

POSITION IS EVERYTHING!

November has been characterised by a continued recovery in global stockmarkets. In many cases (including the JSE) the markets now exceed their pre-September 11th levels. In the case of the South African JSE All Share Index this significant recovery has been primarily driven by the large internationally listed and rated shares (Anglo American, Billiton and Richemont).

While our portfolios outperformed in the immediate aftermath of September 11th, they have lagged in the recovery in global stockmarkets. Our portfolios are relatively defensively positioned and in particular have very little exposure to the large offshore listed shares in the All Share Index. The average rating of these shares is currently 16.5 times next years earnings compared to an average rating of less than 10 for the rest of the JSE. We continue to believe that most major global stockmarkets are significantly overvalued by historical norms. Should these markets revert to more normal valuations, the South African stock market is unlikely to be unscathed given that Anglo American, Billiton and Richemont alone make up close to 29% of the All Share Index.

We are however, finding significant value in South African industrial and consumer companies. Many of these companies are trading on low ratings on relatively depressed earnings. Many also stand to benefit from the weaker rand/dollar exchange rate. A prime example would be companies that benefit as imports become more expensive by allowing manufacturers to increase prices. Anglovaal Industries is a good example of such a company. In addition, we believe that South African listed resource stocks such as Sasol, Gold Fields and Anglovaal Mining are very attractive. They are major beneficiaries of the weaker rand and on an average of 10 times next years earnings can be acquired at a fraction of the ratings of comparable international companies.

Our philosophy is that of seeking out investments that offer the prospect of superior long-term returns for our clients. We believe that our portfolios are positioned to achieve this goal.

Commentary by Stephen Mildenhall, Chief Investment Officer