



Standard STANLIB Bond Fund

Quarterly update at 31 December 2023

Market overview

Interest rates and central bank policy was the dominant investment theme of 2023 and the fourth quarter was no exception. Following a year or so of rapid interest rate increases, notably in the US, the tone towards further hikes softened significantly, with the likes of Brazil and Peru pre-emptively cutting interest rates during the quarter. In fact, as analysts at Deutsche Bank noted in November, "for the first time since January 2021, there are more central banks cutting interest rates than those hiking them". The change in sentiment was supported by communication from the US Federal Reserve (US Fed) that it would keep rates on hold at its December Federal Open Market Committee (FOMC) meeting and that peak interest rates had likely been reached in the current cycle. This came as somewhat of a surprise to the market and sparked a rally in interest rate sensitive assets globally. The US 10-year bond yield declined from 4.6% at the start of the quarter to 3.9% by year end. Global bonds rallied 8.1% in USD for the quarter, local bonds delivered an equally impressive 8.1%, global property in dollars and local property in rands surged 11.7% and 15.9% respectively and even the rand managed to appreciate 4.4% relative to the dollar.

Within the local bond market, the long end of the bond curve was the key beneficiary of the revised interest rate expectations. The 7 to 12-year bucket produced a return of 9.4% for the quarter while indicatively, the shorter dated the 1 to 3-year and 3 to 7-year buckets only delivered (still healthy) returns of 4.1% and 5.7% respectively. Equally, for the full year, the belly of the curve generated the strongest returns with the 7 to 12-year bucket 11.9% higher while the 1 to 3-year bucket rose 9.2%. Money market returns were muted by comparison, with the STeFI Composite Index up 2.1% and 8.0% for the quarter and year respectively. Disappointingly, the very long end of the curve lagged in 2023, delivering a 7.5% return. The Lady R scandal in May had a significantly negative impact on foreign investor sentiment toward South Africa and its long-term outlook resulting in lagged returns for the country's longest dated bonds.

For the quarter, the R214, expiring in February 2041, produced a return of 10.0% and was the best performing government bond during the period, followed by the R209 (March 2036) which rose 9.9%. This can be compared relative to the bellwether R186 (December 2026), which was up 4.2% for the quarter. The rate of inflation in South Africa moderated to 5.5% in November having hit a peak of 7.8% in July 2022.

Asset class performance (%)

Asset class	Q4 2023	1 year	3 years p.a.	5 years p.a.
Equity - FTSE/JSE All Share	6.92	9.25	13.51	11.88
Financials	11.76	21.48	19.58	6.68
Resources	3.00	-11.84	8.21	14.56
Industrials	5.87	16.62	12.40	11.60
Equity - FTSE/JSE Capped SWIX	8.21	7.87	12.69	8.97
Bonds - FTSE/JSE All Bond	8.11	9.70	7.43	8.24
Cash - STeFI Composite	2.09	8.06	5.68	5.94
ILBs - FTSE/JSE Infl-Lnkd Gov	6.11	6.92	8.83	6.53
Property - FTSE/JSE All Property	15.86	10.70	14.61	-0.67
Global Bonds - BB GABI in ZAR	4.49	13.31	1.59	4.56
Global Equity - MSCI ACWI in ZAR	7.32	30.98	13.69	17.17
Inflation - SA CPI (1 month lag)	1.44	5.52	6.13	5.01

All returns quoted are shown in ZAR and are based on data sourced from Morningstar or Statpro as at Reporting Date - 31 December 2023.

Portfolio review

The Fund had a solid finish to the year producing a return of 8.9% for the quarter and outperforming both its peer group average return and the All Bond Index. At year end, the Fund had a modified duration of 6.06 years, relative to the index duration of 5.67 years, both marginally higher than where they started the quarter. The overweight duration position held by the Fund was the primary driver of outperformance for the quarter. The Fund's exposure to corporate bonds, which were up around 4.6% for the quarter, together with the small exposure to inflation linked bonds (ILBs) (up 3.8%) would have both been detractors from performance relative to the All Bond Index which holds neither. At individual instrument level, the biggest contributors to outperformance were the significant underweight exposure to the short dated R186 and overweight exposure to the R209.

Following a difficult third quarter, it was pleasing to see that all the Fund's underlying managers outperformed the All Bond Index in the fourth quarter. Prescient held the longest duration portfolio and bounced back the hardest. Their portfolio is rather concentrated, significantly overweight duration, specifically the R2037, and holds no corporate or ILBs which benefited their returns for the quarter. Unfortunately, this combination was not as successful for the full year, where, as noted above, the very long end of the curve lagged in 2023 and their exposure to the R2048 in this regard resulted in their underperformance. There was little to distinguish between the other managers over the quarter. Over the full year, however, it was pleasing to note that Aluwani, Coronation and Ninety One all outperformed the index, while STANLIB only underperformed by a fraction.

Portfolio positioning and outlook

The Fund starts the year being overweight duration as noted above. It is significantly underweight in the 3 to 7-year part of the curve (-16.3%) counter-balanced by overweight positions in all other parts of the market. It has 1.9% exposure to ILBs and roughly 10.8% exposure to corporate bonds, down from 11.6% in the previous quarter. Exposure to State Owned Entities also declined from 4.9% to 4.5% currently.

