STANLIB Global Property Fund

STANLIB

Minimum Disclosure Document as of 29 February 2024

Risk profile: ●●●●○ **Moderate-Aggressive**

The fund is a class fund of STANLIB Offshore Unit Trusts which invests exclusively in the corresponding STANLIB Funds Limited Global Property Fund.

Objectives

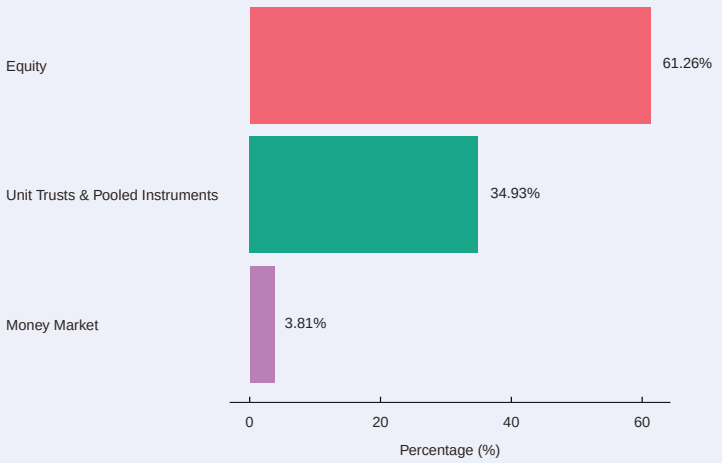
The aim of the property fund is to provide investors with both capital and income growth. The Global Property Fund aims to maximize investor's returns by investing in shares in global property companies and property related securities listed on exchange in major markets (and to a lesser degree, smaller emerging markets), and real estate investment trusts. The STANLIB Global Property Fund invests as a Feeder fund into a class fund of STANLIB Funds Limited - STANLIB Global Property Fund.

Performance

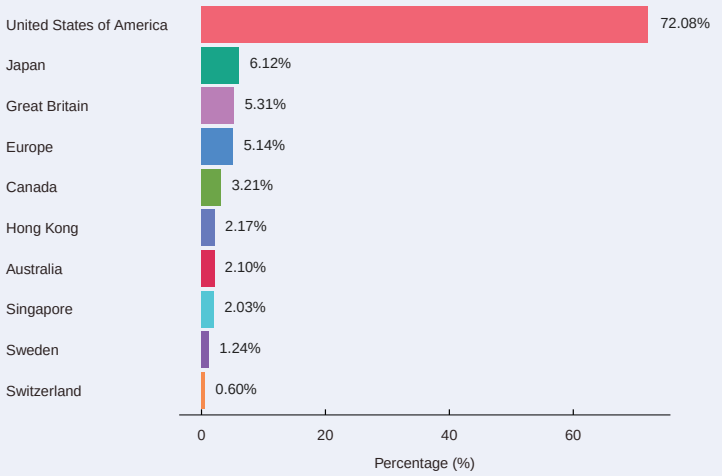
Statistics	1 Year	3 Years	5 Years	10 Years
Fund Annualised Return: Class A	-1.53%	-2.58%	-2.36%	0.63%
Fund Annualised Return: Class B1	-0.84%	-1.89%	-1.67%	-
Fund Annualised Return: Class B2	-0.64%	-1.70%	-1.48%	-
Index Annualised Return	1.41%	-0.12%	1.08%	3.64%
Highest Return over 12 rolling months				28.31%
Lowest Return over 12 rolling months				-7.86%

No performance is currently included as performance data may not be shown for portfolios/classes that have less than a 6 month track record.

