

STANLIB

IT IS CLEAR THAT SOUTH AFRICA NEEDS A CATALYST to help unlock the vast potential of South Africa's business sector

An important part of building a diversified portfolio is the inclusion of global investments.

STANDPOINT

IF YOU THINK YOU ARE SPENDING MORE, YOU ARE



Unlocking the potential of the SA Corporate Sector

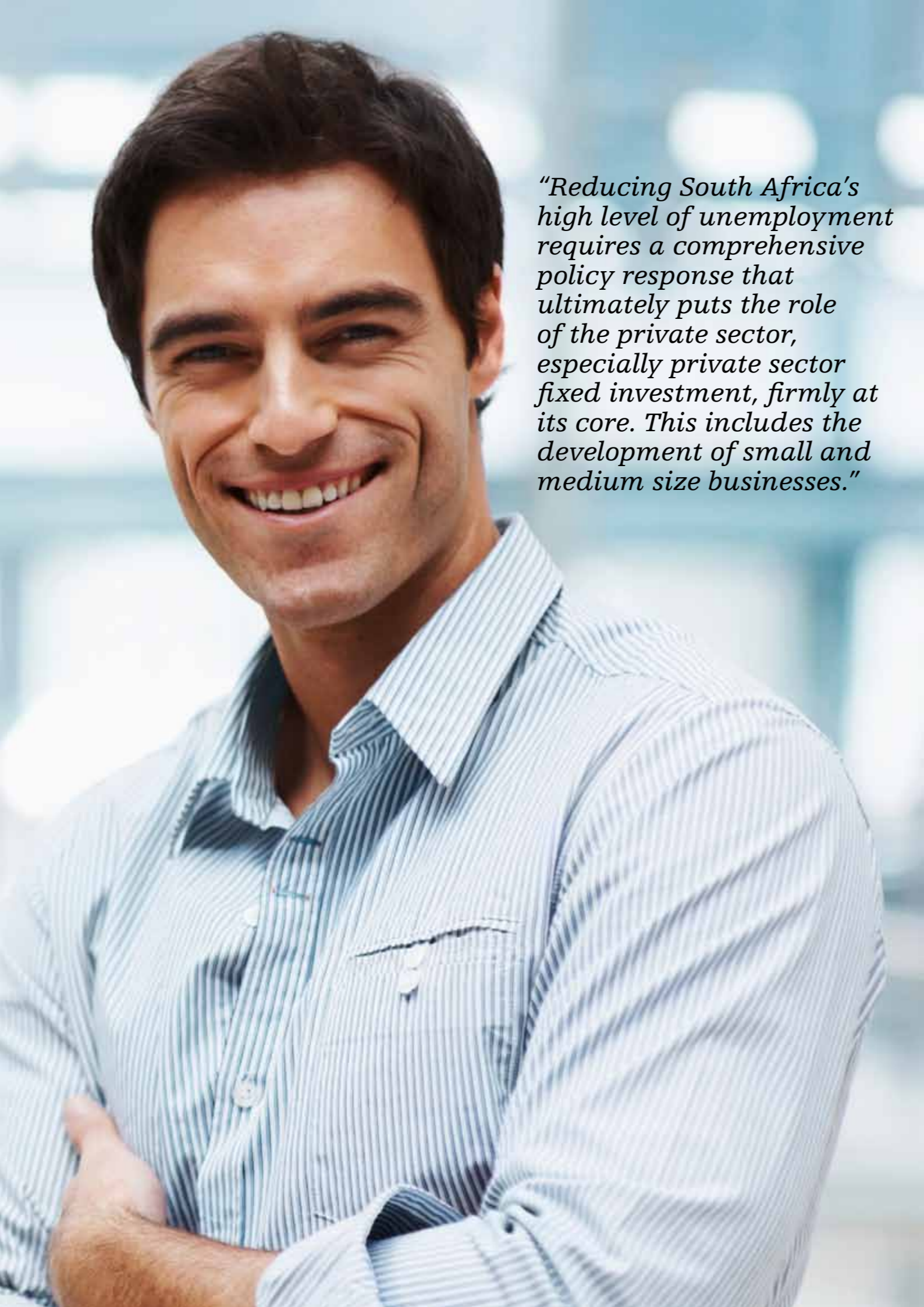
Current market volatility - Is this the new norm?

Budget makes the RA a powerful savings vehicle

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VOLUME 01 | 2012
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“Reducing South Africa’s high level of unemployment requires a comprehensive policy response that ultimately puts the role of the private sector, especially private sector fixed investment, firmly at its core. This includes the development of small and medium size businesses.”

STANDPOINT

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Unlocking the potential of the SA Corporate Sector

South Africa is in urgent need of job creation. According to Statistics South Africa, formal (non-agricultural) employment in South Africa rose by a modest 23,000 jobs in Q4 2011. What is the key to unlocking South Africa’s growth potential?

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If you think you are spending more, you are!

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Current market volatility – Is this the new norm?

The world hasn’t seen economic shocks greater in magnitude than the last four years’ events, at least not since the great depression of the 1930’s. Will this volatility continue?



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For many people, risk is not about how much money you could make from an investment. Neither is it about how much money you might lose from making an investment. For most people when it comes to risk, it’s about not losing any money at all!



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BUDGET MAKES THE RA A POWERFUL SAVINGS VEHICLE

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BONGANI'S FOREWORD



THE FIRST QUARTER OF 2012 IS BEHIND US AND SO TOO IS THE LAST OF THE SUMMER. TIME SURE DOES FLY.

In this first issue of the revamped STANDPOINT, we have a varied selection of topical articles, which we hope you will find interesting. We reflect on 2011 to see which local stock performed the best and why. We also look forward at some local economic issues for 2012 and beyond – consumers are definitely feeling the pinch and STANLIB's Chief Economist, Kevin Lings explains some of the drivers which are contributing to this consumer pressure.

Four years since the 2008 financial crisis, there is a perception that global markets are still very volatile. Understandably investors shy away from investing in growth assets like Equities and Property stocks – what is currently the

greatest risk to investors? This question is answered in this issue of STANDPOINT.

Andrew Vintcent, the Head of Growth Equity Franchise, also gives his views and current stock picks.

Even with all the recent legislation and tax changes, retirement annuities still rule supreme as an individual retirement savings vehicle, and Anthony Katakuzinos unpacks the reasons why.

The Code of Responsible Investing in South Africa came into effect earlier this year. STANLIB has taken the principles of this code to heart, and we have incorporated them right into the core of our investment research process. In this issue, you will find more detail on exactly how we are living the CRISA principles through our investing ethos.

2012 is set to be a challenging year for investors. The global economic outlook is still uncertain, as are the local growth and employment prospects. However, as it is often said, the show must go on. If anything, investment decisions need to be even better informed and more carefully weighed up than ever before.

STANLIB

We remain committed to giving you the best possible service, feel free to contact us at any time. If you are a registered online user, you can now use the self service portal, STANLIB Online to access your investment statements 24 hours a day. To register for STANLIB Online, simply follow the simple process on www.stanlib.com. If you wish to make any changes to your investment or have any queries, please do not hesitate to contact your financial adviser or alternatively our dedicated client service team on 0860 123 003.

I am sure that you will enjoy this edition of STANDPOINT and find it both insightful and informative.

Regards,
BONGANI MAGEBA
Managing Director: STANLIB Retail

THIS IS THE FIRST EDITION OF OUR NEW LOOK STANDPOINT.



erica.stuart@stanlib.com.
I would love to hear your views. ■

I would like to thank my awesome team for all their contributions and for the designers who worked on this for us – it looks great. If you have any comments or feedback, please send a mail to erica.stuart@stanlib.com.
I would love to hear your views. ■

ANDREW VINTCENT SHARES THE INVESTMENT PHILOSOPHY FOR HIS FUND AND HIS CURRENT MARKET OUTLOOK

THE STANLIB GROWTH FUND, MANAGED BY ANDREW VINTCENT, IS A PURE EQUITY FUND. When it comes to selecting stocks, Andrew aims to identify those stocks that have the best potential for long term capital appreciation. Dividend income plays an important, but typically secondary role.

Vintcent says, "The STANLIB Growth Fund has an unconstrained mandate. The primary objective is to achieve market and industry beating returns over the medium to longer term. It is fully invested in Equities, with the size of positions often reflecting significant conviction in the merits of the investment."

ANDREW'S INVESTMENT PHILOSOPHY

Andrew believes that companies that deliver superior earnings growth over time tend to outperform. However, he does not preclude investment in attractively valued companies with limited earnings prospects. "We (the Growth Equity Franchise) are flexible in our approach and don't limit ourselves to any particular style – we see ourselves as style agnostic, and manage the fund in a pragmatic manner. As a result, we believe the STANLIB Growth Fund should perform well through different economic cycles."

