:e) ratio at which small caps trade compared with large caps has widened to about a 20% discount. Unless renewed optimism comes back into the market, we expect this discount to persist.*

Equity Sector Overview and Outlook (cont.)

Financials

- ▲ The Financial Index was down 8.1% in the first quarter of 2009, underperforming the SWIX All Share Index, which was down 4.4% during the same quarter.
- ▲ Within financials, the Banking Index was down 9.8%, while the life sector was down approximately 3.1% in the quarter (down 1.8% ex Old Mutual).
- ▲ The downward phase in the interest rate cycle will be positive for the financial sector operationally, although relief on earnings will only be seen in the medium term.
- ▲ However, the slowdown in Gross Domestic Product (GDP) growth and a possible increase in unemployment pose a headwind to the performance of the sector.
- ▲ 2009 will be a tough year operationally for companies, but we believe that the share prices already reflect much of this.
- ▲ On an absolute basis, we believe that the financial sector is looking very attractive and is underpinned by a high dividend yield.

Investment Research view: Financial stocks are facing a tougher operating environment, but this has been discounted in current prices. Valuations are looking attractive, especially dividend yields.

Industrials

- ▲ The industrial sector lost ground against the FTSE/JSE All Share Index, down 10% for the first quarter, having suffered a particularly sharp sell down in the first two months of the year, but recovering somewhat in March.
- ▲ Losses were incurred across the sector, with the only industry partly protected being healthcare, and this primarily because of corporate activity in Aspen, which was up more than 30% in the quarter.
- ▲ Clothing retail also stood out as a more stable industry performer, probably because trading updates at the start of the year were more positive than expected. Further rate cuts continued to spur interest in the shares.
- ▲ MTN also held up strongly as results indicated that trading was still holding up across all the geographies in which they are active.
- ▲ Perhaps surprisingly, some of the more defensive plays, such as rand hedges and food retailers, also saw some big losses in share value during the quarter.

Investment Research view: A defensive stance is still warranted, especially since the pricing of some defensive shares have pulled back a bit making them more desirable. Pricing in some of the more cyclical shares may look attractive but we are very aware of the sustainability of earnings.

Equity Sector Overview and Outlook (cont.)

Property

- ▲ The listed property sector recorded a -1.4% total return in the first quarter of 2009, boosted by a 2.6% gain in March, along with the FTSE/JSE All Share Index which climbed 11% in the month. Listed property regained some lost ground relative to bonds, which slid to -5.1% in the first quarter after a substantial rally in the second half of last year.
- ▲ Market rentals have largely peaked and tenant arrears have increased. Property expenses (especially higher electricity, rates and taxes) are putting pressure on tenants' ability to afford space and landlords' operating margins. Funding has become scarce and companies have shelved all except already-committed capital expenditure, which will serve to curb the amount of new supply.
- ▲ Vacancies are expected to rise over the next two years, from 3%-4% to 6%-7% and, while this will limit rental growth, most existing contractual rentals are below market levels and will continue to increase on expiry. The bulk (around 80%) of a property company's revenue is contractually rising at 8%-9% and provides a significant underpin to growth.

***OMIGSA view:** The sector represents fair value. However, declining interest rates will undermine the income return from cash, and an increasing number of non-property companies' dividends have either been cut, or are in question. Under these circumstances listed property may continue to provide attractive risk-adjusted returns.*

Fixed Interest Overview and Outlook

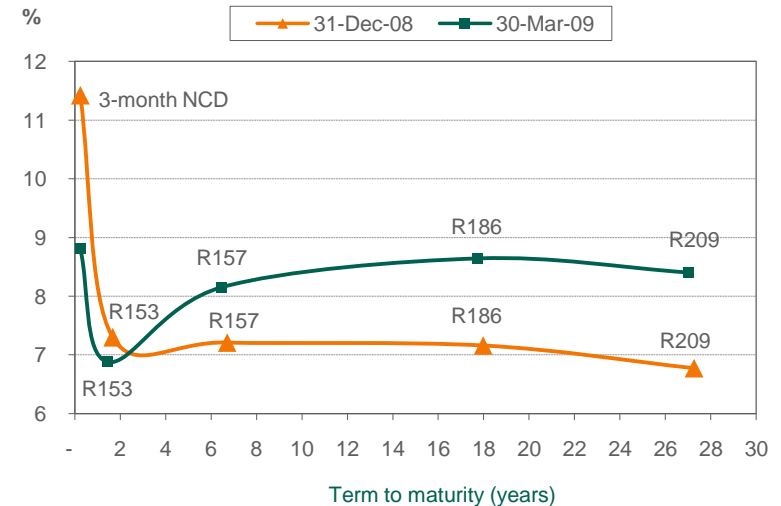
- ▲ Investor fears about a severe worldwide recession and deflation kept global government bond yields below the long-term average. It seems that most of these markets are forming a base at the lower levels, with the next big move likely to be rising yields given the massive injection of liquidity implemented by authorities worldwide.
- ▲ The local bond market weakened following the announcement of a higher-than-expected national budget deficit of 3.8% of Gross Domestic Product (GDP) for the forthcoming fiscal year, slightly higher global bond yields and the absence of fresh inflation news.
- ▲ Changes to the shape of the yield curve reflect recent rate reductions, expectations of more policy easing and significantly higher supply from Government and other public sector borrowers.
- ▲ The bond market is expensive, but is expected to trade in a trading range of about 150 basis points (bps), with the risk of higher yields increasing significantly on a 12-month view.

