



AFENA Insights

Quarter ended
September 2010

Business Summary

HISTORY OF AFENA CAPITAL

Afena Capital was established in November 2005 by a team of highly talented investment professionals with years of experience in investment research, portfolio management and business management. We are based in Cape Town, South Africa, and the firm is wholly owned by management and staff.

The Afena Capital founding partners, Tebogo Naledi, Khaya Gobodo, Khulekani Dlamini and Andrew Joannou, established the firm with the long term vision of building a trusted, professionally managed, quality investment management firm.

We currently employ 16 full time staff members and manage segregated and pooled portfolios on behalf of institutional and private investors. Our total assets under management at 30 September 2010 stood at just under R13 billion.

WHAT DO WE DO

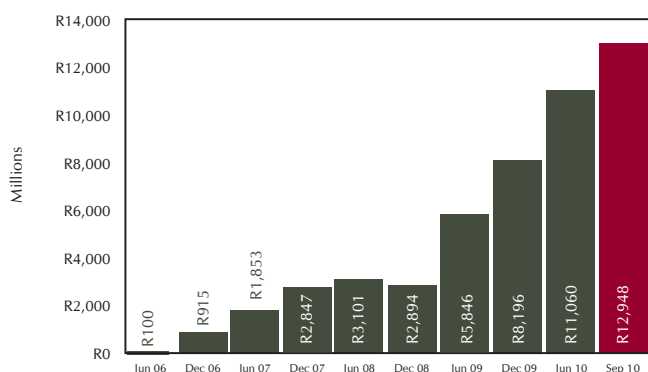
Afena Capital manages domestic specialist equity and balanced portfolios. Our focus is on generating superior long term investment returns and providing quality service for our clients. Our sole business is the professional management of investment portfolios on behalf of third party clients. We do not engage in any other business.

We are absolutely clear on our purpose which is to provide our clients with excellent investment returns in a risk controlled environment. Our core skill lies in active portfolio management, relying on fundamental research underpinned by a clear investment philosophy that focuses on valuation driven long term investing.

The value in our investment process is to be found in our deep fundamental research and our intrinsic valuation based approach to stock selection. This approach requires a long term view on the companies we invest in therefore our investment returns are generated over the long term.

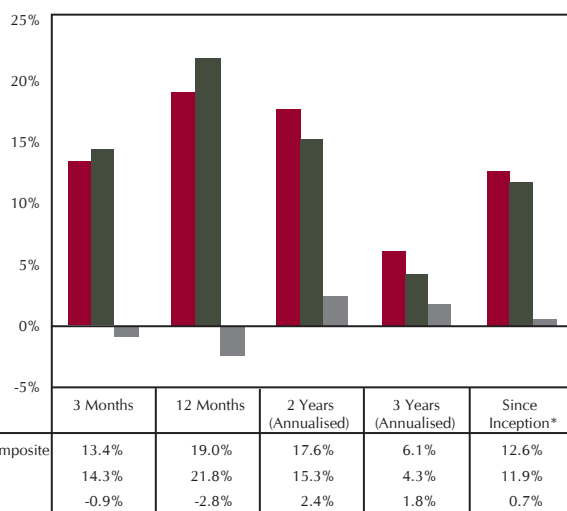
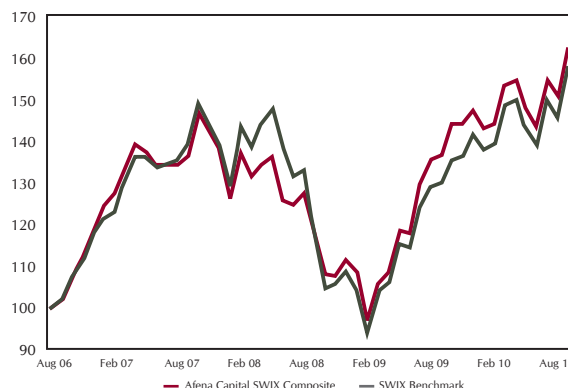
Afena Capital manages segregated portfolios and pooled portfolios which are available to institutional and personal investors.

ASSETS UNDER MANAGEMENT



Source: Afena Capital

INVESTMENT PERFORMANCE



Source: Afena Capital, I-Net

*49 months annualised
Investment performance is presented gross of management fees. Past performance is not necessarily a guide to future returns.

AFENA CAPITAL MANAGEMENT TEAM

Name	Position
Tebogo Naledi	Chief Executive Officer
Gcinikhaya Gobodo	Head of Equities
Khulekani Dlamini	Portfolio Manager
Andrew Joannou	Portfolio Manager
Sandile Sokhela	Head of Institutional Business
Michael Dabrowski	Head of Operations

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Global Market Review



Sandile Sokhela
Head of Institutional Business

Stock Markets and relationships have much in common, besides the obvious fact that they are both dependent on human emotions for direction. They are both extremely volatile and are, most of the time, unpredictable. There are, however, other things that really put the two together side by side.

Just as a bull market ends in tears so do relationships, whether it be through death or a break-up. And for both of these alike, it is really difficult to get back into the market or another serious relationship that requires the same amount of commitment after experiencing so much pain. In a recent New York Times Magazine article entitled "Is Wall Street in for a Long Funk?", Roger Lowenstein worries that investors' current disenchantment with equities may last for years, as it did following the brutal bear market of 1973-74. The investing public did not become net buyers of stocks after that traumatic event until well into the secular bull market that began in August 1982. After two wrenching bear markets and a decade of negative stock returns, the public may also be responding in no stranger way than we normally do in any relationship. The belief that the market must show a lot more value before investors commit the same or similar amounts of capital that had been committed previously is very much alive. Their confidence and willingness to commit capital will not likely be restored until stocks stabilise and prove themselves worthy by going up for a while. This proved true in 2009 when it took a 13 month advance of over +80% off the March 2009 bottom before monthly equity mutual fund flows in the US turned positive in April 2010.

Despite the fact that the S&P 500 is up over 60% since March 2009, the May-June downdraft has turned US equity fund flows decidedly negative again. Year to date figures for equity fund flows at the end of the second quarter 2010 sat at approximately \$17 billion (US Dollars) in redemptions.

