The Defensive Balanced Solution

Quarter 1, 2021

Behind the Solution – a snapshot review

The Defensive Balanced Solution is managed by way of the STANLIB Multi-Manager Defensive Balanced Fund. The Solution is constructed as a 'hybrid' between domestic only and global balanced mandates, combined with offshore specialist mandates.

Underlying managers and activity

Domestic manager	Manager inception	Ownership structure	Investment approach and role within Solution
Abax Investments	2003	Privately owned	• Invest in companies with superior earnings growth over the longer term which is not reflected in current valuations
Ninety One	1991	Listed on the JSE and LSE	• Low equity mandate with global allowed up to 30% • Invest in companies with high and consistent return on invested capital and strong moats (quality focused)
Truffle Asset Management	2008	Privately owned	• Bottom-up, fundamental based approach, valuation-driven
STANLIB Asset Management	2002	Subsidiary of Liberty Group Ltd	• Growth and quality bias with global allocation
Prudential Investment Managers	1994	Part of the M&G Investments, wholly owned by the UK listed Prudential PLC	• Targets CPI + 5% • Domestic absolute return mandate, based on a relative value approach

Domestic manager selection

- No changes implemented in Q1

Domestic manager activity

- M&G Investments now majority shareholder in Prudential

Global multi-manager	Underlying managers in the respective building blocks		
STANLIB Multi-Manager Manager/fund research conducted in partnership with BNP Paribas Investment Partners	Equities • Arrowstreet - quantitative • Hosking Partners – aggressive/thematic • Sands Capital - growth • Sanders Capital - new age pragmatic value • Veritas - quality defensive • Alliance Bernstein - value-weighted beta	Bonds • BlackRock - alternative beta • Brandywine - aggressive manager • PIMCO - strong credit selection • Amundi - tactical asset allocation	Cash • Fidelity

Global manager selection

- No change

Global manager activity

- No corporate changes across building block managers

Performance attribution

The Solution is expected to deliver a real return of 4% p.a. i.e. CPI+4% p.a. over the long term (net of fees) over periods of at least four years.

Returns net of fees (B1 fee class)	3m	9m	1y	3y	5y
Solution	4.2%	10.0%	20.1%	6.9%	5.8%
Peers - SA MA Low Equity Average	3.5%	8.2%	17.2%	6.6%	5.8%
*CPI+4% (1 month lag)					8.4%

Source: STANLIB Multi-Manager, Statpro, Morningstar, *Benchmark CPI + 4% lagged by 1 month

STANLIB
MULTI-MANAGER

Performance drivers over the past 12 months

Internal attribution - period ended 31 March 2021

	What helped?	What detracted?
Asset allocation	• Overweight resources • High equity allocation as local and global equities rallied	• Small global bond allocation
Manager selection	• Truffle – excellent performance from resources selection since inclusion 6 months ago • Prudential – property & local stock selection	• Ninety One - quality type shares fell out of favour as investors rotated towards cheaper value and cyclical type shares

Performance attribution comments

- Solution added value in relative terms with solid outperformance relative to peers over the last year
- The longer-term performance lags the CPI+4% objectives due to the challenging economic environment in SA over the last five years, resulting in disappointing local equity performance over this period

How is the Solution positioned?

The Solution aims to provide modest long-term growth of capital and income with volatility at risk levels consistent with low equity portfolios and is typically positioned between 30% and 40% equity, with a moderate to high allocation to offshore.

Equities	Neutral to overweight domestic equity
Bonds	Overweight - longer dates bonds continue to offer a large premium relative to cash
Property	Relatively low exposure as managers remain cautious, select opportunities explored
Cash	Relatively low domestic cash position as managers continue to see value in longer duration bonds and equities
Offshore	Sizeable offshore allocation but not at maximum - overweight equities relative to peers and underweight bonds and cash

Solution positioning comments

- Remains overweight equities – both locally and globally prospects look exciting
- On the international front we maintain a sizeable allocation predominantly in equities
- Although we think it is likely that SA equities will outperform global equities in 2021, the global prospects remain exciting and provides excellent diversification

How are the underlying managers positioned?

Abax	• Remains more defensive manager in line-up • ILBs are a key holding • Bought more SA nominal bonds on weakness in Q1
Ninety One	• Low SA equity, high global equity exposure • Optimistic on SA bonds • Low property exposure
Truffle	• Overweight resources, Impala top pick • Rotating towards local financials and industrials like BTI, Remgro and ABSA
STANLIB	• Fully invested in equities, increased SA property • Increased emerging market equities exposure • Overweight SA bonds, favour duration
Prudential	• Maintain high exposure to ILBs - high real yield • Overweight SA equity and SA bonds • Overweight local banking sector
Offshore	• Overweight Asia & EM equity, underweight US • Overweight value factor • Underweight global bond fund

Solution positioning comments

- We have seen a rotation into more locally focused shares from our managers over the last few quarters
- The Solution maintains an overweight position to resources, with key platinum holdings
- The managers in the Solution are predominantly optimistic on SA equities and SA bonds
- Solution well positioned to maximize opportunities on offer

All-in management fee

Total Expense Ratio (3y TER) to 31 December 2020	
Solution	1.38%
ASISA Category Average Low Equity	1.54%

Investment fees include:

- Operational due diligence on underlying managers
- Day to day monitoring of the underlying managers
- Extra layer of governance and oversight of underlying managers