NEDGROUP INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently

NEDGROUP INVESTMENTS Property Fund

Quarter One, 2020

Nedgroup Investments Property Fund

Performance to 31 March 2020 ('R)	Fund[1]	Benchmark[2]	Index[3]
3 months	-42.7%	-45.3%	-48.2%
12 months	-51.5%	-45.6%	-47.9%

Market Overview

The impact of Covid-19 was keenly felt in South Africa's listed property sector during the first quarter of 2020. A nationwide lockdown that is currently scheduled to last 5 weeks is taking its toll on economic activity and several major tenants that are unable to operate during the shutdown are refusing to pay rent while their stores or businesses remain closed. The Property Industry Group (representing SAPOA, SAREIT and the SA Council of Shopping Centres) has announced an industry-wide assistance and relief package for those retail tenants hardest by the country's lockdown restrictions. There appears to be very little buy-in from the retailers, who are expected to pay some or all of their rent in terms of the package.

As a result of the uncertainty created by the lockdown, the FTSE/JSE SA Listed Property (SAPY) index declined by just under 50% in the first quarter of 2020. This is the worst quarterly performance by the sector and eclipses the 21.5% decline registered by the sector in the first quarter of 2018, when the market capitalisation of the Resilient group of companies declined by R130 billion. Since the end of 2017, the sector has lost exactly two-thirds of its value (price only) and has returned -60.5% over that period (adding back the income generated by the sector).

The deteriorating economic backdrop was not the only factor that impacted on price action during the first quarter. South Africa's listed property companies have been expanding rapidly offshore for the past seven years. A significant portion of that expansion has been funded using debt and specifically using a derivative instrument known as a cross-currency interest rate swap (CCIRS). It meant that the companies were able to swap a portion of their South African debt into predominantly euro-denominated debt using their South African asset base as collateral. The euro-denominated debt attracted significantly lower interest rates and any acquisitions were earnings-enhancing from the outset. As the rand weakened rapidly in the first quarter, the margin that needed to be posted to mark-to-market a CCIRS increased, draining much-needed cash resources for the sector.

Given current cashflow constraints at many companies in the sector, the industry has also sought assistance from the government and the JSE to relax some of the requirements for REIT status in South Africa. The companies are looking for relief from the need to distribute at least 75% of earnings to shareholders, as well as tax relief on any income that is retained. The industry has requested a 2-year period during which this relief should apply. The negotiations with the various regulatory bodies to enable this relief is at a very early stage and their outcome is difficult to predict. It does mean that dividend payments are likely to be delayed or cut altogether and this also contributed to the sharp sell-off in prices during March. Hyprop Investments and Redefine Properties have both announced that their interim dividends, due to be paid in the second quarter, will be delayed and paid together with the final dividends in the fourth quarter.

Portfolio Commentary

The Nedgroup Investments Property Fund (the Fund) outperformed the SAPY index in the first quarter, mainly as a result of the Fund's large holdings in Safari Investments (-11.1% during the quarter), Grit (-11.3%) and Stor-Age Property REIT (-15.8%). While there was no place to hide during the quarter, the Fund's limited exposure to high-end fashion retail (which has been severely impacted by the lockdown) and companies with substantial, debt-funded offshore exposure proved beneficial during this difficult period for property companies in South Africa. The Fund did take the opportunity to lighten exposure to both Redefine Properties and Vukile Property

[1] Net return for the Nedgroup Investments Property Fund, A class. Source: Morningstar (monthly data series).
[2] Benchmark is (ASISA) Real Estate General
[3] FTSE/JSE South African Property Index

Fund, given those companies higher exposure to fashion retail and recent offshore expansion into Eastern Europe (Redefine) and Spain (Vukile).

The biggest detractor from performance during the quarter was the Fund's exposure to Accelerate Property Fund, which represents the Fund's only real exposure to high-end fashion retail. Accelerate also has exposure to Western and Central Europe, which was partly funded using a CCIRS. Also detracting from performance was Tower Property Fund, given its exposure to Croatia, which is partly funded by Euro loans secured by South African assets. On the 18th of March, Tower announced the sale of its Vukovarska property in Zagreb for €12.4m, representing an 11% premium over the last independent valuation. The net proceeds of the disposal will be utilised to pay down debt and strengthen Tower's balance sheet further (it already has one of the strongest balance sheets in the sector with a loan-to-value ratio of 33.7% at the end of November 2019). It will also reduce Tower's currency-related risks.

