NEDGROUP INVESTMENTS

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Nedgroup Investments Global Property Fund

Quarter One, 2024

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*	-0.41	6.90	-1.16	0.43	2.16
Performance indicator+	-1.30	7.40	-1.13	-0.21	1.28
Difference	0.89	-0.50	-0.03	0.64	0.87

* 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

- Strong outperformance during the quarter was driven by stock selection in Japan, Australia, and Europe, and holding no exposure to Singapore the second weakest market.
- Return dispersion was wide. Japan posted a total return of 14.5% while Hong Kong was again at the other end of the return spectrum at -13.9% in local currency terms.
- The Bank of Japan raised interest rates for the first time in 17 years, signalling an improvement in economic growth and inflation. Exposure to Mitsui Fudosan and Mitsubishi Estate contributed positively, as these companies announced capital and governance initiatives.
- Data centres were the strongest sub-sector, while self-storage was the weakest.
- REITs are in good shape and represent good value, as they trade at or below asset replacement costs, have moderate debt levels, and provide liquidity to investors.
- Comparing the current state of the REIT industry with the pre-GFC period, REITs are in better shape financially and operationally.
- Higher interest rates driven by better-than-expected economic growth are positive for landlords, as they signal the prospect of higher rental growth and lower supply.
- The portfolio reflects exposure to rental housing, necessity retail, emerging technology sectors, and demographically necessary segments, which offer attractive returns and growth prospects.
- REITs continued to access unsecured debt markets with long-term maturities and investment grade ratings, albeit at higher costs than the QE environment.
- Quality REITs are able to take advantage of the distress in areas of the real estate market, by buying out joint venture partners, acquiring assets at discounts, or launching share buybacks.
- The first U.S. REIT IPO since 2021, American Healthcare REIT, which was an unlisted diversified healthcare REIT, indicates that equity capital markets remain open for private real estate funds seeking liquidity.
- Two REIT public-to-private transactions by Blackstone, involving Tricon and Apartment Income REIT reflect the attractiveness of the single-family and multi-family sectors.

Market and Portfolio Commentary

Stronger than expected economic data, particularly in the U.S., undermined market expectations of more aggressive interest rate cuts by central banks. Tech stocks continued to rally with the NASDAQ Composite Index and the S&P500 reaching record highs.

Real estate transaction markets remain relatively muted with ongoing speculation about the ramifications of elevated private market debt maturities in the coming 12-36 months and unlisted property fund redemptions (notably in Europe). Nevertheless, as we highlight later in the report, reflecting their strong balance sheets and superior access to capital, REITs were prominent deal makers.

Against this backdrop, overall REIT returns were subdued during the quarter, but within the sector, return dispersion was wide. Japan was the strongest performing region with a total return of 14.5% while Hong Kong was again at the other end of the return spectrum at -13.9% in local currency terms.

From a sub-sector perspective, Data Centres were strongest with a total return of 4.5% while Self Storage was the weakest at -5.0%.

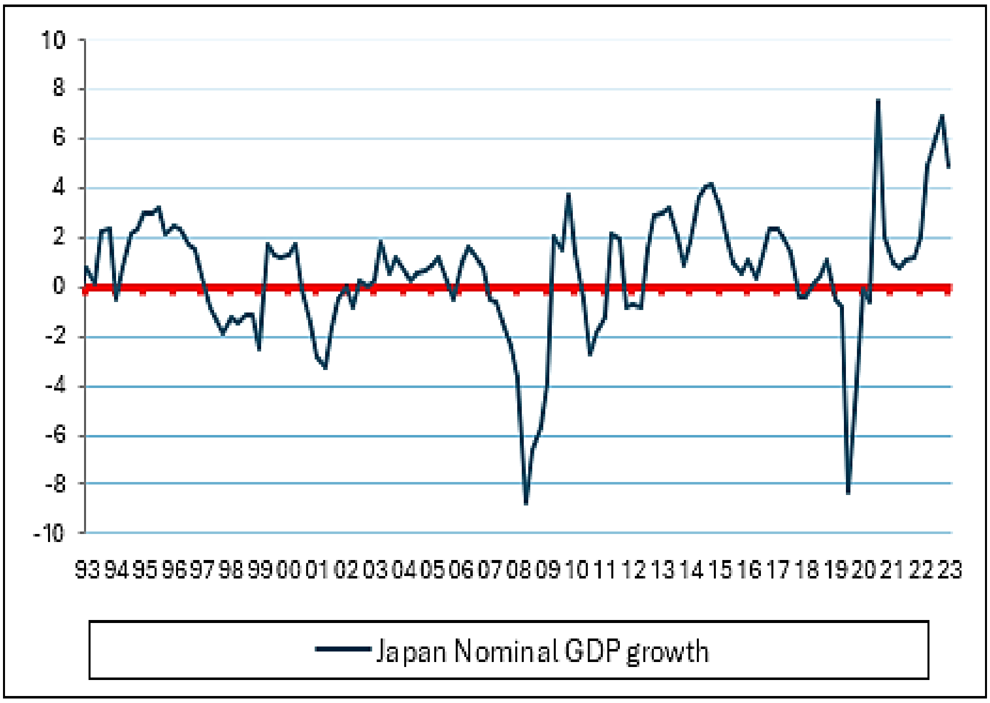
The Fund generated most of its positive relative performance from stock selection primarily within Japanese diversified and office names and Australian and European retail exposure.

Japan – changing its tune

The Bank of Japan (BoJ) increased short-term interest rates by 10bps, its first hike in 17 years, bringing the official cash rate to a range of 0% to 0.1%, thereby ending 8 years of negative rates. While it might seem counter-intuitive for real estate to rally when interest rates rise, the rally highlights the importance of understanding the circumstances driving interest rates and most importantly the state of real estate markets.

Firstly, after more than 30 years of falling or stagnant prices, the BoJ's move signalled Japan was moving towards its target of sustaining inflation at around 2%. The outlook for Japan's economy is improving with nominal GDP growth running at close to 5%, the highest growth since 1991. Moderately higher inflation, in this case fuelled by economic growth and wages, can be seen as a positive for landlords as it signals the prospect of higher corporate earnings and rising construction costs which should translate into stronger rental growth which has long been absent in Japan.

