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# Nedgroup Investments Global Property Fund

Quarter One, 2026



**Marketing Communication**



# Nedgroup Investments Global Property Fund

Commentary produced in conjunction with sub-investment manager, Resolution Capital

Past performance is not indicative of future performance and does not predict future returns.

Indicator	3 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.	Since Inception* p.a.
Portfolio*	1.53	9.48	6.34	1.67	2.01	2.95
Performance indicator+	1.03	8.98	6.74	1.82	1.63	2.32
Difference	0.50	0.50	-0.39	-0.15	0.37	0.63

\* Net USD return for the Nedgroup Investments Global Property Fund, A class. Source: Morningstar. As at 31 March 2026.

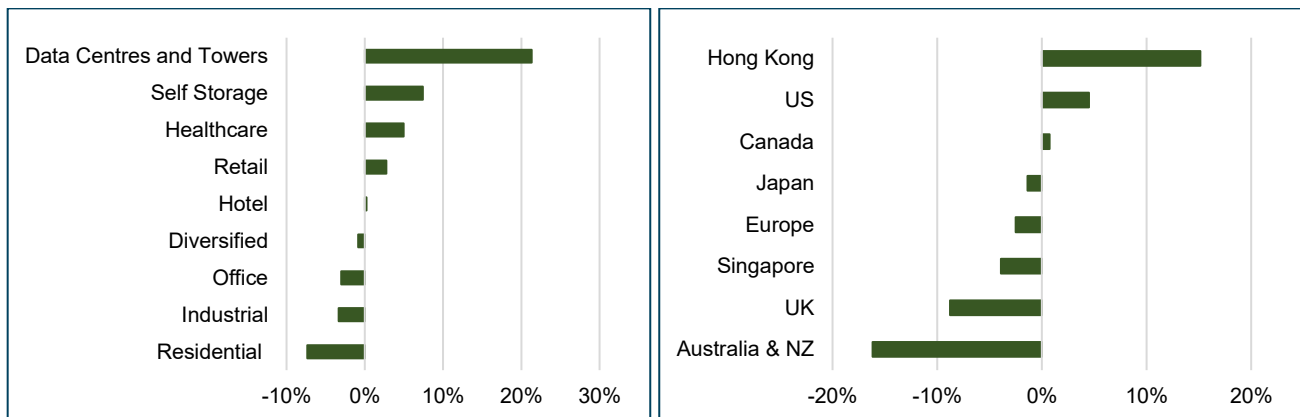
# 14 July 2016

+ FTSE EPRA/NAREIT Developed Index (in USD Net Ret)

## Summary points

- Global listed property markets experienced a mixed Q1 2026, with returns shaped by ongoing interest-rate uncertainty, uneven economic momentum, and continued differentiation across regions and sectors.
- Performance dispersion remained a defining feature of the quarter, as investors favoured sectors with resilient cash flows, structural growth drivers, and stronger balance sheets.
- Industrial and selected diversified property companies were relative outperformers, supported by defensive income characteristics and improving fundamentals in key markets.
- Data centres and Healthcare were also strong contributors as the underlying secular growth trends were reinforced.
- In contrast, interest-rate-sensitive and cyclical sectors, including parts of self-storage, office and hotel real estate, faced headwinds as valuation and earnings expectations adjusted.
- Japan and the UK delivered comparatively stronger outcomes, reflecting supportive local dynamics, while North American and Australasian markets were more subdued over the quarter.
- The portfolio continued to emphasise quality real estate assets, prudent capital structures, and management teams with strong operating track records, consistent with the fund's long-term investment philosophy.
- The Global REIT market today offers attractive valuations across numerous quantifiable factors, including discounts to intrinsic property values, global equities and long-term historic sector ratings.
- Active stock selection remained an important contributor to relative performance, with positioning focused on companies best placed to navigate a higher-for-longer cost of capital environment.
- ESG considerations continued to form an integral part of investment decision-making, as European banks indicated a discount being applied to lending on more sustainably efficient properties.

## Sector and Regional returns Q1-2026



Source: FTSE EPRA NAREIT Developed Index, Factset, local currency





## Market and Portfolio Commentary

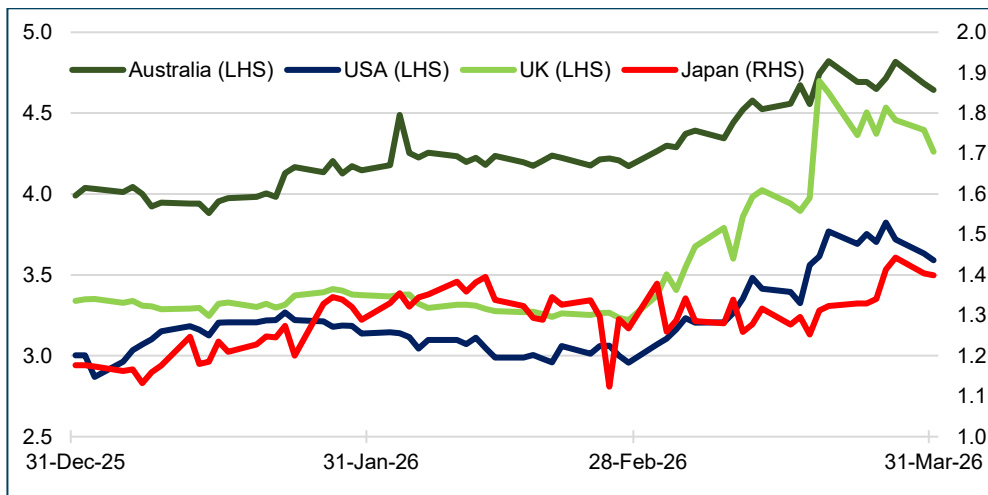
The FTSE-EPRA NAREIT Developed Index produced a total return of 1.0% for the quarter ending 31 March 2026 in USD terms.

The Portfolio outperformed the index, driven primarily by stock selection in diversified names in Hong Kong and Japan, and overweight exposure to data centres and healthcare, which more than offset weakness in the UK holdings.

In local currency terms global REITS outperformed global equities (-3.2%) and global bonds (-0.3%) over the quarter. For the twelve months to 31 March 2026, global REITs delivered 7.8% total return, between bonds (2.9%) and equities (17.8%).

The first two months of the quarter began well for global listed real estate which returned +10.3% to 28 February. However, those gains were largely erased in March as the U.S./Israel war with Iran triggered a spike in oil and gas prices leading to inflation fears, higher interest rate expectations and weaker bond prices.

