

THE BRANTAM "UPDATE"

66

28th September 2011

QUOTE OF THE WEEK

A government big enough to give you everything you want, is strong enough to take everything you have.

-Thomas Jefferson

THE WORLD TODAY

OVATION CURATORSHIP:

Just a final bit of feedback – The Final Release of the Retention document outlines the payment process of the remaining retention funds on the Ovation platform. In a nutshell; this means that clients will have received 98% of their assets/funds back since inception of the Curatorship. All in all a good message and hopefully vindication of the advice process we followed with clients.

Investors with exposure to losses or shortfalls will be heartened to read the Claims Against ABSA and ABSA Judgement documents, as these outline the Curators High Court success against ABSA Bank. I will continue to follow up on this matter and provide feedback in due course.

Finally, PSG have managed to secure all the assets that were transferred to Equinox via Intervest, and now effectively own Equinox. This is heartening, as we (Brantam) have also managed to secure of the lowest administration rates in the country via the PSG platform, which should assist in investment performance going forward for those clients that use the PSG platform through Brantam.

GENERAL:

I sometimes wonder whether, despite all the newsletters etc, the average guy out there fully comprehends just how deep in the pooh the world really is! As for the past week and a bit, whew, what a roller coaster ride this was.

So it definitely looks like it is time to take cover and run for the forest, because the foreigners are running. This last week has seen the Rand running scared. This, however, is not a Rand story and neither is it really a currency story as such – rather it is a liquidity story, and access to US dollar funding. Selling out of Emerging Market assets to create dollar liquidity has seen our bonds and currency being smashed, but we do believe that there are opportunities that will present themselves in this carnage. But for the time being, perhaps the most sage advice would be to listen to Forrest Gump as he offers this gem :

"My Mama always said you've got to put the past behind you before you can move on."

But that may still take a little time given the troubled past 4 years! Allow me to try and get this message across once more, and as pictures seem to tell the story better, will be including quite a few graphs:

GLOBAL OUTLOOK:

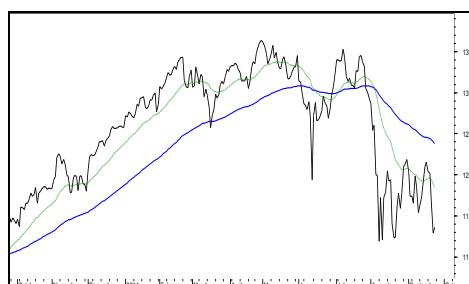
Gold, the worlds "saviour", tumbled 8% and silver crashed **24%** over the week as the precious metals lost their lustre amid a widespread sell-off across commodities markets.

Copper

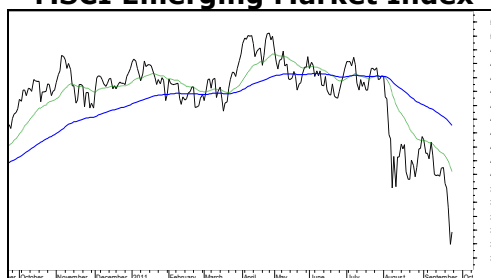


Copper, whose price is closely correlated with industrial growth and Chinese demand (and one that we at Brantam watch very closely as a barometer for resources), fell to a new 13-month low amid worries about monetary tightening in China as well as a possible recession in developed countries. Copper for three-month delivery fell to the lowest since August last year.

New York - S & P 500 (one year)



MSCI Emerging Market Index



It wasn't meant to work out like this!! The two graphs above tell a story of just how volatile things were in the USA. The second graph (Emerging markets) caters to economies such as ours.

The US Federal Reserve's launch this week of "Operation Twist" succeeded in forcing down long-term Treasury yields. The Fed's "twist" will involve the US central bank selling \$400bn of short-dated bonds to buy debt with longer maturities, but stops short of another increase in its balance sheet. **The question is: "will anyone buy short dated bonds in this market?"**

But, if it was meant to push investors into riskier assets, it failed abysmally as they focused instead on the rising chance of an imminent recession and the (near certain) default by Greece on its debt obligations. Global equities slipped into a bear market in the aftermath of the Fed move while US and UK shares are only one bad day away from being down the requisite 20% from their highs of earlier this year.

