Absolute Return Funds

Supplementary Detail

LIBERTY

LIFE INVESTMENTS HEALTH CORPORATE PROPERTIES ADVICE

The Liberty Absolute return fund aims to produce low risk, inflation-beating returns with limited risk to capital. This was achieved by using two management capabilities; Stanlib with a capital preservation mandate and Investec Opportunity Fund with a relatively more growth orientated mandate.

Latest fund update

List of portfolios affected:

- Liberty (Evolve) CPI Plus
- Excelsior CPI Plus
- Liberty Real Return (Liberty Active)

The Liberty Absolute return fund aims to produce low risk, inflation-beating returns with limited risk to capital. This was achieved by using two management capabilities; STANLIB (Liberty Absolute Return fund) with a capital preservation biased mandate and Investec (Investec Opportunity Fund) with a relatively more growth orientated mandate.

The split of assets between Stanlib and Investec has in recent years followed an approximate 50/50 allocation. STANLIB' S process and investment philosophy behind the management of this fund has historically had a relatively defensive bias, with significant focus on protection strategies and locking in real returns. This has resulted in the portfolio struggling to perform in line with peers over most meaningful periods. Following an extensive review, Liberty took the decision to restructure the absolute return (CPI Plus proposition). The intention is to improve the ability of the fund to deliver to return objectives, particularly given how financial markets and the investment landscape have shifted over the past few years.

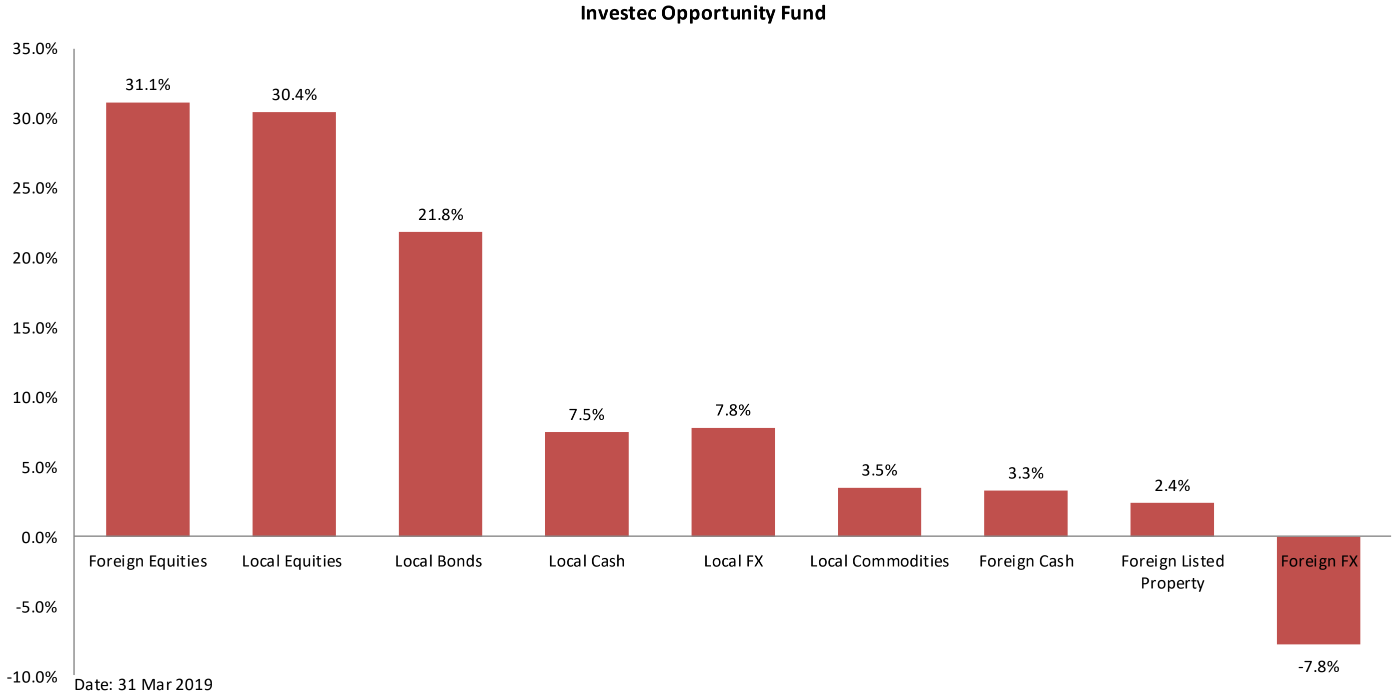
Revised structure:

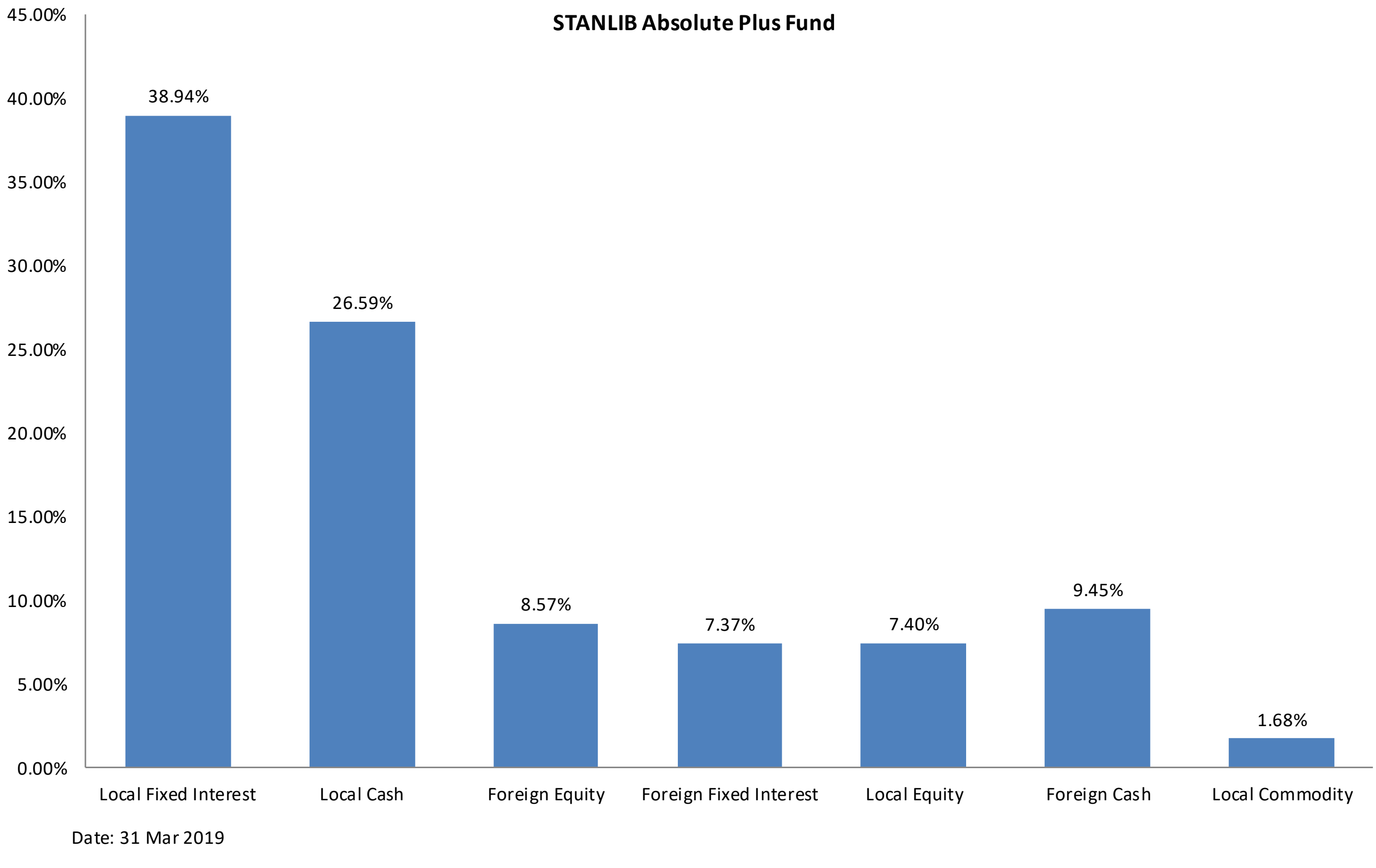
- 60% Investec Opportunity Fund (Unit Trust)
- 35% STANLIB Absolute Plus Fund (Unit Trust)
- 5% Alternatives allocation

The assets have now been fully transitioned (as at end March) and the funds reflect the revised structure mentioned above. The new philosophy is designed to better enable risk management, favours highly liquid investments and has an increased active management focus.

