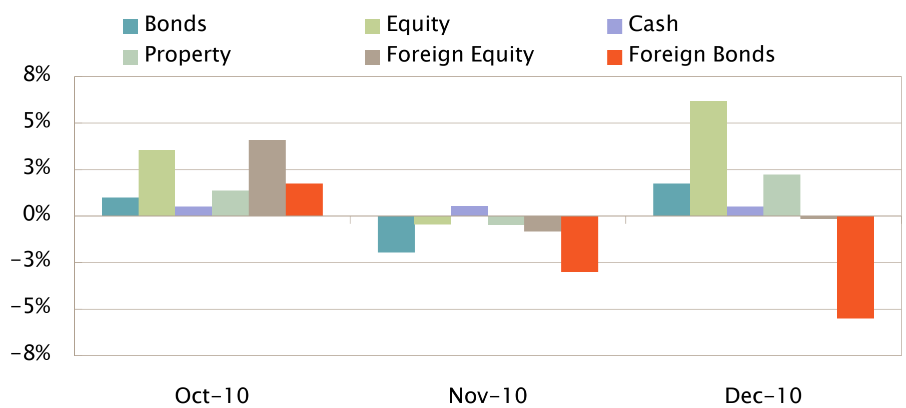
RisCura good thinking

RisUpdate

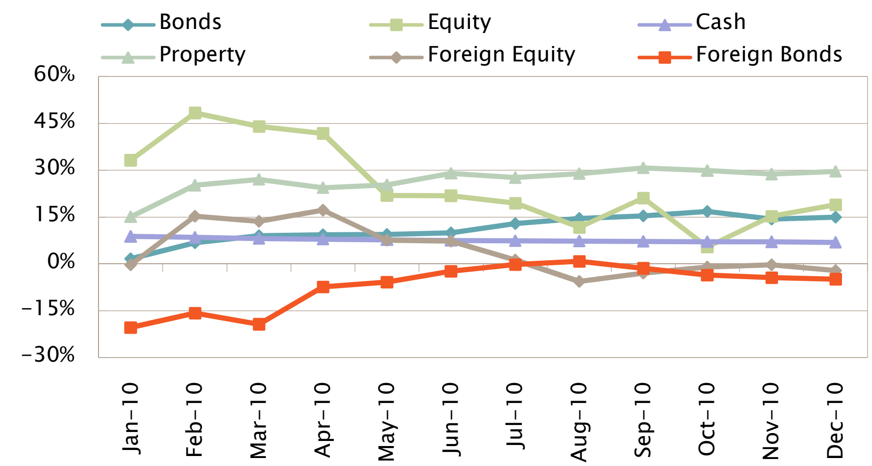
QUARTERLY OVERVIEW – 31 DECEMBER 2010

HOW THE DIFFERENT ASSET CLASSES PERFORMED

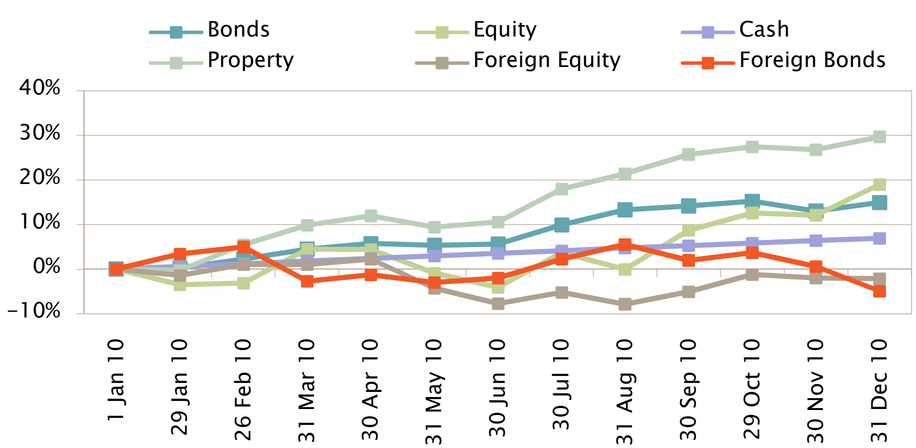
ASSET CLASS MONTHLY RETURNS



ASSET CLASS ROLLING 12-MONTH PERFORMANCE



ASSET CLASS PERFORMANCE – YEAR TO DATE

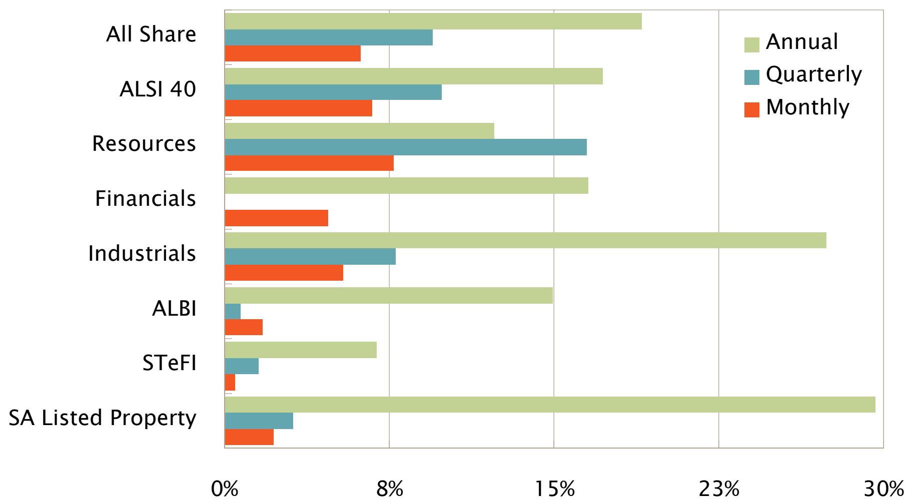


SECTOR INDICES

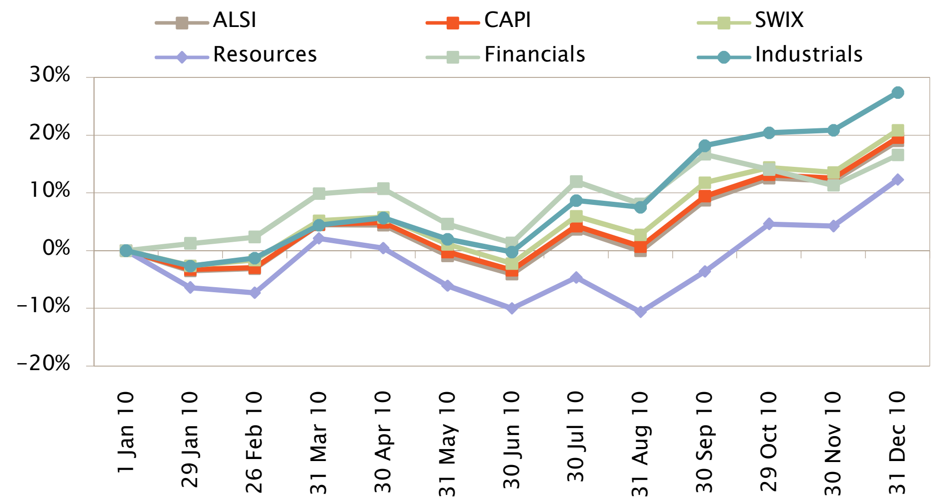
Bonds	ALBI
Equity	All Share Index
Cash	STeFI
Property	SA Listed Property
Foreign Equity	MSCI World Index
Foreign Bonds	JP Morgan Government Bond Index

