

Mirror, mirror on the wall, how did 2009 fare against them all?

Executive summary

Global

- 2009 presented the world with a mixed bag of crises, stimulus packages and recoveries to name a few.
- Unprecedented policy efforts and responses to the global financial crisis and subsequent economic contractions have proven to be largely successful over the year.
- Approximately 40% of fiscal stimulus packages are still in the pipeline for distribution.
- The timing and exit from the use of global stimulus packages are crucial. Too early and the recovery could be stillborn, too late and the seeds of another crises could be sowed with destabilised asset markets and confusion around inflation expectations.
- After negative Global GDP growth in 2009, low levels of growth are expected to return in 2010.
- Globally unemployment has risen dramatically and one of the major concerns is that to date most GDP recovery appears to be jobless recovery.
- Significant cuts to interest rates and low interest rates to stimulate economies was a major theme of 2009, with the trend continuing at the start of 2010.
- While stimulus packages are prone to be inflationary, it is expected that inflation will remain largely contained or muted during 2010 due to concerns around unemployment as well as significant global excess capacity.
- The global housing markets have shown signs of recovery.
- Global equity markets shrugged off the recession and delivered phenomenal returns. Over 2009, developed markets ended up 27.4%, and emerging markets up 75.7%.

Local

- During 2009, South Africa endured its first recession since 1992, but pulled out again, with quarter 3 GDP in positive territory.
- Over 2009, the ALSI returned 32.1%.
- The main drivers of returns on the ALSI were the resources and mid cap sectors.
- Signs of global growth and restocking inventories drove commodity prices higher during 2009.
- The opportunity set for active managers reduced over the year, the ALSI and SWIX ranking at 67 and 77 respectively, for the year ending 31 December 2009.
- Relative to some of the main developed market currencies, the rand has also strengthened during 2009.
- 2009 was a record year for purchases of equities on JSE, and since 2002, foreigners have purchased R236bn, and now own around 25% of the JSE.

Setting the scene

“Mirror, mirror on the wall, how did 2009 fare against them all?”
“Read on”, the mirror replied, “and you shall see that 2009 was far from a dream. Nevertheless, as bad as it initially did seem, it produced a mixed bag of results and at the end of the year, it appeared that global recovery was near”.

2009 was indeed an interesting year, with no shortage of changes, small recoveries and further falls experienced globally in economies and markets. It is remarkable to think that just over a year ago, gloom and doom descended on the global economy, which was teetering precariously at the edge of an abyss and now, 12 months later, the prevailing situation, as well as the outlook, has seen a significant improvement.

A reflection of 2009 in the mirror reveals some of the key issues experienced during the year:

Reflection 1 - Financial conditions

Early in the year the effects of the financial crisis were felt strongly throughout the world – fiscal stimulus continued, rates were cut, economies struggled. Yet as the effects of employed stimulus packages filtered through economies during the year, it became clear that unprecedented policy efforts and responses to the global financial crisis and subsequent economic contractions have been largely successful; as the severity of the downturn and the potential impact that the financial crisis have been reduced. Furthermore, this has allowed for a (albeit moderate and gradual) recovery to begin taking root. Yet while financial conditions have improved, the IMF has expressed that it is far from normal and although there are signs of confidence returning the banking systems, in many advanced economies, remains undercapitalised, burdened by legacy assets and non-performing loans. At this time, a delicate balance of actions is required – firstly: policy and stimulus cannot continue at levels seen during 2009 and secondly: new principles or practices need to be set in motion with the view to preventing a similar crisis in the future.

In our quarter 3 2009 KMPD report it's advised that fiscal stimulus, restocking, support for credit markets etc all have a shelf life and both cannot and should not be sustained at 2009 levels, throughout 2010 and beyond. As a result, the withdrawal of the monetary and fiscal stimulus has become a critical success factor in shaping a sustainable economic growth path. Does this mean that stimulus packages, and the like, are then simply withdrawn as rapidly as what they were introduced? Not at all – the exit by countries from accommodative fiscal, monetary and financial sector policies needs to be timed right; too-early an exit would flatten the recovery that has occurred thus far; while a late exit could fuel the fire of a new crisis, as prolonged stimulus can lead to disrupting inflation expectations and destabilising asset markets. The IMF feels that overall, it is

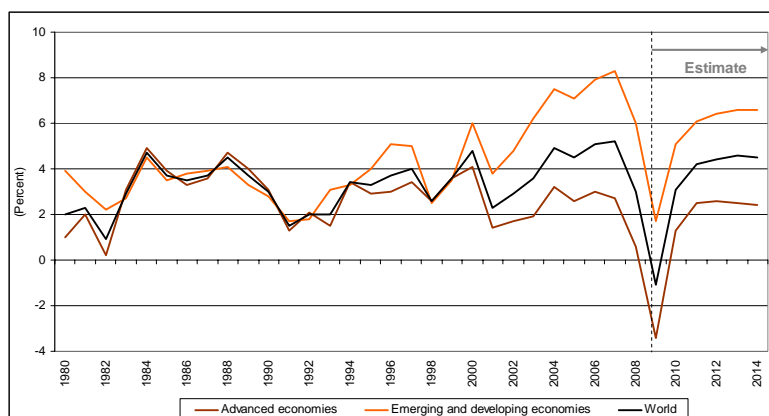
currently too early to exit and that with a different pace of recovery in different countries, different exit strategies will apply. Once a sustained recovery in private demand is experienced and financial stability has become entrenched, exiting the policies will look more attractive than at present. Having said that, there is still 'fiscal stimulus' that remains in the pipeline, with around 40% of the discretionary spending put in place around the world set to hit the market during 2010 (source: Barclays Capital Research, Global Outlook, December 2009).

Furthermore, new principles need to be implemented. The OECD (Organisation for Economic Co-operation and Development) established a set of key principles (released in December 2009) to guide financial policy makers as they look to fundamental reform that will achieve strong, resilient financial systems that play its part in driving economic growth. The issues addressed include; the need for increased transparency; greater accountability to the public; and more effective surveillance. The IMF has also stressed that coupled with making better rules is the need for improved application of rules, with a focus on increasing supervision.

Reflection 2 – GDP and recession

A challenging year has passed, with GDP, a notorious topic, experiencing a particularly difficult time globally. However, the outlook appears a lot more refreshing. Figure 1 depicts the GDP of the world, advanced economies and emerging and developed economies. While the remainder of 2009 includes estimate data, it is very clear that the plunge experienced by GDP in 2009 was extreme. Based on IMF estimates, the expected improvement in the years ahead is sound although expected to be lower than pre-crisis levels.

