MAZI PROPERTY COMPOSITE

Minimum Disclosure Document

Mazi Asset Management

31 October 2024

Fund Information

Composite Type:	Constrained Specialist Equity
Inception Date	April 2016
Fund Size	R 1 180 Billion
Manager:	Mazi Asset Management (Pty) Ltd
Contact Person:	Asanda Notshe asanda@mazi.co.za

Fund Performance Commentary - September 2024

A continuing feature witnessed in the third quarter of 2024 ("Q3 24") was the outperformance of domestic assets relative to foreign assets (assisted in part by the strengthening of the rand over the corresponding period). As we opined in the previous quarterly commentary, the rationale for this positive turn of events related to the formation of a Government of National Unity ("GNU") in the Republic.

Risk Statistics from Inception

	Mazi Property Composite	FTSE/JSE SA Listed Property TR ZAR
Return	1.61	1.34
Std Dev	21.47	22.65
Sharpe Ratio	-0.07	-0.10
Excess Return	2.42	0.00
Historical Tracking Error	15.62	0.00

Trailing Returns

Data Point: Return

Calculation Benchmark: FTSE/JSE SA Listed Property TR ZAR

	YTD	1 Yr	3 Yrs	5 Yrs	Since Inc
Mazi Property Composite	32.80	50.67	15.69	4.85	1.61
FTSE/JSE SA Listed Property TR ZAR	32.40	51.56	15.51	4.37	1.34

Investment Objective

To sustain high long term capital growth.

Investment Approach

Our investment process is firmly rooted in fundamental analysis. Our approach is predominantly bottom-up and sector agnostic. Key Investment criteria include:

- Quality of management;
- Good corporate governance and transparency;
- Cashflow and balance sheet strength;
- Business strategy and sustainability of business model.

Top Ten Holdings at 31 October 2024

	Sector:
NEPI Rockcastle NV	Real Estate
Growthpoint Properties Ltd	Real Estate
Redefine Properties Ltd	Real Estate
Fortress Real Estate A	Real Estate
Vukile Property Fund Ltd	Real Estate
Resilient REIT Ltd	Real Estate
Hyprop Investments Ltd	Real Estate
Equities Property Fund Ltd	Real Estate
Attacq Ltd	Real Estate
Sirius Real Estate Ltd	Real Estate

Monthly Returns - Mazi Property Composite

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR	BMARK
2024	3.67	1.11	-0.83	-0.79	0.08	6.16	4.43	8.33	5.11	-2.78			26.67	43.9
2023	-0.93	-0.50	-3.38	5.34	-5.21	0.90	1.97	1.13	-4.08	-2.88	9.09	9.04	9.65	10.1
2022	-3.08	-3.53	5.59	-1.95	0.29	-10.13	8.73	-5.28	-6.68	12.07	6.77	0.87	1.21	0.5
2021	-3.02	7.68	1.33	12.37	-2.95	3.58	-1.21	7.77	-0.78	-2.05	2.02	7.96	36.21	36.9
2020	-3.91	-15.00	-32.99	5.87	1.28	9.44	-3.20	-7.52	-3.08	-9.54	18.50	12.38	-32.89	-34.5
2019	7.66	-4.60	-2.20	2.97	-0.99	1.98	-2.10	-3.54	0.01	1.97	0.17	-1.56	-0.80	1.9

Market Commentary - September 2024

Overview

Table 1 provides a snapshot of asset class returns over the quarter and for the last twelve-month ("LTM") period.

Table 1 - Asset Class Total Returns expressed in Rands (%)

Asset Class Returns - ZAR (%)	Q4 23	Q1 24	Q2 24	Q3 24	LTM
Domestic Equity	8.2	-2.3	8.2	9.6	25.4
Domestic Property	16.4	3.9	5.5	18.7	51.3
Domestic Fixed Income	8.1	-1.8	7.5	10.6	26.2
Domestic Inflation Linked Bonds	6.0	-0.4	2.4	4.8	13.4
Domestic Cash	2.1	2.0	2.1	2.1	8.6
Foreign Equity	7.9	12.1	-0.6	0.7	21.1
Foreign Fixed Income	4.9	1.4	-4.7	1.0	2.4
USD	-2.9	3.6	-3.6	-5.6	-8.5

A continuing feature witnessed in the third quarter of 2024 ("Q3 24") was the outperformance of domestic assets relative to foreign assets (assisted in part by the strengthening of the rand over the corresponding period). As we opined in the previous quarterly commentary, the rationale for this positive turn of events related to the formation of a Government of National Unity ("GNU") in the Republic. This positive political outcome, combined with attractive domestic asset valuations provided a solid underpin. Absent any exogenous shocks (such as rising geopolitical tensions in the middle East), these underling factors should continue to provide tailwinds for domestic asset price appreciation *over the medium term.*

The star performer for the quarter under review was domestic property – posting an 18.7% gain. For the year, this asset class has now provided an astonishing 51% total return. With the benefit of hindsight, the pandemic-induced vacancies in the property sector and the associated indiscriminately aggressive mark down in valuations provided a great opportunity for the astute investor.

