Lesotho Unit Trust

Quarterly update at 31 March 2021

STANLIB

Who are the investment managers?

STANLIB Lesotho (Pty) Ltd, a licensed asset manager under the Central Bank of Lesotho (Collective Investment Schemes) Regulations, 2018, manage the investments of the portfolio. Investment Manager 1 Legal Name was established in August 2001 as a joint venture between Standard Lesotho Bank and STANLIB South Africa, with management control residing with STANLIB South Africa.

Herman van Velze
BEng (Mining), MBL
Head of Equities

Herman joined STANLIB in 1995 as a research analyst and a resource portfolio manager. Since then he has held the positions of head of Research, portfolio manager, head of Balanced Fund and he is currently the head of Equities and a member of STANLIB's investment executive committee. In 2007 Herman joined a private equity company as a deal originator to expand his investment skillset. He later in 2009 re-joined STANLIB as the head of Balanced funds. He oversees a number of portfolio managers and analysts who provide company research and actively pursue investment ideas. Under his leadership, the team reviews and refines opportunities which are considered for the portfolio. Herman holds a bachelor of engineering from the University of Pretoria and a MBL from UNISA.

Henk Viljoen
MCom (Economics)(Cum laude)
Senior Portfolio Manager

After gaining early experience in the treasury environment at Telkom and at Senbank, Henk joined the then Liberty Asset Management in 1990, and was appointed head of Fixed Income. Henk retained this role throughout the amalgamation with Standard Corporate and Merchant Bank that formed STANLIB, and for many years led a multi-award-winning team which built an undisputed reputation as the most astute and consistently successful Bonds/Fixed Income unit in the South African industry. In 2008, Henk handed over responsibility for the day-to-day management of all third-party, life asset and retail bond funds. He retained executive responsibility as head of Fixed Income and chairman of the Interest Rate Committee – the key macro factor forum that determines the duration positioning of STANLIB's fixed income mandates. In November 2019, he moved to the equity team as a senior portfolio manager.

Fund review

The portfolio delivered a positive return of 2.1% over the quarter. The investment in STANLIB SA Equity fund was the main positive contributor to returns.

The overweight position in MTN (+44%) contributed favourably to performance. The stronger oil price positively impacted its Nigerian business and investors displayed a greater level of appreciation for the company's fintech and fiber growth opportunities. Our overweight exposure to Motus (+57%) and Transaction Capital (+24%) added to performance, as they benefited from the recovery in SA. Northam (+23%) and Impala (+41%) within the PGMs sector assisted performance, given the fund's overweight positions. The above-benchmark positioning in Naspers (+17%) further assisted performance.

Our underweight position in Sasol (+58%) as well as overweight positions in Discovery (-14%) and Sanlam (+1.3%) impacted performance negatively. Not owning Royal Bafokeng (+77%) and Sappi (+40%) also detracted from performance. Being positively positioned in domestic consumer names like Spar (+1.3%), MultiChoice (-3.8%) and AVI (+1.9%) had a negative attribution effect.

Market overview

South African equity markets powered ahead, gaining 13.3% in rand terms, strongly outperforming most international markets. The JSE (MSCI SA +5.6% in dollars) was one of the best-performing equity markets globally in Q1 2021, outperforming the S&P 500 (+4.2%) and MSCI EM (-1.7%). The rand was also one of the best-performing EM currencies, depreciating 0.5% against the dollar, reflecting the 2.6% strength in the US dollar index.

From a sub-sector perspective, materials (+16.7%) maintained strength into the new year, as commodity prices continued to strengthen. The platinum group metals (PGMs) sector gained more than 20% and the energy sector delivered strong returns, given the recovery in the oil price. Forestry and paper also advanced strongly. Telecoms (+18.3%) also outperformed, while the South African consumer discretionary (+17%) and healthcare (+15.1%) sectors regained some of the large losses incurred during the previous year. Beverages (-4.3%) and media (-3.8%) remained on the back foot. Financials were generally weaker, with life (-1%) and non-life (-4.3%) insurance the laggards.

From a South African economic perspective, manufacturing continued to recover well into the new year, despite lockdown restrictions, with output up 81% since April 2020 but still lower than a year ago. The South African Reserve Bank (SARB) kept interest rates on hold at 3.5% in a unanimous decision that was generally expected by the market. The Monetary Policy Committee (MPC) has, however, expressed concern about inflation risks, given expectations of higher electricity and fuel prices. Food inflation has shown signs of topping out but remains high.

The SARB's quarterly bulletin provided some evidence that the South African consumer has been more resilient than expected. Taxes paid by individuals, corporates and VAT were higher than expected, with gross disposable income in the fourth quarter of 2020 about 3% higher than the previous year. The contraction in private and public sector nominal remuneration per worker also improved noticeably on a quarter-on-quarter comparison into the third quarter of last year. Total national government revenue was down 10% compared with the revised estimate of -18%.

At the macro level, the US purchasing manufacturers' index (PMI) showed continued momentum, helped by new orders and pent-up demand. This trend was evident in most countries globally, as world trade levels recovered strongly while uncertainty diminished. The US unemployment rate continues to improve. Federal Reserve Chair Jerome Powell has said the Bank's ambition is to drive the economy to full employment and he has downplayed inflation concerns. US wage and salary income growth remains low and dividend and interest income is still contracting.