Figure 1 A recovery lies ahead, if forecasts transpire, although levels to remain below pre-crisis highs

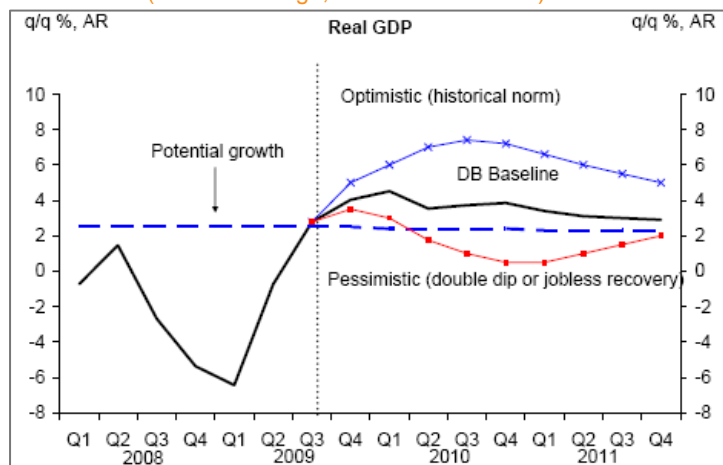


Source: IMF World Economic Outlook (Oct 2009) and Advantage Asset Managers

GDP – Looking ahead

- Asia is expected to experience the greatest growth in GDP in 2010. This region began rebounding well towards the end of 2009 and it is now leading the world as it pulls out of recession. The impact of the Asian rebound on Global GDP is muted since Asia only accounts for about 21% of global GDP. China and India are expected to drive growth within the region. The level of recovery in Asia is such that monetary policy tightening may be brought to the fore and there has been an emphasis on credit growth and bank regulation with a view to limiting the formation of asset bubbles, specifically in property markets.
- In the US, GDP growth is expected to be 1.5%¹ in 2010, with an average growth of 2.5% per annum thereafter until 2014. The expected growth is, however, slower than that experienced after deep recessions in the past. Growth in the US economy is expected to initially be driven by the prevailing fiscal stimulus and replenishing inventories, with consumer durables and business equipment spending driving it thereafter, followed by residential investment. Factors with a negative impact on growth are expected to include continued deleveraging of households, a delay in the onset of normal credit conditions, a rebound in imports and policy uncertainty. That there are signs of a recovery is clear, however, this gives rise to the question of what shape the recovery will take? Figure 2 depicts three different views, with wide variation between them. If the view of the pessimistic cynic plays out, a double dip scenario can slow growth to 0%-1%. The development of the enthusiastic optimist's expectation could see growth over the next year at 8%; while Deutsche Bank's forecast is around 4% for 2010, with some slowing the year after.

Figure 2 Commodity prices – Global recessions and recoveries (Percent change, indices 2005 = 100)



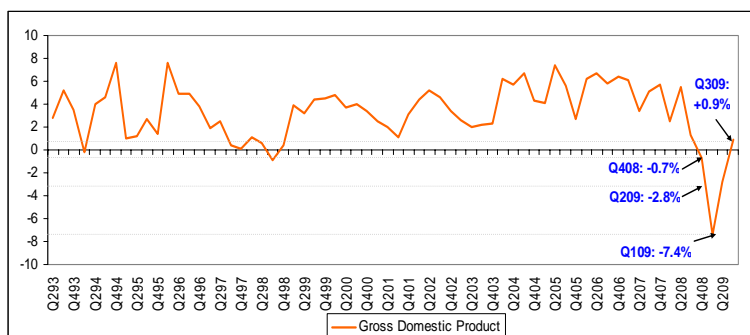
Source: Deutsche Bank Global Markets Research - Global Economic Perspectives - 18 December 2009

- Euro area – The IMF expects unexciting growth prospects in 2010, with growth of 0.3% forecast and growth over the subsequent four years expected to average 1.8% per annum. So while conditions in the financial markets and the economy in this area are looking brighter than they were at the onset of 2009, many challenges remain, with one being the sustainability of the recovery. The persistent weakness in consumer demand places pressure on the recovery and job losses continue, which further exacerbates the problem. As an aside, note that the European Central Bank could begin to tighten its monetary policy sooner than the US, which would push the euro to higher levels against the US dollar and this places pressure on the industrial sector and exports.

¹Estimates from IMF World Economic Outlook, October 2009

- South Africa - Meanwhile, SA has endured its first recession since 1992 and pulled out again, with quarter 3 GDP in positive territory, as displayed in Figure 3. The improvement in GDP is attributable to a decisive recovery in the real value added by the secondary sector (comprised of manufacturing, electricity, gas and water and construction). Overall, the IMF forecasts total 2009 GDP to be -2.2%. GDP growth of 1.7% is expected in 2010, with the average over the ensuing four years expected to be 4.3%.

Figure 3 SA GDP – The mirror reflects hope and recovery as Q309 GDP ends at 0.9%²



Source: Statistics South Africa and Advantage Asset Managers

Reflection 3 – Unemployment

This indicator is a vital one in ascertaining the health of economies and is also one of the factors taken into consideration in deciding when to withdraw or halt stimulus. Currently, unemployment levels remain high globally – in December the OECD reported that the October unemployment rate for the OECD³ group of countries was 8.8%. Unemployment reached 10% in both the US and Europe in November and South Africa's level of unemployment remains extremely high – over 20%. Albeit that an economic recovery seems to have largely set in globally, it is stunted by the high levels of unemployment. There are mixed views regarding the outlook for unemployment in the US – with some expecting unemployment to continue rising early in 2010 and then to stabilise (at relatively uncomfortable levels). There are alternative views – one of which is that unemployment is either close to or already has reached its peak and that the trend of improving employment is expected to continue. Nevertheless, unemployment remains a concern in most countries and will continue to place pressure on consumer spending and other areas, and negatively affect economies.

²The GDP data has been rebased from 2000 prices to 2005 prices

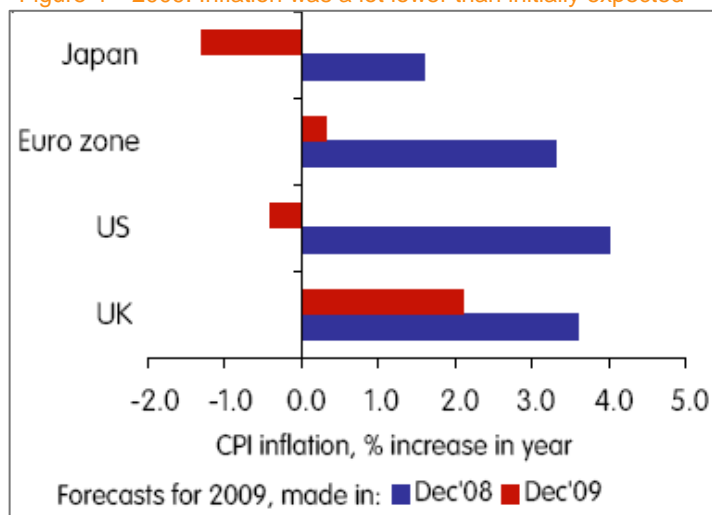
³There are 30 OECD member countries, five countries being assessed for membership, and another five countries with which the OECD has enhanced engagement relationships

Reflection 4 – Inflation and interest rates

Overall 2009 saw low interest rates, particularly in the developed regions. The rate in the UK dropped to 0.5% in March 2009 and has remained at this level since. In the US the rate dropped to 0.25% in December 2008 (from 3% in January 2008) and has remained at this level since. In South Africa the repo rate is currently at 7%, a level to which it has been reduced constantly since June 2008, when it was at 12%. The ECB is meeting mid January 2010, with expectations that the main interest rate will be left unchanged at 1%, a level reached on 13 May 2009.

