Enhanced Income Strategy Note | March 2012

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March market highlights included some rand weakness, resulting in a rising rand crude oil price, lower consumer and producer price inflation and the decision by the South African Reserve Bank to retain its neutral policy stance. The announcement by international credit rating agency Standard & Poor's that it changed the outlook for South Africa from neutral to negative (the actual ratings were kept unchanged) had a limited impact on market sentiment. In fact, foreign buying interest has kept pace with the global trend, lending some support to the market – with net purchases for the year to date now totalling R20.7bn (or 50% of the 2011 number). Elsewhere the slow global recovery appears to be gaining uncertain traction, making it hard for monetary authorities to seriously consider the normalisation of multi-decade low official interest rates.

A weak bias to the local fixed rate government bond market, mainly due to an unexpected large sell-off in the US Treasury market, limited the All Bond Index's monthly return to +0.10%, with long-dated bonds underperforming short-dated bonds. Inflation-linked bonds continued their strong performance, with the official index returning +1.2%, well above the return of +0.45% offered by the money market. This month's lower fund return versus February was due to the holding of longer dated fixed rate bonds, which underperformed other assets.

Our investment view, based on an expectation of lower inflation by year-end and an unchanged repo rate, supports an increase in interest rate risk. We are particularly interested in the steep positive slope of the yield curve, which appears to have priced in too much negative news. We therefore continued to utilise market weakness to increase the holding of longer dated RSA fixed rate bonds and short- and medium-dated corporate bonds that offer a higher income. However, this implies that shorter term market volatility could have a negative impact on the market value of the fund in the interim.

The holding of inflation-linked bonds served us well over the last few months, and we will continue to slowly unwind this position into market strength and use the proceeds to fund the purchase of the other assets mentioned above. The risks associated with the above strategy – in particular, the impact of a rising crude oil price on headline CPI – mean we will only slowly unwind the inflation-linked bond holding.

ASSET HOLDINGS	30 Mar 2012	29 Feb 2012	31 Jan 2012	31 Dec 2011	30 Nov 2011	31 Oct 2011
RSA government bonds	18.4%	16.8%	11.9%	12.1%	11.6%	5.3%
Fixed rate non-government bonds	30.4%	27.6%	24.4%	19.8%	20.7%	20.6%
Floating rate non-government bonds	31.1%	31.3%	31.2%	31.4%	32.7%	32.6%
Inflation-linked bonds	9.1%	11.6%	13.2%	13.2%	12.5%	12.3%
Listed property	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preference shares	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Money market*	11.0%	12.7%	19.3%	23.5%	22.5%	29.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Includes cash, NCDs and JIBAR-linked bank instruments (floating rate) with a term to maturity of less than one year.

BOND COMPONENT MATURITY SPREAD	30 Mar 2012	29 Feb 2012	31 Jan 2012	31 Dec 2011	30 Nov 2011	31 Oct 2011
0-1 year	19.4%	19.0%	21.0%	16.9%	15.8%	22.2%
1-3 years	26.2%	28.8%	30.1%	29.0%	31.4%	38.3%
3-7 years	35.5%	38.5%	47.0%	49.2%	25.3%	25.3%
7-12 years	1.0%	1.1%	1.9%	4.8%	27.5%	14.2%
12+ years	17.9%	12.5%	0.0%	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

MODIFIED DURATION	30 Mar 2012	29 Feb 2012	31 Jan 2012	31 Dec 2011	30 Nov 2011	31 Oct 2011
Bond component	4.27	3.96	3.32	3.44	3.37	2.44
Total portfolio including CPI-linked bonds	2.35	2.36	2.05	1.98	1.95	1.28
Total portfolio excluding CPI-linked bonds	1.76	1.53	1.06	1.00	1.02	0.55
All Bond Index	5.78	5.78	5.84	5.79	5.77	5.85

	30 Mar 2012	29 Feb 2012	31 Jan 2012	31 Dec 2011	30 Nov 2011	31 Oct 2011
Average yield of interest rate assets**	7.09%	6.90%	6.59%	6.47%	6.68%	6.52%

** Includes the average real yield (1.9%) of the inflation-linked bond holding.
The average fund yield increase is 7.7% when adjusting the CPI-linked bond holding by an inflation rate of 6.1%.

For more information on the Enhanced Income Fund please speak to your Old Mutual Unit Trusts Sales Executive or call the Service Centre at 0860 234 234.

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