

FUND RATING NOTIFICATION

GCR affirms Nedgroup Investments Corporate Money Market Fund's national scale fund rating of AA+(ZA)(f), with a Stable Outlook.

Rating action

Johannesburg, 10 May 2023 – GCR Ratings (GCR) has affirmed Nedgroup Investments Corporate Money Market Fund's (NEDCMMF, the fund) national scale fund rating* of AA+(ZA)(f), with a Stable outlook.

Rated Entity	Rating class	Rating scale	Rating	Outlook / Watch
Nedgroup Investments Corporate Money Market Fund	Fund rating	National	AA+(ZA)(f)	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	20 September 2012
Fund currency	South African Rand
Assets under management ('AUM')	ZAR48,5bn
Fund benchmark	STeFI Call Deposit Index (STeFI Call)
Net asset value ('NAV')	Targeted constant price of R1.00
Association for Savings and Investment	South Africa – Interest Bearing – Money Market

Rating rationale

Fund profile: NEDCMMF is a conservative fixed income fund which aims to achieve returns in excess of call rates. The fund has adopted a stricter investment mandate than those of traditional money market funds. NEDCMMF may invest in money market instruments issued by large domestic banks, namely ABSA, Standard Bank, First National Bank, Nedbank or better. The fund may not invest in non-bank corporates, parastatal entities, municipalities, and state-owned enterprises unless these are guaranteed by the government of the Republic of South Africa.

Weighted Average Credit Quality (WACQ): The fund maintained its diversification of higher quality assets as at 28 February 2023. South African banks accounted for 88.0% of the total portfolio, with foreign banks accounting for 9.3%, down from 12.5% in 2022 and sovereign investments at 2.7%. Government treasury bills have been on a downward trend, currently at 2.7% as at 28 February 2023, down from 23% in 2021. Negotiable certificates of deposit (NCD) accounted for the majority of the instrument portfolio mix at 51.2%, followed by bank accounts (20.1%) and step-up notes at 15.0%. Due to the decrease in foreign bank exposure and government treasury bills, the WACQ reduced to 16.75.

Maturity & Duration: The weighted average maturity (WAM) averaged 126 days, slightly above the CISCA mandate of 120 days due to timing of outflows and higher interest rates, whilst the fund's weighted average duration (WAD) averaged 36 days over the past 12 months, in line with last year's review. According, our average score for the WAM and WAD is 0.75, down from 1, due to a slight increase in WAM from an average of 119 days to 126 days.

Management & Governance: The management assessment is neutral to the rating. The fund had accumulated AUM of ZAR48,5bn at 28 February 2023 and has constantly outperformed the STeFI Call benchmark. 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 investments in relatively short-term to medium-term money market instruments. Liquid assets make up around 74.0% of total portfolio, comprising of NCD's at 51.2%, bank accounts (20.1%) and treasury bills at 2.7%. Investor concentration is moderate, with the top ten contributing 46.6% of the funds as at 28 February 2023. For the purposes of the calculation, we have excluded step up notes from liquid assets as such notes can be less liquid than the other instruments held in the fund, because their value can be more difficult to determine as the interest rate changes over time. Additionally, the interest rate on step-up notes may not be as attractive to investors as other instruments with similar maturity in the short term, which could further impact its liquidity.

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 18.00 (currently 16.75) we could raise the ratings. Conversely, a significant moderation in the quality of assets or reduction in the liquidity could bring down the rating, however this is unexpected over the rating horizon.

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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 Corporate Money Market Fund

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

Risk Score Summary

Fund Rating Factors	Score
Credit Quality	16.75
Weighted Average Credit Quality (WACQ)	16.75
Adjustments	0.00
Maturity and Interest Rate Risk	0.75 (average)
Weighted Average Maturity (WAM) Assessment	0.50
Weighted Average Duration (WAD) Assessment	1.00
Management Assessment	0.00
Franchise Strength and Manager Track Record	0.00
Performance	0.00
Liquidity	0.00
Liquidity Assessment	0.00
Adjustments	0.00
Total Risk Score	17.50

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 entity, 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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