28 February 2009

CPSA
PROVINCIAL TRUST BOARD

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- MARKET VALUES AND EXPOSURE
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- DISCLAIMER

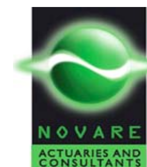
FUTURE STRATEGY

- The CPSA PTB has a significant exposure to local Equities and Property.

Fund Manager: Leo Vermeulen
Fund Administrator: Nuraan Desai
Novare Actuaries & Consultants

Monthly Investment Report
28 February 2009

CPSA Provincial Trust Board



FINANCIAL STATEMENT

Income Statement Over Various Periods

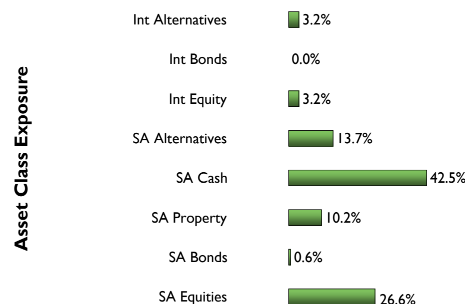
	From 1 Jan 2009	Last 12 Months	From 1 Jan 2006
Market Value Start	11,340,168	8,851,359	7,547,382
Bank Interest	21,432	153,643	184,954
Interest (Listed Property)	80,585	229,109	789,086
Dividends (Listed Shares)	1,600	86,340	264,681
Income	**103,617**	**469,092**	**1,238,721**
Net Purchases	-	(397,565)	(397,565)
Net Sales	333,710	730,763	2,265,528
Realisation	**333,710**	**333,198**	**1,867,963**
Contributions / (Withdrawals)	**(28,533)**	**3,417,492**	**762,492**
Investec Security Fees	**-**	**(684)**	**(2,308)**
Unrealised Profit / Loss	**(424,308)**	**(1,413,116)**	**1,444,658**
Current Market Value	**10,990,945**	**10,990,945**	**10,990,945**
Annualised Return	**-2.84%**	**-10.61%**	**9.47%**

MARKET VALUES AND EXPOSURES

Market Values

Share / Product	Market Value	%Split	Asset Class
Foord Compass	539,580	4.9%	SA Alternatives
Fountainhead Property	1,119,960	10.2%	SA Listed Property
Standard Bank	331,045	3.0%	SA Listed Equity
Sasol	630,000	5.7%	SA Listed Equity
Remgro	132,600	1.2%	SA Listed Equity
BAT	207,263	1.9%	SA Listed Equity
Impala Platinum	203,975	1.9%	SA Listed Equity
Investec Cash	1,751,058	15.9%	SA Cash
Fraters EE	763,162	6.9%	SA Listed Equity
RMB Equity	654,946	6.0%	SA Listed Equity
Investec Gilts	69,210	0.6%	SA Bonds
Investec MM	2,924,858	26.6%	SA Cash
AG Orbis	700,697	6.4%	Int Equity & Alternatives
Mayibentsha	962,590	8.8%	SA Alternatives
Total	**10,990,945**	**100.0%**	

Asset Class Exposure



The CPSA Provincial Trust Board has a significant exposure to local Equities, Cashand Property. The trust i sin the process to sell out of Foord compass and to aquire mroe listed Property exposure. This should provide most of the income through interest payments as rental income and growth are still expected to return around 10% over the short to medium term. Bonds exposure still remains low, as the supply of Bonds may increase.

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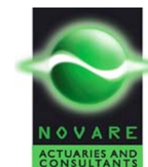
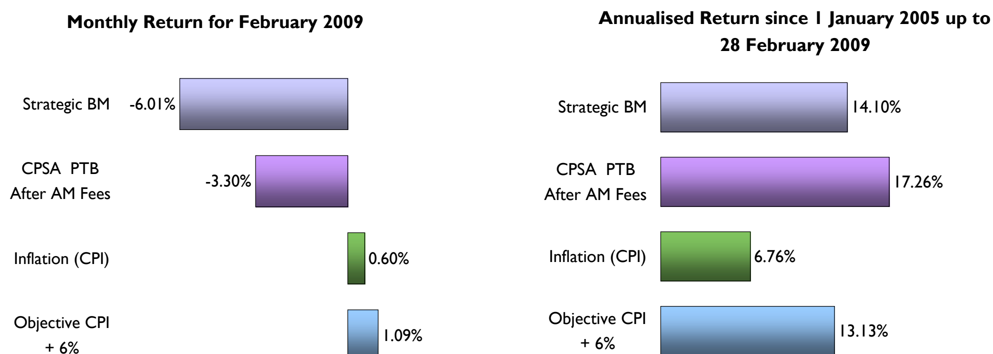


