STANLIB Multi-Manager Flexible Property Fund

Quarterly Report 30 September 2020

STANLIB
MULTI-MANAGER

Commentary and analysis

Market overview

The year 2020 had a rocky start with the first quarter being one of the worst in recent years. Markets rebounded in the second quarter as hopes of economic recovery started to emerge. Good progress has been made in finding a vaccine for COVID-19, which has further boosted sentiment. The rebound momentum continued through July and August but markets retracted in September as fears of a second wave of the virus emerged. The upcoming US presidential election is adding to volatility – a tightly contested race in which a Biden win could see the end of tax breaks and increased global integration.

GDP growth around the world has suffered from the impact of the pandemic. South African GDP contracted 17.1% in the second quarter, with 2.2 million jobs being lost. The SARB cut interest rates by a further 25 basis points in July, bringing the total rate cuts to 300 basis points for the year, with the repo rate currently at 3.5%. The inflation outlook for the country looks contained and is expected to stay within the target band. Economic policy changes are needed to spur on growth and all eyes will be on the Minister of Finance when he delivers the medium-term budget in October.

After a recovery in the second quarter the property market continued its downward trajectory as the uncertainty of SA's economic growth weighed on the market. There is, however, some positive news coming from the sector as companies have started to strengthen their balance sheets by cutting income pay-out ratios, reducing expenses where possible and selling non-core assets. The retail sector is also starting to show some life again as consumer footfall is on the rise post the easing of lockdown restrictions.

A global recession is not an ideal environment for property shares, which is perhaps personified best by the delisting and liquidation of Intu PLC, a UK-based property company listed in SA. Intu owns the Trafford Centre in Manchester, a large regional shopping centre that has fallen prey to the COVID lockdowns but also to the growth of online shopping. Within SA, the two largest players in the super-regional shopping space are Hyprop and Liberty TwoDegrees (L2D), which own assets such as Canal Walk and Sandton City respectively and had Edcon as one of their largest tenants. Hyprop is down nearly 70% this year, while the lesser geared L2D is down 27%.

The overall property market lost15.4% for the quarter, making it the worst performing asset class for the quarter and year to date (down 47.8%). Property fundamentals in the short term remain hamstrung by negative rental reversions, increasing vacancies, reduced escalation rates, falling NAVs, rising debt and lower pay-out ratios in line with the poor performance of the economy. A further 0.25% cut in interest rates did little to help the market and the nearly 4% strength of the rand relative to the dollar took some of the shine off the rand hedges. Notable outperformers included Fortress A, Fairvest, Redefine International PLC and Investec Australia, each of which were up for the quarter.

Fixed income continued to outperform equities for the year with bonds returning 1.8% and cash 4.3%. The reduction in economic activity as a result of COVID-19 has led to lower inflation globally and in South Africa where the latest print was 3.1% in August. This provided room for the SARB to cut the repo rate by a total of 300 basis points this year, to bring the rate to 3.5%. As a result, the short end of the yield curve has come down and is likely to remain anchored for the next few months as inflation remains low. This means that going forward, the high returns of money market funds may dissipate. SA's 3-month Jibar rate is currently trading at 3.4%, considerably lower than the 7.0% seen just two years ago. In the bond market most of the performance came from 1-7-year bonds which produced returns north of 10%. The long end of the curve is pricing in, amongst other things, SA's deteriorating fiscal position and is also reflecting the exodus of foreign investors from the local market. Foreigners currently represent only 29.2% of total government debt issued, down from 42% in March 2018. The SA 10-year government bond is currently trading at 9.4% – this is high considering that the SARB tries to keep inflation at roughly 4.5%.

Asset class performance (%)

Local	Q3 2020	1 year	3 years	5 years
FTSE/JSE All Share Index	0.67	2.01	2.39	4.75
Financials	-1.64	-30.91	-10.55	-5.37
Resources	6.03	27.31	20.32	16.25
Industrials	-2.29	4.31	-0.66	2.70
FTSE/JSE Capped SWIX	1.01	-5.02	-2.38	1.11
Bonds ALBI	1.45	3.58	7.33	7.56
Cash STeFI Composite	1.16	6.20	6.93	7.10
FTSE/JSE All Property Index	-15.40	-47.24	-25.16	

International	Q3 2020	1 year	3 years	5 years
MSCI AC World Index IMI (ZAR)	4.22	21.13	14.27	14.20
MSCI AC World Net (ZAR)	4.24	22.10	14.97	14.54
MSCI Emerging Market Index (ZAR)	4.82	19.50	7.35	10.53
BB Barclays Glbl Aggr Bond Index (ZAR)	-1.03	17.45	11.73	7.92
BB Barclays Glbl Multiverse Index (ZAR)	-0.98	17.18	11.62	8.09

Portfolio review

As the property sector sold off in the third quarter, the defensive nature of the fund softened the decline returning -6.7% for the quarter relative to the ALPI which lost 15.4%. The ALPI passive component of the fund was the largest drag on performance for the quarter.

