Momentum AM Bond Fund

Unitised Funds | Pooled Portfolio Range

31 May 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

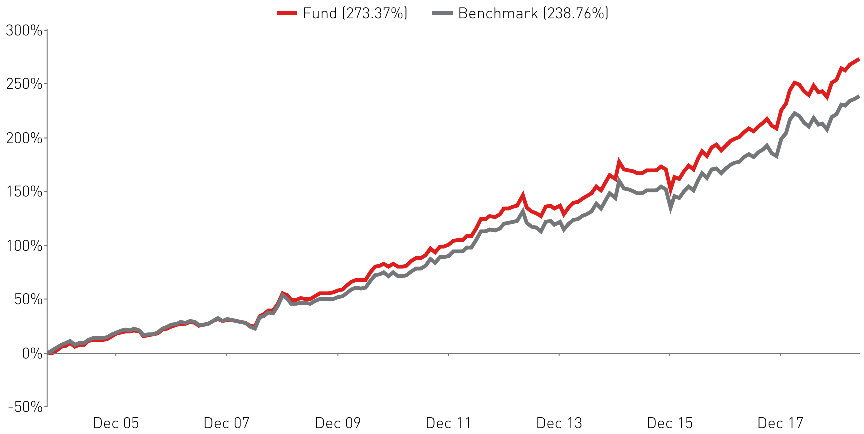
The Fund's objective is to outperform the BEASSA All Bond Index "ALBI".

Fund details

Inception	1 November 2004
Minimum investment size	No minimum investment
Termination	30 days written notice
Market value	R 114.67 million
Benchmark	
JSE ASSA All Bond Index (ALBI)	

Fund Managers
Conrad Wood
BCom (Economics), CFA

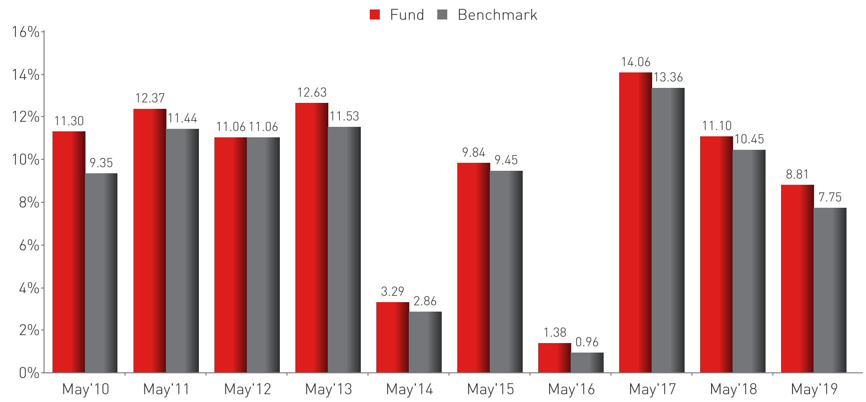
Cumulative performance since inception



Performance – returns (%)

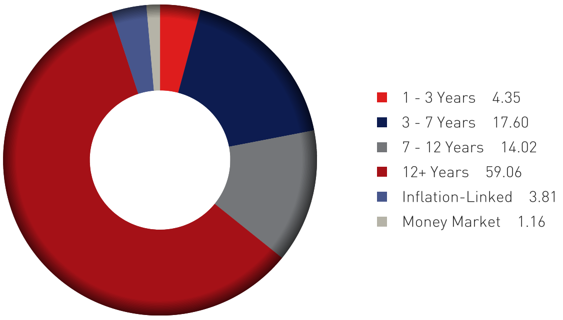
	Fund	Benchmark
Quarter	2.90	2.74
1 year	8.83	7.75
3 years	11.30	10.49
5 years	8.95	8.30
Inception	9.45	8.56

Performance – annual returns (%)

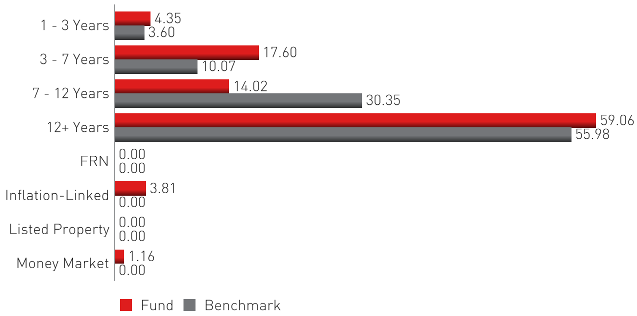


Performance shown is gross and includes all income reinvested, for periods over 1 year the returns are annualised. Source: Momentum Asset Management.

Portfolio composition: term to maturity



Portfolio & Benchmark weightings (%)



Quarterly commentary as at 29 March 2019

Q1 of 2019 saw a significant swing in risk sentiment for fixed income asset classes after a very pedestrian H2 2018. Nominal bonds led the way, with the ALBI returning 3.81% as yields rallied an average 20 basis points across the curve. Cash (STeFI) delivered 1.77%, while last year's laggards continued to struggle as inflation-linked bonds were barely positive (IGOV = 0.48%) and listed property only slightly better, returning 1.45% for the quarter.

The change in sentiment for nominal bonds came early on in the quarter as the U.S. FED caught many off guard by implying a dramatic reversal in their expected continuation of policy normalization. This was closely followed by the ECB in Europe offering a sobering outlook for their region and the puzzle was completed by China revising their targeted growth band down and injecting further stimulus into their ailing economy. We have moved rapidly from a world that was wrestling with how to deal with policy normalization and an unwinding of excesses from the past to one panicked about a synchronised global downturn and how best to stave this off by returning to policy easing. Not much of this Jekyll and Hyde about turn has even been validated by hard data yet (especially in the U.S.) and thus the risk is that there is much ado about nothing. For now though, the step-back by policy makers in the developed world feeds directly through to emerging markets who are granted a reprieve by potential for policy easing, a boost to commodity prices and resumption in capital flows to riskier markets.

We find little to get excited about with the backdrop sketched above. A global growth slowdown, while perhaps temporarily supportive for risk assets, would pose a challenge to indebted emerging markets, especially those overly dependent on trade and global capital flows. South Africa falls squarely in this camp, its challenge exacerbated by falling trend growth and deteriorating fiscal sustainability, a combination that will inevitably push Moodys to change our rating outlook to negative. The rally in yields this quarter has stretched valuation again and we would feel more comfortable with 10yr yields back above 9%. To this end we have reduced duration further as yields have rallied and we end the quarter at 0.45 yrs UW relative to the ALBI. We remain positioned for a flatter yield curve as the difference between long and short rates is too wide. In addition, credit exposure continues to perform well from a yield enhancement and a spread compression perspective, but given that this remains the only asset class that has not repriced in response to the risk environment, we prefer to opportunistically reduce credit duration and increase credit quality. Lastly, we have exposure to short-dated ILB's as we believe that real yields are too high for the more dovish monetary policy backdrop that will persist for a while. Overall, while we have started the year with a change in risk sentiment, there are more than enough factors that will begin to weigh as the year progresses and we are cautious.

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
268 West Avenue, Centurion, 0157. PO Box 7400, Centurion, 0046.
Telephone +27 (0)12 671 8911 Facsimile +27 (0)12 675 3889 emailus@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.
Company Secretary: R Reddy.

+27 (0)12 671 8911 emailus@momentum.co.za www.momentum.co.za/assetmanagement @MomentumAM www.youtube.com/MomentumAM