

GLOBAL LISTED REAL ESTATE – LOVE IT OR LIST IT?

Underperformance relative to equities has got some investors questioning the merits of global listed real estate as a standalone allocation. We highlight the key attributes of the asset class, its evolving composition, and compare fund options for local investors.

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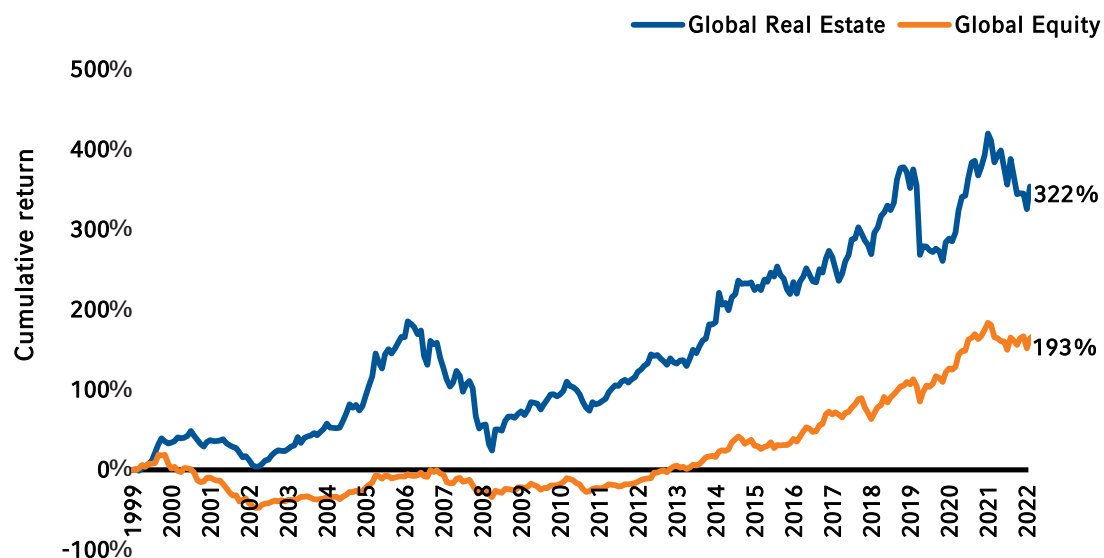
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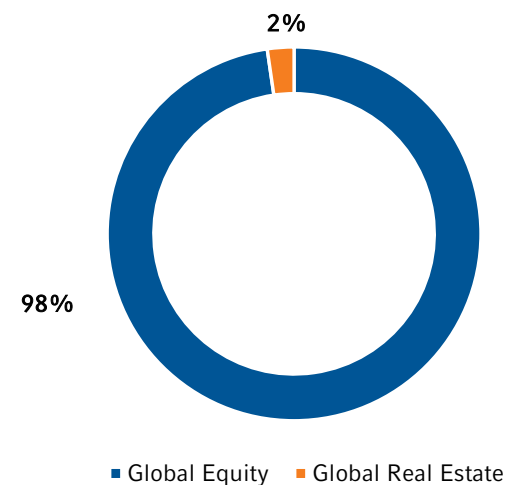
BEYOND YOUR FOUR WALLS

Despite the GFC-induced crash and the more recent sell-offs driven by covid and surging interest-rates, the global listed real estate sector has produced strong, long-term total returns. Representing only a small fraction of the global equity market, the listed real estate sector is also higher yielding and the securities smaller in average capitalisation. These attributes – high yielding and smaller cap – often help explain the relative performance differential between real estate and the broad market, alongside fundamentals such as economic growth, vacancy rates, and expected inflation.

Global listed real estate & equity cumulative return 2000 - 2022



Global listed real estate market cap as % of global equity



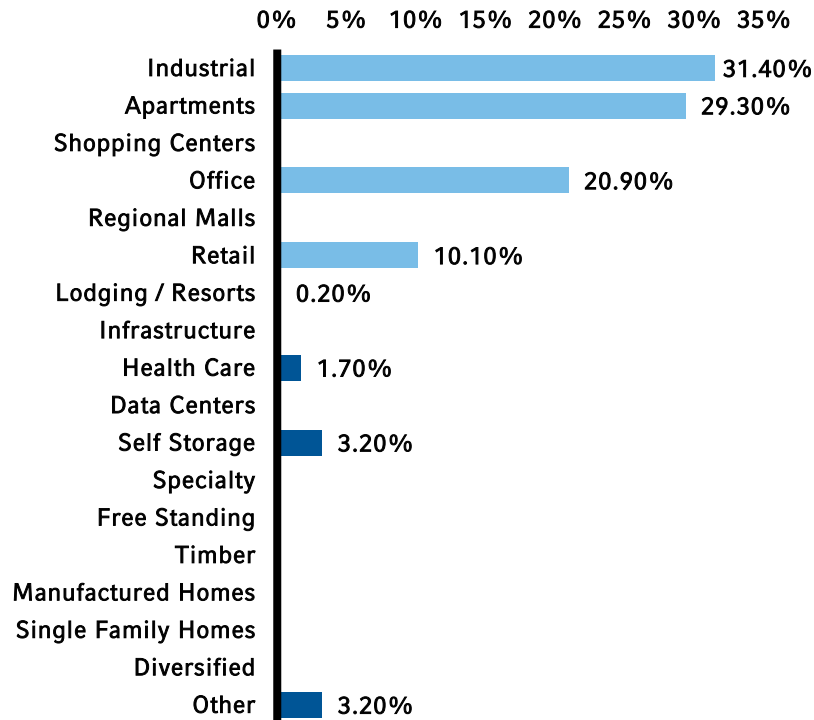
Key stats	Market Cap (NZD \$m)	NZDH version	# of securities	Top 10 stock %	Giant cap (%)*	Dividend Yield	% in NZ listed firms
Global Equity – MSCI ACWI Index	\$101,541,229	Yes	2,948	18.45%	47.40%	2.23%	0.05%
Global Real Estate – FTSE EPRA NAREIT Developed Index	\$2,334,581	Yes	368	30.72%	1.80%	4.78%	0.32%