### Implied Central Bank Policy % Rate 1 year forward



Source: Bloomberg

As a consequence, regional and sector performance dispersion over the quarter largely reflected relative vulnerability to energy disruption and the resulting changes in inflation and interest rate outlooks.

### Change in 10 Year Bond Yields

10yr yields	28-Feb-26	31-Mar-26	Change bps
<b>UK</b>	4.25%	4.84%	59
<b>US</b>	3.96%	4.32%	36
<b>Singapore</b>	1.94%	2.28%	35
<b>Germany</b>	2.67%	3.02%	35
<b>Australia</b>	4.65%	4.98%	33
<b>Japan</b>	2.12%	2.33%	22

Source: Factset, April 2026





Over the quarter, Australia was the weakest performing region in the index with a total return of -16.2%, as two consecutive RBA 25bp rate hikes weighed on AREITs, particularly residential exposed names including Mirvac (MGR) (-14% total return). Industrial and data centre developer/manager Goodman Group (GMG) declined 18% as the market was disappointed that the company did not upgrade guidance or announce any pre-leasing of its data centre pipeline in its recent reporting. As we will discuss, this provided us with the opportunity to build a meaningful position.

The spike in bond yields, coming on the heels of lingering inflation concerns, and a stalling economy weighed on UK real estate with the index delivering a total return of -9% over the quarter. Hong Kong was the best performing region in the index (+15.1%) as home prices continue to recover from their trough in March 2025 supported by mainland Chinese buyers, lower mortgage rates and wealth effects from a 30% rise in the Hang Seng during calendar 2025.

Data centres were the best performing sector over the quarter, buoyed by solid fourth-quarter operating results from portfolio holdings Equinix (EQIX) (+29%) and Digital Realty Trust (DLR) (+17%). The U.S. self-storage sector rebounded from the prior quarter weakness with M&A and corporate activity again influencing stock returns.

Healthcare real estate continued to deliver strong performance, benefiting from superior earnings growth driven by demographic-led demand growth combined with constrained supply. The retail property index eked out a positive total return, led mostly by U.S. names. This was mostly offset by weaker performance of retail REITs in the rest of the world which we largely attribute to concerns around consumer vulnerability to rising fuel prices and interest rates.

Residential was the weakest sector in the index over the quarter. This included UK student housing REIT Unite Group (UTG) (-19%) which yet again disappointed investors with a further downgrade to 2026 earnings guidance as the demand outlook remains challenged. Highly levered German residential investment companies were weak given their sensitivity to rising interest rates together with revenues which are capped by rent regulations. Meanwhile U.S. residential REITs lagged thanks to subdued earnings guidance. The Portfolio's underweight exposure to residential benefited relative performance.

Industrial property returns were mixed with positive returns in North America while collectively industrial REITs in the rest of the world produced negative total returns. Singapore in particular was weak on the back of a S\$900m capital raising by CapitaLand Ascendas (A17U) (-9%) to fund the acquisition of two industrial properties in Singapore and a data centre in Japan.

The threat of AI job substitution weighed on the office sector, with U.S. office names hit the hardest. This weakness coincided with a slew of corporate layoff announcements, many of which were linked to AI efficiency gains - and came soon after the release of new AI tools (including Claude Cowork) which are tailored for legal, finance and marketing functions. While we remain underweight the office sector, exposure to New York focused Vornado Realty Trust (VNO) (-22%) detracted from performance.

## Sector Commentary

### Data Centres – Scotty we need more power!

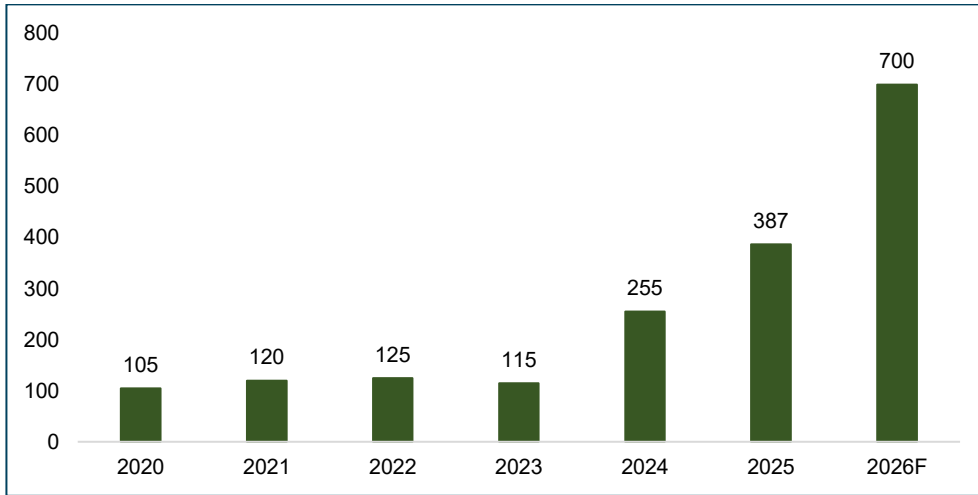
After an unsettled 2025 for data centre REITs, investors entered 2026 with a more constructive view as attention turns towards the increasing adoption, monetisation and efficiency potential of AI.

Hyperscalers – the largest occupiers of data centers globally – have committed to sharply expanding capex, with spending expected to reach US\$700b in 2026, an 80% year-on-year increase.





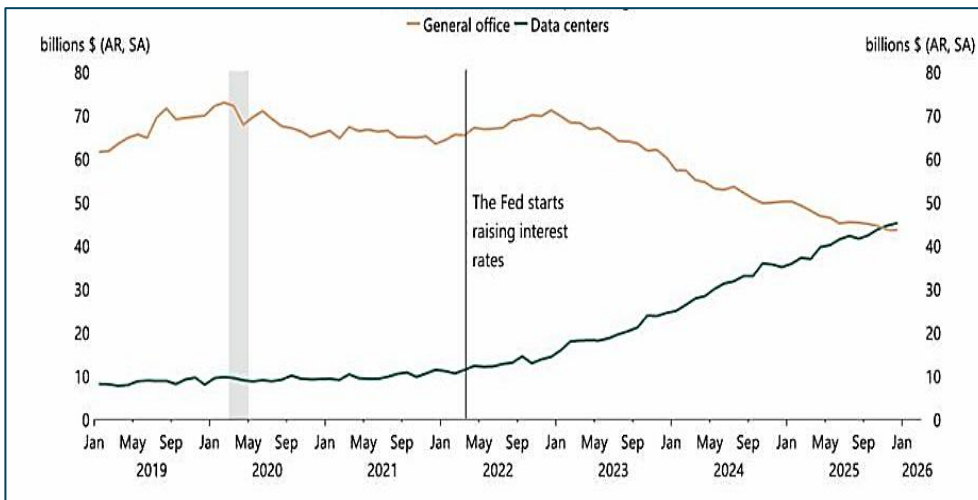
### Total U.S. Hyperscaler Capex (US\$B)



Source: Moody's Ratings<sup>4</sup> and Company filings, March 2026.

