Standard Bank Swaziland Managed Fund

Quarterly update at 30 September 2021

Who are the investment managers?

STANLIB Eswatini (Pty) Ltd, an authorised financial services provider, registration number R7/16110, under the Securities Act of 2010 and the Financial Services Regulatory Authority Act of 2010, 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.

Henk Viljoen
MCom (Economics)(Cum laude)
Senior Portfolio Manager

After gaining early experience in the treasury environment at Telkom and at Senbank, Henk joined the then Liberty Asset Management in 1990, and was appointed head of Fixed Income. Henk retained this role throughout the amalgamation with Standard Corporate and Merchant Bank that formed STANLIB, and for many years led a multi-award-winning team which built an undisputed reputation as the most astute and consistently successful Bonds/Fixed Income unit in the South African industry. In 2008, Henk handed over responsibility for the day-to-day management of all third-party, life asset and retail bond funds. He retained executive responsibility as head of Fixed Income and chairman of the Interest Rate Committee – the key macro factor forum that determines the duration positioning of STANLIB's fixed income mandates. In November 2019, he moved to the equity team as a senior portfolio manager.

Fund review

The Fund gained from its exposure to listed property and its selection of South African equities. An overweight position to global developed market equities further assisted relative performance, helped by the appreciation in hard currencies.

The overweight position in domestic bonds relative to South African equity and cash marginally detracted from relative returns. Exposure to emerging market equities negatively impacted our performance.

On the domestic equity side, we reduced the Fund's weighting in the consumer discretionary segment as the earnings recovery profile has become more mature and valuations levels extended. The proceeds were redirected to companies which are less dependent on the domestic consumer and where the business models provide a higher level of diversification towards international markets, by buying British American Tobacco, Aspen and Prosus. We continued to increase the Fund's allocation to banks. We also increased the positioning in consumer staples by adding to food retailers. The exposure to the materials sector was further reduced during the quarter.

Market overview

In the third quarter of 2021, the South African equity market gained marginally after a very strong start to the year. The FTSE/JSE SWIX Index gained 0.5% in rands, lagging most developed market indices but outperforming the emerging market basket. Local bonds slightly underperformed equities, with the ALBI returning 0.4%. South African listed property continued its strong performance, as the SAPY added +5.9%.

The 5.6% depreciation in the rand against the dollar helped the domestic returns of offshore holdings. Globally, the technology-heavy S&P500 (+0.6%) outperformed the MSCI AC World Index (-1%) and MSCI EM Index (-8.1%) in dollars, with Chinese indices the drag within the EM basket. The US dollar was on the front foot against most currencies, with both the S&P 500 and Nasdaq indices trading at record highs in the quarter. Global bonds also slightly underperformed global equities. The FTSE WGBI delivered negative returns, ending -1.2% lower as yields kicked up towards the end of the period.

SA's High Court struck down some amendments to mining regulations related to black ownership targets, and this could reverse some of the last few years' lost confidence. The South African government's push to compel companies to disclose the wage differentials between executives and workers is a step closer to becoming law after Cabinet approved the publication of the Companies Amendment Bill for public comment.

On the global front, concerns about China's over-leveraged property development sector reached a tipping point, as the unsustainable debt levels of one of the largest industry players, Evergrande, became clearer. It owes banks, bondholders and suppliers an estimated $300 billion. The company commenced negotiated interest payments on yuan bonds towards the end of the month.

The clear social pressure point is Chinese retail investors, who invested in high-yield wealth management products. The group has issued more than $6 billion in high-yield wealth management products to an estimated 80 000 retail investors, including its own employees. These investors now want their money back. Home buyers have pre-paid Evergrande for an estimated 1.6 million apartments it has not delivered yet. Chinese homes sales slumped 20% in value during the previous month. The risk of a potential spillover cannot be ruled out, but the willingness and ability of Chinese regulators to contain a systemic overflow seems in place, and a potential restructuring of the debt is on the cards.

The global supply chain remains very complex, with shortages of products extending through a relatively wide base (including semi-conductors, plastics etc.). A sharp increase in the number of container ships at ports is testament to how global trade has been negatively impacted by lockdowns and bottlenecks. Resulting product inflationary pressure has become a widespread concern. The sharp rise in energy prices, especially coal and natural gas, adds another layer of concern. The Chinese government is considering power price hikes for industrial users to curb demand, which gives some colour to the severity of the problem.

