Marriott Property Income Fund

30 June 2022

This Minimum Disclosure Document (MDD) provides investors with key information that is intended to assist the investor in understanding the nature and risks of investing in this fund.

Fund Objective and Investment Approach

The Marriott Property Income Fund has as its primary objective long term growth in dividend (or rental) income and hence capital. To achieve this objective, apart from liquid assets, securities normally to be included in the portfolio will be financially sound listed property shares, collective investment schemes in property and property loan stock. The portfolio will consist of a carefully selected spread of prime listed commercial and industrial property securities of at least 85% of the market value of the portfolio.

Fund Information

Registered Name	Marriott Property Income Fund
Fund Size	R 273,005,792.71
Price (NAV)	567.91 cpu
Distribution	12.4075 cpu

Key Features

Fund Classification (ASISA)	South African – Real Estate – General
Inception Date	1 February 2000
Base Currency	ZAR
Minimum Initial Investment	R500
Minimum Additional Investment	R300
Minimum Debit Order	R300
Distribution Declaration Dates	31 March, 30 June, 30 September, 31 December
Distribution Payment Dates	3 to 4 working days after declaration
Instruction Cut-off	15h00 daily
Fund Valuation Frequency	15h00 daily

Risk Category Moderately Aggressive

Low Medium High

This fund may have a moderate income stream but aims for a long term return greater than inflation. It also aims for a high level of long term growth on invested capital but may be exposed to a high level of capital volatility.

Fees (excluding VAT)

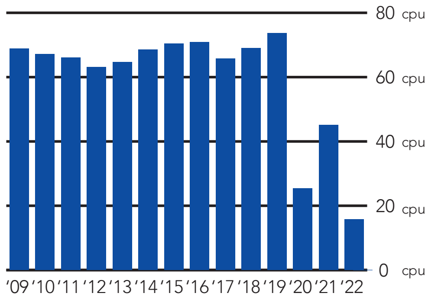
Marriott Initial Fee	0 %
Marriott Annual Management Fee	1 %
Advisor Initial Fee (max)	3 %
Advisor Annual Fee (max)	0.5 %

TER/TC (including VAT)

Total Expense Ratio	1.18 %
Transaction Costs	0.18 %

Distributions Since 2009

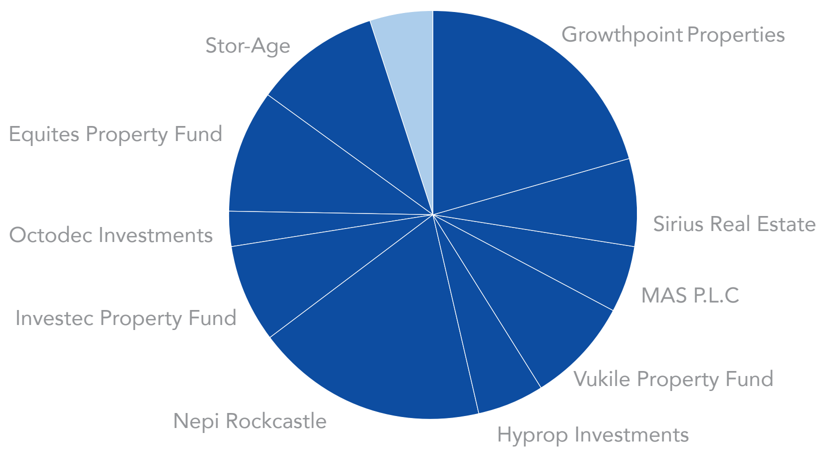
(Paid quarterly in cents per unit)



Source: **Marriott**

Current Asset Allocation By Security

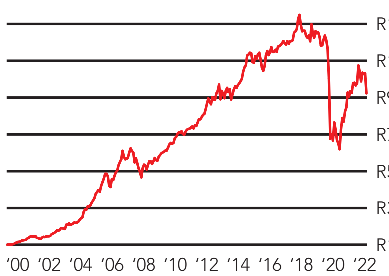
● Real Estate Inv Trusts 95.1% ● RSA Money Market 4.9%



Source: **Marriott**

Total Returns Since Inception

(Assuming R100,000 invested at inception)



Source: **Marriott**

Fund Limits and Constraints

The fund will restrict its investments to listed property and liquid assets. The fund may increase liquidity to 15% if it is deemed necessary by the Fund Manager.

