STANLIB Multi-Manager Real Return Fund

Quarterly Report 30 September 2020

STANLIB
MULTI-MANAGER

Commentary and analysis

Market overview

The JSE ALSI was relatively flat for the quarter, gaining 0.7%. At the start of the quarter, it appeared the momentum built in Q2 (up 23.2%) was continuing but in August and September, news of a second wave of infections broke and local equities retreated 1.8%. Moreover, the almost forgotten trade war between China and the US resurfaced, leading to a sell-off in equity markets across the world. Despite a flat Q3, the ALSI has gained 24.0% over the past six months, reversing almost all the Q1 losses. Year to date, it is down only 2.5%. Resources remain the major driver of equity returns for 2020, up 11.9%. Within resources, it's mainly gold companies that have carried the sector, benefitting from the cleaning of balance sheets a few years ago and a higher gold price as investors look for safe haven assets. Industrials gained 4.3% for the year with tech stocks (Naspers and Prosus) up 30.8%. This is not surprising as the need for people to work from home has increased demand for their services. The financial sector, which depends largely on SA growth, has been hit hardest, losing 32.8% for the year.

Recent years have proven difficult for growth assets. Over the past five years, equities returned 4.8% and the property market lost 15.2% as measured by FTSE/JSE All Property Index. During the same period, bonds and cash returned 7.6% and 7.1% respectively. This year is no different – bonds are up 1.8% and cash is up 4.3%, while equities and property are down 2.5% and 47.8% respectively. Looking at the yield curve, the short end has come down with the SARB's interest rate cuts and is likely to remain anchored for the next few months as inflation remains low. This means that going forward, the high returns of money market funds may dissipate. SA's 3-month Jibar rate is currently trading at 3.4%, considerably lower than the 7.0% seen just two years ago. The belly of the curve is where most of the returns came from this year – investors who held 1- to 7-year bonds have seen returns north of 10%. The long end of the curve seemed to be pricing in SA's deteriorating fiscal position, with the SA 10-year government bond currently trading at 9.4%, which we believe is quite attractive.

The property market has faced several blows in the past few years, starting with the collapse of the Resilient stable of companies in early 2018 and followed by poor economic growth in SA. While the market was digesting this, COVID-19 hit. Property companies are, however, working tirelessly to improve their odds and have cut income pay-out ratios to lower levels, as well as "cleaning" up balance sheets. Furthermore, they are selling non-core assets and exploring ways to repurpose loss-making properties for other uses. Since the recent relaxation of lockdown restrictions customers are finding their way back to retail centres.

While local equities struggled in Q3, Wall Street 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%. Globally, the MSCI World Index gained 8.0% in US dollar terms for Q3 and 2.1% YTD. The global economy continued to reopen in phases and the massive US Fed and government stimulus boosted investor optimism in the third quarter. After already cutting interest rates to nearly zero, the Fed said that it may keep interest rates low even if inflation runs above its 2% target level. Moreover, the world's largest economy witnessed a rise in manufacturing activity in Q3 to nearly a two-year high in August, owing to solid new orders. Jobs data in September showed that the unemployment rate dropped from 8.4% to 7.9%, indicating an improving economy. Encouragingly, approximately half the jobs that were lost during the pandemic have been restored and all these factors kept investors upbeat. In China economic activity continues to improve, while new reported COVID-19 infections remain low.

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

Following the severe market drawdown in the first quarter and the subsequent strong recovery in the second quarter, returns moderated in the third quarter. Year to date the fund is up 2.4%. Considering the difficult circumstances, we are pleased that the fund's returns are positive and ahead of peers over this period. Longer-term performance remains good relative to industry peers.

Amongst the SA managers performance was relatively good. The Ninety One Opportunity strategy remains the star underlying performer and with the quality of their investment process, we expect it to continue to do well under the current uncertain economic environment. As such we maintain a sizeable exposure of around 20% to the strategy. Coronation had a good quarter due to an overweight exposure to select resource shares combined with their Shoprite position. Top resources picks include Anglo American, Northam and Impala. During the quarter, they switched their remaining Prosus holdings into Naspers as they believe the additional discount to intrinsic value is incredibly attractive. They trimmed their AB InBev position on share price strength and opportunistically added to their FirstRand position. Sanlam is also a recent addition. While the portfolio remains skewed to rand hedge stocks, they have been increasing their exposure to attractively priced domestic-facing stocks.

