

Natixis/AEW Diversified REIT Strategy



QUARTERLY PORTFOLIO COMMENTARY

US equity markets continued to move higher in the third quarter with both the S&P 500[®] and Dow Jones Industrial Average ending September at record highs. Most notably, the Fed embarked on its much-anticipated easing cycle by cutting rates 50 basis points to 4.75%-5.00% at the September FOMC meeting, its first rate cut in four years. With inflation softening and closing in on its long-term target, the Fed's focus has shifted to supporting the labor market as unemployment continued to tick meaningfully higher, albeit from a near-historical low starting point. As Q3 brought more normalized economic data, investors are increasingly expecting a soft landing. Annual US inflation was 2.5% in August, the lowest since February 2021, and unemployment rose to 4.2%. United States GDP rose by an annualized rate of 2.8% in the second quarter of 2024, significantly higher than last quarter's 1.4% increase. The S&P 500[®] Index rose (+5.9%) for the quarter, with broadly positive results. Utilities (+19.1%), real estate (+16.9%), and industrials (+11.4%) were the top performers during the quarter. Energy, (-2.6%), information technology (+1.6%), and communication services (+1.6%) were the top detracting sectors during the quarter. Value substantially outperformed growth over the quarter, with the Russell 1000[®] Value Index (+9.4%) vs. the Russell 1000[®] Growth Index (+3.2%), and the Russell 2000[®] Index (+9.3%) outperformed the Russell 1000[®] Index (+6.1%).

The Natixis/AEW Diversified REIT Strategy dramatically rose in value and outperformed the FTSE NAREIT Equity REITs index gross of fees (lagged net of fees) during the quarter. Stock selection drove relative outperformance, while sector allocation was a marginal detractor. Taking a look at stock selection, REITs selected in office, triple net lease, hotel and regional malls were the largest positive contributors to relative return, while selection in storage REITs, healthcare and industrial were detractive. Looking at sector allocation, underweights to diversified and storage REITs detracted from relative return. An overweight to cell towers and a lack of exposure to manufactured homes were additive.

Quarter-todate (QTD) Top/Bottom contributors to relative performance:

- The top five relative contributors were Invitation Homes, Safehold, Alexandria Real Estate Equities, Host Hotels & Resorts, and BXP Inc.
- The bottom five relative detractors were Ryman Hospitality Properties, Public Storage, American Homes 4 Rent, AvalonBay Communities, and UDR Inc.

Trades & positioning:

- At the end of the quarter, the largest overweight sector was cell towers, while the largest underweight sector was manufactured housing.
- There were five new purchases and five full sellouts during the trailing three months ended August 2024. The new purchases were Empire State Realty Trust, Lineage, LXP Industrial Trust, Phillips Edison & Company, and Ventas. The full sellouts were Camden Property Trust, Essential Properties Realty Trust, Rexford Industrial, Sun Communities, and Veris Residential.

Year to date (YTD), the strategy dramatically rose in value and underperformed the benchmark gross and net of fees. Relative underperformance was primarily driven by sector allocation, while security selection was neutral. From a sector allocation standpoint, an underweight to diversified REITs, an overweight to cell tower REITs, and an underweight to storage detracted the most, while an overweight to triple net lease and an overweight to data centers were additive. Securities selected in apartment and single-family rental REITs were additive, while selections made in industrial REITs detracted from relative return.

YTD top/bottom contributors to relative performance:

- The top five relative contributors were Apartment Income REIT, Alexandria Real Estate Equities, Welltower, Host Hotels & Resorts, and AvalonBay Communities.
- The bottom five relative detractors were Iron Mountain, Ryman Hospitality Properties, Ventas, Rexford Industrial, Realty, and American Tower.

Markets have performed well thus far in 2024, with Q3 being no exception, as expectations of Global Central Bank rate cuts have buoyed risk assets. Traditionally markets have reacted positively in election years, although unemployment and consumer spending remain key concerns for investors. With these uncertainties, ongoing geopolitical tensions and macroeconomic weakness may spur market volatility. The resulting market environment has increasingly proven challenging to navigate. We continue to believe that active fundamental research combined with investment discipline provides an attractive way to navigate market uncertainty.

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Definitions

The **S&P 500® Index** is an unmanaged index of US common stocks frequently used as a measure of stock market performance. The **Russell 1000® Index** measures the performance of the 1,000 largest companies in the Russell 3000® Index. **Russell 1000® Value Index** is an unmanaged index that measures the performance of the large-cap value segment of the US equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values. **Russell 1000® Growth Index** is an unmanaged index that measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. **Russell 2000® Index** is an unmanaged index that measures the performance of the small-cap segment of the US equity universe. The **NASDAQ Composite Index** is a market-capitalization-weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks. The index includes all Nasdaq listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debentures. The **FTSE NAREIT Equity REITs Index** is an unmanaged index reflecting performance of the US real estate investment trust market. **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

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