The Weekly Focus

A market and economic update

12 July 2010

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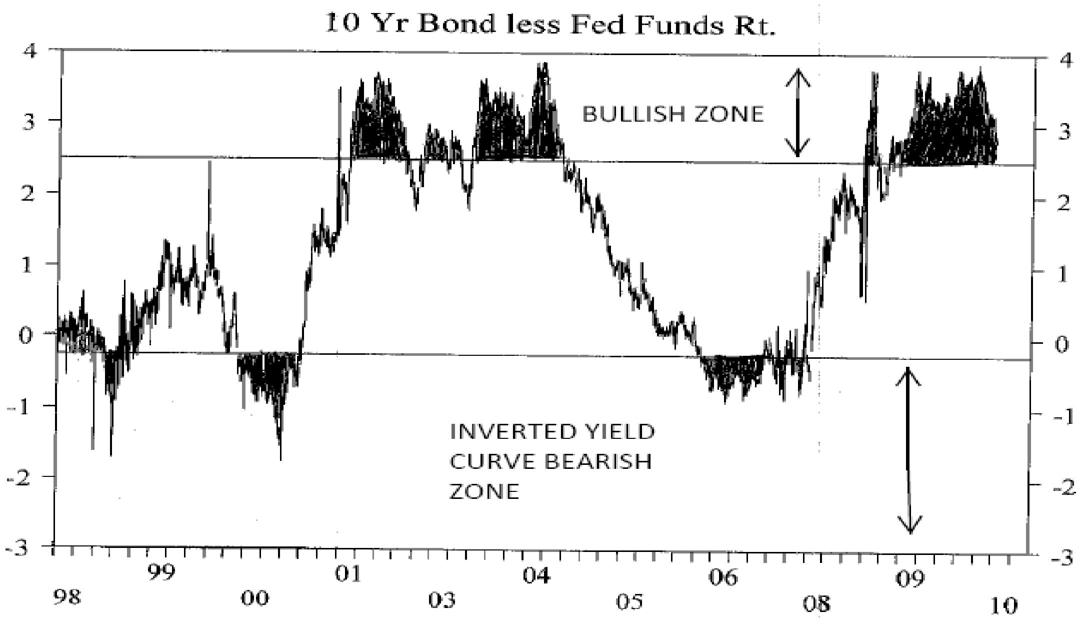
Newsflash

It is typical in a recovery to have an economic slowdown after an initial burst of activity

Market Comment

- STANLIB's economist, Kevin Lings, continues to believe (even after recent weak numbers) that there is only a 20-30% risk of a "double-dip" (i.e. renewed) recession in the near-term (so a 70-80% probability of continued, albeit slower, global growth). Various other top global analysts/economists agree with this view (although many others disagree), saying that it is typical in a recovery to have an economic slowdown after an initial burst of activity, usually as a result of inventory rebuilding. Once inventories (stocks-on-hand) are up to normal levels, as appears to be the case now, everything slows down to what we hope is a more sustainable pace.
- Of course, the world is bombarded weekly with a plethora of economic numbers and it is our job to try and sort out the "wheat from the chaff", to work out what is more meaningful. This is by no means an easy task. It is challenging to say the least, especially when the world is still beset with many of the issues and problems that caused the biggest economic slump since the 1930's.
- The task is made more difficult by the ebbing and flowing of the good and bad news and by the up-and-down whipsawing of various markets, as we've witnessed over the past few months. One week key indicators are heading south, the next week they blip upwards. Emotions run up, then they run down and markets heave one way, then the other.
- Last week was a good case in point. The previous week (end June), sentiment was extremely depressed, with the hardest action to take being to buy riskier investments like equities and the euro. US equity funds witnessed their 5th largest weekly redemption on record (2nd largest since June 2008). US money markets had their biggest weekly inflows in 2010 ($18.5bn), while globally money markets attracted $33.5bn, which is the biggest weekly inflow since January 2009. Why? Clearly investors are worried about recent negative reports on the global economy (eurozone debt crisis and its effect on eurozone growth, slowing Chinese growth and doubts about the US economy).
- Then last week the MSCI World Index jumped by over 5%, as did the US stock market, while the JSE All Share Index rose by 3.7%, once again bouncing off the 26,000 level.
- Some of the world's biggest fund managers are now holding up to 40% of cash in their portfolios (per FT.com). Before the financial crisis, they held as little as 5% in cash.
- Technical analysts (chartists) remain concerned at this stage that there may be further downside to global stock markets, i.e. their charts still don't look good.

