

Market Dynamics

November 2009

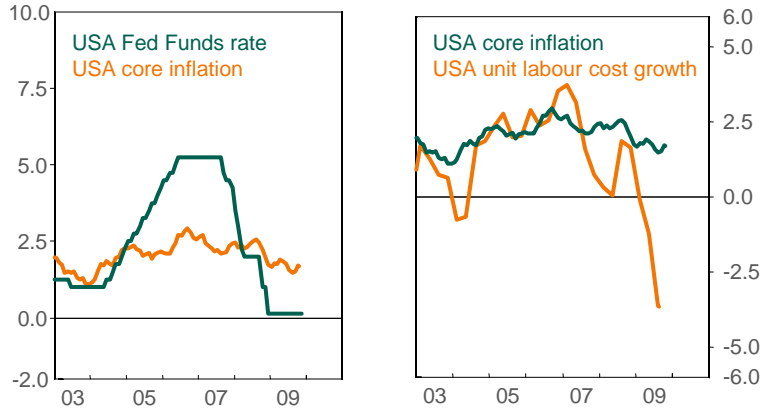


Contents

| | |
|---------------------------------------|-----|
| ▲ 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

Inflation subdued, Fed on hold



Source: OMIGSA (Iris)

USA recovery spreads to labour market



Source: OMIGSA (Iris)

- ▲ The global recovery remains on track. Data released across the globe over the past month continue to point to a broadening of the global upturn, with more countries returning to positive growth during the third quarter.
- ▲ However, investors were reminded over the past month that global conditions remain fragile and that there may still be aftershocks flowing from the global credit crisis. Dubai World's announcement late in November that it will seek to restructure a portion of its debt shocked investors and caused a sharp sell-off of risky assets. However, the sell-off was short-lived as deeper analysis indicated that the problem is relatively small and is unlikely to result in a renewed bout of global financial market contagion. Nevertheless, given the sharp rally in global equities since March and the reminder that all is not well again in the global economy, investors appeared to have become more cautious.
- ▲ The best news over the past month came from the US labour market. Falling jobless claims, rising temporary employment, a lengthening workweek in manufacturing and only a small number of job losses in November have raised hopes that the US labour market is finally stabilising and may even begin to recover in the months to come. A recovery in employment is key to a sustainable recovery in the world's biggest economy.
- ▲ Concerns over the sustainability of the global recovery have not disappeared. Global central banks share these concerns. With global inflation subdued, policy is likely to remain expansionary for some time to come still in the world's major economies, such as the USA, Eurozone, Japan and China.

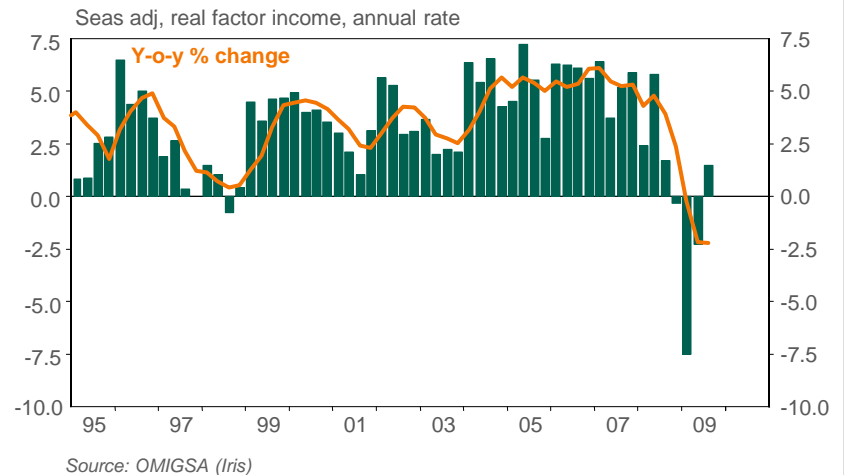
OMIGSA Economic Research Unit view: *While short-term prospects continue to brighten, there are still many obstacles and risks that cloud medium-term prospects.*