Despite lingering concerns around potential overbuilding, as noted in our prior quarterly report, vacancy rates remain low in key established data centre markets and rental pricing remains firm. The scale of new supply continues to attract headlines, yet construction pipelines in core markets are largely pre-leased, mitigating near-term supply risk. While data centre development capex has increased dramatically, it only recently reached levels equivalent to office construction spending in the U.S. as illustrated in the following chart.

### U.S. Private construction spending (US\$B)



Source: U.S. Census Bureau, Macrobond, Apollo Chief Economist, January 2026

Furthermore, supply bottlenecks are delaying the delivery of announced data centre projects, including electrical power generation and grid capacity constraints, long lead times for electrical transformers and cooling equipment, as well as increasing community and planning opposition to data centre development due to perceived impact on household energy bills and water consumption. Industry feedback from recent property tours indicates that replacement costs continue to rise, while sourcing experienced data centre talent is becoming increasingly challenging.

Meanwhile, data centre demand continues to accelerate, underpinned by AI and cloud-driven compute growth and evidenced by persistently low vacancy rates, heavily pre-leased development pipelines, and sharply expanding hyperscaler capex budgets. Leasing activity reported by listed data centre REITs remains elevated, while industry research from JLL points to a significant step-up in global capacity requirements through the end of the decade, with AI inference emerging as an increasingly important driver of incremental, distributed demand.





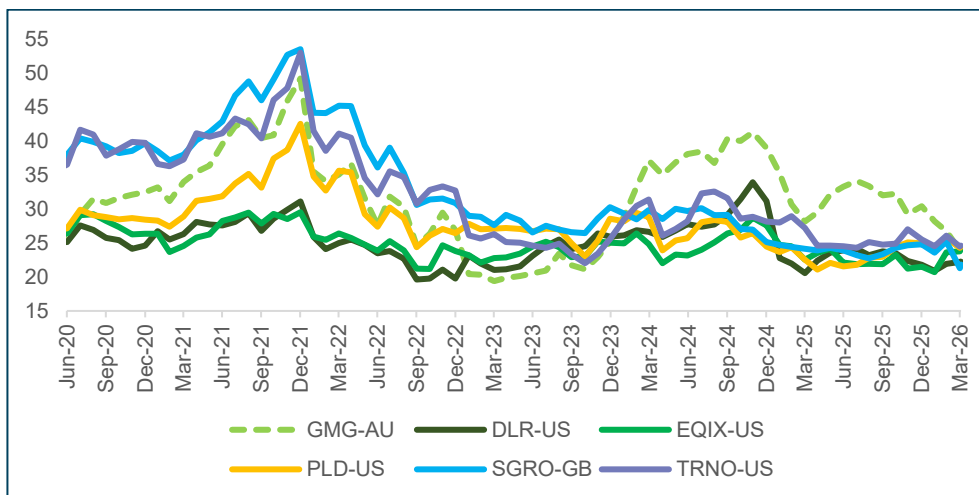
Increasingly, sovereign security is likely to play a major role in driving demand in markets outside the U.S., which have thus far trailed the U.S. in leasing volume, supply growth, and AI adoption.

We believe our largest data centre exposures are well positioned to capture this accelerating demand, given earnings are largely derived from stabilised operating assets in structurally undersupplied, critical markets. Supply bottlenecks are already driving rent growth and adding a scarcity premium to existing, well-located data centres. Moreover, these platforms combine strong balance sheets with deep operational IP, including long-standing relationships with planners, utilities and customers to be at the forefront of meeting the demand.

At its recent GPU Technology Conference, NVIDIA (NVDA) signaled an inflection in AI workloads from training to inference – a development we view as supportive for listed data centre REITs portfolios which, as we have outlined in prior reports, are more directly exposed to inference-led demand rather than the initial training of models.

Illustrating this, not all data centres are powering ahead, its ASX listed rival Digico (DGT) delivered lower than expected H1-26 earnings and continues to search for options to fund its accelerated development plans at its S1 data centre. The REIT also experienced delays in securing planning approval at its Los Angeles development site and subsequently withdrew its planning application and will evaluate alternative uses for the site. DGT delivered a total return of -37% over the quarter and is trading 65% below its IPO price. The Portfolio holds no exposure to DGT.

### EBITDA multiples: industrial & data centre stocks



Source: RCL March 2026

### Healthcare – breaking broken records

At the risk of sounding like a broken record, it is worth briefly reiterating continued strong results from seniors housing operating REITs. Strong internal growth is being complemented by accretive external growth, particularly in the U.S., where acquisition yields remain attractive in the high-6% to low-7% range. In the March quarter, the fund participated in the IPO of Janus Living (JAN), which is a US\$4 billion portfolio of seniors housing assets carved out of Healthpeak Properties (DOC). Following the IPO, JAN will have net cash of US\$950m on its balance sheet, and its portfolio of 39 properties, entirely focused on seniors housing operating assets, possess strong internal and external growth prospects.





## Self-storage – switching places

The Portfolio's positioning in the self-storage sector detracted from relative performance, in contrast to the prior quarter, with M&A and corporate activity overwhelming operating performance drivers.

U.S. self-storage names delivered mostly positive returns despite results that were marked by a disappointing 2026 outlook relative to consensus expectations. Demand recovery remains closely tied to a rebound in housing transactions which has been slow to materialise.

In conjunction with 4Q25 results, Public Storage (PSA) announced a board and management restructure. Former CFO Tom Boyle was named Chief Executive Officer, while at the board level, Welltower (WELL) CEO Shankh Mitra was elevated to Chairman.

On the heels of these changes, PSA announced the acquisition of listed peer National Storage Affiliates (NSA) in a US\$10.5bn all-stock transaction implying a ~35% premium to NSA's unaffected price. With only modest earnings accretion for PSA, overall, the deal underscores two factors: 1) PSA's increased flexibility and creativity under new leadership in driving accretion via external growth, as well as 2) the real external growth challenges in U.S. self-storage amidst aggressive pricing expectations from sellers and subdued organic growth.

