Momentum AM Inflation-Linked Bond Fund

Unitised Funds | Pooled Portfolio Range

31 May 2019

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.

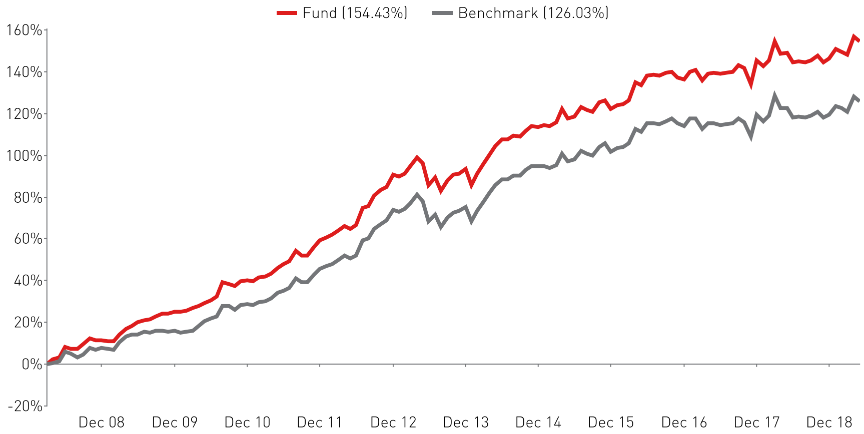
Performance objective

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 808.08 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	

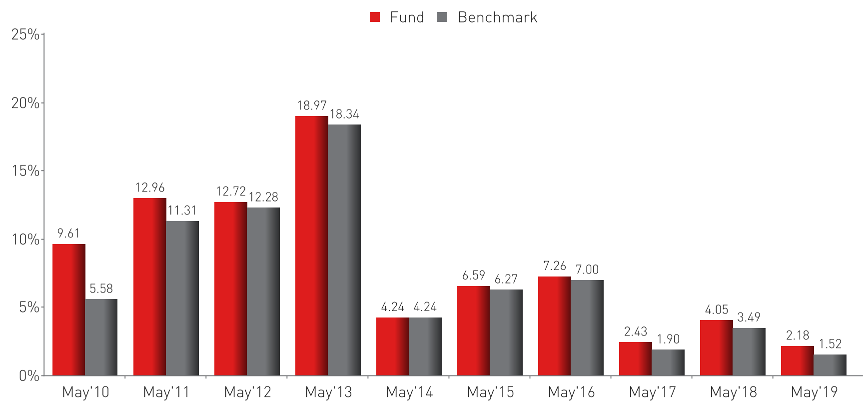
Cumulative performance since inception



Performance – returns (%)

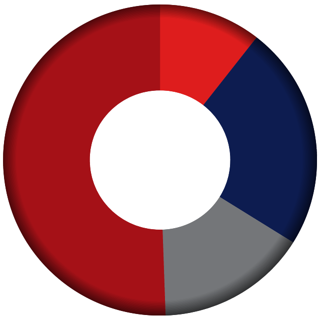
	Fund	Benchmark
Quarter	1.94	1.58
1 year	2.18	1.52
3 years	2.88	2.30
5 years	4.48	4.01
Inception	8.72	7.57

Performance – annual returns (%)

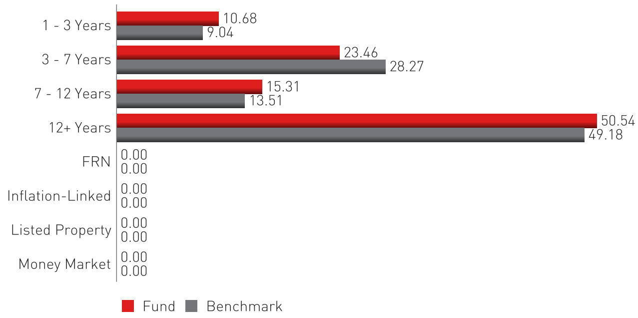


Performance shown is gross and includes all income reinvested, for periods over 1 year the returns are annualised. Source: Momentum Asset Management.

Portfolio composition: term to maturity



Portfolio & Benchmark weightings (%)



Quarterly commentary as at 29 March 2019

ILB – Conrad Wood Mar 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.

ILB's continue to struggle with a backdrop of benign inflation and rising real yields. They scraped together a positive return, but still underperformed cash. Real yields rose an average 10 basis points across the curve, although this looks purely to be related to increased government supply and lack of investor demand as one would have expected them to at least remain stable with a more dovish SARB and rallying nominal bond yields. Notably, there was a significant flattening of the yield curve over the quarter as the short-term maturities sold off much more than the long-dated ones. We feel real yields at > 3.30% at the long-end of the curve are roughly fair and in our view these bonds should find some support here as inflation rises, albeit it in a measured fashion.

The total return from ILB's can be divided into two components – the monthly accrual and the mark-to-market of the capital value due to the move in the real yields. The first component of return is the monthly accrual from the yield on the bonds and the inflation uplift. This component of the total return was 1.25% this quarter, with 0.46% from inflation uplift and around 0.79% from yield accrual. The second component of the return is determined by the move in real yields of the bonds. Real yields moved higher over the quarter, thereby generating capital losses to the tune of 0.77%. These components combined thus explain the index (IGOV) total return of 0.48%.

After a prolonged period of underperformance, the momentum behind rising real yields does seem to be waning as a more synchronised global slowdown sets in. In addition, there needs to be some sustained inflationary momentum to validate the outlook. At real yields above 3%, inflation one year forward needs to be at least 5.5% to make ILB's competitive relative to nominal bonds and money market, which we believe is likely. We remain marginally overweight duration relative to the IGOV index and look to add to this if real yields rise any further. In addition, we expect the yield curve to continue steepening, led by the short-end, as it did this quarter. We should not have short-dated ILB yields at 3% when the real repo rate is set to approach 2% over the ensuing quarters. Thus we have favoured holding medium-dated maturities as opposed to the ultra-long-dated bonds. Lastly, credit spreads in ILB space went through another bout of compression as they catch-up to nominal credit spreads. This latest move looks a little overdone and our preference is to reduce credit spread sensitivity in the portfolio. The portfolios has outperformed the benchmark over the quarter, notwithstanding the pedestrian absolute returns from the asset class.

Contact details

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Disclaimer

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