

The Weekly Focus

A market and economic update

12 September 2011



Contents

Newsflash	3
Market Comment	3
Dollar suddenly took off over past 2 weeks	5
Snippets of Info	6
Economic Update	7
Weekly Market Analysis	11
Rates	12
Standard Bank Money Market Fund	12
STANLIB Cash Plus Fund	12
STANLIB Dividend Income Fund	12
Glossary of terminology	14

Newsflash

So much for Spring and new hope - at least so far!

Market Comment



Source: Prime Charts

- The chart above, courtesy of JP Morgan Cazenove, shows the US VIX or Volatility Index on the Chicago Board of Options Exchange. It is often referred to as the “fear index” because it reflects the high level of fear or concern when the index is higher than 30 (as it is now) or alternatively the lack of fear when the index is below 20.
- During the height of the Lehman Bros crisis in 2008/9 the index rose as high as 80 and today it is around the 40 level, more than double the 17-18 level seen earlier this year.
- Markets today are reflecting plenty of worry and fear about the European debt issue, with the possibility of Greece going bankrupt, as well as fears of recession in Europe and the US.
- For the bold and the brave, another way to look at this VIX index is to see it as an opportunity. When it rose to 80 in late 2008, that was (with hindsight) a great buying opportunity, as it was last August when the VIX shot back up to 40. The only question is where will it peak, because it is in a sharp uptrend right now and one would clearly prefer to buy just after it peaks.
- Clearly there is a lot of stress in the European banking system, partly because many US money market unit trust managers have sold out of European banks and also because banks in Europe are scared to lend to one another.

- US market analyst, Elaine Garzarelli, says a policy mistake by governments and/or central banks is the biggest threat to the global economy, especially regarding Europe and the US. For example, the effectiveness of the US Fed can be undermined by election-year politics and the divide in Washington. Politics is a big part of the problem in both the US and in Europe. Politicians need to put the economic recovery first and the safety of the financial system before partisan and national politics. A politically fearful Fed is dangerous if it hesitates to act and does too little too late. Consumer and business confidence can be hurt by uneasiness in Washington.
- Meanwhile the clumsy structure of the euro-zone, whereby 17 countries have to each vote before any action can be taken on various issues such as enlarging the European bail-out fund, is aggravating the European debt issue and enhancing panic.
- The US Fed seems reluctant to make any decisions ahead of its 21st September meeting because of some dissent within its ranks. Garzarelli thinks the Fed will in fact introduce a QE III program of similar size to QE II (\$600bn).
- President Obama announced a very good package that would help the economy in 2012. However, it is likely that after all the discussions and arguments by the US Senate and House, the final package will be significantly smaller than Obama's proposals.
- So until either the Fed introduces something supportive for markets late next week and/or the Europeans act positively, the volatility may continue - possibly with a downside bias.



Source: I-Net Bridge

- The collapse in yield (see chart above) of the German government's 10 year bond is certainly a very stark reminder of just how serious the fears are in Germany of a recession (and resulting deflation), although it is also true that some of the fall in yield is because of "safe haven" buying, with bond buyers choosing German bonds above many others. The yield has literally halved from 3.45% in April to today's 1.75%, meaning that the bond has doubled in value in the past 5 months. Over the same period, the German Dax stock market Index has lost 33% of its value, despite the German economy's lowest unemployment in 17 years and superb exports to emerging markets. The Dax is now just 35% higher than its 2009 low.
- Recession and deflation are very bad for economies, company profits and shares but superb for government bonds (assuming the government is reasonably strong).
- As market analysts MRB Partners puts it: "Unfortunately, European policymakers (which are at the epicenter of the current crisis) are dragging their feet. Both political leaders and the ECB have not provided an open-ended commitment or taken the appropriate steps to limit contagion risk, let alone put an end to the sovereign debt crisis. This remains a material source of vulnerability for the global economy and financial markets and warrants remaining cautious in the near run".

