



**Property Index Tracker**  
Quarterly Report  
30 June 2011



Investment Management

# Property Index Tracker

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## Review for the Quarter

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### **It's about valuations - not stories and dogma**

The one thing that has become clearly evident in the three great economic and market crises and corrections since 1998 - the last appropriately dubbed the Great Recession - is that there is a tendency for people to look for bubbles and risk in everything.

So the naively contrarian thing to do is to head in the other direction, for instance by investing in Greece because everyone else is fleeing this risk. To be sure, even now there are bubbles and mispriced risks around, of which Chinese property is one obvious example.

However, those of us who are students of the financial markets or, even better, have been around for at least the last 20 to 30 years in markets know, it's impossible to call timing - especially with technology and the resultant speed of transmission and interconnectivity of events.

In our view, it's far better to focus on risk-adjusted valuations and be pragmatic about where you invest. It's also important to recognise the structural changes underway within the global landscape. For instance, the growing importance of China and India on the world stage is not going to go away. Yes, there will be cycles within this long-term secular story - and these will present buying opportunities.

The bottom line: it's about the valuations and the detail and this is what we focus on at SIM - not stories and dogma.

For SIM, it has been a great first half of the year. We have had more than R3bn flow into SIM unit trusts, which is in line with 2010's entire inflows - SIM's best year in a decade. Our SIM Active Income Fund has attracted inflows of R1.1bn and more than R600m has been invested in our institutional SIM Unconstrained Capital Investments offering, including R113m into the SIM Value Fund. We also recently added to our small cap fund management and research expertise, hiring Sisa Rafuza, who has eight years of investment industry experience.

On the regulatory front, implementation of regulation 28 was postponed from July this year to end-December to give financial services players time to gear up for the changes. Also, at the end of March the Financial Services Board published the Treating Customers Fairly (TCF) Roadmap, which sets out a programme for ensuring that the fair treatment of customers is fully embedded in the culture of firms in the industry. As an investor-centric business, we fully support these regulatory moves.

Kind regards.

A handwritten signature in black ink, appearing to read 'Armien Tyer', written over a horizontal line.

**Armien Tyer**  
**Managing Director**



# Economic Review

Arthur Kamp - Chief Economist

## Global

The sharp deceleration in global growth was caused by factors that will hopefully prove to be temporary. Firstly, Japan's devastating earthquake in March had an immediate impact on real economic activity as global industrial production recorded outright declines in March and April. In May, the JP Morgan global Purchasing Managers Index (PMI) manufacturing index remained soft, decreasing 2.1 points to 51.9, while the fall in the global PMI manufacturing new orders to inventory ratio suggests no immediate recovery in production of any real consequence is likely over the next couple of months.

Secondly, the spike in oil prices in the first half of 2011 eroded real income growth in developed economies, constraining final consumption expenditure by households.

Meanwhile, firms around the globe have also been cutting back on inventory as the strong bounce in industrial production in the second half of 2010 continued into early 2011, even as final demand growth began to moderate.

Recent economic activity releases, while still mixed, have been more encouraging. In Japan, available data points to a nascent recovery in consumer spending and exports. Industrial production even managed to gain 1% in April and manufacturers appear eager to increase production in the months ahead.

Meanwhile, US durable goods orders data were robust in the second quarter of 2011. And, Redbook Chain Store Sales data suggests US household consumption expenditure numbers should be better in June. Consumption was exceptionally weak in May when spending on cars fell, partially due to Japan-related supply constraints. Also, the decline in jobless claims in May and early June (following April's spike) suggests US employment data should perk up in the months ahead, although further declines in jobless claims are required to justify this optimism.

Moreover, we know corporations' profits have bounced post-recession and credit extension to US businesses has perked up.

Provided Japan rebounds as expected and oil prices do not spike again after their recent softening, global growth should recover in the second half of 2011. However, it seems the best we can hope for is growth somewhere between the elevated level of 4% or so in late 2010/early 2011 and the disappointing second quarter outcome of 2.5%. But, while this is a plausible base case scenario, we should not ignore the risks that continue to stalk financial markets and the global economy. Foremost amongst these is the high and rising level of government debt in developed economies.

