REITWAY GLOBAL
Redefining Listed Property Investing

REITWAY REVIEW – EDITION 16

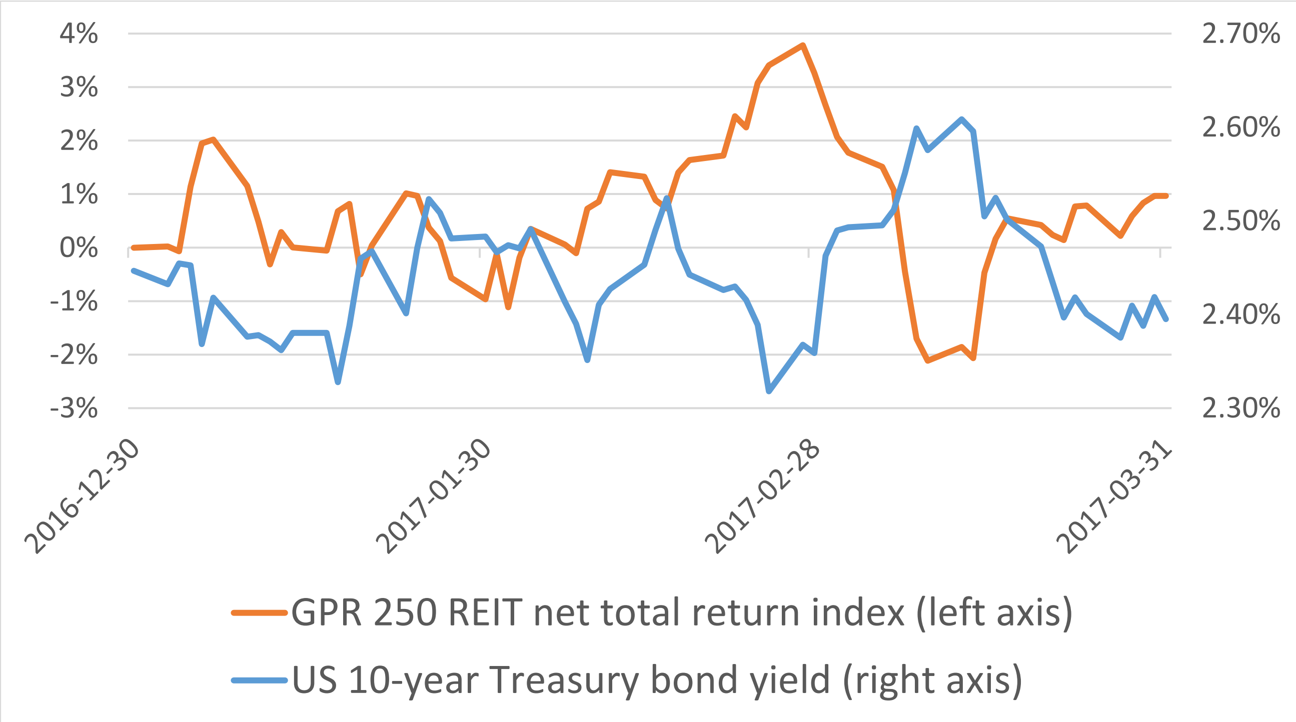
For the quarter ended 31 March 2017

MARKET PERFORMANCE AND COMMENTARY – 1Q17

Global REIT market

The global REIT market peaked at +3.78% during the quarter under review before plummeting in the lead up to the US Federal Reserve rate hike. Subsequently, the REIT market recovered to squeeze out a 0.97% total return for 1Q17 as the U.S. 10 year bond yield declined towards quarter end.

GPR 250 REIT net total return index (USD) vs US 10 year Treasury yield – 1Q17



Source: Thomson Reuters Eikon, Reitway calculations

Bond yields spiked during 4Q16 as the market became fixated on headlines referring to President Trump's pro-growth agenda, with its potential implications for economic growth and bond markets.

Since then, it has become clear that there will be difficulties and delays in implementing some of the programs and reforms promised by Trump during his campaign. Consequently, bond markets have come off their recent lows (and conversely, bond yields off their recent highs).

The future for bond yields across the globe will be decided by the tug-of-war between increased growth/inflation expectations based on fiscal policies (particularly in certain developed markets) versus the reality that real economic growth requires increases in workforce populations and/or productivity.