With all the confusion, uncertainty and hurt, some humans are able to get over things a lot quicker than others. Thus it is not surprising to see investors split into three visible camps, excluding trading strategies:

- The Optimists
- The Pessimists, and
- The Stuck in the Middle Campers

The Optimists

The optimistic players are happy with valuations and are buying risky assets at what they consider good prices. They contend that:

1. Interest rates are next to nothing globally, which is good for equity valuations.
2. Equity valuations suggest the market is undervalued i.e. valuations based on expected earnings appear attractive. The S&P 500 Index is currently trading at 13 times 2011 consensus estimated earnings, according to Bloomberg, which is well below the historical average of 18.3 times in periods with similar levels of inflation.
3. Inflation seems contained.

The belief is that any investor who shuns equities altogether at this particular period will probably miss the best buying opportunity of the year, if not a decade. Furthermore, and in support of the optimist camp, the month of August was defined by a series of merger and acquisition activities: BHP went hostile in its desired \$39 billion takeover of Potash, Intel snapped up McAfee for \$7.7 billion, Sonafi-Aventis SA offered to buy Genzyme for \$18 billion and HPQ won the bidding war to acquire 3 Par for \$2 billion.

By far the brightest spot not to be missed in support of the optimist investor camp is the overall economic picture and improvement in corporate profits. Looking back to the second quarter, the overall S&P 500 earnings grew by 46% according to Empirical Research Partners.

Having seen two of the past three months end in positive territory, and as a result of the quarter ending positive, the optimistic camp were definite winners over the third quarter as risky assets outperformed other asset classes, such as global bonds. Over the quarter the S&P 500 ended up 11.3%, bringing the year to date performance numbers into positive territory at 3.9%. Europe posted better numbers over the quarter with the Dow Jones Euro Stoxx 50 ending the three months up 19.3%, but not enough to pull the year to date performance figures to positive territory at -9.4%. The FTSE 100 was also in line with the Euro indices and was up 19.8% for the quarter managing to pull the year to date performance to a positive 2.8%. Emerging markets continued to power ahead as the MSCI Emerging Markets Index outperformed global market indices, posting 17.6% versus the MSCI World which posted 13.9%.

The Pessimists

Some people get hurt so badly that they start believing that the world will never be the same. They believe that new measures are required and the world that they now enter is different to the world they once knew. Some call it the "New Normal". According to Bloomberg, the notoriously bullish Wall Street analyst core is showing uncharacteristic collective caution. According to a recent Bloomberg compilation of 159,919 recommendations, fewer than 29% of ratings for stocks covered by brokerage houses worldwide are "buys," far from the historic norm when the vast majority of stocks were "buy" rated. The contention is that valuations dependent on expected earnings have not priced in the "New Normal" yet and as a result they are not as attractive as the optimistic camp views them.

One popular market commentator, Richard Russell, who belongs to this camp goes on to say, "if a house is built on sandstone and with rotten timber it's not a question of whether that house will fall apart – it's a question of WHEN. Ever since the end of World War II, Americans have been enjoying the greatest standard of living the world has ever seen. How did they do it? Was it hard work, sweat, original thinking, risk-taking or pure luck? Hardly any of those, it was through borrowing and creating a gigantic house-of-cards." He continues and suggests a remedy that he believes the Obama administration should adopt. He says Obama must tell the American people the following "You've lived a great and unearned life for 65 years, all created by credit and borrowing, fun's over. You must now pay for it with SACRIFICE. Americans must cut back to the bone. Children may have to move back with their parents; Americans may have to build "victory gardens" as they did during World War II. They'll have to learn to save and crimp. If anyone wants to buy a house or a car or a washing machine, you'll have to wait until you earn enough to pay for those items".

So what are the core worries in this camp?

- Sovereign debt levels,
- Lack of co-ordination in macro economic policies in the EU region,
- Chinese authorities' economic growth interventions,
- Household debt levels,
- High unemployment and
- An unstable weak housing market in developed economies

Therefore the pessimistic camp continues to believe that a double dip recession is the actual destination of a slowing economic recovery, and that deflation is quite possibly on the way for the US economy and perhaps the continental European economy as well.

The pessimists' risk averse views were expressed in driving the global rally in developed economy sovereign bonds, with high quality corporate bonds and asset-backed securities joining the charge over the third quarter. Global bonds continued to rally in the third quarter as the Citigroup World Government Bond Index climbed 8.2%, taking the year to date performance to 7.1%.

On the commodities front, gold continued to provide shelter for the fearful and continues to find good support from the pessimistic camp. Over the third quarter gold climbed 5.4% and platinum was up 7.9%.

The Stuck in the Middle Campers

True to the phrase “stuck in the middle” these investors are simply looking for the middle ground until the market starts showing some direction either in favour of the pessimists or the optimists. In times of uncertainty, when markets seem stuck in a range, mixing the best of both worlds seems like a logical and rational strategy. This means holding a mix of well priced risky assets for growth, and the best you can get amongst the not so attractively priced defensive assets for protection. Should the market start showing favour in either direction, these investors will with ease increase risk, or protection, and start showing some level of conviction in their stance. While these investors lack any particular theme in their portfolios, it is clear that any mistake that is made on stock picking will be very costly. The ability to pick winners from the defensive pool and winners from the risky asset pool will be crucial to the overall outcome.

While these markets resemble many confusing and complex things, ranging from relationships to closely contested elections, what is clear is that there can only be one winner. The pessimists may not lose a lot of money or even none at all but will underperform other investors, and the market, greatly if risky assets win this battle. The optimists do stand to win big or lose lots of money, depending on which view prevails going forward. For the camp that is stuck in the middle, there are no guarantees either. It is possible to do as badly as the defensive players or lose as much as the optimistic players by simply choosing the losers of both camps, however it is a far less risky strategy compared to the other two hence the broader market seems to lean more towards it versus the other two.

Market Insights



Khulekani Dlamini
Portfolio Manager

Since the turn of the millennium, the Rand gold price has appreciated by 408% yielding an annualised return of 15.1%. On the other hand, the total return of the domestic All Share index was 386%, or an annualised return of 14.7%. Within the same period the Rand was almost a non-factor, appreciating by only 1.2% annualised.

Bonds and cash yielded 11.8% and 8.6% respectively in a world where inflation averaged 6.0%, on an annualised basis, over that same period. Equities have been yielding good returns but clearly the star of the decade has been gold.