Asset allocation



Geographic allocation



Portfolio facts

Investment manager	STANLIB Asset Management Pty Limited
Underlying investment manager	STANLIB
Launch date	02 May 1997
Denominated in	US Dollar
Fund size	US $ 21.48 million
Min. investment amount	US$2,500
Min. subsequent investment	US$1,000
Upfront charge (maximum)	3.00%
Annual management charge (AMC): Class A	1.10%
Annual management charge (AMC): Class B1	0.40%
Annual management charge (AMC): Class B2	0.20%
Class A intermediary trail commission (Paid from AMC)	0.30%
ISIN code (Class A)	JE00B51KKN60
ISIN code (Class B1)	JE00BD8RKB47
ISIN code (Class B2)	JE00BD8RKM51
Benchmark index	FTSE EPRA/NAREIT Developed Rental Index Net Total Return
Trustee	Apex Financial Services (Corporate) Limited

Portfolio costs (TER, TC and TIC)

Fund Class	TER (12 m)	TER (36 m)	TC (36 m)	TIC (36 m)
Class A	1.89%	1.86%	0.32%	2.18%
Class B1	1.19%	1.16%	0.32%	1.48%
Class B2	0.99%	0.96%	0.32%	1.28%

Total Expense Ratio (TER): This 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 a rolling three years (where applicable) 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 cannot be regarded as an indication of future TERs.
Transaction Costs (TC): The percentage of the value of the fund as costs relating to the buying and selling of the Fund's underlying assets. Transaction costs are a necessary cost in administering the Fund and impacts fund returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of Fund, investment decisions of the investment manager and the TER. Where a transaction cost is not readily available a reasonable best estimate has been used. Estimated transaction costs may include Bond. Money Market and FX Costs (where applicable).
Total Investment Charges (TIC): The percentage of the value of the Fund incurred as costs, relating to the investment of the Fund. As fund returns are reported after deducting all fees and expense , these costs (the TER & TC) should not be deducted from the fund returns. It is the sum of the TC & TER.

Top holdings

Avalon Bay
Digital Realty Trust
Equinix Inc
Extra Space Storage
Invitation Homes
Prologis
Public Storage
Simon Property Group
Ventas Inc
Vici

Fund Review

In Q4 2023, the fund delivered a positive return of 15.4% in dollars, gross of fees, compared with a benchmark total return of 16.2%, which was driven by a circa 22% rally in November and December offsetting the 6% decline in October.

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.

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.

Valuations

At the end of 2023, the FTSE EPRA NAREIT Developed Rental Index was trading 20% below its peak at the end of 2021 but also below its early 2020 peak. This reflects about $1.6 trillion of market capitalisation and an aggregate weighted average implied property yield of 5% (range of 4%-8.5%), depending on subsector and geographic exposure. At this index level, global property offers a forward dividend yield of about 4.5% and trades, on average, at a 5% discount to reported net asset value (NAV), reflecting the market's belief that property prices have probably troughed.

Relative to the yield on bonds (both sovereign and corporate investment-grade), global property no longer offers a significant risk premium. It screens as fairly priced, given that the quality of earnings in the sector is on the whole significantly higher than in the global financial crisis. Against global equity, global listed property remains historically inexpensive after the re-rating in Q4. It offers relatively attractive earnings and dividend yields.

The main risks to global property share prices in Q1 are: a) higher-than-expected decline in earnings expectations for FY2023 and 2024 due to higher interest costs; b) lower-than-expected rental growth, if global economic growth slows faster than expected; and c) a potential de-rating in share price multiples across equity from any potential market credit or geopolitical shock. If there is a credit or geopolitical shock, we would expect global property share prices to fall rapidly in tandem with equity, followed by a sharp rebound as central banks would be forced to reverse current monetary policy.

Our base case scenario remains that economic growth will slow in 2024, impacting the sector, but with significant divergences between property subsectors and countries. However, most REITs and listed property companies are still set to deliver earnings growth with valuation risks that are skewed to the upside, especially in the UK and Europe. We therefore see fair value at current index levels of around 2 400 and encourage investors to increase their exposures on weakness.

