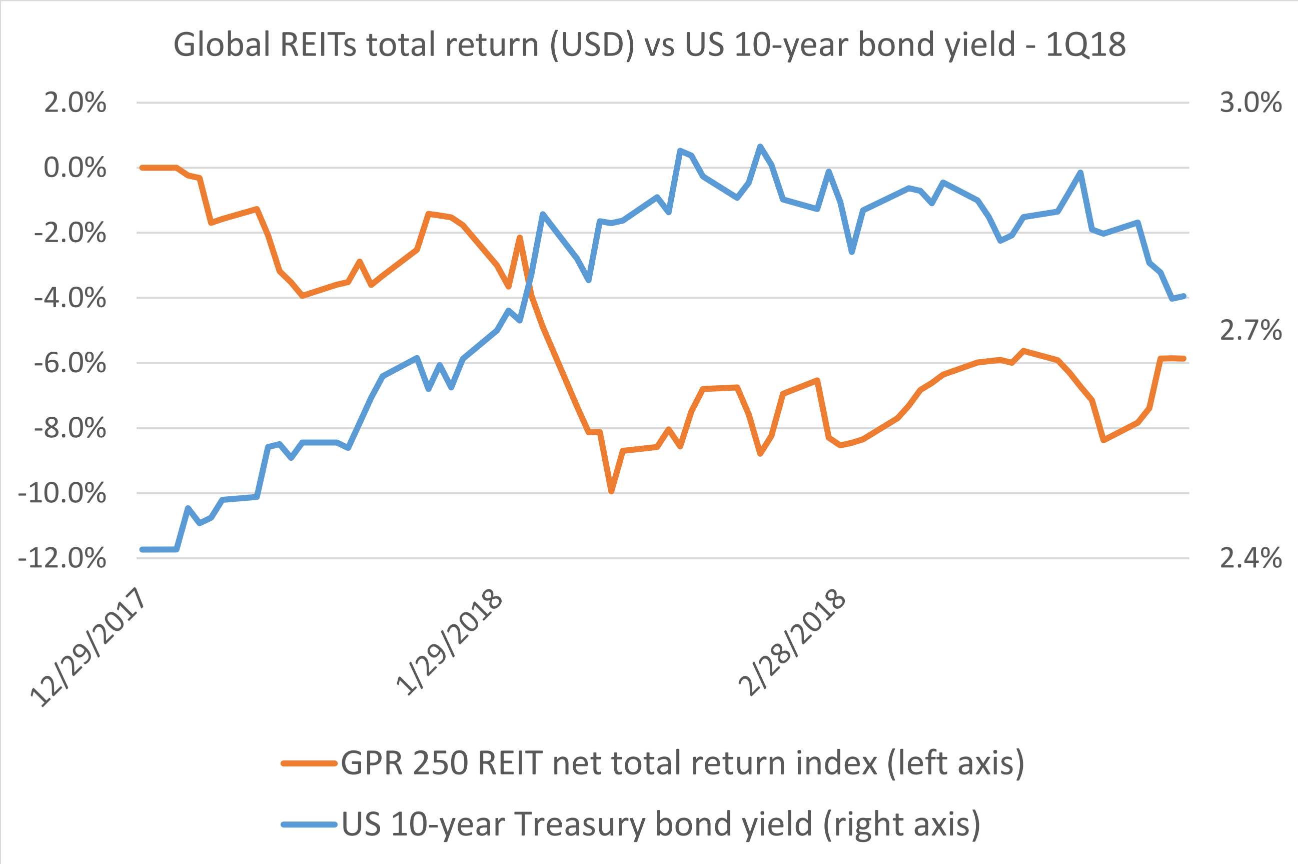
REITWAY REVIEW – EDITION 20

For the quarter ended 31 March 2018

MARKET PERFORMANCE AND COMMENTARY – 1Q18



Source: Thomson Reuters Datastream

The GPR 250 REIT World Index delivered a negative Total Return of 5.87% (USD) for 1Q18. A significant contributor to this decline was the US 10-year Bond yield increasing from a low of 2.4% to a high of 2.7% by the quarter's end.

Optimism about global growth prospects lifted the US 10-year bond yield at the start of 1Q18, with investors bidding up equities and selling down bonds as well as REITs, due to their more defensive nature.

About halfway through the quarter, as equity market exuberance settled down and as the term "trade war" continued to make headlines, investors began switching out of equities and into bonds. The result is that the REITs recovered to outperform equities as bond yields came down from their mid-quarter high of 2.9%, settling down to 2.7% at the close.

