



Atlantic

ASSET MANAGEMENT

Real Income Fund

August 2010 Fund Fact Sheet



PRODUCT

Atlantic's Real Income Fund is an actively managed fixed income fund which aims to deliver inflation beating returns over time. The fund will invest primarily in inflation linked bonds as well as other high yielding fixed income securities. The fund manager may also invest in listed property and a basket of selected equity securities to ensure the targeted return is achieved. The Fund aims to protect investors capital and at the same time generate an inflation beating income stream.

PORTFOLIO MANAGER

Arno Lawrenz B.Sc(Hons), CFA

INVESTMENT OBJECTIVE

The objective of the Atlantic Real Income Fund, as an inflation-themed income fund, is to provide a stable base of income, growing at least in line with inflation, whilst also providing capital appreciation opportunities linked to inflationary trends.

PORTFOLIO POSITIONING AND ACTIVITY

In a fund where Inflation Linkers play such an important role, it is gratifying that finally we have seen some action on this front, with real yields declining rapidly over the month. While this can be ascribed in part to the dramatic shift downwards in nominal yields, as part of a breakeven inflation trade, it is notable also that such demand for Inflation Linkers comes at precisely the time that inflation continues to surprise on the downside. This points again to a sustained search for yield in the local market, as short end rates continue to grind lower, with a rate cut all but expected at the September MPC meeting. Having said that, we are mindful that our positioning in linkers may well shift from being a strategic one to a more tactical one. This of course will be dependent on the relative valuation levels between linkers, money market and nominal bonds. Our preference share exposure and our listed property exposure will also most likely be interlinked with this strategic-to-tactical shift. We highlight again the possibility for the downside as far as monetary policy is concerned, and we are looking for signs of a subtle shift in policy. The local and global search for yield will continue to drive much of the dynamics in these interest rate sensitive assets, and we note that in such an environment it becomes important to manage risk – our aim is to take risk only when appropriate, and not because we feel the need to boost the yield on the fund. Thus, this is not a conservative low risk approach, but it is a prudent and pragmatic one.

This Fund does not hold any international assets

RISK PROFILE: Low-Moderate

BENCHMARK: CPI+3% - Measured over a 1 year period

ASISA FUND CLASSIFICATION:

Domestic – Asset Allocation – Targeted Absolute Real Return Portfolio

LAUNCH DATE: 1 January 2009

DISTRIBUTION FREQUENCY: Quarterly

FUND SIZE AT 31 AUGUST 2010: R 48.2m

DISTRIBUTION PER UNIT:

May '09 1.44 cents per unit

Aug '09 1.20 cents per unit

Nov '09 1.43 cents per unit

Feb '10 1.17 cents per unit

May '10 1.43 cents per unit

Aug '10 1.12 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: 100.55c

TER: 1.26%

MINIMUM INVESTMENT AMOUNT:

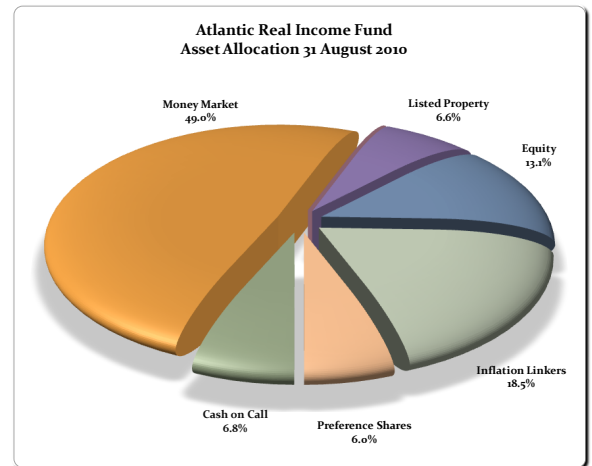
Monthly debit order R250 pm, Single premium R2000 or subject to LISP minimums

INITIAL MAX. BROKER FEE: 1.14% including VAT

The Atlantic Real Income Fund has a Total Expense Ratios (TER) as listed above. For the period from 1 July 2009 to 30 June 2010 1.26% of the average Net Asset Value of the portfolio was 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. 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.

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.



Performance (annualized)	1-Year	2-Year	Inception
Atlantic Real Income Fund	6.28%	No 2 Year History	
CPI + 3%*	6.70%	No 2 Year History	

* Up to 31/07/2010

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



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