

Absa Bond Fund

31 July 2014

Fund facts

Industry category	SA - Interest Bearing - Variable Term Bonds
Performance target	BESA All Bond Index
Inception date	14 May 2002
Fund size	R 277,5 million
JSE code	ABBA
Fund manager	James Turp - B.Econ, SAIFM
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	31 March, 30 June, 30 September & 31 December
Income distribution	15 April, 15 July, 15 October & 15 January

Top holdings (%)

R209 6.25% 310336	16.61
R186 10.5 21122026	10.63
R208 6.75% 31032021	8.36
FRX26 9.50% 011026	5.44
SBS19 10.18% 230621	5.40
FRX 10.75% 10122024	4.72
ES33 7.5% 15092033	4.27
AA07 9.49% 15082021	3.73
R214 6.6% 28022041	2.80
ES26 7.85% 02042026	2.39

Performance: total return(%)

Term	Absa Bond Fund A	Absa Bond Fund B	Benchmark	Sector Average	Rank
Since inception	9.67	8.96	10.29	9.69	11/11
1 year	6.82	5.50	7.22	6.98	13/19
3 years	7.73	6.40	8.53	8.36	16/18
5 years	8.62	7.28	9.40	9.31	16/18

Note: the sector average and rank only applies for the A Class
 *Figures are annualised Source: Morningstar

Risk statistics

Additional Information	Fund since inception
Number of positive months	101/146
Sharpe ratio*	0.32
Maximum rolling 3 month gain	10.50%
Maximum rolling 3 month loss	-6.57%

*Risk Free Rate used: 7.63%

Income distributions

Income distribution for the 3 months ended 30 Sept 2013	2.08 c.p.u
Income distribution for the 3 months ended 31 Dec 2013	1.94 c.p.u
Income distribution for the 3 months ended 31 Mar 2014	1.83 c.p.u
Income distribution for the 3 months ended 30 June 2014	1.95 c.p.u

Fund objectives

The fund aims to offer investors medium to long-term return, capital and income growth by exploiting anticipated changes in the pattern of interest rates. The fund invests in interest bearing securities of differing terms to maturity, taking into account changes in interest rates, credit risk and liquidity.

Risk profile and advisable minimum term

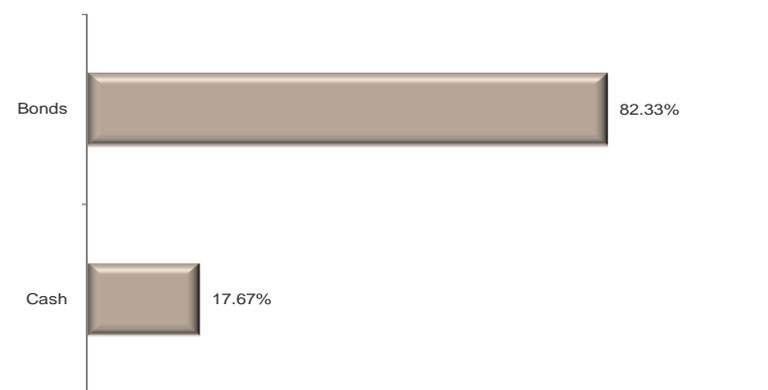
Low	Low-Medium	Medium	Medium-High	High
	X			
3 Months +	6 Months +	2 Years +	3 Years +	5 Years +
		X		

Fees and total expense ratio (VAT incl.)

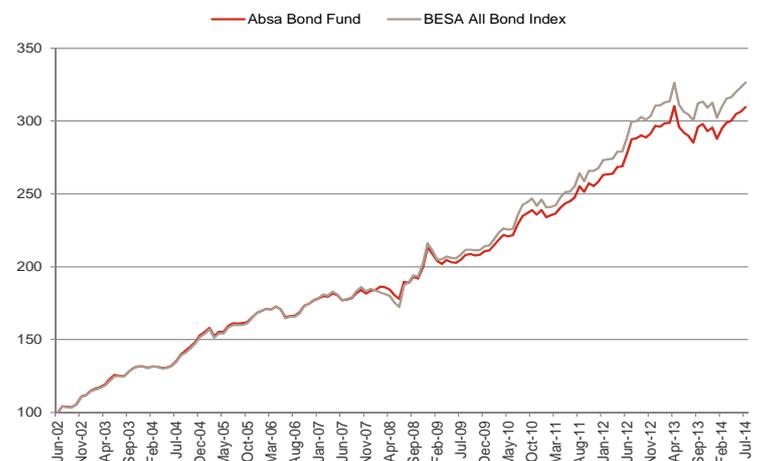
	Class A	Class B
Initial fees:		
Absa Fund Managers:	0%	0%
Adviser:	0 - 3.42%	0%
Annual management fee:		
Absa Fund Managers:	0.86%	2.11%
Adviser:	0 - 1.14%	*N/A
Total expense ratio:	0.87%	2.12%

*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

The ALBI gained 2.50% for the 2nd quarter as the belly outperformed the rest of the yield curve. The respective returns were: 1-3 year +1.80%, 3-7 year +2.90%, 7-12 year +2.90% and 12+ years +2.10%.

Inflation linked bonds outperformed over the quarter gaining 5.9% while cash returned just 1.45% over the period.

The US Federal Reserve Banks tapering of its monthly bond buying programme continued for the period as expected and should be concluded in October 2014. US Treasury yields were buoyed for the quarter as disappointing negative 1st quarter GDP growth supported maintaining the forward guidance for a sustained period of low interest rates. US 10 year treasury bond yields dipped from 2.80% to 2.50% over the quarter. US employment data has been steadily improving and the Fed will accelerate the timing of interest rate policy normalisation should this positive trend continue. The US Federal Reserve is expected to begin increasing interest rates during the second half of 2015.

The European Central Bank in an attempt to increase inflation cut the interest rate on bank funds to -0.1% for the first time at its June meeting and introduced quantitative easing stimulus by way of cheap four year loans to banks (starting in September) provided the credit finds its way to the private sector. The European Central Bank is willing to move further if necessary. These steps have supported emerging market yields.

This low US yield environment and forward guidance has supported emerging market yields although increasing geopolitical risks in Ukraine and Iraq have created intermittent volatility during the period and are cause for concern.

The domestic economy contracted by 0.6% for the 1st quarter mainly due to the prolonged strike in the platinum mining sector. Consumer inflation increased to 6.6% in May above the 6.0% ceiling of the target range as the weaker currency effect continues to materialise in the basket. The repo rate was left unchanged in May but Reserve Bank guidance maintains that we are in a hiking cycle and that positive real rates are required and for South Africa to be adequately positioned for the US rate normalisation. The dilemma of low growth versus high inflation has reduced the expected extent of the hiking cycle however.

Standard and Poors downgraded South African foreign currency rating to BBB- and improved the outlook to stable, Fitch maintained a BBB rating but reduced the outlook to negative, the main motivation being concerns over economic growth.

Domestic bond yields should be supported over the third quarter but remain vulnerable to eventual global interest rate normalisation. The ABSA Bond fund remains moderately short duration relative to the ALBI but acknowledges that the impact of global normalisation may well be less and the timing more protracted than had been previously anticipated and will respond to any new developments as required.

DISCLAIMER

The Absa Bond Fund is a low to medium risk fund. No initial charge is levied, though investments through intermediaries could include a maximum of 3.42% (incl. VAT) payable for commissions and incentives. An annual service charge of 0.86% (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 Bond 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 quarterly 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. 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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