STANLIB Multi-Asset Cautious Fund

Quarterly update at 31 March 2024

STANLIB

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-Asset

Marius joined STANLIB in September 2013 as co-head of Absolute Return Strategies, taking over as head of the team in September 2015. The team has since been renamed to Multi-Strategy (2021) and then to Multi-Asset (2024). 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.

Warren Buhai
BCompt (Hons), CA (SA), CFA
Senior portfolio manager

Warren initially joined STANLIB in 2005 to focus on research and portfolio management in resources and commodity-related funds. In 2007, he took an opportunity to move overseas and be the managing director of investments for a US private-client business targeting opportunities in developed, emerging and frontier markets. Warren re-joined STANLIB in 2009 where he has focused on research and portfolio management of multi-asset funds ever since, progressing to senior portfolio manager in the Multi-Asset franchise. Prior to joining STANLIB, he spent five years gaining broad industry experience with Standard Bank's Corporate Finance team. Warren obtained his bachelor's and honours degrees studying part-time while working primarily in the audit division of Ernst & Young, where he qualified as a chartered accountant. He is also a CFA charterholder.

Fund review

The STANLIB Multi-Asset Cautious Fund provided a return of 1.9% during the first quarter of 2024. This takes the return of the fund to 11.3% over the 12 months to 31 March 2024. We are pleased to have delivered this outcome to our clients, given the tricky market environment, which has included heightened geopolitical risks and nervousness around the implications of ending an aggressive rate hiking cycle globally.

In terms of how asset classes contributed to those returns, it was a solid start to the new year for offshore equity, especially because strong US dollar returns were boosted by a weaker rand. Currency weakness helped to turn weaker hard currency government bond returns into positive returns for local investors. Our exposure to offshore credit contributed positively, as did our exposure to both gold and global oil producers.

Unfortunately, given the difficult start to the year for local asset classes, our exposures to both South African equity and government bonds detracted from the stronger offshore contributions. It continues to be an uncertain period for South African assets, given the upcoming general election in late May, but we believe some of the negative outcome risks have already been priced into certain local equities and bonds. Depending on the outcome and how markets react, we are ready to take advantage of any opportunities.

All performance numbers are referenced gross of fees.

Market overview

In the first quarter of 2024, there was solid growth in offshore equity markets, as improving economic data raised hopes for a soft landing or no recession. This laid the foundation for some developed equity markets to establish new record highs, like the S&P 500 (up 10.6%) in the US and the STOXX 600 (up 7.8%) in Europe. Oil markets rose 13.6% on the back of stronger economic growth. In contrast, SA and other Emerging Markets had a poor showing. SA Equities were down -2.3% over the quarter as concerns over loadshedding and reform continued. Fixed Income floundered.

Given the high levels of interest rates, speculation seesawed on when the main central banks will start to cut rates. The year started with high hopes for as many as six interest rate cuts by the US Federal Reserve (Fed). Higher-than-expected inflation data, strength in labour markets, and Fed speak soon doused this fervour, with only two or three cuts now priced in for the year. This made for a tough quarter for Fixed Income, with SA Bonds down -1.8% and Global Bonds down 2.1% (in dollar terms). With less relief expected from interest rates, equity headwinds might have materialised, but markets pivoted to focus on the better growth dynamic, and the lure of improved productivity from Generative AI. Nvidia continued to be the market darling: it gained 85% over the quarter, adding a trillion to its market capitalisation.

With the market dialling down expectations for interest rate cuts, the US dollar gained strength. Non-fiat assets also did well. In January, Bitcoin ETFs were approved, allowing more mainstream adoption. Bitcoin rallied more than 60%. Gold rose to new highs. It gained 8.1% this quarter, spurred by positive inflation surprises and geopolitical tensions. Global credit was up 2.1% as credit spreads continued to tighten.

In SA, we learnt a new acronym: GFECRA (Gold and Foreign Exchange Contingency Reserve Account). This account holds the South African Reserve Bank (SARB)'s foreign exchange profits of R540 billion from long-term rand depreciation. It is accepted global practice to collect these profits on a more regular basis. National Treasury surprised markets on the timing by collecting half of these profits to retire debt and create a contingency reserve. This improved SA's debt position, helping to lower interest payments at a time of lower commodity profits and weaker growth.

SA Equity was pulled down mostly by financials, which retreated by -7.1% over the quarter. Resources were up 0.8% but were very volatile. They fell almost 15% by February before staging a comeback. Listed property continued its advance from a very strong end-2023 quarter, gaining 3.5% in the first quarter. Weakness in the Chinese stock market persisted as the housing market continues to weaken and investors are losing patience in the pace of reform. We see rising interest in EM ex China ETFs to counter China's large weighting in the Emerging Market index. Given the

importance of Chinese markets to SA's luxury and tech counters, the recent signs of recovery in Chinese exports and industrial profits could boost confidence. Talk of China's government applying more fiscal policy stimulus could also be a gamechanger.