Local Economic Overview and Outlook

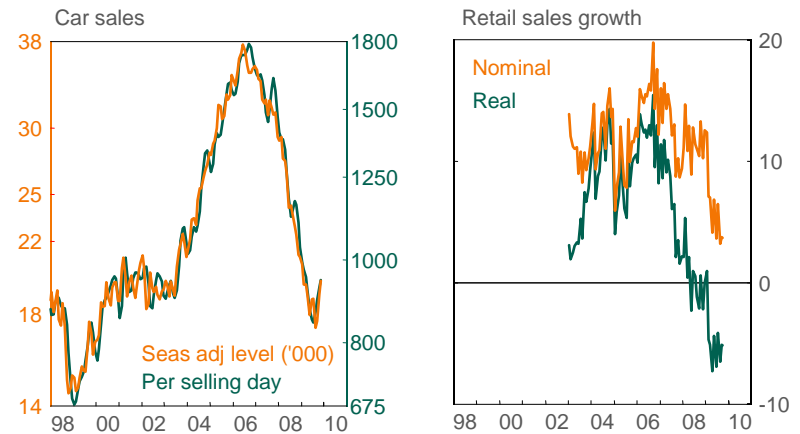
- ▲ As expected, South Africa's third quarter GDP growth returned to positive territory after three consecutive negative quarters. Annualised growth in GDP registered +1.5%, from the -2.3% in the second quarter and -7.5% in the first. Positive contributions came from the manufacturing, electricity, construction, transport & communication and government sectors. The agricultural, mining, trade and financial sectors subtracted from growth.
- ▲ This GDP release also contained revisions to previous data and the inclusion of the non-observed economy – i.e. illegal activities. The data show upward revisions for the years 2005 to 2008. Growth in 2008 was revised from 3.1% to 3.7%, while growth in 2006 and 2007 was around 5.5% p.a..
- ▲ Higher frequency data confirm that stabilisation is underway, but that the recovery is likely to be slow and modest – especially from the side of consumer spending. Car and retail sales data seem to have stabilised, while cement sales, building plans passed and consumer credit data remain very weak. The manufacturing sector seems to have turned the corner, with actual production turning and the purchasing managers' index above the neutral 50 level.
- ▲ The latest CPI inflation data showed a return to the inflation target band, with the October number at 5.9%. The next few data points could be above 6% again, but inflation should return to the target band more decisively from about February 2010 onwards. While the strong rand will have a positive impact on inflation, the risks include Eskom's tariff increases as well as other administered prices such as education and municipal charges.
- ▲ While interest rates have probably reached a bottom and will likely remain at these levels for some time, there is an outside chance of another cut if the economy remains weak and inflation surprises on the positive side.

OMIGSA Economic Research Unit view: *The local economy is back in positive growth territory, but the recovery will likely be modest – especially from the side of consumer spending. This keeps open the possibility of a further lowering of local interest rates.*

SA economy: Q3 GDP back in positive territory



Car and retail sales growth



Equity Sector Overview and Outlook

Resources

- ▲ We expect most 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.
- ▲ Continued evidence of an earlier-than-expected recovery in China and India, with signs of stabilisation in the G7, has been somewhat dampened lately by rapidly strengthening producer currencies such as the rand.
- ▲ Despite the uncertainty regarding global growth, there is substantial value in certain shares and/or sectors – such as non-mining resources.

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 are not as compelling, due to the recent strong share price performance. While short-term conditions are tough for some non-mining resources companies, valuations are relatively attractive.*

Small Companies

- ▲ During November the small cap and mid-cap indices returned -1.0% and -3.1%, respectively, while the FTSE/JSE Top 40 Index increased by 3.0%.
- ▲ The reporting season continued in November, and many companies are starting to show the impact of a stronger rand, lower domestic volumes and deflationary pricing. Margins remain under pressure and businesses continue to strengthen balance sheets by cutting dividends or raising capital via rights issues.
- ▲ Interest rates remain low, but signs are there of a potential hike towards the end of next year, and we still expect a long and slow recovery.
- ▲ Prospect statements remain cautious, and most discuss the financial strain being experienced by the consumer. The Christmas trading period will be a critical time in determining whether we will have feast or famine next year.

Investment Research view: *The average price/earnings (p/e) ratio at which small caps trade compared with large caps remains slightly greater than last month's 10% discount. This is in line with the longer term discount.*

Equity Sector Overview and Outlook (cont.)

