Mayibentsha® Moderate Institutional Fund of Funds

CPSA PENSION FUND

Quarterly report for the period

1 October 2010 - 31 December 2010

Tel: +27 (0)21 914 7730 • Fax: +27 (0)21 914 7733 • www.novare.co.za • PO Box 4742, Tyger Valley 7536
Third Floor, The Cliffs Office Block 1, Niagara Way, Tyger Falls, Carl Cronje Drive, Bellville 7530
Directors: JJ Henn, DA Roper, SW Moutloatse • Registration No: 2000/018539/07 • VAT No: 4290195306 • Authorised Financial Service Provider: 757

CPSA PENSION FUND

Mayibentsha® Moderate Institutional Fund of Funds

Quarterly report for the period

1 October 2010 – 31 December 2010

CPSA Pension Fund

Market values (net of fees):	
31 October '10	**R 66 981 843**
30 November '10	**R 67 020 837**
31 December '10	**R 68 046 467**
Change during 3 months:	**R 2 142 662**

TOTAL NET RETURN	**3.25%**

Monthly returns net of fees:	
October '10	**1.64%**
November '10	**0.06%**
December '10	**1.53%**

TOTAL NET RETURN	**3.25%**

Fourth Quarter Economic Overview

Global Summary

The mid-year economic slowdown in 2010 gave way to resurgent growth in the final quarter of 2010, quashing fears over the potential for a double-dip recession. Global manufacturing data improved, economic news flow out of the US strengthened and fallout from the Greek crisis seemed contained in the euro-zone.

Economic global highlights

United States

- The US Federal Reserve did not disappoint with a second round of quantitative easing to the value of $600bn in November, emphasizing the goal of supporting the economic recovery and keeping inflation within its targeted range.
- The disappointment in the US was on the employment front and in the housing market. Fewer jobs were created than what was expected and the unemployment rate remained elevated with the drop from 9.8% in November to 9.4% in December.
- However, there was job creation in the manufacturing sector during 2010 for the first time since 1997.

European Union

- Strong economic data from core Europe and rising inflationary pressures made the European Central Bank's decision to leave interest rates unchanged tough amidst the fiscal consolidation in peripheral Europe that kept their economies depressed.
- German authorities announced that their economy probably expanded by 3.6% during 2010, its fastest pace in two decades as strong global demand and a weakened euro powered its exports market.
- However, the European sovereign debt crisis escalated during the quarter as the focus shifted to Ireland, hampered by a troubled and over-leveraged banking sector.

China

- Economic growth for the third quarter decelerated to 9.6% from 10.3% in the previous quarter, but increased again in the fourth quarter to 9.8%.
- Monetary policy was tightened on several occasions during the quarter, either through higher reserve requirements for banks or increased borrowing costs.

The MSCI Global Equity Index delivered a return of 9.6% over the year, underperforming emerging markets' return of 16.4% during 2010. Since bottoming out in March 2009, the MSCI Global Equity Index rallied by 86.2% and emerging markets by a phenomenal 142.3%.

Global risk aversion caused the sell-off in global bond markets resulting in the JP Morgan World Government Bond Index to close 1.8% lower for the quarter, while ending 6.4% higher for the year. Emerging markets experienced a bumper year of attracting investment flows and the JP Morgan Emerging Market Bond Index rose 12% for the year.

Local Summary

The South African economy recovered towards the end of the year from the mid-year slow-down as the global backdrop improved and domestic industrial action, that crippled the manufacturing sector during the second and third quarters of the year, was resolved.

Highlights from the fourth quarter

- The Reserve Bank's Monetary Policy Committee followed on September's interest rate cut by lowering interest rates with another 0.5% cut in November.
- Amidst historically low interest rates and strong growth in wages, improved consumer confidence and higher disposable incomes led to higher household consumption expenditure and retail sales.
- The rand was the fourth strongest currency in the world during the last quarter of the year and the third strongest behind the Japanese yen and Australian dollar in 2010.
- Included in his Medium Term Budget Policy Statement, the Minister of Finance presented on a further relaxation in foreign exchange controls. Initially, exchange controls were relaxed for individuals before the rules applicable to pension funds were altered as well. Pension funds can now take up to 25% of their portfolio value offshore, up from 20%.
- Manufacturing activity picked up towards the end of 2010 and by November output had risen to 4.6% year-on-year.
- The government announced the New Growth Path initiative to be implemented soon, which contains proposals to create an additional five million jobs by 2020 as the unemployment rate remained high at 25.3%.

