STANLIB Multi-Manager Property Fund
Commentary: 30 September 2018

STANLIB

Market overview

The global trade war between the United States and China continued to dominate headlines during the quarter. The US intensified tariffs on Chinese goods and China retaliated. Despite the tussle between the two economic giants, the US economy remains strong. This gave the Fed room to hike interest rates in September from 2.0% to 2.3%. Unfortunately, the higher developed market (DM) interest rates and stronger US dollar do not bode well for emerging market (EM) assets such as South Africa, and most EM countries saw their currencies weaken. SA fared worse than its EM peers as signs of poor economic growth surfaced during the quarter, resulting in SA moving into a technical recession.

SA property fell 1.0% as Intu PLC, Hyprop and Growthpoint lost 12.6%, 5.2% and 4.9% respectively. The Resilient Group built on second quarter gains with Fortress A returning 16.5% and NEPI Rockcastle producing 12.4%. 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.

The sector is more diverse than it was previously, including not only larger SA-focused hybrids, but also smaller specialist property funds, UK listed PLC's and European property shares, each with their own drivers. With a wider opportunity set, asset managers have had greater scope to differentiate themselves through stock selection and position sizing. This has boosted alpha and been a positive development in the industry. In this regard, a host of lesser-known property companies such as EPP N.V., Mas PLC, Equities, Delta and Investec Australia Property Fund performed well for the quarter.

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	-22.3% (12 months ended June 2008)	
Highest rolling 12-month return	72.1% (12 months ended March 2006)	
	Fund*	Benchmark
Maximum drawdown	-30.9%	-29.8%
Portfolio volatility	15.2%	13.7%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund delivered good results for the quarter outperforming the ALPI by 1.2% before fees, but marginally lagged peers by 0.4%, net of fees. This was heavily influenced by the early adoption of the FTSE/JSE All Property Index (ALPI) as the benchmark index for the Fund. This led to higher exposure to UK property companies, such as Intu, Capco, Capital and Regional and Hammerson, sooner than peers. These counters did not do well during the quarter.

Sesfikile continues to add value; producing more than 1% outperformance due to its large overweights in smaller UK and European focused property companies such as EPP N.V. and MAS Plc. Most of the managers benefited by being underweight large caps, while Catalyst, and particularly STANLIB, benefited from being overweight the Resilient Group of companies as they recovered. Catalyst had another excellent quarter, having been a consistent contributor to performance.

The Fund maintained its pleasing long-term performance record, outperforming its index benchmark by 2.2% over 12 months.

Portfolio positioning and outlook

The Fund is currently underweight the large SA hybrids and SA listed UK PLC's. We are using this capacity to overweight smaller SA listed European property companies and NEPI Rockcastle, a star performer for the quarter. The Fund had 4% exposure to liquid cash at the end of the quarter to deploy in market weakness as opportunities arise.

Property market fundamentals are currently weak given the unsupportive economic backdrop and the weaker retail sector. However, with the property market being more than 20% lower that it was at the start of 2018, it looks poised to benefit from any positivity that may come from political and economic improvements.

While uncertainty remains both globally and locally, it is important to maintain a long-term focus when making investment decisions.

Portfolio managers

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