

*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

April 2010

Please note that Advantage Asset Managers has moved to a new premises in Sandton. Our new address is as follows: 2nd Floor; 6 Merchant Place; Cnr Fredman Drive and Bute Avenue; Sandton; 2196. Also note that our new reception number is 086 153 8732 and our new Client Service Desk number is 086 123 8238.



**advantage**  
asset managers

## Advantage economic and market commentary

April 2010

### Commentary

#### Financial markets

After a sterling 7.9% return in March, the FTSE JSE All Share index managed a paltry -0.06% return for April. The ALSI initially enjoyed a strong run of about 3% in April but reversed these gains as news flow out of Greece turned decidedly negative on the back of default fears. Gold enjoyed a 5% rally to \$1169 per ounce on the back of investors seeking a safe haven from the uncertainty in Europe. Lower inflation outcomes for March and a fairly stable exchange rate benefited local bonds as the All Bond index returned 1.26% for the month. Listed property, which has bond like characteristics, also benefited; rewarding investors with a return of 1.85%. Returns from international markets were quite mixed with US markets delivering good returns on the back of a strong earnings reporting season and positive economic growth while European markets struggled due to developments in Greece.

#### The scope for further interest rate cuts are limited

Consumer price inflation has fallen to levels last seen in 2006 as the reading in March fell to 5.1% year-on-year. Food inflation is now only growing at 0.5% from the previous year and importantly, underlying inflation<sup>1</sup> is also now growing at 5.4% over the year. Producer price inflation for March came in at 3.7% year-on-year, slightly lower than consensus expectations of 3.9%. Falling maize prices have had a deflationary impact on agricultural food prices; pipeline price pressures remain contained as agricultural food inflation is still running at -8.2% from the previous year. Manufacturing food inflation is contracting at -1.5% year-on-year to March 2010. Despite these positive outcomes, recent utterances from the Governor of the Reserve Bank, Gill Marcus, at the Bureau for Economic Research, point to the end of the interest rate cutting cycle. Specifically, she stated that the scope for further easing was limited although this was dependent on future risks that might change that outlook. Some of the risks that the Governor highlighted included the volatility of the rand as well as the still fragile domestic economy<sup>2</sup>.

#### IMF revises up global economic growth

The IMF released its latest World Economic Outlook (WEO) within which it revised up global GDP by 0.3% to 4.2% for 2010. The WEO notes that the global recovery is proceeding better than had initially been expected but that the recovery remained tepid in many advanced economies. As for most emerging economies, the recovery was solid, particularly in emerging Asia. The strength of the Chinese economy was recently reflected in their 11.9% economic growth rate for the first quarter of 2010.

The WEO highlighted a number of downside risks to their forecasts relating to public debt growth in advanced economies. They state that in the near term, a risk is that, if unchecked, market concerns about sovereign liquidity and solvency in Greece could turn into a full blown and contagious sovereign debt crisis. Furthermore, the main concern is that room for policy maneuvering in many advanced economies has either been largely exhausted or is much more

limited, leaving the fragile recoveries exposed to new shocks. In addition, bank exposures to real estate continue to pose downside risks, mainly in the United States and parts of Europe.

#### The Greek tragedy plays out

Eurostat, the European Union's statistical offices, recently announced that Greece's budget deficit for 2009 was 13.6% of GDP (higher than the previously reported 12.7% of GDP) and that Greece's government debt to GDP ratio had reached 115%. More alarming though was a note from Eurostat stating that it had reservations on the quality of the data reported by Greece and that further investigations were underway, which would lead to even more negative revisions.

Ratings agencies did not take kindly to these announcements; Bloomberg reports that Standard & Poor's (S&P) lowered Greece's credit rating to BB+ from BBB+ and warned that bondholders could recover as little as 30% of their initial investment, if the country restructures its debt. This downgrade marked the first time a euro member has lost investment grade rating (to junk bond rating) since the currency's 1999 debut; Greek bond yields spiked up violently on the back of these developments.

By the end of the month, Reuters reported that investors were finally calmed by the negotiation of a multi year bailout package for Greece and also agreement by this beleaguered nation to further austerity measures. Reuters reports that trade unions in Greece are vehemently opposed to austerity measures that may include Athens raising sales taxes, scrapping bonuses and enforcing a three year pay freeze. Furthermore, the Greek social affairs minister confirmed that pensions would be reformed in an attempt to save the country from collapse; reforms could include raising the retirement age and reducing pensions paid by state controlled corporations. News reports now suggest that Greece's aid package could be worth 100 – 130 billion euros over three years, as opposed to the initial plan of 45 billion euro aid for 2010 alone.

#### Economic recovery in the US affirmed

The Statement released by the Federal Open Market Committee (FOMC) highlighted that economic activity had continued to strengthen and that the labour market was beginning to improve. Also that household spending had picked up but remained constrained by high unemployment, modest income growth, lower housing wealth and tight credit. Financial markets were cheered by the Committee's commitment to maintain the target range for the federal funds rate at 0 to 0.25%; highlighting that conditions warranted exceptionally low levels of the federal funds rate for an extended period.

