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

Performance

The Fund generated a return (net of management fees) of 2.07% for the fourth quarter of 2024 (Q4-24) and 8.98% over a rolling 12-month period. This return is ahead of the three-month Short-Term Fixed Interest (SteFI) benchmark return of 8.21% over the one year.

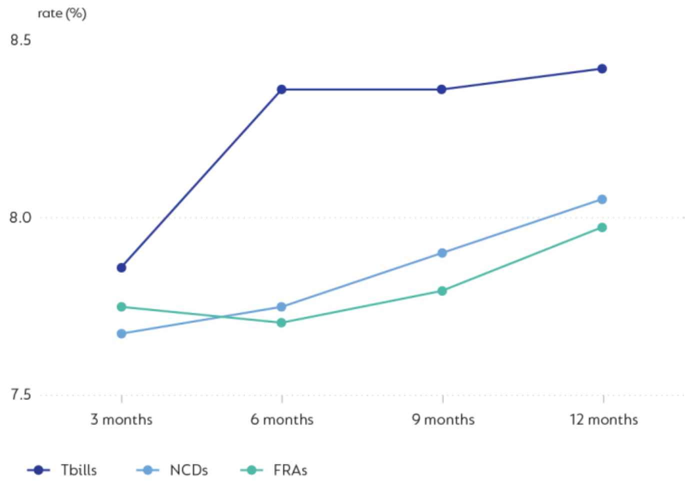
Positioning

The South Africa Reserve Bank (SARB) cut the repo rate by 25 basis points (bps), taking it to 7.75% from 8.00% at the November Monetary Policy Committee (MPC) meeting. Cumulatively, the SARB cut rates by 50bps in 2024. The post-meeting statement highlighted that the SARB is moving with caution, given the uncertainty surrounding global monetary policy settings and volatile local currency movements. The MPC also noted that in the near term, growth-related data has been mixed, with the expectation that structural reforms in energy and logistics will lift growth in the medium term. We believe the SARB will take a prudent approach in easing monetary policy, and we expect the repo rate to end at 7.25% in 2025.

During the quarter, the 3-month Johannesburg Interbank Average Rate (Jibar) decreased by 30bps, decreasing from 8.05% to 7.75%. We have seen money market curves coming down, largely reflecting rate-cut expectations and surplus liquidity in the market. We continued to increase the Fund's position in two-year floating rate notes and six-month T-bills given the attractiveness of the assets relative to other money market instruments. The R186, short-dated fixed rate government bond, has become attractive at an effective yield of 8.47%, and we have been gradually building a position in the Fund. Given our lower interest rate expectations, the absolute yield of the Fund is expected to decrease, as the majority of the portfolio is invested in floating-rate instruments.

Figure 1

T-BILLs VS FIXED-RATE NCDs VS FRNs



Sources: Bloomberg, SARB

Several corporates and banks accessed the debt capital markets in Q4-24, with corporates raising debt mainly for refinancing purposes and banks opting to issue senior paper and capital instruments. A few corporate issuers opted to raise funding via private placements instead of public auctions. The spread compression in the credit market continues, albeit, at a gradual pace. The Fund continues to source its credit holdings in the secondary market.

Outlook

We remain cautious by investing only in instruments that are attractively priced relative to their underlying risk profiles. Capital preservation and liquidity remain a key focus for this Fund.

Portfolio managers
Nishan Maharaj, Mauro Longano and Sinovuyo Ndaleni
as at 31 December 2024