Wellington Global Property Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

Global equities rose in September. Stocks fell sharply at the beginning of the month after declines in some mega-cap technology stocks and signs of a cooling US economy rippled across the globe and stoked concerns about the state of the global economy. However, stocks rebounded following a sizable 50 basis points interest-rate cut by the US Federal Reserve and a more forceful Chinese stimulus that bolstered market sentiment. Lower energy prices helped to ease inflationary pressures, and resilient labor markets in the US, Europe, and Japan reinforced the view that the global economy could achieve a soft landing. However, some key economic indicators were mixed across many developed nations, with services PMIs remaining in expansionary territory, while manufacturing PMIs continued to show sustained weakness. In China, markets were encouraged by more substantial policy support from the People's Bank of China, which aimed to revitalize the country's economic recovery. Politics garnered greater attention amid a close US presidential race and leadership changes in other countries; Shigeru Ishiba was elected as Japan's prime minister, Michael Barnier became France's prime minister, and Claudia Sheinbaum was sworn in as Mexico's first female president. Geopolitical risks intensified, with escalating conflict in the Middle East threatening to ignite a broader regional war after Israeli forces killed Hezbollah leader Hassan Nasrallah in Beirut.

The FTSE EPRA/NAREIT Developed NET returned 3.0% over the month. Within the index, 13 out of 14 sectors rose over the period. Home builder and industrial/office were the top performing sectors, while diversified and multifamily were the bottom performing sectors over the month.

FUND PERFORMANCE AND ATTRIBUTION

- The fund modestly underperformed the index for the period, however delivered overall positive returns.
- Security selection was the primary driver of relative underperformance. Weak selection in home builder, diversified and warehouse was partially offset by selection in healthcare real estate, retail - shopping centers and specialty finance. Sector allocation, a result of our bottom-up stock selection process, contributed to returns. Allocation effect was driven by our overweight to home builder, but partially offset by our overweight to lodging.
- At the issuer level, our top two relative contributors were overweights to American Healthcare REIT and TAG Immobilien, while our top two relative detractors were overweights to Mitsui Fudosan and Lineage.
- Shares of American Healthcare REIT, a US-based healthcare-focused real estate investment trust, rose over the period. The company announced a plan to sell $350 million in new shares, and then proceeded to use the raised capital to exercise its option to buy the remaining portion of Trilogy REIT from its joint venture partner. Shares of Mitsui Fudosan trended lower during the period along with other Japanese real estate stocks on concerns that mortgage rates will increase and slow demand after the nation's central bank raised its benchmark interest rate.

FUND POSITIONING AND OUTLOOK

Over the past twelve months the market has wrestled with where growth and inflation will stabilize. Volatile base effects have made an assessment challenging. Still, the swings in market expectations have been extreme, ranging from 7+ rate cuts to a right hike. Betting that the pendulum of sentiment will swing back and forth has been fruitful. As such we believe recent economic negativity is unwarranted. Concerns that the Fed was behind the curve should abate following a 50bps rate cut, which we believe materially takes the risk of recession off the table. While growth has decelerated in recent months, we believe the combination of US rates cuts, Chinese stimulus, and a weakening dollar will stabilize an already healthy economy and labor market in the US. Interestingly, both the ISM and the Financial Conditions Index (FCI) rose in September. Inflation is also poised to reaccelerate with the Shanghai Shipping Index and apartment rents moving higher. We suspect the Fed will be changing their tune on rate cuts by early 2025. In fact, we see a greater risk to no landing than a soft landing. These factors caused us to shift our portfolios more cyclical. However, the outcome of the US election will have a significant impact on future growth and inflation. Consequently, we will be ready to pivot again if necessary.

Historically, REIT performance is mixed during periods of accelerating inflation with better performance in periods of weaker growth than stronger growth, interest rates being the key variable. We believe rates are range bound between 3.5% and 5.0%, but that is predicated on not seeing inflationary government policies, such as tariffs. This cycle, we see REITs as being a better inflation hedge due to low new supply, creating a backdrop for sustained rent growth. With a base case of structurally higher inflation, we are underweight long lease duration and leverage in favor of economic sensitivity and business models that can generate income growth greater than inflation such as data centers, lodging, senior housing, advertising, office, home builders. We also favor regions with greater political stability such as the UK, Japan and the UAE.

At the end of the period, our largest overweights were home builder and retail - shopping centers. We were most underweight to specialty finance and warehouse. From a regional perspective, our largest overweights were United Kingdom and Developed Europe & Middle East ex UK. We were most underweight to Developed Asia Pacific ex Japan and North America.

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