

Absa Balanced Fund

31 July 2014

Fund facts

| | |
|---------------------------------|---|
| Industry category | SA - Multi Asset - Medium Equity |
| Performance target | CPI + 5% p.a. over rolling 60 month periods |
| Inception date | 1 June 1994 |
| Fund size | R 2,7 billion |
| JSE code | ABBF |
| Fund manager | Errol Shear - B.Bus.Sc. (Finance) (Hon), CA (SA), CFA |
| Asset management company | Absa Asset Management (Pty) Ltd |

Fund details

| | |
|------------------------------------|-----------------------|
| Minimum lump sum investment | R 2 000 |
| Minimum monthly debit order | R 200 |
| Income declaration | 30 June & 31 December |
| Income distribution | 15 July & 15 January |

Top share holdings (%)

| | |
|-----------------------------------|------|
| Sasol Ltd | 3.32 |
| Anglo American Plc | 3.01 |
| Compagnie Financiere Richemont SA | 2.64 |
| Standard Bank Group Ltd | 2.41 |
| BHP Billiton Plc | 2.18 |
| Barclays Africa Group Limited | 1.86 |
| British American Tobacco Plc | 1.76 |
| SABMiller Plc | 1.73 |
| Remgro Ltd | 1.71 |
| Woolworths Holdings Limited | 1.68 |

Performance: total return(%)

| Term | Absa Balanced Fund R | Absa Balanced Fund B | Benchmark* | Sector Average | Rank |
|-----------------|----------------------|----------------------|------------|----------------|-------|
| Since inception | 12.67 | 11.86 | 11.28 | 11.37 | 1/1 |
| 1 year | 16.77 | 15.15 | 11.61 | 15.90 | 17/54 |
| 3 years | 14.43 | 12.79 | 10.89 | 14.33 | 22/44 |
| 5 years | 13.62 | 12.00 | 10.36 | 13.17 | 12/40 |

Note: R class returns used, the sector average and rank only applies for the R Class
 *Figures are annualised, *CPI one month lag Source: Morningstar

Risk statistics

| Additional information | Data since January 2000 |
|------------------------------|-------------------------|
| Number of positive months | 122/175 |
| Sharpe ratio* | 0.54 |
| Maximum rolling 3 month gain | 15.56% |
| Maximum rolling 3 month loss | -9.54% |

*Risk Free Rate used: 7.99%

Income distributions

| | |
|---|------------|
| Income distribution for the 6 months ended 31 Dec 2013 | 7.05 c.p.u |
| Income distribution for the 6 months ended 30 June 2014 | 6.03 c.p.u |

Fund objectives

The fund aims to offer investors a consistent return of 5% above inflation as measured by the SA Consumer Price Index over rolling 60 month periods. The fund will use an active asset allocation strategy by investing in selected JSE listed shares, quoted property trusts, bonds, money market and international assets. The equity content may range from 40% to 65%. The fund is managed according to the guidelines as set out in Regulation 28 of the Pension Fund Act and is suitable for retirement funds investments.

Risk profile and advisable minimum term

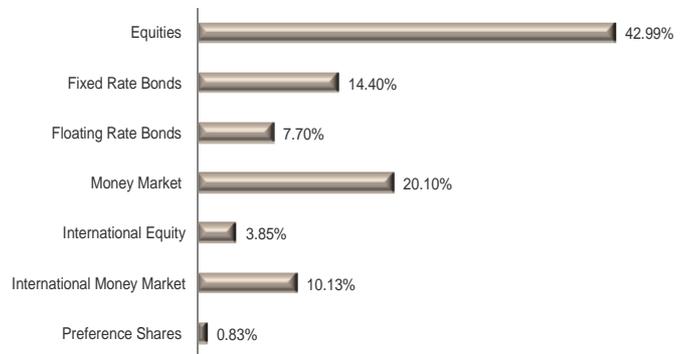
| Low | Low-Medium | Medium | Medium-High | High |
|------------|------------|-----------|-------------|-----------|
| | | X | | |
| 3 Months + | 6 Months + | 2 Years + | 3 Years + | 5 Years + |
| | | | X | |

Fees and total expense ratio (VAT incl.)

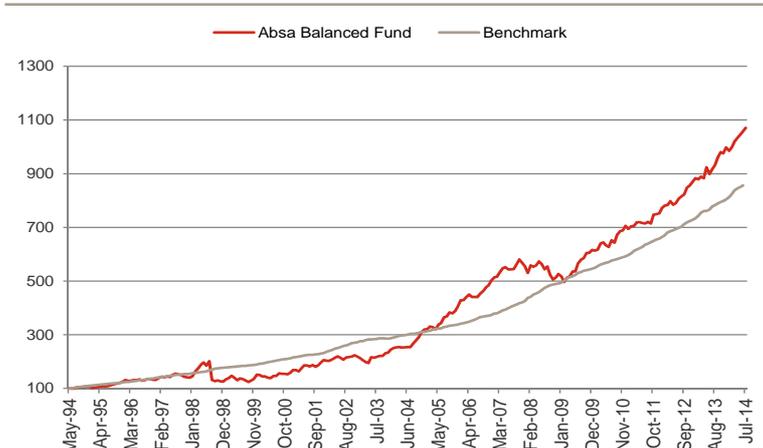
| | Class A | Class B |
|-------------------------------|-----------|---------|
| Initial fees: | | |
| Absa Fund Managers: | 0% | 0% |
| Adviser: | 0 - 3.42% | 0% |
| Annual management fee: | | |
| Adviser: | 1.71% | 2.62% |
| | 0 - 1.14% | *N/A |
| Total expense ratio: | 1.72% | 2.63% |

