



Conexus' investment objective is to provide Investors with the opportunity to achieve long-term capital appreciation together with dividend growth through active management by investing in a portfolio of equities, derivative instruments, other securities listed on the JSE and OTC markets, private equity and private equity related securities and instruments listed on the Bond Exchange of South Africa. The Investment Manager targets a substantial portion of the investments being made in private equity investments that may be regarded as high risk by virtue of these positions being illiquid in nature and where governance and reporting standards may not be as developed as those in public markets. Investors in Conexus will own ordinary shares in Conexus Investment Fund Limited (which will house most listed instruments) as well as a beneficial ownership through a vested interest in the Conexus Capital Trust (which will house private equity investments).

**Conexus Investment Fund Limited**

**Company information**

<b>Launch Date:</b>	October 2006
<b>Company NAV:</b>	R63.5m
<b>Dealing:</b>	Quarterly
<b>Investment:</b>	Ordinary unlisted shares
<b>Management Fee<sup>1</sup>:</b>	1.20% pa
<b>Administration Fee<sup>1</sup>:</b>	0.24% pa
<b>Performance Fee<sup>1</sup>:</b>	12% of realised & unrealised gains using the high water mark principle
<b>Share price:</b>	R1,038.02

**Top holdings**

Cash	42.2%
Hedge Funds	10.1%
Sasol	7.5%
Standard Bank	7.3%
Billiton	7.0%
Vox Telecom	5.8%
MTN Group	5.0%
Metmar	4.0%
Listed Prefs	3.5%
York	3.0%
Grindrod	2.7%

**Share Price history<sup>2</sup>**

Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4	YTD %
2006/7	-	-	1,015	1,071	7.1%
2007/8	1,182	1,194	1,197	1,190	11.1%
2008/9	1,219	1,156	1,029	986	-17.1%
2009/10	1,016	1,038	-	-	5.3%

**Share Price Performance Calculation**

The share price represents the net asset value calculated at the end of May, August, November and February each year, in accordance with the Offer document. The YTD performance represents the percentage movement in the share price for the period under review (i.e. latest share price / previous year end price less 1). Past performance is not necessarily a guide to future performance.

1. Excl VAT  
2. Rounded to nearest Rand

**Conexus Capital Trust**

**Trust Information**

<b>Investment:</b>	Vesting Trust
<b>Trust NAV:</b>	R95.3m
<b>Initial charges:</b>	Nil
<b>Management Fee<sup>1</sup>:</b>	1.20% pa
<b>Administration Fee<sup>1</sup>:</b>	0.24% pa
<b>Performance Fee<sup>1</sup>:</b>	12% of realised gains using the high water mark principle

**Investments**

Description	Cost	Estimated Mkt Value	IRR <sup>1</sup>
<b>Unrealised</b>	R91.9m	R105.9m	13.0%
<b>Realised</b>			
Hillson Drilling			34.5%
<b>Total</b>			<b>13.4%</b>

1. Excl VAT

1. IRR represents annualised IRR net of management fees and prior to performance fees.

**Investment Manager Commentary**

It feels like a long time ago that the Investment Environment February 2009 was sent out and at that time we expounded on the theory of "bumping along the bottom". We were also courageous enough to say that it was important to maintain portfolio positions and not throw out shareholdings which would have caused a crystallisation of losses. The Investment Environment of May 2009 argued that probabilities favour Sunter's scenario "new balls please" setting the scene for recovery, and that probably the worst was over.

Six months after bumping along the bottom, it would appear that we have experienced one of the most impressive rallies in stock market history and while we should pause to enjoy the moment, markets never allow us the luxury of being complacent. There are many (probably the majority) market commentators who, having missed the easy money in the early stage of the current recovery, continue to argue that this is a bear market rally. Probably the most notable of these forecasters is Nouriel Roubini, the New York University Professor of Economics who accurately forecasted the bursting of the housing bubble and the resulting economic contraction in 2007. Having already been dubbed "Dr Doom", on 24 August Roubini published an article in the Financial Times highlighting that the risk of a double dip recession is rising.

We receive a lot of research but take Dr Martin Jetzer of HSBC Private Bank seriously, and he has recently released a series of papers headed "Beyond the Crisis" where he makes the following statement: "The liquidity crisis of early 2008 is over; a great environment for well capitalised commercial banks following the greatest credit overshoot in history. Banks benefit from record credit spreads, record fees, near-zero funding costs, implicit government guarantees and the prospects of the economy beginning to recover." How ironic that the supposed perpetrators of sub-prime that quickly turned into a global financial markets crisis, could be the potential beneficiaries of the recovery. In an effort to avoid being short sighted, we continue to take a longer term and more positive view. The important point is that banks are beginning to lend again and as money begins to flow more easily the world might be relieved that the high risk zone of D&D (deflation and depression) has passed. But perhaps it is better than that and financial markets are discounting the start of a new business cycle. This cycle might be well supported by years of non-inflationary slower growth allowing a long low interest rate environment which will be self fulfilling and supportive of a real growth environment.

There are obviously always risks that a sustained recovery could be disrupted but we are in a far better place than 6 months ago and significant action has been taken by:

- Businesses - cut costs and inventories to defend profitability
- Consumers - behaved appropriately (e.g. the US savings rate touched 6.9% which is hard to believe, yet in China the consumer continues spending off a low base which is positive)
- Governments - aggressively stimulated economies and have bailed out where necessary.

**Investment Manager Commentary (continued)**

It is unlikely that markets will continue to move in one direction and continue straight up from here but there is a positive outlook and we intend holding on to what we have in the portfolios. In the event of any set back, courage will be needed to use the opportunity to add to the existing equity counters in the portfolios. One needs to remember that share prices have led the economic recovery and, on the assumption the markets are right, the benefits are yet to come in the form of improving profitability and dividend flows based on economic recovery.

As we reported at the Investor Meeting in June, the weak economic environment is putting the private equity businesses under pressure but they are managing the situation and in some cases exceeding our expectations. While no further private equity investments were made in Conexus Capital Trust, a number of opportunities are currently being investigated. A follow on investment in Magix will be closed shortly, increasing the stake to approximately 25%. Redsun Raisins has entered full production in the last quarter and is actively exporting, and while the Rand strength does not favour the business, we are pleased with the progress and operational successes. Poynting is struggling with its consumer division notwithstanding that the defence business continues to perform, however we are expecting disappointing results (the company has issued a SENS trading update on 31 August). Daly has produced a solid performance and is marginally ahead of budget. South Point continues to expand at a rapid rate, currently owning in excess of 30 buildings. A strategic investment by Old Mutual has been facilitated in the subsidiary Stay at South Point (Pty) Ltd which has catalysed a debt facility of R680 million to fund further growth.

We are pleased to announce that we have launched our website which we hope you will find useful as a reference point for information on both Douglas Investments and Conexus Investment Fund, and we would value any feedback you may have. [www.douglasinvestments.co.za](http://www.douglasinvestments.co.za).

**Investment Manager:**

Clive Douglas Investments (Pty) Ltd

**Advisor (corporate & legal):**Metier Investment & Advisory Services (Pty)  
Ltd**Structured & Administered by:**

Realtime Financial Solutions (Pty) Ltd

**Disclaimer**

The information and opinions contained in this document are recorded and expressed in good faith and in reliance on sources believed to be credible. However no representation, warranty, undertaking or guarantee of whatever nature is made or given concerning the accuracy and/or completeness of such information and/or correctness of such opinions. Neither the Investment Manager, the Advisor nor the Administrator will accept any responsibility for any investment decisions based on the information and opinions contained in this document. Past performance is no guarantee of future performance.