Looking ahead

Federal Reserve officials revealed a growing inclination to complete the tapering of the bond buying programme as early as mid-2022. While there still seems to be some uncertainty about the timing of the expected interest rate increases, consensus that it will be around 2023. We believe these actions will be dependent on the strength of the growth trajectory and employment recovery. Our outlook for actual interest rate increases in the US and domestically remains moderate, which should keep investors interested in longer-duration growth assets.

The increase in input cost pressure through the spike in energy prices and wage increases, as the global economy tries to deal with a more complicated reopening environment (supply chain issues and bottlenecks caused by lockdowns, restrictions and imbalances in demand), are important developments to watch for potential signs of a more persistent inflation problem.

The notable slowdown in US growth momentum will also be an issue for policymakers to consider before taking any restrictive measures. The expected complications caused by continuous mutations and subsequent variants of the coronavirus will probably defer the first US rate hike for a few years, in our view.

The potential for further Chinese stimulatory policies has been raised by some market participants but, with more stringent environmental actions over the winter months and the vision of blue skies during the Winter Olympics in February next year, such actions could be delayed. Policy developments in this regard will be important for the South African equity market, given the strong reliance on, and concentrated nature of, the materials sector and the contribution of Naspers and Prosus through Chinese listed giant Tencent.

The euro zone's robust economic recovery to date supports a more hawkish monetary policy stance but a slowdown in Chinese activity is a risk to the region’s economic outlook and may hold policymakers back from more stringent measures.

In SA, policy reform is well under way, showing co-ordinated policy progress that will require private sector involvement and create clear opportunities for those involved. The news that SA’s state-owned ports and rail company, Transnet, is seeking a partner to take stakes in two container terminals to boost efficiency and strengthen ties with global trade routes is testimony to this reform. More of these initiatives are expected to follow. SA’s tax revenue collection maintained its strong momentum. An improved revenue collection system, coupled with cyclically high commodity prices and the subsequent taxable base, supported this number. The level of commodity prices will remain a very important factor for the fiscus in SA. Additional demands on the fiscus, resulting from the social pressures that intensified during the pandemic, are expected to be shielded by the relatively high level of commodity prices in the short term. Stronger-than-expected economic growth and/or counteracting fiscal measures are required in the longer term to sustainably deal with the elevated debt levels in SA.

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	Q3 2021	Q2 2021	Change
Europe Equity	5.35	5.24	0.11
South Africa Cash & Mny Mkt	0.61	0.42	0.19
South Africa Equity	21.78	22.06	-0.29
Swaziland Cash & Mny Mkt	38.55	38.05	0.51
Swaziland Equity	0.07	0.07	0.00
Swaziland Fixed Interest	12.24	12.50	-0.26
United Kingdom Equity	12.08	12.05	0.03
United Kingdom Fixed Interest	5.65	5.69	-0.04
United States Cash & Mny Mkt	0.04	0.04	0.00
United States Equity	3.63	3.87	-0.24

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Emalangeni)
A	Retail	1.73	444.16	8,415,189.88	37,376,710.08
R	Retail	1.24	444.72	235,665,562.96	1,048,056,833.27

All Price, Units and NAV data as at 30 September 2021.

Units - amount of participatory interests (units) in issue in relevant class.

TER - 1 Year Total Expense Ratio (%) including VAT as at 30/06/2021. 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 Standard Bank Swaziland Managed Fund is a portfolio of the Standard Bank Swaziland Collective Investment Scheme(the Scheme).

The manager of the Scheme is STANLIB Eswatini Unit Trust Management Company(the Manager). The Manager is authorised in terms of the Securities Act No. 9 of 2010 to administer Collective Investment Schemes (CIS) in Securities. 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 Nedbank (Swaziland) Limited.

The investments of this portfolio are managed, on behalf of the Manager, by Investment Manager 1 Legal Name, an authorised financial services provider, registration number R7/16110, under the Securities Act of 2010 and the Financial Services Regulatory Authority Act of 2010.

Prices are calculated and published on each working day, these prices are available on the Manager's website (www.stanlib.com/Eswatini) and in Swazi 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 SZL and are based on data sourced from Morningstar or Statpro and are as at 30 September 2021.

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 Manager and from the Manager's website (www.stanlib.com/Eswatini).

Contact details

Manager

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