STANLIB Multi-Manager Global Bond Fund

Commentary: 31 December 2018

STANLIB

Market overview

As expected, the Fed increased rates 25bp to 2.5% at its December meeting. This was the fourth increase for 2018 and the ninth since the tightening cycle began in 2015. It triggered an inversion of the 2 and 5-year yield curves, which have historically been a warning of a pending recession. The ECB kept the refi rate on hold at 0% and confirmed net purchases of securities would fall to zero by year-end. Fiscal stimulus and higher interest rates helped the greenback, with the trade weighted dollar gaining 1.1% in the final quarter, bringing YTD gains to 4.4%. Dollar strength coupled with China's policy induced slump were catalysts behind the global economic slowdown that ensued in 2018.

The aforementioned had a large impact on markets during the fourth quarter and a negative impact on risk assets for 2018 as a whole. After rising for most of 2018 to a high of 3.25% in early October, yields on US 10-year treasuries rallied 36bp in Q4 to end the year at 2.69%. Similarly, German 10-year bunds ended the year at 0.25%, 6bp lower than at the end of the third quarter. Italy's situation showed signs of easing, resulting in BTP yields retreating from recent highs in October to finish the year 41bp lower than the previous quarter end. The biggest surprise in the last quarter was, however, the 38% collapse in oil prices. This contributed to a 4.2% decline in high yield securities, which have a large energy sector weight. The fall in commodity prices coupled with a strong dollar had a negative effect on emerging market (EM) bonds, which lost 3.5%.

Asset class performance and risk statistics in USD

Asset class	Q4 2018	1 year	3 years p.a.	5 years p.a.
MSCI AC World Index	-13.3%	-10.1%	6.5%	4.2%
JP Morgan Global Bond Index	3.6%	15.6%	0.0%	7.7%
Barclays Global Multiverse Ind	1.0%	-1.4%	3.0%	1.2%
7-day US LIBID	2.1%	18.6%	-1.4%	7.2%
Rand/dollar	1.4%	16.0%	-2.4%	6.8%

Fund risk statistics since launch	
Lowest rolling 12-month return	-9.9% (12 months ended February 2009)
Highest rolling 12-month return	22.8% (12 months ended November 2009)

Source: STANLIB Multi-Manager

Portfolio facts

Bloomberg Code	LIBIGBI JY
Structure	Open-ended investment company
Custodian	Link Corporate Services (Jersey) Limited
Sub Custodian	The Bank of New York Mellon SA/NV London Branch
Auditors	PricewaterhouseCoopers Ireland
Manager	STANLIB Fund Managers Jersey Limited
Investment Manager	STANLIB Asset Management Pty Limited
Administrative Agent	BNY Mellon Fund Services (Ireland) Designated Activity Co
Year End	31 December
Custody Fee	0.035% 0-$50m; 0.025% $50m-$100m; 0.010% $100m-$500m; 0.005% $500m-above
Dealing Valuation	Daily
Redemption Payment	Within 14 business days
Publication of NAV	STANLIB Fund Managers Jersey Limited
Directors	SM Place, N Deacon, M Mitchell, M Farrow

Portfolio review

A milestone was reached in December with the Fund celebrating 20 years since inception and generated annualised excess returns of 89bp gross of fees relative to the Barclays Global Aggregate Index and 67bp net relative to the peer group average. The Fund underperformed its benchmark by 1% in the final quarter, resulting in it lagging the benchmark for the year. Relative to peers, the Fund outperformed by 30bps in 2018 after underperforming competitors by the same amount in Q4.

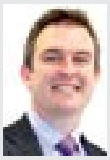
The 2.4% loss this year reflects the aforementioned operating environment of dollar strength. Outside of the US, it was also only bond markets in China, Japan and Thailand that generated positive returns. Within our composite, the alternative beta BlackRock mandate was the best performer in the final quarter as well as for the year. While performing in line with their GDP weighted benchmark, they lagged the fund index by 20bp over both periods, largely due to the greater EM exposure and underweight allocation to Italy. Capital was our second best performing underlying manager, generating similar returns to BlackRock for the calendar year and final quarter. Their three and five year numbers are similar too. For this reason, we have decided to replace them with PIMCO, who have a similar style but with more conviction. Our new Amundi mandate performed well in the first nine months of the year and was our best performer until the final quarter, when they lagged 1.9%, pulling YTD relative returns to -1.4%. Brandywine underperformed 3.3% for the year. This needs to be seen in the context of 3 and 5 year numbers, where they have outperformed. Their increased US duration in the final quarter helped performance as Treasuries rallied but for the year as a whole a large allocation to EM (especially Mexico) was a drag.

At an overall Fund level, an underweight to the Japanese yen, a safe haven asset, hurt as did insufficient duration in JGB's, which rallied. A consensus overweight position in Mexico also detracted as markets started to price higher policy risk after the election of a new president. Conversely an underweight to the euro contributed to returns. Falling commodity prices had a negative impact on positions in the Australian and Canadian dollar but the biggest driver of underperformance for the Fund as a whole was being underweight the US dollar.

Portfolio positioning and outlook

The Fed lowered its projections of the level of key rates it deemed appropriate for future years with the dot plot now pointing to two rate increases in 2019 and one in 2020. The long-term equilibrium rate is now estimated at 2.75%. With the job market remaining solid, economic growth above trend and inflation close to 2%, it's understandable why rate increases are justified to meet the dual mandate of growth and inflation. It's also difficult for the Fed given the added fiscal thrust from Trumps tax cuts. Inflation expectations globally have, however, been declining on the back of falling oil prices and concerns over the sustainability of global growth; against a backdrop of a slowdown in China and persistent disappointments in the Eurozone. Despite this, the ECB is starting to think about raising rates in the autumn, while a larger US budget deficit is also likely to result in upward pressure on bond yields.

Portfolio managers



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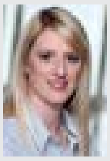

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