DOUGLAS INVESTMENTS

Investment Environment November 2010

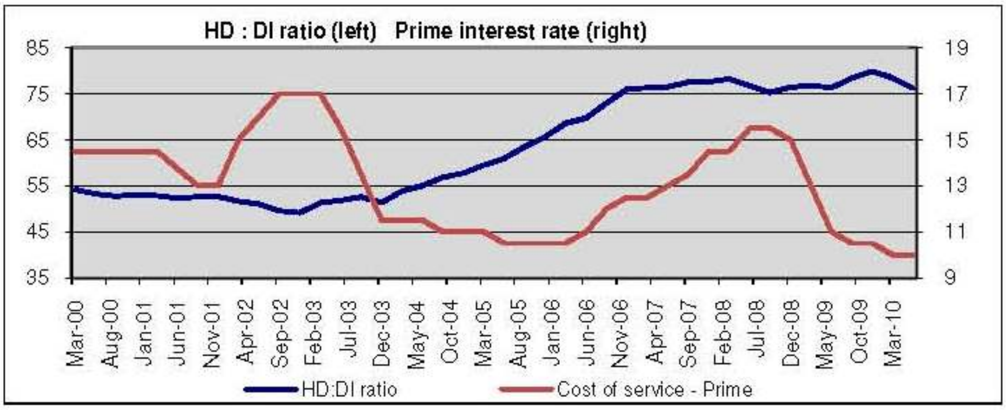
Equity markets have shown some resilience in the last quarter with the JSE is up by 11%. The markets are possibly discounting improving economics. However, the storm clouds of ongoing sovereign debt crises in the Euro zone remain a concerning factor. Even with Central Banks providing additional austerity relief, the consequence of a debt crisis will take many years to be resolved. This situation continues to favour the US Dollar as a safe haven and as the “base” currency of the world. Emerging markets have attracted international investors as they show better growth prospects than developed markets and precious metals have also retained their lustre as investors hedge their bets.

Notwithstanding the uncertain state of markets, the South African economic backdrop remains positive for equities. Despite a slow-down in Q3 GDP growth, we expect 2010 to close the year with a GDP growth rate of close to 3%. We are seeing a long term recovery in GDP growth which combined with structurally lower inflation and interest rates at a 35 year low, should continue to support equity prices.

We continue to see significant interest from international investors in emerging markets. Positive real interest rates with relatively high nominal yields continue to attract international investors to South Africa and other emerging market economies. The inflow of capital to these economies has resulted in their currencies strengthening and stabilising.

In the last Investment Environment we made reference to commodities and especially precious metals as part of an investment portfolio. This thesis continues to hold true. We have exposure in portfolios through both BHP Billiton and Anglo American. In addition, in some cases we have a holding of Metmar which is a commodity trader producing strong cash flows allowing upstream investment into the commodity base.

A newer theme playing out in Africa is the focus on the “emerging consumer”. This has been demonstrated by the interest of Walmart in acquiring Massmart. The graph below shows in blue household debt (HD) relative to disposable income (DI). This shows that while interest rates have declined (shown in red), the consumer has “spent” these savings rather than used it to pay down their debt. This theme of the “emerging consumer” seems to be real in South Africa and makes sense because of the changing demographics caused by people benefiting from economic upliftment. This explains why retail stocks have continued to outperform and are close to all time highs which unfortunately we have missed to an extent. However, we have introduced Tiger Brands into the portfolios as a general producer of consumer goods based on this investment theme. Tiger brands is attractively priced relative to other consumer related stocks and has positioned itself for international expansion into Africa which the market has yet to recognise.



In conclusion we remain positive on South African equities with commodity stocks being favoured as they also have Rand hedge attributes. Notwithstanding the Euro debt crisis, we continue to place a low probability (<20%) on a global double dip scenario. Investors will probably continue to buy emerging markets (and South Africa as one of them) as they offer yield and prospects of higher growth than developed markets.

Please note that our offices will be closed from Monday 20 December, and we will re-open on Monday 10 January. We wish our Investors a safe and happy festive season and a successful year ahead.