Absa Bond Fund

Wealth and Investment Management

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	Bench-mark	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

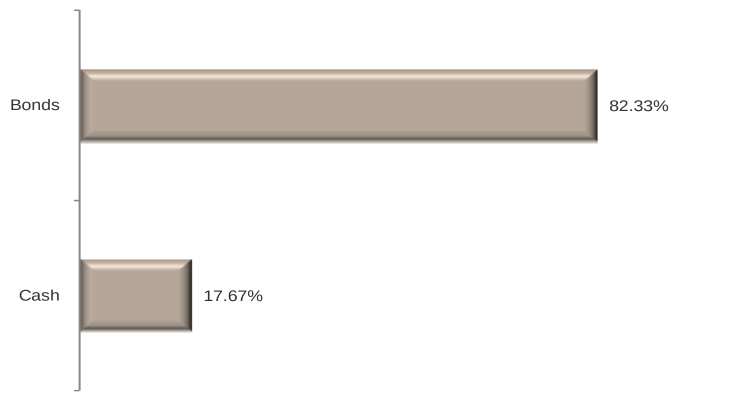
Low	Low-Medium	Medium	Medium-High	High
	X			
3 Months +	6 Months +	2 Years +	3 Years +	5 Years +
		X		

Fees and total expense ratio (VAT incl.)

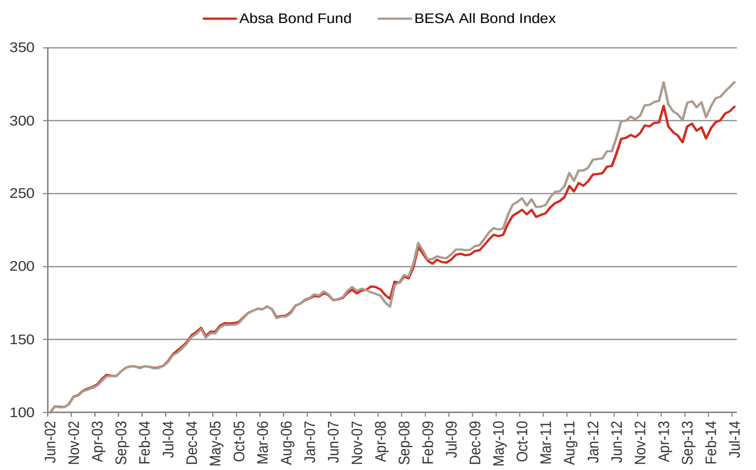
		Class A	Class B
Initial fees:	Absa Fund Managers:	0%	0%
	Adviser:	0 - 3.42%	0%
Annual management fee:		0.86%	2.11%
	Adviser:	0 - 1.14%	*N/A
Total expense ratio:		0.87%	2.12%

*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

Please refer to page 2 for more details regarding this fund as well as the disclaimer

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.

Contact details

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