

Market overview

In yet another tough quarter for property shares, the All Property Index (ALPI) lost 1.5%. Some of the largest property shares were hit hardest, with Growthpoint, Redefine, Intu PLC and Hyprop losing 8.9%, 4.5%, 13.0% and 11.2% respectively. Having been such a loved asset class for many years, there have been a number of issues plaguing the sector recently. These include weak consumer and business sentiment in SA, low economic growth, slowing property income growth, the de-rating of the Resilient Group, rising US interest rates and the impact of Brexit on UK property companies. These factors have seen the sector lose 22.5% in 2018.

While many of these factors remain, the market is now fortunately assuming the worst and pricing in this uncertainty. With a longer-term view, we believe that property can provide returns well above inflation. In the short-term, however, we expect volatility to continue.

SA bonds returned 0.8%, driven largely by short-dated instruments which gained 1.9%. The 12+ area of the curve returned 0.4%. SA cash gained 1.8% and the weaker rand boosted offshore returns leading to a 7.4% return from global equities.

Asset class performance and risk statistics

Asset class	Q3 2018	1 year	3 years p.a.	5 years p.a.
FTSE/JSE ALSI	-2.2%	3.4%	6.7%	8.0%
Financials	2.8%	8.1%	4.6%	10.9%
Resources	5.2%	27.1%	15.7%	1.0%
Industrials	-7.8%	-7.7%	2.5%	7.7%
FTSE/JSE Capped SWIX	-1.7%	0.4%	4.5%	7.4%
Bonds ALBI	0.8%	7.1%	7.8%	7.2%
Cash STeFI Composite	1.8%	7.3%	7.3%	6.8%
All Property Index (ALPI)	-1.5%	-14.0%	-3.5%	6.1%

Risk statistics since launch		
Lowest rolling 12-month return	-14.6% (12 months ended June 2008)	
Highest rolling 12-month return	46.8% (12 months ended March 2006)	
	Fund*	Benchmark
Maximum drawdown	-21.0%	-31.9%
Portfolio volatility	10.7%	15.8%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund's strategic blend with fixed interest assets aims to protect investors from extreme volatility and drawdowns in the property market, while participating in the majority of the potential performance upside. During the quarter the SAPY and ALPI lost 1% and 1.5% respectively, while the Fund returned 0.2%. Over the last 10 years, the Fund has delivered 11% per annum, equating to a real return of 5.9%.

Coronation's flexible property mandate performed in line with expectations for the quarter, returning 1% gross of fees. Coronation's largest share picks are Redefine and Growthpoint. Relative to the ALPI, Coronation has a large Growthpoint underweight, while being overweight Dipula, Gemgrow and Fortress A. Coronation is currently overweight property relative to their composite benchmark. Their fixed interest assets are concentrated in the 3-7 year bond maturity bucket and the fixed interest component duration is approximately 3.4 years, a slight duration increase from the previous quarter.

The Fund's passive PCAP allocation lost 2.2% while the passive SAPY allocation lost 1%, both in line with their respective benchmark returns.

The STANLIB flexible property mandate's high exposure to NEPI Rockcastle and Fortress A assisted quarterly performance as they gained 8.5% and 14.6% respectively. STANLIB's duration on the fixed interest portion of the portfolio remains low at less than 12 months, providing good protection. Performance for the quarter was promising at 2.9% gross of fees.

Portfolio positioning and outlook

In addition to further rate hikes in the US, we expect trade wars to continue dominating headlines and this could weigh heavily on EM sentiment. Local asset prices have retreated to levels that may provide a good entry points for investors. However, the global and economic environment remains highly uncertain and we continue to emphasize the importance of having a long-term focus when making investment decisions.

Duration – a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

Portfolio managers



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