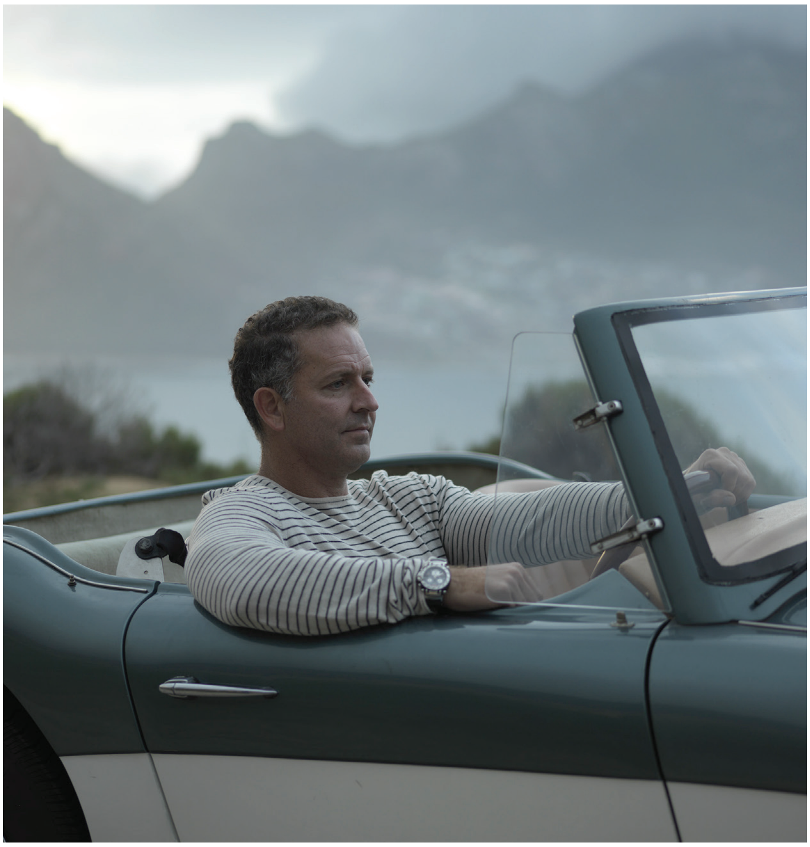
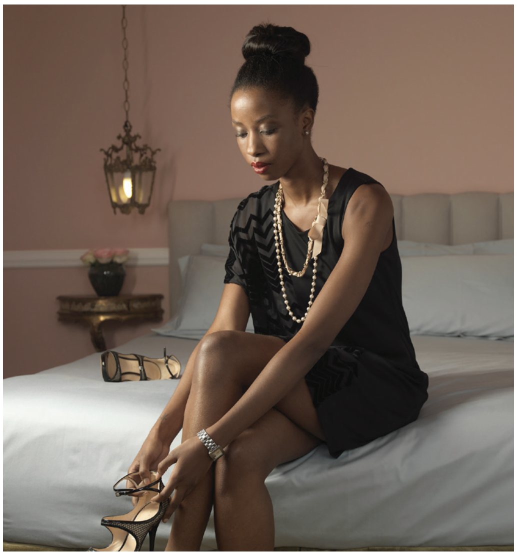
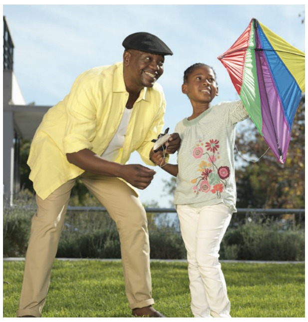
PRIVATE CLIENT SECURITIES

PROSPERITY







IN THIS CLIENT **NEWSLETTER**

- Market and business outlook
- Insights on the local economy
- Local equities
- Global equities

OLD MUTUAL WEALTH

FOUR MONTHS INTO 2014

LOCAL COMPANIES WITH INTERNATIONAL OPERATIONS GENERALLY FARING WELL

2014 has seen record highs and lows in various spheres so far. Our local exchange hit record highs, while our local economy weakened. This seems paradoxical, but it is important to remember that the lion's share of the All Share Index is represented by companies that operate internationally and derive their valuations from foreign operations coupled with Rand weakness (or strength).

