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The new Prudential Property Fund: Taking advantage of new opportunities

Prudential Investment Managers has added a new fund to its selective range of unit trusts, the [Prudential Property Fund](#). The new fund is Prudential's response to the changing fundamentals of 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 over the 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 and fundamental prospects creating opportunities for active investment managers like ourselves to take advantage of. In addition, the longer-term trends

of greater competition from online shopping, increasing popularity of hybrid working models (catering for more work-from-home options) and changes in consumer behaviour are forcing landlords to adjust current business models, while also creating new opportunities for others. The combination of inexpensive valuations and divergent fundamental prospects made it appropriate for us to offer investors a new way to gain exposure to listed property in South Africa, alongside our existing Enhanced SA 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 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 these reasons, 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.

Latest valuations look cheap, though some caution is still warranted

According to Fund Manager Yusuf Mowlana, 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-storage solutions and the capital-light aspects of its earnings stream,” he said.

“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. But careful stock-picking is important at the moment. For investors with a longer-term investment horizon, the fund is an excellent alternative to owning physical property, as a building block in a diversified investment portfolio, or as a real asset.”

The Prudential Property Fund is available directly to retail investors for a minimum monthly R500 investment, or an initial lump sum of R10,000. For more details or to invest directly, please click [here](#). Alternatively, please feel free to call our Client Services Team on [0860 105 775](tel:0860105775) or email us at query@prudential.co.za.