Taquanta

Fund Fact sheet **August 2021**

Enhanced Income Fund

Business Information

Taquanta acquires the entire issued share capital of Ngwedi Investment Managers (NIM) in a transaction that fosters strategic transformation and consolidation in the South African black-owned asset manager universe.

Taquanta and Ngwedi are exceptionally please to announce the planned coming together of two formidable investment teams which will ultimately give rise to an even more transformed, scalable, dynamic, and sustainable business.

Taquanta Investment Holdings has acquired 100% of NIM's issued share capital from Ngwedi Capital Holdings (NCH). Under the terms of the transaction, NIM will be merged into Taquanta Asset Managers (TAM). The highly regarded Ngwedi in investment team of Moneimang Pudumo-Roos (Monei), Raphael Nkomo, Farzana Bayat and Teresa Lu, will, for the time being, continue to manage the affairs of NIM, whole- heartedly supported by Taquanta's various operational divisions. These investment professionals will likewise continue to diligently manage the NIM client assets throughout the merger process.

For Further information please contact Justin Kretschmar or Monei Pudumo-Roos (Monei) or your respective contact in either business.

Justin Kretzchmar
CEO - Taquanta

Monei Pudumo Roos
CEO - Ngwedi

Fund Objective

The objective of the Enhanced Income Fund is to generate returns well in excess of a typical core cash fund. This fund is best suited for investors looking for enhanced cash returns with low capital risk and 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 a marginal 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 30+ counterparties to further diversify risks.

Outlook

The global inflation trend remains elevated, as emerging markets turned hawkish in August, hiking by 25-100 bps during the month. Brazil's central bank hiked rates by 75bps to 4.25% in June and a further 100bps in August. Russia raised its benchmark policy rate by 50bps in June and a further 100bps in July. The US has kept interest rates unchanged; Fed Chairman Powell warned that responding to temporary price shocks by raising interest rates will do more harm to the labour market and economic recovery. Most major developed markets have maintained weak monetary policy as they believe current levels of inflation are temporary.

On the domestic front, Stats SA has revised SA's GDP base in August higher by about 9.6%, this will create downside risk to GDP estimates. According to Stats SA, results show estimated Nominal GDP to be 11% larger in 2020 compared to previous estimates. This change has created positive developments in certain ratios i.e., budget deficit, gross debt, and current account balance.

South Africa's CPI had a marginal decline in July to 4.6% y/y from June to 4.9% y/y, lower than market consensus of 4.7% y/y. The main drivers of this decline were transport inflation that moved to 8% y/y in July from 12.3% y/y in June. PPI (Producer Price Inflation) was 7.1% y/y in July 2021, from 7.7% y/y in June 2021.

Private sector credit extension (PSCE) had an unexpected increase by 0.61% y/y in July from 0.54% y/y drop in the previous month, missing market consensus which forecasted a contraction of 0.7% y/y. This is the first increase in PSCE since February 2021. Meanwhile, M3 money supply had an accelerated increase in July of 1.93% from a marginal increase in June of 0.12%.

The trade surplus in South Africa shrank to R36.96bn in July compared to a revised amount of R54.5bn in June, this was below market expectations of R45bn. This was the smallest surplus since February 2021 and was driven by exports slipping by 11.2%.

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Taquanta

Enhanced Income Fund

Fund Information

Portfolio Manager:
Taquanta Asset Managers (Pty) Ltd

Inception Date:
October 2013

Fund Size:
5.9 billion

Target Return:
STeFI Composite Index {Cash} +2%

Minimum Rating:
BBB- (At time of purchase)

Target Average Rating:
A -

Max Offshore Exposure:
30% (Hedged to Rands)

Notice Period:
90 Days

Risk Profile

Conservative	Moderate	Aggressive
	■	

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Outlook

The amended implied policy path of the SARB's Quarterly Projection Model (QPM) now indicates a repo rate increase of 25 bps in Q4 of 2021 and in each quarter of 2022. While the SARB may withstand negative real short-term interest rates over the near-term, an accommodative encroachment towards positive territory is still essential in mitigating passthrough and improving the outlook for net domestic savings. We believe that the SARB likely to embark on a gradual hiking cycle in the interest of a sustainable economic recovery. The Forward Rate Agreement (FRA) market is of a similar view, pricing in a steadier lift-off of a 25-bps hike only in the first quarter of 2022.

Fund Outlook

The increased primary market issuance activity is positive following the low issuance in 2020 due to the pandemic. Auction bids show an excess liquidity position in the debt capital markets thus we expect the supply and demand dynamics in the debt capital markets to continue to drive issue spreads lower. The funds' ability to participate in the public, private and unlisted debt market positions it well to continue to access opportunities that will support returns. We will continue to carefully select assets that provide the appropriate return for risk in this environment. The fund is well positioned for a flat to rising interest rate cycle and we still remain cautious in these times with regards to credit and liquidity risk.

