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NEDGROUP INVESTMENTS GLOBAL PROPERTY FUND

Quarter Two, 2019

For the period ended 30 June 2019

NEDGROUP INVESTMENTS GLOBAL PROPERTY FUND

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

PERFORMANCE

The Nedgroup Investments Global Property Fund outperformed the FTSE EPRA/NAREIT Developed Index by 0.5% for the quarter ending 30 June 2019, as the index produced a total return of -0.1% in US dollar terms. The longer term performance remains strong, ahead of the index by 1.7% annualised since inception.

Indicator	3 months	1 year	2 years p.a.	Since Inception# p.a.
Portfolio*	0.39%	8.07%	7.16%	5.00%
Benchmark+	-0.07%	7.68%	6.66%	3.30%
Difference	0.46%	0.39%	0.50%	1.70%
Fund Size	US$160,936,383			

* Net USD return for the Nedgroup Investments Global Property Fund, C class. Source: Morningstar
\# 12 August 2016.
\+ FTSE EPRA/NAREIT Developed Index (in USD Net Ret)

MARKET COMMENTARY

The benchmark Index produced a total return of -0.07% for the quarter ending 30 June 2019 in US$ terms, trailing stronger performance in global equities (+4%) and global fixed income (+3%). Interest rates around the world fell sharply as recession fears mounted and central banks indicated a new easing cycle was at hand. During the quarter, rising trade tensions between the U.S. and China, the world's two largest economies, cast a pall over growth globally.

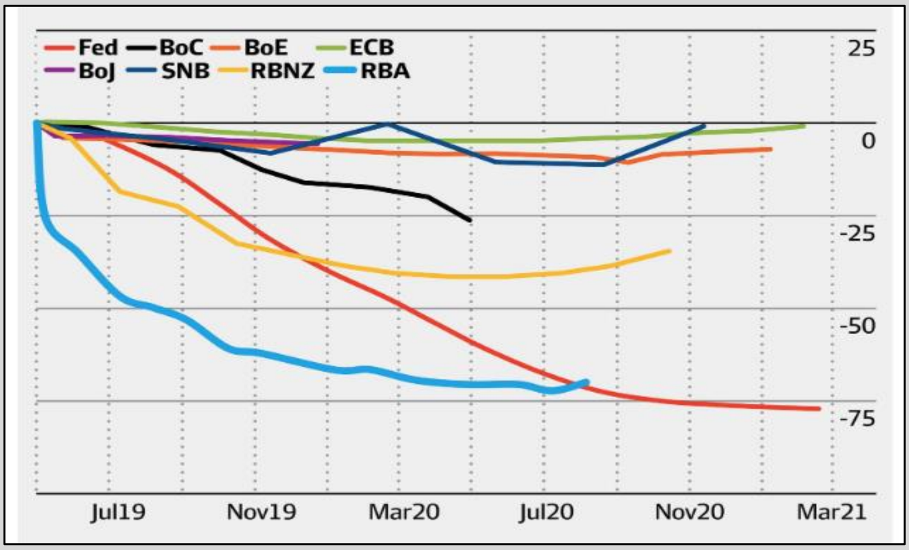
Our strategy outperformed the benchmark led by stock selection and sector overweights in industrial, healthcare and data centres & towers, as well as residential exposure in North America. In particular, the industrial real estate portfolio performed strongly and selected stocks within European data centres and UK healthcare were important contributors to fund performance. In contrast, German residential was the largest detractor to performance as fears of new regulatory proposals pulled the entire sector lower. Deutsche Wohnen (DWNI), the largest listed landlord in Berlin, came under repeated fire as new rent control regulations threatened to reduce its internal growth profile.

Retail landlords underperformed during the quarter as competitive pressures and store closures continued to weigh on the sector. The portfolio benefited from strong stock selection and a significant underweight exposure to the sector, which was the largest positive contributor to relative performance. Specifically, Hong Kong shopping centre owner Link REIT (823 HK), achieved a 6.1% total return during the quarter, one of very few positive total return stocks in the sector globally.