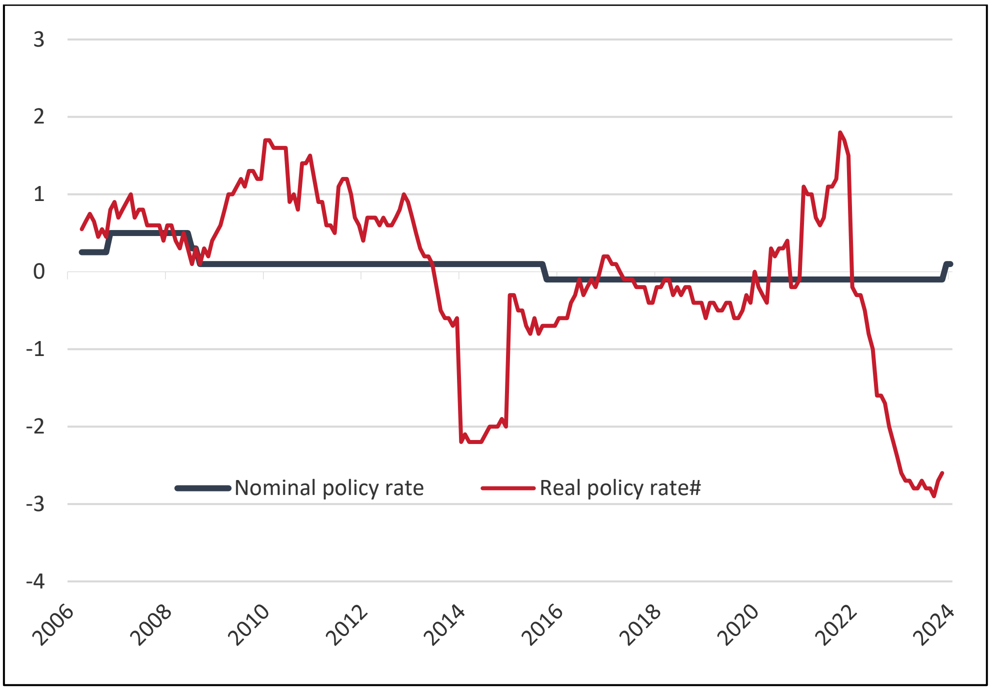
Japan nominal GDP % growth yoy (seasonally adj)



Source: Bloomberg

Importantly, 'real' interest rates in Japan remain firmly in negative territory, which is generally seen as positive for asset prices. Domestic investors could very well be prompted to move out of cash and into domestic growth assets, stoking so-called 'animal spirits'.

Japan real interest rates %



Source: Bloomberg

Note: Real policy rate calculated using core CPI y/y inflation rate

Moreover, nominal interest rates remain low, with the cash rate close to zero and 10 year JGB yields at 0.75%, meaning Japan remains one of the few markets in the developed world where investors enjoy positive carry as property yields remain meaningfully higher than the cost of debt. Should Japan's economic growth and inflation dynamics prove enduring in a market with low vacancy rates, the prospect of improved rental growth further enhances the return outlook for property investors.

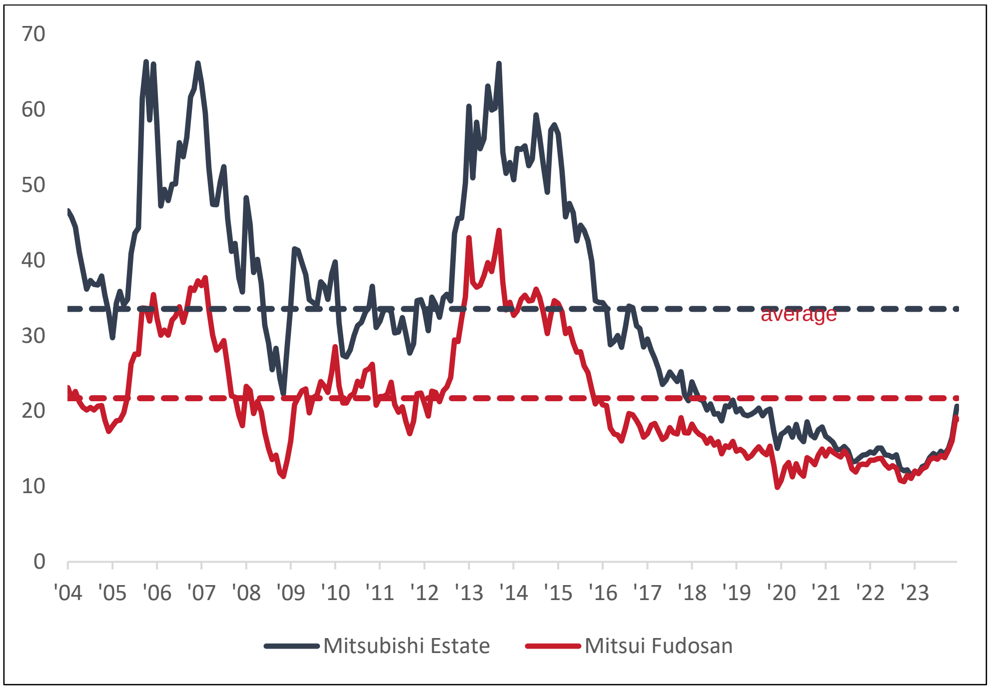
Additionally, as we have written previously, there is mounting pressure from central planning authorities for improved shareholder returns and governance practices among Japanese corporates including listed property companies. Regulator's calls for improved performance were supported by investors. During the quarter it was reported that U.S. activist investor Elliott Management had called on Mitsui Fudosan (8801), Japan's largest listed property company, to rationalise its assets and launch a ¥1 trillion (US$6.6 billion) share buyback, equivalent to 30% of its market capitalisation. As part of its proposed strategy Elliott called on Mitsui Fudosan to divest of its ¥530 billion stake in Oriental Land (4661).

While there has been no direct company response, and it is scheduled to release its next medium-term-plan on April 11, the Company has nevertheless subsequently announced a number of capital and governance initiatives, including: i) three for one stock split; ii) annual re-election of directors (from two years).

With this backdrop, Japanese property companies powered to a total return of 29% over the quarter and 61% over the past 12 months – outperforming the TOPIX index over both periods. Mitsui Fudosan is the Portfolio's largest holding in Japan, and its 44% total return during the quarter contributed positively to performance, as did the Portfolio's exposure to office-focused Mitsubishi Estate (8802) which matched the return of its peer.

Despite their impressive recent returns, Japanese developer valuations remain un-demanding in an historical context with PE multiples and Price/Book ratios still at, or just below their 20-year average.

PE ratio (x)– Mitsui Fudosan and Mitsubishi Estate



Source: Factset

Meanwhile, Japanese REIT (JREIT) prices have been flat as the market absorbed news that the BoJ would officially end its program of purchasing JREITs and ETFs which commenced in 2010, albeit the program has been inactive since mid-2022. It remains unclear how the central bank will seek to unwind its ¥700 billion (US$4.6 billion) JREIT exposure (which equates to approximately 4.5% of the equity market capitalisation of the sector).

At the same time, rising interest rates are expected to diminish the appetite of Japanese regional banks to buy JREITs. The regional banks had invested in JREITs as part of their search for yield during the long period of negative interest rates.

