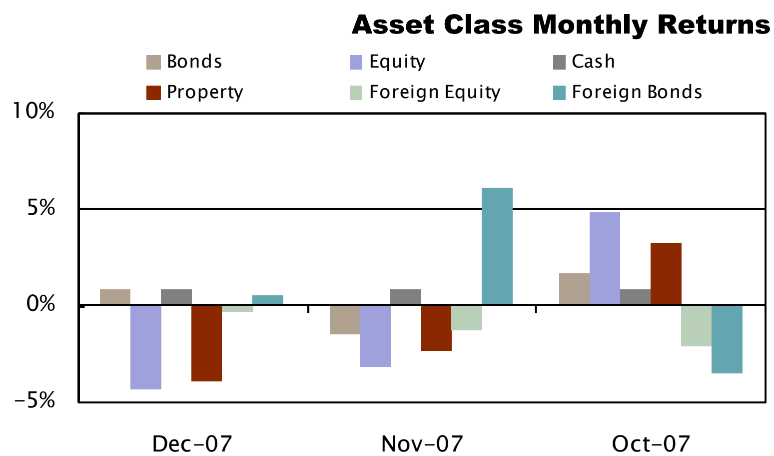
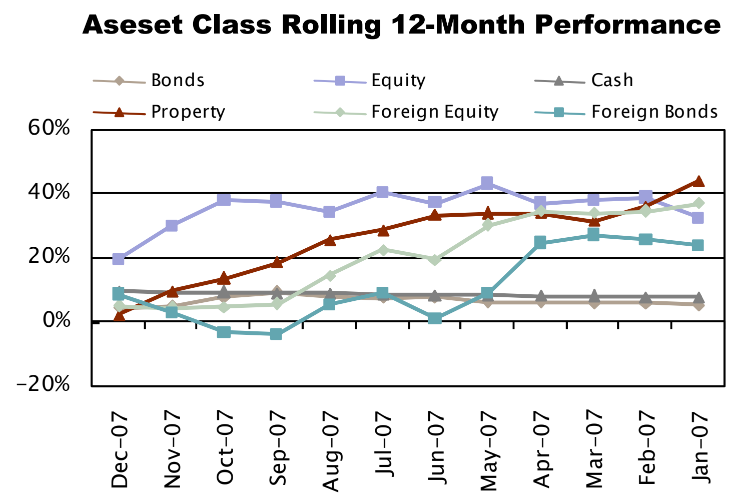
RisCura good thinking

