



NEDBANK
PRIVATE WEALTH
SINCE 1834

PRIVATE WEALTH PROPERTY EQUITY FUND

Q2 2019

see money differently

MARKET REVIEW

Continuing from a tough first quarter of 2019, the South African listed property sector delivered poor results in the second quarter. News of negative reversions across all three major commercial property sectors persisted, negatively impacting cashflows and dividends. While a potential Edcon failure was a key consideration for SA property investors in the first quarter, potential bankruptcies took the spotlight in the second quarter. Rebosis Property Fund lead the way when it announced that its loan to value ratio had deteriorated to 57.1% at 1H19 (FY18: 51.6%), thereby breaching its debt covenants. To remedy the situation, Rebosis has embarked on an asset disposal programme. Given the gravity of the situation, it has more recently amended its disposal portfolio to include its best performing retail assets to expedite the process. In the interim, the Rebosis board has decided not to pay out the half-yearly dividend, and to instead defer payment to year end. The offshore property markets were also not without their own challenges. The UK property market had a particularly troubled first and second quarter of the year as the equity market is pricing in significant reductions in direct property valuations, predominantly in the retail sector. According to the IPD UK Index data, retail property capital values fell by -5.1% for the six months to June and by -9.5% y/y. Overall UK capital values fell by -1.2% y/y.

FUND PERFORMANCE

Listed property, as measured by the SA Property Index (J253), delivered 0.79% for the twelve months to June 2019. The Nedgroup Investments Private Wealth Property Equity Fund returned -3.89% over the period, underperforming its benchmark by -4.67%. For the three months to June 2019, the Fund returned -2.68%, underperforming its benchmark which delivered 4.52%.

The top contributors to performance over the quarter were overweight positions in Stor-Age REIT (+0.27%), Resilient REIT (+0.22%), and Lighthouse Capital (+0.17%). The Fund also benefitted from underweight positions in Redefine Properties (+0.98%), SA Corporate (+0.38%) and Hyprop Investments (+0.19%). The main detractors to performance were overweight positions in Rebosis Property A (-2.95%), Hammerson PLC (-0.99%), and Ingenuity Property Investments (-0.72%).

FUND POSITIONING AND OUTLOOK

While property shares look more attractively priced today than they did a year ago, we remain cautious given the persistent weak property fundamentals in South Africa and in the UK. We are also particularly concerned with the sector's stretched balance sheets which are a result of aggressive offshore expansions. The fund continues to maintain large positions in A-shares, namely, Rebosis Properties Fund A. The guaranteed income growth of A shares, coupled with their substantial income cover, remains an attractive value proposition in a market in which income growth is difficult to sustain. Contrary to our expectations, Rebosis A detracted from the Fund's performance in the quarter following the Rebosis board's decision to defer payment of the interim dividends to year end. Should Rebosis be in a position to pay its A share dividend by year end, we anticipate a significant recovery in the share price. Management has indicated that should it consider retaining dividends to fund the business' cash requirements, that this wouldn't apply to the A share's dividend. The Fund also had a position in Fortress A which it liquidated in the quarter following its strong share price performance. Outside of A shares, the Fund continues to maintain large overweight positions in stocks that have relied more on fundamental drivers of income growth than on once-off gains, and those that have healthy balance sheets. The fund manager is of the view that defensive and prudently managed SA portfolios at appropriate prices will deliver superior performance over the medium-term compared to peers that trade at similar valuations but on lower quality income streams. The Fund is also well diversified, with sizeable exposures to the Central and Eastern European region and the UK, in addition to South Africa.



RISK RATING



RISK REWARD PROFILE

Property investments are volatile by nature and subject to potential capital loss. The portfolio is suitable for investors who require sector specific exposure to real estate securities as part of their overall investment strategy, with both income generation and capital appreciation as their primary goal over the long-term.

GENERAL INFORMATION

BENCHMARK / TARGET RETURN

JSE SA Listed Property Index

INVESTMENT MANAGER ASSET CLASS

Nedgroup Investment Advisors (Pty) Ltd is authorised as a Financial Services Provider under the Financial Advisory and Intermediary Services Act (FSP No. 1652).

