

NOVARE HOUSEVIEW MATRIX – February 2012

<p><b>RSA Equities</b></p> <p>The outlook for the domestic economy remains tepid on the back of the deterioration in economic conditions of its main trading partners. The leading indicator of the manufacturing has been volatile lately, but the most recent reading is pointing towards accelerating short term momentum in the sector. Household demand has been the major driver of recent economic growth and if the employment trend continues, then it should help to underpin consumer spending and more specifically, economic growth, for the year. The unemployment rate fell from 25% to 23.9% in the final quarter of last year as 180,000 jobs were created during that time. Company earnings growth is decelerating, but should remain above the long run historical average over the year. This, together with relative attractive valuation levels and low interest rates should support the local equity market over the next twelve months. We remain overweight this asset class.</p>	<p><b>RSA Bonds</b></p> <p>The inflation rate continues to edge higher on the back of rising food and transport costs while the second round effects of the recent depreciation in the rand have not yet become visible in the data. The Reserve Bank has had to re-adjust their inflation forecast upwards and they now see inflation remaining above 6% for the calendar year and peaking at 6.6% near the middle of the year. The Reserve Bank Governor's statement has become decisively more hawkish, probably eliminating the possibility of any further interest rate cuts. The interest rate market has also reversed its previous interest rate cut probability and is now pricing in the potential for an interest rate hike as soon as twelve months ahead. The recent decline in bond yields has pushed bond values ahead of their valuations. We now see a larger probability that bond returns can come in below that of cash and hence we have instated a large underweight position in this asset class.</p>	<p><b>RSA Property, Alternatives &amp; Cash</b></p> <p>The outlook for distribution growth in the listed property market remains muted, with downside risks to the office segment in particular. High quality property portfolios will perform better than lower quality portfolios. Cost pressures from rising administered prices are a key threat and rentals are under pressure across all segments. Industrial vacancies have fallen, but vacancy levels in the office and retail sectors have been rising. Listed property yields can come under pressure from rising bond yields. In lieu of the upside risks to the sector and the expectation of weak distribution growth over the next two years, we continue to maintain an underweight position in this sector.</p> <p>Money market yields will remain low and remains unattractive from an income yielding perspective. We will, however, allocate to this asset class should other asset classes fail to deliver a better expected return.</p>																																																												
<p><b>International</b></p> <p>Due to the poor economic climate in Europe and public sector deleveraging that needs to take place within developed countries over the next couple of years, global GDP growth forecasts for the next two years have recently received massive downgrades. The IMF expects the world to grow by 3.3% this year while advanced economies are expected to expand by a mere 1.2%. Both these estimates represent a 0.7% downward adjustment from the IMF's previous forecasts. But the global economy seems to have started 2012 on a stronger footing. US economic data has come out stronger than expected and the employment data points to the job sector that is gaining some traction. The US manufacturing sector has remained buoyant despite the global slowdown. There is massive divergence within regions with Europe caught in a recession although leading indicators are suggesting that the region's decline might be bottoming out.</p> <p>The European Central Banks seems to have drawn a line under the debt crisis through the funding it has provided to European banks. This has prevented the banking sector from freezing up although it doesn't provide a concrete solution to the crisis. Developed country central banks are keeping to their accommodative monetary policy stance and the Fed recently caught the market off-guard by announcing that low interest rates will be required at least until late 2014.</p> <p>A stabilisation in the Eurozone crisis and continued accommodative monetary policy will continue to benefit equity markets, although the recent run-up in share prices has already started to reflect this. We continue to remain on-weight global equities given some of the macro-economic risks and underweight global government bonds.</p>		<p align="center"><b>NOVARE HOUSE VIEW: February 2012</b></p> <p align="center"><b>TACTICAL POSITIONING*</b></p> <table border="1"> <thead> <tr> <th></th> <th>UNDER-WEIGHT</th> <th>← ON-WEIGHT →</th> <th>OVER-WEIGHT</th> <th>PREVIOUS</th> </tr> </thead> <tbody> <tr> <td><b>DOMESTIC</b></td> <td>Under-weight</td> <td></td> <td></td> <td><b>Under-weight</b></td> </tr> <tr> <td>Equities</td> <td></td> <td></td> <td>105%</td> <td>105%</td> </tr> <tr> <td>Bonds</td> <td>60%</td> <td></td> <td></td> <td>90%</td> </tr> <tr> <td>Property</td> <td></td> <td>90%</td> <td></td> <td>90%</td> </tr> <tr> <td>Alternatives</td> <td></td> <td>100%</td> <td></td> <td>100%</td> </tr> <tr> <td>Cash</td> <td>Under-weight</td> <td></td> <td></td> <td>Under-weight</td> </tr> <tr> <td><b>OFFSHORE</b></td> <td></td> <td></td> <td>120%</td> <td><b>120%</b></td> </tr> <tr> <td>Equities</td> <td></td> <td>100%</td> <td></td> <td>100%</td> </tr> <tr> <td>Bonds</td> <td>85%</td> <td></td> <td></td> <td>85%</td> </tr> <tr> <td>Alternatives</td> <td></td> <td></td> <td>115%</td> <td>115%</td> </tr> <tr> <td><b>AFRICA</b></td> <td></td> <td>100%</td> <td></td> <td></td> </tr> </tbody> </table> <p>* positioning is as a % of strategic asset allocation</p>		UNDER-WEIGHT	← ON-WEIGHT →	OVER-WEIGHT	PREVIOUS	<b>DOMESTIC</b>	Under-weight			<b>Under-weight</b>	Equities			105%	105%	Bonds	60%			90%	Property		90%		90%	Alternatives		100%		100%	Cash	Under-weight			Under-weight	<b>OFFSHORE</b>			120%	<b>120%</b>	Equities		100%		100%	Bonds	85%			85%	Alternatives			115%	115%	<b>AFRICA</b>		100%		
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