

The Weekly Focus

A market and economic update

19 July 2010



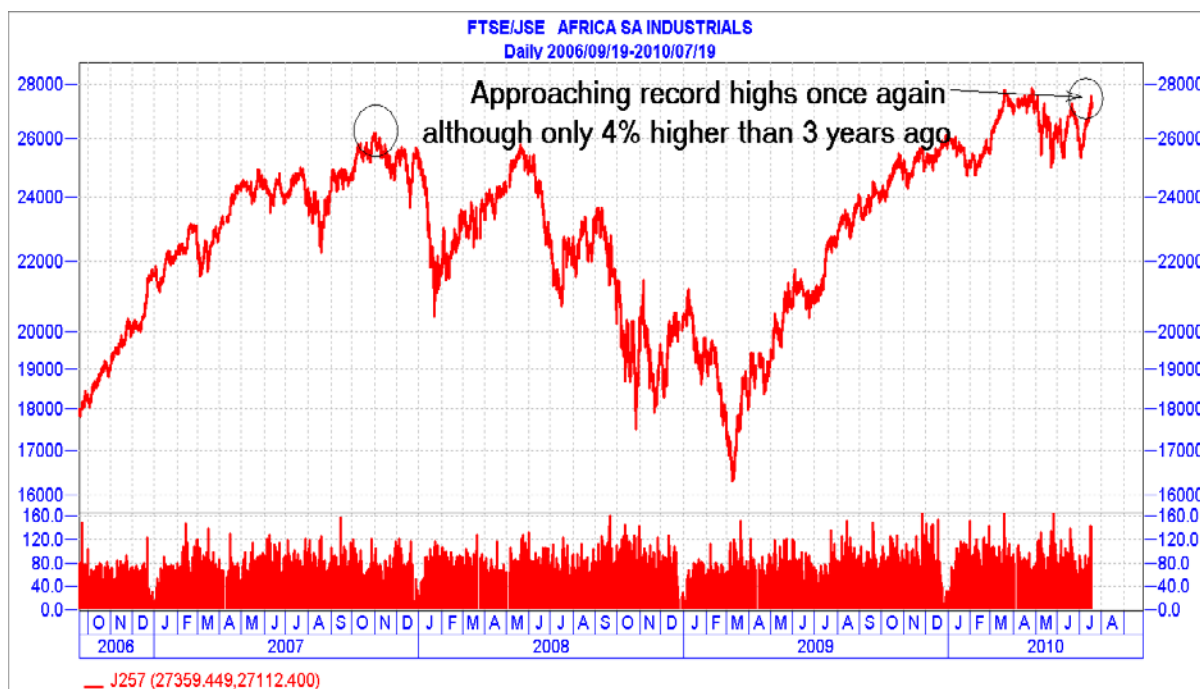
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Newsflash

Market Comment

- There is some nervousness about the level of the JSE's Industrial Index (see chart below), because the index is close to its recent all-time record high, although it is only 4% higher than where it was almost three years ago. Clearly there appears to be a fair amount of selling when the index reaches these levels.



- Last week the Industrials were the stars on the JSE as Didata jumped 30% after receiving a takeover bid from the huge Japanese telecoms company, NTT, as the second biggest share in the index MTN jumped 5% on positive news, as Naspers rallied sharply following a 22% fall and as Shoprite, Remgro and Imperial perked up, the latter after a 20% correction.
- What's worrying some investors is that the price-to-earnings ratio of the index is now 18, which is its highest (most expensive) level in ten years. The consensus forecasts are for 25% earnings growth over the next year, which would bring the PE ratio down to a far more reasonable 14.4.
- This brings up another worry or an issue clouded with much scepticism that these earnings forecasts are too high and will need to be reduced because the economy may be growing fairly slowly. It is an ongoing theme in our market, this nervousness and the only solution will be as and when the earnings are delivered. It is true that there are risks, but the more the market worries about it, the better because then the worry will probably be well-priced into the market. The bigger problem would be if investors are too casual about earnings forecasts, because then one may get nasty surprises, but this does not appear to be the case.

