

Quarterly Report 30 June 2020

## 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. That said, this fund is more conservative in nature and is expected to manage market volatility fairly well.

### 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 Gbl Aggr Bond Index (ZAR)	0.57	28.26	14.13	11.26
BB Barclays Gbl Multiverse Index (ZAR)	0.92	27.79	14.04	11.34

### Portfolio review

The fund returned 9.2% during the quarter, recovering all the losses experienced in the first quarter. Year-to-date the fund is now in positive territory with a return of 0.9%.

The Ninety One Cautious Managed Fund continued its strong run in performance. This manager has been an excellent performer for us. The fund's high global allocation coupled with the defensive nature of their stock selection provided excellent defence. Year-to-date this manager has returned more than 7.1% gross of fees, which is an excellent achievement under the circumstances. Prudential's Domestic Inflation Plus Fund had an excellent quarter, aided by the performance of inflation-linked bonds and nominal bonds. Going into the COVID-19 market crash, they had a high equity and long duration bond exposure, resulting in underperformance. To their credit, Prudential held onto these assets during the second quarter and benefited from the strong recovery. Coronation had a satisfactory quarter in their domestic absolute strategy. In particular their overweight to Northam Platinum assisted performance. Coronation remains skewed to rand hedge shares and high-quality SA shares such as food retailers as they believe these are best placed to weather the very tough SA macro environment.

STANLIB Absolute lagged the higher beta managers during the quarter. Their current defensive positioning resulted in underperformance as risk assets rallied. This followed relatively good performance in the first quarter. STANLIB currently has a high global allocation but has hedged out a large part of the foreign currency risk.

On balance our managers maintain an underweight position to SA property, leaving some performance on the table during the quarter but adding value longer-term. With retail malls suffering from the COVID-19 impact and office space in oversupply, the property market is expected to be under pressure for some time to come. While there are currently some gems in the property market, the key focus is on avoiding property landmines.

The STANLIB Multi-Manager Global Equity Fund bounced back strongly in the second quarter, returning 15.7% in rand terms. Year-to-date, this fund has been an excellent hedge against the global market crisis, returning 13.9% in rand terms. Amongst the selection of global managers, Arrowstreet and Sands had excellent performance in the quarter. Global technology shares were a large contributor to absolute performance as many large global tech companies rallied. The STANLIB Multi-Manager Global Bond Fund contributed positively to absolute performance in the quarter, returning 4.3%.

### 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.

*Duration – a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. Duration is expressed as number of years.*

*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	10.05	10.13	-0.07
Domestic Derivatives	-0.01	0.00	-0.01
Domestic Equity	18.76	16.53	2.23
Domestic Fixed Interest	46.53	46.53	-0.01
Domestic Property	1.61	1.55	0.06
Foreign Cash & Mny Mkt	2.53	3.46	-0.92
Foreign Derivatives	0.02	0.00	0.02
Foreign Equity	14.47	14.18	0.29
Foreign Fixed Interest	4.70	7.07	-2.37
Foreign Funds	1.07	0.20	0.87
Foreign Other	0.10	0.15	-0.05
Foreign Property	0.18	0.21	-0.02

*The portfolio adhered to its portfolio objective over the quarter.*

### Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
B1	Retail	1.46	110.56	106,905,747.24	118,191,075.22
A	Retail	2.04	110.42	36,950,041.00	40,799,973.67

*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 Defensive Balanced 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.

### 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](http://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 only upon receiving an investors instruction to do so. Initial advice fees up to a maximum of 3.45% are collected prior to units being purchased and ongoing advice fees up to a maximum of 1.15% are collected monthly through the redemption of units held by an investor in the Fund. 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](http://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.

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