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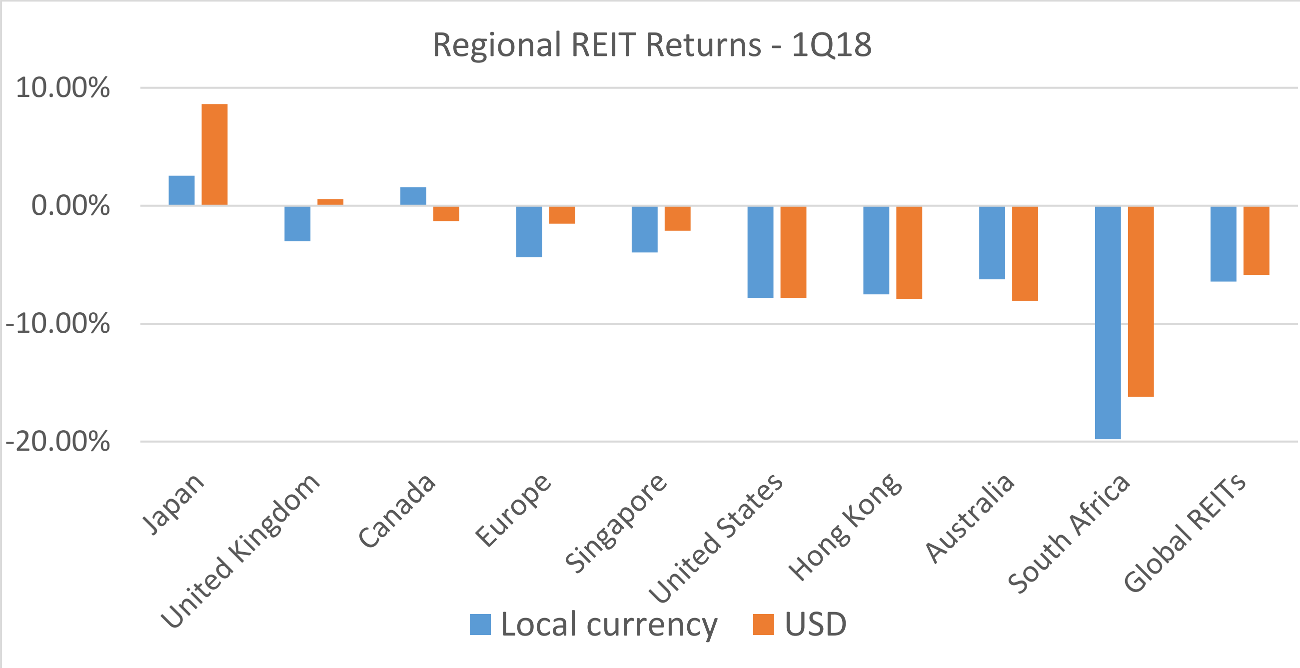


Source: Reitway calculations, Thomson Reuters Datastream

The Japanese and Canadian REIT markets generated positive local currency returns with a strengthening Japanese Yen propelling the Japanese REITs to a respectable USD return.

Questions and the inevitable negative sentiment towards the Resilient Group drove the South African REIT to a significant decline of close to 20% in ZAR.

PORTFOLIO PERFORMANCE REVIEW – 1Q18

The Reitway BCI Global Property Fund underperformed its benchmark by 0.41% in 1Q18 with stock selection in the US, Japan and Canada contributing to this minor underperformance. This was achieved despite large underperformance coming out of our two largest sectorial positions being Data Centre (-19.81%) and Single-Family Rental (12.61%).

Management teams investing in future earnings at a time when investors are fixated on short term interest rate movements, was the primary contributor to the underperformance of Data Centre REITs. This despite there being no visible impairments to the earnings projections.

Hurricane season-related repositioning and some internal occupancy challenges during 4Q17 for the SFR REITs spilled over into 1Q18. The impact appears to be temporary and we remain positive about the sectors prospects heading into the spring leasing season.

Ultimately, our relative high exposure to German and Japanese real estate enabled us to deliver a neutral performance.

Peer Group comparison

Reitway BCI Global Property Fund vs Peer Group Average (ZAR)					
	1yr	2yrs	3yrs	4yrs	5yrs
Reitway BCI Global Property Fund	-5.80%	-10.76%	0.00%	5.93%	7.30%
Peer Group Average	-3.71%	-11.36%	-0.75%	6.02%	7.73%
Excess Return	*-2.09%*	*0.59%*	*0.75%*	*-0.10%*	*-0.43%*
Peer Group Rank	*13/17*	*5/12*	*2/9*	*4/8*	*5/7*

All periods greater than one year are annualised.
Source: MoneyMate. As at 29/03/2018.

