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Providing financial solutions is part of our DNA

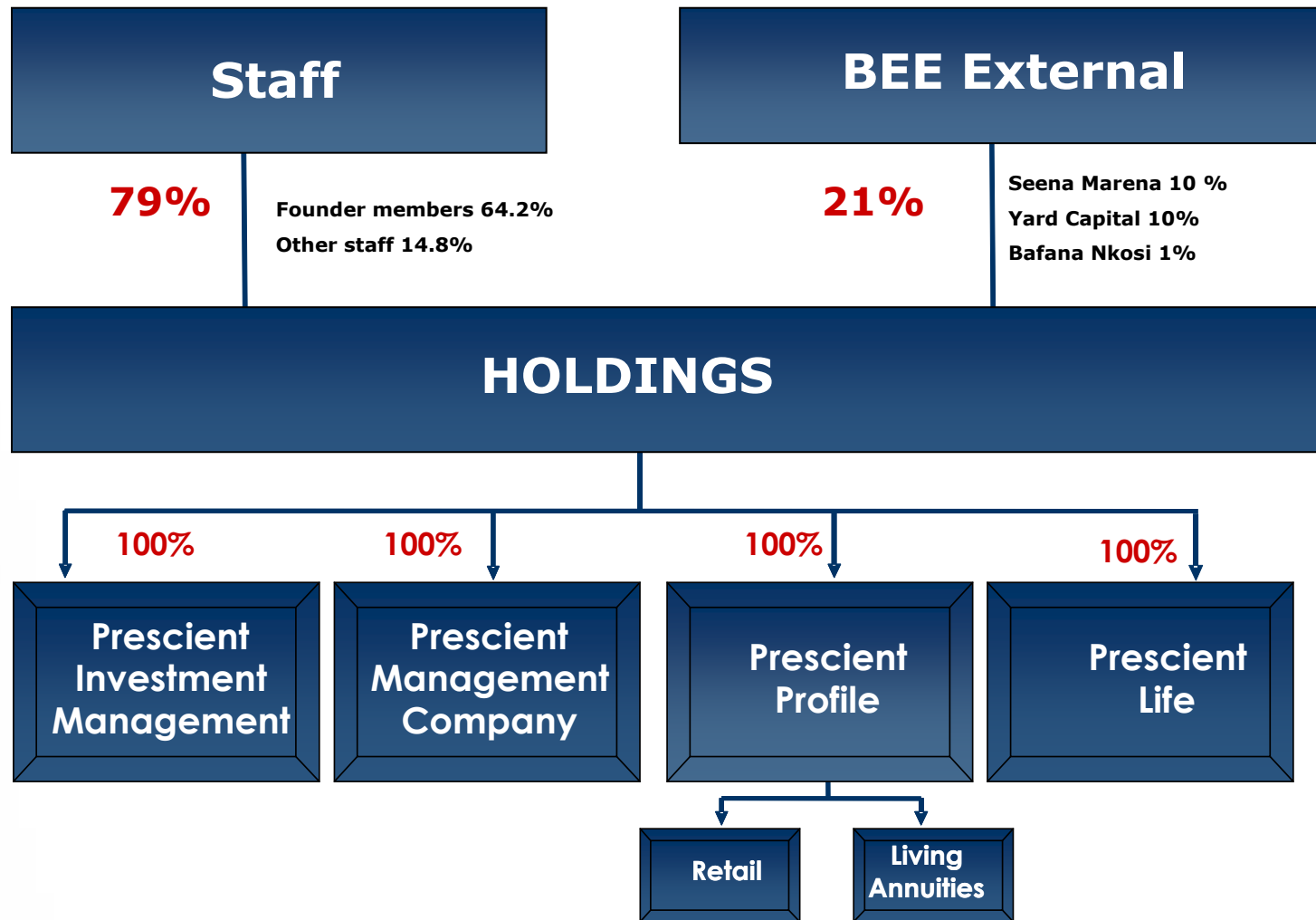


Dealing with Tactical Asset Allocation when using specialist managers

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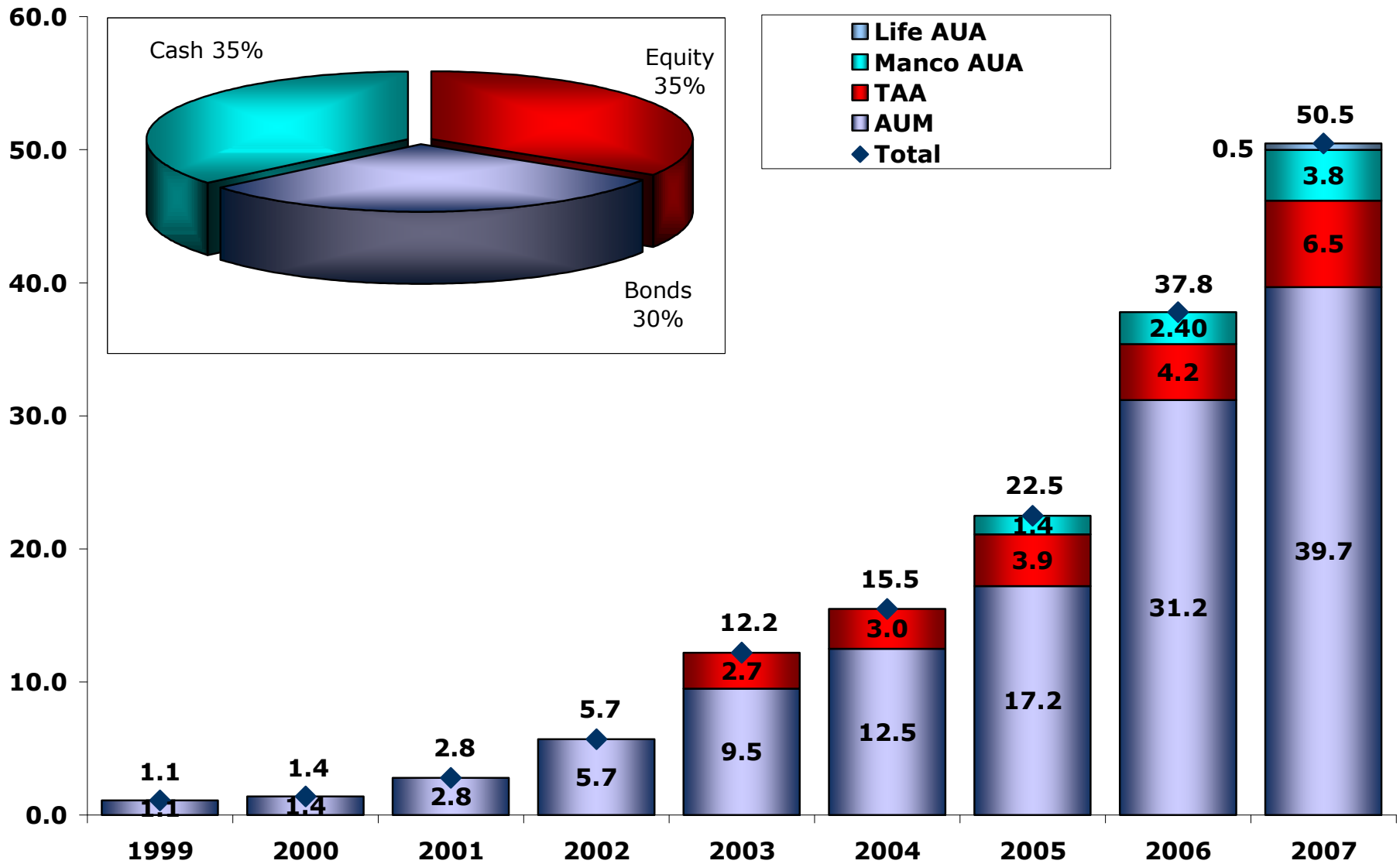
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Prescient Structure



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Growth in Assets – as at Oct 2007



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Asset Allocation Proposed Process

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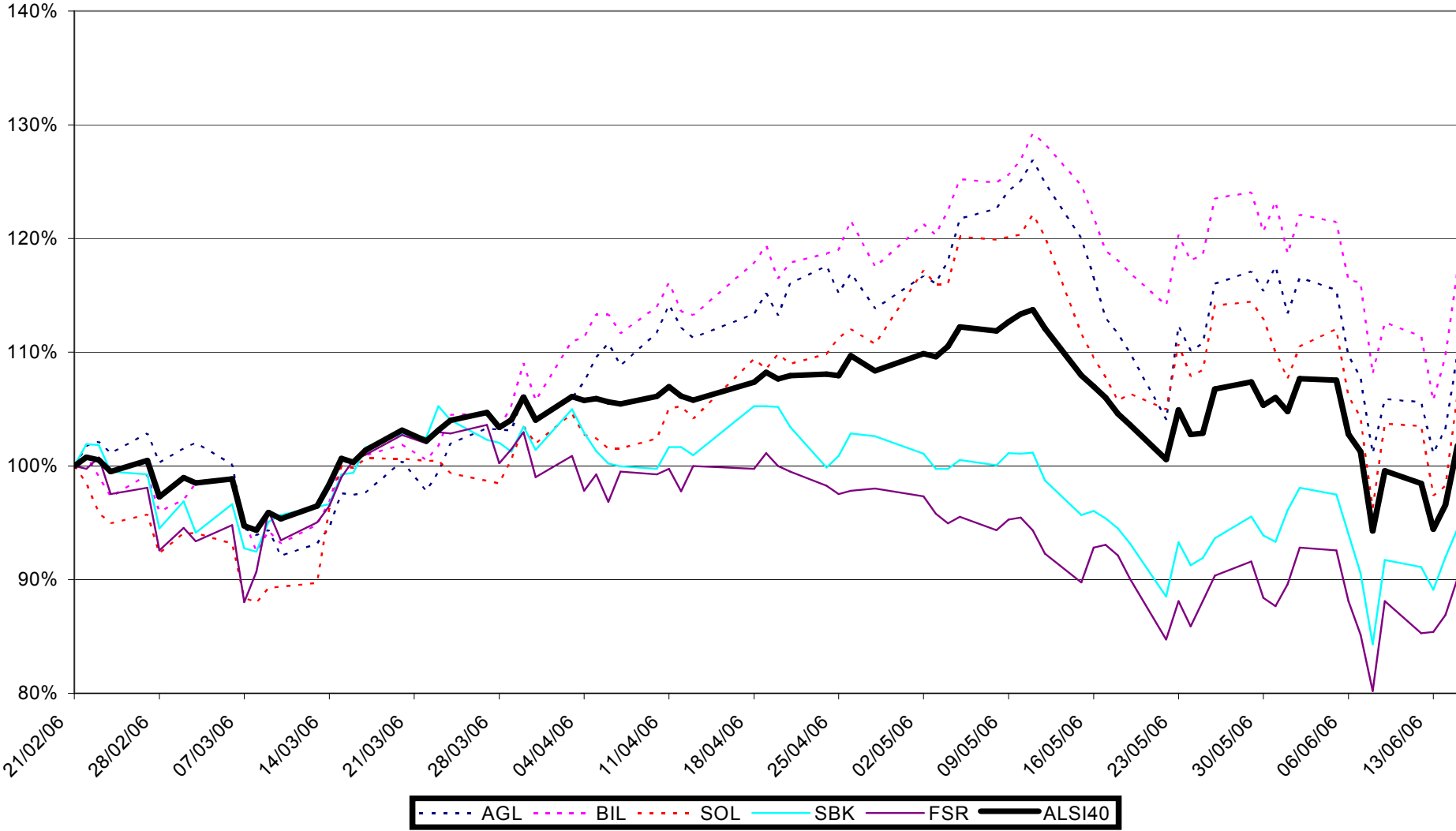
Strategic Allocation

