

### 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. SA bonds also had a good quarter, returning 3.8%.

### 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	-14.8% (12 months ended December 2018)	
Highest rolling 12-month return	46.8% (12 months ended March 2006)	
	Fund*	Benchmark
Maximum drawdown	-21.0%	-20.1%
Portfolio volatility	10.6%	7.5%

Source: STANLIB Multi-Manager.

### Portfolio review

The Fund returned a promising 3.7% for the quarter. Although SA listed property provided positive returns during the quarter, performance was mainly driven by the Fund's global property allocation and fixed interest assets. Medium-term performance remains disappointing due to the underperformance of listed property. Over a 10 year period, however, the Fund returned 10.6% per annum after fees, 5.4% ahead of inflation. In addition, the Fund delivered these returns at a lower risk relative to a property-only fund. 2018 was the first year of negative returns for this Fund since its inception.

Both Coronations and STANLIB's conservative domestic flexible mandates performed reasonably well for the quarter. Performance was driven mainly by the consistent return in low duration fixed interest instruments. Listed property's positive returns for the quarter further contributed to performance.

Approximately 24% of the Fund is invested in a local passive property mandate that tracks the ALPI. This allocation performed in line with expectations, returning 1.3% for the quarter.

The 15% strategic global property allocation that we started incorporating into the Fund at the end of last year has benefited the Fund significantly since inclusion and provides great diversification benefits. The passive global property allocation returned 15.1% for the quarter, while the active allocation managed by Catalyst returned 15.3%. Catalyst's view is that global real estate fundamentals remain healthy, mainly due to manageable supply levels relative to demand. The estimated forward Funds Available for Distribution (FAD) yield for the sector is 4.6% in US dollar terms and medium-term growth prospects are decent. Global listed real estate appears to be fairly priced, while more attractively priced opportunities exist in specific real estate sectors and stocks.

### Portfolio positioning and outlook

The Fund strategically retains exposure to property shares at approximately 60% (45% local and 15% global), while the residual of the Fund invests mostly in short duration income assets and bonds. In the short term, we expect the environment to remain challenging for SA exposed property companies due to low GDP growth expectations and an oversupply in certain property sub-sectors such as office space and the ongoing growth in online retail purchases. The Fund's fixed interest assets provide a level of protection and are expected to continue delivering inflation-beating returns. With a medium to long-term view, we are confident that the Fund can deliver on its inflation-beating objectives within a well-managed risk framework.

**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



**Richo Venter**  
Portfolio Manager  
BCom(Hons)  
(cum laude), CFA



**Jennifer Henry**  
Head of Portfolio  
Management:  
Retail Clients  
BCom(Hons), CFA, FRM