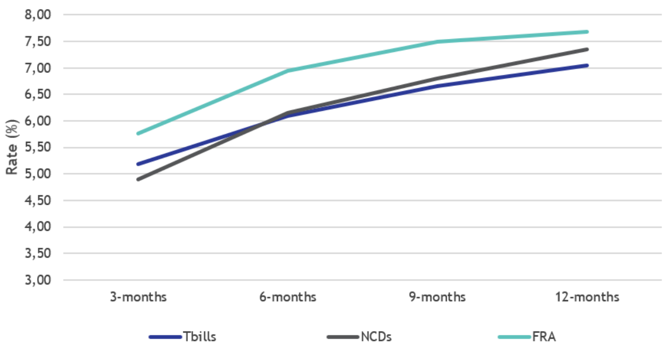
Please note that the commentary is for the retail class of the Fund.

The Fund generated a return (net of management fees) of 1.25% for the second quarter of 2022 (Q2-22), and 4.60% over a rolling 12-month period. This is ahead of the three-month Short-Term Fixed Interest (SteFI) benchmark return of 3.82%.

The South African Reserve Bank (SARB) increased the repo rate by 50 basis points (bps) to 4.75% at the monetary policy meeting in May. The Monetary Policy Committee noted rising inflation expectations and evidence of pipeline price pressures as key reasons for the hike. The SARB also modestly revised its inflation outlook to factor in higher fuel prices and food price pressures, together with a modest increase in core goods inflation. Headline inflation is now expected to average 5.9% in 2022, and to settle at 5.0% in 2023 and 4.7% in 2024.

During Q2-22, the 3-month Johannesburg Interbank Average Rate (Jibar) increased by 0.64% to 5.0%. The market remains hawkish on the outlook for policy rates, with the forward interest rate curve pricing in 150bps of hikes over the remainder of the year. This has contributed to the yield on fixed-rate negotiable certificates of deposit (NCD) increasing, on average, by 100bps, and as such, these instruments continue to trade at a discount relative to treasury bills of the same tenor. However, we have preferred to invest in prime-linked notes in an effort to capture the rise in interest rates more efficiently while keeping duration low.

T-BILLS VS FIXED RATE NCDS VS FRA



Source: Bloomberg, SARB

Over Q2-22, we saw several corporates and banks issue senior unsecured bonds in the primary credit markets. These issuances were well supported, with most clearing within price guidance. We successfully bid for three- and five-year Absa Bank senior unsecured green bond issuance and Standard Bank's senior unsecured bonds. Pricing at these auctions was attractive, and we have seen senior bank paper pricing slightly widening since the beginning of the year and offering 20-30bps pick up relative to floating-rate NCDs. We remain cautious and continue to 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 30 June 2022