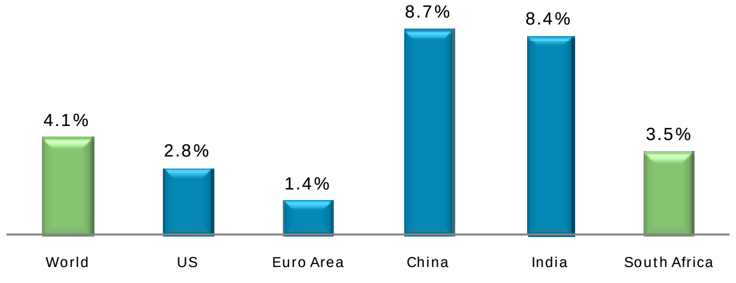
The domestic equity market benefitted from the improved global investor sentiment and ongoing improvement in company earnings. The FTSE/JSE All Share Index gained 9.5% during the quarter to lift its return for the year to 19.0%. The resources sector was the best performer during the quarter, closing 16.5% higher over the period. It was driven by the improved global economic outlook and rising commodity prices.

The bond market suffered from a mid-quarter blip as the European sovereign debt crisis weighed on risk appetite and sentiment. It did, however manage to gain a further 0.8% during the three months to take its year to date return to 15%.

Outlook

Diverging outlooks for growth, inflation and economic policy in major economies suggest greater economic volatility during 2011. Although there is much skepticism over the US's second round of quantitative easing, the economy should continue to accelerate into the year on the back of super-easy policy. Above-trend economic growth and ultra accommodative monetary policy creates a favourable back-drop for risk assets.

GDP growth forecasts for 2011



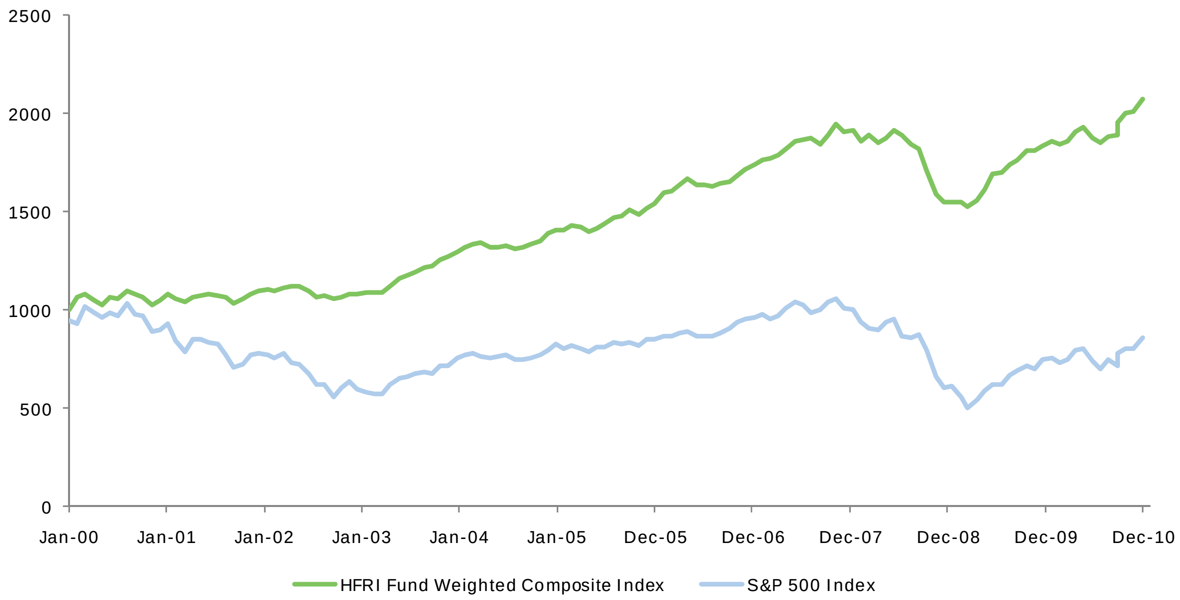
Source: World Bank Economic Outlook: January 2011

In line with the overall positive outlook for global equities, our outlook for domestic equity remains positive. It is expected that the Reserve Bank will remain on hold with monetary policy at a very accommodative level with the potential for one further cut should the rand appreciate further and inflation surprise to the downside. The equity market will benefit further from the low interest rate environment, strong expected company earnings growth over the next two years and the market being under-owned by domestic and foreign investors. Local bonds should provide investors with better returns than the money market where yields are at historical lows.

