STANLIB Multi-Manager Absolute Income Fund
Commentary: 31 December 2018

STANLIB

Market overview

'Ramaphoria' prospects were short-lived in 2018 as SA's structural deficiencies and the shackles of state capture became more evident. In addition, uncertainty surrounding the US-China trade war, Brexit and fears of a global growth slowdown in 2019 sparked a significant change in investor risk appetite. This resulted in disappointing equity returns. Global equity lost 9.4% in US dollar terms for the year, while the JSE All Share retreated 8.5%. Local bonds posted a 7.7% return. SA property was the worst performing asset class, losing 25.0%. The rand weakened 16.3% relative to the dollar. Relative to risky asset classes, income-type assets performed fairly well. Cash returned 6.5% for the year and the ALBI 1-3 years, a benchmark of shorter duration bonds, returned an impressive 9.1%.

Asset class performance and risk statistics

Asset class	Q4 2018	1 year	3 years p.a.	5 years p.a.
FTSE/JSE ALSI	-4.9%	-8.5%	4.3%	5.8%
Financials	*-2.1%*	*-8.8%*	*5.1%*	*8.9%*
Resources	*-4.5%*	*15.7%*	*22.3%*	*-0.3%*
Industrials	*-6.5%*	*-17.6%*	*-1.9%*	*4.9%*
FTSE/JSE Capped SWIX	-3.8%	-10.9%	3.0%	5.3%
Bonds ALBI	2.7%	7.7%	11.1%	7.7%
Cash STeFI Composite	1.8%	7.2%	7.4%	6.9%
All Property Index (ALPI)	-6.2%	-25.0%	-5.0%	4.2%

Risk statistics since launch		
Lowest rolling 12-month return	4.0% (12 months ended January 2014)	
Highest rolling 12-month return	10.1% (12 months ended January 2015)	
	Fund*	Benchmark
Maximum drawdown	-1.1%	-1.9%
Portfolio volatility	1.6%	2.7%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund returned a steady 9.0%, net of fees for the year. Over three years, the Fund also returned 9.0% per annum, well ahead of the average return of 7.7% from income fund peers and almost 3.5% above inflation. This performance showcases the ability of the Fund to deliver medium-term inflation beating returns at a high probability, but with limited downside risk.

We are delighted that all three of the Fund's underlying managers met or exceeded our expectations for the year. Aluwani in particular performed very well, gaining alpha due to their avoidance of listed property and good credit selection. Credit performed well from a yield enhancement and a spread compression perspective. However, they are cautious that the credit cycle looks mature and are currently looking for opportunities to reduce credit spread duration.

Investec remains constructive on nominal bonds over the medium and long term, but their short-term position is more cautious as global risks are likely to prove disruptive. They maintain their underweight exposure to inflation-linked bonds and property. They also maintain their overweight allocation to select investment grade credit as spreads among quality issuers continue to tighten and the lack of supply continues to buoy the local credit market. Their bottom-up credit view remains consistent with a preference for assets with defensive credit qualities. They also maintain a small offshore exposure in order to balance local interest rate-sensitive risks, as well as to offset rand weakness.

Performance from Prescient predominantly came from high quality, low risk bank credit held. With local inflation expected to remain within the target band and growth remaining subdued, Prescient sees little risk of the SARB increasing rates by more than what the market is expecting and have positioned the fund accordingly. In addition, given that the inflation break-even rates have now dropped to about 6% at the long end, Prescient views inflation-linked bonds as relatively attractive.

Portfolio positioning and outlook

The Fund's modified duration remains relatively low at 1 year, providing protection against interest rate risk. The Fund has a small property allocation of less than 3% and some diversifying global exposure. It is positioned towards safer, high quality floating rate bank exposure and government debt, with select higher quality credit exposure providing a yield sweetener. We expect our managers to continue producing good inflation-beating returns in the medium term.

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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