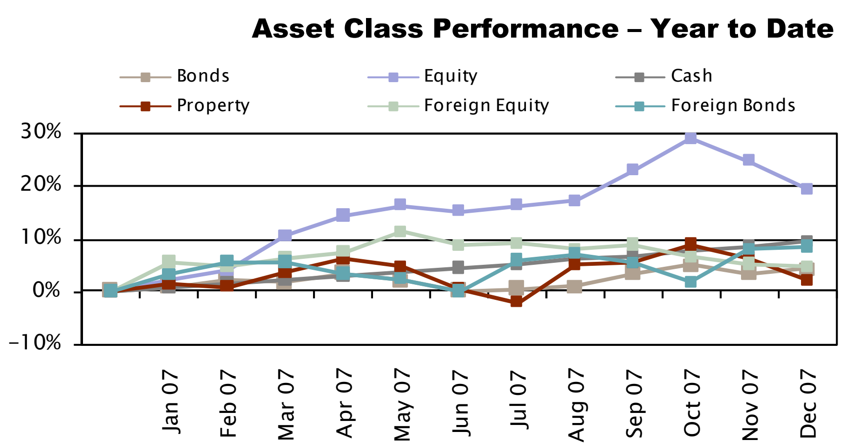
RisCUpdate

quarterly overview
30 Dec 2007

How the different asset classes performed





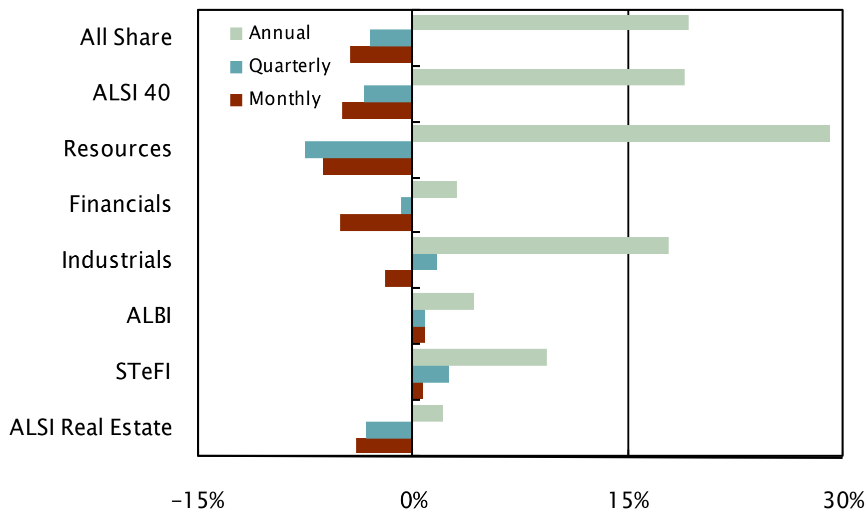


Sector Indices

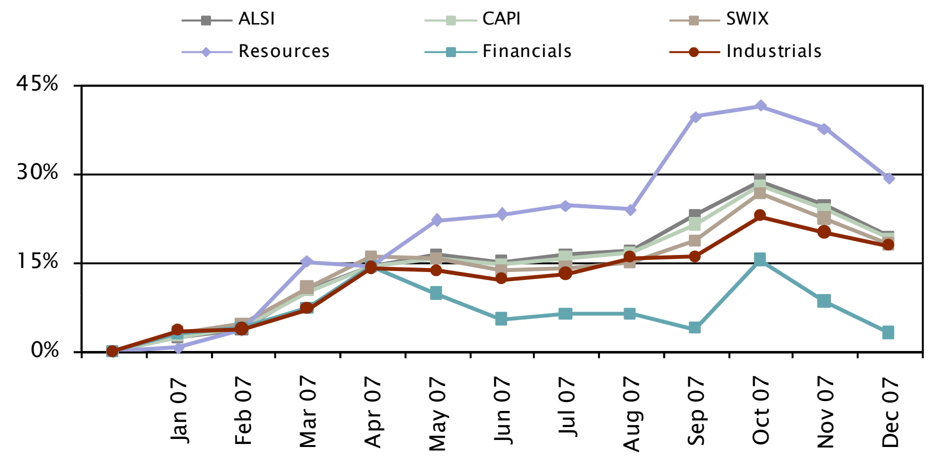
Bonds	ALBI
Equity	All Share
Cash	STeFI
Property	ALSI Real Estate
Foreign Equity	MSCI World
Foreign Bonds	JP Morgan Govt Bond

