STANLIB Multi-Manager Global Bond Fund
Commentary: 31 March 2020

STANLIB

Market overview

The COVID-19 pandemic has spread across most countries in the world and at the time of writing, there have been more than two million confirmed infections and sadly, many people have lost their lives. In an attempt to contain the virus and flatten the curve of infection we have seen dramatic measures taken by governments around the world.

Global markets responded to this unprecedented switching off of both supply and demand, with stocks falling faster than they did during the financial crisis, the crash of 1987 or the Great Depression. Considering the carnage we have seen over the past few weeks, it is difficult to believe that the US stock market was at an all-time high as recently as 19 February when COVID-19 was largely confined to China. Four weeks later, the COVID-19 outbreak has become a fully-fledged pandemic and large parts of Europe and the US have come to a near standstill, wreaking havoc on the world economy. Many investors switched into perceived safe-haven assets, such as US government bonds.

Risk assets collapsed across the board – equities sold off over 20%, corporate credit spreads blew out and bond yields tumbled. Central banks and governments around the world brought out the bazookas, introducing aggressive monetary and fiscal stimulus measures aimed at improving liquidity conditions and supporting their respective economies. Monetary policy measures included slashing benchmark interest rates, increasing asset purchases, and launching lending facilities similar to those introduced during the 2008 Global Financial Crisis. Fiscal support from governments included corporate tax relief, loans to small business, and cash distributions to citizens. Notably, the US Federal Reserve cut interest rates to near zero. As a result, the US 10-year bond yield fell from 1.56% on 19 February to 0.54% on 9 March, its lowest yield ever recorded.

Emerging market (EM) currencies came under pressure. The rand depreciated almost 28% from the start of 2020, while the Brazilian Real and Mexican Peso lost more than 20% of their value against the US dollar. EM bonds also came under pressure in the flight to safety and the yield on 10-year Mbonos spiked from 6.5% to 9.5% in a month. As the oil price war between Russia and Saudi Arabia escalated, Brent Crude has collapsed 64% this year, resulting in the Norwegian krone losing more than 16% against the dollar. The demand shock of COVID-19 hurt commodity-linked currencies such as the Australian dollar.

To put the above numbers into context, the concerted efforts by central banks provided much-needed hope to asset prices. Markets across the globe rallied in the last week of the quarter, signalling that investors had kept some dry powder, standing ready to deploy monies back to growth assets as and when they see opportunities.

Global asset class performance and risk statistics in USD

Asset class	Q1 2020	1 year	3 years p.a.	5 years p.a.
MSCI AC World Index	-1.11%	3.47%	3.37%	2.67%
JP Morgan Global Bond Index	3.10%	7.35%	4.57%	2.70%
Barclays Global Multiverse Ind	-22.44%	-12.73%	0.76%	2.45%
7-day US LIBID	0.31%	1.82%	1.66%	1.10%
Rand/dollar	0.28%	0.23%	0.10%	0.08%

Fund risk statistics since launch		
Lowest rolling 12-month return	-9.9% (12 months ended February 2009)	
Highest rolling 12-month return	26.5% (12 months ended March 2003)	
	Fund*	Benchmark
Maximum drawdown	-	-
Portfolio volatility	-	-

Source: STANLIB Multi-Manager *This Fund has a track record that is less than three years.

Portfolio facts

Bloomberg Code	Class A: STMMGBC:JY Class B: SMMGBB1:JY
Structure	Open-ended investment unit trust
Trustee/Custodian	Link Corporate Services (Jersey) Limited
Sub Custodian	The Bank of New York Mellon SA/NV London Branch
Auditors	PricewaterhouseCoopers Ireland
Manager	STANLIB Fund Managers Jersey Limited
Investment Manager	STANLIB Asset Management Pty Limited
Administrative Agent	BNY Mellon Fund Services (Ireland) Designated Activity Co
Year End	31 December
Custody Fee	0.035% 0-$50m; 0.025% $50m-$100m; 0.010% $100m-$500m; 0.005% $500m-above
Dealing Valuation	Daily
Redemption Payment	Within 7 business days
Publication of NAV	STANLIB Fund Managers Jersey Limited

Portfolio review

The STANLIB Multi-Manager Global Bond Fund underperformed the benchmark over the quarter, losing more than 7%, net of fees in dollar terms. Being an active portfolio, performance can, and at times will, differ substantially from the benchmark. The quarter has resulted in the 12-month performance also lagging the benchmark.

At the start of the year the underlying managers were all constructive on global growth and as such, were exposed to corporate and high yield bonds. The expected improving macro outlook had resulted underweight duration positions – specifically G7 – due to valuation concerns. There was a consensus view that the US dollar was expensive and as such, the fund was underweight. Lastly, EMs were the asset class of choice, given the positive real yields and undervalued currencies. This positioning drove the fund's outperformance over the 12 months to end February. However, in the recent risk-off environment, these assets sold-off sharply.

Brandywine fared the worst of the underlying managers. They have been constructive on positive yields, with a large portion of their portfolio in EMs. Bond and currency exposures in Mexico were particularly detractive, as were exposures Columbia and Brazil. Their underweight to the US also detracted extensively. They believed the British pound was undervalued post Brexit and as such, had a sizeable overweight position. A rush to dollar safety saw the pound fall.

PIMCO and Amundi also underperformed the benchmark. The indiscriminate selling of spread product resulted in spreads widening, which negatively impacted their performance. Amundi favoured corporate bonds and PIMCO, mortgage-backed securities. Fortunately, the focus was on quality so Amundi were underweight subordinated financial debt and PIMCO had limited exposure to non-agency mortgages. Although this reduced the extent of the sell-off, these positions still significantly underperformed the fund benchmark.

Portfolio positioning and outlook

There is no question that businesses will face serious challenges as COVID-19 impacts supply, demand and consumer confidence. The virus may even result in structural changes to economies as behavioural changes become entrenched. The brutal drawdown in March in global financial markets may indicate that the world economy is on a path to recession. Valuations of safe assets have spiked sharply and as a result, mechanical models of recession risk have ticked higher.

As the number of confirmed COVID-19 virus infections across the globe continues to climb and stock market turmoil persists, it is difficult to look beyond the immediate crisis. We are in the midst of an economic event that has no precedent. It is, however, important to maintain perspective. If the pilot mentions upcoming turbulence mid-flight, one does not jump off the plane. We believe that markets will rebound but volatility will remain. Therefore, remaining focused on long-term objectives is important during this difficult time.

We remain confident in each of our underlying managers and believe we have a good mix of investment professionals looking after the fund. The current environment may not be normal but our experienced partners have successfully managed money through similar sell-offs in the past. While no two crises are the same, we believe experience will enable our managers to remain focused on finding the right opportunities through all the noise. History suggests that after a major crisis such as COVID-19, the global economy will likely be different in several ways. Crises, including pandemics, can spur the adoption of new technologies and business models. During this transition there will be opportunities. So, to quote the famous Winston Churchill adage, never let a good crisis go to waste.

TRUSTEE/CUSTODIAN: Apex Financial Services (Corporate) Limited, 12 Castle Street, St. Helier, Jersey, Channel Islands
STANLIB Collective Investments (RF) Pty Limited Reg. No. 1969/003468/07 17 Melrose Boulevard, Melrose Arch, 2196
PO Box 203, Melrose Arch, 2076 **T:** 0860 123 003 **W:** stanlib.com and/or stanlibmultimanager.com