

Adviser Choice

# Investec Opportunity Income Fund

As at 31 March 2011



## Market review

The bond market started the year on the back foot as inflation fears drove yields higher. The yield curve also steepened due to foreign selling and large government issuance going forward. The political uprising in North Africa and the Middle East pushed oil prices higher, compounding inflation fears.

The South African Reserve Bank (SARB) left rates unchanged and revised its inflation forecast upwards. The short end of the market moved from pricing in a possible further rate cut to expecting the first rate hike by as early as July this year. The rand weakened aggressively in January as local institutions increased their foreign investments in line with the new guidelines set by the SARB. At the same time, the Reserve Bank was very active in accumulating foreign reserves. The local unit was the weakest emerging market currency over that period, depreciating to R7.33 against the US dollar.

The national budget, announced in February, was also disappointing. The budget deficit for the next three years widened slightly and there appears to be little improvement in the amount of issuance. Revenue for the year going forward was revised down. This might turn out to be a conservative estimate, but remains a negative for now. After a poor return of -2.1% in January, the bond market is slowly trying to claw its way back. The All Bond Index returned -1.6% over the first quarter of the year.

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

The Investec Opportunity Income Fund managed to avoid most of the negative bond market returns and finished the quarter ahead of the All Bond Index. This was achieved by limiting exposure to the longer end of the curve and increasing the overall exposure to higher yielding corporate bonds. We continue to switch the bond exposure out of fixed rate bonds into floating rate bonds in order to maximise the yield without having the interest rate risk. We added some duration to the portfolio at the higher yields and will reduce this into any subsequent rallies.

## Portfolio positioning

Foreigners are once again adding exposure to our higher yielding bonds. We will need to see these flows sustained in order to regain all the lost ground, as local fund managers remain negative on the market. The SARB has slowly started to prepare the market for a change in interest rates and we are likely to see the first hike in November, but it could be as early as September if global oil and food prices continue to move higher.

The global environment remains fluid as Europe considers rising inflation and debt problems in the southern region. Each month has seen another country apply for a bail-out package. The US is continuing with quantitative easing, which is weakening the US dollar and putting pressure on most emerging markets as their currencies strengthen. Various forms of intervention have been tried, with no success. The European Central Bank is expected to hike rates as early as April, followed by the Bank of England in May. The US Federal Reserve is likely to delay raising interest rates to the fourth quarter of 2011. This disparity has further weakened the US dollar and the rand has recovered its losses from earlier in the year.

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 accrual 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 TER.  
A copy of our performance fees FAQ is available at [www.investecfunds.co.za](http://www.investecfunds.co.za). Investec Fund Managers SA Ltd is a member of the Association for Savings & Investment SA.

Out of the Ordinary®

Investec  
Asset Management