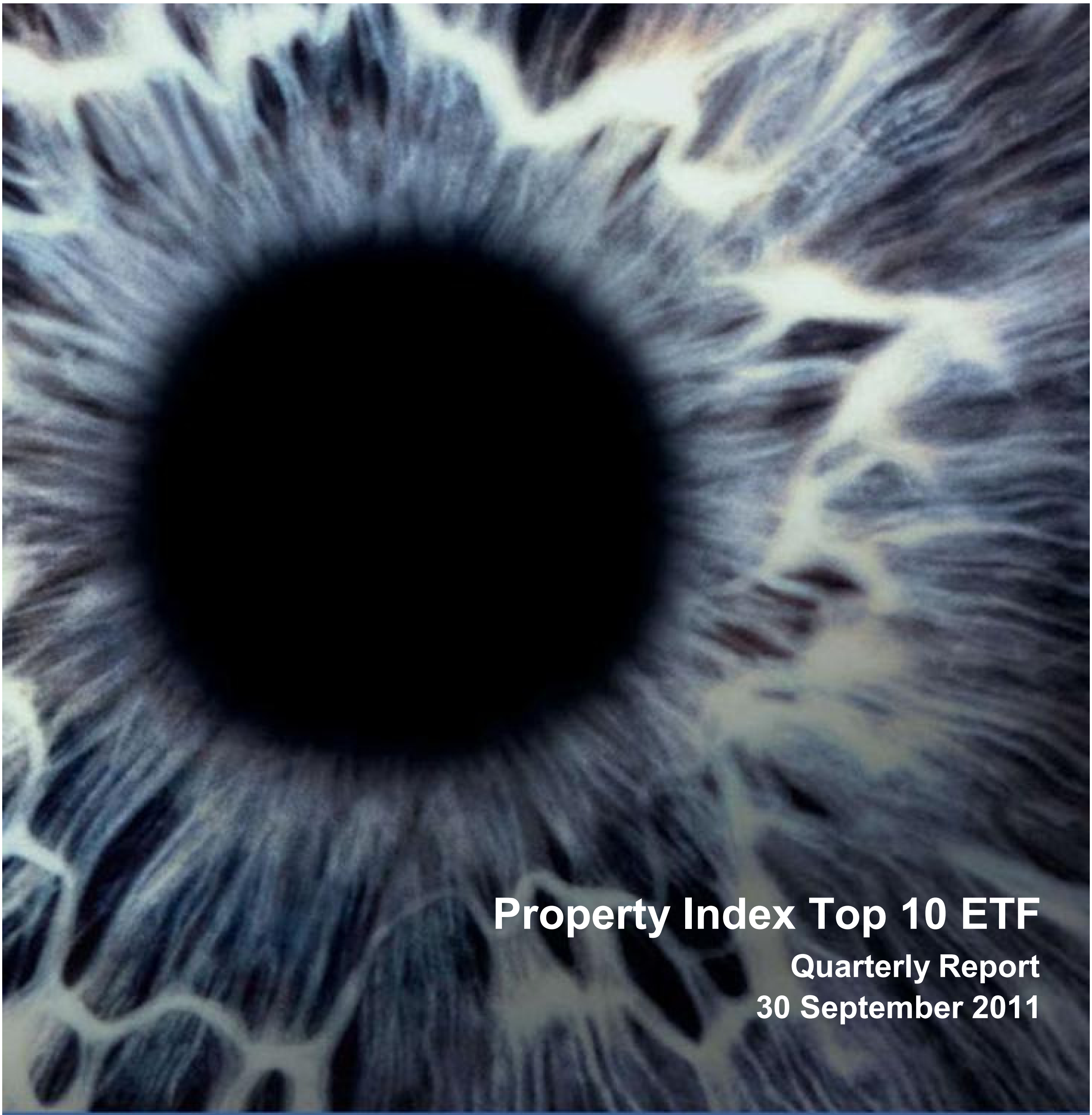

Property Index Top 10 ETF

Quarterly Report
30 September 2011

Sanlam

Investment Management

Property Index Top 10 ETF

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Review for the Quarter

Market conditions tailor made for value investors

The Euro-zone debt crisis has arguably been the primary driver of global markets this quarter. Markets have been on a roller-coaster ride, with mood swings among investors determined primarily by whether or not the European sovereign debt issue could be resolved to the satisfaction of all role-players.