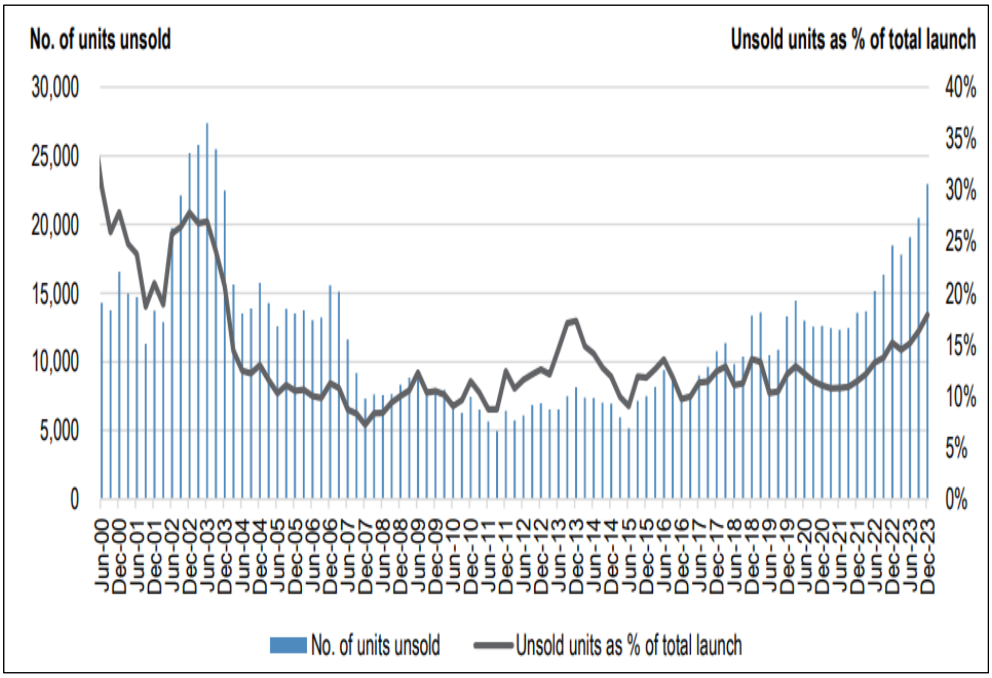
At the end of the quarter the portfolio had no exposure to JREITs.

Hong Kong cut and run

In stark contrast with Japan and despite local policy easing measures aimed at boosting the property market, Hong Kong property stocks continued to flounder, with the index down 13.9% in the quarter. A tepid operating environment and cool condo sale market have created pressures across many Hong Kong property companies, prompting several to cut their dividends, including market heavyweights such as CK Assets (1113) and Sun Hung Kai (16).

The Hong Kong government is trying to enact policy changes intended to support improved investment activity. In late February, extra stamp duties that had been introduced to cool the market more than a decade ago were removed from residential property purchases, including for local second-home buyers and non-Hong Kong residents. Additionally, limitations on accessing debt capital were removed by relaxing mortgage loan-to-value limits and waiving mortgage stress testing criteria. In reaction to these changes, condo sales volumes improved in March off a low base, however pricing reportedly remains subdued given unsold inventory levels are elevated per the following chart.

Hong Kong unsold residential units



Source: JP Morgan, Centaline

Sun Hung Kai was amongst several Hong Kong property companies to cut its dividend as it reported weak operating results. Sun Hung Kai's 24% first-half dividend cut was greater than expected, and it exceeded the -6% reported first-half decline in underlying EPS, reflecting management's expectation that full-year Hong Kong residential property development sales volumes would be 30% lower than previously expected. Management did note however, that its revised guidance did not assume any benefit from the policy easing measures announced on the same day.

Another Hong Kong property company to surprise with a dividend cut was CK Asset Holdings (1113). Despite having relatively low debt levels and less exposure to cyclical property development earnings compared to peers (in part due to circa 36% exposure to infrastructure investments), the company cut its dividend by 10%, citing its expectation for a slow recovery in the Hong Kong property market.

Meanwhile, Hong Kong retail sales leakage to the mainland remains a headwind for local retailers. Even supermarkets are feeling the impacts, with local residents increasingly spending more of their grocery dollars in nearby mainland cities. Made more accessible by the high-speed rail connection, and more affordable given the depreciation in the RMB, large format retailers including Costco and Sam's Club are luring shoppers across the border to cities such as Shenzen.

Hong Kong's third largest supermarket chain, U-Select, has reportedly closed almost half its stores over the past year while food distributor DCH Food Mart is closing all of its 28 retail stores.

Debt capital markets open for REITs

REITs continue to distinguish themselves in a broader real estate context given their predominantly investment grade credit ratings and consequent access to unsecured debt markets, albeit at a higher cost than in the QE environment. In the first two months of 2024 U.S. REITs issued over US$9 billion of debt, with coupon rates on newly issued investment grade bonds ranging from 5% to 6.25% for 7 to 30-year terms across a breadth of issuers and real estate sectors.

Life Science REIT Alexandria (ARE) was one of the larger issuers to tap the corporate bond market, raising US$1 billion of senior notes with a weighted average yield to maturity of 5.48% and average tenor of 22.8 years. We re-introduced ARE into the Portfolio during the quarter, after having exited in early 2023 as excess supply weighed on the outlook for the life science sector.

While development deliveries remain elevated over the coming two years, ARE's high quality portfolio and industry-leading platform place it in good stead to attract and retain tenants. This was demonstrated by the announcement that Takeda Pharmaceuticals agreed to extend its lease in Cambridge for a further 10 years beyond its current 2030 expiry date, with the deal incorporating strong rental rate increases.

A Look back in Time

Many REITs provided guidance for calendar year 2024 earnings as part of 2023 year end reporting. On average we see the listed sector positioned to deliver approximately 3-4% earnings growth in 2024, ranging from -10% for office REITs and Hong Kong residential developers to over 10% for U.S. healthcare and logistics REITs.