For all the gloom, particularly on Thursday when many markets fell 4-5%, strategists argue that equities will still have further to fall if a double-dip recession materialised.

"This is a survival issue ... These are dangerous, dangerous times," says Ben Funnell, fund manager and chief equity strategist at GLG, the UK-based hedge fund. "All you want is very high conviction

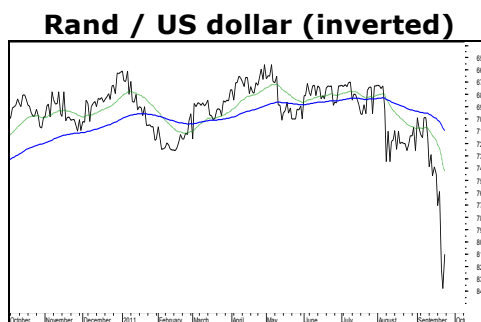
positions.” Mr Funnell argues that if western economies do fall back into recession, equities have a minimum of 15%, and probably more, still to fall.

The following set on global indices just further emphasizes the state of the globe:

| | New York SP500 | London FT100 | Eurostoxx 50 | Tokyo Nikkei | Hong Kong Hangseng |
|----------|---------------------------|-------------------------|---------------------|-------------------------|-------------------------------|
| 1 week | -6.60% | -5.60% | -6.20% | -3.40% | -9.20% |
| 1 month | -2.20% | -1.20% | -7.90% | -2.00% | -11.10% |
| 3 months | -11.50% | -10.70% | -25.80% | -10.90% | -18.80% |
| 6 months | -12.50% | -12.60% | -29.30% | -19.00% | -22.60% |
| I year | 1.00% | -8.40% | -26.40% | -7.20% | -20.10% |
| Ytd | -9.70% | -14.10% | -28.70% | -12.50% | -23.30% |

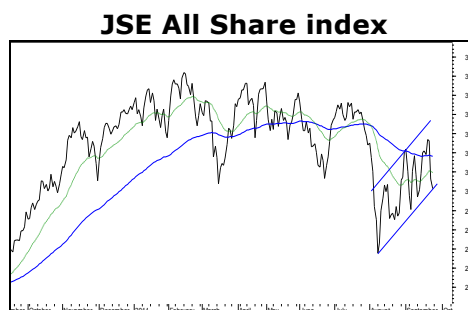
LOCAL OUTLOOK:

On the local side, our initial fall out was not that bad, apart from the Rand which collapsed over a 1 week period:



Although there was a small recovery on Friday, the rand emerged battered after a week in which global investors dumped risk assets in an effort to raise liquidity at whatever cost. The rand has **lost 26% of its value against the dollar since late August** and it is of little comfort that other emerging market currencies have seen similar moves.

If any evidence were needed that it was foreign investors who were buying SA bonds, the move since the rand started weakening makes this clear. Rumour has it that some R58 billion in bonds was sold by foreigners last week alone. The decision by SARB to leave interest rates on hold for the time being due to concerns over future inflation risks had no influence on the bond market.



The JSE did not suffer as severely as foreign markets as some cushioning was provided by the declining rand (remember that our commodities are sensitive to the exchange rate, and a weakening Rand adds value). The influence of foreign selling took its toll, however, and those

shares, which have been the favourites of foreign investors, fell sharply.

The 8% drop in the General Retail index was notable and the 3% fall in the Mid Cap index on Thursday and Friday also shows the lack of protection provided here by the weaker currency. However, South African stocks fell for the fourth straight session on Monday, dropping 1.4% as a decline by Anglo American Platinum and other miners outweighed a mild rebound by retailers and other recently battered shares. Miners were hit hard as investors dumped precious metals in a scramble for cash due to growing fear over a potential Greek debt default and its impact on the global economy.

