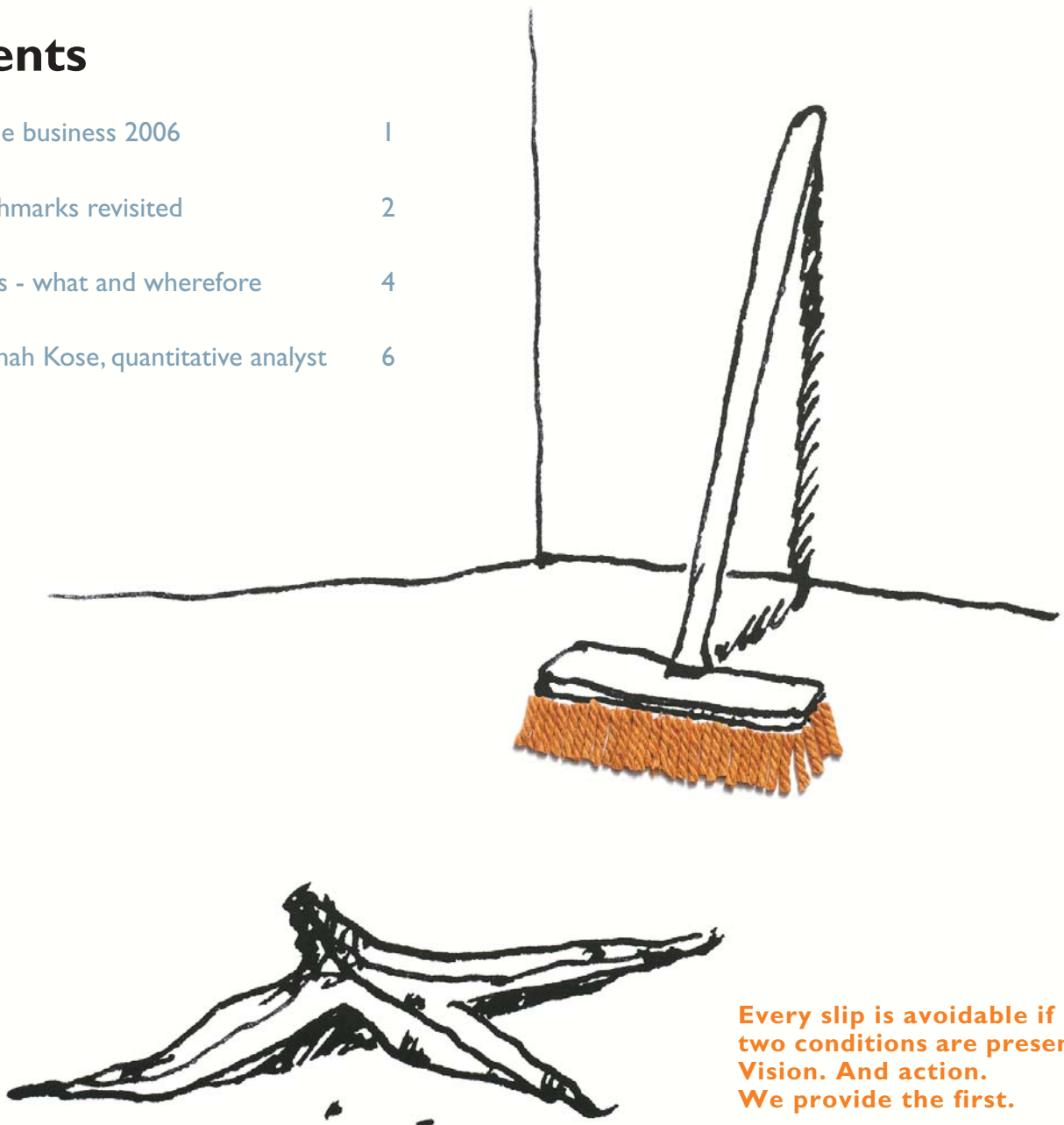


thinktank

February 2006

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Every slip is avoidable if
two conditions are present.
Vision. And action.
We provide the first.

