STANLIB Multi-Manager Global Equity Fund
Commentary: 31 December 2018

STANLIB

Market overview

Global equities fell sharply during the quarter, losing 13.1%. The full-year decline of 11.2% was the worst since 2008. Emerging markets (EM) slipped by a little less in the fourth quarter (-7.9%) but still lost 16.6% in 2018. The withdrawal of global liquidity via the Fed, strong dollar and QT, has hampered global macro and profit expectations more than investors believed at the start of the year. According to Deutsche Bank, 2018 was the worst year for broad asset returns since 1901. Of the 70 asset classes monitored – including bonds, commodity and equities – 63 lost money in dollar terms. A similar story holds true in local currency with 61% of assets generating a negative return – the third worst calendar year on record. Not one equity market in the aforementioned sample had a positive dollar return. At a sector level Health Care gained 2% YTD, beating Energy, which lost 13% following the collapse of oil prices and Financials which lost15% as investors, hurried towards safety. After another disappointing year, Financials are the cheapest sector, trading on a forward PE of 9 times compared to the broader market of 16. Unsurprisingly, Momentum as a factor underperformed sharply in December given the Tech sell-off and was the worst performing style over the quarter. Value outperformed marginally during the downturn and remained the worst performing style for the calendar year.

Global asset class performance and risk statistics in USD

Asset class	Q4 2018	1 year	3 years p.a.	5 years p.a.
MSCI AC World Index	-13.3%	-10.1%	6.5%	4.2%
JP Morgan Global Bond Index	3.6%	15.6%	0.0%	7.7%
Barclays Global Multiverse Ind	1.0%	-1.4%	3.0%	1.2%
7-day US LIBID	2.1%	18.6%	-1.4%	7.2%
Rand/dollar	1.4%	16.0%	-2.4%	6.8%

Fund risk statistics since launch		
Lowest rolling 12-month return	-10.4% (12 months ended December 2018)	
Highest rolling 12-month return	22.8% (12 months ended January 2018)	
	Fund*	Benchmark
Maximum drawdown	-	-
Portfolio volatility	-	-

Source: STANLIB Multi-Manager *This Fund has a track record that is less than three years.

Portfolio facts

Bloomberg Code	Class A: STMMGEA:JY Class B: SMMGEB1:JY
Structure	Open-ended investment unit trust
Trustee/Custodian	Link Corporate Services (Jersey) Limited
Sub Custodian	The Bank of New York Mellon SA/NV London Branch
Auditors	PricewaterhouseCoopers Ireland
Manager	STANLIB Fund Managers Jersey Limited
Investment Manager	STANLIB Asset Management Pty Limited
Administrative Agent	BNY Mellon Fund Services (Ireland) Designated Activity Co
Year End	31 December
Custody Fee	0.035% 0-$50m; 0.025% $50m-$100m; 0.010% $100m-$500m; 0.005% $500m-above
Dealing Valuation	Daily
Redemption Payment	Within 7 business days
Publication of NAV	STANLIB Fund Managers Jersey Limited

Portfolio review

The STANLIB Offshore Unit Trusts Multi-Manager Global Equity Fund lost 12.9% over the final quarter of 2018 and 9.9% over the year. The Fund marginally outperformed the underlying fund over the quarter, gaining 10bps but underperformed by 44bps over the year – mostly attributable to fees. The cash drag impact has now fallen out of the 12 month returns.

The underlying fund enjoyed strong relative returns against peers and the benchmark in the final quarter and calendar year, with the Fund outperforming the index by 0.5% and 1.4% respectively. With most competitors struggling to beat their benchmarks, outperformance against peers was even greater at 3% over 12 months.

The pleasing results during the period under review were largely due to Sands. They outperformed by 2.2% in the final quarter, extending YTD relative returns to 12.8%. Their 8% overweight to IT, funded from a 9% underweight in Financials, was responsible for half their alpha. Security selection within banks also contributed. Outperformance in the final quarter was a surprise given that Tech stocks led declines. Sanders outperformed 0.5% in the fourth quarter, driven by strong performance of positions in the Healthcare sector. Deliberately de-risking the portfolio through the year proved beneficial in December, but this was partially offset by overweight's in Energy and Financials. Veritas also performed well over the final quarter and 2018 as a whole; outperforming by 0.5% and 4.6% respectively. Having one third of their portfolio in Healthcare, combined with the cautious/absolute return mindset of manager was helpful in a down market. Hosking was the worst performing manager within the Fund. Their significant overweight to Financials was the largest detractor on an individual sector basis and the underweight to defensive areas like Utilities and Staples acted as a drag, resulting in them lagging by 1.2% in the final three months. Over 12 months their small cap bias and double overweight to EMs contributed to their 5.7% underperformance. Arrowstreet was marginally ahead in the final quarter, resulting in them outperforming by almost 3% for the year. Contributing to their and Hosking's mandate, was a big underweight in Apple, which lost 30% in the final three months. We continue to be impressed how their alpha is generated with low tracking error.

Portfolio positioning and outlook

We believe the outlook for 2019 is positive fas wage gains and lower energy prices should sustain consumer spending. However the environment is now more of a synchronised slowdown as central banks remove monetary policy accommodation.

From a contrarian perspective, sentiment could provide a buying opportunity. Valuations have come back to more reasonable levels following the market decline. With the S&P500 as an example, the forward earnings yield of 6.8% is a substantial premium to the 2.6% yield on US 10-year treasuries. The main caveat is that this earnings yield assumes earnings growth of 9% in 2019 after the 26% growth in 2018, of which around half was due to Trump's tax cuts. The risk to equity markets is that the earnings growth does not materialise. This is possible should the US enter a recession in the next year or two. Tighter monetary conditions and trade concerns could restrain multiple expansion prospects, but we believe negative earnings revisions pose the biggest risk going forward.

Portfolio managers

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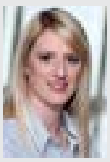

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