



see money differently

A photograph of an open book with white pages, tied with a white string bookmark. The book is open to a blank page, and the pages are slightly curved, suggesting it is being turned or held open.

Nedgroup Investments Global Property Fund

Quarter One, 2023

Marketing Communication

Nedgroup Investments Global Property Fund

Commentary produced in conjunction with sub-investment manager, Resolution Capital

Past performance is not indicative of future performance and does not predict future returns.

Indicator	3 months	1 year	3 years p.a.	5 years p.a.	Since Inception [#] p.a.
Portfolio*	0.70	-23.41	3.65	1.29	1.47
Performance indicator ⁺	0.78	-21.41	6.61	0.85	0.40
Difference	-0.08	-2.00	-2.96	0.43	1.07

* Net USD return for the Nedgroup Investments Global Property Fund, A class. Source: Morningstar

[#] 14 July 2016

⁺ FTSE EPRA/NAREIT Developed Index (in USD Net Ret)

Summary points

- Banking crisis concerns, particularly relating to the cost and availability of debt, filtered through to the listed real estate market which saw general share price weakness in Q1.
- REIT balance sheets are sound, with moderate leverage, ladder debt maturities, well hedged from rate increases in the near term and good interest coverage ratios.
- U.S. office sector is vulnerable due to weak tenant demand and globally, office was the weakest performing segment within the index for Q1.
- Office represents less than 9% of the global benchmark (down from 22% at end 2006) and less than 5% of the current portfolio.
- Self storage was boosted by M&A activity, while continued strength in operating conditions helped the industrial, data centre and hotel sectors.
- Changed capital market conditions led some REITs to cut dividends. In Q1, dividend cuts, if not outright suspensions, were principally the domain of highly levered European listed real estate players.
- Portfolio holdings are well positioned to continue to pay distributions at least equivalent to 2022 levels and require minimal additional capital.
- Reduced funding for new property development will lead to even less supply being added to the market which should ultimately benefit existing landlords when economic conditions stabilise.
- Recurring problems with unlisted property funds limiting redemptions and the ECB recently called for tighter regulations of open-ended real estate funds.
- REITs provide liquidity and price transparency that investors deserve, hence listed markets will provide investors with extraordinary opportunities in the coming 12 to 36 months.
- Continued focus of the portfolio on REITs that have the strongest balance sheets, are largely self-financing and possess resilient underlying cashflows, underpinned by healthy tenant credit metrics.
- Seeking companies that are well placed to take advantage of acquisition opportunities we expect to emerge.

Market and portfolio commentary

Another banking crisis sent shockwaves through financial markets during the quarter when in March a number of medium sized regional U.S. banks faltered and Switzerland's second largest bank, Credit Suisse, was forced by regulators to merge with its larger rival, UBS. These concerns, particularly relating to the cost and availability of debt, filtered through to the listed real estate market which saw general share price weakness following a solid start to the new year.

Given that commercial real estate corrections have often accompanied (or indeed caused) bank crises in the past, it is not surprising that commercial real estate (CRE) and REITs came under pressure.

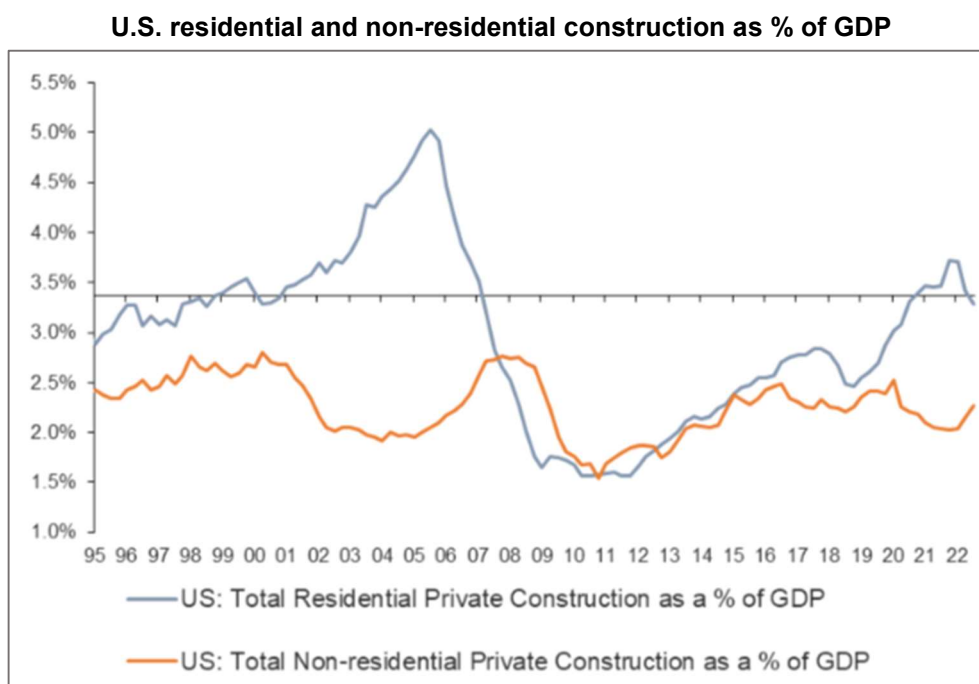
Small and regional U.S. banks are important lenders to commercial real estate, accounting for around 38% of total CRE mortgage debt outstanding. As such we expect credit conditions to tighten for the broader commercial real estate market, even if at this point, we see limited signs of excess specific to the CRE sector which would cause systemic failure.

Real estate debt defaults have been historically low in recent years. Hence at the very least we should expect higher credit default rates and associated news headlines spreading doom and gloom. The extent of defaults is likely to depend on the strength of the economy over the next 12-24 months which will heavily influence tenant demand and hence debt serviceability.

REITs – we're here to help

Importantly, the listed REIT sector appears to be relatively well positioned with a few notable exceptions such as those exposed to U.S. office and select over-levered European REITs. Over the past decade most REITs have improved their capital structures materially and diversified their borrowings away from banks to a range of capital providers, particularly by accessing unsecured corporate debt markets. With few exceptions, the REITs are positioned to be good customers for financiers which continue to be in the business of lending money to good quality credits. Indeed, we believe listed REITs are well positioned to take advantage of distress elsewhere in CRE.

There are important differences between the current banking crisis and the GFC. Excessive construction fuelled new building supply is not a significant risk today as was the case in the GFC as the following chart illustrates.



Source: Bloomberg, US Census Bureau

Thankfully, even Quantitative Easing and low/negative interest rates over the past decade has not translated into excessive new commercial building development – which stands in stark contrast to the sub-prime debt fuelled boom in residential construction in the lead up to the GFC. Moreover, the credit quality of the listed real estate sector is much better today than the sub-prime borrowers of the early-mid 2000's, albeit the U.S. office sector is vulnerable due to weak tenant demand.

