



NEDGROUP
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NEDGROUP INVESTMENTS
PROPERTY FUND
Quarter Two, 2023





Performance to 30 June 2023	Fund ¹	Peer group ²	Benchmark ³
3 months	-2.7%	0.6%	0.7%
12 months	1.3%	7.3%	10.0%

Market Overview

The US economy showed no signs of slowing in the second quarter of 2023, while inflation remained stubbornly high and labour markets are tight, despite the sharp rise in official interest rates since the middle of last year. Forecasting the timing and magnitude of further interest rate hikes is becoming increasingly difficult and global financial markets have become more volatile as a result. Most market participants are looking beyond the next round of central bank tightening, which is likely to be the last in the current cycle and are instead focussing on when interest rates may start falling. While the US economy continues to be resilient to higher interest rates, the same can't be said about the UK and Europe, where economic activity is slowing. In China, economic data continues to paint a very mixed picture, with strong credit growth pointing to more rapid expansion in the second half of the year, while the property market continues to exhibit signs of distress. In South Africa, the rand slumped in May after it was alleged that arms and ammunition were loaded onto the sanctioned Russian cargo ship, Lady R, when it docked at Simon's Town Naval Base in December last year. The rand came close to breaching R20/US\$ in May before strengthening in June to finish the quarter at R18.85, more than R1 weaker than March's closing level of R17.79.

During the second quarter, global bond yields rose on expectations of further monetary tightening as the US economy showed few signs of slowing and global inflation remains well above targeted levels. The yield on 10-year US Treasuries rose just under 40 basis points during the quarter, while in the UK, the yield on 10-year gilts rose 90 basis points as UK consumer inflation remained stubbornly high at 8.7%, prompting speculation that the Bank of England would need to be more aggressive in tightening monetary policy.

South African long bond yields rose approximately 70 basis points on the back of the weaker rand and the increase in US Treasury yields. Despite a moderation in consumer inflation to 6.3% in May, from 6.8% in April, the South African Reserve Bank is expected to maintain a tighter monetary stance and may even raise interest rates further this year. Against this backdrop, South Africa's listed property sector gained 0.7% in the second quarter, under-performing cash (+1.9%) but out-performing bonds (-1.5%). While shares prices, on average, did fall marginally during the quarter, dividends declared and paid helped push the sector into positive territory. The sector was also supported by the weaker rand which helped Sirius (+23.7%), MAS plc (+8.8%) and NEPI Rockcastle (+6.9%) deliver strong returns for shareholders over the quarter.

The notable laggards in the second quarter were Equites (-19.6%) and Growthpoint (-6.3%), which between them shaved more than 2% off the sector's return during the quarter. Both companies provided disappointing guidance for FY2024. Equites will no longer include the benefits of cross currency interest rate swaps (CCIRS) in their distributable earnings and are also looking to exit their development joint venture in the UK. Growthpoint warned that rising interest rates and the refinancing of debt at these higher interest rates will lead to a reduction in distributable earnings per share in FY2024. This is an issue likely to face most property companies over the next 12 to 18 months, but more so those that have funded offshore expansion using leverage.

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 peer group and the market in the second quarter of 2023. The underperformance during the quarter was driven primarily by the Fund's large underweight positions in rand-hedges like NEPI Rockcastle, as well as large overweight positions in Dipula (-7.7%) and Emira (-13.2%) despite both companies releasing results that were in line with market expectations. During the first quarter, the Fund had lightened its exposure to Equites from a large overweight position to a market neutral position in anticipation of weaker-than-expected results and a re-basing of distributable earnings. As anticipated, the market reacted negatively to the company's outlook statement and the Fund was able to re-establish an overweight position in Equites after the share price dipped more than 20%.

The scheme of arrangement between SA Corporate and Indluplace received the requisite approvals from shareholders and all conditions precedent have now been met. As a result, the Fund's position in Indluplace will be disposed of at 340c per share at the end of July. The proceeds will be invested across the sector and will be yield-enhancing to the Fund, given the low yield at which the Indluplace shares are being disposed at.

The Fund declared and paid a distribution of 2.02c for the A class and 2.06c for the A1 class, both of which were in line with expectations.

Top 5 winners and losers for Q2 2023:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Grit	4.83%	0.36%	Equites	4.81%	-1.01%
Vukile	5.71%	0.35%	Dipula	8.73%	-0.65%
NEPI Rockcastle	5.13%	0.34%	Emira	4.44%	-0.62%
Spear	8.54%	0.29%	Delta	1.37%	-0.51%
Indluplace	7.52%	0.24%	Accelerate	6.49%	-0.50%

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. The Fund has also maintained a high exposure to logistics properties (through Equites and Investec Property Fund) and self-storage properties (through Stor-Age), while the large position in Spear maintains the Fund's above-average exposure to the Western Cape as a region. The Fund has very little exposure to the UK and Western or Eastern Europe, where rising discount rates are likely to put significant downward pressure on property values over the next 12 to 18 months. The refinancing of debt in Europe is also likely to prove problematic for several property companies, given high loan-to-value ratios and the low interest rates on maturing debt. Several companies have already warned that the refinancing of their non-SA debt is likely to lead to negative dividend growth in 2024.

The Fund's exposure to residential property in South Africa is also very high on a relative basis but will decline following the sale of the Fund's Indluplace shares at the end of July. The Fund will still maintain a high relative exposure to residential 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.





The Fund's overall exposure to office remains below the market average and is expected to remain at these lower levels given declining market rentals in the sector. Most of the Fund's office exposure is in the Western Cape (and Cape Town specifically) where fundamentals are far stronger than in Gauteng or KZN.

The Fund's geographic exposure remains heavily weighted towards South Africa (77%) versus the SAPY index weight of just 46%. 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 significant outperformance since 2020 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 12.2%, although growth in that income is likely to be below inflation given the numerous headwinds facing the sector today. Distributions are expected to decline in 2023 because of declines in the dividends paid by Dipula B and Fairvest following corporate restructurings during 2022, as well as a lower dividend from Indluplace in the first half of the year. The current one-year forward income yield of the SAPY index, based on the same forecasts, is 9.6% while the yield on government's benchmark R2030 bond is 10.2%.





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.

NEDGROUP INVESTMENTS CONTACT DETAILS

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