QIR Quarterly investor report Q4

as at 31 December 2020

momentum investments

Momentum Income Plus Fund

Assets managed by: ALUWANI Capital Partners

Managers corner

Meet your managers

Conrad Wood
BCom (Economics), CFA

Head of Fixed Income Strategies

Conrad is a founding member of ALUWANI Capital Partners, with more than 23 years in investment management. His work experience has been within the fixed-income market. At ALUWANI, he and his team seek to continue the successful fixed-income philosophy and process that they have developed over time, while leveraging the benefits of being in a smaller, more flexible institution.

Managed portfolio since 16 Nov 2015

Managers view

Economic overview

Q4 2020 saw a very strong quarter for domestic fixed income asset classes as markets recoup some of the losses incurred in H1 2020 and look forward to a more constructive 2021. Risk and uncertainty remain elevated, but this was largely set aside over the quarter. Listed property led the way off its very depressed base, delivering 22.19%. Nominal bonds (ALBI) performed very strongly, returning 6.71%, closely followed by inflation-linked bonds (IGOV) at 5.47%. An ever-declining cash return (STeFI) of 0.97% was a distant laggard.

The euphoria in fixed income markets this quarter was driven largely by global risk-on sentiment. Valuations had been beaten up and so the market was looking for an excuse to rally, it just needed a trigger. This came in the form of COVID vaccine announcements and a Democrat win in the U.S. elections. Loosely, this translates into a rebound in economic growth as economies can open again as well as a market friendly fiscal stimulus package in the U.S. along with more cordial international relations with global trading partners. Pent up demand for riskier assets unleashed substantial inflows into emerging markets, of which South Africa received its fair share, causing bond yields to decline by 57 basis points and ILB yields by 25 basis points on average. Notably, this surge in markets ignores the alarming escalation in global virus infections and the renewed lockdowns as a result, as well as the fact that domestic fundamentals in South Africa remain precarious to say the least. A classic case of not letting the facts get in the way of a good news story.

The domestic credit market performed relatively well over the period and continues to show signs of returning to normal after the unprecedented shock it experienced in H1 2020. Primary issuance has ticked up substantially, albeit across a narrower diversity of borrowers as investors continue to be selective across sectors and issuers. High-quality borrowers are well sought after with some of their credit spreads back to tighter levels than in the pre-COVID-19 environment. There are also far fewer discussions about potential payment holidays or debt restructuring than in the height of the uncertainty. Notably, the glut of liquidity related to the COVID support initiatives during the height of the pandemic seems to have made its way out of the system. Senior bank spreads, which benefitted from this liquidity, are widening back to more realistic levels. Despite this period of relative stability, the outlook for the domestic credit market remains uncertain as the economy experiences a second wave of virus infections and the government's initiatives to support growth and reforms for the economy continue to disappoint. There is a healthy tension between trying to find good investment opportunities for the fund against a very trying fundamental backdrop.

Portfolio overview

From a fund perspective, the diverse and granular nature of the fund's composition has allowed it to largely weather the COVID-19 storm in 2020 and perform well. We continue to favour the banks as they went into the pandemic with strong balance sheets and have being proactively provisioning for expected credit losses in 2020 and continue to maintain solid capital buffers along with sound funding and liquidity lines. We remain wary of small to medium corporates with high levels of debt and impaired access to funding and liquidity, while also being very cautious on exposure to state-owned enterprises (SOE's) during this period of fiscal turmoil for the government. We have bolstered the fund with a few new defensive investment opportunities at attractive credit spreads and we remain very selective in this market. Warren Buffett once said, ''It''s easier to stay out of trouble now than it is to get out of trouble later'' which is quite pertinent in this type of credit market. The fund's return has largely reverted to a stable, high income stream and it is maintaining a gross running yield of close to JIBAR+3%, albeit at much lower absolute levels given the reduction in money market rates.

