Afena Insights

1st Quarter, 2011

Featured

CAPITAL ALLOCATION
Decisions in Value Creation for Shareholders

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Business Insights

Our latest update on the business

Market Insights

A look at key drivers in global market performance in first quarter 2011

Unpacking Jargon

Investment/economic terms explained

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Business Insights

Tebogo Naledi
Chief Executive Officer

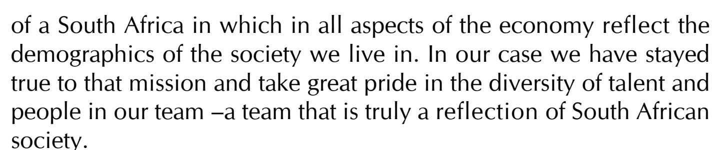
2011 has gotten off to a very eventful start both domestically and internationally. There have been major changes in leadership in important parts of North Africa and the Middle East, all triggered by citizen led revolutions. A major earthquake and tsunami devastated Japan causing massive loss of lives and damage to property.

Financial markets were hard hit by these two events. The North African/Middle East revolutions have impacted the price of brent crude oil which rose almost 24% over the quarter to US$117 per barrel at the end of March 2011, having peaked at US$123 per barrel at the height of the crisis. The tragedy that hit Japan, the third largest economy in the world, also added to financial market woes given the size and importance of the Japanese economy in the world. The Japanese stock market was down 6.7% in US Dollars over the quarter to 31 March 2010, whilst other developed markets had a fairly decent quarter led by France (CAC 40) which was up 10.9%, Germany (DAX 30) which was up 7.7% and the US (Dow Jones Industrial 30) which was up 7.1%.

Our market views are discussed elsewhere in this newsletter so I will not delve into those here. In terms of investment performance though our relative specialist equity portfolios had a fairly decent quarter, with the SWIX composite outperforming the benchmark by just over 50 basis points over the quarter ending 31 March 2011. Over the three years to 31 March 2011 the SWIX composite has outperformed the benchmark by 2.6%. This is a very pleasing return and within our long term range of expected outperformance.

The Afena Capital investment team has continued to achieve great long term investment results for our clients. We are in the process of further bolstering the team and will be making announcements in this regard in the near future. With respect to asset growth, the firm's assets under management have remained steady having ended the quarter at R18 billion. Our client base has remained stable and we have continued to attract new clients and mandates. The multi-asset side of the business has seen a significant increase in institutional assets under management and we are pleased to see this part of the business start to take off. The track record of our multi-asset unit trust, the Afena Managed Fund has been absolutely superb. To illustrate, the Managed Fund returned 15.3% over the 12 months to 31 March 2011 as compared to the benchmark (the median of the peer group) which returned 8.4% over the same period. Since inception, the Managed Fund has outperformed the peer group by 6.9% annualised.

We have recently completed our 2011 BEE ratings verification process which was conducted by leading BEE verification agency, Empowerdex. Afena Capital has been verified as a AAA (Level 2 Contributor) in terms of the Black Economic Empowerment Codes of Good Practice. This rating is in recognition of the firm scoring highly in the ownership, management control, employment equity and socio-economic development elements of black economic empowerment. Whilst BEE ratings are a necessary process to measure South Africa's progress in transformation, our interpretation of transformation remains the same as when Afena Capital was established five and a half years ago. This interpretation is based on a vision



of a South Africa in which in all aspects of the economy reflect the demographics of the society we live in. In our case we have stayed true to that mission and take great pride in the diversity of talent and people in our team –a team that is truly a reflection of South African society.

One of the highlights of the first quarter each year is the budget presentation by the Minister of Finance. This year's budget was accompanied by the release of a couple of important publications of relevance to our stakeholders. Of direct impact to our clients was the publication of the final Regulation 28 of the Pension Funds Act which will come into effect on 1 July 2011. The regulation is both principles and rules based and we certainly feel that the new Reg. 28 will go a long way in "modernising" the management of pension fund investments in South Africa. Another significant document that was released by government (National Treasury) this past quarter was a paper titled "A safer financial sector to serve South Africa better". It sets out a vision for a stable domestic financial sector that serves its customers fairly and plays a greater role in tackling domestic challenges such as growing the real economy, job creation and the transformation of society. Both these developments are important in taking our industry forward and we at Afena Capital look forward to playing an active and constructive role in advancing many of the positive aspects of these two documents.