LOWER INTEREST RATES BECOME CONSENSUS

Inflation remains missing-in-action as the world wrestles with dis-inflation. Inflation remains persistently below target in most developed countries, and central banks reinforced their willingness to tackle the issue.

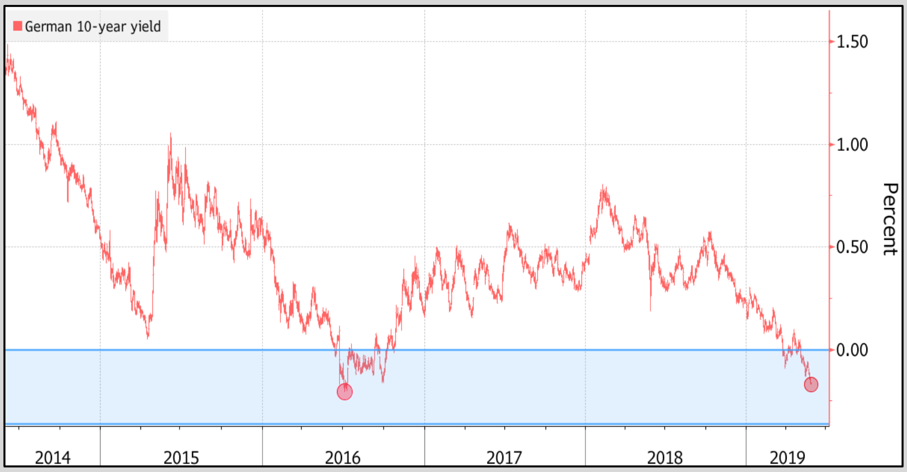
MARKET EXPECTED CASH RATES MOVES (Basis Points change from current)



Source: Australian Financial Review (30 May 2019)

In a world of slowing growth where central banks pursue monetary easing policies, the backdrop for real estate remains attractive. As growth in many developed markets moderated during the quarter and fears of recessions grew, global bond yields plunged around the world. In Germany, 10 year bund yields surpassed 700 year lows and flirted with -0.4% at the end of the quarter. Similarly, France, Spain and Portugal also saw yields hit all time lows, and even Greek yields came within 20 bps of U.S. bonds as the quarter ended. It is noteworthy that the yield curve in several markets inverted during the quarter, often seen as an ominous recession signal.

ICE, ICE BABY – GERMAN YIELDS HEADING FURTHER BELOW ZERO, CLOSE TO AN ALL-TIME LOW



Source: Bloomberg

CAPITAL MARKETS ROAR

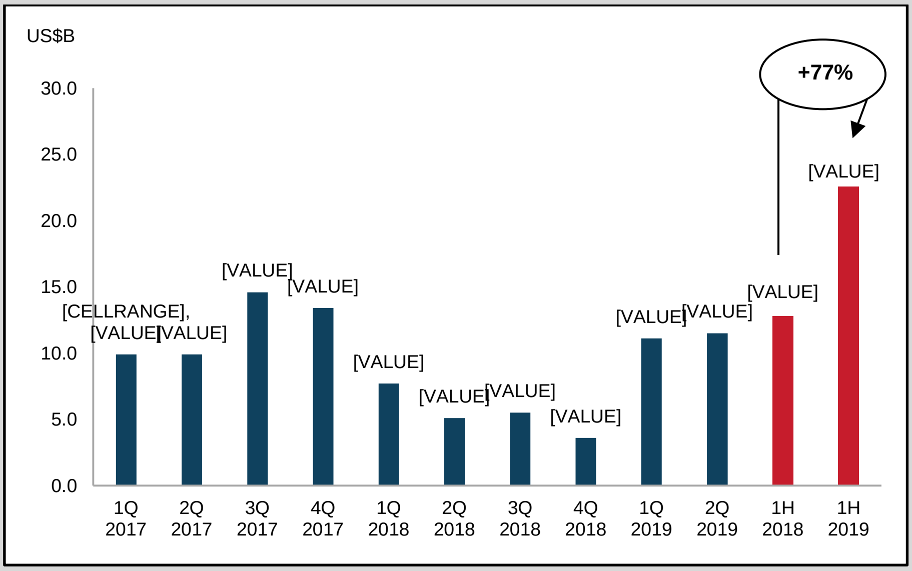
REITs were voracious consumers of public capital in the June quarter. In the U.S., REITs raised an estimated US$43 billion across public equity and debt markets in the first half of 2019, exceeding the US$41 billion raised in all of 2018. In fact, the equity spigot was wide open for some. In the quarter's largest equity issuance, gaming company, VICI Properties (VICI), raised US$2.4 billion of equity to fund US$3.2 billion of investments.