Coronation's overweight in property in the quarter detracted but their security selection within the fixed income portion of their portfolio performed well. They are cautious on the credit market and are holding higher quality counters. The main detractors from performance were overweight positions in Dipula and Hammerson while bank credit exposures were the main contributors to performance.

STANLIB continued to be underweight property, which aided their relative performance. They are cautious on the property sector and are holding companies with strong balance sheets and the ability to weather the storm facing the sector. Having no exposure to Redefine and Vukile aided performance in the quarter while an underweight in shorter-dated government bonds detracted.

The global portion of the fund, Catalyst Global Property and iShares Global REIT ETF, continued to aid performance despite the strengthening of the rand over the quarter. The active strategy and well-diversified portfolio of Catalyst outperformed producing a positive return for the quarter. They are overweight the housing and industrial sub-sectors while being underweight office, diversified and retail.

Portfolio positioning and outlook

The COVID-19 pandemic has resulted in an acceleration in some structural shifts in the property market. Globally there is an increase in "Work from Home" policies and while it is expected to result in a lower demand for offices, this will be a more gradual change over several years. Consumers have increased their use of online shopping resulting in a decline in footfall at retail shopping centres. While retail activity is picking up as lockdowns are eased the online shopping trend is expected to gain momentum with beneficiary of the downturn of retail are the storage and logistics subsectors.

While expected returns appear attractive, some property companies are at risk of failure. This is being exacerbated by a weak SA economy and the lack of structural reforms that are desperately needed for growth. The implementation of the government's economic growth plan will be key to a turnaround. The fixed income portion of the fund is well diversified with a mix of government and credit securities. Our underlying managers are constantly updating their models with the latest information and generating conviction in their security selection. They are looking past the current crisis and taking a five-year view on the market with a portfolio of companies that have strong balance sheets, as well as quality fixed income securities that are yield enhancing for the given level of risk.

The commentary gives the views of the portfolio manager at the time of writing. Any forecasts or commentary included in this document are not guaranteed to occur.

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Change in allocation of the fund over the quarter

Asset type	Q3 2020	Q2 2020	Change
Domestic Cash & Mny Mkt	2.28	3.34	-1.06
Domestic Equity	1.16	0.88	0.28
Domestic Fixed Interest	37.89	35.32	2.57
Domestic Property	41.51	43.68	-2.17
Foreign Cash & Mny Mkt	1.13	2.76	-1.63
Foreign Property	16.03	14.03	2.00

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
B1	Retail	1.19	166.16	298,096,194.87	495,309,211.68
A	Retail	1.54	166.05	74,517,177.64	123,732,776.69

All Price, Units and NAV data as at 30 September 2020.
Units - amount of participatory interests (units) in issue in relevant class.
TER - 1 Year Total Expense Ratio (%) including VAT as at 30/06/2020.

Disclosures

Information to be considered before investing

Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to future performance. CIS are traded at ruling prices and can engage in borrowing and scrip lending.

The STANLIB Multi-Manager Flexible Property Fund is a portfolio of the STANLIB Collective Investment Scheme (the Scheme). The manager of the Scheme is STANLIB Collective Investments (RF) (Pty) Limited (the Manager). The Manager is authorised in terms of the Collective Investment Schemes Control Act, No. 45 of 2002 (CISCA) to administer Collective Investment Schemes (CIS) in Securities. Liberty is a full member of the Association for Savings and Investments of South Africa (ASISA). The Manager is a member of the Liberty Group of Companies. The manager has a right to close a portfolio to new investors in order to manage the portfolio more efficiently in accordance with its mandate. The Manager does not provide any guarantee either with respect to the capital or the return of a CIS portfolio. A schedule of fees and charges and maximum commissions is available on request from the Manager. The trustee of the Scheme is Standard Chartered Bank.

