



NEDGROUP
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NEDGROUP INVESTMENTS
Property Fund
Quarter One, 2022





Nedgroup Investments Property Fund

Performance to 31 March 2022	Fund ¹	Peer group ²	Benchmark ³
3 months	-4.6%	-2.1%	-1.3%
12 months	34.1%	25.9%	27.1%

Market Overview

Against a backdrop of rising global inflation, higher bond yields and increased geopolitical risks, the FTSE/JSE SA Listed Property (SAPY) index returned -1.3% in the first quarter of 2022. Were it not for a strong March (+5.1%), the sector would have given up almost all of the fourth quarter's impressive gains as Russia's invasion of Ukraine and surging commodity prices weighed on investor sentiment. The strong gains in March were driven primarily by a recovery in the prices of industry heavyweights, Growthpoint and Redefine, with both companies' shares prices rising by more than 9% during the month. While Growthpoint's interim results to the end of December 2021 were broadly in line with market expectations, investors did appear to take heart from the fact that although revenues continued to decline (-4.8% vs the comparative period a year ago), cash flows were up 17.4%, the dividend was increased by 5.1% and net asset value increased by 6.2%.

The improvement in these metrics does seem to suggest that property fundamentals have started to improve and that the large negative rental reversions and rising vacancies, which have characterised the office and retail markets, are, for the most part, now behind us. While fundamentals for large regional shopping malls and offices remain weak, there is growing evidence that consumers are returning to malls and most companies are asking employees to return to their offices. Balance sheets have been strengthened over the past 2 years through a combination of asset disposals and retaining income (in terms of REIT legislation, up to 25% of income can be retained). These factors, together with a modest improvement in fundamentals, have resulted in a positive change in investor sentiment towards South Africa's listed property sector.

Portfolio Commentary

The Fund under-performed the peer group and the market in the first quarter of 2022, although over the last 12 months has comfortably out-performed both. The under-performance during the first quarter was driven primarily by the Fund's large position in Fairvest B. During the quarter, Arrowhead Properties and Fairvest Property Holdings completed their merger to create Fairvest Limited. At the same time, Vukile Property Fund announced that they would be offering Fairvest B shares in a placement by accelerated bookbuild, with the aim of raising R300m. Vukile then announced that R400m had been raised by placing their Fairvest B shares at a 25% discount to the price of Fairvest B ahead of the merger.

Vukile used the proceeds to help its Spanish subsidiary, Castellana, acquire a significant minority shareholding in Lar Espana. The Fairvest B share price remained rooted around 330c, the price at which Vukile had disposed of their shares, as Vukile still owns more than 7% of the issued share capital of Fairvest B and is expected to dispose of the rest of its holding now that Fairvest is no longer considered core. It was the intention of the Fund to dispose of a portion of its Fairvest holding (which now equates to almost 15% of the value of the Fund) when Fairvest was included in the SAPY index but the current large discount to NAV and 15% forward yield means that Fairvest is trading at a significant discount to its peer group and its own history and from current prices is likely to deliver significant upside for the Fund over the next 6 to 12 months.

There were no significant additions to the Fund, while the Fund's small position in Redefine was disposed of during the quarter following its acquisition of EPP. The Fund's exposure to several mid-cap stocks such as Emira, SA Corporate and Vukile was increased using the proceeds of the Redefine disposal.

¹ Net return for the Nedgroup Investments Property Fund, A class. Source: Morningstar (monthly data series).

² Average of the (ASISA) Real Estate General category.

³ FTSE/JSE South African Listed Property Index





These mid-cap stocks have been trading at historically high discounts to net asset value and look cheap on both an absolute and relative basis, despite the recent strong performance of these companies relative to the rest of the sector.

Top 5 winners and losers for Q1 2022:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Vukile	4.29%	0.63%	Fairvest B	11.52%	-1.23%
Emira	2.28%	0.35%	Indluplace	6.15%	-0.67%
SA Corporate	3.25%	0.20%	Accelerate	6.41%	-0.52%
Stor-Age	8.20%	0.12%	Grit	3.82%	-0.34%
Resilient	3.04%	0.05%	Fairvest (old)	2.76%	-0.25%

Current positioning and outlook

Despite last year's sale of Safari (which reduced the Fund's exposure to convenience and neighbourhood shopping centres) and the sale of Tower (which reduced the Fund's exposure to the Western Cape) a thematic approach to portfolio construction remains a feature of the Fund. The Fund's largest exposure remains to convenience and neighbourhood shopping centres, with very little exposure to regional and super-regional shopping centres. Our exposure to the latter category has increased slightly following the addition of Growthpoint, NEPI Rockcastle and Resilient to the portfolio in the second half of 2021. The Fund has also maintained a high exposure to logistics properties through Equites and Investec Property Fund and self-storage properties through Stor-Age.

The Fund's office exposure is primarily to government-tenanted properties, with government expected to continue occupying the same amount of space post-pandemic as it did pre-pandemic. Government has also paid rent throughout the pandemic, while many corporates negotiated rent deferrals and/or discounts in 2020 and 2021. The Fund's overall exposure to office remains below the market average and is expected to remain at these lower levels given the sector's lower market rentals forecast for the next 3 to 5 years, notwithstanding the recent increase in companies returning to their offices.

The Fund's geographic exposure remains heavily weighted towards South Africa (80%) versus the SAPY index weight of just 50.1%. The SAPY index weight has increased since the end of last year following the exclusion of EPP and Industrials REIT (both with 100% offshore exposure) from the index and the inclusion of Fairvest.

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 does look very different to the market and the peer group. This differentiation contributed to the Fund's significant outperformance in 2020 and 2021 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, FactSet, IRESS and Counterpoint forecasts, the current one-year forward yield on the Fund is 11.7%, with growth in that income likely to exceed inflation over the next 2 to 3 years, although any further lockdowns and/or trading restrictions will negatively impact that growth outlook. The current one-year forward income yield of the SAPY index, based on the same forecasts, is 8.4% 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.
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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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