Futuregrowth view: Yield curve normalisation is expected to continue in the light of expectations of lower short-term interest rates and rising net new issuance of long-term bonds.

- ▲ In our money market funds, we maintained an underweight tilt to cash, added to short- and medium-dated floating rate instruments and slowed the pace of accumulating long-dated fixed rate Negotiable Certificates of Deposit (NCDs) considerably.
- ▲ In the bond funds we are putting less emphasis on modified duration tilts, and are instead looking to add value by being correctly positioned on the yield curve.

Futuregrowth view: Long-dated assets in both the money and bond markets are unattractive as the central bank is still lagging markets.

The RSA yield curve has normalised, partly due to monetary policy easing and rising issuance



Sources: OMIGSA, I-Net

- ▲ The CPI-linked bond holding is kept at zero on valuation concerns, particularly following the sharp decrease of real yields of late.
- ▲ Given the general level of market rates, we are running underweight tilts to the 1-3 and 12+ maturity bands. This is offset by a significant overweight tilt to bonds in the 7-12 year band.
- ▲ We maintain a low listed property holding on a weak economic growth outlook, preferring nominal bonds and preference shares instead, whilst consistently looking to increase the holding of attractively priced non-government debt.

Economic Indicators to March 2009

	Latest Data		Previous Year
Exchange Rates:			
Rand/US\$	March-09	9.57	8.09
Rand/UK Pound	March-09	13.70	16.03
Rand/Euro	March-09	12.62	12.79
Rand/Aus\$	March-09	6.56	7.41
Interest Rates:			
Prime Overdraft	March-09	13.00%	14.50%
3-month NCD rate	March-09	8.75%	11.30%
R157 Long Bond Yield	March-09	8.17%	9.23%
Inflation:			
CPI (y-o-y)	February-09	8.6%	9.8%
National Accounts:			
GDP Growth (y-o-y)	December-08	1.3%	4.8%
GDP Growth (q-o-q, annualised)	December-08	-1.8%	5.4%
HCE Growth (y-o-y) (Household Consumption Expenditure)	December-08	0.1%	4.9%
GFCF Growth (y-o-y) (Gross Fixed Capital Formation)	December-08	6.4%	16.3%
Balance of Payments:			
Trade Balance (cumulative 12-month)	February-09	-\$7.94	-\$10.36
Current Account (% of GDP)	December-08	-5.8%	-7.2%
Capital Account (% of GDP)	December-08	6.6%	10.0%
Forex Reserves (incl. gold)	February-09	\$34.02	\$34.18
Other:			
Manufacturing Production (y-o-y) (seasonally adjusted)	January-09	-10.7%	1.4%

Market Indicators to March 2009

	1 Month (%)	Calendar Year (%)	Quarter (%)	12 Months (%)	3 Yrs (%)	5 Yrs (%)
Equity						
All Share Index	11.0	-4.2	-4.2	-28.6	3.0	17.1
Shareholders Weighted Index	10.6	-4.6	-4.4	-25.0	2.6	-
All Share/Resources 50%	10.1	-5.7	-5.7	-25.5	2.0	17.0
Top 40 Index	12.4	-4.1	-4.1	-30.3	3.1	16.8
RAFI® 40 Index	10.3	-6.1	-6.1	-25.5	2.2	17.7
RAFI® All Share Index	7.8	-7.2	-7.2	-26.2	1.4	17.9
Resources Index	14.5	1.6	1.6	-38.1	6.3	17.2
Financial Index	12.1	-7.0	-7.0	-21.2	-5.7	13.2
Industrial Index	6.4	-9.3	-9.3	-18.7	4.1	18.8
Mid-cap Index	4.1	-4.4	-4.4	-12.9	2.8	19.3
Small-cap Index	3.4	-6.4	-6.4	-28.3	1.1	21.0
Interest-Bearing						
ALBI BEASSA	0.0	-5.1	-5.1	13.1	6.3	9.3
STeFI	0.8	2.6	2.6	11.7	9.8	8.8
Cash	0.8	2.5	2.5	11.4	9.6	8.2
Property						
SA Quoted Property Index	2.6	-1.4	-1.4	5.8	7.9	-
International						
MSCI World Index (R)	1.9	-9.3	-9.3	-32.3	0.2	5.3
MSCI World Index (\$)	7.6	-11.8	-11.8	-42.2	-13.3	-3.0
JPM International Bond (R)	-3.1	-2.0	-2.0	13.9	24.7	13.8
US 1-month LIBOR (R)	-5.3	3.3	3.3	20.6	20.7	12.7
Inflation (Estimated)						
CPI	1.2	1.8	1.8	8.2	8.3	6.2

