M&G Property Fund
Property

Q3 2024

Market overview
The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US$).

Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%) and Financials (13.7%), while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher, sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

South African bonds performed strongly, with the FTSE/JSE All Bond Index rising 10.5% (in Rand) over the quarter and adding more positive returns to the total for the year. Bond yields continued the downward move we have seen since the conclusion of the GNU election results.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%.

Performance
The M&G Property Fund outperformed its benchmark for the third quarter of 2024, returning 19.6% (A class, net of fees) compared to the All Property Index return of 19.1%. For the 12 months ending 30 September 2024, the fund returned 48.5% versus the benchmark return of 51.0%.

Overweight positions in Hyprop contributed positively, as did underweight positions in Shaftesbury Capital and Lighthouse Capital.

Detractors to relative performance include underweight positions in Resilient and Burstone Group.

Strategy and positioning
Our fund positioning favors mid cap SA focused property stocks with minimal office exposure and relatively high dividend yields that are supported a strong balance sheet. We've recently increased our exposure to SA retail property via holdings in Vukile and Hyprop. The rental reversionary cycle has turned positive in South Africa, and these stocks are well-positioned to benefit from anticipated rental growth. Offshore exposure to Central Eastern European retail remains core to the fund, as the property fundamentals are relatively more robust than South Africa.

South African property fundamentals are stable with vacancy levels steadily declining across all sectors. However, sectoral rental growth is divergent. Office rents are under pressure due to oversupply. Retail rent affordability ratios are at decade lows and reversions have positive. Industrial property is benefitting from favourable supply demand dynamics and the pass-through of rising construction costs, which has been good for rental growth. Geographically, Western Cape property performance has continued to outperform, also benefiting from favourable robust demand on the back of semi-gration.

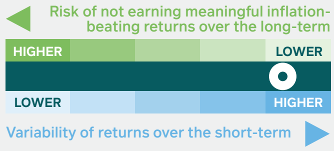
The post-election market rally in SA saw SA property stocks rally 30% as bond yields compressed 250bps. This was followed by the first interest rate cut in September, with an additional 125bps of cuts expected over the next 12 months. A declining interest rate environment bodes well for property company earnings and dividend growth prospects.

Transactional activity in offshore markets has increased on the back of declining interest rates and an outlook for healthy rental growth. Capital market activity has also picked with more companies coming to market to raise equity and bond debt. Refinancing risk has reduced as banks and bond markets conclude long-term deals at reasonable rates. For example: Nepi Rockcastle recently issued a EUR500mn 7-year bond at a 4.25% coupon, and Hammerson issued a 12-year EUR400 bond at 5.8% coupon.

Reinvigorated capital markets have been positive for transactional activity with some big buying and selling deals coming from Nepi Rockcastle, Hammerson, Burstone Group, Growthpoint, Vukile and Lighthouse Capital – with industrial and retail properties being the most traded.

Outlook
The widespread rerating of listed property stocks led to a convergence in valuations across the sector. The earnings yield

Annualised performance	A class	Benchmark	D class
1 year	48.5%	51.0%	48.7%
2 years	32.2%	30.6%	32.5%
3 years	17.4%	15.3%	17.7%
Since inception	21.0%	19.8%	-

Risk profile


Fund facts

Fund objective
The Fund seeks to maximise long-term growth from investing in South African listed property markets.

Investor profile
Investors who seek exposure to South African listed property as part of a diversified portfolio. Alternatively, investors looking for a growing income stream but who are willing to be exposed to capital volatility. The recommended investment horizon is 5 years or longer.

Investment mandate
The Fund is an actively managed portfolio investing primarily in South African listed property instruments and assets in liquid form. The Fund may invest in other collective investment schemes and in financial derivative instruments. No direct investment in physical property may be made.

Fund managers
Yusuf Mowlana
Rahgib Davids

ASISA category
South African - Real Estate - General

Benchmark
FTSE/JSE All Property Index

Inception date
9 July 2020

Fund size
R952 392 630

Awards
Raging Bull: 2023

Sources: M&G Investments, Morningstar & Deutsche Securities differential between high-risk and low-risk property companies has narrowed, signaling that we are no longer sufficiently compensated for higher risk. Consequently, we have adopted a more cautious stance on stock selection, concentrating on high-quality companies that are trading at fair valuations with ability to grow faster than the benchmark. These companies typically exhibit strong free cash flow generation, healthy balance sheets, and portfolios that are well-positioned in assets that can grow income and valuation sustainably over time.

The M&G Property is pleased to have won the Raging Bull award for 3 years straight performance for 2023. At 30 September 2024, the fund still ranks number 1 over a 3 year rolling period. (Morningstar).

Contact us

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Invest now

Application forms

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

Disclaimer

Sources: M&G Investments, Morningstar & Deutsche Securities