# M&G Property Fund

Property

Q4 2024

## Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%.

In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

South Africa's consumer price index (CPI) rose by 2.9% y/y in November, up from 2.8% y/y in October. Despite this slight inflation increase, the South African Reserve Bank (SARB) Monetary Policy Committee reduced the policy rate by 25 basis points to 7.75% in November. The country's third quarter GDP contracted by 0.3%, primarily due to a decline in agricultural output, following a revised 0.3% growth in the second quarter.

Despite a solid annual return of 13.4%, the FTSE JSE All Share Index fell 2.1% in the fourth quarter. On a sector level, industrials posted modest returns of 0.2%, while financials (-1.2%) and resources (-10.1%) dragged on performance for the quarter (all in rand). South African listed property posted a 0.4% loss in the fourth quarter, but still delivered strong annual returns of nearly 30%.

## Performance

The M&G Property Fund delivered 0.6% (A class, net of fees) for the fourth quarter of 2024, compared to the All-Property Index return of -0.4%.

Overweight positions in MAS Real Estate, Dipula and Nepi Rockcastle contributed positively to performance.

Detractors to relative performance include overweight positions in Fortress B, and underweight positions in Attacq and Equites.

Despite muted performance in Q4, the SA Listed Property Sector ended the 2024 year as the top-performing asset class, returning 29.8%. The M&G Property Fund outperformed its benchmark and delivered 0.4% of alpha for clients.

## Strategy and positioning

Following the SA listed property sector rally, we reassessed the fund positioning as valuations across the sector became less dispersed and relatively more expensive. High yielding mid-cap SA focused stocks with a retail bias and minimal office exposure anchor the portfolio, together with exposure to high growth sectors such as retail property in Romania and Spain.

South African property fundamentals are stable with most REITS set to deliver a reliable stream of dividends supported by declining vacancies, improved reversions and falling interest rates. Retail reversions have turned positive and bode well for retail focused property funds, while office reversions remain negative as the market struggles to absorb the excess supply. Industrial properties continue to benefit from low vacancies and rising construction costs.

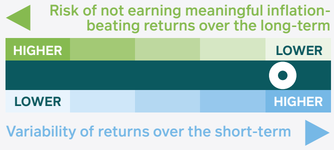
In Q4, geopolitical uncertainty led to bond market volatility that saw bond yields rise. UK and US bond yields rose amid market concerns over inflation and fiscal pressures. South African government bond yields followed suit resulting in poor performance in Q4 for the SA listed property sector as share prices came under pressure.

Key company specific events include major asset acquisitions made by Vukile and Lighthouse Capital who continue to expand their retail portfolios in Spain and Portugal. MAS Real Estate announced a cautionary relating to the dissolution of their problematic development joint venture, the success of which would unlock significant shareholder value. Burstone finalised the disposal of a majority stake in their Pan European Logistics portfolio to Blackstone. These proceeds will de-gear the fund and propel them into their next phase of growth in third-party asset management.

There have been three UK property stocks that have inward listed on the JSE. This includes two healthcare focused REITs – Primary Health Properties and Assura; and a retail focused REIT – Supermarket REIT.

| Annualised performance | A class | Benchmark | D class |
|---|---|---|---|
| 1 year | 30.2% | 29.8% | 30.3% |
| 2 years | 21.4% | 19.9% | 21.7% |
| 3 years | 14.1% | 12.1% | 14.4% |
| Since inception | 19.9% | 18.5% | - |

## 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

R963 966 724

### Awards

Raging Bull: 2023



Sources: M&G Investments, Morningstar & Deutsche Securities

## Outlook

The outlook for SA listed property is positive. There is a healthy prospect for dividends and renewed optimism for sustainable growth potential in both income and net asset value that is supported by improved property fundamentals and declining interest rates. Broadly, we estimate that the SA listed property sector can deliver a total shareholder return of 13% - comprising of an 8% dividend yield and 5% growth.

The M&G Property Fund follows a robust investment process with risk control mechanisms that ensure we select only high-quality stocks that are capable of sustainably generating benchmarking beating value for our clients.

The M&G Property Fund is pleased to have won the Raging Bull award for three years straight performance for 2023. As 31 December 2024, the fund once again ranks number one for three years straight performance (Morningstar).


## Contact us

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Application forms

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Sources: M&G Investments, Morningstar & Deutsche Securities