

The Weekly Focus

A market and economic update

30 May 2011



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Newsflash

The recovery of the JSE All Share Index has been quite impressive over the past couple of weeks

Market Comment

- Since the end of April, the JSE All Share Index is down about 1% in rand terms, after doing well last week (up 1.8%, beating most global stock markets on the week). So the recovery over the past couple of weeks has been quite impressive, considering there has probably been more bad news than good news globally.
- In dollar terms, the JSE All Share Index is still down 6% since end April, which is a big smack in just 4 weeks; but clearly most of that is currency weakness against what has been a strong dollar (against almost all currencies) for most of that time. Even in dollar terms, though, the JSE is up 5% over the past week.
- I am always highly wary of the May to September period for most global stock markets because the stats back that up. However, I am forever hopeful (of course) that markets will beat this “voodoo”.
- So it is interesting to note that many top market commentators have turned either neutral or bearish over the past month or so, except Elaine Garzarelli (with her purely quantitative approach) and someone like Anthony Bolton, the 62 year-old fund manager guru from Fidelity, who has been positioned in Hong Kong over the past 2 years managing money in China.
- His fund is called the Fidelity China Special Situations PLC fund and is a closed-end fund listed on the London Stock Exchange. He recently noted that fund flows into Asia have started turning positive, despite concerns about the impact of Japan’s tsunami on the motor and electronic industries. He also thinks inflation in China could peak in the next few months, which could change investor attitudes towards that stock market (the biggest in the Emerging Market universe at around 18%).
- Garzarelli notes that her stock market composite indicator rose (became more bullish) last week. She says corrections of 4-7% are normal in a bull market and the S&P 500 Index was down 3.5% as of late last week, whereas the materials (mostly mining), financials and energy sectors were down around 7% in dollar terms and are “excellent buying opportunities” in her words.
- Also she notes that the number of bullish advisors in the US has dropped to 43%, which is the lowest level since last September (when markets were picking up strongly). If this number falls below 39% it becomes bullish on her quants system (currently neutral).
- 97% of the five hundred top US companies have now reported their 1st quarter results and earnings growth exceeded expectations by 6% (earnings were up 16.6% from a year ago).

- The four sectors that had the largest positive net earnings surprise were mining, industrials, health care and technology. All these sectors have much greater overseas exposure than the overall US market. (40% of earnings and 45% of revenues).
- Garzarelli notes that there has been a general weakening in the US economy of late (causing many to turn neutral or bearish on the stock market), but that she believes the odds of the economy bouncing back from its current lull are strong.
- She thinks the expansion is becoming self-sustaining, even though house prices are not yet stable and thus present the biggest risk to sustainability, because of ongoing foreclosures, overhang and financing issues.

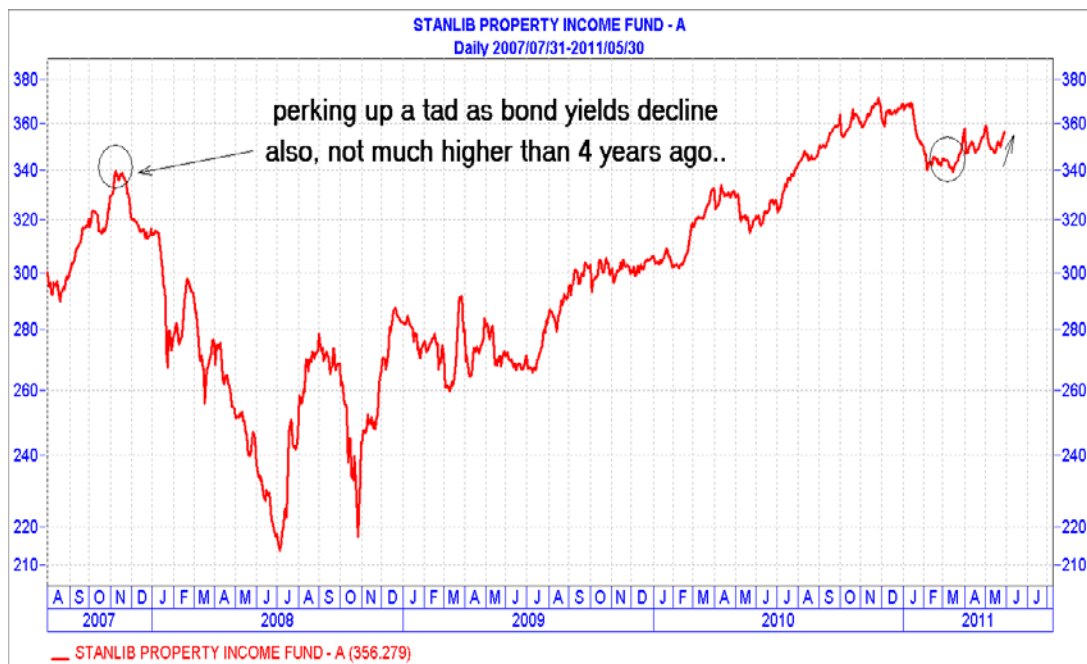
BCA down-weights Equities to neutral from overweight

