

The Weekly Focus

A market and economic update

28 June 2010



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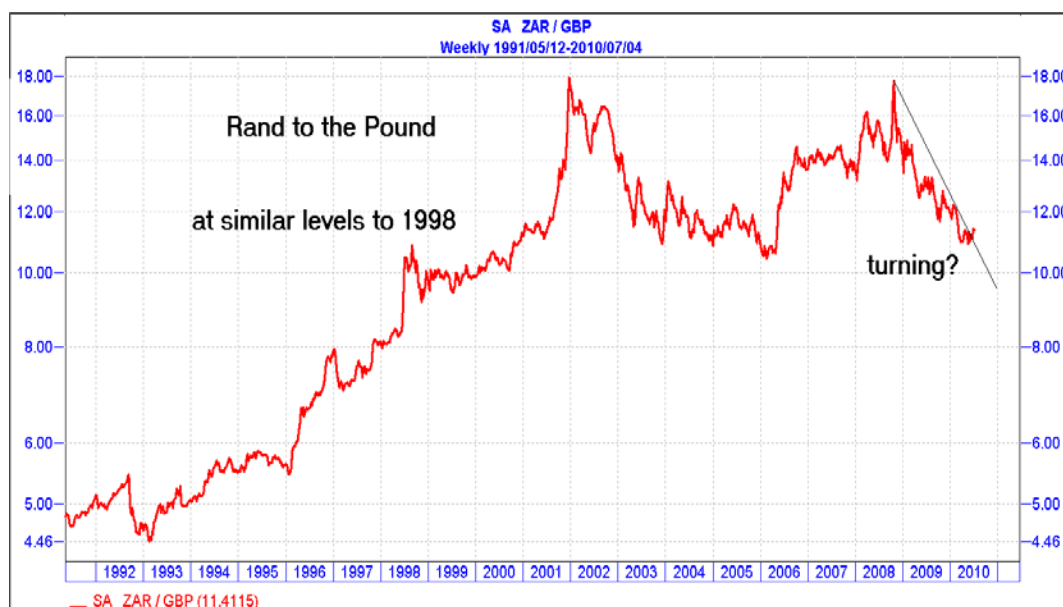
Newsflash

There is plenty of so-called “whip-sawing” occurring in markets

Market Comment

- The northern hemisphere summer doldrums continue to keep stock markets in check. This year the general lack of interest in markets during the languid summer months is that much more acute because of the huge interest in the soccer world cup.
- We’ve always said the May to October period is a tricky period historically, so investors will just have to be patient, at least until the offshore summer holidays are over (end August).
Meanwhile there is plenty of so-called “whip-sawing” occurring in markets, as they fluctuate one way, then the other, i.e. there is no trend apparent at present. For now, markets are more-or-less “beached”. The benefit for investors with extra cash is that buying opportunities present themselves from time to time, as they did in May. When fears of double dip recessions or high debt levels rise again, as in the past week, then markets fall back...and vice versa.
- Looking at movements over the past two weeks, the emerging markets have done best - in dollar terms. The MSCI Emerging Markets Index is up 3.8% in dollar terms over the past two weeks, much better than the MSCI World Index (of mostly developed markets), which has been flat over this period. In fact, the emerging markets index has risen to an all-time record high relative to the developed market index. Why? Because of heightened fears about developed market debt levels and slower growth, whereas emerging markets continue to do better on both fronts.
- For example, ex-Fed Governor, Alan Greenspan, notes that US government federal debt has surged from \$5.5 trillion to \$8.6 trillion (up 56%) over the past 18 months. This is a cautionary note for shares because it causes a less stable economic environment for the next few years.
- One big positive is that US corporate tax receipts are up 40% year-on-year, which makes sense considering the sharp recovery seen recently in company profits.
- To-date, the MSCI World Index is down 13% from its April high, trading at August 2009 levels (and 1998 levels), while the MSCI Emerging Markets Index, of which SA comprises 7.3%, is down 9% from its April high, trading at October 2009 levels.
- US analyst, Garzarelli, notes that the US economy is clearly in a softer patch right now, especially the housing market. However, she thinks the economy is healing from its huge recession, judging by recent robust manufacturing sector gains, with industrial production rising 8.9% over the past 11 months, the strongest increase in 13 years; also machine tool orders have been strong, credit card delinquencies have declined and mortgage rates are low.

