

M&G Enhanced SA Property Tracker Fund

Property

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024, as well as forecasting a "soft landing" for the US economy. They also added that they didn't want to make an error by "waiting too long" to begin lowering rates. This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

In South Africa, the FTSE/JSE Capped SWIX Index posted an 8.2% return in rand and somewhat stronger than other emerging markets. Gains were propelled by a strong 15.9% rebound in the All Property Index over the quarter and 11.8% from Financials, while Industrials delivered 5.9% (hit by a sharp fall in Naspers/Prosus shares in December) and Resources stocks were flat (0%).

South African assets were weighed down in 2023 by ongoing general pessimism over the country's weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the "Lady R" and hosting of the BRICS Summit. This manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks and bonds. The FTSE/JSE ALSI returned 9.3% and the more domestically-focused FTSE/JSE Capped SWIX Index posted 7.9% for the year.

Performance

The M&G Enhanced SA Property Tracker Fund returned 15.8% for the quarter compared with 16.4% for its benchmark, the SA Listed Property Index. For the year ending 31 December 2023, the fund returned 9.6% compared to the benchmark return of 10.1%.

Annualised performance

	A class	Benchmark	T class	D class
1 year	9.6%	10.1%	9.6%	9.8%
3 years	14.7%	14.9%	14.7%	14.9%
5 years	-0.5%	0.2%	-0.5%	-0.4%
7 years	-2.6%	-1.7%	-2.6%	-2.5%
10 years	2.5%	2.9%	-	2.6%
Since inception	8.8%	9.2%	-	-

Disclaimer

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Collective Investment Schemes (unit trusts) are generally medium- to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations – relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A M&G unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A unit trust summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on M&G products on the M&G website. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. The Manager may, at its discretion, close your chosen unit trust fund to new investors and additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. Fund prices are published daily on the M&G website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for the Money Market Fund) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Overweight positions in Growthpoint contributed to relative returns, as did the underweight position in Fairvest B, Burstone and Resilient. Overweight positions in Fortress A and Dipula B detracted from relative performance, as did an underweight position in Lighthouse Capital.

Strategy and positioning

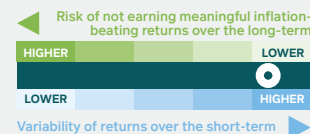
In terms of positioning, we find good value in offshore names with strong fundamentals, such as NEPI Rockcastle, Sirius Real Estate and Hammerson. In South Africa, we prefer high-yielding mid- and small-capitalisation REITs such as Dipula B, SA Corporate and Octodec. However, large-cap, high beta SA property stocks such as Growthpoint and Redefine now offer compelling value in terms of yield and re-rating potential should bond yields and interest rates decline in 2024.

The fourth quarter of 2023 saw several REITs report results showing a stabilisation in SA property fundamentals. Retail-focused REITs saw vacancies reach new lows and reversions turn positive. Office market vacancies are stable at the expense of persistent negative reversions. We expect nominal net property income growth across SA portfolios to be offset by higher interest rates as hedges expire, resulting in muted earnings growth over the short to medium term.

Amongst the offshore names, Sirius Real Estate completed an oversubscribed bookbuild, raising 15% of their market capitalisation at a small discount to net asset value. Proceeds will be used to acquire a portfolio of assets in the UK and Germany embedded with significant value unlock potential. Spanish and Central Eastern European retail property owned by some of SA's listed REITs reported strong trading performances, benefiting from the high inflation and growing footfall. This bodes well for rental growth potential.

For 2024, we anticipate that the recent lower global inflation will be sustained and that interest rate cuts are on the horizon. These dynamics, combined with our view that rentals have stabilised and can grow (at least nominally), create an environment in which SA listed property can re-rate. We have positioned our fund to benefit from these tailwinds, while not compromising our criteria for high-quality stocks with attractive risk-adjusted total return prospects that are underpinned by healthy free cash flow generation. □

Risk profile



Fund facts

Fund managers

Yusuf Mowlana
Rahgib Davids

ASISA category

South African - Real Estate - General

Benchmark

FTSE/JSE South African Listed Property Index (J253)

Inception date

2 December 2005

Fund size

R546 148 904

Awards

Morningstar/Standard & Poor's: 2011

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