NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS PROPERTY FUND

Quarter Two, 2024

Nedgroup Investments Property Fund

Performance to 30 June 2024	Fund[1]	Peer group[2]	Benchmark[3]
3 months	9.2%	5.3%	5.5%
12 months	21.6%	23.2%	26.3%

Market Overview

The mood in South African financial markets was dominated by caution surrounding the outcome of the national election on 29 May. As was generally forecast, the ruling ANC party lost its majority for the first time since it came into power in 1994, managing to garner just over 40% of the votes. While there was a brief period of considerable uncertainty surrounding the outcome of a coalition government for South Africa after the election results, markets cheered prospects of a Government of National Unity (GNU) comprising the ANC and the Democratic Alliance (DA), together with several other smaller parties, towards the end of June.

The FTSE/JSE All Share Index put in a strong showing in the second quarter as sentiment improved towards the end of the quarter, gaining 8.2% in rand terms. Much of the positive action was focussed on the SA Inc. segment of the market, with SA Financials gaining 15.9%, SA Industrials 5.2% and SA Resources 3.6%. The strong performance from SA Inc was also evident in the gains shown by Small and Mid-caps, which returned 10.7% and 9.5% respectively, while Large Caps lagged with a return of 7.3%.

The South African bond market also benefitted from the more positive sentiment towards the end of June, with the BEASSA All Bond Index gaining 5.2% over the month of June and ending the quarter with a total return of 7.5%. SA Listed Property also gained strongly over the month of June, gaining 6% and ending the quarter with a return of 5.5%.

SA Listed Property

Delta Property Fund was the standout performer in the listed property sector during the second quarter as the share price gained 64% on the back of a positive trading statement that highlighted continued improvement across all trading metrics. Accelerate (+23%) and Emira (+25%) also recorded strong gains in the second quarter, having both suffered large price declines in the previous quarter.

Accelerate successfully raised R250 million by way of a rights issue to provide the funding for the company's turnaround plans at the Fourways Mall and to reduce debt and right-size 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%. The company recently appointed Flanagan & Gerard as asset and property manager for the Fourways Mall to help reduce vacancies and improve footfall at the mall.

Spear's results highlighted the resilience of the Western Cape property market as vacancies continue to reduce and market rentals grow at or above consumer inflation. The company is actively recycling capital and pursuing growth opportunities in Cape Town and George, which include the purchase of a portfolio of properties from Emira for R1.15 billion.

Grit was the only company in the portfolio to generate a negative return in the second quarter, mainly because of the stronger rand. All of Grit's earnings are either US dollar or euro denominated. Within the SAPY index,

[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

MAS and Sirius also produced negative returns on the back of rand strength, while NEPI only returned 0.4% versus a sector average return of 5.5% for the quarter.

Portfolio Commentary

The Nedgroup Investments Property Fund ('the Fund') outperformed the market and the peer group in the second quarter of 2024. The bulk of the outperformance can be attributed to the Fund's overweight positions in Accelerate and Spear, as well as the Fund's large underweight position in NEPI Rockcastle and no exposure to either MAS or Sirius. Fairvest continues to make a positive contribution to the Fund's overall total return while offering an above-average income yield for investors.

No new securities were added to the portfolio in the second quarter and no securities were removed. There was quite a bit of rebalancing because of the large and divergent relative price moves during the quarter. The Fund remains underweight the rand-hedges like NEPI, MAS and Sirius and overweight the SA-focussed REITs like Dipula, Fairvest and Spear.

The Fund declared and paid a distribution of 2.37c for the A class and 2.42c for the A1 class, both of which were in line with expectations. The second and fourth quarter distributions are always the largest as most of the companies in the portfolio pay semi-annual dividends with most payments in the second and fourth quarter.

Top 5 winners and losers for Q2 2024:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Accelerate	4.42%	1.33%	**Grit**	3.41%	-0.35%
Spear	10.87%	1.19%			
Emira	5.07%	1.18%			
Fairvest B	9.93%	0.99%			
Growthpoint	5.25%	0.74%			
Total		*5.43%*			*-0.35%*

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 relative to the SAPY index. 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 non-South African 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 14% 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. According to the latest data from SAPOA, P-grade office vacancies in the Western Cape have reduced to below 1% and rentals are therefore expected to rise appreciably in the short and medium term.

The Fund's geographic exposure remains heavily weighted towards South Africa (75%) versus the SAPY index weight of just 44%. 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 both the market and the peer group. This differentiation has contributed to the Fund's relative outperformance since 2020, despite some underperformance 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). Post-COVID, there has also been strong growth in employment in the Western Cape which has benefited the Fund through its investment in Spear.

Based on a combination of Bloomberg, Refinitiv, IRESS and Merchant West Investments forecasts, the current one-year forward yield on the Fund is 10.5%, 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 8.7% while the yield on government's benchmark R2030 bond is 9.5%.

A combination of more political certainty, policy reform (particularly around the SOEs), improving investor sentiment and lower official interest rates are likely to contribute to a more constructive backdrop for the listed property sector in South Africa. This should see the large discounts to net asset value shrink as share prices move up but should also contribute to higher dividend growth in the future. The Nedgroup Investments Property Fund is ideally positioned to capture this upside given its large relative overweight to South Africa within the peer group.

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.

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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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