Source: Russell Investments, Morningstar Direct. For illustrative purposes only. Cumulative return; MSCI ACWI TR (unhedged), and FTSE EPRA Nareit Developed TR (unhedged), returns in NZD. Key stats taken from index factsheets and Morningstar Direct, and as at 31 October 2023. *Giant-cap stocks are defined as those that account for the top 40% of the capitalisation of each stylezone (region), e.g. Europe, Latin America, Asia ex Japan, etc. Refer to morningstar.com for more details. Past Performance is no guarantee of future results.

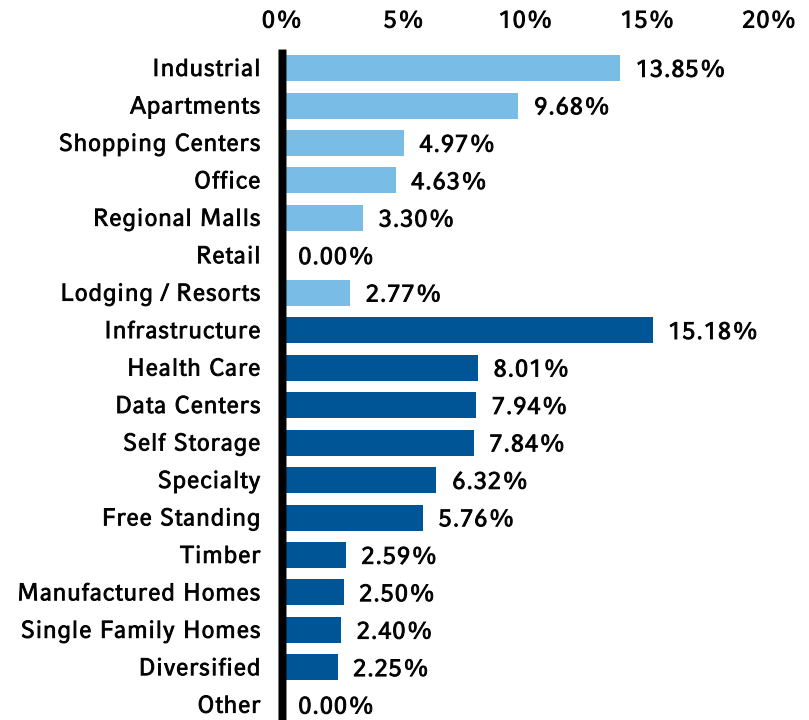
GLOBAL LISTED REAL ESTATE 2.0: THE NEXT EVOLUTION

Public real estate in the global context has some key advantages over privately owned real estate that should be front of mind, especially for NZ investors. Firstly there is an increased allocation in public real estate to specialty sectors, which highlights that real estate is more than office, industrial, and retail. Secondly, REITs, being traded on exchanges, are vastly more liquid than unlisted options. While this point may seem obvious it is important to reinforce, especially for those investors whose cash flow requirements may increase abruptly i.e., those in retirement. Both of these points give NZ investors sector and geographic diversification in a way that is materially easier using global listed real estate securities than via private real estate.

