

## INDEQUITY SEGREGATED PORTFOLIO REPORT

- MARCH 2011 -

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Dear Client,

### **"IRRATIONAL EXUBERANCE"**

We are also surprised, like most of us, that the first quarter of 2011 has come and gone. (Easter is around the corner).

For investors the first quarter of 2011 has been a see- saw time as equity markets corrected by nearly ten percent in the space of two weeks and since then has recovered most of the drop.

### **Investment markets**

We are concerned that some "irrational exuberance" factors, at home and abroad, may be causing a short term asset bubble and that markets are over heated. We are concerned the investment markets have once again become oblivious of "risk" or the "loss of capital".

The "investment markets" seem to view only the good news at the moment and act on that. The positive factors are numerous and the following list is not conclusive but serves to summarise the general "good news".

- There is plenty of positive corporate news flow on the local and international front and especially international companies are reporting robust results.
- Institutional investors abroad are sitting with large cash holdings which is earning a negative real rate of return at the moment. Call or money market rates in the developed economies are near zero and consumer and producer inflation is running in the 3 – 4 percent range at the moment in Europe , U.K. and some developing economies (We don't believe the US inflation numbers and think it is US Federal Reserve "gymnastics" to keep producing suitable numbers) .
- The average institutional and retail investor internationally has been underinvested in equities over the last 24 months and not enough cash has been channelled into equities. They have to keep buying into any weakness (The normal private investor syndrome of emotional investing that results in "buy expensive and sell cheap".)
- International equities on the whole are trading in line with average historic valuations and are not stretched too far.

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- The growth in the economies of emerging markets and especially the Chinese “wonder story” is well known to all of us and is not worth commenting on any further.
- The consensus earnings growth for the MSCI Global equity market index is running at 15 % (2011) and 14 % (2012). (Source Citigroup, MSCI, Fact sheet)

The above is probably the most important positive factors that are seen by the “bullish” market participants. We are concerned that the above points, although true in many respects, are too simplistic to use as the conclusive and bullish “Investors guide 101”

On closer inspection one may see the following risks:

- The current oil price, although not sustainable at \$120 per barrel of Brent crude, will shave a substantial piece off the international economic cake. The last report from JP Morgan calculated that for every 10% rise in the Brent Crude price world economic growth is reduced by 0,5% per annum. The Brent crude price has increased in US Dollars by about 40 % over the last six months which results, ceteris paribus, in a reduction of 2 % in economic growth in dollars. We acknowledge that the price has not increased that much in other currencies as this rise is partly a function of the weak dollar
- Emerging economies, which are the secular growth engines of the future, has already started raising interest rates over the past six months and with the current inflation rate in these economies more hikes can be expected.
- The world has geopolitical risks which can not be ignored and it will have an impact on confidence and ultimately on economic fortunes. In our view the markets incorrectly view that the oil price is mostly a function of Libya’s unrest and production stoppages. This is too simplistic and the crude oil price is a function of supply and demand and this rise in demand will partly cause its own downfall via slower world economic growth and less demand for crude, in our view.
- The Chinese economy and consumer is dependant on residential property development with the resultant commodity ripple effect. The reports we have seen does lead us to conclude that Chinese residential properties are fundamentally overvalued and are at risk of a correction of some sort. We acknowledge that the long term secular growth story is in tact but medium term risks are real.
- The current investment cycle as per John Murphy’s book “Intermarket analysis” does describe the classic investment cycle.  
In his book he describes the typical economic cycle and that the crude oil price is the last asset class to rise in the economic “up cycle”. The rise in oil’s price then pushes the world into recession. He views an oil price boom as the start of the economic recession and the

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peak of the economic cycle. This makes perfect sense to us as interest rates will be rising in this environment.

- The rise in other commodity prices (coal, tin, nickel and steel and others), will all also add to inflationary pressures. These prices have increased by more than 50% over the last 12 months in US Dollar terms.

There is a lot more detail that can be shared but we think we have illustrated the point.

We do see more risks than the average investor at the moment and err slightly on the side of caution. We are not bearish to the extent that we expect a major 2008 correction and or a 1960's bear market, just some "downtime".

The long term case for equities will always be in tact but for the moment caution is warranted locally and abroad.

We thank you for your patronage and trust we will be adding value in future to your investments as we have done in the past

Regards,



JD BOTHA

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**Transactions for the quarter**

**QUARTERLY REPORT OF THE INVESTMENT PERFORMANCE FOR THE PERIOD**

**31 DECEMBER 2010 TO 31 MARCH 2011**

**PERFORMANCE OF CLIENT PORTFOLIO**

**SUMMARY OF INTEREST AND DIVIDENDS RECEIVED FOR THE PERIOD ENDING 31/03/2011**

Interest	R 18,968.41
Dividends	R 41,458.55

31/12/2010 Opening Balance	R 10,581,454.00
<b>31/03/2011 Closing Balance</b>	<b>R 10,344,519.00</b>

Performance of the portfolio for the quarter *	-2.24%
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*\* B.o.E Private Clients*