- Over the past two weeks, the JSE All Share Index is up 1.6% in rand terms (2.6% in dollar terms), trading at November 2009 levels (and March 2007 levels) and is down 7.9% from its recent high in April. The JSE listed property index is behaving well, up 2% over the past two weeks and just 3.3% down from its recent high.
- On the currency front, chartists have yet again been confounded by the rand's strength as it remains within its 7.20 to 7.85 boundary against the US dollar.
- The most interesting development of late has been sterling's fairly sharp rise, despite or possibly partly because of the UK Finance Minister's delivery last week of what JP Morgan calls the "most draconian budget cuts in at least 40 years", although also very prudent under the circumstances. Sterling is up almost 10% against the euro over the past three months, back at December 2008 levels and is up quite sharply from \$1.42 to \$1.503 against the dollar, the highest in over three months. Sterling has jumped from 11.05 rands to the pound ten days ago to the current 11.40 to the pound (it was 13 to the pound a year ago).
- It appears that while the budget (cut in spending) will be a drag on the UK economy, it is spread over a number of years and should allow the economic recovery to continue. The budget should build credibility with investors and help prevent a debt crisis from unfolding. The pound should continue to gain against the euro.
- See the chart below of the rand to the pound, showing how the rand recently traded at similar levels to 1998 and how the rand is showing possible signs of turning weaker, with the usual cautionary warnings on being too definite on currency movements.



Snippets of Info

- Macquarie Equities Research has constructed a Global Container Index, where they total all the containers handled in almost 200 container ports in 58 countries. The latest reading shows that global container volumes reached an all-time record high in May, exceeding the previous peak of July 2008 by 1%. Year-on-year gains are 18%, showing that world trade is strong in 2010.
- Regarding the Dow Jones Industrial Average, it is worth noting that it took this index 26 years to decisively break above the 100 level (1920's to 1940's), then it took 18 years to decisively break above the 1,000 level (1960's to 1980's); now it has spent around 12 years around the 10,000 level. In other words, long periods of consolidation have occurred before.
- BCA Research notes that while many countries are struggling under high debt levels, most listed companies are in great shape. For example, US non-financial companies have healthy balance sheets and profit margins are near record levels, a testament to the aggressive cost-cutting that occurred during the recession. Because of the huge slack in the labour market (large available supply of labour and skills), profit margins could stay high for some time.
- It is interesting to see Shoprite's share price hit an all-time record high on Friday (85 rand). This is one share that did not experience a bear market during 2008/9. One year ago, the share was 53 rand, so it is up 60.3% in the past year. It looks expensive at these levels, but has a great track record.

Paul Hansen

(Director: Group Advisory Services - Investments)

Economic Update

The World Cup Soccer is now well underway and whilst the South African adventure has sadly come to an early end, this did not dampen momentum on the release of local economic data for the week.

South Africa's leading economic indicator continued to rise. Although the leading indicator has been positive on a year-on-year basis for seven consecutive months, the annual rate of change is expected to moderate noticeably in the months ahead given the exceptionally high base that has been established over the past few months. There is a reasonably good relationship between the SA leading indicator and overall economic activity. This relationship suggests that the SA economy should show solid GDP growth in 2010.

SA lost 79 000 formal sector jobs in Q1 2010, and a total of 242 000 formal sector jobs over the past year. The employment situation in South Africa, remains extremely troubling and in a perpetual state of crisis - clearly SA's number one economic concern. Despite job losses, household incomes are rising and growing well above inflation. The latest round of wage negotiations indicate that incomes look set to rise further. The rise in household incomes, coupled with 30 year low interest rates should systematically reflect in increased consumer activity, especially if job losses are curtailed.

According to Statistics South Africa, SA consumer inflation eased to 4.6%/y in May 2010, in-line with expectations. Inflation is forecast to move lower over the coming few months, but rates are expected to remain on hold.

The SA Quarterly Bulletin released last week reflects that the SA current account deficit widened significantly in Q1 2010 to 4.6% of GDP. Worse than expected due to a combination of sharply lower exports, increased imports and some further dividend outflows.