Market Insights

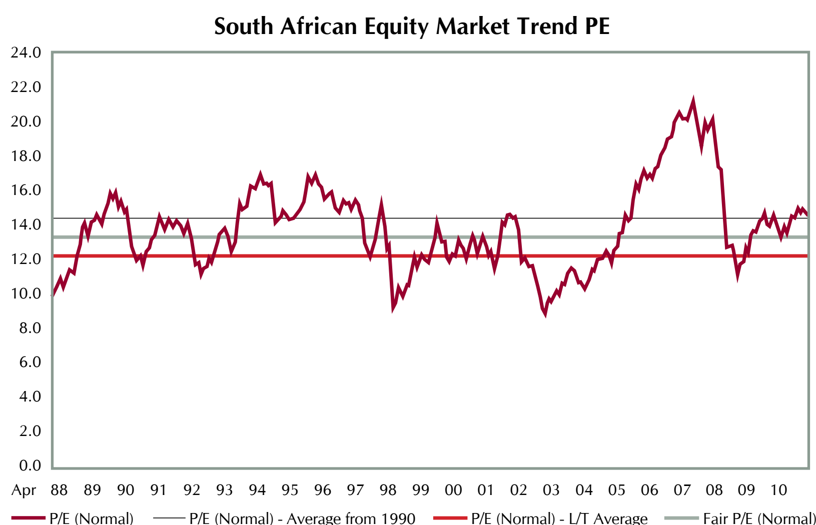
Andrew Joannou
Portfolio Manager

In previous newsletters we have given our view on the South African equity market based on its trend PE (price divided by earnings) valuation and the market's level of risk aversion.

The simple notion being that when the market is over-valued and the average investor's appetite for risk is high, one should avoid investing in listed equity and when the market is under-valued and the average investor is risk averse one should buy. This quarter we will once again revisit these metrics and assess how attractive the market is based on these two top-down approaches. We will however also analyse our bottom-up research and make conclusions based on the aggregation of this detailed work.

The market's "Trend PE" valuation

The chart below shows the PE of the South African equity market (using the JSE All Share index as a proxy). The calculation doesn't however use the current earnings being reported by the underlying companies but the earnings the companies should be able to generate through the cycle.

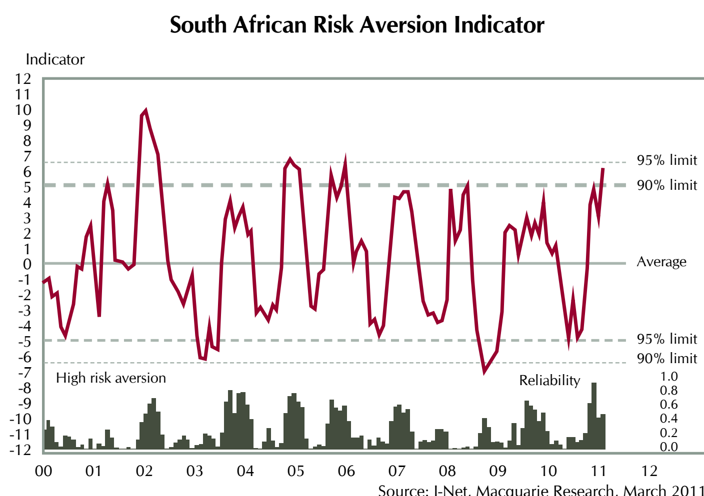


Source: Source I-Net, Afena Capital, March 2011

This approach estimates the market "Trend PE" to be approximately 14.7. This is quite elevated and is higher than both the long term historic average (12.0) and the historic average since 1990 (13.0). The South African All Share index therefore looks over-valued on this method. The market may not be as over-valued as it was in June of 2008 (the PE then was close to 20) but it is still high. We would start to become really concerned about the market's valuation if its "Trend PE" was higher than 16.0 – this is only 10% away.

Risk aversion amongst investors

The chart below is borrowed from Franco Busetti at Macquarie Securities. It proxies the market's aversion to risk by comparing which sectors are performing. If the risky sectors are outperforming then it concludes the market's risk aversion is dropping i.e. the market is happy to take on more risk. If the less risky sectors are outperforming, the model assumes the market's risk aversion is increasing.



