momentum investments

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

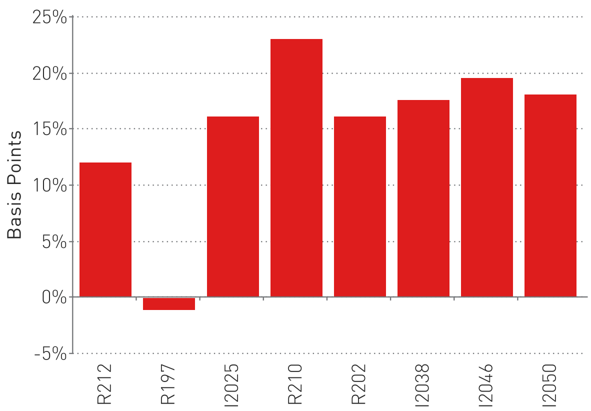
Economic overview

Q4 of 2018 was a mixed bag for local fixed income asset classes as market sentiment continues to lurch between risk-on and risk-off periods, depending on the latest data release or breaking news item. Nominal bonds led the way, with the ALBI returning 2.74%. Bond yields, although volatile intra-period, ended the quarter roughly unchanged and the total return was virtually all income accrual rather than capital gain. Cash (STeFI) delivered 1.78%, benefitting slightly from the pre-emptive rate hike in November, while inflation-linked bonds (ILBs) were barely positive as real yields rose (IGOV = 0.28%) and listed property sharply negative, returning -3.99%.

ILB's struggled again this quarter, managing to just scrape together a positive return. Real yields rose an average 15 basis points across the curve, as the Reserve Bank hiked rates, global real yields rise and domestic inflation remains benign. There was no real discernible change in shape of the curve during the sell-off and all maturities moved up roughly equally in yield. Real yields are now > 3.30% at the long-end of the curve and in our view these bonds find some support here as inflation rises, albeit it in a measured fashion and yields are at fairly elevated levels from a valuation perspective.

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 from the yield on the bonds and the inflation uplift. This component of the total return was 1.98% this quarter, with 1.20% from inflation uplift and around 0.78% from yield accrual. The second component of the return is determined by the move in real yields of the bonds. Real yields moved higher over the quarter, thereby generating capital losses to the tune of 1.70%. These components combined thus explain the index (IGOV) total return of 0.28%.

Quarterly move in real benchmark bonds



Portfolio overview

The portfolio outperformed its IGOV benchmark over the quarter, although absolute returns from the asset class remain under pressure as highlighted. The positive relative performance came principally from an underweight duration position as real yields rise, given our caution on the prospects for ILB's. In addition, our preference for medium-dated maturity bonds rather than the ultra-long-dated part of the curve continues to benefit. Lastly, credit continues to perform well from a yield enhancement and a spread compression perspective which contributed to relative performance.

Portfolio positioning

Duration – we have moved marginally overweight duration relative to the IGOV Index for the first time in many years and look to add to this if real yields rise any further. The asset class has been beaten up badly over a long period and at real yields > 3% and inflation set to rise, we believe ILB's may start to make up some ground. We end the quarter at 0.15 yrs. long relative to the index.

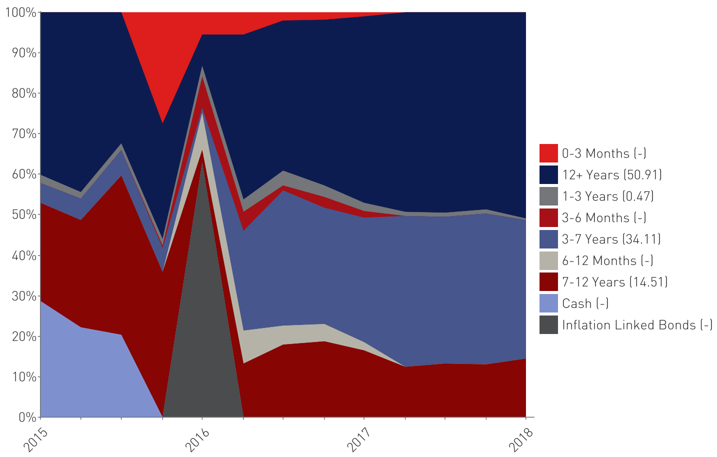
Yield curve – we expect the yield curve to start to flatten as yields rise and we will rotate the portfolio toward the longer maturities as we add duration.

