NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS PROPERTY FUND

Quarter Four, 2024

Nedgroup Investments Property Fund

Performance to 31 December 2024	Fund[1]	Peer group[2]	Benchmark[3]
3 months	1.6%	-0.5%	-0.8%
12 months	24.1%	26.5%	29.0%

Market Overview

The fourth quarter started off with some uncertainty surrounding the outcome of the US election held early in November. The results were conclusive and confirmed that Donald Trump had won the presidential vote and that the Republican party had secured majorities in both chambers of the US Congress. The clean sweep places Donald Trump's administration in a position to quickly enact the "America First" economic policies that were key to his election campaign, including lower taxes, higher trade tariffs and government deregulation which investors hope will boost economic growth. The US significantly outperformed other global equity markets in November.

However, equity markets stumbled in the last month of 2024. Comments from Federal Reserve Chair, Jerome Powell, in December suggested that the Fed's outlook for US inflation had become more cautious and that he saw the need for fewer interest rate cuts in 2025, triggering a sell-off in US equities. The Dow Jones Industrial Index shed 5.2% and the S&P 500 lost 2.4% in December, while the Nasdaq managed to eke out a positive return of 0.5% as the mega-cap tech stocks defied the December gloom.

Despite the progress being made by the business-friendly GNU, the South African stock market could not escape the gloom in global markets and after three consecutive negative months ended the quarter with a total return of -2.1% for the FTSE/JSE All Share Index. Investors' focus appears to have shifted to global issues, including Trump's potential trade tariffs and sticky inflation.

While SA bonds produced a negative return of 0.3% in December as local bond yields moved higher in line with global peers, this was not sufficient to result in a negative quarter. The All Bond Index managed a total return of 0.4% for the quarter, and a stellar 17.2% for the calendar year. South Africa's listed property market (FTSE/JSE SA Listed Property Index) ended the quarter in the red, however, with a total return of -0.8%. For the calendar year, listed property has delivered top performance with a return of 29.0%, out-performing all the major asset classes.

The fourth quarter was marked by a strong recovery in the prices of several mid and small-capitalisation shares, like Texton (+25.2%), Dipula B (+17.7%) and Safari (+15.7%). Fairvest and Attacq were also able to post double-digit returns during the quarter as investor sentiment towards smaller capitalisation property companies continued to improve. Both Growthpoint (-5.3%) and Redefine (-4.3%) delivered negative returns during the quarter as global bond yields moved sharply higher, increasing the refinance risk on maturing offshore debt.

Although the positive macro-economic and political backdrop that drove prices higher in the second and third quarters of 2024 persisted in the fourth quarter, President Donald Trump's re-election and the threat of higher tariffs means global inflation will remain higher than expected and is causing market participants to speculate on the US Federal Reserve's next move. It's clear from the comments Powell made during the quarter that members of the Federal Open Market Committee are concerned about the trajectory of inflation during a Trump administration and may be reluctant to lower interest rates until such time as inflation is below their 2% target level. The South African Reserve Bank, against this global backdrop, is also likely to be more hesitant in cutting official interest rates even though inflation in South Africa is well within their 3% to 6% target range. This took some of the shine off the listed property sector in the fourth quarter and with little company news to influence investors, the sector traded in a narrow band throughout the quarter.

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[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 was able to recover some of the third quarter's lost ground as it out-performed both the market and the peer group average in the fourth quarter. The outperformance can be attributed to the Fund's large overweight positions in Dipula B and Fairvest B, as well as overweight positions in Stor-Age and Spear. At the same time, the Fund is underweight NEPI, Growthpoint and Redefine, which also helped contribute to the Fund's outperformance during the fourth quarter.

While the Fund continues to remain overweight to mid and small-capitalisation property companies, the large relative outperformance of these securities during the fourth quarter did offer the opportunity to recycle profits into Growthpoint, which has under-performed the sector over the past 2 to 3 years and is now offering better relative value. While we remain cautious about the prospects for Growthpoint's offshore portfolios, their South African portfolio, including the V&A Waterfront, has seen a strong recovery in fundamentals and this recovery is not fully reflected in the company's current valuation.

The Fund declared and paid a distribution of 2.19c for the A class and 2.25c for the A1 class, both of which were in line with expectations. For the full year, the Fund paid a distribution of 5.07c for the A class and 5.27c for the A1 class. The distributions were slightly lower than the distributions paid in 2023, but in line with the average growth in dividends from the listed property sector during 2024.

Top 5 winners and losers for Q4 2024:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Dipula B	10.47%	1.76%	**NEPI**	11.61%	-0.65%
Fairvest B	10.18%	1.07%	**Growthpoint**	7.41%	-0.44%
Stor-Age	7.50%	0.50%	**Delta**	1.47%	-0.39%
Spear	9.64%	0.31%	**GRIT**	1.73%	-0.34%
Emira	5.22%	0.30%	**Accelerate**	3.60%	-0.15%

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 recently reduced its exposure to logistics properties (through Equites and Burstone Group) on valuation grounds but has maintained a high exposure to self-storage properties (through Stor-Age). The Fund's large position in Spear maintains the Fund's above-average exposure to the Western Cape, where property fundamentals continue to improve and vacancy rates in the office sector are now lower than they were pre-pandemic. 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 (73%) 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.

Based on a combination of Bloomberg, Refinitiv, IRESS and Merchant West Investments forecasts, the current one-year forward yield on the Fund is 9.1%, 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 were flat in 2024, mainly because of the increased exposure to NEPI. Distributions are 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 7.9% while the yield on government's benchmark R2030 bond is 9.0%.

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)..

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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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