Another consideration arising from the financial stimulus and related exit or retention strategies, discussed in Reflection 1, is that of inflation. While it may be too early to remove the stimulus at present and while it is necessary in the interim to sustain the momentum of the recovery, it can lead to significantly higher inflation pressures if sustained for too long. In 2009, inflation was generally lower than had been forecast for the year at the end of 2008. Figure 4 depicts forecasts made for 2009 in both December 2008 and then in December 2009. Looking ahead, the general expectation regarding inflation is that it will remain largely contained or muted during 2010 – unemployment remains a concern, excess capacity remains pervasive and inflation has a tendency to lag the growth cycle, which is only now slowly beginning to move forward.

Figure 4 2009: Inflation was a lot lower than initially expected



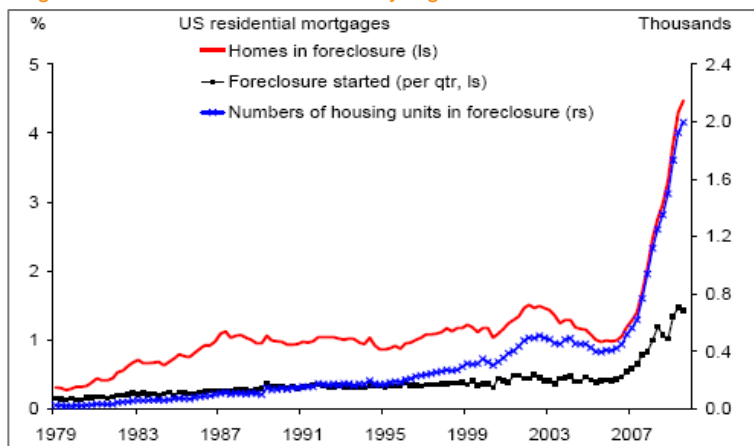
Source: Lloyds TSB Corporate Markets – Economics Weekly, Review of 2009: Back from the brink – January 2010

In South Africa, while 2009 inflation at around 7.2% was lower than in the previous year (in 2008 it reached over 11%), it was still relatively high. A survey commissioned by the South African Reserve Bank and conducted by the University of Stellenbosch's Bureau for Economic Research, in the last quarter of 2009, indicated that the inflation rate is expected to ease next year to around 5.7%, with an average of 5.4% forecast for 2011.

Reflection 5 - Housing market

The housing market, in particular in the US, was one of the main drivers of the global financial crisis and has been consistently monitored throughout the year. While the situation in the housing market in 2009 was largely lacklustre, with the year being the third consecutive year of declining sales and increased foreclosures, light may be shimmering on the horizon. It is possible that the housing market may have finally reached, or at least be nearing, the bottom. The uptick in financial and economic conditions is beginning to support demand, as is the first-time homebuyer tax credit, and the lower mortgage rates. However, the market remains challenged – vacant housing stock has improved, although it is still too far from previous low levels. Home prices too, although having rebounded, are still under pressure with foreclosures continuing. The latter remain very high, as depicted in Figure 5. Furthermore, mortgage delinquencies are far above the norm – since 1991, 90% of observations of this indicator range between 1.51% and 3.35%. However, towards the end of 2009, this rate was over 9%.

Figure 5 Foreclosures remain very high



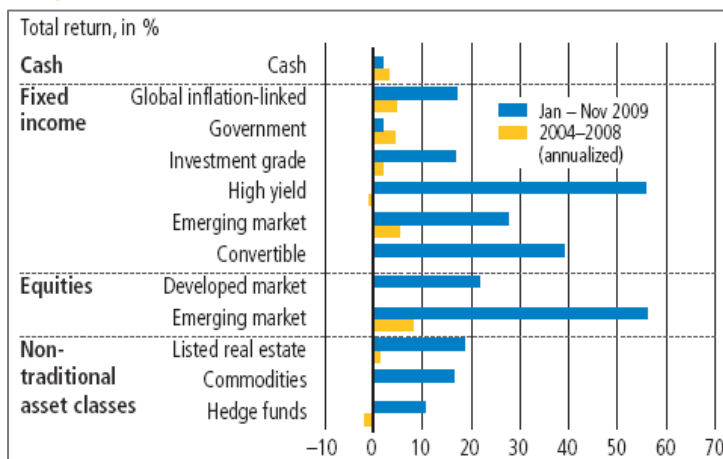
Source: Deutsche Bank Global Markets Research – Global Economic Perspectives – 18 December 2009

Reflection 6 – Markets or asset classes

Against the backdrop of an interesting year with some challenging economic conditions and fluctuating outcomes, the economy managed to struggle to its feet - one could liken it to a newborn foal hoisting itself up on new and shaky limbs. Driven by this (albeit slightly unstable) recovery, a mop-the-brow-in-relief rally emerged, with equities in particular, and more

specifically, emerging market equities, flourishing. Thus while the financial crisis may have left economies reeling, caused declines in GDP, unemployment to rise and markets to crash, the after effects within the markets has been a recovery (admittedly off a low base) that warrants a mention. Figure 6 depicts the various asset classes, showing the higher returns in 2009 to end November compared to previous periods across most of the asset classes, specifically emerging market equities, and high yield fixed income.

Figure 6 Asset classes in 2009



Source: UBS Global Outlook – December 2009

Although developed market equities have performed well, they nevertheless delivered performance that was a far cry from that of emerging market equities. Figure 7 shows the three years to end December 2009. The magnitude of the plunge experienced by each of the markets during 2007 and the markets' respective lows was similar (emerging markets fell 50.7% while developed dropped 54.1%). However, emerging markets reached its lows sooner than developed (end October 2008 versus early March 2009) and rose faster, gaining 120.2% from the trough, while developed gained only 71.2%. Reflecting on 2009, developed markets ended up 27.4% and emerging up 75.7%.