PRIVATE REAL ESTATE



PUBLIC REAL ESTATE



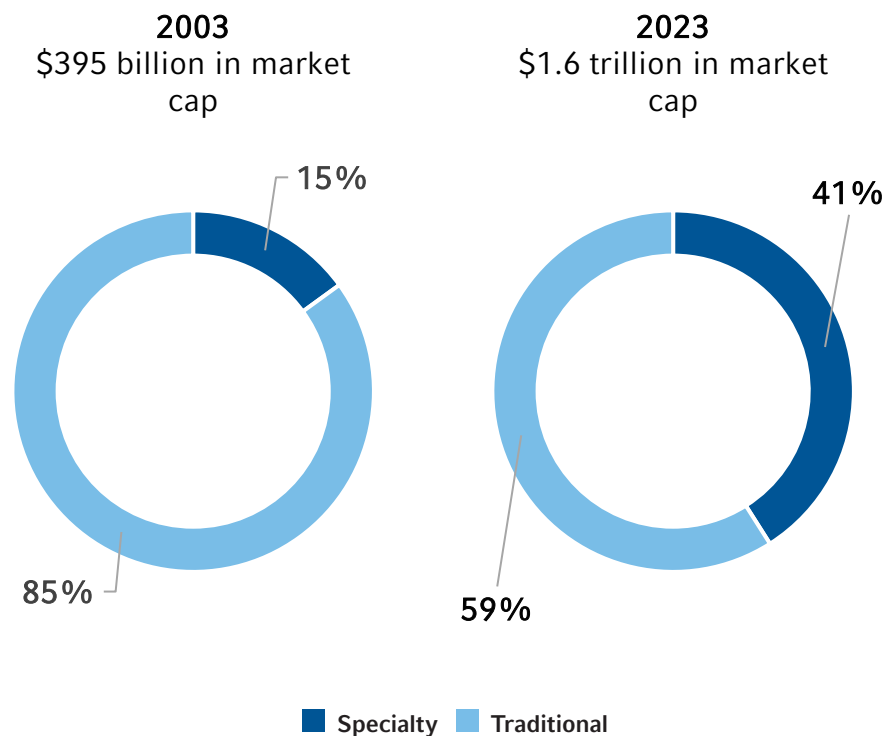
■ CORE SECTORS ■ SPECIALTY SECTORS

Source: Russell Investments. FTSE NAREIT All Equity REIT Index and NCREIF ODCE (National Council of Real Estate Investment Fiduciaries) as of 31 March 2023. For illustrative purposes only.

GLOBAL LISTED REAL ESTATE IS FOCUSED ON THE 21ST CENTURY REAL ESTATE ECOSYSTEM

Global listed real estate has evolved vastly beyond traditional office, retail, and industrial sectors with an expanded opportunity set to diversify portfolios and gain exposure to long-term technological and demographic trends. The significant growth in these non-traditional real estate sectors illustrates how today, investors in real estate can access more diversified and less cyclical investment opportunities that are an integral part of the 21st-century real estate ecosystem. Within these specialty sectors, there are key long-term thematic tailwinds ranging from ongoing digitalisation of the global economy to the impacts of aging populations and a retiring baby boomer generation.

GLOBAL REIT MARKET CAP: 2003 - 2023



TRADITIONAL SECTORS	59%
Apartments	12%
Diversified	15%
Gaming	3%
Health Care	1%
Lodging	3%
Net Lease	4%
Office	8%
Regional Malls	4%
Shopping Centres	9%

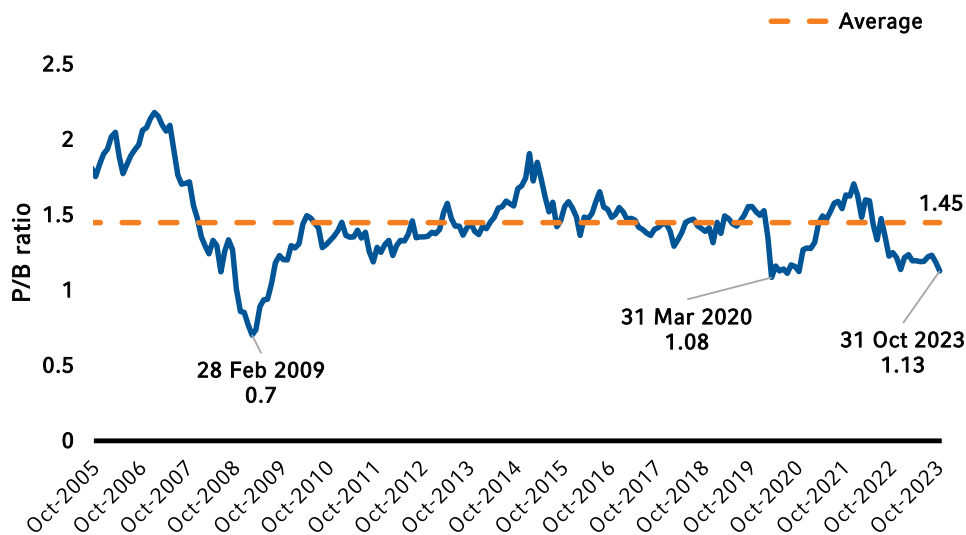
SPECIALTY SECTORS	41%
Industrial	15%
Life Science	1%
Manufactured Homes	2%
Self Storage	6%
Senior Housing	7%
Single Family	2%
Technology	8%

Source: Russell Investments as at 31 October 2023. AUM figures in USD. 2003 Sector breakdown provided by Cohen & Steers.

