STANLIB Multi-Manager Global Equity 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.

The sell-off in equity markets in March appears to have been prompted by data showing how severely China's economy was impacted by the COVID-19 in the first two months of the year, coupled by the virus taking a hold on US and Italy. The clash between Saudi Arabia and Russia over oil production cuts added fuel to the fire, causing a "perfect storm" in oil prices and worsening the overall situation. Brent Crude prices hovered around $25 a barrel at quarter end, close to their lowest level in twenty years. Monday 16 March was the worst day for equities since the 1987 Black Monday crash – the Dow Jones Industrial fell 12.9%, the Nasdaq was down 12.3% and the S&P lost 11.9%. For the quarter, the Dow Jones and S&P 500 lost 23.2% and 20% respectively, posting their worst first quarters in history. Globally, the MSCI World Index dropped 21.4% and the MSCI Emerging Market Index lost 24% in dollar terms for the first quarter. Emerging market currencies came under pressure, with the rand depreciating almost 28% since the start of 2020, while the Brazilian Real and Mexican Peso lost more than 20% of their value against the US dollar.

Outside of equities, risk assets such as commodities collapsed, 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. The concerted efforts by central banks provided much-needed hope to asset prices and equity markets across the globe rallied more than 10% in the last week of the quarter, signalling that investors had kept some dry powder and stand ready to deploy monies back to growth assets as and when they see opportunities.

Energy has been a major casualty of the market decline given the fall in oil prices. Financials have also been hard hit as interest rates globally have declined, leading to compression in net interest margins. Furthermore, the rapid and significant shock to economic activity is likely to put significant pressure on the earnings of their customers. Understandably, healthcare was the best performing sector over the quarter, although still posting negative dollar returns. Technology far outperformed the market, with stocks benefitting from trends related to work-from-home, in-home entertainment, e-commence, and gaming that have been spurred by COVID-19 lockdowns. Value stocks and other cyclical stocks suffered during the quarter as well, particularly those in industries heavily impacted by shutdowns.

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	-52.0% (12 months ended February 2009)	
Highest rolling 12-month return	57.3% (12 months ended March 2010)	
	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: STMMGEA:JY Class B: SMMGEB1: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 Equity Fund marginally lagged the benchmark, falling 22.7% after fees for the quarter. One-year returns are now also negative, down 13.1%.An underweight to consumer staples and utilities detracted from performance, while an overweight to healthcare contributed. Underweights to large cap stocks, in favour of mid and small cap stock also detracted. Stock selection was negative, where managers were on average constructive on growth going into the crisis. These cyclical companies sold off as markets de-risked.

Sands and Veritas performed well, both outperforming strongly for the quarter. Veritas benefited from a 10% cash holding. Their underweight to financials together with stock selection in the sector also contributed strongly. Lastly, an overweight to healthcare benefited given the sector's strong performance. Sands continued with their strong track-record in stock selection, which contributed half their alpha. Stock selection in financials and real estate was particularly additive. Lastly, sector allocation also contributed, driven by being overweight technology and underweight energy. Arrowstreet marginally outperformed the benchmark for the quarter. Allocation to technology and healthcare contributed strongly, as did currency allocation. This alpha was offset by stock selection in developed markets predominantly.

Value continues to struggle relative growth and as a result, performance from AB and Hosking detracted. Hosking was the worst performing underlying manager. Underperformance resulted from overweight exposure to financials and EM. In addition, exposure to airlines was specifically detractive given the global lockdown. Pleasingly, while value detracted, the AB mandate outperformed its value-weighted benchmark by more than 1% for the quarter, driven by stock selection in their optimisation. While Sanders is a value-styled manager, their pragmatic approach and focus on price to cash flow metric stood them in good stead. The portfolio performed broadly in-line with the benchmark during the quarter. Financials and energy positions were the primary detractors, while positions in technology and healthcare were the largest positive contributors to relative performance during the period.

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.

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. We expect nothing less from our managers while navigating these uncharted waters.

TRUSTEE/CUSTODIAN: Apex Financial Services (Corporate) Limited, 12 Castle Street, St. Helier, Jersey, Channel Islands
STANLIB Collective Investments (RF) Pty Limited Reg. No. 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
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