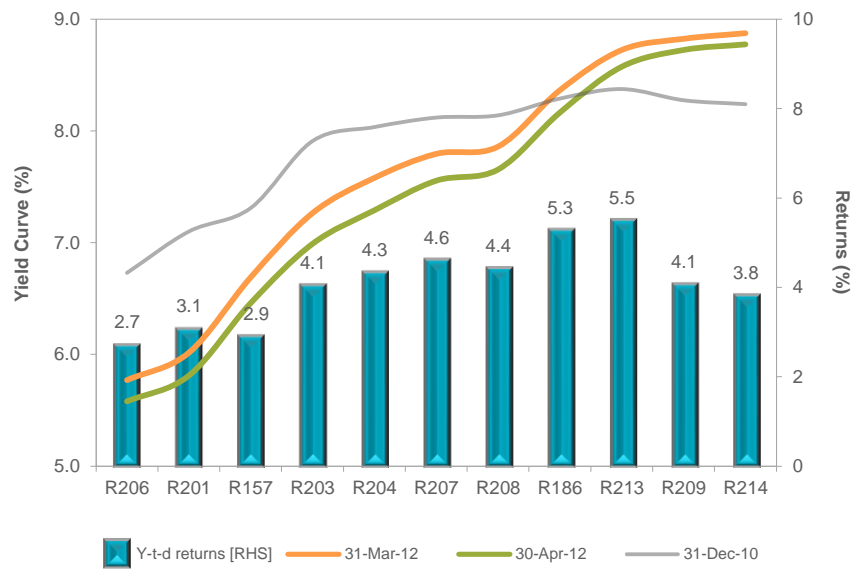


Futuregrowth Asset Management

Market Highlights

- Interest-rate friendly data, lower crude oil prices and a partial rand exchange-rate recovery forced market participants to scale back interest-rate hike expectations towards month-end. The market also found limited support from improved local fiscal data for the full year ending 30 March 2012, as the budget deficit turned out to be R149.7bn (or R7bn lower than the Minister’s estimate in February). However, centre stage was occupied by the surprise announcement of the possible inclusion of South Africa in the Citigroup World Global Bond Index (WGBI) by October this year. The announcement served as catalyst for a sharp jump in foreign net cumulative purchases of rand-denominated bonds. JSE data shows that these purchases totalled R33.2bn for the first four months of 2012, with R9.2bn of this amount flowing during April alone. This compares well to the 2011 calendar year total of R41.9bn.
- During April, the yield of the benchmark RSA 10-year government bond traded at an intra-month high of 8.0% prior to the WGBI announcement, after which it collapsed to close the month at 7.66%. Renewed concerns out of Europe (triggered by events in Spain) failed to have a lasting negative impact on the local bond market. It is also interesting to note that although official data points to a deceleration in the rate of inflation, strong investor demand continued to support the inflation-linked bond market. This caused real yields to drift to new historical lows. Fixed rate bonds (JSE All Bond Index) rendered a return of +1.8%, beating the JSE Inflation-linked Bond Index by 0.3% and cash by an even bigger margin.

Following the yield curve’s downward shift, fixed rate bonds are outperforming cash by a significant margin this year



Sources: I-Net, Futuregrowth

Investment Strategy

Our money market funds are neutral duration and overweight in longer-dated assets.

- In our bond mandates, we now favour a small overweight duration position with a preference for longer-dated fixed rate bonds.
- Corporate debt spreads have tightened to the point where we follow a selective purchase strategy.
- Inflation-linked bonds are expensive relative to longer-dated fixed rate bonds, but still offer some value against money market rates.

“Our investment view has become less defensive as we increase our holding of longer-dated fixed rate bonds into weakness, while slowly reducing our inflation-linked bond exposure.”



Wikus Furstenberg | Portfolio Manager