It is worth highlighting that office represents less than 9% of the global listed real estate benchmark (down from 22% at the end of 2006), and traditional office represents less than 5% of the current portfolio.

Nevertheless, REITs do not operate in a vacuum. It is important to at least acknowledge the risks of contagion if a rapid loss of depositor confidence or the ongoing operational challenges of the U.S. office market were to negatively impact lenders' appetite to finance the broader commercial real estate sector.

Already we have seen high profile cases of office building owners strategically defaulting on loans and “handing back the keys”, including properties owned by vehicles associated with the likes of Brookfield, Blackstone and PIMCO.

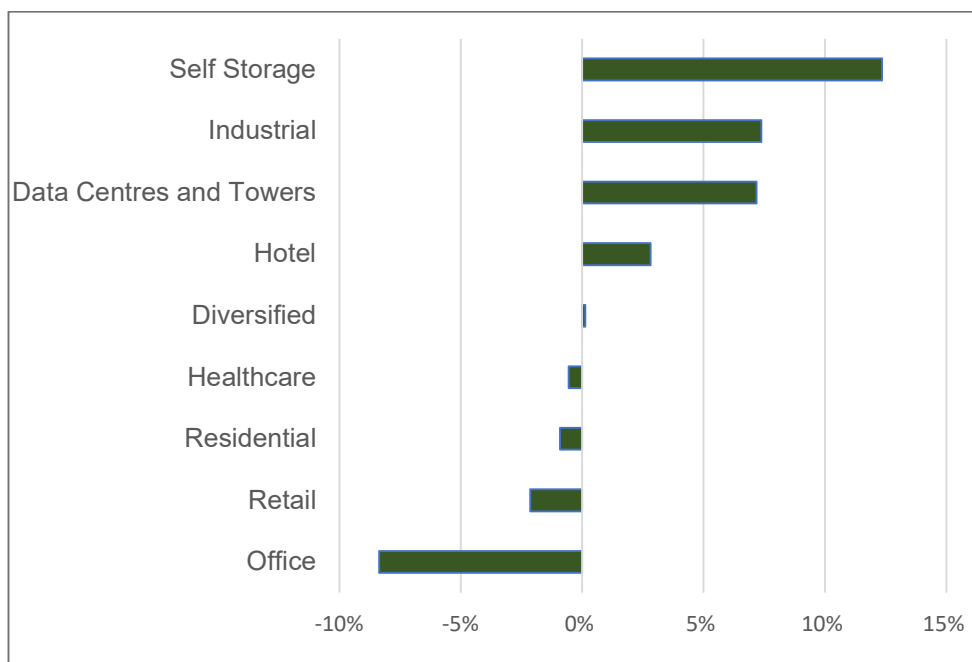
Notably, some of these recent defaults involve sophisticated (and otherwise well capitalised) sponsors using default as a negotiating tactic to improve loan terms in cases where the lender does not want to be burdened with the asset. Therefore, we have yet to see truly distressed office defaults, but we suspect they will come, particularly as office loan maturities are elevated in the next two years.

We retain an underweight exposure to the office sector and our broader concerns around liquidity translated into an even greater focus by our team on REITs in strong financial shape, requiring limited additional funding.

Turning to the overall global REIT sector's performance, the first quarter of 2023 started well as companies updated investors on generally sound financial results for 2022 and positive operating conditions continuing into the new year. Encouragingly, in the context of the recent significant increase in interest rates and earnings downgrades in other segments of the equities market, REIT earnings guidance for 2023 pointed to further growth of circa 4.5%, although marked by expected softer leasing conditions in the second half of the year.

Office was the weakest performing segment within the index as the banking issues added to the structural and cyclical headwinds already weighing on the sector. At the other end of the spectrum, self storage was boosted by M&A activity, while continued strength in operating conditions helped the industrial, data centre and hotel sectors.

Index total returns – Quarter ending 31 March 2023



Source: Factset, FTSE

Dividends - Signs of isolated cracks

One of the most telling signs of changed capital market conditions for listed real estate has been that we have seen some REITs cut dividends. A number of Australian REITs were forced to cut dividends in the second half of 2022 in response to higher interest costs on above-average levels of floating rate debt. A similar picture is starting to emerge in Singapore albeit S-REITs' shorter term/lower fixed rate debt profile is more of an issue. U.S. office REITs cut dividends due to a combination of weaker operating conditions and high leverage.

In the March quarter, dividend cuts, if not outright suspensions, were principally the domain of highly levered European listed real estate players.

Listed German residential companies in particular are under immense pressure after leveraging up to expand their portfolios and distributing over-stated earnings, (treating certain ongoing expenses as capital costs), boosted by abnormally low interest costs.

Since monetary policy settings have become more challenging, there has been a belated appreciation that higher leverage would make refinancing existing debt more difficult, let alone accessing additional debt to fund ongoing capital needs and to pay dividends.

Unable to make headway on planned asset sales, they have been forced to slash or suspend dividends and significantly curtail property renovation programs which had boosted reported earnings growth.

Vonovia (VNA) the largest listed property company in Europe and owner of more than 500,000 apartments, has elected to preserve capital by reducing its dividend by 49% and curtailing development. Several other German companies have suspended dividends altogether.

Announced dividend cuts

Company	Date	% Cut	Payout ratio (Post)
Dexus	Aug-22	-3%	100%
Centuria Industrial	Sep-22	-8%	94%
Centuria Office	Sep-22	-15%	87%
LEG Immo ¹	Sep-22	-100%	0%
Hotel Property Inv	Sep-22	-10%	94%
Dexus Industria	Sep-22	-5%	96%
TAG	Sep-22	-100%	0%
Castellum	Nov-22	-100%	0%
SL Green	Dec-22	-13%	63%
Douglas Emmett	Dec-22	-32%	49%
Vornado	Jan-23	-29%	78%
Suntec	Jan-23	-22%	115%
Manulife US Office	Feb-23	-11%	96%
Fabege	Feb-23	-40%	61%
New World Dev	Feb-23	-18%	34%
Hammerson	Mar-23	-100%	0%
Vonovia	Mar-23	-49%	48%
Grand City	Mar-23	-100%	0%
Target Healthcare	Mar-23	-17%	144%
Aroundtown	Mar-23	-100%	0%

Source: Company reports, RCL

¹ LEG initially reduced its dividend by 60% in Sept 2022 then suspended altogether in Feb 2023

Our preference for strongly capitalised vehicles has insulated us from stocks that are being forced to cut dividends.

Travel insights – Qanta's Costa

As well as domestic property tours, our travels during the quarter took us to the U.S., Sweden, the UK, Hong Kong and Singapore. We note that our travels largely preceded the unfolding banking sector challenges.

