

ENHANCED INCOME STRATEGY NOTE

NOVEMBER 2013



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Portfolio Manager

The nominal bond market weakened during November. Rising global bond yields and foreign investor selling of South African bonds (as global risk appetite waned) caused local bond yields to rise sharply. The yield of the 10-year RSA government bond closed 36 basis points higher at 8.03%. As a result, the JSE All Bond Index rendered a return of -1.35%, well below the stable money market return of +0.43%.

The fund managed to eke out a small absolute positive return for the month. This was due to the long-standing conservative fund structure, specifically the low level of exposure to nominal interest rate risk and a high holding of more stable variable rate bonds.

Once again, we used short-term volatility to carefully manage our more structural bearish view on interest rates while looking for opportunities to increase the average yield of the fund. The fund increased its holding of variable rate bonds. Market weakness over the last few months enabled us to access these opportunities at more attractive levels.

Our core investment view remains unchanged: The negative output gap will prevent local monetary policy tightening, while the precarious balance of payments position and the upside risks to inflation leave no room for a rate reduction. The short end of the South African yield curve will therefore remain relatively anchored and be less prone to the extreme volatility of longer dated bonds. Broad-based rand weakness has softened our concerns about the balance of payments situation, although by no means reducing it to such an extent that we are prepared to re-establish a large position in long-dated fixed rate bonds. As a result, we will retain a defensive fund structure, while looking to increase the holding of non-government variable rate bonds.

ASSET HOLDINGS	30 Nov 2013	31 Oct 2013	30 Sep 2013	31 Aug 2013	31 Jul 2013	30 Jun 2013
RSA government bonds*	1.5%	1.4%	1.3%	6.0%	17.7%	17.8%
Non-government fixed rate bonds	30.4%	28.3%	27.5%	30.9%	31.2%	29.9%
Non-government variable rate bonds	31.0%	29.0%	26.4%	25.0%	24.6%	24.0%
Inflation-linked bonds	1.1%	1.0%	5.1%	7.6%	7.7%	9.4%
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**	36.0%	40.3%	39.7%	30.5%	18.8%	18.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Net exposure (Bond futures = -20.6%).

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

BOND COMPONENT MATURITY SPREAD	30 Nov 2013	31 Oct 2013	30 Sep 2013	31 Aug 2013	31 Jul 2013	30 Jun 2013
0-1 year	16.0%	15.4%	14.6%	24.1%	19.2%	16.8%
1-3 years	51.2%	50.5%	51.5%	48.0%	53.0%	52.7%
3-7 years	31.4%	32.7%	32.6%	26.0%	26.4%	29.0%
7-12 years	1.3%	1.4%	1.3%	1.9%	1.4%	1.5%
12+ years	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

MODIFIED DURATION	30 Nov 2013	31 Oct 2013	30 Sep 2013	31 Aug 2013	31 Jul 2013	30 Jun 2013
Bond component*	1.30	1.32	1.35	1.52	2.24	2.47
Total portfolio including CPHlinked bonds	0.71	0.69	1.08	1.47	1.83	1.87
Total portfolio excluding CPHlinked bonds	0.70	0.68	0.65	0.74	1.06	1.10
All Bond Index	6.07	6.11	5.96	5.96	6.03	6.07

* Net exposure (short bond futures position)

	30 Nov 2013	31 Oct 2013	30 Sep 2013	31 Aug 2013	31 Jul 2013	30 Jun 2013
Average yield of interest rate assets	6.6%	6.2%	6.3%	6.0%	5.9%	6.3%

FOR MORE INFORMATION:

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The portfolio performance is calculated on a NAV/NAV basis and does not take any initial fees into account. Income is reinvested on the ex-dividend date. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income. Past performance is not necessarily an indication of future performance. The Total Expense Ratio (TER) as at 30 September 2013 was 1.15%. A fund's TER reflects the percentage of the average Net Asset Value of the portfolio that was incurred as charges, levies and fees related to the management of the portfolio. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. Unit trusts are generally medium- to long-term investments. It is important that you are prepared for some shorter term fluctuations as your investment moves in line with the markets. Unit trusts can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available from the company/intermediary. You can easily sell your investment at the ruling price of the day (calculated at 15h00 on a forward pricing basis). Certain funds may be capped in order to be managed in accordance with their mandates. Different classes of units apply to these portfolios and are subject to different fees and charges. Old Mutual is a member of the Association for Savings & Investment SA.