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The second quarter was volatile given political uncertainties and geopolitical pressures. The Fund rose 3%, while the benchmark gained 4.4%, resulting in marginal underperformance for the period. This was mostly driven by the third bite of the apple, i.e. stock selection, which decreased performance by 3.8%, while the first and second bites of the apple, namely region and sector allocation, increased performance by 1.8%. We held an average of 6% cash during this quarter, twice as high as usual due to the volatility, which had a positive 54 bps impact as the pound and euro appreciated against the US dollar. The second quarter saw some relief for real estate stocks as interest rates were cut by the Bank of England, the European Central Bank and the Reserve Bank of Australia, while the US Federal Reserve paused cuts, contributing to the US market's underperformance. Macroeconomic news continues to drive equity markets, amid high tensions over tariffs, wars and trade deals. Global real estate stocks have outperformed the overall equity market year-to-date, given positive news flow, rate cuts and improved fundamentals.

During the second quarter, Hong Kong was the top performer, with developers up 19% and REITs up 18%, aided by HIBOR falling more than 3% in May. We took profits on Swire Pacific and built a new position in the more attractively valued New World Development to maintain our overweight stance. The second best-performer was the European Union, up 19%, where we were also overweight, given limited supply and improving fundamentals in several sectors, especially in Spain, where GDP growth is more promising. The third-best performer was the African Union, up 19%, as rate cuts were received favourably. Our most overweight region was the UK, given strong balance sheets and improving West End office fundamentals, which were up 15%. We were neutral in Singapore, where developers were up 11% and REITs up 7%. Japanese REITs narrowly managed to outperform the overall index, with REITs up 10% and developers up 9%, and we remain underweight as interest rates rise. The weakest performer this quarter was the US, down 2%, which is our largest underweight given full valuations and fair fundamentals.

US sector performance for the second quarter was generally poor, with only lodging posting a positive performance. Net leases were next best, down 1%, where we were neutral as stable fundamentals were offset by a lack of external growth opportunities. Storage was surprisingly strong, down only 2%, but we remain underweight on the back of weak fundamentals. The weakest USA sector was residential, down 7%, where we remain underweight, given affordability issues. Industrial was the second weakest sector, also down 7%, where Trump's tariffs have created demand uncertainty. Offices were the third weakest sector, down 4%, where we are underweight due to high vacancy rates and weak rental pricing power. In the retail space, malls fell 4% and shopping centres fell 3%. We sold our only mall stock as we prefer shopping centres, our most overweight sector, on the back of relatively attractive valuations, demand stability and increased transaction activity.

Data centres were down 2% on the back of Equinix's share price weakness following its announcement that it would invest more heavily in developments, which resulted in near-term earnings estimate downgrades.
The top-performing stocks in our portfolio for the second quarter for 2025 were London West-End office stock Great Portland Estates, up 28%, followed by US data centre stock Digital Realty, up 22%, and Hong Kong developer Sun Hung Kai Properties, up 21%. The worst-performing stocks were all from the US, namely life science stock Alexandria Real Estate, down 21%, followed by Healthpeak Properties, down 13%, and SoCal industrial stock, Rexford Industrial, down 9%.

In the first half of 2025, global property stocks performed better than the S&P 500, which we believe is likely to continue given attractive relative valuations and more attractive opportunities outside of the US. Our regional positioning is paying off, and we have been taking profits selectively. We will continue to focus on our US sector selection, focusing on each sector's valuations, growth, dividends and asset quality.