REIT MARKET OUTLOOK

Asia

The Japanese unemployment rate peaked in 2009 at 5.5% and has declined steadily to the current near multi-decade low of 2.5%. However, job vacancies at 962,000 are close to all-time highs! This is indicative of a positive economic outlook and business sentiment and is supported by the fact that official business confidence is at levels last seen in 2008 (even though contrarians may say this is an ominous sign!)

The outlook for Japanese equities, combined with solid stock-specific fundamentals and attractive valuations, underpins our relatively large J-REITs position.

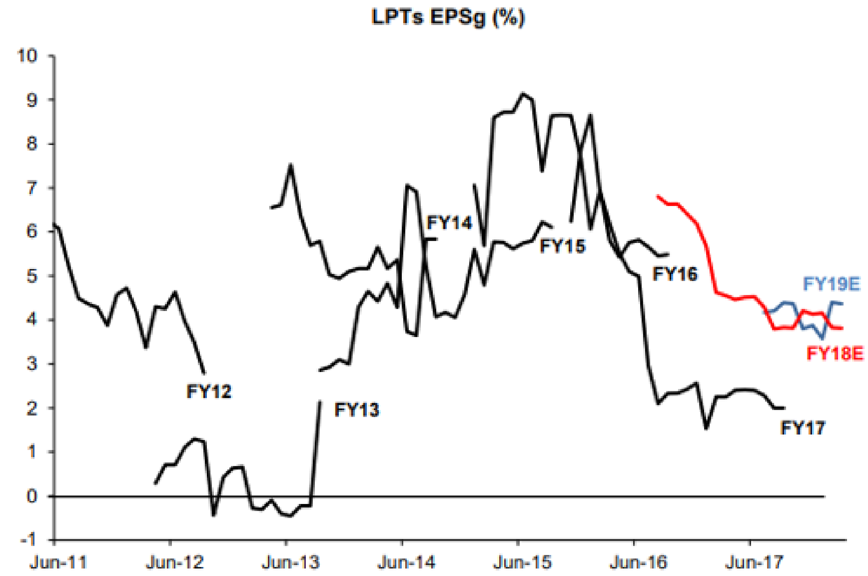
Australia

Secular headwinds, declining re-leasing spreads and NOI growth (down 30bps to 2.4%) and yet Retail REIT valuations were up 4.2%?! The main driver behind this was cap rate compression as investors sought better quality property.

Office NOI growth slowed 40bps to 2.7% as occupancy rates declined (down 150bps to 94%). However, Mirvac Group (MGR) our sole direct A-REIT holding, bucked the trend with over 10% NOI growth. A significant exposure to the still buoyant Sydney and Melbourne office markets is expected to continue to support this credible NOI growth rate in 2018.

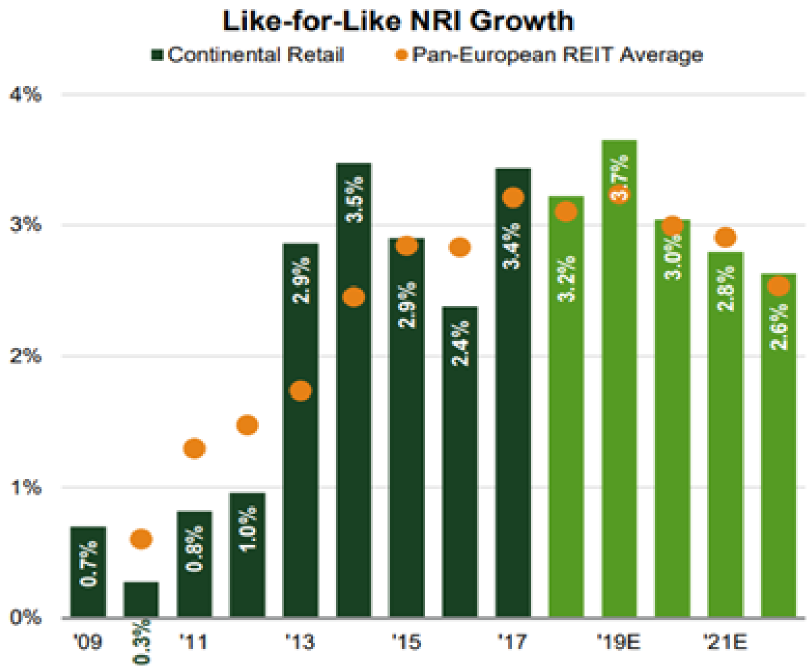
The outlook for A-REITs for FY19 is promising despite muted expectations for FY18 EPS. See the chart reflecting net upgrades in FY19.

