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

January 2010

Overall summary

- Risky assets initially rallied at the beginning of 2010 but soon reversed its gains as China announced measures to curb its economy.
- A stark contrast has emerged between emerging countries (particularly Asia) and advanced economies; where the former are enjoying strong growth and the latter are still suffering from the impact of the recession.
- Relative to advanced economies, China has made gains during this recession and concluded 2009 with a growth rate of 8.7%.
- Fears of an overheating economy have led Chinese authorities to mop up some liquidity in the system through measures like raising reserve requirements.
- Compared to strong Chinese growth, advanced economies are still struggling; consumption expenditure remains weak and while stimulus measures dwindle, these economies will be under more pressure.
- Advanced nations are faced with tough decisions as they attempt to ensure fiscal sustainability in the face of ballooning national debt levels.
- Rising default risks in Greece have raised the alarm on finances in the euro zone.
- As expansionary monetary and fiscal policy comes under threat, so will returns from risky assets.

Commentary

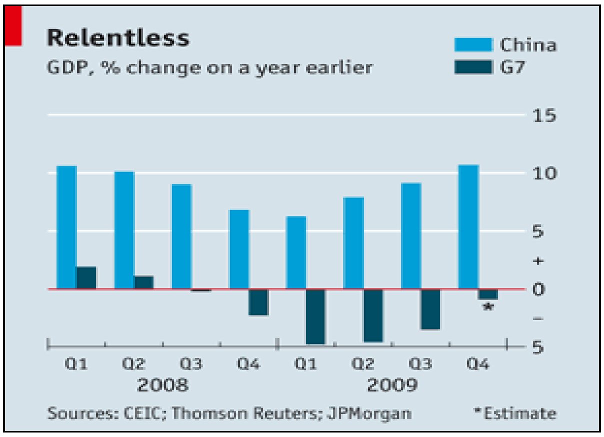
Financial markets

- Risky assets experienced considerable volatility during the first month of the year.
- During the first half of the month resource stocks as well as some commodities rallied in excess of 6% but soon lost its steam and reversed the gains. Specifically, the FTSE JSE All Share index fell 3.5% for the month, pulled down mainly by a 6.4% fall in resource stocks.
- The reversal in stock performance was largely as a result of news from China, which pointed to policy measures instituted to douse the galloping economy.
- This speaks to the dichotomy in global economic performance between emerging and advanced economies. The latter are widely expected to end 2009 deep in the red while emerging markets are expected to record positive growth for 2009.
- Furthermore, emerging markets entered the recession with healthy debt levels, while the opposite is true of advanced economies.
- The impact of this is that 2010 and beyond evidence is likely to show emerging markets continue to shine while advanced economies will continue to produce subpar growth levels as it attempts to bring down unsustainably high debt levels.
- The report this month will focus on this dichotomy; first by highlighting the strength of China and then contrasting that to the experience of advanced economies.

The Chinese growth engine is firing on all cylinders

- The Chinese economy proved to be resilient against the global recession, registering a growth rate of 8.7% for 2009. This was boosted by quarter 4 GDP growth of 10.7%.
- While advanced economies were mired in recession, China actually made gains during this recession. A particularly notable gain is that China has surpassed Germany to be the world's largest exporter – a position that China is likely to maintain for years to come.
- Furthermore, China has surpassed the United States with respect to car sales.
- The stark contrast of Chinese growth relative to advanced nations is illustrated in figure 1.

