NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS Property Fund

Quarter Three, 2022

Nedgroup Investments Property Fund

Performance to 30 September 2022	Fund[1]	Peer group[2]	Index[3]
3 months	-2.1%	-3.8%	-3.5%
12 months	-2.2%	-9.5%	-8.7%

Market Overview

A combination of increasing geopolitical risks, tighter monetary policy and slowing economic growth weighed on investor sentiment in the third quarter of 2022. Ukrainian troops have begun to reclaim Russian-occupied territory in Eastern Ukraine, which prompted Russian President, Vladimir Putin, to send more Russian troops into Ukraine, prolonging the conflict and creating uncertainty in global energy markets ahead of the northern hemisphere winter. Combined with tight labour market conditions in most developed countries, higher energy prices have caused a sharp spike in global inflation, prompting central banks to tighten monetary policy. The US Federal Reserve has raised official interest rates in the United States by 300 basis points since March, with the market expecting a further 75 basis point increase when the monetary policy committee meets again at the beginning of November. This rapid response to higher inflation by central banks is putting significant pressure on highly-indebted consumers and global economic growth is forecast to continue slowing as we move into 2023.

Global bond yields continued rising sharply in the third quarter in response to stubbornly high inflation and tighter monetary policy. In the United States, the yield on 10-year Treasuries rose more than 80 basis points to 3.83%, while the yield on 2-year Treasuries rose 135 basis points to 4.28% in response to higher official interest rates. In the United Kingdom, the yield on 10-year gilts rose 185 basis points to 4.09%. They did briefly touch 4.50% during September after new Chancellor of the Exchequer, Kwasi Kwarteng, announced a set of economic policies that included a cut in the basic income tax rate, as well as the abolition of the 45% higher rate of income tax and the freezing of energy bills without addressing how these revenue cuts would be funded. (*note that post-quarter end and the writing of this commentary, Kwasi Kwarteng was removed from this post).*

Against this backdrop, South African bond yields rose sharply during the third 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 their rental income streams. The steep rise in discount rates is also likely to place downward pressure on property values in the short-term, but most of that downside is already reflected in the steep discounts to net asset value that most listed property companies are currently trading at.

Portfolio Commentary

The Fund out-performed the peer group and the market in the third quarter of 2022. The out-performance during the third quarter was driven primarily by the Fund's above-average exposure to convenience and neighbourhood shopping centres as both Dipula (+12.3%) and Fairvest (+3.3%) out-performed the market. Following a merger with Arrowhead earlier in the year, the Fund's exposure to Fairvest had grown to almost 14% at the beginning of the third quarter. The strong relative price action in August presented an opportunity to reduce that exposure to below 10% and redeploy the proceeds into Emira, SA Corporate and Vukile. The Fund also increased its position in Growthpoint following a period of significant relative under-performance and a reasonable set of

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

results for the year ended 30 June 2022. The Growthpoint position, at just 4.7% of the Fund, is well below the company's 19.5% weight in the FTSE/JSE South African Listed Property (SAPY) index.

The Fund disposed of its positions in Fortress A and Fortress B as that company's ongoing REIT status has now been called into question. Fortress is unable to satisfy the income requirements for its A-shareholders and as a result, did not pay any dividends in FY2022 (a condition of REIT status is that 75% of distributable earnings must be paid as a dividend to shareholders). Attempts to collapse the dual share structure failed when enough shareholders voted against the terms of the scheme of arrangement at a general meeting of shareholders in August.

Top 5 winners and losers for Q3 2022:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Dipula B	8.31%	0.91%	**Equites**	6.56%	-0.56%
Fairvest B	12.21%	0.75%	**Indluplace**	5.45%	-0.41%
Octodec	4.40%	0.59%	**Delta**	2.45%	-0.36%
Emira	3.36%	0.55%	**Resilient**	3.38%	-0.30%
SA Corporate	3.37%	0.25%	**Vukile**	5.68%	-0.28%
Total		***3.05%***			***-1.91%***

Current positioning and outlook

Despite the sale of a portion of the Fund's exposure to Fairvest, a thematic approach to portfolio construction remains a feature of the Fund. The Fund's largest single theme exposure remains to convenience and neighbourhood shopping centres in South Africa, with very little exposure to regional and super-regional shopping centres. The Fund has also maintained a high exposure to logistics properties (through Equites and Investec Property Fund) and self-storage properties (through Stor-Age), while the large position in Spear maintains the Fund's above-average exposure to the Western Cape as a region. The Fund has very little exposure to the UK and Western or Eastern Europe, where rising discount rates are likely to put significant downward pressure on property values over the next 12 to 18 months.

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 declining market rentals which are expected to persist for the next 2 to 3 years, despite more employees returning to an office environment.

The Fund's geographic exposure remains heavily weighted towards South Africa (80%) versus the SAPY index weight of just 51%. 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. The relative under-performance of the UK-centric companies in the SAPY index has also seen the SA exposure in the benchmark increase from below 50% at the start of the third quarter.

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 out-performance since 2020 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 13.6%, with growth in that income likely to exceed inflation over the next 2 to 3 years, given the low base created during the pandemic in 2020 and 2021. The current one-year forward income yield of the SAPY index, based on the same forecasts, is 10.2% while the yield on government's benchmark R2030 bond is 10.8%.

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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