Figure 7 Developed markets have risen off a low base, emerging have soared off a low base



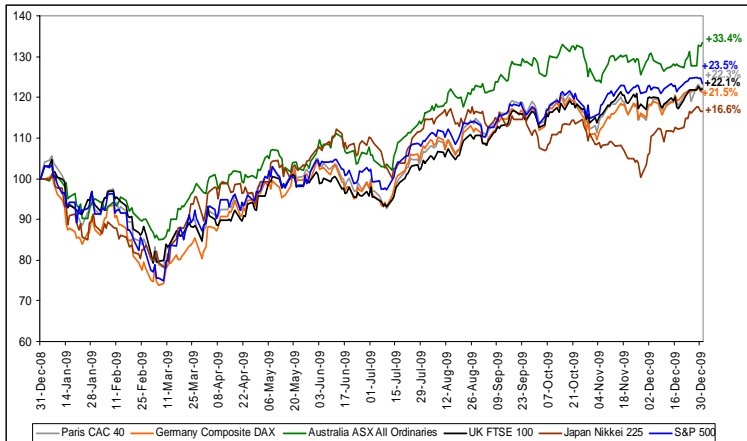
Source: MSCI Barra and Advantage Asset Managers

Key Market Performance Drivers

December 2009

Selected countries included in the developed markets index⁴ are depicted below.

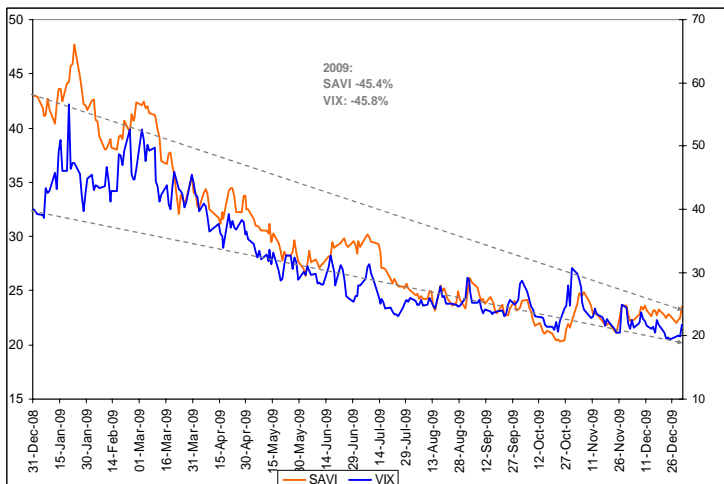
Figure 8 Market rallies not excessive but good growth after the recent crash



Source: Inet and Advantage Asset Managers

From financial crisis lows, the countries have managed to attain good growth on the back of, inter alia, signs that economies are improving and that they are inching away from the doom and gloom that cast a deep and heavy shadow over the world. Furthermore, as signs of an easing in the crisis arose, investor appetite for risk increased as levels of fear began to subside. Overall, risk fell significantly in 2009 (as depicted in Figure 9 which shows the SAVI and VIX, the implied volatility gauges for risk expectations in South Africa and the US respectively).

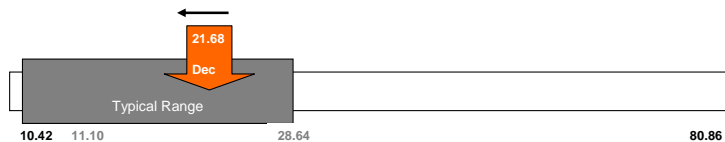
Figure 9 Expectations of risk plunge as fear subsides on the back of an improving global economy



Source: Inet and Advantage Asset Managers

To contextualise the levels of the VIX, the below provides an indication of the range of VIX returns. Historically, 90% of the values of the VIX have ranged from 11.10 to 28.64. The value at end December was at 21.68, within the range. However, during the crisis levels reached extreme highs of up to 80.86.

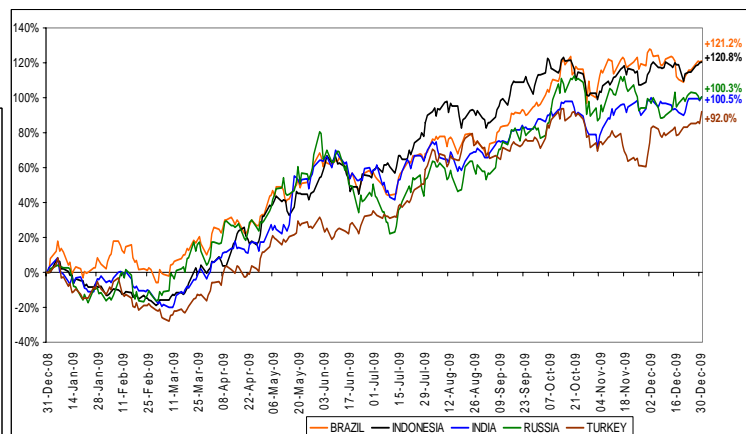
Figure 10 Fear has subsided, and volatility expectations are gain within the historical range



Source: Russell Investments, Inet and Advantage Asset Managers

In the throes of the financial crisis, when investors were filled with fear and shied away from risk, flows into money market funds increased in lieu of the 'safe haven' status typically attributed to this asset class during such volatile and uncertain periods. However, as the risk appetite grew and fear reduced, normalisation began to occur, and the favourability of risky assets rose. Enter emerging market equities. This asset class has achieved phenomenal returns in 2009, with the top five constituents (ranked by performance) of the MSCI Emerging Markets index, depicted in Figure 11. Of the BRIC countries (Brazil, Russia, India and China), the first three contributed to driving the return of the emerging market index.

Figure 11 The BRI of the BRIC countries are all part of the top five performers in the emerging markets index

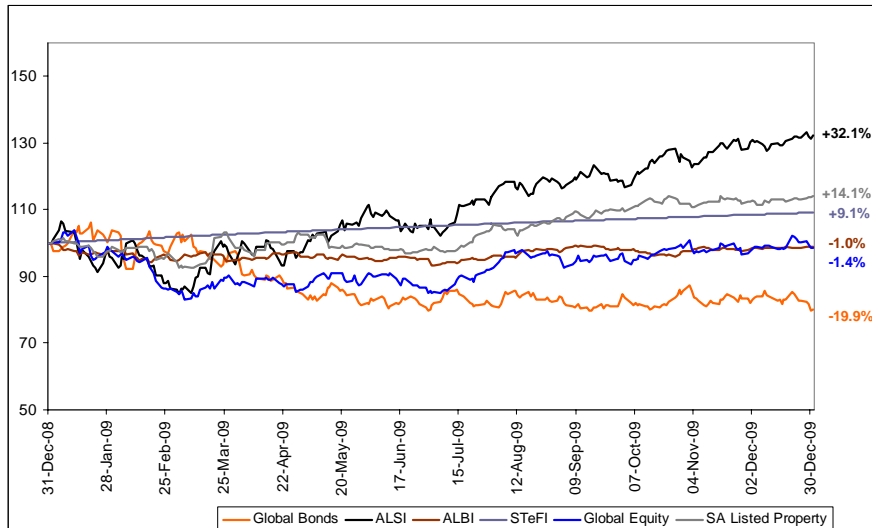


Source: MSCI Barra and Advantage Asset Managers

⁴The countries included in the MSCI Developed Markets Index are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom, USA

South Africa ranked 15 of 22 countries in the MSCI Emerging Markets index and overall 2009 was a solid year for equities (albeit with a shaky first quarter). Among the asset classes, equities trumped, with only listed property attempting to put up the semblance of a fight. Global equities in rand terms did not manage to excite, while global bonds in rand terms were suffered.

