INDEQUITY
Capital Managers (Pty) Ltd

INDEQUITY SEGREGATED PORTFOLIO REPORT

- JUNE 2010 -

Dear Client,

Laduma! 30 June 2010

By the time the report reaches you we have been watching all the "Laduma's" and all South Africans are in a cheerful mood. The "soccer mood" has even stalked the placid football supporter amongst us.

South Africa seems to be the best thing since sliced bread and the biltong, wine and "braai's" have a positive effect on all and sundry, even the investment markets.

This "good mood" is also reflected in the historic returns that have been achieved in the JSE All Share Index over the past few decades.

It is hence a good time to catch up with some investment data and historic returns of different investment types and learn some lessons.

We have seen some interesting articles of late regarding historic returns of different asset classes and a few conclusions can be made.

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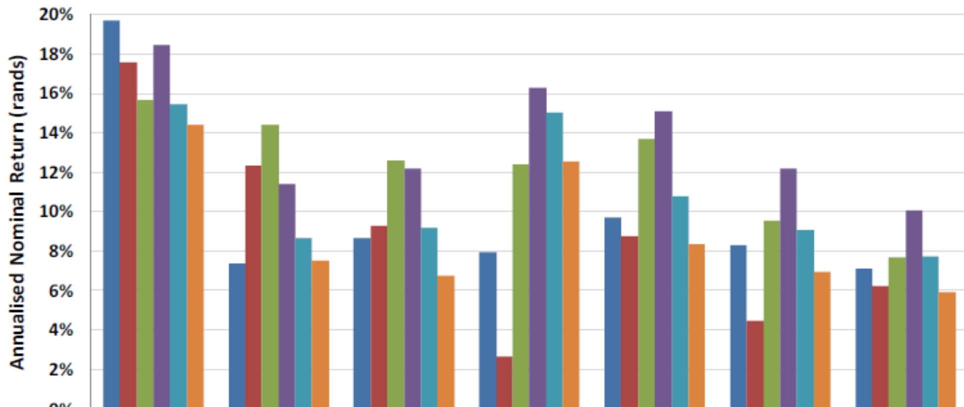
Let's kick off the discussion with the historic "rosy" facts of the JSE All Share index:



	Equity	Bonds	Cash	MSCI (rands)	Global Bonds (rands)	US$ Cash (rands)	Inflation
5Y	19.7%	7.3%	8.7%	7.9%	9.7%	8.3%	7.1%
10Y	17.6%	12.3%	9.3%	2.6%	8.8%	4.4%	6.2%
20Y	15.7%	14.4%	12.6%	12.4%	13.7%	9.5%	7.7%
40Y	18.4%	11.4%	12.2%	16.3%	15.1%	12.2%	10.1%
60Y	15.4%	8.7%	9.2%	15.0%	10.7%	9.1%	7.7%
84.2Y	14.4%	7.5%	6.7%	12.5%	8.3%	6.9%	5.9%

Figure 1: Nominal Annualised Returns of 6 Asset Classes and Inflation for various periods to the end of April 2010

Source: PSG Alphen asset Management

Before we delve into conclusions on the above one should state the obvious amazing effect that compounding has on any mathematical equation (Returns in the investment world). It is alleged that Einstein stated that compounding is the eighth wonder of the World. (Compounding basically is the effect of a return today that is earned on a return or profit that was made yesterday, earning a return on a previous return).The example of "R1 000,00 invested 20 years ago is worth R12 000,00 today" is bandied about regularly by financial services marketers. Compounding unfortunately works positive and negative on returns so beware of permanent capital loss (Warren Buffet is especially vocal about negative compounding).

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Offices
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The table above refers to nominal returns which basically means the number you see is the number you use and it is not adjusted / changed for any inflation in this case.

The data goes back 84 years to 1926 and thus include the 1929 “Great Depression” and “stock market crash” which is enough to send cold shivers through your spine. The good news is that even considering the 1929 “crash” the picture still looks good.

