The Investor

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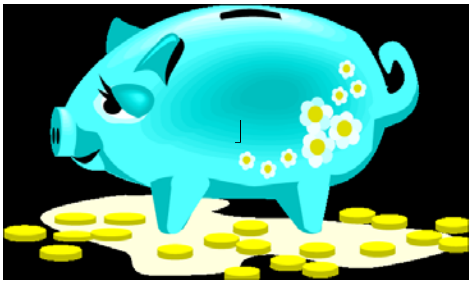
Building a successful share portfolio

By Richard Cluver



Before you can start choosing shares for an investment portfolio, you need a clear understanding of your own investment needs.

A brief explanation is necessary here. Consider, on one hand the requirements of a young person who is just starting out in life and is seeking to achieve a capital sum with which to fund the eventual purchase of a home and, in the far distant future ensure a comfortable retirement. He can afford to take considerable risk in the search for high gains because a nest egg loss at this stage can relatively easily be replaced with patient saving.

Contrast this with a relatively elderly person who is retired with an inadequate pension and a small lump sum from the sale of his home. His need is to grow his investment income as rapidly as possible but without taking any risks for it would be extremely difficult for him to rebuild his capital should he suffer a major loss.

Clearly there is a vast chasm between these two individuals just as there is between the cash-strapped pensioner I have just mentioned and the wealthy retiree whose income is vastly greater than his physical need and who can accordingly afford to commit some of his capital to risk for the sheer fun of being involved. I dealt in some detail with these issues in pages 143 to 156 of my book The Philosophy of Wealth ISBN No 0 9583067 6 1 and do not intend to re-visit the issue so extensively here.

Clearly however, some categories of investors require high degrees of investment security in return for which they are prepared to accept lower than average market returns while, at the

The Investor is growing in popularity by leaps and bounds. This edition is going out to 8 200 readers. It is also the last issue until August because Richard Cluver is going sailing in the Mediterranean.

WHAT'S INSIDE

other end of the spectrum there are others whose overwhelming priority is to grow their wealth and who are both able and prepared to shoulder far greater degrees of risk in order to obtain this objective. Somewhere between these extremes lies every single investor so, if you are intending to go it alone as an investor, you need to make an accurate assessment of your position on this risk/reward scale. Furthermore you need to make regular annual assessments of this position as you progress through life lest you unthinkingly at age 60 take the same sorts of risks that you did at 20 and as a result find yourself suddenly staring bankruptcy in the face with little or no means of rebuilding your fortunes in the few active working years left to you. To that end it is important for us to now concentrate upon the issues of security versus capital growth versus income growth.

Traditionally the safest investment of all is termed “Sovereign Debt,” borrowings by sovereign states with which to fund major infrastructure developments. Thus, for example, there can be no safer investment in South Africa than a debt guaranteed by the fiscus; in other words by all South African taxpayers. However, it is an issue that has recently come into sharp focus because of the deep indebtedness of many governments and the very real concerns of world-acclaimed economists that even some of the leading nations like Britain and America could be headed for a situation where the sum of all their tax revenue might be insufficient to meet the interest payments upon their debts. However inconceivable it might seem, many world-renowned economists are in fact warning that Sovereign Debt might no longer be the safest investment or all and this has already proved to be the case in respect of debts raised by Greece, Ireland, Spain and Italy.

But surely such concerns cannot be raised about the borrowings of the world’s great nations like the USA, Britain, France and Germany? Well let us consider the American example currently. The sovereign debt of the USA, that is the Federal debt expressed as a share of the nation's income, has varied down the years and with it the “risk premium” required by lenders. Historically, the US has run up deficits during wars and recessions, but the debt has subsequently declined. For example, in 1945 debt as a share of the economy peaked just after World War II at 112.7% of US gross domestic product. Subsequently it fell to a low of 30 percent in the late 1970s as the US Government gradually repaid its debts.

In recent years, however, sharp increases in deficits and the resulting increases in debt have led to heightened concern about the long-term sustainability of the federal government's fiscal policies. As of March 2012, debt held by the public was $10.85 trillion or approximately 70% GDP, while the intragovernmental debt was $4.74 trillion or approximately 30% GDP. These two amounts comprise the national debt of $15.6 trillion, roughly 100% of GDP. The public debt has increased by over $500 billion each year since fiscal year (FY) 2003, with increases of $1 trillion in FY2008, $1.9 trillion in FY2009, and $1.7 trillion in FY2010. As of February 2012, $5.1 trillion or approximately 50% of the debt held by the public was owned by foreign investors, the largest of which were China and Japan at just over $1 trillion each. Economists, moreover, argue that this figure is considerably undercounted because it ignores an actuarial measurement of the future cost of such items as the US national health service and state welfare costs which if correctly counted could take the ratio to nearly 200 percent.

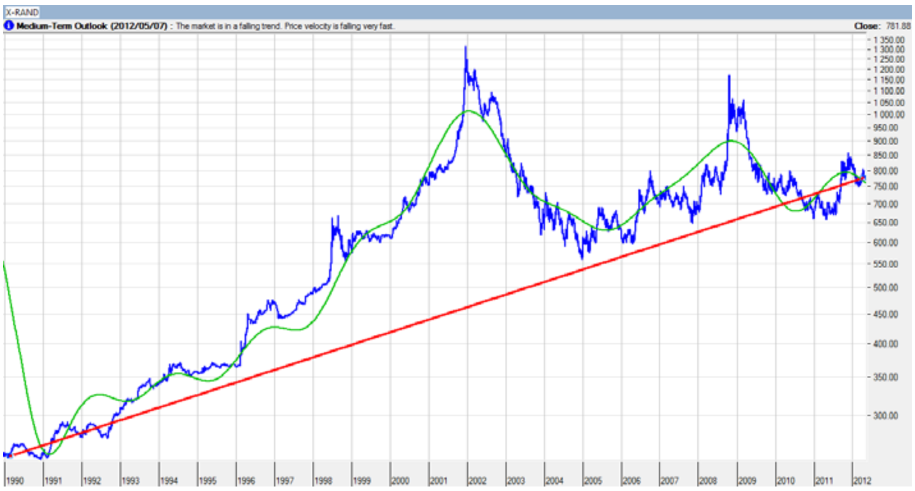
Similar concerns have been raised about Britain and a number of other leading nations where weak governments have successively given in to the demands of their electorate for steadily increasing levels of welfare spending which have been funded by borrowing rather than from annual tax revenue. These concerns have led to the rise of the ratings agencies, organisations committed to the task of judging the ability of borrowers to meet their debt obligations. The big three agencies are Fitch, Moody's and Standard & Poors. What they do is assess how likely a borrower is to be able to repay its debts and help those trading debt contracts in the secondary market. That means for those trading debt contracts such as Treasury gilts, ratings agencies help assess a fair price to charge.

It is thus a supreme irony that by contrast with the US, South Africa's total borrowings represent just 35.6 percent of our GDP, a level of indebtedness that we share with Australia. Ironically then the US ratings agency Moodys rates South African sovereign debt as A3, and the outlook as "Negative" while it rates the US as Aaa and outlook negative, the same as deeply troubled Italy. Against this, the US has just been downgraded by Moodys from AAA and outlook stable to Aaa and outlook negative.

But the crunch comes when you enter the marketplace to buy a long-dated US treasury bond. An investment in a US long-bond would at the time of writing yield you interest of just 1.86 percent while South Africa's equivalent RSA 157 long bond would yield you a three and as half times greater 6.365 percent.

All other South African borrowing rates are a reflection of this difference. Thus in South Africa the Reserve Bank sets the scale of all interest charges by declaring a Repo Rate of 5.5 percent, the rate at which it lends money as a last resort to the commercial banks. The interest rate that commercial banks charge their most creditworthy customers is always considerably higher than the Repo rate and is currently 9 percent. In contrast the US prime lending rate is less than a third of our prime rate at just 3.25 percent and the implication of all of this is that, notwithstanding our very good indebtedness situation relative to that of the USA, foreign investors also seemingly consider South Africa a far greater lending risk than the US.

How does one make sense of that? Well the core reason is South Africa's relatively greater inflation rate and the impact of that upon the Rand/Dollar exchange rate. If you lend money to a country experiencing relatively high inflation rates whose currency is consequently weakening over time, you obviously need to recognise that you face the risk of being repaid a lesser amount than you originally loaned…unless of course the debt was raised in US Dollars or British Pounds as if often the case when South Africa seeks to borrow money overseas.



However, taking the example of a US investor who sends his money to this country to buy local bonds, we need to note that inflation in the US is currently running at 2.7 percent while the South African rate is 6 percent and the average for the past 20 years has been 10 percent. That is why the Rand has over the same period been losing value relative to the US Dollar at a compound annual average rate of 5.1 percent as depicted by the red line on my graph.

