

Natixis/AEW Diversified REIT Strategy



QUARTERLY PORTFOLIO COMMENTARY

US equity markets moved higher in the first quarter, as the Fed continued their holding pattern on overnight interest rates. Inflation continued to moderate, although it remains a key watchpoint along with a backdrop of greater geopolitical unease heading into a fall US election. The US economy has exhibited resilience with robust unemployment levels and strong GDP growth. Investors have piled into risk assets as potential Fed rate cuts combined with more stable economic data suggest a soft landing scenario. Annual US inflation was 3.5% in March, up slightly from February. Unemployment moderated at 3.8% in March, maintaining historically robust levels. United States GDP rose by an annualized rate of 3.4% in the fourth quarter of 2023. The S&P 500[®] Index rose (+10.6%) for the quarter, with broadly positive results. Communication Services (+15.8%), Energy (+13.7%), Information Technology (+12.7%), Financials (+12.5%), and Industrials (+11.0%) were the top performers during the quarter. Real Estate (-0.6%) was the only negative returning sector during the quarter. Growth and large cap outperformed value and small cap during the quarter, although value rallied late in the period. The Russell 1000[®] Growth Index (+11.4%) outperformed the Russell 1000[®] Value Index (+9.0%), and the Russell 1000[®] Index (+10.3%) outperformed the Russell 2000[®] Index (+5.2%).

The Natixis/AEW Diversified REIT Strategy fell 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 detractor. Taking a look at stock selection, REITs selected in industrial, office, apartments, and triple net lease were the largest detractors to relative return, while selection in health care and single-family rental was additive. Looking at sector allocation, an overweight to cell towers, and an underweight to diversified detracted the most from relative return. Overweights to data centers and hotels were positive contributors.

QTD Top/Bottom contributors to relative performance:

- The top 5 relative contributors were Ryman Hospitality Properties, Tricon Residential, Ventas, W. P. Carey, and Healthcare Realty Trust.
- The bottom 5 relative detractors were Iron Mountain, American Tower, Americold Realty Trust, Regency Centers Corporation, and Extra Space Storage.

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 nine full sellouts during the trailing three months ended February 2024. The new purchases were Americold Realty, Apartment Income REIT Corp, Boston Properties, Camden Property Trust, and Tricon Residential. The full sellouts were Agree Realty, Alexandria Real Estate Equities, EastGroup Properties, COPT Defense Properties, Essex Property Trust, Invitation Homes, NETSTREIT Corp, Tricon Residential, and Ventas.

Markets have soared to new highs with better than expected economic growth, and as investors remain upbeat on the economic outlook. Inflation, monetary policy, and the trajectory of the US economy are watchpoints for investors. While economic data and investor sentiment have been strong, uncertainties linger. Geopolitical and macroeconomic weakness may continue to drive market volatility and dispersion. 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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