

## **TIME TO LOOK AT THE SATRIX RESI?**

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**Article for Moneyweb/Citizen – 10 January 2008**

The extraordinary rise in the gold, platinum and oil prices to record levels has again focused attention on commodity prices and the ways of investing in resources. In South Africa, which does not have markets which readily enable direct investment into commodities, the chief avenue for investment is mining based equities.

However, investing in individual mining stocks can bring, not only, concentration risks of putting all your eggs into one basket, but also carries the burden of choice – which shares to choose? The failure of many South African gold mines to achieve profitability despite the propitious gold price levels; the patchy performance of many platinum counters; the volatility of uranium exposure equities; and distortions caused by “on-off” corporate transactions, have meant that many investors have failed to fully reap the benefits of the commodity price boom, despite being invested in the mining sector.

The mixed returns for many mining shares on the JSE helps explain the strong interest in the NewGold ETF, which enables investors to gain exposure to the rise in the rand price of gold, without suffering the vagaries of investing in individual gold shares.

Another option is the Satrix Resi ETF. This gives investors exposure to the FTSE/JSE Resources 20 index. In 2007, the Satrix Resi produced a total return (capital gain plus dividends) of 29,1%, which compares well with the total return of only 18% on the All Share Index. Since its listing in April 2006, the Satrix Resi has provided a total return of some 58%, comfortably outperforming the overall stockmarket.

The benefits of investing in an index are well known. Investors obtain a portfolio of shares, not one or two counters, thereby creating diversification and reducing risk. There are also big cost advantages. Instead of paying brokerage and UST 20 times, which would be the case if this portfolio was to be purchased individually, brokerage is only paid once if the portfolio is purchased through the Satrix Resi. Also, ETFs, such as Satrix, do not incur UST when transacting them through the JSE.

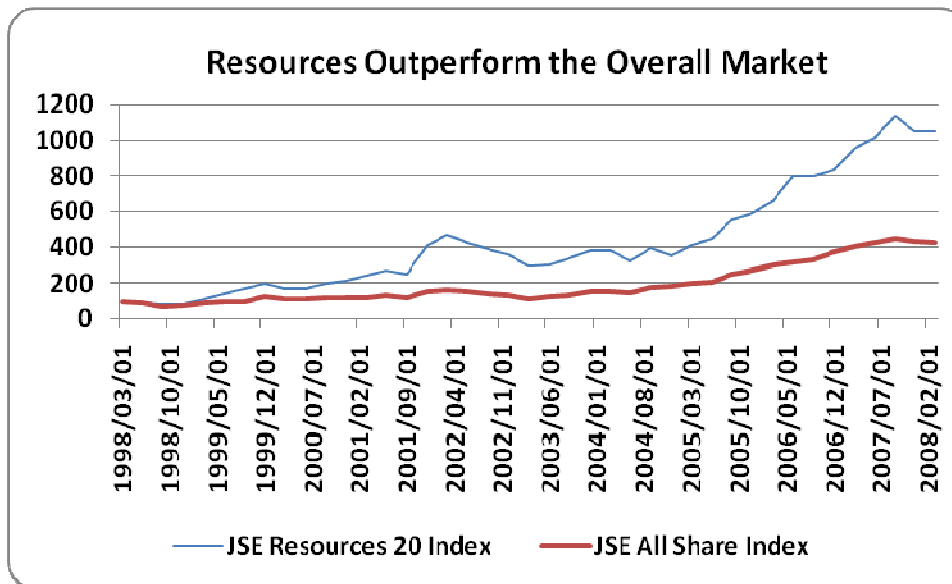
The quality and spread of the Resources 20 index is also of benefit to investors. The main exposure in this index is to Anglo American and Billiton, which makes up over half the weighting in the index. But these are blue chip counters providing access to the global mining industry and are attracting capital from investors all over the world, who are looking to include mining shares in their portfolios.

There are 5 platinum counters and 5 gold mines in the Resources 20 index providing a broad spread of investments in these two sectors. In addition, the index provides exposure to iron ore, base minerals, junior mining companies and to Sasol.

<b>COMPONENTS OF THE SATRIX RESI</b>	
<b>(as at 10 January 2008)</b>	
	<b>% of Portfolio</b>
Mining Houses	56,8
Gold Mines	12,1
Platinum Mines	15,6
Oil & Gas	12,3
Base Metals	2,2
Junior Mines	1,0

The companies included in the index and the weightings of the index constituents change from time to time depending on the price performance of the individual mining stocks. In this way the index reflects the changing fortunes of the mining industry in South African and, as an exposure to SA Mining Inc., it is difficult to beat an index subject to regular review by the Stock Exchange.

The long-term performance of the Resources 20 index has also been outstanding. The graph shows the performance of the FTSE/JSE index since it was introduced in 1998 compared with the JSE All Share index. The Resources index has comfortably doubled the performance of the All Share over this period.



Certain investors may question whether investment in resources should be a short-term (cyclical) or a long-term commitment. The graph indicates that over the past decade, despite very poor commodity price trends in the early years, the JSE Resources sector has provided consistent outperformance of the broader market. Other factors in support of a long-term exposure to the local resources sector, include:

- The globalisation factor, which is bringing more and more consumers in the developing world into the market economy system probably has many years, if not decades, to run. It is unlikely that a cyclical slow down in the developing world will affect the consistent consumption of capital, resources and other production factors in the emerging economies. The demand for minerals will more than likely continue to grow to accommodate the globalisation secular trend.
- After a slow start, much of it due to bureaucratic red tape issues, the South African mining industry is now expanding its capacity and the infrastructural bottlenecks impairing the transportation of mineral resources to the ports are being addressed. It is possible that strongly expanding mining output could be a key growth factor in South Africa in the years to come.
- Mining companies have provided outstanding rand hedge qualities in the past as rand based earnings are directly enhanced when the rand falls. Given the general belief that the rand should depreciate in time to come, the Satrix Resi should provide solid rand hedge attributes in future.

It is believed that a strong case can be made for investors to seek at least some exposure in their portfolios to the resources sector, both to take advantage of the present surge in certain commodity prices, but also to ensure that they participate in the favourable longer-term resources cycle. For risk averse investors, it is difficult to ignore the merits of the high quality and diversified resources fund that Satrix Resi provides, with the added benefits of low costs, transparency and liquidity provided by it trading as an ETF on the JSE.

Word count: 957