Please note that the commentary is for the retail class of the Fund.

Performance and fund positioning

Against the backdrop of a good results season, with most companies outperforming earnings growth expectations, the sector struggled to maintain the positive return momentum of 2024, delivering a return of -4% for Q1. Despite attempting some recovery mid-quarter, the overriding drivers of return were political and macroeconomic in nature, with an element of a risk-off trade linked to the potential fallout of the impasse surrounding the approval of the Budget probably the most influential. In addition, negative investor sentiment following the talk and eventually, just after quarter-end, the implementation of broad-scale trade tariffs by the US, will likely remain a recurring theme in the next few months, resulting in an undercurrent of continued market volatility.

Unit trust-linked capital flows into sector-specific funds remain volatile, with little evidence of potential support with longevity. It continues to be negative on a quarterly basis, with the last positive quarter being Q1-22. It also seems that the support which the sector received from larger institutional capital is waning, with the relative rating of the sector, as pointed out last quarter, already tight and offering limited upside. From a relative performance viewpoint, the sector lost substantial ground against the FTSE/JSE All Share Index (ALSI) and FTSE/JSE All Bond Index (ALBI) over 12 months and is now much more in lock step with equities and bonds. However, the sector still outperformed over three years. Over five years, the Covid-linked underperformance will gradually move out of the base, but the asset class's longer-term relative underperformance compared to equities and bonds – which goes back 10 years and more – will take longer to reverse. The FTSE/JSE All Property Index's (ALPI) one-year forward dividend yield is 8.6%, and that of the Fund is 8.4%.

Delivering a return of -4.6% for Q1, the Fund marginally underperformed the ALPI benchmark, but it continues to gradually close the underperformance gap over 12 months. Positions that added to the relative performance for the quarter include the overweight positions in NEPI Rockcastle, Fairvest B and Fortress, as well as underweight positions in larger, more liquid names like Redefine, Hyprop and SA Corporate. Value destruction over the quarter did come from our relative positioning in names like Attacq, Stor-age, Burstone, Hammerson, and Shaftesbury Capital. During the quarter, the largest increase in exposure occurred in Fortress and Vukile. The largest decrease in exposure occurred in Equites, Growthpoint and Burstone.

UK-linked companies, in particular, suffered this past quarter due to the uncertainty of how a higher tax burden, which came into effect on 1 April, will impact the occupier market, and the continued pressure on the UK bond market and overall borrowing costs. More recently, added relevance from a UK perspective is the inward listings of smaller sector specialists onto the JSE, as referenced in last quarter's commentary, which have now been included in some relevant sector indices. Directly exposed UK companies now comprise just under 10% of the benchmark ALPI index. Being smaller and less liquid, these names have attracted the attention of private capital looking to utilise the current disconnect between private and public capital requirements, gaining exposure at discounted levels to direct assets which are likely at a cyclical turning point.

The results season of companies with a December reporting period concluded in March. Distributable earnings per share growth for this reporting season came in at 6.9%, while dividend per share growth came in at 3.4%, with an average pay-out ratio of 83.8%. As with those companies reporting towards the tail end of 2024, offshore-focused companies were once again the laggards. When the offshore names are excluded from these numbers, the SA-centric names delivered distributable earnings per share growth of 8.0%, while dividend per share growth came in at 7.0%, with an average pay-out ratio of 85.4%. With this reporting season, the reporting of the 2024 financial year ends has concluded with a few names having a December year-end (rather than the more prevalent June or August/ September year ends in the sector). It is clear how earnings momentum has shifted as 2024 progressed, with the average distributable earnings per share growth for 2024 coming in at 1.1%, while dividend per share growth came in at -3.0%, thus much weaker than what companies have most recently reported.

The most noticeable characteristic of this past results season was how the benefit of alternative energy sources, mostly solar, has finally shone through. With most solar PV systems still tied to the electricity grid, the true benefit is only exhibited in times of limited loadshedding, which was the case in the latter part of 2024, which was part of this past reporting cycle. Depending on each company's own solar penetration, operating cost growth was kept to low single-digit numbers in many cases, supporting net operating income growth to outperform escalation rates. The sustainability of this benefit is dependent on how much more alternative energy sources can be rolled out in a portfolio, with cost-effective battery storage solutions, the next Rubicon to cross for most.

Key sector news beyond the reporting season during this past quarter related mostly to the continued expansion of SA-linked names into Iberia. Through its subsidiary Castellana, Vukile concluded the acquisition of Bonaire Shopping Centre in Valencia, a previously mooted deal with one of the world's largest public shopping centre owners, Unibail-Rodamco-Westfield, for just over R6bn. This takes Vukile's Iberian exposure to 65% of its total portfolio value. Lighthouse, where Resilient is a 30% shareholder, announced its fifth Iberian asset since the start of 2024, this time a centre located on the outskirts of Madrid. Spain continues to be one of the few shining lights in Europe with a robust economy underpinned by tourist number and consumer spending growth.

The SA Council of Shopping Centres (SACSC) published retail trading data related to Q4-24. Although the weighted average year-on-year (y-o-y) growth in trading densities remained similar between Q3-24 and Q4-24 in a broad 2% - 4%, it masks a strong move towards Community Centres (GLA of 12 000m² - 25 000m²), where y-o-y growth of 8.0% was achieved, up from 5.9% as at Q3-24. This came at the expense of two extremes – larger super regional and smaller neighbourhood centres – where y-o-y growth momentum continues to decline to low single digit. In our landlord interaction post Q4-24, feedback has, however, been that early 2025 trading data has been improving.

Outlook

Tumultuous is probably the best word to describe current investor sentiment against a backdrop of both local and international political and economic turmoil. The implications of both the disbandment of the GNU in its current form, locally, and globally, the macroeconomic fallout related to tariffs, interest rate policy and renewed inflation pressure, will be far-reaching. Operationally, albeit still in a positive state, the sector has already started to experience a decline in the strong momentum in rental and vacancy improvements, which have been a trend post the troughs of Covid-19.

Going forward, there is likely to be a natural tension between what interest rate policies around the globe will do amid potential inflation pressure and as a counterbalance, economic growth, with which direct property returns are usually closely correlated. The sector should deliver a return of high-single digit to low double digit through the cycle, but as a growth asset could be at risk for this not being achieved in the short to medium term, even if interest rates remain stable or are even cut globally. Within a heightened volatile trading environment, stock picking and nimble portfolio positioning will be key to counter all the potential headwinds.

Portfolio managers
Anton de Goede and Mauro Longano
as at 31 March 2025