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world of change



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Duration without the drama

With the SARB expected to hike again many treasurers are questioning whether duration has any place in a treasury portfolio. It is the right question. But weighted, short-end duration behaves very differently from significantly longer bond fund duration, and that difference could materially improve your cash returns without compromising the stability your mandate requires.

Key takeaways

- Not all duration carries the same level of risk.
- Higher interest rates can strengthen future portfolio income, helping offset the temporary impact of higher yields.
- Active duration management has consistently added value over cash with only a modest increase in volatility.

In conversations with corporate treasurers across South Africa, the reaction to 'duration' is remarkably consistent. It brings to mind bond fund drawdowns, capital losses and uncomfortable conversations with audit committees. With the SARB having just hiked to 7% in May and markets pricing in a further 25 to 50 basis point increase, the instinct to stay short and safe is understandable.

Capital preservation is non-negotiable in a treasury mandate. But not all duration is the same. The duration embedded in an enhanced cash strategy behaves very differently from the long-duration bond exposure that many treasurers associate with the term.

Two very different versions of duration

A typical South African bond fund runs a modified duration of roughly six to eight years. If rates rise by one percentage point, the capital impact is 6% to 8%. That is a meaningful number and it is understandable that treasurers want no part of it.

Our enhanced cash strategy runs a modified duration averaging six months through the cycle. The same one percentage point rate rise translates into an impact of roughly 0.5%, and even that is temporary. Higher rates feed into the portfolio through coupon income and reinvestment, typically recovering the effect within weeks. The two are separated by a factor of twelve.

Portfolio type	Duration	Impact of a 50bp rate rise
Money market fund	~2 months	Negligible
Enhanced cash (our strategy)	~6 months	Approximately -0.25%
Bond fund	~6 years	Approximately -3.0%

For illustrative purposes only. Actual outcomes depend on portfolio composition, yield curve shape and timing.

Historically, extending duration to around six months has added 150 to 200 basis points of additional annual return. On a R500 million reserve allocation, that translates into R7.5 to R10 million of additional annual income.

We are not asking treasurers to accept bond fund risk. We are offering a modest, bounded extension in high quality instruments that has been well rewarded over nearly a decade of live results.

What another rate hike means for the strategy

The MPC surprised markets in July by leaving rates unchanged rather than delivering the hike that had been widely expected. At the same time, it outlined three possible paths from here, two implying another increase and one ultimately leading to lower rates. The split outcome highlights just how fluid the rate outlook remains. A portfolio with a modest allocation to duration is well positioned either way. If rates move higher, floating-rate holdings reset at more attractive levels and support income. If the market shifts towards a more dovish view, duration stands to benefit as yields reprice lower, often well before any actual rate cut occurs.

Should a further hike materialise, it would create a small, temporary headwind of around 0.10% to 0.15% for a portfolio with six months of duration. Importantly, much of that adjustment occurs before the policy decision itself, as market expectations are reflected in yields. If fewer hikes materialise than are currently priced, some of that earlier price adjustment would reverse.

That initial headwind is mitigated in two ways. First, we actively manage duration. Ahead of the May rate decision, for example, we shortened duration in anticipation of higher rates, limiting the impact on the portfolio. Second, higher rates improve the portfolio's income profile over time. New investments are made at higher yields, while floating-rate instruments reset at their next fixing. As assets mature and are reinvested, portfolio income steadily increases.

The mark-to-market effect of a rate move is small and fades quickly. In contrast, the benefit of earning a higher level of income persists and compounds over time. For investors with a horizon of three months or longer, the income effect dominates.

A rate hike creates a small, temporary headwind that we actively manage. It also means every new instrument we buy, yields more. Within weeks, higher rates are working for the portfolio, not against it.

How we keep duration in check

Duration is actively managed within a band of three to twelve months, with positioning adjusted according to the rate outlook, the shape of the yield curve and money market conditions.

In practice, that meant shortening duration ahead of the May rate hike, extending duration ahead of the 2024 to 2025 easing cycle as rates began to fall, and positioning today for the possibility of a further hike while retaining the flexibility to adjust as the outlook evolves. The track record reflects this discipline. Since inception in October 2016, the strategy has delivered positive excess returns over cash in every full calendar year, through a complete interest rate cycle that has included cuts, pauses and hikes.

	1 year	3 years	5 years	Since inception
Strategy (gross)	9.88%	10.47%	8.91%	8.65%
Benchmark (repo + 0.75%)	7.88%	8.54%	7.58%	7.14%
Excess return	2.00%	1.93%	1.33%	1.50%

Past performance does not predict future returns; losses may be made.

Source: Sanlam Investments, gross of fees, as at 30 June 2026.

Over nearly a decade, the strategy has experienced only two negative months: a gross loss of 0.06% during the March 2020 Covid liquidity shock and 0.01% in March 2026 when the US-Iran-Israel conflict began. In these instances, the portfolio recovered within weeks. Annualised volatility has been 0.80%, only modestly above money market funds at 0.50%.

A word on what we do not own

Some treasurers have had uncomfortable surprises when they looked under the hood of their enhanced cash fund and found credit instruments they did not expect, such as perpetual AT1 bonds, high concentrations of subordinated bank debt and lower rated corporate paper. That is not the approach we take.

Our strategy generates its premium through duration management and prioritises high quality bank and sovereign credit. We hold sovereign paper, treasury bills, NCDs, floating rate notes issued by banks and a limited exposure to tier 2 bank paper when advantageous. We have no exposure to AT1 bonds, which behave like fixed income instruments but carry a risk profile closer to equity. The instruments we use are familiar, the risk is bounded and the conversation with the audit committee is straightforward. We own the same building blocks as a money market fund, just at slightly longer maturities.

The Ninety One Core Income Fund

We have brought this strategy onto the Ninety One platform as the Ninety One Core Income Fund. For corporate and institutional clients, it combines an established investment strategy with nearly ten years of live results, R29.5 billion in assets and a GCR AA(ZA)(f)* indicative credit rating, with the governance, reporting and operational integrity you would expect. The fund offers daily dealing, T+1 settlement and is Regulation 28 compliant.

R30bn	~10 years	0.80%	AA(ZA)(f)
Strategy AUM	Track record	Volatility	Indicative credit rating*

In conclusion

Duration is not a binary choice. The question is how much duration to hold, where it sits on the yield curve and how actively it is managed. For treasury portfolios seeking to improve returns without materially increasing risk, a carefully managed allocation to short-end duration can offer a compelling balance between capital stability and income generation.

*GCR credit rating to be affirmed post launch.

Important information

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