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## COMMENTARY – JUNE 2010

### Global Economy

Having displayed a strong recovery from the recession, the global economy is now beginning to show signs of weakness, although growth remains positive. All major leading indicators have turned downwards from their recent peaks. Recent data from the United States (US) has been weak, while data from Europe and Japan continues to show a strong rebound in the real economy. China, and other major emerging economies, remain the growth engine for the world economy, although these are also showing signs of a slowdown. Against this backdrop, together with a focus on fiscal consolidation by most governments, especially in the developed world (with the aim of reducing their budget deficits and debt levels), the sustainability of the economic recovery has been put into question.

### Global Markets

The results have been sharp declines in commodity prices, with gold and silver the only commodities managing positive returns for the quarter. Industrial metals fell as much as 20%. Global equity markets sold off, with the MSCI World Index (MSCI) declining a whopping 12.5% in US dollars. This was the first quarterly loss for global equity investors after four straight quarterly gains. Developed markets continued to underperform emerging markets. Europe suffered the most losses, with markets like Greece, Hungary, Finland, Poland, Austria and Spain falling by between 20% and 40% in dollar terms during the second quarter of 2010. Other regions also suffered losses, although more muted than those experienced in Europe.

### Domestic Economy

The South African economy continues to recover from the recession, with the consumer sector also turning positive. Household finances continue to improve, with real disposable income rising, and inflation and debt servicing costs falling. This, together with high consumer confidence after the FIFA Soccer World Cup, bodes well for a strong consumer recovery going forward. Although both the manufacturing and mining sectors continue to show strong recovery, sharp declines in these sectors' leading indicators, namely the purchasing managers indices and commodity prices, are a cause for concern. This is especially so when seen in the context of a slowing global economy that both these sectors are geared to.

### Domestic Markets

Our markets performed in line with global markets, with the FTSE/JSE All Share Index (ALSI) falling 12.8% in dollar terms. In rands (ZAR) the ALSI fell 8.2%. Resources led the decline, falling 11.9% in rand terms, continuing its recent underperformance of the other major sectors. Most mining sub-sectors fell sharply, in sympathy with falling commodity prices, with large diversified miners declining 18.2%. The only exception was the gold sector, rising an outstanding 16.5% in rand terms. The gold price in dollar terms hit an all-time high of US\$1 256 per ounce during the quarter. Financials were the second worst performing major sector, falling 7.8% while industrials fell a more muted 4.5% for the quarter. Our markets continue to be dominated by global events despite our better fiscal position and positive news from the first FIFA Soccer World Cup in Africa.

## OUTLOOK

Global markets are expected to remain volatile as long as concerns about the sustainability of the global economic recovery remain. We believe that the global economy will continue to grow, albeit at a slower pace than the first half of the year. The domestic economy is expected to continue to recover in the second half, also at a slower pace. This, together with a positive outlook on inflation and the remaining areas of weakness within the domestic economy, could propel the South African Reserve Bank to cut interest rates by a further half a percent at its July Monetary Policy Committee (MPC) meeting. This would further aid the consumer recovery.

## PORTFOLIO CHARACTERISTICS

### RISK FACTOR

The Community Growth Fund of Funds is a pooled, unitised portfolio that provides institutional investors with a well-diversified, medium-risk profile of local assets that aim to provide long-term capital growth while promoting sustainable and responsible investing (SRI).

### INVESTMENT AIM

The fund provides investors with both a social, as well as a financial return on their investments by integrating social, environmental and economic factors into the investment process. The performance objective of the fund is to produce above-average, real returns, with relatively low risk of capital loss over rolling five-year periods.

### PORTFOLIO STRUCTURE

Part of the suite of Community Growth Funds (CGF)\*, the fund is structured as a 'fund of funds' and invests in the following four underlying SRI funds: Community Growth Fund (equities), Community Gilt Fund (fixed income), Community Growth Money Market Fund (money market) as well as IDEAS Managed Fund (alternative assets).

The portfolio is compliant with Regulation 28 of the Pension Funds Act, 1956.

\* The Community Growth Funds have been managed with social and environmental dimensions since 1992 by the Community Growth Management Company Limited (Comanco). Comanco is a jointly owned company between Unity Incorporated (representing a group of seven trade unions) and Old Mutual Investment Group (South Africa). Comanco is a member of the Association of Collective Investments, SA.

## UNDERLYING FUND RETURNS to 30 June 2010

	3 Mths	1 Yr	2 Yrs
Community Growth Equity Fund	-8.6%	14.9%	-3.2%
FTSE/JSE All Share Index	-8.4%	20.4%	-5.4%
Community Growth Gilt Fund	1.6%	11.3%	15.2%
BEASSA All Bond Index	1.0%	9.3%	13.8%
Community Growth Money Market Fund	1.8%	7.6%	9.7%
StEFl	1.6%	6.9%	8.8%
IDEAS Managed Fund	9.7%	14.7%	12.7%
CPI + 7%	2.2%	11.4%	12.3%
<b>Total Portfolio</b>	<b>-1.2%</b>	<b>17.6%</b>	<b>3.8%</b>
<b>Benchmark</b>	<b>-4.4%</b>	<b>17.1%</b>	<b>3.2%</b>

### Note:

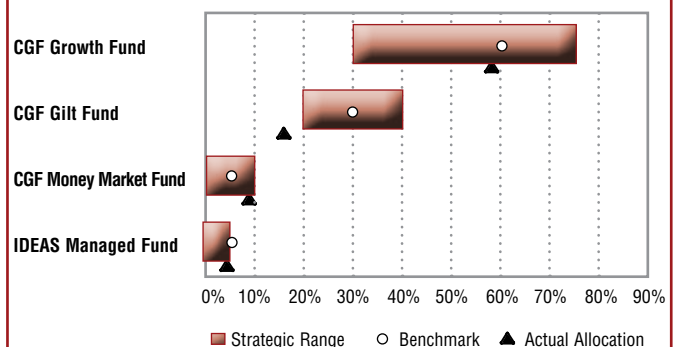
- Unit trusts: Figures as at 30 June 2010, based on lump sum investment excluding initial charges (NAV-NAV prices). All fund and Benchmark returns are net of fees. Income is reinvested on the ex-dividend date. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income. Sources: Fund Returns – Morningstar as at 30 June 2010; Fund Benchmark Returns – Old Mutual Investment Group's Internal Performance System as at 30 June 2010.
- IDEAS Managed Fund: Performance returns are time-weighted and gross of charges; data source: Old Mutual Investment Group & Statistics SA.

## PAST PERFORMANCE as at 30 June 2010

	Actual	Benchmark
3 Months	-1.2%	-4.4%
1 Year	17.6%	17.1%
2 Years	3.8%	3.2%

Note: The performance return is time-weighted, gross of charges and includes capital and income. The portfolio was launched on 1 April 2005. Data Source: Old Mutual Investment Group's Internal Performance System as at 30 June 2010.

## FUND ALLOCATION as at 30 June 2010



Notes: The performance benchmarks used are published indices except for the IDEAS Managed Fund where the benchmark is CPI+7%.

In the 1st quarter 2007, the gilt and money market asset allocation ranges for the CGF Fund of Funds were changed and aligned to OMIGSA's balanced fund ranges.

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