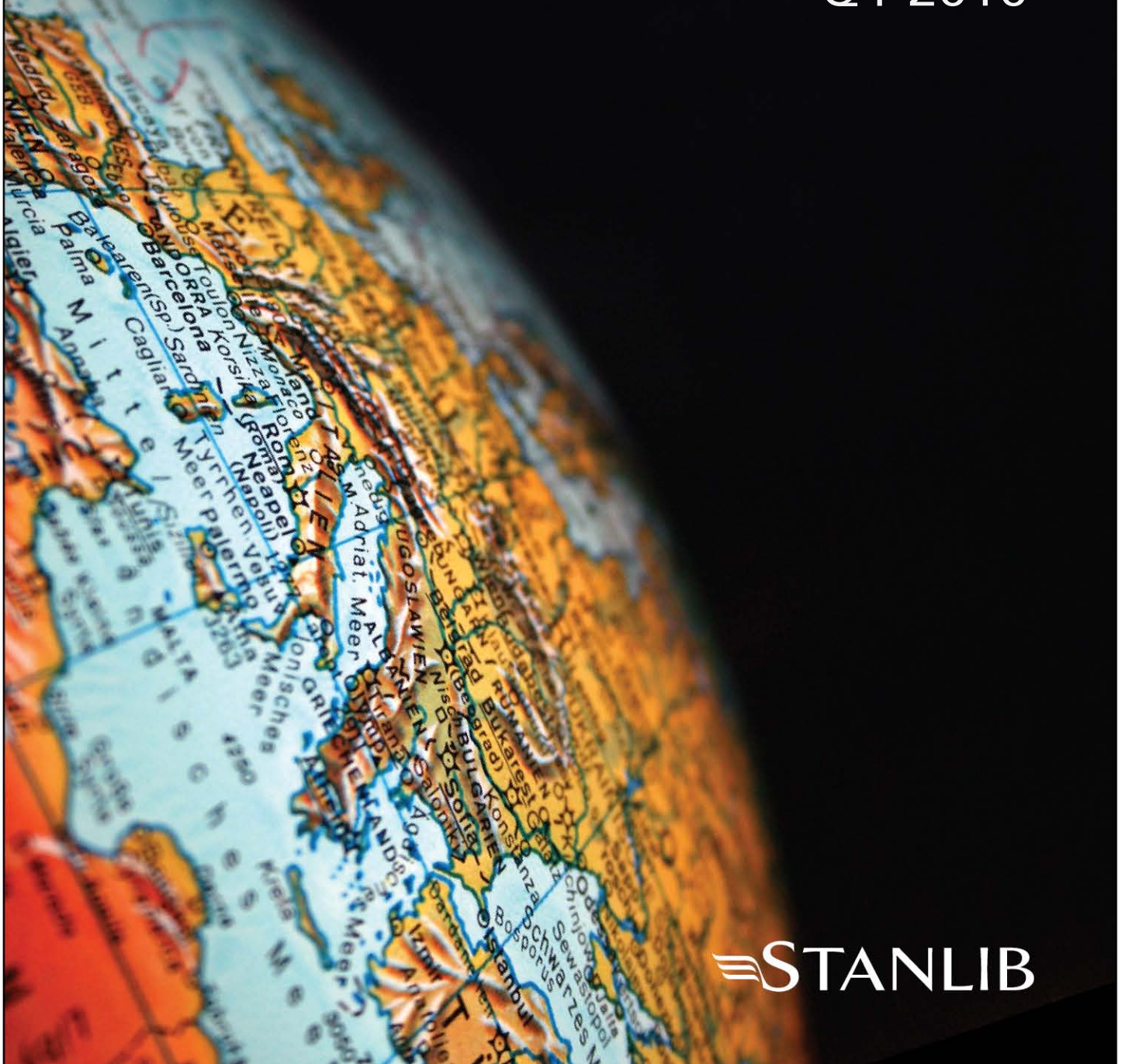


Quarterly Economic Commentary

Q4 2010



 STANLIB

Global Economic Review

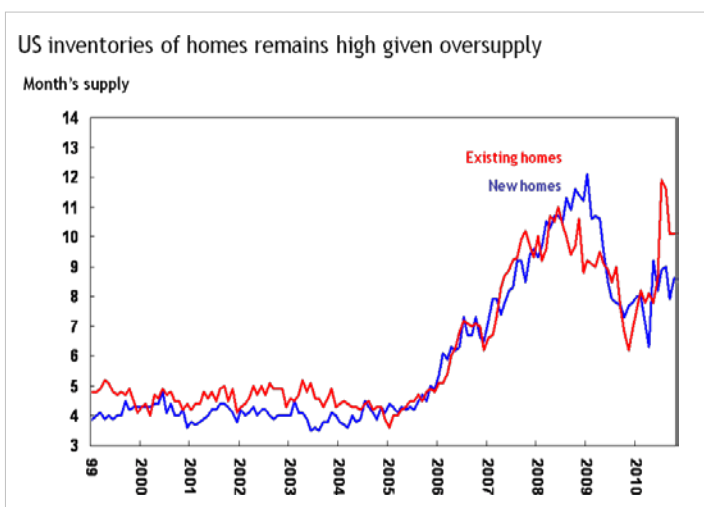
During 2010, a combination of unprecedented monetary expansion and extensive fiscal stimulus helped most economies achieve positive growth. Fears of a double-dip recession have faded. Alongside the higher growth performance, global production and trade also recorded noticeable improvements. There is also no doubt that financial market conditions steadied during the year, despite the fears of a sovereign default in the Euro-area.

These improvements, however, disguise a more complex economic reality, namely a two-speed global recovery reflected in a still modest economic improvement in many of the advanced economies, especially the Euro-area and Japan and a much stronger performance in most emerging economies, including China and India.

The slow growth in the advanced economies reflects a general lack of final demand brought about by still high unemployment, tight credit conditions, weak housing markets and modest income growth. In contrast, many emerging economies have managed to increase exports, while domestic consumption is also growing as both governments and households increase spending on goods and services.