- If one goes back into history, one becomes aware that there are always uncertainties and worries about the future, although perhaps there is understandably more worry now than during most economic recoveries because of the recent great recession and the high debt levels offshore.
- It is also true that SA banks are experiencing very little borrowing and other activity, definitely less than was expected, causing analysts to lower bank earnings forecasts from, say, 25% to 18% or 19% for this year.
- There's no question that foreign investors, as part of their diversification drive into emerging markets, are a lot more confident than local investors. Last week alone saw R2bn of net foreign buying of our equities.
- JP Morgan Cazenove, in their SA Strategy Spotlight document, believes that there is still value in SA equities, but they agree that the only way to unlock this value is to deliver the earnings. They say that if one shaves 10% off current 2010 SA earnings forecasts and assumes no growth in 2011, the JSE All Share Index does not appear expensive, trading at "mid-cycle" forward PE multiples of 12.6 (to December 2011), which is below the "new SA" average of 12.8.
- They see fair value for the ALSI some 20%-plus higher than current levels, making certain assumptions about the economy's growth and company returns. On a worst case scenario, they see upside of 10%.
- One of the indicators they look at is comparing the earnings yields of shares to current SA bond yields. Currently this favours equities over bonds, showing equities to be cheap, as opposed to two years ago when equities started their big decline.

Offshore Commentators

- BCA Research sets out a number of reasons why they do not expect a "double-dip" recession globally. One such reason is that US productivity is so good right now, with companies making very good profits that this typically leads to both a good recovery in capital spending and also to job creation.
- They admit that if US consumers continue to increase their savings levels (and by definition decrease consumption), then there will be trouble. In their judgement, if US income keeps growing at 4-5%, then they expect consumers to spend at a level that shows moderate growth.
- There are risks, to be sure, one of them being the consistent increase in the German personal savings rate over the past ten years and the big decline in the German bond yields to under 3%.
- In mitigation of this issue, the euro area contribution to global economic growth is now under 4% compared with 16% ten years ago.
- BCA Research says it is possible, however, that the US stock market may continue its broad sideways move that it has been in since 1998, similar to the 14 year sideways move that occurred between 1968 and 1982.

- They prefer emerging markets equities and markets where currencies are now cheap, such as Germany and the UK.
- Highly renowned Fidelity value fund manager, Anthony Bolton, now living in Hong Kong and managing a R5bn portfolio of Chinese shares (called the Fidelity China Special Situations Fund, which is listed on the London stock exchange), is of the view that the second leg of the global bull market in shares is not far from beginning, after mostly sideways moves over the past year or so.
- He correctly called the start of the big stock market rally early last year and is once again noting the high cash levels of many global investors.
- At this stage, the Chinese “H” shares, being the shares that foreign investors buy in Hong Kong, are trading on a forward PE ratio of just 13, which is low when one considers the high growth rate in the Chinese economy.
- Bolton says the consolidation in global equities over the past many months, including in Chinese shares, has presented investors with good buying opportunities.
- US market analyst, Elaine Garzarelli, is also a believer in the continuation of the cyclical bull market in shares. She notes that the number of bullish investment advisors in the US is now the lowest since March 2009, the bear market bottom, which is very positive (a contrarian sign). Also positive for the stock market is that so far over 80% of US companies that have reported 2nd quarter earnings have beaten expectations.

Snippets of Info

- Foreign investors have piled into SA bonds recently because of the high yields on offer when compared with all the big developed markets, investing R16bn over the past ten days (partly because of the world cup?), bringing the year-to-date number to R51bn. Combined with the R22bn invested in our equities, which brings the total from foreigners so far in 2010 to R73bn.
- The euro has continued to gain quite sharply of late against the dollar, rising to \$1.30 to the euro lately (now \$1.295). This has led to the euro gaining about 2.5% against the rand over the past week. It is hard to say whether the euro may give up some of its gains against the dollar at this point, or continue its recent uptrend.
- Singapore last week announced amazing growth of 18% in the first half of 2010 in its economy; the fastest since records began 35 years ago, highlighting the strong economic rebound occurring in Asia, including Taiwan, S Korea, China and Hong Kong.
- Spending by companies around the world on technology is bouncing back sharply since the global crisis, with record results from Intel last week evidence of this.
- Businesses are finally replacing ageing data-centre servers, desktop PCs and notebooks, after holding back during the recession. IT departments are buying new generation servers with more powerful processors that can do the work of 20 older servers and also reduce energy costs by up

to 90%, meaning the servers can pay for themselves in a matter of months. Research company Gartner, raised its forecast for hardware spending growth to 9.1% from 5.7%.