Dollar suddenly took off over past 2 weeks

- There has all of a sudden been a big move in the US dollar against most other global currencies.
- In just the past 2 weeks, the euro has lost 7% against the dollar, sliding from \$1.455 to \$1.35 today. This is partly because the euro-zone problems seem to be bigger than the US problems and partly because the market now expects the euro-zone to cut interest rates by November (after raising them twice this year). Lower interest rates are typically bad for developed market currencies because investors will earn less interest.
- The pound has lost 3.5% against the dollar during this 2 week period, while the Aussie dollar has lost 3.8%.
- The rand has lost close to 5% since end August, although it is still trading at the same level as eleven years ago (September 2000).
- Yes, of course it could weaken further if the "risk-off" trade in world markets continues. However, we've learned the hard way over many years not to make predictions on the rand!
- One risk of the strengthening dollar is that it usually puts pressure on the commodity prices because they're all priced in dollars. So copper, platinum etc could weaken if dollar strength continues.
- Regarding the rand price of gold, if one looks at the ETF (exchange traded fund) known as Newgold that trades like a share on the JSE, reflecting the rand gold price, it is today once again very close to its record high of 13389 hit on 22nd August and is up 43% so far in 2011.

Snippets of Info

- Jonathan Davis writes in today's Financial Times about the late great Sir John Templeton (whom I met in San Francisco in 1988) and about whom he (Davis) is currently writing a book. He reminds us during these tumultuous times of one of Sir John's famous maxims: "Don't panic".
- Templeton's 75 years as an investor included the 2nd World War, the Korean War, the Suez crisis, the Cuban missile crisis, amongst other crises. One of his quotes is shown below:
 - "There is only one reason a share is being offered at a bargain price: because other people are selling. There is no other reason. To get a bargain price you have to look where the public is most frightened and pessimistic." Makes one think of our mining shares at this time.
- As Davis says, there seems little doubt that if he was still alive, Templeton's bargain-hunting antennae would be starting to twitch today...especially the worse the news and market sentiment becomes.

Paul Hansen

(Director: Retail Investment Marketing - Investments)

Economic Update

Locally, in Q3 2011 the RMB/BER Business Confidence index fell sharply to 39.0, down 9 index points from the Q2 2011 reading. This is the second consecutive quarterly decline in the index, highlighting the softening of domestic business conditions. This decline in business confidence is reflected in a wide range of domestic economic conditions including softening vehicle sales, slowing manufacturing production, and weak construction activity. This does not imply that trading and business conditions are back in recession or about to go into recession. Rather it reflects the fact that the economy appears to have lost a significant amount of momentum in the past 6 months. Furthermore, the average level of business confidence in SA, measured since the start of 1980, is 46.7 index points. This suggests that the current business confidence reading (39) is well below the long-term average. The confidence reading has, also, only been above 50 in one quarter (Q1 2011) since as far back as Q4 2007, highlighting that the economy has struggled to fully recover from the Great Recession. There is a vague, but positive relationship between business confidence and GDP growth. Business confidence is expected to remain fairly weak in the quarters ahead, but avoid falling to a level that is consistent with a return to recession conditions.

July SA Manufacturing Production was negatively affected by strikes in the metal, diamond, coal, gold miners, chemical and fuel industries. This caused a sharp -6% contraction in both m/m and y/y growth. Going forward the industry is facing rising input costs as electricity tariffs are set to increase 25% per annum for another 3 years and wage inflation emanating from strike induced wage settlements puts pressure on manufacturers margins. Margins are under additional pressure as global demand flags and the rand remains uncompetitive. The sector is also facing structural impediments to growth as transport infrastructure is plagued by bottlenecks and globally uncompetitive cost structures. Year-to-date manufacturing has declined by -4.9%. To put this in perspective, the decline in manufacturing volumes over the same period in 2009, at the height of the downturn, was only -1.3%. In addition the contraction was broad based: motor vehicle production declined -5.3% y/y, iron and steel was down -11.5% y/y, petroleum -6.0% y/y and food and beverage production contracted -3.0 y/y%. From a cyclical perspective, manufacturing volumes are roughly 18% below their peak, and performance is worse than the worst performance in history (i.e. 1984 - 1986).

South Africa was ranked 50th out of 142 countries in the 2011/2012 World Competitiveness Report, released on 7 September 2011. The latest ranking is up from 54th in last year's report. While the latest ranking is a welcome improvement, South Africa has fallen significantly in the World Competitiveness rankings over the past few years. The top five places went to Switzerland, Singapore, Sweden, Finland and the United States, while last place went to Chad. (Nigeria was ranked 127th, down from 125th last year). South Africa remains an economy of extremes.