- At the same time, we have great respect for BCA's fundamental views. They say the risk-reward tradeoff has worsened of late, causing them to turn more cautious over the short-term, even though they think the bull market remains intact.
- They refer to the risks and challenges to world growth coming from the Japanese problems, Libyan and Egyptian issues, European debt problems, the big jumps in oil and food prices, as well as in iron ore and coal etc.
- This has caused global economic growth to slow a tad, with Japan back in a technical recession.
- A decline in the growth rate of China's leading economic indicator hints of a mid-cycle slow-down in that economy. UBS also warned about this last week, saying they prefer to be underweight in Chinese-sensitive shares like mining shares because they're concerned that China may post weaker-than-expected GDP numbers over the next few months, which could shock the market.
- BCA says the main beneficiaries of QE2 have been risk assets like commodities, shares and foreign currencies (i.e. everything other than the dollar). They could be under some pressure once QE2 ends.
- However, BCA acknowledges that the alternatives to shares offer very little value at present, with money markets showing negative real returns, especially after taxes and government bonds yielding just over 3% versus underlying nominal economic growth of 4.5-5%, meaning that value is poor.
- They also say that shares almost always outperform bonds as long as the economy is expanding, which it still is.
- BCA's bottom line is that investors may face a more challenging environment where returns on risky assets could possibly be compressed by a mid-cycle economic slow-down in the world economy and monetary tightening by some key countries.
- However this environment is consistent with the maturity stage of a cyclical bull market, when share returns are more muted than earlier in the bull market.

Snippets of Info

- Many analysts are worried that the very high prices of commodities will cause supply to pick up sharply (because it is so profitable to produce or mine at current prices), which will in turn drive prices down sharply.
- One such commodity is copper. However, BCA notes that copper supply/production is currently only growing at 2% annually, which is still a low growth rate. This is because constraints on increasing production are serious, i.e. older mines producing lower grades of copper, labour issues, skill shortages etc. There are times in the past 10 years when copper production grew at an annual rate of 4-6%. Perhaps in a year or two this could recur, but for now supply increases remain muted, implying that the copper price may remain firm, which is good for shares like Anglo and Billiton.
- So far in 2011 the dollar copper price is down 6% (-1.6% in rands) and is 10% below its all-time record high hit in February. The price rose by 32.5% in 2010 in dollars (18.6% in rands).
- Food prices have also shot up over the past year. So it is interesting that the Financial Times indicates that despite fears of water shortages, China does not suffer from food shortages and is in fact 95%-100% self-sufficient on soft commodities such as rice, wheat and corn.
- For instance, China has an abundant supply of rice and wheat. Since 2003/4, China has managed to deliver many consecutive years of bumper harvests, clocking in more than 116 million tons of wheat and more than 194 million tons of rice during 2009 and 2010.
- China holds more than one-third of the world's wheat reserves, with around 71.5 million tons of inventory, according to the US Department of Agriculture.
- Notably, the inventories of wheat and rice in China have now reached an historically high level, after many years of bumper harvests. In turn, imports of wheat dropped 86% to 1 million tons in 2009/10 from 7.3 million tons in 2004/5. Good to see!
- The Financial Times of today (30th May) reports that European leaders are negotiating a deal that would lead to unprecedented outside intervention in the Greek economy, including international involvement in tax collection and privatization of state assets, in exchange for new bail-out loans for Athens!! Now we're talking. This is much more positive, even though it faces significant opposition.
- The FT also points out that the slowdown in the global economy, as well as a sharp fall in global inflation expectations, has caused government bond yields in the US, UK, Japan and Germany to unexpectedly decline by 14-15% over the past 7 weeks, meaning that prices have risen.
- Investors are concerned about the imminent end of QE2, the US Federal Reserve's policy of buying Treasury bonds, known as quantitative easing (QE). Will US economic growth slow down after the US stops printing money?
- Bond markets in these countries are saying that growth and/or inflation will slow down materially.