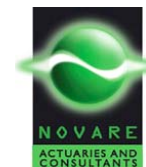
PORTFOLIO RETURNS



The table below (and on the following page) is the return matrix for the CPSA Provincial Trust Board. It shows the various share and manager returns as well as that of the total portfolio for various periods and compares it with their respective benchmarks. The benchmark used for the portfolio is in line with its investment objective, which is CPI + 6.0% p.a.

CPSA PTB	Monthly Return	Last 3 Months	Calendar YtD	Last 12 Months	Since July 2005
Foord Compass	-11.76%	-4.00%	-1.64%	-19.89%	14.07%
CPI + 4.5%	0.97%	1.88%	1.70%	12.90%	51.28%
Out/ Under Perf	-12.73%	-5.88%	-3.34%	-32.79%	-37.21%
Fountainhead Prope	-3.35%	-1.08%	-3.85%	-6.95%	19.09%
JSE: REAL ESTATE	-5.04%	-11.70%	-10.49%	-31.52%	-2.18%
Out/ Under Perf	1.69%	10.62%	6.64%	24.57%	21.27%
Standard Bank	-8.32%	-24.92%	-21.69%	-34.01%	0.54%
JSE: BANKS	-12.02%	-23.85%	-22.27%	-32.80%	1.69%
Out/ Under Perf	3.70%	-1.07%	0.59%	-1.21%	-1.15%
Sasol	-8.70%	-12.29%	-10.01%	-37.39%	39.38%
JSE: OIL&GAS	-8.70%	-12.29%	-10.01%	-37.39%	39.38%
Out/ Under Perf	0.00%	0.00%	0.00%	0.00%	0.00%
Remgro	-6.62%	-9.80%	-13.27%	n/a	n/a
FTSE/JSE:AFR GEN IND	-11.33%	-6.15%	-11.77%	n/a	n/a
Out/ Under Perf	4.71%	-3.64%	-1.49%	n/a	n/a
Impala Platinum	-0.28%	-4.36%	-12.16%	-63.85%	58.90%
JSE: PLATINUM & PM	-2.44%	-8.58%	-16.17%	-66.33%	52.56%
Out/ Under Perf	2.17%	4.22%	4.02%	2.48%	6.34%
Investec Cash	0.70%	2.58%	1.52%	11.34%	n/a
Stefi Composite	0.84%	2.80%	1.80%	11.80%	n/a
Out/ Under Perf	-0.13%	-0.22%	-0.28%	-0.46%	n/a

CPSA Provincial Trust Board



PORTFOLIO RETURNS (CONTINUED)

CPSA PTB	Monthly Return	Last 3 Months	Calendar YtD	Last 12 Months	Since July 2005	Ann Since July 05
Fraters EE	-7.32%	-0.50%	-6.72%	-23.24%	42.11%	10.06%
J203T	-9.87%	-12.39%	-13.70%	-37.59%	44.52%	10.56%
Out/ Under Perf	2.56%	11.89%	6.99%	14.35%	-2.41%	-0.51%
RMB Equity	-11.43%	-13.96%	-16.05%	-36.72%	13.54%	3.52%
J203T	-9.87%	-12.39%	-13.70%	-37.59%	44.52%	10.56%
Out/ Under Perf	-1.55%	-1.57%	-2.35%	0.87%	-30.98%	-7.04%
Investec Gilts	-2.95%	-0.39%	-6.67%	3.53%	17.01%	4.38%
BEASSA All Bond	-2.86%	1.40%	-5.17%	12.45%	29.47%	7.30%
Out/ Under Perf	-0.09%	-1.78%	-1.49%	-8.92%	-12.47%	-2.92%
Investec MM	0.86%	2.87%	1.85%	n/a	n/a	n/a
Stefi Composite	0.84%	2.80%	1.80%	n/a	n/a	n/a
Out/ Under Perf	0.02%	0.07%	0.05%	n/a	n/a	n/a
AG Orbis	-10.88%	-6.72%	-7.82%	-4.39%	52.42%	12.18%
60MSCI / 40 JPMGC	-8.53%	-9.71%	-8.97%	-12.36%	27.50%	6.85%
Out/ Under Perf	-2.34%	2.99%	1.15%	7.97%	24.93%	5.33%
Mayibentsha	-1.22%	-0.70%	-1.06%	-6.51%	41.15%	9.86%
CPI + 4.5%	0.97%	1.88%	1.70%	12.90%	51.28%	11.95%
Out/ Under Perf	-2.19%	-2.58%	-2.76%	-19.41%	-10.13%	-2.10%
Total	-3.30%	-1.75%	-2.84%	-10.61%	71.63%	15.87%
CPI + 6%	1.09%	2.24%	1.94%	14.51%	59.34%	13.55%
Out/ Under Perf	-4.39%	-3.99%	-4.78%	-25.11%	12.29%	2.32%

