NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS PROPERTY FUND

Quarter One, 2025

Nedgroup Investments Property Fund

Performance to 31 March 2025	Fund[1]	Peer group[2]	Benchmark[3]
3 months	-2.7%	-4.0%	-3.5%
12 months	21.8%	18.3%	19.8%

Market Overview

While the US stock market started the new year on a positive note, initially encouraged by President Donald Trump's pro-growth agenda especially as it relates to deregulation and lower taxes, Trump has shown to be unpredictable and prone to change his mind.

The unleashing of a full-blown trade war is causing havoc on stock markets across the globe – not least of which in the US – as concerns about slower economic growth (including the dreaded "R" word) and higher inflation have resurfaced.

The longer-term effects of Trump's trade war are unknown, and while a measure of caution is currently warranted, taking large political/policy-driven directional 'bets' is rarely a reliable investment strategy. It is also important to note that every crisis presents opportunities in investment markets which can enhance long-term returns for investors.

The local stock market managed to buck the trend in international markets, with the FTSE/JSE All Share Index gaining 5.9% (Total Return). SA Resources outperformed with a sizeable total return of 27.9%. SA Industrials returned 3.1%, while SA Financials recorded a loss of 2.0%. The strong gain in SA Resources can be attributed to the sharp rise in the price of gold, with the Precious Metals industry group having gained a whopping 58.5% (Harmony +77%, Gold Fields +67%, AngloGold Ashanti +66%, Implats 43%).

The SA bond market managed to gain 0.7% over the March quarter as the rand appreciated by 2.8% against the US dollar. However, bond prices have come under pressure since the end of the quarter as Trump's tariff war and a Budget impasse continue to affect markets negatively. Listed property came under pressure during the quarter with the FTSE/JSE SA Listed Property (SAPY) Index declining by 3.5%, reversing some of last year's impressive gains, and continued to decline post quarter-end.

The tailwinds that helped the SAPY index post gains of 29% last year have dissipated in 2025. Interest rates are now no longer expected to fall as quickly given increased inflation expectations in the face of rising tariffs and a global trade war. The Government of National Unity (GNU) appears on shaky ground following the DA's strong opposition to a proposed 1% VAT hike in 0.5% increments over two years. A few days of loadshedding in February and March this year reminded investors that Eskom's woes are far from being behind them, while the United States expelled South Africa's ambassador to the Washington after accusing him of being a "race-baiting politician", escalating the deterioration in ties between South Africa and United States after President Donald Trump froze assistance to South Africa in February in response to the Expropriation Act, which he claimed was aimed at Afrikaans farmers.

Against this backdrop, it was hardly surprising that South Africa's listed property sector failed to make any headway in the first quarter and underperformed both the equity and bond markets. There were several company-specific highlights that should allay investor fears. Most notably, industry heavyweight Growthpoint produced a better-than-expected set of interim results and raised their full-year guidance. The company now expects distributable income per share (DIPS) to increase by between 1% and 3% having previously guided for a small decline in DIPS. The increased guidance follows a stronger recovery in fundamentals in their South

[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

African portfolio, a theme that was prevalent across the sector and bodes well for stronger dividend growth in 2025 and 2026.

Portfolio Commentary

The Fund outperformed both the market and the peer group average in the first quarter. In a reversal of fortunes, Delta and Accelerate were the largest contributors to that outperformance, along with the Fund's increased exposure to Growthpoint, a position which was added to during the fourth quarter of last year and at the beginning of this quarter. In our fourth quarter commentary we had noted that "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". With the release of their interim results and raised full-year guidance, the company did rerate relative to the rest of the sector and in so doing provided good capital upside for the Fund.

The Fund pared back its position in NEPI but it remains the largest weight in the portfolio at just under 11%. No new positions were added to the Fund and no positions were removed.

The Fund declared and paid a distribution of 0.12c for the A class and 0.17c for the A1 class, both of which were in line with expectations. The first quarter distributions are always small as the only dividend accrued by the Fund in the first quarter is the NEPI dividend. As a reminder, the second and fourth quarter distributions are the largest and in 2024 accounted for almost 90% of the annual distribution. We expect a similar pattern to emerge in 2025.

Top 5 winners and losers for Q1 2025:

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Delta	1.36%	0.33%	**Stor-Age**	7.40%	-0.48%
Accelerate	3.58%	0.22%	**Burstone**	3.45%	-0.45%
Growthpoint	10.02%	0.18%	**Octodec**	4.57%	-0.44%
NEPI	11.57%	-0.02%	**GRIT**	1.52%	-0.31%
Safari	1.42%	-0.03%	**Spear**	10.01	-0.28%

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. 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 short to medium-term.

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. Rising bond yields and 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 most of the growth in net property income.

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 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 45%. Within South Africa, the Fund is overweight the Western Cape as well as rural areas (through convenience and neighbourhood 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 approximate inflation in 2025 before accelerating towards 10% in 2026. The current one-year forward income yield of the SAPY index, based on the same forecasts, is now 8.8% while the yield on government's benchmark R2030 bond is 9.2%.

A combination of improving property fundamentals in South Africa, lower official interest rates and significantly less loadshedding are likely to contribute to a more constructive backdrop for the listed property sector in South Africa in 2025 and beyond. 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
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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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