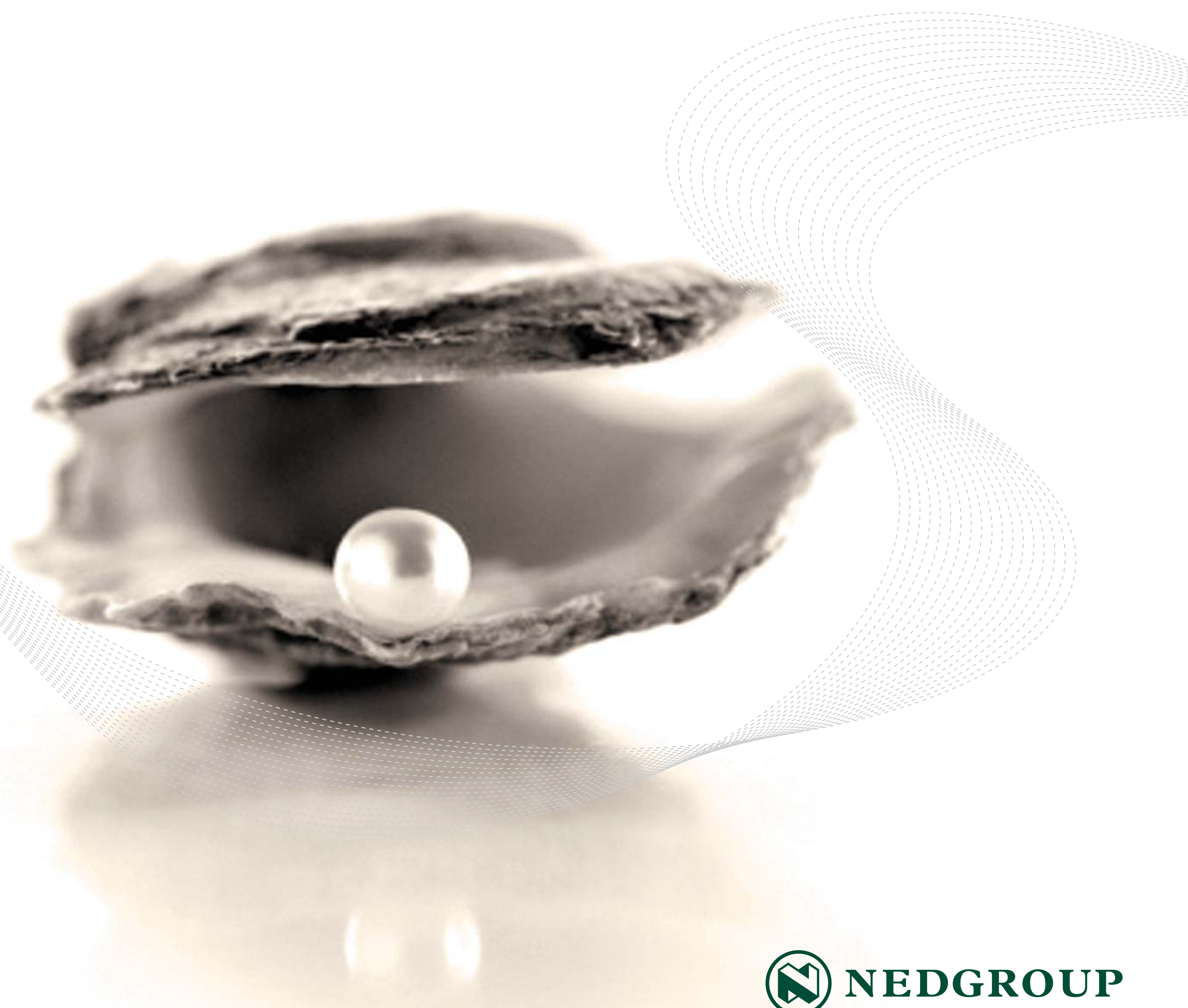
Nedgroup Investments Quarterly Newsletter

Third quarter 2010



NEDGROUP
INVESTMENTS

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Our investment approach

We help you find Best of breed™ fund managers and the right investment solution
When you invest, you want the most appropriate fund manager to look after your savings. We assist you in this process by actively researching and appointing fund managers to manage our fund range.

Our independence is our strength
Our fund manager research process helps us to identify managers with specific traits that we believe will enable them to deliver superior results over the long term.

We focus on monitoring fund managers so that you don't have to
Things do change. To help you manage this, and to ensure that our range remains Best of breed™, we actively monitor and review the appointed fund managers. If we think it is necessary, we will replace specific fund managers that are no longer deemed appropriate.

Nic Andrew
Head of Nedgroup Investments

Dear valued client

We all have positive memories of the recent World Cup

As we bid farewell to the foreign fans and return to post World Cup life, South Africans around the country can be incredibly proud of a tournament that was a tremendous success from all angles. Who will forget the opening goal; the way South Africans adopted the Ghanaian Black Stars after Bafana Bafana were knocked out; the hundreds of thousands of mirror flags; the smiling policemen and the immense sense of patriotism from even the most cynical.

Forecasting is often wrong, as proven by the World Cup and investment forecasts

Reflecting on the World Cup, there were two interesting aspects relevant to the world of investing. The first is the concept of forecasting. Thousands of highly paid analysts put in tremendous effort to forecast future variables such as interest rates, gold prices, the level of the Rand and corporate earnings over the next few years. Similarly, there were a wide range of experts predicting the likelihood of a successful World Cup – many were negative, with forecasts of stadiums not being ready, poor turnout and lack of interest, terrorist attacks, and even food shortages.