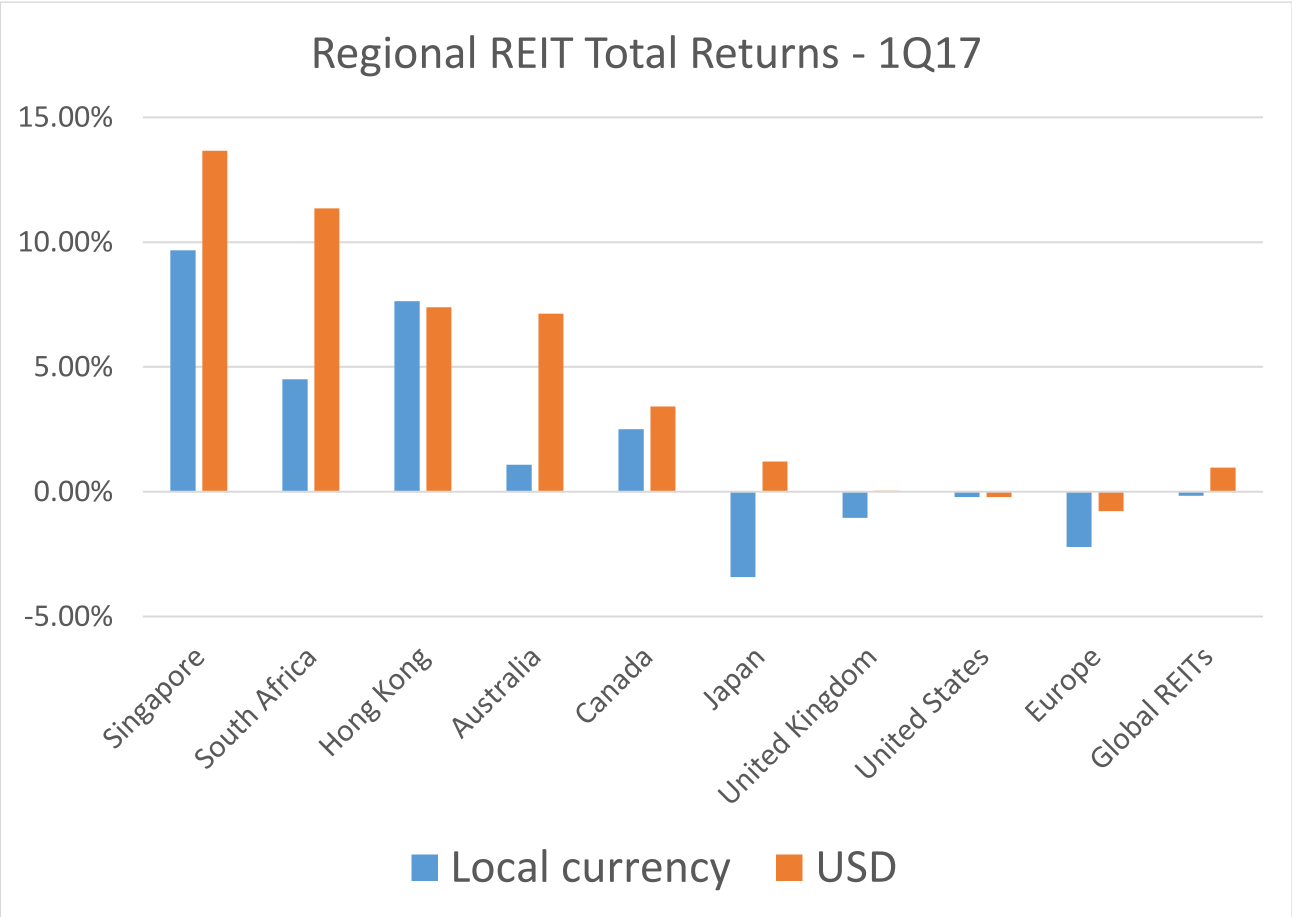
Notwithstanding the above, you will know that we at Reitway Global do not purport to be able to accurately forecast any political events or economic outcomes. Our approach is simple, yet powerful:–

> We invest in REITs that are set to exhibit the best cash flow growth rates despite any particular macroeconomic conditions, whilst allocating capital to these when valuations are attractive.

In addition and particularly since real estate was carved out of the Financials sector, our contention is that generalist fund managers will need to continue to increasingly pay attention to sector specific fundamentals within the REIT universe.

They will need to recognise the underlying demand and supply conditions within various REIT sectors. This, instead of the traditional and over-simplified tactic of grouping REITs as one homogenous collective along with the notion that all REITs are equally (or as a group) subject merely to the bond market.

Regional REIT markets



Source: Thomson Reuters Eikon, Reitway calculations

Regional highlights

Singapore
The Singapore REIT market had a good quarter (+13.7) after recovering from a poor 4Q16 (-13.3%).

South Africa
The sharp rise in the ZAR contributed to the stellar performance despite a decline in the latter part of the quarter.

