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

Performance

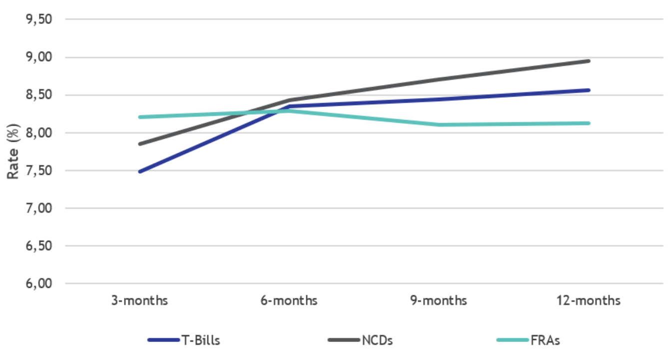
The Fund generated a return (net of management fees) of 1.86% for the first quarter of 2023 (Q1-23), and 6.40% over a rolling 12-month period. The latter is ahead of the 3-month Short-Term Fixed Interest (SteFI) benchmark return of 5.63% over the same period.

Fund positioning

The South African Reserve Bank (SARB) raised the repo rate by 50 basis points (bps), moving the policy rate to 7.75% at the March Monetary Policy Committee (MPC) meeting. The decision was premised primarily on a deterioration in the outlook for inflation, which was more evident in how the MPC articulated risks to the baseline than actual revisions to forecasts. The elevated risk assessment was also attributed to stickier global inflation, the risk of a broader increase in prices associated with loadshedding, rising electricity as well as administered prices, a deterioration in inflation expectations, and rising pressure on wages. Furthermore, an anticipated significant widening in the current account deficit in response to weaker global growth, deteriorating terms of trade and an increase in investment, has raised MPC concerns about further currency weakness. Looking ahead, we see the SARB remaining vigilant to inflation risk, with another 25bps hike possible in May or July.

During the last quarter, the 3-month Johannesburg Interbank Average Rate (Jibar) increased by 0.70% to 7.96%, factoring in the increases in the repo rate. The market is less hawkish in its outlook for rates, with the forward rate curve flattening out in the 6-12 months tenors, suggesting expectations of the repo rate peaking in the first half of 2023. Fixed-rate NCDs for tenors of more than 6 months look attractive and we will be looking to increase our positions when the opportunity arises. Another area offering value for the Fund is short-dated inflation-linked bonds (ILBs). The valuation on these ILBs offers total returns that significantly beat cash and NCD returns over the next year.

T-BILLS VS FIXED-RATE NCDs VS FRAs



Source: Bloomberg, SARB

Outlook

The local banks dominated issuance in Q1-23 and received strong support, leading to auctions clearing tighter and outside our fair value expectations. Few corporates have returned to the primary debt market, mostly refinancing upcoming maturities. We remain cautious and continue to invest only in instruments that 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 31 March 2023