consider this

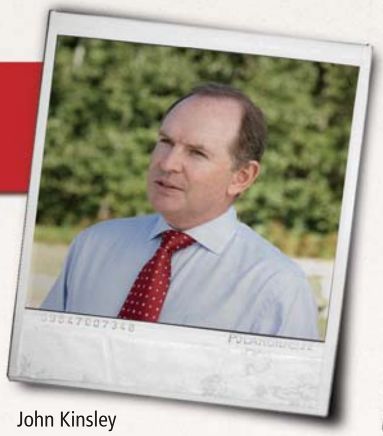
The newsletter for thinking investors. 4th Edition, October 2009.

The Asset Class Issue

PRUDENTIAL
PORTFOLIO MANAGERS
All things considered

Contents

Forethought



John Kinsley
MD Prudential Unit Trusts

Bernard Fick
Head of Institutional Business

Welcome to our last edition of Consider This for 2009. As you may have noticed, this edition has a slightly new look, which we will be implementing across our other material in due course. We hope you like this fresh approach and enjoy the read!

Clarifying our approach to investment using a cycling analogy

Clare Johnson explains our views on managing investment portfolios relative to their respective benchmarks. This underpins what we refer to as 'prudent value' investing. In other words, how we aim to optimise your returns and find value without exposing you to excessive risk.

The dangers of forecasting

As humans, whether we admit it or not, we all defer to and like to have structures, paradigm's, checklists or frameworks for making decisions about life. These help us manage uncertainty. So, when our world appears to change, the first thing we instinctively do, is try to 'normalise' things by establishing a new framework. The problem is, we tend to base this new framework on our most recent experience, whether good or bad. Every year we host an annual investment conference, this year, Eric Lonergan, director of asset allocation at M&G Investments in London, spoke to us about the dangers of forecasting and forming beliefs about the future after a crisis.

As you know, at Prudential we focus on valuations to establish where there are investment opportunities. After Eric's presentation, David Knee and Graham Mason spoke at our conference about the opportunities that both global and local asset valuations reveal.

A considered asset allocation strategy aims to reduce risk

Tactical Asset Allocation (or 'TAA') is a specialist activity where we allocate assets between equities, bonds and cash to increase returns and reduce risk. We use TAA for larger institutional clients and apply the same process to determine the asset allocation in our multi-asset class portfolios. John tells us about recent updates made to our long-run valuation 'anchors' and reminds us that as investors there are three key variables that influence our investment decisions:

1. What your expectations and return objectives are (both nominal or pre-inflation returns and real or after-inflation returns).
2. How much risk you can tolerate.
3. How long your time horizon is.

Given that inflation eats away at your returns, higher inflation expectations mean lower real returns. So, assuming that you have the same time horizon you have two choices to deal with rising inflation:

1. Increase your exposure to assets that are expected to out-perform inflation with the goal of achieving a higher return (which does increase your exposure to risk); or
2. Keep your risk exposure the same and decrease your return expectations.

Our views on property

We currently have substantial exposure to listed property in our multi-asset class portfolios. In this edition, Albert Arntz explains the role of listed property in a portfolio, and explains why we believe that there is value in listed property.

And lastly, but not least, we are pleased to confirm our sponsorship of both the Prudential Eat Out Restaurant Awards 2009, and a new series of mini restaurant guides. These awards play a valuable role in identifying the great restaurant choices we have, right here at home in South Africa.

We hope you enjoy the read, and if you have any questions or feedback, we would be delighted to hear from you. Please contact us on 0860 105 775 or email us at info@ppm-sa.com.

Investment performance and pelotons:

Managing the risks and rewards of being different

Clare Johnson
Quantitative Analyst

Consider:

In this article, Clare Johnson uses an analogy to explain our approach to investment. Professional cyclists use the peloton to achieve their goals. They decide when it is appropriate to breakaway from the bunch or stay with the peloton. Similarly, at Prudential, we focus on generating consistent returns for you by managing the risks and rewards of tilting our portfolios towards or away from their respective benchmarks.

Professional cycling is very similar to professional investment management.

The first obvious similarity is that both cycling and investing have their own unique language and terminology. Both can be baffling to newcomers, but if you spend a little bit of time and effort learning more about the concepts you may be surprised by how rewarding it is to set financial and physical goals for yourself and with focus and effort, achieve them.

Some other obvious similarities:

1. To be a successful cyclist, one must be disciplined and train regularly. Some would even argue that it becomes a lifestyle. The same holds true for those who manage money professionally. They are also disciplined, competitive and focused. In fact, it is not surprising that many investment managers are also cyclists.
2. You have to have a certain amount of equipment and money to get started. You need to get fit, which requires a plan, a vision and some discipline and hard work. To optimise your training you need some technology, and a capability to measure and analyse a range of statistics is key.
3. You need to train with a professional and committed team. Your team must challenge you to do your best and push you when you need pushing.
4. To compete successfully you need a clear strategy, specific goals for each stage of each race and a benchmark against which to measure your progress. Lastly, as much as individual performance matters, you need to work well with the team.

What differentiates a good cyclist and a good cycling team from a great one? What determines who wins the race, not only stages?

The cost of conformity

Cyclists in races cycle in packs or pelotons. The peloton is the primary measure of what is going on in the race. Riders in front are in a 'breakaway'. Riders behind it are 'dropped' or 'off the back'.

A peloton provides a way of measuring your pace against the rest of the group. It is a benchmark of sorts. It also enables one to spend less energy by staying in the slipstream of another rider. This is called drafting and is at the heart of bike racing as riding behind another rider can save as much as 30-40% of a racer's energy. Nearly all tactics and strategy devolve from this truth. Those in the peloton may do well, provided the peloton is setting the correct pace, does not all collapse together, and is on the correct road. However, if cyclists remain in the pack they will finish with average times. The analogy is a powerful one in that when you invest, we believe that if you start with the benchmark, and focus on conforming to this, you will not be able to differentiate your results.

At Prudential we take advantage of riding with the pack, but focus our efforts on when to 'break away'

At Prudential we take advantage of the slipstream effects of the peloton by keeping the beta of our portfolios relative to the benchmark close to 1. Beta is the tendency of returns to respond to swings in the market. A beta of 1 indicates that the share or investment instrument's price will move with the market – a beta of less than 1 means that the portfolio has less market risk than its benchmark. This is beneficial when the market is falling but means that the portfolio will lag the benchmark performance in a recovery or bull market.

We aim to deliver better performance than the benchmark, but are not benchmark-driven

Using the analogy above, this ensures that when we do 'break away' from the benchmark, we only do so because of the extent of our conviction in our concentrated stock picks, rather than from holding a portfolio that looks like the benchmark but has more or less market risk. That is to say, we aim to deliver pure alpha (or out performance of the benchmark) and not just benchmark-related or benchmark-driven performance.

Start with your own strategy and view, and use the benchmark to reduce risk and increase your returns

You need to start with a strategy and use the benchmark to reduce your risk and to outperform. In order to get ahead of the pack, a cyclist must break from the peloton from time to time and set up faster average times each time they do this. The overall winner is not the individual who finishes first for any one stage, or even the last day, but whose collective times over the race have beaten the average.

Learn more about beta

Also known as 'beta coefficient', beta is a way of measuring how much systematic or market risk a portfolio is taking on. You can measure the volatility or risk of a share or a portfolio in this way, but it is always measured in comparison to a reference point. This may be the market portfolio as a whole (for example the FTSE JSE ALSI), or relative to the portfolio's own benchmark. Beta is the therefore the tendency of returns to respond to swings in the market.

- A beta of 1 indicates that the share or investment instrument's price has moved with the market.
- A beta of less than 1 means that the share or investment instrument has been less volatile than the market.

A beta of greater than 1 indicates that the share's price has been more volatile than the market. If a portfolio's beta is greater than 1, it means that, compared to its benchmark, the portfolio contains more market risk. So, if the benchmark moves up or down by 5%, the portfolio has moved up or down by more than 5%. If a share's beta is 1.2, it has been theoretically 20% more volatile than the market.

To provide a practical example:

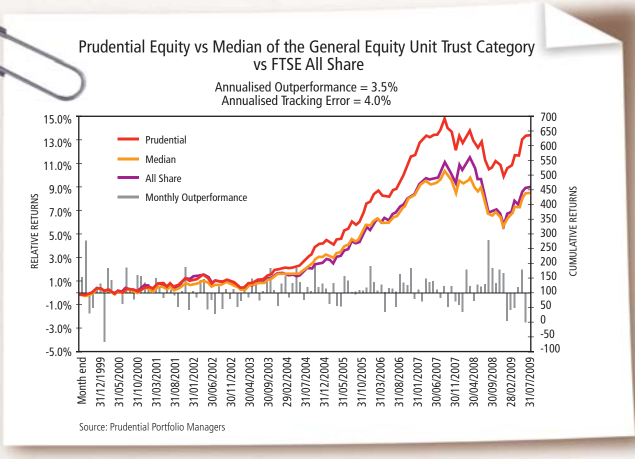
Many retailers stocks have a beta of less than 1. Conversely, most high-tech Nasdaq-based stocks have a beta of greater than 1, offering the possibility of a higher rate of return, but also posing more risk.

