

Market overview

The global trade war between the United States and China continued to dominate headlines during the quarter. The US intensified tariffs on Chinese goods and China retaliated. Despite the tussle between the two economic giants, the US economy remains strong. This is visible in the rally of the US dollar and their robust labour market. These positive developments gave the Fed room to hike interest rates in September from 2.0% to 2.3%.

Unfortunately, the higher developed market (DM) interest rates and stronger US dollar do not bode well for emerging market (EM) assets such as South Africa, and most EM countries saw their currencies weaken. SA fared worse than its EM peers as signs of poor economic growth surfaced during the quarter, resulting in SA moving into a technical recession.

SA equities lost 1.6% over the quarter, driven largely by poor returns from industrials. SA property lost 1.0%, while SA bonds returned 0.8%. The weaker rand supported offshore returns, leading to a 7.4% total return from global equities.

Asset class performance and risk statistics

Asset class	Q3 2018	1 year	3 years p.a.	5 years p.a.
FTSE/JSE ALSI	-2.2%	3.4%	6.7%	8.0%
Financials	2.8%	8.1%	4.6%	10.9%
Resources	5.2%	27.1%	15.7%	1.0%
Industrials	-7.8%	-7.7%	2.5%	7.7%
FTSE/JSE Capped SWIX	-1.7%	0.4%	4.5%	7.4%
Bonds ALBI	0.8%	7.1%	7.8%	7.2%
Cash STeFI Composite	1.8%	7.3%	7.3%	6.8%
All Property Index (ALPI)	-1.5%	-14.0%	-3.5%	6.1%

Risk statistics since launch		
Lowest rolling 12-month return	-21.8% (12 months ended February 2009)	
Highest rolling 12-month return	51.5% (12 months ended April 2006)	
	Fund ¹	Benchmark
Maximum drawdown	-27.0%	-18.3%
Portfolio volatility	9.5%	7.3%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund returned 1.6% for the quarter, 0.5% ahead of the average of the ASISA MA High Equity peers. The Fund's overweight position to resources and rand hedge shares, coupled with a fairly high allocation to global equities, continued to support good peer relative performance in the short and medium term.

Allan Gray's performance has been exceptional. They continue to prefer the big rand hedge shares and equity allocation remains high at 71%. The bond allocation of around 15% is relatively defensively positioned with a very low allocation to property.

Coronation's domestic balanced mandate has a rand hedge bias, with a moderately high allocation to equities and property. One of their largest positions, MTN, detracted from performance.

Foord is currently the Fund's most bearish underlying domestic balanced manager with an equity allocation of around 55%. Foord has a large exposure to rand hedges, given their concerns around the SA economy.

Investec maintain focus on companies receiving earnings upgrades due to improvements in their operating environments. Among companies that are domestically focused, the likes of Absa, FirstRand, Sanlam and Standard Bank stand out. Globally-oriented companies that remain attractive include Anglo American, BHP Billiton, Mondi and Naspers. Investec is neutral on local nominal bonds.

Prudential prefers resources through counters such as Sasol and Anglo American, but also sees value in financials such as Standard Bank and Old Mutual Ltd. Long duration bonds remain a key investment for Prudential.

Portfolio positioning and outlook

The largest themes in the Fund are overweight resources and rand hedge shares, which has benefited performance over the past year. The global positioning tactically remains relatively high between 25% and 30%.

In addition to further rate hikes in the US, we expect trade wars to continue dominating headlines and this could weigh heavily on EM sentiment. Local asset prices have retreated to levels that may provide a good entry points for investors. However, the global and SA environment remains highly uncertain and we continue to emphasize the importance of having a long-term focus when making investment decisions.

Duration – a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

Portfolio managers



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



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