- ❖ Provides an institutional investors' **target allocation** among major asset classes
- ❖ Is the translation of an organisation's **investment policy**
- ❖ To meet the organisation's goals under normal market conditions over a **full cycle**
- ❖ Strategic AA determines **primary risk** and should reflect the risk tolerance of the fund

Tactical Asset Allocation

- ❖ Facilitate fund's long term goal by **adding value**
- ❖ To take advantage when **financial markets** are out of line
- ❖ Can adjust the fund's **risk exposure** – the predominant contribution to the variation in a fund's returns comes from strategic asset allocation.
- ❖ **Shifts in asset allocation** have the greatest impact on the total risk of an institutional portfolio

Market Volatility



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Asset Allocation Market Outlook

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Global Inflation Trends

Figure 23: China Imports – From Deflation to Inflation (Y/Y)



Source: Haver Analytics.

Figure 26: Shipping Costs have Accelerated



Source: Bloomberg.

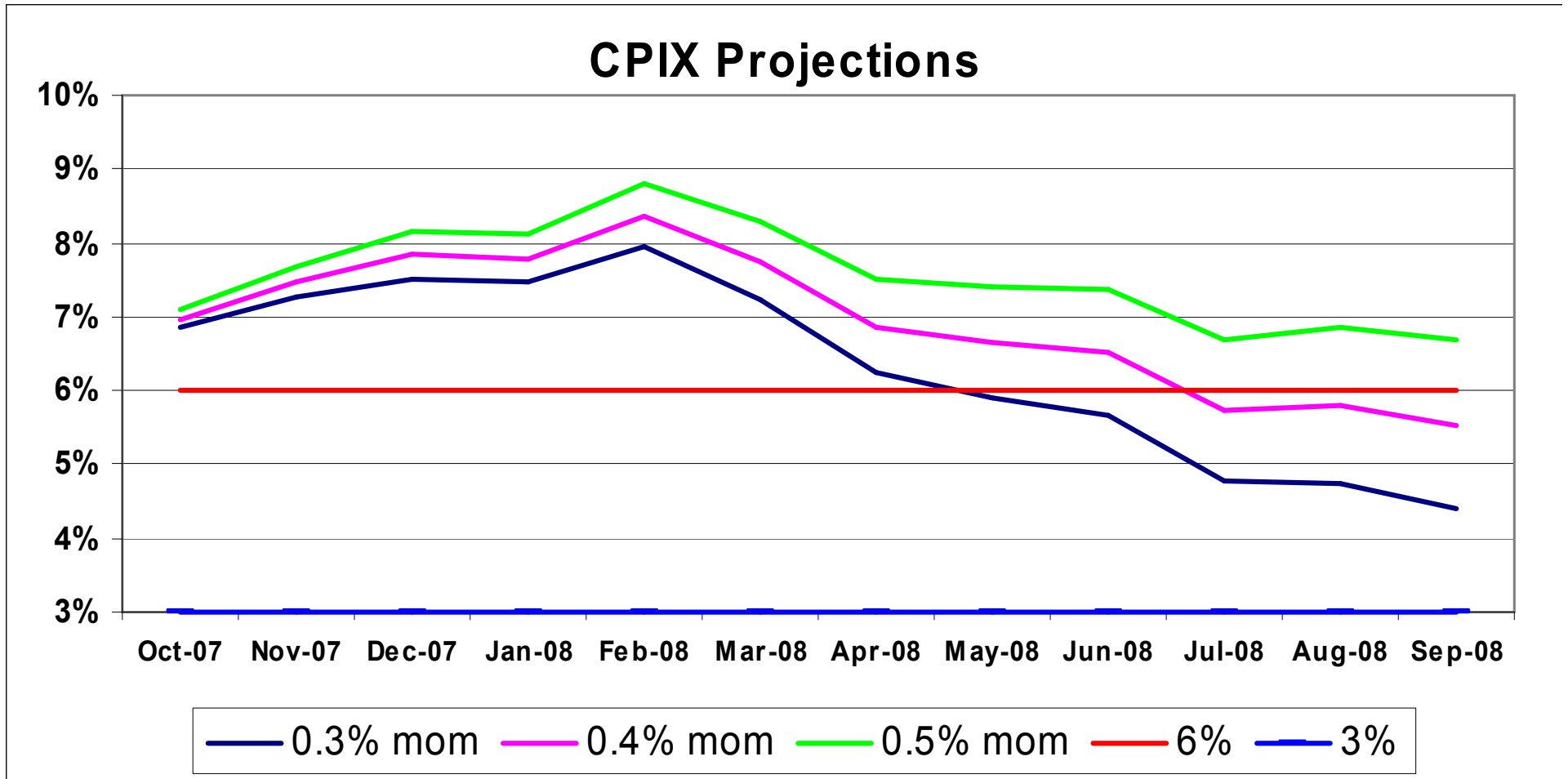
Greenspan cautioned that the biggest long-term threat to the U.S. economy is the likelihood that inflationary pressures will resume. As economic globalization winds down -- as workers from the former centrally planned economies of Eastern Europe are absorbed and as the costs of Chinese imports begin to rise -- the forces that have kept prices down will disappear.