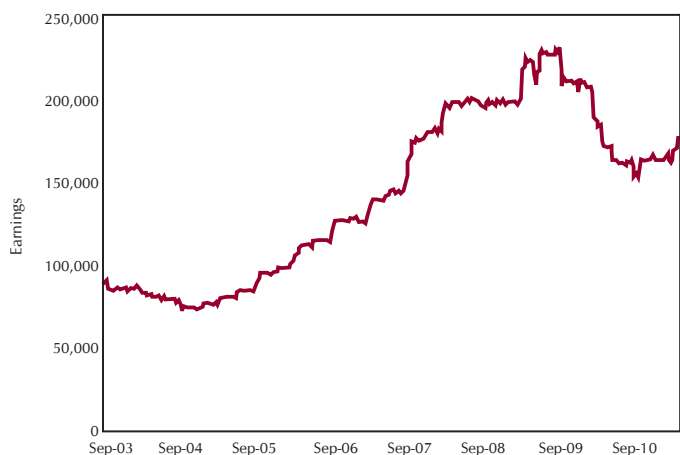
The market's collective subconscious seems to be agreeing that, in the wake of the tidal waves of global quantitative easing, there will be a resultant inflationary backlash that will massively diminish purchasing power in the future. Gold bugs are scurrying under the yellow metal's thin cover and thus lifting the dollar gold price to unprecedented levels. At the time of writing of this article, gold had hit an all time high of \$1,307 an ounce and looked to rise even further. Equities have kept apace because, while future inflation aversion has been the fillip for gold, yield seeking risk takers have ventured into high yield, high growth emerging markets like South Africa, abetting their similarly soaring levels.

Domestically, if we cast an eye 18 months back, we are reminded of a market that was trading on a cheap historic PE of 8x while shrouded by a sense of doom and gloom. From that low point in March 2009, the market gave a total return of around 50% over the subsequent 12 months. Research conducted by UBS indicates that after significant recession linked market pullbacks, the first year's returns are generated almost solely by the PE multiple normalising or rerating. In the case of the 12 month period after March 2009, the market's PE was up 114%, in line with what the research suggests.

The same research suggests that, after the rerating, the next leg of performance would be driven by an earnings rebound. This was to be the market's trick for continued positive performance for 2010. Fundamental research suggested that the market had to generate earnings growth of about 24% to 26% for the next 2 years to justify the PE the market was trading on at that time. As can be seen on the chart on the next page, since the March 2010 earnings low, aggregate market earnings are up 21% to date.



All Share Earnings

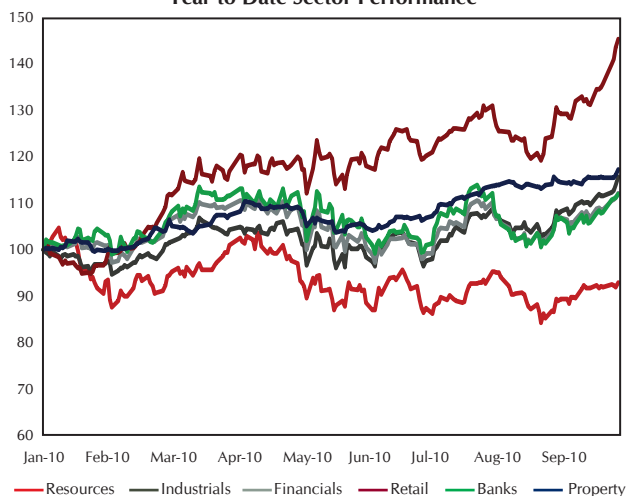


Source: I-Net

The second part of the thesis also seems to be holding. Earnings growth is materialising as expected.

While these numbers are useful for talking to the market's overall performance, they hide a few trends which talk to what is performing well and why. The chart below shows the performance of some of the key sectors in the market since the beginning of the year.

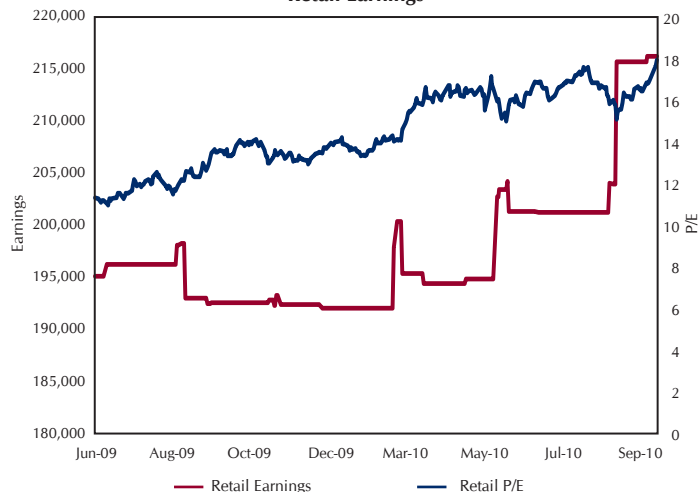
Year to Date Sector Performance



Source: I-Net

Resources are down over 10% on the back of a strong Rand, mediocre production and poor cost control. The other sectors have given good performance as earnings have been coming through and multiples have been rerating marginally. The hands down winner though, on a year to date basis, has been the retail sector. What is interesting about the retail sector is that it entered the year trading on a 14 PE. The PE subsequently expanded by 28% while earnings only went up 14%.

Retail Earnings



Source: I-Net

The sense that one gets is that South African investors are quite well attuned to their own sense of value, while international investors are typically the marginal buyers with a very different sense of value. Something that gives credence to this is the table below that shows the holdings that international investors have of our retailers, as well as how those have changed over the six months to June.

	Current Weight	Change Q1 to Q3
CLS (Clicks)	42%	25%
SHP (Shoprite)	44%	11%
WHL (Woolworths)	23%	8%
PIK (Pick n Pay)	9%	1%
TRU (Truworths)	60%	4%
MPC (Mr Price)	19%	4%

FOS (Foschini)	35%	1%
MSM (Massmart)	66%	2%
LEW (Lewis)	33%	4%
JDG (JD Group)	31%	-6%

The interest in the Retail Sector makes sense:

- Interest rates are at cyclical lows and credit extension should catalyse earnings growth.
- Inflation is at cyclical lows and, while negative in the short term, it should mean that from here on pricing prospects should look better.
- The unemployment tide seems to have been slowed, if not turned around, which should have a positive impact for Personal Consumption Expenditures.

Additionally, we have recently seen the announcement by Walmart of their intention to buy out Massmart shareholders.

