SA Property Equity Portfolio

June 2022

Key information

Benchmark

- FTSE/JSE All Property Index (net of fees)

Minimum portfolio size

- R1 million

Top 10 holdings*
Capital & Counties Properties
Emira Property Fund
Equites Property Fund
Fortress REIT Ltd
Investec Property Fund
Growthpoint Properties Ltd
NEPI Rockcastle PLC
Redefine Properties Ltd
Resilient REIT Ltd
Vukile Property Fund Ltd

*Sorted alphabetically

About the portfolio manager

Adriaan Pask, Chief Investment Officer

- 17 years of investment experience
- BCom (Financial Analysis)
- BCom (Hons) (Financial Management)
- MCom (Business Management)
- PhD (Economic and Management sciences)

About the lead analyst

Franco Pretorius, Head of Portfolio Management and Implementation

- 23 years of investment experience
- BCom (Economics)
- BCom (Hons) (Investment Management)

Overview

The PSG Wealth House View SA Property Equity Portfolio ended the month 10.00% lower, outperforming the FTSE/JSE All Property Index, which posted a negative return of 10.47%. Seven of the 18 portfolio stocks outperformed the benchmark. Since inception, the PSG Wealth House View SA Property Equity Portfolio had an annualised negative return of 6.95%, outperforming the FTSE/JSE All Property Index, which showed an annualised negative return of 7.20%.

Philosophy

We apply a disciplined, bottom-up, value-biased investment philosophy in our stock selection. The central concept underlying value investing is a margin of safety. This means that the share price should be trading at a discount to the intrinsic value of its underlying business. In our view, a company that has limited downside, contrasted with growth potential, qualifies as an attractive investment.

Accordingly, we prefer companies that currently seem undervalued in terms of fundamental analysis, while remaining cognisant of the momentum factors that drive shorter-term share price performance. In addition, we look for companies with a strong confidence rating, which means it does not have large or unmanageable debt positions. We ensure that the portfolio is diversified across multiple sectors.

Thus, investments are not only chosen on their potential value but also their quality. As such investments are screened for their profitability, the quality of their reported earnings, dividend policies as well as their financial structure. There is no guarantee that all the chosen companies will outperform; a few will more than likely underperform. However, the portfolio displays below-average risk and is fundamentally undervalued. As a group, their future investment returns should, therefore, be satisfactory.

Investment objective

In short, we aim to maximise long-term total return (the combination of income and growth of capital) by investing in high-quality JSE Listed property companies and REITs trading at a discount to our estimation of its intrinsic value. We expect the investment to rerate to its intrinsic value over the medium term, which if consistently applied, should lead to long-term capital growth. Through this process, we aim to grow wealth while consistently guarding clients against the risk of permanent capital loss.

Market commentary

The listed property sector was down 15.6% for 1H22 after a 22.9% rally during the 2021 calendar year.

Coming out of December 2021, the SAPY showed promise with prices and operating metrics recovering from the pandemic's trough. However, higher inflation, geopolitical uncertainty and recession fears led to the positive momentum reversing to a negative trend during February 2022.

Moreover, weak economic metrics (lower consumer confidence and rising fuel prices) led to weak demand, pressuring rental reversions across all segments. Counters with European and North American exposure are facing headwinds due to the economic impact faced by these countries in light of the Ukrainian war.

The SAPY's P/B retracted to c.0.71x, down since the last update, primarily due to market prices decreasing as opposed to book value shrinkage during the pandemic.

