

Fund Rating Announcement

GCR affirms Southchester (RF) Limited's fund rating of AA_{(ZA)(f)}, Outlook Stable

Rating action

Johannesburg, 31 May 2022 – GCR Ratings ("GCR") has affirmed Southchester (RF) Limited's national scale fund rating of AA_{(ZA)(f)}, with a Stable Outlook.

Rated Entity	Rating class	Rating scale	Rating*	Outlook / Watch
Southchester (RF) Limited	Fund rating	National	AA _{(ZA)(f)}	Stable

* 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	01 October 2011
Fund currency	South African Rand
Assets under management ("AUM")	R3.8bn
Fund benchmark	South African Benchmark Overnight Rate ("SABOR")
Net asset value ("NAV")	Market value (variable NAV)

Rating rationale

Southchester (RF) Limited ("Southchester RF", "the fund") is a public limited liability company that issues senior secured commercial paper via an insolvency-remote special purpose vehicle to investors, primarily institutional, and invests into a portfolio of high quality, liquid and rated fixed income instruments. The entity is regulated by the South African Reserve Bank in terms of the Banks Act, which is different to the regulatory oversight of other traditional funds, which are regulated by the FSCA under the Collective Investment Schemes Control Act.

Weighted Average Credit Quality ("WACQ"): The portfolio's WACQ was 16.75 at 30 March 2022, a decrease from 17.00 the previous year. The WACQ reflects the portfolio having high rated credit counterparties including the South African sovereign and top tier banks. As of 31 March 2022, repos accounted for c.50.5% of the fund, showing a shift from the treasury bills that formed 33% of the portfolio in 2021. Asset concentrations are high, with the top four banks in South Africa and government backed instruments dominating the portfolio. Positively, the top tier banks in South Africa are typically of strong quality and well regulated. This has contributed to a high WACQ. We have adjusted the WACQ to 16.25 to reflect the long term mandate of the fund.

Maturity & Duration: Weighted average maturity ("WAM") and weighted average duration ("WAD") remained at around 215 days and 58 days respectively like in the previous year. This brings a slight positive adjustment of 0.5 to the rating for limited interest rate and maturity risk in fund.

Management & Governance: Southchester RF's controlling shareholder is Southchester Holdings Trust, while Southchester Investment Managers is the portfolio manager. The team is experienced, which GCR believes ensures requisite competence, capability and capacity to achieve the fund's performance objectives within mandate constraints. GCR assesses Southchester RF as being managed within a strong fund management and control

environment, which is supportive of the rating. The fund's return has exceeded the benchmark over the past 3 years. Return volatility over the same period was low. We have kept the rating for Management and Governance neutral.

Liquidity: Liquidity is a comfortable benefiting from a stable funding structure. Funding consists of senior class notes issued to investors with varying investment horizons but typically between 12-18months. Although most of the top 20 investors are expected to redeem their investments within the year, assets are redeemable on call. However, a call feature that allows investors to redeem notes before maturity may negatively affect cash flows, though the fund's exposure of 50% to repurchase agreements (repos) partly mitigates this risk. The score is neutral as a result.

Outlook statement

The Stable Outlook reflects our expectations for WACQ to be sustained at our moderated level over the outlook horizon, balancing reduction in the sovereign exposure with high rated counterparties including foreign banks. The maturity and interest rate risk reflects conservatism in the management of the fund, and the management and liquidity assessments are also likely to remain stable over the outlook horizon.

Rating triggers

If the WACQ remains at higher levels and the mandate demonstrates more conservatism, we could raise the ratings. Conversely, a significant moderation in the quality of assets or reduction in the liquidity could bring down the ratings, however this is unexpected over the ratings horizon.

Analytical contacts

Primary analyst Johannesburg, ZA	Matthew Pirnie MatthewP@GCRratings.com	Group Head of Ratings +27 11 784 1771
Committee chair Johannesburg, ZA	Corné Els Cornee@GCRratings.com	Senior Financial Institutions Analyst +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

Southchester (RF) Limited

Rating class	Review	Rating scale	Rating	Outlook	Date
Fund rating	Initial	National	AA-(ZA)(f)	Stable	September 2017
	Last	National	AA(ZA)(f)	Positive	December 2021

Risk score summary

Fund Rating Components & Factors	Risk Scores
Credit Quality	16.25
Weighted Average Credit Quality (WACQ)	16.75
Adjustments	(0.50)
Maturity and Interest Rate Risk	0.50 (average)
Weighted Average Maturity (WAM) Assessment	0.00
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 Score	16.75

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.
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.
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 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.
Tenor	The time from the value date until the expiry date of a financial instrument.

Salient Points 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.

The fund rating has been disclosed to Southchester (RF) Limited. 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.

Southchester (RF) Limited participated in the rating process via virtual management meetings and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Southchester (RF) Limited 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;
- Details regarding the fund management, investment management and administration activities of the fund; and
- Industry comparative data and regulatory framework.

ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GCRRATINGS.COM](http://GCRRATINGS.COM). IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT WWW.GCRRATINGS.COM/RATING_INFORMATION. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2019 GCR INFORMATION PUBLISHED BY GCR MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. Credit ratings are solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR is compensated for the provision of these ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained in each credit rating report and/or rating notification are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.