The thing about all these data points is that they are not new news. The market was discounting them as a mechanism for earnings normalisation. The key here is, as discussed above, the impact of the marginal buyer. The marginal buyers are developed market investors whose markets, both debt and equity, show very little by way of yield and/or growth. Their cost of borrowing is also quite low, meaning their value tolerance is very different. If you can borrow at a 4% interest rate, it means you are quite willing to purchase a growing asset that can yield you something better than your 4% funding cost. Of course if one were in the shoes of an international investor one would be wary of two things:

1. Buying at these current ratings, which are not particularly low.
2. Buying at this Rand exchange rate, which is not particularly weak.

Unfortunately, as South African investors, we have to continue being concerned about foreign investors who are cash flush and who have different risk tolerances and return expectations.

As a final word, it is worthwhile to note that local and global long term earnings growth is going to be hard to come by. Tied to this is the fact that companies are cash flush and have massive borrowing capacity as banks seem to be keen to open up the credit extension

taps. This creates a cocktail of a merger & acquisition newsflow driven market, where it is very hard to manage money using normal fundamental approaches and one needs to think more as a corporate financier/private equity investor. Companies that will be likely targets are those that strategically allow for expansion into untapped markets, that are already global and that have good product and/or good systems. Didata is on its way off the market having been bought by the Japanese. Massmart is possibly going to be bought by Walmart. Who will be next?

The Allure of Africa: Food Retailing in Africa



Funeka Beja
Investment Analyst

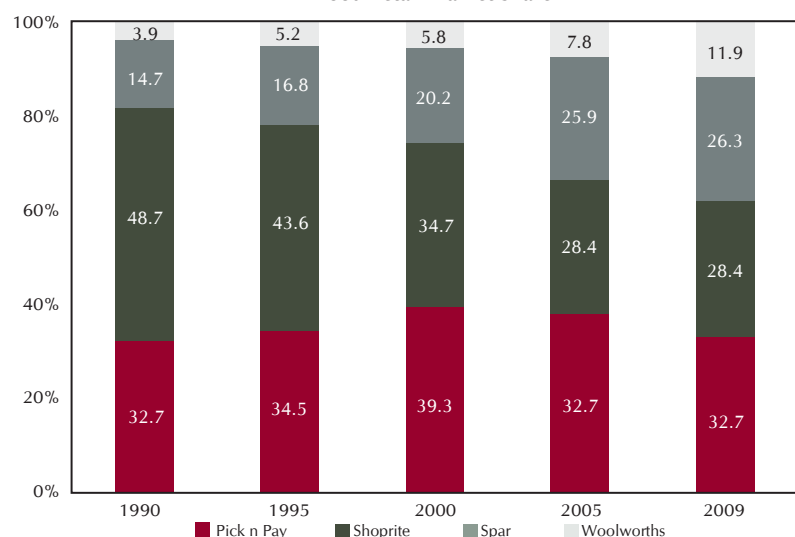
What over the years has come to be known as the Dark Continent has ironically become the only glimmer of light for many multinational organisations seeking growth. Africa is fast becoming a global hotspot, offering opportunities for expansion for many corporations, in particular those based in developed markets where growth is limited and competition is tight.

The same has been true for South African food retailers where the competitive market is well advanced and is best described as an oligopoly. Our local food retailers have, as a result, looked and continue to look for expansion opportunities beyond South African borders.

In this article we take a look at the local (South African) food retail market, and explore the opportunities that African (excluding South Africa) food retailing presents. It is often said that the opportunities for growth in Africa are muted by a lack of infrastructure, corruption and political uncertainty. The success of Shoprite in Africa goes a long way to dispel much of these myths. Having come under much scrutiny in the past, Shoprite's African expansion strategy is starting to bear fruit after a long, hard and expensive slog. They now operate an impressive 124 corporate outlets across 16 African countries outside of South Africa.

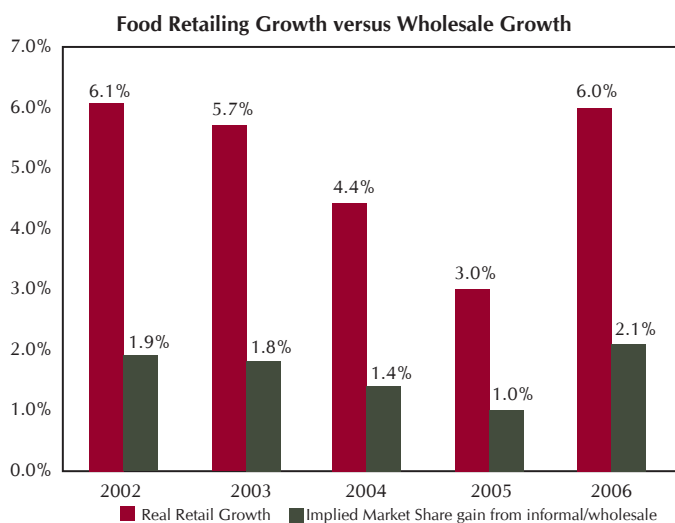
There are four main food retailers in South Africa who dominate the formal food retailing market: Pick n Pay, Shoprite, Spar and Woolworths (ranked by market share). Over the past 20 years, Pick n Pay and Shoprite have competed aggressively for the top market share spot using price leadership as their main competitive strategy. The two smaller players managed to steal market share away from Pick n Pay and Shoprite during the early 2000s when, despite higher prices, the convenient urban locations and operating hours of Spar and Woolworths stores lured customers away from the traditional retailing stalwarts.

