Taquanta High Yield Fund
Factsheet

Taquanta

February 2025

Fund Objective

The objective of the High Yield Credit fund is to generate returns in excess of a typical income fund. This fund is best suited for investors looking for enhanced income returns with very low liquidity requirements.

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, operating within a strong risk and compliance framework. Our portfolio construction process builds a well-diversified fund targeting up to 30+ counterparties to further diversify risks.

Fund Details

Risk Profile:	Low / **Mid** / High
Portfolio Manager:	Taquanta Asset Managers
Currency:	ZAR
Fund Size:	R361,8 m
Inception date:	August 2015
Target Return:	STeFI Composite (Cash) +4%
Minimum Rating:	BB- (at time of purchase)
Max offshore exposure:	40% (Hedged)
Lock in Period:	5 years
Maturity Limit:	7 years
Modified Duration:	<0.25 Years
No. of Counterparties:	>30

Fund Performance

Period (naca)	Fund Return	Fund Target	CPI +5%
1 month	**0,9%**	0,9%	0,7%
3 months	**2,9%**	3,0%	1,7%
6 months	**4,8%**	6,1%	3,0%
1 year	**8,1%**	12,6%	8,2%
2 years p.a.	**10,5%**	12,6%	9,3%
3 years p.a.	**10,6%**	11,7%	10,1%
5 years p.a.	**9,9%**	10,4%	9,8%
3yr volatility	**1,2%**	0,4%	1,4%

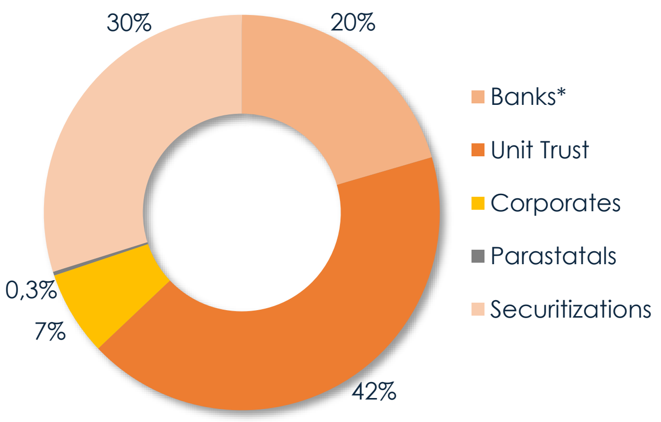
Source: Taquanta Asset Managers

Top 5 Credit Exposures (excluding unit trust exposure)

Issuer Name	% Exposure
The Republic of South Africa	**9%**
Firstrand Bank Limited	**4%**
Amber House Fund 7 (RF) Limited	**4%**
Standard Bank Group Ltd	**4%**
Nedbank Group Limited	**3%**

Source: Taquanta Asset Managers

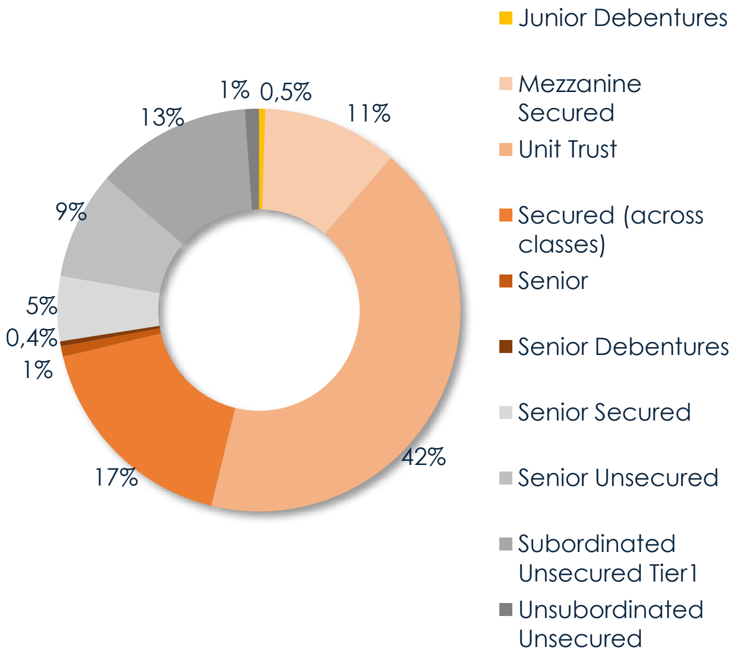
Issuer Type



*Includes 6% in Credit-linked Notes, which are bank issued notes referencing other entities.

Source: Taquanta Asset Managers

Capital Ranking



Fund Outlook

The fund is maintaining a low duration, and a moderate maturity and liquidity position. Issue spreads in the domestic primary listed debt capital markets are expected to remain contained as the demand for assets continues to exceed the supply of assets, despite the issuance volumes. In this environment and given the current market pricing drivers, the fund benefits from sourcing opportunities in both the public and private debt space. We remain cautious with regards to credit and liquidity risk

Market Commentary

US Economic Growth and Monetary Policy Uncertainty

The US economy continues to navigate a complex landscape in February 2025, characterized by moderating growth and persistent inflationary pressures. Real GDP growth is expected to slow to around 1.5-2.0% for the year, down from 2.5% in 2024, as the effects of tighter monetary policy and fiscal consolidation weigh on consumer spending and business investment. However, the labour market remains resilient, with unemployment hovering near 4.0%, supporting household incomes and consumption.

