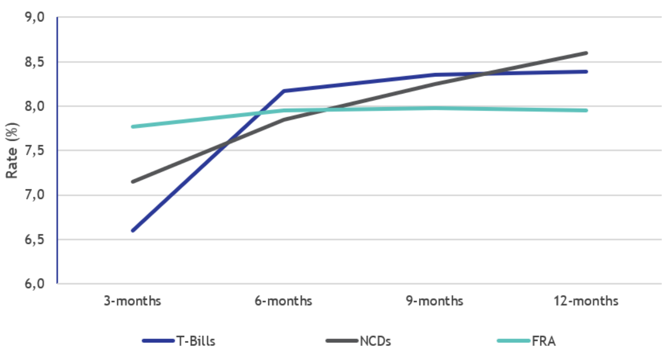
Please note that the commentary is for the retail class of the Fund.

The Fund generated a return (net of management fees) of 1.73% for the fourth quarter of 2022 (Q4-22), and 5.56% over a rolling 12-month period. This is ahead of the three-month Short-Term Fixed Interest (SteFI) benchmark return of 4.82%.

The South African Reserve Bank (SARB) increased the repo rate by 75 basis points (bps) at the November monetary policy committee (MPC) meeting, moving the repo rate to 7%. The SARB has cumulatively increased rates by 350bps since the commencement of the rate hiking cycle. The tone at the last meeting was less hawkish, signalling that the MPC will become more sensitive to underlying growth and inflation developments. We expect overall inflation to have averaged 6.9% for 2022. We expect inflation to average at 5.2% in 2023 on the back of an early and substantial fuel price cut in January 2023, which should see a faster-than-expected slowing in headline inflation. Despite this, we expect the SARB to raise the repo rate by 50bps in January, to a peak rate of 7.5%.

During the last quarter, the three-month Johannesburg Interbank Average Rate (Jibar) increased by 0.79% to 7.26%, factoring in the increases in the repo rate. The market is less hawkish on the outlook for rates, with the forward rate curve flattening out in the six- to-12-months tenors. This suggests expectations of the repo rate peaking in the first half of 2023. The six- and nine-months Treasury Bills (T-Bill) remain attractive relative to NCDs and warrant a position in the Fund. We will be looking to increase our T-Bill and one-year NCD positions when the opportunity arises.

T-BILLS VS FIXED RATE NCDS VS FRA



Source: Bloomberg, SARB

We saw several corporates and banks issue senior unsecured bonds in the primary credit markets, albeit for refinancing purposes. Corporate issuers continued to receive support with oversubscribed auction bids and auctions clearing at mid-level or below the lower end of price guidance. The banks returned to the debt capital market with capital instruments that are more suited to funds with medium- to high-risk budgets. We have been successful in getting credit in the secondary market for the Fund. We continue to remain cautious and invest only in instruments that are attractively priced relative to their underlying risk profiles. Capital preservation and liquidity remain the key focus for this Fund.

Portfolio managers
Nishan Maharaj, Mauro Longano and Sinovuyo Ndaleni
as at 31 December 2022