Wellington Global Property Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

Global equities rose in July. Political developments, central bank policy, and an escalating conflict in the Middle East were key themes in the month. Sir Keir Starmer became the UK's prime minister after the Labour Party secured a landslide victory in the general election, bringing more stability to the government. The final round of France's legislative elections ended with an alliance of left-wing parties gaining the most seats. However, no party won an absolute majority, and a fragmented political landscape left the country with an unclear path to a new government. US Vice President Kamala Harris will likely become the Democratic nominee for president after Joe Biden relinquished his bid for a second term, following pressure from the Democratic party and greater support for Republican candidate Donald Trump in the wake of an attempted assassination. On the monetary front, the Bank of Japan hiked interest rates, sending the yen sharply higher, while the US Federal Reserve signaled an increased likelihood of a September rate cut and the Bank of Canada lowered its policy rate. Following a subdued market response from China's Third Plenum, the People's Bank of China delivered modest rate cuts to spur economic activity. Israel and Iran edged closer to a broader clash after an Israeli strike in Beirut killed Hezbollah leader Fuad Shukr, and Hamas accused Israel of assassinating its political leader Ismail Haniyeh in Tehran.

The FTSE EPRA/NAREIT Developed NET returned 6.0% for the month. Within the index, all of the sectors rose for the period. Industrial/office and real estate service company were the top performing sectors, while home builder and lodging were the bottom performing sectors for the month.

FUND PERFORMANCE AND ATTRIBUTION

- The fund modestly outperformed the index for the period.
- Security selection was the primary driver of relative outperformance. Strong selection in home builder, retail - shopping centers and office was partially offset by selection in multifamily, retail - malls and diversified. Sector allocation, a result of our bottom-up stock selection process, however, detracted from returns. Allocation effect was driven by our overweight to lodging and home builder and underweight to specialty finance, but modestly offset by our overweight to retail - shopping centers and diversified and underweight to self-storage facilities.
- At the issuer level, our top two relative contributors were overweights to SL Green Realty and Mitsui Fudosan, while our top two relative detractors were overweights to AvalonBay Communities and American Homes 4 Rent.
- Shares of SL Green Realty advanced during the month. The company released second-quarter results that beat FFO and revenue estimates driven by gains on discounted debt extinguishments and strong leasing activity in Manhattan. Management also announced the sale of the 10 Giorgio Armani Residences on the Upper East Side and raised its full-year FFO per share forecast. Shares of AvalonBay Communities trended lower during the month despite announcing positive second quarter results and raising full year 2024 outlook. Management reported EPS and Core FFO above guidance range and same store residential NOI increased by 3%, driven by higher revenues. The company also completed three communities and started construction on three more during Q2.

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

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

Fund performance is based on USD S Acc share class and are net of fees and expenses. Other share class performance may differ.| Index used in the calculation of attribution data: FTSE EPRA/NAREIT Developed.| Fund performance is net of actual (but not necessarily maximum) withholding and capital gains tax but are not otherwise adjusted for the effects of taxation and assume reinvestment of dividends and capital gains.| If an investor's own currency is different from the currency in which the fund is denominated, the investment return may increase or decrease as a result of currency fluctuations.| The views expressed are in the context of the investment objective of the Fund only and should not be considered a recommendation or advice.

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