- But the bottom-line for equities offshore and locally is whether the “big picture” (macro economics) namely the world economy, will stay positive growth-wise, because this directly affects company earnings, which feed into share prices.
- Forecasting the future is always a hazardous task, but at this stage, economic growth forecasts remain positive and the IMF raised their growth forecasts only last week, despite warning about various risks.
- US market analyst, Garzarelli, says her quantitative indicators improved last week (after deteriorating the previous week) and she is of the view that the cyclical stock market bull market (up market) remains intact, although she has lowered her economic growth forecasts for the US economy from 3.5% in 2010 to 2.9% (STANLIB’s forecast is around 3%) and from 3% to 2.6% for 2011.
- Bank of America Merrill Lynch also lowered their US growth forecast to 3% from 3.2% in 2010.
- In Garzarelli’s view, the most convincing evidence that global stock markets are still in a cyclical bull market (when taken together with other evidence) can be observed from the so-called US “yield curve” (see below), which is still in the bullish zone and very far from a bearish reading. This simply shows the US ten year government bond yield (around 3%) less the US fed funds rate (short-term interest rate, now at 0.175%). When this is positive it shows that investors expect positive economic growth - and some inflation - and therefore demand a higher yield from longer-term investments (and vice versa).
- One can see from the graph that when short-rates were higher than the ten year rate in 2007-8, the so-called “inverted yield curve” was warning of trouble ahead (weaker economy), also in 2000.



- On the currency front, the dollar has so far weakened through the $1.25 to the euro level and to-date has held above that level. This is a sign of diminishing risk aversion (investors more willing to take risk again), which goes hand-in-hand with a lower US volatility index (the VIX, or fear index).
- At this stage, if the euro continues to hold above the $1.25 to the dollar level, then the next target would be $1.27, then $1.30. Most chartists are of the view that this is merely a rally in a down market and that inevitably the dollar will renew its uptrend against the euro.
- The rand remains steady against the dollar, with strong foreign inflows into our bond market (R41bn year-to-date, coupled with R19bn into equities). Against the pound, the rand has picked up a bit, but the charts indicate that one should still prefer the pound to the rand. The euro's downtrend against the rand, however, remains intact for now, as long as the rand remains below 10 to the euro.

Snippets of Interest

- Which of the weaker European countries, apart from Greece, would benefit more from an "animal spirits" uplift from winning the soccer world cup? No question about that, Spain is suffering from the bursting of a massive property bubble and from very high unemployment (above 20%). So their victory can only help lift this country of 40.5 million passionate people (the Netherlands has just 16.8 million people by comparison and is in much better shape economically).
- My favourite quote from the Sunday press was from the Sunday times: "former US politician and Nobel laureate Henry Kissinger - he of the deep, deep voice - said: 'It has been the most exciting (World Cup) and I have never seen one better organized and with greater hospitality.'" That comes from a man who was born in Germany and later became Secretary of State in the US and must be one of the most well travelled global citizens.
- Despite England's poor showing at the world cup, it was heartening to see that British manufacturing output surged by 4.3% in May from the level one year ago, the highest annual rate for almost 16 years.