Performance

Net of all fees and expenses as per the TER disclosure (including income)

Annualised (pa)	1 year	2 years	3 years	4 years	5 years	Since Inception (Feb 2000)	Volatility of Return Since Inception: Highest 12 Months	Volatility of Return Since Inception: Lowest 12 Months
Income Return	5.7%	6.4%	5.6%	5.9%	6.1%	8.8%	-	-
Price Return	-7.0%	3.4%	-15.3%	-13.4%	-11.0%	1.6%	-	-
Total Return	-1.3%	9.8%	-9.7%	-7.5%	-4.9%	10.4%	63.6%	-49.0%

Source: **Marriott**

For periods longer than 12 months annualised performance figures are used. An annualised performance figure represents the compounded average return in percentage terms earned by the fund over the given period of time.

Portfolio Security Yields

Company	Weight	Yield
Growthpoint Properties	20.8%	10.0%
Nepi Rockcastle	18.5%	7.0%
Equites Property Fund	9.8%	9.1%
Stor-Age	9.8%	8.0%
Vukile Property Fund	8.1%	8.2%
Investec Property Fund	7.6%	10.0%
Sirius Real Estate Ltd	6.9%	4.0%
Hyprop Investments	5.4%	9.6%
MAS P.L.C	5.4%	7.4%
Octodec Investments	2.9%	13.0%

Source: **Marriott**

Commentary

The South African Listed Property Index (SAPY) posted negative returns of -11.56% for the quarter ended June 2022, underperforming both bonds (-3.71%) and equities (-10.65%). Investors are growing increasingly concerned about recession risks, driven by the universal spread of inflation, more substantial interest rate hikes, supply chain disruptions due to China's lockdowns, and escalating sanctions related to Russia's war in Ukraine. Inevitably, the past decade's worth of historically loose monetary policy and quantitative easing has begun to unwind. This has undoubtedly created a feeling of operating in unfamiliar territory for the market.

In theory, real estate should be a good hedge against inflation. This is based on the assumption that leases are indexed against inflation and therefore are able to capture that income growth. Subsequently, valuations should rise given higher income growth and replacement costs. In theory, this argument should be relevant regardless of the cause of inflation. If higher prices are underpinned by stronger economic growth ('demand-pull inflation'), then this should support real estate demand and strengthen landlords' pricing power; or if it is underpinned by increased costs of labour or raw materials ('cost-push inflation'), then it will restrict supply.

However, the evidence is still relatively mixed as the inflation hedging properties of real estate generally arise through its strong link to economic growth. In the current environment, more inclined to cost-push inflation, owners are more exposed to the risks of slower economic growth and therefore reduced occupier demand.

The perfect lease in the current environment would include regular index-linked rent increases based on the prevailing inflation rate, as well as clauses allowing the pass-through of any costs to the tenant. Shorter lease duration sectors, such as apartments and storage, provide more flexibility to adjust leases almost instantaneously - in effect quickly responding to higher demand or higher costs. From a regional perspective, Europe offers the best inflation hedge. This is underpinned by the widespread use of indexation and differentiates the region from its global peers. In South Africa, leases usually have built-in escalations of c.7%. It is comforting that the vast majority of our investments have rentals indexed against inflation or annual contractual escalations and therefore serve as a partial inflation hedge.

From a sector and regional allocation perspective, we have seen a wide bifurcation in performance. In the current environment, sectors with strong fundamentals and pricing power are better positioned to raise rents and achieve inflation-beating cash flow growth. On the contrary, sectors with weak fundamentals and high vacancy rates will find it challenging to achieve any rental growth. An example of varying performance is, the storage sector, which has proven to be uncorrelated to economic growth. During a recession, in which businesses are shutting down and households are downsizing into smaller homes, the storage sector is usually a beneficiary; as there is increased demand for storage space, landlords can command higher rentals. It is therefore important to identify sectors and regions that can grow revenues faster than inflationary pressures and thereby remain reasonably resilient in the face of a challenging environment.

Regarding the subsequent impact of inflation on interest rates, REITs have historically adopted and pursued interest rate hedging as part of their risk management strategies. This is done to improve income predictability; thus, the sector is relatively well protected against a short time rise in rates. On average, 81% of debt is hedged for a weighted average period of 2.8 years. In addition, executive management teams have done well to deleverage their balance sheets, and in turn, reducing portfolios' overall riskiness and sensitivity to further asset devaluations. Higher inflation also erodes the real value of any debt used to finance investments.

