STANLIB Global Property Feeder Fund

Quarterly update at 31 December 2023

STANLIB

Who are the investment managers?

Feeder - STANLIB Asset Management (Pty) Ltd, FSP 719, an authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act 2002, manage the investments of the fund.

Underlying - STANLIB Asset Management Limited is the portfolio manager of the STANLIB Global Property Fund, a sub-fund of the Threadneedle (Lux) SICAV.

Nesi Chetty

BCom (Hons) Finance Cum Laude, CFA

Head of Listed Property

Nesi started his investments career with RMB in 2002 where he was a member of the consumer industrial team and also assumed non-consumer research responsibilities. Nesi was previous head of Financials at RMB Asset Managers, responsible for banks and life assurance. He also managed the award winning RMB Financials Fund. In 2010, He was appointed as a fund manager and Head of property for Momentum. He managed the flagship Momentum Property Fund for over a decade and was responsible for asset allocation, research, strategy, and fund management within the property investments business. Nesi is a regular commentator on property, equities and the broader financial market. Nesi Joined STANLIB in June 2019 to co manage local and global listed property.

Ahmed Motara

BCom

Property analyst/portfolio manager

Ahmed joined the Listed Property team in September 2016 and focuses primarily on local listed property research. He also assists with portfolio management for the SA focused property funds. He has 13 years sell-side research experience focusing primarily on the South African listed property sector. He spent ten years with Deutsche Securities and the last three years with Renaissance Capital as equity analyst (vice president). He was a rated analyst in the listed property sector as well as the electrical and other equipment sector.

Nicolas Lyle

CA (Institute of Chartered Accountants of Scotland), MA (University of Edinburgh), CFA

Senior Property Analyst

Nicolas is an experienced, multilingual (French, Spanish and Portuguese) investment professional with 13 years' investment experience in the REIT and property sector. He started his career with a global professional services firm in London where he earned his CA qualification. He then joined a global bank to lead internal audits in over 20 countries before moving to the capital markets division in 2007. Through successive promotions, he became head of a listed property research team for a global investment bank in London for three years, driving three years of consecutive improvements in investor rankings and won a Starmine award for No1 earnings forecaster for UK REITs in the process. Nicolas moved to South Africa in 2013 where he launched a west African property investment vehicle with a leading retailer, successfully recapitalised a mid size construction management firm and worked as a development director for a leading private equity property business investing in West Africa until end 2018. His breadth of experience in multiple jurisdictions and depth of professional skills brings differentiated investment perspectives and investment discipline to the team.

Fund review

In Q4 2023, the fund delivered a positive return of 10.5% in rands, gross of fees, compared with a benchmark total return of 12.3%, Full year returns of 19%, supported by 8% of rand/dollar weakness means that the sector has now reversed all of 2022's losses, thanks in part to a fourth consecutive year of the rand weakening against the dollar in 2023.Despite repeated reminders by the US Federal Reserve that monetary policy would be restrictive for some time into 2024, financial markets embraced risk appetite. The perception is that inflation has finally been tamed and is back within the central bank's target range, suggesting an end to the interest rate hiking cycle that began in Q1 2022.

The fund's modest underperformance against the index in the quarter was principally due to stock selection. November and December's risk rally, which most benefited lower-yielding and highly leveraged companies, offset the fund's outperformance in October due to its underweight positions in the latter.

The fund's overweight positions in industrial REITs such as CTPNV and Tritax Big Box continued to deliver modest alpha in the quarter, as did the fund's overweight in American Tower. But it was the fund's underweight positions in high-quality but overly expensive stocks such as Welltower, Equinix and Mid-America Apartments and Camden Property that delivered the most alpha, when combined.

From an allocation perspective, the fund's tactical underweight to Sweden (2% of the index), where property companies are over-leveraged and face the largest headwinds to earnings growth from higher re-financing costs in 2024, was the principal detractor from performance. This was compounded by a smaller underweight to German residential, which faces the same headwinds despite its very defensive rental income stream.

These positions offset the strong contribution from the fund's overweight to the UK, where REITs are much better positioned against potentially structurally rising borrowing costs, and the positive contribution from the fund's underweight to Japan.

With a few exceptions, company results reported for Q3 and interims to June were robust. This was evident in continued growth in occupancy and rental values on a sequential basis (except for office and self-storage and US apartments, especially in the Sunbelt states), boosted by dividend hikes and confident outlook statements from company management on meeting previous earnings guidance for 2023.