Leveraging off the award winning STANLIB Research team is an integral part of his investment process.

CURRENT MARKET OUTLOOK

Given the somewhat elevated level of current market, and specific sector valuations in

particular, Andrew is cautious about the outlook for the All Share Index. He does, however, see good opportunities in select companies and sectors. The STANLIB Growth Fund has averaged nearly 12% a year (gross) since inception in 1995.

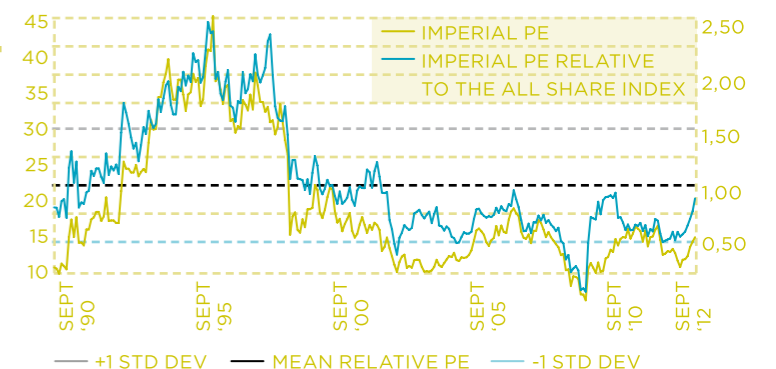
He has repositioned the fund over the last six months, and has shifted his focus from expensive defensive companies such as SABMiller and Tiger Brands to select cyclical companies such as Anglos, Imperial and Investec.

"Given the uncertain macroeconomic environment, some of the more defensive companies are trading at stretched relative valuations. We believe that current opportunities lie in select cyclical counters, which are now trading at attractive valuation levels, notwithstanding shorter term earnings concerns."

ANDREW'S STOCK PICKS FOR HIS FUND

"We believed that Imperial, for instance, was sold down to very attractive levels during July and August last year. On an absolute and relative P/E basis, it traded at the low end of its long term history, despite the fact that the business mix of Imperial today is far superior to what it was three years ago."

IMPERIAL LONG TERM P/E AND P/E RELATIVE

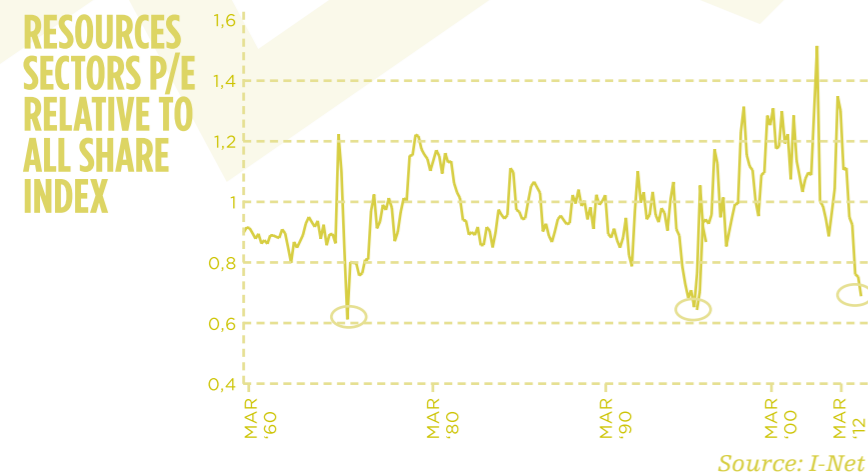


Source: I-Net

Andrew Vintcent shares
the investment philosophy

CONT...

On mining shares, Vintcent prefers the diversified counters such as BHP-Billiton and Anglo American to individual sectors, and is particularly wary of gold and platinum shares. Whilst we acknowledge there are certain concerns around the outlook for earnings in the Resource sector, the current valuation of the sector relative to the broader market is at attractive levels.



“WE BELIEVE THAT A COMPANY LIKE ANGLO AMERICAN IS MORE THAN COMPENSATING INVESTORS FOR EARNINGS RISK – AS A RESULT WE HAVE BUILT UP A LARGE POSITION IN THE FUND.”

He is impressed with food and restaurant franchise conglomerate Famous Brands' long-term structural outperformance. “It has consistently generated good earnings growth, notwithstanding subdued consumer confidence. The company is no longer cheap, but we like their market dominance, and expect they will continue to deliver strong earnings growth over the next few years.”

Vintcent also likes Grindrod's theme and believes that it is well-placed for growth in African logistics. It recently received a R2 billion capital injection from Remgro and is expected to accelerate its R10 billion pipeline of strategic capital projects in southern Africa over the next five years. He believes patient Grindrod shareholders will be well rewarded over the next five years. ■



ARE YOU RISKING YOUR GROWTH?

FOR MANY PEOPLE, RISK IS NOT ABOUT HOW MUCH MONEY YOU COULD MAKE FROM AN INVESTMENT. Neither is it about how much money you might lose from making an investment. For most people when it comes to risk, it's about not losing any money at all!

We all work hard to accumulate wealth. Understandably, no one likes investment losses. This unwillingness to “lose” anything often means that we approach investing from a conservative standpoint. “As long as I don't lose my money,” is the opening statement when it comes to investment choices.

Financial advisers are often asked by their clients to calculate whether they have made any money from their investments. As long as the answer is, “Yes, you have made money,” or more often, “No, you haven't lost any money,” the investor is happy.

What investors should really be asking is, “Did I make enough money?” or more importantly, “Could I have made some more money?” So how much is “enough money” and what does “more money” mean?

ENOUGH MONEY

Making enough money from your investments means that you should at least be keeping pace with or beating inflation. Taking a very conservative approach to investment creates the possibility that your investment portfolio would grow in absolute terms (Rand amount), but that it would lose value in real terms.

Absolute growth means that if you start the investment with R100 and it grows over the year to R110, then you have absolute growth of R10. Real growth means that you have to take the effects of inflation into account, so with inflation currently at around 6%, your investment growth of R10 is really only worth R4. In other words, the purchasing power of your R10 has declined.

Making enough money also relates to the investment goal that you have

agreed with your financial adviser. You may be investing for a long-term goal like retirement, or a shorter-term goal like the education needs of your children. If your investment is not generating enough growth to meet the expected goal amount, then you won't have “enough money”.

MORE MONEY

Making more money than just an inflation related return requires the inclusion of growth assets (such as Equities or Property) in an investment portfolio. The reason for including these growth assets is simply to generate a return higher than inflation or enough of a return to meet your investment goal.

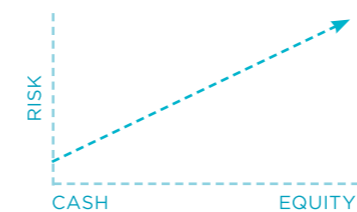
The thing to remember about growth assets is that they carry their fair share of risk. So while they are included in an investment portfolio to generate “more money”, they bring with them increased risk and therefore the increased potential of losing money.

GROWTH = EQUITY = RISK

In the investment world there are a variety of assets one could invest in – with the obvious purpose of growing the value of your invested capital. The concept of risk versus return plays an important role where the amount of money you can potentially make relates to the risk profile of the assets you invest in. A higher return requires investing in a higher risk asset, while a lower return requires investing in a lower risk asset.

Asset allocation simply means how much of your money should be invested in what kind of asset. A high return requires an allocation to assets that have a higher risk, while a low return requirement would mean an allocation with lower overall risk.

On the risk spectrum, Cash is seen as “low risk” while Equities are seen as “high risk”. In terms of what you will experience as an investor, Cash has low volatility, while Equities have a higher volatility.



Imagine that you are expecting a ride on a roller coaster; the carriage leaves the platform and chugs along slowly and comfortably. If that is all it did, you would feel disappointed or cheated. That is not the experience that you were expecting.

In converse, if you were expecting a slow comfortable ride through the countryside and found yourself darting upside down through loops and barrel rolls, you may find yourself hanging on for dear life, just wanting the ride to end.

Now imagine that you climbed aboard the carriage and your first few minutes of the ride were hair-raising, but the longer you stayed on the ride, the smoother and calmer the trip became. This is the experience that long term Equity investors have.

Recent research by STANLIB covering the last 50 years of annualised equity market returns shows that short term investment periods provided very wide margins of returns (high volatility) ranging from minus 30% to plus 80% with an average of 15%. The longer the investment duration became, the lower the volatility of returns became, while the average return remained fairly similar.