Why hedge funds?

The graph below shows the performance of the global hedge fund index compared to the performance of the S&P 500. Over the past ten years, hedge funds managed to substantially outperform global equities (the graph below indicates that the value of an investment in global equities ten years ago was at the same level at the end of 2010 than the initial investment, whereas an investment in hedge funds would have doubled in value). 2010 was another strong year for hedge funds, with the global hedge funds index ending 2010 up 10.5%.

January 2000 to December 2010



Source: Inet Bridge, www.hedgefundresearch.com

The table below shows the performance of different asset classes and investment strategies over the past ten years. Any one asset class' performance exhibits volatility from one year to another, but investing in a diversified portfolio consisting of different asset classes and investment strategies could significantly reduce the overall portfolio's return volatility and ultimately lead to improved risk-adjusted performance.

SA asset class performances to 31 December 2010 (over a decade)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SA Equity 33%		SA Real Estate 41%		SA Real Estate 50%	SA Equity 41%	SA Real Estate 27%			
Foreign Equity 32%		FoF 21%	SA Real Estate 41%	SA Equity 47%	Foreign Equity 33%	SA Equity 19%			SA Real Estate 30%
FoF 30%	FoF 26%	SA Bonds 18%	SA Equity 25%	Balanced 25%	SA Real Estate 28%	FoF 17%		SA Equity 32%	SA Equity 19%
Balanced 24%	SA Real Estate 21%	SA Equity 16%	Balanced 26%	Foreign Equity 23%	Balanced 24%	Balanced 12%		FoF 16%	SA Bonds 15%
SA Bonds 18%	SA Bonds 16%	Balanced 15%	FoF 22%	FoF 20%	FoF 18%	SA Cash 10%		Balanced 15%	Balanced 13%
SA Cash 10%	SA CPI 12%	SA Cash 12%	SA Bonds 15%	SA Bonds 11%	SA Cash 7%	SA CPI 9%	SA Bonds 17%	SA Real Estate 14%	FoF 11%
SA Real Estate 8%	SA Cash 11%	Foreign Equity 3%	SA Cash 8%	SA Cash 7%	SA CPI 6%	Foreign Equity 6%	SA Cash 12%	SA Cash 9%	SA Cash 7%
SA CPI 5%	Balanced 3%	SA CPI 0%	SA CPI 3%	SA CPI 4%	SA Bonds 5%	SA Bonds 4%	SA CPI 11%	SA CPI 6%	SA CPI 4%
	SA Equity -8%		Foreign Equity -3%				FoF -6%	SA Bonds -1%	Foreign Equity -2%
	Foreign Equity -43%						SA Real Estate -10%	Foreign Equity -2%	
							Balanced -11%		
							Foreign Equity -20%		
							SA Equity -23%		

Source: I-Net Bridge, Novare® Investments Balanced returns – retail unit trust Prudential Medium Equity category average

Foreign equity – MSCI Global Equity (ZAR); SA Real Estate – FTSE/JSE J253T,

FoF = proforma performance up to March 2003; Mayibentsha® Fund of Funds actual returns gross of fees thereafter.

Disclaimer: Past performance is not indicative of future result; future performance may go up or down.