It is easy to understand then that a US investor buying a South African long bond would want to receive at least as much as he would from a US long bond, namely 1.86 percent plus the current inflation rate of 6 percent giving a required yield of 7.86 percent. Now compare that with the actual current yield of 6.365 on a South African long bond and you will understand that the bond market has seemingly recognised the reality of the relatively lower risk of buying a South African bond…even if the ratings agencies have not.

Sadly, however, it is not that simple. Professional investors are always alert to the impact of inflation and so, when comparing the merits of one bond investment with another they always look at the "real" return. That is the current bond yield minus the inflation rate. Subtract South Africa's 6 percent inflation rate from the 6.365 percent yield on the R157 long bond and you get a real return of just 0.365. In contrast, subtract the US inflation rate of 2.7 percent from the 1.87 yield of a ten-year US treasury bond and you get a negative -0.83. So it appears that on a relative real yield basis, the investment markets, nomatter how unfairly, confirm the relative risk rating laid upon this country by the ratings agencies.

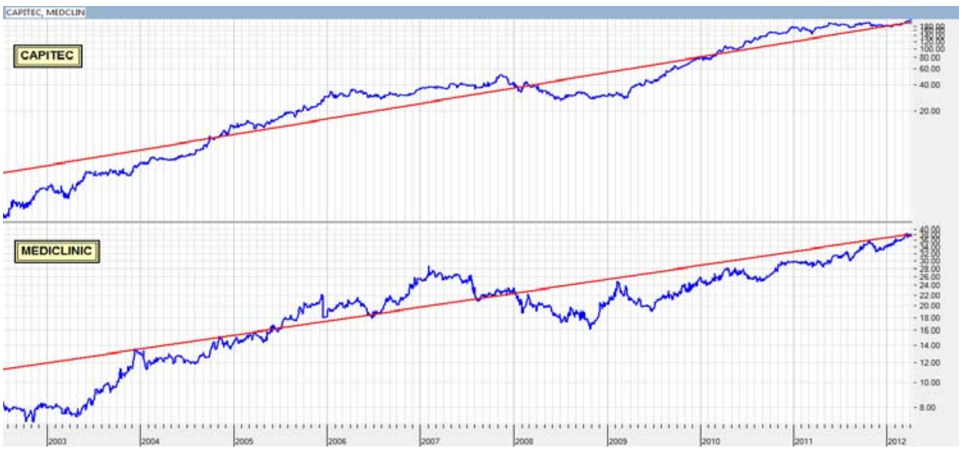
All of which brings me to the required yields on South African shares when viewed by international investors whose buying and selling actions largely determine what local share prices should be. Here we can ignore inflation because both bonds and shares are being bought in the same country and so each are equally exposed to inflation.

So, noting that the yield on a top quality South African long bond, one whose repayment is guaranteed by the South African taxpayer, is currently yielding interest at 6 percent, one would expect that an ultra blue chip share such as the category of shares I label the Grand Old Favourites should yield a very similar return. I have extracted the accompanying table from the ShareFinder programme Quality List from which you can deduce that the average dividend yield of the Grand Old Favourites was 2.2 percent at the time of writing and on average these shares were rising in price at a compound annual average rate of 20.01 percent. Add those two figures together and we get a "Total Return" of 22.21 compared with the total return of 6 percent offered by one of the safest of South Africa's long bonds.

Grade	Name	DY	5YrDiv	5YrGro	Close	Risk
774.4	Averages:	3.7	36.46	11.66	87.10	0.08
638.9	Blue Chip Index Average:	3.4	25.41	12.22	108.25	-5.35
927.5	Rising Star Index Average:	4.0	46.59	11.04	63.21	6.22
	Grand Old Favourites					
1 237.3	Group Avg.	2.2	47.03	20.01	165.98	0.00
1 290.9	CAPITEC BANK HLDGS ...	1.9	47.39	40.91	221.50	35.17
787.3	SHOPRITE HLDGS LTD ...	2.0	31.23	32.02	131.99	-4.99
708.9	CLICKS GROUP LIMITED	0.9	27.71	26.25	47.00	-3.68
439.8	SABMILLER PLC	1.9	16.50	13.88	319.20	-18.65
912.7	BHP BILLITON PLC	3.4	28.53	9.28	236.60	23.11
2 026.6	SANTAM LTD	3.1	27.81	8.82	167.50	-9.77
2 495.2	MEDICLINIC INTERNATI...	1.9	150.03	8.94	38.10	-21.19
	Mid Cap Companies					

The implication is that the marketplace currently would regard a portfolio consisting of equal value quantities of the seven safest of all Blue Chips as 3.7 times riskier that the safest long bond.

This brings me to the subject of share investment risk measurement. The accepted means of measuring this is to determine the extent to which the price of a share fluctuates about its mean over any given period. The measure derives from the view that if an investor were obliged for any reason to sell a share without being able to pick the optimum time to do so, the chances of his losing money on his original investment would be far greater in the case of a share that fluctuates excessively about its price mean as compared with one that seldom fluctuates. Thus, if you consider the figures in the extreme right hand column of my tabulation, you will note that Capitec Bank carries the highest risk at 35.17 and Mediclinic the lowest at 21.19. Now the fact is that neither share fluctuates much as is evident in the ten-year graphs on the right. That is what makes them Grand Old Favourites. Nevertheless the measure is a sensitive arithmetical one and an important determinant in investment decision-making.



What is most important to observe, however is that the aggregate risk of holding such a seven-share Grand Old Favourites portfolio is zero. Yet such a portfolio is rated, as I have demonstrated as 3.7 times more risky than an RSA long bond and this disregards the fact that dividends and capital gains are taxed differently effectively making the after-tax total return on a Grand Old Favourite even greater than a long bond.

What this all adds up to is that the average South African Blue Chip share is greatly undervalued at the time of writing. Furthermore, long term observation shows that this is generally the rule rather than the exception

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☻ No complicated charts to try and understand
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** If you want to use this software to its maximum advantage, it is highly recommended that you read Richard Cluver's books "The Philosophy of Wealth" ISBN No: 0958 3067 61 and "The Simple Secrets of Stock Exchange Success" ISBN No 9780 95830 6775 which can also be ordered from Richard Cluver Investment Services at a cost of R130 including postage.*

By Invitation

Dr Cees Bruggemans
Chief Economist First National Bank

Until a few weeks ago it looked as if there was a small but growing chance of more policy stimulus to the SA economy via an interest rate cut sometime this year.

Inflation was seen as having topped out above 6%, and was expected to fall back into the 3%-6% target range later this year, possibly easing even more noticeably through mid-2013 in a 4.5%-5.5% range.

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With inflation projected above 6%, one would expect interest rates to be higher by 2%, raising prime from 9% to 11% if the economy were performing at full potential. But the modestly growing economy (only 3%) and the still large output gap (formal labour slack, low industrial capacity utilisation, high vacancy rates in non-residential property) were a reason not to raise rates despite inflation near 6%. Thus the general expectation of rates remaining unchanged this year, with prime remaining at 9%, possibly all of next year too. But then things never stand still.

Inflation started to look like falling towards 5%, even below it in 2013. Also the economic data flow remained uninspiring in mining, manufacturing and building activity. If BOTH inflation and growth surprise to the downside these next 18 months, even if only by decimal points, with fiscal policy preoccupied with showing more progress in reducing the budget deficit, and more EM countries and commodity producers are inclined to ease monetary policy (Brazil, India, China, Aussie having already done so), it might increasingly make sense for South Africa to join this Band of Brothers and resume policy easing with a modest 0.5% rate cut, prime falling to 8.5%.

But recent events have taken a rather dramatic new turn that may change the way in which stimulus could come. Instead of easing interest rates, favouring the highly indebted and boosting consumption, the change may come via a weakening Rand, favouring producers in agriculture, mining and manufacturing. One major reason is the slowing in perceived Chinese growth weighing on commodity prices, fuelling speculation that the decade-long Commodity Super Cycle is going through an interruption/slowdown. That weighs on currencies of commodity producers, with Aussie dropping back towards Dollar parity.

This also put the Rand under pressure, leaving the vicinity of 7.40:$ and moving towards 7.80. But far more serious has been events in Europe. Greek elections failed to elect a viable government this month, potentially hinting at worse to come as the electorate shifted dramatically away from the moderate centre to the radicalised Left.

France elected a socialist President, emphasizing less austerity and more growth. In Holland yet another rapid change of mind seemed to be underway as especially low-income earners started to realise how much austerity was being proposed mainly at their expense. With Greece facing another election in mid-June and its ascending radical Left promising to tear up the austerity promises, markets have started to price in a high probability of Greece exiting the Euro, accompanied by severe contagion for Spain, Portugal and Italy.