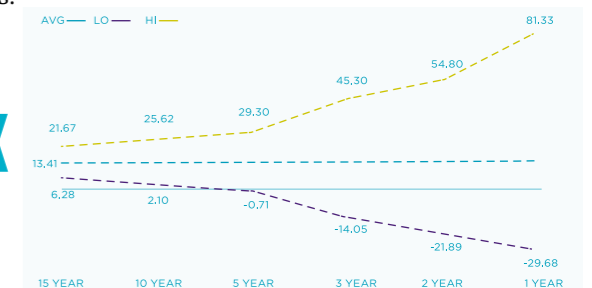
What this demonstrates is that – like the roller coaster ride in the third example – the early section of the ride can be quite scary and nerve-wracking, but the longer you stay on the ride, the easier it becomes and the overall journey tends to be worthwhile.

WHICH RIDE TO CHOOSE?

We have established that investors have different reasons for choosing to invest. We have also established that to grow your investment in excess of inflation you need to consider investing in a growth asset such as Equity. Depending on your required level of comfort, you will then have to choose how much of your investment is allocated to growth assets.

FTSE/JSE ALL SHARE INDEX

50 YEARS OF ANNUALISED RETURNS



Source: Morningstar based on various analysis periods 1961 - 2011

UNLOCKING THE POTENTIAL OF THE SA CORPORATE SECTOR

SOUTH AFRICA IS IN URGENT NEED OF JOB CREATION

According to Statistics South Africa, formal (non-agricultural) employment in South Africa rose by a modest 23,000 jobs in Q4 2011. This follows a more encouraging increase of 58 000 in Q3 2011. Over the past year, South Africa has added 130,000 formal sector jobs and has created 218,000 jobs in the past two years, with job gains in each of the past seven quarters. While this is a reasonable outcome given the difficult world economic conditions, it is far below the level of job creation required for South Africa to meaningfully reduce its rate of unemployment.

The official unemployment rate has dropped from 25% in the third quarter of 2011 to 23.9% in final quarter of 2011. While this is a very welcome decline, the rate of unemployment remains extremely high by both historical as well as global standards. Out of a list of 30 major developed and emerging market economies, South Africa still has the highest official unemployment rate.

If we include the people who would like to work but have stopped looking (discouraged workers), then the unemployment rate in South Africa jumps to 35.4%.

A very significant portion of South Africa's unemployed population comprises of young people. For example, the unemployment rate among people aged 18 to 24 is officially over 45%. The situation is aggravated by the fact that a significant portion of the unemployed youth has not

completed their school education or has been unable to develop any technical skills.

INTEREST RATE NOT AN ANTIDOTE

Job creation is not merely a function of the level of interest rates or the value of the exchange rate. While low interest rates and a competitive exchange rate are necessary conditions for sustained economic success in South Africa, they are not sufficient conditions. Rather, a broader range of policy initiatives are crucial in facilitating job creation. These include labour policy reform, education and skills development, competition policy (deregulation), industrial policy, and trade policy.

Reducing South Africa's high level of unemployment requires a comprehensive policy response that ultimately puts the role of the private sector, especially private sector fixed investment, firmly at its core. This includes the development of small and medium size businesses.

CORPORATE SECTOR LAYS IN WAIT

Fortunately, the corporate sector is in excellent financial shape with a strong balance sheet. Corporate deposits are at a record high, helped by a substantial rise in profitability. The gross operating surplus of the non-financial corporate sector in South Africa has risen by an impressive 28% over the past two years. In addition, during 2011, corporate savings measured a substantial 16.1% of GDP. While this is slightly

below the 2010 record level of 17.1% of GDP, it is still extremely high by historical standards. As recently as 2007, corporate savings totalled a mere 9.3% of GDP.

Unfortunately, the corporate sector's willingness to expand and employ has been dampened by a combination of poor global economic conditions (especially in the Euro-area), domestic policy uncertainty (including nationalisation), disruptions to the local power-supply, lack of transport infrastructure (rail and port), and a rise in labour market unrest and onerous legislation.

It is clear that South Africa needs a catalyst to help unlock the vast potential of South Africa's business sector, leveraging the business sector's balance sheet to expand the economy on a sustainable basis.

INFRASTRUCTURE INITIATIVES A STEP IN THE RIGHT DIRECTION

Recent government comments and initiatives, especially the February 2012 National Budget, suggest that the authorities are becoming increasingly re-focused and determined to help reduce the high level of unemployment through the expansion of infrastructure. This is potentially a key initiative that could help to unlock the potential of South Africa's corporate sector.

By government's own admission, the public sector's institutional capacity to plan, deliver, and maintain infrastructure is weak and needs to be significantly strengthened. In 2010/11 the public sector's actual infrastructural spending amounted to only 68% of

budget, highlighting the serious deficiencies in government's delivery capacity; including the lack of crucial skills, such as engineers and project managers. Furthermore, almost 63% of the public-sector's infrastructural projects that are currently under-consideration are only in the first phase of planning and have not yet completed a feasibility assessment. This suggests that numerous investment projects will continue to be delayed.

More positively, Transnet recently announced a programme to spend approximately R300 billion on additional rail and port infrastructure over the next seven years. This will include the expansion of the iron ore and coal railway lines, the development of the Durban, Cape Town and Coega container ports as well as the purchase of numerous locomotives and rolling stock. The planned expansion by Transnet

forms part of government's overall infrastructural development initiative, which totals an impressive R844.5 billion over the next three years.

Over the past few years, Transnet has managed to systematically increase its level of investment spending, albeit off an extremely low base. In the seven years since end 2004, Transnet's spending on infrastructure has risen by a total of R117.5 billion, or at an average annual growth rate of 18.4%. Most of this investment spending has been on maintaining the existing infrastructure rather than expanding capacity. However, if Transnet is successful in spending an additional R300 billion on building port and rail capacity over the next seven years, it would signal a significant step change in the pace of infrastructural delivery.

An enhanced and expanded transport infrastructure, together with

further progress in the alleviation of electricity supply constraints, should encourage a broadening and strengthening of private sector fixed investment activity over the next few years. Currently imports and exports, combined, represent over 50% of South Africa's gross domestic product. Therefore any expansion and modernisation of the country's transport infrastructure will directly impact a very significant portion of the South African economy.

This has the potential to provide both a short-term boost to construction and supplier industries as well as provide longer-term benefits in the form of lower business costs, improved access to markets (especially foreign markets), and improved productivity. It could also form the basis for a sustainable expansion by numerous private sector businesses, helping to unlock the growth potential of the South African business sector. ■

By Kevin Lings
Chief Economist
STANLIB
March 2012



IF YOU THINK EVERYTHING IS COSTING A LOT MORE... YOU ARE RIGHT!



to a rise in consumer spending. In 2009, consumer spending declined by 1.6%, but then recovered in 2010 to achieve a growth rate of 3.7%. The expansion continued in 2011, with consumer spending growing by a very impressive 5.0%. Correspondingly, consumer activity has accounted for almost 70% of the growth in South Africa's total domestic expenditure since the end of 2009.

WHAT CAUSED THE IMPROVEMENT IN CONSUMER SPENDING DURING 2010 AND 2011?

Over the past two years consumer income has risen significantly. This is mostly due to above inflation wage increases in both 2010 and 2011. For example, salaries

have risen by in excess of 8% in each of the past two years, while consumer inflation averaged 4.6% over the same period. Crucially, households tend to spend almost all of their income – this means that any rise in household income leads to an equivalent increase in household spending and not a rise in household savings. Correspondingly, the 8% increase in salaries during 2010/2011 boosted consumer activity in real terms, with the volume of consumer purchases increasing and not just the value of purchases.

*To be continued,
see page 10*

If you think everything is costing a lot more...you are right!

CONT...



Unfortunately, the growth in consumer spending over the past two years has not been accompanied but a significant rise in employment. A rise in employment has the advantage of expanding the consumer base, thereby strengthening and broadening the economic recovery. More positively, there is some evidence to suggest that South Africa's labour market has at least stabilised, after shedding more than a million jobs during the 2009 recession. In addition, parts of the private sector are starting to slowly create additional employment opportunities.



WHAT IS THE OUTLOOK FOR CONSUMER SPENDING IN 2012?

Unfortunately, recent economic data suggests that the South African economy is likely to lose some momentum in 2012. This loss of momentum is partly due to the ongoing economic weakness in the Euro-area, but it also reflects the damaging effects of rising domestic inflation, and hence an erosion of purchasing power within the household sector.

South Africa's inflation rate has risen steadily from a low of almost 3% in the third quarter of 2010

to over 6% in early 2012; and is expected to rise further in the coming months. The increase in inflation has been driven by a combination of higher food, fuel and electricity prices. All three of these components has seen price increases well in excess of 10%, with further hikes likely in the coming months.

