STANLIB Multi-Manager Absolute Income Fund

Quarterly Report 30 June 2020

STANLIB MULTI-MANAGER

Commentary and analysis

Market overview

Following a difficult first quarter, financial markets recovered strongly in the second quarter. The local equity market led the charge, recovering 21.6%, local bonds gained 9.9% and property yielded 18.7%. Global equities posted a strong return of 15.7% in rand terms, fuelled by solid gains from technology shares such as Amazon, Netflix and Microsoft. Global bonds posted positive returns but lagged higher growth asset classes. The rand appreciated 2.8% to the US dollar.

In our opinion, this strong recovery from financial markets was driven primarily by various factors. Firstly, the reversal of the initial over-reaction of global markets to the impact of COVID-19 on financial assets, which is typical of market crashes. To worsen the blow, investors exited from emerging market assets in search of safe haven assets, effectively placing further pressure on SA equities, property and bonds. Secondly, as global economies started relaxing lockdown restrictions and evidence emerged of success in containing COVID-19 in China and later Europe, it became more evident that the devastating impact of COVID-19 will only be temporary. And lastly, but probably most importantly, massive stimulus programs globally and in SA – including significant interest rate cuts – supported asset values across the globe from their lows, re-igniting the appetite for risk assets.

While performance in the quarter was promising, we expect volatility in financial markets to remain for the months to come. Such volatility, however, provides excellent opportunities for active investment managers.

Asset class performance (%)

Local	Q2 2020	1 year	3 years	5 years
FTSE/JSE All Share Index	23.18	-3.30	5.11	4.16
Financials	12.87	-34.50	-8.54	-5.26
Resources	41.20	12.38	24.61	10.46
Industrials	16.59	4.04	2.51	3.34
FTSE/JSE Capped SWIX	21.64	-10.78	-0.81	0.07
Bonds ALBI	9.94	2.85	8.10	7.49
Cash STeFI Composite	1.46	6.86	7.17	7.19
FTSE/JSE All Property Index	18.73	-40.24		

International	Q2 2020	1 year	3 years	5 years
MSCI AC World Index IMI (ZAR)	16.64	24.51	16.05	14.00
MSCI AC World Net (ZAR)	16.04	25.66	16.70	14.38
MSCI Emerging Market Index (ZAR)	14.14	16.09	9.39	7.95
BB Barclays Glbl Aggr Bond Index (ZAR)	0.57	28.26	14.13	11.26
BB Barclays Glbl Multiverse Index (ZAR)	0.92	27.79	14.04	11.34

Portfolio review

Following a tough first quarter, the fund had a strong second quarter, returning 3.4% and is ahead of peers for the period. Given the fund's exposure to some longer dated bonds and a small exposure to property and equity, the strong rally in bonds, property and equity benefited fund performance. Over the past three years the fund has performed well ahead of inflation.

The credit market, a key source of return for multi-asset income funds, recovered well in the second quarter. While the shorter-dated credit spreads of the large banks contracted significantly and added to performance, longer-dated spreads remain elevated as many economic uncertainties remain. In particular, SOE credit remains under pressure following the Land Bank default and the rating downgrades of the DBSA and IDC in June.

Prescient lagged peers marginally in the first quarter but bounced back strongly in the second, driven by the inclusion of inflation-linked bonds, as well as avoiding underperforming credit. Prescient believes that the steepness of the yield curve provides investors with excellent opportunities in longer-dated bonds and that inflation-linked bonds provide high real rates relative to cash. These positional views align strongly with their absolute return investment process. ALUWANI has been the best underlying performer for the fund over the past three years and continued their excellent performance in the quarter, with credit selection assisting their performance. They used the recent volatility in markets to enhance the portfolio's running yield through credit selection.

Ninety One has been the most conservatively positioned manager on credit and risk assets through the recent volatility, which resulted in excellent performance. They have maintained an underweight to inflation-linked bonds and to listed property for some time. Although they remain cautious on SA property, they have gradually started to increase their allocation, focusing on the valuations of quality companies with stronger balance sheets. On the credit side, Ninety One have minimal exposure to the cyclical sectors of the economy and have been increasing their allocation to quality defensives such as banks, insurers, government-guaranteed debt and large blue-chip corporates with strong balance sheets. They believe it is prudent to retain an allocation to offshore currencies for diversification purposes as they expect the rand to remain vulnerable.