How the local market indices performed

Returns of FTSE/JSE Sectors & Indices

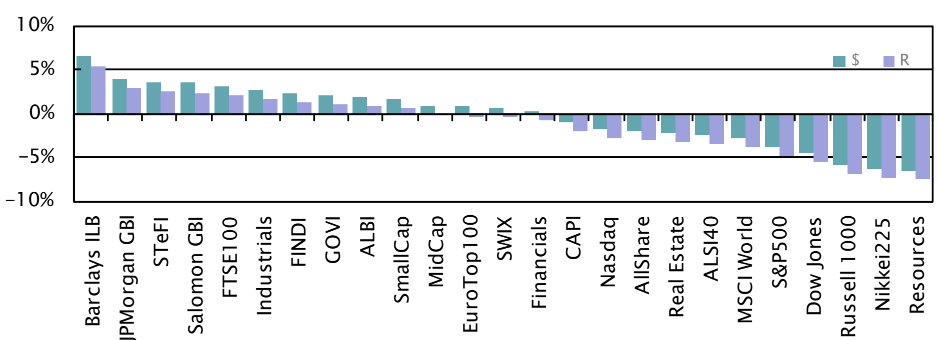


Sector & Indices Performance – Year to Date

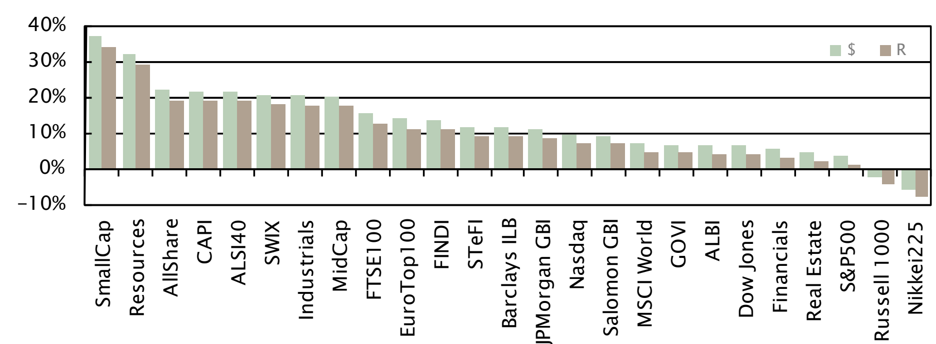


How the world market indices performed

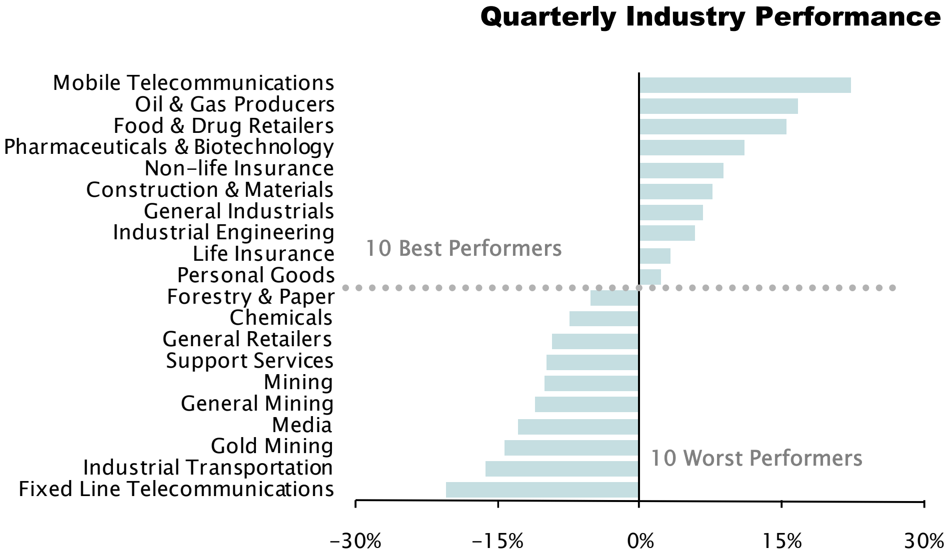
Quarterly Return of Major Indices

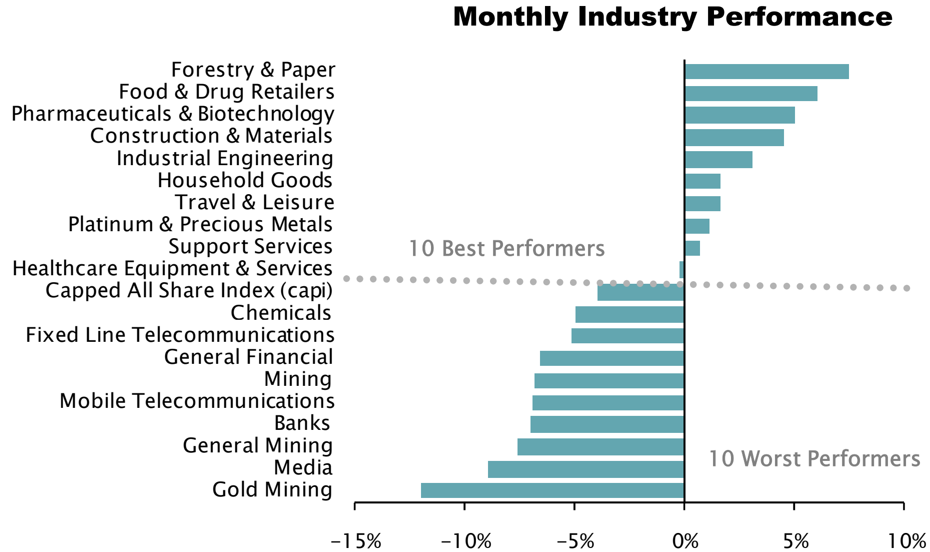


Annual Return of Major Indices



Equity market – how the equity sectors performed



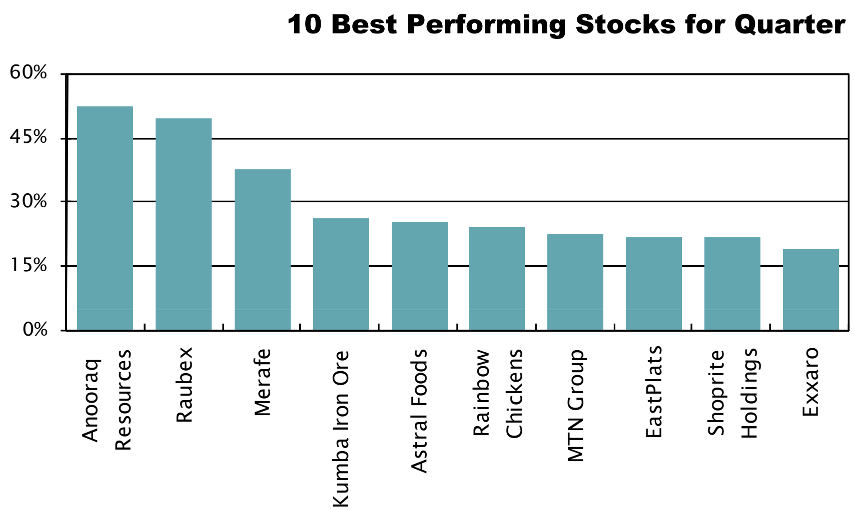