Source: I-Net, Macquarie Research, March 2011

In the beginning of March the market's risk aversion was very low. The market was therefore willing to take on significant amounts of risk. We tend to view low risk aversion as a warning sign, since investors may be mispricing risk based on an overly optimistic view of the world. The market tends to quickly correct when an unexpected event occurs which diminishes the market's positive perspective. This low level of risk aversion combined with a high "Trend PE" causes us to be concerned about the market's current level and its prospective returns.

... But what does our bottom-up research and valuations tell us?

Individual valuations and detailed research

We analyse and value over a 100 of South Africa's largest businesses. We visit these firms, interact with their management and have detailed models on each of these corporate entities. Based on this engagement and work, we attempt to assess their current situation and future prospects. This proprietary research is then aggregated and a summary report is created which our portfolio managers use to make their investment decisions. This report contains a lot of information and we compare this information to our top-down work (some of which I just showed) to assess the attractiveness of the overall market.

When we aggregate all our individual valuations we calculate that the total market is approximately 2% undervalued. This is slightly more positive than what the "Trend PE" showed above. We would therefore consider the market to be fairly valued to slightly overvalued. While this shows the South African equity market is not very attractively valued, it also shows that the market's valuation is not that stretched.

We estimate the actual PE of the South African market to currently be 15.3. We do however think this PE will unwind to 12.0 in a year's time and fall even further to 10.7 in twenty four month's time. The implied earnings growth for the South African equity market is therefore 27% over the next twelve months and then another 12% after that. These are all healthy figures and points to a generally buoyant economic environment looking forward. The risks to this outcome being our analyst's own behavioural biases and the possibility that their expectations are just too overly optimistic.

Out of all the shares we cover, we only see twenty odd stocks that are more than 20% undervalued. There are only four stocks that are more than 20% overvalued. Of the twenty shares showing significant upside (more than 20%), only ten of them are large and liquid enough to take a significant position in. The market is therefore not distinctly overvalued but the opportunities to make significant money are limited and difficult to find. In general the market seems to be valuing businesses quite correctly, underlying our reason to exist. This is a frustrating environment for a valuation based active manager who creates value for its clients by buying and selling mispriced assets.

If we analyse the twenty shares offering the most upside we find that ten of them are receiving downgrades to their earnings (i.e. are performing badly and will most likely continue to perform poorly), two of them are getting upgrades (i.e. are performing well and will

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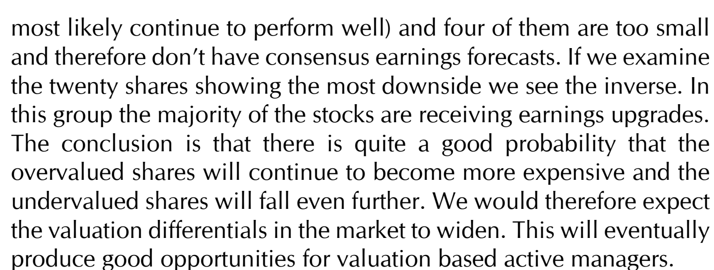

most likely continue to perform well) and four of them are too small and therefore don't have consensus earnings forecasts. If we examine the twenty shares showing the most downside we see the inverse. In this group the majority of the stocks are receiving earnings upgrades. The conclusion is that there is quite a good probability that the overvalued shares will continue to become more expensive and the undervalued shares will fall even further. We would therefore expect the valuation differentials in the market to widen. This will eventually produce good opportunities for valuation based active managers.

Conclusion

Our top-down methods continue to make us wary of the South African equity market. Our more detailed valuations of the market's individual companies do however temper this view. In general, we still think the market is pretty much fairly valued to slightly overvalued.

The individual data does however show that while the outlook over the next twenty four months seems quite positive, much of this good news is already priced in. The investment opportunities are therefore limited and valuation could continue to not be that important in determining the share's short term price performance.

If the current trend in the market continues, valuation differentials will continue to divert materially. Opportunities to make significant long term wealth for our clients will once more materialise. Until then, we are not taking large risks and trying our best to find the individual shares that will outperform over the long term.

Capital Allocation Decisions in

Khaya Gobodo
Head of Equities

Capital allocation is probably the single most important responsibility shouldered by executive management and company boards.

This is true at least as far as it concerns increasing the per share value of any business enterprise for the benefit of shareholders. Capital allocation represents the decisions about how the enterprise spends cash (or cash equivalent) resources available to it.