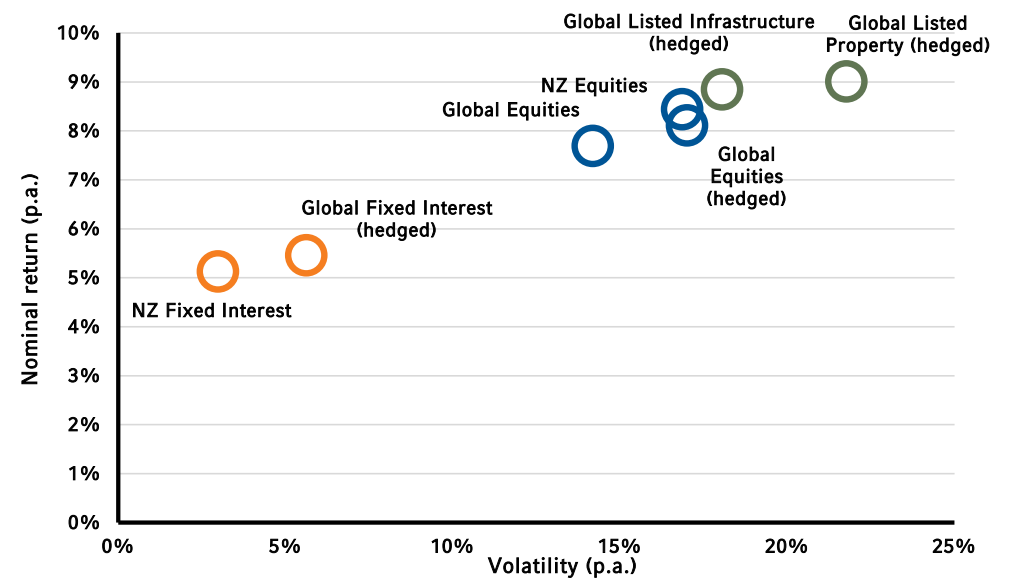
UNDERPERFORMING AND OUT OF FAVOUR - BUT ARE BETTER TIMES ON THE HORIZON?

It's been a challenging period for global listed real estate investors. The lacklustre recent performance and weak sentiment, driven by concerns about surging interest rates and the overall state of the economy, means valuations are nearing historical lows. The investment opportunity is reflected in our capital markets forecasts, where we expect global listed real estate to outperform over the next decade. There are also underlying structural reasons contributing to the long-term outlook including muted supply growth of properties, and strong REIT balance sheets.

Global real estate valuation (historic P/B ratio)
Oct 2005 - Oct 2023



10yr Asset class forecast (NZD)
from 30 June 2023



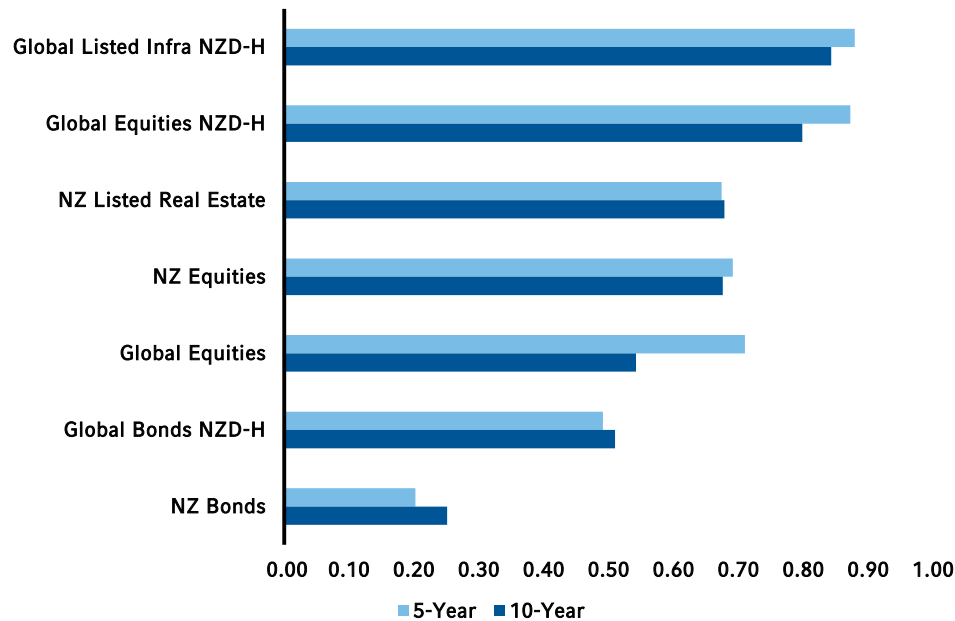
Russell Investments 10-year forecasted returns point to global listed real estate offering diversification within a portfolio, with an attractive risk/return profile. Hedged global listed real estate offers one of the highest expected returns, albeit with elevated risk relative to other classes, showcasing why this asset class may be a niche holding in an investor's portfolio.

