

Fulcrum

Is the pen mightier than even the African spear – symbol of courage and personal challenge? Put it to the test with the Fulcrum portfolios – **suitable for those whose higher tolerance of risk has the potential to bring them greater rewards.**



Monthly Report

November 2009

Advantage economic and market commentary

November 2009

Overall summary

- Local equity markets managed to generate positive returns despite the debt wobbles in Dubai.
- Gill Marcus took over as the Governor of the South African Reserve Bank (SARB) and expressed an openness to engage around the broadening of the mandate of the SARB.
- Other central banks around the globe tend to have broader mandates beyond inflation targeting that include employment and growth imperatives.
- The South African economy generated positive economic growth for the third quarter of 2009 but, the road ahead remains a challenging one.
- Further retrenchments at some organisations, as well as negative credit growth, allude to a weak economic recovery.
- International equity markets continued to do exceptionally well as risk taking continued.
- Low US treasury yields are fuelling massive speculative activities which may not be sustainable.
- Dubai World requested a stand still on its debt obligations creating widespread angst in financial markets.
- European banking stocks suffered losses due to its potential exposure to bad debt in the gulf region.
- Shares in european car companies also sold off as some are part owned by sovereign wealth funds from the gulf region.

Commentary

Domestic markets

- With US interest rates remaining at low levels, the appetite for risky assets continued into the month of November.
- During the final week of the month, news about debt concerns in Dubai wreaked havoc with financial markets.
- Despite this, the FTSE/JSE All Share index (ALSI) closed in positive territory, yielding a 2.13% return for investors.
- The top twenty resource stocks led the pack, returning 5.89% for the month while industrial stocks contributed 0.63%, but financials fell -1.54%.
- Mid and small cap shares did not fare well during the month, both detracting value in the order of -3% and -1% respectively.
- Fixed income markets managed to generate positive returns of twelve basis points (bps) for the month.
- For the 2009 year to end of November, an investment in the All Bond index would have detracted value in the order of -2.2%.
- Despite falling interest rates, cash has managed to still beat bonds, returning a solid 8.5% for the year to November.
- The changing of the guard at the Reserve Bank did little to inspire fixed income markets.
- The new governor, Gill Marcus, delivered her maiden Monetary Policy Committee (MPC) address on 17 November 2009.
- The content of the Statement was little changed from prior statements and the repurchase rate remained at 7% as expected.
- The essence of the statement reflected that domestic economic growth would recover but remain below potential for a protracted period, as household expenditure remained weak.
- Furthermore, the inflation outlook remained benign due to weak aggregate demand, but excessive wage settlements and electricity tariff increases posed a threat to the inflation outlook.
- The MPC statement came at a time when the nation's trade unions are calling for a 'broader' mandate for the Reserve Bank.
- The new governor stated that the mandate of the Reserve Bank naturally evolves over time. We are currently in an inflation targeting framework, but prior to this, the emphasis was on money supply.
- It is of much interest to note that in other central banks around the globe, central banks may have broader mandates beyond inflation targeting alone.
- Consider the United States' Federal Reserve :The goals of monetary policy are spelled out in the Federal Reserve Act, which specifies that the Board of Governors and the Federal Open Market Committee should seek "... to promote effectively the goals of maximum employment, stable prices and moderate long term interest rates."
- Although price stability can help achieve maximum sustainable output growth and employment over the longer run, in the short term some tension can exist between the two goals.

Advantage economic and market commentary (continued)

