

# The Defensive Balanced Solution

Quarter 3, 2020

## 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' principally 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
Abax Investments	2003	Privately owned	<ul style="list-style-type: none"> <li>Bottom-up, fundamental and valuation-driven</li> </ul>
Ninety One	1991	Listed on the JSE and LSE	<ul style="list-style-type: none"> <li>Invest in those companies exhibiting improving earnings revisions profiles</li> <li>Earnings revision methodology</li> </ul>
Truffle Asset Management	2008	Privately owned	<ul style="list-style-type: none"> <li>Bottom-up, fundamental and valuation-driven</li> </ul>
STANLIB Asset Management	2002	Subsidiary of Liberty Group Ltd	<ul style="list-style-type: none"> <li>Growth and quality bias</li> </ul>
STANLIB Multi-Manager	1999	Subsidiary of Liberty Group Ltd	<ul style="list-style-type: none"> <li>Enhanced yield and/or income allocation with a strategic exposure of 5% of the overall fund</li> </ul>

#### Domestic manager selection

- Abax and Truffle appointed
- Coronation terminated
- STANLIB mandate changed

#### Domestic manager activity

- STANLIB Multi-Manager appointed Cleo Molepo to the Manager Research Team
- No corporate activity across managers

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

#### 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	0.7%	1.6%	2.5%	3.8%	4.9%
SA MA Low Equity - average	1.0%	1.3%	2.8%	4.2%	5.2%
CPI+4% (1 month lag)			7.1%	8.1%	8.6%

Source: STANLIB Multi-Manager, Statpro, Morningstar, CPI to September 2020

**STANLIB**  
MULTI-MANAGER

## Performance drivers over the past 12 months

Internal attribution - period ended 30 September 2020

	<b>What helped?</b>	<	<b>What detracted?</b>
<b>Asset allocation</b>	<ul style="list-style-type: none"> <li>Overweight global equity</li> <li>Resources counters</li> </ul>		<ul style="list-style-type: none"> <li>Inflation-linked bonds</li> <li>Slightly higher SA equity exposure compared to peers</li> </ul>
<b>Manager selection</b>	<ul style="list-style-type: none"> <li>Ninety One's quality investing approach</li> <li>Sands - growth mandate (tech exposure)</li> </ul>		<ul style="list-style-type: none"> <li>Prudential – property and inflation-linked bond exposure</li> <li>Coronation Absolute mandate</li> </ul>

### Performance attribution comments

- Marginally underperformed peers
- Lagged real return objective – growth assets continue to underperform

## 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.

<b>Equities</b>	Neutral to overweight domestic equity
<b>Bonds</b>	High bond position as bonds yields are attractive and expected to offer strong real returns, also high inflation linked bond (ILB) exposure
<b>Property</b>	Relatively low property exposure.
<b>Cash</b>	Relatively low domestic cash position as managers continue to see value in other asset classes
<b>Offshore</b>	Overweight equities relative to peers and underweight bonds and cash

### Solution positioning

- Recent portfolio construction changes has limited impact on asset allocation
- Exposure to ILBs (at 13%) a key distinguishing factor to many peers – this allocation has detracted from performance in the past, but is expected to do well going forward

## How are the underlying managers positioned?

<b>Abax</b>	<ul style="list-style-type: none"> <li>Defensive equity position, but increasing hedged equity holdings</li> <li>Relatively high exposure to ILBs</li> </ul>	<b>STANLIB</b>	<ul style="list-style-type: none"> <li>Favour technology exposed shares (Naspers, Prosus)</li> <li>High exposure to longer duration bonds</li> <li>Maximum equity exposure for low equity CIS fund</li> </ul>
<b>Ninety One</b>	<ul style="list-style-type: none"> <li>Low SA equity, high global equity exposure</li> <li>Optimistic on SA duration bonds</li> <li>Low property exposure</li> </ul>	<b>STANLIB Multi-Manager</b>	<ul style="list-style-type: none"> <li>Maintain high exposure to ILBs</li> <li>Increasingly optimistic on SA-focused equities</li> <li>Continue to like long-duration SA bonds</li> </ul>
<b>Truffle</b>	<ul style="list-style-type: none"> <li>Increased exposure to the diversified, PGM and gold mining sectors in September</li> <li>Increased exposure to SA Inc. stocks</li> </ul>	<b>Offshore</b>	<ul style="list-style-type: none"> <li>Overweight Asia and EM equity</li> <li>Underweight US equity</li> <li>Underweight global bond fund</li> </ul>

### Underlying manager positioning

- Generally the exposure to SA exposed businesses have increased due to the managers increasingly being optimistic on valuations

## All-in management fee

<b>Total Expense Ratio (3y TER) to 30 June 2020</b>	
Solution	1.34%
Low Equity Category - average	1.53%

### 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

Source: STANLIB Multi-Manager, Morningstar