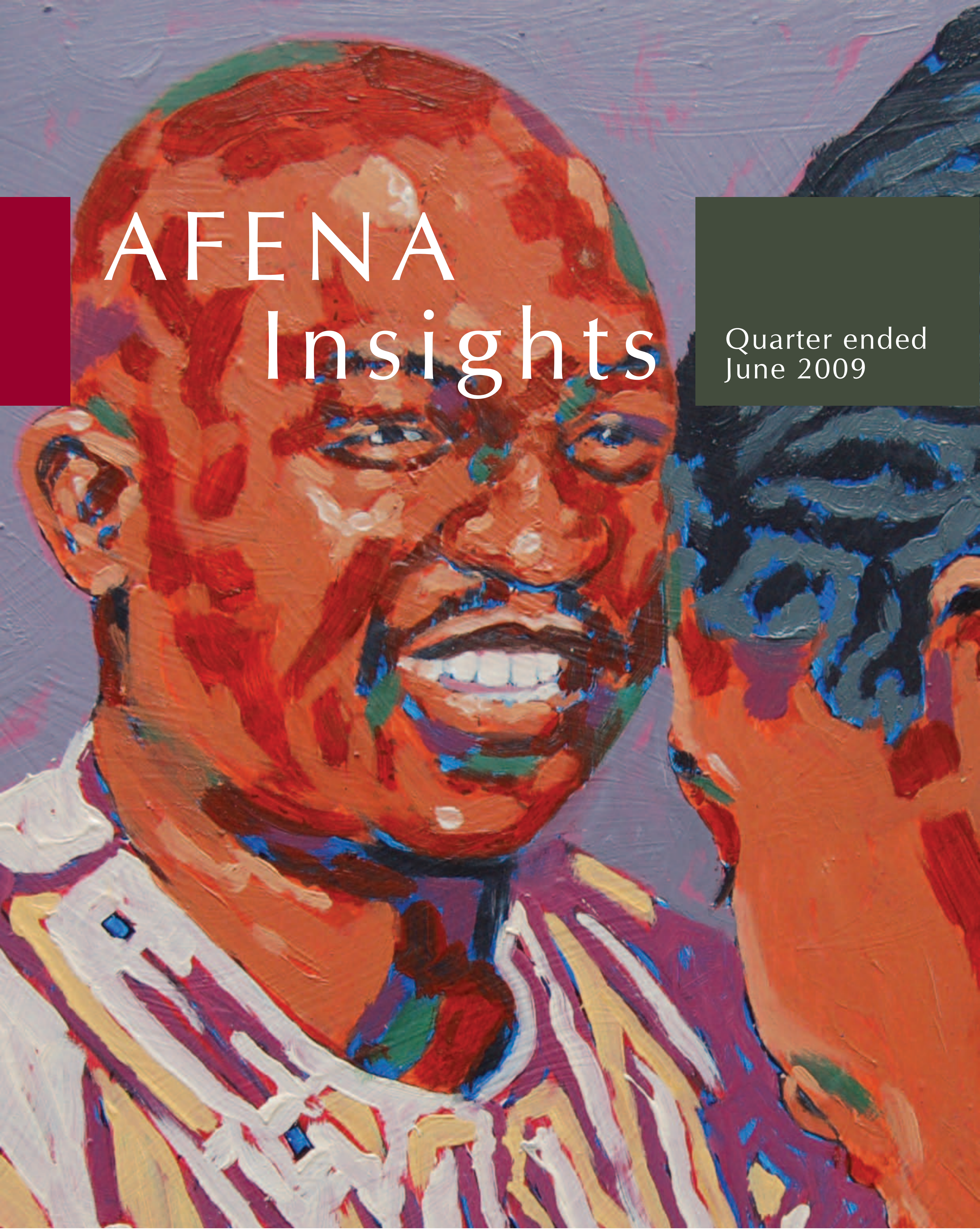
AFENA Insights

Quarter ended June 2009



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Business Insights

Tebogo Naledi
Chief Executive Officer

At the time of our last newsletter we were on the brink of the 2009 General Elections. Once again, history was made as South Africans from all walks of life peacefully exercised their democratic right to elect a government of their own choosing. With all that behind us, it is now time for all of us to get back to working at realising South Africa's full potential.

The global financial crisis that has led to the global economic crisis has continued unabated. The effects on South Africa have been and continue to be painfully difficult, particularly for the many South Africans who have lost their jobs and the many who continue to face further job losses. Real GDP growth for the first quarter of 2009 declined by 6.4% on a quarter-on-quarter (q/q) seasonally adjusted annualised (saa) basis, the biggest decline in GDP since 1984. This followed a decline in Real GDP growth of 1.8% (q/q saa) for the fourth quarter of 2008. South Africa is now technically in recession (the technical definition of recession, as explained in the last Afena Insights investment jargon section, is two consecutive quarters of negative GDP growth). These challenging economic conditions will continue to be with us for some time but there is light at the end of the tunnel with the anticipation of an improvement in economic growth prospects going into 2010.

