

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%, driven largely by short-dated instruments, which gained 1.9%. SA cash was up 1.7%. The weaker rand provided a boost to offshore returns leading to a 4.3% 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	-0.5% (12 months ended October 2008)
Highest rolling 12-month return	20.0% (12 months ended June 2014)

	Fund	Benchmark
Maximum drawdown	-6.9%	-18.3%
Portfolio volatility	6.7%	7.3%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund delivered a reasonable return of 1.8% net of fees, for the quarter. This was pleasing considering the performance of risky assets in a largely declining investment environment. Over the longer term, the Fund remains ahead of its peer group, outperforming by 0.26% over a three-year period. The Fund is constructed using underlying STANLIB Multi-Manager building blocks to gain exposure to various asset classes. Performance of the *local bond building block* was in line with both peers and the index benchmark for the quarter, while maintaining its outperformance of peers on a 12-month basis. The *local cash building block* also performed well, outperforming its benchmark by 0.3% due to its portfolio construction that includes income-oriented managers. The *absolute income building block* was marginally behind peers for the quarter, but remains comfortably ahead for the 12-month and 36-month periods. The *property building block* outperformed its benchmark for the quarter and remains a solid long-term performer despite the recent turmoil in the property sector. The *local equity building block* was ahead of its benchmark for the quarter, showing solid recovery following the Steinhoff debacle.

Long-term performance of the Fund over the 5-year period ending September remains pleasing and ahead of its peer group benchmark.

Portfolio positioning and outlook

Despite trimming some of the global equity exposure, our outlook remains positive and we maintain an overweight exposure to global equities. While a lot of uncertainty remains locally, we see the potential for positive changes that may come through in the coming few months. We believe that a lot of the uncertainty has already priced in, thus providing a good entry point for investors to benefit from positive changes. On this basis, we are slightly overweight local equities and property while maintaining a relatively sizeable overweight to income assets for cushion in the short term.

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. 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.

Portfolio managers



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