NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS
Property Fund
Quarter Three, 2020

Nedgroup Investments Property Fund

Performance to 30 September 2020	Fund[1]	Benchmark[2]	Index[3]
3 months	-12.5%	-14.9%	-14.1%
12 months	-39.9%	-44.3%	-46.1%

Market Overview

It was another difficult quarter for South Africa's listed property sector, which significantly underperformed both the South African equity and bond markets. Commercial real estate has been significantly impacted by the Covid-19 pandemic and investor sentiment towards South African REITs is at an all-time low. Office and mall landlords have been particularly hard hit as many companies continue to work from home, while more consumers shop online. The FTSE/JSE SA Listed Property (SAPY) index tumbled a further 14.9% in the third quarter and is now down more than 46% since the start of the year.

Balance sheet strength has become topical for investors as property values fall and debt covenants are breached. Lower interest rates are helping improve cash flows, but loan-to-value ratios have spiked on the back of these lower property values. Recycling capital (i.e. disposing of properties and using the proceeds to either pay down debt or spend on maintenance capex) is difficult in the current environment as there are very few buyers for commercial real estate right now.

Despite all the doom and gloom for office and mall landlords, there are sectors that continue to do well notwithstanding the weaker economic backdrop and uncertainty around Covid-19. Distribution warehousing and self-storage are two sectors that are expected to benefit from the shifts in consumer behaviour. Neighbourhood and convenience retail in rural areas and townships has remained resilient throughout the lockdown, with most retailers reporting growth in sales year-on-year in stores in these centres. Fairvest Property Holdings' results for the year ended 30 June 2020 reflect this relative resilience, as dividends were only 3.4% lower than a year ago, while Growthpoint Properties, over the same period, reported a 33% decline in dividends on the back of weaker distributable earnings and a reduction in the pay-out ratio to 79.7%.

Portfolio Commentary

During the third quarter, the Nedgroup investments Property Fund outperformed both the SAPY index and the peer group. The outperformance was driven primarily by the Fund's investments in rural retail (Fairvest and Safari Investments) and distribution centres (Equites Property Fund). The Fund also disposed of a portion of its Grit Real Estate Income Group stake as part of the company's delisting from the JSE. The price achieved was significantly higher than the market price at the time of the announcement and made a meaningful contribution to the performance of the Fund in the third quarter. The Fund used the proceeds to re-establish a more meaningful allocation to Equites Property Fund. The Equites position had been lightened during 2019 when the price topped out at R21 per share and the forward income yield had dropped to just 6%. The share price had pulled back to R16 during the quarter, offering investors an attractive entry yield of 10% for a high-quality portfolio of distribution centres in South Africa and the UK.

The third quarter distribution, as expected, was low due to Accelerate not paying a dividend and fewer companies reporting results during the quarter. The fourth quarter distribution is expected to be substantially larger due to a higher number of companies reporting as well as the receipt of interim dividends that were not paid earlier in the year during the height of the lockdown in South Africa.

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

The SAREIT Association had approached the JSE and the FSCA to request various forms of relief that included deferring the final date by which REITs are required to pay their dividends and paying a limited or no dividend at all without prejudicing their REIT status. While REITs with year-ends up until the end of September 2020 can delay the payment of their dividends by two months (i.e. six months after year-end instead of four months), they are required to pay out at least 75% of their distributable earnings. This means that dividends that were not paid in the second and third quarters will now have to be paid to bring the pay-out ratio up to at least 75% in order to maintain their REIT status.

Top 5 winners and losers for Q3 2020:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Indluplace	8.69%	1.01%	**Grit (LSE)**	6.65%	-3.22%
Safari	11.49%	0.64%	**Accelerate**	6.15%	-2.49%
Fairvest	13.03%	0.61%	**Dipula B**	4.05%	-1.46%
Grit (JSE)	2.87%	0.56%	**Delta**	2.73%	-1.19%
Equites	2.58%	0.13%	**Tower**	9.41%	-1.08%
TOTAL		2.95%	**TOTAL**		-9.44%

Source: Bridge Fund Managers

Current positioning and outlook

The Fund positioning and outlook have not changed significantly from the previous quarter. The Fund continues to favour investments in property types that are becoming increasingly more relevant and avoids investments, where possible, in those property types where the economic and social headwinds are the most severe. As a result, the Fund has maintained a very low exposure to large malls and P-grade and A-grade offices, favouring instead investments in neighbourhood and convenience retail in rural areas and townships, as well as distribution centres and warehouses. The Fund also has significantly lower offshore exposure than the SAPY index, since the bulk of that exposure is in Eastern European malls that are likely to suffer from a second round of lockdowns during the northern hemisphere winter and the traditionally busiest shopping months of November and December. By way of example, Bucharest, the capital of Romania, has recently announced the closure of all indoor restaurants, theatres, cinemas gambling and dance venues as the country reported a record high 2,985 COVID-19 infections in a single day. The Fund's offshore exposure is predominantly in distribution centres and self-storage units in the UK.

Distributions from the Fund in 2020 are expected to be approximately 35% lower than in 2019, but from this lower base, investors can expect distributions to grow at or above inflation in 2021 and 2022. The one year forward income yield is now back above 15% and the FSCA's ruling on minimum pay-out ratios will create more certainty for income dependant investors who have avoided the sector recently, following the large capital drawdowns. Given the low yields on cash on shorter dated, less risky bonds, the high initial income yields on South African REITs, together with the potential for inflation-beating growth in that income stream should make listed property a cornerstone of every retirement income plan.

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.
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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.

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