STANLIB Multi-Manager Global Equity Fund

Commentary: 30 September 2020

STANLIB

Market overview

Although Q3 was positive for risk assets, there was a marked difference between the first two months of the quarter and the final month. July and August saw a continuation of the bounce back from the lows experienced in March as globally, central banks continued to provide stimulus, many governments undertook fiscal expansion and the worst of the COVID-19 crisis appeared to be abating. With this as a backdrop, many equity indices across the globe came close to or set new record highs. This was particularly noticeable in the US where both the technology heavy NASDAQ and the more diversified S&P 500 Index reached new all-time highs in mid-August.

However, September took on a distinctly less positive tone as rolling, localised COVID-19 induced lock downs became the norm across many areas of the globe, initial emergency stimulus measures started to roll off and there was a widely publicised setback in a previously positive COVID-19 vaccine program. Unusually, it was some of the 'hottest' areas of the markets that pulled stocks down in September with large-cap growth companies falling the most. At this point it is unclear whether, having performed so well, these tech companies were simply subject to a bout of profit-taking by investors or if their previous strong performance had left them priced for perfection and therefore sensitive to any small change in market sentiment or economic backdrop.

The emerging market (EM) Asian region outperformed in the third quarter with a total return of 12.1% in US dollar terms. India returned 15.1% and China, 12.6%. From a sector perspective, technology and consumer discretionary led the market, gaining 13% and 18% respectively. Using the forward P/E, the most expensive sector is consumer discretionary with a multiple of 30 and the cheapest, financials with a forward P/E of 11 relative to the market of 19.

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	-52.0% (12 months ended February 2009)	
Highest rolling 12-month return	57.3% (12 months ended March 2010)	
	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: STMMGEA:JY Class B: SMMGEB1:JY
Structure	Open-ended investment unit trust
Trustee/Custodian	Link Corporate Services (Jersey) Limited
Sub Custodian	The Bank of New York Mellon SA/NV London Branch
Auditors	PricewaterhouseCoopers Ireland
Manager	STANLIB Fund Managers Jersey Limited
Investment Manager	STANLIB Asset Management Pty Limited
Administrative Agent	BNY Mellon Fund Services (Ireland) Designated Activity Co
Year End	31 December
Custody Fee	0.035% 0-$50m; 0.025% $50m-$100m; 0.010% $100m-$500m; 0.005% $500m-above
Dealing Valuation	Daily
Redemption Payment	Within 7 business days
Publication of NAV	STANLIB Fund Managers Jersey Limited

Portfolio review

The fund returned 7.7% for the quarter relative to the benchmark gain of 8.1%. Security selection during the period was positive but was offset by a negative allocation effect. In this regard, an underweight to technology detracted, while an overweight to financials also hurt and we have seen a rotation by some managers out of the more growth-oriented areas of the market into more cyclical sectors. Low allocations to real estate, utilities and energy were positive, although due to the small weight in the index, the contribution was minimal.

From a stock specific perspective, not having enough exposure to Apple impacted performance. Apple is now larger than the whole energy sector, which not long ago accounted for some of the biggest companies in the world. Fortunately, this was negated by a large allocation to TSMC, which gained 44%. Being underweight Amazon was compensated for by an overweight to Alibaba as our managers on average, prefer the Asian region at the expense of North America. Another view shared by a number of managers is that Charter Communications will be a winner in the 'work from home' theme – having fast internet has been a strong contributor to their portfolios. A consensus stock view that did not pay off for our managers was Safran – the airlines industry continued to struggle in the current operating environment.

Unsurprisingly, Sands was once again our best underlying performer over the quarter, outperforming by almost 3%. Their stock selection was the main contributor, particularly within the communications sector. A large overweight in technology also contributed strongly. Sanders' pragmatic approach to value investing paid off and it was pleasing to see them outperform by 2.2% at a time when even the traditional value index has lagged.

Arrowstreet and Veritas performed in line with the benchmark, although for different reasons. Stock selection within the Veritas portfolio was good across most industries but was undone by a 20% overweight in the poorer performing healthcare sector. Arrowstreet added value in both stock and sector allocations while currency detracted.

On the downside, Hosking and AB underperformed by 0.8 and 3.7% respectively. The reasons were similar – both were overweight financials at the expense of technology, and both were overweight energy. Hosking's contrarian European banks position was their largest detractor with the STOXX 600 Banks Index down 12.1% over the quarter. The rally in EM was positive for both mandates but the continued underperformance of small caps remained a headwind for the strategies.

Portfolio positioning and outlook

COVID-19 continues to change our world and markets continue to react to news flow ahead of the impact being visible in any economic data. In addition, with the increasingly fractious US Presidential election coming to a head and the ongoing Brexit situation impacting the UK and European economies, the potential for bouts of market volatility appears to be increasing.

Against this backdrop, we believe our diversified portfolio of quality managers will weather the risks. The fund is currently priced at a slight discount to the market on traditional value metrics with a price to book of 1.8 vs 2.4 for the index, but with a focus on quality (FCF yield of 7.6 vs 5.5).