NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS
Property Fund
Quarter Two, 2022

Nedgroup Investments Property Fund

Performance to 30 June 2022	Fund[1]	Peer group[2]	Index[3]
3 months	-4.7%	-11.5%	-11.6%
12 months	9.6%	-0.1%	0.2%

Market Overview

Investors are becomingly increasingly concerned about global growth prospects as central banks around the world respond to decades-high inflation by raising official interest rates aggressively. The US Federal Reserve raised interest rates by 0.75% following the conclusion of their June policy meeting, having already hiked interest rates by 0.25% and 0.50% at their two previous meetings in 2022. US consumer inflation has spiked to 9.1%, the highest level in 40 years, prompting speculation that the Fed will hike by a full 1% at their next policy meeting at the end of July. The global growth outlook is also clouded by the ongoing conflict in Ukraine and the impact of the sanctions imposed on Russia, as well as continued lockdowns in China to curb the spread of COVID-19. The International Monetary Fund (IMF) recently cut their growth forecast for the US to just 2.3% in 2022. At the beginning of the year, the IMF had forecast the US economy would grow by more than 5% in 2022, highlighting the magnitude of the slowdown.

Against this backdrop, South African bond yields rose sharply during the second quarter and listed property prices fell in response to rising discount rates and the higher cost of capital. A slowing global economy is likely to place further pressure on property fundamentals, particularly for office and retail landlords, although there have been very few earnings downgrades in the sector given the contractual nature of the rental income streams. The other property types, like warehousing and self-storage, are expected to weather the storm a bit better although if discount rates continue to rise, those share prices are also likely to come under pressure.

Portfolio Commentary

The Fund out-performed the peer group and the market in the second quarter of 2022. The outperformance during the second quarter was driven primarily by the Fund's large position in Accelerate Property Fund. The company announced the resumption of dividend payments at the end of their 2022 financial year and the share price responded by rising 30%. The company has disposed of its European retail portfolio and significantly reduced their loan-to-value ratio, placing it in a position to bolster shareholder returns through dividend payments. Safari Investments remains a target for Heriot REIT. During 2021, the Fund disposed of most of its investment in Safari Investments to Heriot at a significant premium to the market price. Heriot is now making that same offer to all shareholders a year later, during which time the Fund has been able to put those proceeds to good use. Octodec Investments announced the payment of an interim dividend, their first since May 2019. Once again, the market responded positively to the news as well as confirmation from management that the large vacancies that had impacted profitability during 2020 and 2021 were now being filled, particularly the student accommodation in Hatfield as learners returned to classes.

During the quarter, the Fund started adding a small position in Fortress B in order to hedge against a possible transaction to collapse the dual capital structure of the company (the Fund already had a position in Fortress A). The share price of Fortress B rallied more than 15% hours after the Fund started to accumulate its position and that purchase has been put on hold until such time as there is more clarity on the terms of the proposed capital restructuring. No other positions were added, while the Equites position was lightened slightly following a very strong run in the share price, particularly against a backdrop of slowing global economic activity and higher implied discount rates.

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

Top 5 winners and losers for Q2 2022:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Accelerate	6.94%	1.29%	**Equites**	7.19%	-1.52%
Grit	3.96%	0.07%	**Delta**	2.90%	-1.01%
Octodec	4.11%	0.05%	**Indluplace**	6.22%	-0.98%
Safari	1.01%	0.04%	**SA Corporate**	3.19%	-0.65%
Fortress B	0.01%	0.00%	**Spear**	9.15%	-0.50%
Total		*1.45%*			*-4.66%*

Current positioning and outlook

Despite last year's sale of Safari (which reduced the Fund's exposure to convenience and neighbourhood shopping centres) and the sale of Tower (which 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 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 the market average and is expected to remain at these lower levels given the sector's expected lower market rentals forecast for the next 3 to 5 years, even though most companies now appear to be returning to their offices.

The Fund's geographic exposure remains heavily weighted towards South Africa (80%) versus the SAPY index weight of just 49.0%. The SAPY index weight has increased since the end of last year following the exclusion of EPP and Industrials REIT (both with 100% offshore exposure) from the index and the inclusion of Fairvest in the index.

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 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). That outperformance has continued in 2022, with the Fund outperforming the SAPY index by more than 3% so far this year.

Based on a combination of Bloomberg, FactSet, IRESS and Counterpoint forecasts, the current one-year forward yield on the Fund is 12.3%, with growth in that income likely to approximate 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 9.4% while the yield on government's benchmark R2030 bond is 11.0%.

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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