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

The fund generated a return (net of management fees) of 2.0% for the quarter and 8.1% over a rolling 12-month period, which is ahead of the 3-month Short-Term Fixed Interest (SteFI) benchmark return of 7.0%.

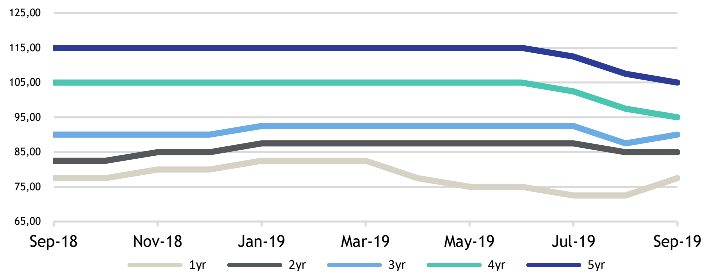
The second quarter's GDP growth surprised the market and came in at 3.1% quarter on quarter (q/q) seasonally adjusted annualised (saa), against a consensus forecast of 2.5% q/q saa. In annual terms, GDP grew 0.9% year on year (y/y) after being flat in the first quarter of 2019 (Q1-19) and compared to market expectations of 0.7% y/y. The largest contributors to GDP in value-added terms came from mining production, financial and business services, manufacturing and utilities services. Contained load shedding and fewer strike disruptions in the second quarter of 2019 (Q2-19) helped support growth. The outlook for annual growth remains weak and our internal forecast is for the economy to grow by 0.5% in 2019.

Headline inflation in August accelerated to 4.3% y/y from 4.0% y/y in July and core inflation printed at 4.3% y/y vs 4.2% y/y in July. An increase in food and alcoholic beverages inflation, housing and utility prices, and the August fuel price adjustment contributed to the inflation print increase. Overall, inflation pressure remains benign, but food prices reflect broad increases and some momentum for a normalisation after a long period of low prices. Producer price inflation continued its downward trend, falling to 4.5% y/y in August vs 4.9% y/y in July. This was a result of falling input costs and a decline in commodity and raw material prices. Given the ongoing low growth and benign inflation prints, the market still sees some room for policy rate easing in the coming months.

The South African Reserve Bank (SARB) Monetary Policy Committee (MPC) voted unanimously to cut the repo rate by 25 basis points (bps) to 6.5% at its July meeting. The MPC noted inflation has remained balanced at the mid-range of the target band, providing some room to ease monetary policy. While global monetary policy is potentially supportive of further easing by the SARB, ongoing fiscal slippage is a major concern for the MPC. The Medium-Term Budget Policy Statement at the end of October, and the Moody's credit review in November, remain key event risks the SARB will be monitoring before its next MPC meeting in November. Our current view is for one 25bps interest rate cut by end of 2019, taking the repo to 6.25%. Should this outcome materialise, one can expect the absolute yield on the fund to decrease, given that the majority of the invesments are held in floating rate instruments.

Over the last quarter, the 3-month Johannesburg Interbank Average Rate (JIBAR) index decreased by 25bps, from 7.03% to 6.78% . This is reflective of the decrease in repo rate and further interest-rate cut expectations priced in by the market. The contraction in negotiable certificates of deposit (NCD) credit spreads 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 materialise 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 well placed to handle adverse market moves.

FLOATING-RATE NCD SPREADS ABOVE JIBAR



Source: Bloomberg

Issuance of corporate paper in the third quarter was limited and the majority of the issuance came from banks. Support for primary market auctions remained strong despite the tight spreads on offer. Issuance spreads still remain tight relative to our fair value expectations and 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 for the fund.

Portfolio managers
Nishan Maharaj, Mauro Longano and Sinovuyo Ndaleni
as at 30 September 2019