



Property Index Tracker
Quarterly Report
31 March 2011



Investment Management

Property Index Tracker

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Review for the Quarter

Just when the global economy was showing firm signs of recovery, the Japanese tsunami and earthquake rattled financial markets and looked set to put a dampener on world growth.

While Japan does comprise almost 9% of world gross domestic product, current indications are that these events should not derail global growth. However, it is at times like this that it is important to reiterate SIM's investment philosophy - and emphasise that our investment decisions are not based on short- to medium-term market ructions but on long-term valuations.

Two notable regulatory developments announced at the time of the Government's Budget in February were the promulgation of the new Regulation 28, which governs pension fund investments, and the planned introduction of a so-called Twin Peaks regulatory structure.

Key developments for pension funds in the new Regulation 28 are:

- Pension funds now have to have an investment policy statement that contains nine principles that a fund and its board must apply at all times;
- Hedge funds and private equity limits have been increased to 10% respectively and they are now recognised separately;
- Foreign exposure limits are now directly linked to the SARB prudential limits, which will remove any disparity in future, should the exchange control limits be amended again.

Meanwhile, we welcome the planned introduction of a Twin Peak model of regulatory oversight. The new structure will give the Reserve Bank responsibility for the "prudential" peak, which includes the prudential regulation of banks and insurance and assessing and responding to financial stability, and the Financial Services Board, the "market conduct" peak, which will be responsible for protecting the integrity of the financial sector by improving market conduct and protecting the consumer better.

Within the SIM business itself it was an eventful quarter. We decided to increase the focus and flexibility of the Unconstrained Equity investment team by setting them up as a stand-alone business as of April 1, 2011. Claude van Cuyck and Ricco Friedrich become minority equity stakeholders in the new business entity and will continue to manage all SIM's unconstrained equity institutional mandates.

We appointed Patrice Rassou as Head of Equities. He is an award-winning fund manager who has 12 years of investment experience and is a voting member of the equity Model Portfolio Group (MPG). Barend Ritter, who also has 12 years experience, becomes a voting member of the equity MPG. He manages the equity portfolios of the aggressive balanced funds and is also the analyst responsible for diversified miners and the platinum sector. Roy Chapman, Head of Equity Research and a voting member of SIM's MPG, becomes portfolio manager on the PIC Industrial Fund.

During the quarter we also appointed Ed D'Almeida as an equity fund manager within the SIM GenX Hedge Fund team. D'Almeida has been responsible for SIM's financial sector analysis and stock selection for SIM's large institutional funds. He will work with Vaughn Webber on the management of the equity hedge fund capability from June 1, 2011.

It's been a particularly mixed and dramatic start to 2011. The "unforecastable" happened in the Middle East, which has still not played itself out, and Japan's tragedy clouded the outlook for global growth. Investing involves taking on risk, but that means there's also value to be found in the market - and it is our job to find that value and deliver superior returns to our clients.

Kind regards.

Armien Tyer
Managing Director



Economic Review

Arthur Kamp - Chief Economist

Global

The largest fiscal and monetary expansion in history has produced a V-shaped global economic recovery in the aftermath of the Great Recession.

Available data indicates the global economy expanded more than 4% annualised during the first quarter of 2011. Together, the nascent recovery in the global job market, buoyant business surveys, the bounce in US corporate profits over the past year, ultra-loose monetary policy stances and easing lending standards point to continued expansion in the global economy into 2012. Further encouragement can be drawn from the relative improvement in the JP Morgan global services index in recent months. Even though this series eased in March, partly driven by weakness in Japan, it remains consistent with good momentum in the global services industry. This is favourable news for developed economies in particular.

Meanwhile, developing economies are enjoying the benefits of improvements in management of economies and human capital accumulation, in many instances off low GDP per capita bases. In tandem with favourable demographic trends, this points to a momentous shift in the global balance of economic activity in the decades ahead, away from developed economies towards emerging markets.

