

# Agility and skill to deliver more income in retirement

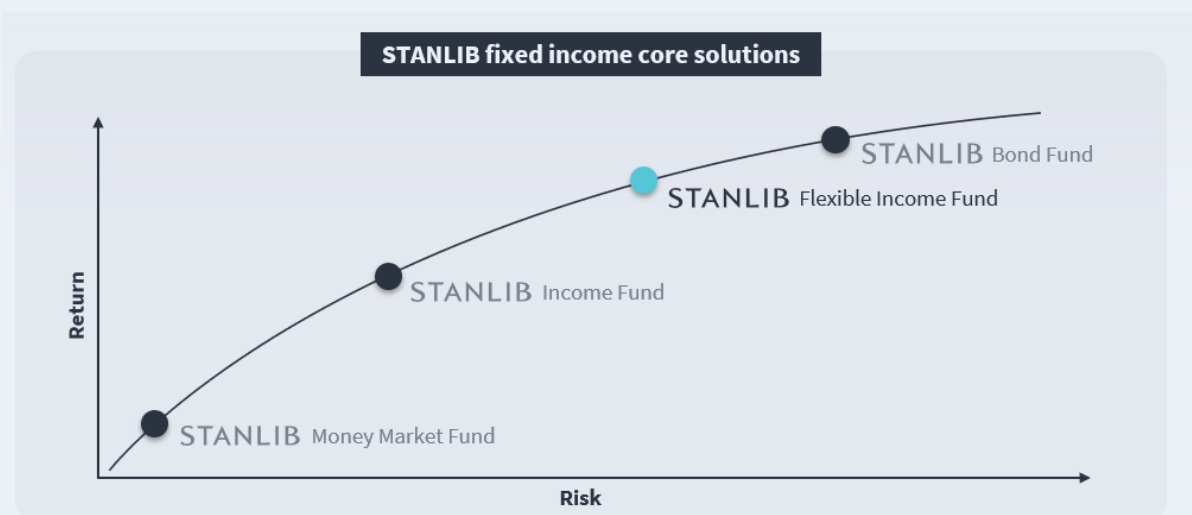
STANLIB

July 2024

## Multi-asset income funds: more return for less volatility

Dramatic volatility in bonds and equities in the past five years has given investors looking for stable income and capital growth many sleepless nights. Investors in a well-managed multi-asset income fund would have slept a lot more soundly.

The efficient frontier, which maps the highest level of achievable returns against the risk incurred, is lowest for money market funds, in the middle for income funds and is highest for bond funds. A multi-asset income fund can hold assets from all three types of funds.



The reason this is important is that over the past five years cash has delivered smooth and steady returns through various crises, e.g. SA's credit rating downgrade and Covid, but it is not the best asset to hold in a falling interest rate environment. The return from bonds has been higher, but with significant volatility. Managers of multi-asset income funds are able to actively shift between different fixed income asset classes and property, to deliver a smoother return profile, at lower risk.

With interest rate cuts on the horizon, it might be prudent to step up from an income fund or cash to a multi-asset income fund. If SA enjoys a structural shift in its economy under the new Government of National Unity (GNU), the effect will be to lift every asset class except cash.

The STANLIB Flexible Income Fund currently holds 62.4% of its assets in bonds, 21.9% in credit, 2.5% in cash, 5% in property, 4.9% in offshore bonds and 3.3% in offshore property (as at 26 June 2024). Between March and May, ahead of SA's National Election, the fund held some dollars in the event the outcome was negative for markets, but by end-June the fund held no dollars. In May the managers took further precautions, by reducing holdings of both nominal bonds and credit and increasing cash. By end-June, the fund had reverted to higher-returning asset classes. The managers have also invested again in property, on which they realized profits for the fund earlier in the year, as they believe that in a more positive economic environment property will appreciate.

