

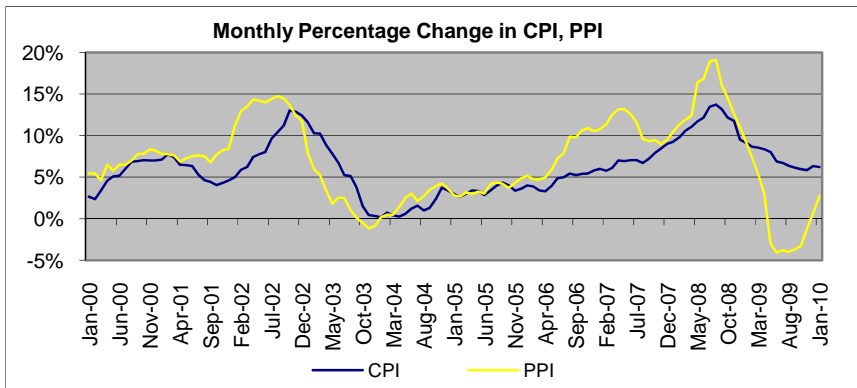
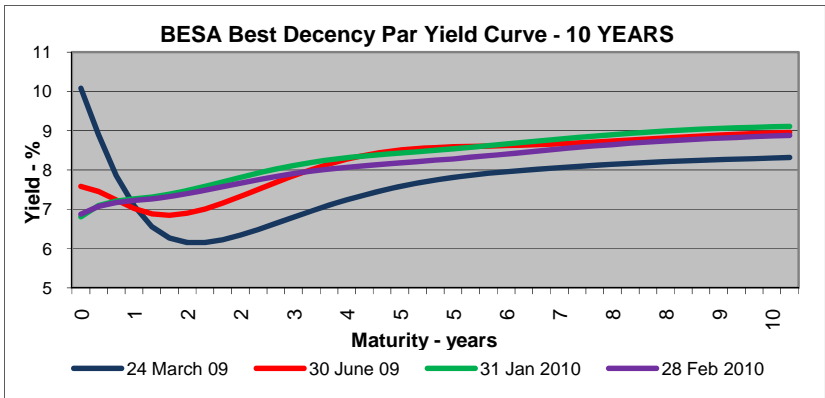


### Investment Environment – February 2010

We are one year away from the bottom and have completed another quarter of good performance for risk assets. Although the quarter ended on a softer note, equities worldwide for the past year have shown a stellar performance with the S&P500 rising by 72% which makes the ALSI performance of 46% more pedestrian. By any measure these are extraordinary performances but probably reflective of the risk that existed in March 2009 when there was high volatility and no visibility of the market direction.

The 3 legged stool, referred to in November 2009, of asset price recovery, economic underpin and positive company results, is holding up. Fourth quarter results in the US had 73% of companies beating consensus analyst earnings expectations. South Africa is also seeing good results from companies but not necessarily across the board. It is now expected that 2010 will continue to show share price recovery and we do not subscribe to the theory of a double dip.

As was the case in November 2009 with the Dubai world debt standstill being classified as a stress test for risk investors, it would appear that the crisis in Greece is a warning shot across the bow of heavily indebted nations. Such situations are symptomatic of the debt crisis at a sovereign level. The situation in Greece would undermine the integrity of the Euro and therefore it is likely that some sort of bailout will occur.



To some extent the theory that emerging markets could decouple from first world economies seems to have occurred. Emerging markets have stimulated their economies, encouraging internal growth rather than relying on developed world demand. South African markets present significant opportunities with interest rates at a low point yet they remain real and inflation is close to the required band. As is shown in the yield curve graph, over the last year the curve has normalised which is a strong indication of economic recovery from a recession. The commodity link to the eastern and in particular Chinese economies adds to this economic impetus. The capacity that is built up in both the labour and goods markets is advantageous in that such a recovery in 2010 is likely to have minimal inflationary pressures and therefore interest rates are expected to stay muted. Finally, the capital controls inflicted by exchange control and the stronger Rand driven by attractive investment and interest rate returns, also helps control inflationary pressures. It is therefore likely that the recovery will continue but at a slower pace in more normal conditions.