Reitway Global Property Fund

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- The portfolio outperformed the benchmark with a return of 4.09% for May.
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Marius du Preez, May 2024

Market Commentary

Global REITs were up for the month by 3.30%, providing a nice bounce back from the -5.92% in April. The portfolio outperformed the Global REIT market and the benchmark with a return of 4.09% for May. The REIT market is still down for the year and the benchmark of the GPR 250 REIT Index is -4.50% year-to-date. We are seeing some positive signs for the property market to start clawing back some of the negative returns from market sentiment in a higher for longer interest rate environment, but it has been agonisingly slow in 2024.

The US annual CPI rate eased to an over 3-year low of 3.4% for April as it was announced in mid-May. This was 0.1% lower than the prior month and in line with the forecast. The annual PCE inflation rate remained steady in April at 2.7%, in line with expectations and the same as the previous month, after accelerating in March. The US Federal Reserve uses the PCE as their preferred data indicator of inflationary movements in the economy. The Federal Reserve seeks to achieve maximum employment and targets an inflation rate of 2% over the longer run. Looking at the global economy, we have now seen Switzerland cut rates, but we have also seen some rate hikes for several reasons such as Japan (First hike in 17 years) and a 500bps hike from Turkey.

When we look at global REITs and our benchmark, we see that it has been trading close to the current level since the beginning of the year after the "everything REIT" rally in November and December last year. In fairness, it has been volatile and monthly movements were as much as -5.92% down (April) and 3.12% up (March) but has come back to a fair range close to the level it has been at the beginning of the year. The US market in our opinion is waiting on stronger communication from the Federal Reserve that interest rates will be coming down in the near future. Thus far the wording has been mostly in line with "data dependent" and the new norm for interest rates being "higher for longer".

In the portfolio, the best performing country to which we have exposure was Germany. We are invested in the residential sector and this sector has shown good growth in market rents recently. Underpinned by healthy demand fundamentals and the slowing pace of new construction, the sector has performed well over the last 12 months. The two main German Residential listed REITs are both up over 1 year, Vonovia +40.27% and LEG Immobilien 32.90%. That must however be put in context when interest rates and rent controls hit these names hard in middle 2022. From the middle of 2022, both are still down around 25% from that period.

The worst performing region was Japan, -3.33% down for the month. A lot of this has to do with the Japanese Yen. In late April, the Yen weakened to 160 against the green back, the highest it has been since the 1980's. The Yen weakness can be attributed to the market expectations of a more hawkish Fed, as inflation remains stickier than expected. The BOJ is believed to remain dovish, with little clarity obtained from its last meeting and little details in its policy guidance. We have remained underweight Japan compared to the benchmark.

The top performing holding in the portfolio was Americold (COLD), +21.39% for the month. COLD provides cold storage supply chain infrastructure to various market participants through an integrated network of value adding facilities and services. The REIT reported on 10 May on its 1st quarter earnings and the $0.37 1Q AFFO print was $0.09 higher than market expectations. Management also raised the midpoint of its FY AFFO outlook by $0.05 to $1.42 owing to a higher same store NOI guide. There was significant headway made by COLD on developments. The market has reacted positively to this, and the company continues to deliver on set targets.

The worst performing holding for the month was Uniti Group (UNIT), down -45.04% for the month. UNIT specialises in digital infrastructure, encompassing fibre optic networks, communication platforms, residential internet and voice services. The stock fell early in May after the announcements of a merger with Windstream, subsequently to de-REIT and to eliminate the dividend. This, together with their earnings call saw the stock plummet on the 3rd of May after reported EPS missed expectations. The announcement impacts REIT/dividend investors in the way that they will have to sell out. This creates a good buying opportunity again. We still see value to be unlocked by the stock and it to recover based on its underlying fundamentals. AI demand will also be driving demand for its offering as more homes get converted from copper to fibre connections.

The Health Care sector was the best the top of the picks for the month, delivering 10.98%. We own both Welltower (WELL +9.48%) and Ventas (VTR +13.51%). From the recent earnings calls for the REITs in this sector, the mood has shifted to an overall positive. NOI growth expectations on average are expected to be 20% in 2024 and 14% in 2025. We have seen a solid trajectory of occupancy and rent growth to begin the year and expenses are also moving in the right direction.

Since the beginning of 2022 when the 10-year Treasury yield was 1.5%, the FTSE Nareit All Equity REIT Index has tumbled 26%. Looking at the same period, the S&P 500 Index has gained 11%. The underperformance of REITs in higher interest rate environments is not unexpected, but the magnitude has been somewhat surprising.

Fund positioning remains roughly the same (quality, value, structural trend riders, and blend between offensive and defensive), with a slight uptick in risk appetite due to continuing optimism growing in markets awaiting rate cut announcements.

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