Unfortunately, households cannot avoid these increases, as they relate to necessities or essential services, forcing consumers to either increasingly cut-back on non-essential purchases or take on additional debt. While the rate of growth in total consumer debt remains relatively subdued, and the ratio of household debt to disposable income has moderated meaningfully in the past two years, there has been a noticeable increase in the use of unsecured credit. In fact, over the past year, unsecured credit (mostly in the form of personal loans) has risen by an alarming 30%. This suggests that increasingly consumers are starting to use short-term debt to partially offset the loss of discretionary spending power. Sustaining consumer spending based on credit is far from ideal.

WHAT IS THE SOLUTION?

It is extremely clear that South Africa is in urgent need of job creation. The official unemployment rate has dropped from 25% in the third quarter of 2011 to 23.9% in final quarter of 2011. While this is very welcome decline, the rate of unemployment remains extremely high by both historical as well as global standards. If we include the people who would like to work, but have stopped looking,

By Kevin Lings
Chief Economist, STANLIB
March 2012

(discouraged workers), then the unemployment rate jumps to 35.4%. A very significant portion of South Africa's unemployed population is young people. For example, the unemployment rate among people aged 18 to 24 is officially over 45%. The situation is aggravated by the fact that a significant portion of the unemployed youth have not completed their school education or have been unable to develop any technical skills. Reducing South Africa's high level of unemployment requires a comprehensive policy solution that puts the role of the private sector, especially private sector fixed investment, firmly at its core.

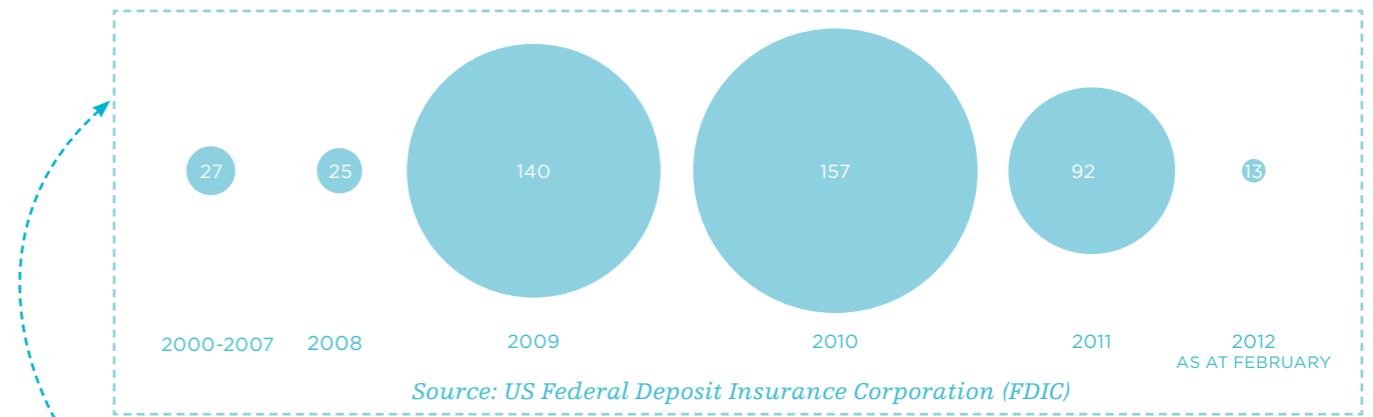


Recent government comments and initiatives suggest that the authorities are becoming increasingly focused and determined to help reduce the high level of unemployment. This includes the expansion of infrastructural development, especially rail and port capacity through Transnet. An enhanced and expanded transport infrastructure, together with further progress in the alleviation of electricity supply constraints, should encourage a broadening and strengthening of private sector fixed investment activity, off a relatively low base. ■

CURRENT MARKET VOLATILITY - IS THIS THE NEW NORM?

THE WORLD HAS NOT SEEN ECONOMIC SHOCKS GREATER IN MAGNITUDE THAN THE LAST FOUR YEARS' EVENTS, AT LEAST NOT SINCE THE GREAT DEPRESSION OF THE 1930's. These events, triggered by the demise of Lehman Brothers, were followed by unprecedented market volatility. Like dominos, banks (commercial banks and savings institutions) around the globe failed as liquidity in the global financial system dried up.

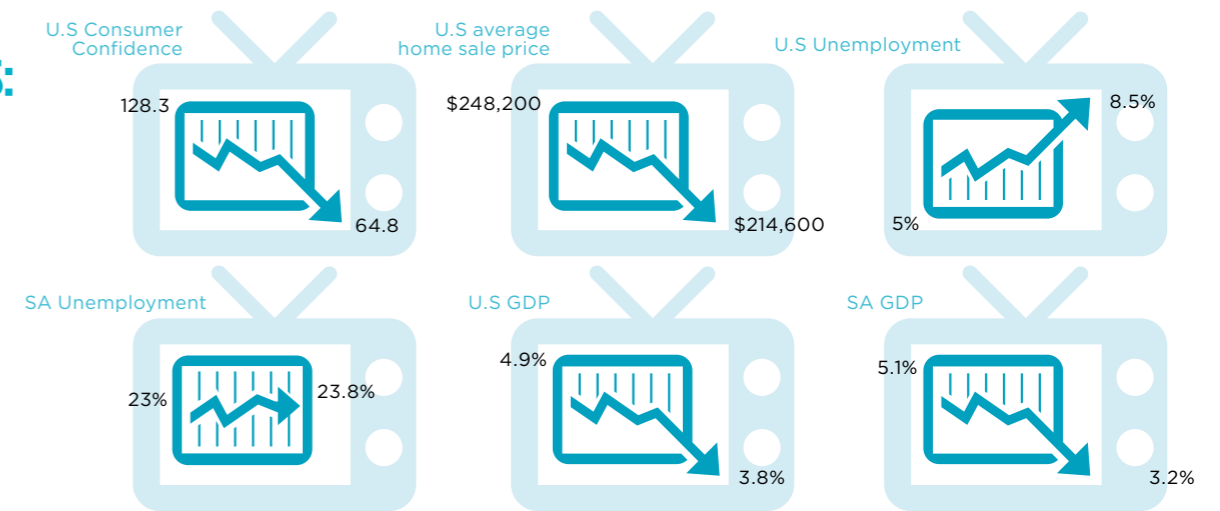
US BANK FAILURES



454 US financial institutions have failed since the beginning of 2000. 427 of these failures occurred as a result of the global financial crisis that started in 2008.

Four years down the line, there is a perception that global markets are still very volatile. Understandably investors shy away from investing in growth assets like Equities and Property stocks, especially when the media bombards them with the facts and figures.

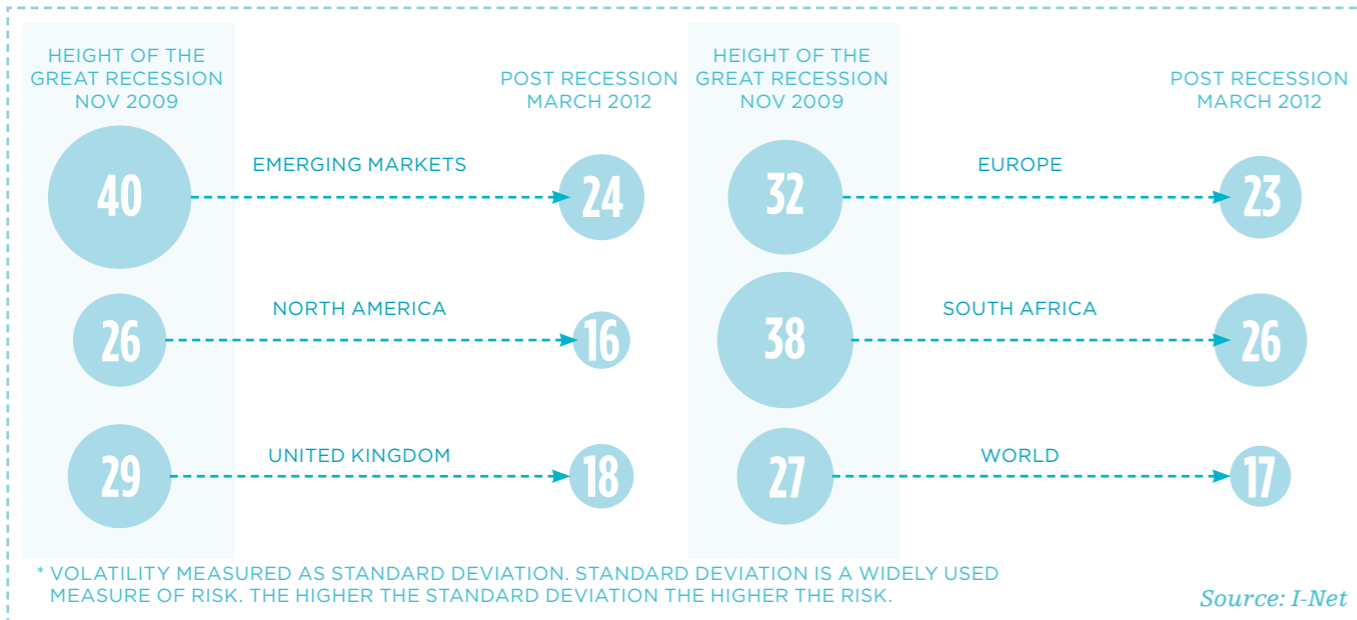
KEY VARIABLES: PRE & POST RECESSION (2008 - 2011)



Current market volatility – Is this the new norm?