Analysts at Bank of America are looking for SA inflation to average 5.0% in 2024 and, accordingly, see 0.75% in interest rate cuts starting post the national election which is tentatively earmarked for May 2024. We believe the market is currently correctly priced for this eventuality and that starting valuations are in line with long run expectations. The All Bond Index offers a current yield of 10.3% and has additional capital upside if interest rates are cut further. We feel there could be some weakness in the short term based on stretched valuations in the global bond market, where investors are forecasting 1.5% in US interest rate cuts in 2024. We only feel this is likely if the US suffers a meaningful recession. Our base case is that the US Fed engineers a soft landing and their prediction of 0.75% in interest rate cuts comes to fruition. Of concern is whether inflation does subside to the 2% target level or whether it is sticky or reaccelerates due to an escalation of war in the Middle East, higher oil prices, constrained supply chains and continued strength of the American consumer. We place a lower probability on this scenario and, all else being equal, see 10% to 15% upside in the local bond market 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.

Portfolio classes

Class	Type	Price (cpu)	Units	NAV (Rand)
B1	Retail	96.00	55,762,782.46	53,530,610.82

All data as at Reporting Date - 31 December 2023.

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

Allocation/sector (look through) (%) over the quarter

Sector	Q4 2023	Q3 2023	Change
0-1 Years	1.55	1.90	-0.35
1-3 Years	6.67	5.43	1.24
3-7 Years	10.94	12.46	-1.51
7-12 Years	28.69	27.93	0.76
Inflation Linked Bonds	1.15	0.90	0.25
Over 12 Years	50.99	51.38	-0.39

The portfolio adhered to its portfolio objective over the quarter.



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Important information for investors

Information to be considered before investing

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 STANLIB Bond 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 Multi-Manager a division of 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. 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. This portfolio is a third party named, co-named portfolio. The Manager retains full legal responsibility for this portfolio. A third party named, co-named portfolio is a portfolio bearing the name of both the Manager and the financial services provider (FSP) where the FSP, under an agreement with the Manager, undertakes financial services of a discretionary nature, as contemplated in the Financial Advisory and Intermediary Services Act, Act No. 37 of 2002 (FAIS), in relation to the assets of the portfolio. Standard Trust Limited, an authorised FSP, FSP No. 705, FAIS, is the third party manager of this portfolio. The FSP is a wholly owned subsidiary of the Standard Bank Group Limited and is a related party to the Manager, the FSP may earn additional fees other than those charged by the Manager. It is the responsibility of the FSP to disclose additional fees to the investor. This document is not advice, as defined under FAIS. Please be advised that there may be representatives acting under supervision.

Unit price – how it works

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. The payment of withdrawals may be delayed in extraordinary circumstances, when the Manager with the consent of the Fund trustees deems this to be in the interest of all Fund investors. These circumstances may include periods when significant underlying markets suspend trading which will prevent accurate valuation of the instruments held in the Fund. When the suspension of trading relates to only certain assets held by the Fund, these assets may be side-pocketed. This process allows normal liquidity on the assets that can be valued but, will delay liquidity on the affected portion of the Fund. If the Fund is faced with excessive withdrawals, the affected withdrawals may be ring-fenced, which is the separation and delayed sale of the assets reflecting the interest of the liquidity seeking investors. It ensures that the sale of a large number of units will not force the Manager to sell the underlying investments in a manner that may have a negative impact on remaining investors of the Fund.

Cost ratios and fees

Cost ratios	1 Year TER	1 Year TC ¹	1 Year TIC	3 Years TER	3 Years TC ¹	3 Years TIC
Class B1	0.96%	0.00%	0.96%	0.96%	0.00%	0.96%

The cost ratios shown have been calculated for the period ending 30/09/2023, from 01/10/2022 for the 1 Year and from 01/10/2020 for the 3 Years.

¹Transaction Costs include brokerage, Securities Transfer Tax, STRATE, Levies and VAT.

Total Expense (TER): This ratio 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.

Transaction Costs (TC): This ratio shows the percentage of the value of the fund incurred as costs relating to the buying and selling of the fund's underlying assets. TC are a necessary cost in administering the fund and impacts fund returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, investment decisions of the investment manager and the TER.

Total Investment Charges (TIC): This ratio is simply the sum of the TER and TC, showing the percentage of the value of the fund incurred as costs relating to the investment of the fund. It should be noted that performance figures account for all costs included in the TIC ratio, so you should not deduct the TIC from performance figures, the performance is already net of the TIC.

Annual management fee

The Fund charges a fixed annual management fee (i.e. fee class) as a percentage of the assets under management, to ensure a simple and understandable fee structure. The Fund invests primarily in segregated mandates but may also invest in other unit trusts i.e. "Underlying Fund Fees", which are included in the Total Expense Ratio (TER). The annual management fee is accrued daily and paid on a monthly basis.

Performance fees

Neither the Manager, STANLIB Multi-Manager nor underlying manager(s)/fund(s) charge/earn any performance fees.

Advice fees

If an investor appoints an adviser, advice fees are contracted directly between the investor and the adviser. The Manager will facilitate the collection of advice fees only upon receiving an investors instruction to do so. Initial advice fees up to a maximum of 3.45% are collected prior to units being purchased and ongoing advice fees up to a maximum of 1.15% are collected monthly through the redemption of units held by an investor in the Fund. An investor may cancel the instruction to facilitate the payment of advice fees at any time.

Additional information

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).

This document does not constitute an offer of sale. Investors are requested to view the latest Minimum Disclosure Document (MDD), for the provision of additional information pertaining to the product, as well as seeking professional advice, should they be considering an investment in the product. The Manager provides no guarantee or warranty as to the accuracy of the content of this document. Every effort has been made to ensure that the content is accurate at time of issue.

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