

protector

The African shield is symbolic of defence while the rook represents a fortified stronghold that guards and protects the chess player's most valuable assets. **Keep your funds securely stored in a guarded place with our Protector portfolios.**



Quarterly Investment Analysis

September 2009



protector

advantage
asset managers

Economic and market commentary

September 2009

Overall summary

- Economic data is proving contradictory with data releases, pushing sentiment from extreme optimism to pessimism.
- The optimists are pushing the rand stronger, as renewed risk appetite takes centre stage while other investors in this camp seek out gold to hedge out inflation fears.
- Financial markets are vacillating from strength to weakness as it tries to dissect the way forward on the back of conflicting data outcomes.
- Some investors are borrowing US dollars at cheap rates and then selling them to invest in high yielding currencies like the rand.
- The rand strength is positive for the inflation outlook, as import prices are lowered but exporters are hurt at a time when demand is weak.
- The interest rate cutting cycle has most likely come to an end, but poor data releases could open the door for another 50bps cut.
- Federal Reserve Chairman, Bernanke, has suggested that the recession in the US is most likely over. He also noted that the economy would still be very weak as consumers struggled with job security.
- Unemployment levels in developing nations continue to soar, challenging expectations of a “V” shaped recovery.
- Emerging markets continue to power ahead but its dependence on global export markets remains a thorn in its side.

Domestic markets

- The big news for the month of September was the rally in both the rand and the gold price.
- Both of these traded at levels last seen prior to the credit crunch and the global financial crisis.
- Bubbling under the surface was the apparent lack of direction for financial markets from economic data.
- The FTSE/JSE All Share index (ALSI) ended the month up 25bps but hidden within that is a 4% rally that was wiped out by the end of the month.
- The resource component of the index was up close to 7% at one point but by month end, this all reversed.
- It is hard to believe that the market could simply be taking a breather, after the sterling rally since March when the global risk appetite is improving. Rather it may be that investors are realising that the market has run prematurely ahead of developments in the real economy.
- Local and global economic data is proving quite contradictory and the optimism surrounding the so called ‘green shoots’ appears to be cooling off.
- The optimists may well be justified in throwing caution to the wind when the month of September saw the rand trading just below R7.40 to the US dollar and the gold price hovering around \$1020 per ounce. US dollar weakness has been the key driver of its strength, with investors buying gold as a hedge against inflation and the rand strengthening on the back of increasing risk appetite.

- Figure 1 shows the relationship between the R/\$ exchange rate and the Chicago Board Options Exchange Volatility index (VIX).

Figure 1



- The VIX is informally known as the “Fear index” as it is a measure of the implied volatility of S&P 500 index options.
- The higher the VIX, the more expensive it is for investors to buy options to hedge away market risk. A higher value then corresponds with a more volatile market and hence more costly options.
- It is a forward looking index that measures market expectations of volatility over the coming month. Figure 1 reveals a fairly significant relationship with the rand, where in September 2008, these both sold off on the back of the Lehman Brothers’ bankruptcy.



Economic and market commentary (continued)

- Subsequently, this fear in the market has unwound and risk taking has come to the fore. Specifically, investors are borrowing US dollars at cheap rates and then selling them to buy high yielding currencies like the rand.
- The rand also benefitted from speculation about a deal between two telecommunications giants, MTN and Bharti Airtel of India. The deal was cancelled on the final day of the month, weakening the rand. The \$24 billion deal would have created the world's third largest cellular telephone group and an estimated R60 billion would have flowed into South Africa.
- Gold is one of the few investments that generated a positive return for investors during the tumultuous 2008.
- This precious metal yielded a 5.5% return for investors, while oil and copper fell 60%, and the platinum price experienced a 40% decline.
- Gold provided positive returns as the market considers this a safe haven investment; in times of uncertainty, the view is to buy gold.
- More recently, we have seen gold run on the back of its inflation hedge characteristics. When the US dollar is weakening, gold is a good place to house one's funds to avert the erosion of purchasing power.
- The US dollar is expected to weaken, as the Federal Reserve prints money to support expansionary fiscal and monetary policy. Classic economic theory asserts that the printing of money leads to inflation; hence gold coming into favour as an inflation hedge.
- Besides the encouraging news, economic data failed to paint a convincing picture on the direction of the economy. On the one hand, some data highlighted positive improvements in the economy while others showed that caution is warranted.
- Some of the positive data included the latest manufacturing numbers, as reported by Statistics South Africa, which pointed to an improvement in this sector.
- Manufacturing production fell 13.6% in July from the previous year, an improvement from the prior month's 17.2% decline. The mining sector also enjoyed some good news, as Statistics South Africa revealed, that mining production had increased by 4.8% in July from the previous year.
- The domestic Purchasing Manager's index (PMI) increased slightly to 39.3 in August, from 37.3 in July. This measures the health of the manufacturing sector. Indeed the outcome was a slight improvement from the previous month, but it is still an indication that the manufacturing sector is contracting as a reading of 50 and more reflects an expansion.
- Of concern is one of the categories within the PMI, the Employment index, which is still declining; now at 37.5 from an already weak 40.8.
- The rand's strength is a 'double edged sword', as it decreases imported inflation. However, it weighs on South Africa's ability to export competitively.
- The impact of the rand strength on export intensive sectors, like mining and manufacturing, will only be seen in future releases.
- During July, the rand's average exchange rate for the month was close to R8/\$, while for September this is much lower at R7.49/\$.
- The South African Revenue Services released the country's August trade data, which already revealed a 9% drop in exports.
- This does not bode well for future mining and manufacturing releases. It is not surprising then that the RMB/BER Business Confidence index, for the third quarter, was disappointing with the index falling three points to 23.
- The Reserve Bank also released the July reading of the leading economic indicator. This index, which tends to depict the state of the economy about six months ahead, came in at 109.9 in July, lower than June's 110.1.
- The consumer is seemingly not doing much better, as the Reserve Bank's Quarterly Bulletin showed that in the second quarter household spending fell a staggering 5.8%. Levels of this magnitude were last seen in the mid-1980s, when the country was embroiled in political tensions and sanctions. It is also a far cry from the 9.3% peak seen in household expenditure in the third quarter of 2006.
- The health of consumers is integral to gross domestic product (GDP) growth, as their consumption makes up around two-thirds of GDP.
- The Bureau for Economic Research's Consumer Confidence index for the third quarter fell three points from the previous quarter; implying that consumers are more hesitant about their prospects.
- Despite the Monetary Policy Committee's (MPC) 5% cut in interest rates households and business alike are still not borrowing.
- The growth in the private sector credit extension in August fell to 2.3%; levels last seen in the mid 1960s.
- This challenges the monetary transmission mechanism, as increasing money supply (through cutting interest rates) is less effective if the velocity of money is limited.