CONT...

MARKET VOLATILITY* – RECESSION VS. POST RECESSION



In reality, market volatility peaked at the end of 2009 and has since subsided to pre-recession levels. It seems that there is light at the end of the tunnel.

That said, there may be "aftershocks" that stem from the main shock being the global financial crisis. An example of this is the sovereign debt concerns in Europe. But, as time goes on, the aftershocks will reduce in magnitude and volatility should dissipate further.

WHAT IS CURRENTLY THE GREATEST RISK TO INVESTORS?

Investors have probably in light of all this volatility and uncertainty reduced their exposure to relatively more risky asset classes like Equities during and after the global financial crisis. More so, their current appetite for investments

higher up in the risk spectrum has undoubtedly been quelled.

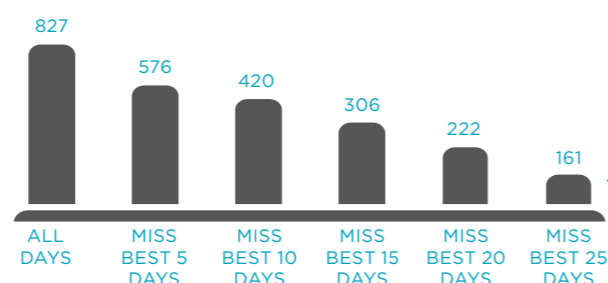
THE RISK - Investors are too conservatively positioned compared to their risk profiles. In the low yield environment we are in at the moment, the danger is that investors will not generate the growth needed to retire comfortably one day. As medicine advances and standards of living improve in the developing world, life expectancies will increase and each generation will live longer than the previous generation.

The most likely implication of living longer is running out of retirement income or savings. Investors need to ensure that they plan for a long life and invest a portion of their money into growth assets which will hopefully help to beat the erosive effects of inflation.

Growth assets like Equities generally outperform in the long term. Attempting to time the market could be a dangerous game.

% GROWTH OF THE JSE ALL SHARE INDEX FROM 1 JAN 1998 TO 31 JAN 2012 (%)

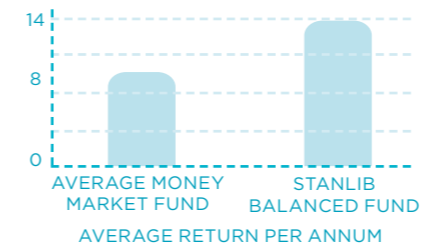
Source: STANLIB



THE TWO MOST PRESSING ISSUES TO DISCUSS WITH YOUR FINANCIAL ADVISER

1 Is my portfolio adequately exposed to growth assets? This is especially relevant to investors that are drawing an income from their investments. If their portfolios do not generate a decent growth rate over time, they will start drawing from their capital.

Being invested in a money market fund over the last ten years would have generated an average return of 8% p.a. Let's assume a tax rate of 30%, your net return would have been more or less 6% p.a.



Source: Morningstar

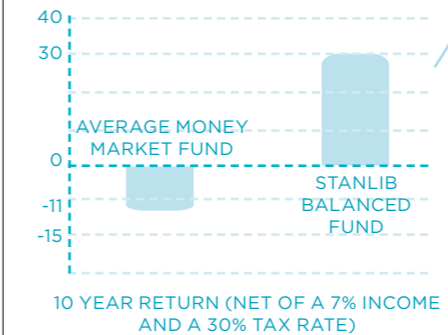
Assuming an income drawdown of 7% p.a, 1% more than the average annual net return, you would have drawn down 11% of your capital investment over the ten years. This means that your initial investment would have shrunk by 11% over 10 years.

If you had stayed invested from 1 January 1998 to 31 January 2012, your investment would have grown by 827% cumulatively. If you tried to time the market and you missed the 5 best days, your total cumulative return would have been a mere 576%.

251% LESS.

Your investment would still have grown by a cumulative 32% over the 10 year period. This is net of a 30% tax rate and after you've taken a 7% income per annum.

If you opted to invest in the STANLIB Balanced Fund for the 10 years, your portfolio would have generated an average return of 14% p.a. For simplicity's sake, let's assume the same tax rate of 30% and an income drawdown of 7%.



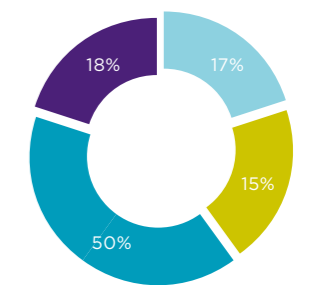
Source: Morningstar

30% of your assets offshore. This means that you have a lower risk exposure for a similar return.

Global Equities offer relatively better value compared to South African companies currently. Some of the biggest global companies' P/E ratios are much lower compared to 12 years ago. This means that you're paying relatively less for every Dollar of earnings compared to 12 years ago. This poses a great opportunity to diversify globally.

Investing in a balanced fund is an easy way to ensure that you are well diversified - the fund manager actively manages asset allocation between local and global asset classes.

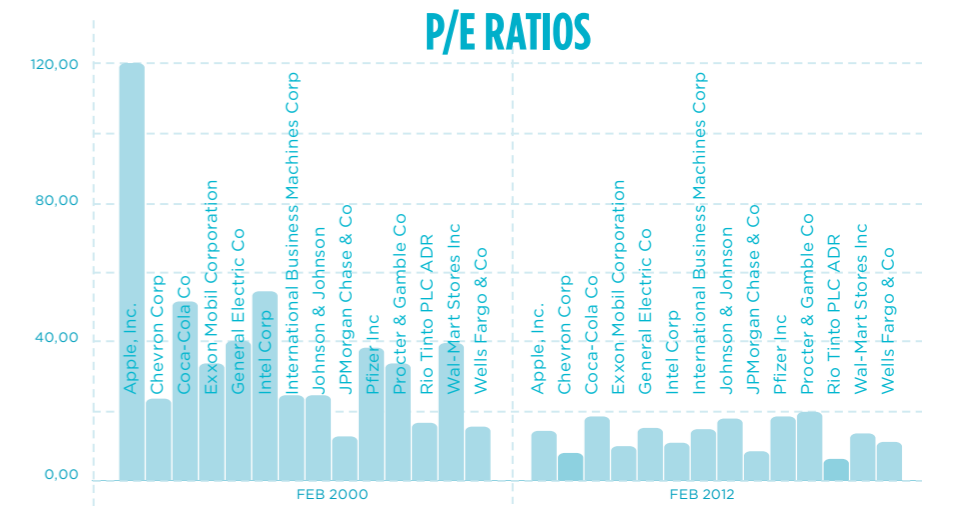
STANLIB BALANCED FUND ASSET ALLOCATION



Legend: SA EQUITIES, SA BONDS, SA CASH, GLOBAL EQUITIES

2 Is my portfolio diversified globally?

Herman van Velze, portfolio manager of the STANLIB Balanced Fund, highlights that an important part of building a diversified portfolio is the inclusion of global investments. Our research shows that spreading investments across different countries (asset classes, industries and currencies) is an effective way to produce better risk-adjusted returns compared to investing only in South Africa. Research conducted over a period of 40 years shows that your risk/return ratio improves by 15% if you invest



Source: Morningstar

REVISED REGULATION 28

What it means for retirement fund members

WHAT HAS CHANGED?

Individual retirement fund members are now required to comply with the different asset class limits e.g. 75% in Equities. So, retirement funds as a whole need to comply and individual members' investments have to comply.

75%
in Equities

WHO ARE AFFECTED BY THE NEW LIMITS?