These extremes reflect an economy that is able to compete with the best in the world in some sectors/components, but is ultimately held-back by crucial factors, mainly poor education and labour inflexibility. The main risk for the SA economy is that the factors at the bottom of ranking drag the other, better-ranked, components systematically lower. Instead South Africa urgently needs to find a way to utilise its inherent strengths to create employment. This is clearly going to have to include resolving the major education and labour constraints.

Offshore, the **Swiss National Bank** announced that the **Swiss Franc will not be allowed to trade stronger than CHF1.20 per EUR**. This is an interesting, bold, expensive and exceptional move. From their perspective, the current massive overvaluation of the Swiss franc poses an acute threat to the Swiss economy and carries the risk of deflation. This threat out-weighs the cost of intervention. The Bank announced that they are “aiming for a substantial and sustained weakening of the Swiss franc”. And so, with immediate effect the Bank will no longer tolerate a EUR/CHF exchange rate below the minimum rate of CHF 1.20. The bank indicated that they will enforce this minimum rate with the “utmost determination” and is prepared to buy foreign currency in unlimited quantities. This sounds to me like the Bank plans to intervene directly in the currency market. This type of intervention has a cost, but given how much Swiss exports have suffered, the Bank probably feels it is worth the cost. As far as the Bank is concerned “even at a rate of CHF 1.20 per euro, the Swiss franc is still high and should continue to weaken over time”. If the economic outlook and deflationary risks get worse the Bank has said that they will take further measures.

Since the end of 2007 the Swiss Franc has strengthened by an amazing 48.9%; not that it was that weak to start with. In fact, it could be argued that the CHF was at fair value or even slightly overvalued in 2007. The strength of the Swiss Franc largely reflects a combination of the global search for ‘safe-haven’ assets as well as the strong economic fundamentals in Switzerland. Unfortunately, even at CHF1.20, the currency will still hurt their economy, especially exports. The average value of the CHF over the period 2000 to 2008 was CHF1.55 per EUR. It will be interesting to see if gold benefits from this move. By effectively limiting the appreciation of one of the world’s safe-haven assets, investors may increase their focus on the remaining safe-haven options, including gold. Also, it will be interesting to see if any other countries adopt a similar approach, especially in a world where all countries are trying to weaken their currency. Questions will undoubtedly be asked about the SA Rand – but the circumstances are significantly different.

On 9 September 2011, President Obama presented the American Jobs Act to Congress. The Act is effectively a \$447 billion plan (around 3% of GDP) to create jobs in the US using a combination of tax incentives and infrastructure spending. The size of the plan is bigger than market analysts had expected, which was around \$300 billion. Overall, the plan has merit and could help to boost the economy, meaningfully, in 2012. (It could also be argued that some of these initiatives should have been introduced some time ago, instead of initiatives such as the “cash for clunkers” deal).

The American Jobs Act has four key components: Tax Cuts to Help America's Small Businesses Hire and Grow (\$70bn); Putting Workers Back on the Job While Rebuilding and Modernizing America (\$140bn); Pathways Back to Work for Americans Looking for Jobs (\$62bn); More Money in the Pockets of Every American Worker and Family (\$175bn). Unfortunately, it is difficult to make a complete assessment of the effectiveness of the stimulus, since it is unknown how much of it will actually be adopted and, if so, how it will be funded. As it stands, the plan would have a significant impact on US GDP growth in 2012, which is currently projected at only around 2%, but the chances of the plan being fully adopted and funded would only be around 50/50 given the divided nature of the US Congress.

In emerging markets, the Copom (**Brazi's Monetary Policy Committee**) decided to reduce its central policy rate by 50 basis points to 12% on worries about international economic forecasts deterioration. Headline inflation in Brazil stood at 7.23%/y for July, above the upper limit of 6.50%. The committee took this pre-emptive action on worries that the transmission of external developments for the Brazilian economy may materialize through several channels, among others, the reduction on current trade, moderation of investment flow, more restrictive credit conditions and a deterioration in the consumers and business sentiment. The committee also stated that the treat of a global slowdown had indeed contributed to lower projections for the Brazilian economy, which in the forecast period contributed to a favorable inflation outlook. Brazil has hiked rates by 175 bps since the beginning of the year, and feels this "moderate adjustment" wouldn't compromise its target in the forecast period. This strategy may be consistent with the announcement by Brazil's finance minister, Guido Mantega, on 29 August that the government plans to contain spending - raising the primary surplus target for the central government (i.e. before interest payments on its sovereign debt) by 10 billion Reais, equivalent to between 0.25% and 0.30% of GDP.