Figure 1



Source: Economist.com

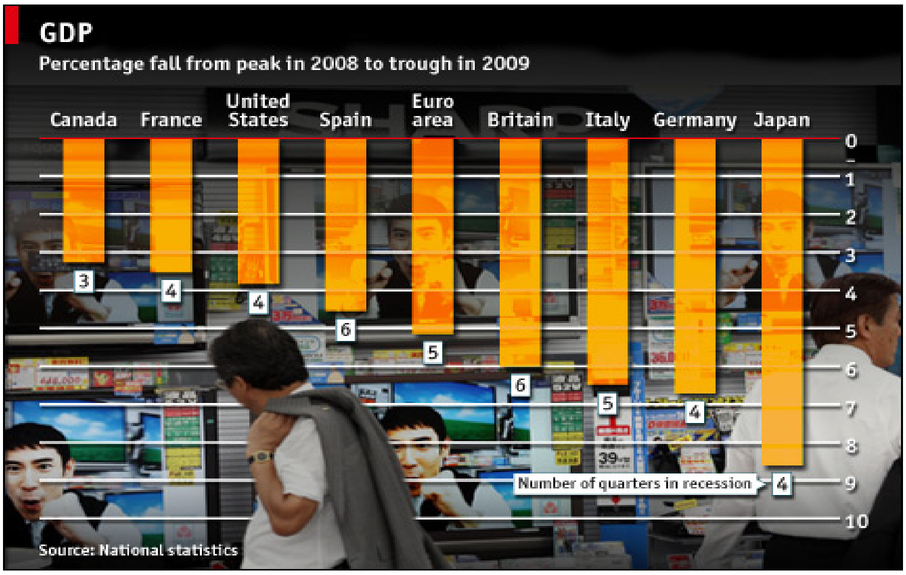
Advantage economic and market commentary (continued)

- These developments have come on the back of exceptional stimulus measures that have many concerned about this economy overheating.
- On the onset of the global economic crisis, Chinese authorities rolled out an unprecedented $586 billion stimulus package.
- Furthermore, Chinese bank lending of $1.4 trillion in 2009 alone has led to speculative activities in property and equity markets.
- Effects of this are starting to show as inflation rose 1.9% from December 2008 to December 2009. In response to this the central bank has started to remove liquidity from the system by raising banks' reserve requirements.
- This weighed heavily on risky assets, as investors began selling on the fear that the Chinese central bank would raise official interest rates halting this powerful growth engine.
- The Economist recently wrote that the central bank would likely raise rates when inflation breaches the 3% level; something that it reckons could happen as soon as February[1].
- China continues to come under pressure to revalue its currency as detractors of this nation's growth argue that its export strength lies in its artificially valued currency.
- Currently 6.82 yuan buys $1; a rate that has been in place since 2008.
- The Economist notes that in 2009, Chinese officials argued that it had to hold the yuan stable against the US dollar due to falling exports, weak GDP, as well as negative inflation.
- Given that exports, growth and inflation have rebounded convincingly, it will be interesting to see how the issue of the currency plays out and more particularly how Chinese export performance is impacted.
- Prospects of tighter policy in China led to equity and commodity markets taking a heavy knock in January 2010.
- The Dow Jones Industrial Average as well as the Morgan Stanley Emerging Markets index both made gains at the beginning of the month, only to reverse due to heightened risk aversion. The Dow finished the month down 3.5% while the Emerging Market index fell 5.6%. News of positive growth in key developed markets could not stem the selloff.

Advanced economies bear the brunt of this recession

- In sharp contrast to China's potential overheating, advanced economies continue to look anaemic.
- Most advanced economies exited recession in quarter 3 of 2009.
- The Economist provides an excellent graphic, figure 2, which reflects the severity of this recession on advanced nations. Specifically, it depicts the percentage fall from the peak in GDP in 2008 to the trough in 2009.

Figure 2



Source: Economist.com

Advantage economic and market commentary (continued)

