Fund Fact Sheet

Sanlam Namibia Floating Rate Fund

December 2020

Fund Objective

The fund seeks to maximise interest income and preserve the fund`s capital.

The fund is suited for investors requiring competitive interest with regular quarterly income distribution and total capital stability.

Fund Strategy

Negotiable certificates of deposits, promissory notes, debentures, bills and deposits.
80% Floating Rate rates & 20% Liquid Money Market Instruments.
Risk Profile – same as Money Market Funds.

Why choose this fund?

*This fund is ideal for use as an emergency fund.
*It should form the core fund of your portfolio's cash component.
*It is ideal for risk-averse investors, or investors who are waiting for market volatility or global uncertainty to subside.
*The fund should produce higher returns than call deposits while interest rates are declining.
*The fund pays out income on a quarterly basis.
*In rising interest rate environments, these funds will benefit soonest from linked assets which re-price immediately.
*This fund complies with holding a minimum of 35% Namibian Assets.

Fund Information

Classification	Namibian Fixed Interest Varied Specialist
Risk profile	Conservative
Benchmark	65% STeFI Composite Index | 35% IJG Money Market Index
Portfolio launch date	01 Oct 2010
Minimum investment	Lump Sum N$ 1 000 | Monthly N$ 500
Portfolio size	N$1.4 billion
Last two distributions	31 Dec 2020: 1.00 cents per unit 30 Sep 2020: 1.01 cents per unit
Income decl. dates	Last day of each quarter
Income price dates	1st working day of the month
Valuation time of fund	15:00
Trading closing Time	13:00

Fees (Incl. VAT)

	Retail Class (%)
Initial Fee	N/A
Annual Service Fee	0.60

This fund is also available via certain LISPS (Linked Investment Service Providers), which levy their own fees.

Top 10 Holdings

Securities	% of Portfolio
ABSA F/R 16092022	3.14
Bank Windhoek F/R 29072022	2.94
Standard Bank F/R 20022023	2.89
FirstRand F/R 03012023	2.82
Standard Bank Namibia F/R 04022022	2.80
Standard Bank Namibia F/R 11032022	2.57
First National Bank Namibia F/R 06052022	2.45
Standard Bank F/R 05092022	2.11
Bank Windhoek F/R 17072023	2.10
Bank Windhoek F/R 18072022	2.10

Top 10 Holdings as at 31 Dec 2020

Performance (Annualised)

Retail Class	Fund (%)	Benchmark (%)
1 year	5.66	5.54
3 year	7.19	6.61
5 year	7.61	7.03
10 year	6.83	6.42

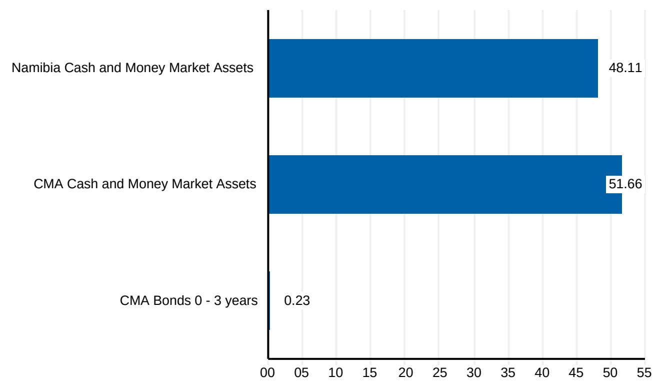
Annualized return is the weighted average compound growth rate over the period measured.

Performance (Cumulative)

Retail Class	Fund (%)	Benchmark (%)
1 year	5.66	5.54
3 year	23.15	21.18
5 year	44.27	40.42
10 year	93.53	86.26

Cumulative return is aggregate return of the portfolio for a specified period.

Asset Allocation



Portfolio Manager(s) Quarterly Comment - 31 Dec 2020

Market review

The fourth quarter saw the end of a most unusual year, influenced largely by the Covid-19 pandemic, but also by other events. We will take a short look at events, but focus in this overview on explaining the performance of the enhanced cash funds in 2020 and specifically what happened in the fourth quarter.

