Momentum AM Bond Fund

Unitised Funds | Pooled Portfolio Range

31 October 2016

momentum asset management

Fixed Income Strategies

Fixed Income

Product profile

The Momentum AM Bond Fund is a core fixed income portfolio that seeks to generate out performance relative to the All Bond Index over the long-term. This portfolio is ideally suited to clients with a low-medium risk profile who are looking for a source of regular income whilst being prepared to take some risk in exchange for capital gains. In addition the fund is also suited to clients seeking to customise their investment strategies through the use of specialist investment portfolios, or where member choice options are available to the members. This portfolio is also available as a segregated mandate.

Investment strategy

Active management, aimed at generating superior performance, is achieved by extracting value from several sources in the fixed income market. These sources include:

- Duration;
- Yield curve;
- Credit;
- Repos;
- Inflation linked debt; and
- Alternative strategies

The Momentum AM Bond Fund reflects the Fixed Interest Team's best investment view, which takes advantage of opportunities in each of the above areas, thus diversifying the risk, and maximising the potential for adding value. Derivatives are actively used to eliminate conflicts between the strategies in the various areas of added value.

Performance objective

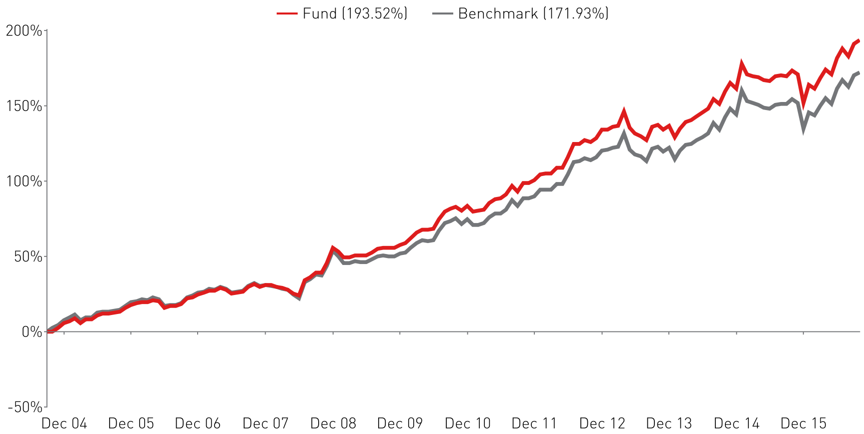
The Fund's objective is to outperform the BEASSA All Bond Index "ALBI".

Fund details

Inception	1 November 2004
Minimum investment size	No minimum investment
Termination	30 days written notice
Market value	R 523.27 million
Benchmark	
BEASSA All Bond Index (ALBI)	

Fund Managers
Conrad Wood
BCom (Economics), CFA

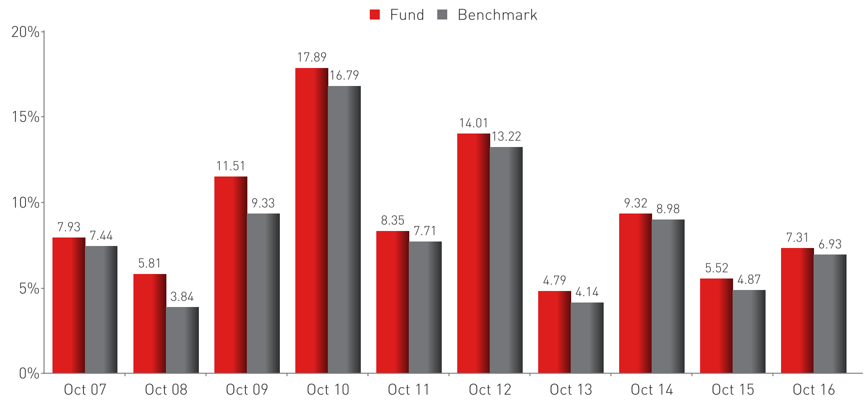
Cumulative performance since inception



Performance – returns (%)

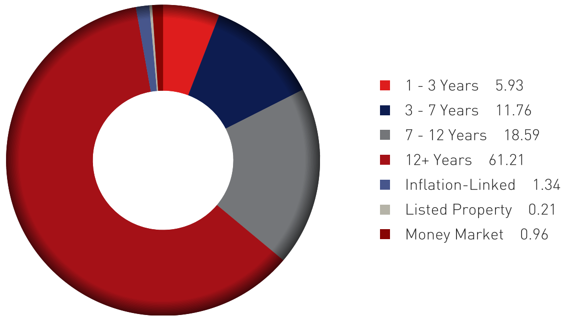
	Fund	Benchmark
Quarter	1.90	1.81
1 year	7.25	6.93
3 years	7.35	6.91
5 years	8.12	7.57
Inception	9.38	8.49

