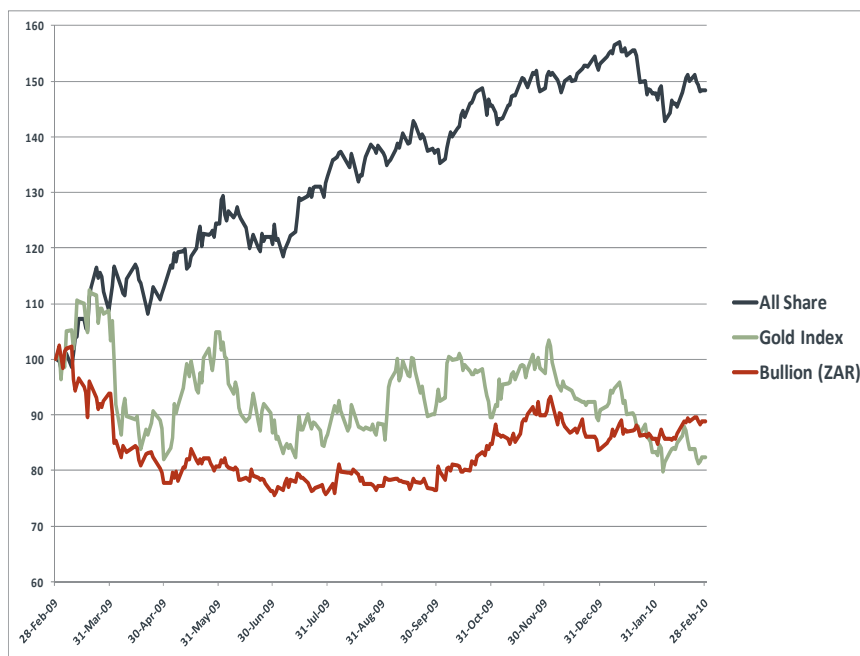
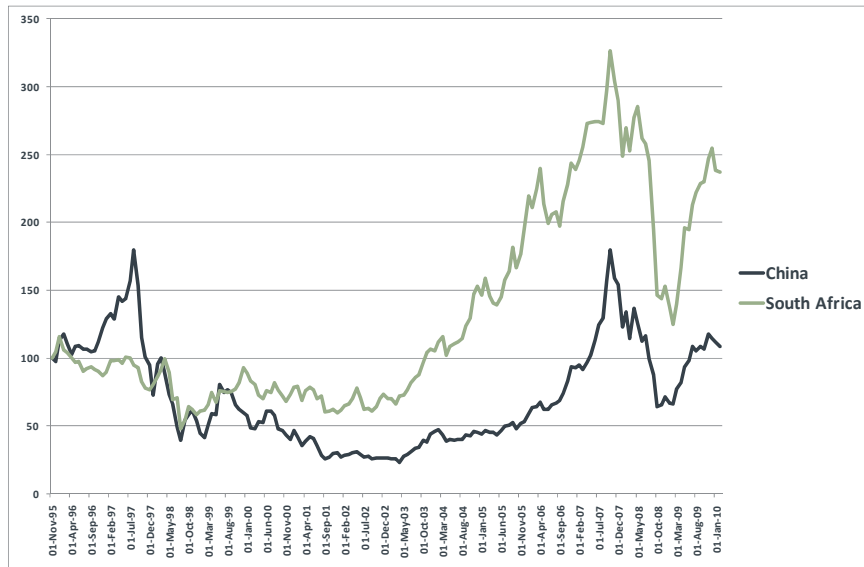
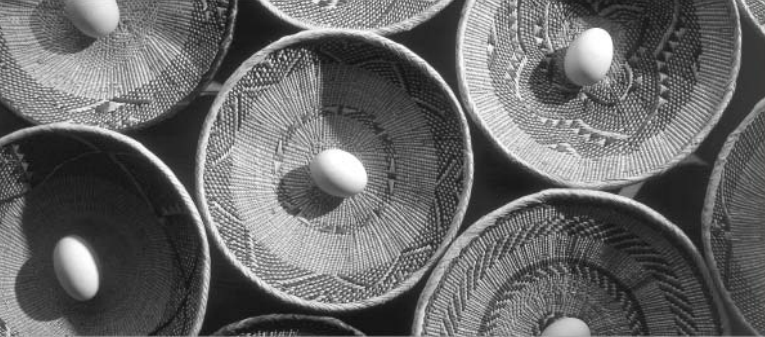


Monthly Commentary – February 2010

Last year we commented on gold in defence of our zero holding in direct gold shares. Much was being made of gold as a safe bet in troubled economic times. We dispelled that myth by examining gold's performance during episodes of global consternation. Neither bullion nor listed gold shares survived this simple empirical test. We have also demonstrated the very poor long term financial performance of South African gold mines. So, with the gold price now at \$1,136 an ounce, do we have egg on our faces? Happily not. The chart below shows the All Share Index, the gold index and the rand price of gold, all based to 100 a year ago. In the past year, the All Share index beat gold shares and the rand price of gold by 80% and 67% respectively.