These cash resources include:

- The unencumbered cash or investments held on the balance sheet,
- The cash portion of each year's after tax profits,
- The cash it can borrow from banks or capital markets,
- As well as the shares (equity) it can issue for value.

This capital can be spent in four ways:

1. The first is to not spend it at all, allowing it to accumulate and earn interest on the balance sheet
2. The company can use the cash in capital expenditure projects to build additional production capacity
3. The company can use the cash to buy other businesses, or
4. It can choose to return the cash to shareholders via dividends or share buy backs

Other than meeting their fiduciary responsibility to act in the best interest of the company, the only thing that should govern this decision is whether it will add value to shareholders or not. There is a very simple principle to apply as far as capital allocation is concerned: for every R1 of value one spends in capital, one should get at least R1 of value in return.

You would agree that this principle is simple and sensible enough. Unfortunately in reality it is not quite that simple. The problem is in measurement i.e. how do we know we've received R1 in return for the R1 we've just spent? The theory gives us a reasonably intuitive tool to make this assessment. We can compare the return generated on the capital spent verses, the cost of that capital. We can do this by dividing the normalised after tax profits from the activity i.e. acquisition by the total capital deployed in making the acquisition. If the answer is higher than cost of equity (which is typically in the region of 12% to 16%) then we know we received value at least equivalent to the value we gave up.

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Value Creation for Shareholders

Unfortunately many management teams tend to focus on whether mergers and acquisitions will increase short-term earnings per share or dilute short term earnings per share. As apposed to the long term returns on capital the acquisitions are likely to deliver. Consider the dangers of this approach as highlighted in a simple example given by Warren Buffet:

"If a 25-year-old first year MBA student were to merge his future economic interests with that of a 25-year-old laborer, it would enhance his near-term earnings since he isn't earning anything at the moment. But such a deal would be downright silly for the MBA student."

You would be surprised how often this kind of error is made in the world of corporate mergers and acquisitions. The other source of poor capital allocation decisions is when capital is spent in the name of 'strategic intent', without sufficient regard to the capital allocation principles discussed above. The results of ignoring this simple principle in the name of short-term earnings enhancements or strategy can be devastating for shareholders.

The Old Mutual Limited Case Study

To illustrate the issues raised to this point, I will use Old Mutual as a case study. Before we begin, I'd like to make a qualification: as simple as the principles I've described are, unfortunately their application in the real world is fraught with complexity and difficulty. That in itself however doesn't absolve management teams' accountability for getting it wrong.

Old Mutual demutualised and listed in 1999 with a market capitalisation of approximately R42 billion. It was then one of the largest and one of the premium financial institutions in South Africa. During this period Old Mutual made a strategic decision to globalise. This meant acquiring businesses outside of South Africa in pursuit of their strategy. The acquisitions included US and European life insurance and asset management businesses, amongst others. Today Old Mutual has a market Cap of R86 billion with a UK primary listing and significant businesses in the UK, US, Europe, South Africa and other emerging markets.

To the casual observer, Old Mutual appears to have been successful in executing its globalisation strategy. But the most important question is how shareholders have done in the process? The chart below depicts the performance of the Old Mutual share price verses the All Share Index. Investors are approximately 75% worse off for investing in Old Mutual shares as apposed to the overall market. It certainly doesn't look like shareholders benefited from this globalisation.

Old Mutual Performance versus JSE All Share Index

Source: I-Net

Fortunately there is sufficient information to analyse Old Mutual's actual capital allocation decisions based on the simple principle described above: you should always aim to get at least R1 of value for every R1 you spend.

Between 2000 and 2011, Old Mutual raised approximately R42 billion worth (in nominal terms) in new equity capital by increasing its shares in issue by 65% (net of share buy backs). This capital was used to finance the acquisitions described above. However, we are interested in assessing their acquisitions in today's terms and not in nominal terms. To do that we need gross up the nominal capital raised at Old Mutual's cost of equity. This allows us to convert the historic cash they spent into today's money. In today's money Old Mutual spent equity capital to the tune of R85 billion over the last 11 years. Now that's lot of money in anyone's book.