All regulated retirement funds and all retirement fund members are affected. But some retirement fund members are exempt under certain conditions namely those who invested prior to 1 April 2011. However, if they make material changes to their investments, they will need to comply. Material changes are:

- Changing your existing debit order amount
- Changing your existing debit order frequency i.e. from quarterly to monthly
- Making an additional (ad-hoc) contribution
- Switching unit trusts
- Withdrawing from your fund

HOW CAN I DETERMINE IF MY INVESTMENT IS COMPLIANT?

Please consult your financial adviser to help you determine your investment portfolio's compliance with Regulation 28. Alternatively you can use our Regulation 28 Calculator which is available on our website www.stanlib.com (click on News at STANLIB, Regulation 28 Communications and Calculator).

WHAT HAPPENS IF YOU ARE NOT COMPLIANT?

STANLIB will analyse your investment portfolio quarterly to determine the level of compliance to Regulation 28.

If your investment is not compliant, STANLIB will, as per the decision of the Trustees of the Classic Retirement Funds, switch the non-compliant portion of your investment into the Standard Bank Institutional Money Market Fund B13.

This switch will be done proportionately from the non-compliant funds in your portfolio. STANLIB will send you a statement to confirm the transaction.



AM I AFFECTED?



BUDGET MAKES THE RA A POWERFUL SAVINGS VEHICLE

– By Anthony Katakuzinos,
Chief Operating Officer,
STANLIB Retail Investments

WHILE THE IMPACT OF THE NEW BUDGET WILL CONTINUE TO BE ANALYSED FOR SOME TIME, a key implication for investors is that the retirement annuity (RA) is now even more effective as a retirement planning and savings vehicle.

Two major changes announced by the government – the introduction of a 15% withholding tax on dividends and an increase in Capital Gains Tax (CGT) from 25% to 33.3% (along with the current other benefits) have combined to make the RA a powerful savings tool.

Forget the negative publicity of the past, which made RA's seem unattractive due to inflexibility, a lack of transparency, high administration costs and heavy penalties and lack of flexibility of meeting investors' changing needs as to contributions. Modern RAs have largely addressed these negatives offering far greater cost effective and flexibility solutions. Equally important, the tax shelter provided by RAs is now an effective way of minimising the impact of withholding tax, the increase in CGT as well as tax on interest.

In short, the modern RA – and the linked RA specifically – is going to be a critical tool in assisting

investors to meet their retirement savings goal.

Let's firstly look at withholding tax. Prior to the budget, many experts believed that the 10% secondary tax on companies (STC) would be offset by a new withholding tax rate of 10% – leaving investors in a fairly neutral situation. But, as we know, the rate was set at 15%. Secondly, the unexpected surprise in the budget was to increase CGT, where the inclusion rate has moved up from 25% of an individual's capital gains to 33.3% – effectively moving the tax on capital gains from 10% to 13.33%.

This has two implications for taxpayers. Anyone who saves via mechanisms such as unit trusts or share investments over a period of 20-25 years is now going to be taxed on their dividends at a rate of 15%. The result, obviously, is a far lower return over the long-term.

The other implication is that, should the taxpayer decide to switch some investments into lower or higher risk assets to take advantage of market conditions, these may result in a capital gain – and CGT therefore being applied at the higher inclusion rate of 33.3%. So it's a double whammy, and the compound negative effect is, over a period of time, substantial.

Add the existing exception of tax on interest; the RA becomes a very powerful vehicle indeed. The law even allows 15% of your taxable income to be placed into retirement products like your pension fund and RA, which has the effect of also lowering the individual's tax base.

In fact from 2014 people under the age of 45 will be able to deduct 22.5%, for those older than 45 the rate will be 27.5% of taxable income from contributions to retirement products.



Annual deductions will be limited to R250,000 per annum (over 45 the limit is R300,000 per annum). Modern RAs, sometimes called 'linked RAs', also allow the flexibility to switch into Equity, Bond or Cash funds, unit trusts or any other suitable investment at anytime. If the taxpayer believes there's an opportunity to take some profits, that's possible too. This provides greater flexibility to manage one's investments over the long-term without having to worry about the tax implications of your investment decisions. The modern RA even gives you total flexibility in selecting multiple, suitable asset managers and to change them at any time without penalties. The beauty of the RA is that this activity and profit-taking and income generation is free of any taxes. So, if you compare investing in ordinary unit trusts, versus the



same investment via an RA, the compounding effect is impressive over a 20 year period and means you're actually earning 15% more on dividends, 40% more on your interest and property income and 13.33% more on your capital gains. Therefore, over a prolonged period, an RA creates far greater retirement wealth.

Consider the following rough calculation when investing a bonus of R100,000, which is placed either in unit trusts or an RA. If you compare the after tax growth over a period of 20 years, the unit trusts will deliver an investment of approximately R560,000, versus about R1,37 million in an RA!

Yes, it sounds remarkable. But remember that in an RA there are no tax deductions, either at commencement of investment (on

the original R100,000) or during the life of the investment – no tax on interest, dividends or capital gains. So, providing all these amounts are re-invested in the RA, the compounding effects over 20 years brings you to the figure of R1,37 million.

By contrast, the non-RA investment of the bonus immediately loses R40,000 to tax, meaning the original after tax investment figure is only R60,000. Then, at each stage of the journey, dividends, CGT and interest are also taxed. The net result is a significantly reduced amount of only R560,000 less than 50%! The impact over 20 years of someone contributing R10,000 per month is even more significant.

By transferring the R1,37 million into a Linked Living Annuity (LLA's) one can continue to protect

your investments from tax while earning a far higher income in your retirement - R48,101 per annum vs. R25,687 per annum after tax and CGT on post retirement income. And the fact that RAs and LLA's are free from estate duty as well makes the argument for RAs even more attractive.

So, in the new budget environment, the RA is a very good vehicle for saving for your retirement. For more information on RAs, please consult your financial adviser.

NB: Assumptions have been based on an average return of the STANLIB Balanced Fund over the past 10 years at 14% per annum and average interest and Dividend Income earned on these investments over this period. ■

R1.37 million

CRISA @ STANLIB

What is CRISA?



THE CODE FOR RESPONSIBLE INVESTING IN SOUTH AFRICA (CRISA) WAS LAUNCHED ON 19 JULY 2011. This makes South Africa the second country next to the United Kingdom to formally encourage institutional investors to integrate into their investment decisions sustainability issues such as environmental, social and governance (ESG).

CRISA aims to provide the investor community with the guidance needed to give effect to the King Report on Corporate Governance in South Africa (King III) as well as the United Nations-backed Principles for Responsible Investment (PRI) initiative. Both require institutional investors to take ESG issues seriously.

CRISA applies to institutional investors such as pension funds and insurance companies as the owners of assets, and their service providers including asset managers and consultants. The effective date for reporting on the application of CRISA was 1 February 2012.

Responsible investing in South Africa is largely voluntary. The new Code will seek to encourage best practice conduct by shareholders and companies.

THE FIVE PRINCIPLES OF CRISA

PRINCIPLE 1 – An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities

as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.

PRINCIPLE 2 – An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.

PRINCIPLE 3 – Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.

PRINCIPLE 4 – An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should pro-actively manage these when they occur.

PRINCIPLE 5 – Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

CRISA AT STANLIB

“We have taken a fundamental decision at STANLIB to take the CRISA principles very seriously”, says Stewart Rider, STANLIB’s Chief Investment Officer. “To this end, instead of instituting an oversight function, we have embedded the principles into our research process- the starting point for our investment process.”

The STANLIB research process is supported by four pillars: valuation, uncertainty, moat and stewardship. Each stock we

invest in, or consider investing in, undergoes a very thorough interrogation in terms of these pillars, before a buy or sell recommendation is made.

The CRISA principles have been incorporated into the stewardship pillar. All companies under investigation need to answer 25 questions, which deal with governance issues such as transparency, board independence, remuneration, ownership and accountability, strategy and execution of the strategy. In line with the CRISA principles, more recently we have started evaluating companies in terms of their commitment to environmental and social issues. STANLIB has formulated a number of key questions that we put to management and evaluate to ensure that the companies that we invest in are taking these principles seriously.

Assessments have been made and continue to be made on all the companies that our analysts review. Research analysts will map the progress of each company they review.

“We want to play an active role in ensuring that the companies we invest in comply with the spirit of these principles,” says Stewart. “This, of course, does not mean that we will immediately sell non-complaint stocks, as this could be prejudicial to our investors.”

Stewart adds, “We also do not want to abdicate our responsibility as an agent of change. As shareholders in the various companies, we can use our shareholding to potentially leverage change to align with the CRISA principles. In this way, we hope to achieve a long-term positive

outcome for all.” Stewart firmly believes that sustainable business practices will ultimately lead to increased valuations, and therefore a better return for our investors.

