The Weekly Focus

A market and economic update

04 October 2010

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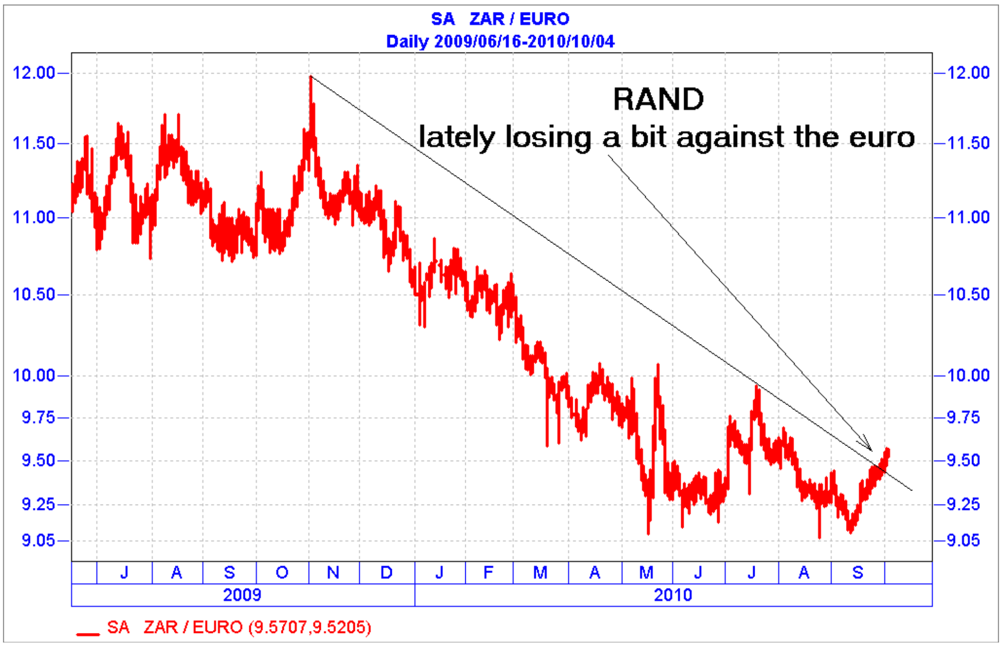
Newsflash

September was one of the best months for stock markets in a long time

Market Comment

- September was one of the best months for stock markets in a long time. The JSE All Share Index gained 8.7% (15.2% in dollars), while the rand gained 5.9% against the dollar and 3.6% against the pound, but interestingly lost 1.3% against the euro. This is of interest, because everyone talks about the 'strong' rand, yet it is back at May's levels against the euro, one of our biggest trading partners (see chart below of the rand to the euro, showing the rand weakening from 9 to 9.50 over the past month).



Source: I-Net Bridge

- Sure, the rand is a lot stronger than the 14.50 to the euro it was in January 2009 and the rand is still up 10.8% so far in 2010 and 16.1% over the past twelve months against the euro. The rand also weakened by 2.3% against the Aussie dollar during September.
- The MSCI World Index gained an impressive 9.4% during September, although this was just 3.4% in rand terms. The MSCI Emerging Markets Index gained 11.1% in dollars or 5.1% in rands. So the JSE outperformed both indices, which is impressive.
- On the JSE, Consumer Services, which includes general retailers and media, did best with a 14.2% return in the month, followed by Oil & Gas (Sasol) at 11.4%.

- Over the quarter to end September, the ALSI returned 13.3% (24.2% in dollar terms, versus 13.9% for global equities and 18.2% for emerging market equities). So SA thumped the rest during the quarter too, despite resources and rand hedges holding it back!
- Year-to-date the ALSI is up 8.7% in rand terms and 15.6% in dollar terms (even more in pound (18.1%) and euro (20.5%) terms. Global and emerging markets have returned -2.8% and 4.8% in rand terms respectively (3% and 11% in dollar terms).
- The All Bond Index (up 0.8% in Sept) has returned an impressive 14.1% year-to-date, so bonds are still ahead of equities by 5.4% in 2010. Cash has done 5.3% YTD.
- However, the JSE Industrial Index (up 18.2% total return so far in 2010) and the JSE Financial Index (16.7%) have so far beaten the All Bond Index return, while the JSE Resources Index (-3.6%) has struggled.
- Of the top 100 shares on the JSE, Massmart (70%), Clicks (67%), Truworths (66%), Mr Price (61%), Woolworths (58%) and Shoprite (55%) have produced the best returns in 2010.
- Despite the powerful dollar gold price, the JSE Gold Index was down over the quarter (-1%).
- Foreigner investors have been quite big sellers of our bonds and equities of late (taking profits after a big run), with R5.3bn net flowing out of our bonds in the last 10 days and R3.6bn flowing out of our equity market, making a total R8.9bn flowing out and leaving the year-to-date number at R92.6bn net invested (down from over R100bn). Interestingly, this selling has not made much of a dent on the rand, other than against the euro; nor has it hurt our shares or bonds much at this stage.

