



Important Update

Standard and Poor's Global Ratings Agency assigns fund ratings to Nedgroup Investments Cash Solutions Funds

Standard and Poor's Global Ratings Agency assigned the following fund ratings to four Nedgroup Investments Cash Solutions Funds:

Fund name	FCQR/FVR	FCQR	FVR
Nedgroup Investments Prime Money Market Fund	zaAAAf/zaS1+	Highest Credit Quality	Extremely Low Volatility
Nedgroup Investments Corporate Money Market Fund	zaAA+f / zaS1+	Very High Credit Quality	Extremely Low Volatility
Nedgroup Investments Money Market Fund	zaAAf / zaS1+	Very High Credit Quality	Extremely Low Volatility
Nedgroup Investments Core Income Fund	zaAA-f / zaS1+	Very High Credit Quality	Extremely Low Volatility

Glossary of terms:

Acronym	Full term
FCQR	Fund Credit Quality
FVR	Fund Volatility Ratings

Four Nedgroup Funds Assigned South African National Scale Fund Credit Quality And Volatility Ratings

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LONDON (S&P Global Ratings) May 14, 2024--One or more of the credit ratings referenced within this article was assigned by deviating from S&P Global Ratings' published methodology, "Criteria | Financial Institutions | Fixed-Income Funds: Fund Volatility Ratings Methodology," published on June 26, 2017 (the FVR criteria).

S&P Global Ratings today said it has assigned its South African national scale (SANS) fund credit quality (FCQR) and fund volatility ratings (FVR) to three money market funds and one fixed income fund, sponsored by Nedgroup Investments (Pty) Ltd. The funds are domiciled in South Africa and managed by Taquanta Asset Managers (Pty) Ltd., a specialist cash and fixed income investment boutique based in Cape Town.

The South African national scale fund credit quality and fund volatility ratings have been assigned as follows:

- Nedgroup Investments Prime Money Market Fund: 'zaAAAf/zaS1+'
- Nedgroup Investments Corporate Money Market Fund: 'zaAA+f/zaS1+'
- Nedgroup Investments Money Market Fund: 'zaAAf/zaS1+'
- Nedgroup Investments Core Income Fund: 'zaAA-f/zaS1+'

For the assigned FCQR on each fund, we first determined a preliminary FCQR through our quantitative assessment of the fund's portfolio credit risk using our fund credit quality matrix. The assessment reflects the weighted-average credit risk of the portfolios of investments. Following the determination of a preliminary global FCQR score, we then attributed that score to an equivalent South African national scale FCQR. We utilized our "National And Regional Scale Credit Ratings Methodology," (published June 8, 2023), which provides for an opinion on a fund's relative creditworthiness when two or more mapping options are available. Additionally, as part of our overall FCQR assessment, for each fund, we conducted a portfolio risk assessment focusing on counterparty risk, concentration risk, liquidity, and the fund's credit score cushion (the proximity of the preliminary FCQR to a fund rating threshold).

For assessed funds with preliminary FCQRs that were within 10% of the lower fund rating threshold, we applied sensitivity tests. The rating sensitivity tests assess the degree to which a fund's asset portfolio exposure to the fund's largest obligor and lowest-credit-quality obligor, as well as exposure to assets on CreditWatch with negative implications, could lead to a fund downgrade. This was the case for Nedgroup Investments Corporate Money Market Fund, however

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in our view, the rating sensitivity tests would be managed through the strength of the management team and exposure to high credit quality bank names within the South African market.

We then conducted a qualitative assessment that entailed a review of Taquanta Asset Managers (Pty) Ltd. management and organization, risk management and compliance, and credit culture and credit research, which we scored as strong. We also performed a comparable rating analysis on the assessed funds against other funds that have a similar portfolio strategy and composition and formed a holistic view of the funds' portfolio credit quality and characteristics relative to peers. The comparative rating analysis was neutral to the assigned FCQRs and FVRs.

The assigned 'zaS1+' FVR signifies that, in our view, the funds exhibit extremely low volatility of returns, comparable with a portfolio of one-year commercial bank deposit rates denominated in the base currency of the fund, (South African rand; ZAR). We assigned the FVRs following our review of historical volatility and the dispersion of fund returns relative to reference indices. Next, we evaluated portfolio risk considering duration, credit exposures, liquidity, derivatives, leverage, foreign currency, and investment concentration. We determined that these portfolio risk factors were consistent and therefore made no adjustment to the preliminary FVR in our review of return volatility and dispersion.

