STANLIB Global Emerging Markets Property Capability

Focused Investing
Our belief
Listed property as an asset class

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STANLIB
Focused Investing
Our belief

There is no 'one size fits all' investment solution for clients. Diverse clients need diverse investment outcomes. We therefore look at investments through many lenses and from many angles to give us an in-depth understanding of an ever-changing investment landscape. Our investment model houses multiple focused units with unique philosophies, which cater for diverse client needs.

Listed property as an asset class

Emerging markets offer a host of opportunities for investors

- Higher GDP growth projections compared to developed markets
- Low retail penetration, with huge opportunities for further growth in the retail space
- Rapidly growing incomes and purchasing power
- A growing middle class with rising aspirations
- A lower median age creating sustainable growth and demand for services, housing, retail, etc.
- Urbanisation and urban renewal opportunities
- Attractive labour costs attracting and creating opportunities in the manufacturing and services sectors
- Lower rental levels in the office, retail and industrial space relative to the developed world

As an asset class, listed property offers attractive investment opportunities and diversification for investors. Emerging markets property has a similar correlation and volatility as emerging equities. However, we believe that over time listed property in emerging markets will establish itself as a distinct asset class, resulting in increased demand by investors across the globe, attracted by relatively higher yields and development opportunities in comparison to developed markets as well as global markets.

Our Listed Property Franchise has a good track record as one of the leading listed property managers in the country and is building a good track record in the offshore space with a unique offering across all property markets in the world. We believe that markets are inter-related and therefore, covering the whole spectrum gives us a better overview of the world. An example would be understanding the Chinese property market (an emerging market) and US property market (a developed Market), which depend on each other. Over time most of the emerging markets will move from being developers to being Real Estate Investment Trusts (REITs), an area we already cover in the developed market space.

*As at June 2014
Why invest in emerging market listed property?

### Passive real estate owners
- Inflation hedge
- Store of real value
- Yield
- Advantages to physical property
- Quality portfolios
- Economies of scale

### Active real estate developers
- Population growth
- Changes in demographics and household formation
- House price growth
- Increasing consumer wealth
- Operational expertise
- Higher risk but higher return
- Economies of scale

STANLIB Global Emerging Markets Property Capability - key features

- The STANLIB Global Emerging Markets Property Capability is focused on the fast growing property sectors within the emerging markets
- Investment in listed property stocks, including property investors and property developers
- South Africa comprises a major portion of the global emerging markets listed property universe and STANLIB is South Africa’s leading listed property investor
- Active management approach
- Company visits form an integral part of the investment process and portfolio bias is ‘bottom-up rather than ‘top-down’; and
- Concentrated portfolio of 45 - 60 stocks

Competitive advantages

- The STANLIB Listed Property Team is one of the leading property managers in South Africa
- Our offering is unique across all property markets in the world
- Globally integrated knowledge and understanding of emerging and developed markets

Our Listed Property Team

Our Listed Property Team is headed by Keillen Ndlovu and thanks to a successful and consistent investment philosophy and process, has won numerous awards over the past decade.

In addition to dedicated research on specific companies and themes, Keillen takes ultimate responsibility for portfolio management functions - domestic, Africa and global (emerging and developed). Riaan Gerber focuses on developed and emerging markets, whilst Chloe Ma focuses on the local, Africa and Asian markets.

While dedicated resources are allocated to the management of strategies, there is a team approach to sharing of ideas and knowledge. The Listed Property Team also leverages research ideas where appropriate from the Economic Research Team. The team does the stock picking in-house, using both internal and external research.
Objective

The primary objective of the STANLIB Global Emerging Markets Property Capability is to achieve medium to long-term capital growth.

We pursue this objective by investing in listed property securities operating in emerging markets, in both active real estate developers and passive real estate owners.

Benchmark

Performance within the STANLIB Global Emerging Markets Property Capability is measured against the S&P Emerging Property Index. This is the most comprehensive emerging market property index available and is independently calculated by S&P. The Index includes Real Estate Operating Companies and Real Estate Investment Trusts (REITs), but excludes mortgage and timber REITs. The emerging market property universe is still immature in the sense that there are more active real estate developers than passive real estate owners.

Investment philosophy

Our objective is to generate superior long-term risk-adjusted returns based on thorough fundamental research.

We believe that markets are not efficient. These inefficiencies provide opportunities that can be actively exploited to generate enhanced returns by employing our extensive experience, resources and expertise. We aim to maximize returns by identifying diverse opportunities that are expected to drive outperformance.

Disciplined top-down and bottom-up research, diversification and risk management processes enable us to take advantage of these inefficiencies and better positions us to outperform relative to our peers and benchmarks.

Sector and regional analysis

Once we have property under the microscope, the next factor to consider is sector analysis and selection. Property is all too often viewed under one umbrella, while in fact the relevant sectors (retail, office and industrial) react quite differently under various scenarios. Their respective cycles are not correlated and this allows for diversification as well as opportunities for tactical positioning.

