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

The fund generated a return (net of management fees) of 1.8% for the quarter and 7.9% over a rolling 12-month period, which is ahead of the 3-month Short-Term Fixed Interest (SteFI) benchmark return of 6.9%.

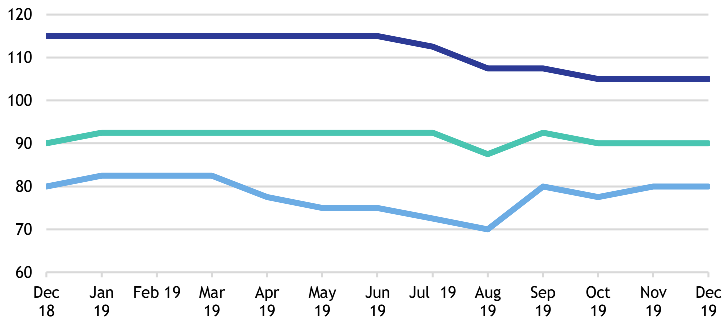
GDP data continues to reflect constrained domestic growth momentum. Third quarter GDP contracted 0.6% quarter on quarter seasonally adjusted and annualised and reflected just 0.3% growth in annual terms. Growth was positive but weak across most of the GDP expenditure categories with negative inventory movements proving to be the large detractor. This continues to be symptomatic of production weakness in the manufacturing, mining and agriculture sectors. Our expectations are for growth to have improved slightly in the fourth quarter of 2019 although severe load shedding may land up tempering our expectations. Currently, we expect GDP growth to register a mere 0.4% in 2019.

CPI slowed to 3.6% year on year in November 2019 from 3.7% in the prior month, which was in line with our expectations. The fall in monthly fuel prices proved to be the biggest contributor. Overall, inflation remains benign with little demand-side pressure coming from a constrained consumer. We expect inflation to normalise higher to 4.6% in 2020, partly driven by a normalisation in food prices.

The South African Reserve Bank (SARB) Monetary Policy Committee (MPC) kept the repo rate unchanged at 6.5% in November 2019. Their statement was, however, notably more dovish with some acknowledgement of the broad-based growth and inflation weakness in the economy. We expect that the latest CPI and GDP prints will force the SARB to revise both its growth and inflation forecasts lower, which should provide more support for interest rate cuts in 2020. The SARB does, however, continue to express concerns around fiscal risk and the impact which this may have on the currency, and we believe that this remains the last impediment to an interest rate cut in the eyes of the committee members. Any progress which is made towards limiting expenditure ahead of the 2020 budget could see the MPC cut in its January 2020 meeting. We currently expect two 25 basis points interest rate cuts in 2020, which is slightly more dovish than current market expectations. Should this outcome materialise, one can expect the absolute yield on the fund to decrease, given that the majority of the investments are held in floating rate instruments.

Over the last quarter, the 3-month Johannesburg Interbank Average Rate (Jibar) index ticked up slightly from 6.78% to 6.80% which is a largely neutral outcome for the fund. Negotiable Certificates of Deposit (NCD) spreads remained relatively constant. The fund should, however, continue to benefit from the contraction in spreads seen over the last 12 months as this only materialises when an NCD is sold back to the issuing bank, something which the fund does routinely to create liquidity. Going forward, we continue to see the risks to NCD spreads as being broadly balanced, with the fund being well placed to handle adverse market moves.

FLOATING RATE NCD SPREADS ABOVE JIBAR (BPS)



Source: Bloomberg

Net corporate issuance for 2019 has been robust, however, support for primary market auctions remains strong despite the tight spreads on offer. Issuance spreads remain tight relative to our fair value expectations and, as such, our participation in primary market issuance remains muted. We have seen some improved issuance from State-owned enterprises, however, this has been longer dated in nature and therefore beyond the investment limitations of the fund. In light of the continued supply/demand mismatch in the credit market, we continue to believe that the demand for credit will continue into 2020. We remain cautious and continue to invest only in instruments which are attractively priced relative to their underlying risk profile. Capital preservation and liquidity remain our key focus areas for the fund.

Portfolio managers

Nishan Maharaj, Mauro Longano and Sinovuyo Ndaleni

as at 31 December 2019