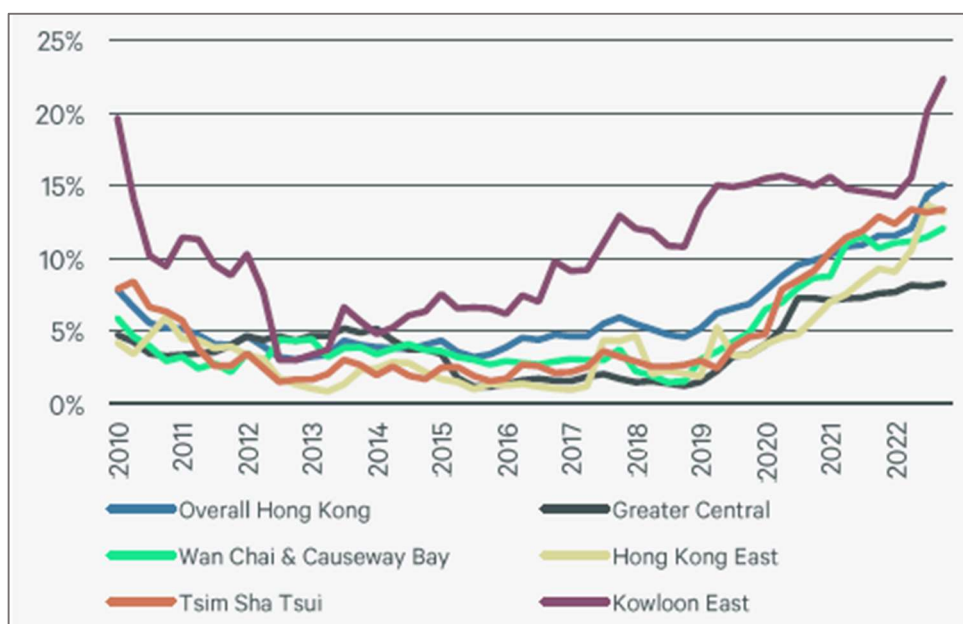
In the U.S., most companies we met, excluding office landlords, reported leasing market conditions are tracking better than expected with the prospect of upside to earnings if the macro environment does not deteriorate in the second half of the year. Most companies are seeing minimal tenant credit issues, moderating construction cost inflation and reduced appetite for development. Operating expense pressure (e.g. insurance, taxes) was a common theme and of course the marginal cost of finance was topical.

Investment transaction activity remains subdued, with one seasoned chief executive summing up the situation as a 'capital markets recession'. Of course, news of bank failures that emerged in March proved the later comment quite prescient and added validity to the conservative assumptions that most companies had adopted when issuing 2023 guidance earlier in the year.

Our first visit to Hong Kong since 2019 highlighted the crosswinds facing this market. After the initial excitement around the easing of Covid restrictions and re-opening of the mainland border, the longer-term impact on Hong Kong's ability to attract talent, capital and consumers may take time to fully appreciate.

Domestic driven sectors are normalising following years of disruption, but the extent to which Mainland Chinese visitors return to their previous level of economic impact remains unclear at this point. Anecdotally, the price differential and product availability advantages of luxury shopping in Hong Kong has narrowed for mainland shoppers. Furthermore, recent retailer commentary attributed March sales weakness to net outbound tourism (more people leaving Hong Kong than arriving). Meanwhile the Hong Kong office market vacancy rate is at a record high 15% and, with more developments due to complete this year, rents in Central have fallen circa 30% from their pre-Covid highs.

Hong Kong Grade A office vacancy



Source: CBRE Research Jan 2023

The positive case for Hong Kong is for improved demand as mainland China reopens, together with the lack of Covid stimulus hangover effects evident in many other markets.

Meanwhile, Singapore has benefited from Hong Kong's travails as evidenced by residential rents surging 30% in 2022 and anecdotes that private schools favoured by expats are overflowing. Disappointingly, the Singapore listed REITs have diluted the exposure to their home market over the past 15 years via offshore acquisitions to such an extent that around half of the underlying assets are overseas. Leverage is high too. Most Singapore REITs are levered close to their maximum policy levels at around 40% debt-to-assets, with the denominator based on record high appraisal values which appear to have defied the gravitational pull of higher interest rates.

Residential

As we highlighted last quarter, the U.S. single family home market faces better supply and demand dynamics compared to multi-family residential. Demographics remain a favourable tenant demand driver, and supply is relatively muted.

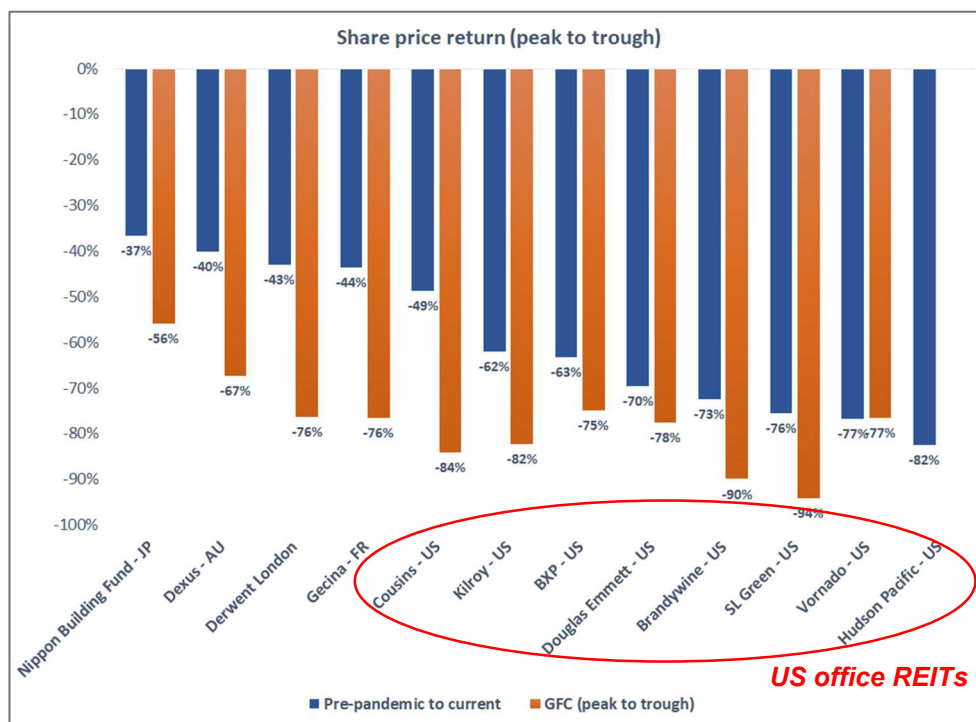
Our nil exposure to German residential landlord, Vonovia (VNA) contributed positively to performance, while we exited our small remaining exposure to this sector with the divestment of LEG Immobilien (LEG).

