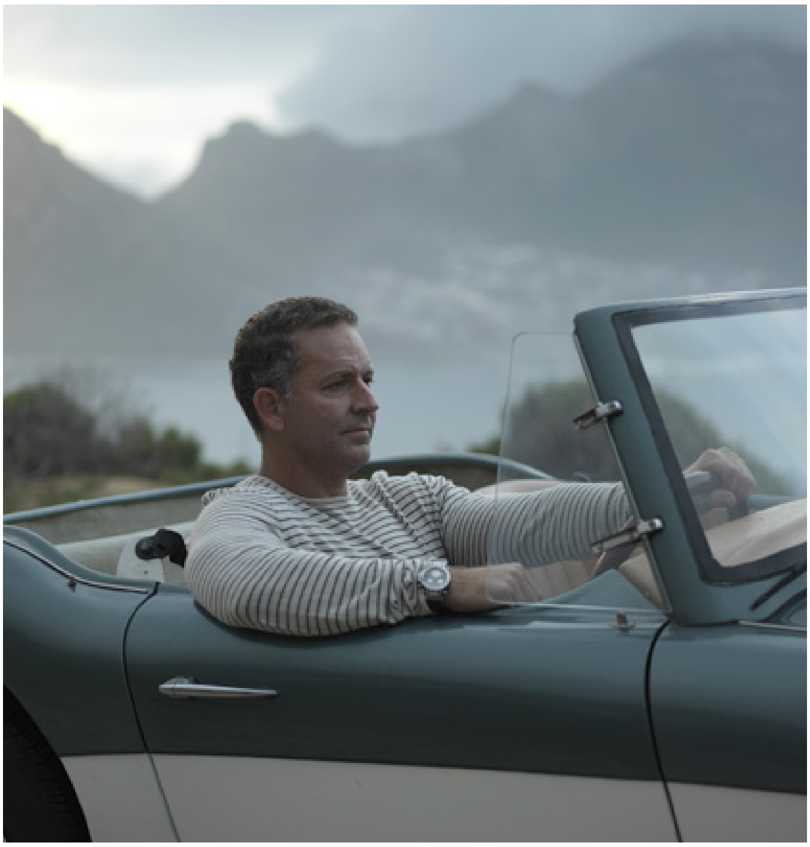
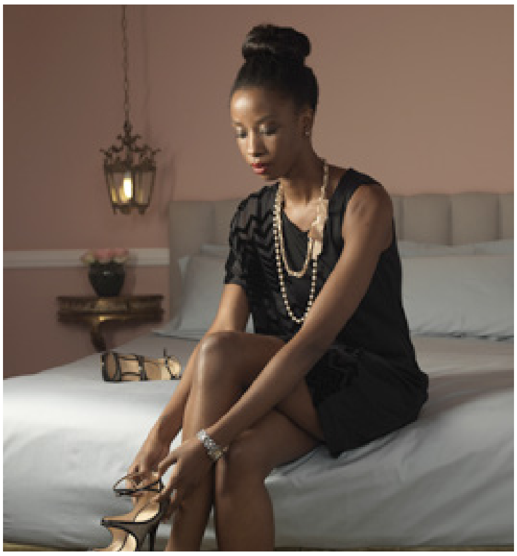
PRIVATE CLIENT SECURITIES

PROSPERITY





IN THIS CLIENT **NEWSLETTER**

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OLDMUTUAL WEALTH

BUSINESS REVIEW AND OUTLOOK

As the half-time whistle blew on 2014, we looked back on a tumultuous period globally with no signs of calm ahead. This "wall of worry" which we climb is a fact of life. As long-term investors we need to discern between the noise that permeats our lives through the media and those signals that are truly meaningful in terms of the investment decisions we make. A strong signal has been, and continues to be, the global search for yield which is an undeniable demand factor driving asset prices higher across the board.

The performance of the JSE versus the performance of the local economy keeps on diverging. As we've noted in previous newsletters, this reflects the nature of the largest companies listed on the exchange: they are deriving an ever-increasing proportion of their value from international activities. This is good for South African investors as it is a natural hedge against a depreciating rand and poor local economic performance, but there is hope in all of us that the local economy will turn the corner and that employment, export and consumption growth will resume. For now, we remain cautious on the prospects for companies with significant exposure to the SA economy.

