

Adviser Choice

Investec Absolute Income Fund

As at 30 June 2010



Investment objective

The Investec Absolute Income Fund targets inflation-beating returns measured over two year periods, while actively managing downside risk.

Strategy

The fund may invest in the full range of South African fixed-income assets. These include government, corporate and inflation-linked bonds as well as listed property and cash. Non-government bond exposure is currently limited to 25%. The fund aims to achieve its performance by identifying investment opportunities across the interest rate spectrum. Significant portions of the portfolio are protected from negative returns using financial instruments such as bond index futures and options (purchased only). The aim is to preserve capital in the event of a downward move in the market.

Fund features

- Strong focus on capital preservation and absolute returns
- Low probability of negative returns over six month periods
- Adds value regardless of the direction of interest rates
- Compelling alternative to money market and smoothed bonus funds
- A conservative investment solution for investors seeking capital preservation over the short term

Performance

Monthly performance % (A Class, net of fees)

	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2003	-	-	-	-	-	-	4.5	0.9	1.0	1.1	0.7	0.4	8.9
2004	0.7	0.7	0.7	0.7	0.7	0.5	0.6	0.7	0.6	0.5	0.8	0.6	8.1
2005	0.6	0.6	0.7	0.5	0.8	0.7	0.6	1.0	0.7	0.6	0.4	0.9	8.4
2006	0.8	1.0	1.0	0.4	0.4	0.3	0.6	0.8	0.5	0.8	0.7	0.7	8.3
2007	0.7	0.8	0.7	0.7	0.5	0.5	0.6	0.7	0.9	0.8	0.3	0.5	8.0
2008	0.5	0.8	0.8	0.8	0.6	0.7	2.9	1.2	0.8	-0.1	1.8	1.5	13.0
2009	1.0	0.4	0.8	0.9	0.6	0.5	0.8	0.7	0.6	0.6	0.5	0.7	8.5
2010	0.5	1.0	1.2	0.8	0.2	0.5							4.3

Risk and return

Historic performance

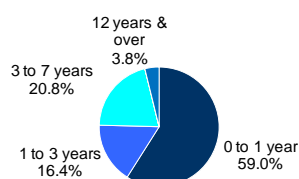
Cumulative returns	1 year	3 years	5 years	Since incep.
Investec Absolute Income Fund A	8.4%	32.6%	55.2%	89.6%
Investec Absolute Income Fund B	8.4%	33.1%	56.7%	92.8%
Headline CPI*	4.6%	25.3%	38.8%	51.1%
STeFI	7.5%	32.3%	53.4%	78.9%

Annualised returns	3 years	5 years	Since incep.
Investec Absolute Income Fund A	9.8%	9.2%	9.6%
Investec Absolute Income Fund B	10.0%	9.4%	9.8%

Source: Investec Asset Management, Morningstar, NAV-NAV, Gross Income Reinvested. * Headline CPI (for all urban areas) but CPI-X for periods before 1/1/2009, lagged by a month.¹ Standard Deviation: Measures the volatility of investment return. The higher the standard deviation, the more volatile the fund's returns are. ² Sharpe Ratio: Measures the risk adjusted return of a unit trust fund compared to the risk-free rate of return (money market return).

Asset allocation

Duration distribution



Fund and risk statistics

Income yield	7.87%
3 Year Volatility (standard deviation) ¹	1.7%
3 Year Sharpe ratio ²	-0.13
Maximum drawdown (3 years)	-0.1%
Number of negatives months	1
Positive months (since launch)	98.8%

Breakdown of asset allocation

Asset class	Percentage
Bonds	46.2%
Bond Derivatives	-13.2%
Net Bond Exposure	33.0%
Property	4.0%
Money Market & Equivalent	37.3%
Floating Rate Notes	25.7%
Inflation Linked Bonds	0.0%
Total	100%

Risk profile

Low	Low-Mod	Mod	Mod-High	High
●				

Key Facts

Portfolio manager: Malcolm Charles & John Stopford
Launch date: 1 July 2003
Sector: Domestic FI Varied Specialist
Size of fund: R2.3 billion
Benchmark: Headline CPI+3% pa (under current market conditions) measured net of fees over 2 years
Minimum investment: R10 000 lump sum or R500 monthly debit order

Fees

	A Class	B Class
Initial fund fee	0%**	0%**
Initial Adviser fee	0.60%*	0%
Annual management fee	1.00%	1.00%

*Negotiable
Fees are shown excluding VAT

Total expense ratio (TER)*

The TERs for this fund are listed below.

	A Class	B Class
TER	1.14%	1.14%

TERs shown are including VAT

Income distribution

Income distribution dates

March, June, September, December

Previous income distribution for 3 months to 30 June 2010

A Class: Interest distribution 2.07cpu
B Class: Interest distribution 2.06 cpu

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To find out more about this and other

Investec Fund Managers Funds, visit

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

Out of the Ordinary[®]

 **Investec**
Asset Management

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Market review

In May the markets were spooked by the possibility of sovereign default by the one of the PIIGS (Portugal, Ireland, Italy, Greece and Spain). The ensuing risk aversion led to a sharp sell-off in the euro and other risky assets. Governments in Europe responded by promising to cut deficits, which would further jeopardise the recovery. The local bond market sold off on the back of the softer currency and weak emerging markets in general, but by the end of the month bonds had bounced off their worst levels. Over the quarter, longer-dated bonds underperformed cash, while shorter-dated bonds fared better, matching cash returns.

The All Bond Index returned 1.1% over the quarter, while cash gained 1.7%. Listed property rose 0.6% over this period. Year to date, listed property remains the best performing asset class (10.6%).

Portfolio review

The portfolio's returns over the second quarter were ahead of the All Bond Index, but lagged cash. Economic data released at the beginning of the quarter pointed to a strong recovery, with the Purchasing Managers Index well above 50 and vehicle sales growing at a +30% rate on a year-on-year basis. However, as time passed activity data started to moderate. Credit growth has stabilised but remains relatively weak, raising concerns about the sustainability of the recovery. The South African Reserve Bank kept interest rates at record lows, signalling that it is more concerned about the strength of economic growth than any upside risk to inflation posed by wages or administered prices.

Fundamentals for the bond market remain sound. Inflation is surprising on the downside and the fiscal picture is improving with expenditure coming in below budget. The release of the South African Reserve Bank's Quarterly Bulletin revealed a strong bounce in household consumption, underpinned by robust real income growth. Fixed investment was weak, but the economy is forecast to grow by around 3.2%.

Portfolio activity

The market has largely been driven by foreign investors as they must invest the capital flowing into dedicated local emerging market debt funds. However, the wave of buying has not been without its hiccups as sentiment and risk appetite have varied greatly. During the quarter we increased the portfolio's exposure to bank credit and in particular to bank floating rate notes.

Portfolio positioning

The theme for the bond market remains unchanged; rates will stay lower for longer. Not only are local fundamentals supportive, but the shaky fiscal position of developed markets is resulting in large flows into emerging market assets. Yields on South African bonds stand out as being particularly high when compared to other emerging markets of a similar credit rating. This should help South Africa attract its fair share of portfolio flows.

Corporate bond yields have compressed significantly relative to government bonds, but still offer attractive returns. We will maintain our investments in these assets for now. The portfolio is conservatively positioned owing to its capital preservation bias. We think bonds will provide a reasonable return owing to their yield advantage over cash.