- Regarding the current state of the US economy and its future prospects, Warren Buffett maintained cheerful optimism in a recent interview, insisting that the US government is pulling its weight, that confidence is returning and that many businesses under his careful watch are outperforming and even hiring.
- Goldman Sachs agreed to pay \$550 million to the SEC for civil fraud charges related to sub-prime mortgages, without admitting any guilt.

Paul Hansen

(Director: Group Advisory Services - Investments)

Economic Update

Locally, SA retail sales rose more than expected in May up an impressive 4%/y. The strong pick-up in retail activity during May was, at least partially, driven by the world cup. This implies that retail data for June and July will also be fairly robust. It is then likely that retail activity for August to October will appear to go 'soft' relative to the base that is currently being established.

Globally, belt tightening continues, the US trade deficit widened to \$42.3bn, up from \$40.3bn in April 2010. This was bigger than market expectations for the deficit to fall to \$39.0bn. Importantly, the fact that imports have risen faster than exports over the past 12 months has meant that the US trade deficit has steadily widened from \$24.86bn in May 2009 (its smallest deficit in many years) to \$42.27bn currently. Ironically, should this 'rising-deficit' trend continue, analysts will start, once-again, to raise concerns about the re-emergence of the global imbalance; but at this stage of the business cycle it will be viewed as a reflection of a welcome pick-up in US domestic demand.

US retail sales disappointed in June, which follows weaker than expected data in May. While the fall-off in vehicle sales explains a large portion of the June disappointment, the overall trend in sales is less than encouraging. Consumers are still in deleveraging and there is likely to be continued strained spending for some time to come.

China releases an array of key economic data simultaneously each month. This typically includes monthly data on industrial production, retail sales and fixed investment spending. They also usually release the monthly consumer inflation data at the same time, and when appropriate, the quarterly GDP estimate. China GDP growth has slowed to 10.3%/y in Q2 2010 from 11.9%/y in Q1 2010. Credit growth, property prices and industrial production have all slipped, but retail sales and exports still remain strong.

South Africa

SA Retail Sales

- Stats SA have released the retail sales data for May 2010. According to this latest survey, retail sales rose by an encouraging 1.3m/m in real terms, seasonally adjusted. On an annual basis retail sales are now up 4.6%/y, which is the strongest annual growth rate since February 2008 the fifth consecutive month in which retail sales have been positive on an annual basis.

- In the three months to May 2009, retail sales were up 0.8%q/q, seasonally adjusted (but not annualised), highlighting that the SA consumer spending has slowly started to improve. On a trend basis, SA retail sales are clearly improving.
- Most categories of consumer spending appear to be on the mend. There was a very noticeable further surge in sales of appliances in May (possibly TV's etc ahead of the soccer World Cup), continued strong sales in cosmetics and pharmaceutical goods as well as clothing. A key area of sustained weakness is undoubtedly spending on hardware, paint and glass, which has been struggling for the last year off a high base of activity that was established in the period from 2004 to early 2008.
- As mentioned in each of the last three months, while consumers remain under pressure, there is a sense/expectation that the pressure will systematically ease during the course of 2010. This expectation is based on the current low interest rate environment being sustained for all of 2010, a further moderation in inflation (at least in the short-term), wage increases that are now rising above inflation (leading to a real increase in consumer income), and less job losses as domestic and world growth improves. There is also a natural boost to retail sales that is associated with hosting the Soccer World Cup. Additionally, there has been a more positive wealth effect this year, with house prices moving firmly higher. Growth in consumer bank credit also seems to be improving, albeit very slowly.
- This does not imply that the consumer will be able to effect a significant increase in discretionary spending during 2010/2011. Instead the substantial increase in administered prices, such as electricity, water, health costs, insurance, education, petrol and toll fees - all combined - means that discretionary spending power will remain under pressure, unless there is a more meaningful increase in general consumer credit and or employment conditions.