In early June, Ventas (VTR), one of the largest U.S. healthcare REITs with US$32 billion in assets, raised US$794 million to fund the US$1.5 billion acquisition of an 85% stake in a Canadian senior housing portfolio. Long time readers may recall that we previously held a position in Ventas that we exited in 2017 due to concerns of slowing earnings growth resulting from U.S. senior housing oversupply in conjunction with concerns about the company's increasing leverage. Fast-forward two years, and the Ventas outlook has improved. While construction activity remains a key risk in the U.S. senior housing market, in the interim period, Ventas slightly diluted this exposure by bolstering its life science and medical office businesses. With the latest acquisition in Canada, U.S. senior housing is diluted further, and importantly, balance sheet leverage is reduced below 6x Net debt/EBITDA.

Also, in the quarter, we initiated a position in Invitation Homes (INVH), the largest single-family rental REIT in the U.S. The company controls a US$24 billion portfolio that owns 80,300 homes with important concentrations across the West Coast and Sunbelt markets. Invitation Homes has a strong management team, and its scale should enable it to expand its operating margins by growing revenues and controlling expenses in a sector where fragmented ownership is usually the norm. The asset base provides exposure to rental housing in a niche that is less susceptible to mounting regulatory concerns in residential markets. Importantly, the company is on a path to reducing leverage, and it is moving towards obtaining an investment grade rating in two years. Invitation Homes is a relatively young company that was formed by Blackstone (BX-US) as a vehicle to acquire distressed housing following the financial crisis earlier this decade. The company went through an IPO in 2017, and Blackstone has telegraphed its intention to reduce its position over time; as such, recent secondary share sales have come as no surprise.

With interest rates at historic lows, the bond market was particularly favourable for REIT issuance. High-grade, unsecured bonds accounted for 61% of total capital raised by U.S. REITs, and the volume of issuance was up approximately 80% on the prior year.

U.S. REIT BOND ISSUANCE



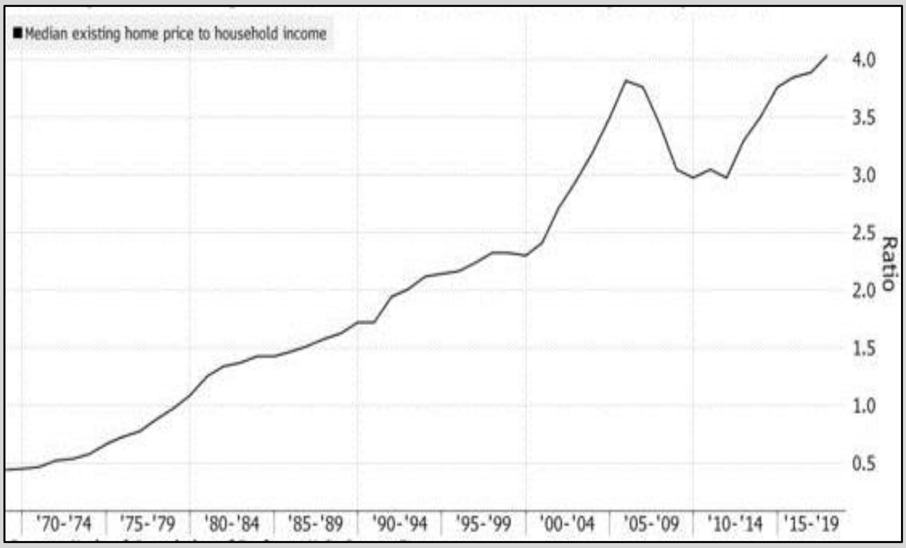
Source: SNL, JP Morgan & CapitalOne

It is notable that several REITs issued 10 year unsecured bonds at spreads inside of 100 basis points, including Equity Residential (EQR), Public Storage (PSA) and AvalonBay Communities (AVB). In addition, Ventas (VTR), Camden Property (CPT) and Federal Realty (FRT) also priced issues between 100-110bp.

