PRIVATE CLIENT SECURITIES

PROSPERITY

IN THIS CLIENT NEWSLETTER

- Business progress and our outlook for 2014
- Economic and asset class returns outlook for 2014
- Local equities – Our positioning
- Global equities – Our portfolio offering

OLDMUTUAL WEALTH

BUSINESS PROGRESS AND OUR OUTLOOK FOR 2014

Old Mutual Wealth Private Client Securities continues to go from strength to strength. We have seen our portfolio management team grow in Johannesburg and Cape Town and we are delighted with the number of clients who have entrusted us with managing their wealth. Assets under management reached nearly R500 million by the start of the year and are growing steadily. We look forward to continuing to build our team and enhancing our offering during the course of this year.

When we look at the environment in which we manage investments, several macro-economic challenges and political risks across the globe remain. While emerging markets have driven most of the global growth since 2007, the US and some other developed countries seem to be getting their economic growth back on track. This will also be good for developing economies given the interdependence between developing and developed economies and 2014 may be the first year we see a synchronised upturn in global growth.

This is likely to be an interesting year on many fronts. Elections will occur simultaneously across the globe, monetary policy in the US is gradually tightening while in Japan it is loosening, Greece is taking over the leadership of the European Union, China's economic growth is still slowing, while the current accounts of the so-called "fragile five", including South Africa, are still massively exposed to the vagaries of foreign capital flows. South African investors need to consider appropriate diversification as a top priority in terms of both preserving and growing their wealth in 2014. Nevertheless, we expect at least a 10% return from the SA equity market as well as the global equity market.

For weekly market insights, please visit http://www.omwealth.co.za/Insights

ECONOMIC AND ASSET CLASS RETURNS OUTLOOK FOR 2014

As we enter the new year, there is growing optimism that the lacklustre global recovery is gaining traction. Surprisingly, the developed world is expected to drive this improvement. The US seems to be over their financial problems and the Euro area appears to have crawled out of its double-dip recession. In Japan, there are some encouraging signs that Abenomics is yielding positive results.

In stark contrast, the emerging markets are struggling to pull out of their growth slump. The Fed's tapering exercise has curtailed capital flows to these economies and the currencies of those economies with large current account funding needs — including South Africa – are depreciating. A number of these countries have already hiked interest rates to counter the inflationary impact of their weakening currencies.

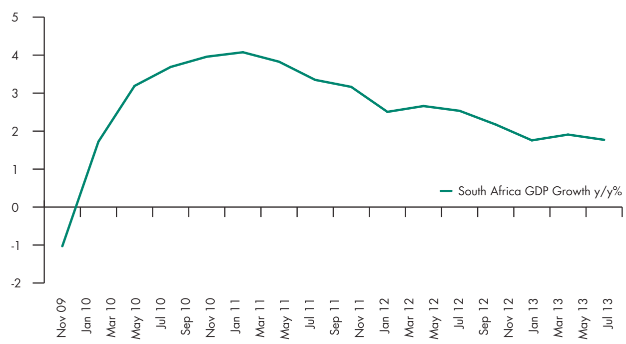
Inflation in the developed world is exceptionally low and short-term interest rates are likely to remain at their historically low levels. Bond yields have firmed in recent months, but still do not offer competitive longer-term returns. Compared to cash and bonds, major market equities appear attractive, but a re-run of last year's stellar returns is unlikely. Emerging market equities are trading at a large discount to their developed market peers.

However, for this value to be unlocked, emerging market growth must improve and capital flows into those regions should resume.

The local economic recovery lost momentum in 2013 and prospects for 2014 are not encouraging. Depressed levels of consumer and business confidence point towards subdued consumption and investment spending and a large budget deficit is forcing government to rein in spending plans. With the Rand under pressure and inflation close to the upper end of the target range, the South African Reserve Bank might be forced to hike interest rates

Although the JSE returned more than 20% last year, it was not "a rising tide that lifted all ships". 2014 may well see another year of widely dispersed returns. Compared to international markets, JSE valuations are not compelling. Cash returns are unlikely to beat inflation and the outlook for bonds is being clouded by unsettled global liquidity conditions. Longer term, equities should continue to outperform cash and bonds.