Investment performance and pelotons: Managing the risks and rewards of being different

It is a test of physical stamina, mental resolve, strategy, analysis of the race and teamwork to know when it makes most sense to break away from the pack. He who has the courage, ability and fitness to be different and is able to manage the risks of being different can reap better rewards.

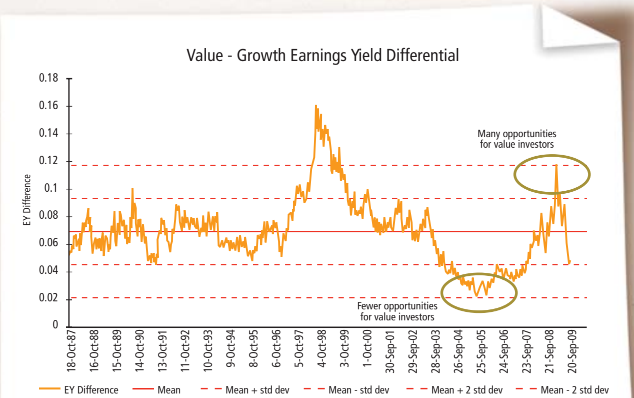
Mental fitness and emotional control

In cycling, your mental ability is as important as your stamina. Similarly, when we invest, as much as we try to remain rational about our decisions, our emotional make-up is so intrinsic to being human that it affects the choices we make and the way that we invest our money. In order to be better investors it is important to be aware of these influences, and be able to pick managers who will consistently break away from the pack when the time is right, whilst not doing so foolishly. As tempting as it is to place one's money on the rider with the yellow jersey today, it has been proven that the chance of the same rider wearing the yellow jersey at the next stage is slim. The power of regular incremental increases in speed will win the race. Regular incremental increases in returns create a better long-term investment result.



Source: Prudential Portfolio Managers

As an example of this principle, consider the performance of the Prudential Equity Fund relative to the FTSE JSE All Share Index, since inception. Also plotted is the performance of the median fund in the General Equity Category. Notice how a solid track record of consistent incremental returns has led to a R100 investment in the Prudential Equity Fund growing to over R650, compared to just over R450 for the All Share Index.



Source: Credit Suisse Credit Securities, Prudential

If you have decided on a benchmark given your required return and appetite for risk, as an investor you need to decide if you want to back the average or the benchmark. Your other alternative is to select a manager who does things differently and goes it alone, with no cognisance of the pack.

When you invest, is it safer to stick with the crowd? What are the benefits and costs of being different?

Do you stick with the crowd or take a different approach? There is potential reward in being different to the norm. You may get differentiated results. However, there is a price. The dangers of going it alone, and ignoring the peloton can be substantial on the downside. This is the uncertainty of potential returns or what we refer to as risk. Just as a successful cyclist does not base his strategy on the peloton, but uses this as a benchmark to reduce his risk, at Prudential we do not start with the benchmark holdings, but we use these to critically assess the level of risk that we expose clients to by taking active positions towards or away from the benchmark.

The importance of focusing on valuations: are they stretched or not?

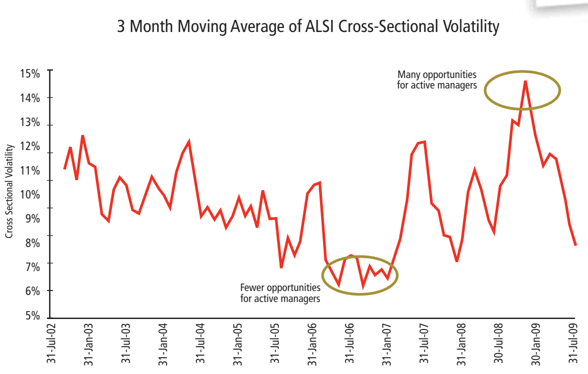
As value managers, we are concerned with the valuation of shares: in other words, whether a share is cheap or expensive (or neither) relative to what we consider its fundamental value to be. We like to buy shares when they are cheap, with the assumption that sooner or later the share will revert to a value close to its fundamental value. When valuations in the market are fair, and not stretched in either direction, there's not much for us to do. We have to wait until shares are priced at a level that offers good potential excess returns.

A way of measuring whether valuations are stretched or not, is to look at the difference between the earnings yield on a basket of value shares, compared to the earnings yield on a basket of growth shares. When this gap is large, it's a good time to be a value investor and you can expect us to move away from the benchmark to take advantage of these opportunities.

A good time for active managers to 'break away from the pack' is when the dispersion of returns is high

Another method one can use in order to understand when it's a good time to 'break away from the pack' as an active manager (not necessarily as a value manager) is to look at a measure called cross sectional volatility (CSV). This is a measure of the dispersion of returns in the market each month. When the CSV is low, the performance of all the shares in the market has been very similar - clumped together. High CSV values mean that the gap between the best and the worst performing share is large. This is a good time for an active manager to outperform.

The chart below shows the three month moving average of the CSV of the ALSI.



Source: Prudential Portfolio Managers

We suggest you select an investment manager that has a strategy, uses the pack to reduce risk BUT breaks away when it is appropriate to ensure they outperform

We believe that we can add value and generate better incremental returns by being aware of the 'peloton' and using this to our advantage. There is merit in being aware of the benchmark and critically assessing the opportunities and risks of when it is best to break away from the group.

> '…our positions relative to the benchmark… reflect the strength of our convictions.'

The prudent approach to value

Like other value investors, we first screen shares, analyse them, and weigh each share's merits against our own analysis and independent valuation of the business. We use fundamental analysis combined with technical screens to determine whether the current share price is trading at a discount or a premium relative to their valuation of the business and relative to other holdings.

We tilt our investments towards value shares, but carefully control the extent of this exposure

Because we recognise that shares, securities and the markets on which these are traded are inherently unpredictable, we take modest positions and constantly measure the 'riskiness' of our portfolios. This is central to our prudent approach to risk management. The overall objective of this step is to be aware of and manage any unintended exposure to any one characteristic that would be considered to have potential for 'undue risk'.

Our quantitative capabilities allow us to structure the level of any portfolio risk to meet the mandated requirement, and investors' tolerance for risk. This means that it is rare for an entire portfolio to consist of value shares.

We are careful to avoid exposing clients to more risk than is necessary

We scale the extent of our exposure to shares and instruments that are different to the benchmark. In this way, we adjust our positions relative to the benchmark of a portfolio to reflect the strength of our convictions. The consequence of this approach is that certain risk measures such as 'tracking error' (which is a measure of risk that is based on a portfolio's 'difference to the benchmark'), may then vary according to whether the environment for stock picking is favourable or not.

A Paradigm shift:

Post crisis opportunities

Eric Lonergan
Director, Asset Allocation
M&G London

Consider:
As humans, whether we admit it or not, we all defer to and like to have structures, paradigms, checklists or frameworks for making decisions about life. These help us manage uncertainty. So, when our world appears to change, the first thing we instinctively do, is try to 'normalise' things by establishing a new framework. The problem is that we tend to base this new framework on our most recent experience, whether good or bad.

What can we learn from the credit crisis?

Something of great significance has happened in the last two years. One must therefore be very wary of formulating views and beliefs after this shock because these beliefs may not be as reliable as we may think they are.

We all make assumptions in life. Even though we know that when one variable changes, the likelihood of something else changing is high, we assume that the other variables remain constant. It is our way of constructing parameters to give us a reassuring sense of certainty or control. This is referred to as ceteris paribus. It is the notion that you can change one variable and all others remain unchanged or all other things equal.

A common example of this is the analysis of corporate profitability. People create a trend line to show profitability trends, and then identify the outliers or unsustainable tops and tails. They then take these out of the trend line and assume everything else remains the same. This is not objective, but it happened after the IT bubble in 2002 and 2003, and recently happened again in the analysis of the profitability of the banking sector.

In making the outliers 'disappear', it is a form of ceteris paribus. It is taking the thing that went wrong out of the picture and keeping everything else constant and then assuming that nothing else will change unexpectedly.

Consistency and commitment

In most areas of life, consistency and commitment is good. Inconsistency is a form of irrationality. We therefore look for consistency.

In financial markets, however, an attachment to an economic belief is not necessarily good if that belief is unfounded or inaccurate. Many investment committees face this challenge. People in the committees argue for a specific view, and in doing so are already biased. They will look for evidence to support their view and confirmation of this. It is much more difficult to maintain an open mind … and much more admirable.

In 2006, Dr. Nouriel Roubini, an economics professor stood before an audience of economists at the International Monetary Fund and announced that a crisis was brewing. In the coming months and years, he warned, the United States was likely to face a once-in-a-lifetime housing bust, an oil shock, sharply declining consumer confidence and, ultimately, a deep recession. Roubini was subject to abuse and was criticised for this 'Un-American' stance. He was subsequently proven to be right. This would make it that much harder for him to express surprise at how well the global economy appears to be recovering in March this year.

It is easy to understand that he may have had an emotional attachment to his opinion after the public criticism.

With economic cycles, we tend to underestimate the extent of the severity of downturn because we are conditioned by recent positive events of an upturn and then after a downturn, we tend to underestimate the recovery.

Economists are not very good at economics

Perhaps the harshest criticism of economists of all is that generally speaking, they are not very good at economics! They tend to emphasise forecasting rather than thinking about the structure of the world. Are we going to experience a global recession, depression, or neither? What is the inflation rate going to be and what will happen with interest rates?