Statutory disclosure and general terms & conditions

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 investors may get back less cash than originally invested. Past performance is not necessarily a guide to future performance. An investment in the participations of a collective investment scheme in securities is not the same as a deposit with a banking institution. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Participatory interest prices are calculated on a net asset value basis, which is the total value of all assets less liabilities in the Class Funds including any provisions made for any purchase, fiscal or other charges that would have been incurred had all the assets of the relevant class fund been bought or sold at that time, divided by the number of participatory interests in issue. Please refer to the prospectus for more details on the charges and expenses that may be recovered from the Class Funds. Participatory interests are priced daily using the forward pricing method. The Class Funds may borrow up to 10% of the market value of the Class Funds to bridge insufficient liquidity as a result of the redemption of participatory interests. Collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending.

A schedule of fees and charges and maximum commissions is a vailable on request from STANLIB Fund Managers Jersey Limited, ('the Manager'). The Class Funds of the STANLIB Offshore Unit Trusts scheme, are Feeder Funds which only invest in the participatory interests of a single Class Fund of a collective investment scheme. In addition to the annual management charge, other fees are incurred by the trust (trustee, custodian and general expenses). There is no sales tax applicable in Jersey. Commission and incentives may be paid and if so, are included in the overall costs. The Class Funds of STANLIB Offshore Unit Trusts scheme are accumulation Class Funds and do not distribute income. Please refer to the prospectus of this scheme for more details, a copy of which is available on request from STANLIB Collective Investments (RF) Pty. Limited, ('STANLIB'), the address of which is 17 Melrose Boulevard, Melrose Arch, 2196, South Africa. The registered office of the Manager is Standard Bank House, 47-49 La Motte Street, St Helier, Jersey, Channel Islands. The Trustee is Apex Financial Services (Corporate) Limited, 12 Castle Street, St. Helier, Jersey, Channel Islands.

A representative agreement exists between STANLIB Collective Investment (RF) Pty. Limited and STANLIB Fund Managers Jersey Limited.

Class Funds are valued on a daily basis using 23:59 (UK Time) prices. Transaction requests received before 14h30 (UK Time) will receive the following day unit price. This is an accumulation portfolio and does not distribute income.

The Manager and trustee are regulated by the Jersey Financial Services Commission to conduct Fund services business.

The Trust is regulated as a Collective Investment Fund by the Jersey Financial Services Commission.

Figures quoted are from Morningstar for a lump sum investment using NAV-NAV prices.

Liberty is a member of the Association of Savings and Investment of South Africa.

The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. The Manager has a right to close the portfolio to new investors in order to manage the portfolio more efficiently in accordance with its mandate.

Additional information

Additional information about this product, including brochures and application forms can be obtained from the Manager, free of charge and from the website www.stanlib.com.

The prices of unit trust funds are calculated and published on each working day. These prices are available on the Manager's website (www.stanlib.com) and in the South African printed news media.

Target market

STANLIB promotes using the services of an accredited Financial Adviser when making investment decisions.

Please contact either your accredited Financial Adviser or our Contact Centre on 011 448 6000 if you have any questions about this product.

Risk rating explanation

The risk rating seen above is designed to give an indication of the level of risk, measured by volatility, associated with this specific portfolio.

In order to arrive at the specific risk rating of the portfolio in question, STANLIB measures the volatility of the fund, in the form of standard deviation, over a three year rolling period, and compares the result to internal risk parameters. Please note that these risk ratings are designed as guide only.

Risk

Where foreign securities are included in the portfolio there may be additional risks, such as potential constraints on liquidity and the repatriation of funds, macroeconomic risks, political risks, tax risks, settlement risks and potential limitations on the availability of market information.

Contact details

STANLIB Asset Management (Pty) Limited

Registration No.	1969/002753/07
Compliance No.	HX3102
Website	www.stanlib.com
Email	contact@stanlib.com
Address	17 Melrose Boulevard Melrose Arch Johannesburg South Africa
Post box	PO Box 202 Melrose Arch 2076