

### Market overview

Following a dismal 2018, the listed property market enjoyed a welcome bounce back in January. Disappointingly, the momentum faded, and the market finished the quarter up only 1.3%. With current yields of around 10%, the market remains concerned about slowing income growth and the quality of earnings produced by the sector. Trading fundamentals remain weak and lower economic growth expectations weighed on the sector. The on-going plight of Edcon continued to shift the balance of power away from landlords in favour of tenants.

Fortunately, there was some good news as the country avoided a Moody's downgrade. Large cap hybrid Growthpoint was up nearly 5% for the quarter, whilst offshore UK and European focused property companies produced positive returns. Almost 30% of the sector by market cap is focused exclusively in Europe and the UK. Rushing to conclusion, British politicians fumbled and ultimately kicked the Brexit can down the road, winning an extension to 31 October 2019. UK PLC shares reacted differently in the run up and the stronger pound lifted Hammerson and Capco 7.8% and 8% respectively. Intu PLC, which is struggling to find a buyer, suspended its dividend to help pay down debt and was punished 4.9% by the market.

### Asset class performance and risk statistics

Asset class	Q1 2019	1 year	3 years p.a.	5 years p.a.
FTSE/JSE ALSI	8.0%	5.1%	5.7%	6.5%
Financials	-0.5%	-5.8%	2.8%	7.5%
Resources	17.9%	41.8%	22.2%	1.0%
Industrials	7.4%	-3.7%	0.6%	6.3%
FTSE/JSE Capped SWIX	3.9%	-2.6%	2.1%	5.1%
Bonds ALBI	3.8%	3.5%	10.1%	8.3%
Cash STeFI Composite	1.8%	7.2%	7.4%	7.0%
All Property Index (ALPI)	1.3%	-7.0%	-5.9%	4.1%

### Risk statistics since launch

Lowest rolling 12-month return	-24.1% (12 months ended December 2018)	
Highest rolling 12-month return	72.1% (12 months ended March 2006)	
	Fund <sup>1</sup>	Benchmark
Maximum drawdown	-30.9%	-29.8%
Portfolio volatility	15.3%	13.8%

Source: STANLIB Multi-Manager.

### Portfolio review

The Fund returned 1.4% for the quarter, outperforming the All Property Index (ALPI) benchmark and well ahead of the peer return of 0.7%. Fund performance was driven by underweight positions in the Delta Property Fund which lost 61% for the quarter, Fortress B and Intu. Both Catalyst and Seffikile performed exceptionally well relative to the benchmark and peers. STANLIB marginally outperformed the benchmark.

Catalyst's performance was driven through no exposure to the Delta Property Fund. An underweight Fortress position also contributed. A large position in NEPI added to alpha. Performance from Seffikile was mainly driven by an underweight position to Hyprop and Delta Property Fund.

The 12-month and 36-month performance remains disappointing for the Fund as well as the sector, reminding investors of the long-term investment nature of listed property. Over a 10-year period, the Fund returned 11.9% per annum, outperforming industry peers.

### Portfolio positioning and outlook

Having only enjoyed a small bounce, the sector continues to price in the worst on a forward yield of 10%. Admittedly, property fundamentals are weak, several companies will need to clean up their balance sheets in 2019 and Edcon remains a concern for the sector. Edcon has closed 240 stores, right-sized many others, and is receiving support from various stakeholders including many landlords. Poor sentiment in the property market – as was the case in the late 1990's and early 2000 – can take a long time to turn. Under current circumstances and through careful stock selection, investors may need to exercise patience in their pursuit of long-term rewards.

The Fund's largest holdings remain Growthpoint, Redefine and NEPI. Stor-Age is the largest overweight relative to benchmark. The largest sector position is an underweight to the SA Inc. shares – SA focused shares – relative to the sector, whilst being overweight the small and mid-cap SA hybrids – shares with both local and global exposure.

### Portfolio managers



**Jennifer Henry**  
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Retail Clients  
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