Both the forecasts about investing and about the World Cup attract much media attention because they are interesting, have impact, and make great headlines. On reflection though, both are often inaccurate. It is very clear now how poor some of the media's predictions were about the World Cup and numerous studies have proven economic and earnings forecasts to be as poor. This is why many of the most successful investors, including most of our Best of breed™ investment managers, place more emphasis on things with greater certainty – valuation levels and the quality of companies in particular.

Emotions are part of being human – but destroy wealth

The second concept is that of emotion – the thousands of images of fans, coaches and players showed the extremes of unbridled delight in victory, to utter despair in defeat and the full range of feelings in between. These levels of emotions (for a game) are completely natural and part of our make-up as humans. Unfortunately, emotions are not useful in the investing world and in fact, are often the greatest destroyers of wealth. When selecting investment managers who have a sustainable edge, we favour those who are rational and able to remain detached from the noise around them.

We aim to help you manage your emotions and remain rational when you invest

People love forecasts and are naturally emotional, but relying on either of them tends to be destructive when making investment decisions. We understand this. To help you achieve your goals, we avoid making or relying on predictions and focus on thinking in a sensible, rational and unemotional manner.

Regards,

Nic

Volatility, the silent killer

Matthew de Wet
Head of Investments

Is the use of volatility as a measure of risk out-dated?

Many investment managers believe the use of volatility to measure risk (as advocated by modern portfolio theory), is antiquated. The reason for this is that volatility, or the historical degree of (non-permanent) price variation of a particular security, is not an adequate measure of the future and actual risks that investors face. The risks that investors face include the risk of a permanent (realised) capital loss, the risk of inflation eating away your returns over time, and shortfall risk, which is the risk of not having enough savings to last through retirement. In fact, it is currently quite fashionable to 'embrace' volatility as the source of investment opportunities by using it to buy low and sell high. In spite of these efforts, unfortunately the humble law of averages ensures that for those that attempt this there will be as many losers as winners.

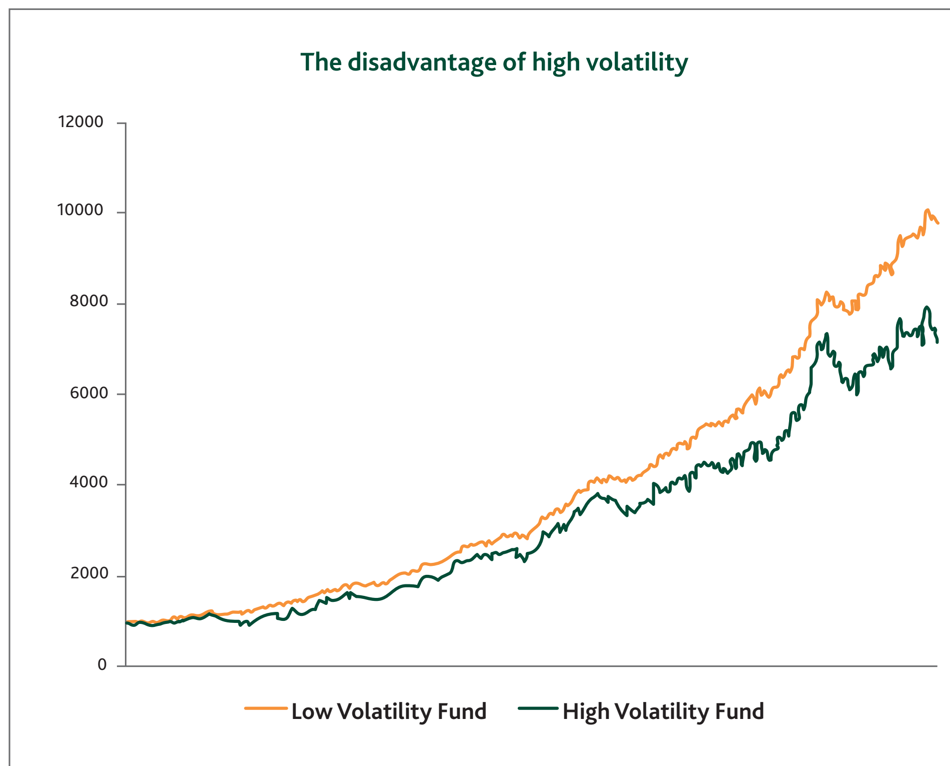
It may be better to reduce risk when you face lower risk premiums associated with 'good times'

Ironically, it is when investors feel most secure in their investment choices that they may be most at risk of experiencing a poor outcome. This is because an extended period of abnormally benign investment conditions encourages investors to take on more risk when they are unlikely to be rewarded for doing so; rather than reducing their risk. In other words, volatility is not a good measure of investment risk. However, volatility itself poses a large and misunderstood risk to investors.