Portfolio construction

The quantitative aspect of our research consolidates the selected universe of stocks into a ranking table. The total return projection, while of extreme importance, is not the only input into our stock selections. We take cognizance of risk through sector, strategy and to a lesser extent, regional diversification. We also specifically take note of key aspects such as financial gearing and asset quality relative to where we may be in a particular cycle.

We continuously revisit current holdings to ensure that our investments thesis in holdings remains intact. The team is benchmark cognizant. This means that favoured positions will be reflected as an overweight position relative to the benchmark. This approach is by no means a straight-line process, because just as we believe that markets are ever changing, must we be flexible enough to adapt to change.

Research overlay

Top-down analysis

We only consider company specifics after arriving at a thorough understanding of the prevailing economic environment. This top-down macro analysis is not only a starting point but is rather an on-going process. Macro variables such as interest rates and economic growth are crucial in decision-making across the board, from asset allocation calls to asset quality of the relevant stocks under consideration.
Individual company research

We outsource the research to sell-side analysts based in various geographies. However, we meet with management at various conferences and also do site visits. This enables us to question the calls made by sell-side analysts and to make independent and well informed decisions when buying or selling stocks in our portfolios.

Investment risk management

The approach to investment risk at STANLIB is proactive, which means being prepared for unlikely events and learning from market crises. This applies to both market risk and non-market risks such as counterparty, operational, leverage and liquidity.

Risk is the responsibility of the portfolio manager and is integrated into the investment team’s decision-making process. The Listed Property Team is responsible for the monitoring and measuring of investment risks and the implementation of internal risk controls consistent with their risk appetite, investment philosophy and process.

Performance attribution is assessed and calculated independently by a dedicated performance team, including risk numbers, such as information ratio, tracking error (ex-post) and volatility.

Our portfolios and benchmarks are loaded on Bloomberg, which has functionality to calculate Value at Risk (VAR), and apply Emerging Market Factor Models. The team aims to manage ex-post tracking error of between 1% and 7% and to achieve portfolio volatility that is lower than benchmark.

The responsibility for operational risk lies with the STANLIB Compliance Team. The Listed Property Team’s oversight functions ensure independence, clear accountability and enable portfolio managers to improve their investment process.

The risk management framework is aligned with the investment objectives and investment horizon; and tackles multiple aspects of risk, not limited to a single measure such as tracking error. Furthermore, an effective, integrated risk framework measures, monitors and manages exposures to economic and fundamental drivers of risk and return across asset classes in order to avoid the overexposure to any one risk factor.

Portfolio Analytics, Risk and Implementation

The Portfolio Analytics, Risk and Implementation Team (PARI) at STANLIB provides an oversight function via a consistent and unbiased process for evaluating investment risks. The objective of the PARI Team is to verify that portfolio managers are investing in line with their investment philosophy and within risk limits. The team monitors and manages the following investments risks:

- Credit
- Liquidity
- Derivatives
- Market concentration; and
- Investment risk

The objective of the team is to quantify, decompose, evaluate and communicate both benchmark and peer-relative risk and return.

The function of the PARI Team complements that of the Compliance Team who ensure that the Listed Property Team operates within client-specified guidelines and regulatory limits.

There are three components to STANLIB’s risk management framework, all of which are essential. Risk measurement means having the right tools to measure risk accurately. Risk monitoring means observing the risk measures on a regular and timely basis. Risk-adjusted investment management means using the information from the measurement and monitoring of risks in order to ensure that the portfolio management process is aligned with expectations of risk and risk tolerance. Moreover, each component is interdependent and should be aligned with our clients’ investment objectives. This interconnectedness is essential for a robust risk management framework at STANLIB and for the investment process to be fully aligned and integrated.

Broader risk management

Compliance and investment risk management are the cornerstones of our business. To this end, we have robust risk management, compliance and governance structures. Our highly experienced middle office consists of Compliance, Legal, and Risk Management, which provide systems and processes to ensure that mandate compliance is monitored.

We have made provision for IT and business recovery facilities including office space. Our robust systems are designed to ensure that our organisation operates efficiently at all times. Insurance policies for professional indemnity as well as directors’ and officers’ liability are in place, through Standard Bank Insurance Brokers (Pty) Ltd.
Contact details

Should you have any questions about the detail provided in this document, please contact us using the following details:

Jerry Mnisi
Head of Institutional Distribution

+27 (0)11 448 5197
jerry.mnisi@stanlib.com

Brendan Howie
Senior Client Fund Manager

+27 (0)11 448 6585
brendan.howie@stanlib.com

Gareth Connellan
Senior Client Fund Manager

+27 (0)11 448 6294
gareth.connellan@stanlib.com

Letshego Rankin
Senior Client Fund Manager

+27 (0)11 448 6902
letshego.rankin@stanlib.com

Len Jordaan
Client Fund Manager

+27(0)11 448 5143
len.jordaan@stanlib.com

Bongiwe Khumalo
Client Fund Manager

+27(0)11 448 6590
bongiwe.khumalo@stanlib.com

Cindy Inacio
Client Fund Manager

+27(0)11 448 6035
cindy.inacio@stanlib.com

Erdmuth Moremi
Client Fund Manager

+27(0)11 448 6158
erdmuth.moremi@stanlib.com
Appendix

Team profiles

Keillen Ndlovu – BCom (Hons), CAIB (SA), PDP

Head of the Listed Property Franchise / Portfolio Manager

Industry experience - 10 years

Keillen was appointed as Head of STANLIB’s Listed Property funds in 2010 and currently manages funds for both institutional and retail clients.