Globally we've seen geo-political risks rising since the start of the year, but markets have remained largely unaffected so far. The real loss has been to the lives and livelihood of the people directly affected by these events. While it is easy to become complacent, we need to keep a watchful eye on these developments and avoid taking unnecessary risks in our investments decisions.

Europe is still facing challenges on many fronts, but on the positive side the USA is certainly in recovery and that will contribute to the recovery of emerging markets such as China. Our investment approach is paying dividends, literally and figuratively: we seek investments in diversified global companies with developed and developing market presence. This approach has stood us in good stead during these uncertain times.

In July we welcomed Anil Thakersee to our business as Chief Investment Officer and Avien Pillay as head of Investor Services and Research. Both individuals join us with a wealth of expertise and experience that will significantly enhance our investment process. Our business surpassed the milestone of R1 billion in client assets under management during the first half and we are delighted with the strong vote of confidence in our stewardship. As always, our clients and their investments with us remain foremost in our collective mind and efforts.

May we all prosper during the second half of 2014!

ECONOMIC REPORT

Strong jobs growth in the US in June - with the unemployment rate falling to 6.1% - confirmed that the labour market continued improving in 2014, despite the sharp first quarter contraction in gross domestic product. The positive jobs data has also brought forward the expected timing of the first hike of Federal Reserve's (the Fed) short-term interest rate to the third quarter of 2015. The Fed expects to end its quantitative easing programme in October. While recent indicators from manufacturing to consumer sentiment are consistent with moderate economic growth, there are areas of concern for the Fed. The housing market recovery has softened, while the labour market continues to be plagued with a low participation rate and high levels of temporary employment (despite the good headline numbers). Wage growth also remains very low, and the Fed's preferred inflation measure is still below target. The Fed will therefore be careful to not hike rates before the US economy can handle it, and it will attempt to signal its intentions to the market as best it can. The International Monetary Fund's (IMF) updated forecasts for the US reflect the poor first quarter number, with 2014 growth downgraded to 1.7%, but the forecast for 2015 has been lifted slightly to 3%.

In the Eurozone, the most recent data releases reminded investors how weak the recovery from the double-dip recession has been. Sentiment indicators, manufacturing production and car sales numbers have all softened over the past month. France in particular looks vulnerable, but Spain's outlook is improving. Meanwhile, inflation remains very low at 0.5%. The pressure is thus on the European Central Bank (ECB) to go beyond the recent cuts in its short-term interest and deposit rates to launch a quantitative easing programme of its own. The IMF expects growth of between 1% and 1.5% over the next two years for the Eurozone. In contrast, the UK economy (which is not part of the Eurozone) is growing quite robustly and has finally overtaken its pre-2008 peak. The IMF upgraded the UK's outlook to 3.2% for 2014 and 2.7% growth for 2015.

Chinese economic growth rose in the second quarter to meet the government's target of 7.5%. Low inflation has allowed the People's Bank of China to ease monetary policy, allowing banks to lend more. Beijing has also instituted target stimulus measures in infrastructure and social housing. More recent data from the manufacturing sector was encouraging, and market sentiment towards China and emerging markets in general has improved.

South Africa's economy continues to disappoint. The production side is hampered by strikes and electricity shortages, while consumers face a slow but unrelenting squeeze in the form of higher inflation, high debt burdens, slowing income growth and rising interest rates. The hoped-for export recovery has been slow to materialise despite the weak rand and improving global economy. Fortunately, available data suggests that the tourism sector has begun to benefit from these two factors. Nonetheless, the current account deficit remains large and the rand thus vulnerable to depreciation if foreign capital flows dry up.

Despite slashing its 2014 economic growth forecast to 1.7%, the SA Reserve Bank hiked the repo rate by 0.25% to 5.75% at its July MPC meeting. Inflation is above target (at 6.6%) and the SARB appears to be determined to start raising real interest rates before US rates rise. However, the weakness of the economy suggests that the hiking cycle will be more gradual than previous cycles.

