SIMEKA CONSULTANTS & ACTUARIES

MARKET insight

Targeted market commentary

1st Quarter 2013:

- Our expectations for 2013
- Comment on investment manager performance in 2012

Our expectations for 2013

Share prices in the domestic market increased significantly late in 2012. The total return on the FTSE/All Share Index in 2012 was 26.7% with consumer shares increasing by as much as 50% and resource shares by as little as 3%. Bond returns varied from 8.3% for the 0-3 year category to 18.8% for the 12 year+ category. Global equity exposure provided a rand-based return of approximately 22%. Gold increased by 7%, lead by more than 18% and oil by as little as 3% in 2012.

The investment returns were earned in an environment characterised by depressed economic growth, the Eurozone crisis, a “fiscal cliff” and elections in the US and domestic political timidity. Sovereign governments reacted by increasing money supply and liquidity to stimulate growth and to avert crises. Increased money supply in turn caused asset inflation (share price increases) and investment portfolios grew by approximately 20% in spite of the apparent extrication between economic and investment conditions (when considered for calendar years).
The outlook for economies in 2013 is similar to what has been experienced in 2012. Even though the self-imposed fiscal cliff in the United States has been avoided, the juggernaut of irreconcilable economic approaches between the tax and spend approach preferred by President Obama and the fiscal restraints preferred by Congress continues. The Eurozone crisis of 2012 is not presently front page news, but the fundamental issues that caused the crisis have not been resolved.

We expect the following themes to prevail in 2013:

- The outlook for global equity continues to be positive. We are comfortable to maintain full exposure to global equities based on expectations for 2013.
- Share prices in the domestic market are likely to follow the expected positive global trend.
- Dual-listed shares such as Anglos, BHPBilliton, Old Mutual/ Investec, SABMiller and Mondi could continue to benefit from positive conditions in global equity markets.
- Consumer shares (e.g. Mr Price, Woolies, Shoprite and AVI) have increased significantly in 2012 and could continue into 2013, but increases similar to 2012 would surprise prudent investors.
- Quality construction shares and shares that supply the construction industry are expected to present good opportunitiesin 2013. The share prices of Afrox, PPC, Raubex and WBHO have already increased, but could continue to benefit from positive expectations in 2013.
- We remain comfortable with shares operating in traditionally stronger currencies (rand hedges) and expect to see significant exposure to shares such as Richemont and Steinhoff in portfolios.

- Interest rates are likely to remain at the current low levels and consumer price inflation is not expected to increase significantly.
- Exposure to the property sector is still preferred over direct interest-bearing investment. Established companies such as Growthpoint and Redefine present attractive opportunities.
- At present levels the valuation of resource shares is not challenging and may present attractive investment opportunities should signs of global economic growth become more evident in 2013. Bearing in mind that resource shares tend to introduce higher risk into a portfolio, diversified companies such as Anglo and BHPBilliton present more palatable opportunities.
- In the long term, share prices must be supported by company earnings and the growth in earnings. We believe that some share prices in the retail and industrial sectors have increased beyond this expectation and their current valuation may therefore not be supported by the economic conditions. There is therefore a risk of a correction in these share prices.

Comment on investment manager performance in 2012

- Foord remained the front runner amongst notable asset managers and achieved 25.7% for 2012 on their Balanced Portfolio. Foord is followed closely by Stanlib's Balanced portfolio managed by Herman van Velze with 24.6% for the year while most of the notable managers achieved investment returns ranging between 19% and 21% for the year. Allan Gray (15.1%) and Re:CM (8.3%) achieved lower investment returns than many competitors for the year. Over three years Foord (17.9%) and Stanlib (17.2%) still lead the pack.
- Momentum leads amongst the aggressive multi-manager portfolios for the year, while Sygnia achieved noteworthy returns on the conservative multi-manager portfolios. Over three years Momentum leads for aggressive multi-manager portfolios and Investment Solutions leads the three year returns for conservative multi-manager portfolios.
- Foord and Stanlib Core lead other equity portfolios over one and three years and in the bond market the Futuregrowth Yield Enhanced portfolio (credit rich) dominates over all periods. Taquanta has stamped their eminence in the money market by leading competitors over most measurement periods.
- Simeka's Lifestage Programme is the front runner amongst life cycle investment strategies with 25.1% on the Accumulation phase for 2012 and 15.4% over three years to December 2012.

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