Office – in the doldrums

Longer term structural headwinds from hybrid working, combined with near-term concerns around the economy and the unfolding banking crisis weighed on office stocks. Most of the worst performing stocks were U.S. office names, which fell more than 20% over the quarter and are now down 60-75% from pre-pandemic highs.

As the chart below illustrates, the drawdowns in the U.S. office stocks are approaching peak-to-trough levels experienced during the GFC, while office REITs in other countries have not suffered to the same extent.

Global Office REIT share price returns (peak to trough)



Source: Factset, RCL; Hudson Pacific listed June 2010

News during the quarter again highlighted crosswinds facing the office sector. Amongst the ongoing tech sector layoffs and office space downsizing was Amazon's news that it would pause construction on its second headquarters in Arlington, Virginia and would not renew its lease on a building adjacent to its Seattle headquarters owned by Portfolio holding Kilroy Realty (KRC).

Yet Amazon also announced it would require workers to return to the office at least 3 days each week, with CEO Andy Jassy's 2022 Letter to Shareholders stating:

"We've become convinced that collaborating and inventing is easier and more effective when we're working together and learning from one another in person.... Serendipitous interactions help [innovation], and there are more of those in-person than virtually. It's also significantly easier to learn, model, practice, and strengthen our culture when we're in the office together most of the time."

Three days per week in the office as espoused by Amazon is a critical point for office space demand, because it means that desk sharing is difficult as there will be at least one day of overlap. Hence space requirements won't change dramatically unless layoffs occur. Amazon joins other influential tech firms Apple and Google, and several Wall Street banks who had already made similar moves to encourage workers back to the office.

Our straw polls suggest, with few exceptions, 3 days per week in the office is the minimum and expect this to drift toward 4 days as economic and competitive conditions become tougher. Not enough has been made of the mental health issues of working in isolation, the importance of team culture in setting and achieving business objectives and the benefits of in place learning and networking for younger generations.

Clearly there is a heightened aversion to expensive, time consuming and unreliable commuting against a backdrop of cost of living pressures. But attitudes to flexibility and the use of technology has changed the work environment we believe for the better.

The biggest risks relate not to work-from-home (WFH), but:

1. Work-from-anywhere (WFA) as jobs can be located at the cheapest source of labour; and
2. AI and automation as process driven jobs are replaced by machine learning.

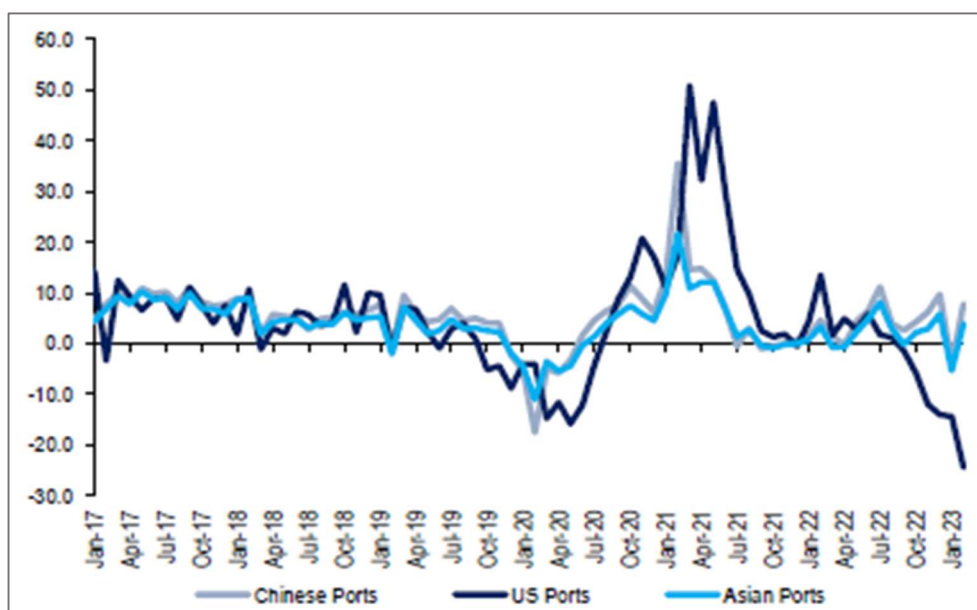
Notably, a few locations in the U.S. are doing OK. Witness the Brickell district in Miami which has become a hotspot for hedge funds and private wealth advisors, who are paying record rents, as evidence that rent levels are not the determining pinch-point for many businesses. Other global cities are also seeing record high rents for high quality buildings without having to concede above-average incentives. For example, in the West End of London where the vacancy rate is less than 4%, Blackstone recently signed a lease for the entirety of a new building due to complete in 2027 at a reported record £200 per square foot. Meanwhile in the Paris CBD vacancy rates are below 3% and recent leasing transactions have been signed at record rents of over €1,000 per sq/mt.

Industrial – carry on regardless

Leasing market conditions remain favourable across most markets, although capital values are under pressure as rising hurdle rates outweigh rent growth. This was most evident in the UK, where appraisal based valuations declined 20% in the second half of 2022 as cap rates increased by circa 100-150bps.

Despite moderating container throughput volumes, lower freight prices and the prospect of a repeat of disruptive strikes by Los Angeles port workers, tenant demand for infill locations continues to be driven by structural forces including supply chain resilience and the need to locate close to consumers in order to lower both carbon emissions and transport costs.

Container Throughput YoY%



Source: Citi Research, Clarksons

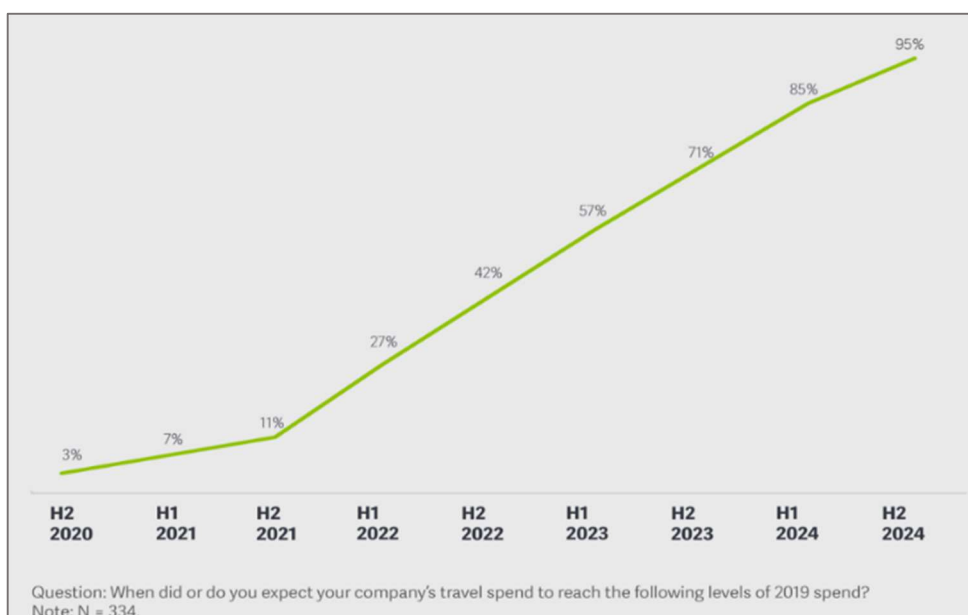
Despite elevated levels of construction across the broader market, supply in key locations remains challenging due to land scarcity, tougher planning approvals, higher build complexity and tighter financial market conditions.

