

## PORTFOLIO MANAGER COMMENTARY

Whereas the calendar year started slowly for equity markets around the world, the month of March brought lots of joy. This resulted in respectable returns being produced by these markets over the first three months of 2010. The South African equity market was up 4.5% over the period, with bonds performing strongly to produce 4.4%. Listed property returned 9.9% and preference shares 7.8%, while inflation-linked bonds showed virtually no return over the period. The rand strengthened by 1.5% over the quarter against the US dollar, and by a whopping 6.7% against the euro. The MSCI World Index returned 3.4% since the start of the year, with developed equity markets actually outperforming emerging markets for the first time since the rebound started. Within developed markets Japan and the United States outperformed Europe by some margin.

The fund returned 4.34% for the past three months, slightly ahead of the benchmark. The fund benefited strongly from the rebound in risky assets over the last 12 months, returning 31.6%, with the 5-year number being 15.1% per annum and the since inception number 18.8% per annum.

Our heavy weighting in domestic equities contributed strongly, but more important was the very strong performance from our stock selection over the last three months. Longer-term equity selection also contributed strongly. Our positive view on domestic inflation linkers has not paid off yet, but we strongly remain of the view that this will prevail over the medium term. The fund now has 8% exposure to these instruments and we continue to add to this position at the right prices.

Once again our decision to have almost 20% of the fund's assets in offshore assets has worked against the fund in the short term, given the strong performance from the rand. Our offshore investments performed strongly in dollar terms. During this period we have consolidated our offshore investments into pooled vehicles to improve the focus of these investments. We remain of the view that it is very appropriate for a fund of this nature to retain maximum offshore exposure for purposes of diversification as well as increasing the investment universe.

Within the domestic equity sector strong performers over the last three months include Remgro, Mondi, Woolworths, Standard Bank, AVI, Tiger Brands, BAT, and Exxaro. A very pleasing outcome was the fact that we had very few detractors amongst our equity holdings; the only ones of significance were MTN (our biggest holding where we retain our positive long-term view) and Anglogold.

The property holdings, whilst small, added positively to overall performance. Some of our corporate inflation-linked bonds performed well as credit spreads contracted. As noted above, our international holdings performed well in dollar terms.

Investors around the world are embracing risk again. Whereas the economic outlook for many of the troubled economies has improved over the last few months, one has to be wary in terms of how much of this good news has already been priced into financial markets. We have already bought quite a number of put options against the equity holdings in the fund. We have also introduced written call options on some of our equity holdings where we think the upside has reduced as a result of price action. We will continue to be true to the absolute return objectives of the fund in our future dealings.

**Portfolio managers**

Louis Stassen & Henk Groenewald