STANLIB Equity 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.

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.

Kobus Nell
BCompt (Hons), CA (SA), CFA
Portfolio manager

Kobus joined STANLIB in 2003 on completion of his audit articles at PwC. His early career included extensive exposure to fund operations at STANLIB where he was instrumental in automating a number of key system processes. He joined the investment team as an equity dealer in 2007 and was promoted to assistant portfolio manager in the unconstrained equity team in 2008. He also performed various research roles across sectors and managed the STANLIB Gold and Precious Metals Fund from 2011 and the STANLIB Resources Fund from 2014. He joined the STANLIB Multi-Asset franchise as a portfolio manager in 2015 where he have been involved in fundamental and quantitative equity research and asset allocation analysis. Kobus is now a portfolio manager for the Multi-Asset and Equity team.

Fund review

The Fund delivered a positive return of 17.2%, underperforming the SWIX All Share Index, which delivered 22.1%.

Overweight positions in global and South African technology shares like Prosus, Naspers, Amazon and Microsoft assisted performance. These companies have enjoyed strong earnings upgrades and improved ratings as the market appreciated their position in a world where people are doing more over the internet from inside their homes. The take-up of gaming applications for entertainment (especially in China), cloud storage, ecommerce and social media, to name a few, maintained momentum. Active positions in mining shares like BHP Group and Northam stood the fund in good stead. Having underweights in various domestic-focused consumer shares like Shoprite and FirstRand helped performance.

Global equities in general underperformed our domestic stock market during the quarter which took away some of the relative gains enjoyed in the prior quarter. The underweight position in the precious metals sector in general detracted from performance. Specifically, not owning gold shares weighed on returns as the gold index was up close to 70% during the period. Our overweight allocation to the pharmaceutical retailer Dischem and food producer AVI impacted performance negatively.

Market overview

Looking back now, data indicates that uncertainty and anxiety levels around the COVID-19 virus started to ease around the middle of March, which coincided with aggressive central bank intervention to support the real economy in these unprecedented times. This led to a moderation in the volatility index (measured by VIX) and investors migrated back towards risk assets during the quarter, with cyclical shares performing particularly well.

The sudden stop in global economic activity triggered deeply negative economic data released in April and May. This included signs that corporate profits and balance sheets are starting to bear the brunt of the extended lockdown regulations. The relaxation of lockdown restrictions had an opposite effect on pockets of economic data, like the US manufacturing data (Purchasing Managers' Index or PMI) and retail sales, which bounced back strongly after very sharp declines in previous months.

Similarly, the recovery in our domestic manufacturing index (PMI) above 50 highlights the improvement in the South African manufacturing sector. However, policy measures to improve SA's growth performance are restricted. Fiscal measures to boost household consumption and corporate investment are constrained by affordability, while it is paramount to address the rising debt trajectory to manage further credit downgrades. This further limits government's ability to increase spending.

Some of the equity markets globally showed a V-shaped recovery from the slump during the previous quarter. The domestic market was one of them. Technology and gold were the biggest drivers of the improved performance. Resources and outward-focused industrial companies in general outperformed financials and other related domestic consumer-facing shares. The rand also stabilised after its sharp sell-off against hard currencies in the first quarter, ending the second quarter substantially better on the whole.

Looking ahead

The current quarter will largely reveal the quantum and significance of the COVID-19 pandemic. We are mindful that regulations may remain in place for an extended period beyond the quarter and will contribute to defining the future and speed of the recovery. In the meantime, the economic environment remains challenging, especially for consumer-facing shares that are dealing with a government-imposed reduction in demand for their products.

STANLIB Equity Fund

Quarterly update at 30 June 2020

STANLIB

We believe that the contraction in the earnings base in SA triggered by COVID-19 is generally bottoming out, after some material revisions. Companies are embarking on extensive cost-cutting measures to manage profitability, as a much weaker consumer environment is expected in the coming months. A number of rights issues have been announced in a bid to better weather the lagging effects of the lockdown from the likes of Mr Price, Pepkor, Foschini and City Lodge. We expect more to materialise this quarter.

We also believe valuation differentials in some of the domestically-focused consumer companies are quite stark in relation to the rest of the market and hard to ignore. Although it is early in the cycle, we see selective opportunities for the patient long-term investor.

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	4.46	3.26	1.20
Domestic Equity	55.48	53.81	1.66
Foreign Cash & Mny Mkt	0.36	0.29	0.07
Foreign Equity	35.50	38.32	-2.82
Pan Africa Cash & Mny Mkt	0.03	0.03	0.00
Pan Africa Equity	4.18	4.29	-0.11

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
A	Retail	2	27,979.09	2,081,839.48	582,479,835.67
R	Retail	1.42	28,112.93	10,209,842.29	2,870,286,089.79

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 Equity 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 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

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