

The Weekly Focus

A market and economic update

08 March 2010

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Newsflash

The past six days have been good for stock markets

Market Comment

- Wow, the past six days have been good for stock markets. US analyst, Elaine Garzarelli, called the end of the correction correctly two weeks ago. The JSE All Share Index is up 5% since Friday 26th Feb's close...and is up 55% over the past 12 months (57% including dividends), despite massive rand strength.
- The rand is up 4% against the dollar since 26th February and 43.8% over the past 12 months.
- We've seen the US volatility index (the VIX), drop sharply to under 20 (from 80 at the peak during the Lehman crisis), credit spreads have narrowed (the yield gap between corporate bonds and government bonds offshore), commodity prices have jumped and low-yielding currencies like the dollar and yen appear to be weakening a tad after strong moves.
- All this points to a rise in the risk appetite of global investors. It appears that the negatives of debt problems in Greece (and potentially other countries), the financial tightening in China and other issues are being over-ruled, so to speak by the positives, as we suspected.
- The FTSE 100 Index (London Stock Exchange's top 100 shares) has reached an 18 month peak and has broken its primary downtrend resistance, i.e. its bear trend. Remember that Anglos, Billiton, SA Breweries and Investec trade on the London stock exchange, so this break of trend is positive for them. Asian shares are at a 6 week high and the US Nasdaq Index is also at an 18 month high. At current levels, the FTSE 100 companies are trading on prices equivalent to 12 times their forecast 2010 earnings (PE ratio), still below the long-run average of 14 times. About 75% of the sales base of the FTSE 100 companies is outside the UK. Meanwhile, the mid-cap FTSE 250 index hit a 21 month peak on Friday.
- Another positive observation is that the smaller shares in the US, as represented by the Russell 2000 Index, have jumped smartly and are outperforming the big shares (highest level in 18 months relative to the big shares). This is a good sign that the economic recovery, which benefits smaller companies more, is on track.
- On the local market, of great interest is that the JSE Industrial Index is at an all-time record high, after rising almost 4% since 26th February! Whereas the All Share Index is still about 15% below its record high of over 33,000 and the JSE Financials Index is still 20% below its record high, the industrial shares made a new record high last week. The top 7 shares in this index comprise 57% of the index (SAB, MTN, Richemont, Naspers, Bidvest, Remgro and Shoprite). This is impressive (making a new high) and a good sign technically (from a chart point of view). One of the big industrial shares, Imperial, is up almost 10% since 26th February.
- The JSE Banks index is now just 6.5% below its record high of October 2007. This index is up 6.4% in the past 6 days.

- On Friday we saw 20 JSE shares reach 12 month highs, including most of the banks and some retailers and insurers.
- Meanwhile, the market price of nickel (used to make stainless steel) is up 12% in the past 10 days to the highest in 2 years (still over 50% below its record high), palladium prices are up 13% to their highest level in 2 years and platinum and copper prices have also firmed towards their recent highs.
- This follows a groundbreaking deal for a 55% increase in coking coal prices, a key input in steelmaking, between BHP Billiton, the world's largest miner and JFE Steel of Japan. The contract, which will run for just 3 months between April and June, marks a break from decades of tradition under which contracts were agreed on an annual basis (FT.com).
- This sharp increase in coking coal, along with rising iron ore costs, is set to push up steel prices, possibly by around 30%, according to some forecasts. Although that may not be good news for Arcelor Mittal or all steel consumers, it is good news for all the mining shares. Billiton is now trading close to its recent January high and Anglo American is up 9.5% since 26th February, although it remains 12% below its January high and 44% below its 2008 record high.

Presentation by Mark Mobius of Franklin Templeton

- Mobius, an acknowledged guru on emerging markets, including SA, presented last week at a STANLIB function.
- His view on emerging markets is that they're currently fairly valued, neither expensive nor cheap, although much lower inflation and interest rates (than the average over the years) is certainly a big positive. He feels interest rates in SA are too high. Our economy should be growing at over 6%, instead of 2-3% and the government should allow more flexibility with labour and wages to enhance growth and should abolish import duties on most goods.
- Positives for investing in emerging markets include the population numbers, which are 5.6 billion people in emerging markets versus just 1.2 billion in developed markets.
- China has a population of 1.3bn, India 1.1bn, whereas the European union has 392m people and the US 304m people.
- Other factors he considers to be important are the growing imports of the BRIC countries (Brazil, Russia, India and China). Ten years ago, Chinese imports comprised just 3.5% of total world imports, versus 8.3% today. India's share of global imports has risen from 0.8% to 2.4% over this 10 year period, Russia's from 0.7% to 1.6% and Brazil's from 0.8% to 1.1%.
- Regarding Chinese consumer buying, in 1990 only 1% of Chinese rural households had refrigerators, whereas today over 30% have them, 9% had washing machines in 1990 versus around 50% today, none had computers in 1990 and today just 5% or so have computers and 5% had colour TV's in 1990 whereas today over 95% have them. Interestingly, in 1990 118% had bicycles versus under 94% today as car buying steps up, with Chinese new car sales now exceeding new car sales in the US.