While it is far from clear what will happen in coming weeks and months, it is fair to assume heavy weather with much turbulence in which risk-off conditions may prevail much of the time. Though Europe has made progress these past three years in addressing its problems, there remains much unfinished business capable of imparting shock.

Despite America having its problems and this weighing on policy and the Dollar, the problems facing Europe appear worse, potentially weighing heavier on the Euro. The rest of the world is also responding, with markets selling off currencies of the weaker countries in terms of export and capital flow exposure. Traditionally, South Africa has found itself at the forefront of such selloffs. Although some other countries have so far experienced far greater equity market sell offs, we are not without downward pressure.

This has so far taken the Rand to 8.45:$ while keeping the Rand decline against the Euro moderate to 10.66:$ as the Euro itself has fallen already well below 1.30:$. Overnight G8 statements in favour of growth have created some support for commodities and EM currencies, with the Rand regaining 8.30:$, but how long will this last?

Markets are rife with speculation that European events in coming weeks and months, focused on Greece and the wider contagion, and also taking into account likely policy countermeasures from especially the ECB, may further weaken the Euro towards 1.20:$. Whereas there is further downside potential, one must allow that European governments may act to contain the fallout, while the US may enter a new cycle of strain later this year focused on its finances and possible Fed responses.

It is an outlook suggesting more downside pressure on the Rand, possibly modestly against the Euro but more against the Dollar as the Euro finds a new lower level for the time being. There might be potential for the Rand drifting towards 11:Euro and 9:$ in coming weeks. This would give welcome relief to our exporters whose revenues would be boosted, potentially compensating for export volume falloff if growth moderates, especially in Europe.

But let us not overstate the boosting effect on our growth. Imports will be more expensive, eroding consumer purchasing power and weighing down on domestic demand and on producers catering therefore. There remains potential for a somewhat weaker Rand at 9:$ AND interest rate cuts, taking prime towards 8%. For that we have to await events, and see how our inflation and economy fare.

End This Depression

Paul Krugman, in his new book "End This Depression Now!" offers first-rate common-sense advice to end the severe US underperformance that reminds of similar advice regarding the European quagmire.

Regarding the US, do the following three things and Bob's your uncle:Regarding the US, do the following three things and Bob's your uncle:

- Fiscal stimulus of $300bn annually in support of state and local governments which in the US have been laying off teachers and other staff to balance their budgets. It could be done quickly, should not be prone to waste and could bring forward creation of several million jobs at a modest net budget cost.
- Fed chairman Bernanke should be gunning for 4% instead of 2% inflation, in theory getting all to spend and invest more while eroding real debt.
- Take more action on housing, helping households with high interest rates to refinance at today's lower rates, improving their net disposable income, boosting domestic demand.

This is hard, solid, first-rate advice, except we don't live in that kind of theoretically sound world. The real world is a lot more complex, financially and politically. There are opposing groups in US society who have different interests, see different risks, raise different objections. In the end compromise is necessary if outright failure isn't to be inevitable. In today's America, there is little agreement on any of these scores, for which reason so very little first-rate advice is being implemented, and we end up with a much longer, sluggish adjustment and recovery instead, at the cost of enormous social welfare losses (the price we pay for societal disagreement). For in the US we find that:

- The Republicans are dead set opposed to more debt-financed government spending, and are successful in blocking such attempts.
- The US bond market would not sit still if the Fed were to raise its inflation target, demanding higher nominal interest rate premiums, if anything increasing the real interest rate (from fear that the Fed might go even further than signalled).

The Obama administration has tried to ease the institutional restraints on giving relief to foreclosed households and make it easier for others to refinance at lower rates, but has encountered severe resistance from various quarters, not least politically. So even with clear-eyed far-sighted advice offering a quick escape from the low performance trap and excessive unemployment, reality in terms of political, market and institutional resistance doesn't allow a quick getaway. Instead, America like Europe (and China?) has to come up with painful compromises satisfying many different role players, allowing it only a relatively slow escape at the cost of prolonging the misery and welfare losses of millions of its citizens.

It is the hallmark of democratic civilisation that ALL interests are taken into account according to their sway, rather than simply accepting first-rate solutions for obvious problems whatever the costs these may impose on others. Yet last week Paul Krugman repeated the exercise for Europe he only recently suggested for the US, as highlighted in his regular New York Times column.

Zeroing in on Europe's current turbulence, he correctly describes Greece as experiencing a so-called banking jog, meaning a slow-motion bank run (not quite real panic but getting there) as more and more depositors pull out their cash and deposit it elsewhere (Germany, Switzerland). The ECB is financing this bank run by lending Greek banks the necessary Euros to pay out their fleeing depositors.

"If and when the ECB decides it can lend no more, Greece will be forced to abandon the Euro and issue its own currency". Krugman goes on to say that this spectacle will likely fuel runs on Spanish and Italian banks as their citizens become fearful in turn about being next. The ECB would again have to decide whether to keep funding. If it closes the tap, the Euro as a whole would blow up. Italy and Spain need more than financing. They need hope, meaning the reasonable prospect of emerging from austerity and depression. The only way, according to Krugman, is for the ECB to drop its obsession with price stability, accept years of 3% or even 4% inflation in Europe, and higher in Germany. This is offered as the "only plausible way the Euro might be saved". The alternative is failure.

As in his advice regarding America, Krugman picks the one bit of policy advice not acceptable to the ECB or the Germanic tribes. For one thing, markets won't stand idly by while the ECB allows inflation to rise, not only increasing nominal long interest rates but real interest rates as well, neutralizing much of the boosting effect (and greatly worsening the fiscal dilemma as government interest burdens rise much more rapidly). For another thing, the Germanic electorates would not stand for such advice, remembering distant experiences. Instead of the stark choice and the radical offering ("my way or the high way"), the European response is like the American only more nuanced. Germany has indicated that in a 2% European inflation environment, its inflation could be closer to 3% if peripheral inflation is less than 2% on account of austerity and structural reform. But that German gesture is a long way from Krugman's view of a general inflation boost, or for that matter French President Hollande's emphasis on Keynesian debt-financed demand boosts.

Instead, the Germanic emphasis focuses much more on structural supply-side reform, for peripherals to improve their trade competitiveness the hard way (not unlike Germany has done in recent decades). Besides these contrasting demand and supply offerings, Hollande and Merkel may find each other in compromise by championing more capital for the European Investment Bank to finance infrastructure and for Europe (Brussels) to do more with regional support funds. The nuance that is Europe is to try all these legs together, rather than pick the one extreme totally opposed by the European paymasters (the Germanic tribes and the likewise-thinking ECB). Also, the Krugman analysis of the likely Greek unfolding attempts shortcuts, which are seen as inevitably leading to ECB closing of taps, Greece exiting and contagion engulfing Spanish and Italian banks (as foreplay to an even greater contagion and Euro collapse). Instead, alternatives views are circulating proposing more nuanced outcomes, in which Greece is ringfenced, with its debt servicing externally maintained by Brussels (preventing another debt default), its banks bankrupted but stabilized by European and ECB action, European payments to Greece ending, and Greece having to start paying its civil servants and suppliers with IOUs which could start circulating as a second fast-depreciating currency alongside the Euro (and Greece not formally exiting).

This way Greece may eventually adjust more easily and be rehabilitated, in time rejoining the Euro as full member. There are many ways of skinning cats, even skinny ones. Claiming to be the only one understanding the problem and having the only sensible solution ("my way or the highway") may have been true of Keynes following the post-WW1 Versailles deliberations, giving rise to that ageless master piece "The Economic Consequences of the Peace" (1919), but replaying this today isn't as easy as what it may look or and isn't necessarily the only game in town, not even for many Nobel Prize Winners.

There may by all means be less costly economic solutions to a given problem, be it American or European or Chinese. We tend to call them "first-rate". But one still has to incorporate the political externalities to come to a fully comprehensive approach that all within a given society can accept, not just the luckless. It is this that is playing daily today in Europe and elsewhere, challenging so severely our understanding of options, solutions, final outcomes and time tables.

Stockbroker's views

By John Haynes
Investec Wealth & Investment UK

Over the past 18 months, in the midst of sharp falls in equity markets, we have twice been moved to put pen to paper to communicate our thoughts in detail. This note sets out our views on the Greek tragedy that is playing out in front of us and how it affects our investment thinking.

This year we have taken an optimistic position on the outlook for the global economy. Our view has been that the combination of an improving US picture and a "soft landing" in China would provide a solid platform to overcome a European recession. The latter always appeared likely as austerity measures took hold, but we have judged that recession would be prevented from becoming depression by the emergency liquidity measures enacted by the European Central Bank (ECB) at the end of 2011.