"Some of the resource stocks which were hammered are being sold, the guys are definitely getting into some of the stuff that looks a little more attractive" said Michele Santangelo, a portfolio manager at Newstrading. "Investors are hoping for a little bit of a bounce in the market - not a huge one - but a little bit of a bounce." But that bounce was short-lived, as the Top-40 index headed lower after briefly flirting with positive territory.

Selected JSE Indices

| | ALSI | Min. | Fin | Indi25 |
|----------|-------------|-------------|------------|---------------|
| 1 week | -3.20% | -2.10% | -3.90% | -3.80% |
| 1 month | 2.70% | 4.30% | -0.40% | 2.90% |
| 3 months | -0.90% | -2.20% | -2.00% | 1.30% |
| 6 months | -3.70% | -10.80% | -1.80% | 3.20% |
| I year | 4.70% | 3.10% | -3.50% | 10.10% |
| Ytd | -6.40% | -12.60% | -5.60% | -0.20% |

So, not as bad as in Europe and the US, but we do tend to lag a little bit behind, and as mentioned, the fall in the Rand did manage to add some protection to a lot of our stocks.

BRANTAM MONTH END VALUES AS AT 28th September 2011

| | 10 YEARS | 7 YEARS | 5 YEARS | 3 YEARS | 1 YEAR | 6 Months | 3 months | 1 month | Y.T.D. |
|---------------------|-----------------|----------------|----------------|----------------|---------------|-----------------|-----------------|----------------|---------------|
| Classic Port | 12.71% | 11.93% | 8.68% | 7.81% | 4.09% | 3.65% | 1.85% | 1.72% | 3.56% |
| Cabernet | 13.53% | 12.12% | 7.72% | 6.62% | 4.06% | 2.32% | 0.96% | 1.84% | 3.31% |
| Chardonnay | 14.60% | 12.75% | 7.48% | 6.78% | 4.75% | -0.11% | -1.14% | 1.84% | 1.01% |
| Shiraz | 15.57% | 13.73% | 7.23% | 6.16% | 5.12% | -1.25% | -1.98% | 2.86% | -0.29% |
| Champagne | 16.02% | 13.01% | 4.52% | 4.25% | 2.10% | -6.54% | -4.73% | 2.74% | -4.69% |
| Claret | 3.56% | 6.24% | 1.99% | 4.24% | 2.83% | -0.40% | -1.66% | 5.23% | 4.64% |
| Merlot | N/A | 4.70% | 2.23% | 3.02% | 4.89% | -9.99% | -12.63% | 12.01% | -7.97% |
| | | | | | | | | | |
| JSE ALSI40 | 14.23% | 14.59% | 6.57% | 5.02% | 6.53% | -4.21% | -3.51% | 9.19% | -4.09% |
| JSE-MIDCAP | 19.34% | 17.47% | 10.28% | 13.42% | 1.59% | 1.69% | -2.29% | 4.26% | -5.17% |

COMMENT: Not a pretty period to be an investor, and we honestly do sympathise. Please do not get too disturbed at the 1 year figures – we must remember that by September last year, the markets were running hard, whereas we have just been through a horrible patch, thus 12 month figures will look terrible. Better to focus on the longer returns!

Finding value out there is becoming a mammoth task and not for the faint hearted. The only consolation we can offer is that we ARE working actively at it, and time shall tell whether we are correct in our approach or not.

WHAT ARE BRANTAM DOING?

A decision was taken to reduce equity across all the portfolios (with the exception of Champagne, which is a full equity fund) on the back of the turmoil in Europe, and increase the fixed interest side. Small profit was also taken from global funds with the Rand at over R8/\$

EDUCATION

Investing in order to obtain positive real returns over time is an exercise which requires discipline, patience, skill and – quite often – a bit of luck too. I have frequently written in the past, and it is always important to bear in mind, that without a plan or strategy, the probability of achieving your future goals is very low. As someone wise once said: “Those who fail to plan, plan to fail”. It is for this reason that a properly thought out strategy is a crucial starting point and, in the absence of the proverbial crystal ball plus essential knowledge and information required to design such a strategy, we always recommend that investors make use of the services provided by a qualified and experienced financial advisor.

At Brantam we manage a range of funds which should be able to provide for the full range of needs of an investor, with exposure to all the asset classes from cash to equities, and investors rely on our management team to consistently deliver good returns over the appropriate investment horizon of the fund (although a tough ask under current conditions!).

In order to achieve our fund objectives, we too have a strategy for each fund, and around that strategy we apply tactical measures to take into account prevailing conditions. Our philosophy and strategy is focussed around identifying those assets which meet our investment needs. On the equity side, that means identifying exceptional fund managers which meet our criteria. On the asset allocation side, that means looking deeply into the strategies that those managers apply when selecting the equities and other instruments which we feel will benefit our portfolios and, based on these manager selections, compiling portfolios which we believe will provide the necessary returns over the specified investment horizon at an appropriate level of risk.

Equity View

On the equity side, we are potentially finding more value outside SA, than in it, although this stance may well change going forward depending on the rising debt situation in Europe. To this end, and where applicable, we are exposing all the portfolios to an offshore fund selection. Unfortunately, regulation 28 limits us to the amount that goes offshore in pension structured products (I.e. Retirement Annuities), but we do tend to work to the maximum.

So what is the take-away from this? As fundamental investment managers we have a bias towards investing where the value lies. Currently, we are finding significantly fewer locally listed companies which meet our investment criteria, and considerably more foreign listed companies which meet our needs. Investors in our funds can rest assured that we are looking for value where it can be found.

Asset Allocation View

On the asset allocation side, we can see that specific equities – particularly some quality foreign equities – are still offering good value. We are currently underweight bonds generally and, consequently, our cash holdings are higher than we would normally hold, reflecting a reticence to acquire assets which may underperform this asset class over the short-term.

What can investors take away from the fund holdings here? On a 3- to 5-year view, we do believe that we have exposure to a significant number of asset classes which will outperform over the period, but there is no low-hanging fruit and these opportunities do not abound.

Careful fund selection is going to be a crucial differentiator in performance and close attention needs to be paid to your margin of safety. The higher than normal cash holdings in the Funds indicates a relatively defensive position where the focus is currently more on preservation than taking on too

much risk.

Conclusion

In the current environment in which the average investor finds themselves, what can they take away from an overview of the holdings in Brantam funds?

We are potentially finding more value in foreign equities than local equities. Overall, we cannot find enough equities which meet our investment criteria to be fully invested in this asset class in our unconstrained funds and consequently we have above-average levels of cash which we would like to deploy into weakness.

Now, possibly more than ever before in recent years, it is going to be important to have someone managing your money that has a structured process and the skill and experience needed to carefully deploy capital in a way that it can preserve savings and grow over time.

THE LIGHTER SIDE OF LIFE – Q&A as a reminder for the over 60's!!

| | |
|---|--|
| Q: Where can men over the age of 60 find younger, sexy women who are interested in them? | A: Try a bookstore under fiction. |
| Q: What can a man do while his wife is going through menopause? | A: Keep busy. If you're handy with tools, you can finish the basement. When you're done you'll have a place to live. |
| Q: How can you increase the heart rate of your 60-plus year old husband? | A: Tell him you're pregnant. |
| Q: How can you avoid that terrible curse of the elderly wrinkles? | A: Take off your glasses. |
| Q: Seriously! What can I do for these Crow's feet and all those wrinkles on my face? | A: Go braless. It will usually pull them out. |
| Q: Why should 60-plus year old people use valet parking? | A: Valets don't forget where they park your car. |
| Q: Is it common for 60-plus year olds to have problems with short term memory storage? | A: Storing memory is not a problem. Retrieving it is the problem. |
| Q: As people age, do they sleep more soundly? | A: Yes, but usually in the afternoon. |
| Q: Where should 60-plus year olds look for eye glasses? | A: On their foreheads. |
| Q: What is the most common remark made by 60-plus year olds when they enter antique stores? | A: "Gosh, I remember these!" |

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