Date: 31 Mar 2019

Asset Allocation





Top 10 holdings

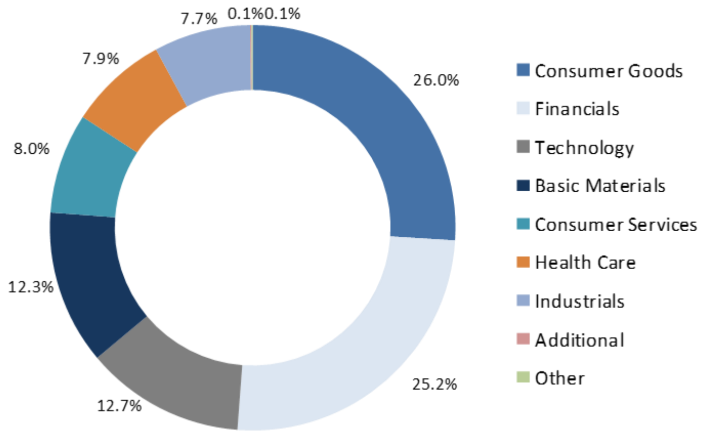
Investec Opportunity Fund	%
Assore Ltd	4.7%
British American Tobacco Plc	4.3%
NewGold Issuer Ltd	3.5%
Sasol Ltd	3.3%
Cie Financiere Richemont SA	2.9%
Santam Ltd	2.4%
Visa Inc	2.3%
Bid Corp Ltd	2.2%
Johnson & Johnson	2.1%
Microsoft Corp	2.0%

STANLIB Absolute Plus Fund	%
BNY MELLON USD	11.8%
R2037 Republic Of South Africa	9.1%
Rsa R2030 8.00% 31/01/2030	6.6%
Rsa R2040 9.00% 31/01/2040	5.3%
Stanlib Institutional Money Market	4.5%
Ishares Msci Emerging Market F	3.7%
Repiblic Of South Africa 8.875	3.6%
Firstrand Bank Ltd 9.5%	3.1%
Investec Cpi-Linked 2.6%	3.1%
Firstrand Bank Equity Linked N	2.8%

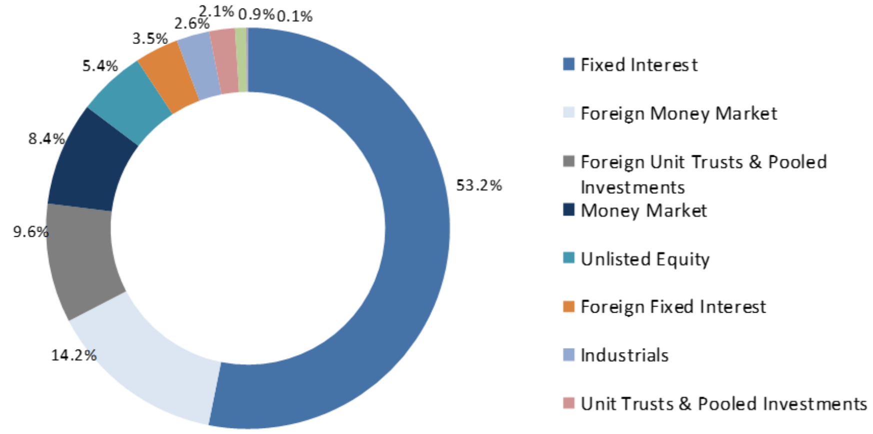
Date: 31 Mar 2019

Sector Allocation

Investec Opportunity Fund (31 March 2019)



STANLIB Absolute Return Fund (31 March 2019)



FUND MANAGER COMMENTARY

Performance review:

Key positive contributions:

- The foreign equity component of the portfolio was the largest absolute contributor over the quarter, outperforming the global equity market, and marginally boosted by a slightly weaker rand. Stock selection within IT and financials was the main driver of relative returns, and to a lesser degree consumer staples. Within financials, credit rating agency Moody's performed well, recovering from oversold levels in the previous quarter, as the outlook for capital markets improved. Within IT, holdings in small business and tax software provider Intuit, and Internet domain registration company Verisign, rallied well. The former rallied after reporting a 12% bump in second-quarter revenues, helped in part by a 38% increase in subscribers for its QuickBooks Online product. Shares in Verisign contributed positively following news it had been given permission to raise prices on .com domain names. Given the extent of Verisign's operational leverage, the ability to raise prices has highly positive implications for potential profit growth. In staples, tobacco company Philip Morris International was the main contributor.
- Local equity investments were the second-largest contributor to returns. Key contributors included British American Tobacco, Assore, Naspers and Richemont. Not holding any retailers benefitted relative performance.
- The local bond component was another contributor to performance over the quarter. Local bond yields followed global bond yields lower (yields fall as prices rise) shrugging off concerns surrounding state power utility Eskom.
- The portfolio's holding in the NewGold Exchange-Traded Fund (ETF) contributed marginally to performance.