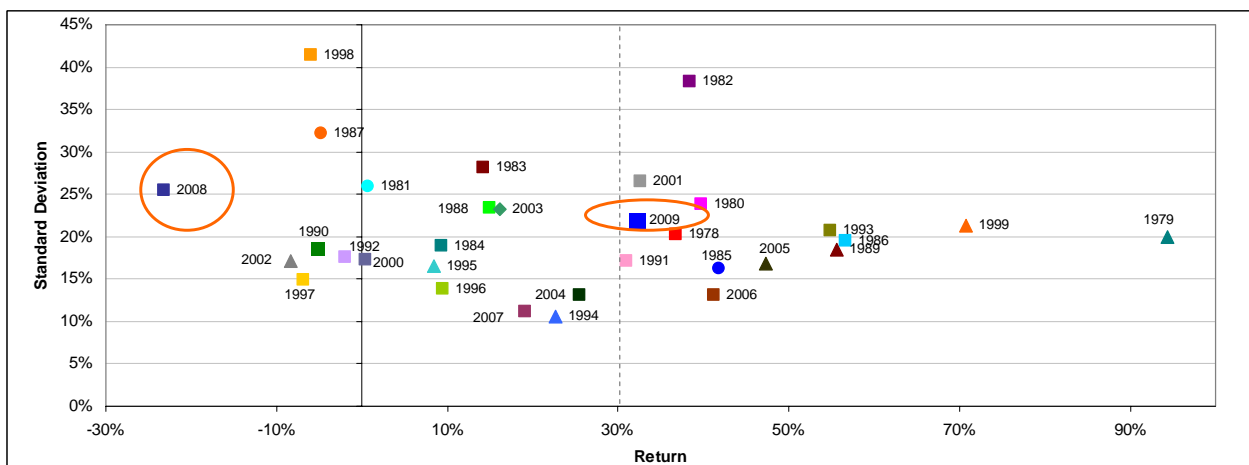
Figure 12 ALSI – A comfortable lead in the asset class race



Source: Inet and Advantage Asset Managers

An analysis of the ALSI's annual (calendar year) returns and standard deviation over the period 1978 to 2009 (Figure 13) reveals that, compared to the 2008 loss, the ALSI's comeback in 2009 with a return of 32.1% was a generous one. 2009 was one of 14 years of the 32 analysed that managed a return above 30%, although its risk was slightly higher than in most of the other years that performed above 30%. The poor return of 2008 is the worst of all the years over the period analysed.

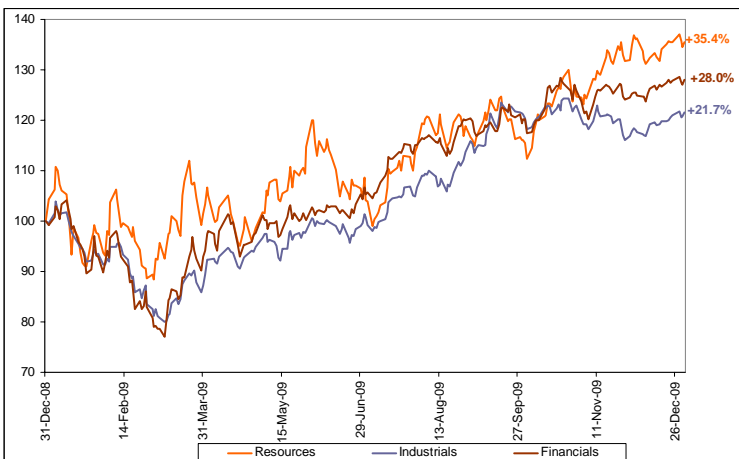
Figure 13 ALSI Calendar year returns and standard deviation from 1978 to 2009



Source: Advantage Asset Managers and Inet

So what drove the performance of the ALSI in 2009? Dissecting the ALSI's return over the 12 months relative to a simple cash benchmark reveals that the ALSI's return was driven by the resources sector. Figure 14 depicts the sector's outperformance, albeit that it was more volatile over the period.

Figure 14 Resources contribute the most to the ALSI's performance

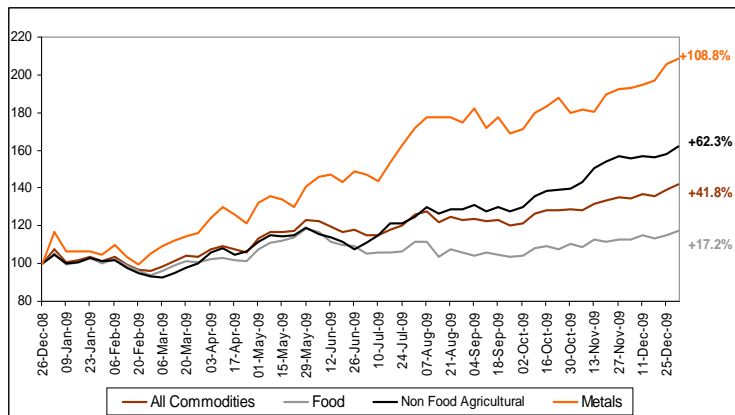


Source: Inet and Advantage Asset Managers

A point of departure here is commodities on a global scale, with prices having recovered from the sharp declines experienced in 2008. They recovered relatively soon in 2009 and underwent a strong rally from the second quarter of 2009 onwards. This took place even though there were high inventory levels as a result of demand weakness due to the recession.

As the perception arose that the recession was showing signs of abating and the ensuing expectation that an improvement would settle in, commodity markets benefited from the increased incentive to hold inventories. Several of the economist commodities indices are displayed in Figure 15 – the strong performance of the metals index has been largely on the back of restocking in China, as well as some supply restraints.

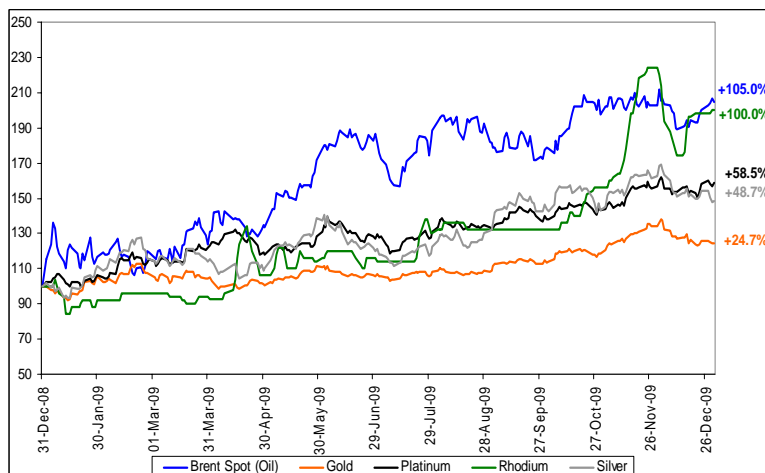
Figure 15 Economist commodities indices – Metals a strong driver



Source: Inet and Advantage Asset Managers

The performance of several metals is depicted in Figure 16. While gold's return appears muted compared to the performance of the other selected metals, bear in mind that gold has been the stalwart during the recession, attaining a positive return (albeit single digits at 5.5%) in 2008 in a largely negative arena, where oil fell by 60.7%, rhodium by 81.8%, platinum by 39.3% and silver by 23.2%.