Another issue on which we have long held an apparently minority view is Chinese equities, and “BRIC’s” in general. We have shown that the common but naïve assumption that robust GDP growth translates into strong stock market appreciation is tenuous at best. Using all countries for which there is a century of both GDP and stock market data, it has been shown that a relationship between the two simply does not exist. So, even if one believes Chinese GDP data (we don’t, considering that China’s chief statistician has admitted to fabrication), it does not follow that one should necessarily buy Chinese equities. Other concerns are the regulatory environment or lack thereof and of paramount concern is valuation. Meanwhile, South Africa’s GDP has trundled along at a relatively pedestrian rate. But how has the stock market compared relative to Chinese equities, both measured in US dollars? The perhaps surprising answer is: much better!



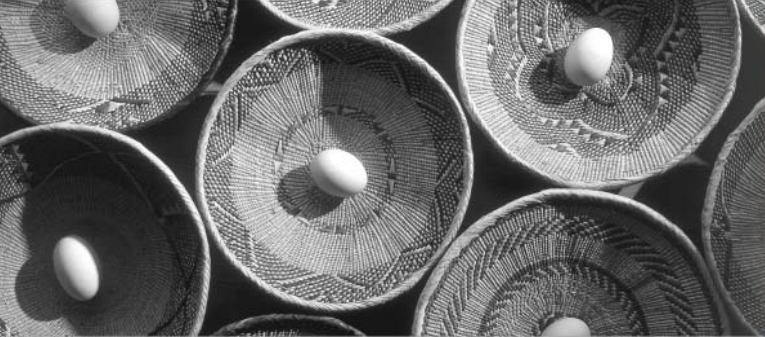
The earliest data we have for an investable index of Chinese shares is 1995. Since then, local equities have outperformed Chinese equities by 118%. In the new millennium, local equities have won by a margin of 41% (all in US Dollars). And, this has been achieved with less risk.

Some company news during February:

Arcelor Mittal (not held) announced that Kumba Iron Ore had informed them that it would no longer supply them with iron ore on a cost + 3% basis. This arrangement dates back to the old, pre-unbundled Iscor. The use of a technicality by Kumba to try to extricate itself from the arrangement appears to be churlish. The effect on Arcelor is potentially material – our estimate is that if all its iron ore is purchased at market rates, Arcelor’s net present value might decline by as much as 40%. Upon re-trading, after a brief suspension, Arcelor’s price fell by 23%.

Liberty Holdings (not held) reported final results to December 2009. It was clearly a tale of 2 halves as Liberty managed to reverse an operating loss incurred at the half year to a profit at year end. Evidence of a more conservative approach was apparent with the closing out of the equity hedge position which contributed significantly to the loss in 1H09. Further focus on balance sheet risk management was also reflected in the reduction of exposure to equities in the shareholders’ funds portfolio. This may temper returns should the market strengthen decisively. Management also shared with the market, a number of initiatives to (hopefully) improve the lapse experience as well as support for the tied force to optimise the new business process.

Absa (held) also reported their final results which were disappointing. Headline earnings per share were down 25% with a similar decline in dividends, hence maintaining the dividend cover. Private equity revaluations and single stock futures related write downs were a significant contributor to the poor showing. However, there was clear evidence of a stabilising credit loss ratio and the group return on equity, though lower than the historical average, at 15.5% was above the cost of equity, of 14%



Nedbank (not held) also disappointed with a decline of 30% in diluted headline earnings per share. In concert with the other banks, the key drivers were related to continued customer strain across the business, though the performance of the retail home loan book was particularly poor. Non-interest revenue (NIR) increased 6% on a like-for-like basis, ahead of the 0.8% increase in net interest revenue. This was encouraging though much still needs to be done in this area as Nedbank still lags its peers in terms of the NIR contribution to total income. Growing its transactional base is one of the stated intentions of the Nedbank Group.

This month saw the departure of **Mutual and Federal (not held)** from the JSE. Old Mutual acquired the remaining (26.5%) minority shareholding in MAF and the company was delisted on 8th February. Santam is now the sole constituent of the non-life insurance index.

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