
# Salt Sustainable Global Listed Property Fund Fact Sheet – June 2022

## Manager Profile

Salt Funds Management is a boutique investment management firm wholly owned by its employees which specialises in actively seeking to maximise returns while managing the risks of the investment. Salt examines investments for their environmental and social impact as well as the quality of their governance.

## Investment Strategy

The Fund's investment objective is to outperform (after fees and expenses but before NZ tax) the total return of its benchmark, the FTSE EPRA Nareit Developed Real Estate Index Hedged in NZD on a rolling three-year basis. The Fund targets a portfolio of global listed real estate companies with sustainable total return potential and superior Environmental, Social and Governance (ESG) credentials and factor scores with respect to the benchmark index.

## Fund Facts at 30 June 2022

| | |
|---|---|
| **Benchmark** | FTSE EPRA Nareit Developed Real Estate Index hedged into NZD |
| **Fund Assets** | $29.37 million |
| **Inception Date** | 16 September 2021 |
| **Underlying Manager** | Cohen & Steers |

## Unit Price at 30 June 2022

| | |
|---|---|
| **Application** | 0.8748 |
| **Redemption** | 0.8712 |

## Investment Guidelines

The guidelines for the Sustainable Global Listed Property Fund are:

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|---|---|
| **Global equities** | 95% – 100% |
| **Cash** | 0% – 5% |

## Target Investment Mix

The target investment mix for the Global Sustainable Listed Property Fund is:

| | |
|---|---|
| **Global equities** | 100% |

## Fund Allocation at 30 June 2022

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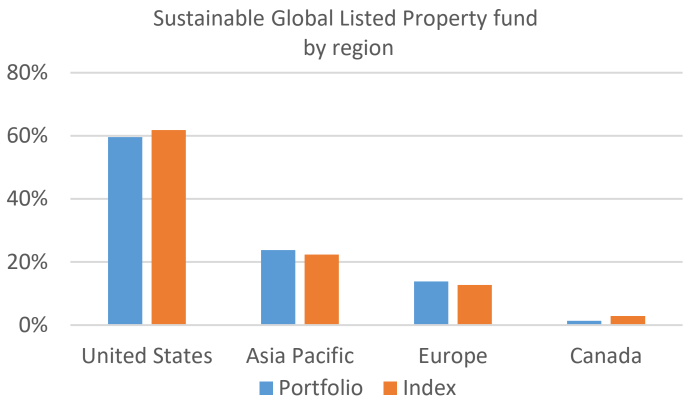
|---|---|
| **Global equities** | 98% |
| **Cash and FX forwards** | 2% |

## Fund Performance to 30 June 2022

| Period | Fund Return* | Benchmark Return |
|---|---|---|
| 1 month | -6.90% | -7.75% |
| 3 months | -14.70% | -15.51% |
| 6 months | -17.76% | -18.36% |
| Since inception | -11.36% | -13.16% |

*Performance is after fees and does not include imputation credits or PIE tax. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as of 30 June 2021.

## Fund regional weightings as at 30 June 2022*




Source: Cohen & Steers, Salt *data to 30 June 2022

| Top 10 holdings at 30.06.22 | |
|---|---|
| Prologis | Realty Income Corp |
| Public Storage | Simon Property Group |
| Digital Realty Trust | UDR |
| Invitation Homes | Extra Space Storage |
| Welltower | Duke Realty Corp |

The fund's top 10 holdings comprise 38.5% of the portfolio

| Fund ESG Scores | Portfolio | Index |
|---|---|---|
| Cohen & Steers ESG score | 6.2 | 5.8 |
| MSCI ESG score | 5.8 | 5.7 |

Source: Cohen & Steers Quarterly Investment Report, 30 June 2022

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## Market Review

It has been a tough quarter for markets following what was already a difficult March quarter. This marks the worst first half of the year for developed market equities in 50 years. To make matters worse, bond prices have also fallen significantly, failing to give investors the protection they usually seek from this asset class.

