



STANDPOINT

Keeping you informed

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 STANLIB

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George Brits
Chief Executive Officer



A note from the CEO

Welcome to the first publication of our bi-annual investor booklet designed to keep you in touch with STANLIB and the investment world that we operate in. We chose this new approach to ensure that you are aware of the recent factors that have played a role in your investments and also to position our views on the road ahead. We trust that you will find this new approach both interesting and beneficial.

Firstly, a reminder of 2008

The unprecedented downturn in the financial markets last year made it an exceptionally difficult one for investments and as much as South Africa was not dealt a direct blow, we did not emerge from it unscathed. The JSE All Share Index (Equities) lost 23.2% while bonds and cash were up 17.0% and 11.7% respectively. The JSE All Share Index (excluding dividends) recorded the second worst experience since 1960, making broad based investment returns challenging. With these performance figures there is no doubt that those of us invested in equities have felt some pain, and for those of us invested in cash and fixed interest, I am sure you will breathe a sigh of relief.

How has 2009 started?

We have had an interesting start to the year with equities continuing their downward trend until recently in March where we have seen global markets rebound to some extent. Successive interest rate cuts have been made to provide stimulus to global economies, which in turn have started to reduce yields (interest receipts) on cash investments. As more interest rate cuts are expected over the course of the year, we will have to start looking at what investments will provide inflation beating returns going forward.

Some key points on the global economy at present:

- There will be synchronised global recession
- All major leading economic indicators are still declining
- Inflation has fallen sharply on the back of lower commodity prices and declining economic activity
- Global trade is under extreme pressure

- Unprecedented policy stimulus (monetary and fiscal), especially in the developed world
- Expect to see tentative signs of economic recovery towards the end of 2009
- US is expected to lead the global recovery
- Rising unemployment is the major risk to recovery

Some key points on the South African economy at present:

- Inflation will fall sharply in the first half of 2009
- We expect the Reserve Bank to continue lowering interest rates
- SA fiscal deficit to expand significantly over the next couple of years
- SA exports should come under enormous pressure in volume terms
- Government Infrastructural spending remains solid
- SA will struggle to attract foreign capital flows over the coming months
- Rising SA unemployment is the major risk to a SA recovery

It is with these factors in mind that we believe 2009 will present further challenges in the investment markets, but having said this there are some wonderful opportunities still to be seized in Income funds for those of us with a shorter time horizon, and balanced and absolute return funds (inflation plus funds) for those with a longer time horizon. It is for this reason that we have chosen to profile some of our funds in this edition.

STANLIB remains committed

Throughout the course of these exceptional circumstances, STANLIB remains committed to meeting your expectations in the management of your wealth. We fully appreciate that people work a lifetime to build their wealth and it is our obligation to help grow and protect it. We will continue to apply our investment expertise through our nearly 100 investment professionals, analysing the markets and looking for investment opportunities. We are confident that the work we are doing now is positioning us favourably to take advantage of opportunities when the markets take on an upward swing.

Renaming of some of our funds

We have made a few small changes to the names of some of our funds. These changes are intended to align the name of the fund with the manner in which the fund is managed. We believe that these small changes will go a long way to making our range of funds easier to understand. Please be assured that we are not changing the investment philosophy or mandates of these funds; they will continue to be managed as they have been.

Conclusion

Lastly, we would like to thank you for investing with us. We remain absolutely committed to growing and protecting your investments, a big responsibility that each one of our investment professionals takes very seriously. Through these difficult times we urge you to remember that short term views are not conclusive about investment performance; longer term cycles – three to five years – are the better indicator. History shows that timing the markets or trying to predict them results in more casualties than heroes. This is why we support a long term view and are hard at work to ensure that our investment processes are rigorous and informed, geared towards giving the best returns.

Please enjoy the read and remember to stay in touch with your trusted financial adviser who is equipped with the knowledge of our business and solutions.

Kevin Lings
Economist



The Economy

During Q1 2009 the flow of economic data out of the US, Euro-area, UK and Japan has been alarmingly weak. Economic activity has declined at its fastest pace since the 1940s, while unemployment is moving sharply higher on a global scale. Currently all the major developed economies are in recession.

The weakness in global economy has been sudden, severe and widespread. Unsurprisingly, the IMF has again revised their world growth forecast to -1.0% from +0.5% in late 2008. As expected, most central banks around the world continued to cut rates in Q1 2009.

Since the beginning of 2009 US and global equity prices have continued to fall, and by the middle of March the Standard & Poors 500 was down about 13% (in early March the equity market had lost a dramatic 25%). This follows a loss of around 38% in 2008. Residential property prices have continued to decline.