- The implications of all this consumer buying are very positive for commodities, including platinum.
- Mobius advises that younger investors could put as much as 50% of their offshore equities into emerging markets, with 10% going into the so-called Frontier markets (smaller, fast-growing markets in Africa, the Middle East etc). Older investors should invest 10-20% of their offshore equities in emerging markets.
- When questioned on his own personal investments, he answered that he invests one third into his funds (unit trusts), one third in property in various countries and one third in cash, with a preference for the Norwegian krone (Norway has superb economic management) and the Aussie dollar, amongst others.

Snippets of Info

- China's central bank chief paved the way for an appreciation of the renminbi (the Chinese currency, also known as the Yuan) at the weekend by describing the dollar peg as "temporary". He said the peg had been a "special" policy to deal with the financial crisis; but he gave no hint about the possible timing of a policy shift (FT.com).
- Below is a chart (Fig.1) of Investec PLC's share price, very similar to Investec Ltd's share price. Just like offshore developed stock markets (apart from Australia), the share is trading in rand terms at the same price as ten years ago. Offshore developed stock markets seem poised to rise as the recovery continues. Investec is already up 12.5% since 1st March.

Figure 1



Paul Hansen
(Director: Group Advisory Services - Investments)

Economic Update

Last week, economic data releases were relatively quiet on the local front, with much more attention being placed offshore on the Greek crisis, the US recovery and central bank decisions. World real GDP growth was recorded at 4.2% during Q4 2009, with all G20 economies moving out of recession. During the week, the Reserve Bank of Australia (RBA) increased their interest rate by a further 25bps to 4%; whilst both the Bank of England (BoE) and the European Central Bank (ECB) kept their rates on hold at 0.50% and 1% respectively. The US ISM manufacturing index fell more than expected in February; and the US lost an additional 36 000 jobs during February with the unemployment rate remaining unchanged at 9.7%.

The small island of Greece probably represents the most significant area of global policy risk at present. A combination of weak growth and large fiscal deficits has heightened risks of a credit default within the European Union. During the week the Greek government issued a Euro 5bn government bond, to meet its financing requirements. The very attractive yield saw the bond issue being oversubscribed by three times! We continue to monitor this region very closely.

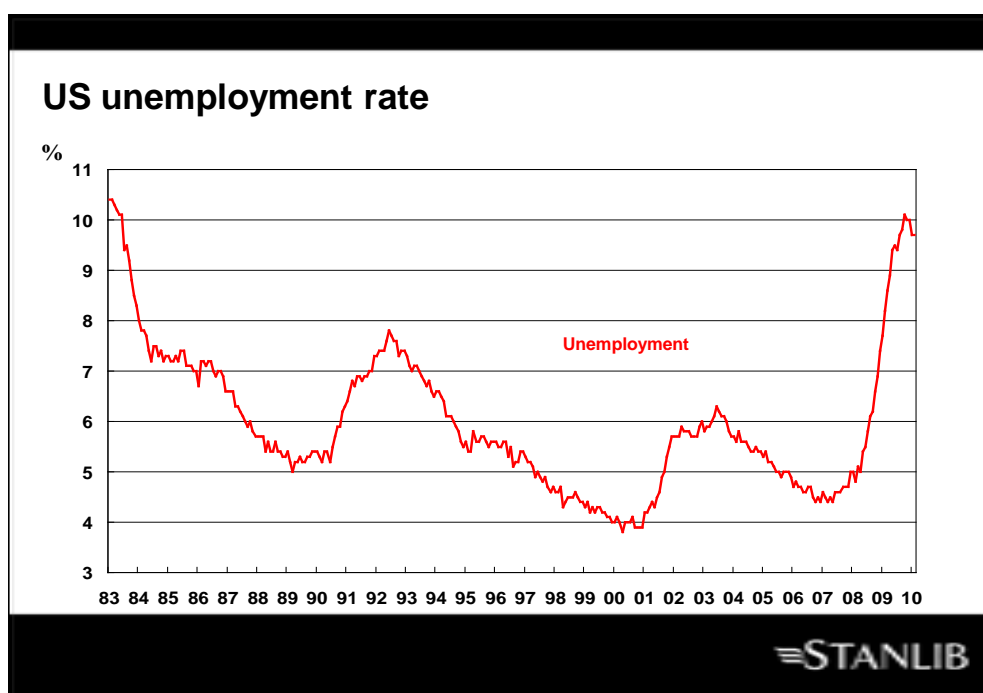
Back home passenger vehicle sales showed further improvement in February, rising by an impressive 21.4%/y. Car sales in 2010 are off to a fantastic start after three years of decline. This week key highlights include SA manufacturing production; UK manufacturing production, and US retail sales. The market is expecting the level of retail sales to decline by 0.2% in February after recording an increase of 0.5% in January.

