STANLIB Multi-Manager Shari'ah Balanced Fund of Funds
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	-2.2% (12 months ended November 2018)	
Highest rolling 12-month return	13.0% (12 months ended October 2017)	
	Fund	**Benchmark (ASISA SA MA High Equity Average)**
Maximum drawdown	-6.7%	-8.1%
Portfolio volatility	6.8%	7.6%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund returned -0.4% for the year, while the average return of the ASISA MA High Equity peer funds was -3.7%. A higher allocation to resources and solid performance in particular from Kagiso, assisted performance during a tough 2018 for financial markets. Relative to Shari'ah industry peers, the Fund continues to perform well. The Fund underperformed the composite benchmark, however, this benchmark has a large skew to resources. Our underlying managers tend to invest more broadly across different market sectors.

Kagiso maintain their underweight domestic equities position given their concerns around slowing global growth and weaker domestic growth. Their conservative asset allocation has contributed to their outperformance in 2018. Global holdings contributed to performance over the year due to currency depreciation and Kagiso reduced their exposure to global equities on the back of a weaker currency at the start of the fourth quarter. They have approximately 40% exposure to sukuks, which also contributed positively, given the drawdown in equities. The 2018 pull-back in equity markets unveiled exciting investment opportunities and Kagiso has increased their exposure to risk assets post the year end.

The Old Mutual Albaraka Balanced Fund's allocation to equities is just below 60% – with a high global allocation – with the residual invested in Shari'ah-compliant short-term cash type investments. Their top local stock picks as identified by their multi-factor process (with a bias towards low volatility shares) include Mondi Plc, Telkom and AVI Ltd. The global equity allocation is well diversified amongst counters such as Proctor & Gamble, PepsiCo and Johnson and Johnson. Performance was satisfactory during 2018.

Taking into account that the BCI Shari'ah Equity Fund is an equity-type fund, it performed relatively well. It remains exposed to specific restructuring opportunities and a few large caps currently plagued by poor sentiment, but where businesses are underpinned by solid fundamentals. Top stock picks include ADvTECH, Bidvest, Mondi Plc and Anglo American. Visio also holds a sizeable cash allocation, which will be deployed as opportunities arise.

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 cash provides reasonable yields. Looking forward, although there are risks, in our opinion the market is providing areas of great investment opportunity for patient investors.

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