Food Retail Market Share



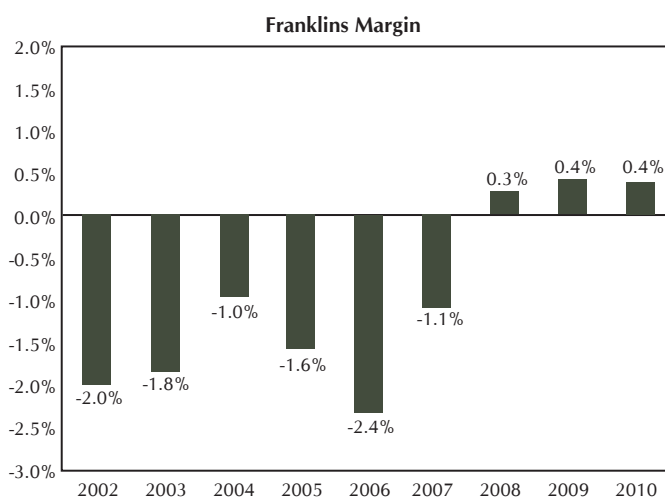
Source: Broker research; Pick n Pay financial results presentation

The South African formal food retail market is fairly mature and growth for each of these players is limited to how much market share they can take from each other. Overall market growth has been marginal, where some of the food retailers have been taking share from the informal market. Spar has been the most aggressive in this strategy by focusing much of their retail space growth in the previously informal peri-urban and rural areas. Shoprite has also attacked the informal market share by increasing their store footprint in townships using their Usave and Shoprite stores, which are targeted at a lower LSM customer. The chart below shows that the gains from these strategies, although fairly substantial in absolute Rand terms, have been rather insignificant in growing the overall food retail market.



Source: Broker research: Deutsche Securities

This has led to varying attempts over the years by the local retailers to expand outside the borders of South Africa. Pick n Pay began their expansion into Australia in 2002 when they bought Franklins, a chain of 86 supermarkets. Franklins was never able to reach sufficient scale to operate profitably enough to offer a decent return. At the very best of times, Franklins managed to generate a 0.4% operating margin, which equated to a dismal 2% return on their invested capital.



Source: Pick n Pay financials

Australia is a developed market with a pretty sophisticated and saturated retailing market, with very limited scope for growth. The Franklins brand did not receive much loyalty which limited its ability to grow. Due to the fact that Australia and South Africa are oceans apart there are no synergistic benefits from being able to use the South African distribution infrastructure or head office cost base. As a result, Pick n Pay's attempt at diversifying their geographical revenue streams amounted to a letdown. In a recent announcement Pick n Pay confirmed its retreat from their Australian operations in a deal to sell their entire investment in Franklins to Metro Cash and Carry. Interestingly, Pick n Pay has now embarked on a new strategy: to expand their operations in Africa. They already have a minority stake in a supermarket operation in Zimbabwe and have now opened their first store in Zambia.

The Spar Group has opted to seek revenue stream diversification through targeting different LSM groups and rolling out specialist liquor stores within South Africa. Their operations in Africa are very limited.

Shoprite Holdings chose instead to expand into the rest of the African continent in 1995 when they began trading out of their first store in Zambia. Trading was initially tough as each new region Shoprite expanded into had to reach the critical mass required to trade profitably. Operating in different markets requires a lot of

coordination and, in order to reap the rewards of the expansion exercise, it must be backed by robust infrastructure. It has taken time and money to develop the IT and distribution capabilities, as well as relationships with the respective governing authorities of all these countries, but Shoprite is now making a decent profit from its African operations as evidenced in its latest financial results. Shoprite generated a 6.8% operating margin from their non-South African store base in the financial year ending June 2010, 30.7% ahead of the South African stores' margin.

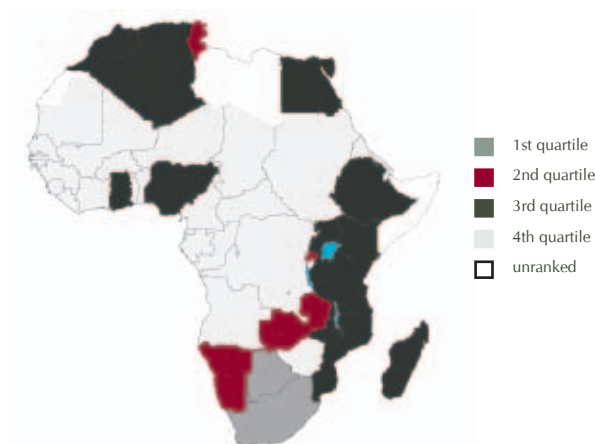
Although on the face of it, Shoprite's African expansion appears to be similar to Pick n Pay's Australia expansion, there are a few key differences which might help explain why one is consistently growing profitability and the other amounted to nothing more than a failure.

Firstly, the level of sophistication of the food retail market is very advanced in Australia, as explained above, as opposed to the grass roots level in many African countries. Shoprite has the distinct advantage of being the first mover in many countries in which they operate, where Shoprite or USave has become the first formal retailer available. In many of these countries, grocery purchases are made in the informal market, from street vendors and often at a small café, much like our South African 'spaza' shop format. Occasionally there are convenience petrol station forecourts where some groceries can be bought, but the range is often limited and the food is overpriced. The introduction of a formalised retail format, like a Shoprite, has been a welcome introduction to many of these markets.

The proximity of the African countries in which Shoprite operates is another key advantage over Pick n Pay's expansion into Australia. Shoprite was able to leverage off its existing distribution infrastructure when it began expanding into the closer SADC region. Interestingly, Shoprite bought a supermarket in India which they subsequently have had to close as operating so far away from home base proved too difficult. Similarly, Australia for Pick n Pay provided more problems as a result of distance, than benefits of synergy.

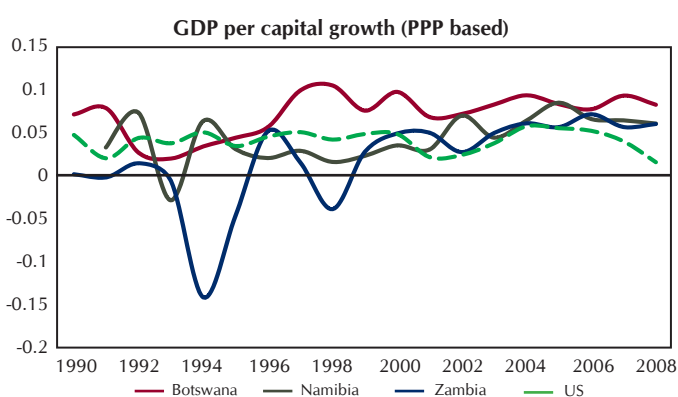
Another significant difference is the ease of doing business in Australia in contrast to many of the African countries in which Shoprite operates. The World Bank Group's Ease of Doing Business rankings in 2010 revealed that 60% of the countries in which Shoprite operates are in the bottom two quintiles of the rankings. Whereas Australia ranked 10th out of 184 countries surveyed, African countries show

an unmatched dominance of the bottom quartile, taking up 19 of the bottom 23 ranks.

