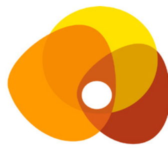

Taquanta

Fund Fact sheet

August 2020

High Yield Credit Fund

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 Philosophy and 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.

Outlook

An apparent leveling out in the number of new infections and a possible coronavirus vaccine has brought about the much-needed positive tone worldwide. Earlier in the year the IMF and the World Bank revised global growth forecasts factoring in the expected impact of the coronavirus pandemic. A recovery may be on the horizon with Manufacturing PMI data in China and the United States (US) showing improvement. This is due to the easing of lockdown restrictions leading to the gradual re-opening of businesses and steady consumer demand.

The US Central Bank indicated changes in its monetary policy framework citing its role in aiding maximum employment and price stability. The Federal Open Market Committee (FOMC) will now follow a flexible form of average inflation targeting aimed at keeping inflation at an average of 2% over time. The FOMC Chair stated that these revisions were necessary considering that interest rates have fallen around the world including the US.

Locally, easing of lockdown regulations have improved economic activity but the full effects of the lockdown on GDP growth will only be seen on the 2Q2020 GDP data expected in September. Manufacturing production decreased by 16.3% in June 2020 compared to the same period in 2019 with the largest contribution from basic iron and steel, motor vehicles and transport equipment, and food and beverages. Inflation has however surprised on the upside over the past few months leading to suggestions that it may have bottomed and may continue to trend higher. The SA 5y breakeven inflation curve also supports the inflation bottoming suggestion. Demand-pull inflation is likely to remain weak because of the pandemic while cost-push inflation poses an upside risk to the inflation outlook. Headline CPI inflation increased to 3.2% y/y from 2.2% y/y in June. This was driven by a hike in fuel prices and an increase in electricity tariffs. PPI Inflation rose to 1.9% y/y in July from 0.5% y/y in June – economists however expect producer inflation to remain subdued due to weak domestic demand and reduced manufacturing capacity utilisation.

Covid-19 Contingency Measures

On 17 March 2020, the Department of Employment and Labour issued guidelines for all employers in relation to the Coronavirus Disease 2019, caused by the SARS-CoV-2 virus, generally known to us as COVID-19.

COVID-19 is complicated and poses personal and professional challenges to us all. Organisations are now faced with growing uncertainty as to how to remain compliant in the wake of a rapidly changing business environment.

To this end, the 29 April 2020 published Government Gazette delivered a draft of guidelines for employers of varying sizes to respect and apply COVID-19 Occupational Health and Safety Measures in Workplaces COVID-19 (C19 OHS).

Without implementation of COVID-19 Occupational Health and Safety Measures in Workplaces COVID-19 (C19 OHS), our business ran the risk of being in violation of the department's guidelines, which in turn may have led to dire consequences as severe as business closure and / or personal prosecution.

We utilised the services of a Health & Safety consultancy who conducted a COVID-19 Risk Assessment which included the following:

1) A walk-through Risk Assessment Survey of our premises
2) A comprehensive Risk Assessment & Safe Work-plan procedure
3) An employee briefing session

We are confident that with the above measures we've put in place we have ensured the safety of our most valuable assets, our people.

Kind Regards,
Justin Kretzschmar
Group Chief Executive Officer

TAQUANTA ASSET MANAGERS (PTY) LTD
Registration No. 1999/021871/07
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Taquanta Asset Managers (Pty) Ltd
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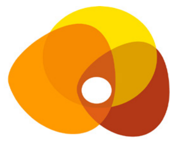

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High Yield Credit Fund

Fund Information

Portfolio Manager:
Taquanta Asset Managers (Pty) Ltd

Inception Date:
August 2015

Fund Size:
R170 million

Target Return:
STeFI Composite +4%

Minimum Rating:
BBB- (At time of purchase)

Target Average Rating:
BBB

Max Offshore Exposure:
40% (Hedged)

Lock in Period:
5 years

Risk Profile

Conservative Moderate Aggressive

Outlook

SA consumer confidence continues to plummet as private sector credit extension slows to 5.12% y/y in July from 5.63% y/y in June. Motor trade sales and retail trade sales declined in 2Q2020 compared to the same period in 2019.

The trade balance YTD improved to a surplus of R95 billion from a deficit of R8.6 billion in the same period last year. Economists expect the current account deficit to narrow in 2020 due to terms of trade support and weak domestic demand, but the capital account to remain under pressure in a global environment of elevated uncertainty.

We remain cautious in these uncertain times, cognisant of the weakening spread environment because of a lack of economic activity and subdued borrowing requirements. The 3-month Jibar rate has continued to trend lower although the FRAs as at the end of August were suggesting a probability of a 25bps hike in the repo rate over the next 12 months. A decreasing Jibar premium and less steepening of the yield curve suggests that banks are extremely cash flush. The fund continues to be conservatively positioned around liquidity and credit given the current economic climate.

