

WellsFaber's strategy incorporates appropriate asset allocation amongst various asset classes, as well as diversification by currency. We believe that South Africans should, where possible, diversify their portfolio to incorporate exposure to hard currency investments. We recommend offshore exposure be achieved via part or all of the R4 million tax window allowance (and, if necessary, via asset swap investments), provided that the investor profile is appropriate to incorporate this component.

International markets rallied late in 2010, having spent much of that year see-sawing either side of their starting levels. Most benchmark indices remain significantly below their all time highs, continuing to reflect investor uncertainties over the weakened state of many Western economies. That said, investor appetite for emerging market equities has driven such share prices to high levels relative to, for example, quality US companies which contribute to leading indices, such as the S&P 500. So, where individual client needs and objectives allow, we believe that exposure to selected international equities by our chosen fund managers is appropriate, but preferring to accelerate accumulation during periods of market weakness.

During most of the previous decade, we placed emphasis on absolute return funds and commercial property in constructing the offshore components of our client portfolios, but following the significant downturn in share prices during 2008, we have progressively increased potential exposure to international equities for appropriate clients.

Commercial property markets in the US and Western Europe have not shown the same recovery from their 2008 lows, compared to general equity markets. Germany and the office market in central London have been more resilient, but the secondary market (of lower quality, higher yielding properties) in commercial property continues to languish. Whilst it is true that more banks have returned to the lending arena, the terms of lending are much more onerous than those preceding the credit crisis of mid 2007. German commercial property appears set to recover at a faster pace than the UK.

We remain cautious on low yielding international bond investments.

South African equities moved still further ahead in 2010, and have benefited in general from the tide of money inflows to emerging markets. Should foreign investors decide to exit South African shares en masse, this would likely precipitate a meaningful correction in local share prices, and at the same time, cause weakness in the Rand against foreign currencies. In general, we are finding better relative value in overseas equities relative to South African shares.

Our asset allocation may be conveniently summarised under four broad headings of asset class:

Cash & Bonds, Equities, Property, Alternative Strategy Funds.

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