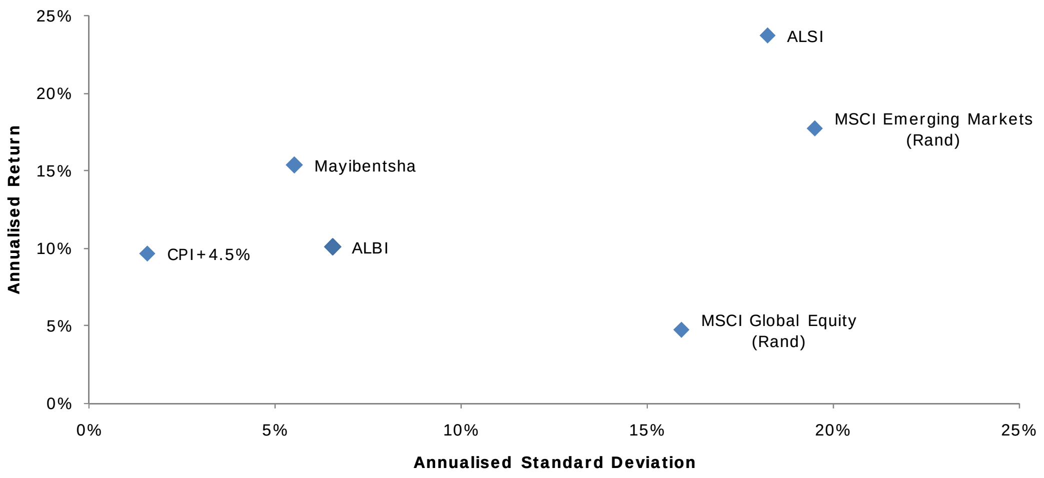
Mayibentsha® Performance

The Mayibentsha® Fund of Funds gives an investor access to the best skilled hedge fund and absolute return managers in South Africa. The portfolio aims to achieve absolute returns over the medium term whilst maintaining low volatility in monthly returns – in line with the All Bond Index. The fund aims to preserve capital by not producing any negative returns over a 12 month period.

During the first six months of 2010 when the ALSI returned -4.1%, Mayibentsha® posted a strong positive return of +2.9% (gross of fees) over the same period. During the second six months of 2010, Mayibentsha® returned 7.9% (gross of fees) with a volatility of 3.1%, managing to capture a third of the ALSI return of 24.0% but with significantly less risk.

This longer term risk/return tradeoff is depicted in the graph below, showing the annualised performance and level of returns volatility (as measured by standard deviation) since Mayibentsha's inception.

Annualised return vs. annualised standard deviation since inception to 31 December 2010



Source: I-Net Bridge, Novare® Investments

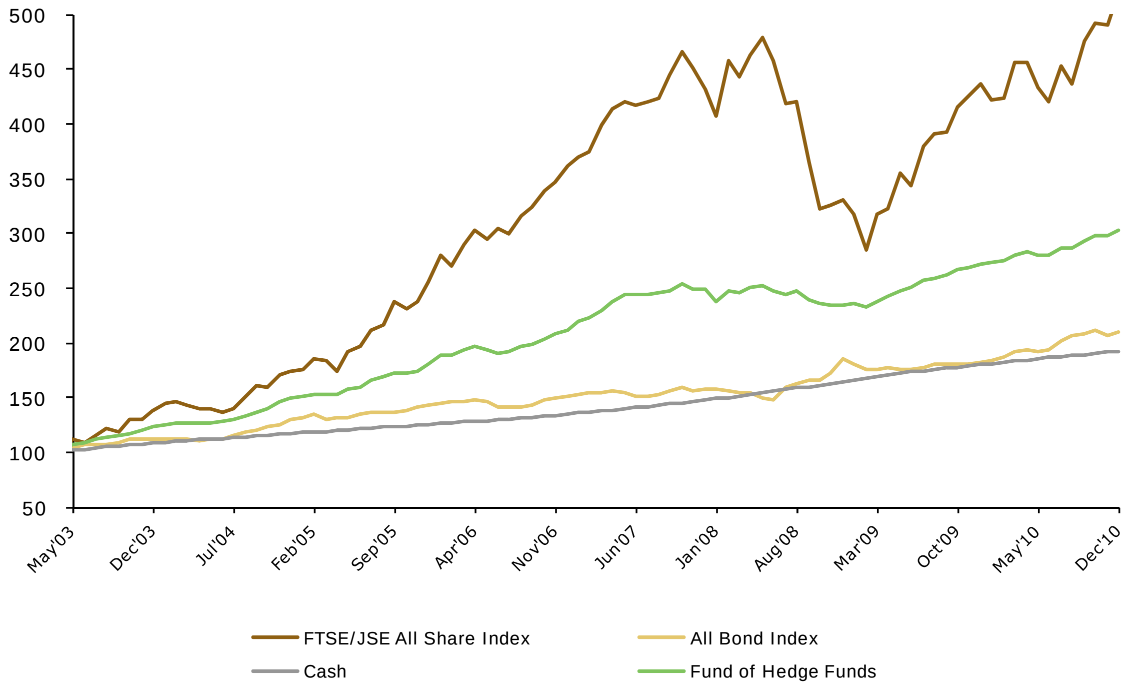
Mayibentsha®: Performance gross of fees for comparison purposes

Mayibentsha® inception: April 2003

Disclaimer: Past performance is not indicative of future result; future performance may go up or down.