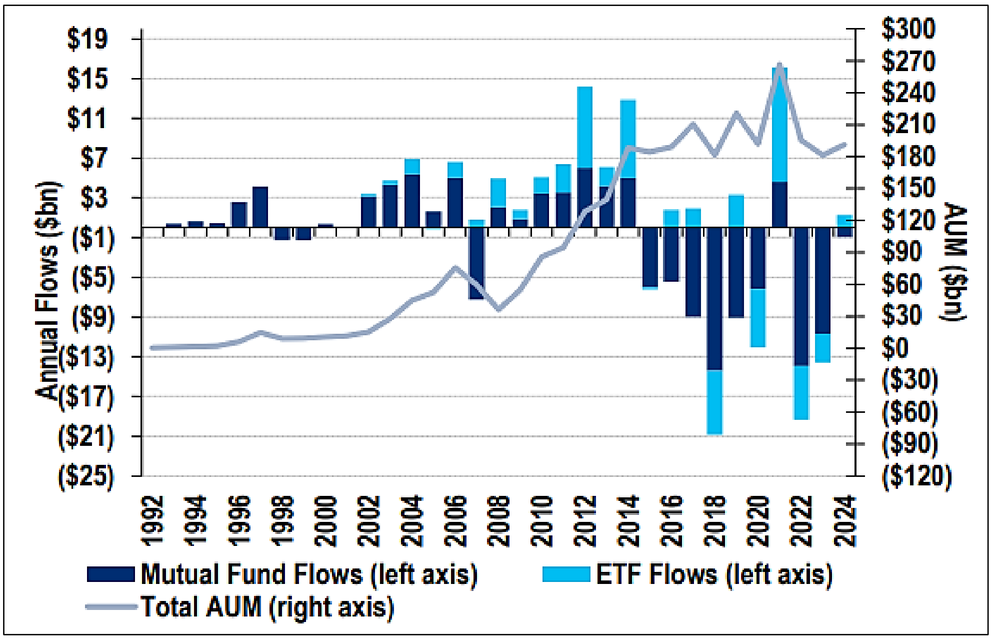
REIT portfolios continue to demonstrate elevated occupancy levels, often above overall industry levels, which we believe points to superior quality real estate and operating platforms. Most report only modest levels of new supply impacting leasing conditions, U.S. sun-belt apartments and industrial the exceptions, where supply has been in response to elevated tenant demand in recent years.

Self-storage and life science sectors also reported operational softness as widely expected– while most other sectors, notably data centres, retail and single family residential continued to report healthy leasing market dynamics.

Generally, we continue to argue that the listed real estate industry is in the best shape we have seen for over 20 years, financially and operationally.

It is fair to say that REITs have not been flavour of the month for some time as demonstrated by lacklustre investment flows into U.S. REIT mutual funds and ETF's shown in the chart below.

U.S. Registered REIT Mutual Fund and ETF flows and AUM



Source: Citi Research and Lipper

Curiously, the last period in which REITs were in vogue was arguably in the lead up to the GFC. As evidenced in the table below, interest rates in 2007 were broadly similar to current levels. However, 2007 was a period in which major parts of the REIT industry were on unstable footings thanks to higher exposure to property development, higher financial leverage, shorter term debt profiles, and greater reliance on bank lenders. Again, despite similar interest rates to today's settings, the REITs enjoyed materially higher earnings multiples.

GREITs then and now

Risk & Return metrics	Feb-07	Mar-24
GREITs 3 Years Total Return p.a.	30.2%	-0.2%
3 yr volatility	10.8%	19.5%
return to risk ratio 3 yrs	2.8	-0.01
GREITs 5 Years Total Return p.a.	28.1%	0.7%
5 yr volatility	10.5%	20.2%
return to risk ratio 5 yrs	2.7	0.04

Source: Factset, NAREIT, FTSE EPRA NAREIT, US Federal Reserve, Citi

Valuation and other metrics	Feb-07	Mar-24
EV/EBITDA x	21.2	18.4
Price / Earnings x	22.0	15.7
US 10 yr Treasury Yield	4.70%	4.35%
Net Debt to EBITDA (top 10 index stocks)	5.9x	5.1x
LTV (US REITs)	41%	33%
Debt maturity (US REITs)	5.5 Years	7 Years
Dividend Yield (1 Yr Forward)	3.3%	4.3%
Dividend Payout Ratio (US REITs)	83%	73%
REIT development pipeline % book value[1]	8%	4%
US Construction Start % of Inventory[2]	2.2%	1.7%
US REIT funds flows - prior 5 yr annual avg	$4.7B	-$7.4B
Net % of CRE lenders tightening standards[3]	19%	61%

Source: Factset, NAREIT, FTSE EPRA NAREIT, US Federal Reserve, Citi

Notes:
1. REIT development pipeline as % of undepreciated book value
2. US Construction Start % of Inventory (prior 10 yrs avg pa)
3. Net % of lenders tightening standards for CRE loans (last 4Q avg)

Furthermore, we think it is also noteworthy that today, investors have far more avenues to sector diversify within listed REITs, particularly to once considered niche areas such as healthcare and data centres and, most notably, away from the riskier office building segment.

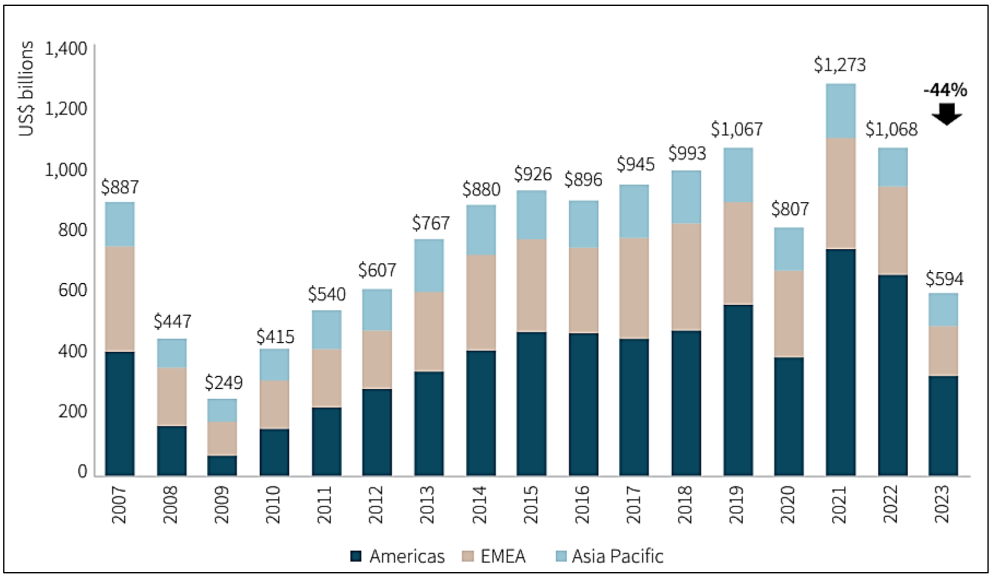
GREIT index sector exposure	Feb-07	Mar-24
Office	22%	10%
Data Centres	0.1%	8%
Healthcare	3%	8%
Industrial	7%	16%
Retail	27%	17%
Storage	2%	6%
Residential	9%	15%
Hotel	4%	6%
Diversified	27%	15%
TOTAL	**100%**	**100%**

Source: Factset, NAREIT, FTSE EPRA NAREIT, US Federal Reserve, Citi

Capitulation and opportunity

While most expect the combination of elevated private sector debt maturities and continued redemptions from unlisted property funds will drive a meaningful pick-up in transaction activity in the not-too-distant future, the start to 2024 has seen a continuation of 2023's subdued property transaction volume levels. Nevertheless, there were signs of life in certain segments with REITs increasingly flexing their financial muscle over the past 12 months.