South Africa has not been spared from the effects of the crisis. To get a sense of perspective: over the past five years, it's only the second time that the JSE All Share Index has registered a negative return during the third quarter. The only other time was during the 2008 credit crisis.

Furthermore, the rand has depreciated sharply against the US dollar. Any benefits to local exporters of a weaker rand could be dampened by the weak global demand brought about by the Euro-zone debt crisis, especially considering the fact that the Euro-zone contains some of South Africa's major trading partners.

If you add to the above forces the adverse effects of the weak rand on SA importers and its probable inflationary impact, as well as the uncertainties caused by a volatile currency, the outlook for both domestic and global markets couldn't be gloomier. In fact, the effects of the recent volatility have already started to impact the industry and we are starting to see layoffs in the capital markets.

Now more than ever is the time to act rationally and to avoid getting swept up by emotions. In fact, as pragmatic value investors with a long-term horizon, all the above changes represent exploitable investment opportunities because, with market players adopting a broadly pessimistic view, mispricing across markets and across a broad range of securities could well arise.

As is the case with regards to most financial crises, we can reasonably assume that the current malaise will run its course and sooner or later a state of normalcy will be restored. Until then, volatility and uncertainty are likely to remain at elevated levels. However, our clients can take comfort in knowing that, even though market conditions may be nerve wracking, SIM will always stick steadfastly to its pragmatic value investing philosophy. Our investment approach serves as a philosophical anchor underpinning our investment decisions and resulting in decisions that are more likely to deliver superior returns over the long run.

We invite you to partner with SIM, an investment house with a proven track record of being able to identify and exploit those attractive opportunities that usually materialise in uncertain times like these, so that you can build your wealth smartly as we do for all our clients. Many other investors have recognised the benefit of being associated with SIM, as is borne out by over R4bn of net retail inflows this year.

As mentioned in our recent communication with you, Armien Tyer stepped down as SIM MD at the end of September to pursue other entrepreneurial opportunities. In the meantime, I have taken over as acting MD until Cora Fernandez, who becomes MD in January, joins us. We wish Armien well in his new endeavours and look forward to the fresh perspectives and energy Cora will bring to the business after working in private equity for the last five years, three of which were as CEO of Sanlam Private Equity.

Kind regards.

Thomas van Heerden
Acting Managing Director

Economic Review

Arthur Kamp - Chief Economist

Global

Global consumer and business sentiment surveys have plunged, including the US Michigan consumer sentiment survey, the US Philly Fed ISM regional index and Germany's ZEW expectations release, the latter of which surveys financial sector analysts. It is at its lowest level since the financial crisis of 2008.

Also, at below 50, the JP Morgan global PMI Manufacturing Output Index is consistent with stalling global industrial production growth and the orders data remains weak, underpinning concern for the sector.

On a brighter note, the JP Morgan PMI Services Output Index increased 0.5 points to 52 - a most welcome result considering the importance of the services sector to real economic activity in developed economies.

Japan's industrial production has bounced from its lows recorded in the wake of its earthquake earlier in 2011.

In China, concern over the property market is building because property developers are facing falling sales against a backdrop of increasing inventory. Numerous property developers may fold as the government tightens controls on the trust companies that have been funding developers. Still, government-supported affordable housing projects should continue. Also, consumer price inflation seems likely to head lower into 2012, which should allow for significant loosening of monetary policy if required. Moreover, the PMI manufacturing data continues to point to firm expansion in industrial production in China, which should continue as long as external demand does not collapse.

And, in the US, despite depressed sentiment, real economy data isn't in recession territory as yet. US jobless claims have trended lower suggesting continued jobs growth, although this needs to be confirmed by positive non-farm payrolls data in the months ahead. In addition, chain store sales and industrial production continue to expand.

Given the modest nature of the expansion in real economic activity, the risk is that poor sentiment prompts households to save more and businesses to delay or cut back on capital and employment plans, thus weakening economic growth.