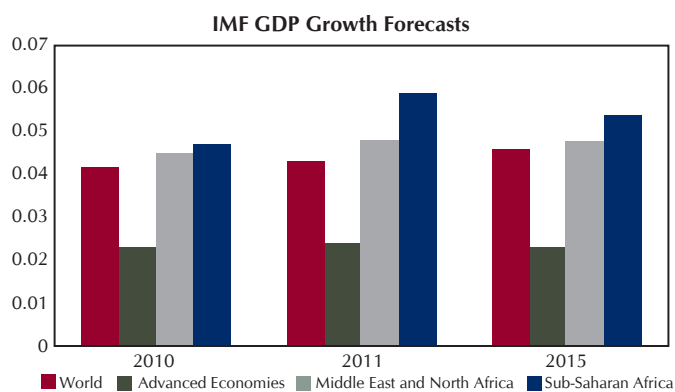


The difficulty of doing business in Africa, coupled with proximity constraints, is most probably what has kept the competitive threat of international food retailers, like Tesco and Wal-Mart, at bay. There is high political risk in many of these geographies and for a long time economic growth, and thus potential return, has not been sufficient to compensate investors for the risk they would have to bear by entering these untapped markets.

Assisted by the commodity boom over the past few years, GDP per capita growth in Shoprite's key African regions has surpassed that of the US and other developed markets. Shoprite operates 26 stores in Namibia and 16 in Zambia – they are well positioned to benefit from superior GDP growth in those countries. According to IMF forecasts, growth in Sub-Saharan Africa is expected to continue to outpace global GDP growth through to 2015.



Source: Index Mundi



Source: Moneyweb

Why this is important for retailing in Africa is that as GDP per capita rises, so does per capita household income, which in turn leads to higher standards of living. This will necessarily lead to increased spend on grocery sales as households not only buy more food, but will trade up to more expensive food products in their basket.

When one also considers the population sizes of many of these African jurisdictions, compared to the number of formal food retail chains available to them, the potential for growth in the regions is apparent and substantial. South Africa, whose population size is 48 million, has approximately 2,300 stores. It then seems absurd that Tanzania, for example, whose population size is similar to that of South Africa has a food retail store footprint of only 9. The answer to that gaping disparity lies in the household income differential

between the two countries. In 2008, GDP per capita in South Africa was more than 10 times that of Tanzania.

	Population (millions)	Total no. of Stores	Stores per million people	GDP/Capita (R000s)
South Africa	48.0	2264.0	47.2	47.5
Zambia	11.7	18.0	1.5	9.7
Swaziland	1.1	24.0	21.8	22.3
Botswana	1.8	44.0	24.4	66.6
Lesotho	2.0	9.0	4.5	5.1
Madagascar	20.0	7.0	0.4	38.5
Tanzania	40.2	9.0	0.2	4.2
Uganda	31.4	2.0	0.1	3.6
Ghana	23.4	1.0	0.0	5.3
Nigeria	138.3	1.0	0.0	11.9

On the face of it the potential for African food retailing is huge, but the realisation of that potential will ultimately be driven by household incomes. It is therefore of definitive importance for the South African retailer looking for growth on the continent, to align itself strategically to those countries that present the greatest household income potential, are easier jurisdictions in which to do business and are preferably closer in proximity to South Africa. This will determine the ultimate victor of African retailing.

Bio Feature

Imraan Jeeva
Investment Analyst

1. What is your role at Afena Capital?

I am an Investment Analyst, primarily looking at stocks within the commodities sector.

2. What were you doing before you joined Afena Capital?

I was a Trainee Equity Analyst for two years at Allan Gray. Thereafter I traveled for a year, mostly in the Middle East, to develop a deeper understanding of the languages and cultures of the region. I also commenced studies of a Masters in Economics.

3. Tell us a bit about your family background and growing up?

I am the youngest of three siblings, with two older sisters who are now married. My father is a doctor who grew up in Gauteng. Having studied medicine at the University of Cape Town, he fell in love with the city and decided to move the family to Cape Town just before I was born. My parents were dedicated to instilling a sense of intellectual curiosity in my siblings and I, from regular trips to the children's library to their support of our school endeavors. They emphasised healthy living as well, with all my family members being observant in their diet and exercising frequently.

4. What do you read for inspiration?

As much of my day is spent consulting facts and figures I read fiction in my spare time. I enjoy reading literary criticism the most as one is able to appreciate aspects of a text that most casual readers would miss. I've found this perspective relevant, especially in my role as an investment analyst, as it illustrates how a surprising richness can be revealed from analytical efforts.

5. Where do you see yourself in 2015?

I would hope to be an expert in pricing assets in the commodities sector. I would have completed my Masters in Economics.

6. What is your personal investment philosophy?

"There's no such thing as a free lunch". Markets are semi-efficient and opportunities for above-normal returns do exist, however one needs to diligently apply oneself to discover the gems out there.

7. What is the best advice anyone ever gave you?

"To thine own self be true", which I subsequently discovered was a quote from Hamlet. It would be easy to misinterpret the maxim as implicitly suggesting that one need not be true to other people! My understanding of the quote however is that integrity begins at the personal level and thereafter integrity in other aspects follows.

7. What inspires you as a person in life and at work?

I gather most of my inspiration from role models. I attempt as far as possible to surround myself with successful people, or if such company is not readily available to me, I learn what I can from reading biographies of people I admire. I have also realised that one can learn something from almost anyone if one makes the effort to truly appreciate their achievements and life experiences.

Unpacking the Jargon

Nontokozo Ndebele
Marketing Associate

This quarter we look at three well known theories on how share prices move over time.

The first theory, the Efficient Market Hypothesis, is a behavioural finance theory formulated around Eugene Fama's Ph.D dissertation in the 1960s. The second theory, the Random Walk theory, was popularised by Burton Malkiel in his book "A Random Walk Down Wall Street" in 1973. Both these theories bring the case for active investment management into question because of their suggestion that fundamental analysis and technical analysis do not result in any outperformance of the benchmark.

The final theory that we unpack, the Mean Reversion theory, is largely a contradiction of the Random Walk Theory as it suggests a pattern in how share prices move. The Mean Reversion theory is the theory that suggests share prices revert to the average over time.