Real estate transaction volumes



Source: JLL

During the quarter a number of REITs, including BXP (BXP), Link REIT (823) and SL Green (SLG), have bought-out JV partners at prices that reflect significant discounts to prior values and/or replacement cost. In most cases, the acquired assets need further capital investment which triggered the partners' decisions to exit. For example, BXP acquired three assets from JV partners during the quarter at projected yields in the range of 7.2% to 9%.

BXP also messaged that it would consider issuing equity (already heavily discounted as are most other office REITs) if it could acquire high quality office assets at greater discounts than that which is implied by its own share price. While we agree in principle with the concept, execution of such a strategy is difficult. Our exposure to BXP detracted from performance over the quarter, with a total return of -5% in local currency terms. BXP owns a high quality portfolio of office asset across six major U.S. coastal markets, including Boston (37%) and New York (26%). It's portfolio occupancy of 88.4% is materially better than market averages reflecting the quality of the assets, its balance sheet is in good shape with Net Debt/EBITDA of 8x, and the stock trades at less than half of replacement cost.

The case of SLG's 2 Herald Square acquisition in New York City is an interesting example of both debt and equity partners capitulating. SLG acquired its JV partner's 44% stake in the building for nothing and negotiated to pay off the US$182.5m loan on the property for a payment of only US$7m. This building certainly has a lot of challenges, being a 1910 vintage office building which is 65% vacant, in need of capital (potentially converting to another use) and on a ground lease. Understandably, the equity investor was willing to walk away with nothing, and the lender didn't want to own the problem. The onus is now on SLG to make this a profitable investment – a challenging task, but one that may be made easier given the degree of capitulation on the other side of the table. SLG returned 24% over the quarter but its price remains materially below 2019 levels thanks to weak market fundamentals and a stretched balance sheet.

In the UK, West-End London, mixed-use REIT, Shaftesbury Capital (SHC) acquired 25-31 James Street, Covent Garden for £75m for a 4.9% net initial yield. The property further strengthens SHC's presence in its core Covent Garden precinct. Management expects to deliver an IRR of over 10% driven by asset management and rental growth opportunities.

In another notable transaction, U.K. diversified REIT British Land (BLND) sold a 50% interest in its 1 Triton Square office building in London's Regents Place for £192.5m or 9% above its valuation as at 30 September 2023, to Royal London Asset Management. Meta paid an extraordinary £149m to break its long-term lease contract (18 years remaining term) on this asset – a figure that equates to 40% of the value of the entire building based on this subsequent transaction. The building is now largely vacant, and the joint venture will convert the lower floors to lab space. BLND forecasts the building to now deliver a 30%+ IRR from the point of the Meta lease surrender.

Perhaps the best example of profitably taking advantage of duress is evident in the Portfolio's largest holding, U.S. healthcare REIT Welltower (WELL), In 2023 WELL deployed US$4.8 billion into seniors housing properties at significant (30%+) discounts to replacement cost. The combination of higher interest rates, a pullback of traditional lenders, and real operational distress in seniors housing during Covid, has led to a very broad opportunity set. WELL has highlighted that ~US$16B of seniors housing faces refinancing in 2024-2025 likely providing further acquisition opportunities. For WELL, external growth activity has occurred at attractive yields, with the US$4.8B of acquisitions in 2023 yielding 7.2%, well ahead of the company's 4.9% implied cap rate. The company has rightfully leaned on equity capital to fund its investment activity, sourcing ~US$6B of equity capital in 2023, which has the added benefit of further improving its balance sheet.

During the quarter WELL reported a strong finish to 2023 with 12.5% like-for-like rent growth in the fourth quarter. The company guided to 10% earnings per share growth for 2024 excluding prospective investment activity. Welltower benefits from robust growth in seniors housing, with the REIT guiding to 18% same-store net rent growth for this segment that comprises nearly 2/3rds of its income. Our overweight exposure to WELL contributed positively to performance over the quarter.

IPO – the liquid solution

February featured the first U.S REIT IPO since 2021. American Healthcare REIT (AHR), a US$4.5 billion unlisted diversified healthcare REIT raised US$770m in an IPO in early February. While relatively small, and with pricing that was materially below consensus NAV per share estimates, this deal signifies that equity capital markets remain open for private real estate funds facing liquidity events – a trend we expect should gather pace as unlisted funds and lenders work through the challenges of a changed investment landscape.

M&A activity – private equity re-awakens

After a relatively quiet period for private equity buyers, Blackstone rekindled the M&A scene with two REIT public-to-private transactions.

During the quarter Blackstone (BX) acquired listed single-family rental owner Tricon (TCN) in a deal valuing the company at US$7.5 billion (including debt). The acquisition price equates to a cap rate of approximately 5.5%. The deal is nuanced however, as BX has an existing relationship with TCN through BX's non-traded REIT (BREIT) which owns 11% of the company, and BX also has investments in TCN's funds and has representation on the board. Prior to the announcement, TCN traded at a substantial discount to peers owing to its complicated structure, elevated leverage, and exposure to business lines outside of single-family rental.

Subsequently, in early April, BX agreed to acquire U.S. listed multi-family property owner Apartment Income REIT (AIRC) in an all-cash transaction valued at approximately US$9.5 billion. AIRC owns interests in 27,000 apartments across the U.S. – with its largest exposures in Miami (19%) and Los Angeles (19%).

Sector Commentary

Data Centres – Equinix short seller report

Late in March, U.S. based activist short seller Hindenburg Research released a report on data centre REIT Equinix (EQIX),. The report raised a number of issues principally relating to accounting treatment of expenses (capital vs operating items as well as management remuneration), the manner in which its occupants are billed, threats to demand from large cloud service providers, and relative valuation. Equinix has stated that it is reviewing the Hindenburg report and will respond as appropriate once the review is complete.

