



Fund Commentary

Performance drivers and positioning of the portfolio for the recent calendar quarter are explained below. Our investment experts also provide regular investment updates at mlcam.com.au/insights

The FTSE EPRA NAREIT Global Developed (A\$ hedged) index ('market benchmark') returned -5.2% in Australian dollar terms in the quarter to 30 September 2023.

The fund returned -5.1% (before fees and tax, A\$ hedged) in the quarter, which was 0.1% ahead of the market benchmark.

European Real Estate Investment Trusts (REITs) generated the highest returns for the quarter, led by the German residential landlords which seemingly benefitted from a reduction in investor concerns about their over-levered balance sheets.

Japanese property companies benefited from a supportive inflation and interest rate dynamic and the continued enthusiasm for Japanese shares. Japan is one of the few developed markets where property transaction markets are active and values are stable.

Hong Kong continues to be weighed down by weak growth in mainland China, imported US monetary policy via its currency peg compounded by liquidity challenges in listed Chinese property developers. The latest developer to grab headlines due to missed dollar debt payments is Country Garden, once China's largest developer by revenue it now faces liquidity strains and material uncertainty on its ability to continue as going concern.

UK REITs had somewhat of a reprieve as inflation data came in below expectations, lowering market pricing of future interest rate increases. With UK benchmark rates relatively unchanged for the quarter, performance was largely driven by stock specific factors.

During the quarter, Presima and Blackrock outperformed.

The fund returned -0.5% (before fees and tax, A\$ hedged) in the year to 30 September 2023, which was -0.1% behind the -0.4% return of the market benchmark. Presima and BlackRock outperformed while Resolution underperformed.

Please refer to the 'Market commentary' for an overview of what happened in other domestic and global markets over the quarter.

Stock story

One of our G-REIT managers, Presima, provided the following outlook, which you may find interesting:

"After negative performance in 2022, REITs have seen volatile performance this year, with early gains erased by interest rate worries. As we look forward, we seem near the end of central bank tightening. Historically, this has been a positive environment for REITs, as investors look to asset classes that will benefit from a lower cost of financing. Capital markets have remained open for REITs, which have proven to have more resilient balance sheets than private vehicles, many of which have been forced to halt redemptions. While some sectors will see elevated supply delivered into 2024, a drop off in starts over the last year sets up a positive picture for the end of next year, where little new product will be delivered at a time when demand could pick up again. These factors should combine for a positive outlook for REIT investors."

Notes:

- As our investment managers are constantly reviewing and making changes to their holdings, this company may no longer be included in the portfolio.

- Commentary for this fund will be updated approx three weeks after the end of the calendar quarter.