Fund Positioning

The fund market value increased to R5,959 billion at the end of August 2021 from R5,922 billion at the end of July 2021.

The fund liquidity position was 16.73% as at the end of August 2021. The majority of this cash remains invested in a core income unit trust for an enhanced cash return at approximately STEFI + 100 basis points which supports the fund's running yield.

The maturity profile of the fund at month end had 54.48% of the fund invested in instruments in the 3-7 year maturity band, 28.79% of the fund invested in instruments under 3 years to maturity, and the balance of 16.73% in unit trusts and cash instruments.

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Enhanced Income Fund

Fund performance

Period (naca)	CPI +3%	Fund Target	Fund Return
3 months	2.2%	1.4%	**2.1%**
6 months	5.0%	2.9%	**4.0%**
1 year	7.6%	5.8%	**9.1%**
2 years p.a	6.9%	7.1%	**8.8%**
3 years p.a	6.9%	7.9%	**9.8%**
5 years p.a	7.3%	8.5%	**11.0%**
3 year volatility	1.4%	0.4%	**1.0%**

Longest Maturity:
5.0 years

Weighted Average Term to Maturity:
4.8 years

Modified Duration:
<0.25Years

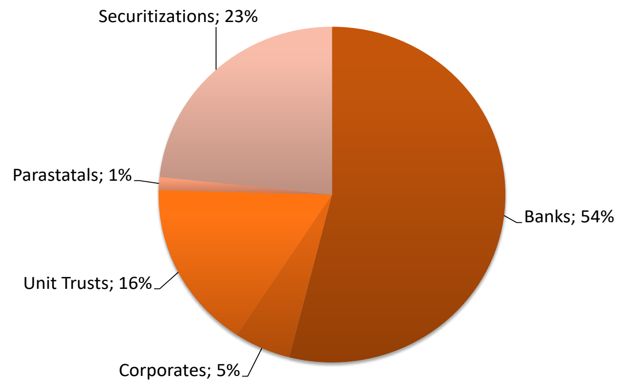
Number of Counterparties:
42

Top 5 credit Exposures:

Issuer	Exposure
Standard Bank Group Ltd	11.0%
Nedbank Group Ltd	9.9%
ABSA Group Ltd	8.2%
Firstrand Ltd	7.7%
Nedbank Ltd	4.6%

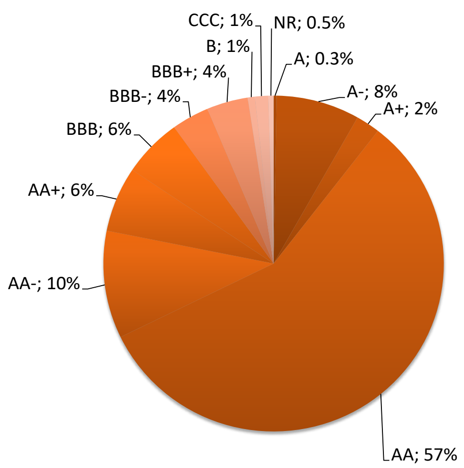
Fund Positioning

Issuer Type

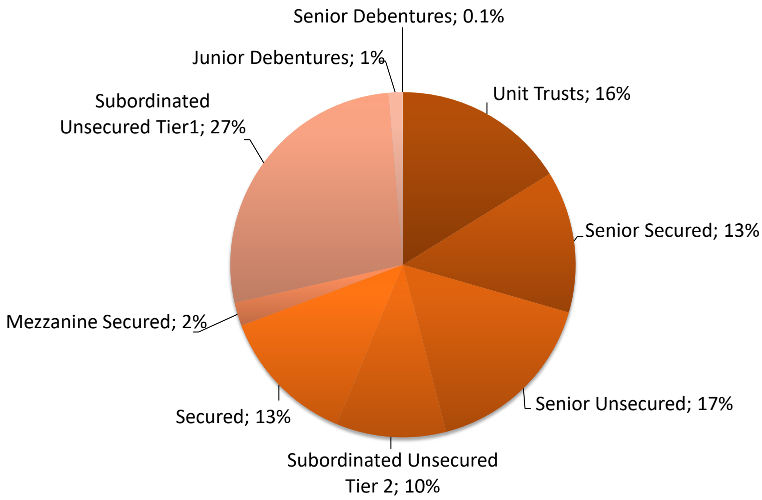


***Includes 6.2% in Credit-linked Notes, which are bank issued notes referencing other entities.**

Credit Rating



Capital Ranking



TAQUANTA ASSET MANAGERS (PTY) LTD
Registration No. 1999/021871/07
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