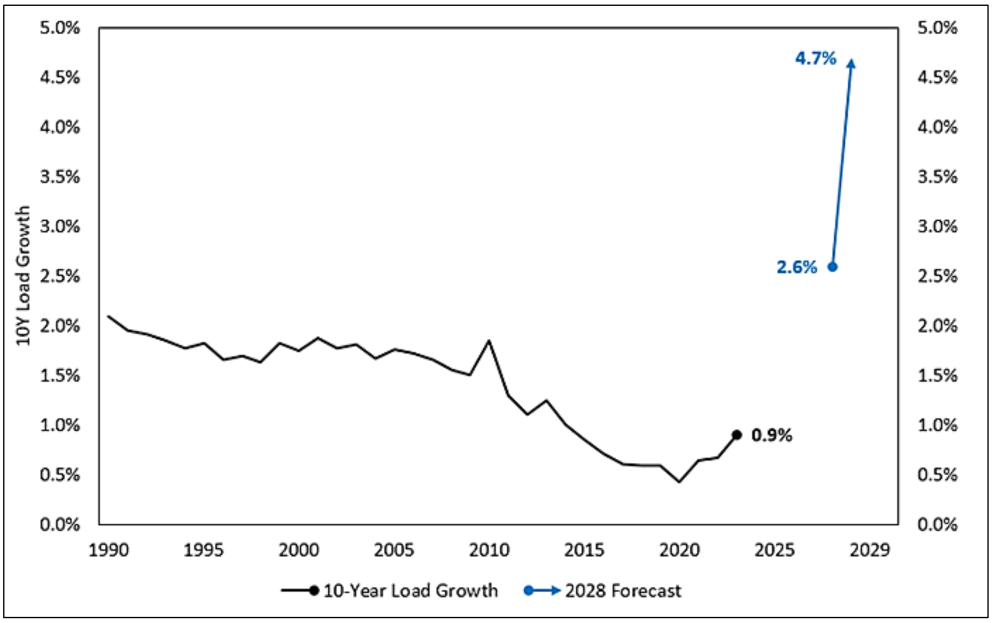
While the stock reacted negatively to the report (-5% over the three days post release), EQIX performed marginally better than the benchmark over the quarter with a total return of 3%.

We welcome greater scrutiny on some contentious issues and acknowledge the risk that we may be guilty of confirmation bias. However, we do not believe the matters raised in the Hindenburg report are new to the data centre industry and they do not point to critical governance failings. Indeed, in analysing the company, we already take a more conservative approach, e.g. our modelled earnings are circa 20% below Equinix's reported earnings to account for some items raised in the report around accounting for capital expenditure.

EQIX has been a strong market performer, with a total return of 14% p.a. over the past 5 years. We recognise there is possibly some downside risk to consensus earnings estimates as the street resets lower to our more conservative level, and as such EQIX shares may be prone to a period of relative underperformance. While EQIX trades at a premium earnings multiple, we believe it is warranted given expected outsized growth in future cashflows from what is the leading platform among network dense data centres.

We also believe that data centre demand and supply fundamentals are set to provide sustained strong pricing power for landlords. Demand remains robust, and any incremental leasing from Artificial Intelligence (AI) will be additive in the years ahead. Importantly, data centre supply faces significant constraints from electricity shortages in many key data centre locations, attributable to both generation capacity as well as grid and substation readiness. After years of negligible growth, electricity demand has reached an inflection point, particularly in the U.S., with a new wave of demand from data centres as well as on-shoring of manufacturing (e.g. semi-conductor plants) coming at a time when coal-fired generation plants are being retired. Provisioning power in adequate size and in a timely manner is an additional constraint on data centre supply.

U.S. Electricity Load Growth



Source: Goldman Sachs, NERC

There may be valid concerns that there is a speculative AI demand bubble – where tenants are over-estimating their leasing needs and over-committing to data centre space that is currently planned or under construction. However, we believe EQIX remains an important part of the digital ecosystem, and it has a point of difference within the data centre sector which positions it well relative to industry peers, even if this proves to be correct.

Industrial – an active quarter

Industrial REITs were also active during the quarter, positioning themselves to buy assets when other bidders are quiet. Several raised equity to fund transactions that were under-contract or in the deal pipeline.

While there is little sign of vendor distress, heightened supply leading to softening occupancy, as well as debt or fund maturities have triggered some to sell. Deals included a US$1 billion sale by Blackstone in Southern California to Rexford (REXR), while Terreno (TRNO) is set to acquire two portfolios with a combined purchase price of US$479m. In both cases, pricing reflected an initial cap rate of around 4.8%, with approximately 15-20% rental value upside, potentially adding 100bps to the initial yield on a mark-to-market basis.

Rexford issued both debt and equity, with the US$1 billion debt taking the form of 4 year convertible bonds with a blended coupon of 4.25% and a conversion price 30% above the current share price. The US$840 million forward equity was issued to a single existing investor at the current share price.

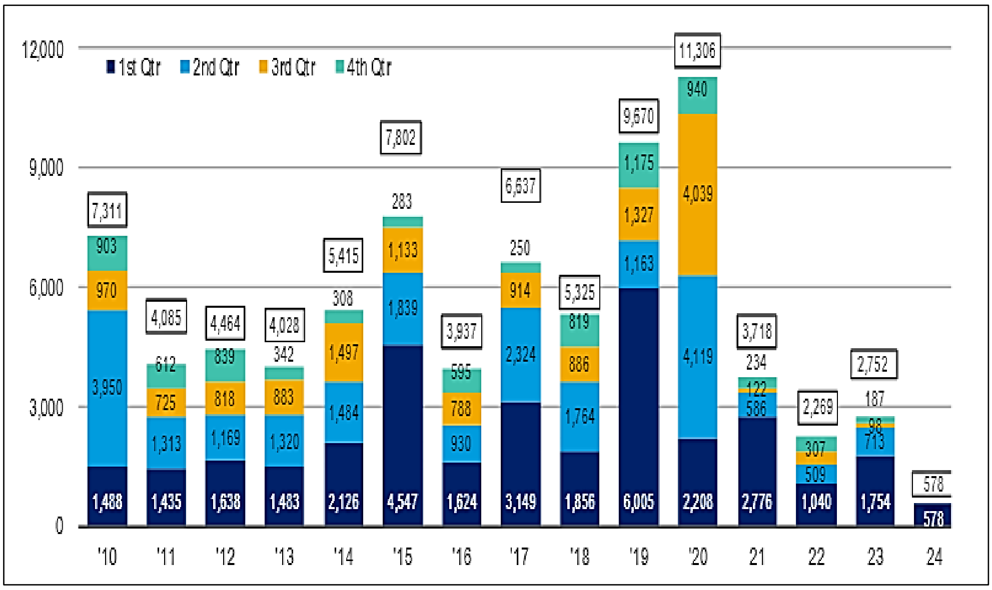
In the case of TRNO, the company funded almost the entire acquisition price with a US$392 million equity raise, thereby further de-leveraging the company and positioning itself to make additional acquisitions.

Meanwhile, the FTSE EPRA Global Developed Index announced the re-admission of Goodman Group (GMG) to the benchmark effective 15 March 2024, after having earlier announced it would expand the eligibility criteria to include property fund management services. With a benchmark weight of 248bps, GMG instantly became the 8th largest index constituent. Nonetheless, we exited the position in GMG following the stock's significant outperformance with a total return over the quarter of 34% and 82% over the past 12 months.