Where to now?

- After such a big month, it is possible that we have a pullback in equities in October. There has been a strong run-up in many markets, including commodities and currencies. Just four months ago, the dollar was at $1.19 to the euro. Today it is at $1.376 to the euro. Pullbacks will occur, there is no question about that.
- The question is, will the pullbacks be serious turnarounds or just normal corrections, where markets catch their breath after breathtaking moves?
- My personal view is that there is quite a high probability that the second leg of the bull market has already begun. If so, expect pullbacks/corrections, but the overall trend should be upwards.
- STANLIB remains overweight offshore equity markets and although the house view is neutral on the local stock market, fund managers have 7% discretion either side of the house view, so for example we are overweight equities in the five STANLIB local risk-profiled funds.
- October is a month known for market corrections. However, we suspect that the May-July period this year was the big correction.
- As Fidelity's legendary value fund manager, Anthony Bolton, said in 2009, slow world growth, minimal inflation and low interest rates are a good environment for equities.

- The low interest rate environment is stirring quite a lot of action in global markets. Merger & Acquisition activity is picking up. Apparently Billiton has secured finance at a cost of 1.5% to 2% for its proposed takeover of Potash. Three major SA companies have received buyout offers so far in 2010, including Didata, Nedcor and Massmart.
- It appears that, apart from cash and possibly residential real estate, most markets are in strong bull markets. In September the Brent Crude oil price was up 8.5% and the all-important copper price was up 9.5%, partly fuelled by the weaker dollar, but also by cheap cash. The CRB Spot metals index is at a two-and-a-half year high after rallying by over 20% during the September quarter. Copper is at its highest price in two years, before the Lehman Bros crash. Aluminium, nickel and zinc are all in near-term bull trends. Precious metals have bullish charts too, with silver at its best level since 1980, while gold has consistently hit record highs, palladium is at a two year high and platinum is rising again.
- In market-related economies, the cost of money plays a big role. The lower it goes, the more the incentive to borrow to start a business or invest or buy a business.
- Top economist/investment strategist, Graham Bell of Investec Securities, notes that the all-important factor of employment is perking up in Japan and in Europe and he expects private sector employment to improve in the US too as the economic recovery unfolds.
- US analyst, Elaine Garzarelli, continues to recommend being fully invested in equities, based on the current reading of her quantitative system. In her view, we are in a cyclical bull market.
- She discusses the US Fed's quantitative easing issue, noting that whenever the US Fed talks about it, shares rally. She notes that quantitative easing works in the economy through lower mortgage rates (lower interest cost for home buyers and lower interest cost for home owners who refinance their mortgages), lower corporate bond yields (lower cost for companies to borrow money), higher share prices, higher house prices, higher consumer and business confidence, a lower dollar and therefore better earnings for multinational companies. QE does not, she notes, add to the national debt, because the government bonds are bought by the Fed and sit on their balance sheet harmlessly until they mature or are sold. Inflation at this stage is not nearly as big a concern as is economic growth.
- BCA Research notes that uncertainty about the economic recovery still remains high, although in a nutshell they think we are slowly passing through the soft patch; but more easing by the US Federal Reserve is needed to secure the economic expansion. So they still like equities, but especially emerging market equities.
- They note that consumer spending in the US has bounced back quite well. Although the growth rate is not high, the absolute level in dollar terms of US consumer spending is at all-time record highs at $10.36bn versus $10.25bn at the pre-recession peak in 2008. Also the speed of recovery in US company profits has been "stunning" (now – incredibly - back at the previous all-time record highs of $1.6 trillion). Sure, there are weak spots too, especially residential property.