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That in itself would not be a problem provided the value of the businesses they bought over the years are worth at least R85 billion today as well. As a Life Assurer Old Mutual is required to publish an Embedded Value (EV) Statement, which is essentially Old Mutual's own estimate of what all its businesses are worth. This allows us to compare how much Old Mutual spent on acquisitions with what they believe those businesses are worth today.

According to their Embedded Value Statement Old Mutual has an EV of R121 billion of which approximately R36 billion is attributable to its international businesses which were acquired between 1999 and 2011. We have just established that Old Mutual spent approximately R85 billion (in today's terms) to assemble their international operations. In other words Old Mutual spent R85 billion and only got R36 billion worth of value in return. This represents approximately R49 billion of value destruction, which is 67% of Old Mutual's market capitalisation as at December 2010. Put another way; the poor historic capital allocation decisions made by Old Mutual have resulted in shareholders being R49 billion poorer than they otherwise should have been.

This exercise demonstrates in the real world the importance of capital allocation decisions by management teams and the boards that provide oversight. These are the choices that determine the long term value created by companies over time. The better the decisions, the better off shareholders are likely to be. The reverse is also absolutely true. As we've demonstrated in the Old Mutual example.

I wouldn't like to give the impression we are picking on Old Mutual. There are a number of other cases where this is true. In actual fact the majority of academic evidence points to the value destroying nature of corporate acquisitions. One of the most news worthy in South Africa in the resent history is the case of Telkom and their purchase of Multilinks. All in all Telkom spent approximately R9.0 billion on Multilinks, including the acquisition price, additional capital expenditure as well as financing the losses incurred by Multilinks.

Telkom has to date written off more than R5.0 billion of their investment and have just agreed to sell what's left for a net number that is likely to be negative for Telkom. This is because the new buyer is likely to take on some liabilities that Telkom may have to pay for. All in all approximately the entire R9.0 billion in value invested has disappeared. To give you a sense of the magnitude, Telkom's market capitalisation is only R19.6 billion. Put another way Telkom shareholders are about 46% poorer than they otherwise should have been.

There is a very important lesson here. Well run businesses can be undone by poor capital allocation decisions (as illustrated in the case with the Old Mutual example).

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Bio Feature

Khulekani Dlamini
Head of Research

1. Out of all opportunities in the market, why Afena Capital, what keeps you at Afena Capital?

Afena Capital is our life's work. Our values manifest at Afena. I have noticed how much I have grown and my enthusiasm for that personal growth is at an all time high. I am not sure that would be the same were I to be a cog in the manifestation of another person's dreams. The South Africa that we have needs independent technocrats whose primary vision is to see a South Africa that recognises all of its diverse citizens and continuously innovates to create room for all in the different areas of decision making. I am only glad that in whatever small part – Afena plays that role and I am part of it.

2. You were top of the KZN province the year you did your matric. How has this early achievement in life shaped your life?

This allowed me the freedom to choose where I wanted to end up in life. Being young – it is quite hard to decide what to do, but an event such as this one opens whichever doors you choose. I got a scholarship to University of Cape Town (UCT) from Shell and while at UCT, I got another one to go to the United States (US). The US shaped me as it improved my independence in decision making as well as shaping my longer term perspectives. It is where I learned how to learn.

3. You are trained as an engineer. You hold a Bachelor of Science (cum laude) and a Master of Science in Aeronautical Engineering (a branch of aerospace engineering) from the Rensselaer Polytechnic Institute in the United States. Are you not supposed to be designing and building aircrafts? What attracted you to the investment industry?

The investment industry steers the world. It allocates capital and facilitates the healthy functioning of the global financial ecosystem. Companies that do not contribute to the well being as well as the self actualisation of the collective, die. Those that move us further up the pyramid of needs persist and flourish. This great power that belies this industry does not come as a function of being voted into that power by an invisible proletariat – but rather by being weighed in by your own intellect, bravery, diligence and self awareness/emotional intelligence.

4. As the Head of Research (HoR), what does your role entail and how important is this aspect of the business and the investment team?

Being HoR is a quality control role. It includes but is not limited to making sure that the investment team is well capacitated to cover the complete investment universe, generate insightful research as well as making sure that portfolio managers have all the necessary information and insights to make robust portfolio construction decisions. This role is quite important for Afena as a bottom up house since it ensures adherence to the investment philosophy while creating a robust and homogenous platform so as to extract high quality portfolio construction inputs.

