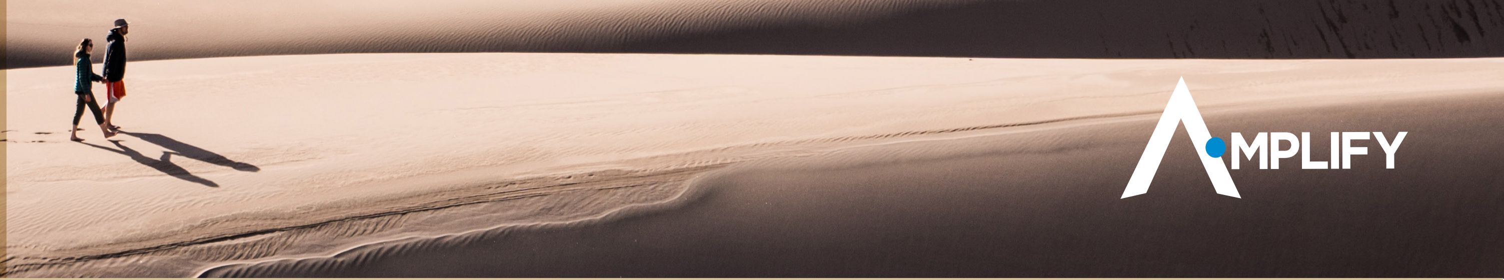
Amplify SCI* Property Equity Fund

Fund Commentary | September 2024



Fayyaz Mottiar
Portfolio Manager
Sanlam Investment Management

"Domestically, we continue to see improving sentiment flow through all aspects of the economy with an improving currency and strengthening yields supporting valuations across the listed property sector."

Market overview

Divergence in views over the US rate cut

From a global perspective, the downward cycle in global interest rates has begun (with few exceptions) where the US Federal Reserve (Fed) started the cutting cycle with a larger than anticipated 50-bps cut in September, which has created a divergence in views on the potential impacts of this. The bullish argument is that the rate cutting cycle may prove to be more aggressive with a soft economic landing supportive of positive momentum for risk assets, while the bearish view is that the Fed is behind the curve in reducing interest rates and the potential of a recession has risen, which would be negative for valuations across risk assets and potentially even more across emerging markets.

China has also begun actively stimulating its economy as it has struggled since the onset of the Covid pandemic, with active measures taken across multiple areas of its economy. The South African Reserve Bank opted for a more cautious 25-bps reduction in interest rates, with room for more aggressive cutting in its coming meetings as inflation continues to cool well within its target band.

Green shoots are emerging on the domestic outlook

Domestically, we continue to see improving sentiment flow through all aspects of the economy with an improving currency and strengthening yields supporting valuations across the listed property sector.

Loadshedding has remained suspended for over 190 days, which has reduced operating costs for landlords and tenants across the economy. The Government of National Unity has weathered early teething issues but will be challenged in the coming months to see whether the national coalition can be replicated at a municipal level and whether the success or failure of this will have any bearing on the national status quo. The economy will benefit from additional stimulus from pension reform from the final quarter of 2024, supported by lower inflation and interest rates together with continued suspension of loadshedding, has seen the emergence of green shoots on the domestic outlook, which still requires structural reform to sustainably improve the medium-term growth outlook.

Listed property a beneficiary of the economic optimism

The listed property sector has been a beneficiary of the renewed optimism around domestic financial assets, with the sector benefiting from renewed investor interest, improving operating metrics and lower government bond yields, which has seen the sector enjoy upward momentum throughout 2024. This momentum has been broad-based and has seen improved ratings across the sector, which creates opportunity for active managers as bottom-up fundamentals remain divergent and relative performance from current levels are likely to show meaningful divergence as fundamentals over the short-to-medium term become ever more important.

While there is certainly an improving domestic economic outlook, share prices in the short term look to have run ahead of their fundamentals in certain instances, with others still trading at relatively attractive valuations to their intrinsic value, which provides us with the opportunity to identify attractive opportunities where share prices are not reflective of intrinsic value.

Portfolio performance and positioning

Performance

The fund returned 30.4% year-to-date (YTD) to the end of September 2024, which was an outperformance of both the median manager and the FTSE/JSE SA Listed Property Index (SAPY), which delivered returns of 27.3% and 30.0% respectively. YTD to the quarter ended September 2024, the SAPY delivered a total return of 30.0%, outperforming equities (16.0%), bonds (16.7%) and cash (6.3%).

Amplify SCI* Property Equity Fund

Fund Commentary | September 2024

Fayyaz Mottiar
Portfolio Manager
Sanlam Investment Management

"Domestically, we continue to see improving sentiment flow through all aspects of the economy with an improving currency and strengthening yields supporting valuations across the listed property sector."

Positioning

The Amplify Property Equity Fund is an active, pragmatic value fund within the property sector. The fund's remarkable historical success is in part attributed to the unconstrained nature of the portfolio, which is benchmark aware but not benchmark cognisant. In practice this means that the fund can deviate significantly from the benchmark through the cycle, where opportunities are identified.

Our primary objective is to be invested in the highest quality companies for the long term. The deliberate and active way in which the fund is managed can result in periods of higher volatility relative to the benchmark, to deliver results that are driven by the robust process, and portfolio managers' conviction.

INTELLIGENT IMPACT THAT MATTERS