There is a pressing need to make progress on much

needed fiscal consolidation in developed economies. The continued increase in government bond yields in Greece, Ireland and Portugal suggests bond market participants in these countries believe the fiscal arithmetic leaves room for doubt on whether they will achieve what is needed. Even in the UK and the US dauntingly large primary budget deficits must be turned into primary budget surpluses in order to stabilise and ultimately reduce government debt levels. At the very least this implies less spending and/or higher taxes and, ultimately, lower potential economic growth in developed markets.

Higher food and energy prices and the concomitant increase in emerging and developed markets' headline consumer price inflation (CPI) is a well worn theme and emerging market (EM) central banks have been responding for quite some time.

EM headline CPI has remained stable at 6% in the past three months, but remains materially higher than its previous low of less than 4% in mid-2009. Meanwhile, developed market inflation continues to increase, advancing 2.8% in the year to May (this compares with 1.7% in December 2010). In the US, the annual advance in US CPI has spiked in the past six months from 1.1% in November 2010 to 3.6% in May 2011. At the same time, global headline CPI has continued to increase, advancing 3.7% year-on-year in May (up from 2.8% in Dec 2010).

However, with global soft commodity prices steady, focus should now turn towards core inflation. Global core inflation (headline CPI excluding food and energy) has been drifting upwards, but not as sharply as headline CPI.

Core inflation is relatively higher in EM than developing markets (DM), but DM core CPI has, nonetheless, also been edging upwards. In the US, rental vacancies have begun to decline, suggesting the advance in CPI rents and Owners' Equivalent Rents (OER) are likely to gain momentum. This is potentially an important development, since rents and OER combined account for some 40% of US core CPI. Already, US core inflation has drifted higher to an annual advance of 1.5% in May from 0.6% in October last year.

The European Central Bank (ECB) has already hiked its policy rate 25bp in April. Should real US economic activity recover in the second half of this year and core inflation trends upwards, the US Federal Reserve will ostensibly need to review US monetary policy - which was formulated at a time when deflation was thought to be a risk.

## Local

South African economic activity has been boosted by the highest level of terms of trade since at least 1960. Overall growth in gross domestic product (GDP) advanced at a healthy rate of 4.8% annualized in the first quarter of this

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## Economic Review (continued)

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year. Indications are the recovery is broadening to include the tertiary sector of the economy.

Final demand has accelerated strongly over the past year, led by the final consumption expenditure (FCE) of households. Specifically, real FCE by households advanced 5.2% annualised in the first quarter of this year, supported by strong real personal disposable income growth, given high wage increases against the backdrop of relatively low inflation.

The pace of FCE households' growth is expected to moderate into 2012, as higher inflation constrains real personal disposable income growth. Nonetheless, continued expansion should encourage improved fixed investment spending once the marginal rate of return on capital registers further improvement. Indeed, private sector fixed investment did manage a positive gain of 2.7% annualised in the first quarter.

Strong mining profit growth has supported the recovery in total profits growth, but this implies vulnerability should commodity export prices collapse. GDP growth of 3.75% and 3.5% is expected in 2011 and 2012 respectively - more or less in line with potential.

Inflation has bottomed and is expected to increase further through the second half of the year. The favourable impact of sustained rand strength is now fading. Soft commodity prices are materially higher than a year ago and administered price inflation has been increasing. The key uncertainties for the economy are the outlook for the rand, oil and food prices. The forecast, which shows CPI at 5.9% and 5.4% in December 2011 and December 2012 respectively, assumes the rand depreciates to its "fair" value over the next twelve months. We also expect oil prices to end 2011 at \$100 a barrel and remain unchanged in 2012, while food price inflation is forecast to peak at 10% in December 2011.