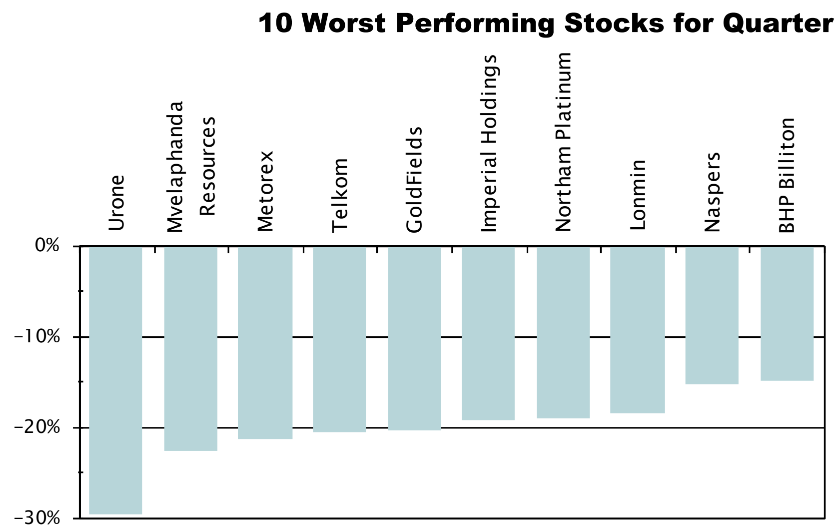
20 largest shares by market cap

	Share	R'million		Share	R'million		Share	R'million		Share	R'million
1	Anglo American	557,335	6	Angloplat	238,730	11	FirstRand	111,331	16	Telkom	73,534
2	BHP Billiton	512,387	7	Sasol	213,786	12	Kumba	90,374	17	Goldfields	64,589
3	SAB Miller	285,958	8	Implats	149,681	13	Remgro	89,159	18	Lonmin	64,255
4	Richemont	241,164	9	Standard Bank	137,370	14	Anglogold	81,295	19	Naspers	63,114
5	MTN	238,806	10	Old Mutual	126,026	15	ABSA	75,322	20	Nedbank	62,462