The US consumer has started to deleverage. Consumer debt (which excludes mortgage debt) fell by a very significant \$20.9 billion in Q4 2008. This is an extremely rare event, and is expected to have continued into Q1 2009. This trend is already evident in the US personal savings rate, which rose from essentially 0% of disposable income in early 2008 to the current level of 5.0% of disposable income. This is the highest ratio of personal savings in more than a decade. Despite the fact that US consumers have lost \$11.3 trillion in asset values over the past year, the net worth of US households totalled a still impressive \$51.5 trillion at the end of 2008. This equates to a respectable 483% of disposable income (4.83 times annual income after tax) compared to an average of 490% since 1960.

Looking forward, there are two main risks. The first is that house and equity prices continue to decline significantly from current, already depressed, levels. This would further destroy a significant amount of household wealth and weaken the already fragile US banking system. The second risk is that there are continued job losses of around 650 000 or more a month that would impact the ability for consumers to service their debt, which would then aggravate asset prices and also weaken the banking sector.

Fortunately recent key US economic data has shown tentative signs of improvement towards the end of Q1 2009. This includes US housing starts, the US leading economic indicator, retail sales and the Institute for Supply Management's manufacturing index. The Federal Reserve has also clearly indicated that they will continue to purchase mortgage backed securities as well as US government bonds. This, together with the record low federal funds rate, should keep mortgage rates relatively low and encourage an increase in housing activity. US mortgage applications have started to move-up while the Volatility Index (VIX) has eased.

Against the backdrop of a sharply weakening global economy, economic activity in SA has slowed substantially in recent months, especially manufacturing and export activity. Overall the manufacturing sector is in recession and under enormous pressure. This reflects a combination of slowing exports, a very weak motor industry, excess inventories and a slowdown in general domestic economic activity, including the building industry.

This slump in activity is reflected in the Q1 2009 Business Confidence index, which fell by a further 6 index points to 27, its lowest level in 10 years. For 2009 we forecast GDP to slump to only 0.5%/y, with most key sectors of the economy expected to be either in recession or on the brink of recession.

Many companies are facing earnings pressure given increased costs and slowing revenue growth. There is therefore growing concern that the economy will experience significant job losses. Hopefully, given SA's substantial skill shortage, most companies will be hesitant to cut employment extensively.

Fortunately, consumer inflation is expected to fall-off during the course of 2009. The sharp drop in the oil price, together with the slowdown in domestic demand, has significantly eased domestic inflationary concerns. This should allow for further interest rates cuts during 2009. Importantly, interest rates take time to take effect and it is unrealistic to expect a significant response to the monetary stimulus before the end of 2009. In addition, the increased fiscal stimulus, in the form of personal tax cuts and increased government spending, announced in the 2009 National Budget, will also take some time to have a positive impact.

During 2008 the domestic bond market was the best performing asset class in SA, yielding 17.0%. Most of that gain was achieved in Q4 2008, after a dismal first half performance. The market has since declined a few percentage points on the back of concerns about a massive increase in the public sector borrowing requirement.

In contrast, the SA equity market declined by a massive 23.2% in 2008, making 2008 the second worst annual (calendar) equity performance since 1960 - a very rare event. The equity market has continued to decline in early 2009 and by mid-March was down around 10%.

STANLIB recently changed its Tactical Asset Allocation (TAA) review format. In-depth sectoral and asset class reviews take place daily after the morning meetings over a period of one week. At the TAA meeting summarised versions of the in-depth meeting are presented along with a macroeconomic view and specific views regarding equity allocation. This meeting is followed by a Tactical Asset Allocation Implementation meeting, only attended by the relevant fund managers that are involved with TAA in terms of portfolio management activities. STANLIB's current view is to hold a neutral to slightly

overweight position in equities, with no significant deviations in the different market sectors, as stock picking and identifying specific opportunities is perceived as the major source of value add. On fixed interest the view is that the bond market will range trade around current levels. However, the sharp decline expected in money market rates, because the South African Reserve Bank Governor is likely to front load interest rate cuts, calls for an underweight allocation to this asset class going forward. Property is expected to perform well, particularly relative to bonds and money market. Property therefore has a slightly overweight position.

Although there is still a great amount of uncertainty around the current monetary, fiscal and quantitative easing measures deployed by central banks and governments, the call for international equities is neutral. In the light of excessive funding requirements, notwithstanding the buyback program announced by the FED, international bond yields are likely to come under pressure once any signs of economic improvement become evident.