HOW THE LOCAL MARKET INDICES PERFORMED

RETURNS OF FTSE/JSE SECTORS & INDICES

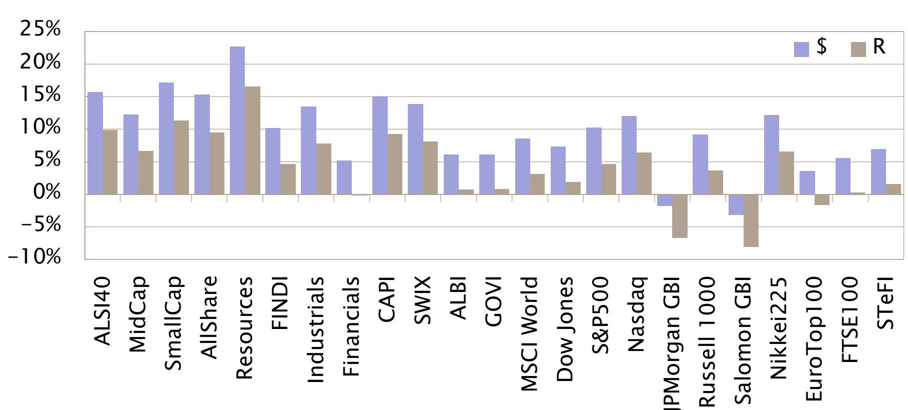


SECTOR & INDICES PERFORMANCE – YEAR TO DATE

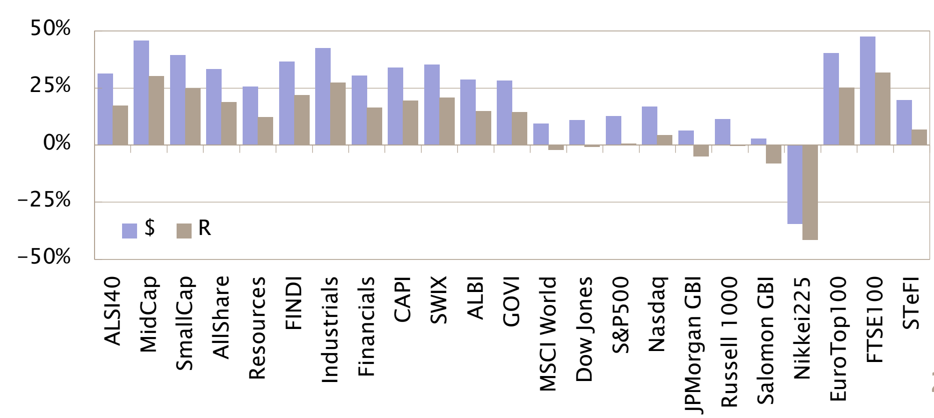


HOW THE WORLD MARKET INDICES PERFORMED

QUARTERLY RETURN OF MAJOR INDICES

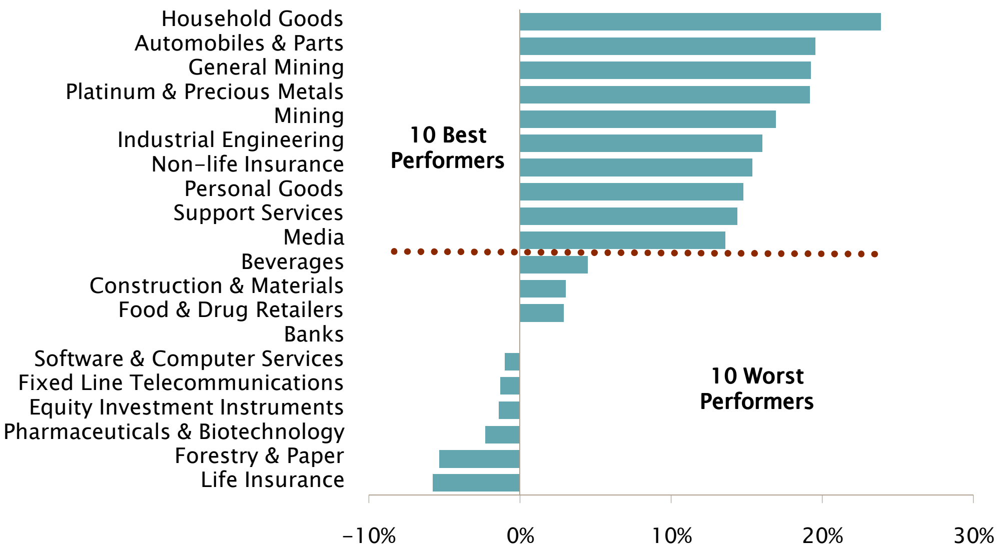


ANNUAL RETURN OF MAJOR INDICES

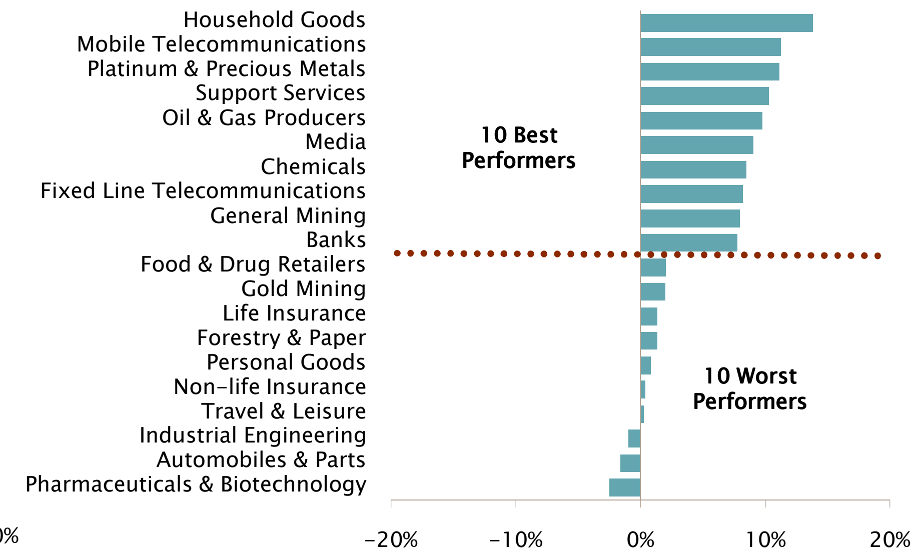


EQUITY MARKET – HOW THE EQUITY SECTORS PERFORMED

QUARTERLY INDUSTRY PERFORMANCE



MONTHLY INDUSTRY PERFORMANCE

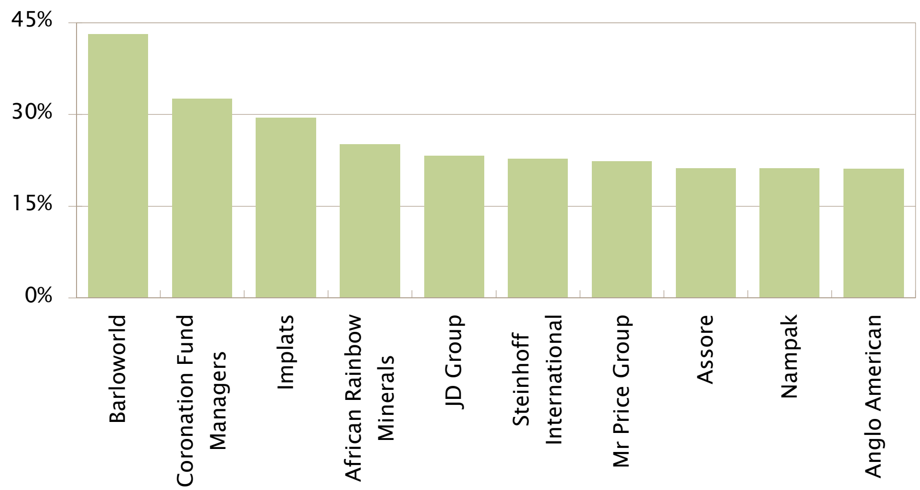


20 LARGEST SHARES BY MARKET CAP