Over in Europe and the UK, self-storage fundamentals remain structurally healthier than in the U.S., (principally in the form of lower supply per capita), but the near-term backdrop has been challenging, mirroring U.S. headwinds as a soft housing transaction market and weak economic growth have constrained demand.

Recent results from Big Yellow (BYG) and Shurgard (SHUR) show like-for-like revenue growth below 2%, materially under the sector's ~4% long-term average. Sector sentiment further deteriorated in March amid renewed Middle East tensions, which reignited stagflation concerns across the UK and Western Europe. The Portfolio overweight to UK/EU self-storage detracted from relative returns during the quarter.

In Australia, we were disappointed that other shareholders in National Storage REIT (NSR) did not share our view that the takeover bid undervalued the company. Despite our engagement with the board and management, the vast majority of shareholders appear to have accepted the offer, and as a result the bid will likely succeed. While we generated acceptable returns during our hold period, we believe NSR had further long term upside potential which will accrue to its new private owners.

## Retail – K-shaped economy ... or E or L or U?

Despite deeply pessimistic consumers in many of the major markets in which we invest (as indicated by consumer confidence surveys), retail spending has been remarkably resilient. With low unemployment, real income growth and the wealth effect from years of asset price inflation, high income cohorts have sustained / increased their spending. At the other end of the spectrum (or 'K') those with lower income levels have cut back given the disproportionate impact of inflation and higher interest rates on their wallets without the offsetting wealth effect from rising asset prices.

While the repercussions of the war in the Middle East may cloud the retail outlook in the near-term, we have deliberately skewed the Portfolio toward assets and markets where structural supply constraints and affluent consumer catchments provide a degree of insulation from these pressures.

Reinforced by the lack of additional space being developed, retailers are focused more than ever on ensuring a presence in the most productive bricks and mortar malls and shopping centres. Scentre Group (SCG) reported solid 2025 results with 99.8% leased occupancy (the highest since 2013) and comparable net rent growth of 4.8%. However, the market was disappointed by 2026 guidance of 'at least' 4% earnings per share growth which was circa 300bps lower than consensus, due to non-operating headwinds (lost rent as assets start re-developments, lower development management fees and NZD weakness). Whilst SCG underperformed for the quarter and detracted from Portfolio returns we believe underlying fundamentals remain sound.





In the UK, Hammerson’s (HMSO) FY25 results highlighted continued improvement in UK retail fundamentals for dominant malls. Like-for-like net rental growth of +2.7% in FY25 was the highest in over a decade (excluding 2022, which was boosted by the pandemic re-opening) and the company guided to acceleration in 2026 to 4-5%, supported by strong leasing spreads and improving cost efficiency. With the caveat that forecasts were made prior to the latest Middle East unrest, HMSO expects to generate 10% earnings per share growth in FY26, driven by asset repositioning and portfolio simplification.

**Vale David Simon**

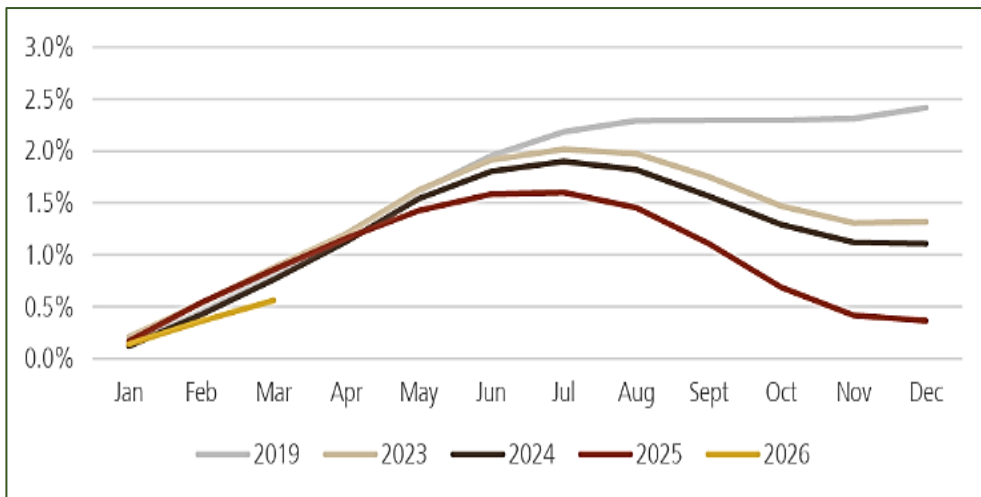
David Simon, Chairman, CEO and President of Simon Property Group (SPG) passed away in March. One of the most accomplished CEOs in the modern REIT era, David Simon joined the family company before its 1993 IPO and went on to lead its growth via multiple corporate acquisitions, in the process transforming SPG into a world-leading retail property platform while steadfastly maintaining balance sheet discipline. The board appointed current Chief Operating Officer, Eli Simon, as CEO, and board member Larry C. Glasscock was appointed Chair.

**Residential – On ICE**

The U.S. residential sector had a challenging quarter in absolute terms largely due to continued uncertainty around macroeconomic conditions, particularly employment and household formation rates. Our underweight position in the sector resulted in positive attribution. We made limited changes to our residential exposure during the quarter.

The U.S. multi-family (apartments) financial reporting period was lacklustre, with most operators providing 2026 guidance below sell-side estimates, albeit in line with our expectations. Whilst renewing tenants are accepting reasonable rate increases, rent growth is moderating for new tenants leading to overall growth no better than 2025.

**U.S. Multi-family market rent growth – slow start to 2026**



Source: CoStar, UBS

The Resolution Capital investment team recently visited several multi-family assets in Austin and Dallas, Texas where on-the-ground commentary was cautiously optimistic although we note rental declines continue in these relatively oversupplied sunbelt markets.