Financials

- ▲ The FTSE/JSE Financial Index ended three months of consistent outperformance with a 1.7% underperformance of the FTSE/JSE Shareholder Weighted All Share Index (SWIX) in November. The SWIX ended the month 0.5% up, while the Financial Index was down 1.2%.
- ▲ Within financials, the banking sector continued to underperform and was down 1.9%. In contrast, the life sector increased 2.2%. Nedbank provided the most drag on the banking index, while strong performances from Sanlam and Old Mutual during the month boosted the life sector index.
- ▲ The financial sector continues to benefit from an improved local economic environment following positive GDP growth for the third quarter of 2009; however, uncertainty around the health of the global financial system towards the end of November resulted in a sharp pullback.
- ▲ We expect the operational environment for financial sector companies to remain tough in 2009, with loan impairment ratios for banks and policy termination rates for life companies remaining above trend.
- ▲ However, we expect an operational recovery to commence sometime in 2010, supported by a stabilising economy and improved household incomes.

Investment Research view: Financial stocks are facing a tougher operating environment that is only expected to improve later in 2010. However, this has been more than discounted in current prices. Valuations are looking attractive, and are still below historic averages.

Industrials

- ▲ Industrials pulled back 0.2% in November, underperforming the FTSE/JSE All Share Index (ALSI), which increased by 2.1%, mainly driven by resources.
- ▲ Performances were especially poor in the construction sector and discretionary retail (both considered cyclical sectors within industrials).
- ▲ Construction has been dampened by the debate around Eskom's rate increases. The lower rate increases that Eskom has been encouraged to apply for, imply a delay in some of the construction of large power stations, particularly Kusile. Murray & Roberts was further impacted by the focus on its R500m outstanding exposure to Dubai.
- ▲ Trading updates from various retailers have highlighted that Christmas trading is likely to be muted, and that expectations for a consumer turnaround before Christmas are probably optimistic. This put some pressure on Foschini, Mr Price, Truworths, Massmart and Lewis.
- ▲ Telkom also underperformed spectacularly after a dismal set of results, and British American Tobacco struggled as the rand continued to strengthen in November.

Investment Research view: While industrials as a whole are fairly valued, some pockets of value have emerged after the weak performance in November.

Equity Sector Overview and Outlook (cont.)

Property

- ▲ Year-to-date the listed property sector has recorded a total return of 12.3%. The sector underperformed equities (the FTSE/JSE All Share Index), which returned 28.4% over the same period, but outperformed bonds, which returned a negative 2.2%. The sector's underperformance continued in November, with the sector returning a low 0.4% against equities' return of 2.1%, while bonds were flat with a return of 0.1%.
- ▲ Property companies representing 17% of the property sector's market cap reported in October and November. The main trend from the results was slowing distribution (dividend) growth, although this was in line with our expectation. Also evident in the results were lower rental growth on expiring leases (in the lower single digits) and increasing vacancies. This resulted in these companies recording near-zero increases (revaluation) in the value of their investment properties.

Investment Research view: *In our view, the listed property sector is fairly valued and offers defensive cash flows, albeit with lower growth over the next two years (7%-8%) than in the previous two (12%-14%).*

