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Property Fund is latest addition to Prudential's unit trust range

We are pleased to announce that we have added a new fund to our selective range of unit trusts, the [Prudential Property Fund](#). The new fund is Prudential's response to the changing fundamentals and greater company divergence in South Africa's listed property sector, and is now available to retail investors after having been open to corporate and institutional clients since July 2020.

Globalisation of the sector in the past few years, with both foreign property companies choosing to list on the JSE and local property companies expanding offshore, has introduced greater volatility and complexity into what was previously a somewhat homogenous industry. With the Coronavirus crisis in particular, we have seen widely diverging company valuations creating opportunities for active investment managers like ourselves to take advantage of. On top of this can be added the longer-term trends of greater competition from online shopping, increasing popularity of work-from-home models and changes in consumer behaviour, all adding pressure to landlords in the sector and leading to different company strategies and new investment opportunities. This led us to decide

that we needed to offer investors a fund with a more active approach to help clients benefit from the value now available in listed property, alongside our existing [Enhanced SA Listed Property Tracker Fund](#).

Although this is a new fund, it is managed based on the same investment principles and processes that we have been successfully employing for over 20 years now – our valuation-based, risk-cognisant approach. Just as with Prudential’s other equity funds, stock selection and portfolio construction are carried out according to a team-based process, led by Fund Manager Yusuf Mowlana for the Property Fund. And this methodology already has a strong track record, as it is the same process and same team that have been actively managing the listed property exposure within our multi-asset funds like the [Prudential Balanced Fund](#) and [Prudential Inflation Plus Fund](#) since the beginning of 2019. The fund’s benchmark is the All Property Index, so that investors have access to the largest possible universe of property stocks available.

Why invest in listed property?

Prudential believes listed property exposure is an excellent diversifier for all types of investor portfolios. This is thanks to its growing distribution streams that can provide regular income under many conditions, with distributions based on underlying rental contracts usually providing for inflation-linked increases over time. Capital growth is a bonus for investors, and although it comes with volatility, the relative consistency of distributions makes property stocks somewhat less risky than other equity sectors. Property companies structured as Real Estate Investment Trusts (REITS) are required to pay out 75% of their distributable income to shareholders. For this reason, our recommended investment horizon for investing in listed property, including the Prudential Property Fund, is five years or longer, rather than seven years for other equity-only funds. However, investors must be willing to accept some shorter-term volatility as well, in exchange for longer-term outperformance.

Latest valuations look cheap, but beware

For Prudential, this is a propitious time to launch a property fund due to some of the attractive valuations available in the sector for careful investors. Although investment risks are high for some property companies due to either large exposure to the weakest segments of the property market, unsustainable levels of debt or insufficient diversification in their underlying holdings, certain other companies with strong fundamentals have been offering good value. For example, we have been able to add Growthpoint to our client portfolios at very cheap valuations, and we also like Stor-Age for its focus on self-warehousing solutions.

Using the consensus forward distribution yield of around 8.2% as of the end of April, the valuation of the sector is inexpensive versus its own history and relative to alternatives, in our view. However, we are underweight listed property in our multi-asset portfolios given persistent concerns about the sustainability and quality of future distributions, the length of the current perceived earnings re-basing cycle and the now-necessary balance sheet repair needed for many companies due to the COVID-19 pandemic. This is why careful stock-picking is important for listed property investors at the moment.

The Prudential Property Fund is available directly to retail investors for a minimum R500 per month investment. For more information, please contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.