

REITWAY REVIEW – EDITION 15

For the quarter ended 31 December 2016

MARKET COMMENTARY – 4Q16

Global real estate securities traded lower during the fourth quarter of 2016, with our benchmark (GPR 250 REIT Index) down 5.45%, taking the calendar year total return to 6.5% in USD. Lower trending bond yields during the first seven months of 2016 provided a tailwind however, the sharp rise in 4Q16 after the US elections negatively impacted the overall performance.

The below chart of the GPR 250 REIT Index (orange) and the US 10-year bond yield (purple) reflects the 4th quarter divergence.

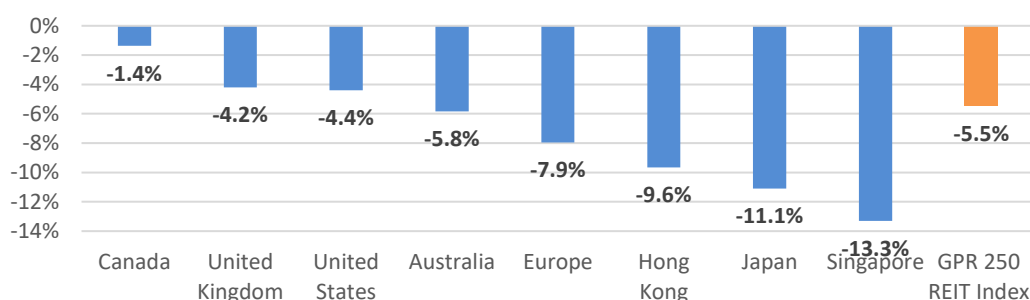
GPR 250 REIT Index versus US 10 year Treasury yield – 2016



Source: Thomson Reuters EIKON

The chart below shows the total return for the respective regional global REIT markets in 4Q16. All the REIT regions reflected declines during the fourth quarter with Canada (-1.4%) faring the best in a gloomy environment.

Regional REIT Returns - 4Q16 (USD)



Source: Global Property Research, Reitway calculations

Hong Kong, Japan and Singapore were the top performing markets on a year to date basis at the end of the third quarter. However, this changed in 4Q16 with Asian REITs recording double digit losses in U.S. dollars.

The standout with a -13.3% performance is Singapore where the fundamentals for all sectors remain challenged. The retail sector looks particularly weak with slower GDP growth reducing the propensity to consume – this notwithstanding a shift towards online shopping. Macquarie’s 2017 forecast for Singapore retail rent growth is a modest 1% compared to the 5-6% of five years ago.

PORTFOLIO PERFORMANCE – 4Q16

Subsequent to solid performance relative to the GPR 250 REIT Index in 2Q16 and 3Q16, the Reitway BCI Global Property Fund underperformed the benchmark by -3.93% during the fourth quarter.

On a country level, the biggest contributor to our underperformance for the quarter was our 16.4% overweight position in European REITs. European REITs lost -7.9% in U.S. dollars versus the -5.5% decline for the GPR 250 REIT Index. Our off-benchmark German Apartment securities gave back some of their gains achieved during the first three quarters of 2016.

On a more positive note, we managed to extract substantial performance during the quarter from the UK REIT market, notwithstanding the negative returns experienced by UK REITs in general.

The past calendar year was tough for locally domiciled global fund managers. The South African rand (ZAR) gained significant ground against the major currencies during 2016, strengthening 12.5% vs the U.S. dollar, 15.7% vs the Euro and 27.5% vs the British pound. The strength of the ZAR has resulted in negative returns across globally focused asset classes for 2016. However, Reitway’s portfolio performance did provide a substantial excess return over our peers.

Peer Group comparison:

Reitway BCI Global Property Fund vs Peer Group Average (ZAR)				
	1yr	2yrs	3yrs	4yrs
Reitway BCI Global Property Fund	(10.70%)	8.84%	13.47%	17.05%
Peer Group Average	(13.95%)	6.74%	14.26%	16.58%
Excess Return	3.25%	2.10%	(0.79%)	0.47%
Peer Group Rank	3/11	1/8	5/7	3/6

Source: MoneyMate. As at 31/12/2016. All periods greater than one year are annualised.

REIT MARKET OUTLOOK – UNITED STATES

On 20 January 2017, Donald Trump will be sworn in as the 45th president of the United States presiding alongside a Republican-controlled Congress.

Backed by a party-aligned Congress, President-elect Trump may move aggressively to enact fiscal stimulus, tax cuts, deregulation and protectionist measures, carrying implications of higher inflation and stronger growth in the U.S., but also adding risks due to uncertainties around trade and geopolitics.

Although real estate fundamentals are strong, the cycle appears to be in its latter stages, with increased supply beginning to pressure some markets and external growth opportunities becoming scarcer. Our research associates believe higher growth and inflation rates could essentially reset the cycle through accelerating demand and slowing new supply.

Positive drivers on the demand side include more fiscal spending and lower taxes that could drive job growth, corporate profits and increased consumption through wage inflation. Higher inflation may pressure supply side fundamentals in the construction industry, thus keeping overall supply in check and driving rental rates higher. In addition, higher costs for labour, raw materials and financing would mean a rise in replacement costs for aging real estate – a positive for existing landlords.

With occupancy rates in most geographies already at high levels, a tailwind of demand amid reduced supply growth could be an important driver of REIT fundamentals in the long run. To this end we continue to favour attractively valued stocks that offer the highest earnings growth to offset headwinds from rising interest rates.

REITWAY NEWS

- We welcome clients and investors to our inaugural quarterly update broadcast which will be posted on our website by 25 January 2017. The post will be listed on our Blog and the Downloads section of the website.

Our investment team will address (amongst other matters):-

- Macro and sectoral factors
- The positioning of the portfolio
- The Global REIT outlook

We will assume that you have read our 4Q16 newsletter so that we can focus on future prospects in the broadcast.

We encourage you to mail questions to info@reitwayglobal.com from now until the 20 January 2017 and we will attempt to address them during the presentation.

- We are pleased to inform you that our global property fund domiciled in Australia has been approved by the South African Financial Services Board for sale and marketing here in South Africa. This fund replicates the portfolio of our SA domiciled Reitway BCI Global Property Fund which you are familiar with. Many South Africans have family in Australia or are planning to emigrate there and the fund is designed to create an easy transition to investing in a new domicile. [This link](#) will take you to the Australian fund's webpage.
 - Further, the Australian domiciled fund has been loaded onto the Momentum International Platform / LISP. We are in the process of getting it loaded onto other platforms and we will update you on progress.



Olivia Teek is joining our Business Development team. We will be introducing her to our client base in early February.

Regards,
The REITWAY team

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