Fixed Interest Overview and Outlook

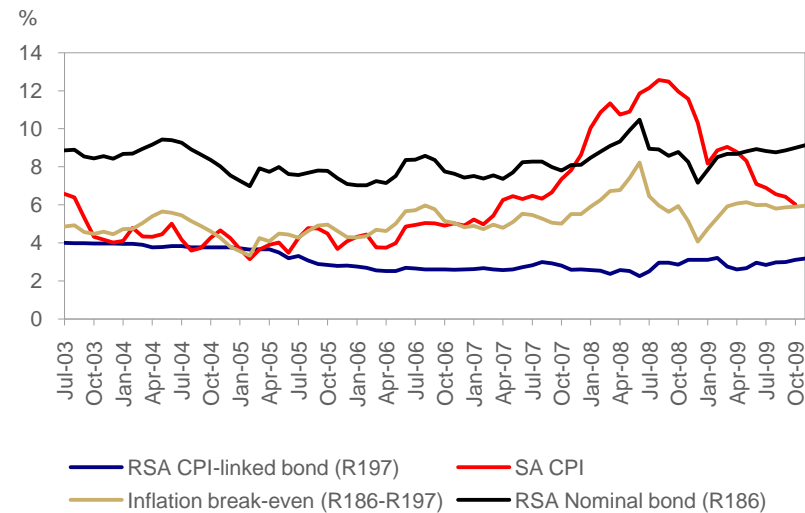
- ▲ The slope of the yield curve continued its steepening trend during November. As a result, the bond market once again underperformed cash, with the 12-year+ maturity band the worst performer.
- ▲ A steady stream of new net issuance from both government and some of the state-owned enterprises partly offset the strong rand and marginally better-than-expected CPI, PPI and monetary aggregate data released during the month. The decision by the South African Reserve Bank to keep the repo rate unchanged at 7.0% at its last MPC meeting of the year had very little impact on the market.
- ▲ We maintain that RSA bond yields should remain elevated, considering our view of upside risk to inflation on a 12- to 18-month view, that interest rates have bottomed and sustained high levels of net new issuance in months to come. We maintain a healthy appetite for corporate and other non-government debt, still offered at attractive spreads over RSA government debt. Market weakness will be utilised as an opportunity to slowly accumulate a holding in CPI-linked bonds.

Futuregrowth view: *The positive slope of the yield curve is expected to remain intact in light of low short-term interest rates and rising net new issuance of long-term bonds.*

- ▲ Our money market funds maintained an underweight duration tilt and a low cash holding, while we used market weakness to increase our holding of medium-dated and longer-dated money market assets. We continue to favour floating rate as opposed to fixed rate instruments.
- ▲ In the bond funds, we maintain an underweight modified duration.
- ▲ In terms of yield curve tilts, we are running underweight positions to the one- to three-year and 12-year+ maturity bands, while holding an overweight tilt to bonds in the seven- to 12-year band.

Futuregrowth view: *In contrast to money market and RSA bonds, non-government debt continues to offer the promise of superior returns.*

Market inflation expectations (inflation breakeven) hovering around 6%



Source: I-Net

- ▲ The RSA CPI-linked bond market is looking more interesting from an investor's point of view compared to a few weeks ago following the weakness of late.
- ▲ We maintain a low listed property holding on a weak economic growth outlook, preferring nominal bonds instead, particularly attractively priced non-government debt. Preference shares have lost a little colour and we have been slowly reducing exposure.

Economic Indicators to November 2009

| | Latest Data | | Previous Year |
|---|--------------|---------|---------------|
| Exchange Rates: | | | |
| Rand/US\$ | November-09 | 7.40 | 10.05 |
| Rand/UK Pound | November-09 | 12.20 | 15.42 |
| Rand/Euro | November-09 | 11.12 | 12.78 |
| Rand/Aus\$ | November-09 | 6.80 | 6.55 |
| Interest Rates: | | | |
| Prime Overdraft | November-09 | 10.50% | 15.50% |
| 3-month NCD rate | November-09 | 7.15% | 12.00% |
| R157 Long Bond Yield | November-09 | 8.42% | 8.29% |
| Inflation: | | | |
| CPI (y-o-y) | October-09 | 5.9% | 12.1% |
| National Accounts: | | | |
| GDP Growth (y-o-y) | September-09 | -2.5% | 3.7% |
| GDP Growth (q-o-q, annualised) | September-09 | 0.9% | 1.3% |
| HCE Growth (y-o-y) (Household Consumption Expenditure) | June-09 | -3.6% | 3.3% |
| GFCF Growth (y-o-y) (Gross Fixed Capital Formation) | June-09 | 5.7% | 11.3% |
| Balance of Payments: | | | |
| Trade Balance (cumulative 12month) | October-09 | -\$2.81 | -\$7.78 |
| Current Account (% of GDP) | June-09 | -3.2% | -7.3% |
| Capital Account (% of GDP) | June-09 | 4.6% | 8.1% |
| Forex Reserves (incl. gold) | October-09 | \$40.69 | \$33.97 |
| Other: | | | |
| Manufacturing Production (y-o-y) (seasonally adjusted) | September-09 | -11.2% | 5.0% |