Retail – leasing continues

Leasing tension remains healthy for high-quality retail real estate across both discretionary and non-discretionary formats. In the U.S., store closures in the first quarter of 2024 were the lowest in at least 14 years.

US retail store closures



Source: BofA Global Research

The first quarter often sees elevated retail bankruptcies after the key holiday trading period. Starting the year with minimal store closures is a positive start for U.S. retail REITs where expectations and budgets account for a normal credit loss environment of 50-150bps of NOI (Net operating income). Should store closures / bankruptcies remain low, NOI growth for the year will likely be above initial expectations.

Reflective of the improved retail bricks & mortar conditions, Unibail-Rodamco-Westfield (URW) announced it would reinstate a cash dividend for the first time since 2019. The €2.50 per share dividend represents a 26% FFO payout ratio. While URW still has work to do in reducing leverage, in part, the cash dividend signals management's optimism regarding asset sale progress and moderating pressure on asset values.

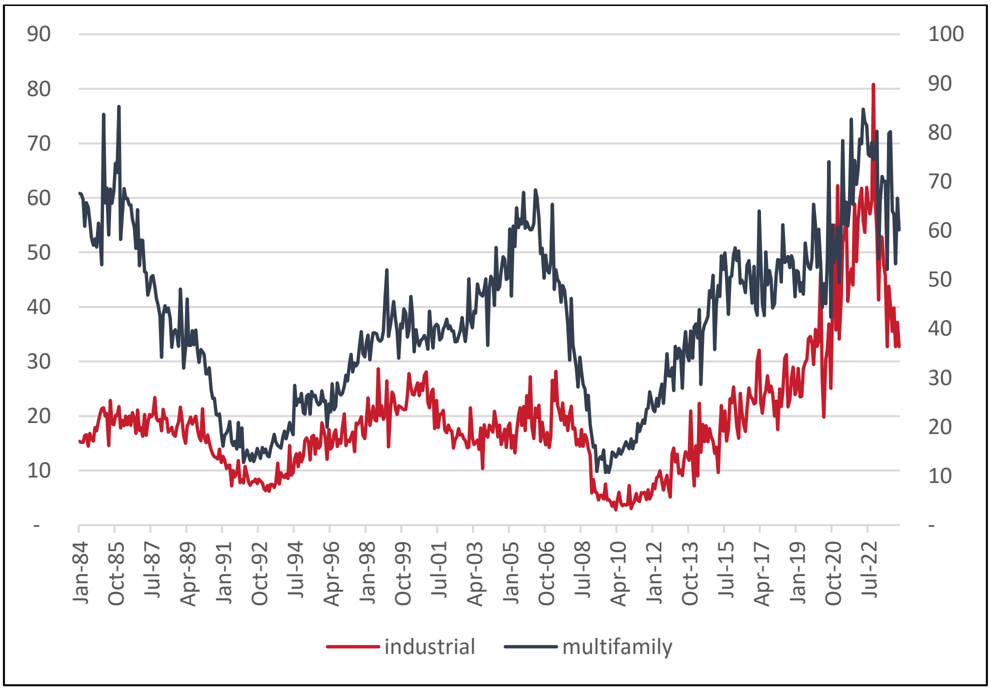
Conclusion and Outlook

Our message is simple: REITs are in good shape and represent good value. They trade at or below underlying asset replacement costs, with moderate levels of debt and modest short to medium term debt maturities. Importantly, REITs have continued to provide investors with liquidity day in and day out. Publicly listed REITs do not and cannot hide behind the artificial gates of private funds. We believe these dynamics are underappreciated.

As we have stressed previously, we are not factoring in a return to the very low interest rate regime that prevailed in the post-GFC and pandemic era. Crucially, for the most part, real estate demand and supply fundamentals remain favourable. Better than expected economic growth underpins tenant demand, and supply is constrained by rising construction costs, higher costs of debt and equity capital – or an outright lack of developer finance.

While 2024 will see elevated levels of completions in the U.S. industrial and sunbelt multi-family sectors, construction starts in these segments have fallen materially as the following chart illustrates. This should bode well for landlord pricing power, provided that demand conditions do not deteriorate.

Construction starts – U.S. industrial and multifamily



Source: Citi Research, Dodge

This quarter has again demonstrated that debt and equity capital remain available for REITs, enabling them to play investment offense and take advantage of the distress of others.

Interest rates may remain elevated – but if this is attributable to better-than-expected economic growth, landlords should benefit from greater pricing power in a more constrained environment for development. The strong performance of Japanese property companies in advance of and after the first interest rate rise that country has seen in 17 years is a notable testament to these dynamics.

The Portfolio reflects REITs' broader and deeper value proposition with exposure to rental housing, necessity retail, emerging technology sectors such as data centres, and demographically necessary segments such as seniors housing. And unlike private vehicles, listed markets offer regular, uninterrupted liquidity.

ESG Matters

U.S. SEC announces ruling on mandatory climate disclosures

The U.S. Securities and Exchange Commission (SEC) announced its ruling for mandatory Climate Disclosure requirements in March 2024, nearly two years after first announcing its initial proposal. While there has been significant public comment and even disagreements on the scope of the ruling, this announcement marks a significant step towards improving transparency and standardisation around climate-related risks and opportunities in corporate reporting in the U.S.

The new regulations mandate both qualitative and quantitative disclosures, requiring companies to provide comprehensive insights into climate-related risks, their impact on business operations and financial condition, as well as details on climate-related targets, goals, and greenhouse gas (GHG) emissions data. Key disclosure requirements of the new rules include identifying and describing climate-related risks that materially impact, or are reasonably likely to impact the company's business, strategy, and financial condition.