- Looking at charts is a bit like taking the temperature of the markets. Yes, it is largely a short-term issue and a lot of investors and advisors could not be bothered with charts, for that reason. Below we show a chart of the JSE Top 40 Index, courtesy of JP Morgan Cazenove. The index is currently at 24,162 and seems to be narrowing into the so-called "apex" of the triangle, which usually means a break-out, one way or another, is close to happening.
- Which way will it break out? Frankly, no-one knows at this stage. Calling short-term moves is hazardous. One could argue either way at this stage. Perhaps one just needs to be aware of this.

Source: PrimeCharts.

Paul Hansen
(Director: Group Advisory Services - Investments)

Economic Update

The global economic recovery remains uneven and conditions for sustained growth appear to be fragile. The Reserve Bank Governor, Gill Marcus, made a speech last week in which she warned that the South African economy could be adversely affected by trade associations with the Euro Zone but that SA is still expecting growth of 3%.

SA manufacturing rose by a modest 0.3%m/m. Overall, given the recent softening/fall-off in the Kagiso PMI index, as well as the specific impact of recent labour unrest and anomalies linked to the World Cup, we expect manufacturing activity levels to soften over the next few months, especially on an annual basis. Beyond that (2011), it is vital that there is a more robust and sustained increase in domestic final demand/fixed investment spending to provide the basis for a sustained and more significant expansion of manufacturing output.

Offshore, US government revenue is responding to the improvement in economic activity and is now up 25%y/y. The US fiscal deficit is slowly improving, but remains substantial relative to GDP. The US Federal Administration has argued that it is appropriate to maintain a high level of government expenditure in order to encourage and ensure a sustained economic recovery in 2010. This policy is in contrast with much of Europe, which has already started to implement more effective fiscal austerity measures in order to reduce the fiscal deficits and debt levels.

US housing activity has been exceptionally weak. Is this weakness in housing, which is likely to prevail for some time, enough to tip the US economy back into a phase of weakness, if not outright recession? The answer is probably no, since housing affordability remains favourable; the severe decline in residential investment between 2006 and 2009 shrank the sector down to a very modest component of the economy, so even if housing were to fall more sharply, its direct effect on the economy would be limited; and, the protracted decline in house prices appears to be over, judging from the most recent trends in house price data.

The IMF revised up their world growth projections for 2010 mostly due to robust growth in Asia, and left their outlook for 2011 unchanged. According to the IMF, the world economy expanded at an annualised rate of over 5% PPP basis (Purchasing Power Parity) during the first quarter of 2010. Emerging economies are still expected to handsomely out-perform developed economies. The IMF highlighted that downside risks have risen sharply given the renewed financial turbulence, especially in Europe, as concerns over sovereign risk spilled over to banking sectors. In this context, the new forecasts hinge on the implementation of policies to rebuild confidence and stability, particularly in the euro area.

US consumer credit declined by a further $9bn in May 2010, much more than expected. This follows a heavily revised decline of $14.9bn in April. The US consumer continues to deleverage. The lack of growth in consumer credit hurts economic recovery, at least in the short-term. Given that the US consumer remains highly indebted, with modest monthly savings, a significant acceleration in consumer credit at this stage of the cycle would actually be deeply concerning from both a banking perspective and from a consumer balance-sheet perspective. Rather, ideally, the US needs to see a combination of modest increases in credit coupled with a healthy and sustained increase in private sector employment.