Figure 16 All the metals rise during 2009



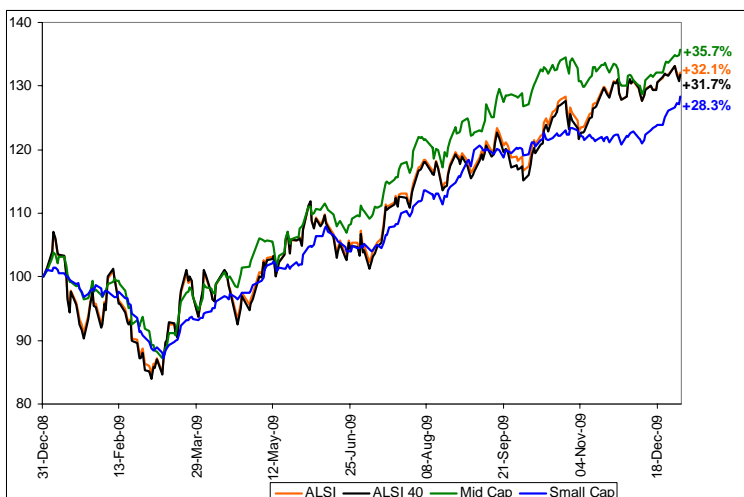
Source: Inet and Advantage Asset Managers

Although oil performed well over the 12 months to 2009, OPEC cited 2009 as one of the worst years for world oil demand, even with consumption recovering in the fourth quarter. OPEC forecasted that world oil demand will improve in 2010, although a potential stumbling block to this growth is the pace of economy recovery around the world and specifically in OECD countries.

Looking ahead, the possibility of a slowdown in China's import demand remains a threat to a continued economic recovery. Nevertheless, global activity is increasing, which spurs industrial production in developed countries; which, in turn, increases the demand for commodities, leading to stronger prices. For instance, global car sales have begun to improve and further recovery in the global economy will provide further stimulus. This in turn increases the demand for relevant commodities, such as platinum group metals, which include rhodium, platinum and palladium. Yet with strong growth in commodities off a low base earlier in 2009, the same spike in commodities experienced in 2009 will likely not be seen in 2010 as well, although further price increases seem likely.

Reverting back specifically to the discussion about drivers of the equity market in South Africa – another driver of the ALSI over the period were the mid cap stocks, although they produced a mixed bag of results. The top performing mid cap share (Northam, which was also the top performing share within the ALSI over the year and is also a resource share), returned 139.5%, while the poorest mid cap performer, Afrox returned -7.2%.

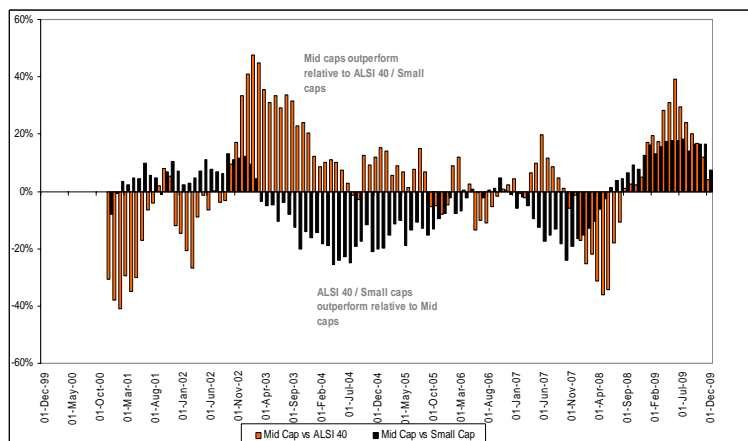
Figure 17 Mid caps lead over the year



Source: Inet and Advantage Asset Managers

The trend in mid cap outperformance relative to the small and large caps has continued since the last quarter of 2007. However, the magnitude of outperformance has reduced and could continue to reduce further or become an underperformance. Figure 18 shows the trend in mid cap outperformance relative to the ALSI 40 and relative to small caps on a 12 month rolling basis for ten years to end December 2009.

Figure 18 12 month rolling active returns: The past 27 months⁵ have seen mid caps dominating both large and small caps – is the trend drawing to a close?



Source: Inet and Advantage Asset Managers

While the main drivers of the ALSI were mid caps and resources, note that these are mostly not related – that is, only two of the mid cap shares were resource shares, the rest mainly industrial with some financial shares. As such, mid cap resources were not the driver of performance and instead those resources shares that drove this sector's performance were some small caps (with sizeable 12 month performances) and mostly large cap shares. Why then did the large caps not outperform the mid caps, if resources were one of the main drivers of the ALSI and the drivers of this sector being mainly large caps? While 49% of the resources index was comprised of resource shares, the divergent performance between these detracted from the ALSI 40's overall return. The range of returns was from -22% to 87%, while the range of mid cap returns was from -7.2% to 140%. Table 1 provides an in depth analysis of the shares in the ALSI and indicates the various drivers by way of its ranking position in the table. Note the rank of mid caps and resources. Also note the poor relative performance of the SA Listed Property index. Although Real Estate has, at times in the past, helped to drive the performance of the mid caps, this has not been the case over the recent year, with a diversified selection of Industrial stocks (health, general retailers, etc) the drivers of the mid caps in this instance.