We assigned the FVRs at 'zaS1+' following the application of a criteria exception to our FVR methodology. Because of the criteria exception, we are deviating from our published criteria by not capping the FVRs at 'zaS2'. Our FVR criteria states that we cap the FVR for funds whose reference index includes significant exposure to one or more speculative-grade sovereign issuer, at 'zaS2', when the sovereign issuer or issuers are rated in the 'BB' category, and at 'zaS3' when the sovereign issuer or issuers are rated in the 'B' category or lower. For example, a 'zaS2' FVR indicates that a fund exhibits a low-to-moderate volatility of returns comparable to a portfolio of short- to medium-duration government securities, typically maturing within three-to-seven years and denominated in the base currency of the fund.

In reviewing the volatility data of the funds' returns, we observed a low volatility of returns consistent with a 'zaS1+' rating for all four funds. The data suggests that when continuing with their conservative investment strategies (investing in high-quality short-term money market instruments within South Africa), it is less likely that the funds will experience price instability than if they were to invest in securities not consistent with the fund's investment guidelines or have portfolio durations over a longer investment horizon (for example, greater than one year). Notably, the four funds have restrictions on their portfolio duration, with the three money market funds maintaining a weighted-average duration of below 90 days, and the Core Income Fund below 180 days, which we would deem consistent with funds exhibiting 'zaS1+' profiles.

Based on our observations, we have determined that it would be inappropriate to apply the 'zaS2' cap to the FVRs on the funds. We apply a criteria exception to the ratings caps section of the FVR methodology because we consider the short tenor of the funds' investments makes returns less volatile than we would otherwise expect for a sovereign at a lower rating level. However, our analysis of the funds' actual experience has led us to conclude that the high volatility risks that the cap seeks to capture have been mitigated. If we were to observe an increase in the volatility of returns of the reference index, we would not apply the criteria exception.

S&P Global Ratings' FCQR And FVR, Fund Investment Objectives And Portfolio Overviews

- Nedgroup Investments Prime Money Market Fund (zaAAAf/zaS1+) aims to maximize interest

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income, preserve the portfolio's capital, and provide immediate liquidity, by maintaining a certain minimum of assets in liquid form as determined by the manager and with a maximum instrument term to final maturity of 13 months. As of March 31, 2024, the fund had 74% portfolio exposure to the Republic of South Africa; 80% of the portfolio was maturing within three months and had recorded a weighted-average maturity of 0.15 years (approximately 55 days). We note the maximum fund weighted-average duration is limited to 90 days and over the past four years has averaged about 67 days.

- Nedgroup Investments Corporate Money Market Fund (zaAA+f/zaS1+) aims to maximize interest income, preserve the portfolio's capital, and provide immediate liquidity, by maintaining a certain minimum of assets in liquid form as determined by the investment manager and with a maximum instrument term to final maturity of 13 months. As of March 31, 2024, the fund had 78.3% portfolio exposure to the four largest South Africa banks; 38.6% of the portfolio was maturing within three months and had recorded a weighted-average maturity of 0.36 years (approximately 131 days). We note the maximum fund weighted-average duration is limited to 90 days and over the past four years has averaged about 49 days.
- Nedgroup Investments Money Market Fund (zaAAf/zaS1+) seeks to provide a medium whereby investors can obtain undivided participation in a diversified portfolio of such money market instruments. Additionally, the primary performance objective is to obtain as high a level of current income as is consistent with capital preservation and liquidity and, similar to the other money market funds, as a maximum instrument term to final maturity of 13 months. As of March 31, 2024, the fund had 77.7% portfolio exposure to the five largest South Africa banks; 42.7% of the portfolio was maturing within three months and had recorded a weighted-average maturity of 0.36 years (approximately 131 days). We note the maximum fund weighted-average duration is limited to 90 days and over the past four years has averaged about 50 days.
- Nedgroup Investments Core Income Fund (zaAA-f/zaS1+) aims to preserve capital and to provide a total return in excess of that offered by money market portfolios, regular annual fixed deposits, and call accounts. The Nedgroup Investments Core Income Fund will comprise a mix of bonds and fixed deposits, structured money market instruments, and assets in liquid form both in South Africa and foreign markets amongst other investments, which are considered to be of a sufficient standard to provide investor protection at least equivalent to that in South Africa. As of March 31, 2024, the fund had 76.8% portfolio exposure to the four largest South Africa banks; 11.5% of the portfolio was maturing within one year and had recorded a weighted-average maturity of 3.10 years (approximately 1,131 days). We note the maximum fund weighted-average duration (WAD) is limited to 180 days and with a significant use of floating-rate instruments, sees the Core Income fund record a WAD of about 46 days over the past four years.

