STANLIB Global Property Feeder Fund

Quarterly update at 30 June 2020

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.

Keillen Ndlovu

BCom (Hons), CAIB (SA), Property Development Programme

Head of Listed Property

Keillen manages the largest listed property fund in South Africa, the STANLIB Property Income Fund. After beginning his property career with Standard Bank Properties in 2004, Keillen transferred to STANLIB in 2005 as a listed property analyst. After becoming a full-time fund manager in 2008, he successfully assumed increased responsibilities and fund management exposure, and was appointed head of STANLIB's Listed Property team in 2010. The Listed Property team has won numerous awards over the years and under his tenure has expanded its listed property offering to global property markets. Keillen is a regular commentator in the media on listed and commercial property issues.

Nesi Chetty

BCom (Hons) Finance Cum Laude, CFA

Senior Portfolio Manager

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.

Fund review

In the quarter, the fund delivered a positive total return of 5.5% compared with a benchmark return of positive 7.6% (in rand terms). Year-to-date the fund has outperformed the benchmark by 1.5%.

Allocation effects accounted for most of the variance in performance in the quarter, with a relatively high allocation to cash accounting for half of the variance. Fund underweights to Japan, Hong Kong and Singapore (together 15% of the index) eroded performance as the Bank of Japan's commitment to buying J-REIT bonds helped the region's equities to rally (with the exception of Hong Kong, due to the negative impact of China passing the National Security Law).

From a stock selection perspective, strong contributions from the fund's overweight positions in industrial REITs in Japan, Singapore and Australia were largely offset by profit taking by the US self-storage and US data centre names, where the fund is also overweight. A risk rally in higher-beta REITs (shopping centres, lodging (hotels) and diversified healthcare names, Ventas in particular) also eroded returns, as the fund is underweight these subsectors.

Market overview

After the sharpest monthly (and quarterly) correction in global REIT prices over the last decade occurred in the first quarter, they rebounded in the second quarter, as investors digested the news of record levels of both monetary (quantitative easing) and fiscal support. The world's central banks pledged three times as much monetary support as in the aftermath of the Global Financial Crisis (GFC), within weeks of stock market collapses due to the coronavirus being declared a pandemic. The ensuing risk asset rally also led to the rand strengthening by almost 3% against the US dollar, absorbing part of the 10.5% dollar rebound. REITs underperformed broader equity indices by 8-10%, reflecting anticipated lower property earnings from legislated closure of all types of property across the developed world. As a result, while Q1 2020 results largely met expectations, in April the focus of earnings calls was on rent collections.

Below we highlight some of the key movements in the fund's most important property markets:

North American property markets were rocked by the impact of the pandemic, with 85% of US and Canadian REITs choosing to withdraw previous guidance and some (retail- and lodging-focused REITs) warning of likely reductions in the dividend. With the exceptions of tech REITs (towers & data centres), industrial, self-storage and some niche residential REITs, most had drawn down fully on their debt facilities in anticipation of a cash crunch fuelled by the anticipation of soaring vacancies, missed rent collections and a spike in rental arrears.

We highlight that, in aggregate, balance sheets are significantly stronger than at the time of the GFC, with virtually every listed REIT in the index likely to be able to continue to service debt payments. As expected, sectors where the fund is overweight continued to report healthy rental collection rates, with several companies maintaining or even lifting guidance for 2020. High-quality companies were able to raise over $2 billion of equity during the quarter. As a result of the temporary seizing up of credit markets, many significant previously announced transactions were re-negotiated to lower levels or simply fell through. Liquidity remains high, however, with over $300 billion of private equity capital available for investment, but this is likely to remain uninvested for a while as investors seek the most opportune time to invest.

European property markets were also set back by the pandemic. While Q1 results were robust in all sectors except retail, the divergence between subsectors continues to widen in Q2. Industrial REITs have issued more positive guidance on the impact of the pandemic than retail and office REITs, while UK healthcare continues to report strong results and growth prospects. The demand/supply imbalance driving rental growth is also marked in various residential markets such as Germany, Sweden, Finland and the Netherlands, where the impact of the pandemic on fund holdings has been and continues to be minimal.

UK and European retail property continue to see a structural reduction in the demand for space and the pandemic is accelerating this trend. Retail landlords are reporting rent collections are 20-30% of the total due (vs over 80% for industrial). Continental office markets (particularly Paris, Madrid, Berlin and Stockholm) have proved more resilient due to tight supply, but those shares have been marked down significantly. This is in anticipation of large increases in vacancies and dividend reductions from negative rent reversions as sentiment regarding “work from home” weighs on the sector. The increased focus on online learning by more universities is expected to have a material impact on 2020 earnings for UK and European student housing providers but a sharp recovery is expected in 2021 as a vaccine is made available or herd immunity is achieved.

In Japan, performance was more varied. Industrial and oversold hotel REITs significantly outperformed locally and globally. Developers remained broadly flat, while office-focused REITs significantly underperformed as the outlook for Japan’s key office markets (Tokyo and Osaka) began to deteriorate materially for the first time in a decade. Singaporean and Australian REIT indices also outperformed other western regions due to a more rapid response and containment of the virus and regional central bank actions.

Looking ahead

Since the rebound in the second quarter was limited, the FTSE EPRA NAREIT Developed Rental Index is still trading in line with 2016 levels and now offers an aggregate implied property yield of approximately 5-5.5%. Over the last 20 years, the implied property yield premium over sovereign bonds has averaged 2-3%, therefore the current risk premium of around 5% is large on a historic basis. This implies that most stocks in the index are not only trading at significant discounts to reported NAVs (20-30% on average) but also that many are trading at prices below replacement cost for the first time since 2008. We highlight that, globally, REITs have far less leverage and far more liquidity going into this recession than was the case in 2008. We therefore expect fewer equity recapitalisations. However, it is clear that real estate demand is starting to fall in many sectors as the effects of online shopping and increased remote working start to bite. A few inappropriately-leveraged companies with secondary quality portfolios will feel the greatest impact. Private market prices have fallen by 10-12% in aggregate in the US and Europe but the unprecedented speed and extent of monetary easing is causing some investors to expect a reversal and prices to gradually rise again from the third quarter.

We believe that the economic impacts of COVID-19 have largely been factored into many more vulnerable listed property subsectors (for example, retail and lodging) with dividend cuts announced by even the strongest in these subsectors. However, the full extent and eventual cost of shifting patterns of work, living and leisure has certainly not been priced in correctly across the sector. This merits a continued defensive outlook for 2020 but we will take advantage of opportunities where we believe risk is mispriced.

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.

Change in allocation of the fund over the quarter

Asset type	Q2 2020	Q1 2020	Change
Domestic Cash & Mny Mkt	3.76	0.35	3.41
Domestic Fixed Interest	0.10	0.00	0.10
Foreign Cash & Mny Mkt	2.73	6.52	-3.79
Foreign Equity	2.02	1.83	0.19
Foreign Property	91.38	91.30	0.08

The portfolio adhered to its portfolio objective over the quarter.

Fund classes

Class	Type	TER	Price (cpu)	Units	NAV (Rand)
A	Retail	1.77	409.84	69,396,869.98	284,414,838.65
B1	Retail	1.36	430.09	54,497,455.25	234,385,823.30

All Price, Units and NAV data as at 30 June 2020.

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

TER - 1 Year Total Expense Ratio (%) including VAT as at 31/03/2020. 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.

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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 30 June 2020.

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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Investment Manager

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