Volatility erodes returns

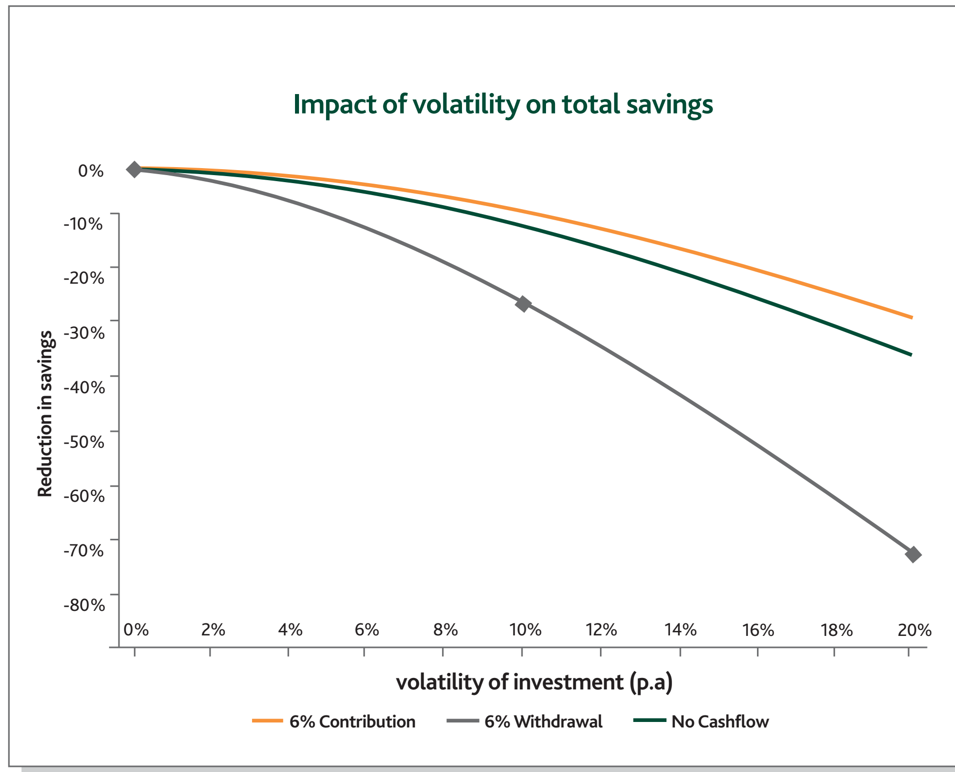
The following charts highlight the degree to which volatility can erode returns.

In the Chart below, we compare two funds over a 20-year period. Both funds provided an average return of 12% pa, but one fund has half the volatility (10% pa) of the other (20% pa). It is fascinating that over the 20-year period, the higher volatility fund underperforms the lower volatility fund by 25%. This is because volatility makes compounding less effective. The higher the volatility, the larger the gap between average and compound returns.



Source: Nedgroup Investments

This 'volatility attrition' has a more muted impact when investors are adding to their savings before they retire, and is worse when investors withdraw from their savings after retirement. The Chart below highlights this.



Source: Nedgroup Investments

- First consider the impact of volatility on an investor's savings where they are withdrawing 6% pa of their savings as a pension from a fund that is producing average returns of 12% pa. This example assumes that the amount an investor withdraws increases annually with inflation to ensure a comfortable standard of living. The grey line illustrates how much lower the investor's savings will be after 20 years, purely due to increasing levels of volatility. The higher the volatility as shown on the horizontal axis, the greater the 'volatility attrition', or erosion of a proportion of their savings as measured on the vertical axis.

- The three markers on the grey line correspond to the following situations:
  a. 0% volatility of underlying investment. In this case, there would be no reduction in savings over 20 years.
  b. 10% volatility. In this case, there would be a 25% reduction in the end or terminal value when compared to a fund with zero volatility.
  c. 20% volatility. In this case, there is a 70% reduction in terminal value over 20 years when compared to a fund with zero volatility, and a 60% reduction when compared to a fund with 10% volatility. This long-term impact is profound.

- The other two lines illustrate the impact of volatility on an investor that is saving for retirement (orange line), by contributing 6% pa, and an investor that is not making contributions or withdrawals (green line). In these instances, the volatility attrition is much lower than when investors are withdrawing from their savings. This is because they are not locking in losses in times of market weakness and reducing the base from which to compound when markets recover.

How can investors limit the volatility to which they are exposed?
There are many ways to do this. The most common is to reduce the allocation to volatile asset classes such as equities, or to hedge out, or to 'insure' some of the equity exposure using derivatives. For these approaches to be effective, you have to make the right investment 'call'. Furthermore, these 'calls' tend to have an explicit or opportunity cost and can, therefore, result in a reduced return that counteracts the benefit of lower volatility.

Fortunately, there is a powerful free lunch that is easy to implement: diversification
By simply investing in a mix of different asset classes that react differently to market conditions, investors can materially reduce the volatility of their portfolios without necessarily affecting returns.

The lesson is to not discount the impact of volatility too soon. Although it is a poor measure of risk, it poses a very real risk to investors, especially those that are withdrawing an income from their savings. Furthermore, the simplest and most cost effective way to reduce volatility without necessarily sacrificing returns is sensible diversification.

Preserve your wealth in the short term and grow it over the long term

Shaun Anderson
Head of Business Development

The **Nedgroup Investments Stable Fund** is one of the propositions in the Nedgroup Investments Best of breed™ fund range. The fund seeks to preserve the client's monies in the short term, with a goal of steady longer term growth that beats inflation. The fund is aimed at clients who are more risk averse and is ideal for clients who are retired or close to retirement.

The fund mandate

The mandate empowers the investment manager, Foord Asset Management, to make strategic and tactical asset allocation decisions between local and offshore equities, bonds, listed property and cash. Foord may invest a maximum of 40% of the fund's assets in equities. The fund aims to generate returns of inflation + 4% pa over rolling 3-year periods, while trying to avoid negative 12-month periods.

Why Foord Asset Management?

Nedgroup Investments selected Foord Asset Management to manage the fund, because they have a tried and tested philosophy that spans over 24 years with an outstanding long term track record, and proven ability in adding value to various asset classes.

