FAIRBAIRN CAPITAL INVESTMENT INTELLIGENCE

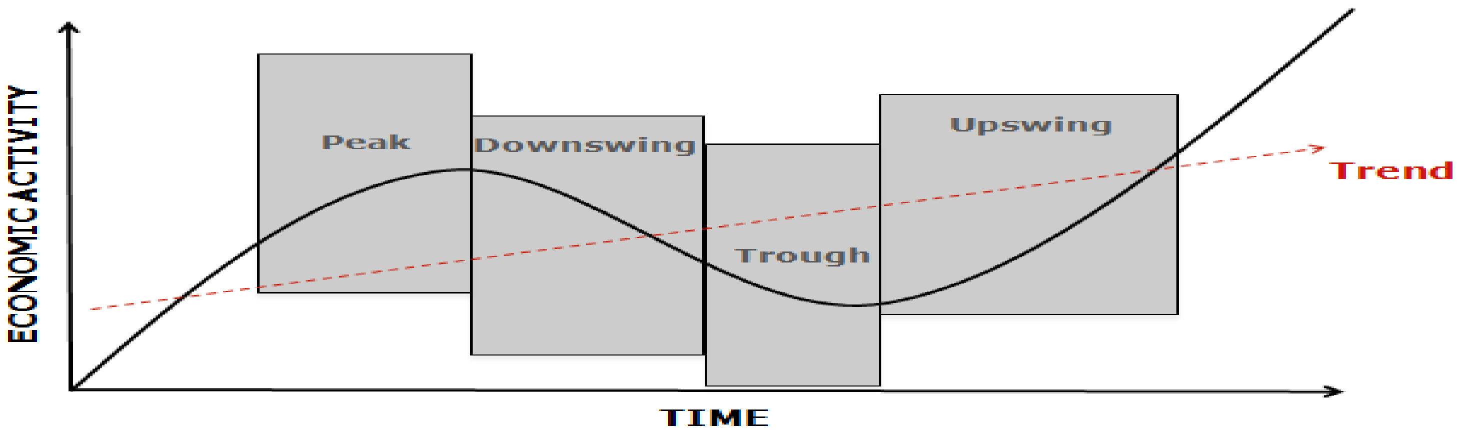
Economic Dashboard October 2012

All economies move in cycles: good times follow bad times which again follow the good times. The trend over time is upward. Though each cycle will have its own unique characteristics, depth and duration, the chart below presents a simplified view of the business cycle. Below the chart is an explanation of the four typical stages of the business cycle, and the economic indicators associated with each chart.

The business cycle matters for investors because different asset classes and investment strategies perform better at different stages of the business cycle. (long-term investors need not be too concerned with fluctuations in the cycle, but it does present opportunities to diversify). Determining the current stages of the business cycle is part art and part science, and always subject to debate, but the ECONOMIC DASHBOARD aims to provide a monthly snapshot view of where we are in the South African cycle based on selected key indicators.

Based on the indicators shown, the economy is **EXPANDING**, but the pace of expansion is slowing.

A SIMPLIFIED VIEW OF THE BUSINESS CYCLE



	PEAK	DOWNSWING	TROUGH	UPSWING
Economy	• Household borrowing and spending rises fast. • Production and sales rise fast. • Companies invest, hire more people. • Shortages of skills, goods and services push up prices and wages. • Central bank hikes interest rates to fight rising inflation. • Widespread optimism about the future.	• Households under pressure from high debt, high interest rates and high inflation. • Demand for credit falls. • Production and sales slow. • Companies cut back investment plans and start lying off workers. • Inventories fall. • Some sectors of the economy still performing - data paints a mixed picture.	• Households under huge pressure, focus on paying off debt. • Unemployment surges. • Central bank cuts rates as inflation subsides. • Spare production capacity rises, forcing companies to restructure. • Widespread pessimism about the future.	• Household balance sheets improve with lower interest rates. • Credit demand rises. • Unemployment still high, falling gradually. • Companies start expanding again, often buying out weaker rivals. • Company profit margins rise. • Sales and production rise, companies increase inventory levels.
Financial Markets	• Equities outperform, but are overvalued (late stage of bull market). Sector performance diverges. • Bonds yields rise due to rising inflation (bond prices fall). • Listed property de-rates in line with lower bond yields. • Cash returns improving with higher interest rates. • Residential property prices rise. "Buy, Buy, Buy! This time is different!"	• Equities and commodities fall. • Bond yields fall in anticipation of falling inflation (bond prices rise). • Listed property re-rates in line with lower bond yields. • Cash preserves capital, offers good returns. • Investors uncertain about future: "Maybe it was just a market correction"	• Equity prices bottom as investors "capitulate" (Equities offer value). • Cash preserves capital, but returns fall with interest rates. • Point of maximum pessimism about the future: "Sell everything!"	• Equity prices start rising, pricing in better future (early phase of bull market). • Bond yields start rising, anticipating future inflation (bond prices fall). • Commodity prices rise. • Cash returns low, but will eventually start rising as inflation picks up again. • Investors uncertain about the future: "Maybe things are improving."