A more robust application of economic methods is to disprove commonly held beliefs, by using economic data, past evidence, or proven theory.

Empirical analysis of data enables you to refute popular beliefs

What did we believe after previous crises and what was wrong with those beliefs?

Understanding this helps us assess how good we are at forming beliefs and medium-term trends after a crisis.

If you look at the Asian crisis in 1997 – 1998, conventional wisdom of the time was that:

a. Asia would experience widespread Japan-style stagflation

What is interesting about this is that not only was this belief wrong, but that the so-called 'Japan experience' is the big fear or nightmare that all economies have.

The reality is that the US is nothing like Japan. So it cannot be 'like Japan'. The most plausible reason for the Japanese decline is demographics. After an initial growth in labour supply post the war era, the growth in the labour market changed as the Japanese population grew older. GDP is a function of labour market supply growth. For a change in GDP per capita, most of the change is due to a change of labour supply. It therefore has an almost perfect correlation with GDP. The US does not have the same demography as Japan.

b. It wasn't over yet.

China was expected to be 'the next crisis' due to it's high levels of non-performing loans and mis-allocated capital. A Nobel prize-winning economist spoke of the 'myth of the Asian miracle'.

c. A global recession was likely

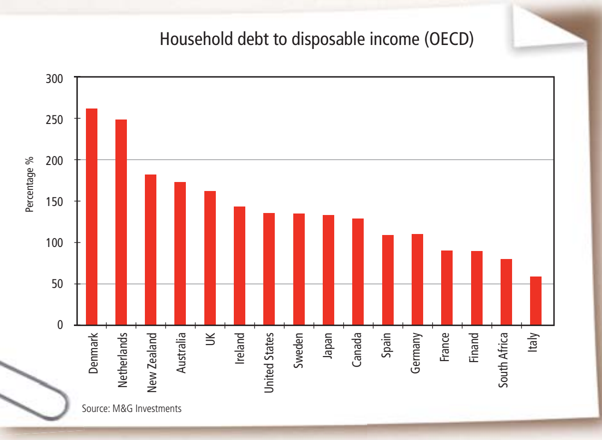
What turned out to be the most important trends after the Asian crisis were not even remarked on at the time:

1. China did matter, but for the opposite reason than believed. Chinese share of global GDP would become a significant global influence.
2. The consequences of the technology boom were going to have a dramatic impact on productivity.
3. The policy response to the deflationary shock would dramatically increase financial intermediation and house-price inflation in the developed world.

As a result, risk premia changed for a long time. Asia aggressively de-rated at the end of 1998 and within two years psychology changed and Asia was a participant in the IT boom.

Economics can help us identify the difference between partial and general equilibrium

As humans, we tend to think in partial equilibrium. Economics as a science is about looking at and considering the whole system.



For example, Mervyn King, the Governor of the Bank of England frequently appeals to UK citizens to save more. This is based on a widely-held belief that the savings rate should be higher in Anglo Saxon economies. We all nod and agree. We don't save enough.

But, if you think in general equilibrium, if everyone decided to save tomorrow, there would be a decline in demand. When there is over-supply, the inflation forecast will be missed and the monetary policy committee would end up cutting interest rates to stimulate demand, which would reduce the returns on one's savings, which in turn would reduce savings. The notion that we should all save more works in partial equilibrium. In general equilibrium, it is a self-defeating and circular notion.

Based on full equilibrium thinking, there are a lot fewer imbalances in the world than we may think. The so-called imbalances often simply reflect different preferences.

If we then look at current beliefs and assess whether they are based on empirical data and full equilibrium thinking or not.

What are the current beliefs that are dominating peoples' thinking and how well founded are these beliefs?

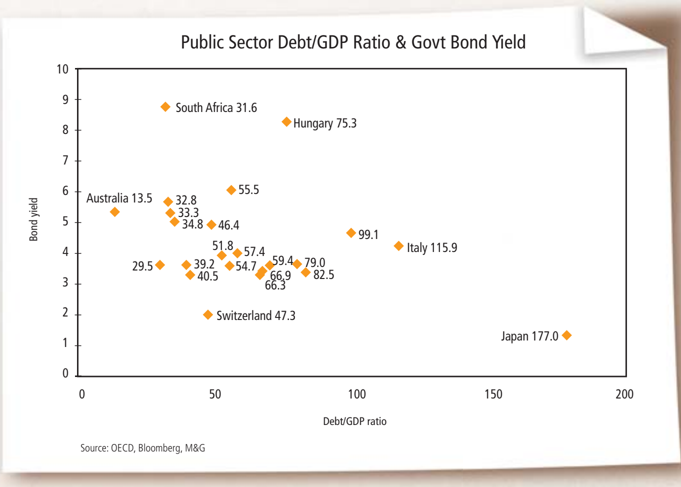
1. There is too much debt in Anglo-Saxon households.

One of the most widely held beliefs and prevailing consensus thinking is that there is too much debt in Anglo Saxon households. The evidence of this is often presented in a time-series chart, showing the increase in US household debt in a linear fashion.

If, instead of just looking at a time-series chart, one looks at a cross-sectional analysis of household debt in different countries, the US is not extreme. In fact, it is not really worthy of comment. Denmark is in fact more notable, and Italy is at the other extreme.

2. Public sector debt to GDP ratio: Does high government debt cause higher bond yields?

In the chart below, bond yields are on the vertical axis and debt to GDP ratio is on the horizontal axis. Japan has a high level of borrowing but low bond yields. On the other extreme, Australia has a low debt /GDP ratio but a relatively high bond yield. Current data seems to refute that there is correlation between the two in spite of the popular belief that high debt translates into high bond yields.



Visually, one could conclude that the worse your fiscal policy, the lower your bond yields. There may be a common independent variable causing both?

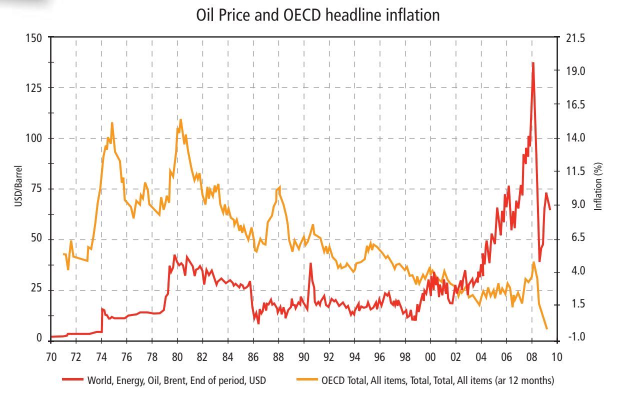
Instead of focusing on debt to GDP ratios, short-term interest rates are the best indicators of bond yields. High interest rates in the short term translate into high bond yields.

3. The outlook for inflation.

If you listen to popular views on inflation, you are likely to be worried about extremes of high inflation or deflation. How plausible are these views? How worried should we be about inflation?

In the chart alongside, the orange line is headline inflation and the red line is the oil price. Prior to 1990's there appeared to be a high correlation between the oil price and inflation every time oil spiked and inflation picked up. However, after 1998, we have experienced a five or six fold increase in energy prices, but there was a decline in headline inflation over the period. This tells us that there was a dramatic structural change in the world.

Price responses changed after 1998 with the growth of deregulation and the free market caused wage cuts rather than wage increases in response to price inflation. The spread of capitalism and free markets is having significant and arguably much more enduring consequences than the impact of the financial crisis. The world is therefore structurally very different.



Source: Reuters EcoWin

How do we make investment decisions if we know so little about the world?

How do you invest if you do not know what the future holds and cannot use the recent past to make assumptions about the future? On what basis do you make investment decisions?

We believe that our objective analysis of empirical data enables us to:

1. Pay attention to the facts rather than forecasting.
2. Use empirical data to test whether current beliefs are true. Based on this, we are then able to test whether the market is pricing in a view that is biased.
3. Establish where we may find attractive odds.

> '…be very wary of formulating views and beliefs after this shock because these beliefs may not be as reliable as we may think they are.'

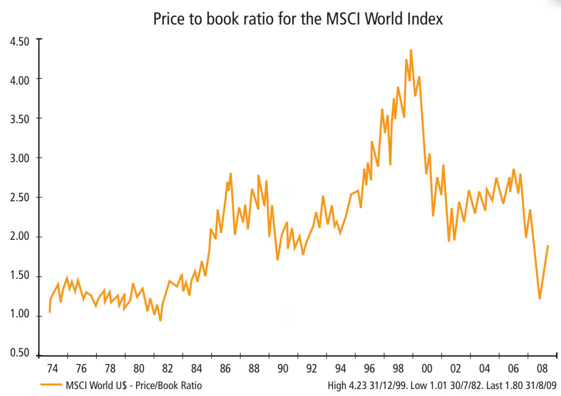
Based on our approach to investing, where do we currently see value?

In closing, we believe that one should be very careful of medium-term beliefs. History tells us that they are often wrong and in fact turn out to be irrelevant. If we apply the three steps explained above to current and long-term historical data, where do we currently see value?