United States

US Trade Deficit

- The US trade deficit widened to \$42.3bn, up from \$40.3bn in April 2010. This was bigger than market expectations for the deficit to fall to \$39.0bn. During the month exports rose by a healthy 2.4%m/m to \$152.3bn, but imports jumped by 2.9%m/m to \$194.5bn. Since the low in May 2009, US imports are up a very substantial 29.1% while exports have risen an encouraging 22.7%.
- Importantly, the fact that imports has risen faster than exports over the past 12 months has meant that the US trade deficit has steadily widened from \$24.86bn in May 2009 (its smallest deficit in many years) to \$42.27bn currently. However, a widening US trade deficit (especially if driven by imports) is associated with a pick-up in US domestic economic activity and certainly not consistent with a so-called "double-dip recession".

- The increase in imports over the past year (a rise of \$43.8bn or 29.1%/y/y) has been extremely broad-based and included large increases in imports of industrial supplies and materials (\$16.9 billion); automotive vehicles, parts, and engines (\$9.1 billion); capital goods (\$8.6 billion); consumer goods (\$4.8 billion); and foods, feeds, and beverages (\$0.9 billion).
- Looking forward, it is likely that US imports will continue to rise given the current economic recovery underway, while US exports should benefit from the current surge in global trade and the modest improvement in world economic conditions.
- The overall growth in US imports is expected to continue to out-perform the growth in US exports, leading to a widening trade and current account deficit. Offcourse, the deterioration in the US trade/current account deficit is a net drag on US GDP growth (including in Q2 2010), but importantly, it is reflective of improving domestic expenditure within the US, which is vital for a sustained world economic recovery.

US Retail Sales

- In June 2010, US retail sales fell by a disappointing 0.5%/m/m. This was slightly below market expectations for a decline of 0.3%/m/m. The May 2010 reading was revised to -1.1%/m/m from an initial report of -1.2%/m/m. US retail sales are still, effectively, struggling to gain any meaningful traction, especially in the last two months.
- If motor sales are excluded, retail sales fell by a more modest 0.1%/m/m in June 2010, in-line with expectations. If vehicle sales and petrol sales are excluded (which is appropriate since sales are reported in nominal terms) retail sales were up 0.1%/m/m. This was also slightly above expectations for unchanged month-on-month. Given the above data it is fair to conclude that the main reason for the weak retail sales data in June was the decline in motor vehicle sales. However, even when vehicle and gasoline sales are excluded, the growth in retail activity is far from encouraging or convincing.
- On an annual basis, US retail sales are up 4.8%/y/y (in nominal terms), which is still relatively healthy, but well below the peak of 9.0%/y/y in April 2010. Importantly, excluding vehicles and gasoline, sales are up a modest 3.9%/y/y, which is well below the average from 2004 to 2007 of 5.5%.
- After improving noticeably from February 2010 to April 2010, consumer activity disappointed in both May and June. While the overall trend in retail activity remains mildly positive, our base-case view that US consumer activity will struggle to regain the previous peaks is still firmly in-place, especially given the still sluggish growth in private sector employment.

China

- China GDP growth slowed to 10.3%/y/y in Q2 2010. This was slightly below market expectations for growth to slow to 10.5%/y/y and compares with growth of 11.9%/y/y recorded in Q1 2010. The slowdown in economic performance links closely with the slowdown in credit growth as well as curbs on housing activity. Credit growth in China has now slowed from well over 30% at the end of 2009 to 18.2%/y/y currently (June 2010). The central bank has previously indicated that they target a credit growth rate of 18%. The slowdown in credit growth has been partially offset by the spectacular rise in exports. Export growth was recently recorded at 41%/y/y (June 2010), although there is some concern about a slowdown in Chinese exports into Europe in the second half of 2010. Interestingly, since the recent partial relaxation of the movement of the Yuan, which was almost a month ago (21 June 2010) the currency has strengthened by a mere 0.8%.
- The growth in industrial production continued to subside and was recorded at 13.7%/y/y in June 2010, down from 16.5%/y/y in May and a recent peak of well over 18%/y/y. The June reading is the lowest growth rate since August 2009. The slowdown in production is consistent with the recent slowing trend in the PMI index and is closely linked to the curtailment of credit extension as well as housing development. The authorities would probably not be comfortable with industrial production falling significantly further.
- Retail spending maintained robust growth of 18.3%/y/y in June, which is slightly below the 18.7%/y/y recorded in May. Retail spending in China was purposely boosted by tax breaks and subsidies on home appliances and cars. China's auto sales rose by 37.1%/y/y in the first six months of 2010, while furniture sales were up 38.5%/y/y and home appliance sales 28.8%/y/y.
- Encouragingly, consumer inflation in China eased to 2.9%/y/y in June from 3.1%/y/y in May. The market was expecting inflation to rise to 3.3%/y/y. (The Chinese government has a notional 3% target ceiling for inflation). The main reason for the slowdown in inflation was a larger than expected fall-off in transport and communication inflation. Food inflation remains relatively high at 5.7%/y/y, while housing inflation is at an uncomfortable 5.0%/y/y and medical inflation at 3.2%/y/y. The rate of growth in property prices has eased fractionally in recent months (see chart attached) and is now growing at 11.2%/y/y, down from a peak of 14.1%/y/y in April 2010. Strangely, there have been many reports citing concerns about a 'so-called' residential property bubble in China. Yet although residential property prices are still rising by over 11%, and recently by over 14%/y/y, this growth follows a sharp decline in property prices during 2009. On a net basis, house prices are currently a mere 0.1% above their peak in January 2008.