Breaking a relatively quiet transaction period, post quarter end Blackstone reached an agreement to acquire small cap London Stock Exchange listed Industrials REIT (MLI) in an all-cash deal valuing the enterprise at £700m. MLI owns a portfolio of multi-let industrial buildings in the UK, predominantly leased to small and medium sized businesses. The bid price implies a 5.8% property yield and represented a 42% premium to last and a 4% premium to the September 2022 appraisal based net asset value.

Hotels – back to business

As our own travels have informed us, the hotel recovery continues to be driven by elevated room rates despite occupancy remaining below 2019 levels. Travel patterns have changed with more leisure demand, particularly for resorts, and business travel channelled into fewer nights (i.e. hybrid working creates difficulties scheduling in-person meetings on Mondays and Fridays), thereby resulting in peak load premium pricing on Tuesday to Thursday. For hotel performance through the balance of the year, the outlook for the economy remains critical as does the trajectory of business travel. According to a recent survey conducted by Deloitte, business travel spend expectations have recovered to 57% of pre-pandemic levels for H1-2023 from 27% a year earlier. The survey also showed that corporates expect to return to 95% of pre-pandemic travel expenditure by mid-2024 suggesting the return to business travel may help offset any slowdown in leisure spend.

Corporate travel % of 2019 spend; U.S. & Europe



Source: 2023 Deloitte Corporate Travel Survey

Self-Storage – consolidating

With transaction markets slowing and a pronounced disconnect between public and private market valuations, the two largest U.S. storage REITs displayed a shift in appetite from small portfolio and single-asset deals to larger public-to-public M&A. In early-February, PSA announced a US\$11billion unsolicited stock-for-stock offer for Life Storage (LSI), representing pricing of ~\$129/sh, a 5% premium to consensus NAV and 19% premium to last traded price.

PSA cited G&A and operating expense synergies, and LSI's attractive ancillary operations (tenant insurance, third-party management) as rationale for its offer. Less than two weeks later, Life Storage rejected the offer on valuation grounds.

Post quarter end, Extra Space Storage (EXR), the second largest U.S. storage REIT, and Life Storage announced that the two companies had agreed to combine in a stock-for-stock deal at an implied price of ~\$145/sh for LSI. The implied cap rate of ~5.0% simultaneously supports investment yields in self-storage and suggests further consolidation could be possible given PSA was left the bridesmaid.

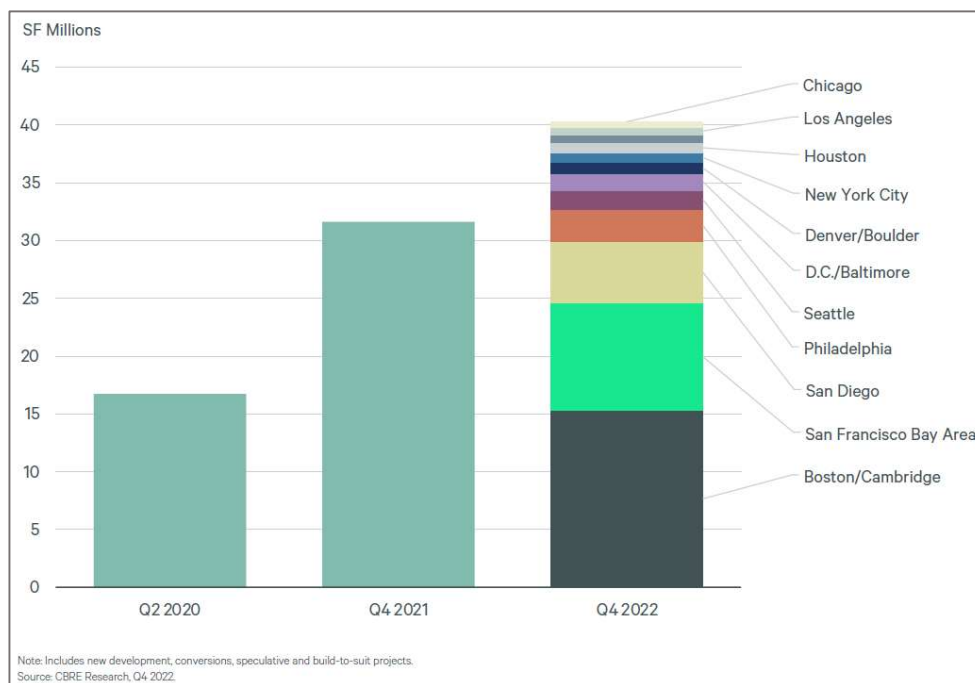
In the U.S., storage operations remain strong with fourth quarter earnings results featuring continued outsized operating income growth (~14% growth year-over-year). The companies' initial guidance for 2023 suggests a normalisation in operating performance as net operating income (NOI) growth is projected to moderate to 4%. Outside of the U.S., occupancy and market rental rate growth has also slowed, but landlords are still able to pass through customer rate increases ahead of historical average levels (high-single digit increases).

Healthcare – life science PEAKing

Life science companies, many of whom are involved in early-stage clinical trials, regularly require additional capital to finance their businesses. In a tougher environment for venture capital, initially attributable to quantitative tightening and exacerbated by the more recent banking failures, many life science tenants have begun to pull back on their capital spending and space commitments.

The slowdown in tenant demand does, however, coincide with rising levels of life science development from both new construction as well as conversion of traditional office buildings. The following chart shows that life science construction volumes in the U.S. have more than doubled in the past two years.