Critically, within the United States, most economic variables improved steadily during the course of the year, especially indications of consumer activity.

However, the housing market remains exceptionally weak and is probably still the single weakest aspect of the US economy. There is, unfortunately, a structural oversupply of housing, which argues against any meaningful recovery in US housing market conditions for a number of years. Housing is, however, cheap on a relative basis which implies that current price levels could be maintained.



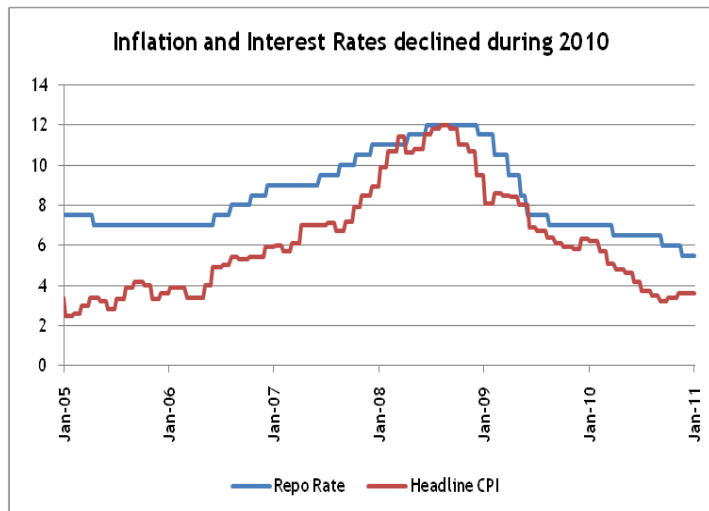
Domestic Economic Review

Although the South African economy is well out of recession, the pace of recovery remains fairly modest at slightly less than 3%; and disappointing relative to many other emerging economies. South Africa's exporters have struggled to take advantage of the rebound in global trade and higher commodity prices. This is partly due to the strength of the Rand, but also due to a combination of labour unrest and infrastructural constraints.

