

Momentum Inflation Linked Bond Fund

Assets managed by: ALUWANI Capital Partners

Managers corner



Meet your managers



Conrad Wood
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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 21 Oct 2002



Managers view

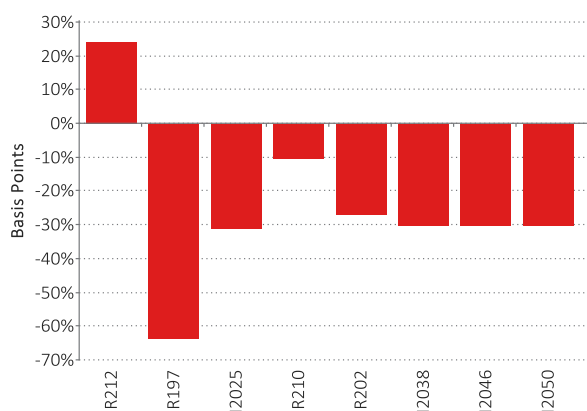
Economic overview

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.

ILB's (inflation-linked bonds) were caught up in the euphoria this quarter as global risk-on sentiment, triggered by vaccine announcements and a Democrat win in the U.S. elections, caused inflows into emerging market fixed income assets and substantial yield compression ensued. This was a welcome reprieve for ILB's which have endured a prolonged period of underperformance. The total return from ILB's can be divided into two components – the monthly accrual and the mark-to-market of the capital value due to the move in the real yields. The first component of return is the monthly accrual earned from the yield on the bonds and the inflation uplift. This component of the total return was a substantial 2.55% this quarter, with a 1.65% from inflation uplift and around 0.90% from yield accrual. The second component of the return is determined by the move in real yields of the bonds. Real yields moved substantially lower across the curve by around 25bps on average. The short-end led the way but was closely followed by the long-end of the yield curve. This bull steepening of the curve yielded capital gains to the tune of 2.92%. These components combined thus explain the index (IGOV) total return of 5.47%.

Last quarter, we highlighted the prospects for moderately strong performance from ILB's given that their real yields were so high. Despite this quarters rally, they still offer substantial yield which remains comfortably above 4%. However, inflation looks set to remain low and stable and the sovereign risk outlook is a significant concern as authorities struggle to get the government debt burden under control. This will likely mean significant government issuance of ILB's will persist and the real yield curve term premium will remain steep. These headwinds are likely to place a floor under real yields for now. Looking ahead, we quell the optimism we had for the asset class last quarter and given the substantial performance ILB's have delivered, we look to take some risk off the table.

Quarterly move in benchmark bonds



Portfolio overview

The fund delivered a significant absolute return this quarter as the asset class rallied. The last six months have gone a long way to regaining some of the poor performance delivered by ILB's during the period of low inflation, however the asset class performance still lags substantially over the medium-term. From a relative performance perspective, the fund struggled to keep up with the IGOV benchmark this quarter. Our long duration position added positive return, but this was offset by the steepening of the ILB curve and a widening of bank and state-owned enterprise (SOE) credit spreads.



Portfolio positioning

Duration – we remain marginally overweight duration as real yields move lower, but given the view that ILB’s may once again start to face headwinds, we are looking to reduce duration at least to neutral and then underweight if opportunity presents itself.

Yield curve – the real yield curve is very steep and given that we feel short-end real rates have reached their bottom, we have moved exposure up the curve into the medium-dated maturities and are looking for opportunity to stretch out into the long-dated maturities. So, we are now positioned for a flattening of the yield curve after a lengthy period of riding the steepening trend.

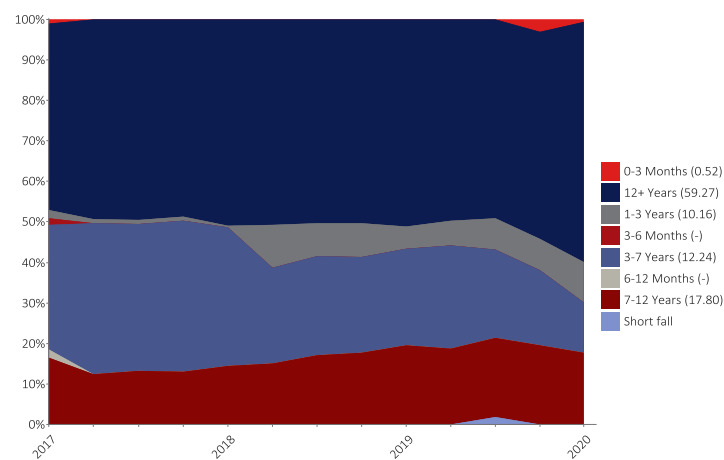
Credit – issuance and spread moves are fairly benign in the ILB market. We have reduced credit exposure given the deterioration of the macro backdrop and now wait for spreads to offer value again before re-entering.