- Europe remains a concern because their central bank is not as proactive as in the US and their debt crisis is far from being resolved; so it will continue to pose a risk to their banking system.
- Overall, BCA's asset allocation model has up-weighted equities at the expense of bonds because equity values are fair and liquidity is very strong, whereas bonds look overpriced.
- BCA notes that the bull market in gold is "slowly morphing into a public mania", with a recent CNBC report saying that a few hundred gold vending machines will be installed in the US (higher prices generating their own demand). BCA says it is impossible to judge, however, how long the gold bull market will last. It may end once the big countries raise interest rates meaningfully.
- Apparently, private investors now hold 30,000 tonnes of gold, more than 16% of the world's gold and, for the first time in modern history, more than central banks (FT).

Snippets of Info

- The Financial Times reports today that three Brazilian and two Chinese banks are among the world's top 10 credit card issuers, more evidence that banks and consumers in the fastest-growing emerging markets are leaving their western rivals in the shade.
- China's ICBC (owner of 20% of Standard Bank) is the highest ranking of the five fast-growing banks, with 54 million cards in issue and is catching up fast with the world's number one, JP Morgan, with 96 million cards. The others are Brazil's Itau-Unibanco, Bradesco and Banco de Brasil and also China Merchants Bank.
- Although western issuers continue to dominate the rankings when measured by the amount of outstanding credit, the cards-in-issue league table provides a hint of the banks that are set to dominate the market during the next decade.
- Because of the financial crisis, many established developed market banks saw their card numbers fall sharply. Bank of America showed the biggest decline, with cards in issue in its home market down 29% to 54 million. Rules have tightened substantially.
- North America remains by far the biggest market for credit cards, with each adult holding about 2.3 cards, compared with just 0.7 in Western Europe, the next biggest.
- Latest estimates, per the FT, of the US government's cost of bailing out troubled companies like Citigroup, AIG, GM and Bank of America (Mr Geithner's 'troubled asset relief' programme) are put at $50bn, way below the original estimate of $700bn. In fact, the taxpayer may end up breaking even.
- During the outgoing popular Brazilian President, Lula da Silva's 8 year term, economic growth has averaged almost 4% per year, while the percentage of the population living in poverty has halved. Brazil's prominence on the world stage has grown enormously.

- Next month Californians, desperately short of tax revenues, will vote on a bill to allow the sale of marijuana to be regulated and taxed (FT). Harvard economist Jeffery Miron has estimated that taxing all illegal drugs at similar rates to alcohol and tobacco could raise about $30bn annually.

Paul Hansen
(Director: Group Advisory Services - Investments)

Economic Update

The main focus last week was local, with the SA leading economic indicator recording an impressive rise of 1.1%m/m. This suggests that the SA economy might not slow as much as many analysts expect in the second half of 2010.

SA tourism rose sharply in June due to the World Cup, but less than initially estimated. It is currently estimated that between 170 000 and 220 000 additional foreign tourists arrived in SA during June to attend the World Cup Soccer.
Stats SA released the CPI headline inflation last week, which fell to 3.5% mainly on the strength of the Rand.

SA PPI accelerated slightly to 7.8 percent y/y in August from 7.7 percent in July, driven mostly by mining and electricity.

SA credit growth increased in August mainly because of a large increase in mortgage advances. Part of the increase in mortgages is due to a technical adjustment, but nevertheless consumer credit is moving steadily higher. Overall credit growth is clearly looking a little more encouraging. We still expect credit growth, especially consumer credit, to move steadily higher during the remainder of 2010 and more meaningfully higher in 2011, as the combination of 30-year low interest rates, improved real income growth and the slightly easier lending criteria out of banks start to have a more positive effect.
SA trade account recorded a larger than expected deficit of R4.66bn in August 2010, due to a sharp decline in mineral and metal exports.

An interesting view was expressed by the Institute of International Finance last week on the SA Rand strength. The key take-away - “options to contain further rand appreciation, or weaken the currency as certain groups within South Africa are advocating, are fairly limited and not guaranteed to succeed”. Overall I think the report identifies most of the key issues in the Rand debate. This report combined with earlier discussions by the IMF provide a very useful ‘outsiders’ view on the Rand.

SA Kagiso PMI manufacturing index fell disappointingly in September to below the key 50 index level. There remains a divergence between the PMI and manufacturing data, but this will probably narrow in the second half of 2010. Overall the latest SA PMI index is weak.
In the US last week, personal income rose more than expected in August 2010. However, personal savings remain at around 6% of income and US consumers continue to deleverage.

US consumer confidence fell sharply in September to 48.2, well below market expectations. Consumer confidence has struggled to show any improvement for at least the past 12 months.