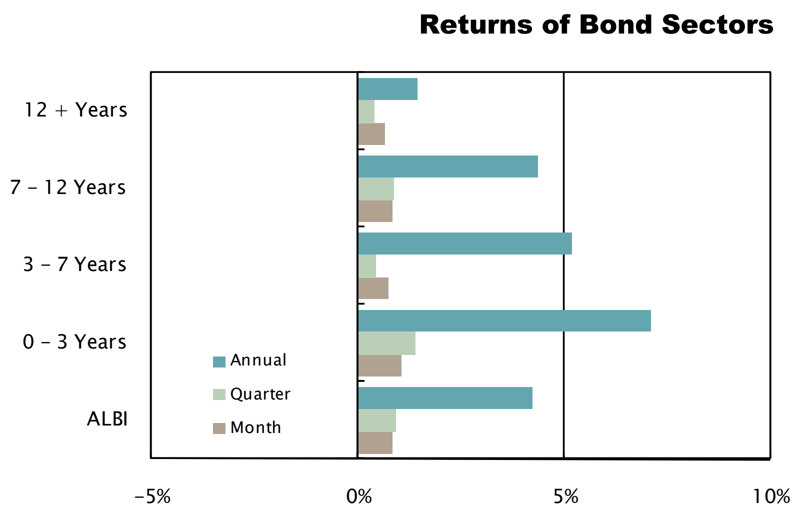
Equity market – how specific equities performed

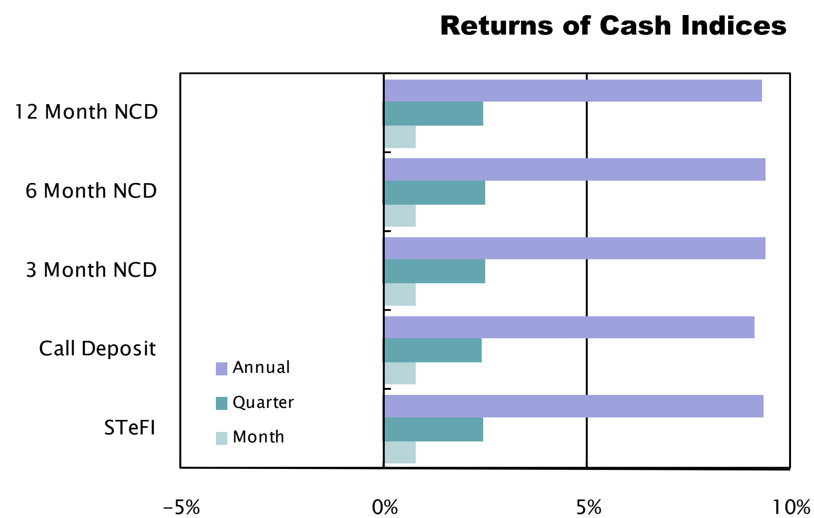
Best and worst performing stocks within the All Share Index.





