

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.

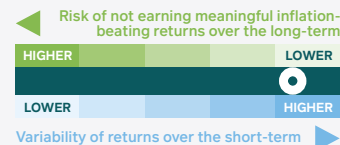
South African property fundamentals are stable with most REITS set to deliver a reliable stream of dividends supported by declining vacancies, improved reversions and falling interest rates. Retail reversions have turned positive and bode well for retail focused property funds, while office reversions 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.

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

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%	-

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). □

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Application forms

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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.