STANLIB SA Equity Fund

Quarterly update at 31 March 2021

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 STANLIB SA Equity Fund advanced 12.7% for the period.

Positively, our overweight position in MTN (+44%) contributed favourably to performance. The stronger oil price positively impacted its Nigerian business and investors displayed a greater level of appreciation for the company's fintech and fiber growth opportunities. Our positioning towards Motus (+57%) and Transaction Capital (+24%) helped performance, as they benefited from the recovery outlook in SA. Northam (+23%) and Impala (+41%) within the PGMs sector assisted performance, given the fund's overweight positions. The above-benchmark positioning in Naspers (+17%) further assisted performance.

Negatively, an underweight position in Sasol (+58%) detracted from performance. Overweight positions in Discovery (-14%) and Sanlam (+1.3%) impacted performance negatively. Not owning Royal Bafokeng (+77%) and Sappi (+40%) also detracted from performance. Being positively positioned in domestic consumer names like Spar (+1.3%), MultiChoice (-3.8%) and AVI (+1.9%) had a negative attribution effect.

Market overview

South African equity markets powered ahead, gaining 13.3% in rand terms, strongly outperforming most international markets. The JSE (MSCI SA +5.6% in dollars) was one of the best-performing equity markets globally in Q1 2021, outperforming the S&P 500 (+4.2%) and MSCI EM (-1.7%). The rand was also one of the best-performing EM currencies, depreciating 0.5% against the dollar, reflecting the 2.6% strength in the US dollar index.

From a sub-sector perspective, materials (+16.7%) maintained strength into the new year, as commodity prices continued to strengthen. The platinum group metals (PGMs) sector gained more than 20% and the energy sector delivered strong returns, given the recovery in the oil price. Forestry and paper also advanced strongly. Telecoms (+18.3%) also outperformed, while the South African consumer discretionary (+17%) and healthcare (+15.1%) sectors regained some of the large losses incurred during the previous year. Beverages (-4.3%) and media (-3.8%) remained on the back foot. Financials were generally weaker, with life (-1%) and non-life (-4.3%) insurance the laggards.

From a South African economic perspective, manufacturing continued to recover well into the new year, despite lockdown restrictions, with output up 81% since April 2020 but still lower than a year ago. The South African Reserve Bank (SARB) kept interest rates on hold at 3.5% in a unanimous decision that was generally expected by the market. The Monetary Policy Committee (MPC) has, however, expressed concern about inflation risks, given expectations of higher electricity and fuel prices. Food inflation has shown signs of topping out but remains high.

The SARB's quarterly bulletin provided some evidence that the South African consumer has been more resilient than expected. Taxes paid by individuals, corporates and VAT were higher than expected, with gross disposable income in the fourth quarter of 2020 about 3% higher than the previous year. The contraction in private and public sector nominal remuneration per worker also improved noticeably on a quarter-on-quarter comparison into the third quarter of last year. Total national government revenue was down 10% compared with the revised estimate of -18%.

From a global perspective, COVID-19 vaccine roll-out has been mixed. Israel, where more than 60% of the population has already received the second dose, is leading. Progress in the UK and US has been strong, but Europe has disappointed in general.

At the macro level, the US purchasing manufacturers' index (PMI) showed continued momentum, helped by new orders and pent-up demand. This trend was evident in most countries globally, as world trade levels recovered strongly while uncertainty diminished. The US unemployment rate continues to improve. Federal Reserve Chair Jerome Powell has said the Bank's ambition is to drive the economy to full employment and he has downplayed inflation concerns. US wage and salary income growth remains low and dividend and interest income is still contracting. The $2 trillion infrastructure plan announced by newly inaugurated US President Joe Biden focuses on green infrastructure, which includes local electric vehicle production, improving energy efficiency in buildings and extending electrical grids.

Euro area manufacturing PMI increased to its highest level since the data series started, supported by improved exports. The European Central Bank (ECB) indicated that it is willing to increase bond purchases to combat higher bond yields. Meanwhile, China has signed a 25-year strategic deal with Iran, which implies the country will continue to buy oil from Iran and invest in its domestic economy. This is widely seen as a move likely to drive geopolitical tension higher.

Looking ahead

The distribution of COVID-19 vaccines is expected to remain slow in many areas, contributing to the expected uneven pace of the global economic recovery over the next two years. South African scientists suggest that antibodies generated in response to infections from the coronavirus variant first found in the country can protect against other strains of the virus and may allow for more effective vaccines. An expert on the matter mentioned that a vaccine with this variant might provide cross-protection against other variants. This could prove to be a positive development in the race to a more sustainable and inclusive vaccine programme. Public health authorities in SA are warning that a third wave of COVID-19 virus infections is probable in coming months, which remains a key risk to the expected recovery path.

Economic growth in SA has been advancing ahead of expectations but getting the economy back to pre-pandemic output levels will take time - on our estimates, another two to three years. The recovery path seems to be in place and well defined, but it is subject to further potential lockdown restrictions. Although the MPC has expressed increased concern about the upside risk to inflation in SA, we believe inflation targeting will be a secondary consideration in the current environment and that rates will remain steady for a considerable time.

The projected earnings growth for the JSE is robust and well supported by strong cyclical growth drivers from resources and domestically-focused shares, coupled with a structural growth component from the technology sector. Earnings growth is expected to be the key driver of shareholder returns from current levels. The JSE has already enjoyed a strong re-rating on these expected earnings levels.

In the US, the well-advertised next wave of fiscal stimulus of $1.9 trillion should impact household income and savings in the next couple of months. The fiscal deficit continued to increase well over the $3.5 billion mark as the economy remains highly stimulated. Interestingly, small business confidence has remained weak, despite this very accommodative environment. Increased savings are evident in the net wealth levels, which rose $6.9 trillion in the final quarter of 2020 and are now equivalent to c.7.5x disposable income.

US inflation remains well contained but the base will start to become more challenging in the months ahead. The Federal Reserve reaffirmed that rates are not going to go up soon and that inflation is not a problem but the market seems more concerned about an upside surprise (higher than c.3%) in the current inflation cycle, which could cause panic in equity markets. Our view is that the inclusive employment and average inflation targeting policy should support the lower-for-longer rates argument, despite a transient spike in inflation, which could surprise the market.

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 2021	Q4 2020	Change
Domestic Cash & Mny Mkt	0.82	1.64	-0.82
Domestic Equity	96.49	95.12	1.37
Domestic Property	2.69	3.24	-0.55

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
A	Retail	1.75	773.82	29,331,650.88	226,974,506.50
R	Retail	1.17	775.15	313,578,526.21	2,430,697,377.53

All Price, Units and NAV data as at 31 March 2021.

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

TER - 1 Year Total Expense Ratio (%) including VAT as at 31/12/2020. 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.

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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 STANLIB SA 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.

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 31 March 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.

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).

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