

Market Highlights April 2012

- Inflation:** March consumer inflation measured 6.0% year-on-year; we expect it to rise due to the following:
 - South Africa (SA) is yet to feel the full impact of a weaker rand: almost one-third of gross domestic expenditure (GDE) consists of imports, thus the rand's depreciation against the US dollar over the last 12 months will exert significant upward pressure on inflation as import costs rise.
 - Rising energy prices: continued tension in the Middle East has resulted in international oil prices remaining high at approximately the \$120/barrel mark.
 - Higher electricity and food prices.
- Currency:** The rand is currently trading at approximately R7.70/US\$. The current strength in the currency seems to be associated with foreign inflows into the bond market. This may be due to a prolonged outlook for a lower global interest rate environment, resulting in SA bond rates being more attractive to foreign investors, who, year to date, have bought approximately R32bn worth of the asset class. In addition, the recent announcement by Citigroup that SA Government Bonds are likely to be added to their World Government Bond Index has further increased foreign demand for SA bonds.
- Local Markets:** The FTS/JSE All Share Index (ALSI) is up 9% for the year to date, with the markets being supported by the resolution of the Greek credit crisis, positive US manufacturing and employment data, and the US Fed saying interest rates will be kept lower for longer. We believe that most of the sectors making up the ALSI are expensive, but sectors that continue to show good value are telecommunications and insurance. The forward yields of Vodacom, MTN, Altech and Liberty Holdings compare favourably to current cash interest rates. On an after-tax basis, the yields of these securities are even more attractive. These companies also have the potential to grow their income in line with inflation over the next five years. This yield growth proposition suggests cheap income streams.
- Offshore Markets:** The global economy is showing slower growth, which would generally manifest in lower growth in corporate dividends and, hence, less capital growth. Seeking out reliable dividend streams and high dividend yields will serve investors well in this low-yielding environment. With dividend yields of some of the biggest companies in the world well above bond yields, equity valuations in these markets are presenting investors with a significant opportunity to generate inflation-beating returns over the next five years.

"Marriott aims to reduce the financial anxiety of the retired investor"

Simon Pearse | CEO



Asset Class Expectations - 2012

SA Bonds - Inflation-linked bonds are preferred

Fixed Interest Bonds	Inflation-linked Bonds
Dec 2010 yield 8.1%	Dec 2010 yield 2.7%
Dec 2011 yield 8.1%	Dec 2011 yield 2.2%
Average 2011 bond fund sector return 8.4%	Average Inflation-linked Bond Fund Return 11.2%

We continue to favour inflation-linked bonds over fixed interest bonds due to their relatively attractive real yields and inflation-hedged income. Based on our current medium-term inflation estimate of at least 7% p.a., the real return offered by fixed interest bonds is approximately 1% (8% income yield minus 7% inflation), which is less attractive than inflation-linked bonds that are currently guaranteeing investors a real return of 2.2%.

SA Listed Property - Below average yields and below average income growth

Dec 2010 yield 7.3%
Dec 2011 yield 7.7%
Average 2011 property fund sector return 7.6%

Administered prices continue to escalate well ahead of inflation, and their impact on property expenses is starting to subdue significantly the income growth prospects of SA listed property.

The table below draws attention to some recent poor results from SA listed property companies:

Property Company Annual Distribution Growth for FY2011

Country	Distribution Growth
Redefine	2.3%
Sycom	-1.7%
Octodec	-1.1%
SA Corporate	2.6%
Inflation (December 2011)	6.1%

Source: I-Net

As a result of subdued property distribution, growth-prospect investors should be compensated with higher yields than are currently available in the market.

