Wellington Global Property Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

Global equities rose in June. The global landscape was marked by disparities in inflation and economic growth across countries, which continued to drive a divergence in interest-rate expectations and policy decisions among central banks. Mixed signals from the US Federal Reserve heightened uncertainty around the timing and frequency of rate cuts amid a backdrop of moderating inflation and softer economic indicators. The European Central Bank began easing policy rates, but indicated a patient, data-dependent approach to future cuts and upward revisions to inflation projections in 2024 and 2025. The Bank of Japan left interest rates unchanged and signaled plans to significantly reduce bond purchases. French President Emmanuel Macron unexpectedly dissolved the National Assembly, igniting a two-round snap election. The country's National Rally party won the first round of voting, although the outcome of the elections remains uncertain. In China, soft activity data suggested the economic recovery decelerated ahead of the highly anticipated Third Plenum meeting in July. Indian Prime Minister Narendra Modi won a third consecutive term, but his Bharatiya Janata Party unexpectedly failed to win an outright majority in parliament, creating uncertainty about the government's economic agenda.

The FTSE EPRA/NAREIT Developed NET returned 0.3% for the month. Within the index, seven out of 14 sectors rose over the period. Self-storage facilities and multifamily were the top performing sectors, while home builder and industrial/office were the bottom performing sectors for the period.

FUND PERFORMANCE AND ATTRIBUTION

- The fund modestly outperformed the index for the month.
- Security selection was the primary driver of relative outperformance. Strong selection in office, home builder and real estate technology was partially offset by selection in retail - shopping centers and self-storage facilities. Sector allocation, a result of our bottom-up stock selection process, detracted from returns. Allocation effect was driven by our overweight to home builder and lodging and underweight to self-storage facilities, but partially offset by our underweight to office and overweight to real estate technology.
- At the issuer level, our top two relative contributors were overweights to Iron Mountain and AvalonBay Communities, while our top two relative detractors were an overweight to Klepierre and an out of benchmark allocation to Berkeley Group.
- Shares of Iron Mountain continued to trended higher following positive Q1 24 results released in May. Results showed the business is performing well and it's on track to continue their growth trajectory. Management reaffirmed its outlook for 2024 and announced a quarterly cash dividend of 65 cents per share for Q2 24. Shares of Klepierre, a property management services provider, declined during the period. Political uncertainty is creating a greater slowdown in the property market following the dissolution of parliament ahead of the snap legislative elections.

FUND POSITIONING AND OUTLOOK

In the past nine months, the market has swung from higher-for-longer inflation & interest rates to recession fears and 7+ interest rate cuts back to higher-for longer inflation and few if any rate cuts. During this period our economic model has deviated little. We remain of the view that a recession was unlikely and that we're firmly early economic cycle, with COVID being the end of the post-GFC cycle and the beginning of a new cycle. Just as the GFC created extreme base-effects in the data, so did COVID. We aim to look through this noise by examining the data on a rolling 2-year basis to get a better sense of the true trajectory. Today, we see economic data improving over multiple indicators: ISM, PMI, rail traffic & truck traffic, bank loan growth, and credit delinquencies. However, we also see inflation re-accelerating driven by the Shanghai Shipping Index, housing costs (both HPI and OER inflecting up), and a tight labor market. We believe inflation base-effects will ease in 2H24 and 1H25. The relationship between growth and inflation will be the key indicator in the coming quarters to determine whether economic growth hits stall speed or escape velocity.

Historically, REIT performance has been mixed during periods of accelerating inflation with better performance in periods of weaker growth and inflation than periods strong growth and inflation, interest rates being the key variable. However, we're more optimistic that REITs will be a good inflation hedge this cycle due to higher interest rates keeping new supply low, creating a backdrop for sustained rent growth, and REIT balance sheets' strength, making them less susceptible to interest rate increases. Still, a wide range of policy outcomes and election uncertainty is creating a path for extreme tail risks and hence, uncertain asset returns. With a base case of structurally higher inflation, we're 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, rental housing, and Japan property. We also favor regions with greater political stability such as the UK.

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

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