The funds sponsor, Nedgroup Investments Pty Ltd., is a subsidiary of Nedbank Group Ltd (not rated) but separated from the operations of the S&P Global rated banking entity, Nedbank Ltd. (Global issuer credit rating: BB-/Stable/B and SANS: zaAA/Stable/zaA-1+). With assets under management of more than ZAR300 billion, Nedgroup Investments operates a "best in breed" selection and assessment process to identify top fund managers locally in South Africa and internationally. As part of that process, Nedgroup Investments has selected Taquanta Asset Managers (Pty) Ltd. as its dedicated cash solutions manager. Originally established in 1997 following the merger between Syfrets, UAL Merchant Bank, and Nedbank Investment Bank, in today's form, Taquanta Asset Managers (Pty) Ltd. is one of the preeminent fixed income and cash managers in South Africa, overseeing assets of ZAR244 billion.

In our view, the Cape Town-based portfolio management team at Taquanta Asset Managers (Pty) Ltd. is a highly experienced group of cash and treasury investment professionals. They are

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supported by a risk management infrastructure and systems commensurate with an asset management entity that has an established track record in managing fixed-income assets for clients in South Africa.

The rated funds belong to the Nedgroup Collective Investments Ltd. scheme, which has been approved under the deed executed under the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002). Fund administration services are provided internally by Taquanta Asset Managers (Pty) Ltd. and The Standard Bank of South Africa Limited acts in the capacity of trustee and custodian to the scheme.

We review pertinent fund information and portfolio reports monthly as part of our surveillance process for our fund credit quality and volatility ratings.

A national scale fund credit quality rating is a forward-looking opinion about the overall credit quality of a fixed-income investment fund relative to that of other fixed income investment funds in the national market. National scale fund credit quality ratings, identified by the 'f' suffix (as are the global scale fund credit quality ratings), are assigned to fixed-income funds, actively or passively managed, typically exhibiting variable net asset values, and also include a country prefix denoted as 'xx'. National scale fund credit quality ratings reflect the credit risks of the fund's portfolio investments, the level of the fund's counterparty risk, and the risk of the fund's management ability and willingness to maintain current fund credit quality. Unlike traditional credit ratings (for example, issuer credit ratings), a national scale fund credit quality rating does not address a fund's ability to meet payment obligations and is not a commentary on yield levels. National scale fund credit quality ratings are accompanied by national scale fund volatility ratings ('xxAf/xxS3')--when national scale fund volatility ratings can be assigned--to communicate our opinion about certain risks not addressed by a fund credit quality rating.

A national scale fund volatility rating is a forward-looking opinion about a fixed-income investment fund's volatility of returns relative to that of a "reference index" denominated in the base currency of the fund. A reference index is composed of government securities associated with the fund's base currency. National scale fund volatility ratings are not globally comparable. National scale fund volatility ratings reflect our expectation of the fund's future volatility of returns to remain consistent with its historical volatility of returns. National scale fund volatility ratings reflect S&P Global Ratings' view of the fund's sensitivity to interest rate risk, credit risk, and liquidity risk, as well as other factors that may affect returns such as use of derivatives, use of leverage, exposure to foreign currency risk, investment concentration, and fund management. Different symbology is used to distinguish fund volatility ratings from S&P Global Ratings' traditional issue or issuer credit ratings. We do so because fund volatility ratings do not reflect creditworthiness but rather our view of a fund's volatility of returns. We also use a country prefix denoted as 'xx'. National scale FVRs have a 'xxS1' (low volatility of returns) to 'xxS5' (high to very high volatility of returns) rating scale. Within the 'xxS1' category, a fund may be designated with a plus sign, for example 'xxS1+'. This indicates its extremely low volatility of monthly returns compared with a portfolio of short-duration government securities representing the highest-quality fixed-income instruments available in each country or currency zone with a maturity of 12 months or less.

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- Criteria | Financial Institutions | Fixed-Income Funds: Fund Credit Quality Ratings Methodology, June 26, 2017

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- Criteria | Financial Institutions | Fixed-Income Funds: Fund Volatility Ratings Methodology, June 26, 2017

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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