After experiencing one of the most severe bear markets in its history, the JSE's performance in 2009 has been showing some promise with the FTSE/JSE All Share Index (ALSI) returning a positive 4.1% so far this year (i.e. 6 months to 30 June 2009). Over the 12 months to June 2009, however, the ALSI's return remained negative at -24.9%.

As macroeconomic news flow continues to generally be negative, recent company results and trading updates have highlighted the significant pressure on company earnings across all sectors on the JSE with most companies reporting declines in earnings, often in excess of 20-30%. As we indicated previously, by our long term analysis, company earnings have in recent periods been at levels well above their long term sustainable levels (see chart below which shows average margins amongst industrial companies over the past 25 years). Looking forward it is unlikely that we have seen the end of negative earnings reports which makes sense given that, even at current levels, earnings remain above their long term averages.

Industrial Margins

Source: I-Net

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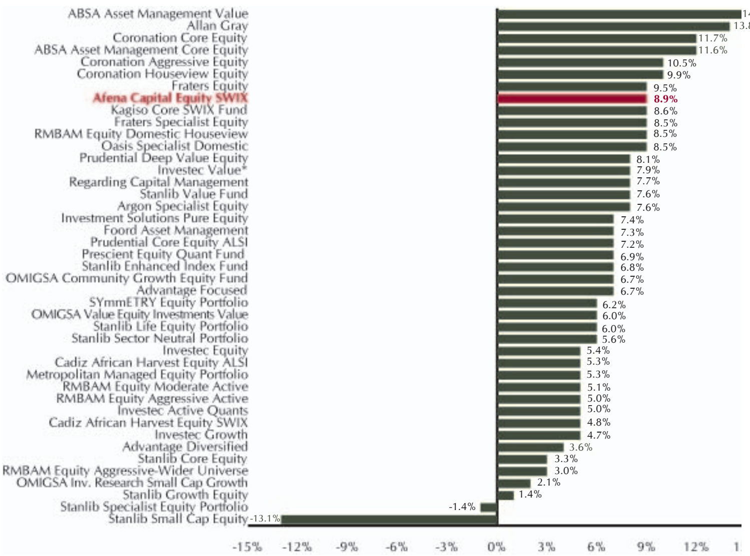
Despite all this negativity, equity markets, which effectively price company earnings, have been positive in recent months. The ALSI, for example, returned 8.6% over the quarter to 30 June 2009 with this mini bull run beginning in March 2009 when the ALSI returned 11% in that month alone. The market does however remain volatile and we have seen a relative increase in volatility towards the end of the quarter.

So, what has driven such strong market performance in this environment of negative company earnings and weak macro news flow? It is most likely a combination of factors. Firstly, after declining over 45% from peak to trough, the market was offering value with a significant number of share prices at historically low levels. Secondly, international investor appetite for risky assets, including emerging market assets like South African equities, appears to have increased in recent months. Thirdly, it is likely that many equity market participants are looking beyond the immediate environment and realising that when earnings normalise and the market environment also normalises, and they will, buying at current share prices holds the prospect of attractive long term returns.

The investment performance of our clients' portfolios has continued showing very strong outperformance of benchmarks in the periods to June 2009. Over the 12 months to 30 June 2009 the portfolios that we manage relative to the FTSE/JSE Shareholder Weighted Index (SWIX) outperformed the benchmark by 11.4%. In other words, while the SWIX benchmark returned -17.6% over the 12 months to June, our clients' portfolios had a negative return of only -6.2%. Over the three years to 30 June 2009, our clients' portfolios returned an annualised 7.6% whilst the SWIX benchmark returned an annualised 5.9%, which translates into outperformance of 1.7%

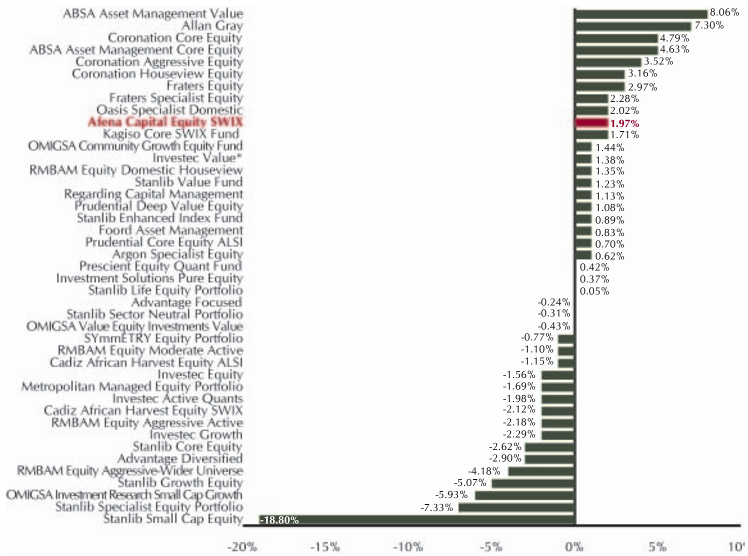
As this is the first time we report on a three year investment history for portfolios under our management, it is pleasing to see that the investment returns we have generated for our clients are well above the average of portfolios managed by other asset managers as shown in the two charts alongside. These two charts show Afena Capital's three year performance to 31 May 2009 for the SWIX relative portfolios, as compared to other funds surveyed in the Alexander Forbes SA Equity Manager Watch that also have a three year plus track record. The first chart shows annualised three year investment returns of the portfolios. The second chart shows annualised three year active returns of the portfolios i.e. investment returns in excess of the portfolio's benchmark.