Inflation in **India** has remained elevated and persistent for over 18 months, despite aggressive monetary tightening, and stood at 9.2% year-on-year in July. The medium-term objective of the Indian Reserve Bank is to bring down inflation to 3.0 per cent consistent with India's broader integration into the global economy. The economy continues to show strength. The August PMI remained expansionary, having declined from 53.6 in July to 52.6 in August - mainly on a sharp decline in new export orders, which declined from 49.2 to 45 in August. Manufacturing production expanded 8.8% in July, up from 5.6% in June. This means that monetary authorities have some room to further tighten policy to contain inflation, but it is unlikely that they would, given the world economic backdrop.

Like India, **China is currently outside its inflation target**, despite its own tightening. However, analysts have been calling for monetary easing, and there have been rumours that the Peoples Bank of China (PBoC) would loosen reserve requirements for certain banks.

However, authorities may be loosening in other creative ways. According to a Bloomberg report, the PBoC conducted another bigger net injection of liquidity of 100 billion yuan (\$15.7 billion), compared to 25 billion yuan a week ago. This has contributed to easier liquidity conditions in a very tight environment. The seven day repurchase rate, which measures interbank funding availability, dropped 35 bps to 4%. To curb the country's persisting inflation (6.4% y/y July) the PBoC has raised the benchmark interest rate three times this year, and increased reserve requirements for banks six times. Although food prices have eased domestically in China, cost pressures from higher wages and rentals are still very high, putting further upside pressures on inflation, which has remained persistently outside the 4% informal target.

The Central Bank of Nigeria (CBN) announced last week that it had finalised arrangements to diversify its external reserves holdings by including the Chinese Renminbi to the existing currency mix of US Dollars, Euro and the British Pound Sterling. The level of external reserves in Nigeria has been a much talked about topic for a while now, with the CBN governor calling on government to make attempts to raise the current level in order to allow the Central Bank to support the Naira and be able to stabilise prices - and the new Minister of Finance has made a commitment to act in this regard.

China is Nigeria's largest import market, with imports from China at the end of 2010, worth 327 billion Naira, or 26% of total imports. In their statement, the CBN further noted that "Given the growing economic importance of China in the world, and the increasing trade flows between the two countries, the CBN initiative is expected to secure a strategic advantage for Nigeria in its economic and trade relationship with the People's Republic of China." We believe that this is a move that bodes very well for Nigeria in the long term for the balance of payments given Nigeria's trade structure.

We also think that, given the currency volatility experienced by the exchange rate between the Naira and the US Dollar, determined mainly by portfolio flows, trading in a separate currency for a quarter of the trade imports will have a welcome effect. We have made the point before that a large part of Nigeria's inflation rate is determined by monthly average USD/Naira fluctuations. Headline inflation retreated for the second month in a row in July, falling to 9.4% year-on-year, from 10.2% in June and 12.4% in May on the back of a stronger USD/Naira and lower food prices. Therefore, Nigeria's ability to import a quarter of its goods in a less volatile exchange rate will lead to more stable prices.

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

Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 09/09/11	Weekly Move (%)	YTD (%)
Indices			
*MSCI World - US Dollar	1134.68	-3.45	-11.90
*MSCI World - Rand	8294.42	-0.56	-2.88
*MSCI Emerging Market - US Dollar	992.31	-2.89	-14.71
*MSCI Emerging Market - Rand	7253.69	0.02	-5.99
All Share Index - US Dollar	4183.10	-3.19	-14.31
All Share Index - Rand	30440.87	-0.26	-5.78
All Bond Index	374.13	0.17	8.44
Listed Property J253	904.94	-2.02	3.67
Currencies			
US Dollar/Rand	7.28	3.03	9.96
Euro/Rand	9.93	1.23	12.44
Sterling/Rand	11.55	1.14	12.86
Euro/US Dollar	1.37	-3.86	2.25
Commodities			
Oil Brent Crude Spot Price (\$/bl)	112.40	-1.19	17.75
Gold Price \$/oz	1857.80	-1.33	31.37
Platinum Price S/oz	1833.50	-2.60	3.94

Source: I-Net Bridge

* MSCI - Morgan Stanley Capital International

Rates

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

Standard Bank Money Market Fund

Nominal: 5.23 per annum
Effective: 5.36% per annum

STANLIB is required to quote an effective rate which is based upon a seven-day rolling average yield for Money Market Portfolios. The above quoted yield is calculated using an annualised seven-day rolling average as at 09 September 2011. This seven-day rolling average yield may marginally differ from the actual daily distribution and should not be used for interest calculation purposes. We however, are most happy to supply you with the daily distribution rate on request, one day in arrears. The price of each participatory interest (unit) is aimed at a constant value. The total return to the investor is primarily made up of interest received but, may also include any gain or loss made on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the portfolio.