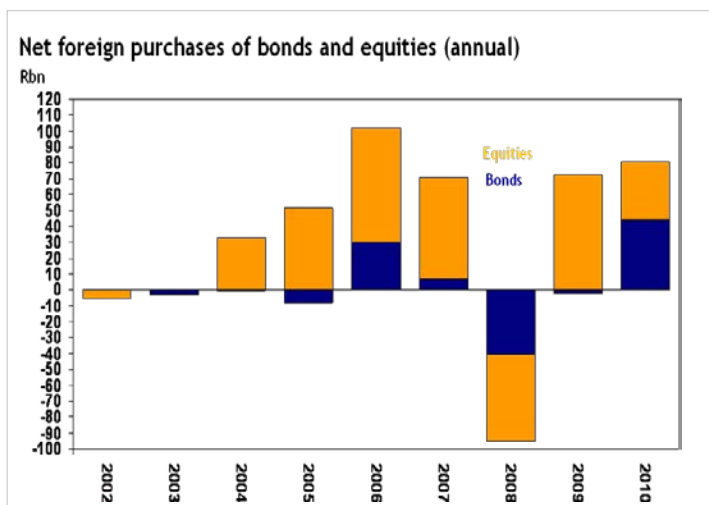
More positively, the latest indicators of consumer activity suggest that South African consumers are in far better shape now than a year ago. This includes rising incomes (in real terms because wages have increased at a faster pace than inflation), lower debt servicing costs (due to lower interest rates), less job losses (most of the job losses occurred in 2009 and early 2010), stable and relatively elevated confidence levels (especially among mid to upper income earners), slightly easier access to credit, an improvement in house prices (albeit modest) and a rise in wealth levels (mainly due to a higher equity market and hence a positive wealth effect).

Importantly, this improvement appears to be reflected in the financial results of a number of local retailers. The current range of consumer related economic data would suggest that consumer spending can continue to expand at a solid pace into 2011, but will ultimately lack absolute vibrancy without an increase in employment.

During 2010, inflation surprised the market on the downside, with the strength of the Rand and food prices being a significant downward force on inflation throughout the year. In that regard, the recent sharp upward trend in global food inflation is a significant concern. In November 2010, the Reserve Bank cut the Repo Rate by a further 50 basis points to 5.5%. This was the third interest rate cut in 2010, but is likely to be the last in the current interest rate cycle.



The rebound in the value of the Rand in 2010 has been one of the strongest among emerging markets and the IMF has recently noted that it does consider it overvalued. The Rand was up around 12% against the Dollar for the year largely driven by foreign capital inflows in the form of portfolio investment but also supported by the surge in the gold price to new record highs. During 2010, net purchases of SA bonds and equities totaled more than R80 billion.



Amazingly, since the beginning of 2004, foreigners have bought a net R274 billion of SA equities, and it is estimated that they own approximately 25% to 28% of the JSE.

Despite the persistently strong foreign inflows into the SA equity market over the past year, STANLIB's understanding is that many emerging market foreign investors remain only around neutral or marginally underweight South Africa. South Africa has a weight of around 7% in the MSCI Emerging Market Equity Index. Foreign bond investors tend to adopt a trading strategy when dealing with South Africa's bond market but the inflow for the year was a record annual total as the global "search for yield" trade played out.