Ultimately, though, if we get a US recession, it will be preceded by an unusual set of circumstances in that credit conditions have eased and monetary policy is extremely loose.

That said, it is clear the largest fiscal and monetary expansion in history has failed to deliver a robust recovery in income growth in developed economies. This deepens the susceptibility of a number of states, notably in Europe at this point, to unwanted fiscal outcomes.

Plans to produce the primary budget surpluses required to stabilise and reduce debt levels in Europe in the years ahead rely, critically, on stronger levels of economic activity.

In Greece, for example, nominal income growth is in outright decline and the country has continued to miss its fiscal targets, prompting the announcement of additional austerity measures, which are merely likely to weaken income growth further.

Europe's economies cannot continue to muddle through relying on fiscal austerity alone and piece-meal assistance from the European Financial Stability Facility (EFSF) and the European Central Bank (ECB). This risks driving economies into ongoing negative feedback loops of weaker income growth and more fiscal austerity. It is a scenario within which there could be disorderly defaults, posing a systemic risk to the Euro area bank system - with negative repercussions for the global growth outlook.

Against the background of relentless speculation around the debt sustainability of peripheral European countries, it has become increasingly clear Europe needs to show solidarity. One way to achieve this would be through a fiscal union. But, even if this is possible, shifting towards greater unity will take time. In the interim, forceful action will need to be taken to stem the deterioration in economic conditions. It seems it is increasingly accepted this should include sovereign debt restructuring in countries that are running clearly unsustainable fiscal positions. At present, Greece is the one obvious example. In addition, bank restructuring and recapitalisation must be facilitated where necessary. Moreover, committed financial support must be supplied by the ECB and EFSF for countries that are running sustainable fiscal policies, should they fall prey to speculation.

Meanwhile, global headline inflation is running at about 4% a year. It seems reasonable to expect lower soft commodity prices to soften the annual advance in headline inflation into next year. The upward trend in the core Consumer Price Index (CPI) may, nonetheless, prove more resilient and is likely to peak later than headline inflation - notably in the US.

Given the renewed risk to growth and little concern from policymakers over inflation, it now appears as though monetary policy is likely to remain extraordinarily loose in developed economies through most of 2012. And even though emerging market inflation is advancing more strongly, the current moderation in growth could prompt monetary policy easing.

South Africa

The economy should deliver an improvement in the months ahead as the severe impact of labour disputes on manufacturing and mining volumes fade - a view supported by the jump in the PMI manufacturing business

Economic Review (continued)

activity series to 53.4 in September from a recent low of just 35.9 in July. Retail sales have also recorded a relative improvement in recent months, advancing solidly by 1.5% and 1.3% seasonally adjusted in June and July respectively. In addition, September's bounce in the annual advance in vehicle sales is encouraging.

But, given the importance of the terms of trade boost in the current cycle, SA's growth prospects are closely linked to the global economy. Also, over the past 15 years, the country has tended to underperform the global economy during downturns. Hence, given the softer global backdrop, we forecast modest SA Gross Domestic Product (GDP) growth of 3.25% in 2011 and 3% in 2012. In the absence of decisive, committed action by policymakers in Europe, risks would be skewed to the downside.

The upswing in fixed consumption expenditure by households should continue into 2012, but the pace of expansion is, nonetheless, likely to keep slowing as nominal income growth per worker eases and inflation rises towards the upper limit of the SA Reserve Bank's (SARB) inflation target range.

Fixed investment spending edged upwards in the second quarter of 2011 in response to the consumer and business cycle upswing, although the modest improvement in the marginal rate of return on capital suggests the upswing is likely to be moderate, with soft employment growth.

Headline consumer inflation remained unchanged in August from 5.3% in July. This compares with a low of 3.2% in September 2010.

We forecast consumer inflation to be 6% and 5.5% in December 2011 and December 2012 respectively. A continued depreciation in the rand would be a risk to this view if not accompanied by additional falls in commodity prices. Our "fair value" estimate for the rand is R8.20 to the dollar. In the medium term (2013), CPI is forecast to slow to 5.25% - our long-run inflation assumption.

