NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS PROPERTY FUND

Quarter One, 2024

Nedgroup Investments Property Fund

Performance to 31 March 2024	Fund[1]	Peer group[2]	Benchmark[3]
3 months	-0.9%	2.7%	3.8%
12 months	8.3%	17.7%	20.5%

Market Overview

The positive momentum witnessed in the fourth quarter of 2023 was maintained in January and February of this year as investors expected major central banks around the world to start easing monetary policy as early as the second quarter. Those expectations have now been revised in the face of persistently higher inflation and a tight labour market in the United States. By the end of February, the FTSE/JSE SA Listed Property (SAPY) index was up just under 5% in 2024 but gave back 1% of that gain in March. For the quarter, the SAPY index returned 3.8%, outperforming both the SA equity (-2.2%) and bond markets (-1.8%). Fortress was a major contributor to the sector's strong returns in the first quarter. The company was able to resolve its longstanding capital structure issues and was able to declare a dividend for the first time since 2020, paving the way for a return to REIT status.

NEPI Rockcastle was once again one of the top performers in the sector during the quarter, as the rand continued to weaken against the US dollar and fundamentals for retail landlords in Eastern Europe continued to improve, despite higher interest rates. Amongst the SA REITs, Attacq delivered the highest return (+15.7%) after reporting results that exceeded analyst expectations. Importantly, Waterfall City net rent growth remains impressive and following the Government Employees' Pension Fund deal and the sale of Attacq's stake in MAS plc, the balance sheet has been significantly strengthened to further the company's growth ambitions. Vukile (+7.5%), Fairvest B (+7.0%), SA Corporate (+6.5%) and Dipula B (+5.1%) all delivered returns of more than 5% in the first quarter.

Accelerate Property Fund (-30.4%) was a significant under-performer during the first quarter as the company indicated it would need a rights issue to provide the funding for the company's turnaround plans at the Fourways Mall and to reduce debt and rightsize the company's balance sheet. The company has announced several asset disposals, including Eden Meander to the Sasol Pension Fund, which together with the rights issue is expected to reduce gearing to below 40% and below the sector average. The company recently appointed Flanagan & Gerard as asset and property manager for the Fourways Mall to reduce vacancies and improve footfall at the mall.

Several companies reported results or provided an operational update to the market during the quarter. The themes that dominated 2023 (higher borrowing costs, increased operating costs associated with loadshedding and weak economic growth) were once again prevalent in most of the management commentary but there does seem to be some evidence that the office market appears to be bottoming and that the Western Cape continues to see a strong improvement in fundamentals across all property types. Conversely, mall landlords are becomingly increasingly concerned about their exposure to Pick 'n Pay after the company announced a two-step recapitalisation plan, which includes an offering and listing of the company's Boxer business. Pick 'n Pay remains a significant tenant for several SA REITs and most management teams are bracing for some store rationalisation.

[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 market and the peer group in the first quarter of 2024. The bulk of the under-performance can be attributed to Fund's position in Accelerate, as well as the lack of exposure to both Attacq and Fortress B. Despite being the largest position in the Fund, NEPI's 26% weight in the SAPY index also contributed to the relative under-performance. Fairvest and Dipula continue to make positive contributions to the Fund's overall total return while offering above-average income yields for investors.

No new securities were added to the portfolio in the first quarter and no securities were removed. The Fund's exposure to Vukile was increased and sits at 6.5% versus a SAPY weight of 5.9%. Vukile's investments in Spain are delivering strong returns for shareholders and this momentum is expected to continue in the medium term.

The Fund declared and paid a distribution of 0.05c for the A class and 0.09c for the A1 class, both of which were in line with expectations. The Fund receives no dividends in the first quarter from any of its SA REIT exposure, with only NEPI declaring a paying a dividend in the first quarter. At just 8.5%, NEPI's income yield is one of the lowest in the listed property sector and as a result, makes a lower contribution to the Fund's annual distribution than its high weight in the portfolio would suggest.

Top 5 winners and losers for Q1 2024:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
NEPI	10.34%	0.79%	**Accelerate**	4.30%	-1.58%
Fairvest B	9.64%	0.65%	**Delta**	1.19%	-0.60%
Dipula B	9.91%	0.50%	**Equites**	5.65%	-0.51%
Vukile	6.80%	0.50%	**Growthpoint**	5.25%	-0.20%
SA Corporate	4.63%	0.29%	**Burstone**	3.21%	-0.18%
		2.73%			*-3.07%*

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 which are more heavily exposed to Pick 'n Pay. 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 continue to improve. The Fund has low exposure to the UK and Western or Eastern Europe when compared to the SAPY index. Substantially higher discount rates are expected to put significant downward pressure on property values over the next 12 to 18 months in these regions. The refinancing of debt in Europe is also likely to prove problematic for several property companies, given high loan-to-value ratios and the multi-decade low interest rates on maturing debt. These higher borrowing costs are offsetting any growth in net property income and several companies have warned the market that dividend growth is likely to be negative in 2024 and possibly into 2025.

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 above 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 despite early evidence that the market might be bottoming. Most of the Fund's office exposure is in the Western Cape (and Cape Town specifically) where fundamentals are far stronger than in either Gauteng or KZN.

The Fund's geographic exposure remains heavily weighted towards South Africa (74%) versus the SAPY index weight of just 43%. 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 out-performance since 2020, despite some under-performance over the last 12 months, 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 11.4%, 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 (because 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 9.5% 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
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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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