- Overall, while the Chinese GDP growth rate has slowed, it remains robust by any standard. The authorities boosted domestic economic activity during the global credit crisis, with State Owned Enterprises significantly increasing their credit demand. This included a boost to housing, household furnishings and car sales. There was some risk that these areas of the economy had started to over-heat, and concerns around inflation had risen. The authorities have since endeavored to slow credit growth together with some aspects of domestic demand. Fortunately, exports (which comprise around 25% of the economy) have improved significantly in recent months. From my perspective it would appear that the Chinese authorities are trying to re-balance the economy to a more appropriate mix that better suits the current global economic environment, and seem to be managing that process reasonably well. Statements about an imminent 'hard-landing' in China, therefore, seem exaggerated.

Kevin Lings and Laura Jones
(STANLIB Economics)

Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 16/07/10	Weekly Move (%)	YTD (%)
Indices			
*MSCI World - US Dollar	1089.89	-0.15	-6.72
*MSCI World - Rand	8294.44	0	-4.24
*MSCI Emerging Market - US Dollar	948.92	-0.31	-4.10
*MSCI Emerging Market - Rand	7221.61	-0.16	-1.54
All Share Index - US Dollar	3633.44	1.06	-2.82
All Share Index - Rand	27529.83	0.94	-0.49
All Bond Index	321.19	-0.16	7.39
Listed Property J253	774.54	1.06	15.42
Currencies			
US Dollar/Rand	7.58	-0.11	3.22
Euro/Rand	9.77	1.93	-6.92
Sterling/Rand	11.56	1.13	-2.69
Euro/US Dollar	1.29	2.29	-10.16
Commodities			
Oil Brent Crude Spot Price (\$/bl)	74.39	-0.80	-3.64
Gold Price \$/oz	1193.10	-1.58	8.78
Platinum Price S/oz	1509.50	-1.44	2.72

Source: I-Net Bridge

* MSCI - Morgan Stanley Capital International

Rates

The following yields are calculated using an annualised seven-day rolling average as per the unit trust industry standard. These rates are expressed in nominal and effective terms and should be used for indication purposes ONLY.

Standard Bank Money Market Fund

Nominal: 6.71% per annum

Effective: 6.92% per annum

A constant unit price will be maintained. Past performance is not necessarily a guide to future performance. A schedule of fees and charges and maximum commission is available on request from the Manager. Commission and incentives may be paid and if so, are included in the overall costs. The yield is calculated using an annualised seven-day rolling average as at 16 July 2010.

STANLIB Cash Plus Fund

Effective Yield: 7.32%

This is a current yield as at 16 July 2010.

STANLIB Dividend Income Fund

Effective Yield: 4.76%

This is a current yield as at 16 July 2010.