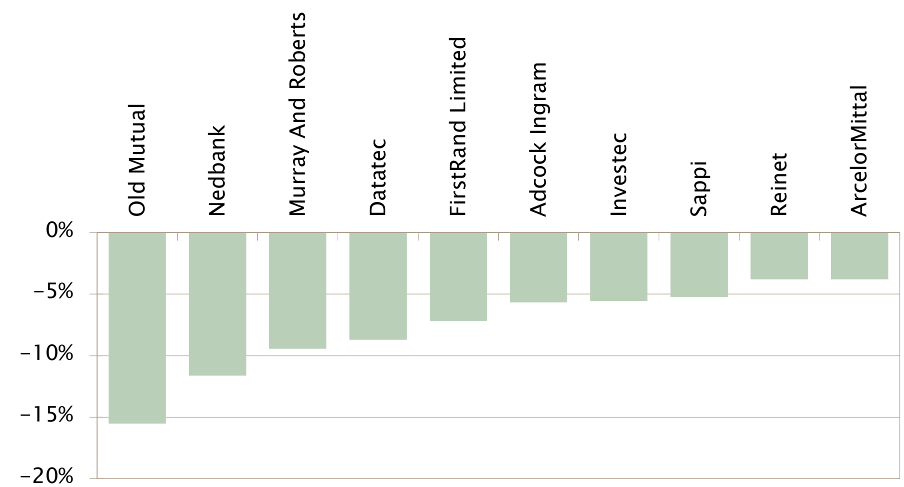
	Share	R'million		Share	R'million		Share	R'million		Share	R'million
1	BHP Billiton	590,439	6	Sasol	222,069	11	Implats	147,164	16	ABSA Group	100,549
2	British AM Tobacco	520,245	7	Richemont	203,737	12	Kumba Iron Ore	136,652	17	Goldfields	86,914
3	Anglo American	460,625	8	Anglo Platinum	182,828	13	Anglogold Ashanti	124,615	18	Old Mutual	73,980
4	SAB Miller	390,436	9	Standard Bank	170,471	14	Vodacom	113,799	19	Nedbank	67,108
5	MTN Group Limited	253,318	10	Naspers	157,574	15	FirstRand Limited	109,996	20	Sanlam	58,632