1. We believe that developed market equities are very attractive.

Price to book ratios are another way to look at 'normalised' earnings power. They provide us with a way to compare the prices of shares in the market to a conservative measure of the collective values of the firms those shares represent. Expressed as a multiple, it is an indication of how much sharehold-ers are paying for the market. The net asset used in this ratio is often a conserva-tive valuation as it does not include goodwill and other intellectual capital that is not included on the balance sheet of a company.

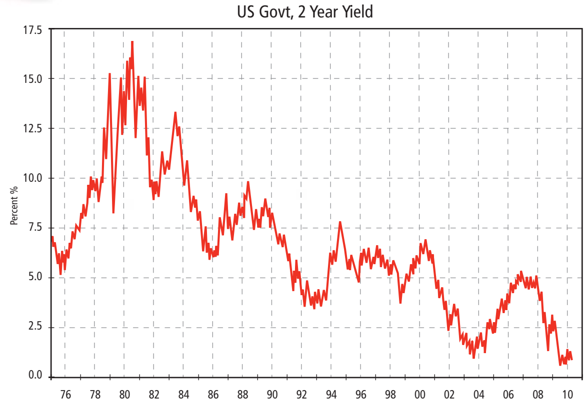
From the chart below, at its current point it is at the same level as it was at the trough of the last recession. To go lower than this, you have to go back to the 1970s or early 1980s.



Source: Thomson Data str

2. On the other extreme we have a negative view on two-year US treasuries.

Eighteen months ago, the yield for the two-year US government bonds was 5%. The yield is now at historic lows for the last twenty years. The previous low (still higher than the current yield) was in 2003.



Source: M&G, Reuters EcoWin

Consider:

David Knee and Graham Mason share their perspectives on the nature of the global recovery, global valuations, and current asset pricing. What opportunities do these present for South African investors?

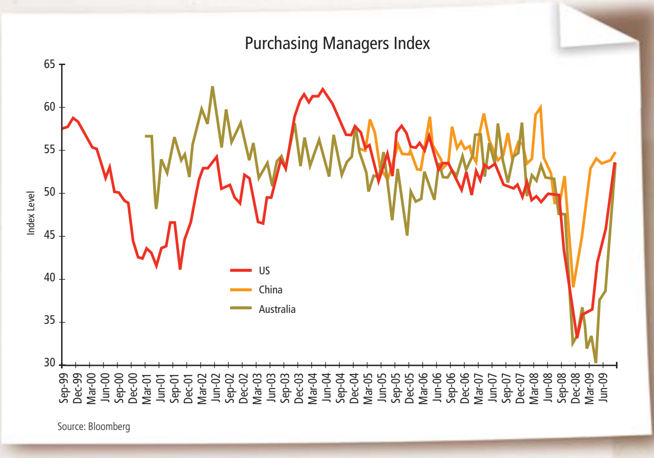
David Knee
Head of
Fixed Income

Graham Mason
CEO

Back to 'normal':

What opportunities do current valuations reveal?

We believe that things are getting back to 'normal'



Source: Bloomberg

There has been a swift recovery in global markets. In spite of this, history has shown that relative to other recessionary periods, the current recovery is not exceptional in that based on current data and consensus forecasts, we are experiencing a similar recovery to the recovery in 1991, which was a relatively shallow recession.

Based on the swift recovery, what about potential for rising interest rates and don't current rising levels of unemployment appear to contradict talk of a recovery? Historically the Fed didn't increase interest rates until two years after the troughs of previous recessions, and not until the unemployment rate was coming down. Unemployment is a lagging indicator, which means that if the economy is only growing now, we can anticipate that unemployment may still continue rising for a while.

We don't have confidence in our ability to forecast the future, so we focus on valuations. Based on these, where do we see opportunities globally?

1. Global Equity Valuations

Global equities remain cheaper than after the Dot Com bust.

2. Global bond valuations

If we look at the 10-year yield of US treasuries, at the peak of pessimism with concerns over long-term depression investors were offered nothing in real terms to lend money to the US government. Since then, we have seen a reasonable re-pricing, but yields are still low still relative to what they have offered in the past. We are already seeing pretty constant yields and the prospect of these assets doing very poorly is constrained by these rates staying low.

Corporate bonds have done very well but still offer good spreads

If US interest rates increase, are we vulnerable if we buy US corporate bonds? We have already seen a reasonable re-pricing of government bonds and corporate bonds have done very well, but they still offer good spreads. Even though there has been a 4% decline in corporate bond yields, we believe they are still offering good value relative to US government bonds. We caution against a tainted view of US corporate bonds based on the exceptional level they got to and still think they offer reasonable value at this point.

3. UK commercial property valuations

We think commercial property in the UK is attractive based on the fall in property values and the gap in yields between gilts and property

The downturn of the 1990s saw average property values decline 27% over 3.5 years. Today we have seen a fall of almost 45% in 2 years. The spread of Investment Property Databank equivalent yields above gilts has widened to the largest on record. At the end of July the spread was more than 5%.

In conclusion, our global valuations reveal our preferences and the assets that we find attractive.

We are concerned about the current commodity prices

Our preferences	Assets we find less attractive
Global equities remain cheaper than after the Dot Com bubble burst.	Global sovereign bonds are modestly expensive in the medium term. They are vulnerable to short-term interest rates rising.
Corporate bonds are as cheap as 2002.	
UK commercial property is very cheap.	Global cash is the least attractive

How do these views on global assets affect and apply to South African asset classes and more specifically our portfolios?

We don't believe that the current demand for commodities is sustainable at these levels, because we believe that the level of Chinese import growth is evidence of the Chinese building stockpiles of commodities based on lower prices and lower shipping rates. This is a sensible long-term thing to do, but it does raise concerns about the current prices of commodities. Based on our valuations, we therefore have a negative view on resources. We are therefore underweight these shares in our portfolios.

South Africa is lagging the global upturn

The global recession is over, and we are looking forward to growth but based on a few economic indicators, including the purchasing managers index and our GDP growth forecasts, South Africa appears to be lagging. Given the structural similarities in our economy with Australia, why are we lagging?

We believe there are three reasons for this:

1. Our fiscal stimulus has been far smaller than the rest of the world

After the global crisis, many countries announced fiscal stimulus packages and programmes. According to the OECD (Organisation for Economic and Development) South African fiscal stimulus, excluding cyclical tax receipts, was of the order of 1%. This is much smaller than other countries, and is one of the reasons we are lagging the upturn.

2. Wage and price rigidity

Across the world inflation has fallen sharply, Argentina and SA are the only ones that have seen sticky inflation. In spite of increasing unemployment, wage demands have been increasing. This affects both the inflation rate and the rate of investment.

Unit labour costs are the change in wage rates plus the change in productivity, so one would expect labour costs to rise slightly due to productivity falls as demand falls. It is astonishing that we are seeing increasing unit labour costs, in excess of 12% during a recessionary period. This will be an impediment to growth going forward and due to this price rigidity, we note a slight increase in core inflation since May this year.

3. Rand strength

The strength of the Rand has been remarkable, and in fact is second only to the Brazilian currency for the year to September 2009. The VIX is the symbol for the Chicago Board Options Exchange Volatility Index, a popular measure of the implied volatility of S&P 500 index options. A high value corresponds to a more volatile market and therefore more costly options. It represents a measure of the market's expectation of volatility over the next 30 day period. The Rand and the VIX are not related but show the same underlying behaviour, which indicates that the Rand is a risky asset. The recent strength in both the VIX and the Rand indicate that appetite for risk is increasing. If we look at a current valuation of the Rand relative to its long run purchasing power parity or PPP since 1975, which is an estimate of the Rand's fair value, the Rand is currently strong.

A consequence of these views is we do not believe that there is value in resources, and if one's portfolio is not weighted offshore, now may be a good time to do this. As previously discussed, we see value in developed market equities, UK commercial property and corporate bonds.

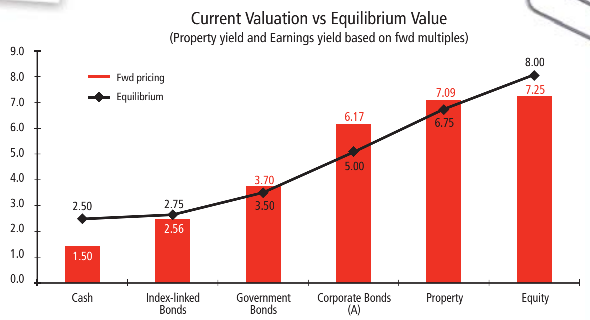
Looking at current valuations relative to their long-run equilibrium values

The chart alongside shows a snapshot of where we believe valuations for the different asset classes are, relative to their long-run equilibrium values. The black line indicates fair value 'normal' expectations for the next ten years, with the black dots indicating expected real returns. The red bars are the current valuations. From this, one may conclude that:

1. Cash is expensive and therefore not very attractive.

2. There are opportunities in corporate bonds and listed property.
   - As the Rand strengthens, this should help bring inflation down. The Rand strength impact on manufactured imports reduces inflation. This may indicate that bonds could still appreciate in price.
   - Single A South African corporate bonds (equivalent to BBB global bonds) are trading at about 250 basis points above sovereign debt. The SA 10-year government debt yield is 8.5% and corporate bonds are yielding 11.0%. Compared to a cash yield of 6.5 to 7% we believe that corporate bonds are therefore attractive.
   - In our portfolios, we have increased our weight in corporate bonds – and already we are seeing the market firming.
   - SA property, the gap between property (10% on a forward yield basis) and cash (7%) is the largest gap we have seen in the last few years, and we find property very attractive.

