

Natixis/AEW Diversified REIT Strategy



QUARTERLY PORTFOLIO COMMENTARY

US Equity markets fell in the first quarter, with the S&P 500® and Dow Jones Industrial Average shedding -4.3% and -0.9%, respectively. Notably, the tech-heavy Nasdaq composite entered correction territory, falling -10.3% in the quarter as markets continue to digest the tariff-driven volatility. The Fed held rates steady, maintaining the 4.25%–4.50% range at both the January and March Federal Open Market Committee (FOMC) meetings. Although inflation expectations rose, annual US inflation continued to moderate, with a reading of 2.8% in February, while the unemployment rate came in at 4.2% in March. United States Gross Domestic Product (GDP) rose by an annualized rate of 2.4% in the fourth quarter of 2024, down slightly from 2.8% in the third quarter. The Atlanta Fed's GDPNow model estimates a 2.8% contraction in first quarter GDP, based on data available through the end of March. Within the S&P 500®, energy (+9.9%), healthcare (+6.4%), and consumer staples (+5.0) were the top contributing sectors, while consumer discretionary (-13.9%), information technology (-12.7%), and communication services (-6.3%), were the largest detractors. During the quarter, value (Russell 1000 Value, +2.1%) sharply outperformed growth (Russell 1000 Growth, -10.0%) and large-cap stocks (Russell 1000 Index, -4.5%) held up better than small-cap stocks (Russell 2000, -9.5%).

The Natixis/AEW Diversified REIT Strategy rose in value but underperformed the FTSE NAREIT Equity REITs index gross and net of fees during the quarter. Sector allocation drove relative underperformance, while stock selection was also a detractor. Looking at sector allocation, an overweight to data centers, an underweight to industrials and an overweight to diversified REITs detracted from results. On the flip side, an underweight to hotels and healthcare REITs was additive. Taking a look at stock selection, REITs selected in regional malls and single-family rentals detracted the most, while stock selection in healthcare and shopping center REITs was positive.

Quarter to date, top/bottom contributors to relative performance:

- The top 5 relative contributors were Welltower, Mid-America Apartment Communities, Host Hotels & Resorts, LXP Industrial, and Broadstone Net Lease.
- The bottom 5 relative detractors were Digital Reality, Macerich Company, VICI Properties, Kilroy Realty, and Kite Realty Group.

Trades and positioning:

- At the end of the quarter, the largest overweight sector was data centers, while the largest underweight sector was industrials.
- There were six new purchases and eight full sell-outs during the trailing three months ended February 2025. The new purchases were Apartment Investment & Management Company, Curblin Properties, Gaming and Leisure Properties, Healthcare Realty Trust, Highwoods Properties, and Vornado Realty. The full sell-outs were American Tower, BXP Inc., Empire State Realty, Healthpeak Properties, Safehold, Tanger, UDR Inc., and VICI Properties.

Global markets faced increased volatility in the first quarter, as tariff-driven economic and geopolitical concerns have risen to the forefront. Resulting recession risks, unemployment uncertainty, weakening consumer sentiment, and sticky inflation may spur further 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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