The Balanced Solution – Q1 2020

Managed via the STANLIB Multi-Manager Balanced Fund CIS

Complementary note to quarterly factsheet

Investment managers
The Solution is constructed as a 'hybrid' between domestic balanced and offshore specialist mandates

Domestic managers	Manager inception date	Manager AUM	Ownership structure	Investment approach and role within solution
CORONATION FUND MANAGERS	1993	R571bn	Listed on the JSE	Bottom-up valuation manager. Can be aggressive in views
FOORD	1982	R130bn	Privately owned	Quality focus with a long-term value overlay Thematic approach to investing – identify long-term trends and themes
Ninety One	1991	R2257bn	Parent company listed on the JSE and LSE	Invest in those companies exhibiting improving earnings revisions profiles Earnings revision methodology
PRUDENTIAL	1994	R250bn	Part of M&G Investments, wholly owned by the UK listed Prudential PLC	Relative value approach – uses industry peers as starting position and applies their valuation based views
ALLANGRAY LONG TERM INVESTMENT MANAGEMENT	1973	R545bn	Privately owned	Quality/Value manager – selects shares with long-term quality earnings at a undervalued price

Offshore Multi-Manager	Underlying managers (and investment approach) in the respective specialist building blocks		
	Equities	**Bonds**	**Cash**
STANLIB MULTI MANAGER Manager / fund research conducted in partnership with BNP Paribas BNP PARIBAS INVESTMENT PARTNERS	Arrowstreet – quantitative manager Hosking Partners – aggressive manager Sands Capital – growth manager Sanders Capital – new age pragmatic value Veritas – quality defensive manager	BlackRock – alternative beta Brandywine – aggressive manager PIMCO - strong credit selection Amundi – tactical asset allocation	Fidelity

How is the Solution positioned?

Positioned for long-term capital growth with a total equity exposure (including commodities) typically between 65% to 70%. Offshore exposure at the 30% limit (max. limit is 30%, excluding rest of Africa) - a high global allocation predominantly positioned towards equities

Equity	Retain a high equity allocation post the Q1 drawdown, rand hedge bias with an overweight position to consumer goods and technology
Bonds	Increasing fixed interest duration over last few months but still slightly underweight ALBI duration, SA bonds offering attractive yields
Property	Relatively low exposure as managers remain cautious – top exposure include Capital & Counties, Fortress A Shares and Stor-Age
Cash	Relatively low cash position as the managers aim to capitalise on market correction.
Offshore	Overweight equities relative to peers and underweight bonds and cash. In our view, global equities provide opportunities to diversify into a broader equity universe. Global bond yields are very low or even negative, which we do not find attractive.

Manager selection
No changes during Q1

Manager allocation
No material weighting changes

Manager activity
Investec Asset Management was unbundled from the Invested Group and listed as Ninety One

Manager selection
No manager changes

Manager allocation
No material weighting changes

Manager activity
No material changes

Positioning
Overweight domestic equities, under-weight property

STANLIB MULTI-MANAGER

Meeting the Solution's long-term inflation plus objective - expected to deliver CPI+6% p.a. over periods of at least seven years

The Solution is expected to deliver a real return of 6% p.a. i.e. CPI+6% p.a. over the long term (net of fees) over periods of at least seven years.

Performance analysis: Solution

Returns NET of fees	3 months	1 year	3 years	7 years	10 years
Solution*	-15.2%	-12.0%	-0.6%	4.8%	7.3%
South African MA High Equity – Average	-13.5%	-10.4%	-0.6%	4.7%	6.8%
CPI+6% (1 month lag)				11.1%	11.1%

The first quarter of this year was a difficult period for the Solution. Ninety One's balanced strategy, Coronation, Prudential and Allan Gray all had relatively high allocations to local listed equities through the market drawdown, resulting in disappointing returns. Foord was more conservatively positioned, which assisted performance. The rand hedge bias across the managers provided some protection, with exposure to shares like Naspers, Prosus, British American Tobacco (BTI) and AB Inbev contributing.

Regardless of the underperformance in the quarter, we remain well positioned going into Q2. Although our managers on average were positioned too aggressively during the drawdown, they predominantly held their risk positions, switching into higher quality shares where opportunities presented themselves. In the first half of April we saw a good recovery, with the Solution performing satisfactory relative to peers.