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Source: JP Morgan



Domestic Inflation Outlook

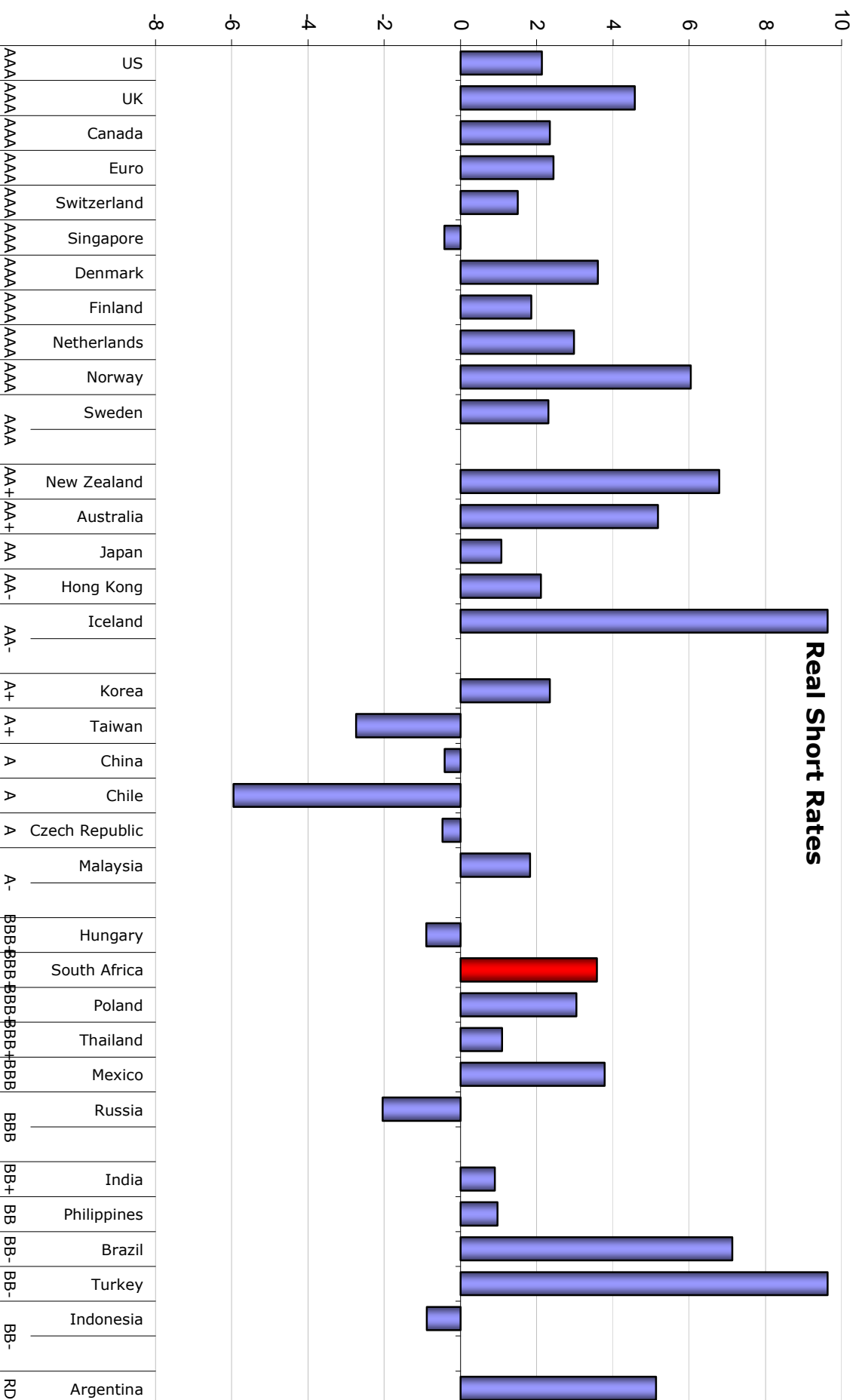


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Source: Reuters



Real Short Rates

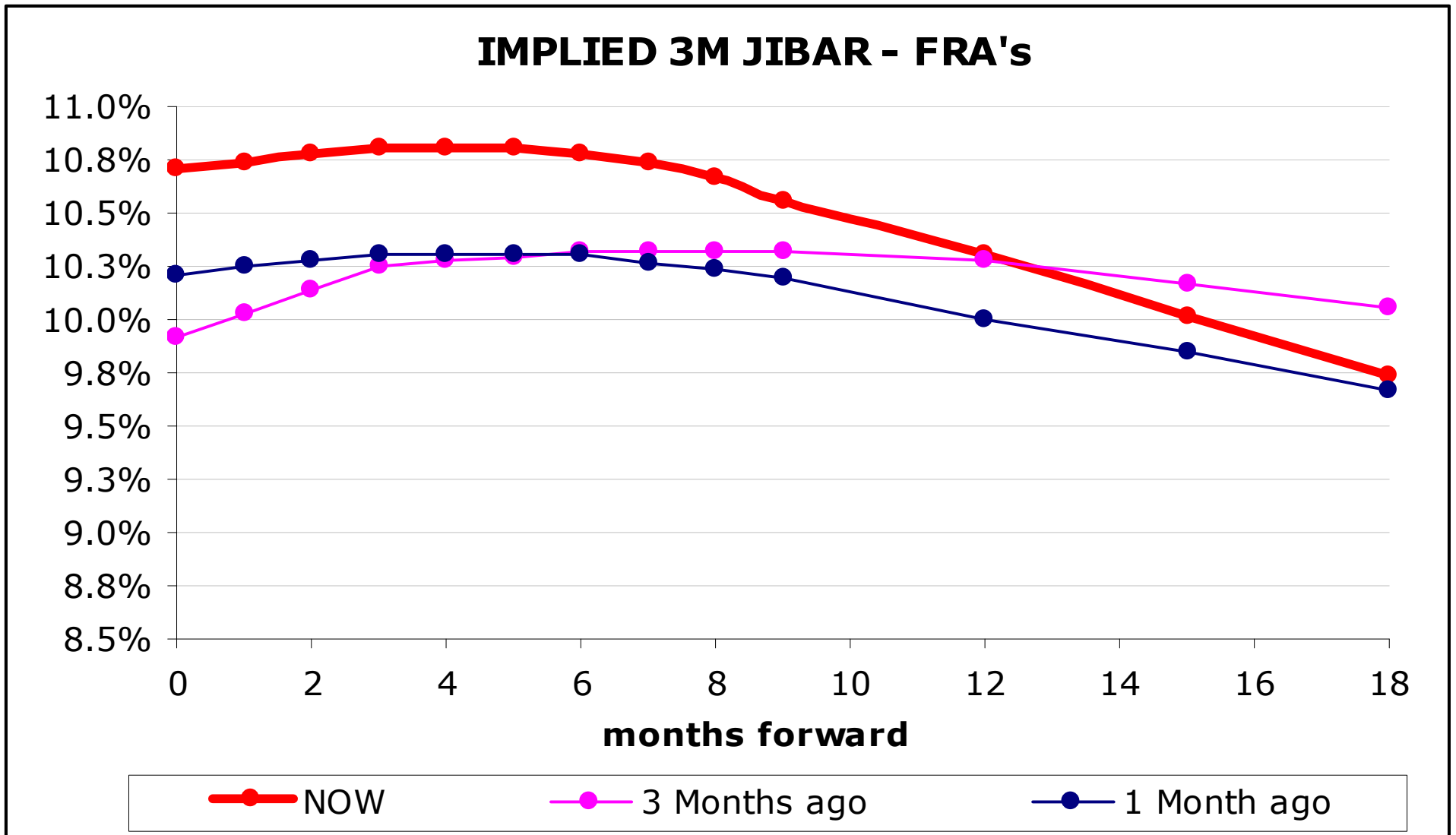


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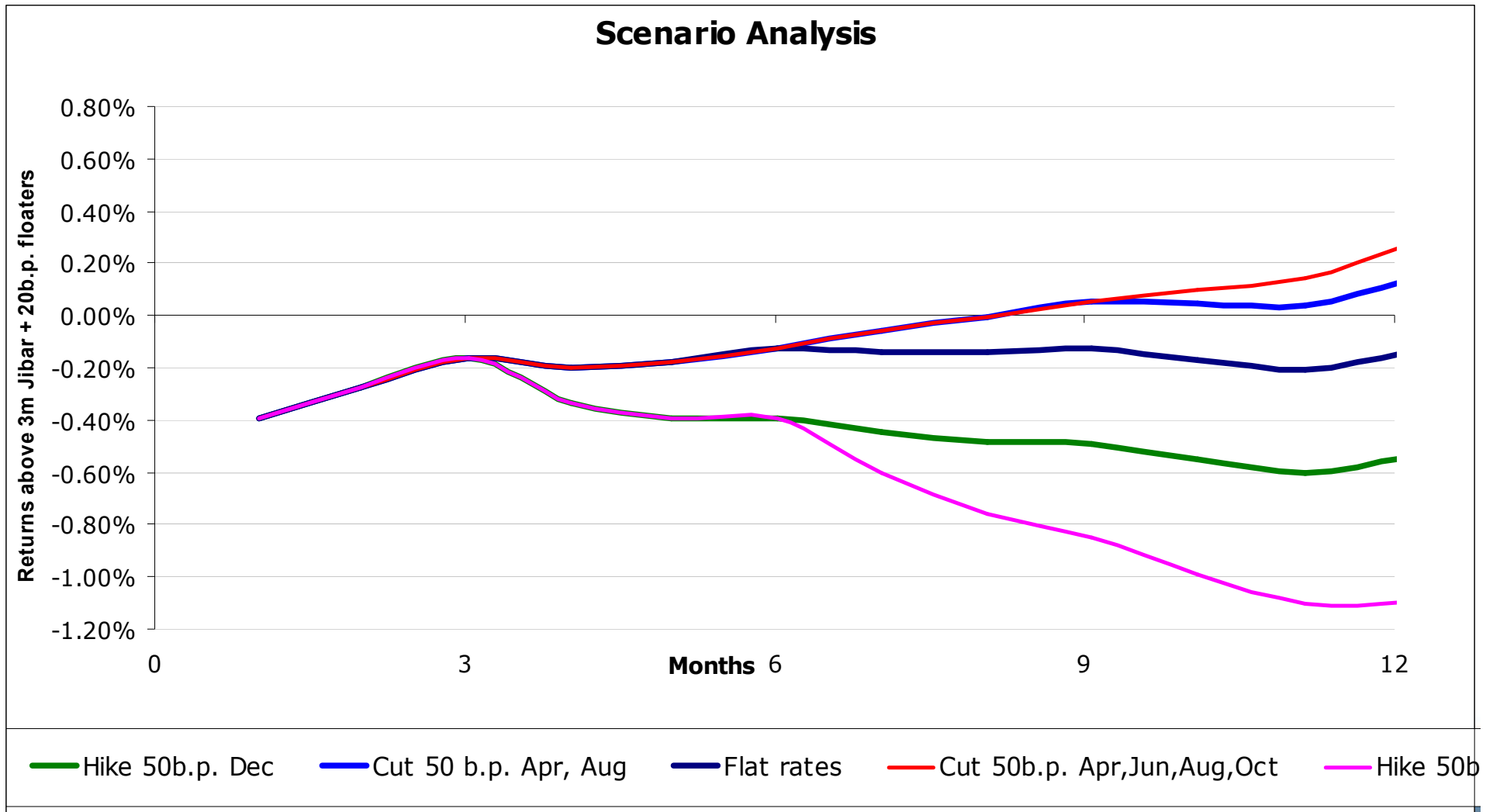
Source: Reuters



SA Money Market Valuation



Scenario Analysis



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Source: Reuters



Strategy Formulation

- ❖ Market not fully pricing in further rate hikes
- ❖ Little compensation for investing long
- ❖ Inflation risk still on the upside with rising inflationary expectations

