



Atlantic

ASSET MANAGEMENT

Enhanced Income Fund

August 2010 Fund Fact Sheet



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.

PORTFOLIO MANAGER

Arno Lawrenz B.Sc(Hons), CFA

INVESTMENT 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.

PORTFOLIO POSITIONING AND ACTIVITY

We have made no significant change to the actions and strategies that are already in play. As such we have continued to allow significant money market maturities rather than rolling them over into new issues. This has enabled us to build up a significant war-chest of cash that we wish to deploy with a more tactical approach into riskier assets. This, as we have already alluded to earlier in last month's commentary, includes exposure to long-dated bonds, preference shares and listed property. We are completely mindful of the fact that such exposure may well increase the unit price volatility within the fund, and thus we do not do so lightly. However, at this stage of the cycle and at current valuation levels we feel our strategy is appropriate for the fund. Having seen Inflation-Linked bonds finally deliver the performance that we had been expecting for a long while is rewarding to say the least! The question that will now start to be asked is for how long can such performance continue, and the answer depends upon 2 key issues – demand for linkers as well as the likely inflation path going forward. It is likely that the big move has already been made, and therefore our continued strategic stance of holding the ILB's will be dependent upon their relative valuation to money market as well as nominal bonds. It may well be that we shift towards a tactical one instead.

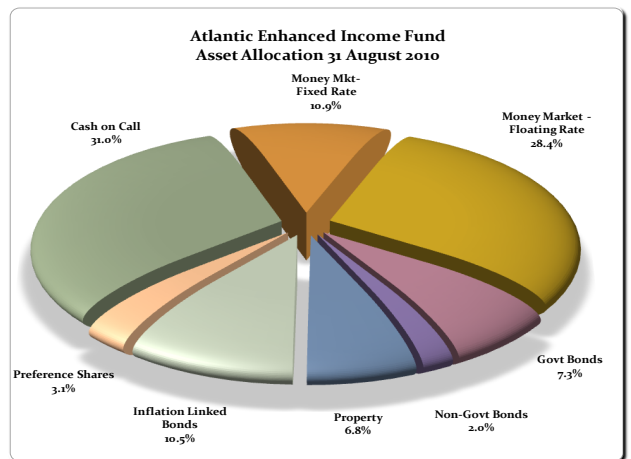
This Fund does not hold any international assets

RISK PROFILE: Low-Moderate
BENCHMARK: ALBI 1-3 Year Total Return Index
ASISA FUND CLASSIFICATION: Domestic - Fixed Interest - Varied Specialist Portfolio
LAUNCH DATE: 1 November 2007
DISTRIBUTION FREQUENCY: Quarterly
FUND SIZE AT 31 AUGUST 2010: R 1.756bn
DISTRIBUTION PER UNIT:
 May '09 2.17 cents per unit
 Aug '09 1.87 cents per unit
 Nov '09 1.78 cents per unit
 Feb '10 1.19 cents per unit
 May '10 1.84 cents per unit
 Aug '10 1.70 cents per unit
FEES: Initial: 0.00% Annual: 1.14% per annum including VAT.
VALUATION TIME OF FUND: 15:00 (Quarter end: 17:00)
TRADING CLOSING TIME: 16:45
MONTH END NAV PRICE: 105.56c
TER: Class A 1.14%
 Class C 2.39%
MINIMUM INVESTMENT AMOUNT: Monthly debit order R250 pm, Single premium R2000 or subject to LISP minimums
INITIAL MAX. BROKER FEE: 1.14% including VAT.
MANAGEMENT COMPANY: PSG Collective Investments Limited

The Atlantic Enhanced Income Fund has a Total Expense Ratios (TER) as listed above. For the period from 1 July 2009 to 30 June 2010 the above TER of the average Net Asset value of the portfolio were incurred as charges, levies and fees related to the management of the portfolio. The ratio does not include transaction costs. A higher TER does not necessarily imply a poor return, nor does a lower TER imply a good return. The current TER can not be regarded as an indication of future TER's.

MARKET OUTLOOK

Stellar performances in August in the fixed income category masks dramatic volatility experienced over the month. The R186 long bond in particular managed an 80bp trading range in-between MPC meetings! Abroad the VIX index traded as low as 21.7 at the start of the month, only to sell off to a peak of 29 ahead of the Jackson Hole gathering, and has since eased slightly to around the 26 level. Local equities weren't spared in this regard. The ALSI ending August down 3.6%, the only asset class in the red (listed property actually managed a 2.2% gain, further highlighting its schizophrenic behaviour relative to the ALSI and ALBI), with ILBs the clear winner, marking a 4% return against a 3% gain for the ALBI and 62bp for cash. Ignoring the month's performances and focusing on the last Friday of August's price behaviour underscores the market's desperation for some good news against an ever-deteriorating macroeconomic backdrop. To say that the market's reaction to the Jackson Hole outcome was a glass-half-full response is an understatement. Authorities are clearly running out of ammunition on the monetary side, and while there appears to be no silver bullet to fix matters, a fresh approach may soon be required as forecasts for Q3 and Q4 GDP growth globally are being marked back dramatically. (With talk of a double dip now definitely on the increase). An interesting argument appears to be making its way into research work at the moment as global bond yields continue to rally. With a number of US corporates opting to buy back their company stock as they manage to issue debt at record low spreads over Treasuries, some analysts argue that the time has come to prefer dividend yield over bond yield. While on the surface it would appear that this is a sound argument to prefer S&P dividend yield of 2.5% over a US 10-year yield of 2.5%, the argument requires corporate profitability and economic growth to remain positive. Locally the landscape has altered dramatically, in most part driven by poor macro data. We have warned since before the previous CPI release that with ongoing Rand strength, as well as maize and oil price weakness the risk of a sub 3.5% print was becoming a reality. July's CPI 3.7% marks a second month of significant downside surprise relative to forecast and it has to be warned that this could be a trend going into Q3. The risk of a sub 3% CPI has increased as final demand continues to lag. (While credit extension surprised to the upside the risk is that excessive risks are being taken by some banks on the credit extension side well ahead of an 'all-clear' that the economic downturn is something of the past). The key question then is if the SARB in any way or form will feel pressured by minister Gordhan's recent 'guidance'. Clearly there remains a school of thought that the SARB remains behind the curve. We feel that the MPC is unlikely to take a big-bang approach at this meeting (although let us add that this is probably the risk, rather than a pause), and is more than likely expected to take a measured approach by cutting a further 50bp. The argument goes that at the end of such a pronounced cycle the MPC is likely to wait for as much data as possible before each decision, with the MTBPS outcome likely to be key in terms of a 'Rand announcement' ahead of the November meeting.



The Fund may from time to time invest in a fund managed by a related party. A process is in place to ensure the same selection criteria apply to all funds when selecting the underlying portfolios. PSG Collective Investments or the Fund Manager may negotiate a discount on the fees charged by the underlying Fund Manager. All discounts negotiated are re-invested in the Fund for the benefit of the unit holder. Neither PSG Collective Investments or the Fund Manager retain any portion of such discount for their own account.

Performance (annualised)	1-Year	2-Year	Inception (01/11/2007)
Atlantic Enhanced Income Fund	9.29%	9.82%	9.84%
ALBI 1-3 Total Return	9.11%	9.74%	9.69%

Figures quoted are from ©2010 MoneyMate for the period ending July 2010 for a lumpsum, using Nav to Nav prices with income distributions reinvested.



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