RisCura

good thinking



Jarred on the business 2006

2005 was a cooker of a year for equities and hopefully one where pension funds took advantage of the sizzle. In such buoyant market conditions, it gets harder to remember the basics - stick to the strategy, remember risk and what goes up can just as easily come down. For RisCura, every year brings huge challenges, great rewards and a stronger, more sustainable business.

Growing client and product base

We remain the largest investment consultant in South Africa in terms of asset size and our client base is becoming more diverse as we continue to attract small, medium and large pension funds. Our transition business has grown substantially and we are recognised as the leading transition manager in South Africa. Our unitisation service has also expanded and we have a strong team in place to ensure an efficient, accurate offering. One of our specialist services that received a lot of client attention over the last year is asset liability modeling (ALM), which I talk more about below.

Specialisation and rigour

We did enormous work on our ALM service in 2005 and now have a strong team dedicated to developing and fine-tuning our models. There seems to be a growing awareness among pension funds of the importance of a rigorous ALM process and we have attracted a number of clients looking for an ALM specialist. We are cautious about investment managers offering a one-stop service which includes asset management, aspects of consulting and ALM. We believe trustees need to take cognisance

of potential conflicts of interest and also realise that an investment manager's core skill lies in asset management.

Real transformation

A number of small entrepreneurial black-owned asset managers have emerged in recent years. In this industry, it's easy to support well-known and long-standing companies, but if we want real transformation to take place, consultants and pension funds need to put their money where their mouth is and back these entrepreneurs. RisCura was responsible for the huge drive toward supporting black-owned companies in the stock broking industry and will similarly lay our weight behind these new asset management companies in 2006.

The marriage of great minds

2005 saw the finalisation of our black empowerment deal with Izingwe Capital. We welcomed Siphon Pityana as our Chairman and Mark Sifris onto our Board of Directors. Our challenge now is to effectively integrate Izingwe's expertise and input into our decision-making processes so that the benefit to our clients becomes palpable.

Helping out

In terms of our corporate social investment initiatives, we continue to sponsor education initiatives, providing bursaries to a group of underprivileged students via the KID's Foundation. We have been involved in a range of other social initiatives including: -

Colleen's Place of Hope

- Maryland Literacy Programme
- Assisting victims of the Oliver Tambo fires
- Noah - Broking for Good

2005 was a year of moving towards Financial Services Charter requirements at all levels of the company. This significant task entailed hiring new staff and upskilling existing staff as well as changing our service providers. We are very pleased with the success we have achieved to date.

Investing responsibly

We are starting to take our role in socially responsible investments (SRI) more seriously as it seems set to become a big part of pension fund investing. Our research team is currently focused on understanding international trends and applying a South African flavour to these. Our role is to provide guidance to our pension fund clients in setting up their SRI investment policies. This involves helping them to understand the different SRI products and categories and providing advice on how best to incorporate these into the fund's overall asset structure.

Improved results

There has been considerable improvement in our financial results and profitability over the last 6 months due to client growth and a more focused service and staff base. Our goal is to be a highly profitable business that provides real value-add and a quality service to all our clients. I, and RisCura's key stakeholders

(including most staff), am very excited by the prospects for our business in 2006 and thank our clients for their continued support.

We wish you all the best for 2006.



Laurett Jardim, Head of consulting



benchmarks Equity revisited

New equity sector classifications were announced in January 2006 by the FTSE/JSE. The changes are primarily to the economic group indices (see Table A), with the broad indices (Resources, Financials and Industrials) mostly unchanged except for one stock, Phalaborwa Mining, which was moved from the Resources Index to the Industrial Index.

The new Resources Index is currently limited to 20 stocks, which raises the question of whether this index is broad-based enough for a specialist resource mandate. The Resi 20 Index is comprised of the Oil & Gas and Mining sectors. Most managers who have been given specialist resource mandates prefer to have access to a broader universe of stocks that are typically influenced by the same economic, market and currency factors (e.g. the exchange rate and commodity prices) as the Resi 20 stocks. This would include stocks in the Metals, Chemical and Forestry & Paper sectors. Obviously a broader universe of stocks has diversification benefits. In addition, the resource managers would also argue that industrial portfolio managers won't give as much attention to the Metals, Chemical and Forestry & Paper sectors as they would.