Liberty Investments' Life Annuities

Current Rates for 19th July - 23rd July 2010

Payments are assumed to be paid monthly in advance with no guarantee period or annual escalation in income. Ages indicated assume client is the exact age shown. No tax has been deducted.							
Gender		Male			Female		
Age last birthday		55	60	65	55	60	65
Contribution	R 100,000	R 775	R 839	R 920	R 705	R 749	R 810
	R 250,000	R 1,961	R 2,121	R 2,324	R 1,783	R 1,893	R 2,048
	R 500,000	R 3,936	R 4,256	R 4,664	R 3,580	R 3,801	R 4,111
	R 1,000,000	R 7,887	R 8,528	R 9,344	R 7,174	R 7,616	R 8,236

The table above shows the monthly annuity that an annuitant will receive for life in return for the single premium in the left hand column. Note that the annuity depends on the annuitant's exact age and gender.

The rates above were calculated assuming maximum commission and will be enhanced if a commission discount is selected.

Glossary of terminology

Bonds	A bond is an interest-bearing debt instrument, traditionally issued by governments as part of their budget funding sources, and now also issued by local authorities (municipalities), parastatals (Eskom) and companies. Bonds issued by the central government are often called “gilts”. Bond issuers pay interest (called the “coupon”) to the bondholder every 6 months. The price/value of a bond has an inverse relationship to the prevailing interest rate, so if the interest rate goes up, the value goes down, and vice versa. Bonds/gilts generally have a lower risk than shares because the holder of a gilt has the security of knowing that the gilt will be repaid in full by government or semi-government authorities at a specific time in the future. An investment in this type of asset should be viewed with a 3 to 6 year horizon.
Cash	An investment in cash usually refers to a savings or fixed-deposit account with a bank, or to a money market investment. Cash is generally regarded as the safest investment. Whilst it is theoretically possible to make a capital loss investing in cash, it is highly unlikely. An investment in this type of asset should be viewed with a 1 to 3 year horizon.
Collective Investments	Collective investments are investments in which investors’ funds are pooled and managed by professional managers. Investing in shares has traditionally yielded unrivalled returns, offering investors the opportunity to build real wealth. Yet, the large amounts of money required to purchase these shares is often out of reach of smaller investors. The pooling of investors’ funds makes collective investments the ideal option, providing cost effective access to the world’s stock markets. This is why investing in collective investments has become so popular the world over and is considered a sound financial move by most investors.
Compound Interest	Compound interest refers to the interest earned on interest that was earned earlier and credited to the capital amount. For example, if you deposit R1 000 in a bank account at 10% and interest is calculated annually, your balance will be R1 100 at the end of the first year and R1 210 at the end of the second year. That extra R10, which was earned on the interest from the first year, is the result of compound interest (“interest on interest”). Interest can also be compounded on a monthly, quarterly, half-yearly or other basis.
Dividend Yields	The dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. The higher the yield, the more money you will get back on your investment.
Dividends	When you buy equities offered by a company, you are effectively buying a portion of the company. Dividends are an investor’s share of a company’s profits, given to him or her as a part-owner of the company.
Earnings per share	Earnings per share is a measure of how much money the company has available for distribution to shareholders. A company’s earnings per share is a good indication of its profitability and is generally considered to be the most important variable in determining a company’s share price.
Equity	A share represents an institution/individual’s ownership in a listed company and is the vehicle through which they are able to “share” in the profits made by that company. As the company grows, and the expectation of improved profits increases, the market price of the share will increase and this translates into a capital gain for the shareholder. Similarly, negative sentiment about the company will result in the share price falling. Shares/equities are usually considered to have the potential for the highest return of all the investment classes, but with a higher level of risk i.e. share investments have the most volatile returns over the short term. An investment in this type of asset should be viewed with a 7 to 10 year horizon.