Remain short duration

Bond Valuation

***SA Interest rates = international
Rates + risk premium***

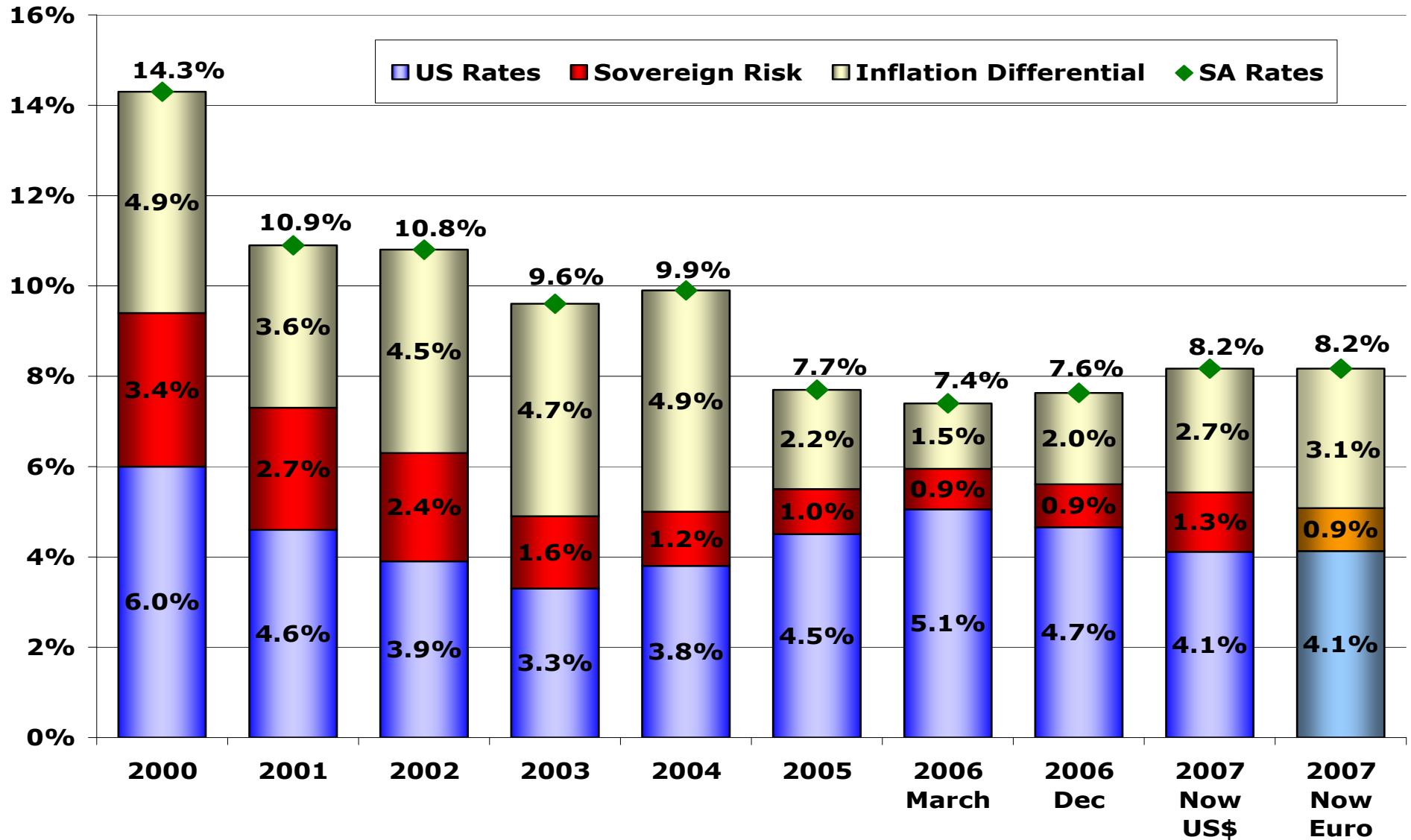
where:

- ❖ International rates approx by US rates
- ❖ Risk premium = country risk premium + expected currency moves

and

- ❖ expected currency moves approx by expected inflation differentials

Bond Valuation

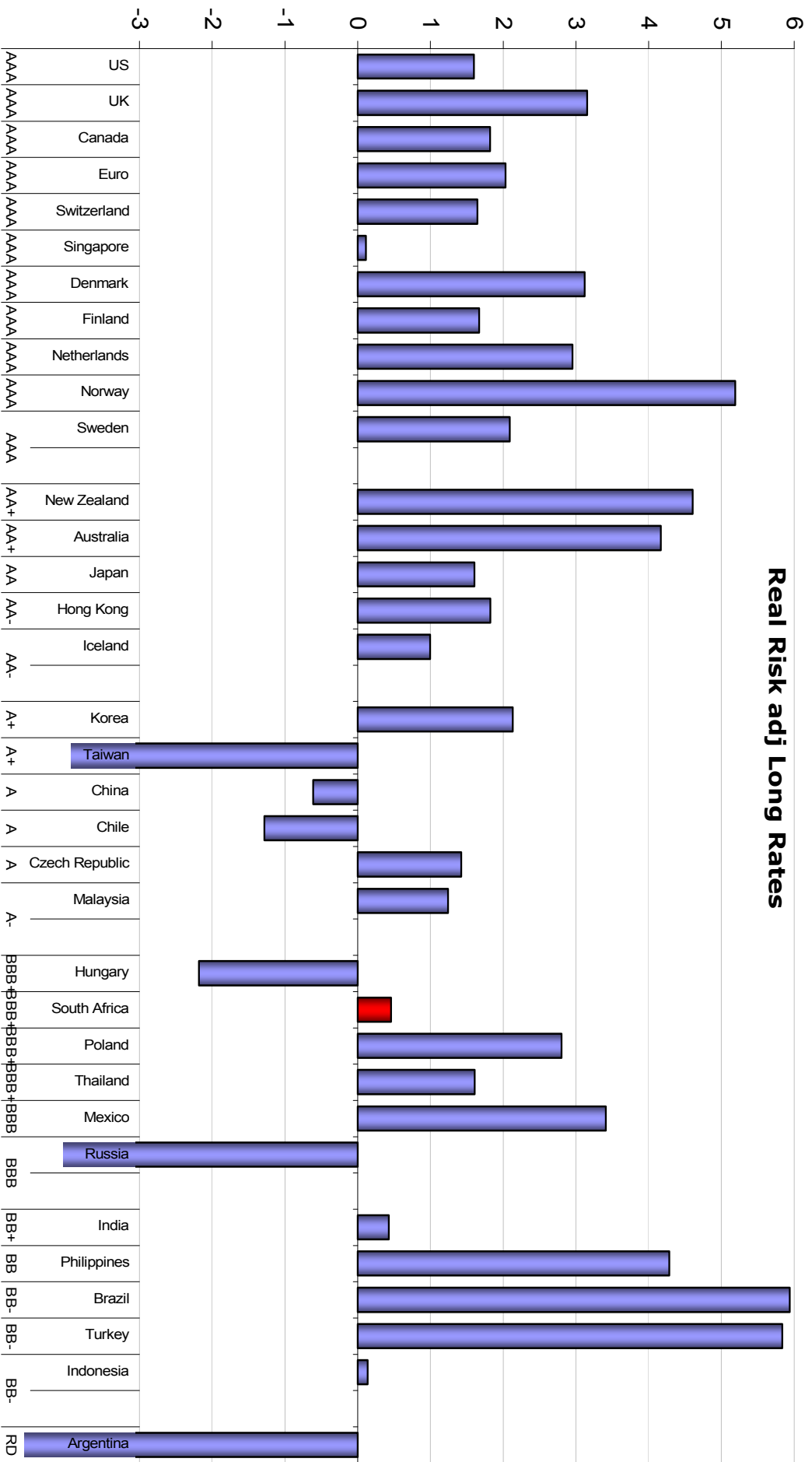


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Source: INet Bridge



International Real Long Rates



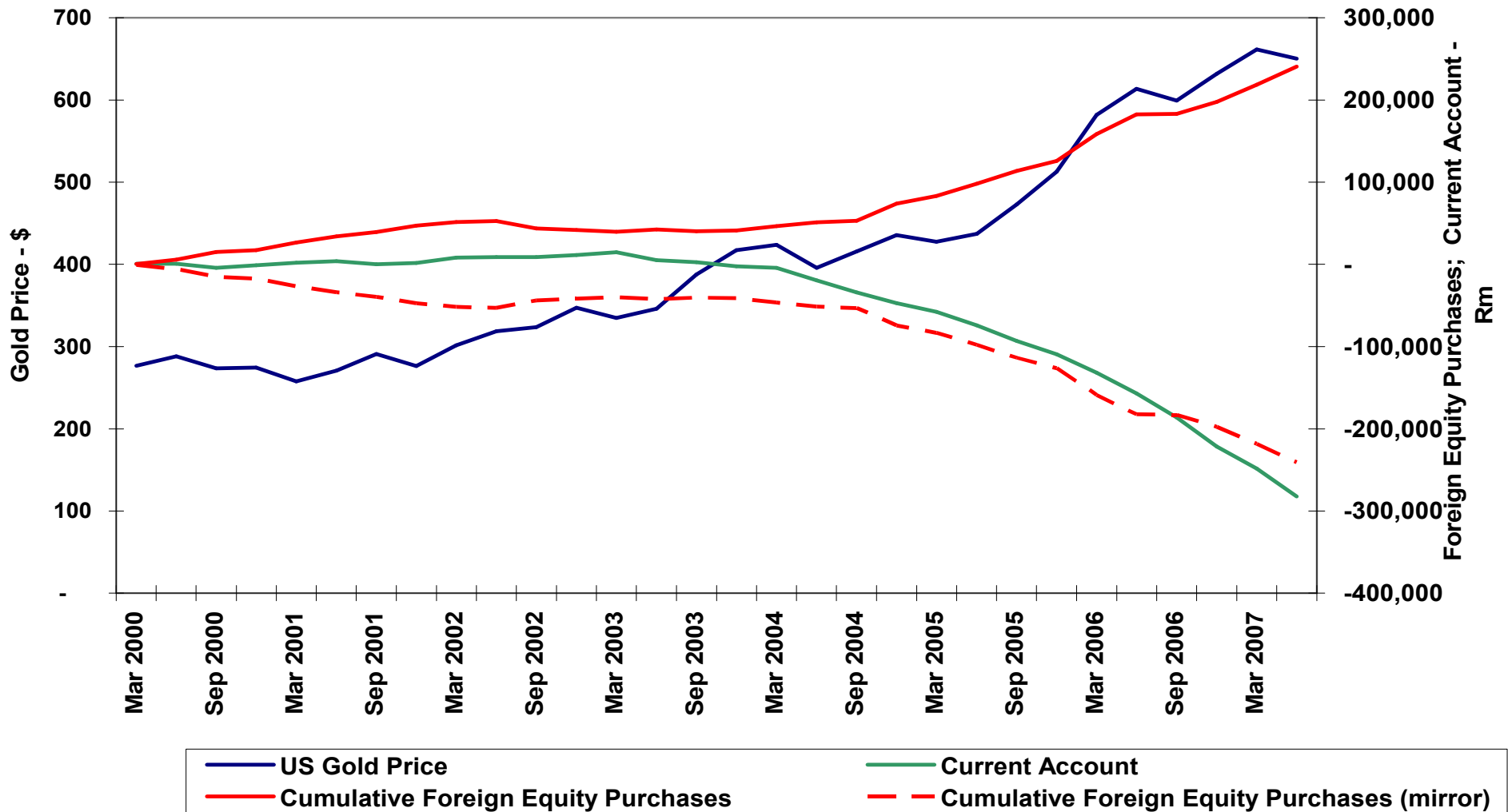
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Source: INet Bridge