Table A: Economic Group Indices

December 2005		January 2006	
J010	Basic Industries	J510	Basic Materials
J080	Financials	J580	Financials
J030	Cyclical Consumer Goods	J520	Industrials
J050	Cyclical Services	J530	Consumer Goods
J040	Non-Cyclical Consumer Goods	J540	Health Care
J060	Non Cyclical Services	J550	Consumer Services
J090	Information Technology	J590	Technology
J020	General Industrials	J570	Utilities
J000	Resources	J500	Oil & Gas
AO	Specialist Securities	J560	Telecommunication

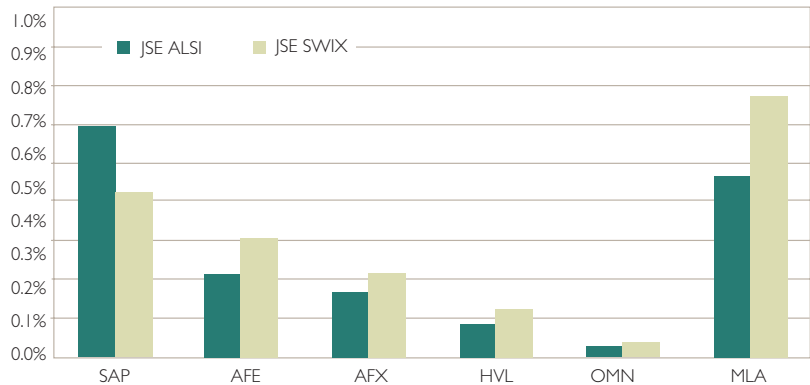
Table B: Broader Resource Benchmark

Economic Group	Underlying Sectors		
Oil & Gas	Oil & Gas Producers	} Resi 20	} Broader Resource Benchmark
Basic Materials	Mining		
Basic Materials	Chemicals		
Basic Materials	Forestry and Paper		
Basic Materials	Industrial Metals		

RisCura's recommendation is to create a broader resource benchmark for specialist resource mandates. This would comprise the underlying economic groups as laid out in Table B on the previous page.

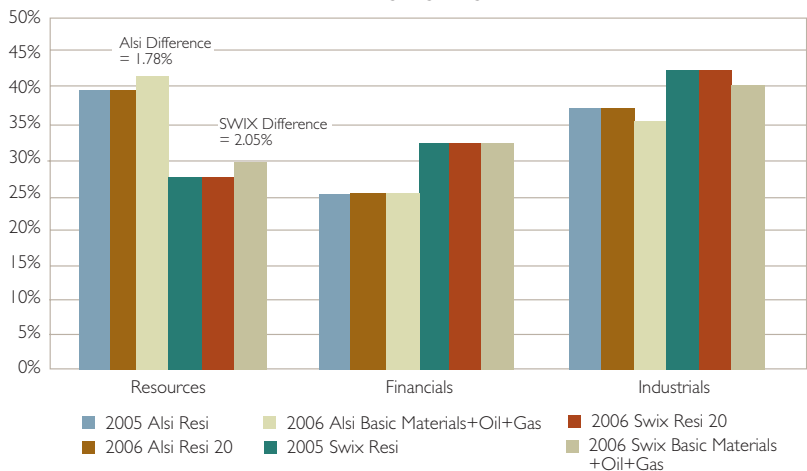
6 additional shares would be included in this broader resource benchmark (Sappi, AECL, African Oxygen, Omnia Holdings, Highveld Steel and Mittal Steel SA Ltd) as indicated in Graph A.

Graph A: JSE Sector Reclassification
 ALSI and SWIX share weighting changes as at 31 Dec 2005