South Africa

SA Leading Indicator

- SA leading economic indicator for July 2010 recorded a month-on-month increase of 1.1%m/m. This follows a revised decrease of 1.4%m/m and a decline of 0.2%m/m in June.
- On an annual basis the rate of change remains extremely impressive at 20.1%y/y, UP from 18.5%y/y in June suggesting that the SA economy might not slow as much as many analysts expect in the second half of 2010.

SA Tourism

- Foreign arrivals totaled 997 960 in June 2010, which is 38.9% higher than June 2009 (the equivalent of 279 000 more people arriving in SA), and 16.7% above the level in May 2010.
- Not all the foreign arrivals are tourists (same day travel is not regarded as tourism). Using Stats SA's estimates, the number of tourists arriving in June amounted to 721 311. This is 42.7% higher than the same month in 2009, or a rise of 215 880 tourists. There were especially large increases in tourists arriving from the countries taking part in the World Cup. These include Spain (140%y/y), Netherlands (164%y/y) and Brazil (397%y/y). Tourist arrivals from some African countries in the World Cup also increased strongly. For example Ghana (415%y/y) and Cameroon (274%y/y).
- On a month-on-month basis, the number of tourists arriving in June rose by only 114 768. However, there was an especially large increase in the number of foreign tourists arriving by air in May; ahead of the world cup, which would tend to understate the m/m increase in June. Interestingly most of the increase is reported as tourists arriving at airports other than Cape Town, K. Shaka, or OR Tambo. This would suggest that around 90 000 additional people arrived in private planes at airports like Lanseria in May; ahead of the world cup.
- So how many foreign visitors arrived specifically in June for the world cup? Unfortunately the data is not clear. The best estimate would be a range from about 170 000 to 220 000 for June 2010. This estimate will rise once we get the July data next month. The initial estimates of how many people would attend the World Cup started at 450 000, but was later scaled down to 350 000. The Reserve Bank indicated, in the September Quarterly Bulletin, that they had used an estimate of 200 000 foreign visitors.

SA CPI

- CPI is down to 3.6%. Inflation has trended downward from 6.2% in January 2010 due to a strong rand and sluggish domestic demand.
- Durable goods inflation was negative moving down from 2.4 to 3.1y/y.
- Food Inflation remained unchanged.

- There was also no move in services inflation which remained at 5.4, however, services inflation remains higher than goods inflation which indicates that services are most likely more sensitive to wage inflation.
- Water and other services recorded inflation of 9.3% y/y, and electricity and fuel 18.3% y/y.

SA PPI

- PPI rose 0.4% m/m.
- Exported commodities inflation slowed to 7.2% y/y in August from 7.8% the previous month.
- Imported commodities inflation was at 2.1% y/y from 2.0%.
- Mining inflation is at 17.2%y/y which is driving PPI inflation and contributed 3.2ppts to the index's annual increase
- Electricity contributed 2.4ppts. Electricity inflation slowed from 25.8% to 23.1% y/y.
- Manufacturing and Agricultural PPI at 2.5% and 1.4% y/y respectively are currently not putting pressure on the prices of consumer goods.

SA Credit Growth

- SA growth in broad money supply (M3) was recorded at a growth rate of 4.4%y/y, which is above the 3.7%y/y recorded in July 2010.
- The overall trend in money supply growth is now clearly moving higher. Furthermore, given the extremely low base that has been established, the annual rate of change is expected to continue to increase during the remainder of 2010 and into 2011.
- Private sector credit rose by a fairly robust 0.9%m/m (+R17.7bn) in August. On an annual basis, the rate of change in private sector credit was recorded at +2.99%y/y, up from 1.96%y/y in July 2010.
- During August, mortgage credit rose by a further 1.1%m/m or R11.3 billion in the month. This is the largest monthly increase in mortgages, in value terms, since October 2008, but the rise includes the purchase, by a local bank, of a domestic long-term insurer's home loan book. In addition, a securitization issue went back into the same bank's mortgage book. These two factors accounted for half of the R11.3 billion monthly increase in mortgages. However, stripping this out still leaves mortgage advances growth at a respectable and encouraging R5.7 billion in August.
- Consumer credit rose by a very substantial 1.3%m/m in August and by 6.3%y/y (a portion of which is attributable to the anomaly in mortgage advances, mentioned above). In the first eight months of the year, consumer credit has risen by R49.9 billion (mostly in the form of mortgage finance).
- Instalment sales accelerated 3.8%y/y in August from 2.9%y/y in July following a sharp increase in vehicle sales ahead of the implementation of the emissions tax at the beginning of September.