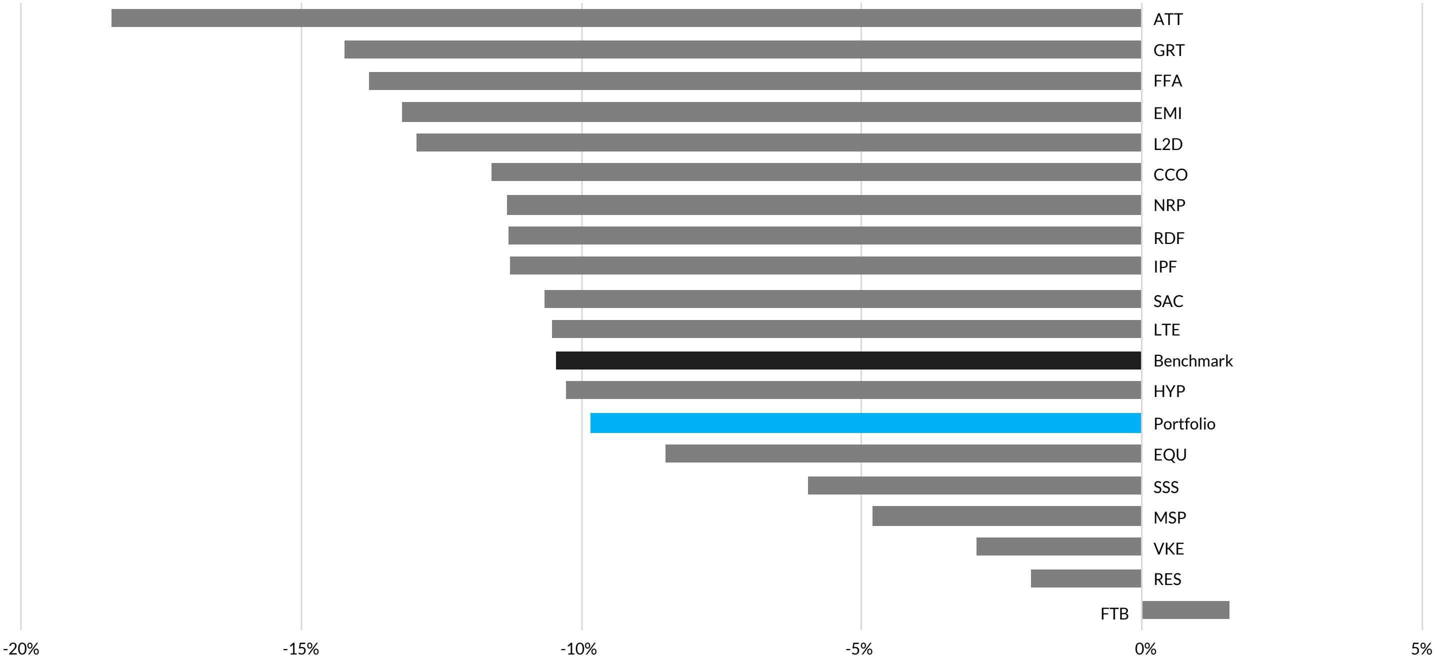
Despite the overall pressure on the index, a high diversion trend has originated, with specialists benefitting from e-commerce and demographic trends. Diversified REITs have been the hardest hit by weak demand and macroeconomic headwinds.

Retail properties have continued to improve, while counters with high essential tenants (grocers, pharmacies) in rural areas have seen the best operating performance. E-commerce trends among retail groups continue to rise aggressively; however, the total contribution to sales has not meaningfully increased. E-commerce expansion remains a longer-term threat to the segment.

Industrial properties are the most resilient, although economic headwinds have negatively affected rental reversions despite good occupancy levels.

We expect office sector vacancies to increase due to potential structural changes, such as corporates cutting costs and enabling employees to work remotely, as well as decreased employment and the shrinking workforce. Office properties' record-high vacancy levels continue despite management teams indicating peak vacancies during 1Q22.

Performance attribution



Significant contributors and detractors

Fairvest: FTB posted good metrics during an operational update and was up 1.58% for the month, in contrast with the primarily negative property sector.

Resilient: RES was down 1.98% for the month despite a decent operational update and share buybacks.