In the medium term (2013) CPI is forecast to moderate towards 5.25%, which is our long-run inflation assumption, as the expected temporary influence of commodity price increases fades.

In tandem, SA's extraordinarily high unemployment rate and its persistent current account deficit suggest the currency is overvalued. The strong appreciation of the real effective exchange rate in recent years tells a similar story. We believe purchasing power parity remains the best guide to the direction the currency is likely to take in the long run. Our fair value estimate of R8.20 a dollar is based on this methodology.

Given the anticipated increase in inflation towards the upper limit of the Reserve Bank's inflation target band by December, the Bank is expected to nudge its policy rate higher. However, we continue to argue the SARB Monetary Policy Committee is hardly likely to be aggressive in an environment where the economy is expected to grow in line with potential and total private

sector credit extension and employment creation is soft. We pencil in an increase in the Reserve Bank's repo rate of 150-200 basis points over the next 18 months.



# Property Tracker Fund

Johann Hugo - Portfolio Manager

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## Market review

What proved to be a temporary correction in fund prices was followed by resumed positive price momentum from mid-March. This saw SA listed property companies outperforming both bonds and shares during the second quarter and the SAPY Index realising a positive return of about 5 %.

We noted in our last report that there had been fewer new listings than we anticipated, although several remained in the wings. Investec Property Fund and Rebosis were listed during the second quarter. The former succeeds Growthpoint, which was incubated in the Investec Group, while the latter, Rebosis, is a pioneering Black-founded property listing. The Investec fund was added to the SAPY Index during the June 2011 rebalancing.

## Performance and reason

Relative to equities, the property business model is transparent, based on contractual leases, and is asset rich and high yielding. This model serves listed property well in times of uncertainty over economic growth. Listed property has outperformed equities by a wide margin over the last three years (27% v 4% pa). Risk was rewarded, in that bonds returned 13% a year over this period.

The most important changes during the quarter were the meaningful shares-in-issue increase from Acucap and the addition of the Investec Property Fund to the SAPY index during the June 2011 rebalancing.

The fund performed in line with its benchmark.

## Outlook

On a clean-price basis, we forecast distribution growth of 6% from 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 up cycle.

Our forecast of distribution growth at the beginning of the quarter was 8%. The main reason for reducing our forecast is to reflect cost increases, in particular for electricity and rates - which are administered and are increasing particularly rapidly. To the extent that these are passed on to tenants, they increase the total cost of occupancy and are likely to be a drag on future rental increases.

Vacancy rates have increased, especially in office space, but seem to be manageable. Most management teams expect office vacancies to be peaking.

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



# South African Money Market

Gert Steenkamp - Portfolio Manager

## Market review

During the quarter, the Monetary Policy Committee (MPC) kept 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 remained evenly balanced, with inflation expected to remain within the target range for an extended period.

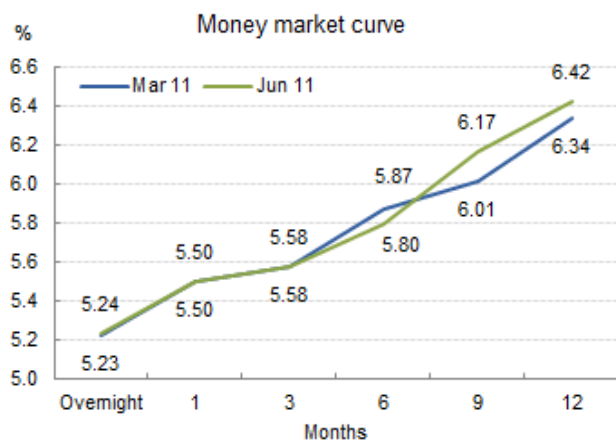
The money market curve steepened during the quarter, with the three-month money market rate unchanged at 5.575%, while the twelve-month rate increased marginally from 6.335% to 6.420%. Treasury bills in the 91 days area of the curve traded above the bank rates, and credit spreads on short-term corporate credit decreased during the quarter.

