

The Real Return Solution

Quarter 1, 2021

Behind the Solution – a snapshot review

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

Underlying managers and activity

Domestic manager	Manager inception	Ownership structure	Investment approach and role within Solution
Coronation Fund Managers	1993	Listed on the JSE	<ul style="list-style-type: none"> Bottom-up valuation manager Can be aggressive in views
Ninety One	1991	Listed on the JSE and LSE	<ul style="list-style-type: none"> Ninety One Opportunity Strategy Invest in companies with high and consistent return on invested capital and strong moats (quality focused)
Prescient Investment Management	1998	Part of Prescient Holdings (Pty) Ltd	<ul style="list-style-type: none"> Conservative mandate with a high allocation to income generating assets and a strategic allocation of 25% to equities
Prudential Investment Managers	1994	Part of M&G Investments, wholly owned by UK-listed Prudential PLC	<ul style="list-style-type: none"> Relative value approach uses industry peers as starting position Applies their valuation-based views
STANLIB Multi-Manager	1999	Subsidiary of Liberty Group Ltd	<ul style="list-style-type: none"> Enhanced yield and/or income allocation with a strategic exposure of 5% of the overall fund

Domestic manager selection

- No change

Domestic manager activity

- M&G Investments now majority shareholder in
- Prudential
- Bastian Teichgreeber appointed as new Prescient CIO

Global multi-manager	Underlying managers in the respective building blocks		
STANLIB Multi-Manager	Equities	Bonds	Cash
 Manager/fund research conducted in partnership with BNP Paribas Investment Partners	<ul style="list-style-type: none"> Arrowstreet - quantitative Hosking Partners - aggressive Sands Capital - growth Sanders Capital - new age pragmaticvalue Veritas - quality defensive Alliance Bernstein - value-weighted beta 	<ul style="list-style-type: none"> BlackRock - alternative beta Brandywine - aggressive manager PIMCO - strong credit selection Amundi - tactical asset allocation 	<ul style="list-style-type: none"> Fidelity

Global manager selection

- No changes

Global manager activity

- No corporate changes across building block managers

Performance attribution

The Solution is expected to deliver a real return of 5% p.a. i.e. CPI+5% p.a. over the long term (net of fees) over periods of at least five years.

Returns <u>net</u> of fees (B1 fee class)	1y	3y	5y	7y	10y
Solution	27.8%	9.2%	7.0%	7.0%	7.9%
Peers - SA MA Medium Equity Average	24.3%	7.1%	5.6%	6.3%	8.2%
CPI+5% (1 month lag)			9.4%	9.7%	10.1%

Source: STANLIB Multi-Manager, Statpro, Morningstar, *Benchmark CPI + 5% 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	<ul style="list-style-type: none"> Overweight resources High equity allocation as local and global equities rallied 		<ul style="list-style-type: none"> Small global bond allocation
Manager selection	<ul style="list-style-type: none"> Coronation - resources like Anglo American, Glencore and Northam Excellent performance from Prudential 		<ul style="list-style-type: none"> Ninety One - quality type shares fell out of favour in the quarter as investors rotated towards cheaper value shares

Performance attribution comments

- Solution added value in relative terms with solid outperformance relative to peers over the last year as the overweight to resources and platinum shares added to performance
- Top quartile performance vs. peers over one, three and five years
- Longer-term performance lags CPI + 5% objective due to the challenging economic environment in SA, 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 medium equity portfolios. Typically positioned between 50% and 60% total equity, with a moderate to high allocation to offshore.

Equities	Retain a high local equity allocation with a prudent combination of cheaper "SA Inc." shares and more defensive rand hedges
Bonds	Overweight - longer dated bonds continue to offer a large premium relative to cash
Property	Relatively low exposure as managers remain cautious, select opportunities explored
Cash	Low cash position as the managers find opportunities in other asset classes
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?

Coronation	<ul style="list-style-type: none"> Remains overweight resources See value in rand hedge counters Topped up longer duration SA bonds in March sell-off 	Prudential	<ul style="list-style-type: none"> Overweight SA equity and SA bonds Overweight local banking sector Underweight listed property
Ninety One	<ul style="list-style-type: none"> Low SA equity, high global equity exposure Optimistic on SA bonds Low property exposure 	STANLIB Multi-Manager	<ul style="list-style-type: none"> Low duration fixed interest assets that balance the risk of higher growth portfolios like Prudential and Coronation
Prescient	<ul style="list-style-type: none"> Small exposure to preference shares Continue to hold ILBs, high real yield on offer Starting to like longer duration bonds more 	Offshore	<ul style="list-style-type: none"> 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	1.06%
ASISA Category Average Medium Equity	1.64%

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