

## CATALYST FUND MANAGERS



# Consider getting in this queue

Listed property has become a concern for many investors due to rising interest rates in an economy under pressure. However, Catalyst Fund Managers' recently added this asset class. Why is it a good bet?

South African retail investors remain underweight to listed property as an asset class. This chronic underweight position can be traced back for many years, with the first unit trust funds being launched in the early 2000s – almost 35 years after the first equity fund – and 15 years after the first balanced funds. Even money-market funds managed to crack the nod before listed property. A cursory glance at the asset allocation of the growing multi-asset class sectors shows that many fund managers remain chronically underweight in the asset class as well.

Exposure to the asset class has grown in recent times as the sector has expanded. The Coronation Balanced Plus fund has taken a significant bet on the sector, with almost 13% exposure to the asset class. However, this is a bet based on valuation and the relative attractiveness of listed property. It is very likely that this position will be sold down sometime in the near future. Even the multi-asset funds being brought to the market by the index tracking product providers have low property exposure. **It is only Grindrod Asset Management that has a meaningful strategic exposure to listed property,** with its sensible Payers and Growers strategy.

The issue with listed property for many investors now is that South Africa is entering a rising interest rate environment, and its economy is under significant pressure. There seems to be an oversupply of property as projects commissioned in the good times are now being added to the market. The pending downgrade of the country's credit rating may also result in poor returns from the asset class in the short to medium term. While an exposure to offshore property may help mitigate some of these risks, investors are also wary of having to make the switch or decide on the appropriate level of exposure.

## The Catalyst Flexible Property Fund

A recent addition to the listed property

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25%  
offshore.



Mall of Africa, Midrand

sector comes from niche property asset manager Catalyst Fund Managers with the launch of its Flexible Property fund in October 2015. The fund managers are able to allocate between local and offshore property and cash if they feel that there are not enough opportunities. The fund is managed by Paul Duncan and Zayd Sulaiman, two seasoned property specialists with extensive experience in managing property mandates. The exposure to offshore property is via its award-winning Global Real Estate fund managed by property stalwarts Andre Stadler and Jamie Boyes.

The fund has some potential issues; firstly it sits in the South African-Real Estate-General category, meaning that the fund can invest a maximum of 25% offshore. The managers would have had more freedom if the fund sat in the Worldwide Multi-Asset Flexible category. However, given that many locally listed property counters have large offshore exposures, this may not be a major issue for the managers. Secondly, it's not cheap with a base fee of 1% and a performance fee of 22.5% of the outperformance over CPI + 4% p.a.. The benchmark is reasonable given the inclusion of cash in the investment universe, but we are in an environment where fees are being closely scrutinised.

While the fund has a short track record, the long-term track record of Catalyst as a specialist property manager is solid. It has won numerous industry awards for the performance of its local and offshore funds. The addition of a flexible fund makes sense and is likely to be a popular option for investors wanting exposure to the asset class, but that don't want to make timing or domicile calls. The queue of investors for the fund is unlikely to match those outside the recently opened Mall of Africa, but I suspect that there will be more winners in this queue than in that one. ■

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