

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.

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. Most of the bond market's inflation-beating returns came from the short end of the curve. Following years of uninterrupted growth, the SA listed property market suffered a spectacular de-rating in 2018, falling 25.0%. This return was worse than the 22% fall during the 2008 global financial crisis.

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	-8.2% (12 months ended November 2018)	
Highest rolling 12-month return	21.8% (12 months ended July 2014)	
	Fund ¹	Benchmark
Maximum drawdown	-8.8%	-18.3%
Portfolio volatility	7.4%	7.4%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund returned -6% net of fees for the year, which is disappointing relative to peers. During the year our tactical asset allocation was to be overweight equities and underweight cash. This detracted from performance.

The Fund is constructed using underlying STANLIB Multi-Manager building blocks to gain exposure to various asset classes. The *local bond and cash building blocks* are ahead of peers and the ALBI Index benchmark for the year. While the *local equity building block* is marginally behind peers for the year, it outperformed its index benchmark comfortably.

The *absolute income building block* returned a steady 9.2% after fees for the year, which is 1.7% ahead of peers. Over three years the building block returned 9.1% per annum, with all underlying managers performing well. While the *property building block* outperformed its benchmark, it underperformed peers due to a change in benchmark from SAPY to ALPI during the year. The ALPI has a higher allocation to UK property shares.

The *global equity building block* was ahead of its index benchmark in 2018, with healthcare and technology exposure contributing. The *global bond building block* is 2% behind its index benchmark due to a higher allocation to emerging markets (EM) and an underweight allocation to developed markets.

Portfolio positioning and outlook

There are many events this year such as local general elections and the finalising of Brexit, that are likely to result in further volatility and uncertainty. It is difficult to say whether the recent fall in equity and property markets is just the start of more to come or whether it offers an attractive buying opportunity. As growth in the US and China slows, global investors could look to EM including SA as they hunt for yield. We therefore retain a slight overweight position in equities. Overall the Fund is slightly underweight global assets and we are looking to sell out of local equities and up weight global exposure as the opportunity arises.

Portfolio managers



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