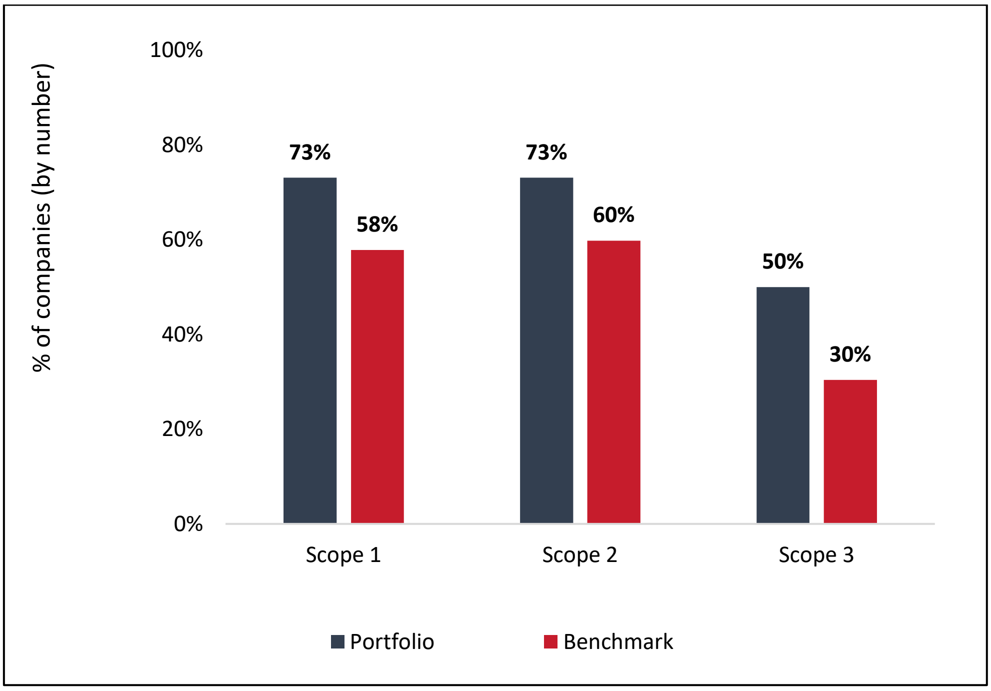
Companies are also required to disclose their governance and management approaches concerning climate-related risks, along with reporting on climate-related targets, goals, and their progress against those targets. The rules also necessitate the provision of Scope 1 and Scope 2 GHG emissions data, with phased-in requirements for external assurance of the information.

In the face of almost unprecedented public comment and lobbying on the initially proposed rules, the SEC has removed some of the more contentious requirements. These include the requirement for companies to report Scope 3 greenhouse gas emissions, disclose climate expertise of board members, and include specific financial statement metrics related to climate. Assurance requirements for emissions disclosures were scaled back, with limited assurance initially and large accelerated filers transitioning to reasonable assurance later.

The implementation of these regulations will be phased in over time, with Large Accelerated Filers being required to commence disclosures for fiscal year 2025, followed by accelerated filers in 2026 and smaller companies in 2027. Despite already facing legal challenges, companies have been advised to begin preparing for compliance during the phase-in period to ensure they can meet the new disclosure requirements.

Looking at the current climate disclosures of U.S. REITs in our Portfolio compared to the U.S. based constituents of the FTSE EPRA NAREIT Developed benchmark, we can assess the likely readiness of our Portfolio holdings compared to peers. The chart below shows the proportion of companies that disclose Scopes 1, 2 or 3 carbon emissions in our Portfolio compared to those in the benchmark, with more of our holdings already disclosing their carbon emissions.

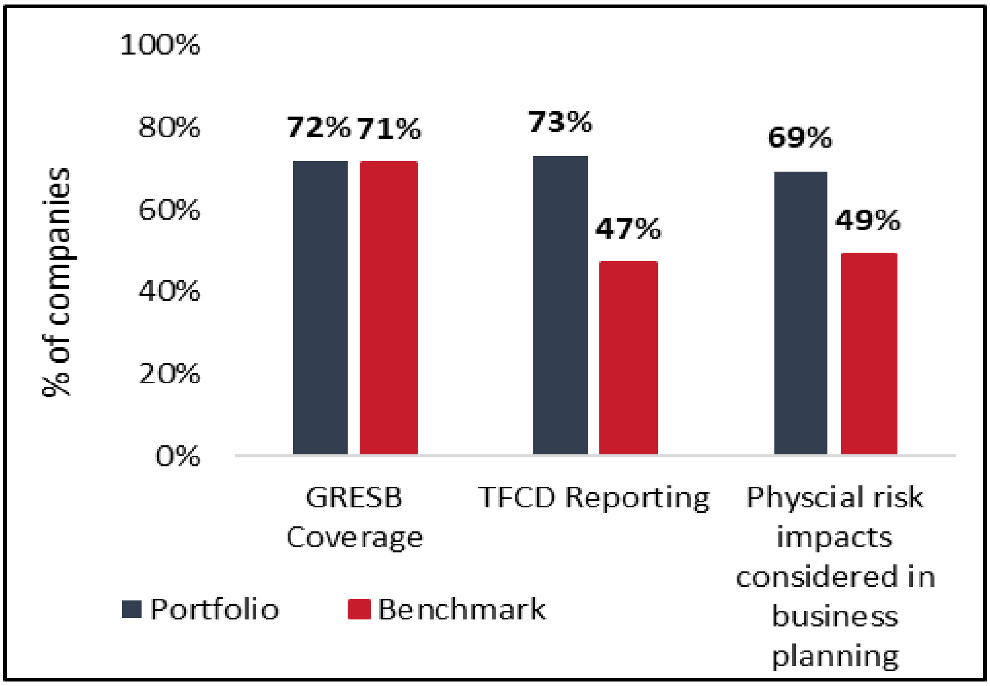
Proportion of U.S. companies disclosing Carbon Emissions, as of 31 March 2024



Source: MSCI, Company disclosure, 2023

Going further to look at broader climate-related reporting, we can compare metrics from the Global Real Estate Sustainability Benchmark (GRESB) dataset, such as the proportion of companies that report into GRESB, whether a company has a TCFD report or if it incorporates the impacts of physical climate risks into its business planning. The chart below shows that our U.S. holdings are reporting into GRESB at approximately the same rate as the benchmark, however there are significantly more companies in our Portfolio that are already reporting on TCFD and physical risks.

Proportion of U.S. companies currently reporting on climate-related impacts to their operations, as of 31 March 2024



Source: GRESB, Company disclosure, 2023

Expanded ESG reporting suite in 2024

With increasing regulatory disclosure requirements and public demand for transparency in sustainability and ESG reporting, Resolution Capital are proud to share three ESG reports this year covering Climate Risk, Responsible Investment & Stewardship and Corporate Social Responsibility. These reports capture our commitment to active stewardship, ESG integration and to building a more sustainable world. They represent a comprehensive overview of sustainability and responsible investment initiatives across our business and how we are responding to key sustainability and responsible investment issues in our investment portfolios.

The Resolution Capital Climate Risk Report outlines our approach to managing climate risks and opportunities that are expected to impact global real estate and infrastructure securities now and over the long term. This report draws on the recommendations of the Taskforce on Climate-related Financial Disclosures and the requirements of other emerging Australian and international sustainability reporting standards. Our commitment to active ownership and promoting the six principles of the Principles of Responsible Investing are outlined in our Responsible Investment and Stewardship Report. The Corporate Social Responsibility report outlines our commitment to developing positive relationships with our community, our contribution to focused charities and our sustainability activities at a corporate level.

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