The current economic, business and investment environment remains extremely challenging. The biggest concern currently is the escalation in job losses, which has the potential to substantially worsen an already dire situation. The global recession is occurring in "fast forward". Fortunately massive policy support is now being provided to try and lift the global and local economy. Realistically, output declines are likely to persist for most of 2009, but hopefully the current policy stimulus allows for at least a modest economic recovery during 2010.

*** All figures quoted as at 30 March 2009, unless otherwise stated*

Mike Galloway
Director: Retail



Keeping it simple

At STANLIB we continually strive to improve the investment experience for our clients. Over the last few months we have revisited the vast range of funds that we have on offer and have made the decision to assist clients in identifying the most appropriate funds to build any portfolio around. This should make the investment choices for our clients a lot easier.

The first step is to simplify the names of some of the funds we have on offer. To this end, we will be changing the names of four of our existing funds from 1 April 2009 so that it is quite clear what the fund's mandate is.

Current Fund Name		Revised Fund Name
STANLIB Wealthbuilder Fund	→	STANLIB Equity Fund
STANLIB Capital Growth Fund	→	STANLIB Growth Fund
STANLIB Inflation Beater Fund	→	STANLIB Inflation Plus 3% Fund
STANLIB Stability Fund	→	STANLIB Balanced Fund

The name changes are designed to make it easier for you to identify what kind of investment you select or are invested in. We are not changing the investment philosophy or mandates of these funds and they will continue to be managed as they have been.

The STANLIB Wealthbuilder Fund has been our flagship equity fund since 1970. It has always invested in a broad range of equities available on the stock exchange, and has more recently included some international exposure. In line with the investment mandate we are renaming this fund the STANLIB Equity Fund.

The STANLIB Capital Growth Fund has always been a fund that seeks to identify the 'growth' stocks available on the stock exchange. These stocks are expected to grow faster than the overall market's earning over a two-year period; are well placed in a growing industry locally; or are expanding offshore and are trading at reasonable values relative to their growth prospects. This fund will in future be named the STANLIB Growth Fund.

The two remaining funds fall within what we call the 'managed' range. 'Managed' refers to a range of asset classes that are managed according to their expected investment returns. Therefore, an Inflation Plus 3% fund, is expected to achieve returns that are 3% above the Consumer Price Index, and the fund manager is expected to produce these returns over a rolling 2-year period. Again, it is important to note that while the names are changing, the investment philosophies remain the same. It just becomes easier to align the fund's performance objectives with the expectations of the investor.

I trust that these small name changes will make it easier to understand our fund offering.



Victor Mphaphuli
Portfolio Manager

Funds in Focus

Income Funds, a good choice for 2009

Fixed interest investments have always been viewed as a safe haven for risk-averse investors. This was particularly true in 2008 when we saw investors moving into cash funds to avoid the increased volatility in equity markets. At the end of 2008 the local equity market had lost 23.2%, while bonds and cash were up 17.0% and 11.7% respectively. In 2009 we expect investors to continue to be risk averse as they seek to preserve investment values, particularly those who participated in the equity market.

STANLIB expects interest rates to decline by a further 2.5% during the course of this year. This will affect the performance of the funds in the fixed interest sector. Funds with a shorter duration (e.g. money market funds) hold short-term instruments and the yields they earn reset fairly quickly, while funds with a longer duration (bond funds) are able to hold onto long-term instruments but are then more exposed to capital movements.


In a declining interest rate environment, funds with a shorter duration tend to underperform funds with a longer duration. Investors who are risk averse would then be more interested in the middle ground, where yield fluctuations aren't as rapid as money markets and capital fluctuations aren't as pronounced as bond funds.

The STANLIB Fixed Interest Franchise has a wide range of funds with different duration limits. The two funds we believe you should consider are the STANLIB Income Fund and the STANLIB Flexible Income Fund.

The STANLIB Income Fund invests in short-term bonds, fixed deposits and money market instruments with a duration of two years or less. It aims to provide a reasonable level of current income as well as capital stability and is suitable for conservative investors, who wish to be well positioned for this coming year.

The STANLIB Flexible Income Fund has a flexible mandate with no specific maturity limits for the securities in which it invests. The fund has a defensive asset allocation with exposure to fixed interest instruments: government bonds, property stocks, preference shares, inflation linked bonds and other high yielding investments. This fund is suitable for risk-averse investors who seek a regular stream of income from their capital and those seeking flexible exposure to income generating investments.

STANLIB has a great track record of providing superior returns in the fixed interest environment and our clients can tap into this expertise by investing in these funds.



Henry Munzara
Portfolio Manager

Funds in Focus

The challenge: Beating inflation

The primary goal of investing is to receive a real return. This means that your investment should deliver inflation-beating returns over time so as not to erode the value of money within the investment.

