Market Performance

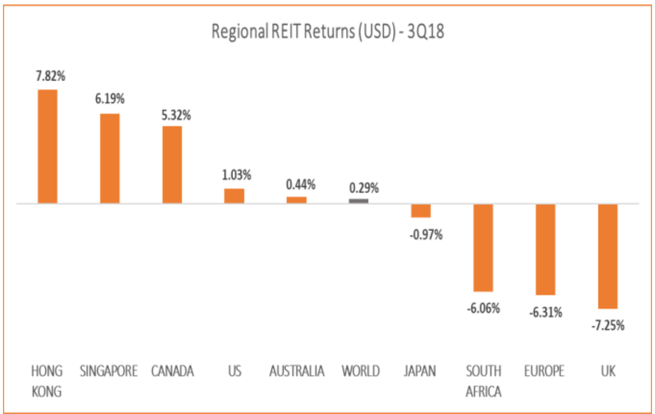
The GPR 250 REIT World Index produced a largely flat total return of 0.15% in US dollar terms for the quarter ending 30 September 2018.

GPR 250 REIT Index	USD
Africa	-6.06%
Americas	1.14%
Asia	1.65%
Europe	-6.31%
Oceania	0.44%
World	**0.15%**

Source: Global Property Research and Datastream, October 2018

Africa (-6.06%), and Europe (-6.31%) contracted markedly during the July to September period, while the Americas (1.14%), Asia (1.65%) and Oceania (0.44%) recorded small quarterly gains.

The chart below shows the total return for the respective REIT markets in Q3 2018.



Source: Global Property Research and Datastream, July 2018

Country and Regional Highlights

Americas (1.14% total return)

The GPR 250 REIT Americas Index was up 1.14% for the quarter. The index lost -2.6% in September 2018 with Brazil (-3.3%) moving negatively. Canada (-0.3%), Mexico (-1.8%) and the United States (-2.8%) were all down in the last month of the quarter.

Following a strong performance in Q2, US REITs pulled back and delivered a disappointing 1.03% quarterly return. The USA raised the Federal Funds Rate on September 26th by another 0.25%, and the US interest rate tightening cycle continued to exert a negative impact on REIT values. Manufactured Homes (4.96%), Freestanding Retail (4.81%) and Apartments (4.48%) were the top performing sectors.

Canada had a strong quarter, delivering a positive 5.32% move, but Mexico lost -8.44%.

Hong Kong (7.82% total return)

Link REIT, the only constituent in the GPR 250 in Hong Kong, continued its strong run in 2018. Link continued to benefit from strong retail sales and positive rental reversions. Towards the end of the quarter, Link came under selling pressure as the USA's tariff war with China had an increasingly negative effect.

Singapore (6.19% total return)

S-REIT share prices reversed their negative Q2 and returned to positive territory. Despite government moves to cool an overheated residential property market, Singapore's market fundamentals improved markedly, and aided in a recovery from arguably an oversold position. But as with the rest of Asia challenging conditions are likely to persist.

South Africa (-6.06% total return)

The pressure on South African REITs continued in Q3. Resilient REIT, Fortress A and B continued their recovery from Q1's record lows. Growthpoint, Redefine and Hyprop remained negative. Growthpoint in particular came under sustained selling pressure, ending the quarter down -8.9% on concerns about sustainability and the use of once-off earnings.

Europe (-6.31% total return)

European REITs experienced a wave of negativity during Q3. Losses were primarily driven by the market turning very negative on continental retail (Unibail -8.1%) as well as a continuing negativity on UK retail (Hammerson -10.5% and intu -14.5%) . Bright spots were few and far between, with student housing focussed Unite (up 4.8%) being the top performer for the quarter.

Belgium was the top European performer up 1.18%, and the Netherlands the worst at -8.62% (primarily driven by Unibail-Rodamco-Westfield's negative quarter).

Oceania (0.44% total return)

Oceania, and in particular Australia started to run out of momentum in Q3. The Australian market had a strong third quarter, but in our opinion currently appears to be fully valued with few remaining growth catalysts on the horizon. Mirvac Group had the best performance of the quarter up 11.3%, and the Goodman Group continued its very strong 2018, riding the positive global sentiment for the industrial/logistics sector and gained 7.7% for the quarter. The worst performer was Scentre group at -7.2%, cementing the global retail malaise.

Portfolio Performance

Reitway BCI Global Property Fund (USD)					
	3Q18	1yr	3yrs	5yrs	Since inception
Reitway Global	0.12%	6.31%	6.70%	5.08%	6.82%
Benchmark	0.15%	3.36%	5.99%	6.70%	7.58%
Relative	*-0.03%*	*2.95%*	*0.71%*	*-1.62%*	*-0.76%*

Net of fees TR as at 30/09/18. 3- & 5yr returns are annualised

Source: MoneyMate and Global Property Research (GPR)

Top 5 Avg. Weights		
	Security name	%
1.	Simon Property Group	4.77
2.	Equinix Inc	4.14
3.	Invitation Homes Inc	3.93
4.	American Homes 4 Rent	3.92
5.	CyrusOne Inc	3.71

Top 5 Contributors		
	Security name	%
1.	Mirvac Group	0.33
2.	CyrusOne Inc	0.32
3.	LEG Immobilien AG	0.26
4.	Uniti Group	0.22
5.	MAS Real Estate	0.16

Bottom 5 Contributors		
	Security name	%
1.	PotlatchDeltic Corp	-0.57
2.	Hammerson PLC	-0.33
3.	Unibail-Rodamco-Westfield	-0.22
4.	Inmobiliaria Colonial SA	-0.21
5.	Weyerhaeuser	-0.21

Source: Reitway Global, StatPro, October 2018

Following strength in the preceding quarter, the global listed real estate sector delivered mediocre returns for the quarter ending September 2018. The GPR 250 REIT World Index produced a total return of 0.15% in US dollar terms. On a gross return basis, the portfolio outperformed the benchmark by 32 basis points mainly driven by superior stock selection.