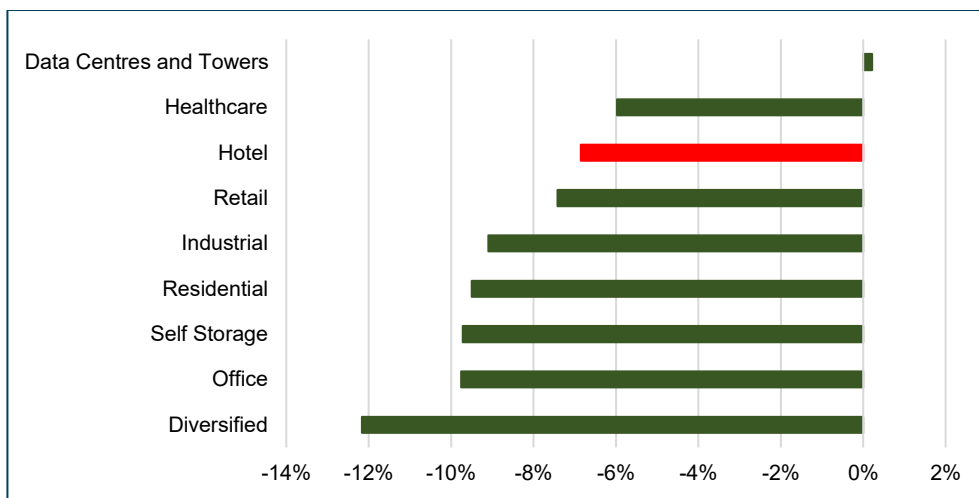
Regulation remains topical in U.S. single family homes. The U.S. government is proposing two major rules: 1) banning institutional investors from purchasing existing single-family homes; and 2) select single-family homes (mainly developed) must be sold to the renters after 7 years of ownership.

Early indications suggest developers are reducing the capital deployed in this sector which we think is working against the government’s objective of improving housing affordability. We remain of the view that encouraging new supply is the most effective antidote for improving housing affordability.

**Hotels – a life of luxury**

The performance of hotel REITs was notable in light of the tumultuous geopolitical backdrop. Thus far, the sector has held up remarkably well registering a total return of -7% since the start of the conflict to the end of March, the third-best sector in the global benchmark over that period. We attribute this relative resilience to a paucity of hotel supply over the past decade, and better balance sheets than in prior cycles.

**Index Total Returns by Sector – 1M to 31 Mar 2026**



Source: FTSE EPRA NAREIT Developed Index, April 2026

**Office – fear is in the AI of the beholder**

The office sector is facing a multitude of challenges in the current environment from the lingering effects of WFH and new fears of AI job substitution to macro headwinds from the Iran war. Hence, we remain underweight and further reduced exposure over the quarter. At the same time we acknowledge that valuations are discounted and there is much we don’t know about the long term impacts of AI (either positive or negative), therefore we maintain select exposures.

The rise of agentic AI and the release of powerful AI tools over past few months has raised concerns about the prospect of white-collar employment entering a period of secular decline. There have been several waves of the AI-fear trade impacting software companies (quickly labelled the ‘SaaSocalypse’), financial services firms and commercial real estate agencies – and office stocks alongside them.

So far the negative impacts of the AI fear trade have been felt most acutely by the U.S. listed office REITs – likely attributable to more flexible labour laws which imply greater speed of transmission to office space demand. Office REIT prices in other regions including Japan and parts of Europe have held up better. This has been reinforced by a number of high-profile corporate layoff announcements – mostly by U.S. based companies. Often these layoffs have been attributed to AI efficiency gains, although it can be fairly argued that some companies make this link to the short-term benefit of their stock price.





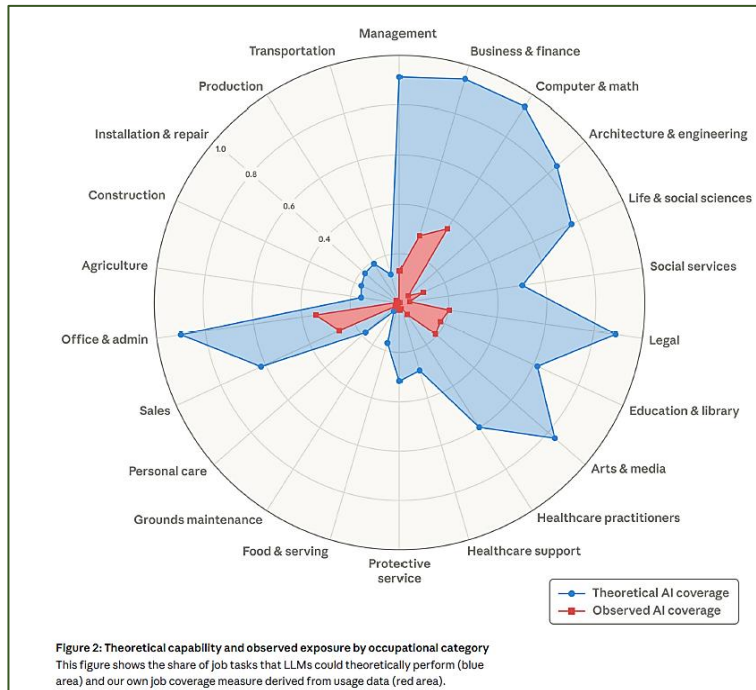
We expect that back-office and lower-order job functions such as administrative support roles are, at least initially, more at risk of AI displacement. Therefore, we expect higher quality buildings in key gateway markets which are oriented towards leadership and non-routine cognitive functions to be more resilient.

This is consistent with market observations to date. Tenant flight-to-quality continues, with the bulk of market vacancy in older/non-competitive buildings and regional locations, while Premium buildings are highly occupied and generating headline rent growth.

Ultimately however, replacing higher paying white collar jobs should be where the greatest efficiencies lie, therefore one should not assume that only back-office functions are at risk.

A study by Anthropic found the professions most exposed to AI displacement that are already actively using Claude (red shaded in the following spider chart) are; computer & math, business & finance, office & admin, sales, legal, education & library, arts & media. Clearly most of these functions are office-using jobs – and some functions, including software coding, are not low-paying un-skilled functions. The study noted that workers in these professions are more likely older, female, more educated and higher paid.

**AI capability by occupational category**  
(Theoretical capability and observed usage)



Source: Anthropic, March 2025

While it is easy to make the bear-case for the office sector as a whole, there are counter arguments to consider:

- ‘It is easier to see the jobs destroyed than imagine the jobs to be created’. There is a long history of technology displacing jobs in certain industries while new jobs and industries emerge that were never previously imagined. Cloud computing is just one example of a relatively new industry that has emerged and created massive demand for talent.
- Technology may improve productivity and profitability of office tenants – enhancing tenant credit for landlords.
- Automation may be a positive for economies facing labour shortages due to aging populations.

This is not to downplay concerns for the disrupted. Undoubtedly transitions are painful and government policies will be important to cushion the consequences.

