

Natixis/AEW Diversified REIT Strategy



QUARTERLY PORTFOLIO COMMENTARY

US equity markets continued to move higher in the second quarter, although leadership of a few mega cap stocks continued to be the dominant theme. The Fed continued their holding pattern on overnight interest rates, now signaling a single rate cut later this year as their base case. Inflation continued to soften, although it remains above target. It remains a key watchpoint along with a backdrop of greater geopolitical unease heading into a fall US election. The US economy has had resilient growth and historically low unemployment levels. As Q2 brought more normalized economic data, investors are increasingly expecting a soft landing. Annual US inflation was 3.3% in May, down slightly from Q1 levels, and unemployment rose slightly to 4.0%. United States GDP rose by an annualized rate of 1.4% in the first quarter of 2024, significantly lower than last year's robust growth. The S&P 500® Index rose (4.3%) for the quarter, with broadly positive results. Information Technology (+13.8%), Communication Services (+9.4%), and Utilities (+4.7%) were the top performers during the quarter. Materials (-4.5%), Industrials (-2.9%), Energy (-2.4%), and Real Estate (-0.6%) were the top detracting sectors during the quarter. Growth substantially outperformed value over the quarter, with the Russell 1000® Growth Index (+8.3%) versus the Russell 1000® Value Index (-2.2%), and the Russell 1000® Index (+3.6%) outperformed the Russell 2000® Index (-3.3%).

The Natixis/AEW Diversified REIT Strategy saw little change in value and underperformed the FTSE NAREIT Equity REITs index gross and net of fees during the quarter. Stock selection drove relative underperformance, while sector allocation was also a marginal detractor. Taking a look at stock selection, REITs selected in healthcare, data center, office, and triple net lease were the largest detractors from relative return, while selection in apartments and storage REITs was additive. Looking at sector allocation, an underweight to diversified along with an overweight to hotel REITs detracted from relative return. An underweight to industrials and an overweight triple net lease contributed positively to results.

QTD top/bottom contributors to relative performance:

- The top 5 relative contributors were Apartment Income REIT, AvalonBay Communities, UDR Inc., Alexandria Real Estate Equities, and Host Hotels & Resorts.
- The bottom 5 relative detractors were Ryman Hospitality Properties, not owning Ventas, Kilroy Realty, not owning Equity Residential, and Iron Mountain.

Trades and Positioning:

- At the end of the quarter, the largest overweight sector was cell towers, while the largest underweight sector was manufactured housing.
- There were two new purchases and one full sellout during the trailing three months ended May 2024. The new purchases were Iron Mountain and Macerich Co. The full sellout was Tricon Residential.

Year to date, the strategy fell in value and underperformed the benchmark gross and net of fees. Relative underperformance was primarily driven by security selection, while sector allocation was also detractive. Securities selected in office, industrial, triple net lease and data center REITs were the largest detractors. Stock selected within apartment and single-family rental REITs were additive. From a sector allocation standpoint, an underweight to diversified and an overweight to cell tower REITs detracted the most, while an overweight to data centers and an underweight to industrial REITs partially offset and contributed positively to relative returns.

YTD top/bottom contributors to relative performance:

- The top 5 relative contributors were Apartment Income REIT, AvalonBay Communities, UDR Inc., Tricon Residential, and Welltower.
- The bottom 5 relative detractors were Iron Mountain, not owning Equity Residential, American Tower, Kilroy Realty, and Rexford Industrial Realty.

Markets have performed well thus far in 2024, although gains leveled off during Q2. Traditionally, markets have reacted positively in election years, although slowing GDP growth, inflation, and future monetary policy 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 depository 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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Natixis Advisors, LLC and Natixis Distribution, LLC are located at 888 Boylston Street, Suite 800, Boston, MA 02199. 800-862-4863 • im.natixis.com

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