- Meanwhile, the SA ten year government bond yield has declined further to as low as 8.2%, from 8.8% in March, sending the prices and values of bonds higher. The STANLIB Bond Fund's unit price is up 3.6% over the last 2 months and is now higher than it was at the beginning of the year.
- This could be good for listed property, which is trading at a one year forward yield of 8.7%, i.e. much higher than the ten year government bond yield.
- It is good to see that Venezuela's Socialist leader, Chavez, is losing support internationally and in his own country. After two years of recession in Venezuela (as world growth gathers steam), his popularity has waned and many of his promises have not materialized. He is now campaigning for re-election next year.
- Below we show a chart of the STANLIB Property Income Fund unit price. This fund has just reopened to investors.
- The unit price has lately been rising a tad, in response to the lower bond yields referred to above. Interestingly, though, the chart shows that the current unit price is only slightly higher than the unit price back in November 2007.
- This is similar to other financial shares, such as the bank shares. Standard Bank is trading at 2007 prices, as is Absa Bank. Firstrand is trading at 2006 levels, while Nedbank is trading at 1998 levels (sideways for 13 years)!! Investec is also trading around 1998 levels, although its share price has recently broken upwards above a 12 month down-trend line. Could we possibly be seeing the start of a rally in financial-related shares, including banks and listed property?
- STANLIB's interest rate committee decided recently to delay their forecast for the first interest-rate hike in SA to early 2012, rather than late 2011.
- Others, including BCA, think that there is no need at all to raise interest rates in SA, because our growth rate is luke-warm, our inflation seems restrained and our nominal growth rate of around 8.5% (3.5% growth expected in 2011 plus inflation of about 5%) is still lower than the prime lending rate of 9%, plus our currency is overpriced. Part of the reason why our currency is strong is because our interest rates are so high relative to our main trading partners.



Source: I-Net Bridge

Paul Hansen
(Director: Retail Investment Marketing - Investments)

Economic Update

Locally, PPI increased by 6.6% y/y in April 2011 for domestic output. This rate is 0,7 percentage points lower than the corresponding annual rate of +7.3% in March 2011. From March 2011 to April 2011 the PPI for domestic output increased by 0.9%.

The number of liquidations in South Africa recorded for the three months ended April 2011 decreased by 7.3% (from 1 096 to 1 016) compared with the same period of 2010. A y/y decrease of 25.4% (from 358 to 267) was recorded for April 2011. The total number of insolvencies in South Africa for the first quarter of 2011 decreased by 30.5% (from 836 to 581) compared with the first quarter of 2010.

The latest growth estimates for South Africa are suggesting that economic activity is expanding within all major sectors of the economy. This includes mining, manufacturing, retail trade and finance. In 2010 the South African economy grew by an estimated 2.8%, which is a healthy improvement relative to a decline of 1.7% in 2009; but unfortunately still not sufficient to close the output gap and result in a sustained increase in employment. The growth forecast for 2011 is currently 3.5%, which is similar to the Reserve Bank's own forecast of 3.6%. The annual rate of change in the SA leading indicator has slowed noticeably since the middle of 2010, and is expected to slow further in the coming months. This is partly due to the exceptionally high base that was established in the early part of 2010, but also a general moderation in the main global leading economic indicators, as well as a lack of investment spending and job creation locally. Overall, the SA leading indicator suggests that the economy should still show reasonable, but somewhat unexciting GDP growth in 2011; and that while there has been a loss of momentum in the pace of the economic recovery (which is already factored into the current forecast), the models are NOT suggesting a return to recessionary conditions.

Globally, the first four months of 2011 delivered some nasty surprises for the world economy, including; a surge in political turmoil in North Africa and the Middle East that sent oil prices soaring; sharply higher global food prices aggravated by extreme weather conditions in many countries, a disastrous earthquake in Japan that led to a massive disruption to the production of vehicles and electronic equipment; and the re-emergence of financial tensions in the Euro-area, which could ultimately see a number of countries in the Euro-area having to formally restructure their national debt. These 'nasty surprises' (which are discussed briefly below) have combined to undermine the strength of the global recovery, leading to the current downward revisions to world growth estimates. At the same time they have complicated the outlook for monetary and fiscal policy across the globe, as countries try to balance the competing objectives of high growth and low inflation. They have also led to increased financial market volatility and uncertainty.

