

Nedgroup Investments Property Fund

Class A1

November 2017



INCOME RANGE

RISK RATING



Risk reward profile

Property investments are volatile by nature and subject to potential capital loss.

GENERAL INFORMATION

ASISA category

South African Real Estate General

Benchmark

ASISA Category Average

Investment manager

Bridge Fund Managers (previously trading as Grindrod Asset Management) is authorised as a Financial Services Provider under the Financial Advisory and Intermediary Services Act (FSP No. 29834).

Inception date

30 July 2010

Appropriate term

Minimum 5 years

Market value

R 2,947 Million

Income distributions

Frequency: Quarterly

September 2017: 2.78 cpu

Previous 12 months: 14.34 cpu

Fees and charges (excluding VAT)

Initial fees	0.00%
Annual management fee	0.75%

Total expense ratio	0.87%
Transaction costs	0.13%
Total investment charges²	1.00%

Please Note:

Differences may exist due to rounding

CONTACT

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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 capital appreciation as their primary goal over the long-term.

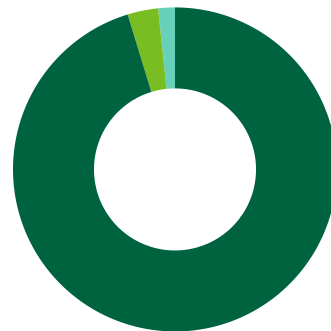
Performance¹

Period	Portfolio	Benchmark
1 year pa	0.8%	14.5%
3 Years pa	6.7%	9.7%
5 Years pa	10.2%	12.1%
7 Years pa	13.7%	14.2%
Since Inception	14.3%	14.6%
Lowest 1 year return	-9.4%	
Highest 1 year return	43.8%	

Risk

Period	Portfolio	ALSI
Volatility [5 years]	9.7%	11.0%

Portfolio structure



Real estate investment trusts	95.4%
Real estate holding & development	3.0%
Cash and money market	1.6%

Top 10 holdings

Share	Percentage
Rebosis Property Fund Ltd	10.1
Accelerate Property Fund Ltd	10.1
Delta Property Fund Ltd	9.7
Equites Property Fund Ltd	9.6
Arrowhead Properties Ltd - A	8.8
Tower Property Fund Limited	8.0
Dipula Income Fund Ltd - B	7.7
Safari Investments Limited	7.7
Octodec Investments Ltd	4.5
Indluplace Properties Ltd	4.3
Total	80.6

1) The annualized total return is the average return earned by an investment each year over a given time period. 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. Due to the delayed release of inflation data, relevant benchmarks will lag by one month.
Data source: © Morningstar Inc. All rights reserved.

2) 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 TERs. Transaction Costs (TC), expressed as a percentage of the Fund, relate to the costs incurred in buying and selling the underlying assets of the Fund. TC are a necessary cost in administering the fund and impact 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 investment costs of the Fund. Both the TER and TC of the Fund are calculated on an annualised basis, beginning 01/10/2014 and ending 30/09/2017.

INCOME RANGE

Investment manager commentary Bridge Fund Managers

Global financial markets responded positively to the prospect of imminent tax reform in the US which would reduce the corporate tax rate to as low as 20% and would lower the rate that companies pay when they repatriate foreign profits. Both the Dow Jones Industrial Average and the S&P 500 index soared to record levels and have now increased by 25% and 20% respectively this year. Global bond yields drifted sideways during November, as consumer inflation remained low and central banks maintained their highly accommodative stance.

At the end of November, S&P Global Ratings downgraded both South Africa's local and foreign currency credit ratings a further notch. The one-notch downgrade of the country's local currency rating takes it below investment grade, with the foreign currency rating two notches below investment grade. Moody's, who have yet to downgrade either rating below investment grade, placed South Africa on review for a downgrade. This will allow Moody's the opportunity to assess the impact of the outcome of the ANC's elective conference in December, as well as the 2018/19 Budget, which will be presented in February.

