STANLIB Multi-Manager Global Bond Fund
Commentary: 30 September 2020

STANLIB

Market overview

Market sentiment improved over the quarter as a result of the unconditional support from monetary and fiscal authorities. Sentiment also improved as data rebounded, but was balanced against uncertain economic conditions, increasing Covid-19 cases and various other sources of risk – Brexit and difficulties securing an agreement between Republicans and Democrats on a fiscal stimulus program in the US.

The Covid-19 numbers have been brutal with massive declines in economic output. Annualized GDP in the US saw the steepest decline on record as it fell 31% the second quarter, many firms have closed permanently and thousands of jobs have been lost, dampening hopes of a speedy global economic recovery.

Given the scale of ongoing stimulus, developed market government bond yields remained incredibly low over the quarter. UK Gilts now provide a negative nominal yield out to seven years and Euro government bonds are providing a negative nominal yield out to over 30 years. This lack of yield served to increase the attractiveness of riskier parts of global fixed interest markets and yields for corporate bonds and high yield continued to tighten for the quarter as a whole. Similarly, emerging market (EM) sovereign bonds performed well with hard currency debt returning 2.3% over the quarter, followed by local currency bonds at 0.61%.

On the currency front, the most notable story of the third quarter was the appreciation of the euro, having strengthened 4.3% against the greenback. Sterling strengthened by a similar amount but weakened in September against the backdrop of heightened tensions with the EU and the publication of the UK's Internal Market Bill. Nordic currencies performed well, as did most EM currencies.

Global asset class performance and risk statistics in USD

Asset class	Q3 2020	1 year	3 years p.a.	5 years p.a.
MSCI AC World Index	8.11%	9.57%	6.47%	9.97%
JP Morgan Global Bond Index	2.54%	6.69%	4.49%	3.91%
Barclays Global Multiverse Ind	2.71%	5.99%	4.00%	4.08%
7-day US LIBID	0.00%	0.71%	1.50%	1.10%
Rand/dollar	-3.44%	10.70%	7.34%	3.97%

Fund risk statistics since launch		
Lowest rolling 12-month return	-9.9% (12 months ended February 2009)	
Highest rolling 12-month return	26.5% (12 months ended March 2003)	
	Fund*	Benchmark
Maximum drawdown	-	-
Portfolio volatility	-	-

Source: STANLIB Multi-Manager *This Fund has a track record that is less than three years.

Portfolio facts

Bloomberg Code	Class A: STMMGBC:JY Class B: SMMGBB1:JY	**Administrative Agent**	BNY Mellon Fund Services (Ireland) Designated Activity Co
Structure	Open-ended investment unit trust	**Year End**	31 December
Trustee/Custodian	Link Corporate Services (Jersey) Limited	**Custody Fee**	0.035% 0-$50m; 0.025% $50m-$100m; 0.010% $100m-$500m; 0.005% $500m-above
Sub Custodian	The Bank of New York Mellon SA/NV London Branch	**Dealing Valuation**	Daily
Auditors	PricewaterhouseCoopers Ireland	**Redemption Payment**	Within 7 business days
Manager	STANLIB Fund Managers Jersey Limited	**Publication of NAV**	STANLIB Fund Managers Jersey Limited
Investment Manager	STANLIB Asset Management Pty Limited		

Portfolio review

The fund had another good quarter, outperforming the benchmark by 1%. This pulled performance back into positive territory from a relative perspective, with the fund posting a return of 6.1% relative to the index return of 6% over 12 months.

The same factors that drove Brandywine's performance in Q2, were again key in the third quarter. A large allocation to corporate bonds was a major contributor to returns as spreads tightened. Their long position in Italy benefitted from peripheral Europe outperforming in the risk-on environment through June and July. By contrast, currency was a detractor as they did not benefit from the moves in the euro described above.

Amundi outperformed over the quarter and like Brandywine, this was driven by a large overweight in credit assets – 53% relative to 24% of the benchmark – that enjoyed strong returns. On the downside, an overall underweight allocation to duration was a small detractor as yields in markets such as Germany and Japan fell. Similarly, country allocation hurt as a preference for treasuries, which lagged, did not help. Conversely, curve positioning added value given longer-dated paper outperformed in certain countries as did bond selection where an overweight in Spain and Italy benefitted from collapsing yields.

PIMCO continued to rebound as emerging market bonds recovered from the rapid yield spread rises of the first quarter. Allocations to both local and hard currency-denominated EM assets added to returns. In addition, their overweight to mortgage backed securities, which also provided diversification to the portfolio, contributed resulting in them outperforming by 1.3% during the period under review.

Portfolio positioning and outlook

Volatility has generally been falling since the end of the second quarter. This could return rapidly, however, given the notable increase in Covid-19 cases across Europe, which could lead to a new round of strict lockdown measures. We saw hints of this towards the end of September.

Against the weaker economic backdrop, the Fed's amended mandate to target inflation that 'averages 2% over time' appears to indicate US rates are likely to remain near zero for an extended period of time, even if inflation reappears in the system. Following a review of policy, the Fed has openly called on the government for more fiscal support. We therefore expect both Trump and Biden to make huge spending promises in the run up to the US election. The BoE has also warned that the virus and uncertainties surrounding Brexit could threaten the UK economy. As such, negative interest rates remain a potential option.

The main change during the period was Brandywine shortening their duration as they view Treasuries as expensive and susceptible to positive information risk. In the short term, Amundi do not see a material risk of defaults picking up, especially with the extraordinary easing packages that central banks have announced. PIMCO are also constructive on the economic outlook – particularly in the housing market.