Overview

The PSG Wealth House View SA Property Equity Portfolio ended the month 16.72% higher underperforming the FTSE/JSE All Property Index (net of fees), which posted a return of 18.26%. Eight of the 16 portfolio stocks outperformed the benchmark. Since inception, the PSG Wealth House View SA Property Equity Portfolio had an annualised negative return of 16.22%, underperforming the FTSE/JSE All Property Index (net of fees), which showed an annualised negative return of 16.16%.

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 short-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 SA Listed Property Index (SAPY) ended 17.4% higher. Year-to-date the sector is poor-performing as rental collection comes under pressure due to the pandemic. Currently, the sector is trading at historical P/NAV lows, which is a reflection of the weak macroeconomic environment, the oversupply concerns in the retail and office sector, the reduced liquidity after the lockdown, the dividend pay-out prospects (with most REITs either cutting, deferring or withdrawing dividend payments to preserve liquidity), and large REITs falling off of major domestic and emerging indices.

The credit market continues to be dry, with liquidity at record lows. All REIT issuances have recently been private with significantly lower durations (when compared with pre-pandemic levels). It is likely that issuances will also be secured going forward, as there has been little take on for unsecured paper.

Overall, rental collection rates improved, i.e. large diversified REITs and REITs with high exposure to large regional malls have seen an improvement in collections, but defensive retail assets saw a deterioration. The office sector had the best collection rates during lockdown; however, these numbers are seeing some pressure. The office sector vacancies are expected to increase due to potential structural changes (as a result of a weaker economy) such as corporates cutting costs and enabling employees to work remotely.
**Significant contributors and detractors**

**Vukile Property Fund Ltd:** Vukile was the best performer in the portfolio, with a return of 45.0% for the month.

**Hyprop Investments Ltd:** Hyprop was down 40.17% for November. During the month, Hyprop announced that it has disposed of a mall in Nigeria and the proceeds will be used to settle all dollar-denominated debt.

**NEPI Rockcastle PLC:** Nepi Rockcastle ended the month 36.84% higher. Mid-November, the group announced that 75% of their gross leasable area (GLA) is operational due to the restrictions imposed on Central and Eastern European countries in which NEPI operates. However, at the end of the month, operational GLA amounted to 85%.

**MAS Real Estate:** MAS Real Estate was the worst performer and the only counter in the portfolio with a negative return for November. MAS was down 2.94%.

**Liberty Two Degrees Ltd:** Liberty Two Degrees was slightly up to 0.78% for the month.

**RDI REIT PLC:** RDI REIT was the second-worst performer in the portfolio, ending the month with a return of 3.50%. The group completed its UK retail park disposal at a slight discount to book value, resulting in the retail exposure falling by more than half. Proceeds will be used to repay debt. They also released FY20 results; on a pro-forma basis, LTV ratio decreased significantly, and the dividend was reinstated.
Risk and Return Attribution Analysis

Performance since common inception

<table>
<thead>
<tr>
<th>Time period: 30/11/2015 to 30/11/2020</th>
<th>Currency: South African rand</th>
<th>Source data: total, daily return</th>
<th>Return Std dev Excess return Sharpe ratio Worst quarter Max drawdown Up capture ratio Down capture ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSG Wealth House View SA Property Equity Portfolio</td>
<td>-16.22% 1.47% -0.05% 3.56 -49.14% -66.95% 83.7 98.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FTSE/JSE All Property Index (net)</td>
<td>-16.16% 1.49% N/A 3.49 -48.30% -68.39% 100 100</td>
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</tbody>
</table>

One-month performance

<table>
<thead>
<tr>
<th>Time period: 31/10/2020 to 30/11/2020</th>
<th>Currency: South African rand</th>
<th>Source data: total, daily return</th>
<th>Return Std dev Excess return Sharpe ratio Max drawdown</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSG Wealth House View SA Property Equity Portfolio</td>
<td>16.72% 2.47% -1.55% 10.31 -3.76%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FTSE/JSE All Property Index (net)</td>
<td>18.26% 2.25% N/A 11.46 -3.04%</td>
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</tbody>
</table>

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.