

Natixis/AEW Diversified REIT Strategy



QUARTERLY PORTFOLIO COMMENTARY

US equity markets soared in the fourth quarter, as the Fed confirmed a pause in rate rises, inflation continued to moderate, and the US economy hit its longest streak of unemployment below 4% since the Vietnam war. As a potential soft landing came into focus, investor optimism buoyed risk assets across equity and fixed income. Annual US inflation declined to 3.1% in November from 3.7% in August. Unemployment remained steady at 3.7% in December, up slightly from September levels. United States GDP rose by an annual rate of 4.9% in the third quarter of 2023, up significantly from 2.1% in the second quarter of 2023. The S&P 500® Index rose (+11.7%) for the quarter, with broadly positive results. Real Estate (+18.8%), Information Technology (+17.2%), Financials (+14.0%) and Industrials (+12.4%) were the top performers during the quarter. Energy (-6.9%) was the only negative returner during the quarter, though Consumer Staples (+5.5%) and Health Care (+6.4%) failed to keep up with an exuberant market. Growth and small-cap were the top performers during the quarter. The Russell 1000® Growth Index (+14.5%) outperformed the Russell 1000® Value Index (+9.5%), and the Russell 2000® Index (+14.0%) outperformed the Russell 1000® Index (+12.0%).

The Natixis/AEW Diversified REIT Strategy rose in value and outperformed the FTSE NAREIT Equity REITs index gross and net of fees during the quarter. Sector allocation drove relative outperformance, while stock selection was also a contributor. An overweight to cell towers, an underweight to apartments, and an overweight to office contributed the most to relative returns. An overweight to single-family rental and an underweight to diversified detracted from results. Taking a look at stock selection, REITs selected in hotel, health care, storage, and apartments were the largest contributors to relative returns, while selection in office and triple net lease detracted.

QTD Top/Bottom contributors to relative performance:

- The top 5 relative contributors were American Tower, Ryman Hospitality Properties, Extra Space Storage, Equity Residential and Omega Healthcare Investors.
- The bottom 5 relative detractors were VICI Properties, Veris Residential, Simon Property Group, American Homes 4 Rent and AvalonBay Communities.

Trades & Positioning:

- At the end of the quarter, the largest overweight sector was cell towers, while the largest underweight sector was diversified.
- There were five new purchases and six full sellouts during the trailing three months ended November 2023. The new purchases were Alexandria Real Estate Equities, COPT Defense Properties, Healthpeak Properties, Safehold, and Veris Residential. The full sellouts were Americold Realty, Boston Properties, CubeSmart, Healthcare Realty Trust, Independence Realty, and Physicians Realty Trust.

Year to date, the strategy rose in value and outperformed the benchmark gross and net of fees. Outperformance was primarily driven by security selection, while sector allocation was also additive. Securities selected in apartments, hotel, triple net lease, industrial, and regional malls were the greatest contributor to excess return. Selections in health care and manufactured housing partially offset otherwise positive relative returns. From a sector allocation standpoint, an underweight to office, triple net lease, and apartments was additive. An underweight to diversified and a slight overweight to manufactured housing partially offset otherwise positive allocation.

YTD Top/Bottom contributors to relative performance:

- The top 5 relative contributors were Ryman Hospitality Properties, Extra Space Storage, Realty Income Corporation, Mid-America Apartment Communities and Tanger.
- The bottom 5 relative detractors were Welltower, Iron Mountain, Sun Communities, VICI Properties and Netstreit Corp.

Investors remain focused on monetary policy and the trajectory of economic growth. While economic data and investor sentiment has improved significantly, recessionary risks remain. Geopolitical and macroeconomic risks may continue to drive market volatility and dispersion as multiple active wars, election years, and other potential conflicts play out over 2024. We continue to believe that active fundamental research combined with investment discipline provides an attractive way to navigate an uncertain and reactionary market environment.

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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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