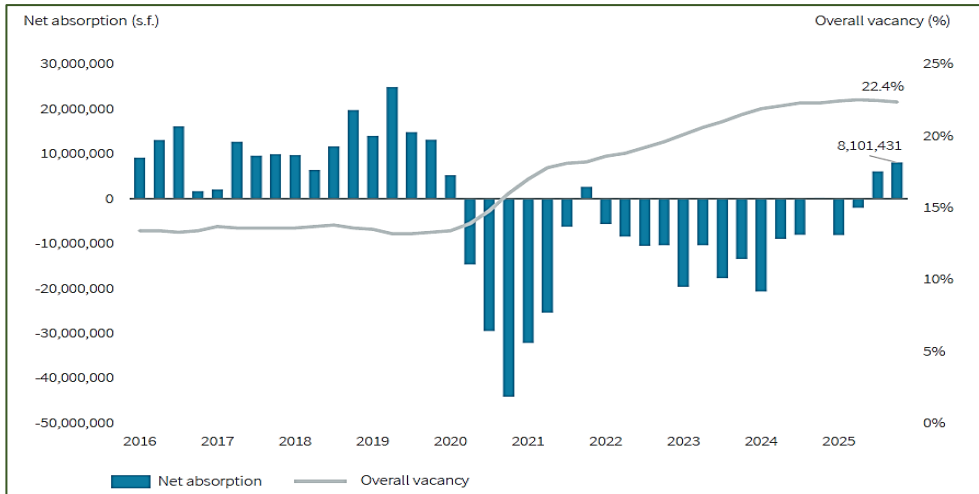




For what it’s worth, office REIT management teams claim that they are not yet seeing evidence that AI is having an incrementally negative impact on space demand. This partly reflects the quality of listed REIT portfolios that are faring better than market average occupancy levels.

In fact, despite softer white-collar employment growth, net absorption across U.S. office markets has turned positive for the past two quarters – likely reflecting pent-up leasing decisions after 6 years of WFH uncertainty.

### U.S office net absorption and vacancy



Source: JLL, Q4 2025

Moreover, there is real and growing demand for office space from AI companies themselves. OpenAI is looking to double its workforce, Anthropic is consolidating and expanding in San Francisco and HarveyAI took more space at One Madison Ave in New York.

Office vacancy rates are improving across key markets, with Tokyo, New York, and London leading in terms of tenant demand and market rent growth. Meanwhile construction starts remain muted and, in some cases, obsolete office stock is being converted to residential.

Notwithstanding these positives, investors are likely to remain cautious until there is greater clarity on the structural demand impact of AI on the office sector. The war in Iran adds another layer of uncertainty that will cool investor appetite.

### Industrial – from super-cycle to normal cycle

Early last year, industrial leasing market conditions were still feeling the after-effects of the pandemic-era construction boom when ‘Liberation Day’ tariffs extended the weakness. Supply levels have since moderated and the market has turned its attention to the timing of a positive inflection in demand, with consensus coalescing around the second-half of 2026.

Timing is now likely to push out further given the war in Iran and further tariff uncertainty following the U.S. Supreme Court ruling which struck down the IEEPA tariffs only for others to be introduced. Amidst this turbulence, the industrial sector underperformed over the quarter.

Optimists might take an alternate view that the disruption to the Strait of Hormuz and escalating geopolitical tensions will again refocus attention on supply chain resilience – leading to higher inventory levels and therefore increased demand for warehouse space.





We lean towards the former view, given that the much larger disruption to supply chains during the pandemic did not result in a change to the longer-term downward trend in the inventory to sales ratio index as illustrated in the following chart.

**Warehouse Inventory to Sale Ratio index**



Source: GreenStreet, St Louis Fed, U.S. Census Bureau, Indexed to January 2019 = 100, March 2026

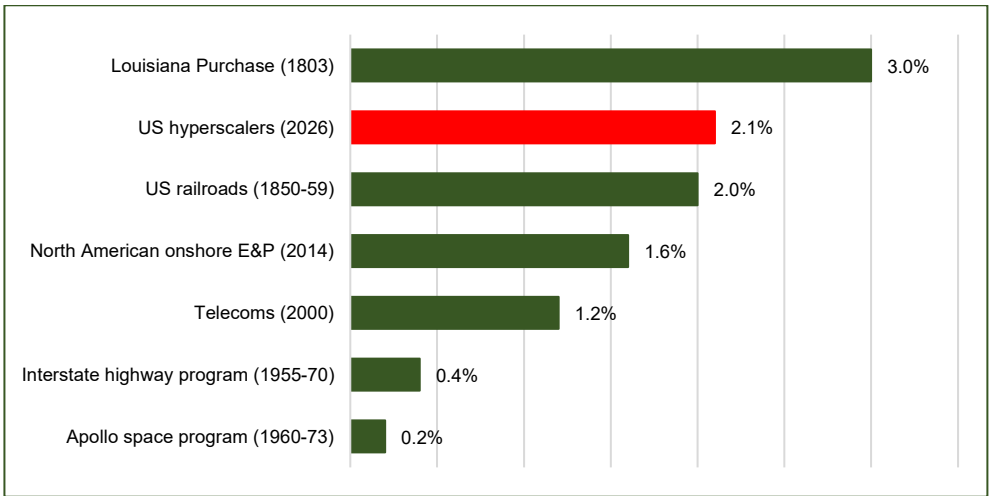
We believe the medium-term factors driving logistics demand revolve around de-globalisation, ecommerce and AI. De-globalisation may negatively impact port-related demand in favour of manufacturing locations, hence we are cautious on the Los Angeles market. The growth in ecommerce, while remaining positive, has slowed, and AI efficiencies could dampen warehouse demand.

**Conclusion and Outlook**

In our previous quarterly we suggested that AI would be among the most important drivers of markets in the foreseeable future. The scale of capital committed to AI and the digitalisation of the economy, highlighted in the chart below, is creating a scarcity of capital for other areas of the market. This is manifesting in lower development activity in many traditional segments of the CRE market, and below average CRE transaction activity.

**Capital expenditure program % of GDP**

Annual average over program duration or year if specified



Source: Company reports, World Bank, Federal Reserve, S&P Global, Wall Street Journal, 7 February 2026.





Whilst we continue to believe AI spending is critical to market dynamics, we should have added the rider; ‘together with the machinations of the U.S. President’. As we write, uncertainty over the Iran conflict has added significantly to the maelstrom of issues confronting investors, increasing concerns about the private credit sector adding to the list.