3. South African equities are fair value after being cheap in March this year.
   - **Earnings yield and PE's**
     South African equities are now back to about an 8 PE which is an earnings yield of about 12.5% from a previous high of 14% in 2008. This is neither cheap nor expensive, but fair value.
   - **Outlook for earnings**
     If you compare the FTSE JSE ALSI versus ALSI earnings, we are back in balance to where we were in 2002. Earnings growth from the JSE mid September was 7% below where we were last year, and we expect it to be about 14% higher than the current level this time next year.
   - **Price to book (PB) ratios**
     For developed world equities, PB ratios show that developed world equities are cheap, and emerging market equities are fair value.



Source: Prudential

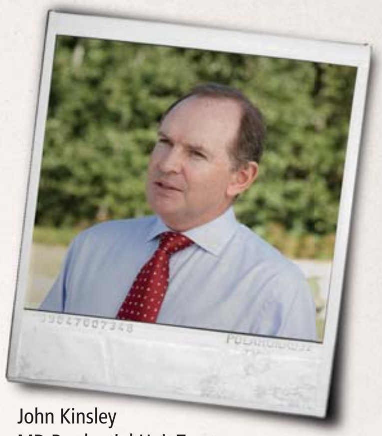
'We focus on valuations.'

We were overweight equities earlier in the year, but any residual overweight in equities is a consequence of our negative view on cash.

In conclusion, our investment views above are represented in our current asset class positions in our multi-asset class unit trust, the Prudential Inflation Plus Fund, as follows:

Asset Class	Active Positions Weighting towards and away from a long-term Strategic Asset Allocation
Equity	+1.5%
Property	+5%
Bonds	+5% (into corporate bonds)
Cash	-11.5%

Everything considered:
Tactical Asset Allocation and Inflation



John Kinsley
MD Prudential Unit Trusts

Consider:
In this piece, John Kinsley explains recent changes to our long-run valuation anchors. He provides us with the background to the changes and explains what these changes may mean for you.

At Prudential, we have a long-established and very successful track record of employing Tactical Asset Allocation techniques. These techniques have played a key role in the development of our investment management philosophy, and over time, we have refined and developed these to stay at the forefront of this field. We interact frequently with the asset allocation teams employed by the Prudential Group across the world, and our investment team is represented on the Global Management Forum, the asset allocation committee of our parent company in London.

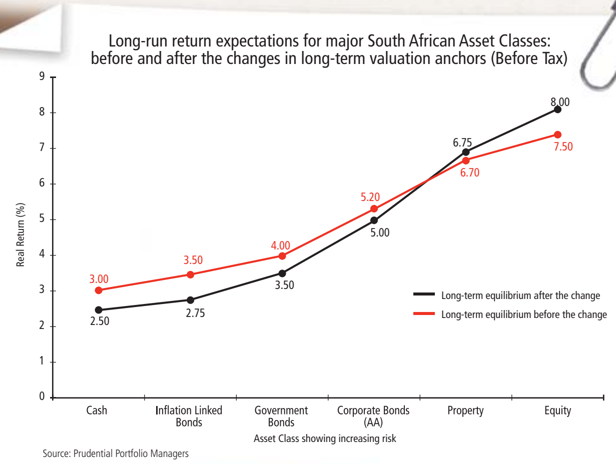
Recent changes to our long-run valuation anchors and how the changes may affect you
The main factor that will determine the investment return from a multi-asset class investment portfolio is the long-term strategic asset allocation. In all of Prudential's multi-asset class portfolios, we determine an internal strategic asset allocation that we believe should generate the majority of the targeted return from that portfolio. We then make active investment decisions, both at asset allocation and security selection levels, to add further out-performance to the portfolios.

Long-term strategic asset allocation is based on long-term asset class behaviours and trends
In determining the appropriate strategic asset allocation for a specific investment return objective, we begin by deciding what long-run returns we believe an investor should receive from investing in each asset class. We would define long-run for this purpose as a period of around ten to fifteen years. This represents a fair estimate of a period that should contain several cyclical phases and is long enough to allow averages to re-assert themselves.

We base our long-run equilibrium return expectations on the historically observed returns for each asset class, as well as proven economic theory. We combine these returns with the specific risk premia associated with each asset class. Risk premia represent the additional returns that we would want to earn as investors, to compensate us for taking additional and specific risks.

We review our long-term equilibrium return expectations regularly, but do not expect these to change frequently
Whilst we regularly revisit our long-term asset class return expectations, we do not expect that these will change frequently. Over the past 5 years, we have only made changes to these assumptions on a handful of occasions.

Over the last two months, we did however undertake an in-depth review of our model, following from the global economic events in 2008 as well as an apparent shift in the SA government's focus from inflation targeting to stimulating economic and employment growth.



This review has resulted in fairly substantial changes to our long-run equilibrium return expectations. As a result, we have also made adjustments to the strategic asset allocations of most of our multi-asset class portfolios, including the Prudential Inflation Plus Fund.

Recent economic events and a shift in government's focus has resulted in changes to our asset class return expectations

Our long-run anchors are those that we expect in a 'textbook' world under equilibrium conditions. The chart shows our revised long-term equilibrium return expectations adjusted for inflation, relative to the previous levels. The chart therefore aims to demonstrate the recent changes to our views.

We have increased our long-run inflation expectation from 4.5% per annum to 5.5% per annum. This affects the long-run anchors for cash, inflation-linked bonds, government bonds, corporate bonds and to a lesser extent the equity anchor point. Our anchor point for property is unaffected, although the forward pricing yield has changed.

As can be seen from the chart, we expect lower real returns from cash, bonds and inflation-linked bonds, while equities should deliver higher returns than in the past. It is important to note that these returns are real, i.e. after inflation.

What changed and influenced our views on our long-run anchors?

In essence, structural inflation of 5.5% appears to be more appropriate than the 4.5% we previously expected. As explained in the previous edition of Consider This*, we continue to believe that global inflation will remain low, and that domestic inflation should continue to fall from current levels, but not to the extent that we previously thought.

** For further background please refer to the article by Graham Mason, 'Inflation, the great debate' in the June 2009 edition of this publication.*

The accepted paradigm in developed markets is that low positive inflation is a worthwhile target in itself as it creates the enabling environment of reduced inflation variability in which growth can take place at an optimal rate.

Given the government's increased focus on job creation, we believe that the South African Reserve Bank will not aim for the mid-point of the inflation band. This is supported by the current debate about the implicit trade-off between jobs and inflation. An additional influencing factor is the increased power of the labour unions. Therefore, we believe that structural inflation within the upper part of the inflation targeting range is a more likely result for the near future, and we therefore adjusted our long-run inflation expectation to 5.5%, rather than 4.5% that we previously considered appropriate.

The consequence of changing the anticipated inflation rate is that our real cash return expectation reduced, and we increased the real return expectation from assets with a risk premium, such as equity.

More context and background to the change in inflation expectations

The general principle that applies globally is that an increase in capacity pushes the inflation rate down

Based on the current output gap (actual economic output or capacity versus potential output or capacity), we maintain that globally, deflation poses a bigger threat than inflation, because growth is likely to be lower going forward.

Nevertheless, South African inflation remains sticky because a large proportion of our inflation basket is 'administered'

In spite of the spare capacity, our inflation remains sticky in South Africa, for three reasons:

1. Much of our inflation basket is 'administered' (in other words directly under public sector control) such as:
   - Electricity
   - Rates
   - Wage costs
2. A large proportion is also made up of 'pseudo-administered' service sector prices such as:
   - Education
   - Medical costs

These are 'sticky' in the sense that falls in demand will not create a commensurate fall in their price at the same time.

3. A significant proportion of the inflation basket is food, and this is affected by the risk of a weakening Rand exchange rate.

'…we have refined and developed these techniques to stay at the forefront of this field.'

What are the consequences of the changes to long-run return expectations on Prudential's portfolios?

Inflation erodes the purchasing power of your money, so it is your real returns that really matter over the long-term. In the face of lower real returns, investors that have the same time horizon have two choices:

1. Aim for a higher nominal return to compensate for inflation by taking on more risk in the portfolio (in other words, a higher equity weighting).
2. Keep your risk profile the same and reduce ones return expectations slightly.

It is important to bear in mind that although you may aim for the same nominal return, your real return decreases as inflation increases.

For funds with an absolute or real return investment objective, the implications of increasing inflation is exactly the same as it is for individual investors. One must either reduce ones real return expectations or take on more risk to achieve the same real return prior to an increase in inflation.

For investors in the Prudential Inflation Plus Fund:

Our Prudential Inflation Plus Fund has historically had two goals:

1. To outperform inflation by 6% per annum before fees over a rolling three year period.
2. Aim for no capital loss over any rolling 12 month period.

Given the trade-off explained above and in the light of increased inflation expectations we had to decide between:

- Increasing our exposure to equities in the fund with the aim of still achieving an inflation plus 6% target, but with increased risk over the short term; or
- Reduce our return expectations slightly without making changes to the strategic asset allocation and hence risk profile of the fund.