Financial Markets	Financial markets are the institutional arrangements and conventions that exist for the issue and trading of financial instruments.
Fixed Interest Funds	Fixed interest funds invest in bonds, fixed-interest and money market instruments. Interest income is a feature of these funds and, in general, capital should remain stable.
Gross Domestic Product (GDP)	The Gross Domestic Product measures the total volume of goods and services produced in the economy. Therefore, the percentage change in the GDP from year to year reflects the country's annual economic growth rate.
Growth Funds	Growth funds seek maximum capital appreciation by investing in rapidly growing companies across all sectors of the JSE. Growth companies are those whose profits are in a strong upward trend, or are expected to grow strongly, and which normally trade at a higher-than-average price/earnings ratio.
Industrial Funds	Industrial funds invest in selected industrial companies listed on the JSE, but excluding all companies listed in the resources and financial economic groups.
Investment Portfolio	An investment portfolio is a collection of securities owned by an individual or institution (such as a collective investment scheme). A funds ' portfolio may include a combination of financial instruments such as bonds, equities, money market securities, etc. The theory is that the investments should be spread over a range of options in order to diversify and spread risk.
JSE Securities Exchange	The primary role of the JSE Securities Exchange is to provide a market where securities can be freely traded under regulated procedures.
Price to earnings ratio	Price to earnings ratio or p:e ratio, is calculated by dividing the price per share by the earnings per share. This ratio provides a better indication of the value of a share, than the market price alone. For example, all things being equal, a R10 share with a P/E of 75 is much more "expensive" than a R100 share with a P/E of 20.
Property	Property has some attributes of shares and some attributes of bonds. Property yields are normally stable and predictable because they comprise many contractual leases. These leases generate rental income that is passed through to investors. Property share prices however fluctuate with supply and demand and are counter cyclical to the interest rate cycle. Property is an excellent inflation hedge as rentals escalate with inflation, ensuring distribution growth, and property values escalate with inflation ensuring net asset value growth. This ensures real returns over the long term.
Resources and Basic Industries Funds	These funds seek capital appreciation by investing in the shares of companies whose main business operations involve the exploration, mining, distribution and processing of metals, minerals, energy, chemicals, forestry and other natural resources, or where at least 50 percent of their earnings are derived from such business activities, and excludes service providers to these companies.
Smaller Companies Funds	Smaller Companies Funds seek maximum capital appreciation by investing in both established smaller companies and emerging companies. At least 75 percent of the fund must be invested in small- to mid-cap shares which fall outside of the top 40 JSE-listed companies by market capitalisation.
Value Funds	These funds aim to deliver medium- to long-term capital appreciation by investing in value shares with low price/earnings ratios and shares which trade at a discount to their net asset value.

Sources: Unit Trust and Collective Investments (September 2007), The Financial Sector Charter Council, Personal Finance (30 November 2002), Introduction to Financial Markets, Personal Finance, Quarter 4 2007, Investopedia (www.investopedia.com) and The South African Financial Planning Handbook 2004.

Disclaimer

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In terms of the Association for Saving & Investment South Africa (ASISA) Code of Practice for Advertising of Collective Investment Schemes in Securities and ASISA Standard Pricing and Valuation, STANLIB is required to quote a current yield for Income Portfolios. This is an effective yield. The above quoted yield will vary from day to day and is a current yield as at 16 July 2010. The net (after fees) yield on the portfolio will be published daily in the major newspapers together with the "all-in" NAV price (includes the accrual for dividends and interest). This yield is a snapshot yield that reflects the weighted average running yield of all the underlying holdings of the portfolio. Monthly distributions will consist of dividends (currently tax exempt) and taxable interest. Interest will also be exempt from tax to the extent that investor's are able to make use of the applicable interest exemption as currently allowed by the Income Tax Act. The portfolio's underlying investments will determine the split between dividends and interest.

In terms of the ASISA Code of Practice for Advertising of Collective Investment Schemes in Securities and ASISA Standard Pricing and Valuation, STANLIB is required to quote an effective rate which is based upon a seven-day rolling average yield for Money Market Portfolios. This seven-day rolling average yield may marginally differ from the actual daily distribution and should not be used for interest calculation purposes. We however, are most happy to supply you with the daily distribution rate on request, one day in arrears. The price of each participatory interest (unit) is aimed at a constant value. The total return to the investor is primarily made up of interest received but, may also include any gain or loss made on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the portfolio.

Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. An investment in the participations of a CIS in securities is not the same as a deposit with a banking institution. CIS are traded at ruling prices and can engage in borrowing and scrip lending. Different classes of units apply to this portfolio and are subject to different fees and charges. A schedule of fees and charges and maximum commissions is available on request from STANLIB Collective Investments Ltd (the Manager). Commission and incentives may be paid and if so, would be included in the overall costs. This portfolio may be closed. Forward pricing is used. TER is the annualised percent of the average Net Asset Value of the portfolio incurred as charges, levies and fees. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. This portfolio is valued on a daily basis at 15h30. Investments and repurchases will receive the price of the same day if received prior to 15h30. The Manager is a member of the ASISA.