RESIDENTIAL – REGULATORY CLOUDS LOOM NEAR

Apartment landlords came under pressure in the quarter as new rent regulations were proposed in several disparate jurisdictions ranging from Berlin to California to New York. Following a decade that saw strong house price appreciation outstrip average household incomes, calls for greater rent controls have become more commonplace. The ratio of house prices to income is higher today than any time in the past 50 years in the U.S.

AFFORDABILITY DECLINES: U.S. MEDIAN PRICED HOMES EXCEED HOUSEHOLD INCOME BY FOUR TIMES



Source: National Association of Realtors, U.S Census Bureau

Regulations appear to be a political response to an economic issue. Last quarter we wrote about a new Oregon law that caps annual rent increases at 7% over inflation for properties at least 15 years old. Similar rent control proposals have been raised in Boston, Chicago, Washington DC and various cities in California, Spain, France and the Netherlands.

New York created regulatory news in the quarter as legislation was expanded to protect tenants by limiting landlords' ability to deregulate units or to raise rents for certain classes of apartments. New York City and State already have a highly complex framework of laws that govern rents for various properties depending on the age of the building, the size of the structure, the commencement and continuance of specific tenancies and the capital invested in properties over time, among other considerations. In some cases, the new legislation allows landlords to only raise rents by 2% as a result of capital invested in the buildings instead of the 6% previously permitted. The new legislation makes it harder for landlords to grow rents above a certain threshold, currently $2,774 per month, at which those units could be deregulated.

While rent regulation in New York may be high profile but largely benign for U.S. REIT portfolios, the momentum toward rent control in Berlin is far more impactful on listed German property companies. Berlin is a city of renters with 85% of households renting their apartments, well above the national average of approximately 45%. In the past decade, rents for Berlin apartments have doubled, far outpacing the estimated 1.8% annual growth in household incomes.

In April, a referendum process began which sought to expropriate Berlin's apartment stock, which cast a cloud over landlords, including Deutsche Wohnen (DWNI), which has 70% of its assets in Berlin. We did not view nationalisation as practical given the rumoured pricing of €35bn far exceeded the financial resources of the Berlin municipality and there were substantial questions about legal precedent. In April, DWNI fell by 7.6% as the rumours and news worked their way through the market.

NEDGROUP INVESTMENTS

German residential stocks experienced a reprieve in May as the expropriation news faded as unworkable and with the publication of the Berlin Mietspiegel, the biannual statutory rent index. The Mietspiegel's 2.5% annual increase was largely in-line with expectations, although it was below the 10% growth in market rents in the past two years. With market rents continuing to grow more rapidly than regulated renewal increases, the reversionary potential of Berlin apartments continues to expand.

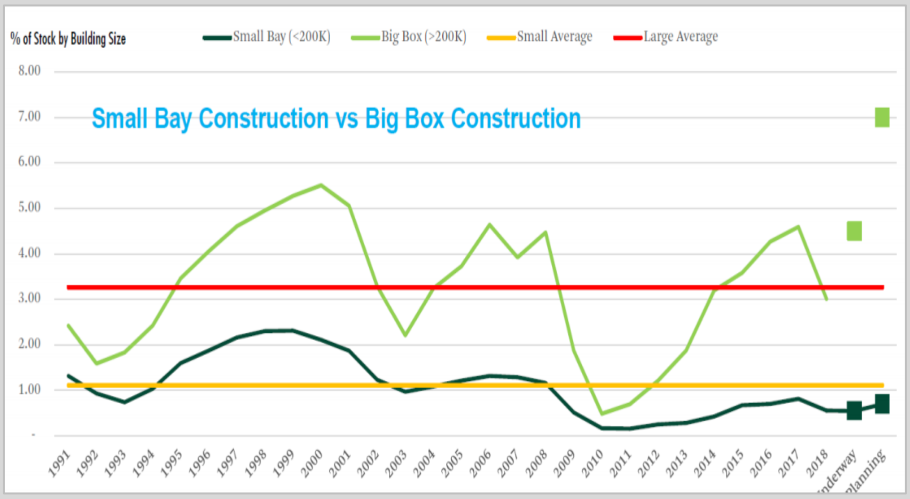
Regulatory concerns flared again in June as a new proposal by some city leaders sought to institute a rent ceiling and to freeze existing rent levels for five years beginning in 2020. The Berlin Senate has agreed to draft rent-freeze legislation, and although the specific details, timing and constitutionality are uncertain, this proposal has a clearer path to becoming law in the next year. Berlin-centric apartment portfolios would see their internal growth compress under the proposed rent freeze, and in June, DWNI's share price plummeted 22%.

