

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

### Performance and fund positioning

The Fund returned 2.73% over the quarter, which is ahead of the STeFI (Alexander Forbes Short-Term Fixed Interest Index) composite benchmark of 2.06%. Since inception in 2023, the Fund has returned 5.2%, which is ahead of the benchmark return of 4.90%.

The last quarter was dominated by news flow surrounding the South African National Elections. Despite the ANC losing significantly more votes than had been widely expected, the proposal of a Government of National Unity was welcomed by the market, with local asset classes posting strong returns across the board. The Fund was well positioned to take advantage of this, primarily through its holdings in duration instruments such as longer-dated fixed rate negotiable certificates of deposit (NCDs) and nominal government bonds.

Monetary policy is also tentatively looking supportive of duration assets. While the SARB MPC left the repo rate unchanged at 8.25% during their last meeting, the committee's statement acknowledged a better near-term inflation outlook and an improvement in the Reserve Bank's own inflation forecast. While the unanimous decision means that possible rate cuts remain some time off, the improvement in the baseline forecast acknowledges some easing in near-term price dynamics, which should open the window for a rate cut later in the year. Our call remains for 25 basis points (bps) of easing in November 2024, supported by two more cuts of 25bps each next year. Related to this, the May CPI data were in line with expectations, with both headline and core measures remaining unchanged at 5.2% y/y and 4.6% y/y, respectively. This was primarily driven by food inflation continuing to edge lower, with fuel and transport costs marginally higher.

Quarterly returns of the fixed income asset classes in which the Fund can invest were all compelling relative to cash. The FTSE/JSE All Bond Index (ALBI) posted a return of 7.49%, with the strongest performance coming from the 12 years plus bucket at 9.84%. However, all the ALBI constituents performed well ahead of benchmark, and the Fund was able to take advantage of this through its unhedged holdings of R186, R2030 and R213 government bonds, which posted returns of 3.35%, 5.36% and 6.15%, respectively. The Fund used this opportunity to lock in gains and modestly reduce the duration. Going forward, we still believe that the sub-10-year area of the curve offers the best risk/reward opportunity for a cash-cognisant mandate.

At the beginning of the quarter, election jitters and political uncertainty caused a sell-off in short-end interest rates, with market-implied expectations for interest rate cuts all but disappearing. This proved to be an invaluable opportunity to invest in one-year NCDs at above 9.2% and five-year NCDs at above 10%. Overall, the Fund was able to increase exposure to money market investments by around 5%, with the increase in NCDs being partly offset by Treasury Bill sales, which did not reflect the same level of yield widening. These levels have subsequently retraced to well below pre-election levels.

Going forward, we anticipate that money market instruments will experience further compression on the back of GEFECRA proceeds (Gold and Foreign Exchange Contingency Reserve Account). As stated in the February budget, it is the intention of the SARB and National Treasury to utilise these reserves to lower the government's borrowing needs. Until such time as the funds are utilised, however, they will be placed on

deposit in the banking system, which will create a surplus of funding and liquidity. This is likely to put downward pressure on deposit pricing.

Our cautious view on credit remains unchanged. Nonetheless, we do take advantage of opportunities in the secondary market where specific names may trade at levels equal to or above our fair value. In this regard, we were able to find opportunities in short-dated FirstRand, Old Mutual and City of Cape Town debt, which are all highly rated. This was, however, more than offset by several maturities within the Fund which, in aggregate, reduced our exposure to the asset class.

The Fund's position in inflation linkers did not change materially and remains significant. Inflation-linked bonds (ILBs) returned 2.43% which, while also beating cash, did not perform as well as its nominal counterpart. However, as is always the case with the inflation-linked curve, the returns can differ dramatically between the individual instruments. By far, the most significant holding in the Fund remains to be the I2025, which returned 2.72%. We still believe this instrument offers an attractive total return profile relative to other cash instruments, given it only has seven months remaining until maturity. To put this into perspective, taking our forward inflation expectations together with the current real yield on the instrument of 4.9%, an annualised return of 9.37% should be expected. This is well above where comparable NCD and Treasury Bill yields are currently trading.

### Outlook

Given recent strong returns, we remain vigilant about valuation and will continue to only invest in instruments that we believe offer appropriate returns for the underlying level of risk. The global backdrop will also likely become more volatile in the coming months, with elections being concluded in major developed economies. However, given the current fund yield of 9.81%, together with its modest duration positioning, we believe it remains on track to deliver its target of cash +1.5% over the medium term.

### Portfolio managers

**Nishan Maharaj and Mauro Longano**  
 as at 30 June 2024