The Real Return Solution

Quarter 3, 2020

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' 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
Coronation Fund Managers	1993	Listed on the JSE	• Bottom-up valuation manager • Can be aggressive in views
Ninety One	1991	Listed on the JSE and LSE	• Invest in those companies exhibiting improving earnings revisions profiles • Earnings revision methodology
Prescient Investment Management	1998	Part of Prescient Holdings (Pty) Ltd	• Conservative mandate with a high allocation to income generating assets and a strategic allocation of 25% to equity
Prudential Investment Managers	1994	Part of M&G Investments, wholly owned by UK-listed Prudential PLC	• Relative value approach uses industry peers as starting position • Applies their valuation-based views
STANLIB Multi-Manager	1999	Subsidiary of Liberty Group Ltd	• Enhanced yield and/or income allocation with a strategic exposure of 5% of the overall fund

Domestic manager selection

- No change

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		
STANLIB Multi-Manager *Manager/fund research conducted in partnership with BNP Paribas* **BNP Paribas Investment Partners**	**Equities** • Arrowstreet - quantitative • Hosking Partners - aggressive • Sands Capital - growth • Sanders Capital - new age pragmatic value • Veritas - quality defensive	**Bonds** • BlackRock - alternative beta • Brandywine - aggressive manager • PIMCO - strong credit selection • Amundi - tactical asset allocation	**Cash** • 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 net of fees (B1 fee class)	1y	3y	5y	7y	10y
Solution	4.7%	4.9%	5.5%	6.0%	7.0%
SA MA Medium Equity - average	2.6%	3.3%	4.5%	5.6%	7.6%
CPI+5% (1 month lag)	-	9.1%	9.6%	9.9%	10.1%

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

	What helped?	What detracted?
Asset allocation	• Overweight global equity • Overweight global technology shares	• Exposure to SA focuses shares • Slight underweight global bonds
Manager selection	• Ninety One's quality investing approach • Sands growth mandate (tech exposure)	• Prudential – too much exposure to SA equities

Performance attribution comments

- Solution added value in relative terms - **first quartile vs. peers over three and five years**
- Solution lagged absolute objective - growth assets continue to under perform

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	Neutral to overweight domestic equity
Bonds	High bond exposure, but biased towards shorter durationbonds
Property	Low property exposure
Cash	Relatively low domestic cash position as managers continue to see value in other asset classes
Offshore	Overweight equities relative to peers and underweight bonds and cash

Solution positioning

- On balance the Fund remains overweight equities, with a good balance between local and global equities

How are the underlying managers positioned?

Coronation	• Remain skewed to rand hedge shares • Becoming more optimistic on select SA shares • Trimmed AB InBev, bought Sanlam and Firstrand	**Prudential**	• Overweight SA equity and SA bonds • Overweight local banking sector • Underweight listed property
Ninety One	• Low SA equity, high global equity exposure • Optimistic on SA duration bonds • Low property exposure	**STANLIB Multi-Manager**	• Mainly positioned in SMM Absolute Income Fund • Low duration fixed interest assets
Prescient	• Maintain exposure to preference shares • Continue to hold ILBs, optimistic on this asset class • Mostly positioned in low duration fixed interest assets	**Offshore**	• Overweight Asia and EM equity • Underweight US equity • Underweight global bond fund

Underlying manager positioning

- Generally the exposure to SA exposed businesses have increased as managers have become optimistic on valuations - this is reflected in views from Prudential and Coronation

All-in management fee

Total Expense Ratio (3y TER) to 30 June 2020	
Solution	1.01%
ASISA Medium Equity Category - average	1.63%

Source: STANLIB Multi-Manager, Morningstar

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