

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

Performance and fund positioning

The Fund returned 1.07% in November, bringing its 12-month total return to 11.13%, which is ahead of cash (7.37%) and its benchmark (8.13%) over the same period. We believe the Fund's current positioning offers the best probability of achieving its cash +2% objective over the medium to longer term.

Local bonds had a good run in November following an interest rate cut and well-received Medium Term Budget Policy Statement (MTBPS). The FTSE/JSE All Bond Index (ALBI) was up 3.45%, with the long end of the curve (bonds maturing in 12+ years's time) delivering the best return of 5.38%. The belly of the curve (7-12 years maturity) closed 3.20% higher, while medium term bonds (3-7 years maturity) posted 1.64%, and short-term bonds (1-3 years maturity) returned 0.82%. Cash came in at 0.55%, while inflation-linked bonds (ILBs) were up 3.69%.

Globally, November continued to show sticky inflation readings, but activity data remains more resilient than forecasters have anticipated – prompting some caution from policymakers, who are increasingly shifting to data-dependent guidance. Several key US data releases were postponed due to the government shutdown in the preceding months and should be released in December, adding uncertainty to the policy outlook.

China's headline inflation turned positive at 0.2% y/y in October from -0.3% y/y in September, while core inflation rose to 1.2% y/y from 1.0% y/y. The uptick was on the back of increased spending during Golden Week. Prices rose in the apparel, healthcare, and education sectors while transport and food inflation fell at a slower pace. Unfortunately, producer price deflation persists, albeit at a slower pace – down 2.1% y/y in October from 2.3% y/y in September.

In South Africa, the Minister of Finance, Mr Enoch Godongwana, tabled the MTBPS early in November. The focus of the MTBPS was debt stabilisation coupled with rising primary surpluses and an emphasis on improving the efficiency and effectiveness of government spending to bolster economic growth outcomes. The formal adoption of a lower inflation target reduced all inflation-linked assumptions in the baseline forecasts, largely benefiting debt service cost estimates as well as non-interest expenditure allocations. The main budget deficit is expected to narrow marginally to -4.5% of GDP for FY2025/2026, driven by a larger primary surplus. In addition, another GFECRA disbursement will help offset funding needs in 2026/27, facilitating a peak in the debt ratio to 77.9% in 2025. Subsequently, weekly nominal bond issuance was reduced by R750 million to R3 billion, reflecting the reduced financing needs. Revenue outperformance of R19.3 billion overshoot in FY2025/2026 was partially offset by R15.8 billion in additional non-interest spending, diluting fiscal gains.

The rand ended the month at R17.11/US\$1, slightly better than its close in the previous month but weaker than its emerging markets (EM) peer group. Offshore credit assets and certain developed market bonds continue to flag as relatively attractive. The Fund has utilised a significant part of its offshore allowance to invest in these assets. When offshore assets become expensive (or relatively cheap), the Fund may adjust its foreign currency exposure by buying or selling currency futures on the JSE (typically in US dollars, UK pounds, or euros). This helps the Fund fine-tune its exposure to global markets without having to sell its offshore investments.

The South African Reserve Bank (SARB) voted unanimously to cut the repo rate by 25 basis points, moving the rate to 6.75% from 7.0%, at the November MPC meeting. The cut was a response to an improved inflation outlook, with the latest data points printing below the MPC's forecasts. The SARB marginally revised 2025 growth to 1.3% from 1.2% citing resilient household spending and expectation of an improvement in capital expenditure from a weak base. Incoming data remains paramount, and the MPC is clearly sensitive to exogenous risks that could disrupt the forecast trajectory or negatively impact expectations.

SA headline inflation accelerated to 3.6% y/y in October from 3.4% y/y in September – less than expected – while core inflation ticked down to 3.1% from 3.2% y/y. The main driver of headline inflation was an increase in transport costs and unfavourable base effects. There was an unexpected moderation in food prices, which was prompted mostly by a decline in vegetable, cereals, and weak dairy prices. Price slowdowns were also observed in the durable goods, restaurant, and accommodation categories.

At the end of November, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 7.23% (three-year) and 7.61% (five-year), with both maturities lower compared to the end of the previous month. Our inflation expectations suggest that the current pricing of these instruments remains attractive due to their lower modified duration and, hence, high breakeven relative to cash. In addition, NCDs have the added benefit of being liquid, thus aligning the Fund's liquidity with the needs of its investors. The Fund continues to hold decent exposure to these instruments (fewer floating than fixed), but we will remain cautious and selective when increasing exposure.

