STANLIB Multi-Manager Defensive Balanced 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, 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	-0.03% (12 months ended November 2018)	
Highest rolling 12-month return	9.7% (12 months ended October 2017)	
	Fund*	Benchmark
Maximum drawdown	-4.5%	-3.5%
Portfolio volatility	4.2%	3.6%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund returned 0.7% for the year, while the average return for peer funds was 1.2%. A higher overall local equity allocation detracted from absolute and peer relative performance. In addition, the strategic inflation-linked bonds held by Prudential proved a detractor from performance.

STANLIB's Absolute Fund had a relatively good year, providing the capital protection we expect during a poor market environment. The manager remains defensively positioned with a low local equity and property allocation. They believe equity markets generally are still not cheap enough to confidently assert they are priced to return a fair equity risk premium and therefore, they favour SA nominal bonds and floating rate credit for the real yields on offer.

Coronation's domestic absolute mandate 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. 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. The recent issues in Nigeria, however, could have a sentiment overhang on the stock price for some time.

Given the present risks in the global economy, Investec maintain their large allocation to high-quality global equities generating high and sustainable returns on invested capital. Apart from their excellent cash generation and returns on capital, such companies have the ability to grow with a lower dependence on the economic cycle than the average business. They they have sought out locally-listed global businesses with little dependence on the local economy. Locally, the best opportunity according to Investec remains SA government bonds,.

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, while long duration bonds and inflation-linked bonds remain a key investment.

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.

Portfolio managers

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