## What SIM did

We invested in assets across all maturities along the money market yield curve during the quarter. We added Treasury Bills 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
<b>International</b>		<b>30/06/2011</b>	<b>3 Months</b>	<b>12 Months</b>
Dow Jones Industrial	12,414	0.77	27.01	
NASDAQ	2,774	(0.27)	31.49	
S & P 500	1,321	(0.39)	28.13	
FTSE 100	5,946	0.63	20.92	
Nikkei 225 Average	9,816	0.63	4.62	
MSCI World Index (US\$)	1,331	(0.28)	27.84	
<b>South Africa</b>		<b>30/06/2011</b>	<b>3 Months</b>	<b>12 Months</b>
All Share	31,865	(1.05)	21.35	
Resources	53,933	(5.78)	18.15	
Financial	8,128	(1.01)	12.42	
Industrial	27,749	3.67	31.45	
<b>Interest Rates</b>		<b>%</b>	<b>bp change</b>	<b>bp change</b>
<b>International</b>		<b>30/06/2011</b>	<b>3 Months</b>	<b>12 Months</b>
<b>Indicator</b>				
USA FED Fund Rate	0.25	-	-	
USA 10 Year Rate	3.14	(28)	18	
<b>South Africa</b>		<b>30/06/2011</b>	<b>3 Months</b>	<b>12 Months</b>
<b>Capital Market</b>				
5 Year Government Bond (R157)	7.50	(32)	(53)	
10 Year Government Bond (R207)	8.39	(29)	(47)	
<b>Money Market</b>				
SA Repo Rate	5.50	-	(100)	
3 Month JIBAR	5.58	-	(104)	
12 Month NCD	6.42	9	(84)	
<b>INFLATION (31/05/2011)</b>			<b>% change</b>	<b>% change</b>
CPI	-	2.01	4.57	
CPI-X	-	2.18	4.65	
<b>EXCHANGE RATES</b>		<b>Rate</b>	<b>% change</b>	<b>% change</b>
R / USD	6.76	(0.12)	13.42	
R / Euro	9.80	(2.28)	(4.40)	
R / Pound	10.83	0.08	5.65	
USD / Euro	1.45	(2.32)	(15.63)	