> 'Foord Asset Management believe that value is sustainable long-term cash flow at a good price that compares favourably to the risk-free rate of return'

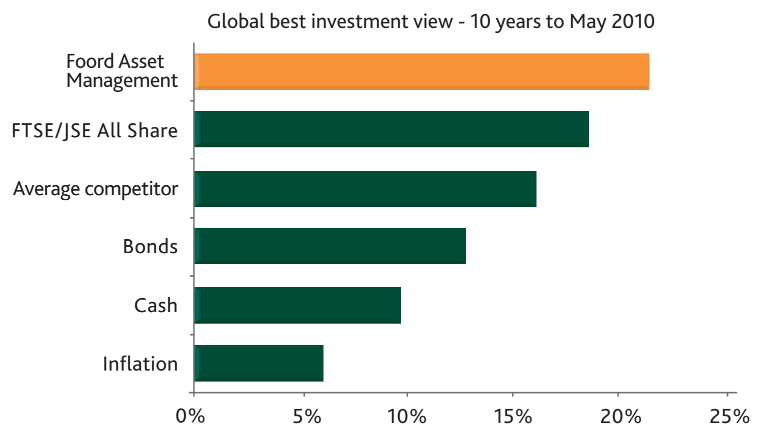
The two charts below highlight Foord's ability to generate long-term performance across all asset classes, and their outstanding long-term track record.

Adding value in all asset classes

Asset class	Foord	Index	Out/Under
Equity	24.2%	14.4%	+9.9%
Bond	15.5%	12.8%	+2.7%
Property	18.3%	11.9%	+6.4%
Foreign (since March 1997)	11.0%	5.8%	+5.2%

Source: Nedgroup Investments & Foord Asset Management
1994 - 30 June 2010
Updated Quarterly

Outstanding long-term record



Source: ABSA Monitor for Retirement Funds
One month in arrears

Foord Asset Management employ a distinct investment approach based on five key areas:

1. **Get the big calls right**
   Multi-asset class portfolios and active asset allocation do contribute meaningfully to enhanced returns and to risk management, but this requires effective asset allocation. Cycles do exist and because of this, fixed asset allocation portfolios are sub-optimal. It is, therefore, imperative to get the large calls right.

2. **Buy at the right price**
   Investment markets are not efficient because most trading is for reasons other than valuation (such as liquidity or taking index positions). The market, therefore, provides opportunities to buy quality assets cheaply. Foord invest in securities reflecting fundamental value and are price-sensitive buyers and sellers. They believe that value is sustainable long-term cash flow at a good price that compares favourably to the risk-free rate of return, and so they seek to buy quality assets with an acceptable margin of safety to provide added protection against any risk of loss. Their investment process emphasises thorough fundamental analysis and research.

3. **Take a long-term view and be patient**
   Investment involves a long holding period and a probable result, while speculation combines a short-term holding period and an uncertain result. Short-term trading strategies increase both the risk of loss and trading costs, so extending your investment horizon reduces the probability of loss. To invest with conviction you require patience and must 'apply wait to the weighting'. Foord's investment process focuses on long-term outcomes.

4. **Ignore the benchmark when building portfolios**
   In the long term, effective active asset management will outperform a passive strategy, but portfolios should be built from the ground up without reference to benchmarks based on market indices. Market indices are typically weighted by market capitalisation and promote larger exposures to companies whose prices are rising faster relative to their peers (in other words, they are momentum based). To beat an index benchmark you need to be different from the benchmark, which means that larger tracking errors are desirable and may reflect as a contrarian view.

5. **Diversify and manage risk**
   Concentrated portfolios that show conviction produce better returns, but the investment manager must diversify the portfolio by key variables and factors. Diversification with concentration can be achieved with between eight and 25 equity counters, but many investment committees reduce the level of conviction and produce lowest common denominator returns through too much diversification. The Foord investment process emphasises the identification of economic drivers behind the price and cash flow path of all securities, and they use their proprietary classification system for equities as a tool to help achieve appropriate diversification.

Foord Asset Management has the credibility and proven performance to manage multi-asset class funds

The table below highlights the Nedgroup Investments Stable Fund track record. Since inception, the fund has produced a positive 8.3% annual compound return over a period during which the All Share produced a negative 3.8% annual compound return.

November 2007 to June 2010	Maximum drawdown	Compound return	% Positive months
Nedgroup Investments Stable Fund	-4.2%	+8.3%	68.8%
FTSE/JSE All Share Index	-40.4%	-3.8%	53.1%
Average equity Fund*	-37.2%	-3.9%	50.0%
Average Prudential Medium & Variable Equity fund	-17.9%	0.4%	53.1%
Average Prudential Low Equtiy funds	-4.0%	4.0%	53.1%

*Average equity = General Equity Value and Growth Sectors
Source- Morningstar

To invest with conviction you require patience and must 'apply wait to the weighting'.

The Nedgroup Investments Global Balanced Fund

Guy Monson
Chief Investment Officer of Sarasin & Partners and investment manager of the Nedgroup Investments Global Balanced Fund

We recently chatted to Guy Monson, Chief Investment Officer of Sarasin & Partners and investment manager of the Nedgroup Investments Global Balanced Fund.

Q: Guy, it seems Europe is following in the footsteps of the US (albeit a year later), injecting huge sums of money into the system to bail it out. How do the two approaches compare?