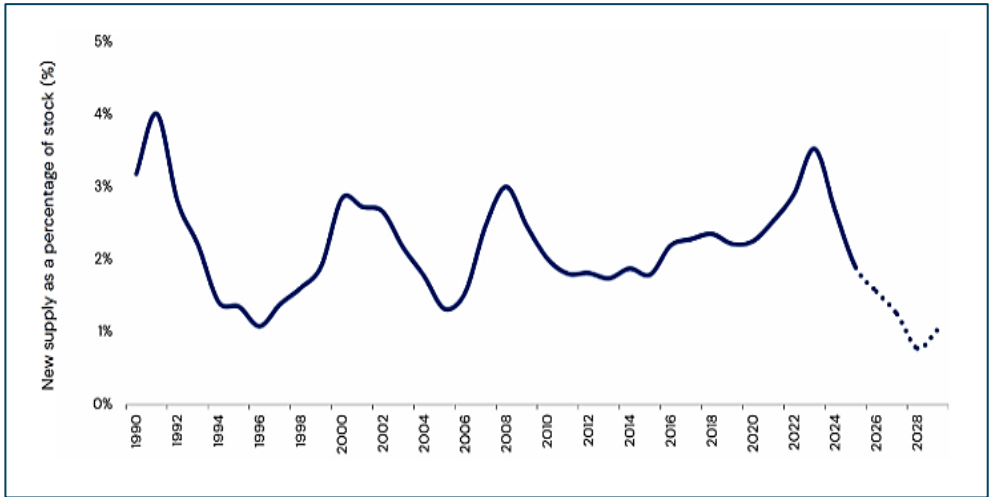
Crucially for commercial real estate, new building supply levels are low – and heightened fears around energy prices, inflation, interest rates and economic growth will further dampen developer appetite to start new projects.

Somewhat unusually, the low/falling supply coincides with average or below average vacancy rates across many segments of the commercial real estate market (usually falling supply is a response to declining occupancy levels). We attribute this dynamic to two major factors;

1. The material increase in construction costs over the past 5 years without a commensurate increase in rents and/or cap rate compression; and, somewhat related to this,
2. the AI spend crowding-out of capital for other forms of investments.

Hence, real estate enters a period of greater macro uncertainty in great shape from a supply-side perspective.

**Global New Building Supply as % of stock**



Source: Lasalle, November 2025

Key to the outlook therefore is the shape of tenant and investor demand.

Based on the fourth-quarter 2025 reporting season which largely concluded just prior to the Iran war, earnings growth for 2026 was projected to accelerate slightly to circa 6%. Importantly, the growth was derived largely from underlying organic rental growth, not other non-core activities or financial engineering.

Clearly there are downside risks to demand for some segments of the real estate market because of the war and medium term questions about the impact of AI. The Portfolio is relatively insulated to most of these risks, already being underweight office and industrial, and the retail exposures are skewed to more affluent consumers in supply constrained markets. The Portfolio’s key overweight exposures are to sectors that should benefit from secular demand trends that are less economically sensitive, including the ageing population (healthcare) and the digital economy (data centres).

Whilst private credit markets are under the spotlight, by and large the issues do not appear to be disproportionately related to real estate lending. In addition, as we have consistently made the case, generally REIT balance sheets are in strong shape, with low leverage and well-laddered maturities. Debt capital remains widely available for REITs. Of course, higher interest rates, if sustained, would be a marginal headwind to earnings and would dampen investment market pricing.





From a valuation perspective many REITs are trading at or below replacement costs, at an historic multiple discount to equities, and are discounted to underlying asset values (NAV). With this backdrop, and with solid balance sheets, REITs are extensively buying-back shares. Buy backs are not at the expense of cutting dividends and are not material relative to total market capitalisation. We view share buyback programs as a signal of where management believe the stocks are trading relative to intrinsic value.

Last quarter we concluded that the only constant is change, musing that one could argue we have been afflicted by the Chinese curse, “may you live in interesting times”. That sentiment remains apt today, as does the comfort we draw from our exposure to high-quality, well-capitalised, listed and liquid real estate where supply is subdued and demand is anchored by needs-based and secular growth segments of the economy.

## ESG Matters

### Are Brown Portfolios Impacting REIT Financing Costs in the UK and EU?

In previous reports we have discussed the potential for climate change transition risks to impact property valuations, vacancy rates and rental income, as energy efficiency regulations tighten and tenants require high levels of sustainability performance to meet their own corporate targets. Now, in the European Union and United Kingdom, we are seeing some evidence that energy efficiency and climate risks are influencing access to, and the cost of, financing.

The European Central Bank’s (ECB) recent Bank Lending Survey (BLS) shows that Euro area banks are systematically differentiating lending conditions based on the climate performance of borrowers and the energy efficiency of their properties.

This survey, which covered approximately 150 European based banks, found that significant proportions of respondents were either tightening or easing credit standards for companies based on their sustainability credentials. Approximately 20% of respondents reported that they intended to ease lending criteria depending on whether a company is classified as green, 15% intended to ease criteria for transitioning companies, and 35% intended to tighten lending criteria for carbon-intensive companies.

Although the BLS focuses on corporate and residential housing loans rather than commercial real estate, the underlying mechanisms it highlights are directly relevant for REITs. These include collateral adjustments linked to energy performance, tighter terms for physically exposed assets, and preferential pricing for greener borrowers.

While the ECB survey provides a broad view of bank behaviour, lender sentiment within real estate markets specifically can be seen more clearly in CBRE’s European Lender Intentions Survey from early 2025. Respondents were more explicit in how they approached valuing the sustainability credentials of the real estate companies they lend to. These results are highlighted in the chart below.

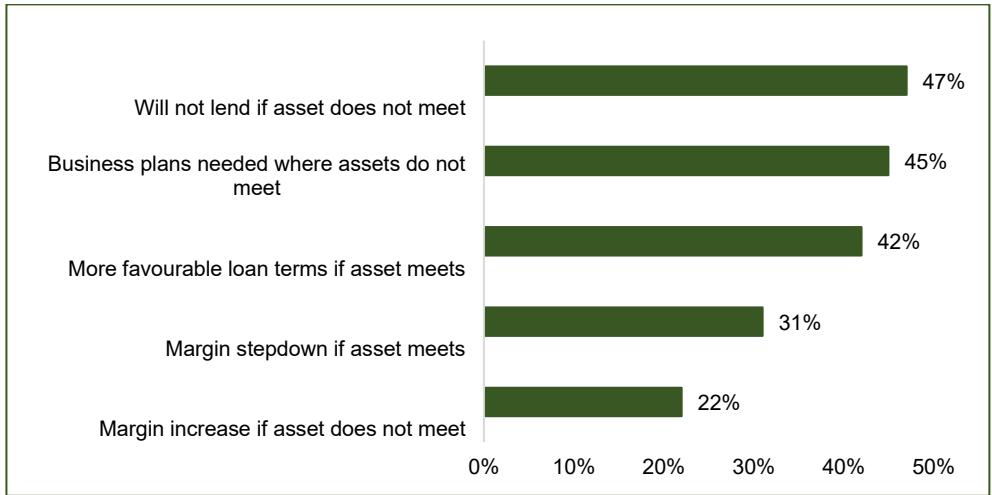
This lender sentiment is also being reinforced at the regulatory level, with the ECB introducing a climate factor into its collateral valuation framework in the second half of 2026. This factor will reduce the amount of central bank liquidity banks can utilise against climate exposed, or high transition risk assets. This is expected to effectively lower the value of risky assets in collateral assessments, creating further incentives for banks to favour greener assets.