South Africa

SA Manufacturing Production

- SA manufacturing production rose by 0.3% m/m (seasonally adjusted), compared with a revised decrease of 1.4%m/m in April. The May reading was slightly ahead of market expectations, which was for a rise of 0.1%m/m. The outcome for May is actually fairly encouraging considering the recent softening in the Kagiso PMI index to below 50 and the proximity to the start of the World Cup.
- On an annual basis, production is still up a very healthy 7.9%y/y, but below the recent peak annual growth rate of 8.6%y/y in April. Production has improved significantly relative to the decline of -15.3%y/y recorded in August 2009 and the -21.7%y/y in April 2009. Manufacturing activity is out of recession, but the stability/improvement remains a little fragile, especially in Q2/Q3 2010 due to four key factors:
    - First, it is entirely possible that the inventory adjustment is mostly completed (which boosted production in late 2009 and early 2010, after destroying production in late 2008 and early 2009), and that a sustained rise in production is now much more closely related to a sustained rise in final demand
    - Second, increased factory downtime associated with the viewing World Cup games may have reduced total work-hours in June/July. In addition there has generally been less business activity in non-world cup related sectors of the economy.
    - Third, the ending of key infrastructure projects related to the World Cup most likely resulted in less output from some local industry
    - Fourth, the economic difficulties in Europe may hurt SA's exports into that region
- Capacity utilisation fell to 78.4% in Q1 2010, from 80.0% in Q4 2009. This fall-off in utilisation is actually not all that surprising, and could soften further in Q2 2010.

United States

US Government Revenue

- In May 2010 the US fiscal balance recorded a deficit of $135.9bn. This compares with a deficit of $189.6bn in May 2009 and a deficit of $165.9bn in May 2008.
- The improvement in the fiscal balance reflects a combination of rising tax revenue and falling government expenditure. During the past year to May 2010, US tax revenue has risen by 25.2%y/y and by an average of 3.9%y/y in the first five months of 2010. In contrast, US government spending declined by 7.9%y/y in May 2010 and by an average of 5.4%y/y in the first five months of the year.
- Despite the recent improvement in tax revenue, the overall level of revenue collection remains a very significant 20.5% below the previous peak (using a 12-month running total). Similarly, government expenditure has also eased, but by only 2.3% relative to the peak (using a 12-month running total).
- The combination of rising tax revenue and falling government spending (albeit a very modest decline in government expenditure), means that the fiscal deficit is now trending lower. Using a 12-month running total, the US fiscal deficit peaked at a record $1 477 billion in February 2010, or the equivalent of 10.1% of GDP. Since February, the US 12-month running total fiscal balance has eased to $1 359 billion, which is still a staggering 9.3% of GDP, but at least trending in the right direction.

US Housing

- US housing activity weakened further in May/June 2010 following the expiry of the relatively generous Federal Housing Tax Credit at the end of April 2010. As part of the US Government's plan to stimulate the US housing market and address the economic challenges facing the country, the US Congress passed legislation more than a year-ago that provided various tax incentives to purchase a home. These incentives were initially scheduled to expire at the end of November 2009. However, on 5 November 2009 they were extended until 30 April 2010. The tax incentive for a first time home buyer were $8 000, while for someone who was a current home owner purchasing a new or existing home the incentive was up to $6 500.
- Following the expiry of the housing tax incentive at the end April 2010, a range of housing indicators are now at, or near, record lows. These include new homes sales, housing permits, housing starts and mortgage applications for purchase Is this weakness in housing, which is likely to prevail for some time, enough to tip the US economy back into a phase of weakness, if not outright recession? **The answer is probably no, for three main reasons:**

- First, although the ending of the housing tax incentive looks as though it will lead to a phase of renewed weakness in housing, mortgage rates did not rise after the Federal Reserve ended its extensive Mortgage Backed Securities purchase programme earlier in the year. Consequently, financial conditions continue to be very supportive of the housing market and housing affordability remains favourable on a relative basis. This should provide some base level of support to the housing market.
- Second, and most importantly, the severe decline in residential investment in 2006 to 2009 shrank the sector down to a very modest component of the economy. Housing investment added an average of about 0.4% percentage points to GDP growth between 2002 and 2005. From Q1 2006 through to Q2 2009, it subtracted an average of 1% percentage point from GDP. Over that time period, its share in the economy (defined as housing investment as a share of nominal GDP) fell from 6.3% to 2.4%. Even if housing were to fall sharply further, its direct effect on the economy would be limited.
- Third, the protracted decline in house prices appears to be over, judging from the most recent trends in house price data. For example the S&P Case-Shiller Composite 20 index shows that US house prices have risen in 9 of the last 11 months and are up 3.8% in April 2010 relative to a year-ago. This is crucial, since home values are an important determinant of household wealth. However, unlike some other countries where the over-supply of housing is not structural (UK, Australia, South Africa), house prices in the US seem unlikely to rise significantly. Many households will thus remain trapped with mortgage debt in excess of the market value of their homes.

