

Reitway Review – 3Q20

Performance

After a wobble in September the listed property sector managed to finish the quarter marginally positive. The GPR 250 REIT World Index lost 3.24% last month, but still produced a total return of 1.98% in US dollar terms during the third quarter of 2020.

The South African (-10.48%) and European (-2.16%) property markets delivered the worst returns. For the second consecutive quarter, Australia (+11.86%) delivered the best results, followed by Japan (+7.52%) and Singapore (+7.41%).

The asset class underperformed equities (1.98% vs 8.05%) while it achieved slight outperformance against bonds (1.98% vs 0.53%).

Our portfolio gained 6.30% in USD during the quarter. The 4.32% outperformance versus the benchmark was primarily due to superior sector and stock selection in the US and Australia as well as our exposure to Belgium.

Key contributors:

Top 5 Performance Contributors		
	Security name	%
1.	Innovative Industrial	0.91
2.	Warehouses de Pauw	0.90
3.	Goodman Group	0.78
4.	NEXTDC	0.65
5.	LEG Immobilien	0.45

Source: Reitway Global, Refinitiv Portfolio Analytics, Sep 20

Overweight and Selection in Industrial

Our higher than benchmark exposure as well as stock selection within the sector was the main contributor to our impressive results for the third quarter.

Our industrial REITs (Innovative Industrial, Warehouses de Pauw and Goodman Group) delivered strong returns during the quarter, up 13.42% vs the benchmark's industrial holdings of 8.28%. The various local stay-at-home orders have driven eCommerce sales growth meaningfully higher, and while a partial pullback is likely, the post-COVID-19 trend could be well above the pre-COVID-19 trend.

Additionally, industrial REIT customers are more likely to hold higher inventory levels, ensuring they can execute sales without fear of supply chain disruptions.

Underweight Offices

Office REIT returns remain under pressure, so our below average exposure benefitted our results during the quarter. Over the last number of weeks, various office REITs published pre-earnings updates. Overall, rent collection levels continue to be better for the sector vs other traditional property types with Q3 rent collection statistics very similar to the second quarter (>97%).

New information regarding leasing activity was limited, suggesting that the continued slowdown seen in Q2 may be repeated in Q3.

The second quarter saw total leasing activity down ~30% on average with new leasing activity down close to -50%. While REIT quarterly leasing statistics can be volatile given varying lease-specific terms and lease expiration schedules, expectations for a quick return to pre-COVID levels are low.

If Q2 is a guide, Q3 office REIT leasing activity will consist largely of renewals, as tenants largely stay in-place and reassess total post-COVID office space needs.

Selection in Apartments

Our off-benchmark positions in German and Finnish apartments delivered double digit returns during the quarter, while our below benchmark exposure to coastal heavy US focussed multifamily REITs also boosted relative returns.

Key detractors:

Bottom 5 Performance Contributors		
	Security name	%
1.	Unibail Rodamco	-0.26
2.	QTS Realty Trust	-0.25
3.	American Tower	-0.23
4.	Taubman Centers	-0.16
5.	Extra Space Storage	-0.15

Source: Reitway Global, Refinitiv Portfolio Analytics, Sep 20

Stock selection in Retail

During September, Unibail-Rodamco-Westfield (URW), Europe's largest REIT with c.€53bn of, on average, grade 'A+' shopping centres located across Continental Europe (c.70%), the United States (c.23%) and the United Kingdom (c.7%)

announced its intention to raise €3.5bn via a fully underwritten rights issue in Q4 2020.

To put the size of this raise into context, it is the largest equity issuance in US and European REIT history and equivalent to ~65% of Unibail's market capitalisation.

The capital raise is part of a larger ~€9bn "RESET" deleveraging plan – **R**estore, **E**xecute, **S**treamline, **E**mbrace, **T**hrive – intended to improve URW's capital structure, increase its financial flexibility, and enable its long-term strategy execution of operating flagship shopping centres in gateway U.S., U.K. and Continental European markets.