The historic long-term real money market rate suggests the Reserve Bank's repo rate should be 150 basis points (bps) to 200bps higher. It is possible, however, that given modest economic growth and, importantly, a relatively benign inflation forecast over the medium-term, the SARB will leave its current repo rate unchanged for an extended period - provided further falls in the currency do not push inflation expectations up strongly.

Property Tracker Fund

Johann Hugo - Portfolio Manager

Market review

SA listed property outperformed both bonds and shares for the year to the end of September 2011.

Yields on listed property were more stable than bond yields during the quarter. Bond yields initially fell in line with their foreign counterparts, but then rose swiftly as the rand weakened in September.

Results reported for the end-June reporting season generally met expectations, although some distributions did disappoint slightly. The feature of the reporting season was that costs rose faster than income. Outlook statements are more cautious than previously, as expectations for economic growth are being revised downwards.

What SIM did

We re-weighted the shares back to 10% during the September rebalance.

Performance and reason

The fund managed to perform in line with its benchmark.

Outlook

On a clean-price basis, we forecast distribution growth of 6% for SA listed property for 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 year was 8%. The main reason for reducing forecasts is prudence over cost increases. In particular, costs of electricity and rates, which are administered, stand out as 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 level off. The challenge for us will be to further up weight the more cyclical office and industrial sectors in preparation for the next direct property upswing.

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 are still evenly balanced and inflation is expected to remain within the target range for an extended period.

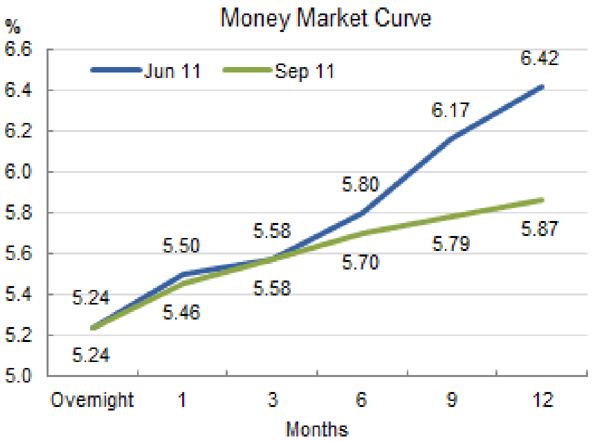
The money market curve flattened during the quarter, with the three-month money market rate unchanged at 5.575%, while the 12-month rate decreased from 6.420% to 5.865%. Treasury bills in the 91-day area of the curve traded below the bank rates, and credit spreads on short-term corporate credit decreased during the quarter.

What SIM did

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

SIM strategy

Our preferred investments would be floating rate notes and quality corporate credit to enhance portfolio returns. We expect the repo rate to remain unchanged at the next MPC meeting.



Source: I-Net

Key Indicators

EQUITY INDICES (excl. dividends)	Level	% change	% change
International	30/09/2011	3 Months	12 Months
Dow Jones Industrial	10,913	(12.09)	1.16
NASDAQ	2,415	(12.91)	1.97
S & P 500	1,131	(14.33)	(0.86)
FTSE 100	5,128	(13.74)	(7.57)
Nikkei 225 Average	8,700	(11.37)	(7.14)
MSCI World Index (US$)	1,104	(17.06)	(6.37)
South Africa	30/09/2011	3 Months	12 Months
All Share	29,674	(6.87)	0.74
Resources	47,823	(11.33)	(1.35)
Financial	7,705	(5.21)	(7.23)
Industrial	26,478	(4.58)	5.87

Interest Rates	%	bp change	bp change
International	30/09/2011	3 Months	12 Months
Indicator			
USA FED Fund Rate	0.25	-	-
USA 10 Year Rate	1.93	(121)	(63)
South Africa	30/09/2011	3 Months	12 Months
Capital Market			
5 Year Government Bond (R157)	6.98	(52)	(32)
10 Year Government Bond (R207)	8.26	(13)	32
Money Market			
SA Repo Rate	5.50	-	(50)
3 Month JIBAR	5.58	-	(45)
12 Month NCD	5.86	(56)	(56)

