

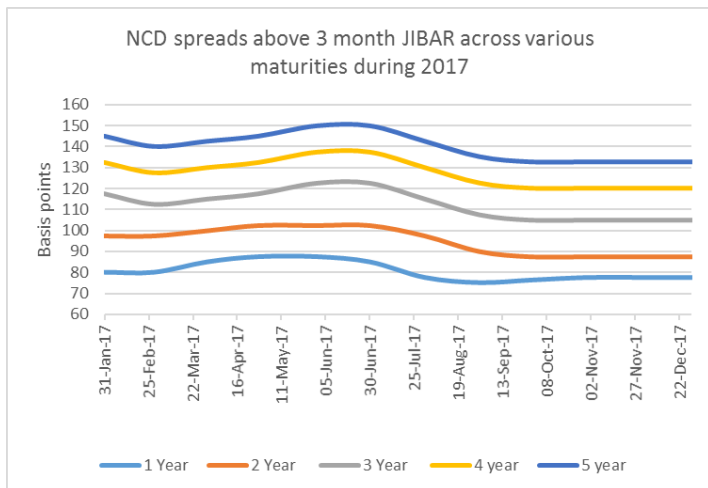
**Please note that the commentary is for the retail class of the fund.**

The fund returned 7.85% over one year and 1.80% for the quarter. The fund's one-year forward yield was 8.03% and the duration was 52 days.

In line with the risk profile of the fund, returns are largely achieved by investing in Negotiable Certificates of Deposits (NCDs) issued by the major banks. The benefit of these instruments is twofold:

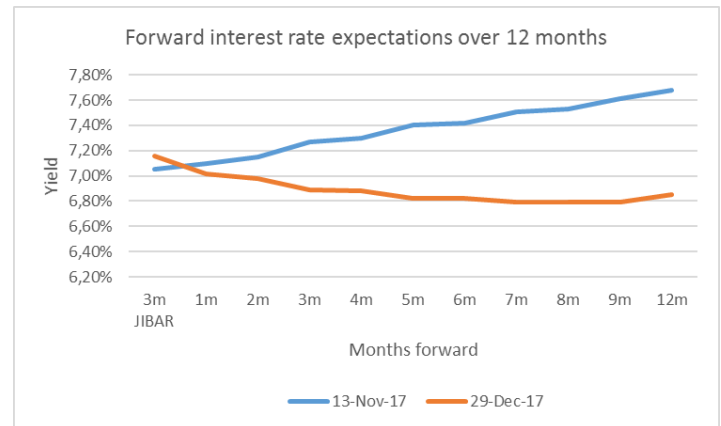
- they generate an attractive yield relative to the fund's benchmark; and
- can be easily sold back to the banks at actively quoted rates.

Despite the economic and political events of the last quarter, NCD spreads remained relatively stable across all maturities, demonstrating that banks' wholesale funding needs were relatively well balanced against investment demand. While this has been broadly positive for the fund, the status quo may be impacted by some notable risk events in the first quarter of 2018 including rating agency action and the Budget Speech. The fund remains well placed to handle any adverse market moves with capital preservation and liquidity being key focus areas.



The fund does not take long-term interest rate views and interest rate risk is typically hedged to ensure compliance with the mandated duration limit of 90 days. While operating within this limit, there is still opportunity to exploit dislocations in the market's short-term interest rate expectations relative to our house view. Over the last quarter, forward interest rate expectations as represented by the FRA curve moved from reflecting three interest rate hikes over a 12-month period to reflecting one interest rate cut. By purchasing one-year fixed rate NCDs when the opportunity arose (at a market yield of 8% versus the current 7.8%), the fund was able to benefit from the capital appreciation that resulted from this change in market expectations. Even if the

fund were to hold these instruments to maturity, it would still benefit from an initial purchase yield, which is well above its benchmark, together with the associated liquidity advantages.



While the outcome of the ANC elective conference did help temper interest rate expectations, we initiated the trade based on fundamental economic research. Our view was that three interest rate hikes over a 12-month period was too aggressive given our muted outlook on inflation, largely driven by strong food disinflation.

Another interesting event this past quarter includes the move in 3-month JIBAR from 6.99% to 7.15%. A large portion of our floating rate investments is benchmarked against the 3-month JIBAR. While this move is peculiar given that the current repo rate is 6.75% and the forward interest rate curve is expecting a cut over the coming year, the rate is not driven by forward expectations alone and interbank liquidity does play a balancing role. Given that the benchmark on floating rate instruments only resets to market levels on a quarterly basis, this distortion provides for potential uplift in the fund, where the weighted average 3-month JIBAR benchmark is 7.09% as opposed to the current market rate of 7.15%.

We tread carefully into 2018, remaining disciplined and only investing in instruments that are attractively priced relative to their underlying risk profile.

**Portfolio managers**  
**Mark le Roux and Christine Fourie**  
 as at 31 December 2017