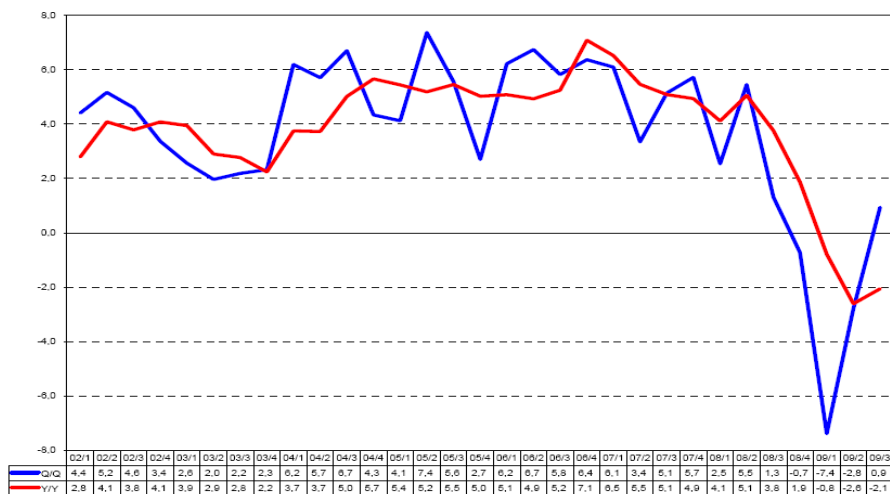
- Those responsible for monetary policy face a dilemma and must decide whether to focus on defusing price pressures or cushion the loss of employment and output.¹
- Another example is the Bank of England in the United Kingdom: The monetary policy objective of the bank is to deliver price stability, low inflation and, subject to that, to support the government's economic objectives, including those for growth and employment.
- Price stability is defined by the government's inflation target of 2%.
- The remit recognises the role of price stability in achieving economic stability more generally and in providing the right conditions for sustainable growth in output and employment.
- The Government's inflation target is announced each year by the Chancellor of the Exchequer in the annual budget statement.
- The 1998 Bank of England Act made the bank independent to set interest rates.
- The bank is accountable to parliament and the wider public. 'The legislation provides that if, in extreme circumstances, the national interest demands it, the Government has the power to give instructions to the bank on interest rates for a limited period.'²

- The future for monetary policy in South Africa is likely to gradually move towards that of other international central banks, where the mandate for the Reserve Bank does not narrowly target inflation but considers economic growth and employment.

Prospects for growth

- The South African economy recorded positive growth for the third quarter of 2009.
- Real gross domestic product (GDP) at market prices increased 0.9% quarter-on-quarter, seasonally adjusted and annualised.
- The manufacturing sector, which makes up 14.6% of GDP, added a meaningful 1.1% to the 0.9% increase in overall GDP.
- General government services, which make up 13.6% of GDP, contributed 0.7% to the 0.9% growth.
- The biggest detractors were the finance sector (21.5% of GDP) and the mining sector (5.3% of GDP). Both took off 0.3% each from the 0.9% outcome.
- The graphic below clearly illustrates the nature of the rebound.

Figure1: Growth in gross domestic product



Source: Statistics South Africa

¹The Federal Reserve System Purposes and Functions: www.federalreserve.gov

²Monetary Policy Framework www.bankofengland.co.uk

Advantage economic and market commentary (continued)