- Although the housing market is probably the single weakest aspect of the US economy, there are some supportive factors, and it is unlikely that the housing market would now cause the US economy to move back into recession. The damage inflicted by the bursting of the housing finance bubble is mostly already in the base.

IMF World Economic Overview

- According to the IMF, the world economy expanded at an annualised rate of over 5% (PPP basis) during the first quarter of 2010. This was better than expected in the April 2010 World Economic Outlook, mostly due to robust growth in Asia. Consequently, world growth is now projected at about 4.6% in 2010 and 4.3% in 2011 (PPP basis). Relative to the April projections this represents an upward revision of 0.4 percentage points for 2010, reflecting stronger activity during the first half of the year. The forecast for 2011 is unchanged, although the growth rates for a number of the major economies have been revised down for 2011. These include the Euro-area (especially Spain and France), Japan, UK, Canada, and China. These downward revisions were offset by upward revisions to the US, Russia, and Brazil.

- Growth rates in the major economies have clearly become more uneven, making policy co-ordination at the G20 level less practical. Emerging economies are still expected to handsomely out-perform developed economies.
- Despite some of upward revisions to growth the IMF highlighted that downside risks have risen sharply given the renewed financial turbulence, especially in Europe, as concerns over sovereign risk spilled over to banking sectors. In this context, the new forecasts hinge on the implementation of policies to rebuild confidence and stability, particularly in the euro area.
- In terms of inflation the IMF is of the opinion that inflationary pressures will remain subdued in advanced economies. The still-low levels of capacity utilisation and well anchored inflation expectations should contain inflation pressures in advanced economies, where headline inflation is expected to remain around 1.25% to 1.5% in 2010 and 2011. In a number of advanced economies, the risks of deflation remain pertinent in light of the relatively weak outlook for growth and the persistence of considerable economic slack.
- In contrast, in emerging and developing economies, inflation is expected to edge up to 6.25% in 2010 before subsiding to 5% in 2011.

US Consumer Credit

- In May 2010, US consumer credit fell by a significant $9.1bn. This was more of a decline than the market expected, which was for a contraction of $2.3bn. The previous month's data was heavily revised from an initial increase of +$1.0bn to a decline of $14.9bn. US consumer credit (which excludes mortgage finance) has fallen in 19 of the last 22 months. Prior to January 2009, US consumer credit rose each month for a consecutive 125 months.
- As mentioned above, this measure of US consumer credit excludes any mortgages advances and is split between revolving and non-revolving credit. The total amount of consumer credit (excluding mortgages) outstanding is currently $2.415 trillion, which is an amazing $166.7 billion below the peak level of consumer credit, which was recorded in July 2008. In the past 12 months the US consumer has repaid a net $99.3 billion.
- Revolving credit is the smaller component of consumer credit and is typically represented by overdrafts. Non-revolving credit is about twice as big as revolving and typically includes facilities for the purchase of cars, education, mobile homes, and holidays. During May 2010, non-revolving credit fell by $1.8 billion, while revolving credit declined by $7.4 billion.
- Since the middle of 2008 the US consumer has been trying to de-leverage. This was reflected in a dramatic fall-off in mortgage advances during 2008/2009, but also in a sharp decline in consumer credit. This decline in consumer credit has been very unusual relative to the history of consumer credit. For example, over the years from 1995 to 2008 US consumer credit rose by a total of $1.56 trillion or at an average of $111.7 billion a year. In contrast, during 2009, US consumers reduced their credit (excluding mortgages), by a significant $112.3 billion.

