STANLIB Multi-Manager Bond Fund
Commentary: 31 December 2018

STANLIB

Market overview

Despite foreign selling of $4.7 billion worth of SA bonds and 16% depreciation in the rand against the US dollar, the fixed interest market returned 7.7% in 2018. SA bonds and cash outperformed risky assets in three of the four quarters. Most of the bond market's inflation-beating returns came from the short end of the curve. The one to three year area of the curve produced 9.1% while the long end only returned 7.7% for the year. SA cash also performed well returning 1.8% for the quarter and 7.2% for the year.

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	-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	7.2%	7.1%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund produced a consistent performance for 2018, delivering 1% alpha against the benchmark on a gross basis. All of the underlying managers continue to deliver returns ahead of the benchmark. Coronation was the best performing underlying manager, driven by timing duration well and generally being longer than the other underlying managers.

Over the past few years credit supply has been declining – corporates are not borrowing as much – and therefore, credit spreads have been declining. For this reason Futuregrowth – who has the highest allocation to credit in the Fund – has performed well. Performance from STANLIB and Aluwani was driven by good duration calls, as well as exposure to bank credit. Prescient performed consistently over the past three years, with good duration and credit timing.

We are pleased that over the past three years, the Fund consistently delivered 1% alpha per annum on a gross basis.

Portfolio positioning and outlook

The bond market looks attractive with the SA 10 year bond yield offering 8.8% (source: https://www.resbank.co.za/Research/Rates/Pages/CurrentMarketRates.aspx). With inflation at approximately 5.2%, long-term bonds are offering 3.5% real return. In addition, inflation appears to be fairly stable despite the rand weakness. Overall the fund has a neutral duration position to the ALBI with some underlying managers being slightly long and others, slightly short. There could be more clarity on SA's policy direction post the general elections and if that prevails, it may bring back much needed confidence in the country. We highlight that local and global politics and credit rating reviews remain a risk for interest rate sensitive assets. We believe that the Fund is well positioned to navigate through the events of the upcoming few months. It is well diversified, not only amongst our selected underlying managers but also across the yield curve, corporate credit and other yield enhancing strategies.

***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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