- In as much as this signals the start of our economic recovery, it is critical to note that the recovery is likely to remain quite fragile. In the US, the Business Cycle Dating Committee of the National Bureau for Economic Research officially declares expansions and recessions in that economy. The last US recession ended in November 2001, as stated by the committee.
- Below is an extract of what was written in their report to that effect: "The committee determined that a trough in business activity occurred in the U.S. economy in November 2001. The trough marks the end of the recession that began in March 2001 and the beginning of an expansion. In determining that a trough occurred in November 2001, the committee did not conclude that economic conditions since that month have been favourable or that the economy has returned to operating at normal capacity. Rather, the committee determined only that the recession ended and a recovery began in that month. A recession is a period of falling economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. The trough marks the end of the declining phase and the start of the rising phase of the business cycle. Economic activity is typically below normal in the early stages of an expansion, and it sometimes remains so well into the expansion"³.
- It is quite likely that the South African experience will be similar with economic growth showing improvement, while key indicators like employment growth remain quite sluggish.
- Recent news reports allude to this as continued retrenchments at large companies like MTN and Telkom are evident.
- Furthermore, the Bureau for Economic Research or Ernst & Young released the Festive Season Retail Trends survey during the month, which showed that on top of the very weak festive season sales during 2008, South African retailers anticipate further contraction in sales volume growth during the 2009 Christmas period.
- The Reserve Bank released the latest credit extension data which revealed that credit extension growth fell by 0.42% compared to a year ago. A weak outcome indeed highlighting the extreme pressure that local households still face.
- On the eve of Eid al-Adha, the government of Dubai asked creditors of Dubai World, one of three large government-backed conglomerates that has \$59 billion of debt and liabilities, to agree to a standstill on debt repayment.
- The Economist states that repayments to debtors would only be available on 30 May 2010 while \$4 billion is due on the 14 December 2009 to holders of an Islamic bond (or sukuk) issued by Nakheel, a developer responsible for the Palm Islands and other spectacular land-reclamation projects.
- Disturbing investors further is that only weeks ago, Sheikh Mohammed bin Rashid al-Maktoum, Dubai's ruler, assured investors that the emirate would soon raise funds to meet 'current and future obligations'.⁴
- The Economist further states that credit-rating agencies quickly downgraded all government related debt in Dubai, but whether the standstill counts as a default depends on whether Dubai is *asking* investors to defer their claims or *telling* them to.
- Dubai's wealthier neighbour, Abu Dhabi, has in the past made funds available to Dubai. The Economist states that in February, Dubai raised \$10 billion from Abu Dhabi and that hours before Dubai requested this standstill, it said it had raised another \$5 billion from two Abu Dhabi banks.
- Furthermore, the United Arab Emirates' central bank said it 'stands behind' the country's local and foreign banks as they face the prospect of rising losses from Dubai World's possible default.
- A Bloomberg report notes that Dubai is the second largest of seven states that make up the United Arab Emirates. Dubai's state-owned companies borrowed \$80 billion to fund an economic boom and diversify its economy. The global credit crisis and declining property prices have consequently hurt companies like Dubai World as they struggle to raise loans, forcing them to turn to Abu Dhabi, which is the capital of the Arab Emirates and also holds 8% of the world's oil reserves.
- Bloomberg also states that the cost of notes protecting the Dubai government from default more than doubled to 647bps in three days after Dubai World announced plans to delay loan repayments.⁵
- Financial markets plummeted across the globe with European banking stocks under severe pressure due to the potential exposure they might have to bad debt in the gulf region.
- Furthermore, shares in European car companies were also hit hard as some of them are part owned by sovereign wealth funds from that region.
- Stock markets in the region like Abu Dhabi and Egypt also suffered losses in line with those experienced in Dubai.

Global markets

- Financial markets rallied substantially during the early parts of the month but were later rocked by news of potential debt default in Dubai. Specifically, the Dow Jones Industrial Average returned 6.5% for the month.
- Emerging markets were more severely punished by the Dubai fallout, returning a lower 4.3%.

³<http://www.nber.org/cycles/july2003.html>

⁴http://www.economist.com/businessfinance/displaystory.cfm?story_id=14977157

⁵http://www.bloomberg.com/apps/news?pid=20601208&sid=at_QDYzdYJdk

Advantage economic and market commentary (continued)

Emerging markets

- The debt fallout in Dubai serves to illustrate the lagged effects of the global financial crisis.
- Dubai used a massive amount of debt to finance its ground breaking expansion imperatives at a time when debt was easy to come by.
- The issue now is servicing this massive debt burden at a time were property markets have been decimated.
- The massive global government stimulus initiatives have gone a long way to smooth over deep cracks in financial markets caused by great exuberance and market excesses.
- One wonders whether the current very low global interest rates are not setting financial markets up for yet another crisis in time to come?
- Let us consider the yields of US treasuries as depicted in figure 2:

Figure 2

	Coupon	Maturity date	Current price or yield
3 month	0.000	03/04/2010	0.04 / .04
6 month	0.000	06/03/2010	0.15 / .15
12 month	0.000	11/18/2010	0.24 / .24
2 year	0.750	11/30/2011	100-06 / .66
3 year	1.375	11/15/2012	100-24+ / 1.11
5 year	2.125	11/30/2014	100-17½ / 2.01
7 year	2.750	11/30/2016	100-08½ / 2.71
10 year	3.375	11/15/2019	101-09½ / 3.22
30 year	4.375	11/15/2039	102-20½ / 4.22

