Momentum AM Money Market Fund

Unitised Funds | Pooled Portfolio Range

28 February 2019

Product profile

The Momentum AM Money Market Fund is an actively managed money market fund investing in money market and other fixed income instruments, offering widespread diversification and high liquidity. This portfolio caters for clients seeking an enhanced income and capital stability. This portfolio is suited to investors seeking returns superior to those of pure cash holdings, but with a commensurate risk profile. This portfolio is ideal for clients with a low risk profile who wish to preserve capital while maintaining liquidity. This portfolio is also available as a segregated mandate.

Investment strategy

The Momentum AM Money Market Fund is a fully discretionary money market portfolio investing in cash and cash equivalent instruments. The emphasis on diversification of credit risk, high liquidity and management of interest rate risk makes this portfolio more attractive than traditional bank accounts. The objective of this low risk money market solution is to deliver a competitive yield without compromising on liquidity or initial capital invested.

The following strategies are used to enhance yield:

- Duration;
- Yield curve;
- Credit;
- Term and liquidity premia

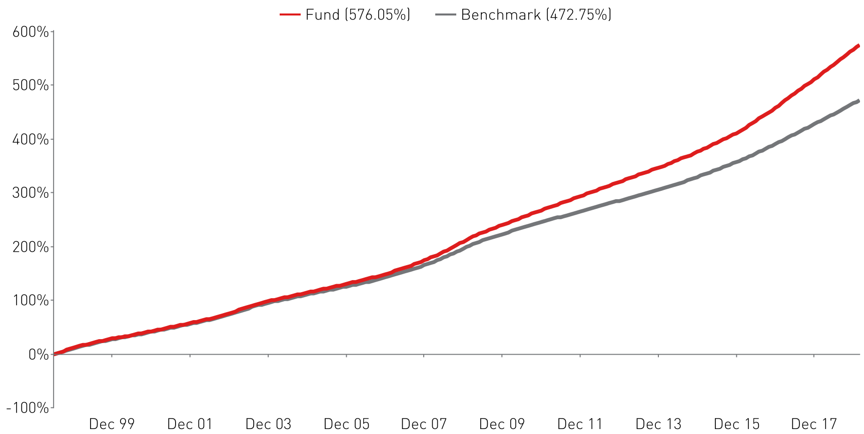
Performance objective

The Fund's objective is to outperform the Short Term Fixed Interest Index (STeFI) Composite.

Fund details

Inception	1 July 1998
Minimum investment size	No minimum investment
Termination	30 days written notice
Market value	R 2.37 billion
Benchmark	
STeFI	
Fund Managers	
Conrad Wood	
BCom (Economics), CFA	

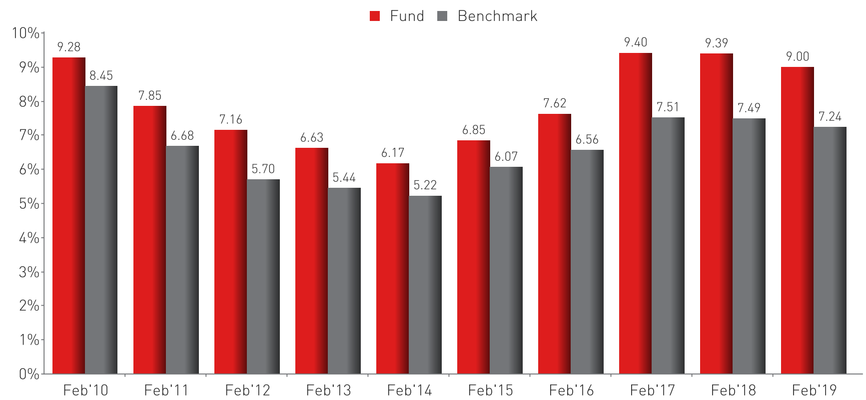
Cumulative performance since inception



Performance – returns (%)

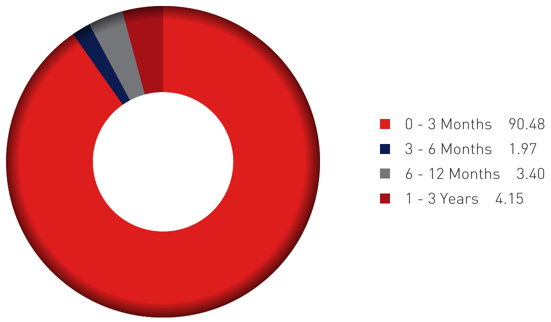
	Fund	Benchmark
Quarter	2.12	1.76
1 year	8.99	7.26
3 years	9.26	7.42
5 years	8.44	6.97
Inception	9.68	8.81

Performance – annual returns (%)

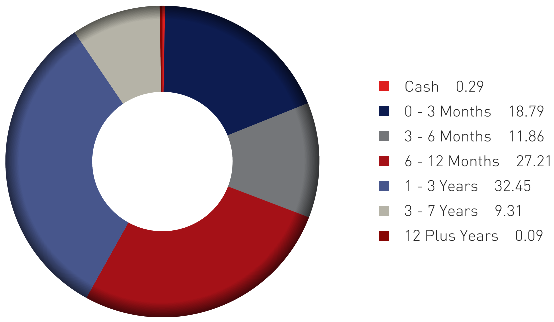


Performance shown is gross and includes all income reinvested, for periods over 1 year the returns are annualised. Source: Momentum Asset Management.

Portfolio composition: term to maturity



Average weighted modified duration (interest rate risk)



Quarterly commentary as at 31 December 2018

After warning for a while that the repo rate may need to move higher, the monetary authorities finally followed through this quarter, hiking by 0.25% at their November meeting. The hike reset money market yields higher, with the 3-month jibar rate up by 15 basis points to 7.15%, while the 12-month rate only moved up 5 basis points to end at 8.35%. Based on these jibar rate levels the total return for the Stefi index was 1.78% for the quarter.

It's taken so long because this was a difficult decision to make given that the economy is barely growing and inflation is well within the target band. This move was rather a shot across the bow, somewhat pre-emptively looking to stay on the curve rather than fall behind it. The authorities have made it clear that we do not have a domestic demand problem. Their hawkishness stems from external factors that are precarious 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. The authorities are implementing a spot of "tough love". They see what is potentially coming and are trying to navigate us safely through the risk. Higher rates reduce consumption and increase saving, both necessary to reduce our imbalances, while maintaining inflation expectations within the target band.

While there is certainly a chance that rates move higher still, we feel that the bar for a further move remains high given that growth is abysmal and inflation continues to surprise in its stability. Authorities are thus likely to remain hawkish but not actually hike further, given our cushion of high real rates relative to other EM's. Thus money market rates are likely to remain range-bound, gradually moving up in H2 2018. The risk case is that the traditional death loop for emerging markets sets in - as capital exits emerging markets, the resulting currency weakness places upward pressure on inflation and central banks are forced to raise interest rates despite the fact that economic growth is benign, which in turn suppresses the economy further resulting in wider risk premia and further capital outflows. This is something to monitor later in the year as policy normalization by developed market authorities causes global growth to slow down. We go into the new quarter with a neutral duration position (60 days), with an inclination to look at longer dated fixed rate exposure (12 months), given that yields are comfortably above 8%. In addition, we remain selective on what credit exposure we add as credit spreads have tightened and fundamentals are not supportive. We expect the STeFI to deliver around 7.30% over the next year, with active money market portfolios returning around 8%.

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Disclaimer

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