SA consumer spending rose strongly in Q1 2010, boosted by an increase in disposable income despite job losses. The debt to income ratio continued to trend lower. The latest inflation reading, coupled with a still firm Rand and declining employment data will re-ignite the debate on a further cut in interest rates. However, interest rates are already at around 30-year lows and the last GDP data release showed that the economy was growing at 4.6%q/q with every major sector of the economy expanding.

Offshore, the UK Emergency Budget released set out tough key changes. The VAT rate is to increase to 20% in January from 17.5%, new tax levies on banks have been imposed and no increase in public sector wages will be given for the next two years. Welfare spending has been reduced extensively.

It is hoped, that these changes will reduce the budget deficit meaningfully from over 10% of GDP to 1.1% of GDP in 2015/2016, but still allow the economy to grow at around 2.5% a year over the next five years and retain a AAA credit rating.

US new homes sales plunged in May to their lowest level ever recorded. The fall-off is mostly due to the ending of the tax incentive for housing. Nevertheless, the fundamentals for the housing market remain poor. Housing remains the weakest link in the US economic recovery.

South Africa

SA Leading Economic Indicator

- The SA leading economic indicator for April 2010 recorded a month-on-month increase of 1.2%*m/m*. This follows an increase of 1.4%*m/m* in March, and is the **ninth consecutive monthly rise in the** leading indicator; which kept the annual rate of change at an impressive 21.1%*y/y*, compared with 21.2%*y/y* in March.)
- The SA leading economic indicator is compiled by the SA Reserve Bank and released once a month. It consists of 13 sub-indicators, namely:
 - Opinion survey of volume of orders in manufacturing
 - Opinion survey of stocks in relation to demand: Manufacturing and trade
 - Opinion survey of business confidence: Manufacturing, construction and trade
 - Composite leading business cycle indicator of major trading-partner countries: Percentage change over twelve months
 - Commodity prices in US dollars for a basket of South Africa's export commodities: Six-month smoothed growth rate
 - Real M1 money supply (deflated with the CPI): Six-month smoothed growth rate
 - Prices of all classes of shares: Six-month smoothed growth rate
 - Number of residential building plans passed for flats, townhouses and houses larger than 80m²
 - Interest rate spread: 10-year bonds less 91-day Treasury bills
 - Gross operating surplus as a percentage of gross domestic product
 - Labour productivity in manufacturing: Six-month smoothed growth rate
 - Job advertisements in the *Sunday Times* newspaper: Six-month smoothed growth rate
 - Opinion survey of the average hours worked per factory worker in the manufacturing sector

SA Employment

- According to Stats SA's Quarterly Labour Force Survey (QLFS), the formal (non-agricultural) sector of the SA economy shed a significant 79 000 jobs in Q1 2010
- A breakdown of the 79 000 job losses by sector indicates that most of the jobs were lost in retail trade as well as business services. In contrast, the manufacturing, mining and social services sectors all added jobs in Q1 2010. Similarly, over the past year, the formal sector has lost 242 000 jobs, but mostly in business services, manufacturing, construction and retail trade.
- Interestingly, gross earnings of the formal sector fell by 4.6% in Q1 2010, compared with Q4 2009, but rose by an impressive 11.7% over the year to end Q1 2010; despite job losses. The reason that incomes rose year-on-year despite job losses is that the average monthly earnings per employee in the formal sector rose by a relatively high 16.4% over the year to end March 2010; from an average of R9 614 per month to R11 195 per month.
- There were especially large increase in the average monthly earnings of the construction sector, which rose by 21.5%/y (including bonus payments), and various social services sectors, up 21.6%/y (including bonus). In contrast, the average monthly earnings in the trade and accommodation sector rose by a more modest 12.6%/y.
- The sector with the highest average monthly earnings is Electricity, Gas and Water at R23 029 per month, followed by Transport, Storage and Communication at R13 931. The sector with the lowest monthly average income per employee (including bonus) is Wholesale, Retail Trade and Accommodation at R7 331 per month.