- Japan suffered the largest contraction over this period, where GDP fell by 8.6% from peak to trough over four quarters. In contrast, Canada was the best performer of the G7 nations; posting a 3.3% contraction from peak to trough over three quarters. This is largely a reflection of Canada's commodity wealth that has benefitted from Chinese demand.
- Another notable point is that unlike the majority of the advanced nations, the United Kingdom, as well as Spain, failed to exit the recession in quarter 3.
- Statistics on the fourth quarter outcome are not available for Spain as yet, but recently Britain announced 0.1% growth for the final quarter of 2009.
- In as much as there was relief that the longest post-war recession was over, there was disappointment about the magnitude of the rebound, as expectations were pegged around growth of 0.4%.
- For the full year, UK economic growth fell 4.8%, just shy of the contraction of 5.1% recorded in 1931.
- The US reported better than expected quarter 4 GDP numbers.
- A resounding 5.7% growth rate was recorded, beating expectations of a 4.8% growth. Despite this news, the markets failed to be inspired due to the composition of the rebound.
- The Bureau for Economic Analysis (BEA) highlights that the pick up in real GDP growth reflected a slowdown in the rate at which businesses drew down inventories; while inventories were drawn down for the seventh straight quarter this was much less than in quarter 3.
- Another contributor was the slowdown in imports (a subtraction in the calculation of GDP).
- All in all these contributions to real GDP growth were partially offset by slowdowns in federal spending, consumer spending, and residential housing in quarter 4.
- For 2009 as a whole, real GDP fell 2.4% after 0.4% growth in 2008.
- The BEA notes that the downturn in 2009, as a whole, reflected downturns in business investment and exports, and larger declines in inventory investment and consumer spending. The latter is in line with a rising personal savings rate, which now stands at 4.6% for the US economy.
- The current rebound in US GDP is a factor of restocking where business had previously cut production severely and are now building up inventories to more normal levels.
- A critical issue is that demand must improve to sustain the economic recovery.
- Poor growth in consumption expenditure continues to be a risk for US growth. This rose by 2% from quarter 3, a number below the increase of 2.8% recorded in the previous quarter.
- It is difficult to foresee a rebound in consumption expenditure in the face of a rising savings rate, still high unemployment and fiscal consolidation.

Fiscal consolidation is one of the big themes of 2010

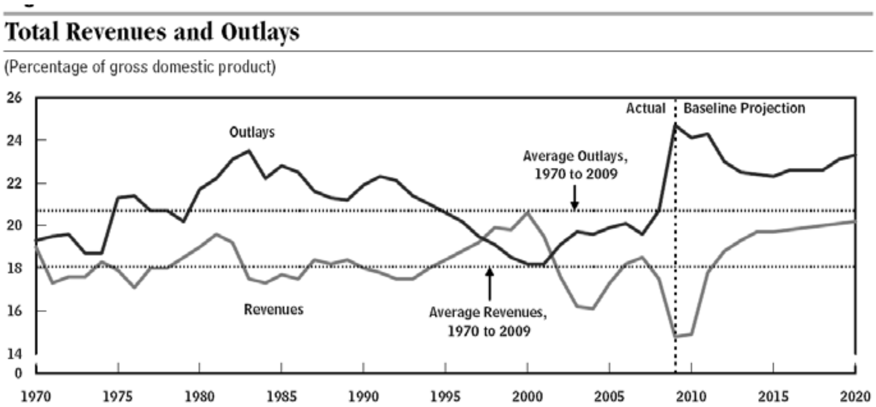
- Fiscal consolidation is likely to be one of the great themes of 2010.
- Governments around the globe increased expenditure in an effort to avert or minimise the impact of recession. In so doing, the many issued bonds pushed up national debt levels. Bringing these debt levels back to sustainable levels is likely to be a difficult exercise.

National finances of the US and Greece.

- The US budget deficit ballooned in 2009 and there is only a slight improvement expected for 2010.
- In 2009, the US reported the largest post war deficit on record; a deficit of $1.4 trillion or 9.9% of GDP.
- The US Congressional Budget Office (CBO) has recently announced budget estimates for the forthcoming year; the federal budget is set to show a deficit of about $1.3 trillion for fiscal year 2010, which is 9.2% of GDP.
- The CBO also mentions that these accumulating deficits will push federal debt held by the public to significantly higher levels.
- At the end of 2009, debt held by the public was $7.5 trillion, or 53% of GDP; by the end of 2020, debt is projected to climb to $15 trillion, or 67% of GDP.
- With such a large increase in debt, plus an expected increase in interest rates as the economic recovery strengthens, interest payments on the debt is poised to skyrocket.
- The CBO projects that the government's annual spending on net interest will more than triple between 2010 and 2020.
- Figure 3 highlights the evolution of revenues and outlays in the US. It becomes clear that in 2009, outlays (expenditure) far exceeded government revenues, bringing about the above mentioned federal deficit.

