STANLIB Multi-Manager Shari'ah Balanced Fund of Funds

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	-2.2% (12 months ended November 2018)	
Highest rolling 12-month return	13.0% (12 months ended October 2017)	
	Fund	**Benchmark (ASISA SA MA High Equity Average)**
Maximum drawdown	-6.7%	-8.1%
Portfolio volatility	6.8%	8.0%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund returned a promising 4.7% for the quarter. Both Kagiso and Old Mutual delivered good absolute returns, given the rally we've see in equities. Relative to Shariah industry peers, the Fund continues to perform well in the medium to long term. The Fund underperformed its composite benchmark in the quarter, but this benchmark has a very large skew to resource shares. Our managers tend to invest more broadly across different market sectors, which we believe is a better long-term construct.

The Kagiso Islamic Balanced Fund returned 4.8% for the quarter. The fund maintained its total equity exposure of around 60%, with 40% of the fund's assets allocated to sukuks. A recovery in equity markets coupled with the fund's resource holdings – in particular platinum exposure to Northam and Anglo American Platinum – contributed positively. Exposure to Tongaat Hulett was the single biggest detractor. Kagiso's global exposure contributed positively to performance.

The Old Mutual Albaraka Balanced Fund performed in line with expectations. Total allocation to equities averages just less than 60%, with the residual invested in Shari'ah-compliant short term cash-type investments. The fund's top local stock picks as identified by their low volatility multi-factor process includes Telkom, Anglo American Platinum and BHP Billiton. The fund's 20% global equity allocation is very well diversified among approximately 80 global counters. These include Proctor & Gamble, PepsiCo, Chevron and Microsoft.

The BCI Shariah Equity Fund performed in line with expectations. Top stock picks included Anglo American, Microsoft, ADvTECH and Mondi Plc. Their large allocation to the educational group ADvTECH detracted from performance as ongoing concerns surrounding educational affordability weighed on margins and performance. While ADvTECH's results were in line with expectations, the outlook for emigration – and semi-gration to areas such as Cape Town where ADvTECH has limited exposure – coupled with an inability to push sufficient fee increases have tempered short-term performance.

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/Product managers

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