For more information, please contact:

Western Cape:

Old Mutual Investment Group, 3rd floor, West Campus, Mutualpark, Pinelands 7405

Mike van Heerden – Senior Executive: Business Development
Tel: +27 21 509 5082 Cell: +27 82 450 4483
E-mail: mvheerden@omigsa.com

Paul Glendining – Investment Marketing & Sales Executive: Retail
Tel: +27 21 504 7690 Cell: +27 82 414 3412
E-mail: pglendining@omigsa.com

Gauteng:

Old Mutual Square, Umnotho Building, 3rd floor, OMIGSA office, 93 Grayston Drive, Sandton 2196

Mario Schoeman – Investment Marketing & Sales Executive: Fund of Funds
Tel: +27 11 217 1411 Cell: +27 83 269 8999
E-mail: mschoeman@omigsa.com

Wynand Gouws – Head: Retail Channel Management
Tel: +27 11 217 1664 Cell: +27 82 450 7386
E-mail: wgouws@omigsa.com

Taz Victor – Manager: Retail Distribution

Tel: +27 11 217 1002 Cell: +27 82 460 1495
E-mail: tvictor@omigsa.com

Chris van Staden – Investment Marketing & Sales Executive: Retail

Tel: +27 11 217 1021 Cell: +27 82 414 3409
E-mail: cvanstaden@omigsa.com

Jerry Mnisi (Corporate Distribution) – Senior Executive: Business Development

Tel: +27 11 217 1751 Cell: +27 83 600 4867
E-mail: jmnisi@omigsa.com

Sean du Buisson – Investment Marketing & Sales Executive: Retail

Tel: +27 11 217 1003 Cell: +27 82 926 6955
E-mail: sdubuisson@omigsa.com

Durban:

Viewz @ Westway, Office 3B, 11 The Boulevard, Westway Park 3611

Imtiaz Shaik – Investment Marketing & Sales Executive: Retail
Tel: +27 31 275 8305 Cell: +27 83 292 7860
E-mail: ishaik@oldmutual.com

Bloemfontein:

PHG Building, 196 Nelson Mandela Drive, Bloemfontein 9300

Des Bothma – Investment Marketing & Sales Executive: Retail
Tel: +27 51 505 2950 Cell: +27 82 410 2666
E-mail: dbothma@omigsa.com

Pretoria:

1st floor, Glen Manor Office Park, Frikkie de Beer Street, Menlyn 0042

Hennie van Rensburg – Investment Marketing & Sales Executive: Retail
Tel: +27 12 369 7220 Cell: +27 83 286 2405
E-mail: hjansevanrensburg@omigsa.com

Eastern Cape:

3rd floor, Old Mutual Place, Cnr Cape Rd & Langenhoven Dr, Greenacres, PE 6000

Colin Archibald – Investment Marketing & Sales Executive: Retail
Tel: +27 41 502 4906 Cell: +27 82 804 1746
E-mail: carchibald@omigsa.com

Regulatory Information

Old Mutual Investment Group (South Africa) (Pty) Limited

Physical address: Mutualpark, Jan Smuts Drive, Pinelands 7405

Telephone number: +27 21 509 5022

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 wholly owned subsidiary of Old Mutual (South Africa) Limited. Reg No 1993/003023/07.

The investment products are market-linked. Products are either policy based or unitised in collective investment schemes. Investors' rights and obligations are set out in the relevant contracts. Market fluctuations and changes in rates of exchange or taxation may have an effect on the value, price or income of investments. Since the performance of financial markets fluctuates, an investor may not get back the full amount invested. Past performance is not necessarily a guide to future investment performance.

Personal trading by staff is restricted to ensure that there is no conflict of interest. All directors and those staff who are likely to have access to price sensitive and unpublished information in relation to the Old Mutual Group are further restricted in their dealings in Old Mutual shares.

All employees of Old Mutual Investment Group are remunerated with salaries and standard short-term and long-term incentives. No commission or incentives are paid by Old Mutual Investment Group to any persons. All inter-group transactions are done on an arm's length basis.

In respect of pooled, life wrapped products, the underlying assets are owned by Old Mutual Life Assurance Company (South Africa) Limited, who may elect to exercise any votes on these underlying assets independently of Old Mutual Investment Group.

In respect of these products, no fees or charges will be deducted if the policy is terminated within the first 30 days. Returns on these products depend on the performance of the underlying assets.

Old Mutual Investment Group has comprehensive crime and professional indemnity insurance, as part of the Old Mutual Group cover. For more detail, as well as for information on how to contact us and on how to access information, please visit www.omigsa.com.