

M&G Enhanced SA Property Tracker Fund

Property

Q1 2024

Market overview

The first quarter of 2024 (Q1) brought a continuation of the relatively bullish investor sentiment towards global equities seen in the last months of 2023, as prospects for growth in the US were buoyed by positive company earnings reports and supportive economic data that increased the likelihood of a "soft landing" for the economy. On the other hand, global bonds were weaker as inflation proved higher than expected and major central banks kept interest rates on hold, prompting pundits to move out their rate cut expectations to the second half of the year. Still, they and the US Federal Reserve are roughly aligned in their forecasts of a 25bp interest rate cut in each of Q2, Q3 and Q4, starting at the Fed's 11-12 June FOMC meeting.

The Japanese and US equity markets were the stand-out performers, while the UK disappointed and China continued to experience losses, although the magnitude of these fell as the quarter progressed, helped by small gains in March. Emerging markets were broadly in the red, with the exception of India, and South African equities remained in the doldrums on the back of slow growth and the approaching May national elections.

Global equity (as measured by the MSCI ACWI) delivered a total return of 8.2% in Q1 compared to 11.0% in Q4, while developed market equities produced 8.9% and emerging market equities returned only 2.4% (MSCI Emerging Markets Index – all in US\$). Global bonds posted -2.1% (Bloomberg Global Aggregate Bond Index, in US\$). In South Africa, the FTSE/JSE All Share Index and Capped SWIX Index underperformed, both delivering -2.3% in rand terms. The local market was dragged down by a 7.6% loss in Financials, while Industrials returned 0.6%, Resources 0.8% and Listed Property 3.5%, the latter continuing its rally from the previous quarters.

South African bonds recorded a -1.8% return for the quarter. This saw the yield on the 10-year SA government bond rise to 12% by quarter-end. Meanwhile, the rand lost 3.5% against the US dollar, 2.7% versus the UK pound and 0.9% against the euro.

At its March policy meeting the SA Reserve Bank voted unanimously to keep the repo rate steady at 8.25%, as expected. Governor Lesetja Kanyago remained hawkish regarding stubbornly high inflation (with CPI rising to 5.6% y/y in February from 5.3% y/y in January, well above the expected 5.4% y/y) and relatively high inflation expectations for 2024 among businesses and consumers. The economy managed to eke out growth of 0.1% (q/q annualised) in Q4 2023, worse than expected, for an annual rate of 0.6% for 2023 as a whole. The SARB has projected GDP growth at 1.2% in 2024 and 1.3% in 2025, the acceleration due largely to improved electricity supply. Equity returns remained depressed by the country's low growth prospects and uncertainty over the upcoming national elections, both of which are keeping foreign

investors on the sidelines.

Performance

The M&G Enhanced SA Property Tracker Fund returned 3.3% for the quarter, compared with 3.8% for its benchmark. For the one-year period, the fund delivered 19.5% versus the benchmark's 20.5%.

Positive contributors to relative performance include the underweight position in Equites and overweight positions in Nepi Rockcastle and Stor-Age.

Underweight positions in Attacq, Lighthouse and Burstone detracted from relative performance, as did the overweight position in Dipula.

Strategy and positioning

Our fund positioning favors offshore names with strong property fundamentals, such as NEPI Rockcastle, Sirius Real Estate and Hammerson. Locally, we find good value in high-yielding mid-caps such as SA Corporate, Octodec and Dipula.

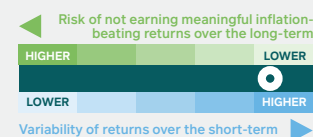
South African property fundamentals are stable, with vacancy levels steadily declining across all sectors. However, sectoral rental growth has diverged. Office rents remain under pressure due to an oversupply of space. Retail rent affordability ratios are at decade lows, and we've seen reported rental reversion turn positive. This positive momentum is somewhat countered by a constrained SA consumer and distress in one South Africa's largest retail anchor tenants, Pick 'n Pay. Industrial property has delivered the strongest growth, benefitting from favourable supply demand dynamics and the pass-through of rising construction costs.

Prevailing headwinds such as rapidly rising property costs and higher interest rates are reflected in earnings expectations that show limited short- to medium-term growth. Therefore, our preferred South African stocks are high yielding mid-caps where prospective returns exceed that of the SA government bond yield.

Offshore property fundamentals vary by region and sector. Here we favour stocks with strong balance sheets and enduring growth prospects. Favored sectors include retail property in Central Eastern Europe and Spain where the robust performance is underpinned by resilient consumer spending. Other favored high growth stocks include Sirius and Stor-age who have flexible leasing business models supported by sophisticated operating platforms capable of dynamically capitalising on customer demand trends.

With interest rate cuts approaching and less load shedding expected in South Africa, we anticipate that previous headwinds will turn into tailwinds, and that the listed property sector stands to surprise on the upside over the medium term. We've positioned our portfolio to benefit from these dynamics, while not compromising on our quality criteria – picking stocks with high free cash flow

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


R596 226 615

Awards

Morningstar/Standard & Poor's: 2011

Annualised performance	A class	Benchmark	T class	D class
1 year	19.5%	20.5%	19.5%	19.7%
3 years	13.6%	13.9%	13.6%	13.8%
5 years	-0.1%	0.7%	-0.1%	0.1%
7 years	-2.4%	-1.4%	-2.4%	-2.2%
10 years	2.6%	3.1%	-	2.8%
Since inception	8.9%	9.3%	-	-

generation and strong balance sheets.

We are pleased that the merger between the M&G Enhanced SA Property Tracker Fund and M&G Property Fund will go ahead and is expected to be completed by the end of May 2024. We're pleased to share that the M&G Property Fund won the Raging Bull Award 2023 for the "Best SA Real Estate General Fund" for its straight performance over the three-year period to 31 December 2023. We are excited about the merger and would like to thank clients for their ongoing support. We look forward to continue delivering value for all clients under the strategy pursued by the M&G Property Fund. 

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Invest now

Application forms

An electronic copy of this document is available at www.mandg.co.za

Disclaimer

MandG Investments Unit Trusts (South Africa) (RF) Ltd (Registration number: 1999/0524/06) is an approved CISC management company (#29). Assets are managed by MandG Investment Managers (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa limited – Trustees Services & investor Services, 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town.

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.