STANLIB Multi-Manager Diversified Equity Fund of Funds
Commentary: 31 December 2018

STANLIB

Market overview

The global stock market declined 9.4% during 2018, in stark contrast to the positive 12.4% return in 2017. The rally in 2017 was driven by US tax cuts and spending increases, which boosted the US economy. However, there are expectations of slowing growth in the US and China, which has caused markets to decline. In addition, central banks have gone from buying to selling bonds. This reduced liquidity in markets. Overall this impacted emerging markets, which lost 17%, including SA with the JSE All Share declining 8.5%. Financials (-8.8%), industrials (-17.6%) and property (-25.0%) stocks all contributed to these losses. Resources, however, returned 15.7% and this proved supportive of value managers.

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	-26.3% (12 months ended October 2008)	
Highest rolling 12-month return	39.9% (12 months ended February 2010)	
	Fund*	Benchmark
Maximum drawdown	-32.2%	-36.2%
Portfolio volatility	12.1%	12.0%

Source: STANLIB Multi-Manager.

Portfolio review

With performance of almost 3% ahead of peers in 2018, the Fund is comfortably ahead of peers over the three, five and 10 year periods, with approximately 0.65%, 1.5% and 1.7% alpha respectively, relative to peers.

At the underlying fund level, the Allan Gray SA Equity Fund's annualised performance since inception continued to be ahead of benchmark. Being underweight Naspers and overweight Sasol were key contributors to performance.

The Nedgroup Investments Entrepreneur Fund was ahead of its mid/small equity peers for the quarter by 1.85%. While Naspers detracted for the year, the fund's midcap counters such as Santam and Truworths, were ahead of the market. Barloworld and Wilson Bayly detracted from performance.

The STANLIB Multi-Manager SA Equity Fund declined 9.2% for the year gross of fees. This is 1.8% ahead of the benchmark and in line with peers. Prudential, Visio and Truffle outperformed the benchmark while Coronation and Foord detracted. Truffle was the best performing underlying manager over the year, driven by being active in terms of sector rotation as well as being overweight Sasol and Old Mutual. The STANLIB Multi-Manager Global Equity Fund returned 4.25% for the year, 0.6% behind its benchmark. However, on a gross basis this underlying fund was ahead of its benchmark in 2018, with healthcare and technology exposure contributing.

The STANLIB Multi-Manager Property Fund lost 23.8% for the year and 5.7% for the quarter, but was pleasingly ahead of the benchmark by 3.6%. The key driver of outperformance for the quarter was the underweight exposure to UK PLCs. The fund also did well to dodge some of the sharp declines in the SA Inc. shares such as Rebosis, Accelerate and SA Corporate.

Portfolio positioning and outlook

The US equity market looks to be pricing in a recession in 2019, which could be positive for emerging markets including SA as global investors typically hunt for additional yield when the US economy slows. The SA market in particular is looking cheap, relative to its own history, with a 4% forward dividend yield and consensus earnings growth of about 15%. SA economic growth expectations remain on the low side with a 1.5% consensus forecast for 2019. This could dampen companies' earnings growth. The Fund has approximately 27% allocation to offshore and is slightly overweight Allan Gray and underweight the STANLIB Multi-Manager SA Equity Fund.

Portfolio managers

Jennifer Henry
Head of Portfolio Management: Retail Clients
BCom(Hons), CFA, FRM

Richo Venter
Portfolio Manager
BCom(Hons) (cum laude), CFA