Individual investors are the primary investors in the fund. We believe that the prospect of increased short-term risk is likely to be unacceptable. We therefore decided against making changes to the long-term strategic asset allocation of the Prudential Inflation Plus Fund. While we will continue to strive to achieve as high a return as we can without exposing clients to undue risk in the short term, we are mindful of the impact of inflation on real returns. We therefore wish to caution investors that a more realistic return expectation from this fund is in the order of inflation plus 5% per annum going forward.

For institutional investors who are invested in the Prudential Inflation Plus Fund:

We are mindful of the fact that some retirement and medical aid funds are invested in the Prudential Inflation Plus unit trust fund. These institutional investors may require a real investment return of at least 6% per annum to meet their liabilities.

We therefore suggest that institutional investors who wish to retain an Inflation plus 6% target return should consider transferring their investments to our new Prudential Life Inflation Plus 6% Portfolio. This portfolio is managed to a slightly different strategic asset allocation, so as to target a 6% real return objective. This strategic asset allocation contains a higher exposure to equities and listed property than the Prudential Inflation Plus unit trust fund, and long term returns are therefore expected to be higher, but more volatile, than for the unit trust fund. The Prudential Life portfolio is a daily unitised portfolio, pooled on the Prudential Life balance sheet. In all other respects, including fees and management philosophy, the portfolios are similar.

Should you need more information on this option, please contact your asset consultant, or contact Bernard Fick (021 670 5090 or Bernard.Fick@ppm.sa.com).

Consider:

In a climate where many analysts expect the fundamentals of commercial property to deteriorate, we've recently increased the property exposure in our multi-asset class portfolios. How have we arrived at this decision? And what do these trying market conditions mean for investors in the Prudential Enhanced SA Property Fund? To answer this, Albert Arntz first clarifies **the role of listed property in your portfolio**. He then explains why we believe that there is **value in listed property**.

Listed property:

The role of listed property in your portfolio

Albert Arntz
Portfolio Manager

If you wish to diversify your investment portfolio and invest in property, you generally have two choices. You may either buy property directly or you may wish to invest in what is commonly referred to as 'listed property'.

What do we mean when we refer to listed property?

Listed property generally refers to a securitised interest in underlying physical property. Investors in this asset class are thus able to hold a listed share, whose value is determined by the underlying portfolios of properties, rather than buying a direct interest in physical property. In South Africa, the underlying assets of listed property are largely commercial rather than residential properties. The assets include industrial property (e.g. warehouses and manufacturing space), retail property (which range in size from neighbourhood to large regional shopping malls) and office properties including high and low-rise office blocks.

Useful terminology for investors in listed property

From an investment perspective, REITs, PUTs and PLS's are very similar. They are all legal structures that enable investors to access commercial property in a tax efficient and transparent way. Learn more about these below.

Globally, Real Estate Investment Trusts or REITs, are the most common listed property investment vehicles

There is a global trend toward REITs as the primary listed property investment vehicles. They have similar objectives and investment characteristics to direct property investment, but with the additional advantages of pooled investment vehicles:

- You can trade the shares of a diversified and representative portfolio of properties.
- They are transparent - a key feature of these vehicles is transparency with regard to tax. Tax is not levied in the property fund or trust, but the income is taxed in the hands of the shareholder of the REIT.
- They give ordinary investors the ability to access an investment, the scale of which may not normally be available to smaller investors.

In South Africa, we have Property Unit Trusts (PUT) and Property Loan Stock Companies (PLS)

PUTs and PLS's have many of the key characteristics of a REIT. South African regulators are working on a project to introduce a SA REIT, but in some ways, this will just be a re-branding of the existing PUT and PLS entities.

Net Asset Value (NAV)

Also referred to as net book value, the NAV is the value of the assets in a property fund less debt. Professional firms value the property portfolios of locally listed funds on a regular basis. They base these valuations on discounted cash flows and other techniques, in an effort to estimate current market values of properties. The properties are on the balance sheets of listed property funds at these appraisal values. Investors may compare linked unit prices of the PUTs and PLS's to the NAV of a property fund to gauge whether they are buying an interest in the fund at a discount or premium to the underlying property appraisal values.

Vacancy factor

This is the percentage space or area in a property portfolio that is vacant relative to the total area available for letting. It may also be calculated based on rental income rather than space. This metric is very useful to property investors because it reflects capacity utilisation and to some extent the balance of supply and demand in the industry. Low vacancy factors suggest tight market conditions. These generally lead to higher rental growth.

Distribution yield

The 'income' from local listed property is referred to as a distribution. Whereas investors in normal shares receive a dividend – listed property investors receive a distribution. PUT and PLS distributions may be taxable for individuals whereas in many cases dividends are not.

The benefits of diversification: by combining different asset classes one can reduce the overall volatility of a portfolio

Diversifying your investments across different asset classes can reduce risk and increase your potential risk-adjusted returns. Different asset classes such as equities, bonds, cash and property behave differently (and to varying degrees) in the same market circumstances. This is referred to as low or negative correlation. Asset classes are said to be highly correlated if they move in the same direction and in similar magnitude to the same market circumstances.

The first step in taking advantage of these differences in asset class returns and behaviour is to determine a long-term strategic asset allocation. In other words, how much of your investment you should allocate to bonds, cash, equities, property etc.

Understanding the Prudential approach to Tactical Asset Allocation

Our approach to Tactical Asset Allocation is based on exploiting mis-pricing in the market. These discrepancies in valuations typically arise for one of two reasons:

1. Either the market has formed an incorrect view on future financial developments, or
2. Market valuations fail to reflect a consensus view rationally.

We believe that short-term asset prices vary considerably around underlying fundamental values which give rise to investment opportunities. Prices do not stay at unrealistic levels indefinitely. Eventually they return to justifiable norms. In other words, in the long-term, market prices reflect fundamental economic factors. At Prudential we believe that we can add value by identifying and exploiting these temporary inefficiencies.

Prudential has a long-established tradition of employing Tactical Asset Allocation techniques. Since the establishment of our Portfolio Management Group in London in 1986, Tactical Asset Allocation has played a key role in the development of our investment management capabilities across the world. Over time, we have continued to place a special emphasis in this area, refining and developing our techniques to keep us at the forefront of new developments in this field.

Having agreed long-run strategic allocations, as active managers we aim to exploit shorter-term tactical opportunities that offer potential to increase returns using our tactical asset allocation capability.

What role can listed property play in your portfolio?

Listed property can play a valuable role in an investment portfolio. It offers the following benefits:

1. It offers investors higher yielding and more diversified exposure to property

Most individual investors are overweight residential property by virtue of the fact that many people's largest asset is their own home. Few individual investors have diversified exposure to commercial or industrial property. This in itself may be a compelling reason to invest in listed property, which comprises retail, industrial, and office properties. Commercial property also often offers higher yields than residential property.

2. Securitised property exposure is liquid and tradeable

Physical property is generally illiquid i.e. it takes a long time to sell and convert its value into cash. Listed property shares are traded on a stock exchange and are therefore generally more liquid and tradeable.

3. It is an income-producing asset class with reasonably predictable income streams

Along with bonds, listed property provides a reasonably predictable income stream. This is an advantage for any investor wishing to diversify their income-generating portfolio.

4. Potential capital growth

While income-production is important, one can benefit from capital growth over the medium-to-longer term.

5. Lower costs than acquiring and managing physical property

Firstly, economies of scale may restrict individuals from being able to access better quality retail, industrial and office properties. The initial costs may be prohibitive – it would take time and effort to research the pros and cons of each property, assuming one had the expertise to do so. Then, the ongoing costs and risks associated with managing each property, their leases and tenants, may not be worth-while over the long-term.

6. Access to expertise and professional management

Investing in physical property to gain access to diversified exposure to property can be tricky. It takes expert analysis, research and a sound framework for decision-making that is outside the capabilities of many individual investors.

Making the most of income yield opportunities

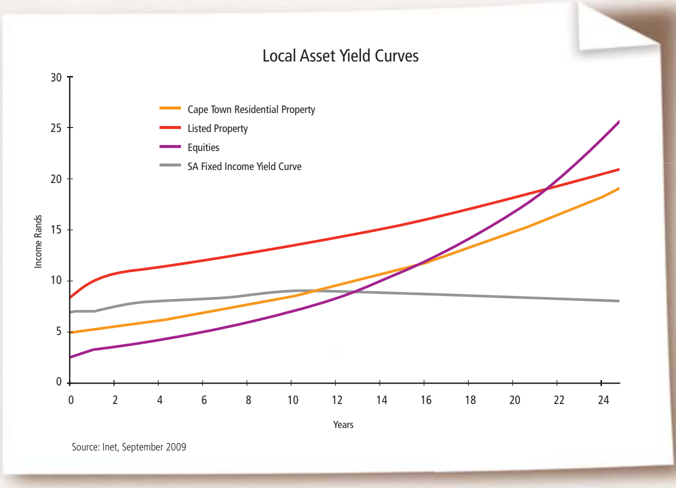
Listed property delivers a high income yield relative to the other traditional asset classes. The downside is that the income from listed property is unlikely to grow at the same rate as equities. A simple way to contextualise current listed property yields is to estimate how long its yield could exceed that of the other major asset classes.