LAST 12 MONTH MARKET VALUES

The **Return Table** below shows the monthly returns added to the portfolio. It is compared to the Fund's Investment Objective (i.e. to outperform CPI plus 6% per annum) and shows contributions and withdrawals on a monthly basis

Period	CPSA PTB	Objective: CPI + 6%	Contributions / Withdrawals	Market Value History
Last 12 Months	-10.61%	14.51%	3,417,492	
Mar-08	-1.98%	1.93%	-	8,676,117
Apr-08	0.91%	1.16%	1,200,000	9,960,420
May-08	0.81%	1.19%	-	10,040,655
Jun-08	-3.97%	1.85%	2,917,885	12,502,220
Jul-08	-1.21%	1.82%	(28,444)	12,322,762
Aug-08	2.53%	1.06%	(28,982)	12,604,723
Sep-08	-3.99%	1.05%	(28,167)	12,074,622
Oct-08	-4.13%	0.77%	(29,066)	11,547,345
Nov-08	1.93%	0.57%	(28,216)	11,741,171
Dec-08	1.12%	0.29%	(528,985)	11,340,167
Jan-09	0.48%	0.85%	(28,533)	11,365,746
Feb-09	-3.30%	1.09%	-	10,990,944

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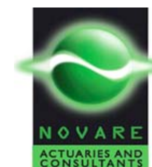
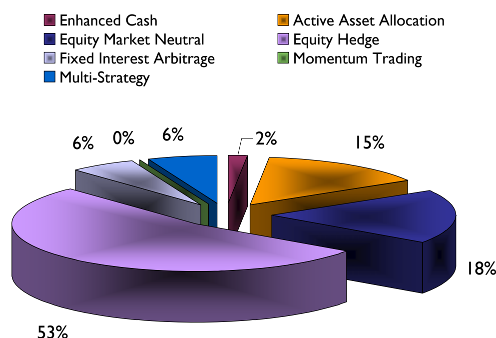


MARKET / SHARE VALUATION

	Foord Compass	Fountainhead Property	Standard Bank	Sasol	Remgro	Impala Platinum
No. of Shares	89,930	204,000	5,093	2,500	2,000	1,720
Month end price	600	549	6,500	25,200	6,630	11,859
Market Value	539,580	1,119,960	331,045	630,000	132,600	203,975
BENCHMARK	CPI + 4.5%	JSE: REAL ESTATE	JSE: BANKS	JSE: OIL&GAS	FTSE/JSE:AFR GEN IND	JSE: PLATINUM & PM
Current P/E Ratio	6.21	11.08	6.71	6.71	n/a	5.47
BM P/E Ratio	n/a	16.67	5.97	6.62	8.72	5.78
Dividend Yield	15.6%	8.8%	6.1%	5.2%	n/a	10.9%
BM Dividend Yield	n/a	8.9%	6.7%	5.2%	6.3%	13.1%
12 Month Return	-19.9%	-6.9%	-34.0%	-37.4%	n/a	-63.9%

MAYIBENTSHA

Mayibentsha Strategic Asset Allocation



Mayibentsha Fund of Funds remains defensively positioned as a result of current market turmoil and ended only marginally softer for the month. Positive strategy contributions came from managers within their Equity Market Neutral space, whereas Equity Long-Short, Fixed Income and the remaining small allocations to directional strategies experienced a more trying month, given the global market backdrop. Almost without exception, all managers continue to maintain very low levels of net exposure, contributing to Mayibentsha Fund of Fund's continued defensive positioning going into March.