5. You are also an investment analyst at Afena Capital. What do you enjoy the most about this role?

Learning. I find that investments in general allow for one to learn about a myriad of things – some internal, some external, all contributing to one's self actualisation. On a daily basis, I learn from some of the smartest brains in the world, what different businesses do and how they do it and what makes them succeed. I also get an opportunity to sit across the table from management teams of a variety of businesses across the globe and get to understand how some of the best leaders lead complex organisations. I also get to learn my own temperament and behavioural biases and on an ongoing basis, increase the quality and the size of my life skills toolbox.

6. What is your approach to short term market volatility when performing your portfolio manager duties?

I am not a fervent trader. I prefer to be quite clear as to why I have a specific position in the fund and then give it the requisite time to deliver on its upside promise. I naturally have a defensive stance where, in managing against an index, I prefer to have a portfolio whose aggregate Price Earnings Ratio (PE), Dividend Yield (DY) and expected return substantially exceed that of the index against which I

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manage. It is only in times of a substantial narrowing of these metrics in the fund relative to the benchmark that I prefer to be active in the market.

7. What do you believe is the best investment that one can ever make?

Education/learning, When I was at university I stumbled across the realisation that I actually liked learning. I was not learning just for the sake of only assimilating information – but rather learning so I could learn better in the future. At times, I learnt different things so I could effectively practice learning.

8. What type of reading do you enjoy?

As an engineer by training – I love science fiction. In the 11 years in the industry though, I have found myself drawn to Economic history, as well as the soap operas around inflection point events in the general history of markets. This long term as well as short term history of money, always highlights the true nature of humanity.

9. What inspires you?

There are so many things that inspire me. The primary one though, is the prospect that one day, the person that I see myself as in my mind fully manifests into the person that I am.

10. Five years from today, where will you be and where will Afena Capital be?

I would like to believe that, fates willing, I would still be here growing and trying to make Afena all that this country needs it to be. Afena has to show itself as a competitive steward of capital. Critical mass will allow this and I think the next five to ten years should see Afena become a trusted brand associated with high performance, quality, dedication, innovation, professionalism and integrity – all the values that we as a firm, were born with as part of our DNA.

Unpacking the Jargon

Sandile Sokhela
Head of Institutional Business

INFORMATION ASYMMETRY

A condition in which at least some relevant information is known to some but not all parties involved.

Transactions involving asymmetric (or private) information are everywhere. A government selling broadcasting licences does not know what buyers are prepared to pay for them. A lender does not know how likely a borrower is to repay. A used-car seller knows more about the quality of the car being sold than do potential buyers.

While information asymmetry presents a lot of opportunities for market participants, it also creates significant inefficiencies. In this section we will focus on two inefficiencies that arise due to information asymmetry:

1. **Adverse Selection**
2. **Moral Hazard**

ADVERSE SELECTION

In simple terms, it is when you do business with people you would be better off avoiding.

Explained – Examples

1. For example, if you are in insurance, individuals with terminal illnesses or individuals who work in high risk areas are more likely to take up life insurance compared to individuals who are healthier and less exposed to high risks. Therefore, if the pricing of life insurance policies is based on the average risk of a general population in a particular segment (i.e. 45 year old smoking man), individuals who know they are high risk are more likely to take up insurance since they are well aware that they are above average risk. Those that are below average risk are likely to opt out due to pricing which is above their perceived level of risk. Therefore pricing due to information asymmetry results in the insurer attracting bad business.

2. Similarly in banking or investments, if the pricing of loans or investment funds is based on the average risk of businesses in a particular segment (i.e. average risk of a start up business), the likelihood of excluding good, low risk start-up businesses from seeking funding from the investment fund or banking institution is high if they know that their businesses are below average risk. The likelihood of attracting above average risk businesses is high as the pricing of investments or loans favours their terms versus the low risk businesses.

MORAL HAZARD

Moral hazard arises when an individual or institution does not need take full responsibility for its actions, and therefore has a tendency to act less carefully than it otherwise would, leaving another party to hold some responsibility for the consequences of its actions.

