The Real Return Solution – Q1 2020

Managed via the STANLIB Multi-Manager Real Return Fund CIS

Complementary note to quarterly factsheet

Investment managers

The Solution is constructed as a ‘hybrid’, consisting of 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 be aggressive in views
Ninety One	1991	R2257bn	Listed on JSE and LSE	Medium to high equity mandate, global allowed up to 30% Quality focus - Invest in companies with high & consistent return on invested capital, strong moats and competitive advantage
PRESCIENT	1998	R90bn	Part of Prescient Holdings (Pty) Ltd	Conservative mandate with a high allocation to income generating assets and a strategic allocation of 25% to equity
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
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 material 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	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

Manager selection

No changes during Q1

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 medium equity portfolios. Typically positioned between 50% and 60% total equity, with a moderate to high allocation to offshore

Equity	Neutral to overweight domestic equity. Relatively high weighting in consumer goods and commodities. Underweight telecommunication. Top active bets are BTI, NewGold and Assore
Bonds	High bond exposure, but biased towards shorter duration bonds
Property	Low property exposure
Cash	Relatively low cash position as the managers aim to capitalize on a 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.

Positioning

Neutral to overweight on domestic equities, underweight property

STANLIB MULTI-MANAGER

Meeting the Solution's long-term inflation plus objective - expected to deliver CPI+5% p.a. over periods of at least five years

Returns lagged its real return objective due to the poor performance of growth assets (i.e. equities and property) over the period under review. 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	5 years
Solution*	-10.1%	-6.5%	2.0%	2.8%
South African MA Medium Equity - Average	-10.5%	-6.9%	0.9%	2.0%
CPI+5% (1 month lag)				10.2%

*STANLIB Multi-Manager Real Return CIS B1 fee class.

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 drawdown, excellent global asset allocation (large overweight) coupled with good stock selection resulted in peer outperformance.

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: Overweight global contributed to performance

Manager selection: Excellent returns from Ninety One

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

Ninety One
- Ninety One's Opportunity strategy did exceptionally well in the quarter, driven by their high global equity allocation coupled with more defensive stock selection

Prescient
- Prescient's defensive strategy held up well during the quarter
- The low duration defensive assets provided protection, but Prescient's equity allocation and preference shares positions detracted

Prudential
- Underperformed due to high equity allocation
- Sasol and financial shares overweight (SBK, ABSA) further 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?

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
- 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, British American Tobacco, 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

Prescient
- Maintain passive equity allocation of 25%, coupled with mostly shorter duration fixed interest assets
- In the short-term we do expect a negative rerating in credit, but as Prescient pointed out, the environment also provides an excellent opportunity to lock in higher credit spreads (yields) with excellent borrowers

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
- Mainly positioned in low duration money market assets via 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 could opportunistically start trimming our position in Q2
- Currently overweight emerging markets and credit

Total Expense Ratio (TER): 3-Year

Total expense ratio (TER)	
Real Return Solution (B1)	0.99%
ASISA Category average / medium equity	1.65%

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