U.S. Life Science construction volumes



Source: CBRE

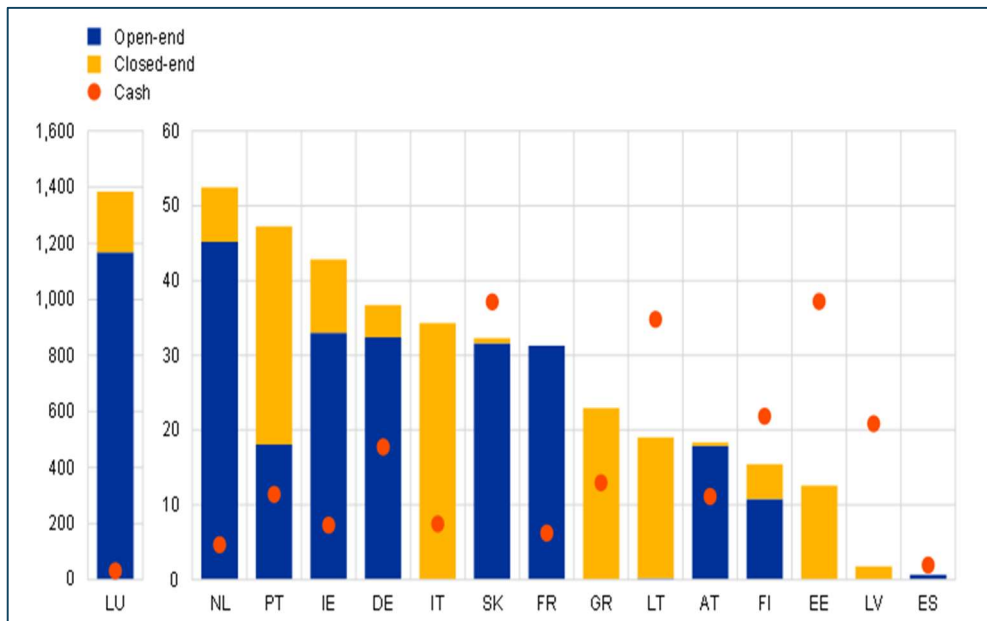
There has yet to be a material change in market rents observed across key life science markets, perhaps mostly due to very little leasing activity currently underway. Nonetheless, net effective rents do appear to be declining as landlords are expected to commit more capital to fit out tenant spaces for tenants desperate to conserve cash.

Unlisted property funds attract regulatory scrutiny... again

Recurring problems with unlisted property funds limiting redemptions has not gone unnoticed by EU regulators. The European Central Bank (ECB) recently called for tighter regulations of open-ended real estate funds to reduce the liquidity mismatch and to address risks to financial stability.

The scale of the unlisted property funds market in Europe highlights why the ECB is concerned. According to the European Systemic Risk Board, real estate investment funds (REIFs) with a mismatch between asset liquidity and redemption terms accounted for as much as 31% of the total open-ended REIFs market as at the third quarter of 2021. Furthermore, as illustrated in the following chart, in some countries where REIFs account for a substantial part of the CRE market (for instance France, the Netherlands and Ireland), the majority of such funds have an open-ended structure and cash buffers are relatively low.

Fund share of CRE market and cash holdings %



Source: European Central Bank 2023

Proposals requiring funds to hold higher levels of liquid assets and applying leverage limits appear sensible. Others, including lower redemption frequencies, longer minimum holding periods, more frequent valuations and higher fees on redemptions would be music to the ears of managers of such funds and simply highlight the benefits of listed REITs.

Hanlon's Razor ¹

For those critical of the volatility of the listed REIT market, we submit our own (reverse) proposal that is as ridiculous as it is simple to highlight the point: we propose to de-list the stock market and revalue our portfolio to appraisal-based valuations. This would not only reduce volatility but, at this point in time, would likely result in an immediate 20% uplift in appraised net asset value. Of course, liquidity would likely be impacted, as is the case with many unlisted real estate funds recently suspending redemptions. If that were the case we would respectfully ask our clients to limit any redemptions as selling in the current market would not likely realise the appraisal-based values. Simple, stupid.

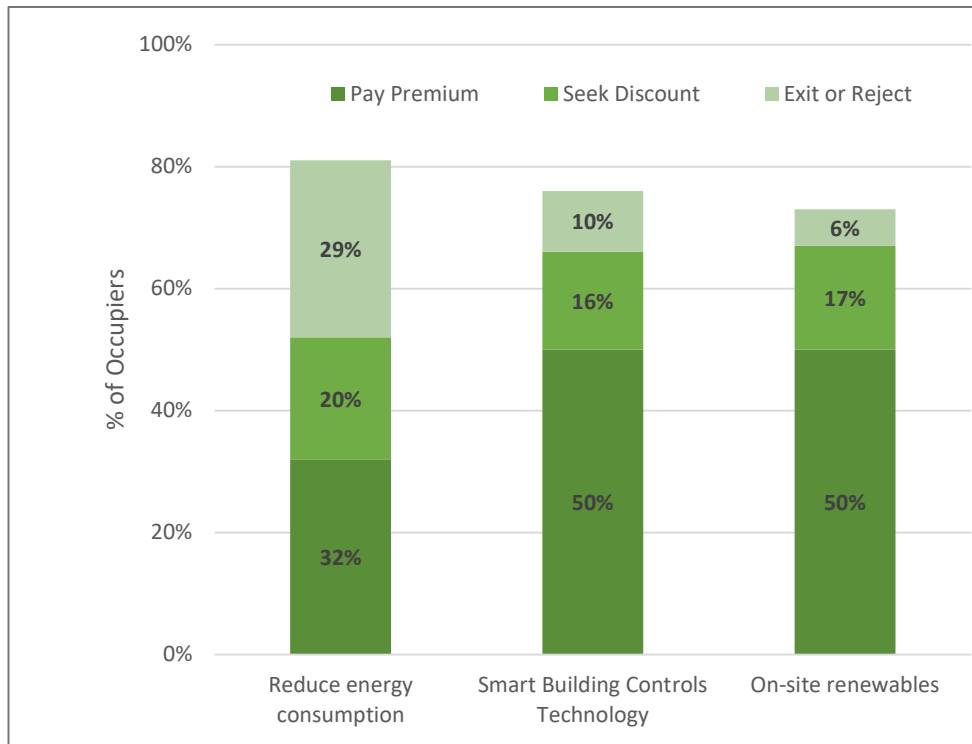
¹ Hanlon's razor is the adage that you should "never attribute to malice that which is adequately explained by stupidity"

ESG – Tenant sustainability preferences focusing on achieving net zero ... and soon

The importance of the green building preferences of tenants is becoming increasingly clear. A recent investor survey from CBRE shows increasing tenant demand for properties that not only possess sustainability features such as green certifications or renewable energy generation, but also those that will help them to achieve their own sustainability goals.

The survey demonstrated a number of other interesting factors that are likely to increasingly influence property occupiers in the coming year in terms of how much they would pay, or if they would even exit or reject a building. These included the presence of green certifications, on-site renewable energy generation, smart building controls and energy efficiency initiatives. The chart below shows how these factors could influence occupier decision making, where at least 69% of occupiers surveyed said they would be influenced to pay a premium for, seek a discount, or exit or reject a property in the absence of these factors.