While a rent freeze would diminish the cash flow growth profile of Berlin apartments, we believe policies aimed at capping rent growth fail to address the fundamental problem of residential under-supply, and in fact exacerbate it by making development uneconomic. Thus the social imperative of providing affordable housing becomes even more problematic. For investors, the rental upside may be capped but the downside is limited and the scarcity of new supply serves to underpin capital values or even drive them higher.

EVERYONE LOVES A GOOD SHED

The industrial fundamentals we've discussed in the past remain very much intact. The shift toward eCommerce efficiencies is super charging the reconfiguration of logistics supply chains around the world. In some markets, bifurcation is beginning to appear between increasing levels of big box supply and hotly demanded urban infill locations, as the following chart illustrates.

U.S. INDUSTRIAL STOCK COMPLETIONS



Source: CBRE via Eastgroup

We increased the portfolio's industrial exposure in the June quarter and initiated a position in a pure play Japan industrial REIT listed in Japan. We believe this segment is attractive as the industrial sector in Japan has underperformed global peers due to supply weighing on the market over the past few years. While industrial market cap rates in other regions have compressed, yields on Japanese industrial have remained relatively static, and thus the valuation gap has narrowed.

While we have long eschewed J-REITs given the conflicted structure (amongst other issues), we are comfortable with Nippon Prologis's external management structure given our underwriting of its sponsor Prologis, the NYSE-listed REIT.

MITSUBISHI ESTATE – COMING IN FROM THE COLD

Mitsubishi Estate made three welcomed announcements with its annual results in mid-May. We have long admired Mitsubishi Estate's high-quality portfolio, principally clustered in Tokyo's prime Marunouchi business district. Unfortunately, the company has long been an under performer as it was mired in a range of self-inflicted problems, including deploying excess capital into an unfocused investment strategy and a byzantine management structure. Earlier this year, in advance of the company's much anticipated results announcement we wrote a long letter to management outlining our concerns and urging the need for bold reform, translated it into Japanese, and hand delivered it to company officials.

In May, (and perhaps partly in response to our missive!) Mitsubishi Estate announced it would initiate a share buyback of up to ¥100 billion (US$900 million), equal to 4.7% of shares outstanding. It also announced a 21% dividend increase for the second half of 2019. Most importantly, in our view, was its announcement that it would drop plans to renew the poison pill upon expiry. We are heartened by the shift in corporate governance to provide greater accountability to shareholders, as well as the release of profits to investors in lieu of more questionable asset investment schemes. We have maintained our position in Mitsubishi Estate, whose shares were flat in the quarter.

HONG KONG – SOCIAL UNREST FLARES

Social unrest flared in Hong Kong in response to a proposal by the local government to pass a law which would allow extradition to mainland China. Opponents fear Beijing's growing influence on Hong Kong and the proposed extradition bill would be another step in the dilution of the one-country, two-systems principle that came into effect with the British handover in 1997.

For now, property operating conditions remain sound in Hong Kong, albeit pricing is expensive relative to other markets. Importantly, listed property companies have low leverage and trade at discounts to (scarce) direct market transactions. While office leasing inquiries have slowed in response to lower business confidence (trade war impacts), the office vacancy rate in Central Hong Kong remains tight at only 2%. Residential prices remain close to record highs as pent-up demand from owner occupiers exceeds supply and interest rates remain low. Portfolio holding Sun Hung Kai (16) reported that it had sold 120 of 130 residential units launched after the protests and had not adjusted prices. The discretionary retail sector is most vulnerable from the disruption of the protests and the likely impact on consumer sentiment.