- Government bonds have been hit as interest rate markets have priced in ever more aggressive action from central banks to tame inflation. This has led to heightened recession risks as household budgets are squeezed by the higher prices of key commodities (food and energy) and higher borrowing costs.
- Central banks continue to play catch-up with inflation, which is contributing to growing risks to growth, though those risks remain greater in Europe than the United States. Labour markets remain tight but negative real wage growth continues to squeeze household incomes. Margins are coming under pressure, especially for consumer-facing companies, with pricing power an increasingly important factor in relative equity performance.
- In the US the Federal Reserve has signalled its clear intention to tame inflation by signalling interest rates will need to rise to 3.8%. Despite unemployment being low and wages increasing, consumer confidence has slumped, contributing to recession concerns. The Fed believes the unemployment rate will need to rise to just above 4% (currently 3.6%) to meet its inflation mandate. US headline inflation came in higher than expected at 9.1% y/y in July.
- Consumer confidence has also slumped in Europe, though the biggest recession risk is the reduction in gas supplies from Russia. Prices have risen sharply, and some form of rationing may have to be implemented. This prospect is already having a negative impact on business confidence.
- The Chinese authorities continue to adopt a Covid-zero strategy, though there has been some easing in quarantine restrictions. With lockdown restrictions easing in some regions, recent economic data has improved. We expect the authorities will continue to back away from Covid-zero, most likely following the Communist Party National Congress later in the year.
- The Reserve Bank of Australia has accelerated its rate hikes, raising the cash rate 50bp in June following the initial 25bp hike in May. Signs are already emerging that the increase in rates thus far is already impacting on consumer behaviour. Despite that, further 50bp hikes are likely.
- The New Zealand economy contracted in the March quarter, in line with weak business and consumer confidence and the "virtual" Covid lockdown over the early months of the year. While the economy will benefit from the reopening of borders and the return of international tourist through the middle part of the year, weak confidence levels point to soft underlying growth.

Central Banks' shift in tone to a more inflation-adverse stance, combined with the Ukraine crisis, and energy / food cost spikes, has challenged investor sentiment throughout much of 2022.

It appears unlikely that such factors darkening the global growth outlook for the present will clear quickly, and we will maintain a preference for Real Assets, due to more robust cash-flow features.

From its 16 September 2021 inception through to 30 June 2022, the portfolio had a total return of -11.36% (after fees) and outperformed its gross benchmark index by 1.80%. In June, the portfolio had a negative total return in the month of -6.90% (after fees,) outperforming its benchmark by 0.85%. For Q2 2022, the portfolio returned -14.70% (after fees) and outperformed its benchmark by 0.81%.

## Portfolio Review (Cohen & Steers commentary)

**Real estate securities declined in June month and Q2, amid concerns around slowing economic growth and persistently high inflation.**

Global real estate securities declined in the second quarter amid concerns around slowing economic growth and persistently high inflation. Major economies slowed abruptly, and inflation climbed to a 40-year high as Russia's invasion of Ukraine led to a pronounced increase in prices for energy and other commodities. Bond yields rose meaningfully, and most major central banks began to aggressively raise interest rates to slow demand and rein in unexpectedly high inflation. The Federal Reserve increased its key interest rate by 50 basis points in early May and another 75 basis points in June, the sharpest individual hikes in decades.

While real estate conditions generally remained sound, slower growth and higher inflation clouded the outlook for REITs. In the **U.S**. (-17.3% total return), real estate securities declined on macro concerns, despite generally favourable supply and demand trends. First-quarter earnings for listed real estate reflected strong fundamentals across various property types. The tone at the June National Association of Real Estate Investment Trusts (Nareit) semi-annual investor conference was broadly positive. Although asset values have modestly softened and 2023 earnings estimates have come down, most management teams offered optimistic assessments of their respective sectors. Free standing property owners, characterized by less economic sensitivity relative to other sectors, defended well in the quarter. The **residential** sector outperformed amid limited housing supply and reduced home purchase affordability, benefitting demand for rental housing. **Data centre** REITs benefited from a reacceleration in tenant demand.

**Industrial** landlords were pressured in the quarter by Amazon's plans to scale back the growth of its logistics space usage, though demand from other tenants is expected to remain strong. **Self-storage** pulled back due to a deceleration in rent growth from peak levels in 2021, though pricing power remains strong. Consumer-oriented/cyclical property types, including retail, hotel and office REITs, underperformed on broadening economic concerns.

**Europe** trailed as it contended with the Russia-Ukraine conflict and related inflationary pressures. Nevertheless, real estate demand generally remained healthy, and companies maintained (if not raised) full-year earnings guidance. Spain (-16.8%) was partially cushioned by the upswing in inbound holiday travellers and less inflationary pressures relative to other parts of Europe. The U. K. (-17.2%) and Belgium (-18.1%) declined but outperformed the region, aided by relative strength in health care and residential property types. France (-20.0%) was weighed down by office and diversified property types. In the Netherlands (-24.2%), retail landlords slumped on concerns about the consumer should the economy slide into recession. Germany (-28.6%), dominated by the relatively defensive residential sector, was also pressured in the rising-rate environment. Sweden (-40.4%) underperformed real estate generally as property developers were seen as vulnerable to reduced economic activity and rising rates given higher leverage.