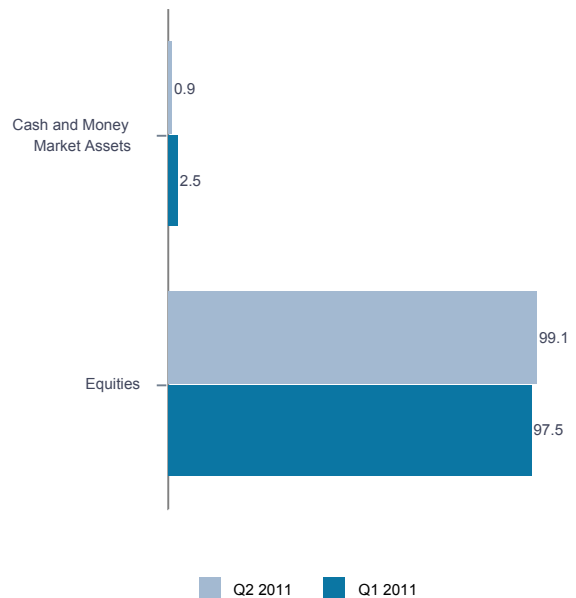
Source : I-Net

# Portfolio Overview

Quarter ended 30 June 2011

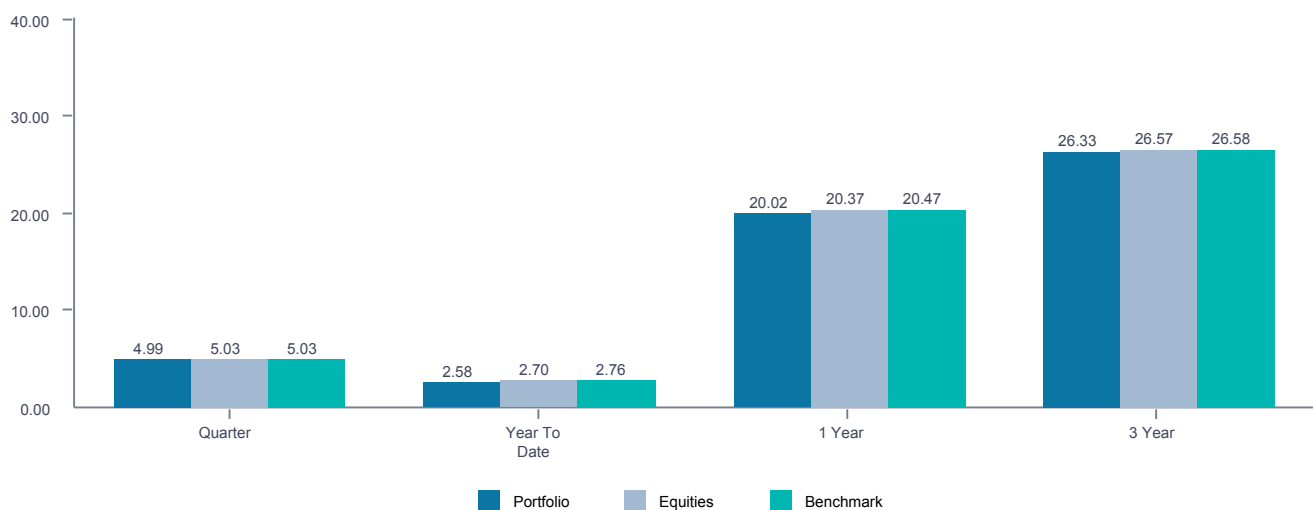
Cash flow for the Quarter	R
<b>Closing Market Value: 31/03/2011</b>	<b>307,428,963.39</b>
Contributions	3,699,173.94
Investment Income:	4,455,929.87
<i>Dividends</i>	3,702,114.72
<i>Interest</i>	24,285.39
<i>Scrip Lending Fee</i>	23,576.54
<i>Nett P &amp; L on Sales</i>	705,953.22
Market Movements:	10,715,075.25
Withdrawals	0.00
Costs:	(8,458,825.39)
<i>Bank Costs</i>	(25,279.71)
<i>Distribution paid on Dividends A</i>	(7,637,627.46)
<i>UT Management Fees</i>	(795,918.22)
<b>Closing Market Value: 30/06/2011</b>	<b>317,840,317.06</b>

## Effective Asset Allocation (%)



Benchmark	%
SA Property	100.0

## Performance (%)



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

# Equities

Quarter ended 30 June 2011

## Major Transactions

Purchases	Shares bought	Amt. Paid (R)	Sales	Shares sold	Proceeds (R)
Acucap	109,611	4,362,042	Capital	194,702	1,655,842
Investec Prop Fund	225,053	2,361,318	Redefine	83,709	687,974
Fortressa	20,270	220,755	Fountainhead	36,179	235,737
Redefintl	25,240	160,297	Hyprop	3,877	222,032
Resilient	4,112	119,263	SA Corp Real Estate	65,414	219,847

## Major Shareholdings

No.	Security Name	MV Current quarter (R`m)	% of Total Equities	Benchmark Weighting (%)	Quarter (%) Price Change
1	GrowthPoint	77.2	24.5	24.5	5.9
2	Redefine	55.9	17.8	17.8	4.7
3	Capital	35.1	11.1	11.1	3.6
4	Resilient	21.6	6.9	6.9	4.7
5	Fountainhead	19.8	6.3	6.3	4.2
6	SA Corp Real Estate	18.5	5.9	5.9	3.7
7	Hyprop	18.0	5.7	5.7	2.2
8	Acucap	16.1	5.1	5.1	3.2
9	Emira	13.4	4.3	4.3	3.1
10	Sycom	8.9	2.8	2.8	2.6
	<b>Total</b>	<b>284.5</b>	<b>90.4</b>	<b>90.4</b>	

