

Absa Bond Fund 31 July 2010

Fund Description / Objective

The Fund invests in the full spectrum of interest bearing securities of differing terms to maturity. The Manager's mandate is to exploit anticipated changes in the pattern of interest rates so as to maximise the total return, capital and income, to investors. The fund is actively managed against the benchmark. Investment selection takes into account changes in interest rates, credit risk and liquidity.

Fund Facts

Inception Date	14 May 2002
JSE Code	ABBA
Fund Size	R 66 million
Industry Category	Domestic - Fixed Income - Bond
Minimum Investment	R 1 000 lump sum R 500 debit order
Initial Fee	1,14% (VAT incl.)
Total Expense Ratio	0,98%
Annual Service Fee	0,86% (VAT incl.)
Income Declaration	31 March, 30 June, 30 September & 31 December
Income Distribution	15 April, 15 July, 15 October & 15 January
Performance target	BESA All Bond Index
Risk Rating	Low - Medium

Income Distribution

Distribution for the 3 months ended 31 December 2009	2,54 c.p.u
Distribution for the 3 months ended 31 March 2010	2,51 c.p.u
Distribution for the 3 months ended 30 June 2010	2,16 c.p.u

Top Holdings

- Absa Bank Ltd Bond
- Eskom Ltd Bond
- RSA R157
- RSA R186
- RSA R201
- RSA R203
- RSA R204
- RSA R206
- RSA R207
- RSA R208

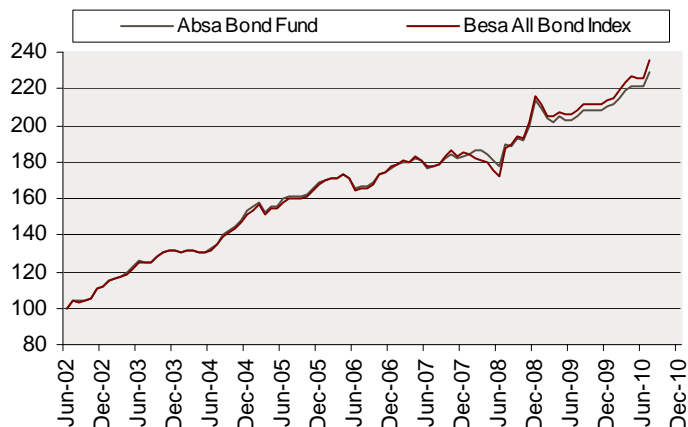
Historic Performance

	Absa Bond Fund	Sector Average	Ranking
1 Year	11,88%	13,03%	14/16
3 Years*	8,06%	9,86%	15/15
5 Years*	6,77%	8,13%	15/15

* Figures are annualised

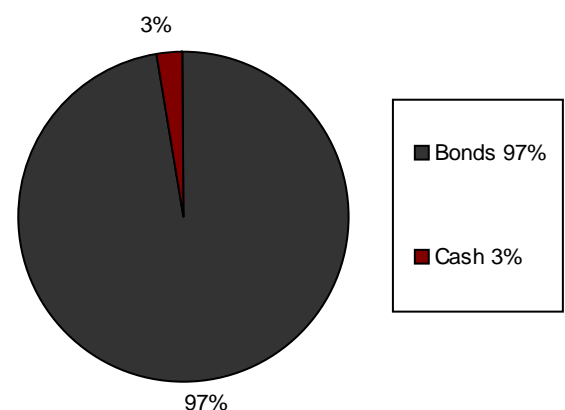
Source: Morningstar

Performance History Graph



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

Asset Allocation



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Fund Commentary

The ALBI has been strong in 2010, and surged 4.12% in July, with the longer end of the curve outperforming. In July the 12+ segment gained 6.11%; the 7 to 12 year area gained 4.36%; the 3 to 7 year area gained 2.20%, and the 1 to 3 year area gained 1.01%.

Cash, as measured by the STEFI, yielded 0.56%, the low yield being a result of the Reserve Bank's numerous past interest rate cuts. After the March cut, in aggregate the Monetary Policy Committee of the South African Reserve Bank (SARB) has now cut interest rates by 550 basis points since their peak. The high indebtedness of local consumers, coupled with the effects of the National Credit Act, job losses and the generally tough economic environment, will likely mean that despite rate cuts, personal consumption figures will remain depressed for some time.

High petrol, food and administered prices kept CPI above the SA Reserve Bank's upper limit of 6%, however the lower oil price (from its peak) and the generally slowing economy provided some abatement on the inflation front, and inflation is now below the 6% mark. Although interest rates have come down strongly, sustained cost-push pressures, and future weakness in the Rand may still be a potential problem area for inflation, particularly with South Africa's still large current account deficit. The SARB will continue to monitor the situation closely.

The yield on the benchmark R157 dropped from 8.03% at the end of June to 7.58% at the end of July. The yield on the longer dated R186 decreased from 9.04% at the beginning of the month to 8.44% at the end of the month.

Currency volatility has traditionally been a significant aspect for South African investors to consider, and the local currency has been strong of late. In July, the Rand strengthened from 7.67 to 7.29 against the Dollar, strengthened marginally against the Pound from 11.44 to 11.41, and weakened against the Euro from 9.37 to 9.51.

Over the next few months we expect that the movement in the Rand and bond market will be largely determined by inflation expectations, yield differentials and prospects for future periods of risk aversion. We do not feel that bonds generally offer very compelling value at this stage - with massive fiscal deficits and debt issuances both in South Africa and around the world, we have felt for some time that there is upside risk to real global bond yields. A key issue is the extent to which further bond issuances can be absorbed by market participants. However, there is a "tug-of-war" between the significant global disinflationary forces (particularly slowing economies and the reduction of private sector debt), and the continued issuance of sovereign debt.

The ABSA Bond Fund remains cautiously positioned, with a duration that is slightly shorter than the All Bond duration.

DISCLAIMER

The Absa Bond Fund is a medium to low risk fund. The maximum initial charge is 1,14% (incl. VAT) of consideration received and will include a maximum of 0,57% (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. The Absa Bond Fund requires a minimum balance of R1000. 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. 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 interest and dividends as well as foreign currency movements affecting capital may be fully taxable under current legislation. Figures quoted are from Morningstar, for the period ending 31/07/2010, using NAV -NAV prices, with income distributions reinvested. 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 2009 to 30 June 2010 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.

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To find out more about this fund and Absa's unit trust range visit :
www.absainvestments.co.za

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