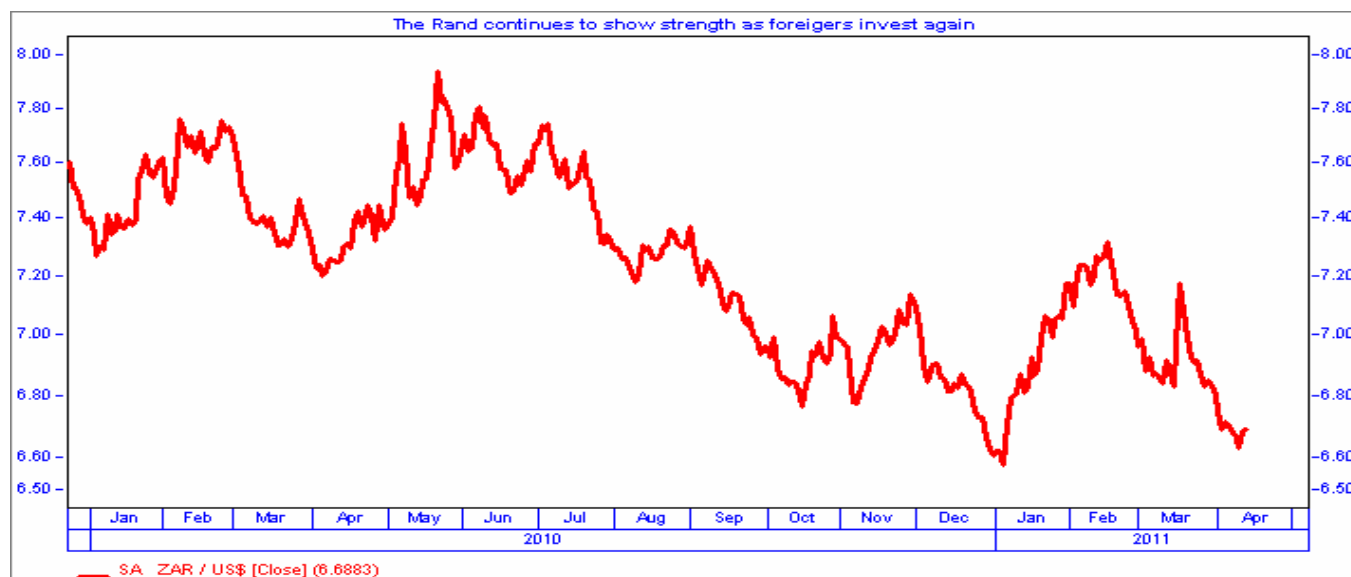
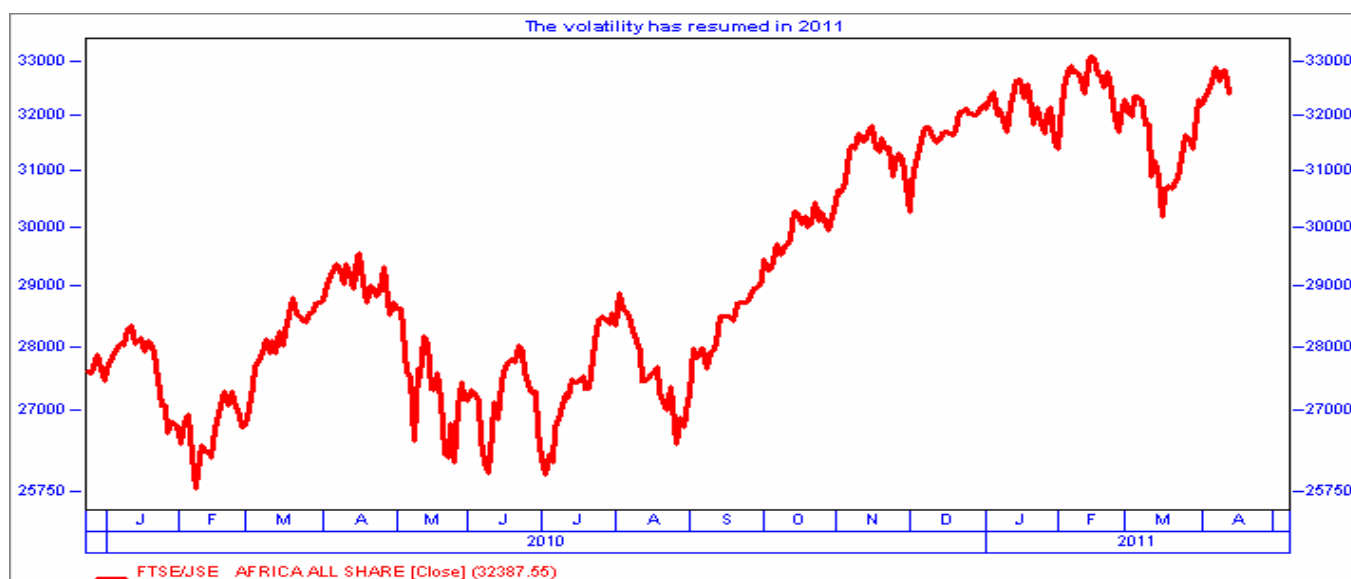




