



# Atlantic

ASSET MANAGEMENT

## Real Income Fund

### March 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

While Money Market rates have dropped in the aftermath of the unexpected rate cut, they continue to provide positive real yields. In particular, 12 month rates at around 7.25%, while historically low, continue to offer good real yields in the income space over the short term. As such, we retain a sizeable element of Money Market instruments in the fund. The challenge however remains to position the fund for the longer term. As such given the risks, as well as the pricing we have already increased our inflation linked bond exposure to a position closer to our neutral position of 25%. In addition, we remain positive about the prospects for the equity markets given the still accommodative global monetary policy stance. Valuations remain in a challenging space, but the search for yield and return will continue. As such our equity component, including property is at the highest level since inception, having added to some counters. We are cognisant of the potential for volatility going forward, but confident that with the current structure, in a declining inflation environment, is suitably positioned.

**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 MARCH 2010:** R 55.8m

**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

**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:** 97.90c

**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 or subject to LISP minimums

**INITIAL MAX. BROKER FEE:** 1.14% including VAT.

**MANAGEMENT COMPANY:** PSG Collective Investments Limited

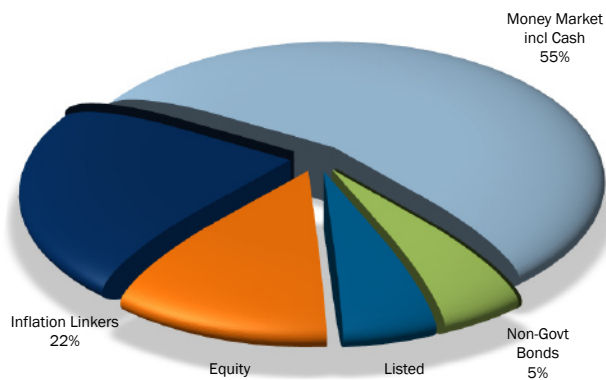
#### MARKET OUTLOOK

The shift on market expectations as far as inflation is concerned continues, but 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. From an inflation outlook perspective, this would be a serious risk to the upside from current low levels.

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 and their implications.

Atlantic Real Income Fund  
Asset Allocation 31 March 2010



#### PERFORMANCE (Annualised)

|                           | 1-Year | 2-Year            | Inception |
|---------------------------|--------|-------------------|-----------|
| Atlantic Real Income Fund | 6.57%  | No 2 Year History |           |
| CPI + 3%*                 | 8.66%  | No 2 Year History |           |

\* Up to 28/02/2010

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



Atlantic Asset Management Pty (Ltd)

Address Suite 243, Private Bag X22, Tygervalley, 7536  
Tel +27 (0)21 913 8941 Fax +27 (0)21 913 9205  
Email info@atlanticam.com  
Web www.atlanticam.com



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