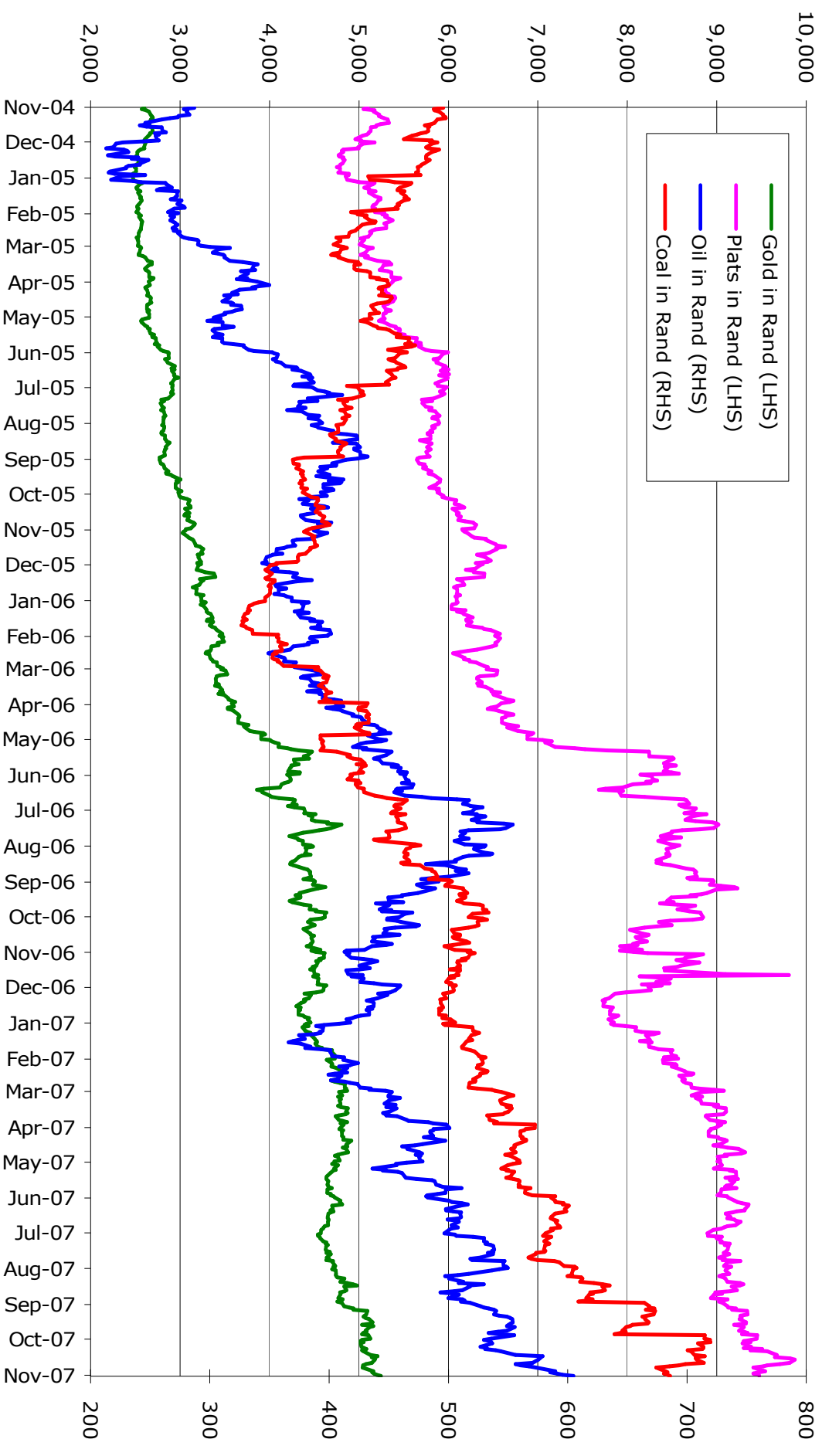


Risk to Rand and Rates

Financing the Current Account Deficit!



Commodity Prices

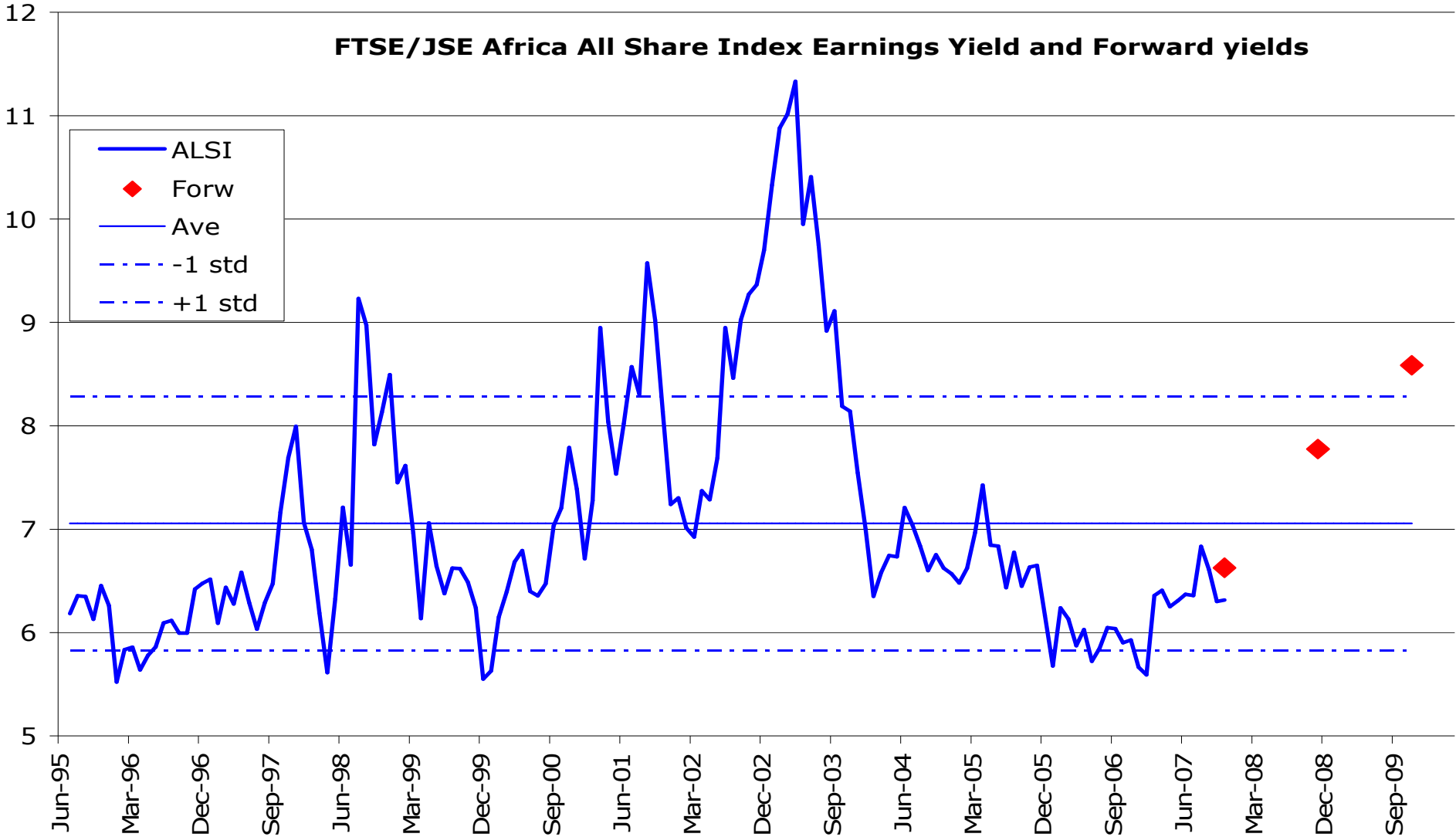


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Source: PIM, INet Bridge



SA Equity



Assessing the Equity Market

- ❖ Equities at fair value at best
- ❖ Need forwards to support further capital growth
- ❖ Commodities supporting...
- ❖ Manage protection!