Advantage economic and market commentary (continued)

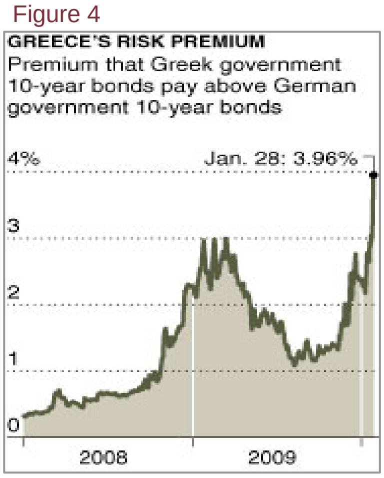
Figure 3



Source: Congressional Budget Office

- Recently, President Obama delivered his state of the nation address where he made promises to freeze non-security spending for three years.
- The Economist notes that once military spending and entitlements (like government-provided health insurance for the poor and the elderly and Social Security) are stripped out, less than a fifth of the budget is left to freeze; and that freeze would be counteracted by the jobs bill that Mr Obama urged Congress to pass[2]. This simply illustrates the difficulty in policy decision making in an environment of restrictive fiscal policy.
- The US is not alone in making these tough decisions; Greece is another country in the spotlight due to its burgeoning deficit.
- The New York Times[3] recently wrote that shortly after Abu Dhabi rescued Dubai, prominent European nations also face the prospect of bailing out Greece. Furthermore, the market has pronounced swift and brutal judgment on Greece via the premium now required above German bonds, figure 4. By the end of January, Greece's risk premium (a measure of the risk investors perceive in Greek debt) rose to 3.96%; the highest level since the euro was adopted.
- The New York Times states that this move by the market is a reflection of the scepticism around the practicality of Greece's plans to reduce the 12.7% deficit to 8.7% of GDP this year and eventually to within the EU limit of 3% of GDP by 2012.
- The Greek economy makes up 2.5% of GDP in the euro zone. The Economist notes that Greece is likely to require €51 billion this year, to cover its budget deficit, to roll over its short term borrowings and to redeem its maturing longer term debt; much of which comes due in April and May.
- The outcome of Greece's bail out will become clear early in February when the European Commission assesses the state of this nation's finances.
- The critical issue of course is that of contagion, if Greece falters what about other European nations like Portugal and Spain?

Figure 4



Source: Bloomberg The New York Times

[2]www.economist.com
[3]www.nytimes.com

Advantage economic and market commentary (continued)

- A clear reflection of the shift in global power and dynamics in favour of emerging markets, China in particular, is evidenced by recent rumours that Greece has asked China to buy up €25 billion of its debt. Apparently Greece had tried to place its debt with China and failed. The Greek finance ministry has denied these allegations.
- Nonetheless, what is clear is that we are witnessing the most powerful reassessment of global dynamics that will irrevocably alter the way that we do business.

Impact on financial markets

- Financial markets are likely to be most volatile this year.
- If the economic recovery holds, then financial markets will do well, only if fiscal and monetary policy remains expansionary.
- Threats to the expansionary policy (as in the case of China raising reserve requirements) will spook the market with global and local equities, as well as resulting in commodities pulling back.
- Local bond markets had a torrid 2009, with yields rising as governments began announcing the need for increased supply to fund the budget deficit.
- During the month of February, the Finance Minister will provide clarity on the issue of bond supply.
- If the deficit is revised downwards then bonds could rally. Bond markets would also benefit if another interest rate cut is announced in March but, in the context of rebounding local growth, this is unlikely.

Azola Lowan, CFA
Senior Research Analyst
Advantage Asset Managers

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 - January 2010

Fulcrum	1 Month	3 Months	6 Months	12 Months	36 Months*	60 Months*
Fulcrum Aggressive	-1.20%	1.07%	8.77%	19.80%	5.59%	14.76%
Benchmark	-1.64%	0.80%	8.65%	20.50%	4.58%	14.72%
Fulcrum Balanced	-1.08%	1.15%	8.35%	17.89%	5.85%	14.70%
Benchmark	-1.46%	0.79%	8.15%	18.77%	4.88%	14.94%

*Annualised

- Performance figures are nominal, gross, and non-annualised (except where indicated otherwise).
- All returns to 31 January 2010.