Source: Bloomberg

- If you invest in either the 3, 6 or 12 month Treasuries, you would get rewarded with 4, 15 or 24bps return respectively. Essentially the US Treasury is attempting to re-flate that economy by providing artificially low interest rates. This means that investors will no longer want to keep their funds in low yielding assets like short term treasuries but, will rather chase higher yielding (riskier) investments. For this reason the US dollar has slid by 18% to the euro since the beginning of March this year.
- Over the very same period, the gold price has rallied by 24% to reach new record highs while equity markets like the Dow Jones have surged close to 50%.
- Stated differently, in 2008 there was a global financial crisis that was largely created by easy (cheap) money that led to massive speculative activities in property, credit and equity markets.
- To stem the fallout, global central banks aggressively cut interest rates and flooded markets with liquidity.
- The impact being asset prices have jumped significantly despite the real economy still in wallowing in tatters.
- Positive gross domestic product numbers have been viewed but the likes of unemployment and job losses continue to mount.
- There can be no sustainable recovery without substantial consumption expenditure.
- Households are the bedrocks of economies, contributing at least two-thirds to economic growth.
- With continued job losses and household debt: GDP ratios at record highs, it is difficult to see how household expenditure can be sustainably revived.
- It becomes exceptionally difficult to justify the current run in assets and the greatest fear is that when governments can no longer extend its debt obligations to fund these stimulus activities, then the global economy may be in much worse shape.

Advantage economic and market commentary (continued)

Summary

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- Gill Marcus took over as the governor of the South African Reserve Bank (SARB) and expressed an openness to engage around the broadening of the mandate of the SARB.
- The South African economy managed to generate positive growth for the third quarter of 2009 but the road ahead remains a challenging one.
- International equity markets continued to do exceptionally well as risk taking continued.
- Dubai World requested a stand still on its debt obligation creating widespread angst in financial markets.
- Low US treasury yields are fuelling massive speculative activities which may not be sustainable.

Azola Lowan, CFA

Senior Research Analyst

Advantage Asset Managers

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Contact details:

Tel +27 11 575 4450 Fax +27 11 576 4450 Website www.advantage.am e-mail info@advantage.am
The Gabba, 2nd Floor, The Campus, 57 Sloane Street, Bryanston, Johannesburg, 2191
PO Box 330, Gallo Manor, 2052

Performance report - November 2009

Fulcrum	1 Month	3 Months	6 Months	12 Months	36 Months*	60 Months*
Fulcrum Aggressive	-0.68%	4.14%	13.04%	18.80%	7.32%	15.21%
<i>Benchmark</i>	-0.11%	4.07%	13.58%	19.71%	6.59%	15.41%
Fulcrum Balanced	-0.60%	3.72%	12.33%	17.58%	7.52%	15.17%
<i>Benchmark</i>	-0.12%	3.77%	12.68%	18.29%	6.78%	15.64%

*Annualised

- Performance figures are nominal, gross, and non-annualised (except where indicated otherwise).
- All returns to 30 November 2009.

Market indices

	1 Month	% Change at 3 months	% Change at 12 months	% Change at 36 months	% Change at 60 months
CPI*	0.00%	0.65%	4.85%	8.26%	6.82%
Headline CPI**	0.00%	0.65%	5.93%	7.65%	5.93%
R/\$ Exchange rate	5.24%	4.72%	35.07%	-1.23%	-4.95%
All Share index	2.13%	8.54%	30.33%	6.95%	19.90%
Shareholder Weighted index (SWIX)	0.46%	5.33%	28.81%	6.88%	19.07%
Financials	-1.24%	3.28%	22.94%	0.06%	12.70%
Industrials	-0.16%	6.34%	32.66%	10.42%	20.05%
Resources	5.88%	13.18%	31.74%	6.93%	23.72%
MSCI World index (All Countries)***	-5.78%	-0.36%	7.42%	-6.79%	6.44%
Citigroup Composite index	-2.07%	1.19%	-13.32%	9.35%	10.38%
ALBI	0.10%	-0.04%	4.62%	6.58%	7.51%
STeFI	0.60%	1.85%	9.52%	10.08%	8.94%

*For October 2009 - Due to the reweighting of the CPI from January 2009, this number reflects a compound of month on month CPI returns. The historical numbers used are the official month on month numbers based on a composite of the old basket prior to Jan 2009 and new basket post January 2009.