Proportion of surveyed occupiers' preference for properties with environmental factors

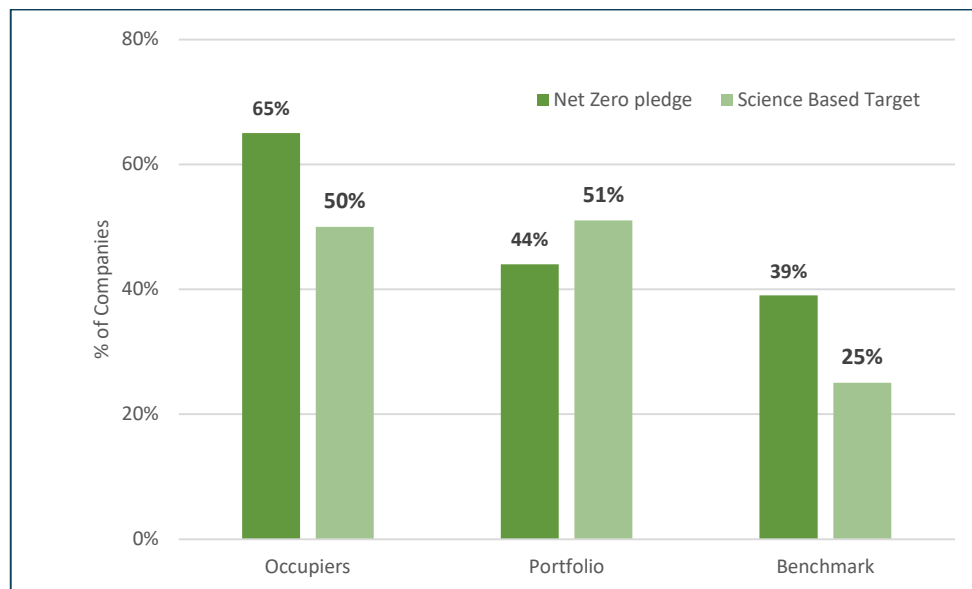


Source: CBRE, 2023

Property owners that do not incorporate these factors into their portfolios will increasingly have to provide discounts or miss out on potential tenants.

The presence of net zero targets is another particularly clarifying data point, with 65% of occupiers having made a public Net Zero pledge and 50% having a Science Based Target. The chart below compares this to the proportion of our Portfolio and the benchmark that have Net Zero and Science Based Targets.

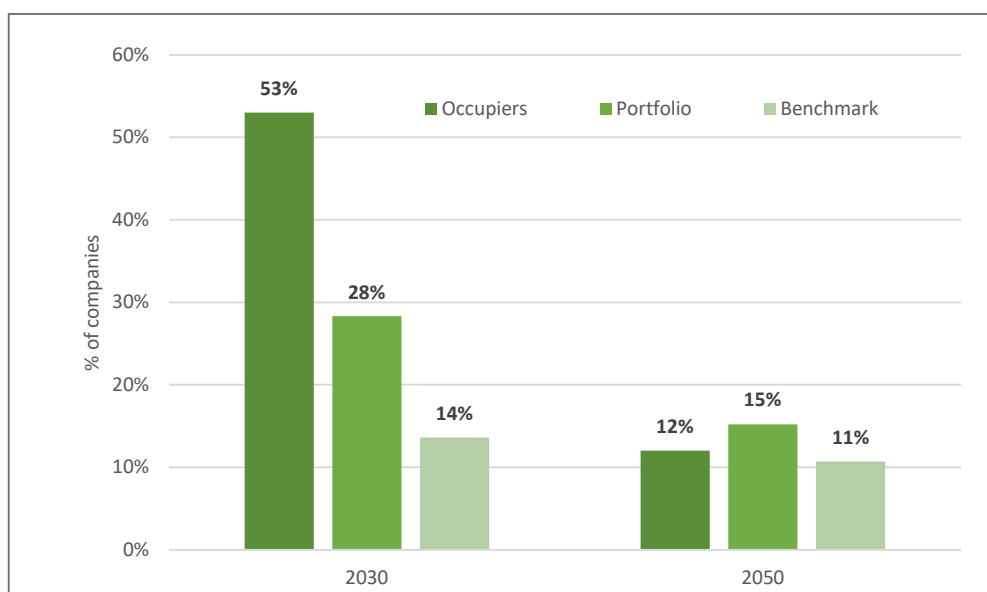
Proportion of companies with Net Zero and Science Based Targets



Source: CBRE, Resolution Capital, 2023

Occupiers are not only targeting net zero carbon emissions, but are also planning on achieving that goal in the short term, with the majority of companies surveyed planning on achieving that goal by 2030. The chart below shows the proportion of companies with net zero deadlines of 2030 and 2050 for the occupiers, Portfolio and benchmark.

Deadlines for net zero carbon targets



Source: CBRE, Resolution Capital, 2023

While our Portfolio is positioned well to match tenant demand for net zero properties compared to the benchmark, there is room for improvement. We continue to focus on engaging with companies on their decarbonisation plans and encouraging them to focus on setting ambitious net zero targets.

In 2022, we had 22 engagements related to encouraging our holdings to set ambitious carbon targets in line with the Paris Agreement and asked why such targets had not been implemented thus far where they were absent. If there was no target in place at the time of engagement, the majority of companies were either in the exploratory phase of setting targets or were planning to announce targets in the coming year.

Conclusion and Outlook

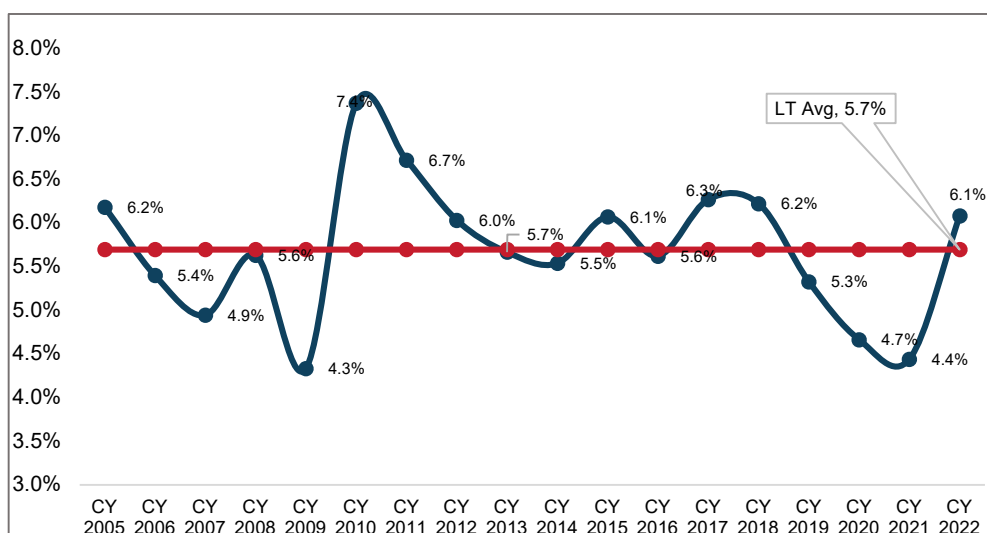
With almost 500bps of U.S. Fed interest rate hikes in the past 12 months following almost 40 years of falling interest rates and more than a decade of QE, it was inevitable that something was going to break. Whether the bank failures this quarter are the first sign of further problems that are yet to fully emerge might be a moot point if the consequent tightening in credit conditions significantly weakens the broader economy.