Global

- On 2 March 2010, the Central Bank of Australia opted to increase their official interest rate by a further 25bps to 4.00%. This was in-line with market expectations. The Reserve Bank of Australia started hiking rates in September 2009, and has now increased rates on four separate occasions in 2009/2010, taking the official rate up from 3% to 4%.
- Clearly the Australian economy coped exceptionally well with the global credit crisis, and in fact did not experience a recession.
- While the inflation rate in Australia remains mostly under-control, **the central bank is arguing that growth is largely back to trend yet interest rates are still well below their longer-term average.**
- The Reserve Bank of Australia is expected to continue to hike interest rates, at a moderate pace, in 2010.

- Last week, the **Bank of England (BOE)** opted to leave their official interest rate unchanged at a record low of **0.50%**. This was in-line with market expectations. Also, as expected, the BOE indicated that they will maintain the stock of asset purchases, financed by the issuance of central bank reserves, at £200 billion. Interest rates in the UK have remained unchanged since March 2009.
- Similarly, the **European Central Bank** also opted to keep their official interest rate unchanged at **1.00%**. This was also in-line with expectations. Euro-area rates have remained unchanged since May 2009.
- Interest rates in the UK and the Euro-area are expected to remain unchanged for most of 2010; pending a broader and most sustainable improvement in their respective economies.
- In February 2009, the **ISM manufacturing index** fell to **56.5** from **58.4** in January. This was much lower than market expectations for a fall to 58.0. Despite the fall-off, the ISM index has been above the key 50 index level for the past 7 consecutive months and above the long-term (since 1948) average of 52.6 for 5 consecutive months.
- *The Institute for Supply Management surveys nearly 400 manufacturing firms on employment, production, new orders, supplier deliveries, and inventories. A composite diffusion index of national manufacturing conditions is constructed, where reading above (below) 50 percent indicate an expanding (contracting) factory sector.*
- The fall-off was mainly due less expansion in production as well as new orders. More encouragingly, the employment index remained above the key 50 index level for the third consecutive month. In fact, the February reading for the employment index is the highest since January 2005.
- **The US economic recovery appears to be unfolding in-line with our base-line scenario, which anticipates that the economy will improve further during 2010.** We expect the recovery in late 2010 and early 2011 to be relatively modest and below average or trend growth, especially if the government is going to be trying to exercise fiscal restraint in 2011, and other stimulus programs are systematically withdrawn in 2010.
- **In February 2010, the US unemployment rate remained unchanged at 9.7%. This was better than market expectations for the rate to rise to 9.8%.**
- The US unemployment rate had moved up from a recent low of 4.4% (March 2007), peaking at 10.1% in October 2009. (see graph below) The labour market participation rate is currently very low, meaning that as more work opportunities arise, more people may enter the labour market seeking employment. This would then push-up the participation rate and hence the unemployment rate might rise.

- **During the month non-farm payrolls fell by 36 000.** This was actually slightly better than market expectations, which was for a decline of 68 000; but it is certainly not a good number in the sense that employment levels continue to decline.
- **Since December 2007 (when the US recession officially started), payroll employment has fallen by a total of 8.42 million or 6.1%. This is massive by historical standards.**
- During the early part of 2009, the payroll data was obviously deeply concerning, however, there has now been a welcome improvement in the rate of decline in payrolls in the past few months; at least on a trend basis.
- **The US economy is currently experiencing a jobless recovery given that 8 months after the recession in output has ended the labour market is still falling.**
- Ignoring changes in the labour participation rate, the US needs to create 100 000 to 120 000 jobs a month in order to avoid an increase in the unemployment rate; that is not expected in the next few months. However, given the current low base of employment, any sustained rise in final demand, could fairly quickly reflect in at least modest job gains.



- Most analysts are currently most concerned about **policy developments in 2010**, in terms of the timing, nature and impact of policy changes on the financial markets and the fragile global economic recovery. The areas of most concern, in order of the severity of the concern, are:
 1. **Greece:** the risk of fiscal deficit contagion and implications for the European Union.
 2. **USA:** the policy exit strategies and the risk of a policy error.
 3. **UK:** the need for fiscal reform and the risk that a split parliament makes this less likely.
 4. **China:** the risk of a sharp slowdown in economic activity.

