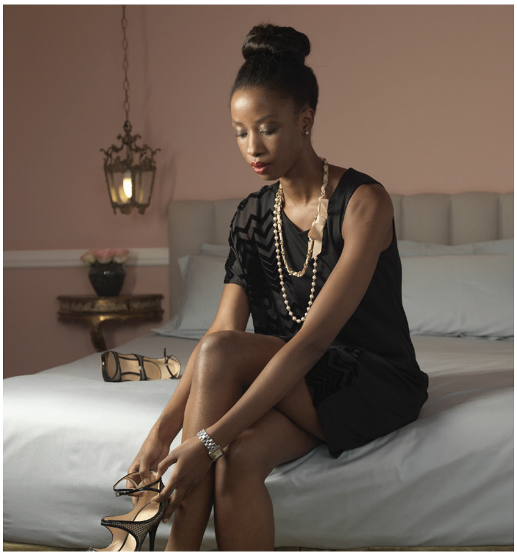
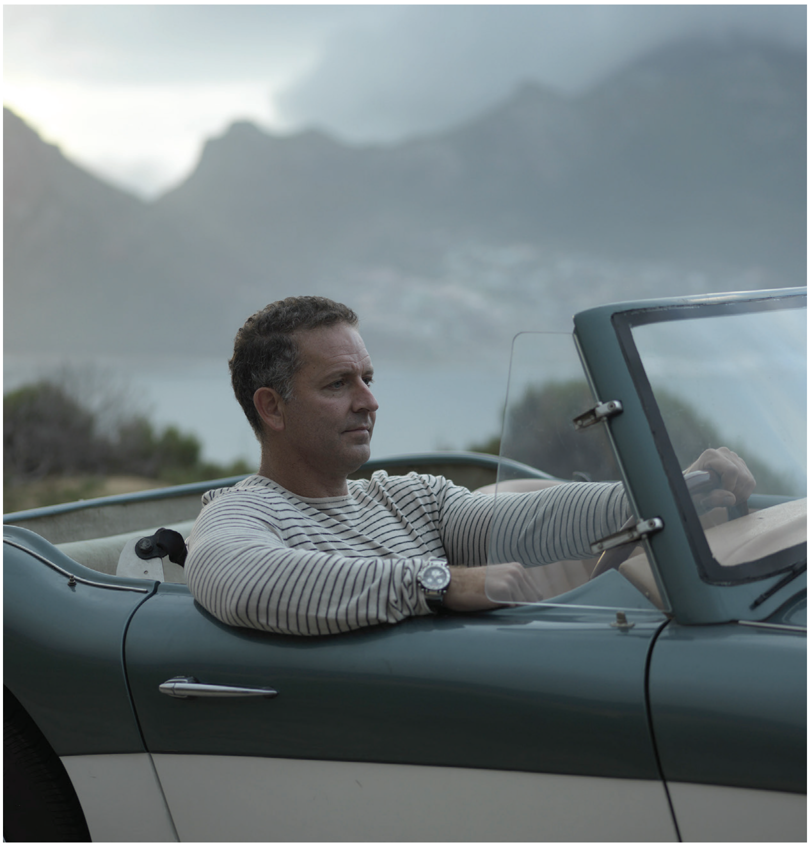
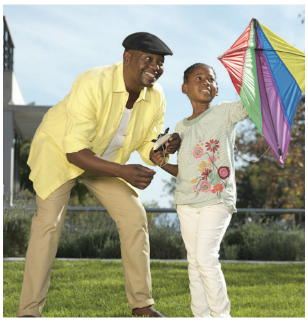
PRIVATE CLIENT SECURITIES

PROSPERITY







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OLDMUTUAL WEALTH

ADJUSTING EXPECTATIONS AND CAPITALISING ON OPPORTUNITIES

WITH ALL THE NOISE, WHERE IS THE REAL VALUE?

As the first quarter of 2014 ends, we have witnessed investors and markets adjusting their expectations. The reality around growth expectations from China seems to have set in. The strong share prices of global technology counters and large cap South African industrial shares are under pressure. The tightening of monetary policy in the US appears to be a moving target. Geopolitical uncertainty, due to the Crimean crisis, also spooked the markets, but the worst seems to be behind us. Locally, the outlook for real economic growth remains poor. The obvious question on investors' minds is where to find relative value and safety.

WE HELP YOU NAVIGATE THE UNCERTAINTY

Our aim is to guide you through such turbulence and to capitalise on opportunities that present themselves - especially during times of crisis. Our view remains firmly that equities, especially select global equities, present the best opportunity for long-term wealth creation. Locally, the resource sector presents relative value compared to the rest of the JSE All Share Index. Having cash available to buy into weakness is a sensible strategy.

THE US IS A MIXED BAG

US economic data continue to be plagued by the severe winter conditions, with residential housing activity in the US slowing markedly. In contrast, industrial production picked up nicely, the labour market improved further and the index of leading economic indicators points towards continued GDP growth of over 2%.

The Fed decided to reduce its bond purchase programme by a further $10 billion to $55 billion per month and changed its forward guidance focus from a 6.5% unemployment rate to a wide range of labour and financial market indicators. Inflation is well below the Fed's 2% target at about 1%. US monetary policy remains expansionary — aimed at stimulating the economy — and the Fed's funds rate is unlikely to be hiked before mid-2015.