Economic and market commentary (continued)

- Fixed interest markets enjoyed a good run during the early parts of the month due to the strengthening rand. However, by the end of the month the bond market had run out of steam, closing the month up only 0.08%.
- News of a wider budget deficit sent bonds reeling. The deputy President, Kgalema Motlanthe, stated at a Congress of South African Trade Unions (COSATU) conference, that falling tax revenues may push the deficit to 8% of GDP. This is more than twice government's initial estimate and the shortfall could be about R70 billion.
- Furthermore, the Monetary Policy Committee unanimously decided to keep rates on hold on the back of expectations of declining inflation. It did, however, note that there was still considerable uncertainty regarding the domestic economy's recovery. In as much as the market is pricing in no further interest rate cuts, significantly poor data releases could open the door for another 50bps cut.

Global markets

- Global equity markets have enjoyed a strong run this month, as investor risk appetite came to the fore at the expense of the US dollar.
- The Morgan Stanley World index was up 3.8% for the month.
- Markets were buoyed from pronouncements by Federal Reserve Chairman, Bernanke, who suggested that the recession was most likely over. Specifically, he stated that "...even though from a technical perspective the recession is very likely over, it is still going to feel like a very weak economy for some time, as many people will still find that their job security and their employment status is not what they wish it was...".
- In fact, the US unemployment rate reached 9.7% in August, a 26 year high. About seven million people have lost their jobs since the start of this recession in December 2007. Given that household expenditure makes up a large portion of GDP rising unemployment is sure to undermine any economic recovery.
- Similar to the local economy, some of the key data releases in the US during September have been met with euphoria, while others have disappointed. Again, there is a sense of the market being pulled up and down with contradictory economic outcomes. In all this, there is sense of the market desperately searching for direction.
- Housing starts rose 1.5% in August to an annual rate of 598 000, while existing home sales slid unexpectedly. The latter fell 2.7% to a 5.1 million annual rate despite incentives like the first time buyer tax credit, as well as falling rates on thirty year fixed mortgages.
- Furthermore, the latest Standard and Poor's Case-Shiller Home Price index reveals that house prices are now falling at a lower rate; 13% off from the previous year.
- Bond markets have had a torrid time so far this year, and are now at long last at fair value levels.
- Retail sales, assisted by the 'cash for clunkers' program, surprised on the upside, rising 2.7% in August from July.
- While durable goods orders unexpectedly dropped by 2.4%. Durable goods are considered a leading indicator for the manufacturing sector and a decline of this magnitude is concerning. Contrary to this, the Manufacturing Purchasing Manager's index has finally moved into expansionary territory.
- Meanwhile, the Conference Board Consumer Confidence index, which had improved in August, dipped in September to 53.1.
- The report reflects that the Present Situation index decreased as consumers viewed both current business conditions and the labour market less favourably than in the previous month. It states that consumers remain apprehensive about the short term outlook, as well as their incomes.
- The Bank of England's latest minutes warn against a 'false dawn' in economic recovery, "There had been some promising indications from asset markets. But the lesson from previous financial crises was that they were not resolved quickly and that there could be false dawns. The banking system still had to complete a process of balance sheet adjustment, including raising new capital and bank lending remained weak. The drag on aggregate demand growth from the financial sector was likely to be long lasting. High levels of public debt internationally and the persistence of global imbalances remained downside risks to the sustainability of the recovery. The implications of the financial crisis for potential growth and the degree of economic slack – and thus medium term inflation – also remained uncertain".
- Unemployment in the Euro zone rose to 9.5% in July, highlighting the fragility of the economic recovery in this 16 nation bloc.
- Within the bloc, countries like Spain are hardest hit; with unemployment now at 18.5% on the back of a devastation of the housing market in that country.