The ~€9.0bn+ "RESET" plan is based on four financial pillars, namely (i) a fully underwritten €3.5bn capital raise via the forthcoming rights issuance, (ii) €4.0bn of asset disposals (c. half in retail) to be completed by Dec-2021, (iii) €1.0bn of retained earnings by limiting cash dividends for each of FY20 and FY21 through scrip and/or a lower pay-out ratio, and (iv) a further €0.8bn reduction in non-essential operating as well development pipeline capex. Details of the upcoming capital raise, including economics, are to be determined and announced following approval of two thirds of shareholders during an Extraordinary General Meeting ('EGM') to be called during November. The equity raise is likely to complete before the end of this calendar year.

Stock selection in Storage

While our positions in Canadian (2.31%) and European (12.8%) storage produced positive returns during Q3, the returns were lower than the average return for the benchmark's constituents (16.50%).

The performance tables below highlight our returns against our benchmark as well as our peer group.

Reitway Global once again proved its mettle in managing uncertainty and we are very pleased by the fund's outperformance of the index for the quarter, and the substantial outperformance for the year versus our index and peers.

Reitway BCI Global Property Feeder Fund (USD)						
	Q3 2020	1yr	3yrs	5yrs	7yrs	Since inception
Reitway Global	6.30%	4.54%	6.54%	6.68%	5.52%	6.78%
Benchmark	1.98%	-19.87%	-1.01%	2.24%	3.79%	5.01%
Relative	4.32%	24.41%	7.55%	4.44%	1.73%	1.77%

Reitway BCI Global Property Feeder Fund vs Peer Group (ZAR)				
	1 Year	3 Years	5 Years	8 Years
Reitway Global	15.05%	14.33%	10.77%	15.33%
Peer Group Average	-4.00%	7.06%	4.87%	11.54%
Excess return	19.04%	7.27%	5.90%	3.79%
Ranking	1/16	1/16	1/9	1/6
Quartile Rank	1	1	1	1

Net of fee total returns as at 2020-09-30.

All periods greater than one year are annualised.

Source: MoneyMate

Investment Outlook

The third quarter saw markets return to more realistic levels following the irrational trading and price increases that characterised the second quarter, fuelled by US central bank stimulus. Q3 saw increased volatility, and several of the sectors under pressure (especially retail) returned much of the bounce that occurred in Q2.

The impact of COVID-19 remains deep, and the economic tolls are slowly becoming clearer. Added to this, the rough and tumble game amongst Democrats and Republicans with fiscal stimulus as the football raged for much of the quarter. Adding in a rapidly approaching election date, a Supreme Court seat vacancy, and President Trump being infected with COVID-19, most of the world's markets were trading in line with the vicissitudes of events in the USA. 2020 continues to remain on track to deliver ongoing negativity and volatility.

A vaccine continues to be developed and tested by various companies, but clarity remains elusive on roll out. Global fears of a second wave impacting Europe and Asia were heightened during the quarter. Sporadic regional outbreaks occurred in China, Australia was forced to reintroduce harsh lockdowns in Melbourne, and in Europe; Spain and Italy are seeing concerning case spikes. On the positive side, the mortality rate of the disease is steadily declining. The Northern Hemisphere will now be facing its second COVID-19 winter, and the potential concurrent challenge of whether regular influenza levels also return.

Good news unfortunately remains elusive and the reality is that much of the world's recovery from the disease itself, as well economic recovery, remain very much opaque.

Reitway News

Platform Access | Prime Reitway Leveraged Global Property Retail Hedge Feeder Fund

Our South African domiciled leveraged feeder fund is now available on the Momentum Platform.

Garreth Elston presents at the BCI Conference

Garreth presented on the “Great Sector Bifurcation”, the importance of sector selection and why global listed property is a vital component of an asset allocation strategy. To see the recording of his presentation click [here](#). The presentation was very well received.

Reitway Global | Q3 Update

Reitway had our Q3 Update on the 20th of October and we were pleased to share with investors and potential investors how strongly the fund has continued to perform.

The fund has proven resilient and has stood up well to our peers both locally and globally, currently being the 2nd best performing fund out of our 268 global peers, over one year and in the top quartile over all periods since our inception in 2012.

If you would like a copy of the presentation or the recording, please don't hesitate to contact Olivia Teek at oliviatt@reitwayglobal.com

Regards,

The REITWAY team

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

Disclaimer

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