Stock selection in the self-storage and diversified sectors as well as our higher representation towards German apartments and U.S. data centres boosted results. Our large positions in Mirvac Group, CyrusOne and LEG Immobilien paid off during Q3.

These positive forces were eclipsed by the funds underweight in the U.S. and Asia, as well as higher representation towards UK real estate. The recent drop in lumber pricing (33% relative to its June peak) weighed on our Timber REIT exposure during the quarter. Weyerhaeuser and PotlatchDeltic declined by 8.5% and 16.3% respectively.

Reitway BCI Global Property Fund vs Peer Group Average (ZAR)						
	1yr	2yrs	3yrs	4yrs	5yrs	6yrs
Reitway Global	11.43%	2.58%	7.54%	11.17%	12.49%	15.17%
Peer Group Avg.	6.85%	2.09%	5.17%	9.51%	11.46%	13.87%
Excess return	*4.58%*	*0.49%*	*2.37%*	*1.66%*	*1.03%*	*1.30%*
Peer Group Rank	*1/17*	*7/13*	*1/10*	*1/7*	*2/7*	*1/6*

Source: MoneyMate Net of Fees TR as at 2018-09-18
All periods greater than 1 year annualised

The performance table above highlights our performance against our peer group over the last 6 years. We continue to deliver good relative returns and we maintained the number one spot over a rolling one, three, four and six - year period.

Investment Outlook

The global markets are currently facing a period of volatility that is impacting general equities as well as REITs. Concerns about rising US interest rates, US bond rates, potential normalisation in Europe, tariff issues between the USA and China, and stock markets that are arguably fully priced, have resulted in a somewhat jittery market. In contrast to these negative factors, global economic data have remained quite positive, and the global economy in the main is currently looking solid.

Economic fundamentals remain supportive of REITs, and commercial real estate should continue to see improving operating fundamentals supported by solid economic growth, steady job creation, and realistic levels of new supply levels.

There is a great deal of negativity in the market towards REITs, fuelled primarily by interest rate impact fears. But, despite the generally held view that rising rates have an extremely adverse impact on REITs, our research, supported by several international studies shows that during the periods of rising rates that accompany strong economic growth that REITs can counterintuitively perform well, and on average, do.

In general, investors assume that interest rate increases effect REITs in the same way that fixed income investments are affected by interest rate increases, this is erroneous as REITs are equity assets. Secondly, there is the assumption that rising rates immediately negatively affects REIT debt costs, ignoring the reality that most debt is fixed and spread over varying time periods by highly competent management teams.

REIT Performance During Sustained Periods of Rising Interest Rates

TIME PERIOD	US 10-YEAR TREASURY YIELD			CUMULATIVE TOTAL RETURN OVER PERIOD		
	BEGIN YIELD	END YIELD	CHANGE	REITS	STOCKS	DIFF.
Dec 1976 - Sept 1981	6.90%	15.30%	8.50%	137.40%	46.00%	91.40%
Jan 1983 - Jun 1984	10.50%	13.60%	3.10%	35.60%	16.50%	19.10%
Aug 1986 - Oct 1987	7.20%	9.50%	2.40%	-10.10%	10.90%	-21.00%
Oct 1993 - Nov 1994	5.30%	8.00%	2.60%	-10.30%	0.10%	-10.30%
Oct 1998 - Jan 2001	4.50%	6.70%	2.10%	27.40%	27.80%	-0.40%
Jun 2003 - Jun 2006	3.30%	5.10%	1.80%	108.20%	37.60%	70.60%

Source: S&P Dow Jones Indices LLC, Bloomberg, The Federal Reserve.

A recent study by S&P Dow Jones Indices that looked at US REIT returns since the mid-1970s, demonstrated that there have been six periods during which 10 Year US Treasury Bond yields have risen significantly. In four of those six periods, US REITs earned positive total returns. In half of those periods, US REITs outperformed the S&P 500, and in one period REITs and the S&P 500 had almost identical performances, and only twice did the S&P 500 outperform REITs. On average REITs had significant outperformance over the period under review, rewarding long term investors.

That there are negative economic costs associated with rising rates is not in contention, but underweighting the positive impacts including factors as reducing new supply in the property market, improved growth from stronger macroeconomic conditions, and thus greater potential for improving rental growth and occupancy.

Therefore, an increase in rates does not occur in a vacuum of negativity, but also heralds benefits that can result in improved REIT value drivers and corresponding increased REIT equity valuations. We therefore view the current negativity around the impact of rising rates on REITs to be overdone and believe that the mismatch between perception and reality offers opportunity for skilled REIT investors to exploit.

Reitway News

A new addition to the Reitway Family

We are very pleased to announce that Olivia Teek gave birth to a beautiful baby girl on 24 September 2018. Welcome to the world Emma

Disclaimer

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