In early July, the protest movement spread to the Kowloon side across the harbour. These protests were designed to influence mainland Chinese visitors as they were conducted in Mandarin, the language of most mainlanders, instead of Hong Kong's native Cantonese. The protests were centered around the West Kowloon MTR station, located near the high speed rail terminus that connects the mainland and near prime shopping and tourist attractions, such as Harbor City.

CONCLUSION

REITs had an active quarter in which capital markets tailwinds helped steady the sector as it faced some regional troubles – principally residential uncertainties in Berlin and political protests in Hong Kong – as well as the continued unwind in retail.

This environment is one where diversification pays dividends. Industrials continued to benefit from structural growth trends. Healthcare saw a firmer environment. U.S. residential is strengthening. Also, expect the unexpected, such as Mitsubishi Estate's surprising corporate governance improvements. It is heartening to see efficiency improvements in this high quality portfolio.

Yet as pricing continues to climb, we remain vigilant about the risks embedded. Operating fundamentals remain stable in most markets, and modest construction activity largely matches demand. Tenant credit risks remain a concern. This is most evident in the retail sector where bankruptcies and store closures are elevated. While other sectors have not yet had the same degree of tenant distress, we note the rise of co-working operators absorbing large volumes of office space and start-up ecommerce retailers active in the industrial sector. The current low interest rate environment and cheap cost of capital is supporting unproven business models, many of which have not yet turned a profit.

However, REITs more broadly have done a good job of prudently managing their balance sheets, including de-leveraging and extending their debt maturity profiles which ensures they are well placed to withstand future challenges.

ESG – CITIES PASS ENERGY EFFICIENCY LEGISLATION

Earlier this year, Washington DC and New York City passed new legislation designed to reduce greenhouse gas emissions by half in a little more than a decade and by up to 80% within 30 years (by 2050). In both cities, existing buildings generate the majority of greenhouse gas emissions – 74% in Washington DC and 67% in New York City. In order to reach the citywide lower emissions objectives, the existing building stock must operate in a more energy efficient manner. See Talking REITs for more detail.

In both municipalities, many of the finer details of the laws remain to be written and at this point we do not fully know the impact on landlords, although almost certainly, additional investment will be required, particularly for older and less efficient buildings. We have always believed that managing energy consumption and improving efficiency was a smart investment. REITs active in the Washington DC and New York City markets have already embarked on improving their properties' energy efficiency. Portfolio holding, Empire State Realty Trust (ESRT), is nearly 15 years into a program to upgrade the efficiency of its namesake building, whose energy consumption has declined as its occupancy has increased.

As more cities impose stricter environmental efficiency requirements on building owners, we expect public REITs to fare better than private landlords, many of whom may lack operational scale, public scrutiny and available capital resources.

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The value of shares can fall as well as rise. Investors may not get back the value of their original investment.

UK investors should read the Appendix for UK investors in conjunction with the Fund's Prospectus which are available from the Manager www.nedgroupinvestments.com

The Fund has been recognised under paragraph 1 of Schedule 4 to the Collective Investment Schemes Act 2008 of the Isle of Man. Isle of Man investors are not protected by statutory compensation arrangements in respect of the Fund.

The State of the origin of the Fund is Ireland. In Switzerland, the Representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zürich, whilst the Paying agent is Banque Heritage SA, route de Chêne 61, 1211 Geneva 6, Switzerland. The prospectus, the Key Investor Information Documents, the fund regulation or the articles of association as well as the annual and semi-annual reports may be obtained free of charge from the representative. In respect of the units distributed in or from Switzerland, the place of performance and jurisdiction is at the registered office of the representative. Past performance is no indication of current or future performance. The performance data do not take account of the commissions and costs incurred on the issue and redemption of units.

The Prospectus of the Fund, the Supplement of its Sub-Funds and the KIIDS are available from the Investment Manager and the Distributor or from its website www.nedgroupinvestments.com

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