QIR Quarterly investor report Q4

as at 31 December 2020

momentum investments

Momentum Bond Fund

Assets managed by: Momentum Asset Management

Managers corner

Meet your managers

Ian Scott
BCom (Hons) Investment Management

Head of fixed income at Momentum Investments

Ian joined the Momentum Investments team in September 2018 as head of fixed income. Ian began his career at Sasol as a Forex Trader in 1996. In 1999 he joined SCMB Asset Management as money market dealer, later joining the capital market desk and in 2007 ending up as a senior portfolio manager for fixed interest. In 2013 he joined PSG Asset Management as Head of Fixed Income where he managed a team of fixed income investment professionals managing various fixed income assets. He was responsible for implementation and execution of the fixed income philosophy & process, as well as being the chairman of the fixed income investment committee. Ian is a firm believer in a culture of stewardship in fixed income management where funds must be managed in the long term interest of clients.

Managed portfolio since 01 Dec 2018

Thamage Lesito
BSc Mathematical Statistics

Portfolio Manager

Thamage began his career as a Portfolio Analyst at Peregrine Holdings Ltd in 2007. He also worked as a Senior Manager in Analytics and Advisory at Nedbank and was a Portfolio Manager at Chris Atkinson Fund Management (Pty) Ltd. In January 2015, Thamage was appointed Head of Data Management, Valuations, Reporting and Business Intelligence at Momentum Investments. Thamage is currently a fixed income Portfolio Manager at Momentum Investments.

Managed portfolio since 01 Dec 2018

Managers view

Market overview

Over the year, 2020, we were consumed by the novel Coronavirus, COVID-19.

The first quarter of the year was all about the lockdowns and the strict measures governments, globally, were taking to curb to spread of the virus. But as markets and investors began to better understand the virus the rest of the world was about finding opportunities post the March sell off.

In line with the market consensus, the SA Reserve Bank (SARB) Monetary Policy Committee (MPC) voted 3:2 to leave the repo rate unchanged at 3.5% at the November meeting. Looking forward into the new year 2021, growth and inflation remain focal points for the direction of interest rates as the economy claws its way back to pre-pandemic growth levels. Inflation forecasts and expectations in the lower part of the SARB’s 3% - 6% target range provide room to flatten although MPC appears uncomfortable and mindful of a negative forward-looking repo rate. Forward rate agreements (FRAs) are pricing in full 25 bps rate cut in the January 2021 meeting with 1x4''s trading around 23bps below JIBAR. We expect steady interest rates going forward.

Throughout 2020 inflation remained subdued. The lower oil price and the lack of demand from stringent lockdown measures meant that upside risks to inflation were muted. Inflation printed below the SARB’s target of 4.5% for the year.

The ALBI continued to rally into the fourth quarter and ended the year well over the fourth quarter, returning 8.65% over the year. The cash benchmark, STeFI, returned 5.39% whilst the inflation-linked bonds (ILBs), as measured by the CILI Index, returned 4.22% for the year.

Portfolio overview

We still believe that the high nominal yields and low inflation environment makes real yields on nominal bonds extremely attractive at current levels. We are cognisant of the fiscal risks that SA faces, with the fiscal deficit for 2020/21 expected to come in at 15.7%.

Also based on valuations SA Government Bonds remain an attractive asset in fixed income markets globally with the 10-year government bond offering real yields above its long run average. Valuations are also starting to favour inflation-linked bonds, with inflation having bottomed and real yields having sold off aggressively over the year we think that these now offer value.

Portfolio positioning

Duration: We are cognisant of the heightened fiscal risks that SA faces and the implications of this on the SA bond curve. Our view is that we could see the curve remain steep for a little while longer. We prefer to be neutral to slightly long relative to the benchmark.