Looking ahead

So how are we positioned? We continue to believe that in times of monetary tightening (high interest rates) adverse impacts are felt with a lag. As interest rates stay "higher for longer", the pressure of leverage can still unearth weaknesses. We were reminded of this when New York Community Bancorp collapsed due to pressure from commercial real estate loans and was down -68% over the quarter. This remains a tricky time for markets, until interest rates normalise and the yield curve un-inverts.

Given the new highs in some equity markets, there is a growing chance of pullbacks. Still, we are more positive on risk assets as we see improving growth and sentiment. The market's probabilities of recession have diminished. Although the Magnificent 7 were predominantly driving the US market, the prospect of broadening into other sectors and geographies will support equity markets. With markets at new highs, we have to be wary of paying too much for assets. In the US, tech is certainly expensive, and will need the promise of AI productivity to deliver. Corrections in Apple and Tesla show the dangers of under-delivery. However, other valuations are not as stretched. For example, despite a strong run, Europe is only just exceeding post-Covid highs and is on a 14 P/E.

The higher-than-expected US CPI prints in both January and February show that the inflation dragon is not yet slain. Although the downdraft of shelter inflation normalising is helping the US inflation trajectory, goods inflation through oil prices and the effect of Middle East tensions on oil and transport costs will prove challenging. The path to normalising inflation will be noisy. However, central bankers seem to acknowledge this "bumpy" road and are still guiding to rate cuts this year. The case for monetary policy easing is helped by softening trends in labour markets (fewer temporary workers, increasing layoffs).

We note that China continues to ease monetary policy, as are a growing number of Emerging Markets. Inflation in Europe has eased significantly, making it much harder for the ECB to defer cutting rates. In March the Swiss Central bank led this charge to easier policy by being the first in the G10 to cut. The US and UK are the Developed World exceptions with sticky-high inflation.

In the Fixed Income market, elevated bond market volatility is showing we are not yet out of the woods. We are positive on offshore bond markets, as the base case is for imminent rate cuts. However, a growing (but still low probability) risk case is that there will be no cuts from the Fed this year. How this translates to equity markets is uncertain, as it is a function of whether growth remains strong enough to overcome the higher cost of capital. As things stand, equity markets are content to focus on the robust growth environment.

We remain cautious on South African bonds in the run-up to a highly uncertain election. Nominal bond fundamentals are improving, valuations are attractive, the GFECRA transfer is reducing near-term issuance pressure, the commodity down-cycle appears well advanced and local tax receipts were good. Signs of a nascent recovery in the global traded goods cycle provide further support. However, the upcoming election introduces small risk of a calamitous outcome which cannot be ignored.

We are shifting to a slightly more bullish portfolio stance for Q2. Growth continues to surprise positively and equity markets have adjusted well to rising bond yields in Q1, suggesting now is not the time to be standing in the way of a determined bull. On balance in our multiple lens framework, good liquidity and positive momentum in both prices and earnings support taking more risk in portfolios. Outside the Magnificent 7 (or is that now the Magnificent 5?), equity valuations are generally average to cheap, supporting a further broadening of the equity bull market. We still have some weighting on our bearish tactical scenarios, so are watching for signs of trouble in labour markets, growth stalling or inflation accelerating. No rate cuts could pitch both bond and equity markets over, with no correlation benefits for multi-asset investors. We observe low implied and realised equity volatility levels, which suggests market complacency but does lower hedging costs. As we head into Q2, we maintain our approach of balancing opportunity and risk for our investors.

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	Q1 2024	Q4 2023	Change
Domestic Cash & Mny Mkt	3.06	2.81	0.25
Domestic Equity	19.13	16.63	2.49
Domestic Fixed Interest	42.41	43.41	-1.00
Domestic Property	0.83	0.79	0.04
Foreign Cash & Mny Mkt	1.47	0.97	0.50
Foreign Equity	18.18	23.36	-5.18
Foreign Fixed Interest	11.59	8.86	2.73
Foreign Funds	2.97	2.79	0.18
Foreign Property	0.37	0.36	0.01

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
B1	Retail	1.35	185.80	4,040,453,610.00	7,507,227,413.00

All Price, Units and NAV data as at 31 March 2024.

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

TER - 1 Year Total Expense Ratio (%) including VAT as at 31/12/2023. 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 Multi-Asset Cautious 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 31 March 2024.

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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