Naspers is a case in point. Its share price followed the share price of Tencent in lock-step after adjusting for the exchange rate. Global sentiment is an increasingly important factor for share prices while the local economy has a secondary role, primarily through the impact of the balance of trade on the exchange rate.

Internationally, we've seen muted numbers from China reflecting a slowing economy struggling to digest the excesses of years of rapid infrastructure spend and the difficult transformation to more efficient capital allocation. News from the US economy has kept up a positive trend and, while Europe is facing some risks with Russia's position on the Ukraine, the balance shows improvement. Improving demand from the US, Europe and Japan may counter the slowdown in China, all other things being equal (which they seldom are!).

WILL BOLD LOCAL AND INTERNATIONAL ACQUISITIONS PAY OFF?

This year has already seen much corporate acquisition activity of significant scale. Locally, Woolworths announced its intention to tackle a territory where many others have failed. Its acquisition in Australia is a bold move, but management may have the ability where others lacked.

Internationally, more recent activity is Pfizer's bid for AstraZeneca. The value of the transaction will be astronomical at R1 trillion. France's Alstom is also being pursued by General Electric and Siemens.

These proposed deals and the activity we've already seen, such as the acquisition of the mobile messaging app WhatsApp by Facebook, show a trend for large global companies to deploy cash resources and low interest rate borrowing to shore up their competitive position. Our approach to selecting companies for our global equity model portfolio takes full account of these activities and their implications for future earnings growth and valuations.

While the past is not a reflection for future investment returns, it certainly is a good proxy for investor behaviour. If the news (noise) of the day distracts us from our long-term goals and perspectives, it will keep on distracting us. There is a big difference between investing and speculating. Investors have to follow an investment strategy with clear objectives and time horizons. Our investment process supports such an approach and our portfolio managers guide you through market turmoil.

We've added two more private client portfolio managers: Derek Alton has joined our Cape Town team, while Greg Potgieter is helping us to start a dedicated office in Pretoria.

INSIGHTS ON THE LOCAL ECONOMY

LOCAL ECONOMY STILL DOOMED TO SLOW GROWTH

The local economy is still caught in a low growth scenario. Consumers are squeezed by rising inflation and the prospect of higher interest rates. The unsecured lending boom has fizzled out and households are reluctant to borrow. Fiscal policy has run out of space and Government is forced to rein in real spending growth. The lack of fiscal space is also expected to curb the ambitious infrastructure spending programme. Business confidence is low and private sector investment spending is unlikely to take off. Potential electricity shortages are slowing a number of projects and ongoing labour stoppages are undermining many expansion initiatives. Both the International Monetary Fund and the South African Reserve Bank cut their 2014 and 2015 growth forecasts in recent weeks. The economic growth forecast for SA is expected to average around 2.5% in 2014.

LOCAL GROWTH FIRMING ON RISING GLOBAL DEMAND

The only bright spot for local growth is the impact of the weak Rand and the expected firming of global growth. Exports are starting to pick up, despite major disruptions in the mining sector. In the past 12 months the country's total Rand export revenues grew by almost 20%. Tourism is also benefiting. As a result, the foreign trade deficit appears to be narrowing. With the sharp fall in the Rand, import prices are now escalating at 20% and should reduce imports. A narrowing trade deficit, combined with some capital inflows, should lend support to the embattled Rand. The Rand could potentially strengthen some more if international investors don't flee from emerging markets again.