Three Year Annualised Investment Returns to 31 May 2009



Source: Alexander Forbes SA Equity Manager Watch, May 2009 and Afena Capital

Three Year Annualised Active Returns to 31 May 2009



Source: Alexander Forbes SA Equity Manager Watch, May 2009 and Afena Capital

I must commend our investment team for these excellent results and would like to take this opportunity to once again assure our clients of our total commitment to consistently generating superior long term investment returns for their portfolios.

On the business front, the second quarter of 2009 has seen Afena Capital experience significant growth in assets under management on the back of very strong asset inflows from new and existing clients, as well as positive equity markets. Total assets under management are currently just over R6 billion, and we anticipate further growth in the months ahead. We are honoured by, and appreciate, the confidence shown in our investment process and in our team by the clients who have appointed us to manage their assets.

We have now passed the halfway point of 2009. Whilst the economic environment remains challenging, recent market performance has certainly been much more pleasant than it had been over the 15 months to February 2009. Market volatility will no doubt remain with us for some time and in an environment of continued negative earnings reports, it remains very possible for markets to turn negative once again. For us, this short term performance matters less. What matters most are the long term value opportunities we see in the market and these remain abundant with the top 70 stocks in our Conviction List showing long term upside greater than 20%.

As always the Afena Capital team remains fully committed to managing our clients' portfolios with excellence, professionalism, dedication, integrity and innovation.

This is the second edition of Afena Insights. In this edition we begin with Market Insights which, this quarter, are brought to you by Khaya Gobodo, our Head of Equities. This is followed by the feature article, titled Trading Down in Tough Times, in which Funeka Beja, one of our investment analysts, looks at food buying habits in a consumer downturn. A short interview with yours truly on developments at Afena Capital precedes the final article which is our Unpacking the Jargon article in which we try to explain the meaning of the terms Fiscal Policy and Monetary Policy. I hope you enjoy the read. As always, your feedback and comments on the articles, or any other matter, are most welcome and appreciated.

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Market Insights

Khaya Gobodo
Head of Equities

The end of this year will mark my tenth anniversary as an investment professional. Ten short years and yet I've seen so much. I had just missed out on the emerging market crises of 1998 and the subsequent rally in stocks. But I was already close to equity markets by then and besides, it was still very fresh in people's minds when I arrived in the markets as a fresh faced graduate.

This rally, which in part was fueled by the rapid rise in world stock markets, didn't last very long. Globally, it all came to an end in March of 2000 with the bursting of the dot com bubble. What a time it was though, observing the frenzy that preceded the bubble bursting - the launching of investment products premised on the idea that the internet would take over the world; valuation techniques being touted which didn't require the existence of either earnings or cash flows. Fortunately, South Africa was spared the full extent of the trauma experienced in many other parts of the world during this period.

For South Africa it seemed the end of the tech bubble was nothing but a little hiccup. The FTSE/JSE All Share Index (ALSI) only fell about 20% from January to April of 2001 and started to rise steadily thereafter. Something altogether different was driving our market, the most significant of which were a depreciating rand and the rise of resource shares. The rand exchange rate moved from just above R6 relative to the dollar to R12 by the time 2001 ended. This dramatic depreciation of the rand fueled the more than 200% rise in resource shares over this period, lifting the whole market with them.

As quickly as the rand had risen it started to retreat, and by May of 2002 it had strengthened by 20%, precipitating some doubt about the sustainability of the super profits resource shares had earned on the back of the weak rand. People started to sell resource shares by the truck load. It didn't help that the South African Reserve Bank at the time had been raising interest rates in an attempt to fight the inflation we imported due to a weak rand, which in turn put pressure on domestic demand. The result was pressure on SA Inc. earnings in general. What followed was an almost 40% fall in SA equities between May of 2002 and April of 2003 - from the glory of an exciting bull market to the gloom of a severe bear market.

This contrast was jarring for a young man filled with hope of the future and still trying to find his place in the world. I remember how people's moods around the office were shaped by the falling share prices. Fortunately by the middle of 2003 the language had changed. Portfolio managers were no longer talking about the end of the world but rather about how the earnings of many good businesses had been decimated and you could buy those low earnings on very low price to earnings multiples. The long and short, people were getting excited about buying some forgotten quality businesses at very attractive prices.