A: It is gradually dawning on global investors that although the US fiscal and monetary rescue packages in the aftermath of the Lehman's crisis had many faults, the determined use of executive power to buy problem assets, forcibly inject government capital into banks, and bail out critical institutions was impressive and timely. Similarly, the use of the command economy in China last year to direct huge fiscal resources to public infrastructure programmes (almost 5% of GDP in a single year), in order to support domestic and global growth was almost unprecedented in its scale and speed.

Pity the Europeans who were always bound to disappoint in the competition for the effective and timely use of financial firepower. The Greek rescue package has shown all the natural weaknesses of European decision-making and the lack of executive authority in a multi-country system.

Q: But, will the markets begin to look more favourably on the European package?

A: The recent German decision to introduce a short-selling ban on European sovereign debt securities and on 10 large German financial institutions was not encouraging. Germany took this decision without consulting its partners, opening the way for 'beggar my neighbour' policies across the euro zone.

On the other hand, several European governments have announced fiscal consolidation packages. The Spanish government has approved the first public wage reductions since returning to democracy in 1978, and has cut its forecast for economic growth for next year as it seeks to tame the euro region's third largest budget deficit. Italy, another large and debt-laden country, has just announced a €24bn austerity package over two years, focused mainly on spending cuts. They will freeze public sector wages, stop recruitment, cut funding for local authorities and close several state entities.

Along with ferocious public sector cuts in Ireland, Portugal and Greece, the political will to make painful reductions is impressive. This is a hesitant, uncertain and mildly chaotic start to the global need for fiscal consolidation. Financial markets will slowly come to recognise this. Interest rates will remain at, or close to, zero and bonds yields will remain near to Japanese levels, while the euro finally regains its competitiveness. This is a good environment for the largest European exporters.

Q: How do these views translate into the current positioning of the Nedgroup Investments Global Balanced Fund?

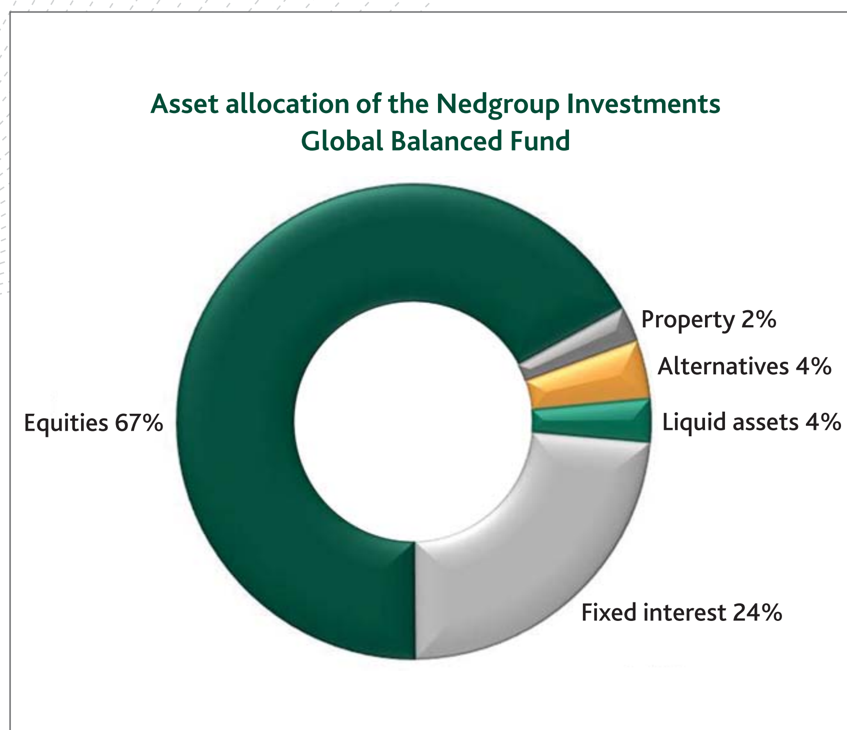
A: The corporate world has had a record quarter for profits, the most 'cash on balance sheet' in fifty years, and dividend growth well in excess of inflation. It seems 'reassuringly' dull and solid. With dividend yields above government bonds and balance sheets often stronger than the national governments under which they operate, the opportunity for a strong recovery in high quality, blue chip stocks with little leverage is clear.

In Europe, the collapse in the currency and relative equity weakness has produced an extraordinary 29% decline for dollar investors in European equities - 23% worse than the S&P 500. Despite the ongoing fiscal consolidation, European equity markets now look peculiarly cheap, thanks to a weaker euro, stronger overseas growth and lower valuations (the EuroStoxx dividend yield is almost 1% higher than German 10-year bond yields!).

We have recently been unusually active in adjusting the equity weighting in the Nedgroup Investments Global Balanced Fund. We reduced the equity exposure prior to the recent sell-off, only to be provided with an opportunity to increase our exposure at lower prices shortly thereafter.

The current equity weighting of the fund is 67%, which is higher than the benchmark weighting of 60%. However, the equity component is tilted in favour of high quality blue chip multi-nationals that we believe are a lower risk than the overall market.

We are underweight bonds as an asset class and particularly underweight Government bonds where we see very little value outside of safe haven status on any further risk aversion. We prefer corporate bonds where the credit profile is arguably much stronger. We also have a very active position in emerging market bonds, because we believe that there is a structural reason why these currencies should appreciate over time.



Source: Sarasin & Partners

Life Planning: the way forward for the financial planning profession?