Explained – Examples

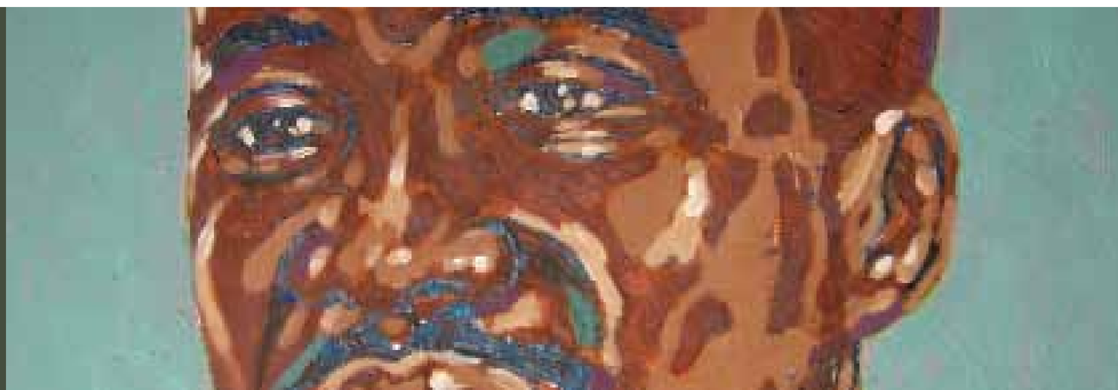
1. A person who drives a fully insured vehicle may take unnecessary risks due to the fact that they are insured (i.e. leaving the car unlocked, using street parking though a covered secured parking is available) compared to a person who is uninsured and thus behaves more cautiously. In the case of an individual who is fully insured, the risk sits with the insurer, whereas the uninsured bears all the risk and consequences of his or her actions.

2. An investment manager may take unnecessary risk if he/she bears no responsibility for the loss of funds belonging to members/clients, i.e. if the compensation structure is aligned to risk-taking without any accountability for losses that may arise due to unnecessary excessive risk-taking.

Source: Afena Capital, Wikipedia, The Economist

Afena Equity Fund

Period ended March 2011



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 opening quarter of the year was particularly volatile with January down 3%, February up 2% and March up 1.8%. Over this period this fund generated a return of 0.54% and thus marginally outperforming the market which returned 0.4%. The big contributors to the fund performance were Exxaro, Old Mutual, Harmony and Sasol, all of which were up more than 15% over the quarter. The big disappointer was Sun International which fell more than 14% over the quarter.

The market remains uncertain around a number of key factors such as the attempt to slowdown the Chinese economy and the sovereign debt issues in Europe. As a result we expect continued volatility in the equity markets for the remainder of this year. As a manager, we continue our search for quality businesses trading below our own assessment of intrinsic value. We believe if we remain disciplined in this approach, this fund will deliver good performance over the long run.

INVESTMENT PERFORMANCE

	Since Inception*	2 Years	12 Months	3 Months
Afena Equity Fund	9.5%	27.9%	12.8%	0.5%
FTSE/JSE SWIX	5.4%	28.5%	15.4%	0.4%
Active Return	4.1%	-0.7%	-2.6%	0.1%

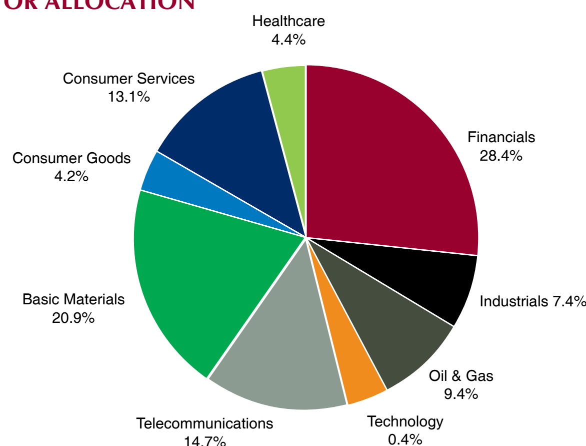
*From 1 June 2008

Source: Afena Capital

TOP FIVE SHARES

Share Name	% of Fund
MTN Group Limited	10.6%
Sasol Limited	9.6%
BHP Billiton PLC	5.8%
Old Mutual OLC	5.2%
Anglo American PLC	4.9%

SECTOR ALLOCATION



FUND CHARACTERISTICS

Fund Manager	Khaya Gobodo
Fund Classification	Domestic Equity General
Benchmark	FTSE/JSE Shareholder Weighted All Share Index (SWIX)
Fund Size	R238.0 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*	1.79% (1 April 2010 to 31 March 2011)

*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 April 2010 to 31 March 2011. 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.