**For October 2009 -These figures reflect the historically adjusted returns for the new CPI basket.

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

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Advantage Fulcrum Aggressive

November 2009

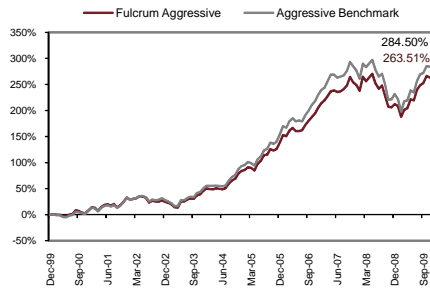
Portfolio mandate

The asset allocation of the portfolio is managed dynamically relative to the benchmark. The underlying managers have been given broad active mandates within their specific market sectors. The portfolio is constructed to maximise the stock selection bets of an array of specialist managers and minimise, where possible, the style and industry biases at the aggregate portfolio level. In addition, the tactical asset allocation component is expected to add value in market extremes by adjusting the portfolios exposure to mispriced assets.

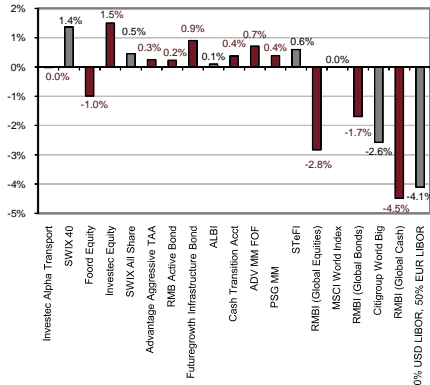
Key information

Launch date January 2000
Investment horizon Long term (12 years plus)

Cumulative returns since inception



Performance of portfolio managers: 30 November 2009



Portfolio comments

The Fulcrum Aggressive Portfolio returned -0.7% in November 2009, underperforming the benchmark return of -0.1%.

The FTSE/JSE All Share index (ALSI) closed in positive territory, yielding a 2.13% return for investors in November 2009. The top twenty resource stocks led the pack, returning 5.89% for the month while industrial stocks contributed 0.63%, but financials fell -1.54%. Mid and small cap shares did not fare well during the month, both detracting value in the order of -3% and -1% respectively.

The fulcrum local and global cash and bond building blocks fared very well against their respective benchmarks, aiding the relative performance of the Fulcrum Aggressive Portfolio. The local equity building block struggled in November 2009, delivering -0.6% relative to the SWIX return of 0.5%, while the global equity portfolio returned -2.8% relative to the MSCI World return of -3.0%.

Investec Alpha Transport (-0.02%) underperformed the SWIX 40 (+1.4%), while Food (-1.0%) and Coronation Houseview (-1.1%) also lagged the SWIX (+0.5%). The main contributor in the local equity building block this month was Investec Equity (+1.5%). The funds stock and industry selection contributed significantly to performance in November, specifically the overweight to the gold mining sector.

Melissa Breda – Portfolio Manager

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

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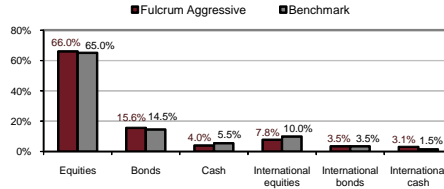
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Contact details:
 Tel +27 11 575 4450 Fax +27 11 576 4450 Website www.advantage.am e-mail info@advantage.am
 The Gabbra, 2nd Floor, The Campus, 57 Sloane Street, Bryanston, Johannesburg, 2191
 PO Box 330, Gallo Manor, 2052

Investment strategy

The asset allocation and risk profile are dynamically managed relative to the benchmark. The benchmark allocation to Equities:Bonds:Cash is 75:18:7.

Asset allocation as at 30 November 2009



Manager allocation as at 30 November 2009

Coronation House View	22.5%
Investec Alpha Transport	4.8%
Food Equity	34.9%
Investec Equity	25.0%
Momentum Beta Block	5.0%
Momentum Value Block	7.7%

Advantage Aggressive TAA	100.0%
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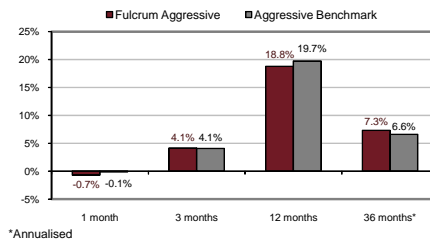
Momentum	100.0%
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RMB Active Bond	80.1%
Futuregrowth Infrastructure Bond	19.9%

