# STANLIB Bond Fund

Quarterly update at 30 June 2020

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.

**Victor Mphaphuli**
BCom (Hons)(Economics), GEDP
Co-head of Fixed Interest

Victor is a key member of STANLIB's multi-award-winning Fixed Interest team, one of the largest in South Africa. Victor is one of the top fixed income fund managers in the country and has won ABSIP Awards for fund management as well as Raging Bull Awards. He initially joined the team as a bond dealer and later assumed added responsibility for portfolio management. He was promoted to head of Bond and Income Funds in 2008, assuming full responsibility for the daily management of these funds. In 2016 Victor was promoted to co-head of Fixed Interest which he jointly manages with Henk Viljoen. Victor began his financial services career as a trainee foreign currency dealer with Standard Bank's treasury division in 1996. After gaining experience as a bond market dealer with Nedbank Investment Bank, he joined STANLIB's forerunner Liberty Asset Management in 2001.

**Sylvester Kobo**
BSc (Hons)(Pure Mathematics)
Portfolio manager

Sylvester joined STANLIB in 2013 as a Money Market dealer and a trainee portfolio manager. He then moved to the bond team, assuming a role of portfolio manager and trader. Sylvester started his career in 2009 at ABSA Capital as a credit quantitative analyst focusing on pricing and management of risk on all derivatives. In 2012 he assumed the lead role for credit in the Absa/Barclays Africa Integration roll-out of the sales and trading programme to 11 Barclays Africa countries. Sylvester's BSc from Wits University includes majors in pure maths and economics. He then went on to get his honours degree in pure mathematics in 2009 from the same university.

## Fund review

The fund outperformed the benchmark by 1.37% (4.21% relative to the benchmark return of 2.85%) over a one-year period to 30 June 2020. However, the last three months were challenging, given market volatility. This led to an underperformance of 14 bps. The steepening of the yield curve negatively affected the fund's performance following the overweight to the 12+ area of the yield curve assumed during the quarter.

On the whole, bond yields moved lower in the second quarter, however demand was more concentrated in the shorter-dated bonds. Our underweight position in the 0 – 3-year area of the yield curve detracted from performance over the quarter.

After the sell-off and correction in the credit space earlier in the quarter, we used the opportunity presented by wider spreads to increase our credit exposure by adding good-yielding assets to the portfolio.

## Market overview

After a particularly challenging first quarter, policymakers around the world implemented extraordinary fiscal and monetary policy measures to support the global economy during the second quarter. Current forecasts from the International Monetary Fund (IMF) show global gross domestic product (GDP) decreasing by about 4.9% this year. Locally, the government responded with a R500 billion fiscal support package to help restore 10% of the country's GDP.

The lack of clarity on how this package would be funded, coupled with the exclusion of South African Government Bonds (SAGBs) from the World Government Bond Index (WGBI) in April, resulted in jittery investors moving away from holding long-dated bonds. However, yields fell during the quarter as the market partially recovered from March's sharp COVID-19-related sell-off. The South African 10-year bond yield declined from 10.95% to 9.245%, with bigger falls seen at the short-end of the yield curve in line with the accommodative monetary policy stance. The rand appreciated by R0.42 to end the quarter at R17.38/$.

The rally in the bond market was further fuelled by the South African Reserve Bank's (SARB) commitment to continue with its bond buying programme which was much more significant in the second quarter. In other developments, the SARB cut the repo rate twice, by a cumulative amount of 150 basis points (bps) during the quarter, largely in response to COVID-19-induced economic turmoil. The first cut was 100 bps in April and the second was 50 bps in May, taking the rate to a low of 3.75%.

According to the SARB's Quarterly Projection Model, the implied rates path suggests two repo rate cuts of 25 bps each in the next two quarters. Benign inflation expectations have enabled these moves. The combination of a dramatic fall in the oil price and the economic slowdown following the stringent lockdown in the first half of the year has resulted in muted inflation.

In the Special Adjustment Budget announced in June, Finance Minister Tito Mboweni provided some clarity on the budget reprioritisation to fund the stimulus package and, more importantly, how government plans to bring the fiscal debt burden under control. In his revised budget, he tabled an expenditure reduction of R230 billion over FY21/22 and FY22/23, which was welcomed by the market. However, scepticism around implementation remains high.

On the growth front, National Treasury adjusted its forecast for 2020 to a contraction of -7.2%, slightly worse than the SARB's -7% forecast and much lower than the 0.9% that was expected in the February Budget. The more realistic projections earned Treasury some credibility in the market, but rating agents found these projections too optimistic.

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## Looking ahead

The Special Adjustment Budget presented bold fiscal consolidation plans and a lower-than-expected increase in bond issuance. This paves the way for bond yields across all maturities to move lower. Some market participants remain unconvinced by the expenditure reduction plans, given the implementation risk, and thus may assume a cautious position building up to the Medium-Term Budget. However, the improved backdrop for global interest rates will dominate global market movements, potentially boosting risk assets around the globe. Inflation expectations remain benign which should enable the SARB to further cut rates in this cycle. The real yield on SAGBs is still compelling, which may prompt reinvestment by offshore investors, further compressing bond yields.

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 | -0.61 | 2.33 | -2.94 |
| Domestic Fixed Interest Corp | 17.09 | 15.77 | 1.32 |
| Domestic Fixed Interest Govt | 83.51 | 81.73 | 1.79 |
| Domestic Money Market | 0.00 | 0.17 | -0.17 |

The portfolio adhered to its portfolio objective over the quarter.

## Fund classes

| Class | Type | TER | Price (cpu) | Units | NAV (Rand) |
|---|---|---|---|---|---|
| A | Retail | 0.87 | 168.84 | 286,502,756.81 | 483,734,147.58 |
| R | Retail | 0.87 | 168.84 | 166,094,166.65 | 280,435,574.38 |

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.

## 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 Bond 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 is a portfolio that derives its income primarily from interest-bearing instruments. The yield (if shown) is a current effective yield calculated daily.

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


### Manager

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### Investment Manager

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