NEDGROUP INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently

NEDGROUP INVESTMENTS PROPERTY FUND

Quarter Four, 2023

Nedgroup Investments Property Fund

Performance to 31 December 2023	Fund[1]	Peer group[2]	Benchmark[3]
3 months	8.6%	14.3%	16.4%
12 months	4.5%	8.5%	10.2%

Market Overview

For the fourth year in a row, South Africa's listed property sector posted double-digit gains in the fourth quarter. This year, the market was buoyed by the prospect of lower interest rates in 2024 and a 100 basis points decline in the 10-year US Treasury yield. With inflation moving towards the US Federal Reserve's targeted level of 2% and global economic activity slowing, the market is now expecting the Fed to cut official interest rates by 25 basis points following the conclusion of their March policy meeting and to cut by 25 basis points at each of their next 5 meetings. The Fed's pivot from raising rates to cutting rates supported global financial markets in November and December and South Africa's listed property sector was able to reverse the capital declines incurred in the first 10 months of the year. The sector finished the year as the top performing asset class in South Africa, although Equities (9.3%) and Bonds (9.7%) were not far behind the listed property sector's 10.2% return for the year. On average, share prices were up 2.5%, with dividends contributing the other 7.7% of total return.

NEPI Rockcastle contributed 5.1% of the sector's overall return in the fourth quarter and 7.2% of the sector's overall return in 2023 as the rand continued to weaken against most developed market currencies. Despite a strong finish to the year, several South African REITs (i.e. excluding companies like MAS, NEPI and Sirius) recorded negative total returns in 2023. Growthpoint (-10.0% in 2023) and Resilient (-9.5%), detracted almost 3% from the sector's overall return during the year, despite both making a significant positive contribution to the sector's performance in the fourth quarter. Higher interest rates globally and the persistent threat of loadshedding in South Africa remained headwinds for the sector throughout the year, but a reduction in both the frequency and scale of loadshedding in the fourth quarter (and December in particular) is likely to have contributed to the improvement in investor sentiment towards the end of the year.

The increased cost of capital as well as the increase in operating costs meant there was very little dividend growth in 2023 and based on the outlook statements from several companies that reported results in the fourth quarter, there is unlikely to be much growth in 2024, unless interest rates start falling. Dividend growth may be supported by a gradual increase in dividend payout ratios across the sector now that property fundamentals appear to be stabilising. Most companies have also been able to improve the overall quality of their balance sheets through retaining earnings in the previous 3 years and some capital recycling and are therefore likely to retain less of their profits in the future.

Liberty2Degrees and Transcend were delisted during the fourth quarter, further reducing the number of publicly traded property companies in South Africa. The Fund had never invested in either company but was invested in Tower (delisted at the end of 2021) and Indluplace (delisted in July 2023). Further consolidation in the sector is likely in the short and medium-term given the limited appetite by institutional and private investors for smaller REITs and property companies.

[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

Portfolio Commentary

The Fund under-performed the peer group and the market in the fourth quarter of 2023. The underperformance during the quarter was driven primarily by the Fund's underweight positions in Nepi, Growthpoint, Redefine and Resilient, as well as the Fund's overweight positions in Accelerate, Delta and GRIT. The Fund's overweight positions in Equites, Fairvest B and Spear made a positive contribution to both absolute and relative performance in the fourth quarter.

The Fund has continued to increase exposure to NEPI on an improved operating outlook and the prospect of lower interest rates in Europe when NEPI refinances its maturing debt. No securities were added to or removed from the portfolio in the fourth quarter.

The Fund declared and paid a distribution of 2.36c for the A class and 2.40c for the A1 class for the fourth quarter, both of which were in line with expectations. For the year as a whole, distributions were below expectations after Indluplace opted to only pay a small clean-out distribution prior to the implementation of the scheme of arrangement with SA Corporate, while several companies opted for lower payout ratios and NEPI's dividend was accounted for as a return of capital and was therefore not eligible to be distributed to unitholders of the Fund.

Top 5 winners and losers for Q4 2023:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
NEPI	10.06%	2.15%	**GRIT**	3.62%	-1.93%
Spear	10.02%	1.45%	**Delta**	1.74%	-0.66%
Fairvest B	9.28%	1.30%	**Accelerate**	5.78%	-0.60%
Equites	5.46%	0.92%			
Growthpoint	5.18%	0.92%			

Current positioning and outlook

The Fund continues to maintain a thematic approach to portfolio construction, favouring property types and geographic locations where fundamentals remain strong or are improving. 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 malls. The Fund has also maintained a high exposure to logistics properties (through Equites and Burstone Group) and self-storage properties (through Stor-Age), while the large position in Spear maintains the Fund's above-average exposure to the Western Cape where property fundamentals are improving rapidly. The Fund has very little exposure to the UK and Western or Eastern Europe, where substantially higher discount rates are likely to put significant downward pressure on property values over the next 12 to 18 months. The refinancing of debt in Europe is also likely to prove problematic for several property companies, given high loan-to-value ratios and the low interest rates on maturing debt. Several companies have already warned that the refinancing of their non-SA debt is likely to lead to negative dividend growth in 2024, most notably Growthpoint.

The Fund's exposure to residential property in South Africa remains high but has reduced quite sharply following the sale of the Indluplace position to SA Corporate in the third quarter. The Fund continues to maintain a high relative exposure to residential property through Octodec, as the higher costs associated with home ownership are likely to drive rental demand for well-located residential properties, reducing vacancies and driving up market rental levels in the medium-term. Octodec's relative valuation is also very attractive given it is not a constituent of the SAPY index and therefore enjoys little to no institutional investor support despite offering a forward dividend yield in excess of 16% on a 90% payout ratio.

The Fund's overall exposure to office remains below the market average and is expected to remain at these lower levels given declining market rentals and rising vacancies in the sector. Most of the Fund's office exposure is in the Western Cape (and Cape Town specifically) where fundamentals are far stronger than in Gauteng or KZN.

The Fund's geographic exposure remains heavily weighted towards South Africa (73%) versus the SAPY index weight of just 45%. Within South Africa, the Fund is overweight the Western Cape as well as rural areas (through convenience retail) and is underweight urban areas in Gauteng and KZN.

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 often does look very different to the market and the peer group. This differentiation has contributed to the Fund's relative outperformance 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, Refinitiv, IRESS and Merchant West Investments forecasts, the current one-year forward yield on the Fund is 11.0%, with growth in that income likely to approximate inflation over the medium-term following the creation of a lower income base in 2022 and 2023. Distributions are expected to grow well above inflation in 2024 mainly because of the artificially low base in 2023 (as a result of corporate actions and the classification of NEPI's dividend as capital and not income). The current one-year forward income yield of the SAPY index, based on the same forecasts, is 8.9% while the yield on government's benchmark R2030 bond is 9.8%.

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.
Contact details: Standard Bank, Po Box 54, Cape Town 8000,
Trustee-compliance@standardbank.co.za, Tel 021 401 2002.

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.

NEDGROUP INVESTMENTS CONTACT DETAILS
Tel: 0860 123 263 (RSA only)
Tel: +27 21 416 6011 (Outside RSA)
Email: info@nedgroupinvestments.co.za
For further information on the fund please visit: www.nedgroupinvestments.co.za

OUR OFFICES ARE LOCATED AT
Nedbank Clocktower, Clocktower Precinct, V&A Waterfront, Cape Town, 8001
WRITE TO US
PO Box 1510, Cape Town, 8000