Asset allocation: Overweight domestic and global equities

Manager selection: Good defensive positioning from Foord

Performance analysis: underlying managers

Contributed or detracted from performance

Coronation — Not a great quarter for Coronation
High equity allocation and some property exposure through shares like Fortress A Shares and Hammerson detracted from performance

Allan Gray — Disappointing performance from Allan Gray - Sasol and Glencore holdings detracted from performance, while their fixed interest holdings also underperformed
Still the best domestic balanced fund performer in the Solution over 5 years

Foord — Performed relatively well in the quarter, playing the more defensive role we expect from them
Positioned with an equity allocation of around 50% with a high exposure to rand hedge shares such as Naspers, BTI and Richemont, coupled with gold exposure.

Prudential — Big underperformance due to high equity allocation. Sasol and financial shares overweight (SBK, ABSA) further detracted.

Ninety One — Tough quarter for Ninety One. While not as high in equity as some of the other managers in the Solution, exposure to ABSA, FSR, Sasol and Impala detracted.

STANLIB Multi-Manager Global — The global funds provided excellent protection during the quarter due to rand depreciation. As the local market lost value, we allowed our foreign allocation to drift to 30%. On the equity side Sands and Veritas performed well - both outperforming the benchmark by over 5% for the quarter. Value continues to struggle versus growth, and as a result AB and Hosking detracted from performance.

How are the underlying managers currently positioned?

Allan Gray

- High equity allocation, seeing value in undervalued SA equities
- Buying equity through the pullback
- Maintains high exposure to rand hedge shares such as Naspers, BTI, Sasol, Glencore
- Thinks Sasol is highly undervalued
- Overweight consumer goods and healthcare
- Overweight consumer services (Shoprite, Spar, BidCorp)
- Overweight financials (Standard Bank, Old Mutual)
- Low property allocation

Coronation

- Fair equity and property allocations - more cautious on domestic property
- Overweight consumer goods (AB Inbev, British American Tobacco, Distell)
- Continue to hold high weightings in JSE-listed global stocks (rand hedges)
- Bought AB Inbev during the quarter, of the opinion it is an excellent buy at very cheap levels
- Sold Pick & Pay and exited Richemont during the quarter
- Finding longer duration bonds more attractive

Ninety One

- Continue holding a fair allocation to rand hedge shares, platinum exposure and more defensive counters like BTI
- Also overweight consumer goods (BTI, Richemont)
- Overweight technology
- Total equity allocation of their domestic balanced mandate sits around 60%, with an expectation that the SA equity market could deliver descent returns over the next year for patient investors
- They continue to hold a sizeable allocation to local bonds

Foord

- Remains defensively positioned with just over 50% allocated to local equities
- Concerns around the SA economic environment
- Equity positioning favours globally exposed businesses (rand hedges)
- Top holdings include AB Inbev, BHP and New Gold ETF (a defensive position)
- Retain Naspers and Aspen positions
- Heavily underweight SA financials in line with their thematic views of a deteriorating SA
- Overweight healthcare

Prudential

- Overweight SA equities, viewed as once in a lifetime buying opportunity
- Prefer shares with exposure to global growth (Anglo American, Exxaro, Sasol and Naspers, BTI)
- Underweight retail & property stocks due to the pressure under which local consumers find themselves
- Long duration bonds remain a key investment

SMM Offshore

Equity Fund:

- Big contributor to performance over the last few years and remains a key component of our overall portfolio construction
- Opportunity to trim global holdings on weak currency, but will monitor through Q2
- Fund is currently overweight emerging markets, Health Care and Industrials, underweights consumer discretionary and utilities

Bond Fund:

- Exposure drifted higher during the quarter
- Depending on market conditions and favorable opportunities, we could opportunistically start trimming our position in Q2
- Currently overweight emerging markets and credit

Total Expense Ratio (TER): 3-Year

Total expense ratio (TER)	
Balanced Solution	1.28%
ASISA Category average / high equity	1.62%

Investment fees also include:

- Operational due diligence on underlying managers
- Day-to-day monitoring of the underlying managers
- Extra layer of governance and oversight

Source: Morningstar, Multi-Manager