Market indices

	1 Month	% Change at 3 months	% Change at 12 months	% Change at 36 months	% Change at 60 months
CPI*	0.28%	0.28%	6.30%	8.25%	6.81%
R/$ Exchange rate	-2.43%	3.83%	34.90%	-1.38%	-4.61%
All Share index	-3.50%	1.43%	33.16%	4.50%	19.07%
Shareholder Weighted index (SWIX)	-2.62%	1.60%	32.78%	4.28%	18.56%
Financials	1.24%	2.89%	39.42%	-1.40%	12.62%
Industrials	-2.68%	0.43%	33.14%	6.65%	19.21%
Resources	-6.41%	1.61%	30.17%	5.22%	22.70%
MSCI World index (All countries)**	-1.27%	-5.54%	-2.88%	-8.09%	5.55%
Citigroup Composite index	2.85%	-4.46%	-18.14%	9.27%	9.15%
ALBI	0.27%	1.57%	1.69%	6.32%	6.87%
STeFI	0.61%	1.83%	8.76%	10.02%	8.93%

*For December 2009
** MSCI World index (All Countries) return adjusted to correspond with international investment prices received.

Advantage Fulcrum Aggressive

January 2010

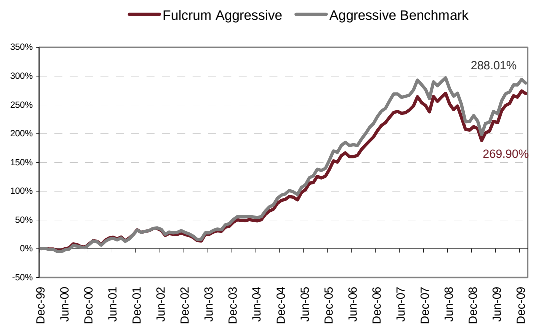
Portfolio mandate

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.

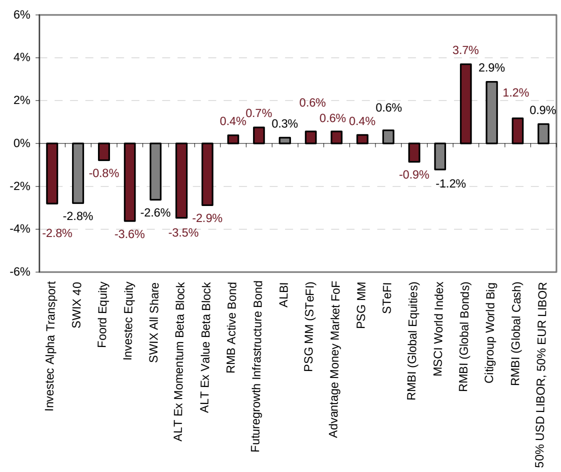
Key information

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

Cumulative returns since inception



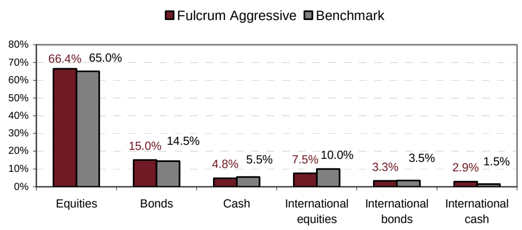
Performance of portfolio managers: 31 January 2010



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.

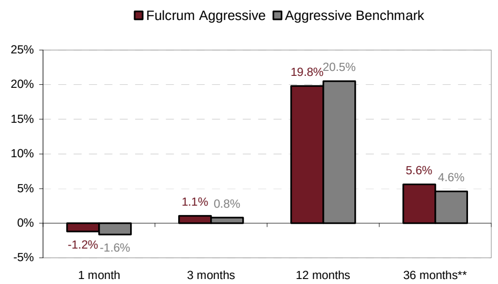
Asset allocation as at 31 January 2010*



Manager allocation as at 31 January 2010

Local equity managers	
Coronation House View	22.5%
Investec Alpha Transport	4.7%
Foord Equity	35.7%
Investec Equity	24.3%
Momentum Beta Block	5.1%
Momentum Value Block	7.6%
Tactical asset allocation	
Advantage Aggressive TAA	100.0%
Private equity	
Momentum	100.0%
Local bond managers	
RMB Active Bond	80.1%
Futuregrowth Infrastructure Bond	19.9%
Local cash managers	
PSG Money Market	9.0%
Prescient Money Market	54.7%
RMB Money Market	36.3%
International	
RMBI (equity)	54.8%
RMBI (bonds)	24.3%
RMBI (cash)	20.9%