PSG Money Market	1.5%
Prescient Money Market	60.3%
RMB Money Market	38.2%

RMBI (equity)	54.2%
RMBI (bonds)	24.4%
RMBI (cash)	21.4%

Performance summary to 30 November 2009



*Annualised

Advantage Fulcrum Balanced

November 2009

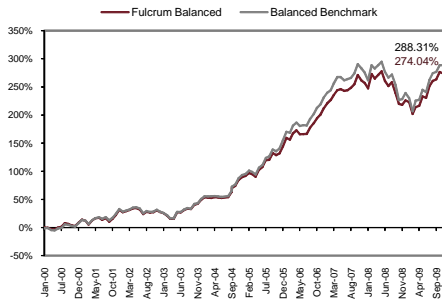
Portfolio mandate

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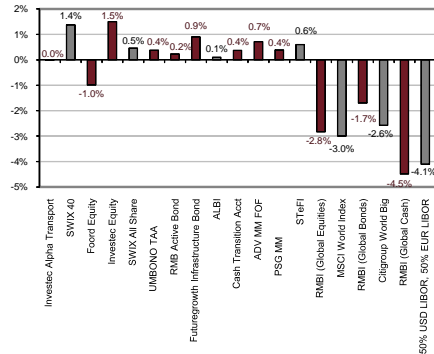
Key information

Launch date January 2000
Investment horizon Medium term (6-12 years)

Cumulative returns since inception



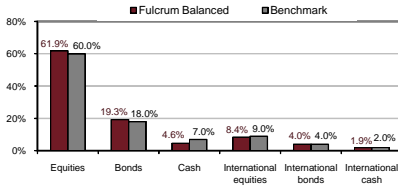
Performance of portfolio managers: 30 November 2009



Investment strategy

The asset allocation and risk profile are dynamically managed relative to the benchmark. The benchmark allocation to Equities:Bonds:Cash is 69:22:9.

Asset allocation as at 30 November 2009



Manager allocation as at 30 November 2009

Coronation House View	22.5%
Investec Alpha Transport	4.8%
Foord Equity	34.9%
Investec Equity	25.0%
Momentum Beta Block	5.0%
Momentum Value Block	7.7%

Advantage TAA	100.0%
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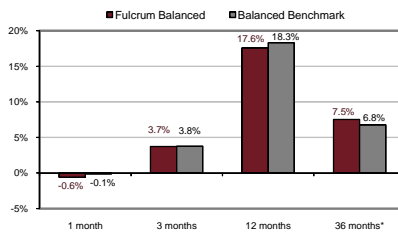
Momentum	100.0%
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RMB Active Bond	80.1%
Futuregrowth Infrastructure Bond	19.9%

PSG Money Market	1.5%
Prescient Money Market	60.3%
RMB Money Market	38.2%

RMBI (equity)	58.9%
RMBI (bonds)	27.6%
RMBI (cash)	13.5%

Performance summary 30 November 2009



*Annualised

Portfolio comments

The Fulcrum Balanced Portfolio returned -0.6% in November 2009, underperforming the benchmark return of -0.1%.

The FTSE/JSE All Share index (ALSI) closed in positive territory, yielding a 2.13% return for investors in November 2009. The top twenty resource stocks led the pack, returning 5.89% for the month while industrial stocks contributed 0.63%, but financials fell -1.54%. Mid and small cap shares did not fare well during the month, both detracting value in the order of -3% and -1% respectively.

The fulcrum local and global cash and bond building blocks fared very well against their respective benchmarks, aiding the relative performance of the Fulcrum Balanced Portfolio. The local equity building block struggled in November 2009, delivering -0.6% relative to the SWIX return of 0.5%, while the global equity portfolio returned -2.8% relative to the MSCI World return of -3.0%.

Investec Alpha Transport (-0.02%) underperformed the SWIX 40 (+1.4%), while Foord (-1.0%) and Coronation Houseview (-1.1%) also lagged the SWIX (+0.5%). The main contributor in the local equity building block this month was Investec Equity (+1.5%). The funds stock and industry selection contributed significantly to performance in November, specifically the overweight to the gold mining sector.

Melissa Breda – Portfolio Manager

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Contact details:
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 The Gabba, 2nd Floor, The Campus, 57 Sloane Street, Bryanston, Johannesburg, 2191
 PO Box 330, Gallo Manor, 2052

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: