BRENTHURST WEALTH MANAGEMENT

INVESTMENT REPORT

BRENTHURST
THE HOME OF WEALTH

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NEW SERVICE TO BRENTHURST WEALTH CLIENTS

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Global Markets
AND SA ECONOMY

The Brenthurst Wealth Team

INVESTMENT RESEARCH and insight is one of the most valuable commodities in the investment world today. In a rapidly-changing and often unpredictable global economic environment qualitative research and commentary is priceless.

Our partnership with Stonehouse Capital, a venture capital company in the Standard Bank/Liberty Life-Group, which was concluded during the course of last year, now gives us (and our clients) access to some of the highest quality economic and financial research available in South Africa.

Headed by group economist Kevin Lings and assisted by top fund managers, including the well-known Paul Hansen and his team of researchers, we can now tap into some of the most valuable and insightful investment research available on the local market.

It is our intention to summarize this research and pass it on to you, our clients, on a regular basis, at least once a month, in order for you to better understand the economic landscape against we make investment decisions.

Please enjoy herewith our first investment newsletter making use of this enhanced research capacity.

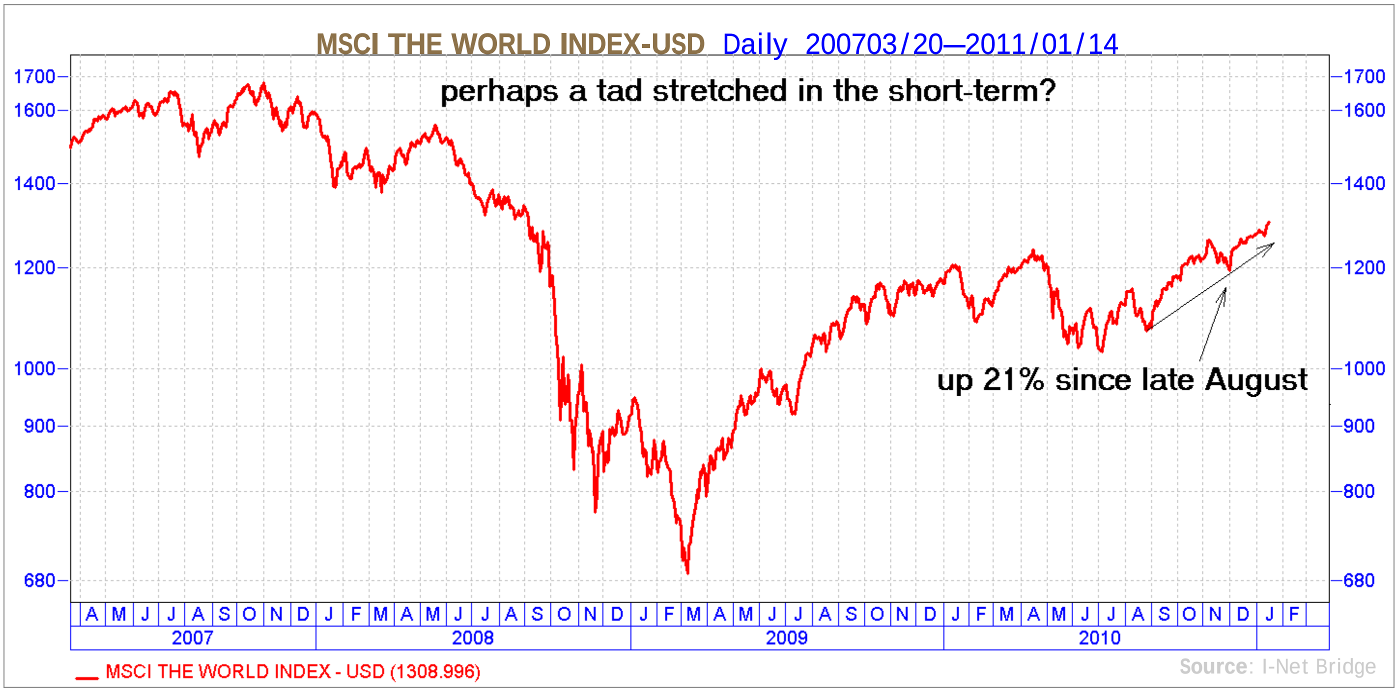
2010 WAS ANOTHER EXCELLENT YEAR FOR SA EQUITIES, PROPERTY AND ALSO BONDS

- 2010 turned out very well for SA equities, with a 19% total return (6.2% in December alone). Coming on top of the 31% return in 2009, SA equities have recovered nicely. The uptrend remains intact.
- In dollar terms, the All Share Index hit a record high in early January. In rand terms, the index is 2.5% below its 2008 record high.
- What was particularly impressive was the return earned in our market by developed market foreign investors: a rand return of 19% turned into a 41% return in euros, a 37% return in sterling and a 33% return in US dollars - stunning returns. No wonder foreigners invested another R36bn net in our stock market in 2010, on top of the R72bn invested in 2009. Kevin Lings notes that over the past seven years foreign investors have accumulated R270bn of SA equities, which he estimates equates to around 25-27% of our shares, despite the sharp sell-off in 2008.
- So while there is some risk to our market if foreigner investors turn sellers, they appear to be accumulating our shares more as long-term investors (in emerging markets), than as short-term speculators.
- In fact, in dollar terms the MSCI South Africa index (34.2% return in 2010) outperformed the other big emerging markets of China (4.8% return), Brazil (6.1%), South Korea (28.9%), Taiwan (22%) India (20.9%) and Russia (19.4%).

- The MSCI Emerging Markets Index, of which MSCI SA comprises 7.8%, did 19.2% in 2010, while the MSCI World Index of mostly developed markets did 12.3% (almost 0% in rand terms, please note).
- On the JSE, Resources came back strongly in the last three months, despite continued rand strength (rand up 7% in December), to record a total return of 16.5% in the 4th quarter, well ahead of the Financial & Industrial Index's 5.2% return.
- However, Industrials were still the stars in the 2010 full year return (up 27.4%), beating Financials (14.8%) and Resources (12.3%).
- Listed property was the real star over the course of 2010 (a stunning 29.6% return), mostly on the back of a strong bond market (15% return); but listed property returned only 3.1% in the 4th quarter of 2010 (ALSI 9.5%), as bond returns faded (0.7% in the 4th quarter).

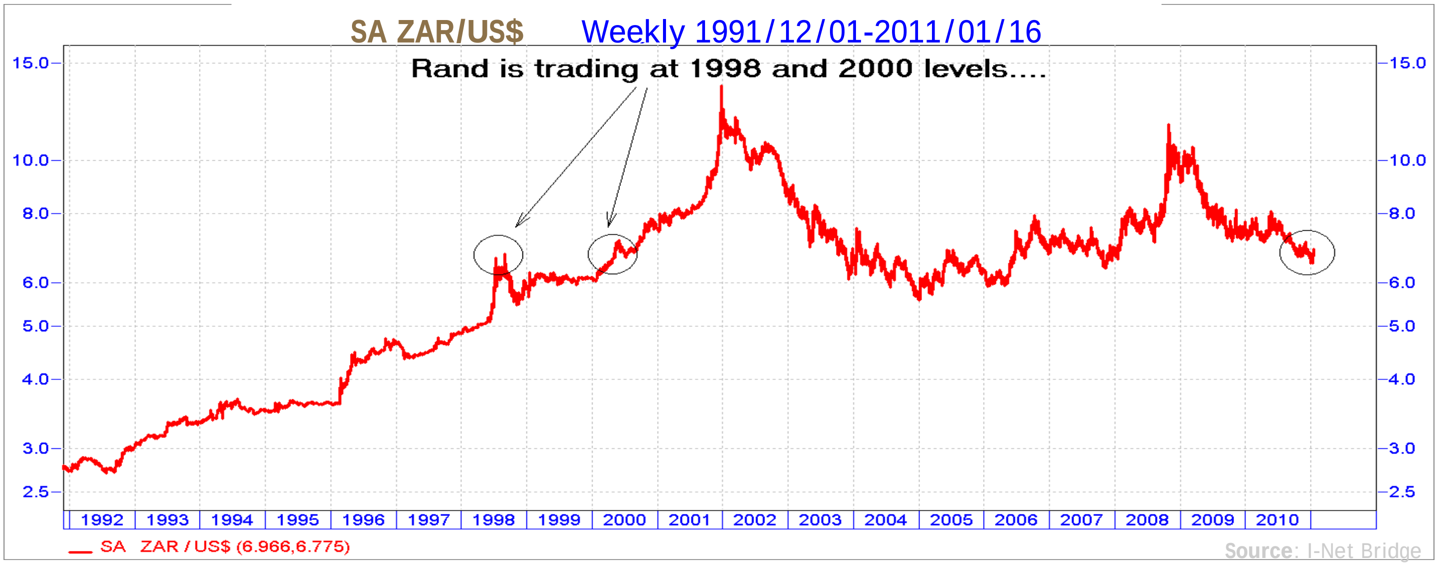
CAUTIOUSLY OPTIMISTIC IN 2011, BUT WARY OF A CORRECTION IN THE SHORT-TERM

- The US stock market closed on Friday at another new post-crash high and is up 23% since late August, when the 2nd leg of the bull market commenced. At this stage it is still 18% below its 2007 record high…and is also still trading at 1999 levels in both dollar and rand terms. Below we show a chart of the MSCI World Index of mostly developed countries, in dollar terms, showing the sharp upward move over the past four months:



- Likewise, the JSE's ALSI is up 22% in rands since late August (Anglo American is up 15% over the past 6 weeks and Sasol is up 10%).
- So, although there is some room for optimism in 2011, one is a little cautious in the short-term after such a strong rally in equities around the globe.
- As US analyst, Elaine Garzarelli, puts it: "Our quantitative indicators remain bullish, but a correction of 4-7% may happen at any time".
- STANLIB is concerned about the all-time record high in industrial commodities and in international food prices in dollars from a point of view of inflation in emerging markets in particular, although obviously the rise in the prices of copper, platinum, palladium, coal and iron ore are good for our mining shares.
- Some of the top stockbrokers in South Africa, such as Deutsche, JP Morgan and UBS, remain quite positive on SA equities, looking for 10-15% returns in 2011, although Macquarie is more cautious, looking for positive returns only from Resource shares in 2011.
- UBS says the All Share Index is trading at 11.7 times expected earnings for 2011, which is 12% higher than the 10.4 average of the past ten years. However, they still expect 15% from the ALSI in 2011, with Resources outperforming.
- BCA Research agrees that the elastic may be a tad stretched right now for global stock markets, but liquidity conditions and increasingly economic prospects are aligned for further cyclical gains in shares as 2011 progresses.
- BCA suspects that bailouts for both Portugal and Belgium are unavoidable, but that Spain and Italy should be fine.
- They also think the cyclical strength shown by the commodity currencies (Aussie, Canada, Brazil in particular) is not over yet and that the US dollar will weaken gradually in 2011 against the euro and pound.
- South African investors in offshore assets, including equities, struggled yet again in 2010 because the rand gained 18.7% against the euro in 2010, 15% against the pound and 11.8% against the dollar.

- However, although it is early days in the new year, since the start of 2011 the MSCI World Index is up 2.2% in rand terms because the rand has lost around 5% so far in 2011 - and is back at August 2010 levels - after a very sharp 7% appreciation in December alone.
- A number of our top competitors in SA have recently indicated that they have shipped funds offshore to take advantage of what they perceive to be better value in the developed equity markets than in SA. As a Cape Town based Chief Investment Officer put it: "Offshore equity is our asset class of choice. There is great value to be had offshore. It is sad to see so few investors taking advantage of the strong rand." One top value fund manager said he now has 15% of his fund offshore for the first time in 10 years.
- The message? Be patient with your offshore investments. Also, over the past four months, the developed markets have kept pace with the emerging markets, so it is not a done deal this year that emerging markets will outperform.
- Below we show a chart of the rand to the dollar. STANLIB's house view is for 7.70 at end 2011…but it remains one of the hardest calls to get right. So far the rand's uptrend against the dollar, from the low point in late 2008 (11.85), remains intact.
- The other point to make is that although the JSE has underperformed in early 2011 against the MSCI World Index in dollars, the broad uptrend of outperformance since 1998 remains intact (JSE in dollars beating the MSCI World Index).



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