

Adviser Choice



Investec Absolute Balanced Fund

As at 31 March 2011

Market review

Equity markets performed well during the quarter considering the negative headwinds, which in preceding years would have resulted in sharp falls in risk appetite. Developed markets (4.9%) outperformed the emerging market composite (2.1%), despite a 9% drop in Japanese equities in March and a 6% weaker close over the quarter.

Local equities mimicked global market volatility, recovering January's losses and ending the quarter marginally higher (1.1%). Resource counters performed best, with Sasol, the only oil & gas producer constituent in the index, rising 13.1%. Diversified miners closed 3.2% higher while paper stocks added 15.5% over the period. Platinum stocks lost 10.5%. Both the industrial and financial sectors underperformed the broader market, closing down 0.3% and up 0.7%, respectively. Again, there was substantial dispersion amongst the various sub-sectors, with construction (-25%), food producers (-4.3%) and pharmaceuticals (-11.5%) underperforming, while mobile telecommunication (3.9%), life insurance (6.4%) and industrial metals (14.5%) enjoyed strong returns.

Local bonds traded weaker over the quarter, with the All Bond Index losing 1.6%. The yield curve has continued to steepen, while inflation concerns both globally and at home have been more pervasive. The firm rand has offset gains in oil prices for now, while food prices, rising at producer level, have not been passed on to consumers. Listed property, highly sensitive to the bond market, also gave up some of its 2010 gains, closing 2.2% weaker. Commercial property fundamentals remain under pressure, though highly dissimilar across regions and asset type. A recovery in growth, coupled with a lagged onset of new supply, will lend support to the market over the next year. Cash, as measured by the STeFI, provided a steady 1.4% over the quarter.

Portfolio review

Despite the trouble in North Africa, the earthquake and tsunami in Japan, the latest unfolding episode of the European debt crisis, worldwide inflationary fears and a clear intent by China to cool its overheating economy, the SA equity market was still higher over the quarter. The Investec Absolute Balanced Fund's largest exposures are to gold and Sasol. Given the strong advance made by the price of oil to over \$120 per barrel, Sasol's share price has moved higher. The rand price of gold advanced 3% over the period, despite the dollar gold price losing slight momentum, as global equity markets improved. The uncertain world continues to produce interesting winners. British American Tobacco has performed well this year. Robust brands, strong pricing power, distribution scale, and limited input cost inflation are being incrementally rewarded by the stock market.

One key holding that has not yet added any value to the fund is Naspers' ex-Tencent position. This exposure effectively allows investors access to the cash generative, high margin pay TV assets on ten times earnings, at least 50% below the fair value of these assets.

Portfolio positioning

What started as a riot against rising food prices and continued income inequality in Tunisia, rapidly spread to oil-producing countries in North Africa. A good reason for a higher oil price is rising oil demand fuelled by a stronger global economy. A bad reason is supply disruption, which is currently the dominant factor. If Saudi Arabia experiences a social revolution, the world could lose more than 10% of global oil supply with the price spiking to well over \$150 per barrel. This of course, will be the tipping point that causes the global economy to stall, as consumer demand for other goods gets squashed. In the interim, the best hedge against further turmoil in the oil price is a large Sasol position, which we still hold in the portfolio. Overall, any rising inflation trend will be matched by rising short-term interest rates, which should provide a good carrier for the future performance of the fund.

Collective investment schemes in securities (unit trusts) are generally medium to long term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Forward pricing is used. Quantifiable deductions are the initial fee whilst non-quantifiable deductions included in the net asset value price may comprise brokerage, MST, auditor's fees, bank charges, trustee and custodian fees. Commissions and incentives may be paid and if so, would be included in the overall costs. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. If required, the portfolio manager may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accrued and less any permissible deductions from the portfolio. Different classes of units apply to the fund and are subject to different fees and charges. Fund valuations take place at approximately 16h00 SA time each day. Purchase and repurchase requests must be received by the Manager by 16h00 SA time each business day. Performance figures are based on lump sum investment (if applicable). This portfolio may be closed in order to be managed in accordance with the mandate (if applicable). Please note that with effect from 1 February 2009 the annual management fee on B class units increased by 0.285% (incl. VAT). The risk profile is a measure of volatility, i.e. how the absolute return of the fund varies. Note that there are other risks in the fund, which are not reflected in this rating. * The TER shows the percentage of the average Net Asset Value of the portfolio that was incurred as charges, levies and fees relating to the management of the portfolio. A higher TER ratio does not necessarily imply poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of the future TERs.

A copy of our performance fees FAQ is available at www.investecfunds.co.za. Investec Fund Managers SA Ltd is a member of the Association for Savings & Investment SA.

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Asset Management