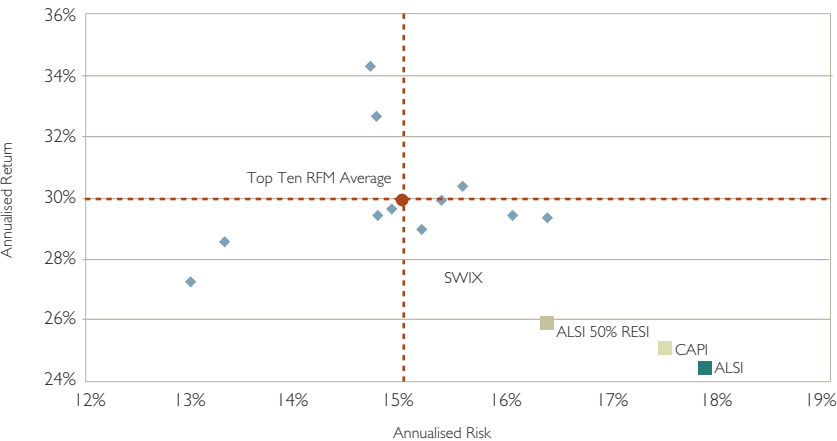


A drawback of this broader benchmark is that it would not be a published index. Another issue is that the increased resources weighting will vary across different indices as indicated in Graph B below. The broader resource benchmark would result in a net resources upweighting of 1.78% in the ALSI and 2.05% in the SWIX.

Graph B: JSE Sector Reclassification
 ALSI and SWIX share weighting changes as at 31 Dec 2005



Graph C:
 Global Equity Sector over a 36 month period ended 31 November 2005



Pension funds still using the ALSI 50% Resources, CAPI or ALSI indices, should note Graph C, which illustrates that for most periods, the SWIX benchmark has generated higher returns with less volatility, given its lower exposure to resources. In addition, if we compare the Graph B indices' compositions to the holdings of the ten largest managers in South Africa, the SWIX has the highest overlap with the managers' portfolios.

Some market participants will argue that it's not necessary to use a broader resource benchmark given that the resource weighting will only increase by 1.5% -2% and that the industrial analysts will cover the added stocks in their industrial portfolios.

RisCura believes however that a broader resource universe is beneficial for our clients' specialist portfolios given that it improves investment and diversification opportunities and that resource analysts will probably do a better job of analysing the additional stocks because they behave similarly to those counters in the Resi 20 Index. We therefore recommend that our clients make use of the broader resource benchmark.





Risk budgets - what and wherefore

With the increased awareness and concern about underfunded pension funds, risk sources and contributors have gained much interest from investment managers, trustees and consultants. The concept of risk budgets has become a hot topic, as it's an effective way for funds to ensure that their investment strategies are properly directed to meeting their liabilities.

Assets vs liabilities

For a pension fund, risk is the possibility that the fund's accumulated assets will be insufficient to cover its future liabilities. This means that the fund will be unable to provide its members with adequate pensions on their retirement. To prevent this, trustees need to properly quantify their fund's liabilities in order to understand its funding status in terms of its current assets. If the trustees want to improve a fund's funding status (particularly if it is underfunded), they will need to quantify an acceptable level of risk they are willing to take to try and boost their assets, even though there is simultaneously a possibility that they could weaken their funding position.

What is a risk budget?

A risk budget is the quantification of an acceptable amount of risk that a pension fund is willing to take in its investment decisions, without sacrificing its ability to meet its current and future liabilities. In other words, it indicates the degree to which the fund returns could deviate from the growth in the liabilities (or some benchmark thereof), without sacrificing the fund objectives.

For example, a fund's choice of a risk budget with a 5% tracking error relative to its future liabilities, tells us that the fund expects that 68% of the time its assets may deviate from its future liabilities by 5% or less over a certain time period. However, this also means that the deviation could be more than 5% away from the liabilities, about a third of the time. Any deviation could be positive (profit) or negative (loss) and it is thus imperative that the fund fully understands the implications of its choice. This risk level could be further split into risk from asset allocation decisions as well as active manager stock-picking risk.

Determining the risk budget

The choice of the risk budget determines how risk tolerant or risk averse the trustees are, and therefore determines the fund's investment strategy type as well as its implementation. For instance, if the fund chooses to have a zero risk budget then a full immunization strategy, which allows for the exact replication of the cash flows required to match the fund's future liabilities, should be implemented. (Note this strategy can only be implemented if the fund is overfunded). If a low to medium risk budget of about 2% was chosen, the fund would typically invest in lower risk assets like bonds and inflation-linked bonds. However if the fund chooses a large risk budget, say 10%, this means that the fund is willing to invest in assets that are quite risky compared to the profile of their liabilities, for example equities or hedge fund products.