The media is now full of cataclysmic predictions as to the consequences of Greece's almost inevitable exit from the Eurozone and we must decide whether this probability changes our own more sanguine expectations. We are monitoring the situation closely, but for now the answer is no. Our reasoning is as follows: As we have indicated already, our expectations for Europe have long envisioned a recession this year, the question is therefore whether a Greek exit from the Euro would precipitate something worse. Many eminent investment strategists and economists express fear that the resulting shock would be a European equivalent of the Lehman's bankruptcy. We side with those who believe that the consequences for the rest of Europe are manageable, if perhaps uncomfortable in the short term.

Why do we say this? The potential damage from a Greek exit for much of the past two years has been high, not because of the direct economic impact upon its neighbours of the depression in Greece itself that would immediately follow (Greece is too small for this to matter) but because it was an integrated part of the European financial system. Despite the fact that Greece still uses the Euro as its functional currency, in practical terms this is no longer the case.

The tortuous road that has been travelled to reach this point has given banks, corporations and investors plenty of time and incentive to disengage from Greece (and other peripheral countries) or to build up reserves against this moment. The risks (in terms of capital loss) now lie with the ECB and the rescue funds (the IMF included) who have supported the Greek government over the past two years in the absence of a liquid public market for their debt. They can afford it or can be quickly recapitalised.

The more difficult transmission mechanism to dismiss, the one that should be most feared is fear itself. The bears' argument is that once Greece leaves, European credibility will be lost and markets will move on to the next weakest Eurozone members with a vengeance, threatening the entire European edifice. Undeniably, should Greece leave the union, there will be a period when so called bond-vigilantes and the "frightened money" crowd together to test the resolve of central bankers to defend the remaining members. Nevertheless in our opinion a domino effect is very far from inevitable. Why do we say this?

However large the financing problems of the other troubled countries, their problems are much smaller than those of Greece. Furthermore, Portugal, Ireland, Spain and Italy all have governments that function. With popular acceptance (if not enthusiasm) they have instituted fiscal reform measures. They collect their taxes. With the possible exception of Portugal, they have practical industrial bases that can benefit from any relative devaluation achieved within the Euro-Zone, either "internally" through domestic deflation, or externally through higher German inflation. These foundations also provide fertile ground for more pro-growth (investment-seeding) policies to take root. Finally these countries are not trying to hold the rest of Europe to ransom. In short, they

are worth saving and can be saved.
Since it is no longer defending the indefensible, if Europe has the will and acts with resolution in any post-exit period, it should be possible to calm investors' nerves quite quickly, turning their appetite from fear to greed and preventing a domino effect. Indeed, if Europe grasps the nettle and cuts off support for Greece, the result (if politicians make the right choices) could be the salvation rather than the damnation of the Euro.

What are these "right choices"? These are largely technical and readers disinterested in the detail can simply skip to the next paragraph without loss of sense - it is enough to know that Europe is not out of options. For those who are interested, our prescription of necessary actions is as follows: Aside from recapitalising the ECB for monies lost on the forlorn Greek rescue mission, Germany must allow two things. Firstly a mechanism must be found to buy the sovereign debt of the new (smaller) club members in size that would shock and awe. Giving a banking licence to the bailout fund would be one way of doing this. Secondly, a previous miss-step must be reversed. It must be made clear that when this fund buys Sovereign debt it does so on the same risk basis as the public market, it does not assume seniority. Finally, an additional price that will have to be paid as a consequence of the arrival at this point is that the ECB must explicitly guarantee deposits in the entire Eurozone banking system for an extended period. This needs to be done to prevent runs on banks that may occur in the initial post-Greece period.

In sum, although we accept that markets will continue to be tested, a serial collapse is far from inevitable. Visibly increasing stress is triggering a cacophony of alarm calls from politicians. We do not take these warnings lightly, but resist despair by reminding ourselves that it is our leaders' job to brace their constituents for stormy weather, even if the storm may pass by. Part of their purpose is obviously to put pressure upon those that have the power to avert a crisis to act decisively.

We do not know when this crisis will pass, we do know that the majority of investors are highly aware of the risks and will already have taken action to moderate their exposures. We are not blinkered optimists and recognise too that the longer the crisis remains unresolved, the greater the immediate penalty to growth prospects (and equity prices). On the other hand, we also know that very little thought is being given to what can go right, as opposed to what is evidently going wrong. How much pent up demand exists in corporations for investment? Isn't the climate ripe for a wave of mergers & acquisitions? When will Emerging Market economies respond to monetary easing and begin to re-accelerate? All of these are currently unfashionable questions that will not be asked until the European elephant has left the room.

Let us be crystal clear, however. We know there is a way for Europe to avert the current crisis, we are assuming that there is the will. We do not think Europe can wave a magic wand and save the Euro forever without further pain. The currency and its institutions must earn their spurs the hard way - Angela Merkel is right in the long term and fiscal balance is the only sustainable position for member states. This will pose further challenges in the future, possibly again with life threatening consequences. Our contention is simply that as of today it is still within Europe's power to buy more time and that the task of creating a sustainable single currency may be more achievable without Greece as a partner (or with Greece as a salutary lesson).

In a short note we cannot fully address all of the complex issues facing us (for instance, what if Greece is not cut free, but rescued again?) and our investment strategy is under constant review. We will continue to base our investment decisions on your behalf upon experience, sound reason and a longer term perspective. Hopefully you will also take comfort in knowing that our process is one where the views of all of our seasoned investment professionals are taken into account, it is not the output from an ivory tower. We remain convinced that in these uncharted waters with many potential outcomes, a diversified portfolio including a bedrock of globally exposed blue chip equities will provide the best long term protection against both deflation (the current fear) and inflation (tomorrow's demon).

USA Comment By John Maldin

"Had I right, for my own benefit, to inflict this curse upon everlasting generations? I had before been moved by the sophisms of the being I had created; I had been struck senseless by his fiendish threats; but now, for the first time, the wickedness of my promise burst upon me; I shuddered to think that future ages might curse me as their pest, whose selfishness had not hesitated to buy its own peace at the price, perhaps, of the existence of the whole human race."– The musings of Dr. Frankenstein about his creation of a monster, in Mary Shelley's 1818 novel, *Frankenstein*

And later the monster answers:

"Shall each man," cried he, "find a wife for his bosom, and each beast have his mate, and I be alone? I had feelings of affection, and they were requited by detestation and scorn. Man! You may hate, but beware! Your hours will pass in dread and misery, and soon the bolt will fall which must ravish from you your happiness forever. Are you to be happy while I grovel in the intensity of my wretchedness? You can blast my other passions, but revenge remains – revenge, henceforth dearer than light or food! I may die, but first you, my tyrant and tormentor, shall curse the sun that gazes on your misery. Beware, for I am fearless and therefore powerful. I will watch with the wiliness of a snake, that I may sting with its venom. Man, you shall repent of the injuries you inflict."

In the classic novel by Mary Shelley (written when she was just 19!), she writes about a young doctor (the Frankenstein of the title) who defies nature and creates an ungainly monster, piecing together parts that were not designed to fit each other. Even though he gives the creature life, it eventually turns on him and his family. The unhappy monster, which develops into quite the rationalizing being, demands that Dr. Frankenstein create a female version of himself so they can flee civilization and find happiness. When Dr. Frankenstein decides not to follow through on his initial promise to do so (thus the first quote), the monster seeks revenge. It does not end happily.

The European Monetary Union was a triumph of hope over reason, pieced together from very dissimilar countries which, while sharing common borders, have very different cultures and economies. That it would eventually face an existential crisis was foretold by numerous critics at the time of its creation. The euro has never been a real currency. It was and still is an experiment, fashioned and shaped by a generation with noble ideas and vision, but tied together by an unworkable structure. Can its foundation be reworked into a solid structure? Or will natural centrifugal forces pull it apart? The difficulties that are faced are somewhat akin to fixing the engine of a jet plane while it is flying at 30,000 feet.

In today's letter we explore the options that the eurozone faces in order to stay together, and what it all means for some of the countries involved. While I have written for a very long time about the probability of Greece exiting the Eurozone, the actuality is fraught with risk, not just for Europe but for the world economy. What happens in the next few months will impact us all for a very long time. Indeed, this is one of those years, as Lenin noted, when decades happen. There is a lot to cover, and in future weeks we will go into more detail, but today let's just step back and see if we can get the larger picture.

There Is No Easy Grexit

The term du jour for the possible exit of Greece from the eurozone is "Grexit." It is a rather ugly sounding word for what will be an ugly process if it happens. A Grexit has several serious implications. (I wonder how the Chinese translators will render Grexit.)