Portfolio positioning and outlook

Although the last quarter has been promising, we believe the road to recovery, specifically in SA, could be longer and more painful than initially expected. COVID-19 cases are expected to escalate significantly in the coming weeks, with a peak in infections potentially only weeks away. This will continue to have a material impact on local businesses, especially those predominantly affected by the dire state of the local consumer. SA's worrying debt levels combined with poor growth prospects and a high unemployment rate is a big concern. Globally, many risks remain with large emerging markets such as Brazil and India experiencing fast growth in COVID-19 infections, coupled with the risk of second waves in developed markets.

Regardless of the risks, local equities still offer a lot of value and this places our highly skilled active managers in an excellent position to extract returns for clients. The market is also well diversified, with many rand hedge shares. At current bond yields, our managers find value in SA bonds, with the view that investors are very well compensated for the local fiscal risks. Property remains very selective and the global component of the portfolio serves as a key diversifier. While we trimmed our global position marginally in the quarter, we remain of the opinion that a high global allocation, predominantly in equities, provides excellent diversification during uncertain times.

We remain grateful for your support and we are confident that together with our excellent selection of asset managers, we can steer through these uncertain times to get back on track in achieving the portfolio's longer-term objectives.

The commentary gives the views of the portfolio manager at the time of writing. Any forecasts or commentary included in this document are not guaranteed to occur.

Change in allocation of the fund over the quarter

Asset type	Q2 2020	Q1 2020	Change
Domestic Cash & Mny Mkt	14.40	11.79	2.61
Domestic Equity	0.95	0.88	0.08
Domestic Fixed Interest	78.74	81.97	-3.23
Domestic Other	-0.04	0.00	-0.04
Domestic Property	1.45	1.11	0.34
Foreign Cash & Mny Mkt	0.96	1.14	-0.19
Foreign Equity	2.41	2.06	0.35
Foreign Fixed Interest	1.13	0.79	0.34
Foreign Property	0.00	0.25	-0.25

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
B1	Retail	0.93	105.55	457,397,903.11	482,776,382.00
A	Retail	1.22	105.47	59,753,548.10	63,024,878.19

All Price, Units and NAV data as at 30 June 2020.
Units - amount of participatory interests (units) in issue in relevant class.
TER - 1 Year Total Expense Ratio (%) including VAT as at 31/03/2020.

Disclosures

Information to be considered before investing

Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to future performance. CIS are traded at ruling prices and can engage in borrowing and scrip lending.

The STANLIB Multi-Manager Absolute Income Fund is a portfolio of the STANLIB Collective Investment Scheme (the Scheme). The manager of the Scheme is STANLIB Collective Investments (RF) (Pty) Limited (the Manager). The Manager is authorised in terms of the Collective Investment Schemes Control Act, No. 45 of 2002 (CISCA) to administer Collective Investment Schemes (CIS) in Securities. Liberty is a full member of the Association for Savings and Investments of South Africa (ASISA). The Manager is a member of the Liberty Group of Companies. The manager has a right to close a portfolio to new investors in order to manage the portfolio more efficiently in accordance with its mandate. The Manager does not provide any guarantee either with respect to the capital or the return of a CIS portfolio. A schedule of fees and charges and maximum commissions is available on request from the Manager. The trustee of the Scheme is Standard Chartered Bank.

This portfolio is permitted to invest in foreign securities. Should the portfolio include any foreign securities these could expose the portfolio to any of the following risks: potential constraints on liquidity and the repatriation of funds; macroeconomic risks; political risks; foreign exchange risks; tax risks; settlement risks; and potential limitations on the availability of market information.

This is a portfolio that derives its income primarily from interest-bearing instruments. The yield (if shown) is a current effective yield calculated daily.

Unit price – how it works

Prices are calculated and published on each working day, these prices are available on the Manager's website (www.stanlib.com) and in South African printed news media. This portfolio is valued at 15h00. Forward pricing is used. Investments and repurchases will receive the price of the same day if received prior to 15h00.

