STANLIB Absolute Plus Fund

Quarterly update at 31 December 2023

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.

Peter van der Ross
BBusSci, CFA
Portfolio manager

Peter joined STANLIB in January 2016 as a portfolio manager in the Absolute Return team. He has 19 years of buy side experience in the investment management industry. Prior to joining STANLIB Peter was Head of Libfin Investments. Before joining Liberty, Peter was head of investment strategy at Momentum Asset Management and RMB Asset Management. Peter holds a bachelor of business science degree in economics and finance from the University of Cape Town and is a CFA charterholder.

Fund review

The STANLIB Absolute Plus Fund delivered a return of 5.9% for the final quarter of 2023. This takes its return to 9.1% for the 12-month period (gross of fees). A poor quarter in Q3, when we were positioned for the now-observable rally, hurt the fund's absolute performance for the year relative to the opportunity set.

As mentioned previously, we delivered returns across all asset classes during the quarter. Bonds did well, as did equities. Our exposure to long-duration bonds was positive, but we only recouped some of the losses from our positioning earlier in the year. We will need to be more tactical now, given the moves we have seen (see below).

Our continued avoidance of Emerging Market equities was a broad net positive, and so was our focus on US equities through the quarter and through the year in our offshore allocation, given that domestic equities lagged global equities during the quarter. Our lack of exposure to domestic property was a missed opportunity, but we continue to believe that, although it offers potential long-term value, there are still too many difficult issues around taxes, electricity stability and capital costs which leave us questioning NAV on a tactical basis.

We continue to deliver in line with our mandate over the medium term and offer a compelling profile relative to the opportunity set and peer returns. This fund aims to deliver an equity return over the medium to long term at lower degrees of volatility and with capital protection.

Market overview

In the final quarter of 2023, global financial markets surged from the lows of late October, staging a remarkably strong rally into the final days of the year. The change in sentiment was driven by the continued easing of very high inflationary prints around the world and a more dovish group of central bankers that tried not to hint at out outright policy shifts. That occurred anyway in mid-December, when Federal Reserve Chair Jerome Powell unveiled the Fed's latest "dot plot", which showed it expects 75 bps of rates cuts in 2024. Powell's comments showed he is more dovish, reinforcing views that the Fed has finally "pivoted" and the final hike in the cycle is behind us. Powell all but confirmed this in the press conference, despite the easier financial conditions that US and global bond markets had already begun pricing in during November.

At end-2023, the US bond market was expecting almost 1.5% of rate cuts in 2024, a very aggressive stance given that inflation remains above target levels and growth and unemployment are showing some data deterioration (although they are still proving resilient). The European Central Bank (ECB) is more hawkish. ECB president Christine Lagarde tried to dispel any expectation of rate cuts as inflationary prints remain stubborn and the euro zone economy, especially Germany's, remains weak. European bonds and equities did well despite the poor growth environment.

Asset markets had an amazing quarter. The S&P 500 index recorded an 11.7% increase, driven largely by the technology sector, reflecting renewed confidence in growth-oriented sectors, as bonds rallied and forward interest rate expectations fell. The Nasdaq Composite delivered a 13.8% return for the quarter, with the mega technology companies (the "magnificent seven") returning 12.56%. Small caps actually outperformed the broader US equity market, with the Russell 3000 delivering a 12.07% for investors.

European markets were also strong, with the Euro Stoxx 600 Total Return climbing 11.38% in dollar terms. The MSCI World Index delivered an 11.42% return during the quarter. MSCI Emerging Markets dragged, delivering only a 7.87% total return for investors (all returns in dollars). South African equities were also a little slow, as the Capped SWIX returned 8.3% during the quarter (in rand terms). SA listed properties were the star of the show, with a 15.9% return for the quarter. However, resource counters held equities back, with a flat return. The Resi Index is down 15.4% for the year, correlating closely with Chinese equities, which lost 11.4% in the final quarter of 2023.

The S&P500, Nasdaq, Russell 3000, Eurostoxx and Global Equities all ended higher than in very late 2021 and early 2022. Is the period of treading water finally over? The same cannot be said for Emerging Market equities, which are about 24% below their cyclical peak from early 2021, with the Chinese equity market continuing to struggle.

Bond markets worldwide reflected this positive sentiment. The yield on the US 10-year Treasury dropped from 4.57% to 3.88% during the quarter, highlighting the extent of the move. US 10-year bonds were offering a yield of 5% in mid-October. Global Bonds returned 8.08% for the quarter, Global High yield returned 8.6% (both in dollars) and SA's All Bond Index provided a total return of 8.08%. Yields on German Bunds and UK Gilts declined sharply, with 10-year yields ending the month around 1% lower than October's peaks, at 2.02% and 3.53% respectively.

Trends in commodity markets were mixed. Energy prices declined by 19.2% during the quarter and gold surged, rallying 11.6% amid the easier financial conditions reflected in bond, credit and volatility markets. The differing performance of oil and gold is particularly interesting because of the geopolitical risk premium which should be evident in the oil market. Also, if global growth reinforces the soft-landing narrative that markets currently appear to be pricing in, then oil should not be so weak. This is one of the indicators that makes us believe all is not as well as it would seem.