SA Trade Deficit

- In August 2010, South Africa's trade balance recorded a larger than expected deficit of R4.66bn. In July, the trade balance recorded a surplus of R2.0bn.
- The value of imports fell by 1.5%m/m while exports plunged by 13.4%m/m. The fall-off in exports, which amounted to R7.5bn during the month, was mainly due to a decrease in mineral exports (coal) of R3.4 billion (there was evidently a derailment on one of the export railway lines in late July), a decline in exports of precious metals and stones (-R1.7bn), and a drop in base metal exports (-R1.1bn). On the import side (which decreased by a net R0.8bn in August) oil imports declined by a substantial R3.2bn, but this was partly offset by a R1.3bn increase in machinery imports as well as a R0.85bn rise in vehicle imports.
- In the first eight months of 2010, SA imports are up 8.1%y/y or R29.1bn, while exports are up a reasonable 11.4% or R38.3bn; despite the strong Rand. The combination resulted in South Africa recording a trade deficit of only R12.2bn during the period January 2010 to August 2010. This compares with a deficit of R21.4bn during the corresponding period in 2009.

SA Rand Strength

- **The following is a summary of the key points in the report. These points have been extracted directly from the report:**
  - The strength of the rand is mirrored in many emerging markets that have found favor with international investors seeking yield during the global economic downturn. The rand has also been supported by the surge in the price of gold to new record highs.
  - In South Africa, even after the recent 50 basis point cut in the repo rate to 6.0%, the short-term interest rate differential is large at 575 basis points, as is the spread (about 530 basis points) between yields on 10-year government bonds and U.S. Treasuries.
  - In the first eight months, net purchases of bonds rose to a record $9.2 billion, which was sharply higher than $2.3 billion in the whole of last year.
  - Although the strong rand may be creating difficulties for export-based manufacturing companies, it is having positive benefits on the economy in other ways. Lower import costs are helping reduce inflationary pressures. The IIF expects inflation to remain well contained through 2011 which should help ratchet down inflation expectations and reduce wage pressure going forward. This suggests an extended period of relatively low interest rates.
- **Options to weaken the Rand:**
  - The first option would be for the Reserve Bank to become more active in the foreign exchange market than current policy dictates by selling the rand more aggressively and building reserves at a faster pace. However, if not sterilized, such a course of action would increase the money supply, potentially jeopardizing the fight against inflation further out.
  - The second option of sterilized intervention comes at a cost, as the authorities would have to mop up liquidity by selling bonds that yield over 7% to hold foreign assets that would yield substantially less.

- A third option, which is less costly initially but carries a high level of risk, would be to use the forward book. This course of action was used over a decade ago in an attempt to stave off depreciation, but ultimately failed and it took many years to rebalance the books and normalize the situation. After that debacle, the authorities would be highly unlikely to go down that road again.
- Option four; slashing interest rates to weaken the currency would be a major about-turn by the authorities who have built credibility by using monetary policy to target inflation rather than a predetermined level of the exchange rate. Abandoning its inflation targeting framework at this stage (which the IIF believes is highly improbable) would likely result in significant market loss of confidence and could precipitate a sharp depreciation of the currency and heightened volatility, an outcome that would be counterproductive and damaging to the nascent economic recovery.
- Option five, removing residual capital controls on residents, would probably have little impact in the current sluggish global environment

- Given the choices before it the government may well conclude that the current strength of the rand, although not ideal, is largely determined by external conditions, and altering its own policy stance may not yield the desired results. As a result, the IIF expects no fundamental change in policy although more intervention may be used to counter currency volatility in the period ahead.

SA Kagiso PMI

- In September 2010, the Kagiso PMI manufacturing index fell to 48.4 index points, down from 50.3 in August (seasonally adjusted).
- The decline in the PMI index reading for September 2010 reflected a sharp fall-off in current business activity to 45.8 from 46.9 in August and 50.9 in July and a plunge in the Suppliers' performance index to 48.7 from 54.6 in August. The new orders component eased to 50.2 from 52.0 in August. The prices paid component edged higher to 62.2 from 60.6, reflecting the overall trend in PPI inflation reading, but not high enough to raise any serious concerns about significant upward pressure in producer inflation. The employment component remained discouragingly below 50, and has now been below 50 for five consecutive months.
- There is normally a good relationship between the PMI reading and the SA manufacturing data. Unfortunately, this relationship has diverged in the past few months. If the relationship is re-established (which would be the general expectation), then it would suggest that after a solid enough performance in Q4 2009, Q1 2010 and Q2 2010, manufacturing is likely to slump significantly in Q3/Q4 2010, negatively impacting the estimate of GDP in the second half of 2010. One partial offset to this expected fall-off in manufacturing activity is the fact that SA inventory levels appear to be fairly low, so a sustained improvement in final demand would be encouraging for some aspects of manufacturing. There is also a solid relationship between the

Kagiso PMI index and the Global PMI index (see chart attached), which has also slowed in recent months but remains above 50 overall.

