Taquanta Optimal Income Fund

Factsheet

June 2022

Fund Objective

The objective of the Optimal Income fund is to generate returns in excess of a typical core cash fund. The fund is best suited for investors looking for superior enhanced cash returns with a high degree of inflation protection and lower risk of capital loss.

Investment Strategy

Employs a conservative approach to enhance yields through extracting the liquidity risk premium in longer dated and less liquid debt instruments, as well as an increased exposure to credit assets. Our fundamental credit review process is robust, combining qualitative and quantitative analysis, overlaid with institutional memory to question convention and operating within a strong risk and compliance framework. Our portfolio construction process builds a well diversified fund targeting 30+ counter parties to further reduce risks.

Fund Details

Risk Profile: Low | **Mid** | High

Portfolio Manager:	Taquanta Asset Managers
Currency:	ZAR
Fund Size[1]:	R6.7bn
Inception date:	October 2013
Target Return:	STeFI Composite (Cash) +2%
Minimum Rating:	BBB- (at time of purchase)
Max offshore exposure:	30% (Hedged to Rands)
Maturity Limit:	7 years
Modified Duration:	<0.25 Years
Floating Rate Instr.	94%
No. of Counterparties:	>40

Fund Performance

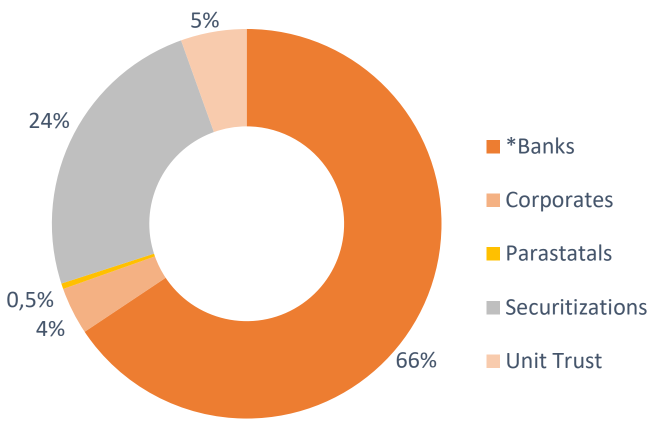
Returns[2]	Fund Return[3]	Fund Target	CPI +3%
3 months	**1.8%**	1.7%	3.0%
6 months	**3.5%**	3.2%	5.2%
1 year	**7.3%**	6.2%	9.5%
3 years p.a.	**8.3%**	7.0%	7.6%
5 years p.a.	**9.6%**	7.9%	7.5%
3yr volatility	**0.7%**	0.4%	1.4%

Top 5 Credit Exposures

Issuer Name	% Exposure
Standard Bank of South Africa	11.3%
Nedbank Limited	10.0%
ABSA Bank Limited	9.8%
Firstrand Bank Limited	8.0%
Nedbank Group Limited	7.5%

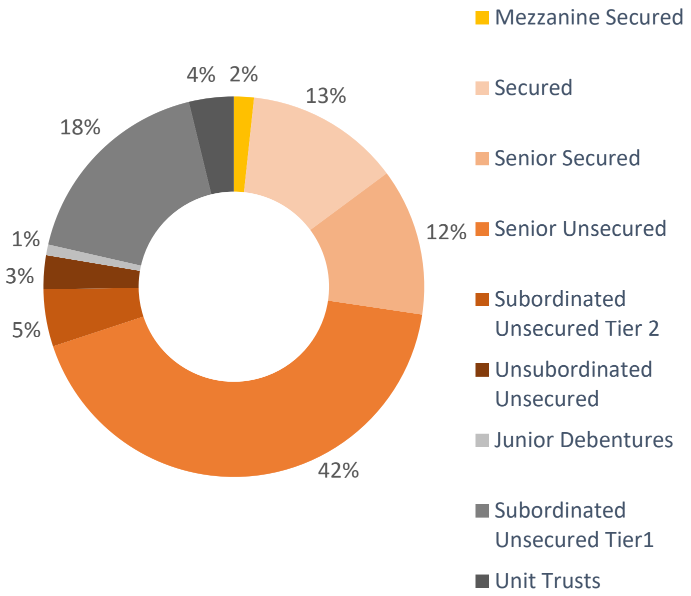
excluding unit trust exposure

Issuer Type



*Banks: Includes 10.5% in Credit-linked Notes, which are bank issued notes referencing other entities.