Source: FTSE, Russell Investments. Global Real Estate - NZDH: FTSE EPRA NAREIT Developed NR HNZD. Past performance is no guarantee of future results. P/B = price to book ratio. Capital Markets Forecasts, June 2023. Returns are the expected 10-year annualised arithmetic nominal returns and volatility. Gross of fees and tax and no excess return assumed. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

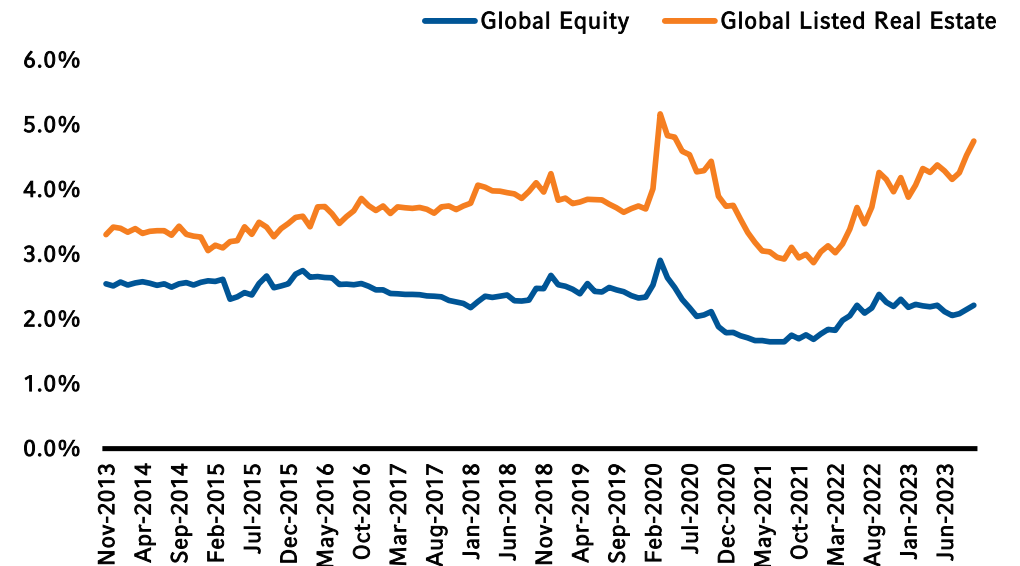
GLOBAL LISTED REAL ESTATE CAN BE A PORTFOLIO DIVERSIFIER

While asset class correlations wax and wane, global listed real estate has historically offered diversification benefits to the typical global multi-asset portfolio. Offering much of the growth potential of equities, but some of the yield potential of bonds, the chart on the right highlights the yield advantage real estate has over equities.

Global listed real estate correlations, 5yr vs. 10yr



Dividend Yield: global equity vs global listed property, Oct 2013 - Oct 2023



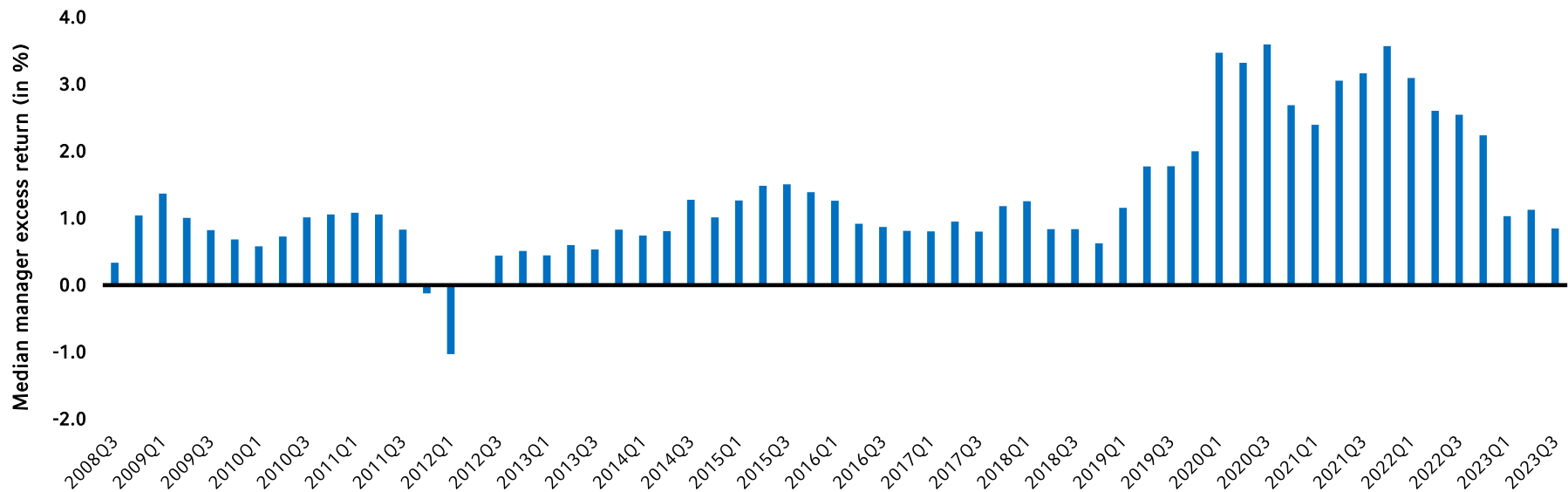
Dividend Yield to 31 October 2023	Global Listed Real Estate	Global Equity
10-Year Average	3.70%	2.31%

Source: Morningstar Direct. Global Equities: MSCI ACWI NR, Global Equities NZDH: MSCI ACWI Hedged 100% to NZD, NZ Equities: S&P/NZX 50 with Imputation TR NZD, Global Listed Infra NZDH: S&P Global Infrastructure Hdg NR NZD, NZ Listed Real Estate: S&P/NZX All Real Estate TR NZD, Global Bonds NZDH: Bloomberg Global Aggregate TR Hdg NZD, NZ Bonds: Bloomberg NZBond Composite 0+ Yr TR NZD. Correlation indicates the strength and direction of a linear relationship between two random variables. A value of 1 indicates a perfect positive dependency and -1 indicates a perfect negative dependency between the two investments. 5 and 10-year correlation calculated up to 31 October 2023, and calculations in NZD. Past performance is no guarantee of future results.

