

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, providing some relief for the Fund.

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 -21.8% (12 months ended February 2009)
 Highest rolling 12-month return 51.5% (12 months ended April 2006)

	Fund ¹	Benchmark
Maximum drawdown	-27.0%	-19.6%
Portfolio volatility	9.5%	7.5%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund lost 2.3% for the year but is 1.3% ahead of the average peer fund. The overweight position to resources combined with its high global allocation, assisted performance relative to peers during a tough year. These positives, however, were negated by the systematic drawdown in local equities.

Allan Gray's performance has been satisfactory relative to peers, mainly due to relatively good stock picks in shares such as Sasol and New Gold ETF. However, in absolute terms their return for the year was negative given the large drawdown in SA equities.

Coronation had a tough 2018 due to a high equity and property allocation, as well as holdings in underperforming shares such as MTN and British American Tobacco (BTI). On Christmas eve MTN reported they had received notice from the Central Bank of Nigeria that it was reversing a potential claim for \$8 billion. This means MTN can proceed with the planned listing of MTN Nigeria and repatriate profits from Nigeria. There is no doubt that the recent issues in Nigeria will have a sentiment overhang on the stock. This may possibly explain why there has not yet been a return to the early August price levels following this positive news.

Foord remains our most bearish domestic balanced manager with a large exposure to rand hedges, given their concerns around the SA economy. Foord's large holding in New Gold ETF (+15% during year) provided some protection in 2018, but positions in BTI and Aspen detracted from performance.

Prudential remains overweight SA equities given their positive view on valuations. They prefer resources shares with exposure to global growth such as Sasol and Anglo American, but also find value in financials such as Standard Bank and Old Mutual. They remain underweight retail stocks and long duration bonds remain a key investment.

Investec's local equity composition is largely invested in global cyclical companies geared to the global economic cycle and exhibiting favourable earnings revisions profiles. These include Anglo American, BHP Billiton and Sasol. They also have exposure to select 'SA Inc.' plays with decent relative earnings revisions profiles. They are neutral on local nominal bonds. They believe SA remains better positioned than most of our emerging market peers and stands to benefit if global sentiment improves.

The Fund's global allocation performed well in rands, mainly due to rand depreciation.

Portfolio positioning and outlook

The rate of global growth is likely to slow in 2019 and US interest rates are anticipated to rise further, although perhaps by not as much as initially expected. If the US interest rate hike cycle turns in response to lower economic growth concerns and the Chinese authorities embark on some form of stimulus, we may see better returns in 2019. An agreement between the US and China on trade negotiations will also help to alleviate fears in the market. We are attracted to the high dividend yield from local equities, while local bonds provide reasonable yields. Looking forward, although there are risks, in our opinion the market is providing areas of great investment opportunity for patient investors.

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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