



Adviser Choice

Investec Global Balanced Feeder Fund

As at 31 March 2011

Market review

Equity markets continued to advance over the quarter, with the MSCI All Countries World Index returning 4.4% in US dollar terms. The MSCI Emerging Markets Free Index returned 2.1%, and the MSCI Asia ex Japan Index 1.2%, both in US dollars. Smaller companies performed broadly in line with the major indices; the HSBC Index returned 4.8% in US dollars.

Despite a mid-quarter dip, yields on 10-year government bonds rose to 3.47% in the US, 3.69% in the UK, 3.35% in Germany and 1.25% in Japan. The 45 basis point rise in German yields was the most marked. Yield spreads relative to Germany rose to new peaks in Greece, Portugal and Ireland. They dipped in Italy and Spain, although actual yields rose markedly. Spreads on investment-grade corporate and high yield bonds rose during the equity correction but fell at the end of the quarter, resulting in positive US dollar returns, while returns from emerging market debt were also positive. The return on the Citigroup World Government Bond Index was 0.7% in US dollars.

Portfolio review

The Investec Global Balanced Feeder Fund had a good quarter, with global equities making a strong contribution to returns. The fund gained 4.5% in rand terms over the review period.

Portfolio positioning

Despite all the shocks, concerns and uncertainties in the first quarter, global equities still returned 4.4%. Annualised, this would produce a return of 18%, in line with our forecast of high-teens returns for the year. Markets are bouncing back from a mild setback, yet investors are hunting for reasons to ignore the improving trend. With strong earnings growth, modest valuations and under-invested institutional and private investors, we think it will take at least one significant new shock to prevent equities rising further in the second quarter and over the rest of the year. On the positive side, growth in corporate earnings is likely to continue to exceed forecasts with margins in developed markets unlikely to peak until unemployment has fallen substantially, while the relative performance of emerging markets is recovering strongly from its recent setback.

Government bonds have performed better than we expected, even though developed market yields have risen, particularly in Europe. Corporate bonds, especially high yield bonds, Asian government bonds and emerging market debt have delivered satisfactory returns, enabling us to produce reassuringly positive returns from bonds overall. The outlook for bond returns may be only modest, but we believe claims that a bubble in valuations is about to burst is far too alarmist. Our scepticism at the start of the year about the prevailing bearishness of the yen and euro relative to the US dollar has been broadly vindicated; we now expect the yen to rally. We anticipate that current affairs will bring more to worry about in the rest of the year, but investment markets, especially equities, should continue to produce solid returns.

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