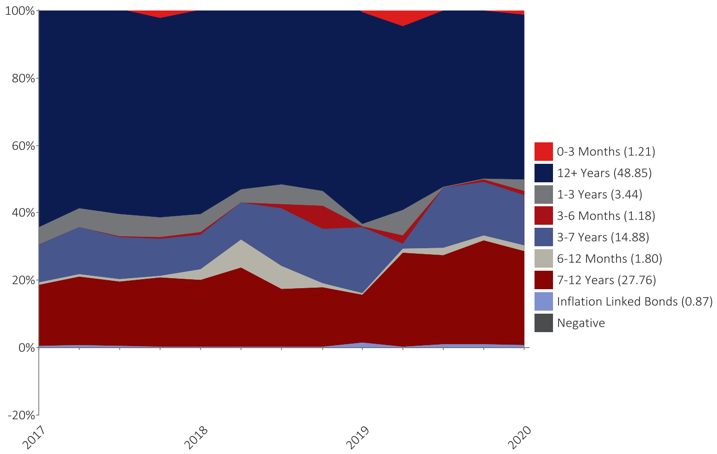
Credit: 2020 has been characterised by low issuance brought by the COVID-19 shock with most auctions cancelled in the debt capital market (DCM). Issuance in the credit market has since picked up meaningfully from October. Spreads on high quality names like Mercedes Benz cleared 5bps through the bottom of price guidance while other issuers saw wider spreads even compared to pre-pandemic levels. There has been relatively greater demand for shorter-term paper in recent auctions which suggests relative investor preference for shorter-term paper, with most relative trading activity between 6- and 18-months to maturity possibly due to COVID-19-induced uncertainty. The widening of corporate spreads and narrowing of bank negotiable certificate of deposit (NCD) spreads resulted in a historically wide gap in spreads post the onset of COVID-19. However, corporate spreads appear to have peaked while NCD spreads appear to have bottomed; this could set the tone for some compression in the gap between the two. State-owned enterprises (SOEs) in general are struggling to raise funding in the local DCM, particularly those who aim to fund outright without government guarantees and the spreads remained elevated. Investors have also been looking to offload their SOE holdings on a risk-off sentiment. Average SOE spreads were broadly subdued, except for the floating-rate development finance institution (DFI) spreads which widened slightly.

Inflation: We are now looking for buying opportunities across the ILB curve. Previously we had favoured the front end of the ILB curve which has rallied in line with our expectations. We still believe that ILB's offer value over cash and credit.

Facts and figures

Holdings

Maturity spread (%)

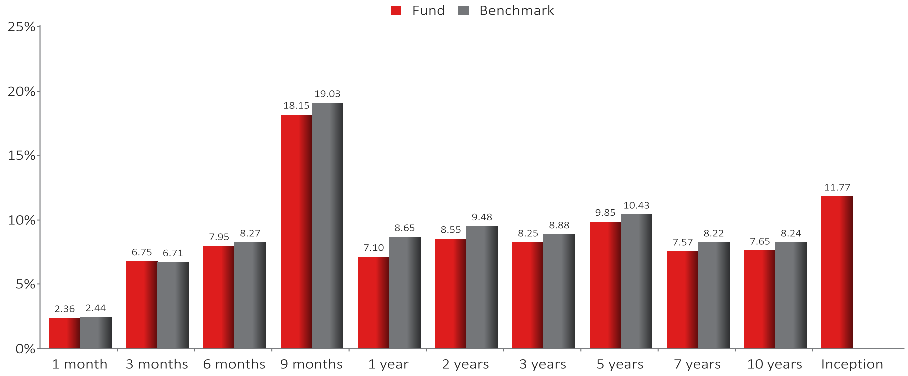


Q3 2020 to Q4 2020

Sector (%)	Q4	Q3	Chg
Cash/Money Market	-1.61	-6.48	4.87
Bonds - Fixed Rate	93.86	98.13	-4.28
Bonds - Floating Rate	6.88	7.38	-0.50
Bonds - Inflation Linked	0.87	0.96	-0.09