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Market overview

In Q4 2023 there was an extremely fast and large appreciation in 10-year bond prices, providing the underpin that REITs needed after 20 months of rising interest rates. Global property is arguably the most sensitive asset class to 10-year bond yields. It outperformed equities in the quarter by 5% and bonds by 8%.

We highlight below some of the key movements during the quarter in the fund's most important property markets.

US REIT shares appreciated by 15% in dollars on a total return basis, entirely reflecting the sudden gain in 10-year bond prices in November and December, offsetting year-to-date losses. Continued strong cash flow growth supported more dividend hikes by US REITs, in sharp contrast to other regions (except Australia and UK) where continued low growth and over-leveraged balance sheets (on average) are pointing to flat or suspended dividends, with balance sheet improvement required in some cases (especially Nordic Europe).

Q3 results trends were resilient, with only a small decrease in those achieving above forecast in aggregate (51%). Free cash flow per share (FFOPS) guidance and dividend increases were prevalent across property sectors other than office, self-storage and residential. Profit growth expectations for 2023 were increased on average, especially in the Data Centre and Hotel subsectors. Turmoil in the B-grade office sector continued, however, with vacancy and availability rates hitting record highs and more lenders foreclosing on properties.

In a sign of the strong getting stronger in this environment, Realty Income, the world's largest net lease REIT, agreed to acquire a smaller peer (Spirit Realty) in a $9 billion transaction that should complete in Q1 2024. This will be immediately cash flow accretive to Realty Income.

Canadian REITs again mildly underperformed in the quarter, reflecting generally higher levels of leverage than in the US and a more pro-cyclical bias in the index constituents. All sectors underperformed, again with the exception of residential REITs, on expectations of raised rental income and free cash flow guidance for 2024.

Continental European-listed property markets generally outperformed in the second quarter (with the exception of the Netherlands on news of a potential end to the REIT regime there in 2025). This reflected heavily discounted valuations and market expectations of peak rates in the euro zone, thanks to rapidly slowing inflation and weak employment numbers. Despite over-leveraged balance sheets and relatively low cash flow yields, Sweden was the stand-out performer, up 44%, reflecting the highest sensitivity to lower bond yields.

The UK also outperformed on strong trading updates and results from the top constituents, and markedly more defensive balance sheets than their continental peers. The vast majority of UK REITs outperformed the benchmark in the quarter, but the top performers were lower-quality stocks such as British Land (a perennial laggard), Regional REIT and the PRS REIT.

Every country in the Asia-Pacific region (except Australia) again underperformed the index due to a variety of local and global factors. Hong Kong significantly underperformed due to negative news from mainland China, a continued rise in office vacancies and a slowdown in the residential market, which offset the continued rebound in retail sales in the city's main shopping and entertainment areas.

Japanese REITs returned to their usual underperformance against the benchmark, despite rising inflation. They delivered approximately a 3.5% return in dollars. This reflects expectations of tighter monetary policy and continued low growth in 2024. The fund has maintained a strategic underweight on J-REITs for the last four years, due to a lack of medium-term growth prospects and relatively weaker governance structures. We see higher-quality risk-reward opportunities elsewhere.

Looking ahead

Global inflation seems to have been tamed. Employment indicators are fairly resilient but softening and, so far, consumers and companies appear to be adapting to higher prices, thanks to higher wages and cost controls in other areas, which are protecting company margins, especially in the US. This points to a soft landing, which is currently the consensus narrative.

However, there is always a 12–18-month delay between the implementation of tighter monetary policy and the mechanical impact on economic activity, which is likely to reverse these trends. Beneath the surface, higher costs of capital from higher interest rates, decreasing bank liquidity from quantitative tightening and stricter lending criteria are undoubtedly denting profitability and forcing companies to preserve capital, focus on cost cutting and generally be more conservative.

We are seeing signs of this at the margins, with layoffs increasing in frequency and size, house prices stabilising (US) or falling (rest of the world) and consumer confidence ebbing (surveys). Property transaction volumes are down more than 50-60% year-on-year in most jurisdictions. There are numerous examples of private sector landlords being unable to refinance maturing debt and handing the keys of their properties (mainly B-grade offices, malls and apartments) back to their lenders. This is invariably increasing pressure on liquidity buffers in the banking sector. Finally, we are conscious that commercial real estate prices are still falling in most developed markets (after a 15% correction in 2022 and 12% in 2023) and that a significant number of loans is "under water" in the private markets (or shadow banking sector). This is likely to generate ripple effects in private property prices. We remind investors that, in contrast to the private sector, REITs are, in aggregate, well-capitalised and conservatively funded, which means that they are very well positioned to benefit from distressed pricing and eventual forced asset sales by highly leveraged private sector owners. Outsized acquisitions in this environment, which we expect to pick up in 2024-2025, will lay the foundation for many years of strong profitability in the future.

