STANLIB Multi-Manager Enhanced Yield 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 bonds returned 0.8% return largely driven by short-dated instruments, which were up 1.9%. The 12+ area of the curve returned 0.4%. SA cash gained 1.8%. The SA Reserve Bank (SARB) Monetary Policy Committee (MPC) decided to keep the repo rate unchanged at 6.5% when it met in September, but has a hawkish view on inflation.

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	6.9% (12 months ended March 2017)	
Highest rolling 12-month return	8.8% (12 months ended August 2017)	
	Fund*	Benchmark
Maximum drawdown	0.3%	0.4%
Portfolio volatility	0.3%	0.6%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund continued to deliver good performance with positive active returns of 0.3% over the quarter, with all the underlying managers outperforming the STeFi composite. Over the year, the alpha versus the benchmark has been 1.5%.

The leading contributors to performance were STANLIB Income, Aluwani and Prescient. Prescient was consistent, maintaining its shorter duration positioning relative to Aluwani and STANLIB. Aluwani had the longest duration positioning, while STANLIB was in between these managers. The portfolio construct remains sound and has delivered to expectations.

Both money market funds, Investec and STANLIB, were positive contributors to performance delivering reasonable returns during the quarter.

Portfolio positioning and outlook

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 exchange rate depreciation as well as the rising trend in world oil prices and uncertainties about future electricity tariff increases which pose the main upside risks to the inflation outlook. While the SARB forecasts that inflation will peak at 5.9% in the second quarter of 2019, the MPC would prefer the inflation rate closer to 4.5%.

On the positive note, both global and local investors continue to monitor the initiatives of the SA government to boost the economy, attract foreign investment and to root out corruption. The Fund currently has 53.4% in money market or cash plus funds, while still having a healthy allocation to income-oriented assets coming through from Aluwani and STANLIB. The fund therefore currently has a balanced position.

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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