ASISA CATEGORY

South African Real Estate General

REGULATION 28 COMPLIANT

No

INCEPTION DATE

01 May 2004

FUND SIZE

R 477 Million

NET ASSET VALUE ¹

3647.89 cpu

MINIMUM INVESTMENT

Lump sum: R50,000

INCOME DISTRIBUTION

Frequency: Quarterly

June 2019: 55.24 cpu

Previous 12 months: 215.60 cpu

FEES

Annual management fee (excluding VAT): 0.80%

Total expense ratio 0.95%

Transaction costs 0.18%

Total investment charges ³ 1.13%

INVESTMENT APPROACH

This fund is managed on a philosophy of maximizing risk adjusted total return. Property companies whose yield does not adequately compensate for the risk (which includes the company's gearing) are avoided. The investment manager adopts both a top-down and bottom-up approach in developing investment strategies. Particular attention is paid to management incentives, potential conflicts of interest and quality of the direct property portfolio.

PORTFOLIO PROFILE

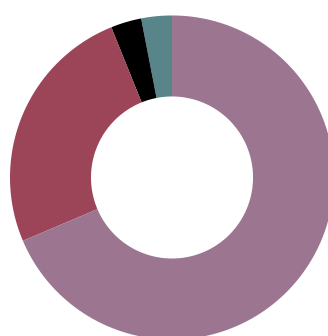
The portfolio is suitable for investors who require sector specific exposure to real estate securities as part of their overall investment strategy, with both income generation and real capital preservation as their primary goal over the long-term.

PERFORMANCE ²

Period	Portfolio	Benchmark
1 year pa	-3.9%	0.8%
3 Years pa	-0.7%	-2.3%
5 Years pa	4.8%	5.6%
7 Years pa	7.1%	8.1%
10 Years pa	11.9%	13.0%
Lowest 1 year return	-14.1%	
Highest 1 year return	40.7%	

The annualized total return is the average earned by an investment each year over a given period of time.

PORTFOLIO STRUCTURE



Real estate investment trusts	68.6%
Real estate holding & development	25.5%
Cash and money market	3.0%
CIS	2.9%

