REITWAY REVIEW – EDITION 7

Redefining Listed Property Investing

MARKET OVERVIEW

The global REIT market is up 27.89% in dollar terms during the 1-year period ending 31 January 2015. The return generated by this asset class has far outpaced the performance of Global Equities and Global Bonds during the corresponding period.

REITs have responded positively to the Fed's consistency in its plan to end its bond-buying program while keeping interest rates low. International events like Russia's aggression towards the Ukraine added volatility in 2014, but had little impact on REIT fundamentals. **The strong performance by Global REITs has ultimately been driven by significant distribution increases, on the back of a growing global economy and low interest rates.**

In 2015, the macro backdrop is marked by a divergence across the key global economies. The US appears to be the clear leader in terms of growth, with the Federal Reserve expected to start a rate hiking cycle in the second half of the year. This is in stark contrast to the Eurozone, where the ECB has finally decided to implement extensive quantitative easing measures in order to ease deflationary pressures. In China, authorities stand ready to manage its own economic slowdown by easing monetary policy.

In other important REIT-related news, S&P Dow Jones and MSCI announced plans to create a new real estate sector, thus separating REITs from the financial sector. This is the first new sector since GICS (Global Industry Classification Standard) was created in 1999 and the changes are being considered for implementation after market close on 31 August 2016.

Analysis by our research partners Raymond James shows that generalist equity managers are currently $90 - $100 billion underweight REITs. A separate classification for REITs will be a long-term positive for the sector, as many fund managers will have to re-align their portfolios accordingly.

PORTFOLIO POSITIONING

Looking forward to 2015, we expect the following trends to play out in the global REIT market:

Unsynchronised economic and financial market cycles
Uneven global growth will see some nations (US, UK) showing solid progress, whilst others are expected to regress economically. Importantly for REIT investors, differing monetary policies are expected in terms of timing, direction and magnitude.

Lower oil price
It is expected that the lower oil price will continue to result in significant shifts of income from oil exporting regions to importers. Investors should be aware of various REITs' exposure to oil-related industries. Consumer-orientated REITs should benefit from increased disposable incomes, particularly the US Retail REITs.

Urbanisation
Firms and individuals are willing to pay higher rents to be situated closer to city CBD's. Office and Apartment REITs are primary beneficiaries of this prevailing secular trend.

US biotech boom
Capital formation in the US biotech and life sciences industry has taken off during the past couple of years. The wall of money chasing after "the next blockbuster drug" has meant that the demand for biotech lab/office space has been on an upward trend. This has benefitted REITs that cater to the needs of these biotech firms and own properties situated at the major epicentres of biotech activity.

Self-storage in the US and UK
The modern trends towards smaller living spaces and frequent relocation (due to job-hopping) drives demand for self-storage facilities. The US self-storage sector has experienced years of uninterrupted growth, while the UK market is still in an early growth phase.

German apartments
Notwithstanding Euro currency risk, German residential remains a theme that plays a part in our portfolio. This sector is characterised by low tenant turnover, limited supply and strong renter demand in cities like Berlin.

The Reitway Global Property Fund has increased its' exposure to REITs that are expected to benefit from the themes mentioned above. We have also positioned the portfolio towards REIT sectors that are most likely to outperform in a rising interest rate environment. This includes sectors like self-storage and lodging, which are closely tied to the economic cycle due to their shorter lease durations. While 2014 saw another strong year for interest rate sensitive or as we refer to them "bond-like" REITs, we believe investors in these sectors are indeed swimming naked at current prices.

Regards,
The Reitway investment team