EQUITY MARKET – HOW SPECIFIC EQUITIES PERFORMED

10 BEST PERFORMING STOCKS FOR QUARTER (ALSI)

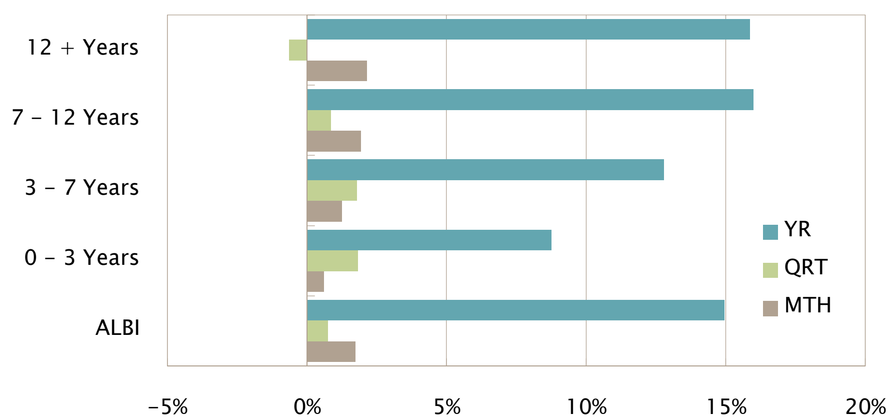


10 WORST PERFORMING STOCKS FOR QUARTER (ALSI)

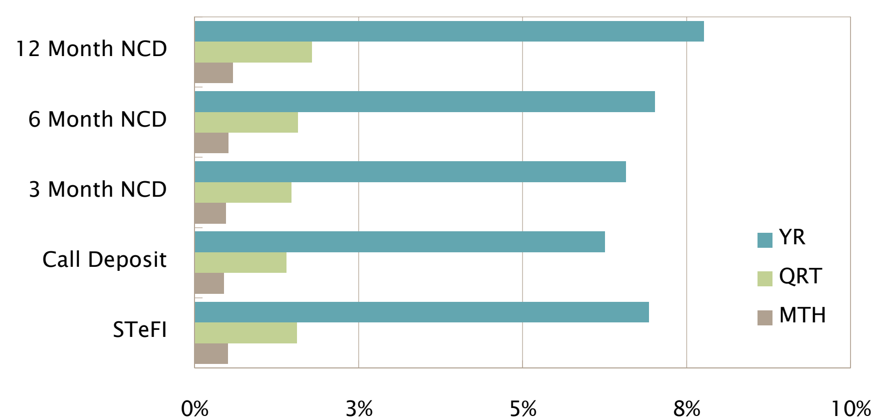


HOW THE FIXED INTEREST MARKET PERFORMED

RETURNS OF BOND SECTORS

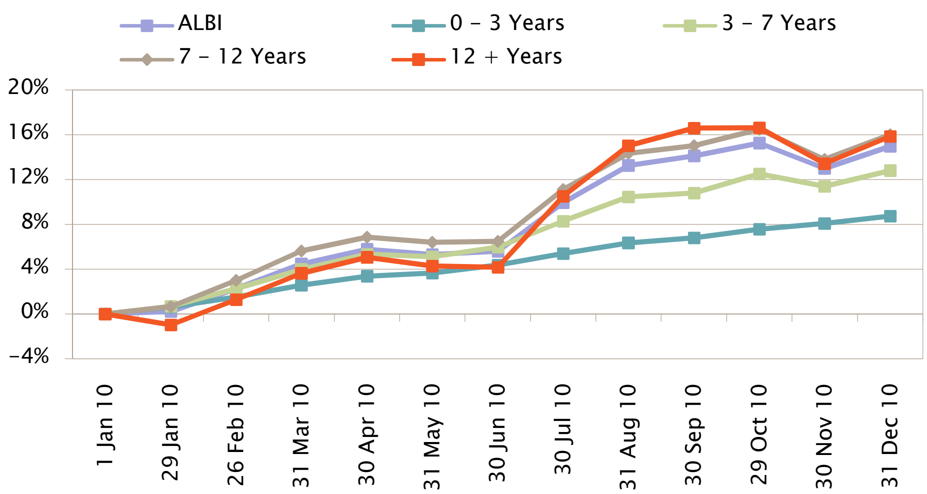


RETURNS OF CASH INDICES

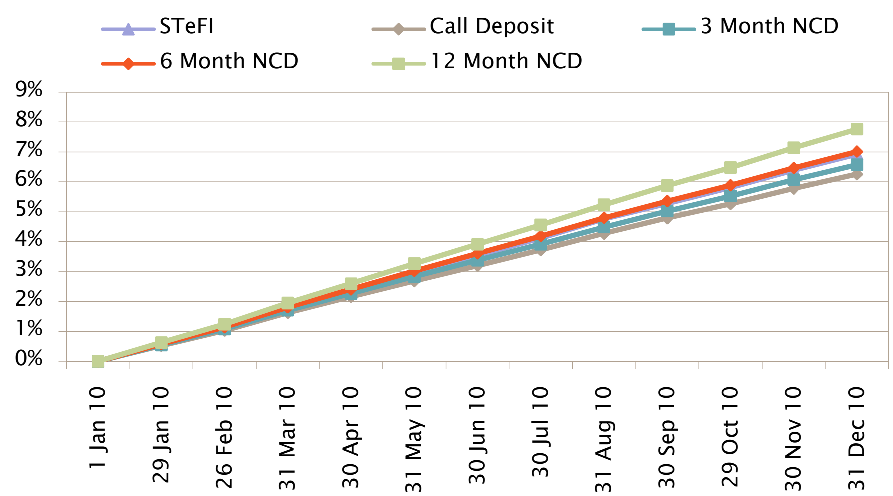


FIXED INTEREST MARKET – HOW THE DIFFERENT SECTORS PERFORMED

CUMULATIVE PERFORMANCE OF BOND SECTORS – YTD



CUMULATIVE PERFORMANCE OF CASH INDICES – YTD



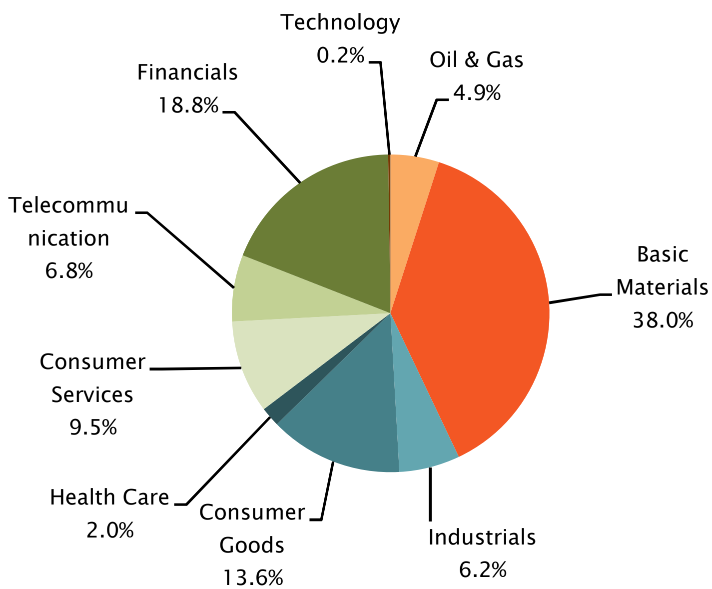
FIXED INTEREST MARKET – HOW THE CURRENCY PERFORMED

	30 Sept 10	31 Dec 10	% Change
Rand/Dollar	6.97	6.62	5.29%
Rand/Pound	10.95	10.33	6.05%
Rand/Euro	9.50	8.86	7.30%
Dollar/Euro	1.36	1.34	-1.86%

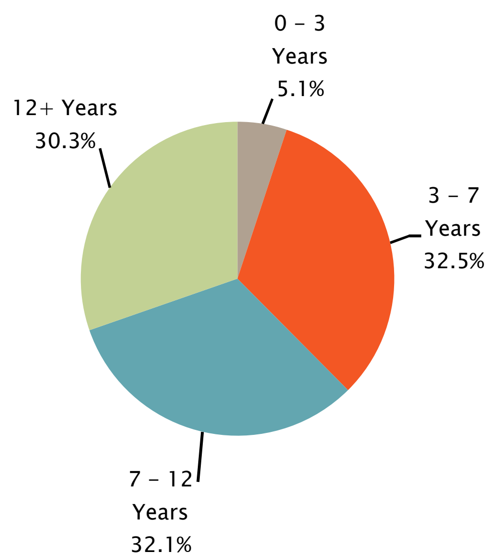
WHAT MAKES UP THE BENCHMARKS

QUARTERLY COMPOSITION OF ALL INDICES

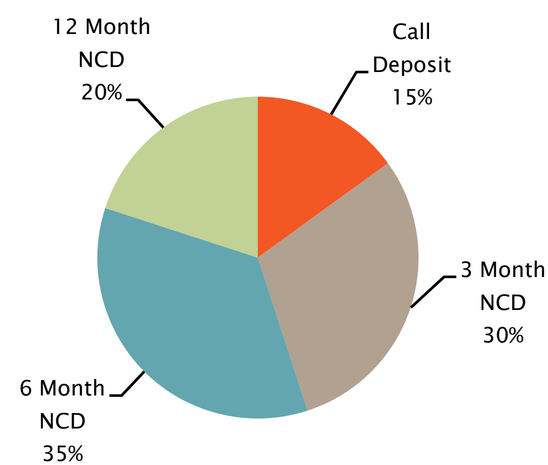
Equity – All Share



Bond – ALBI



Cash – STeFI



Market and economic update

Globally speaking

Background

- The rally in global equities, particularly in December, followed investors shedding their cynicism about the global economic recovery. Economic data flow continues to appear generally favourable.
- Growth in Asia is reflected in soaring commodity prices and investors have shifted out of more conservative asset classes such as government bonds.
- Exchanges in less vulnerable European markets delivered positive returns in the final month of the quarter, with European consumer sentiment reaching its highest level since 2007. The German business confidence index surged to a record last month and German manufacturing growth accelerated.