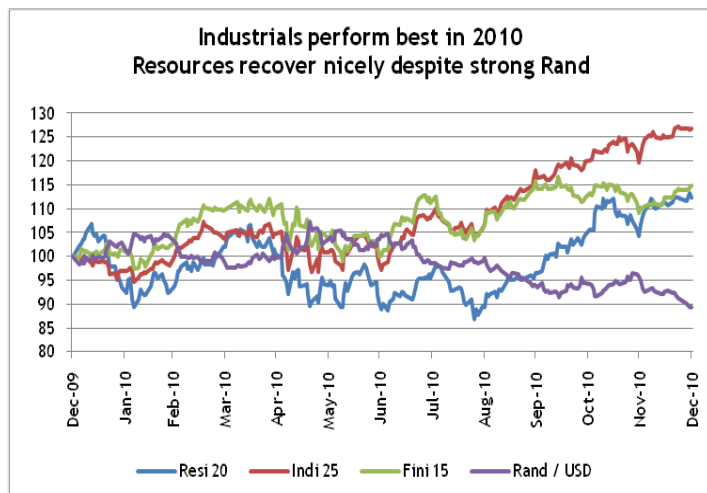
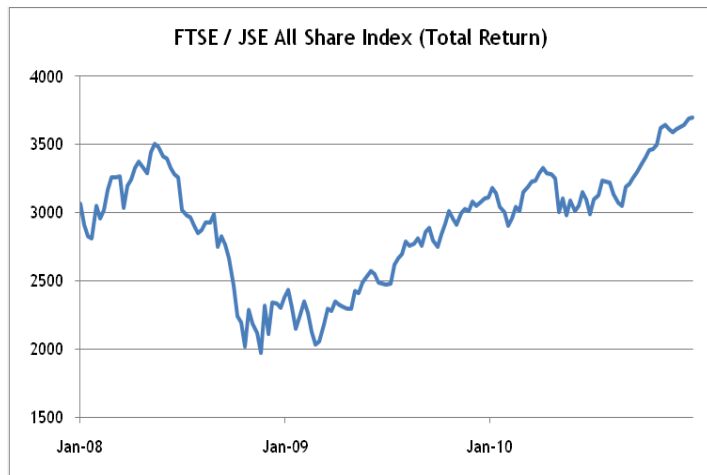
Market Commentary

Equity

On the 22nd of May 2008, the FTSE/JSE All Share Total Return Index (ALSI TR) hit a record high of 3 559.68 before plunging about 45% over the course of the next six months. In 2009, we saw the market stage a satisfying recovery and this continued into 2010 with the ALSI TR finally surpassing the 2008 high on the 4th of November 2010. The upward surge did not end there and the index ended the year only slightly off its December 30th high of 3 711.84.

The total return for the All Share index for calendar 2010 was 18.98%. Industrial counters were the big winners for the year with the Industrials 25 Index up over 26%. The Financials 15 Index was up just over 14% as it struggled against repeated poor news flow about the state of banks internationally. Resources was the worst performing sector but the strong Rand, which appreciated from R7.40/\$ at the beginning of the year to end at a shade over R6.60/\$ at the end of 2010, did provide a fairly substantial headwind for these counters. However, with commodity prices improving significantly in the latter part of the year as the US Dollar weakened, not even a relatively strong Rand could prevent a fairly healthy rise in the Resources Index from August onwards.

Easy global monetary policies and greater risk appetite have seen large capital flows into emerging markets and have been the main contributors towards equity market appreciation over the last year. Foreign investors bought a net R36.3bn of our equities during 2010, with R14.7bn bought in the last two months alone.



News in the final quarter that the US would provide a further \$600bn stimulus package also helped to provide some upward momentum to market moves. South African equity markets also benefited from a fairly restrained Medium Term Budget Policy statement, the resolution of the Public Sector wage negotiations, the release of a somewhat controversial economic growth strategy that aims to improve the employment situation and news towards the end of the year that South Africa had been invited to join the BRIC grouping of nations. Perhaps the

only negative news that we had to deal with was the persistent Eurozone debt concerns and North Korea's brazen attack on South Korea and this did see the market soften a little in November.

Interest rate cuts in March, September and November were very positive for the retail market with the FIFA World Cup also providing some support to retail spending. It was therefore not surprising that the Retail sector was one of the best performing sectors for the year with Food and Drug retailers up 50% and General Retailers up a fantastic 61%. Six of the top 10 performing shares on the JSE in 2010 were in the Retail sector with Mr Price, Truworths and Massmart each producing returns in excess of 70%. The Construction and Materials sector, and Murray and Roberts in particular, had a dismal year as many of the World Cup related construction activities came to an end and the sector underperformed the market by over 14%.