Rob Macdonald
Head of Consulting

Financial planners and wealth managers have traditionally focussed on the financial and legal aspects of their clients' lives. In so doing, they help clients put key building blocks in place, such as life and risk cover, to protect them and provide for unexpected mishaps; appropriate investments for a comfortable retirement; and a will and estate plan to ensure a smooth intergenerational transfer of any surplus wealth.

Is a focus on the financial and legal aspects of clients' lives enough?
There is, however, a new movement in the financial advisory profession, which questions whether a focus on the financial and legal aspects of clients' lives is actually enough. Increasingly, practitioners and commentators are suggesting that financial professionals should go well beyond simply a focus on numbers, tax, and legal issues. They recognise that clients need a more holistic approach to financial planning - one that considers what clients want from life by looking at issues such as their personal values and vision.

Life planning, or financial life planning, has arrived in South Africa
The recent launch of the Financial Life Planning Institute of South Africa highlights that this movement has arrived on our shores. The concept of life planning originated in the US, and two leading proponents of the approach, George Kinder[1] (founder of the Kinder Institute of Life Planning), and Mitch Anthony[2] (founder of the Financial Life Planning Institute), have been keynote speakers at recent conventions of the Financial Planning Institute of Southern Africa. They have both challenged the financial planning industry with the view that financial planning will be sub-optimal if life planning hasn't taken place first.

But what is life planning or financial life planning all about?

Clients first need to focus on what they want from life
Essentially it is a process which recognises that people often start planning their finances before they've actually given any thought to what they want to achieve from their lives. At the heart of financial life planning is what Mitch Anthony refers to as 'Return on Life' (ROL). He believes there is no point worrying about 'Return on Investment' (ROI) until you have determined your desired ROL. In this respect, Anthony believes the role of the financial planner is 'to help clients clarify, articulate and actualise their passions and priorities in life'.

Life priorities should inform financial priorities and decisions
George Kinder illustrates this with an example of one of his clients who was very excited that he had found a building in Boston that he wished to buy, which would serve not only as his home, but also provide office space for him and his wife. The financial planning implications of this option were that the client would need to take on a big mortgage and work harder in order to be able to afford the building. Kinder took the client through a process of life planning in which he was able to establish that the client's key desire at that stage was to be able to spend more time with his six-year old son. In order for this goal to be achieved, buying the building would have been a terrible decision. Ultimately Kinder and the client were able to agree on a plan that freed up a significant amount of time for the client so that he could spend more time with his son. The building did not feature in this plan.

Traditional financial planning may result in sub-optimal decisions for a client
Kinder's point is that a traditional financial planning approach to a client's needs may result in decisions that are actually inappropriate for the client's life. Kinder, therefore, encourages financial professionals to explore their client's vision for their life before even getting into the detail of financial or wealth planning.

Is it economically viable and do financial planners have the expertise?
The challenge that Kinder and Anthony present is interesting from two perspectives:

1. How do financial professionals make a life planning approach economically viable?
2. The type of exploration that life planning encourages could take a financial planning professional beyond their level of competence.

Bob Veres[3], a leading commentator on the financial planning profession in the United States, observed that the life planning approach does help people articulate and, therefore, then make progress towards their most cherished goals and objectives. But, there are always obstacles to the achievement of these goals, and Veres says that, 'Where the obstacles to success (however this is defined by the client) are financial, financial planners or wealth managers are uniquely qualified to help people navigate through obstacles they never could on their own. These are the incredible complexities of the business and financial environment.' He also highlights that, 'advisers are discovering a new set of obstacles in their real-world efforts to help clients

move forward: obstacles that live, and indeed thrive inside the minds of clients themselves. They may take the form of limiting beliefs or dysfunctional money habits; they may manifest as inexplicable efforts to sabotage their own progress or simply as an inability to move forward when the external obstacles seem to have been cleared away.'

Financial life planning is difficult to apply due to obstacles in clients' minds

Veres suggests that it is commonplace to hear advisers talk about unexpected difficulties in applying this new life planning service to the real world that their clients live in. 'The advice seems to be good; the service and planning work seem to be right, and the clients may outwardly seem to respond by identifying their cherished goals and buying into a plan to achieve them. But the results seem to be held up by an invisible net of restraints that planners are not trained to find or identify, much less clear away.'

There are ways to overcome the challenges of life planning

Bob Veres suggests that there are probably three options to deal with the challenges of implementing life planning effectively:

1. Referrals

The financial planner refers clients to psychologists. The problem with this approach is that the financial planner is left out of the loop and it won't necessarily enhance his or her relationship with the client.

2. Collaboration

This is where a psychologist meets alone with the client, but the client and therapist sign disclosure agreements to make it legally permissible for the psychologist to share information about the client. However, as Veres points out, this is not ideal because the client's time with the therapist may never really address money issues.

3. Partnership

Typically, the adviser and the psychologist will meet a client together and will work closely together in the exploratory phase of a relationship, and again when obstacles arise.

Developing the skills or working with professionals enables you to deliver life planning

If life planning is the way forward for financial professionals it means that they are either going to have to develop their skills in understanding and dealing with people, or alternatively they may wish to partner with other professionals who have the skills. At least one financial planning firm in South Africa has addressed this problem by having a financial planner with a psychology background conduct an in-depth life planning exercise before financial planning begins. Very often this planning is then conducted by another planner. This approach harnesses the skills of the respective professionals in the business without diluting either. For financial planners who may not have a psychology background or the confidence to delve too deeply into their clients' lives, the Financial Life Planning Institute has certain tools available to help financial planners conduct life planning exercises.

