NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS
Property Fund
Quarter Four, 2021

Nedgroup Investments Property Fund

Performance to 31 December 2021	Fund[1]	Benchmark [2]	Peer group[3]
3 months	9.9%	8.3%	8.6%
12 months	49.04%	36.9%	37.9%

Market Overview

The FTSE/JSE SA Listed Property (SAPY) index returned 8.3% in the fourth quarter and 36.9% in 2021. Coming off an extremely low base following steep price declines in 2020, South Africa's listed property companies enjoyed a strong price recovery throughout 2021 with all four quarters registering positive returns of 5% or more. As lockdown restrictions were eased, consumers started returning to malls, people slowly returned to working from offices again and investor confidence in the property sector improved throughout the year. The resumption of regular dividend payments, albeit at lower payout ratios, was also a contributing factor to the sector's recovery in 2021. Higher bond yields and a 25 basis points increase in official interest rates following the conclusion of the MPC's November policy meeting failed to dampen enthusiasm for the sector during the fourth quarter.

The prospect of increased levels of corporate activity in 2022 also appeared to fuel investor appetite for listed property following the announcement by Redefine Properties of a share-for-share offer to acquire all the remaining shares in EPP not already owned by Redefine. Fairvest Property Holdings' shareholders approved the merger between Fairvest and Arrowhead Properties by way of a scheme of arrangement, with Arrowhead's shareholders expected to approve the scheme in January. The acquisition of Tower Property Fund by RDC Properties was approved and concluded during the fourth quarter, helping sustain the rally in many of the smaller listed property companies that are trading at large discounts to net asset value and that offer significant upside if taken private.

Portfolio Commentary

The Fund outperformed the peer group and the market in both the fourth quarter and 2021 as a whole. The significant outperformance during 2021 was driven primarily by the Fund's higher allocation to smaller listed property companies that re-rated on the prospect of corporate action. The Fund's large positions in Safari Investments (sold to Heriot REIT at a ±65% premium to market price), Tower Property Fund (sold to RDC Properties at a ±70% premium to market price when the deal was announced), Dipula B (+223.2% in 2021) and Arrowhead B (+106.9% in 2021) were all beneficiaries of actual or expected corporate action during the year.

The sale of both the Safari and Tower positions has necessitated a change in the composition of the portfolio as their combined weight, boosted by the substantial price appreciation they enjoyed in 2021, was more than 20% of the Fund. With no new listings of SA REITs since Liberty Two Degrees in November 2016 and with the Fund's current high exposure to smaller and medium-sized listed property companies, the bulk of the proceeds have been invested in Fortress A, Growthpoint Properties, NEPI Rockcastle, Resilient REIT and Redefine Properties. The combined weight of these 5 companies in the Fund is now just under 15%, which is still extremely low relative to their combined weight of approximately 57% in the SAPY index, where they are the 5 largest constituents of that index.

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

The Fund's exposure to Emira Property Fund, Investec Property Fund, SA Corporate Real Estate Fund and Vukile Property Fund was also increased with the proceeds of the Safari and Tower disposals, while the Fund's investment in Equites Property Fund and Stor-Age Property REIT were maintained well above their SAPY index weights. Safari and Tower represented the most illiquid positions in the Fund and following their disposal and the acquisition of larger, more liquid securities, the overall liquidity of the portfolio has improved significantly.

Top 5 winners and losers for Q4 2021:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Spear	5.53%	1.49%	**Grit**	3.99%	-0.25%
Equites	7.58%	1.14%	**Fortress A**	2.26%	-0.22%
Indluplace	6.05%	1.01%	**Octodec**	3.81%	-0.07%
Delta	2.84%	0.95%			
Dipula B	8.30%	0.93%			
		5.52%			**-0.54%**

Top 5 winners and losers for calendar year 2021:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Dipula B	7.30%	10.09%	**Grit**	5.62%	-1.20%
Safari	6.94%	4.70%	**Fortress A**	1.00%	-0.16%
Arrowhead B	5.15%	4.55%			
Tower	8.65%	4.29%			
Accelerate	5.77%	4.07%			
		27.7%			**-1.36%**

Current positioning and outlook

While the sale of Safari has reduced the Fund's exposure to convenience and neighbourhood shopping centres and the sale of Tower has reduced the Fund's exposure to the Western Cape, a thematic approach to portfolio construction remains a feature of the Fund. The Fund's largest exposure remains to convenience and neighbourhood shopping centres, with very little exposure to regional and super-regional shopping centres, although this exposure has increased slightly following the addition of Growthpoint, NEPI Rockcastle, Redefine and Resilient to the portfolio in the second half of 2021. The Fund has also maintained a high exposure to logistics properties (through Equites and Investec Property Fund) and self-storage properties (through Stor-Age).

The Fund's office exposure is primarily to government-tenanted properties, with government expected to continue occupying the same amount of space post-pandemic as it did pre-pandemic. Government has also paid rent throughout the pandemic, while many corporates negotiated rent deferrals and/or discounts in 2020 and 2021. The Fund's overall exposure to office remains below market and is expected to remain at these lower levels given the sector's rising vacancy rate and expected lower market rentals forecast for the next 3 to 5 years.

Following the sale of Tower, the Fund's exposure to South Africa has increased to 82% from below 80% at the end of the third quarter (Tower had a significant property portfolio in Croatia). This is well above the SAPY index where exposure to South Africa is now just 46%, with 30% exposure 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. This differentiation has contributed to the Fund's significant outperformance in 2020 and 2021 as the pandemic accelerated the rapidly emerging trends of online shopping (negative for large shopping malls but positive for logistics and self-storage properties) 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 11.2%, with growth in that income likely to exceed inflation over the next 2 to 3 years, although any further lockdowns and/or trading restrictions will negatively impact that growth outlook. The current one-year forward income yield of the SAPY index, based on the same forecasts, is 7.5% while the yield on government's benchmark R2030 bond is 9.4%.

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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