ACTIVE MANAGERS ADD VALUE IN GLOBAL LISTED REAL ESTATE

Similar to other real asset segments such as global listed infrastructure, global listed real estate is an asset class in which it pays to be active. The chart below shows the three-yearly excess return of the median manager, rolled quarterly, in our database (gross of fees) where we can see consistent outperformance.

Excess return of median manager (trailing 36 month annualised return)



In contrast to broader equities, where there are discrete investment styles – such as value, growth, GARP, etc. – there is a fairly narrow range of approaches to investing in the real estate securities space, with most managers using a common set of valuation metrics in their models. As a result, managers’ investment approaches tend to vary, largely on the basis of the emphasis placed on certain metrics, including price/NAV (difference between stock price and estimated underlying asset value), dividend yields, debt ratios, and discounted cash flow analysis, etc.

Source: Russell Investments, FTSE. FTSE EPRA/NAREIT Developed (Net of withholding tax) is the “Index”. The reference universe is Russell Investments’ Universe of Global Listed Real Estate strategies. Returns are gross of fees and denominated in USD. As of 30 September, there were 45 strategies in the universe. Past performance is no guarantee of future results.

Russell Investments Global Listed Real Estate Fund

Focused on future growth

OBJECTIVE
To achieve long term growth and income by investing worldwide in the equities of property-related companies.

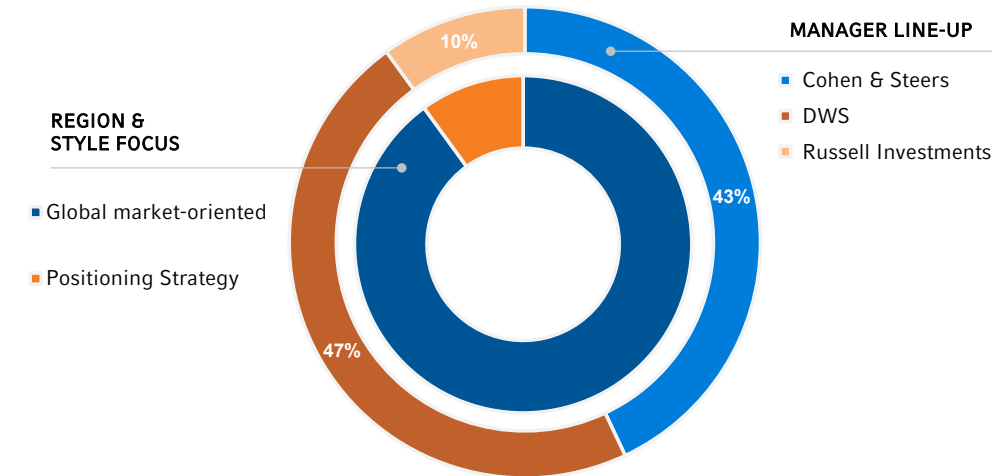
TARGET
FTSE EPRA/NAREIT
Developed Real Estate Index
NZDH (NR) +1.75% (gross)

SIZE (NZD) **LAUNCH DATE**
c. \$50m December 2023

TOTAL COST RATIO¹ **CURRENCY**
1.11% NZD-H

STRUCTURE **TRACKING ERROR**
NZ PIE 3%-5%

REGION, STYLE & MANAGER LINE-UP



Track record of outperformance, 1.4% annualised since inception*

We prefer to invest globally, large opportunity set with less concentration risk

Our focus is on total return, portfolio reflects best value opportunities

We favour higher-quality companies, generally overweight both quality and size factors

Preference for attractive valuations, seek to find companies trading at discounts to NAV



Adrianna Giesey
Portfolio Manager,
Listed Real Assets



Bruce Eidelson
Senior Director,
Listed Real Assets

Source: Russell Investments, as at 30 September 2023. *Russell Investments Global Real Estate Securities Fund (US) – gross of fees, past performance is no guarantee of future results.

