

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.



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)
Senior 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 STANLIB Lesotho Income Fund shrank from L2.1 billion to L1.93 billion during the fourth quarter of 2023. The fund continued to deliver a better performance than money market returns, with a one-year return of 9.7% (gross of fees), ahead of the benchmark return of 8.1%. Credit issuance has picked up since the start of the year, with bank issuance continuing to dominate the market. On balance, credit spreads continue to trend narrower, with auctions remaining well oversubscribed and clearing below price guidance. The fund's modified duration was reduced slightly to 0.22 years, given the volatile environment.

Market overview

In the fourth quarter of 2023, bond bulls returned to the market to cap yields across the board, unlike previous quarters when bears dominated due to the Fed and other DM central banks' unwillingness to pivot on rates. This was understandable, as geopolitics took centre stage at the start of the quarter when the outbreak of war between Israel and Hamas in early October weighed on market sentiment, raising concerns about sticky inflation. Strong economic data releases, especially from the US, increased the likelihood of interest rates staying "higher for longer", resulting in a negative performance for core bonds at the end of October. In the last two months of the year, volatility abated as inflation continued to cool and the US economy showed signs of a soft landing. The DXY index and VIX trading index were significantly lower at 102 and 12.45%, which supported core and emerging market bond yields and currencies. Emerging market bonds took their cue from core rates after major central banks decided to hold rates unchanged again, implying that they had reached a peak in the hiking cycle. Expectations for rate cuts continued to mount towards year-end on the back of dovish hints from major central banks, with markets starting to discount cuts as early as March 2024.

The outbreak of war in October did not bode well for global bonds as oil prices slumped and the strong dollar environment pushed bond yields weaker across the board, especially those of developed market bonds. US government finances remained a concern, given fears of a government shutdown in previous months, while strong economic data releases in the US kept treasuries elevated over the period. In November the risk-off environment abated. Global bonds followed a relief rally in US Treasuries after the Fed's monetary policy meeting in November, while other developed market central banks (i.e. the Bank of England and European Central Bank) similarly kept rates unchanged and adopted a more dovish tone. Emerging markets gained on the back of unchanged rates, spurring a "risk-on" environment, as the market started pricing in cuts for 2024. US 10-year Treasuries strengthened to 3.875% towards quarter-end as markets increased bets of a cut in March, contrary to the Fed, which indicated they would only occur later in the year.

This change in sentiment triggered one of the biggest turnarounds on record in demand for risk assets, following signs of a slowdown in US job creation in October, when non-farm payrolls were lower than forecast. The United Auto workers strike exacerbated job losses in the manufacturing industry. Unemployment rose to its highest level since 2022, at 3.9%, and the participation rate also declined. This data was reinforced by a moderation in headline inflation to 3.2% (core inflation at 4%) and more importantly the fact that core PCE inflation (the Fed's preferred inflation measure) on a six-month basis printed below 2% on an annualised basis. If core PCE continues to trend lower, the Fed would be close to reaching its overall 2% target, a scenario which supports its decision to keep rates steady instead of increasing them.

Positive sentiment continued into December across global bonds as inflation gradually showed signs of improvement. Inflation in the US and euro zone is moderating faster than expected, fuelling market expectations of rate cuts. The big pivot that the markets had been waiting for occurred in the December FOMC meeting. Emerging markets continued to benefit on the back of a "risk on" environment, as EM central banks kept rates unchanged and markets jumped on the expected price cutting bandwagon for 2024.

STANLIB Lesotho Income Fund

Quarterly update at 31 December 2023

STANLIB

In SA, bonds had a positive streak, boosted by an increased probability of no further US interest rate hikes. Yield strength can also be attributed to strong US Treasuries, a stronger rand and a Medium-Term Budget Policy Statement which was broadly in line with, if not better than, market expectations, given the lower-than-expected deficit figures and commitment by government to stabilise public debt. SA's inflation trajectory has contributed to bond performance over time, as seen with the moderation in the November headline CPI from 5.9% y/y to 5.5%, although it was slightly higher than expectations. Core inflation ticked up slightly, from 4.4% to 4.5% y/y, but is still within benign ranges. The shift in the Fed's monetary policy outlook and moderating inflation reduced pressure on the SARB to hike rates at its November meeting, and it kept the benchmark rate unchanged at 8.25% in a unanimous decision. The FRA market continues to price in probabilities of rate cuts in 2024. Overall bonds held up relatively well in the quarter, with bouts of relief rallies ending the quarter just over 70 bps stronger across the curve and the ALBI delivering positive returns.

Looking ahead

Most central banks are believed to have reached a peak in their rate hiking cycle, given slowing growth and inflation and the recent reprieve in oil prices. Their decisions will continue to be data dependent, although markets expect aggressive cuts. Despite improvements in the global backdrop, uncertainty about the future and fluctuations in oil prices and elections across both DM and EM will continue to create persistent volatility in the near term for fixed income markets. Load shedding and elections remain key concerns, but the bond market should strengthen in 2024.

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	Q4 2023	Q3 2023	Change
Lesotho Cash & Mny Mkt	23.19	11.60	11.59
Lesotho Fixed Interest	0.00	8.95	-8.95
Namibia Cash & Mny Mkt	0.19	0.14	0.05
Namibia Fixed Interest	0.00	1.21	-1.21
South Africa Cash & Mny Mkt	2.20	2.00	0.21
South Africa Fixed Interest	74.41	76.10	-1.69

Fund classes

Class	Type	TER	Price (spu)	Units	NAV (Maloti)
A	Retail	1.28	97.39	524,670,591.60	510,954,966.93
B1	Retail	1.03	97.44	1,454,137,417.84	1,416,856,682.45

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 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 Lesotho Income Fund 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 (www.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.

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/figures quoted are shown in LSL 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.

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 (www.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

Manager

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Investment Manager

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