⁵First 12 month rolling period of the recent trend of Mid Cap outperformance relative to ALSI 40 is for the 12m ended September 2008. Total of 27 months from October 2007 to December 2009

Key Market Performance Drivers

December 2009

Table 1 Market performance concentration – as the ALSI's rank climbs, opportunities to outperform reduce

12 months to December 2009																	
1	NHM	139.5%	30	ARI	58.4%	59	JDG	36.5%	87	SBK	27.7%	116	EMI	18.7%	145	WEZ	5.5%
2	MTX	122.7%	31	PFPG	58.3%	49% of total market cap			88	BVT	27.5%	117	FSR	18.5%	146	BLU	5.1%
3	APN	119.1%	32	ILA	58.0%	60	SAB	35.8%	89 Financial 15			118	LEW	18.1%	147	AVI	4.2%
4	CMP	115.2%	33	DDT	57.7%	61	Mid Cap	35.7%	90	SHP	27.4%	119	HYP	17.9%	148	HLM	3.7%
5	KIO	109.0%	34	IMP	53.2%	62	PGR	35.7%	91	DSY	26.3%	120	CLH	16.8%	149	WBO	2.8%
6	BRN	103.9%	35	AMS	53.1%	63	Resource 20	35.5%	92	PAP	26.1%	121	RES	16.7%	150	SUI	1.7%
7	GJ	102.9%	36	IPL	52.9%	64	MET	34.9%	93	TBS	26.0%	122	RBX	15.1%	151	GRT	1.3%
8	CML	101.6%	37	AGL	51.4%	65	AEG	34.4%	94	AFE	25.7%	123	IVT	14.9%	152	MUR	0.9%
9	CMH	97.8%	38	EXX	51.2%	66	TRU	33.9%	95	ASA	25.1%	124	HPA	14.6%	153	HVL	0.8%
10	CDZ	91.5%	39	BCX	50.7%	67	All Share	32.1%	96	GND	25.1%	125	ARL	14.4%	154	FFA*	-0.5%
11	BAT	91.0%	40	SUR	50.6%	68	FWD	32.0%	97	Fledgling	24.3%	126 SA Listed Prop		14.1%	155	DAW	-2.4%
12	LON	87.0%	41	CRM	50.6%	69	Top 40	31.7%	98	RDF	24.0%	127	BAW	13.9%	156	VOD*	-3.9%
13	DCT	85.6%	42	ILV	50.2%	70	KGM	31.6%	99	REI	23.7%	128	HDC	13.4%	157	SAP	-5.6%
14	NPN	81.9%	43	CSB	49.6%	71	INP	31.4%	100	ZED	23.6%	129	SAC	13.1%	158	PET	-6.8%
15	HCI	78.1%	44	WHL	49.1%	72	SPP	31.3%	101	ABL	23.5%	130	GDF	12.3%	159	AFX	-7.2%
16	CBH	77.8%	45	MPC	48.2%	73	VKE	31.0%	102	ACP	23.2%	131	GRF	12.2%	160	DRD	-7.9%
17	OML	73.4%	46	ALT	47.8%	74	INL	30.7%	103	OMN	22.7%	132	ART	12.0%	161	BSR	-8.2%
18	DTC	71.4%	47	OCE	47.2%	75	Industrial 25	30.7%	104	ESR	22.5%	133	SYC	11.6%	162	LBT	-8.2%
19	JSE	71.1%	48	SNT	44.2%	76	MDC	30.5%	105	RLO	22.3%	134	MSM	11.2%	163	MTA	-8.6%
20	SHF	71.0%	49	KAP	42.9%	77	SWIX	29.9%	106	NPK	22.3%	135	MTN	10.5%	164	AVU	-9.1%
21	NTC	70.1%	50	MVG	42.4%	78	CPL	29.7%	107	ANG	22.0%	136	SOL	9.6%	165	SIM	-12.2%
22	SFN	66.9%	51	TRE	42.2%	79	FOS	29.7%	108	ACL	21.8%	137	MML	9.4%	166	SPG	-17.8%
23	MRF	64.7%	52	SLM	42.1%	80	SWIX Top 40	28.9%	109	PIK	21.4%	138	TKG	8.5%	167	SNU	-21.0%
24	CLS	62.2%	53	AIP	41.3%	81	PMM	28.8%	110	ADR	20.8%	139	GFI	7.8%	168	EQS	-21.2%
25	COM	61.1%	54	CFR	39.5%	82	ATN	28.6%	111	FPT	20.4%	140	AFR	7.7%	169	HAR	-21.9%
26	FBR	61.0%	55	ADH	39.3%	83	CAT	28.4%	112	RMH	20.1%	141	RBW	7.2%	170	DGC	-27.4%
27	EOH	60.8%	56	BIL	39.1%	84	Small Cap	28.3%	113	REM	19.5%	142	PHM	7.2%	171	HPB	-31.7%
28	TON	60.8%	57	MNP	38.1%	85	ATNP	28.1%	114	PPC	19.3%	143	OCT	7.0%	172	BDM	-32.4%
29	PAM	59.1%	58	NED	36.9%	86	MND	28.0%	115	LBH	18.9%	144	SSK	6.4%	173	BEL	-33.8%
														174	KEH	-46.4%	

Key	
Size	Sector
Large Cap	Resources
Mid Cap	Financials
Small Cap	Industrials

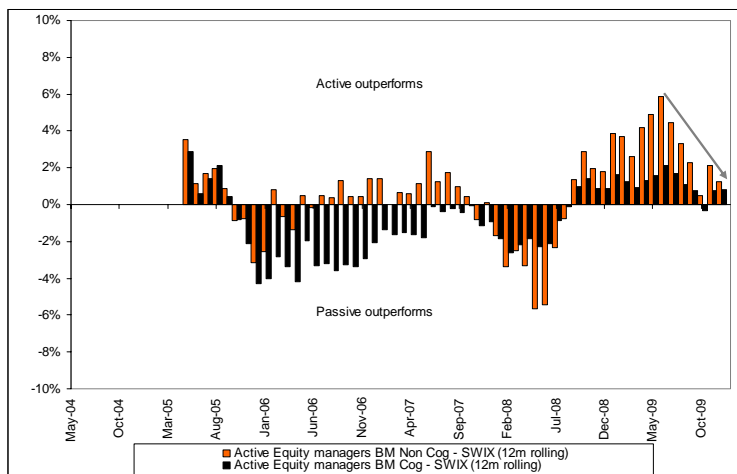
* Partial returns as shares not included for full 12 month period to end December 2009. FFA (Fortress) for the period from 22 October 2009 and Vodacom (VOD) from 18 May 2009

Source: Barra, Deutsche Securities and Advantage Asset Managers

Of particular interest to us in this table is always the location (rank) of the SWIX and ALSI indices. Currently, ranked at 67 and 77 for the ALSI and SWIX respectively, this indicates that a narrower opportunity set was available for managers, as fewer shares outperformed the indices. The more shares that outperform the indices the greater the opportunity for managers to select those shares that outperform. Assessing how the relevant universe of managers performed based on the available opportunity set reveals how the narrowing opportunity set over time has reduced the magnitude of outperformance. The figure also displays the universe⁶ of active managers, separated between benchmark cognisant (SWIX) managers and non-benchmark cognisant managers. The benchmark cognisant managers relative to the SWIX struggled more than the non-benchmark cognisant managers, who on average experienced more rolling 12 month periods of outperformance, with this outperformance typically of a higher magnitude.