We actively manage the volatility of the fund particularly in difficult market periods by positioning the fund in these circumstances to have increased exposure to managers that have lower exposure to the direction of equity markets. This has lead to an overall improvement in downside protection and reduced the volatility of returns. This was evident during the recent bear market period between November 2007 and February 2009, where the ALSI returned -38.9% whilst Mayibentsha® returned -8.1% over this period. Over the longer term the fund seeks to capture a large portion of equity upside but with only limited equity market downside participation.

Cumulative Performance from inception to 31 December 2010



	Annualized Return	Standard Deviation	Return per unit of risk
Mayibentsha®	15.1%	5.5%	2.7%
FTSE/JSE	24.0%	18.1%	1.3%
SA ALBI	10.1%	6.5%	1.5%

Source: I-Net Bridge, Novare® Investments

Period Apr 2003 –Dec 2010 – actual returns of the Mayibentsha® Fund of Funds

Performance net of underlying manager and gross fund of funds fees

Past performance is not indicative of future result and future performance can therefore go up or down

Performance highlights over the past seven years

- Mayibentsha® enjoyed positive returns in 80.0% of the months since inception.
- The volatility of monthly returns for Mayibentsha® since inception was 5.5%, significantly lower than the volatility of local equity returns (18.1%) and even lower than the volatility of local bond returns (6.5%) over the same period.
- Mayibentsha® has returned a total of +203.2% since inception, beating inflation by 157.1%.
- Mayibentsha® outperformed local equities in all months that the FTSE/JSE All Share index had a negative return.

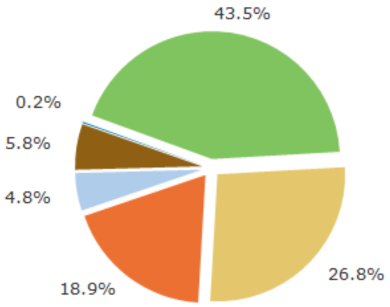
Mayibentsha® Portfolio Positioning

During the first half of 2010, The Mayibentsha® Fund of Funds portfolio was defensively positioned, maintaining exposure to defensive and liquid strategies. This defensive positioning preserved capital over the first six months when the equity market suffered a 4% drawdown. During the second half of the year the focus remained on capital preservation yet we increased our exposure to the more directional strategies to participate in potential equity market upside following the second round of quantitative easing in the US, which we believed could benefit equity market performance. This change helped the fund in capturing some of the second half of the years' equity return albeit with substantially less risk.

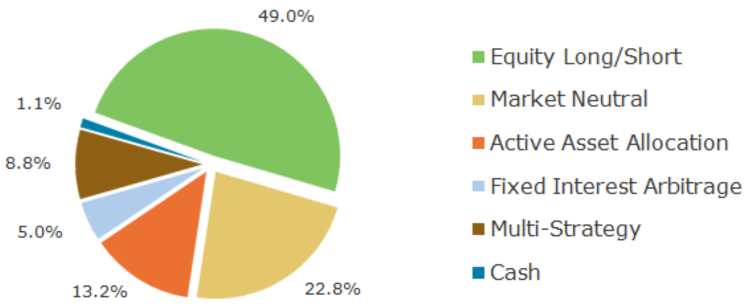
Overall however, during 2010, Mayibentsha® see-through net equity exposure (which gives an overall indication of the equity content of the fund) was relatively low as managers maintained their defensive positioning for most of the year, given the uncertainties on European debt and slowing growth in emerging markets such as China.