- The US also reported favourably revised Q3 GDP numbers during December, and further data suggests favourable Q4 GDP figures will follow.
- Whilst global bonds saw inflows of USD 372 billion this year, the final quarter experienced significant outflows, some of the strongest since the financial crisis in 2008. This period has seen investors changing asset classes, and global investors having moved out of bonds and into equities during the month. December saw the MSCI World Index jump 7.4% in USD terms.
- According to Bank of America Merrill Lynch's Global Broad Market Corporate Index, global corporate bonds returned 7.1% for 2010, compared to 2009's return of 16.3%.
- Global corporate bonds on the index fell 0.82% in December, following on the heels of a 1% decline in November.
- Spreads over government debt compressed during November from 177 basis points on November 30 to 169 basis points on 31 December. We believe that corporate bonds remain considerably more attractively priced than their government peers.
- In terms of interest rate developments, none of the developed markets changed their bank rates. Inflation has remained stable, though the release of November's euro zone figures showed it trending upwards slightly in Europe.

Outlook

- Foreign equity remains our favourite asset class, and we even give it preference over our local asset classes in our current tactical asset allocation positions in our multi asset class funds. Global equities need to be viewed on a market by market basis, as opposed to merely differentiating between developed and emerging markets. A number of equity markets look very attractively priced, such as Europe, and whilst there are question marks over the economic growth and the state of a number of country's government finances, the valuations are overcompensating for the risk of earnings disappointment in these regions. The US economy is hardly on a stellar growth path at present, but it does appear, for lack of a better phrase, to be 'muddling along' and US equities remain attractive.
- Investing in offshore markets is also attractive from a currency position. We view the rand as being overvalued between 10% and 20% on both a real effective exchange rate and on an absolute basis against the US dollar.
- Foreign bonds are unattractively priced, though corporate credit appears far more appealing than foreign government bonds or cash. Foreign corporate bonds have seen a significant narrowing in spreads over the last year and therefore no longer represent the extreme dislocation in pricing that was evident in the wake of 2008. However , they continue to offer compelling levels of returns, particularly in an environment of negative real cash rates, while also offering a degree of diversification from other positions in the portfolio.
- A heightened perception of uncertainty surrounding economic fundamentals seems likely to present another year of opportunities to tactically scale exposures in response to periods of fear or euphoria displayed by markets. This leaves investors in a strong position from which to display "patient opportunism".

