STANLIB Multi-Manager Low Equity Fund of Funds

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.

The JSE Capped SWIX ended the quarter marginally positive gaining 1%. Resources continued to be the driver of returns on the market, gaining 11.9%. Industrials returned 4.3% driven by technology stocks Naspers/Prosus, which gained 30.8% year to date. The financial sector which depends largely on SA growth, has been hit hardest losing 32.8% for the year. After a recovery in the second quarter the property market continued its downward trajectory as the uncertainty of SA's economic growth weighs on the market. However, there is some positive news coming from the sector as companies have started strengthening balance sheets by cutting the income pay-out ratios, reducing expenses where possible; and selling non-core assets. The retail sector is starting to show some life again as consumer footfall is on the rise post the easing of lockdown restrictions.

Fixed income continued to outperform equities for the year with bonds returning 1.8% and cash 4.3%. The short end of the yield curve has come down with the SARB's interest rate cuts and is likely to remain anchored at these levels for the short term as the inflation outlook remains low. The consequence of this is that going forward, the high historic returns of money market funds will reduce. 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 with returns north of 10%. The long end of the curve seems to be pricing in SA's deteriorating fiscal position, with the SA 10-year government bond currently trading at 9.4%.

While SA equities struggled in the third quarter, US markets had an impressive run despite a challenging September. The S&P 500 Index rose almost 8.5% while the Nasdaq Composite Index increased around 11% in the third quarter. Globally, the MSCI World Index gained 8.0% in US dollar terms for the third quarter and 2.1% YTD, from being down 20.9% in the first quarter.

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

The fund returned 0.8% for the quarter, lagging the peer return of 1.0%. From a peer relative asset allocation perspective, an overweight to SA bonds and an underweight SA cash exposure detracted. Global equity aided performance.

The SA equity building block outperformed its benchmark in the third quarter and is 1.5% ahead of benchmark over 12 months. Truffle, Ninety One and Coronation contributed most to performance. Truffle was brought into the portfolio in May 2016 and its addition has proved fruitful with alpha of 12.5% over the past year and 5.0% p.a. over the past four years. Ninety One, with its earnings momentum strategy, added positively to performance as they held overweight positions in gold and general mining companies, funded from financials. Coronation also did well in Q3 and over the past year as its exposure to platinum and technology companies has been rewarded by the market. Prudential, Foord and Visio struggled in the third quarter. The common theme amongst them is a low allocation to resources, a sector that has outpaced the market for more than five years. They also suffered from the collapse in Sasol's share price earlier in the year.

The global equity building block generated a return of 3.7% over the quarter relative to a benchmark gain of 4.2%. Security selection during the quarter 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. Low allocations to real estate, utilities and energy were positive, however, due to the small weight in the index the contribution was minimal. Sands was the best performing underlying manager, outperforming by almost 3%. Arrowstreet and Veritas performed in line with the benchmark while AB and Hosking underperformed as they were overweight financials and underweight technology.

The SA bond building block returned 0.4% for the quarter and 2.0% for the year, which was disappointing relative to the benchmark and peers. Much of this underperformance emanates from overweight positioning at the longer end of the curve, underweight exposure to the 7-year R186 government bond and holding off benchmark assets such as inflation-linked bonds. Bonds in the over 12-year part of the market make up more than 50% of the benchmark and accordingly, it is difficult for managers to ignore them. However, yields in this space are commensurately higher than the short end and therefore it is unsurprising that the managers in general have found this part of the market attractive. Unfortunately, these bonds have lagged the market.

The cash/income building block outperformed its benchmark in the third quarter. Its alpha has been consistent for many years and as result, long-term performance is also ahead of benchmark by 90 basis points over the past five years. The fund has exposure to income, enhanced yield and money market managers.

After having a good second quarter the property building block disappointed as the sector came under pressure, losing 15.5% for the quarter. Catalyst lagged the other mangers as they are geared to a recovery in office and retail over the next four years. STANLIB and Sesfikile have a more defensive stance and performed well against the benchmark focusing on being overweight higher quality companies and underweight those with weak balance sheets.

Portfolio positioning and outlook

As a second wave of the pandemic looms and a vaccine still months away, the uncertainty in the global markets prevails. The closely contested US election and the ongoing news flow is adding volatility to markets. Despite the abundance of liquidity that has been provided by central banks around the world, global GDP will contract in 2020 and it will take time for economies to get back to pre-COVID-19 levels. Locally, SA continues to face more economic challenges – prior to the pandemic economic growth was slow and job creation has not kept up with the population growth, exacerbated by job losses resulting from the lockdown.

We maintain our overweight position in growth assets given the long-term view and favour bonds within the fixed income category as the long end of the curve compensates for the risks facing the economy. All eyes are now on the government and their anticipated growth plan. The improvement of business and consumer confidence will only be felt once we see success in the implementation of the plan.

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	6.42	9.31	-2.89
Domestic Derivatives	-0.12	-0.14	0.02
Domestic Equity	18.02	17.21	0.81
Domestic Fixed Interest	50.13	47.98	2.15
Domestic Property	4.45	4.81	-0.36
Foreign Cash & Mny Mkt	0.61	0.72	-0.11
Foreign Derivatives	0.01	0.01	0.00
Foreign Equity	16.20	15.52	0.67
Foreign Fixed Interest	3.91	4.22	-0.31
Foreign Funds	0.01	0.00	0.01
Foreign Other	0.04	0.04	0.00
Foreign Property	0.32	0.31	0.01

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
B1	Retail	1.11	220.41	244,058,232.87	537,940,875.36
A	Retail	1.79	220.04	302,106,322.96	664,765,194.08

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.

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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 Low Equity Fund of Funds 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.

This portfolio is a Fund of Funds portfolio. A Fund of Funds portfolio is a portfolio that invests in other portfolios of collective investment schemes, that levy their own charges, which could result in a higher fee structure for the Fund of Funds portfolio.

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 24h00. 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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