But, emerging market economies face challenges in the near term. Inflation is increasing and even though this in large part reflects jumps in commodity prices (including agricultural products), surplus capacity is limited in many and core inflation is rising too. Hence, numerous emerging market central banks have raised their policy interest rate or adopted other measures to ease growth rates.

Among developed economies, headline inflation is rising too and the oil price spike can be expected to constrain household real income. Core inflation is still low, but appears to have bottomed. Meanwhile, the increase in consumer price inflation to above the European Central Bank's (ECB) inflation target of "below but close to two percent" has prompted ECB President Jean-Claude Trichet to adopt a more hawkish tone, despite prevailing risks to the economic recovery. Even in developed economies expectations are likely to build off a shift towards less accommodative monetary policy stances.

Japan's earthquake has created additional uncertainty. The immediate impact can be expected through trade linkages. Emerging market Asia, including China, is more exposed than the rest of the world, given the level of exports from the region to Japan (both as proportion of total exports and as a share of GDP).

The final impact of this disaster on global real economic activity remains to be seen. At least Japan's economy was on the front foot and gaining momentum heading into 2011, while the momentum in global real economic

activity is also likely to be supportive. If the aftermath of Japan's Great Hanshin-Awaji earthquake in January 1995 (which measured 7.2 on the Richter magnitude scale) is any guide, we can expect an initial, sharp downward adjustment in industrial production, followed by a rebound as infrastructure rebuilding commences. This event, in isolation, appears unlikely to derail the global economic upswing.

Meanwhile, there is a pressing need to make progress on much needed fiscal consolidation in developed economies. Dauntingly large primary budget deficits in Europe, the UK and the US must also be turned into primary budget surpluses in the years ahead in order to stabilise and ultimately reduce government debt levels. That means less spending and/or higher taxes.

On balance, the economic upswing seems set to continue, but higher inflation, rising policy rates and the debt overhang in developed economies suggest the global economy may struggle to continuously match the momentum evident in early 2011. Indeed, although JP Morgan's global PMI manufacturing data series, excluding Japan, remained relatively favourable in March, its current level suggests the strong growth in global industrial production recorded in the first quarter is set to moderate, at least in the near term.

South Africa

South Africa continues to be buoyed by the material improvement in the country's terms of trade which, according to Reserve Bank data, is at its highest level in at least 50 years. The accompanying upswing in final consumption expenditure by households has been supported by disinflation and strong real compensation growth, a bounce in real household net wealth and low debt servicing cost.

Meanwhile, the rate of return on capital has shown some relative improvement, and continued growth in the economy into next year should prompt an improvement in private sector fixed investment spending.

Manufacturing production has recovered from its slump in the second half of last year. At 57.2, the March Kagiso PMI manufacturing points to continued expansion in production, with improvements in the ratio of new orders to inventory in recent months especially encouraging.

In 2010, some 8% of South Africa's total exports went to Japan, making the country the third largest export destination for our products. The largest export categories are platinum, iron ores, ferro-alloys and unwrought aluminium. An adverse impact on South Africa's exports appears inevitable in the near term. However, South Africa may, in time, benefit from an increase in demand for raw materials if reconstruction activity follows from the second half of this year into 2012. It is too early to estimate the ultimate impact, but current indications are Japan's early 2011 earthquake should not

Economic Review (continued)

influence our growth forecast for South Africa over 2011 and 2012 materially. Local GDP growth of some 3.5% is expected for 2011 and 2012.

While domestic core CPI is relatively stable, headline inflation has begun to increase in response to base effects and higher soft commodity prices. Headline CPI increased to 3.7% in January and remained unchanged in February from 3.5% in December (3.2% was the low in September 2010).

In the absence of continued rand appreciation, oil and food prices are expected to lift headline CPI to 5.75% by end-2011. CPI is expected to end 2012 at 5.25% and to average 4.8% and 5.4% in 2011 and 2012 respectively.