Capital Ranking



Fund Outlook

A strong pipeline of assets in the unlisted debt space supported our investments and the fund return for the first half of 2022. In the listed market, primary market issuance is expected to continue in the second half of the year on the back of redemptions however some downward pressure on issue spreads is anticipated. The fund has low duration, a moderate maturity and liquidity position, and can take advantage of opportunities in both the public and private debt space. The fund is well positioned for the current economic environment, a rising interest rate cycle and an uncertain inflation outlook. We remain cautious in these times with regards to credit and liquidity risk.

Market Commentary

Rising policy rates amid growing economic challenges has now led to a significant sell-off across high-risk asset classes. A slew of high frequency data long pointed towards looming growth and earnings headwinds. Moreover, a strong dollar and tighter liquidity conditions further anchors the current bear cycle. High risk asset classes have come under significant pressure amid growing economic challenges and shrinking excess liquidity levels.

In the US, the S&P 500 index was down by 8.4% m/m versus May 2022. The Russell 1000 value index fell by 8.9% m/m while the Russell 1000 growth index moderated by 8.0% m/m. The Dow Jones Industrial and Nasdaq also plunged by 6.6% and 8.7% respectively versus the previous month.

In Europe, the German DAX and the French CAC40 fell by 11.2% and 8.2% respectively versus the previous month. Similarly, the Stoxx 50 tumbled by 8.7% m/m, while the commodity linked FTSE 100 plunged the least at 5.5% versus May 2022.

The rand remains vulnerable to moderating global trade prospects and a firmer U.S. dollar. To this end, domestic monetary authorities are compelled to stay at pace with global policy trends thus to reduce elevated risks of imported price inflation.

Following the May CPI shock and the Fed’s decision to hike its policy rate by 75-bps, the domestic Forward Rate Agreement (FRA) market began pricing in a high likelihood of a 75-bps hike in the repo rate at the next MPC meeting. The implied policy rates have also steadily increased in the last 12-months with 3-m JIBAR rate rose 11.6 bps m/m to end the month at 5.0%, while the 12-m JIBAR rate rose 61.7 bps m/m to 7.4%. In the last 12 months, these rates increased by 132 bps and 265 bps, respectively.

Steep interest rate hikes are well poised to tip the economy into a recession, more so when output remains fundamentally weak. And in the absence of costs associated with trade wars and supply-side rigidities, elevated inflation pressures appear less likely to be maintained by a moderating macroeconomic backdrop.

Long maturity bonds (SAGBs) ended June 2022 extensively offered, up 54 to 73 basis points (bps) versus the previous month. Non-residents were net seller as the R2.4b outflow in June followed May’s R3.1b outflow. This brings the net cumulative outflow to approximately R16b year-to-date.

The yield curve bear steepened in June as economic pressures continued to mount. At present, the global bond market appears more concerned about rising economic challenges ahead of cost-push inflation. Both the US 5-year and 5y/5y Forward Breakeven have now plunged to 2.6% and 2.0% respectively after reaching their 10-year peak at the beginning 2022q2.

To this end, the R2023 was down 76 bps versus the previous month. On the hand, the R2040 and the ultra-long R2048 were conversely up 54 and 56 bps, respectively. In the month of June, the ALBI TR ZAR Index was down 3.1% m/m (and up 1.3% y/y), while the CILI TR ZAR Index fell by 92 bps m/m (and up 10.7% y/y).

During the month of June, the FTSE/JSE SA All Property Index fell by 10.3% m/m (and up 0.2% y/y). The net m/m returns were down across various industry sub-sectors. Both retail and Specialised REITs tumbled by 5.0% m/m, while Industrials and Diversified REITs plunged by 8.5% m/m and 12.0% m/m, respectively versus the previous month.

Footnotes

1) Size refers to underlying building block fund of this solution, being the Enhanced Income Fund
2) Source: Taquanta Asset Managers (Pty) Ltd. Returns are shown gross of fees
3) Fund return is the composite return calculated from a 75% allocation to the Taquanta Enhanced Income Fund and 25% to the Nedgroup Investments Core Income Fund. The Taquanta Optimal

Income fund live track record is included in the return as from launch 1 March 2019 and targets a similar effective allocation 75|25 to the same underlying funds.