Economic and market commentary (continued)

- Within the Euro zone, the number of unemployed now exceeds 15 million people.
- Germany appears to compare well in relation to Spain, with unemployment at 7.7%. However, the German government has been subsidising short term employment in an effort to boost employment and avoid massive job layoffs. The issue is, what will happen when this government support comes to an end?
- For now though, things appear rosy in Germany. As evidenced by the latest ZEW Economic Sentiment index, which seems to be stabilising at higher levels. Furthermore, the Economic Expectations index for the Euro zone rose by 4.7 points from August to 59.6 in September.

Emerging markets

- Emerging markets have powered ahead during the month of September, returning an impressive 8.8%.
- The Taiwanese and Brazilian markets have led the rally; returning 10.9% and 8.9% respectively.
- The Chinese market has lagged somewhat, returning 4% for the month, despite some positive news coming from China.
- Chinese new lending unexpectedly increased in August, after fears that authorities might curtail the massive lending spree initiated in the first half of the year.
- The People's Bank of China reported that banks extended loans to the value of RMB410 billion in August and that total outstanding loans reached RMB38.5 trillion, up 34% from the previous year.
- Furthermore, M2, the broadest measure of money supply, rose 28.5% from the previous year. This news revived Chinese markets after the massive stock market fall in August. Nonetheless, Chinese officials continue to caution against the forming of bubbles in real estate, commodities and stock markets.
- Other positive news from China include its industrial production numbers that rose 12.3% in August from the previous year.

- Furthermore retail sales, the main measure of Chinese consumption expenditure, climbed 15.4% in August from the previous year.
- Despite this, Reuters has recently reported that Yao Jingyuan, the Chief Economist of China's National Bureau of Statistics, has warned against blind optimism about China's economy. Specifically that, "...in face of our achievements in addressing the global financial crisis, we need to note that the process of economic stabilisation is still accompanied by uncertainty and a lack of visibility".
- The report also quotes the Vice Minister of Commerce, Zhong Shan, who stated that China's exports were still facing severe challenges, as the global economic recovery was going to be slow, with numerous ups and downs. Furthermore, that it would require "...an arduous effort for us to achieve our targets of stabilising external demand and maintaining market share".

Summary

- Financial markets are in the black, but cautions against 'blind optimism' abound as economic data fails to give credible direction.
- Some investors are borrowing US dollars at cheap rates and then selling them to invest in high yielding currencies like the rand.
- The rand's strength is positive for the inflation outlook as import prices are lowered but exporters are hurt at a time when demand is weak.
- Bernanke has suggested that the recession in the US is most likely over. He noted that the economy would still be very weak as consumers struggled with job security.
- Unemployment levels in developing nations continue to soar.
- Emerging markets continue to power ahead, however, dependencies on global export markets remains a thorn in its side.

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Senior Research Analyst

Advantage Asset Managers Pty (Ltd)

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S1 –S4 Capital Protection Portfolio

September 2009

Portfolio mandate

These low-risk balanced portfolios are designed to ensure that returns are never below a predetermined level over a 3 month or 1 year period. For annual portfolios market-related growth is achieved through exposure to a balanced portfolio of equities (65%), bonds (33%) and a 2% component in cash for liquidity purposes. The quarterly balanced portfolio has a 65% equity and 35% bond asset allocation. Performance expectations are limited to certain predetermined minimum and maximum levels. New quarterly and annual investment portfolios are implemented four times a year and are open to new investments at the end of each calendar quarter. Maturing portfolios are rolled into new quarterly or annual investments, at which time any growth for the preceding term is locked in and new annual and quarterly minimum and maximum returns are set.

Asset allocations

| | S1 | S2 | S3 | S4 |
|------------------------------------|-----|-----|-----|-----|
| TOPI 40 | 65% | 65% | 65% | 65% |
| Combination of SA government bonds | 33% | 33% | 33% | 35% |
| Cash | 2% | 2% | 2% | - |

Investment implementation

The equity exposure of the fund is linked to the return achieved by the largest forty shares listed on the JSE Securities Exchange, the FTSE/JSE TOP40 TRADEABLE (.JTOPI). The capital protection level for the equity exposure is predetermined and is set at different levels for the different portfolios (see table below). Bond exposure is acquired through an investment in a combination of SA government bonds. These bonds have a similar combined duration and profile to the overall South African bond market, are highly liquid and can be economically integrated into a structured portfolio. The S4 structure has a 100% protection factor and applies for a three month term (see table below). Overall performance is bounded by each asset class minimum and maximum return. The S1, S2 and S3 portfolios have a 2% cash allocation. In order to be conservative, we assume growth of 0% on the cash allocation.

Expiry returns as at 30 September 2009 are reflected. These indicate the potential return of the structure, should the markets close at the current levels at expiry.

| S1 | Jan-09 | | Apr-09 | | July-09 | | Oct-08 | |
|---------------------------------------|----------------|----------|----------------|----------|----------------|----------|----------------|----------|
| | Floor | Cap | Floor | Cap | Floor | Cap | Floor | Cap |
| Equity | 100.00% | 124.03% | 100.00% | 117.70% | 100.00% | 130.00% | 100.00% | 126.00% |
| Bond | 100.00% | Uncapped | 100.00% | Uncapped | 105.00% | Uncapped | 103.00% | Uncapped |
| Combined | 100.00% | - | 100.00% | - | 101.65% | - | 100.99% | - |
| Expiry return as at 30 September 2009 | 7.22% | | 14.95% | | 11.55% | | 12.90% | |

| S2 | July-08 | | Oct-08 | |
|---------------------------------------|----------------|----------|----------------|----------|
| | Floor | Cap | Floor | Cap |
| Equity | 106.00% | 121.08% | 104.00% | 120.00% |
| Bond | 106.00% | Uncapped | 104.00% | Uncapped |
| Combined | 105.88% | - | 103.92% | - |
| Expiry return as at 30 September 2009 | 15.49% | | 14.34% | |