STANLIB Cash Plus Fund

Effective Yield: 6.03%

STANLIB Dividend Income Fund

Effective Yield: 4.11%

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 September 2011. The net (after fees) yield on the portfolio will be published daily in the major newspapers together with the "all-in" NAV price (includes the accrual for dividends and interest). This yield is a snapshot yield that reflects the weighted average running yield of all the underlying holdings of the portfolio. Monthly distributions will consist of dividends (currently tax exempt) and taxable interest. Interest will also be exempt from tax to the extent that investor's are able to make use of the applicable interest exemption as currently allowed by the Income Tax Act. The portfolio's underlying investments will determine the split between dividends and interest.

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

Liberty Investments' Life Annuities

Current Rates for 12th Sept 2011 - 16th Sept 2011

Payments are assumed to be paid monthly in advance with no guarantee period or annual escalation in income. Ages indicated assume client is the exact age shown. No tax has been deducted.							
Gender		Male			Female		
Age last birthday		55	60	65	55	60	65
Contribution	R 100,000	R 742	R 789	R 856	R 671	R 714	R 775
	R 250,000	R 1,923	R 2,039	R 2,206	R 1,744	R 1,851	R 2,002
	R 500,000	R 3,890	R 4,122	R 4,457	R 3,533	R 3,746	R 4,047
	R 1,000,000	R 7,824	R 8,288	R 8,958	R 7,111	R 7,536	R 8,137

The table above shows the monthly annuity that an annuitant will receive for life in return for the single premium in the left hand column. Note that the annuity depends on the annuitant's exact age and gender.

The rates above were calculated assuming maximum commission and will be enhanced if a commission discount is selected.

Glossary of terminology

Bonds	A bond is an interest-bearing debt instrument, traditionally issued by governments as part of their budget funding sources, and now also issued by local authorities (municipalities), parastatals (Eskom) and companies. Bonds issued by the central government are often called "gilts". Bond issuers pay interest (called the "coupon") to the bondholder every 6 months. The price/value of a bond has an inverse relationship to the prevailing interest rate, so if the interest rate goes up, the value goes down, and vice versa. Bonds/gilts generally have a lower risk than shares because the holder of a gilt has the security of knowing that the gilt will be repaid in full by government or semi-government authorities at a specific time in the future. An investment in this type of asset should be viewed with a 3 to 6 year horizon.
Cash	An investment in cash usually refers to a savings or fixed-deposit account with a bank, or to a money market investment. Cash is generally regarded as the safest investment. Whilst it is theoretically possible to make a capital loss investing in cash, it is highly unlikely. An investment in this type of asset should be viewed with a 1 to 3 year horizon.
Collective Investments	Collective investments are investments in which investors' funds are pooled and managed by professional managers. Investing in shares has traditionally yielded unrivalled returns, offering investors the opportunity to build real wealth. Yet, the large amounts of money required to purchase these shares is often out of reach of smaller investors. The pooling of investors' funds makes collective investments the ideal option, providing cost effective access to the world's stock markets. This is why investing in collective investments has become so popular the world over and is considered a sound financial move by most investors.
Compound Interest	Compound interest refers to the interest earned on interest that was earned earlier and credited to the capital amount. For example, if you deposit R1 000 in a bank account at 10% and interest is calculated annually, your balance will be R1 100 at the end of the first year and R1 210 at the end of the second year. That extra R10, which was earned on the interest from the first year, is the result of compound interest ("interest on interest"). Interest can also be compounded on a monthly, quarterly, half-yearly or other basis.
Dividend Yields	The dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. The higher the yield, the more money you will get back on your investment.
Dividends	When you buy equities offered by a company, you are effectively buying a portion of the company. Dividends are an investor's share of a company's profits, given to him or her as a part-owner of the company.
Earnings per share	Earnings per share is a measure of how much money the company has available for distribution to shareholders. A company's earnings per share is a good indication of its profitability and is generally considered to be the most important variable in determining a company's share price.
Equity	A share represents an institution/individual's ownership in a listed company and is the vehicle through which they are able to "share" in the profits made by that company. As the company grows, and the expectation of improved profits increases, the market price of the share will increase and this translates into a capital gain for the shareholder. Similarly, negative sentiment about the company will result in the share price falling. Shares/equities are usually considered to have the potential for the highest return of all the investment classes, but with a higher level of risk i.e. share investments have the most volatile returns over the short term. An investment in this type of asset should be viewed with a 7 to 10 year horizon.

