PRIVATE WEALTH PROPERTY EQUITY FUND

Q2 2022

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MARKET REVIEW

The listed property sector, as measured by the All Property Index (J803), posted a -12.06% return in the second quarter of 2022. Domestic property counters were not spared as global markets pulled back in the period. The sharp correction was due to a confluence of factors including interest rate hikes on the back of higher inflation prints in most regions of the world, as well as heightened risk of a global recession. Locally, increased loadshedding cast a cloud on the prospects of a near-term recovery in the economy, and in the property sector. The ongoing Russia-Ukraine war also continues to have a more direct impact on the performance of the J803, and of the fund, due to the exposure to counters with operations in the Central and Eastern European (CEE) region. The CEE region collectively accounts for c.20% of the fund (J803 Benchmark: c.27%). While this exposure is significant, it is worth noting that it is spread across several countries. Further, c.98% of the exposure is to countries that are a part of NATO. Serbia, which is the only country that is not a part of NATO, constitutes c.2% of the fund's c.20% CEE exposure. This exposure is primarily through the NEPI Rockcastle holding. NEPI has communicated to the market that it is seeking to reduce its exposure to Serbia; two assets were sold in FY21.

Even with the ongoing macro and geopolitical challenges, a few counters delivered exceptional results in the quarter. Vukile reported its full year results and delivered strong growth in net property income (NPI) of 19.3% (17.7% like-for-like), which was supported by robust portfolio metrics. Excluding the impact of Covid-19, NPI grew by 3.5% lfl. Vacancies reduced to 2.9% in SA (FY21: 3.9%) and to 1.6% in Spain (FY21: 1.7%), while rental reversions in the retail portfolios were positive in both markets (SA excluding East Rand Mall 1.7%, Spain 3.1%). Including East Rand Mall reversions were -2.4% in the SA portfolio, highlighting asset-specific challenges. The strong NPI growth was however offset by higher finance costs due to the conversion of EUR debt to ZAR debt, and to the increase of the ZAR base rate. Lower interest income also negatively impacted distributions. Net interest received from cross currency interest rate swaps (CCIRS) reduced by c.44% due to the settlement of a portion of the CCIRS. The remaining CCIRS will be settled at maturity in June 2022. Vukile delivered 4.8% growth in distributable income per share, supported by the growth in NPI. It adopted a 77% pay-out ratio in the period.

Stor-Age also delivered strong growth in distributable income per share of 7.5%, which was driven mainly by positive NPI growth of 16.7%. Same store rental income grew by 10.0% (3.3% occupancy, 6.5% rental rates) in SA, and by 21.2% (11.7% occupancy, 8.5% rental rates) in the UK. The strong NPI growth was however offset by the impact of a higher-than-normal tax charge in the UK, and by the reduction of the use of CCIRS in the period. The increased tax charge was because of a change in the UK tax laws whereby companies which were subject to tax under the Non-Resident Landlord Scheme, have now become subject to Corporate Tax (effective April 2020). There were insufficient tax losses available in the period to offset the impact of the increased tax charge as they were utilised in FY21. Stor-Age delivered 5.5% growth in dividends per share, supported by the growth in NPI.

FUND PERFORMANCE

The All Property Index delivered a -12.06% return in the second quarter of 2022. The Nedgroup Investment Private Wealth Property Equity Fund returned -9.01% over the period, outperforming its benchmark.

The top contributors to performance over the quarter include overweight positions in Safari Investments (+0.55%), Octodec Investments (+0,54%) and Dipula Income Fund (+0.46%), and the underweight position in Sirius Real Estate (+0.40%). The main detractors to performance were the underweight position in Investec Australia Property (-0.35%) and the overweight position in Hammerson (-0.35%).

FUND POSITIONING AND OUTLOOK

The property sector continues to recover from its low of 2020. Increased loadshedding may however delay the return to more robust economic growth which is necessary to correct the supply imbalance in most commercial property sub-sectors. Progress has been made by the industry to repair balance sheets over the last few months. A handful of property companies are now using their relatively strong balance sheets to pursue M&A activity. Many of the property counters however remain cautious given the weak sector fundamentals, choosing rather to maintain the headroom on their balance sheet. 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 to long-term compared to peers that trade at similar valuations but on lower quality income streams. The fund continues to also be positioned for various outcomes as outlined in the table below. This prudent approach has served investors well in periods of extreme market drawdowns as was the case in the second quarter, and YTD.

SA low road	SA status quo	SA high road	CEE growth (SA low road)	UK recovery (SA low road)
Cash NGI Global Property Fund	Resilient Vukile Fairvest Storage Equites Fortress A Investec Attacq	Octodec Growthpoint Redefine Hyprop Fortress B Dipula B Tsogo	NEPI MAS	Capco Hammerson