STANLIB Multi-Manager Shari'ah Balanced Fund of Funds

Quarterly Report 30 June 2020

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 reopening. 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 of 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 the 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 SA bond market started to stabilise in April as the SARB aided liquidity by entering the bond market with a view to provide liquidity and stabilise 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. Foreigners returned to our markets after selling a record R64 billion of government bonds in the first five months of the year, while foreign investors bought R5 billion of SA debt in June. In the global bond markets US Treasuries continue to trade in a narrow low volatile range, being supported by the Fed. Interest rates in the US are expected to remain low for an extended period. Other global fixed interest markets have also stabilised in the second quarter as central banks intervened where necessary.

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 recouped some of the losses experienced in the first quarter of 2020, returning 11.9% for the quarter. The fund also outperformed the Shari'ah peer group by over 2% on average for the quarter.

The Kagiso Islamic Balanced Fund rebounded strongly in performance in the second quarter, with notable contributions from the SA Equity and Foreign Equity asset classes. A strong rebound in cyclical companies like Du Pont and Lyondellbasell as well as SA listed mining stocks like Northam and African Rainbow Minerals contributed to the equity outperformance. The manager believes companies with stronger business models and management teams will outperform post the pandemic. Kagiso also managed to lock in relatively attractive yields in the sukuk market amid the market downturn.

The Old Mutual Albaraka Balanced Fund performed in line with expectations with the manager focusing on relative value, quality and balancing cyclical vs defensive shares while retaining an overweight global stance given the current market uncertainty. From a relative value perspective, the global portion of the fund is overweight Europe and underweight the US and they have a slight pro-cyclical stance driven by compelling valuations in Europe vs the US as well as a more favourable backdrop for Europe given the European Recovery Plan coupled with flatter COVID-19 curves. Domestically, the fund is overweight materials and platinum which should benefit from an improving global economy. Given the challenging fiscal position SA finds itself in, the manager is focused on essential services/industries such as food, healthcare and logistics. They are overweight gold given attractive free cash flow yields amidst a tailwind of rising global deficits, currency debasement and near zero global interest rates. The fund also has maximum exposure to sukuks and is yielding approximately 8% over the next 12 months. For the quarter some of the outperformers in the fund were Amplats, Harmony, BHP Billiton and Imperial, while laggards were Netcare and AECI.

The pure equity component, the BCI Shariah Equity Fund, delivered a strong performance for the quarter. The manager increased their cash holdings in the fund in March and April and has subsequently increased positions in companies on their Buy List. Their focus is on companies that have sufficient balance sheet strength, liquidity and resilient and proven management teams.

Portfolio positioning and outlook

We remain cautious on the local and global markets. We are not yet past the pandemic. 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 securities 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.

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STANLIB MULTI-MANAGER

Change in allocation of the fund over the quarter

Asset type	Q2 2020	Q1 2020	Change
Domestic Cash & Mny Mkt	6.98	7.27	-0.30
Domestic Equity	38.76	38.09	0.67
Domestic Fixed Interest	31.70	27.42	4.27
Domestic Other	0.00	4.92	-4.92
Domestic Property	1.66	1.46	0.20
Foreign Cash & Mny Mkt	0.39	0.38	0.01
Foreign Equity	20.12	20.07	0.06
Foreign Fixed Interest	0.06	0.06	0.00
Foreign Property	0.32	0.32	0.01

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
B1	Retail	1.51	116.22	256,260,440.87	297,831,582.83
A	Retail	2.09	115.89	78,680,893.73	91,186,688.00

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 Shari'ah Balanced 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 (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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