# **Catalyst** approaches 20 years of outperformance for Alpha fund

## Recording 16% annualised returns since 2005, Catalyst has launched a retail hedge fund to broaden investor access to its property investment expertise

The property-focused Catalyst Alpha Prescient QI Hedge Fund is approaching its 20-year anniversary, and has successfully delivered on its mandate, recording a total annualised return in excess of 16% net of fees. This represents an almost 7% outperformance of the FTSE/JSE All Property Index (ALPI), at a standard deviation almost half of the underlying index.

In February 2025, Catalyst Alternative Investments and Amplify (SCI) will launch a listed property retail hedge fund. The fund aims to have a high correlation to the return profile of the existing qualified fund but without the minimum investment criteria for retail investors. It will utilise all the expertise of the Catalyst teams, with a mandate to deliver the highest risk-adjusted absolute listed property returns.

Marcus Erlank

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In 2024, the Catalyst Alpha Prescient QI fund delivered an absolute return of 14.7% net of all fees, exceeding its benchmark of 8.6% (three-month Jibar) and in excess of Catalyst's internal targets of a net 12-13%.

The fund launched in 2005 with a mandate to deliver the best risk-adjusted absolute returns using domestic and global listed property as its tool set. It has a strict mandate to protect capital in periods of crisis and attempts to limit the depth and length of drawdown periods.

The fund has a long bias, with a long-term neutral zone of around 60-70% net exposure and a roughly 50:50 split between local and offshore equity. The fund will deviate from this exposure depending on where the team sees value, not just in the sector but in individual stocks. In times of distress, the fund will look to have net exposure below the neutral zone, and vice versa.

### 2024 in review

Director and portfolio manager of Catalyst Alternative Investments, Marcus Erlank, a CA(SA) and a CFA charterholder who joined the team in 2017, notes that the majority of the fund's strong performance last year came from its allocation to SA-centric stocks, which rallied.

"A favourable election outcome in May/June caused bond yields to firm and supported SA risk asset classes," he notes. "In addition, it seemed like the worst of the loadshedding crisis was behind us."

"The majority of SA-centric companies also saw a return to distributable income growth as they had absorbed higher interest costs into their base and continued to generate resilient top-line growth," he adds. "The start of the interest-rate cutting cycle was another positive factor, which disproportionately benefits real estate investment trusts (REITs) due to the leveraged nature of the stocks."

Erlank says the fund was well positioned going into this period, with lower than long term short exposure, and long positions in all of the SA-centric, large-cap stocks with good liquidity. The fund also hedged out a portion of its offshore currency exposure on the expectation that the rand would strengthen against major currencies.

This worked through the first three quarters of the year, with the fund rotating out of SA-centric stocks and into global listed real estate on relative underperformance. However, Erlank notes that the final quarter of the year brought with it a rhetoric of sticky inflation and a stronger global economy, not helped by President Donald Trump winning the election. This caused bond yields to spike in December on tariff fears, and listed real estate sold off. In the final quarter of the year, global listed real estate sold off nearly 10%, giving up double-digit year-to-date gains and finishing the year up a tepid 1.3% in US dollars.

## Local and global outlook

Off the back of a strong 2024 in SA listed property, the Catalyst team remains constructive on the sector.

"Retail and industrial fundamentals have been remarkably resilient over the past few years, but for the last 12 months we have seen greenshoots of improvement in the long languishing office sector," notes Erlank, who is part of an 11-member investment team. He adds that above-market leases have been rebasing and tailwinds from the business process outsourcing (BPO) sector and better business confidence in the country have brought closing negative reversions and decreasing vacancies.

"A number of companies were also erring on the side of caution when providing guidance, still making provisions for some loadshedding or not taking any interest-rate cuts into account," he says. "We expect strong growth in distributable earnings to drive another solid year of share price performance."

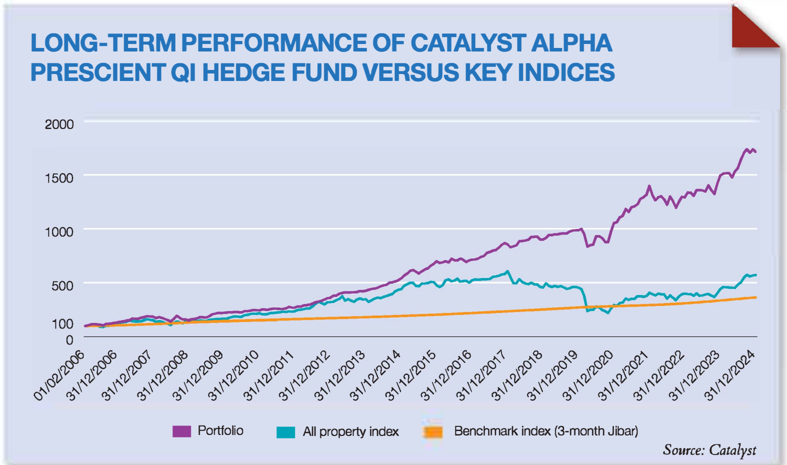
Globally, unfortunately, Erlank notes that macro headlines have dominated market movements. With US bond yields spiking above 4.8%, and various political "own goals" hampering the UK and Europe, listed real estate has not had meaningful investor interest despite the start of the interest-rate cutting cycle. Still, most companies' fundamentals are sound, with strong growth prospects.

"In global listed real estate, distributable income yields above 5% coupled with medium-term growth above 5% in US dollars make for an attractive internal rate of return (IRR) package. We are looking forward to a strong period of growth, especially as the interest-rate cuts start to boost earnings."

Globally, the team prefers the US to UK/Europe and Asia, and is constructive on data centres, apartments, senior housing and gaming net leases. In Europe, they like UK student housing and European logistics.

Catalyst Alternative Investments now has more than R1 billion under management across its local and offshore hedge funds, and looks to grow AUM with the new retail fund, tapping into Amplify's distribution network.

It is part of the Catalyst Fund Managers group, which comprises the long-only offerings, with total AUM of approximately R27 billion.



*Source: Catalyst*