Thanks to a successful and consistent investment philosophy and process, the Listed Property Team has won numerous awards over the past decade, with Keillen himself becoming a regular media commentator, not only on STANLIB’s funds but also on general listed property industry issues.

After beginning his property career with Standard Bank Properties in 2004, Keillen transferred to STANLIB the following year as a Listed Property Analyst. Upon successfully assuming increased responsibilities and fund management exposure, he was appointed Co-Head of STANLIB’s Listed Property funds and a full-time fund manager in 2008.

Riaan Gerber – BCompt (Hons), CA (SA), PDP

Portfolio Manager/Property Analyst

Industry experience - 9 years

Riaan has been with the Listed Property Team since 2007, managing listed property portfolios and analyzing listed property securities in both developed and emerging markets, including South Africa.

He joined STANLIB in 2005 and gained experience in financial and management accounting, tax, internal audit and financial management at both STANLIB and Standard Bank.

Chloe Wing See Ma - BArch, BSc (Hons), PGDEM

Property Analyst

Industry experience - 3 years

Chloe joined the Listed Property Team as Listed Property Analyst. She focuses mainly on research within the local and offshore listed property markets. She was previously at Rand Merchant Bank where she worked as a Credit Analyst within the Real Estate Investment Banking space.

Her qualifications include a Bachelor of Architectural Studies, BSc Property Studies (Cum Laude, Deans Merit List), BSc (Hons) in Property Studies (Cum Laude, Deans Merit List), a Postgraduate Diploma in Enterprise Management and recently passed CFA Level 1.
Legal Notices

Collective investment schemes in securities 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 the future. An investment in the participations of a collective investment scheme in securities is not the same as a deposit with a banking institution. Participatory interest prices are calculated on a net asset value basis, which is the total value of all assets in the Fund including any income accrual and less any permissible deductions from the Fund divided by the number of participatory interests in issue. Permissible deductions include brokerage, UST, auditor's fees, bank charges, trustee/custodian fees and the service charge levied by STANLIB Collective Investments (RF) Limited (“the Manager”). Where exit fees are applicable, participatory interests are redeemed at the net asset value where after the exit fee is deducted and the balance is paid to the investor. A Portfolio of a collective investment scheme in securities may borrow up to 10% of the market value of the Fund to bridge insufficient liquidity as a result of the redemption of participatory interests, and may also engage in scrip lending.

Where different classes of participatory interests apply to certain Portfolios, they would be subject to different fees and charges. A schedule of fees and charges and maximum commissions is available on request from the Manager. Commission and incentives may be paid and if so, would be included in the overall costs.

The exposure limit to a single security in this Portfolio can be greater than is permitted for other Portfolios in terms of the Collective Investment Schemes Control Act, 2002 (“the Act”). Details are available from the Manager. A Fund of Funds Portfolio only invests in other collective investment schemes, which levy their own charges, which could result in a higher fee structure for these portfolios. A Feeder Fund Portfolio only invests in the participatory interests of a single Portfolio of a collective investment scheme apart from assets in liquid form. The Manager reserves the right to close certain Portfolios from time to time in order to manage them more efficiently. More details are available from the Manager.

Forward pricing is used.

Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. The Manager undertakes to repurchase participatory interests at the price calculated according to the requirements of the Collective Investment Schemes Control Act, 2002, and on the terms and conditions of the relevant Deeds. Payment will be made within 14 days of receipt of a valid repurchase form. Any capital gain realized on the disposal of a participatory interest in a collective investment scheme is subject to Capital Gains Tax (CGT). The Manager is obliged to report on the weighted average cost method for CGT purposes. All portfolios are valued on a daily basis at 15h30, except for some Fund of Funds Portfolios and Feeder Fund Portfolios, which are valued at 17h00. Investments and Repurchases will receive the price of the same day if received prior to 15h30. The Fund Charges document (including the Performance Fee Frequently Asked Questions) is available on www.stanlib.com (“Investment for Individuals” section).

Contact details of Trustees: Standard Chartered Bank, 4 Sandown Valley Crescent, Sandton, 2196. Telephone 011 291 8042.

STANLIB Collective Investments (RF) Limited Reg. No. (1969/003468/06)

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Document relevant as of 4 September 2015

Compliance number: 66HX24