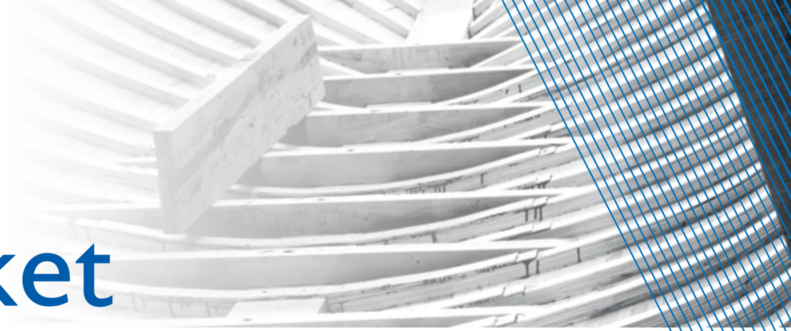

Explaining the sell-off in the Property market

STANLIB Multi-Manager Property Fund

The sell-off in the market was a stock specific event

Following a stronger than expected finish to 2017, the property market gave up all, and more, of its gains in the first quarter of 2018. Although very disappointing, this was certainly not due to weak property fundamentals. Early in the year, allegations began to surface around accounting irregularities and share price manipulation within the Resilient group of companies. Collectively, the grouping - Resilient, Fortress, NEPI Rockcastle and Greenbay - made up 42% of the property index in December 2017. Shares in the group lost more than 60% on average and by the end of the quarter, their weight had dropped to 24.8%. Other hybrid large caps such as Growthpoint and Redefine, were beneficiaries of the accounting scandal while small cap property shares received a boost from the 0.25% cut in local interest rates. While the property market lost 19.6% in the first quarter, it is important to understand that this was, and is, a very stock specific event. Year-to-date, the market has lost 21.4%.

It could be argued that the sector was overvalued to start and certainly that in hindsight, the Resilient group was particularly overvalued at premiums to their net asset values of between 60% and 70%. However, the property market is no stranger to large price shocks – in between December 2007 and June 2008, the property market fell 31.9%. Prices quickly recovered and property gained 33.5% in the subsequent four months. The Resilient group experienced better performance in the second quarter of this year.

The STANLIB Multi-Manager Fund performed better than the market

The Fund comfortably outperformed the property market in the first half of 2018, although this is of little consolation as the fall was painful. Our job is to research asset managers in South Africa and abroad. In constructing our portfolios, we carefully select managers from our buy-rated list. Relative performance amongst the underlying asset managers in the Fund was directly proportional to the exposure they had to the Resilient group. Bridge in particular, produced the highest outperformance. Catalyst also had good returns, but STANLIB lagged somewhat. It was therefore comforting that the Fund lost less than the market, as measured by the SAPY index.

Looking forward

It is true that the property market is well diversified between shares with diversified geographic exposures (hybrids), SA-focused, European focused and UK-focused property companies. Each segment has its own drivers and while the direction of the rand will certainly have an impact, it appears that the property sector is currently in the grip of a very stock specific event. We expect this to lead to better corporate governance and subsequent announcements by Resilient point to this. UK-focused property companies could certainly benefit from a more positive Brexit outcome and European-focused companies, dominated by the Resilient group, are currently far less expensive than in 2017 and will do well if the allegations are proved untrue. We believe the combination of underlying managers in the Fund will be able to navigate these difficult times. The Fund remains remain fully invested and ready to make changes to the manager line-up in the best interest of all investors, should the need arise.

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