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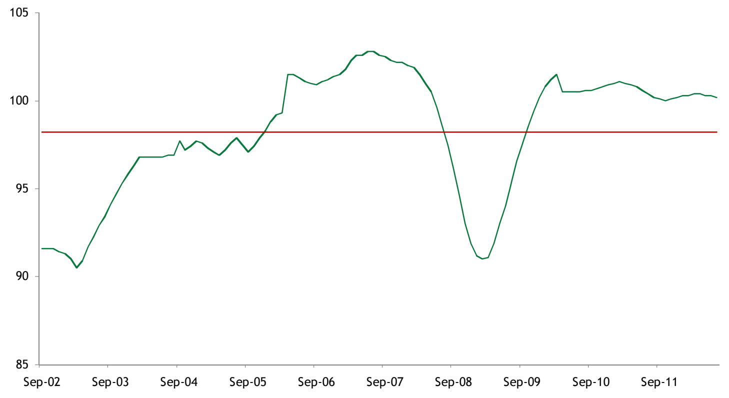
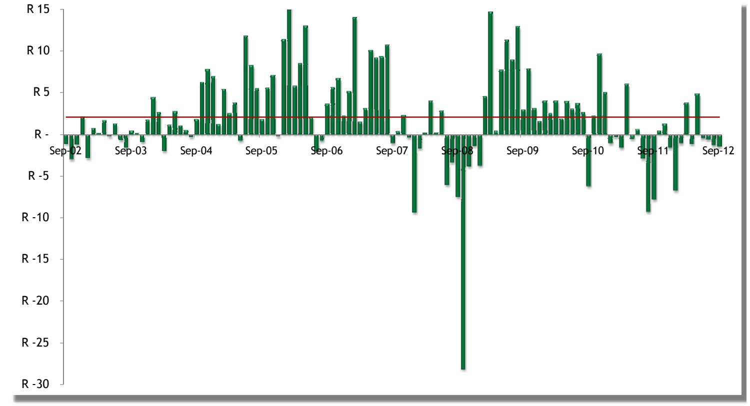
OECD COMPOSITE LEADING INDICATOR [GLOBAL INDICATOR]



Latest:	Neutral:	Recent trend:
100.2	100	

The OECD is a think-tank representing the world's richest economies, and includes SA's major trading partners. It compiles a Composite Leading Indicator, which predicts economic activity 6 months ahead. A rising level below 100 points to a recovery, a declining level below 100 indicates a slowdown. A rising level above 100 indicates expansion, a falling level above 100 points to a downturn. The CLI is a directional indicator; it points to the direction of change in economic activity and not necessarily the strength.

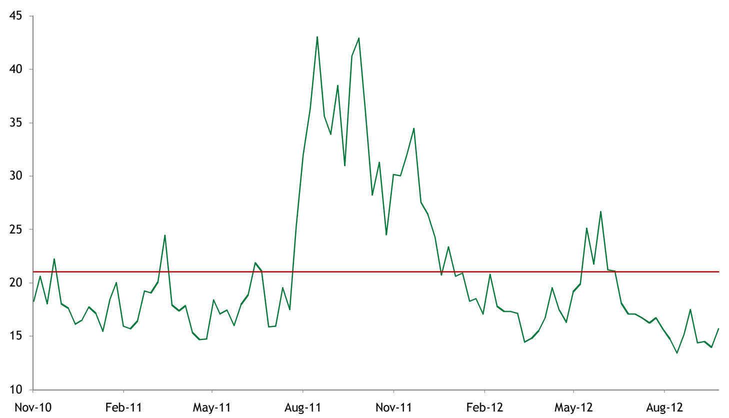
NET FOREIGN TRANSACTIONS IN SA EQUITIES, Rbn



Latest:	10-year average:	Recent trend:
R-1.5 bn	R2.06bn p.m.	