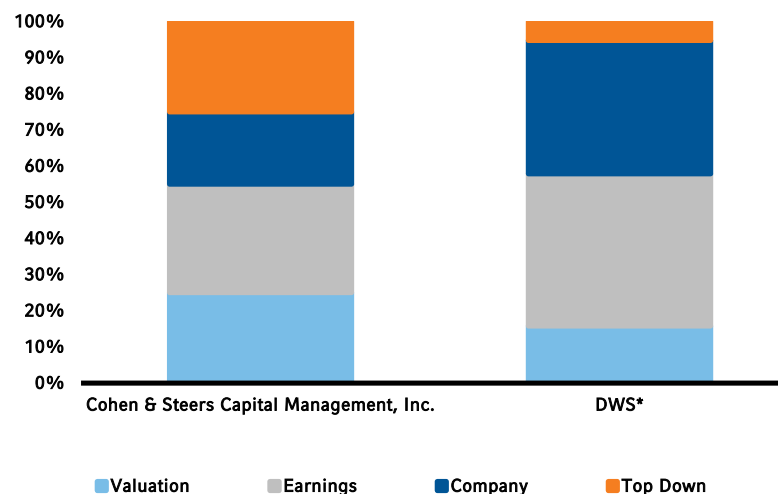
¹ Total cost ratio includes estimated in-fund-costs of 0.26% (inc. GST).




BUILD YOUR REAL ESTATE PORTFOLIO USING LEADING GLOBAL MANAGERS

Both underlying managers emphasise different elements within their investment process, which gives the overall fund different levers to pull to achieve excess returns. Cohen & Steers typically seeks company mis-pricings relative to net asset value and dividend discount model estimates. Whereas DWS uses a combination of fundamental real estate analysis and detailed bottom-up company valuation to invest in a select number of securities that the firm believes trade at the most attractive valuation relative to DWS's bottom-up estimation of intrinsic value. Russell Investments pulls it all together and is responsible for the implementation and total portfolio positioning.

Investment process emphasis

- **Top-down allocation**
 - Economic outlook
 - Region/country/property type
- **Company attributes**
 - Management
 - Balance sheet
- **Cash Flow & Earnings**
 - Earnings growth
 - Dividend yield/coverage
- **Valuation**
 - Net asset value
 - Catalysts for revaluation



MANAGER	TARGET WEIGHT	TYPICAL # OF HOLDINGS	ROLE IN FUND
	43%	75 - 125	<ul style="list-style-type: none"> • Performs sophisticated qualitative and quantitative stock valuation and cash flow forecasts which drive stock selection decision • This bottom-up stock selection is performed regionally and combined with top-down country/regional allocation decisions
	47%	60 - 110	<ul style="list-style-type: none"> • Russell Investments believes that DWS is highly complementary to the other managers in the fund due to its primary emphasis on bottom-up stock selection with a relatively low number of portfolio holdings
	10%	Variable	<ul style="list-style-type: none"> • The Russell Investments portfolio manager will express views across multiple factors and risk exposures simultaneously while regularly adapting to changing markets and manager allocations • The strategy is used to target desired total portfolio positioning and can be adjusted as needed by the portfolio manager • Russell Investments also manages the Fund's liquidity reserve

Source: Russell Investments, As of 30 September 2023. Russell has the right to engage or terminate a sub-adviser at any time and without notice. The investment strategies are the goals of the individual sub-advisers; there is no assurance that the exact objective will always be met. *This strategy is managed by RREEF America LLC, ("RREEF"), under the brand name DWS.

GLOBAL LISTED REAL ESTATE FUND COMPARISON

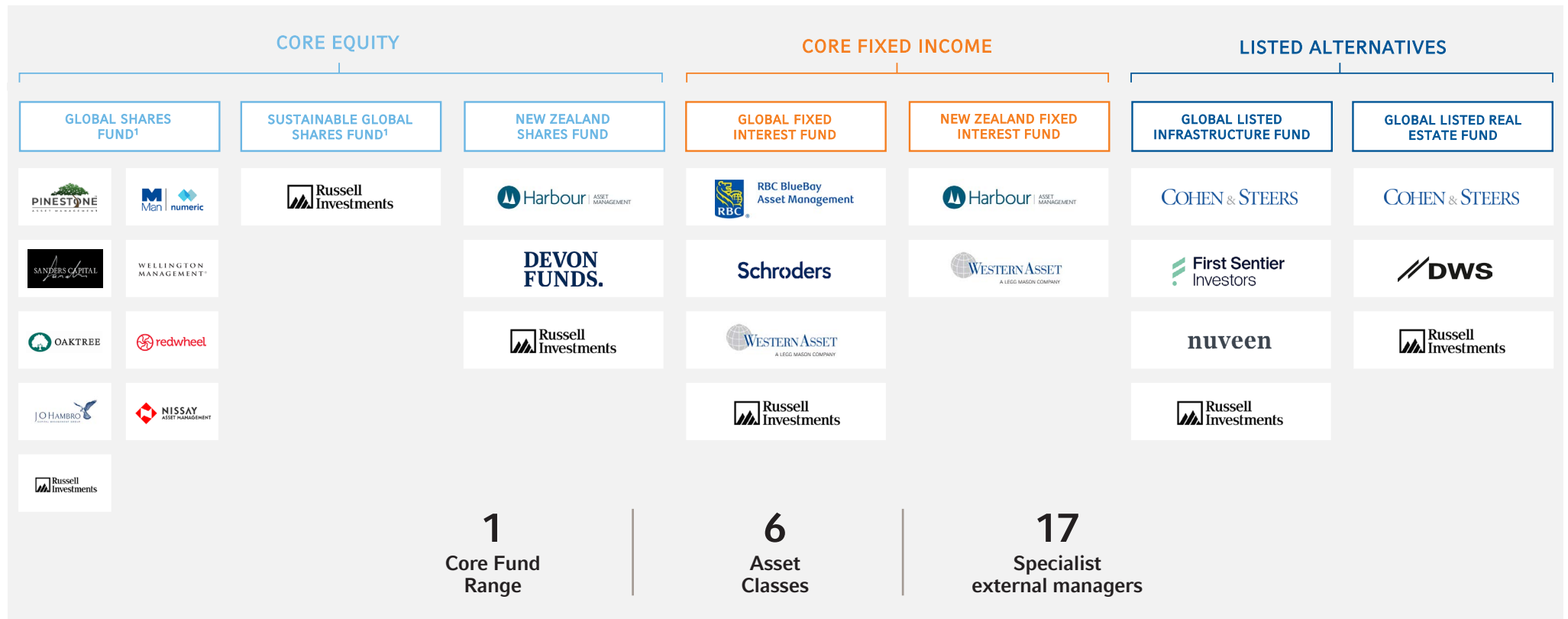
Increasing range of NZ domiciled funds bringing global capabilities to local investors