We continue to think the rand is overvalued. Fair value is estimated at R8.20 to the dollar. As a key assumption for the inflation forecast, the rand has depreciated back to fair value over 12 months.

Given the expected continued improvement in final demand and the forecast increase in consumer price inflation, the Reserve Bank is expected to shift towards a less accommodative stance by late 2011. The Bank's repo rate is forecast to increase by 50 basis points (bps) to 100 bps by end 2011.

However, current growth forecasts do not point to overly buoyant real economic activity. In addition, given the subdued state of the residential housing market, we do not appear set to return anytime soon to the exuberant credit extension environment evident in the previous business cycle upswing. Moreover, although conditions for fixed investment spending are likely to improve as the business cycle continues, current indications are the anticipated upswing in capital expenditure is unlikely to be explosive, implying moderate jobs growth only. Hence, while the Reserve Bank is expected to nudge its policy rate higher late this year, we do not expect the Bank to be overly aggressive. Ultimately, the Bank is unlikely to stifle a recovery that is still in its fledgling state.



Property Tracker Fund

Johann Hugo - Portfolio Manager

Market review

In our previous report, we pointed out that the strong bull market during the second half of 2010 had pushed listed property valuations ahead of direct property valuations. Overvaluation and rising bond yields led to a correction in fund prices during the quarter.

The consolidation of property funds remained an ongoing theme. During the quarter, Capital and Pangbourne merged. US-based Simon Property Group, the largest global shopping mall operator, walked away from making a bid for Capshop, its UK peer, when shareholders of the latter approved a major acquisition that introduced a large new blocking shareholder.

In contrast, there were fewer new listings than we anticipated, although several remained in the wings.

Performance and reason

Relative to equities, the property business model is transparent, based on contractual leases that are asset rich and high yielding. This model serves listed property well in times of economic uncertainty and thus listed property has slightly outperformed equities over the last year. Of the underlying sectors, retail property has remained relatively resilient during the cyclical downturn, as it has been in the past

Corporate actions had a negative effect on the portfolio's performance (capital return) during the first three months of 2011. This led to an **unavoidable** negative tracking error of five basis points (bps) relative to the benchmark. During early March we had the rights issue of Fountainhead Properties, which accounted for three bps, while the Capital/Pangbourne merger was responsible for the rest.

On a total return basis, the large cash portion (due to the build-up of dividends) in the portfolio caused a further drag on performance.

Outlook

On a clean-price basis, we forecast distribution growth of 8% for SA listed property over the next 12-month period. Escalations of 6% to 9% are being achieved on renewals, and expiring rents are not too far from market rents due to rapid increases in the latter during the previous upcycle.

Vacancy rates have increased, especially in office space, but seem to be manageable. Most management teams expect office vacancies to be peaking. The challenge for us will be to further upweight the more cyclical office and industrial sectors in preparation for the next direct property upswing.

Currently the SA sector yield 12 months out is 8.4% (up from 7.8% at the beginning of the quarter).



South African Money Market

Gert Steenkamp - Portfolio Manager

Market review

During the quarter, the Monetary Policy Committee (MPC) decided to keep the repo rate unchanged at 5.50%. This was in line with market expectations. Inflation remained within the Reserve Bank's target range during the quarter. Risks to inflation are still evenly balanced and inflation is expected to remain within the target range for an extended period.

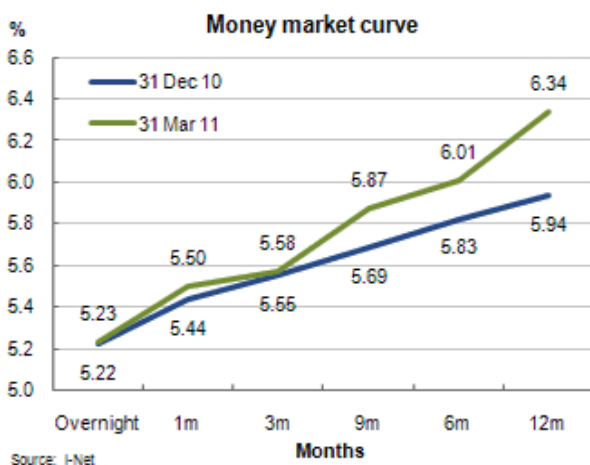
The money market curve steepened during the quarter, with the three-month money market rate increasing from 5.55% to 5.58%, while the twelve-month rate increased from 5.94% to 6.34%. Treasury bills in the 91-day area of the curve traded above the bank rates, and credit spreads on short-term corporate credit contracted during the quarter.