Companies on the S&P 500 index have reported first quarter earnings for 2010 and Bloomberg news reports 79.4% of the companies that have reported topped projections and beat analysts' estimates. Positive economic growth of 3.2% for the first quarter was largely attributable to consumer spending on durable goods and services perking up. These developments

<sup>1</sup>CPI excluding food, non alcoholic beverages and petrol

<sup>2</sup>www.inet.co.za

## Advantage economic and market commentary (continued)

in the US led to the Dow Jones Industrial Average returning 1.4% for the month while European bourses like the CAC 40 in Paris were down 4% in April on the back of uncertainty in Greece.

### Impact on financial markets

Developments in April continue to point towards what will be a most volatile year for financial markets. What remains critical is focussing on investments that are backed by strong fundamentals. A clear example of this is that despite the fallout in Greece, the appetite for emerging market bonds remains strong. In South Africa, for the year to April, foreigners have bought R32 billion worth of bonds on the back of a very attractive yield and good local fundamentals. We continue to believe that the global economic recovery is in place but sovereign debt will remain a key risk in some advanced economies.

**Azola Lowan, CFA**  
**Senior Research Analyst**  
**Advantage Asset Managers**

## Performance report - April 2010

Fulcrum	1 Month	3 Months	6 Months	12 Months	36 Months*	60 Months*
Fulcrum Aggressive	0.75%	6.68%	7.82%	29.55%	5.40%	16.39%
<i>Benchmark</i>	0.69%	6.80%	7.66%	29.66%	3.95%	16.35%
Fulcrum Balanced	0.82%	6.79%	8.02%	28.47%	5.69%	16.39%
<i>Benchmark</i>	0.70%	6.49%	7.33%	27.62%	4.32%	16.51%

\*Annualised

- Performance figures are nominal, gross, and non-annualised (except where indicated otherwise).
- All returns to 30 April 2010.

## Market indices

	1 Month	% Change at 3 months	% Change at 12 months	% Change at 36 months	% Change at 60 months
CPI*	0.82%	1.74%	5.11%	7.77%	6.05%
R/\$ Exchange rate	-0.27%	2.47%	14.89%	-1.54%	-3.77%
All Share index	-0.06%	8.21%	41.77%	3.39%	21.18%
Shareholder Weighted index (SWIX)	0.58%	8.62%	40.69%	3.12%	20.78%
Financials	0.77%	9.36%	45.05%	-1.90%	14.64%
Industrials	1.19%	8.57%	44.16%	6.14%	22.31%
Resources	-1.64%	7.30%	37.97%	3.21%	23.84%
MSCI World index (All countries)**	1.02%	5.20%	20.20%	-7.61%	6.33%
Citigroup Composite index	-0.69%	-5.64%	-8.99%	7.06%	7.29%
ALBI	1.26%	5.48%	9.34%	7.35%	7.96%
STeFI	0.58%	1.75%	7.90%	9.90%	8.93%

\*For January 2010

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

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Given that past performance may not be an indicator of future performance and that the value of investments will fluctuate over time, independent professional advice should always be sought before making an investment decision.

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- Registered as an administrator in terms of Sec 13B of the Pension Funds Act, number 24/401



# Advantage Fulcrum Aggressive

April 2010

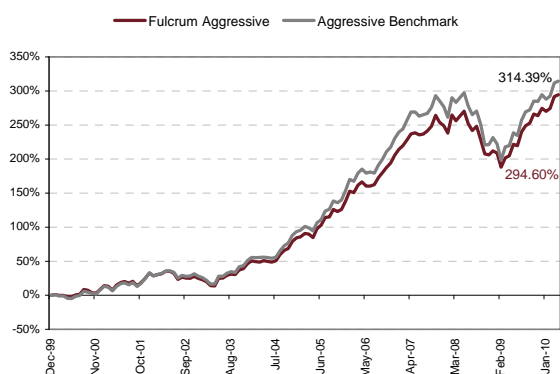
## Portfolio mandate

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.

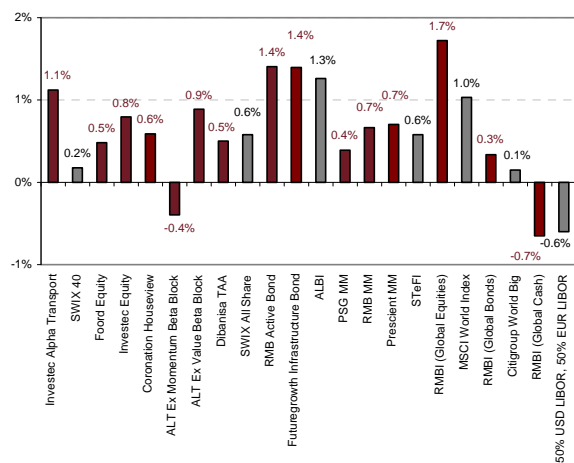
## Key information

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

## Cumulative returns since inception



## Performance of portfolio managers: 30 April 2010



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

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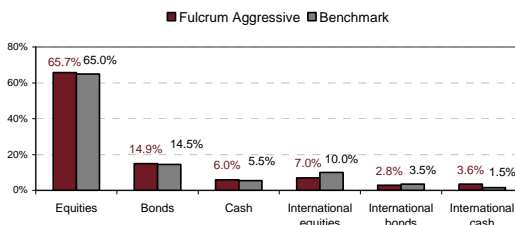
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## Investment strategy