Performance summary to 31 January 2010



* Allocations as at 28 January 2010, due to the system amalgamation as communicated

** Annualised

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

Advantage Asset Managers Registration Number 2004/023064/07
• Authorised as a financial services provider (FSP) under the Financial Advisory and Intermediary Services Act, 2002 number 19840
• Registered as an administrator in terms of Sec 13B of the Pension Funds Act, number 24/401

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
[redacted] 330, Gallo Manor, 2052

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Advantage Fulcrum Balanced

January 2010

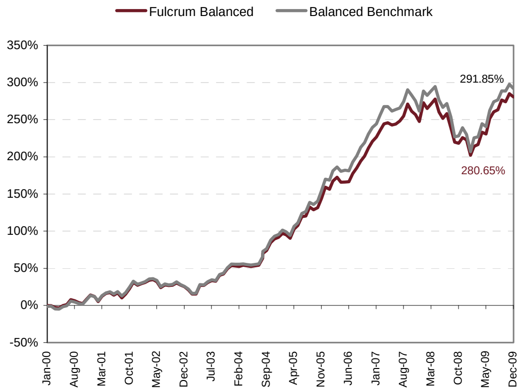
Portfolio mandate

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.

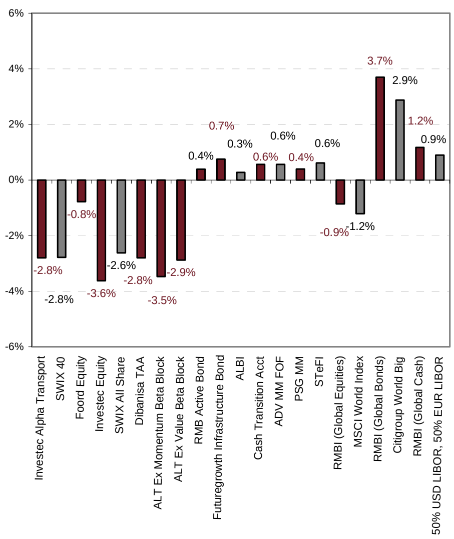
Key information

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

Cumulative returns since inception



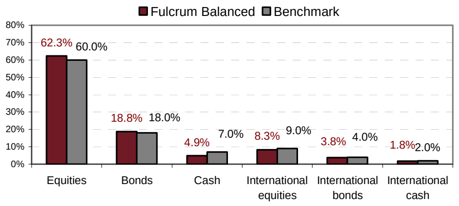
Performance of portfolio managers: 31 January 2010



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 31 January 2010*



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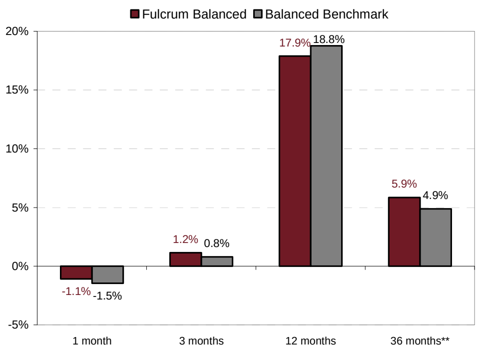
Futuregrowth Infrastructure Bond	19.9%
Local cash managers	
PSG Money Market	9.0%
Prescient Money Market	54.7%
RMB Money Market	36.3%
International	
RMBI (equity)	27.3%
RMBI (bonds)	13.2%
RMBI (cash)	59.6%

Performance summary 31 January 2010



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[redacted] 330, Gallo Manor, 2052

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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:
Tel +27 11 575 4450
Website www.advantage.am
Fax +27 11 576 4450
e-mail info@advantage.am