M&G Insights

M&G Investments

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Diversify your investments with listed property

Exposure to listed property is often regarded as a great diversifier – largely due to its hybrid nature of being an equity with bond-type characteristics. This in itself is quite interesting, and worth exploring. In this article, we take a closer look at some of the main features of listed property, and why you may want to consider this unique asset class as part of your investment portfolio.

Regular income distributions to investors

When compared to other equities, listed property investments offer regular income in the form of shareholder distributions. In fact, property companies structured as Real Estate Investment Trusts (REITs) are required to pay out a minimum of 75% of their taxable earnings available for distribution to shareholders. This means investors should likely face less risk than they would with general non-property equities, in that they should receive a steady stream of income, more similar to that of a bond. The income that REITs earn is typically generated from commercial properties with long lease periods, so investors could expect a relatively stable income stream that is usually adjusted annually to keep pace with inflation (making it a good hedge against inflation).

This differs from other equities, where the dividends are typically not as reliable over time since companies have the choice of whether to declare a dividend or not. REIT values therefore generally behave differently from other equities in similar market conditions. With that said, listed property as an asset class is still regarded as medium-to high-risk, and comes with its own set of challenges that investors need to be aware of. These challenges typically come in the form of economic and social disruptions (for example, the Covid-19 pandemic), which are unpredictable and may negatively impact rental income, and consequently, REITs' earnings and share prices.

Evaluating the performance of listed property unit trusts
When assessing the performance of a listed property unit trust, investors typically look at three performance metrics:

1. Annualised return,
2. Income distributions, and
3. 12-month yield.

In its simplest form, the annualised return is the average total return earned by an investment each year over a given time period. This is usually expressed on a fund fact sheet (also referred to as the minimum disclosure document) for periods including 1, 3, 5, 7 and 10 years, as well as since inception.

As mentioned above, income is generated by the fund's underlying investments, which is periodically declared and distributed to investors after all annual service fees and expenses have been deducted. Income distributions are typically represented as cents per unit on fund fact sheets.

The fund's yield is a measure of its income distributions as a percentage of the net asset value (NAV). This is calculated by summing the income distributions over a rolling 12-month period, then dividing that by the NAV at the end of the period (including any capital gains distributed over the same period).

While these performance metrics can give a good indication of how well a fund has been managed historically, it's important to note that these shouldn't be used as an indication of future performance.

M&G Investments' SA listed property funds

At M&G Investments we have two SA listed property unit trusts for investors to choose from: the M&G Enhanced SA Property Tracker Fund and the M&G Property Fund.

Both funds are actively managed and invest in South African listed property instruments and assets in liquid form, with no direct investment in physical property. There are key differences between the two, though. For example, the M&G Enhanced SA Property Tracker Fund, as the name implies, is an enhanced index portfolio that actively "tracks" the FTSE/JSE SA Listed Property Index with a maximum tracking error of 2%. The fund aims to provide a total return equal to or better than the benchmark (after fees).

The M&G Property Fund, meanwhile, can invest in a combination of listed property shares, other collective investment schemes and financial derivative instruments. Stock selection is based on fundamental analysis, using M&G investments' long-proven valuation-based process; whereas in the case of the M&G Enhanced SA Property Tracker Fund, stock selection is quantitatively driven with a fundamental value-based overlay. In addition, the M&G Property Fund also has a different benchmark, measuring itself against the broader FTSE/JSE All Property Index.

Who should invest in listed property unit trusts?

Our SA listed property funds are aimed at investors who are looking for medium-to-long-term capital and income growth through efficient exposure to the listed property sector in South Africa. Both investments are good options for investors looking for a growing income stream, but who are comfortable being exposed to some degree of capital volatility and have an investment horizon of five years or longer.

To sum up, having a combination of SA listed property exposure, alongside equities listed in other sectors and asset classes, promotes diversification of returns within your investment portfolio. This should help "balance" your risk/return profile across different market conditions, resulting in a more well-rounded portfolio overall. Of course, SA listed property exposure is just one of many levers you can pull to create better investment diversification. Exposure to offshore assets is another good example of how you can go about doing this. At M&G Investments, our M&G Global Property Fund (available in US dollars and rands) offers investors access to a diversified portfolio of global property securities. Alternatively, if you're looking for broader sector exposure, our range of global funds provides access to regions and sectors underrepresented on the JSE, thereby helping to create a truly diversified investment portfolio for investors.

For more information on investing with M&G Investments, please feel free to contact our Client Services Team on 0860 105 775 or email us at info@mandg.co.za.