While the labour market remains strong, fiscal and debt concerns, along with global trade uncertainties, pose significant risks. The Federal Reserve's cautious approach to monetary policy and the resilience of corporate earnings provide some support, but investors remain vigilant for signs of a potential downturn. As the year progresses, the interplay between inflation, policy decisions, and global macroeconomic developments will be critical in determining the trajectory of the US economy.

US headline CPI inflation has stabilized at around 3.0% year-on-year (YoY), down from peak levels but still above the Federal Reserve's 2% target. Core inflation, excluding volatile food and energy prices, remains elevated at 3.5% YoY, driven by sticky services inflation, particularly in housing and healthcare. While goods inflation has eased due to improved supply chains and lower commodity prices, services inflation continues to pose challenges.

The Federal Reserve maintained its cautious stance in February, holding the federal funds rate steady at 4.50-4.75%. With inflation still above target and the labour market tight, the Fed has signalled that rate cuts are unlikely in the near term. Having said that we note that markets are currently pricing in a potential 25-basis-point cut in the second half of 2024, contingent on further disinflationary progress and softer economic data.

SA Fiscal Policy Uncertainty

In South Africa, the postponement of the 2025 budget speech, originally scheduled for February, introduced significant uncertainty. The delay stemmed from disagreements within the GNU over a proposed 2% VAT hike. The DA opposes the increase, arguing for structural reforms to de-risk the fiscal position. The final budget, now expected on March 12, will be closely watched for consensus on fiscal policy. A VAT increase of this magnitude could raise CPI inflation by 20-50 basis points, depending on passthrough effects. This, combined with rising global inflation risks, suggests that the SARB may have reached the trough of its rate-cutting cycle. While a final 25bps cut in March remains possible, further easing this year appears unlikely.

SA Inflation and Monetary Policy

Headline CPI inflation edged up to 3.2% year-on-year (YoY) in January, slightly below consensus expectations of 3.3%. The increase was driven by base effects in fuel prices, while food inflation surprised to the downside at 2.3% YoY. Core CPI inflation softened to 3.5%, with notable declines in vehicle, alcoholic beverages, and textiles inflation. The reweighted CPI basket had a limited impact on the inflation trajectory, and our forecasts remain unchanged at 4.0% for 2025 and 4.6% for 2026. PPI inflation for January rose to 1.1% YoY, in line with expectations, driven by higher fuel and electrical machinery prices. Food products PPI increased for the third consecutive month to 4.8% YoY, reflecting persistent price pressures in the category.

The South African Reserve Bank (SARB) faces increasing risks of pausing its rate-cutting cycle for the remainder of 2025. The final version of the March budget, particularly any tax increases, will play a critical role in shaping the SARB's decisions. The SARB's hawkish bias was already evident in its last MPC meeting, where a 4-2 vote split, and recent comments emphasized caution. It is our view that the uncertainty surrounding the passthrough effects of tax increases on CPI inflation will provide the SARB with a rationale to halt rate cuts in 2025, potentially revisiting cuts only in 2026 when tax increases fall out of the base. Even without VAT hikes, the "tax more to spend more" structure of the preliminary budget versions poses inflationary risks, which the SARB will likely factor into its March decision.

Interest Rate Outlook

February 2025 was a month of heightened uncertainty for South Africa's macroeconomic environment, shaped by debates over fiscal policy, evolving inflation trends, and external global influences. The South African Reserve Bank's (SARB) March meeting is poised to be a critical event, with the possibility of a final rate cut hinging on inflation risks and fiscal developments. We anticipate no rate cuts at the March meeting and only project another 25bps cut by the SARB to complete the rating cut cycle.

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Disclosures: FAIS

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Accordingly, Taquanta is authorised to provide advisory and/or render discretionary intermediary services relating to the following financial products:

	Taquanta			
Category Description	**Cat I Advice**	**Cat I Intermediary**	**Cat II discretionary Intermediary**	**Cat IIA Hedge Fund FSP**
Long-Term Insurance subcategory B1				
Long-term insurance subcategory B2				
Long-term Insurance subcategory B2-A				
Long-term Insurance subcategory B1-A				
Long-Term Insurance subcategory C	X	X	X	
Retail Pension Benefits				
Pension Funds Benefits				
Shares	X	X	X	
Money market instruments	X	X	X	
Debentures and securitised debt	X	X	X	
Warrants, certificates and other instruments	X	X	X	
Bonds	X	X	X	
Derivative instruments	X	X	X	
Participatory interests in CIS's	X	X	X	
Participatory interest in a Hedge Fund			X	X
Long-term Deposits	X	X	X	
Short-term Deposits	X	X	X	
Structured Deposits			X	X
Securities and instruments				
General Category IIA experience				X

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The appointed Compliance Officer is Mr Nick Howse and his contact details are as follows: Phone: (021) 681 5000 or |(021) 671 8162 |e-mail: nickh@taquanta.com

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