Portfolio positioning

Duration – the interest rate risk in the fund remains low as per mandate and currently is at 0.25 years. Therefore, the fund's capital value does not have a high sensitivity to moves in interest rates (bond yields) but will move very much in line with moves in the short-term repo rate and credit spreads. The historical lows in the repo rate pose a challenge for many income funds, pulling yields down significantly.

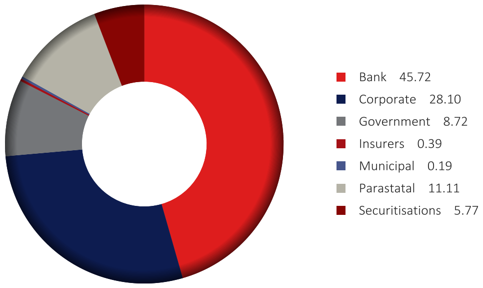
Credit spreads – spreads have largely stabilised and thus fund volatility has reduced somewhat. Looking forward, we expect a range-bound year for credit spreads, but there is significant uncertainty and event risk which could return. We do not see much potential for credit spreads to compress in this environment. Our focus remains on creating a robust fund that will withstand the current uncertainty and there are good opportunities created by the repricing of risk in the crisis.

Facts and figures

Holdings

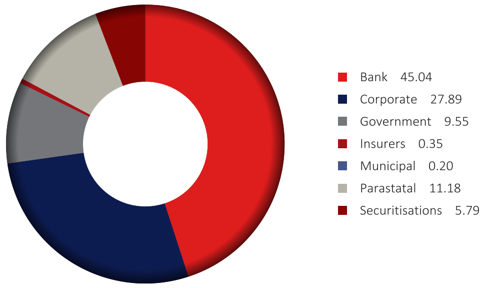
Q4 2020

Asset class (%)



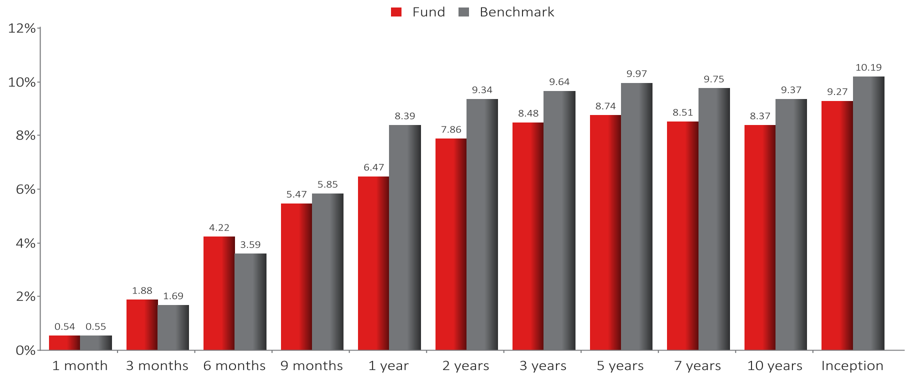
Q3 2020

Asset class (%)



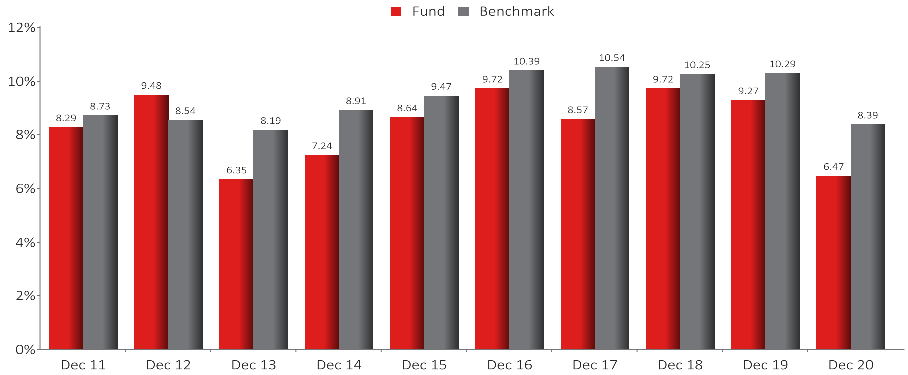
Performance

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 Income Plus Fund Class A (Inception 1 July 2005)

