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

Performance

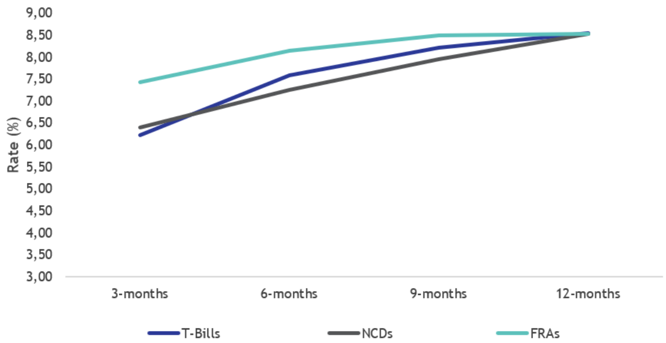
The Fund generated a return (net of management fees) of 1.42% for the third quarter of 2022 (Q3-22), and 4.93% over a rolling 12-month period. This is ahead of the 3-month Short-Term Fixed Interest (SteFI) benchmark return of 4.18%.

Fund positioning

The South African Reserve Bank (SARB) increased the repo rate by 150 basis points (bps) to 6.25% over Q3-22. This was largely in response to tighter financial conditions globally and persistent domestic inflation pressures. We believe that domestic inflation has now peaked, although the risks to the inflation outlook remain balanced, with moderating fuel prices being offset by elevated food inflation. We believe the SARB will continue to hike by 75bps in November, with another 50bps in Q1-23 to bring the repo rate to a peak of 7.5%.

During Q3-22, the 3-month Johannesburg Interbank Average Rate (Jibar) tracked the repo rate higher, increasing by 1.46% to 6.47%. The market remains hawkish on the outlook for policy rates, with the forward interest rate curve now pricing in an additional 206bps of hikes over the remainder of the year. This has contributed to the yield on fixed-rate Negotiable Certificates of Deposit (NCDs) increasing by 83bps on average. The Treasury Bill (T-Bill) curve is starting to become attractive in the six- and nine-months tenors as obligations in these maturity periods are trading at a discount to NCDs. We will be looking to increase our T-Bill and 1-year NCD positions when the opportunity arises.

TREASURY BILLS VS FIXED-RATE NCDs VS FRAs



Source: Bloomberg, SARB

We saw several corporates and banks issue bonds in the primary credit markets, albeit for refinancing purposes. Corporate issuers continue to receive support, with oversubscribed auction bids and spreads clearing at the lower end or through price guidance. The banks returned to the debt capital markets with subordinated capital instruments. Despite still being reluctant to chase credit in the primary markets, we have seen opportunities in secondary traded paper.

Outlook

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 30 September 2022