# STANLIB Property Income Fund

Quarterly update at 31 December 2023

## Who are the investment managers?

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.

**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

The STANLIB Property Income Fund delivered +15.0% (gross of fees) in Q4 2023 while the benchmark returned +15.9%. Detracting from the fund's performance against the benchmark were underweight positions in Lighthouse, Shaftesbury, Growthpoint and overweight positions in Fortress A, Sirius, MAS and Spear. An underweight position in Hyprop, Burstone, Equites and Resilient added to performance, as did overweight positions in NEPI Rockcastle and SA Corporate.

## Market overview

The FTSE/JSE All Property Index (ALPI) delivered a total return of +15.9% in Q4 2023, outperforming cash (STeFI Composite Index at +2.1%), bonds (ALBI +8.1%) and equities (FTSE/JSE All Share index returned +6.9%). All the stocks in the ALPI managed to post positive returns for the quarter, as growing expectations of declining future interest rates were reflected in falling domestic bond yields during the quarter.

Among heavyweight sector stocks, NEPI Rockcastle (+21%), Growthpoint (+18%) and Redefine (+16%) delivered strong positive returns, with all three shares outperforming the benchmark. NEPI benefited from a continued strong operational performance and outlook, providing another business update in late December 2023. Together with a business update from MAS in December, Central and Eastern European (CEE) markets reported robust operational performances and provided a liquid conduit to divest from a relatively weaker South African market. In the rest of the sector, the best-performing stocks were Lighthouse (+36%), Shaftesbury (+23%), SA Corporate (+20%), Hammerson (+18%), Equites (+17%), Fortress B (+16%), Sirius (+15%) and Fairvest B (+14%). The worst-performing stocks were Fortress A (+7%), Hyprop (+9%), MAS (+11%), Stor-age (+11%), Vukile (+12%), Attacq (+12%), Resilient (+12%), Emira (+14%) and Burstone (+14%).

The best-performing stocks, including Lighthouse (France and Iberia exposure), Shaftesbury (London exposure), NEPI (CEE exposure) and Hammerson (UK and Western Europe exposure) all have 100% non-South African property exposure. The worst-performing stock, Fortress A, underperformed in the last quarter. Hyprop, another stock that performed poorly, announced an acquisition that initially does not appear accretive to immediate distribution growth.

Results and management discussions in the past quarter showed a continuation of stabilising asset valuations, stable debt-to-asset ratios and improving operational performances. Of relevance in many of the company guidance and outlook statements was the negative impact of a rising interest cost burden, offsetting improving operational performances. We still anticipate community shopping centres will continue to perform well and are starting to see further evidence that some large regional shopping centres are stabilising operationally. Stocks underpinned by assets in Spain, the UK, Western Europe and CEE should continue to generate reasonable returns and, in some instances, are continuing to positively surprise us with their operational strength.

Logistics assets are likely to continue showing positive rental growth, offsetting concerns that assets with low capitalisation rates are at risk of material devaluation due to higher interest rates. In many instances, we note that logistics assets appear to have already taken a large portion of necessary asset devaluations. Although they are expected to devalue further, we do not believe this will materially impact liquidity buffers. Office space is likely to remain under pressure in SA, and an office sector recovery is still not anticipated in 2024. We are, however, seeing less severe negative adjustments to office asset values and lease renewals, suggesting that there will be an improvement in operating dynamics in the future. Comments from property companies suggest the sector is stabilising. Despite the ongoing issues in Ukraine, other CEE real estate markets appear less affected, and a positive operational outlook is still intact for MAS's and NEPI Rockcastle's operations. A strong operational performance from Sirius is also expected, as is very effective treasury management.

Rising administered costs are hampering the outlook for stocks with significant South African portfolios. Overall distribution visibility is improving, allowing increased conviction in the sector's income growth outlook. At current discount-to-book share prices, it could be assumed that many companies will not raise capital for offshore expansion, nor will they consider raising debt levels in a rising interest rate environment. We note, however, that the market is starting to see opportunities due to current disconnects in the public/private market, and there is a willingness to pursue those opportunities if funding and equity costs allow. Corporate action is becoming increasingly evident in the property sector.

The fund's positioning is to take selective South African exposure to community shopping centres and logistics. We have reduced our exposure to office and large retail centres, where possible. We continue to have a material weighting in property counters that generate a large portion of, or all their income, from the UK, Western Europe and CEE. The focus remains on stocks that generate sustainable income streams, underpinned by high-quality property assets and robust balance sheets.

## Looking ahead

We expect distributable income growth for both the ALPI and SAPY will be positive in 2024 and 2025. Investors' concerns about property devaluations and related debt-to-asset ratios and covenants are less evident in recent months and are not viewed as a material concern, given the rebasing that has happened in the sector in recent years. Refinance risk is becoming more of a concern, from the perspective of locking in higher interest rates, appropriate levels of hedging and the associated costs. Material concerns do not arise that companies will be unable to refinance. Normalised income yields on property companies with re-based, sustainable income levels are now a feature of the sector and are reflected in improved guidance and operational metrics. The office sector continues to face material headwinds from oversupply and hybrid work models, but signs of a future improvement are starting to appear. Office conversion to residential is being considered when the yield is appropriate, but multiple factors (location, land cost, tenant demand, building configuration) often make this unfeasible. Lower-end retail is experiencing stronger growth than large retail malls. Demand remains strong for A-grade logistics, but valuations are starting to look increasingly full for assets in this space.

Headwinds are still being experienced from weak discretionary spending, rising energy costs, cost of living increases, load shedding and high unemployment. Anaemic South African GDP growth remains a concern. Lack of service delivery and rising municipal, water and electricity costs are also hampering the sector's ability to stage a strong rental growth-led recovery. With an increasing income contribution from offshore assets, property companies have created a buffer to offset the weak domestic operating environment.

The valuation of the property sector remains appealing and sufficient valuation headroom still exists to support positive sector total return performance in the medium term. In terms of total return mix, we anticipate income will continue to dominate the total return equation. Macro growth expectations and supporting macro indicators suggest that CEE assets will continue to perform operationally well in 2024 and 2025.

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 | Q4 2023 | Q3 2023 | Change |
|---|---|---|---|
| Domestic Cash & Mny Mkt | 2.98 | 2.43 | 0.55 |
| Domestic Property | 97.02 | 97.57 | -0.55 |

The portfolio adhered to its portfolio objective over the quarter.

## Fund classes

| Class | Type | TER | Price (cpu) | Units | NAV (Rand) |
|---|---|---|---|---|---|
| B1 | Retail | 1.16 | 316.12 | 498,166,314.51 | 1,574,825,591.69 |

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.

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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 Property Income 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.

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


### Manager

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