Benchmark: STeFI + 3%

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 Income Plus Fund R 10.65 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	1.17	0.00	1.17	1 Oct 2017	1.17	1.17	111.21	3,060,608,324	3,403,846,949	
B1	Open	No	1.74	0.00	1.74	1 Oct 2017	1.75	1.74	111.05	7,276,517	8,080,332	
B3	Open	No	0.01	0.00	0.02	1 Oct 2017	0.02	0.01	111.52	548,469	611,677	
B4	Open	No	2.43	0.00	2.44	1 Oct 2017	2.44	2.43	110.87	1,338,943	1,484,531	
B5	Open	No	0.99	0.00	1.00	1 Oct 2017	1.00	0.99	111.26	1,359,381	1,512,406	
B6	Open	No	0.88	0.00	0.88	1 Oct 2017	0.88	0.88	111.29	6,914,111	7,694,798	
B8	Open	No	0.93	0.00	0.93	1 Oct 2017	0.93	0.93	111.26	9,201	10,237	
C1	Open	No	0.71	0.00	0.71	1 Oct 2017	0.71	0.71	111.39	4,759,666,836	5,301,718,454	
E	Open	No	0.48	0.00	0.48	2 Apr 2019		0.51	111.42	743,650,881	828,554,866	

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 Income Plus Fund is a portfolio of the Momentum Collective Investments Scheme and ALUWANI Capital Partners (Pty) Ltd, registration number: 2015/112266/07, an authorised financial services provider ("FSP") under the Financial Advisory and Intermediary Services Act No. 37 of 2002 ("FAIS"), FSP number: 46196, is the investment manager of this portfolio.
Permanent capital loss for investors is possible if an issuer of one of the instruments held in the fund defaults. As this is the principal return driver of the fund it is also the principal risk of the portfolio. Significant widening in credit spreads on instruments held in the fund can result in short term capital volatility but not permanent capital loss.
This portfolio is permitted to invest in foreign securities which, within portfolios, may have additional material risks, depending on the specific risks affecting that country, such as: potential constraints on liquidity and the repatriation of funds; macroeconomic risks; political risks; foreign exchange risks; tax risks; settlement risks; and potential limitations on the availability of market information. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Investors are reminded that an investment in a currency other than their own may expose them to a foreign exchange risk.

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.

Although all reasonable steps have been taken to ensure the validity and accuracy of the information in this document at time of publication, the Manager does not accept any responsibility for any claim, damages, loss or expense, howsoever arising, out of or in connection with the information in this document, whether by a client, investor or intermediary.

This document should not be seen as an offer to purchase any specific product and is not to be construed as advice. Investors are encouraged to obtain independent professional investment and taxation advice before investing with or in any of the Manager's products.

Contact us

Contact details

Scheme

Momentum Collective Investments Scheme

Custodian/Trustee

Standard Bank of South Africa Limited

Telephone:	+27 (0)21 441 4100
Registration no.:	1962/000738/06

Management company

Momentum Collective Investments (RF) (Pty) Ltd
268 West Avenue, Centurion, 0157
PO Box 7400, Centurion, 0046

Facsimile:	+27 (0)12 675 3889
Call centre:	0860 111 899
Email:	ci.clientservice@momentum.co.za
Web:	www.momentuminv.co.za
Registration no.:	1987/004287/07

Investment manager

ALUWANI Capital Partners (Pty) Ltd
An authorised financial services provider, FSP Number: 46196
EPPF Office Park, 24 Georgian Crescent East, Bryanston East, 2152

Telephone:	+27 (0)21 204 3800
Facsimile:	086 204 0112
Email:	aluwani@aluwanicapital.co.za
Web:	www.aluwanicapital.co.za
Registration no.:	2015/112266/07

0860 111 899 | ci.clientservice@momentum.co.za | www.momentuminv.co.za