For the subsequent five years, life became a hunt for these forgotten businesses and the market rewarded you well for finding them. In general, these were businesses earning their income in rands by providing services to the South African consumer. Their performance was fuelled by a strengthening rand which led to lower inflation and lower interest rates. By the end of 2005 resource shares had also joined the party, with their performance driven by the relentless rise in commodity prices. China was the engine of growth, devouring ever greater proportions of global commodity production. China would drive and sustain the continued rise in commodity prices. The Super Cycle was born. This period will go down as one of the most prosperous in South African living memory as investors were creating wealth hand over fist.

By the middle of 2008 however, the euphoria had been replaced with fear and uncertainty. It is true though that the troubles for our market started as early as the middle of 2007. The easing interest rate cycle had come to an end and it was time to fight inflation. What followed was the relentless rise in South African interest rates and we all remember what followed, the sell off in everything interest rate sensitive. But resource shares continued their merry trot until the middle of 2008 when life as we knew it fundamentally changed. The global financial crisis broke, leading to a massive collapse in confidence, bank lending and demand for goods and services. Commodities just could not escape those simple economics. What followed was carnage of resource shares in particular, but equities in general.

As we've all learnt and observed, the market never rests and the severity of the moves both in terms of direction changes and magnitude don't lend it to some of the natural rules that govern human behaviour. For example, all of these natural human responses will lead you down the wrong path as far as the markets are concerned:

1. When we are afraid we run for cover;
2. When we fall in love with something we want to hold onto it forever;
3. We feel more comfortable in the company of others and vice versa, especially in our actions;
4. We have an uncanny way of justifying our mistakes just to feel a little better.

The reality is that our backgrounds, life experiences and our biases colour the way we see and interpret the market's moves. It is as though the way our eyes are designed invariably gets us into trouble.

It is clear to us the best way to navigate the markets is by purchasing a good set of spectacles in the way of a sensible investment process that is diligently applied. This should go some way in mitigating some of these natural biases. This is especially true for mere mortals who may not possess natural investing talent.

So what do we, at Afena Capital, currently see when we look at equity markets through our investment process? Our process forces us to look beyond the market's moves for meaning, but rather to value companies (and the market) on the basis of sustainable earnings. On this basis we think the market is fair to slightly undervalued, despite its more than 30% fall from the top in May 2008. It is also true that we continue to believe the earnings base of SA Inc. remains too high. As a result, given the tough economic conditions currently being experienced, 2009 and part of 2010 will see earnings continue to decline from current levels. In that environment it's tough to see a bull market developing. This is especially true given that the market has already risen 20% from the bottom in March of this year.

Another statistic that does not imbue us with a lot of confidence for the market's return prospects is that it has still delivered a very healthy 5.5% real return from its last peak in 2002 to date. We advise continued caution in the allocation of capital to equities. We continue to favour a portfolio balanced between very attractively priced cyclicals and good quality businesses with resilient earnings and reasonable valuations.

Trading Down in Tough Times

Food Buying Habits in a Consumer Downturn

Funeka Beja
Investment Analyst

It is of wide-spread belief in life that food retailing is a defensive business model. This may be attributed to the fact that people cannot do without food.

Food volumes are believed to be largely stable through cycle peaks and troughs due to their non-discretionary nature. This may be attributed to the fact that food lies at the base of Maslow's hierarchy of needs. It is a basic human need. What Maslow proposes is that, before any other needs are taken care of, the first needs to be addressed will always be food, water and sleep. And while this may be true of food in general, not all foods are equal.

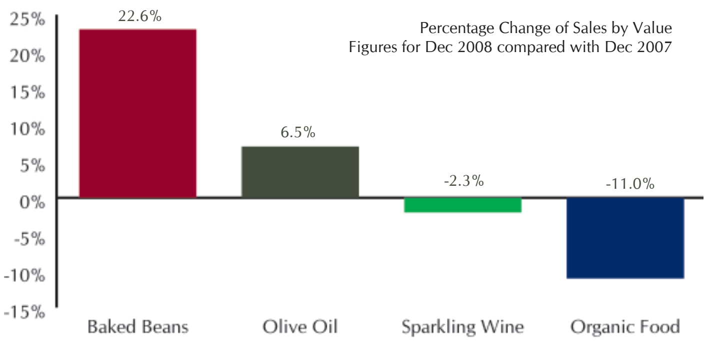
Maslow's Hierarchy of Needs

Source: http://www.abraham-maslow.com/m_motivation/Hierarchy_of_Needs.asp

On closer inspection, we are able to see that some food groups are more discretionary than others. Caviar and sushi, for instance, are not what I think would fall into the category of 'basic human needs', whereas bread, milk and vegetables are more likely the kinds of foods one cannot do without. That is a fairly obvious distinction to observe, however there is a further division that needs to be highlighted and that is between branded and non-branded food items. Is it really necessary that your tomato sauce be All Gold, or is the no-name brand alternative just as good? What is the real difference between the retail owned brand pasta or Fattis & Monis? In some cases, such as Woolworths, the in-store branded products are seen to be superior to the branded alternatives. We explore these distinctions in food categories, and see how each of these sub-categories respond to different economic climates and why.

