STANLIB Multi-Manager Global Bond Fund

Minimum Disclosure Document as of 31 December 2023

STANLIB MULTI-MANAGER

The fund is a class fund of STANLIB Offshore Unit Trusts, which invests exclusively in the STANLIB Funds Limited - STANLIB Multi-Manager Global Bond Fund

Market overview

Global fixed income markets were volatile but ultimately generated a positive return in 2023. Looking back, the market rallied over the first quarter of the year, but those gains were erased in the second and third quarters. The market's setback was triggered by expectations for a "higher for longer" interest rate environment given persistent inflation. The market then rallied sharply over the fourth quarter, as the Fed pivoted by indicating an end to its monetary tightening campaign and announcing its intention to cut rates three times in 2024. Moderating inflation and hopes that the Fed would orchestrate a soft landing for the economy also supported investor sentiment. A similar trend occurred in many other developed countries. With inflation falling more than anticipated, the ECB and BOE also signalled the likelihood of rate cuts in 2024. Elsewhere, speculation increased that the BoJ would end its negative rate policy.

All told, the 10-year US treasury yield fell 71bp during the fourth quarter, ending at 3.9%. The decline was noteworthy, as the 10-year yield briefly exceeded 5% in October. Yields in Germany, the UK and Japan also fell sharply. Spread sectors fared well with improving risk sentiment; US high yield and investment grade credits both benefited from falling rates as well as spread compression. Emerging market bonds also did well as many central banks initiated cutting cycles, with local currency bonds outperforming. US mortgage-backed security spreads also narrowed and generated positive total returns.

Fund review

The SMM Global Bond Fund had a good final quarter in both absolute and relative terms. In this regard it gained 8.7% net of all fees, pushing year to date returns into the green – the fund gained 7% for the calendar year, which was 90bp ahead of the benchmark.

The period also marked the 25-year anniversary since launch of the fund. Over the last quarter of a century the portfolio has generated annualized excess returns of 87bp. This puts it in the top decile of all funds globally since inception and is the best performing global bond fund in South Africa since 1998. Alpha has also been very consistent with the fund outperforming the index in six out of the last seven years.

Brandywine in particular had a very strong Q4, outperforming by 3.6%. Both rates and currencies were additive during the quarter, with rates adding the bulk of the positive contribution. In this regard a long position in the 10-year section of the US treasury curve was the largest contributor. EM bonds also rallied as some central banks began their easing cycles —overweights in Brazil, Colombia and South Africa were additive. A dollar underweight to the benefit of the Norwegian krone helped. Similarly, an overweight to the yen contributed while EM currency exposure was also helpful; specifically the Mexican and Chilean peso.

The BlackRock mandate lagged some cap-weighted indices, which are heavily skewed to Japan. A strengthening yen therefore impacted the mandate negatively as did the sovereign risk screen, which provided exposure to higher quality debt i.e. spread product rallied in a risk on environment.

By contrast, PIMCO were overweight the yen which was helpful. An underweight allocation to duration against a backdrop of loser monetary policies detracted. Of all our managers within the composite they have the largest allocation to securitised assets with their preferred credit exposure contributing during the quarter. Similarly, an overweight to emerging markets helped.

Amundi was the worst performer (lagged by 80bp) in the final quarter, but generated alpha of 1.7% for the year. While they have been moving to a more neutral dollar position, they are still marginally overweight, and this detracted in the last few months – as did their underweight to the yen. Their significant allocation to credit (especially financials) delivered a positive contribution as spreads tightened as did an overweight to high yield. Unfortunately, this was offset by an underweight in duration, which was one of the main detractors in a quarter where the Fed signalled 75bp of rate cuts over the next 12 months.

Outlook

Looking ahead, the world will see multiple elections in 2024 so the political climate is likely to be extremely unpredictable and polarizing, with major implications for fiscal and international trade policy settings. Other important variables include residual effects on the consumer and businesses from monetary tightening – although it appears the easing in financial conditions in the past quarter should help.

Of concern would be China's housing sector's structural adjustment and weak consumer sentiment continue to be a drag on growth. On the rates and currency front, the BOE and ECB remain surprisingly hawkish relative to the Fed, which is perplexing given the US economy is running much hotter than that of Europe. Nevertheless, the result has been a weakening US dollar – our managers believe this trend could continue as they think the greenback is overvalued. While we agree we will most likely see rate cuts in 2024, we suspect the market is now pricing cuts too soon, as growth has remained very resilient in the US and core inflation measures are still well above targets.

Against the above backdrop we think global bonds offer an attractive alternative to other asset classes. Not only do they provide good diversification, but real and nominal yields are significantly higher than where they were in 2022 and 2021 across the world. Our underlying managers also see plentiful opportunities across fixed income sectors and through active, relative yield curve and cross-country positioning.