

## Volatility Ahead

Last year, listed property funds gave a total return of 28,6% to December 31, down from 50,04% in 2005, when they were the best-performing asset class. That's according to calculations by Catalyst Fund Managers.

Octodec, one of the two funds managed by Alec Wapnick and his son Jeffrey in Pretoria, was the top performer (with an income return of 9,61% and a total return of 56,66%, assuming payouts were reinvested), followed by Des de Beer's Resilient (7,76%, 48,25%); the FM's tip for 2006, ApexHi B in the Madison stable (9,62%, 45,58%); the Wapnicks' other fund Premium (8,29%, 45,17%); and Sanlam's Vukile (9,91%, 41,94%).

It's a mystery that nobody chose Octodec, though it has been among the top performers for some years. The reason it's usually excluded, says Catalyst's Paul Duncan, is that it is small (market cap R1bn) and illiquid.

Almost all the experts the FM consulted last year, including independent analyst Liliane Barnard and Macquarie First South's Leon Allison, as well as the FM, predicted ApexHi B would be the top performer for 2006, as they had the year before – and again it came third. Angelique de Rauville, Investec's listed fund investment manager, was almost spot on in predicting a 9,9% forward yield for ApexHi.

Andisa Securities' (now Old Mutual's) Len van Niekerk's first choice, Resilient, was second-best performer.

Growthpoint, Pangbourne and Hyprop were other favourites, but didn't feature in the top 10.

Analysts see more of the same for 2007. De Rauville foresees as much price volatility ahead in the sector as in 2006 and for the same reason.

"It'll be dej Euro vu," she says. "[SA's] continuing trade deficit may scare investors away at times, as it did in June last year. Yet incomes will continue to rise steadily and the volatility will create buying opportunities."

Duncan says Catalyst continues to favour funds that exhibit high-quality and sustainable income streams; excellent disclosure and transparency; and management with a proven ability to perform. Out of the larger funds, these include Growthpoint, Resilient and Hyprop. Favoured smaller caps are Acucap, Hospitality As and Bs, Freestone and Diversified.

Allison once more favours Growthpoint. He forecasts payout growth of 14,6% this year and 11,1% in 2008, with the price responding to higher valuations and international interest in SA's biggest listed fund.

De Rauville's top choice is the Madison stable of Redefine, ApexHi and Hyprop. "Madison's Wolf Cesman and Marc Wainer have been at the forefront of corporate activity and will continue to be," she says. "And their funds are innovative and well managed." She also likes the Wapnicks' funds Octodec and Premium, Resilient and its sister fund Diversified and Growthpoint.

Barnard chooses Redefine, of which she is a nonexecutive director, and Growthpoint. "Both are liquid and have strong distribution growth. But the market seems wary of them because of Redefine's hybrid portfolio."

Barnard also likes ApexHi C, currently at 430c but likely to grow to 700c in the next year to 18 months, she says.

The FM abandons its choice of three consecutive years, ApexHi B, for its sister fund Redefine, currently at a forward yield of 8% under CEO Brian Azizollahoff. The big fund managers, such as Stanlib, Old Mutual and Allan Gray, don't like it because it is a "hybrid" that invests in other listed funds as well as directly owning properties.

Fund managers don't like the double fees that come with Redefine owning shares, and feel they want to make their own investment decisions. But that's silly because they still get good yields, and Azizollahoff and his team buy funds for long-term, strategic reasons that are completely different from those of most fund managers.

Redefine management have made outstanding purchases, with big holdings in ApexHi and Hyprop that will block any takeover attempt. Redefine is also destined to be Madison's vehicle for global investment, as the biggest shareholder in London-listed property fund Ciref.

On top of all this, Redefine could just be targeted for the most dramatic takeover of the year, which could push its total return to investors into the stratosphere. This could very likely be the year that offshore investors move into SA listed property (see Money & Investing page 54). Redefine has the size, with a market cap over R5bn, and the ability to grow even more by swallowing ApexHi, its listed asset manager Madison, and even Hyprop.

Corporate mergers and acquisitions are likely to push values up in many counters. "All except the top funds like Growthpoint and Hyprop could be potential takeover targets," says Allison.