For the reader that has travelled the investment world less frequently we explain some of the above terms in the table.

Equity is self explanatory (JSE All Share Index), bonds will include government and semi government debt instruments / obligations, MSCI (Rands) is the World Equity Index of the world equity markets weighted by size i.e. larger markets are more important and carries more weight and smaller markets the opposite. The returns are converted into ZAR. Global Bonds will be the Global Bond Index.

Conclusions from the above

There are numerous conclusions that can be made from the above data and we highlight some of the ones that are more relevant to our clients, in our view.

Equities should always have the highest return as shareholders / equity holders carry a higher risk than any other asset class and should be compensated accordingly. This has also been the case historically over the long run. Shares have been the best long term investment.

Equities have outperformed other asset classes by too large a margin over the last five and ten years and that spell more trouble than good going forward.

In statistics there is a so called term, “mean reversion” which basically means that all abnormal circumstances, are it abnormally good or bad, tend to go back to so called “normality”. This principle holds mostly true for investment markets.

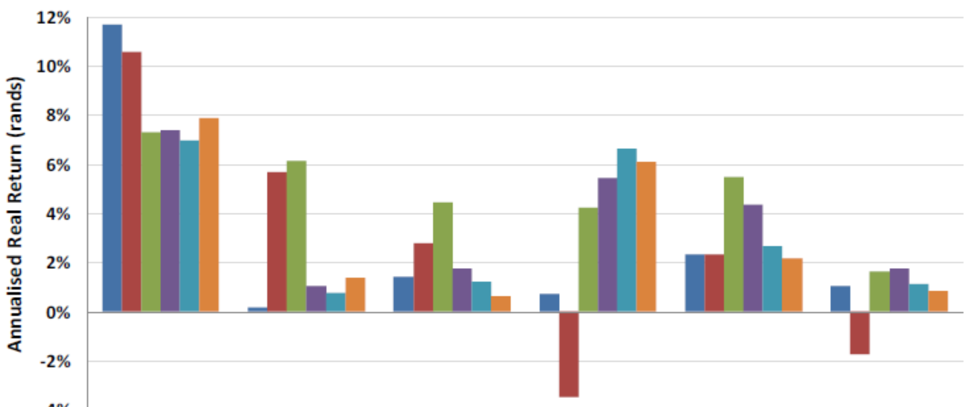
The returns over the past five and ten year periods have been too good to be true and we should not expect the same nominal returns in future.

The picture when real numbers are considered is more meaningful from an investment point of view and makes worthwhile reading. Figure 2 below.

Equity investors have received returns over the last five and ten years that are about 50 percentage points higher (11,7% versus 7,4%) than the long term real returns achieved over the long term, 20 years and longer back. That really means South African investor’s have been spoilt with high returns over the last ten years.

In addition one can conclude that with the South African inflation rate running at about 6% per annum at the moment we should expect a market that returns about 13% per annum in future over the long term.

If we achieve those real returns we should be on par with history.



	Equity	Bonds	Cash	MSCI (rands)	Global Bonds (rands)	US$ Cash (rands)
5Y	11.7%	0.2%	1.4%	0.7%	2.3%	1.0%
10Y	10.6%	5.7%	2.8%	-3.5%	2.3%	-1.8%
20Y	7.3%	6.1%	4.5%	4.3%	5.5%	1.6%
40Y	7.4%	1.1%	1.7%	5.5%	4.4%	1.8%
60Y	7.0%	0.7%	1.2%	6.6%	2.7%	1.1%
84.2Y	7.9%	1.4%	0.6%	6.1%	2.2%	0.9%

Figure 2: Real Annualised Returns of 6 Asset Classes and Inflation for various periods to the end of April 2010

Source: PSG Alphen asset Management

Our positive stance is further vindicated by the strong growth that is forecast by the industry for the next twelve and twenty four months respectively. The expected profit growth for the indices at the moment is as per the table below. Although we always take these forecasts with some pinch of salt we can say that the market is hardly expensive.

