

FUND RATING NOTIFICATION

GCR affirms Nedgroup Investments Prime Money Market Fund's national scale fund rating of AAA_{(ZA)(f)}, with a Stable Outlook.

Rating action

Johannesburg, 10 May 2023 – GCR Ratings (GCR) has affirmed Nedgroup Investments Prime Money Market Fund's* (NEDPMMF, the fund) national scale fund rating of AAA_{(ZA)(f)}, with a Stable outlook.

Rated Entity	Rating class	Rating scale	Rating	Outlook / Watch
Nedgroup Investments Prime Money Market Fund	Fund rating	National	AAA _{(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	1 March 2018
Fund currency	South African Rand
Assets under management ('AUM')	ZAR1,4bn
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: NEDPMMF is a conservative fixed income fund which aims to achieve returns in excess of call rates. The fund seeks to maximise interest income, whilst preserving capital and offering high liquidity, attracting primarily corporate and institutional investors. NEDPMMF is stricter on credit quality than those of traditional money market funds, only including money market instruments issued or guaranteed by foreign corporates or banks with an A- or better international rating issued by at least one major credit rating agency. The portfolio is allowed to invest in money market instruments which are issued or guaranteed by the South African Government and does not hold any corporate exposure currently.

Weighted Average Credit Quality ('WACQ'): The portfolio quality is assessed as very strong, with investment assets in T-bills and foreign banks with high credit ratings. As at 28 February 2023, the WACQ was 19.75, with foreign banks accounting for 49.8% of the total portfolio, down from 87.5% in 2022 and sovereign investment at 50.2%. Treasury bills account for 50.2% of the fund portfolio, followed by bank accounts at 22.0% and fixed/structured deposits at 27.8%, indicating the liquid and diversified nature of the fund. The WACQ is notched down by -0.25 for high foreign bank exposure, with China Construction bank representing 26.5% of the fund portfolio and a further -0,25 adjustment for high sovereign treasury bills exposure. Therefore, the final WACQ score is 19.25 after considering adjustments.

Maturity & Duration: The weighted average maturity (WAM) averaged at 85 days, whilst the fund's weighted average duration (WAD) averaged at 68 days over the past 12 months, in line with last year's review. Therefore, our average score for the WAM and WAD is +1.25.

Management & Governance: The management assessment is neutral to the rating. The fund had accumulated AUM of ZAR1,4bn at 28 February 2023 and has constantly outperformed the STeFi Call. 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 72.2% of the total portfolio, comprising of call accounts (22.0%) and treasury bills at 50.2%. Investor concentration is high, with the top three contributing of 75.6% of the funds as at 28 February 2023, however this includes an internal investor, which supports the neutral score for liquidity.

Outlook Statement

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

Rating Triggers

The rating is at the national scale ceiling. A significant moderation in the quality of assets, increase in maturity/duration risk or reduction in the liquidity could bring down the ratings, however, this is unexpected over the ratings horizon. The WAM and WAD scores are still high so there would need to be a significant reduction in WACQ to offset this, unlikely given the mandate and A rated investments.

Analytical Contacts

Primary analyst	Sindile Mothudi	Analyst, Insurance & Corporate & Public
Johannesburg, ZA	Sindilem@GCRratings.com	+27 11 784 1771
Committee chair	Susan Hawthorne	Deputy Sector Head: Insurance
Johannesburg, ZA	Susanh@GCRratings.com	+27 11 784 1771

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 Prime Money Market Fund

Rating class	Review	Rating scale	Rating class	Outlook/Watch	Date
Fund Rating	Initial	National	AAA _(ZA) (f)	Stable Outlook	June 2018
	Last	National	AAA _(ZA) (f)	Stable Outlook	May 2022

Risk Score Summary

Fund Rating Factors	Score
Credit Quality	19.25
Weighted Average Credit Quality (WACQ)	19.75
Adjustments	(0.50)
Maturity and Interest Rate Risk	1.25 (average)
Weighted Average Maturity (WAM) Assessment	1.50
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	20.50

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 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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