- The ratio of US household debt to disposable income is at 125.9% (Q1 2010), having peaked at 135.9% in Q1 2008. However, at 125.9% the indebtedness ratio is still well above the average for the past ten years of 118%. Fortunately, the debt servicing ratio has declined to 12.46% of disposable income, which is still relatively high but well below the peak of 13.96% recorded in Q1 2008. It is also encouraging to see that US personal income has started to rise year-on-year (at least in nominal terms) and that consumer spending has now increased for 8 consecutive months (year-on-year, in nominal terms).

Kevin Lings and Laura Jones
(STANLIB Economics)

Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 09/07/10	Weekly Move (%)	YTD (%)
Indices			
*MSCI World – US Dollar	1091.53	5.30	-6.58
*MSCI World – Rand	8294.32	3.30	-4.24
*MSCI Emerging Market – US Dollar	951.86	4.19	-3.80
*MSCI Emerging Market – Rand	7232.94	2.21	-1.39
All Share Index – US Dollar	3595.46	5.52	-3.84
All Share Index – Rand	27272.31	3.64	-1.42
All Bond Index	321.72	1.12	7.57
Listed Property J253	766.39	2.65	14.20
Currencies			
US Dollar/Rand	7.59	-1.78	3.34
Euro/Rand	9.59	-1.07	-8.68
Sterling/Rand	11.43	-2.54	-3.78
Euro/US Dollar	1.26	0.58	-12.17
Commodities			
Oil Brent Crude Spot Price ($/bl)	74.99	5.23	-2.86
Gold Price $/oz	1212.20	0.06	10.52
Platinum Price S/oz	1531.50	1.93	4.22

Source: I-Net Bridge

* MSCI - Morgan Stanley Capital International

Rates

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

Standard Bank Money Market Fund

Nominal: 6.67% per annum

Effective: 6.88% 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 09 July 2010.

STANLIB Cash Plus Fund

Effective Yield: 7.71%

This is a current yield as at 09 July 2010.

STANLIB Dividend Income Fund

Effective Yield: 4.77%

This is a current yield as at 09 July 2010.

Liberty Investments' Life Annuities

Current Rates for 12th July – 16th July 2010

Payments are assumed to be paid monthly in advance with no guarantee period or annual escalation in income. Ages indicated assume client is the exact age shown. No tax has been deducted.							
	Gender	**Male**			**Female**		
	Age last birthday	**55**	**60**	**65**	**55**	**60**	**65**
Contribution	**R 100,000**	R 772	R 836	R 917	R 701	R 746	R 807
	R 250,000	R 1,953	R 2,113	R 2,316	R 1,775	R 1,886	R 2,040
	R 500,000	R 3,920	R 4,241	R 4,648	R 3,564	R 3,785	R 4,095
	R 1,000,000	R 7,854	R 8,496	R 9,313	R 7,141	R 7,585	R 8,205

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.

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In terms of the Association for Saving & Investment South Africa (ASISA) Code of Practice for Advertising of Collective Investment Schemes in Securities and ASISA Standard Pricing and Valuation, STANLIB is required to quote a current yield for Income Portfolios. This is an effective yield. The above quoted yield will vary from day to day and is a current yield as at 09 July 2010. The net (after fees) yield on the portfolio will be published daily in the major newspapers together with the "all-in" NAV price (includes the accrual for dividends and interest). This yield is a snapshot yield that reflects the weighted average running yield of all the underlying holdings of the portfolio. Monthly distributions will consist of dividends (currently tax exempt) and taxable interest. Interest will also be exempt from tax to the extent that investor's are able to make use of the applicable interest exemption as currently allowed by the Income Tax Act. The portfolio's underlying investments will determine the split between dividends and interest.

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

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