REIT earnings actually saw net upgrades in FY19



Source: Company data, Macquarie Research, March 2018

Europe



Source: Company disclosures, Green Street Advisors

The outlook for continental retail has improved, with increased consumer confidence and lower unemployment. Sales growth ticked up in 2017, with the group expected to achieve over 3% p.a. like-for-like net rental income growth over the next two years. This is anticipated to decelerate to c.2.5% through to 2022.

Further, fundamentals have been improving over the last twelve months – five-year like-for-like rental growth of over 3% p.a. is 50bps higher than six months ago, and 70bps higher than one year ago. This is a stark contrast to the downward-revised same-store NOI growth of 2% p.a. projected for US malls.

Major European retail REITs have sought acquisitive growth in the troubled US and UK retail environments. However, Green Street Advisors is of the view that these entities are falling victim to the “intoxicating” allure of external growth and are worried about the “hangover” from such actions.

United Kingdom

Green Street Advisors report that UK majors (including diversified majors and retail-focused REITs) have all shrunk, through various combinations of selling assets, reducing leverage, returning capital to shareholders, and shrinking development pipelines.

Unlike in continental Europe, consolidation makes sense in UK retail for a number of reasons. These include the consolidation of prime portfolios, capturing synergies, as well as sweating assets in a challenging environment characterised by declining physical sales and margin contraction. The retail market is, of course, experiencing significant structural changes contributing to a benign outlook.

United States

Supply-side discipline and replacement cost inflation of 4-6% provides a backdrop to the expected FFO growth of 5-7%. These factors, notwithstanding modest GDP growth expectations, should continue to put upward pressure on interest rates. The result is that Raymond James expect US REITs to deliver mid-to-high single-digit Total Returns for the next 12 months.

Our favourite sector picks remain Data Centres and Single-Family Rentals

	Consensus FFO Growth		
Sector (Constituents)	2017	2018E	2019E
Industrial (11)	8.1%	4.1%	6.5%
Data Centers (5)	18.3%	18.9%	13.3%
Single-Family Rentals (3)	18.7%	11.3%	12.5%
Office (25)	0.3%	3.3%	5.7%
Malls (7)	4.0%	2.4%	4.3%
Lodging (18)	-2.8%	2.0%	2.9%
Self Storage (5)	7.0%	3.3%	3.3%
Shopping Centers (16)	3.8%	-1.3%	3.9%
Free Standing Retail (8)	4.3%	4.3%	3.8%
Manufactured Homes (3)	9.4%	8.7%	5.9%
Apartments (13)	3.3%	3.9%	4.9%
Health Care (18)	-2.4%	-0.7%	3.7%
Diversified (15)	-0.1%	-1.7%	5.4%
Specialty (10)	19.4%	3.5%	7.9%
Subtotal (144)	4.9%	3.9%	5.6%
Infrastructure (6)	11.5%	13.9%	13.2%
Timber (4)	24.7%	12.3%	8.0%
Total (154)	5.9%	5.3%	6.7%

US REITs sectoral FFO growth expectations

Source: NAREIT, S&P Global Market Intelligence, Raymond James research. Data as of 23/03/2018.

In the US, Healthcare, Diversified and Shopping Centre REITs exhibit the poorest outlook for FFO growth.

Conclusion

Overall, our individual and sectoral allocations across the Funds remain well positioned to benefit from the strongest growth themes in the Global REIT market. We continue to allocate capital when valuations are attractive, according to the Growth at a Reasonable Price investment style.

REITWAY NEWS

RAGING BULL

Reitway Global is the proud recipient of the **Best SA Domiciled Global Real Estate Fund** Raging Bull award for 2017. We will remain focused on building wealth for our investors by delivering superior performance over the medium to long term.

MARTIN AND GRANT ARE SET TO TRAVEL TO AUSTRALIA

Our colleagues and Portfolio Managers, Martin and Grant are set to travel to Australia in the latter part of April & early May where we have a Fund domiciled. The visit will include visits to investors, institutional mangers and potential investors.

In addition, visits to REIT managers have been arranged with our Sydney based hosts and partners – Sanlam Private Wealth. A special thank-you to Maadhvi Patel and Werner Stals for putting the agenda together.

MALTA - REITWAY GLOBAL AND REITWAY LEVERAGED GLOBAL PROPERTY PORTFOLIO (MLT) – PLATFORMS

Our Malta domiciled Leveraged and Long-only funds are now available on Momentum Wealth and Stanlib International. In addition, our Long-only fund is now available on Glacier International.

Contact Olivia Teek on 021 551 3688 or oliviat@reitwayglobal.com should you need additional information.

Regards,
The REITWAY team

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

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