AUTUS

wealth care specialists

QUARTERLY ECONOMIC COMMENTARY

Q2 | 2016

AUTUS PROPERTY FUND

Quarterly Commentary - Autus BCI Property Fund

Similar to most other ZAR-denominated asset classes, the listed property sector effectively moved sideways during Q2 2016, marked by the surprise Brexit outcome on 23 June. Another feature of 2016 thus far remains the Damocles sword hanging over South Africa's head of a possible sovereign debt ratings downgrade to non-investment grade. Along with the bond market, property weathered this terrain well thus far. The Fund has given up just under half a percent (-0.44%) in performance over the quarter, compared to -0.35% by the category average for property funds.

This performance actually belies the nearly 10 percentage point drop by listed property in the two days immediately after the UK's intended exit from the European Union became an intention rather than a possibility. It bounced back again a few days later. The Autus BCI Property Fund had for some time and will continue to have a particular exposure to overseas property through the likes of Sirius Real Estate, Capital & Counties, Intu Properties and Schroder European REIT. Sirius for instance, acquires large mixed-use commercial real estate suitable for upgrading into flexible workspaces for leasing to local businesses in Germany, while Capital & Counties has a UK-specific focus. All of these companies also have separate listings in the United Kingdom and have reacted along with share price settlements in London. As an investment house, Autus is not as negative on the longer term implications of Britain outside the EU as suggested by mainstream media and those who had a particular interest in the converse. We used Brexit volatility to add to the Property Fund's offshore exposure.

Other transactions carried out during the course of the quarter was to sell out of the sizeable holding in New Europe Property Investments PLC. The value of this holding in the portfolio almost doubled over a two-year period and was reaching expensive valuation levels. Whilst we are not averse to paying for quality per se, the premium case for eastern European real estate has in our view become stretched. Elsewhere, we took the fund's exposure to benchmark-dominating Growthpoint back up to just shy of 10%. While it remains a great property company and comprises around 25% of the benchmark FTSE/JSE J253T Property Index, we simply do not deem it wise to carry such a large exposure to any single stock.

In view of SA's continued ratings downgrade risk, as well as a local and international macroeconomic environment in which it's hard to see interest rates going lower in the short- to medium term, we remain cautious with regards to the near-term outlook for listed property. For the time being expect the Fund's exposure to remain close to the prescribed minimum of 80%, with market weakness triggering buying and a more fully invested position.

Focussing and commenting on a three-month period introduces a real risk of losing the all-important overall market perspective that is indeed crucial to responsible money management. This is particularly true for property as an asset class. We are fundamentally supportive of the virtue of property as a long-term inflation-hedging asset. The portfolio of companies currently owned by the Autus BCI Property Fund represents a well-diversified basket of SA and European commercial property income streams.

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