Domestic fixed income posted a very respectable 10.6% for the quarter under review, and 26% for the past 12 months. Close on the heels of domestic fixed income was domestic equity at 9.6% and 25.4% for the quarter under review and for the year respectively. Interestingly – and somewhat tongue-in-cheek – a year ago, our internal proprietary top-down valuation models predicted a domestic total equity return range of between 13% and 39% with a BASE case of 27%. Roll forward a year and the actual return of 25% is pretty close to our BASE case. The sources of return can be attributed to the initial dividend yield (as at Sep-2023) of 4.3%, plus trend earnings growth of 11.9% (the underlying intrinsic growth rate of SA equity), and 7.4% from a change in valuation (from a trend PE multiple of 9.9x to 10.6x). A word of caution – our models are determined over a 36-month period. We do not pat ourselves on the back that over a 12-month period our forecasts approximated the actual return. We are far more interested in what our models suggest over the medium term. As Charlie Munger once said, "in the short-term (read 12 months), the market is a voting machine, but in the long run it is a weighing machine."

In the US, there has been a softening in the labor market, which compelled the Federal Reserve to initiate the easing cycle with a larger than expected 50bps cut. Most central banks, including the SARB, moved in unison with the Fed. As it stands, we are less concerned about the risk of recession, and on the balance of probabilities we do expect a soft landing in the US, and given there are plenty of tools at the disposal of central banks to mitigate any hard landing scenario.

Global equity market advances were negated by a stronger Rand Dollar exchange rate over the period under review. Global fixed income took the wooden spoon for the quarter and has now also delivered only a marginally positive return over the past twelve months when measured in Rands.

Property Review Q3 2024

The listed property sector led both domestic equity and fixed income for the quarter. Year-to-date, the SA property sector has performed well, with the outperformance attributed to a lower interest rate profile, improving property fundamentals, improvement in energy supply and positive domestic sentiment.

Over the quarter, our core property overweight positions include Attacq, Redefine, Vukile, Fortress and Spear. Underweights included Growthpoint, Stor-Age, Fairvest, Burstone, and Hyprop. This portfolio is valued at an aggregate forward dividend yield of 7.8% and a 15% discount to NAV; the sector is now closer to fair value, and the value on a relative basis is less compelling given the rally over the last 6 months.

The listed property sector delivered positive total returns in Q3 2024, with the SAPY and ALPI generating total returns of 18.70% and 19.14% respectively. The sector outperformed bonds (10.60%), cash (2.11%) and equities (9.61%). The portfolio outperformed the SAPY index, delivered 18.91%, 21 basis points ahead of the benchmark.

Contributors to performance in the quarter include Fortress (2.5% OW, +60bps contribution), Redefine (2.5% OW, +58ps), and Vukile. (2.0% OW, +43bps). Detractors were Hyprop (2.0% UW, -84bps detraction), Burstone (1.7% UW, -52bps), and Fairvest (-1.9% UW, -33bps).

The quarter was categorized by a steady stream of results. These include Growthpoint, Attacq, Hyprop, Fortress and MAS (full year results). Interim reports were Resilient, Lighthouse, NEPI Rockcastle and SA Corporate. Attacq, Resilient and NEPI delivered good growth, with Attacq the standout, delivering 19.9% distribution growth, primarily due to a lower LTV and funding costs post the AWIC/GEPF transaction.

NEPI Rockcastle also delivered decent distribution growth of 5.6% in Euros, underpinned by strong retail sales, letting and cost savings, with room for growth through acquisitions and developments. Fortress reported solid results, with distributable earnings 5.2% ahead of company guidance. They also declared a final dividend that could be settled in in cash or Nepi shares at a 30% premium to spot. This move should help reduce the implied discount on the rump of the business (rump) & maintain a healthy balance sheet.

Resilient delivered distribution growth of 7.8% and increased its full year guidance from 410-420c to 428c, attributing better expected financial performance to cost control, solar rollout and strong sales in the domestic portfolio.

Interest rates have finally turned the corner, and we anticipate some medium-term benefit from the impact of lower funding costs. Cost control for domestic REITs has also improved markedly, and this will also flow to the bottom line, while improved liquidity through DRIPs, average payout ratios of 85%-90%, and equity raises means there is enough "dry powder" available for both defensive and expansionary capex. Domestic rental growth may remain low, but negative reversions are lower, and vacancies have stabilized. This should see some positive earnings impact.

The top ten active positions relative to our internal benchmark as at the end of the quarter are presented herein under:

Table 3 - Top Ten Active Positions Relative to SAPY Benchmark

Top 10 Overweight		Top 10 Underweight	
Name	OW(%)	**Name**	**UW(%)**
Redefine Properties Ltd.	2.49	Hyprop Investments Limited	-2.00
Fortress Real Estate Investments	2.46	Growthpoint Properties Limited	-2.00
Vukile Property Fund Limited	2.02	Fairvest Limited Class B	-1.92
Attacq Limited	1.99	Stor-Age Property REIT Ltd.	-1.89
Spear REIT Ltd.	1.76	Burstone Group Limited ZAR	-1.68
Equities Property Fund Ltd ZAR	1.05	MAS P.L.C	-1.57
Hammerson plc	0.98	Sirius Real Estate Limited	-1.56
NEPI Rockcastle N.V	0.77	Lighthouse Properties Plc	-1.08
South Afrrican Rand	0.39	Emira Property Fund Ltd.	-0.80
SA Corporate Real Estate Ltd.	0.37		