# Physical Portfolio Structure Summary

As at 30 June 2011

Asset Class	Book Value (R)	Market Value (R)	% of Portfolio	% of Category
<b>Total Portfolio</b>	<b>285,157,364</b>	<b>317,840,317</b>	<b>100.0</b>	<b>100.0</b>
<b>Cash and Money Market Assets</b>	<b>2,961,924</b>	<b>2,961,924</b>	<b>0.9</b>	<b>100.0</b>
<b>Equities</b>	<b>282,195,440</b>	<b>314,878,393</b>	<b>99.1</b>	<b>100.0</b>
<b>Financials</b>	<b>282,195,440</b>	<b>314,878,393</b>	<b>99.1</b>	<b>100.0</b>

## Effective vs Physical Exposure

	Effective Exposure (%)		Physical Exposure (%)	
	30/06/11	31/03/11	30/06/11	31/03/11
Cash and Money Market Assets	0.93	2.52	0.93	2.52
Equities	99.07	97.48	99.07	97.48
<b>Market Value (R'm)</b>			<b>317.84</b>	<b>307.43</b>

**Deviation due to breakdown of unitised portfolios into underlying securities.**

# Physical Portfolio Structure Detail

As at 30 June 2011

Holding	Security	Book Value	Market Value	% of Portfolio	% of Category
		(R)	(R)		
	<b>Total Portfolio</b>	<b>285,157,364</b>	<b>317,840,317</b>	<b>100.0</b>	<b>100.0</b>
	<b>Cash and Money Market Assets</b>	<b>2,961,924</b>	<b>2,961,924</b>	<b>0.9</b>	<b>100.0</b>
4,132	ABSA Cap Call PROPTR	4,132	4,151	0.0	0.1
189,543	Net Current Assets - Cash And Money market	189,543	180,982	0.1	6.1
2,768,249	ABSA Inc Call PROPTR	2,768,249	2,776,790	0.9	93.7
	<b>Equities</b>	<b>282,195,440</b>	<b>314,878,393</b>	<b>99.1</b>	<b>100.0</b>
	<b>Financials</b>	<b>282,195,440</b>	<b>314,878,393</b>	<b>99.1</b>	<b>100.0</b>
454,468	Acucap Properties Ltd	15,137,881	16,133,614	5.1	5.1
611,614	Fortressa Income Fund Ltd A	6,446,956	6,880,658	2.2	2.2
4,215,031	Growthpoint Prop Ltd	65,185,605	77,177,218	24.3	24.5
176,259	Hospitality Property Fund Ltd	2,483,160	2,539,892	0.8	0.8
235,012	Hospitality Property Fund Limited - B	4,224,817	1,762,590	0.6	0.6
329,861	Hyprop Investments Ltd	15,007,790	17,977,425	5.7	5.7
225,053	Investec Property Fund Limited	2,361,318	2,363,057	0.7	0.8
177,323	Octodec Investments Limited	3,274,927	3,156,349	1.0	1.0
311,314	Premium Properties Ltd	4,301,117	5,089,984	1.6	1.6
7,122,715	Redefine Properties Ltd	51,169,206	55,913,313	17.6	17.8
689,575	Resilient Property Income Fund Ltd	15,625,413	21,652,655	6.8	6.9
295,724	Redefine Property Int Ltd	1,920,294	1,892,634	0.6	0.6
464,688	Vukile Property Fund Ltd	5,278,635	6,598,570	2.1	2.1
4,254,785	Capital Property Fund	29,980,436	35,059,428	11.0	11.1
1,008,786	Emira Property Fund	12,080,372	13,447,117	4.2	4.3
3,078,484	Fountainhead Property Trust	20,086,496	19,825,437	6.2	6.3
5,566,062	Sa Corp Real Estate Fund	19,709,339	18,479,326	5.8	5.9
429,285	Sycom Property Fund Managers Limited	7,921,679	8,929,128	2.8	2.8