NEDGROUP INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently

NEDGROUP INVESTMENTS PROPERTY FUND

Quarter Three, 2024

Nedgroup Investments Property Fund

Performance to 30 September 2024	Fund[1]	Peer group[2]	Benchmark[3]
3 months	12.8%	17.5%	18.7%
12 months	32.6%	45.3%	51.3%

Market Overview

The positive sentiment following the formation of South Africa's business-friendly Government of National Unity (GNU) has triggered a wave of investment announcements and positive sentiment not seen in years, spurring hope that the local economy may finally be finding its footing after a lost decade-and-a-half.

The local equity market continued its strong upward momentum in the third quarter, posting its best third quarter performance since 2013 as the FTSE/JSE All Share Index gained 9.6% (on top of the second quarter's 8.2%). Much of the positive action was focussed on the SA Inc segment of the market, with the JSE Banks Index gaining 13.4 %, the JSE Retailers Index returning 23.4%, and the SA Listed Property Index advancing 18.7% over the quarter. The strong performance from SA Inc stocks was also evident in the gains shown by the Small and Mid-caps, which returned 15.6% and 10.9% respectively, while the rand hedge skewed Large Cap Index lagged with a return of 8.3%.

South Africa's inflation rate declined from 5.1% in June 2024 to the latest reading of 4.4% in August. As was widely expected, the SA Reserve Bank (SARB) reduced the repo rate from 8.25% to 8.0% in September 2024, the first cut since the heightening cycle commenced in November 2021. Lower interest rates should benefit heavily indebted consumers and businesses alike. The South African listed property sector is likely to be one of the most significant beneficiaries as lower interest rates will drive higher property valuations (through lower discount rates) and improved distributable income growth prospects (through lower borrowing costs).

The South African bond market cheered the commencement of the new easing interest rate cycle and positive sentiment towards South Africa, which drove the rand from a level of R18.19 at the end of the June quarter to R17.27 at the end of September, representing a gain of more than 5% against the US dollar. The BEASSA All Bond Index gained 10.6% over the September quarter.

Among South African REITs, Hyprop was the surprising outperformer during the third quarter as the share price rallied more than 46%. Although the company did deliver full-year results that were marginally ahead of market expectations and successfully concluded the sale of their sub-Saharan Africa portfolio, the share price action does appear overdone, prompting several broker downgrades towards the end of the quarter. Hyprop is therefore likely to be a drag on the performance of the SA Listed Property (SAPY) index over the next 12 to 18 months, given its 5.5% weighting in that index.

Accelerate was the only South African REIT to post a negative return in the September quarter after the company announced a further decline in net asset value to R3.65 per share, 11.6% lower than the 2023 figure. Accelerate is currently trading at an 86% discount to net asset value, suggesting the market has little to no confidence in the company's turnaround strategy at the Fourways Mall, where Flanagan & Gerard have been appointed as the asset and property manager of the Mall.

Within the SAPY index, rand-hedges like Lighthouse (+1.4%) and Sirius (+2.7%) also underperformed as the rand strengthened against the US dollar, euro and British pound. Amongst the rand-hedges, NEPI Rockcastle was again the standout performer, gaining a further 15% during the quarter. NEPI is now one of the very few global listed property companies trading at a small premium to net asset value.

[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

Having out-performed in the second quarter, the Nedgroup Property Fund (the Fund) under-performed both the market and the peer group in the third quarter of 2024. The bulk of the under-performance can be attributed to the Fund's lack of exposure to Hyprop as well as exposure to non-SAPY constituents, Grit and Accelerate. Fairvest and Dipula continue to be the biggest contributors to performance. During the quarter, the Fund's exposure to NEPI was increased above 11%, but it remains well below the SAPY index weight of over 25%.

While new securities were added to the portfolio in the third quarter and no securities were removed, there was quite a bit of rebalancing because of the continued large and divergent relative price moves during the quarter. The Fund remains under-weight the rand-hedges like NEPI, MAS and Sirius and over-weight the SA-focussed REITs like Dipula, Fairvest and Spear where property fundamentals appear to be improving at a slightly faster pace, boosted by the improvement in sentiment as well as the prospect of lower interest rates now that the SARB has started cutting interest rates.

The Fund declared and paid a distribution of 0.46c for the A class and 0.51c for the A1 class, both of which were in line with expectations. The first and third quarter distributions are always the smallest 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 Q3 2024:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Fairvest B	9.72%	1.62%	**Grit**	2.49%	-0.82%
NEPI	9.98%	1.54%	**Accelerate**	3.97%	-0.73%
Dipula B	9.75%	1.52%			
Resilient	5.13%	1.44%			
Vukile	7.34%	1.35%			

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. According to the SA Property Owners Association (SAPOA), convenience and neighbourhood shopping centres currently have the lowest vacancy rates, as well as the lowest cost of occupancy for retailers, suggesting a very healthy outlook and the prospect of above-average market rental growth in the medium term.

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. 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, like Growthpoint, have warned the market that dividend growth is still likely to be negative in 2025, following a reduction in dividends in 2024.

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 12.5% on a 90% payout ratio.

The Fund's overall exposure to the office sector remains below the market average and is expected to remain at these lower levels despite early evidence that vacancies are falling and there is very little new speculative supply. 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 (72%) versus the SAPY index weight of just 46%. Within South Africa, the Fund is over-weight the Western Cape as well as rural areas (through convenience retail) and is under-weight 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.

Based on a combination of Bloomberg, Refinitiv, IRESS and Merchant West Investments forecasts, the current one-year forward yield on the Fund is 9.0%, with growth in that income likely to be above inflation over the medium-term following the creation of a lower income base in 2022 and 2023. Distributions are expected to be flat in 2024 mainly because of the increased exposure to NEPI. Distributions are then expected to accelerate towards 10% in 2025 and 2026. The current one-year forward income yield of the SAPY index, based on the same forecasts, is now just 7.5% while the yield on government's benchmark R2030 bond is 9.2%.

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 further as share prices move up but should also contribute to higher dividend and distribution 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
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