TAA Portfolio Current Position

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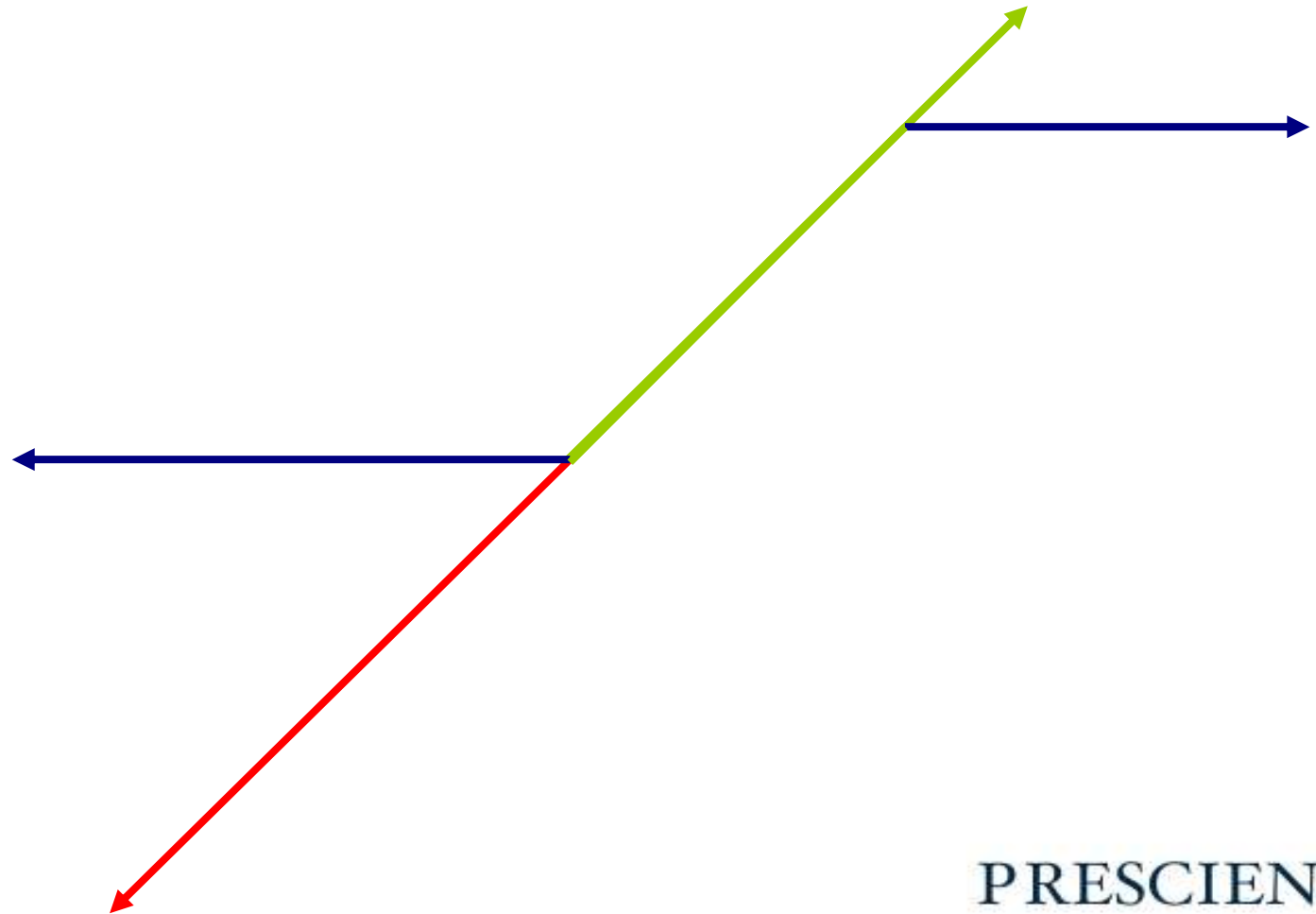
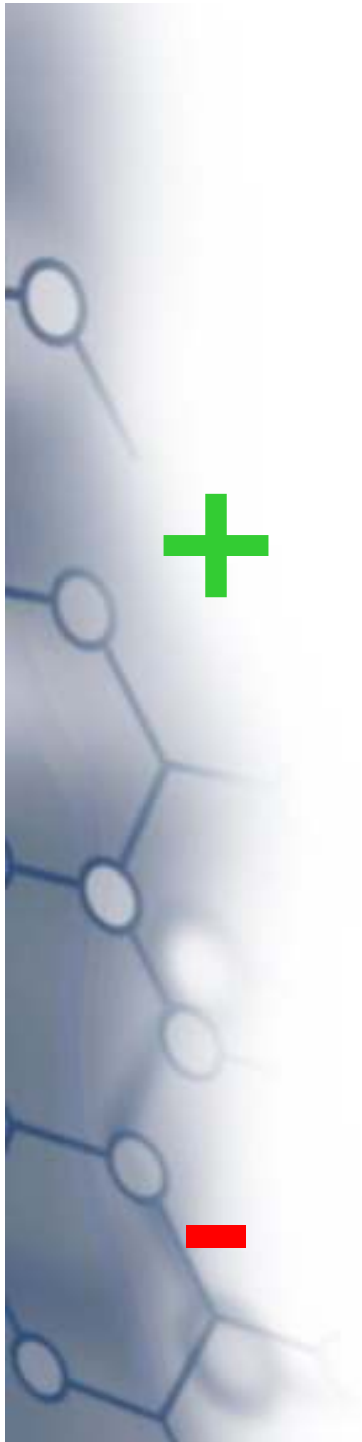
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Understanding of Mandate

- ❖ Tactical assets allocation
 - Increase or reduce asset classes
 - May utilise derivatives
 - No gearing
 - Reg 29 compliant
- ❖ Performance target
 - Outperformance STeFI Composite

