Taquanta High Yield Fund
Factsheet

May 2022

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:	R195 m
Inception date:	August 2015
Target Return:	STeFI Composite (Cash) +4%
Minimum Rating:	BB- (at time of purchase)
Target Average Rating:	BBB
Max offshore exposure:	40% (Hedged)
Lock in Period:	5 years
Maturity Limit:	7 years
Avg Term to Maturity	2.7
Modified Duration:	<0.25 Years
No. of Counterparties:	>30

Fund Performance

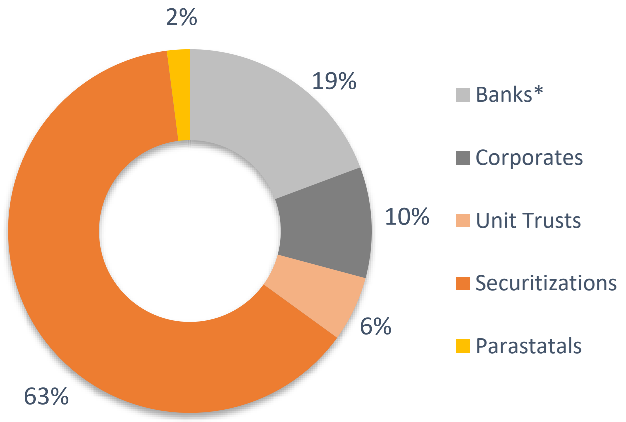
Period (naca)	Fund Return	Fund Target	CPI +5%
3 months	**2.1%**	2.1%	3.4%
6 months	**4.1%**	4.1%	5.9%
1 year	**8.5%**	8.1%	10.9%
2 years p.a.	**9.4%**	8.1%	10.2%
3 years p.a.	**9.9%**	9.1%	9.4%
5 years p.a.	**11.3%**	10.0%	9.4%
3yr volatility	**1.0%**	0.4%	1.3%

Top 5 Credit Exposures

Issuer Name	% Exposure
Amber House Fund 7 (RF) Limited	**7.7%**
TUHF Urban Finance (RF) Limited	**6.2%**
SA Taxi Finance Solutions (Pty) Ltd	**5.8%**
The Thekwini Fund 16 (RF) Limited	**5.7%**
Firstrand Bank Limited	**5.3%**

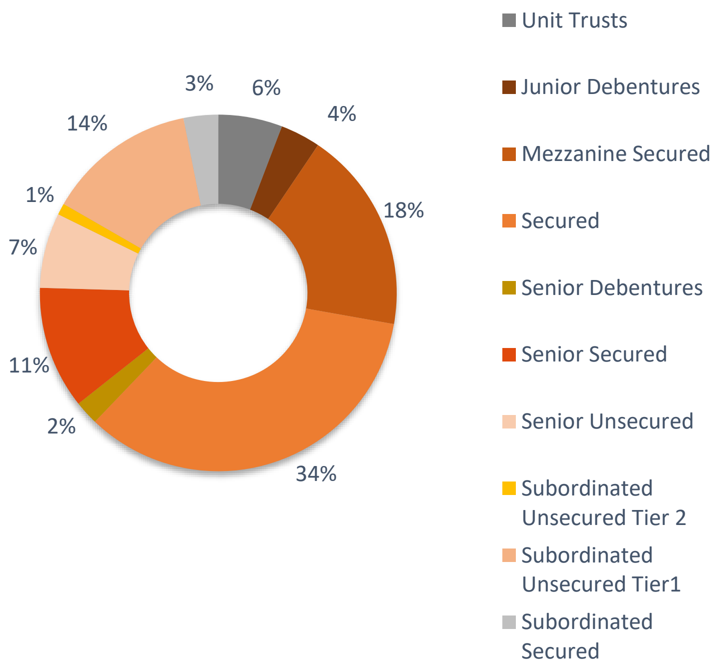
excluding unit trust exposure

Issuer Type



*Includes 4.2% in Credit-linked Notes, which are bank issued notes referencing other entities.

Capital Ranking



Fund Outlook

The fund is also well positioned the current economic environment, a rising interest rate cycle and an uncertain inflation outlook. The fund has low duration, a moderate maturity and liquidity position, and is well positioned to take advantage of opportunities in both the public and private debt space. We still remain cautious in these times with regards to credit and liquidity risk.

Market Commentary

On the 19th of May, the SARB hiked the repo rate by 50 bps from 4.25% to 4.75%. The balance of preferences was not unanimous, with four members of the MPC voting for the announced increase while one member was in favour of a 25-bp hike. Upward revisions to the inflation outlook and narrowing financial conditions have now led to an accelerated policy normalisation path.

The SARB currently expects inflation to average 5.9% in 2022 from their previous forecast of 5.8% at the March 2022 meeting. Significant increases in food, fuel and administered price inflation remain catalyst to the revised CPI outlook. Furthermore, the unabating Russia-Ukraine war coupled with a weaker exchange rate also suggests additional tailwinds in the near term.

Amid cascading global liquidity levels, higher interest rates are also deemed necessary in funding the fiscal deficit. However, this form of policy intervention needs to be measured against the state/fragility of the domestic economy. Moreover, limitations in curbing cost-push inflation through hiking interest rates can induce a growth negative trade-off when the economy is fundamentally weak.

The South African economy continues to be stifled by waning consumption levels, stretched labour markets, and muted investment expenditure programs. Gross limitations in electricity supply along with the devasting floods recently sustained in the Kwa-Zulu Natal province also imply additional macroeconomic headwinds. To this end, the SARB expects the local economy to grow by 1.7% in 2022, revised lower from 2% at the March MPC meeting.

Our view is that elevated inflation pressures appear less likely to be maintained by a moderating macroeconomic backdrop. Against this analysis, we anticipate a more gradual hiking cycle in the interest of sustainable economic recovery. Our interest rate views remain aligned with those of the SARB’s Quarterly Projection Model (QPM), but relatively dovish versus the outlook of the Forward Rate Agreement (FRA) market.

The domestic FRA market is currently pricing in another 300-bps worth of rate hikes over the next 2 years. In the SA money market, the 3-m JIBAR rate rose 4.9 bps m/m to end the month at 4.9%, while the 12-m JIBAR rate rose 2.9 bps m/m to 6.8%. In the last 12 months, these rates increased by 120 bps and 223 bps, respectively.