The asset classes held in an asset allocation portfolio will behave differently over time. Certain asset classes are uncorrelated and the negative performance of one asset class can be offset by the positive performance of another. This is the cornerstone of the concept of portfolio diversification and allows absolute return funds to preserve capital and deliver inflation-beating returns over time.

STANLIB offers two funds that are mandated to deliver inflation-beating returns:

- The STANLIB Managed Flexible Fund (Inflation Plus 5% portfolio)
- The STANLIB Inflation Plus 3% Fund (previously named STANLIB Inflation Beater Fund)

The STANLIB Managed Flexible Fund (Inflation Plus 5% portfolio) aims to deliver a targeted return of CPI (inflation) +5% over any rolling 24-month period, while conserving capital over any rolling 12-month period. This is achieved through a diversified portfolio of domestic and offshore assets comprising equities, property, bonds and cash.

The STANLIB Inflation Plus 3% Fund is similar in composition to the STANLIB Managed Flexible Fund, except that it holds more defensive assets such as bonds and cash. It aims to preserve capital in the short-term while delivering a return of more than 3% over CPI (inflation) over a rolling 24-month period.

The absolute return portfolios are not only diversified across asset classes, but also geographically by investing in offshore markets.

The portfolio manager for both funds uses a Strategic Asset Allocation model as a basis for the portfolio splits and then tactically allocates parts of the portfolios between the different asset classes. This is done to take advantage of any fundamental signals that have been picked up within certain asset classes.

The portfolios are ideal for investors with a moderately conservative to moderate level of risk who are looking to protect their capital in the short-term and achieve inflation-beating returns in the medium to long-term. For many clients, these may be ideal portfolios, while there are uncertainties around equities and income levels (due to falling interest rates), STANLIB's absolute return portfolios provide a diversified blend of asset classes that collectively strive to contribute to mandated capital preservation and return targets.



Thobelani Maphumulo
Portfolio Manager

Funds in Focus

Managing Diversification

The uncertainty about markets has caused a flight by investors to safe-haven assets such as money market and income funds. Whilst this has been prudent in the short-term the next question will be: Where to from here? Opportunities constantly exist for the long-term investor to adopt a more growth orientated approach.

Money market and income funds rely heavily, if not completely, on the ruling interest rate to generate returns. When interest rates fall there is an increase in the opportunity cost of holding investments in cash. A diversified portfolio provides access to other asset classes which may benefit from falling interest rates and contribute to inflation-beating returns.

With each passing day, the probability of an equity recovery increases, even though there may still be some volatility and downside experienced in the short-term. With equities consistently delivering inflation-beating returns in the medium to long-term, it makes good investment sense to include some equity exposure in a portfolio to take advantage of equity returns over time.

STANLIB has two asset allocation portfolios that address the need for balance in a portfolio:

- The STANLIB Balanced Cautious Fund
- The STANLIB Balanced Fund (previously named STANLIB Stability Fund)

The STANLIB Balanced Cautious Fund holds a mix of domestic equities, property, bonds and cash and is ideal for moderately conservative investors who seek the safety of cash, while benefiting from any upside in growth assets such as equities and property. The portfolio holds a maximum of 40% in equities and property at any point in time and is predominantly invested in cash and bonds, while adhering to investment guidelines as set out by Regulation 28 of the Pension Funds Act. This makes it ideal for older investors who are saving for their retirement.

The STANLIB Balanced Fund can have a maximum of 75% of the portfolio invested in equities as part of a diverse portfolio also containing property, bonds and cash. The portfolio is more suited for investors seeking a moderately aggressive, long-term approach to investing as part of their retirement savings. Due to the relatively high exposure to equities, the portfolio experiences higher levels of volatility and benefits from strong equity returns in the long run.

The portfolios form part of STANLIB's Balanced Fund Range, aiming to deliver capital growth in the medium to long-term with a reasonably high level of income due to the cash and fixed interest component of the portfolios.

Investors should keep a few key points in mind when making decisions about their investments:

- Wealth can be created in the long-term, despite short-term shocks.
- Volatility can potentially be reduced by diversification through asset allocation, with balance being achieved through the right asset mix of cash, bonds, property and equities, as these funds do.
- Avoid trying to beat the market by timing the market, as the strategy very rarely works.
- Exiting and re-entering the market can potentially lead to exorbitant costs.
- Markets are cyclical and a downturn is inevitably followed by an upturn. The question is WHEN!

A portfolio such as the STANLIB Balanced Cautious Fund or the STANLIB Balanced Fund addresses these points because an investment professional makes the asset allocation calls on behalf of the investor, while sticking to a prudential mandate and delivering capital growth over time.

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