Australia
Similarly (to South Africa), Australian REITs were also bolstered by the strengthening of AUD. This, in the wake of the signal by the Royal Bank of Australia that it is reluctant to cut rates further after a series of interest rate cuts from late 2011. Their shift in the outlook for monetary policy is due to a recognition of increased leverage in the Australian economy as well as a reflationary global economic environment (this being a positive in terms of the impact on commodity prices and Australia).

PORTFOLIO PERFORMANCE REVIEW – 1Q17

The Reitway BCI Global Property Fund outperformed its benchmark by 1.79% in 1Q17.

Our performance relative to peers can be seen below.

Peer Group comparison:

Reitway BCI Global Property Fund vs Peer Group Average (ZAR)					
	1yr	2yrs	3yrs	4yrs	5yrs
Reitway BCI Global Property Fund	(6.77%)	7.15%	13.10%	13.10%	19.39%
Peer Group Average	(11.20%)	4.96%	12.01%	12.77%	17.53%
Excess Return	***4.43%***	***2.19%***	***1.09%***	***0.33%***	***1.86%***
Peer Group Rank	***1/11***	***1/7***	***2/7***	***3/6***	***1/6***

Source: As at 03/04/2016. MoneyMate

Substantial outperformance against our peer group average over the last year continues to uplift our longer term performance relative to peers.

REIT MARKET OUTLOOK

According to Macquarie, Singaporean REITs displayed impressive earnings resilience as reflected in the latest round of results. Even though Singaporean retail sales (excluding autos) were weak during 2016, retail REITs achieved rent reversions of between -1.7% to +13.5%. This is reflective of the strength of their leasing networks which were used well in order to improve tenant mixes and drive tenant sales.

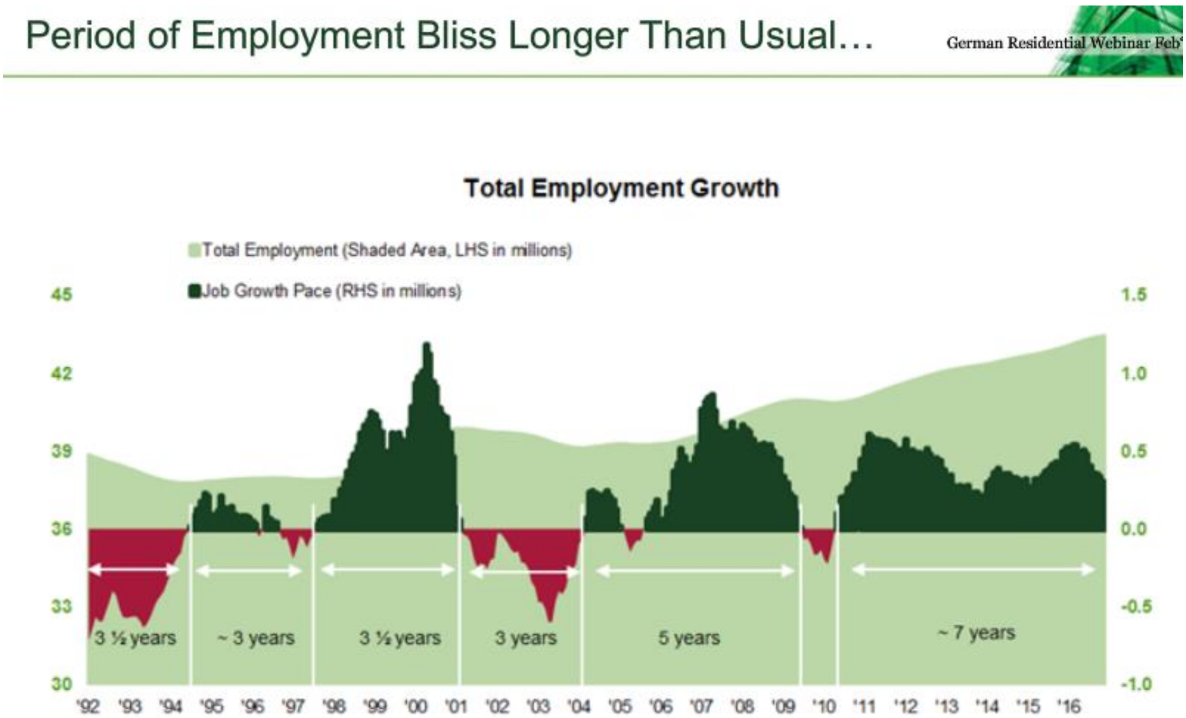
During the quarter we initiated a position in Mapletree Commercial Trust. This Singaporean REIT is set to benefit from an improving environment as well as other company-specific factors, including the recent acquisition of Mapletree Business City which improves the potential trajectory of earnings growth as well as diversifying their portfolio of quality assets.

