STANLIB Multi-Manager Defensive Balanced Fund
Commentary: 31 March 2019

STANLIB

Market overview

Global equity markets recovered strongly from the significant sell-off in the fourth quarter of 2018, gaining 12.6% in rand terms as trade tensions between the US and China eased following months of negotiations. The US Federal Reserve provided further impetus to the recovery with their more dovish tone. European equities bucked the trend, retreating 0.8% for the quarter on the back of a broad economic slowdown in the region. The European Central Bank (ECB) retaliated and pledged more support for the economy, committing to keep rates unchanged this year and pledging additional stimulus when needed. SA equities benefited from the global recovery and the JSE All Share Index returned 8.0% for the quarter. The Capped SWIX gained 3.9%. Resource shares returned an impressive 18.0% while listed property lagged equity. Local bonds rose 3.8%.

Asset class performance and risk statistics

Asset class	Q1 2019	1 year	3 years p.a.	5 years p.a.
FTSE/JSE ALSI	8.0%	5.1%	5.7%	6.5%
Financials	*-0.5%*	*-5.8%*	*2.8%*	*7.5%*
Resources	*17.9%*	*41.8%*	*22.2%*	*1.0%*
Industrials	*7.4%*	*-3.7%*	*0.6%*	*6.3%*
FTSE/JSE Capped SWIX	3.9%	-2.6%	2.1%	5.1%
Bonds ALBI	3.8%	3.5%	10.1%	8.3%
Cash STeFI Composite	1.8%	7.2%	7.4%	7.0%
All Property Index (ALPI)	1.3%	-7.0%	-5.9%	4.1%

Risk statistics since launch		
Lowest rolling 12-month return	-0.03% (12 months ended November 2018)	
Highest rolling 12-month return	9.7% (12 months ended October 2017)	
	Fund*	Benchmark
Maximum drawdown	-4.5%	-3.5%
Portfolio volatility	4.2%	3.6%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund returned 4.5% for the quarter, 0.4% ahead of the average peer fund. The overweight exposure to resources and high global allocation assisted performance relative to peers. Sizeable allocations in Naspers and British American Tobacco (BTI) also contributed and it was pleasing to see BTI recovering after a tough 2018.

Coronation had an exceptional quarter, with many of the stock picks that took strain during 2018 recovering. Big contributors include Naspers, BTI, Anglo American, Northam Platinum and Impala Platinum. Coronation's relatively high allocation to SA equities further assisted performance. They maintain their position in MTN and large property exposure.

STANLIB's Absolute team sees a future environment that is more conducive to risk-taking – largely acceptable valuations, easier monetary policy, subdued inflation in the US, stabilising PMI's and an improving earnings outlook. Locally, they continue to manage event risks around the upcoming elections and sovereign credit ratings. Their preference is to take risk on globally-exposed assets and to be more cautious domestically.

Investec did particularly well for the quarter, driven by global equities and local bonds. Investec's preferred asset class remains high quality global companies generating high and sustainable returns on invested capital. Locally, they believe the best opportunity remains government bonds. In their opinion, these instruments offer far higher risk-adjusted return potential than the retail, banking and property sectors.

Prudential had a satisfactory quarter in their domestic inflation plus mandate, but longer-term performance remains negatively affected by large positions in property and inflation-linked bonds. They prefer resource shares with exposure to global growth and find value in financials such as Standard Bank and Old Mutual.

The Fund's global allocation performed well in rands, fuelled by global optimism. Please refer to our global equity and bond factsheets for more detailed information.

Portfolio positioning and outlook

SA still faces many headwinds and we are of the opinion that solid growth is not likely if severe load-shedding persists. A sustainable solution to the power crisis is critical. Our managers are cautiously optimistic around valuations for many of the SA centric companies in the Fund, while many of the global shares held provide excellent diversification benefits. There are some concerns around the negative global earnings revisions that we currently monitor, but optimism is expected to continue into the second quarter of 2019. Local bonds and income-type assets are expected to deliver promising real returns and are key ingredients in the Fund's composition. On balance, we believe the Fund is well positioned to deliver on its long-term objectives.

Portfolio managers

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Published on 26 April 2019