LOCAL EQUITIES WE FAVOUR

THIS COULD BE THE FIRST OF MANY TRANSACTIONS FOR ANGLO AMERICAN

When Mark Cutifani took over the reins in April 2013, he outlined his plan to improve the returns to shareholders. Given the size, complexity and sensitivity (impact on labour), it has taken a bit longer than the market had expected. The recent announcement of the plan to sell its 50% stake in Lafarge Tarmac to Lafarge for approximately $1.4 billion is the first major transaction since the plans were unveiled. Anglos needs to exit certain loss making operations and invest in mines that it believes can be turned around. Given the high debt levels, Anglo's ability to restructure was restricted. We believe the sale of Lafarge Tarmac will give the company the necessary "headroom" to execute on the more value enhancing transactions. We are seeing similar actions from its subsidiary Amplats.

FIRST MOVER ADVANTAGE IN AFRICA

When Shoprite spoke about their ambitions for its African division to make up 50% of total sales, the market did not take much notice. This was more than ten years ago and at a time when SA was the only focus for investors. Ten years later and the outlook for GDP growth in Sub-Saharan Africa is double that of SA. Shoprite's management had the foresight to start working on the next big growth engine. It has taken a long time for Shoprite to establish a chain of supermarkets across 16 African markets. Currently, African sales make up 20% of total sales and are growing three times that of the growth rate in South Africa. Shoprite is well on the way to achieving its strategic goal.

WOOLWORTHS SEALS DAVID JONES TAKEOVER

Woolworths received the green light from the Federal Court of Australia for its $2.2 billion takeover of David Jones. The challenge is now for Woolworths to execute on the acquisition and turn around a trend of declining sales for David Jones. The David Jones acquisition together with the acquisition of the remaining shares in Country Road creates a leading Southern Hemisphere retailer with combined annual sales of $6 billion. The market appears to approve and we highly rate management's chance of success.

GLOBAL EQUITIES WE FAVOUR

ANOTHER STRONG QUARTER FOR APPLE

Apple sold 35.2 million iPhones and 4.4 million Macs in the fiscal third quarter, up 13% and 18% on the corresponding period. These two devices made up for slightly weaker iPad sales. China continues to be a major driver for Apple with iPhone sales for the quarter growing 48%. The iPhone continues to be the dominant product and currently accounts for 70% of total profit. When this device was introduced in 2007, who could have imagined that sales of this device would reach $90 billion (160 million devices) slightly more than five years later in 2013? The sales of this device alone is the bigger that the sales of Google, Facebook, Twitter and LinkedIn combined. The company has hinted to product launches in the fourth fiscal quarter. Bigger screens for iPhones, a wearable "smart" gadget and an upgrade to Apple TV could be on the cards. Apple appears to continue innovating in line with the standards and pace set by its late founder, Steve Jobs.

MICROSOFT PROFITS IMPACTED BY THE NOKIA ACQUISITION

Microsoft's software business produced robust growth and was driven by growth of internet-based cloud programs and corporate computer applications (enterprise software). The Nokia acquisition was completed in April and Microsoft has already embarked on revamping Nokia. This acquisition will allow the largest software company to secure a hardware platform for its smart phone software.

VOLKSWAGENS PLANS TO IMPROVE PROFITABILITY

VW, Europe's largest car manufacturer and market leader in China, plans to cut costs and boost productivity with a five billion Euro cost reduction target by 2017. The company recently commented that efficiency gains have failed to keep pace with rising labour costs. Rising labour costs and greater competition in Europe has resulted in lower margins. Given the high labour costs in Germany, the company is increasingly shifting production to lower cost regions. These moves are necessary to combat the strength of the Euro relative to strong competition from Chinese manufacturers and, if implemented successfully, will put VW on a very solid competitive footing for the future.

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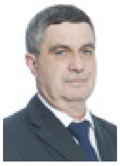

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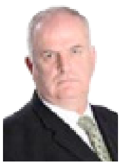
JOHANNESBURG



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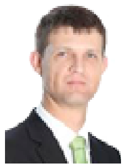

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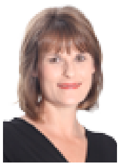

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