NEDGROUP INVESTMENTS

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# NEDGROUP INVESTMENTS
# Property Fund
## Quarter One, 2021

## Nedgroup Investments Property Fund

| Performance to 31 March 2021 | Fund[1] | Benchmark[2] | Index[3] |
|---|---|---|---|
| 3 months | 6.0% | 7.3% | 6.4% |
| 12 months | 30.3% | 32.0% | 34.4% |

**Market Overview**

The first quarter of 2021 was positive for South African equity investors as the MSCI SA index gained more than 10% in US dollars and was one of the best performing markets globally. The rand was also one of the best performing currencies in the first quarter, depreciating slightly against a very strong US dollar. Globally, there is growing optimism that the rollout of vaccines and immunisation against COVID-19 will accelerate the reopening of economies and lead to sustainably higher economic activity. While countries like Brazil, India and most of the European Union battled a third wave of infections, the United States and the United Kingdom have already vaccinated a significant portion of their populations and have been able to accelerate their immunisation programmes in recent weeks. The improved outlook for growth, coupled with accommodative monetary policy and unprecedented levels of fiscal stimulus is fuelling fears of a spike in inflation from the second half of this year. This resulted in a sharp increase in global government bond yields and a rotation out of long duration (i.e. growth) equities.

In the United States, President Joe Biden signed his $1.9 trillion American Rescue Package into law during March, which follows on the heels of the $900 billion COVID Relief package signed into law by President Donald Trump at the end of last year. US GDP growth, boosted by fiscal stimulus, is likely to accelerate to around 6% in 2021 and help the global economy expand by approximately 6.5%. China's economic growth is likely to be hampered by the deleveraging of the financial sector but is still expected to come in at just below 10% this year. Central bankers around the world remain committed to lower official interest rates as well as quantitative easing to help support the global economy as it recovers from the effects of the pandemic.

In South Africa, a slew of better-than-expected economic data releases resulted in upgrades to economic growth forecasts, with the South African economy now expected to expand by just under 4% in 2021. Manufacturing production is expanding at a faster rate, while the sharp increase in commodity prices has resulted in significantly higher tax collections. The South African consumer also appears to be in a healthier position than previously estimated, with household savings as a percentage of disposable income increasing to 15-year highs in the fourth quarter of last year. Offsetting the positive economic data, as well as an improved political backdrop, has been the slow rollout of vaccines in South Africa and the threat of a third wave of infections towards the end of the second quarter.

Against this global and domestic economic backdrop South Africa's listed property sector continued to claw back last year's steep price declines, gaining just over 6% during the quarter. Among the standout performers was Dipula B (+35.5%), which went under cautionary during the month. Attacq, Rebosis and Tower Property Fund also went under cautionary, suggesting the steep discounts to net asset value on offer in the South African listed property sector are now attractive enough to encourage corporate activity. Dividend growth in the sector remains lacklustre but is expected to improve dramatically in the second half of the year, given the low base created during the height of the lockdown in April and May last year.

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

**Portfolio Commentary**

During the quarter, the Fund re-introduced a small position in Emira Property Fund following the publication of the company's FY2020 results. The management team at Emira have spent the past 5 years improving the overall quality of the company's property portfolio and expanding into new markets like residential and convenience retail in both South African and the United States. At the same time, they have been disposing of their office portfolio and offices now represent less than 25% of the total portfolio by value.

The Fund's first quarter distribution was quite low because Dipula B opted not to a pay a dividend in FY2020, while Tower Property Fund opted to delay the payment of their 2021 interim dividend until later in the year. Distributions are expected to pick up markedly from the second quarter and the Fund has already received a dividend from Fairvest (the Fund's largest holding) in that regard.

As described, several of the Fund's holdings are currently trading under cautionary and although no formal offers have been received, corporate activity is likely to drive a significant re-rating of some of the smaller companies in the Fund.

**Top 5 winners and losers for Q1 2021:**

| Top contributors | Average weight | Performance contribution | Top detractors | Average weight | Performance contribution |
|---|---|---|---|---|---|
| **Fairvest** | 13.89% | 1.81% | **Accelerate** | 5.56% | -0.70% |
| **Dipula B** | 5.36% | 1.65% | **Octodec** | 4.70% | -0.27% |
| **Indluplace** | 9.25% | 0.71% | **Grit** | 7.36% | -0.13% |
| **Tower** | 7.95% | 0.68% | **Stor-Age** | 7.93% | -0.09% |
| **Safari** | 11.82% | 0.61% | **Redefine** | 0.78% | -0.08% |

**Current positioning and outlook**

The Fund continues to invest predominantly in convenience retail, warehouses, self-storage and residential, where property fundamentals remain intact notwithstanding the impact of the pandemic in 2020. This has meant that many of the larger listed property companies, like Growthpoint and Redefine, which invest predominantly in offices and large shopping centres, have not featured prominently in the portfolio, if at all. The rollout of a vaccine is levelling the playing fields for office and mall landlords and some rotation away from convenience retail into offices and shopping centres is expected in the portfolio during the second and third quarters this year. The pace of the rotation will depend on the speed at which governments around the world (and the South African government in particular) roll out their vaccination programmes and the efficacy of the vaccines in curbing the spread of COVID-19.

While the outlook for dividends remains clouded by the ongoing impact of COVID-19 relief for certain categories of tenants, most landlords have reported a steady increase in rent collection rates. The hospitality, entertainment and fitness categories remain under pressure and are likely to continue to require support from landlords, but with companies slowly returning to their offices and retail sales accelerating, the listed property sector is likely to enjoy strong cash flow growth in 2021, given the very low base created in 2020. While a few companies have reverted back to paying out 100% of their distributable earnings to shareholders, most companies are expected to adopt a lower dividend payout ratio over the next 2 to 3 years, to strengthen balance sheets and meet capex requirements. Based on a combination of Bloomberg, FactSet and IRESS consensus forecasts, the one-year forward yield on the South African listed property sector is currently 9.6%, while the one-year forward yield on the Nedgroup Investments Property Fund, based on those same consensus forecasts is currently 13.7%.

# 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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