Annual current dividend income from the portfolio	R 214,136.22
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**TRADES FOR THE QUARTER ENDING 31/03/2011**

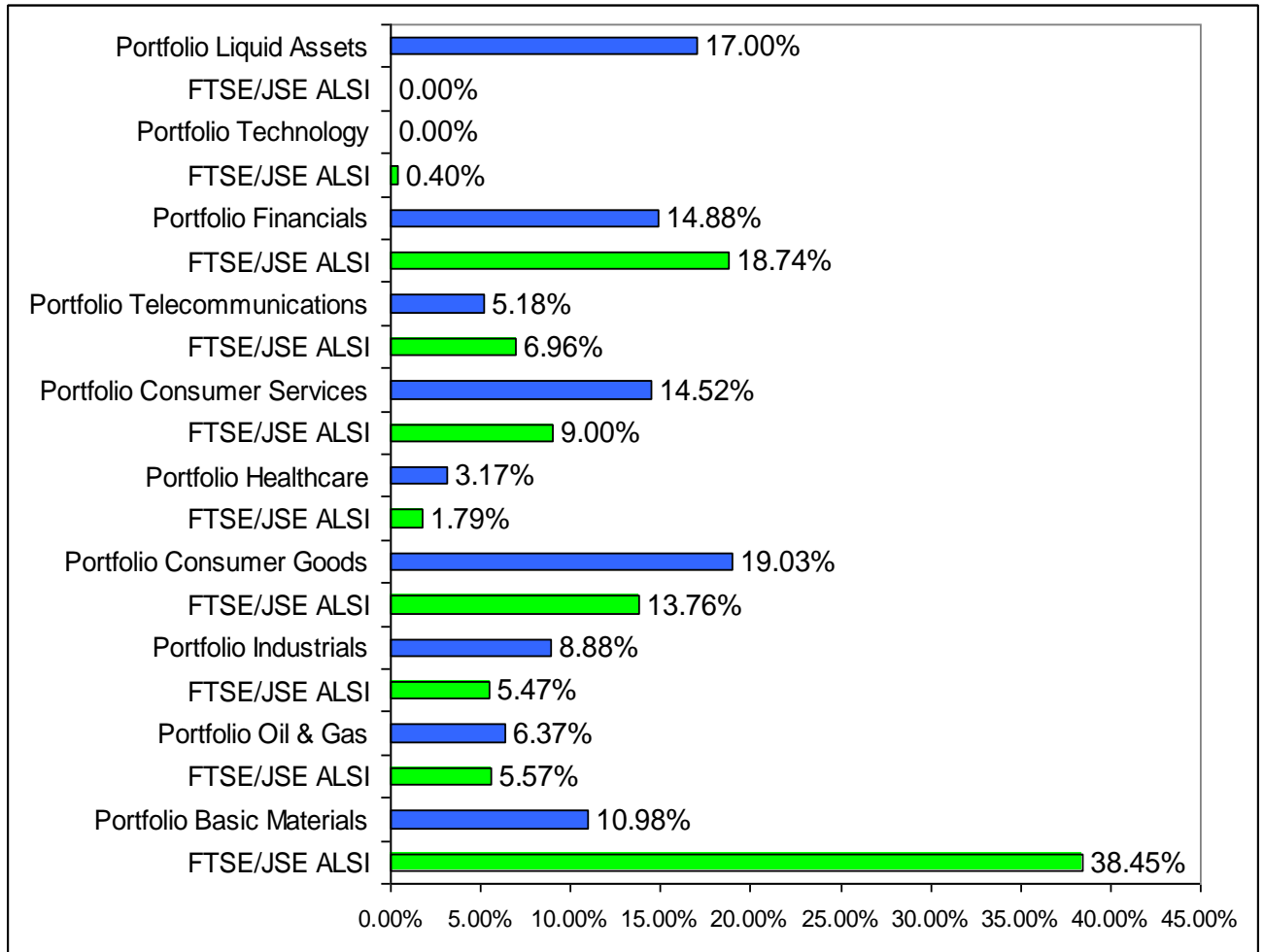
DATE	SHARE NAME	TYPE	QUANTITY	TOTAL VALUE
15/03/2011	IMPLATS	SALE	800	R 148,453.20
15/03/2011	SASOL	PURCHASE	1,000	R 354,335.73

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**Portfolio Breakdown**



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### Top 10 Equity Holdings

Naspers Ltd	10.30%
Sasol Ltd	7.70%
SAB Miller PLC	7.30%
Compagnie Fin Richemont	6.40%
Anglo American PLC	6.20%
Coronation Ltd	5.20%
Shoprite Holdings Ltd ORD	4.50%
British American Tobacco Ltd	4.20%
MTN Group Ltd	3.80%
BHP Billiton PLC	3.70%

TOTAL EQUITIES	83.00%
CALL/MONEY MARKET INVESTMENTS	17.00%

### Commentary

The portfolio is well positioned and performing well. The shares are all of good quality with solid balance sheets.

No significant changes were made to the portfolio over the last quarter.

The top ten holdings are all performing well at the moment.

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