Fund Outlook

After a series of private placements, August finally saw issuance via an auction process. Indications are that there is excess liquidity in market and bids will be aggressive for quality names as investors search for yield. Despite the demand for assets, the market is still placing a significant liquidity risk premium on non-vanilla senior bank debt. We expect issuance to pick up going forward in the second half of the year due to pent up demand from both issuers and investors, and the need to refinance maturities. While we look for opportunities, we still remain cautious in these uncertain times with regards to credit and liquidity risk.

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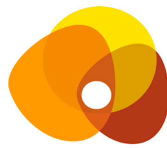


Taquanta

High Yield Credit Fund

Fund Fact sheet

August 2020

Fund performance

Period (naca)	CPI +5%	Fund Target	Fund Return
3 months	2.5%	2.3%	**2.5%**
6 months	4.5%	4.9%	**3.8%**
1 year	8.2%	10.8%	**10.1%**
2 years p.a	8.6%	11.0%	**11.7%**
3 years p.a	9.1%	11.3%	**12.3%**
3 year volatility	1.2%	0.3%	**0.8%**

Longest Maturity:
4.9 years

Average Term to Maturity:
2.5 years

Modified Duration:
<0.25 Years

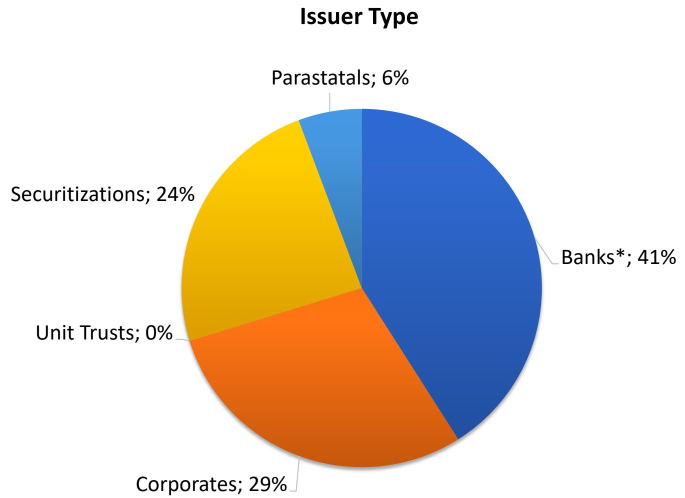
Number of Counterparties:
26

Top 5 credit Exposures:

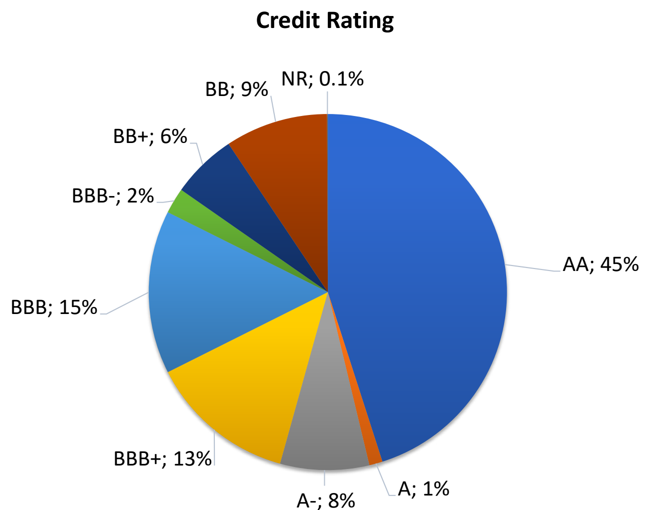
Issuer	Exposure
Standard Bank	14.3%
ABSA	12.8%
SA Taxi Finance Solutions	8.9%
African Bank	6.6%
Transflow	6.5%

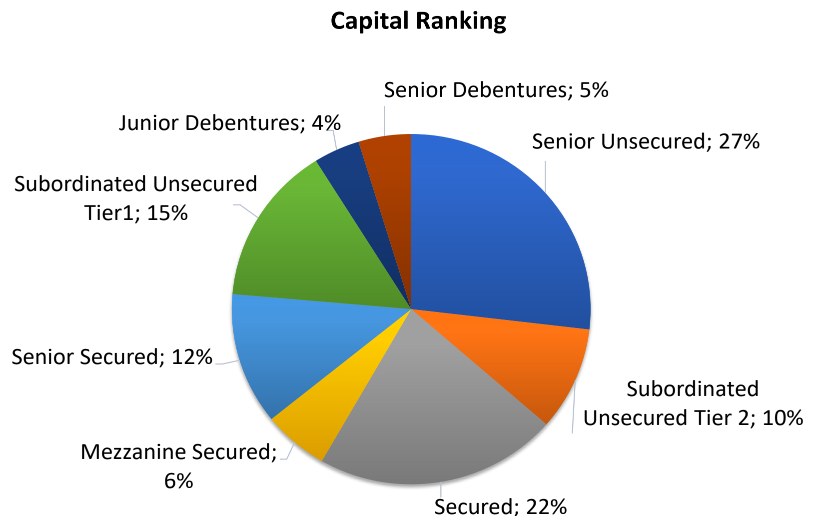
*Excluding unit trust exposure

Fund Performance



***Includes 14% in Credit-linked Notes, which are bank issued notes referencing other entities such as corporates and parstatals**





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