What we have seen globally, due to the global economic slowdown, is that consumers have become increasingly spend-thrift, particularly on discretionary items. This can be seen in the severe and prolonged downturn in sales of automobiles, jewellery, furniture and even clothing. A recent Nielsen survey in the UK showed that although overall food sales were down in December 2008, baked bean sales were up 22.6%. It would appear from the chart below that there is an attitude to cut back on luxuries and get back to the bare necessities. Organic foods, which perhaps fall into the top category of Maslow's needs (self-actualisation), saw a substantial decline in sales of 11%.

UK December Retail Food Sales Survey by Nielsen



Source: http://news.bbc.co.uk/2/hi/business/7824072.stm

Consumers across the globe have been seen to be trading down in tougher times, to try and make their money go further. The term 'trading down' refers to a change in the buying habits of consumers in favour of cheaper alternatives, due to constraints in their disposable income. When faced with a decline in disposable incomes, consumers track down Maslow's needs, thereby abandoning the higher, esteem-related needs, to focus on the most fundamental needs: physiological and safety. Because different foods satisfy different levels of these needs, the consumers' trading down patterns begin to show in the sales growth disparity of the different product categories. What the Figure alongside shows is a few examples of various food products, categorised into Maslow's needs. Usually, the foods that lie in the bottom rung of Maslow's hierarchy are inferior goods[1] . According to consumer theory, inferior goods (unlike normal goods) are goods whose consumption decreases when disposable incomes increase; and (as is the case now) consumption increases when disposable incomes decrease. With this kind of insight, one can begin to predict which product categories are likely to outperform in a consumer slowdown, and which are likely to do well when the consumer ultimately recovers.

Food Products Categorised by Maslow's Needs

Conversely, when disposable incomes are increasing, consumers begin trading up to more sophisticated and expensive food products, thereby satisfying higher needs, like social status and esteem. During an upswing in the consumer cycle, we should expect the sales of baked beans and white bread to fall, juxtaposed against a surge in the sale of salmon and cream cheese at Woolworths.

Locally, although for quite different reasons, South African consumers suffered a severe hit to their disposable incomes. In the 2008 calendar year, household disposable incomes were hit by a perfect storm. Petrol prices were up 34% on average, interest rates increased a further 200bps and peaked; and food inflation averaged roughly 16%. It then comes as no surprise that during the six months to March 2009, Tiger Brands Ltd reported a 26% increase in sales volumes of baked beans, versus a 12% decline in value-added meats volumes[2]. It is equally unsurprising that the underlying theme of that particular presentation of results was the growing threat of private label products due to consumers' tendency to trade down.

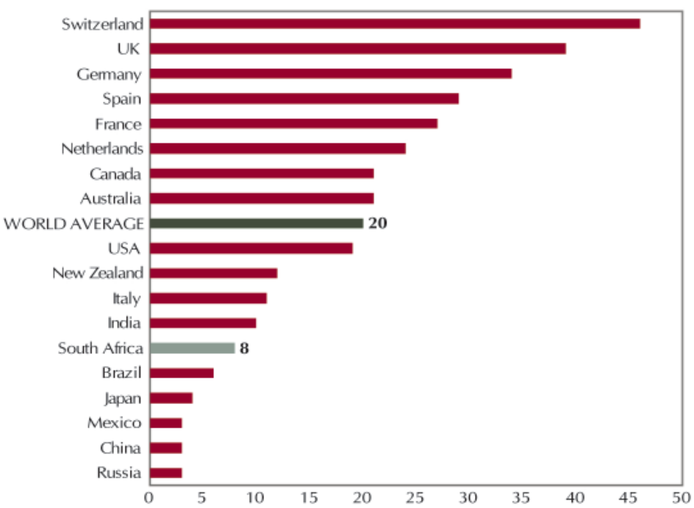
Not only are customers trading down from higher price foods to cheaper foods, but they are also exchanging branded products for private label goods. Private label products offer buyers the option to trade down on price, but still maintain the same products in their grocery basket.

Penetration levels of private label products traditionally have been inhibited by consumers' general perception of inferior quality. The global average penetration in 2008 was 20%, according to a Planet Retail study, with South Africa far below that at only 8%. According to company management, Pick n Pay's no name brand makes up

[1] Source: http://moneyterms.co.uk/inferior-good/
[2] Source: Tiger Brands Ltd Investor Presentations

11-12% of total sales, and Shoprite's in-house brands only make up about 5%.

