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

The fund generated a return of 1.9% for the quarter and 7.7% over a rolling 12-month period, which is ahead of the Alexander Forbes 3-month Short Term Fixed Interest benchmark return of 6.9%.

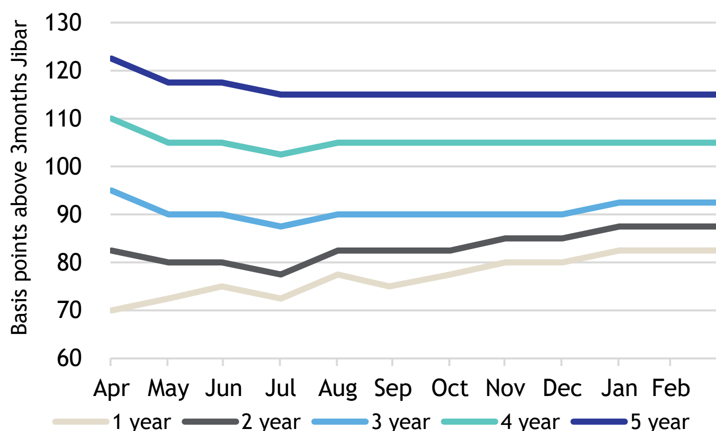
In its last meeting, the South African Reserve Bank's Monetary Policy Committee (MPC) left the repo rate unchanged at 6.75%. Despite revising its inflation forecasts slightly upwards to reflect higher domestic fuel prices, food inflation and electricity tariffs, the outlook remains relatively benign. It is, however, important to note that the tone of the MPC statement remains cautious, with fiscal slippage and currency vulnerability highlighted as potential risks going forward. Given the inflation oulook in the context of weaker domestic growth and a more supportive global environment, it is our view that rate hikes will remain on hold for the foreseeable future. The market largely reflects this view, with no further rate hikes being priced for the balance of the year.

CPI decreased in February 2019 to 4.1% year-on-year (y/y), which was largely due to a moderation in food inflation. Our current expectation is for CPI to average 4.9% in 2019. The slightly higher revision is on the back of lower food prices being offset by a fuel price hike anticipated for April. Longer term, the risk of higher oil prices, tariff increases, currency risk, and higher food inflation should be moderated by the weaker growth environment.

Growth is expected to remain subdued as a result of low consumer and business confidence, and we expect it to average at 1.3% for 2019. Load shedding could cause further downside pressure, with industrial output and confidence being affected. It is also worth mentioning that Moody's decided not to comment on South Africa's credit rating as was scheduled at the end of March 2019. South Africa is still rated Baa3 with a stable outlook. The next review is expected to be in November 2019.

The last quarter has seen spreads on Negotiable Certificates of Deposit (NCDs) remain largely constant. One-year fixed-rate NCDs are being offered at 8.175%, which is attracitve given the return profile of the fund (providing the duration restriction of the mandate is not breached). The contraction in NCD credit spreads, which we witnessed over 2018, will continue to be positive for the fund although the benefit is only received when an NCD is sold back to the issuing bank. As such, there is no immediate yield uplift, but the benefit should materilise over time as the fund routinely creates liquidity by trading in these instruments. 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



The first quarter of 2019 has seen robust issuance from the 'big four' banks which raised R12 billion worth of senior unsecured bonds. We have, however, also seen property companies, insurers and state-owned enterprises being active. Most of the issuance has been a result of refinancing redemptions rather than new funds being raised, and issuance spreads still remain tight relative to our fair value expectations. We expect credit issuance to remain muted for the balance of the year, in line with our growth expectations.

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.

Portfolio managers
Nishan Maharaj, Mauro Longano and Sinovuyo Ndaleni
as at 31 March 2019