Corporate activity was generally fairly disappointing with Walmart clarifying that it would not be buying Massmart in its entirety (this was received favourably by those who wanted to see Massmart continue to be listed), HSBC pulling out of a proposal to buy Nedbank from Old Mutual, BHP Billiton abandoning its hostile offer for Potash and Pick & Pay's efforts to rid itself of Franklins in Australia being frustrated by the Australian competition authorities.

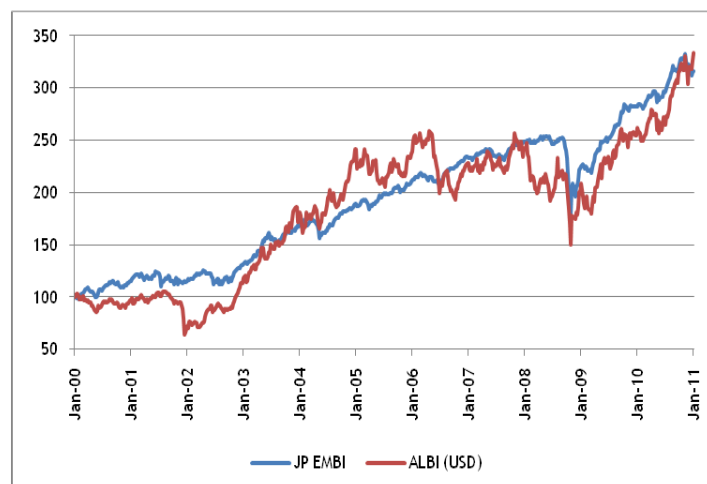
Fixed Income

The yield on the South African Government 10-year bond declined from 9.08% at the end of 2009 to 8.14% a year later and, with the support of lower inflation and lower interest rates, the entire yield curve dipped lower helping the All Bond Index (ALBI) to a return of 14.96% for the year.

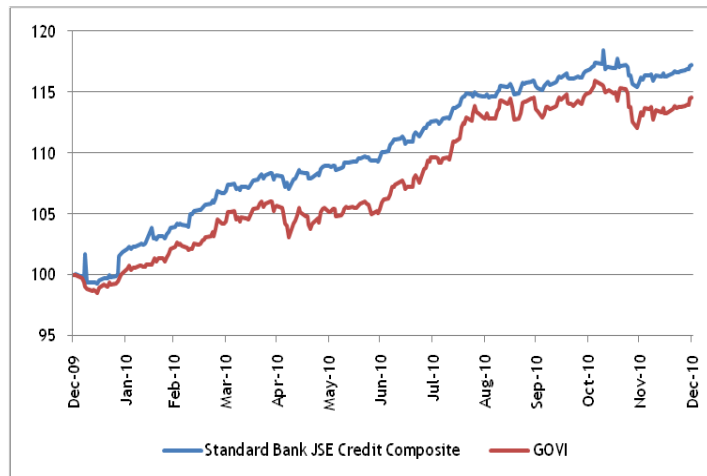
The longer-end of the yield curve produced the best performance for the year with both the 7 to 12 year and 12 year plus categories producing 16% returns for calendar 2010. However, these categories were not the place to be during the last quarter of the year as the long-end of the curve struggled to overcome the concerns about the continuing debt crisis in Europe and Ireland in particular. November was a particularly bad month with the yield on the long bond R186 rising from 8.03% at the end of October to 8.43% at the end of November. Foreign investors did take profits towards the end of the year and this also contributed to some weakness at the longer-end of the yield curve.

Foreign investors, who invested a total of around R57bn in our fixed interest markets over the course of the year (despite a R17bn sell off in the last quarter of the year), were well rewarded for their faith in the South African bond market and it was perhaps not surprising that they tried to lock-in some of these gains in the final quarter.

