

Market overview

Following years of uninterrupted growth, the listed property market suffered a spectacular de-rating in 2018, falling 25.0%. This return was worse than the 22% fall during the 2008 global financial crisis.

Starting the year from a fairly high base, the collapse was triggered by yet-to-be-resolved allegations of accounting irregularities in the Resilient Group. The ripples were quickly felt throughout the sector as investors interrogated the strength of company balance sheets and income statements in the face of a deteriorating economy. Property fundamentals were called into question as office vacancies rose and retail property came under pressure from a stretched consumer, negative rental reversions and growth in online shopping. Large locally listed UK PLC companies also felt the pain with uncertainty surrounding Brexit. To add to the sectors woes, both the FED and the SARB raised interest rates in 2018.

Asset class performance and risk statistics

Asset class	Q4 2018	1 year	3 years p.a.	5 years p.a.
FTSE/JSE ALSI	-4.9%	-8.5%	4.3%	5.8%
<i>Financials</i>	-2.1%	-8.8%	5.1%	8.9%
<i>Resources</i>	-4.5%	15.7%	22.3%	-0.3%
<i>Industrials</i>	-6.5%	-17.6%	-1.9%	4.9%
FTSE/JSE Capped SWIX	-3.8%	-10.9%	3.0%	5.3%
Bonds ALBI	2.7%	7.7%	11.1%	7.7%
Cash STeFI Composite	1.8%	7.2%	7.4%	6.9%
All Property Index (ALPI)	-6.2%	-25.0%	-5.0%	4.2%

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 ¹	Benchmark
Maximum drawdown	-30.9%	-29.8%
Portfolio volatility	15.2%	13.7%

Source: STANLIB Multi-Manager.

Portfolio review

The Fund was down 24.1% for the year and 5.4% for the quarter, but pleasingly ahead of the benchmark by 3.3%. The key driver of outperformance for the quarter was the underweight exposure to UK PLCs. The Fund also did well to dodge some of the sharp fall in the SA Inc. shares such as Rebois (-55%), Accelerate (-17%) and SA Corporate (-14%). Being overweight small and mid-cap SA hybrids added value as Stor-Age and Vukile in particular, went up in a down market. During the year an overall underweight to the Resilient Group assisted performance relative to benchmark. Compared to peers, the Fund underperformed in 2018, mainly due to the benchmark changing from the SAPY to the ALPI mid-year, resulting in the Fund holding more UK-exposed shares counters.

Having been hurt by exposure to the Resilient Group at the start of the year, STANLIB had a great fourth quarter, outperforming by 2.5% thanks to their low exposure to Intu PLC and CapCo PLC. While STANLIB's overall 2018 return was disappointing, their longer-term returns remain satisfactory. Catalyst was hurt a little by their exposure to these companies but outperformed for the quarter and the year through good stock selection in the SA Inc. shares and remains an excellent performer for the Fund. Investec and Sefikile both benefited from being overweight large SA hybrid property companies, which traded sideways for the quarter.

Portfolio positioning and outlook

Weak property fundamentals are likely to persist at least until after the general elections in May. The certainty provided by the elections and the investment initiatives already embarked on by the current administration, are likely to add to economic growth in 2019. While this will be positive for the listed sector, better economic growth is required for demand to fill supply. The resolution of Brexit and the Resilient stable allegations represents both risk and potential opportunity. On a historic yield of 9%, the property sector is back to yields last seen in 2008 and currently similar to those offered in the long bond market. Many property shares are trading at discounts of over 40% to their net asset values, suggesting that the sector's weak fundamentals are largely priced in. The Fund is currently underweight the large SA hybrid shares and UK PLCs, whilst being overweight small SA hybrid property companies. The largest holding in the Fund is Growthpoint. The largest overweight is Vukile and largest underweight is Capital & Counties.

Portfolio managers



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