The rand was slightly stronger against the greenback, gaining 3%, which may help to explain the marginal underperformance of South African stocks against MSCI World equities in dollars in this period. The euro gained against the dollar, as did the yen. General dollar weakness is noticeable when global asset returns are this good.

Looking ahead

In the short term, markets are pricing in good news and may have pulled forward some (if not all) of 2024's returns. At the time of writing, equities in many places are trading close to all-time highs, with the bellwether S&P500 just touching new highs.

The rally in bonds, credit and equities was driven by lower inflation expectations as well as an expectation that growth, the consumer and earnings will hold up (soft or no-landing). While the economic outlook does not appear to be recessionary, growth expectations are pedestrian, and the consumer is sitting on a knife edge in many countries. Will equities beat bonds in that environment? Both bonds and equities seem poised to disappoint if the expected 150 bps of rate cuts does not materialise as expected by December 2024 (for the obvious reasons, namely inflation or because growth and employment prove resilient). In that event, the impact on both bonds and equities could be to the downside, and swift.

If those rate cuts do happen, it's more likely to be because of rising unemployment rather than falling inflation and because real rates will have to become stimulatory as economies deteriorate. The yield curve will be seen as the great predictor, although with a lagged effect.

Currently, the yield curve continues to reflect concerns and its inversion should give investors (some) pause that central bankers have walked the tightrope and that we are out of the woods. This binary environment continues to make the traditional balanced portfolio fraught with correlation risk in the short term, as assets are likely to continue to move together. This is fine when things are good, but not when things do not go as expected. Simply put, bonds will do well if economies deteriorate but not if they hold up. If events turn out better than expected, with growth holding up, bonds will need to be repriced, which will not leave equities unscathed.

Since 1970, there have been two Fed pivots resulting in soft landings when equities beat bonds: in 1995 and 1998. On neither occasion was the US yield curve inverted, and credit conditions were supportive. We do not see either condition right now, so our base case continues to be that a rangebound environment is the most likely outcome. Earnings need to drive further returns in equities and bond yields will become much less supportive for longer duration assets like equities from now on. The "all clear" will probably only sound when the yield curve un-inverts. As mentioned before, we think the Fed, given the recent inflation scare, will be reluctant to cut rates unless job markets are damaged and it will be very keen to maintain a politically-independent stance.

We believe good market outcomes are possible, but not likely, at the current juncture. The market will need to digest the moves we have seen and validate central bankers' reaction to looser financial conditions, the health of the consumer and ultimately employment. While employment may hold up, we believe excess savings arising from the fiscal response to the pandemic have largely worked their way through the system.

The looser financial conditions and uptick in our liquidity indicators is market positive, but this is largely priced in. An acceleration of those indicators is likely to skew the team's probabilities of "better outcomes".

Softening inflation data and the swift shift in forward guidance now telegraph a pause in the US (and hence the world's) hiking cycle. This could allow for a soft landing, but ultimately, we anticipate a recession in 2024. If it does arrive, it is likely to be mild, given the ability to cut rates quickly and deeply if needed. A very large destruction of equity value could take place but our view on its probability has dropped significantly over the past few months as inflation eases.

As mentioned, given the moves over the last 8-9 weeks in asset markets, we believe much has been priced in. Current upside is limited versus the potential buying opportunity that lies ahead in the next few months. We continue to see rangebound markets (for the time being), with our broad asset allocation attractiveness broadly neutral to conservative in the short run.

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	Q4 2023	Q3 2023	Change
Domestic Cash & Mny Mkt	-10.85	-2.19	-8.67
Domestic Commodity	0.00	0.00	0.00
Domestic Currency Overlay	15.61	14.20	1.41
Domestic Equity	33.47	22.87	10.60
Domestic Fixed Interest	33.58	33.56	0.02
Domestic Property	0.37	0.35	0.02
Foreign Cash & Mny Mkt	12.29	20.47	-8.17
Foreign Currency Overlay	-15.61	-14.20	-1.41
Foreign Equity	22.64	10.50	12.14
Foreign Fixed Interest	8.50	14.43	-5.93

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
B1	Retail	1.23	170.42	1,812,725,342.45	3,089,244,746.01

All Price, Units and NAV data as at 31 December 2023.
Units - amount of participatory interests (units) in issue in relevant class.

TER - 1 Year Total Expense Ratio (%) including VAT as at 30/09/2023. 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.

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 31 December 2023.

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

Manager

STANLIB Collective Investments (RF) (Pty) Limited
Reg. No. 1969/003468/07
17 Melrose Boulevard, Melrose Arch, 2196

Telephone: 0860 123 003
Email: contact@stanlib.com
Website: www.stanlib.com

Trustee

Standard Chartered Bank
Reg. No. 2003/020177/10
2nd Floor, 115 West Street, Sandton, 2196

Telephone: +27 (0)11 217 6600

Investment Manager

STANLIB Asset Management (Pty) Ltd
An authorised financial services provider, FSP No. 719
Reg. No. 1969/002753/07
17 Melrose Boulevard, Melrose Arch, 2196

Telephone: +27 (0)11 448 6000
Website: www.stanlib.com