The first is the risk of contagion. When Bear Stearns went bankrupt, the immediate question by the market was not how much did we lose, but who is next? As it turned out, it was Lehman. The rest is history. But it was a recent lesson that is still quite vivid in the memory of traders and investors.

Grexit calls into question the very existence of the European Monetary Union. Is it a union from which there may be no exit, an "all for one and one for all" union, or is it a club that one can choose to belong to or to leave? Certainly, it's a club that offers very distinct privileges, but also one that imposes very high costs on both the member who leaves and the members who stay, who must pick up the bar tab of the fleeing member.

There are those who argue that there is no treaty provision that allows for the exit of a member of the Eurozone. Therefore, under the rules, you simply can't leave. That is a nice concept in theory, but each member of the Eurozone still thinks of itself as a sovereign country with full rights of self-determination, including the right to be self-destructive.

It is kind of like telling South Carolina in 1861 that there is no provision in the US Constitution for a state to secede from the Union. South Carolina and ten other states soon decided they did indeed have that right, and the bloodiest war in US history was fought over that question. People who think they are part of a sovereign country tend to be jealous of that idea and resist any suggestion that there may be limits on their sovereignty. And while no one thinks that the rest of the Eurozone would resort to any sort of coercive action, the manner in which Greece is allowed to leave (or pushed out the door) is of the utmost importance.

The "Troika" (the European Commission [EC], the International Monetary Fund [IMF], and the European Central Bank [ECB]) has set up budgetary expectations for Greece as a condition of getting loans to pay their current operating expenses. These conditions require Greece to reduce its deficit and balance its budget by cutting government spending and raising taxes, and by actually collecting the taxes that have not been paid. This idea of not spending more than you take in taxes is called austerity by its critics and simple common sense by its proponents.

But the program has resulted in 25% unemployment (50% among youth) and a deep five-year recession, with the likelihood of another 7% dip just this year alone. (Question: How long does a recession have to last until it becomes a depression? Recessions typically last at most two years in developed countries.) Government workers are losing their jobs, and profits are severely down, as are tax receipts.

Greeks recently voted overwhelmingly for parties that want to reject the austerity program in one way or another. It was an almost complete reversal of the margins that the two previously dominant parties tended to get. Those parties agreed on the need to accept the austerity measures, in order to be able to continue selling bonds to European governmental institutions (and the IMF), since the private bond market for Greece had simply ceased to exist, except for relatively small trades by speculators buying bonds that others were forced to sell.

And the government entities represented by the Troika wanted some assurance that Greece would not continue to run huge deficits, but would at some point in the future be able to return to the private bond market. That meant that there had to be a balanced budget. Otherwise, Europe would be funding Greece for decades, which would not sit well with European voters.

Even so, because of the very real pain caused by the austerity measures, Greek voters pushed back and resoundingly voted out the parties that had agreed to the measures. Because so many small parties with such different views garnered votes, there was no way to form a majority government, and so there will be another election June 17. The recent vote notwithstanding, opinion polls show more than 75 percent of Greek voters want to stay in the euro.

There is no way to know what will happen next month; the polls change every few days. And the Greek economy may be in much worse shape by June 17. The government is running out of money to pay its day-to-day bills. We are not talking just your basic police, fire, military, and other government-worker salaries, though those are very much at risk.

The austerity deal requires that Greece actually collect taxes that are owed. One of these is the property tax, which evidently almost no one paid. And some bureaucrat got the "bright" idea (pardon the pun) to collect the tax by adding it to people's electric bills. People tended to pay their electric bills – the power was shut off if you didn't. However, that didn't work out so well. This from the *Financial Times:*

"The government had hoped to raise €1.7bn-€2bn from the levy in the fourth quarter of last year. But a massive unions-led civil disobedience movement against this 'injustice' scuppered that and a ruling that it was illegal to disconnect people's electricity supply for non-payment sent the collection rate even lower. However, the memorandum of understanding with the IMF-EU signed in March demands that Athens collects a range of back taxes, such as the property tax from 2009 which was essentially never collected. So it will be interesting to see how the Troika reacts to these most recent developments. Ironically, the scale of non-payment means that the PPC itself (the power company) has run out of money. Last month it needed a €250m liquidity injection from the government so as to avert a nation-wide energy supply meltdown. So even less of the already-too-small pot of tax revenues is going to the government. The PPC has until end of June to find new sources of funding. It seems unlikely that people who stopped paying power bills last year are suddenly going to start now. While EU-IMF funding is still forthcoming, the overwhelming support for the anti-bailout parties as Greece heads for new elections next month puts an obvious question mark over future assistance. But the PCC experience suggests we really could be moving towards the IOU stage of this crisis as liquidity issues bite."

So let's get this straight. Now the government is running out of money and the power company can't collect enough to pay its bills because Greeks simply aren't made to pay, so the government has to subsidize the power company with money it doesn't have.

The party that leads in various polls is called Syriza.

A youngish firebrand has convinced many Greeks that the austerity program must stop but that Europe should and will continue funding them. Let's take this straight from the *Wall Street Journal:*

"ATHENS—The head of Greece's radical left party says there is little chance that Europe will cut off funding to the country, and if it does, Greece will repudiate its debts.

"In an interview, Alexis Tsipras, the 37-year-old head of the Coalition of the Radical Left, also known as Syriza, warns that financial collapse in Greece would drag down the rest of the Euro zone. Instead, he says, Europe must consider a more growth-oriented policy to arrest Greece's spiralling recession and address what he calls a growing 'humanitarian crisis' facing the country.

" 'Our first choice is to convince our European partners that, in their own interest, financing must not be stopped,' Tsipras said in an interview with The Wall Street Journal Thursday. 'If we can't convince them—because we don't have the intention to take unilateral action—but if they proceed with unilateral action on their side, in other words they cut off our funding, then we will be forced to stop paying our creditors, to go to a suspension in payments to our creditors.'

"According to recent opinion polls, Tsipras' party is poised to win the most votes in repeat elections next month, bettering its surprise, second-place finish in an inconclusive May 6 vote that left no party or coalition with enough seats in parliament to form a government."

Call me skeptical, but I fail to see how a young man who has never been at a negotiating table with any of the Troika (and who has apparently never talked with a German banker) can think he can hold Europe hostage.

"Tsipras says that, if push comes to shove, Greece can manage on its own. By not paying its debts, the country will have enough cash to pay its workers and retirees. He also proposes cuts in defence spending, cracking down on waste and corruption, and tackling widespread tax evasion by the rich."

While such a platform might qualify him to run for US president, I somehow don't see it convincing anyone that Greece is on a path to a balanced budget. Especially when he wants to quash the austerity programs that were agreed to, in order to secure the last round of funding.

A Rational Bank Run

The entire issue is made worse by the fact that there is a very real run on Greek banks. The FT reports that €5 billion has left Greek banks in just the last two weeks, some 3% of the total remaining deposits, by my calculation. As Mervyn King, the governor of the Bank of England noted during the Northern Rock crisis, "Once a bank run has started, it is rational to join in."

The more that Greek citizens feel it is possible that Greece will leave the euro, the more likely they are to pull their money from Greek banks and send it abroad. Everyone in Greece is reading about the bank run, and the lines at the banks next week will be longer than the ones this week. And in today's world there is no need to stand in line. The bank run can be entirely executed by computer. You simply open an account in another country and wire the money out.

That means the very cash that is needed by businesses small and large is fleeing the country. There is little investment in equipment or services, beyond what is absolutely necessary. Forget about getting a small-business loan at a bank. The ECB has already said it cannot continue to fund four Greek banks (talk about yelling fire in a crowded theatre!), although those banks can get funded by the Greek central bank, which can get money from the ECB.

The primary resource that is needed to create growth is *confidence,* and that is in short supply in Greece. And if you're in another country and thinking about investing in Greece, it makes sense to wait and see what will happen. Maybe prices of things you want to buy will be much more attractive if the banking system collapses. A few months after the collapse, someone will get around to selling the assets and loans of the banks, which may be in drachmas at the time, so your euros or dollars will go a LOT farther. Distressed loans and a currency revaluation? That smells like opportunity.

When Argentina collapsed, last decade, those who went in with cash were able to get some very good properties and deals. I could go down a list of such potential opportunities, but they will be there. At least Greek beaches are not going to be taken away. While it has been 25 years since I was there, I still remember how beautiful they were. There is a reason tourism in Greece is 20% of the economy. And that will be there no matter what currency Greece uses.

I said it was important how Europe deals with Greece, whether it stays in the euro or leaves. If Europe gives in to the demands for more money without a real plan for a path to a balanced budget, then they are sending a message to the voters of Spain, Portugal, Italy, and Ireland. Ireland goes to the polls in a few weeks. Spain already has Greek-like 25% unemployment. The frustration that Spain and the other countries feel with their own austerities is very real and getting worse, and the Troika knows it.