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NOVARE HOUSEVIEW MATRIX –MARCH/APRIL 2009

RSA Equities

Equity markets seem to have embarked upon the long-awaited revival that investors have been so desperately anticipating. It finally seems that all the efforts of policymakers are being rewarded by the markets as the All Share Index has surged beyond the 21000 level after having tested the 18000 resistance level at the beginning of March.
We also now feel comfortable to increase the equity exposure on the back of tentative signs that the worst is behind us. Some key data in the US is starting to surprise on the upside and the domestic markets are also to benefit from the MPC's interest rate cutting cycle that has now seen 250 basis points lopped off in the past four months. We see scope for further cuts of 200 basis points as we believe that the output gap will widen as GDP growth disappoints on the downside. We believe that our economy is most likely in recession as employment and consequently consumption expenditure are contracting. We are however optimistic that towards 2010, a more robust picture will emerge.

RSA Bonds

We continue to advocate an under weight exposure to bonds as we believe that inflation will be sticky coming down and Treasury issuance will apply pressure on yields.
The latest February CPI reading of 8.6% from 8.1% in January surprised economists as services inflation accelerated. Furthermore Eskom has recently announced that it will need to apply for significantly larger tariff increases, with speculation that the increases could be in excess of 35%. The reasons that they give for the additional funding is based on Rand weakness which increases input costs as well as the fact that due to the credit crisis, accessing capital markets has become much more expensive. All of this at a time where they desperately need to rollout their expansion plans that include maintaining and building power stations.
Our valuation models also reflect that current government bond valuations are too demanding while corporates are looking much more attractive as spreads have blown out over the past few months.

RSA Property, Alternatives & Cash

Property has remained resilient over the past while, benefitting from lower interest rates. Yields have ticked up slightly but remain at fairly attractive levels. Ten year bond yields have rallied, pushing to levels lower than those of property yields. Occupancy rates remain benign and we continue to maintain an over weight exposure to this asset class. The Treasury's expectation of rebounding growth into 2010 will boost property income.
Our over weight allocation to Cash has helped us over the past year. We intend to keep drawing down on this exposure in favour of riskier asset classes. Our view of aggressively falling interest rates means that the returns for Cash will approach 7% by mid year. We believe that we can expect double digit returns from the likes of Property and Equities.

International

Investors across the globe have been cheered by rebounding equity markets and the gloom is making way for renewed optimism. The latter was initially sparked off by news that Citigroup, which had already received $45 billion in government rescue funds, had generated an operating profit of $8.3 billion in the first two months of 2009. This news suggested that the banking crisis was coming to its end.
Furthermore, news that the US Federal Reserve would aggressively expand its balance sheet also boosted equity markets. The Fed announced that it would increase the size of its balance sheet by another $1 trillion to $3 trillion engaging in quantitative easing measures. Bond yields rallied sharply lower as the Fed was now a buyer of long term government bonds whereas its normal operations to control money supply are typically focused within short term debt. This sent the US dollar to sharply weaker levels due to the threat of inflation in the medium term on the back of excessive money supply.
Another key support for riskier asset classes has been the Obama administration's revelation of its plan to deal with toxic assets. They announced a public-private investment programme where the prices of these assets are to be determined using an auction process and private investors are to take stakes at favourable rates. This plan was well received with heavy weights like Pimco and BlackRock already stating their interest in such an initiative.
Furthermore, there are tentative signs that the real economy is beginning to perk up as US housing starts unexpectedly rose by 22% from the January reading as work began on 583 000 homes. The market was also pleasantly surprised by US made durable goods that rose unexpectedly for the first time in February after six months of steady declines. Specifically, these rose by 3.4% while consensus expectations were for a decline of 2.4%.
For now we still favour corporate debt as the spreads remain excessively high but in time we will boost the equity exposure.

NOVARE HOUSE VIEW: MAR/APR 2009

	Balanced Fund	Relative	Present Month	Previous Month
RSA	**85%**	**ON**	**85%**	**85%**
RSA Equities	50%	ON	50%	48%
RSA Bonds	15%	UNDER	13%	13%
RSA Property	5%	OVER	6%	6%
RSA Alternatives	10%	ON	10%	10%
RSA Cash	5%	OVER	6%	8%
International	**15%**	**ON**	**15%**	**15%**
Int Equity	9%	UNDER	7%	7%
Int Bonds	3%	OVER	6%	6%
Int Alternatives	3%	UNDER	2%	2%
Int Cash	0%	ON	0%	0%

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Quantitative Easing
Econometrix Treasury Management, 10 March 2009

In this edition of Viewpoint we take a brief look at some of the dynamics and implications of quantitative easing policy. As central banks increase liquidity provision to the financial system through corporate and government asset purchases it is time to question what the longer term consequences for inflation and growth will be.