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 April 2010



## Manager allocation as at 30 April 2010

Local equity managers	Allocation
Coronation House View	25.4%
Investec Alpha Transport	4.7%
Foord Equity	35.1%
Investec Equity	22.2%
Momentum Beta Block	5.0%
Momentum Value Block	7.5%

Tactical asset allocation	Allocation
Advantage Aggressive TAA	100.0%

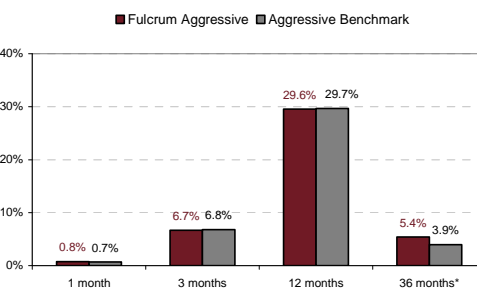
Private equity	Allocation
Momentum	100.0%

Local bond managers	Allocation
RMB Active Bond	80.0%
Futuregrowth Infrastructure Bond	20.0%

Local cash managers	Allocation
PSG Money Market	5.9%
Prescient Money Market	56.7%
RMB Money Market	37.4%

International	Allocation
RMBI (equity)	52.4%
RMBI (bonds)	21.2%
RMBI (cash)	26.4%

## Performance summary to 30 April 2010



\* Annualised

# Advantage Fulcrum Balanced

April 2010

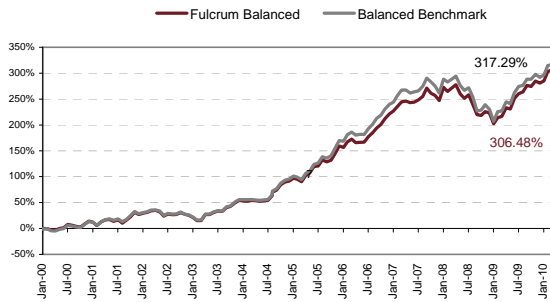
## Portfolio mandate

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.

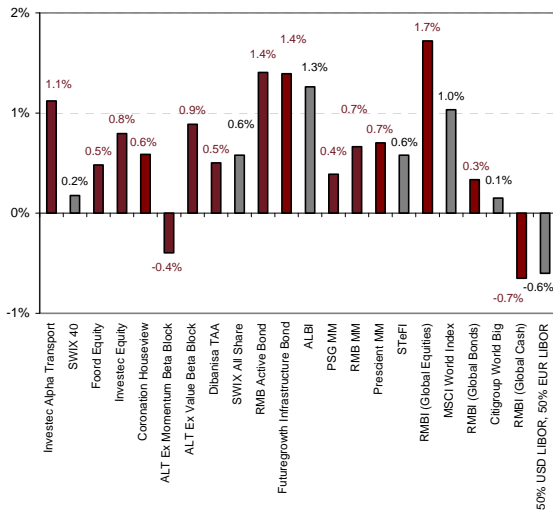
## Key information

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

## Cumulative returns since inception



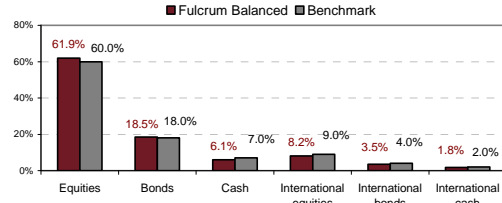
## Performance of portfolio managers: 30 April 2010



## 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 30 April 2010



## Manager allocation as at 30 April 2010

Local equity managers	Allocation
Coronation House View	25.4%
Investec Alpha Transport	4.7%
Foord Equity	35.1%
Investec Equity	22.2%
Momentum Beta Block	5.0%
Momentum Value Block	7.5%

## Tactical asset allocation

Advantage TAA	100.0%
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## Private equity

Momentum	100.0%
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## Local bond managers

RMB Active Bond	80.0%
Futuregrowth Infrastructure Bond	20.0%

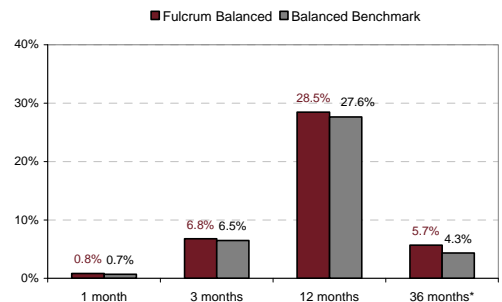
## Local cash managers

PSG Money Market	5.9%
Prescient Money Market	56.7%
RMB Money Market	37.4%

## International

RMBI (equity)	26.1%
RMBI (bonds)	13.3%
RMBI (cash)	60.6%

## Performance summary 30 April 2010



\* Annualised

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

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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:**