

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.



Mary Hartigan
BCom
Portfolio manager/dealer

Mary joined STANLIB's institutional sales team in early 2008, soon moving to the dealing room as a money market dealer and assistant portfolio manager. She originally trained as a money market dealer under her current senior colleague Ansie van Rensburg at CM Interbank in 1989, and went on to work as a money market dealer and carry trader at Brait, Decillion and Grindrod Bank. She obtained her BCom through Unisa in 1994.



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.

Fund review

For the quarter under review the fund increased in size from R12billion to R12.1billion. The modified duration remained at 0.11years as at the end of December. The fund continued to deliver cash plus returns over the quarter .

Market overview

The last quarter of 2019 started on a weakening trend for local bonds and the Rand on the back of worsening fiscal outlook. The minister of finance tabled the Medium-Term Budget Policy Statement in October which showed deteriorating debt trajectory which was far worse than market and rating agency expectations. The Debt-to-GDP figures were revised higher, now expected to go above 70% in the next 4 years and deteriorating further to over 80% if no consolidating measures are announced. This was expected to lift borrowing requirement by over R120bn in the next four years, which led to a jump in bond yields to reflect an increased downgrade risk premium. Rating agency Moody's (and later S&P) reacted to the budget statement by downgrading the South African rating outlook from Stable to Negative, but with Moody's the only agency to still have the country on investment grade. As a result, the 10-year government bond yield weakened by about 40 basis points to 9.25%, while the 5-year CDS spread jumped by 30 points to 193 basis points to reflect downgrade risks. The yield curve also steepened reflecting the market's expectations of the issuance in the long end being ramped up; with the spread between 30-year bond (R2048) and 10-year bond (R2030) increasing by over 30 basis points in the quarter to an all-time high of 110 basis points.

Adding to the market woes in the quarter was the Q3 local GDP contraction which reflected the challenging environment for both the private and public sectors. The return of recurrent power cuts by Eskom continues to weigh on sentiment and risks tipping the economy back to a technical recession when the 4th quarter GDP figures are announced. This backdrop will continue posing risks for government revenues, and unless we see concrete and credible plan to cut expenditure and lift revenue immediately in the upcoming budget in February, we expected Moody's to cut the country's rating to sub-investment grade.

On the positive front, the receding trade tensions between China and US spurred a recovery in risk assets towards the end of the year. The rand rallied from a low of R15.20/\$ in the quarter to close the year at R14.00. Local inflation continued to surprise to the downside, with the last figure printing at a 9-year low of 3.6% due to low economic activity. Even though both headline and core inflation are below the mid-point of the SARB's target range, the reserve bank opted to keep rates on hold during the quarter citing fiscal risks and potential volatility. The market still expects at least one more interest cut from SARB given the dire state of the economy and supportive inflation environment. This, together with the low supply during the holiday period, resulted with bonds rallying into year end. The 2026 maturity bond (R186) ended the year at 8.25%, while the R2030 closed the year at 9.02%. As a result, total return for bonds in 2019 was an impressive 10.32%.

Looking ahead

The upcoming Budget statement in February is key for SA as the market and rating agencies will be watching it with keen interest to see if credible measures will be announced to improve the debt and fiscal trajectory. Rating agency announcements will follow the budget, and the risk is SA gets downgraded to sub-investment grade leading to a sell-off in yields as a result of outflows. Inflation is expected to remain subdued in 2020 in a world where global central banks are still expected to err on the side of further accommodation.

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 2019	Q3 2019	Change
Domestic Cash	1.20	1.54	-0.34
Domestic Fixed Interest Corp	64.69	55.99	8.70
Domestic Fixed Interest Govt	4.14	4.17	-0.03
Domestic Money Market	29.97	38.30	-8.33

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	Price (cpu)	Units	NAV (Rand)
R	Retail	86.59	1,883,752,657.36	1,631,179,897.02
B1	Retail	86.58	2,571,297,940.86	2,226,331,209.65

All data as at 31 December 2019.

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

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 Extra Income 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.

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 and ranking figures quoted are shown in ZAR and are based on data sourced from Morningstar or Statpro and are as at 31 January 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.

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 periods of 1 year or longer, where no value is shown 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).

GCR Rating - Global Credit Rating Co (Pty) Ltd is registered as a Credit Rating Services Provider by the Financial Sector Conduct Authority (FSCA), licence No: CRA001. All GCR credit ratings are subject to certain limitations, terms of use of such ratings and disclaimers which can be reviewed by following this link: <http://globalratings.net/understanding-ratings>. In addition, rating scales and definitions are available on GCR's public website at www.globalratings.net/ratings-info. Published ratings, criteria, and methodologies are available from this site. Conflicts of interest, compliance, and other relevant policies and procedures are also available from the understanding ratings section of this site.

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

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