Top 5 winners and losers for Q1 2020:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Equites	0.73%	-0.07%	**Accelerate**	6.57%	-6.00%
Rebosis	1.15%	-0.63%	**Tower**	8.32%	-5.83%
Stor-Age	7.38%	-0.79%	**Arrowhead**	10.18%	-5.39%
Redefine	1.33%	-0.84%	**Fairvest**	11.69%	-4.67%
Grit	9.65%	-1.15%	**Octodec**	6.89%	-3.15%
Equites	0.73%	-0.07%	**Accelerate**	6.57%	-6.00%

Current positioning and outlook

The Fund remains fully invested despite the current uncertainty in South Africa's listed property sector. The price action during the first quarter was overdone and there is significant value on offer in the sector. Based on current Bloomberg, FactSet and IRESS forecasts, the one-year forward yield on the Fund is 24.5%, while the one-year forward yield on the SAPY index is just over 16%. Admittedly these forecasts assume that the companies will pay their dividends over the next 12 months, which is not necessarily the case. Even if the Fund were to only receive 60% of the dividends currently being forecast, that would still translate into a yield for investors of approximately 14%, which is a lot higher than what is being offered in the money market or the bond market. Interest rates are now at historically low levels in South Africa and cash is now expected to deliver negative real returns in the short-term, increasing the appeal of other higher-yielding asset classes like bonds and property.

While dividends are likely to be lower in 2020, more normalised dividend payments are expected to resume in 2021 as economic activity accelerates after the lockdown and cashflows start improving. Balance sheets should be stronger (due to the retention of earnings) but property prices and rentals may be lower as consumers and businesses adjust their behaviour in the wake of the global pandemic. The entire real estate industry is likely to be reimagined once the economy reopens, which could impact negatively on most retail and office landlords. Warehousing and self-storage landlords will likely benefit from increased online activity by consumers, while the hospitality industry, which has been hard hit, should see above-average occupancies once the global economy reopens fully and travel restrictions are removed.

From current levels and based on historically high initial income yields, the SA listed property sector is expected to deliver well above-average returns, even in the absence of distribution growth.

Disclaimer

WHO WE ARE
Nedgroup Collective Investments (RF) Proprietary Limited is an authorised Collective Investment Scheme and the representative of Nedgroup Investments Funds PLC in terms of the Collective Investment Schemes Control Act. It is a member of the Association of Savings & Investment South Africa (ASISA)..

OUR TRUSTEE
The Standard Bank of South Africa Limited is the registered trustee.
Contact details: Standard Bank, Po Box 54, Cape Town 8000,
Trustee-compliance@standardbank.co.za, Tel 021 401 2002.

HOW ARE OUR FUNDS PRICED
Funds are valued daily at 15:00. Instructions must reach us before 14:00 (12:00 for Nedgroup Money Market Fund) to ensure same day value. Prices are published daily on our website and in selected major newspapers.

FEES
A schedule of fees and charges is available on request from Nedgroup Investments. One can also obtain additional information on Nedgroup Investments products on our website.

DISCLAIMER

Unit trusts are generally medium to long-term investments. The value of your investment may go down as well as up. Past performance is not necessarily a guide to future performance. Nedgroup Investments does not guarantee the performance of your investment and even if forecasts about the expected future performance are included you will carry the investment and market risk, which includes the possibility of losing capital. Our funds are traded at ruling prices and can engage in borrowing and scrip lending.

Some funds may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks, which could include foreign exchange risks, market conditions and macro-economic and political conditions.

A fund of funds may only invest in other funds, and a feeder fund may only invest in another single fund, both will have funds that levy their own charges, which could result in a higher fee structure.

The Nedgroup Investments Money Market Fund offering aims to maintain a constant price of 100 cents per unit. A money market fund is not a bank deposit. The total return to the investor is made up of interest received and any gain or loss made on any particular instrument held. In most cases the return will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of a capital loss. Excessive withdrawals from the fund may place the fund under liquidity pressures and that in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. The yield is calculated using an annualised seven day rolling average as at the relevant dates provided for in the fund fact sheet. Nedgroup Investments has the right to close its funds to new investors in order to manage it more efficiently.

NEDGROUP INVESTMENTS CONTACT DETAILS
Tel: 0860 123 263 (RSA only)
Tel: +27 21 416 6011 (Outside RSA)
Email: info@nedgroupinvestments.co.za
For further information on the fund please visit: www.nedgroupinvestments.co.za

OUR OFFICES ARE LOCATED AT
Nedbank Clocktower, Clocktower Precinct, V&A Waterfront, Cape Town, 8001
WRITE TO US
PO Box 1510, Cape Town, 8000
DATE OF ISSUE
16 October 2019