Economic comment supplied by Prudential – top performing manager Q3, 2010

PRUDENTIAL PORTFOLIO MANAGERS

Market and economic update

Locally speaking

Background

- Local equities have followed their global peers over the quarter with particularly strong returns from commodity stocks as selected industrial metal prices soared. Industrial stocks also delivered very favourable returns. Financial stocks delivered very muted returns, impacted heavily by Old Mutual and its inability to sell Nedbank.
- South African bonds had a very quiet quarter, with the All Bond index up only 0.3% over the period. South African bonds had rallied significantly over the year, with the index having already returned 14% in the first three quarters, largely based on foreign interest in the availability of real yields.
- Local equity and bond markets are still heavily influenced by foreign flows. Foreign investors sold a net R23.4 billion worth of South African bonds between October and December last year, after net inflows of R75.3bn in the previous nine months according to the Reserve Bank. Whilst much lower than South African bonds, the return on global benchmark bonds have improved.
- So far this year (to 10 January), this last quarter's trend has reversed; bond flows have been a positive R8.4bn and investment in shares has been worth R1.2bn.

Outlook

- We don't believe there is any sustainable skill in economic or yield / earnings forecasting, and forecasting macro economic variables is particularly fraught with difficulties. As a result, we follow the consensus views for these variables over the shorter term (1 year) and periods longer than this tend to merge into our long run expectations. This being said ,there does not seem to be any reason to be suspicious of current short-term consensus forecasts.
- Domestic equities, as represented by the FTSE/JSE All Share Index, are currently valued on a one year forward earnings yield of 8.0%. This earnings yield is equal to what we believe to be the long run equilibrium earnings yield of around 8%. Equities are, therefore, at fair value as an overall asset class; though within equities, selected stocks are offering value opportunities for investors.
- Higher domestic risky asset prices, such as equity, have resulted in deteriorating prospects despite improving fundamentals in many cases. Nonetheless, there is strong momentum in the earnings, and whilst the earnings expectations need to be met, there is no reason to doubt these expectations.
- The SA Listed Property index should deliver a distribution yield close to 8% over the coming year. In our view, this represents fair compensation for the incremental risk of investing in property relative to current fixed income yields, but as an independent asset class, it appears fully priced to slightly expensive.
- Government bonds are now (subsequent to quarter end) offering a long run real return of 2.6%, well below our long run expectation of 3.5% for this asset class. Whilst corporate bonds as an individual asset class are at fair value, prospective returns from corporate bonds are at good levels in comparison to their government peers, and shorter dated corporate bonds are on the slightly cheaper side of fair value. Inflation linked bonds delivered a fairly flat performance during the quarter. This asset class is now offering a 2.7% real yield, being close to what our analysis would indicate as a fair long run equilibrium yield for this asset class
- Cash is currently yielding around 0.6% p.a. in real terms, which is well below our long run real return expectations. The next Monetary Policy Committee meeting is scheduled in the third week of January, and with the data showing tentative signs of recovery, it is unlikely that further monetary easing will be considered.