S1 –S4 Capital Protection Portfolio

September 2009

| S3 | Apr-09 | | July-09 | | Oct-08 | |
|---------------------------------------|---------------|----------|---------------|----------|---------------|----------|
| | Floor | Cap | Floor | Cap | Floor | Cap |
| Equity | 92.50% | 125.51% | 92.50% | 138.35% | 92.50% | 134.50% |
| Bond | 100.00% | Uncapped | 105.00% | Uncapped | 103.00% | Uncapped |
| Combined | 95.13% | - | 96.78% | - | 96.12% | - |
| Expiry return as at 30 September 2009 | 10.89% | | 9.30% | | 13.02% | |

| S4 | Apr-09 | |
|---------------------------------------|----------------|----------|
| | Floor | Cap |
| Equity | 100.00% | 103.65% |
| Bond | 101.33% | Uncapped |
| Combined | 100.47% | - |
| Expiry return as at 30 September 2009 | 2.32% | |

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Performance report - September 2009

| Protector | 1 Month | 3 Months | 6 Months | 12 Months | 36 Months* | 60 Months* |
|-----------------------|---------|----------|----------|-----------|------------|------------|
| Local Money Market | 0.65% | 2.20% | 4.86% | 10.40% | 10.18% | 9.15% |
| <i>Benchmark</i> | 0.62% | 1.98% | 4.33% | 10.31% | 10.11% | 8.94% |
| Global Money Market | 0.20% | 1.81% | 1.54% | 7.65% | 8.87% | 8.87% |
| <i>Benchmark</i> | 0.31% | 1.64% | 0.81% | 8.57% | 9.50% | 9.02% |
| Absolute Strategies | 0.51% | 4.59% | 6.66% | 11.37% | 10.13% | 13.80% |
| <i>CPI +4%</i> | 0.60% | 2.78% | 6.07% | 8.83% | 12.59% | 11.08% |
| Guaranteed Fund (MSG) | 0.10% | 0.30% | 0.60% | 1.51% | 9.39% | 10.17% |
| <i>Benchmark</i> | 0.71% | 2.24% | 6.24% | 10.48% | 13.81% | 14.09% |
| Guaranteed Fund (MSB) | 0.10% | 0.30% | 0.55% | 1.36% | 7.98% | 9.11% |
| <i>Benchmark</i> | 0.71% | 2.24% | 6.24% | 10.48% | 13.81% | 14.09% |
| Real Return | 0.66% | 2.81% | 6.55% | 11.28% | 13.02% | 15.97% |
| <i>Benchmark</i> | 0.52% | 2.53% | 5.56% | 7.78% | 12.11% | 10.80% |

*Annualised

- Performance figures are nominal, gross, and non-annualised (except where indicated otherwise).
- The benchmark for the Real Return Portfolio is based upon CPI lagged by a month plus 3% p.a.
- All returns to 30 September 2009.

Market indices

| | 1 Month | % Change at 3 months | % Change at 12 months | % Change at 36 months | % Change at 60 months |
|------------------------------------|---------|----------------------|-----------------------|-----------------------|-----------------------|
| CPI* | 0.28% | 1.78% | 4.66% | 8.29% | 6.83% |
| R/\$ Exchange rate | 2.84% | 2.03% | 9.67% | 0.74% | -3.28% |
| All Share index | 0.25% | 13.91% | 7.70% | 6.65% | 19.53% |
| Shareholder Weighted index (SWIX) | 0.39% | 13.89% | 9.08% | 8.35% | 20.37% |
| Financials | -0.23% | 15.15% | 6.46% | 1.64% | 14.86% |
| Industrials | 1.35% | 16.32% | 15.45% | 12.24% | 22.76% |
| Resources | -0.56% | 11.12% | 1.11% | 3.94% | 18.77% |
| MSCI World index (All Countries)** | -0.59% | 12.60% | -18.46% | -7.39% | 5.83% |
| Citigroup Composite index | -0.26% | 3.24% | 2.23% | 7.28% | 9.30% |
| ALBI | 0.08% | 2.96% | 9.07% | 8.02% | 8.48% |
| STeFI | 0.62% | 1.98% | 10.31% | 10.11% | 8.94% |

*For August 2009

**MSCI World index (All Countries) return adjusted to correspond with international investment prices received.

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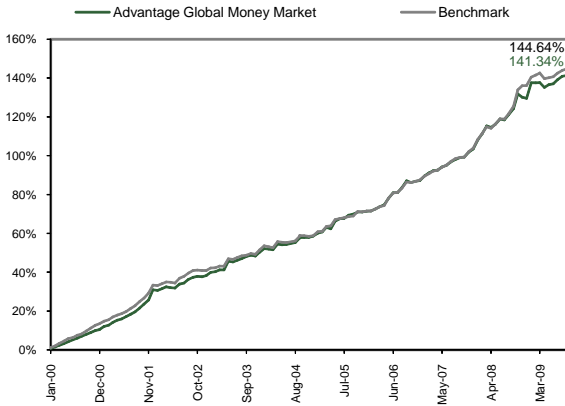
Advantage Global Money Market Portfolio