Whether you resist it, remain sceptical or embrace it…

Life planning has arrived in South Africa and the financial planning community is likely to meet this with three possible responses. Those who say it is nothing new - they have been doing it all along; the sceptics who question the value and cost of it and resist implementing it; and those who embrace it as the way forward for financial planning and integrate it fully into their practices.

At its heart, financial planning is about helping us all live fulfilled lives

Whatever the response, the arrival of life planning serves as a timely reminder to both financial planners and clients that money and investing are a means to an end. Our challenge when we invest our own money or our clients' is to ensure that we are doing so to help us live purposeful and fulfilled lives.

[1] Mitch Anthony presentation at FPI Convention 2010 entitled, Financial Life Coaching and Planning, 26 May 2010.

[2] George Kinder presentation at FPI Convention 2008 entitled, Lighting the torch - How listening skills and empathy can transform your practice, 29 May 2008.

[3] All references to Bob Veres taken from his Inside Information Newsletter, July 2007.

Revisiting the Ladder of Development

JP Landman
Political and Economic Analyst (Consultant)

In May 2004, when FIFA appointed South Africa as the host of the 2010 Soccer World Cup, and again in November 2006 in a roadshow to clients, we compared our hosting the World Cup to the 'Ladder of Development' set out by the Japanese strategist Kenichi Ohmae. It is time to evaluate what we said then.

Ohmae's ladder is formed by levels of income; the higher a country's income, the higher up the ladder it finds itself. And the higher a society's income, the more it changes the way it behaves and organises itself. Ohmae illustrates this process of change with reference to transport.

Steps on the ladder

In countries where the per capita income is **below US $1 500** per year, bicycles are the main mode of transport. No high level organisation is required.

Between $1 500 and $3 000 per capita income, motorbikes or scooters become the main source of transport. This requires fuel supply and distribution, workshops and some mechanical skills.

Above $3 000 per capita income, cars become the main mode of transport. Inevitably, congestion follows and so it makes sense to start constructing modern highways and rail transport in urban centres. South Africa has the highways but an underdeveloped rail transport system. Because there are what Ohmae calls 'radiating connections' between the car industry and industries like steel, chemicals, batteries and tyres, cars give rise to much more than just the car industry. They give rise to broader industrialisation.

It follows that at this level of industrial activity, infrastructure like drinking water, electric power, communications, finance and banking become important and society develops them.

At $5 000 per capita income, the demand for quality motorcars increases, which means more electronics and higher levels of technology. Air transport becomes more common and modern airports such as OR Tambo, King Shaka or Cape Town airports are built. High-speed rail systems like the Gautrain develop.

There is a cost associated with these developments: At $5 000 per capita income, air, and water pollution accelerates. We are no strangers to the challenges posed by our carbon footprint, mine acid drainage and for example, the Hartebeespoort Dam problems.

Ohmae also observes that at $5 000, the desire for even greater material prosperity overtakes quality of life considerations. Quality of life makes a comeback at around $10 000 per capita income, but in the meantime everybody chases money. Have you noticed any excessive bonuses, salary increases, share options, strikes for more money and conspicuous consumption lately?

What governments do at around $5 000 will determine how quickly a country advances to $10 000. For Ohmae, the critical issue is an overwhelming desire to be part of the global economy. It is integration into the world economy that will propel a country towards $10 000. A practical measure that Ohmae feels is important is the deregulation of sectors like telecommunication (done), banking (done) and the currency market (partially done). One can probably add electricity to the list where independent power producers are now entering our market.

Ohmae observes that at $5 000, the symbol of global achievement is to host the Olympic Games. This is about **ambition.**

What does all this have to do with soccer?

In 2004 and 2006 we took the view that our hosting the Soccer World Cup is the equivalent of Ohmae's reference to hosting the Olympics. It would be the 'coming out party' of SA as a $5 000 country. In particular, we suggested that hosting the Soccer World Cup 2010 would unleash a positive and virtuous cycle for SA consisting of three elements:

1. Ongoing sound policies;
2. Infrastructure spend; and
3. Stronger institutions.

We concluded that: 'There are no guarantees, but slowly the balance between modernity and traditionalism will be tipped towards modernity.'

Where are we now?

In 2004, our **per capita income** was R30 297.

In December 2009 it was R48 510 per person, or about $6 000 if one uses an exchange rate of R8 to US$1. We should note that the International Monetary Fund and World Bank use a 'purchasing power parity' exchange rate and then SA has a per capita income of around $10 000.

Of course, the distribution of that income remains skewed, leaving SA with very high levels of inequality. Nevertheless, we have advanced a few steps up the ladder since we won the bid to host the World Cup.

1. **The policies that were in place in 2004 are still there**
   They survived both our change of government and the global economic crisis.

2. **Our infrastructure spend has been significant**
   In 2004 the public sector spent about 4,5% of GDP on investment, in 2010 it will be 9,5%. The rand numbers are simply enormous. In 2006, the rolling three-year budget for state capital expenditure came to R410 billion. A higher percentage of a bigger GDP accelerates the numbers considerably and in 2010 the three-year number came to R845 billion.

> 'The World Cup is neither a new beginning nor the end of our challenges'

3. **Our economic institutions are strong**
   Some of our institutions are even stronger than they were in 2004. The Competition Authorities are flexing their muscles, helping to force a more open and robust economy. The Reserve Bank has weathered significant pressure and is getting stronger.

We have made great strides

The World Cup has helped to propel SA past the $5 000 per capita income mark. It has consolidated many of the gains since 1994. The country is more modern than six years ago, has better infrastructure, is investing more and enjoys more social cohesion. It has moved up the Ladder of Development.