Efficient Market Hypothesis

DEFINITION	INTERPRETATION
The Efficient Market Hypothesis (EMH) asserts that financial markets are "informationally efficient". In an efficient market, all pertinent information is available to all participants at the same time, and prices respond immediately to available information. All market participants receive and act on all of the relevant information as soon as it becomes available. There are three major versions of the hypothesis and these versions differ by their notions of what is meant by the term "all available information". These versions are "weak", "semi-strong", and "strong" EMH. Weak EMH claims that prices on traded assets (e.g. stocks, bonds etc) already reflect all past publicly available information. Semi-strong EMH claims that prices reflect all publicly available information and that prices instantly change to reflect new public information. Strong EMH additionally claims that prices instantly reflect even hidden or "insider" information.	If the efficient market hypothesis were strictly true, no investment strategy would be better than a coin toss. Proponents of the efficient market theory believe that there is perfect information in the stock market. This means that whatever information is available about a stock to one investor is available to all investors. Since everyone has the same information about a stock, the price of a stock should reflect the knowledge and expectations of all investors. The bottom line is that an investor should not be able to beat the market since there is no way for him/her to know something about a stock that isn't already reflected in the stock's price. Proponents of this theory do not try to pick stocks that are going to be winners. Instead, they simply try to match the market's performance. However, there is ample evidence to disprove the basic claims of this theory, and most investors don't believe it. This is evident in the number of active investment managers that exist.

Random Walk

DEFINITION	INTERPRETATION
An investment theory which claims that market prices follow a random path up and down, without any influence by past price movements, thus making it impossible to predict with any accuracy which direction the market will move at any point. This is the idea that stocks take a random and unpredictable path. Thus, on any particular day, there is a 50% chance the stock will go up or down.	A follower of the random walk theory believes it's impossible to outperform the market without assuming additional risk. Critics of the theory, however, contend that stocks do maintain price trends over time. In other words, it is possible to outperform the market by carefully selecting entry and exit points. A common market practice referred to as technical analysis is premised on the idea of generating excess returns without any fundamental understanding of the company in question by predicting or anticipating trends using historical data.

Unpacking the Jargon

Mean Reversion

DEFINITION	INTERPRETATION
<p>A theory that suggests prices, or other factors such as returns or growth, eventually move back towards their long term average. When estimating the correct level for a price, or growth or margins etc, it is helpful to look at what the historic average has been and see if it has a tendency to move up and down around this average. If it does, then based on the theory of mean reversion, one can forecast the price to eventually move back to its average.</p>	<p>According to this theory if a share is trading at a high price or a low price, over the course of time the share price will revert back towards its average or normal level.</p> <p>The backers of the mean reversion theory would usually buy shares when they are trading below their historical average with the aim of benefiting from the upward swing in the share price when it eventually reverts to its mean or average. This is because Mean Reversion theorists believe, contrary to the efficient market hypothesis that not all information is reflected in the current share price and that the current share prices are often a result of short term overreaction by investors that tend to buy yesterday's winners instead of yesterday's losers who are often tomorrow's winners. The investors chasing yesterday's winners believe that past good performance of a share price will continue and this does not necessarily happen because over time yesterday's losers and yesterday's winners start to realise their true value as share prices revert back to their mean or their average.</p>

Afena Equity Fund

Period ended September 2010



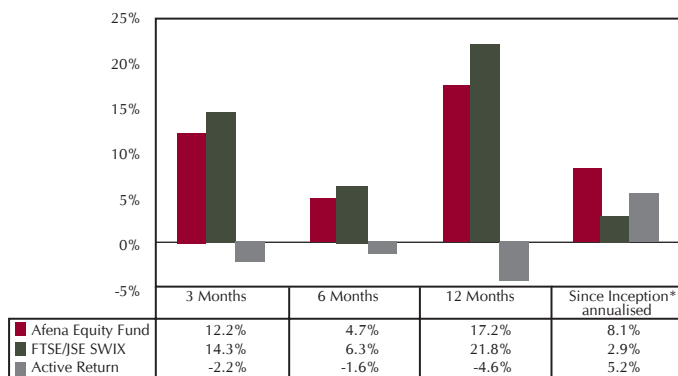
INVESTMENT OBJECTIVE

We believe that through the cycle earnings outcomes are governed by the fundamental economics of a particular business and industry, and that the fundamental economics of any business do not change very often. We therefore focus our attention on valuing companies on the basis of their sustainable through the cycle operating performance. It is our firm belief that we can generate superior returns for our clients by buying companies that are trading significantly below their true worth (intrinsic value) as determined on this basis. The Afena Equity Fund is a general equity fund that aims to provide investors with long-term growth in capital and income. The Fund is actively managed in an investment process that is based on fundamental research and bottom up stock selection. A minimum of 90% of the fund is invested in equities at all times. The Fund is for investors seeking long term capital growth through exposure to the South African equity market.

PORTFOLIO COMMENT

The market rebounded strongly from the lows set in June 2010, rising more than 14% over the quarter. It appears the key outcome of this year so far is increased volatility. The market has risen and fallen by more than 6% at a time four times so far this year. This would seem to reflect the risks that still remain regarding the global recovery and the pressure on sovereign balance sheets, especially in the European Union. This is counteracted by the sheer volume of global liquidity, designed to keep the world from slipping into another recession. The impact has been a search for yield and growth, which has resulted in massive portfolio flows into emerging markets, South African included. This has led to a stronger rand, lower bond yields and higher (if not volatile) equity markets. In our minds the risks have not receded and as such we continue to hold and increase our holdings of quality businesses with secure earnings streams.

INVESTMENT PERFORMANCE



*From 1 June 2008

Source: Afena Capital

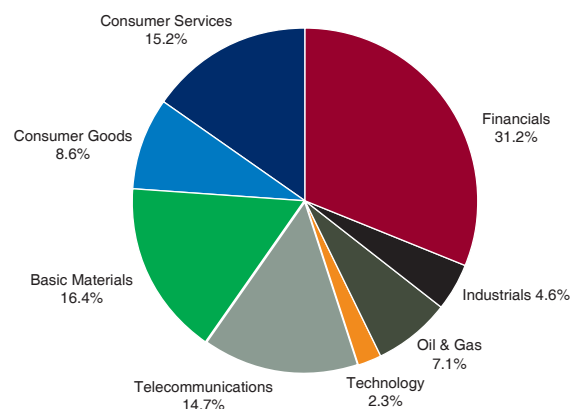
The Afena Equity Fund is managed by Afena Capital and is a white-label portfolio operating under the Prescient Management Company.