PRESCIENT MANAGEMENT COMPANY

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

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Afena Managed Fund

Period ended March 2011

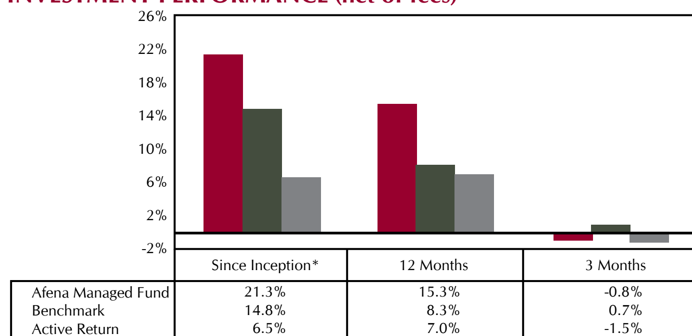
INVESTMENT OBJECTIVE

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

The Afena Managed Fund ended the first quarter of 2011 with a pretty flat performance of -0.8% net of fees. This was similar to the equity markets three month return of 0.4%. The difference between the two outcomes is however the volatility and risk taken in achieving them. The fund achieved this flat quarterly performance by being down 1.4% in January, up 0.7% in February & up 0.1% in March. The equity market on the other hand was down 3.3% in January, up 2.0% in February and up 1.8% in March (although at one point it was down 5.2% and then recovered). The fund is still conservatively positioned and aims to generate reasonable returns from this point forward without taking significant risk. During the quarter the fund purchased two offshore equity exchange traded funds (ETF), one tracking the global equity market and the other tracking the Japanese equity market. These offshore products were purchased because equity valuations are more attractive outside of South Africa and we estimate the Rand to be overvalued at its current level. The purchase of the Japanese exchange traded fund happened post the tragic events bought about by the earthquake and was bought mainly due to the very low valuation levels the Nikkei was sold down to.

INVESTMENT PERFORMANCE (net of fees)



	Since Inception*	12 Months	3 Months
Afena Managed Fund	21.3%	15.3%	-0.8%
Benchmark	14.8%	8.3%	0.7%
Active Return	6.5%	7.0%	-1.5%

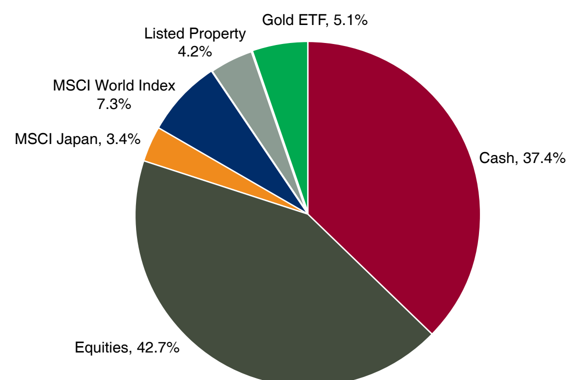
*From 1 May 2009

Source: Afena Capital, Morningstar

TOP FIVE SHARES

Share Name	% of Fund
Pan African Resources PLC	4.1%
MTN Group Limited	3.7%
Mustek Limited	3.3%
Sasol Limited	3.3%
Pick n Pay Holdings Limited	2.7%

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	R13.0 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*	2.26% (1 April 2010 to 31 March 2011)

*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 April 2010 to 31 March 2011. 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.

PRESCIENT
MANAGEMENT COMPANY

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

AFENA
CAPITAL

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Collective Investment Schemes in Securities (unit trusts) are medium- to long-term investments. The value of participatory interests (units) may go up or down and past performance is not necessarily a guide to future returns. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accrual and less any permissible deductions from the portfolio, divided by the number of units in issue. Permissible deductions may include management fees, brokerage, security transfer tax, auditor's fees, bank charges and trustee fees. Unit Trusts may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. A schedule of fees and charges and maximum commissions is available from Afena Capital. Commissions and fees may be paid and if so, are included in the overall costs. Forward pricing is used. In order to receive the price of the day, all transactions must be received before 13h00. Afena Capital is a member of the Association for Savings and Investments South Africa. The investor acknowledges the inherent risk associated with the selected investments and that there are no guarantees. The investor furthermore agrees that Afena Capital will not be liable for the consequences of market influences and consequent changes in unit prices.

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