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

Performance

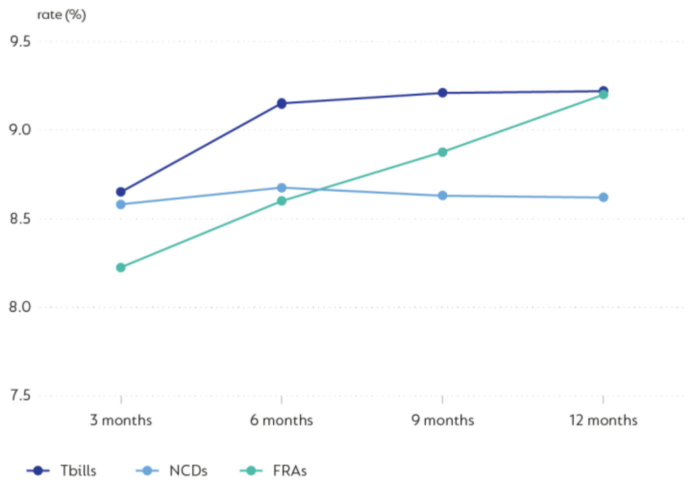
The Fund generated a return (net of management fees) of 2.27% for the third quarter of 2023 (Q3-23) and 8.10% over a rolling 12-month period. This is ahead of the 3-month Short-Term Fixed Interest benchmark return of 7.30%.

Positioning and outlook

The South African Reserve Bank (SARB) left the repo rate unchanged at 8.25% at the September MPC meeting. There was a surprise split in the votes, with two members voting for a 25 basis points increase while three voted for no increase. The MPC assessed upside risks to inflation, exacerbated mainly by the weak currency, the deterioration in SA's fiscal position and rising commodity prices. Nevertheless, the SARB revised its core inflation forecast to 4.9% for 2023 from 5.2% while noting that global core inflation remains sticky, and risks of rising food prices and a weak currency remain a concern. Overall, the MPC maintained its hawkish tone and will likely hold rates high for longer.

During the last quarter, the 3-month Johannesburg Interbank Average Rate decreased by 0.17% to 8.33%, reflecting the market's view of the SARB reaching a peak in its rate-hiking cycle. There was little change in the forward rate curve over the last quarter, with yields remaining flat post the six-month tenor. We increased our position in the 6- and 9-month Treasury Bill exposure as valuation remains attractive relative to negotiable certificates of deposit. In addition, short-dated inflation-linked bonds are starting to become attractive, and it is a position we will consider building in the Fund.

Figure 1
T-BILLS VS NCDs VS FRAs



Sources: Bloomberg, SARB

Corporates and banks continue to receive support in the primary credit markets, with auctions clearing below or at the lower end of price guidance. The banks also returned to the debt capital markets with green capital instruments, whereby proceeds are already earmarked for renewable energy projects. The issuance pipeline from banks and corporates for the fourth quarter of 2024 is gaining momentum, and we are expecting strong support from investors. We continue to source credit for the Fund in the secondary market and remain cautious by investing 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 2023