September 2009

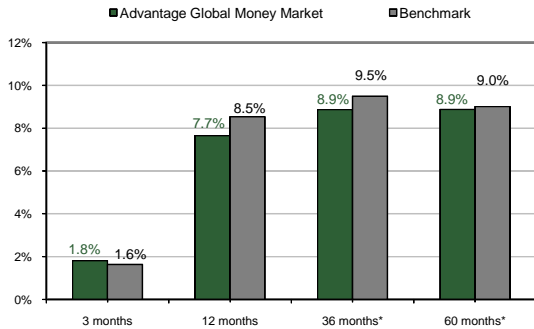
Investment objective

The Advantage Global Money Market Portfolio provides preservation of capital and maintenance of liquidity. The portfolio is invested in South African money market instruments and other cash or near cash instruments as well as international cash instruments. It will exhibit volatility due to exchange rates, but will provide some shelter against currency risk. The return will be lower due to the absence of equity and other long term capital growth asset classes.

Monthly cumulative returns to 30 September 2009



Performance as at 30 September 2009



*Annualised

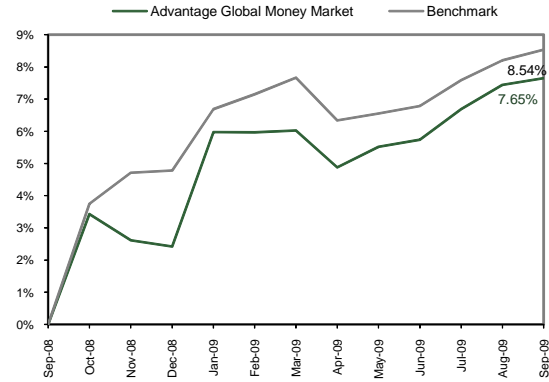
Manager allocation as at 30 September 2009

| | |
|------------------------|-------|
| PSG Money Market | 1.6% |
| Prescient Money Market | 52.2% |
| RMB Money Market | 12.3% |
| RMBI | 33.9% |

Portfolio characteristics

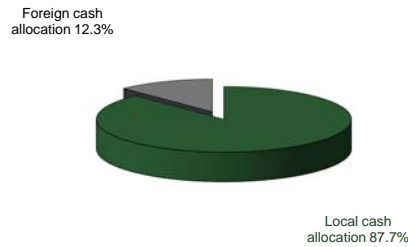
| | |
|--------------------|---|
| Launch date | Dec 1999 |
| Risk profile | Conservative |
| Investment horizon | 0-3 Years |
| Benchmark | 7 Day \$ Libor (11.25%), STeFi (85%) 7 Day Eur (3.75%) |

1 year cumulative performance to 30 September 2009

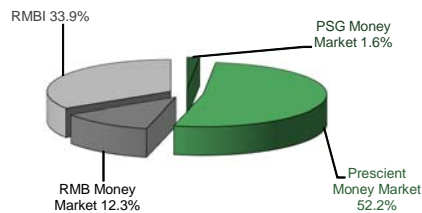


Asset allocation as at 30 September 2009

| | |
|-------------------------|--------|
| Local cash allocation | 87.7% |
| Foreign cash allocation | 12.3% |
| Total cash allocation | 100.0% |



Manager allocation as at 30 September 2009



NOTE: Returns are gross returns, before the deduction of fees.

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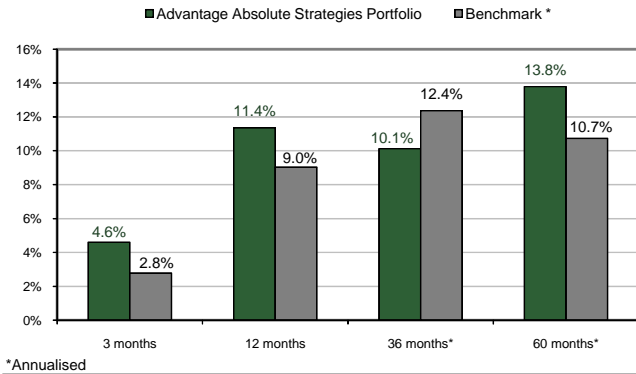
Advantage Absolute Strategies Portfolio

September 2009

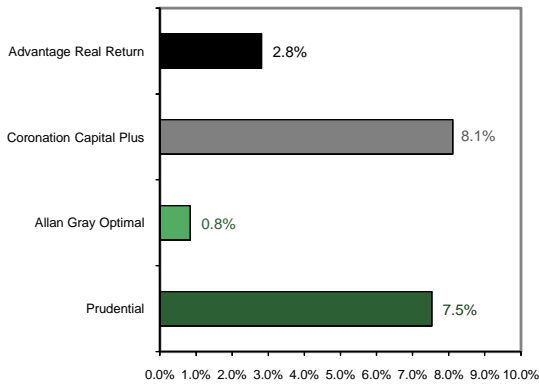
Background

The Advantage Absolute Strategies Portfolio has been designed to provide retirement fund members with real returns over the long term, and not to lose money in the short term. The performance of the fund is benchmarked to CPI +4% per annum over any rolling three year period.