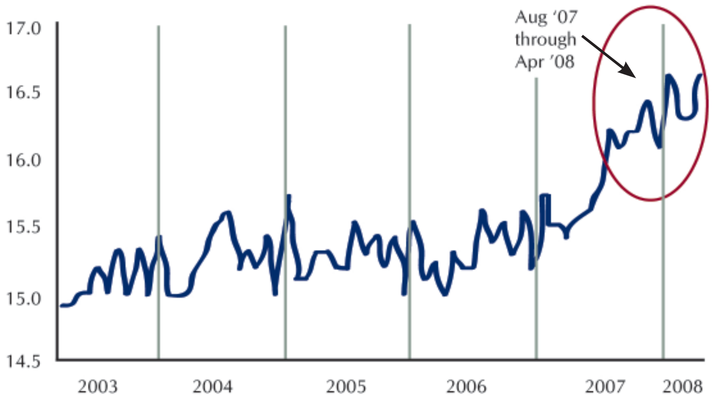
Global Private Label Penetration in 2008



Source: www.planetretail.net

There is, however, a growing acceptance of private label products, with an uptake of these products having grown recently as consumers' pockets have come under strain. Ordinarily, consumers are willing to 'pay for quality', but in tougher times, there is a growing leniency on quality in favour of a more accessible price in the private label product.

Private Label Share Growth



Source: Nielsen Consumer Insight Magazine Issue 11 – October 2008

Since grave circumstances have forced consumers to trade down into some private label goods, their experience has proven to be in stark contrast to their previous myths about private label quality. There has been a growing awareness of these brands, and with it, a realisation that some of these no-name products are just as good, and in some cases better, than their branded counterparts. The chart below is from a study, performed on US households, showing improving customer perception of private label quality.

It would appear that US consumers are able to make a far bigger saving on their food and grocery expenses by switching to private labels, while the same may not be true for the average South African food basket. Results of a recent study performed by the Private Label Manufacturers' Association (PLMA) shows that a US consumer can save up to 29%. It's fairly obvious to see how private label penetration can increase in an environment where savings are significant and quality is not altogether compromised. The same, unfortunately, cannot be said for South African private labels, and this would explain the very low penetration in comparison to global averages.

Improving perception of Private Label brands in the US

Source: http://en-us.nielsen.com/main/news/news_releases/2008/november/nearly_three-quarters

We conducted a similar study on 10 May 2009, using one of our leading food retailer's online shopping facility, measuring the saving on a basket of goods if a consumer would opt to buy no-name branded goods versus the cheapest branded alternative. This saving only amounted to 9%. It seems that the benefit to South African consumers of trading down to private label goods is too low. In many

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cases, the disparity in quality between the in-store branded goods and the branded goods is far too wide to sacrifice, especially if the saving is only 9%.

Consumer Saving from Switching to Private Label in SA vs US

Afena Survey	Branded	No Name	Save	PLMA Survey	Branded	Store Brand	Save
Food Items				**Food items**			
Cooking Oil 750ml	R 13.99	R 10.99	21.4%	American cheese	$3.99	$2.99	25.1%
White rice 1kg	R 12.99	R 11.79	9.2%	Canned chilli	$1.21	$1.39	-14.9%
Maize meal 2.5kg	R 10.89	R 9.99	8.3%	Canned corn	$1.27	$0.84	33.9%
White bread 700 g loaf	R 7.29	R 5.99	17.8%	Canned cranberry sauce	$1.79	$0.95	46.9%
Instant coffee 250g	R 19.49	R 19.99	-2.6%	Canned pork & beans	$0.60	$0.87	-45.0%
Tagless Teabags 100pk	R 9.49	R 10.49	-10.5%	Canned soup	$2.34	$2.00	14.5%
White sugar 1kg	R 7.59	R 7.89	-4.0%	Cold cereal	$3.09	$2.13	31.1%
Apricot Jam 450g	R 8.99	R 8.39	6.7%	Dry pasta	$1.28	$1.17	8.6%
Peanut butter	R 36.24	R 30.99	14.5%	Dry stuffing mix	$2.19	$1.50	31.5%
Oats 1kg	R 14.89	R 12.99	12.8%	Frozen fiish sticks	$4.14	$3.50	15.5%
Fresh milk 1l sachet	R 5.99	R 6.49	-8.3%	Frozen pizza	$7.16	$5.49	23.3%
Full Cream Maas 2l	R 17.99	R 14.99	16.7%	Hot chocolate mix	$1.50	$1.33	11.3%
Large eggs 30pk	R 33.99	R 33.49	1.5%	Hot dogs	$3.89	$3.39	12.9%
Polony 1kg	R 19.99	R 18.99	5.0%	Instant oatmeal	$3.57	$2.13	40.3%
Baked beans 410g	R 4.99	R 4.99	0.0%	Ketchup	$1.69	$1.29	23.7%
Canned Corned meat 300g	R 11.49	R 9.99	13.1%	Maple syrup	$4.99	$2.99	40.1%
Tuna in Water 170g	R 10.99	R 7.99	27.3%	Packaged mac & cheese	$1.20	$0.76	36.7%
Mayonnaise 750g	R 19.99	R 18.99	5.0%	Peanut butter	$2.79	$2.19	21.5%
Tomato sauce 750ml	R 10.99	R 8.79	20.0%	Prepared mustard	$2.29	$1.69	26.2%
Coarse salt grinder 100g	R 19.99	R 16.59	17.0%	Prepared pasta sauce	$2.50	$1.57	37.2%
Frozen Veg 1kg	R 15.29	R 16.59	-8.5%	Refrigerated oranje juice	$3.41	$2.57	24.6%
Juice concentrate 2l	R 18.99	R 24.99	-31.6%	Saltine crackers	$3.00	$1.50	50.0%
Non-Food Items				**Non-Food Items**			
Beauty soap 200g	R 7.49	R 4.99	33.4%	Body lotion	$9.99	$5.00	49.9%
Dishwashing liquid 750ml	R 18.59	R 11.99	35.5%	Cough syrup	$5.99	$4.74	20.9%
2ply toilet roll 9pk	R 42.99	R 36.99	14.0%	Facial tissue	$1.92	$0.99	48.4%
Washing powder 1kg	R 25.99	R 19.99	23.1%	Lip balm	$1.29	$0.99	23.3%
Fabric softener 2l	R 20.99	R 20.99	0.0%	Toilet paper	$1.00	$0.66	34.0%
	R 448.57	**R 407.33**	**9.2%**		**$80.08**	**$56.62**	**29.3%**

