



GCR affirms Sanlam Alternative Income Fund's rating of AA-(ZA)(f); Outlook Stable.

Johannesburg, 31 October 2018 — Global Credit Ratings has affirmed the national scale fund rating* accorded to Sanlam Alternative Income Fund of AA-(ZA)(f); with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has affirmed the above fund rating to Sanlam Alternative Income Fund ("SAIF", "the fund").

Fund summary	
Fund currency	South African Rand
Fund data review date	31 July 2018
Assets under management ("AUM")	R7.52bn
Net asset value ("NAV")	Targeted constant price of R1.00
Fund benchmark	Average after tax yield (individual tax) on the SIM Money Market Fund ("SMMF")

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

Fund profile: SAIF has a conservative fixed income mandate, executed in favour of its corporate and high net worth retail clients. The objective of the fund is to offer a liquid, dividend yielding investment which will substantially track the local short-term interest rate cycle.

Asset manager profile: Sanlam Structured Solutions ("SSS") (a division of Sanlam Investment Management (Pty) Ltd ("SIM"), within the Sanlam Investment ("SI") cluster) together with TBI Investment Managers (Pty) Ltd ("TBI") are mandated to perform investment management functions, while Sanlam Collective Investments (RF) (Pty) Ltd ("SCI") is the fund manager. GCR assesses SAIF as being managed within a very strong fund management and control environment. Based on the managers' track records, they possess the competence, capability and capacity to manage the fund. Very strong management practices, compliance and risk monitoring facilitate performance objectives within mandate constraints.

Investment performance: The fund's return has consistently exceeded its benchmark since inception. One year and three year annualised compound returns were 37bps and 39bps above benchmark respectively at 31 July 2018, comparing relatively well with Collective Investment Schemes Control Act ("CISCA") money market funds ("MMFs"). Average AUM has been somewhat volatile however, consistently maintained at comfortable levels without compromise of portfolio quality. Investor flows are volatile (due to a concentrated investor base) but the fund has adequate strategies in place to simultaneously meet investment objectives and manage liquidity. Strategies



include active investor engagement, conservative liquidity management, and generous liquid asset buffers (with minimum long-term ratings of at least 'A_(ZA)').

Portfolio quality and market risk: SAIF's stress-tested weighted average credit rating ("WACR") was 'AA_(ZA)' at 31 July 2018. Portfolio credit concentration is assessed as high. GCR notes that this (systemic) issue is likely to affect most/ all variable yield money market linked fixed income funds. The fund does not have exposure to market, currency or interest rate/curve risk. Liquidity risk is assessed as moderate. At 31 July 2018, 13.8% of fund assets matured within 24 hours (considered high), and cumulatively 39.3% within 31 days. Liquidity required for settling withdrawals is generated in the following priority: inflows, liquidation of MMF investments, segregated liquid asset portfolios, other Sanlam Collective Investments Scheme ("CIS") investments, and lastly, redeemable preference shares. The fund also has standby credit and overdraft facilities. SAIF has adequate strategies in place to mitigate liquidity risk.

Key fund risks: High investor and portfolio concentrations and asset/ liability duration mismatches are the fund's biggest risks. Mitigated by moderate liquidity risk. Credit concentration is a systemic issue in South Africa, due to the high proportion of investments in financial institutions. SAIF manages this by investing in the highest quality counterparties available, within mandate limits.

An increase in the weighted average credit rating of the portfolio, accompanied by stability or improvement in concentration risks could positively impact the rating. Negative action may arise from, mandate breaches, rising investor concentrations, and/or significant deterioration in credit, liquidity.

* Fund ratings 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).

NATIONAL SCALE RATINGS HISTORY	
Initial rating (December 2015)	Last rating (October 2017)
Fund rating: AA _{(ZA)(f)}	Fund rating: AA _{(ZA)(f)}
Rating outlook: Stable	Rating outlook: Stable

ANALYTICAL CONTACTS

Primary Analyst	Committee Chairperson
Vimbai Muhwati	Matthew Pirnie



Credit Analyst	Sector Head: Financial Institutions Ratings
(011) 784-1771	(011) 784-1771
vimbaim@globalratings.net	matthewp@globalratings.net

APPLICABLE METHODOLOGIES AND RELATED RESEARCH

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

SAIF rating reports (2015-17)

RATING LIMITATIONS AND DISCLAIMERS

ALL GCR'S CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS](http://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS). IN ADDITION, GCR'S RATING SCALES AND DEFINITIONS ARE ALSO AVAILABLE FOR DOWNLOAD AT THE FOLLOWING LINK: [HTTP://GLOBALRATINGS.NET/RATINGS-INFO](http://GLOBALRATINGS.NET/RATINGS-INFO). GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, PUBLICATION TERMS AND CONDITIONS AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE AT [HTTP://GLOBALRATINGS.NET](http://GLOBALRATINGS.NET).

SALIENT FEATURES 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; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable fund rating document.

Sanlam Structured Solutions (a division of Sanlam Investment Management (Pty) Ltd), and TBI Investment Managers (Pty) Ltd 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 Sanlam Structured Solutions and TBI Investment Managers (Pty) Ltd.

The information received from Sanlam Structured Solutions, TBI Investment Managers (Pty) Ltd 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;



Details regarding the fund management, investment management and administration activities of the fund;
 Financial statements for SAIF, SIM, and Sanlam Limited at 31 December 2017;
 Corporate governance and enterprise risk framework; and
 Industry comparative data and regulatory framework.

The rating above was solicited by, or on behalf of, Sanlam Collective Investments (RF) (Pty) Ltd, and therefore, GCR has been compensated for the provision of the rating.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS 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.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.
Institutional Investors	Financial institutions such as pension funds, asset managers and insurance companies, which invest large amounts in financial markets on behalf of their clients.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest Rate Risk	Interest rate risk in the banking book is the risk that earnings or economic value will decline as a result of changes in interest rates. The sources of interest rate risk in the banking book are repricing/mismatch, basis and yield curve risk.
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.
Overnight Rate	The interest rate at which money due to be returned the next day is lent by one bank to another.
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.
Repurchase Agreement	In a REPO, one party sells assets or securities to another and agrees to repurchase them later at a set price on a specified date.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
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.

For a glossary of terms please click [here](#)

GCR affirms Sanlam Alternative Income Fund's rating of AA_(ZAF); Outlook Stable.