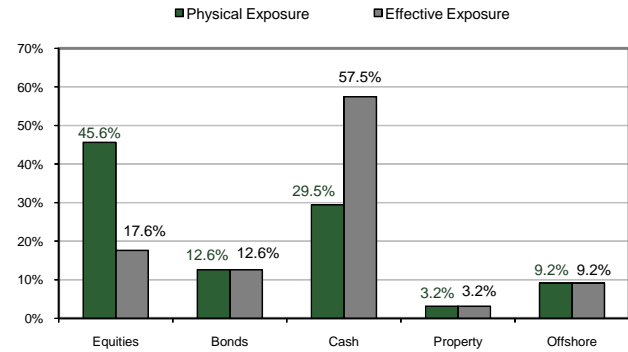
Performance as at 30 September 2009



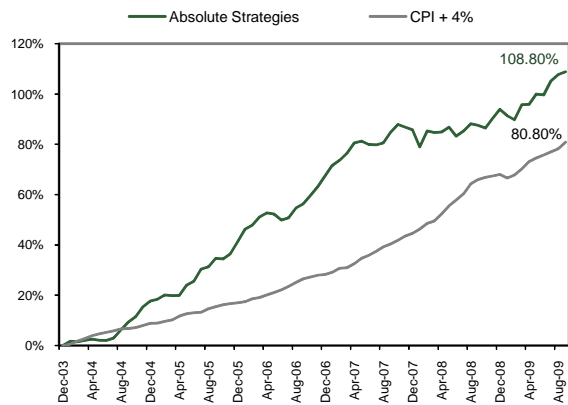
Manager performances for the quarter ended March 2009



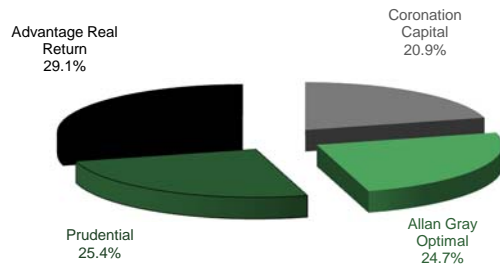
Asset allocation as at 30 September 2009



Cumulative returns since inception



Manager allocations as at 30 September 2009



NOTE: Returns are gross returns, before the deduction of fees.

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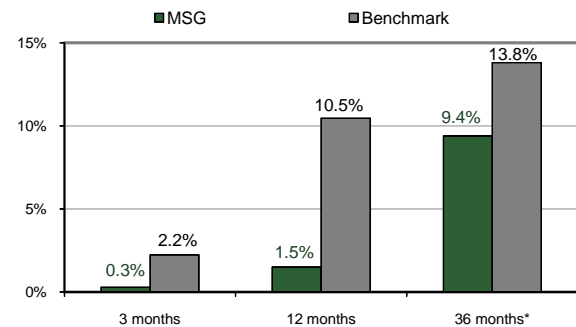
Advantage MSG Portfolio

September 2009

Investment objective

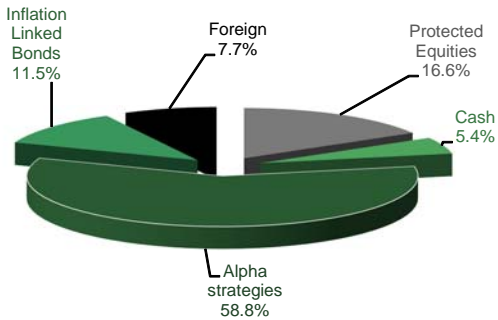
The Advantage Guaranteed Portfolio offer members of pension and provident funds exposure to a diversified basket of equities, bonds and cash investments. At the same time they limit the effect of fluctuating investment returns of the underlying investments. The Guaranteed Portfolios allow significant exposure to the equity market, whilst protecting investors against the natural volatility associated with direct equity investments.

Momentum Structured Growth Performance as at 30 September 2009



*Annualised

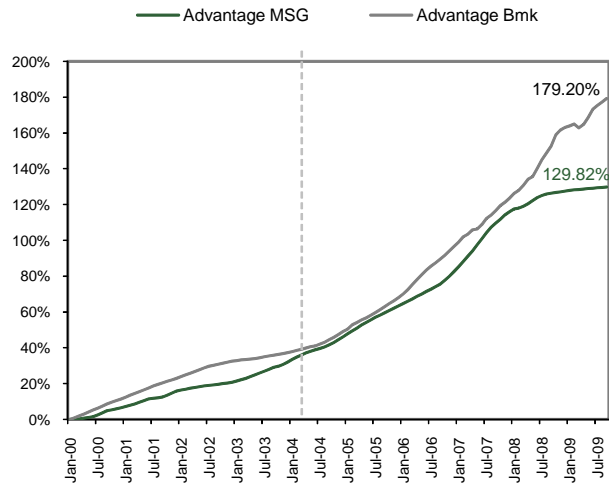
Physical exposure as at 30 September 2009



Asset class return comparison

| | 3 Months | 12 Months | 36 Months |
|----------------------|----------|-----------|-----------|
| MSG | 0.3% | 1.5% | 9.4% |
| Cash (STeFI) | 1.7% | 9.2% | 9.0% |
| Bonds(ALBI) | 3.0% | 9.1% | 8.0% |
| Equities (All Share) | 13.9% | 7.7% | 6.7% |

Cumulative returns since January 2000



..... Converted to Monthly Bonus

Alpha strategies

Alpha strategies uses derivative instruments in order to achieve returns above cash, while at the same time substantially reducing market risk.