INFLATION (31/08/2011)		% change	% change
CPI	-	1.46	5.34
CPI-X	-	1.45	5.51

EXCHANGE RATES	Rate	% change	% change
R / USD	8.09	(16.46)	(14.03)
R / Euro	10.83	(9.53)	(12.57)
R / Pound	12.60	(14.09)	(13.38)
USD / Euro	1.34	8.29	1.76

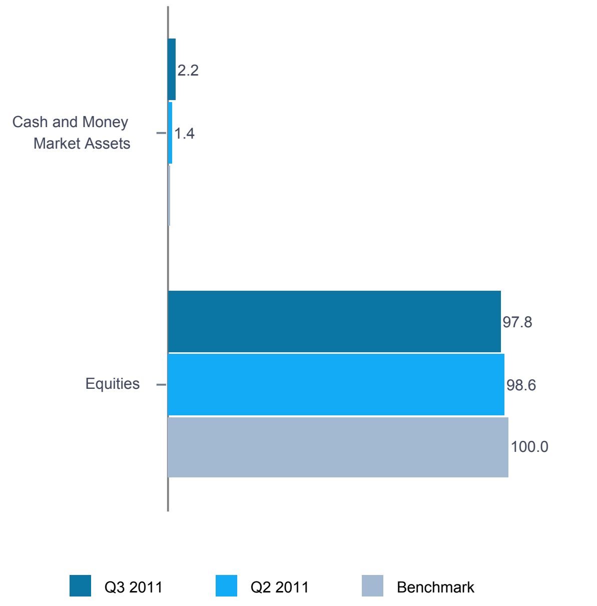
Source : I-Net

Portfolio Overview

Quarter ended 30 September 2011

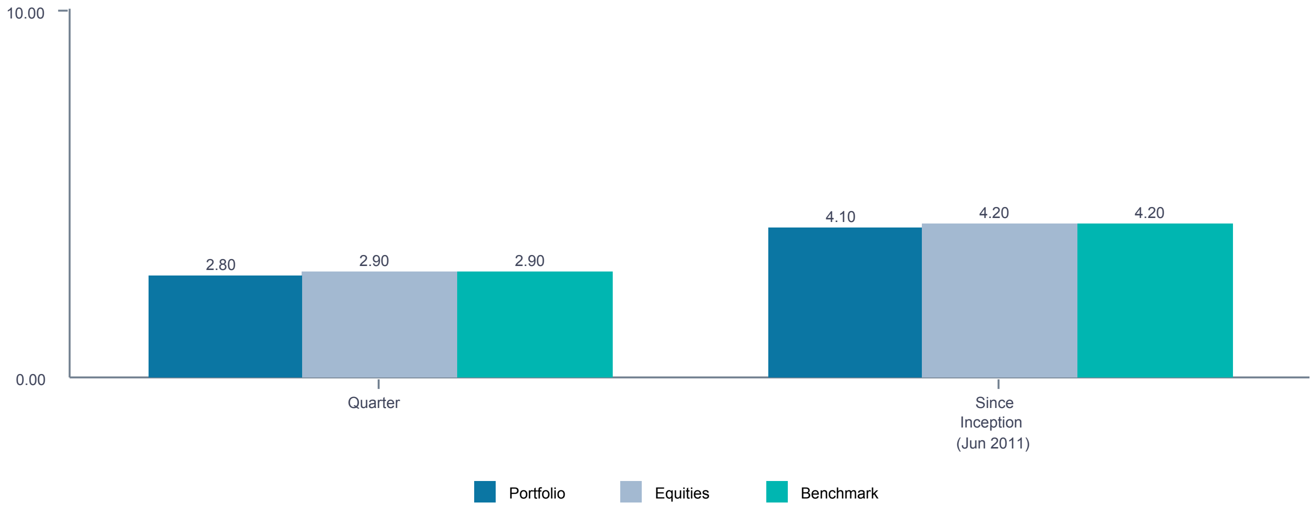
Cash flow for the Quarter	R
Closing Market Value: 30/06/2011	**22,287,285.16**
Contributions	0.00
Investment Income:	528,253.69
Dividends	*508,171.27*
Interest	*1,333.71*
Nett P & L on Sales	*18,748.71*
Market Movements:	103,304.76
Withdrawals	0.00
Costs:	(324,754.95)
Bank Costs	*(16.50)*
Distribution paid on Dividends A	*(271,918.02)*
UT Management Fees	*(52,820.43)*
Closing Market Value: 30/09/2011	**22,594,088.66**

Effective Asset Allocation (%)



Benchmark	%
FTSE PROPTEN Index	100.0

Performance (%)



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

Performance figures are gross of fees.