Credit – credit spreads in ILB space have been stable as there has been very little activity, but we are somewhat concerned that this cycle appears mature and our preference is to reduce credit spread sensitivity in the portfolio.

Facts and figures

Holdings

Maturity spread (%)

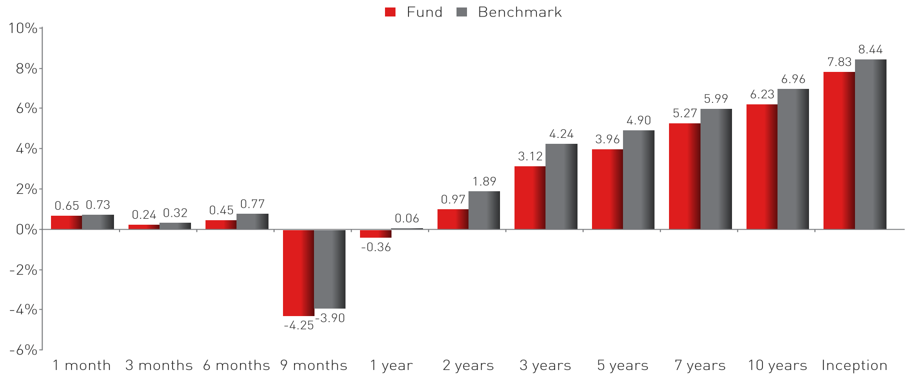


Q3 2018 to Q4 2018

Sector (%)	Q4	Q3	Chg
Cash/Money Market	-3.69	-1.98	-1.70
Bonds - Floating Rate	0.17	0.64	-0.48
Bonds - Inflation Linked	103.50	101.31	2.19
Bonds - Zero Coupon	0.02	0.03	-0.01

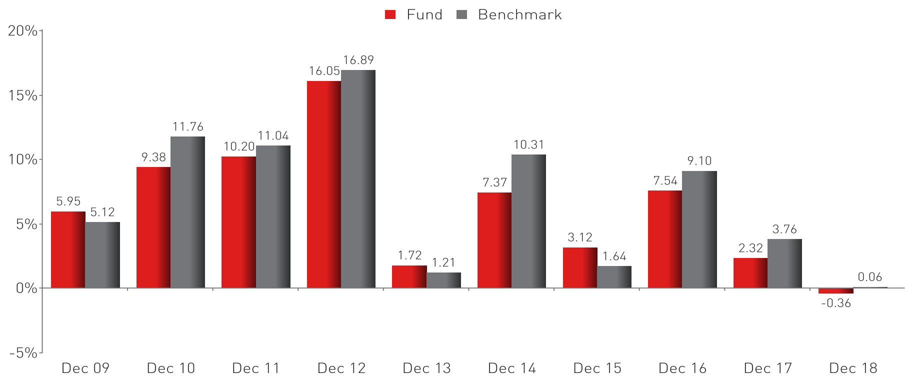
Performance

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: Inflation Linked Bond Index (IGOV)

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. 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 31/12/2018, 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

Display Name R 1.21 billion

Class	Status	Direct Retail	Cost Ratios as at 30 September 2018					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	1.19	0.00	1.19	1 Sep 2016	1.18	1.18	156.12	56,422,505	88,084,444	
B1	Open	No	0.04	0.00	0.04	1 Sep 2016	0.03	0.03	156.99	314,110,199	493,133,429	
B2	Open	No	0.90	0.00	0.90	1 Sep 2016	0.89	0.89	156.33	712	1,114	
B3	Open	No	0.25	0.00	0.25	6 Jan 2017	0.26	0.26	156.79	401,285,988	629,181,001	
E	Open	No	0.19	0.00	0.19	5 Jan 2018	0.19	0.19	156.84	6,304	9,887	

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 2018. 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 2018. 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 2018.

Price, Participatory Interests and AUM: Data as at 31 December 2018

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. Please note that VAT, applicable to fees and charges, with effect from 1 April 2018, increased from 14% to 15%. 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. Portfolios are valued daily at approx. 15h00, 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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