# Fund Fact Sheet

## Sanlam Namibia Property Fund

October 2018

### Fund Objective

The Sanlam Namibia Property Fund is a specialist index tracking fund which tracks the performance of the FTSE/JSE SA Listed Property Index (J253). The Fund is rebalanced quarterly.

### Fund Strategy

We believe that the benchmark choice and resulting returns from the most important elements of an equity strategy - by investing in a passive vehicle the returns to investment strategies are known. By applying a full replication strategy there is no risk of deviation from the chosen benchmark.

### Why choose this fund?

*Investors wanting exposure to SA Listed Property stocks at a compelling cost.
*The fund is a cost-effective, asset allocation tool which investors can use to diversify their portfolios with sector specific exposure.
*Investors requiring an overall yield including both income generation and long-term capital appreciation.

### Performance (Annualised)

| Retail Class | Fund (%) | Benchmark (%) |
|---|---|---|
| 1 year | (20.06) | (16.89) |
| 3 year | (4.24) | (2.82) |
| 5 year | 3.91 | 4.61 |

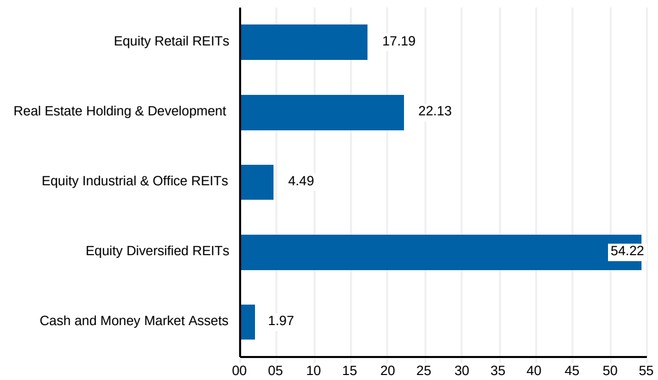
Annualized return is the weighted average compound growth rate over the period measured.

### Performance (Cumulative)

| Retail Class | Fund (%) | Benchmark (%) |
|---|---|---|
| 1 year | (20.06) | (16.89) |
| 3 year | (12.19) | (8.22) |
| 5 year | 21.15 | 25.28 |

Cumulative return is aggregate return of the portfolio for a specified period.

### Asset Allocation




### Fund Information

| | |
|---|---|
| **Classification** | General Property Fund |
| **Risk profile** | Moderate aggressive |
| **Benchmark** | SA Listed Property Index |
| **Portfolio launch date** | 1 June 2011 |
| **Minimum investment** | Lump Sum N$ 5 000 \| Monthly N$ 200 |
| **Portfolio size** | N$139.1 million |
| **Last two distributions** | 30 Sep 18: 33.91 cents per unit<br>30 Jun 18: 0.00 cents per unit |
| **Income decl. dates** | 31 Mar \| 30 Jun \| 30 Sept \| 31 Dec |
| **Income price dates** | 3rd working day in July & January |
| **Valuation time of fund** | 15:00 |
| **Transaction cut off time** | 13:00 |

### Fees (Incl. VAT)

| | Retail Class (%) |
|---|---|
| **Initial Fee** | N/A |
| **Annual Service Fee** | 0.80 |

This fund is also available via certain LISPS (Linked Investment Service Providers), which levy their own fees.

### Top 10 Holdings

| Securities | % of Portfolio |
|---|---|
| GrowthPoint | 20.12 |
| Redefine | 15.78 |
| NEPI ROCKCASTLE PLC | 13.11 |
| Hyprop | 6.95 |
| Fortressa | 5.28 |
| Vukile | 4.57 |
| Resilient | 4.33 |
| Fortress Income Fund | 3.84 |
| ATTACQ Limited | 3.24 |
| SA Corp Real Estate | 3.12 |

Top 10 Holdings as at 30 Sep 2018

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### Portfolio Manager(s) Quarterly Comment - 30 Sep 2018

**Market Review**

The SA Listed Property Index (SAPY) returned a total of -1% in Q3'18, actually outperforming equities (-3.3%) but still lagging cash, which obviously still delivers positive nominal returns even as risk assets have declined in absolute terms. Year to date (YTD), the SAPY has materially underperformed all other domestic asset classes, returning -22.2% YTD versus -8% for general equities and about +5% for cash.

The best performing shares in the SAPY for the quarter included Echo Polska (+18%); Equites (+13.6%), Fortress A (+10%) and MAS Real Estate (+9%). In contrast, the worst performers were Accelerate (-16%), Growthpoint (-13%), Rebosis (-13%) and Hyprop (-10%). However, some of the negative moves in the worst performers were exacerbated by them paying out dividends in the quarter.