That is the reality that Greece faces. If they vote to stop the austerity, it is likely that Europe will simply not fund their loans. If Greece is not going to pay anyway, why not just pay off the loans or write them off? The thinking will be, "Why give them more money to spend when they are not living up to the agreements? These things can't be negotiated with every new government. There has to be some continuity."

But staying in the euro does not solve Greece's most significant problem. Greece has a serious trade deficit. Its workers are not as productive as those in the core of Europe, and relative wages need to come down. And while that is easy to say in the abstract economic world, it is hard to do in the real world. What Greek worker thinks he is overpaid by 30% relative to a German worker? Try and sell that in Athens. But that is the judgment of the market. And until the trade imbalance is solved, there will be no lasting solution to the Greek crisis. The imbalance will either be solved by a swift change of currency and a revaluation of the new drachma or a slow, tortuous process that could result in more than a decade of recessions and slow growth, with chronic high unemployment.

Europe is visibly getting weary of dealing with Greece. Just as Hank Paulson eventually gave up trying to convince Dick Fuld to accept a rescue of Lehman Brothers on realistic terms, Europe may grow tired of being only one election away from yet another Greek crisis. And while Greeks may be tired of austerity, and they are, they have not yet come to the realization that the rest of Europe may not be willing to let them live as they want.

Greece will not be kicked out of the euro, but it is entirely possible and even likely that their funding will dry up without a continued austerity program. And that will eventually push voters to demand a government that promises them a return to their own currency. "How could it be worse?" they will think. But for a year or so it will get worse. Then it will get better. But the changes will be severe.

If and when Greece exits the euro, the ECB must be prepared to step in with massive funding of peripheral-country banks and sovereign debt. That is not within their charter today; but when the euro is at total risk, that is the only way to save it.

As the joke goes, it is hard to remember that the original project was to drain the swamp when you are up to your neck in alligators. The "alligator" that will immediately face Europe after a Greek exit is bank runs in Spain and Italy. There must be the creation of a European-wide institution to insure deposits, in order to stop bank runs. Inexplicably, Europe does not have the equivalent of an FDIC, but if they are to survive they'd better get one.

Further, a Greek exit will mean even more defaults and losses, not only on Greek government debt but on their private debt as well. I know, the law says the contracts are in euros, not drachmas. But the Greek government will pass a law that says all debt owed by Greek citizens will be paid in drachmas, or something to that effect. And Greek citizens have to obey the law, don't they? Exactly who are you going to send to repossess my property (car, home, equipment, etc.)? As we kids used to say when someone wanted to make us do something, "Yeah? You and what army?"

Businesses will get very concerned about doing business with citizens of a country that might leave the euro. If Greece is allowed to set a precedent by leaving, there must be clear rules for the reconciliation of contracts.

And there must be a massive show of support for Spanish and Italian sovereign debt, to convince the market that Germany and the other core countries are serious. We are talking multiple trillions of euros will be needed, if the interest rates on Spanish and Italian debt are not kept in check. That may mean the ECB will have to monetize debt for a time. Or they can change the rules and allow the European Stability Mechanism (ESM) to function as a bank, which would essentially allow the ESM to borrow from the ECB a relatively unlimited amount of capital (just 20 times leverage of €400 billion is a LOT of euros). That should buy all the time needed.

And then they have to deal with the whole fiscal union concept. As so many people said at the beginning of the euro experiment, you can't have a real monetary union without a fiscal union. But that is a story for another letter.

So, let's sum up. Greece will either have to continue with austerity to get any more money or leave the euro. The latter is more likely at some point, because sooner or later the voters will elect a government that will make that choice. And it may happen quite soon.

Right now, it would be difficult for the eurozone to guarantee Spanish bank deposits, for instance, and not guarantee Greek deposits. I suppose they could cook up a reason, but it would not be seen as the right thing to do in polite circles. And if a run on Spanish banks

happens while waiting for Greece to make up its mind? What then? That will be a crisis on steroids.
Europe is going to either have to abandon the idea of a complete monetary union and let some nations go, or it is going to have to print massive amounts of money. Most likely it would be the ECB that turns on the presses, although making the ESM a bank could be an option if things get really bad. It all depends on how badly the Germans want to keep the euro together and what they will pay for doing so. Right now, the polls say they will do whatever it takes, even if they don't like it. If inflation gets to 4-5%, then let's ask the question again.
And I know some of you are thinking, how can he be talking trillions? Easy. Greece's commitments alone to various European entities (the ECB, their portion of the ESM, EIB, etc.) run to about €500 billion. Add to that what private contract losses would be. Then realize that Greece is quite small compared to Spain or Italy. Yes, I know, Italy and Spain are not Greece; but the bond market is getting nervous. Spanish yields spiked to 6.5% at one point this week. The eurozone must commit to keeping peripheral interest rates low while countries struggle to get their budgets under control. That will not happen overnight, nor will it be cheap. It may cost Europe trillions. As in, more money than anyone can wrap their head around.
(Sidebar: I'm thinking the ECB is going to cut rates shortly.)
And the rest of the world had better hope they get it right. European banks are almost three times larger than US banks and finance much of world trade. A weakened European banking system is not good for anyone. Yes, emerging-market banks, private banks (hedge funds and sovereign funds), and even US banks can step in and, over time, make up the difference. But the operative words are "over time." Building up the institutional infrastructure to finance global trade has taken decades. It wouldn't take that long to do it again, but it would not be just a year. There could be large disruptions.
And that is not to mention European consumers and their imports, which would suffer in a prolonged European recession. Which would of course affects world trade and global GDP.
European leaders have given us an experiment called the euro. Will it be like Frankenstein's monster and turn on them? Have they defied the natural order of Europe, or tamed the beast that raged for a thousand years? Have they created something that mankind will dearly wish they hadn't, and suffer for their hubris? Or will the euro yet become a Hercules, capable of performing astounding feats for the greater good? We are at the critical moment of the experiment, when the results are not yet clear but everyone can see that we won't have to wait much longer.

Who Gets the Old Maid?

A popular card game for children is called Old Maid, which is played with a deck with an extra queen. The cards are dealt and the players trying to match their cards (a 3 with another 3, or a king with another king, for instance) until they can play all their cards. And of course you must trade cards with other players. When one person has no cards left, whoever has the Old Maid (the solitary queen) loses. There is some strategy involved, as if you have the Old Maid early, you might not pass it until close to the end, so it cannot come back to you.
Which brings to mind the balance sheet of the ECB, and leads to some rather dark thoughts. If Greece leaves, then at best the ECB will only get drachmas in return for the euros on the Greek account. IF Greece decides to pay anything at all. (My bet is that if they do pay, there will be strings attached that say the ECB must hold the drachmas for a very long time, so as not to hurt the currency.)
OK, but that increases every remaining eurozone member's commitment by around 2.5% of the remaining balance. And then what if Portugal or Spain leaves? Or, heaven forbid, Italy? Your commitment just grew by a rather large amount. Not to mention your portion of the ESM, EFSF, EIB, etc.
On the way to a Nash equilibrium, the players all try and anticipate the moves and rationale of the other players, plus what their levels of pain tolerance will be. And then they adjust their own positions.
At what point does it occur to the voters of a country that they are taking on more debt than they can bear? How much European solidarity is really there? Is there an unlimited amount of pain that can be tolerated? I rather think there is a limit; we just don't know what it is, or even if we could ever conceivably get there.
At what point does a country decide it does not want to be stuck with the Old Maid? Will Greece be allowed to walk away from its commitments? And if it tries, what will be the consequences? I know there is no mechanism for any of this, but someone had better be doing some serious planning around it, because you can bet a lot of investors are privately calculating how things will play out. This can all be handled, if you decide to deal with the issues openly.
So what am I worried about? We all know that developed countries do not default on their sovereign debts: the banking regulators of Europe have told us so. And if you can't trust a banking regulator to know what he's doing, then who can you trust?

Company reports

PICKNPAY 2012/05/21

Shareholders are advised that the Pikwik consolidated annual financial statements (Annual Report) for the year ended 29 February 2012 has been posted to shareholders on 18 May 2012, and contains no modifications to the reviewed condensed consolidated results ("results") published on 18 April 2012. The annual report will be available on the website www.pnp.co.za as from 21 May 2012.

Notice of AGM

The notice of the annual general meeting will be posted to shareholders, included with the annual report. The annual general meeting of Pikwik will be held at 09h30, or as soon as the annual general meeting for Pick n Pay is completed, on Friday, 15 June 2012 in the conference centre of the registered office, Pick n Pay Office Park, 101 Rosmead Avenue, Kenilworth, Cape Town, 7708, to transact business as stated in the notice of the annual general meeting. A videoconferencing link to the annual general meeting in Cape Town will be available in the conference centre at Pick n Pay Office Park, 2 Allum Road, Kensington, Johannesburg.

