The Defensive Balanced Solution – Q1 2020

Managed via the STANLIB Multi-Manager Defensive Balanced Fund CIS

Complementary note to quarterly factsheet

Investment managers

Solution constructed as a 'hybrid' - domestic only and global balanced mandates together with 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 display high conviction views Domestic only mandate
Ninety One	1991	R2257bn	Listed on JSE and LSE	Low equity mandate with global allowed up to 30% Strong quality focus Invest in companies with high and consistent return on invested capital Prefer companies with strong moats or competitive advantage
PRUDENTIAL	1994	R250bn	Part of the M&G Investments, wholly owned by the UK listed Prudential PLC	Domestic absolute return mandate, based on a relative value approach This mandate contains a high strategic allocation to inflation linked bonds Targets CPI + 5%
STANLIB	2002	R600bn	Subsidiary of Liberty Group Ltd	Absolute return mandate with CPI+4% objective Global allocation allowed up to 30% Flexible in views/effective implementation of shorter term views
STANLIB MULTI-MANAGER	1999	R110bn	Subsidiary of Liberty Group Ltd	Enhanced yield and/or income allocation with a strategic exposure of 5% of the overall fund

Manager selection
No changes during Q1

Manager allocation
No weighting changes

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

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	AllianceBernstein (AB) – Value biased alternative beta Arrowstreet – Quantitative manager Hosking Partners – Aggressive/ thematic Sands Capital – Growth manager Sanders Capital – New age pragmatic value Veritas – Quality biased defensive manager	BlackRock – alternative beta Brandywine – aggressive PIMCO – strong credit selection Amundi – tactical asset allocation	Fidelity

Manager selection
No manager changes

Manager allocation
No material weighting changes

Manager activity
No changes during Q1

How is the Solution positioned?

The Solution aims to provide modest long-term growth of capital and income with volatility at risk levels consistent with low equity portfolios and is typically positioned between 30% and 40% equity, with a moderate to high allocation to offshore

Equity	Neutral domestic equity. Relatively high weighting in consumer goods and underweight healthcare. Top stock picks relative to benchmark are British American Tobacco (BTI), New Gold ETF and Anglo American
Bonds	High bond position. On balance, moderately high duration in nominal bond allocation of +-5 years. High exposure to inflation-linked bonds at 14%
Property	Relatively low property exposure of <3%, largest holdings in Growthpoint and Capital & Counties
Cash	Relatively low domestic cash position as managers continue to see value in longer duration bonds and equities
Offshore	Overweight equities relative to peers and underweight bonds. In our view global equities provide opportunities to diversify into a broader equity universe

Positioning
Neutral on domestic equities, but an overweight allocation to global equities

STANLIB MULTI-MANAGER

Meeting the Solution's long-term inflation plus objective - expected to deliver CPI+4% p.a. over periods of at least four years

Returns lagged its real return objective due to disappointing performance of growth assets (i.e. equities and property) over the last few years. However, positioned to maximize probability of outperforming objectives in the medium to long-term

Performance analysis: Solution

Returns NET of fees	3 months	1 year	3 years	Since inception
Solution*	-7.6%	-4.3%	2.1%	3.3%
South African MA Low Equity - Average	-7.2%	-3.3%	2.7%	3.6%
CPI+4% (1 month lag)			8.2%	9.2%

*STANLIB Multi-Manager Defensive Balanced CIS B1 fee class. since inception date: April 2015

The first quarter of this year was a difficult period for the Solution as markets experienced significant drawdowns. Coronation and Prudential had relatively high allocations to local listed equities through the market drawdown, resulting in disappointing returns. Although our managers on average were positioned too aggressively during the market drawdown (in both equities and bonds), good global asset allocation (large overweight) provided some protection.

Going into Q2 our managers 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 doing satisfactory in absolute terms and relative to peers - well positioned to capitalise on a market recovery.

Asset allocation	Neutral domestic equity and overweight global equity, high allocation to nominal and inflation linked bonds
Manager selection	Ninety One did particularly well, Prudential's longer-term performance lagging due to Inflation linked bonds and property allocation

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 Hospitality detracted from performance
Ninety One	Ninety One's Cautious Managed strategy did exceptionally well in the quarter, driven by their high global equity allocation coupled with more defensive stock selection
Prudential	Prudential's Inflation Plus strategy had a tough quarter In addition to their equity holdings, Prudential's high exposure to inflation linked bonds and property detracted from performance
STANLIB Absolute Plus Fund	The defensive strategies implemented by STANLIB assisted performance in a tough environment Overweight in SA fixed interest assets detracted to some extent
SMM Enhanced Yield Fund	STANLIB Multi-Manager's cash and income funds provide liquidity in the solution and continue to deliver inflation-beating returns
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 25% On the equity side Sands and Veritas continue to perform well - both outperforming the benchmark by over 5% for the quarter Value continues to struggle vs. growth and as a result AB & Hosking detracted from performance

How are the underlying managers currently positioned?

Coronation
- Fair equity and property allocations - more cautious on domestic property
- Overweight consumer goods (AB Inbev, BTI, 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
- The strategy's preferred asset class remains high quality global companies with enduring competitive advantages that form barriers to entry and provide pricing power. This, in turn, enables these companies to generate long-term growth and generate sustainably high levels of profitability.
- Locally, they believe the best opportunity remains SA government bonds
- Top local equity stock picks include: NewGold ETF, BTI, Richemont and Assore
- Sizeable allocation to local bonds, given the high yield on offer
- No property exposure
- Rotating into higher quality shares that were previously too expensive

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

STANLIB
- STANLIB continues to be cautious and will opportunistically buy assets within their flexible process as opportunities arise
- Currently in risk control mode given their rolling 12-month capital preservation objective
- Very defensively positioned
- SA bonds remain a major allocation in the fund, but very selective on bonds and cautious around credit selection

STANLIB Multi-Manager
- Mainly positioned in low duration money market assets in the STANLIB Multi-Manager Enhanced Yield Fund
- These assets provide a reasonable yield with limited downside risk

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 will opportunistically start trimming our position in Q2
- Currently overweight emerging markets and credit

Total Expense Ratio (TER):3-year

Total expense ratio (TER)	
Defensive Balanced Solution (B1 class)	1.32%
ASISA Category average / Low equity	1.56%

Source: Morningstar, Multi-Manager

Investment fees also include:
- Operational due diligence on underlying managers
- Day-to-day monitoring of the underlying managers
- Extra layer of governance and oversight