Protected equity

Protected equity is a derivative strategy that prevents losses in the value of an equity portfolio, while retaining exposure to potential positive returns.

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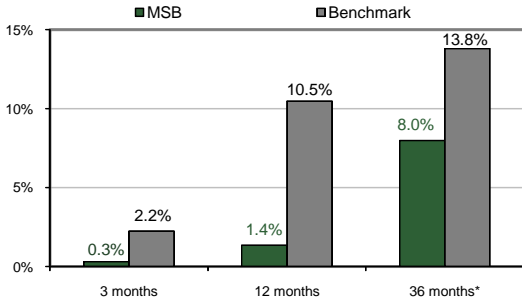
Advantage MSB Portfolio

September 2009

Investment objective

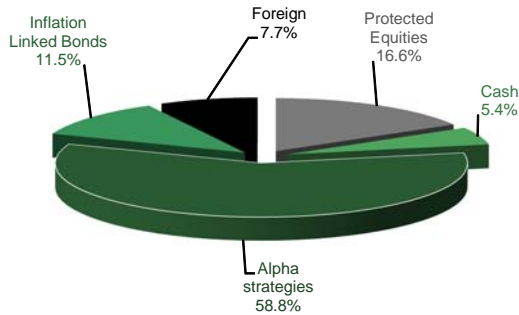
The Advantage Guaranteed Portfolio offer members of pension and provident funds exposure to a diversified basket of equities, bonds and cash investments. At the same time they limit the effect of fluctuating investment returns of the underlying investments. The Guaranteed Portfolios allow significant exposure to the equity market, whilst protecting investors against the natural volatility associated with direct equity investments.

Momentum Secure Bonus Performance as at 30 September 2009



*Annualised

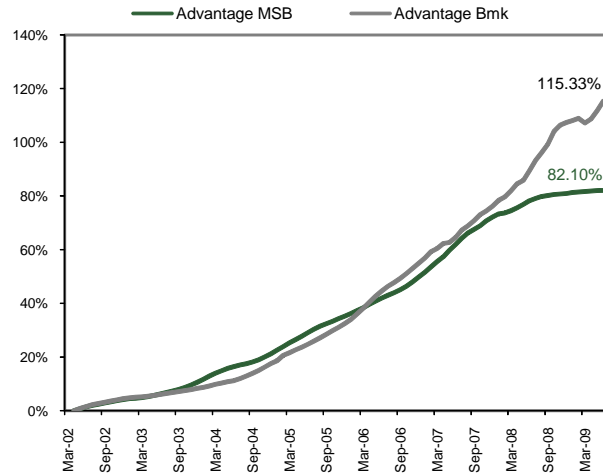
Physical exposure as at 30 September 2009



Asset class return comparison

| | 3 Months | 12 Months | 36 Months |
|----------------------|----------|-----------|-----------|
| MSB | 0.3% | 1.4% | 8.0% |
| Cash (STeFI) | 1.7% | 9.2% | 9.0% |
| Bonds(ALBI) | 3.0% | 9.1% | 8.0% |
| Equities (All Share) | 13.9% | 7.7% | 6.7% |

Cumulative returns since April 2002



Alpha strategies

Alpha strategies uses derivative instruments in order to achieve returns above cash, while at the same time substantially reducing market risk.

Protected equity

Protected equity is a derivative strategy that prevents losses in the value of an equity portfolio, while retaining exposure to potential positive returns.

NOTE: Returns are gross returns, before the deduction of fees.

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Advantage Real Return Portfolio

September 2009

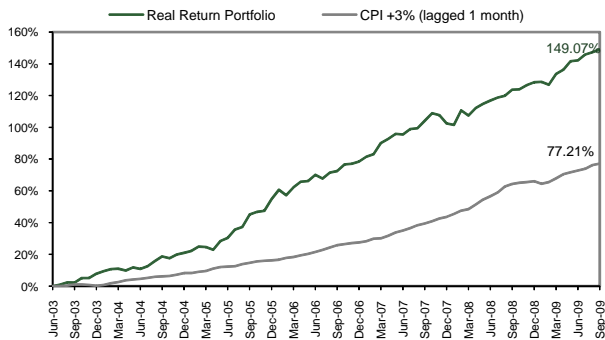
Portfolio mandate

The asset allocation is dynamically managed. The portfolio aims to generate sustainable positive returns and immunise the fund from downside risk, so that capital is protected over any 12 month rolling period. The return objective is to beat inflation over rolling 36 month periods. The portfolio has a low risk profile and short to medium investment term of one to three years. The portfolio conforms to Prudential Investment Guidelines.