*Adviser on-going fee is included in the annual management fee and it varies according to the platform through which the investment is done

Asset allocation



Cumulative performance since inception*



*Index performance of Fund & Benchmark based to 100 at inception of fund

Note: This graph is net of fees.
Source: Morningstar

Quarterly fund commentary as at 30 June 2014

Though market conditions have been challenging over the past few years, we constantly stress the importance of investing with a longer-term perspective. The Absa Balanced Fund has returned 14.5% p.a. over the last 5 years, 13.9% p.a. over the past 3 years and 17.6% over the past year.

The ALBI gained 2.5% in the 2nd quarter of 2014. The Rand ended the quarter only slightly weaker against the dollar, the euro and the pound. As we have previously pointed out, history has shown that the Rand can both strengthen beyond consensus expectations, and also sell off strongly in a short space of time, particularly when sentiment of foreign investors towards South African financial assets turns negative.

The FTSE/JSE All Share Index continued to strengthen during the 2nd quarter of 2014, returning 7.2% and hitting a new all-time high of 51 322 on 20 June 2014. The strong performance of the stock market contrasts with the dismal performance of the South African economy. GDP growth in SA for the first quarter of 2014 was a negative 0.6 % (quarter on quarter, seasonally adjusted), with Mining down 24.7% and Manufacturing down 4.4%. The second quarter should show some small improvement from this low base, notwithstanding strikes in major sectors. However the South African Reserve Bank has made further cuts to its growth forecasts, now at 1.7% for 2014 (from 2.1%) and 2.9% for 2015 (from 3.1%).

This pattern of strong equity markets and weak economic news was not unique to South Africa. The S&P 500 Index in the USA rose by 4.7%, notwithstanding USA GDP being revised down sharply from an initial estimate of +0.1% to -2.9% for the first quarter. Bad weather, which disrupted production, construction and shipments, was partly to blame. There is an expectation of a much better 2nd quarter, though this also has been revised down from earlier more optimistic estimates. What has boosted the US stock market has been the unexpected fall in USA bond rates. The US 10 year government bond rate fell from 3.03% at 31 December 2013 to 2.49% at 30 June 2014. Consensus forecasts earlier this year were for the US 10 year government bond rate to rise to above 3.50% in 2014.

In addition to disappointing economic figures, global political tension has risen, with military skirmishes in Ukraine, Syria and Iraq. Stock markets have generally ignored the increase in political tension, with risk, as measured by the USA VIX index, reaching a 7 year low of 10.6 on 18 June 2014.

The South African equity market is fairly expensive, both compared to its own history and other emerging markets. Therefore there must be some risk of a market correction and the equity content of the Fund is lower than usual. As long-term investors, we constantly remind ourselves neither to become too flustered nor too excited by short-term fluctuations in share prices. We continue to focus on stocks that are trading at parity (or at a discount) with the market at large, yet have higher earnings and dividend yields, strong business franchises and balance sheets, and better visibility of cash flows, and we continue to keep our equity exposures to companies where we are comfortable with future earnings prospects.

DISCLAIMER

The Absa Balanced Fund is a medium risk fund. No initial fee is charged but investments through intermediaries could require a commission of up to 3.42% (VAT Incl.). An annual service charge of 1.71% (incl. VAT) against the assets of the fund will be calculated and accrued daily. Ongoing advice fees may be negotiated to a maximum of 1.14% (incl. VAT) per annum, charged by a way of unit reduction and paid to the Financial Adviser monthly in arrears. This annual advice fee is not part of the normal annual management fee. The Absa Balanced Fund requires a minimum balance of R2000. 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. The investment return is not guaranteed and is dependent on the performance of the underlying instruments. Forward pricing is used. 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. Income is distributed half-yearly and any income may be paid out into an account as nominated by the investor or be represented by additional units. All requests for transactions received on or before 16:00 every day will be traded at ruling prices and valued after 16:00 on that day. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. This Fund may be closed to new investments. The Fund Manager may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Foreign and/or local interest and dividends as well as foreign currency movements and interest distributions affecting capital may be fully taxable under current legislation. This Fund may invest in Financial instruments. Figures quoted are from Morningstar, for the period ending 31/07/2014, using NAV-NAV prices, with income distributions reinvested and figures quoted are net of fees. This product is not for sale to USA persons. The Total Expense Ratio (TER) is expressed as an annualised percentage of the charges, levies and fees incurred by the portfolio related to its management, for the period from 1 July 2013 to 30 June 2014, against the average NAV of the portfolio over this period. A higher TER does not necessarily imply a poor return, nor does a lower TER imply a good return. The current TER cannot be regarded as an indication of future TER's. Consult the Management Company for details. Absa Fund Managers is a member of the Association for Savings and Investment SA.

Contact details

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