Market Indicators to November 2009

| | 1 Month (%) | Quarter (%) | Calendar Year (%) | 12 Months (%) | 3 Yrs (%) | 5 Yrs (%) |
|------------------------------|----------------|----------------|----------------------|------------------|--------------|--------------|
| Equity | | | | | | |
| All Share Index | 2.1 | 8.6 | 28.4 | 30.3 | 6.9 | 19.9 |
| Shareholders Weighted Index | 0.5 | 5.3 | 25.1 | 28.8 | 6.9 | 19.1 |
| All Share/Resources 50% | 1.1 | 7.3 | 27.4 | 30.0 | 6.9 | 18.9 |
| Top 40 Index | 3.0 | 9.4 | 28.3 | 29.0 | 6.7 | 19.8 |
| RAFI® 40 Index | 1.7 | 8.5 | 34.1 | 37.0 | 9.9 | 21.0 |
| RAFI® All Share Index | 1.9 | 9.4 | 31.0 | 34.9 | 8.9 | 20.5 |
| Resources Index | 5.9 | 13.2 | 32.0 | 31.7 | 6.9 | 23.7 |
| Financial Index | -1.2 | 3.3 | 24.4 | 22.9 | 0.1 | 12.7 |
| Industrial Index | -0.2 | 6.4 | 26.3 | 32.7 | 10.4 | 20.1 |
| Mid-cap Index | -3.1 | 4.1 | 30.1 | 40.9 | 9.3 | 20.8 |
| Small-cap Index | -1.0 | 3.3 | 22.2 | 24.5 | 6.1 | 20.2 |
| Interest-Bearing | | | | | | |
| ALBI BEASSA | 0.1 | -0.0 | -2.2 | 4.6 | 6.6 | 7.5 |
| STeFI | 0.6 | 1.9 | 8.5 | 9.6 | 10.1 | 8.9 |
| Cash | 0.5 | 1.6 | 7.3 | 8.3 | 9.6 | 8.3 |
| Property | | | | | | |
| SA Quoted Property Index | 0.4 | 4.5 | 12.3 | 17.8 | 11.8 | 22.5 |
| International | | | | | | |
| MSCI World Index (R) | -1.1 | 1.6 | 3.3 | -2.1 | -3.9 | 8.2 |
| MSCI World Index (\$) | 4.1 | 6.4 | 28.5 | 32.6 | -5.0 | 3.0 |
| JPM International Bond (R) | -2.0 | 0.8 | -13.8 | -15.2 | 10.6 | 11.4 |
| US 1-month LIBOR (R) | -5.0 | -4.5 | -18.8 | -25.3 | 4.8 | 9.0 |
| Inflation (Estimated) | | | | | | |
| CPI | -0.1 | -0.2 | 7.2 | 5.9 | 8.7 | 6.9 |

For more information, please contact:

Western Cape:

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

Mike van Heerden – Senior Executive: Distribution

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

Nirdev Desai – Investment Marketing & Sales Executive: Retail

Tel: +27 21 504 6305

Cell: +27 82 419 4770

E-mail: ndesai@omigsa.com

Sue Brooks – Business Development Consultant

Tel: +27 21 509 3936

Cell: +27 82 728 8732

E-mail: sbrooks@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

Taz Victor – Investment Marketing & Sales Executive: Fund of Funds

Tel: +27 11 217 1002

Cell: +27 82 460 1495

E-mail: victor@omigsa.com

Tebogo Mabogoane – Investment Sales and Marketing Executive: Retail

Tel: +27 11 217 1021

Cell: +27 82 414 3409

E-mail: tmabogoane@omigsa.com

Wynand Gouws – Head: Retail Channel Management

Tel: +27 11 217 1664

Cell: +27 82 450 7386

E-mail: wgouws@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

Mohamed Abdoola – Business Development Consultant

Tel: +27 11 217 1869

Cell: +27 82 418 0701

E-mail: tmabogoane@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

Paul Naidoo – Business Development Consultant

Tel: +27 31 275 8300

Cell: +27 82 417 4562

E-mail: pnaidoo@omigsa.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.