PRIVATE WEALTH PROPERTY EQUITY FUND

Q3 2020

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MARKET REVIEW

The listed property sector (as measured by the All Property Index) posted a disappointing -15,40% return in the third quarter of 2020. Property stocks that reported in the quarter continued to deliver anaemic, if any, distribution growth. Growthpoint Properties was one of the large cap stocks that reported its full year results. It delivered -16,0% and -19,4% growth in distributable income per share and SA REIT FFO per share respectively. The negative performance reflects a tough operating environment which was exacerbated by Covid-19 related lockdown restrictions that disrupted trading in the second quarter. Given the challenging macro backdrop, balance sheet strength and liquidity remain key focus areas for the business and are expected to be paramount for the foreseeable future. Accordingly, Growthpoint announced a 79,74% dividend pay-out ratio for FY20, which is lower than the 100% that shareholders have become accustomed to over the years. We expect most property counters to also prioritise balance sheet strength over paying dividends over the medium-term, whilst also maintaining REIT status. This balancing act will prove to be challenging but is nonetheless necessary to ensure the sustainability of the sector.

FUND PERFORMANCE

The All Property Index (J803) delivered a -15,40% return over the third quarter of 2020. The Nedgroup Investment Private Wealth Property Equity Fund returned -17,95% over the period, underperforming its benchmark.

The top contributors to performance over the quarter were the overweight position in Fairvest Property Holdings (+1,09%) and the underweight position in Redefine Properties (+0,82%). The main detractor to performance was the overweight position in Hammerson Plc (-3,47%). Hammerson announced and concluded a revised recapitalization plan in the period after the unsuccessful sale of its retail parks. The plan comprised of two inter-conditional components: a GBP552m rights issue (GBP524m net), and the sale of its 50% interest in Via Outlets to APG for GBP301m (GBP269m net). The rights offer was heavily discounted at a 94.6% discount to Hammerson's LSE closing price as at 5 August 2020 (last date prior to announcement) of 279.80p (JSE: R63.50), and at a 41.4% discount to the theoretical ex-rights price of 25.59p per new share (JSE: R5.81) on the same day. Proceeds will be used to settle revolving credit facility debt (GBP568m) and, potentially, the private placement senior notes (GBP248m). Net debt is expected to reduce to GBP2.2bn post the recapitalisation, which would imply a 42% LTV ratio (1H20: 51%). The gearing ratio is expected to reduce to 57% (1H20: 98%) which compares favourably to the gearing covenant of 150%.

FUND POSITIONING AND OUTLOOK

While property shares look more attractively priced today than they did a year ago, we remain cautious given the persistently weak sector fundamentals that we now expect to worsen due to the pandemic. We are particularly concerned with the sector's stretched balance sheets which are as a result of aggressive offshore expansions. The fund continues to maintain large overweight positions in stocks that have relied more on fundamental drivers of income growth than on once-off gains, and to those that have healthy balance sheets. The fund manager is of the view that defensive and prudently managed portfolios, at appropriate prices, will deliver superior performance over the medium-term compared to peers that trade at similar valuations but on lower quality income streams. The fund is also well diversified, with sizeable exposures to Central and Eastern Europe, and to the UK, which will assist in limiting SA specific risks. The fund maintains a sizeable cash balance that it will used to capitalise on select, attractively priced, opportunities.