STANLIB Multi-Manager Global Equity Feeder Fund
Commentary: 30 September 2018

STANLIB

Market overview

Emerging markets (EM) lagged developed markets (DM) for the second consecutive quarter in 2018 as the global trade war between the United States and China continued to dominate headlines. The US intensified tariffs on Chinese imports, adding 10% on a further $200 billion worth of goods. After the increase, President Trump highlighted that he stood ready to increase the basket of goods should China retaliate. His message fell on deaf ears as China swiftly countered with 5% to 10% increases on $60 billion worth of US imports.

Despite the tussle between the two economic giants, the US economy remains strong. This is visible in the rally of the US dollar; their robust labour market and the 7.7% quarterly return from the S&P 500 at a time when DM only gained 5.1%. These positive developments gave the Fed room to hike interest rates in September from 2.0% to 2.3%.

Unfortunately, the higher DM interest rates and stronger US dollar do not bode well for EM assets and not surprisingly; most countries saw their currencies lose value. EM equities lost 1% for the quarter in US dollars. Year-to-date, this translates to a loss of 7.5%, which is way below the 5.8% return from DM over the same period. The higher oil price helped contain some of the poor performance as oil-producing countries such as Russia, Brazil and the UAE returned 6.6%, 6.2% and 3.1% respectively. Real yields remain high in most countries and in recognition of this and other dynamics, foreign investors have ploughed $13 billion into EM bonds this year and $21.7 billion into equity markets.

South Africa fared worse than its EM peers as signs of poor economic growth surfaced during the quarter, as well as consensus economic growth expectations reducing. This sent the rand from R13.73 to the US dollar at the start of the quarter, to R14.14 by the end of September.

Looking at financial markets, DM rose during the quarter, primarily driven by US market strength and dollar strength coupled with trade tensions, pulled EMs into the red. As a result of these divergent returns, global equities as a whole gained 3.8% is US dollar terms. A weaker rand provided a further 3.0% boost to offshore rand returns.

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	-40.3% (12 months ended March 2003)	
Highest rolling 12-month return	48.5% (12 months ended December 2013)	
	Fund*	Benchmark
Maximum drawdown	-43.3%	-35.3%
Portfolio volatility	16.3%	14.0%

Source: STANLIB Multi-Manager.

Portfolio review

The STANLIB Multi-Manager Global Equity Feeder Fund returned a strong 8.5% return over the quarter. This performance was driven by the underlying fund outperforming the benchmark by more than 1% and as mentioned above, the rand's 3% depreciation added to the absolute returns. The outperformance over the quarter is pleasing given that the Fund's overweight to EMs would have weighed on returns. Sector positioning, however, contributed, especially the overweight exposure to technology.

Looking to the underlying managers, Veritas had a great quarter, outperforming their benchmark by more than 3%. Having been a large detractor in the recent past, healthcare stock selection came through strongly for Veritas. This strong quarter reverses their losses, bringing their 12-month performance marginally ahead of the benchmark.

Sanders also had a good quarter, which is pleasing given that the value style underperformed. Sector allocation, particularly from the technology sector, contributed most to their outperformance. This positioning is reflective of their pragmatic approach to value. As with Veritas, Sanders' healthcare exposure also contributed.

Sands' large overweight to technology contributed over the quarter, resulting in strong alpha. The AB mandate detracted as a result of value underperforming, which is in line with our expectations.

Portfolio positioning and outlook

The economic outlook has not changed much since last quarter. We expect trade wars to continue dominating headlines and this could weigh heavily on EM sentiment. The Fed remains on track with interest rate hikes and could possibly raise rates once more this year. In addition, we view the increased market volatility coupled with markets becoming less directional, as an opportunity for active managers. The global and SA environment remains highly uncertain; hence we continue to emphasize the importance of a long-term focus when making investment decisions

Portfolio managers

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