



Atlantic

ASSET MANAGEMENT

Enhanced Income Fund

March 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

The rally in local bonds continued throughout March – driven primarily by 2 factors, namely the improving inflation outlook as well as the continued interest of foreigners in our bonds. As such, in reaching some of our targeted levels, we opted to lock in a portion of the capital gains on our nominal bond holding. In particular, this involved selling our position in the long-dated R186 bond, which as a high duration bond, has added handsomely to the return on the fund over the past few months. While the inflation outlook remains positive, there may still be a further shift downwards, but we are becoming concerned about the sustainability of the shift downwards in yields. As such we would then endeavour to sell our remaining nominal bonds. The key question remains as to what to do with the resulting cash – in particular given the further cut in rates from the SARB, and a possibility of a further cut not out of the question. Cash is certainly not king as far as income investors are concerned! We retain our holding in inflation-linkers, and should nominal rates drop further, inflation breakevens will quite possibly lead us to increase our holding at some point.

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 MARCH 2010: R 1.68bn

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

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: 103.29c

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 Total Expense Ratios (TER) as listed above. For the period from 1st January 2009 to 31st December 2009 on an annualised basis, the percentage above of the average Net Asset Value of the portfolio was incurred as charges, levies and fees. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TER's.

PERFORMANCE (Annualised)

	1-Year	2-Year	Inception (01/11/2007)
Atlantic Enhanced Income Fund	8.65%	10.18%	9.83%
ALBI 1-3 Total Return	8.05%	10.82%	9.82%

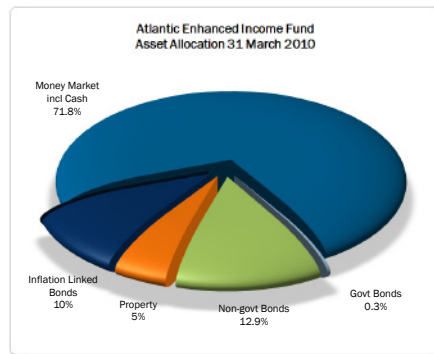
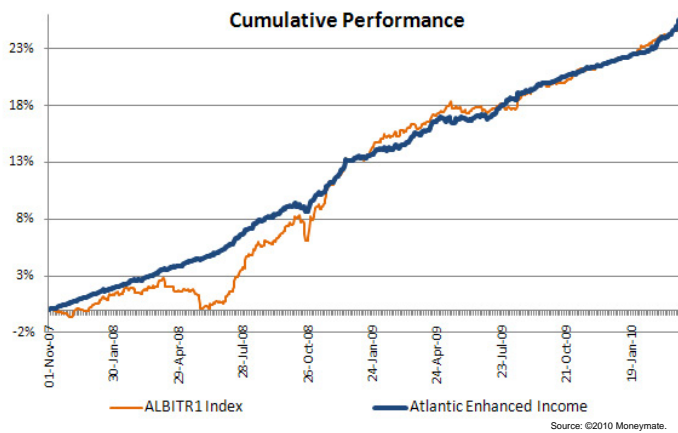
All the performance data is net of fees, includes income and assumes reinvestment of income on a NAV to NAV basis. Source: ©2010 Moneymate.

MARKET OUTLOOK

The move to record low interest rates in March comes as a surprise. In what appears to be a major backtrack of some very direct communications to the broader market, and even in one-on-one discussions with policy makers since Governor Marcus joined, the SARB now appears to be targeting the outright level of the Rand. In a newly-published article in our maiden Quarterly, we argue that this policy action will be of little use in an environment where South Africa, like Brazil and Turkey, is benefiting from a clear asset allocation shift from developed to developing countries. It would be wise to note the fickleness of these flows - on a long-term basis history does not bode well for the fixed income markets with foreigners historically very tactical in their allocation to SA local debt.

Structurally, however, serious impediments in the local economy remain. None more so than capacity constraints, bottlenecks at service delivery level, and extremely low productivity levels against unacceptably-high Unit Labour Costs. South Africa, after experiencing (with some hindsight) a garden-variety recession, is merely benefiting from a cyclical slowdown in inflation. While the jury remains out whether this is potentially a repeat of the pro-cyclical nature of the 2005 rate cutting cycle, the counter-cyclical nature of Australian monetary policy (and an impeccable track record for sound monetary policy we may add), points to heightened risk of policy error for the SARB. While the SARB is clearly trying to effect the level of the Rand, and miserably failing in doing so with Foreign Portfolio Inflows spiking dramatically in the aftermath of the rates decision, and the Rand has rallied roughly 20 cents subsequently.

On the political front we are also concerned on multiple fronts, but importantly on the policy side. The economic cluster in particular is a cause for concern – economic development minister Patel appears to be surrounding himself with a very strongly left-leaning team, and we will have to await further developments for insight as to possible policy shifts.



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Company/scheme: PSG Collective Investments, 1st Floor PSG House, Alphen Park, Constanlia Main Road, Constanlia, 7806. Member of ASISA.