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NEDGROUP INVESTMENTS
Property Fund
Quarter Three, 2021

Nedgroup Investments Property Fund

Performance to 30 September 2021	Fund[1]	Benchmark[2]	Index[3]
3 months	9.7%	6.2%	5.9%
12 months	60.0%	55.1%	54.4%

Market Overview

The defining moment for South African financial markets and the country's listed property sector during the third quarter was the civil unrest, looting and vandalism that took place in most of KZN and parts of Gauteng at the beginning of July. Within a matter of days, inventory was looted or destroyed and properties were burnt or severely damaged, with total losses estimated at R25 billion. In KZN, 161 shopping centres, 11 warehouses and 8 factories suffered extensive damage, while approximately 30 shopping centres were looted and/or damaged in Gauteng. The FTSE/JSE SA Listed Property (SAPY) index declined by 6% in the 5 business days following the start of the civil unrest but managed to claw back some of those losses by the end of the month as clean-up operations commenced and companies reported the extent of the damage to their own portfolios. Given the sectors low exposure to KZN and the fact that many of the damaged properties were privately owned, by the end of August, the sector was back in positive territory for the quarter and by the end of September, the SAPY was up almost 6% as investor attention was once again focussed on the improving dividend outlook for property companies and the prospect of further corporate action in the sector.

Investors also appeared to ignore the higher bond yield environment in both South Africa and globally. Bond yields rose and the yield curve steepened in South Africa as inflation expectations continued to tick higher on the back of surging commodity prices (particularly the energy complex) and supply chain disruptions. Inflation is now well above central bank targets and monetary policy, which is currently extremely accommodative, is likely to tighten in the coming quarters as policy makers attempt to control inflation.

Portfolio Commentary

During the third quarter, the Fund disposed of the bulk of its holding in Safari Investments. Safari has been a core holding in the portfolio for quite some time, given its exposure to well-located community and neighbourhood shopping centres in Atteridgeville, Mamelodi and Sebokeng. The Fund received and accepted an offer from Heriot REIT to acquire the shares at R5.60 plus a 25c dividend. The R5.85 all-in price, while representing a discount to net asset value, was more than 60% above the market price of R3.60. The Fund still has a small exposure to Safari of just under 1% of the Fund NAV.

The proceeds of the Safari disposal were invested across a spectrum of medium and larger listed property companies, including Emira, Fortress A, Growthpoint, Investec Property Fund, NEPI Rockcastle, Resilient and SA Corporate. The proceeds were also used to increase the Fund's exposure to Equites and Stor-Age. While the smaller and medium-sized companies in the sector continue to offer the best value, the Fund has already exhausted its regulated capacity to own those companies. The income yield achieved on the sale of the Safari holding is lower than the weighted yield of the securities purchased with the proceeds and as a result, the overall yield and income prospects for the Fund improved, as did the overall liquidity of the portfolio (Safari was the most illiquid position in the Fund, given its large weight in the Fund and the company's limited free float).

[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 repositioning of the portfolio into the likes of Fortress A and Investec Property Fund, as well as up-weighting the Fund's exposure to Equites, has resulted in a material increase in the Fund's exposure to logistics properties in South Africa, Europe and the UK. Warehousing throughout the world remains in a structural up-turn with demand for logistics space outstripping supply and this dynamic in likely to remain in place for at least the next 3 to 5 years. As a result, market rentals are expected to grow more than inflation and developers like Equites are likely to enjoy significant capital upside on completed developments. This combination of income and NAV growth make these businesses extremely attractive to investors in the medium-term.

The Fund is expected to dispose of its entire stake in Tower Property Fund during the 4th quarter, following a R4.00 per share offer from RDC Properties which is supported by the bulk of Tower's institutional shareholders. Resilient have offered to inject R1 billion into Dipula through a combination of a 50% share in Circus Triangle Mall in Umtata and R600m in cash. Dipula is also looking to collapse the A & B share class structure as part of the Resilient transaction and the combination of these initiatives, which have not received shareholder support yet, saw the Dipula B share price rally sharply in the 3rd quarter.

Top 5 winners and losers for Q3 2021:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Safari	4.20%	2.60%	**Indluplace**	6.80%	-0.95%
Accelerate	5.60%	2.28%	**Grit**	4.87%	-0.56%
Fairvest	10.32%	1.07%	**Rebosis**	1.12%	-0.11%
Dipula B	8.41%	0.98%	**Growthpoint**	1.57%	-0.10%
Equites	6.45%	0.66%	**Spear**	5.53%	-0.09%
		7.59%			**-1.81%**

Current positioning and outlook

Although the Fund's exposure to convenience and neighbourhood shopping centres has reduced following the sale of the bulk of the Safari holding, the Fund continues to adopt a thematic approach to portfolio construction, emphasising convenience and neighbourhood retail (predominantly through Dipula, Fairvest & Safari), logistics properties (predominantly through Equites, Fortress A, Investec Property Fund and Spear) and self-storage (through Stor-Age). The Fund has very little exposure to large shopping malls and the bulk of the Fund's office exposure is let to government that continues to require that space and paid rent throughout the various levels of lockdown over the past 18 months.

The Fund also has a geographic bias to the Western Cape in South Africa, and South Africa over other regions in the world. The Fund's current exposure to South Africa is just under 80%, while the SAPY index has only 46% exposure to South Africa and more than 30% to Central and Eastern Europe. This approach to portfolio construction, favouring relevant themes and property fundamentals over the size and make-up of the various market benchmarks, means the Fund can and does look very different to the market and the peer group, which has contributed to significant out-performance in 2020 and so far in 2021 as the pandemic has accelerated the rapidly emerging trends of online shopping (negative for large malls but positive for logistics properties and self-storage) and changing office behaviour (work-from-home and hybrid models).

Based on a combination of Bloomberg, FactSet, IRESS and Counterpoint forecasts, the current one-year forward yield on the Fund is 12.8%, with growth in that income likely to match inflation over the next 2 to 3 years, although any further lockdowns will negatively impact that growth outlook. The current one-year forward income yield of the SAPY index, based on the same forecasts, is 8.6% while the yield on government's benchmark R2030 bond is 9.4%.

Despite the strong recovery in 2021 (+35.6% year to date for the Fund and +26.4% for SAPY), the sector remains well below pre-pandemic levels and average discounts to net asset value remain wide. While the SAPY yield is now below the yield on longer-dated SA government bonds, almost 55% of the SAPY index is invested in markets where bond yields are between 0% and 2%. The current forward yield of 12.8% on the Fund more accurately reflects the relative value of South African listed property companies, which continue to offer long-term value, particularly for income-dependant investors who need to look beyond cash (and even bonds) to meet their income needs

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
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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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