Source: http://mypbrand.com/tag/plma/

Although Pick n Pay recorded higher sales growth in their private label brands than overall sales growth, they do not attribute all of this to trading down. They have put in a huge effort to market their new in-house brand, increased shelf space and improved quality. Shoprite did see some trading down to their in-store brands. The sales growth of 23.4% to March 2009 was fairly in line with the rest of the branded goods sales. It would appear that South African consumers remain more brand-conscious or, more likely, have been less severely hit by the global crisis than global peers. Their buying down has been limited to changing one food item for another by, for example, buying less salmon and more baked beans, but they have remained mostly loyal to branded products. Tiger Brands re-affirms this, recording stable and growing market shares in their key grocery products, even in a slowing market.

Tiger Brands Market Shares to February 2009

Volume Share (%)	12mm		6mm	
	2008	2009	2008	2009
Baked Beans	65.5	69.3	67.0	73.8
Tomato Sauce	71.6	73.9	73.9	74.7
Peanut Butter	45.5	44.5	45.6	44.2
Jam	62.2	62.0	61.2	62.7
Canned Veg	64.7	65.2	64.2	66.4
Pasta	37.6	38.2	31.9	43.8

Source: Tiger Brands Investor Presentations

Their success has been attributed to good marketing and product innovation to keep customers loyal to their brands. It's not just about selling tomato sauce, but about being the leader in new packaging (squeeze bottle) and a broader product range (mustard and 1000 island sauces) that keeps the customer coming back to the All Gold brand.

There are some key benefits of private labels to the retailers[3]:

- they earn higher margins than the branded products;
- creates stronger customer loyalty;
- freedom to create and schedule own marketing plans;
- greater freedom with pricing strategy.

Our discussions with Pick n Pay management lead us to conclude that they will be continuing with their drive to increase the penetration of their new and improved private label offering. They confirm that they do earn a better margin on these products as they don't have to pay the manufacturers as much for the packaging and royalties on the brand. It is however disconcerting to note that Pick n Pay's pricing strategy on these products is following more along the lines of premium private label offering, much like Woolworths'. The buyer will be getting a good quality in-store brand product, but will be paying as much, if not more, than the branded alternative. On the other hand, Shoprite seems unenthused by the margin they earn on in-house products, given the fact that they have to run their own marketing on these brands to move volumes.

Against this backdrop, it doesn't seem that private label penetration is likely to race ahead of branded goods in South Africa as has been the case globally, firstly because the quality of private labels is simply not on par with the branded goods; and where the quality is right, the price is too high to incentivise consumers to switch.

It is fair to say that the size of the food basket does not vary much from year to year because people must eat, thereby making food a defensive business model. It is however clear to see that not all food categories are non-discretionary. What is important is to look inside the food basket as it is in the composition of the basket that better insight is provided into where we are in the consumer cycle.

[3] Source: www.retailrise.com

Interview: Tebogo Naledi Afena Capital CEO

Buyiswa Nodada
Business Development Officer

1. Where does the name Afena originate and what does it mean?

The word Afena is derived from the phrase "African Excellence Naturally". It represents our commitment to Africa and to consistent long term excellence in the work we do for our clients as investment managers.