AECI 2012/05/18

Notice was given that on Friday, 18 May 2012 the directors of AECI declared a gross dividend at the rate of 5.5 per cent per annum for the six months ending Friday, 15 June 2012 payable on Friday, 15 June 2012 to holders of preference shares recorded in the books of the company at the close of business on Friday, 8 June 2012.

The last day to trade cum dividend will be Friday, 1 June 2012 and shares will commence trading ex dividend as from Monday, 4 June 2012. The dividend is declared in pound sterling and payment will be made from the offices of the Transfer Secretaries in South Africa and the United Kingdom on Friday, 15 June 2012.

Dividends payable from South Africa will be paid in South African currency at the rate of 36.09203 cents per share (gross dividend) in accordance with the exchange rate ruling on Monday, 14 May 2012 (1 pound sterling = R13.1244).

A South African dividend withholding tax of 15% will be applicable to all shareholders who are not either exempt or entitled to a reduction of the withholding tax rate in terms of a relevant Double Taxation Agreement resulting in a net dividend of 30.67823 cents per share to those shareholders who are not exempt. Application forms for exemption or a reduction may be obtained from the Transfer Secretaries and must be returned to them on or before Friday, 1 June 2012.

BARLOWORLD 2012/05/18

Shareholders were advised that Barloworld is in negotiations with Caterpillar Global Mining LLC and some of its subsidiaries for the acquisition of the Bucyrus distribution businesses in certain of our southern African Cat dealership territories which, if successfully concluded, may have a material effect on the price of the company's securities. Accordingly, shareholders are advised to exercise caution when dealing in the company's securities until a full announcement is made.

PINPOINT 2012/05/18

Further to the SENS announcements dated 22 August 2011, 4 October 2011, 15 November 2011, 3 January 2012, 16 February 2012, and 28 March 2012 shareholders are advised to continue to exercise caution when dealing in the company's securities until a full announcement in regard to the final liquidation and potential delisting of the company is made.

WILDERNESS 2012/05/18

The board of Wilderness announced that the group's results for the year ended 29 February 2012 are likely to be significantly lower from those achieved in the comparative period. This is mainly attributable to the inclusion of capital profits in the prior period. At the same time, it is recorded that the group's operating results are in line with those of the comparative period. Therefore shareholders and investors are advised to exercise caution when trading in the company's securities until the release of the group's results for the year ended 29 February 2012.

The results are expected to be released on the Botswana Stock Exchange website and on SENS on or about 30 May 2012. Wilderness will hold a results presentation at the Gaborone Sun conferencing rooms, Chuma Drive, Gaborone, Botswana on 30 May 2012 at 11:00 and at the Holiday Inn Sandton, 123 Rivonia Road, Sandton, Johannesburg in the Tanzanite room on 31 May 2012 at 11:00. All interested parties are invited to attend. Please RSVP to investor@wilderness.co.za before 24 May 2012

A-V-I 2012/05/18

Shareholders are advised that AVI has entered into an agreement in terms of which it will acquire 100% of the issued share capital and shareholders' loans of Green Cross ("the transaction" or "the acquisition"). The transaction is not a categorised transaction in terms of the Listings Requirements of the JSE Ltd.

Information on Green Cross

Green Cross was founded in 1975 and is a vertically integrated manufacturer, importer and retailer of ladies, men's and children's footwear in South Africa and surrounding geographies.

TRADEH 2012/05/17

Accordingly, shareholders are advised that headline earnings per share for the year ended 29 February 2012 are expected to be a loss of 2.1 pence per share, compared to the loss of 9.7 pence per share in respect of the comparative period. Earnings per share for the year ended 29 February 2012 are expected to be a loss of 2.1 pence per share, compared to the earnings of 3.5 pence per share in respect of the comparative period. It is anticipated that the financial results for the year ended 29 February 2012 will be published on or about 30 May 2012.

AUSTRO 2012/05/17

Accordingly, shareholders are advised that, for the six months ended 29 February 2012, Austro anticipates earnings per share and headline earnings per share to be more than 20% lower compared to the previous corresponding period. Some of the major negative variances affecting the comparison include an onerous lease expense in respect of one of the group's premises; the impairment of goodwill and a higher tax expense due to the Austro Wood (Pty) Ltd. taxable loss and the impact of not raising a deferred tax asset on the taxable loss. Austro's

PROTECH 2012/05/17

Protech expects a loss

Protech is currently finalising its annual financial results for the year ended 29 February 2012 and shareholders are advised that the company expects a basic loss per share of between 3.0 and 3.6 cents and a headline loss per share of between 1.0 and 1.2 cents for that period, compared to earnings per share of 10.8 cents and headline earnings per share of 11.8 cents respectively for the year ended 28 February 2011. The group's performance in 2012 reflected the tight operating environment which is impacting the infrastructure and mining environments. The contracting business unit incurred a loss, largely due to losses recognised on three projects in Africa that the group has fully exited and accounted for in the 2012 financial year. The Readymix and Geotechnical business units were profitable for the year under review. The company's annual financial results for year ended 29 February 2012 are expected to be published on SENS on or about 28 May 2012.

TONGAAT 2012/05/17

The following trading statement is issued for the year to 31 March 2012. Tongaat's revenue increased by 24.8% to R12.081 billion for the year (2011: R9.681 billion) mainly as a result of increased sugar production together with improved regional and European Union sugar prices. Tongaat's total sugar production for the 2011/12 year increased by 14% to 1 150 million tons (2011: 1 006 million tons). The cane supplied to its sugar mills grew to some 9.6 million tons, as the business progresses towards its objective of facilitating increased cane supply (including hectares under cane, cane yields and cane quality) so as to fully utilise its existing milling capacity of some 2 million tons of sugar production per annum. Sugar production grew by 42% in Mozambique, by 12% in Zimbabwe, by 7% in South Africa and the increase in raw sugar equivalent in Swaziland was 9%. For the first time, the total profit from all the operating areas is expected to have exceeded R2 billion, growing by 53%.

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CROOKES 2012/05/16

Further to the trading update issued on 27 February 2012 shareholders are advised that the company now expects that, for the financial year ended 31 March 2012 the headline earnings per share ("HEPS") and earnings per share ("EPS") will be as follows:

HEPS: between 575 cents and 595 cents compared to HEPS of 203.9 cents reported in the previous corresponding period.

EPS: between 620 cents and 640 cents compared to EPS of 911 cents reported in the previous corresponding period.

The improvement in HEPS arises from improved prices and a recovery in yields, particularly in sugar cane operations and with further improvement in forecast crop prices being received after the date of the last trading statement. The reduction in EPS is again due to the recognition in the prior reporting period of the once-off capital profit realised on the sale of the Komati Estate to the government as part of the land restitution program. The company's results for the year ended 31 March 2012 are expected to be published on or about 29 May 2012.

Omnia anticipating higher earnings

Shareholders are advised that the group's earnings per share for the year ended 31 March 2012 are expected to be between 945 cents and 960 cents (based on a weighted average of 66.342 million ordinary shares in issue), an increase of between 23% and 25% on the prior year's published earnings per share of 768.2 cents (based on a weighted average of 58.316 million ordinary shares in issue). Headline earnings per share are expected to be between 949 cents and 964 cents, an increase of between 24% and 26% on the prior year's published headline earnings per shares of 766.5 cents. The results for the year ended 31 March 2012 are expected to be published on 26 June 2012.

Richemont - SA dividend rates

The board of directors have recommended a total dividend of CHF0.55 per share from income reserves and no South African secondary tax on company credits has been used. It is anticipated that this dividend will be approved by shareholders of CFR at the annual general meeting to be held on Wednesday 5 September 2012 in Geneva. The dividend payable by CFR will be subject to Swiss withholding tax of 35 per cent, resulting in a net dividend of CHF0.3575 per share. As South African tax residents are eligible to recover 20 per cent of the 35 per cent withholding tax levied on the CFR dividend, the effective tax rate is 15 per cent. This is equivalent to the South African withholding tax rate and as such depository receipt holders should not be subject to additional South African withholding tax provided that the formalities in respect of the South African tax legislation are met. A ruling to obtain certainty on the formalities and to restrict them as far as possible has been requested from SARS. The issued share capital of CFR at the declaration date, including treasury shares, comprises the listed 'A' shares of 522 000 000 with a par value of CHF 1.00 each and the unlisted 'B' shares of 522 000 000 with a par value of CHF 0.10 each. Holders of the 'A' and 'B' shares enjoy the same dividend rights, but due to the differing par values of the two classes of shares, 'B' shareholders receive one tenth of the dividend per share paid to the holders of the 'A' shares.

