

### FUND RATING NOTIFICATION

GCR affirms Nedgroup Investments Core Income Fund's national scale fund rating of AA<sub>(ZA)(f)</sub>, with a Stable Outlook.

#### Rating action

Johannesburg, 10 May 2023 – GCR Ratings (GCR) has affirmed Nedgroup Investments Core Income Fund's (NEDCIF, the fund) national scale fund\* rating of AA<sub>(ZA)(f)</sub>, with a Stable outlook.

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

\*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).

#### Fund data/summary

Fund inception date	1 July 2005
Fund currency	South African Rand
Assets under management ('AUM')	ZAR52,4bn
Fund benchmark	STeFI Composite Index
Net asset value ('NAV')	Market Value (Variable NAV)
Association for Savings and Investment	South Africa – Interest Bearing – Short Term

#### Rating rationale

**Fund profile:** NEDCIF is a fixed income fund which aims to achieve returns in excess of those generated by money market funds. The fund seeks to maximise interest income, whilst preserving capital and offering sufficient liquidity, attracting primarily corporate and institutional investors.

**Weighted Average Credit Quality (WACQ):** The fund maintained its diversification of higher quality assets as at 28 February 2023. The top five local South African banks accounted for 81.4% of the total portfolio, with foreign banks accounting for 4.5%, a slight increase from 2.1% in 2022, funds accounting for 12.7% and securitisation at 1.4%. Negotiable certificates of deposit (NCD) accounted for the majority of the instrument portfolio mix at 45.7%, followed by floating rate notes (20.7%) and institutional funds at 12.3%. Given the increase in funds, from 1.8% in 2022 to 12.7%, the WACQ was rounded up to 16.75.

**Maturity & Duration:** The weighted average maturity (WAM) averaged 919 days, whilst the fund's weighted average duration (WAD) averaged 41 days over the past 12 months, in line with last year's review. It is important to note, this is well within the Cisca mandate of 180 days for WAD and internal limit of 5 to 7 years for WAM. However, our average score for the WAM and WAD is negative 0.25, due to the relatively high maturity risk.

**Management & Governance:** The management assessment is neutral to the rating. The fund had accumulated AUM of ZAR52,4bn at 28 February 2023 and performance has constantly exceeded the benchmark over the past 12 months. The investment management function is outsourced to Taquanta, a specialist cash and fixed income asset manager. GCR believes the fund is managed within a very strong control environment and the capacity, capability and competence of the Manco and Taquanta team facilitate achievement of performance objectives set within mandate constraints.

**Liquidity:** Sound liquidity is supported by liquid assets, such as NCD's and bank accounts, accounting for 45.7% and 6.9% of the total portfolio respectively, although investments in assets maturing in less than 30 days represented 20.0% of the total portfolio. Investor concentration is moderate, with the top ten contributing of 50.9% of the funds at 28 February 2023.

## Outlook Statement

The Stable outlook balances our expectation that the fund will continue to have a WACQ dominated by the top tier banks with limited sovereign exposure. We expect AUM growth to continue, performance to be strong and liquidity to remain robust.

## Rating Triggers

If the WACQ increases to between 17.00 and 17.50 (currently 16.75) we could raise the ratings. Conversely, a significant moderation in the quality of assets or reduction in liquidity could bring down the rating, however this is unexpected over the rating horizon.

## Analytical Contacts

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## Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022  
GCR Rating Scales, Symbols & Definitions, May 2022  
Criteria for Fund Ratings, July 2020

## Ratings History

### Nedgroup Investments Core Income Fund

Rating class	Review	Rating scale	Rating class	Outlook/Watch	Date
Fund Rating	Initial	National	AA <sub>(ZA)</sub> (f)	Stable Outlook	March 2016
	Last	National	AA <sub>(ZA)</sub> (f)	Stable Outlook	May 2022

## Risk Score Summary

Fund Rating Factors	Score
<b>Credit Quality</b>	<b>16.75</b>
Weighted Average Credit Quality (WACQ)	16.75
Adjustments	0.00
<b>Maturity and Interest Rate Risk</b>	<b>(0.25) (average)</b>
Weighted Average Maturity (WAM) Assessment	(1.50)
Weighted Average Duration (WAD) Assessment	1.00
<b>Management Assessment</b>	<b>0.00</b>
Franchise Strength and Manager Track Record	0.00
Performance	0.00
<b>Liquidity</b>	<b>0.00</b>
Liquidity Assessment	0.00
Adjustments	0.00
<b>Total Risk Score</b>	<b>16.50</b>

## Glossary

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.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Downgrade	The assignment of a lower credit rating to a company or sovereign borrower's debt by a credit rating agency. Opposite of upgrade.
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.
Fixed Deposit	Where funds are deposited in a savings account for a pre-determined period of time.
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. 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 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 regarding 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.
National Scale Rating	Provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
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.
Risk	The chance of future uncertainty (i.e., deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
Short-Term	Current; ordinarily less than one year.
Tenor	The time from the value date until the expiry date of a financial instrument.

## SALIENT POINTS OF ACCORDED RATING

GCR affirms that a.) no part of the rating process 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.

The credit rating has been disclosed to the rated entity. The rating above was solicited by, or on behalf of, the rated entities, and therefore, GCR has been compensated for the provision of the rating.

The rated entity participated in the rating process via management meetings, teleconferences, and other written correspondence. Furthermore, the quality of information received was considered to be adequate and has been independently verified where possible. The information received from Nedgroup Investments, Taquanta 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.
- Other related documents.

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