What SIM did

Assets were invested in all maturities across the money market yield curve during the quarter. Treasury bills were added to the portfolios, as well as quality corporate credit, which traded above the three-month money market rates. We included floating rate notes in the portfolio to enhance portfolio returns.

SIM strategy

Our preferred investments would be floating rate notes and quality corporate credit to enhance returns within the portfolios. We will continue to include 91-day treasury bills in the portfolio for as long as they offer good value above the three-month money market rate. We expect the repo rate to remain unchanged at the next MPC meeting.



Key Indicators

EQUITY INDICES (excl. dividends)		Level	% change	% change
International		31/03/2011	3 Months	12 Months
Dow Jones Industrial		12,320	6.41	13.48
NASDAQ		2,781	4.83	15.98
S & P 500		1,326	5.42	13.37
FTSE 100		5,909	(1.04)	4.03
Nikkei 225 Average		9,755	(4.63)	(12.04)
MSCI World Index (US\$)		1,335	4.29	11.19
South Africa		31/03/2011	3 Months	12 Months
All Share		32,204	0.27	12.02
Resources		57,241	1.67	10.39
Financial		8,211	0.48	1.86
Industrial		26,767	(0.10)	19.87
Interest Rates		%	bp change	bp change
International		31/03/2011	3 Months	12 Months
Indicator				
USA FED Fund Rate		0.25	-	-
USA 10 Year Rate		3.42	14	(41)
South Africa		31/03/2011	3 Months	12 Months
Capital Market				
5 Year Government Bond (R157)		7.82	51	(13)
10 Year Government Bond (R207)		8.68	56	4
Money Market				
SA Repo Rate		5.50	-	(100)
3 Month JIBAR		5.58	3	(110)
12 Month NCD		6.34	40	(115)
INFLATION (28/02/2011)			% change	% change
CPI		-	1.33	3.72
CPI-X		-	1.33	3.71
EXCHANGE RATES		Rate	% change	% change
R / USD		6.75	(1.98)	7.96
R / Euro		9.58	(7.66)	2.69
R / Pound		10.84	(4.90)	1.94
USD / Euro		1.42	(5.47)	(4.61)

