STANLIB Absolute Plus Fund

Quarterly update at 30 June 2022

Who are the investment managers?

STANLIB Asset Management (Pty) Ltd, FSP 719, an authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act 2002, manage the investments of the fund.

Marius Oberholzer
BCom (Economics and Commercial Law), MSc (Global Finance)
Head of Multi-Strategy

Marius joined STANLIB in September 2013 as co-head of Absolute Return Strategies, taking over as head of the team in September 2015, which later became the Multi-Strategy Franchise in 2021. He has 22 years of buy side experience with a high degree of specialisation managing Multi-Strategy type strategies. Marius began working at TT International in London in 2000, moving to Hong Kong in 2004. He was portfolio manager of TT's Asian Hedge Fund and provided insights across the firms other investment offerings both on a bottom up and top-down macro basis. Marius holds a BCom from Stellenbosch University and an MSc in Global Finance from Stern Business School at NYU and the Hong Kong University of Science and Technology.

Fund review

The STANLIB Absolute Plus Fund delivered -1.7% for the second quarter of 2022, -0.2% year-to-date and 6.5% over the preceding 12 months (all gross of fees). This is a relatively solid outcome given the asset moves we have seen so far this year. Of course, we endeavour to do better.

The portfolio risk remains within the confines of the portfolio remit and our asset allocation process and instrument implementation process continues to deliver for clients. Our reduced exposure to offshore assets during the month added to our relative performance. Despite being positioned conservatively our bond positioning is not helping in the short term. South African equities felt the pain toward the back end of June as commodity markets (especially oil) gave way to some of the global recession concerns that are beginning to permeate.

We had reduced our equity hedges in April and while we have seen a market bounce in May across the world, we had not fully re-hedged our portfolio risk although we are positioned very conservatively. We did add to some offshore equity positioning from mid-month but have not been rewarded for a more normal position just yet. But this is only the first phase of the bear market.

We expect the growth and risk appetite trajectory to be volatile and our stance remains one of protection against large losses as we are expecting further moves lower in markets as earnings expectations are likely to be ratcheted lower in time.

Market overview

The most recent market cycles have been extremely dynamic and hyperbolic language has become relatively commonplace in commentary pieces. We'll say plainly, the second quarter of 2022 was a very bad quarter for markets, with selling pressure pretty indiscriminate, leaving few places to hide.

Putting some numbers on that, Global Equities, measured using the MSCI World Index, were down 16.3% in US dollar terms for the quarter, taking the year-to-date returns below -20% and putting global equities into a bear market. Yields on the US 10-year bond rose more than 65 basis points, from 2.34% at the end of the first quarter to just over 3% at the end of June, and Global Aggregate Bonds fell 4.1% for the quarter. Spread markets were also impacted, with the option-adjusted spread on Global High-Yield bonds spiking 240 bps and causing a fall of 10% at the index level. The DXY index was the notable gainer, up 6.5% for the quarter.

Commodities held up for two months of the quarter and were even in positive territory until the start of June, before ending down 5.3% in dollar terms. Despite the relative strength of commodity markets, the rand fell against a basket of currencies. It was down 11% against the dollar and 5% against the euro. That took Global Equity to -7.3% quarter-on-quarter, measured in rands. Domestic assets fared poorly, with the downturn in commodity prices in June taking the Capped SWIX Total Return to -11.3% for the quarter. After SA's 10-year yield spiked to 11%, domestic bonds at the index level also fell 3.8%.

For global markets, the overarching narrative for the second quarter was the continued rise of inflation, a narrative that has persisted since last year and is unlikely to go away in the coming few months. Being more specific, as inflation has become more politicised and central banks are coming under increasing pressure to choke it, the market fears that they will have to tighten so aggressively to cut demand that the economy will be pushed into a recession.

In previous months, inflation prints have been high, but there has always been a compelling story around idiosyncratic components and the "transitory" nature of inflation. This hope is becoming harder to sell as, for example, shelter inflation, which tends to be persistent, and makes up one-third of the US inflation basket, has been increasing by 0.5% per month in the quarter. Shelter is a single, if important component, which is why we also follow the Atlanta Fed's "Sticky CPI" index. This index has seen the year-on-year inflation of components slowest to change, rising to over 5% in June.

At the end of June, markets were pricing an implied policy rate of 3.4% in December this year, almost 1% higher than implied by Fed Funds Futures on 1 April. In short, the markets' implied probability of a recession went up dramatically in the quarter.

Looking ahead

As we look forward, our probability for a more bearish scenario is elevated, leaving us cautiously positioned in portfolios. Against a backdrop of tightening financial conditions and headwinds to economic growth, we are watching corporate earnings closely, and it is interesting that we have not yet seen analysts materially downgrading their earnings expectations. Admittedly, we know analysts are frequently too optimistic about earnings, and forward-price-to-earnings multiples have de-rated meaningfully, which could provide a valuation buffer. For those who are interested, our colleague Warren Buhai will be publishing a detailed piece on corporate margins and earnings soon.

However, we caution against excessive pessimism. Sentiment indicators, normally a good contrarian indicator, are already at extremes, prices have adjusted meaningfully, and arguably we may have hit peak hawkishness from the Fed.

In June we saw the bear, now we need nimbleness and the ability to react to incoming data to identify if it is feeling grizzly or about to give us an opportunity.

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 2022	Q1 2022	Change
Domestic Cash & Mny Mkt	0.32	-4.09	4.41
Domestic Commodity	0.00	1.75	-1.75
Domestic Currency Overlay	14.78	9.45	5.33
Domestic Equity	22.44	27.15	-4.71
Domestic Fixed Interest	40.30	39.93	0.37
Domestic Property	3.66	1.93	1.73
Foreign Cash & Mny Mkt	8.43	22.45	-14.02
Foreign Currency Overlay	-14.78	-9.45	-5.33
Foreign Equity	18.27	7.45	10.82
Foreign Fixed Interest	6.59	3.41	3.18

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
B1	Retail	1.22	158.52	1,771,638,067.21	2,808,369,927.10

All Price, Units and NAV data as at 30 June 2022.

Units - amount of participatory interests (units) in issue in relevant class.

TER - 1 Year Total Expense Ratio (%) including VAT as at 31/03/2022. The Total Expense ratio (TER) shows the charges, levies and fees relating to the management of the portfolio and is expressed as a percentage of the average net asset value of the portfolio, calculated over the period shown and annualised to the most recently completed quarter. A higher 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 TERs.

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Disclosures

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 Absolute Plus 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.

The investments of this portfolio are managed, on behalf of the Manager, by STANLIB Asset Management (Pty) Ltd, an authorised financial services provider (FSP), FSP No. 719, under the Financial Advisory and Intermediary Services Act (FAIS), Act No. 37 of 2002.

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.

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.

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 2022.

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.

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).

Contact details

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Investment Manager

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