STANLIB Multi-Manager Diversified Equity Fund of Funds

Quarterly Report 30 June 2020

STANLIB
MULTI-MANAGER

Commentary and analysis

Market overview

After an unprecedented sharp decline in world markets in the first quarter, the second quarter brought a welcome rebound in local and global markets. At the time of writing the COVID-19 pandemic continues to dominate the news flow around the world, spreading across most countries and recording more than 11 million infections globally and more than 200 000 infections and 3 000 deaths in SA. In numerous countries, however, the number of infections has passed the peak and those economies have started re-opening. There is a risk of a second wave of infections and we have seen infections increasing in the US and other emerging markets like Brazil, Mexico, Russia, India and SA. However, on a positive note there are various companies working on a vaccine with some promising results starting to come through.

As the various stimulus packages aided markets, investors have looked past the short-term pain and into the recovery in the medium term. Most economies around the world are expected to reverse the sharp decline in GDP from the first half of 2020 in the second half of the year and into 2021 as economic activity around the globe has started to pick up. The World Bank forecasts that the global economy will decline 5.2% in 2020 before gradually recovering 4.2% in 2021.

The MSCI World Index rallied 19.5% in US dollars, from being down 20.9% in the first quarter. The S&P 500 Index has erased nearly all its March losses. It gained 20.5% for the quarter and is now down only 3.1% year-to-date, from being down 19.6% in the first quarter. The resilience of mega cap stocks such as Microsoft, Apple, Amazon, Alphabet and Facebook – which represent roughly 20% of the S&P 500 – have emphatically propelled the rebound in the S&P 500. News flow continues to drive the direction of markets and a recovery in the second half of 2020 has been priced in.

In SA, moving to level 3 of the lockdown meant that the economy started opening and economic activity picked up. The current rising infection rate of COVID-19 is a concern and investors remain cautious on local developments. With an already weak economy going into the pandemic, the status of the SA government's balance sheet has worsened. In the updated emergency budget in June, it was clear that National Treasury must adopt an active approach to reduce the debt burden on the country and spur economic growth. The SA market returned 23.2% for the quarter driven by technology (Naspers/Prosus) and resources, while financials continued to lag.

The local property market outlook remains under pressure, but the sector saw a healthy bounce in the second quarter. The easing of the lockdown in SA has led to an improvement in rental collections in the retail subsector, although devaluation concerns remain. The warehousing and logistics-focused property portfolios continue to outperform retail and office property, a trend which we believe will continue in the short and medium term.

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

The fund ended the quarter up 18.2%, underperforming the peer average of 19.4%. Over the past year the fund maintained its relative outperformance to peers with an alpha of 4.7%. The short-term performance was impacted by the offshore component of the fund as the rand strengthened over the quarter. From a strategic fund allocation point of view, the fund structure was changed during the quarter to simplify the structure and concentrate its exposure to SMM's houseview domestic and global equity funds, namely the STANLIB Multi-Manager SA Equity Fund and the STANLIB Multi-Manager Global Equity Fund. We also added a small exposure to a low-cost equity block, the 1invest ALSI 40 Fund, for flexibility. From a tactical point of view we reduced our overweight in global equity over the quarter.

The domestic equity building block outperformed its benchmark in the second quarter. Its net of fee return is now 2.2% ahead over the past 12 months. Truffle and Ninety One were once again the biggest contributors to performance. Truffle was added to the portfolio in May 2016 as they were a small, nimble asset manager that did not conform to the traditional styles of investing. Its addition has proved fruitful for the fund with alpha north of 14% over the past year and over 4% in the past four years. Ninety One was added to the fund in early in 2019 with its earnings momentum strategy and, since being included in the fund, the manager has added positively to performance. All the other managers also beat the benchmark in the past year except for Prudential. The manager struggled as it preferred some of the banks, funded from an underweight position in gold companies.

Our global equity building block lagged the benchmark over the second quarter. On a total portfolio basis, being overweight health care and underweight technology detracted. In addition, stock selection in both sectors also hurt. Positive stock selection in most of the other sectors abated this underperformance. Arrowstreet and Sands performed well, with Arrowstreet's sector allocation and stock selection both contributing, especially in developed markets. On the contrary, Veritas struggled for the quarter, with both sector allocation and stock selection detracting. Many of Veritas's holdings pulled back over the quarter, yet the manager's one-year returns remain ahead of the benchmark. AB lagged as value continued to disappoint.

Portfolio positioning and outlook

We remain cautious on the local and global markets. We are not yet past the pandemic and there is still uncertainty around the virus and news flow will continue to drive markets. The early reports of a vaccine look promising, but it is too soon to know the full extent of the efficacy. In SA we are facing some headwinds given the economic challenges we had before the pandemic and as the government addresses the structural issues in the economy, we will start to get clarity on economic growth.

Our managers do look to invest for the long term and while there are economic headwinds, they see value in the current market. Their focus is on quality companies that will weather the storms that lie ahead and come out stronger from the downturn. Our multi-managed strategy offers diversity across managers in these volatile markets.

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	3.73	3.60	0.12
Domestic Equity	66.51	57.81	8.70
Domestic Fixed Interest	0.03	0.03	0.01
Domestic Other	0.00	0.64	-0.64
Domestic Property	3.13	3.73	-0.60
Foreign Cash & Mny Mkt	0.00	0.39	-0.39
Foreign Derivatives	0.02	0.02	0.00
Foreign Equity	26.01	32.92	-6.91
Foreign Other	0.03	0.06	-0.03
Foreign Property	0.53	0.80	-0.26

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
B1	Retail	1.37	262.06	73,120,464.52	191,618,489.23
A	Retail	1.94	261.22	45,383,672.32	118,551,936.93

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 Diversified Equity Fund of Funds 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 portfolio is a Fund of Funds portfolio. A Fund of Funds portfolio is a portfolio that invests in other portfolios of collective investment schemes, that levy their own charges, which could result in a higher fee structure for the Fund of Funds portfolio.

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 24h00. 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).

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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