Foreign purchases on the JSE is an indicator of global risk appetite, sentiment towards emerging markets generally and confidence in South Africa specifically. If foreigners are net buyers of SA equities, they support prices on the JSE and the rand. This money can also flow out quickly. The graph shows monthly net purchases in billions of rands, with the latest data for September indicating that foreigners were net sellers of R-1.5 bn of SA equities.

CBOE VOLATILITY INDEX (VIX) [GLOBAL INDICATOR]



Latest:	100-week average:	Recent trend:
14	21	

The Chicago Board Options Exchange® Volatility Index (VIX) is a daily indicator of global investor sentiment (sometimes called the 'fear gauge'). It represents the options-implied volatility of the S&P 500 and, by implication, global equity markets. Higher values point to increased volatility. The graph shows the weekly values, and at the end of September the index increased slightly.

SA BIG 4 COMMODITY PRICE INDEX

Latest:	10-year average:	Recent trend:
332	248	

Commodities are a major export earner for SA and higher prices tend to support the Rand against other currencies. The index shown is the proportionally weighted weekly price of SA's top four export commodities - coal, platinum, gold and steel. The September month-end index level was well above the 10-year average, however, it has continued its volatile pattern of the past few months.

FAIRBAIRN CAPITAL | OLD MUTUAL

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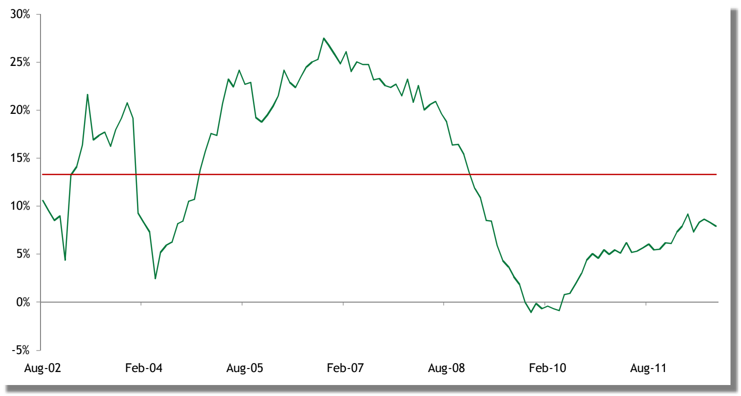
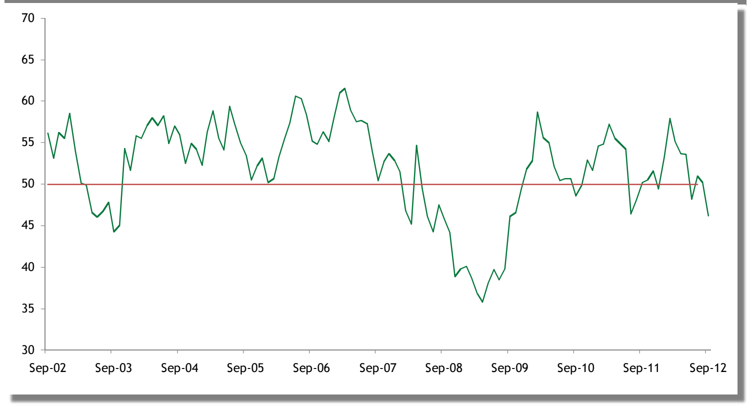
PRIVATE SECTOR CREDIT EXPANSION (Y/Y %)



Latest:	10-year average:	Recent trend:
7.9%	13.3%	

Credit plays a vital role in greasing the wheels of the economy, for both households and companies. Too much credit can lead to excess demand for goods and service, fuelling inflation. It is an indicator that the Reserve Bank looks at both to gauge the health of the economy and risks to the inflation outlook. Roughly half of total PSCE relates to mortgage loans, a third relates to loans to companies and the remainder to instalment and leasing finance. The latest data for August shows a decrease in private credit growth. The growth rate is well below the average of the past decade, and very slow compared to a similar stage in past economic cycles.

