



## GCR affirms Absa Core Income Fund's rating of AA<sub>(ZA)(f)</sub>; Outlook Stable.

### Rating Action

Johannesburg, 29 November 2019 - GCR Ratings has affirmed the national scale fund rating<sup>[1]</sup> of AA(ZA)(f) on Absa Core Income Fund; with the outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Absa Core Income Fund	Fund Rating	National	AA <sub>(ZA)(f)</sub>	Stable Outlook

Fund summary				
Fund inception date	13 October 2016			
Fund currency	South African Rand			
Fund data review date	30 September 2019			
Assets under management ("AUM")	R6.8bn			
Net asset value ("NAV")	Market value (variable NAV)			
Fund benchmark	JIBAR + 0.5%			

### Rating Rationale

GCR Ratings ("GCR") has affirmed the above fund rating on Absa Core Income Fund ("Absa CIF", "the fund"), key features of which are summarised below.

In determining a fund rating, GCR qualitatively assesses the fund's management, and performs an evaluation of its historical performance in terms of price/return volatility, underlying asset quality, and market and liquidity risks. The fund rating was based on the following key criteria:

**Fund profile:** The fixed income mandate of the Absa Core Income Fund ("Absa CIF", "the fund") aims to deliver total returns exceeding those offered by money market ("MM") funds. The mandate prioritises capital preservation, low risk and high liquidity, attracting retail and corporate/institutional investors with an investment horizon greater than six months. Regulatory, mandate, and investment policy compliance are evident. Absa CIF features two-day liquidity and a one-year duration limit.

**Asset manager profile:** ABAM/AFM perform the investment/fund management functions in house, outsourcing selected administration activities. Based on the manager's track record, it possesses the competence, capability and capacity to manage the fund. High quality management practices,



compliance and risk monitoring, as well as operational and systems environments aim to meet performance objectives within mandate constraints. Furthermore, the fund's marketing, risk management, compliance, administration and performance reporting follow best practice.

**Investment performance:** The fund's monthly annualised returns have mostly exceeded benchmark since inception, with moderately low volatility in returns. Investor flows are volatile, but the fund has adequate strategies in place to simultaneously meet investment objectives and manage liquidity, including maintaining adequate levels of liquid assets. AUM growth has been very good, with an AUM of R6.8bn as at 30 September 2019 (FY18: R2.7bn). The fund's 1-year and 3-year compound annual growth rates were 130.6% and 313.9% respectively.

**Portfolio quality and market risk:** GCR's portfolio analysis considered credit/ concentration risk, tenor/duration (and limits), and additional sources of market risk, in addition to Absa CIF's stress-tested weighted average credit rating ("WACR") of 'AA<sub>(ZA)</sub>', in determining the fund rating. At 30 September 2019, Absa CIF's maturity profile and interest rate sensitivity as measured by the weighted average maturity ("WAM") and weighted average duration ("WAD") reflected a much shorter-dated portfolio with a WAM of 0.6 years (FY18: 2.9 years), managed at the lower end of the stipulated WAD range (180-365 days) with a WAD of 189.8 days (FY18: 193 days), ultimately reducing interest rate risk. The fund's short portfolio tenor, moderately low volatility and exposure, albeit low, to subordinated debt instruments result in a 'moderately low' market risk assessment. Launched in October 2016, the fund is establishing a positive and consistent track record.

**Key fund risks:** Very high issuer and investor concentration are Absa CIF's key risks. The very high issuer concentration is due to the IM's decision to primarily invest in instruments issued by South Africa's five largest banks. Very high credit concentration is a systemic issue in the South African interest-bearing short-term fixed funds sector, due to the typically high allocation to bank securities in these funds' portfolios. We expect the fund's very high investor concentration to improve slightly as the investor base (including the retail base) increases as a result of continued efforts from the fund manager's distribution channels.

### Rating Triggers

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Positive ratings movement could result from an increase in the weighted average credit rating of the portfolio accompanied by stability or improvement in concentration risk. Mandate breaches, rising investor concentration, and/or significant deterioration in credit and/or liquidity could result in negative ratings movement.

### Analytical Contacts

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## Related Criteria and Research

Global Master Criteria for Rating Funds and Asset Managers, updated March 2017
Absa CIF rating reports, 2017-18.

## Ratings History

### Absa Core Income Fund

Rating class	Review	Rating scale	Rating class	Outlook	Date
Fund rating	Initial	National	AA <sub>(ZA)(f)</sub>	Stable	December 2017
Fund rating	Last	National	AA <sub>(ZA)(f)</sub>	Stable	November 2018

## Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.

Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Long-Term	Not current; ordinarily more than one year.
Long-Term Rating	Reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Net Asset Value	The value of an entity's assets less its liabilities. It is a reflection of the company's underlying value and is usually quoted on a per share basis.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short-Term	Current; ordinarily less than one year.
Short-Term Rating	An opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Tenor	The time from the value date until the expiry date of a financial instrument.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

## Salient Points of Accorded Ratings

GCR affirms that a.) no part of the rating was influenced by any other business activities of the



credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Absa Fund Managers (RF) (Proprietary) Limited participated in the rating process via face-to-face management meetings and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The fund rating has been disclosed to Absa Fund Managers (RF) (Proprietary) Limited.

The information received from Absa Fund Managers (RF) (Proprietary) Limited and other reliable third parties to accord the fund rating included:

- A breakdown of the fund investment portfolio, including information on the instruments, their terms, conditions and credit quality;

- A breakdown of the fund investor portfolio, including fund flows and withdrawal terms;

- Detail on historical fund returns, fee structures, and expense ratios (where available);

- Details regarding the fund management, investment management and administration activities of the fund;

- Industry comparative data and regulatory framework.

The rating above was solicited by, or on behalf of, Absa Fund Managers (RF) (Proprietary) Limited, and therefore, GCR has been compensated for the provision of the ratings.