United States

US Interest Rates

- In September 2010, the estimate of US consumer confidence, as measured by the Conference Board, fell sharply further to 48.5 index points, from a revised 53.2 in August 2010.
- The Present Situation Index fell to 23.1 from a revised 24.9 in August 2010; which is obviously extremely low by historical standards. The key expectations index also fell in September to 65.4 from 72.0 (the long-term average for the expectations index is around 92).
- The University of Michigan consumer confidence reading has also followed a similar downward trend in recent months.
- According to the Director of The Conference Board Consumer Research Center: "September's pull-back in confidence was due to less favorable business and labor market conditions, coupled with a more pessimistic short-term outlook. Overall, consumers' confidence in the state of the economy remains quite grim. And, with so few expecting conditions to improve in the near term, the pace of economic growth is not likely to pick up in the coming months."

US Personal Income

- US personal income increased by $59.3 billion, or 0.5%m/m in August. Disposable personal income (DPI) also increased by 0.5%m/m, or $52.0 billion. On an annual basis, personal income is now up 3.3%y/y, which is the 9th consecutive month in which the annual rate of change has been positive. Additionally, the latest annual increase in personal income is the highest since September 2008.
- Personal consumption expenditures (PCE) increased by $41.3 billion, or 0.4%m/m in August. On an annual basis consumer spending rose by 2.5%, which suggests some loss of momentum in overall consumer spending relatively to the middle of the year.
- In August 2010, US personal savings was recorded at 5.8% of disposable income, up from 5.7% in July 2010. In general, US personal savings have risen from a near-term low of 1.9% of income in November 2007 to a recent peak of over 6% towards the end of 2009. Since the end of 2009, the US personal savings rate has tended to drift sideways.
- Consumer income has improved fairly noticeably in the past year, helped by an increase, albeit a modest increase, in employment. In contrast, consumer spending has lost some momentum in recent months. In addition, US consumers continue to pay-back debt on a net basis. Clearly the consumer continues to lack confidence, which is negatively impacting expenditure and credit decisions, but leading to an improvement in their balance sheet.

Kevin Lings and Laura Jones
(STANLIB Economics)

Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 01/10/10	Weekly Move (%)	YTD (%)
Indices			
*MSCI World – US Dollar	1184.19	0.10	1.35
*MSCI World – Rand	8235.00	-1.08	-4.93
*MSCI Emerging Market – US Dollar	1086.09	3.12	9.76
*MSCI Emerging Market – Rand	7552.78	1.90	2.97
All Share Index – US Dollar	4227.28	3.90	13.06
All Share Index – Rand	29266.73	1.92	5.78
All Bond Index	340.43	-0.77	13.82
Listed Property J253	844.95	1.91	25.91
Currencies			
US Dollar/Rand	6.92	-1.06	-5.68
Euro/Rand	9.52	0.89	-9.28
Sterling/Rand	10.95	-1.04	-7.81
Euro/US Dollar	1.38	2.13	-4.25
Commodities			
Oil Brent Crude Spot Price ($/bl)	83.36	6.33	7.98
Gold Price $/oz	1318.80	1.69	20.24
Platinum Price S/oz	1679.00	2.04	14.26

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: 6.39% per annum

Effective: 6.58% 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 01 October 2010. 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: 6.96%

STANLIB Dividend Income Fund

Effective Yield: 4.85%

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 01 October 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.

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 4th October – 8th October 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 719	R 783	R 865	R 648	R 693	R 755
	R 250,000	R 1,818	R 1,979	R 2,185	R 1,639	R 1,753	R 1,910
	R 500,000	R 3,649	R 3,973	R 4,385	R 3,292	R 3,519	R 3,835
	R 1,000,000	R 7,313	R 7,962	R 8,785	R 6,598	R 7,052	R 7,684

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 the 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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