ECB research directly examining Euro area office real estate transactions from 2007–2023 found that for older less-efficient buildings, transition risk is materialising via falling liquidity in addition to falling prices.





### How sustainability criteria are expected to influence lending



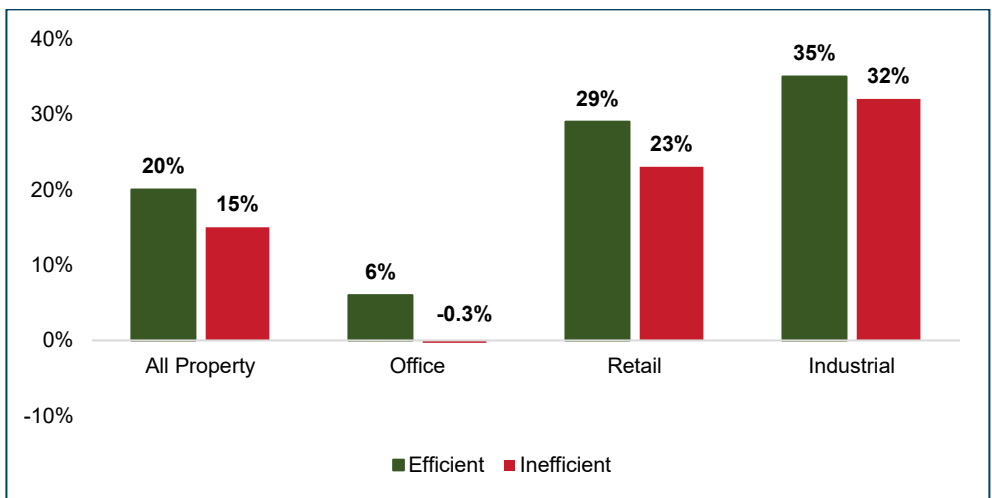
Source: CBRE Research, June 2025

While there are no equivalent surveys for the UK market, there is evidence that similar impacts are being experienced. The Bank of England (BoE) also incorporates some climate related considerations for valuing collateral, but only for residential mortgages. The BoE applies a discount to the value of mortgages on properties with low or missing EPC ratings and those located in flood risk zones. While there are no confirmed plans to expand these assessments to commercial real estate assets, the BoE is actively researching this area and is being encouraged to expand its reach.

Additionally, through CBRE’s Sustainability Index there is an indication of whether a green premium or brown discount is present in the UK commercial real estate market. Running since the beginning of 2022, the index measures the returns of over 1,000 properties and differentiates the returns of “efficient” properties (EPC Rating of at least B) and “inefficient” properties (EPC Rating C or lower).

The latest release of this index in mid-2025 showed the total return outperformance of efficient buildings over inefficient ones across the office, retail and industrial property sectors. While this outperformance may not be entirely attributable to the energy efficiency performance of these properties, it does give an indication of the impact that is being felt or could be felt from transition risks at the property level.

### CBRE Sustainability Index total returns from H1 2022 to H1 2025



Source: CBRE Research, September 2025

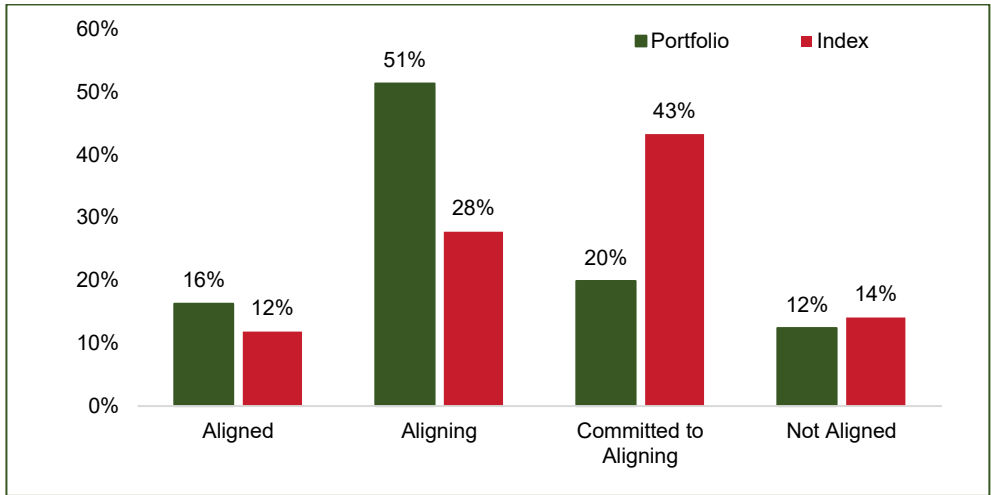




To assess how exposed our holdings may be to these transition risks, we evaluate whether Portfolio companies have credible plans to decarbonise over time. We are using the Institutional Investor Group on Climate Change's (IIGCC) Net Zero Investment Framework (NZIF) to measure transition risks and assess how companies are planning to decarbonise their portfolios and categorises companies as Aligned to a net zero trajectory or Not Aligned.

As of 31 March 2026, the Nedgroup Investments Global Property portfolio held approximately 18% exposure to the EU and UK. The chart below shows the NZIF assessment for these holdings, with 67% being either Aligned or Aligning with a net zero trajectory – compared to the index at 40%. To be in these categories a company needs to have a net zero target, an ambitious short-term target and public decarbonisation strategy for achieving these goals.

**NZIF assessment for EU and UK holdings compared to the Index**



Source: MSCI, Company Disclosures, Resolution Capital, March 2026

While the direct impact on commercial real estate financing costs is still emerging, the direction of travel is clear — banks and regulators are increasingly differentiating based on building energy performance, and we expect this to accelerate as the ECB climate factor takes effect and energy efficiency regulation deadlines approach. We continue to monitor the energy performance, retrofit investment plans and green financing strategies of our Portfolio holdings as part of our ongoing assessment of climate transition risk.





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