Introducing risk

At each stage of implementing the investment strategy, risk is introduced. Some of the implementation stages are:

- Choice of strategic benchmark to model liabilities;
- Choice of strategic benchmark to manage the assets;
- Choice of investment style, e.g. passive vs. active management;
- Choice of asset managers, and the effects of blending their investment styles.

The combined risk introduced by all these implementation decisions contributes to the overall risk profile of the fund and should lie within the fund's defined risk budget.

The awareness and choice of a fund's risk budget is therefore an important process for trustees as it determines the potential risks to which the fund is exposed. The trustees also need to monitor their investments to ensure that they remain within their chosen risk budget.



Profile:

Qualifications and experience: I am currently completing a diploma in Investment Analysis and Portfolio Management through UNISA. Before joining RisCura in 2005, I spent 3 years at Ginsberg Malan in the actuarial department and 6 years at Investment Solutions as a data analyst.

Day to day my job involves: working in RisCura's unitisation department where I prepare and check daily and monthly unitisation reports.

The best thing about my life is: that every day brings new challenges.

I think work should be about: growing intellectually by learning and exchanging information with your colleagues. I love applying new knowledge to my work and using this to generate good ideas.

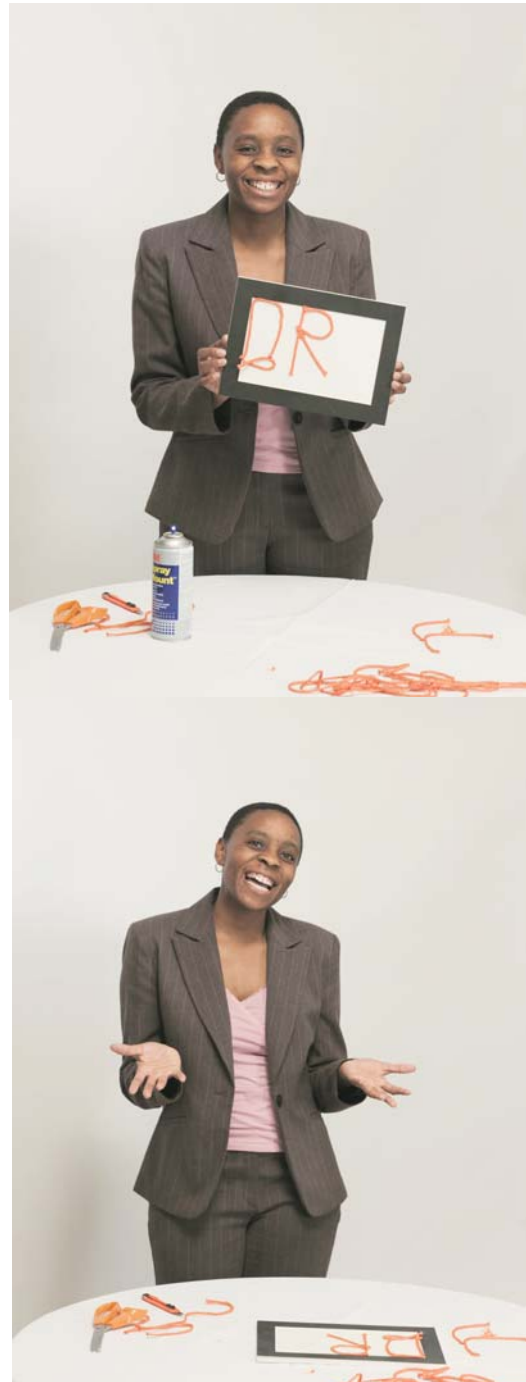
The thing RisCura does really well is: going the extra mile to provide the best service to our clients.

The first thing I do when I wake up is: press snooze on my alarm a couple of times, kiss my loved one and then get ready for my day at work.

My family is: my first priority. They are always there to show me my mistakes, help me unwind after a stressful day and encourage my future plans.

After work, I love to: take a bath and relax before visiting my mom and friends. I enjoy spending time with my boyfriend and my little sister, watching TV.

The best film I ever watched was: An Unfinished Life, which for me, showed that no matter how different we are and feel sometimes, something will always happen to bring us closer.



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