As shown in the chart below, if investors adopt a long-term buy and hold strategy, a R100 investment in listed property would yield roughly R10 in the first year, whereas the same amount invested in cash, the FTSE JSE ALSI and long bonds would yield approximately R7, R3 and R9 respectively.

Using earnings projections over the next two years based on long-term historical growth rates relative to GDP or inflation, it is possible to project how long listed property yields may exceed that of other asset classes.

How do listed property yields compare across asset classes based on different growth rates?

Equity investors may only receive the same income yield as listed property in 21 years time, assuming long-term equity dividend growth in line with nominal GDP at say 9% and listed property growth of 3%. Here growth rates for property are conservatively estimated to be lower than inflation due to the impact of building depreciation.



An investor in some Cape Town residential properties with net rental yields as low as 5% would take more than 10 years to match bonds, assuming rental growth in line with inflation at 5.5%. It would also take more than 25 years for income from this property to match listed property, with an arguably penal listed property depreciation rate.

The chart therefore shows that SA listed property offers the highest income yield of these asset classes for more than 20 years.

Listed property has the potential to provide a high yield and should form part of every well-diversified portfolio

In conclusion, despite the shorter-term volatility and risks of investing in listed property, as long-term value investors, we believe prospects for listed property are positive. Especially if you are looking for a diversified income stream or wish to construct a well-diversified investment portfolio.

'Listed property delivers a high income yield relative to the other traditional asset classes.'

Listed property:

Is there currently value in listed property?

> ‘Be fearful when others are greedy and greedy when others are fearful’ Warren Buffet

At Prudential, we focus on objective, in-depth research and analysis to establish our views on current valuations. Because we believe in mean-reversion (that over time, valuations revert to their long-term averages) we try to buy assets when they are cheap (their valuations i.e. price relative to income, are below their long run averages) and sell them when they are expensive (their valuations are above long run averages). In the words of Warren Buffet, ‘We aim to be fearful when others are greedy and greedy when others are fearful’.

Valuations tend to fluctuate around long run averages as industries move through cycles. These fluctuations are often related to the business or economic cycle.

How this valuation-based approach applies to listed property

During economic downturns, investors become fearful. For example, owners of mortgaged properties worry about meeting debt commitments as their prospects for rental income decline. Weak economic conditions translate into a decline in demand for property space by tenants and prospective tenants. The decline in demand often leads to higher vacancy factors and downward pressure on rentals. Market values of properties also decline as investors see the current and prospective income generated by property decline. Fearful investors may then sell at lower prices.

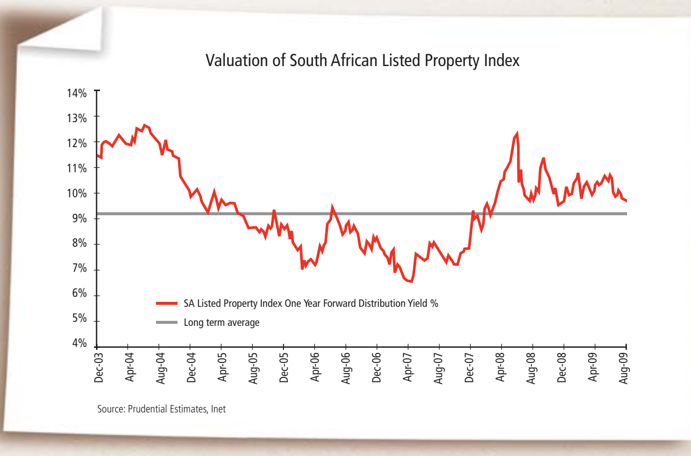
The opposite happens during economic upturns.

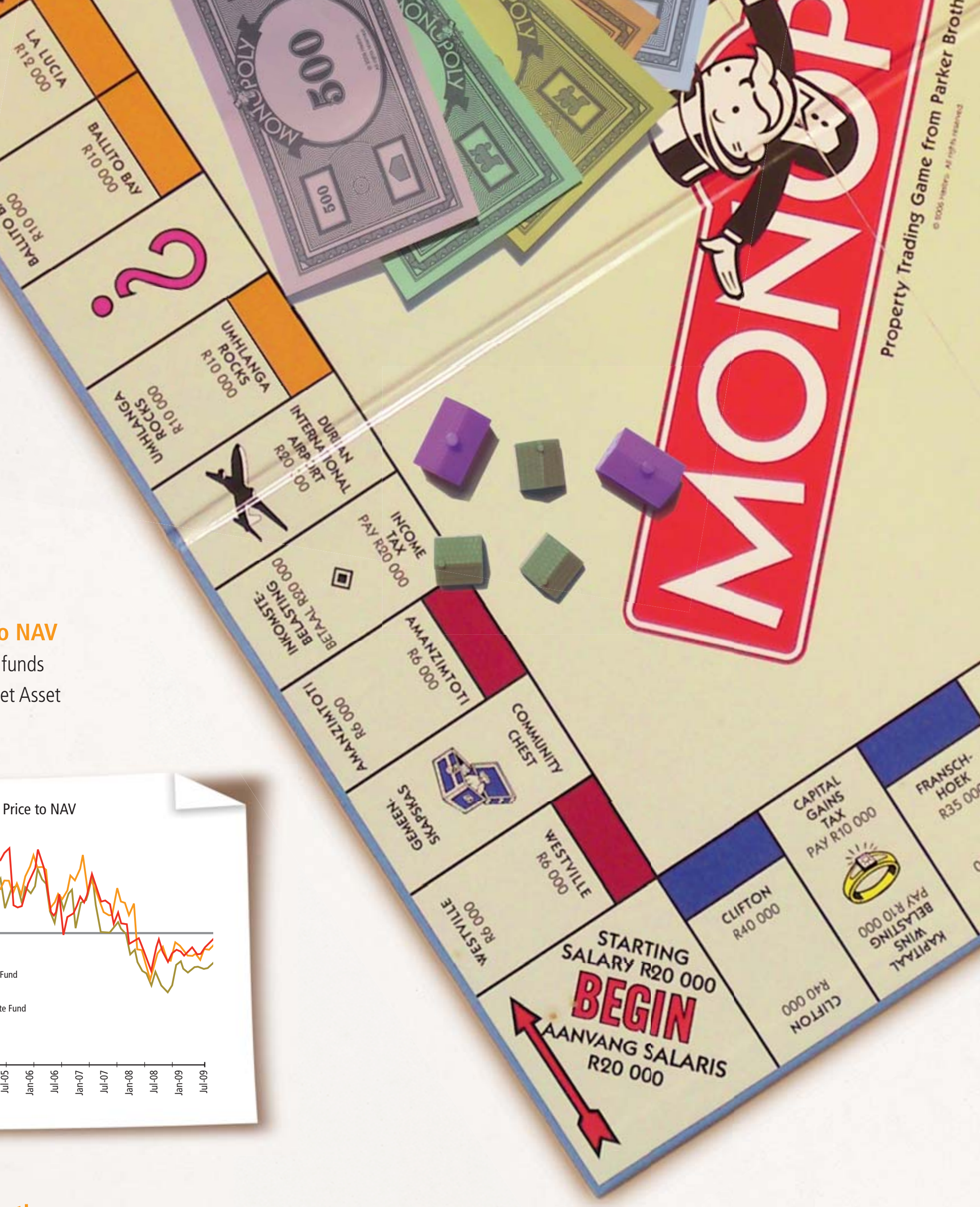
Is there currently value in listed property?

To assess whether there is currently value in listed property, it helps to understand how we value property. We focus on distribution yield and Price to NAV as primary valuation metrics.

1. Property valuations: Distribution yields are above long-term averages

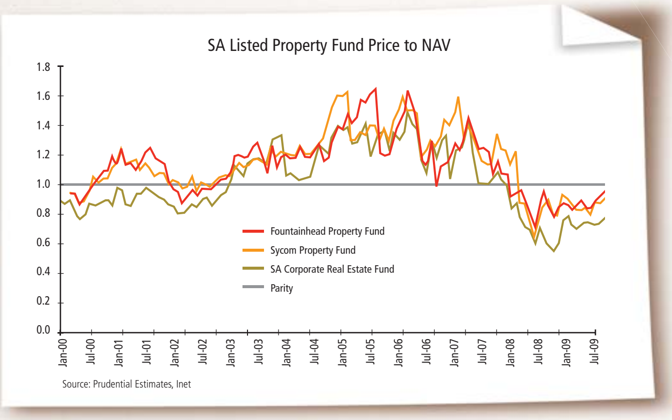
We consider property to be relatively cheap when prospective yields exceed long-term averages. The South African Listed Property Index is priced to deliver a distribution yield of around 10% over the coming year. Our analysis suggests that in the long-run, distribution yields should average about 9%.





2. Property valuations: Price to NAV

The linked unit price of many property funds currently trade at a discount to their Net Asset Value (NAV).