- **Greek bond spreads have recently widened again** to near-record levels; however, at present, the country's government bond market seems to have reached an uneasy truce with investors.
- Greece's Stability and Growth Program was endorsed by the European Commission, and later by EU leaders, who pledged "determined and coordinated action if needed to safeguard financial stability in the euro area as a whole." If implemented, the plan aims to cut the budget deficit from 12.7% of GDP last year to 8.7% this year.
- Major labour union strikes raise serious concerns about the degree of public support for the proposed fiscal consolidation effort. Under these circumstances, **Greece's progress report on 16 March to the EU Finance Ministers will be an important benchmark that market participants will watch very closely.**
- Last week, Greece launched a 10-year, €5 billion, bond issue priced at what looks like a decent concession relative to the curve; presumably to entice strong demand. The coupon is 6.25%, which means the government is clearly paying a high price to meet its short-term financing needs.
- **The bond issue raised €5bn and was three times over-subscribed.** As such, this issuance is being seen as a positive endorsement from the markets of the additional measures announced earlier in the week by Greece to achieve the planned reduction in the budget deficit. Nonetheless, there are clear doubts over whether the economy can actually withstand the massive fiscal tightening the Government has committed to.

South Africa

- In February 2010, new passenger vehicle sales rose by a very impressive and somewhat surprising 21.4%/y. This follows growth of 15.3%/y in January. Sales in 2010 are off to a fantastic start after three years of decline.
- **For 2009 as a whole passenger vehicle sales declined by a very significant 23.1%/y, which is the worst annual rate of decline in decades.**
- The disastrous vehicle sales in 2009 created a very low base of activity in the industry. This low base, coupled with an increase in the monthly demand for vehicles will tend to exacerbate the annual rates of change during 2010, especially in the first half of year for both passenger and light commercial vehicles.
- In contrast with the improved performance from passenger and light commercial vehicles, medium and heavy vehicle sales continued to decline in February, dropping 34.3%/y and 27.8%/y respectively.
- Fortunately, passenger and light commercial vehicle sales appear to have now moved convincingly past their worst and hopefully the combination of lower interest rates and slightly easier bank lending conditions will systematically lead to improved sales in the months ahead.

- We expect passenger car sales to show an encouraging improvement in volumes of around 10% to 15% in calendar 2010.
- The latest improvement in car sales would be another factor supporting the argument for interest rates to remain on hold in March.

Kevin Lings and Melissa Dyer (née Rankin)
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Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 05/03/10	Weekly Move (%)	YTD (%)
Indices			
*MSCI World - US Dollar	1170.46	327	0.17
*MSCI World - Rand	8682.93	-1.02	0.24
*MSCI Emerging Market - US Dollar	974.92	4.17	-1.47
*MSCI Emerging Market - Rand	8682.93	1.02	0.24
All Share Index - US Dollar	3771.51	8.38	0.87
All Share Index - Rand	27904.65	4.26	0.86
All Bond Index	306.40	0.22	2.45
Listed Property J253	710.38	0.35	5.86
Currencies			
US Dollar/Rand	7.40	-3.81	0.80
Euro/Rand	10.09	-3.83	-3.92
Sterling/Rand	11.15	-4.89	-6.12
Euro/US Dollar	1.36	-0.04	-5.32
Commodities			
Oil Brent Crude Spot Price (\$/bl)	79.03	3.06	2.37
Gold Price \$/oz	1133.43	1.52	3.34
Platinum Price S/oz	1578	2.33	7.38

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: 7.39% per annum
 Effective: 7.65% 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 06 March 2010.

STANLIB Cash Plus Fund

Effective Yield: 7.87%

This is a current yield as at 05 March 2010.

STANLIB Dividend Income Fund

Effective Yield: 5.48%

This is a current yield as at 05 March 2010.

Liberty Annuity Table

Payments are monthly in advance, no guarantee period or escalation. Ages are exact, so dates of birth are 1955/03/05 for 55 year old, etc. Payments shown are gross of tax.							
Sex		Male			Female		
Age last birthday		55	60	65	55	60	65
Contribution	R 100,000	R 824	R 887	R 967	R 754	R 797	R 857
	R 250,000	R 2,083	R 2,241	R 2,442	R 1,906	R 2,014	R 2,166
	R 500,000	R 4,180	R 4,498	R 4,901	R 3,826	R 4,042	R 4,347
	R 1,000,000	R 8,376	R 9,011	R 9,819	R 7,666	R 8,099	R 8,709

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.

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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.