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

The Fund returned 1.2% in November, bringing its total return to 4.1% for the 12-month period.

Local bonds had a strong performance in the month of November. The All Bond Index delivered a total return of 3.25largely driven by a rally by long-term bonds (12+ years), which returned 5.33%. The 7-12-year part of the curve also delivered positive performance and returned 3.13%. Medium-term bonds (3-7 years) were 0.48% stronger, while the short end (1-3 years) of the curve returned -0.05%. Inflation-linked bonds (ILBs) also had a good month and returned 1.95%, while cash returns held steady at 0.27%.

Internationally, the news was dominated by a conflicting combination of improving activity data and an alarming rise in Covid-19 infection rates and escalating mobility restrictions. In turn, this was partially offset by more positive newsflow on the emergence of a vaccine, and the outcome of the US presidential election.

In the US, the Federal Open Market Committee left the target range for the federal funds rate unchanged at 0.00%-0.25% and confirmed that asset purchases will continue to run at the current pace. The Federal Reserve Board stated that it views current economic risk as balanced but will consider intervening should market conditions deteriorate. Headline inflation printed at 1.2% year-on-year (y/y) in October versus a 1.4% y/y increase in September. Medical care services prices continued to decline together with transport costs. Core inflation moderated to 1.6% y/y in October from 1.7% y/y in September.

In emerging markets, China's headline inflation slowed sharply to 0.5% y/y in October from 1.7% y/y in September. This moderation is on the back of a sharp decline in food prices and a slowdown in transport and household goods and services prices. Core inflation remained unchanged at 0.5% y/y. Elsewhere, the impact of Covid-19 on growth is still evolving, with many countries still battling rising infection rates and relatively stringent lockdown restrictions. Central banks, on balance, remain in an accommodative stance.

The rand was stronger, as it gained 5% against the US dollar over the month, ending November at US$1/R15.47. The easing of lockdown measures globally, and initial indications that the expected contraction would not be as severe as initially thought, served to buoy risk sentiment and emerging market currencies. However, the local fundamental backdrop remains quite poor. The Fund maintains its healthy exposure to offshore assets and, when valuations are stretched, will hedge/unhedge portions of its exposure back into rands/dollars by selling/buying JSE-traded currency futures (US dollars, UK pounds and euros). These instruments are used to adjust the Fund's exposure synthetically, allowing it to maintain its core holdings in offshore assets. In addition, the Fund currently has option structures in place to protect its holding if the rand moves materially below US$1/R16 on a sustained basis.

In South Africa, the South African Reserve Bank (SARB) held its last Monetary Policy Committee meeting for the year and left the repo rate unchanged at 3.50%. The vote was split, with three members voting for hold and two advocating for a cut. The SARB expects the economy to contract by 8% in 2020, before a rebound of 3.5% and 2.4% in 2021 and 2022, respectively. The SARB sees the risks to growth as balanced and is expecting a growth rebound of 50.3% seasonally adjusted average (saa) quarter-on-quarter in the third quarter of the year. Headline inflation is expected to average at 3.2% for 2020 and to remain low in 2021.

Headline inflation surprised at 3.3% y/y for October vs 3.0% y/y in September. Core inflation came in at 3.4% y/y in October from a 3.3% y/y print in September. The surprise jump in headline inflation was largely attributed to an increase in food prices. Transport costs and other prices remained flat. Recent data continues to point to a weak domestic consumer base that should continue to limit pricing power and keep inflation well anchored.

At the end of August, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 4.91% (three-year) and 6.00% (five-year), higher than the previous month. Shorter-dated NCDs have pulled lower due to the significant interest rate cuts, recovery in bond yields and tightening of credit spreads. Short-dated fixed-rate NCDs continue to hold appeal due to the inherent protection offered by their yields and relative to our expectations for a lower repo rate. In addition, NCDs have the added benefit of being liquid, thus aligning the liquidity of the Fund with the needs of its investors. The Fund continues to hold decent exposure to these instruments (fewer floating than fixed), but we will remain cautious and selective when increasing exposure.

South Africa is on the brink of a debt trap due to years of poor policy choices that have been exacerbated by the effects of the Covid-19 crisis. At the heart of the country's problems lies a large debt load that is being financed at exceptionally high levels of interest and beleaguered state-owned enterprises, key among them being Eskom. Policy choices are moving in the right direction; however, implementation is hampered by an incapacitated State and divided political motives within the ruling party. However, the valuation of South African government bonds (SAGBs) does embed a significant amount of risk premium, commensurate with the underlying risk, if not more. This valuation is specifically attractive in the longer end of the bond curve, due to high yields and low cash prices. ILB's in the front end of the curve (<7 years) offer an attractive pick up relative to their nominal counterparts with inherent inflation protection, while listed credit is unattractive, given expensive valuations. We believe bond portfolios should have a neutral to overweight position to SAGB's in the longer end of the curve, an allocation to ILB's in the short end of the curve, and low (if any) allocation to listed credit.

The local listed property sector was up 18.4% over November, bringing its return to -44.0% over the rolling 12-month period. Listed property has been the largest drag on the Fund's performance. This has resulted in a general rise in balance-sheet risk across the sector. The current crisis will reduce rental income, put pressure on asset values, increase the cost of borrowing for lower-quality businesses, and test inexperienced management teams. It is entirely possible that most of the companies will require additional capital and that dividends are suspended to preserve capital. One must be cautious not to take these at face value and understand how the key issues mentioned above affect that yield. We believe there are a few select large-cap counters that satisfy our stringent conditionality.

The FTSE/JSE Preference Share Index was up 10.4% over November, bringing its return to -17.5% over the 12-month period. Preference shares offer a steady dividend yield linked to the prime rate and, depending on the risk profile of the issuer, currently yield between 8% and 10% (subject to a 20% Dividends Tax, depending on the investor entity). The change in capital structure requirements mandated by Basel III will discourage banks from issuing preference shares. This will limit availability. In addition, most of the bank-related preference shares trade at a discount, which enhances their attractiveness for holders from a total return perspective and increases the likelihood of bank buybacks. Despite attractive valuations, this asset class will continue to dissipate, given the lack of new issuance and because of its associated risks being classified as eligible loss-absorbing capital (only senior to equity). The Fund maintains select exposure to certain high-quality corporate preference shares but will not actively look to increase its holdings.

We remain vigilant of the risks emanating from the dislocations between stretched valuations and the underlying fundamentals of the local economy. However, we believe that the Fund's current positioning correctly reflects appropriate levels of caution. The Fund's yield of 5.36% remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected Fund performance over the next 12 months.

As is evident, we remain cautious in our management of the Fund. We continue to invest only in assets and instruments that we believe have the correct risk and term premium to limit investor downside and enhance yield.

Portfolio managers
Nishan Maharaj and Mauro Longano
as at 30 November 2020