Below are Mayibentsha's strategy exposures at 30 June 2010 and 31 December 2010 respectively:

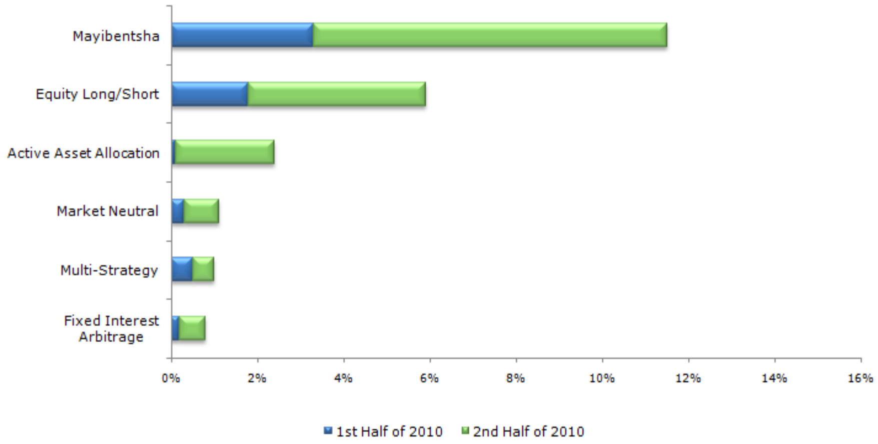
1st Half of 2010 (at 30 June 2010)



2nd Half of 2010 (At 31 December 2010)



During the first half and second half of 2010, strategy contribution across all of the underlying strategies in the Mayibentsha® was positive. The largest contributor to the year's performance was the equity long /short strategy. However as different strategies outperformed at different times, as depicted in the graph below, the case for a diversified approach to hedge fund strategy investing is evident.



Underlying Managers

At 31 December 2010

	% of Fund		% of Fund
Equity Long / Short	**49.0%**	**Equity Market Neutral**	**22.8%**
Peregrine	15.5%	Khulalonda	5.5%
Visio	11.7%	Fairtree	5.4%
Tantalum	10.8%	Sanlam Investment Management Gen-X	4.2%
Hollard Stable Hedge	5.6%	Allan Gray Optimal	3.8%
Bateleur Long /Short	5.2%	Investec Active Quants Hedge	3.9%
Asset Allocation / Absolute Return	**13.2%**	**Fixed Interest Arbitrage**	**5.0%**
Foord Absolute Return	7.9%	Investec Fixed Income Hedge	5.0%
Prescient Positive Return	5.2%		
Multi Strategy	**8.8%**		
Brait Multi Strategy	8.8%		

Mayibentsha® Outlook

During 2010, we managed to preserve investor capital whilst participating in equity market upside during a year that was very volatile. Mayibentsha's underlying managers were very cautiously positioned in the first half of 2010 and many managers maintained their cautious outlook for the remainder of the year. Strategies with more directional exposure, such as equity long/short and asset allocation/absolute return did particularly well during the second half of the year, as they could capitalise on their directional exposure to the equity market.

We continue to select managers based on skill, experience and knowledge that have been built in our team through rigorous research and ongoing due diligence. Within each strategy we'll continue to look for the best-of-breed hedge fund managers in South Africa, but always with a firm focus on operational excellence to mitigate risk for our investors.

For 2011 we'll maintain the largest exposure to the equity long/short strategy, as we believe the outlook for equities to stay rosier for the time being. However, intra-month volatility in returns is expected to stay elevated, and we'll thus continue to have a substantial exposure to market neutral and fixed interest hedge strategies to give exposure to non-equity-directional alpha sources.

We look forward to a new year of promising opportunities and will continue to build on the strong foundation of superior risk-adjusted performance our investors have enjoyed since inception.

The total assets within the Mayibentsha® Funds of Hedge Funds division in Novare® surpassed R2billion by the end 2010.

Thank you for your continued support.

Why Mayibentsha?

- Experienced and dedicated team
- Proprietary state-of-the-art risk monitoring system
- Unrivalled transparency and manager access
- Operational excellence
- Established business with a proven track record


Contact Us

Novare® Investments (Pty) Ltd
Third Floor
The Cliffs Office Block 1
Niagara Way
Tyger Falls
Carl Cronje Drive
Bellville
South Africa
7530

P O Box 4742
Tyger Valley
South Africa
7536

Tel: +27 (0) 21 914 7730
Fax: +27 (0) 21 914 7733

www.novare.co.za

Authorised Financial Service Provider: 757