Taquanta

High Yield Credit Fund

Fund Fact sheet **July 2019**

Fund Objective

The objective of the High Yield Credit fund is to generate returns in excess of a typical income fund. This fund is best suited for investors looking for enhanced income returns with very low liquidity requirements.

Investment Philosophy and Strategy

Employs a conservative approach to enhance yields through extracting the liquidity risk premium in longer dated and less liquid debt instruments, as well as an increased exposure to credit assets. Our fundamental credit review process is robust, combining qualitative and quantitative analysis, overlaid with institutional memory to question convention, operating within a strong risk and compliance framework. Our portfolio construction process builds a well diversified fund targeting up to 30+ counterparties to further diversify risks.

Fund Information

Portfolio Manager:
Taquanta Asset Managers (Pty) Ltd

Inception Date:
August 2015

Fund Size:
R153 million

Target Return:
STeFI Composite +4%

Minimum Rating:
BBB-

Target Average Rating:
BBB

Max Offshore Exposure:
40% (Hedged)

Lock in Period:
5 years

Risk Profile

Conservative	Moderate	Aggresive
	■	

Outlook

Trade tensions remain heightened impacting global market confidence and investment. The US Federal Reserve Bank ended their quantitative tightening cycle 2 months earlier than the market expected and opted to cut their target rate by 25bps. Although the US labour market remains strong, Jerome Powell described the US-China trade war and weak global growth as a threat to a favourable outlook and a rate cut justifiable to maintain the outlook.

The United Kingdom (UK) ushered in a new prime minister, Boris Johnson, following Theresa May's resignation. He is tasked with delivering an orderly Brexit and has made promises to make the UK 'the greatest place on earth' and deliver Brexit by October 2019. This however remains to be seen, it might bring much needed policy certainty but at what price?

Domestically, economic growth continues to remain muted and the Monetary Policy Committee (MPC) of the Reserve Bank unanimously decided to reduce the repurchase rate (repo rate) by 25bps, with the Governor adding that the committee had not discussed a 50bps cut as per market speculation. This suggests the committee might be a bit hawkish in their approach even with downside risks to the growth forecast and continued low business confidence. The SARB's composite leading business cycle indicator is reported as trending lower. Inflation has remained within the SARB's target range of 3% to 6%, with CPI for June increasing at the same rate as May at 4.5% y/y. PPI inflation eased to 5.8% y/y from 6.4% y/y in May marked by a moderation in inflationary pressure within the chemical and plastic products category.

A potential credit downgrade by the end of the year is now more seeming with heightened fiscal policy risks. The market is projecting a further rate cut before year end, in addition to the 25bps given at the July meeting. The fund is well positioned to take advantage of the current uncertain economic climate.

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Fund performance

Period (naca)	CPI +5%	Fund Target	Fund Return
3 months	2.5%	2.8%	**3.3%**
6 months	5.2%	5.4%	**6.4%**
1 year	9.5%	11.3%	**13.5%**
2 years p.a	9.5%	11.5%	**13.4%**
3 years p.a	9.7%	11.7%	**13.3%**
3 year volatility	1.1%	0.2%	**0.3%**

Longest Maturity:
5.5 years

Average Term to Maturity:
2.5 years

Modified Duration:
<0.25 Years

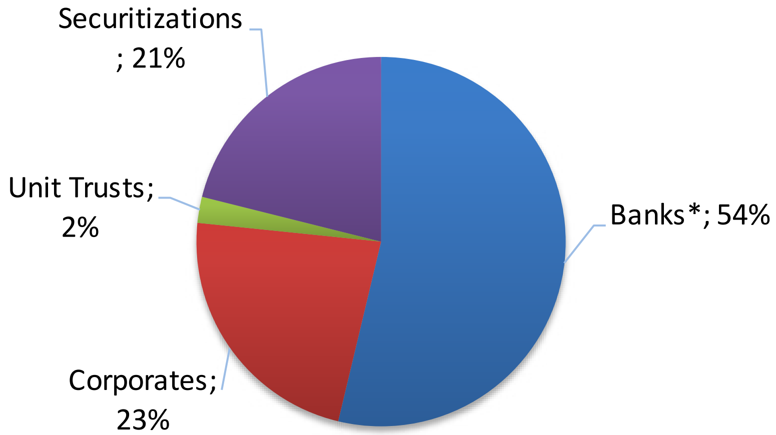
Number of Counterparties:
33

Top 5 credit Exposures:

Issuer	Exposure
Standard Bank	19.8%
ABSA	12.8%
African Bank	9.7%
FirstRand	6.8%
Thekwini 13	6.6%

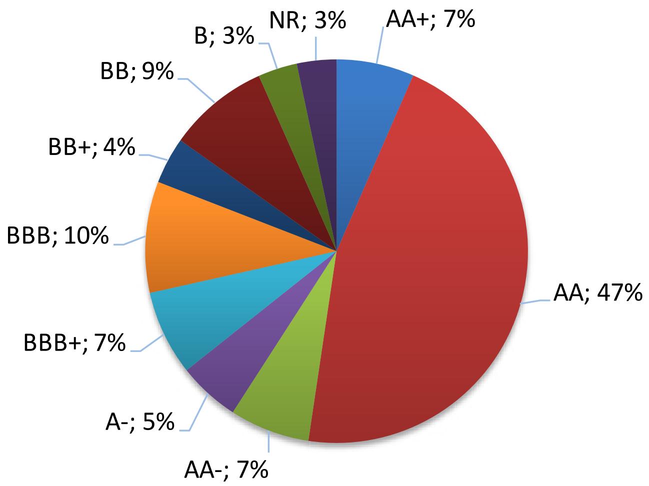
*Excluding unit trust exposure

Issuer Type

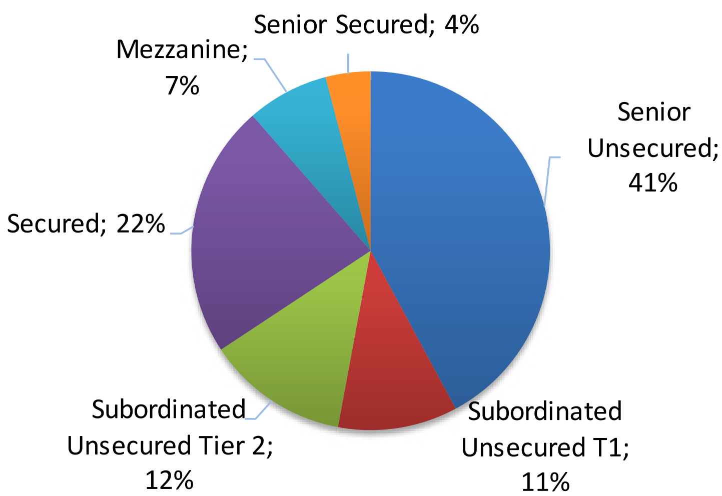


***Includes 26.7% in Credit-linked Notes, which are bank issued notes referencing other entities such as corporates and parstatals**

Credit Rating



Capital Ranking



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