# STANLIB Multi-Manager Shari'ah Balanced Fund of Funds
## Commentary: 30 September 2018

STANLIB

### 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 | 1.4% (12 months ended May 2017) | |
| Highest rolling 12-month return | 12.7% (12 months ended October 2017) | |
| | **Fund** | **Benchmark (ASISA SA MA High Equity Average)** |
| Maximum drawdown | -5.0% | -8.1% |
| Portfolio volatility | 6.8% | 7.6% |

Source: STANLIB Multi-Manager.

### Portfolio review

The Fund returned 2.3% for the quarter, well ahead of the 1.2% average of ASISA MA High Equity peers. Since inception three and a half years ago, the Fund has returned 5.6% after fees, relative to general industry peers that have returned 4.2%. Relative to Shariah industry peers, the Fund continues to perform well. During this period of difficult local economic conditions, performance has been supported by the overweight position to resources and the high global equity exposure.

Last quarter we discussed our investment into the BCI Shariah Equity Fund, managed by Visio Capital. This concentrated equity portfolio has a balanced exposure to rand hedge shares such as Mondi Plc and Sasol, but also provides exposure to locally based shares such as AdvTech and Cashbuild. Visio believes many of these local shares are heavily undervalued given poor sentiment around the current economic conditions in SA and provide great bargain buys.

Kagiso's Islamic Balanced Fund remains defensively positioned with an underweight allocation to domestic equities, in particular cyclical stocks. Their sukuk allocation is the largest single asset class exposure with a current yield of around 8%. They reduced their foreign exposure to less than 25% following significant currency depreciation. Kagiso remains convinced that their exposure to unique mid-cap stocks at very attractive valuations will deliver substantial outperformance over time.

The allocation of the Old Mutual Albaraka Balanced Fund to equities is approximately 60%, with the residual invested in Shari'ah-compliant short-term cash investments. Around 40% is invested in domestic equities and around 20% in offshore equities. Global exposure is around 25%, allowing the fund to achieve greater diversification and consequently a reduction in volatility, a primary objective of the fund.

### 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. Global positioning remains critical for diversification, while the underlying managers are well positioned in good quality local mid and small cap shares.

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.

### Portfolio/Product managers

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