Facts and figures



Holdings

Maturity spread (%)



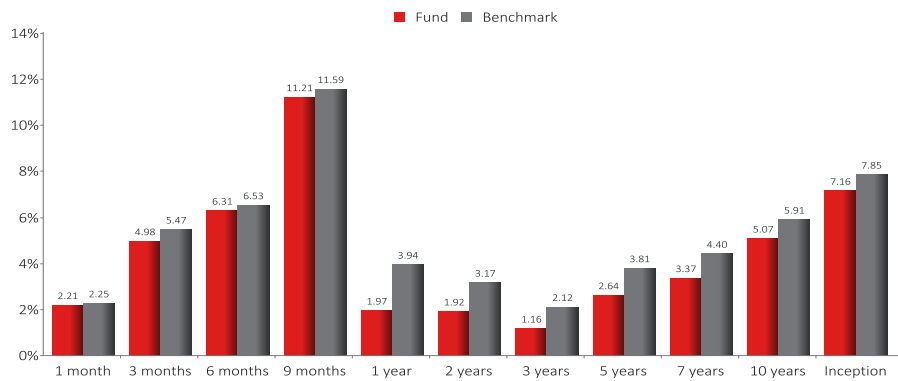
Q3 2020 to Q4 2020

Sector (%)	Q4	Q3	Chg
Cash/Money Market	0.52	3.10	-2.58
Bonds - Floating Rate	3.10	2.82	0.28
Bonds - Inflation Linked	96.36	94.05	2.30
Bonds - Zero Coupon	0.02	0.02	0.00



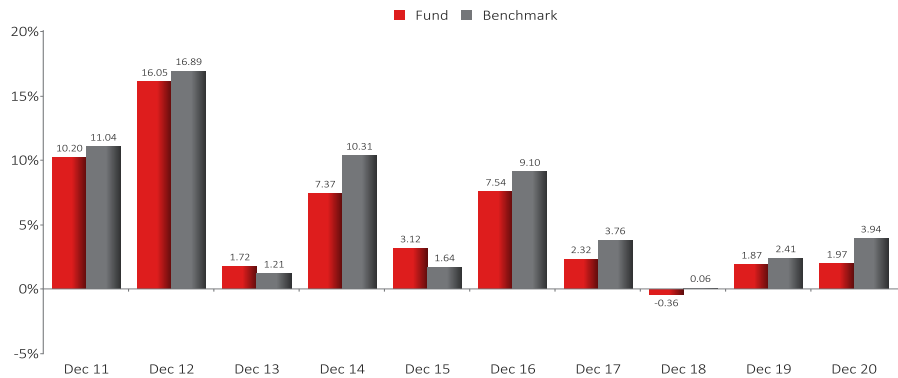
Performance

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 Inflation Linked Bond Fund Class A (Inception 21 October 2002)

Benchmark: FTSE/JSE Inflation-Linked (CII) Government Index

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.

i Information

Momentum Inflation Linked Bond Fund

R 842.26 million

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	
A	Open	Yes	1.17	0.00	1.17	1 Oct 2017	1.18	1.18	154.99	26,362,971	40,859,938	
B1	Open	No	0.02	0.00	0.02	1 Oct 2017	0.03	0.03	155.88	240,248,819	374,505,835	
B2	Open	No	0.87	0.00	0.87	1 Oct 2017	0.89	0.88	155.20	7,190,302	11,159,253	
B3	Open	No	0.25	0.00	0.25	1 Oct 2017	0.26	0.26	155.65	267,082,909	415,718,770	
E	Open	No	0.18	0.00	0.18	5 Jan 2018	0.19	0.18	155.69	6,304	9,814	

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 Inflation Linked Bond 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.

Momentum Inflation Linked 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) of inflation linkers are high and investors can experience 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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