

# The Absolute Income Solution

Quarter 3, 2020

## Behind the Solution – a snapshot review

The Absolute Income Solution is managed by way of the STANLIB Multi-Manager Absolute Income Fund. The underlying managers manage both the local and global components, within the limitation of the applicable ASISA category.

### Underlying managers and activity

Domestic manager	Manager inception	Ownership structure	Investment approach and role within Solution
Aluwani Capital Partners	2015	Privately owned	<ul style="list-style-type: none"> <li>Use multiple alpha lever approach</li> <li>Aim to accumulate smaller consistent gains for each alpha lever</li> </ul>
Ninety One	1991	Listed on the JSE and LSE	<ul style="list-style-type: none"> <li>Actively managed, well diversified fixed income portfolio with multiple sources of return</li> <li>A global approach to investing, capturing opportunities that SA and global fixed interest markets offer</li> </ul>
Prescient Investment Management	1998	Part of Prescient Holdings (Pty) Ltd	<ul style="list-style-type: none"> <li>Conservative in nature with absolute return mindset</li> <li>Focus on capital preservation</li> </ul>

#### Domestic manager selection

- No change

#### Domestic manager activity

- No corporate activity across managers

### Performance attribution

The Solution is expected to deliver a real return of 3% p.a. i.e. CPI+3% p.a. over the long term (net of fees) over periods of at least five years.

Returns <u>net of fees</u> (B1 fee class)	1y	3y	5y	7y	10y
Solution	4.9%	7.2%	7.6%	7.4%	-
SA MA Income - average	5.3%	6.9%	7.4%	7.1%	-
CPI+3% (1 month lag)		7.1%	7.6%	7.9%	-

#### Performance

- Consistently outperforms peers

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

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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>Low duration floating debt</li> <li>Low property allocation</li> </ul>		<ul style="list-style-type: none"> <li>Inflation-linked bonds (ILB)</li> <li>Small preference shares exposure</li> </ul>
<b>Manager selection</b>	<ul style="list-style-type: none"> <li>Aluwani did excellent through tactical duration timing and avoiding under-performing assets such as property</li> </ul>		<ul style="list-style-type: none"> <li>Prescient – exposure to ILBs and preference shares detracted</li> </ul>

### Performance attribution comments

- Marginally underperformed peers over 12 months, but ahead over longer-term periods
- The Fund is meeting its real return objectives over targeted three year periods**

## 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>	Very low equity
<b>Bonds</b>	Mostly shorter duration floating debt, but managers have been increasing duration
<b>Property</b>	Relatively low property exposure
<b>Money Market</b>	Traditional cash position low, more positioned to short duration credit and bank floating debt
<b>Offshore</b>	Offshore allocations acts as diversifier

### Solution positioning

- The solution remains fairly defensively positioned, but with potential for upside through the increase in duration as well as the position in preference shares

## How are the underlying managers positioned?

<b>Aluwani</b>	<ul style="list-style-type: none"> <li>Taking opportunity within higher yielding credit</li> <li>Concerned around SA property, but increasing duration</li> </ul>	<b>Prescient</b>	<ul style="list-style-type: none"> <li>Added duration during the quarter, but combined with protection strategies</li> <li>Maintains holdings in ILBs and preference shares</li> </ul>
<b>Ninety One</b>	<ul style="list-style-type: none"> <li>More defensive, while nominal bond position maintains a bias to the front and belly of the yield curve</li> <li>Low property exposure</li> </ul>		

### Underlying manager positioning

- Aluwani continues to seek higher yielding credit opportunities, while Prescient is "betting" on value to unlock in their ILB and preference shares

## All-in management fee

<b>Total Expense Ratio (3y TER) to 30 June 2020</b>	
Solution	0.78%
ASISA Low Equity Category - average	1.05%

### 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