	Russell Investments Global Listed Real Estate Fund	Kernel Global Green Property	Mercer Macquarie Global Listed Real Estate Fund	Salt Sustainable Global Listed Property Fund	Pathfinder Global Property Fund	OneAnswer SAC International Property	SuperLife Invest Global Property	First Sentier Global Property Securities Fund	Dimensional Global Real Estate Trust
Firm AUM (\$B)	\$504B	<\$1B	\$650B	\$2B	<\$1B	\$30B	\$10B	\$230B	\$1015B
Fund Size (NZD M)	\$50m	\$29m	\$170m	\$28m	\$13m	\$247m	\$70m	\$4m	\$802m
Investment strategy	Active multi manager	Passive index	Active single manager	Concentrated Active	Active single manager	Concentrated Active	Passive Index, invests into ETF	Concentrated active	Systematic, REIT only
Subadvisors	Cohen & Steers, DWS, Russell Investments	No	Macquarie Asset Management	Cohen & Steers	No	Resolution Capital	No	No	No
Inception Date	5/12/2023	16/06/2021	29/11/2007	16/09/2021	23/07/2015	19/09/2013	28/10/2016	22/03/2022	17/11/2016
Domicile	New Zealand	New Zealand	New Zealand	New Zealand	New Zealand	New Zealand	New Zealand	Australia	Australia
Currency	NZD	NZD	NZD	NZD	NZD	NZD	NZD	AUD	NZD
Hedged	100% NZD	100% NZD	100% NZD	100% NZD	75% NZD	100% NZD	72% NZD	100% AUD	100% NZD
Total Cost Ratio	1.11%*	0.25%	1.34%	1.16%	1.00%	1.08%	0.48%	0.80%	0.40%
Benchmark	FTSE EPRA NAREIT Developed Real Estate (NR) NZD-H	DJ Global Select ESG RESI NZD-H TR	FTSE EPRA NAREIT Developed Real Estate (NR) NZD-H	FTSE EPRA NAREIT Developed Real Estate (NR) NZD-H	FTSE EPRA NAREIT Developed Real Estate (NR), 75% NZD-H	FTSE EPRA NAREIT Developed Rental Net Total Return (NR) NZD-H	25% S&P/NZX Real Estate Select Index, 25% S&P/ASX 200 A-REIT Equal Weight Index (75% NZD-H), 50% FTSE EPRA/ NAREIT developed ex Australia rental index (75% NZD-H)	FTSE EPRA NAREIT Developed Real Estate (NR) AUD-H	Dimensional Global Real Estate Trust Composite Index NZD-H: S&P Developed ex Australia REIT Index, S&P/ASX 300 A-REIT Index
Approx. # of stocks	140	230	100	<50	80	50	<50	40	450
% allocated to Australia	3.8%	2.7%	4.1%	4.3%	12.6%	4.0%**	30.7%	4.2%	15.8%
% in top 10 holdings	36.6%	39.1%	38.4%	43.1%	27.1%	49.0%	74.2%	45.2%	34.5%

Source: Russell Investments, Morningstar direct, manager Product Disclosure Statements, SIPO's, Fund Updates. Data as at 30 September 2023. *Total cost ratio includes estimated in-fund-costs of 0.26% (inc. GST). **Australasia

Russell Investments New Zealand fund range overview

Diversified, time-tested core portfolio holdings



The Russell Investments Sustainable Global Shares Fund (unhedged and hedged) has been certified by the Responsible Investment Association Australasia according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsiblereturns.com.au for details. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold a Financial Advice Provider licence. 1Global Shares and Global Sustainable Shares funds are available in both unhedged and NZD-H versions.

FOR MORE INFORMATION

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or visit russellinvestments.com

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