Positive Return Fund

Derivatives

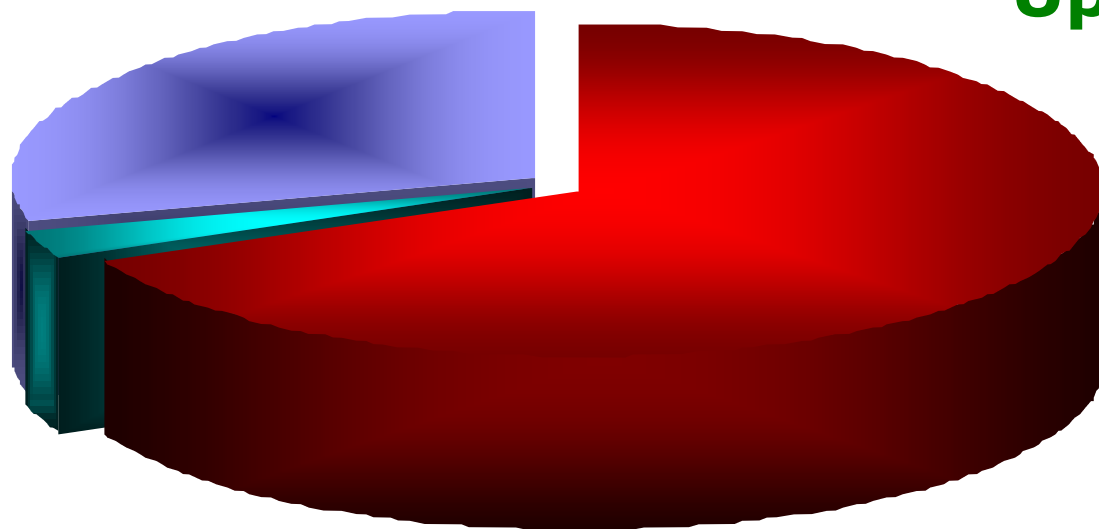


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Typical Exposure

Money Market 29.1%

Up market

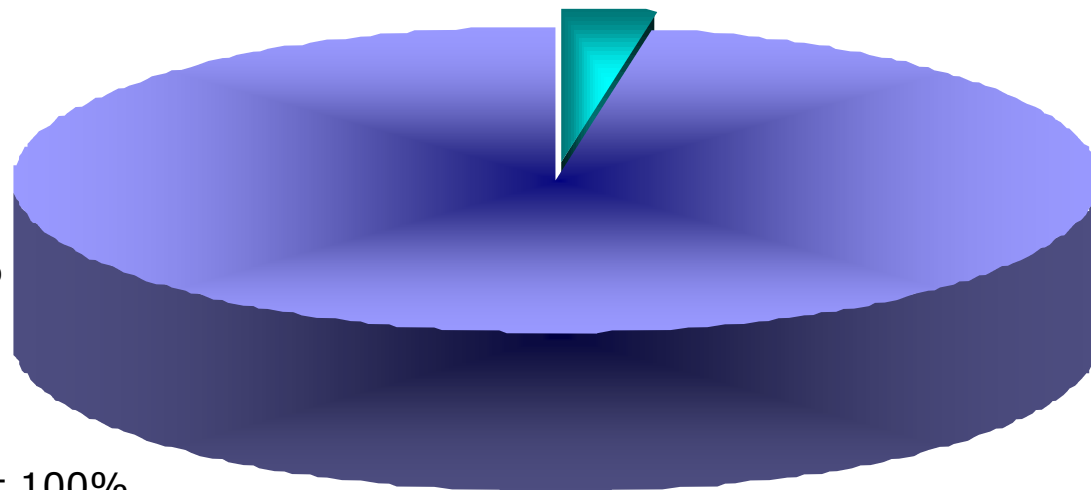


Protected Equity 68%

Pref. Shares 2.9%

Down market

Pref. Shares 2.9%

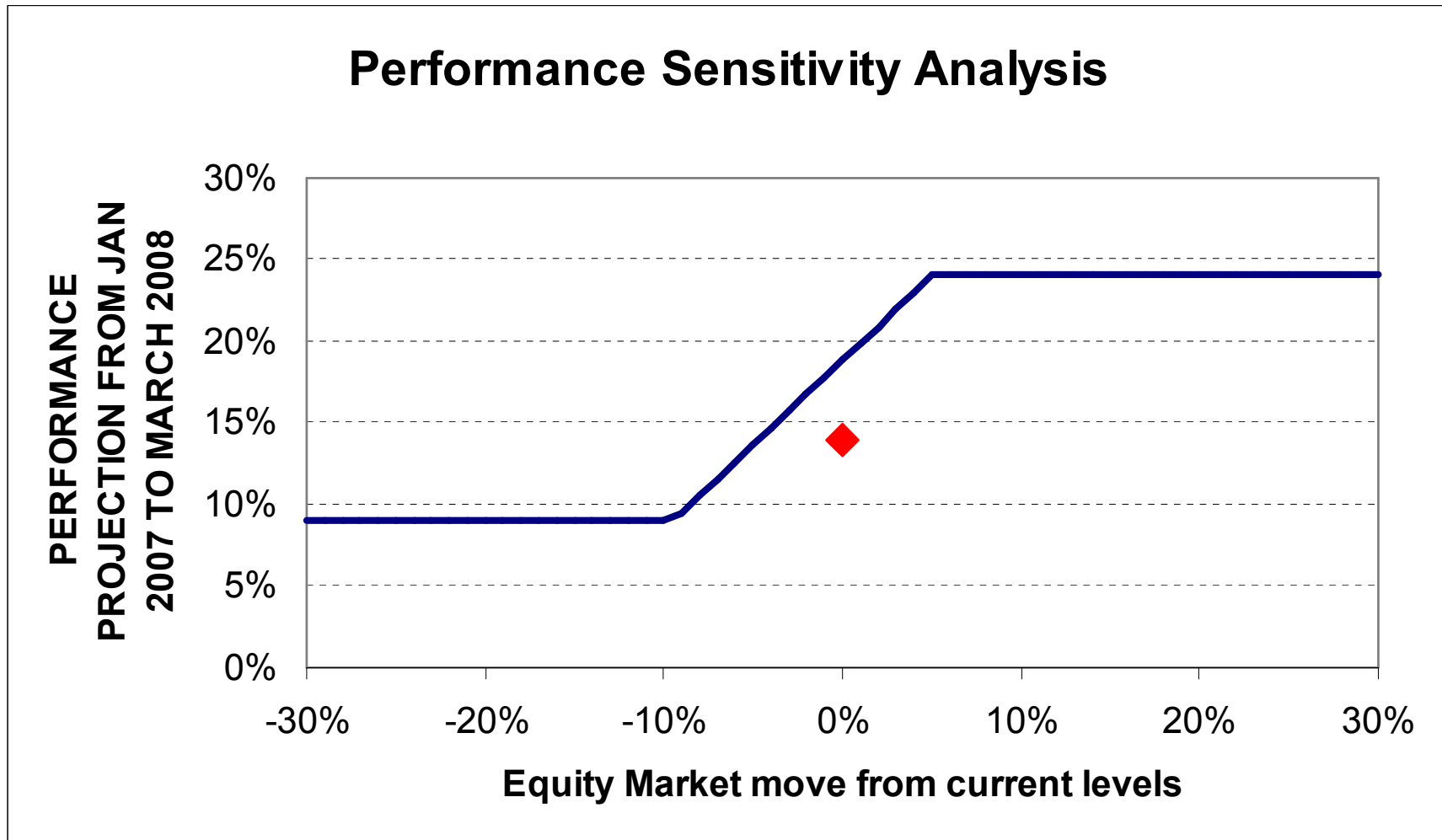


Protected Equity 0%

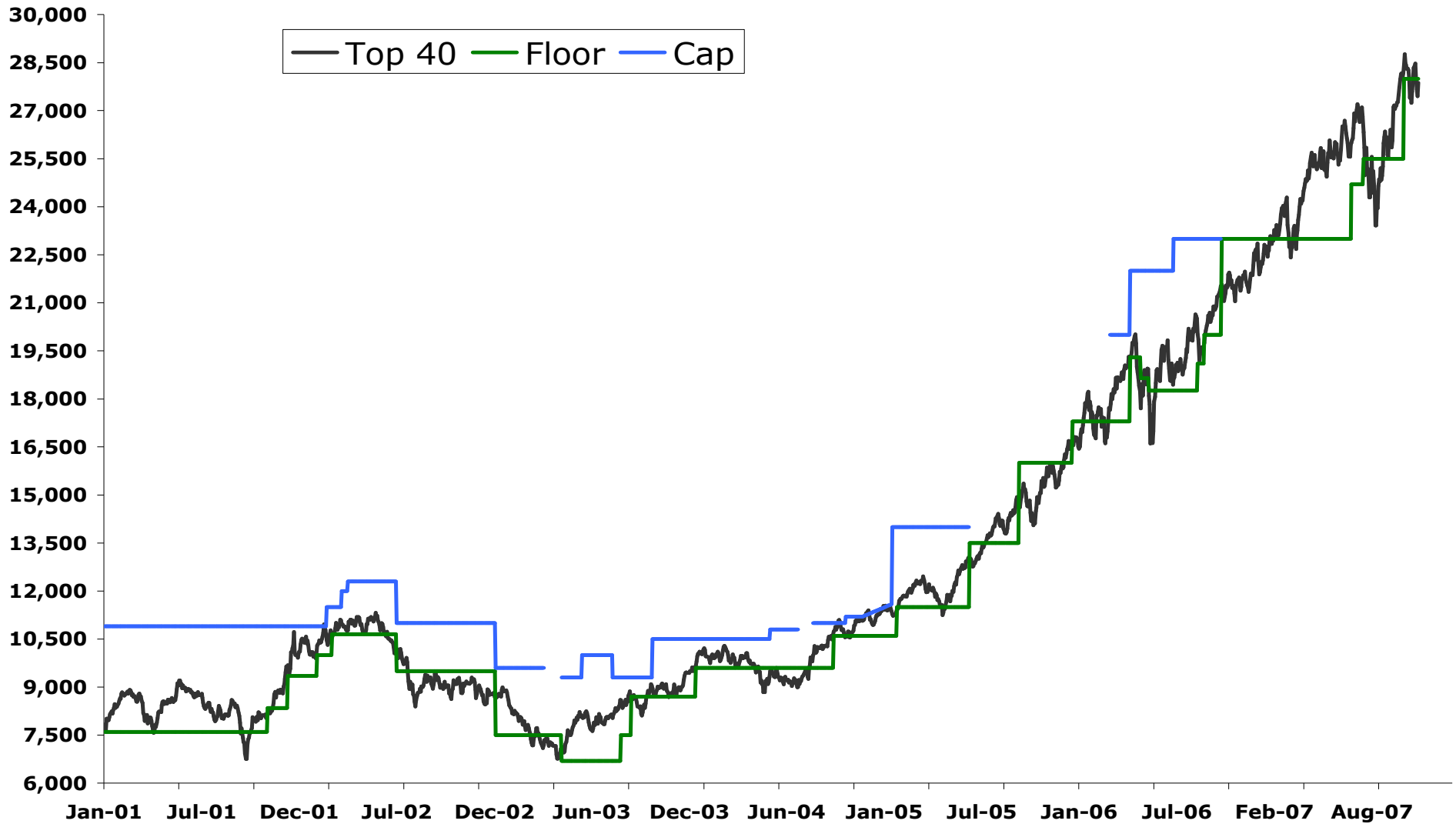
Money Market 100%

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TAA: Performance Sensitivity