Prudential have taken a longer term view on SA assets in their domestic balanced portfolio, which unfortunately did not yet yield the desired results in the third quarter. Prudential is overweight positions in SA equities, due to attractive valuations, and SA bonds due to the high yields offered. This positioning is expected to do well in future. Within SA equities they to prefer large, global companies offering sound, high-quality diversification – such as Naspers, British American Tobacco, Anglo American, Remgro and MTN. They maintain their overweight in the local banking sector, with exposure to ABSA, Standard Bank and Investec. They are substantially underweight SA listed property. Prescient's defensive strategy had a good quarter, with performance driven by a range of factors including good credit spreads on offer and good positioning on the yield curve. Prescient's exposure to preference shares also offers good upside potential.

On the global side of the fund, the STANLIB Multi-Manager Global Equity Fund returned 3.9% for the quarter, providing an excellent hedge against market volatility. Sands, who has a growth bias, continued their strong run in performance. Saunders also did well. As expected, the value style and capital cycle managers in this fund – Alliance Bernstein and Hosking Partners – still lag over the longer term. However, with many growth-oriented technology shares now trading at very high valuations, we believe it prudent to maintain exposure to diversifying investment approaches in the fund. Performance of the STANLIB Multi-Manager Global Bond Fund was positive in dollar terms for the quarter with Brandywine and Pimco both performing well. In rand terms performance was flat due to the appreciation of the rand. This fund is up 23.8% for the year in rand terms and with hindsight, it would have been beneficial to have had a higher exposure to this asset class. However, due to the current low global bond yields, we view the prospects for global bonds as limited and are underweight exposure.

Portfolio positioning and outlook

New cases of COVID-19 decreased drastically in SA and under Lockdown Level 1 economic activity is improving. SA is still, however, facing major concerns which include escalating debt levels combined with poor growth prospects and a worrying unemployment rate. Regardless of the negatives, SA equities and SA property continue to offer areas of good opportunity with many of the SA-focused companies highly undervalued. We are of the opinion that to explore these opportunities requires strong active management skills that we believe our managers are well equipped with. To hedge market risks, our underlying managers maintain a prudent mix of carefully selected locally exposed and rand hedge shares. Property shares remain selective with great opportunities, but avoiding landmines remains key. On balance, our managers find value in SA bonds and with the SA 10-year yield comfortably above 9% and inflation expected to be contained, we are of the opinion that SA bonds should provide a reasonable real yield, regardless of the fiscal risks that SA faces.

We are positive on the global front and maintain a sizeable allocation, specifically in equities. We believe that while global bonds yields remain low and economic activity improves, global equity prices will continue to find support from investors. However, this dynamic could change and in collaboration with the fund's underlying managers, we are monitoring global developments closely.

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	9.84	8.80	1.04
Domestic Derivatives	0.00	-0.06	0.06
Domestic Equity	30.12	30.97	-0.84
Domestic Fixed Interest	29.85	29.78	0.07
Domestic Funds	0.28	0.35	-0.07
Domestic Other	0.00	0.21	-0.21
Domestic Property	1.04	1.19	-0.15
Foreign Cash & Mny Mkt	1.47	1.90	-0.43
Foreign Derivatives	0.01	0.01	0.00
Foreign Equity	25.12	24.61	0.51
Foreign Fixed Interest	1.79	1.78	0.00
Foreign Funds	0.01	0.00	0.01
Foreign Other	0.05	0.05	0.00
Foreign Property	0.43	0.41	0.01

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
B1	Retail	1.5	222.25	141,167,268.52	313,750,509.64
A	Retail	2.08	221.92	29,405,784.89	65,258,518.64

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 Real Return Fund 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.

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 15h00. 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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