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Euro area manufacturing PMI increased to its highest level since the data series started, supported by improved exports. The European Central Bank (ECB) indicated that it is willing to increase bond purchases to combat higher bond yields. Meanwhile, China has signed a 25-year strategic deal with Iran, which implies the country will continue to buy oil from Iran and invest in its domestic economy. This is widely seen as a move likely to drive geopolitical tension higher.

Looking ahead

The distribution of COVID-19 vaccines is expected to remain low in many areas, contributing to the expected uneven pace of global economic recovery over the next two years. South African scientists suggest that antibodies generated in response to infections from the variant first found in the country may protect against other strains of the virus and allow more effective vaccines. An expert on the matter mentioned that a vaccine with this variant might provide cross-protection against other variants. This in itself could prove to be a positive development in the race to a more sustainable and inclusive vaccine programme.

Economic growth in SA has been advancing ahead of expectations but getting the economy back to pre-pandemic output levels will take time - on our estimates, another two to three years. The recovery path seems to be in place and well defined but is subject to further potential lockdown restrictions. Although the MPC has expressed its increased concerns about the upside risk to inflation in SA, our view is that inflation targeting will be more of a secondary consideration in the current environment and that rates will remain steady for a considerable time.

The projected earnings growth for the JSE is robust and well supported by strong cyclical growth drivers from resources and domestically-focused shares, coupled with a structural growth component from the technology sector. Earnings growth is expected to be the key driver of shareholder returns from current levels, which have already enjoyed a strong re-rating on these expected earnings levels.

US inflation remains well contained but the base will start to become more challenging in the months ahead. The Federal Reserve reaffirmed that rates are not going to go up soon and that inflation is not a problem but the market seems more concerned about an upside surprise (higher than c.3%) in the current inflation cycle, which could cause some waves of panic in equity markets. Our view is that the inclusive employment and average inflation-targeting policy should support the lower-for-longer rates argument, despite the transient spike in inflation which could surprise the market.

We remain constructive on equities. The broader range of emerging market equities, which includes SA, remains attractive within the global context as the world moves closer to “reopening” status. Europe is also viewed more favourably within the global context of developed markets. Domestic bonds remain attractively priced in the current environment relative to cash, and should benefit from the lower-for-longer interest rates argument as well as favourable changes in the domestic environment, both from a political and economic perspective.

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 2021	Q4 2020	Change
Lesotho Cash & Mny Mkt	5.53	7.11	-1.59
Lesotho Equity	9.28	9.35	-0.07
Lesotho Fixed Interest	13.53	13.59	-0.06
South Africa Equity	33.87	31.41	2.45
South Africa Fixed Interest	10.00	10.23	-0.23
United States Funds	27.80	28.30	-0.51

Fund classes

Class	Type	TER	Price (spu)	Units	NAV (Maloti)
A	Retail	2.56	193.64	128,197,251.53	248,236,560.56

All Price, Units and NAV data as at 31 March 2021.
Units - amount of participatory interests (units) in issue in relevant class.

TER - 1 Year Total Expense Ratio (%) including VAT as at 31/12/2020. 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 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 Lesotho Unit Trust is a portfolio of the STANLIB Lesotho Collective Investment Scheme (the Scheme). The Scheme is licenced, regulated and supervised by the Central Bank of Lesotho (the Registrar) under the Central Bank of Lesotho (Collective Investment Schemes) Regulations, 2018.

The asset manager of the Scheme is Investment Manager 1 Legal Name (the Asset Manager). The Asset Manager is licensed by the Registrar under the Central Bank of Lesotho (Collective Investment Schemes) Regulations, 2018. An investor has a right to choose an investment option, choosing any particular investment option does not guarantee any particular investment outcome.

The custodian/trustee of the Scheme is Minet Lesotho.

The investments of this portfolio are managed by the Asset Manager.

Prices are calculated and published on each working day, these prices are available on the Asset Manager's website (http://ww2.stanlib.com/Lesotho) and in Lesotho 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/figures quoted are shown in LSL and are based on data sourced from Morningstar or Statpro and are as at 31 March 2021.

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.

Statistics - Positive Months: the number of individual 1 month periods during the specified time period where the return was not negative; Max Gain: the maximum gain in a trough-to-peak incline before a new trough is attained, quoted as the percentage between the trough and the peak. It is an indicator of upside risk over a specified time period (quoted for all periods of 1 year or longer); Max Drawdown: the maximum loss in a peak-to-trough decline before a new peak is attained, quoted as the percentage between the peak and the trough. It is an indicator of downside risk over a specified time period (quoted for all periods of 1 year or longer, where blank no loss was experienced); Highest and Lowest: the highest and the lowest 1 year return (%) that occurred during the specified time period (quoted for all relevant classes launched 1 year or more prior to current month end date).

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 Asset Manager and from the Asset Manager's website (http://ww2.stanlib.com/Lesotho). The collective investment scheme contract and prospectus may be inspected at the address of the Asset Manager provided in the Contact details section below.

Contact details

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