During June, we had the opportunity to perform due diligence on our investments, Nepi Rockcastle and Castellana Properties (a subsidiary of Vukile). Nepi Rockcastle owns and develops best-in-class shopping centres in Central and Eastern Europe. These regions are experiencing high economic growth, have low unemployment rates, an educated workforce and low government debt - a recipe for success in a normalized environment and quite contrasting to the current local situation in SA. Approximately 98% of the portfolio are based in countries that are NATO members and have no exposure to either Ukraine or Russia. The site visit revealed that turnovers have recovered and even exceeded pre-pandemic levels. Consumers are excited to resume normal activities by flocking to the shopping centres as a place to shop as well as entertainment. Although these consumers will undoubtedly be susceptible to the same pressures as the rest of the world, on a relative basis, we are confident that these economies will weather the economic pressures better than their Western European counterparts and South Africa. The company's strong development and asset management functions also enable it to continuously improve its portfolio to enhance returns. The company is geared conservatively with an LTV ratio of 32% and 100% of the debt hedged over the next two years. This means that contractually, Nepi Rockcastle will benefit from locked-in escalations at CPI, with no subsequent increases in debt cost, given that the debt is hedged over the short to medium term.

Castellana Properties, a subsidiary of Vukile, own regional shopping centres and retail parks in Spain. Although uncertainty looms around due to the current situation in Ukraine and its impact on consumer discretionary spending, the ECB expects Spain to outperform the Eurozone. Castellana acquire older properties in which they believe there is significant potential. The intention is to conduct asset management initiatives or enhance the tenant mix to add value and maximize returns. Management has been successful in their strategy thus far of improving the portfolio occupancies, turnover, and footfall growth. The Inditex brand (which originates in Spain) plays an integral part of the portfolio, especially considering the fashion culture in Spain. The apparel segment has been deemed to be less vulnerable to online pressures due to consumers wanting to touch and fit on garments before purchase. Monthly data indicates that Castellana has also reached 2019 levels in terms of footfall growth and turnover. Within the retail sector, if tenants can grow their sales above inflation, then landlords can receive their contractual escalations, without hindering tenant affordability and occupancy cost ratios. Time will tell whether inflation will impact tenant sales significantly, but so far, the trading statistics are positive for both Nepi Rockcastle and Castellana.

From a South African perspective, rentals remain under pressure, and vacancies are at all-time highs - although the negative traction seems to be stabilizing. We have positioned our portfolio in what we believe to be the best available defensive stocks that should be able to weather the current economic challenges. Half of the portfolio is invested offshore on a NAV basis. This includes Nepi Rockcastle, MAS Real Estate, a developer of residential and retail parks in CEE and Sirius, an owner of German business parks. Additionally, we have indirect look through global exposure through our SA holdings, for example, Vukile and its subsidiary Castellana, Stor-age, an owner and operator of Storage units and Equites, an owner and developer of logistics facilities. The logistics sector is experiencing various tailwinds due to supply chain optimization, adoption of e-commerce and shift towards onshoring. For broader South African exposure, we have exposure to Growthpoint, South Africa's largest diversified REIT – who also have a significant part of their portfolio underpinned by offshore properties.

During the lockdowns, the sector has undoubtedly faced one of its toughest tests, and although it did not come out unscathed, it has made significant headway in cleaning up both the income elements and balance sheets for their respective portfolios. The resumption of normal activities, rebasing of rentals, elimination of unsustainable income streams, deleveraging of balance sheets and reconfiguration of debt, all point to a much more sustainable income stream for investors. We, therefore, feel much more comfortable in the prospects for the sector, given the much cleaner albeit lower base. As the broader market sell-off occurs, it is important to be mindful of the different dynamics of the various portfolios within the sector and the opportunity it presents to active managers to select quality names at a discount to fair value. We have paid careful attention to only select investments that we believe will remain resilient over the long term, and as cash flows and dividend payments begin to come through and grow consistently, it is entirely plausible that the quality names will emerge resilient. The Marriott Property Income fund currently offers a distributable income yield of 9% and growth of 5%.

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