The exchange rate applicable for the conversion of Swiss franc to Rand for payment of the dividend will be confirmed in a separate announcement to be released on SENS on Friday 31 August 2012, being the finalisation date. The payment dates for the dividend in respect of the South African CFR DRs are anticipated to be as follows:

Last date to trade "cum dividend": Friday, 7 Sept 2012

Trading commences "ex-dividend" from the commencement of business on Monday, 10 Sept 2012

CFR DR dividend record date: Friday, 14 Sept 2012

CFR DR dividend payment date: Friday, 21 Sept 2012.

Ferrum -- completion of JORC resource estimate

Highlights: New JORC compliant resource at Moonlight iron ore deposit of 307.8 million tonne @ 26.9% Fe

Inferred category of 172.1 Mt @ 25.3% Fe, Indicated of 83.0 Mt @ 27.4% Fe, Measured 52.6 Mt @31.3% Fe

Substantial increase in the confidence and classification of the mineral resource .The Mineral Corporation has also identified several prospective targets south, east and west of the Moonlight Deposit Additional exploration to commence by the commissioning of a high- resolution airborne magnetic survey and drilling at the earliest opportunity

AngloGold -- all resolutions pass at AGM

Shareholders were advised that at the annual general meeting of shareholders of AngloGold held on Thursday, 10 May 2012, all ordinary and special resolutions, as specified in the notice of the meeting dated 16 March 2012, were passed by the requisite majority of shareholders. The special resolutions will be filed with the Companies and Intellectual Property Commission in due course in accordance with the requirements of the Companies Act, 2008.

Richemont announce share buy-back programme

Richemont announces a programme to buy-back up to 10 million Richemont 'A' shares through the market over the next two years, representing 1.7 % of the capital and 1.0 % of the voting rights of Richemont. Purchases may be effected through share purchases on SIX Swiss Exchange and the purchase of depository receipts on the Johannesburg market at prevailing market prices or through the exercise of over-the-counter call options. The 'A' shares acquired will not be cancelled and no second trading line will be introduced as a consequence of the buy-back programme. The 'A' shares to be acquired will be held in treasury to hedge awards to executives under the group's stock option plan. Richemont currently holds 24.3 million 'A' shares, representing 4.2 % of the capital and 2.3 % of the voting rights of the company, in treasury as a consequence of previous buy-back programmes, which have also been linked to the group's stock option plan. In addition, Richemont holds over-the-counter call options to acquire a further 4.2 million 'A' shares, representing 0.7 % of the capital and 0.4 % of the voting rights of the company.

Capco - more final dividend information

Shareholders on the South African branch register are referred to the final dividend announcement released on SENS on 3 May 2012 and are advised that the share price to be used for calculating residual payments under the Scrip Dividend alternative will be the same as the scrip dividend price of 2477.17 cents. Using the same example as contained in the aforementioned announcement, a shareholder who holds 500 shares on the South African branch register would be entitled to 2.52627 shares (expressed to five decimal places) which will be rounded down to 2 shares and the residual payment will be 0.52627 x 2477.17 cents = 1303.06 cents, payable in cash. As the cash residuals will not constitute the distribution of an asset in specie, the residual payments will be subject to South African Dividends Tax, which will therefore be withheld from the residual payment to South African shareholders at a rate of 15 per cent. unless a shareholder qualifies for an exemption from Dividends Tax, and the prescribed requirements for effecting the exemption, as set out in the scrip dividend scheme booklet, are in place.

Old Mutual completion of sale announcement

Further to the announcement on 7 February 2012, Old Mutual announced that it has completed the sale of Dwight Asset Management to Goldman Sachs Asset Management.

NEPI issue of equity announcements

NEPI advised that it has placed a total of 13,505,201 new ordinary shares in the company ("new shares") with shareholders registered on the United Kingdom register at a price of EUR3.20 per share pursuant to a placement for cash, raising gross proceeds of EUR43.22 million (the "Private Placement"). The issue price of EUR 3.20 represents a 6.8% discount to the 30 business day volume weighted average traded price prior to the date that the Private Placement was agreed between NEPI and the parties subscribing for the New Shares. The proceeds of the Private Placement will be used to fund developments and acquisitions of further operating assets. Application has been made for the New Shares issued under the Private Placement to be admitted to trading on the JSE Limited, AIM and the Bucharest Stock Exchange ("BVB") which is expected to take place on 22 May 2012 ("Admission"). Following Admission, the total issued share capital of the Company will increase to 123 406 951 Ordinary Shares with voting rights. Therefore, the total number of voting rights in NEPI will be 123 406 951.

Financial effects of private placement

Basic weighted average earnings per share (EUR cents): 23.86 & 22.08

Headline earnings per share (EUR cents): 20.04 & 18.87

Net asset value per share (EUR): 2.41 & 2.52

Number of shares in issue for net asset value and net tangible asset value per share purposes: 97 569 456 & 112 674 657.

Blackstar announcement

On 10 February 2012 Blackstar received shareholder approval to transfer its registered office from the UK to Malta and establish its tax residence and principal place of business in Malta and terminate its principal place of business and tax residence in Luxembourg (the "Transfer"). While Blackstar is currently listed on the AIM market of the London stock exchange, as part of its redomiciliation in accordance with the AIM rules Blackstar must have its listing on AIM cancelled before immediately readmitting its shares. As such, Blackstar's current registered office is: Capita Company Secretarial Services, 2nd Floor, Ibex house, The Minories, London, EC3N 1DX. And, upon readmission: 4th Floor, Avantech Building, St Julian's Road, San Gwann, SGN 2805.

Tsogo trading statement

Tsogo is scheduled to release its financial results for the year ended 31 March 2012 on or about 17 May 2012. In line with previous reporting periods, the company intends publishing earnings per share ("EPS"), headline earnings per share ("HEPS") and adjusted headline earnings per share ("Adjusted HEPS") as well as earnings before interest, income tax, depreciation, amortisation, property rentals, long term incentives and exceptional items ("EBITDAR") for the year ended 31 March 2012 and for the prior corresponding reporting period. The company is of the opinion that the publication of Adjusted HEPS and EBITDAR will assist the understanding of trading results.

As previously reported, the merger of Tsogo and Gold Reef Resorts Ltd. ("Gold Reef") and the effective reverse listing of the Tsogo Group was concluded on 24 February 2011. Tsogo's financial results for the year ended 31 March 2012 will represent the first complete twelve months of trading for the combined group. The comparative information for the prior period will represent the consolidated results of TSH for the year ended 31 March 2011 with Gold Reef included from 24 February 2011. The results for the year ended 31 March 2012 include certain non-recurring transactions totalling a net gain of R384 million which relate primarily to a fair value adjustment to the existing equity investment in Hotel Formula 1 (Pty) Ltd. ("HF1") and the acquisition of the remaining 52.6% of HF1 on 29 March 2012 and release of the contingent liability relating to the 2009 Millennium transaction as well as other investment and loan impairments. These non- recurring items have been adjusted for in arriving at EBITDAR and Adjusted Headline Earnings. Accordingly, shareholders are advised that:

EBITDAR is expected to be 40% to 45% higher than the prior comparative period;

EPS is expected to be 140% to 145% higher than the prior comparative period;

HEPS is expected to be 40% to 45% higher than the prior comparative period; and

Adjusted HEPS is expected to be 10% to 15% higher than the prior comparative period.

NEPI

Shareholders are advised that NEPI has, through two of its subsidiaries, concluded a settlement agreement with the vendors (the "Vendors") of Promenada Mall Braila, situated in Romania (the "BelRom Settlement"). Under the terms of the BelRom Settlement, the group will receive an early settlement amount of EUR11 478 874 (the "Settlement Amount"), payable in cash, from the Vendors. The Settlement Amount represents amounts owed to the Group by the Vendors in relation to the completion of the Cinema City premises being delayed beyond the agreed timetable and exceeding the agreed budget and amounts owed or expected to be owed to the Group by the Vendors as a result of net operating income warranties, made by the Vendors, being breached. The Settlement Amount will be recognised in the financial statements of the group for the six-month period ending 30 June 2012. Shareholders are advised that Promenada Mall Braila is performing well and in accordance with the company's expectations. The expansion referred to in NEPI's 2011 annual report was completed on 10 May 2012 with the opening of H&M and C&A. The company is considering a further expansion phase to accommodate increasing demand for retail space from tenants.

NEPI trading statement

Shareholders are advised that NEPI anticipates that the dividend per share for the six months ended 30 June 2012 will be between 15% and 16% higher than for the six months ended 30 June 2011. The interim financial results announcement for the six months ended 30 June 2012 will be published on or about 14 August 2012.