Key negative contributions:

- In the offshore equity component, exposure to skincare company Beiersdorf detracted from relative returns.
- Locally, not holding many of the mining shares (having only one holding in Assore) dragged on relative returns given their strong performance over the period. Additionally, investments in Aspen Pharmacare and JSE weighed on returns.

Manager Outlook & Strategy

"The outlook for the South African economy remains bleak. Consumers, already under financial strain, and will have to contend with higher electricity prices and higher fuel prices from April 2019. The recent spate of rolling power outages will negatively impact economic activity and will have hit small and medium-sized businesses particularly hard. Inflation remains subdued. Despite this, South Africa's real interest rates (the interest rates after subtracting inflation) are among the highest in the world. Given these high real rates, the weak outlook for economic growth and the low inflation expectations, we remain of the view that there is room for the South African Reserve Bank to cut interest rates.

The silver lining to this cloud is that this environment has resulted in more attractive valuations for many ALSI-listed shares and buying opportunities are emerging.

Our preferred asset class remains global equity with a preference for high-quality global companies, generating high and sustainable returns on invested capital. Our stock selection has resulted in a balance between old economy staples and newer, higher growth opportunities. What these businesses have in common, apart from their prodigious cash generation and exceptional returns on capital, is an ability to grow with a lower dependence on the economic cycle than the average business. In a similar vein, we have sought out locally-listed global businesses with little dependence on a weak South African economy.

Locally, the best opportunity remains South African government bonds. At yields of around 9.0%, these instruments offer higher risk-adjusted return potential than the retail, banking and property sectors. Our bond exposure remains prudent: lower duration, higher-quality instruments, with exposure balanced against offshore holdings to limit the potential for loss (South African bonds and the USD/ZAR exchange rate are negatively correlated).

We therefore maintain a balance of exposures in the portfolio. This offers protection against a range of potential outcomes. With risk at the fore we do not believe that it is appropriate to position the portfolio for any particular outcome. As always, we remain unwavering in our commitment to growing your capital in a judicious and discriminate manner."

Source: Investec Asset Management

STANLIB Absolute Plus Fund

"The first quarter of 2019 was one of the strongest quarters in history for risk assets around the world. This followed what could only be described as an anaemic 2018 return profile and a horrid final quarter of 2018. Policymakers united in their response to ever-increasing risks and the observable market impacts that tighter liquidity conditions, higher interest rates and continued trade war rhetoric was having on global markets. The US Federal Reserve reviewed its "autopilot" balance sheet guidance and rate hiking trajectory, evoking criticisms it had lost credibility. We believe the Fed, European Central Bank and the Bank of China (directed by the Politburo), may have provided a lifeline for global markets, avoiding the knock-on effects that falling markets and widening credit spreads would have had on growth that was already slowing. The liquidity taps are back on – in various ways – around the world and, while risk assets have some work to do to justify current valuations, concerns should ebb from here. US rate markets have repriced very strongly and are now anticipating interest rate cuts through 2020, as the bond market thinks the Fed is "boxed in". The Fed controls the global cost of capital and this easing at the margin allowed markets to find their feet. It gave other central banks the green light to begin responding to slowing economic conditions without trying to navigate the impact of a stronger dollar. The "stay-of-execution" did not only come from central banks but also from Moody's, whose long-awaited and widely-expected announcement of a change in SA's credit rating outlook to negative did not take place at all. South African assets all rallied as the long-anticipated event came to naught. Like the central banks' responses to slowing global growth, this non-event allows the proverbial can to be kicked ever further down the road. This did not provide any comfort to SA investors, who have had to cope with the impact of load shedding and multiple commissions of enquiry painting a dire picture of political and corporate greed and ineptness. These impacts are likely to be felt for some time in the high-street economy at a critical juncture which is proving difficult for South African consumers and businesses alike. We expect some of the "black-out" impact will be felt in SA's GDP growth data over the next quarter or two. Considerable hope rests on an electoral outcome which provides a clear leadership mandate for President Cyril Ramaphosa to begin making observable changes that would allow SA to exit the past decade of mismanagement and provide businesses with the confidence to help the ailing economy find a firmer footing."

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

Source: STANLIB Asset Managers (Absolute Return Franchise)

Date: 31 Mar 2019