Equities

Quarter ended 30 September 2011

Major Transactions

Purchases	Shares bought	Amt. Paid (R)
Emira	14,910	179,585
Acucap	4,394	160,577
Sycom	3,477	73,287

Sales	Shares sold	Proceeds (R)
Hyprop	1,701	95,135
SA Corp Real Estate	19,965	67,193
GrowthPoint	3,594	65,719
Redefine	7,722	61,770
Resilient	1,644	53,028

Major Shareholdings

No.	Security Name	MV Current quarter (R`m)	% of Total Equities	Benchmark Weighting (%)	Quarter (%) Price Change
1	Acucap	2.4	10.7	10.7	9.9
2	Fountainhead	2.3	10.3	10.3	4.0
3	Capital	2.3	10.2	10.2	3.8
4	Resilient	2.2	10.1	10.1	3.8
5	Sycom	2.2	10.0	10.0	1.6
6	Redefine	2.2	10.0	10.0	1.9
7	Emira	2.1	9.7	9.7	(12.5)
8	GrowthPoint	2.1	9.7	9.7	(3.1)
9	SA Corp Real Estate	2.1	9.6	9.6	(2.1)
10	Hyprop	2.1	9.6	9.6	(0.9)
	Total	**22.0**	**99.9**	**99.9**	

Physical Portfolio Structure Summary

As at 30 September 2011

Asset Class	Book Value (R)	Market Value (R)	% of Portfolio	% of Category
Total Portfolio	**22,069,818**	**22,594,089**	**100.0**	**100.0**
Cash and Money Market Assets	**486,333**	**486,333**	**2.2**	**100.0**
Equities	**21,583,485**	**22,107,756**	**97.8**	**100.0**
Financials	21,583,485	22,107,756	97.8	100.0

Effective vs Physical Exposure

	Effective Exposure (%)		Physical Exposure (%)	
	30/09/11	30/06/11	30/09/11	30/06/11
Cash and Money Market Assets	2.15	1.36	2.15	1.36
Equities	97.85	98.64	97.85	98.64
Market Value (R'm)			**22.59**	**22.29**

Deviation due to breakdown of unitised portfolios into underlying securities.

Physical Portfolio Structure Detail

As at 30 September 2011

Holding	Security	Book Value	Market Value	% of Portfolio	% of Category
		(R)	(R)		
	Total Portfolio	**22,069,818**	**22,594,089**	**100.0**	**100.0**
	Cash and Money Market Assets	**486,333**	**486,333**	**2.2**	**100.0**
-34	ABSA Cap Call PROP10	-34	-33	0.0	0.0
-43,373	Net Current Assets - Cash And Money market	-43,373	-44,270	-0.2	-9.1
529,740	ABSA Inc Call PROP10	529,740	530,637	2.3	109.1
	Equities	**21,583,485**	**22,107,756**	**97.8**	**100.0**
	Financials	**21,583,485**	**22,107,756**	**97.8**	**100.0**
60,587	Acucap Properties Ltd	2,098,775	2,362,893	10.5	10.7
120,777	Growthpoint Prop Ltd	2,093,708	2,142,584	9.5	9.7
39,490	Hyprop Investments Ltd	2,071,890	2,132,460	9.4	9.6
276,083	Redefine Properties Ltd	2,119,028	2,208,664	9.8	10.0
68,465	Resilient Property Income Fund Ltd	2,084,196	2,231,959	9.9	10.1
263,265	Capital Property Fund	2,111,796	2,250,916	10.0	10.2
183,826	Emira Property Fund	2,423,502	2,145,249	9.5	9.7
340,219	Fountainhead Property Trust	2,185,853	2,279,467	10.1	10.3
656,209	Sa Corp Real Estate Fund	2,141,124	2,132,679	9.4	9.6
105,056	Sycom Property Fund Managers Limited	2,253,614	2,220,884	9.8	10.0