2. How are you different from Renaissance?

Other than the name of the firm and the branding, we are still the same firm as we were under the Renaissance brand. We changed our name to Afena Capital in March this year after recognizing the need to develop a brand that we truly own and that has a strong identity. This was important for our long term growth plans and we believe the change has been successful.

3. Are you satisfied with the firm's progress since its inception?

To be honest I must say yes. We started operating in November 2005 from scratch. It is now three and a half years later and looking back, despite the very challenging market conditions of the past two years, we have made pleasing progress. Our performance track record over one year and over three years is excellent, particularly against our peers. We have seen tremendous growth in assets under management which now stand at over R6 billion and our investment process and team are working well in creating value for our clients. Ultimately that is the key measure by which we determine progress and success - the value we add for our clients.

4. What are your values?

When we established Afena Capital we identified the following values as being the foundation upon which we will operate our firm – excellence, professionalism, dedication, integrity and innovation. To this day, these remain the guiding lights for how we, as a firm and as individuals in the firm, approach the work we do.

5. What is your motto?

Personally, I have a few but one which stands out is "Be the change you want to see in the world". These words are attributable to the Mahatma Ghandi, and I believe that they are a real expression of the spirit underlying what we are about at Afena Capital.

6. What differentiates you from your peers?

We focus less on comparing ourselves with others but more on what our own strengths are. Afena Capital has one of the most skilled, qualified and experienced investment teams in the South African asset management industry. We are a firm that is clear about our investment philosophy and the drivers of investment returns. We have a robust and disciplined investment process that captures those drivers in a repeatable fashion. We consistently adhere to our investment philosophy and process even when the market cycle is against our view. We have underpinned our investment capability with a solid business and operational platform with strong risk management policies and procedures. We have a strong alignment of long term interests between our employees and clients as our firm is 100% owned by the employees.

7. What lasting impression do you want to make?

We want to build a quality investment management firm that is known for delivery and adding value through the superior long term investment returns we achieve for our clients and the excellent service we provide. We want to build a substantial firm that is a significant participant in the South African asset management industry and that is truly demographically representative of our society in its ownership, management, investments leadership and across the rest of the firm. That is the lasting legacy that we want to leave when we retire in 20-25 years time.

Buyiswa Nodada
Business Development Officer

In this edition of Unpacking the Jargon, we look at the meaning of Fiscal Policy and Monetary Policy and the differences between the two.

	FISCAL POLICY	MONETARY POLICY
DEFINITION	Fiscal Policy refers to the use of government spending and revenue collection to influence the economy. It refers to the overall effect of the budget outcome on economic activity.	A process by which the government and/or the central bank of a country controls (i) the supply of money, (ii) the availability of money, and (iii) the cost of money or rate of interest, in order to attain a set of objectives oriented towards the growth and stability of the economy.
WHAT DOES IT REALLY MEAN?	A policy that guides the government on how to control government revenue and expenditure to influence economic and social development.	A policy that guides the central bank on how to control money supply and hence influence spending in the economy.
POLICY FRAMEWORK	In South Africa the key policy framework is the National Budget and the Medium Term Expenditure Framework.	Inflation targeting is the monetary policy framework in South Africa and it is implemented by our central bank, the South African Reserve Bank (SARB).
OBJECTIVE	To influence the level of aggregate demand in the economy, in an effort to achieve economic objectives of price stability, full employment and economic growth.	To achieve price stability, employment and economic growth.

Buyiswa Nodada
Business Development Officer

	FISCAL POLICY	MONETARY POLICY
HOW TO ACHIEVE OBJECTIVE	The three possible stances of fiscal policy are neutral, expansionary and contractionary: These are determined by whether government spending is equal to, greater than or less than tax revenue. A neutral stance of fiscal policy: implies a balanced budget where government spending equals tax revenue. Government spending is fully funded by tax revenue and overall the budget outcome has a neutral effect on the level of economic activity. An expansionary stance of fiscal policy: involves a net increase in government spending through rises in government spending or a fall in tax revenue or a combination of the two. This will lead to a larger budget deficit or a smaller budget surplus than the government previously had, or a deficit if the government previously had a balanced budget. Expansionary fiscal policy is usually associated with a budget deficit. A contractionary fiscal policy: occurs when net government spending is reduced either through higher tax revenue or reduced government spending or a combination of the two. This would lead to a lower budget deficit or a larger surplus than the government previously had, or a surplus if the government previously had a balanced budget. Contractionary fiscal policy is usually associated with a budget surplus.	The central bank controls the supply and demand for money by cutting or raising interest rates (through the repo rate). This is done either to boost the economy when growth slows down, or to fight inflation when the economy is booming. Cutting interest rates: the central bank will cut interest rates in order to boost lending to corporates and consumers and this will in turn increase money supply. More money will lead to more production, more jobs and more spending. This will boost the economy. Raising interest rates: the central bank will raise interest rates in order to decrease money supply. Less money will lead to less production, less jobs and hence less spending. This will push prices down and in turn reduce inflation.

Source: Wikipedia, Afena Capital

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