

## Sanlam Investment Management Enhanced Yield Fund

### South Africa Fund Analysis

November 2017

Rating class	Rating scale	Rating*	Rating outlook	Review date
Fund rating	National	AA <sub>-(ZA)(f)</sub>	Stable	November 2018

#### Key counterparties:

##### Investment manager:

Sanlam Investment Management (Pty) Ltd (“SIM”, the “IM”).

##### Fund manager:

Sanlam Collective Investments (RF) (Pty) Ltd (“SCI”, “the Manco”).

##### Trustee and custodian:

The Standard Bank of South Africa Ltd (“the trustee”, “the local custodian”, “SBSA”).

##### Administration:

Curo Fund Services (Pty) Ltd (“Curo”)  
Silica Financial Administration (Pty) Ltd (“Silica”)

##### Group ownership/affiliation:

Sanlam Ltd (“Sanlam”, “the group”)

#### Rating history:

##### Initial/last rating (November 2017)

Fund rating: AA<sub>-(ZA)(f)</sub>

Rating outlook: Stable

#### Related methodologies/research:

Global Criteria for Rating Funds and Asset Managers, updated March 2017

#### GCR contacts:

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#### Fund data/summary:

Fund inception date	03 May 2011
Fund currency	South African Rand
Fund data review date	30 September 2017
Assets under management (“AUM”)	R4.69bn
Net asset value (“NAV”)	Market value (variable NAV)
Fund benchmark	STeFI+0.5%
Association for Savings and Investment South Africa (“ASISA”) classification	South Africa – Interest Bearing – Short Term

#### Summary rating rationale

- **Fund rating factors:** GCR qualitatively assesses the fund’s management, and performs an evaluation of the fund portfolio’s historical performance in terms of price/return volatility, underlying asset quality, and market and liquidity risks.
- **Fund profile:** The fixed income mandate of the Sanlam Investment Management Enhanced Yield Fund (“SIM EYF”, “the fund”) aims to deliver total returns exceeding those offered by money market (“MM”) funds. The mandate prioritises capital preservation, attracting retail, corporate and institutional investors. The fund complies with regulatory limits, investment policy, and the trust deeds, and features 3 day liquidity and a 2 year weighted average duration (“WAD”) limit.
- **Manager profile:** Sanlam performs fund and investment management functions in house, outsourcing selected administration activities. GCR assesses SIM EYF as being managed within a very strong fund management and control environment, supporting the rating. The capacity, capability and competence of SIM and SCI facilitate achievement of performance objectives within mandate constraints. Marketing, risk/compliance and administration follow market best practices.
- **Investment performance:** The fund’s return has exceeded its benchmark since inception. Volatility over 3 and 5 year time horizons is assessed as moderate. AUM growth has been strong over the past 3 years, highlighting the appropriateness of the fund’s mandate and execution in meeting investor requirements.
- **Portfolio quality and market risks:** GCR’s portfolio analysis considered credit/concentration risk, tenor/duration (and limits), NAV volatility, and additional sources of market risk, in addition to SIM EYF’s stress-tested weighted average credit rating (“WACR”) of ‘AA<sub>(ZA)</sub>’, in determining the fund rating.
- **Fund risks:** Very high investor concentration and high counterparty concentration, and tenor-based exposure, are SIM EYF’s key risks. The fund’s very high investor concentration is a function of its top 10 investors/holdings being other SIM managed funds which utilise the fund as a strategic holding of MM assets. Credit concentration is a systemic issue in South Africa, and affects most variable rate, short-term fixed income funds (ie, MM funds and other cash strategies), due to the typically high allocation of bank securities in these funds’ portfolios. The fund manages this by adding selected corporate, government and structured instruments to the portfolio, while maintaining high credit quality. The mandated duration limit matches the fund’s investment horizon, while actual WAD was within the mandated upper limit. SIM EYF’s long maturity profile (weighted average maturity (“WAM”) of 4.1 years) raises spread risk.

#### Factors that could trigger a rating action may include

**Positive change:** An increase in the WACR of the portfolio, accompanied by a sustained reduction in tenor and stability or improvement in concentration risks. Furthermore, a sustained track record of low volatility could enhance the rating.

**Negative change:** Mandate breaches, and/or significant increase in the volatility of the fund. Also, a deterioration in the WACR of the fund could negatively affect the rating.

\* Fund ratings (denoted by a ‘f’ modifier) provide an opinion regarding the fund’s ability to preserve principal value under varying market conditions, with reference to the relevant asset management environment. Refer to published rating scales and definitions.