

# ATLANTIC ENHANCED INCOME FUND

Monthly Fund Fact Sheet  
April 2008

## PRODUCT

The Atlantic Enhanced Income Fund is an actively managed income-producing fund, which seeks to provide income levels in excess of that provided by money market funds, while at the same time provide moderate capital growth by careful risk-constrained investment into securities offering good trading opportunities. By actively allocating and diversifying between various interest-bearing asset classes and listed property, total returns are also maximised.

## PERFORMANCE OBJECTIVE

The objective of the Atlantic Enhanced Income Fund is to preserve capital and to maximise income returns for investors. The performance objective of the fund is to achieve a total return in excess of the benchmark over rolling 36-month periods.

### RISK PROFILE:

Low - Moderate

### BENCHMARK:

ALBI 1-3 Year Total Return Index

### ACI FUND CLASSIFICATION:

Domestic-Fixed Interest-Variied Specialist Portfolio

### LAUNCH DATE:

1 November 2007

### DISTRIBUTION FREQUENCY:

Quarterly

### FUND SIZE AT 30 APRIL 2008

R901.76m

### DISTRIBUTION PER UNIT:

Nov '07 0.71 cents per unit

Feb '08 2.17 cents per unit

May '08 -

Aug '08 -

### FEES:

Initial: 0.00%

Annual: 1.00% per annum excluding VAT.

### MONTH END NAV PRICE:

101.00c

### TER: N/A

The Total Expense Ratio (TER) for this portfolio/ class of participatory interest cannot be accurately determined. The TER of this class of participatory interest/ portfolio will be higher than the quoted service charge of the manager.

### MINIMUM INVESTMENT AMOUNT:

Monthly debit order R250 pm, Single premium R2000

### MANAGEMENT COMPANY:

PSG Collective Investments Limited

## MARKET OUTLOOK

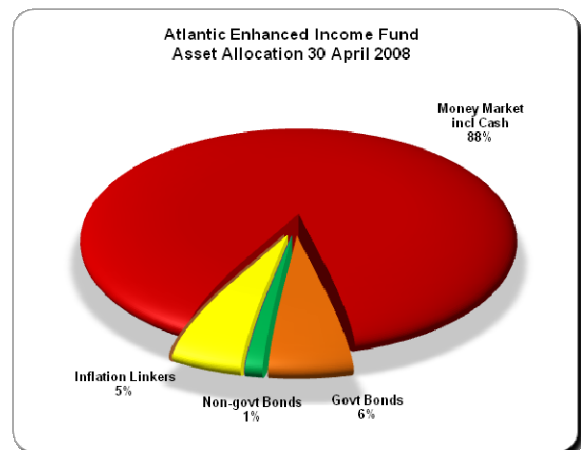
A further month of higher than expected inflation (on both the consumer and producer side) produced another expected result – higher bond yields and heightened worries about prospects for further rate hikes in South Africa. However, there are growing signs that the economy is taking strain from the combined weight of the rate hikes thus far. The SARB is thus in a rather constrained space in terms of its ability to act. We believe that inflation expectations, rather than the inflation number itself at present is where the focus will lie. Accordingly, further deteriorations in this area will no doubt trigger further rate hikes. As far as prospective inflation drivers are concerned, it would appear as if the Fed's rescue act of cutting rates aggressively will have the desired market effect. However, it will no doubt continue to feed into the economic effect as well – that of higher inflation. This is the key driving force behind the current global surge in inflation - an oversupply of liquidity.

Our view is that globally, interest rates are too low, resulting in the growing inflationary conditions. As is well known, inflationary conditions tend to suit equities, but unfortunately our starting point is that equities in general are at relatively high valuation levels and thus the expected returns in the medium term may not keep pace with inflation. Hence our low equity exposure.

In addition to the inflation risks are present, there are still also significant credit risks. Thus, what we are faced with is a combination of creeping inflation risk (the income investors' worst risk) and credit risk, which is the risk of an investor not being able to receive their capital at the appropriate time. This combination is the worst possible combination for an income investor. Accordingly our fund retains a slant towards gaining low risk protection against inflation and capital risks.

## PORTFOLIO POSITIONING AND ACTIVITY

Our fund remains defensively positioned with regard to capital risk. In particular, we have kept the property component at zero, and the duration component of the bond exposure is also well below bond index levels. Inflation risks remain our predominant focus and with the underlying drivers of inflation still unresolved as far as a slackening off of upwards pressure is concerned, serious risks remain for further rate hikes. Given our portfolio positioning, this will be advantageous for the fund in that we will be in a position to lock in further gains from an income yield perspective. We also remain vulnerable from a currency perspective and this exacerbates the options available for the SARB. We expect to see growing tensions between macroeconomic policy and political expediency as far as the Rand is concerned – the one pulls in favour of a stronger currency whilst the other pulls in favour of a weaker currency. This debate will influence the market dynamics and hence our portfolio positioning as well. It is clear that the investment landscape remains subject to a heightened degree of risk, which continues to inform our Investment Policy.



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