The payment of withdrawals may be delayed in extraordinary circumstances, when the Manager with the consent of the Fund trustees deems this to be in the interest of all Fund investors. These circumstances may include periods when significant underlying markets suspend trading which will prevent accurate valuation of the instruments held in the Fund. When the suspension of trading relates to only certain assets held by the Fund, these assets may be side-pocketed. This process allows normal liquidity on the assets that can be valued but, will delay liquidity on the affected portion of the Fund. If the Fund is faced with excessive withdrawals, the affected withdrawals may be ring-fenced, which is the separation and delayed sale of the assets reflecting the interest of the liquidity seeking investors. It ensures that the sale of a large number of units will not force the Manager to sell the underlying investments in a manner that may have a negative impact on remaining investors of the Fund.

Performance information

All performance returns and ranking figures quoted are shown in ZAR and are based on data sourced from Morningstar or Statpro and are as at 30 June 2020. Annualised return figures are the compound annualised growth rate (CAGR) calculated from the cumulative return for the period being measured. These annualised returns provide an indication of the annual return achieved over the period had an investment been held for the entire period. Actual annual figures are available on request from the Manager. Portfolio performance figures are calculated for the relevant class of the portfolio, for a lump sum investment, on a NAV-NAV basis, with income reinvested on the ex-dividend date. Individual investor performance may differ due to initial fees, actual investment date, date of reinvestment of income and dividend withholding tax. Portfolio performance accounts for all costs that contribute to the calculation of the cost ratios quoted, all returns quoted are after these costs have been accounted for.

Total Expense Ratio (TER) and Transaction Costs (TC) = Total Investment Charge (TIC) and other fees

The TER is calculated as a percentage of the average net asset value of the portfolio incurred as charges, levies and fees in the management of the portfolio. The TER is a measure of the actual expenses incurred by the fund over a one and three-year period (annualised). This includes the TER charged by any underlying fund(s) held as part of this Fund. A high TER does not necessarily imply a poor return nor does a low TER imply a good return. The current TER should not be regarded as an indication of future TER's.

Transaction costs are disclosed separately. Transaction costs are a necessary cost in managing a fund and impacts the fund's return. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER.

The sum of the TER and Transaction Costs is shown as the Total Investment Charge (TIC).

Annual management fee: The Fund charges a fixed annual management fee (i.e. fee class) as a percentage of the assets under management, to ensure a simple and understandable fee structure. The Fund invests primarily in segregated mandates but may also invest in other unit trusts i.e. "Underlying Fund Fees", which are included in the Total Expense Ratio (TER). The annual management fee is accrued daily and paid on a monthly basis.

Advice fees: If an investor appoints an adviser, advice fees are contracted directly between the investor and the adviser. The Manager will facilitate the collection of advice fees (including initial advice fees up to a max. of 3.45%) only upon receiving an investors instruction to do so. An investor may cancel the instruction to facilitate the payment of advice fees at any time.

STANLIB Multi-Manager (Pty) Ltd does not provide financial advice

The investments of this portfolio are managed, on behalf of the Manager, by STANLIB Multi-Manager (Proprietary) Limited, an authorised financial services provider (FSP), FSP No. 763, under the Financial Advisory and Intermediary Services Act (FAIS), Act No. 37 of 2002.

This document is not advice, as defined under FAIS. Please be advised that there may be representatives acting under supervision.

Where can I find additional information?

Additional information about this product including, but not limited to, brochures, application forms and annual or quarterly reports, can be obtained free of charge, from the Manager and from the Manager's website (www.stanlib.com).

This document does not constitute an offer of sale. Investors are requested to view the latest Minimum Disclosure Document (MDD), for the provision of additional information pertaining to the product, as well as seeking professional advice, should they be considering an investment in the product. The Manager provides no guarantee or warranty as to the accuracy of the content of this document. Every effort has been made to ensure that the content is accurate at time of issue.

Manager: STANLIB Collective Investments (RF) (Pty) Limited Reg.No.1969/003468/07 17 Melrose Boulevard, Melrose Arch, 2196. T 0860 123 003 www.stanlib.com. **Trustees:** Standard Chartered Bank Reg.No.2003/020177/10 2nd Floor, 115 West Street, Sandton, 2196. T +27 (0)11 217 6600. **Third Party/Investment Manager:** STANLIB Multi-Manager (Pty) Ltd www.stanlibmultimanager.com.