We take comfort that the bank turmoil seen thus far has not been caused by excesses in the commercial real estate market. Nevertheless, for real estate, tighter credit will certainly cause distress for more highly levered landlords and those sub-sectors, such as office, which have weaker operating fundamentals. Depending on the depth of any subsequent economic weakness, other real estate sub-sectors (and indeed the broader equities market) would also be negatively impacted.

The change in interest rate regime and tighter credit conditions has heralded higher investment hurdle rates and reminds us that the cap rate cycle is ubiquitous.

REIT prices have quickly reflected the new reality, with valuations now more favourable relative to their own history and relative to private market valuations.

REIT EV Yields 2005-2022



EV yield - trailing 12m EBITDA to periodic EV
Source: RCL, Bloomberg

The unlisted market is only slowly recognising this reality, transaction volumes are muted as there is a wider than normal spread between buyer and seller expectations. Given increasingly difficult conditions, at some point vendor reluctance will be superseded by outright need to sell, particularly if debt refinance becomes problematic.

Where asset values ultimately settle will depend on the trajectory of income. Over time, real estate rents tend to track or exceed inflation, and we expect this will largely hold true as moderate construction activity means that supply is less of a risk across most subsectors of commercial real estate.

Indeed, a period of risk aversion discouraging funding for new property development will lead to even less supply being added to the market which should ultimately benefit existing landlords when economic conditions stabilise.

Looking just over the horizon, one could argue that REITs are relatively well positioned. With few exceptions, REIT balance sheets are sound, with moderate leverage, laddered debt maturities, well hedged from rate increases in the near term and good interest coverage ratios. REITs are not overly reliant on bank loans, with many having investment grade credit ratings which affords them access to a broader range of lenders and longer duration facilities at lower rates than many private landlords, providing greater flexibility for managing their portfolios.

REITs also provide liquidity that many private market investors now crave and price transparency that investors deserve.

Experience tells us that there now is an increasing prospect that REITs and the stock market will become the price clearing mechanism to unlock frozen private real estate. Hence, we believe listed markets will provide investors with extraordinary opportunities in the coming 12 to 36 months. If we are wrong, and in many respects we hope we are because the journey will likely be uncomfortable for some investors, then REIT prices are materially undervalued. With our preference for stronger balance sheets and higher quality real estate, our Portfolio is no exception.

For those fixated with interest rates, there can be some encouragement that tumult in the finance sector could alleviate the pressure on central bank interest rate tightening policies. But that ignores the demand side of the equation.

We expect more challenges ahead but defend our client's interests by continuing to focus the Portfolio exposures on those that have the strongest balance sheets, are largely self-financing and possess resilient underlying cashflows underpinned by healthy tenant credit metrics.

We believe the majority of our Portfolio holdings are well positioned to continue to pay distributions at least equivalent to 2022 levels and require minimal additional capital. Indeed, we look for companies that are well placed to take advantage of acquisition opportunities we expect to emerge. Ultimately, we believe the strength of our underlying investments will become apparent and rewarded.

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The Fund is authorised and regulated in Ireland by the Central Bank of Ireland. The Fund is authorised as a UCITS pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 as amended and as may be amended, supplemented, or consolidated from time-to-time and any rules, guidance or notices made by the Central Bank which are applicable to the Fund. The Fund is domiciled in Ireland. Nedgroup Investment (IOM) Limited (reg no 57917C), the Investment Manager and Distributor of the Fund, is licensed by the Isle of Man Financial Services Authority. The Depositary of the Fund is Citi Depositary Services Ireland DAC, 1 North Wall Quay, Dublin 1, Ireland. The Administrator of the Fund is Citibank Europe plc, 1 North Wall Quay, Dublin 1, Ireland.

The sub-funds of the Fund (the **Sub-Funds**) are generally medium to long-term investments and the Investment Manager does not guarantee the performance of an investor's investment and even if forecasts about the expected future performance are included the investor will carry the investment and market risk, which includes the possibility of losing capital.

The views expressed herein are those of the Investment Manager / Sub-Investment Manager at the time and are subject to change. The price of shares may go down as well as up and the price will depend on fluctuations in financial markets outside of the control of the Investment Manager. Costs may increase or decrease as a result of currency and exchange rate fluctuations. If the currency of a Sub-Fund is different to the currency of the country in which the investor is resident, the return may increase or decrease as a result of currency fluctuations. Income may fluctuate in accordance with market conditions and taxation arrangements. As a result an investor may not get back the amount invested. Past performance is not indicative of future performance and does not predict future returns. The performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

Fees are outlined in the relevant Sub-Fund supplement available from the Investment Manager's website.

The Sub-Funds are valued using the prices of underlying securities prevailing at 11pm Irish time the business day before the dealing date. Prices are published on the Investment Manager's website. A summary of investor rights can be obtained, free of charge at www.nedgroupinvestments.com.

Distribution : The prospectus, the supplements, the KIIDs/PRIIPS KID, constitution, country specific appendix as well as the annual and semi-annual reports may be obtained free of charge from the country representative and the Investment Manager.

Switzerland: the Representative is Acolin Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the Paying agent is Banque Heritage SA, Route de Chêne 61, CH-1211 Geneva 6. Nedgroup Investments (IOM) Limited is affiliated to the Swiss ombudsman: Verein Ombudsstelle Finanzdienstleister (OFD), Bleicherweg 10, CH-8002 Zurich.

U.K.: Nedgroup Investment Advisors (UK) Limited (reg no 2627187), authorised and regulated by the Financial Conduct Authority, is the facilities agent. The Fund and certain of its sub-funds are recognised in accordance with Section 264 of the Financial Services and Markets Act 2000.

Isle of Man: The Fund has been recognised under para 1 sch 4 of the Collective Investments Schemes Act 2008 of the Isle of Man. Isle of Man investors are not protected by statutory compensation arrangements in respect of the Fund.

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