While the ALBI printed just under 15% in Rand terms for the year, the strength of the Rand saw US Dollar investors achieve a 28.52% return. This was well ahead of many other emerging markets with the JP Morgan Emerging Market Bond Index (JPEMBI) only producing a return of 11.82% for the year. Much of the outperformance of other emerging markets came in the final quarter with the SA bond market recovering in December, after Ireland was forced into accepting a rescue package to ease its debt woes, while the Emerging Market Index continued the deterioration that started at the beginning of November. If the ALBI and the JPEMBI were based to 100 at the beginning of the year 2000, the performance surge by the ALBI in December saw the ALBI Index level surpass the JPEMBI Index value for the first time since late 2007 (in USD).



Bond yields on corporate issues generally declined slightly more than the yields on government issued paper, thereby producing slightly better returns for the year. The Standard Bank JSE Credit Issues Composite Index produced a return of 17.23% for the year while the GOVI, representing the most tradable government issues in the All Bond Index, returned 14.58%.



Looking forward we expect that inflation will remain well under control and the Rand will remain relatively strong. While recent Private Credit extension numbers were relatively weak, we expect that the Reserve Bank will be more cautious with rate reductions in 2011 and will probably wait to get a more accurate assessment of the impact of the rate cuts that we have had thus far. Bond yields are expected to stay lower in the short term but gradually start to move higher in the later part of the year.

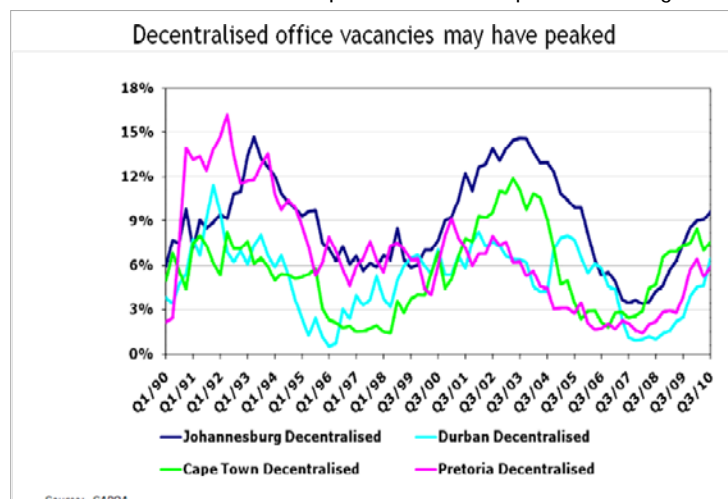
Property

The South African Listed Property Index (SAPY) delivered a total return of 3.13% (2.06% capital and 1.07% income) for the quarter. Property returns for the year were very pleasing - listed property was the best performing asset class with a total return of 29.62% (capital 19.62% and income 10.0%) - more than 10% ahead of equities, almost 15% ahead of bonds and a very healthy 22.7% ahead of cash.

The strong return for the year was driven by lower inflation, which led to lower interest rates, lower bond yields and hence stronger property prices. The listed property sector is highly correlated to the bond market due to its income generating ability and the correlation for the year was measured at over 80%.

Giving further support to bond yields and hence the property sector was the strong offshore demand for our bonds. Property shares, however, also benefited from strong domestic institutional and retail demand, which was driven by better fundamentals particularly in the retail space, steady distribution growth (despite the economy coming from a recession), and improved vacancies, arrears and bad debts.

The listed property sector's market capitalisation, currently R128bn, could increase by about R20bn over the course of 2011. Attfund (R6bn), Rebois (R2.3bn) and Old Mutual's Triangle Core Real Estate Fund (R12bn) are all looking to join the sector. Hyprop has announced that it intends to acquire Attfund. Capital is looking to merge with Pangbourne. If the Attfund deal happens, Hyprop will become the 3rd largest fund in the sector with a market cap of about R16bn and properties such as the Clearwater Mall on the West Rand and the Woodlands Mall in Pretoria would be added to its portfolio. The only funds that will be bigger than Hyprop will be Growthpoint (R29bn) and Redefine (R22bn). Capital will be the 4th largest with a market cap of about R14bn. All this corporate action is positive for the sector as it provides more choice, access to larger funds and improved liquidity.