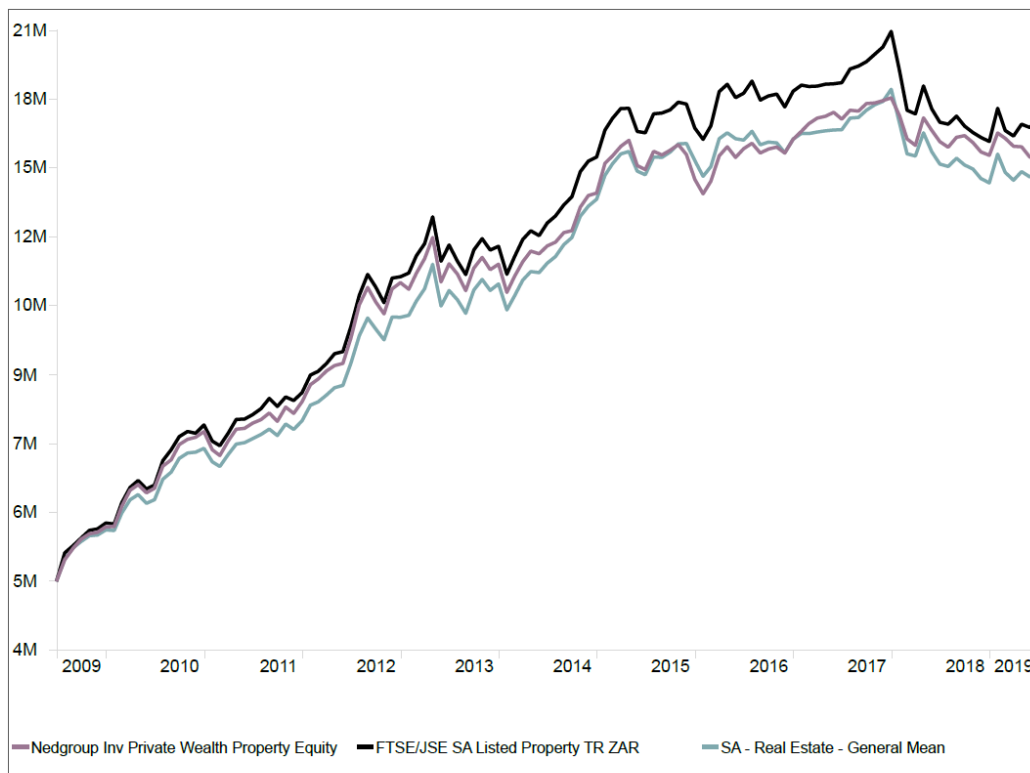
TOP 10 HOLDINGS

Share	Percentage
NEPI Rockcastle Plc	9.0
Resilient Property Income Fund	8.6
Rebosis Property Fund Ltd - A	6.8
Vukile Property Fund Ltd	6.2
Fairvest Property Holdings Ltd	5.7
MAS Real Estate Incorporated	5.7
Growthpoint Properties Ltd	5.4
Hospitality Property Fund	4.7
Octodec Investments Ltd	4.6
Stor-Age Property REIT Ltd	4.2
Total	61.0



SINCE INCEPTION CUMULATIVE PORTFOLIO PERFORMANCE

The graph shows growth of R5 000 000 invested in the portfolio plotted against the fund's benchmark the SA Listed Property Index as well as the average of the ASISA South African Real Estate General category.



Source: Morningstar Direct

Mandatory disclosures:

1. Funds are valued daily at 15:00. Instructions must reach us before 14:00 (12:00 for Nedgroup Money Market Fund) to ensure same day value. Daily prices are available on request from your relationship manager.
2. Performance is calculated for the portfolio and individual investment performance may differ as a result of initial fees, the actual investment, the actual investment date, the date of reinvestment and dividend withholding tax. Data source: © 2015 Morningstar.
3. Total Expense Ratio (TER), expressed as a percentage of the Fund, relates to expenses incurred in the administration of the Fund. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. Transaction Costs (TC), expressed as a percentage of the Fund, relates to the costs incurred in buying and selling the underlying assets of the Fund. TC are a necessary cost in administering the fund and impacts fund returns. It should not be considered in isolation as returns may be impacted by other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER. The Total Investment Charges expressed as a percentage of the Fund, relates to all investments costs of the Fund. Both the TER and TC of the Fund is calculated on an annualised basis, beginning April 2016 and ending March 2019.

Whilst Nedbank Private Wealth offers you a choice of investment services, the underlying funds forming part of Nedbank Private Wealth strategy solution, are managed by Nedgroup Investments. More specifically, Nedgroup Collective Investments (RF) Proprietary Limited, is the company that is authorised in terms of the Collective Investment Schemes Control Act to administer the Nedgroup Investment Private Wealth unit trust portfolios. It is a member of the Association of Savings & Investment South Africa (ASISA). Contact: Nedgroup Investments, P O Box 1510, Cape Town 8000, info@nedgroupinvestments.co.za, Tel 0860 123 263 (RSA only). The Standard Bank of South Africa Limited is the registered trustee. Contact: Standard Bank, P O Box 54, Cape Town 8000, trustee-compliance@standardbank.co.za, 021 401 2002.

Unit trusts are generally medium to long term investments. The value of your investment may go down as well as up. Past performance is not necessarily a guide to future performance. Nedgroup investments does not guarantee the performance of your investment and even if forecasts about the expected future performance are included you will carry the investment and market risk, which includes the possibility of losing capital. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. A fund of funds may only invest in other unit trust funds, that levy their own charges, which could result in a higher fee structure. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments. For further additional information on the fund, including but not limited to, brochures, application forms and the annual report please contact your relationship manager.

Contact

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