It seems that financial markets have finally recognised this in Q4, when there was a 16% rebound and strong outperformance of bonds and equities. However, the risks of slower growth are increasing. As a result, we continue to position the fund in companies that have the strongest balance sheets and those that can benefit from continued profit growth with low dividend pay-out ratios, enabling them to continue to raise dividends in 2023 and at least maintain or grow them in 2024. We expect this approach will increasingly deliver sustained outperformance of the benchmark in 2024.

The commentary gives the views of the portfolio manager at the time of writing. Any forecasts or commentary included in this document are not guaranteed to occur.

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Change in allocation of the fund over the quarter

Asset type	Q4 2023	Q3 2023	Change
Domestic Cash & Mny Mkt	4.81	2.16	2.64
Domestic Fixed Interest	0.39	0.51	-0.12
Foreign Cash & Mny Mkt	4.74	10.75	-6.01
Foreign Equity	29.92	28.08	1.84
Foreign Funds	15.08	16.65	-1.57
Foreign Property	45.06	41.85	3.21

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
B1	Retail	1.35	495.03	47,588,990.78	235,580,030.42

All Price, Units and NAV data as at 31 December 2023.

Units - amount of participatory interests (units) in issue in relevant class.

TER - 1 Year Total Expense Ratio (%) including VAT as at 30/09/2023. The Total Expense ratio (TER) shows the charges, levies and fees relating to the management of the portfolio and is expressed as a percentage of the average net asset value of the portfolio, calculated over the period shown and annualised to the most recently completed quarter. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER should not be regarded as an indication of future TERs.

Disclosures

Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to future performance. CIS are traded at ruling prices and can engage in borrowing and scrip lending.

The STANLIB Global Property Feeder Fund is a portfolio of the STANLIB Collective Investment Scheme (the Scheme).

The manager of the Scheme is STANLIB Collective Investments (RF) (Pty) Limited (the Manager). The Manager is authorised in terms of the Collective Investment Schemes Control Act, No. 45 of 2002 (CISCA) to administer Collective Investment Schemes (CIS) in Securities. Liberty is a full member of the Association for Savings and Investments of South Africa (ASISA). The Manager is a member of the Liberty Group of Companies. The manager has a right to close a portfolio to new investors in order to manage the portfolio more efficiently in accordance with its mandate. The Manager does not provide any guarantee either with respect to the capital or the return of a CIS portfolio. A schedule of fees and charges and maximum commissions is available on request from the Manager.

The trustee of the Scheme is Standard Chartered Bank.

The investments of this portfolio are managed, on behalf of the Manager, by STANLIB Asset Management (Pty) Ltd, an authorised financial services provider (FSP), FSP No. 719, under the Financial Advisory and Intermediary Services Act (FAIS), Act No. 37 of 2002.

Prices are calculated and published on each working day, these prices are available on the Manager's website (www.stanlib.com) and in South African printed news media. This portfolio is valued at 15h00. Forward pricing is used. Investments and repurchases will receive the price of the same day if received prior to 15h00.

This portfolio is permitted to invest in foreign securities. Should the portfolio include any foreign securities these could expose the portfolio to any of the following risks: potential constraints on liquidity and the repatriation of funds; macroeconomic risks; political risks; foreign exchange risks; tax risks; settlement risks; and potential limitations on the availability of market information.

This portfolio is a Feeder Fund portfolio. A Feeder Fund portfolio is a portfolio that invests in a single portfolio of a collective investment scheme, that levies its own charges, which could result in a higher fee structure for the Feeder Fund.

All performance returns and ranking figures quoted are shown in ZAR and are based on data sourced from Morningstar or Statpro and are as at 31 December 2023.

Annualised return figures are the compound annualised growth rate (CAGR) calculated from the cumulative return for the period being measured. These annualised returns provide an indication of the annual return achieved over the period had an investment been held for the entire period. Actual annual figures are available on request from the Manager.

Portfolio performance figures are calculated for the relevant class of the portfolio, for a lump sum investment, on a NAV-NAV basis, with income reinvested on the ex-dividend date. Individual investor performance may differ due to initial fees, actual investment date, date of reinvestment of income and dividend withholding tax. Portfolio performance accounts for all costs that contribute to the calculation of the cost ratios quoted, all returns quoted are after these costs have been accounted for.

Additional information about this product including, but not limited to, brochures, application forms and annual or quarterly reports, can be obtained free of charge, from the Manager and from the Manager's website (www.stanlib.com).

Contact details

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