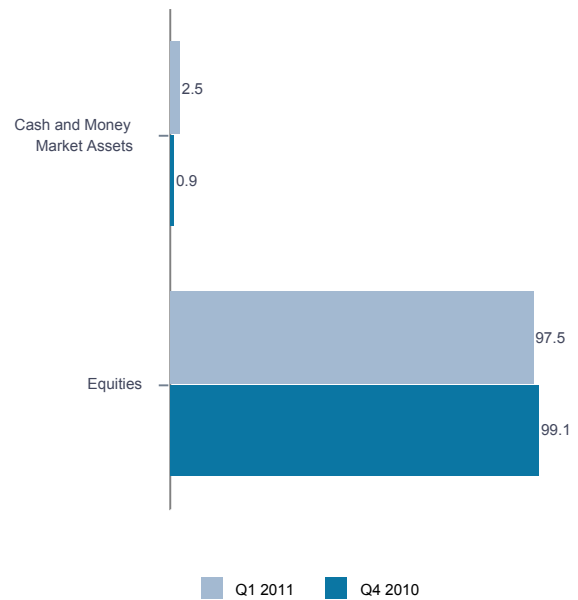
Source : I-Net

Portfolio Overview

Quarter ended 31 March 2011

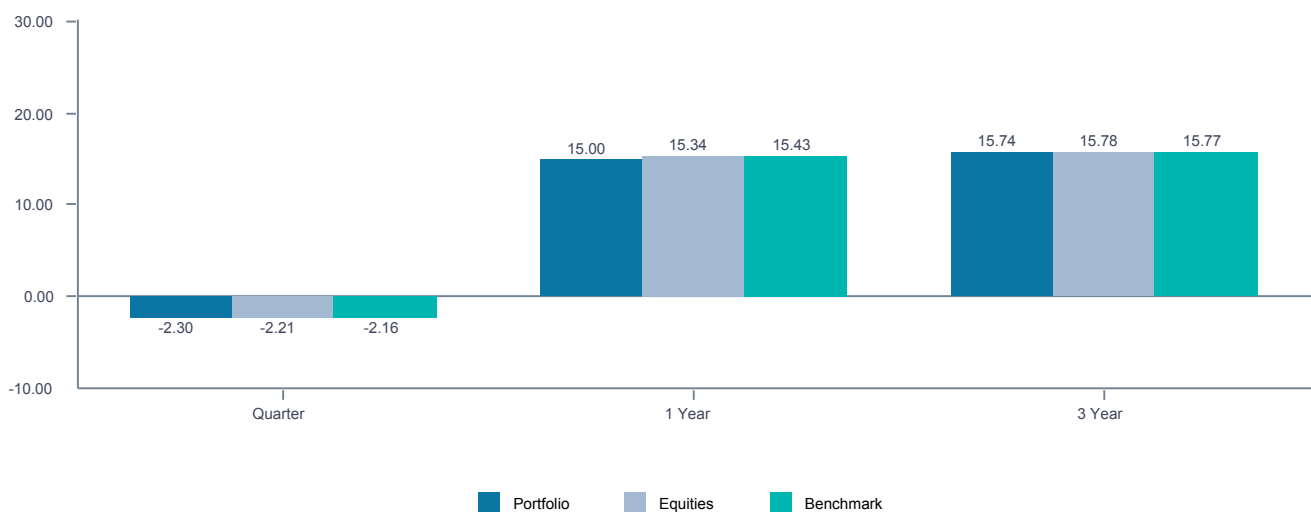
Cash flow for the Quarter	R
Closing Market Value: 31/12/2010	318,157,350.31
Contributions	0.00
Investment Income:	11,931,703.26
<i>Dividends</i>	<i>8,075,536.23</i>
<i>Interest</i>	<i>21,295.13</i>
<i>Received manufactured dividends</i>	<i>407,385.16</i>
<i>Scrip Lending Fee</i>	<i>54,281.97</i>
<i>Nett P & L on Sales</i>	<i>3,373,204.77</i>
Market Movements:	(19,188,088.48)
Withdrawals	0.00
Costs:	(3,472,001.70)
<i>Bank Costs</i>	<i>(23,012.68)</i>
<i>Distribution paid on Dividends A</i>	<i>(2,520,604.58)</i>
<i>UT Management Fees</i>	<i>(928,384.44)</i>
Closing Market Value: 31/03/2011	307,428,963.39

Effective Asset Allocation (%)



Benchmark	%
SA Property	100.0

Performance (%)



Performance figures are time-weighted and calculated in accordance with GIPS.

Equities

Quarter ended 31 March 2011

Major Transactions

Purchases	Shares bought	Amt. Paid (R)	Sales	Shares sold	Proceeds (R)
Capital	2,514,169	19,289,439	Pangbourne	1,185,516	21,630,146
Fountainhead	428,319	2,703,408	GrowthPoint	28,632	501,884
Premium	51,798	830,042	Redefine	49,013	339,943
Acucap	7,275	249,748	Resilient	4,662	129,085
Fortressa	15,261	164,041	Hyprop	2,269	125,538