Globally

- **The Libyan civil war and turmoil in other MENA countries, including Syria, sent oil prices soaring.** During December 2010 the international oil price averaged \$92 per barrel, but spiked to a high of over \$127 per barrel in early April, a rise of over 38%. This has, naturally, led to higher inflation in most developed economies including the United States, United Kingdom, Euro-area, but also in many emerging markets such as China, India and South Africa. In fact, using a survey of the latest consumer inflation rate in 74 countries, it is clear that global inflation is on the rise. Out of the 74 countries examined, more than 60 have shown an increase in their annual rate of inflation over the past year. While this is certainly not a definitive indication of rising global inflation; given that some countries are coming off a very low base of inflation in 2010; it does appear to confirm a general upward bias. Furthermore, while underlying or core inflation in most countries remains well contained, there are signs of the start of an upward bias in this measure of inflation as well. Capacity utilisation levels are rising, and monetary conditions remain extremely loose in most economies. Under these circumstances, the risk of a broad based increase in underlying global inflation is clearly rising.
- **International food prices have also risen dramatically** since the middle of 2010 aggravated by severe weather disruptions in many countries, most notably Russia and Australia. According to the Economist food prices index, prices are up a staggering 42%/y over the past year; in Dollar terms. Furthermore, the rise in international food prices has also been extremely broad-based with almost every category of food up sharply. This has already led to higher food inflation in numerous countries and is expected to impact SA more forcefully over the coming 12 months. Consequently, we expect South Africa's food inflation rate to reach 10% year-on-year by year-end.
- **Japan is still reeling from one of the largest earthquakes on record.** Besides the massive human tragedy, the event led to the closure of many electronic and vehicle production plants, a disruption to the supply of key motor and electronic components to factories around the world and a sharp fall-off in confidence levels within Japan. According to data released recently by the Japan Automobile Dealers Association, vehicle sales plunged by 51% year-on-year in April 2011. This is the largest annual decline in sales recorded since the data series started in 1968, and follows a decline of 37% year-on-year in March. Also, April is the lowest level of vehicle sales, in volume terms, that Japan has recorded since at least 1968. This sharp decline in production, together with the fall-off in many other areas of business and consumer activity, including retail sales, will severely impact both the Q1 2011 and especially the Q2 2011 estimates of Japan's GDP performance. The Japanese economy was weakening in the months prior to the earthquake and has probably re-entered recession conditions in the past 6 weeks.

- Greece, Ireland and most recently Portugal, have all received significant financial assistance** from the European Central Bank and International Monetary Fund. Unfortunately their financial difficulties have continued and they will most probably require further financial assistance in the coming months. At the heart of the problem, national debt levels are extremely high, while economic growth rates remain depressed. The higher the level of government debt, the worse the debt service burden. If left unattended, this can reach a point where the government falls into a debt trap. Using a simple matrix that combines the absolute level of government debt with the level of non-resident holding of government debt, it is possible to establish a very crude measure of fiscal vulnerability. Using this methodology the ten countries that currently have the highest level of fiscal vulnerability are: Greece, Belgium, Austria, Ireland, Italy, Portugal, France, Hungary, Finland, Netherlands, and Germany. Interestingly, while Japan is the most indebted government in the world, the extremely low level of non-resident holdings of their debt reduces the vulnerability under the current economic environment. Also Spain is not on the most vulnerable list simply because their absolute level of debt is actually still fairly manageable at 60.1% of GDP. It is fascinating to see that the countries that have the highest degree of fiscal vulnerability are mostly all developed economies, while the least vulnerable are mostly all emerging market economies. South Africa features exceptionally well in almost all measures of fiscal vulnerability.
- More positively, the economic recovery in the United States, which remains the world's largest economy, has broadened and become more consistent over the past six months.** While the US is officially out of recession, it does not mean that the economic recovery is without risk. Rather, there are a number of key structural economic concerns, including a weak housing market and high public sector debt that suggest that the US will struggle to return to its historical average growth rates, but equally the economy appears to have successfully navigated the worst of the credit crisis and has avoided a double-dip recession.
- Germany, which is the largest economy within the Euro-area, has performed particularly well, helped by an improved export performance.** The value of German exports rose to an all-time record high in March 2011. Consequently, manufacturing sentiment has risen at a rapid pace, with demand for capital goods reaching a record high recently. In April, the IMF revised up their 2011 and 2012 growth projections for Germany.
- Developing Asia, which includes China and India, has also continued to convincingly outperform the other regions of the world;** although a number of other emerging economies have also maintained a consistently strong performance, including Sub-Saharan Africa. During 2010, Sub-Saharan Africa grew by around 5% and in 2011 is expected to expand by around 5.5% in 2011, rising to 5.9% in 2012. This reflects sustained strength in domestic demand in many of the region's economies as well as rising global demand for commodities.