	Current P/E	12m Forward EPS Growth	12m Forward P/E	24m Forward EPS Growth	24m Forward P/E	24m Compound Forward EPS Growth
All Share	13.71	46.16%	9.38	18.11%	7.94	72.62%
Resources	14.08	72.21%	8.18	18.11%	6.93	103.40%
Financials	11.35	27.24%	8.92	19.19%	7.49	51.66%
Industrials	14.74	29.97%	11.34	17.43%	9.72	52.63%

Source: BJM Research, I-Net Bridge

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International Investors

For our international clients we have very good news (in our view).

The ZAR returns that an international investor has earned over the last ten years in ZAR have been way below the historic averages and the norm. Refer MSCI (Rand) return column. The historic average return over longer periods, 20 years plus have been 5% per annum but over the last ten year period these returns have been subpar, -3.5% per annum.

We should have some mean reversion according to the principle of mean reversion and the Law of Nature.

Summary

In summary an investor on the JSE can expect leaner nominal returns i.e. don't expect 20% per annum growth on your investment portfolio going forward but do expect a healthy inflation beating return.

For international investors the World Equity Indices have really been going nowhere for the last five to ten years and coupled with a strong rand, makes an awful picture for the international assets / returns. The good news is that you must sit tight as the tide will be turning more positive in the future (higher returns).

We are of the view that the higher international returns will come from both a weaker currency and more positive international stock markets.

We trust that our analysis is of value to you and that that the positive view will come to fruition.

Thank you for your continued support.

Kind regards

D Botha.

JD Botha
Indequity Capital Managers

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Transactions for the quarter

QUARTERLY REPORT OF THE INVESTMENT PERFORMANCE FOR THE PERIOD

29 MARCH 2010 TO 25 JUNE 2010

PERFORMANCE OF CLIENT PORTFOLIO
SUMMARY OF INTEREST AND DIVIDENDS RECEIVED FOR THE PERIOD ENDING 25/06/2010

Interest	**R 23 159.08**
Dividends	**R 54 553.74**

2010/03/29	Opening Balance	R	9 217 453.00
2010/06/25	**Closing Balance**	**R**	**9 039 020.00**

Performance of the portfolio for the quarter	-1.94%
Performance of the portfolio for the year to date	0.77%
Performance of the FTSE/JSE ALSI for the quarter	-5.05%
Performance of the FTSE/JSE ALSI for the year to date	-2.69%

Annual current dividend income from the portfolio	R	174 175.00

TRADES FOR THE QUARTER ENDING 25/06/2010

DATE	SHARE NAME	TYPE	QUANTITY	TOTAL VALUE
2010/04/23	STANBANK	OPEN EX-RIGHTS	32	-
2010/04/26	STANBANK	OPEN EX-RIGHTS	32	-
2010/04/26	STANBANK	OPEN EX-RIGHTS	32	-
2010/04/28	STANBANK	OPEN EX-RIGHTS	32	-
2010/05/31	ILLOVO	SALE	5 000	R 148 489.08
2010/06/08	CAPITAL & COUN	OPEN EX-RIGHTS	3 218	-