SA CPI Inflation

- In May 2010, headline CPI inflation rose by only 0.2% month-on-month. On an annual basis, CPI inflation eased further to 4.6%/y from 4.8%/y in April 2010. This is the lowest level of consumer inflation since 2006.
- During May 2010 there were only a few significant changes to inflation. The most notable aspects were an increase in transport costs, which rose by 0.3%/m adding 0.1 of a percentage point to the monthly increase in inflation. This was mainly due to a 1.7%/m increase in the petrol price (the petrol price fell by 27c/l in June). In addition, food prices rose by 0.4%/m, also adding 0.1 of a percentage point to the monthly increase.
- CPI excluding food and fuel is well within the inflation target at 5.4%/y, but services inflation remains on the high side at 6.4%. This is mainly due to the fact that electricity inflation is at 24.4%/y, medical services inflation at 8.0%/y, education inflation at 9.2%/y, and water inflation at 9.4%/y. These four services comprise 8.84% by weight of the consumer price index.

- Consumer inflation is expected to fall further over the coming months to below the mid-point of the inflation target, helped partly by base effects, sustained low food inflation, a firm Rand and very modest global inflation. Looking further-out, the recently announced electricity price hike, as well as the pending increase in water prices, other administered prices as well as a concerning increase in wage demands will tend to push inflation somewhat higher into 2011.
- For 2009, South Africa's consumer inflation averaged 7.2%. In 2010, the average is expected to fall to around 5.0%, with inflation in the first half of the year averaging a little below 5%, but then trending modestly higher in the final quarter of 2010.

SA Q1 2010 Quarterly Bulletin

- In Q1 2010 South Africa recorded a current account deficit equivalent to 4.6% of GDP. This compares with a slightly revised deficit of 2.9% of GDP in Q4 2009. In value terms, the current-account deficit widened to R116.1 billion, up from R71.4 billion in Q4 2009 (these are annualised numbers).
- The larger than expected current account deficit was due to a combination of lower exports (especially into Europe), increased imports and some increase in dividend outflows.
- During Q1 2010, merchandise export volumes fell by a very disappointing 3.3%q/q after gaining almost 6.6%q/q in the final quarter of 2009. Additionally, gold export volumes plunged 16.5%q/q, partly due to lower domestic production related to mine specific problems.
- In contrast with the decline in export volumes, SA's import volumes rose by 2.7%q/q in Q1 2010, after rising by 8.0%q/q in the final quarter of 2009. A range of motor vehicle parts and electrical equipment (including TV sets) increased fairly significantly in the beginning of the year.
- SA exports are likely to struggle to accelerate significantly in 2010 given the still strong Rand and sluggish world economic recovery (especially in Europe). Additionally, it takes time for SA export companies to establish a more effective presence in the higher growing emerging economies. This implies that the trade balance is likely to remain under some pressure over the coming few quarters; although the deterioration is expected to be fairly modest from current levels.
- Hopefully, the development of SA's infrastructure, especially the port and rail infrastructure, together with a focus on increasing exports to the fast growing emerging economies, will lead to some increase in exports in the years to come.

SA Consumer Spending

- During Q1 2010, SA consumer spending rose by an impressive 5.7%q/q, annualised, compared with a rise of only 1.6%q/q in Q4 2009 and a decline of 3.1%y/y for 2009 as a whole. The increase in spending was primarily boosted by an increase in household disposable income, despite the loss of employment.

- Disposable income grew by 5.1%q/q, annualised in Q1 2010, compared with 2.3%q/q in Q4 2009 and a decline of 2.7%y/y for 2009 as a whole. This is an extremely close relationship between changes in consumer income and consumer spending and obviously changes in consumer income is the main factor that determines the strength of consumer activity. The main determinants of consumer income are changes in employment and changes in salaries and wages.
- A range of employment data has clearly demonstrated that SA has lost hundreds of thousands of jobs over the past 18 months, however, not as much attention has been paid to the fact that average incomes have risen fairly significantly. The earnings data released this week clearly demonstrated that reality and crucially the rise in incomes have more than compensated for the loss in employment, again I there has not been much discussion on this.
- 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 employment and 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.