We are forecasting income to grow by 5.5% in 2011 and this will, once again, provide positive real returns for the year. This income growth results in a forward yield of 8.2%, which is ahead of the 10-year bond yield (8.0%) and cash (5.9%).

The price catalysts for the sector will be the continued improvement in retail sector fundamentals and the letting of vacant space, particularly in the office sector which has been plagued by oversupply. The downside risks for the sector are increased operating costs (rates and taxes, and electricity) and the potential for bond yields to move up.

International

The fourth quarter saw strong equity performance and the MSCI World Index rallied 9% in US Dollar terms ending 2010, with global equities returning 12%. Global bonds returned negative 1.3% for the quarter but the asset class ended the year positive with the Barclays Global Aggregate Index appreciating 5.6% for the year.

Local investors did not enjoy the same asset class returns though, as the South African Rand continued to strengthen. The Rand appreciated 5% relative to the US Dollar in the final quarter and ended the year gaining 11.6% in purchasing strength. Similar strength could be seen on the Rand Euro and Rand Sterling cross rates where the local unit gained 16.3% and 13.5% respectively.

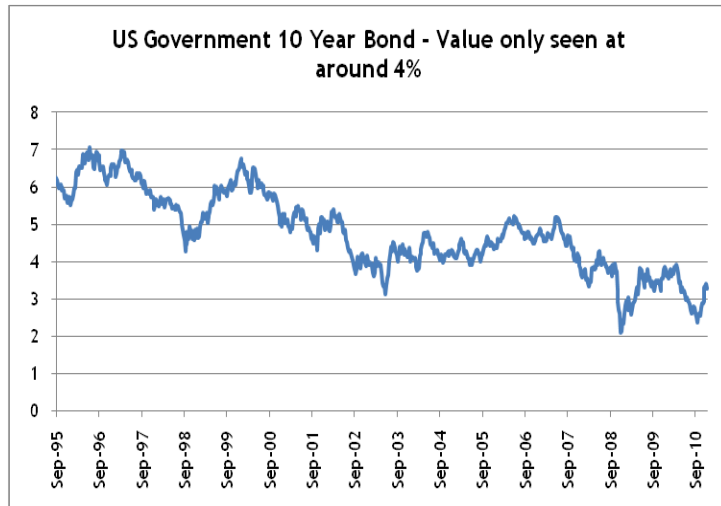
The STANLIB High Alpha Global Equity portfolio had a satisfying year and the portfolio outperformed the MSCI World Index by 4.5% gross of fees. The Manager noted in the fourth quarter review that equity performance in Japan and North America led the rally, rising by 12% and 11% respectively, while continental Europe lagged, rising just 4%. The final quarter performance in Europe did help the region to eke out a positive 2.4% return for the year (though the EMU/Euro member countries within Europe actually fell 3.4% over the year). Other than lagging the Europe, most regional returns were reasonably close to each other for the year. Emerging markets rose by 19.2%, Asia ex-Japan 17.1%, North America 16% and Japan by 15.6%. The UK was stuck halfway between the leaders and laggards at 8.8%.

All industry groups rose through the quarter. Cyclical groups such as mining, engineering, energy, chemicals and autos led the way, while banks lagged along with the more defensive pharmaceutical and telecom sectors. 2010 as a whole saw something of a "return to rationality" with investors focusing on underlying company profitability and rewarding those companies whose prospects were improving the fastest. The year also ended on a positive economic note, with data releases on balance continuing to surprise to the upside and analysts continuing to upgrade corporate earnings expectations for 2011.

