STANLIB Multi-Manager Global Bond Fund

Minimum Disclosure Document as of 31 March 2024

STANLIB
MULTI-MANAGER

The fund is a class fund of STANLIB Offshore Unit Trusts, which invests exclusively in the STANLIB Funds Limited - STANLIB Multi-Manager Global Bond Fund

Market overview

In Q1, the most important factor impacting fixed income markets was that global economic data continued to surprise on the upside, raising expectations for a soft landing. Inflation was also generally more resilient than anticipated. As a consequence, markets pushed back the timing of rate cuts and dialled down their expected magnitude for 2024, leading to a weak quarter for sovereign bonds. Moreover, oil prices continued to rise, with Brent crude up +13.6% to $87/bbl. As the quarter progressed, governmental bond yields adjusted in response to shifting market sentiment and economic indicators. 10-year government bond yields increased across the board. The US 10-year Treasury jumped from 3.9% at the end of last quarter to 4.2%. UK 10-year Gilt yields rose from 3.5% to 3.9%, while the German 10-year Bund yield steadied at 2.3% - a 26bp increase from the end of Q4. Corporate bond performance surpassed their government counterparts. In this regard global investment-grade spreads were 15bps tighter through the quarter ending it at 98bps. EM external sovereigns also posted strong performance during Q1, as spreads moved tighter for almost all countries. The quarter saw a significant milestone in Japan, as the BOJ ended their negative interest rate policy in March for the first time in 17 years. That helped push the 2yr Japanese government bond yield up +14bps to 0.18%, its highest quarterly close since 2011. Meanwhile, the Swiss National Bank surprised the markets with a 25bp cut to 1.5%. Conversely the ECB, BOE and the Fed all proceeded with caution, avoiding premature declarations of victory over inflation. Within forex, Q1 provided a strong backdrop for the dollar, with the DXY up 3.1% and almost all currencies weaker against the USD, with the exception of the Mexican (+2.5%) and Columbian peso (+0.07%). The yen was one of the weakest currencies (-6.8%) despite the BOJ hiking, and very close to the Swiss franc (-6.7%). The euro and pound were also down but to a lesser extent, by -2.7% and -0.9% respectively.

Fund review

The SMM Global Bond Fund was marginally behind the benchmark over the last three months, underperforming the benchmark by 32bps. Over 12 months the portfolio remains 0.64% ahead of the index. The fund has performed in line with peers during the period under review. Duration positioning contributed (most of our managers had lower duration than the index in a rising yield environment) as did currency allocation. In aggregate, long positions in some developed market currencies — namely the Australian dollar, Norwegian krone and Japanese yen — detracted from performance. From a total portfolio perspective, emerging market currency investments were mixed. The Mexican peso was additive, while the Chilean peso detracted. At the manager level PIMCO was a key contributor as they generated strong alpha – predominantly from their large overweight to MBS, which are benefitting from low pre-payment risk. Amundi also delivered good results given their overweight to spread product, hard currency EM debt and peripheral Europe as well as short duration positioning. Their long dollar exposure contributed positively. By contrast, Brandywine underperformed the benchmark as both country and currency allocations detracted from relative performance. Within bonds, both developed and emerging market allocations were a headwind for the strategy. An overweight to US Treasuries and UK gilts was the key reason for their underperformance. An overweight to long-duration Mexican bonds also hurt.

Outlook

There are two scenarios currently dominating markets: The consensus is for a soft landing and so-called immaculate disinflation, but there are moments of market consolidation that correspond to an alternative scenario in which growth remains at its potential and inflation proves persistent. The good economic news of recent weeks (still resilient US economy, green shoots in the eurozone, Chinese authorities' commitment to 5% GDP growth this year) seems to have negated the hard landing scenario. The major central banks now seem unconcerned about the risk of renewed overheating and rising inflation. This environment and strong corporate fundamentals seem to warrant exposure to equities and the credit market, while the prospects of lower policy rates should support government bonds. We continue to believe it's going to be difficult to smoothly land this US economic cycle given we've moved from the biggest increase in money supply since WWII to the biggest contraction since the 1930. We're also mindful of rising political uncertainty. The election agenda is heavy in 2024, including election in the US, which could bring about some volatility. We expect these factors, combined with the lagged impact of divergent monetary and fiscal policies across economies, will bring about a number of relative value and tactical opportunities to generate outperformance. All told, we think 2024 is likely to provide a supportive environment for fixed income, as inflation keeps moving down towards target and central banks start cutting rates later in the year.