STANLIB Multi-Manager Global Equity 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 Equity Fund.

Market overview

Despite a rocky start to the quarter, stocks rallied and equity market volatility fell into the end of the year. Several prevailing market themes reversed course mid-quarter and gained traction through December. In particular, as central bank messaging began to pivot more dovish in November, the market became increasingly confident that monetary tightening had ended, and that accommodation would begin in the following year. Investors' expectations shifted towards both earlier and greater rate cuts in 2024. This was supported by easing inflation in developed markets, and by other softer economic data, such as jobless claims in the US and manufacturing data in China.

As risk assets like small-cap equities rallied and rates fell, the dollar weakened. By contrast, the historically accommodative Bank of Japan gradually moved towards policy normalization, which supported the yen but weighed on Japanese equities in relative terms. China announced several substantial stimulus measures during the quarter, particularly geared towards supporting the property sector. Chinese equities still lagged during the period though, as investors debated whether these measures were sufficient.

Despite improving sentiment at the end of 2023, geopolitical concerns coupled with the still tentative path of inflation, monetary policy, and growth continued to fuel a debate among market participants about whether the global economy will experience a soft landing or a recession in the coming year. Against this backdrop, IT and real estate were the best performers for the quarter, while energy and consumer staples were the worst performers.

Fund review

The SMM global equity fund ended the year on a high – marginally outperforming its benchmark (gross) resulting in it delivering excess returns vs the index for the 8th consecutive calendar year. The period also marked the 25-year anniversary since launch of the fund in 1998. Since inception the portfolio has generated annualized excess returns of 195bp.

At the total portfolio level, security selection was the biggest driver of alpha in Q4. In this regard stock picking within Financials was very strong, especially larger US Banks like Wells Fargo, Bank of America, JP Morgan and Citigroup. Similarly, security selection within IT contributed to excess returns, which offset the negative contribution from being underweight the sector.

Attribution shows our fund benefitted from a strong rebound in the hyper growth companies that hurt performance in the previous quarter. To this end Adyen and Block rebounded almost 75% during the final three months after being hit hard in the middle of the year. ServiceNow, Shopify and Cloudflare were other notable winners and very pleasing considering these were names that had been added to the portfolio at the beginning of the year post the restructure of the Sands mandate. While an underweight to AMD detracted, this was more than countered by a structural overweight to semiconductor stocks in general. Alibaba is a relatively new addition to the portfolio, but unfortunately underperformed as Chinese Tech companies continued to lag their US counterparts.

Hosking was the top performer over December as the equity market rally broadened out to smaller companies where they are overweight. For the quarter however it was Sands, who held most of the hyper growth names referred to above, that outperformed massively. For the year Sanders was the top performer, which was an outstanding achievement considering the headwind to their style. Holding 20% in Mag 7 names Meta, Microsoft, Alphabet and Apple were responsible for the stellar returns.

The main change during the quarter was the restructure of the Veritas mandate. In this regard we transitioned to a more unconstrained, higher alpha institutional strategy. While their recent performance has been disappointing, we are still comfortable with the manager. To this end their significant overweight to healthcare stocks has detracted, primarily due to the less cyclical and more defensive character of this sector. Their role in the overall portfolio is consistent with above (lower beta with better downside capture) so we're happy keeping them within the composite – albeit the higher conviction solution.

Outlook

While the Mag 7 were responsible for 87% of the ACWI's 7.2% year-to-date return through October 31, that same group of companies accounted for only 18% of the ACWI's 12.6% return between end October and mid December. In other words, as we enter 2024, we may be witnessing a shift in market leadership. This coincides with falling rates, as the 10-year US Treasury has fallen 100bps from its recent peak in a matter of weeks, and global equities have soared, led by mid and small caps, as well as speculative, unprofitable companies.

At the of the time of writing, market participants are pricing in six cuts in 2024, likely beginning as soon as March. The net result is an economy that seems to be heading for slowing growth but without any contraction, combined with falling inflation which may lead to lower rates, an almost goldilocks scenario for risky equities as the economy seems poised for disinflationary, and albeit mild, expansion.

Taken in aggregate, the portfolio doesn't have an anti-growth bias. Instead the value orientation comes at the expense of quality. Projected relative risk (tracking error) is within range of the long-term risk budget. We believe the portfolio is well positioned to achieve its investment objectives over the full market cycle.

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PUBLISHED DATE: 31 January 2024