Financial Markets	Financial markets are the institutional arrangements and conventions that exist for the issue and trading of financial instruments.
Fixed Interest Funds	Fixed interest funds invest in bonds, fixed-interest and money market instruments. Interest income is a feature of these funds and, in general, capital should remain stable.
Gross Domestic Product (GDP)	The Gross Domestic Product measures the total volume of goods and services produced in the economy. Therefore, the percentage change in the GDP from year to year reflects the country's annual economic growth rate.
Growth Funds	Growth funds seek maximum capital appreciation by investing in rapidly growing companies across all sectors of the JSE. Growth companies are those whose profits are in a strong upward trend, or are expected to grow strongly, and which normally trade at a higher-than-average price/earnings ratio.
Industrial Funds	Industrial funds invest in selected industrial companies listed on the JSE, but excluding all companies listed in the resources and financial economic groups.
Investment Portfolio	An investment portfolio is a collection of securities owned by an individual or institution (such as a collective investment scheme). A funds ' portfolio may include a combination of financial instruments such as bonds, equities, money market securities, etc. The theory is that the investments should be spread over a range of options in order to diversify and spread risk.
JSE Securities Exchange	The primary role of the JSE Securities Exchange is to provide a market where securities can be freely traded under regulated procedures.
Price to earnings ratio	Price to earnings ratio or p: e ratio is calculated by dividing the price per share by the earnings per share. This ratio provides a better indication of the value of a share, than the market price alone. For example, all things being equal, a R10 share with a P/E of 75 is much more "expensive" than a R100 share with a P/E of 20.
Property	Property has some attributes of shares and some attributes of bonds. Property yields are normally stable and predictable because they comprise many contractual leases. These leases generate rental income that is passed through to investors. Property share prices however fluctuate with supply and demand and are counter cyclical to the interest rate cycle. Property is an excellent inflation hedge as rentals escalate with inflation, ensuring distribution growth, and property values escalate with inflation ensuring net asset value growth. This ensures real returns over the long term.
Resources and Basic Industries Funds	These funds seek capital appreciation by investing in the shares of companies whose main business operations involve the exploration, mining, distribution and processing of metals, minerals, energy, chemicals, forestry and other natural resources, or where at least 50 percent of their earnings are derived from such business activities, and excludes service providers to these companies.
Smaller Companies Funds	Smaller Companies Funds seek maximum capital appreciation by investing in both established smaller companies and emerging companies. At least 75 percent of the fund must be invested in small- to mid-cap shares which fall outside of the top 40 JSE-listed companies by market capitalisation.
Value Funds	These funds aim to deliver medium- to long-term capital appreciation by investing in value shares with low price/earnings ratios and shares which trade at a discount to their net asset value.

Sources: Unit Trust and Collective Investments (September 2007), The Financial Sector Charter Council, Personal Finance (30 November 2002), Introduction to Financial Markets, Personal Finance, Quarter 4 2007, Investopedia (www.investopedia.com) and The South African Financial Planning Handbook 2004.

Disclaimer

The price of each unit of a domestic money market portfolio is aimed at a constant value. The total return to the investor is primarily made up of interest received but, may also include any gain or loss made on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the portfolio. Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. An investment in the participations of a CIS in securities is not the same as a deposit with a banking institution. CIS are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from STANLIB Collective Investments Ltd (the Manager). Commission and incentives may be paid and if so, would be included in the overall costs. A fund of funds is a portfolio that invests in portfolios of collective investment schemes, which levy their own charges, which could result in a higher fee structure for these portfolios. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. TER is the annualised percent of the average Net Asset Value of the portfolio incurred as charges, levies and fees. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. Portfolios are valued on a daily basis at 15h30. Investments and repurchases will receive the price of the same day if received prior to 15h30. Liberty is a full member of the Association for Savings and Investments of South Africa. The Manager is a member of the Liberty Group of Companies.

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the art and science of investing

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