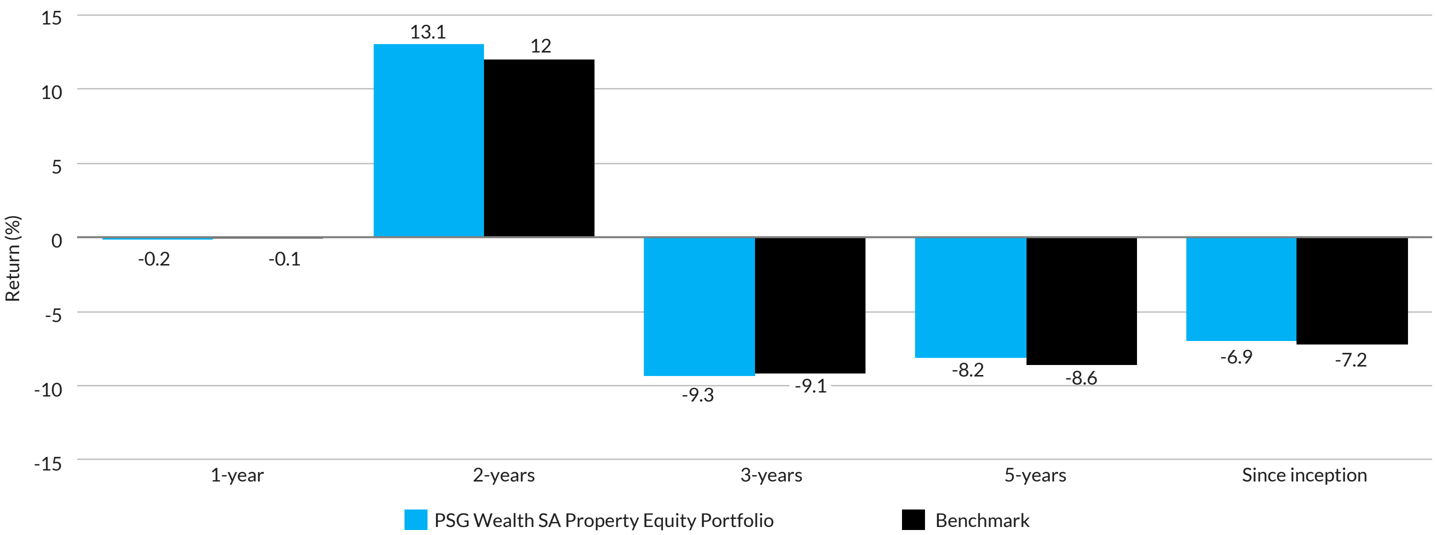
Vukile: VKE was down 2.96% despite good results; however, it still outperformed the JSE All Property Index by 7.5% on a relative basis.

Attacq: ATT was down 18.38% for the month after a trading update, which indicated improving vacancies in the Waterfall hub, likely due to substantial land holdings that were negatively affected due to the poor economic outlook.

Growthpoint: GRT was down 14.24% for the month after a trading update highlighted higher vacancies, citing macroeconomic headwinds as a cause.

Fortress A: FFA shares were down 13.79% after a firm intention by the board to collapse the dual share structure, which would arguably be prejudicial to A shareholders.

Annualised return percentage



*Gross fees

Notes on our reporting technique/method

1. Initial investments are always made within the specified target. Market movements may from time-to-time result in weights that are in excess of the target. Material deviations will be addressed through rebalancing within a 12-month period.
2. The proportion of stocks held in the portfolio that have an investment grade rating according to Bloomberg's default risk rating. Cash is added to this total.
3. Reflects the impact on the relative performance of the portfolio if the stock falls by 25%, assuming all other stocks are flat. Calculated as the active weight multiplied by -25% for the largest active position.
4. The percentage may occasionally rise above the specified target due to market movements, interest received, dividends and portfolio flows. Material deviations will be addressed through rebalancing within a 12-month period.
5. Total sales expressed as a percentage of the portfolio's market value at the end of the reporting period.
6. Management fees are not standardised. Return calculations are based on management fees of 1.5% for illustrative purposes.

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