United States

US New Home Sales

- In May 2010, US new home sales plunged by a dramatic 32.7% m/m to 300 000. The market was expecting a decline to 410 000.
- At the moment the US housing data is being significantly distorted by the ending of the US tax incentive to buy houses. As part of the US Government's plan to stimulate the US housing market and address the economic challenges facing the country, the US Congress passed legislation more than a year-ago that provided various tax incentives to purchase a home. These incentives were initially scheduled to expire at the end of November 2009. However, on 5 November 2009 they were extended until 30 April 2010. The tax incentive for a first time home buyer was \$8 000, while for someone who was a current home owner purchasing a new or existing home the incentive was up to \$6 500.
- It is certainly intriguing to see how adaptive and responsive the US tax legislation is in trying to deal with specific economic problems (incentives to purchase both houses and cars). It provides a useful policy alternative/addition to monetary policy; however the long-term merits of these types of incentives are debatable and clearly the fall-off in activity, once the incentive is discontinued, can be scary.

United Kingdom

Some of the key changes (mostly tax) announced y in the UK's National 'Emergency' Budget were:

- Increase the standard rate of Value Added Tax to 20% from 4 January 2011 (currently 17.5%). This will raise a massive £13bn a year
- Introduce a two year pay freeze for public sector workforces from 2011-12, except for those earning £21,000 or less, who will receive an increase of at least £250 in these years.
- Reduce corporation tax rates including a reduction in the main rate of corporation tax from 28 per cent to 24 per cent over the course of four financial years from April 2011 and reductions to the main and special rates of capital allowances from April 2012
- Child benefits to be frozen for the next 3 years
- Existing claimants of Disability Living Allowance will face new medical tests
- Housing benefits payments will be cut by £1.8 billion or 7% percent overall
- Increasing the personal allowance for under 65s by £1,000 to £7,475 in 2011-12, taking 880,000 people out of income tax altogether
- Capital gains tax will rise from 18 to 28 per cent for those liable to income tax at the higher and additional rates.
- Introduction of a bank levy on bank's balance sheets from January 2011 (plan to collect £2 billion a year).
- Economic growth forecast at 1.2% in 2010, 2.3% in 2011, and 2.8% in 2012
- Inflation target maintained at 2%
- Unemployment rate forecast to fall from 8.1% to 6.1% in 2015
- Public sector net debt to peak at 70% of GDP in 2013/2014, then fall to 67% of GDP by 2015/2016

Kevin Lings and Laura Jones
(STANLIB Economics)

Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 25/06/10	Weekly Move (%)	YTD (%)
Indices			
*MSCI World - US Dollar	1082.40	-2.95	-7.37
*MSCI World - Rand	8249.96	-1.40	-4.75
*MSCI Emerging Market - US Dollar	952.13	-0.14	-3.77
*MSCI Emerging Market - Rand	7257.09	1.46	-1.06
All Share Index - US Dollar	3583.38	-3.32	-4.16
All Share Index - Rand	27258.07	-1.81	-1.48
All Bond Index	314.43	-0.82	5.13
Listed Property J253	745.33	0.09	11.06
Currencies			
US Dollar/Rand	7.61	1.56	3.63
Euro/Rand	9.43	1.47	-10.20
Sterling/Rand	11.45	3.09	-3.59
Euro/US Dollar	1.24	-0.15	-14.03
Commodities			
Oil Brent Crude Spot Price (\$/bl)	77.12	-0.14	-0.10
Gold Price \$/oz	1255.50	-0.98	6.87
Platinum Price S/oz	1570.50	-0.98	6.87

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 25 June 2010.

STANLIB Cash Plus Fund

Effective Yield: 7.37%
 This is a current yield as at 25 June 2010.

STANLIB Dividend Income Fund

Effective Yield: 4.79%
 This is a current yield as at 25 June 2010.

Liberty Investments' Life Annuities

Current Rates for 28th June - 2nd 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 786	R 849	R 930	R 715	R 759	R 820
	R 250,000	R 1,986	R 2,146	R 2,349	R 1,808	R 1,918	R 2,073
	R 500,000	R 3,987	R 4,307	R 4,714	R 3,631	R 3,851	R 4,160
	R 1,000,000	R 7,989	R 8,630	R 9,444	R 7,276	R 7,717	R 8,336

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 25 June 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.