STANLIB Multi-Manager Flexible Property Fund

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.

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 and trillions of dollars have been injected into economies to soften the impact of the pandemic. The World Bank's Global Economic Prospects Report forecasts that the global economy will decline 5.2% in 2020 before gradually recovering 4.2% in 2021.

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 bond market started to stabilise in April as the SARB aided liquidity by entering the bond market with a view to providing liquidity and stabilising the market by buying R30 billion in bonds in April and May. The SARB also cut interest rates by 150 basis points, bringing the repo rate to 3.75%, the lowest level in more than two decades. The SA 10-year bond yield dropped to just above 9% from weakening to over 12% in March and has stabilised for the rest of the quarter. The All Bond Index (ALBI) was up 9.9% in the second quarter of 2020, but its returns remain flat year to date. The ALBI performance continues to be the driven by bonds in the zero- to seven-year area of the curve, as cash rates have dropped sharply following the 2.75% drop in the repo rate for the year to date. The 12-year-plus area of the curve has continued to underperform due to the deterioration in government finances and increased public sector borrowing requirements. Inflation-linked bond (ILB) performance has been disappointing, led by ILBs in the seven-year-plus area. Despite poor ILB index performance, ILBs out to seven years have still generated a higher return than cash (2.9%) year to date.

The local property market outlook remains under pressure, but the sector saw a healthy bounce in the second quarter, returning 18.7%. Property returns have been materially impacted by the imposed "hard" lockdown during March 2020 which brought the economy to a halt, devastating the commercial real estate market. There is a reasonable probability that most of the companies will require additional capital and that dividends will be cut or suspended to preserve capital. However, 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.

Over the years, property companies diversified their portfolios by expanding to offshore markets, given the limited growth prospects locally. Some companies increased their gearing to expand offshore and increased their Loan to Value (LTV) ratios. These highly geared companies like Redefine (LTV: 44%) and EPP (LTV: 50%) were the worst hit as we went into lockdowns across the globe. Intu, which is heavily exposed to the retail sector and is overburdened with debt, went into administration after it failed to restructure its debt.

With the impact of the pandemic on the property market, new trends are starting to emerge which may have a lasting effect. As more companies implement work from home policies the demand for office space hangs in the balance. The new normal for offices could be smaller spaces as companies give staff more flexibility on where they work. We have also seen an increase in online sales and consequently there has been a rise in demand for logistics and storage at the expense of retail. Globally there has been a surge in demand for cellphone towers and this subsector has been growing as the demand for broadband mobile data increases. These trends are being monitored closely to see how they shape the future of the property sector.

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 is a defensive property fund and the defensive nature protects the downside when property is under pressure, as was seen in the first quarter of 2020, at the expense of giving up some performance when the property sector is rallying. The relative underweight exposure to property for the fund however resulted in the performance of the fund of 9.6% for the quarter being below expectations.

The ALPI property passive component of the fund has been the main contributor of performance for the quarter as the ALPI rallied, but was a detractor over the long term as the property sector returns have been negative.

Coronation's underweight property exposure was the largest detractor from performance for the quarter. The fixed income portion of their portfolio performed well and the overweight aided performance. The largest losers over the quarter on a stock selection basis were Dipula and Growthpoint.

STANLIB remains cautious and maintains its underweight property relative to fixed income. This detracted from the performance of the portfolio as the property sector rallied in the quarter. STANLIB was reducing property exposure before the market crash in March.

The global portion of the fund – Catalyst Global Property and iShares Global REIT ETF – continued to aid performance despite the strengthening of the rand over the quarter. Catalyst holds a well-diversified property portfolio and is defensively placed given the global market outlook. Despite the relative drop-off in global property in line with the markets, the fundamentals for global property remain intact and the outlook for global property is still better than that of SA property. We have taken some profits on our offshore property exposure in the quarter but continue to hold an overweight position.

Portfolio positioning and outlook

We remain cautious on the property market as we are not yet past the pandemic and there is still some uncertainty around the virus. 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. The property sector is geared to economic growth which is needed as a catalyst for the sector to turn. SA is at risk of falling into a debt trap and, although promises have been made to restore the country to a more sustainable debt trajectory, the implementation risks remain elevated.

Our managers are looking at the sector with a longer-term view and do see value in property in the future given the current valuations, with the sector trading at a 50% discount to NAV despite the headwinds that the economy faces. They have factored in lower GDP forecasts and their focus is on quality companies that will weather the storms that lie ahead and come out stronger from the downturn. They are selective in their exposure to fixed income assets by focusing on quality counters. 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.

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Change in allocation of the fund over the quarter

Asset type	Q2 2020	Q1 2020	Change
Domestic Cash & Mny Mkt	3.34	4.32	-0.99
Domestic Equity	0.88	0.88	0.00
Domestic Fixed Interest	35.32	44.31	-9.00
Domestic Property	43.68	30.41	13.27
Foreign Cash & Mny Mkt	2.76	1.73	1.03
Foreign Property	14.03	18.34	-4.31

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
B1	Retail	1.19	179.86	314,922,060.52	566,418,304.11
A	Retail	1.54	179.74	75,760,208.11	136,169,880.10

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 Flexible Property 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) 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.

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