The Australian Prudential Regulation Authority (APRA) has announced "additional supervisory measures to reinforce sound residential mortgage lending practices in an environment of heightened risks." These actions by APRA are, of course, the regulator's attempt at curbing potential excesses and preventing bubbles from expanding excessively. It is an incremental negative that debt financing flows to residential developers are being slowed.

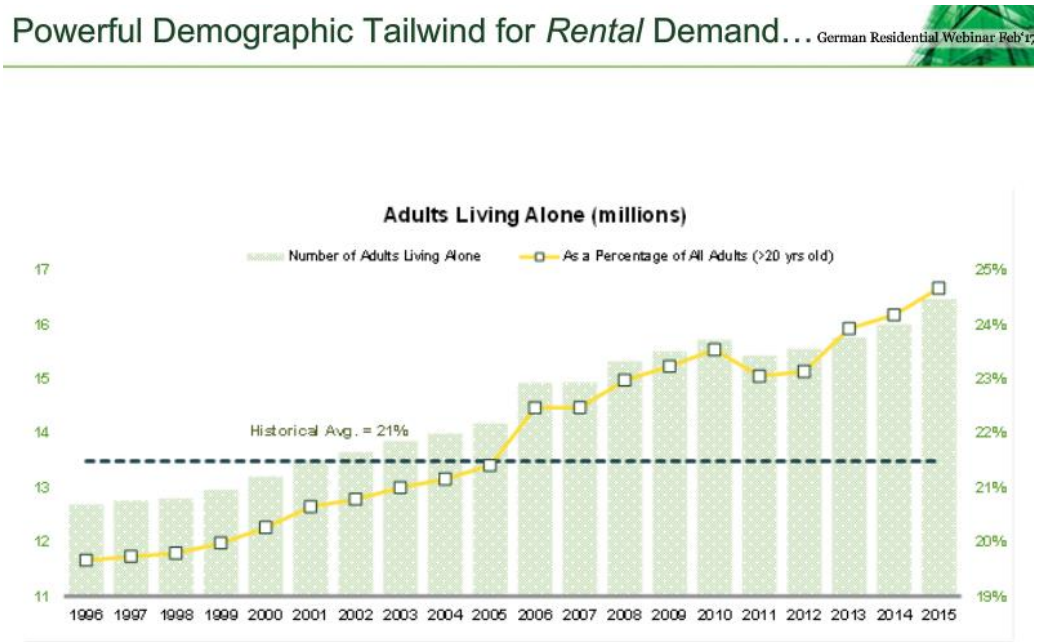
However, the 10% cap on investor lending growth remains as before. Further to this, supply of the residential units is set to be absorbed by strong demand. There is still high earnings visibility for Australian REITs with a significant residential development aspect to their businesses, such as Mirvac Group, in which we are invested.

Green Street Advisors, a firm specialising in property valuation, is of the view that in Europe there remain opportunities within *Continental retail* – if the investor is extremely selective. The sector offers LFL rental growth of 2% above inflation. In addition, rent reversions remain positive for the majority of portfolios. We remain invested in French retail REIT Mercialys in order to benefit from the abovementioned factors.

There are also numerous factors that continue to be supportive of the demand for *German apartment* rentals. The graphic below shows how strong employment has underpinned rental market demand.



An increase in the number of adults living alone has also driven rental apartment demand in Germany, as per below.



We continue to be invested substantially within the German apartment sector.

Within the U.S., the single family rental (SFR) sector remains one of the brightest opportunities within the U.S. REIT market. Millions of households have converted to home renting, representing 54% of ALL household formation since GFC. SFR offers the best of both worlds – flexibility and value.

In addition to the above, the *communications infrastructure REIT* sector (including data centres and towers) remains a super-sector with bright prospects. Data centres continue to exhibit elevated leasing activity, even off recent record levels. In terms of towers, broadcast spectrum and FirstNet deployments, not reflected in guidance, could provide further upside in the medium term.

We are substantially invested within both the SFR as well as the communication infrastructure sectors in the U.S.

Conclusion

We reinforce that we cannot predict how political or economic events will unfold. In addition, we cannot forecast currencies, economic growth rates or anything else. However, we continue to invest in REITs with superior growth prospects, allocating and withdrawing capital based on valuations and using often-irrational market movements opportunistically.

REITWAY NEWS

- Our Australian domiciled fund is now available on the Momentum Wealth International Platform
- We welcome Stephen Pratt to our Independent Investment Advisory Committee. To view all members click here
- We are pleased to announce that our colleague, Martin Botha, has been awarded the CFA Charter

Regards,
The REITWAY team
For more information about the performance of our funds and investment methodology, please visit our website at www.reitwayglobal.com.