Business Update

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Keeps you updated with business news and rationale behind changes to STANLIB Multi-Manager solutions.

STANLIB Multi-Manager Flexible Property Fund – inclusion of Capped Property Index

The STANLIB Multi-Manager Flexible Property Fund is a diversified income portfolio with a strong bias to listed property shares. The fund has a mandated property range of between 40%-85% at the discretion of the underlying managers, with the balance invested in fixed interest securities. Given that the fund has had around 60% exposure to listed property on average, it is a more conservative portfolio compared to a fully invested property portfolio. The fund seeks to generate a reasonably high level of income and moderate capital growth. In the long-term, it is designed to provide most of the upside to the Listed Property Sector with significantly less volatility and has done a good job in this regard.

The fund does not directly invest in offshore assets, although indirect foreign exposure is obtained through the offshore property holdings of local listed property shares. In order to maximize the fund's exposure to these indirect foreign assets or inward listed shares, we recently took the decision to split the current passive property mandate with STANLIB's Passive Franchise into two components. One tracking the SA Listed Property Index (SAPY) and the other tracking the Capped Property Index (PCAP). This note briefly outlines our rationale for doing this.

Performance and fees

	3 months	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)	10 years (p.a.)
STANLIB Multi-Manager Flexible Property Fund (B3)	9.9%	6.3%	10.4%	15.9%	16.7%	14.6%
Benchmark*	10.4%	6.6%	9.8%	14.8%	14.8%	13.4%
Active return	-0.5%	-0.4%	0.6%	1.2%	1.9%	2.2%
STANLIB Multi-Manager Flexible Property Fund (B1)	9.6%	5.1%	9.2%	14.6%	15.3%	13.4%
ASISA MA Flexible Category	5.0%	0.7%	10.6%	11.5%	13.3%	9.8%
Active return	4.6%	4.4%	-1.4%	3.1%	2.0%	3.6%
Tracking error			9.8%	9.4%		

*Composite of 61% FTSE / JSE SAPY and 39% ALBI 1-3 Year Index (October 2013 to current), 65% FTSE / JSE SAPY and 35% STEFFI Call Deposit (December 2005 to September 2013).

As highlighted in the table above, the fund's performance relative to its benchmark over the long-term has been pleasing. The fund has also outperformed its peers and while we are happy about this result, we are concerned about the variability (tracking error) of its outperformance. Clearly, a lot of the absolute performance of the fund has been delivered through its exposure to local listed property, which has done exceptionally well over the past 10 years.

It should be borne in mind that the ASISA MA Flexible category contains managers that use a wide array of strategies and asset classes to compete. Given this, the relative risk between the different managers can be substantial and in many cases should not be compared and definitely need to be understood by investors.

In the case of the STANLIB Multi-Manager Flexible Property Fund, it uses locally listed property as a core asset to produce inflation beating returns, whilst allowing the underlying managers to tactically allocate to local cash and fixed interest assets to control the risk when property is expensive. It currently cannot invest in global assets (which we are looking to address), which places it at a significant disadvantage relative to those managers that can, especially when the rand depreciates relative to global currencies.

The additional diversificati on that the global exposure brings also tends to lower portfolio volatility. In reviewing this, our analysis highlighted that the largest contributor to the higher tracking error was that over 75% of the managers in the category have exposure to global assets, with an average holding of around 16%.

Notwithstanding the fund's outperformance relative to the peer group as displayed above, being structurally underweight global assets relative to peers is a risk we would rather not take. To address this, we have included the Capped Property Index (PCAP).

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The most obvious risk mitigating decision would be to convert rand's into foreign currency and buy direct offshore exposure, but the fund's current mandate precludes this.

Over the past couple of years, domestic listed property companies have been diversifying their portfolios outside of South Africa and some of the offshore listed companies also have secondary listings in South Africa. This provides the opportunity for the fund to indirectly access offshore assets by holding a greater exposure to those South Africa listed property companies with either full or partial global assets.

The PCAP is an index of property shares that aims to capture more of this trend by including an additional three domestically listed offshore companies in its construct – Intu PLC, Capital and Counties PLC and Redefine PLC. Together, the indirect offshore exposure in this index is estimated to be more than 45%. This is nearly 20% higher than the reference index (the SAPY) and hence becomes an effective vehicle to gain such exposure where desired.

As highlighted in the table below, currently the STANLIB Multi-Manager Flexible Property Fund employs passive alternatives in the form of a mandate with the STANLIB Passive Franchise that aims to track the SAPY. In pursuit of producing a more diversified portfolio and more optimal returns for investors, we switched 50% of this exposure into a similar mandate with the STANLIB Passive Franchise that aims to track the PCAP. In doing this, it will also partially reduce the fund's tracking error relative to its peers.

STANLIB Multi-Manager Flexible Property Fund - manager line-up	Previous weight	Current weight	Change
Coronation Flexible Property	30.0%	30.0%	-
STANLIB Flexible Property	30.0%	30.0%	-
STANLIB Passive SAPY Tracker	40.0%	20.0%	-20.0%
STANLIB Passive PACP Tracker	-	20.0%	+20.0%
Total	100.0%	100.0%	

Conclusion

The fund has out-performed its benchmark and peers over the long-term. The decision to switch to the PCAP will provide the fund with additional exposure to the global property market and hence give it more rand hedge qualities. This should result in higher risk-adjusted returns. It will also reduce the tracking error relative to competitors in the ASISA MA Flexible category and promote the continued outperformance of the fund.

We believe that the additional diversification enjoyed by the new manager line up will benefit investors over the long-term. Going forward we will also look to change the mandate of the STANLIB Multi-Manager Flexible Property Fund to make it more flexible by allowing it to access global property directly and thereby further improve its diversification benefits and appeal to investors.