SA ECONOMIC GROWTH SLOWING DOWN



Source: Datastream

LOCAL EQUITIES – OUR POSITIONING

The JSE All Share Index at a PE of over 18x does not represent fair value compared to its historic average of about 14.5x. We forecast earnings growth in 2014 of around 15% based on analysts' consensus forecasts and that equates to an expected total return of around 10% for 2014. So we are expecting satisfactory earnings growth but a modest derating of the price:earnings ratio toward its historic average i.e. a negative return from valuations/earnings multiples.

To accommodate this reality we continue to favour large cap counters with well diversified, sustainable and growing earnings streams from different geographies. We also favour a wide portfolio spread between Resource, Industrial and Financial sectors. Our equity portfolio is foreseen to outperform the 10% anticipated for the All Share Index. We expect developed world equities to outperform emerging market equities in 2014, compounded by a weaker Rand. We have made a number of changes to our portfolio recently. We have lightened our exposure to Aspen and introduced Glencore; we sold the holdings in Growthpoint and Datatec while increasing our weightings in Naspers and DBX USA ETF.

We are very optimistic about prospects for Naspers and expect stellar earnings growth to come through.

The outlook for bonds and listed property in 2014 will be subject to some headwinds, in particular the tapering of US Quantitative Easing which, although largely discounted in the markets, may pressure yields to rise further from their current level. Nevertheless, we expect bond returns to remain positive in 2014 and better than cash. For listed property, we forecast a total return of 10% in 2014, driven by escalating earnings distributions and a forward yield of 7.4% together with some capital appreciation, supported by the offshore exposures held within companies and that serve as a Rand hedge. Rising bond yields may drag listed property yields up, which would be negative for the listed property sector and affect capital values. Some caution is therefore advisable in 2014 with respect to both bonds and listed property, although both continue to fulfil their roles as non-correlated (to equities) asset classes for the purpose of risk diversification. Preference shares continue to be held to sweeten yield and diversify risk.

Commodities are providing much interest as the year gets underway. The *Financial Times* of London reports: "The sector has underperformed for the past two years and value has been restored to most counters. US economic growth now appears to have also been restored. The US Dollar is likely to weaken this year, pushing dollar-based commodities higher. US money velocity may rise in 2014, counteracting the QE tapering programme and producing acceleration in the US money supply. There may be fears of an overheated economy that would benefit commodity markets. Commodity prices may have bottomed and the Baltic Freight index (bulk shipping) has surged. A confluence of factors could make commodities one of the best performing asset classes this year."

GLOBAL EQUITIES – OUR PORTFOLIO OFFERING

Our Global Equity Portfolio is an appropriately diversified portfolio invested in large capitalisation, high-quality, global companies. The portfolio has the objective to outperform the MSCI World Index in US Dollar terms (after management fees) over a time horizon of three years. We invest via developed market exchanges in 15-20 companies that have business models which we understand, that are world leaders in their respective global sectors and that are financially strong and not overvalued. The portfolio seeks diversification not only through the number of companies in the portfolio, but also through the selection of companies that are diversified in terms of where revenues are earned. We are able to tailor the portfolio to suit individual investor requirements.

Current portfolio holdings include, among others, well-known companies such as Samsung Electronics and Diageo PLC both of which fit our criteria of being high quality global companies that can be regarded as world leaders in the products and markets they operate in. Samsung Electronics is now not only the global market leader in Smartphones but ensures a well-diversified income stream through its dominance in the manufacture and supply of televisions and semiconductors into the rest of the world. While 30% of Samsung sales are into Korea and China, making this one of the leading emerging market companies in the world, it justifies its status as a global company through the generation of almost $143 billion in revenue from the rest of the world. Diageo PLC, similarly, regarded as the world's leading premium drinks company with, among others, iconic brands such as Johnnie Walker, Smirnoff and Guinness in its stable. This company enjoys almost a 30% market share in an otherwise very fragmented industry and while it is the No. 1 player in the US, almost 40% of revenue comes from emerging markets. Strong cash flow generation, a very low leverage level as well as high returns on invested capital (>16%) set this company up perfectly for future acquisitions and possible share buy backs.

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