Should we be unable to make a positive difference through repeated engagement with the management and through shareholder voting, we will need to consider “voting with our feet” and exclude the offenders from our portfolios and benchmarks. Of course, this decision will be made very carefully and in consideration of the other three pillars of our research process and the mandate. ■

STANLIB’S RESEARCH PROCESS PILLARS EXPLAINED

The research team has standardised the process of analysing each of the companies in our investment universe according to these four factors:

- **Economic Moat** – A competitive advantage that the company has over any similar investment opportunity that will allow it to continue to produce earnings that are ahead of the market or its segment.
- **Stewardship** – The quality of management is assessed in terms of accounting transparency, board independence, ownership and management incentives, strategy and execution, and the CRISA principles.
- **Valuation** – Discounted Cash Flow models, in conjunction with other valuation techniques, are used to determine the fair value of each company.
- **Uncertainty Rating** – Predicting future earnings is made more difficult when a company has a history of producing volatile earnings or is expected to produce volatile earnings. Therefore, a company that has a more stable approach to renewing corporate value would provide greater predictability with regard to its fair value.

These factors are listed in no particular order, and they are all equally important in our assessment of investment opportunities. ■

THE BEST INVESTMENT ADVICE, EVERY WEEK NIGHT

19h30, CNBC Africa Channel 410 (Dstv)



ANCHORED BY BRONWYN NIELSEN



AN ABN COMPANY

THE BEST PERFORMING STOCK FOR 2011

WORLD'S ADULT POPULATION 4.9 BILLION*



26% SMOKE**



1.3 BILLION SMOKERS



AVERAGE 15 A DAY***



947 MILLION PACKS PER DAY



R40 PER PACK****



R38 BILLION GLOBAL DAILY SPEND ON CIGARETTES



BATS'S 15% MARKED SHARE*****



POTENTIAL ANNUAL REVENUE POOL FOR BAT R2,075 BILLION



BRITISH AMERICAN TOBACCO SHONE BRIGHTLY IN 2011, WITH THE SHARE PRICE INCREASING BY 56.5%, THUS OUTPERFORMING THE ALL SHARE INDEX BY A WHOPPING 42.6%. How did they do it, and can they replicate this stellar performance going forward?

British American Tobacco is a dual listed share. This means that the company has shares listed on both the United Kingdom and South African stock exchanges. The UK shares are coded BATS, while the SA shares are coded BTI. The distinction is important, because even though BAT is one company, it has two distinct sets of shares, trading on two different exchanges in two separate currencies.

the classification change in mid-December 2011. This is in line with international practice.

We like BAT for its well balanced portfolio, the growing market dominance of its Global Drive Brands strategy and its dominant emerging market exposure – the greatest of the 4 major global tobacco players.

2011 PERFORMANCE DRIVERS
For calendar year 2011, the SA listed BTI returned 56.5% (in Rands). The graph on the right shows the 2011 performance of both the BTI and the London listed BATS (both in Rands), which also shows how closely related these two shares are.

As mentioned previously, and clearly illustrated above, movements in the UK listed BATS share have a direct impact on the BTI share movements.

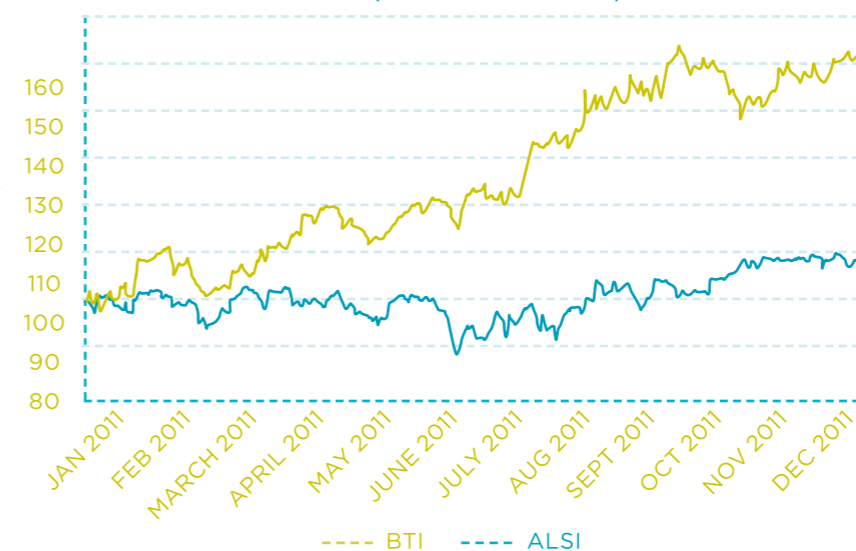
Currency is also a major influence on this company's performance, since it operates in over 160 markets. The BTI shares also experience a further layer of currency sensitivity, as earnings and dividends are translated into rand for South African investors. In effect, the volatility of the SA listed share price is largely driven by currency volatility. Last year, the rand depreciated against sterling in the second half of the year (22% overall in 2011), which drove the SA listed share higher.

The listing of BTI on the JSE drove some re-weighting of portfolios, and thus drove the share price higher.

OUTLOOK FOR 2012
BAT's management aims to generate high single digit earnings growth, and with a 65% payout ratio, you can expect a 5% dividend yield. However, the shares are

Source: I-Net

BTI SHARE PRICE PERFORMANCE VS ALSI PERFORMANCE FOR 2011 (INDEXED FROM 100)



THAT'S ROUGHLY TWO THIRDS OF SA GDP IN 2011!

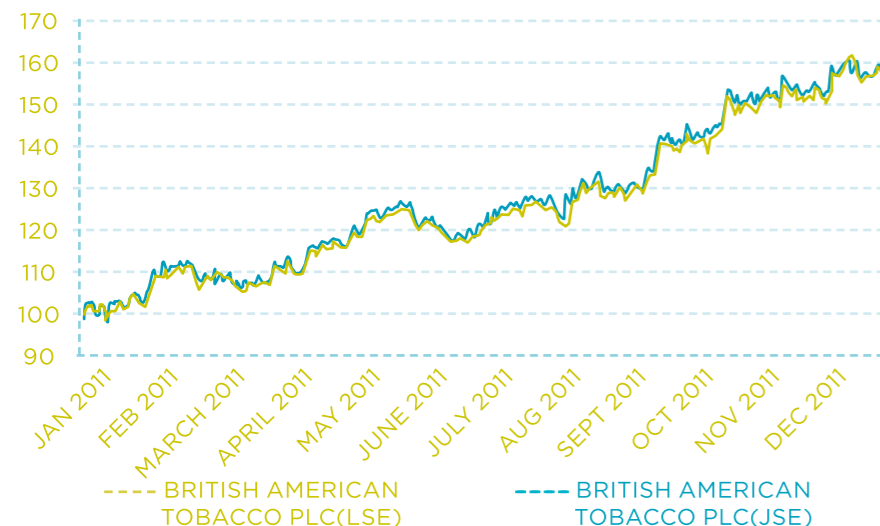
position in BTI was contradictory to the zero weighting in the index. As an active fund manager, we are prepared to invest in companies with attractive fundamentals, even if it means we deviate from the benchmark. We also believed that the rand was overvalued at the start of 2011, and therefore we benefited from the rand devaluation.

The price of BTI shares is currently full. However, for the long term, we are happy to hold the shares, but wouldn't be surprised if investors take profits, given two years of strong performance (2010 was very strong in sterling, less so in rand, given the rand strength).

The other headwinds which BAT faces include illicit cigarette trade, increasing global tobacco regulation (such as plain packaging or display bans) and new growth markets with fewer acquisition opportunities to grow their global footprint.

STANLIB's view on this share
Prior to BTI's inward listing, our

currently trading at the top end of their valuation range. Should there be a rotation out of defensive stocks due to an increased risk appetite globally, we could see that total return erased by a de-rating of the shares – i.e. the price of the shares could drop by more than 15% (10% earnings growth + 5% dividend yield).



THE COMPANY AND ITS SHARES
British American Tobacco (BAT) is the world's third largest tobacco company. Its market capitalisation is in the region of R700bn, which makes it the largest company listed on the JSE (Johannesburg Stock Exchange).

BAT is a defensive company - the stock is largely immune to market cycles. It should therefore be less volatile than cyclical shares.

Given the nature of the product they sell, there is a high level of forecast certainty regarding revenue growth. This means that equity analysts can predict future share performance with relative certainty.

The UK equity market is much larger than the SA market – both in asset size and the number of market makers. The SA share price is therefore largely driven by the movements in the London share price, plus any changes to currency exchange rates.