Major Shareholdings

No.	Security Name	MV Current quarter (R`m)	% of Total Equities	Benchmark Weighting (%)	Quarter (%) Price Change
1	GrowthPoint	72.8	24.3	24.3	(5.7)
2	Redefine	54.0	18.0	18.0	(6.1)
3	Capital	35.4	11.8	11.8	(3.2)
4	Resilient	20.6	6.9	6.9	(7.6)
5	Fountainhead	19.3	6.4	6.4	(11.7)
6	SA Corp Real Estate	18.0	6.0	6.0	0.9
7	Hyprop	17.8	5.9	5.9	(6.4)
8	Emira	13.2	4.4	4.4	(6.5)
9	Acucap	11.9	4.0	4.0	(1.7)
10	Sycom	8.8	2.9	2.9	(2.1)
	Total	271.8	90.6	90.6	

Physical Portfolio Structure Summary

As at 31 March 2011

Asset Class	Book Value (R)	Market Value (R)	% of Portfolio	% of Category
Total Portfolio	285,461,086	307,428,963	100.0	100.0
Cash and Money Market Assets	7,739,069	7,739,069	2.5	100.0
Equities	277,722,017	299,689,895	97.5	100.0
Financials	277,722,017	299,689,895	97.5	100.0

Effective vs Physical Exposure

	Effective Exposure (%)		Physical Exposure (%)	
	31/03/11	31/12/10	31/03/11	31/12/10
Cash and Money Market Assets	2.52	0.88	2.52	0.88
Equities	97.48	99.12	97.48	99.12
Market Value (R'm)			307.43	318.19

Deviation due to breakdown of unitised portfolios into underlying securities.

Physical Portfolio Structure Detail

As at 31 March 2011

Holding	Security	Book Value	Market Value	% of Portfolio	% of Category
		(R)	(R)		
	Total Portfolio	285,461,086	307,428,963	100.0	100.0
	Cash and Money Market Assets	7,739,069	7,739,069	2.5	100.0
9,210	ABSA Cap Call PROPTR	9,210	9,329	0.0	0.1
-740,686	Net Current Assets - Cash And Money market	-740,686	-756,020	-0.2	-9.8
8,470,545	ABSA Inc Call PROPTR	8,470,545	8,485,761	2.8	109.6
	Equities	277,722,017	299,689,895	97.5	100.0
	Financials	277,722,017	299,689,895	97.5	100.0
344,857	Acucap Properties Ltd	10,775,839	11,863,081	3.9	4.0
591,344	Fortressa Income Fund Ltd A	6,226,201	6,475,217	2.1	2.2
4,209,775	Growthpoint Prop Ltd	65,006,430	72,787,010	23.7	24.3
178,330	Hospitality Property Fund Ltd	2,512,967	2,425,288	0.8	0.8
237,774	Hospitality Property Fund Limited - B	4,303,572	1,997,302	0.6	0.7
333,738	Hyprop Investments Ltd	15,158,585	17,801,585	5.8	5.9
179,407	Octodec Investments Limited	3,313,347	3,328,000	1.1	1.1
314,972	Premium Properties Ltd	4,341,826	5,323,027	1.7	1.8
7,206,424	Redefine Properties Ltd	51,733,851	54,048,180	17.6	18.0
685,463	Resilient Property Income Fund Ltd	15,465,857	20,563,890	6.7	6.9
270,484	Redefine Property Int Ltd	1,760,016	1,739,212	0.6	0.6
470,149	Vukile Property Fund Ltd	5,324,862	6,690,220	2.2	2.2
4,449,488	Capital Property Fund	31,303,844	35,373,430	11.5	11.8
1,020,642	Emira Property Fund	12,209,767	13,196,901	4.3	4.4
3,114,663	Fountainhead Property Trust	20,324,726	19,248,617	6.3	6.4
5,631,476	Sa Corp Real Estate Fund	19,960,081	18,020,723	5.9	6.0
434,330	Sycom Property Fund Managers Limited	8,000,247	8,808,212	2.9	2.9