

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

Performance and fund positioning

The Fund returned 1.14% in October, bringing its 12-month total return to 11.12%, which is ahead of cash (7.46%) and its benchmark (8.23%) 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 posted good returns in October. The FTSE/JSE All Bond Index (ALBI) was up 2.56%, with the long end of the curve (bonds with a maturity of 12+ years) delivering the best return of 3.70%. The belly of the curve (7-12 years) closed 2.83% higher, while medium term bonds (3-7 years) posted 1.52%, and short-term bonds (1-3 years) returned 0.71%. Cash came in at 0.57%, while inflation-linked bonds (ILBs) were up 1.46%.

October brought with it an array of economic releases and a few central bank meetings. Inflation readings remain generally sticky, while activity data continues to be more resilient than forecasters have anticipated – prompting some caution from policymakers who are increasingly shifting to data dependent guidance. Looking ahead, US data will be affected by the government shutdown, and this may affect central bank decisions in coming months.

The Federal Reserve Board (the Fed) cut the target range for the Federal Funds rate by 25 basis points, moving the range to 3.75%–4.00% at the October Federal Open Market Committee meeting. The Fed noted that the economy has been growing at a moderate pace and that the labour market has become more vulnerable, despite unemployment remaining low relative to history. Inflation risks were assessed to be to the upside. The US government shutdown has delayed the release of a range of economic data and could impair the Fed's ability to assess the economy at the next FOMC meeting. The Fed reiterated that it would proceed with caution and future rate decisions will be data dependent, which led to a repricing of market expectations for near-term rate cuts.

US headline inflation edged up to 3.0% year on year (y/y) in September from 2.9% y/y August, while core inflation slowed to 3.0% y/y from 3.1% y/y. The main drivers of the uptick were increases in energy costs, particularly gasoline prices, while food prices rose modestly, and shelter costs increased at a slower pace. Price pressures remain broadly mixed across sectors, with services inflation sticky.

The European Central Bank (ECB) left the deposit rate unchanged at 2.0% at the October Governing Council meeting. Inflation has been lingering around the 2% target, while risks to economic growth were assessed to be balanced. Financial markets are no longer pricing additional ECB easing and see rates having bottomed at 2%. The ECB noted the region's economy has continued to grow at a steady pace despite a challenging global environment and labour markets remain robust, reinforcing the view that the Governing Council is comfortable with the current stance.

Euro area headline inflation ticked up to 2.2% y/y in September from 2.0% y/y in August, while core inflation remained unchanged at 2.3% y/y. Prices remain broadly steady, with few changes from the previous month.

China's economy grew by 1.1% quarter on quarter (q/q) for the third quarter of 2025 from revised growth of 1% in Q2-25, and on an annual basis the economy grew by 4.8% y/y. The main driver remains the external sector, with surging exports, while fixed asset investment and consumer consumption continue to detract from growth. On the production side, manufacturing and industrial production were strong, but retail sales growth slowed. Negatively, the property sector remains weak, and consumer sentiment subdued.

China's headline inflation fell 0.3% y/y in September from -0.4% y/y in August, while core inflation rose to 1.0% y/y from 0.9% y/y. Food inflation remains a big detractor, decelerating for the eighth consecutive month. Transport costs fell at a slower pace and modest price increases were observed in apparel, healthcare, and household goods categories. Producer price inflation also continues to fall, albeit at a slower pace, down 2.3% y/y in September from a decline of 2.9% y/y in August.

The rand ended the month at R17.33/US\$1, slightly weaker 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.

South African headline inflation increased to 3.4% y/y in September from 3.3% in August – less than expected – while core increased to 3.2% y/y from 3.1% y/y. The main driver of headline inflation was another moderation in food prices, while rental inflation increased slightly, suggesting some normalisation in rentals after a protracted period of weakness. Transport costs fell with lower retail fuel prices, and vehicle prices remained flat. Elsewhere, durable goods deflation persisted as home furnishings, appliances and technology equipment prices all continued to fall, aided by the strong currency and weak imported goods prices.

At the end of October, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 7.455% (three-year) and 7.845% (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 4.3%, 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 8.13% over the month, bringing its 12-month return to 23.8%. The durability of the operational performance will remain in the spotlight as an indicator of the pace and depth of the sector's recovery. The current increase in the cost base, due to higher administered prices and second-round effects on deteriorating infrastructure in much of the country, will weigh on the sector's earnings in the coming year. 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 8.34% (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

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as at 31 October 2025