Momentum AM Bond Fund

Unitised Funds | Pooled Portfolio Range

28 February 2019

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

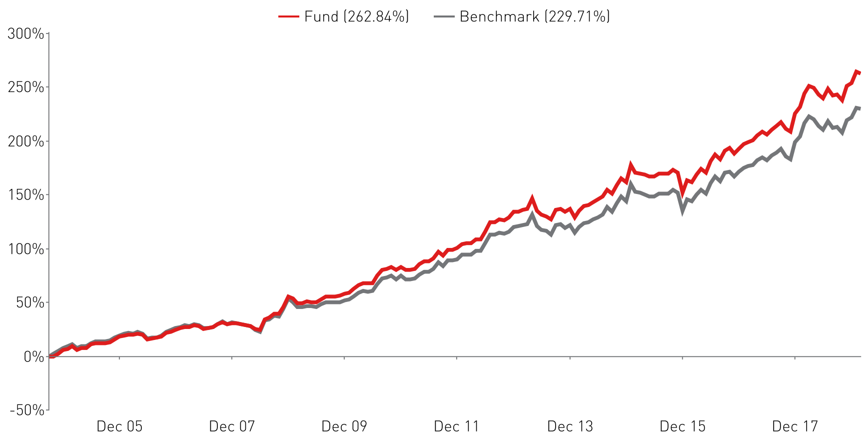
The Fund's objective is to outperform the BEASSA All Bond Index "ALBI".

Fund details

Inception	1 November 2004
Minimum investment size	No minimum investment
Termination	30 days written notice
Market value	R 111.38 million
Benchmark	
JSE ASSA All Bond Index (ALBI)	

Fund Managers
Conrad Wood
BCom (Economics), CFA

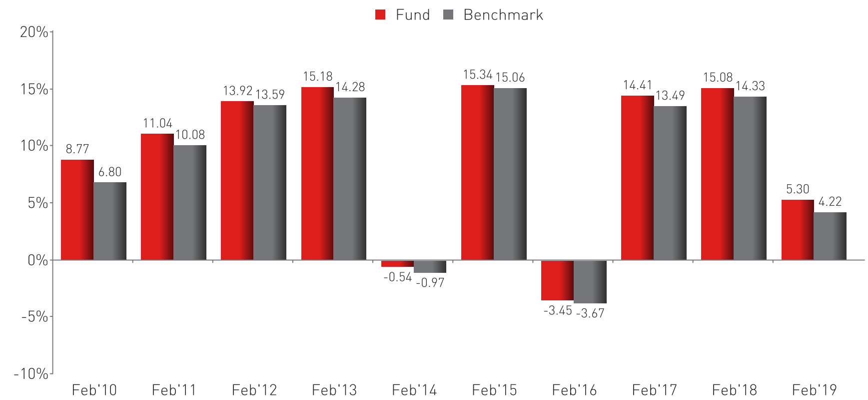
Cumulative performance since inception



Performance – returns (%)

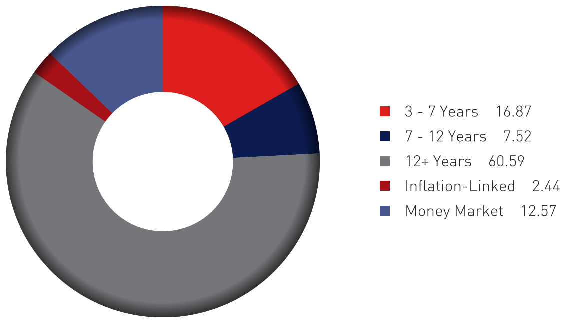
	Fund	Benchmark
Quarter	3.34	3.10
1 year	5.31	4.21
3 years	11.51	10.58
5 years	9.07	8.42
Inception	9.41	8.51

Performance – annual returns (%)

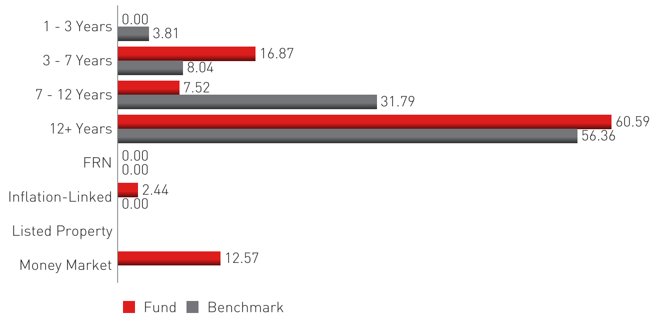


Performance shown is gross and includes all income reinvested, for periods over 1 year the returns are annualised. Source: Momentum Asset Management.

Portfolio composition: term to maturity



Portfolio & Benchmark weightings (%)



Quarterly commentary as at 31 December 2018

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 were barely positive as real yields rose (IGOV = 0.28%) and listed property sharply negative, returning -3.99%.

We believe that fundamentally there is a risk-off environment entrenching itself for emerging markets. After a prolonged period of extreme surplus global liquidity that papered over debt cracks, forced currencies stronger and interest rates abnormally low, we are arguably entering a period of the unwind of this excess. This looks particularly challenging for South Africa given that we have become overly dependent on global capital flows to fund domestic imbalances that have built up and been exacerbated by the lack of economic growth. Reflective of this is our teetering on the brink of a sub-investment grade sovereign credit rating which would severely impair bond and currency returns. Valuations of asset classes have adjusted meaningfully (but not fully) to this backdrop and so we are likely to experience more risk-on rallies when news flow turns positive, but the underlying trend remains weaker in our view as global monetary conditions tighten.

10 year yields were largely range-bound between 9.20–9.60% this quarter. Near the highs of this range we added duration on a strictly tactical basis going neutral relative to the ALBI. The late quarter pull-back in yields, as we experienced a period of relative calm, gave us the opportunity to revert back to 0.30 years underweight versus benchmark, as we reiterate that yields should continue to move higher in the new-year. We remain positioned for a flatter yield curve, but given the benign moves in the shape of the curve this quarter, there was no contribution to relative performance. In addition, credit exposure continues to perform well from a yield enhancement and a spread compression perspective. However, we caution that this cycle looks mature and our preference is to reduce credit spread sensitivity in the portfolio. Lastly, we have begun to add inflation-linked bond exposure going into the new-year as valuations have improved and inflation looks set to move higher. The overall outlook for the new-year is very tough to call, but still appears decidedly asymmetric to us i.e. a best case scenario looks to be an income accrual type return of around 9% with little capital gain on offer, while a prolonged risk-off environment would see a substantially lower return outcome than that.

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Disclaimer

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