Despite the reprieve from Moody's and a stronger rand, South African bond yields continued to drift higher. The market is pricing in a high probability that Moody's will downgrade South Africa's credit rating to "junk" in the first quarter of next year. South Africa's listed property sector advanced 1.9% in November, despite the increase in bond yields and the stronger rand. The domestically-focussed listed property companies remain unloved and most are now trading on forward yields well in excess of the yield on government's benchmark R186 bond and are offering value for long-term investors.

During November, the Nedgroup Investments Property Fund declined by 4.9%, underperforming the FTSE/JSE SA Listed Property (SAPY) Index. Much of the relative underperformance in November can be attributed to the Fund's exposure to Arrowhead, which fell 22.0% during the month following the release of their year-end financial results. Although Arrowhead's 2017 results were broadly in line with analyst and fund manager forecasts, the outlook for 2018 has deteriorated following a significant increase in office vacancies, lower expected asking rentals and once-off income distributed during 2017 that won't be repeated in 2018. This will result in a 6.5% decline in distributions in 2018, according to management. Coming hot-on-the-heels of Octodec's disappointing outlook communicated to shareholders in October, the market's reaction to Arrowhead's revised guidance was both swift and severe. Based on current prices and management's guidance for negative distribution growth next year, Arrowhead is now trading on an extremely attractive forward dividend yield of 13.1%.

Property fundamentals in South Africa have deteriorated throughout 2017, following President Jacob Zuma's cabinet reshuffle at the end of March. The current operating environment is as tough as it's been in the past decade and as a result, distribution growth forecasts have been lowered for both 2018 and 2019. However, the current forward yields on many of the domestically-focussed listed property companies are extremely attractive when compared to their long-term historical averages, as well as the yield on government's benchmark R186 bond, notwithstanding the sharp increase in bond yields following the MTBPS and S&P's decision to downgrade South Africa's credit rating. The combination of a high initial income yield well in excess of 10% and inflation-beating distribution growth in the medium and long term should continue to deliver strong investment returns for long-term investors.

Based on a combination of FactSet, IRESS and Bridge Fund Managers' forecasts, the weighted average forward yield of the portfolio is currently 11.3%. Based on the same forecasts, the weighted average forward yield on the FTSE/JSE SA Listed Property (SAPY) Index is 7.4%, while the yield on government's R186 bond is 9.2%. The Fund continues to invest predominantly in small and mid-sized, domestically-focused listed property companies. For the most part, these companies continue to trade at large discounts to net asset value due to a lack of meaningful institutional support. This provides a significant opportunity for smaller investors or institutional investors that intentionally limit their absolute exposure to listed property (like Bridge Fund Managers). These property businesses offer investors attractive initial income yields above the yields on long-dated government bonds and growth in distributions that are forecast to exceed inflation over the short and medium term, despite the ongoing political and economic uncertainty.

Please note an important change that will be effective January 2018. Fund commentary will be produced on a quarterly basis, moving from the current monthly cycle, to provide an enhanced analysis of the fund over a longer period.

Who we are

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 Investments unit trust funds. It is a member of the Association of Savings & Investment South Africa (ASISA).

Our trustee

The Standard Bank of South Africa Limited is the registered trustee.
Contact details: Standard Bank, Po Box 54, Cape Town 8000,
Trustee-compliance@standardbank.co.za, Tel 021 401 2002.

Performance

Unit trusts are generally medium to long-term investments. The value of your investment may go down as well as up. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. 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.

Pricing

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. Prices are published daily on our website and in selected major newspapers.

Fees

Certain Nedgroup Investments unit trust funds apply a performance fee. For the Nedgroup Investments Flexible Income Fund and Nedgroup Investments Stable Fund, it is calculated daily as a percentage (the sharing rate) of total positive performance, with the high watermark principle applying.

For the Nedgroup Investments Bravata World Wide Flexible Fund it is calculated monthly as a percentage (the sharing rate) of outperformance relative to the fund's benchmark, with the high watermark principle applying. All performance fees are capped per fund over a rolling 12-month period. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments.

Disclaimer

Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. For further additional information on the fund, including but not limited to, brochures, application forms and the annual report please contact Nedgroup Investments.

Nedgroup Investments contact details

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