STANLIB Multi-Manager Defensive Balanced Fund
Commentary: 30 September 2018

STANLIB

Market overview

The global trade war between the United States and China continued to dominate headlines during the quarter. The US intensified tariffs on Chinese goods and China retaliated. Despite the tussle between the two economic giants, the US economy remains strong. This is visible in the rally of the US dollar and their robust labour market. These positive developments gave the Fed room to hike interest rates in September from 2.0% to 2.3%.

Unfortunately, the higher developed market (DM) interest rates and stronger US dollar do not bode well for emerging market (EM) assets such as South Africa, and most EM countries saw their currencies weaken. SA fared worse than its EM peers as signs of poor economic growth surfaced during the quarter, resulting in SA moving into a technical recession.

SA equities lost 1.6% over the quarter, driven largely by poor returns from industrials. SA property lost 1.0%, while SA bonds returned 0.8%. The weaker rand supported offshore returns, leading to a 7.4% total return from global equities.

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	2.3% (12 months ended May 2017)	
Highest rolling 12-month return	9.7% (12 months ended October 2017)	
	Fund*	Benchmark
Maximum drawdown	-2.2%	-2.6%
Portfolio volatility	4.1%	3.6%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund returned 1.5% for the quarter, marginally behind the average of ASISA MA Low Equity peers. Since inception three and a half years ago, the Fund has outperformed. The overweight position to resources and rand hedge shares continued to support peer relative performance. The core performance detractor has been the Fund's allocation to inflation linked bonds at around 10%.

Coronation's domestic absolute mandate has a rand hedge bias, with a moderately allocation to equities and property. One of their largest positions, MTN, detracted from performance.

Investec believes that investors were too optimistic about President Ramaphosa's ability to turn the economy around in the short term and that more rational expectations have since taken root. Locally, they view SA government bonds as the best opportunity. Yielding more than 9%, these instruments offer higher risk-adjusted return potential than the retail, banking and property sectors. Their bond exposure remains prudent – lower duration, higher quality instruments, with exposure balanced against offshore holdings to limit the potential for loss. Investec maintains a high global equity allocation positioned around 30% or more.

Prudential prefers resources through counters such as Sasol and Anglo American, but also sees value in financials such as Standard Bank and Old Mutual Ltd. Long duration bonds remain a key investment for Prudential. A high allocation to inflation linked bonds and property detracted from performance over the past year. However, we remain confident that these assets are key diversifiers, providing real returns in the long-term.

STANLIB Absolute remains defensively positioned with a low local equity and property allocation of less than 30%. STANLIB sees various risks in the market and has multiple protection strategies in place to cover these risks. They maintain a relatively high allocation to duration type bonds and have been flexible on the global positioning in trying to harvest performance in difficult market conditions.

Portfolio positioning and outlook

The largest themes in the Fund are overweight resources and rand hedge shares, which has benefited performance over the past year. Global positioning remains critical for diversification.

In addition to further rate hikes in the US, we expect trade wars to continue dominating headlines and this could weigh heavily on EM sentiment. Local asset prices have retreated to levels that may provide a good entry points for investors. However, the global and SA environment remains highly uncertain and we continue to emphasize the importance of having a long-term focus when making investment decisions.

Portfolio managers

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