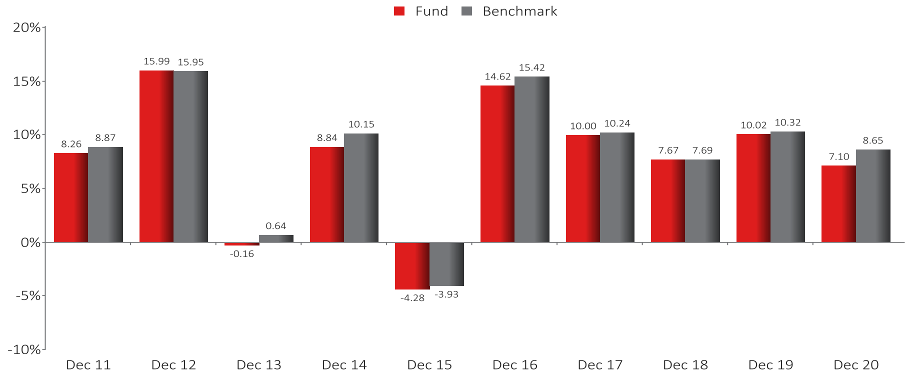
Performance

Returns (%)



Cumulative for all periods less than 1 year, annualised for all longer periods.

One year returns (%)



Cumulative returns ending 31 December each year.

Fund: Momentum Bond Fund Class A (Inception 1 February 1995)

Benchmark: FTSE/JSE All Bond Index (ALBI)

Performance: All portfolio performance is calculated for a portfolio/portfolio class. Individual investor returns may differ as a result of fees, actual date(s) of investment, date(s) of reinvestment of income and withholding tax. All portfolio performance shown is net of the Total Investment Charges (TIC) but excludes any initial or ongoing advisory fees that may, if applicable, be charged separately. Annualised returns, also known as Compound Annualised Growth Rates (CAGR), are calculated from cumulative returns; they provide an indication of the average annual return achieved from an investment that was held for the stated time period. Actual annual figures are available from the Manager on request. All portfolio performance figures quoted (tables and charts where present) are as at 31/12/2020, based on a lump sum investment, using NAV-NAV prices with income distributions reinvested on the ex-dividend date. CPI/Inflation figures, where present, are lagged by one month. Cash figures, where present, are STeFI Composite Index returns. All figures quoted in ZAR. Source: Morningstar and/or Momentum.

Information

Momentum Bond Fund R 7.91 billion

Class	Status	Direct Retail	Cost Ratios as at 30 September 2020					FYE	Price, Participatory Interests and AUM			MDD
			TER (%)	TC (%)	TIC (%)	From	1Y TER (%)	TER (%)	NAV Price (cpu)	Units in issue	Size (Rands)	
A	Open	Yes	0.88	0.00	0.88	1 Oct 2017	0.89	0.89	156.53	210,680,292	329,773,333	
B1	Open	No	2.43	0.00	2.43	1 Oct 2017	2.43	2.43	155.96	11,108	17,324	
B2	Open	No	1.46	0.00	1.46	1 Oct 2017	1.46	1.46	156.31	197,021	307,969	
B3	Open	No	1.28	0.00	1.28	1 Oct 2017	1.28	1.29	156.38	1,114,921	1,743,509	
B4	Open	No	0.02	0.00	0.02	1 Oct 2017	0.02	0.02	157.00	218,657	343,291	
B7	Open	No	0.88	0.00	0.88	1 Oct 2017	0.88	0.89	156.53	5,700,496	8,922,842	
B9	Open	No	0.02	0.00	0.02	1 Oct 2017	0.02	0.02	156.87	4,230,230,494	6,636,091,520	
B10	Open	No	0.25	0.00	0.25	1 Oct 2017	0.24	0.25	156.76	436,395,092	684,099,201	
C1	Open	No	0.59	0.00	0.59	1 Oct 2017	0.59	0.60	156.65	95,830,183	150,114,558	
E	Open	No	0.42	0.00	0.42	5 Jan 2018	0.41	0.43	156.14	65,866,801	102,845,592	

Class, Status, Direct Retail: A portfolio may have multiple classes, each of which may be open or closed to new investment, not all classes of a portfolio are available for direct retail investment as the different classes may be designed for/accessible to different investor types.