PRESCIENT
MANAGEMENT COMPANY

TOP FIVE SHARES

Share Name	% of Fund
MTN	10.3%
FirstRand	7.7%
Sasol	7.1%
Naspers	6.0%
Anglo American	5.9%

SECTOR ALLOCATION



FUND CHARACTERISTICS

Fund Manager	Khaya Gobodo
Fund Classification	Domestic Equity General
Benchmark	FTSE/JSE Shareholder Weighted All Share Index (SWIX)
Fund Size	R122,1 million
Fund Launch	22 May 2008
Income Distribution	Annually (1 April)
Initial Fee	0%
Annual Management Fee	1.5% (excl VAT)
Risk Profile	Moderate to High
Minimum Investment	R100,000 (lump sum)
Total Expense Ratio*	2.0% (1 October 2009 to 30 September 2010)

*A Total Expense Ratio (TER) is a measure of a portfolio's assets that are forgone as operating expenses. The current TER disclosed is expressed as a percentage of the average Net Asset Value of the portfolio for the period from 1 October 2009 to 30 September 2010. Included in the TER is the proportion of costs incurred as charges, levies and fees in the management of the portfolio. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current disclosed TER cannot be regarded as an indication of future TERs. The current disclosed TER is applicable to class A1 units.

AFENA
CAPITAL

Afena Managed Fund

Period ended September 2010



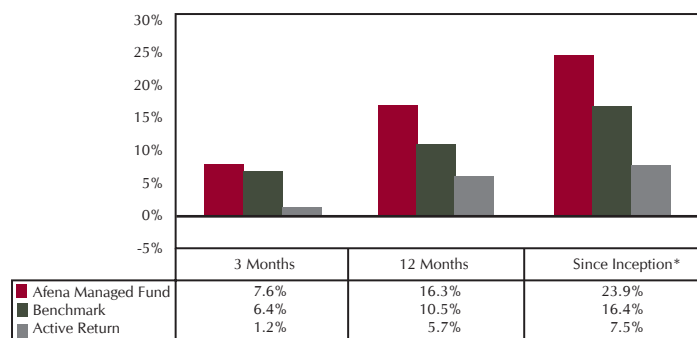
INVESTMENT OBJECTIVE

We believe equities generate the best long term real returns versus bonds and cash. Furthermore, we believe that equity valuation is the best indicator of when to be invested in the equity market or not. Therefore a quality and proven equity valuation competency can be used to construct a multi-asset portfolio with a capital growth priority when equity valuations are favourable; and capital preservation priority when equity valuations are unfavourable, thus generating significant alpha from asset allocation and equity stock picking. The Afena Managed Fund aims to generate equity-like returns, or better, at significantly less risk than the equity market. The Fund is an actively managed domestic multi-asset class fund that invests in equities, bonds, property and cash and has an inflation plus 5% performance target over rolling five year periods. The Afena Managed Fund complies with Annexure A to Regulation 28 of the Pension Funds Act and is therefore suitable for retirement fund investors.

PORTFOLIO COMMENT

In last quarter's commentary we mentioned we were actively looking to increase the Managed Fund's equity exposure. We did this and it helped the fund's performance by giving it greater exposure to the good returns generated by stocks (The JSE All Share Index was up 13.3% over the last quarter). While these returns were appreciated, the higher share prices have once again limited our investment opportunities making it difficult for us to find significantly undervalued companies. We have therefore been trimming the fund's equities, believing that the market is once more getting ahead of its self and has done too well too quickly. We do not enjoy this volatility or the extra trade these oscillations cause. They could however be with us for some time. If this is the case we will continue to buy equities when they fall materially and sell them when they show substantial increases. We will however be mindful of the additional trade this causes and manage the fund accordingly. Should the equity market continue to increase in value, we will continue to become more and more cautious.

INVESTMENT PERFORMANCE (net of fees)



*From 1 May 2009

Source: Afena Capital, Morningstar

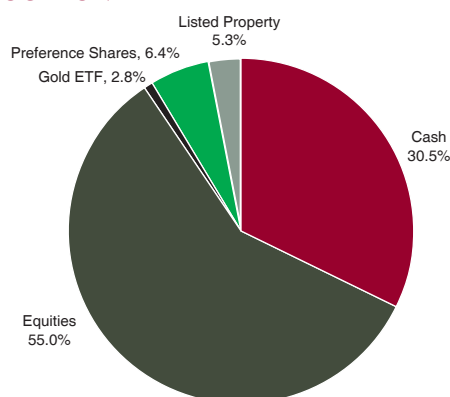
PRESCIENT
MANAGEMENT COMPANY

The Afena Managed Fund is managed by Afena Capital and is a white-label portfolio operating under the Prescient Management Company.

TOP FIVE SHARES

Share Name	% of Fund
Sun International	4.4%
Pan African Resources	4.1%
Old Mutual	3.8%
MTN	3.8%
Sasol	3.7%

ASSET ALLOCATION



FUND CHARACTERISTICS

Fund Manager	Andrew Joannou
Fund Classification	Dom. Asset Allocation Prudential Variable Equity
Benchmark	Median of the Domestic Asset Allocation Prudential Variable Equity Sector
Fund Size	R11.2 million
Fund Launch	14 April 2009
Income Distribution	Annually (1 April)
Initial Fee	0%
Annual Management Fee	1.5% (excl VAT)
Risk Profile	Moderate to High
Minimum Investment	R100,000 (lump sum)
Total Expense Ratio*	2.36% (1 October 2009 to 30 September 2010)

*A Total Expense Ratio (TER) is a measure of a portfolio's assets that are forgone as operating expenses. The current TER disclosed is expressed as a percentage of the average Net Asset Value of the portfolio for the period from 1 October 2009 to 30 September 2010. Included in the TER is the proportion of costs incurred as charges, levies and fees in the management of the portfolio. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current disclosed TER cannot be regarded as an indication of future TERs. The current disclosed TER is applicable to class A1 units.

AFENA
CAPITAL

Our Promise

As stewards of our clients' capital, we will act with integrity and honesty at all times.

We will always be consistent with our greatest asset - our investment philosophy and process.

We will run our firm with excellence, professionalism, dedication and innovation and will always respect the individual, be transparent and offer clear reward.

We will be cognisant of the needs and requirements of society and endeavour to play an active role in the upliftment and development of the community.

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