Taking monetary easing to a new level

Quantitative easing effectively entails the purchasing of corporate and government debt by the central bank with printed money to allow government to absorb corporate credit risk of companies with access to the debt markets, and to monetise the national debt. In the current phase of financial calamity in the global economy this is seen by most policy makers, mainstream economists and the mainstream financial media as an indispensible monetary mechanism that can be employed to ease the pressure on banks, as well as reduce longer dated bond yields to prop up key asset markets. But if it were that easy then all countries around the world would be sitting on zero % interest rates and printing money like mad. The fact is that quantitative easing is another step toward full central monetary planning in an economy, and like all government-planned action it eventually sets in motion the law of unintended consequences, creates a set of winners and losers, and if handled inappropriately and used in excess can lead to currency debasement, punitive inflation, and gross capital misallocation.

The policy has its limits

Quantitative easing tends to have far less benefit for those medium and smaller sized companies that do not have access to the sophisticated credit markets and rely on the banking system for their financing requirements. Although potentially shoring up toxic bank balance sheets, in itself it does not guarantee that the banks will step up lending to smaller companies to ride out the storm. Risk is being re-priced and confidence levels are low on the back of asset price deflation, which in itself ensures that bank balance sheets are gradually being eroded. Many might argue that the central banks need to employ all the tools at their disposal to prevent this recession from turning into a depression, but at what cost? Too much quantitative easing threatens to misprice debt assets and lead to a misallocation of financial resources at a time when the market mechanism is desperately trying to rediscover fair and accurate pricing. There is not so much a lack of liquidity as there is a much larger demand than before for holding money in cash balances, and this has exposed a massive dislocation in capital markets which the market is now trying to work through. In much the same way as the cheap credit offered by the Fed from 2003 created a massive market distortion and huge misallocation capital, surely quantitative easing now threatens to do even worse?

Inflation and the Japanese experience

It has also long been argued that such actions from central banks fuel general price inflation. In fact, this is the hope among central banks themselves: that an inflation of the money supply will counteract the dramatic slowing in the velocity of money circulation which threatens to pull economies into wholesale deflation. Normally inflation is an ally of governments in debt, and the underlying policy ideology of today's central bankers is that the answer to a clamour for holding money in the form of liquid cash balances is to create more money that can be used in the credit markets. This seems all very well, but once households have shored up their balance sheets and begin spending and investing again, there is the real risk of another inflationary burst. Unless all the liquidity that was pumped into the system is carefully sterilised again, then inflation pressures could get out of control. In a worst case scenario for economic growth, rampant inflation will push interest rates much higher. Boosting money supply through ballooning a central bank's balance sheet does not however automatically translate into inflationary traction, as the case of Japan makes clear. Many will say that if Japan's experience is anything to go by, quantitative easing will not help restore growth to any significant extent and will do little to boost prices out of deflation territory. One might argue that global growth will remain very weak for years to come and that the excess capacity built up through the boom years will help reduce longer term inflationary pressures. However it could equally be argued that the expansion of the Bank of Japan's balance sheet between 2001 and 2006 is going to be dwarfed by the radical action being adopted by the likes of the Bank of England and especially the US Fed. Furthermore, Japan has sustained very high household savings rates (a cultural phenomenon) and huge trade surpluses which have helped absorb massive amounts of Japanese government bonds and yen liquidity. At the same time weak GDP growth can in large part be attributed to Japan's demographic decline, aging population and low immigrant levels.

Quantitative Easing is a gamble

The same cannot be said for the US, UK and much of Europe where household savings are close to zero %, large trade deficits prevail, and population growth is kept solid with the demographic energy from high rates of immigration. For now Western households are saving in the wake of a financial crisis which is reducing trade deficits and will keep the lid on inflation for quite a long time despite huge injections of new money into the system. If those savings rates keep rising to much higher levels then rampant inflation will be avoided and a liquidity trap will set in. If however households eventually choose to leverage off their better savings positions to embark on another credit spending spree that wipes those savings out again, then a wave of unlocked liquidity will be unleashed into the economy which could cause high inflation levels, a selling of government debt securities, and a rapid weakening of the major currencies. With the risk of a stagnating Japan-style liquidity trap, or a hyper-inflationary high interest rate environment, it is hard not to view quantitative easing as anything but another gamble, that despite the best intentions is getting in the way of a much needed market correction.

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