WellsFaber Asset Management

# HOUSE VIEW

September 2010

WellsFaber's strategy incorporates appropriate asset allocation amongst various asset classes, as well as diversification by currency. We believe that South Africans should, where possible, diversify their portfolio to incorporate exposure to hard currency investments. We recommend offshore exposure be achieved via part or all of the R 4 million tax window allowance (and, if necessary, via asset swap investments), provided that the investor profile is appropriate to incorporate this component.

Whilst international equity markets are well off their lows reached at the end of 1st quarter 2009, most benchmark equity indices remain substantially below their all time highs, thus reflecting the great uncertainties facing investors at this time. Our house view is that, where our clients' personal investment needs and objectives allow, a progressive exposure to international equities over the next 12 months would be appropriate, but preferring to accelerate accumulation during periods of market weakness.

Over the last decade, we have placed emphasis on alternative strategy funds and commercial property in constructing the offshore components of our client's portfolio, and only more recently have we increased potential exposure to offshore equities, following the significant downturn in the general level of equity markets in 2008.

Whilst the credit crunch impacted USA and UK commercial and residential property values, there are tentative signs that a growing number of banks are returning to the lending markets, which institutions are so important in a well-functioning property market.
Consistent with this, we expect commercial property markets to trough during 2009/2010. We do believe that a portfolio focussed on long term capital growth should incorporate property as an asset class, and that there will be attractive opportunities to invest in commercial property over the next 12-18 months.

We remain cautious on low yielding international bond investments.

The recovery in South African equities off their 2009 lows has been pronounced, and we believe that earnings expectations may have underestimated the impact of recessionary forces on company profits. Our strategy for local equities is thus more cautious than our approach to offshore equities – we believe that patience will result in better buying opportunities over the next 12 months compared to current share price levels.

Our asset allocation may be conveniently summarised under four broad headings of asset class:
Equities, Property, Alternative Strategy Funds, Cash & bonds

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