Since its listing, BTI, the JSE listed share, has been classified as an inward listed stock by the South African Reserve Bank (SARB). It was therefore classified as an offshore stock. In October 2011, the Minister of Finance announced that all inward listed shares would be reclassified as domestic exposure and the Financial Services Board (FSB) concluded

KEILLEN TALKS ABOUT THE SUCCESS OF HIS PORTFOLIO

KEILLEN NDLOVU, HEAD OF STANLIB'S LISTED PROPERTY FRANCHISE, believes the success of his portfolio is hinged on a single philosophy, which is to generate superior long term risk adjusted returns, based on thorough fundamental research.

Keillen has eight years listed property experience and is supported by three analysts: Ndabezihle Mkhize, who has six years' experience, Riaan Gerber with four years and Craig Smith who spent four years running physical properties.

"We like to invest with high conviction in companies that display quality long term earnings prospects and have defensive portfolios," says Ndlovu, "Ideally, we want to assemble a portfolio of assets with the potential to generate above average growth in their rental streams."

He says STANLIB also looks for proactive management, which energetically focuses on acquisitions, disposals, extensions, refurbishments and developments.

To be continued, see page 22

In order to sustain this they need good tenant, lease and debt profiles. But as an investor there is price for everything and STANLIB looks mainly at shares which are trading at reasonable values relative to their income growth prospects.

As well as the insight it receives from Liberty Properties and Standard Bank Properties, the STANLIB Property team can also draw on the expertise from the wider STANLIB Asset Management team. There is a strong correlation between Property and Bond yields so it is invaluable for Ndlovu to leverage off the STANLIB Fixed Income team under Henk Viljoen, which is probably the best Bond team in SA. Ndlovu also has access to in-house economist, Kevin Lings, and the Equity research team, particularly the analysts that cover related industries such as Retail, Construction and Financials.

Ndlovu argues that even though size can place some constraints on flexibility, it gives STANLIB more influence with management when it comes to voting, and it puts STANLIB at the front of the queue when listed companies need to raise Equity and when brokers look to buy or sell property stocks.

STANLIB has a different style from its competitors. It adopts more of a buy and hold strategy, as it makes long term calls — trading costs are minimised, and it is a fully invested portfolio. It does not go into Cash to make a tactical asset allocation call; clients can do that for themselves. It also has a highly concentrated portfolio. It has an overweight position of 2.8% in Capital Property Fund and of 1, 5% in Resilient while it has underweight holdings of more than 2% in SA Corporate and 3% in Growthpoint, as at February 2012.

The February/March 2012 results reflect a diverging trend in the income from these shares. Fortress combined income has grown by 10,2%, Resilient by 9%, Capital by 8% and while Hospitality combined income is down 28%, Emira has fallen by 2.5% and SA Corporate up a negligible 1.4%.

The STANLIB Property Income Fund has won awards almost every year since it became eligible in 2003. The fund recently won two Raging Bull Awards and one Morningstar Award adding to ten awards won in the previous years. It is the top performer out of 18 funds over five years and 21 funds over three years as at March 2012. On an annualised basis to February 2012, it has outperformed the SA Listed Property index by 2% per annum over five years.

Ndlovu says that the vacancy picture in the listed sector is reasonable. Even weak funds such as SA Corporate and Emira have seen improving overall vacancies and Fountainhead vacancies have dropped from 7% to 6% as industrial spaces are taken up.

The retail sector is recovering, as reflected by the huge success of Resilient's Mall of the North in Polokwane, which opened in April last year and is fully let. Jabulani Mall in Soweto, also a Resilient property, is also flourishing. No less than 19 of the top 30 regional malls are in the listed sector, led by Hyprop's Canal Walk in Cape Town, Fountainhead's Westgate Shopping Centre (West Rand) and Centurion Mall (Centurion, Pretoria), Growthpoint's Northgate Shopping Centre (Northriding, Johannesburg) and Hyprop's Clearwater on the West Rand.

Ndlovu says that the Listed Property sector is fairly in line with historic average yields at 0, 71% below the ten year Bond. The total return from Property over the next year could be anything from 1.7% to 13.3%, with the change in Bond rates being the swing factor — income from the Property sector is likely to increase by 5.3%. This equates to a one year forward yield of 7.8%, which is in line with Bonds and superior to Cash.

It is possible that letting of office vacancies will be better than expected, particularly for A grade space and that the take up of vacancies in smaller shopping centres will also improve.

The downside risks are rising Bond yields, slower economic growth, more volatile global capital markets and, above all, the increasing operating costs which are putting pressure on tenants, such as higher rates and taxes, electricity prices and the prospect of additional toll road charges in Gauteng.

Ndlovu argues that a higher exposure to Property in a balanced fund leads to enhanced returns. Over 15 years December 2011, a balanced fund (with 60% Equities, 30% Bonds and 10% Cash) would have earned 14,8% p.a. but with 15% invested in property the return increases to 16,4% a year. This also reduces volatility and therefore risk-adjusted returns. The capital return since the previous peak of November 2007 to March 2012 has been a negligible 9% but the income return has been a superb 49%.

The STANLIB team also runs a Global Property fund in-house, which is 2.1% ahead of the UBS Global Property Investors Index over the past 12 months to February 2012. The Global Fund recently won a Morningstar Award. It has overweight positions in blue chips such as Simon Property Group in the US and Westfield in Australia. The portfolio is well spread between retail (34, 5%), office (25, 1%), diversified (18, 5%), residential (11, 6%), industrial (5, 2%) and hotels (1, 5%).

It has a 61% exposure to North America, 12% in Europe, 6% in the UK, 11% in Australia and New Zealand and the balance in Japan, Hong Kong and Singapore.

In US dollar terms, Global Property is up 9% while Global Equities are up 7.5%. In all regions Property currently offers higher yields than Bonds — forward yields vary from 3, 7% in the US to 7, 0% in Australia and New Zealand. Property investors as a category have comfortably outperformed property developers over the last 20 years. ■

CONTACT

HOW DO YOU CONTACT STANLIB?



Johannesburg (Head Office)

PHYSICAL ADDRESS:
17 Melrose Boulevard,
Melrose Arch, 2196

POSTAL ADDRESS:
PO Box 202, Melrose Arch, 2076

TELEPHONE:
0860 123 003 (SA only) or
+27 (0)11 448 6000

EMAIL:
contact@stanlib.com

GPS COORDINATES:
S 26.13433°, E 028.06800°

Cape Town

PHYSICAL ADDRESS:
3rd Floor, Liberty Life Building,
Estuary Precinct, Century City Blvd,
Century City, 7441

POSTAL ADDRESS:
PO Box 202, Melrose Arch, 2076

Durban

PHYSICAL ADDRESS:
4 Park Lane,
Umhlanga Ridge, 2196

POSTAL ADDRESS:
PO Box 202, Melrose Arch, 2076

Bloemfontein

PHYSICAL ADDRESS:
1st Floor Standard Bank Business Centre
173 Nelson Mandela Drive
Brandwag, Bloemfontein

POSTAL ADDRESS:
PO Box 202, Melrose Arch, 2076

Pretoria

PHYSICAL ADDRESS:
Ground Floor, Liberty Place,
256 Glynn Street,
Hatfield, 0083

POSTAL ADDRESS:
PO Box 202, Melrose Arch, 2076

Port Elizabeth

PHYSICAL ADDRESS:
Standard Bank Centre,
1st Floor, Entrance 2, 1 Pickering Street,
Newton Park, 6045

POSTAL ADDRESS:
PO Box 202, Melrose Arch, 2076

George

PHYSICAL ADDRESS:
Cnr Church and Courtney Street,
Swanvest Building, George, 6530

POSTAL ADDRESS:
PO Box 202, Melrose Arch, 2076

Media Contact

CONTACT PERSON: Erica Stuart
TELEPHONE: 011 448 5003
MOBILE: 083 376 0330
EMAIL: erica.stuart@stanlib.com

You can also visit our website www.stanlib.com and register as a user for the self service portal.

Registered users can now use the self service portal, STANLIB Online to access their investment statements 24 hours a day. To register for STANLIB Online, simply follow the simple process on www.stanlib.com.

If you wish to make any changes to your investment or have any queries, please do not hesitate to contact your financial adviser or alternatively our dedicated client service team on **0860 123 003**.



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STANLIB Industrial Fund

Winner of the Sector Equity Consumer Goods and Services category

STANLIB Global Property Feeder Fund

Winner of the Property – Indirect Global category

STANLIB Property Income Fund

Winner of the Property – Indirect South Africa category

STANLIB Global Bond Feeder Fund

Winner of the Global Bond category



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