STANLIB Lesotho Income Fund

Quarterly update at 31 March 2024

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.

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 was unchanged at a market value of L1.94 billion in the first quarter of 2024. 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 8.4%. 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 remained unchanged at 0.22 years, given the volatile environment.

Market overview

In the first quarter of 2024, the global rally in bond yields that occurred towards the end of 2023 reversed, as the bond market started tapering rate cut expectations from developed market (DM) central banks. Initially the market consensus was for 150 bps of rate cuts this year, but this has since moderated as data in the first three months of 2024 showed a still-vibrant US economy, causing views to diverge around the magnitude and timing of interest rate cuts. The timing of rate cuts has now been pushed out by a few months, with the markets and the Federal Reserve (Fed) now aligned to expect 75 bps of cuts for the year. DM and some emerging market (EM) central banks are holding rates as geopolitics and elections in many countries are a concern to the global macro-outlook.

Economic data prints in DMs indicate a deceleration in inflation overtime, which is positive for markets, but the recent higher-than-expected economic prints have dialled back market expectations of rate cuts. In the US, higher-than-expected GDP, coupled with above-target inflation, caused the Fed to revise its 2024 growth and inflation projections higher at the March meeting. The first-rate cut is now only expected in June. The higher-than-expected non-farm payrolls print for January at 353 000 shows a strong labour market, increasing scepticism about the need to reduce interest rates. Similarly, euro zone and UK inflation continue to moderate, although services inflation remains sticky, particularly in the euro zone. This was lagged previously by the European Central Bank as an upside risk to inflation. Despite this, both central banks still see inflation coming off and looser monetary policy remains on the table. After a slow start to the year, core bonds traded in a tight range in January, but as liquidity returned to the market there was a sell-off in global bond yields in February and March. US treasuries weakened as much as 4.3% in the 10-year area, due to uncertainty about the rate-cutting cycle.

EMs took their cue from weaker US treasuries and currencies since the global backdrop did not support risky assets in the first quarter of the year. Despite the current weakness, EM bond yields are expected to benefit from "risk-on sentiment" once the rate cutting cycle starts, which should see the return of the EM carry trade. China continues to lag other EM countries, given idiosyncratic issues. China's manufacturing PMI at below 50 is an indication of persistent contraction in the economy. Fiscal stimulus efforts are positive for the economy, but more needs to be done to generate a meaningful turnaround in the economic recovery.

In SA, bonds opened the year slowly, with low liquidity. Yields traded in a narrow range, with markets struggling to find traction in either direction. The South African Reserve Bank (SARB) kept interest rates unchanged at its January and March meetings. At the March meeting, the SARB indicated a hawkish pause. Governor Lesetja Kganyago flagged upside risks to inflation as a concern and said the committee needed to see inflation trending towards the midpoint of 4.5% before it could consider cutting rates. The National Budget tabled in February was well-received by the market, as reflected in a rally in bonds. The main focus item was the announcement by National Treasury that it would tap into the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) to reduce the borrowing requirement. R150 billion of the reserves will be drawn down over the next three fiscal years: R100 billion of this will be in the 2024/25 fiscal year. Reducing the gross borrowing requirements is positive for bonds from an issuance perspective as it will alleviate pressure on the yield curve. Despite the positive Budget, South African Government Bonds (SAGBs) reversed their gains, with the curve ending the quarter steeper, having sold off by 70 bps. The All-Bond Index (ALBI) returned -1.8% in the quarter.

Looking ahead

Most central banks are believed to be closer to beginning their rate cutting cycle, but they need to have greater confidence that inflation is moving sustainably towards their targets, as they have reiterated. We expect the decision on the timing of the first cut will depend on economic data over the next few months. Despite improvements in the global backdrop, uncertainty about the future and fluctuations in oil prices and elections in both DMs and EMs will continue to create persistent volatility in the near term for fixed income markets. Load shedding and elections locally remain key concerns, but the bond market should strengthen in 2024 once the rate cutting cycle is initiated in the latter part of the year.

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 2024	Q4 2023	Change
Lesotho Cash & Mny Mkt	24.75	23.19	1.56
Namibia Cash & Mny Mkt	0.19	0.19	0.00
South Africa Cash & Mny Mkt	4.91	2.20	2.71
South Africa Fixed Interest	70.14	74.41	-4.27

Fund classes

Class	Type	TER	Price (spu)	Units	NAV (Maloti)
A	Retail	1.26	96.97	541,407,318.30	525,010,774.20
B1	Retail	1.01	97.02	1,457,956,803.00	1,414,510,969.00

All Price, Units and NAV data as at 31 March 2024.
Units - amount of participatory interests (units) in issue in relevant class.
TER - 1 Year Total Expense Ratio (%) including VAT as at 31/12/2023. 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.

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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 STANLIB Lesotho Income Fund is a portfolio of the Standard Bank 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 March 2024.

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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