Cost Ratios: The Total Expense Ratio (TER) is the percentage of the net asset value of the class of the Financial Product incurred as expenses relating to the administration of the Financial Product. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. A current TER may not necessarily be an accurate indication of future TER's. The disclosed TERs are shown as an annual percentage based on data for the period from the date shown to 30 September 2020. The Transaction Costs Ratio (TC) is the percentage of the net asset value of the Financial Product incurred as costs relating to the buying and selling of the assets underlying the Financial Product. Transaction costs are a necessary cost in administering the Financial Product and impact Financial Product returns. The TC should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of Financial Product, the investment decisions of the investment manager and the TER. The disclosed TC is shown as an annual percentage based on data for the period from the date shown to 30 September 2020. The Total Investment Charges (TIC) is the sum of the TER of the relevant class and the TC of the Financial Product and is shown as a percentage depicting the annual costs relating to the investment of the Financial Product. Cost ratios are calculated using historical actual and/or estimated data and are provided solely as an indication/guide as to the annual expenses/costs that could be incurred. These ratios do not represent any current/actual charges or fees.

FYE: The disclosed Financial year end TERs (total expense ratios) are shown as an annual percentage based on data for the 1 year period to 30 June 2020.

Price, Participatory Interests and AUM: Data as at 31 December 2020

MDD: CIS regulations require a minimum disclosure document (MDD) to be compiled for all CIS portfolios, which must be viewed by an investor at point of sale. A link to the MDD that corresponds to the date of this QIR has been provided in the table above (for the relevant class of the portfolio) and we recommend that you review the MDD for further details on this portfolio.

Important information

Disclosures

Portfolio

Momentum Collective Investments (RF) (Pty) Ltd (the "Manager"), registration number 1987/004287/07, is authorised in terms of the Collective Investment Schemes Control Act, No 45 of 2002 (CISCA) to administer Collective Investment Schemes (CIS) in Securities. The Manager is the manager of the Momentum Collective Investments Scheme, and MMI Holdings Ltd is a full member of the Association for Savings and Investment SA. Standard Bank of South Africa Limited, registration number 1962/000738/06, is the trustee of the scheme.
Momentum Bond Fund is a portfolio of the Momentum Collective Investments Scheme and Momentum Asset Management (Pty) Ltd, registration number: 1987/004655/07, an authorised financial services provider ("FSP") under the Financial Advisory and Intermediary Services Act No. 37 of 2002 ("FAIS"), FSP number: 623, is the investment manager of this portfolio.
Momentum Bond Fund is a portfolio that derives its income primarily from interest-bearing instruments. The yield (where present) is current and calculated daily.
Modified duration (Interest rate risk) which is managed around the ALBI duration can result in relatively significant, short term capital volatility. Permanent capital loss for investors is possible if an issuer of one of the instruments held in the fund defaults.

Collective Investment Schemes (CIS)

CIS are generally medium to long-term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. CIS are traded at ruling prices and can engage in borrowing and scrip lending. The CIS may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. Different classes of units apply to portfolios, which are subject to different fees and charges. A schedule of fees and charges and maximum commissions is available on request from the Manager. The Manager reserves the right to close and reopen certain portfolios to new investors from time to time in order to manage them more efficiently in accordance with their mandate. This portfolio is valued daily at approx. 15h00 and monthly (last business day of a month) at approx. 17h00. Latest prices can be viewed at www.momentuminv.co.za and in some national newspapers. Forward pricing is used. Instructions must reach the Manager before 14h00 to ensure same-day value. The Manager does not provide any guarantee, either with respect to the capital or the return of this portfolio. Additional information on the proposed investment including, but not limited to, brochures, application forms and the annual report and any half yearly report can be obtained, free of charge, at www.momentuminv.co.za or on request from the Manager.

Any forecasts and/or commentary included in this document about the expected future performance of portfolios, asset classes or the market in general are not guaranteed to occur.

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