Contributing to the negative returns for these shares were a number of SA-focused mid- and smaller caps reporting weak distribution growth and even weaker (declining in some cases) forecast distributions, such as Accelerate, Rebosis and SA Corporate, while even larger caps like Growthpoint and Hyprop reported and are targeting low single-digit growth rates.

**What SIM did**

Before fees, the SIM Property Fund outperformed the SAPY by 0.12% for the quarter, and YTD, the fund has materially outperformed the SAPY by 2.45%, somewhat cushioning the large negative return experienced by the sector this year.

The main action of the fund in Q3'18 was to trim overweight positions in pure Rand hedges Echo Polska and Investec Australia during a period of Rand weakness, as these shares actually went up even as the index, and in particular, SA-focused stocks, actually fell in absolute terms. The proceeds were mainly used to add to a basket of high-yield large-cap SA-focused REITS such as Growthpoint, Redefine, Hyprop and Attacq, as well as a basket of even higher-yielding mid-cap SA-focused REITS such as SA Corporate, Rebosis and Investec Property Fund.

These SA REITS the fund added to in the quarter are anywhere from 15% to 30% lower from their Ramaphoria highs, and offer attractive dividend yields of about 9% for the larger caps (Growthpoint, Redefine, Hyprop), and 10% or more for the mid-caps (SA Corporate, Rebosis, Investec Property Fund).

**Outlook**

Following the weak YTD returns, the SAPY has derated from a 6.8% clean forward yield at end Q4'17 to an attractive 8.6% trailing income yield and about a 9% clean forward yield. The forward yield is a slight premium to the SA long-bond yield of 9.1%, which itself derated this year as Ramaphoria faded and amid general emerging market weakness on account of an impending trade war.

We consider these levels to now be very cheap on average, in absolute terms, and certainly relative to SA cash. The income yield alone is over 3% higher than inflation expectations, and over 1% higher than cash rates. With the SAPY also likely giving growth in dividends (unlike cash and bonds) of CPI in the long run (4% to 6% p.a.), buying at the current price levels may make for a total medium- to long-term (three- to five-year horizon) expected return of 13% to 15% p.a. from here. Further, given the sharp sell-off this year, it is also possible that investors at these levels also benefit from a rerating of the sector back to an 8% or, best case, 7% or so yield. If the sector does indeed rerate back to, say, the midpoint, or a 7.5% yield from current levels, investors from current price levels could benefit from an additional once-off capital rerating return of c.15%, which, when amortised over five years, leads to an expected five-year total return of 16% to 18% p.a. compounded.

This can be roughly broken up into an entry forward yield of 9%, plus dividend growth of 4% to 6% plus the potential capital rerating benefit of c.3% p.a. The first two components we have a fair degree of certainty of receiving. However, the third component − capital rerating − is the most uncertain and speculative and certainly non-linear given the volatility of financial markets. Indeed, in the short term this capital rerating component can continue to be negative as it has been so far YTD, before it reverses. This is especially given our current interesting times − anything from local politics, or international politics where potential trade wars between the US and China could continue to have an adverse shorter-term impact on financial markets' price levels worldwide.

There are also some fundamental headwinds that could take time for the abovementioned expected return to be realised. As previously mentioned, some of the smaller REITS have cut their distribution outlooks, in some cases to negative growth. In terms of how this weaker outlook for property distributions may have materialised, even supermarkets like Shoprite are struggling to grow earnings (earnings down 3%), highlighting a tough SA economy - as a tenant, them or clothing retailers like Foschini or Truworths struggling to themselves grow ultimately filters into the REITS as lower rental growth or even worse, vacancies as they cut space in a bid to trim their own cost base in an environment of weak revenue growth.

Further, because the REITS are priced cheaply at the moment, it makes it difficult for them to do accretive acquisitions, which has in the past added to dividend growth rates. It is difficult for a company trading on 9% or 10% yields to raise capital and then buy an asset yielding more than that in order to create acquisitive growth; whereas not too long ago, they were able to raise capital at a 6% or 7% yield to buy something at a 9% or 10% yield, thus creating some excess earnings growth per share. In other words, now they have to rely almost entirely on organic growth, which is unlikely to exceed CPI, or at the very best contractual escalations, which may be 7% p.a. at this stage.

However, the sharp derating to the high-income yields of 9% to 10% for SA-focused shares hopefully provides an adequate cushion for the above considerations; and hopefully with dividends now largely rebased, growth

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from the current earnings base resumes in the CPI range, more or less in line with contractual rental escalations of 7% p.a. less some allowance for vacancies, defaults, rental resets, maintenance capex, etc.

### Portfolio Manager(s)

**The Satrix Investment Team**

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