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## Current asset allocation positioning

26 June 2024 portfolio positioning (%)

	June 2024	Active vs SAA	May 2024	March 2024
Bonds	62.4	14.3	42.6	54.2
Credit	21.9		29.2	32.3
Cash	2.5	-2.5	17.6	1.4
Property	5.0	-2.5	0.0	4.0
Inflation Linked Bonds	0.0	-5.0	0.0	0.0
Preference Shares	0.0	-2.5	0.0	0.0
Offshore Bonds	4.9	-1.8	5.1	5.8
Offshore Property	3.3		3.5	0.0
Currency (USD)	0.0		2.0	2.3



The fund restricts its holdings of bonds to a maximum 5-7 year maturity, as there are more fiscal risks and greater volatility in longer-dated issuances. The STANLIB Flexible Income Fund’s managers are also cautious about investing in credit instruments directly in SA, as it is quite an illiquid asset class and difficult to manage actively. To gain access to the credit opportunity, the fund allocates to STANLIB’s Income Fund and Extra Income Fund, both of which offer daily liquidity.

Having a robust investment process is essential in SA. All of the fund’s credit investment decisions require approval from STANLIB Asset Management’s credit committee. Through STANLIB’s tactical asset allocation process the Fixed Income team gets broader views on different assets from across the wider investment teams, resulting in livelier debates and an optimal result for clients.

The ASISA Multi-Asset Income category has become very competitive, and investors may find it difficult to choose the right manager.

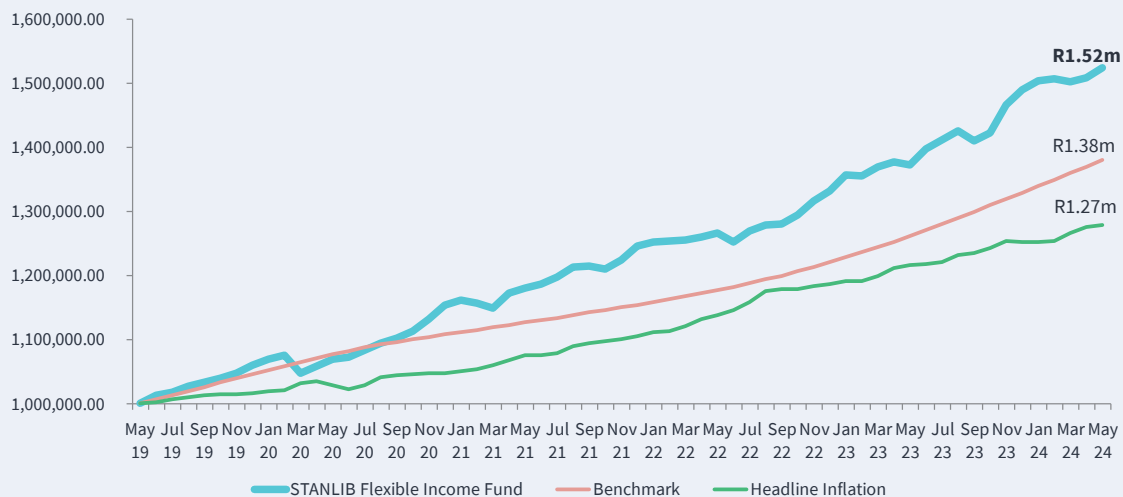
We believe clients need a manager who is agile and who uses the full flexibility of this mandate to capture difference and upside. STANLIB’s Fixed Income team has shown through many different markets that they are fully able to utilize this flexibility, and not just at an asset class level but within asset classes. Over the past five years most of our peers have taken a view on duration and stuck with it. In May/June, going into SA’s National Election, markets sold off. When the results turned out to be palatable, there was a 100bps rally in SA’s bond market. If your duration was flat in that period, you lost opportunities to capture value for clients.

STANLIB’s Fixed Income team is the largest in SA, with R280 billion in AUM, which has grown by R100 billion over the last 10 years. R1 million invested in the STANLIB Flexible Income Fund five years ago would be worth R1.5 to R2 million today. In the year to end-May 2024, the fund delivered an 11% total return, compared with inflation of 5.2%.

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## A million rand invested 5 years ago...



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Source: Statpro

Ends.

## About STANLIB

STANLIB is one of South Africa's largest investment managers, administering over R600 billion in assets under management (as at December 2023). The depth and breadth of the investment teams gives investors a range of options to preserve capital and create wealth. It offers specialist investment management disciplines – from fixed income to multi-asset, listed property, balanced, equity and alternatives, across a broad choice of traditional and alternative asset classes and multiple investment strategies, including active and passive management, as well as single and multi-manager capabilities.

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