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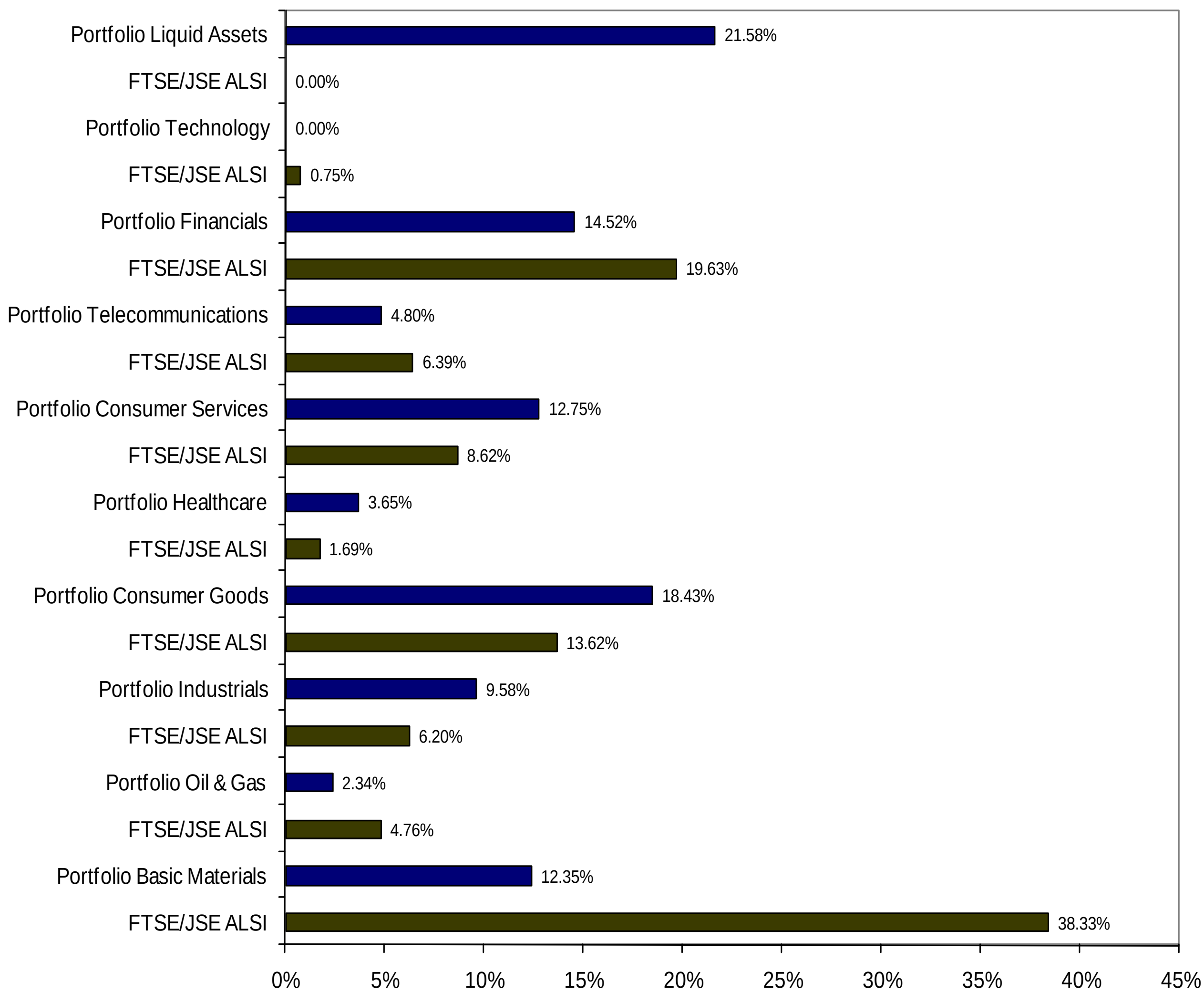
Portfolio breakdown



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Top 10 Equity Holdings

SABMiller Plc	8.50%
Naspers Ltd	8.20%
Anglo American Plc	6.00%
Compagnie Fin Richemont	5.40%
Shoprite Hldgs Ltd	4.80%
British American Tobacco Plc	4.70%
Reunert Ord	4.10%
Coronation Fund Mngrs Ltd	4.10%
New Gold Issuer Ltd	4.00%
Absa Group Ltd	3.90%

TOTAL EQUITIES	78.42%
CASH	21.58%

Portfolio commentary

The shares in the trust are of a high quality and are typical of a pension fund portfolio.

The exposure to Naspers is high but that is because of historic reasons.

The portfolio is well spread between different sectors and should deliver solid long term growth.

We suggest no major changes at the moment.

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