Economic comment supplied by Prudential – top performing manager Q3, 2010

PRUDENTIAL PORTFOLIO MANAGERS

Performance table

Index/Sector	1Month	3Month	YTD	1Year	3Year
All Share	**6.20%**	**9.47%**	**18.98%**	**18.98%**	**6.47%**
Capped All Share Index	6.22%	9.26%	19.56%	19.56%	7.41%
Shareholder Weighted All Share Index	6.42%	8.13%	20.86%	20.86%	7.14%
Top 40	6.73%	9.89%	17.22%	17.22%	5.67%
Mid Cap	3.06%	6.61%	30.27%	30.27%	12.85%
Small Cap	4.57%	11.30%	24.65%	24.65%	3.23%
Resources	**7.72%**	**16.50%**	**12.28%**	**12.28%**	**2.88%**
Mining	7.42%	16.95%	11.22%	11.22%	2.71%
Gold Mining	1.98%	6.13%	12.45%	12.45%	6.05%
Platinum & Precious Metals	11.16%	19.20%	5.72%	5.72%	-2.25%
General Mining	7.96%	19.24%	12.38%	12.38%	3.36%
Oil & Gas	9.79%	13.37%	20.14%	20.14%	4.25%
All Share Industrials	**5.41%**	**7.79%**	**27.39%**	**27.39%**	**11.74%**
Basic Materials	7.20%	15.81%	11.72%	11.72%	2.33%
Chemicals	8.52%	11.01%	28.05%	28.05%	1.38%
Construction & Materials	5.51%	3.03%	4.71%	4.71%	-11.61%
Forestry & Paper	1.37%	-5.36%	16.42%	16.42%	-13.03%
Industrial Metals	5.90%	9.00%	16.59%	16.59%	-2.29%
Industrials	5.62%	8.42%	24.02%	24.02%	3.65%
General Industrials	7.43%	10.98%	35.56%	35.56%	13.32%
Electronic & Electrical Equipment	2.77%	5.70%	13.82%	13.82%	-3.37%
Industrial Engineering	-0.95%	16.03%	37.61%	37.61%	-8.52%
Consumer Goods	3.90%	9.30%	25.92%	25.92%	17.67%
Automobiles & Parts	-1.60%	19.53%	151.75%	151.75%	5.19%
Health Care	1.06%	3.30%	21.07%	21.07%	21.10%
Beverages	4.68%	4.48%	11.41%	11.41%	10.30%
Food Producers	5.04%	8.16%	20.83%	20.83%	15.72%
Health Care Equipment & Services	4.48%	8.94%	12.56%	12.56%	12.34%
Pharmaceuticals & Biotechnology	-2.48%	-2.31%	23.81%	23.81%	30.44%
Consumer Services	4.81%	8.26%	42.79%	42.79%	22.88%
General Retailers	2.79%	6.22%	61.46%	61.46%	21.38%
Travel & Leisure	0.27%	8.38%	16.44%	16.44%	-3.03%
Media	9.06%	13.60%	29.41%	29.41%	30.76%
Support Services	10.29%	14.39%	34.27%	34.27%	13.61%
Industrial Transportation	4.38%	11.54%	38.82%	38.82%	8.04%
Telecommunication	11.18%	7.27%	19.52%	19.52%	4.00%
Food & Drug Retailers	2.04%	2.90%	49.57%	49.57%	30.87%
Fixed Line Telecommunications	8.23%	-1.30%	10.27%	10.27%	-1.89%
Technology	4.25%	-0.41%	42.32%	42.32%	12.13%
Software & Computer Services	3.62%	-1.01%	41.47%	41.47%	11.90%

Index/Sector	1Month	3Month	YTD	1Year	3Year
Financials	**4.72%**	**-0.10%**	**16.56%**	**16.56%**	**3.29%**
Banks	7.76%	-0.02%	15.77%	15.77%	9.18%
Non-life Insurance	0.38%	15.37%	31.20%	31.20%	14.89%
Life Assurance	1.37%	-5.79%	12.99%	12.99%	-3.11%
Equity Investment Instruments	2.38%	-1.40%	1.92%	1.92%	-1.42%
Real Estate	2.23%	3.13%	29.62%	29.62%	12.20%
General Finance	5.83%	5.31%	24.82%	24.82%	5.02%
Financials and Industrials	**5.21%**	**5.24%**	**23.78%**	**23.78%**	**8.83%**
ALBI	**1.73%**	**0.75%**	**14.96%**	**14.96%**	**10.01%**
1-3 Years	0.62%	1.83%	8.75%	8.75%	9.77%
3-7 Years	1.24%	1.80%	12.79%	12.79%	10.30%
7-12 Years	1.93%	0.85%	16.00%	16.00%	10.04%
12+ Years	2.14%	-0.63%	15.86%	15.86%	8.40%
STeFI	**0.51%**	**1.56%**	**6.93%**	**6.93%**	**9.26%**
Call Deposit	0.45%	1.40%	6.26%	6.26%	8.66%
3 Month NCD	0.48%	1.48%	6.58%	6.58%	8.99%
6 Month NCD	0.51%	1.57%	7.01%	7.01%	9.35%
12 Month NCD	0.58%	1.78%	7.76%	7.76%	9.95%
International Index / Other	**1Month**	**3Month**	**YTD**	**1Year**	**3Year**
S&P 500	-0.80%	4.66%	0.75%	0.75%	-6.18%
MSCI World	-0.13%	3.10%	-2.14%	-2.14%	-8.07%
JPMorgan GBI	-7.38%	-7.21%	-6.93%	-6.93%	3.36%
Salomon Brothers GBI	-7.92%	-8.04%	-7.98%	-7.98%	4.78%
Dow Jones	-2.05%	1.92%	-0.82%	-0.82%	-5.59%
Euro Top 100	1.18%	-1.62%	25.28%	25.28%	-1.57%
Nikkei 225	-1.31%	6.56%	-41.42%	-41.42%	-27.96%
FTSE 100	3.57%	0.29%	31.84%	31.84%	6.06%
Nasdaq	-1.12%	6.37%	4.44%	4.44%	-1.20%
Russell 1000	-0.36%	3.70%	-0.44%	-0.44%	-8.34%
Barclays Inflation Linked Bond Index	0.34%	0.89%	10.97%	10.97%	10.72%

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