EUROPE ON A SLOW ROAD TO RECOVERY

EU authorities took a step in the right direction, adopting plans for a banking union. The region is slowly recovering, benefiting from a big fall in the bond yields of the struggling southern economies. Company profitability also seems to be improving gradually and underpinning equity prices. The region's inflation rate is well below 1% and the European Central Bank (ECB) might need to adopt more stimulatory policies.

PROSPECTS FOR CHINA NOT PROMISING FOR 2014

Economic news on China has mostly been unsettling. The country experienced its first corporate bond default. A property developer went bankrupt and recent Purchasing Managers' Index (PMI) numbers point towards a further slowdown in manufacturing. Chinese growth could disappoint again in 2014.

LOCAL GROWTH UNLIKELY TO REACH 3% IN 2014

In South Africa, economic news has mostly been weak. Although retail sales started the year on a firm footing, car sales continued to slide and fuel consumption fell about 5% after taking into account petrol price inflation. Headline inflation (which includes food and energy) rose to 5.9%, but core inflation (which excludes food and energy) was flat at 5.3%, indicating depressed domestic demand conditions. The Monetary Policy Committee decided to keep rates unchanged. With another drawn-out labour strike on the platinum mines, local growth is again unlikely to reach 3% in 2014.

CURRENT ACCOUNT DEFICITS SHRINKING, BUT STILL TOO BIG

Foreigners turned net buyers of our bonds and equities over the past month. The Rand regained some of its lost ground. It appeared to shake off the poor data out of China, the further tapering of Fed bond purchases and the political crisis in the Ukraine. The economy's twin deficits seem to be improving slightly. According to the SA Reserve Bank, the current account deficit shrank to 5.1% of GDP in the last quarter of 2013 and the budget deficit is projected at 4% of GDP. Unfortunately these deficits are still uncomfortably large when compared to other emerging markets.

A VIEW OF LOCAL EQUITIES

LOCAL EQUITIES SHOWED SOME GROWTH

Despite the volatility in March, the local market managed to register a small gain for the month. Financials performed well and the banking sector was particularly positive. Given no significant credit growth in South Africa, expectations for higher margins through higher net interest income coupled with good dividend prospects seem to be driving share prices of the banks.

RETAIL SECTOR ENJOYED STRONGER SALES

The retail sector benefited from stronger-than-expected retail sales numbers and the expectation of higher food inflation (given the rising soft commodity prices in South Africa and globally). Soft commodity prices have been affected by poor weather conditions in number of important regions. In our equity model portfolio, Shoprite is an obvious beneficiary, as is Woolworths, given its large food offering. Woolworths has the added benefit of having a more resilient customer base.

NEWS FROM CHINA HAS HAD RIPPLE EFFECT

Naspers and Richemont have both being impacted by the poor news flow out of China. The Greater China region is Richemont's biggest customer and concern about lower growth in the region does create some nervousness. Tencent, in which Naspers owns 34%, is now 15% off its March peak. Along with a number of other large internet companies, the market is starting to pay close attention to the multiples that these companies are commanding. There has been a lot of coverage of the King Digital Entertainment IPO. This company derives 78% of its revenue from one smart phone game called Candy Crush, and it debuted at a market cap of $7 billion in New York. It closed, down 16%, on its first day of trading. We remain bullish on the growth of social media and online retail in China. However excessive valuations do need to be tempered occasionally.

WE REMAIN INVESTED IN THE RESOURCE SECTOR

Billiton and Anglo American have also been impacted by mixed data out of China and concern about China sustaining a 7% to 8% GDP growth rate. A number of key commodities prices have fallen, due to data from China and South African listed commodity companies also had to contend with a stronger Rand in March. However, the relative valuation of the resource sector makes it attractive from a long-term investment perspective. We remain invested.

A VIEW OF GLOBAL EQUITIES

TREATY TO MAKE CRIMEA PART OF RUSSIA IS BIG NEWS

Despite US and European objections, Crimea is now part of Russia. Russia's annexure of the Crimea region in Ukraine has dominated news flow over the last three weeks. Given the concerns about the impact on global equities, most indices are in the red, but recovered slightly in the last week of March. The market seems to be discounting the threat of sanctions on Russia given Russia's dominance in the crude and natural gas sectors. Approximately 33% of European natural gas and 40% of European crude is sourced from Russia. European banks have significant credit exposure to Russia, making sanctions less likely.

GLOBAL HEALTH-CARE COMPANIES GOING STRONG

Swiss-listed Roche Holdings continues to go from strength to strength. At the latest results release, the company produced 10% earnings growth and the 27th consecutive increase in its dividend. The Company received regulatory approval for a number of important drugs. It also provided an update on the product pipeline with 15 new molecular entities in late stage development. In addition, since the release of the results, the company received Food and Drug Administration (FDA) regulatory approval for a few more important drugs.

GlaxoSmithKline (GSK) has also been in the media after its offer to increase its stake from 51% to 75% in its publicly-listed Indian subsidiary was accepted. This transaction further increases GSK's exposure to an important market.

These two companies represent our exposure to global healthcare — a sector with very attractive long-term growth prospects. These prospects are underpinned by their strong financial performance. Both Roche and GSK remain core holdings in our global equity model portfolio.

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