STANLIB Multi-Manager Bond Fund
Commentary: 30 September 2018

STANLIB

Market overview

Higher developed market interest rates and a stronger US dollar unfortunately do not bode well for emerging market (EM) assets. It is not surprising then that most EM countries have seen their currencies lose value. The rand depreciated 3.1% to the US dollar during the quarter, with negative sentiment on South Africa impacting longer-term yields. During the quarter, the SA 10-year bond yield increased to 9.3%. The JSE BESSA All Bond Index returned 0.8% for the quarter, underperforming cash, which returned 1.8%. Curve positioning was important during the quarter, as the long end was the poorer performer.

Asset class performance and risk statistics

Asset class	Q3 2018	1 year	3 years p.a.	5 years p.a.
FTSE/JSE ALSI	-2.2%	3.4%	6.7%	8.0%
Financials	*2.8%*	*8.1%*	*4.6%*	*10.9%*
Resources	*5.2%*	*27.1%*	*15.7%*	*1.0%*
Industrials	*-7.8%*	*-7.7%*	*2.5%*	*7.7%*
FTSE/JSE Capped SWIX	-1.7%	0.4%	4.5%	7.4%
Bonds ALBI	0.8%	7.1%	7.8%	7.2%
Cash STeFI Composite	1.8%	7.3%	7.3%	6.8%
All Property Index (ALPI)	-1.5%	-14.0%	-3.5%	6.1%

Risk statistics since launch		
Lowest rolling 12-month return	-0.1% (12 months ended March 2016)	
Highest rolling 12-month return	15.9% (12 months ended March 2018)	
	Fund*	Benchmark
Maximum drawdown	-7.2%	-22.2%
Portfolio volatility	7.2%	8.5%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund performed in line with the benchmark for the quarter, returning 1% alpha over 12 months. Going into the quarter, the Fund was overweight the short-end of the curve, which contributed positively. The Fund has approximately 30% allocation to credit, which also contributed positively as spreads continued to narrow in a market short of supply.

Since credit was a good source of return for the quarter, Futuregrowth was the top-performing underlying manager. STANLIB and Coronation increased their duration position to a slight overweight during the quarter, which resulted in a weaker relative performance. Nevertheless, both managers have delivered good alpha over 12 months. While Aluwani produced stronger performance during the quarter, their conservative outlook muted alpha over the longer term.

Portfolio positioning and outlook

Based on a benign domestic economic environment, inflation has been well contained within the SA Reserve Bank's 3% - 6% band. Therefore, the SA bond market looks attractive with the SA 10-year bond yield currently offering investors a real yield of 4.6%. This does, however, have several risks from both a global and local perspective. Trade wars could weigh heavily on EMs coupled with additional rate hikes in the US, with SA possibly having to follow suit given a deteriorating inflation outlook. This is due to the potential for rand weakness as well as the rising trend in world oil prices and uncertainties about future electricity tariff increases, all of which pose the main upside risks to the inflation outlook.

On the positive side, both global and local investors continue to monitor government's initiatives to boost the economy, attract foreign investment and to root out corruption. We believe the Fund has a balanced positioning, with a slight underweight to duration. Furthermore, the Fund is well diversified across the yield curve, with a healthy exposure to credit and underlying managers continuing to look for yield enhancing strategies.

Duration *– a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.*

Portfolio managers

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