⁶The universe of active managers is sourced from the Alexander Forbes SA Equity Manager Watch

Figure 19 A narrower opportunity set has reduced the magnitude of outperformance

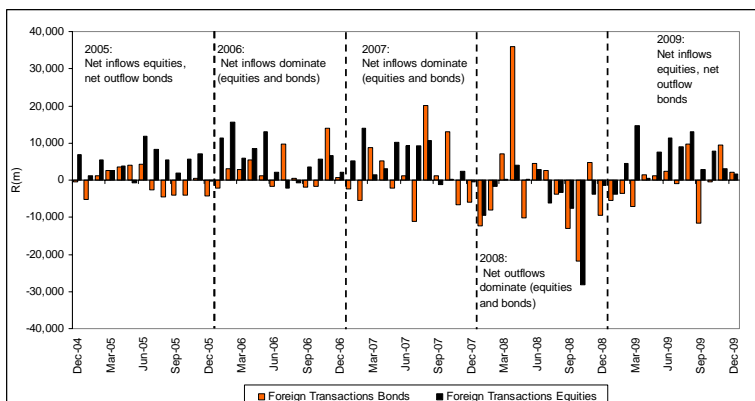


Source: Inet, Alexander Forbes SA Equity Manager Watch and Advantage Asset Managers

Foreigners favour equities

The sterling performance of emerging markets during 2009, and its ability to cope better with the financial crisis than developed markets, has attracted many investors. Inflows into emerging market funds have been significant. South Africa has benefitted from this trend as well and compared to 2008, during which net outflows were experienced from both equities and bonds, 2009 has seen net inflows into equities (although net outflows from bonds continue). This buying was spurred by general global sentiment that some golden opportunities existed in emerging markets, with these opportunities largely bearing fruit. 2009 was a record year for purchases of equities on the JSE and since 2002 foreigners have purchased R236bn. Now owning around 25% of the JSE.

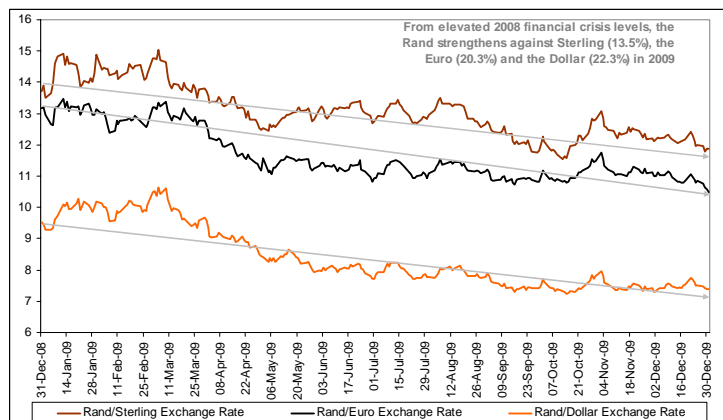
Figure 20 As risk aversion has reduced, foreign flows have increased



Source: Inet and Advantage Asset Managers

Relative to some of the main developed market currencies, the rand has also strengthened during 2009. This rand strength comes off a low base though, as the currency lost footing during the 2008 financial crisis.

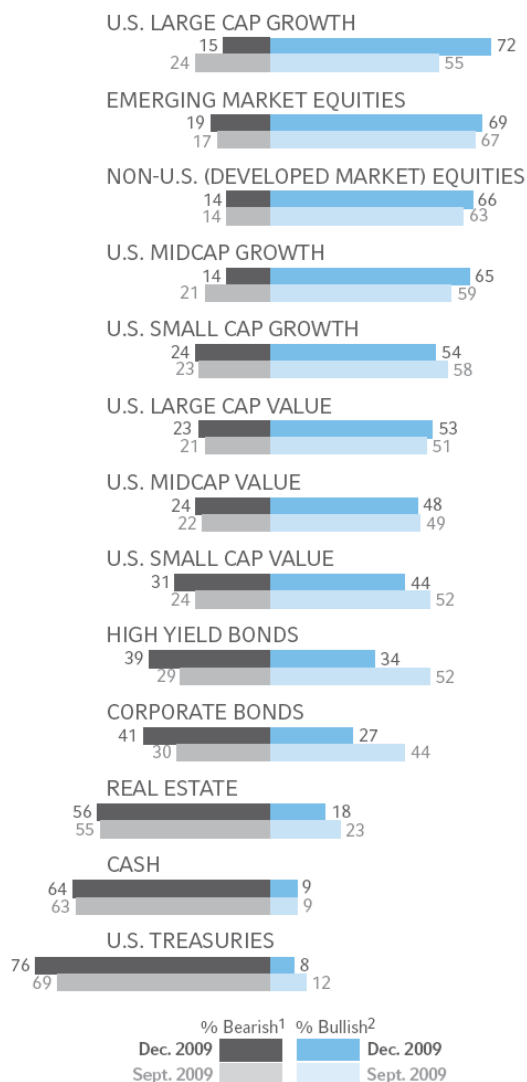
Figure 21 Rand strength in 2009



Source: Inet and Advantage Asset Managers

Having reflected on some of the elements of 2009 in economies and markets, let's look ahead. While fear and risk perceptions have reduced significantly in 2009, it is possible that further moves towards normalisation will take place in 2010. Having said that, 2010 may not be a walk in the park – in fact this is hardly likely after a recession, even though many factors are positive. Investment managers in the US are surveyed quarterly by Russell Investments about their market and asset class expectations. The expectations by asset class are depicted in figure 22 – compared to the view cast in 2008, the forecasts made in the third and fourth quarters of 2009 show a significant improvement. Furthermore, there is an overall increased bullishness relative to September 2009 forecasts for numerous of the asset classes. Note that the bullishness on emerging market equities remains high and even better results are expected from non-US developed market equities.

Figure 22 Rand strength in 2009



Source: Russell Investments – Investment Manager Outlook, December 2009

One last point of departure - while the saying ‘the devil is in the detail’ may apply in some instances, sometimes when reviewing the economy and markets we can get caught up with details and lose sight of the bigger picture. The small changes and occurrences that take place – the next rate change or no change, the release of PPI numbers – may be relevant, but at times may detract from what the overall picture is about. Globally, the world continues to fluctuate between positive news and negative results and while some countries are more insulated and others are performing well (Chinas being one), a collective global order applies. Countries and economies are interlinked, whether they like it or not, as they depend on each other for imports and exports. Gold is a global commodity, oil is needed by all (and supplies are not as plentiful as they once were), water shortages could change the world as we know it in the not too distant future and the global bee population has declined – think past the honey shortage here, to issues

Summary of investment manager views

- Growth stocks are favoured over value stocks.
- Managers are most optimistic about equities.
- The market in the US is considered fairly valued.
- Technology is the preferred sector in equities.
- Bullishness on financial services has fallen.
- Bullishness for US corporate bonds and US high yield bonds fell.
- Unemployment in 2010 remains a concern.

such as pollination of flowers and as such a shortage of produce.

So while some of these global issues mentioned here may also seem small on its own, the domino effect could be substantial and significant. Do we therefore divert our focus to only big picture thinking? The details remain important, however, a balance is always useful – contextualising the smaller events (which mind you can also have significant knock on effects in instances) within the bigger picture, thinking of implications and planning ahead wherever possible is the best route to follow.

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