The **Asia Pacific** region benefited from gradual reopening and relatively less inflation pressure. We also attribute the region's outperformance to value-based gains following last year's underperformance. Japan (1.8%) gained as the central bank indicated it would continue with its easing policies and the country started to reopen its borders. Property developers generally provided positive outlooks for earnings growth. Hong Kong (-0.6%) benefited from a relaxation of lockdown and social distancing measures and gradually reduced its quarantine requirements for inbound travellers. In Singapore (-3.2%), business activity returned to normal with April's relaxation of most social distancing measures.

In **Australia** (-14.9%), growth and rate-sensitive names were under pressure given rising bond yields. Against this backdrop, retail-oriented property types fared best.

**Key contributors**

• Stock selection and an underweight in the U.S. (-17.3% total return in the index): Contributors included an overweight in a cold storage specialist that reported improvements in labour availability and food supply chains, which is translating into better production, higher inventory and stronger pricing power for the company.

• Our out-of-index position in a tower operator, which we favour for its secular demand drivers and durable cash flows, also aided relative performance.

• Underweight in Sweden (-40.4%): The country significantly trailed listed real estate broadly; investors were concerned about the impact that reduced economic activity and rising rates would have on highly levered property developers.

• Overweight in Hong Kong (-0.6%): Hong Kong outperformed as China's Covid situation improved and the government announced some stimulus measures.

**Key detractors**

• Selection in Australia (-14.9%): Our out-of-index position in a property fund manager, which underperformed amid concerns around rising bond yields, detracted. However, its underlying fundamentals remain healthy.

• Stock selection in Canada (-18.7%): The portfolio did not own certain diversified and health care REITs that outperformed. However, this negative was partially offset by a favourable underweight allocation to the country.

• Selection in Switzerland (–11.9%): Our non-investment in certain diversified real estate companies modestly detracted.

## Portfolio Outlook (Cohen & Steers commentary)

**We believe global real estate offers improving fundamentals and inflation protection**. **Valuations are now substantially improved.**

Global real estate, which has seen improved valuations with the recent correction in share prices, offers the potential to mitigate inflation's impact. While growth is slowing and the odds of a recession have increased, labour markets remain healthy. Consumers are generally in good shape, although their savings cushion is diminishing as they pay more for goods and services. Fundamentals generally remain sound, but slower growth and higher inflation cloud the outlook for real estate, particularly for sectors lacking pricing power. We have reduced our earnings expectations accordingly, though we still anticipate healthy earnings growth this year and next. Moreover, traditional asset categories may have less ability to defend against a prolonged environment of higher inflation than real estate companies, which generally have high operating margins, low commodity and labour price sensitivity, and (in many cases) inflation-linked rents.

We maintain a positive view of **U.S. REITs**, with a preference for assets with shorter lease durations and strong pricing power. We favour self-storage, which should continue to have good pricing power given occupancy rates well above historical levels. Within health care, we have a positive outlook on senior housing, where occupancies are improving following early-pandemic declines. We see the residential sector benefiting from insufficient supply and home affordability issues in the for-sale market leading to higher demand for rental housing. Companies that provide data and logistics infrastructure, including data centres and industrial warehouses, will continue to benefit from strong secular demand in the shift toward a digital economy, in our opinion, though valuations for some companies remain elevated.

While we believe secular headwinds remain for retail, we think certain retail landlords with high-quality properties and strong balance sheets stand to gain market share over time. However, we are mindful of the impact of elevated inflation on the U.S. consumer. We remain cautious toward offices as businesses reassess their future needs, although we have an allocation within the Sunbelt, which we favour over coastal locations. We estimate that rents in some markets may not recover until 2023.

**European real estate** securities, which have lagged the recovery of their U.S. peers, offer attractive upside potential. The risk to growth is a concern, especially as the costs associated with Europe's energy transition away from Russian supplies are likely to be inflationary. The portfolio remains balanced between growth and value themes as well as defensive businesses. Our current positioning is differentiated more by property sector and individual security than by country, based on the common drivers impacting property types across the region.

We prefer assets with shorter lease durations and strong pricing power, which should benefit from an environment of rising prices. We like logistics, health care and self-storage, which tend to be more defensive and have structural growth characteristics. We believe net lease and towers are well protected against inflation. We like continental retail and see value in London offices, but we are cautious about offices in some other markets, as the demand outlook remains uncertain and, in many cases, current valuations do not adequately compensate investors for the perceived risk.

Near-term Covid risk in **Asia Pacific** is somewhat mitigated by China's supportive policy stance. Within **Australia**, we favour property sectors that are relatively insulated from the encroachment of e-commerce activity. In Singapore, we are positive on underlying fundamentals for hospitals, and we are constructive on the medium-term outlook for offices given the prospect of potential corporate relocations within Asia Pacific. In Japan, we have taken advantage of developer strength to move our overweight position to neutral on expectations for a global slowdown. Within Hong Kong, we are overweight domestic non-discretionary retail landlords.

Greg Fleming, MA