International events played a huge role as usual, with the presidential elections in the US as an important factor. The victory of the perceived more market-friendly Joe Biden caused the rand to strengthen against the US dollar as well as a rally in the equity and bond markets with some positive spin-offs in the money markets too. News of vaccines being developed against Covid-19 was also perceived positively. The rand strengthened against the US dollar from around 16.7 to around 14.7 at year-end and CPI stayed low at 3.2% year-on-year.

The local money markets were, however, influenced the most by the South African Reserve Bank (SARB)'s Monetary Policy Committee (MPC), which kept the repo rate constant at 3.5% at their meeting on 19 November 2020 - somewhat against market expectations. The money markets reacted in two ways. The banks increased their fixed rates as expressed by the negotiable certificates of deposit (NCDs) to increase, among others, the three-month Jibar rate from 3.34% to 3.64% at year-end. As the SARB during this time expressed a need to increase the liquidity coverage ratio of the banks to pre-pandemic levels, banks started to lengthen their deposit profiles and pay up on deposits. This resulted in the floating rate NCD spreads (or FRN spreads) to move for example for the three-year point from 50 basis points (bps) to 80 bps. These extraordinary movements can be seen in Figure 1 below.

Figure 1 Movements in money market curves during Q4 2020

However, the movement of the money market rates in the fourth quarter was almost a reversal of that of the third quarter. The movements for the full year are provided in Figure 2. One can clearly distinguish four phases during the year:

* Phase 1 - An almost normal first quarter;
* Phase 2 - A massive liquidity squeeze in the second quarter, resulting in a spike in funding rates;
* Phase 3 - A lowering of the repo rate, resulting in an oversupply of funds to the banks and ultra-low spreads; and
* Phase 4 - A first stab at getting back to normal in the fourth quarter, at least with bank funding rates and spreads increasing.

Figure 2 Movements in money market curves during 2020

A very logical question is then what happened to returns in enhanced cash funds over this period. Figure 3 compares the (a) 12-month rolling return in % as well as (b) the outperformance in basis points of the funds to the benchmark, to (c) the movement of the three-year FRN spreads (also in basis points).

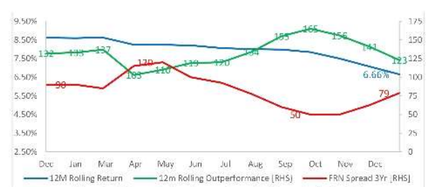


Figure 3 Enhanced cash returns vs. 3-year FRN spreads during 2020

The following observations can be made from the information in Figure 3:

* The monthly rolling outperformances were very volatile, with a low of 103 bps and a high of 165 bps;
* The FRN spreads moved as follows: Q1 = 90 bps; Q2 = 120 bps; Q3 = 50 bps; Q4 = 79 bps;
* The movement of the monthly rolling outperformances is inversely correlated to that of the FRN spreads; and
* The 12-month rolling return for the whole year decreased but ended at a value of 6.66%, outperforming the benchmark for the year by 123 bps.

What SIM did

In the beginning of the pandemic, during the second quarter, we invested in selected credit and in long FRNs when the spreads were at their peak. During the third quarter, we decreased the maturity of the funds by investing in short-dated Treasury Bills and up to 18-month bank FRNs only. Late in the fourth quarter, when the banks needed funding again, we were able to invest in three-year FRNs, opportunistically at spreads of 92-95 bps.

SIM strategy

In the early stage of the pandemic, we invested in the higher-yielding bank paper as well as selected credit. In the third quarter and most of the fourth quarter, we decreased the weighted average maturity of the funds, as we expected interest rates and funding spreads to move back to their long-term averages. It did happen sooner than we expected, late in the fourth quarter, but we were then able to buy into the rising markets. We will continue to invest in assets that are mispriced and provide value. We are confident that we will continue beating the benchmark by 100 bps, measured on a rolling 12-month basis.

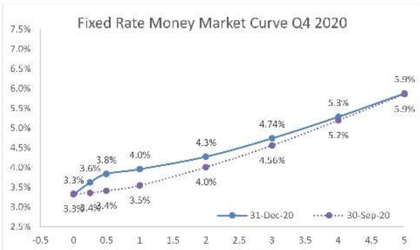


Figure 4 Fixed-rate money market curve for Q4 2020 – upward trend is visible

Portfolio Manager(s)

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