Performance – annual returns (%)

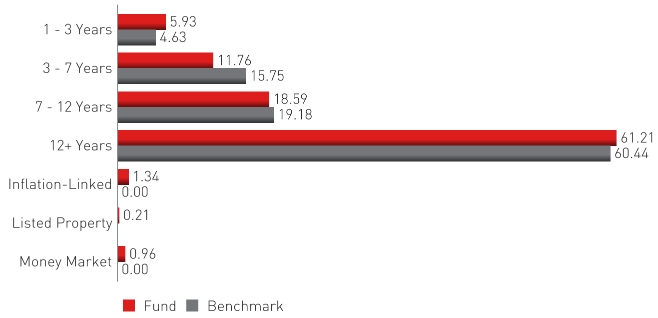


Performance shown is gross and includes all income reinvested, for periods over 1 year the returns are annualised. Source: Momentum Asset Management.

Portfolio composition: term to maturity



Portfolio & Benchmark weightings (%)



Quarterly commentary as at 30 September 2016

The repo rate remained unchanged for the quarter at 7% as the authorities left policy on hold at each of the two meetings during the period. They began the quarter in a hawkish mood, concerned about the rising local inflation profile and the global event risk related to the U.S. FED raising their policy rate and how this would impact flows to emerging markets. However, their rhetoric softened significantly as the rand strengthened and the domestic inflation outlook improved, notwithstanding the global risk related to FED action still present, they ended the quarter by announcing that they are "likely done hiking if the current outlook for growth and inflation persists". This backdrop, together with a supportive global environment for investment flows to emerging markets drove strong performance from nominal bonds (ALBI returned 3.42%), while inflation-linked bonds (ILB's) continued to lag given the improving inflation outlook, limping home at 0.42%, trailing cash with the Stefi returning 1.86%. We would agree with their sentiment and do not expect further hikes for some time. However, in our minds that does not necessarily mean that the next move is a cut. There is likely a window of opportunity here for fixed income assets to perform as rates are stable, inflation declines sharply and the global backdrop seems to support flows to emerging markets. Participating in this rally is not without risk though and the next quarters are thwart with global and local political risk, potential FED tightening of policy and the prospect of a sub-investment grade credit rating for S.A. In addition, we believe that ultimately, the normalisation of global policy and the vulnerabilities present in emerging markets will drive investment flows lower and the rand weaker, resulting in the need to tighten local monetary policy further. The fundamental view is a challenging one for local fixed income given all the risks that abound and thus we have a fairly cautious weighting to the more aggressive fixed income assets.

Portfolio overview

The unprecedented volatility in the bond market continues and although the overall performance from bonds was fairly good, it hides a keenly balanced reality with the market prone to lurch either way on new newsflow. There isn't really a trending cycle in place. The portfolio has held up relatively well, outperforming the ALBI (gross of fees). We are cautious on the prospects for bonds so duration positioning remains a detractor in a strong market, however positive contributions from yield curve and credit exposure have helped the portfolio keep up with a strongly performing ALBI.

Portfolio positioning

The key views in the fund for the next quarter are:

Underweight duration – 0.30 years. We have used the strength in yields to reduce duration further as risks build in developed bond markets, while emerging markets remain plagued by their own idiosyncratic own goals, not least of all our own local political battle.

Yield curve – the rally in yields saw a strange bowing effect in the yield curve, with the middle of the curve lagging somewhat in the move down. We have transitioned the portfolio to an overweight position in the ultra-long-end as we are more comfortable that the yield curve can flatten somewhat given the

Contact details

Kevin Milne | Fund Specialist | +27 (0)21 658 7078 | +27 (0)82 900 3407 | kevin.milne@momentum.co.za

Disclaimer

Momentum Asset Management (Pty) Ltd
13th Floor, Tower 2, 102 Rivonia Road, Sandton, 2196. Private Bag X9959, Sandton, 2146.
Telephone +27 (0)11 505 1000 Facsimile +27 (0)11 505 1440 AM.Info@momentum.co.za www.momentum.co.za/assetmanagement
Momentum Asset Management, registration number 1987/004655/07, VAT No. 4200149096, is an authorised financial services provider,
FSP licence number 623 and an approved Retirement Fund Administrator (No. 24/34).
Directors: E Gouws | D Lessing | A Nortjé | M Vilakazi.
Company Secretary: V Mngambi.