

## PORTFOLIO MANAGER COMMENTARY

The global economy continues its recovery in almost all regions as inventories are being rebuilt from extremely depleted levels. The increased economic activity has contributed to rising consumer and business confidence.

Financial markets, buoyed by the better economic news, have continued the strong recovery which started in March 2009 with a further surge in the first quarter of the 2010. Interest rates are still extraordinarily low in the developed world, prompting asset managers to look for higher returns in the emerging world. Emerging currencies, including the rand, therefore also remain firm supported by these massive portfolio flows.

The South African economy is also on the recovery road with most recent data releases surprising on the positive side. Inflation has moved back into the target range and the South African Reserve Bank saw it fit to cut the repo rate by a further 50 basis points in late March. Following an expansionary budget tabled in February, economic policy should be supportive of the economy in the year ahead.

Looking at the better macro economic news some investors may think now is the time to increase exposure to growth assets. But asset prices have run ahead in anticipation of the better times and we do not think valuations are attractive enough to warrant adding more risk to the portfolio at this stage. From an asset allocation point of view our total exposure to 'risk' assets is 30%. That comprises domestic equities at 18%, global equities at 8% and listed property of 4%. We are therefore below our self imposed 40% limit but find it an appropriate weighting considering where current valuations are.

In the interest bearing portion of the fund domestic cash has been reduced to a comparatively low 24%. Bonds have been increased to 35% which includes 15% in inflation-linked bonds. Although inflation is more likely to surprise on the downside this year, our concern is over the longer term. Positive factors such as the strong rand and low global prices for maize and other grains will not last indefinitely and when it changes inflation will rise again. The average real yield at which the inflation linkers were purchased is 4.45% - a very attractive real yield in our view.

The return of the fund for the quarter is 3.06%, for the last 12 months 16.32% and for the past three years 9.18% per annum. It is one of the top performing funds in the prudential low equity category in which it competes.

Investment flows into the fund has been very strong allowing the fund to grow from R1.03 billion at the end of 2009 to R1.5 billion at the end of March 2010.

**Portfolio managers**

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