AUTUS

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QUARTERLY ECONOMIC COMMENTARY

Q4 | 2016

AUTUS PROPERTY FUND

Quarterly Commentary - Autus BCI Property Fund

Even though this is a quarterly report, it seems apt to also reflect somewhat on calendar year 2016. Seldom has a 12-month period been more volatile and as unpredictable as 2016 have been, both from a political and economic perspective. The fourth quarter was no exception to this, topping a year of shocks with a tectonic shift in the political order of one of the economic giants in the world.

Over a quarter which was on average a sideways affair for the listed property sector, negative perceptions about the ultimate financial impact of the UK's impending exit from the European Union continued to gnaw at the Property Fund's performance relative to its benchmark. While Autus Fund Managers as a house anticipate a favourable outcome for the UK economy relative to had it remained, this is admittedly a long term assertion and market reaction in the immediate aftermath of Brexit very much discounted a weaker UK economy – even though a lot of spot data so far seem to support the notion that it's not all doom and gloom for Britain going forward. However, in order to limit the effect of further negative sentiment over the short to medium term, the difficult call was made to reduce some of the fund's exposure to UK that was acquired after the unexpected intention to exit was initially announced.

It's fair to say that it was a tough 3 (and indeed 12) months for the Property Fund both in relative and absolute terms. Compared to other asset classes, it remains a valuable inflation-hedging long term asset and we remain expectant of increased fortunes for this fund as the fundamentals underpinning its holdings eventually comes through.

The fund returned negative 1.65% over the quarter, courtesy of its tilt towards non-Rand rental income streams, versus a benchmark return of 0.65% over the same period.

Notable trades over the fourth quarter included selling out of the positions in UK-exposed Intu Properties and Capital & Counties Properties PLC acquired and replacing it with a holding in local operator Vukile Property Fund Limited. In addition, the underweight position in property sector behemoth Growthpoint was reduced.

The South African listed property space remains dominated by a few large players, but importantly is also concentrated in terms of:

- its exposure to the usual suspects in terms of national tenants;
- South African interest rates and banks;
- SA's new normal economic idiosyncrasies and supply chain dysfunction with regards to e.g. struggling service delivery and slow planning approvals.

Although some of the local risks referred to through 2016 remains real, we felt the current local and international macroeconomic environment in justifies a more fully invested position. For the time being, we intend to maintain an equity exposure closer to the 90% mark (10% in cash), as opposed to the 80-85% levels that typified the fund through most of 2016.

As pointed out in earlier quarterly reports, commenting on a three-month period especially in the context of real estate, where things typically (and thankfully) take time to change, heightens the risk of losing the all-important overall market perspective that is crucial to responsible money management. Autus is fundamentally supportive of property's virtues as a long-term inflation-hedging asset. The portfolio of companies currently owned by the Autus BCI Property Fund in our opinion represents a basket of SA and European commercial property income streams that are well diversified with regards to its make-up from a bottom-up perspective, as well as the macro-economic factors that may affect its performance over the medium- to long term.

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