STANLIB Africa Equity Feeder Fund

Quarterly update at 30 June 2020

STANLIB

Who are the investment managers?

Feeder - 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.

Underlying - STANLIB Asset Management (Pty) Ltd were appointed by the Management Company (Threadneedle Management Luxembourg S.A.) as the sub-advisor of STANLIB Africa Equity, a portfolio of the Threadneedle (Lux) SICAV.

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.

Anwaar Wagner
BBusSc
Portfolio manager

Anwaar joined STANLIB in 2015 as a portfolio manager in the Multi-Asset team, with 19 years of investment management experience including five years of international investing. He previously worked at Old Mutual Global Emerging Markets (GEM) boutique as the portfolio manager of the GEM Fund. In that role, Anwaar was responsible for the concept and launch of the GEM Fund including the formation of their investment philosophy, investment process, portfolio management and equity analysis. Prior to that, he worked as head of basic materials, equity analyst and portfolio manager for the Old Mutual Resources Fund. His passion and wealth of industry experience has seen him win three Raging Bull Awards and S&P Micropal Awards. Anwaar started out as a trainee analyst at Oasis before moving to Metropolitan Asset Managers in 1999.

Fund review

The STANLIB Africa Feeder Fund delivered rand returns of 8.9% (11.9% in US dollars), outperforming the MSCI Africa Index by 0.2%, in the second quarter of 2020. The outperformance was driven by stock selection, offset by the underweight position in Nigeria, which performed well in the quarter, and cash holdings, which are a drag in rising markets.

We increased the fund's exposure to Morocco by introducing a new position in a Moroccan bank as well as adding to Attijariwafa, an existing Moroccan bank holding. The recent sell-off in markets made these banks' valuations more attractive on a relative basis.

Market overview

African markets, as measured by the MSCI Africa ex South Africa Index, rebounded along with global markets in the second quarter of 2020. The index gained 11.7% (after decreasing by 27.5% in the first quarter) in dollars and 10% in rand terms, due to the stronger rand over the quarter. The recovery reflected some countries easing lockdowns against a backdrop of global monetary and fiscal stimulus packages as well as a recovery in the oil price.

Looking at the major stock markets, Nigeria was the top performer in the second quarter, with a 25.1% return, as the oil price rebounded, after it was the second-worst performer at -33% in Q1. Morocco (10.1%) and West Africa (10.8%) also produced relatively strong returns while Mauritius, Kenya and Egypt were laggards with returns of between 5%-7%.

The full impact of the coronavirus on both the short term (how long will the lockdowns last?) and longer term (will it affect office- vs home-based work and hence fuel demand or tourism?) are hard to predict. These material variables impact our assessment of heavily oil-dependent economies, like Nigeria, or those materially dependent on tourism, like Mauritius.

Some broader principles remain, however. For example, in Egypt we continue to see structural reforms, while the response to COVID-19 has been to drop energy prices and further reduce interest rates. In the longer term, this will lead to lower inflation and interest rates, which should create an attractive environment for both local and multinational corporates to start investing again. A number of corporates in Egypt display a propensity to grow market share, leading to improved returns and cash flow generation, such as consumer/food producers and the healthcare sector. We continue to see opportunities in these areas of the market.

Morocco's valuations look more appealing since the correction in the stock market. The economy generates steady growth, although it is lower growth than Egypt's or Kenya's. Furthermore, the country can be seen as a beneficiary of lower energy and oil prices.

Nigeria needs to implement structural reforms to unlock its potential and reduce the economy's dependence on the oil price. Current lower oil prices will present problems for the Nigerian economy and potentially result in further naira devaluation, which could dilute dollar returns. We are starting to see some reforms, but we need to see more, and their successful execution.

Looking ahead

The fund retains its overweight position in Egypt as the country continues to display relatively strong economic fundamentals. We expect inflation to moderate further, providing an incentive for companies to re-invest as interest rates reduce from prohibitive levels. Strong population growth with macroeconomic reforms adds to the investment case.

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Kenya's full growth potential has been held back by the interest rate caps, which have been removed. This bodes well for Kenya longer term. It already has one of the highest GDP growth rates in Africa. We also prefer Kenya's fundamentals to those of Nigeria.

The Nigerian economy is expected to continue its low growth trajectory and, without structural policy reform to reduce its dependence on oil, we are unlikely to see this change. We maintain positions in the high-quality Nigerian names which we believe are defensive and offer good value, such as MTN Nigeria and Nestle Nigeria.

Morocco is a large underweight position in the portfolio by virtue of its rising weight in our benchmark and relatively expensive valuations in relation to its growth rate. Valuations have become more attractive since the sell-off, and we believe some of the reforms and focus on growth will reap long-term benefits.

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 2020	Q1 2020	Change
Domestic Cash & Mny Mkt	-0.79	2.37	-3.16
Foreign Cash & Mny Mkt	1.76	0.00	1.76
Foreign Equity	99.04	97.63	1.41

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
A	Retail	5.28	47.22	753,135.19	355,599.80
B1	Retail	3.83	73.44	10,000.00	7,344.47

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. 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 Africa Equity Feeder 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.

This portfolio is a Feeder Fund portfolio. A Feeder Fund portfolio is a portfolio that invests in a single portfolio of a collective investment scheme, that levies its own charges, which could result in a higher fee structure for the Feeder Fund.

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.

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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