The Reserve Bank left rates unchanged in March, but they clearly signalled that interest rates were likely to increase further. Although the Rand has stabilised in recent months, the inflationary impact of the massive depreciation since April 2013 is evident. Import prices are rising sharply almost across the board and the pass-through to consumer prices is increasing Consumer Price Index numbers. However, due to depressed local demand the pass-through to other consumer prices is still relatively muted and less than in previous cycles. Against this backdrop, the expected rate hikes are likely to be gradual. A repeat of previous vicious rate hike cycles appears unlikely at this stage.

A VIEW OF LOCAL EQUITIES

ALL SHARE INDEX EDGES TO A NEW HIGH

With the All Share Index registering a new high, investors have a lot to cheer about.

News flow has generally been positive. Resources in particular recorded a strong performance. BHP Billiton announced that it is considering spinning off non-core assets into a US$20 billion resources company. It stated that it would like to simplify its portfolio of assets. The company commented that a portfolio focused on iron ore, copper, coal and petroleum would maintain the diversification. Given that these divisions make up the profitable parts of the company, this would imply lower future capital expenditure. In the current market where there is concern about the recovery of commodity prices, lower levels of capital expenditure are definitely viewed in a positive light with respect to controlling capacity.

Anglo American released solid production numbers for the first quarter. Copper and coal surprised to the upside and diamond production came in lower than expected. Anglo American production received further support from its two listed subsidiaries – both Kumba and Anglo American Platinum released production numbers that were in line with expectations. Our exposure to Anglo American and Billiton has been rewarding and we believe that these companies will continue to benefit from the recovery in global growth.

After initially coming under pressure regarding the offer to purchase David Jones (Australia), Woolworths recovered well. We believe this is due to the market gaining additional insight into the details and merits of the transaction.

MTN's first quarter key performance indicators were a bit light relative to expectations. South African revenue per user came under pressure. We believe the lowering of prepaid tariffs will address the loss of market share to Cell C. MTN's dominant position in a number of other markets in Africa, in particular Nigeria, will ensure that it benefits from the strong expected growth on the continent.

A VIEW OF GLOBAL EQUITIES

EQUITIES POST POSITIVE REACTION ON ECONOMIC DATA RELEASES

Despite the concerns at the start of the month, investors seemed to have been fairly satisfied with the data releases. Global markets recovered in the second half of the month and managed to register a decent gain. Although a number of concerns like the Ukrainian crisis still lurk in the background, China's first quarter GDP growth, the single most watched data point, has been received with a fair degree of satisfaction. The Chinese authorities seem to be managing the credit situation responsibly and are not merely bailing out companies only to be faced with a bigger problem at a later stage.

Positive US retail sales, further comforting comments from Janet Yellen regarding lower rates for longer, and remarks from the European Central Bank about the possibility of a stimulus package for Europe, were well received by investors.

FUNDS BOUNCE BACK IN EMERGING AND DEVELOPED MARKETS

These positive trends (on balance) resulted in fund inflows into both developed and emerging markets. Emerging markets registered the fourth consecutive weekly inflow after 22 consecutive outflows. In the developed world, Europe recorded the biggest inflow followed by Japan.

First quarter results have also commenced on a positive note with more than 60% of the S&P 500 companies beating expectations, with Apple's results being the highlight. The market rewarded the tech giant very handsomely for beating expectations and sending its shares up over 8%. Apple surprised the market with first quarter iPhone sales of 43.7 million relative to an expected number of 37.7 million. Apple's new relationship with China Mobile is certainly very rewarding. The company has now cumulatively sold more than 20 million Apple TV units. This bodes well for the iTunes revenue stream as users have to pay to download movies. We continue to believe that Apple's aspirational devices will further increase their market share in the emerging markets and it remains one of our long-term core holdings.

Volkswagen predicted that its car sales in China will increase by 10% or more this year. This would imply that it will outsell General Motors for a second year in a row to record the largest sales in China. Chinese sales are expected to record double-digit growth and surpass the 3.5 million mark this year.

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