Wellington Global Property Fund

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MARKET REVIEW

Global equities rose in August despite significant market volatility. Exacerbated by an abrupt unwinding of the Japanese yen carry trade, equities fell precipitously at the beginning of August amid an uptick in recession risks and fears of excessively restrictive monetary policy in the US. However, markets rebounded amid optimism that the US economy can achieve a soft landing. Federal Reserve Chair Jerome Powell cited an impending rate cut during his Jackson Hole symposium speech stating, "the time has come for policy to adjust." Against a backdrop of declining inflation and softening global economic growth, monetary policy easing gathered pace in August as the central banks of England, Sweden, New Zealand, and Mexico lowered interest rates. The Bank of Japan faces a higher bar to raise interest rates in October after its rate hike in July destabilized markets and caused a sharp spike in the yen. Global economic data was mixed, highlighted by broad signs of cooling inflation across the global, tepid growth in Europe hindered by weak manufacturing in Germany, and a softening US labor market. Geopolitical risks remained highly elevated; the war between Ukraine and Russia escalated after Ukrainian forces breached the Russian town of Kursk, while the humanitarian catastrophe in Gaza continues to destabilize the region.

The FTSE EPRA/NAREIT Developed NET returned 6.3% for the period. Within the index, all of the sectors rose for the month. Self-storage facilities and real estate service company were the top performing sectors, while lodging and warehouse were the bottom performing sectors over the period.

FUND PERFORMANCE AND ATTRIBUTION

- The fund 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, office and diversified was partially offset by selection in healthcare real estate and lodging. Sector allocation, a result of our bottom-up stock selection process, also detracted from returns. Allocation effect was driven by our overweight to lodging and underweight to self-storage facilities and multifamily, but partially offset by our underweight to warehouse and overweight to home builder.
- At the issuer level, our top two relative contributors were an out of benchmark allocation to American Healthcare REIT and an overweight to Stockland Trust, while our top two relative detractors were not owning Public Storage and an overweight to Lineage.
- Shares of American Healthcare REIT, a US-based healthcare-focused real estate investment trust, sharply rose over the period. The company delivered a second quarter earnings beat and significantly increased their FY24 same-store net income growth guidance, citing better-than-expected operations across all of their property segments. Shares of Public Storage, a leading real estate investment trust company that operates self-storage facilities, rose during the month amid market anticipation of an imminent interest rate cut by the Federal Reserve. The impact of a potential rate cut led to multiple price target upgrades from key industry analysts and pushed the stock to a 52-week high despite reporting weak quarterly earnings.

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 home builder and lodging. 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.

RISKS

CAPITAL: Investment markets are subject to economic, regulatory, market sentiment and political risks. All investors should consider the risks that may impact their capital, before investing. The value of your investment may become worth more or less than at the time of the original

PAST PERFORMANCE DOES NOT PREDICT FUTURE RETURNS. AN INVESTMENT CAN LOSE VALUE.

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