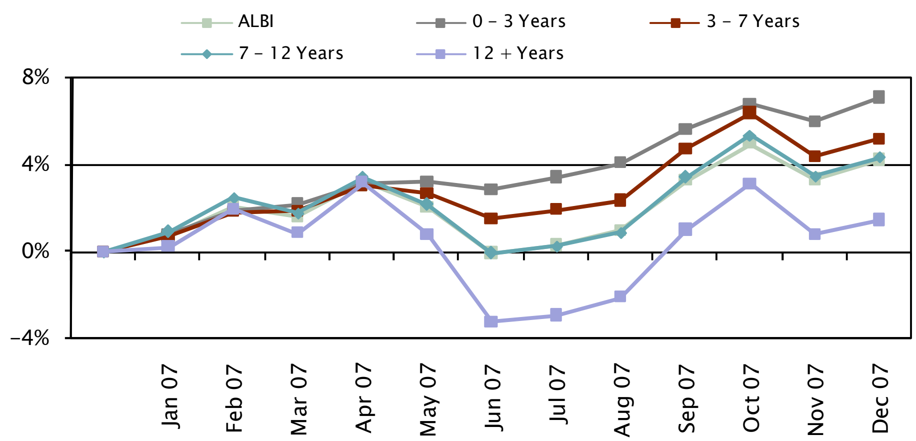
How the fixed interest market performed



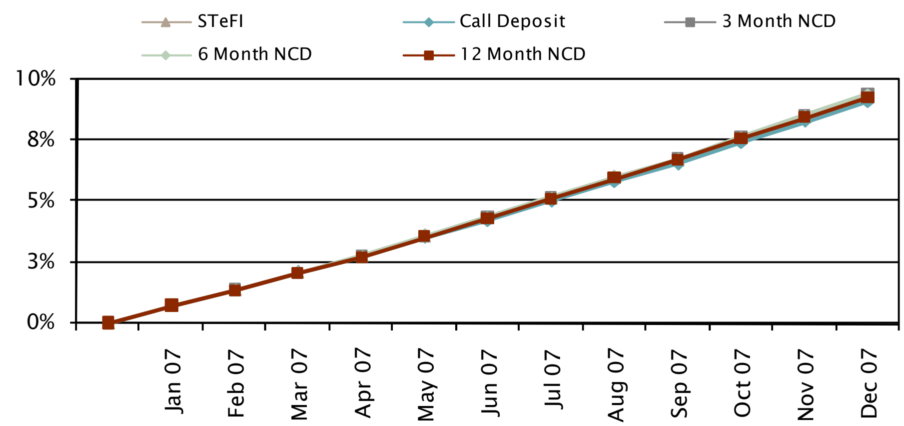


Fixed interest market – how the different sectors performed

Cumulative Performance of Bond Sectors – YTD



Cumulative Performance of Cash Indices – YTD



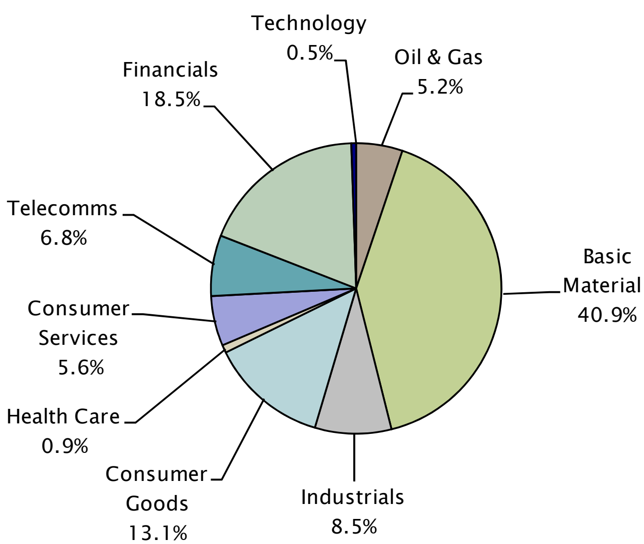
Fixed interest market – how the currency performed

	28 Sep 07	30 Dec 07	% Change
Rand/dollar	6.88	6.81	1.04%
Rand/pound	14.02	13.62	2.99%
Rand/euro	9.79	10.01	-2.23%
Dollar/euro	1.42	1.47	3.43%