Kevin Lings, Laura Jones and Xhanti Payi
(STANLIB Economics Team)

Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 27/05/11	Weekly Move (%)	YTD (%)
Indices			
*MSCI World - US Dollar	1338.47	0.14	3.92
*MSCI World - Rand	9307.84	0.35	8.98
*MSCI Emerging Market - US Dollar	1147.82	0.64	-1.35
*MSCI Emerging Market - Rand	7982.05	0.85	3.45
All Share Index - US Dollar	4677.73	1.65	-4.18
All Share Index - Rand	32384.41	1.86	0.24
All Bond Index	351.85	0.43	1.98
Listed Property J253	875.32	1.72	0.27
Currencies			
US Dollar/Rand	6.92	0.20	4.61
Euro/Rand	9.91	1.31	12.17
Sterling/Rand	11.43	1.94	11.62
Euro/US Dollar	1.43	1.10	7.20
Commodities			
Oil Brent Crude Spot Price (\$/bl)	115.12	2.33	20.60
Gold Price \$/oz	1526.65	0.87	7.95
Platinum Price S/oz	1782.50	0.59	1.05

Source: I-Net Bridge

* MSCI - Morgan Stanley Capital International

Rates

These rates are expressed in nominal and effective terms and should be used for indication purposes ONLY.

Standard Bank Money Market Fund

Nominal: 5.29% per annum

Effective: 5.42% per annum

STANLIB is required to quote an effective rate which is based upon a seven-day rolling average yield for Money Market Portfolios. The above quoted yield is calculated using an annualised seven-day rolling average as at 28 May 2011. 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.

STANLIB Cash Plus Fund

Effective Yield: 6.12%

STANLIB Dividend Income Fund

Effective Yield: 4.05%

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 27 May 2011. 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.

The Manager has received a circular, (CISCA Circular No.11), from the Registrar of Collective Investment Schemes regarding a joint investigation of National Treasury, SARS and the FSB, which is currently in progress with regard to dividend income fund type portfolios. The Manager is obliged, in terms of this circular, to bring the following to your attention with regard to this investigation. The outcome of the investigation could affect certain structures and SPVs (special purpose vehicles) used by underlying investments of these types of portfolios, which may result in possible adverse tax consequences, and may require amendments to existing legislation. The abovementioned regulators still have concerns which could impact negatively on the future of these portfolios and the continuation of these portfolios can therefore not be guaranteed. The Manager however do not believe that there is any current cause for concern regarding the STANLIB Dividend Income Fund and should there be a more definitive outcome from the investigation investors in our STANLIB Dividend Income Fund will be informed timeously of any legislative changes that may affect their investment.

Liberty Investments' Life Annuities

Current Rates for 30th May - 03rd June 2011

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 780	R 827	R 895	R 707	R 751	R 812
	R 250,000	R 2,011	R 2,129	R 2,298	R 1,828	R 1,937	R 2,090
	R 500,000	R 4,076	R 4,313	R 4,653	R 3,709	R 3,927	R 4,233
	R 1,000,000	R 8,228	R 8,704	R 9,386	R 7,489	R 7,927	R 8,541

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

The price of each unit of a domestic money market portfolio 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. 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. A fund of funds is a portfolio that invests in portfolios of collective investment schemes, which levy their own charges, which could result in a higher fee structure for these portfolios. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. 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. Portfolios are valued on a daily basis at 15h30. Investments and repurchases will receive the price of the same day if received prior to 15h30. Liberty is a full member of the Association for Savings and Investments of South Africa. The Manager is a member of the Liberty Group of Companies.

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the art and science of investing

17 Melrose Boulevard, Melrose Arch, 2196
P O Box 202, Melrose Arch, 2076
T 0860123 003 (SA Only) T+27(0)11 448 6000
E contact@stanlib.com
Website www.stanlib.com

STANLIB Wealth Management Limited
Reg. No. 1996/005412/06
Authorised FSP in terms of the FAIS Act, 2002
(Licence No. 26/10/590)

STANLIB Collective Investments Limited
Reg. No. 1969/003468/06



24 Ameshoff Street, Braamfontein, 2001
P O Box 10499, Johannesburg, 2000
T 0860 456 789
E info@liberty.co.za
Website www.liberty.co.za

Liberty Group Limited
Reg. No. 1957/002788/06
Authorised FSP in terms of the FAIS Act
(Licence No. 2409)

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