The analysts' consensus is now for a 16% rise in earnings next year, following this year's impressive 44%. This puts world markets on a trailing price/earnings ratio of under 15, and a forward ratio of around 12.5. Markets are therefore not at unreasonable valuations but the key questions for 2011 remain how markets might react if global interest rates and bond yields do finally rise to more normal levels, how much further the authorities in emerging markets might tighten policy (most obviously in China), and how the problems of the Euro zone will be resolved. We have chosen to continue to hold key overweight positions in Emerging Markets and technology while we remain underweight the Financials' sector.

In fixed-income markets, global bonds sold-off noticeably in the fourth quarter despite the announcement of a \$600bn quantitative easing program by the Federal Reserve. Globally yield curves have steepened reflecting an upward bias in inflation. This move has been supported by improved economic data, including an improvement in consumer credit spending and US retail sales. In addition, concerns around rising commodity prices and the impact on inflation also pushed yields higher.

Analysts' models suggest that 10-year yields are close to 4% implying markets are considerably overvalued! Treasuries still offer a hedge to the down-side and have a place in a balanced portfolio, however corporate credit offers better return potential. In December yields of A-rated investment grade corporate bonds in the US narrowed 14 basis points ending the year 156 basis points ahead of 10-year US treasuries. Corporate credit is therefore favoured over treasuries and this is supported by strong fundamentals within corporate America and the anticipation of further narrowing of spreads.



Rest of Africa

The 4th quarter of 2010 saw a strong rally in many African markets, with most of the returns coming in the last 6 weeks of the quarter. Some of the better performers included Zimbabwe, which returned 10.3%, Mauritius 9.7% and Nigeria 9.2%. These markets were driven by upbeat market perceptions with positive earnings news flow across the main counters.

Shares that performed particularly well in Zimbabwe were Delta, CBZ and Inncor Africa Ltd.

There was a strong rebound in Nigeria with the Banks re-rating following the establishment of the Asset Management Company (AMCON) which will buy certain bad loans off banks' balance sheets.

Mauritius was driven by market heavyweight, Mauritius Commercial Bank, which had a return of 19.4% for the quarter, and by generally improved economic and market sentiment on the island.

The laggards for the period were Botswana (-11.37%), Tunisia (-11.14%) and Nairobi at (-4.2%).

Kenya posted a 33.5% return for the full year 2010, and participants were obviously taking some profit off the table in the 4th Quarter.

Tunisia also saw general market apathy for the quarter and the full year, given that it performed well during the general market correction of 2008 and 2009. The current political upheaval will eventually dissipate and we are confident of the economic potential of the country going forward.

Of our major country holdings in the STANLIB Africa Equity Fund, the Nigerian market performed well and our continued exposure there was rewarded as the market rallied (Nigerian Bank Index up 18%). However, we are reviewing our exposure given the extent of the rally. The 2010 full year results will give further clarity on the prospects for the banking sector and, if necessary, we will make adjustments to the portfolio after studying these results.

In Egypt, NSGB and CIB continued to perform well as the banks have been able to maintain good profitability and earnings growth through the cycle. However, continued negative news flow in Orascom Telecom, driven by the dispute with the Algerian government, has weighed negatively on the stock performance. We expect M&A activity for this counter in 2011 as the Algerian dilemma will not be resolved and perhaps we shall see a breakup of the business. Orascom Construction should continue to perform well as their construction order book is holding up rather well and fertilizer prices are also looking positive.

We took a position in Sacoil in the 3rd Quarter of 2010. The company aims to be a diversified Oil and Gas exploration and production play across Africa and is looking well poised to achieve this goal. The investment had a phenomenal quarter and was up over 170%. We did therefore feel that it was prudent to take some profits during the fourth quarter and will continue to do so into the 1st Quarter of 2011.

Celltel Zambia's full acquisition by Bharti Airtel finally took place and we received payment in late December. We had been quite vocal on the valuation for minorities take out price and even though we raised these issues with regulators and management, the final price received was lower than we wanted. We continued to hold Zambeef which we believe will benefit from a buoyant economy as a result of higher commodity prices - notably copper.

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