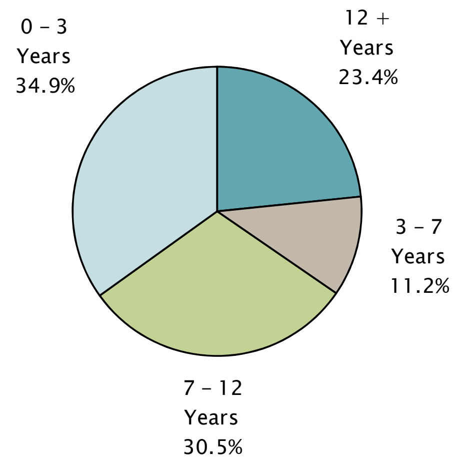
What makes up the benchmarks

Quarterly Composition of All Indices

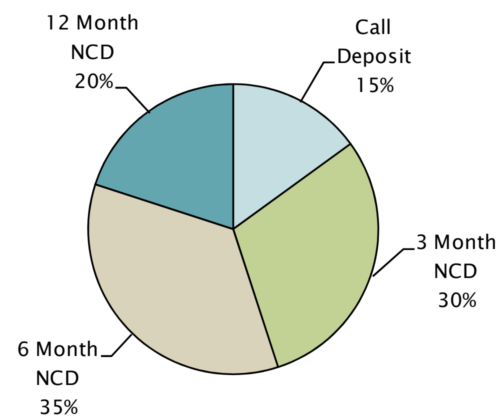
Equity – All Share



Bond – ALBI



Cash – STeFI



Market and economic update

Globally speaking

Background

- Financial markets continued the multi-year trend of positive returns, but at a greater level of volatility than we have grown accustomed to over the past few years.
- The long awaited downturn in the US housing market eventually materialised with a vengeance, in response to excess supply, overheated prices and steadily rising US interest rates.
- Presently, financial markets remain anxious about the extent to which the US housing slowdown will negatively impact US consumer spending.
- On balance, market expectations are either for a mild US recession or an extended period of much muted economic growth. There are also clear signs of a pending slowdown in the UK housing market and the European economy.
- Another major economic development during the year was the re-emergence of global inflation concerns.
- Pressure on rising industrial commodities spilled over into food commodities, with spiralling maize and wheat prices being the catalyst for higher global food inflation.
- In addition, oil prices refused to moderate and rose further, threatening the $100 per barrel level. These pressures resulted in higher headline inflation globally.
- Even though "core inflation", which excludes food and oil, remains relatively benign, central bankers are becoming increasingly anxious as higher headline inflation increases inflation expectations.
- The final major headwind for markets came in the form of significant market turmoil as credit and debt markets reeled from a general upwards repricing of debt. The chaos was initiated by the deteriorating US housing fundamentals, which brought defective sub-prime housing debt to the fore.
- However, it was not just housing, but rather all corporate and investment credit spreads, that fell to unrealistically low levels. Almost all private equity driven corporate deals ground to a halt.
- Due to the losses and related capital impacts, private sector banks have become increasingly reluctant to lend or transact, thus tightening liquidity conditions materially.
- To ease this situation, the world's major central banks have acted in unison and significantly increased available liquidity. However, it remains to be seen if this will be enough of a catalyst to ensure that debt markets begin to function normally again.
- Normally in such circumstances of slow economic growth and significant financial market dislocation, policy interest rates would be aggressively lowered.
- However, in this instance, as a result of the inflation concerns expressed above, the usual cycle of lower policy interest rates is being interrupted or curtailed.
- Only the US Federal Reserve has seen fit to lower interest rates in response to financial turmoil and growth concerns.
- This scenario of slowing growth without the offset of lower interest rates is less than ideal for equity markets and as a result Q4 equity market returns have been far more muted than the past few years.

Market and economic update

Outlook

- Notwithstanding the negative scenario painted above, our base case at present is that markets will not fall, but rather trend sideways in a volatile fashion for the next quarter or two.
- Although there are a number of negatives, there are equally some positives to prevent us from becoming bearish.
- These include the fact that equity markets are generally not overvalued and that interest rates in the US, Europe and the UK are likely to be lowered in the near term.
- The reflation cycle has begun in the US and is likely to spread to other parts of the world once it becomes clear that generalised inflation concerns are not being realised.
- Global bonds on the other hand look expensive but are unlikely to underperform in this environment of economic uncertainty.
- We expect commodities to trade sideways to down in the near term, although precious metals could well receive a boost from a weaker US dollar relative to Asian currencies.
- We do not expect the US dollar to continue to weaken relative to the Euro or UK sterling.

Locally speaking

Background

- South Africa is clearly not immune to these global forces. The major financial event of the past quarter has been the worsening outlook for SA inflation, which resulted in the SARB further increasing interest rates.
- The changing of the guard within the ANC leadership introduces further uncertainty to our economy.

Outlook

- We look for a further opportunity to add to your bond weighting, as we believe that SA inflation will rapidly fall into the back half of 2008.
- Within South Africa, our view is that we have had at least one too many interest rate hikes.
- We understand why the SARB felt compelled to hike interest rates recently in the face of worsening inflation numbers and widening current account deficit, however the SA consumer was already slowing and will feel the brunt of this blunt interest rate monetary tool.
- This is especially so at the middle income level, where job growth is supporting income levels at the lower income consumer level. As the year progresses we are likely to see more of the already evident consumer slowdown.
- The infrastructure cycle in SA has taken firm hold, with the cycle set to last for many years to come. Eskom has already awarded some of the Medupi power station tenders and the Bravo power station is following shortly.
- The baton for SA economic growth is being passed from the SA consumer to the infrastructural side of the economy. This should ensure that the SA economy continues to grow between 4% and 5% over the next few years.

Economic comment supplied by Investec

Investec South Africa