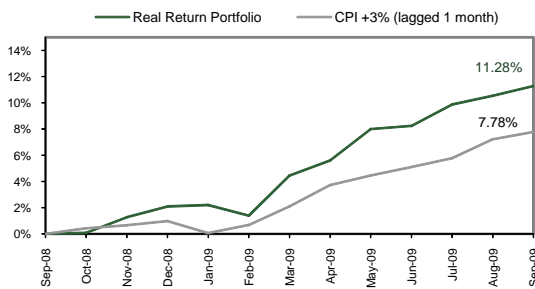
Key information

Launch date July 2003
 Investment horizon Short term (1 - 3 years)
 Benchmark CPI +3% lagged 1 month**

Cumulative returns since inception



Cumulative returns over the past 12 months



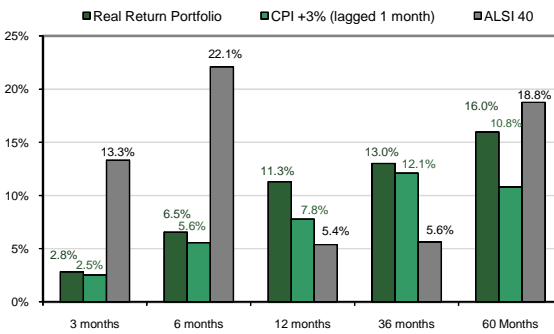
Investment strategy

The Real Return Fund is registered as a collective investment scheme which invests in a spread of equities, bonds, cash and appropriate derivative instruments. The portfolio uses an objective asset allocation process, determined by relative pricing and risk targets. Where opportunities exist, returns are locked in, raising the return profile through hedging and the applicable use of derivative instruments. Enhancement strategies are applied to each asset class to achieve incremental performance over time.

Asset allocation as at 30 September 2009*



Performance summary to 30 September 2009



*Effective exposures refers to the exposure participation in down markets and physical exposure refers to the exposure participation in up markets
 **Benchmark changed from CPI +4% to CPI +3% lagged by 1 month, effective from 1 June 2008

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Glossary

Active risk (tracking error): This is a forecast of the difference in returns between your portfolio and its benchmark. This figure represents the amount by which you can expect your portfolio to deviate from the benchmark at 68% confidence. By positioning the portfolio to be different from the benchmark, in areas where there is expected outperformance, the fund manager is taking active risks in anticipation of deriving an active return in excess of the benchmark.

Active returns: These are the fruits from active management. Active management is the pursuit of investment returns in excess of a specified benchmark as opposed to passive management which seeks only to match the benchmark returns.

Benchmark: A portfolio that is used as a point of reference against which the performance of another portfolio is measured. The goal of an active manager is to exceed the return on the benchmark portfolio. An example of a benchmark portfolio is the JSE All Share index.

Benchmark volatility: This is an annualised forecast of the benchmark's volatility. It represents the amount that you can expect the value of the benchmark to fluctuate over a one year period at 68% confidence.

Dividend yield: Most recent annual dividend divided by the current market price.

Growth stocks: Companies that have long term growth forecasts which are significantly greater than growth in nominal GNP. Growth can come from a number of areas: leverage, acquisitions, growth in revenues per share, increased efficiency, investment of retained earnings. As such, growth stocks tend to be more volatile, lower yielding in terms of dividends paid out, smaller in terms of capitalisation, higher risk and potentially higher return.

Industry risk: Indicates the degree to which the fund manager allows the under or overweighting of industries in the fund, relative to the benchmark, to dominate the return in the fund. Typically, a fund with an industry risk figure of 1,00% or lower has little variation in industry weightings relative to the benchmark. A fund with an industry risk of 4,00% or above has aggressively either under or overweighted certain industries in the portfolio.

Information ratio: An extremely useful tool that measures the ratio of returns in excess of the benchmark in a portfolio against the degree of risk that was assumed by the manager to achieve those returns. The higher the ratio, the greater the returns and the lower the risk. A negative information ratio suggests that not only was the performance poor, but a great deal of risk was assumed by the portfolio as well. Information ratios are an excellent way to compare portfolio managers with very different styles and levels of aggressiveness.

Portfolio volatility: This is an annualised forecast of the portfolio's volatility. It represents the amount that you can expect the value of the portfolio to fluctuate over a one year period at 68% confidence.

Stock selection risk: Identifies the degree to which the fund manager allows the selection of specific companies to drive the fund's performance. The higher the number, the more aggressive the fund manager is in terms of selecting stocks that are distinctly different to the market as a whole. A stock selection risk number of around 1,00% suggests a very low stock selection bet. A figure of 4,00% and above suggests a fairly aggressive bet on specific companies. Typically, a fund with a smaller number of shares or shares that may be atypical from the market as a whole will have much higher stock selection risk. One word of caution, in the BARRA model, the stock selection risk number is also synonymous with that portion of performance that cannot be explained by the market, industry, or style movements.

Style risk: Indicates the degree to which the fund manager allows a particular investment style to dominate the performance of the fund. Examples of investment styles might be funds that concentrate on small companies, large companies, value shares, growth shares, success shares, emerging companies, blue chip shares etc. The style of a particular fund can often explain up to 90% of the active return of the fund. Funds with a style risk number of below 1,00% could be viewed as being style neutral. Funds with a figure of 4,00% or more would be seen as taking an aggressive "bet" on their particular style.

Value stocks: Value stocks have proven to be long term performers because, when bought, their prices tend to be low relative to others in the sector and low relative to companies' fundamentals. This will mean that price tends to be low relative to earnings potential, book value, sales and dividends. Companies included here may well be blue chip companies in mature industries but, buying when the price is cheap, long term performance can be expected. Tends to be a less volatile strategy than growth stock investing.

Contact details:

