

# Global Bond Fund

## Performance Review

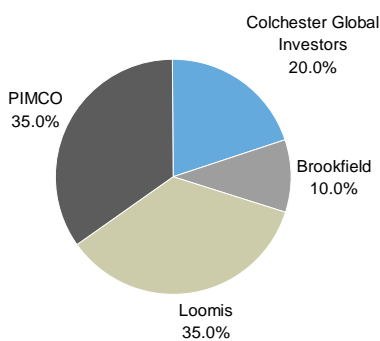
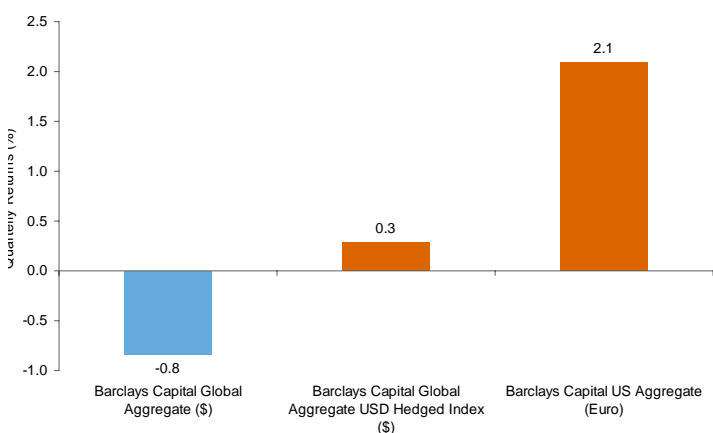
	One Month %	Three Months %	Year to Date %	One Year % <sup>1</sup>	Three Years	Five Years %	Ten Years %	Since Inception % <sup>2</sup>
Global Bond Fund (USD) Gross of fees	-2.9	0.5	16.2	16.2	7.2	4.7	6.3	6.4
Barclays Capital Global Aggregate Index (USD) <sup>3</sup>	-3.8	-0.9	6.9	6.9	7.1	4.6	6.2	6.2
Global Bond Fund (RAND) Gross of fees	-3.8	-2.3	-7.5	-7.5	8.7	10.5	8.2	11.5
Barclays Capital Global Aggregate Index (RAND) <sup>3</sup>	-4.7	-3.6	-14.8	-14.8	8.6	10.3	8.1	11.3

<sup>1</sup> Returns greater than one year are annualised.

<sup>2</sup> Inception date 30/09/94. Performance is measured from 01/10/94. In order to enable accurate peer relative and total return benchmark relative performance comparisons, performance is calculated from the first full month following inception.

<sup>3</sup> Global Bond Fund Benchmark prior to October 2001 was Citigroup WGBI.

## Fund Highlights and Portfolio Management Activity



As at 31/12/2009

- The Barclays Capital Global Aggregate Index lost 0.8% in US dollar unhedged terms, with much of the return driven by the dollar's renewed strength against the euro and the Japanese yen. The index gained 0.3% in US dollar hedged terms. Credit continued to outperform as the global economy continued to strengthen according to most indicators. This stabilisation, and the continued improvement in credit markets, has seen the beginning of the withdrawal of extraordinary monetary stimulus, particularly in Europe, where the cost of insuring against corporate default reached its lowest since May 2008. Credit spreads continued to narrow, but they remain wider than historical averages giving further room for improvement. According to Merrill Lynch indices, investment-grade spreads have narrowed to just under 200 basis points from over 600 reached in the aftermath of the collapse of Lehman Brothers in September 2008. Meanwhile, the strength of the high yield and emerging market debt (EMD) markets has been the key feature of 2009, helped by attractive valuations, improving fundamentals and strong technicals. Spreads on the former have narrowed significantly to 650 basis points from over 1,800 at the end of 2008. EMD also posted positive returns for the quarter, as spreads contracted to 2.76% in December - their lowest level since July 2008 - despite having widened to 3.30% over US Treasuries on news of a potential debt crisis in Dubai. The cost of insuring against EMD default, which had soared in 2008, experienced its biggest annual decline since 1998.
- Government bond prices declined amid concerns over record levels of supply and sustained risk appetites, particularly in December. In the UK, ten-year gilt yields rose to their highest level in just over a year, as expectations that economic recovery would accelerate and that the Bank of England would conclude its gilt buying programme early in the New Year reinforced the move into riskier assets. In the US, there was some support for short-term Treasury bills, particularly in November, when investors took profits from riskier assets and invested in shorter term, less risky and more liquid assets to maintain balance sheet quality prior to year end. However, Treasury yields hit multi-month highs in December amid evidence of a stronger-than-expected recovery and ahead of an auction of \$44bn two-year notes.
- The Fund outperformed over the quarter, and delivered returns significantly ahead of the benchmark over the year. All of the underlying managers delivered positive relative returns over the quarter, led by Brookfield's sizeable overweights to asset- and mortgage-backed securities. Loomis and PIMCO's overweights to high yield - the best-performing sector over the quarter - were also beneficial. Colchester's currency strategy, particularly the underweight to the weakening yen, was also of value.

## Quarterly Manager Performance

Manager	Approach / Process	*Manager Performance	Russell Analysis
Brookfield	Sector Specialist	++	Structured finance specialist Brookfield outperformed its benchmark and its peers in the Fund, driven by its sizeable overweights to asset- and mortgage-backed securities as macroeconomic data continued to improve. While the index overlay detracted, the manager's returns were very strong versus the Fund benchmark.

**Quarterly Manager Performance (continued)**

Manager	Approach / Process	*Manager Performance	Russell Analysis
Colchester Global Investors	Macro Value	++	Colchester delivered returns in excess of the benchmark, driven largely by its currency positioning. The manager's overweights to GB sterling and the Norwegian krone were particularly beneficial earlier in the period, while in December underweights to the euro and yen and Czech koruna added good value.
Loomis	Security Selection	++	Loomis also outperformed, driven largely by its sector positioning. Overweights to high yield and emerging market debt were of most benefit as these sectors continued to outperform, but its exposure to US Treasuries pared back gains. Currency positioning added value, notably through an overweight to the Norwegian krone earlier in the period and an underweight to the Japanese yen.
PIMCO	Sector Specialist	++	PIMCO also finished ahead of the benchmark, helped by its structural overweight to credit. However, the manager's country positioning pared back some of the gains derived from its sector positioning. In the latter, PIMCO's overweights to high yield and financials added value, but exposures to US and Japanese sovereign debt detracted.

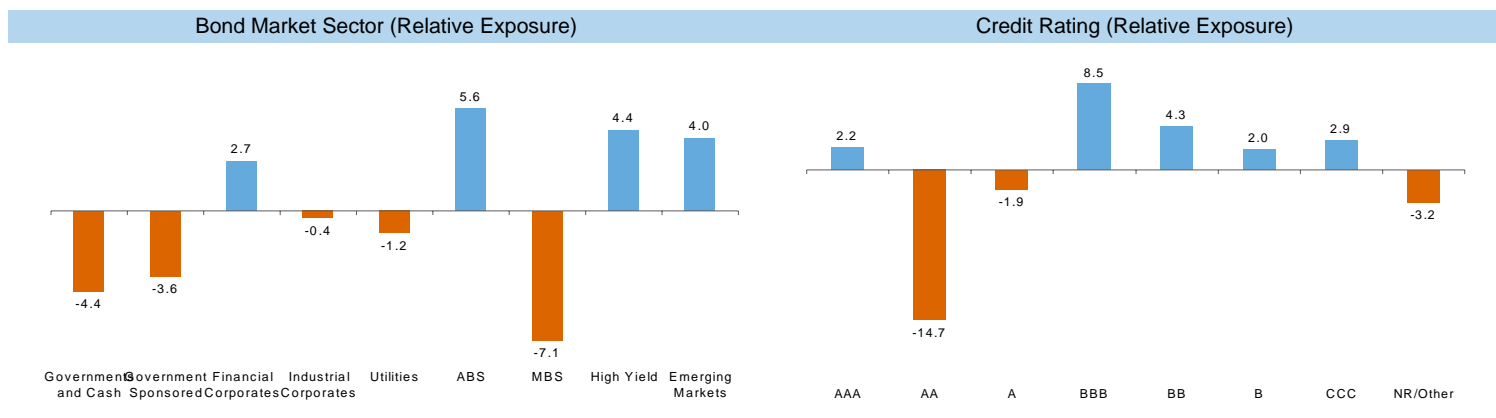
**Portfolio Characteristics**

Category	Fund	Benchmark
Effective Duration (Years)	5.1	5.3
Yield to Maturity(%)	4.8	2.6
Average Credit Rating	AA-	AA+
Average Maturity (Years)	6.7	6.9

**Bond & Currency Market Exposures**

Bond Market Impact				Currency Market Impact			
Relative Exposure	Quarterly Returns % US\$			Relative Exposure	Quarterly Returns % US\$		
AUD	2.0	7.0		AUD	-0.6	-17.3	
CAD	0.0	3.3		CAD	-0.0	-4.0	
DKK	-0.4	0.6		DKK	-0.3	-10.6	
EUR	-2.8	4.1		EUR	-3.3	-10.5	
GBP	-1.3	2.8		GBP	1.9	-10.6	
JPY	-12.1	1.0		JPY	-3.5	0.1	
SEK	-0.1	5.3		SEK	0.9	-13.1	
USD	1.6	0.1		USD	-1.1	0.0	

**Sector and Credit Rating Exposures**



*Manager Attribution Key	Relative Performance vs Fund Benchmark
++	>0.25
+	+0.05% to +0.25%
Flat	-0.05% to +0.05%
-	-0.25% to -0.05%
--	<-0.25%