The year so far...

...has been very tricky particularly considering it followed a very pleasant and uneventful final quarter of 2010. There certainly has been no time to ease back into work as a sequence of natural disasters coupled with a spate of political issues in North Africa has resulted in volatility returning to our market. For the record the market returned a positive 0.3% in the quarter but this number substantially masks intra-quarter gains and losses. Three key issues impacted on our market in the first quarter (1) The rand initially weakened substantially but then strengthened again – see chart below (2) Floods and earthquakes have generally had a positive impact on the price of bulk commodities and (3) The North African civil unrest has led to a substantial increase in the oil price.

After the superb Q4 2010 performance (+17%) on the JSE coupled with a strengthening rand, foreigners became substantial net sellers of South African assets in the Q1 2011. The result was apparent – a weaker market and a weaker rand. Thereafter foreigners returned and everything unsurprisingly turned around.



Life within ClucasGray has also been going along at a fair clip as we have settled, very happily, into our new offices in Dunkeld West. There are a few changes, though, that we need to inform you about:

The start of April has seen the welcome return of Yvette after her maternity leave. Yvette will now be working for three hours in the mornings (8.30 – 11.30am), which we hope will enable her to provide support for Marie, talk to the clients who are familiar with her, assist with our marketing efforts and hopefully give her enough time to be a mother as well. Knowing Yvette she will take it all in her stride!

Les Vercellotti, who has been assisting us with our research efforts since 2007, has taken on a more comprehensive role, which includes work with pension funds, heading up our marketing as well as continuing to do research on a handful of specific stocks. Les is also working mornings only. After a happy two and a half years Zara has moved on and Karmen's six month stint came to an end at the end of February. We would like to thank them for their contribution.

Mike Patchitt, who has been assisting ClucasGray in an advisory capacity since inception, has not only taken up office space with his colleague Adolf Potgieter, but is also starting up an alternative investment fund in which ClucasGray will hold a minority stake. Mike and Adolf have extensive market experience further enhancing goodwill within the ClucasGray brand.

Peter continues to work a full day, getting to the office punctually at 7.30 am and leaving most days after 5pm. The urging from the "youngsters" to leave after lunch and to start taking it easy seems to still be falling on deaf ears. The market remains one of his key passions and for that we are fortunate. In this game experience is everything.

ClucasGray invited guest speaker, Dr Roelof Botha, to address our Johannesburg based clients at the end of March. Dr Botha focused on all the things that are right, rather than wrong, in South Africa. It was certainly a most uplifting talk backed in most parts by hard facts and we are hopeful that his outlook is even half right!

“Our” man Warren Buffett comments on debt...