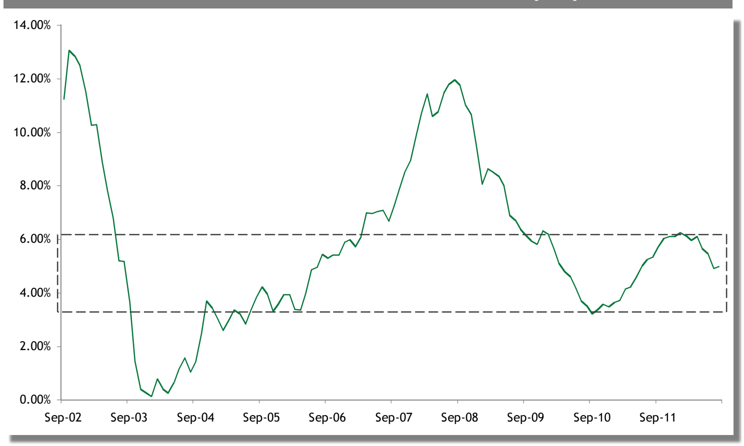
KAGISO SA PURCHASING MANAGERS' INDEX (PMI)



Latest:	Neutral:	Recent trend:
46.2	50	

The PMI, sponsored by Kagiso and compiled by the Bureau for Economic Research, is a leading indicator of economic activity in the manufacturing sector, SA's second largest. It is based on surveys asking manufacturing firms questions on areas such as sales, inventories, new orders, employment, prices etc. An index level below 50 points suggests a contraction in the sector and above 50 an expansion. The PMI has again fallen below the neutral level.

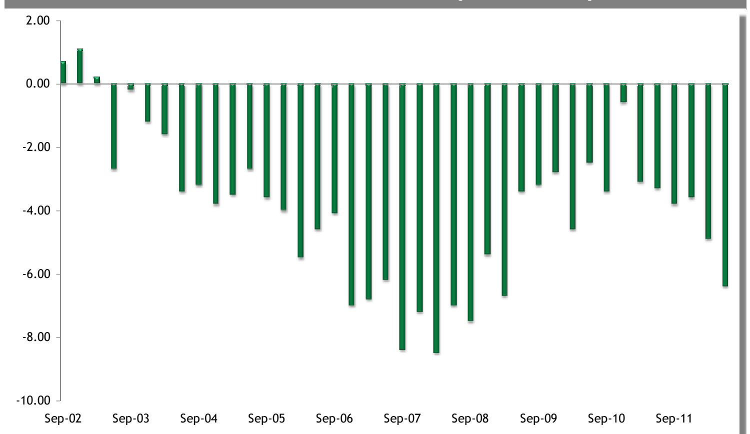
SOUTH AFRICA CONSUMER PRICE INDEX (CPI)



Latest:	10-year average:	Recent trend:
5% y/y	5.8% y/y	

Annual change in the consumer price index (CPI) is the official measure of headline inflation, and is the version targeted by the Reserve Bank. As such its trajectory influences interest rate movements. Higher inflation also erodes the purchasing power of income and reduces the real return of investments. The graph shows the year-on-year percentage change every month. In August, inflation ticked up ver slightly, but closed within the Reserve Bank's 3%- 6% target range (shown in grey).

SA CURRENT ACCOUNT BALANCE (AS % OF GDP)



Latest:	10-year average:	Recent trend:
-6.4%	-4.0%	

The current account balance is an indicator of our economic relations with the rest of the world. It captures the difference between exports and imports, interest and dividend payments, and the service costs of trade. A deficit has to be financed by capital flows from abroad, and if larger than 6% of gross domestic product (GDP) is generally considered risky as these flows can reverse easily. The latest number shows that the current account deficit increased to the risky level of 6.4% of GDP in the second quarter of 2012.

THE RED LINE INDICATES THE LONG-TERM AVERAGE (AS DESCRIBED), OR THE INDEX NEUTRAL VALUE FOR PMI AND CLI.

THE ARROWS INDICATE THE DIRECTION OF THE INDICATORS. A GREEN ARROW INDICATES AN IMPROVEMENT (+) IN THE RECENT TREND AND A RED ARROW A DETERIORATION (-). A SIDEWAYS AMBER ARROW INDICATES NO SIGNIFICANT RECENT TREND.