Naturally the current feel-good factor will not last. Apart from unemployment problems, poverty and state capacity there are also a few specific problem areas that we must navigate.

Possible hiccups

I would like to highlight three issues:

1. **Property rights**
   An institution that is critical for both economic growth and social progress is **property rights.** A Green Paper on land reform will be released a week or so after the World Cup. It will probably contain damaging proposals on property rights. These are only proposals and they will be hotly debated. Suffice to say this issue would have to be managed very carefully.

2. **Appropriate policies**
   Does the SA body politic have the ambition to increase growth to 5% or 6%? Current policies will probably not give us much more than 3% and moving beyond this will require strong political will to pursue growth-focused policies. The meeting of the ANC General Council in September will be an important indicator.

3. **Lastly, there is the real driver of growth and social modernisation – investment**
   Overall investment in the country, with public and private sectors combined, came to 16% in 2004 and to 22% in 2009. Government's goal is to achieve investment equal to 25% of GDP. As the private sector recovers from the 2009 recession, this number should become achievable, but of course, the global environment will play a critical role in this.

The World Cup is neither a new beginning nor the end of our challenges

It is rather an important marker that illustrated our ambition, and now that it is a success, shows our potential to reach $10 000 per capita income. Progress will be more pedestrian than in the run up to the World Cup because the global environment is much more severe. However, our successful hosting of the World Cup was another profoundly positive step in our climb up the Ladder of Development.

Fund range	Risk	Benchmark	Minimum recommended term
Income funds: aim to provide investors with high levels of income (at low levels of capital volatility), by investing primarily in fixed income asset classes. These funds are often appropriate for clients with shorter investment horizons.			
Nedgroup Investments Money Market Fund	1	STeFI Composite Mean	None
Nedgroup Investments Flexible Income Fund	1	110% STeFI Call Rate	6 months
Nedgroup Investments Optimal Income Fund	1	STeFI Call Rate after income tax (40%)	1 year
Nedgroup Investments Bond Fund	2	All Bond Index	2 years
Asset allocation funds: aim to provide investors with moderate levels of income and capital growth (at moderate levels of captital volatility), by investing in a range of different asset classes. These funds are often appropriate for clients with medium to longer investment horizons.			
Nedgroup Investments Positive Return Fund*	2	CPI + 4% p/a/ over rolling 3-year periods	3 years
Nedgroup Investments Stable Fund*	2	CPI + 4% p/a/ over rolling 3-year periods	3 years
Nedgroup Investments Managed Fund*	3	Prudential Medium & Variable Equity Unit Trust Mean	3 - 5 years
Nedgroup Investments Balanced Fund*	3	Prudential Variable Equity Unit Trust Mean	3 - 5 years
Nedgroup Investments Bravata Worldwide Flexible Fund	3	CPI + 5% p/a/ over rolling 3-year periods	3 - 5 years
Equity funds: aim to provide investors with high levels of capital growth (at high levels of capital volatility) by investing in listed equities. These funds are often appropriate for investors with longer investment horizons.			
Nedgroup Investments Rainmaker Fund	4	General Equity Unit Trust Mean	5 - 7 years
Nedgroup Investments Value Fund	4	Value Unit Trust Mean	5 - 7 years
Nedgroup Investments Growth Fund	4	Growth Unit Trust Mean	5 - 7 years
Nedgroup Investments Equity Fund	4	General Equity Unit Trust Mean	5 - 7 years
Nedgroup Investments Quants Core Equity Fund	4	General Equity Unit Trust Mean	5 - 7 years
Specialist equity funds: are equity funds that are invested according to a specific sector or theme. They tend to display higher levels of capital volatility.			
Nedgroup Investments Entrepreneur Fund	5	Smaller Companies Unit Trust Mean	5 - 7 years
Nedgroup Investments Mining & Resource Fund	5	Resources & Basic Industries Unit Trust Mean	5 - 7 years
Nedgroup Investments Financials Fund	5	Financial Unit Trust Mean	5 - 7 years
International Rand denominated funds: if you wish to have exposure to international investment opportunities, you may consider the following range of rand-denominated funds that provide this exposure for lower minimum investments and without the hassle of having to apply for foreign exchange control approval.			
Nedgroup Investments Global Cautious Feeder Fund	3	USD Libor 1 Month (in Rands)	3 - 5 years
Nedgroup Investments Global Balanced Feeder Fund	3	Foreign Flexible Unit Trust Mean	3 - 5 years
Nedgroup Investments Global Equity Feeder Fund	4	Foreign Equity Unit Trust Mean	5 - 7 years
Nedgroup Investments Int'l Equity Feeder Fund	4	Foreign Equity Unit Trust Mean	5 - 7 years

1 = Low, 2 = Low to medium, 3 = Medium, 4 = Medium to high, 5 = High

* Comply with Regulation 28 of the Pension Funds Act

DISCLAIMER:
Unit trusts are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to the future. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. Different classes of units may apply to these portfolios and are subject to different fees and charges. Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accruals and less any permissible deductions (brokerage, Uncertificated Securities Tax, VAT, auditor's fees, bank charges, trustee and custodian fees and the annual management fee) from the portfolio, divided by the number of units in issue. A costs. Portfolios are valued daily at 15:00. Instructions must reach us before 14:00 (11:00 for Nedgroup Money Market Fund) to ensure same day value.schedule of maximum fees and charges is available on request from us. Fees and incentives may be paid, and if so, are included in the overall.
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