"Unquestionably, some people have become very rich through the use of borrowed money. However, that's also been a way to get very poor. When leverage works, it magnifies your gains. Your spouse thinks you're clever, and your neighbors get envious. But leverage is addictive. Once having profited from its wonders, very few people retreat to more conservative practices. And as we all learned in third grade - and some relearned in 2008 - any series of positive numbers, however impressive the numbers may be, evaporate when multiplied by a single zero. History tells us that leverage all too often produces zeroes, even when it is employed by very smart people."

And of course this is not only applicable to individuals. Companies with large debts run a constant risk that either company-specific problems or a global shortage of credit could lead to their demise. If refinancing is not available only cash will suffice in meeting matured debt. An ensuing rights issue at a ridiculously low share price normally sends any company down the tubes.

His message is this; keep away from excessive debt and retain an appropriate cash pile to assure survival during difficult times. Liquidity can not only secure survival but can also be used to take advantage of mispriced assets at times of general financial stress.

At ClucasGray we pay due attention to the health of a company's balance sheet as well as cash generation before we invest. I think it has been a combination of learning from mistakes and wise words from the likes of Buffett that has evolved our thinking in this regard. Of course we do sometimes get involved in companies that are highly leveraged but do so with a great measure of caution and research. I can think of two companies that fit this bill...namely Metrofile and Netcare. In both cases the value of property on balance sheet exceeds the quantum of debt and the underlying operating activities are sustainable and growing. Nevertheless we watch these sort of investments much more closely than others.

Peter's corner

So often recently I get asked “What do you consider to be a good spec – not a blue chip stock like Anglo, Sasol, SAB, etc.”

“Well, I say, the market is high at the moment but there is one share that I think could be interesting and that is Cipla Medpro.”

This company has recently been awarded by the South African National Treasury a number of antiretroviral products following the recent tender application. The tender is effective from 1st January 2011 to 31st December 2012 and a significant portion of these products will be manufactured at the Group's facility in Durban which will assist in generating significant volumes for the plant.

The total value of this allocation is R633 million with opportunities for further gains. At the moment the share trades at 675c and pays a small dividend of 11c thus yielding just under 2% but the real kicker awaits the Medical Control Council, who have only to approve the oncology drug that CIPLA have the rights to – this drug is used around the world, so we anxiously await the rubber stamp and away we go! A most interesting spec.

Future Titans Fund Deliberately different

We are always on the lookout for assets at a deep discount to their intrinsic value with an expectation of the discount unlocking. Two examples of these discounts are Sirius Real Estate and Shoprite Zambia.

Sirius Real Estate is a German industrial real estate company that focuses on short term, small area leases at higher prices per square meter. The German economy is performing well helped by a weaker Euro. Future Titans acquired a position in the company at 28c against an independent property valuation from DTZ showing value at 72c. The largest shareholders are active in trying to unlock this value. In July last year the largest shareholder attempted to remove the board and liquidate the assets but this failed as an offshore fund controlled by South Africa's largest privately owned property company (Atterbury Properties) opposed the deal. Interestingly they see more value in keeping the company listed notably due to the fact that shareholders have the ability to cancel the management contract on the 4th of May 2011, thereby allowing a buy-out and increasing earnings to shareholders by almost R50m per annum. With 112% capital upside to net asset value, the vultures are circling.

Shoprite Zambia has the same balance sheet, income statement and dividend to the Shoprite share listed on the Johannesburg Stock Exchange but trades at a 46% discount. JSE listed Shoprite looks relatively pricey at 16x forward earnings to June 2012 but Zambian listed Shoprite looks attractive at 9x forward earnings and a dividend yield of 5.5%. Clearly liquidity issues play a big part here given that the share cannot be bought in Zambia and sold in SA but our view is that over time the gap should close.

While these are only two of the investments held by Future Titans, it nevertheless goes to show what kind of investments we strive to purchase.

Any great ideas are most welcome...

Leading Indicators:

	1mth % ch	3mths % ch	12 mths % ch
JSE	+5	-1	+11
S&P	+3	+2	+9
Nik- kei	+4	-8	-13
Oil	+6	+27	+45
Gold	+5	+10	+31
R:\$	-2	-4	-8
R:£	-2	-1	-2

Note: “-” for currency denotes rand strength.