This portfolio is permitted to invest in foreign securities. Should the portfolio include any foreign securities these could expose the portfolio to any of the following risks: potential constraints on liquidity and the repatriation of funds; macroeconomic risks; political risks; foreign exchange risks; tax risks; settlement risks; and potential limitations on the availability of market information.

Unit price – how it works

Prices are calculated and published on each working day, these prices are available on the Manager's website (www.stanlib.com) and in South African printed news media. This portfolio is valued at 15h00. Forward pricing is used. Investments and repurchases will receive the price of the same day if received prior to 15h00.

The payment of withdrawals may be delayed in extraordinary circumstances, when the Manager with the consent of the Fund trustees deems this to be in the interest of all Fund investors. These circumstances may include periods when significant underlying markets suspend trading which will prevent accurate valuation of the instruments held in the Fund. When the suspension of trading relates to only certain assets held by the Fund, these assets may be side-pocketed. This process allows normal liquidity on the assets that can be valued but, will delay liquidity on the affected portion of the Fund. If the Fund is faced with excessive withdrawals, the affected withdrawals may be ring-fenced, which is the separation and delayed sale of the assets reflecting the interest of the liquidity seeking investors. It ensures that the sale of a large number of units will not force the Manager to sell the underlying investments in a manner that may have a negative impact on remaining investors of the Fund.

Performance information

All performance returns and ranking figures quoted are shown in ZAR and are based on data sourced from Morningstar or Statpro and are as at 30 September 2020. Annualised return figures are the compound annualised growth rate (CAGR) calculated from the cumulative return for the period being measured. These annualised returns provide an indication of the annual return achieved over the period had an investment been held for the entire period. Actual annual figures are available on request from the Manager. Portfolio performance figures are calculated for the relevant class of the portfolio, for a lump sum investment, on a NAV-NAV basis, with income reinvested on the ex-dividend date. Individual investor performance may differ due to initial fees, actual investment date, date of reinvestment of income and dividend withholding tax. Portfolio performance accounts for all costs that contribute to the calculation of the cost ratios quoted, all returns quoted are after these costs have been accounted for.

Total Expense Ratio (TER) and Transaction Costs (TC) = Total Investment Charge (TIC) and other fees

The TER is calculated as a percentage of the average net asset value of the portfolio incurred as charges, levies and fees in the management of the portfolio. The TER is a measure of the actual expenses incurred by the fund over a one and three-year period (annualised). This includes the TER charged by any underlying fund(s) held as part of this Fund. A high TER does not necessarily imply a poor return nor does a low TER imply a good return. The current TER should not be regarded as an indication of future TER's.

Transaction costs are disclosed separately. Transaction costs are a necessary cost in managing a fund and impacts the fund's return. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER.

The sum of the TER and Transaction Costs is shown as the Total Investment Charge (TIC).

Annual management fee: The Fund charges a fixed annual management fee (i.e. fee class) as a percentage of the assets under management, to ensure a simple and understandable fee structure. The Fund invests primarily in segregated mandates but may also invest in other unit trusts i.e. "Underlying Fund Fees", which are included in the Total Expense Ratio (TER). The annual management fee is accrued daily and paid on a monthly basis.

Advice fees: If an investor appoints an adviser, advice fees are contracted directly between the investor and the adviser. The Manager will facilitate the collection of advice fees (including initial advice fees up to a max. of 3.45%) only upon receiving an investors instruction to do so. An investor may cancel the instruction to facilitate the payment of advice fees at any time.

STANLIB Multi-Manager does not provide financial advice

The investments of this portfolio are managed, on behalf of the Manager, by STANLIB Multi-Manager a division of STANLIB Asset Management (Pty) Ltd, an authorised financial services provider (FSP), FSP No. 719, under the Financial Advisory and Intermediary Services Act (FAIS), Act No. 37 of 2002.

This document is not advice, as defined under FAIS. Please be advised that there may be representatives acting under supervision.

Where can I find additional information?

Additional information about this product including, but not limited to, brochures, application forms and annual or quarterly reports, can be obtained free of charge, from the Manager and from the Manager's website (www.stanlib.com).

This document does not constitute an offer of sale. Investors are requested to view the latest Minimum Disclosure Document (MDD), for the provision of additional information pertaining to the product, as well as seeking professional advice, should they be considering an investment in the product. The Manager provides no guarantee or warranty as to the accuracy of the content of this document. Every effort has been made to ensure that the content is accurate at time of issue.

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