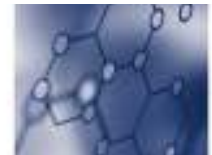


Dynamic Process

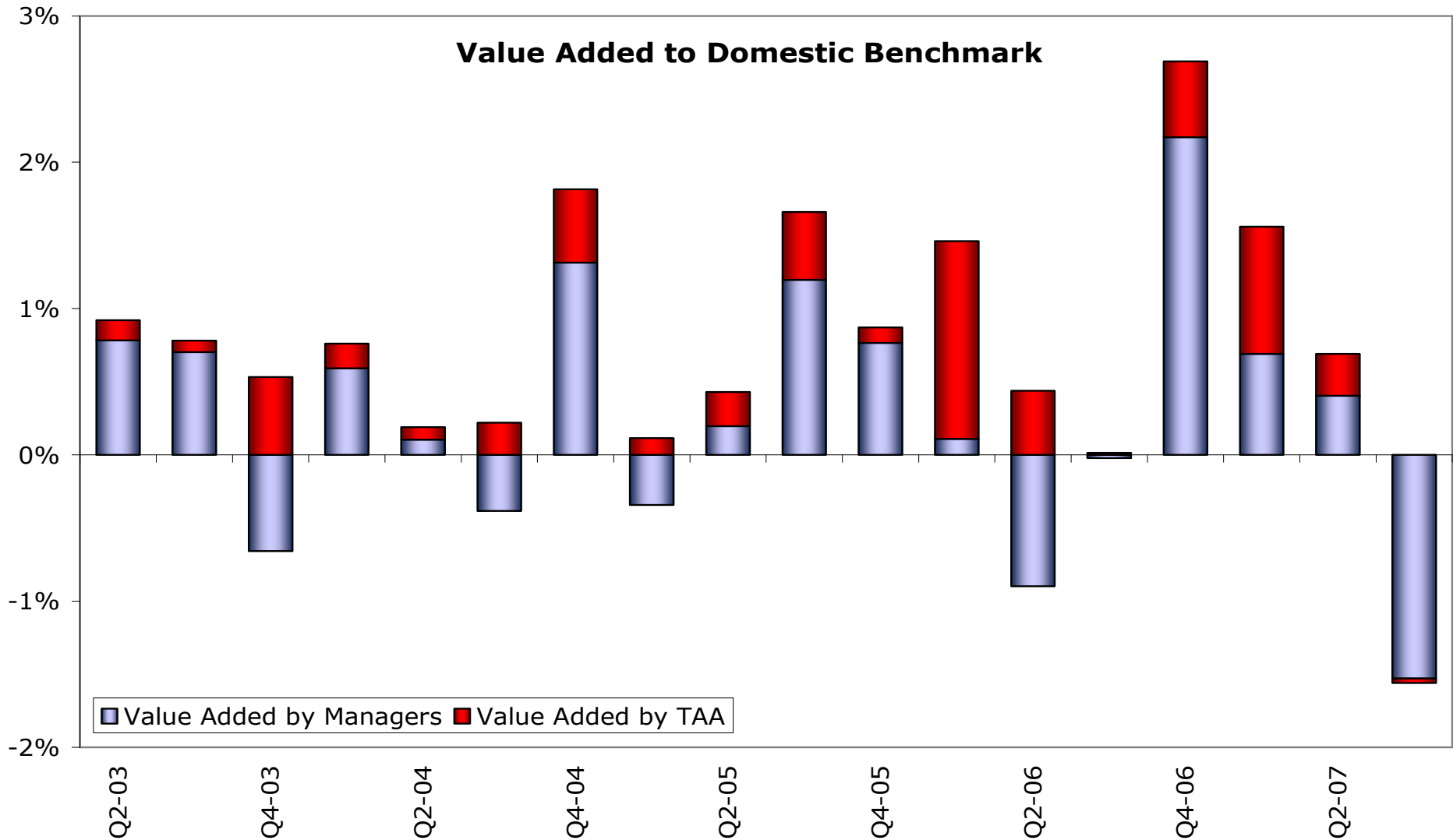


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Source: PIM, FTSE/JSE



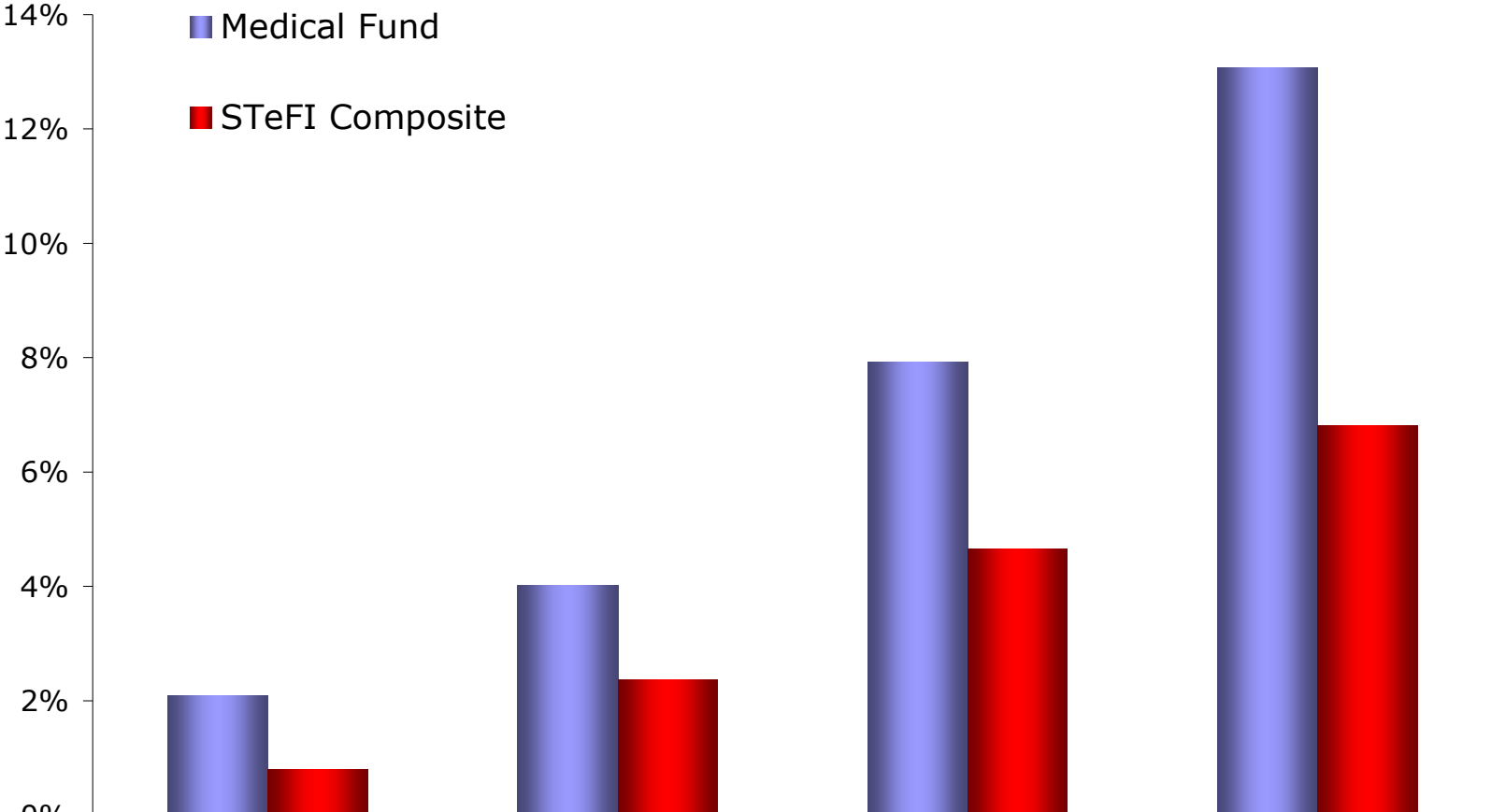
TAA for a Pension Fund



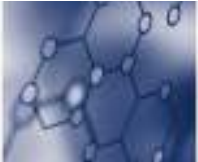
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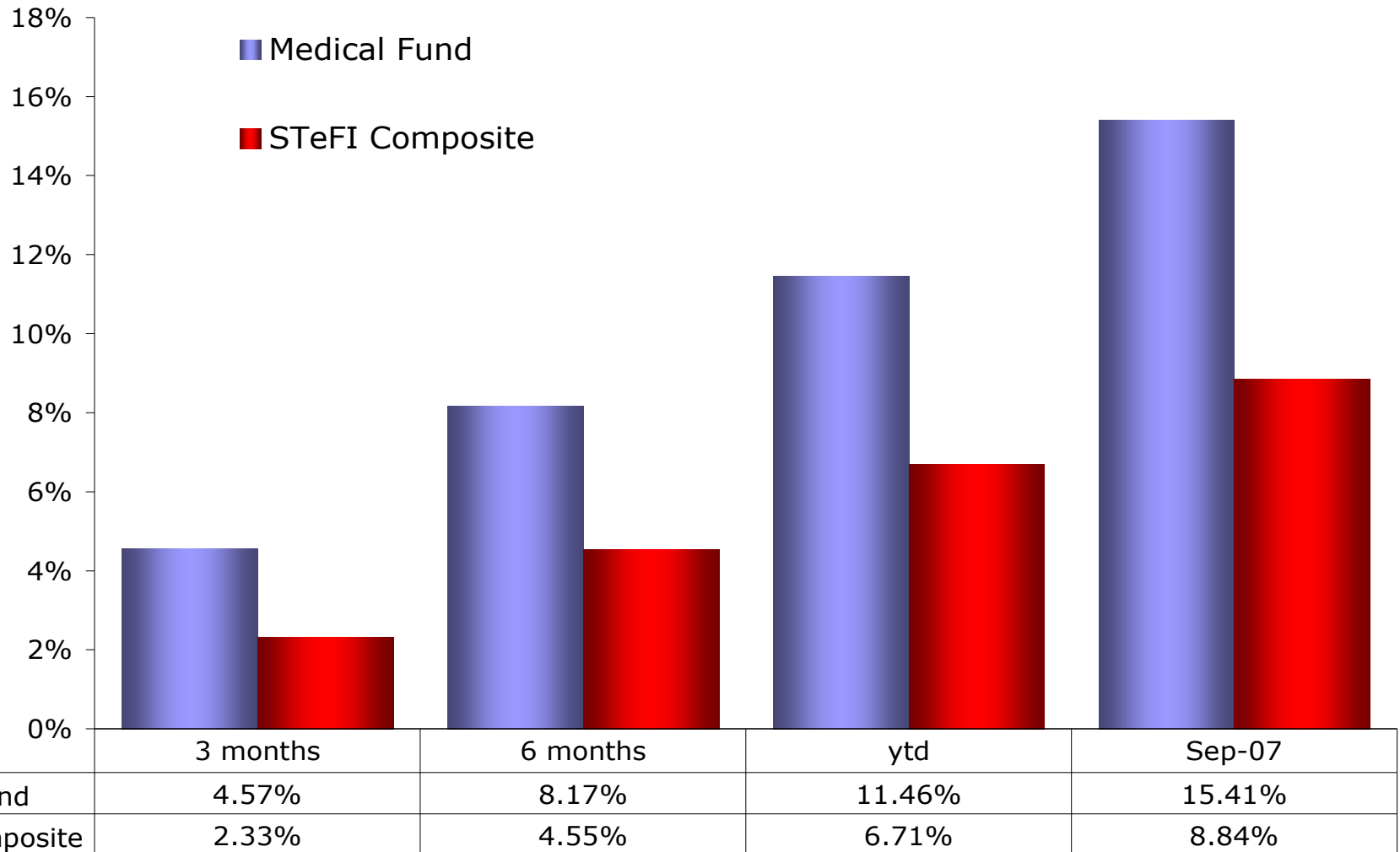
Performance: Medical Fund TAA



■ Medical Fund	2.10%	4.02%	7.93%	13.08%
■ STeFI Composite	0.81%	2.37%	4.65%	6.83%



TAA performance for IAC Clients



Portfolio Position

- ❖ Long equity
 - Equity exposure with protection
- ❖ Bull spread
 - Aug 2007 – 25 000
 - Caps at 29 000 to March 2008



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Information powerhouse containing its very own blueprint for growth and thriving, functioning as an efficient system by optimising how we bond ourselves together.

By organising our components into one single and intelligent model we are set to achieve our purpose of preservation and proliferation.

Investment Management is part of our DNA

Prescient in an authorised financial services provider no. 612

Regulatory Information

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