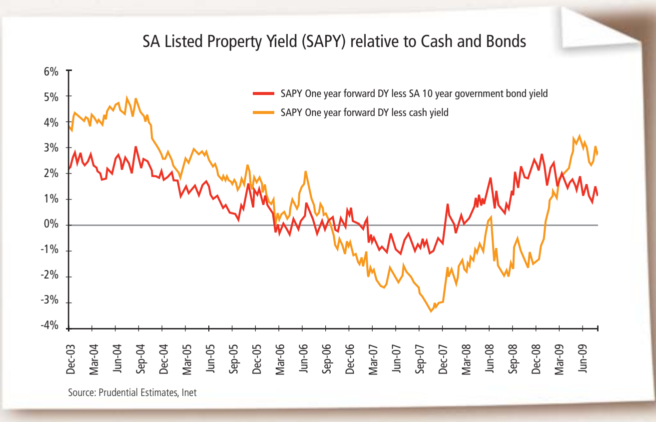


SA Listed Property Fund Price to NAV

Source: Prudential Estimates, Inet

3. Property valuations: Distribution yields relative to fixed income alternatives

Projected income yields on listed property exceed those from cash and government bonds by a wide margin. The income from listed property is also likely to grow through time. This is not the case for cash and bonds. The combination of a higher yield and growth prospects suggest property is attractively priced relative to these asset classes.



SA Listed Property Yield (SAPY) relative to Cash and Bonds

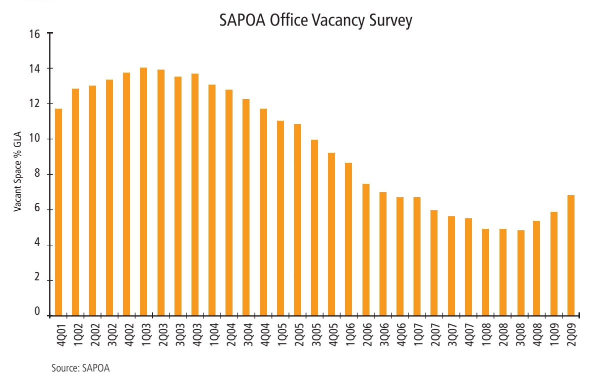
Source: Prudential Estimates, Inet

Why are listed property valuations below their long-run averages?

The outlook for earnings growth from listed property funds is deteriorating

The South African economy is in recession. Demand for space by tenants declines during a recession. This is evident in rising building vacancy factors. Vacancy factors reflect capacity utilisation and to some extent the balance of supply and demand for commercial property. Higher vacancy factors suggest weaker market conditions that often lead to slower or negative rental growth.

SAPOA is the South African Property Owners Association and brings together role players in the commercial property field to create a platform for property investors. Every quarter they publish statistics on vacancy factors for a large sample of office property. Recent increases in vacancy factors are shown visually in the chart below.



If rental growth slows then the earnings of listed property funds are under pressure. Investors worry about funds being able to meet debt obligations and that earnings may decline. If earnings decline then distributions decline and investors receive less income.

Will the economic and property cycle deteriorate indefinitely?

We believe the increase in vacancy factors is cyclical rather than structural

We believe vacancy factors should stop rising or decline when the economy recovers. Current vacancy factors are also low relative to long term averages. There are already some leading indicators of an economic recovery. One such indicator is the shape of the local yield curve. When the yield curve is steep this often precedes a recovery in economic growth. The red line in the chart on page 23 is the difference between the yield on the long bond and cash rates. Long bond yields are currently higher than cash yields indicating that the curve has a steep or 'normal' shape.

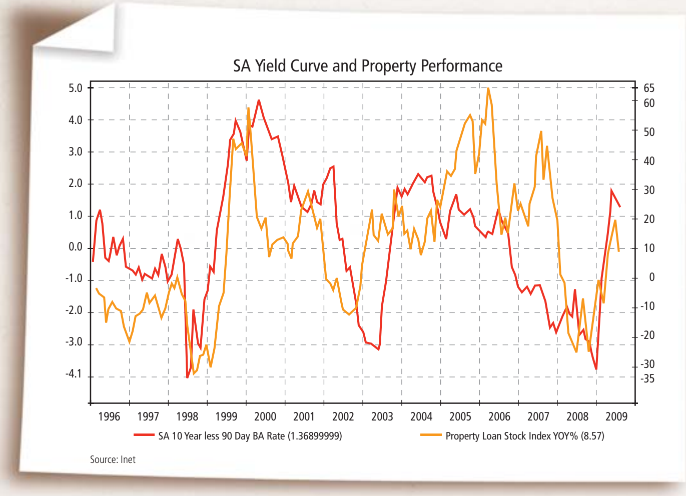
The chart also suggests that there is a relationship between property returns and the shape of the SA yield curve. When the curve is steep, one often sees positive returns from listed property.

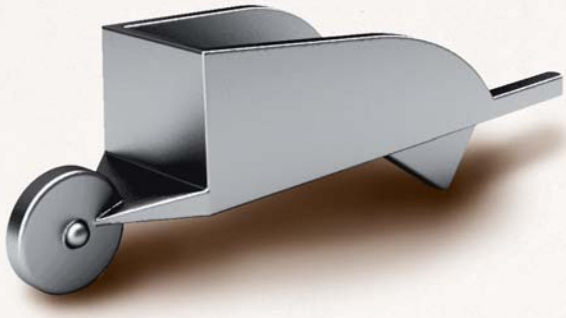
1. The link between GDP and the yield curve is one explanation for this relationship.

A steep yield curve normally precedes a recovery in GDP. A recovery in GDP is good for property earnings growth, which then leads to higher property values.

2. A second explanation relates to the yield on property versus the yield on cash investments.

This is because when the yield curve is steep, short-term interest rates are low and investors may therefore benefit from switching from low cash interest rates to higher-yielding property.





When things get tough, value investors get greedy

Many analysts believe that the fundamentals of commercial property will deteriorate further. What does this mean for you?

We believe that property is currently cheap

When we make asset allocation decisions, we don't look at prices relative to fundamental value of an asset class in isolation. We look at the value in property relative to other asset classes. Our view on property is therefore informed by the relatively poor value offered by cash and bonds. Property in isolation is cheap but not very cheap. However, when seen relative to cash yields, expected returns on bonds and inflation-linked bonds, then property is currently very attractively priced.

In our multi-asset class portfolios, such as our balanced fund and real return portfolios, we currently hold significant overweight positions in listed property.

Can property get cheaper? Yes. This is always the risk inherent in short-term investing. However, as long-term value investors, we aim to hold property long enough to ride out possible further short-term price declines and sell when the economic cycle eventually turns. The short-term risk is evidence of a long-term opportunity.

A warning to listed property investors is that if you are trying to time the market or have a short-term investment horizon, be careful. If things 'get worse' according to analysts predictions, as long-term investors, we would hold existing assets and considering buying more property if prices decline.

A long-term investor should have a portfolio diversified across equities, cash, bonds and property

If listed property prices fall further, the appropriate action would be to increase your exposure to this asset class. Please speak to your financial adviser about asset allocation decisions in the context of your personal objectives, appetite for risk and time horizon. These factors will all influence any decision you make. An independent financial adviser is able to review your needs holistically in the context of the rest of your portfolio and provide you with appropriate and independent advice.

> 'At Prudential…we try to buy assets when they are cheap… and sell them when they are expensive.'

The Prudential Eat Out Restaurant Awards 2009

Selecting a restaurant may sometimes feel a little daunting. There are so many great restaurants to choose from and such a wide array of different types of cooking and food available. And we all have unique tastes and preferences.

The Prudential Eat Out Restaurant Awards 2009 recognise our top culinary talent.

Considered the Oscars of the food industry, the Restaurant of the Year, Chef of the Year and Top 10 Restaurants will be announced at a glittering evening event to be held at the Westin Grand in Cape Town on Sunday 22 November 2009.

The Top 20 restaurant nominee list for the Prudential Eat Out Awards 2009 in alphabetical order are:

9th Ave Bistro, Durban
Aubergine, Cape Town
Bizerca, Cape Town
Bread and Wine, Franschhoek
Carne, Cape Town
The Food Barn, Cape Town
The Greenhouse at the Cellars, Cape Town
Hartford House, Mooi River, KZN
Jardine, Cape Town
La Colombe, Cape Town
Mosaic Restaurant, Pretoria
Overture, Stellenbosch
The Roundhouse, Cape Town
The Restaurant at Grande Provence, Franschhoek
Reuben's, Franschhoek
Roots, Johannesburg
Rust en Vrede, Stellenbosch
Tasting Room at Le Quartier Français, Franschhoek
Terroir, Stellenbosh
Zachary's, Knysna

At Prudential, we empathise with this because investors face a similar challenge when they choose an investment manager and fund(s). What is good value? What reviews can you trust and on what do you base your selection? What is appropriate for me may not be appropriate for you. That is not to say that they are not excellent in their own right. At the risk of stating the obvious, your choice of investment manager and fund can affect your long-term financial well-being (and ability to frequent top restaurants in the future!).

With this in mind, we are pleased to confirm our sponsorship of both the Prudential Eat Out Restaurant Awards 2009, and a new series of mini restaurant guides. These awards play a valuable role in identifying the great choices we have, right here at home in South Africa.

We wish all the nominees the best of luck. Details of the winners will be included in our next issue of Consider This. If you wish to purchase tickets for the Awards, you may purchase these online through www.eatout.co.za.

We are also delighted to sponsor a new series of mini restaurant guides

The Eat Out 'Best of' series showcases online users' favourite South African eateries from cafes to curry restaurants. The guides are free, and are available from www.eatout.co.za


My favourite restaurants:
PRUDENTIAL
PORTFOLIO MANAGERS
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RESTAURANT AWARDS
2009

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All things considered