Despite the recovery in ILBs over the last quarter, they still remain poor performers relative to cash and bonds over the long term. The general assumption is that the lower inflation target should result in a poor outcome for ILBs. However, it is important to differentiate between the various parts of the ILB curve and their sensitivity to policy rates. The five-year ILB is very sensitive to the real policy rate. Over the last few years, as the SARB has maintained the real policy quite high to force inflation lower. This has acted as a floor for how low five-year ILBs yields can go. Our expectation is for the real policy rate to move lower from here over the next year, towards 2.5%, as the SARB reduces the repo rate and inflation heads slightly higher. Consequently, five-year ILBs (or shorter) could likely track lower as well, from current levels of 4.3%.

The current five-year ILB is 4.2%, while the coincident real policy rate is 3.4%. If the real policy rate does decrease to 2.5% as we expect, it makes sense for the five-year ILB (or shorter) to track lower by at least 50bps. This will result in a total return of 9%, even if inflation averages 3% over the period (9.5% if inflation averages 3.5% over the period), meaning the five-year nominal bond will need to rally by more than 50 basis points to keep pace. This is unlikely, given that we only expect the repo

rate to move lower by another 50bps over the next year. Therefore, five-year ILBs remain an attractive alternative to allocating to shorter-dated nominal bonds. They also provide portfolios with inherent protection in a risk-off environment, as they tend to have lower correlation with nominal bonds during such periods.

The global landscape remains uncertain; however, emerging markets have continued to outperform developed markets. SA Government Bonds (SAGBs) have flourished as local anxiety has eased and expectations for a lower inflation target have bolstered prospects for a lower repo rate. They are now trading slightly below fair value. Global bond flows have turned more supportive of EMs, given their relatively cleaner balance sheets, and could support further compression in bond yields if that trend sustains its momentum. The accumulation of risks suggests that some caution is warranted in allocating more capital to SAGBs at current yields; however, shorter-maturity ILBs offer an attractive alternative allocation, given the possibility of a lower real policy rate. As such, we would advocate for a neutral position in SAGBs, weighted more towards the 10- to 12-year area, with a decent allocation to shorter-dated ILBs in bond portfolios.

The local listed property sector was up 7.8% over the month, bringing its 12-month return to 31.47%. The durability of the cost performance will remain in the spotlight; however, a better operating environment is likely to result in better growth prospects over the next 24 months. Despite dividend yields being quite low (7-8%), the improved dividend growth puts the total return prospects well above bonds which could support the sector. Valuations remain quite tight, and the risks posed from a slower economic recovery could erode optimism in the sectors prospects. We believe that one must remain cautious given the high levels of uncertainty around the strength and durability of the local recovery.

Local credit spreads are at historically tight levels due to low issuance volumes and a large amount of capital seeking a home with reduced volatility. The use of structured products, such as credit-linked notes (CLNs), has become ubiquitous within the local market. This sector has experienced exponential growth over the last five years, reaching a market size of over R100 billion. However, only a third of this market reprices, creating an inaccurate representation of asset volatility and pricing. CLNs mask the underlying/see-through credit risk as the issuing entity (predominantly local banks) is seen as the primary credit risk.

The increased usage of CLNs has not expanded the pool of borrowers; rather, it has only served to concentrate it. This is due to the ability to limit the volatility of these instruments by not marking them to market based on the underlying asset price movements. The combination of attractive yields and absence of volatility is an opportunity that not many would pass up, unless, of course, transparency of pricing is important to the underlying investor. As a result, there can be significant unseen risks within fixed-income funds. Investors need to remain prudently focused on finding assets of which the valuations are correctly aligned to fundamentals and efficient market pricing. Except for a few opportunities, we view the local credit market as unattractive relative to other asset classes.

Outlook

We remain vigilant of the risks from the dislocations between stretched valuations and the local economy's underlying fundamentals. However, we believe the Fund's current positioning accurately reflects the appropriate level of caution, while its yield of 7.98% (gross of fees) remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected portfolio performance over the next 12 months. As is evident, we remain cautious in our management of the Fund. We continue to invest only in assets and instruments that we believe have the correct risk and term premium to limit investor downside and enhance yield.

Portfolio managers

Nishan Maharaj and Mauro Longano
as at 30 November 2025