Momentum AM Inflation-Linked Bond Fund

Unitised Funds | Pooled Portfolio Range

28 February 2019

momentum asset management

Fixed Income Strategies

Fixed Income

Product profile

The Momentum AM Inflation-Linked Bond Fund is an actively managed inflation linked bond portfolio that seeks to generate out performance relative to the Inflation Linked Bond Index over the long-term. This portfolio is ideally suited to clients with a low-medium risk profile who require inflation linked, fixed income returns. 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 inflation-linked sources. These sources include:

- Duration;
- Yield curve;
- Credit;
- Alternative strategies

The Momentum AM Inflation-Linked Bond Fund reflects the Fixed Interest Team's best investment view, which takes advantage of opportunities in each of the above areas. Views are taken across a diverse set of opportunities within the inflation linked bond market and risk limits are constrained within the framework of a defined mandate.

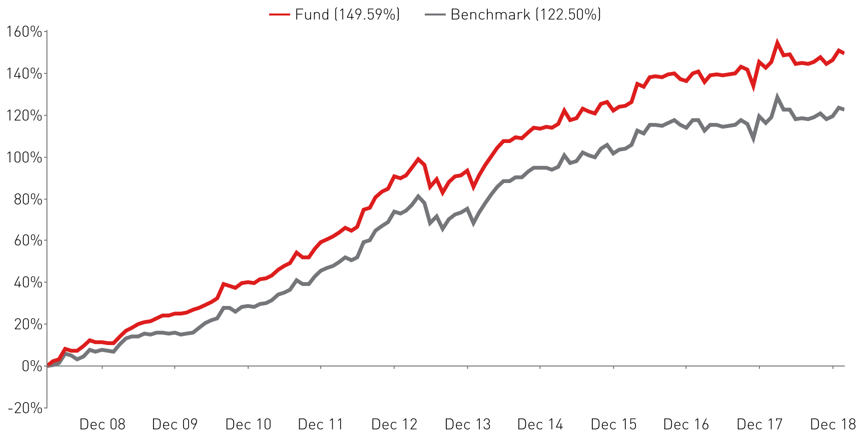
Performance objective

The Fund's objective is to outperform the Barclays Inflation Linked Bond Index ("ILBI").

Fund details

Inception	1 April 2008
Minimum investment size	No minimum investment
Termination	30 days written notice
Market value	R 790.92 million
Benchmark	
Barclays Inflation Linked Bond Index ("ILBI")	
Prior to August 2010 the Fund was not benchmark cognisant.	
Fund Managers	
Conrad Wood	
BCom (Economics), CFA	

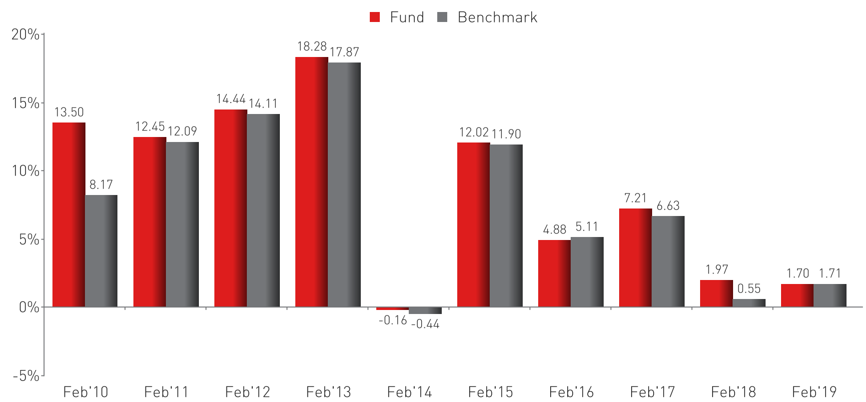
Cumulative performance since inception



Performance – returns (%)

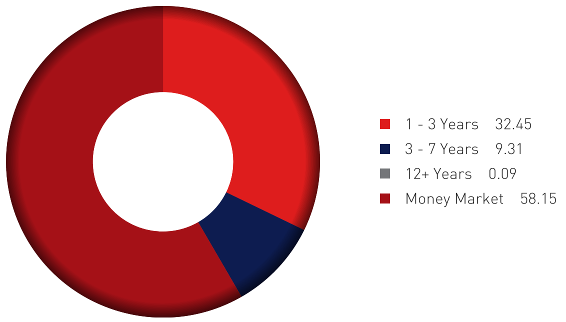
	Fund	Benchmark
Quarter	2.00	1.98
1 year	1.69	1.70
3 years	3.60	2.93
5 years	5.49	5.10
Inception	8.74	7.60

Performance – annual returns (%)

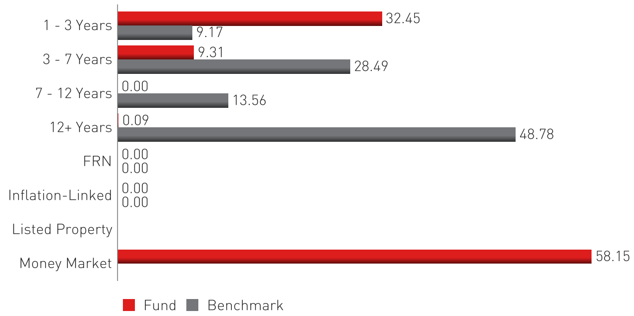


Performance shown is gross and includes all income reinvested, for periods over 1 year the returns are annualised. Source: Momentum Asset Management.

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. Valuations of asset classes have adjusted meaningfully 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.

Over the quarter we have remained overweight nominal bonds relative to ILB's as the inflation outlook implied by the yield differential is too high. Thus nominal bonds are outperforming ILB's as the inflation reality proves more benign. We have however reduced the size of the asset allocation position given how the substantial the performance differential between the two has been (profit taking). However, given our cautious stance on the macro environment, we are underweight duration in both the nominal and inflation-linked components of the portfolio. In addition, from a yield curve perspective, we prefer long-dated nominal and ILB exposure and we expect both of these yield curves to flatten. Lastly, credit exposure still continues to perform well from a yield enhancement and a spread compression perspective. We do caution that this cycle looks mature and our preference is to reduce credit spread sensitivity in the portfolio. Outperformance of the benchmark has slowed compared to earlier quarters as we have been unwinding the positioning that has generated substantial alpha during 2018. We are switching from nominals to ILB's, going less underweight duration and reducing credit. Hopefully this sets up the portfolio for strong relative performance as the cycle turns.

Contact details

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