

Market overview

Global markets turned dovish during the quarter on the back of slowing growth in the US and Europe. Global bond yields therefore fell as the US Fed moved from two prospective hikes to no hikes. As a result of the dovish statements from the two regions, the US 10-year government bond repriced from 2.68% in December to 2.41% at the end of March, while German bond yields fell from 0.24% to -0.07%. South African fixed income assets followed the trend, as the 10-year government bond rallied from 8.87% to 8.60%. SA bonds returned 3.8% driven largely by the long end of the curve where the 12+ area was up 4.0%. SA cash returned 1.7%, and like bonds, 6- and 12-month NCDs outperformed short-dated instruments, rallying 1.8% and 1.9% respectively.

Asset class performance and risk statistics

Asset class	Q1 2019	1 year	3 years p.a.	5 years p.a.
FTSE/JSE ALSI	8.0%	5.1%	5.7%	6.5%
Financials	-0.5%	-5.8%	2.8%	7.5%
Resources	17.9%	41.8%	22.2%	1.0%
Industrials	7.4%	-3.7%	0.6%	6.3%
FTSE/JSE Capped SWIX	3.9%	-2.6%	2.1%	5.1%
Bonds ALBI	3.8%	3.5%	10.1%	8.3%
Cash STeFI Composite	1.8%	7.2%	7.4%	7.0%
All Property Index (ALPI)	1.3%	-7.0%	-5.9%	4.1%

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%	-9.8%
Portfolio volatility	7.1%	7.1%

Source: STANLIB Multi-Manager.

Portfolio review

Going into the quarter, the Fund was overweight the short and the middle end of the yield curve and therefore, underperformed the ALBI for the quarter. It still, however, generated alpha of 1.3% over the 12-month period on a gross basis. Coronation was the only manager to outperform the index during the quarter, driven by an overweight duration position. Coronation also benefited from a healthy allocation to banks.

Prescient, Aluwani and STANLIB produced returns in line with the benchmark for the quarter. While Prescient and Aluwani have at times reduced their duration underweights to the ALBI, they have generally been short-duration, which impacted their alpha. Futuregrowth has a healthy allocation to credit but their short duration position detracted from performance.

Performance relative to peers continues to be good over all periods.

Portfolio positioning and outlook

The Fund's exposure to corporate bonds decreased steadily from approximately 32% to 29% over the past year. The underlying managers have indicated that credit spreads are extremely narrow, particularly for banks. There are even scenarios where government guaranteed state-owned-enterprise (SOE) debt is trading at yields higher than banks. From an economic point of view, many of the Fund's underlying managers have indicated that inflation is expected to remain firmly within the 3% - 6% band, with the SARB targeting more the middle of the band. For this reason and continued low growth in SA, the underlying managers reflect a more positive view on SA bonds. Having said that inflation seems well under control, the escalating oil price and above inflation electricity increases granted to Eskom by NERSA pose a threat to the inflation outlook. The FRA curve, however, does not seem to be concerned about inflation and is pricing no changes to interest rates this year and a small probability of interest rate cuts in 2020.

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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